Build vs. Buy

Two Strong Contenders in the Ring

corridor company

In the red corner, today's challenger, weighing in at a whopping five letters and monosyllabic in nature, is BUILD. An acclaimed local favorite with numerous titles and wins, he is a formidable opponent. In the blue corner, our reigning champion, weighing in at a mere three letters and also monosyllabic in nature, is BUY. With many locations as his home and numerous titles and wins to his credit, he shows consistent promise. With two very strong contenders in our ring today, this match can go either way.

And, with that, welcome to today's main event, BUILD vs. BUY.

THE CONUNDRUM

Believed to have originated in ancient Greece as early as 688 BC, boxing is one of the most difficult sports in the world. Much like boxing, the BUILD vs. BUY conundrum has deep historical roots and is equally an arduous contest.

To buy something that someone else has created, presumably a craftsperson expert in a trade, is to leverage the knowledge, experience and skillset of an individual who is focused on a particular area of expertise. For this expertise, the good or service is more readily deliverable, but likely at an initially higher cost point. Alternatively, the option exists to build something directly using one's own knowledge and expertise. Depending on subject matter familiarity, this may or may not result in faster time to market and less expense. The BUILD vs. BUY question exists for both simple and complex items – from consumer products such as baked goods and shoes to the complex realm of software.

More specifically, in the software world, the BUILD vs. BUY question relates to whether or not it is advantageous to buy a Commercial Off-the-Shelf (COTS) product or to build a proprietary product, directly or indirectly. Both options have strengths and weaknesses. Understanding these strengths and weakness is important as you decide which path is best for your own organization.

BUY | STRENGTHS & WEAKNESSESS

A COTS product is pre-built software that is delivered to an organization under a license agreement. Because of the depth and breadth of their experience, COTS software companies are not only well versed at building software, but they are usually subject matter experts in their software's area of focus. They understand the problem their software aims to solve and are committed to continuously evolving their products to deliver additional business value. They increase their knowledge and improve their product through continuous customer and market feedback, and employ best practices across their industry and customer base. While customization and configuration are always possible, COTS software tends to be standard by design. The features and functionality presented within COTS software are consistent across the software company's customer types. New and enhanced functionality as well as bug fixing are not completed for specific customers, but rather are introduced through the product roadmap and software release process.

COTS products are typically built using both proprietary technology provided by the software company and standards-based products employed in the industry. Installation of the software typically takes place through one of two avenues: internally by your IT department on your organization's equipment or externally in the cloud by a Software as a Service (SAAS) provider.

Due to its more standardized nature and its product maturity, the time to market is faster for COTS software. The software has already been developed and the implementation of the software is usually systematic, repeatable and process-based. Once implemented, COTS software typically includes standard documentation and training materials which can be used for end user training and support.

Most, if not all COTS applications, offer a Standard Maintenance & Support Agreement which provides the customer with access to the software company's Customer Support department for questions and troubleshooting of issues. Standard Maintenance and Support Agreements also give the customer the ability to download and install future versions of the licensed software for purposes of bug fixing and new features. For those COTS applications which integrate with or depend on third party software, the access to future versions of the COTS software ensures that the COTS application remains compatible and operational as the third party providers advance their own products. For example, as Microsoft Office advances its product roadmap, software companies have a strong incentive to keep their COTS applications compatible with any new features or functionality that Microsoft introduces as well as to address any functionality that Microsoft may have deprecated.

Costs to purchase and maintain COTS software, however, are generally considered to be higher as the software producers' development costs and innovation must be incorporated into the sale price of the product. Additionally, the annual Standard Software & Maintenance Agreement or, in the case of SaaS, the annual subscription license fee, introduce an ongoing annual expense to the end user.

Equally important, because it is standard in nature, the COTS application may not directly map to the customer's business process. This may put customers in the position where they have to change existing processes or where they accept that they may not be able to optimize certain processes or take advantage of certain functionality which exists in the software they have purchased. These shortcomings may impact the efficiencies that customers hope to achieve or even place them at a disadvantage in terms of user adoption of the system.

