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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

It's not just about NY!

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

If we assume that the project terminates at the end of 2003 then:

- The project cost: \$1.3 million
- 180,000
- Payback period: 3.4 years

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 Stryker Should Not Pursue Option 1

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

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
- Architecture and engineering fees: \$275,000
- Furnishing: \$125,000
- Construction and IT: \$210,000
- Equipment: \$2.6 million

Benefits

- Decrease in purchase of PCBs
- Better credit terms

Options

- Outsourcing safety stock and maintaining inventory
- Outsourcing with a single supplier
- Manufacturing its 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



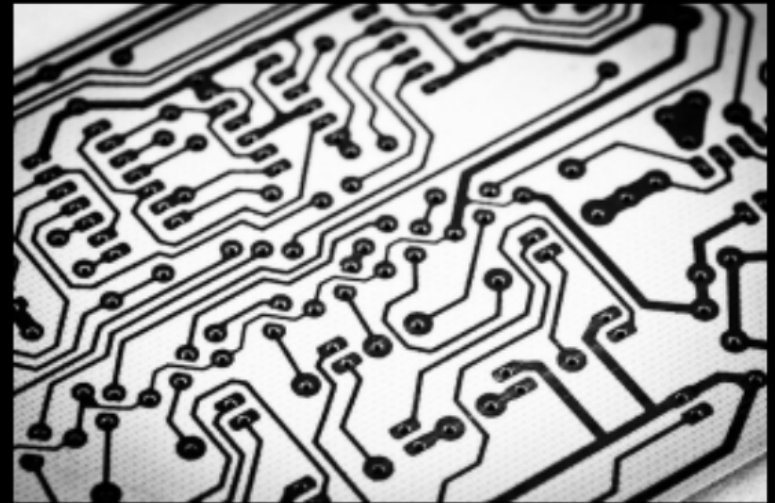
Corporation

In-sourcing PCBs

Adrian Shojaei
Charity MacIntyre

Printed Circuit Boards (PCBs)

