

Entrepreneurial Management

Chapter 9

The Location Plan

Lecturer: Michaella DeLeon Castillo, DBA

ENTREPRENEURIAL MANAGEMENT – LECTURE 9

CHAPTER 9 – The Location Plan

LESSON 9

The Location Plan

Learning Objective 9.1 – Locating the Brick-and-Mortar Startup

Choosing a location for a physical facility is typically a one-time decision, but a small business owner may relocate a business later to decrease operating expenses, be closer to clients, or take advantage of other advantages. 42% of entrepreneurs in the United States believe that their current location is the best for their firm, but nearly half of those surveyed stated they would consider relocating if it would benefit their businesses.

The Significance of Location Determination

Both the high expense of such a spot and the difficulty of uprooting and relocating an established firm highlight the significance of the initial selection about the location of a typical physical building (a brick-and-mortar facility). In addition, if the location is extremely unfavorable, the business may never achieve success, even if it is adequately funded and managed. National chains are so cognizant of the significance of location that they pay hundreds of thousands of dollars studying potential sites before building new facilities.

Some businesses are significantly more dependent on the selection of an ideal site than others. The location of a clothing store, for instance, can make or break the business since it must be easy for customers. Customers do not need frequent access to a painting contractor's office, so the office's physical location is less important. However, even painters may suffer if their business location is badly chosen. For instance, certain communities are more willing or able than others to invest in the maintenance of their properties, hence creating more opportunity for painting.

Key Factors in Selecting a Good Location

Exhibit 9.1 outlines the location selection process's five guiding factors: client accessibility, business environment conditions, resource availability, the entrepreneur's personal choice, and site availability and pricing. The following factors are also crucial to the site decision:

- Mix of neighbors: who lives next door?

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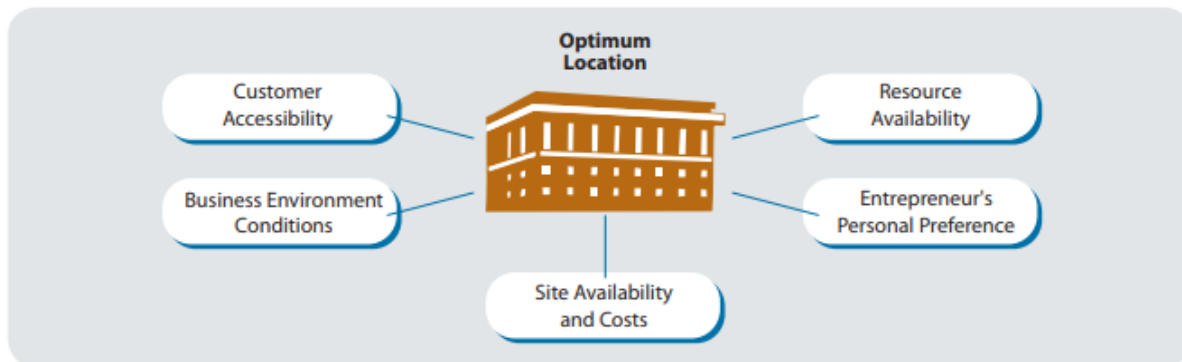
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- Security and safety: How secure is the community?
- Services: Does the city provide garbage collection, for instance?
- Previous occupants' fate: What became of the firms that previously occupied this space?
- Life-cycle stage of the location: Is the area developing, stagnant, or declining?

EXHIBIT

9.1 Five Key Factors in Determining A Good Business Location



For a specific firm and its specific circumstances, one aspect may carry more weight than others. However, each of the five important considerations should always play a role in the final placement determination.

CUSTOMER ACCESSIBILITY

Accessibility to customers is a crucial factor for many organizations when picking a location. It is essential in industries where the cost of transporting the final product is disproportionately high to the product's worth. Due to the high transportation costs involved, products such as packaged ice and soft drinks must be manufactured in close proximity to their target customers. Retail establishments and service providers (such as tire repair shops and hair salons) must be situated so as to allow easy access to prospective customers in order to prevent losing business to more conveniently positioned competitors.

