

Location Analysis: An Overview



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Introduction

In today's world, the business framework is changing. Businesses these days are not just limited to the home country but are expanding globally. Of late the companies have started moving outside their home locations. India, China, and Latin America have emerged as major offshoring locations. Different organisations have different needs, and in order to meet those needs, businesses today are looking for new locations that have the resources to satiate those needs. Many companies today have their largest R&D centres outside their home country, such as in India. India boasts of a large talent pool of engineering graduates, and these graduates also excel in other parameters, such as proficiency in English. Some examples are GE which has its largest overseas R&D centre in Bangalore, India and Accenture, which is establishing a large base in India. Many countries in Europe that lack adequate talent pool of graduates are relocating or opening their new office at locations where there is plenty of fresh talent pool available. A Chinese or a Japanese organisation which mainly deals with US clients may want to set up their offices at locations where people are proficient in English. Apart from talent pool and low-cost labour, there are numerous other parameters such as low-cost infrastructure and cultural similarities that may provoke a need for relocation. A research organisation may want to set up its centre in a country which supports technical education and protects intellectual property.

Organisations have got into a habit of emulating the previous organisation in locating their offices. Apart from the countries that already earned its reputation as a popular location, there exists location such as East European countries that have posed themselves as an alternative to the current options. In-depth analysis of locations such as Tunis, Tunisia and Tallinn, Estonia would result in better understanding of opportunities present there. Some of the locations fare well on most of the parameters set for an offshoring company.






There exist multiple other phenomena which could be critical to the location analysis work but go unnoticed. A good analysis thus contains the finer points in detail as they are the ones which make one location stand apart from the other. The recent trends of outsourcing thus must be borne in mind. One such trend is the rising wages in India. India will make a great outsourcing destination for the next 15 years if the rising wages are overlooked. But as the experts say, the rising wages could result in loss of work. Some of the businesses in India have already started facing such problems.

A good analysis stands out when it contains views that are path breaking. One such view is the geographical compatibility of the location with its central command location or possibly the headquarters. Both India and China have gained a lot of their businesses from the US owing to excellent coordination while transferring business to the offshored location from the offshorer location. The positioning of India and US in a 12-hour time zone gap performs this act.

A location assessment should look into both the qualitative and the quantitative parts such as setup cost, variable cost, infrastructure, human resources, etc. Companies today want to have their presence in all the possible markets. Many large companies in Europe have already started moving their service operations abroad as they become more profitable and competitive by doing so. Organisations therefore want to expand their sphere of influence and are in a race to capture the best locations for their centres. In order to do this, they require someone who can understand their requirements as well as the psyche of indigenous people and come out with a location that will be beneficial for the organisation as well as the local people. One location may have a strategic leverage over the other. One who discovers this opportunity and grabs it gains an upper hand over his competitors, which is a must for sustainability.

1.0 Various requirements for which a company may need location assessment

Table 1: Reasons for location assessment

Parameters	Attractiveness	Examples	Remarks
Low Cost Locations		GM in China, Labour cost in China being 15 times lower than in USA	<ul style="list-style-type: none"> Essential for cost reduction
Talent Pool		MNC looking for Asian countries	<ul style="list-style-type: none"> Shortage of talent pool
		Google, Yahoo! in India	<ul style="list-style-type: none"> Quality of talent pool available
Closer to Market		Dell manufacturing plant in India	<ul style="list-style-type: none"> Reduction of manufacturing cost Quicker response time
Localised services/products		Mc Donald's 'Aloo Tikki Burger' in India	<ul style="list-style-type: none"> Essential for customisation
Government Regulations		SEZs in India	<ul style="list-style-type: none"> Tax incentives provided
		Restriction of entry in Aviation sector in India	<ul style="list-style-type: none"> Regulations in certain sector

