

Risk Factor

It is well known “Higher the risks, higher the return”. Business attracts risk. While initiating business it is not guaranteed 100% that the business will be successful. There is an anticipation that there might be demand for its product or service in the market. But the market is always dwindling the subject to risk. The business may even earn profit but the amount of profit earned may vary.

Uncertainty of Returns

Businessmen invest huge capital in their activities to sustain and extract profit from the business. As we discussed the risk above, it is very uncertain as to what amount the profit will be earned. Often there are situations where there is no return of profit. There are always chances of losses in the business activities.

Legal Activity

The business has to be legal and lawful. Business is an extremely important activity for a country but it is not above the law. Every economic activity has to be within the limits of the law. The country’s legislation puts clauses on the functioning of the business to control its activities.

Plant location

Location of an industry is an important management decision. It is a two-step decision: first, choice of general area or region and second, the choice of site within the area selected. Location decision is based on the organisations long-term strategies such as technological, marketing, resource availability and financial strategies.

The objective of plant location decision-making is to minimise the sum of all costs affected by location.

Plant location is important because of the following:

- (i) Location influences plant layout facilities needed.
- (ii) Location influences capital investment and operating costs.

Location decisions are strategic, long-term and non-repetitive in nature. Without sound and careful location planning in the beginning itself, the new facilities may create continuous operating problems in future. Location decision also affects the efficiency, effectiveness, productivity and profitability.

The location decision should be taken very carefully, as any mistake may cause poor location, which 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 wastages, delays and substandard quality etc.

Therefore, it should be based upon a careful consideration of all factors that are essentially needed in efficient running of a particular industry. The necessary factors in the selection of plant location vary among industries and with changing technical and economical conditions.

Site selection is not an easy problem because if the selection is not proper then all money spent on factory building, machinery and their installation etc., will go as waste and the owner has to suffer a great loss. Therefore, while selecting a site, owner must consider technical, commercial, financial aspects which may provide maximum advantages.

It is sometimes possible that all the requirements and features of ideal site may not be available at one particular location but then it will be advantageous to find out suitable site with combinations of all essential requirements of the particular industry to be established as explained in following paras.

Market Location:

To solve such problems a market analysis of the area is conducted and answers of the following questions can be found out:

1. If there is a market which could be served and if retail price of product can be reduced?
2. Whether quick delivery of the product can be made by better plant location to the particular market?
3. Whether there is a competitor for the product in the market? Whether demand for product may increase? Whether an additional plant is required to meet the future demand?
4. What is the potential purchasing power of the market?
5. What are the buying habits of local people, and what must be done to fit your service to these habits?

Economical Aspects:

Locational economics for an enterprise includes a consideration of the product to be manufactured, the processes and machinery to be used, and the service and facilities required.

To know this the following factors may be studied:

1. **Product:**

- (a) Nature,
- (b) Volume, and
- (c) Value.

Production process:

- (a) Continuous,
- (b) Intermittent, and
- (c) Interrupted.

3. **Manufacturing machinery.**

4. **Other manufacturing equipment's.**

5. **Special manufacturing requirement.**

6. **Service:**

- (a) Steam,
- (b) Gas,
- (c) Water,
- (d) Air or high pressure,
- (e) Electricity, and
- (f) Sewerage.

Plant Layout

Meaning of Plant Layout

Plant layout is the arrangement of machines, work areas and service areas within a factory. George R. Terry. **Plant layout** involves the development of physical relationship among building, equipment and production operations, which will enable the manufacturing process to be carried on efficiently.

Need of Plant Layout:

Many situations give rise to the problem of plant layout. Two plants having similar operations may not have identical layouts. This may be due to size of the plant, nature of the process and management's calibre.

The necessity of plant layout may be felt and the problem may arise when:

- (i) There are design changes in the product.
- (ii) There is an expansion of the enterprise.
- (iii) There is proposed variation in the size of the departments.
- (iv) Some new product is to be added to the existing line.
- (v) Some new department is to be added to the enterprise and there is reallocation of the existing department.
- (vi) A new plant is to be set up.