



Small retail businesses: decline or mutation?

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Local and national authorities have been deeply concerned about the disappearance of small shops in rural areas, small town centres and even large cities. The concern stems from the feeling that, in addition to their role in supplying households, these shops encourage social mix and contribute to the attractiveness of the area. Public intervention is often justified on the grounds that small shops have a positive impact on both residents and other businesses.

This Note takes stock of developments in the small retail sector, in the very broad sense of the term, including both retail trade (excluding supermarkets) and some services (bars, restaurants, household services). The situation is that it varies greatly from one area to another and from one sector to another, with some situations giving real cause for concern. The Note confirms the existence of externalities and documents the speed with which these externalities have some effects. But it also highlights the difficulty of conducting analyses in a sector where public data is often incomplete and sometimes missing.

The Note shows a break in the trend since the mid-2010s: the slowdown in the growth in the number of shops, or even their decline in rural areas and isolated towns, is accompanied by a change in the structure of the sector, with more bars and restaurants and as many, or even fewer, other types of shops. In the future, the disaffection with shopping centres, hypermarkets and supermarkets,

the desire for zero net artificialisation of land, the transformation of town centres into leisure areas and even the rise of e-commerce are likely to work in favour of small shops. As a result, we are seeing more of a transformation in small retailing than the decline that is sometimes prophesied.

Given the vitality of the sector and the disruptions that have occurred and will occur in the future, the externalities do not necessarily justify specific public action towards small shops. However, such action may be necessary at local level in cases where the critical mass of shops is insufficient or on way to becoming so.

Two types of area are likely to require specific measures: isolated towns and rural areas where commercial desertification may create supply difficulties for certain populations, which e-commerce is unable to resolve.

The «Actions cœur de ville» and «Petites villes de demain» programmes set up by the public authorities aim to make town centres more attractive, not only for shops, but also for residents and those who work there. In addition to the necessary evaluation of these programmes, the Note recommends improving access for municipalities and local authorities to information on commercial premises, and ensuring that policies to support small businesses are modulated and managed at local level, while benefiting from the support of central government.

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The French are attached to small retail businesses: the wide-ranging public consultation on “Comment inventer ensemble les commerces de demain ?”, (“How can we invent tomorrow’s shops together”), organised in 2021 to prepare for the national conferences on retail business (“Assises du commerce”), showed that “preserving and developing local shops” was a major concern among the population.¹

During the “yellow vests” movement, the disappearance of retail outlets, particularly small food shops, has also been identified as a source of dissatisfaction.² The functions of small shops are perceived as multiple: they provide local services, contribute to the touristic activity of towns, add value to the area and are a source of human contact and exchange. Over and above their economic and utilitarian value (offering a product or service in the right place at the right time), these shops add value to the experience of life downtown as in rural areas, and sometimes take on a public service dimension.

Yet small shops are often portrayed as declining or disappearing in the face of competition from superstores or e-commerce. What exactly is the situation? Given the positive externalities attributed to small shops, what public policy instruments should be mobilised? This *Note* provides an overview of the development of small local shops, in a very broad sense: the sale of goods in small shops located close to where people live (including in shopping centres), but also craft based food businesses (delicatessens, bakeries, etc.), bars and restaurants, and several household services (including personal care services such as hairdressing salons).³ We, therefore, exclude superstores but include both independent establishments and small shops that are branches of large groups, such as mini-markets. In contrast, Insee’s (France’s national institutes for statistics) economic reports on trade cover either trade as a whole (including wholesale trade) or retail trade (including supermarkets), but exclude household services (hairdressing, catering, etc.).⁴ As the scope of the data we use may vary depending on the source, we will endeavour to provide further details in the course of this *Note*.

Why bother about small retail businesses?

In addition to its primary role of providing products and services, small retailing has positive external effects on its environment that are difficult to assess. They contribute to the attractiveness of the area and to improving the well-being of local residents. In addition, small shops have strong external effects on each other, explaining the dynamics of agglomeration or, on the contrary, the increase in retail vacancy.

Academic literature confirms the positive externalities of retail outlets for local residents. A study based on Swedish data⁵ shows a positive relationship between the attractiveness of an area and the supply of retail outlets in the employment area (in both towns and rural areas). This positive relationship holds true for local retailing in an urban context. In the United States, the renewed demographic dynamism observed in the largest cities is linked to the influx of young, qualified households, with the density of restaurants and bars in the city centre being the most decisive factor of attraction.⁶

Each store also exerts two types of externalities on its neighbours: positive externalities of consumer attraction (increase in potential demand) and negative externalities of competition (decrease in market share). Where the former dominate, i.e. in highly differentiated segments such as clothing and footwear shops, retailers tend to cluster together in shopping streets or shopping centres. On the other hand, in segments where the offer is more homogenous (e.g. supermarkets), competitive externalities are likely to prevail, with establishments locating at a distance from their competitors.⁷ In addition, some retailers are likely to play a leading role locally, in a shopping centre or in an urban area: their bankruptcy leads to a fall in footfall in nearby shops and triggers a process of local retail exits in the first year after closure.⁸

There are many examples of externalities between shops in the academic literature. Looking at the main shopping streets in the Netherlands, researchers have shown that two types of externalities, the average number of pedestrian crossings in the street and the number of shops in the vicinity, have a positive and very significant effect on local retail

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¹ Ministère de l’Économie, des Finances et de la Relance (2021): Comment inventer ensemble les commerces de demain, Rapport de consultation.

² Algan Y., Senik C., Malgouyres C. (2020): «Territoires, bien-être et politiques publiques», Note CAE, no. 55.

³ We exclude real estate, financial services and pharmacies.

⁴ The scope chosen for this report provides a better understanding of the concept of “small shops” and their impact on the attractiveness of local areas.

⁵ Öner Ö. (2017): ‘Retail City: The Relationship between Place Attractiveness and Accessibility to Shops’, *Spatial Economic Analysis*, vol. 12, no. 1, pp. 72-91.

⁶ Couture V. and Handbury J. (2020): “Urban revival in America”, *Journal of Urban Economics*, vol. 119, no. C.

⁷ Picone G., David A., Ridley B. and Zandbergen P. A. (2009): “Distance decreases with differentiation: Strategic agglomeration by retailers”, *International Journal of Industrial Organization*, 2009, vol. 27, no. 3, p. 463-473.