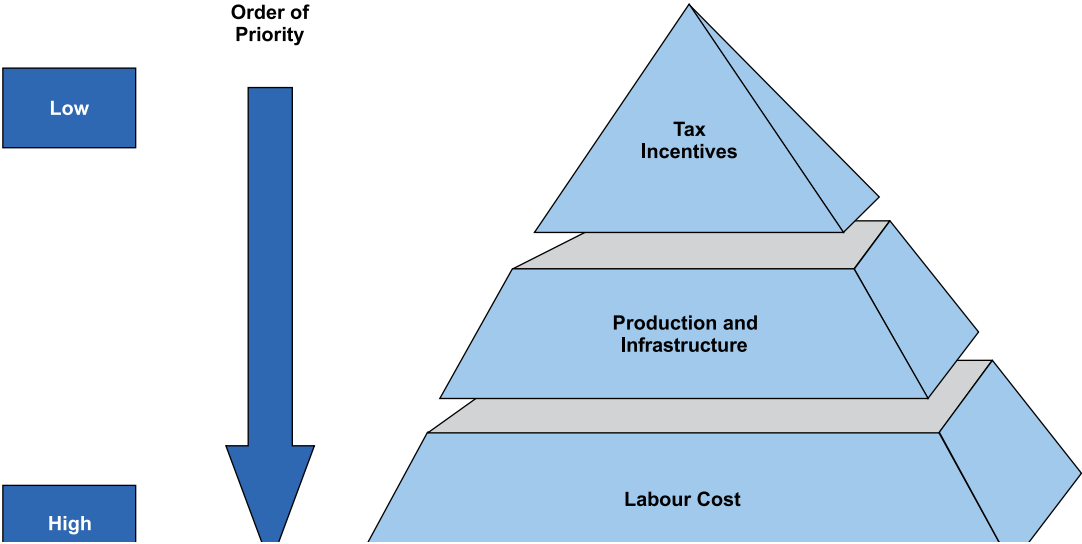
Attractiveness: Importance of a parameter while deciding offshoring location

 Low  Medium  High  Very High

Today there are multiple reasons for which a company may need location assessment, and all the reasons require a customised effort and an independent assessment for expanding in new locations, incorporating the perception of local people. A few of the possible reasons are shared in table 1.