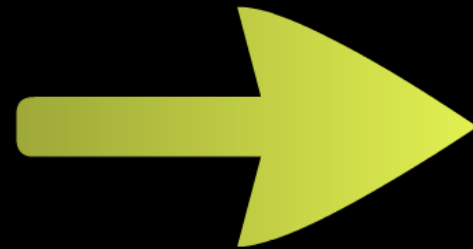
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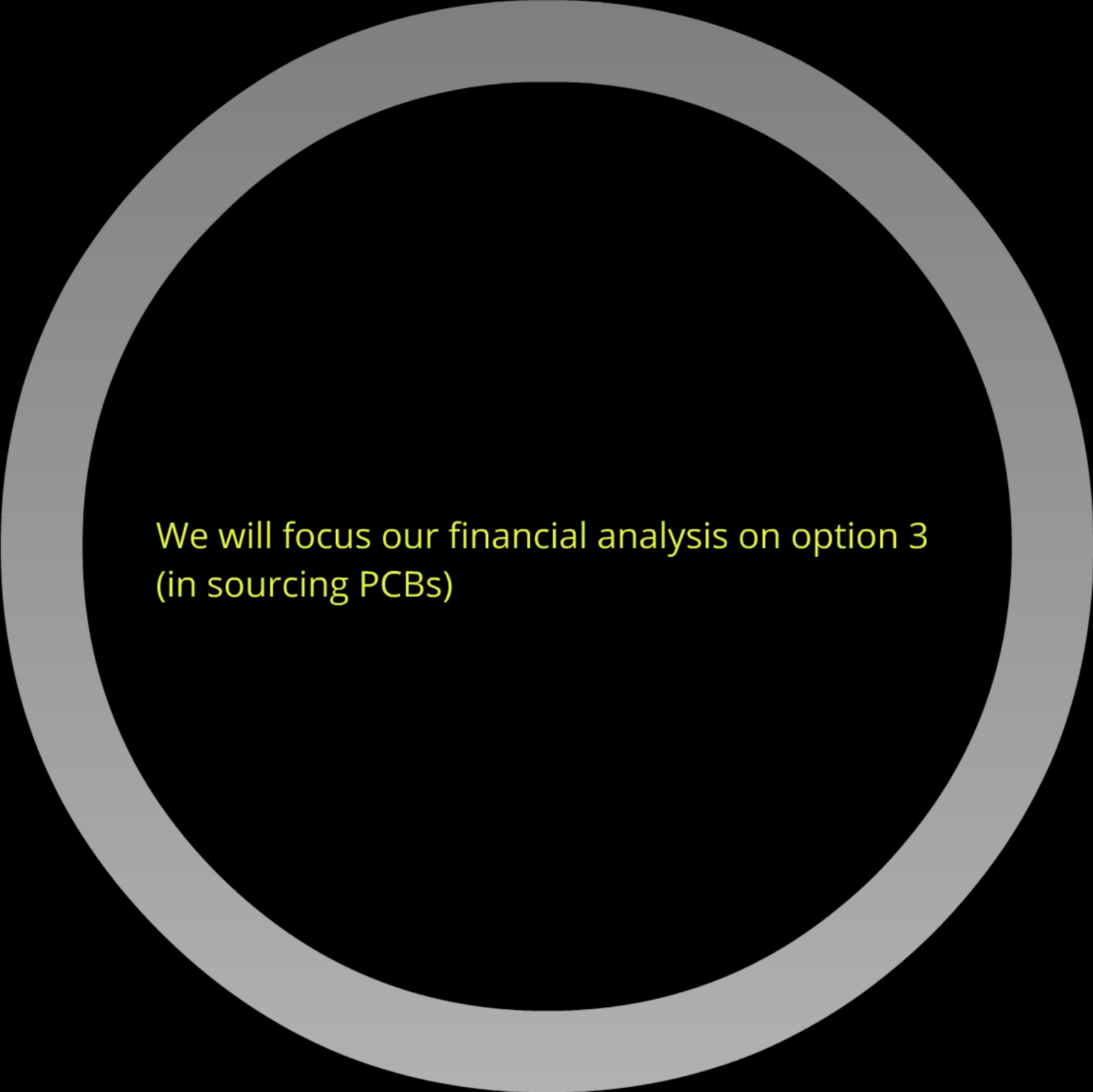


