

Bulk Reducing vs. Bulk Gaining Industries

Chapter 11-Key Issue #2

Why are situation factors important?

Proximity to inputs

- Manufacturers try to locate their factories as close as possible to both buyers and seller
- Every factory uses inputs
 - Inputs= materials, energy, machinery and supporting services

Bulk-Reducing Industry

- Definition=An industry in which the inputs (materials, etc.) weighs more than the final product
- (raw materials weigh more than the final product)
 - Needs to be located near its source of inputs to minimize transportation costs

Bulk-Gaining Industry

- Definition= Industry that makes something that gains volume or weight during production
- (finished product weighs more than the raw materials)
 - Needs to be located near where the product is sold to minimize transportation costs
 - More expensive to transport

Bulk Reducing Examples

Copper

- Finished copper bar weighs less than the copper ore used to make the product
- Several steps in the copper process that are bulk reducing
- Most foundries also need to be located close to energy sources (part of inputs)

Steel

- Steel is an alloy of iron, manufactured by removing the impurities
- Two inputs for steel are iron ore and coal, weighs more than the final product
- U.S. steel production location has changed b/c of changing inputs
- Today, more concerned with being close to markets

Bulk Gaining Examples

Fabricated Metals

- Factory brings together metals (like steel) as inputs and transforms them into a more complex product
- Located near markets because products are much bigger
- Largest market for fabricated metal and machinery is motor vehicles
- 3/4's of vehicles sold in the U.S. are assembled in the U.S.
- <http://www.msnbc.msn.com/id/3032619/#42140012>

Beverage Production

- Empty cans or bottles given to producer and filled with beverage- thus adding bulk/weight
- Water- heavy to transport, #1 ingredient in beverage

Single-market Manufacturer

- Specialized manufacturers with only 1-2 customers
- Close proximity to customers
- Producer of parts for motor vehicles
- Ship directly to the carmaker's plants

Perishable Products

- Must be located near their market
- Von thunen model
- Example: Newspapers, why is this “perishable”?

An industry such as potato chips, which uses potatoes and salt as raw materials, is a good example of what?

- A. Variable costs
- B. Fixed costs
- C. Weight-gaining industry
- D. Ubiquitous
- E. Weight-reducing industry

Ship, Rail, Truck or Air?

- Trucks – short distance delivery
- Rail – used for 1+ days, longer to load, no daily rests
- Ships – very long distances, slower than land based
- Air – very expensive...used for speedy delivery, small, high-value packages

KI 3 - Why are site factors important?

- Labor
 - Most important site factor
- Labor – Intensive Industries