Market Entry and Consumer Reviews: The Case of the Restaurant Industry

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Abstract

The choice of location when entering the food service industry, typically characterized by a high firm turnover rate, is both accompanied by large setup costs and has a large impact on the long-term success of the entrant. In this context, consumer reviews of incumbent restaurants may provide valuable information about the optimal entry location. In this paper, we explore this issue by studying entry and exit behavior in the restaurant business with consumer reviews from Yelp. Our descriptive results indicate that there is a U-shaped relationship between new entrant survival and the respective competitors' average reviews at the time of entry. A Cox proportional hazard model where we control for typical confounders confirms this qualitative relation. In the future, we will investigate the persistence of starting conditions, the role of differentiation strategies, and the value of paying close attention to specific consumer subgroups for restaurant survival.

Keywords: *business failure; customer ratings; service management*

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