

Propositions 1 and 2 explain why more and more firms are sponsoring customer communities and encouraging consumer discussions in the market for experience goods such as books, music, and computer games. They also help to explain the rationale behind the price discount and trial use of products that are newly launched.

3. Conclusion

In this paper, we study a two-period dynamic pricing model where early consumers generate information influences the future demand. We find that consumer-generated information adds value to the firm. The firm makes an early-period price cut to induce consumer experience sharing and to get more precise information.

The results of this paper have important managerial implications. Online consumer word-of-mouth is a critical information source that the firm can use in making price decisions. Our results suggest that firms should adapt to the new market condition proactively. It is unwise for the firm to withdraw from facilitating online consumer word-of-mouth even if she feels intimidated by unfavorable news. Anticipating consumer-generated information, the firm should set a lower “introduction” price so that they can gain from that information. The firm should try to educate consumers and help them to generate objective evaluations which can increase the precision of consumer opinion.

4. References

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