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## FTC Guidelines on Endorsements and Online Consumer Reviews: Biasing Consumers' Intent to buy

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## FTC GUIDELINES ON ENDORSEMENTS AND ONLINE CONSUMER REVIEWS: BIASING CONSUMERS' INTENT TO BUY

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### Abstract

*New FTC guidelines have been created to control improperly used endorsements with online consumer reviews. These guidelines state that bloggers and word-of-mouth marketers must disclose material connections if they are being endorsed in any way, and a paid endorsement is considered deceptive if it makes false or misleading claims. This study examines how this regulation may influence consumers' attitudes and behaviors regarding online reviews. The present research tests whether: a) previously documented bias effects of negative and positive reviews still exist under new guidelines; b) the minimal FTC requirements are sufficient to properly inform consumers; and c) a more standardized and elaborated statement would be more effective. A total of 276 participants were recruited to read a simulated online consumer review. Participants viewed one of three possible conditions (no endorsement statement, minimal FTC required statement, and modified FTC statement). Participants then rated their intent to buy the product, confidence in the purchase, and the influence of the review on the intent to buy and on confidence. There was a significantly lower intent to buy ( $p < .01$ ) when the modified FTC statement was utilized, demonstrating the potential need for more standardized guidelines to be utilized in order to protect consumers. Implications of the study are discussed.*

### Introduction

Technology today has provided consumers with new tools to analyze products from home before even entering a store. These tools range from consumer reviews on websites to personal online blogs from other consumers. Internet information resources can keep individuals from making purchases as though blindfolded, but is this system flawed? The Federal Trade Commission (FTC) believes so. Fraudulent reviews do exist, biasing the inexperienced consumer into believing a product is better than it might be. This study analyzes the effects of new FTC guidelines with respect to online reviews and endorsements on consumers' intent to purchase a product.

Consumers not only want to have attribute-value information for a product or service but also desire recommendations from external information sources, such as word-of-mouth networks (Rosen & Olshavsky, 1984). This is especially true for uninvolved consumers who want an easier approach than searching for information (Mittal, 2004). Word-of-mouth networks have been shown to be effective in changing a consumer's attitude about a product or service (Katz & Lazarfeld, 1955; Benson, 1989). They have been judged to be both credible and relevant (Schiffman & Kanuk, 1997), further demonstrating their power in marketing. As

a result, more involved consumers have assumed an increasingly active role in the advertising marketplace, slowly modifying the approach that marketers must take. One emerging role that consumers undertake is the posting of product reviews, in some cases becoming professional analysts of sorts.

With increasing Internet use, however, word-of-mouth reviews are combining with electronic media, thus allowing individuals to use mass communication through blogs, review sites, and even personal websites. To get his or her message across, a consumer may use websites such as Amazon, create personal blogs to discuss products, or even post video reviews on YouTube. The rise of online consumer reviews and electronic word-of-mouth mechanisms has been linked to increasing numbers of Internet sites allowing patron posts (Dellarocas, 2003). Bakos and Dellarocas (2002) discovered that these feedback and review mechanisms allowed smaller markets to link to a larger, "more-informed" market. Further, studies have demonstrated that online consumer reviews have successfully changed individuals' behavior, such as using online information to make offline decisions (Godes & Mayzlin, 2004). Online consumer reviews are beneficial to both vendors and consumers. Current literature illustrates the incentives for vendors to allow for online consumer reviews of products (Chevalier & Goolsbee, 2003). Online reviews provide a detailed indication of customers' perceived value of a product or service, which provides vendors feedback on how their product is portrayed in the market. For consumers, these reviews allow new customers who lack experience to have some guidance in the decision-making process. These influenced decisions can range from where to eat, what to buy, and even whom to trust in a trading or bartering situation (Guernsey, 2000; Dellarocas, 2003).

Dellarocas (2003) reviewed research that has been dedicated to the examination of online feedback mechanisms. A majority of studies have analyzed the implications of these feedback mechanisms in relation to online auctions, utilizing such websites as eBay. Since these auction feedback mechanisms provide a large-scale, online word-of-mouth tool for consumers to utilize in order to understand a product or service, they can be compared to the consumer reviews that are being analyzed for this study. Both auction feedback mechanisms and online reviews have been shown to help acquire and retain new customers at a lower cost (Mayzlin, 2003). Dellarocas (2003) also states that online feedback networks can help product development, quality control and supply chain quality assurance.

