

Chapter 12: Services

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"I'M SORRY, SIR, BUT I'M NOT ALLOWED TO STICK YOUR ORDER UP MY WAZOO. IF YOU'D LIKE TO HOLD FOR A MINUTE, I'LL TRY TO STICK IT UP THE COMPUTER'S WAZOO."

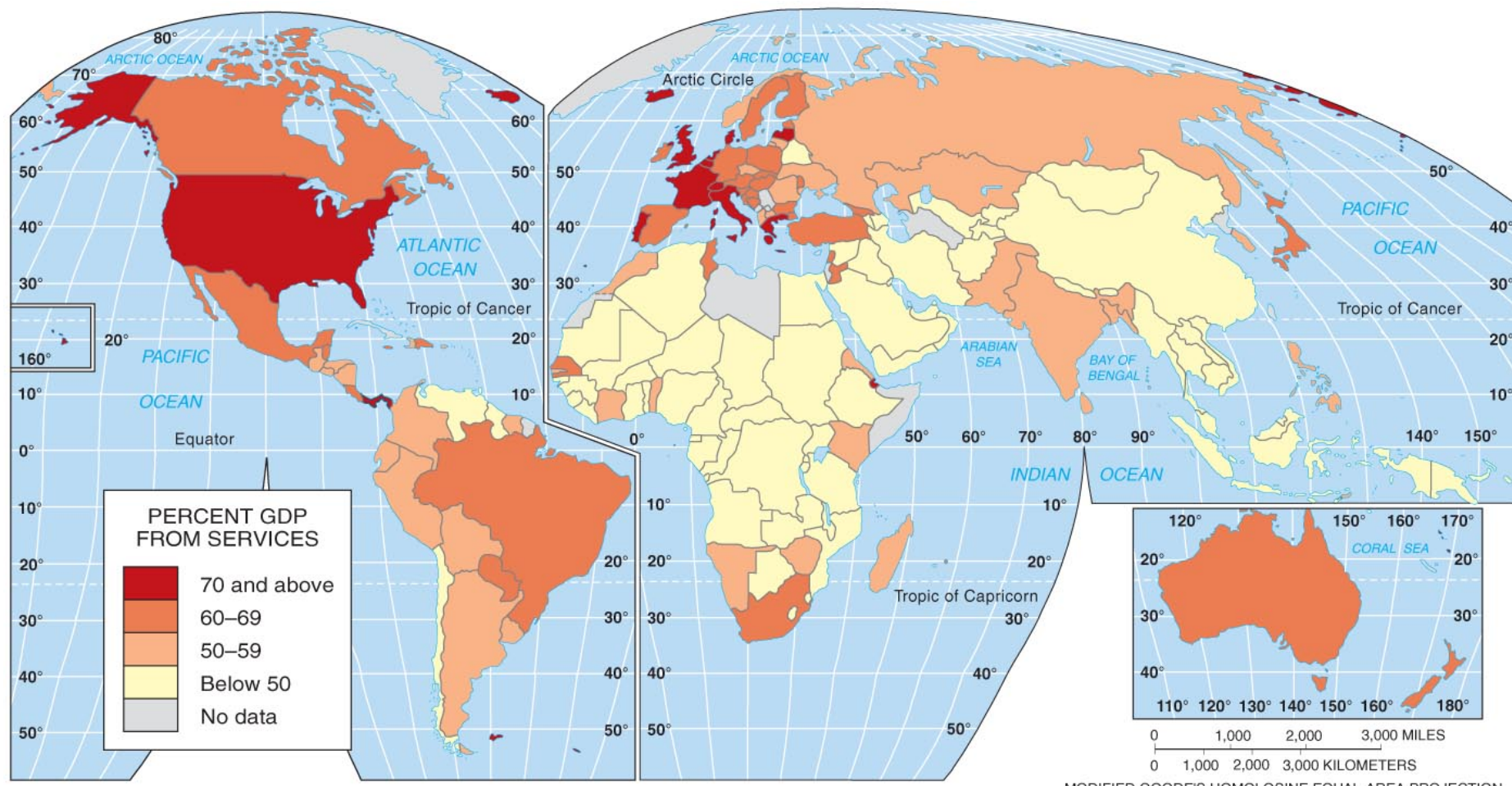
Key Issues

- Where are services distributed?
- Where are consumer services distributed?
- Where are business services distributed?
- Why do services cluster in settlements?

KI #1 Where Did Services Originate?

- Service = any activity that fulfills a human want or need and returns money to those who provide it
- Services are located in *settlements*
 - Location of services is important for profitability
 - Affluent regions tend to offer more services
 - Local diversity is evident in the provision of services

Percentage of GDP from Services, 2005



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0 1,000 2,000 3,000 MILES
 0 1,000 2,000 3,000 KILOMETERS
 MODIFIED GOODE'S HOMOLoSINE EQUAL-AREA PROJECTION

KI #1 Where Are Services Distributed?

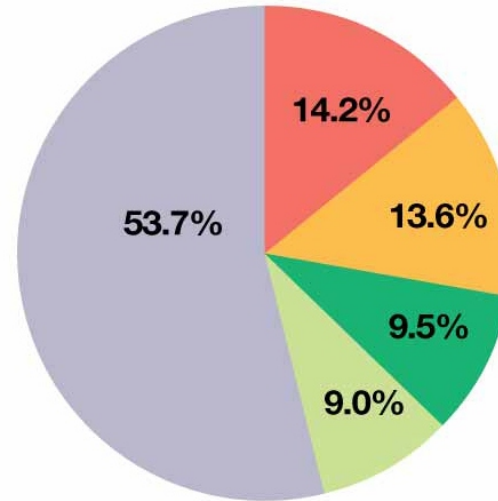
- Three Types of Services

1. Consumer Services

- Principal purpose is to provide services to individual consumers who desire them and can afford to pay for them.
- Constitutes nearly $\frac{1}{2}$ of all jobs in the U.S.
- Subdivided into four main types of consumer services:
 1. Retail and Wholesale Services
 2. Education Services
 3. Health and Social Services
 4. Leisure and Hospitality

Consumer Services

- Retail & Wholesale
- Health & social
- Education
- Leisure & hospitality
- Other U.S. jobs

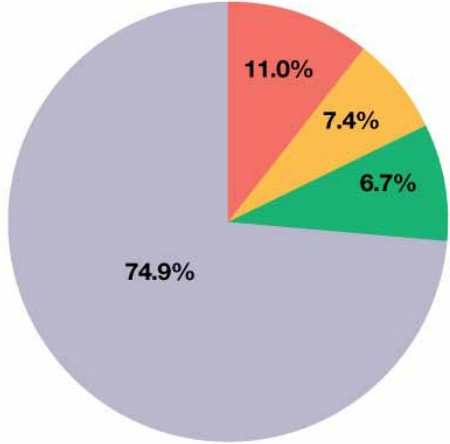


Where Are Services Distributed?

- Three Types of Services

- 2. Business Services

- Principal purpose is to facilitate other businesses.
 - Constitutes $\frac{1}{4}$ of all jobs in the U.S.
 - Subdivided into three main types of business services:
 1. Professional Services
 2. Financial Services
 3. Transportation Services



Where Are Services Distributed?

