

Strategic Study

Location choice of SMEs

The most important determinants

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Summary

Introduction

In a small country such as the Netherlands extra attention has to be paid to allocating the limited space available for the various functions (living, working and recreation). The government plays an important role in ensuring the good distribution of this space. This applies both to government at national level and to local authorities. The location choice of enterprises is an important factor when considering the spatial function 'work.'

To ensure the efficient execution of spatial location it is essential that the authorities have adequate knowledge of the various factors which determine the choice of location. To date, policy makers lack this information. That was the reason to undertake a study with as objective to gain more insight into the determinants behind SMEs' choice of location.

Basic principles

As the sector choice determines, to a major extent, the location behaviour of enterprises, this studied is centred on the sector approach. The assumption behind this is that entrepreneurial activities and the market and customer relationship for a sector are, to a reasonable extent comparable, which will be reflected in the enterprises' choice of location. This strategic study will look more closely at the following sectors: commercial services, industry, wholesalers and transport.

A distinction is also made in the differences in location behaviour between new and existing enterprises. New businesses choose their initial location but, for existing businesses, other motives e.g. mobility (the push and pull factors for example) can play a significant role. Finally, this study pays attention mainly to the location choice of SMEs. In so far as there are major differences between SMEs and large businesses, these will be dealt with.

Conclusion

The location choice of SMEs does not exist

The various empirical studies have shown very clearly that there is no such thing as *the* location behaviour of *the* SME. An enterprise's choice of location is dependent on a combination of various sectors.

Therefore, a classification of enterprises must be made with similar determinants as to the choice of location.

Accessibility is an important location determinant for all sectors

Accessibility is a significant factor in all sectors when choosing a location. In one sector this means accessibility by car but in another sector the fact that it is easy to reach by public transport is crucial.

Lack of space: a push factor

Lack of space is an important argument in favour of removal because the initial location of small businesses (often the dwelling) makes no allowance for the growth of the enterprise. This also involves the phase of the life-cycle in which the business is.

Quality location: a pull factor

There is a tendency to up-grade business locations. Businesses are making ever increasing demands on the location, according to the nature of their activity.

Human capital: a keep factor

Human capital is becoming increasingly important when making the choice of location. Employees are exerting increasing influence on the entrepreneur's location behaviour. This applies particularly to more highly educated personnel who contribute considerably to the enterprise's production process.

The choice of location differs from sector to sector

The commercial service enterprises are located mainly in towns (town centre and residential areas) because of their important public function. The industrial enterprises are mostly on industrial sites; wholesalers are also on industrial sites because of the easy access to the highway. Construction companies are well represented at all types of location.

Differences in the choice of location between SMEs and large businesses

The choice of location by SME is not, contrary to that of large businesses, a strategic decision, it is also usually short term. This becomes evident from the speedy removal of a small enterprise, the consequence of lack of space. When choosing the (initial) location no account was taken of future growth. Soft factors (image, charisma) are relatively more important for a large company than for an SME.

Match policy more to the changing requirements and needs of entrepreneurs

Many existing business locations no longer meet the requirements and needs of enterprises. This applies to aspects such as accessibility, information and communication facilities and the presence of other, comparable businesses. Greater demands are being made on new sites as well. Policy makers at various levels of government should be more active in making policy which would match their industrial sites to the needs and requirements of entrepreneurs.

1 Introduction

1.1 Background

In a small country such as the Netherlands it is difficult to achieve an effective distribution of the various functions (such as residence, work and recreation). The government plays an essential role in allotting the available space, its design and assignment. The behaviour of enterprises when selecting a location is one of the factors which influence the use of space and on which the government attempts to exert its influence.

Objective

If the government is to be able to exert any influence on the locations chosen by Medium and Small sized enterprises (SME) it is necessary to be aware of the factors which determine the location to be chosen. This strategic study aims to chart these determining factors for SMEs, per sector.

Definition

The objective of this strategic study is to obtain the answers to the following questions:

1. What factors determine the location chosen by SMEs to establish their business?
2. How deeply can investigations into these determining factors be carried out?
3. What trends are identifiable in the choice of business location and the accompanying determining factors?
4. How can this matrix of determinants and sectors serve as a basis for an instrument that will be able to illustrate the effects of such policy?

Result

The outcome of this strategic study is a matrix from which it is possible to ascertain what factors influence an enterprise's choice of business location. This instrument offers policy makers the basic information required to be able to meet the wishes of enterprises as to their business location.

The study also provides a survey of interesting and relevant literature.

1.2 Scope of the study

This study is limited to the following items:

SMEs

This study focuses on the business location of SMEs. The differences between SMEs and large businesses will be mentioned in so far as these are relevant.

The practical circumstances when choosing the business location

This implies that attention is paid mainly to empirical literature on the subject of the entrepreneur's choice of business location. A separate chapter will be devoted to the most commonly accepted location theories. Whenever possible there will be a confrontation of theory with practice in this study.

Characteristics

There is no such thing as the SME business location. The location behaviour of each individual (SME) business depends on a combination of a large number of factors. To be able to provide a more detailed view of the location behaviour of SMEs a typology of businesses is distinguished with similar determining factors as to location. A distinction is made, for example, between the sites of new and existing businesses, or different sectors or size classes.

This study has chosen for an approach per sector. The decision was based on the fact that enterprises within a sector are usually comparable as to business activities and relations with the market and customers. The sectors are classified as follows:

- services
- industry
- wholesale trade
- transport

1.3 Approach

Literature

The approach adopted consists mainly of an extensive scan of literature. Using this scan it was possible to obtain a clear picture of the factors which determine the locations at which SMEs are established, using an approach per sector.

Various empirical studies have been published on the subject of the choice of business location by SMEs. There is, however, a lack of detailed, complete information as to the location factors of SMEs per sector which would allow mutual comparison.

Interview

In addition to the literature scan an interview was held with Professor Pellenbarg, of the University of Groningen, to profit from his specialised knowledge and so gain a better in-depth insight into the subject, and to discuss new angles of approach.

1.4 Contents

This strategic study has been compiled as follows. Chapter two deals with the main theories about the location of enterprises, after which chapter three explains the framework in which the location behaviour of businesses fits. Subsequently chapter four provides an empirical explanation, per sector as classified above, of the behaviour of SMEs when choosing their business location. As conclusion, the final chapter summarises the determining factors in a matrix and a summary of the most important conclusions as to the choice of business location is also given.

2 The Theoretical Business Location

2.1 Introduction

The location theory of business locations applies explicitly to the choice of the location to establish a business. This chapter will deal with the following mainstream theories:

- (Neo) Classical location theories
- Behavioural location theory.

The minimisation of costs forms the core of the older, classical theories. The cost aspect is the basis of neo-classical location theories but these differ from the classical approach in several ways. Both (neo) classical theories assume a well-informed, rationally acting entrepreneur for whom the costs and benefits of a certain location are of great importance, i.e. the economic man. The world is seen as an isotropic space in which no variations occur. The behavioural theories (paragraph 2.3) came into being as a reaction to the classical approach. In behavioural location theory the emphasis is on the (location) behaviour of entrepreneurs and the motives involved.

In spite of all the efforts made by economists the location theory is not accepted as belonging to the core of economics and it is surprising to see that economy often fails to take into account the fact that space is, in reality, very scarce (Boekema 1996). This has started to change in recent years. Economists such as Krugman and Porter have emphasised the importance of paying more attention to spatial dimensions.

How did the mainstream cope with spatial issues? By ignoring them. Never mind that the importance of location confronts us continually in daily life, or for that matter that urban systems exhibit empirical regularities as strong as any in economics.
Krugman (1995)

While economic geography has not been seen as a core discipline in economics, my research suggests that it should be.
Porter (1990)

2.2 (Neo) Classical Location Theories

Classical location theories

Van Thunen

Van Thunen's theory (1882) assumes that there is perfect competition so that there is a fixed market price. It also assumes that transport costs are in proportion to the distance covered (range) and the amounts transported, and that transport costs differ per product. In theory there is an outlet market in a nearby town.

The theory is based on an agricultural entrepreneur aiming to maximise his profit.

In order to achieve this, the difference between the given market price and the sum of the production and transport costs must be optimum.

This theory reflects the relation between the agricultural use of the ground and the economic rent, where the distance to the market is the significant deciding factor.

