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SOMAS Sunglasses Cost of Production

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Synopsis

Cost is one of the factors that determine the facility location decision. A manufacturer will probably prefer locating his business in a country that provides with the lowest cost of production. It is cost that determines what price to charge a product. The least price that a manufacturer would charge is the amount that covers the cost incurred in producing the product. Price of the product is also a determinant of demand; hence it needs to be fair. Therefore, it is clear that cost management is a vital aspect of business activities. The management has to define which country is the most suitable for the location of a manufacturing plant as far as cost is concerned (Kaushik & Bhatnagar, 2008).

Analysis of the Situation

SOMAS is a company that specializes in the manufacture of cheap sunglasses. Currently, it is faced with the cost minimization problem, and this needs to be rectified. The company operates in the country at the moment, but due to the high cost of production, it is planning to move to another country of the world where the cost of production is relatively lower (Gregg & Stoner, 2009). The company is owned by four persons, three of my classmates and I. Although the company is making a profit on the current operating base, it has the potential to reduce costs and significantly increase the profit margin (Horngren, 1982).

Developed countries have their own challenges as far as production and manufacturing is concerned. Despite the rich investment in capital and other technological advancements, the fixed cost of doing business remains high. In the United States and Eastern Europe for instance, to start a lucrative manufacturing business will cost an investor a huge amount of



savings. The cost of labor and other aid to trade remain high and new, or recently formed companies find it difficult to survive in these economic regions. It is on this basis that our company decided to locate the factory in a more cost-effective nation (Sears, 2007).

Naturally, many suggestions came in, and Africa and Asia were definitely the most preferred locations at first. However, as the location of a facility does not depend on a single variable and a facility location, schedule for different countries and locations were analyzed. The factor rating method was used where, among others, infrastructure, security and availability of labor were determined. The People's Republic of China was considered to be the most advantageous location, and this is where 'SOMAS' manufacturing factory and plants will be located. China is on record in possession of the world largest work force. Its people are also believed to be hard working (Grimwade, 2000).

The National Business Environment

Before proceeding to the international operations platform, it is important to scrutinize the national business environment constraints so as to justify the ultimate decision to go abroad. First, the minimum wage rate set by the legislative authority is very high internally as compared to the emerging economies. The federal and state authorities are also very strict on its implementation. After all, it is the social responsibilities to implement the agreed upon rates. Labor cost is one of the largest components of the gross cost for many manufacturing organizations and consists up to 40% of the total figure that is published in financial statements (Adithan, 2007). These calls for a need to take action and ensure that it is brought down so that the profit is not affected by greater extend.

In addition to that, the national business environment is not very favorable to start a business. Bureaucracy is involved in every action to issue a

license to operate. The federal and state authorities' legislations toward starting the business are long, complicated and costly. No incentives are awarded towards encouraging the youths in joining the manufacturing industry. For upcoming investors as is in our case, it would be a very discouraging and demanding procedure. Many investors are forced to abandon their plans in joining the manufacturing field and throw their money in the lesser engaging investment like stock and bonds.

Finally, the national environment is full of established players who operate on a larger scale than we are doing, and this definitely helps them enjoy the benefits of large scale production. They are able to enjoy the economies of scale due to the production on the large scale. Thus, they incur lower cost of production, which is finally replicated in the sales price. To compete with such established individuals, a drastic action that reduces the cost of production needs to be rolled out in order to ensure that the company can compete with other companies effectively. Competition in the national environment is very high, and the established companies are enjoying the benefits of their large scale production.

Constraints Expected in the International Market

Having determined the highlighted national environmental unfavorable conditions, it is necessary to investigate the expected problems and hindrance of operating internationally. Of course, it is expected that constraints to manufacturing will be encountered although it is not possible to tell by what extent. Going to China when you are a citizen of a different country may pose a challenge. The unfamiliar business environment, for instance, may be difficult to join in the first place. Some of these methods will be discussed in the section that follows.

First, it is the policy of the foreign government with regard to taxation of foreigners. It is necessary to evaluate the corporate tax rate of companies operating in China, as well as the peculiarities of business dealing from

another country. These are issues that are to be considered. Some foreign countries impose taxation of up to 50% on the net income. If this is the case, there are no reasons to warrant the move of business to this region (Kaplow, 2006) Taxation can be a problem as it can lead to reduced income after taxes. The rate that is operational should be fair to encourage production and the general goal of establishing a company (Baker, 2003).

The second reason that may be encountered in international trade is the availability and quality of labor. A company may be running away from the technical expertise needed in manufacturing the products. The cost of labor can also be a factor that hinders the efficient conduct of business internationally. The rates imposed could be much higher than the home nation rates. This would definitely be contrary to the basic objectives of relocating to that particular country. Apparently, China boasts itself of being in possession of the largest mix of labor force. Both skilled and unskilled employees are readily available at lower rates than in many developed nations in America and Europe. Other countries like Japan and South Korea also have a huge supply of labor at a cheaper rate.

The infrastructure of a country can be a factor of major concern. The cost of manufacturing could be low enough, but the cost of moving the finished goods may be too high; hence the effect of cost reduction is never felt. Infrastructure includes the state of the transport and communication systems. It also includes the availability and efficiency of modes and those means of transport. As for the cost of transporting commodities to the final consumer, China has a well-developed infrastructure of roads, railway and air transport networks. The cost of transport per ton of the luggage is lower than that in the United States, for instance. The benefits from the savings can be significant to warrant a move.

