

FACULTY OF JURIDICAL SCIENCES

Lecture-15



Importance of Business Location

Appropriate location of the plant is very significant for the owners/promoters of business; as an ideal location helps in:

1. Minimization of costs of production and distribution.
2. Designing an appropriate layout of machinery and equipment.
3. Coping with requirements of expanding business at a future date.

Factors Affecting Business Location:

For sake of simplicity and analysis, location factors could be divided into the following three categories:

(I) Primary factors

(II) Secondary factors

(III) Miscellaneous factors

Primary Factors

Some of the primary location factors are as follows:

(A) Availability of Raw-Materials:

Availability of raw-materials of the required quantity and quality at economical prices is an important factor in plant location; as in many industries cost of raw-materials may form more than 50% of the total cost of the finished product.

Alfred Weber, a German economist has classified raw materials into ubiquitous and localized materials. Ubiquities are raw materials like water, clay, sand etc. which are found at all places; and have very little impact on location. Localized raw materials may be sub-divided into pure materials and gross materials.

Gross materials (like sugarcane, coal etc.) lose much of their weight in the process of production and attract plant location near the source of the deposit of raw-materials. Therefore, sugar plants tend to be located near sugarcane farms.

Pure materials are those which do not lose their weight in process of production (like cotton, wool, iron-ore etc.); and these do not pull plants to the place of deposit because the cost of transport remains the same for both raw materials and finished products.

(B) Labor Supply:

Almost all plants require an adequate supply of labor with appropriate skills. According to Weber, a plant will get attracted to the source of labor supply; if there are substantial savings in labor cost.

However, the importance of this factor is much reduced now-a-days, because of:

1. Easy mobility of labor
2. Growing popularity of capital intensive techniques of production

(C) Proximity to the Market:

A plant tends to be located near the market when the finished product is very expensive to carry due to bulk, weight or perishability etc. Alfred Weber developed a formula called 'material-index' to measure the relative pull of materials and market on plant location.

(D) Facilities of Transport and Communication:

Adequate, reliable and economical transport services are required for the carriage of raw-materials and finished products. Moreover, business firms require efficient and economical communication facilities to remain in touch with the environment consisting of suppliers, consumers, financial institutions etc.

That is why junction points of railways, roadways and waterways have a tendency to become centers of industrial location. Again, promoters of a new business hesitate to start their business operations in rural areas where transport and communication facilities usually lack or are totally non-existent.

(E)Power and Fuel:

Availability of power and fuel is an important consideration in plant location. Earlier, industrial units were located near coal deposits; because coal was the major source of power. However, this factor has lost significance with the development of new sources of power, like, electricity oil, gas etc.

(F)Climate and Topography:

(Topography means the physical features of an area of land i.e. whether it is plain or hilly). So far as climate is concerned, it influences the capacity to work and certain industries require particular temperature and humidity. For example, cotton textile mills require a humid climate and humid climate of Mumbai offered great scope for the development of cotton textile industry.

However, development of artificial humidification and air-conditioning has reduced the importance of climate. So far as topography is concerned, entrepreneurs run away from hilly areas for location of their plants, because of huge transportation costs and other problems.

(G)Supply of Capital:

Even though capital is a very mobile factor of production; the availability of adequate and cheap finance is an important consideration, in plant location. For instance, State Financial Corporation's (SFCs) in various states offer loans at very low rates of interest; if entrepreneurs start their projects in notified backward areas.

Secondary Factors

Weber has classified secondary factors into two categories viz. agglomerative factors and deglomerative factors. Agglomerative factors refer to external economies e.g. development of auxiliary industries, banking, insurance, transport etc. which result from the fact that production is carried on to some considerable extent at one place. Such factors encourage concentration of industries at that place.

On the other hand, deglomerative factors are external diseconomies e.g. rise in wage- rates or rentals or taxes etc.; which result due to excessive localization of industries. Such factors encourage geographical dispersal of industries.

Miscellaneous Factors

Some miscellaneous factors affecting industrial location are:

(A) Personal Factors:

Preference and prejudice of an entrepreneur may play an important role in plant location. According to E.A.G. Robinson (The Structure of Competitive Industry), Mr. Ford started manufacturing motor cars in Detroit; because it was his home town.

(B) Momentum of an Early Start:

Once an industry gets established in a particular region; many facilities and services develop there to aid the industry. It is more expensive to set up a new plant at some other place where such facilities are not available. Localization of the film industry in Mumbai is an outstanding example of this factor.

(C) Political and Social Climate:

Herein we consider factors like, law and order situation, political stability, terrorism etc., which also influence location. Entrepreneurs would not like to set up their plants at place which are subject to riots, political disturbances, terrorism etc.