Site-selection systems can provide users with access to demographic information such as age, income, and race for certain neighborhoods, as well as information on other businesses in the area, climate conditions, and traffic flow, among many other factors. Bear in mind that these software programs are not without their limits. For instance, many focuses on traffic counts and physical distance, which can easily ignore aspects such as slowdowns caused by rush-hour traffic, the potential for railroads or interstates to divide buying clusters, and other similar concerns. Visiting the United States Census

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Bureau's website at www.census.gov may be useful if you wish to make a decision on your own while leveraging the power of precise data. Don't be overwhelmed by all the possibilities given on this website.

BUSINESS ENVIRONMENT CONDITIONS

In addition to competition, regulatory constraints, and tax structure, there are several additional crucial environmental elements. Since business owners rely on profits for survival, all issues affecting the financial picture are of major significance. By forgiving or levying taxes, state and local governments can either aid or harm a startup business. State income tax rates vary widely across the United States, with only a few of states not levying such a tax. Each year, the Small Business & Entrepreneurship Council produces a "Business Tax Index" to rate the states according to the expenses of their tax systems on small businesses (using a composite score derived from 18 distinct tax metrics). Tax relief for the firm is essential, but don't overlook the impact of a state's personal income tax rates, which will have an effect on the wages your employees earn. These taxes will affect the purchasing power of salary dollars and, thus, the benefit and satisfaction your employees derive from your business. In addition, there are other significant factors to consider, such as the total cost of living. Employees may enjoy a greater standard of living if the cost of living decreases. To conduct your own research on the cost of living, conduct a web search for "cost of living calculator" or contact your local economic development agency and request free statistics on this and other aspects. Governments do not always do everything possible to aid the establishment and growth of new firms.

AVAILABILITY OF RESOURCES

Access to raw materials, qualified labor, key suppliers, and transportation are factors that influence location selection. Access to significant suppliers is more likely to impact site selections for retail stores and restaurant operations, but proximity to vital sources of raw materials and an adequate labor supply are crucial factors for the location of the majority of manufacturing firms.

If raw materials necessary by a company's activities are not readily available in all places, then regions where these materials are abundant will offer considerable location advantages. This is especially true for enterprises that rely on bulky or heavy raw materials that shed a significant amount of size or weight during the production process. A sawmill is an example of a business that requires be geographically close to its raw materials in order to be profitable.

PERSONAL PREFERENCE OF THE ENTREPRENEUR

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As diverse as the entrepreneurs who make site decisions are their individual tastes. Occasionally, businesses select a location that offers distinct lifestyle advantages, such as proximity to a beloved golf course or a reliable babysitter. Personal preference is vital and should not be disregarded, but it would be irresponsible to prioritize it above evident geographical flaws that will very certainly hinder or even destroy the enterprise's development. The location decision must take into account all important criteria.

SITE AVAILABILITY AND COSTS

Once an entrepreneur has decided on a particular location for her or his business, a precise location must be selected. Numerous small business entrepreneurs acknowledge the need of obtaining expert guidance when deciding site availability and suitability.

Assuming that adequate building space is available, the entrepreneur must choose between leasing and purchasing. More small business owners prefer to buy rather than lease their properties, although the advantages of leasing might often outweigh the advantages of buying.

- A significant capital spend is avoided, which can be especially crucial for a new, small business with limited financial resources.
- Risk is mitigated by reducing investments and delaying space commitments until business performance is confirmed and facility needs are better understood.

Why Leasing in a high-image region is typically less expensive than purchasing in a top location.

- Leasing allows the entrepreneur to focus on running the firm rather than managing properties.

Learning Objective 9.2 – Designing and Equipping the Physical Facilities

A well-written site plan should include a description of the physical space where the firm will be located and an explanation of any equipment requirements. The plan may call for a new building or an existing structure, although a new firm that requires physical space will typically inhabit an existing facility, possibly after modest or large renovations.

Challenges in Designing the Physical Facilities

When determining construction requirements, a business owner must avoid committing to a facility that is too large or luxury for the organization's needs. However, the space should not be so limited or constrained that processes are impeded or become inefficient. Buildings do not generate profits directly; rather, they host the businesses and staff that generate income. Consequently, the ideal structure will be functional and not ostentatious.

