Reasons for moving manufacturing process location

ASSIGN BUSTER

Question: You are a consultant manufacturing economist: you will need to explain to a senior manager:

Why it is worth moving the production of the company’s holographic televisions from the current location in Europe to new faculty in China. The management team will expect you analysis with reasons and recommendations to cover items such as cash flow, transport, setup, direct and indirect costs, political situation and future outlook. 2. What would be the implications be if this production was not moved from Europe. The management team will expect you to consider improvements and modifications in the manufacturing processes and other processes and methods used by the facility and to assess how this can be used to impact future investment.

The management team will also expect you to devise a solution to improve the financial position of the company, utilizing all your skills and experience.

There are certainly sound arguments as to why it would be worth while for the company to consider moving the production of its holographic television sets from their present European production sites to a new purpose built location in China. Since the middle part of the 1970s, China has enjoyed strong and sustained economic growth rates, during which time that country has become an increasingly attractive location. China has attracted both foreign investors, as well as foreign companies that have moved their production sites over to Chinese locations to reduce production and labour costs compared to having factories in Western Europe and North America (Roberts, 2003 p. 466). Western European, and North American companies do have a long tradition of opening subsidiary factories abroad, or of just moving most if not all of their production abroad if that becomes the best way of improving cost effectiveness, and therefore increasing levels of profits. The much talked about process of globalisation is supposed to make such decisions of switching production to China or other similar countries more economically rewarding than previously used to be the case (Ferguson, 2007 p. 643). Globalisation has allowed capital, goods, and to a lesser extent workforces more free flowing than before. The freeing up of capital and goods, when combined with better transport and information technology has arguably benefited those companies that have been able to take advantage of improved economic opportunities on a global scale (Bannock, Baxter, & Davis, 2003 p. 161. Multinational corporations have opened outlets or subsidiaries in other countries since the 1920s. It has only been in the last two or three decades that companies have in some cases moved all their production to countries such as China that offer lower production and labour costs (Turner, 2001 p. 49).

Over all the benefits of switching production of the company's holographic television sets to China from its present locations in Europe would arguably be greater than the costs of making such a switch, or indeed not making the switch at all. Wage costs are markedly lower in China than they are in Europe in general, and in Western Europe in particular. Lower wages costs in China are partly due to the sheer size of the Chinese workforce in comparison to the number of workers available in Europe. China, after all has the largest population in the world (Whitaker's, 2007 p. 800). Chinese workers have been paid lower wages because the cost of living is lower than in most of Europe, so they do not have to earn high wages to maintain a good standard of living. Chinese workers have not been able to raise their wage levels as the Chinese trade unions are heavily connected to the ruling Communist party. Although, the Chinese government has increasingly allowed foreign investors into the country to promote higher economic growth without allowing Chinese workers to gain higher wages. The Chinese government regards keeping wage costs low as a means of attracting foreign investment, and to tempt foreign companies into building factories to create jobs (Woodruff, 2005 p. 365).

It is not just low wage costs that make the idea of opening a new production faculty in China a potentially very attractive venture. Chinese workers have demonstrated that they are becoming increasingly skilled and more productive. High skill levels and strong productivity rates when combined with lower wages mean that opening a new factory in China would definitely be cost effective whilst providing the company with higher profit margins (Roberts, 2003 p. 466). Our company could even save some of the cost of opening a new factory in China if it was decided to build it within one of the Chinese government’s four special economic development zones. Foreign companies have already invested heavily in theses regions in these four zones and built new factories, or had their products made under licence. The four development zones cover the Zhuhai, Shenzhen, Shantou, and Xiamen regions (Roberts, 2003 p. 465). It would be worth siting our new faculty in one of these four development regions as the Chinese government have already improved the transport infrastructure, linking the regions to the major cities, especially Beijing and Shanghai. Having the new faculty in China could prove highly beneficial in terms of gaining access to the increasingly prosperous Chinese cities, Shanghai in particular. China is at the moment politically stable; a situation that appears set to remain the case. Apart from the pro-democracy movement that briefly flourished in 1989 the Communist party's control of the country has never seemed to be in doubt, even if that has introduced major elements of capitalism into the Chinese economy (Whitaker's, 2007 p. 801).

If the company is not able to move the production of its holographic television sets, to a new location in China there could be serious implications for the company. These serious implications however are not bound to happen to the company if proactive steps are taken to avoid the worst potential consequences of production not been moved to China. The company could find other places equally well connected to the global economy that would allow the company to reduce its costs (Bannock, Baxter, & Davis, 2003 p. 161). To avoid harmful implications, the company would either attempt to reduce production costs or attempt to increase productivity levels over all. Although moving the whole production to a new production site in China would have the company's best option; there are alternatives that would reduce the implications of not moving production over to China. The company already has a skilled workforce in its European sites and would not have to face production delays, whilst the new Chinese workers were receiving training. There is a growing shortage of skilled workers in China, so if the company did open a production site there it could take longer than anticipated to have that site fully operational anyway (Roberts, 2003 p. 465).