⁸ See Shoag D. and Veuger S. (2018): ‘Shops and the City: Evidence on Local Externalities and Local Government Policy from Bog-Box Bankruptcies’, *The Review of Economics and Statistics*, vol. 100, no. 3, pp. 440-453.

rents.⁹ Similarly, an American study¹⁰ highlighted the positive externalities of new bars and nightclubs in Chicago on those already established, and attributed them to consumers' taste for variety. In another context, the abolition of minimum distances between restaurants in Milan in 2005 led to their concentration in certain districts and their abandonment of others, but also to an increase in the number of bars and restaurants and greater differentiation of offerings in the seven years following deregulation.¹¹ Conversely, in the less differentiated fast-food chain market, restaurants are seeking to locate at a distance from their competitors.¹² These externalities may be asymmetrical: in the Dutch restaurant sector,¹³ bars exert a positive externality on nearby takeaways, but there is no measurable effect in the opposite direction.¹⁴

Finding 1. Small shops have well-documented externalities. The positive externalities for local residents confirm a public service dimension that may warrant a public support policy. The more differentiated the markets, the stronger and faster the positive externalities between shops.

Recent trends in small retail trade in France

In 2019, the small retail sector, as defined in our study, will have just over 430,000 establishments and will account for around 12% of total employment (1,824,000 employees¹⁵ and 710,000 self-employed) and 6% of GDP.¹⁶

Various trends across sectors and locations

The number of shops rose sharply between 2008 and 2013 (4.1%), and slightly between 2013 and 2019 (0.7%), but this increase was mainly driven by the dynamism of the catering

sector. Excluding bars and restaurants, the number of shops falls by around 2% between 2013 and 2019. Moreover, this growth conceals major disparities between the dynamism of the suburbs and the sharp decline in the number of shops excluding restaurants in rural areas.

In France, retail centres are developing in town centres and on the city outskirts. Hubs in city outskirts, defined as areas of high retail density (in square meters), are more specialised. They are dominated by food retailing and household goods, and have larger shops: these centres account for a quarter of establishments, but two-thirds of the retail floor space of all commercial centres, and 45% of jobs. On the other hand, downtown centres, with at least 20 shops with fewer than 8 employees, are increasingly dominated by restaurants. According to Insee, while overall employment in the local retail sector (as defined in our study) increased between 2009 and 2015, this growth was mainly driven by the dynamism of out-of-town centres, where the number of employees rose by 2.3%, while it fell by 0.2% in downtown centres and by 1.2% in stand-alone stores. The stability of employment in downtown retailing conceals major disparities between urban areas: overall, it is losing ground, except in large towns and tourist areas. In detail, retail employment is increasing in large regional cities, while it is falling in smaller urban areas, particularly in medium-sized towns.¹⁷

A comparison of population changes and the number of small shops since 2008 shows that commercial dynamism is declining in all areas, except in the suburbs, where the number of shops continues to grow faster than the population¹⁸ (Figure 1). This is no longer the case in town centres and isolated towns.¹⁹ Finally, the decline in retail density (number of shops per inhabitant) is more marked in rural areas. If we exclude bars and restaurants from the analysis (see *Focus*), we see a decline in retail density in all areas, including suburbs, since 2013, illustrating a gradual replacement of small shops by bars and restaurants.

⁹ Koster H., Pasidis I., and Ommeren J. (2019): 'Shopping externalities and retail concentration: Evidence from Dutch shopping streets', *Journal of Urban Economics*, vol. 114.

¹⁰ Cosman J. (2014): "Industry dynamics and the value of variety in nightlife: evidence from Chicago", Working Paper, University of British Columbia.

¹¹ Leonardi M. and Moretti E. (2022): "The Agglomeration of Urban Amenities: Evidence from Milan Restaurants", NBER Working Paper, no. 29663.

¹² See Igami M. and Yang N. (2016): 'Unobserved heterogeneity in dynamic games: cannibalisation and preemptive entry of hamburger chains in Canada', *Quantitative Economics*, vol. 7, no. 2, pp. 483-521.

¹³ Koster H. et al: op. cit.

¹⁴ Fernandez R. (2021): "Spillover effects of entry and city development", Working Paper, Crest.

¹⁵ CAE calculations based on the Urssaf database. For details, see Allain M., Epaulard A. and Rouat P.-L. (2023): "Le panorama du petit commerce en France", *Focus CAE*, No. 94, May. In this Note, "see Focus" refers to this publication.

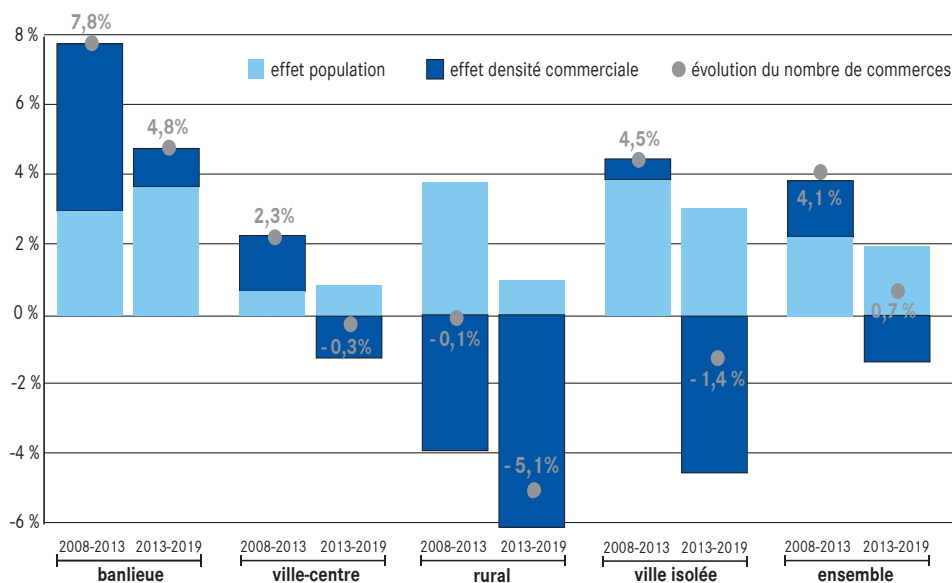
¹⁶ Estimates by the authors based on figures for total domestic employment by branch in full-time equivalent numbers in 2019, produced by INSEE.

