

## Make vs. Buy Analysis

### Market Trends

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With the significant trends towards low cost country outsourcing of manufactured goods over the past decade, Make vs. Buy analysis has formalized the process of quantifying the decision criteria used to determine whether global enterprises should make or buy specific manufactured components and assemblies.

As product lines mature, technologies evolves and the overall business environments change, leading firms review and refresh these tools periodically to maintain strategic competitive advantage while maximizing cost savings.

Companies that have adopted the full process have found it particularly beneficial over the past year as recent economic volatility has driven many companies to re-examine manufacturing operations and spend categories in order to cut costs and identify in-sourcing opportunities to adjust to the affects of dramatically decreased internal production rates.

### Customer Challenges

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Decisions to outsource historically manufactured spend can be the most difficult and important strategic questions answered by executives today. These decisions are more often made at times of crises and associated with urgent, across-the-board cost cutting mandates. Made under extreme pressure, the choices made can dramatically affect corporate health and often determine future market leadership within business sectors.

Companies that attain market leadership and retain it are those that develop a comprehensive Make vs. Buy decision matrix and refresh the tools on a periodic basis. These companies are equipped with a readiness to adjust their product mix distribution with clear vision and ahead of economic and market volatility.

### Ariba Expertise

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Ariba is the world's preeminent sourcing organization with extensive internal experience to support the development of enterprise specific Make vs. Buy analysis tools. Capabilities stem from its more than 450 sourcing professionals, 40 plus recognized category specialists and it's world class knowledge repository system developed from over 6400 managed sourcing projects and \$74 billion in annual sourced contract volume across 500 supply market categories.

### Ariba Approach

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Ariba employs a proven, structured approach to support clients in both the development and execution of a Make vs. Buy analysis. Ariba utilizes a shared services model to seamlessly and cost effectively phase-in specific category expertise when needed and critical to supporting clients with broad product category diversification. The service consists of:

**Program scoping:** includes a comprehensive review of enterprise spend and internally manufactured product families to determine the applicable target areas and alignment with corporate objectives.

**Criteria development:** includes customization of the Ariba standard Make vs. Buy criteria to fit the client profile and market strategy. Examples include core competency, barriers to entry, product life cycle and internal vs. external cost.

**Data gathering guidance:** includes Ariba data templates and guidance to gather required spend and internal manufacturing information.

**Product family workshops:** includes facilitation of stakeholder workshops to rate and develop consensus across the customized strategic criteria for all product families.

**Strategic review of draft results:** includes a client review of the draft deliverable and iterations to reflect feedback

**Final Make vs. Buy report delivery:** includes a summary report, a dynamic criteria ratings tool and final Make vs. Buy recommendations by product family

**Periodic Make vs. Buy refreshes:** includes semi-annual reviews and updates to the Make vs. Buy to reflect ongoing changes in business environment

### Customer Case Study

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#### Current Situation:

A global supplier of precision manufactured assemblies is acquired by a private equity firm. C-level executives are presented with critical mandates and new corporate objectives required to fit within the strategic direction and current portfolio of the acquiring PE firm.

#### Customer challenges:

The range of product families is broadly diversified across several key, strategic decision criteria. Internal cost accounting methodology varies significantly by business unit. Internal strategic stakeholders are located across the globe on three continents.

#### Solution:

Working with Ariba, the company achieved a comprehensive Make vs. Buy analysis across all manufacturing facilities including custom development of Make vs. Buy decision criteria, collection of internal manufacturing and spend data, execution of face-to-face workshops with key global stakeholders and alignment of internal cost accounting methodology across the financial controllers of each business unit.

#### Impact:

The resulting analysis not only facilitated the attainment of corporate objectives and cost cutting goals but also provided clear visibility to a future roadmap of beneficial outsourcing and insourcing initiatives.

As the global economic downturn occurred in the latter half of 2008 this company was equipped with the knowledge to adjust internal and external product mix and to stay ahead of the curve, minimize impact to internal operations and maintain market leadership.