The next issue is the question of legislations and the social corporate responsibility. The legislation in place may not support the kind of manufacturing in the line of 'SOMAS' business, for instance. Such

countries will definitely be avoided. It is important to estimate, whether the line of the company products in any way interfere with the belief and culture of the local people. This can determine whether the community will or will not support the kind of activities that the company undertakes. The social responsibilities that are expected from the company and the consequences due to lack their fulfillment can be determined. Those which are costly and unavoidable can be analyzed to see the effect on cost in order to make the right decision.

Furthermore, international trade is likely to pose a challenge of supply. In most cases, the customer of the business is located within the nation of operations. Relocating the business means that the distance between the bases of manufacturing is increased. The host nation may not provide a market for the products. On its part, China is made up of 1.3 billion people in population density. It is likely that the country can provide market for the company products. The different economic class can be able to afford sunglasses from 'SOMAS' as they are cheaper and fair. Customers' needs in regard to fulfilling the demand should be capable of being attended from that host nation.

To conclude on this section, it is relevant to note that most of the challenges in the national business environment are also experienced in the international platform. There should be a need for action in order to establish the strengths and weakness in regard to each possible threat. Appropriate actions and structures should be designed in order to accomplish the goal of cost minimization (Cohen, Ferguson & Oppenheimer, 1985). The company can hence operate in the country that proves to provide a favorable business environment. In the analysis carried out, china emerged to be that country and is favorable in all these circumstances.

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Managing the Company Internationally

Managing a company is a key to its general performance. The basic functions of management must be implemented to ensure that the operations are executed as expected. The coordination of activities in and outside the factory should be done to reduce the work inconvenience. Planning and directing of duties toward achievement of the strategic goal of the company needs to be designed (Coyle, Bardi & Langley, 2003). The management responsibility has to shift from the former holder to other structured systems.

To manage the activities when the company starts operating, I, the general manager as appointed by the board will be at the facility plants in China. Being in a new country and working with different needs, the management is also expected to face changes. The company will, therefore, be forced to employ an assistant general manager in China to help in the management of operations. The managing directors will liaise with the line manager in the field to update on the expected production strategies and plans. The company will operate the factory as a branch (Benfari, 1995). The branch will, however, maintain its own books of accounts and will act independently from the parent branch.

Due to the distance between the field and the country where the board of directors is situated, the company will reduce on the number of board meetings. We will hold fewer management meetings, and most of them would be conducted via the internet (video-conferencing or Skype). The manager of the factory in this regard will be issued with more responsibilities of making decisions. It is expected that the less complicated problems can be solved by him, without the need to seek authority from the company managing body. The manager may be forced and is authorized to convene an urgent meeting if, in his own examination, the matter needs the input of the board of directors. The manager may, nevertheless, seek the input of at least one board member if it is impossible that the entire board cannot meet.

Problems Expected From Employees

Each and every country has different laws that govern the conduct, management and the rights of employees. China is not an exception, and the employees may pose a challenge in the course of employment. The laws that guide the creation of employee unions may pose a challenge. The employer-employee conflict resolution methods designed could be legally too long and as a matter of fact, can lead to lost business opportunities and time: a vital factor of production. What ways are designed before employees decide to initiate an industrial action for instance strike? The problem is likely to be met, but the structures that exist to remedy the problem are important for efficient conflict resolution.

The culture and morality of the Chinese may conflict with those of the Americans. The difference in the culture may be exhibited in the use of language. It may be difficult to communicate with the locals who will be definitely providing the source of labor (Wu, 2001). Before the general manager gets to learn the local Chinese language, the assistant manager will be in charge of operations. His major role would be to help in the

communication needs and solving issues that regard to cultural conflict between the employees. Language misunderstanding derails implementation of the operations program for employees have to act on the directions of those in the management position.

The leadership style of the organization can be a source of conflict with the employees. Authoritarian leadership styles are not healthy to any other organization and pose a great challenge in terms of performance. Employees would like a democratic and participative style of leadership so that they can feel responsibility for the actions they undertake. They do not view directions as just being imposed on them but rather as a result of their inputs. They should set their own reasonable and fair targets. The welfare of all the employees needs to be catered for so that the social responsibility of the employees needs is fully accomplished (Wu, 2001).

Conclusion

Many factors need to be determined before a company makes a decision as to where to locate its manufacturing plant. Cost is among the most important of all factors. Sometimes, we may be forced to locate the factory in countries other than the one we live so as to achieve the lowest cost possible. However, cost is not the only factor that needs determination. Operating an international business may cause some management problems, which can be solved with time. China is the country that will provide a location facility with the lowest cost of production due to the lower cost of factors of production.

International site for location of manufacturing facilities is faced with a varied challenges ranging from political, social-cultural and economic factors. All these factors affect the effectiveness and efficiency of operating a manufacturing factory. It is from these that the factors need a lot of determination so as to be able to exactly predict the effect of each on

the operations of the company. Appropriate decisions can be made in selecting the most appropriate location of the company manufacturing plants. Other factors, micro and macro are also necessary for evaluations so that SOMAS can have a move backed up by concrete evidence to support the company's claim of locating in another country.

The specific country that has been selected is the one that has a clear, simple and less complicated in starting and operating. Short periods should be expected from the time the relevant authorization papers are applied for and the time they are processed and presented to the company for use. The factor of production should be readily available at varied proportions and at the lowest rate as possible. This is due to the fact that the aim of locating in other countries is aimed at reducing the total cost of production.

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