¹⁷ Insee (2021): "Le commerce de proximité: des pôles plus florissants en périphérie qu'en centre-ville", *Insee Première*, no. 1858, May. In this study, Insee includes restaurants and personal services, but also supermarkets. See also Cazaubiel A. and Guymarc G. (2019): "La déprise du commerce de proximité dans les centres-villes des villes de taille intermédiaire", *Insee Première*, no. 1782, November.

¹⁸ In 2019, 37.8% of the total French population lived in the suburbs, 32% in central cities, 20.8% in rural communities and 9.4% in isolated towns.

¹⁹ INSEE defines a city-centre as a municipality whose population represents more than 50% of a multi-municipal conurbation. All the municipalities in a conurbation that have a population greater than 50% of that of the most populous municipality are also central cities. Urban municipalities in the conurbation that are not central cities are suburbs. An isolated town is an urban unit extending over a single municipality. Rural communes are defined as those that do not belong to an urban unit (built-up area of at least 2,000 inhabitants, with dwellings located within 200 metres of each other).

Figure 1. Comparative trends in population and number of small shops



Reading: Over the period 2013-2019, the number of small retail businesses in isolated towns fell by 1.4%. Over the same period, the population grew by 3.1%. As a result, «commercial density» (the number of small shops per inhabitant) fell by around 4.5%.

Scope: France, all retail outlets except food superstores and pharmacies.

Source: Urssaf database and Insee database, type of municipality, 2020

Vacancy is an indicator of the difficulties facing the small retail sector. The Belgian company Codata measures it in a large number of French towns using a consistent methodology and a commercial perimeter that has remained stable over time. On the rise since 2013, whatever the type of location, retail vacancy is reaching high and even worrying levels in towns with fewer than 40,000 inhabitants and in shopping centres with fewer than 30 locations (see Figure 2). In France, vacancy does not seem to have accelerated as a result of the pandemic. Surveys for 2021 show a slight fall in vacancy rates compared with 2020, contrary to what Codata observes for Belgium. However, other surveys (such as those carried out by the Apur in Paris) show an increase in vacancy rates between 2020 and 2022, driven by vacancy rates in shopping streets frequented by tourists (see *Focus*).

Finding 2. Since 2013, the number of small shops has increased in the suburbs, stagnated in town centres and decreased in rural areas and isolated towns. Retail vacancy is highest in towns with fewer than 40,000 inhabitants and in small shopping centres.

What is the financial situation after the Covid shock?

The health crisis has not necessarily exacerbated the difficulties associated with the sector or with the geography of small

businesses, but these remain. Business demographics show a high turnover, a sign of both dynamism and the existence of pockets of difficulty.

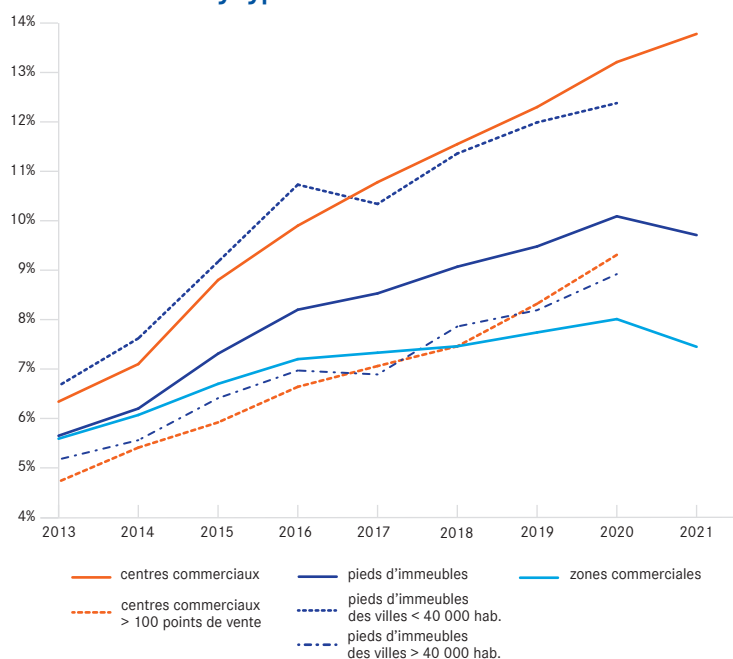
In *Focus* no 95 “Petits commerces: un panorama en demi-teinte” (“Small businesses in France: a mixed picture”), we used data from the bank accounts of very small businesses (VSEs), which makes it possible to track changes in net financial positions (i.e. the difference between the sum of assets - current account balance + savings account balance - outstanding debts) at high frequency (up to April 2023), adjusted for the effects of inflation. After a notable improvement in the financial situation of small businesses between March 2020 and July 2021, it gradually returns to its pre-crisis level.

Overall, small retail businesses seem to have weathered both the pandemic crisis and the energy crisis well, although the long-term effects of rising input costs cannot be ruled out. Compared with other sectors of the economy, the situation of small retail businesses appears to be more favourable, particularly when we consider the businesses with the most fragile financial situations: the proportion of businesses in a poor or very poor situation has fallen in the small retail business sector, while it has risen in the rest of the economy over the period. The situation is the same when bars and restaurants are excluded from the small retail sector.

Another indicator of financial health is that business failures do not appear to be more frequent in the small retail sector than in other sectors (see *Focus*). Before the pandemic, insolvencies were falling overall, with the exception of food retailing. During the pandemic, the number of insolvencies fell sharply across the economy as a whole, including in the retail sector, which was very hard hit by the containments.²⁰ The trend has been reversed since then, even though the number of small businesses filing for legal redress and liquidation in commercial courts in 2022 is still well below the levels recorded in 2019 and in the years preceding the pandemic.

²⁰ Cros M., Epaulard A. and Martin P. (2020): “Business failures in the Covid-19 crisis: zombification or hibernation”, *Focus CAE*, No 51.

Figure 2. Commercial vacancy rates in France by type of area. 2013-2021



Source : Codata, *Digest – France de 2014 à 2022*.

Finding 3. The financial situation of small businesses has improved since the pandemic; business bankruptcies are well below their 2019 level.

