Chapter 7

Location Planning and Analysis
Chapter 7: Learning Objectives

- You should be able to:
  1. Identify some of the main reasons organizations need to make location decisions
  2. Explain why location decisions are important
  3. Discuss the options that are available for location decisions
  4. Give examples of the major factors that affect location decisions
  5. Outline the decision process for making these kinds of decisions
  6. Use the techniques presented to solve typical problems
The Need for Location Decisions

- **Location decisions arise for a variety of reasons:**
  - **Addition of new facilities**
    - As part of a marketing strategy to expand markets
    - Growth in demand that cannot be satisfied by expanding existing facilities
  - Depletion of basic inputs requires relocation
  - Shift in markets
  - Cost of doing business at a particular location makes relocation attractive
Location Decisions: Strategically Important

- Location decisions:
  - Are closely tied to an organization’s strategies
    - Low-cost
    - Convenience to attract market share
  - Effect capacity and flexibility
  - Represent a long-term commitment of resources
  - Effect investment requirements, operating costs, revenues, and operations
  - Impact competitive advantage
  - Importance to supply chains
Location Decisions: Objectives

- Location decisions are based on:
  - Profit potential or cost and customer service
  - Finding a number of acceptable locations from which to choose
  - Position in the supply chain
    - End: accessibility, consumer demographics, traffic patterns, and local customs are important
    - Middle: locate near suppliers or markets
    - Beginning: locate near the source of raw materials
  - Web-based retail organizations are effectively location independent
Supply Chain Considerations

- Supply chain management must address supply chain configuration:
  - Number and location of suppliers, production facilities, warehouses and distribution centers
  - Centralized vs. decentralized distribution
- The importance of such decisions is underscored by their reflection of the basic strategy for accessing customer markets
Location: Options

- Existing companies generally have four options available in location planning:
  1. Expand an existing facility
  2. Add new locations while retaining existing facilities
  3. Shut down one location and move to another
  4. Do nothing
Managing Global Operations

Managerial implications for global operations:
- Language and cultural differences
- Risk of miscommunication
- Development of trust
- Different management styles
- Corruption and bribery
- Increased travel (and related) costs
- Challenges associated with managing far-flung operations
- Level of technology and resistance to technological change
- Domestic personnel may resist locating, even temporarily
Location Decision: General Procedure

• Steps:
  1. Decide on the criteria to use for evaluating location alternatives
  2. Identify important factors, such as location of markets or raw materials
  3. Develop location alternatives
     a. Identify the country or countries for location
     b. Identify the general region for location
     c. Identify a small number of community alternatives
     d. Identify the site alternatives among the community alternatives
  4. Evaluate the alternatives and make a decision
Geographic Information System (GIS)

- GIS
  - A computer-based tool for collecting, storing, retrieving, and displaying demographic data on maps
  - Aids decision makers in
    - Targeting market segments
    - Identifying locations relative to their market potential
    - Planning distribution networks
  - Portraying relevant information on a map makes it easier for decision makers to understand
Service and Retail Locations

• Considerations:
  • Nearness to raw materials is not usually a consideration
  • Customer access is a
    • Prime consideration for some: restaurants, hotels, etc.
    • Not an important consideration for others: service call centers, etc.
  • Tend to be profit or revenue driven, and so are
    • Concerned with demographics, competition, traffic/volume patterns, and convenience
  • Clustering
    • Similar types of businesses locate near one another
Evaluating Location Alternatives

- **Common techniques:**
  - Locational cost-volume-profit analysis
  - Transportation model
  - Factor rating
  - Center of gravity method