

## C4 Make or Buy – Solutions

1

a *In-house production:*

$$\text{CHF } 10\,000 + 9\,000 \text{ units} \cdot \text{CHF } 1/\text{unit} = \text{CHF } 19\,000$$

*External procurement:*

$$9\,000 \text{ units} \cdot \text{CHF } 2/\text{unit} = \text{CHF } 18\,000$$

*Conclusion:*

Cost of external procurement (CHF 18,000) < cost of in-house production (CHF 19,000)

For 9,000 units, it is cheaper to purchase energy-saving lamps for CHF 2/unit.

b Transaction costs are of little importance in this situation. Any costs to search for or investigate suitable transaction partners would be negligible in this case, as there are many providers of energy-saving bulbs.

Any transaction costs for general negotiations and contract design would also be very low because it involves standardized energy-saving bulbs.

Any form of control costs for monitoring the contract in terms of quality, price and quantity may also be waived in this instance, since there are many providers on the one and the other an everyday product.

Thus, only transport costs need to be considered in this example.

2

Management deliberations make a certain amount of sense: The idea of the two engineers being active in the field of machine design is generally understandable. This activity is one of the core competencies (competence factor) of the engineers. While the outsourcing of the customer hotline to a call center may, at first glance, seem like the cheaper option (cost factor) and allow customer calls to be answered more quickly (time factor); however, outsourcing would likely result in a drastic loss of quality of the advice (quality factor). Finally, these are special machines and non-standard products: So, any cost savings would have to be considered with the inclusion of transaction costs (cost factor), as the call center employees would have to first pass through intensive training in order to answer customer questions in a competent manner.

**3**

Evaluation criteria	Weighting W	Make		Buy	
		Points P	Result = W · P	Points P	Result = W · P
Competence	20	1	20	3	60
Costs	10	1	10	2	20
Quality	40	1	40	3	120
Dependence	20	2	40	1	20
Capacity	10	1	10	3	30
<b>Total</b>	100		120		<b>250</b>
<b>Ranking</b>			2		<b>1</b>

**Justification**

Competence: “Food 4 You” has no expertise in this area but could build it up over time. A logistics company is a specialist in this area (core competencies).

Costs: The construction and maintenance of a home delivery service is very expensive (fleet, staff). A logistics company already has the necessary fleet and staff.

Quality: Quality is crucial. The food that customers order must be in good condition at the right time and place.

Dependence: Outsourcing leads to a certain dependency on suppliers; however, that there are alternative logistics providers in the area where “Food 4 You” operates, the level of dependence is acceptable.

Capacity: The employees at “Food 4 You” are already busy. Thus “Food 4 You” has no extra capacity or would have to build it first.