Facing double competition from mass retail and e-commerce

The emergence of digital technology in commercial exchanges disturbs the traditional opposition between superstores and small shops.

Competition from mass retail

Mass retailing, which developed in France from the 1960s onwards by cutting out intermediaries (wholesalers) and

selling at low prices in supermarkets, has long been held responsible for the decline of small shops. The development of large food stores (supermarkets and hypermarkets)²¹ has led to the disappearance of a large number of small general food shops; in non-food sectors, chain networks have also driven many independent retailers out of business (see *Focus*).²²

There is a vast academic literature on the impact of the arrival of a superstore on small local businesses. Several articles analyse the effect on local businesses of the opening of a Walmart shop in the United States and show that local food shops lower their prices in response, which benefits consumers;²³ they also tend to improve the quality of the products they sell.²⁴ In the year following Walmart's entry, despite the decline in the number of retail establishments in the county (a net outflow of 4 establishments within five years), 100 jobs were created in this sector²⁵; but half had disappeared after five years. Moreover, these effects are localised: no effect is measurable in neighbouring counties.²⁶ Finally, the shops most affected are those of other major chains.

In Spain, another study shows that in the four years following the opening of a supermarket, between 20% and 30% of small downtown food stores disappear, but 75% of the commercial sites left vacant are taken up by other small non-food stores.²⁷

In France, a study by Insee²⁸ over a long period highlights the effect of the development of superstores on local retailing, particularly in medium-sized and small towns: the authors show that, two years after the opening of a superstore, there is a high probability that small local businesses will leave. Furthermore, in an analysis of the impact of the Raffarin law restricting the conditions under which supermarkets can set up,²⁹ the authors show that this regulatory restriction on the entry of food superstores has increased the concentration of distribution and slowed the growth of employment in this sector.

Supermarkets are mainly located in the suburbs and outside towns. Public authorities have intervened on a number of occasions, particularly in the 1990s, to limit the impact of their development on small retailers. For example, the 1996

²¹ Food products account for around 50% of hypermarket sales and almost 80% of supermarket sales.

²² Quantin S. and Turner L. (2015): "Le développement des grandes surfaces et son impact sur la durée de vie du petit commerce alimentaire de proximité", *Journées de la méthodologie statistique*.

²³ See Basker E. and M. Noel (2009): "The Evolving Food Chain: Competitive Effects of Walmart's Entry into the Supermarket Industry", *Journal of Economics and Management Strategy*, no 18:4 (winter), pp. 977-1009, and Hausman J. and Leibtag E. (2007): "Consumer benefits from increased competition in shopping outlets: measuring the effect of Wal Mart", *Journal of Applied Econometrics*, 22, pp. 1157-77.

²⁴ Matsa D. A. (2011): "Competition and product quality in the supermarket industry", *The Quarterly Journal of Economics*, 126 (3), pp. 1539-1591.

²⁵ Basker E. (2005): "Job creation or destruction? Labor-market effects of Walmart expansion", *The Review of Economics and Statistics*, 87(1), p. 174-183.

²⁶ Ellickson P. B. and Grieco P. L. E. (2012): "Wal-Mart and the Geography of Grocery Retailing", *Journal of Urban Economics*, vol. 75, pp. 1-14.

²⁷ Sanchez-Vidal M. (2019): "Retail shocks and city structure", *CEP Working Paper*, no 1636.

²⁸ Quantin S. and Turner L. (2015): «Le développement des grandes surfaces et son impact sur la durée de vie du petit commerce alimentaire de proximité», *Journées de la méthodologie statistique*.

²⁹ Bertrand M. and Kramarz F. (2002): "Does Entry Regulation Hinder Job Creation? Evidence from the French Retail Industry", *The Quarterly Journal of Economics*, vol. 117, issue 4, pp. 1369-1413, November.

Galland law strengthened the ban on the resale of unprocessed products at a loss. This promotional practice on the part of major retailers was criticised by representatives of small retailers who were unable to compete with the same prices. But this law led to inflationary drift without providing effective support for small businesses.³⁰ Successive reforms of the framework for commercial relations finally emptied it of its substance and re-established the negotiability of prices and general terms of sale.³¹

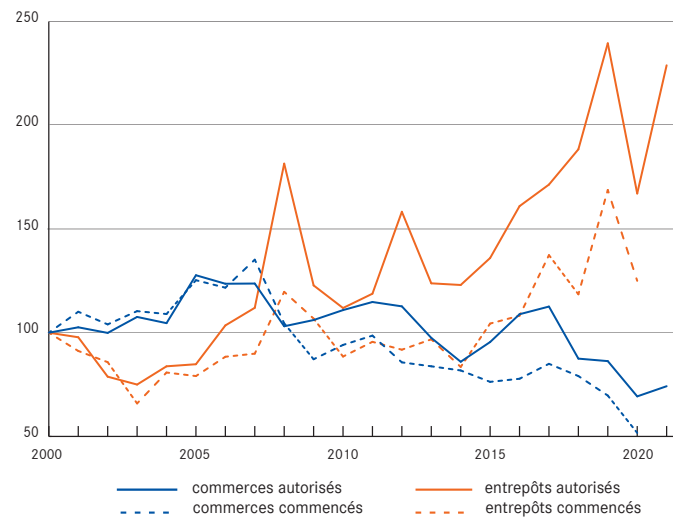
The public authorities have also tried to limit the establishment of superstores, in particular through the Royer law of 1973 and the Raffarin law of 1996. In addition to urban regulations, administrative controls on new establishments, currently carried out by the departmental commercial development commissions (CDAC). After a period of strong expansion in the number of large-scale retail outlets, the number of m2 of retail premises authorised and under construction (including wholesale outlets) has remained stable for a long time since the end of the 1990s, and has been on a downward trend since 2018 (see Figure 3). By contrast, approvals and starts for warehouses have been rising sharply since 2014. The share of warehouses in commercial buildings tripled between 2000 and 2019, rising from 5% to 15%.³² This increase can be explained by the development of e-commerce, which requires changes to the organisation of logistics and the use of warehouses dedicated to delivery or to the drive, the collection point for orders placed online.

