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MAKE OR BUY

BY

JAMES W. CULLITON



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# MAKE OR BUY

A CONSIDERATION OF THE PROBLEMS FUNDAMENTAL  
TO A DECISION WHETHER TO MANUFACTURE OR BUY  
MATERIALS, ACCESSORY EQUIPMENT, FABRICATING  
PARTS, AND SUPPLIES

BY

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HARVARD UNIVERSITY  
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION  
BUREAU OF BUSINESS RESEARCH  
SOLDIERS FIELD, BOSTON, MASSACHUSETTS

HARVARD UNIVERSITY  
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## PREFACE

Every economic entity, whether it be a family, a business, or a government, frequently must decide whether to make or to buy the things it needs. This thesis considers in detail the business problems faced by manufacturing business organizations when deciding whether to make or to buy the things they need.

The arguments of the treatise are based in part upon information received by the author in personal interviews with business executives of companies engaged in many manufacturing activities in widely separated geographical districts, reaching from Boston and Providence in New England, to Rochester, New York, and Pittsburgh, Pennsylvania. Twelve specific problems faced by these companies were written up by the author as business cases and appear in the treatise; many other business experiences, while not formally written as cases, are cited as examples; in addition to the material thus collected, extensive use was made of a large number of other cases already prepared as part of the general research program of the Harvard Business School. In order to facilitate reference by the reader to the cases and examples cited, there is included at the end of the thesis an alphabetical list showing the names, the numbers of the pages where reference is made to them in the thesis, and source references.

Since most business decisions and business problems inevitably are influenced to some extent by the current conditions extant in the world at large, it is necessary to recognize such influences — whether they be, for instance, the overoptimism of the 1920's or the overpessimism of the 1930's — when making any study based upon actual business experience. Few of the problems used as the basis for the argument in this study were dated prior to 1930, and the intensive field work was done in 1939 and early 1940. Thus, much of the argument is based upon experiences set against the background of the business psychology and business conditions of the 1930's. Specifically, for example, in sharp contrast to the later 1920's, overcapacity was almost universally present after 1929 and wrought important changes in the way in which businessmen approached and thought about their problems.

Consequently, recognition of the existence of unused capacity and its effect upon decisions to make or to buy was inevitable. Yet, there was no reason to assume that such conditions would prevail forever. Since any analysis based upon temporary conditions would be only superficial, the attempt has been made throughout this thesis to segregate the fundamental aspects of the problem from those accidental aspects which change with changing conditions. These accidentals, it is true, are extremely important and cannot be overlooked; it is necessary, however, that they be kept in their proper perspective and be given the proper emphasis.

A dramatic example of the way changing conditions require a change in the emphasis placed upon various aspects of a make or buy problem is found in the impacts of America's effort to rearm. The national defense program of the United States has given new emphasis to some of the arguments which might induce a company to make or to buy the things it needs. The funda-

mentals of the problem of make or buy remain the same, but the circumstances of the times make necessary the reconsideration of those fundamentals in a different light. For example, in any business producing national defense goods, the procurement problem remains, as always, one of getting the things that are needed, when they are needed, and at reasonable cost. The concept of what is reasonable cost may well have changed under the present pressure to produce, since the most important objective of procurement has probably become that of *getting* what is needed. Making and buying offer alternative methods of attaining the objective and the correct alternative can be decided upon in exactly the same way as in other circumstances, by examining the fundamentals and interpreting them in the light of existing conditions.

Because the war production program has not destroyed the logical basis upon which the argument of this thesis was built, rewriting the main body of the argument to show its specific connection with the problems of businesses engaged in war work was deemed unnecessary and even undesirable. Since any analysis of the fundamentals is more important than their application to temporary and unusual circumstances, little but timeliness would have been gained by changing the point of view to one embracing the specific make or buy issues arising out of the total war effort. In certain instances, however, where the argument as stated in the text was clearly inapplicable to conditions of the emergency, footnote comments have been added to the discussion.

I wish to express a debt of gratitude to the businessmen who so freely cooperated in giving me the benefit of their experience; to former Dean W. B. Donham, whose help has been indirect but essential; to Professor H. T. Lewis, whose help has been both direct and indispensable; to Professors E. P. Learned, C. A. Bliss, and Richard Donham for words of encouragement when they were needed most; and finally to my wife.

JAMES W. CULLITON

SOLDIERS FIELD  
BOSTON, MASSACHUSETTS  
DECEMBER, 1942

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