

## Chapter 8

### Location

For many industries location is now far more complex than was previously the case. Apple, for example, has its headquarters in California, but most of its products are produced in Asia. A cloud computing company may have its head office in Dublin, but have its servers located in India, the UK and Germany. Nonetheless, even with these modern complications some basic rules still apply. Location for new and existing businesses is still largely determined by:

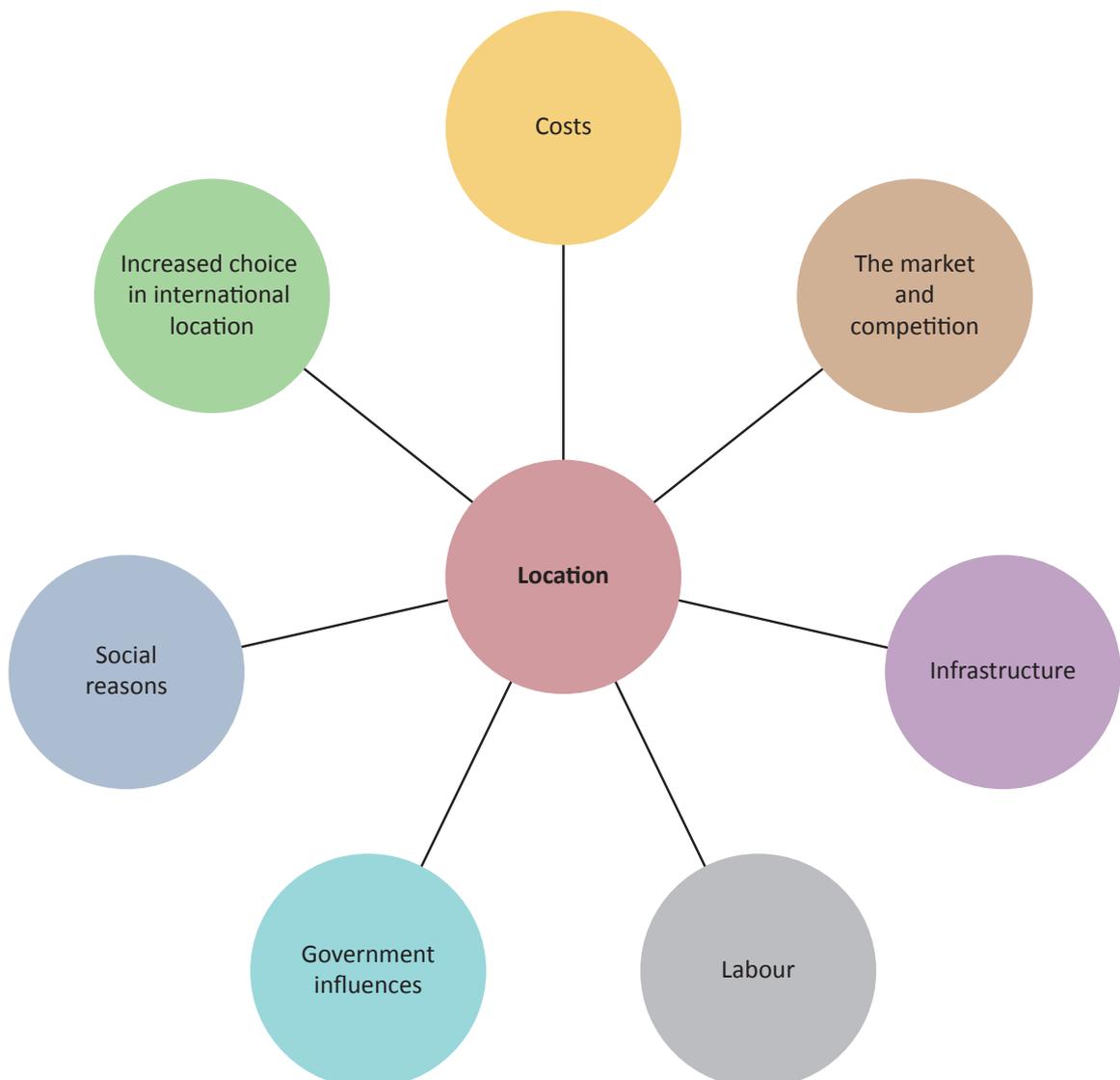
- access to customers;
- access to factors of production;
- minimisation of costs.