E-commerce: a new form of competition

Since the mid-1990s, the French retail landscape has been profoundly altered by the development of e-commerce, which accelerated even further during the Covid crisis. As a result, the competitive dynamic of the sector has been transformed, moving from head-to-head competition between large retailers and small businesses to more complex interactions with contrasting consequences for small businesses.

In 2021, according to estimates by the Fédération du e-commerce et de la vente à distance (Fevad),³³ the French spent €129 billion online, divided almost equally between goods and services. The e-commerce sector now represents 14.1% of retail trade. Between 2010 and 2020, the average annual growth rate in sales was 14% for e-commerce, compared with 1.4% for brick and mortar stores.³⁴ The e-commerce players are highly concentrated.³⁵ The Amazon platform alone generated sales of €7.3 billion in France in 2020.

Figure 3. Change in the number of m2 authorized and used for shops and warehouses (base 100 in 2000)



Source : Observatoire national de l'artificialisation des sols (2022), Sit@del2.

This now applies to all goods. The categories where e-commerce is most developed remain household goods (36% of high-tech spending is done online, 21% of furniture spending) and cultural products (24% of 'physical' goods: books, DVDs, CDs, etc.). However, online sales are growing strongly in the clothing sector (21% of spending), and now include everyday consumer goods. According to the Nielsen Institute, online sales in the food sector will account for between 8% and 9% of the market by 2020, with 80% of sales taking place via supermarkets.

E-commerce brings specific services to consumers (delivery, access to a large number of products and sellers, and price comparison). One study shows that price elasticity in the United States is between -20 and -30,³⁶ meaning that a 1% increase in the price of a product is associated with a drop in consumption of between 20% and 30%. On the other hand, consumers are no longer in contact with products before they buy them.

E-commerce would also increase consumer surplus. An extensive analysis in the United States over the period 2007-2017 estimated this welfare gain at the equivalent of \$1,000

³⁰ Boutin X. and Guerrero G. (2008): "Loi Galland et prix à la consommation", Dossiers de l'Insee, Note de conjoncture, June.

³¹ For a summary, see Allain M., Chambolle C. and Vergé T. (2008): «La loi Galland sur les relations commerciales: jusqu'où la faut réformer?», Cepremap pamphlet, Editions Rue d'Ulm.

³² Ministère de la Transition écologique et de la Cohésion des territoires (2020) : Base Sitadel, CGDD - SDES. Quoted in France Stratégie, Conseil général de l'environnement et du développement durable and Inspection générale des finances (2021): «Pour un développement durable du commerce en ligne», Report, p. 9.

³³ Fédération du e-commerce et de la vente à distance (2022): Key e-commerce figures.

³⁴ France Stratégie, Conseil général de l'environnement et du développement durable and Inspection générale des finances (2021): op.cit. p. 4.

³⁵ 1.4% of the sites identified in France by Fevad in 2021 will account for 76% of the sector's sales.

³⁶ Ellison G. and Ellison S.F. (2009): "Search, Obfuscation, and Price Elasticities on the Internet", *Econometrica*, vol. 77, pp. 427-452.

per household per year.³⁷ Households on high incomes and those living in densely populated areas benefit most from e-commerce.

Finally, e-commerce is often seen as a solution to the decline in small businesses in rural areas. But not all types of products are on offer: until now, the delivery of food products has been limited to urban areas. An experiment in China shows that government support for the development of e-commerce in rural areas has little impact on the poorest households and essentially benefits a minority of young, wealthy households.³⁸

Large-scale distribution, e-commerce and small shops: a change in the balance of power

Academic analyses of the impact of e-commerce on the structure of the retail market are rare. In theory, by making it easier to compare products, the development of e-commerce leads not only to a fall in the level and dispersion of prices but also to a reallocation of market share towards the most efficient companies. It leads to the partial or total exclusion of those that are less efficient (in terms of cost or quality), which may result in a concentration on a few market players.³⁹ These predictions have been verified empirically in several sectors in the United States between 1994 and 2003. For example, in the travel agency sector,⁴⁰ a 15% increase in consumer use of e-commerce is associated with a decline in the number of small businesses in the sector (potentially the least efficient) of around 13% for agencies with 1 to 4 employees, and 21% for agencies with 5 to 9 employees. But the development of e-commerce has ambiguous effects on total employment in the commercial sector.⁴¹

The few studies that seek to differentiate the effects of e-commerce according to the type of brick and mortar store shed more light on the reshaping of the sector and show in particular that e-commerce competes more head-on with superstores than with small stores, which could indirectly benefit the latter. Empirical analysis of the book distribution market in the United States between 2016 and 2019 shows that small booksellers stand up well to competition from online retailers (particularly Amazon) when they specialise in a narrow niche where they have a wide range, favouring more

limited sales but higher margins, while medium-sized chains such as Barnes & Noble are losing market share and outlets. Several articles have corroborated this «vanishing middle» phenomenon. A model of competition between companies of different sizes predicts a polarisation of the distribution of company sizes at equilibrium (a very large player coexisting with multiple small specialist competitors) associated with the decline of medium-sized players.⁴² An empirical study of the food retail market in Tokyo also shows that the entry of large supermarkets does not lead to the exit of small shops, but rather to the exit of medium-sized stores.⁴³

A study of the effects on employment of a tax on e-commerce in the United States confirms that it competes more directly with superstores than with small shops⁴⁴ and even suggests that small shops and e-commerce are complementary. Using a difference-in-differences method between the states that have adopted the “Amazon” tax⁴⁵ – which hampers the development of e-commerce – and the others, this study shows that, all other things being equal, the introduction of the tax leads to a fall in employment in the delivery and warehouse sector (a sector that “complements” e-commerce), an increase in employment in the large-scale retail sector (+6.27%) and a fall in small-scale retail (-2.32%). These effects appear within three years of the introduction of the tax. The number of establishments is affected: in urban areas, there is a decrease in the number of establishments (an increase in large-scale distribution, a decrease in small-scale retailing).

Finding 4. The development of e-commerce tends to disadvantage superstores, which may indirectly benefit small retailers by altering the competitive dynamic between superstores and small retailers.

Digitalising small retail businesses

E-commerce can also be seen as a way for small businesses to grow by offering online sales, combined with in-store delivery or collection. The digitalisation of retailing which has accelerated during the Covid crisis is continuing. Many retailers are setting up online sales operations. According to estimates from a syndicate for e-commerce (Fevad), by the

³⁷ Dolfen P., Liran Einav P., Klenow J., Klopock B., Levin J. D. and Levin L. (2020): “Assessing the Gains from E-Commerce”, mimeo, Stanford University, May.

