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## **WORKING PAPER**

**The influence of agglomerations on firm profitability**

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## **Abstract**

The geographic concentration of retail firms is a remarkable phenomenon. Existing literature suggests that retail firms benefit from spatial concentration in terms of heightened demand. However, the proximity to other firms also intensifies competition and results in higher costs for land and employees. To examine the net impact of these two opposing agglomeration effects, this paper analyzes the impact of localization, urbanization and diversity on firm profitability. The sample consists of Belgian single-establishment retail firms, during the period 2005-2010. The results show that urbanization has a negative and diversity a positive influence on profitability. Furthermore, weak evidence of localization effects is found, depending on the characteristics of the co-located firms. It seems that establishments of multi-establishment firms contribute positively to the profitability of single-establishment firms, while the presence of other single-establishment firms has a negative influence.

Keywords: profitability, localization, urbanization, diversity