HL IB Business Management

Your notes

5.4 Location

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Choosing a Production Location

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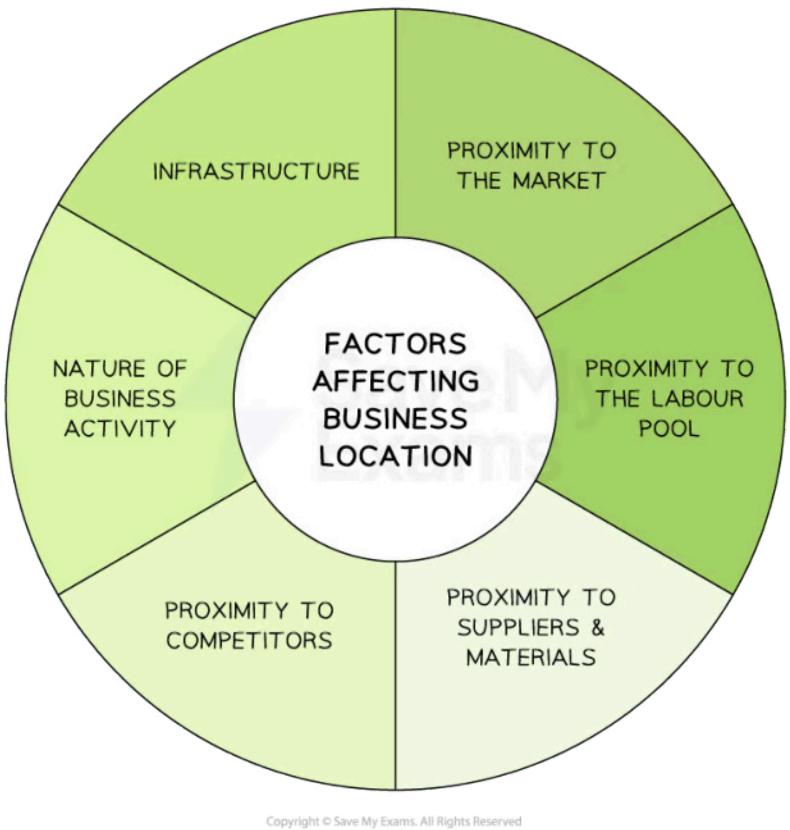
Factors Influencing the Production Location

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



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

Proximity to the market

- Refers to the distance between the business location and the target market
- Locating near the market reduces transportation costs and increases its accessibility to potential customers

Proximity to labour

- 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

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Proximity to materials

- Refers to the availability of raw materials and supplies needed for the business which will help to minimise transportation costs

Proximity to competitors

- 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

- 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

- 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**

Examiner Tip

In many cases businesses remain in the location in which they were originally established

This is likely to be the area in which the founder/owner lives or with which they have a connection

Though there may be logical reasons for a business to relocate, loyalty to the area in which a business was established can override these business decisions

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Reorganising Production

Outsourcing and Subcontracting

- Businesses **outsource or subcontract** by hiring other organisations or resources to perform certain tasks, functions or projects on its behalf
- The main differences between outsourcing and subcontracting are
  - Outsourcing tends to be permanent
  - Subcontracting tends to last the duration of a project or activity

Outsourcing

- **Outsourcing occurs when a business hires an external organisation to complete specific business activities** such as information technology (IT) services, customer support, human resources or logistics (distribution)
  - Eg Barclays Bank outsource their recruitment of staff to Alexander Mann recruitment company
  - Eg Marks and Spencer outsource many of the IT services to Tata Consultancy

- The key reasons for a business choosing to **outsource** include:
  - Reduce costs
  - Access specialised services
  - Improve efficiency
  - Allows a business to focus on its core competencies

An Evaluation of Outsourcing

Advantages	Disadvantages
▪ An external specialist company may be able to provide the service at a **reduced cost** ▪ Businesses can take advantage of the **specialist skills** provided by another company that may be more efficient ▪ Businesses can focus on products/services that give it a competitive edge	▪ Poor communication between the businesses may cause disruption and **brand damage** ▪ The services provided may rise in cost faster than expected over time, **raising overall costs**

Subcontracting

- **Subcontracting occurs where 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 or individuals with specialised skills or resources.
  - Eg A small coffee shop chain may subcontract the design of its website

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- Eg A housing development company may subcontract electricians to wire the new houses

- The key reasons for a business choosing to subcontract include:
  - Manage **capacity**
  - Make use of external expertise
  - Meet specific project requirements

An Evaluation of Subcontracting

Advantages	Disadvantages
▪ Businesses have **access to expertise** that may not be available in-house ▪ Allows businesses to access **extra capacity** for short periods of time to manage seasonal demand ▪ Businesses can focus on products/services that give it a competitive edge	▪ May be **expensive**, especially for a small business ▪ May be reliant on external resources to complete projects which **could cause delays** ▪ Subcontractors may have a different culture and may lack the motivation of in-house staff

Examiner Tip

Consider what is being outsourced or subcontracted by the firm, and whether there is a risk that poor quality delivery by an external firm may damage the reputation of the business

For example if customer service is provided externally, there is a risk it may be lower quality than using in-house staff.

