If you live in a midsize American city, you’ve probably noticed that an increasing share of local services are provided by chain establishments such as the Cheesecake Factory and Wegmans. Why? It’s because the industrial revolution that transformed U.S. manufacturing more than a century ago is finally reaching many local services, which had long resisted standardization.

Consider how the Cheesecake Factory brought “chain production” to complicated sit-down meals. It has invested in technology that determines optimal staffing and food purchases for each restaurant every day. The company also has a refined process to determine which new items to offer on its menu. This process starts in a central lab in Calabasas, Calif.—their
research and development kitchen, so to speak—where cooks try out ideas for new dishes. They then teach the viable new recipes to the kitchen managers of each restaurant at a biannual meeting in California. These methods have allowed the Cheesecake Factory to expand to more than 200 restaurants worldwide.

This standardization has also reached many industries that provide local services, such as gyms and hospitals. Four decades ago about 85% of hospitals were single establishments. Today more than 60% are owned by for-profit chains or are part of a large network managed by an academic institution.

The industrial revolution in services has allowed the most productive firms in an industry to outgrow their competitors and claim large shares of the national market. It’s akin to the consolidation in the car industry a century ago after Henry Ford introduced mass production to a market dominated by independent artisans. The grocery chain Wegmans began expanding in the 1960s by building stores in markets close to its headquarters in Rochester, N.Y., but it later spread to more distant markets such as Princeton, N.J. in 1999 and Brooklyn in 2019. In the new markets where top firms like Wegmans have expanded, they often compete with local firms without shutting them down entirely—as in Princeton, where local store McCaffrey’s continues to hold its own.

Locals sometimes lament when a new chain in town bears down on a mom-and-pop shop. But in the past four decades industries in which top firms have grown in share have created many more jobs than ones where market share is dispersed among small peers. Companies that have taken advantage of the industrial revolution in services grow by expanding into smaller cities or exurbs, and provide competition to previously dominant local monopolists. This brings jobs, as well as cheaper and higher quality services from groceries to health care, to areas that need them most.

In contrast, employment has shrunk in sectors still dominated by small independent operators, such as plumbing and electrical wiring. Over the past four decades, the growth of the top 10% of firms in local services in a given year has accounted for 80% of the cumulative wage and employment growth in the U.S.

In 1980, most of America’s largest companies were diversified conglomerates such as ITT, which operated everything from Avis car rentals to Sheraton Hotels to Continental Baking. The competition unleashed by the service revolution made many of these conglomerates unviable, leading to a long period of breakups and buyouts.

They have been replaced by companies that focus narrowly on a smaller set of products and that have figured out how to deliver them to more locations. As a result, today’s top companies have a larger share of the national market in their chosen industries, even as each of their branches faces steep competition at the local level. On the whole they have a smaller share of
each local market and, because they choose to do fewer things, they have not grown as a share of the aggregate economy.

There is a lot of debate over the risks associated with the growing power of big business. We should remember that large companies like the Cheesecake Factory and Wegmans have been engines of wage and job growth. Curbing their expansion would hurt both workers and consumers and diminish competition in cities of all sizes.

*Mr. Hsieh is an economics professor at the University of Chicago's Booth School of Business. Mr. Rossi-Hansberg is an economics professor at Princeton. This is adapted from a paper, “The Industrial Revolution in Services.”*