Weber

Weber's industrial site theory (1909) is based on the principle that the enterprise will search for a location where the mix of location factors ('Standortfaktoren') is most favourable for the business. In Weber's theory this will be the site where production is cheapest. The analysis considers transport and labour costs, and in a later period he also pays some attention to agglomeration factors. Weber's theory is based primarily on transport costs and seeks the point at which these costs will be lowest. Also included in the analysis are the availability, weight and weight retention of the raw materials. If there is no loss of weight during the processing of the raw materials it does not matter where the factory is located: the source of the raw material, the market or somewhere in between (Lambooy, 1997).

But, if an industry has to work with raw materials that undergo various degrees of weight loss during production, the best location shifts towards the source of the raw material.

Neo-classical location theories

The neo-classical theories contain a number of supplementary items to which attention should be paid and which were missing in the classical theories.

- market-competition (who controls the market and how can the market share be increased?)

- types of market-competition other than perfect competition
- taking into account not only the minimum cost approach but also the revenues
- internal scale advantages
- there are various ways of achieving production using varying combinations of production factors.

Christaller

Christaller's central location theory examines the relationship between the market function of locations and the spatial pattern of towns and villages. As his theory also assumes there is perfect competition, it is considered to belong to the classical location theories.

Christaller attempts to explain the spatial pattern of settlements (the size of the settlement, the number and the spatial distribution) using their service function. In his explanation there are two central factors: the threshold value and the distance (range). The threshold value for a good service determines how many people are required to make an enterprise profitable. In addition the distance people are willing to travel to purchase a certain product or service is also important. Assuming there is free spatial competition and free entry to the market, there will be an unbroken link of markets for every product and service. This results in a hexagonal pattern of marketing areas.

Hotelling

Hotelling's reasoning in the locational interdependence approach is quite different to that of Christaller. Hotelling bases his theory on the fact that entrepreneurs take the (spatial) behaviour of their competitors into account. Enterprises try to obtain the best location, which usually results in them settling very close to each other to be able to cover as large a market area as possible and, in any case, one which is no smaller than that of the competitor. This phenomenon is evident, for example, in the retail trade where car dealers and furniture shops are in close proximity. In his theory Hotelling assumes a dual-pole market but Christaller bases his on perfect competition with a great many competitors.

2.3 Behavioural location theory

In the behavioural location theory emphasis is on the (location) behaviour of entrepreneurs and the motives involved. The formulation of this theory is mainly inductive and more general statements are made based on situations found in practice. The behavioural approach is based on central concepts such as spatial cognition, mental maps and regional images. Spatial cognition is defined by

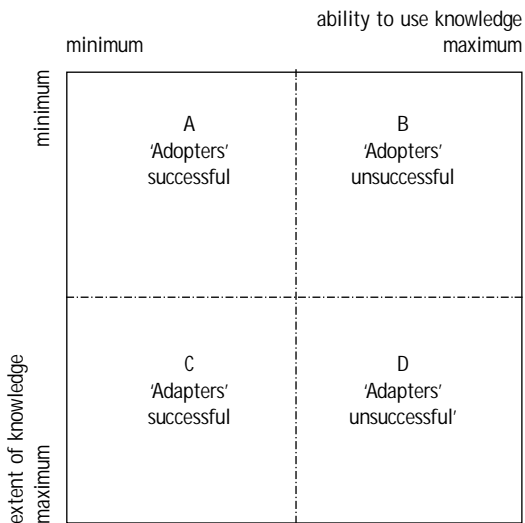
Pellenbarg (1994) as being the base on which judgements are made about, or values assigned to, potential business locations. A mental map is a subjective picture which brings to mind a certain location. This explanation also applies to the term regional image to which other spatial associations are linked.

Behavioural analysis deals with the extent to which a certain location meets the requirements of an entrepreneur. When assessing the most suitable location the picture the entrepreneur has of the present location, and also of other locations, plays an important part.

Allen Pred

The most familiar elucidation of the behavioural theory is Pred's behavioural matrix (1969). Pred states that it is not always possible for an entrepreneur to gather all the required knowledge and information. In addition it is often difficult to process and interpret the available knowledge correctly.

Figure 1 Pred's behavioural matrix



When reading Pred's approach it should be noted that there are significant differences between the knowledge available in a large business and the amount of knowledge an SME entrepreneur has available and how he utilises it. Lessons learnt usually have the effect that entrepreneurs shift towards the bottom-right square. Maximum knowledge and its utilisation is Utopia, this however served as base for the classical theories.

2.4 Conclusion

The location theories dealt with in this chapter provide items which can be used to compile a matrix of determinants, but these are not practical enough to serve as a foundation for policy makers. It is clear, however, that the behavioural theories pay much more attention to the entrepreneur and his decisions. The behavioural approaches are often inductive, with practical situations playing a central role. This is also the method which will be worked out in this study. Using empirical studies as basis, general statements will be made about the location behaviour of SMEs and the factors influencing this behaviour.

The attention paid by the entrepreneur to his environment will be elaborated upon in the next chapter. An analysis framework into which the elements playing a part in the choice of business location fit, will be given.

3 Analytical framework - an enterprise in its environment

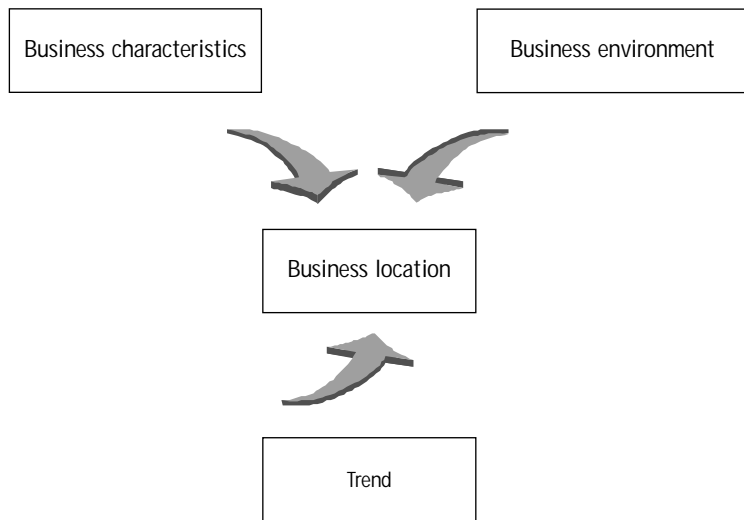
3.1 Introduction

Internal business characteristics determine to a significant extent the behaviour and functioning of any enterprise for example, the creativity of the entrepreneur and the quality of the management are essential aspects in the competitiveness of the company. The business environment (external surroundings) also plays an important role. The competitiveness of an enterprise can be seen as the result of the interaction between the business environment and internal business aspects (Buursink, 1993).

The **location** is a significant factor in the functioning of the enterprise. The choice of a suitable location is, to a great extent, determined by the **business characteristics**, the **business environment** and also by external **trends and developments**.

The result of this strategic study, a matrix of determining factors, is described by using these four terms. As diagram these are shown as follows:

Figure 2 Terms used in explaining the choice of location



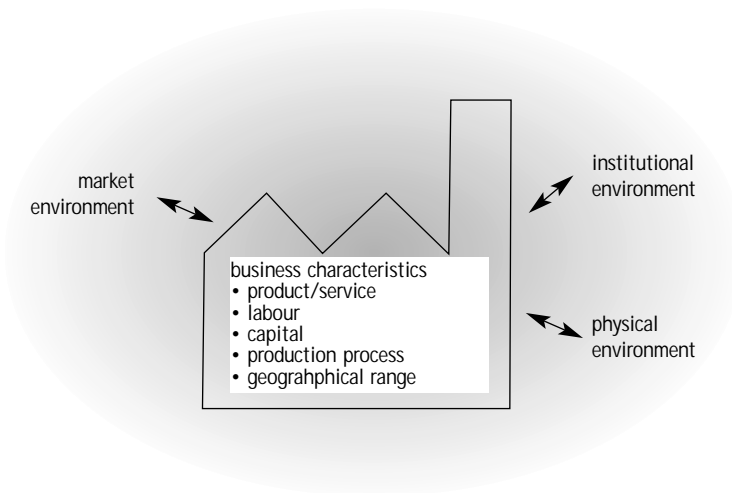
Source: EIM, 1998.

This chapter will deal with these four terms in more detail. Business characteristics and business environment will be defined first. Then attention will be drawn to trends that influence the choice of location and, as conclusion, the characteristics of the final choice of location will be described. A distinction will be made between establishing a business and moving a business and the difference between SMEs and large companies high-lighted.

