Exercise walk-through

Location and scale ▪ 9.1

eXercise

You must be able to

- classify location factors as quantitative or qualitative
- explain offshoring and the optimum scale of operation
- analyse and evaluate a location or relocation decision

Method — Choosing a location

- **Quantitative factors:** measurable in money — rent, wages, transport, grants.
- **Qualitative factors:** harder to measure — worker skills, nearness to customers, owner's wishes.
- **Offshoring:** moving production abroad (lower wages, new markets) — but longer supply lines and culture risk.
- **Optimum scale:** the size where average cost per unit is lowest.

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

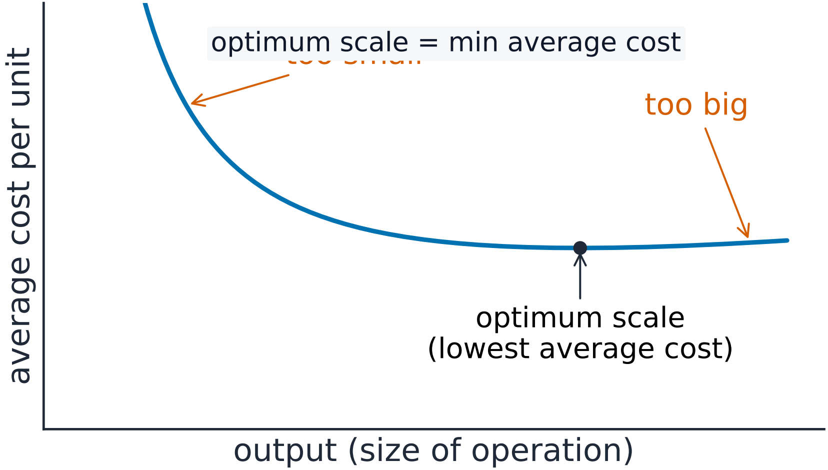
Method — Choosing a location

quantitative (in money): rent, wages, transport, grants

qualitative (harder to measure): worker skills, nearness, owner's wishes

choose the location with the greatest total benefit

Method — Choosing a location



Practice 2.1 ▪ 2 marks

State the difference between a *quantitative* and a *qualitative* location factor.

Solution 2.1

Method: Choosing a location

Worked steps

a quantitative factor can be measured in money (rent, wages, transport); a qualitative factor is harder to measure (worker skills, nearness, owner's wishes) (2 for a clear difference; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

Define the term *offshoring*.

Solution 2.2

Method: Choosing a location

Worked steps

moving production to another country (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 2 marks

Define the term *optimum scale of operation*.

Solution 2.3

Method: Choosing a location

Worked steps

the size of operation at which the average cost per unit is at its lowest (2 for a clear definition; 1 for a partial idea).

Exam-style 3.1 ▪ 3 marks

Explain one factor a business should consider when choosing a location.

Solution 3.1

Method: Choosing a location

Worked steps

[3] **AO1** 1 — name a factor (rent/wages; transport; nearness to customers or suppliers; grants; worker skills). **AO2** up to 2 — develop it, e.g. locating near customers cuts delivery time and cost $\rightarrow$ faster service $\rightarrow$ an advantage over distant rivals (2 developed / 1 limited).

Exam-style 3.2 ▪ 8 marks

Analyse two reasons why a business might **offshore** its production.

Solution 3.2

Method: Choosing a location

Worked steps

[8] For **each** of two reasons: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *lower wages*: labour costs less abroad → lower cost per unit → higher profit or lower prices. *Nearer a new market*: producing close to new customers → lower transport cost and faster supply → more sales there. Maximum 4 per reason, 8 total.

Exam-style 3.3 ▪ 12 marks

A manufacturer is deciding whether to relocate its factory to a lower-wage country. Evaluate this decision.

Solution 3.3

Method: Choosing a location

Worked steps

[12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For:** lower wages and costs, nearer new markets, possible grants. **Against:** longer supply lines, language and culture problems, quality and control risks, possible damage to image and home job losses. Judgement: relocation can cut costs sharply, but only if the savings outweigh the added risks and the quality can be maintained — it depends on the size of the wage saving and how well the firm can manage a distant site.