**Make-Buy decision**

A make-or-buy decision is an act of choosing between manufacturing a product in-house or purchasing it from an external supplier.

Also referred to as an [outsourcing](https://www.investopedia.com/terms/o/outsourcing.asp) decision, a make-or-buy decision compares the costs and benefits associated with producing a necessary good or service internally to the costs and benefits involved in hiring an outside supplier for the resources in question. To compare costs accurately, a company must consider all aspects regarding the acquisition and storage of the items versus creating the items in-house.

**Key Takeaways**

* A make-or-buy decision is an act of choosing between manufacturing a product in-house or purchasing it from an external supplier.
* Make-or-buy decisions, like outsourcing decisions, speak to a comparison of the costs and advantages of producing in-house versus buying it elsewhere.
* There are many factors at play that may tilt a company from making an item in-house or outsourcing it.

**Understanding Make-or-Buy Decisions**

Regarding in-house production, a business must include expenses related to the purchase and maintenance of any production equipment and the cost of production materials. Make costs can include the additional labor required to produce the items, storage requirements within the facility, storage costs overall, and the proper disposal of any remnants or byproducts from the production process.

Buy costs related to purchasing the products from an outside source must include the price of the good itself, any shipping or importing fees, and applicable [sales tax](https://www.investopedia.com/articles/personal-finance/112415/5-states-without-sales-tax.asp) charges. Additionally, the company must factor in the expenses relating to the storage of the incoming product and labor costs associated with receiving the products into inventory.

In a make-or-buy decision, the most important factors to consider are part of quantitative analysis, such as the associated costs of production and whether the business can produce at required levels.