Business environment and business characteristics

The term business environment can be explained as ‘the world outside the enterprise in so far as this has a relevant or determining influence on the functioning of the business’ (Wissema, 1988). Lambooy divides the business environment into three dimensions i.e. the market environment (with commercial/market relationships), the physical environment and the institutional environment (figure 3). Each of these three environments are characterised by factors which, to a greater or lesser extent, influence the location of businesses. These **location factors** are not isolated but depend on the business characteristics to which they relate. This can be clarified as follows. The physical infrastructure is an important factor when transport companies chose a location because their distribution function makes certain demands on the infrastructure. Literature on business locations rarely links the location factors to the business characteristics behind them. This subject will be dealt with in this study.

Figure 3 Business environment and business characteristics



Source EIM, 1998.

3.2 Business environment

There are different, deviating factors in the business environment which determine the location behaviour of SMEs. In literature these location factors are divided into a limited number of categories. Many different classifications and adaptations can be imagined. Many of these classifications do not exclude each other and can exist side-by-side. A distinction is made between push, pull and keep factors, for example.

- The difference between push, pull and keep factors will be explained in this paragraph because it will provide some insight into the effect that location factors (could) have on an enterprise's choice of location.
- Then the classification of those location factors which serve as basis for the determinant matrix will be presented.

3.2.1 Push, pull and keep factors

The determinants on which the choice of location is based could be the reasons why a business decides to remove or could indicate the attraction of a new location. There is a difference between the push factors and the pull factors.

Push factors are factors which contribute towards a business deciding to remove. Pull factors, on the contrary, are the attraction forces exerted by the location to which removal will take place. A combination of push and pull (dissatisfaction with the present location, better elsewhere) leads to the final decision of whether to move or not. There are, of course, factors which prevent a business from moving. In this case keep factors are involved, these are reasons to remain at the present location.

The push and pull factors are closely linked, for example: because of lack of space (a push factor) an enterprise will start looking for new premises with sufficient space (a pull factor). However, other pull factors could also prove important, such as the reputation and image of the environment.

Push factors

Table 1 shows a number of push factors, classified in sectors. The percentage indicates the number of businesses that mentioned the push factor (BCI, 1997).

The push factors that occur most often in almost all sectors are:

- lack of space
- poor or unsuitable office building.

Lack of space is the most important push factor. It weighs heavily in rapidly growing enterprises. Lack of space is the result of growth in turnover and/or an increase in staff. In addition it can be caused by unavoidable changes in business such as the automation of the production process, capturing new market segments or maintaining the company's own market share.

In addition to lack of space and a poor building, additional push factors can be distinguished. Some examples are: the Nuisance Act, poor working conditions in the business premises or insufficient parking space. These factors, however, are not of enough consequence to activate the removal process and often become evident only when the removal process is already in progress.

Table 1 Push factors in the secondary location choice (% of enterprises that mentioned the push factor) (%)

	Commercial services	Industry	Logistics
Market environment	26	22	28
Business economics	20	16	18
Physical environment	64	63	64
Lack of space	47	52	45
Institutional environment	9	15	8
Environmental legislation	5	10	3

Source: BCI, 1997.

Differences between sectors

The importance of the push factors differs from sector to sector. Industrial companies consider lack of space a more important criteria than logistic and service companies (BCI, 1997). This also applies to the environmental and planning requirements industry has to meet. In logistics the accessibility and the situation in relation to the market is a relatively strong argument for removal. The service sector deviates only very slightly from the average.

Differences between SMEs and large companies

The push factors also differ for small and large enterprises. Smaller businesses are often driven away from their old location by factors such as poor accessibility by road, shortage of parking space, poor working climate and very few possibilities to extend the premises. These problems usually apply to a location in the inner city or a residential area. Larger firms mention internal operating problems, the appearance and price of the premises relatively often. Small enterprises attach more importance to the possibilities to extend the new

premises. In short: small enterprises allow themselves to be influenced more by the fact that they do not fit well in the immediate location environment but larger enterprises attach more importance to a wider range of business-economic interests (Bruinsma and Rietveld, 1997).

Pull factors

The most important pull factors for enterprises are (table 2)

- sufficient space for expansion
- strategically good position
- good accessibility.

Taking into account the lack of space affecting many enterprises, it is not surprising that these enterprises consider a location which offers sufficient room for expansion to have a major pull factor. Push and pull factors are linked. A central, strategic location in relation to the market is also considered a pull factor, especially for logistic enterprises and those enterprises offering commercial services. Finally, the proximity to the highway or easy access by public transport (for commercial services, for example) is a major consideration.

In addition to the factors given above, there is a considerable number of other factors that can be distinguished as an incentive to choose a new location. These factors are not recognised as the primary reasons for a new location but are often mentioned as secondary reasons by entrepreneurs. The 'image' of the location is one of the secondary factors. Other frequently mentioned factors include accommodation facilities (for specific commercial activities such as production, storage and the relevant facilities needed) favourable price-quality ratio and sufficient parking space. Governmental influence is of little importance as pull factor; investigation has shown that only 1% of the entrepreneurs mentioned this factor.

Table 2 Pull factors for the secondary location choice (% of entrepreneurs that mentioned the pull factor) (%)

	Commercial services	Industry	Logistics
<i>Market environment</i>	32	25	30
Market location	15	9	15
<i>Physical environment</i>	55	58	58
Space/growth	26	29	28
<i>Institutional environment</i>	13	17	12
Municipal policy	3	6	5

Source: BCI, 1997.

Differences between sectors

The availability of space and room to grow is a common pull factor, whatever the sector. But the pull factors do not always coincide for the various sectors. Industrial enterprises are more attached to certain pull factors than other sectors. The market location, the accessibility and proximity of other branches are relatively less important for sectors such as transport and commercial services. Industry, on the other hand, considers regional interests, the price-quality ratio and the possibility to own the premises to be of importance. In the transport sector the location's 'image' is relatively unimportant compared to the service branch where this factor has considerable influence (BCI, 1997).

Differences between SMEs and large firms

It is also possible to indicate differences in the pull factor between SME and the large enterprises. The differences are comparable with those of the push factors. SMEs (in particular the smaller enterprises) are interested mainly in a small number of pull factors but the larger companies take many more pull factors into consideration. For small enterprises the possibility to expand the premises is by far the most dominant pull factor and is, in fact, the counterpart of the dominant position of lack of space as push factor. Larger businesses take into account many other aspects in addition to space and room to grow, the strategic geographical position is one of them.

Keep factors

Business removals mostly involve moving only a short distance. Given the fact that most businesses lack space (an important push factor), it might be expected that enterprises would search for a location that offered more space and room for growth. This is, however not, or rarely, the case. A good explanation for this phenomenon is given by the keep factors, the factors that plead in favour of the present location. One important keep factor is human capital. Nowadays businesses appreciate the value of the production factor labour. This applies in particular to enterprises with a high-quality product or service. Commercial services employ highly qualified personnel. Such employees are not easily persuaded to leave their social contacts and living conditions to move to far away locations. This is one reason why, in some sectors, human capital plays a very significant role in the decision to remain in the present location.

Differences between SMEs and large businesses

Presumably the relative importance of human capital in SMEs is greater than in larger businesses. There is a simple explanation. In an

SME the absence of one single person can have considerable consequences. A small business employs only a couple of people in key positions who have great significance for the business. There is, therefore, considerable dependency between business and key persons. This relationship is much less strong in a larger business and it is easier to compensate for such absence without this having major consequences for the economic functioning of the enterprise.

3.2.2 Location factors

To describe the location factors which are characteristic for the various sectors use is made of a classification of factors which corresponds with the three different environments in which a business has to operate (see figure 3, paragraph 12).

- *Market environment*; the commercial relations which a business maintains with other parties in the market e.g. relations with customers, banks, suppliers etc.
- *Physical environment*; items such as infrastructure, buildings, (tele)communication provisions etc.
- *Institutional environment*; this is the governmental policy according to which a business has to tune its strategy. The relationship can be expressed in the form of legislation, regulations to stimulate business etc. relationships with trade organisations and employee and employers organisations.

The physical and institutional environment places restrictions on trading by an enterprise. Factors which are connected to these two dimensions are therefore called conditional location factors. These factors affect the attractiveness of a location. They must not be seen separately from the market environment. After all, a poor location can lead to higher costs because, for example, customers are difficult to reach.

In chapter 4 'Sectors in more detail' information is given for each of the four sectors about the extent to which these location factors influenced the choice of a (new) location. Table 3 shows the location factors which will apply.

Table 3 Location factors according to market environment, physical environment and institutional environment

Market environment

presence of suppliers/customers

presence of 'top' enterprises (corporate image)

Physical environment

accessibility by car and public transport

quality and charisma of the business location

area of location (sufficient m²)

quality and charisma of the business location

Institutional environment

(environmental) legislation

stimulating measures

Source: EIM, 1998.

