

Microsoft – outsourcing xbox production



**ASSIGN
BUSTER**

Microsoft 1 Microsoft Outsourcing Xbox Production Geovanna Garcia

BUS25010016-200905 - International Business Environment Professor Adkins

September 2009 Microsoft 2 Microsoft - Outsourcing Xbox Production When

Microsoft decided to enter the video game market with its Xbox gaming console executives had to make a strategic decision whether to manufacture the Xbox or outsource the manufacturing. After some studies, it was decided that they did not have manufacturing and logistics capabilities and decided to outsource the assembly and significant logistics functions to Flextronics, a Singapore-based contract manufacturer.

Microsoft already knew Flextronics because they had already contracted out the manufacture of computer mice to them. Since Microsoft had worked with Flextronics for several years, relationships between employees of the two companies are very good making the strategic alliance an advantage to Microsoft. Another advantage of the outsourcing to Flextronics was the cost and quality of Flextronics. There are always risks you may considered when outsourcing.

For example, Microsoft took the risk to give away key technological know-how to Flextronics on the Xbox. Another risks one take when entering a strategic alliance is the commitments to alliance partners. Microsoft and Flextronics already have a business relationship because Microsoft contracted Flextronics to manufacture computer mice. Microsoft would not have been better off manufacturing the Xbox themselves. They lacked logistics and manufacturing capabilities to mass-produce the Xbox. It was cheaper to outsource it to a company already established in the manufacturing market such as Flextronics; a company recognized by

<https://assignbuster.com/microsoft-outsourcing-xbox-production/>

Microsoft because their previous alliances. Microsoft 3 Flextronics had been pursuing an industrial park strategy to tightly manage its own supply chain, reduce the chances of supply disruptions, and lower costs, which could then be passed on to Microsoft at lower prices for the Xbox. By creating an industrial park, Flextronics will have full management control in one big area, minimizing logistics costs, transportation costs and facilitating just-in-time inventory systems.

Co-location also minimizes supply problems that may occur from a breakdown in globally dispersed supply chain - as occurred after September 11, 2001 and again in 2003 due to SARS epidemic. Web-based information system is a software designed to publish and maintain data between companies. It was very important for Microsoft to establish a good web-based information system with Flextronics because Microsoft is able to provide information on demand conditions to Flextronics, which enables Flextronics to configure its own production schedules to minimize inventory and closely match supply with demand.

By creating a well constructed web-based information system software Microsoft and Flextronics ensures that production schedules between all of the players in the supply chain are closely coordinated to minimize inventory, avoid shortages, balancing demand and supply. Microsoft 4

References: BUS 250: International Business, 2009 Custom Edition, Charles W. L. Hill http://en.wikipedia.org/wiki/Web_information_system