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MANUFACTURING EQUIPMENT

In industries, either general-purpose or specialized machinery may be employed. General-purpose equipment has a low initial investment and is easily adaptable to a variety of applications. Small machine shops and cabinet shops, for example, utilize this technology, which can be configured to perform two or more shop activities with a single piece of machinery. This provides flexibility, which is crucial for firms whose products are so new that the technology is not yet fully developed or where design changes occur frequently. Specialized machinery, such as bottling machines and manufacturing robots used in factories, has a more limited range of applications and is more expensive to purchase or lease. However, a small company can only use special-purpose equipment inexpensively if it manufactures standardized products on a big scale. Specialized tooling upgrades can increase output per machine hour of operation and lower labor costs per unit of product further. It is crucial to note, however, that this equipment has little to no resale value due to its limited range of probable applications.

RETAILING EQUIPMENT

To support sales, small stores require merchandise-display racks or counters, storage racks, shelves, mirrors, customer seating, shopping carts, and cash registers, among other equipment. This equipment may be expensive, but it is typically less expensive than the machinery required to operate a factory. And enterprising business owners frequently discover ways to decrease launch or growth expenses by purchasing used equipment, constructing their own, or utilizing other improvisational techniques.

OFFICE EQUIPMENT

Even a home office need furniture, filing and storage cabinets, and other similar goods. Certainly, major office furniture manufacturers can provide the essential desks, chairs, and cabinets, but so can a multitude of smaller suppliers. Local sources of used office furniture may have goods for sale that are still very presentable but much more affordable. And make judgments with the future in mind at all times. If you choose basic, freestanding, and detachable furnishings, you may easily relocate them to a larger location as your firm expands. It might be difficult to choose office equipment that can help a firm work properly. Ensure that the computers, multifunction printers, and telephone systems you select represent the most recent technology advancements appropriate to your firm. The key equipment requirements of a corporation should be identified in the site plan. This can ensure that the plan's financial portion includes funding for their acquisition.

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Business Image

All new businesses should be concerned with conveying the best possible image to clients and the general public. The appearance and atmosphere of the workplace should convey information about the quality of a company's product or service and the way the organization is run in general. It is essential for a small business, and especially a startup, to use its physical facilities to communicate the impression of a steady, professional organization.

Learning Objective 9.3 – Locating the Startup in the Entrepreneur's Home

A home location for a business was almost always regarded inferior in the past. However, times have evolved. Despite the limits and possibilities for image issues, entrepreneurs who work from home no longer feel ashamed of their location. In fact, research indicates that home-based firms may have an edge over other organizations in terms of certain aspects of financial performance (for example, achieving a first sale). Once considered a temporary phase on the way to success for many firms, the home office has become a feasible permanent alternative for some.

The Attraction of Home-Based Businesses

According to government polls, more than half of all U.S. business owners choose to operate out of their homes. Why do so many entrepreneurs find home-based business operations so attractive? The primary advantages of a home-based business relate to financial and family lifestyle factors, including the following:

- To have something fascinating to do and get paid for it
- To be your own boss and reap the benefits of your efforts
- To spend more time with family and friends
- To save time and money on daily commutes

FINANCIAL CONSIDERATIONS

As with most businesses, a home-based firm has a primary objective – making money — and locating at home increases revenues by decreasing expenses. For instance, a freelance writer of magazine articles may be able to establish a business from home with only a computer, a few office supplies, and an Internet

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connection. Since the majority of writers already own computers, the true launch expenses for such a firm may be as little as a few hundred dollars.

FAMILY LIFESTYLE CONSIDERATIONS

Due to deep family ties, a large number of young entrepreneurs continue in the family firm. Similarly, entrepreneurs who operate their businesses from their homes are typically motivated by a desire to spend more time with their families, and occasionally even involve them in the work.

The difficulties faced by home-based businesses Home-based businesses confront unique obstacles due to their location, just as the vast majority of enterprises located in commercial areas do as well. Two of these topics are examined briefly: business image and legal considerations.