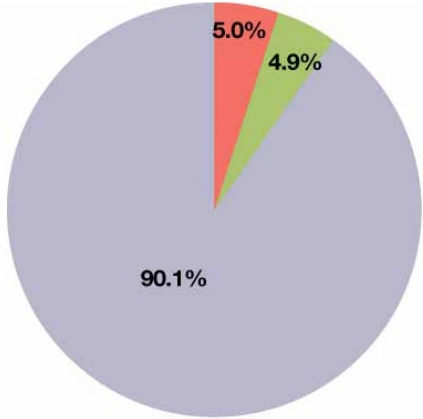
- Three Types of Services

- 3. Public Services

- Purpose is to provide security and protection for citizens and businesses.
 - Constitutes about 5% of all jobs in the U.S.
 - Workers divided among various levels of government.
 - » Federal Government: 1/6 of public sector employees
 - » State Government: 1/4 of public sector employees
 - » Local Government: 3/5 of public sector employees

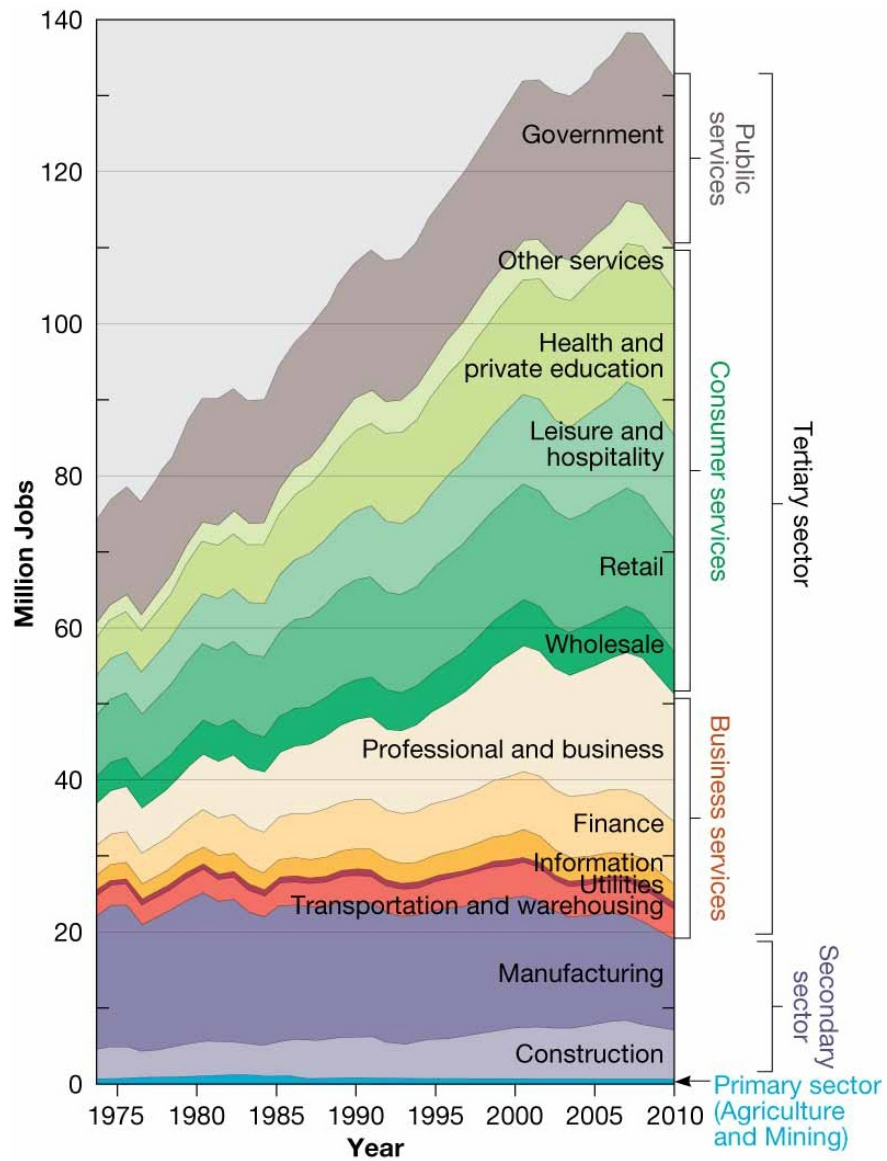
Public Services

- Government workers
- Other services
- Other U.S. Jobs



Where Are Services Distributed?

- **Rising and Falling Service Employment**
 - Service sector of the economy has seen nearly all the growth in employment worldwide.
 - Service sector has also been most negatively impacted by the recession.
- **Change in Number of Employees**
 - Within business services, jobs expanded most rapidly in professional services e.g. engineering, management, and law.
 - Within consumer services, fastest increase has been in provision of health care.



- Rank-Size Distribution of Settlements
 - Ranking settlements from largest to smallest in many developed countries produces a regular pattern or hierarchy.
 - *Rank-size rule* states that the country's n th-largest settlement is $1/n$ the population of the largest settlement.
 - Plotting populations on logarithmic paper produces a straight line.
 - Exceptions include the presence of a *primate city*—a city more than twice the population of the second-ranking settlement.

The Law of the Primate City and the Rank-Size Rule

- *“If all the settlements of a country are ranked according to population size, the sizes of the settlements will be inversely proportional to their rank”*

Zipf

- *The primate city is commonly at least twice as large as the next largest city and more than twice as significant.*

Mark Jefferson, 1939

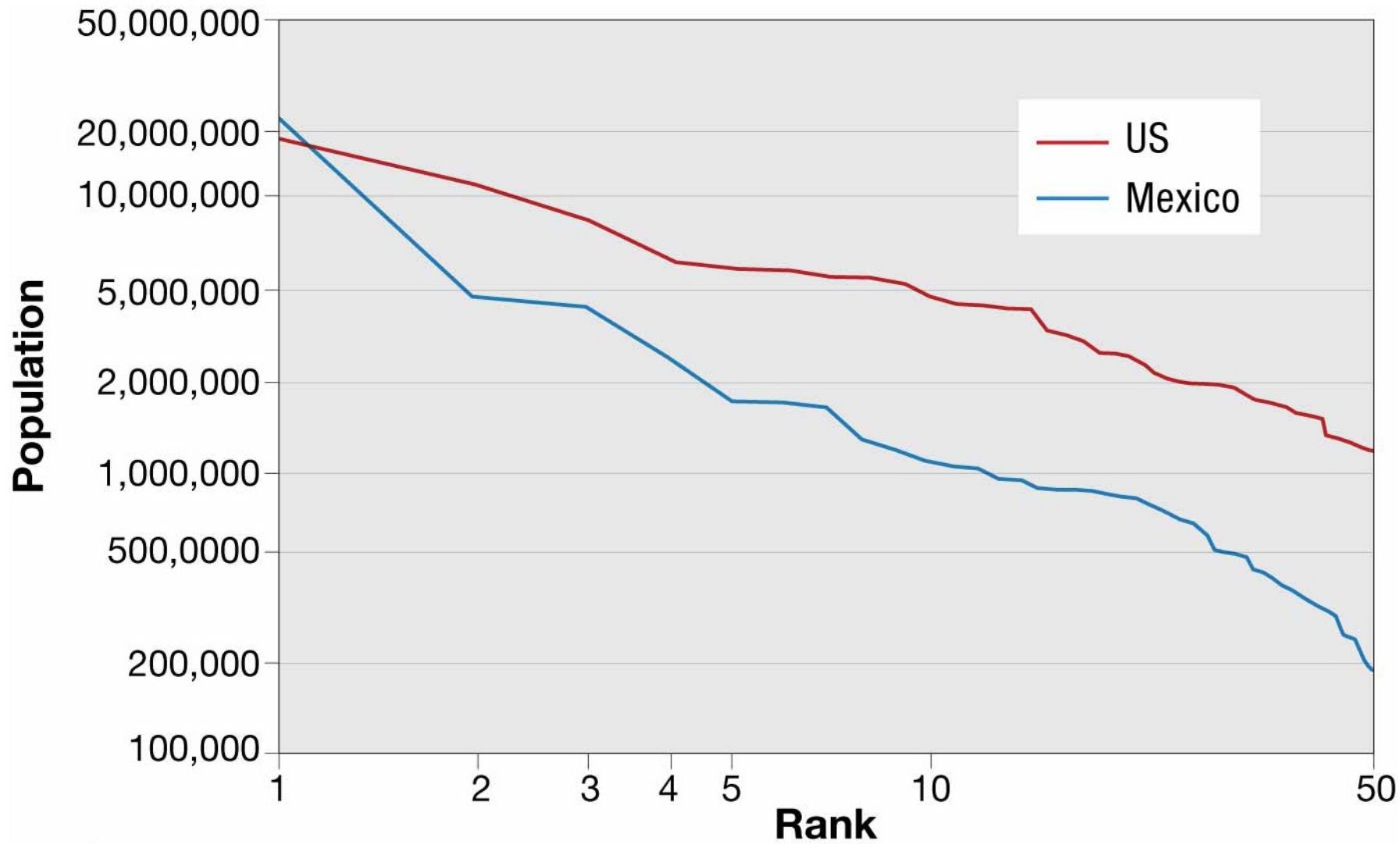
Rank Size Rule

- A country's n th-largest settlement is $1/n$ the population of the largest settlement. For example
 - Second largest city is $1/2$ the size of the largest.
 - Third largest city is $1/3$ the size of the largest.
 - Fourth biggest city is $1/4$ the size of the largest.
- etc.

