Build, Buy, or Partner? Decision-Making in Software and Services Companies

December 8, 2024

In the fast-paced world of technology and services, companies are often faced with critical decisions about how to deliver the solutions their customers need. One of the key strategic choices is whether to **build** a solution in-house, **buy** it from an external vendor, or **partner** with another company to jointly deliver the solution. Each option has its own set of advantages, challenges, and trade-offs. The decision-making process can significantly impact a company's time-to-market, cost structure, competitive positioning, and long-term viability.

This paper explores the decision-making framework for choosing between building, buying, or partnering in the context of software and services companies. It examines the decision-making criteria, the trade-offs involved, and best practices for making an informed choice.

The Build, Buy, or Partner Decision-Making Framework

The choice between build, buy, or partner hinges on several factors including time-to-market, costs, core competencies, and strategic goals. Below, we explore these decisions in detail.

1. Build: Developing the Solution In-House

Building a solution internally often involves leveraging existing resources—engineering talent, product teams, and internal infrastructure—to create a unique offering that fits the company's specific needs or product roadmap.

When to Build:

- **Core Competency**: If the software or service is central to the company's core business or competitive advantage, building in-house may be the preferred choice. Custom-built solutions enable full control over functionality and differentiation.
- **Unique Requirements**: When the solution requires specific, unique capabilities that are not met by existing market offerings, internal development may be necessary.
- **Long-Term Strategic Goals**: If the company plans to sustain the capability as a long-term asset, building can ensure the solution remains fully aligned with evolving business objectives.

Advantages of Building:

- **Customization**: Full control over the solution's features, design, and integration with existing systems.
- **Ownership**: Control over intellectual property (IP) and long-term development path.
- **Differentiation**: Creating unique features can be a competitive differentiator.

Challenges of Building:

- **Time and Resources**: Building can be resource-intensive and slow, requiring significant investment in terms of both time and capital.
- **Risk of Failure**: Development projects, especially complex ones, carry the risk of delays, overspending, or failure to meet the market needs.

- **Maintenance and Scalability**: Long-term support, bug fixes, and scaling the solution can be burdensome.

2. Buy: Purchasing a Pre-Built Solution

Buying involves acquiring a ready-made solution from a vendor, typically a third-party software provider, to meet the company's needs. This option is popular when a company requires a standard solution or a feature that doesn't provide a competitive advantage but is essential for operation.

When to Buy:

- **Short Time-to-Market**: If the company needs a solution quickly to address immediate needs, buying a pre-built solution is the fastest option.
- **Standardized Needs**: For solutions that are not unique or central to the company's core business (e.g., CRM systems, accounting software), buying can be more efficient.
- **Limited Internal Expertise**: If the company lacks the technical expertise to build the solution in-house, buying may be the most practical choice.

Advantages of Buying:

- **Speed**: Ready-made solutions can be implemented quickly, allowing companies to focus on their core business.
- **Cost-Effective**: Buying may be cheaper than building, especially for generic or off-the-shelf software, due to the shared cost across many customers.
- **Reliability**: Established products from reputable vendors tend to be more robust and have been tested in a variety of environments.
- **Support and Maintenance**: Vendors typically provide ongoing support and regular updates, freeing the company from maintaining the system internally.

Challenges of Buying:

- **Limited Customization**: Off-the-shelf solutions may not meet every specific need, and customization options can be limited or costly.
- **Dependency on Vendors**: Relying on a third-party vendor for software or service means trusting their roadmap, support, and long-term viability.
- **Integration Issues**: Off-the-shelf solutions may not integrate seamlessly with existing internal systems, requiring additional resources to make them work.

3. Partner: Collaborating with External Companies

Partnering involves working with another company to co-develop a solution, or to resell or bundle a third-party solution with your own offering. Partnerships are often chosen when neither building nor buying fully meets the needs of the business.

When to Partner:

- **Access to Expertise**: When the company lacks certain expertise but can benefit from another company's capabilities, partnerships can be a strategic choice (e.g., a company may partner with a cloud infrastructure provider to deliver a SaaS offering).
- **Shared Risk and Investment**: Partnerships allow companies to share the development cost, resources, and risk associated with creating new products or services.
- **Market Reach**: When partnering with a company that has an established market presence, the partnership may provide faster access to new markets or customers.

Advantages of Partnering:

- **Leverage External Expertise**: Partners may bring complementary skills, technology, or market insights that accelerate the solution's development.
- **Shared Costs and Risks**: Development costs and risks are shared, reducing the burden on each company.
- **Speed to Market**: Strategic partnerships can allow for faster deployment of solutions that neither company could create alone.
- **Broader Reach**: Partners may bring new customer bases, marketing channels, or geographical access that the company cannot reach alone.

Challenges of Partnering:

- **Complexity**: Managing partnerships requires careful alignment of goals, governance structures, and communication.
- **Loss of Control**: In a partnership, both parties must agree on strategic direction, which may lead to compromises on certain aspects of the product.
- **Profit Sharing**: Revenue or profits must be shared with the partner, potentially reducing the margin compared to an entirely in-house solution.