Location

<http://bit.ly/23ceixZ>

### Key location factors



## Costs

- For most new businesses the most important location factor is likely to be the cost. New businesses, especially sole traders, will have limited capital so they will need to keep their costs low. The setting up of a new business will incur a number of location costs including:
  - planning permission;
  - purchasing or rental/leasing;
  - refurbishment;
  - business rates;
  - labour costs;
  - transport costs.
- A new business may be unable to choose the ideal location for their business as they may not be able to afford the location costs. Therefore new businesses will often consider locating elsewhere, accepting that they are not selecting the optimum location. In the longer term they may have an objective to relocate when they have built up a customer base and have increased capital.
- A new business will need to consider the importance of location on its success. This will depend on its products and services and the market it will operate in.
- Because a new business may be limited in its choice of a suitable location due to costs, it will need to consider the other key location factors and determine what the most important factor is for them.

## The market and competition

- The **market** is the place where buyers and sellers meet. Most commercial B2C exchanges (buying and selling in consumer markets) still take place face-to-face, so a physical location is required.
- Retail location should be driven by access to customers, but there will be a balance between customer footfall and rental/lease costs.
- Costs of location will vary according to likely sales and customer potential, but within each price band there will be both good and bad locations. Identical stores from the same chain with the same staffing levels and sales square footage can have significant variations in annual turnover.
- Retail location is not just about **footfall**, it is about type of footfall. If a new retail store is looking to locate in a shopping centre, it is a must to look carefully at the image of the anchor tenant. An anchor tenant is usually the first and the leading tenant in a shopping centre whose prestige and name recognition attracts other tenants and, it is hoped, shoppers. The **anchor** tenant sets the tone and image of the shopping centre, so the business owners need to examine the **demographics** of customers and whether their product would match the customer profile. Sometimes being near similar stores can help.
- Sometimes, being in **close proximity to competitors**, a business can benefit from their marketing efforts.
- Large businesses spend a sizeable proportion of their advertising budget on driving consumer traffic to their locations, a flow of customers that a competitor business can take advantage of. There are also competitor businesses that, by congregating in the same area, create more customer interest and higher individual sales. A good example of this situation would be antique emporiums and book shops, where a collection of shops attract customers from a wide catchment area.
- Regional markets also apply to B2B (Business to Business) relationships. Manufacturers of components in many industries 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.

## Infrastructure

- The type and quality of infrastructure also affects access to markets. **Infrastructure** used to mean roads, rail and shipping. However, a more modern definition includes electronic communication systems, training agencies and financial services.
- 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 heavy goods manufacturers.
- In the UK there is a major imbalance in development between the South East and the rest of the country. Improved infrastructure is being planned to resolve this problem (for example, HS2); but it is likely that this will be a very long-term solution.
- **Economies of concentration** or agglomeration occur when a number of businesses in the same, or related industries, locate close together. They are able to gain mutual advantages. New businesses are attracted by existing infrastructure clusters and in high-tech industries it is often worthwhile for specialist businesses and universities to undertake research, provide education, training and information, from which all businesses can benefit. We can see this occurring in London around the new Sir Francis Crick Institute.

## Labour

- 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.
- Businesses can be attracted to certain areas by the skilled labour that may be available. For example, the aero technology workers in Coventry and Bristol, or the thriving community of software developers in Cambridge, linked to the university. Cardiff is rapidly developing a booming media industry which is attracting new international investors looking to recruit talented workers.
- The cost of labour is also a determining factor. International location has a habit of following low-cost labour to wherever it is available. Many UK manufacturing businesses have relocated to the Far East and China where labour costs are very low; although there is some evidence that this trend will be reversed as wage rates in these areas start to increase.

