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3 Ways to Rethink Your Build-or-Buy Strategy

Some capabilities need to be owned, while others can be acquired. The best leaders know how to make that distinction. *by Anup Srivastava, Chandrani Chatterjee, and Jonathan Tanone*

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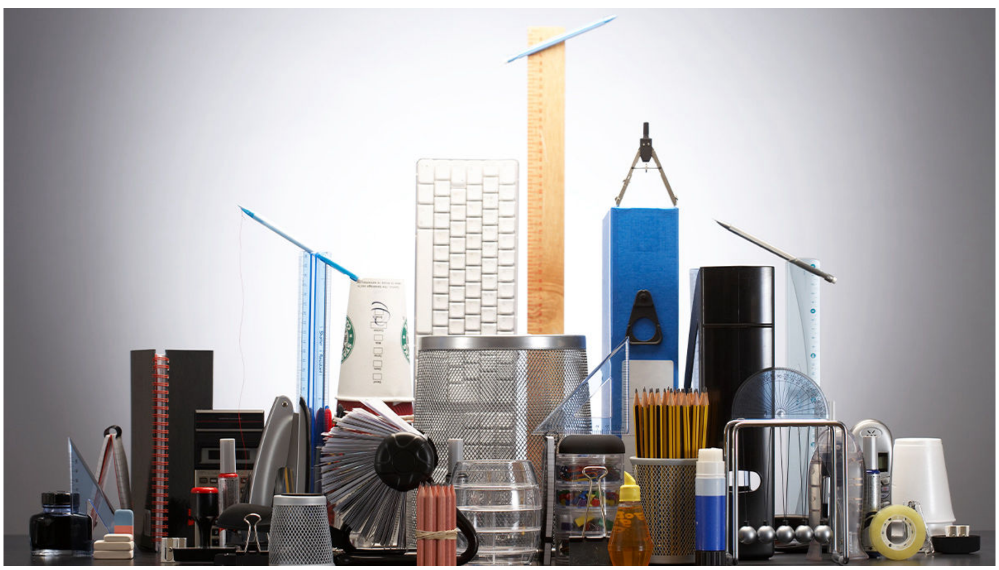

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To compete on innovation, firms often choose between building and buying their way to success. Buying is typically presented as a route to synergy, scale, diversification, speed-to-market, and ready-to-use assets. Building is often treated as the cheaper alternative that can be customized to needs. In our view, that framing is too simplistic. The real question is not whether to build or buy. It is whether this particular asset or capability should be built or bought, given the asset type, the time horizon, the organization's ability to integrate it, the immediacy of market needs, and the level of uncertainty management is willing to bear.

Our view is based on a study of roughly 17,000 public-firm transactions over a 15-year period from 2010 to 2025. We focused on firm years in which the same company both invested internally and made acquisitions of another public firm. The answer to the build-buy question varies sharply across physical assets, organizational capital, and innovation capital. The growth and risk profiles differ, so the decision rules should differ as well.

How to Decide

In this article, we offer three recommendations for making the build-versus-buy decision.

1. When standardization, speed, and deployability matter, buy physical capacity. For physical assets, acquisition often has a practical edge. Acquired property, plant, and equipment is more strongly associated with future revenue growth than internal capital expenditure within the same firms. One plausible reason is that acquired assets are often ready to deploy, while internal capex often takes time and is prone to overruns.

When an asset is standardized and close to productive use, buying compresses time. If the constraint is installed capacity, geographic footprint, or logistics infrastructure, acquisition is usually the more effective route. That is especially true in asset-heavy sectors where delays are costly.

Amazon's acquisition of Whole Foods illustrates the point. The deal gave Amazon an immediate physical presence in grocery business. Its strategic value lay less in ownership itself than in the speed of entry into a difficult market. Building that footprint store by store would have taken far longer.

But buying physical capacity is not automatically safe. Daimler's merger with Chrysler remains a classic warning. The assets were real. The integration challenge was far larger than the deal logic assumed.

Internal building can be powerful when the true advantage lies in the operating system wrapped around the asset. Toyota's production system remains a canonical example. Toyota did not create an advantage by owning factories alone. It created one by embedding routines, discipline, and learning into how those factories operated.

That distinction matters because internal physical investment also carries more execution risk. In our data, building from scratch is associated with materially higher revenue volatility than buying assets already in use.

The managerial prescription is clear. Buy physical assets when speed matters most and the assets can be deployed quickly. Build when the real source of advantage lies in the construction and operating discipline that surrounds the asset.

