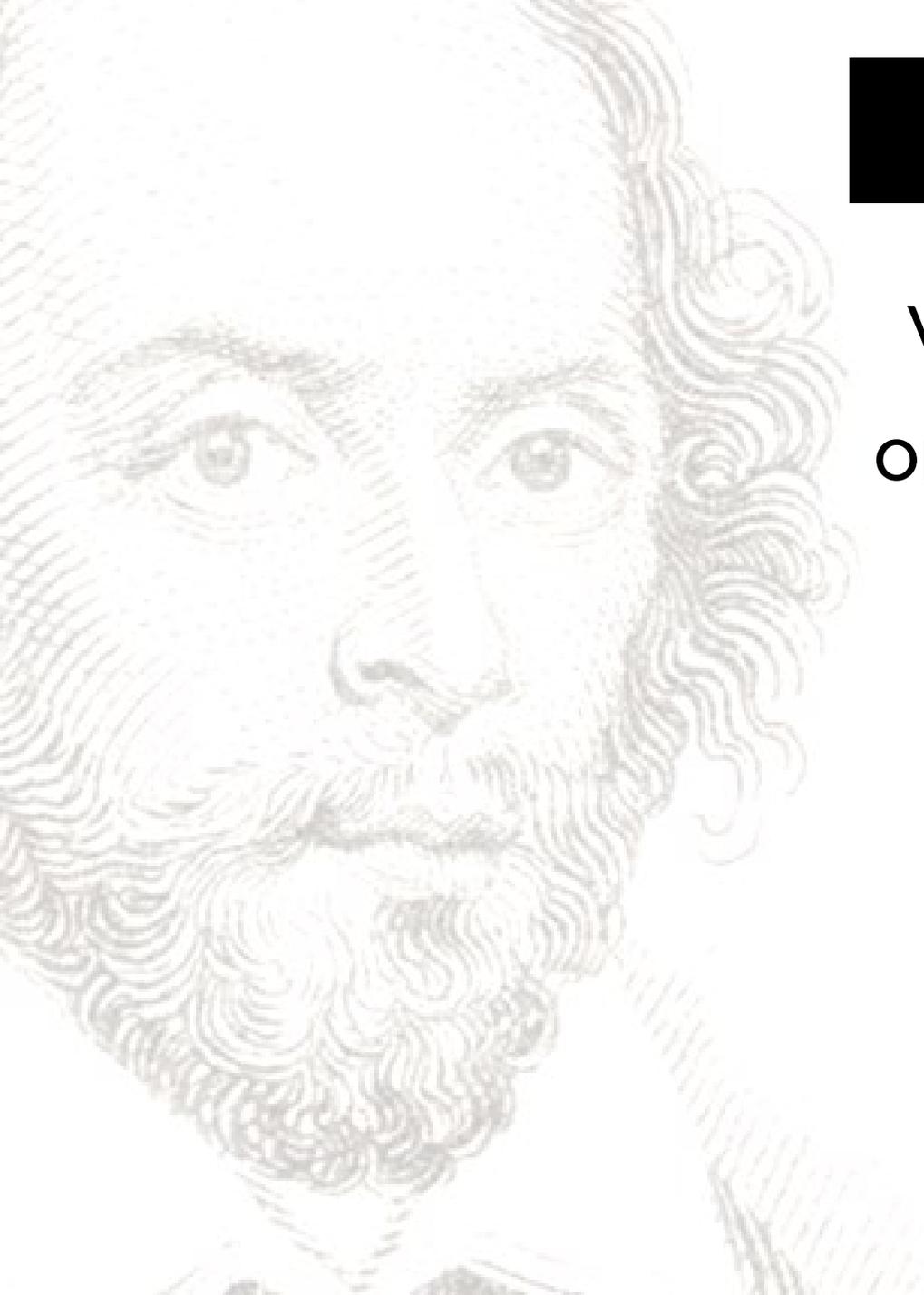


**ABOUT
SOURCING**

CORE OR NON CORE?

THAT'S THE QUESTION



WHAT'S THE QUESTION?

