

Effects of International Competition on Small Wholesale and Retail Trade Firms

by Robert M. Feinberg, Washington, DC 20016, [25] pages.
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Purpose

A previous study for the Office of Advocacy by Robert Feinberg found international pressures on small manufacturers with fewer than 20 employees, but the effects on larger manufacturers were limited.¹ This study examines the effects of international pressures on small firms in industries further down the value chain, the wholesale and retail trade industries.

Overall Findings

As is the case for manufacturers, the exit rates of small wholesalers increased as a result of international pressure in the form of real exchange rate appreciation. In contrast to the findings for manufacturing, the increase in exit rates for wholesale trade firms was true for all firm size classes studied, not just the smallest. Small wholesalers, rather than being able to take advantage of the lower prices for imports, are closely tied to domestic manufacturers. On the other hand, small retailers other than automobile dealers were found not to be affected by international competition.

Highlights

- Annual establishment exit rates (the percent of closed establishments divided by the total number of establishments) in the retail sector were on average

about 2 percent higher than those for the wholesale sector for each of the four firm size classes.

- Consistent with previous business turnover studies, annual exit rates were higher for smaller size classes, across industries.

- As expected, the state of the economy is a primary factor in the exit rates of wholesale and retail trade firms, as reflected in the impacts of changes in gross domestic product, employee compensation and interest rates. The business cycle and cost pressures affect exits.

- The econometric models found that “dollar appreciation seems to have a strong adverse impact on wholesalers.” This effect increased with firm size. The study suggests that the success of wholesalers is more tied to domestic manufacturers than might have been expected.

- International pressures via real exchange rate changes did not have a noticeable effect on small retailers except for small auto dealers. This is a sign that auto dealers are more tied to domestic manufacturing than to imports.

- The exit rate of very small retailers (1-9 employees) increased with the growth of retailers with 500 or more employees, an indication of a potential “big box store effect.” More research would be needed to see if crowding out is occurring.

- Small wholesalers did not show signs of a crowding-out effect from large wholesalers with more than 500 employees.

¹ *The Impact of International Competition on Small-Firm Exit in U.S. Manufacturing*, by Robert M. Feinberg. U.S. Small Business Administration, Office of Advocacy, March 2008.

Scope and Methodology

The study determines international competition effects from 1990 to 2005 on the survival of small wholesalers and retailers using econometric models. Firm employment size categories of 1-9, 10-19, 20-99 and 100-499 employees were evaluated for about 50 wholesale and retail trade industries. Establishment exits by employment size of firm were used as a proxy for firm exits, which is very accurate for the small size categories, but breaks down as firm size increases. (A firm is an aggregation of an entire business including all locations, while an establishment is one business location. Where a firm has only one business location, the firm equals the establishment.)

Dependent variables included exchange rates, annual changes in U.S. gross domestic product, changes in labor compensation, the prime rate, the growth in the number of establishments in firms with more than 500 employees and whether the industry is focused on durable or nondurable goods. Some dependent variables were lagged one year to indicate causation (rather than correlation) with exit rates. In addition to the U.S. Census Bureau, sources included the New York Federal Reserve Board. The U.S. Census Bureau's Statistics of U.S. Businesses (partially funded by the Office of Advocacy) switched industry retail codes in 1998, forcing an analysis of two separate time periods; codes for wholesalers were similar enough to allow one time period for analysis.

This report was peer reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

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