3.2.3 Trends in the location factors

- In the course of the years increasing attention has been paid to the attractiveness of the building and the surroundings.
- Human capital nowadays has a primary role in the decision as to where an enterprise is located. Human capital is often considered to be a keep factor; living space and environment are becoming increasingly important in the business environment; when choosing a location it is important to take into account the accommodation requirements of the employees, especially those who are highly qualified.
- The strict environmental regulations imposed by the government have greatly influenced the location of businesses. In practice it is found that ever decreasing numbers of locations are available for certain types of businesses. Industrial firms, in particular, are being confronted with stricter environmental legislation and regulations. If, for environmental reasons, a firm may expand only on an industrial site then it is no longer possible to speak of a free choice of location for a removing company, but of policy-forced removal to a pre-selected site. This effect will diminish in the long term because the number of environmentally unfriendly businesses at wrong locations is diminishing.
- Government policy is segmented, based on the type of activities performed at certain locations. Planning policy (location policy) and environmental policy (environmental zoning) make other demands on heavy-industry sites, sophisticated business parks and distribution centres.
- As the years go by businesses are forming more regional clusters because of the increasing importance of supplier and sub-contractor networks and other networks. That is why, when choosing

a location, enterprises are paying more attention to the location of contractors and suppliers.

3.3 Business characteristics

In this study business characteristics are divided into a number of categories (see figure 3). Distinguished are:

- product/service
- labour
- capital
- production process
- geographical range.

Product and service characteristics

Product and service characteristics include very varying types of product, the quality of the product, the nature of the product, the serviceability of the product, delivery time and delivery date. All these product properties make certain demands on the production process and, indirectly, also on the business location. When a business has to deliver a product frequently, then accessibility is an important location factor. In practice this usually means that the enterprise is situated close to a road in the proximity of a highway or port.

Production factors: Labour and Capital

Characteristic of the production factors are, for example, the labour-intensive and capital intensive character, the qualifications of the employees and the fixed capital assets. All these aspects influence the location behaviour of enterprises. Businesses with high fixed assets are less mobile and, because of the high cost involved, will be less likely to think of removing.

The production process

The characteristics of the production process help to determine the location behaviour of businesses. The organisation of production processes can be mapped out using, for example the extent to which work is sub-contracted, number of links, passage time and flexibility. If flexibility is an important requirement in the production process then the business will be more willing to remove to be able to anticipate changing market situations.

Geographical range

Internationally oriented businesses (in the transport sector, for example) have other requirements when choosing a location than enterprises in the service sector (a solicitor, for example) which usually meet a local need.

Chapter 4 'Sectors in more detail' will explain, for each of the four sectors in question, what business characteristics apply in each sector and (can) play a part in the choice of a (new) location. Table 4 shows, in more depth, the business characteristics dealt with here.

Table 4 Business characteristics

<i>Product/service</i>	intensity of business to business contacts physical distribution image
<i>Labour</i>	labour intensive qualifications
<i>Capital</i>	capital intensive
<i>Production process</i>	flexibility level of technology/innovation dynamics
<i>Geographical range</i>	regional, national, international

Source: EIM, 1998.

3.4 Choice of location

How do businesses determine their choice for a certain location? There is no simple answer to this question. Each business has its own, specific reasons. Within the analytical framework it will be shown how this study carries out an analysis of the various business locations and the determinants which apply.

3.4.1 Establishment versus removal

The locations chosen by businesses can be classified according to moments in time:

- the initial location, at which the business is first established
- the secondary location choice, which involves the removal of an existing business or a part of that business.
- the decision to expand. This is the decision to expand the business at the existing location. There is no intention to expand elsewhere.

The decision to expand can be seen as an alternative to the choice of a secondary location. In such a situation the keep factors weigh more heavily than the push or pull factors. On the whole it is found that expansion is preferred rather than removal to a new location.

This study concentrates on the initial and secondary choice of location. There is a clear distinction in the way in which the initial and the secondary locations are chosen. When a new business is established the choice of business location is hardly noticeable and is

over-shadowed by more important issues such as business organisation and production technology at the start. As the motives for businesses to migrate can be indicated more clearly, the secondary business locations are the most interesting. This is also evident from literature which studies the (motives for) removals or new locations of existing businesses (Augustijn, 1992).

3.4.2 Differences between SMEs and larger businesses

In the various studies of the business location choice little attention is paid to the difference in size class. But some very striking differences between the locations chosen by SMEs and those chosen by larger companies can be noted. This paragraph discusses the most important differences (table 5).

Table 5 Differences between SMEs and larger businesses in the choice of location

	SMEs	larger businesses
Time-view of location choice	short term	strategic decision (long term view)
Location preference	esp. urban area	edge of town/industrial site
Most important reason to move	life stage of business (growth hindered)	business economic motives
Location factors	mainly 'hard' factors	'hard' and 'soft' factors

Source: Bruinsma and Rietveld.

For SMEs business removal is often the subject of short term planning – contrary to that of larger businesses. Pellenbarg even speaks of a lack of anticipation of future growth which leads to more than one third of the businesses that recently removed envisaging the following move within five years (Pellenbarg, 1996). If SME entrepreneurs had a policy when planning their business accommodation, then the location dynamics of SMEs would probably reduce. Facility management is a familiar term in large businesses. Large businesses are becoming more and more conscious that the accommodation influences the functioning of an enterprise and therefore also its trading result. The efficient planning and layout of production halls and offices result in improved production and better working conditions.

Another point, linked with that above, is the fact the small and medium sized enterprises take only a *limited number of diverse factors* into account. This rarely applies to larger businesses. This is in no

way strange because in larger businesses the choice of location is viewed as a strategic and economic subject with both diverse and common facets. When removing, small enterprises attach great importance to the expansion possibilities offered by the new premises. This is quite understandable.

Various studies have shown that small, young and independent enterprises are the enterprises on the move. This characteristic is closely linked to the *life stage of an enterprise* in which most removals take place, the first stage of development after the start-up. During the starting stage the question of location is not so important for most entrepreneurs. They start in their own house or in some other cheap accommodation. For those enterprises that survive the initial phase, the limited availability of space begins to form a bottle neck on the road to further development. Business removals can be said to be natural phenomena for young, small and rapidly growing enterprises. The more the business grows the greater the effect of removal. The extent to which the amount of production equipment to be moved increases, and the number of employees involved in the removal causes problems.

Larger businesses faced with the lack of space often search for other solutions. The existing location remains as it is but, for example, parts of the production process are transferred to other locations (Velden, 1995).

Generally speaking, not taking into account the type of sector, it may be said that the majority of small enterprises is to be found in *urban areas* (the inner city and residential areas). Large businesses are usually located on the outskirts of the city and/or on industrial sites. This is not strange because their need for larger premises makes it difficult for them to find accommodation in the town where such space is very limited. The fact that large companies prefer locations outside the towns because of the better accessibility (near to the highway) and proximity to customers and/or suppliers also plays a role.

The factors that determine the choice of location can be divided into hard and soft factors. The soft factors are important for large companies when choosing a business location, more so than for medium, and certainly for small sized, businesses. The SMEs almost always pay attention only to the *hard location factors*. The soft factors often have an emotional background and cannot be supported by rational arguments. The soft factors reflect the image and charis-

matic effect of a certain location. This applies in particular to the head offices of large companies, located mainly in large towns or cities, because of the image they create.

3.4.3 Business sites

Table 6 shows the list of business locations which will be used to explain, more specifically, at which locations enterprises are situated.

Table 6 Classification of business sites

-
- port
 - heavy-industry site
 - distribution park
 - mixed business site
 - hi-tech business site
 - office centre
 - offices on city outskirts
 - other office locations
 - other locations
-

Source: BCI, 1998.

3.4.4 Trends in the choice of location by businesses

- The removal of businesses during the last ten years has resulted in a strong concentration of activity on the outskirts of the towns. During this period the share of businesses in this area has risen from over 50% to almost 70%. This has been at the expense of business in the urban area (inner city and residential areas) where the share of business dropped from 39% to 20%. The main reasons for this being better accessibility and better market location in the outskirts than in the urban area.
- Businesses are making more and more demands on business locations. In addition to the general demands such as good situation, spatial quality, good accessibility sufficient space for development and a reasonable price for the land, businesses are also stating specific requirements originating from the nature of their business activities.
- This is resulting in more and more segmentation of the market for business sites. There is now a trend when moving to prefer a more formal business location to an isolated location. There are now various types of business sites for various types of activity; distribution parks for logistic work; high-tech parks and office parks for commercial services (Ministerie van Economische Zaken, 1997).

