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WHITEPAPER

Procurement Solution - Make or Buy?

A Strategic Guide for Procurement Directors, CPOs und Digitalization Teams

Introduction

The **pressure on procurement** is increasing. Once treated as a secondary function, the department has evolved into a key strategic value driver in recent years.
The reason is clear: Companies are increasingly recognizing the hidden potential within procurement and how it can significantly contribute to **margin improvement** when leveraged strategically—especially in manufacturing industries. In the automotive sector, for example, where value chains are highly tiered, material costs typically account for 70–80% of total revenue.
This mounting pressure is accompanied by a **push toward digital transformation**. Organizations are expected to become more efficient—and digitalization is set to play a pivotal role in enabling that shift.

Artificial intelligence is leading the charge—but it hasn't been adopted across the board. Still, the use of digital solutions—especially AI—holds significant promise: from streamlined business processes to competitive advantages. Procurement teams, together with their counterparts, IT or even digital transformation departments, are therefore faced with a critical and complex question: should they **build a solution in-house (Make) or purchase an external one (Buy)?**
This decision is highly complex and depends on numerous factors.

In this whitepaper, we explore the advantages and disadvantages of the Make-or-Buy strategy for procurement software and provide practical insights and actionable recommendations to help guide your decision-making.

Let's get the basics right: What is a make or buy decision?

The American National Association of Purchasing Management (NAPM) defines „Make-or-Buy“ as:

> ***„A determination of what products or services a firm should manufacture or provide in-house, as opposed to purchasing from outside sources.“***

The make-or-buy analysis originated in the manufacturing industry, where it helped companies make informed economic decisions about whether to produce components and products in-house or source them externally. Today, this decision-making tool is applied far beyond manufacturing—across areas such as IT and the service sector.

While IT outsourcing was primarily driven by economic reasons in the past, today it is increasingly shaped by the challenges of skilled labor shortages, growing technological complexity, and rising compliance requirements.

Some of the **most compelling arguments** in favor of a “buy” decision include the following considerations:

- The **production of the product** is not part of the company’s core competencies.
- The internal team may lack the **necessary expertise** and technical skills.
- There is a **short-term need** as part of a specific project.

Make: Benefits

- **Building and retaining in-house expertise**
  Strategic knowledge remains within the company and can be developed further purposefully.

- **Strenghtening own core competencies**
  The solution is developed base on the specific needs of procurement – by experts who deeply understand the underlying processes.

- **Avoiding knowledge loss**
  No reliance on external service providers or third-part vendors.

- **Full control and customization**
  The solution can be tailored precisely to the company's specific requirements and workflows.

- **Technological independence**
  No Vendor lock-ins – maximum flexibility in infrastructure, data management und operations.

- **Seamless integration into existing IT environments**
  In-house solutions can be optimally embedded into existing ERP, BI, and data systems.

- **Complete control over data and development**
  Feature roadmaps, release cycles, and security standards remain entirely under internal control.

Make: Risks

- **High resources demand for operation, maintenance, and support**
  Providing and maintaining the infrastructure over the long term requires significant personnel and technical capacity.

- **Constant pressure to adapt due to technological dynamics**
  New requirements, security vulnerabilities, and rapid advancements–especially in AI – make continuous development essential.

- **Significant upfront investment**
  Development costs, licensing issues, infrastructure setup–the financial commitment at the start of the project is substantial.

- **Long time-to-market**
  There can be many months or even years between project kickoff and go-live – valuable time during which competitors are already optimizing based on data.

- **Technological risk**
  Lack of scalability, missing interoperability or architectural flaws can turn into pitfalls over time.

- **Knowledge and dependency risk**
  Success depends heavily on key individuals. Without structured knowledge management, bottlenecks can occur–especially critical in times of skilled labor shortages.

Make: Drawbacks

– **Low software adoption without external pressure**
Without a clear cost structure, there is often little motivation to actively use the tools. Internally developed solutions quickly fall behind.

