The Make-or-Buy Decision

Idea In Short

Decide make or buy with four questions: does the function change why customers choose you, can you build depth to match a specialist, what does failure cost and who sees it, and can you judge the work if you buy it. Keep decisions that shape performance inside, and buy specialist execution. For an importer, keep supplier selection, inventory targets and landed-cost decisions while buying freight, customs brokerage and warehousing. For a business-to-business [B2B] firm, keep expertise and positioning while buying technical search engine optimization [SEO] work. Retain at least one person who can judge the provider's work, write reporting access and exit terms into contracts, and revisit the answer as the market changes. Compare total cost, including oversight time, rather than the vendor's fee alone.

Ask a leadership team what it should outsource and the answers often come back in cost terms. What does the vendor charge? What would hiring an internal team cost? Which option costs less?

That comparison matters, but it skips the harder part of the make-or-buy decision: what the company needs to be good at itself, and what it only needs access to.

Two functions make the point well because they look so different. Freight and customs are physical, regulated and time-bound. Organic search is digital, slow to show results and hard to attribute. Yet the same question applies to both, and it's possible to get it wrong in either direction, handing over judgment that should have stayed inside or keeping work in-house long after a specialist could do it better.

Why it's a strategy question before it's a cost question

The argument isn't new. In "Strategic Outsourcing," published in Sloan Management Review in 1994, James Brian Quinn and Frederick G. Hilmer argued that companies should concentrate their own resources on a small set of core competencies, areas where they can

achieve "definable preeminence" and offer unique value to customers. Activities outside that set become candidates for strategic outsourcing, including some that companies have long treated as integral to the business. The article's examples include Nike, which outsources its shoe production and concentrates on research, development and marketing.1

The practical implication is uncomfortable for a lot of managers. A function can be large, visible and expensive and still not be core in this sense. **Headcount and budget measure how much a company does something** not whether customers choose it because of that thing.

What follows turns that idea into four questions a leadership team can answer in a single meeting. None of them produce a score. They're meant to make the trade-offs explicit, so the decision doesn't default to whichever line item looks cheaper this quarter.

A four-question make-or-buy test

The four questions work best when a team answers them in order and in writing. Each answer is a position on a spectrum, not a yes or no. A function can lean toward make on one question and toward buy on another, and the tension between the two answers is the useful output. Teams should record the reasoning behind each answer so the decision can be revisited later. The sections below take the questions one at a time.

Does it change why customers choose you?

If customers would notice and care that the work came from you, the function leans toward make. If customers primarily notice the function when it fails, outsourcing may be worth considering, provided the company maintains appropriate oversight. Many functions sit somewhere in between, and that's often where the useful conversation starts. Prahalad and Hamel's 1990 Harvard Business Review article offers a test for the in-between cases: a core competence should contribute to the customer benefits of the product and be hard for competitors to imitate.2 A function that fails both tests is a candidate for buy, however large its budget.

Can you build enough depth to match a specialist?

Specialists typically see more volume and more edge cases than a single in-house team. A company can still build that depth itself, but it should be honest about how long that would

take and whether the work would keep a small team fully occupied and current. Depth also decays when a small team touches a function only a few days a month, because rules, tools and platform practices keep changing. A practical check is whether the work would keep one person busy year-round with enough variety to keep learning. If it would not, the specialist's breadth is hard to replicate.

What does failure cost, and who sees it?

Some failures are quiet and recoverable. Others land directly on customers or regulators. High-consequence work can still be bought, but it raises the bar for contracts, escalation paths and contingency plans. A useful comparison is how long a failure takes to detect and how long it takes to repair. A shipment held at the port shows up within days, while a slow decline in organic visibility can run for months before anyone sees the revenue effect.

Can you judge the work if you buy it?

This one is easy to skip. Buying a capability doesn't remove the need to understand it, and a company that can't tell good work from poor work has handed over more than the task: it has handed over **the standard the task is measured against** Keeping a small amount of internal expertise, sometimes a single experienced person, is often the price of outsourcing well. That person does not need to match the provider's skill, but should know enough to ask informed questions and read reports critically. Access to the underlying data lets the same person check a provider's claims against the company's own records.

Applying the test to logistics

Take a mid-sized importer bringing finished goods from several overseas suppliers into the United States, say a specialty food or apparel brand. Its customers choose it for product, price and availability. Few of them care which carrier moved the container.

Run the four questions and the answer splits. For this importer, booking freight, arranging customs clearance and managing warehouse space may not directly differentiate its products. An established logistics provider may also have carrier relationships and customs expertise that would take considerable time and investment to develop internally. Those tasks lean toward buy.

