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The issue of site selection of service sectors and its influence on firms' competitive advantage

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Abstract

The process of finding the optimal location is an issue that concerns the overwhelming majority of economic activities. The paper analyzes the factors influencing site selection of firms in the service sector in the context of modern competitive conditions. The above is accomplished through the case study of the development of "Mikel" coffee company outlet network. The work is based on qualitative research in the form of interviews conducted with key executives and the owners of the company. In the first part of the paper, the relevance of Porter's "Diamond" model with the site selection model that was adopted by "Mikel" company for the development of its establishments is presented. In doing so, we question the importance of the role of government which is highlighted in Porter's model. In the second part of the study, the six determinants of site selection of the firm are presented, which stem from the competitive environment. Specifically, agglomeration economies - commerciality, transport systems, existing competition, social capital - population, the time value of the location and the direction of traffic - distinctiveness of the site. The research results presented in this study, shape a rather detailed picture of the processes of finding the optimal location for economic activities, producing significant benefit for the firms as well as for the local economies and societies, in which they operate and grow.

Keywords: Site selection process; Optimal location; Economic activities; Competitive advantage

1. Introduction

The understanding of socio-economic reality is, to a certain extent, achieved by the theoretical background of the spatialisation of economic activities, which contributes significantly to understanding and predicting the spatial relationships and interdependencies that determine the location of economic activities and thus the social and economic development of the various regions of each country. In addition, location decisions are directly shaped not only by economic considerations, but also by social, political and cultural factors.

Hence, the choice of a firm's location model, which can contribute to its development at the local, regional, national and international scale emerges as a key issue, particularly in their first steps. The location model usually integrates with the dynamic strategy they have or will adopt for their expansion in space. This strategy includes issues such as supply of raw materials, development, production and distribution of goods or services. Naturally, many companies are developing without following a specific model and are evolving on the basis of a wider framework of criteria,

according to type of economic activity. An interesting question is the extent to which such ad hoc strategies, i.e. those that are not based on some formal theoretical model, can be optimal ones.

In the first part of the paper, we discuss the relevance of Porter's (1990) 'diamond' model of competitive advantage to the location model adopted by the "Mikel" coffee company¹.

In the second part, we identify six (6) economic factors, which take into account the competitive environment and are directly applicable to the network of "Mikel" coffee shops. Therefore, this study aims to clarify basic concepts relating to the location of economic activities, in a context which reflects the real world and takes into account the existence of highly competitive conditions and the strong desire of enterprises to develop and gain competitive advantage.

1.1. Methodological approach

The methodological approach chosen is an in-depth description of the case study through qualitative research. The aim is to produce a subtractive but meaningful narrative of the company's fundamental location factors as a reference framework in which they are being developed.

Focusing on the location of "Mikel" branches, a large volume of data was collected from which, during the analysis, a single interpretive and conceptual work was constructed. The analysis that follows describes and develops some location determinants and maximizes the utilization of the information collected and the explanatory depth of the narrative allows the above criteria to be integrated into a single interpretive framework which produces the possibility to extract useful observations and conclusions.

Initially, through the conduct of an extensive literature review, we decided to focus on one of the most popular models related to the choice of location of economic activities, namely Porter's "Diamond". Then, we conducted a review of the literature, which provided useful insights into the causes of the companies' location decisions.

The collection of primary data was carried out by conducting interviews with executives of Mikel, specifically with its founder, the Human Resources Officer, as well as with selected owners of the company's branches, who together with the company chose the locations of their business. In total ten (10) interviews were conducted, two (2) in the company's headquarters in Athens and the remaining in Thessaloniki.

2. Literature review

2.1. Determinants of the location of economic activities

The location decisions of economic activities in the market economy are affected by the general structural relationships and the specific individual factors. Individual factors vary geographically and socially, thus influencing the choice of location of economic activities (Kourliouros, 2011). Among others, factors include:

- Human capital. It refers to the acquired skills of people - with a focus on education. Human capital accounts for the part of economic progress that is not due to the quantitative increase of the usual factors of production (often referred to as Multi-factor productivity – MFP). In addition, it is argued that investing in

¹ "Mikel" is one of the largest coffee companies in Greece, running an extensive network of coffee shops, organized through a franchise system.

human capital has a dual role in the field of entrepreneurship. On the one hand, by promoting the quality of people's productive services, while on the other by increasing the consumers' level of satisfaction (Panitsides, 2013). Therefore, the individual skills that an entrepreneur can have, as well as each individual who is part of an enterprise's human resources, give a crucial dimension to entrepreneurship both for the suitability of the location of an economic activity, as well as its further development.