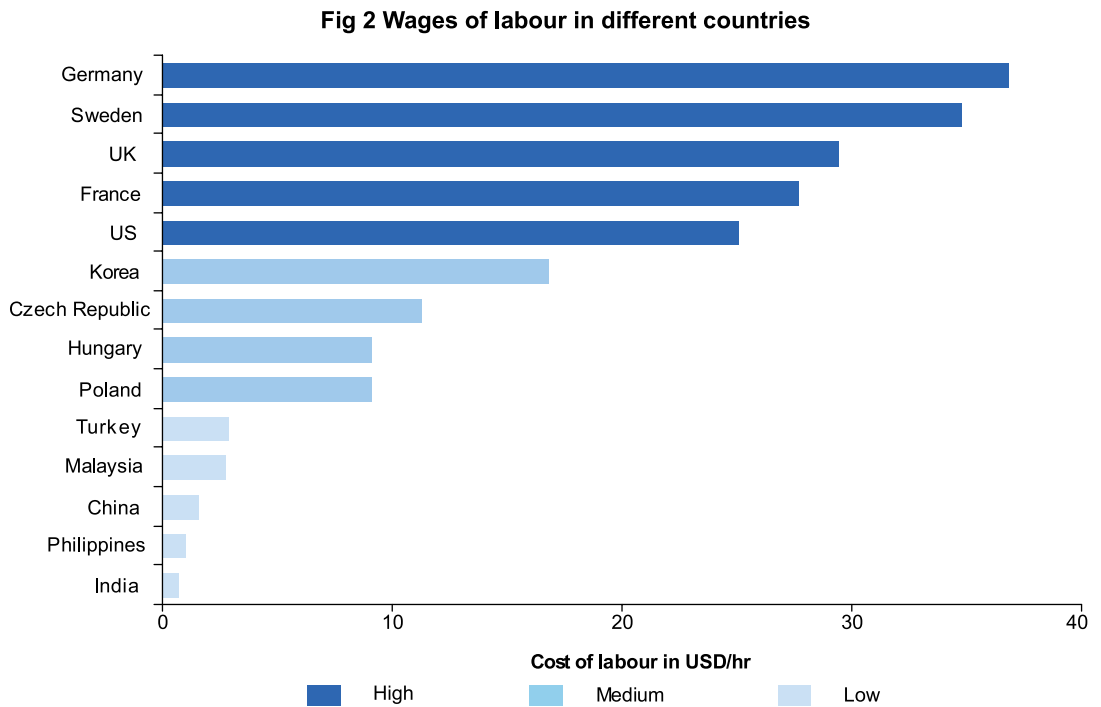
1.1 Low cost locations

Fig 1 Factors that need to be considered for low cost locations



Cost reduction is one of the prime objectives for most global organisations. It has become one of the important parameters for offshoring/outsourcing. Different locations have different cost advantages.

1.1.1 Labour cost



Source: EIU Report

Labour cost variation is one of the major drivers for offshoring/outsourcing.

Wages form an important part of operational cost, and existing variation in wages makes certain destinations lucrative for offshoring/outsourcing.

Asian countries have become the top destinations for offshoring due to high availability of skilled and cheap labour. In order to leverage this low cost environment these locations are emerging as a major manufacturing base. GM, for instance, has started four manufacturing facilities in China; BMW has opened a manufacturing facility in India. At present, China due to high availability of cheap and adequate labour has the third highest automotive manufacturing facilities in the world after USA and Germany.

The high cost countries such as USA and Germany have become saturated. Owing to high labour cost in these countries, the present companies are opening up their new offices in low cost locations such as India and China. Labour wages in India and China are very low in comparison to other locations.

1.1.2 Production and infrastructure cost

Production and infrastructure cost are other important factor which the organisation takes into consideration while deciding an offshore location. A growing organisation may open number of offices at different parts of the city and would thus require an office that is optimally priced.

Examples

Production cost

Countries such as India and China have raw materials available for less-expensive rates. This is also one of the reasons for these countries being categorised as attractive locations. Posco, the world's fourth largest steel producer and one of the most competitive steel companies, is coming with a steel plant in India because the Indian market offers iron ore at a cheaper rate when compared to other countries. Indian Government, for instance, also offers lower utilities cost. All SEZ units in Amritsar are exempted from electricity duty on power purchased from the Punjab State Electricity Board.

Infrastructure cost

Countries such as Malaysia and Czech Republic, which due to their competitive and less-expensive infrastructure are emerging as major offshoring locations. Companies such as Accenture, IBM and Sun Microsystems have opened their business support centres in Czech Republic.

1.1.3 Tax incentives

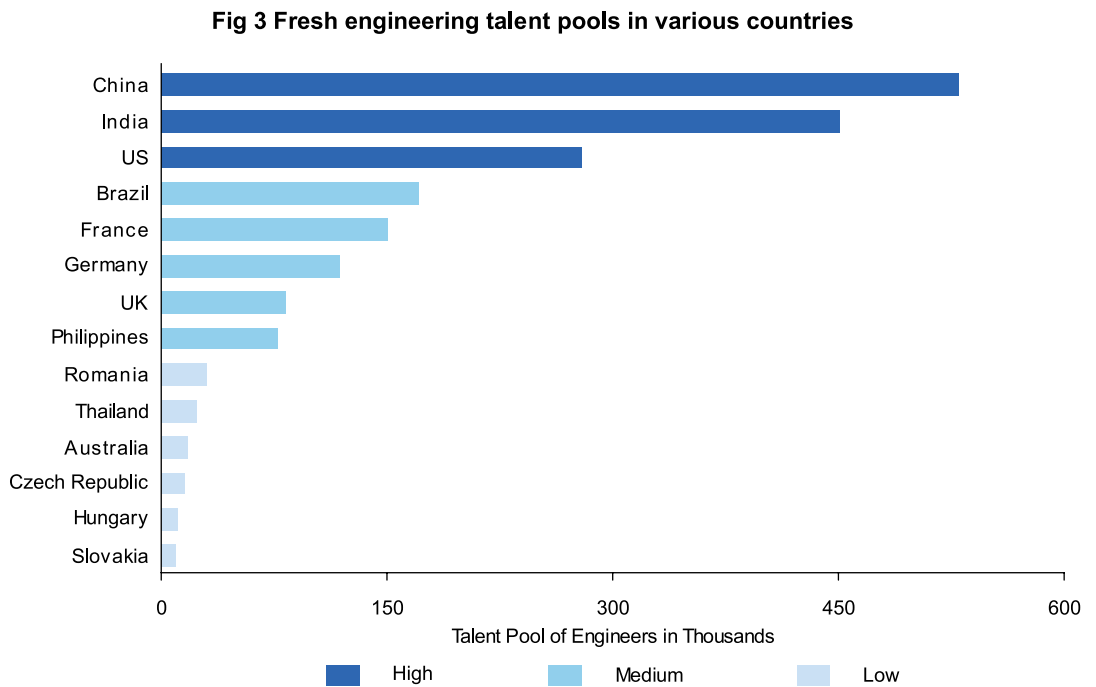
Governments of many countries provide tax incentives for promotion of certain sector. Huge exemption is provided in sales tax/VAT, purchase tax, octroi, stamp duty, registration fee on purchase of land, etc.

