

Stryker Corporation: Capital Budgeting

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Strategic Importance of Option 3

- Stryker will have greater control over the production process
- 10 percent decrease in sales translates to lost sales of \$300 million

- Production begins in 2004
- Transitioning
- Manufacturing all PCBs by 2006

If we assume that the project terminates at the end of 2009 then:

- Net present value: \$1.3 million
- IRR: 22%
- Payback period: 3.4 years

Why Stryker Should Not Pursue Option 1

- Higher inventory costs
- The company would have a more complex inventory management system

Why Stryker Should Not Pursue Option 2

- If the sole provider of PCBs cannot provide the PCBs Stryker needs, products can not be made.
- The supplier would have more bargaining power

Why should Stryker manufacture its own PCBs?

- Higher control over quality and delivery
- More flexibility
- Lower cost of production compared to purchasing
- Taking advantage of credit terms

Costs

- Building: \$3 million
- Architectural and engineering fees: \$270,000
- Payroll: \$175,000
- Communication and IT: \$210,000
- Equipment: \$2.6 million

Benefits

- Decrease in purchase of PCBs
- Better credit terms

Options

- (A) Acquiring safety stock and making that stock
- (B) Purchasing with a single supplier
- (C) Manufacturing its own PCBs

Printed Circuit Boards (PCBs)

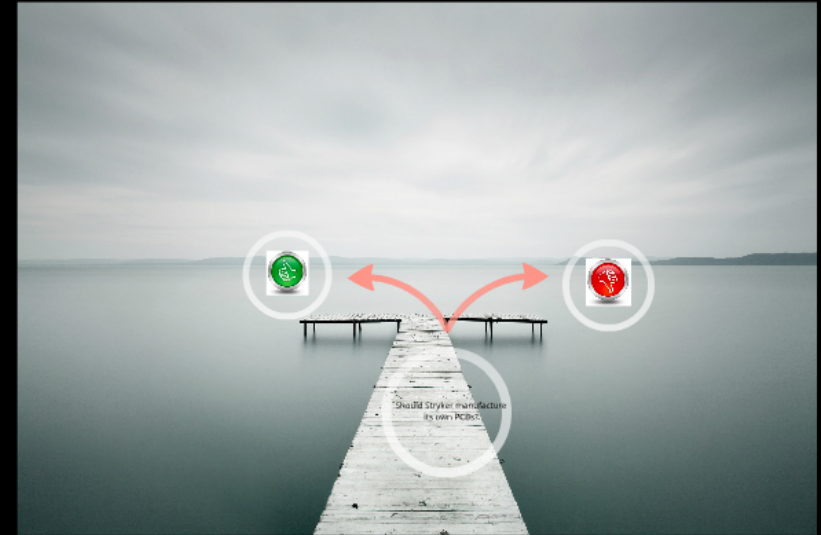
- Used in many products that Stryker produces
- Suppliers were unsatisfactory in quality, delivery, and responsiveness
- Stryker plans to spend \$10 million on PCBs



stryker Corporation

In-sourcing PCBs

Adrian Shejari
Charity MacIntyre



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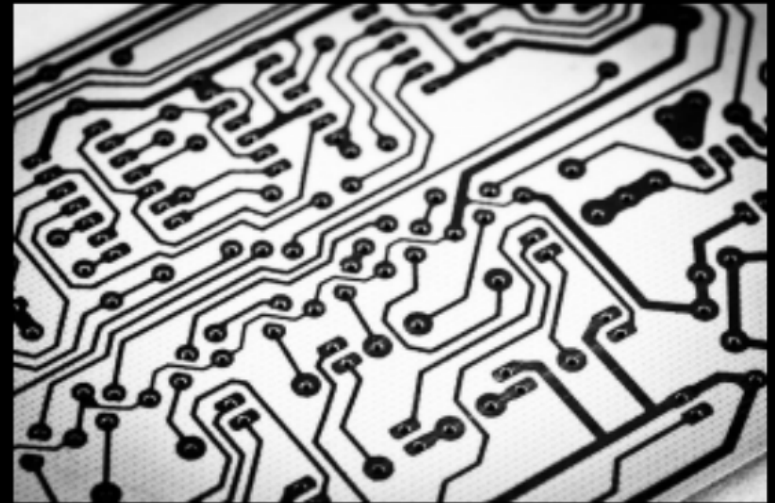
Corporation

In-sourcing PCBs

*Adrian Shojaei
Charity MacIntyre*

Printed Circuit Boards (PCBs)

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Options

- A) Acquiring safety stock and instituting dual sourcing
- B) Partnering with a single supplier
- C) Manufacturing its PCBs

We don't have data to do a
quantitative analysis for
options 1 and 2