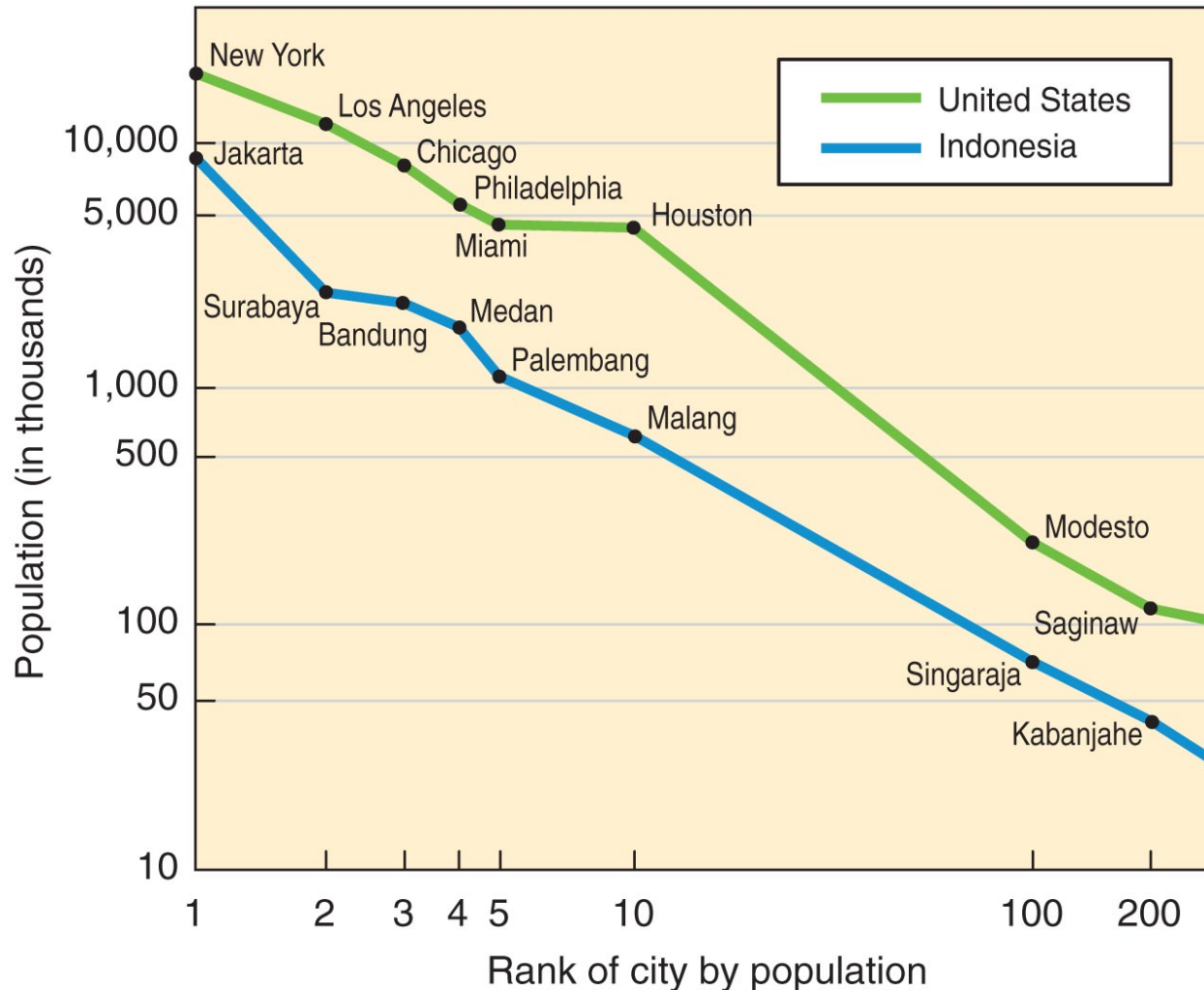
Primate Cities

- Examples of Primate Cities:
- Paris (9.6 million) is definitely the focus of France while Marseilles has a population of 1.3 million.
- Mexico City, Mexico (21.2 million) is significantly larger than 2nd largest Guadalajara (1.6 million).





Rank-Size Distribution in the United States and Indonesia



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Rank-Size Rule: What

- A regular hierarchy of settlements shows that the society has an even distribution of various order services - for example, it might only take someone living outside a city 10-15 minutes to reach a doctor.
- In LDC's, unequal distribution means in some areas, people have to travel further to get higher order services such as medical care, education, or Ferraris.
- Most people in LDCs don't have cars - so they will have to travel likely for hours to obtain these services.



Where Are Consumer Services Distributed?

- **Market Area Analysis**

- Service providers believe that the location of a business is the most important factor to its profitability.
- Steps to Determine Profitability of a Location
 1. Compute the Range
 - Survey local residents about willingness to travel a specific amount of time to the potential site of a new store.
 2. Compute the Threshold
 - Identify how many patrons are needed to meet expenses.
 3. Draw the Market Area
 - Draw the range around potential location of new store, then identify whether or not the threshold is met within that radius.

Where Are Consumer Services Distributed?

- Market Area Analysis
 - The *gravity model* predicts that the optimal location of a service is directly related to the number of people in the area and inversely related the distance people must travel to access it.
 - Essentially, the best location will be the one that minimizes travel for all potential customers.

KI #2 Where Are Consumer Services

- Geographers use *central place theory* to help explain why consumers services follow a regular pattern based on size of settlements, with larger settlements offering not only more consumer services but also more specialized ones.
 - Geographer Walter Christaller proposed the concept of a a central place in the 1930s.

Where Are Consumer Services Distributed?

- Market Area of A Service (nodal region)
 - A *central place* is a market center for the exchange of goods and services by people attracted from the surrounding area.
 - Its is centrally located to maximize accessibility.
 - A *market area*, or *hinterland*, is the area surrounding a service from which customers are attracted.

- How far are you willing to drive for pizza?
- How far would you be willing to drive to see an oncologist that has a high success rate in treating leukemia with chemotherapy?



Where Are Consumer Services Distributed?

- Range and Threshold of a Market Area
 - The *range* of a service is the maximum distance people are willing to travel to use it.
 - People travel short distances for everyday services. e.g. groceries and movie rentals
 - People travel greater distances for services offered exclusively in specific places. e.g. concerts and professional sporting events
 - The *threshold* of a service is the minimum number of people needed to support the service.
 - Service providers determine the suitability of a service center by overlaying the range of potential customers to its threshold.

Range

- The maximum distance most people are willing to travel to use a service
 - Gas Station vs Husker Football game
 - Another example = McDonalds
 - In an urban area like Lincoln, the range of a McDonalds is approximately 3 miles



What factors go into range?

- How many other people offer the service
- People think of range in terms of time, not distance



Okay, we get it. You win.

Threshold

- Minimum number of people needed to support a service
 - Minimum number of people to do what????
 - Why do companies divide up space between stores?



