A **cartel** is a ring on an international scale. The pre–war steel cartel guaranteed each country its own home trade and divided up the export trade in agreed proportions. There was also a successful phosphate cartel, whilst the arrangement made by the British and American Tobacco Companies, founded in 1902, permitted the joint marketing of their products outside Britain and the U.S.A.

Nationalisation

The ultimate form of integration is, of course, government monopoly. **Nationalisation** can vary considerably in form and in degree of control exercised by the Government. Thus there can be state–regulated but still privately–owned concerns, as was the case in Britain and other countries during the Second World War, when various "Boards" regulated each industry to ensure that the whole national economy was geared to the war effort and not to indiscriminate profit–making.

In Britain, a favourite variety is the **public corporation**, such as the British Broadcasting Corporation (B.B.C.) which is not state–owned or state–operated, but has to operate within strict conditions laid down by the Government.

The Advantages of Nationalisation

In theory at least, nationalisation should have all the advantages and none of the disadvantages of a private monopoly. It is undoubtedly true that there are industries wherein private investors have burnt their fingers and which could not obtain the capital necessary for modernisation. An example is the coal trade, where easily operated and modernised mines in, say, parts of South Wales could, prior to nationalisation, obtain all the capital they required, whilst the difficult mines with small seams, as in parts of Durham, could not.

Under a capitalist system the latter would go out of business; and the demand for coal being so much in excess of supply, the price would rise and the efficient producers would make handsome profits. Under nationalisation, it was claimed that both could be kept in operation. Capital could be raised by the Coal Board as a whole, and then allocated to the modernisation of the less efficient mines, whilst the profits from the efficient and easily run mines make up for the costs of the others.

It also happens that where subject to the profit motive, public services, such as bus routes or electricity supplies, are only provided where a profit can be earned, whilst areas which could not be so operated receive no such services. Under nationalisation it is claimed that this could be remedied, the profits from the urban areas paying for the cost of providing the service to the rural areas.

Constraints on Growth

Multi-nationals and monopolies may make huge profits for their owners and shareholders but, as we have seen, they are not necessarily good news for society or the business community at large. So society, through its government or legal system, may well seek to constrain the growth of certain categories of business organization.

There are a number of other possible reasons why growth may be constrained and a business unable to develop as quickly as it might like. There may well be financial limitations. Growth usually requires financial investment but owners may be unwilling (or unable) to borrow fresh funds or find further investors. Banks are inundated with proposals from businesses which want to borrow money for one purpose or another and only a small proportion of proposals is accepted. It helps if the business is negotiating from a position of strength, e.g. a track record of success or an ability to offer existing assets as collateral.

Many businesses feel that, rather than borrow, they would prefer to re-invest profits and if profits are not big enough, they are content to stay as they are for the time being.

The size of the market often constrains growth. Some markets are growing rapidly but most are fairly stable and there are quite a few which are shrinking at any one time. If you already have a large share in a small market, the opportunities are relatively limited within that market. There is no point in doubling your production capacity if there are no customers out there to buy the surplus products. Indeed, if you over-supply the market, you may find that the price you can charge is pushed down.

A lack of human resources often constrains growth even when an organization would dearly love to be able to grow. The police force and the nursing profession, for instance, are engaged in a permanent recruitment drive but find, in many areas, it is simply impossible to attract new staff. Skills shortages can achieve the same results. In recent years, it has been very hard to find maths and physics teachers, for instance.

At times of low unemployment, large areas of the country may be lacking in recruitable employees. A firm may be faced with a choice between staying the same size in a fashionable part of the country or moving to a relatively deprived area where it is possible to recruit staff at a sensible "price" and achieve growth.

Summary

Lesson Six: Growth

This lesson has covered the principles of integration; horizontal and vertical. It has outlined the concept of economies of scale in relation to monopoly. We have also looked at the reasons for growth and the constraints on growth.

