

The impact of agglomerations on the financial performance of Belgian retail firms

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Key Words

Localization, urbanization, diversity, profitability, retail.

Abstract

It has been acknowledged that location is the most important feature of retail firms. One aspect of location is the geographic concentration of firms, which is known as agglomerations. Existing research postulates that retail firms benefit from agglomerations in terms of heightened demand. However, the spatial concentration of firms also strengthens competition and results in higher land rents and wages. Therefore, this paper uses financial performance as the outcome measure since it reflects both the benefits and costs associated with agglomerations. Furthermore, we distinguish three types of agglomerations: localization, urbanization and diversity. Localization refers to the geographic concentration of firms active in the same industry, urbanization relates to the city size, and diversity refers to the variety of retail firms present in a region. To examine the effect of these three types of agglomerations on a firm's financial performance, we exploit a sample of 44,324 Belgian retail firms over the period 2005-2010. The findings indicate that urbanization has a negative and diversity a positive impact on financial performance. Moreover, we find evidence of localization, depending on the characteristics of the co-located firms. It appears that establishments of multi-establishment firms contribute positively to the financial performance of single-establishment firms, while other single-establishment firms cause a negative impact.
