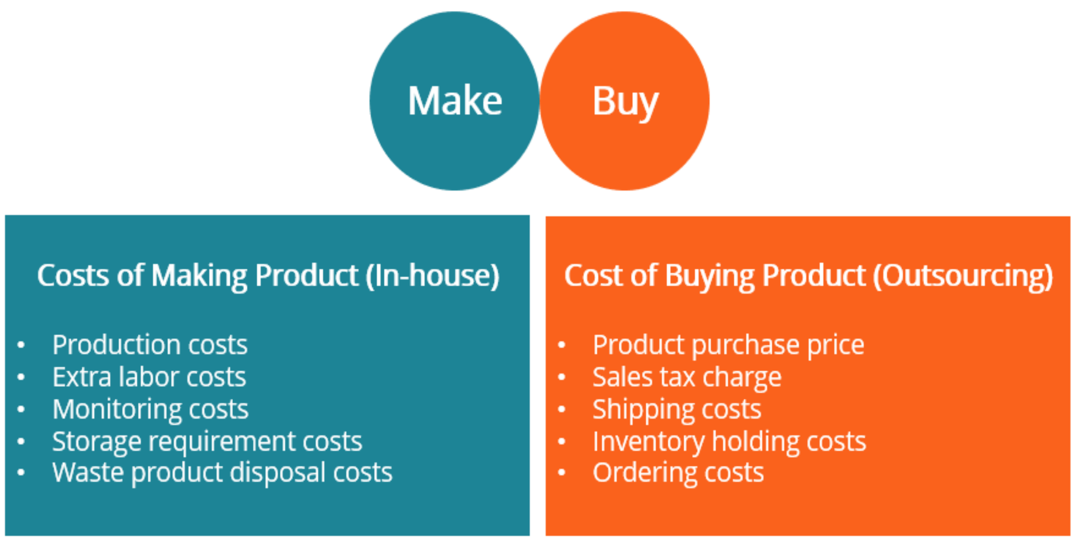
MAKE OR BUY DECISION:

What Is a Make-or-Buy Decision?

- A make-or-buy decision is an act of choosing between manufacturing a product in-house or purchasing it from an external supplier.
- Make-or-buy decisions, like outsourcing decisions, speak to a comparison of the costs and advantages of producing in-house versus buying it elsewhere.
- There are many factors at play that may tilt a company from making an item in-house or outsourcing it, such as labor costs, lack of expertise, storage costs, supplier contracts, and lack of sufficient volume.
- Companies use quantitative analysis to determine whether making or buying is the most cost-efficient method.



The make-or-buy decision compares the costs and benefits that accrue by producing a good or service internally against the costs and benefits that result from subcontracting. For an accurate comparison of costs and benefits, managers need to evaluate the benefits of purchasing expertise against the benefits of developing and nurturing the same expertise within the company.

❖ FACTORS FAVORING A “MAKE” DECISION

These factors include:

Costs Concerns

When buying from outside sources is expensive, organizations opt for in-house production.

A Desire to Focus on Manufacturing

Organizations intending to venture into manufacturing will select the "buy" decision.

Untrustworthy Suppliers

This is common in manufacturing industries. Here, businesses have doubts about the reliability of outsourcing partners. These doubts lead to in-house production.

Quality Control Requirements

When an organization carries out production activities, they have control over product quality. But when they outsource a part of the production, they don't have control over the product quality. For the best quality control, in-house production is the best option.

Emotional Motives

This reason is usually overlooked when analyzing make-or-buy decisions. A company can decide to manufacture a product or offer a service based on emotional responses such as pride or contempt instead of logical reasoning.

Transportation Costs

Sometimes, transportation costs play a key role in the make-or-buy analysis. Unstable and high transportation costs can lead businesses to in-house production.

Other factors leading to a "make" decision include:

Concerns about intellectual property

Concerns about quality

Inadequate supply of qualified suppliers

To preserve a backup source

Environmental considerations

Political considerations

- **FACTORS FAVORING A "BUY" DECISION**

Lack of Skills

When a business lacks skills for manufacturing a product, outsourcing is the best choice. Suppliers with expertise can offer the product cheaper; therefore, the "buy" option is best for a business.

Financial Considerations

When manufacturing a product or providing a service is expensive, businesses turn to outsource.

Lack of Facilities

Outsourcing is a better option when the business lacks facilities or capacity, equipment, resources, etc.

Low Demand Quantity

Depending on the product quantity, a company can outsource or decide to produce. For smaller quantities, businesses can go for a "buy" decision.

A product or service that isn't essential to the core business is usually outsourced.

Other factors leading to a "buy" decision can include:

Procurement and inventory considerations

Preferences for certain brands

Example #2 - Apple outsources some of its components and assembly from China.

China handles the production and assembly of many components of Apple's products due to lower prices. Apple designs its product lines in California, manufactures them in China, and transports them back to the United States and other regions for sale.

Advantages of Make-or-Buy Decision Analysis

Some benefits of make-or-buy decision analysis are:

Saves Costs

Make-or-buy decisions seek cost-effective methods in providing a product or service. Therefore, whether a business chooses to make goods or subcontract production to a third party, using a make-or-buy decision method can reduce prices and increase profitability.

Access to New Resources

Profits earned from make-or-buy decisions can be used to expand the business and gain new resources.