Self Assessment Test (Lesson Six)

1. Distinguish between vertical and horizontal integration giving examples of each.

2. Write short notes on (a) rings and (b) cartels distinguishing one from the other.

3. In view of economies of scale, outline why the small business can survive, and which trade areas are most likely to encourage small business.

4. Write short notes on the functions of the following:

   (a) multi-nationals

   (b) nationalized corporations

Key Words

nationalisation	where control and ownership of an organisation is transferred from the private sector to state ownership
privatisation	where control and ownership of an organisation is transferred from the public to the private sector
monopoly	a market in which there a many buyers and only one seller
economy of scale	the reduction in unit costs which results from increases in business activity or production
integration	the process of gathering together the differing and ever-multiplying processes of business (e.g. combines, rings and cartels)

Suggested Answer to Activity Two

Industries where you need very expensive equipment before you are even able to make a start tend to benefit from economies of scale. Coal-mining would be one example, as would drilling for oil.

Many of the former nationalised industries benefit from economies of scale, including such utilities as electricity and water provision. Telephone lines, car manufacture, aircraft and tanker-building and public transport are others you might have thought of. Certain basic food items like margarine or baked beans also tend to be produced on a very large scale.

Lesson Eight

Location Decisions

Aims

The aims of this lesson are to enable you

- to understand the differences between primary, secondary and tertiary sectors and their interdependence
- to study how the changing business environment influences decisions on the location of a business, locally, nationally, and internationally
- to analyse how the changing business environment may provide opportunities for the pursuits of business objectives
- to analyse how the changing business environment may provide constraints upon the pursuits of business objectives

Context

The first part of this lesson introduces **Primary**, **Secondary** and **Tertiary** Activity as these form a key part of location decisions. This topic is closely linked to the discussion of **economies of scale** included in the previous lesson on Growth.

Oxford Open Learning

1. Industrial Sectors

All the goods we buy come from natural resources. Water, metals and minerals within the earth, plants and animals are natural resources that provide the raw materials for everything else. Changing natural resources into goods we buy can involve long processes that involve more than one business.

Think of an ice-cream. How is it made? The process begins in several different countries, including those in the Caribbean, where farmers grow sugar cane. Sugar cane is harvested and sent by road to be milled locally into cane sugar. This is shipped to many countries including the UK. When it arrives in the UK it is transported by road or rail to refineries where it is cleaned and crystallized into refined sugar. Some of this is sent by road to an ice-cream factory.

Local farms send milk to the ice-cream factory, where it is heated. Sugar and flavourings such as vanilla, fruit or chocolate are added. The mixture is poured into tubs and moulds and then refrigerated. Wrappers are added to moulded products, and tubs are labelled and date stamped. Packaged and boxed, the ice-cream is loaded on to refrigerated lorries for distribution to shops, cafes and kiosks around the UK.

Activity 1	1, How many stages of production are involved in making commercial ice-cream? 2, How many different business organizations might be involved in the process? (Remember to include distributors!) 3. In what ways might these businesses be dependent on each other?

Primary Sector Businesses

Businesses involved in producing the raw materials from which finished goods are made are in the **primary sector** of industry. This sector includes mining, fuel extraction (gas, oil, coal, wind), farming, fishing, forestry and agriculture

Secondary Sector Business

Businesses that use the raw materials produced in the primary sector and change them into finished goods are in the **secondary sector**. This sector includes refineries, metal and mineral processing plants, chemical works, construction, engineering, food and drink processing, textile and clothing manufacture. This sector produces consumer goods for individual consumers such as clothes, books and CD-Roms, and producer goods such as machinery, tools and parts that enable other businesses to produce other goods.

Tertiary Sector Business

Businesses that provide services rather than goods are involved in the **tertiary sector**. ('Tertiary' means 'third level'.) These industries include banking, insurance, entertainment, public services, transport, education and health services, electronic and postal communications.

Chains of Production

As we saw with the ice-cream example, producing and supplying goods can involve a business in all three industrial sectors. Each business forms a link in a **chain of production**, and each is dependent on the other businesses in the chain. All aim to supply an effective demand from customers.

