

Entry's Impact on Incumbents: Evidence from the Tokyo Food Supermarkets after Deregulation

Mitsuru Igami*

May 2, 2007

Abstract

I measure the impact of a large store's entry on incumbents of various size. Contrary to a conventional notion of big driving out small, this paper shows that big drives out big and not small, suggesting the role of store size as an important dimension of differentiation. I employ a unique dataset on the food supermarkets and local areas of Tokyo in the early 1990s. To control for the time and place of entry events, I exploit a convenient regulatory context together with matching estimation. I estimate that a large supermarket's entry raises the exit rate of existing large and medium-size stores by 8.7 and 7.5 percentage points, respectively, while small incumbents' exit rate *drops* by 21.1 percentage points. Although size-based entry restrictions are common across countries, these results imply that such policies merely shield larger incumbents from competition.

*Graduate School of Economics, University of Tokyo.