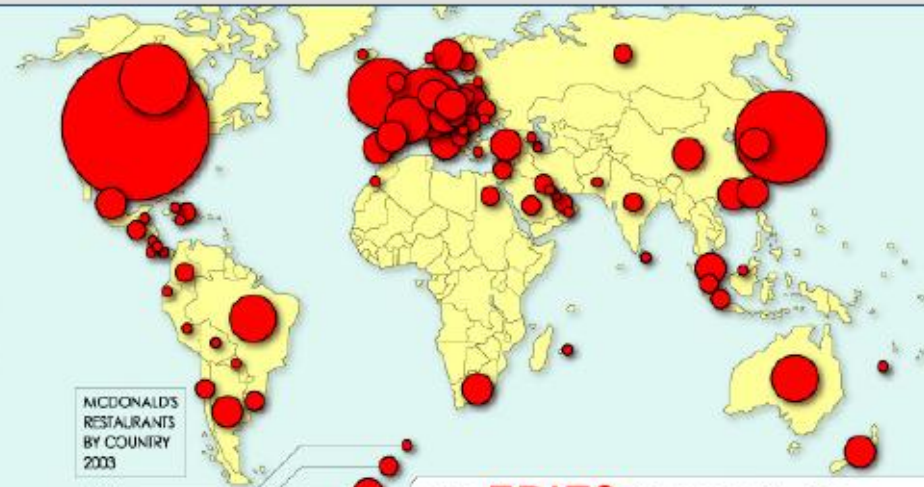


# Key Issue 3: Why Are Consumer Services Distributed In A Regular Pattern?



## THE MAGIC BEAN SHOP

A single cup of Starbucks coffee can depend upon as many as 19 different countries. Between the coffee beans, the milk, the sugar, and the paper cup, Starbucks coffee is a global hub that connects some of the poorest countries in the world with some of the wealthiest.

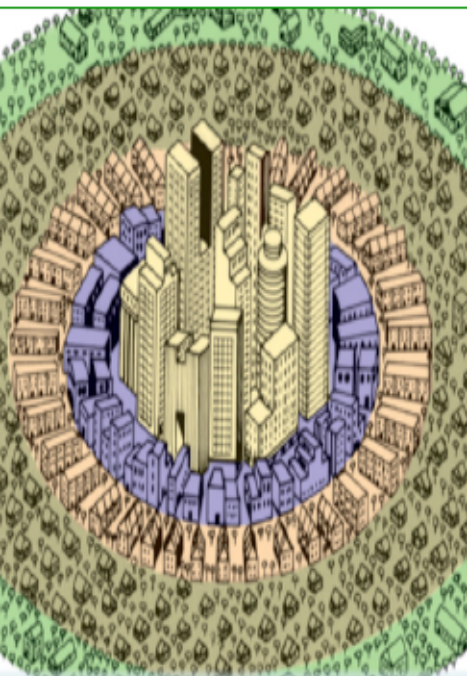
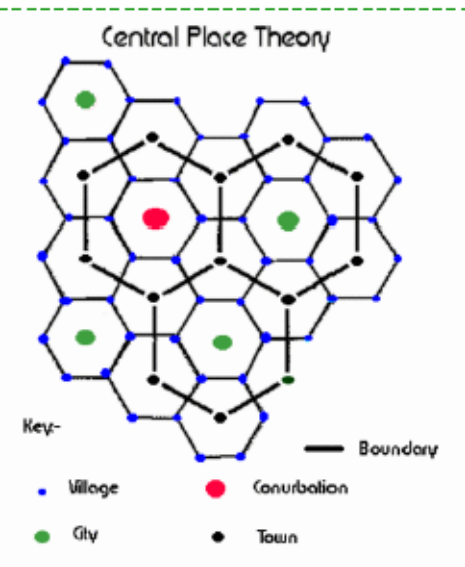