Maquiladora: – Mexican free trade zones

A Maquiladora is a zone that imports materials and equipment on a duty-free and tariff-free basis. It is mainly for assembly or manufacturing and then it re-exports the assembled product back to the originating country. Maquiladora is primarily used to refer to factories in Mexican towns and along the United States-Mexico border but now has spanned all over Latin America. Maquiladora factories encompass a variety of industries including electronics, transportation, textile and machinery.

Other countries such as Japan, Germany, and Korea also have Maquiladoras. But most of them are located in Mexico and are associated with the US companies.

1.2 Talent pool



Source: Government websites

Overview

A quality talent pool is essential for the growth of an organisation. Attracting the right talent is one of the major challenges faced by the global corporations today. Getting superior talent is a prime source of competitive advantage. There are multiple measures which are taken up by a company to attract suitable talent, and one such measure is offshoring/outsourcing. Companies in search of quality talent are offshoring their operations to places such as India and China, which have a substantial talent pool. European countries today are facing a major talent pool crunch and have started offshoring their operations to tap quality talent.

Examples

Many MNCs such as Google, Yahoo!, and Microsoft have opened their R&D centres in India to harness the available talent.

To tap the competent talent pool of India, GE and Bosch have established their largest R&D centres outside their home country. John Welsh Technology centre is a multi-disciplinary research and development centre and the largest centre of GE outside USA.

Apart from the shortage of talent pool, the wage rate is also one of the criteria for organisations to look for less-expensive alternatives. In the service sector wages comprises operational cost, so tapping the quality talent pool at a lower wage is an important parameter. Thus in the current scenario, companies have started opening their new offices in locations where adequate talent pool is available economically. Thus, many Asian countries such as Indonesia, Philippines, and India are the preferred locations because cheap labour is readily available.

As shown in the graph, China and India have the largest talent pool of fresh engineering graduates in the country, which along with low cost, makes them the most attractive destinations in the world.

1.3 Closer to market

Overview

When volumes of a market become huge, the companies prefer to move closer to the market than transporting goods. Being closer to the market has its advantages in terms of cost reduction, quicker response time, and a shorter lead time apart from customisation. Companies now are looking for all possible ways to reduce operational costs. Transportation of goods from an offshored location forms a substantial part of the manufacturing cost, which not only increases the logistics cost but also helps in increasing the lead time/response time of a particular situation. In the current market, the product life time has diminished, causing frequent variations in the demand for the products. If the demand of a particular product increases, an onshore organisation would be able to respond promptly when compared to an offshore facility. Alternatively, if the demand for a particular product decreases, an onshore company will be able to adjust with the demand quickly. This will help save on the logistics cost when compared to an offshore company.

