

The Rating Game: How Local Business Owners Can Use Yelp to Increase Their Profits

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As the saying goes, “everyone’s a critic.” If you own a local business, your company is probably under constant scrutiny on online platforms like Yelp. And if it is not, it should be. According to a 2019 survey by brightlocal.com, 90% of consumers visit sites like Yelp before choosing a local business.

A high rating on a site like Yelp can increase profits by guiding consumers away from well-known competitors. In fact, a study by Harvard economist Michael Luca shows that a one-star rating increase on Yelp leads to a seven to twelve percent increase in quarterly revenues for non-franchise Seattle restaurants.

A Common Misconception About Online Ratings

Setting Aztec decorations and live mariachi music aside, in a perfect world, a five-star Mexican restaurant should have better tacos than a four-star Mexican restaurant. However, everyone is a critic, and reviews are inherently subjective. Online ratings show us how well business owners use online platforms to attract the right customers. And how well business owners can keep the wrong customers away, those who do not appreciate loud horns while eating tacos.

Sure, it’s frustrating, especially when your cousin Luis blows a mean trumpet. But excepting that you will not please everyone is the first step towards a higher rating. Online platforms create a rating game for entrepreneurs. Like it or not, your business’ online rating matters, and to succeed in today’s information environment, entrepreneurs will have to play.

So how do you increase your business’ online rating? Here is what we found in a working study presented at the 2019 Babson College Entrepreneurship Conference (BCERC). For the study, we gathered Yelp information on 7,000 California businesses and their reviewers from 2004 to 2017.

Three Ways to Attract the Right Customer While Keeping the Wrong Customer Away

Be Specific About What Makes Your Business Unique

Every firm has something unique to offer, and online review platforms provide the opportunity to tell their potential customers what makes them unique. Being too vague about a business is likely to customers more likely to be unsatisfied. For example, not mentioning that your rottweiler, Rex, greets all customers might rub some people the wrong way. At the same time, being too vague is likely to lower the probability of getting the right customer in the door—those who would love to meet your friendly pup.

Our study's tentative results suggest that businesses that had longer "about the business" sections on Yelp had better ratings than firms who shared less information. Spending some time outlining the things that make your business unique seems to make a difference for your rating, and thus, potentially your bottom line.

Reassure the Public That You Are Listening

It takes time to write information online, and time is money. Smartphones and easy access to the internet make it easier to interact with customers online, but having to address negative and positive reviews might not be a priority for busy entrepreneurs. However, failing to engage consumers who took the time to post reviews may give the impression that customer service is not a priority for the firm. Each review received represents an opportunity for entrepreneurs to reassure potential and past customers about the firm's commitment to customer service.

Our study's tentative results suggest that businesses that responded less to negative reviews had lower firm ratings compared to more engaged firms. We also found that firms that responded to both positive and negative reviews had higher ratings than firms who only responded to negative reviews. Sure, time is scarce, but taking the time to show your customers some appreciation for the time they took to shoutout your business seems to make a difference.

Build Trust by Taking Ownership of Your Online Rating

Trust is important for all business transactions. For example, customers looking for home service companies need to trust that the service provider will not cancel their job because you found a more profitable job (yes, cancelations were mentioned by several customers in our dataset). Because of the transparent nature of online websites, websites like Yelp can be a tool for entrepreneurs to build a reputation for being a trustworthy firm.

The first step to building trust is to take ownership of your firm publicly. Luckily, sites like Yelp and Google display a simple sign telling potential customers if a firm's owner has *claimed* their business.

Our study's tentative results suggest that claimed businesses have higher ratings and more reviews than unclaimed businesses. This suggests that simply taking ownership of your online rating creates more possibilities to reassure your customers. All else equal, building trust seems to be the most important, and less time-consuming way, to improve your online rating.

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