

Contribution of Quality and Product Variety to Retail Growth in Japan

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Abstract

We develop and structurally estimate a model of heterogeneous retail firms that can be used to decompose the firm-size distribution into the contributions of costs, “appeal” (quality or taste), markups, and product scope. Using INTAGE bar-code data on prices and sales, we find that variation in firm appeal is the principal reason why some firms are large and others are not in the retail market. Our results shows that 64 percent of the variance in firm size can be attributed to differences in appeal, about 30 percent to differences in product scope, and less than 5 percent to average marginal cost differences. If we use a broad measure of total firm appeal, which encompasses both firm appeal as well as scope, we find that total firm appeal accounts for almost all of retail firm size differences.

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