³⁸ Couture V., Faber B., Gu Y. and Liu L. (2021): “Connecting the countryside via e-commerce: evidence from China”, *American Economic Review, Insights* 3, no 1, p. 35-50.

³⁹ Goldmann M., Hortaçsu A., Syverson C. and Emre Ö. (2010): “E-commerce and the Market Structure of Retail Industries”, *The Economic Journal*, vol. 120, no. 545, pp. 651-682.

⁴⁰ In the travel agency sector, the decline in the number of agencies is largely explained by the fall in commissions paid by airlines as they develop their online sales.

⁴¹ Hortaçsu A. and Syverson C. (2015): “The Ongoing Evolution of US Retail: A Format Tug-of-War”, *Journal of Economic Perspectives, American Economic Association*, vol. 29, no. 4, pp. 89-112.

⁴² See Bondy T. and Cabral L. (2021): “Amazon and the future of retail”, Working Paper.

⁴³ Igami M. (2011): “Does big drive out small?”, *Review of Industrial Organization*, 38, p. 1-21.

⁴⁴ Bauer A. (2022): “Effects of e-commerce on local labour markets”, Working Paper, University of Illinois Urbana-Champaign.

⁴⁵ States that have adopted this legislation can require all merchants to pay a tax that was previously waived by e-commerce companies based in another state. The implementation of this legislation therefore removes a price advantage for e-commerce companies in these states.

end of 2021, there are around 200,000 e-commerce sites in France, 11% more than the previous year. However, very small businesses are lagging behind. During the health crisis, 120,000 VSEs/SMEs benefited from the digital voucher, a public aid scheme worth €500 to support the development of a digital offering. As well as creating a website, offering a sales service online also requires setting up a packaging, delivery or collection system, secure online payment, changes to stock management, etc.

While the development of this dual system can help to expand a retailer's customer base, the cost-benefit ratio is not always convincing, as online sales can be detrimental to brick and mortar store sales. A number of academic studies have looked at this risk of "cannibalisation". In the United States, the introduction of an online shopping service by a supermarket chain led to an increase in revenue and a limited fall in traditional sales.⁴⁶ Using scanner data that finely reflects in-store and online purchases, the author shows that for every dollar spent on the site, between 25 and 40 cents are less revenue for the shop. This figure is even lower for the households furthest from the shop and for those living near a competitor: the development of online sales allows the retailer to enter markets that its competitors previously held and to win back consumers who were previously captive, which ultimately benefits the latter.

Drives and quick commerce: a new threat?

The construction of e-commerce warehouses and dark stores is much talked about, and many mayors are calling for them to be regulated.

Over the last fifteen years or so, supermarket chains have been opening more and more drives, which are generally accessible by car outside towns: fewer than 10 active drives were counted in the country in 2006, compared to 3,000 in 2017. In 2018, 81% of online food sales were collected from drive-in outlets, with the remainder delivered to the home (Nielsen Institute data). This development is primarily competing with the shops of other food superstores. But it could also have an impact on footfall in small shops located in shopping arcades, which are suffering from the decline in footfall in hypermarkets. As the 2014 "ALUR" law (for Access to housing and renovated urban planning) tightened the conditions for opening this type of warehouse, most drives are now being opened in existing shops, where orders are prepared directly and collected from a counter close to a shop.⁴⁷

Quick commerce offers very fast delivery (within an hour or sometimes less) of food products and basic necessities, mainly in urban areas. Products are ordered online and delivered to the customer's door. Orders are prepared in dark stores.

These warehouses are closed to the public and are used to store and prepare deliveries. The speed of delivery requires a close-knit network of warehouses, and the proliferation of *dark stores* raises a number of concerns, particularly in terms of noise, pollution and congestion.⁴⁸ Nevertheless, the legal tools of urban planning (e.g., local urban plans) should be sufficient to limit these externalities. Furthermore, the economic impact of *dark stores* is still uncertain. On the one hand, the profitability of the business model of these companies is open to question - the current proliferation of warehouses reflects a development phase that could be short term. On the other hand, these warehouses are located in urban areas and generally target a relatively well-off clientele, far from the areas where difficulties put small shops at risk.

Finding 5. The economic impact of the development of warehouses does not appear to require specific intervention by the public authorities. Existing regulations should be sufficient to control their impact on town centre planning.

Targeted public action

Small retailers are adapting to changes in their competitive environment. Areas of difficulty persist, however. These may call for targeted public action to protect the positive externalities of small businesses.

From this point of view, the above analyses raise the question of the scope of public action and the level at which decisions will be most effective. The externalities that justify intervention are local, and information about small businesses in difficulty (situation and issues) is most often held at this level. This argues in favour of aid tools that are sufficiently flexible to adapt to specific situations, and that are entrusted to local authorities (municipalities, conurbations, inter-communal bodies) with financial and technical support from State agencies.

Recommendation 1. Given the spatial heterogeneity of situations, a policy to support small retail businesses should be modulated and monitored at the local level, possibly with financial and technical support from state agencies, rather than at the national level.

⁴⁶ Pozzi A. (2013): "The effect of internet distribution on brick and mortar sales", The RAND Journal of Economics, vol. 44, no. 3, pp. 569-583.

⁴⁷ Bonnet C., Bouamra-Mechemache Z., Chambolle C. and Fernandez R. (2022): "The Alur law and the opening of Drives in the grocery retail sector", Working Paper.

⁴⁸ ANCT (2022): «Modalités de régulation des dark stores», Fiches techniques.

Box . Various programmes to revitalise retail in towns and cities

Action cœur de ville: this programme was launched in 2018 for a period of 5 years, before being extended in 2022 for a period of 4 years. It is overseen by the Agence nationale de la cohésion des territoires (ANCT) and aims to support local authorities in medium-sized towns wishing to reinvest in their town centres by promoting the maintenance or establishment of businesses in town centres. With initial funding of €5 billion for the period 2017-2022, the second part of the programme, which places greater emphasis on the ecological transition, will benefit from a further €5 billion. 234 towns are involved, and around 20% of the funding is devoted to revitalising the commercial fabric. 140 towns have received support from the "brownfield" fund, and 250 commercial premises have been built or renovated. The official results of the programme announce that the commercial vacancy rate has stabilised at 12% in the towns concerned.