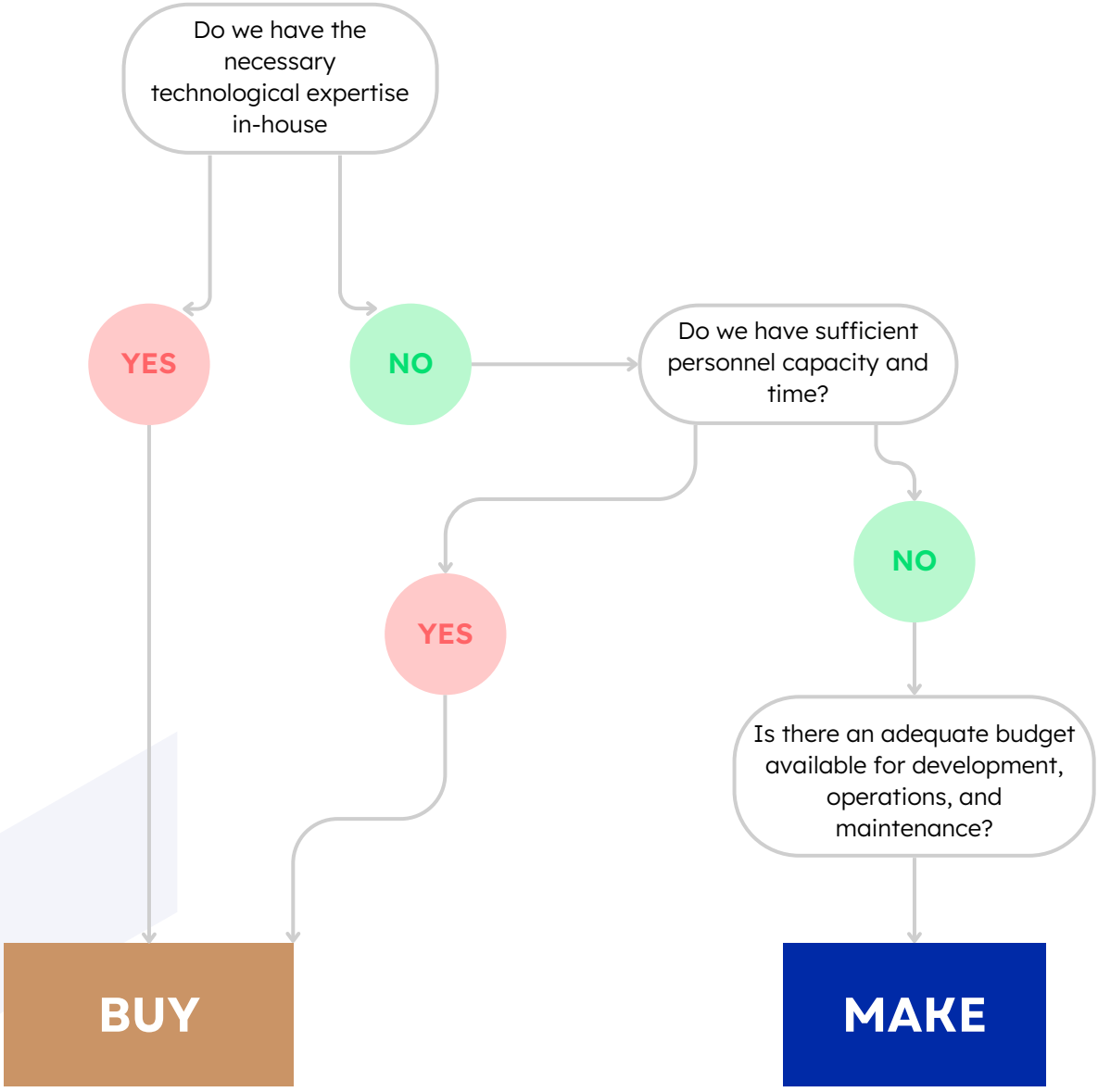
– **Cloud capability poses a challenge**
Cloud is a key enabler of digitalization–but few companies have the necessary in-house expertise. A shortage of cloud and DevOps specialists slows down many “make” projects.

Technology alone is not the solution
„OP + NT = EOP“
(Old Processes + New Technology = Expensive Old Processes)
What at first may seem like a humorous formula actually reflects a serious truth: those who apply new technologies to outdated processes end up paying more—without achieving real efficiency gains.

