

POSITION PAPER

To build or buy: The product development conundrum

Advantages and disadvantages of licensing vs building information management



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Executive summary

Most technology today operates at the cutting edge, where competition for expertise, customers, solutions and public favor is fierce. Leaders need to keep ahead of trends, such as digital transformation and remote work, while continually developing their product offering to ensure it remains relevant and solves customers' business challenges. Failing to adapt can result in being late to market with key capabilities, or competition taking over the market position.

CTOs, CEOs and PMs at product companies face a critical decision that has drastic, long-lasting consequences. Do they build solutions and components for their offering from scratch or do they buy them from a third-party vendor?

Both paths have inherent risks and obstacles. Misunderstanding functionality or being unfamiliar with a new system can lead to serious negative ramifications for end users and brand damage. Conversely, building new functionality can be a long, arduous process that requires ongoing support and development.

Fortunately, today's leaders have another way to extend business offerings and expand further into the market without sacrificing current products.

The OpenText OEM Program makes a broad selection of OpenText's information management capabilities available to other technology companies to embed, customize or white-label as part of their own solutions. By selecting OpenText, a leader in information management, businesses can readily offer powerful capabilities that make them stand out in an increasingly digital world without losing focus on their core competencies.

This paper will serve as a guide for leaders who want to explore the options of building vs buying. By the end, product leaders should have a good idea of which approach is best for their company.





Building or buying—an overview

Before exploring the advantages and disadvantages of building or buying key parts of a software solution, it is helpful to describe precisely what is meant by the terms “build” and “buy.”

It is no longer viable to sell a minimal solution designed for a single purpose. Modern businesses expect the software they purchase to not only come with standard features but also to be enhanced with new features and options that solve their unique challenges.

While many companies have the time and resources to build these core capabilities, the majority have taken to buying solutions and components to cover the extras.

A “solution” is something that can be added to a product portfolio and sold to customers on its own. Conversely, a “component” adds a feature to an existing product.

Solutions	Components
• Content Services platforms	• Secure content storage
• CRM	• Data capture
• Loan processing	• Analytics modules
• Practice management	• Forms
• Customer communications	• Data analysis and discovery tools
• Event management platforms	• Project management tools
• Marketing platforms	

For example, if a company decided to add an analytical reporting feature to a practice management solution, it would be adding a component. If the company were developing new practice management software from the ground up, it would be developing a solution.

If this company decided to program the analytical reporting feature with its own developers, it would be employing the “build” option. If, on the other hand, the company decided to license the analytical reporting feature from a third-party supplier—like OpenText™—it would be employing the “buy” option.

There are good reasons for both building and buying solutions and components. Which makes the most sense for a given organization depends upon their specific strengths and needs.

Why an organization may decide to build

Building a solution or component refers to a company developing capabilities in house, without the use of third-party suppliers. This could mean creating and adding a new solution to its portfolio or introducing a feature to an existing product or solution.

Building a solution or component takes time and resources, but many businesses may find it in their best interest if it simply doesn't exist or isn't done well by other companies.

Here are some advantages and disadvantages to consider when building new solutions and components.

Advantages of building



Better customization

Companies who build functionality in house decide what is included and how. This allows them to develop applications that specifically address a challenge their customers face and differentiate themselves from their competition.



Greater control

Building provides complete control over ongoing development and support. Builders can more easily introduce updates, upgrades and other changes desired or required by customers instead of waiting on a third party.



Easier onboarding and support

Developing internally brings with it intimate knowledge of how the solution or component works. This can be passed on to support agents and onboarding specialists and can help solve problems for end users.

Disadvantages of building



Requires knowledge and expertise

Building functionality requires specialists who can dedicate their expertise to creating a fully specified and tested product. Even companies that have the types of resources and expertise required may still not have capacity to dedicate to a new project.



Competition

Developing new functionality often pits the brand against similar offerings in the marketplace. These existing offerings are usually developed by experts who are more experienced and have ironed out the bugs. This makes it extremely difficult to compete, and harms the organization's reputation if the new product is not as competitive or appealing.



Takes time

Building something new takes time. Every minute without a marketable product costs revenue that could have been generated with a purchased, ready-made solution.



Lack of scalability

It will be easier to get internally-built functionality to work with the organization's current portfolio. But this does not mean it will always be the case as technology develops. When new platforms and features emerge, it may prove more difficult to keep older solutions compatible.

Why an organization may decide to buy

Buying a solution refers to an organization licensing existing technology for use in its products or portfolio. For many companies, buying a ready-made component or solution from another developer or business may be a more convenient option.

For example, a company looking to add an analytical reporting feature to its practice management solution may choose to use a dedicated application that is available for white labelling. This would also be the case for purchasing complete solutions and rebranding them under its own portfolio.

Whether due to lack of time, resources, expertise or knowledge, many organizations choose to buy over build. Purchasing a solution or component enables businesses to get to market faster, more efficiently and more reliably.

Here are some advantages and disadvantages to consider when buying new solutions and components.

Advantages of buying



Proven concept

One of the inherent advantages of buying a solution or component is that the market has already tested it. No finding and eliminating bugs is necessary, because the product has already been deployed for hundreds of other companies.



