

In 1996, new regulations made it much harder for UK supermarkets and other retailers to develop new out-of-town outlets – so-called ‘big boxes’. In part, these regulations were supposed to ‘save the traditional British High Street’ by protecting small retailers. Research by **Raffaella Sadun** shows that they might have actually accelerated the decline of independent stores.

Does planning regulation protect independent retailers?

Given that we claim to be so attached to the traditional British High Street, it seems odd that until the mid-1990s, fewer and fewer of us spent much of our time shopping there. Instead we were migrating to the out-of-town behemoths: gigantic mega-stores run by, among others, Tesco, Sainsbury’s and Asda (now

owned by Wal-Mart, the world leader in such superstores).

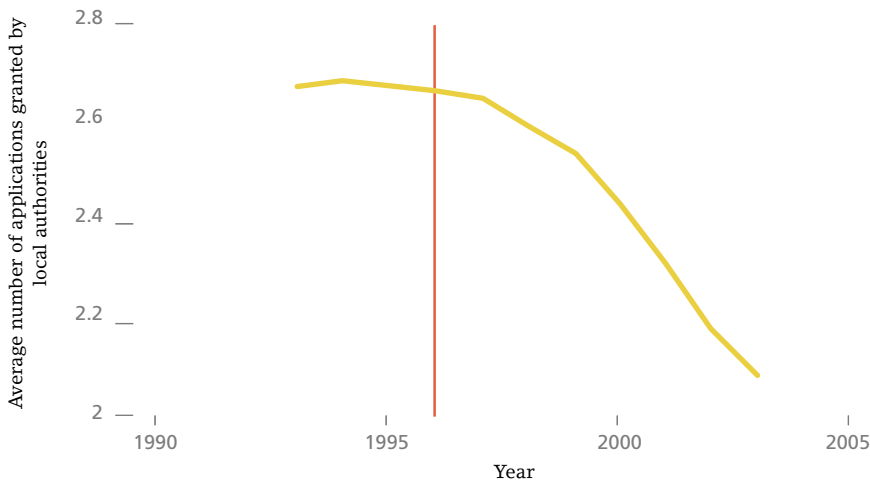
But over the course of the 1990s – in part as a result of pressure from groups concerned about the plight of small independent retailers – the planning regulations changed, with the effect that large retail chains significantly slowed the expansion of ‘big boxes’. My research shows that this actually may have harmed small independent retailers in the British

high street, the opposite effect of the one intended.

The new planning regulations – introduced in 1996 and reinforced in 1999 – stipulated that retailers wanting to open a store of more than 2,500 square metres had to pass a ‘sequential test’ and a ‘test of need’. These tests demanded proof that large out-of-town developments could not be created in alternative in-town or edge-of-town



Figure 1:
Planning grants for large retail stores declined sharply after regulations introduced in 1996



Big boxes may be good news for 'mom-and-pop' stores

Note: The figure reports the number of major retail applications granted across 304 English local authorities between 1993 and 2003.

locations, and that these new retail developments were 'needed' in the area.

The reforms also increased the role of local authorities in the implementation and interpretation of these planning guidelines. Significantly, this meant that local politicians could select which large stores could open in their area.

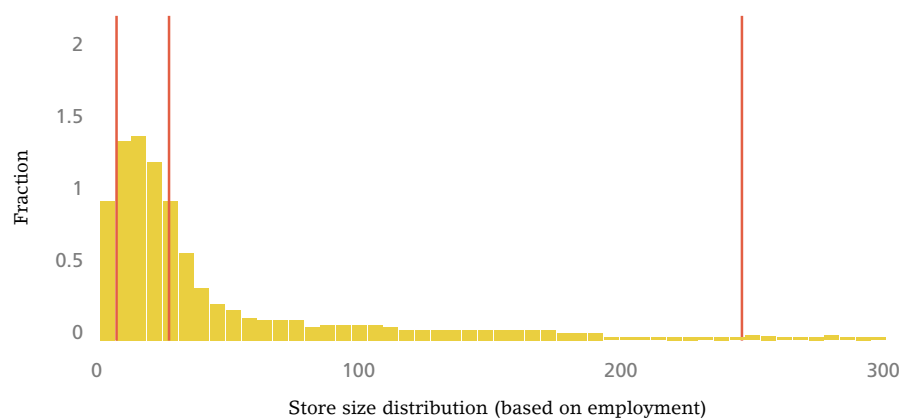
Under the new planning system, the number of successful planning applications in an area depended both on local demand conditions (whether firms would want to open a new store there) and on local politics (whether politicians would let them). Overall, these changes added significant monetary and time costs to the application process. Unsurprisingly, the development of new big boxes declined sharply, as Figure 1 shows.

But the fall in the opening of big boxes did not coincide with a reduction in the total number of new stores, rather with a change in their size and location. In the years following the introduction of the reforms, the major UK retail chains started to open more small stores on high streets and in city centres. Griffith and Harmgart (2005) show that since the late 1990s, the top four UK retail chains substantially increased the number of small convenience stores opened in town centres relative to investments in large stores in out-of-town locations.

