

## **“Entry of Large Scale Shopping Centres – survival of incumbent firms in retail and hospitality”**

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### **Extended abstract**

Since the mid-20th century the retailing industry in Europe has experienced a series of changes. Roughly these changes can be separated into three phases. Following the end of World War Two the physical reconstruction of European cities, as well as an accumulated consumption demand stimulated the emergence of larger scale retail facilities. With the development of a “common market” the second phase was characterized by firms evolving in terms of organization and management, forming hypermarkets and superstores at the fringe of towns meeting the demand for differentiated and higher quality products. Marking the third and present phase is the technologies and logistics which has enabled once national firms, such as Tesco and Carrefour, to evolve into Europe-wide actors, of which the likes now forms a large share of the European economy (Dawson 2006).

In this last phase, the European retail market is characterized by increased market concentration and a decrease in number of small-scale- and micro-firms (Dawson 2006) along with a reallocation of retailing from the city-centers to external out-of-town shopping retail clusters (Gorter et al 2003).

The decentralization of retail as well as the shift from small retail firms to large scale retailers has been taking place also in Sweden (Ljungberg et al 2004). Over the past decade, the retailing industry in Sweden has increased its turnover by around 190 Billion SEK (approx. 19 Billion Euro), and its share of GDP has risen from 2.7% to 2.9%, while the number of employees have increased from 200,000 to 250,000 (HUI 2013). However, this growth has not been distributed evenly across space, but has been oriented mainly towards out-of-town retail clusters. Parallel to this development, the number of large retailers has risen while the market share of smaller independent firms has experienced a decrease (Rämme et al 2010).

While a number of countries, for instance Germany, UK and the Netherlands, have introduced regulations in order to slow down the transformation (Kulke 1992; Sadun 2013; Gorter, 2003), Swedish municipalities have, with few exceptions, not imposed such regulations (Ljungberg et al 2004; HUI 2015). The gradual transformation of the Swedish retailing landscape has thereby been able to progress unimpeded.

This change is viewed with optimism as well as dread. On the one hand, the proponents argue, this progress result in productivity gains, lower prices and an increased variety of products (Maican & Orth 2012). Moreover, it is argued, that it leads to improved service (such as longer opening hours) and a creative destruction transformation pressure on retailers, which leads to a renewal of city-center retail and services that increase their attractivity (Bergström 2010). On the other hand, the opponents argue that the external shopping centers are crowding out existing retail firms in city centers and residential areas. By doing so they reduce the accessibility to retail services of the consumers (Ljungberg et al 2006). This perceived threat by the development has therefore led to calls for regulation. The plans to construct an additional 1.4 million square meters of shopping centers (planned

for 2020) on the Swedish market means that the effects of these types of changes are as relevant as ever before (Svenska Dagbladet 2016).

There are a number of studies dealing with the impact of retail clusters on local economic activity. The overall indications of the results are inconclusive. Some studies show positive (for instance: Fennel & Robertson 2007) effects, while a number of others indicate negative impacts (for instance: Williams 1991; Bergström 2000; Thomas, Bromley, & Tallon 2004; Rämme, 2009) on surrounding economic activity. However, the majority of the previous studies do not analyze the impact also on the hospitality industry. Thereby, previous studies are not only inconclusive but they leave out an important aspect of the effects. In addition, many of the existing studies are based on data that dates back more than a decade ago or are of a descriptive nature and/or based on qualitative methods. While the latter provide important information, these studies may suffer from selection bias. The present study therefore aims to complement the existing literature with a quantitative assessment of the impact of external retail clusters on economic activity by assessing the effect on firm survival of firms in retail and hospitality sectors.

At the very local level, near the location of the external retail center, the positive externalities of agglomeration may be expected to give rise to positive retail demand spillovers. Given a diverse supply of products, the cluster of stores will enable consumers to engage in multipurpose-shopping (O'Kelly, 1981; Hanson 1980), as well as comparison-shopping (De Palma et al. 1985) behavior. While the former will give rise to demand spillovers to nearby retailers of complement goods, the latter will result in spillovers to retailers of substitute goods.

As the distance increases, the positive demand spillovers may be expected to attenuate, due to the increasing transport costs and other costs for consumers. At a certain distance, Huff's (1964) modified variant of the Reilly (1929; 1931) gravity model predict a negative effect. Viewed as complements to retail products, the positive externalities nearby the retail shopping center as well as the negative competitive effects, some distance away, will be present also for firms in the hospitality industry. Thus, based on economic theory the expected effects on firm survival will be positive in the area nearby the retail agglomeration, while the negative effects will dominate and take over as the distance increases, and at a certain point in space the effects will drop to zero.

Using firm-level data for firms in the retail and hospitality sectors this study aims to study the likelihood of exit of firms in the retail and hospitality industry following the establishing of external retail centers. The period of study is 2002-2014 and micro data on the firm-level is obtained from Statistics Sweden while data on external retail centers is provided by HUI Research (the Swedish Institute of Retail and Tourism). Using detailed geographical information on firm location relative to external retail cluster establishments, the link between external retail centers and exit of firms is examined by means of survival analysis. We employ a logistic regression to assess the probability of exit, controlling for demand as well as supply effects. The effect is examined over varying distances from the retail clusters to enable the mapping of the, as predicted by theory, positive and negative effects. To alleviate the potential bias of spatial dependencies, accessibility measures capturing the access to demand will be crucial in the analysis.

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