Helps in Strategic Planning

Businesses must investigate both their internal and external environments to receive the benefits. This is an important decision, and its outcome shapes the organization's strategic planning.

Unnecessary Mistakes Are Avoided

Make-or-buy decisions help businesses find the most viable alternative to clients with knowledge of their capacities. Mistakes happen when businesses take on more than they can handle, and a make-or-buy decision helps avoid this.

Competitive Advantage

A make-or-buy analysis assists businesses in gaining a competitive advantage. A business can focus on its core activity, and the rest can be outsourced. It helps them reduce the cost and offers consumers a better product at a reduced price. It is a competitive advantage.

MANAGING VENDORS

Vendor management is a term that describes the processes organizations use to manage their suppliers, who are also known as vendors. Vendor management includes activities such as selecting vendors, negotiating contracts, controlling costs, reducing vendor-related risks and ensuring service delivery.

8 Tips for Vendor Management Success

- Share Information and Priorities

limited forecast information, new product launches, changes in design and expansion or relocation changes.

- Balance Commitment and Competition

to gain the commitment of your vendors to assist and support the operations of your business. Always get competitive bids.

- Allow Key Vendors to Help You Strategize

invite that vendor to strategic meetings that involve the product they work with to make product or service better

- Build Partnerships for the Long Term

a long-term relationship include trust, preferential treatment and access to insider or expert knowledge.

- Seek to Understand Your Vendor's Business Too

Constantly leaning on them to cut costs, quality will suffer, or they will go out of business. Part of vendor management is to contribute knowledge or resources that may help the vendor better serve you.

- Negotiate to a Win-Win Agreement-that negotiations are completed in good faith.
- Come Together on Value

Vendor management will focus quality for the money that is paid. In other words: value! You should be willing to pay more to receive better quality.

Steps in the Vendor Management Process

With the market full of potential vendors, a company engaging in vendor management will follow some common steps to ensure the selection of the right vendors. They are:

1. Choosing vendors - The process starts by making a selection of vendors deemed suitable for the business. Then quotes are sought using e-sourcing tools such as **Requests for Quotation (RFQs) and Requests for Proposals (RFPs**). Though price will be a deciding factor, the company can also gauge a vendor's potential based on quality, reputation, capacity to meet requirements and track record.

2. Engage in contract negotiations - This stage involves discussions on the terms and conditions of the contract between the company and the chosen vendor. Terms can be related to the type/quantity of the goods and/or services, delivery dates, payment terms, and legal conditions that cover risks. The contract must be acceptable and mutually beneficial to both parties.

3. Onboarding of vendors - The process of collecting relevant information and associated documents is important to recognize vendors as approved suppliers for the company. Bank account information, tax forms, valid industry licenses, are some of the main information collected to make payments to vendors and for audit purposes.

4. Track and evaluate vendor performance - Companies need to check vendor performance to see if standards are met, quality of products or services are good, deliveries happen on time, and service is satisfactory. Deviations can be set right with action plans discussed with vendors to ensure smoother business transactions.

5. Monitoring and managing risks - Risk management involves assessing and monitoring vendors for potential risks that can impact the business harshly. Breach of compliance, vendor fraud, data leaks, lawsuits, loss of intellectual property are all serious risks that need to be addressed as part of risk monitoring.

6. Timely payments - Making payments on time to vendors can be crucial to ensure good working relationships. Following contract terms for payment and ensuring invoices get cleared without delays can build trust and confidence for vendors to maintain continued services.

Implementing a Vendor Management System

Vendor management is a crucial process for any organization to ensure growth and success. The emergence of advanced technologies has changed the way vendor management processes are done today.

Vendor Management Systems (VMS) are web-based or cloud-based software that are designed to help organize and manage multiple vendor-related activities from one place. They are efficient, easy, cost-effective, and highly beneficial for organizations with multiple vendors.

CHALLENGES IN VENDOR MANAGEMENT

Improper or lack of vendor management processes can pose many challenges:

1. Non-compliance from vendors - An organization with no set standards for vendors faces the risk of non-compliance from its suppliers. Choosing the right supplier and setting standards during contract negotiations is important to avoid deviations.

2. Risk of bad reputation of vendors - When multiple vendors are involved, assessing the work quality of vendors is difficult and poor performance from a single vendor can affect the business. Running thorough background checks and insight into past performances become vital during the selection process in vendor management.

3**. Hassle of manual storage of vendor data** - Expanding businesses may find it difficult to store vendor data as the business grows and more suppliers are on-boarded. The lack of a vendor management system creates further hassles in retrieving vendor information when necessary.

4. No visibility for decision-making - Vendor management systems can provide overall visibility through the availability of centralized data for good decision-making. Without a proper VMS in place, this becomes a complicated task.

5. Inability to handle different payments - VMS software can maintain and track payments even if payment terms or methods differ. Manual payments to multiple vendors may be cumbersome, complex, and error-prone resulting in dissatisfied vendors.

Conclusion

Changing and fast-moving times are compelling many businesses to find effective solutions to handle vendor relationships efficiently. Organizations, big or small, dealing with multiple vendors can benefit from implementing a good vendor management system. Effective VMS software can help overcome challenges and foster stronger supplier relationships, add value, and enhance business performance.