Clearly, there are benefits to marketing firms' taking advantage of online review mechanisms. It is also important

to note that reviews can also negatively influence consumers' willingness to purchase a product or service (Weinberger, Allen, & Dillon, 1981; Mizerski, 1982; Lee, Park, & Han, 2008). Further, consumer confidence in online reviews may be harmed because of the struggle to believe the "disembodied nature of online environments" (Dellarocas, 2003). Although more trustworthy and credible sources can lead to greater persuasiveness (Wilson & Sherrell, 1993), more recent research (Bickart & Schindler, 2001) suggests that this is not necessarily true for online communities. In an online context, consumers must trust the opinion of complete strangers. These strangers could be manipulating the situation to their advantage.

Even simple exposure to online sources, such as reviews or forums, can generate or increase interest in a product more so than basic marketing techniques (Bickart & Schindler, 2001). More recent research indicates a change in purchasing behavior when the product is given a negative consumer review (Lee, et al., 2008). As discussed in Lee, et al. (2008), one problem with online consumer reviews is the lack of a standard format, meaning that one review might be subjective and emotional, and another may contain factual reasons for the evaluation.

The anonymity of the online reviewer creates a situation that could potentially lead to misinformation, specifically in bolstering one company's reviews for an endorsement. For the purpose of this study, an endorsement is any advertising message that reflects the opinions of a party other than the sponsoring advertiser in exchange for product or monetary payment. For example, in early 2009, multiple Belkin employees were provided monetary payment for creating fake positive reviews for a product that had been negatively reviewed on Amazon.com. Belkin is specifically known for manufacturing and supplying audio, video and computer cables, power protection, wireless networking, iPod accessories, and desktop and mobility accessories. The fake reviewers artificially boosted Belkin's ratings on Amazon while belittling existing bad reviews in an attempt to increase sales. "Belkin business development representative Mark Bayard had used the Mechanical Turk service to ask users to write positive reviews of a Belkin product at a rate of 65 cents per review. The requests made it clear that writers need have no experience of, nor even own, the product in question" (cnet.com, 2009). Belkin President Mark Reynoso issued a letter of apology, and the reviews were immediately removed. "Belkin does not participate in, nor does it endorse, unethical practices like this. We know that people look to online user reviews for unbiased opinions from fellow users and instances like this challenge the implicit trust that is placed in this interaction," said Reynoso.

In response to Belkin's actions and dishonest reviews, the Federal Trade Commission (FTC) decided to enact new guidelines. In October of 2009, the FTC incorporated several changes to their Guides Concerning the Use of Endorsements and Testimonials in Advertising, which had not been updated since 1980 (FTC, 2009). These guides address endorsements by "...consumers, experts, organizations, and celebrities, as well as the disclosure of important connections between advertisers and endorsers" and reiterate that material connections, such as money or free products, must be disclosed. Specifically, the FTC provided

examples that address endorsements produced by bloggers and word-of-mouth marketers who receive cash or in-kind payment to review a product. A paid endorsement is deceptive if it makes false or misleading claims. This would directly apply to the aforementioned Belkin scandal. The study described in this paper examines how these guidelines may influence consumers' attitudes and behaviors regarding online reviews.

In part, attribution theory is helpful in explaining consumer behavior. Early attribution theory suggests that an endorsement should be considered a strong incentive for the endorser to have positively biased behavior, meaning consumers should be more cautious about believing the endorser's emotions towards a product (Kelley, 1971). However there is contradictory research suggesting a phenomenon called the "correspondence bias" (Gilbert & Jones, 1986; Gilbert & Malone, 1995). When applied to endorsement literature, this theory indicates that even when situational factors such as endorsement fees are sufficient to explain the positive bias of endorsers, consumers inherit the positive behavior by observing the endorser performing the positive behavior. This implies that a consumer will like a product just because the endorser liked the product. Lafferty and Goldsmith (1999) provide evidence that an endorser's credibility has an effect on the advertisement and purchase intentions of consumers.

