Economic Insights from Expert Opinion and Product Quality Evidence from New York City Restaurants

Economic Inquiry (2015)

Olivier Gergaud, Karl Storchmann and Vincenzo Verardi

Introduction:

In a paper published in 2015 in Economic Inquiry entitled "*Expert Opinion and Product Quality: Evidence from New York City Restaurants*", we analyze whether consumers' quality perception and/or producer investment is influenced by newly appearing expert opinion. We investigate this question by referring to restaurants in New York City.

As the leading restaurant guide, *Zagat* has rated New York City's restaurants since 1979 by surveying more than 30,000 restaurant goers per year. In 2005, with the first release of the red *Michelin Guide New York City*, *Zagat* faced a serious competition.

Main results

Overall impact of Michelin ratings on perceptions:

Overall, we find that the *Michelin* effect on food quality was fairly moderate. We find a similar pattern for the service variable but a much larger and highly significant effect on perceived décor quality.

On restaurant closures (in 2007):

Restaurants that closed down before 2006 improved their décor quality but not their food quality. In contrast, surviving restaurants show significant food improvements, but no perceived décor or service enhancements.

While restaurants that are open on Sundays and after 11 p.m. are less likely to go out of business, being a Middle Eastern restaurant increases the odds of shutting down. In addition, and more interesting for this study, the results in Table 8 also suggest that high food quality lowers the odds of closing down while high décor marks have the opposite effect. Being *Michelin*-reviewed by itself lowers the odds of closing down.

Apparently, a *Michelin* review, which is per se good for a restaurant's odds of survival, opens up two strategy paths. Restaurants that improve their (perceived) food quality can further secure their survival, while restaurants that only improve their décor and service quality are less likely to survive.

From a restaurateur's perspective, this strategy (décoring and servicing-up) may be sensible as Chossat and Gergaud (2003) and Gergaud et al. (2007) show that *Michelin* evaluations in France are not solely driven by food quality but also influenced by nonfood characteristics such as décor and service.

However, and as shown in Table 8, décoring and servicing-up without improved food quality may be at the expense of the future survival of the restaurant, especially for an unreviewed venue.

Investments of just perceptions?

Michelin reviewed restaurants, in fact, are more likely to receive a *Wine Spectator* award for their wine list than do others. This appears to confirm our prior assumption that higher service and décor quality ratings of *Michelin*-reviewed restaurants are, in fact, based on restaurant investment rather than on mere consumer perception.

Price effects

We find a Michelin-induced price increase of approximately 30% per Michelin star. Our analysis suggests that improving food leads to price increases for unreviewed restaurants. In contrast, prices of treated restaurants only respond to changes in décor and service. However, higher prices are not necessarily reliable success indicators. In fact, we find that higher prices are associated with a higher likelihood of going out of business, especially in the top food quality segment. This may be due to the close link between décor improvements and price increases.

Conclusion:

We find significant *Michelin*-induced perceived quality increases for food and décor. However, restaurants that only improved their décor but not their food quality were more likely to go out of business.

Apparently, a *Michelin* review, which is per se good for a restaurant's odds of survival, opens up two strategy paths. Restaurants that improve their (perceived) food quality can further secure their survival, while restaurants that only improve their décor quality are less likely to survive.

A conclusion is that the market is more likely to accept food-induced price increases than nonfood-induced ones. All other things equal, décor- and service-oriented restaurants exhibit lower survival rates than food focused venues.