In other words there is a more professional approach to business accommodation. Business is still spread over other locations, of course, but is diminishing in importance.

- There is also a trend towards up-grading business locations. Should a business be located on an industrial site then a location in a business park would be preferred (Bruinsma and Rietveld, 1997). Exchange between the various market segments (think of heavy-industry sites, distribution parks and high-tech parks) is not yet common. A shortage of distribution sites can, to a certain extent, be compensated by mixed sites, but not, for example, by high-tech parks. Industrial sites at ports can provide accommodation for heavy industry, but exchanges between heavy-industry sites and high-tech business parks is impossible (Ministerie van Economische Zaken, 1997).

3.5 Trends

Sectors see themselves confronted with certain structural trends which will influence their business functioning. These trends can also have an indirect influence on business locations. This study will examine, per sector, what effect the change in trends will have on determining business locations.

This paragraph will look at a number of important structural trends which will have, or will have had, an impact on the (motives for) business locations:

- Increase in scale
- Internationalisation
- Information and communication technology (ICT)

Increase in scale

As a business increases in scale lack of space will create a problem. This could mean that businesses should start, more and more, to relocate to business sites and not remain in the inner city.

The rapidly changing developments in the business environment have as consequence the fact that an ever increasing financial effort must be made to keep abreast. Financial investments which are often so large that neither government or enterprise can bear them alone. The required increase in scale and a better financial basis can be obtained through strategic co-operation.

Internationalisation

Part of the Dutch SMEs are active not only on the domestic market but also outside the national borders. The anticipated trend is increased export, if trade developments within Europe and world wide are taken into account. The markets and the players are becoming more international. As a consequence of increasing internationalisation, the number of foreign customers and contacts are also increasing, so that stricter requirements could have to be met (for example fast service). To be able to provide fast service the accessibility of highways becomes an important location factor.

Information technology

Information and communication technology (ICT) is, for many businesses, steadily becoming a more integrated production factor in business, instead of an aid. The influence of ICT applies to all types of business; from production to sales and marketing, from purchasing and logistics to general management. ICT makes its users, the information and activities less dependent on the physical location (foot-loose). (Data) communication is possible from any random location, by using Internet for example. The accessibility of customers, for example, an essential location factor for many businesses, takes on a completely different meaning. Some business activities can be done electronically- instead of the physical movement required previously. This implies that, for some businesses, a location in the inner city is less urgent.

4 Sectors in more detail

4.1 Introduction

In this sector an empirical analysis will be made of the location behaviour in a limited number of sectors. The following sectors will be distinguished:

- commercial services;
- industry;
- wholesale trade;
- transport and logistics.

An analysis of the choice of location will be made for each sector, based on the terms explained in the previous chapter. First a picture of the **business characteristics** of enterprises in the sector will be given, followed by the factors in the **business environment** which could influence the **choice of location**. After these the choice of location in the sector in question will be dealt with, where are the businesses located? Finally, the effects of the most important **trends** on the choice of business location will be examined.

The objective here is to obtain a picture, as accurate as possible, of the major determinants of the choice of location.

4.2 Commercial services

Commercial services can be sub-divided into a number of separate business groups, which include legal advice, engineering and architects, computer services and economic advice bureaus. It is, of course, possible to indicate some general characteristics which apply to the group of commercial services as a whole but the specific characteristics are evident at business group level.

Business characteristics

The commercial services are characterised by their services to the *general public* (table 7). This applies to labour agencies, estate agents and legal services that offer their services to the public at large. Because of this function their offices will usually be located in the town centre to ensure good accessibility for the public. These offices usually have a regional function; the public is the area in which the offices are located and there is frequent contact with the consumer. The visitors quotient provides a good indication: the number of visitors per employee in a certain period of time. If the quotient is high

then it is important that the bureaus are in locations which are easily accessible for customers (in this case the consumers). Added value for offices serving the public and located in the inner city is provided by non-material location factors such as the attractions of the city centre, historical connections and image. This has become apparent through the banks situating their head offices in large cities such as Rotterdam and Amsterdam. Image is an important factor, especially for offices offering services to the public and this image spreads to the products and services supplied; this has repercussions for the choice of location. Soft factors and other factors not easily measured – such as emotion and sentiment – can tip the scale (Halter and Stevens, 1993).

Engineering and advertising bureaus and computer service bureaus do not deal so closely with the general public. Their clients are private businesses and organisations in the non-profit sector. As their clients are not only in the inner city these bureaus do not attach such importance to a central location. Generally speaking, the more the office serves the general public the more likely the choice for a central location. An additional reason for bureaus, such as those mentioned above, to choose a less central location is the fact that the visitor quotient is much lower.

The production factor labour is of great importance since commercial services are very labour intensive. The personnel working in services is, compared with other sectors, highly qualified.

This fact has repercussions on the choice of office locations. Investigation has shown that offices rarely move very far. One of the reasons why is that highly-qualified personnel are reluctant to leave their present accommodation, surroundings and social contacts to move to some far away location. On the other hand, however, should the business remove the assets are easy to remove as well – take computer and office inventory for example.

Table 7 Business characteristics of enterprises in the commercial service sector

Business characteristics	Extent to which the aspect is characteristic for the sector		
	low	medium	high
Product/service			
intensity of business-to business contacts			0
physical distribution	0		
image			0
Labour			
labour intensive			0
educational qualifications			0
Capital			
capital intensive	0		
Production process			
flexibility			0
technological level/innovation		0	
dynamics			0
	regional	national	international
Geographical range			
	0	0	

Source: EIM, 1998.

Purchase or lease

Flexibility is essential for companies in the field of commercial service if they are to survive. The offices must be able to re-act quickly and adequately to continuously changing market conditions or new technologies. For this reason renting office space is usually more popular than buying. The ratio in the supply of offices is as follows: 56% are owned and 43% rented. The annual figures show quite a different picture and clearly indicate a renters' market. More than 90% of the available office space was rented in recent years. There are differences in the proportion of tenants at regional level. In the Randstad the market for renting offices is very highly developed. Renting premises allows more freedom because it is easier to remove from a rented building. The tenants are not tied to such a strong extent to the chosen accommodation and location; they have not invested capital in land and buildings.

Investigation has shown that an entrepreneur's decision making process differs when buying property than when renting. When renting the entrepreneurs are influenced most in their choice of location by functional factors (such as the floor area, layout of the rooms) and financial factors (rent and conditions of tenancy) Purchasers are more interested in location factors (Lambooy, 1997).

Location factors

Investigation into business locations has shown that motives like business economics and, in particular, the lack of space to develop form the basis of the decision to remove (table 8). Parking problems and poor accessibility weigh less heavily as reasons for removal (Van Dinteren, 1989). A survey of entrepreneurs in the commercial services sector indicated that for 46% the lack of space to expand was by far the most important reason to remove. Re-organisations, mergers, quality of the premises and the lack of a representative environment lagged far behind, with 12%, 11% and 8% respectively. This shows that, for example, poor parking facilities will never be the decisive reason to remove, but could be the 'last straw'. This study examines whether the reasons for removal in the various business groups in the service sector differ. This does not appear to be the case.

The decisive factors for a new location are: the quality of the premises (16%), a representative environment (16%) the possibility to extend the accommodation (13%) the immediate availability of the accommodation (11%) and the cost of accommodation. No clear differences were found among the various business groups in the commercial services. And, when the groups were distinguished further according to the nature of their dynamics (starter, remover, remover-adjuster), again no clear differences were evident.

Investigation showed that soft factors, the image of the environment and the fact that the building is easily recognisable, are of considerable importance. The 'image' of the environment implies the familiarity of the name and the reputation of the surroundings. More rational reasons are that the site is well illuminated, there are few empty buildings, other well-known constructions and other leading business are located there. The fact that the premises are easily recognisable is also significant as businesses consider their building to be their business card. The building must reflect the quality of the business, be named and be visible from far away (Halter and Stevens, 1993).

The institutional environment still has little impact on the choice of location for office users. In the service sector items such as image and familiarity are essential. This implies that governmental policy should cover not only accessibility (e.g. creating A-locations – station locations) but should also take into account the requirements of the service sector as to emotional aspects (Vermeulen, 1993).

Table 8 Business location factors for enterprises in the commercial services sector

Location factors	Extent of importance in the choice of location		
	little or no importance	has an influence	important
Commercial environment			
presence of suppliers/customers		0	
presence of other 'top' businesses (image-building)		0	
Physical environment			
accessibility by car and public transport			0
quality and image of business location			0
size of business location (m ²)			0
representative environment			0
Institutional environment			
(environmental) legislation	0		
stimulating measures	0		

Source: EIM, 1998.