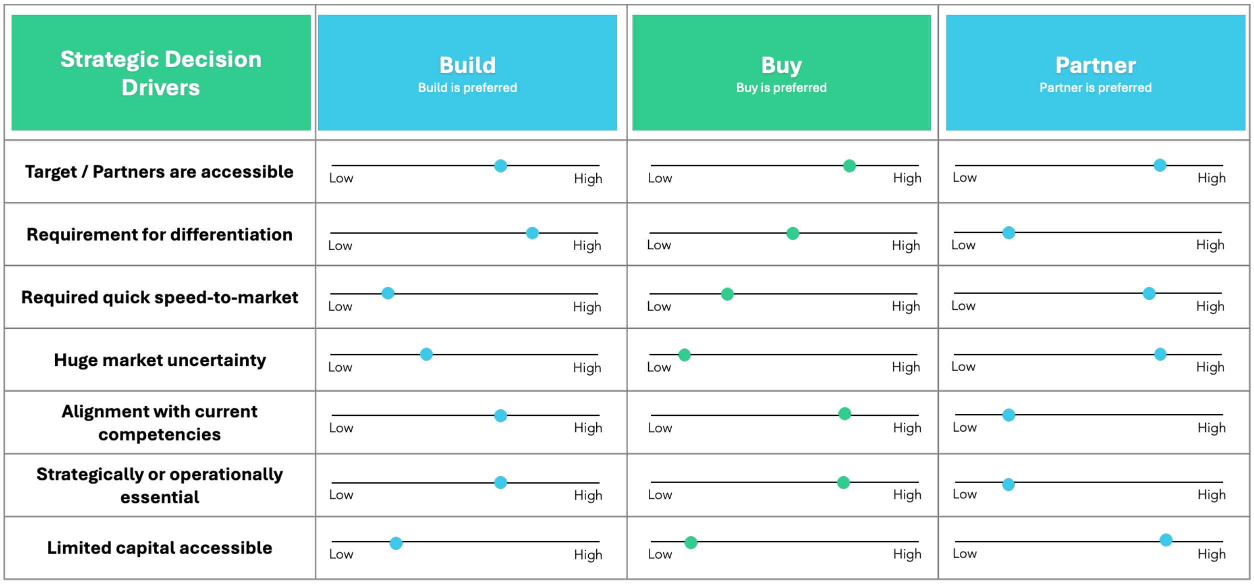

Figure 1: Build-Buy-Partner Framework

Decision-Making Criteria

To make an informed decision, companies typically consider the following criteria:

1. **Time-to-Market**: How quickly does the company need to deliver the solution to meet market demands or customer expectations?
   - **Build**: Longest time-to-market; depends on development cycles.
   - **Buy**: Fastest, with immediate deployment after purchase.
   - **Partner**: Moderate, with time needed for alignment and integration.
2. **Cost**: What are the upfront and ongoing costs associated with each option?
   - **Build**: High initial costs and long-term maintenance overhead.
   - **Buy**: Lower upfront costs but may include licensing fees, and ongoing costs could increase with scaling.
   - **Partner**: Shared costs, but profit sharing with partners reduces financial benefit.
3. **Control and Customization**: Does the company need full control over the product or solution, or is a more standardized approach acceptable?
   - **Build**: Full control and customization options.
   - **Buy**: Limited customization and control.
   - **Partner**: Shared control but can involve some level of customization.
4. **Scalability and Flexibility**: How easily can the solution scale with the company's growth and adapt to changing business needs?
   - **Build**: Scalability depends on internal resources and design choices.

    - **Buy**: May offer built-in scalability but could be limited by vendor restrictions.
    - **Partner**: Flexibility depends on the nature of the partnership; scaling may require renegotiation.
5. **Risk**: What is the level of risk involved in each option, particularly in terms of technical failure, market fit, and vendor stability?
    - **Build**: High risk of failure if the internal team misjudges technical or market needs.
    - **Buy**: Lower technical risk but depends on the vendor's stability.
    - **Partner**: Risk of misalignment and dependency on the partner's success.

Trade-offs and Best Practices

Each option involves trade-offs, and making the right choice depends on the specific context of the business. Some best practices for navigating these decisions include:

1. **Assess Core Competencies**: Focus on building solutions that are central to the company's competitive advantage, and consider buying or partnering for non-core functions.
2. **Conduct a Total Cost of Ownership (TCO) Analysis**: Look beyond initial costs to account for long-term maintenance, support, and potential hidden costs associated with each option.
3. **Prioritize Speed and Flexibility**: If the market demands a rapid response, buying or partnering may be better, but if customization is paramount, building may be worth the additional time and resources.
4. **Evaluate Vendor Viability and Partnership Stability**: When buying or partnering, ensure that the external provider or partner is financially stable, with a roadmap that aligns with your company's future needs.
5. **Consider Strategic Fit**: Ensure that any solution—whether built, bought, or obtained through a partnership—fits strategically with the company's long-term vision, brand, and growth trajectory.

Conclusion

The decision to build, buy, or partner is one of the most strategic decisions a software or services company will make. By carefully weighing the decision criteria—time-to-market, cost, control, scalability, and risk—companies can select the most appropriate path. The best decisions are based on a clear understanding of both the business's current needs and long-term goals, ensuring that the chosen approach maximizes both short-term value and long-term success.

By following best practices such as conducting a comprehensive cost analysis, evaluating partner and vendor stability, and focusing on core competencies, companies can navigate the complexities of the build, buy, or partner decision with confidence and create solutions that drive competitive advantage and

Additional Resources

Three Three Ways to Grow: Build, Partner, or Buy
https://www.inc.com/jim-schleckser/three-ways-to-grow-build-partner-or-buy.html

About the Author

Robert Erickson
VP, Products, Strategy & Innovation
Entrepreneur | Sustained Growth Expert | Strategist | Mentor & Team Builder

Robert is seasoned high-tech software executive with more than 30 years of proven industry experience, both in entrepreneurial and enterprise corporate settings. With proven track record of bringing to market dozens of enterprise-class commercial platforms and products, Robert has built and led high-velocity product and strategy teams of product managers, developers, sales teams, marketing teams and delivery units.

His mission is to help enterprises achieve sustainable competitive growth through innovation, agility, and customer-centric value.

@Robert - www.linkedin/in/ericksonrw