- Social Capital, which according to Putnam (1995, p. 664) refers to "features of social life—networks, norms, and trust—that enable participants to act together more effectively to pursue shared objectives". By significantly reducing transaction costs, social capital affords the new entrepreneur with additional financial, monetary and human capital, facilitates the exchange and transfer of resources, economic opinions and experiences, and thus through this transfer it is possible to overcome the existing barriers to the existing market structures (Chandler and Hanks, 1998; Hart et al., 2015).
- Agglomeration economies. The term describes the economies that arise in the operation and efficiency of businesses, from their concentration in the same location, to ensure geographic proximity between them. Agglomeration economies are related to economies of scale and network effects and can be distinguished into: (a) localization economies; and (b) urbanization economies. The former arises when businesses from the same or similar sectors are concentrated in the same location (Polyzos, 2011), while urbanization economies occur when firms belonging to different sectors of the economy are located in large urban centers. In fact, in general larger agglomerations are associated with larger urbanization economies (Jacobs, 1961).
- Demand is a determinant of the decision to set up economic activities because the demand for each product or service is geographically differentiated as it is related to the consumption patterns of each region, to the traditions and to the local habits (Kourliouros, 2011).

2.2. Economic activities' site selection model – Porter's "Diamond"

During the last few decades, in choosing where to locate, businesses are seriously considering the competitive environment, as, very often, the more competition in the region they want to locate their economic activity at, the less attractive the region (Porter, 1979). Michael E. Porter referred to the competitive advantage by introducing a model that allows analysis of the causes for which some countries are more competitive than others, which was then extended to businesses. In that model the success of businesses in international markets is linked with the national environment in which they have been established and developed. According to the model (widely known as "Porter's Diamond") companies that make good use of their country's "diamond" are gaining in constant competitiveness over their competition. According to Porter (1990), the six determinants that make up this dynamic system in the development of national or regional competitive advantage in a branch are, (Porter, 1998):

- Proper business structure, dynamic strategy adopted and competition - rivalry between the firms in the sector, leads to increased productivity and sales, at least for the most competitive enterprises.
- The existence of productive factors necessary for the development of the sector to which the enterprise belongs (e.g.: human resources, natural resources, infrastructure, experience and knowledge, etc.).
- The existence of domestic or local demand, which should be able to support a company in its first steps, in order to be able to grow.
- The existence of related of supporting industries.

- The role and influence of the government. In particular, depending on the policies followed, government actions may degrade or improve the national advantage, thus affecting the development of enterprises in this country and internationally.
- Opportunities that businesses either take advantage of or create themselves.

The above factors create a dynamic system that is more important than their sum, as the effect of each factor on the acquisition of a competitive advantage depends on the level of the other factors. Therefore, should serious weaknesses be identified in any of the six factors, the growth potential of businesses could be greatly hampered. Porter therefore suggests that the national headquarters of a company is a dominant factor in shaping the degree to which a global advantage is likely to be achieved as it can support or prevent it from developing (Porter, 1998).

3. How the site selection model of the “Mikel” coffee company establishments relates to Porter’s Diamond model

The competitive environment is taken seriously by businesses, according to Porter (1979). This is also the case in the examined network of enterprises, where (according to the founder), the aim is to avoid locating stores next to the competition, seeking to develop a business network, that would allow its – locational -, differentiation. This way it aspires to add value to the locations where its businesses will be established, based on service, taking thus a large share of the market from the core of the competitive environment, but without receding significantly from this. Certainly, as has already been mentioned, when companies make good use of their country's "Diamond" they are gaining in constant competitiveness against the others. How, then, does the “Mikel” site selection process fit into the "Diamond" model; what are the similarities, differences or even additions we could identify?