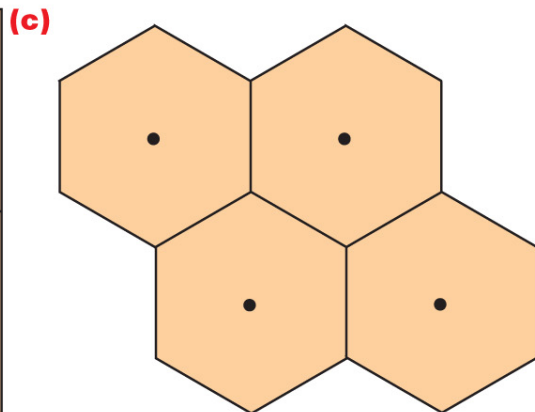
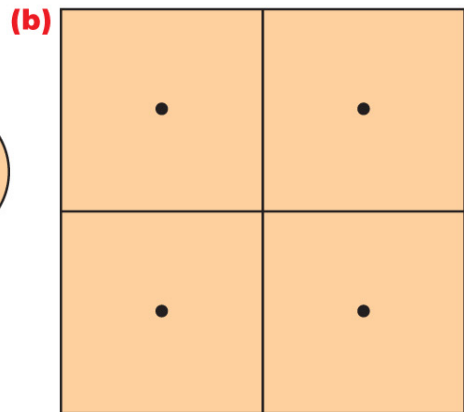
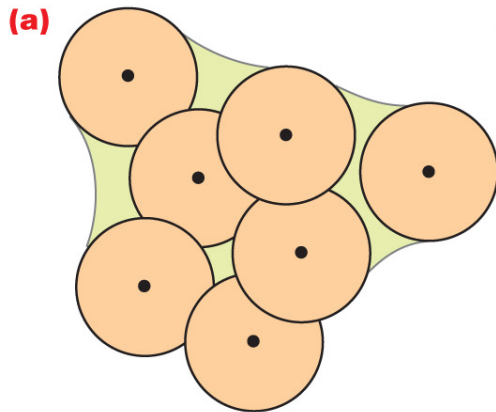
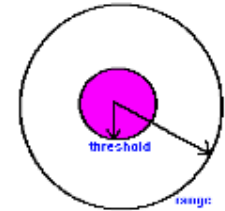
Which customers inside the range do you count????

- Everyone can eat fast food
- But can everyone shop at Gucci or Louis Vuitton?
 - Each service counts its customers differently

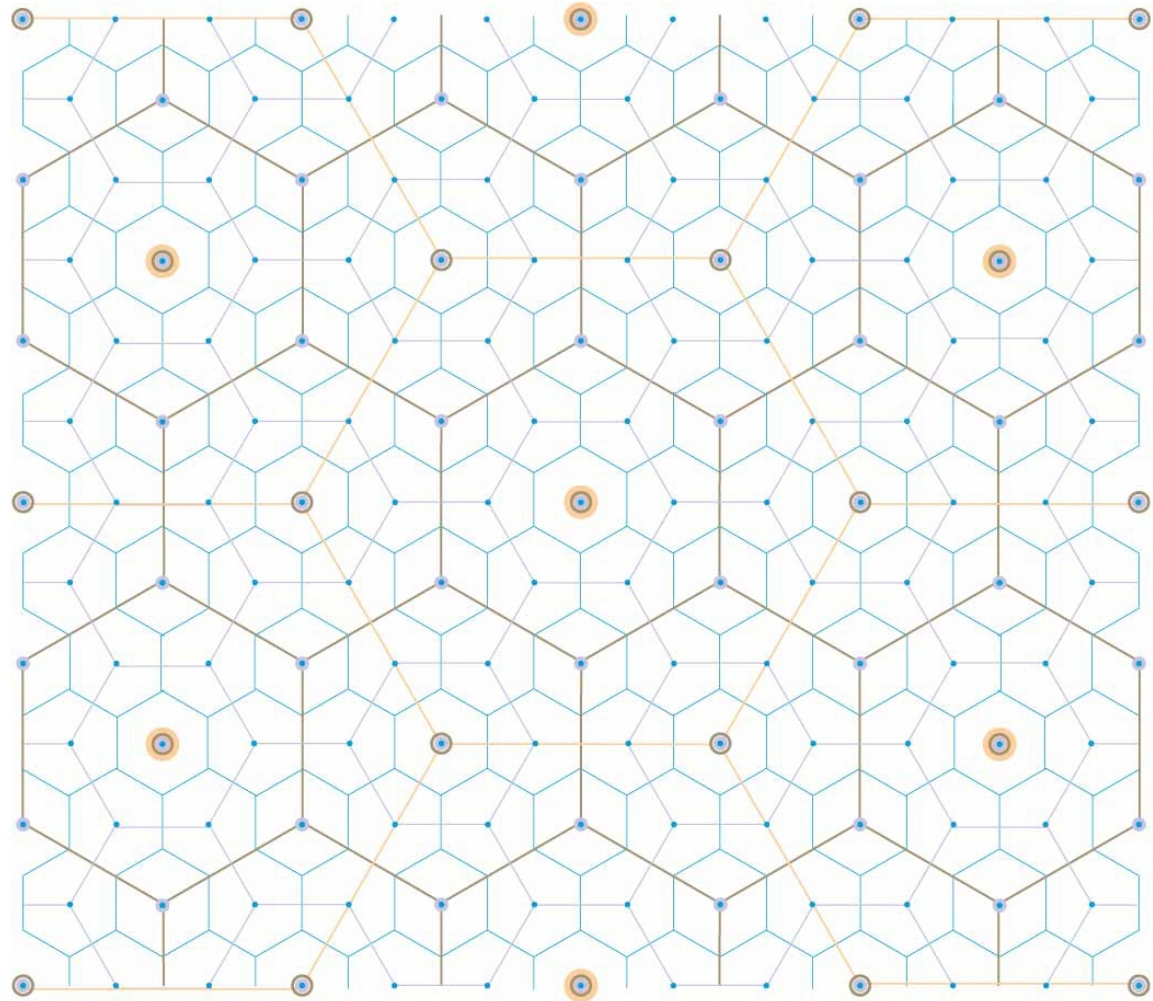


Central Place Theory

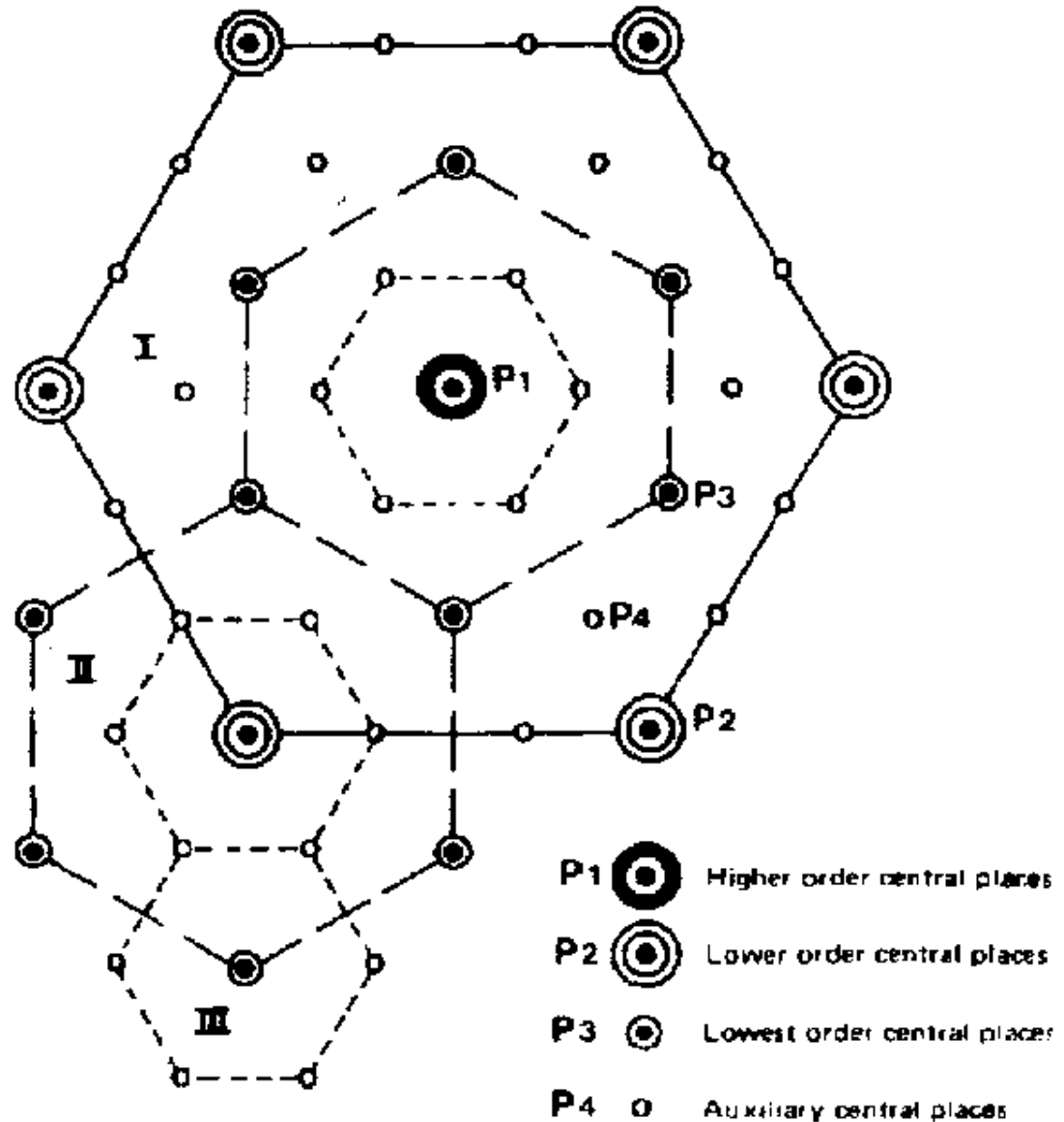
- How do you calculate the market area, or hinterland of a given service? What shape would it be?
- Range
- Threshold