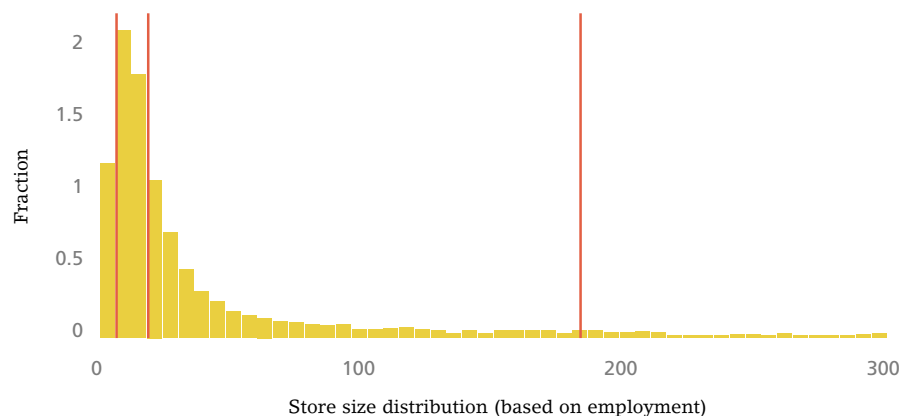
Figure 2 shows how the median size of stores operated by the big supermarket chains fell between 1997/8 and 2002/3. Over the relatively short period of four

Figure 2:
After 1996, supermarket chains began opening smaller stores

1997/8



2002/3



Note: The figures show the changing average size of 'non-specialised stores' (mostly supermarkets) operating nationally (that is, in all 11 UK regions) in 1997/8 and 2002/3, as measured by employment in each store. The vertical lines mark the 10th, 50th and 90th percentiles of the distribution.



years, the median size of a store belonging to a large supermarket chain fell from 75 to 56 employees. This trend contrasts with the retail chains' development in other countries. For example, over a comparable time period, the average store size of national retail chains in the United States increased from 142 to 152 employees (Haskel et al, 2008).

In my research, I investigate what are the direct and indirect effects of the new planning regulations on employment among independent retailers. In particular, I estimate the effect of the number of planning grants won by big boxes on the employment growth of independent retailers in a local authority.

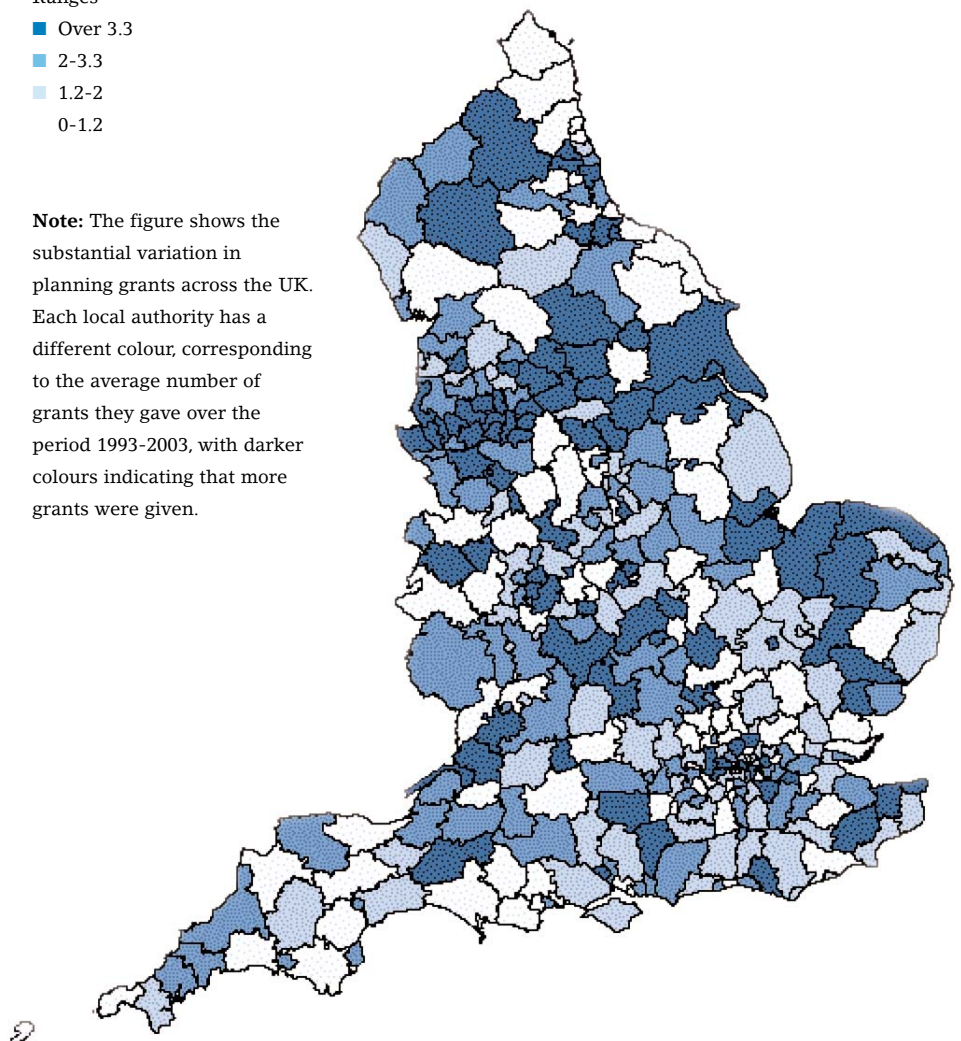
This is far from straightforward, as the same factors can influence both the number of grants and the growth of independent retailers. For example, if an area experiences rising incomes, this will lead to increasing demand for retail products, which will be spread across