## THE FRIES THAT BIND US

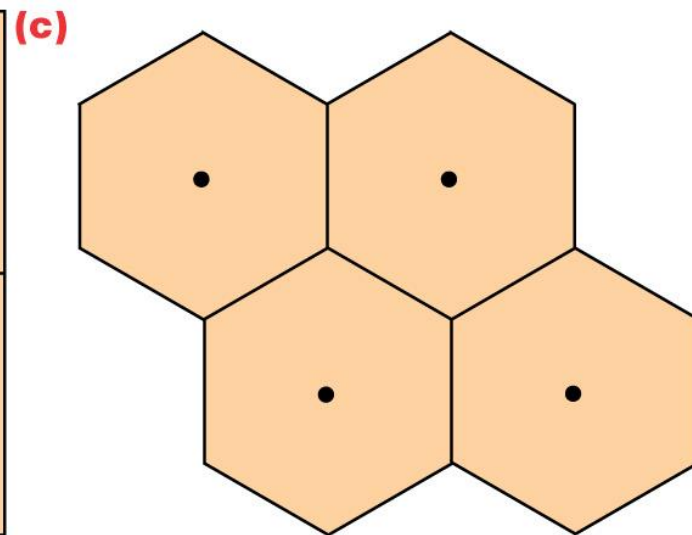
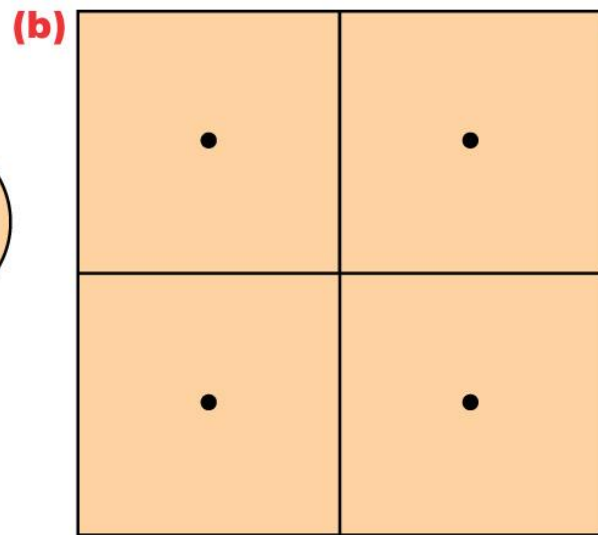
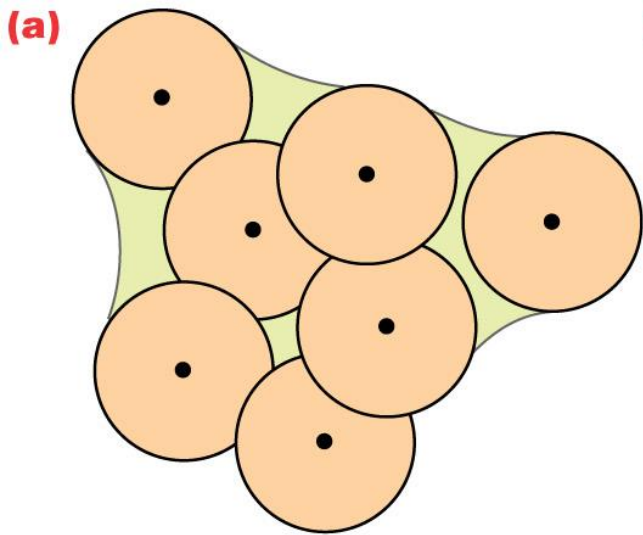
Probably the single most visible symbol of American influence worldwide, McDonald's has over 31,000 restaurants in 118 countries, employing more than 1.5 million people. Despite its 13,000 restaurants in the USA, McDonald's is slipping at home. Its customer satisfaction is worse than any other fast food chain, and ranks lower than all major airlines and the IRS.



# Central Place Theory:



- **Central Place Theory** explains the distribution of services based on the fact that settlements serve as centers of market areas for services.
- Central places compete against each other to serve as markets for goods & services for the surrounding region.
- **Central Place Theory** can help identify the most profitable location for a new shop/service.