Activity 2	Draw a simple diagram of the chain of production for a loaf of bread. Choose two local businesses in your area that use different raw materials and make simple diagrams of their chains of production.

Where a business is **located** will depend to some extent on whether it is in the primary, secondary or tertiary industrial sector. The location of other businesses in the chain of production will also affect the decision on where to locate a business.

2. Location

In the eighteenth century not many decisions needed to be taken regarding location. Large numbers of people in Britain had never seen the sea and many had not seen a city, perhaps because the nearest city was a day's journey away by stagecoach. A trip to London was, for many, a once-in-a-lifetime experience. Ordinary working people served their apprenticeships and set up in business to serve a specific local community, whether as smith, chandler, haberdasher or farmer, selling their goods in a local market.

As the industrial revolution gathered momentum in the late eighteenth and nineteenth centuries communications improved, specific regions or locations became the site for certain kinds of business and it became necessary to move to those places to succeed in that kind of business. The Klondyke Gold Rush was an obvious example, but it is also true that there was no point starting a coal-mining business where there was no coal to be mined.

The availability of various natural resources is a key factor in the selection of a business location. Specific areas of Britain became known for their steelworks or cotton mills. Local resources and the development of a skilled local workforce meant that it would have been very difficult for competing businesses to succeed in other parts of the country.

There are a number of factors involved when a business chooses where to locate itself. These include:

- what level the business operates at: is it primary, secondary or tertiary level business?
- the availability of natural resources
- the availability of a skilled workforce
- distribution networks: is it close to other businesses on which it depends? Where is its market? (i.e. how does it get its goods or services to its customers?)
- competition from other businesses
- the cost of the location: purchase or rent of premises, and running costs of the premises
- facilities available for the workforce including
    - travel, including commuting by road and rail; parking,
    - catering, including local restaurants, cafes, sandwich bars and shops;
    - child care, including crèches and nurseries
- accessibility and convenience for customers
- external influences including geographical factors like flooding, road congestion, and the local building plan, and government intervention in the form of incentives for business to locate in areas of high unemployment.

The relative importance of these factors will vary from one company to another. Of course, the better the location in terms of facilities and access, the more it is likely to cost. Premises tend to be let by the square foot or metre. A company with a specific budget will often face a choice between extra space in a poor location or cramped facilities in a better spot.

From Town Centres to Virtual Businesses

Besides the availability of the **factors of production** (land, resources, labour, capital and entrepreneurship), it is only common sense to say that businesses tend to be located where their customers are. In most towns, for instance, there is a shopping area in the middle where it is assumed that there are a larger number of potential customers passing by than if they were on top of a mountain. Theme parks, for instance, tend to open in locations where there are already millions of tourists, such as Florida, Paris or the Costa Brava.

Most offices and supermarkets used to be located in the centre of towns and cities but the trend in recent years has been towards out-of-town cheaper locations. These are usually easier to drive to so the question arises: how many employees do not have the use of a car? If they are all car-drivers, they will probably prefer an out-of-town location with good parking. Many large out-of-town businesses are well served with bus stops.

In town centres, parking may well be awkward or expensive but it will probably be easier for those who arrive at work by other means, such as bus or train. Town centre locations tend to be better in terms of food outlets and other resources, such as access to banks. The importance of physical proximity to a local customer group is less than it used to be. The town centre has been in steep decline for thirty years or more to the point where floor space in certain towns is cheaper on the high street than it is in custom-built out-of-town business parks or science parks.

Very large shopping centres, such as the Oracle in Reading, or the Bull Ring in Birmingham are also accessible by train with stations located within the shopping precinct. The days when "shopping" meant catching the bus into town are now a thing of the past for many. The awkwardness of travel into towns, the difficulty of parking, the air quality, the problem of carrying purchases, the dowdiness of the town centre shops and a number of other factors have combined to make in-town shopping an unattractive experience for large sectors of the population, especially those with cars.

