



SL IB Business Management



Your notes

5.3 Location

Contents

- * Choosing a Production Location
- * Reorganising Production

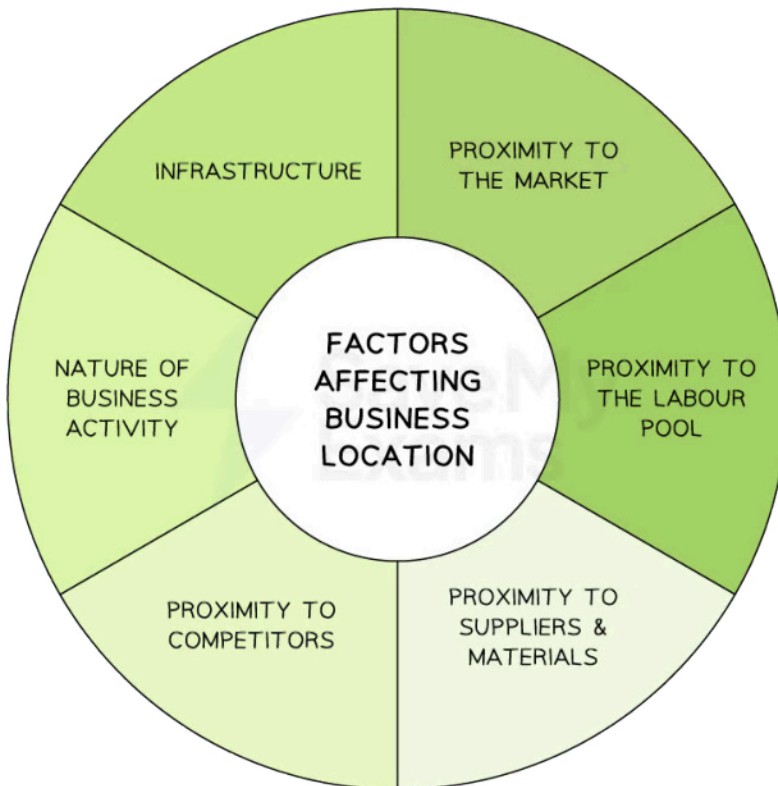


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Choosing a Production Location

Factors Influencing the Production Location

- Choosing a good production location can have **significant impacts on a business**. factors that influence the production location include:



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Production locations are affected by multiple factors and if a business chooses the wrong location, it can fail

An Explanation of the Factors Influencing Choice of Production Location

Factor	Explanation
Proximity to the market	<ul style="list-style-type: none"> Refers to the distance between the business location and the target market



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	<ul style="list-style-type: none"> ▪ Locating near the market reduces transportation costs and increases its accessibility to potential customers
Proximity to labour	<ul style="list-style-type: none"> ▪ Refers to the availability of qualified and skilled workers in the area ▪ Businesses often locate in areas with a high concentration of skilled labour to ensure that they have access to the necessary workforce to run their operations efficiently
Proximity to materials	<ul style="list-style-type: none"> ▪ Refers to the availability of raw materials and supplies needed for the business which will help to minimise transportation costs
Proximity to competitors	<ul style="list-style-type: none"> ▪ May be desired (or not) to take advantage of a shared customer base or to differentiate themselves by offering unique products or services
The nature of the business activity	<ul style="list-style-type: none"> ▪ Different types of businesses have different requirements in terms of space, infrastructure, and accessibility ▪ E.g. A manufacturing plant may require a large space for equipment and a loading dock for shipping and receiving goods, while a service business such as a law firm may require less space and more accessible office locations
Infrastructure	<ul style="list-style-type: none"> ▪ Includes transport and electronic networks that allow for products to be supplied either physically or online ▪ Online businesses rely on a fast and reliable internet connection ▪ Good transport links provided by major trunk roads and efficient rail links are particularly important for businesses that require an effective logistics network ▪ E.g. An online fashion retailer will gain a competitive advantage if it is able to deliver products quickly to customers so the location of its distribution hub is likely to be close to the motorway network