Proper business structure, dynamic strategy adopted and competition - rivalry between the firms in the sector. "Mikel" is one of the most organized companies of the coffee service industry in the domestic market, from the supply of raw materials and the production of its products to the distribution of its final products. It follows a very specific process in the setting up and operation of branches, the training and management of its human resources. Its processes have been standardized and transferred it to all its branches, even foreign ones, without altering the company's culture and philosophy. According to the data collected from the field research, even before the creation of the company's first branch, it was decided to create an innovative business model. Its main components were: (a) the emphasis on the superior quality of raw materials, products and services, (b) the high corporate aesthetics, (c) the acquisition of the appropriate know-how for coffee production and (d) the staffing of firms with highly skilled workforce. Moreover, this dynamic strategy has a strong client-centric character, because it has as its main objective the optimal service and satisfaction of the consumers. Both the company and the individual branch owners always take into account the existing competition in the sites they aim to locate the new shops and seek sites that are far from the core of their competitive environment.

The existence of productive factors. The primary concern of all “Mikel” shops is, the proper arrangement and organization of the shop space according to the company specifications. At the same time, each prospective employee, depending on the position, receives the appropriate training from the trainers of “Mikel” and the proper experience, because, at the beginning and for as long as is considered necessary, the employee works alongside by a company trainer. Furthermore, to avoid mistakes and optimize the operation of the shops, for a period of up to three (3) months, after the opening up of a shop, the company provides in-house support. Finally, the company supports each business partner and helps them achieve the best possible management of the business. Therefore,

only when a shop has all the necessary natural, human resources and the appropriate infrastructure, the company will proceed in its operation.

The existence of domestic or local demand. This factor is considered to have contributed to a high extent to the development of "Mikel" and its consolidation in the city of Larissa in its initial stages, as well as to its further domestic development. Consumers in the city where the first shops were established supported the project, as did consumers in other markets that the company was developed, outside its local and regional headquarters. In addition, the basic product of the company is coffee, a commodity fully integrated with Greek culture.

The existence of related of supporting industries. Some of the main products of chain stores (e.g. pastry) are produced by the company itself. For products that the company itself cannot produce (e.g. coffee, milk, salt items, juices, alcoholic beverages, etc.), strong partnerships have been established with various large domestic producers, which supply all domestic stores.

Opportunities. Since the company was established and started to acquire a certain growth path in Greece, the inadequate development of the delivery service in the coffee service sector was recognized by the managers at the operational level in the company. Taking advantage of this opportunity, "Mikel" was introduced as an innovator in its market, with the result that it has been growing faster, directly in the domestic market and it was making its existing businesses more profitable.

The role and influence of the government. The company faced many difficulties in its development from the state and from the country's economic situation, due to frequent changes in recent years in both tax levels and policy and wage policy (dramatic drop in wage thresholds, based on Law 4093/2012), as well as other types of policies that had a direct impact on the business sector. For instance, tax rates in the country are either close to or above the European average and certainly far higher than most of countries with a corresponding level of growth. Despite the negative influence of this factor, the development of Mikel was not impeded either domestically or internationally. In particular, according to the data collected, the growth of the company has been negatively affected, however, this negative impact slowed but not to a greater extent than has been slowed by finding the optimal way to manage its growth in foreign countries, due to their different political context and culture and in order to achieve optimal siting and its adaptation to these countries, without corrupting its corporate culture and philosophy.

According to Porter's "Diamond" model, if one of the six (6) factors encounters serious weaknesses, it could greatly limit the growth of the business, even preventing it from gaining a competitive advantage. In the case of "Mikel", however, although the role of the government was negative, the development of the company was not hampered, either domestically or internationally, as the company continues to operate and develop its business network on both levels, until today. Moreover, domestically, the government had a negative impact on "Mikel" as it affected the remaining similar competitive and non-competitive companies. Therefore, it did not individually hamper the company in claiming a competitive advantage versus the rest of the companies. At international level, it did not slow down its growth to a greater extent than the search for finding the optimal way to manage its growth in foreign countries in order to achieve optimal spatial development and adaptation to them.

In summary, the analysis of the empirical background of the Porter's model and from the analysis of qualitative research for the spatial development of "Mikel", which is an international and competitive company, reveals the following three (3) possible conclusions:

- Reduction of the importance of the role of the government in relation to the importance of the other factors that make up Porter's "Diamond" model.

- When the other five (5) determinants that make up the model, are highly positive, there is the possibility of over-compensation of one factor by the remaining five (5) factors or they can even completely eliminate the negative influences of the weak factor.
- It is questionable that the role of the government is well suited to being one of the six (6) factors that make up Porter's "Diamond" model.

