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To Build or Buy: The Product Development Conundrum

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This white paper highlights the advantages and disadvantages of building versus buying features and functionality to include within an enterprise software or business solution. This white paper should serve as a guide for Chief Technical Officers (CTOs), Chief Product Officers (CPOs), Product Managers (PMs) or other product leaders seeking clarity. It will address whether building or buying components and solutions would be most effective for an organization's unique circumstances and challenges.

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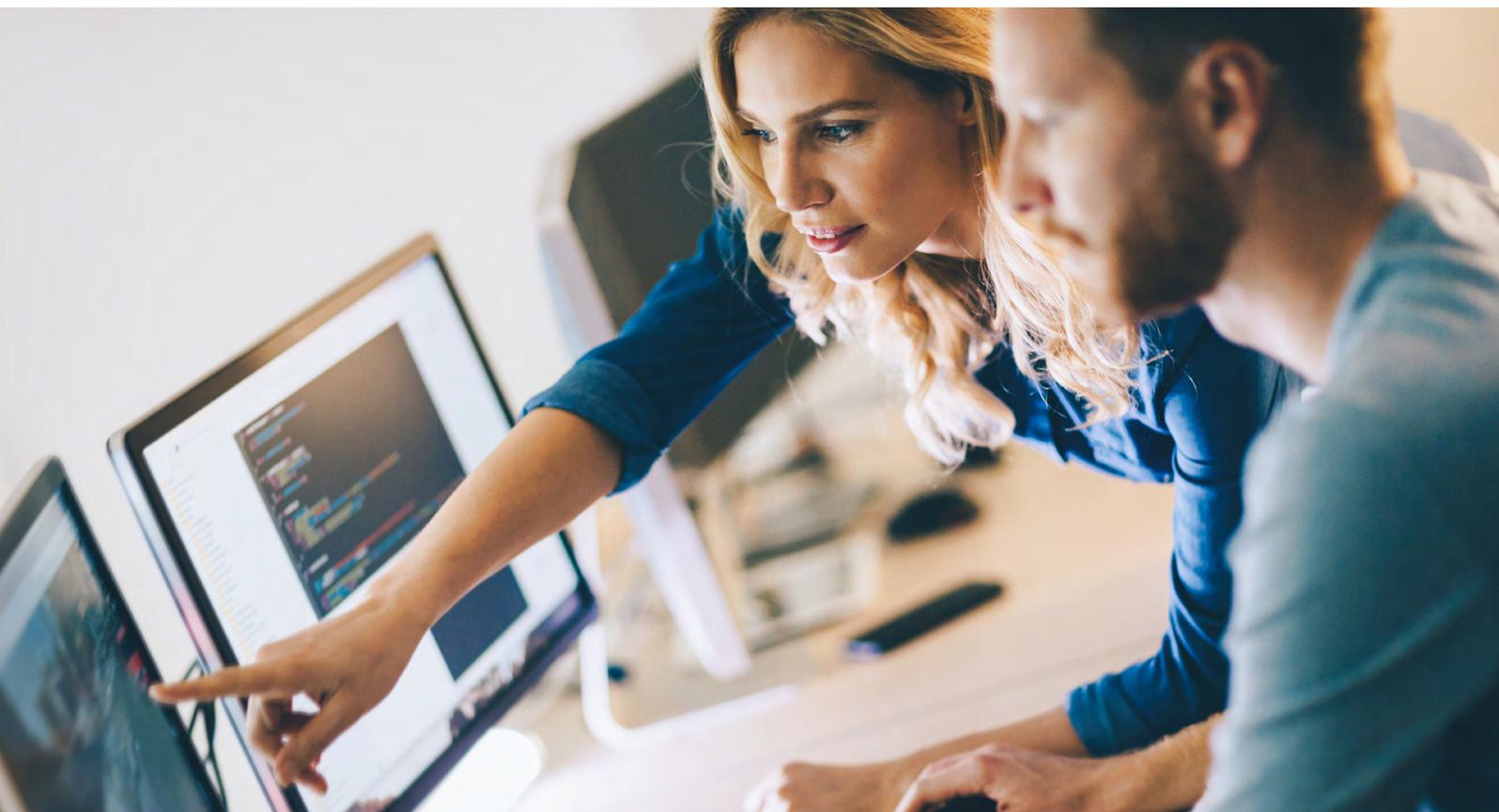
Executive Summary

Holding the position of a Chief Technical Officer (CTO) or Product Manager (PM) can be a challenging endeavour. Most technology today operates at the cutting edge, and competition for expertise, customers, solutions and public favor is fierce.