The advantages of switching all the production of the company’s holographic television sets to China from the present sites in Europe are arguably not as great as they were even a few years ago. The impressive growth rates within the Chinese economy have slowed since the late 1990s, due to a combination of slowed down foreign investment levels, an increasing lack of skilled workers, as well as the Chinese government wishing to contain inflation levels (Whitaker’s 2007 p. 802; Roberts, 2003 p. 465). Indications are that China will become a less competitive a place to locate and build any new production sites in. The Chinese government seems to be less willing to intervene to keep the wages of Chinese workers considerably lower than the wages paid to employees in North America, Western Europe, and Japan. The costs of switching production of holographic televisions to a new production site in China from the existing production sites in Europe could be increased as a result of the Chinese currency appreciating in value in relation to the United States dollar, the Euro, and pounds sterling. That appreciation in value should not have been entirely unexpected. After all the Chinese currency has been undervalued, yet as it reaches a more realistic value level it also means that wage and production costs will be higher than previously expected. Should wage levels and the value of the Chinese currency continue to rise in the next few years then the implications of not switching all of the company’s production of holographic television sets to China from Europe will not be as great as originally feared (Whitaker’s 2007 p. 802).

The company could avoid the worst implications of any decision not to switch production of its holographic television sets to China by finding viable alternative production sites in Europe itself. For instance, the company has the option of opening a brand production site in Central and Eastern Europe, where the production and wage labour costs would still be lower than the costs are in Western Europe. Finding a new production site in Central and Eastern Europe would almost certainly save production and labour costs when compared to the company deciding not to move holographic television production away from any of the present sites in Europe. Although the labour costs are not as low as those costs in China, relocating holographic television production to Eastern Europe would still save the company. The company's costs would still be reduced, as Eastern European workers will not have to be paid as much as their Western European counterparts are paid. It would be very sensible for the company to examine and evaluate which parts of the new Central and Eastern European member states qualify for the highest amounts of regional development funding from the European Union. Obtaining such an evaluation would allow the company to make the best proactive decision as to whether or not regional development funding makes the construction of a new production faculty within the Central and Eastern European area a viable option (Judt, 2007 p. 631). High amounts of regional development funding from the European Union would definitely reduce the set up costs of such a new production faculty, whilst it would also have the advantage of being nearer to the key European market than having a new production site in China. This is probably the most viable option open to the company if the proposal to relocate to China is not carried out (Bannock, Baxter, & Davis, 2003 p. 127). Alternatively given the high number of Eastern European workers that have migrated to Western European countries since joining the European Union, the company recruit many more of these migrants to work in the present production sites. The company could seek to employ these migrant workers at lower rates of pay to reduce labour costs over all. Other companies, particularly in Britain have already adopted such an approach (Whitaker's 2007 p. 18).

The company is currently at a crossroads in terms of how the production of its holographic television sets could have an impact on its financial position. Although being able to switch all of the holographic television sets production to a new facility in China would be the best means to secure the long-term financial position of the company it might not actually be an option that will be put into practice. As already mentioned there are alternatives to switching all of the productivity over to China from our present production sites in Europe, that will go some way to secure the company's financial position. The company should review its current production techniques to see if it could save money by improving its cost effectiveness. Reviewing production processes would be a very useful exercise so that the company could analyse what it is doing right, and those things that can be done better. Consulting the staff who actually work on the production sites in Europe would be a potential source of suggestions that will be viable ways of increasing productivity and reducing over all production costs (Turner, 2001 p. 330).

The long –term financial position of the company could also be improved by seeking other means of reducing costs and or raising productivity. The company could find it rewarding to find alternative suppliers of components that are cheaper than the ones currently used to make its holographic television sets. The electronics components sector is a very competitive industry which means that the company should be able to save money by changing suppliers if that is the best option to take. The company could also consider finding a Chinese electronics factory that already produces television sets to build the company's holographic models either under licence or as a joint venture. Such an arrangement would have the advantage of being more flexible for the company, if the venture proved to be a success it could be expanded, or if it was unsuccessful it could be finished at a much lower cost to the company. Manufacturing under licence or entering a partnership allows greater access to the Chinese market which should become increasingly lucrative for any Western company that can market the right products there (Bannock, Baxter, & Davis, 2003 p. 265).

It is always worth finding out about the availability of regional development funding from national governments and supranational organisations such as the European Union when it comes down to making a decision with regard to the locating of any new potential production faculties. National governments and the European Union can be highly enthusiastic about attracting companies into underdeveloped or economically deprived areas. The company could find that it could play one government off against another one to secure higher quantities of subsidies and other financial inducements to sway the decision of where to locate new faculties. Gaining the maximum amount of regional development funding possible could equate to the company setting new production sites for a relatively small outlay of its own venture capital. High levels of regional development funding can make all the difference between success and failure (Bannock, Baxter, & Davis, 2003 p. 127).

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