PROFESSIONAL IMAGE

Keeping a professional appearance while working from home is a significant obstacle for many home-based companies. For example, allowing small children to answer the telephone could be detrimental to a company's reputation. Similarly, a crying infant or a barking dog in the background of a phone call might be disturbing to a client and hinder sales. If clients or salesmen visit the home-based firm, it is essential to maintain a professional office space. Occasionally, space constraints make this impossible. For instance, if you own a home-based business, house guests can be a significant obstacle.

LEGAL CONSIDERATIONS

Local rules can occasionally provide significant obstacles for home-based businesses. Earlier, we explored how zoning regulations control the types of businesses permitted to operate in particular regions, and how some municipalities prohibit the operation of any home-based business within city borders.

There are also tax considerations associated with a home-based firm. If an entrepreneur want to claim a tax deduction, for instance, a distinct location must be clearly allocated to the business's activities. A competent accountant can assist in explaining these tax regulations. Also, don't forget the insurance issues that may impact a home-based firm. It is unlikely that a homeowner's policy will cover an entrepreneur's company activities, liabilities, or equipment. To avoid unpleasant surprises in the future, he or she should constantly consult a trustworthy insurance agent regarding policy limitations. The bad news for home-based enterprises is that they frequently encounter the aforementioned obstacles and restrictions. The good news is that small businesses now have access to robust business-application technology that can help them compete, even with opponents that have a commercial website.

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Learning Objective 9.4 – E-commerce: Locating a Startup on the Internet

What exactly does the phrase e-commerce refer to? E-commerce refers to electronic commerce, or the online purchase and sale of goods and services. It is an alternative method for doing commercial transactions that have previously been conducted over the phone, through the mail, or in person. After the collapse of Web-based firms more than a decade ago, Internet businesses are now expanding in new ways and at an unprecedented rate—and for good reason. The Internet can radically transform the way that small businesses conduct business. The Internet may considerably improve a small business's financial performance and is far more than a simple replacement to a physical location.

Benefits of E-Commerce for Startups

There are numerous ways in which e-commerce might benefit a startup. It enables a fledgling business to compete with larger companies on a more level playing field. Due to their limited resources, small businesses typically cannot expand outside local markets. Consequently, brick-and-mortar-only businesses may often only serve a limited geographical area. However, the Internet blurs geographic boundaries and enhances the reach of a small business. In fact, e-commerce provides businesses access to customers from nearly everywhere.

In addition, it should be noted that an e-commerce business can help a company with early cash flow issues by compressing the sales cycle, or lowering the time between receiving an order and getting payment. E-commerce systems can be programmed to make an order, authorize a credit card transaction, and contact a supplier and shipper in a few minutes without human intervention. The shortened cycle results in faster consumer payments and enhanced cash flow for the organization.