Conservative councils are much less likely to grant planning permission for new big boxes than other councils

Figure 3: Average number of planning grants for large retail stores across English local authorities, 1993-2003

Ranges
 ■ Over 3.3
 ■ 2-3.3
 ■ 1.2-2
 ■ 0-1.2

Note: The figure shows the substantial variation in planning grants across the UK. Each local authority has a different colour, corresponding to the average number of grants they gave over the period 1993-2003, with darker colours indicating that more grants were given.



both big boxes (thus generating more planning applications) and small independent retailers.

To identify whether the number of big box grants affects the employment growth of independent retailers, I exploit the fact that there is a political, as well as an economic, dimension to the planning process. The two key assumptions at the basis of my methodology are that politicians' preferences about planning regulations depend on their party affiliation, and that the electoral success of the different parties is independent of factors that might affect employment among independent retailers. Under these circumstances, it becomes possible to use the political composition of the local authorities to identify the effect of grants of big boxes on the employment growth of independent retailers.

More than any other party in the UK, the Conservatives have traditionally been associated with *Nimby-ism* ('not in my backyard') – a strong opposition towards new retail developments. Typically justified on environmental grounds, this also probably reflects the political weight of middle-class homeowners, who worry about the effect on the value of their properties, and small retailers, who often fear competition from big boxes.

The influence of Conservative politicians on local planning activities affects the number of applications granted across the UK, leading to considerable variation in the number of grants across local authorities (Figure 3). This is the variation I use to identify the effect of big boxes on the employment growth of independent retailers.

I find that the number of successful planning grants for out-of-town supermarkets is *positively* related to the employment growth of small independent retailers. This implies that regulation that prevents the development of more big boxes may actually harm independent retailers and the people that they employ.

A possible interpretation of this result is that when planning regulations prevent the entry of large supermarkets, retail chains move to a business model based more on smaller in-town stores. These smaller format stores compete more directly with independent stores, and accelerate their decline.

To provide more evidence of this, I proceed in two steps. First, I show that

The fewer big boxes allowed by councils, the more small chain stores were introduced – and the more independent retailers suffered

the growth of smaller in-town stores belonging to retail chains is negatively associated with the number of big boxes winning a planning grant. This suggests that the increasing movement of the major UK chains towards small convenience stores can be directly linked to the increasing planning hurdles faced by big boxes.

Second, I look separately at the effect of big boxes on the entry and exit rates of retailers into and out of the market, and on the growth or contraction of retailers already in the market. Interestingly, there appears to be almost no effect from more grants for big boxes on changes in the size of existing retailers, nor on the number of new independent retailers that enter the market.

The entire effect from more big boxes winning planning permission appears to come from fewer independent retailers leaving the market. This suggests that having more big boxes has the effect of *reducing* the total amount of competition that independent retailers face.

My estimates suggest that the sharp decline in new big boxes can account for about 15% of the decline in employment among independent retailers between 1998 and 2004. It should be stressed that it is not clear whether all independent retailers benefit equally from more big boxes, and it is too early to draw conclusions about any long-run effects. But so far, at least, it seems that big boxes may actually be good news for 'mom-and-pop' stores – at least compared to the likely alternative of more Tesco Metro stores.

This article summarises 'Does Planning Regulation Protect Independent Retailers?' by Raffaella Sadun, CEP Discussion Paper No. 888 (<http://cep.lse.ac.uk/pubs/download/dp0888.pdf>).

Raffaella Sadun is a research officer in CEP's productivity and innovation programme.

Further reading

Rachel Griffith and Heike Harmgart (2005) 'Retail Productivity', *The International Review of Retail, Distribution and Consumer Research* 15(3): 281-90.

Jonathan Haskel, Ron Jarmin, Kazu Motohashi and Raffaella Sadun (2008) 'A Three Country Comparison of the Retail Sector Using Micro Data', CEP/CeRiBA mimeo.

More big boxes being given planning permission is associated with fewer independent retailers being forced out of business