Example

Dell, which is one of the biggest producers of personal computers, previously used to import computers in India. As the PC computer market in India shot up, it decided to come with a manufacturing plant in India. So the nearness to the market has become essential for an organisation. Many companies have understood this need and have started moving closer to the market spaces.

1.4 Localised services/products location-specific customisation

Overview

Organisations nowadays are expanding geographically and are constantly on the watch to tap global markets. Owing to globalisation and faster means of transportation, goods are being sold at multiple global locations. Thus, organisations today have to provide customised services/products. In order to do this, companies need to manufacture their products near the market and manufacture it as per the needs of the people. Companies thus are moving to regions having huge markets and high potential. This is highly distinct in the emerging markets like India and China.

Examples

- **McDonald's Aloo Tikki Burger**

Food retail giant McDonald's realised the market potential and ventured into the Indian market in 1996. Internationally, McDonald's is famous for its hamburgers which did not make much success in India. One prominent reason for this was that India houses more of a vegetarian population and McDonald's mainly supplied non-vegetarian burgers. McDonald's tried to understand the Indian market and went for customisation. It developed a special menu with vegetarian selections to suit Indian tastes and preferences and came out with '*Mc Aloo Tikki*' burger (Potato cutlet) which became an instant success. The new burger was cheap and thus targeted a bigger market. It was also made as per the local taste. This strategy was then followed by KFC which also came up with customised food items.

- **Nokia 1100 Phone**

Nokia is at present the largest MNC in India. It came to India in 1997 but was able to create a big impact initially. The primary reason being mobile phones being considered as luxury items and were not affordable by large chunk of Indian population. Nokia thus felt the need of customisation and they started their operations in India and modelled their products as per the needs of the Indian market. They came up with a mobile handset which had a flashlight attached to it (Nokia 1100), and which was also less-expensive and more durable. Understanding the requirement of the Indian people and realising the fact that power cuts are frequent in India, Nokia introduced the concept of mobile with torch. The phone was branded as 'Made for India' focusing on a huge middle-class and lower-class customers. After the success of Nokia, other companies such as LG and Samsung perceived the need for customisation and entered the Indian market accordingly.

The needs of the consumer are also changing very quickly, and to meet those demands, an organisation should understand the general perception of the people which can be best served by setting up their operations in the local environment.

1.5 Government regulations

Government regulations play a key role in deciding an offshoring location. Many international governments have industry-friendly policies, which, if tapped properly, can enhance both the bottom line and the top line of multinational corporations. However, government regulations can also act as a deterrent for certain industries. In some countries, certain sectors are closely controlled by the government and the regulations governing them may change frequently.

Examples

- **The Case of Malaysia**

Promotion by Government

Malaysia, for instance, is an emerging market and scores high on business environment. Government support for information and communication technology has boosted the growth of IT industries. Other

initiatives taken by the government are investment in infrastructure and development of certain locations as a part of Multimedia Super Corridor project. These initiatives have encouraged companies such as Motorola, Ericsson, IBM, Shell, HSBC, etc. to open their service centres.

- **The Case of India**

Promotion by Government

For the development of their economy, India and China have established various SEZs, which have acted as development centres for the nation. Governments have provided various tax exemptions and other incentives for the development of the centres.

Regulations by Government

- FDI in multi-brand retail format is not allowed
- In domestic aviation sector, the entry of a foreign player is restricted
- The Indian Defence sector is closed for private players.

2.0 What do organisations fail to evaluate?

While evaluating different locations, there are many key points that an organisation overlooks. Most of the organisations, while assessing a location, look at the peripheral picture rather than doing a deep analysis. This may lead to elimination of a potential location or selection of a wrong location. Many organisations rather than looking at the long-term picture look at the short-term advantages. Some of the common mistakes made by the various organisations are listed below:

- Restricting the number of locations
- Loss of long-term view
- Dip in customer satisfaction
- Regulatory hindrances/political instability
- IP protection
- Evaluate the right audience