The source also plays an important role in affecting attitudes towards advertising effectiveness (Lutz, MacKenzie, & Belch, 1983). Much of the endorsement literature focuses on two major attribution models to further analyze the potential influence of endorsers and their credibility: the source credibility model (Hovland & Weiss, 1951) and the source attractiveness model (Friedman and Friedman, 1979; McGuire, 1985). The source credibility model is comprised of two distinct components, expertise and trustworthiness, which affect the believability and persuasiveness of the message (Hovland & Weiss, 1951). The source attractiveness model was introduced later to include attractiveness as another influence on endorsement effectiveness (Friedman and Friedman, 1979). Although this model focuses primarily on physical attributes, it also includes positive attitudes resulting from perceived similarity (McGuire, 1985). Since online reviewers are considered average consumers, this supplies a direct similarity that can cause the reviewer to be deemed more attractive.

It is important to note that previous FTC guidelines and endorsement research have been heavily influenced by the use of celebrity endorsements. Freiden (1984) demonstrated that the celebrity endorser scored higher on the attributions (expertise, trustworthiness, and attractiveness) than the CEO endorser, the expert endorser, and the typical consumer endorser. Silvera and Austad (2004) confirmed these results and created a predictable measurement for the effectiveness of such endorsements. However, in today's digital age, it is much harder to utilize a celebrity endorsement, and more consumers are using Internet sources for word-of-mouth information. A famous example of this online consumer information atmosphere is Wal-Mart's Elevenmoms, which began as a simple blog campaign for Wal-Mart products and thrifty shopping and has launched into a full

advertising campaign. However, these blogs normally feature individuals who are not experts or celebrities. Further, as shown by the Belkin example, individuals can also be rewarded with money or free product for online consumer reviews.

From one standpoint, the current FTC guidelines could be viewed as a device to warn consumers of false or biased reviews and thus protect consumers. However, the FTC guidelines do not provide a standardized statement and indicate that a simple sentence would suffice as long as the reviewer admits to compensation. Persuasion theory indicates that this might not be effective enough. Petty and Caccioppo's (1981, 1986) elaboration likelihood model (ELM) states that a successful change in attitude requires a certain amount of elaboration so that the person receiving the message thinks about what is being proposed. The ELM theory suggests that the stronger a peripheral cue, the more effect it will have on a target audience, meaning that a more elaborated statement will cause the reader to internalize the message. This has been replicated in other studies (Droge, 1989; MacKenzie and Spreng, 1992) with multiple variables being tested for the peripheral cue. It has also been successfully applied to sunscreen use (Detweiler, Bedell, Salovey, Pronin, & Rothman, 1999) and weight loss (Kreuter, Bull, Clark, & Oswald, 1999). With this in mind, one would think that the more standardized and elaborated an FTC-governed statement, the more effective it would be in informing the customer and influencing the intent to buy because it would be a stronger peripheral cue.

The following study examines three important issues: First, do the already proven positive and negative effect biases still exist with the new guidelines? Second, do the FTC guidelines have an effect on a consumer's intent to buy or the consumer's confidence in his or her choice when only the minimal requirements are met? And finally, if the current FTC guidelines do not actually influence the consumer, would a more standardized and elaborate statement help consumers realize the effects of endorsements? These questions are examined by applying the FTC's new endorsement guidelines and comparing non-regulated consumer reviews to newly regulated consumer reviews, both positive and negative. Further, a standardized and elaborated statement is used to determine if this has a greater effect than the minimal required statement. This will be referred to hereafter as the standardized statement. It is predicted that, although the current FTC guidelines will not show a significant influence on intent to buy, the more standardized and elaborated format will actually decrease intent to buy and confidence in both the positive and negative reviews.

## Method

### *Participants*

A total of 309 University of Arkansas students participated in the present study in exchange for bonus credit in a class. Each participant was randomly assigned to one of six different experimental conditions. Thirty-three participants were removed from the study for incorrectly answering a control question embedded within the questionnaire, leaving 276 participants (156 males, 119 females, 1 gender unidentified). The ages ranged from 19 to 48 years old, with a mean age of 22.2. Participants also provided information on their ethnicity (3 American Indian,

19 African American, 9 Asian, 229 Caucasian, 7 Hispanic, 2 Multiracial, 1 Pacific Islander, and 6 preferred not to answer).

