

# IB Business Management SL

## 5.3 Location

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YOUR NOTES



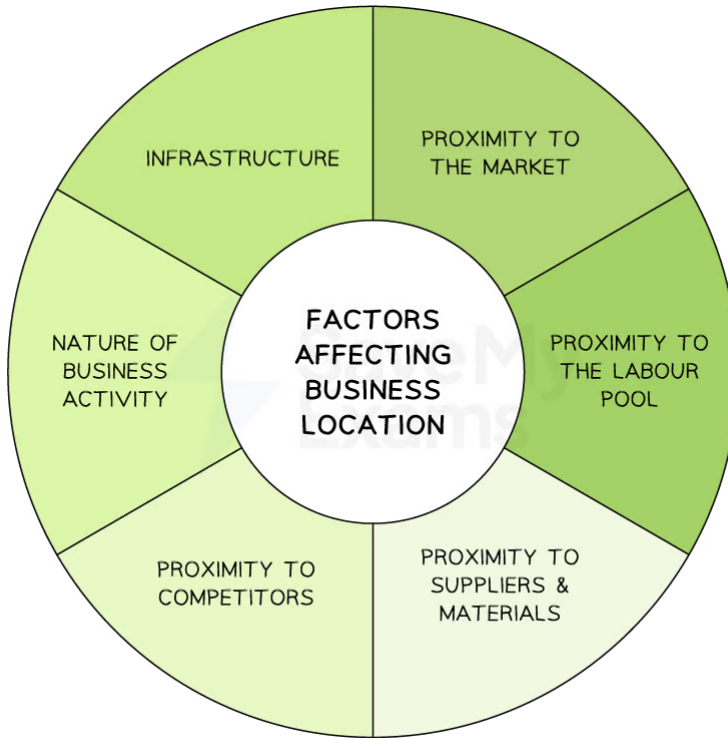
### 5.3.1 Choosing a Production Location

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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:



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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"> <li>Refers to the distance between the business location and the target market</li> <li>Locating near the market reduces transportation costs and increases its accessibility to potential customers</li> </ul>

YOUR NOTES



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

### 5.3.2 Reorganising Production

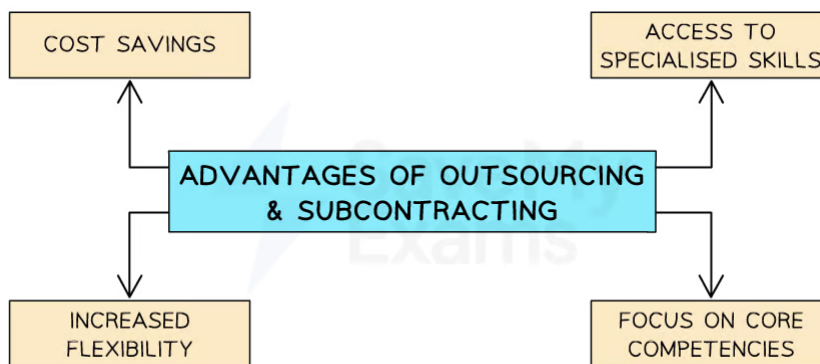
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## Outsourcing & Subcontracting

- 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

## 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

## 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

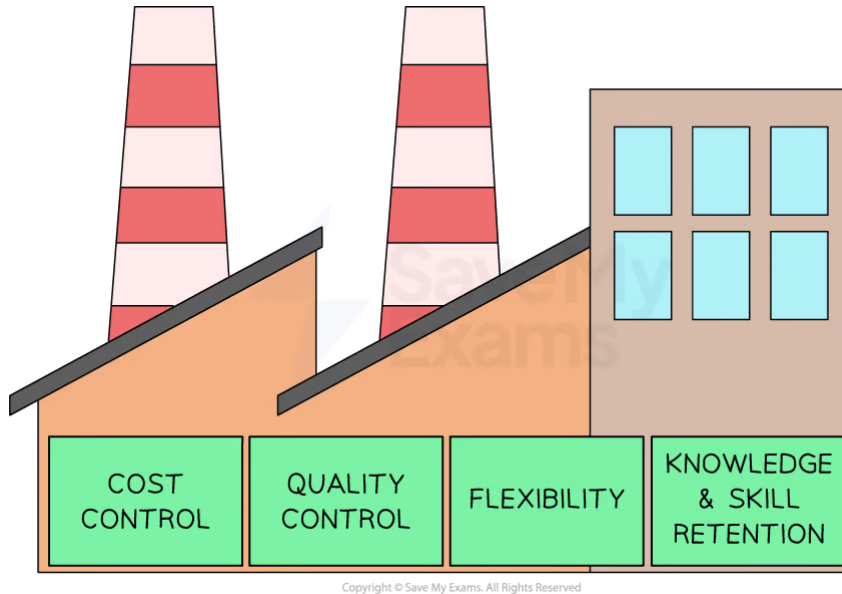
Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Labour costs are often lower in offshore locations which reduces costs (salaries, benefits etc)</li><li>• Allows businesses to tap into skilled labour that may not be readily available domestically</li><li>• By offshoring operations to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

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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



### *Reasons to take back control through insourcing*

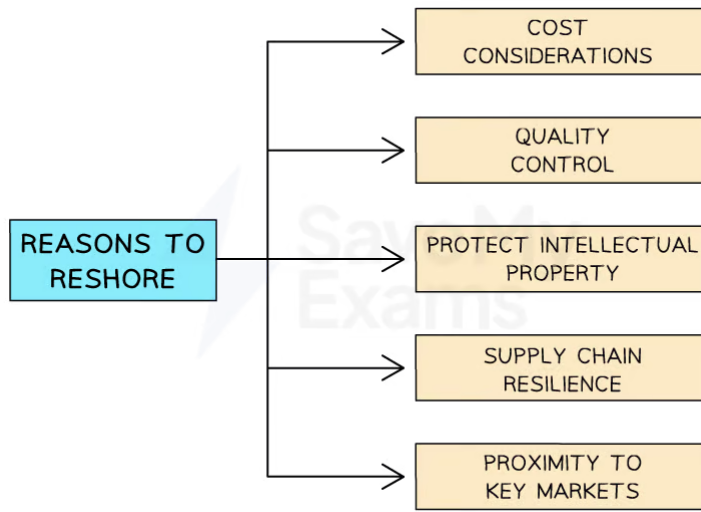
- **Cost control**  
Can be a cost-saving strategy as it eliminates the need to pay external specialists
- **Quality control**  
A business retains direct control over the quality of work being produced and may find it easier to establish their own standards
- **Flexibility**  
Provides the business 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
- 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

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times, reduced transportation costs and improved responsiveness to customer demands

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