2.1 Restricting the number of locations

Today, while evaluating various locations for outsourcing/offshoring, identifying the best location is a must. Today many companies follow other organisations while deciding an offshoring location. Companies now move to top destinations such as India and China and they give no thought to evaluate other locations. East European countries are often not considered while evaluating potential locations. However, the East European locations have all the advantages of the other primary established locations. This includes low wages, reliable infrastructure, and cultural and geographical proximity to Western Europe. Moreover, Eastern European countries are an attractive location for Western European countries due to larger language compatibility (French and German) as compared to India or Southeast Asia. However, choosing a suitable location isn't just a matter of picking the right country. Employment costs differ widely among cities because of limited labour mobility and varying unemployment rates. Companies should look beyond the first-wave locations. Instead, they should begin to explore mid-size with little or no offshoring activity but large talent pools, i.e. cities such as Tallinn, Tunis, etc. Moreover, the labour cost advantage is more likely to remain attractive for the next decade.

2.2 Loss of long-term view

Many companies while finalising the location miss the long-term picture. This often meets the short-term objectives but does not offer much advantage in the long-term. For example, many companies these days are venturing into India because of various advantages offered here. One such advantage offered by India is low wages. Indian market at present has the cheapest wage rates, but this scenario is expected to change soon. In India, wage rates are growing sharply, and in the next 10 years, the wage rates in India will be at par with the present high cost countries. So, while evaluating a location, we should always have a long-term view in mind.

2.3 Dip in customer satisfaction

Many organisations, after selecting a location and a vendor to outsource, do not evaluate their suppliers. This leads to the manufacture of low-quality products, which tarnishes the name of the organisation.

Examples

Excessive use of lead in Chinese-manufactured toy

China has been a preferred location by many toy-selling MNCs for offshoring their manufacturing operations. Recently, a large number of Chinese-manufactured toys which were outsourced by an MNC were withdrawn from the market as the Chinese manufacturer had used a non-approved paint pigment, violating its safety standards. The toys contained excessive levels of lead.

RC2, the maker of Thomas trains, also re-called 1.5 million trains and accessories because a Chinese supplier had coated them in lead paint.

China's State Food and Drug Administration suspended the sales of methotrexate, an injection drug for leukemia and rheumatoid arthritis, after the reports of adverse effects in children with leukemia.

So an in-depth evaluation should be done from the raw material suppliers to the end manufacturer before finalising the vendor for offshoring/outsourcing.

2.4 Regulatory hindrances/political instability

Most of the times a location is well-suited for offshoring in the present scenario and gets all the government support at that time. So an organisation establishes its centre there. But a change in the government may bring about a change in the regulations, which may jeopardize the existence of a location. Moreover, a politically unstable economy is not suitable for investment.

Example

In 1977, the Government of India forced IBM and Coca Cola to go out of the country.

2.5 IP protection

IP protection is very important both for setting up an R&D centre and also when a new product is to be launched. Certain countries like USA have strict laws for IP protection whereas countries such as India and China do not monitor IP protection closely. China, for example, accounts for 80 per cent of counterfeit goods seized at US ports in 2006. Software piracy is more in India and China, and the piracy rate in China is as high as 82 per cent.

Search engines such as Torrent Spy and Isohunt also promote piracy as they are an easy access to a pirated material. They are used worldwide. USA, for instance, is planning to ban these search engines but no such law is prevalent in India and China.

2.6 Evaluate the right audience

Sometimes while evaluating a location, we take a holistic view rather than a focused view. This often leads to elimination of a potential location.