### *Procedure*

All participants were given the same scenario in which they were asked to imagine they were preparing for a trip to Europe and they were camera shopping, had narrowed their options to one fictitious brand, and were reading reviews before they made the final purchase (see Appendix, Section 1). Participants were then randomly assigned to one of six possible conditions – a positive consumer review, a positive consumer review with a current FTC-compliant statement, a positive review with a standardized endorsement statement, a negative consumer review, a negative consumer review with a current FTC-compliant statement, or a negative review with a standardized endorsement statement (see Appendix, Section 2, for the positive and negative reviews). In order to create realistic statements, many online camera reviews were analyzed, and general positive and negative statements were compiled.

For the conditions involving minimum FTC compliance, the statement "I was given this camera by Kallos to review" was added to the beginning of either the positive or negative review. For conditions containing the standardized statement, the statement was added to the beginning of both the positive and the negative review: "The Federal Trade Commission signifies the following review as an endorsement, meaning this individual was given the following product or paid to write the following review. Due to this endorsement, the following review might not signify standard expectations of using the product." In order to create an appropriate standardized statement, governmental warnings were analyzed, and a general statement was compiled after pilot testing.

After reading the consumer review, participants answered questions about how likely they were to buy the camera, how confident they felt about their choice, how much the review influenced their decision, and how much the review influenced their confidence level. Next, participants were given a set of items which asked them to rate how often and why they used consumer reviews in various forms (see Appendix, Section 3, for key survey items).

## Results

Analysis of variance (ANOVA) procedures were used to examine bias effects as well as the impact of new minimal FTC guidelines and a standardized and elaborated statement on participant intent to buy and review influence..

### *Bias Type*

Table 1 contains the means for each group (extremely low = 1, extremely high = 5). There was a main effect for review bias. Respondents who read positive reviews expressed greater intention to buy than those who read negative reviews ( $F(1, 275) = 400.92$ ,  $p < .01$ ), greater confidence in their decision than those who read negative reviews ( $F(1, 275) = 60.35$ ,  $p < .01$ ), and lower subjective influence of the review on their intent to buy than those who read negative reviews ( $F(1, 275) = 10.53$ ,  $p < .01$ ). Neither positive nor negative reviews influenced consumer's subjective ratings of the review's influence on his or her confidence level.

**Table 1.** Mean scores based on bias type.

Dependent Variable	Bias Type	Mean	Std. Error
Intent to Buy	Neg	1.955 <sub>a</sub>	0.072
	Pos	3.908 <sub>b</sub>	0.066
Confidence	Neg	3.021 <sub>a</sub>	0.087
	Pos	3.931 <sub>b</sub>	0.079
Influence on Intent To Buy	Neg	3.957 <sub>a</sub>	0.08
	Pos	3.604 <sub>b</sub>	0.073
Influence on Confidence	Neg	3.696 <sub>a</sub>	0.083
	Pos	3.637 <sub>a</sub>	0.075

\*Significance determined by differing subscripts

*FTC disclaimer*

Table 2 contains the means for each group (extremely low = 1, extremely high = 5). Minimally FTC-compliant reviews did not have a significant effect on intent to buy or confidence level over the non-compliant reviews. However, the modified FTC reviews containing the standardized and elaborated statement demonstrated main effects. Respondents who read the modified FTC statement expressed a lower intention to buy ( $F(2, 274) = 5.56, p < .01$  and lower subjective influence of the review on their intent to buy ( $F(2, 274) = 6.14, p < .01$ ). Respondents who read the standardized FTC statement also expressed lower subjective influence of the review on their confidence level ( $F(2, 274) = 3.47, p < .03$ ). There was no significant effect on the actual measured confidence expressed.