The range of services available through outsourcing is broad. Worldwide Logistics, a third-

party logistics provider headquartered in Paramus, New Jersey, offers ocean and air freight, warehousing, customs brokerage, duty drawback and foreign trade zone consulting. This range of services raises a more pressing strategic question: which decisions should remain within the business when external specialists are involved?

For an importer like this, the answer includes supplier selection, inventory targets and landed-cost decisions, the choices that shape margin and availability. This is where the consequences of failure become apparent, since a late shipment can result in an empty shelf or a missed launch.

It's also where the oversight question comes in. Someone inside the business should understand terms of sale, duty exposure and lead-time trade-offs well enough to question a forwarder's recommendation, read tracking data critically and spot when costs drift. Outsourcing customs brokerage does not remove the importer's responsibility for meeting applicable customs requirements. U.S. Customs and Border Protection [CBP] explains in its informed compliance publication that Section 484 of the Tariff Act requires an importer of record to use reasonable care to make entry.3

So the logistics answer isn't "outsource logistics." It's closer to this: outsource execution where appropriate, draw on specialist advice, and retain responsibility for the decisions that shape business performance.

Applying the test to organic search

Now take a business-to-business [B2B] firm, a specialist manufacturer or a professional services company, whose buyers research suppliers online well before they contact sales. Organic search sits closer to the core here than freight does for the importer, because the content that earns search visibility is often the firm's own explanation of what it knows.

That splits the work differently. Subject-matter knowledge, positioning and the claims a firm is willing to stand behind should remain under internal oversight, even when external writers help develop the content. Technical site work, keyword research, content structure and link earning call for specialist skills that a small marketing team may not have in depth, and they lean toward buy.

Google's own guidance on search engine optimization [SEO] is a fair starting point. Its

Search Central page on whether you need an SEO says a small local business can probably do much of the work itself, lists services that SEOs and agencies legitimately provide (from content and site structure reviews to technical advice and keyword research), and states:

> No one can guarantee a #1 ranking on Google.

It also suggests giving a new provider only read access to Search Console during an initial audit, a small, concrete example of the oversight question at work.

Oversight is a critical part of this decision. When comparing providers of organic SEO services, ask how each one connects search visibility to leads and revenue rather than to traffic alone. Some providers, for instance, report monthly on how organic search contributes to the sales pipeline. A team that reads those reports critically, and pushes back on them, is in a stronger position than one that files them unread.

Time horizon matters as well. Search work is generally judged over months rather than weeks, and Google's guidance suggests asking a prospective SEO what results to expect and in what timeframe. Changing providers midway through an SEO strategy can introduce transition costs and disrupt ongoing work, making continuity another consideration beyond the provider's fee.

Side by side, the two answers look like this:

Question	Importer and logistics	B2B firm and organic search
Does it change why customers choose you?	Rarely; customers notice mainly when it fails	Partly; content reflects the firm's expertise
Can you match a specialist's depth?	Hard at mid-size volume	Hard for technical work, easier for subject matter
What does failure cost?	Potentially immediate and visible to customers	May emerge gradually and take time to correct
Can you judge the work?	Needs in-house planning and cost knowledge	Needs in-house access to data and reporting
Likely answer	Outsource execution, use specialist advice and retain	Buy specialist work, keep expertise and positioning

Question	Importer and logistics	B2B firm and organic search
	strategic oversight	

Where the test breaks down

The four questions simplify on purpose, and they have limits.

What counts as core can shift. Delivery speed may be a commodity for one company and a reason to buy for another, and the same company can move from one position to the other as its market changes. A make-or-buy answer that was right three years ago deserves a fresh look.

Hybrid arrangements are harder to run than they look. Splitting execution from planning, as both examples above do, creates hand-offs where information can get lost. The split is more likely to work when roles, data access and escalation routes are clearly documented.

Dependence carries a cost of its own. The more of a function a company buys, the harder it can be to bring the work back in-house or move to another provider, so contracts should cover data ownership, reporting access and exit terms from the start.

And the test says nothing about price. Once it points toward buy, the commercial comparison still has to be done properly, using total cost, including the internal time spent on oversight, rather than the vendor's fee alone.

- 1Strategic outsourcing
- 2The core competence of the corporation
- 3Reasonable care: an informed compliance publication

Summary

Make-or-buy is a strategy decision before it is a cost decision. Headcount and budget show how much a company does something, not whether customers choose it for that. A leadership team can answer four questions in one meeting: whether the function changes why customers choose the company, whether it can match a specialist's depth, what failure costs and who sees it, and whether it can judge the work it buys. In logistics, an importer

can buy execution and keep supplier, inventory and landed-cost decisions. In organic search, a firm can buy technical work and keep its expertise and positioning. Keep enough internal knowledge to supervise any provider, and revisit the decision as the business changes.