Petites villes de demain: this programme, launched in October 2020, is designed to improve living conditions for residents and the surrounding area. It targets 1,646 towns with fewer than 20,000 inhabitants. The announced cost is €3 billion by 2026, of which €700 million had been programmed by mid-2022. The projects involve not only commercial regeneration, but also housing and urban development. By the end of June 2022, the Banque des territoires had financed the recruitment of around 300 retail "managers" for 450 local authorities, and just under 1,000 local authorities had benefited from a diagnostic study of their retail situation.

Opération de revitalisation des territoires (ORT): The regional regeneration scheme is a tool designed to improve the overall quality of an already urbanised area (especially town centres). It facilitates the renovation of housing stock, commercial and craft premises and, more generally, the urban fabric, to create an attractive living environment conducive to the long-term development of the area. In particular, it enables the introduction of a right of pre-emption for businesses within a perimeter designed to safeguard local shops and craft industries. It also facilitates real estate and property development aimed at converting or rehabilitating vacant sites (industrial, commercial, administrative, military, etc.). All the towns in the "Action cœur de ville" programme have signed an ORT agreement, and those in the "Petites Villes de demain" programme have started to sign them, as have towns outside these two programmes.

Revitalising town centres

Since 2017, with the "Actions cœur de ville" (ACV, launched at the end of 2017) and "Petites Villes de demain" (PVD, 2020) programmes, the State has radically changed the way it thinks about revitalising urban areas (see box). These programmes have replaced (or brought together) scattered actions by type of intervention (housing, commerce, mobility, urban renewal, etc.) and insufficiently funded programmes. The financial packages announced (10 billion for ACV and 3 billion for PVD) appear to be much higher than the sums mobilised previously. But the advantage of these programmes is that they require an overall reflection on the city to ensure the consistency of the actions undertaken. The approach is also intended to be decentralised, with local authorities taking the lead. The National Agency for Territorial Cohesion (*Agence Nationale pour la Cohésion des Territoires*) provides engineering support for projects, provides training for elected representatives, finances "retail manager" posts for towns and helps to carry out diagnostics. These programmes have also included temporary measures under the recovery plan (for example, the "brownfield" fund for the renovation of industrial or commercial brownfield sites).

The figures available to date show that most of the sums committed under these programmes do not directly concern small retail businesses, even though their stated objectives are to reduce retail vacancy and revitalise town centres. The direct actions taken by ACV or PVD in the retail sector are usually limited to hiring a town centre or retail manager and covering part of the rent - for a few years - for new businesses (or businesses that are taken over) in an initially limited area. These programmes have an indirect effect on shops, making town centres more attractive to residents, businesses and even tourists. The cross-functional approach of the ACV and PVD programmes includes the themes of accessibility, mobility and connections. Promoting access to shopping areas, a constant concern for town centre retailers, is one way in which public authorities can support retail. Town centre retailers and consumers benefit from policies aimed at improving accessibility,⁴⁹ including public transport and soft mobility.⁵⁰ In this respect, studies of the impact on small businesses of tramway line development work, which are systematically carried out during the construction period for compensation purposes, should be continued once the infrastructure has been built in order to assess their effect on businesses fabric.⁵¹

⁴⁹ The isolation of a neighbourhood makes it more difficult for residents to access shops, and they face higher prices (Eizenberg A., Lach S. and Oren-Yiftach M. (2021): "Retail prices in a city", *American Economic Journal: Economic Policy*, vol. 13, no. 2, pp. 175-206).

⁵⁰ Daniele F., Segu M., Bounie D. and Camara Y. (2022): "Bike-friendly cities: an opportunity for local businesses? Evidence from the city of Paris", *THEMA Working Paper*, no. 2022-09 CY, Cergy Paris Université. The article shows an increase in the volume of transactions carried out by bankcard in each shop as the infrastructure of the Paris cycling plan is developed.

⁵¹ Loiseau-van Baerle F. and Mille M.N. (2005): "Déplacements et commerces: impacts du tramway sur le commerce dans les différentes agglomérations françaises", *Research report*, Centre d'études sur les réseaux, les transports, l'urbanisme et les constructions publiques (Certu), p. 203.

The impact of the ACV and PVD programmes on retail should be a central focus of their evaluation. However, although an evaluation committee for “*Action cœur de ville*”, set up in 2019, has published two reports,⁵² the only indicator relating to retail is the commercial vacancy rate. It would be desirable to monitor commercial density, the bankruptcy rate and the rate at which new shops are being set up. More generally, beyond the addition of new indicators, it is important to rigorously analyse the added value of these programmes using scientific methods for evaluating public policies (for example, by comparing changes in indicators in cities supported by ACV or PVD with cities in a sufficiently similar context to serve as counterfactuals).

Recommendation 2. Introduce regular collection of geolocalised data relating to retail and evaluate the “*Action cœur de ville*” and “*Petites Villes de demain*” programmes using scientific methods in addition to existing assessments.

Taking over small businesses in rural areas

The presence of local shops is also a crucial factor in the attractiveness of rural communities, where the closure of the last shop often makes it difficult to keep older residents and attract new ones, even if itinerant retail helps to maintain a certain level of activity. Public funding for rural areas, such as the EU’s Leader fund and the *Dotation d’équipement des territoires ruraux*, as well as the €12 million package announced in February 2023 to support new physical and itinerant businesses, can help town halls wishing to make municipal premises available to a private manager. However, the profitability of the business is not always sufficient to maintain a company or a private manager, even on public premises. In such cases, and in the absence of a takeover by local residents in the form of an association or cooperative, the only means of direct action available to the local authorities is to take over the business in the form of a municipal agency, a solution that is rarely implemented. It should be noted that as the town council cannot compete directly with an existing business, this solution can only be chosen to maintain the activity of the last shop, and therefore only as a last resort. In this case, feedback from local councils that have put in place more or less direct support measures for the takeover of a small local business highlights the complementary nature of the sales activity (grocery, bread, gas, press, but also tobacco and games) and services (post office, parcel delivery, etc.). An establishment combining all these activities generates more

traffic and has a greater chance of being profitable. An alternative solution might be for local residents to set up a community interest cooperative, with the local authority holding part of the shares.

