Last orders

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Guinness Brewery, now Diageo, Park Royal. Sales and marketing will remain.
www.brent-heritage.co.uk

Guinness is to abandon the manufacturing wing of its operations in London, although administrative functions will remain there. The Park Royal site in north-west London has been brewing the famous Irish beer since 1938. In the future, however, all Guinness sold in UK pubs will have been imported from the Dublin brewery in neighbouring Ireland.

Guinness is owned by the Transnational Corporation *Diageo*. The changes are part of a restructuring process that is intended to increase profits. With British drinkers increasingly turning to lager and 'alco-pops', Guinness has seen its sales fall by 3% over the last six months, although it is still the UK's fifth most popular beer (*The Guardian*, 16 April 2004). As a result, the breweries in London and Dublin have a greater joint production capacity than is now needed.

Considerable savings will be made in shutting Park Royal brewery, enough to compensate for the additional transport costs that will be incurred by shifting an annual estimated 4 million barrels into the UK from Dublin. Although 90 brewery jobs will be lost, new tertiary (service) sector jobs will be created at Park Royal. The site is also used as Diageo's UK sales and marketing headquarters, which the company now intends to expand. In addition to Guinness, Diageo owns Smirnoff Vodka, Johnny Walker and many classic whiskies (including Talisker, Oban, Caol Ila and Cardhu, amongst others), all of which will be marketed in the UK from the Park Royal HQ.

This story has special relevance for GCSE and AS students studying changes in MEDC cities and to students at all levels studying contemporary industrial location and the geography of Transnational Corporations (TNCs).

1. Guinness, going, gone: urban industry in decline?

Modern post-industrial cities rarely retain their original industrial functions. Heavy industries such as steel-making or ship-building have all but disappeared from the UK as jobs have fled overseas to Newly Industrialising Countries such as South Korea where wages are lower than in the UK (a change known as *global shift*). As a result, UK cities have undergone deindustrialisation in recent decades. Old industrial buildings have often been converted into offices and flats, which geographers describe as a change in *function*.

Breweries have often survived this process of change until now because they are market-orientated 'weight-gaining' industries. Because so much of the product is water (a relatively ubiquitous commodity), beer is bulky and heavy thus transportation costs are high. It is also perishable so the optimum site for such industries (where costs are lowest and profits are greatest) has traditionally been close to the product's actual market - namely where the beer drinkers are - city pubs and restaurants. There has also always been a large immigrant Irish population in London, following the Nineteenth Century potato famine and successive waves of labour migration throughout the Twentieth Century. Demand for Guinness would have been high and mass production on the outskirts of London would originally have been much cheaper than transporting the product all of the way from Dublin.

However, transport costs have fallen over time, while land prices in London have risen dramatically. As a result, many industries have already abandoned the city, with the brewing wing of Guinness now set to follow. Many factories have closed at Park Royal since the 1960s when employment was at its peak.

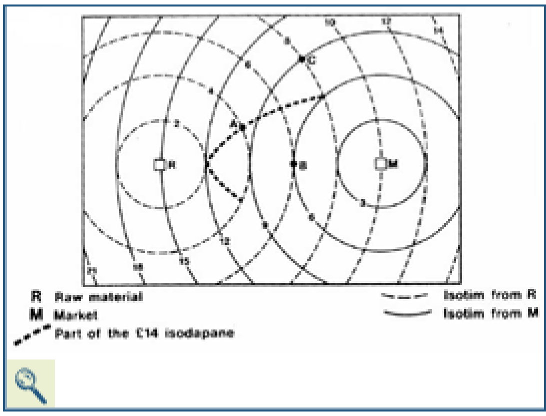
Thousands of jobs were lost after the late 1970s as firms went into liquidation (went bust), decentralised (moved away) or mechanised and rationalised. By 1987, Park Royal was a depressed area although the three main food processing employers of the area - Guinness, Heinz and United Biscuits - still remained, attracted by the site's proximity to markets in London and the south-east. Now, even Guinness is going.

