An Age Old Question: Make or Buy

How to make the decision?

Make Strategies: Once a company invests in buying a supplier, utilizing that supplier may seem like a good idea. But is it?

Buy Strategies: Suppliers may have better quality standards, are more specialized and can even provide greater savings. But are they always the best choice?

HOW CAN WE ANSWER THE AGE OLD QUESTION: SHALL WE MAKE OR SHALL WE BUY?

Methodology

Using a Case-based approach, we explored different practices used by companies in different market situations and industries. Furthermore, we plan to implement a scenario weighting system with different contributing indicators to facilitate decision-making.

Planning Stage
- Risk assessment.
- Appoint the project team.

Analysis Stage
- Measure future costs/performance.
- Determine core competencies.

Evaluation Stage
- Evaluate company’s strategy.
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Selection Stage
- Define organizational needs.
- Engage the marketplace.

Initial Results

Based on our findings, we isolated a set of at least six assessments and 5 outcomes that are widely used to reach a decision of Make vs. Buy question. Below are our findings so far:

Assessment
- Manufacturing Strategy Compatibility
- Total delivered costs
- Capacity
- Intellectual property exposure risk
- Business case
- Contract manufacturers availability

Possible outcomes
- Make in-house
- Invest to Make in-house
- Buy from contract manufacturer
- Invest to buy from contract manufacturer
- Redefine or do not make product

*KT Kearney: Make vs. Buy: Revised

Background

- During a Downturn, supplier markets shrink due to supplier exiting or other scenarios, therefore companies adjust their supply chain for optimizing capacity management.
- During an Upturn, companies decide between a Make or Buy Strategy

West Texas Intermediate crude oil price and NYMEX confidence intervals (2013-18) dollars per barrel

Hypothesis

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*PWC Make or Buy: Three Pillars of Sound Decision Making

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**Business Strategy**
- Criticality for business success
- Competitive positioning

**Supply Chain Risks**
- Supply Market Risks
- Alternative Sources of supply

**Economic Factors**
- Internal cost advantage
- Investment in technology that can’t be recovered

**Make**
- To differentiate products.
- When competitors control market.
- High supply market risk.
- Internal cost advantage
- Investment in process technology.

**Buy**
- Business Unattractive
- Market suitable for close partnerships
- Low switching costs
- Accessibility to alternative supply
- Lower costs / better quality
- Insufficient in-house capabilities

**Possible outcomes**
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