**Table 2.** Mean scores based on FTC type of disclaimer.

Dependent Variable	FTC Type	Mean	Std. Error
Intent to Buy	Non FTC	3.095 <sub>a</sub>	0.078
	Minimal FTC	3.006 <sub>a</sub>	0.078
	Modified FTC	2.692 <sub>b</sub>	0.096
Confidence	Non FTC	3.548 <sub>a</sub>	0.093
	Minimal FTC	3.503 <sub>a</sub>	0.094
	Modified FTC	3.378 <sub>b</sub>	0.116
Influence on Intent To Buy	Non FTC	3.867 <sub>a</sub>	0.086
	Minimal FTC	3.973 <sub>a</sub>	0.087
	Modified FTC	3.500 <sub>a</sub>	0.107
Influence on Confidence	Non FTC	3.796 <sub>a</sub>	0.089
	Minimal FTC	3.76 <sub>a</sub>	0.09
	Modified FTC	3.444 <sub>b</sub>	0.111

\*Significance determined by differing subscripts

*Bias type X FTC disclaimer*

As stated above, positive reviews were associated with higher purchase intentions, while negative reviews were associated with lower purchase intentions, and there was a main effect of the modified FTC statement on intent. There was also an interaction ( $p < .10$ ) between the modified FTC and the positive review bias with regards to intent to buy and influence on intent to buy. Participants who viewed the positive review with the modified

FTC had a significantly lower intent to buy ( $F(2, 274) = 2.479, p < .10$ ) than the other groups (see Table 3). Additionally, participants who viewed the positive review with the modified FTC believed that the review had less influence on their intent to buy ( $F(2, 274) = 2.494, p < .10$ ) than the other groups (see Table 4).

**Table 3.** Intent to buy

	Positive	Negative
Non FTC	4.11 <sub>a</sub>	2.08
Minimal FTC	4.1 <sub>a</sub>	1.91
Modified FTC	3.51 <sub>b</sub>	1.87

\*Significance determined by differing subscripts

**Table 4.** Influence on Intent to buy

	Positive	Negative
Non FTC	3.84 <sub>a</sub>	3.9
Minimal FTC	3.81 <sub>a</sub>	4.13
Modified FTC	3.16 <sub>b</sub>	3.84

\*Significance determined by differing subscripts

**Discussion**

The above results allow certain conclusions. First, it is important to note that the previous literature involving online consumer reviews was validated. Consumers that were exposed to a positive review were more willing to buy the reviewed product than were those exposed to a negative review. This suggests that, when used, online reviews are generally trusted, providing empirical support for how Belkin was able to easily manipulate consumers with false reviews. The FTC noticed this as well and implemented new guidelines to control this problem. However, as this study suggests, the current FTC guidelines might not be sufficient due to the minimal information requirements. This could be due to many factors, but the most important is the lack of a true peripheral cue. The singular sentence required under the new FTC guidelines might not be sufficient to grab the consumer's attention.

Within the study, more elaborate guidelines were proposed and tested in order to establish a standardized statement of endorsement. As demonstrated in previous elaboration likelihood model literature, this statement would indicate the possibility of dishonesty and cause consumers to internalize the importance of endorsed products. The results support the premise that a more elaborated statement of endorsement would be helpful to consumers. Participants that viewed the positive review with the modified FTC statement were less likely to purchase that product. The source credibility model could explain this result, since now the reviewer would be perceived to be less trustworthy given that they had something to gain with a positive review. The negative information provided by the modified FTC statement could be

viewed as a more valid review, since a paid individual would not be biased to speak negatively. When using the modified FTC statement, companies would have to determine if online reviews were beneficial, and this statement could deter if not completely stop dishonest practices such as those performed by Belkin.

The current research is a first step in a complex research agenda and should be used as a catalyst for future research endeavors. One important limitation in this study is the lack of a true control group. Future research should include a group either shown no review or one exposed only to general product information. Further, the research sample contained only university students; thus it might not be representative of the entire population of Internet users. Also, providing the endorsement statement at the beginning of the review could have produced additional bias; other statement placements should be tested. Future research could also employ different standardized statements as peripheral cues to educate and protect the consumer. Certain questions used in this study might have been confusing for participants, such as the influence questions. The questions could also be modified to include trust measurements in order to determine how much the participant trusts the reviewer. It would be important to perform a manipulation check to ensure that the two FTC reviews are viewed as endorsed products. Future research might analyze product categories in addition to electronics (e.g., home supplies, cars, clothing). Research could utilize differing price points to determine if the price would control the endorsement's influence.

