

# Logitech case study

Education



Q1. In a world without trade, what would happen to the costs that American consumers would have to pay for Logitech's products? A1. Without trade Americans will have to pay a higher price for Logitech's products. The example the book gives us is that Wanda sells products for \$40 only \$3 is production cost. This \$3 would rise tremendously if production was in the U. S. A. because the American economy demands higher wages.

Q2. Explain how trade lowers the costs of making computer peripherals such as mice and keyboards?

A2. Trading in place allows for economies of scale (a reduction in unit cost achieved by increasing the amount of production). Technology can be developed in a country, the ergonomics in another, production in another, and assembly in another country. Shipping costs are cheaper than it would be to do all these jobs in one country. This is called absolute advantage, where someone is great at 1 thing. Keeping this in mind you get a product with the best resources for the lowest cost, this is a comparative advantage. In the end specialization is where everyone is doing what they do best to pull together and make one great product. Q3.

Use the theory of comparative advantage to explain the way in which Logitech has configured its global operations. Why does this company manufacture in china, undertake R&D in California and Switzerland, design the products in Ireland, and coordinate marketing and operations from California? A3. Logitech is a very bright company when it comes to comparative advantage. It does simple R&D work in Switzerland with 200 employees, its headquarters is in Fremont California with 450 employees, ergonomics designs are made in Ireland, and production manufacturing in <https://assignbuster.com/logitech-case-study-case-study-samples/>

Taiwan and China. The comparative advantage is the most cost effective way to break up a business in so many countries that specialize in a certain area of the job.

Q4. Who creates more value for Logitech- the 650 people it employs in California and Switzerland, or the 4000 people it employs at its Chinese factory? What are the implications of this observation for the argument that free trade is beneficial?

A4. The 650 employees in Switzerland and California create more value for Logitech. This is where all R&D and designs are created. The 4000 employees in Taiwan and China add only \$3 to products. That is absolutely nothing in comparison to the \$37 left over. Free trade is beneficial because it can bring labor costs down dramatically. Q5. Why do you think the company decided to switch its corporate headquarters from Switzerland to Fremont?

A5. The headquarters was moved because the USA specializes in R&D, and because of the company's global marketing, finance, and logistics operations.