Leaders within any organization need to keep ahead of trends such as digital transformation and remote work capabilities, while continually developing their product offering to ensure it remains relevant and solves the current business challenges of their target customer. Failing to adapt to these challenges 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 yet long-lasting consequences for all stakeholders who rely on them. Do they build solutions and components to their offering from scratch, or do they buy them from a third-party vendor?

Both paths take an organization to very different destinations and have their inherent risks and obstacles. Misunderstanding functionality or being unfamiliar with a new system's inner-workings can lead to serious negative ramifications for end-users, and damage for a brand. Conversely, building new functionality can be a long and arduous process that requires ongoing support and development.

However, today's leaders have another way to extend their business' offerings and expand further into the market without sacrificing their current products—the OpenText OEM Program.

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 now readily offer their customers powerful capabilities that make them stand-out in an increasingly digital world without losing focus on their core competencies.

This white paper will serve as a guide for leaders who want to explore the options of building or buying. Along with other background information, it describes the advantages and disadvantages of each. By the end, product leaders should have a good idea of which approach is best for them and their company.

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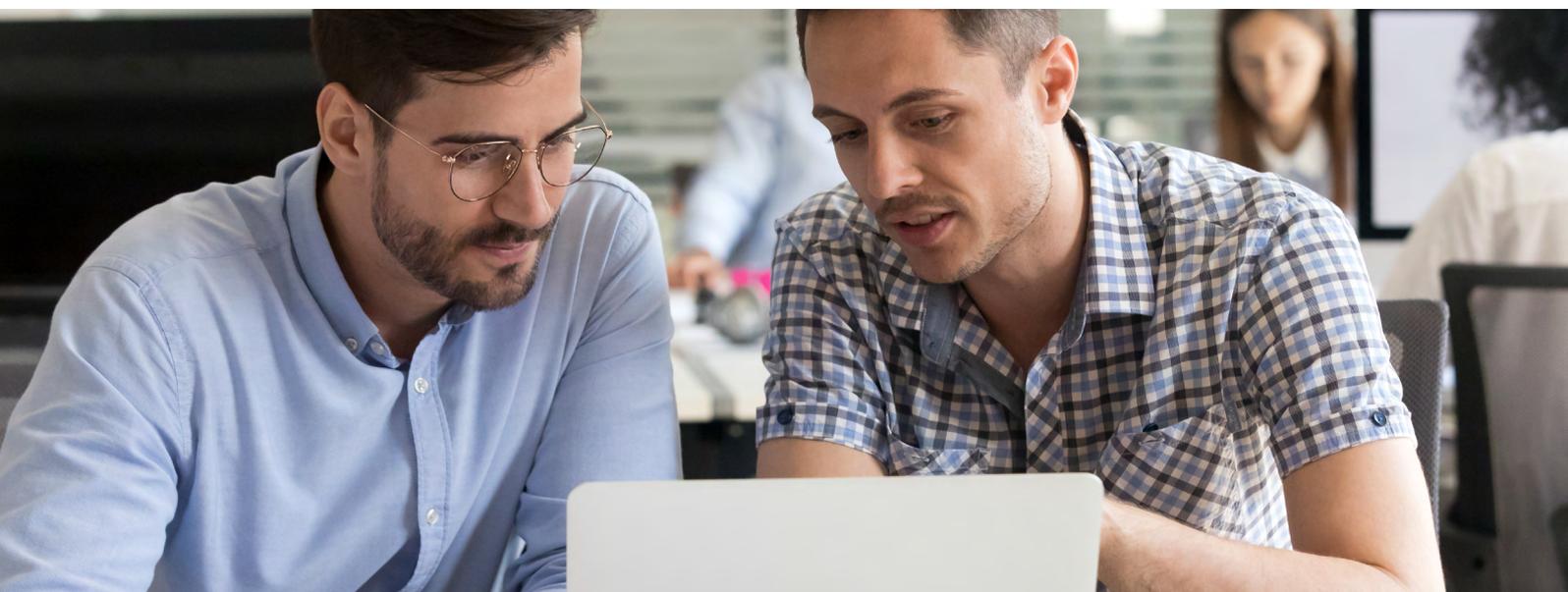
Building or buying—an overview

Before we explore the advantages and disadvantages of building or buying key parts of your software solution, it is helpful to describe precisely what is meant by the terms build and buy. To begin, let's define what exactly can be built or bought to add as part of a solution offering.