The last three decades of the twentieth century saw huge growth in out-of-town shopping opportunities and it is unlikely that that trend has reached its zenith even now. First the major supermarkets like Tesco and Sainsbury's aimed to build a new, big supermarkets just outside every major town, with excellent access by car. Customers could purchase a trolley-load of groceries, enough to keep them going for a week or more, and deposit them straight into their cars which were parked right outside. Even the customers living *in* the towns would opt to get in their cars and drive out of town to buy their food.

Gradually, a wide variety of other retail businesses followed suit - DIY, electrical goods, carpet shops, shoe shops, pet shops and sports shops can all be found in edge-of-town or city shopping centres. Cheaper floor space meant cheaper prices could be offered to the customer and a more convenient shopping experience all round.

Some businesses have been slow to respond. The town centre high streets are now full of banks and building societies even though there are ample cashpoint facilities at most of the out-of-town supermarkets, and online banking means there is even less need to visit a bank. Eventually, it seems certain that there will be fewer and fewer high street bank branches but customer habits only change slowly - such a local presence is still regarded as part of the "service" we expect.

Activity 3

You might conduct a survey of the shops and businesses n your own home town high street to see what sort of location suits different types of business e.g. banks, clothing shops, food shops, sports centres and gyms, delicatessens, supermarkets, DIY shops, car salesrooms, bookshops. Questions to consider might include:

1. What types of business are closing down or moving away and what are opening up in their place, if any?
2. How long do businesses survive in these locations?
3. How have parking and access factors affected the distribution of different types of business?
4. Is it possible to find out whether ground rents have gone up or down in recent years? Why?

Why pay for floorspace at all? The last decade has seen the inexorable rise of the e-business with showrooms that only exist online. E-customers can browse products, filling a virtual shopping basket and paying with a single click of the mouse. With no showroom costs, logic suggests that prices ought to be lower than in stores. Price differences of between 10 and 15% can often be found on many goods. Businesses that re-located to out of town sites, are now faced with competition from those that exist online. Many have risen to the challenge by establishing their own online presence as well as continuing to offer conventional shopping facilities. As the recent 'credit crunch' has shown, many of the out-of-town shopping malls are struggling to stay in business.

Amazon quickly became one of the largest book retailers in the world (and achieved a huge share valuation) without a single showroom or local site. Vast warehouses could be set up whereever land and labour was cheap and whole countries, perhaps even the whole world, could be supplied from a single centralised site. Huge discounts became the norm and Amazon's customer-base and brand-awareness became the envy of other "e-tailers" but it is worth noting that conventional bookshops did not close their doors overnight and even Amazon found it difficult to make a clear profit.

Regional Location

A business approach to location decisions takes into account:

- costs
- resources (raw materials, land, staff)
- infrastructure (suppliers, transport, support services for staff)
- the market (accessibility for customers, size of customer base)
- external influences, e.g. government intervention in the form of incentives, taxes, exchange rates, import duty; geographical factors, and the amount and location of competition for business;
- qualitative factors (What is it like to live and work in this location?)
- availability of premises.

We will look at each of these in more detail.

Costs

When choosing between different possible locations, a company will probably use **break-even** or **investment appraisal** analysis with projections of likely revenues and costs at the different sites.

As ever, such costs are likely to be divided between the **fixed** and **variable** costs. The fixed costs include not only the land cost (e.g. in the form of rent) but also the staffing costs which may vary dramatically from one site to another even if there is no variation in output. The variable costs depend on output and the range of possible outputs depends on the scale of available facilities.

Resources

The cost of resources includes both human and physical elements. How much does it cost to transport raw materials to different possible sites? What is the cost of labour in different regions? How scarce are such resources? If manpower resources are scarce, it is likely that higher wages will have to be paid. Land can be scarce or plentiful, and local facilities for staff will vary; rental and upkeep costs will vary accordingly.

