IEB Institut d'Economia de Barcelona

INFO IEB

NUMBER 26. DECEMBER 2016

Are big-box stores emptying the city centre?

In recent years, many governments have adopted restrictive policies in response to the opening of big-box stores. Before 1990, many European countries underwent increasing market liberalization, as a consequence of which the retail sector, and the food retail sector in particular, expanded greatly with the opening of many new supermarkets. In the Spanish case, the five biggest supermarket chains opened their first stores in the 1970s and by 1990 they accounted for 45% of the market, according to figures published by the Spanish Ministry of Economy. In this way, a highly traditional sector, made up primarily of city centre grocery stores, found itself up against a new type of competitor. The economic consequences of the opening up of these new supermarkets, typically out-of-town big-boxes, became an important policy concern in most countries. In particular, the main concern was (and still is) the impact of these stores on the quality of cities and their commercial structure, especially in the city centre. However, the proponents of big-box stores argue that they tend to push prices down and, so, consumers tend to be better off when they locate in their municipalities.

Few studies have focused on analysing whether the opening of a big-box store harms the rest of stores in its area. Most of them have focused in the US and more specifically on Wal-Mart openings, finding negative effects of such openings on other retailers, especially on those located closest to the big-box facility. In Europe, there is only one study but focused in the UK which finds that following the introduction of stringent policies, supermarket chains adapted the size of their outlets to the regulation resulting in stores that can compete even more directly with the grocery stores, and so harming them even more than before the policy. In a recent study, we look at a similar regulation introduced in Spain in 1997 to evaluate the effects of a big-box store opening on the commercial structure of the city and, in particular, we study whether this type of stores is emptying the city centre.

Given that the opening of big-box stores is not random, we use a particularity of the regulation to be able to establish the causality between the opening of the big-box store and the reaction in the city centre. The key to this new regulation lies in its definition of what should be considered a "big-box store". The central government opted to define a big-box as one with at least 2,500 m2. However, nine (out of Spain's seventeen) regions chose to strengthen the law by further limiting the number of square metres. This they did in line with the population of their municipalities. Thus, in smaller cities a more restrictive definition was placed on the size of big-box stores, making their market entry even more difficult. Here, we focus on those municipalities centred on the lowest population threshold as defined by most of the regions: namely, 10,000 inhabitants. This means that, for all regions, municipalities below the 10,000 population threshold restrict the opening of big-box stores, while municipalities above this threshold are non-regulated. Then, we can assume that those municipalities around the threshold are going to be similar in many dimensions and the only difference between them would be the big-box opening. Therefore, any change in the composition of the city centre's retail activities has to be a consequence of the big-box opening.

> "A big-box store opening is a big threat to grocery stores, but it does not seem to be the case for the city centre's activity in general"

Identifying a big-box as a large supermarket opened between 2003 and 2011, our results show that non-regulated municipalities experience 0.3 more big-box openings than regulated municipalities, and, as a consequence, four years after the first big-box opening, between 20 and 30% of the grocery stores in the area disappear, offering clear evidence that city centres are losing part of their economic activity. However, when focusing on other retailers, the results also indicate that most of the commercial premises that the grocery stores leave empty – almost a 70% of them – are taken by other type of small retailers. These results point out that a big-box store opening is a big threat to grocery stores, making them shut down after the opening, but it does not seem to be the case for the city centre's activity in general, given that the empty

commercial premises are taken by some new small retail stores.

We also examine whether these effects differ according to the location of the big-box (city centre vs. out-of-town) and the typology of the big-box opened (conventional vs. discount). To this end, we exploit the possibility that big-boxes located closer to the city centre, and therefore closer to the downtown stores, have a different impact to that of big-boxes opened in the suburbs. We also analyse whether conventional big-box stores, selling well-known brands, have a different impact to that of discount stores, selling their own brands at lower prices. The results show that there does not seem to be a significant difference between big-box stores operating downtown and those operating in the suburbs, meaning that both downtown and suburb big-boxes act as direct competitors of grocery stores. However, in the case of the typology, results show that it seems to be the conventional supermarkets that are competing with grocery stores and forcing them to pull down their shutters, offering some evidence that these traditional shops, which sell the same kind of products as grocery stores but in a one-stop shop, may match consumer preferences better and may also be more convenient, at least in the short run.

> “The city centre is not dying but only changing its commercial composition”

The findings reported herein have a number of policy implications. First, the regulation introduced was designed to restrict the entry of big-boxes and as such to prevent small retail stores from closing. If we focus on the grocery stores, the aim has indeed been met, given that non-regulated municipalities suffered more closures than regulated municipalities. However, while the regulation may have served its purpose, it is also shown that the city centre in non-regulated cities is not dying but only changing its commercial composition. Therefore, in order to assess whether the regulation is working in terms of protecting small retailers, we should not only consider the small food stores who are forced to close, but also the other stores that take their place, both in terms of numbers and employment.

Maria Sánchez-Vidal, IEB associate researcher

For more information about the content of this summary, please contact:: mariasanchezvidal@gmail.com

UNIVERSITAT DE BARCELONA