When wondering to in- or outsource on seeks **criteria** for this consideration.

A criterion often used is the distinction between something being

“CORE” or “NON CORE”

to the business.

**SO WHAT
IS CORE?**

CORE a DEFINITION

The capability, relationship, asset or infrastructure:

Delivers undeniable **value** to the business.

Is considered of **strategic importance**

and therewith crucial to the success of the business.

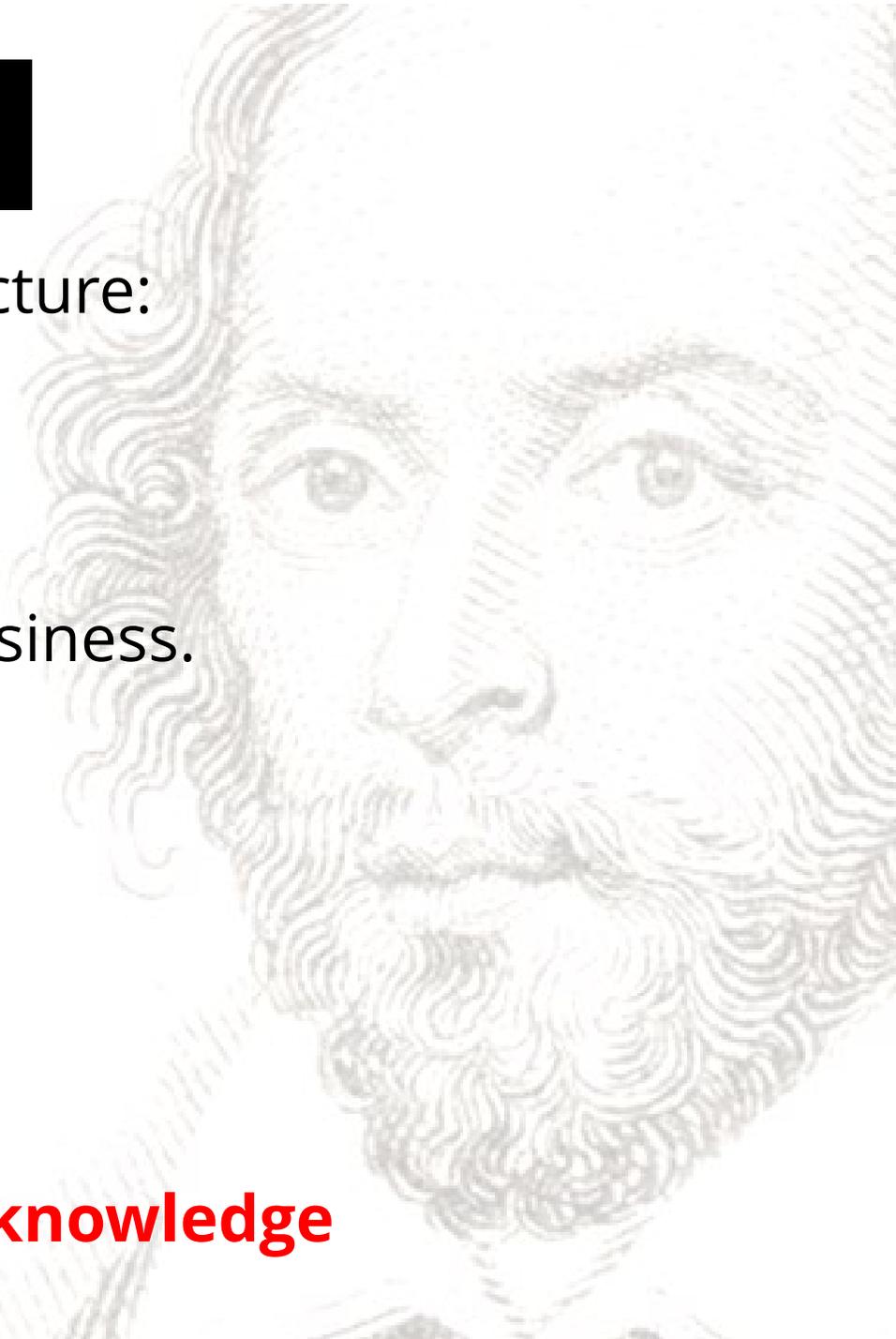
Is **critical** and central to business operations

and therewith considered a differentiator.