However, new growth is also occurring in this zone of outer London. Just as the Thames Docklands area began a functional shift in the 1980s, Park Royal is also changing. Park Royal Partnership Ltd. is a group of public and private organisations charged by the Government with regeneration. Park Royal also benefits from Department of Trade and Industry Intermediate Assisted Area and European Objective 2 status, with grants available for eligible projects in service industries.

With its potential accessibility and equidistant location between Heathrow and Central London, the site offers major potential for new types of inward investment. In time it is hoped that the manufacturing and food processing jobs of the past will be replaced with service sector, administrative and warehousing work. With the shift towards 'just-in-time' distribution, there is a shortage in outer London for the type of premises needed for this type of activity. The redevelopment of the site may actually be helped by the presence of the old Guinness Brewery buildings, constructed between 1933 and 1936. These Listed Buildings have brick facades designed by Sir Giles Gilbert Scott, who also designed Bankside power station (now Tate Modern). They may prove attractive to inward investors.

2. Least cost location: Weber revisited?

This news story also invites a critical re-examination of the work of Alfred Weber, whose industrial location theory (1909) long served as a cornerstone of economic geography.



Industrial location theory - Weber

Lines of equal transport cost in £'s (isotims) for the movement of raw material from R and the movement of products from M.

Weber argued that an industry would seek out the least cost location in an attempt to maximise its profits. The least-cost location is a function of the costs of transporting raw materials and finished products. These costs can be represented graphically through the construction of isodapanes. Given that beer mostly consists of water – a relatively *ubiquitous* material that is available everywhere – breweries have always been found close to their markets in order to avoid the transport costs of hauling barrels of liquid long distances. Beer and other drinks have a low material index.

Material Index (MI) = weight of raw materials÷weight of finished product

For instance, if water is added to 1kg of materials to produce 100 Kg of finished product, then the MI = 1/100 = 0.01. This type of product is likely to be produced as near to the market where it is sold as possible. However, if the MI is greater than 1, then weight is lost during the manufacturing process. Where would you expect to find the factory in this case? What kind of products might be involved?

Guinness Brewery (1933-36) - beer was shipped on the canal
www.brent-heritage.co.uk

Several factors originally made this site the least-cost location for Guinness in the UK. Park Royal is situated in the south of Brent, southeast of Alperton and southwest of Stonebridge and Harlesden. It was an excellent choice of location, according to traditional location theory, due to the presence of a branch of the Grand Junction Canal. Built in the late 1700s, the main trunk of the Grand Junction Canal linked London with the canals of the Midlands. It originally terminated at the Thames in the west near Kew. This created problems transporting materials eastwards to the docks because of the tidal nature of the river. A short-cut into the city was engineered, leaving the main canal at Southall and running to Paddington. It is this branch that passes through Park Royal, straight into the heart of the city. Guinness could manufacture their product as close to the market as possible while still being able to obtain the use of a large piece of land at relatively low rent. They then relied upon the canal to transport barrels the short remaining distance to Paddington, from where city-wide distribution to pubs could begin.

In addition, the Metropolitan District Railway (now part of the Piccadilly Line) had been running through Park Royal since 1903. Later, the building of the A406 North Circular Road made the area highly suitable for the import of raw materials and the export of goods, while good public transport links with urbanised Willesden provided a workforce. Reflecting these advantages, by 1932 there were 73 factories in Park Royal, employing 13,400 and manufacturing foodstuffs (including Heinz), electrical equipment, paper and machinery. All of these market-orientated products were being manufactured locally for distribution throughout London and the south-east. The estate was becoming the largest industrial zone in southern England and by 1939 there were at least 256 firms in Park Royal alone, some making consumer goods like fountain pens and radio sets, others making capital goods like lorries or electric motors. It was during this period that the original Guinness Brewery was constructed (*source: www.brent-heritage.co.uk*).