Therefore, the rule is clear: Whether “make” or “buy,” digital transformation only succeeds when processes are critically examined, optimized, and aligned with the capabilities of the new solution.

Decision aid for “Make”

Whether in-house development is a viable option largely depends on know-how, resources, and budget. This decision tree helps you quickly determine whether a “make” approach is realistic for your company—or if buying a solution is the more efficient path.



Buy: Benefits

+ **Proven product with extensive functionality**
  The solution has already been tested in the market and successfully passed the stress test in other companies.

+ **Quick start & short time-to-value**
  Preconfigured modules and best practices enable quick implementation and immediate use.

+ **Lower internal effort**
  No need to build your own development teams or IT operations–the focus remains on procurement goals, not technology development.

+ **Regular updates & professional support**
  The service provider handles development, security updates, and technical support–including SLA guarantees.

+ **Predictable, transparent costs**
  Clear licensing or SaaS models simplify budgeting and strengthen the business case.

+ **Use of external industry expertise and benchmarks**
  Modern tools come with best practices and benchmarking data–a clear advantage over purely internal solutions.

Buy: Risks

- **Limited customization options**
  Standard solutions often offer only restricted adaptability–specific requirements can't always be fully met.

- **Risk of vendor lock-in**
  Functional enhancements, data access, and pricing models depend on the provider, which can limit strategic flexibility.

- **Effort required for integration with existing IT systems**
  Connecting to complex ERP landscapes or legacy systems can be particularly time-consuming and challenging.

- **Ongoing costs from licensing or subscription models**
  While initial investments may be lower, there are continuous costs over time for usage and support.

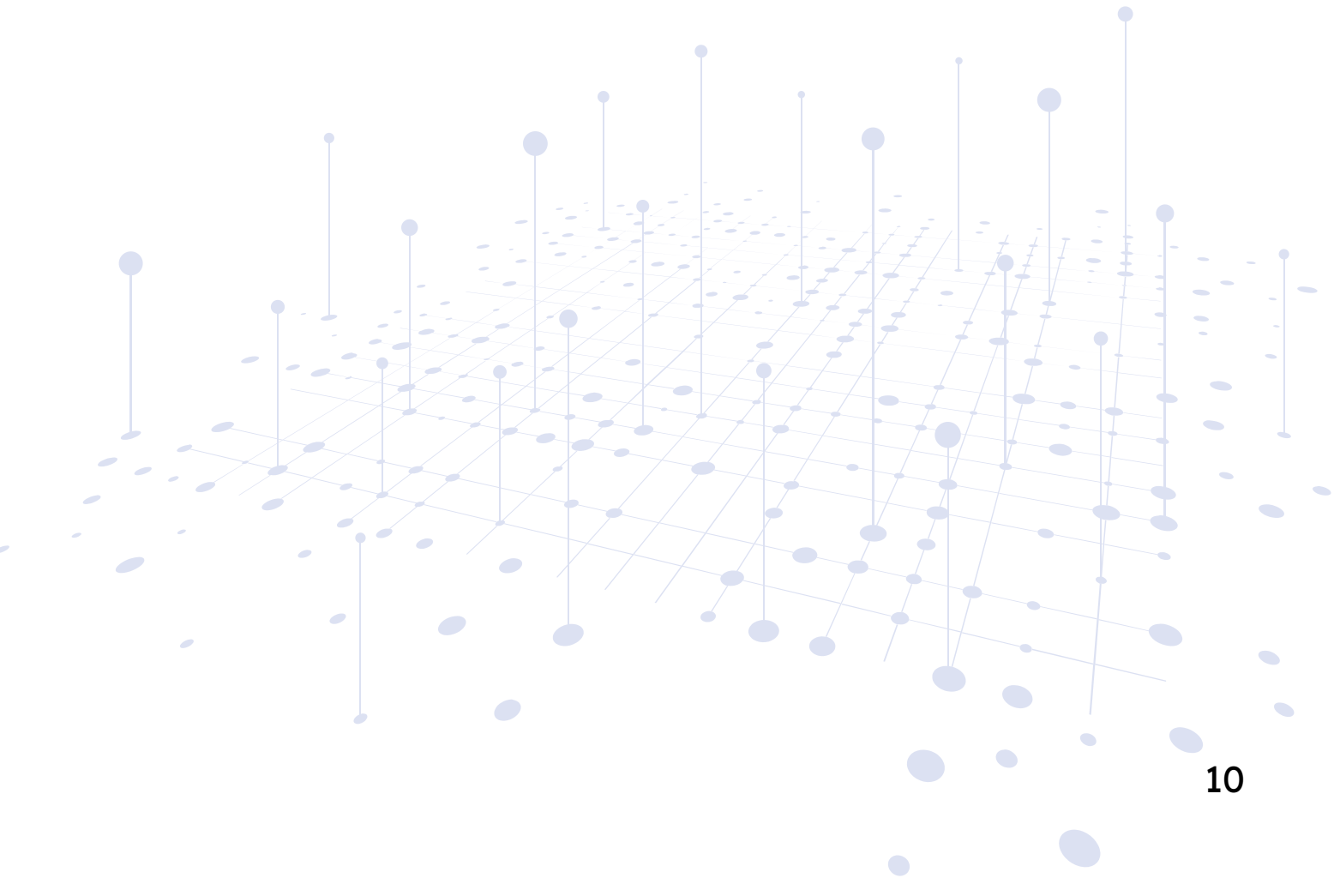
- **Less potential for differentiation**
  A standardized solution might also be used by competitors, offering no exclusive competitive advantage.