While the *Banque des territoires* and the ANCT offer active support to local authorities wishing to take action to maintain a small business, public policy is not always well coordinated at the local level. In particular, the management of a grocery shop under municipal control seems to come up against a lack of knowledge on the part of state services implemented at the local level regarding existing schemes that may be mobilised. Even if municipal management is not the universal solution, it would be useful to facilitate access to this tool for municipalities wishing to do so, by standardising the implementation procedures. Legal information on this solution could be distributed not only to applicant municipalities, but also to local administrations such as the Departmental Public Finance Directorates (DDFiP), prefectures, and also customs (for the tobacco trade). Model agreements with *La Poste* (for mail delivery) and *Française des Jeux* would also be useful.

Recommendation 3. Set up a “last shop” contact person in local administrations (DDFiP or prefectures) to facilitate the development of municipal agencies in rural municipalities wishing to do so

Combating the development of commercial wasteland

The strong growth in the number of supermarkets, hypermarkets and large retail outlets over the period 2005-2015, together with changes in consumer habits and travel patterns, have led to fears of a sharp increase in the number of underutilized commercial properties,⁵³ particularly in the outskirts of large towns and at the entrances to small towns. Commercial wasteland is particularly prevalent in “priority neighbourhoods”, i.e. sensitive urban areas. Many of the shopping centres created when social housing areas were built have seen their activity decline or even disappear over time. As early as 1996, the report of the special commission⁵⁴ charged with examining the draft law on the urban revival pact noted that “in neighbourhoods in difficulty, shops are very often forced to cease activity, certainly as a result of changing consumer habits, but also due to unsuitable town planning and poor organisation”. However, the low standard of living of residents does not seem to be the determining factor in the difficulties faced by these shopping centres. They suffer more from the isolation of neighbourhoods with

⁵² See ANCT (2021): «Action cœur de ville: pour la relance territoriale et écologique» and ANCT (2022): «Action cœur de ville 2 - Dynamisation et accompagnement des villes moyennes à la transition écologique: du sur-mesure pour 20 millions de Français», Press kit, 21 November, p. 7-9. An evaluation kit for local authorities and indicators at national level have been created, but no data is yet available and usable.

⁵³ By “commercial wasteland”, we mean commercial premises that have been unoccupied for several years and whose building quality is deteriorating. This definition differs from that used by the DGFip for the “tax on commercial wasteland”, see below.

⁵⁴ Sénat (2002): «Sur la mission de contrôle, sur pièce et sur place, de l’Établissement public d’aménagement et de restructuration des espaces commerciaux et artisanaux», Rapport d’information.

poor public transport links, security problems (particularly in shopping centre car parks) or damage to public property, or even differences of interest between the owners of the land and the businesses operating it.

Mayors and local authorities can introduce a tax on commercial wasteland. Brownfield sites are defined as properties subject to property tax on built-up areas (office buildings, buildings used for commercial activities, shopping centre car parks, warehousing and storage facilities) that have not been used for any activity subject to the tax CFE (*cotisation foncière des entreprises*) for at least two years, and whose non-use is beyond the owner's control. The tax base is the rental value of the business premises; the rate is 10% in the first year, 15% in the second year and 20% starting from the third year of taxation. Local authorities can double this rate. By 2018, just over 1,200 towns had introduced this tax, which seems to be gaining in popularity: Montpellier and Metz introduced it in 2022, and by 2023 it was on the agenda of many town councils (including Saint-Étienne, Meaux, Laval and Sedan). According to budget documents, the revenue from this tax for local authorities would be minimal (13 million in 2021).⁵⁶ It would appear that the introduction of this tax is aimed more at combating deliberate property retention and speeding up the return of vacant premises to the market, or even encouraging their renovation. In some cases, it also provides mayors with a means of identifying the owners of vacant commercial premises and working out a solution with them.

However, while it can be an effective tool in the fight against property retention in attractive areas, its effectiveness in declining areas is questionable.

In some towns, problematic situations could be resolved through bilateral discussions between the local council and the owners of vacant commercial premises. This approach is sometimes hampered by the difficulty of identifying the owners of these premises. Allowing mayors to know who the

owners are could be sufficient and avoid the need to resort to tax on commercial wasteland, which is introduced for the sole purpose of initiating these discussions.

Recommendation 4. Evaluate the impact of the introduction of the tax on commercial wasteland on commercial vacancy.

Taxation of commercial premises

Small retail businesses are subject to the same tax rules as other sectors. There are two taxes specific to the retail sector, but they do not affect the majority of small businesses. The tax on commercial wasteland (see *below*) does not apply to businesses in operation, but to vacant retail premises; the tax on commercial premises (Tascom) only affects a minority of small businesses, as it applies to shops selling unprocessed goods to end consumers. Small businesses providing services (restaurants, hairdressers, etc.) are not affected, with the exception of establishments with a sales area in excess of 400 square metres and annual retail sales in excess of 460,000 euros. These two criteria made it possible to exclude 90% of stores in 2008. In addition, other categories of business are partially exempt.⁵⁷ We, therefore, do not believe that reforming or even abolishing the Tascom is an appropriate way of encouraging small retail businesses.

In conclusion, despite the difficulties in certain geographical areas, the small retail sector is changing rather than declining. While it does not require “global” public action, the spatial and sectoral heterogeneity of situations in this sector merits regular and detailed monitoring, based on data that enables specific needs to be addressed and the positive externalities it generates to be better protected.

⁵⁵ Association des maires de France (2018): “Tax on commercial wasteland”, Note by the AMF.

⁵⁶ Finance Bill, Ways and Means, Volume 1 (2022).

⁵⁷ Establishments with a sales area of between 400 and 600 m² and sales of less than €3,800 per m² will see their tax reduced by 20%, while those selling goods requiring a large sales area (furniture, plants, building materials, etc.) will benefit from a 30% tax reduction.



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Editor Hélène Paris

Production Hélène Spoladore

Press Contact Hélène Spoladore

helene.spoladore@cae-eco.fr

Ph: +33(0)1 42 75 77 47

www.cae-eco.fr

@CAEinfo

TSA 20727 –75334 Paris Cedex 07