Characteristics of the business location

The previous paragraph has explained that no location requirements that apply to the commercial service sector as a whole can be indicated. Accountants' offices, like those of their clients (private and non-profit organisations) are spread, to a reasonable extent, over the country. Accountants' offices are often located on the outskirts because they have no public function and the visitor quotient is low. Engineering bureaus are, for similar reasons, also in that same area with easy access to the highway. Legal offices, on the contrary, are mainly in the town centre because they serve the public in general.

Table 9 Characteristics of the locations of business groups in the commercial services sector

Business group	Location characteristics
Accountants' offices	
distribution	spread over the entire Netherlands
location preference	on the outskirts of towns (town periphery)
Legal services	
distribution	mainly in towns
location preference	in the town centre
Engineering bureaus	
distribution	mainly in large towns
location preference	on the outskirts of the town (periphery)

Source: EIM, 1998.

Trends

At the end of the 1980s there was a demand for larger office buildings – the consequence of scale enlargement and mergers. This trend was reversed in the beginning of the 90s. When companies started to de-centralise and become more flexible and mergers and enlargement of scale became less common, an increase in the demand for smaller offices became evident.

The emergence of information technology will, in time, have consequences for the location requirements of commercial service entrepreneurs. Back-office activities are gradually moving to the outskirts and creating a clear distinction in function between business locations for those business that serve the public and those with a back-office function.

Table 10 Trends influencing the location choice of enterprises in the commercial services sector

Trend	Effect on enterprises' choice of location
Enlargement of scale	movement of enterprises from town centre to outskirts
Internationalisation	importance of location's proximity to highways
Information technology	movement of back-office activities to the outskirts

Source: EIM, 1998.

4.3 Industry

Although the Netherlands is considered by many to be a service provider, industry is an essential part of the economy. Not only does it account for a considerable amount of employment (1998: 835,000 labour years) and turnover (1996: 400 thousand million) but it also, indirectly, provides a great deal of employment in other branches and is responsible for a considerable part of the national export and R & D efforts.

Business characteristics

In the industrial sector SMEs are usually found in the business groups raw materials, semi-products, investment goods, construction materials, consumer product industry non-food and the food and entertainment industry. Industry is widely spread throughout the Netherlands. The most significant concentrations are in the Amsterdam/ North Sea Canal area, Rotterdam/Rijnmond and the region around Eindhoven. In addition there are industrial clusters in towns in Brabant and Gelderland, Twente and South Limburg

(RMK,1997). RMK indicates that, from 1980 onwards, industrial employment increased favourably in North Brabant, Limburg, parts of Overijssel and Gelderland. In the Randstad developments were weak and industry is expected to lose more ground in the future.

The production of semi and end products is characteristic of Dutch industry. This takes place using very varying production processes from traditional mass production to high-tech production. Labour intensity therefore differs greatly in the various industrial sectors. The traditional industry is extremely labour intensive compared with the process and hi-tech industries. The service sector can range from the national/regional market to the world market. Traditional industry usually has a national function but hi-tech industry operates world-wide.

For many years Dutch industry had regional characteristics. The chemical, graphical and metal-electrical industries were predominant in the west of the Netherlands because of transport facilities. In the north the food and confectionery industry was over-represented because of the agricultural produce available. Cheap labour could be hired in the east of the country and the textile industry took advantage of this fact. Industries based on mined raw material were located in the south where this was readily available. After industry was restructured in the sixties this regional aspect disappeared. For more than 30 years now industry has been characterised by de-centralisation. It is becoming more and more difficult to point out regions with a specialised function. Industry was the most mobile sector in the 50s and 60s. Industrial companies moved to new industrial sites and the outskirts of the cities because there were no other means of expanding. Many branches of large companies removed long distances to the provinces on the Dutch borders because of the labour market problems in western of the Netherlands (Atzema and Wever, 1994). In addition to the fact that previously renowned companies left to go to cheap-labour-countries, the improved transport infrastructure and the opening up of other areas led to greater freedom in enterprises' choice of location. The government's distribution policy also encouraged de-centralisation.

Table 11 Business characteristics of enterprises in the industrial sector

Business characteristics	Extent to which the aspect is characteristic for the sector		
	slight	medium	high
Product/service			
intensity of business-to-business contacts		0	
physical distribution		0	
image			
Labour			
labour intensity	0		
level of education/qualifications	0	0	
Capital			
capital intensive			0
Production process			
flexibility		0	
level of technology/innovation			0
dynamics			0
	regional	national	international
Geographical range			
	0	0	0

Source: EIM, 1998.

Location factors

A recent investigation of location preferences and lack of space among removed enterprises brings to light the fact that the most important motive for industrial businesses to remove (push factor) is lack of space at the present location (BCI, 1997). Business economic reasons (growth, re-organisation, change of activities) closely connected to the motive of lack of space, come second. As third the environment and planning requirements are given. Environmental legislation has become much stricter in the last ten years. Environment is mentioned much more frequently as push factor. For environmental reasons the only opportunity for industrial businesses to develop is on an industrial site. In other words, they are compelled to move to such a location. However the CPB¹ (Central Planning Bureau) expects this effect to diminish because the number of environmentally unfriendly businesses at the wrong location is also diminishing. Other reasons mentioned include accessibility/situation, mergers/take overs and changes in the form of ownership of premises.

The reasons for an industrial enterprise to move to a new location (pull factors) are closely linked to the reasons mentioned previously. The pull factor mentioned most frequently is, understandably, lack of

¹ See CPB, 1997.

space and lack of opportunities to expand. The location of the market and accessibility come in second and third place. But, contrary to other sector such as services and logistics, these factors are relatively unimportant. Relatively important are the pull factors regional ties, the price-quality ratio and the possibility of owning the premises.

Most industrial enterprises move from one industrial site to another. However, enterprises located on a site other than an industrial site or an office site more often move to a business site than to another, similar location. Enterprises are now settling at specific work locations and the other location are steadily losing ground.

Table 12 Location factors for enterprises in the industrial sector

Location factors	Importance in the choice of location		
	little or no importance	has influence	significant
Commercial environment			
presence of suppliers/customers		0	
presence of top companies (image)	0		
Physical environment			
accessibility per car and public transport			0
quality and image of business location		0	
size of location (sufficient m ²)			0
representative surroundings		0	
Institutional environment			
environmental legislation			0
stimulating measures	0		

Source: EIM, 1998.

Location characteristics

In the course of this century industry has moved from locations near to town centres to sites on the boundaries of urban areas. Noise nuisance, environmental pollution and lack of space have led to industrial enterprises being found at specific locations intended for this very purpose.

Table 13 Characteristics of locations for business groups in the industrial sector

Location characteristic of business groups in the industrial sector	
Distribution	throughout the Netherlands, from Randstad to borders
location preference	heavy-industry, mixed industrial sites

Source: EIM, 1998.

Trends

The report 'Space for Economic Dynamics'¹ divulges that the principles of location requirements in 1997 are unchanged compared with those of 1991. There **are** some changes in the relative importance of the various locations factors.

Trends which have been taking place in industry for some time and are effecting the location requirements of industrial enterprises include: enlargement of scale and internationalisation, the increasing importance of the network economy, the more service-oriented character of the industry, changes in production processes, the increasing importance of stock management and logistics, sub-contraction and specialisation (BCI, 1997). In particular internationalisation and networking factors are increasing in significance.

The liberalisation of international legislation and regulation is making it easier for enterprises to operate internationally and this is leading to international co-operation between companies, take-overs and joint ventures. This international network of contacts affects the location behaviour of enterprises. A situation in the proximity of an international infrastructure of highways and main ports, the accessibility of the European market, is a location factor which will gain in importance. Other important cohesive trends are the more service-oriented character of industry, back-to-core businesses and further specialisation and networking. The share of production activities in the enterprise is declining while, at the same time, the know-how activities are increasing. The engineering and electro-industries are continuously creating small enterprises which operate in market niches with high-tech products. Advantages of scale and more specialisation imply that the various activities of an industrial enterprise no longer need to take place at one location but can be carried out at the most suitable location. As a consequence office space is needed next to the production hall, the labour market for highly qualified personnel is now high on the list of location factors and the corporate identity as a high-profile enterprise is becoming increasingly significant. Striving to achieve a corporate identity makes demands on the environment. Representative and visible are the key words.

Finally, just-in-time deliveries ensure a strong increase in the flow of goods and therefore good accessibility is essential to allow this flow to proceed as smoothly as possible. Proximity to a (no traffic jam) highway is a high priority location factor.