Not in the least due to its proprietary nature.

It's **loss** is considered **irrecoverable**.

Is dependent on key **business judgement & knowledge**



**HOW TO
DETERMINE?**

DETERMINATION METHOD

Answer Yes or No

Id.	Criteria	Y	N
a	If started from scratch today, would the business build the capability internally?		
b	Is the business so good at the activity that others would hire it to do it for them?		
c	Is this an activity of the business where its future leaders will come from?		
d	Does the capability, process, function, task, etc. add value?		
e	Is the process supported strategic to the company?		
f	Is the result delivered (output) strategic to the company?		
g	Does the capability, relationship, process, etc. provide a competitive advantage?		
h	Is it considered a differentiator?		
i	Does the capability require key business judgement?		
j	Is the process aligned with the company vision?		
k	Proximity: the capability, etc. is close to the business?		
l	Is it defined by law or regulation as core to the business, in the sense that only the company may perform the task, e.g. regulating flight traffic?		

DETERMINATION METHOD

Answer Yes or No

Id.	Criteria	Y	N
m	Is the capability, etc. considered routine work (involving high skills)?		
n	Can the capability, etc. be automated?		
o	Can the cost per transaction be reduced when outsourced?		
p	Is the ability to focus on activities that deliver value improved by removing this function?		
q	Does outsourcing the task enable business staff to undertake more core and strategic functions?		
r	Are cyclical (seasonal) peaks and valleys applicable to the function?		
Tot.			

The first column represents CORE, the second column NON-CORE.

Adding up the columns and comparing the scores provides the answer to the question whether and to what extent the subject at hand is to be considered CORE or NON-CORE.

WARNING

The use of the core/non-core distinction is challenged / questioned in the sourcing community. This since it is considered hard to designate any business function as merely routine and less conducive to future business development (where would your business end up without systems maintenance?).

Furthermore, the core/non-core distinction is argued to be outdated, since it is said to not take into account recent changes in outsourcing such as increase in Business Process Outsourcing or Knowledge Management. These tasks can be routine day-to-day activities that are actually vital to the company's development, but here they are being outsourced.

THEORY ANNEX

OUTSOURCING DECISION MATRIX

Performance relative to market	strong	outsource for scale advantage and increased focus on differentiators	keep in-house
	weak	outsource for scale and capabilities	form more exclusive alliance to obtain capabilities
		commodity	Importance as a differentiator

Source: IAOP OPBOK 2010

YES
OUTSOURCING DECISION MATRIX

Loss in capabilities, relationships or infrastructure is business critical	NO	Outsource but manage very carefully (keep mngt Capability In tact)	keep in-house
	YES	outsource	Outsource carefully (keep strategic options open)
		Loss in capabilities, relationships or infrastructures is irrecoverable	

Source: Vivek Sood 2014

THEORY ANNEX

OUTSOURCING DECISION MATRIX

Potential value to the organization	high	Vested outsourcing approach	keep in-house <i>(core activity for company)</i>
	low	Conventional outsourcing	Driven by financial consideration
		low	Organizational expertise high

Source: Visatek & Ledyard, 2010

Vested Outsourcing is typified by an outsourcing relationship in which both parties have a stake in maintaining the arrangement and work together to create a performance partnership that takes both the company outsourcing and the service provider to levels of cost, service and profitability not realized before. Elsewhere called: joint venture, strategic alliance, etc.

OUTSOURCING DECISION MATRIX

Proprietary nature of process or function	Not proprietary				
	Data are proprietary				
	Business process is proprietary				
	Profit model is proprietary				
		Unique to self		Common across industries	
		Uniqueness of business process or function			

Source: Gottfredson, et al, Harvard Business Review, 2015

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