Location of Business

Regional Location of Business

The main determinants of where businesses locate are:

- access to markets
- the cost, nature and availability of factors of production
- social factors
- historical reasons

It is the varying importance to businesses of these three, which in the long run determines where businesses are located.

Access to Markets.

For some businesses it is the availability of, and access to markets, that is the prime consideration that determines the location of the business. This is most obvious when we look at retailers of consumer goods In this case the business has to be near customers.

It used to be true that retailers had to be in the city centre if they wished to access a mass market, but the increased availability of private transport has led to a growth of out of town shopping centres. But this locational relationship between retailer and customer is being broken down by the growth of e-commerce and mail order purchasing.

Manufacturers of components in many industries (supplier firms), need to be located close to the users of their products. This has become increasingly true with the increased use of just-in-time systems, where being 'on the doorstep' is now the expected norm.

Access to markets can be limited because of trade restrictions, or the existence of 'trading blocks', such as the EU. To overcome these restrictions it is often necessary to set up a manufacturing base within the trading block.

Type and quality of infrastructure also affect access to markets. Infrastructure used to mean roads, rail, and shipping. But a more modern definition includes electronic communication systems, training agencies, financial services, as well as the three traditional components. For many modern businesses, such as those that are E-commerce based, or the rapidly growing call centre industry, quality infrastructure has a very different meaning from that understood by road hauliers, and steel manufacturers.

Sometimes existing access to markets can break down. External dis-economies of scale force firms to reconsider their location - congestion, and competition for workers pushing up wage rates, are just 2 examples of factors that can force relocation.

Cost and nature of factors of production.

When firms use bulky, difficult to handle raw materials, then location close to the source of these raw materials can substantially reduce costs. This is why the world's major paper manufacturers are located close to where the wood is logged and pulped.

The factor of production Labour can also be a deciding factor in determining location. By labour we mean cost of labour, availability of labour, and the skills of labour.

Highly skilled labour, such as that in the finance industry, can be located around one major centre in the UK. For finance that is the City of London. A business with a need for this type of skilled labour, must therefore locate in this area.

The cost of labour is also a determining factor. International location has a habit of following low cost labour to wherever it is available. Shipbuilding moved from the Clyde, and the Tyne, to Japan in the 50's and then to Korea in the 70's, and is now moving to Indonesia, call centres are moving to India, and manufacturing of clothes to China and India.The cost of Labour can be affected by the availability of government grants, giving incentives to move to particular regions of a country, and by government taxation policies. Availability of grants can reduce the cost of all factors of production - but most especially labour and land.

The availability of land is also an important factor. Most large investments are based on 'green field' sites. And local government, along with development agencies, often work hard to ensure that planning permission is available to allow large developments to proceed.

Social Reasons.
Managers want to live in an environment that suits them and their families. They want leisure facilities, good schools, and low crime. This is why it can be difficult to attract businesses to depressed areas. Alternatively managers can often retain a commitment to their existing work force, even when it makes economic and business sense to relocate a business.

Historical Reasons
For a good number of firms, the original reason for their location has long since disappeared, but they still remain in the locality where they were originally established. Around the country there are steel and tin plate plants that had their historical origins in the availability of local raw material—raw materials that were exhausted decades ago. But the plants remain.

Regional location of business is then dependent upon the interaction of several traditional factors. But at the same time it is worth noting the changing nature of industry in the UK and the increased reliance upon and availability of telephone, the internet and other communication networks has, in recent years, made location decisions a great deal more flexible.

International Location

The largest firms, though still influenced by the same factors that dictate national location of business, do have the alternative of locating their production facilities virtually anywhere in the world. As long as there is a stable political background and an available work force, most countries will offer the possibility of hosting a production base. The main influences on international location beyond politics and labour force factors are:

Maximising Economies of Scale. If firms are able to have a single plant supplying all their requirements for a type of product or range of components, then the firm's average costs of production can fall. So we see huge factories providing cakes to sell throughout Europe, or producing injection moulded plastics for distribution throughout the world.

Access To International Markets. Access to a trading block such as the EU, or NAFTA (North American Free Trade Association) may depend on setting up a production facility within that trading block. Europe has received a massive inflow of investment from US and Far Eastern companies wanting free access to European markets.

Tax Advantages. Companies sometimes establish operations where taxation levels are lower than their home base. This can allow Transfer Costing to take place. Transfer Costing is a process by which firms are able to inflate their profits in countries where taxation levels are relatively low, and decrease their profits where taxation levels are relatively high.

Freedom from restrictions. Firms can reduce their costs if they locate operations in countries where red tape is less present or employment law is less complete. For example many merchant ships now use flags of convenience. This means that the ships are registered in counties that impose fewer restrictions on wages, manning levels etc. This switch leads to loss of employment in the country where the ship was originally flagged.

Firms when locating in these less regulated countries, may also attempt to reduce costs by 'cutting corners'. Practices or systems that would have been unacceptable in economically developed countries, may be the norm in less developed nations.

FootLoose Firms.
A footloose firm is one that is not tied to any particular location or country, and can relocate across national borders in response to changing economic and cost conditions. Many manufacturing industries seem to have this characteristic. Foot loose firms follow cheap capital, low cost labour and tax advantages. Multinationals aware of changing production conditions and costs that occur between different countries often structure production so that flexibility of location is built in, for example leasing factories for just a few years, negotiating short term tax breaks, getting host countries to pay for necessary improvements in infrastructure etc.

Notes