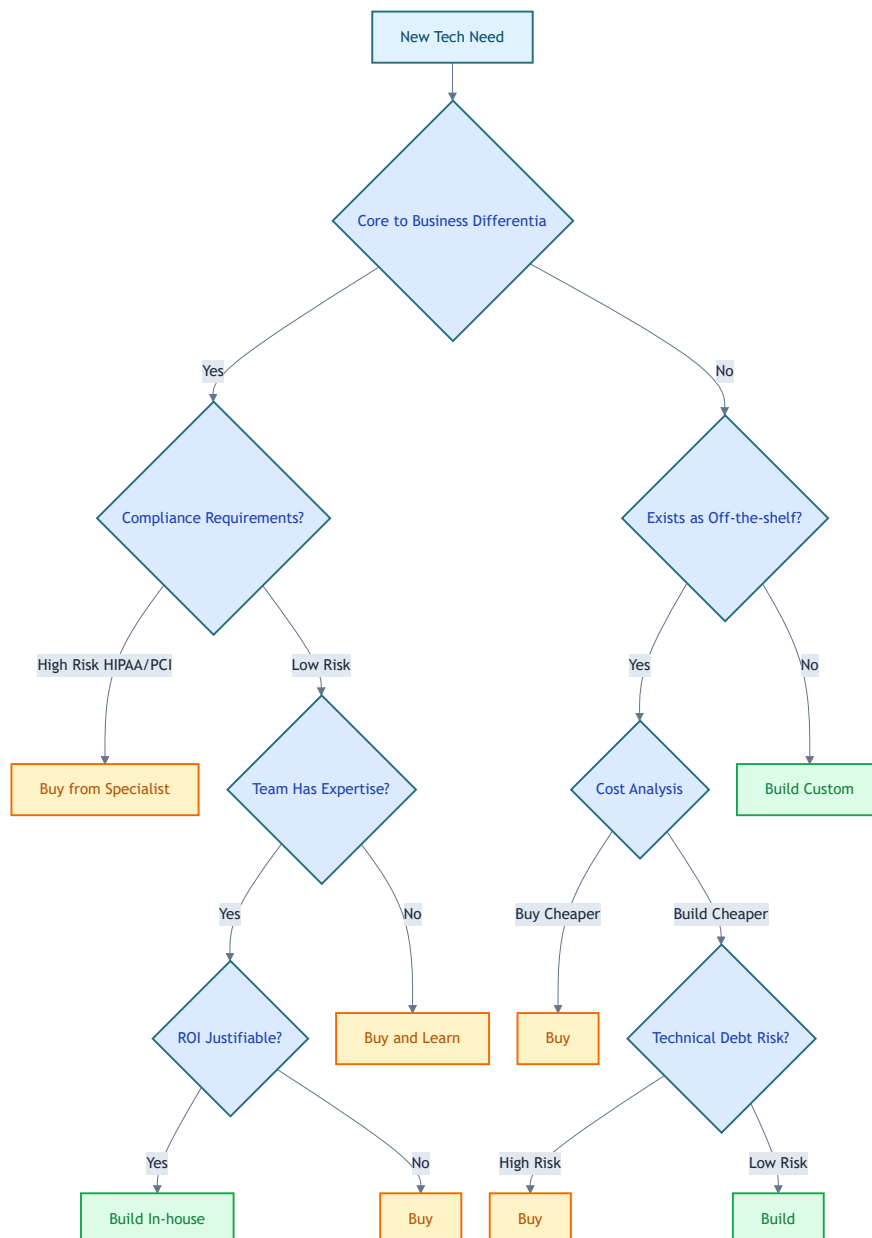




Build vs Buy Decision Framework

From Accelerating Humans Episode 2508 | Research-Backed Strategic Decision Making

Decision Tree Overview



Start Here: What problem are you solving?

Quick Reference Guide:

- **Blue (Decision):** Key questions to evaluate
- **Green (Build):** Develop in-house solution
- **Orange (Buy):** Purchase or subscribe to existing solution

Step 1: Core Business Value Assessment

Question: Is this capability central to what differentiates you in the market?

- **YES** → Proceed to Step 2 (Build Analysis)
- **NO** → Proceed to Step 3 (Buy Analysis)
- **UNSURE** → Use the Differentiation Test below

Differentiation Test

Answer YES to 3+ questions = Core differentiator

- ☐ Does this capability create competitive advantage?
- ☐ Would competitors benefit from copying this exact solution?
- ☐ Is this process unique to your industry/business model?
- ☐ Does success here directly impact your revenue/market position?
- ☐ Would customers choose you partly because of this capability?

Step 2: Build Analysis Path

When this might be core to your business

Build Indicators (3+ = Strong Build Case)

- ☐ No existing solution addresses your specific needs
- ☐ You have development resources and expertise
- ☐ This is a strategic capability you want to own
- ☐ Integration with existing systems is complex
- ☐ Long-term control and customization are critical
- ☐ You can maintain and evolve this solution

Build Red Flags (1+ = Reconsider)

- ☐ Compliance requirements (PCI, HIPAA, SOX, etc.)
- ☐ Limited development/maintenance resources
- ☐ Timeline pressure for delivery
- ☐ High security/liability risks
- ☐ Rapidly changing technology landscape

⚠️ Traditional Development Estimates

Note: The estimates below reflect traditional development approaches. With modern AI development tools, proof-of-concept development can be significantly accelerated (often 3-5x faster), allowing for rapid validation before full commitment. Consider using AI for initial prototyping to de-risk your decision.

