



## Section 5.4

### Activity 5.4.1

1. Benefits the regional economy might gain from Nissan's location in Sunderland include:
  - Increase in local tax revenue for public services
  - Employment created
  - Business created for suppliers.
2. The advantages Nissan might receive because of its decision to locate in Sunderland include:
  - Subsidy finance received to fund investment
  - Low cost of labour in the area
  - Motivated labour force
  - Low cost of land.

The disadvantages might be:

- Lack of a skilled workforce
- Suppliers may not be located nearby
- Lack of infrastructure.

### Activity 5.4.2

1. Profit from different locations:

\$	Location A	Location B
Sales revenue	1 250 000	765 000
Cost	975 000	498 000
Profit	275 000	267 000

2. One reason why a change in location might lead to a rise in profits from higher sales revenue is because of more customers in location A.



### Activity 5.4.3

TLC might choose Site X because it has:

- Shorter payback (2.5 years)
- Lower initial investment (\$2m)
- Debt is lower with rising interest rates.

Site Y does have a higher ARR, which means it generates greater returns over the life of the investment.

### Activity 5.4.4

ICT Chemicals might choose Site D because:

- It has a lower break-even output (2m litres)
- Low wages rates
- Few regulations.

Site D does have the problem of political instability.

### Activity 5.4.5

A qualitative factor affecting Rolls-Royce's decision to locate in Goodwood is a location near a small airport which allows it to offer buyers high-quality customer service.

### Activity 5.4.6

Toyota's decision to operate factories in so many different countries might have the following advantages:

- Spreads production risk across different countries
- Opportunity to produce at lowest cost in different countries
- Gives local access to different markets
- Utilises the production expertise in different markets.

The disadvantages might be:

- Logistical challenges of operating in many different countries
- Language and cultural challenges
- Communication problems
- Government regulations.



## Activity 5.4.7

1. 'Outsourcing' is using another business (a 'third party') to undertake a part of the production process rather than doing it within the business using the firm's own employees.
2. Potential advantages to an airline of outsourcing inflight catering might be:
  - Lower cost of outsourced food
  - Outsourced business is better at inflight catering
  - Airline can concentrate on its core functions.
3. The advantages of an airline outsourcing its maintenance might be:
  - Cost of outsourced maintenance is lower
  - Quality of the outsourced maintenance is better
  - The business can focus on its core functions.

The disadvantages might be:

- Lack of control over the outsourced maintenance
- Poor quality of outsourced maintenance
- Cost of outsourced maintenance might be higher in the long term.

## Activity 5.4.8

1. 'Offshoring' is the relocation of a business process from one country to another country.
2. TRG's location in Pakistan might have increased profits by:
  - Reducing set-up costs through cheap land
  - Reducing labour costs
  - Benefitting from government incentives that reduce tax.
3. A large pool of English-proficient graduates in Pakistan might be a benefit to TRG because it provides:
  - A skilled labour force which makes production more efficient and reduces unit costs
  - A skilled labour force that improves the quality of the product provided
  - Innovative employees that develop new products and systems.
4. Three problems TRG has faced locating in Pakistan:
  - Cultural differences – affect the way employees work and the relationship with suppliers
  - Lack of general management experience among graduates – there are training costs associated with this and it takes time



- Lack of support organisations – not having access to services like recruitment may hinder TRG's performance because it is more difficult to hire staff.

## Activity 5.4.9

The advantages of GM's and Burberry's decision to insource more of their operations might be:

- More control over insourced operations
- Higher-quality insourced operations
- Positive domestic publicity for insourcing
- Lower management burden.

The disadvantages might be:

- Higher costs of production
- Logistical difficulties of moving production
- Business finds it more difficult to focus on core functions.

## Exam practice question

1. A 'joint venture' is a business arrangement where two or more organisations agree to pool their resources for a particular business activity.
2. One qualitative factor of locating in Cairo might be good business relationships between Egyptian government officials and Mercedes management.
3. One reason Mercedes might choose a joint venture to enter the Egyptian economy might be the local knowledge of an Egyptian partner organisation that knows the local market well.
4. The advantages to Mercedes of its decision to increase offshoring operations in Egypt might be:
  - Lower costs of production
  - Avoid import tariffs
  - Access to local car market
  - Take advantage of skilled, highly motivated labour force.

The disadvantages might be:

- Set-up costs
- Cultural and language barriers
- Control over production
- Logistical difficulties.



## Key concept question

How stakeholders might have benefited from offshoring and outsourcing:

- Consumers – lower prices because of lower unit costs of production
- Shareholders – higher profits and dividends because of lower unit costs
- Employees – job losses
- Suppliers – loses business
- Government – loss of tax revenue
- Local community – rise in unemployment