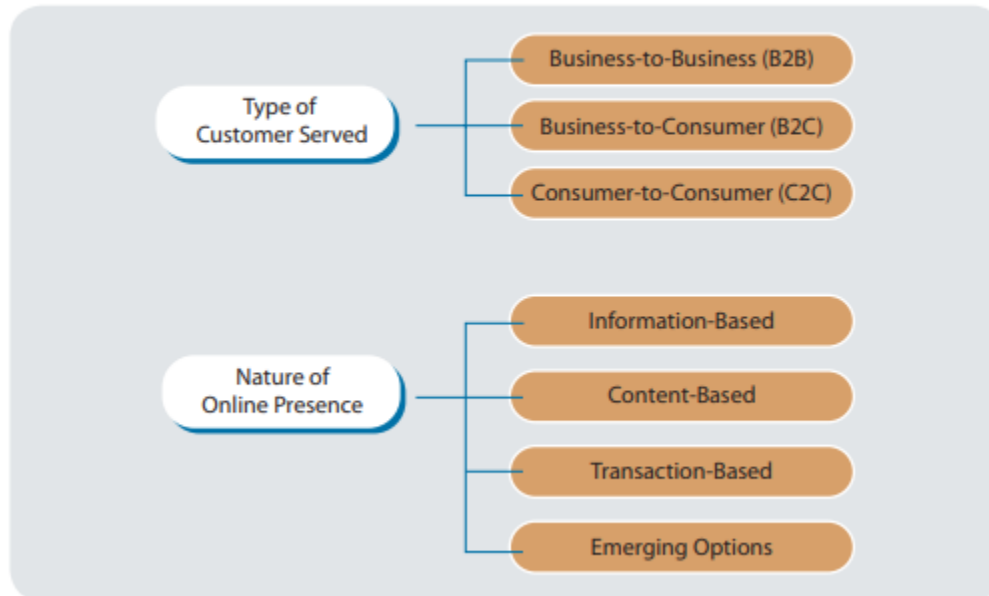
E-Commerce Business Models

Different decisions are made by online businesses regarding which customers to serve, how to maximize profitability, and what to publish on their websites. The alternatives to e-commerce business models presented in Figure 9.3 are illustrative. None of these models can be deemed dominant at this time, and some of the Internet's more complicated processes cannot be characterized by a single form. In actuality, the world of e-commerce contains an infinite number of business model permutations. To assist you understand the possibilities, we will first define e-commerce business models based on the type of consumer served and then on the nature of a company's online presence. Keep in mind, as you contemplate the future of your small business and its online ambitions, that a badly conceived business

model is frequently the leading reason of an online company's failure.

EXHIBIT

9.3 Basic E-Commerce Business Models



TYPE OF CUSTOMERS SERVED

Depending on the customers they service, marketing frameworks describe traditional brick-and-mortar facilities as manufacturers, wholesalers, or retailers. Additionally, e-commerce enterprises are typically defined by their emphasis on the client. There are three major e-commerce business model categories: business-to-business (B2B), business-to-consumer (B2C), and consumer-to-consumer (C2C).

Enterprise-to-enterprise models The cash amounts created by enterprises with a business-to-business (B2B) model (selling to other businesses) are much higher than those generated by firms with a business-to-consumer (B2C) model (selling to consumers) (selling to final consumers). Due to the fact that B2B success stories receive less press than B2C success stories, the potential of B2B chances is sometimes neglected. However, budding businesses must examine B2B solutions.

Business-to-consumer business models Amazon, Apple, and Best Buy have perfected the business-to-consumer (B2C) model, which focuses on selling items and/or services directly to end consumers. B2C businesses sell a vast array of things, including apparel, pet supplies, computer software, groceries, and much more. The B2C model has three major advantages over traditional brick-and-mortar retailing: ease of use, rapid transactions, and access to a vast selection of items and services around the clock.

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Direct-to-consumer models A rising percentage of entrepreneurs who sell their products on the Internet do it without a website or storefront. Instead, they utilize auction sites, which are commonly referred to as the consumer-to-consumer (C2C) model. This concept is typically based on online auction sites that permit individuals and businesses to offer things for sale to prospective bids.

NATURE OF ONLINE PRESENCE

A second broad classification of e-commerce models is based on a company's desired level of online presence. A website's purpose might range from providing information and simple content to facilitating complicated business operations.

Informational design A website based on the information-based paradigm provides information about a company, its goods, and other relevant topics. Typically, it serves as a supplement to an existing brick-and-mortar location. This concept is utilized by numerous small enterprises for their internet operations. Your dentist or plumber may have a webpage describing their services, but you will likely need to call them to schedule an appointment. These sites typically have a "Contact Us" link that leads the user to a separate Web page with the firm's address and phone number, and in many cases, "click-through" access that enables the user to contact the company by e-mail.

Content-based model

The content-based model of e-commerce is an alternative to the information-based model in that it also includes a website that provides access to information but not the capacity to make purchases. Instead of selling products or services, a content-based website offers visitors with information (content) in the hopes of attracting a large number of visitors.

Transaction-based model

In a transaction-based model of e-commerce, a website is created to facilitate the purchase and sale of goods and services. The transaction-based model might be seen as the epicenter of the e-commerce universe, with online stores where customers shop, click, and purchase.

