

Restaurant Reviews: Their Use and Their Impact on Business

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Dining out, going for a movie or enjoying a bottle of fine wine all have a common feature. They are experience goods, for which consumers can only evaluate the true quality after they have been consumed – i.e. experienced. This means that buyers must have access to information on quality in order to take informed decisions on their potential purchase and consumption.

For these goods, customer reviews are valuable as one can receive in-depth information from other consumers for very low search costs and efforts. With one click, they can thus solve an information asymmetry problem in which service providers are better informed than customers. The web allows customers to efficiently express their views to a large audience and give instant and cheap access to feedback.

Why do consumers use reviews?

Websites such as TripAdvisor or Yelp offer consumers user-generated content in the form of electronic word-of-mouth (WoM) services which are often considered as more reliable than advertisements from retailers. As customer reviews have gained in popularity as a go-to place for information, they have also become significant in swaying consumer decisions. Academic evidence suggests that product information in any sense is more valuable for services than for goods as these appear riskier. Therefore, restaurant customers should be more likely to look for external information sources when they have not experienced it by themselves. Consumer review platforms thus address a need to read the views and experiences of others. According to Parikh et al. (2014) the four main reasons why customers read reviews on these platforms are the following:

- (1) Risk reduction: Consumers use reviews as risk relievers, either by reducing the likelihood that the purchase will lead to a disappointment or, at the very least, to reduce the severity of a potential disappointment.
- (2) Search time reduction: Consumers have strong difficulties to treat information and options when confronted with markets displaying an abundance of products. Creating a review platform thus reduces search costs and helps consumers sort information about many restaurants easily and quickly.
- (3) Buyer's remorse: Turning to reviews reduces regrets buyers may have after having spent a non-trivial amount of money on their dining experience. The easy access to information on review platforms makes them an appropriate source of information to reduce this remorse after the consumption of an experience good.
- (4) Group influence: Group influence describes the way in which people agree with a peer group. This is significant as the general feelings voiced in a review can affect the consumer's perception and behavior even though the person has not yet gone to a restaurant. A review platform can create or reinforce the communal spirit of a customer and therefore sway his decision-making process one way or another.

How can restaurants benefit?

From the perspective of a restaurant, reviews offer opportunities and risks. One benefit offered by reviews is that restaurants can track consumer opinions which is not entirely feasible with classic WOM communication. However, unlike classic WOM, reviews are available to everyone at all times. Restaurant managers need to be mindful of these reviews, as they are often trusted by customers and may lead them to try an outlet out of curiosity or following a hype. Restauranters should thus ensure users post positive reviews to boost the hype and impression of a place to potential consumers. They can do this by organizing events for influential consumers or more simply give out business cards with a request to review the place. The value of community that constitutes one of the main reasons for users to engage on platforms is another important consideration. Business owners should engage the community to build a positive image of their businesses by, for example, claiming their business profile and involving customers through regular business updates. Restauranters should also engage and respond to both positive and negative customer reviews. When restaurant owners publish their business profiles and respond to reviews, users feel connected to management. With a considerable amount of business being brought to a restaurant due to the community's commitment, it can be viewed as a worthwhile investment of resources.

What does this mean for business?

In a recent study, Anderson and Magruder show that higher Yelp scores cause restaurants to sell tables during prime-time 19% more frequently. This impact is strongest for restaurants for which information is the scarcest. Restaurants that are not accredited by experts sell out 27% more often if they earn an extra star on Yelp. According to their results the tightening of the link between restaurants and customers through reviews can further have positive effects on society as a whole. User reviews may redirect consumers to more qualitative restaurants which leads lower quality restaurants to close or to improve quality in response to changes in consumer demand.

In a related study, Luca finds that a restaurant's average rating has a strong influence on sales. One additional Yelp star brings a sales growth of 5-9% in for independent restaurants. Looking at chain restaurants, consumers may have more information than for independent restaurants. His findings show that the strong influence of Yelp for independent restaurants, turns close to zero for chains. Finally, Luca examines whether the observed influence differs on depending on the information provided. First, if each review represents a quality signal, ratings with more reviews will contain more information. He shows that the market responds strongest to changes in restaurant ratings when a restaurant has many reviews. Second, restaurant reviews can be written by high quality (named "Elite" by Yelp) or low quality reviewers. Reviews written by these elite members are almost twice as effective as other reviews.

What about fake reviews?

As user-generated content is becoming increasingly popular, so do concerns that the quality of information may be undermined as companies rig the system. An analysis by Luca and Zervas in 2016 notes that almost every fifth review is marked as fake according to Yelp's algorithm. These reviews tend to be more extreme than average reviews and are written by lower-rated reviewers. In addition, they suggest that economic incentives are driving fraudulent behavior as restaurants are more willing to rig the system when faced with increased competition or having a poor reputation.

It is, therefore, important for platforms to develop mechanisms that reduce the possibility of fraud. While there is no perfect mechanism to remove fraudulent reviews, there are several mechanisms that can help it. Luca and Zervas propose three possible approaches. First, fraud detection algorithms can identify fake reviews, allowing the platform to eliminate problematic reviews. This constitutes a simple and cheap approach but algorithms may appear intransparent and wrongly flag content. Second, the platform could only allow verified consumers to leave a review. While this may reduce the frequency of fake reviews, it may also accidentally reduce the amount of legitimate content. Third, platforms can implement stings and prominently display a warning to readers about misconduct on the review page of the business. However, this is costly to implement and can only be done following solicitations of fake reviews (rather than writing them themselves).

Conclusion and outlook

As discussed above, restaurant reviews are not flawless and may present challenges to customers and restaurateurs alike. But they have nevertheless contributed to reshape the restaurant industry and they will certainly continue to have a profound impact on it in the coming years. Thanks to a more transparent competitive environment and an emulation effect, the quality of the food and service offered by most restaurants has increased, especially in touristic locations. Reviews have also made customers more autonomous in their choices. They can now easily find information not only about fine dining venues but also casual dining, ethnic and even fast food restaurants. Finally, the development of social media enables restaurateurs to (re)create a community around their business and to thereby compensate for the lower loyalty of today's customers who tend to be more versatile and more cost-conscious than a few decades ago.

In the future, the importance of reviews is unlikely to decline. However, the multiplication of information sources and the exponential increase in the number of reviews will pose challenges to both restaurateurs and customers. Websites analyzing and aggregating reviews should therefore be in an ideal position to exploit this situation. This is, to some extent, what the French website "La Liste" tries to realize through the aggregation of data coming from more than 550 different sources. But it only focuses on high-end products (gastronomic restaurants) and therefore neither fully addresses customers' needs nor exploits the potential offered by the overflow of information and data.

Sources

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