Infrastructure

Comparing different infrastructures may be less straightforward. What value do you place on the fact that you are five minutes from the nearest motorway rather than fifteen minutes? Will the distance to the nearest mainline railway station be relevant? What value should be attached to the fact that there is a wide choice of suppliers locally rather than only one or two? How can you quantify differences in climate or lifestyle?

The importance of such decisions depends entirely on the kind of product or service that is being supplied. If there is no need to meet clients and customers and there is no physical product to transport (e.g. it can be delivered by e-mail), it may be sensible to locate in the Scottish Highlands or an area of high unemployment. But for export businesses, it may be essential to locate not simply close to a large port but close to a port which can offer the right kind of container transportation and access to the right foreign markets. In such cases, the infrastructure may be absolutely critical.

The Market

Here we are most concerned with proximity to the market. Of course, this matters most when there is a physical product to be transported or when customers must travel to a shop or showroom in order to view or collect the product. Even when the product is electronic, it may be advantageous to be close to the target market, if only to understand what is happening “on the ground”.

For many small businesses the market remains a physical location, to which they must carry their wares on a Wednesday morning. Where such market traders require a production facility, it may make sense to locate as close as possible in order to avoid transport costs.

Government Intervention

Governments may intervene in many ways to influence the choice of location. Most obviously, intervention may be in the form of a regional incentive or tax break to encourage businesses to move to an area of high unemployment or spare capacity. This usually occurs when a "traditional" industry like coal-mining or farming is no longer viable in one part of the country, causing high unemployment. It may be cheaper and easier to get the businesses to move to the workers than to move the workers and their families to another part of the country.

Such incentives are only likely when other factors dissuade businesses from making location decisions of their own accord, so there is likely to be a trade-off between the incentives and the disadvantages in other respects.

The government, through the Department of Trade and Industry and other bodies, offers a wide range of advisory services to companies looking to re-locate. Trade associations are also available to offer external help and advice.

Qualitative Factors

While it would be a mistake to think that most of the factors described so far can be considered in purely quantitative terms, there are other factors which can only be described as qualitative. Most obviously, which location represents the nicer place to live and work? This is probably the single most important factor that successful entrepreneurs consider when faced with a choice between locating their lives and businesses in the UK and paying considerable sums in taxes, or moving to another location where they could expect to be better off financially. Many choose to stay in the UK. A business has many stakeholders and not all of them are motivated by purely financial considerations.

The image of the location may play an important part in decisions about location. Oxford has a long and deep-seated tradition of learning, and many educational institutions continue to thrive in the city. Similarly, a Mayfair address may help to sell cars or financial services, while a Milan or Paris address may be an advantage if you are marketing perfume or fashion. The prestige of certain locations may mean that a company will need to spend less on establishing brand identity, simply by adopting the name of the town or city where it makes its home.

Availability of Premises

Availability is an important factor in the choice of a business location. Very few companies build their own offices so their choice is limited to what is available at any given time. The laws of supply and demand dictate that if there is more office space available in a certain area at a given time, the price is likely to be more reasonable. Most of the other factors may be ignored if it is possible to find new premises at a bargain price!

International Location

Many of the same factors need to be considered when a company becomes (or describes itself as) international rather than merely national. The **costs** associated with different locations are likely to be dramatically different when different countries are compared, in terms of the external factors of production: land costs, labour, and raw materials.

Certain countries are richer than other in terms of the specific **resources** which are required by the company, whether they be water, steel, oil, or whatever. In less developed countries resources may be cheaper but this is likely to be offset by disadvantages in terms of **infrastructure**; it may cost too much to bring the product to its **market**.

In the UK we take it for granted that **government intervention** will be broadly supportive towards business but this may not be true for a UK business abroad, especially where a business is perceived to be "foreign" rather than home-grown. **Qualitative factors** may mean that cost advantages are insufficient to persuade a company to re-locate. Land may be cheap and labour may be plentiful, but if the country is war-torn or inhospitable in terms of its climate and geography, multi-nationals will not want to relocate there.

