

The build-borrow-or-buy framework

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Abstract

This academic paper covers the subject of the build-borrow-or-buy framework and its use in international business. The multinational companies use the build-borrow-or-buy framework to know if a company, which has the intend to enter in a foreign market, should apply internal development (build), strategic alliances (borrow) or acquiring an existing company (buy). The content of this document has been extracted from the Strategic Alliances course lessons taught in the International Business career.

Keywords: Strategic alliances, Build-borrow-or-buy framework, modes of entry, strategic resource gap

Introduction

During the last two decades, the strategic alliances have grown tenfold in international business. Currently, there are companies which operate more than a hundred alliances at the same time. The companies which use alliances have significantly improved their competitive advantages. Facing this proliferation, the big question for each business is how to know if they really need a strategic alliance. For sure, it is necessary to address this question before searching potential partners or designing our desirable alliance. This academic paper is covering how we can use the build-borrow-or-buy framework as mean for determining if we need, or not, a strategic alliance and selecting the best alternative for our company.

The non-exporting modes of entry to foreign markets

When the companies in international business have decided to expand its operations to new markets, they have different subjects to solve. Essentially, for entering to any foreign market, the multinational companies must take three decisions: the destination market, the size of entry and the mode of entry. Putting aside the exporting way, which is the most popular way of internationalizing business, we have a variety of non-exporting modes of entry to foreign markets: installing a wholly owned subsidiary, contractual alliances (non-equity alliances), non-contractual alliances (equity alliances, joint ventures) or buying any existing oversea company (mergers and acquisitions).



We can group the mentioned non-exporting modes of entry in three categories: internal growth (wholly owned subsidiary), strategic alliances (non-equity alliances, equity alliances and joint ventures) and buying (mergers and acquisitions).

The build-borrow-or-buy framework

We use the framework build-borrow-or-buy for analyzing and solving the question about the necessity of strategic alliances and how to enter to the foreign market. We intent to know if we really need a strategic alliance and which is the best non-exporting mode of entry for our company. The underlying concept behind the build-borrow-or-buy framework is the fact that for entering to any foreign market, the multinational companies have essentially three alternatives: to make an internal growth (build), to join forces and work with other organization (borrow) or performing a merging or acquisition (buy).

Operationally, the build-borrow-or-buy framework is a process of four sequential questions that we use for establishing the best course of action for entering to foreign markets. The process starts when you have identified that the multinational company has a strategic resource (or capability) gap, I mean your company is needing a strategic resource (or capability). In that purpose, we use the VRIO analysis, which is a suitable way for establishing the mentioned gap, and as result of it we will know if it is valuable, rare, costly to imitate, and our company is organized for exploiting the value. So, you have identified that the company has a shortage in a strategic resource (or capability).

To perform the build-borrow-or-buy four question process, according to Capron and Mitchell (2012), the first question is *How relevant are existing internal resources to solving the resource gap?* If the answer is “high”, you have to conduct an internal development (BUILD); if the answer is “low”, you must move toward the second question. You must analyze the relevance of the internal resources from the company for closing the strategic resource (or capability) gap. That means that you must evaluate if the current resources of your company match with the resources needed for obtaining the strategic resource (or capability) through an internal development. In other words, the question is if the company have resources (or capabilities) aligned with the resources (or capabilities) requested for performing an internal development.

If any university wishes to enter in the logistic business, the answer is very clear, its current internal resources are not relevant for performing storage and distribution activities. But if the proposed activities were business consultancies, the university has relevant resources as experience, a research center and especially skilled human resources (professors and students). Capron and Mitchell (2012) state that our second question is: *How tradable are the targeted resources that may be available externally?* If the answer is “high”, perform a contractual or non-equity alliance (BORROW); if the answer is “low”, you have to move toward the third question.

In this second question, you must analyze if the needed strategic resource (or capability) could be found in the market. If you can trade it, that means the existence of the resource (or capability) supply



in the market, so you can access and pay for it. As example, perhaps your company has decided to enter to an oversea market, and you need to perform the distribution of your products. You are needing trucks, drivers and the knowledge for performing the distribution; you can hire a logistic operator. The resource (or capability) is tradable, there is a supply in the market.

Moving to the next question, the third said by Capron and Mitchell (2012) is: *How close do you need to be to your external resource partner?* If the answer is “low”, make an equity alliance or joint venture (BORROW), if the answer is “high” move to the last question.

