

Business Location Linked to Profits

Why do businesses locate where they do?

There is an adage among economic development professionals that the three most important things affecting a community's economic growth are location, location, and location. So what do economists know about why businesses locate where they do?

In general, businesses tend to select locations that maximize profits. Yet the type of location that maximizes profits for one kind of business will not necessarily do so for another kind.

Resource-oriented industries, tend to locate near to the source of their materials. Market oriented businesses locate near their customers. A third group of industries called footloose industries seeks out sites where labor or land costs are low or where environmental and cultural amenities make for

concentrated in urban centers or around large research universities. Sometimes infant industries spin-off from old industries, as did Texize in Greenville.

An infant industry surviving into adolescence may require less scientific and technical expertise. But production processes are still to be worked out and marketing distribution systems developed. Because the tasks workers face are apt to be different from day-to-day, adolescent industries need a large, varied pool of skilled workers plus access to financial and marketing talent not commonly found in abundance in rural areas and small towns.

A mature industry has well-defined, standardized products that can be produced in large volume on assembly lines, for example, the automobile, textile, and apparel industries. Such industries can prosper if they have a good supply of relatively cheap, docile labor and good access to transportation systems and energy grids. Much

of South Carolina's economic growth since World War II has been associated with a growing concentration of relatively mature industries in small towns and rural counties

Reductions in transportation costs and improved worldwide communications have created oppor-

tunities for mature industries, such as those that are the backbone of the South Carolina economy to seek out profit-maximizing sites overseas. In the competition for mature industries, communities are almost always in a bidding war with other communities over labor costs. Sometimes communities can offset higher labor costs with tax breaks and other subsidies. Yet if the labor cost differences are as great as between many U.S. and developing countries, there may be no feasible set of subsidies that will be sufficient to attract and hold a mature industry.

With resource industries becoming a smaller and smaller part of the world economy and with mature industries being lead by the profit motive to off shore sites, small towns and rural areas in South Carolina face a bleak economic future unless they can sell themselves as sites for market-oriented industries or can become incubators for infant and adolescent industries. Communities with easy access of growing metropolitan areas like Atlanta and Charlotte are in the best position to wean themselves away from mature industries. Others are likely to be successful only if they can upgrade the skills of their work forces or use their environmental and cultural amenities to make themselves attractive places where scientists and engineers will want to live.

Resource-oriented industries process heavy or voluminous raw materials in ways that reduce weight and/or volume. Examples: smelters, sawmills, paper mills.

Market-oriented industries increase the weight or volume of materials. Example: soft drink bottlers.

Footloose industries are neither resource or market-oriented. Examples: sewing and apparel industries, some high-tech industries.

pleasant living.

Another way to classify location preference of industries focuses upon the stage of an industry's development. Infant industries usually are born in urban areas because the development of any new product requires scientific and technical expertise most likely to be