# Recognising that you've really turned into an economics geek: when you interview the kebab shop owner about the merits of clustering [1]

Written by **Tim Worstall** [2] | Tuesday 9 July 2013

I'm afraid that I must now confess to really having turned into an economics geek. From someone just interested to someone committed. I found myself interviewing the local kebab shop owner on the merits of clustering last week. I think that counts as falling over the edge, don't you?

There's two ways about thinking through the problem of where to site a retail store. One is, obviously, to site yourself where no one else is. You can then enjoy higher prices and margins as there's no competition. Sometimes people go to extremes, like truck money, where the workers are paid in money that can only be used at the company stores. Other times it's the village shop which can, possibly just, make a living by providing the conveniences that it's not worth going to the supermarket for.

Then there's an entirely opposite view: set up in business where everyone around you is doing much the same thing. Bond Street for expensive clothes, Hatton Garden for expensive presents for mistresses, just around the corner in a street whose name I have forgotten for arty and antique pieces. Sure, you're competing against the other people selling to the same clientele. But you're also all where that clientele can find you. The rich man will know where to go and wander about to find that necklace, picture or garter belt for his temporary inamorata. Or, perhaps more realistically, the younger and prettier half of any relationship will know where to spend the money of the other part of it. This is known as "clustering".

When I first moved to Lisbon I asked a friend where I should go to buy furniture: "this street" was the answer. I was a bit confused but that's how Lisbon retail (before the invasion of retail parks and centres) was laid out. Silver on this street, fish on that, furniture on the other. You browsed the shops knowing that all of the interesting places selling what you were looking for were in this area. Which brings me to kebab shops in Usti nad Labem (in the Czech Republic) where I am working now. Just around the corner from where I write is a kebab house. Been going some time, does a roaring trade (the bus stops that lead from the downtown bars to Studentville are just outside) and then a canny entrepreneur opened a new kebab store right next door. One friend here denounced that as cheating: stealing the business created by the first house.

So I asked Shadab (yes, there are hard working Indian entrepreneurs from Bombay doing this in CR just as there are in the UK), the owner of the original shop what had been the effect on his trade. Increased it, definitely. Competition does indeed mean that he gets less money out of any given amount of foot traffic: but competition can also increase foot traffic so that total revenues can rise for both suppliers. When I shouted "clustering!" he knew I was mad: and I of course knew that I had indeed descended into being a proper geek about economics.

Then again, I should have known this already. There's a reason why all the financial types are in The City. There's a value to knowing where all of the different ways of losing money are located, no?

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