

# Outsourcing of xbox production by microsoft and flextronics essay sample

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In summary the following case was about Microsoft's quest to enter the video game market with its Xbox gaming console. Microsoft's history of having a small hardware business forced Microsoft to make a crucial decision about whether it should manufacture this gaming console along with managing a global supply chain or outsource the manufacturing to a third party. They quickly decided that it would be in their best interest to outsource the manufacturing of this product since they lacked the manufacturing and logistics capabilities needed. (Case study, 2011) After review of several potential suppliers, it decided to outsource assembly and significant logistics functions to Flextronics, a Singapore-based contract manufacturer. Flextronics was a global corporation with a large amount of employee's and was already working with other major companies such as Xerox and Dell.

Microsoft and Flextronics had previous business relations and Flextronics was the manufacturer of its mice. The rapport and relationship that Microsoft had with Flextronics, was a major reason Microsoft decided to go with Flextronics. In addition, Microsoft was looking for a partner that could supply the gaming consoles at a low price while maintaining high quality and was able to work jointly with Microsoft on a real time basis. One of the benefits of going with Flextronics was their industrial park strategy which helped it manage supply chain closely, reduce supply disruptions and lower costs that were passed down to Microsoft. Secondly, Flextronics had a global presence and was able to shift production from location to location as needed to keep costs down.

Third, Flextronics used web-based information systems that enabled Microsoft to feed information on demand conditions to Flextronics. This information exchange between the two would ensure that production schedules between all of the players in the supply chain are tightly coordinated so that inventory is minimized, shortages are avoided, and demand and supply are balanced. Lastly, Microsoft and Flextronics had strong personal relationships between employees which helped cement the business transaction. Microsoft has faith in Flextronics ability to manufacturer the console on time.

In reviewing this case study and the actions that Microsoft took to enter the video game market I think they strategically planned their success with rolling out the Xbox. They evaluated the possibility of producing the gaming console themselves versus outsourcing the production. In that evaluation, they carefully reviewed if they would be able to go global with this production and run a global supply group. The biggest risk it seems as though they would encounter would be able to supply the demand for this gaming console handling the production themselves.

Also, because of their past experience with only small hardware devices this would be much more extensive. Therefore, they concluded it would be in there best interest as well as a strategic advance to outsource the production of the Xbox gaming system. I think they did their pre-planning extensively before going into the video game market because they looked at their ability as a company to manufacturer the product and how the product could be produced more cost effectively while maintaining the quality by

someone else. Their decision to outsource the manufacturing of this product by the Flextronics which was a Singapore based contract manufacturer. They found that Flextronics would be beneficial in meeting the supply demanded while keeping the cost for production down while maintaining the quality they were looking for with their product.

If Microsoft had decided to manufacture the gaming console on their own, they would have been able to take the investment entry mode to produce these globally. The best form would have been to create a wholly owned subsidiary, a facility entirely owned and controlled by a single parent company (Wild & Wild, 2010, p. 366). By forming a wholly owned subsidiary, they would benefit by having complete control over the production of the game consoles which would decrease chances of competitors gaining access to Microsoft's competitive advantage (Wild & Wild, 2010, p. 367). Microsoft would also have complete control over the subsidiary's output and prices and would receive all profits generated as well (Wild & Wild, 2010, p. 367).

They would be able to look for best options for producing the gaming console while keeping costs down. They would be able to ensure that the quality standards that they had set were being maintained. However, the disadvantage would be the amount of time and cost that it would cost Microsoft to get this subsidiary up and running. In addition, because of this being their first entry into the market they may not be able to produce the gaming consoles at a low cost with the new endeavor. Also, the risk exposure is high because a wholly owned subsidiary requires substantial company resources (Wild & Wild, 2010, p. 368).

I think that Microsoft made a very good decision about outsourcing the production of the Xbox to Flextronic. Flextronic has high global sales and has worked with big companies in the past. They have a proven track record with Microsoft as well as a previously good working relationship which is really important when making these kinds of decisions. In addition, Flextronics global presence enables the company to shift production as needed to continue to provide high quality and low cost. Therefore, Microsoft can count on the stability of their prices. In closing, it is obvious that Microsoft would be able to obtain the competitive advantage of entering the video gaming market with using Flextronics for the production of the Xbox.

## References

Case Study: Microsoft: The outsourcing of XBOX production. (2011) Wild, J. & Wild, K. (2010). International Business: The Challenges of Globalization (5th ed.). New Jersey: Pearson Prentice Hall