## Government influences

- 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**.
- The availability of **low cost and suitable land** resources can also be an important factor when determining location. National governments, along with regional development agencies, often work hard to ensure that planning permission is available to allow large developments to proceed and they also offer incentives such as tax breaks and help with recruitment and training of workers.

## Social reasons

- These too can also have an impact on location. Managers want to live in an environment that suits them and their families. They want leisure facilities, good schools, and low crime.
- Alternatively managers can often retain a commitment to their existing workforce, even when it makes economic and business sense to relocate a business.

## Increased choice in international location

**Footloose** businesses are those that move from location to location, basing themselves wherever best suits their needs at a particular point in time:

- changing patterns of trade;
- improved communications;
- freer flows of capital.

All of the above mean that the largest businesses, 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 workforce, most countries will offer the possibility of hosting a production (or even a remote service) base.

The main influences on international location beyond politics and labour force factors are likely to be maximising **economies of scale**. If businesses are able to have a single plant supplying all their requirements for a type of product or range of components, then the business's average costs of production can fall. Therefore there are huge factories providing cakes to sell throughout Europe, or producing injection-moulded plastics for distribution throughout the world.

The falling **costs of international transport** have allowed this to occur. Back in the 1950s the final cost of selling imported goods included transport costs which made up around 25% of the selling price. Through **containerisation** and increased efficiency of systems this proportion has fallen well below 5%.

Political factors can also have an influence on location. Tariff and quota-free access to trading blocs such as the EU, or NAFTA (North American Free Trade Association) may depend on setting up a production facility within that trading bloc. Far Eastern companies such as Toyota and Honda, wanting free access to European markets, have large production units in the UK today.

Companies sometimes establish head office 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 businesses are able to inflate their profits in countries where taxation levels are relatively low, and decrease their profits where taxation levels are relatively high. A number of companies, including Starbucks and Amazon, have hit the headlines recently for this sort of activity.

**Comparative international wage levels** also need to be considered when deciding on worldwide location. High-tech industries can often choose from willing and skilled workforces from many different global locations. One famous directory enquiry service answers enquiries in a Cardiff office during the day, and then switches between the hours of 10pm and 8am to an office in Manila.

**Freedom from restrictions** which would otherwise increase costs or constrain production methods can be a driver of location. Businesses can reduce their costs if they locate operations in countries where red tape is less present or employment law is less strict. For example many merchant ships use flags of convenience. This means that the ships are registered in countries that impose fewer restrictions on wages, manning levels, working hours etc. Clearly, there are ethical issues to consider here.



Locating a restaurant  
<http://bit.ly/1RR6EFO>

## Discussion themes

Explain three likely reasons why IKEA chose this location.

BBC News: IKEA opening riots <http://news.bbc.co.uk/1/hi/england/london/4252421.stm>

Explain how Starbucks takes advantage of transfer costing.

Reuters: How Starbucks avoids UK taxes

<http://uk.reuters.com/article/2012/10/15/us-britain-starbucks-tax-idUSBRE89E0EX20121015>

Evan Davis at Exeter University

Why is London so dominant in the UK?

[https://www.youtube.com/watch?v=scCH\\_M5D9PQ](https://www.youtube.com/watch?v=scCH_M5D9PQ)

Evan Davies – Mind the Gap Why London Dominates

Part 1

<https://www.youtube.com/watch?v=DlpakXL6F6I>

Part 2

<https://www.youtube.com/watch?v=EpUNIKB-WaU>

Is London's growing success good for the UK in general?

Will improved infrastructure help close the economic gap between London and Manchester/Leeds/Bradford?

Using examples explain what is meant by economies of concentration/agglomeration.

Discuss the following statement: 'Location is the key to business success.'

Discuss the following statement: 'Access to customers is the most important location factor.'

Explain what is meant by 'footloose'.