

Discussion of:
**“The Evolution of National Retail Chains:
How We Got Here”**

Lucia Foster, John Haltiwanger & CJ Krizan

Justin Wolfers

The Wharton School, University of Pennsylvania
CEPR, IZA & NBER

AEA Meetings, January 7, 2007

This Paper's Contribution

- Careful data description of the evolution of the U.S. Retail Sector
 - 1977-2002
- Marriage of two under-utilized datasets
 - Census of Retail Trade
 - Longitudinal Business Database
- Work on firm dynamics at the intersection of:
 - IO
 - Macro
- True facts

Facts About Single-Unit Retailers

- Mom & Pop are not dead
 - \approx 1 million firms are single-unit establishments
 - \approx 94% of all retail firms
 - \approx two-thirds of all retail establishments
 - \approx one-third of sales and employment
- And Mom & Pop aren't dying
 - Positive employment and sales growth by single-unit firms
 - #single-unit firms (\approx establishments) unchanged
- But their relative importance is declining
 - 1977: About half of sales and employment were single-unit
 - 2002: Share falls to about one-third

Emerging Mega-Firms

- Mega-firms, defined:
 - Multiple establishments operating in ≥ 15 states
 - Aside: What about the internet?
 - » Is Amazon.com a “mega” firm? What about eBay?
- They are a small share of firms (≈ 500 firms)
- But a large (35%) and growing share of retail employment (up from 22% in 1977)
 - Decomposed into:
 - » Increased #firms: 500 firms today, up from 250 in 1977
 - » #Establishments per mega-firm unchanged
 - » Workers per establishment rose
 - ◆ Average worker at a mega-firm has 185,000 coworkers (up from 92,000)

Firm Dynamics: How Did We Get Here?

- Mom & Pop (Single-unit firms)
 - High job creation and high job destruction
- Mega-firms
 - Moderate job creation and low job destruction
- Similarities: Entry
 - Around three-quarters of job creation due to establishment entry
 - » (Big diffs in share attributable to firm entry)
- Differences: Exit
 - Nearly two-fifths of Mom & Pop's exit within 5 years
 - Exit rate of Mega-firm establishments about half this

Bigger Picture Questions

- IO: Why do mega-firm establishments exit much less often than Mom & Pop's?
 - Are they smarter? Or is it bureaucratic inertia?
 - Financing constraints?
 - Within-firm, between-establishment externalities?
- Political economy: Will we see a rise in “firm-specific” legislation?
- Labor: Possible implications for unionization?
- Macro: Role of changing firm-size distribution in the Great Moderation (↓macro volatility)?
 - More big firms → fewer exits?