Internet-Based Businesses and the Part-Time Startup Advantage

Often, when an entrepreneur creates a new firm, she or he must choose between quitting a current job and devoting herself or himself full-time to the startup, or keeping the job and launching a side business. Obviously, there are advantages and disadvantages to each strategy, but data indicates that many entrepreneurs prefer to establish a part-time business to keep their revenue flowing until they can

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afford a full changeover. This is especially true for those who are risk-averse and lack confidence in themselves. Although many types of enterprises can be launched on a part-time basis, an increasing number of small company owners discover that the flexibility and low cost of beginning an online business make it a highly tempting alternative.

Obviously, the location decision is intricate, but it is crucial to do it properly. If your firm requires a physical site, can you find one that is convenient for customers, has a business-friendly environment, and provides access to essential resources? As the business owner, would you be pleased to report to that site day after day and year after year? Does the location make sense when considering the associated costs? If you have opted to locate your business at home, are you able to maintain your professional and personal lives separate? Additionally, are you able to adhere to zoning laws and maintain a positive company image? If the Internet is the ideal location for your startup, are you able to determine the type of consumer you will service and the business strategy you will employ? There are many questions to be answered, but there are also many sources of information that can help you choose the right location for your business. Take your time, conduct thorough research, and make a prudent decision. You have access to unlimited business options.

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Essay Questions

1. Describe the five key factors in locating a brick-and-mortar startup.
2. Discuss the challenges of designing and equipping a physical facility.
3. Explain both the attraction and the challenges of creating a home-based startup

Answer key

1.
 - Customer accessibility is a key location factor in industries with high transportation costs, as well as those that must provide handy access for targeted customers to avoid losing those customers to more conveniently located competitors.
 - Business environment factors affecting the location decision are climate, competition, legal requirements, and the tax structure.
 - Availability of resources such as raw materials, suitable labor, crucial suppliers, and transportation can be important to location decisions.
 - Though it can interfere with sound decision making, the entrepreneur's personal preference is a practical consideration in selecting a location.
 - An appropriate site must be available and priced within the entrepreneur's budget.
2. The general suitability of a building depends on the functional requirements of the business; it should be neither too large and extravagant nor too small and restrictive.
 - The comfort, convenience, and safety of the business's employees and customers must not be overlooked.
 - Deciding whether to purchase or lease equipment is an important choice many entrepreneurs face.
 - Most small manufacturing firms must use general-purpose equipment, but some can use special-purpose equipment for specialized operations.
 - Small retailers must have merchandise display racks and counters, storage racks, shelving, mirrors, shopping carts, cash registers, and other equipment that facilitates selling.

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3. • Home-based businesses are started both for financial reasons and to accommodate family lifestyle considerations.
 - Operating a business at home can pose challenges beyond family and business conflict, particularly in the areas of professional image and legal considerations.
 - Technology, especially the Web, has made it possible to operate many types of businesses from almost any location.

Quiz

Identification

1. The traditional physical facility from which businesses have historically operated
2. Local laws regulating land use
3. A facility that provides shared space, services, and management assistance to new businesses.
4. Machines that serve many functions in the production process.
5. Machines designed to serve specialized functions in the production process.
6. A business that maintains its primary facility in the residence of its owner
7. The buying and selling of products or services over the Internet.
8. A business model based on selling to business customers electronically.
9. A business model based on selling to final consumers electronically.
10. The bypassing of a middleman by a producer or wholesaler in order to sell its product or service directly to the final consumer
11. A business model usually set up around Internet auction sites that allow individuals and companies to list items available for sale to potential bidders.
12. Web-based businesses offering participants the ability to list products for consumer bidding.
13. A business model in which a website simply provides information about a business, its products, and other related matters.
14. A business model in which a website provides information (content) that attracts visitors, usually with the hope of generating revenue through advertising or by directing those visitors to other websites.
15. A business model in which a website provides a mechanism for buying or selling products or services.

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Answer

1. Brick and mortar facility
2. Zoning and ordinances
3. Business incubator
4. General purpose equipment
5. Special-purpose equipment
6. home-based business
7. e-commerce
8. business-to-business (B2B) model
9. business-to-consumer (B2C) model
10. disintermediation
11. consumer-to-consumer (C2C) model
12. auction sites
13. information-based model
14. content-based model
15. transaction-based model