Remake or Buy? Reconditioning Products at Xtra Power Energy Systems¹

Abstract

Pradeep Dutta (Dutta), proprietor of Xtra Power Group, found himself on the horns of a dilemma. Dutta recently reconfigured Xtra Power Energy System’s (Xtra Power) supply chain. The reconfiguration resulted in lowering of lead times and increased production making it difficult to focus on the line of reconditioned batteries. Dutta had two options: 1. Hire Revathi Batteries (Revathi) to manufacture its reconditioned line of batteries. 2. Rent an adjacent facility and start reconditioning the batteries on its own. However, Revathi asked for a contract of at least 3 years for an annual payment as opposed to incurring huge initial cost of procuring machinery and other equipment if the reconditioning of batteries is carried out at the rented facility.

¹ The names of some people and organizations have been disguised. Some financial data and other figures may have been disguised.