FRAGMENTED MARKETS AND THE PROLIFERATION OF SMALL FIRMS:

EVIDENCE FROM MOM-AND-POP SHOPS IN MEXICO

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Great paper, well designed and well delivered (1)

- Important question
  - How do transport costs affect the structure of retail markets?
    - Role of demand in structural change...
      - Complementary markets; Buchak's 2019 job market paper on ride-share & credit market;
      - Size of demand / WTP for quality; Goldberg & Reed 2020
  - Applications: trade barriers, technological frontier of transport/climate change, pandemic(s)

- Relevant, yet Original setting:
  - Food is 29% to 54% of expenditure for households (decreasing with income)
    - For these households, 70% is purchased in traditional format
  - The literature has rarely looked at a liberalization episode that increased prices and decreased quality: here, 2017 Energy reform that lead to an increase in gasoline prices, higher for municipalities that are further away from distribution centers as they were more subsidized

- Great complement to Lagakos 2016; Atkin, Faber and Gonzalez-Navarro 2018
  - A paper you don't cite: Atkin and Donaldson WGG

Great paper, well designed and well delivered (2)

- Amazing data:
  - Universe of mom-and-pop stores in Mexico!! Panel of 1.5 million firms over 4 years
    - How do you know the supplier sells to ALL stores in Mexico?
    - 50% of stores are NOT in the census... why?
      - Informality? (83%)
      - High turnover? 15% annual entry/exit vs census every 5 years
    - Can you negotiate more information about store characteristics?
  - Cleverly combined with administrative data, some public and some also confidential!

- Dynamic model of entry

- Novel findings: increase in transport cost led to market fragmentation, decrease in quality
  - Important implications: On the one hand, this episode is "bad" for Mexico's structural change and productivity growth
  - On the other hand, gasoline prices need to be high to contain climate change
    - How can we reconcile the two?

Quality of stores

- How to think about quality here?
  - Hygiene, variety/freshness of assortment, spaciousness, lighting, heating, customer relation etc.
    - Any data on this?
      - Assortment

- In the model, firms do not choose their level of quality: it seems like you are forcing fixed cost and quality to be the same…
  - You show that quality does not increase as firms age, but your model does not allow for it?
  - Clarify Fixed cost of entry (space/shelves)/ fixed cost of operations (light)/ variable cost (cleaning/tidying increases as sales increase)
  - In the data: there is no change in the rate of exit of incumbents (or a decrease)
    - Decrease in sales, ceteris paribus: expect *higher* exit, especially as these stores have higher fixed cost…. Unless they invest / pay higher cost to increase quality!

- In your counterfactual (higher cost of entry), less stores and same quality
  - but (even absent investment) we expect surviving stores to be of a higher quality than exiting stores so average quality must increase? And future entrants will be of higher quality than former entrants?

Distributional effects

- Consumers: poor/rich, urban/rural
  - What about non-users of gasoline: 80% of the bottom 20% of the income distribution
    - No change to their transport cost (?), but increase in stores: what happens to them?
  - In very dense cities, 2 effects: small change in gas price; and low frequency of car use to do grocery shopping anyway... can you speak to that?

- Store owners:
  - Incumbents: Average monthly sales of ~ 223 USD x 5With a fixed markup of 20% (?) owners are not rich... earnings before utilities and other costs about USD 223 , -3% afterwards.
  - Entrants: positive impact...
  - Modern stores?
    - Differentiate by food vs non-food items: for non-food items, longer shelf-life, consumers may be able to make less frequent trips but purchase larger amounts at big-box stores
  - What about even more traditional retail sector (open-air markets/street vendors)?

Counterfactual exercises

- Counterfactual #1: what if a chain took over some m&p stores? (Klopack's forthcoming JMP at Rand)
  - Difference between m&p stores and convenience stores?

- Counterfactual #2: a fall in transport prices...
  - Real-word test in 2020 (rich) people switching away form public T towards cars.
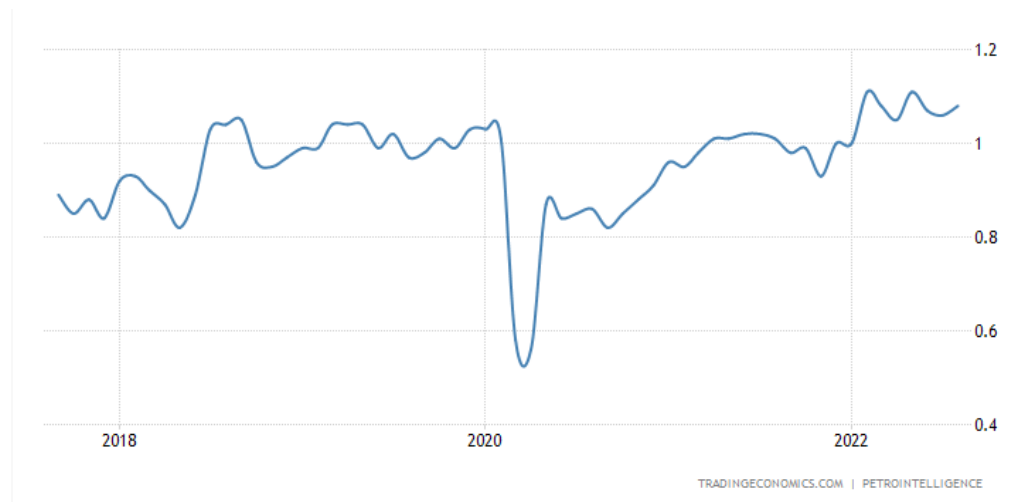
Average price in USD of 1 L of gasoline in Mexico

Open questions

- Relationship between supplier and stores
  - Objective: maximize sales, especially if fixed price
  - No incentive to help retail stores increase quality / profits as long as sales remain the same?
    - But in the LT might have some
    - Why do they collect gender of owners?

- How do you define a market?
- Very surprising that the price is the same in remote areas vs dense areas? Atkin and Donaldson WGG
- The "distance to nearest store" is not very convincing
  - [Origin-Destination Survey in Households of the Metropolitan Zone of the Valley of Mexico (EOD) 2017 (inegi.org.mx)](#)
- You equate low-cost of entry with low-rents and show that rents don't change / decrease slightly in treated neighborhoods. But we expect rents in high-density areas to increase when transport cost increases?