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# Central Place Theory

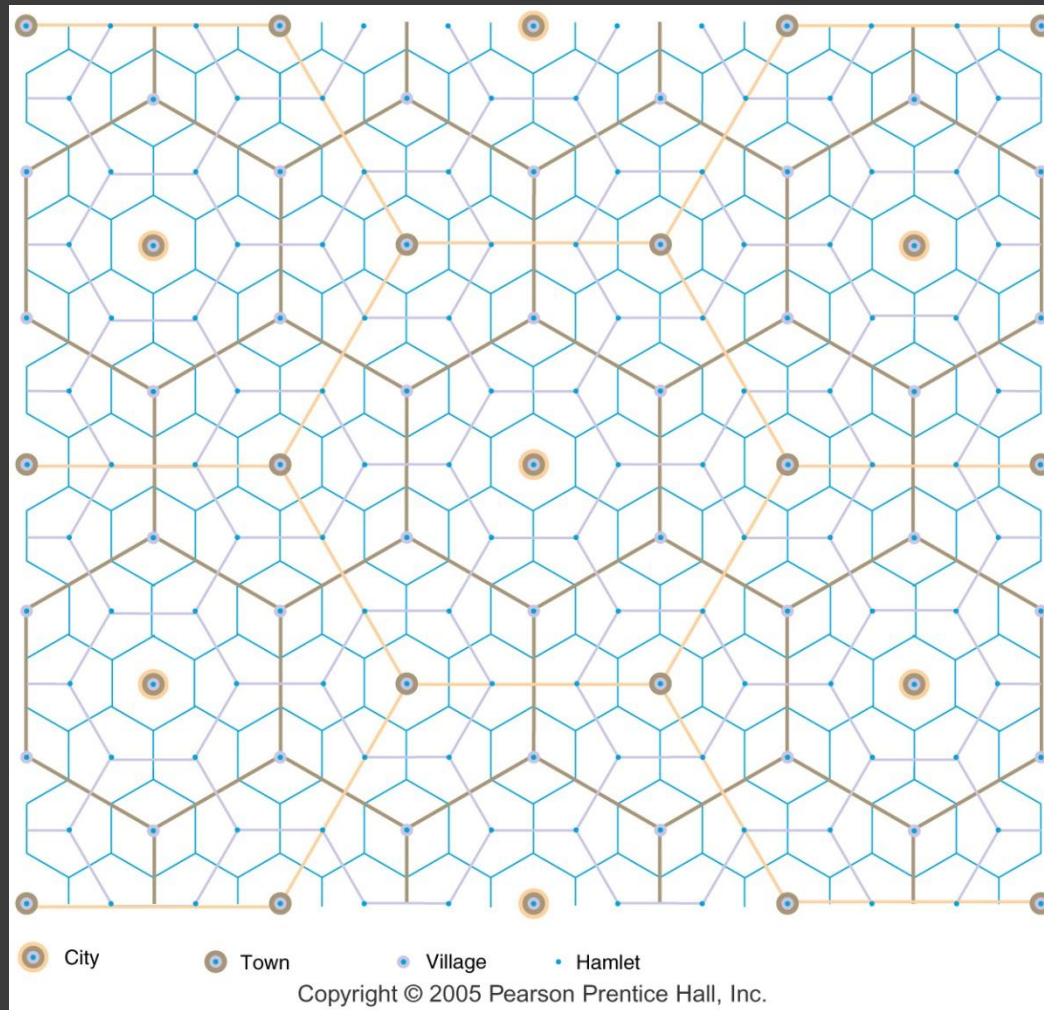
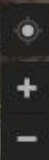


Fig. 12-7: Market areas are arranged into a regular pattern according to central place theory, with larger settlements fewer and further apart.