Options

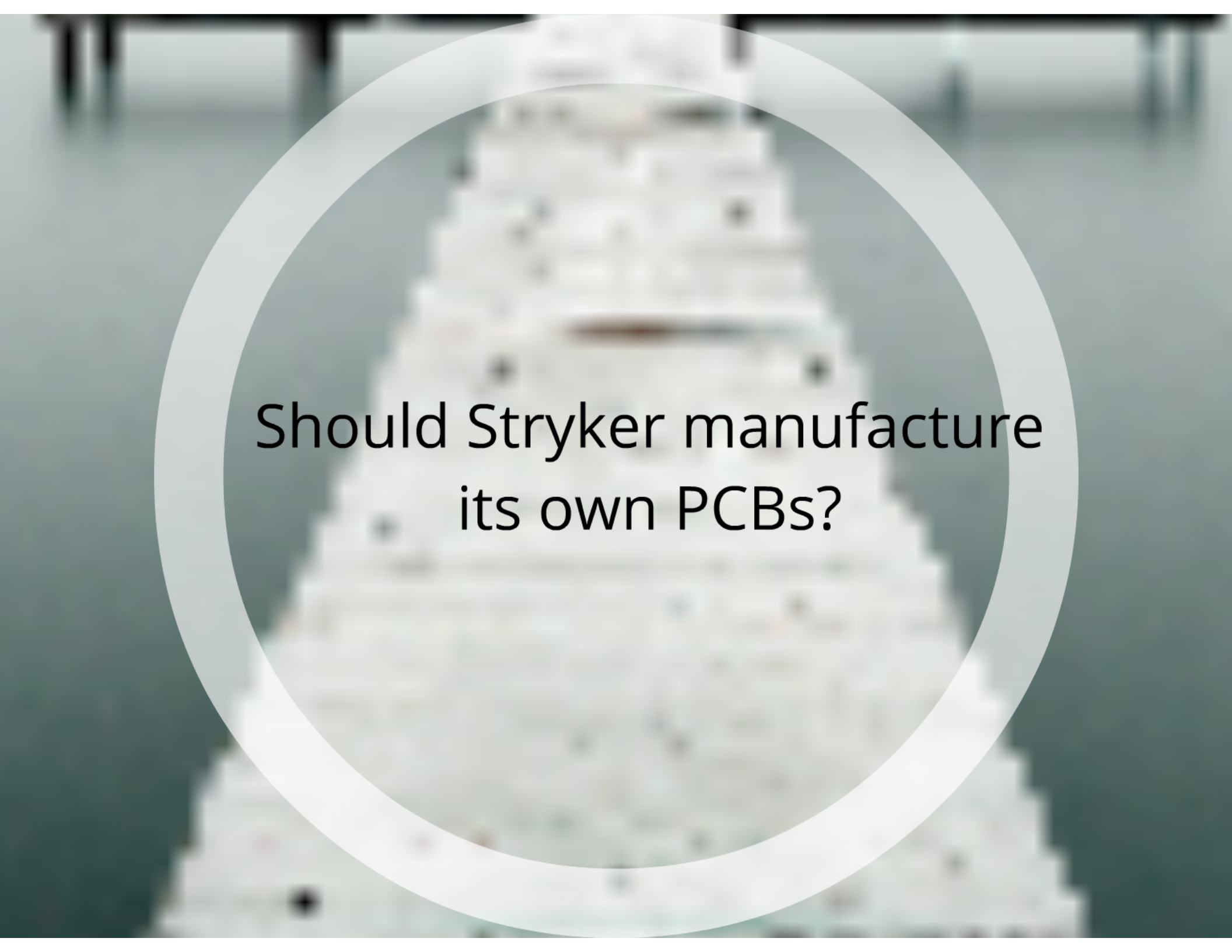
- A) Acquiring safety stock and instituting dual sourcing
- B) Partnering with a single supplier
- C) Manufacturing its PCBs

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

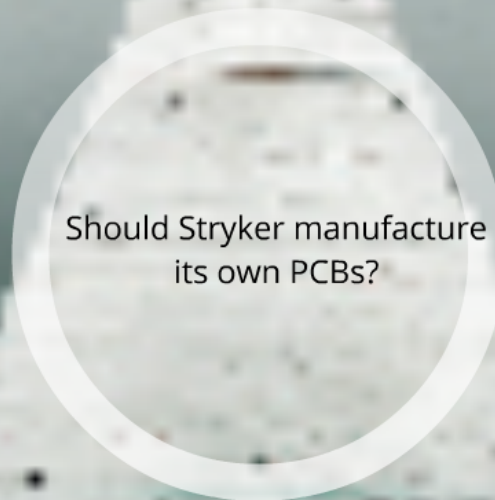




We will focus our financial analysis on option 3
(in sourcing PCBs)



Should Stryker manufacture
its own PCBs?



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its own PCBs?



To have the project considered, Stryker's capital budgeting procedure requires NPV, IRR, and payback period.

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

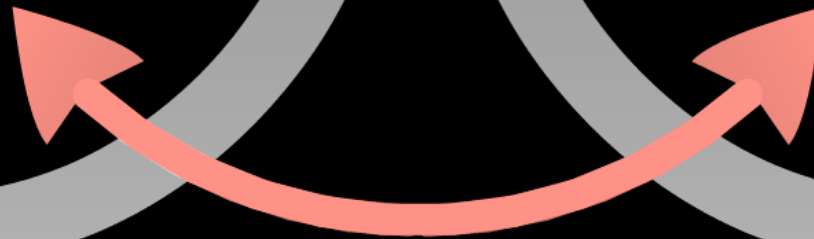
- Net present value: \$1.3 million
- IRR: 22%
- Payback period: 3.4 years