4. Factors of site selection of economic activities

From the examination and from the analysis of the sites of the "Mikel" business network, six (6) factors of site selection of economic activities are presented in this specific part of the paper. These factors determine the suitability of business locations and have the potential to influence, depending on the degree of their existence, the operation and the development of businesses. Specifically, depending on whether the firms aim to locate within urban centre or the periphery of a region, each of the determinants may or may not influence them. Afterwards, in order to be better understood, the factors of site selection are presented, by category of site selection.

Table 1. Modern factors of site selection of economic activities by category.

Modern factors of site selection	Urban Centre	Periphery
Agglomeration economies - Commerciality	✓	
Transport systems	✓	✓
Existing competition	✓	✓
Social capital - Population	✓	✓
The time value of the point of installation – A focal point	✓	✓
The direction of traffic – Distinctness of the site selection	✓	✓

Agglomeration economies – Commerciality: This determinant refers mainly to businesses that want to be located and to operate in urban centers. The profits of these businesses, as in the case of study, are based, to a considerable extent, on the pedestrian passage. The profits of the "Mikel" coffee shops rely heavily on the sale of coffee at the "take away" service. For this reason, commercial points are chosen as points of location, in which the traffic flow is quite high around them, such as banks, offices, clothing and footwear stores, etc. Hence, the higher the concentration of the various or similar economies in one region, the greater the degree of pedestrian passage, so there will be a proportionate increase in the profits of businesses, which operate in that region.

Transport systems: The mobility of people is directly related to the transport network of cities or sub-regions. For businesses which want to set up either in urban centers or further away, this factor is crucial. "Mikel" has both types of firms in its network, located both on or very close to main roads. In the case of locating an out of centre shop, the company seeks to locate its shops on the main road axis of the particular area of installation, because this category of businesses operates to a very great extent by the passage of vehicles and by the passage of Public Transport.

Therefore, if the locations with increased passage of vehicles and Public Transport are selected, the higher the probability of profitability of the businesses that will settle there.

Existing competition: A key component in determining the site of "Mikel" shops is the intensity of the existing competition in the target region. Specifically, for its shops "Mikel" selects sites, that are a slightly far away from the competitive firms, because it strives to achieve the least possible influence from those in the operation of its own stores, but without receding significantly from this area. In this way, it aims to differentiate from other similar businesses and the company succeeds it through the exterior and interior setting of its stores and the quality of its products and services.

Social capital – Population: The social characteristics of the area of location are a feature of vital importance, because if an area has bad reputation, e.g. because of high crime rates or because of some unacceptable social characteristics, these characteristics could be identified with the company. In addition, if the locality under consideration is considered to be a closed one, then the business is in danger of being rejected by this particular community and not survive. At the same time, the shop can operate only with the existing population of this region. On the other hand, if the social capital of the wider place of installation is developed, it facilitates the exchange - transfer of resources, financial, cognitive, experience and information to the enterprise. Therefore, it is feasible, for the firms, to overcome the existing barriers, an element that is particularly important, especially if the firm is new in the region.

The time value of the point of installation – A focal point: The existence of an attraction constantly drawing visitors either because of its historical or cultural characteristics (e.g. the Acropolis) or because of some important building facilities that are almost impossible to shift over time (e.g. the Hippocrates Hospital of Thessaloniki), is an exceptionally important site factor.

The direction of traffic – Distinctness of the site selection: A crucial factor, for capturing the largest possible share of profit, is the choice of the most appropriate side of the road. With regards to businesses, that aim to locate at central points, the right-hand side of the direction that the largest number of people passes through is selected, because according to the survey, people tend to walk from the right side of the road. In the case of a regional firm, it is intended to be situated on the side of the road where most vehicles pass through. Therefore, in both categories of locations, the side of the road with the largest flow of pedestrians or vehicles, respectively, and at the same time the side of the road where the businesses are distinct, even at a far distance, has a key role. Thus, it is perceptible from the above that, the more accurately is calculated the suitability of the site of the economic activities, the greater the profitability the firms will achieve during their operation.

The above six (6) determinant elements of site of "Mikel" business network are a set of criteria in the sense that the lack of some of them, may affect the operation of the businesses. Therefore, companies must equally consider all of the above determinants, in order to properly and versatily assess the suitability of the site for their establishment in it.

