The importance of location for businesses economics essay

The perfect location is a vital component in the success of a business. The right location gives a company access to transport, labour, customers and raw materials. Location is a critical element in a company’s success. A company’s setup plan should be part of its whole corporate strategy. A company’s management many times develop positioning strategies, but may chose to hire consultants to do it, or assist, especially if they have limited experience. When in the service business, a company must obtain information on the number of people that pass by a potential location each day. Whether in the service or manufacturing sector, it is a must to examine the population of a location to ensure that there is sufficient customers and skilled or unskilled labour. Being close to clients is an added advantage to manufacturers due to reduction in shipping time and quick response to customers. Companies should know the total amount they are able to pay for a new site, such as transport fee to ship raw materials, supplies and the loss of client response for moving away from the customer. Service businesses must maintain a number of branches to be close to clients, the locations chosen must be near the potential market, which affects the number of new locations, as well as their size and facilities. An easy method of determining service business locations is coming up with a check list for opening new branches. These checklist should be developed in such a way that the sites chosen have higher chances of succeding. A company could determine the potential of a site based on the areas population and the annual per capita income. Low corporate taxes can help attract foreign investment. This is the main mechanism underpinning the standard ‘ race to the bottom’ view of tax competition. Agglomeration forces can reduce firm’s sensitivity to tax differences in different locations. We find that, on average, high corporate income taxes deter new firms, but that this relationship is significantly weaker in the most concentrated sectors. Location choices of firms in sectors with an agglomeration intensity at the twentieth percentile of the sample distribution are estimated to be twice as

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responsive to a given difference in local corporate tax burdens as firms in sectors with an agglomeration intensity at the eightieth percentile. Agglomeration economies can neutralize the impact of tax differences on firms' choice of location. According to the standard model of tax competition, increasing mobility of firms induces a race to the bottom in corporate taxes. Recent theoretical work has fundamentally questioned the relevance of this scenario. In most new economic geography models, the strength of geographical agglomeration forces increases as goods and factors become more mobile. As a result, the scope for attracting firms through fiscal inducements could in fact reduce as technological and administrative obstacles to firm mobility are reduced. We find that high corporate taxes are indeed a deterrent to firm location, but that this deterrent effect is significantly weaker for sectors that are more clustered. Hence, agglomeration economies, be they due to externalities or to spatially concentrated endowments, can reduce the ability of jurisdictions to compete for firms via strategically low tax rates. These results are based on Poisson regressions derived from firm-level profit functions in a location choice model. We first estimate a baseline model of firm's location choices, in which we introduce an explicit interaction between municipal corporate taxes and a measure of sector-level agglomeration. In an alternative approach, we then estimate a specific model that is formally derived from a model of demand and supply conditions. We minimize simultaneous problems between taxes and firm location by using sector-level counts of new firms as the dependent variable, and municipal corporate taxes which apply identically to firms across all sectors as the independent variable. An assessment of the different operating costs and other factors associated with different locations should be done. Logistics is also important as it determines the different modes of transport and costs for the manufacturing and storage facilities. Workforce analysis determines whether a location can meet a company's labour needs given its short and long-term targets. Total

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expenses include supplies, land, labour, taxes and building costs. Other costs to be considered are costs to ship materials and supplies. Companies must consider what method of transport is needed and what kind of information services and equipment they will need. Companies must establish their labour criteria including the desired level of education and skills. In spite of the popularity of such issues, the availability of skilled labour and trained labour for unskilled positions is considered to be of significant importance to the location decision. Many factors will have influenced where a firm is located. These factors have changed in relative importance in recent years; for example, the quality of modern-day transport and communications means that it is less important nowadays for a firm to be based either near the source of its raw materials or very close to the market for its finished products. Rent is obviously an important factor but first the company has to consider the new premises, whether the building is correct type or it is large enough.

Foreign investors in China may choose between three modes of entry; Equity Joint Ventures (EJVs), Contractual Joint Ventures (CJVs) or Wholly Foreign Owned Enterprises (WFOEs). These entry modes vary considerably in their legal requirements, risks involved, resources required and investment motivations. As the world's most populated country, China has attracted a great deal of attention from a wide range companies seeking to take advantage of the low relative cost of employing a Chinese work force or to gain access to the growing Chinese middle and upper classes. From the investor's point of view, choosing the right location that provides a competitive advantage is important to developing a sustainable business. The location he or she chooses as the destination of Foreign Direct Investment (FDI) must ultimately be more profitable to invest in than in others. China as a source of low cost labour and with an attractive, rapidly growing domestic market, represents growth for many companies. The fact that the coastal regions especially those in close proximity to

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Hong Kong and with historic ties to the West and Taiwan also have sophisticated financial systems and capital markets, also make China a prime location. The advantage of one location over another is based upon natural and human resources, the price, quality and productivity of inputs, international transport and communication costs, investment favour or discrimination, man-made barriers to trade, fundamental facilities, crossnational values, language, culture, commercial practice and politics, research and development, the concentration of production and sales, economic system and political strategy and resource allocation systems. The market size or the Gross Domestic Product directly affects the expected revenue of the foreign investment. In fact, one major motivation for foreign investment is to look for new markets. The larger the market size of a particular region, the more foreign investment the region should attract given other things remains constant. It has been identified that market size has a positive impact on foreign investment. We use Gross Domestic Product per capita for demand and size estimation. Another determinant is agglomeration which refers to the concentration of economic activities that leads to positive externalities and the economies of scale. The level of agglomeration is positively related to the foreign investment in China. We use infrastructure quality to determine the agglomeration benefits. The highway and railway mileage per square kilometre is a determinant of the quality of infrastructure. The third determinant is labour quality. We use the total number of primary and secondary schools, as well as universities as a determinant for education and further for labour quality. Labour quality has a positive impact on foreign investment in China. The fourth determinant is labour cost, as measured by wage. It is found that there is a relationship between wage or labour cost and foreign investment in China. However, labour costs may have a negative correlation. Multinational firms in China tend to hire quality workers who earn higher wages as a possible reflection of this higher labour quality. Hence, wages in those provinces that attract more foreign investment may be higher. The fifth determinant is the degree of openness and progress of reform. A significant relationship exists between the degrees of openness as defined by the percentage of state owned enterprises and foreign investment. A more open economy means that foreign investors are more familiar with the host economy and may therefore be more willing to invest in the country. On the other hand, openness can have a negative impact on foreign investment as it may attract more competition, reducing any competitive advantage a firm may have hoped to realize. We use the share of state-owned enterprises in a region to measure its degree of openness and progress of reform. The more state owned enterprises there are shows that the region is not open to foreign investment and the government may have imposed strict regulation against foreign investment. It may also indicate that either the government wants other governments to invest and not private firms. Some of the regulations that China may impose on foreign direct investment may encourage investment by other governments rather than private investors. For example if there is a high initial cost this may be a deterrent to private investors but not to other governments which are not limited by finances. Some provinces in china may not be open to reform and may not have important investment facilities such as capital markets and sophisticated financial systems which may also discourage foreign investment by private investors but other governments may not be deterred by this.