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- Low order services (bread, gas)
- High order services (mac store, Ferrari dealership)





**The Contiguous United States
Visualized by distance to the nearest McDonald's**

by Stephen Von Worley • September 2009

DATA POINTED datapointed.net

Location data courtesy of AggData

<http://www.aggdata.com/>

The Burger Force: Controlled Territory

The Eight Largest U.S. Burger Chains

- McDonald's
- Burger King
- Wendy's
- Sonic Drive-In
- Jack In The Box
- Dairy Queen
- Hardee's
- Carl's Jr.

Stephen Von Worley • February 2010
DATA POINTED datapointed.net
Data courtesy of AggData, www.aggdata.com

Where Are Consumer Services Distributed?

- Hierarchy of Consumer Services
 - Only consumer services that have small thresholds, short ranges, and small market areas are found in small settlement.
 - Larger settlements provide consumer services that have larger thresholds, ranges, and market areas.
 - Developed countries have numerous small settlements with small thresholds and ranges and far fewer large settlements with large thresholds and ranges.

Where Are Consumer Services Distributed?

- Nesting of Services and Settlements
 - Central place theory posits that market areas across a developed country would be shaped as a series of hexagons of various sizes, unless interrupted by physical features.
 - Four different levels of market area exist:
 1. Hamlet (smallest)
 2. Village
 3. Town
 4. City (largest)



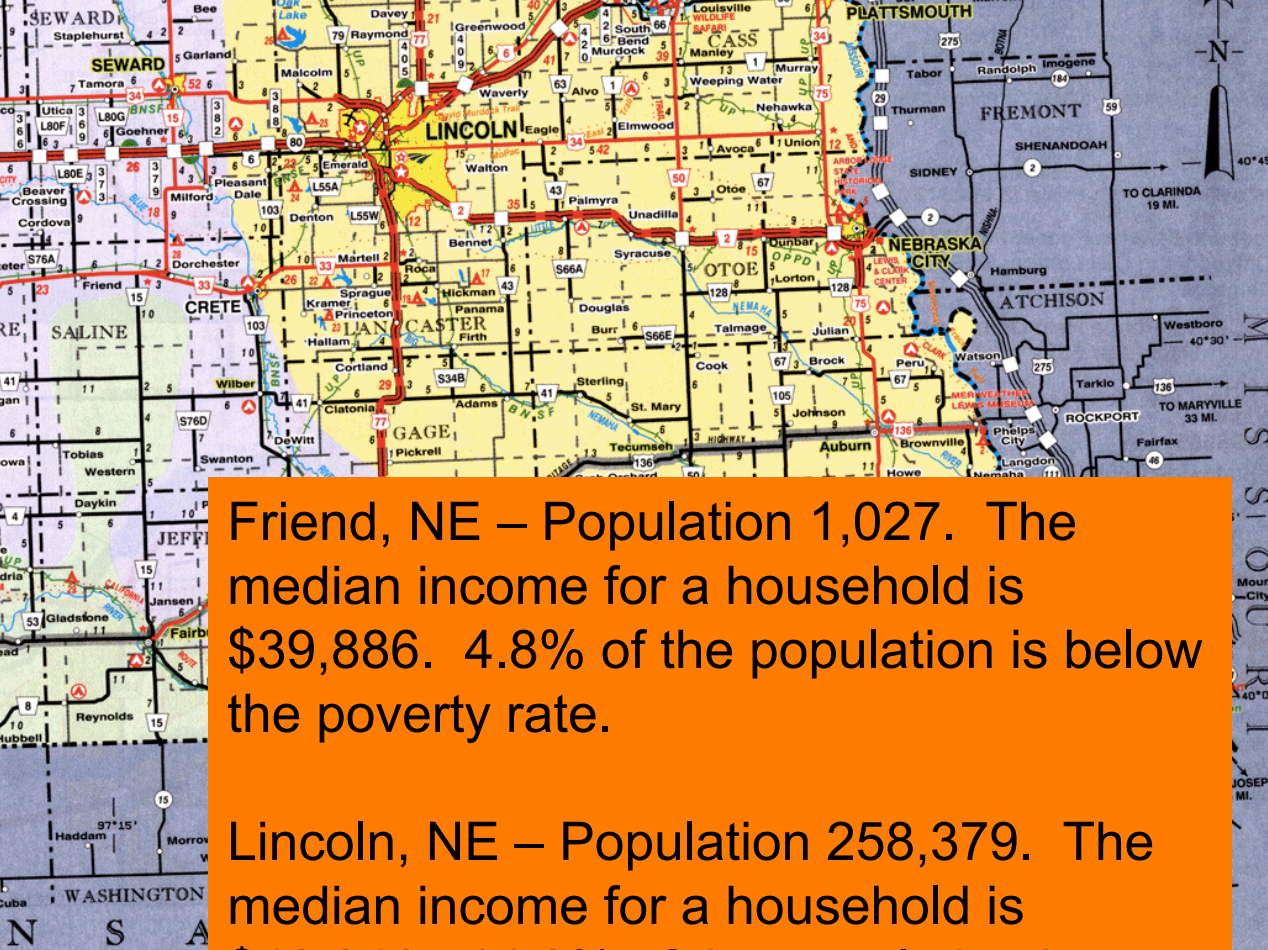
CPT: Limitations

- Large, contiguous areas of flat land rarely exist
- There are many forms of transport - cost does not equal distance
- People and wealth are not evenly distributed
- People do not always go to the nearest good or service
- Services and goods are not all equal competitors

So why use it?

- Use this idea of the equal distribution of services in planning new communities so that all people have access to important high order services and goods
- Just by looking at the model forces us to compare the model vs. reality - by explaining the difference we better understand the distribution of goods and services in urban settlements