5. Conclusion

The correlation of Porter's "Diamond" model with "Mikel's" site selection model, that was adopted by the company "Mikel" for the operation and development of its network domestically and internationally, reveals the relatively lower importance of the role of the government of Porter's model, because this factor appears to be offset by the remaining factors.

From the domestic development of “Mikel” (147 shops in Greece) and its development abroad, where it is active in Cyprus, the United Arab Emirates, Great Britain and the next 1-2 years is set the development of “Mikel” in the rest of Europe, is revealed the importance of the aforementioned six (6) factors that the company has considerably taken into account in selecting the site of its firms.

The proper selection of the network's sites contributed both to the survival of the company during this period of economic turmoil in Greece and to the acquisition of a competitive advantage. Moreover, it is concluded that these specific location policies, which were adopted and implemented from the company, create a system in which qualitatively are equally important and decisive, because when there is a lack of one or does not exist to the desired extent, there are examples of firms of “Mikel” which for the above reasons either ceased to operate or did not operate as expected.

Generally, for the selection of a site of any economic activity, all candidate sites should meet this basis of the criteria - factors that analyzed in this study, so that all alternatives choices can be evaluated correctly and methodically. This way, the probability of achieving the wider goal of economic activities, which is their success, is greatly increased by maximizing their profits and their highest recognition domestically or internationally. At the same time, it is also possible to remove certain economic activities from sites, in which there are high risks for their operation, sites that are in "toxic" environments for the economic activities, such as locations with difficult accessibility, sites in several "closed" societies, points within the pulse of competition, etc. Consequently, these six (6) determinants constitute a framework, in which the main task is to offer high sustainability and prosperity to the businesses that take it into account. The factors highlight, from a range of alternative site selections for businesses, the best choice for them and also this framework has application elsewhere and internationally. In conclusion, it is worth mentioning that the optimal site selection of economic activities produces a significant benefit both to the same economic activities and to the societies in which they operate and grow.

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Appendix A.

Table A.1 Structure of tax revenue in the European Union and Greece by main tax category, 2015.
Modified by Database of Eurostat, 2017.

Taxes on production (as % of GDP)	European Union (28 countries)	13,6
	Greece	16,2
Taxes on income, wealth, etc. (as % of GDP)	European Union (28 countries)	13
	Greece	9,4
Net social contributions (as % of GDP)	European Union (28 countries)	13,2
	Greece	13,9
Total revenue from taxes and social contributions (as % of GDP)	European Union (28 countries)	39,8
	Greece	39,5

Table A.2 Total revenue from taxes and social contributions in the EU Member States, 2015.
Modified by Database of Eurostat, 2017.

A/A	Countries	Total revenue from taxes and social contributions (as % of GDP)
0	EU	39,8
1	Denmark	47,8
2	France	47,5
3	Belgium	46,6
4	Austria	44,4
5	Sweden	44,2
6	Finland	43,8

7	Italy	43,4
8	Germany	39,8
9	Greece	39,5
10	Hungary	39,1
11	Lyxembouurg	39
A/A	Countries	Total revenue from taxes and social contributions (as % of GDP)
12	Norway	38,8
13	Netherlands	38
14	Croatia	37,6
15	Serbia	37,3
16	Slovenia	37,1
17	Portugal	37
18	Iceland	36,5
19	United Kingdom	34,7
20	Malta	34,6
21	Czech Republic	34,4
22	Spain	34,4
23	Estonia	34,1
24	Poland	33,4
25	Cyprus	33
26	Slovakia	32,4
27	Latvia	29,6
28	Lithuania	29,4
29	Bulgaria	28,8
30	Switzerland	28,2
31	Romania	28,1
32	Ireland	24,3

Table A.3 Minimum salary limits for persons over 25 years of age (from 12/11/2012 until today). Modified by National General Common Labor Agreement (EGSSE), 2017.

Professional Experience (Unmarried person)	Salary
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Without	586,08
3 years	644,69
6 years	703,30
9 years	761,90

Table A.4 Minimum salary limits for persons under 25 years of age (from 12/11/2012 until today).
Modified by National General Common Labor Agreement (EGSSE), 2017.

Professional Experience (Unmarried person)	Salary
Without	510,95
3 years	562,05
