DP IB Business Management: HL

Your notes

5.4 Location

Contents

Choosing a Production Location

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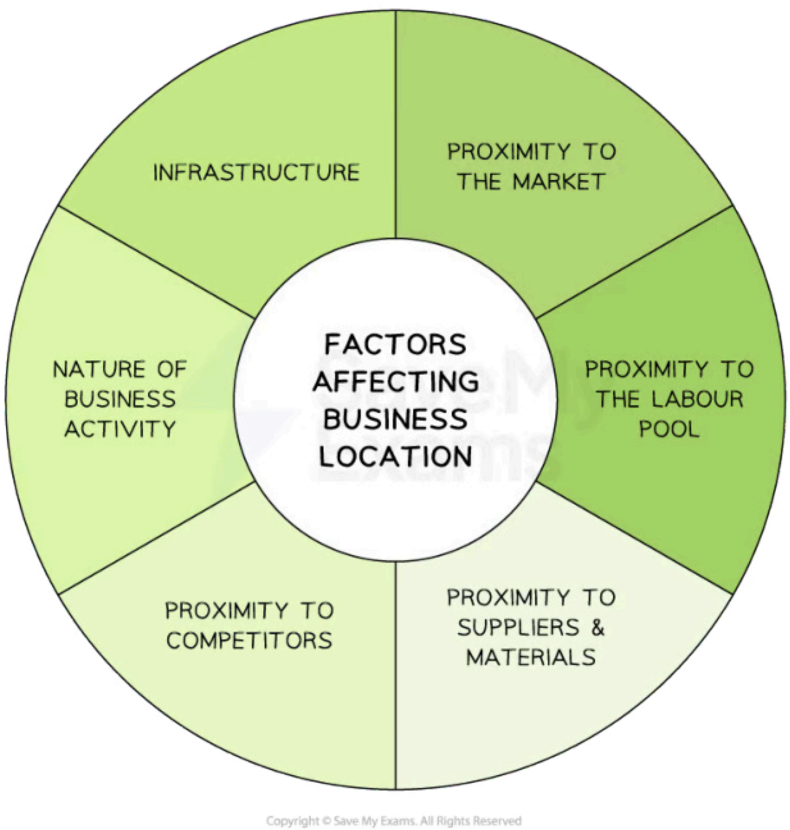
Factors Influencing the Production Location

- Choosing a good production location can have **significant impacts on a business**.
- A range of factors influence the location a business chooses for production

Diagram: factors affecting business location



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

Factors Influencing Choice of Production Location

Factor	Explanation

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
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**

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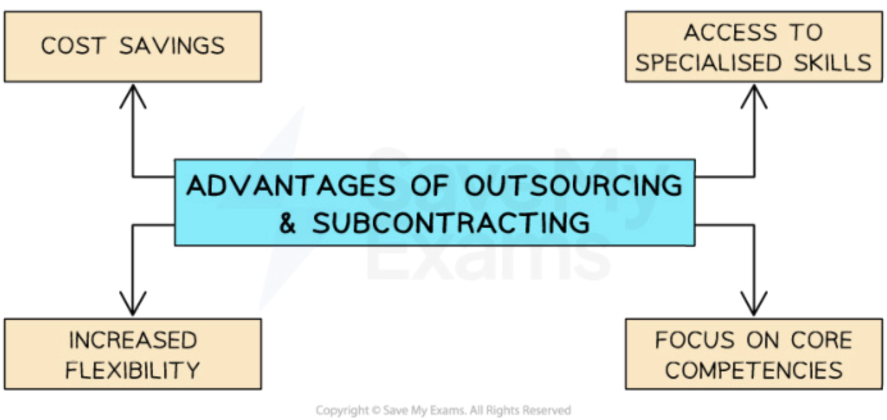
Reorganising Production

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

Diagram: advantages of outsourcing and subcontracting



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**

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- 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**

Limitations of outsourcing and 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

