

LECTURE NO. 3

PLANT LOCATION: INTRODUCTION, LOCATION DECISION PROCESS, FACTORS INVOLVED IN THE PLANT LOCATION

Plant location decisions are strategic, long term and non-repetitive in nature. Without sound and careful location planning in the beginning itself, the new plant may pose continuous operating disadvantages.

Location decisions are affected by many factors, both internal and external to the organization's operations. Internal factors include the technology used, the capacity, the financial position, and the work force required. External factors include the economic, political and social conditions in the various localities. Most of the fixed and some of the variable costs are determined by the location decision. The efficiency, effectiveness, productivity and profitability of the plant are also affected by the location decision. Location decisions are based on a host of factors, some subjective, qualitative and intangible while some others are objective, quantitative and tangible. When Does a Location Decision Arise? The impetus to embark upon a plant location study can be attributed to reasons as given below:

- It may arise when a new plant is to be established.
- In some cases, the plant operations and subsequent expansion are restricted by a poor site, thereby necessitating the setting up of the facility at a new site.
- The growing volume of business makes it advisable to establish additional facilities in new territories.
- Decentralization and dispersal of industries reflected in the industrial policy resolution so as to achieve an overall development would necessitate a location decision at a macro level.
- It could happen that the original advantages of the plant have been outweighed due to new developments.

- New economic, social, legal or political factors could suggest a change of location of the existing plant.

Some or all the above factors could force a firm or an organization to question whether the location of its plant should be changed or not.

Whenever the plant location decision arises, it deserves careful attention because of the long-term consequences. Any mistake in selection of a proper location could prove to be costly. Poor location could be a constant source of higher cost, higher investment, difficult marketing and transportation, dissatisfied and frustrated employees and consumers, frequent interruptions of production, abnormal wastage, delays and substandard quality, denied advantages of geographical specialization and so on. Once a plant is set up at a location, it is very difficult to shift later to a better location because of numerous economic, political and sociological reasons. Raw Material On the basis of availability, the raw materials can be categorized into:

- (a) Ubiquitous-to denote those available almost everywhere and
- (b) Localized materials, having specific locations

Factors Involved in the Plant Location Decision Location studies are usually made in two phases namely,

- I. The general territory selection phase and
- II. The exact site / community selection phase amongst those available in the general locale