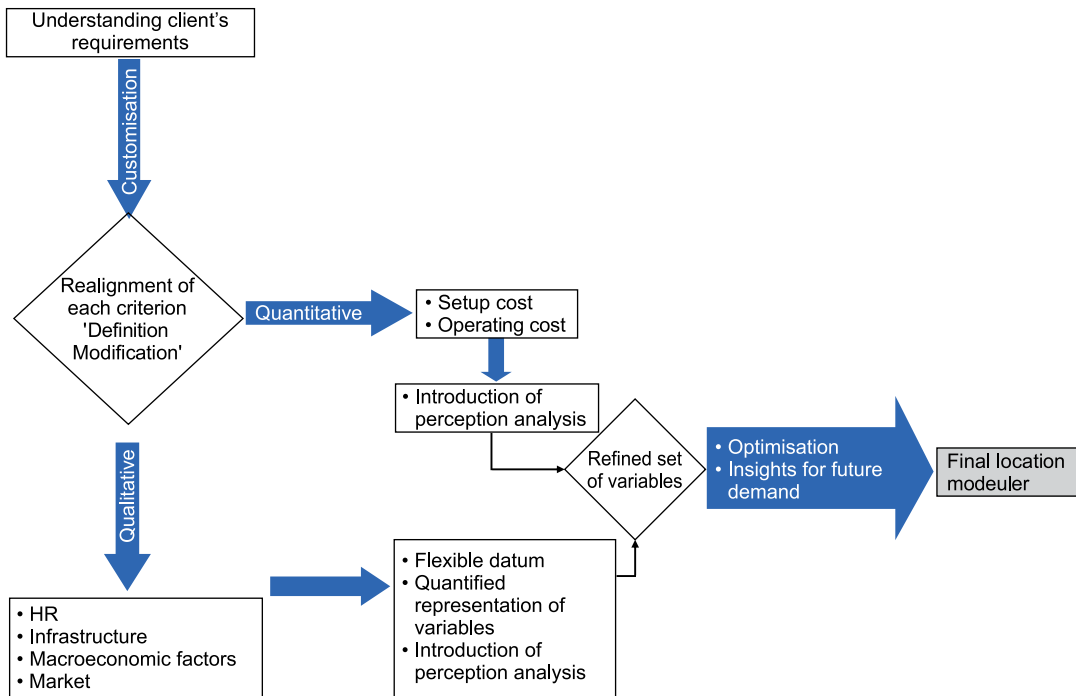
Let's take the case of an automotive company from USA which wants to offshore its services. It will be assessing multiple locations on predefined parameters. So while evaluating India, it may reject it due to low English proficiency of the Indians. At present, the Indian population has an English proficiency of around 10 per cent. This low proficiency will not be lucrative for an automotive MNC as, in the initial stage, majority people in the organisation would be from USA. But if we segment the Indian population into the population targeted by the company, we will find a different scenario. The targeted population for the automotive company would be engineering graduates. In India, the engineering graduates have English proficiency of around 90 per cent, which is very high when compared to other top offshoring destinations such as China and Indonesia.

Therefore, while assessing a location, we should not have a cursory view but should analyse every location and parameter keeping in mind the targeted sector.

So location analysis not only means choosing a manufacturing space or an office location but also includes myriad of other parameters. It is a customised effort which should take local parameters and perception of local people into consideration. We should delve deep into each of the parameters. Assessment of parameters peripherally may present a misleading picture.

3.0 Our proposition: Climbing the learning curve

Fig 4 Framework for location analysis



We think that the current needs and flaws prevalent in location analysis process need to be addressed. The location analysis can be made extra robust by introducing strictness towards the selection of the framework followed. Introduction of various issues can solve this crisis. There are at present three levels of analysis, which are necessary while assessing various locations.

The first level consists of un-customised models that are available readily and that give a peripheral picture of a particular location. They are not business-specific but are too generic. These are reports or surveys by various organisations; for example, these un-customised models will just provide the effect of government regulations in a country or the ease of doing business there. But what is required are the deep industry insights you want to move in.

The second level consists of customised models, which most of the consulting organisations provide today. They are client-specific but do not delve deeper into the picture. They often miss out on finer details which are a must. We have already discussed about the common mistakes in these models in the previous topic.

So what is required today is, apart from understanding the client's perspective one should also analyse a step further and understand the requirements which the client himself is not aware of. We understand and foresee these requirements and are able to assess different locations.

Some of the key requirements are listed below:

- Customisation of business requirements
- Insights for future demands
- Quantifying the qualitative parameters
- Flexible datum
- Introduction of perception ratings
- Re-engineering scope in analysis.

These requirements can be represented in the form of a flowchart.