¹ See Ministerie van Economische Zaken, 1994.

Table 14 Trends influencing the location choice of enterprises in the industrial sector

Trend	Effect on entrepreneur's choice of location
Enlargement of scale	need for large scale industrial sites is increasing
Internationalisation	accessibility for customer is becoming more important
Information technology	just-in-time flow of products -> accessibility gaining in importance

Source: EIM, 1998.

The processes listed above will not have the same impact on all sectors. Certain developments will have a greater impact on business in one sector than in another. The high-tech industry, for example, has a foot-loose character, is very know-how intensive and export minded. Traditional industry, on the other hand, is more small scale, more labour intensive and less export oriented.

4.4 Wholesale

The wholesale sector has a very wide range. It includes import and export firms, traders, wholesalers and the purchasing and marketing offices. The type of goods involved is just as varied and ranges from food for consumption and non-food, right through to capital goods and raw materials.

Business characteristics

The wholesale trade performs a great number of functions, in particular distribution, stock management and also a commercial function (table 15). Distribution speaks for itself. When stock is involved the wholesaler has a function between the manufacturer and the retailer. The commercial function includes promotion activities for the retail trade, providing credit and central ordering facilities.

In spite of a wider use of information and communication technology the wholesale trade is still mainly labour intensive. The entry threshold to the wholesale trade is low. No large investment is required to start a wholesale business. This low threshold makes the small business' share extremely large.

One essential requirement in the wholesale production process is a high degree of flexibility. The wholesale business is very vulnerable because of the tendency to use it or not. If the wholesale trade is to survive, distribution will continuously have to be done better and cheaper than it could be done by anyone else. In other words –

improvements in logistics, data communication and computerised administration.

Table 15 Business characteristics of enterprises in the wholesale sector

Business characteristics	Extent to which the aspect is characteristic of the sector		
	slight	medium	high
Product/service			
intensity of business-to-business contacts			0
physical distribution			0
image	0		
Labour			
labour intensity		0	
level of education/qualifications	0		
Capital			
capital intensity	0		
Production process			
flexibility		0	
level of technology/innovation	0		
dynamics	0		
	regional	national	international
Geographical range			
	0	0	0

Source: EIM, 1998.

Location factors

The main reason for the wholesaler to remove is poor accessibility (Wierenga, 1997). Good access is of essential importance if the wholesaler is to be able to execute distribution activities effectively.

Table 16 Location factors for enterprises in the wholesale sector

Location factors	Extent of importance in choice of location		
	Little or no importance	has influence	important
Commercial environment			
presence of suppliers/customers			0
presence of 'top' businesses	0		
Physical environment			
accessibility by car or public transport			0
quality and corporate identity of location		0	
size of location (m ²)		0	
representative environment	0		
Institutional environment			
(environmental) legislation	0		
stimulating measures	0		

Source: EIM, 1998.

Location characteristics

Wholesale enterprises are very familiar with industrial sites. The wholesale trade is, to a reasonable extent, spread evenly over heavy-industrial sites and those for light industry. There are two primary motives for wholesalers to choose for a location on an industrial site. Firstly, the wholesaler's distribution function is self-evident and most industrial sites are situated on the outskirts of a town and have good connections to the highway. Secondly, a major part of the enterprise's customers (manufacturers and suppliers) are also located on industrial sites. As far as regional distribution is concerned, it is noticeable that the wholesalers are mainly concentrated around the Randstad and that the peripheral regions are lagging behind. There is regional specialisation. In Rijnmond, because of the port activities, wholesale trade in ore, metals and fuel is prominent. In the Rijnstreek, where the flower bulbs and greenhouse products are most renowned, there is also considerable wholesale trade in agricultural products, cattle fodder and fertilisers,

Table 17 Location characteristics for business groups in the wholesale sector

Location characteristics	
distribution	mainly in the Randstad
location preference	distribution parks and mixed industrial sites

Source EIM, 1998.

Trends

The activities of wholesale enterprises are continuously expanding. Work such as assembly, upgrading and simple processes in the final stage of the production process is now executed by the wholesaler. This means that the wholesaler sometimes takes over part of the production from the manufacturer, and there is often some form of co-production. This applies, for example, to the design and development of products. The co-operation of the wholesaler with suppliers, customers and information sources means there is definitely some type of cluster formation. When choosing their location the wholesalers, because of cluster forming, will more and more have to take into account the location choices of the other participating parties.

Globalisation has created new market opportunities for the wholesale sector abroad. The enterprises will, therefore, choose locations in strategically important regions.

Information and communication technology is an important instrument for the wholesale sector's commercial function. The physical environment is of lesser importance when fulfilling the commercial function.

Table 18 Trends influencing the choice of location of enterprises in the wholesale sector

Trends	Effect on the enterprise's choice of location
Enlargement of scale	customers, manufacturers and suppliers form clusters
Internationalisation	location in or close to main ports and border areas becomes more important
Information technology	the physical location becomes less important

Source: EIM, 1996.

4.5 Transport

Business characteristics

A large number of very varying enterprises work in the transport sector. There are enterprises that limit their activities to the transport of goods, while other enterprises offer added value in the shape of managing the total flow of goods. The means of transporting the goods also differs greatly and can vary from car-carriers to consumer goods. The degree of diversity and of specialisation is great. The *labour intensity* in this sector is high. Labour accounts for the highest item of costs, amounting to a share of 50%. Entry thresholds are low in the transport sector: no large investments are required to start an enterprise (just a lorry). The transport sectors has a large number of small enterprises (the one-man businesses).

Table 19 Business characteristics of enterprises in the transport sector

Business characteristics	Extent to which the aspect is characteristic for the sector		
	low	medium	high
<i>Product/service</i>			
intensity of business-to-business contacts.		0	
physical distribution image	0		0
<i>Labour</i>			
labour intensity		0	
level of education/qualifications	0		
<i>Capital</i>			
capital intensity	0		
<i>Production process</i>			
flexibility		0	
level of technology/innovation dynamics	0		0
	regional	national	international
<i>Geographical range</i>			
		0	0

Source EIM, 1998.

Location factors

The transport enterprises attribute a great deal of value, as far as the push and pull factors are concerned, to the physical environment in particular. Emphasis is placed on the good accessibility of highways. These are of essential importance for the good execution of the distribution function.

The market environment is also a push-pull factor not to be neglected. The transport companies want to be located as near as possible to their shippers and customers.

The impact of the institutional environment is increasing as a consequence of the environmental problems in the transport sector. The choice of location is determined by the environmental tax in and around the transport firm. The most significant environmental bottlenecks for a transport enterprise are in the fields of noise nuisance, soil and waste materials and waste water. This applies, for example, to transport companies located in the proximity of residential areas and especially when night transport is involved, which is becoming more frequent. It is compulsory for the transport enterprises to have a licence, according to the specifications of the Environmental Act.

Table 20 Locations factors for enterprises in the transport sector

Location factors	Importance in the choice of location		
	little or no importance	has influence	important
Commercial environment			
presence of suppliers/customers			0
presence of 'top' companies (image)	0		
Physical environment			
accessibility by car and public transport			0
quality and corporate image of business location		0	
size of location (sufficient m ²)		0	
representative surroundings	0		
Institutional environment			
environmental legislation		0	
stimulating measures	0		

Source: EIM, 1998.

Location characteristics

Transport enterprises have no specific preference for a certain location but usually look for an average type building with standard facilities. It is important that the rent is as low as possible. One item of importance is that office activities do not belong to the core business. This implies that representation is secondary to accessibility. For these reasons transport enterprises are mainly located on industrial sites.

Table 21 Characteristics of the locations of enterprises in the transport sector

Location characteristics	
distribution	along the arterial highways in the whole of the Netherlands, not Randstad
location preference	distribution parks, mixed-industrial sites and other locations

Source: EIM, 1998.

Trends

Transport enterprises are being confronted with a number of new trends. Firstly, a more *extensive range of activities* including ancillary activities such as assembly, installation and warehousing. The connections between shippers and transporters are becoming ever closer. This new form of service is feasible only for large transport companies. It is also apparent that manufacturers and traders are striving to *reduce their stocks* to keep their stock costs as low as possible. The

transport companies take advantage of this by providing more frequent deliveries, often in smaller quantities and just-in-time. This trend emphasises the importance of a location where the accessibility of exit roads and highways is paramount. Finally there is trend towards the *strongly increasing liberalisation and internationalisation* of the European market. As national borders disappear so do barriers and it becomes easier for foreign transport companies to establish enterprises in the Netherlands and vice versa. The larger transport companies will continue to choose locations at important strategic junctions, near the main ports, for example.