Here the key subject is closeness, that means if it is necessary to be close of your partner, you have to analyze if the activity could be performed independently of our business activities, or it forms inherent part of our core business. In example, maybe we wish to export software to US, so we need a partner for performing the software development. We do not need closeness with the mentioned partner, it is enough is each party make its business activities independently and we complement each other.

Finally, Capron and Mitchell (2012) emphasizes that the fourth question is: *How well can you integrate the target firm?* If the answer is “high”, acquire (BUY); if the answer is “low”, revisit the build-borrow-buy options (restart the four questions process) or reformulate your strategy.

In this question you must evaluate what will happen if it is performed a merger or an acquisition, the integration level to be obtained after merging or acquiring.

Let us see four examples of the build-borrow-or-buy process:

First example: Maritime transport

We are a shipping company, and we lack cargoes to/from Peru. The process is next:

To identify the strategic resource (or capability) gap: In this case is the capability to obtain and consolidate cargoes to/from Peru.

The first question is: *How relevant are existing internal resources to solving the resource gap?* The answer is “low”. In our shipping company we have merchant vessels (ships), crews, supplies and the knowledge of the business. So, we are moving to the next question.

The second question is: *How tradable are the targeted resources that may be available externally?* The answer is “high”. We can hire forwarder companies in order that they could obtain and consolidate cargoes to/from Peru. So, we need to perform a contractual alliance (Borrow) with forwarder companies in Peru and other countries to obtain and consolidate cargoes to/from Peru.

Second example: Respirators during the pandemic COVID-19

The pandemic Covid-19 arose suddenly and no one country was prepared for facing it. One of the principal issues was the necessity of respirators, all the manufacturing countries suspended their exports to attend its domestic demand. The Peruvian State needs very urgent respirators for the Covid-19 critical patients and there was not foreign supply as consequence of the pandemic. The process is next:



The first question is: *How relevant are existing internal resources to solving the resource gap?* The answer is “high”. The Peruvian Navy has engineers, technicians, researchers, electrical and mechanical factories for its naval equipment of ships, submarines, and naval aircraft. So, the Peruvian Navy created its own respirator and manufactured for attending the internal demand.

Third example: Batteries for electrical vehicles

The car manufacturing companies are moving toward the electrical vehicles, and they need batteries. The process is:

To identify the strategic resource (or capability) gap: In this case is the resource lack is batteries for electrical vehicles.

The first question is: *How relevant are existing internal resources to solving the resource gap?* The answer is “low”. The car manufacturer companies do not have facilities, personnel, and experience on batteries fabrication. So, we are moving to the next question.

The second question is: *How tradable are the targeted resources that may be available externally?* The answer is “low”. Currently, in the market, there is not any supply of batteries for electric vehicles.

The third question is: *How close do you need to be to your external resource partner?* The answer is “low”, we do not need closeness with the battery manufacturer.

So, we need to perform an equity alliance (Borrow) between the car manufacturer company and the battery manufacturer company.

Fourth example: The soda industry in Peru (90's)

In the nineties, the Coca-Cola Company was the leader in the soda market in every country worldwide with few exceptions. In Latin America, Inka-Cola and Pepsi were the leaders in Peru and Venezuela, respectively. The process is next:

To identify the strategic resource (or capability) gap: In this case is the resource lack is the Inka-Cola flavor.

The first question is: *How relevant are existing internal resources to solving the resource gap?* The answer is “low”. The Coca-Cola Company has bottlers in Peru but does not have any other facilities.

The second question is: *How tradable are the targeted resources that may be available externally?* The answer is “low”. It is not possible to buy in the market the Inka-Cola flavor.

The third question is: *How close do you need to be to your external resource partner?* The answer is “high” because it is core part of the manufacturing process.

The fourth question is: *How well can you integrate the target firm?* The answer is “high”, so in 1999 Coca-Cola acquired Inka-Cola.



Conclusions

To summarize:

- The international business faces the decision whether to employ strategic alliances for expanding to foreign markets and establishing which mode of entry is suitable.
- The build-borrow-or-buy framework provides a process for establishing if our business really needs a strategic alliance and determining the best mode of entry to any specific foreign market.
- The build-borrow-or-buy process comprises four sequential questions related with relevancy, tradability, closeness, and integration.
- According to the answers to be obtained in the mentioned four questions process, you will know if the best course of action is an internal growing (build), a contractual or equity alliance (borrow) or a merger / acquisition (buy).

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