Finally, for mission-critical COTS applications, the issue of source code should also be considered. In the event that the software developer is no longer in business or does not support the application as he has committed, unless it has been negotiated in the agreement or a source code escrow agreement has been put in place, risks surrounding the long-term availability of the product may be introduced.

BUY

STRENGTHS

- Subject Matter Experts
- Continuous Feedback & Innovation
- Leveraging of Best Practices across Industry & Customer Base
- Faster Time to Market
- Standard Documentation, Training & Support Materials

WEAKNESSES

- Higher Initial Entry Costs
- Ongoing Costs for Maintenance & Support
- May Not Directly Fit Business Processes
- Lack of Direct Fit on Business Processes May Introduce Inefficiencies & Impact User Adoption
- Reliance on Software Developer for Maintenance of Code

BUILD | STRENGTHS & WEAKNESSES

An alternative path is to build proprietary software – either directly or through the use of a third party software developer. Proprietary software can be produced with the specific needs of the organization in mind. Business processes unique to the organization and considered essential for competitive advantage can be directly incorporated into the software design from the start. Because user requirements and feedback can be accommodated during the design phase, efficiencies are more readily introduced, and acceptance and use of the software by its intended audience, it is argued, will be higher. And, because ongoing development costs, innovation and broad support and maintenance need not be considered, the costs to develop are widely believed to be less. For those cases when the cost to develop is equal to or more than that of the COTS application, justification is found in the fact that the software has been built to accommodate the unique needs of the organization.

Unlike a COTS software provider, however, the developer of the proprietary software may not be an expert in software development, or, surprisingly, even the field for which the solution is being developed. While a developer can gain intimate knowledge of the needs and processes of the company for which he is developing, he does not have the benefit of customer feedback, lessons learned from previous customers in the same business, or the industry trends which influence and improve a COTS product's roadmap.

SOURCE CODE | OWNERSHIP & ESCROW

With the purchase of mission-critical software or custom development, source code ownership and escrow are issues that require attention. Access to or ownership of the code as well as an accompanying license to use it allow the customer to maintain the software product directly, and in some instances, to continue development. As the code is the software developer's "secret sauce," direct access to such code is uncommon. Under certain circumstances, it is possible to purchase the code, though this tends to be economically challenging. Instead, software developers – whether for mission-critical COTS products or custom development – will suggest a source code escrow arrangement which will provide the end user access to the code in the event that the developer is no longer solvent or is not supporting the end user as agreed within the license or support agreement.

From a long-term support and maintenance perspective, in-house and outsourced software development efforts must be prepared to address matters such as end user support that will be demanded, bug fixes that will invariably be required, and changes that will be requested. As adjacent third party technologies advance their own roadmap, upgrades may become necessary in the proprietary product to keep it working with other software. Production of the initial documentation and training materials as well as future versions – substantial undertakings when approached properly – must also be considered.

Additionally, the knowledge transfer which takes place at the end of a proprietary development project is critical. If the development project is outsourced to a third party, it is important to either maintain an ongoing relationship with the third party or to ensure that a comprehensive knowledge transfer takes place before parting ways. This requirement is no less important where development has taken place in-house. Lack of proper documentation and knowledge transfer from the key resources involved in the development of the application to those involved in its support will compromise the long-term success of the application. Similarly, if the software build is outsourced to a third party developer, it is important that there be clear ownership or escrow of the source code and supporting documentation.

BUILD

STRENGTHS

- Closely Mapped Business Processes
- Higher User Adoption
- Competitive Advantage
- Lower Initial Entry Costs
- Ownership of Source Code

WEAKNESSES

- Limited Subject Matter Expertise
- Unknown Commitment to Innovation
- Hidden Ongoing Support & Maintenance Costs
- Knowledge Transfer Risks
- Documentation & Training Requirements

PLACE YOUR BETS | COST CONSIDERATIONS

Putting aside the issues which present themselves with respect to specific business processes, innovation, maintenance and support, and training and documentation, the financials of BUILD vs. BUY need to be carefully weighed. In deciding which approach is best for your company, the following costs should be carefully considered.