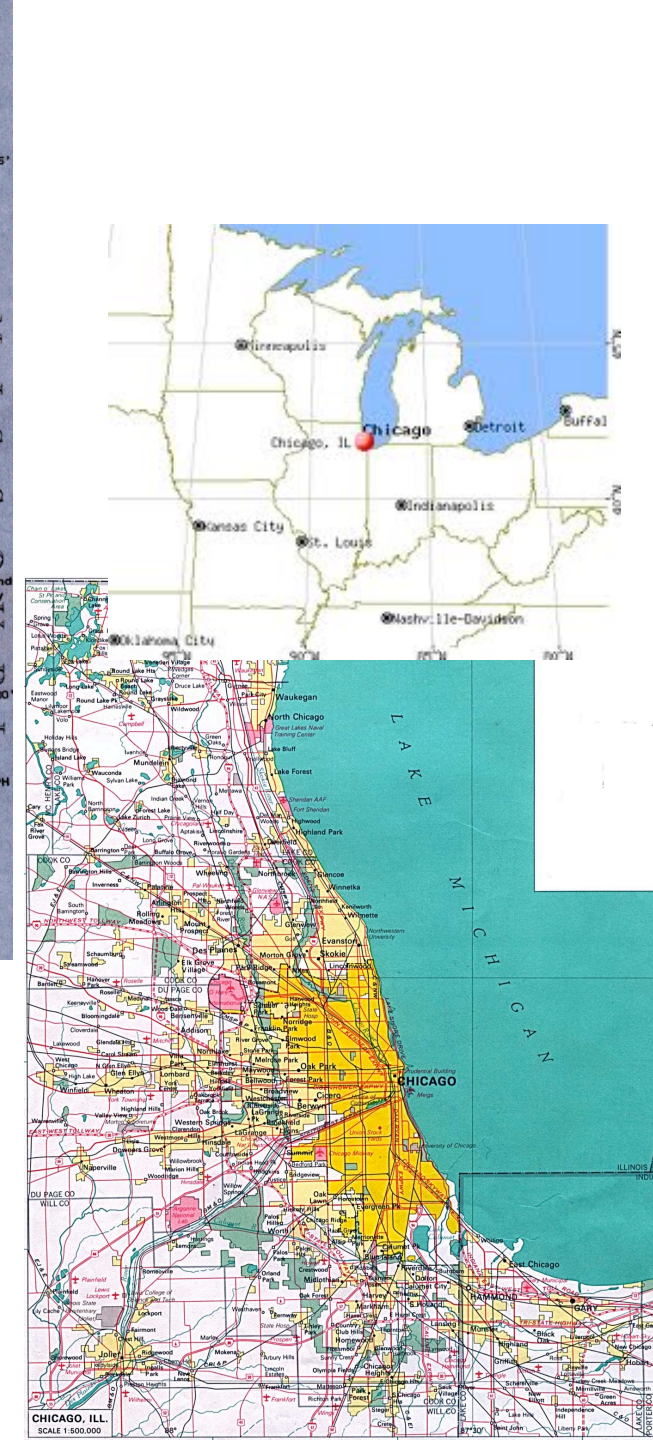
	<u>LOW ORDER SERVICES</u>	<u>MEDIUM ORDER SERVICES</u>	<u>HIGH ORDER SERVICES</u>
NUMBER FOUND IN A SETTLEMENT	Very Many	Quite a few	Fewest
HOW OFTEN THEY ARE USED	Frequently	Quite often	Occasionally
FOUND IN	All size of settlements	Usually towns and larger settlements	The largest settlements
SIZE OF THE SPHERE OF INFLUENCE	Small	Medium	Large
EXAMPLES	Newspapers, post offices, gas stations	Hairdressers, shopping malls, grocery stores, boutiques	Furniture shops, International Airports, Ferrari Dealership
	<u>LOW ORDER SERVICES</u>	<u>MEDIUM ORDER SERVICES</u>	<u>HIGH ORDER SERVICES</u>



Friend, NE – Population 1,027. The median income for a household is \$39,886. 4.8% of the population is below the poverty rate.

Lincoln, NE – Population 258,379. The median income for a household is \$48,846. 14.9% of the population is below the poverty rate.

Chicago, IL – Population 2,707,120. The median income for a household is \$47,371. 21.4% of the population is below the poverty rate.



Services Lab Activity

- We will examine the different types of services, market areas, and locations of services by plotting multiple services around the Midwest.
- The purpose of completing this activity is to identify how different types of services would likely appear in different types of cities, because they have different ranges, thresholds, and target demographics.
- On your Lab Activity Packet, you will complete each of the categories based on your research.

Things to think about

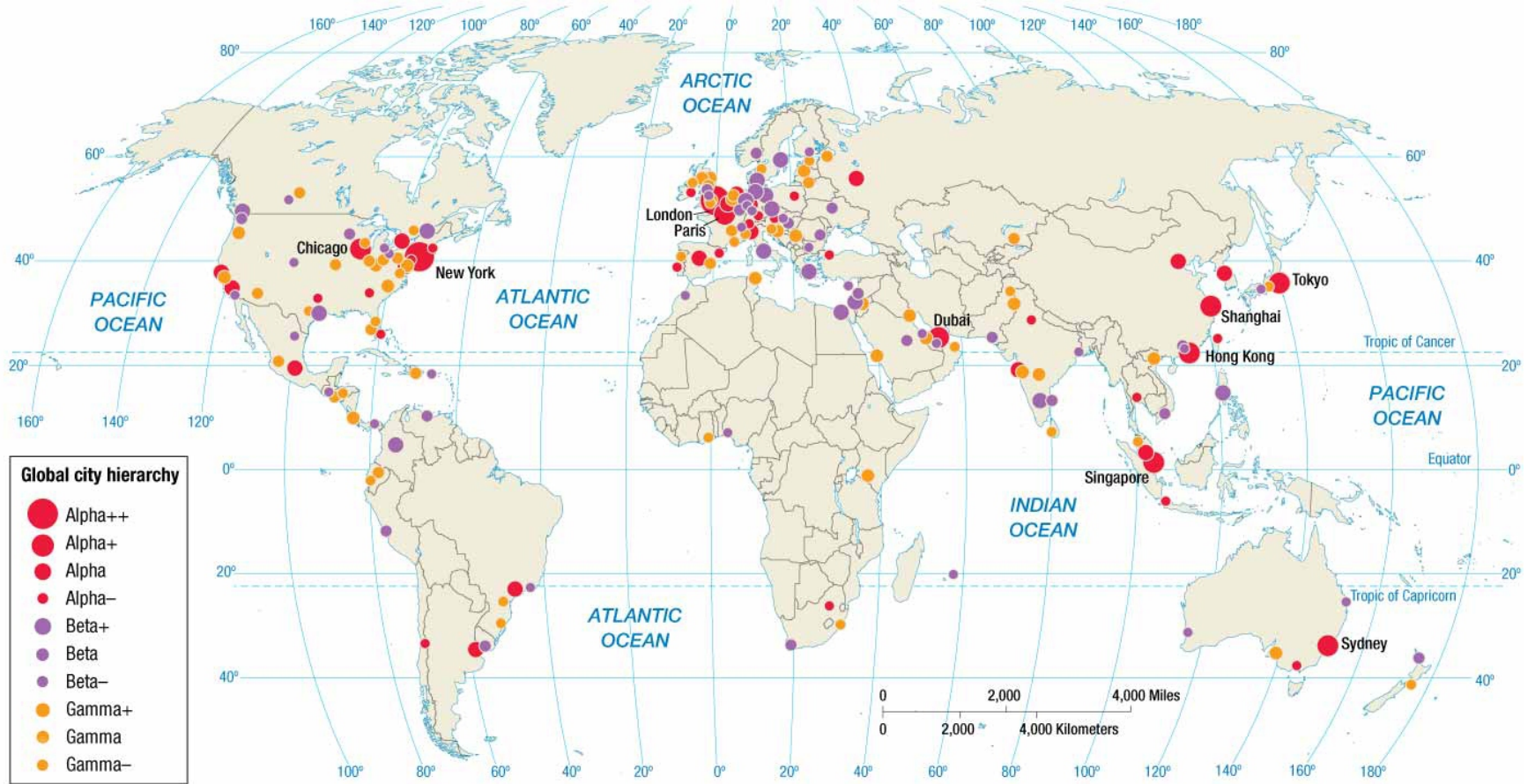
- Is there a pattern?
- Are there any services that can only be found in one town? Which ones? Why?
- Which kinds of jobs are more specialized?
- Why can't services count everyone within their range?

KI #3 Where Are Business Services

- Hierarchy of Business Services
 - All urban settlements provide consumer services, but not every settlement of a given size has the same number and types of business services.
 - Urban settlements tend to specialize in one or a few specific business services.
 - Geographers distinguish four levels of urban settlements according to their importance as business services providers.

Where Are Business Services Distributed?

- Hierarchy of Business Services
 - Business Services in Global Cities
 - *Global cities or world cities* are at the top of the urban settlement hierarchy.
 - Center of the flow of information and capital in the global economy.
 - Location of countless large corporations' headquarters.
 - Global cities area divided into three levels: alpha, beta, and gamma, which, in turn, are further subdivided based on economic, political, cultural, and infrastructure factors.
 - » Examples – alpha++ (New York) and alpha+ (Chicago)





Where Are Business Services Distributed?

- **Business Services in Developing Countries**
 - Some businesses locate in developing countries, because they tend to offer supportive laws, weak regulations, and low-wage workers.
 - Primarily there are two main types of business services offered in developing countries.
 1. **Offshore Financial Services**
 - Taxes
 - » Tax breaks include little to no taxes on income, profits, and capital gains.
 - Privacy
 - » Bank secrecy laws can help individuals and businesses evade disclosure in their home countries.