Today, it's no longer viable to sell a minimal solution designed for a single purpose. Modern businesses expect the software that they purchase to not only come with a set of features they see as standard 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 vast majority of companies have taken to buying these solutions and components.

These include the following:

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	

A solution is something that can be added to a product portfolio and sold to customers on its own. Conversely, a component refers to functionality that adds a feature to an already existing product. In terms of the OEM program, OpenText offers both solutions and components within our portfolio of offerings for OEM Partners.

Let's take a more in-depth look at both building and buying a solution.

Building a solution or component

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 brand-new solution to their portfolio or a feature to an existing product or solution.

For example, if a company decided to add a new analytical reporting feature to an existing Practice Management solution, they would be adding a component. Conversely, if the company were developing a new Practice Management software from the ground up, they would be developing a solution for their portfolio. Taking it a step further, if this company decided to program the analytical reporting feature with their own developers, they'd 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™—they would be employing the "buy" option.

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Why an organization may decide to build

Building a solution or component takes time and resources, but many businesses may find it in their best interest to do so. For example, if a company is seeking a solution or component that simply doesn't exist or isn't done well by other companies, they may find an opportunity for development.

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

Advantages of building

Better customization
Companies who decide to build functionality in-house have complete control over what that solution or component does and how it achieves it. This allows companies to develop applications that specifically address a challenge their customers face and differentiate themselves from their competition.

Greater control
Building a functionality also gives you complete control over the development. You can more easily introduce updates, upgrades and other changes that may be desired or required by your customers instead of relying on a third-party to address those challenges.

Easier onboarding and support
Being involved with the development of functionality gives you intimate knowledge of how it works. This knowledge can be passed on to support agents and onboarding specialists, who can make any needed fixes to the application. It may also prove to be beneficial when solving problems for your 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. A company who does not readily have access to these kinds of resources will find it challenging to develop something that is viable in the marketplace.

Companies that *do* have the resources and expertise to create a quality product may still run into the problem of not having enough resources to dedicate that to a new project. Software developers that have the knowledge may not necessarily have the capacity to develop new features and solutions, and any senior developers you assign to the new feature takes them away from their current task.

Competition
Developing new functionality pits your brand against similar offerings in the marketplace. These offerings are usually developed by experts who are more experienced and have gone through the process of ironing out the bugs of their product. This makes it extremely difficult to compete, and may put your business as a whole in a bad light should your product not be competitive or appealing.

Takes time to develop
Once you have a need for a solution or component to your offering, building it takes time. Every minute spent without a marketable solution costs your company revenue that could have been generated if you had bought a ready-made solution.

Lack of scalability
While getting the functionality that you have built yourself to work with your current portfolio will be easier, that doesn't mean it will always be the case as technology develops.

When new platforms and features emerge, it may prove more difficult to keep your older solutions compatible than if you simply acquired or bought a white-labelled solution designed to integrate with others.

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Buying new functionality

For many companies, buying a ready-made solution from another developer r business may prove to be a more convenient option than building one from the ground up. Buying a solution refers to an organization licensing existing technology for use in their products or portfolio. Companies can buy both components and solutions to incorporate into their products or overall portfolio respectively.

For example, the same company who wanted to add a new analytical reporting feature to its existing practice management solution may choose to forgo development and use a dedicated application that is available for white-labelling. This would also be the case for purchasing complete solutions and rebranding them under their own portfolio.

Why an organization may decide to buy

Whether it be 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. You do not need to go through the long and painful process of testing, finding and eliminating bugs, because the purchased product has already been deployed for hundreds of other companies.