Fast deployment

Buying also offers the opportunity to get to market faster. Since the application has most likely adapted to suit other businesses, it should deploy relatively quickly and integrate with ease.



Well documented and built-in support

A fully fleshed-out product should also have a strong support structure in place. Products available in the market are usually very well documented and offer solutions to challenges that most businesses and end-users may face.



Option to leverage existing brand

A unique advantage of buying functionality is having the option to leverage an existing brand. If not white labeling the application, the originating company can be promoted along with the organization's existing offerings if it has a good reputation.



Limited liability

Organizations that choose to develop a solution or component have the responsibility to fix it when things go wrong. When the tool is purchased, the onus is on the third-party company that provided the application.

Disadvantages of buying



Requires high initial capital investment

Buying a solution or component requires an initial, typically substantial capital investment before it is implemented. Not every company has the budget for such a large outlay.



Lacks customization

While purchased solutions and components can perform well, they often can't be customized at the same level as in-house developed functionality.



Dependency on an external company

When using third-party functionality, organizations are reliant on that company to implement updates and changes. The developer may choose to take the product in a different direction.

Since both building and buying come with advantages and drawbacks, it is key to identify which are most important for meeting the organization's specific circumstances.

Building or buying—making the right call

Depending on the aspects of the market, the application needed, customer demands and personal circumstances, either building or buying may be the correct choice. Here are a few insights about today's business environment to help inform the decision.

The majority of businesses should buy functionality, not build it

Most businesses and product leaders set out to build a solution because they believe that they need to. Usually, the opposite is true.

This assumption is based on four core considerations:

- The existence of established players who have been in the game longer and have more sophisticated and specialized products.
- The possible flaws in a new system that could hurt established business.
- The fact that building a solution often takes longer and entails hidden expenses.
- The risk of technical debt: development teams making easier choices now that cause expensive or time-consuming problems later.



When to consider building—a checklist

Of course, the above doesn't mean that all companies should always buy. Sometimes building is absolutely the right call. It is just important to approach that possibility with caution. Many product teams fall in love with the idea of creating a solution rather than responding to the actual need and demand for one.

The following checklist will help assess if there is an actual need for building a solution or component.

- Is there an off-the-shelf product that exists to solve the problem?
- Is the needed solution, concept or component rare or unique?
- Will the organization be able to supply/sell the finished solution, concept or component to other companies?
- Is the organization able to support this product for over five years?
- Does a cost-benefit analysis prove that it is truly cheaper to build than buy?
- Is there a clear long-term advantage to owning the solution, concept or component?
- Does the organization have the necessary knowledge and expertise?

If the answer to most of these questions is “yes,” there may be a case for building rather than buying.

Building or buying—current business environment conditions

It is also important to consider external business conditions that affect the decision-making process of building or buying.

Digital transformation

Both end users and organizations are seeking ways to digitally transform how they do business. The demand for new applications, solutions and components that handle tasks more efficiently and effectively continues to grow every day.

Businesses will have to rapidly adapt or develop new solutions and components to their existing solutions to capitalize on this opportunity.

Globalization and remote working

The trend towards a globalized workforce that crosses borders, nationalities and even languages is more realized than ever and shows no signs of slowing down.

Tested, reliable, fool-proof solutions that help resolve the challenges of a remote workforce will prove to be invaluable for the foreseeable future. Certain applications once considered a luxury for teams, such as project management systems and team-based applications, are now a necessity.

The OpenText OEM Program

To take advantage of opportunities and adapt to shifting market demands, companies need to add the right information management capabilities to their portfolio quickly. These capabilities may prove difficult to develop and expensive to build.

OpenText currently offers the broadest selection of information management technology available, and now provides these solutions to other developers through the OpenText OEM Program.

The program enables enterprise software vendors to customize, embed, white-label and sell OpenText technology as part of their own solution offering to their customers, enabling a degree of customization and branding.

Members of the OEM program instantly gain access to hundreds of different components for use in:

- Enterprise applications (ERP, CRM, ECS, SCM, HRIS, etc.)
- LOB applications (loan processing, contract management, customer communications, etc.)
- Industry applications (Healthcare IT, Financial Services Tech, Government Solutions, etc.)
- Service providers (business process outsourcers, IT service providers, cloud service providers, hyper-scalers, managed service providers, etc.)



📄 Position paper:
Future-proof
your enterprise
software products

📄 Webinar: To Build or Buy
in a Digital World?

Conclusion

For most companies, it seems more economical and effective to buy solutions rather than develop them in house. Development comes with hidden challenges and drawbacks, which can have consequences that impact businesses for years after the final line of code has been submitted.

However, buying ready-made functionality comes with its own fair share of challenges. With the ever-increasing demands of end users, buying solutions and components may not be an economically viable option.

The OpenText OEM Program is the more economical and practical approach for businesses. With the widest array of solutions and components available, it is a full suite of solutions to take on the challenges that businesses face today, and in the future. With offerings covering seven core information management disciplines, building sophisticated business solutions has never been this achievable.

About OpenText

OpenText, The Information Company, enables organizations to gain insight through market leading information management solutions, on-premises or in the cloud. For more information about OpenText (NASDAQ: OTEX, TSX: OTEX) visit: [opentext.com](https://www.opentext.com).

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