Where Are Business Services Distributed?

- **Business Services in Developing Countries**
 - Primarily there are two main types of business services offered in developing countries cont' d.
 2. **Business-Processing Outsourcing**
 - *Back-office* functions, such as insurance claims processing, payroll management, transcription work, and other routine clerical activities, can be performed at a lower cost, if they are performed by workers in developing countries.
 - » Developing countries with a large labor force fluent in English are relatively more attractive to firms seeking a place to outsource some of their routine work.

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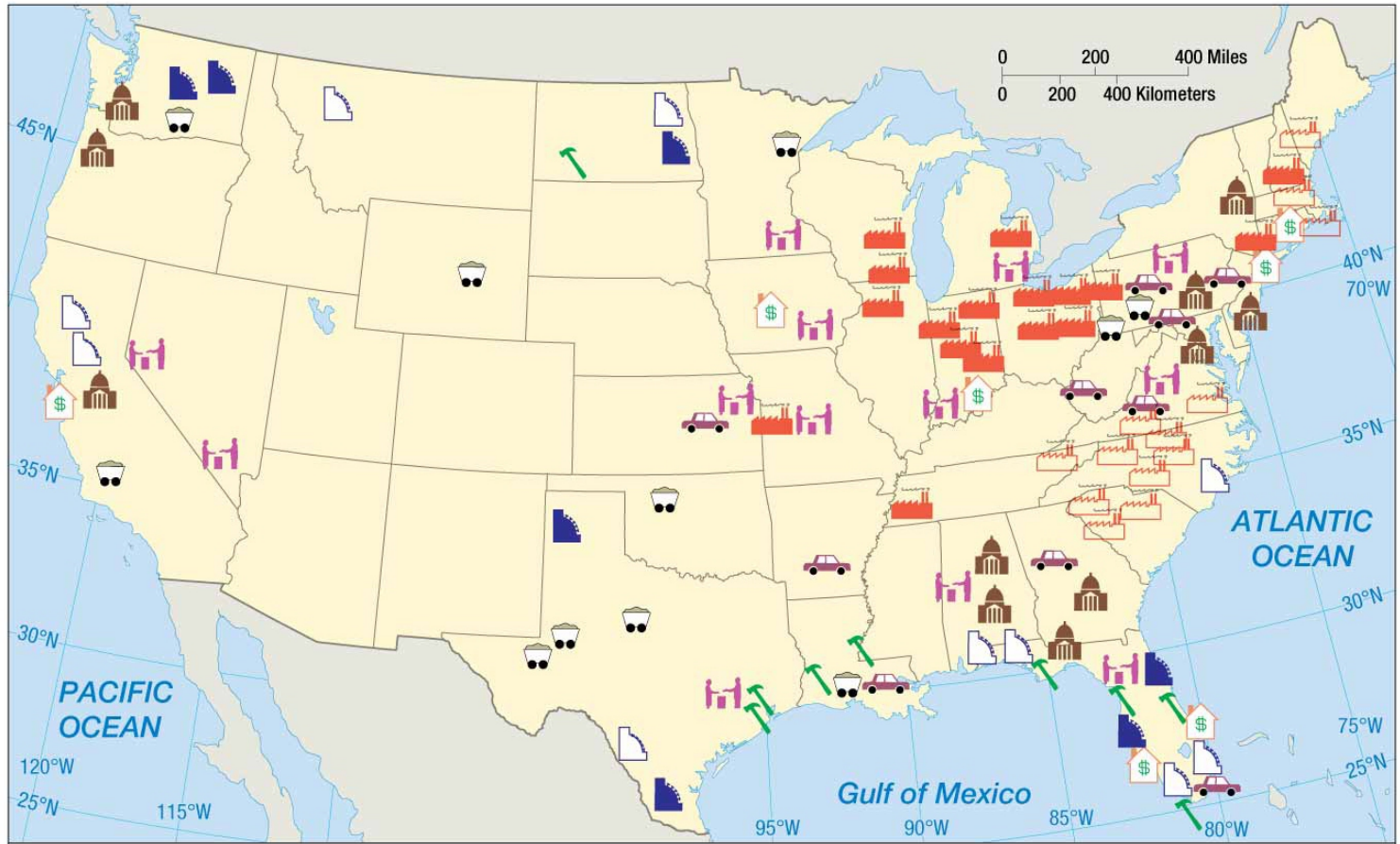
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Where Are Business Services Distributed?

- Economic Base of Settlements
 - A settlement's distinctive economic structure derives from its *basic industries*, which export primarily to consumers outside the settlement.
 - *Nonbasic industries* are enterprises whose customers live in the same community-essentially, consumer services.
 - A community's unique collection of basic industries defines its *economic base*.
 - Economic base of a postindustrial society, such as the U.S., are in business, consumer, or public services.
 - Ex. Computing and data processing services: Boston



Primary sector

Mining

Secondary sector

Construction
 Manufacturing—durable goods
 Manufacturing—nondurable goods

Consumer services

Retail trade
 Wholesale trade
 Personal services

Business services

Finance, insurance, real estate
 Transportation, communication, and public utilities

Public services

Public services

KI #4 Why Do Services Cluster in Settlements?

- Services in Rural Settlements

- Rural settlements tend to take one of two forms.

1. *A clustered rural settlement* is an agricultural-based community in which a number of families live in close proximity to each other, with fields surrounding the collection of houses and farm buildings.
 - Typically include homes, barns, tool sheds, and consumer services, such as religious structures, schools, and shops.
2. *A dispersed rural settlement*, typical of the North American rural landscape, is characterized by farmers living on individual farms isolated from neighbors.





Why Do Services Cluster in Settlements?

- Services in Rural Settlements
 - Services in Early Settlements
 - Early Consumer Services
 - Places to bury the dead
 - Religious leaders stationed at burial sites to perform service of saying prayers for the deceased.
 - » Likely encouraged the building of more permanent structures for ceremonies and dwellings.
 - Manufacturing centers
 - Early Public Services
 - Primarily tasked with offering protection to everyone in the settlement.
 - » Walls built around settlements for protection.
 - » Defenders (soldiers)

Why Do Services Cluster in Settlements?

- Services in Rural Settlements
 - Services in Early Settlements (cont' d)
 - Early Business Services
 - Settlement served as a neutral ground where several groups could safely come together to trade goods and services.
 - Officials in the settlement provided producer services.
 - » Regulating the terms of transactions
 - » Setting fair prices
 - » Keeping records
 - » Creating a currency system

Why Do Services Cluster in Settlements?

- Urbanization
 - Earliest Urban Settlements
 - Prehistoric Urban Settlements
 - Earliest urban settlements were probably in the Fertile Crescent of Southwest Asia and North Africa.
 - Among the oldest is Ur in Mesopotamia (present-day Iraq)



