FOOD TOURNAMENTS : NYC 2006–2008

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On February 23, 2005, Michelin, the famous car tire maker, announced the extension of its series of Red gastronomic guides with the launching of an edition for NYC restaurants, the first one in the United States. The famous guide was released eight months later on November 1, the same year.

This paper looks at the economic impact of this extension on the NYC market for restaurants from several perspectives both before the release and after the release date.

This event can be seen as a repeated “food” tournament in which only approximately 500 seats (474 precisely) have to be assigned each year among a set of more than 1500 competitors (1541 if we take the number of restaurants that were Zagat rated in 2005). The prize is sizeable and the winners enjoy a higher demand allowing them to charge a higher price for their service.

The question that we raise is: what was the overall impact of these “food” tournaments on food quality and prices charged by restaurants in NYC? In particular we study whether chefs exerted more effort in improving the quality of the food to get selected in the 2006 edition. How did they behave to remain listed or to get in the subsequent editions of the guide (2007 and 2008)? As the guide is also known to favor luxurious restaurants, we pay attention to the potential effects of the selection process on the setting of restaurants (decor and service).
The role of expertise has received some attention in the recent years. Several applications are now available on the role played by famous experts such as Robert Parker on Bordeaux wines prices (see Hadj Ali et al., 2008) and Michelin on prices charged by restaurants in Paris (see Gergaud et al., 2008). Another highlighting application concerns the influence of a jury of experts on the career of musicians who competed to win the Queen Elisabeth International Music Competition (see Ginsburgh and Van Ours, 2003).

Our dataset allows assessing the effect of these successive tournaments held by Michelin in NYC on consumer’s opinions and prices by analyzing their evolution over a five–year period. The dataset contains information collected from several editions of the Zagat NYC (2004 – 2008) and the Red Guide Michelin (2006, 2007 and 2008) before and after the release date (2006). The information available is vast and ranging from the ratings (food, service and decor) to the specificities of the restaurants. Reference prices are also available.

From an econometric standpoint we estimate a system of three dynamic equations for food, service and decor ratings. Each equation is specified to conduct a difference–in–difference analysis and the system is estimated by a Zellner–SURE procedure.

The results show that there were positive and significant effects of the first tournament (2006) on the ratings for food, service and decor reported the same year. We also observed a clear increase in food quality in 2005 during the pre–release period which is undoubtedly due to the announcement effect (February 23, 2005). The subsequent editions of the guide were not that impactful and the 2006 selection did not have a clear impact on the ratings reported in 2007 and 2008 either.

From an ancillary Hedonic Price Equation we find a positive and significant impact of Michelin on prices charged by restaurants. Only the third list (2008) turned out to be relevant in the fixed–effects estimations. This means that the return on investment for each of these “successful participants” is an increase in their price due to a higher demand.
To summarize, we find that the introduction of a major food tournament in NYC, held by Michelin, was a sufficient incentive for a significant fraction of chefs to improve the quality, contemporaneously. The fear is that the effect on prices be more permanent than this on effort. This lack of long term incentives to improve quality comes from the fact that the Red list is quite stable over time with entry and exit rates inferior to 10%.