

Location of production

Exam tip

A common mistake students make is to confuse the terms ‘location’ and ‘place’. Place is part of the marketing mix and represents all decisions relating to the distribution of a product. However, this unit focuses on location, which is the physical space in which a company chooses to carry out its operations.

There are some circumstances where the concepts of location and place overlap. For example, it is difficult to distinguish between location and place when thinking about a hotel and the services it provides.

Businesses consider many factors when choosing a location. For a physical retailer, one of the most important factors is the amount of foot traffic and the demographics of potential customers in the area. Retailers that sell expensive clothing and accessories, for example, will want to sell in a location where high-income customers are likely to go. So, it makes sense that many of these retailers would locate near each other, to take advantage of the customers that are already there.

The global real estate company Cushman & Wakefield periodically publishes information on Main Streets Across the World (<https://www.cushmanwakefield.com/en/japan/insights/main-streets-across-the-world-2019>). The company lists the world’s most expensive streets in terms of rental prices. These are where many global retailers of expensive clothing and accessories are located. Renting a space on one of these streets is very costly for a business. **Table 1** shows the average rent per square foot of a retail space on the ten most expensive streets in the world.

Table 1. Top 10 most expensive retail streets in the world in 2019.

Source: ‘The World’s most expensive shopping streets revealed’ (Cushman & Wakefield)

	City	Location	Rent per square foot per year (USD)
1	Hong Kong	Causeway Bay	2745

	City	Location	Rent per square foot per year (USD)
2	New York	Upper 5th Avenue	2250
3	London	New Bond Street	1714
4	Paris	Avenues Des Champs Elysées	1478
5	Milan	Via Montenapoleone	1447
6	Tokyo	Ginza	1251
7	Sydney	Pitt Street Mall	1076
8	Zurich	Bahnhofstrasse	866
9	Seoul	Myeongdong	862
10	Vienna	Kohlmarkt	513

As at the time of publishing this book, the rental data had not been updated since before the COVID-19 pandemic. Lockdowns and a significant decline in tourism have caused rental prices in many of these locations to decrease significantly. For example, Cushman & Wakefield reported that in 2021 that many retail spaces in prime shopping areas of Hong Kong were renting at an 80% discount from their peak in 2014.

This decline in rents reflects the fact that many retailers no longer want to open or maintain stores on these shopping streets. The locations are not as desirable as they once were, and retailers are rethinking where to sell their products. This is just one example of how the dynamic external environment can affect location decisions.

There are many reasons why a business would choose one location over another, including:

- sociocultural factors
- technological factors
- economic factors
- environmental and ethical factors
- political and legal factors

This is an excellent opportunity to use the STEEPLE factors ([Section 1.1.5 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-swotsteeple-analysis-id-36504\)\)](#)). Using STEEPLE, you can understand in greater detail how the external environment can affect the business and its location decisions. Some of the factors will be easy to quantify for a business for decision-making, such as the economic factors of land, labour and finance costs. Other factors, such as sociocultural factors, are more qualitative. These are less easy but just as important to include in decision-making.

Sociocultural factors

Sociocultural factors relate to the way people live and what they believe and value, including religion, cuisine, family life, demographics, health education and leisure.

These factors will affect what people choose to buy and how they choose to spend their time. Businesses need to be aware of the current and changing sociocultural context so that they can ensure that their location gives them access to the target market that is most interested in their product. Locating near the target market with the right sociocultural (demographic) characteristics should improve marketing and reduce costs of transportation.

Business knowledge and the strength of ties to the local area and community, as well as concern for the welfare of customers, are also qualitative reasons why a business might want to locate in a certain area. The business owners and employees may have a preference for the quality of life in a particular area, which could also drive location decisions.

Making connections

HL students learned about Hofstede's cultural dimensions in [Section 2.5.5 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-hofstedes-cultural-dimensions-hl-id-39406\)](#). These cultural dimensions of a country can impact organisational culture. National culture will certainly have an impact on location decisions for multinational companies as they consider how their organisation may be affected by the norms of a country.

Technological factors

Access to efficient transport networks allows customers to visit stores and suppliers to deliver raw materials. This has the double advantage of increasing potential sales while reducing costs. You learned about these reductions in costs, called external economies of scale in [Section 1.5.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/internal-and-ext-economies-id-36534\)](/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/internal-and-ext-economies-id-36534).

It is common to find businesses clustering at the intersections of major roads in areas where cars dominate transport. In city centres, however, infrastructure that supports foot and bicycle traffic may be more important. More and more cities are changing the infrastructure within their city centres, making it difficult to drive and easier to walk or cycle. While you might think that this would make those areas less attractive to businesses, research shows that customer access actually improves for businesses with such changes, making pedestrian and bicycle-friendly areas very attractive to businesses.



Figure 1. Generally, businesses will want to locate where the infrastructure supports large numbers of people travelling on foot or by bicycle.

Credit: Eloi_Omella, Getty Images

Technological changes related to remote working and e-commerce have had a huge impact on the location decisions of businesses. Some businesses no longer need offices, and the COVID-19 pandemic has accelerated the trend towards remote working.