- **Data privacy and data sovereignty**
  With externally hosted solutions (e.g., cloud-based), concerns often arise regarding data protection, compliance, and control over sensitive procurement data.

Make or Buy? It's not just black and white.

Decision-makers often face what seems like a binary choice: **Build in-house or go with an off-the-shelf solution**. But the reality is usually more nuanced. In most cases, a market-available solution already covers most requirements—fully custom development is rarely necessary (and shouldn't be) nowadays.

Our advice: When choosing a solution partner, make sure they're open to individual customizations. This way, you benefit from the stability of a proven solution while still maintaining the flexibility to address company-specific needs precisely.



Checklist: What to consider when making your make-or-buy decision

Resources & time investment

- How much time do employees currently spend on individual process steps?
- Do we have transparency over our process times?

Data situation & complexity

- How much data is in the system–and what is its quality?
- Do master data such as items need to be assigned to product categories first?
- Is the purchasing organization structured by categories,or does everyone buy in a decentralized manner?

Implementation & change effort

- ·How complex would the implementation be – technically and organizationally?
- How much time do we realistically need for data cleansing and system adaptation?

Cost & benefit aspects of “Buy”

- How high are the initial costs compared to in-house development?
- ·Are there use cases where a tool is more efficient than manual effort (e.g., currency conversion, supplier risk assessment)?
- Do we benefit from ongoing updates, external expertise, and benchmarking against other companies?

Conclusion: Clear decision, smart execution

“Make or Buy” isn’t just a cost question—it’s a **strategic decision** with long-term impacts on processes, competitiveness, and innovation.

In-house development can pay off—especially when the goal is to strengthen core competencies, achieve maximum control, or meet highly specialized requirements. At the same time, it’s important not to underestimate the effort involved: **„Software is never done.“**
The reality is this: pure R&D costs for ongoing development and feature expansion are substantial—and often underestimated. With “buy” solutions, these investments are largely avoided, as companies use a ready-to-deploy, proven solution that is continuously improved—at a fraction of the cost of internal development.

Another crucial factor is **market proximity**: while in-house development often happens in silos, “buy” customers benefit from a product shaped by feedback from dozens, sometimes hundreds of clients—bringing regular innovations and best practices from real-world use. When you buy externally, you’re not just renting software—you’re also tapping into market intelligence.
Conclusion:There’s no single right answer. What matters is an honest analysis:
What can we realistically handle ourselves—and where can an external partner get us to the goal faster, safer, and more efficiently? Whether in-house development or a standard solution, the key is choosing an option that fits your company’s structure, culture, and strategic goals. Clear criteria, a transparent decision-making process, and the courage to question the status quo all help with this.

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