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**

Evaluation of Offshoring

Advantages	Disadvantages
▪ Labour costs are often lower in offshore locations which reduces costs (salaries,	▪ Offshoring can present challenges in terms of **communication and language differences**

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	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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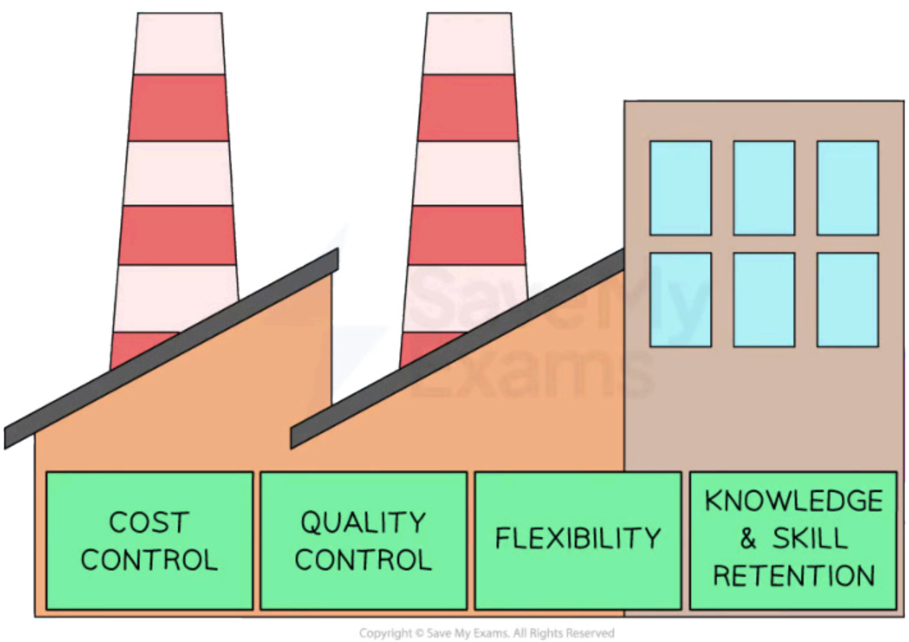
Insourcing

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

Diagram: reasons for insourcing



Reasons to take back control through insourcing

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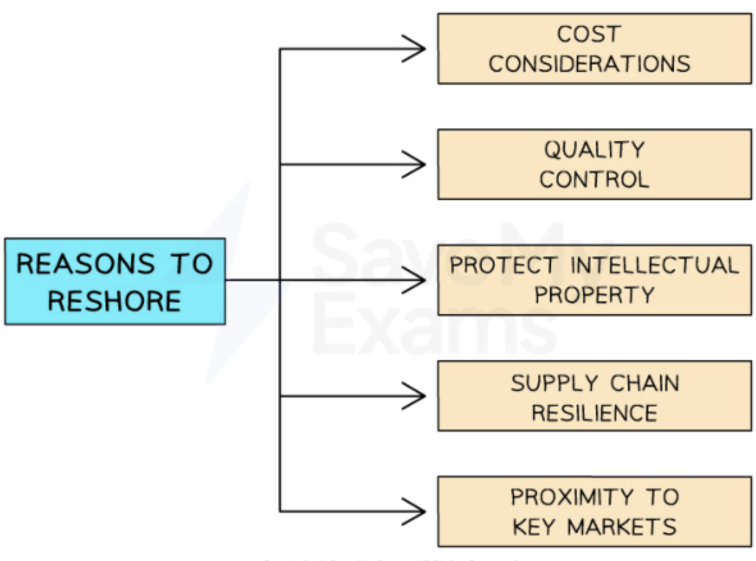
- **Cost control**
  - Insourcing can be a cost-saving strategy as it eliminates the need to pay external specialists
- **Quality control**
  - A business retains direct control over the quality of work being produced and may find it easier to establish their own standards
- **Flexibility**
  - It provides the business with greater flexibility to respond to changing business needs, 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

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

Diagram: reasons to reshore



Reasons for a business to reshore its operations

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- **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