Fast deployment
Buying also offers you the opportunity to get to market faster. Since the application you're looking at buying has most likely adapted to suit other businesses, it should deploy relatively quickly and integrate with your solution with ease.

Well documented and built-in support
A fully fleshed-out product that you buy should also have a fully fleshed-out support structure in place. In addition to this, products that are 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 you do not intend to white label the application, you can promote it along with your brand if the company that provided the solution has a good reputation.

Limited liability
When you own a solution or component that you have developed, you also have the responsibility to fix it when things go wrong. When you buy a solution or component instead, the onus is on the third-party company that provided the application instead.

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Requires high initial capital investment
Buying a solution or component requires that a company have the initial capital investment before the solution or component is implemented. This initial investment can be quite substantial, and many companies may not be able to find buying viable for their needs.

Lacks customization
While bought solutions and components perform well, they usually offer limited customization options for the organizations that use them. Unlike in-house developed functionality, you will not be able to fully customize your end-product.

Dependency on an external company
When using third party functionality, you will be reliant on that company to implement updates and changes that you may require for your organization. In addition to this, these companies may not wish to implement such changes or even take the solution or component in a completely different direction.

Both building and buying solutions or components come with their own share of advantages and drawbacks. The key is to identify which are most important for your specific circumstances and organizational aspects.

In the next section, we will go over which option may be the best for your organization.

Building or buying—the best option for you

Most, if not all, organizations will face the decision of buying or building a solution or component for their own needs. Depending on the aspects of the market, the application they need, their customer demands and their personal circumstances, both options may be the correct course of action.

Here are a few general facts and insights about today's business environment to help you decide whether you should build or buy.

The vast 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 your already established business
- The fact that building a solution often takes longer and entails hidden expenses
- The concept of technical debt

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Established vendors and competition

There are many third-party software vendors that offer solutions and components. These can easily be integrated into a business' product portfolio with little to no difficulty. In fact, there are so many of these vendors that they have begun to specialize for specific industries, markets and objectives.

In addition to this, these vendors have been supplying their specialized product offering for much longer than any new product developed today. Essentially, they are entrenched in the market.

Competing with these providers with a new solution will prove extremely challenging in even the most specialized industry. This causes unfavourable comparisons between your company and their specialized, proven solutions. It's usually more economical and practical to instead buy these solutions than try to compete with established ones.

Building a new solution may threaten your existing business

The second reason most companies should start from the position of buying rather than building is the lack of expertise that they have.

Developers cannot simply be applied to create any kind of software, and a developer who is unfamiliar or uncomfortable with a specific type of solution or component may leave flaws in the end product.

Bad products tend to do more damage than good for any business. In addition to this, lack of support and negative customer responses may hurt your more established products and reputation.

Companies often underestimate the time and money it takes to develop and support

Building a solution often takes longer than expected and entails hidden expenses that many organizations do not anticipate. Unless you're willing to put down the resources for a quality product and support it for at least five years, you should not consider building functionality yourself.

Snags in development, unforeseen consequences, security concerns and the sheer amount of support and dedication required to make a new product work in the market are all considerations that are difficult to take into account. Once a company has announced that they will be offering a new functionality or adding a new product, they have to deliver and support that statement. If they do not or are unable to, it could have disastrous results for customer loyalty and trust.

Technical debt

Finally, the concept of technical debt is always a factor when developing your own solutions and components.

The concept of Technical Debt refers to development teams opting for easier, or more simple, options that incur added costs and effort later on. These added costs and tasks quickly add up throughout development and can lock a company's resources and drain finances.

Conversely, buying functionality ensures you are not repeating the sins of the past or mistakes of others. This effectively transfers the technical debt you would have incurred if you built it yourself to the vendor you are licensing it from.

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When you should consider building—a checklist

Of course, the above doesn't mean that all companies should always buy functionality and never build anything. It merely means that you should start with the assumption that it's usually the better course of action to buy a solution or component rather than develop one.

However, working to disprove this may point to building as the better option. Start by asking yourself, *"Do I **have** to build this solution, or do I simply **want** to build it?"*. 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 you discover if there is an actual need for building a solution or component.

