

# LOCATION DECISIONS

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## The location decision process

STEP 1  
Define Project Assumptions  
& long-list of location options

STEP 2  
Analyze long-list of ~~options~~ locations  
& identify shortlist

STEP 3  
Evaluate shortlisted locations  
& select preferred location

STEP 4  
Site search & negotiations  
& select preferred sites  
& start negotiations

STEP 5  
Implementation

→ The objective of this location decision: making process = 2 establish as many location options as possible during steps 1 & 2.

→ This = then subjected 2 a high level & quick analysis based on desk research focusing on the buy cost & quality criteria

→ This part of the process = evaluated internally.

→ High level business cases are then made 2 serve as the selection platform for the most attractive locations.

→ During steps 3 & 4 the focus = down 2 a few locations only.

→ These needs 2 be detailed analysis of many critical factors (in) a forward-looking manner.

→ Feasible needs 2 be done (ide) understand the dynamics & pitfalls of each location & the implementation risks need 2 be assessed.

→ Thereafter, the interview & negotiation process commences which will lead 2 a full business case for the implementation of the process.

# LOCATION STRATEGIES

## ① Offshore Factory

- An offshore factory manufactures products)
  - @ low cost with minimum investment in technical + managerial resources.
- The primary objective = 2 labor advantage & low labor cost.
  - Intel's ~~low~~ <sup>labor</sup> intensive offshore factory in Penang, Malaysia
- ② Source Factory
  - A source factory has a broader strategic role than an offshore factory with plant manager meet heavily involved in supplier selection & production planning
  - The source factory's location = determined by low problem cost, fairly developed infrastructure & availability of skilled workers.
  - Hewlett-Packard's plant - Singapore.

## ③ Server Factory

- A server factory = set up primarily 2 to take advantage of government incentives
  - minimize exchange risk
  - avoid tariff barriers &
  - reduce taxes + logistics costs
- 2 supply the regional market where the factory is located.
  - Coca-Cola's <sup>international</sup> bottling plants, each serving a small geographic region.

## ④ Contributor Factory

- A contributor factory plays a more strategic role than a server factory by getting involved in
  - product development + engineering
  - production planning
  - making critical procurement decisions &
  - developing suppliers.
- Sony's contributor factory in Budapest, Hungary.

## ⑤ Custody Factory

- An output factory = setup in a location with an abundance of output advantage
  - suppliers
  - competitors
  - research facilities
  - knowledge centers
- 2 serve as the most current input on
  - materials
  - components
  - technology
  - products
- Intel's custody factories.

## ⑥ Lead Factory

- A lead factory = a source of product & process innovation and competitive advantage for the entire organization.
- It translates its knowledge of
  - the market
  - competitors
  - customers
 into new products
- Intel + Hewlett Packard's lead factories in South-East Asia.

# CRITICAL LOCATION FACTORS

## 1 Regional Trade Agreements & The World Trade Organisation (WTO)

→ An understanding of the Regional Trade Agreements & the WTO = critical because of their impact on tariffs, cost & the free flow of goods & S.

→ There are 462 Regional Trade Agreements under GATT and WTO.

→ Examples:

- European Union (EU)
- North American Free Trade Agreement (NAFTA)
- Association for Southeast Asian Nations (ASEAN)

## 2 Competitiveness of Nations

→ A nation's competitiveness = the degree to which a country can, under free & fair conditions, produce goods & S which meet the rest of International markets while simultaneously maintaining & responding to the real incomes of its people over the long-term.

- Two Competing Sources of National Competitiveness
- The World Competitiveness Yearbook
  - The Global Competitiveness Report.

## 3 Government Taxes & Incentives

→ Government incentives, business attitude, economic stability & taxes & MS location factors

→ Countries with high tariffs would discourage companies from importing goods into the country.

→ e the same time high tariffs encourage multinational corporations to set up factories to produce locally.

→ Many countries set up Free-Trade Zones (FTZs) where materials & imported duty free as long as imports are used as inputs into production of goods that eventually exported.

## 4 Currency Stability

→ Instability of ~~exchange~~ <sup>currency</sup> exchange rates impact business cost & consequently location decisions.

→ Any organisation involved in international business will be subject to the risk of currency fluctuation.

## 5

Access & Proximity to the Market Customers.

## 6 Environmental Issues

→ How the environment = managed has a significant impact on human health.

→ The inability to dispose of solid and hazardous waste

+ the presence of illegal waste contributes to high incidences of diseases

→ Global warming, air pollution and acid rain are increasingly & issues that are increasingly being debated as the price of industrialisation.

## CRITICAL LOCATION FACTORS

### ③ Labor Issues

→ Issues such as:

- labor availability
- productivity and skill
- unemployment + unemployment rates
- wage rates
- turnover rates
- employee benefits

are key factors in making facility location decisions

→ Although it = true that low labor cost = an NB factor in making location decisions, sustainable competitive advantage depends on productive use of ~~inputs~~ and process innovation.

### ⑧ Right-to-work laws

- A right-to-work law

"secures the right of employees to decide for themselves whether to join or financially support a union"

### ⑦ Utility availability & cost

→ The availability and cost of electricity, gas and water are NB location considerations.

→ In heavy industries such as steel and aluminum mills, energy availability and cost of energy are critical considerations.

### ⑩ Access to Suppliers

→ Many firms prefer locations close to suppliers because of

- material availability
- transport cost reasons.

→ The proximity of suppliers

have had an impact on:

- the delivery of materials
- the efficiency of the SC

### ⑪ Quality-of-life Issues

→ Quality-of-life can be defined as "a feeling of well-being, fulfillment or job's satisfaction resulting from factors in the external environment."

→ Quality-of-life factors:

- Achieving Educational Excellence
- Growing a Vibrant economy
- Preserving the Natural Environment
- Sustaining a Healthy Community
- Maintaining Responsive Government

### ⑫ Land Availability + Cost.

→ Land + construction costs in big cities continue to escalate,

the trend = 2 locate in the suburbs or rural areas.

→ Suburban locations can be attractive because

- the cost of land is available workforce
- developed branch networks.

# FACILITY LOCATION TECHNIQUES

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① The weighted-factor rating model.

= a method commonly used

to compare the attractiveness of several locations

along a nr of qualitative + quantitative factors.

② The break-even model

= a useful location analysis technique when fixed and variable costs can be determined for each potential location.

## Business clusters

Defined

A business cluster = a geographic concentration of

- interconnected businesses
  - suppliers &
  - associated institutions
- in a particular field.

A business cluster = a geographical location where

- growth revenues + competence <sup>CEI</sup> crosses a reach a critical threshold.
- giving it a key position in a given economic branch of activity.
- with a decisive sustainable competitive advantage over other places, or even a world supremacy in their field.