However, the relative importance of various industrial location factors has changed since Alfred Weber's day. Although Weber accepted that labour costs could vary geographically, he believed that transport costs were the determining factor when examining industrial location. While this may have been true during the period when Guinness became established in Park Royal, subsequent transport innovations have greatly reduced the cost of transport. Meanwhile, competition from retail and office land users have led to escalating rental costs in major cities such as London. New government regulations, the availability of grants in assisted areas and the complexities of globalisation – including the establishment of Trade Blocs such as the European Union – must also now be taken into account.

In the case of Guinness, we can point to three key changes that have taken place since Weber's time that may help account for the closure of the Park Royal brewery and the decision to instead transport beer all the way from Dublin to British pubs.

- **Falling transport costs.** Motorway networks now exist, while the rail operators offer competitive haulage rates.
- **The growth of the European Union.** Within the single market, it is far easier to export from Ireland to the UK than in the past as trade barriers and tariffs have been abolished. This is meant to encourage firms to develop economies of scale, which is exactly what Guinness is doing.
- **Growth of TNCs.** Large firms such as Diageo are used to thinking globally and often aim to establish a spatial division of labour, wherein different phases of manufacturing and marketing are located in different regions in order to capitalise on their different comparative advantages (such as variations in skill levels, material resources or the availability of grants).

And it's goodbye Terry's, too

Terry's Chocolate is to cease manufacturing in York, it was also announced this week. According to *The Guardian* (20 April 2004), "Britain's capital of chocolate-making was left devastated yesterday by news that its most venerable sweet-making business is to close". Production of brands including *Chocolate Oranges* and *All Gold* will be transferred to newer plants in Sweden and Belgium and cheaper ones in Poland and Slovakia next year, with a loss of 316 UK jobs. This latest example of deindustrialisation bears many similarities to the Guinness closure:

- The firm is actually now a division of Swiss TNC Suchard, who are used to thinking globally and in exploiting the comparative advantages of different regions – in this case the cheap labour in Poland and Slovakia.
- Political factors are important here – the enlargement of the EU trading bloc to include Poland is taking place shortly. Poland will become a new least-cost location for many firms such as Suchard as it offers cheap labour but import tariffs will no longer apply once EU membership has been achieved.
- Transport costs will increase but these are more than offset by additional labour savings.

3. Diageo: a case study of a modern Transnational Corporation

As part of Diageo, Guinness is now integrated into a much wider network of production and consumption than in the past. Guinness and Grand Metropolitan merged in 1997 to form the Diageo corporate group. After the merger, Diageo held controlling interests in Guinness, Burger King, Haagen-Dazs, and Pillsbury. The latter three have since been sold off in order to acquire Seagram's in order to further consolidate Diageo's position in the international drinks market.

Within Diageo, the Guinness division is organised into seven geographical operating regions:

- Ireland
- Great Britain
- Iberia
- Europe
- Asia Pacific
- Africa
- Americas/Caribbean

1. **Global production network** Guinness brews its brands in around 50 countries, and employs around 12,500 people worldwide.
2. **Global consumption network** Guinness sells its beers in more than 150 countries; Cameroon and Nigeria reportedly have a growing taste for it (*The Guardian*, 16 April 2004).

4. Studying geography at university?

At an undergraduate level, Cultural Geographers might make connections between the economic geography of Diageo and the emergence of the Irish diaspora. The mass emigration of Irish throughout the New World in the Nineteenth Century resulted in settlement in the US, Australia, Canada and New Zealand. A global market for Irish cultural artefacts – such as Guinness – has resulted. Although the current ownership of Guinness is unable to claim any true connection to Ireland, it still becomes a signifier of Irish-ness. Students of postmodern geographies of consumption could engage with the emergence of 'authentic' Irish theme bars as a profit boost for firms such as Diageo in recent years. The successful promotion of such postmodern simulacrum is a strategy that Frederick Jameson has labelled 'the cultural logic of late capitalism'.

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