Build Cost Analysis

Resource Investment:

- How many developers for how long? ____ people × ____ months
- What other resources needed? (DevOps, QA, Design, etc.)
- Current team capacity available? ____ %
- Opportunity cost: What else could this team build instead?

Traditional Rule of Thumb Estimates:

- Simple internal tool: 1-3 developer-months
- Department-wide system: 6-12 developer-months
- Company-wide platform: 12-24+ developer-months
- Add 50% for testing, deployment, documentation

Ongoing Investment (Annual):

- Maintenance typically costs 20-30% of original development
- Security updates and compliance: Plan for quarterly work
- Feature requests: Budget 2-4 developer-weeks annually per major user group
- Infrastructure: Usually 10-20% of development cost annually

Quick Comparison:

- Annual buy cost: \$____
- Could this fund ____ developers working on ____ other priorities?

- Break-even timeline: If build takes X months, when do you recoup the opportunity cost?

Step 3: Buy Analysis Path

When this is likely a commodity function

Buy Indicators (3+ = Strong Buy Case)

- ☐ Multiple vendor solutions exist
- ☐ Standard industry practice/not differentiating
- ☐ Compliance requirements involved
- ☐ Need quick implementation
- ☐ Limited internal expertise
- ☐ Want to avoid maintenance burden

Buy Considerations

- ☐ Vendor lock-in risks and exit costs
- ☐ Integration complexity with existing systems
- ☐ Data ownership and portability
- ☐ Service level agreements and support
- ☐ Scalability and pricing model changes

Buy Cost Analysis

Vendor Costs:

- Initial setup/implementation: \$_____
- Annual licensing/subscription: \$_____
- Integration and customization: \$_____
- Training and change management: \$_____
- **Year 1 Total: \$_____**

Ongoing Costs (Annual):

- License/subscription fees: \$_____
- Support and maintenance: \$_____
- Additional users/usage scaling: \$_____
- **Total Annual Cost: \$_____**

5-Year Total Cost: \$_____ + (4 × \$_____)

Real-World Decision Matrix

Based on Episode 2508 scenarios

Scenario	Revenue	Employees	Annual Cost	Decision	Key Factor
Hotel Checkout	\$40M	220	\$26K	Buy/Test	Low risk, test quickly
Coffee Subscription	\$12M	85	\$2.5K	Buy	PCI compliance required
Healthcare Kiosks	\$110M	600	\$250K	Buy	HIPAA compliance risk
Fleet Management	\$500M	2,500	\$500K	Build/Hybrid	Core competency

The "Borrow" Option

Test before you invest

Consider a **trial/pilot approach** when:

- Solution exists but unsure of fit
- Cost is reasonable relative to revenue
- Can test with subset of users
- Easy to reverse decision

Pilot Framework:

1. **Duration:** 3-6 months
2. **Success Metrics:** Define upfront
3. **Exit Strategy:** Plan for build or different vendor
4. **Learning Goals:** What questions need answers?

Quick Decision Shortcuts

Immediate Buy Signals

- Regulatory compliance required (PCI, HIPAA, SOX)
- Credit card or payment processing

Immediate Build Signals

- Nothing exists that meets your needs
- Core intellectual property or trade secrets

- Standard accounting/payroll functions
- Industry-standard integrations (CRM, ERP)
- Security-critical functions

- Tight integration with proprietary systems
- Unique workflow that creates competitive advantage

Need More Analysis

- Significant cost (>1% of annual revenue)
- Core business process but solutions exist
- Complex integration requirements
- Long-term strategic implications

Final Decision Checklist

Before You Build:

- ☐ Do you have qualified development resources?
- ☐ Can you maintain this long-term?
- ☐ Is this truly core to your business?
- ☐ Have you calculated true total cost of ownership?
- ☐ Do you have time for the development cycle?

Before You Buy:

- ☐ Have you evaluated vendor stability?
- ☐ Do you understand the total cost over 5 years?
- ☐ Can you integrate with existing systems?
- ☐ What's your exit strategy if this doesn't work?
- ☐ Have you checked references from similar companies?

The AI Factor

Modern AI tools accelerate proof-of-concept development, making it easier to:

- Test ideas quickly before full commitment
- Prototype solutions to validate assumptions
- Reduce risk through faster iteration

Decision Documentation Template

Project: _____ **Decision Date:** _____ **Decision Owner:** _____

Core Question: Is [capability] central to our market differentiation? **Answer:** Yes / No / Unsure

Key Factors Considered:

- Compliance requirements: _____
- Available resources: _____
- Timeline constraints: _____
- Total cost comparison: _____
- Risk assessment: _____

Decision: Build / Buy / Pilot

Rationale: _____

Review Date: _____

Success Metrics: _____

Next Steps

1. Apply this framework to your current decision
2. Calculate true 5-year cost of ownership
3. Consider the "borrow/pilot" option for testing
4. Document your decision for future reference

Framework synthesized from research sources and analysis from Accelerating Humans Episode 2508.

Episode URL: <https://acceleratinghumans.com/episodes/2508-build-or-buy/>

Research Foundation: Ronald Coase "The Nature of the Firm" (1937), Clayton Christensen "The Innovator's Dilemma" (1997), Laurence Capron & Will Mitchell "Build, Borrow, or Buy" (2012)