Businesses can avoid the high cost of office space if they can adapt to remote working patterns, as Airbnb has done. Technology affects e-commerce location decisions, because orders can be placed from anywhere and can be delivered to anywhere. However, if the business needs to hold stock (inventory), there will be a variety of factors affecting the location of those facilities.

Economic factors

The costs of land and facilities are factors for businesses' decisions about location. As shown in **Table 1**, some retail locations are very desirable and command high prices. Generally, the more people that converge on a location, the greater the chance there is of attracting customers, provided that the business is meeting their needs and wants. Demand for busy locations is high and the cost of land and facilities in these locations, whether to rent or buy, will also be high.

The availability, quality and cost of labour in a region will also affect location decisions for a business. Germany has a large number of highly trained engineers, so businesses that need those skills and are willing to pay higher wages may want to locate there. Tesla, for example, decided to locate its European automobile factory in Germany in part because of the skilled labour there. However, for businesses where production is labour intensive and requires fewer high-tech skills, it may make sense to move operations to a country that has many unskilled workers who can be paid less. Clothing manufacturing is still very labour-intensive work and the competition in the industry is fierce, putting pressure on manufacturers to cut costs. This is why many clothing manufacturers are located in Bangladesh, where labour is abundant and wages are low.



Figure 2. Businesses may need to consider the availability of skilled labour when they decide on a location.

Credit: Thomas Barwick, Getty Images

Another factor affecting businesses' location decisions is the availability of the suppliers they need. If there are many suppliers in an area, then competition may keep supply costs low for the business and there will be a choice of quality of supplies. Also, the closer the suppliers are to the business, the less chance there is of supply chain disruptions.

A further factor relating to the location of suppliers is clustering. Clustering refers to a situation where similar businesses are located near each other. You might think it would make more sense for similar businesses to spread out. But similar businesses that are near each other can take advantage of a larger customer base that comes to a location where it is known that these businesses locate. Suppliers are also more likely to locate where they know that there are multiple customers. This creates a kind of positive networking effect, or ecosystem, between the businesses.

Environmental and ethical factors

The location of a business can have significant ethical implications for the business. If a business chooses to locate in a particular region due to lower cost labour or weaker environmental protections, these would not be ethical location decisions. While the lower production costs may be attractive for the business, it is not ethically acceptable to choose a location so as to exploit people or the planet.

On the other hand, businesses could choose a location to enhance their ethical and environmental impact. For example, a clothing manufacturer could choose to locate in an area where there is significant unemployment, committing to paying fair wages, under conditions that support workers' well-being. A business could also choose to locate in an area where it can be involved in regenerating ecological systems, making positive contributions to the environment.

Concept

Ethics

Ethics refers to moral principles that govern the behaviour of a person or groups. Every business decision has moral implications, and businesses are often engaged in the question of 'what is the right thing to do?'

Ethical responsibilities in business come from the relationships and networks that are formed when business organisations are established. Businesses have a duty to engage positively in reciprocal relationships with their stakeholders and their natural environment.

Because location decisions involve impacts on both people and planet, businesses need to consider the ethical issues associated with their location, or relocation, decisions.

Political and legal factors

Political stability in a country is an important factor for businesses because of the importance of a predictable political environment. Even if the location is good for other economic reasons, political unrest can quickly turn a functioning economy into chaos. It can also lead to unstable exchange rates and unpredictable trade relationships, which can disrupt supply chains.



Figure 3. Political instability can cause uncertainty and disrupt economies.

Credit: Edy Purnomo, Getty Images

Legislation and regulation is also an issue to consider. Some countries regulate business activity more than others. While such regulation often has positive consequences for workers' rights and environmental protection, the regulations will constrain the operations of a business and the business will need to be aware of what laws are relevant to its activities in a particular location. Trade barriers and free trade agreements can also impact the ability of a business to import resources and export its products. The benefits of locating all or part of a business in another country could be quickly erased if tariffs are imposed.

Sometimes governments will offer financial help to businesses that locate in a particular area, for example to a city with high unemployment. This financial support might be in the form of free land, lower tax rates, or even a direct subsidy, all of which can reduce business costs. Governments do this as it helps them to achieve their own economic objectives.

Altogether, there are many factors that a business must consider when it decides on a location. The dynamic nature of internal and external factors of a business make location a constant consideration for most organisations.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (transfer)

Different types of businesses will weigh up the factors for location differently. You should be able to identify which factors may be important for different types of businesses.

- On your own, or with a partner, consider the types of businesses listed in **Table 2** and discuss two or three factors that would be important for a location decision.

Table 2. Location factors to be considered by different types of business.

Type of business	Most important factors to consider for location
Manufacturing (with unskilled labour)	
Manufacturing (with skilled labour)	
Retailer (physical store)	
Retailer (online)	
Technology business (such as artificial intelligence or cloud computing)	

Activity

Learner profile: Inquirers
Approaches to learning: Research skills (information literacy)

For many years, Silicon Valley in California, USA has been a global centre for technology startup. Now there are many cities around the world that are known for being good places for such startups, including Beijing, London, Bengaluru, Paris, Berlin, Singapore, Tel Aviv, São Paulo, Seoul, Amsterdam and Stockholm.

- Choose one of these cities and carry out some quick research on the internet to find out what makes that city a good place for technology startups.