

MARKETING COLLOQUIA

SPRING 2017

Giorgos Zervas

Assistant Professor

Boston University, Marketing

Wednesday, January 25, 2017

Where: 741 JMHH

When: 12:00 PM to 1:20 PM

THE WELFARE IMPACT OF CONSUMER REVIEWS: A CASE STUDY OF THE HOTEL INDUSTRY

**GREGORY LEWIS (MICROSOFT RESEARCH AND NBER) AND GEORGIOS ZERVAS (QUESTROM SCHOOL OF BUSINESS, BOSTON
UNIVERSITY)**

ABSTRACT: Platforms such as Yelp and TripAdvisor aggregate crowd-sourced information about users' experiences with products and services. We analyze their impact on the hotel industry using a panel of hotel prices, sales and reviews from five US states over a 10-year period from 2005-2014. Both hotel demand and prices are positively correlated with their average ratings on TripAdvisor, Expedia and Hotels.com, and such correlations have grown over our sample period from a statistical zero in the base year to a substantial level today: a hotel rated one star higher on all the platforms on average has 25% higher demand, and charges 9% more. A natural experiment in our data that caused abrupt changes in the ratings of some hotels but not others, suggests that these associations are causal. Building on this causal interpretation, we estimate a structural model of supply and demand with partially informed consumers, finding that in a counterfactual world without any review information, aggregate consumers surplus for potential travelers to these markets would fall by \$124 million when prices are held fixed. Allowing prices to adjust leads to welfare conclusions that are sensitive to the modeling assumptions.