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A strategic model for the formulation of an effective make or buy decision

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Abstract

Illustrates that the make or buy is a strategic decision and has implications for the overall corporate strategy of the organization by describing a model which involves analysing a number of strategic factors. In recent years, many companies have been moving significantly away from “making” towards “buying”. However, research has revealed that make or buy decisions are rarely taken within a thoroughly strategic perspective. It has been shown that many firms adopt a short-term perspective and are motivated primarily by the search for short-term cost reductions. It is argued that make or buy decisions are made most frequently by default with little consideration for the long-run competitiveness of the organization. Presents an outline of three key problems encountered by companies in their efforts to formulate an effective make or buy decision to illustrate the weaknesses in current make or buy practice. The make or buy model described in this article attempts to overcome these problems by offering an organization a conceptual framework to follow in the sourcing decision.

Keywords

Activity-based costing Benchmarking Core competences Make v. buy Partnership sourcing Purchasing

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