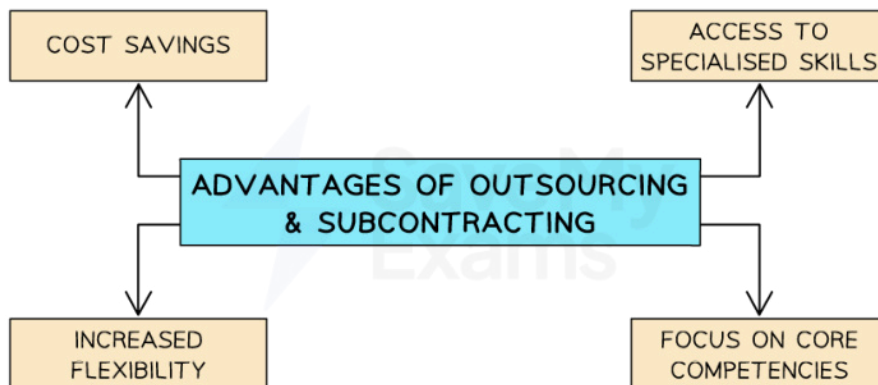
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Reorganising Production

Outsourcing & Subcontracting

- Outsourcing is the process where a business delegates **specific business activities (IT, customer support, HR etc) to external service providers**
 - Businesses choose to outsource these functions to reduce costs, access specialised expertise, or focus on core competencies
- Subcontracting occurs when **specific parts of a larger project or contract are assigned to third-parties**
 - The business remains responsible for the overall project or contract but certain components or tasks are delegated to other companies/individuals with specialised skills

The Advantages Associated with Outsourcing & Subcontracting



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Outsourcing and subcontracting offer a range of benefits to businesses

- Cost savings**
Businesses can often reduce expenses associated with operations such as hiring and training employees, maintaining infrastructure and managing IT systems
- Access to specialised skills**
External specialists have resources that the business lacks internally which allows it to benefit from the knowledge and experience of industry specialists as and when required
- Increased flexibility**
They can provide greater flexibility to scale their operations up or down based on demand fluctuations

which is particularly valuable in industries with seasonal or unpredictable demand

- **Focus on core competencies**

Businesses can concentrate their resources and efforts on their core competencies where they can add value



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The Disadvantages Associated with Outsourcing & Subcontracting

- **Quality control**

Using external providers makes it harder to ensure consistent quality and adherence to company standards

- **Loss of control**

Handing direct control over those activities to others outside of the business may be risky. Companies must carefully select reliable partners and establish clear contractual terms to protect their interests

- **Data security and confidentiality**

Sharing sensitive information outside of the business introduces potential risks to data security and confidentiality

- **Communication and cultural differences**

Using global providers may result in language barriers or problems with time zone differences. Cultural differences may present communication challenges



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Offshoring

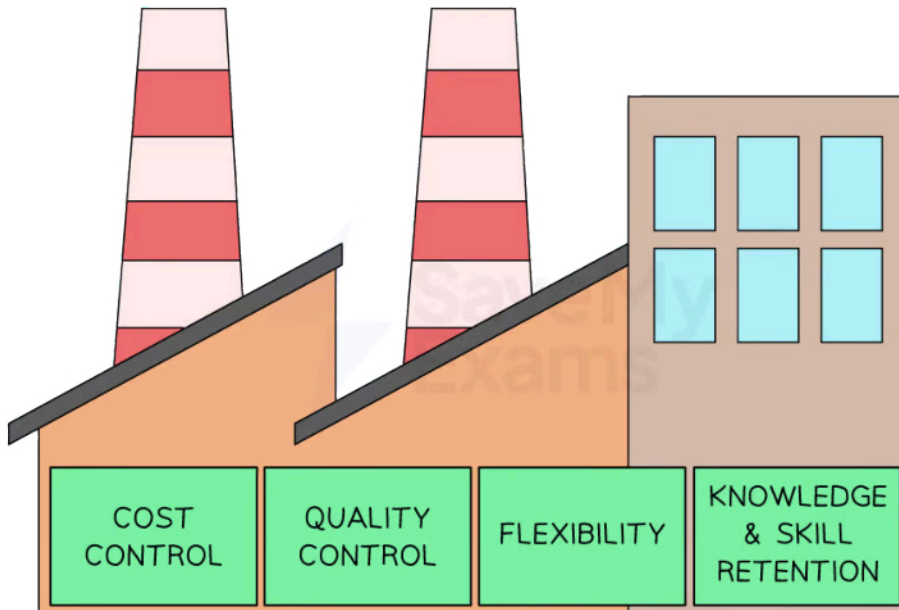
- Offshoring occurs when a business **sets up operations in another country** to carry out certain business processes so as to:
 - Take advantage of lower labour costs
 - Gain access to specialised skills
 - Expand into new markets
- Common examples of offshoring practices include **call centres in foreign countries**, software development teams or manufacturing plants established in countries with **cheaper labour**