License or Subscription Fees

For any BUY application, fees will exist for the purchase of either the perpetual license or the subscription license. The fee for the perpetual license is a one-time fee while the subscription license is a recurring annual fee. The subscription license fee typically includes standard maintenance and support, though it is also now common to see "upgraded" maintenance and support options being offered which require an additional investment.

Maintenance & Support Fees

The Maintenance & Support fees for any BUY applications – including COTS and SaaS – are generally offered as an annual contract which is procured directly from the COTS vendor. In the case of BUILD, these annual contracts will not apply, though allocations should be made internally for purposes of end user questions and support, bug fixing and changes. Also, as underlying third party applications advance, it is important to budget for the upgrade of the BUILD software so that it remains compatible with such third party applications.

Implementation Costs

Implementation costs need to be considered for both BUILD and BUY and should include project management, consulting and QA. In the case of BUILD, the relative percentages for each of these activities will be higher as they will apply not only to the project implementation, but also to the development of the software. Considerations should also be made for hardware costs and support for all options except for SaaS where the application is hosted in the cloud.

Development Costs

As the development costs for COTS applications are accounted for within the license fee, these costs need not be factored into the budget of a COTS application. These costs will need to be considered, however, for the proprietary BUILD software.

The Winner Is …

Each contender presents a strong record and equally strong performance. Who you chose as your champion, however, needs to be carefully considered in the context of your organization, its technical depth, business and budget requirements, appetite for risk, and ability to provide ongoing support. Given the initial and ongoing costs around the project, its impact on the business throughout the process, and the importance of a successful implementation, the decision is not one which should be considered lightly.

More specific questions which should be pondered as a conclusion is reached include the following:

- What is my budget?
- What is my timeline and how quickly do I need to complete the project and show benefits?
- What is the Return on Investment (ROI) and Total Cost of Ownership (TCO) for both my BUILD and BUY options?
- Do I have development and subject matter expertise in house?
- In the event that the COTS application does not map directly to my business processes, will this make it harder to achieve my business goals for the system?
- Who will be responsible for the production of documentation and training materials?
- Who will take the lead for maintenance and support?
- As issues present themselves, changes are requested and third party technologies advance, how will I ensure that my application remains operational and compatible?
- What happens if a key development resource leaves my company?

CORRIDOR COMPANY'S CONTRACT MANAGEMENT APP FOR SHAREPOINT

A COTS application which leverages the Microsoft SharePoint collaboration platform, Corridor's Contract Management App for SharePoint – or CM[.app]™ – is a robust contract management lifecycle application. Delivered on premises or via the cloud, CM[.app] presents the benefits of BUY while providing the flexibility associated with BUILD.

On its sixth version, CM[.app] incorporates Corridor's 20 years of experience in the enterprise content and contract management space with the industry knowledge and best practices learned in working with such global leaders as Logitech, First Data Corporation, British Telecom and Intel. With an award-winning Passage[1] implementation methodology, Corridor's solutions are launched successfully within two to eight weeks of contract signature.

Because CM[.app] utilizes the enterprise-class infrastructure of SharePoint, it readily delivers global scalability, security and language support. Most organizations already have SharePoint internally which reduces the IT, training and support costs associated with a new application. And, SharePoint's flexible nature, coupled with CM[.app]'s unique capabilities, allows Corridor to support distinct organizational requirements without the need for customizations.

Corridor Company

Corridor Company is committed to continually evolving our software product line to meet the challenges of contracts and their proper management. With a business application platform that readily provides solutions for Contract, Proposal and Supplier Management, Corridor's end-to-end solutions enable customers to create contracts and proposals more efficiently, manage all processes more effectively, and ensure that revenue, profit and compliance are all fully optimized.

With a variety of different licensing, supporting implementation packages, and delivery options which include on premises, in the cloud, or Office 365, we ensure a solution tailored to fit the needs of your company. To learn why global to mid-sized clients choose Corridor for their Contract Management, Proposal Management and Supplier Management partner, visit us at

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