**Activity 4 – Location is key to business success**

1. Why is cost a key factor when locating businesses? (3 marks)
2. The market and competition is a key factor when locating businesses, discuss. (3 marks)
3. What is the importance of infrastructure when locating a business? (2 marks)
4. Why is labour an important factor to consider when locating a business? (3 marks)
5. How does the government influence location? (2 marks)
6. What social factors affect the choice of location? (2 marks)
7. How do political factors affect the choice of location? (3 marks)

**Activity 4 – Location is key to business success – Answers**

1. **Why is cost a key factor when locating businesses? (3 marks)**

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.

1. **The market and competition is a key factor when locating businesses, discuss. (3 marks)**

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.

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.

1. **What is the importance of infrastructure when locating a business? (2 marks)**

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 but it is likely that this will be a very long-term solution.

1. **Why is labour an important factor to consider when locating a business? (3 marks)**

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. 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.

1. **How does the government influence location? (2 marks)**

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.

1. **What social factors affect the choice of location? (2 marks)**

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.

1. **How do political factors affect the choice of location? (3 marks)**

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.