

## 7.1: Key Factors in Facility Location Decision-Making

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- Proximity to sources of supply:
  - Firms that process bulk raw materials usually locate close to the source of supply to reduce transportation costs. Paper mills locate close to forests, canneries are built close to farming areas, and fish processing plants are located close to the harbors where the fishing vessels dock.
- Proximity to customers:
  - There are several reasons why an organization would locate close to end customers. Service firms need to be close to customers to be convenient, as is the case for grocery stores, gas stations, fast food restaurants, and hospitals. Transportation costs can also require proximity to customers, as in the case of concrete manufacturing. Perishable products often require that they be produced close to the final market, as is the case for bakeries and fresh flowers.
- Community factors:
  - Communities may offer a number of incentives to entice companies, including waiving or reducing taxes, and providing access roads, water and sewer connections, and utilities. Community attitudes can also play a role in an organization's location decision. Some communities may actively discourage companies that might bring more pollution, noise, and traffic to the area. Some communities may not want a prison to be located in their community. Other communities may welcome such firms because of the jobs, tax revenues, and economic diversity they promise.
- Labor factors:
  - Research shows that the majority of location decisions are largely based on labor factors, since labor is a critical variable for many firms. Labor factors include the prevailing wage rate in a community for similar jobs, the supply of qualified workers, and the average education level of the local population (percentage of high school graduates, etc.). Other labor factors can include the degree of union organizing and the general work ethic of a community, as well as other measures of absenteeism, and worker longevity in a job can play a strong role when a firm makes a location decision.
- Other factors:
  - Many other factors can play a role in the location decision, including quality of life (crime rates, good schools, climate, and recreation options), access to major transportation arteries, construction costs, proximity of the competition, and opportunities for future expansion.<sup>[1]</sup>

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