The Internet is a superb resource that allows individuals to shop for products and review other consumers' experiences with a specific product. However, as the Belkin situation demonstrated, online reviews and consumer trust can be abused and used to a company's advantage. The Federal Trade Commission is providing guidance in the correct direction, but as this research suggests, current formats might not be sufficient to properly protect the consumer. Perhaps endorsement statements need to be standardized to protect the interest of the consumer, but standardization could also lead to a change in industry practice, causing companies to analyze the costs and benefits of utilizing online reviews. With the current trend of consumer behaviors' becoming more detached from personal face-to-face interaction and relying more on web interaction, the current research in this area could be a critical asset to both the consumer and companies.

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**Mentor Comments:** Professor Molly Jensen highlights a recurring theme in this journal issue – the influence of multiple disciplines on the research of our U of A undergraduate students.

*Alex's research interest stemmed from his work environment and his dual majors in Marketing and Psychology. It was in our weekly meeting that we first discussed the Federal Trade Commission's (FTC) institution of guidelines in the area of online endorsements. According to the FTC, the intent of the guidelines was to protect the consumer. Topics involving public policy research are common in Business, but with the timeliness of the set of FTC guidelines there is no other research to date concerning this topic. With the advent of Web 2.0 and the proliferation of online shopping experiences consumers are more intimately involved in the review process. The access and the ease of giving reviews have exponentially grown. In addition, those using the web expect to see reviews and report making purchase decisions based on these reviews. This research explores the effects of these guidelines and evaluates their consequences intended or otherwise. Research does not occur in a vacuum. Research does occur in a collaborative environment and Alex has had full responsibility for his project in a collaborative environment. He has taken ownership in each step and has shown great tenacity during the process. Alex demonstrates a passion for research. Alex earned the distinction of Best Honors Thesis in the Walton College of Business for 2010. His thesis has already been submitted and accepted to a national marketing conference for presentation in November of this year. Alex is receiving honors in two colleges and intends to continue on to graduate school. He has committed to continuing to work with me and another colleague, Steve Kopp PhD on this project after he graduates and moves. Alex is exactly the kind of student we should be rewarding, encouraging and supporting through publications such as the Inquiry. It has been my pleasure and honor to be his thesis advisor.*

## Appendix: Survey Items

### Section 1: Scenario Statement

“Please imagine yourself in this role: You have decided you really want to buy a new camera for your upcoming trip to Europe that you are going on soon. Your old camera quit working a few weeks ago. You have been debating about many different cameras, but have finally narrowed it down to the Kallos Quickshot Pro because it seemed to be very competitive for the price. Before you decide to buy it, you are just reading a quick review to make sure that it meets all your needs and wants.”

**Section 2: Reviews**

*Positive*

“I was in Mexico and my other camera just broke on me the last 2 days I was there. I was very upset about it because I paid lots for it when it first came out. Got back to the states and got this one and I am HAPPY beyond words. There are no focus issues what so ever even on close up items and video works wonderful on it. There is not a thing I would change about this camera. Night time photos are great. The panoramic setting is really fun. It’s easy to use for ANYONE!!!! The time between photos is really fast & makes it hard to miss a shot. I am very pleased with this camera. I’d say GET IT if you are looking!!!!”

*Negative*

“The viewer is very blurry when trying to focus in on my kids, which is unexpected for the price I paid. Everything seems to have a red tint to it in my pictures too. I cannot find the red light that tells you when the battery is charged so I had to buy a separate charger, which cost me even more. I am a hardcore Kallos user and have owned 5 so far but this one is disappointing. The memory card is easy to put in and take out, but the slot that opens to expose the battery and memory card is flimsy. I don’t know how long this camera will hold together.”

**Section 3: Key Survey Items**

Please use this scale to answer the following questions

	Extremely Low	Low	Neither High nor Low	High	Extremely High
How likely are you to buy the Kallos Quickshot Pro for your trip?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How confident do you feel about your choice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How much influence did the review have on your decision?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How much influence did the review have on your confidence level?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>