UNIT 3: BUSINESS ANALYSIS AND STRATEGY

Rationalisation

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Definition: Rationalisation is the reorganisation of a business in order to increase its efficiency. This reorganisation normally leads to a reduction in business size, a change of policy or an alteration of strategy relating to products.

Examples of rationalisation include:

- **Closing of branches.** Barclays Bank recently closed several underperforming rural branches.
- **Transferring of production.** Ford stopped production of the Fiesta in the UK, instead using its Dagenham factory for engine production only.
- **Trimming of product ranges.** Growing businesses can end up producing large ranges of products but find that many of these have little profitability. Businesses will discontinue less profitable products and ranges and focus on those that maximize sales. Boots the Chemist stopped selling pet food and increased sales space for organic products.
- **Incorporation of IT systems to replace paper systems.** The government is currently trying to increase efficiency of the NHS by computerising all its patient records.

Although rationalisation is supposed to achieve increased efficiencies in a business it can result in uncertainty, resistance from staff, loss of jobs and cause insecurity for employees.

Rationalisation schemes are often fought against by those likely to lose out from the changes and this reaction can lead to industrial action. Rationalisation schemes must therefore be well planned and thought through. The objectives must be clear, as well as the means of achieving these objectives.

Outsourcing

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Definition: Outsourcing occurs when outside suppliers are involved in activities that could be undertaken internally by a business. These suppliers are not directly employed by the business.

For example, the outside suppliers or sub-contractors may deal with phone enquiries, computer processing and production of components or even produce finished products.

Outsourcing moves jobs outside the business and may even replace them with employment overseas (sometimes called 'offshoring').

Outsourcing can lead to increased efficiency and lowered costs. The outside businesses who take on the job will often carry out the same work for a lower cost.

Pros and Cons of Outsourcing

Advantages:

- Significantly reduced staffing costs.
- Well trained staff provided by the outsourcing company will reduce HRM costs such as recruitment and training.
- Existing workload and stress levels are reduced. This is very important if a business is operating near or at full capacity.
- Less investment risk. Instead of investing in new production facilities, let the outside supplier take the risk of investing.
- Capital needs are reduced. Because there is less investment, there is less need to raise finance.
- Lower costs increase profits giving more capital for research and development, therefore speeding the development of new products.

Disadvantages:

- Potential of poor customer service (call centre related), with communication made difficult because of cultural differences.
- Existing employees may feel demotivated if they believe their jobs are at risk. This demotivation can increase staff turnover and reduce productivity.
- Quality of production / product cannot be guaranteed. Quality may be maintained, but it is difficult to keep up with improvements in quality from competitor companies.
- More difficult to implement JIT systems, which reduce the need for working capital.
- Breakdown of communication in the production chain. It is often difficult for functional departments to talk to each other when they are not in the same building.
- Loss of security of data. There have been cases where customer data has been made available to external organisations from subcontracting businesses.
- Lost tax revenues to the home government when offshoring is used.