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GCSE Business Studies

Business location

Introduction

Every business has to be located somewhere. A sole trader who works as a window cleaner may operate from home, whereas a multinational car company will have factories, offices and outlets in many countries. For both businesses however, where to locate may be the most important decision they make and can determine their success. It is a very expensive decision to reverse.

Factors Affecting Location

There are many factors that determine where a business will locate:

- ▶ Cost of site
- ▶ Availability of labour
- ▶ Proximity to raw materials
- ▶ Proximity to market
- ▶ Infrastructure
- ▶ Government incentives

Cost of site

The amount, type and cost of land are all important factors in choosing a location. The cost of land will vary greatly across regions and countries. For example the cost of a site in the South East of England will be significantly higher than a similar site in the North East. Also the kind of land may be important (e.g. avoiding areas of possible mining subsidence)

The ability to expand and to build new premises may be important. This would require the support of the local authorities for planning permission.

Availability of Labour

The availability of workers, their skill level and wage rate they need to be paid is crucial in deciding the where to locate. Some businesses may need skilled labour whereas others require a large supply of lower-cost, unskilled labour.

Where labour skills are in short supply (e.g. in some high-tech industries) it often happens that similar businesses locate themselves close to each other. They might also be close to colleges and other training organisations that provide the main source of newly trained employees.

Businesses that require large numbers of unskilled workers might prefer to be located in areas of low labour costs. These are also often areas of high unemployment – where recruitment may be easier than in areas where there are labour shortages. Many multi-national companies that require large amounts of unskilled labour, such as Nike to make trainers, have located factories in SE Asia where the wage rate is very low and there are many available workers.

Proximity to raw materials

Businesses that use substantial quantities of raw materials may find it cheaper to locate near to the source of those inputs as this will reduce transport costs. Such businesses are often called “bulk-reducing” as the weight or size of the finished product is less than the combined raw materials that went into making it. Good examples include:

- ▶ Steel-producers
- ▶ Sawmills

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- ▶ Sugar factories
- ▶ Oil refineries

Proximity to Market

By contrast, businesses that assemble components (“bulk-increasing”) often choose to locate closer to where the customer markets are. This is because the cost of transporting the bulkier or heavier finished product is greater than the cost of transporting the raw materials or components. Good examples include:

- ▶ Breweries
- ▶ Car manufacturers
- ▶ Bakeries

In some cases moving the final product is not possible, such as for services like restaurants and high street shops. In these cases the businesses will locate at the market itself.

Infrastructure

Infrastructure covers the modes of transport for people, materials and information. Businesses need to ensure there is adequate infrastructure provision or costs can rise, such as extra transport costs. It is the government that is largely responsible for providing and maintaining local infrastructure.

The key infrastructure considerations are:

- ▶ **Road/rail/sea and air links.** The most appropriate mode will depend on the type of business and product, but road is used by over 80% of business.
- ▶ **Communications network.** For example is there mobile phone coverage and suitable telephone lines (e.g. availability of broadband internet access).
- ▶ **Access to basic facilities** such as water and electricity (and enough power).

Government Incentives

Government policy also influences business location. Governments often offer incentives to start new businesses, or relocate existing ones, in areas that need economic development (“regeneration”). This has led to certain areas being called enterprise zones or assisted areas where firms are offered grants or low interest loans if they locate into these economically depressed regions.

Another example is “Regional Development Agencies” which were first set up by the current government in 1999. Their aim is to:

- ▶ Encourage economic development and regeneration
- ▶ Promote business efficiency, investment and competitiveness
- ▶ Promote employment
- ▶ Provide training to the labour force to assist in growing employment

Both the UK Government and the European Commission offer financial support to businesses willing to move to areas of high unemployment. Businesses are also encouraged to redevelop “Brownfield” sites (e.g. old farms, inner city wasteland) rather than build on “Greenfield” land on the outskirts of cities.

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