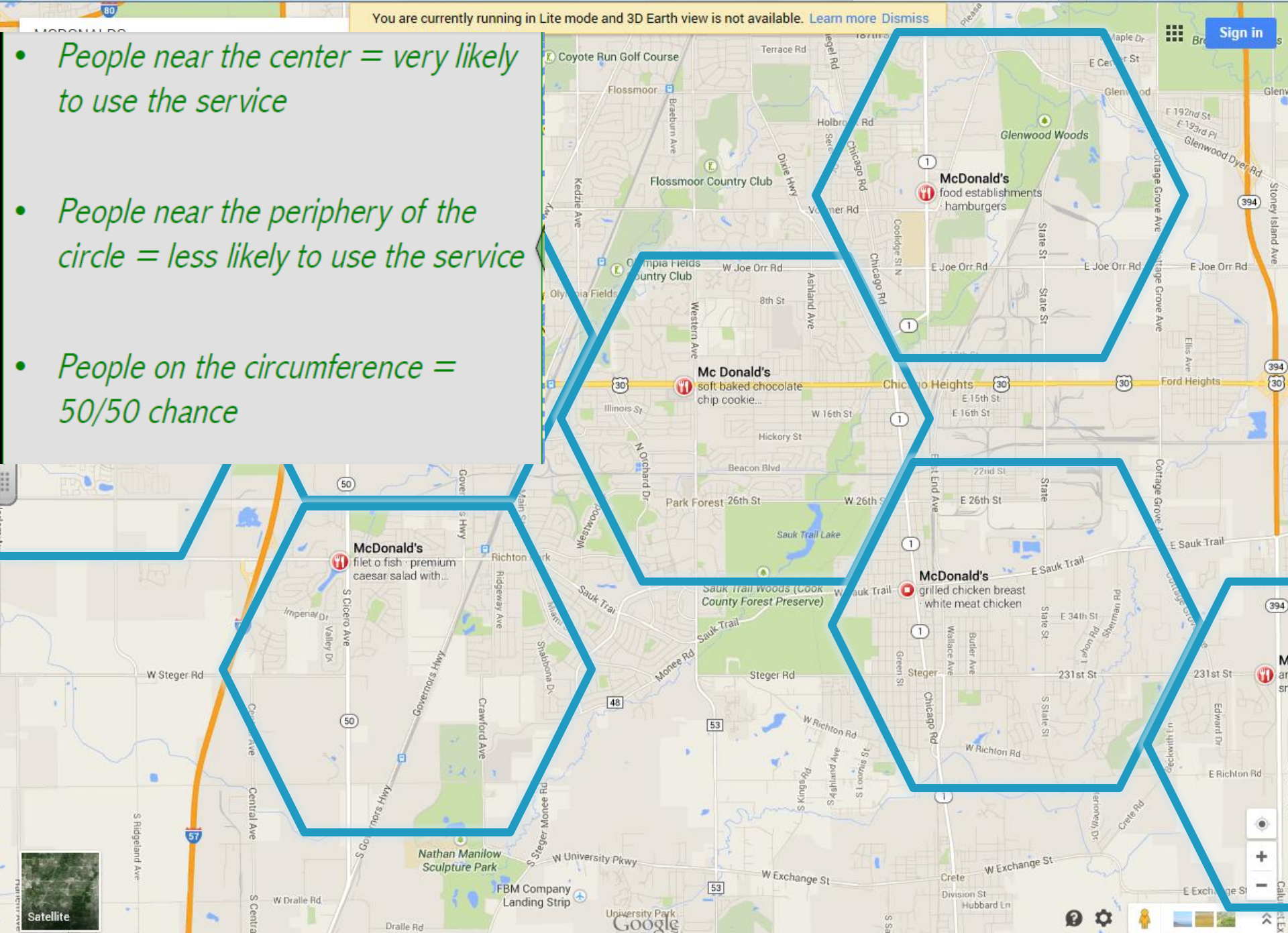
# What should replace taco bell?

The area surrounding the service is the **MARKET AREA** or **HINTERLAND**



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- *People near the center = very likely to use the service*
- *People near the periphery of the circle = less likely to use the service*
- *People on the circumference = 50/50 chance*



**Range:** The maximum distance people are willing to travel to use a service (distance or time).

- What is the range for everyday consumer services (super market, coffee shop, etc.)?

*Not very far (maybe a few miles).*

- What is the range for an arena / MLB Park? Airport? Justin Bieber concert?

*Much further! Mr. Loux would travel miles for a Justin Bieber concert!*

**Threshold:** the minimum number of people needed to support the service (no profit, no service!).

*Threshold? It's a good thing Tokyo has 30 million people...*



# Market Area Analysis:

- *Would it be profitable to locate a new consumer service somewhere?*
- *Where is the best location to maximize profit?*

**The Gravity Model** *predicts that the best location of a service is directly related to the number of people in the area.*

- 1. More people living in a location = more potential customers**
- 2. The farther people are from a service the less likely they are to use it.**

