



## DELL-ORIE SEMINAR

### Transfer Pricing and Offshoring in Global Supply Chains

**Date: Friday November 6, 2009**  
**Time: 2:00 – 3:00 Location: ETC 5.132**

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Taking advantage of lower foreign tax rates using transfer pricing and taking advantage of lower production costs using offshoring are two strategies that global companies use to increase their profitability. Evidence suggests that firms employ these strategies independently. We study how global firms can jointly leverage tax and cost differences through coordinated transfer pricing and offshoring. We derive a trade-off curve between tax and cost differences that can be used to design sourcing and transfer pricing strategies jointly. However, in a global firm the implementation of such jointly optimal strategies is often hindered by the following incentive problem. The headquarters is more concerned about the consolidated after tax profits than the local divisions. Local divisions, on the other hand, have a better view on the product cost structure and hence, have a better view on the appropriate sourcing strategies. Hence, we need to understand how different transfer price strategies and decentralization of sourcing and/or pricing decisions can be helpful. We find that when the tax differential is large, a fully centralized strategy works best. In other settings, a decentralized sourcing strategy (enabling the global firm to take advantage of the local cost information) should be considered. Finally, we show that when the cost of outsourcing increases, a decentralized company has more flexibility in transfer pricing and hence can achieve higher profits.

#### **Biosketch**

*Srinagesh Gavirneni is an assistant professor of operations management in the Johnson Graduate School of Management at Cornell University. His research interests are in the areas of supply chain management, inventory control, production scheduling, simulation, and optimization. His papers have appeared in Management Science, Manufacturing & Service Operations Management, Operations Research, European Journal of Operational Research, Operations Research Letters, IIE Transactions, and Interfaces. Previously, he was an assistant professor in the Kelley School of Business at Indiana University, the chief algorithm design engineer of SmartOps, a software architect at Maxager Technology Inc., and a research scientist with Schlumberger. His undergraduate degree from IIT-Madras is in mechanical engineering, and he has received an M.Sc. from Iowa State University and a Ph.D. from Carnegie Mellon University.*