Tell the Truth: the Effects of Disclosure in Word-Of-Mouth Marketing

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We know marketers provide incentives to everyday consumers in exchange for generating buzz about their brand, but what happens when word-of-mouth recipients find out about this relationship? Marketers fear that disclosing this information will undermine the recommendation’s effectiveness. In two experiments, we find that honesty is indeed the best policy.

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EXTENDED ABSTRACT
During the past two decades, marketers have implemented a variety of stealth marketing tactics that deliver product messages surreptitiously (Kaikati & Kaikati, 2004). Word-of-mouth (WOM), which previously existed as an organic product discussion between friends, was hijacked along the way as marketers began incenting everyday people to talk about brands with other consumers. The technique’s usage grew (PQ Media, 2009) as it proved effective at generating sales (Godes and Mayzlin, 2009; Ryu and Feick, 2007). However, it simultaneously gathered scrutiny for being deceptive and unethical (Kennett and Matthews, 2008) as agents often failed to disclose their material connection to the marketer, even when instructed to do so (Ahuja, Michels, Walker, and Weissbuch, 2007; Carl, 2008). In response, the WOMMA, and more recently the FTC (2009), developed guidelines that WOM agents must disclose material connections with the brand, but it is still too soon to tell how much compliance they will obtain (Baar, 2009). The goal of this research is to gain a better understanding of how disclosure of the agent-brand relationship affects WOM recipients’ thoughts, feelings, and purchase intentions as compared to seemingly organic WOM. Is honesty really the best policy?

There is a general sense among marketers and agents that disclosure undermines the effectiveness of the recommendation (Ahuja et al., 2007; Carl, 2008; Creamer, 2005; Kaikati and Kaikati, 2004; Kennett and Matthews, 2008). Disclosure is believed to turn turn everyday conversations into commercial messages, causing consumers to engage their persuasion defenses, doubt that the agent is sincere, and therefore discount his or her recommendation (Campbell and Kirmani, 2000; Friestad and Wright, 1994; Verlegh, Verkerk, Tuk, and Smidts, 2004). While we agree with this logic, we argue that the consumers’ reactions also depend on how and when they learn about the agent-brand relationship. We argue that if the agent discloses the relationship during the conversation, consumers’ reactions are likely to be less negative, and perhaps even positive, compared to a situation where disclosure occurs incidentally after the WOM incident. While there have been two papers on the timing of disclosure, during vs. after the WOM incident (Carl, 2008; Tuk, Verlegh, Smidts, and Wiborgildus, 2009), neither paper compares this known, invented WOM to seemingly organic WOM. To truly gauge the effect of disclosure that marketers are worried about, we extend the disclosure research by comparing disclosure during and after the WOM incident to seemingly organic WOM where the consumer has no information that such a relationship exists. At the same time, we examine whether the effect of disclosure is moderated by the strength of the tie between the consumer and agent, strong or weak.

Experiment 1 (N=86) used a Latin-square design with agent (friend, stranger) manipulated between subjects, disclosure (none, later, during) manipulated within subjects, and product (cell phone, energy drink, and movie) manipulated within-subject and counter-balanced such that each group saw a different disclosure-by-product combination. The products and brands used as stimuli were selected based on a pre-test (N=23). As expected, later disclosure reduced attitudes towards the agent and product, but surprisingly had no effect on purchase intentions. Meanwhile, the ethical and legal approach of disclosure during the conversation increased purchase intent while simultaneously reducing attitude toward the agent and having no effect on attitude toward the product. Participants viewed friends as more sincere and were more likely to act on their recommendations, which is consistent with Godes and Mayzlin (2009) and Tuk et al. (2009). However, the consumers’ relationship with the agent did not interact with disclosure, suggesting that tie strength does not moderate the effect of disclosure on effectiveness.

Experiment 2 (N=64) had only friends as agents and manipulated disclosure (none, later, during) and product (cell phone, energy drink) between-subjects to eliminate possible contrast effects from seeing multiple disclosure conditions. We also added measures on feelings (deceived or informed) and perceptions of the conversation (unethical, clever, and typical). Compared to seemingly organic WOM, we replicated the finding that disclosure during helped increase purchase intent, while disclosure after had no effect on behavioral intentions, though intermediate attitudinal measures were affected. We also identified three attitudinal measures that appeared to mediate the effect of disclosure on purchase intentions. While it was not surprising that attitude toward the product had a strong influence on purchase intent, the more interesting finding was that feeling informed as a result of the conversation also positively influenced purchase intent, while finding the agent to be sincere and credible had a negative effect on purchase intent.

In summary, the big picture finding is that ethical and legal disclosure of the agent-brand relationship can be beneficial for both marketers and agents, while a failure to disclose that gets uncovered later can have a backlash effect. These results support recent FTC guideline changes that mandate disclosure, which will ultimately protect consumers from stealth marketing approaches.

REFERENCES