Table 22 Trends influencing the location choice of enterprises in the transport sector

Trend	Effect on the enterprise's choice of location
Enlargement of scale	cluster formation (shippers and transporters together)
Internationalisation	strategic locations (inc. main ports) is becoming more important
Information-technology	more efficient planning of loads, reduced stocks

Source: EIM 1998.

4.6 Conclusion

The business environment must comply with a number of location requirements. Good accessibility is stated by most enterprises to be the most essential factor. In addition great value is attached to sufficient parking facilities for visitors, adequately trained personnel, the representative appearance of the building, (tele-) communication facilities and the level of rent and price of land.

The various sectors are in agreement as to the most important location factors. Enterprises in different sectors generally still have the same spatial basic requirements. There are, however, varying specific requirements among the sectors. The specific location requirements for the various sectors will be dealt with in more detail below.

Commercial services

The commercial service enterprises are, because of their public function, mainly located in the urban area (towns and residential areas). In addition to the growth in the town centres there was also strong growth in the outskirts of the towns.

For the commercial service sector good accessibility for private transport by road and – if a public function is involved- by public trans-

port is an essential requirement (Ministerie van Economische Zaken, 1997).

Industry

Industrial enterprises in general are located on heavy-industry sites. Predominant location factors for industry are the availability of sufficient space, pleasant living and working climate and good international accessibility. International accessibility applies mainly for large industrial enterprises; SMEs act mainly as supplier for the large industries. For them direct accessibility to traffic highways is a less dominant factor. Some of these enterprises will find locations at some distance from large infrastructure connections, presumably where the price of land is relatively low. This does not, however, apply to the industrial activities in ports or waterways or railways. The demand for accessibility by industrial firms is primarily linked to the transport of goods by road and sometimes by rail or boat (Ministerie van Economische Zaken, 1997).

Wholesale

The wholesale and intermediary trades have also integrated into these sites, but the proportions in their distribution between sites for heavy industry and those for light industry is, compared with the industrial enterprises, better balanced.

Transport

Business in the transport sector seek locations in the urban area, and usually locations within walking distance of a railway station and an industrial site. The developments in this sector nevertheless have a radial distribution pattern: the strong growth has taken place outside the urban area and in a location often along the arterial highways between the most important economic centres. In addition, the main ports (i.e. Schiphol and Rotterdam) are important centre for this sector.

5 Factors determining the choice of location

This chapter presents the result of this strategic study, a review of the most important factors that determine SMEs choice of location. This information will provide policy makers with insight into the wishes and requirements of various types of SMEs so that well thought-out policy can be made to improve the location climate. It also offers the means to tune acquisition measures to the possibilities a municipal authority can offer to enterprises.

Literature can pay only a certain amount of attention to the (spatial) location behaviour of SMEs. It generally speaks of 'business', whatever the size. Literature also pays particular attention to the choice of location for enterprises in the commercial service sector. Other sectors receive little or no attention. However in this study, using the literature available, we have attempted to provide, as completely as possible, a picture of the choice of location of many different types of enterprises.

This chapter deals first with the most important location factors for enterprises in the selected sectors. Then the effect of the result of these factors will be examined; which are the preferred locations?

5.1 Location factors

Lack of space is the most important push factor

It is apparent that, as a rule, SMEs usually move only a short distance away and then re-establish in a familiar environment. The most important reason to remove (push factor) is lack of space. There is nothing strange about this because if the enterprise starts to grow the original location, often the house, begins to show signs of being too small. The space required by a small enterprise is always linked to the life cycle stage of the enterprise.

Accessibility is of vital importance for all sectors

One great attraction of a new location (pull factor) for the entrepreneur is the availability of sufficient space to develop and good accessibility. Accessibility is an important factor for all sectors when choosing a new location (table 23).

Wholesale and transport enterprises seek suppliers

The presence of suppliers and customers is high on the list of requirements, especially for the transport sector. This can shorten the distances to be covered and make transport more efficient.

Environmental legislation restricts industry

Speaking generally, it may be said that the institutional environment, especially the legislator, has very little impact on the enterprise's choice of location. Businesses in the industrial sector are an exception, they often have to deal with various environmental licences which impose restrictions on the choice of location.

Human capital is an important keep factor

Nowadays human capital plays a significant part in an enterprise's choice of location. It discourages enterprises from moving easily, and from moving a considerable distance away. Especially in those sectors requiring highly qualified personnel is human capital a significant keep factor. This applies mainly to enterprises in the service sector.

Table 23 Location factors for enterprises in the commercial services, industry, wholesale and transport sectors

Location factors	commercial services	industry	wholesale	transport
Commercial environment				
presence of suppliers/customers	+	+	++	++
presence of 'top' businesses (image)	+	0	0	0
Physical environment				
accessibility by car and public transport	++	++	++	++
quality and corporate image of business location	++	+	+	+
size of location (sufficient m ²)	++	++	+	+
representative environment	++	+	0	0
Institutional environment				
(environmental) legislation	0	++	0	+
stimulating measures	0	0	0	0

= little or no importance, += has influence, += important.

Source: EIM, 1998.

5.2 Choice of location

Many entrepreneurs start their business from home. This applies in particular to enterprises in the service sector because few (accommodation) facilities are required for the start-up. More knowledge has been obtained about the secondary location choice of enterprises and the removal of an enterprise.

Mainly in urban areas

Generally speaking SMEs are located in and around towns (the town centre and residential areas) Larger businesses are usually located on the outskirts of the towns and/or on industrial sites. Large businesses make more demands on their location and cannot easily be located in the inner cities.

Table 24 Enterprises' choice of location

Locations	commercial services	industry	wholesale	transport
<i>Distribution</i>				
in urban areas, in town centre	0			
in urban areas, on the outskirts	0	0	0	0
on the periphery (not town)		0	0	0
along arterial highways			0	0
<i>Type of location</i>				
port		0		
heavy-industry site		0		
distribution park			0	0
mixed-industry site	0	0	0	0
high-tech park	0	0		
office park	0			

Source: BCI 1998. Adaptation EIM.

Differences among sectors

The choice of business location differs from sector to sector. Enterprises in the services sector, because of their public function, are mainly in the urban area. Industrial enterprises are usually to be found on industrial sites and are often suppliers for large companies. Wholesale enterprises also have an affinity with industrial sites because of the easy accessibility to highways. Construction companies, because office functions are not part of their core business, have no specific preference and are well represented at all types of locations.

Differences between SMEs and large businesses

The location decision taken by an SME is mainly a short term decision and is not part of a strategic policy. Large businesses do consider the choice of location to be part of a strategic policy and it is known as facility management. In addition, large businesses consider their corporate image to be of more importance than do smaller businesses. Therefore, the location choice by large businesses is more likely to be influenced by the soft factors than that of smaller enterprises.

Changes in the choice of location

Shift towards the periphery of the town

In recent years business has shifted steadily from the town centre to the outskirts (periphery). One explanation for this is the better accessibility and market location in the outskirts than in the urban area.

Stricter requirements concerning the quality of the location

Business requirements concerning the quality of locations are becoming stricter. In addition to the general requirements, other specific requirements originating from the nature of the business activities, have to be met. More and more locations are now being up-graded. Businesses situated on an (old) industrial site are showing more and more preference for a location on a higher-quality sites. The exchangeability between such sites is, to-date, still very limited.

Table 25 Trends in location factors

Corporate image and environment increasingly important
Importance of human capital is increasing
Environmental measures are restricting choice of businesses
Increasing importance of supply and subcontracting

5.3 Conclusion

It may be concluded that there is no such thing as the location choice of *the* enterprise. The choice of location varies according to the size class (SME or large business) and the nature of the business activities (type and sector). It is also evident that the choice of location during start-up is not the same as when the enterprise removes. Weighing-up alternatives is not a static business decision but has its own dynamics which are dependent on a great number of trends and background factors.

In the coming years too, the presence of the 'right' businesses will play an even greater part in choosing a suitable location. Businesses are concentrating increasingly on their core-business so that supply and sub-contracting will become more important. The preference will be for enterprises which are easily accessible and, even better, close by. This development will lead to further cluster forming of, for example, business in the same field or branch or businesses which are equally dependent on their easy accessibility. For policy makers this means that the demand for business space will change. Many existing industrial sites no longer meet the criteria of many enterprises and greater demands will be made on new business sites

including, accessibility, information and communication facilities and the presence of – the right – other businesses. This presents a challenge to policy makers. By adapting the supply of business locations to the characteristics of the type of enterprise that they wish to attract, they can pursue an active policy regarding the location of businesses.

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