2. Build internal capability when possible. Organizational capital is different. It includes brands, customer relationships, distribution systems, managerial routines, human resource systems, strategic partnerships, and commercial know-how. Some of those assets can be bought. Much of their value depends on how well they fit the rest of the firm. A firm is often defined with these resources, The study's evidence reflects the nuanced effect of make versus buy. Both internal and acquired organizational investments are associated with future growth. But internal investment outperforms acquisition over longer horizons. Acquired organizational assets can be leveraged quickly, yet their contribution tends to flatten out. Internally developed capability compounds slowly, but often more powerfully.

That helps explain why some organizational assets can be purchased while deeper capability must be built. Apple is a good illustration. Over time it built brand, loyalty, supplier relationships, technology, and organizational discipline into a coherent system rather than assembling them through episodic deals.

At the same time, buying organizational capability can succeed when management protects what made the target distinctive. Disney's acquisition of Pixar worked not because Disney bought a film library, but because it acquired a creative engine and preserved it.

The failures are equally instructive. AOL-Time Warner remains a reminder that buying brands does not guarantee the transfer of organizational capability. What looked compelling on paper proved far harder to realize in practice because culture, routines, and trust do not move cleanly from one company to another.

Internal build is usually the better route when the capability is tightly embedded in how the firm operates. Inditex's logistics and replenishment model is a good example. Its rapid product flow became valuable because it was integrated into the company's daily rhythm, repeated at scale, and difficult to copy.

Yet internal development can also fail when ambition outruns coherence. GE's Predix effort was a bold internal platform build that ran into execution problems. The company invested heavily but lacked the routines required to commercialize industrial software consistently.

Managers should therefore be more skeptical of acquisition when the asset is really a system of habits, coordination, and judgment. Brands can be acquired—buying trust is harder. Customer lists can be bought; organizational cadence usually cannot. Processes can be copied in outline, but they rarely transfer in substance without extensive adaptation.

Managers should also recognize the risk profile. In our results, internally cultivated organizational capability is associated with higher near-term revenue volatility than acquisitions. That does not weaken the case for internal build. It simply means the development process must be governed with greater discipline, and investment should be approached with a gradual, staged approach rather than binary all-in investment.

3. Buying technology doesn't create innovation. Our sharpest and most counterintuitive finding relates to innovation capital: R&D, technology, patents, and know-how. Internal innovation investment is strongly associated with future revenue growth, but, surprisingly, acquired innovation is not. The divergence becomes larger over longer horizons.

That finding challenges a persistent managerial belief. Many executives view buying technology as a shortcut to becoming more innovative. Sometimes it works. Microsoft's acquisition of GitHub strengthened a broader developer ecosystem that Microsoft could support and extend. Meta's acquisition of Instagram also succeeded, helped by timing, product momentum, and scaling infrastructure.

But memorable successes can distort judgment precisely because they are unusual. The failures matter just as much. Microsoft's Nokia deal ended in major impairment charges and made clear that owning a hardware platform is not the same as building a durable innovation capability. HP's acquisition of Autonomy offers another warning. The company bought a technology asset, then discovered that ownership alone did not guarantee absorption, commercialization, or extension.

That is why Apple's transition to Apple silicon is so instructive. It was not just a technical redesign. It was the deepening of a firm-specific architectural capability built perfectly suited to its own needs with deft coordination across hardware, software, design, and product strategy.

Innovation is rarely just the thing you buy. It is the system that makes that thing productive. If you are considering an innovation acquisition, due diligence cannot stop with the target's technology. Management must ask whether its engineers can absorb it, whether its product teams can integrate it, whether its commercial teams can monetize it, and whether key talent will stay long enough to matter. If those questions do not have persuasive and convincing answers, the acquisition thesis is incomplete.

Our evidence also points to a second issue. Internal innovation is associated with much higher future revenue volatility. Internal build is the high-upside, high-variance path. Buying can look cleaner and more predictable. Building can be slower, less linear, and ultimately more distinctive. Our findings recommend internal innovation but also a delicate fund allocation and governance to manage risks and failures.

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In the end, build versus buy is not a contest between two strategies. It is a test of managerial judgment. Buy when speed matters and the asset can be transferred and deployed with limited loss of value. Build when the advantage lies in tacit knowledge, deep integration, and capabilities that strengthen through learning over time. The mistake is not choosing one path over the other. The mistake is treating unlike assets as if they uniformly obey the same logic. The best leaders do not ask whether to build or buy. They ask which capabilities must be owned deeply, and which assets can be acquired quickly.

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