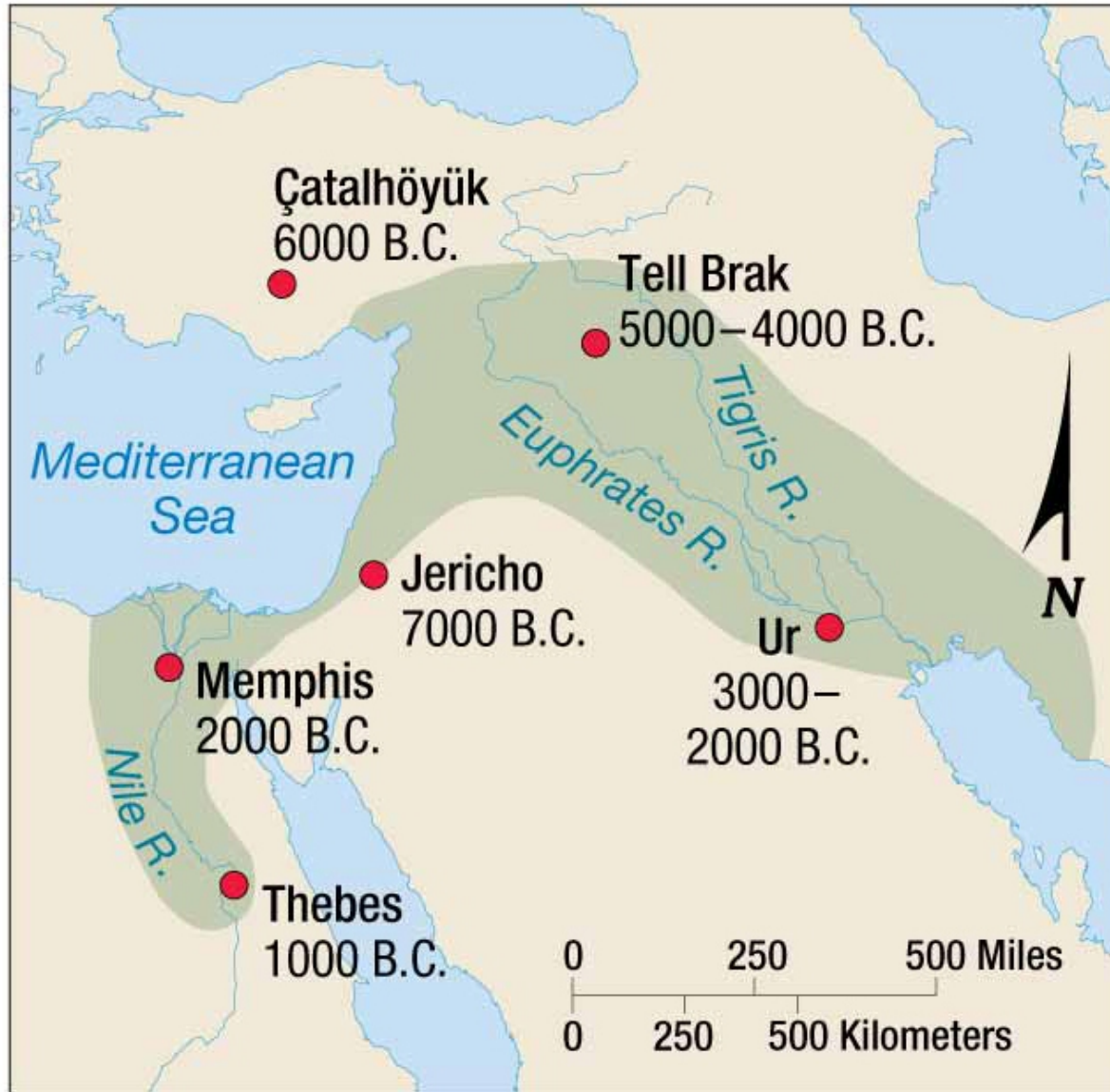
Why Do Services Cluster in Settlements?

- Urbanization

- Earliest Urban Settlements Cont' d.

- Ancient Urban Settlements

- Settlements first established in eastern Mediterranean about 2,500 B.C.
 - » Knossos (on the island of Crete)
 - » Troy (in Asia Minor- [Turkey])
 - » Mycenae (in Greece)
 - Aforementioned urban settlements were primarily trading centers and organized into *city-states*- independent self-governing communities that included the settlement and nearby countryside.
 - » Athens was the largest city-state in Greece
 - » Rome was believed to have grown to a population between 250,000 and 1 million.



Why Do Services Cluster in Settlements?

- Urbanization

- Earliest Urban Settlements Cont' d.

- Medieval Urban Settlements

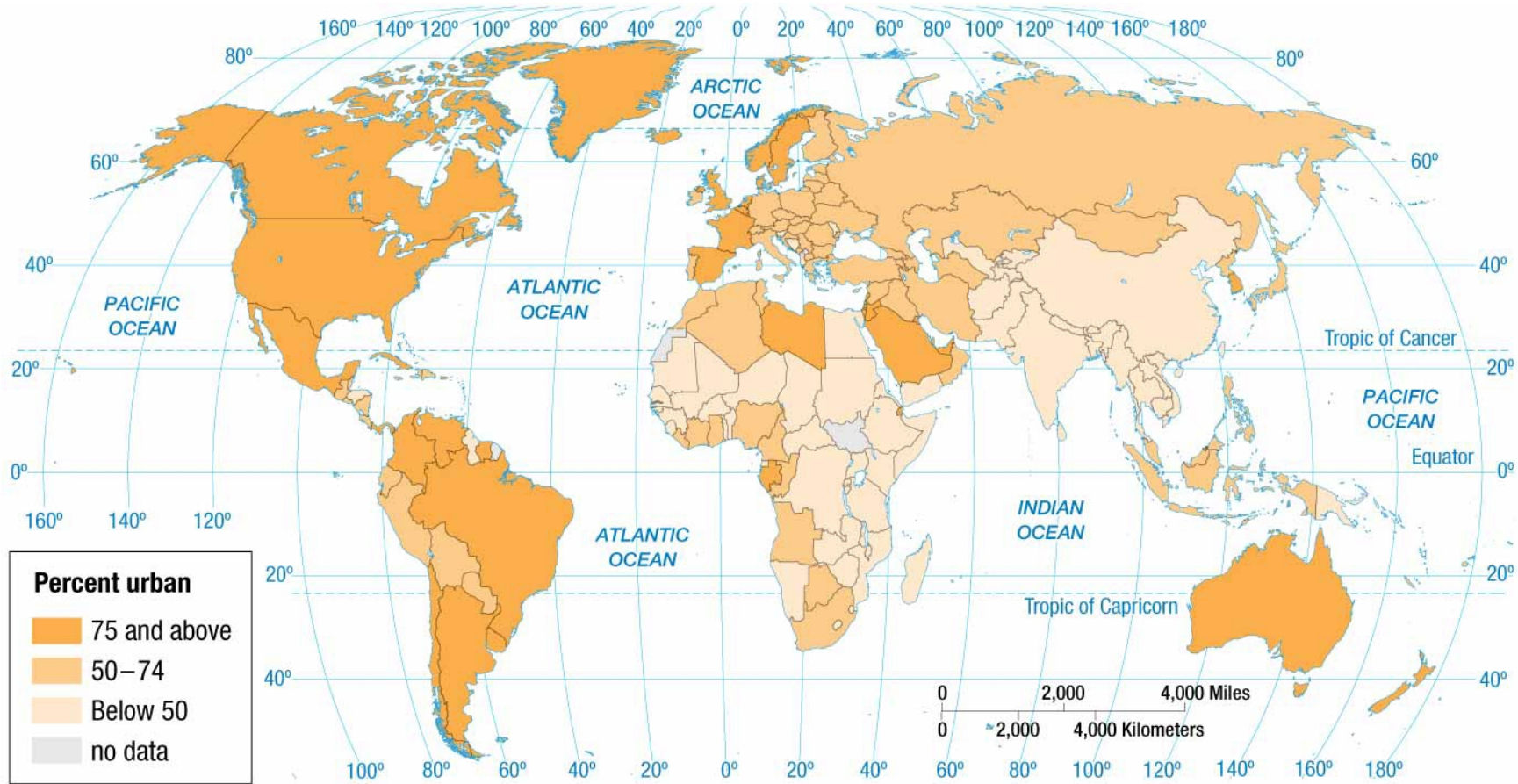
- Dense network of small market towns serving the needs of particular lords covered much of Europe.
 - Largest medieval European settlements served as power centers for the lords, church leaders, and as major market centers.
 - Tallest and most elaborate structures were usually churches.
 - Usually surrounded by walls.

Why Do Services Cluster in Settlements?

- Urbanization

- Rapid Growth of Urban Settlements

- The process by which the population of urban settlements grows, known as *urbanization*, has two dimensions.
 1. An increase in the *number* of people living in urban settlements.
 - » Developing countries have 8 of the 10 most populous cities.
 2. An increase in the *percentage* of people living in urban settlements.
 - » Percentage of people living in the urban settlements has increased from 3% in 1800 to 6% in 1850, 14% in 1900, 30% in 1950, and 47% in 2000.
 - » Developed Countries: $\frac{3}{4}$ of population is urbanized.
 - » Developing Countries: $\frac{2}{5}$ of population is urbanized.





Summary

- Most jobs are in the service sector, especially in developed countries.
- Consumer services generally follow a regular pattern, based on size of settlements.
- Business services disproportionately cluster in a handful of urban settlements.
- Services cluster in both rural and urban settlements as a function of market areas, ranges, and thresholds, which are integral to central place theory.