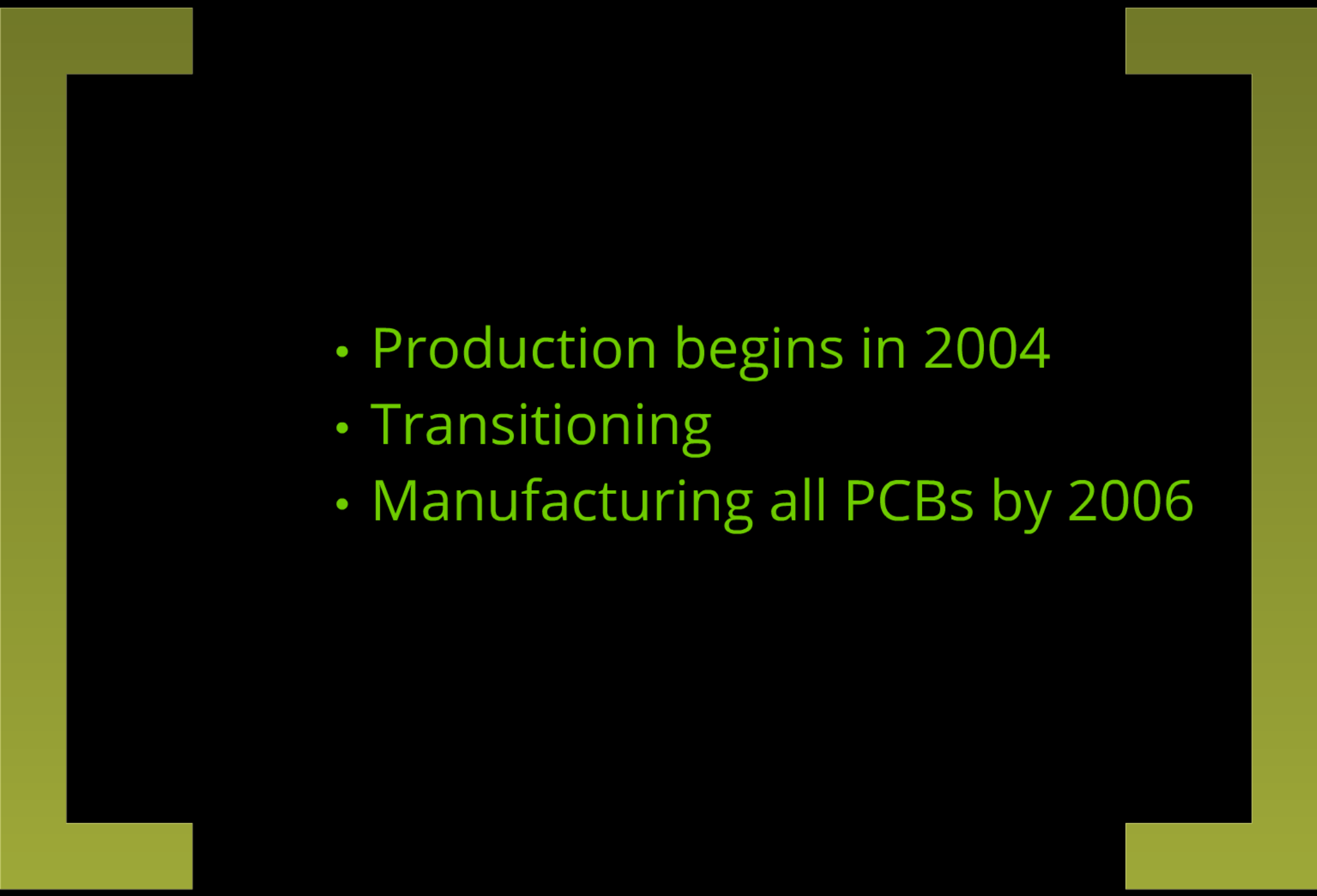
Costs

- Building: \$3 million
- Architectural and engineering fees: \$278,000
- Furnishing: \$126,000
- Communication and IT: \$210,000
- Equipment: \$2.6 million

Benefits

- Decrease in purchase of PCBs
- Better credit terms



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 - Transitioning
 - Manufacturing all PCBs by 2006

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It's not just about NPV



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Questions?