- Is an off-the-shelf product that exists to solve your problem?
- Is your solution, concept or component rare or unique?
- Can you supply/sell your solution, concept or component to other companies?
- Are you willing to support this product for over five years?
- Can you prove that it is cheaper to build than buy?
- Is there a clear, long-term advantage to owning the solution, concept or component?
- Are you a tech company with knowledge and expertise in the solution, concept or component?

If the answer to the overwhelming majority of these questions is 'yes', you may have a case to build rather than buy.

Building or buying—current business environment conditions

In addition to the considerations above, it's important to note the external business conditions that affect the decision-making process of building or buying.

Digital transformation

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

For businesses, this means that they will have to rapidly adapt or develop new solutions and components to their existing solutions to capitalize on this opportunity.

Globalization and remote working

As organizations grow and business operations expand, the need for technology to assist with running a remote workforce continues to exist. Today, the trend of a globalized workforce that crosses borders, nationalities and even languages is more realized than ever and shows no signs of slowing down.

For businesses, solutions that are reliable and help with resolving the challenges of a remote work-force will prove to be invaluable for the foreseeable future. These solutions will need to be full-proof, tested and robust, while unreliable solutions will fall by the wayside.

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COVID-19 and work-from-home mandates

COVID-19 changed the way organizations around the world operated with their customers, their employees and their peers. The need to transfer entire offices of workers to an online, working-from-home environment has affected nearly every business and industry.

This has also driven the need for solutions that make this transition easier and smoother. Certain applications that were once considered a luxury for teams, such as project management systems and team-based applications, are now a necessity in a post-COVID world. Businesses who wish to remain relevant will have to take this into account when developing any online offering.

The choice companies have

To take advantage of such opportunities, companies need to add the right information management capabilities to their portfolio quickly. These capabilities are numerous and may prove difficult to develop and expensive to build.

Thankfully, companies can now buy a complete solution suite from a trusted IT vendor like OpenText through the OEM program to address this challenge.

The OpenText OEM Program

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's 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 which can be used 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.)
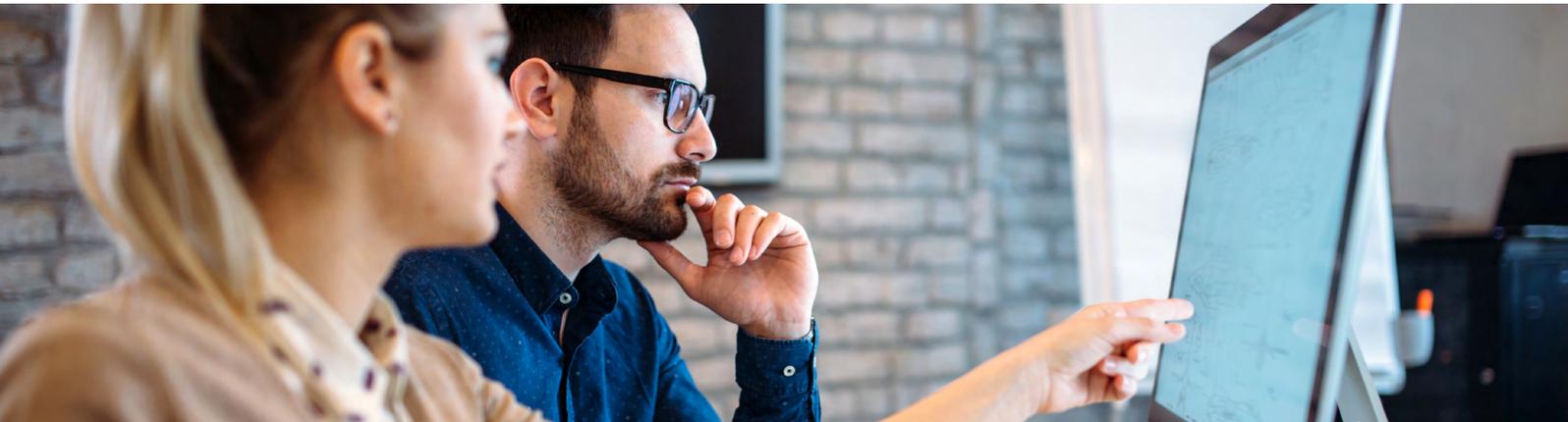
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Building or buying—final analysis and conclusion

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, for many businesses, 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 have 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.

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