The international dimension also brings a range of other factors into play. **Exchange rates** and economic conditions prevailing within a country may provide an incentive or disincentive. Multi-nationals exporting their goods are at a disadvantage if their "home" currency is strong. In these conditions it might be more tempting to move production to countries that have a weaker currency.

Trade barriers may also be a key factor. If the natural market for a product is in an overseas country but the protectionist policies prevailing in that country mean that it is impossible to compete with local businesses, then there is much to be said for setting up a subsidiary (or even wholly separate) company inside those national boundaries, to avoid paying import duty.
It is an international convention that every business pays tax *somewhere* but in practice it is increasingly hard to police. Online businesses can be almost invisible in fiscal (tax) terms. This problem will increase as the twenty-first century proceeds.

Summary

Factors affecting location decisions include

- whether the business operates at primary, secondary or tertiary level
- the availability of raw materials and the nature of the product
- the availability of skilled staff and labour
- the local infrastructure including distribution networks and support services for the workforce
- the international, national and local environment. and legislation to protect these
- historical factors: traditions, skills, reputation, local expertise
- competition in the location
- external influences: help and advice from government at international, national and local levels
- legislation regarding marketing and trading at international, national and local levels
- costs of land (rent of premises), labour and raw materials;
- availability of premises
- qualitative factors such as whether the location is secure, pleasant, and promotes a good quality of life

Self-Assessment Test (Lesson Eight)

Find out which businesses in your nearest town or city have found it worth their while to move away from the high street to out-of-town and online sites. Why?

Suggested Answer to Activity One

Stages of Production	Businesses Involved	Inter-dependency
Growing and harvesting sugar cane	Sugar plantation	The sugar planters depend on the refineries and overseas markets
Transporting raw sugar	Transport company	Transport businesses depend on materials to transport
Milling sugar cane	Milling plant	Sugar millers depend on the sugar planters and overseas markets
Shipping sugar cane	Shipping company	Shipping companies depend on a range of companies to transport compatible goods
Refining sugar cane	Sugar refinery	Sugar refineries depend on sugar planters and millers
Transporting sugar	Transport company	Transport companies depend on a range of businesses needing to transport goods
Producing milk	Dairy farm	Dairy farmers depend on consumer demand for milk and milk-based products
Transporting milk	Refrigerated transport company	Refrigerated transport companies work with a range of suppliers of fresh produce
Producing flavourings	Possibly fruit or cocoa bean or spice farming/fruit /chocolate/vanilla processing and manufacture	Fruit, cocoa bean and spice farmers depend on local and overseas markets to sell their produce.
Transporting flavourings	Transport company	Local transport companies depend on local suppliers of fresh produce and local markets (e.g. soft fruit), international companies transport a range of spices from supplier to foreign markets
Making ice-cream	Ice-cream factory	Depends on consumer demand and all of the above to produce ice-cream
Transporting ice-cream	Refrigerated transport company	Refrigerated transport companies work with a range of suppliers to move fresh and frozen produce to market
Selling ice-cream	Shops, cafés, kiosks	Sellers of ice-cream depend on all of the above

The information in the table could also be represented as a flow chart. See if you can arrange it in this way so that you can see clearly the chain of production involved in making ice-cream.

Suggested Answer for Activity Two

A chain of production for a loaf of bread.

Grain farmer produces wheat –
Grain is transported to mill -
Wheat is milled into flour –
Flour is transported to bakery or factory –
Flour is made into bread –
Bread is transported to shops for sale

Suggested Answer to Activity Three

Most high streets, town centres and edge-of-town retail outlets include a similar range of shops and businesses. Town centres and high streets usually include banks, building societies, small food outlets, cafes, gyms, clothing shops, card and gift shops and bookshops. Edge-of-town retail outlets include supermarkets, DIY shops, furniture and pet suppliers and garden centres and larger sports centres. Which of these are closing down/opening up in your area? Have any moved to online trading?

Bookshops in particular face strong competition from online shops. Some specialist sport shops have recently developed online outlets to compete with online only suppliers.