Consider the motivation for outsourcing or subcontracting, whether it is just to minimise costs in order to increase profitability for shareholders, or whether it is to allow the firm to concentrate on its core competencies and improve the quality of its product

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**

An Evaluation of Offshoring

Advantages	Disadvantages
▪ 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	▪ 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

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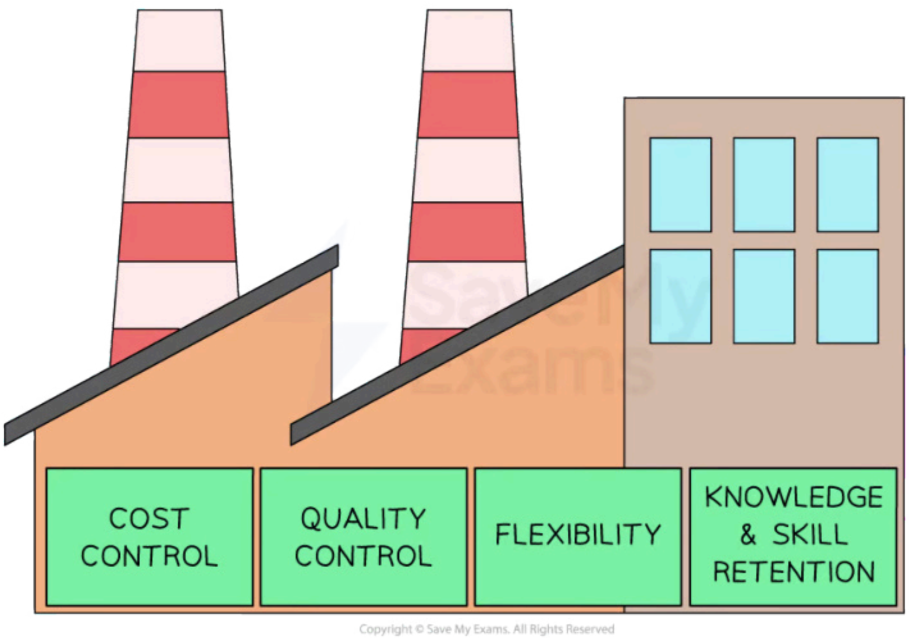
Insourcing

- Insourcing is where a business **assigns tasks to individuals within the organisation** which were previously outsourced

Diagram with Reasons why Businesses Insource Certain Activities



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

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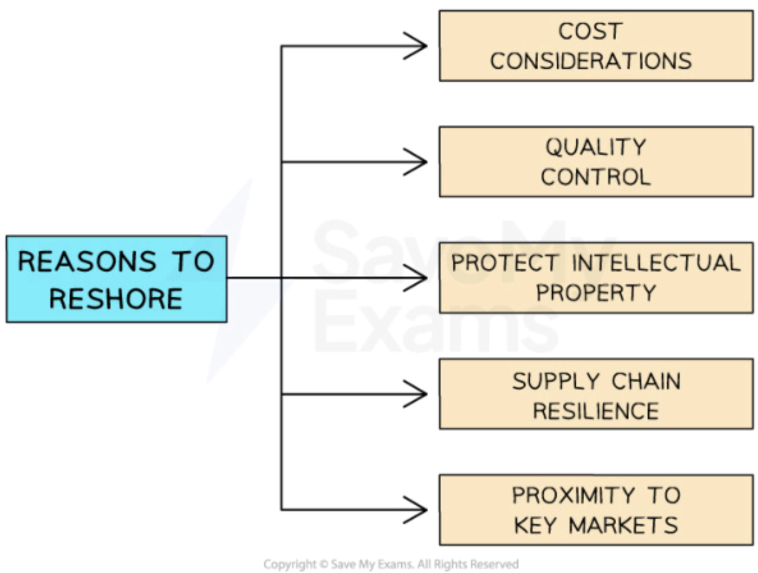
Reshoring

- 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

Diagram Stating Reasons for Reshoring



Businesses often reshore operations due to cost or quality considerations

- **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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Examiner Tip

Businesses that move business functions - or the whole operation - to a new location are often criticised for abandoning their commitments to the area they leave

Relocation leads to job losses, abandoned sites may become derelict and affect the environment, local suppliers may face financial difficulties and there are consequent issues for local economic growth

Businesses need to consider how these factors may impact their reputation before making the decision to relocate