

Does Sutton Apply to Supermarkets?

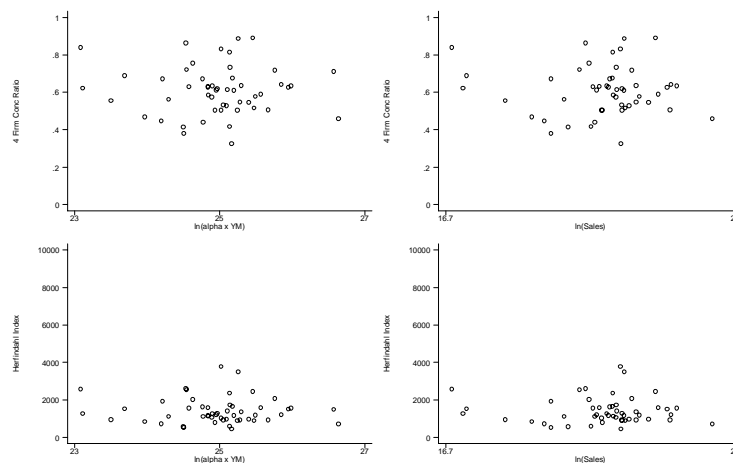
Online Appendix

August 25, 2005

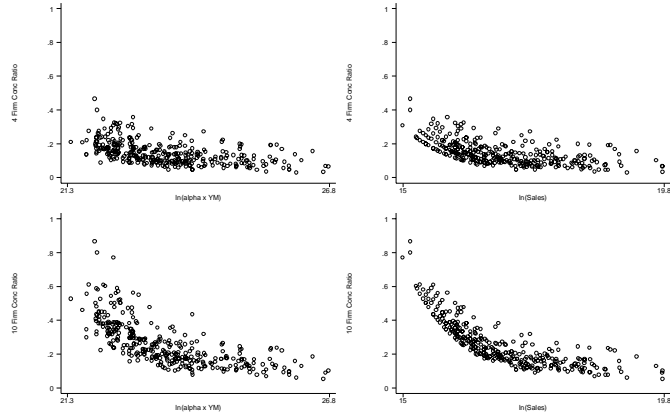
1 The Construction of Distribution Markets

Defining geographic submarkets requires identifying the boundaries of the firms' distribution networks. Fortunately, this task is made easier by the fact that supermarket firms cluster their distribution centers in major cities (typically near a railroad spur) and serve surrounding areas from these facilities. Constructing markets simply involves plotting distribution networks and drawing boundaries around them. This is the method used by Trade Dimensions in constructing the 52 marketing areas reported in their Marketing Guidebook. My own analysis produced only four changes (two of which accord with their most recent (2003) redefinitions), resulting in a total of 51 distribution markets. In particular, I dropped the Fargo, ND market area since no vertically integrated firms operate in North Dakota. (Fargo is too small and geographically isolated for the major supermarket firms to bother entering. It is served exclusively by independent stores and wholesalers, which is more consistent with the *exogenous* fixed cost case, as evidenced by the fact that Fargo has substantially smaller stores than every other market and a disproportionately large number of firms.) I also reallocated the stores in Albuquerque, NM to its neighboring markets, since all of the major supermarket firms operating in Albuquerque supply their stores from distribution centers (DCs) in surrounding markets. Charlotte, NC was split into two markets (Charlotte and Raleigh), since the dominant North Carolina firms operate DCs outside both cities. Finally, Sacramento, CA was added as a market and merged with Fresno, CA, reflecting the distribution patterns in central California.

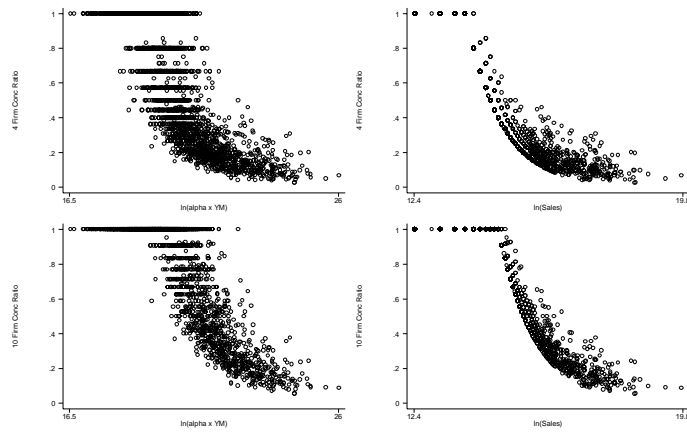
2 Supplementary Figures



Concentration in the Supermarket Industry



Concentration for Barber Shops and Salons (MSAs)



Concentration for Barber Shops and Salons (Counties)

Table 1: County Market Structure by Size Quartile (Barbers and Salons)

	Q_1	Q_2	Q_3	Q_4
C_1	61 (11,100)	33 (6,100)	15 (3,100)	8 (1,34)
C_2	83 (22,100)	55 (12,100)	28 (6,100)	13 (1,50)
C_4	97 (45,100)	81 (24,100)	50 (13,100)	20 (3,100)
C_8	99 (89,100)	98 (47,100)	80 (24,100)	34 (5,100)
C_{10}	100 (100,100)	99 (59,100)	88 (30,100)	40 (6,100)
<i>Firms</i>	2.4 (1,9)	4.8 (1,17)	10.2 (1,36)	60 (4,1327)

Ranges in parentheses.