3.1 Customisation of business requirements

The business requirements are a food for thought to realign the existing parameters into accurately pointing variables. They should address the immediate concerns of the client. For example, the infrastructure present at any given offshoring destination is one of the biggest concerns for any industry major. But the infrastructure demands of the industry are not the same. A manufacturing-based company would be more than excited if the logistics-based infrastructure is in good shape and would not bother much even if the network infrastructure is not up to the mark. The scenario would be totally different for an IT service company. The two would be concerned for all kinds of infrastructure but the emphasis will be laid on the kind of infrastructure that is indispensable.

This helps in segregating the dispensable and indispensable requirements and thus in coming up with the best location alternative, which otherwise could have been eliminated.

3.2 Quantifying the qualitative parameters

The location analysis often contains two heads of analysis namely the qualitative and the quantitative side. The quantitative analysis looks after the costs-related component of any business while the qualitative aspects handle factors like quality of life, infrastructure present, business environment, and few other similar parameters. Qualitative parameters should also be represented in the form of numbers. The grasp of numbers is such that we can instantly differentiate even in the trickiest qualitative parameter and compare them across different locations. With the use of appropriate mathematical models, the qualitative parameters can be converted to more acceptable form of numbers and thus can be handled for better results and understanding.

Thus, qualitative parameters should be converted into quantitative parameters with the help of modellers. It will help in comparing various locations profoundly, thus minimising errors.

3.3 Flexible datum

The datum taken for the comparison of various locations in our techniques should be flexible for each criterion. The flexibility offers more sound comparison as one location can be the best in some criteria but not all. Thus keeping different datum allows having more preciseness when converting the qualitative data into a quantitative one. For example, while evaluating different cities across quality of life, we should take one city as datum (may best in the field) and compare it with other cities. For a different parameter, a different city has to be taken as reference. While comparisons the datum used should be based on regular updates and expert knowledge.

3.4 Introduction of perception ratings

While research is carried out, often the most trusted ratings are picked up which do not speak of the accurate ground situation. In such cases, the perception ratings that are present do propel the analysis into a more consistent one. The introduction of regional factors further boosts the effectiveness of the ratings. While giving ratings, even the top-most organisation falters, since they are not well-versed with the domain knowledge, location, etc. So while analysing a particular expert, the perception of the local experts should be taken into consideration.

Experts in the field or experience and knowledge of local people should be taken into consideration rather than following information given by different surveys or studies.

3.5 Insights for future demands

The analysis done in such cases generally buckles under the pressure of the existing available data sources. A pathbreaking analysis is one which satiates both short and long-term demands. The demand for the future should be worked out by looking out for the policy changes being held in the environment around. The above can be understood from a simple example. While looking for the best possible business centre location in a city, the possible lookout is for a place which currently houses the biggest and the best of the companies. The researchers tend to report such locations as the most recommended location. A powerful insight in such a case would be to find out a location that would fulfill the requirements of the future business locations. These insights bear better results with such kind of analysis.

Thus saving room for the future will help in meeting the long-term objectives and looking at short-term goals acts as hindrance for future growth.

3.6 Re-engineering scope in analysis

Parameters regarding a particular city may vary from time-to-time. Moreover, weightings of a particular parameter may also change. So the modeller made should be flexible and should have the provision for addition or deletion of parameters.

Thus, while analysing various locations, there should be provision for addition and deletion of parameters. Moreover, there should be enough room for changing customer requirements. Modellers with flexible weightings of all the parameters should be used.

4.0 Conclusion

So we feel that when an organisation goes for location assessment it should not be limited to just few locations or some predefined parameters, rather every location should be analysed independently taking account new parameters and local perception. Today many organisations evaluate the wrong parameters, which often lead to elimination of a potential location thus it is necessary to differentiate between the important and the non-important parameters and prioritise the important parameters accordingly. Evaluation of optimal location is critical for an organisation and would be one of the driving factors for the success of an organisation in the future.



RedSeer Consulting

008, Niranjana Central, Tavarakere
Bangalore – 560 081, India
Phone: +91 9880768375
Email: query@redseerconsulting.com