The Advantages & Disadvantages of Offshoring

Advantages	Disadvantages
<ul style="list-style-type: none"> Labour costs are often lower in offshore locations which reduces costs (salaries, benefits etc) Allows businesses to tap into skilled labour that may not be readily available domestically By offshoring operations to different time zones, businesses can take advantage of 24/7 operations and provide better customer support By establishing a presence in a foreign country, businesses can gain local market insights, develop relationships with customers and spot new growth opportunities 	<ul style="list-style-type: none"> Offshoring can present challenges in terms of communication and language differences which may result in delays Maintaining quality control can be more challenging when operations are moved offshore Offshoring involves sharing sensitive information and intellectual property with external parties which may raise concerns about data security or confidentiality Offshoring can result in domestic job losses as operations are shifted to lower-cost locations

Insourcing

- Insourcing is where a business **assigns tasks to individuals within the organisation** which were previously outsourced
- There are several reasons why businesses may choose to insource certain activities



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Reasons to take back control through insourcing

- **Cost control**
Can be a cost-saving strategy as it eliminates the need to pay external specialists
- **Quality control**
A business retains direct control over the quality of work being produced and may find it easier to establish their own standards
- **Flexibility**
Provides the business with greater flexibility to respond to changing business needs and so can adjust workflows and adapt to new challenges
- **Knowledge and skill retention**
Businesses can develop specialised skills within their own workforce which can also reduce the risk of intellectual property breaches



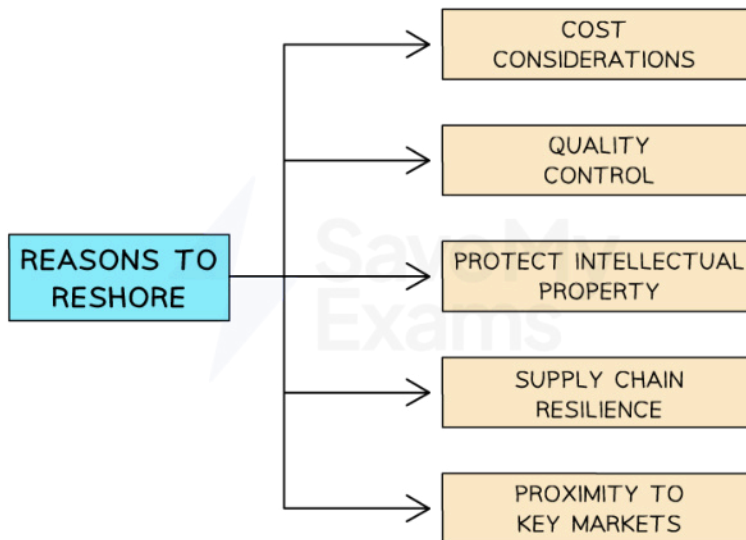
Your notes



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Reshoring

- Reshoring occurs when a business **brings back its production activities to its home country** from abroad
- It involves **reversing the previous decision to offshore or outsource** those activities to another country
- There are several reasons why a company may choose to reshore its operations



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Reasons for a business to reshore its operations

- Cost considerations**
 The initial cost advantages of offshoring may reduce due to factors such as rising labour or transportation costs in the foreign country
- Quality control**
 By reshoring companies can have better control over the manufacturing processes and ensure higher quality control standards which may lead to improved customer satisfaction
- Intellectual property protection**
 By bringing manufacturing back to their home country, they can reduce the risk of intellectual property theft
- Supply chain resilience**
 The COVID-19 pandemic highlighted the vulnerabilities of global supply chains when disruptions in transportation, logistics and international trade led to delays and shortages of critical

goods. Reshoring reduces dependence on foreign suppliers

- **Market proximity**

Can allow companies to be closer to their target markets which can lead to faster delivery times, reduced transportation costs and improved responsiveness to customer demands



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