The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Business Processes for Outsourcing: Core vs. Non-Core

By Sergei Tiunov

February 14, 2011

Sergei Tiunov
General Director, Outsourcing Division
BDO Russia

The purpose of outsourcing is to ensure best practice in key business components such as data processing, supply-chain management, warehousing, logistics, HR, accounting and other vital processes. By divesting themselves of these non-core activities, companies are realizing that they can focus their energy on areas where they have the competitive advantage, while differentiating themselves from their competitors and taking advantage of cost savings from the outsourced functions.

In this context we can divide all business processes into three categories:

- Core activities are the essential, defining activities of an organization. If the organization gave those activities to an external party, it would be creating a competitor or dissolving itself.
- Critical but non-core activities, if not performed exceptionally well, will place an organization at a competitive disadvantage or even create a risk. There are many examples of companies' failures to manage their logistics processes adequately leading to product shortages and loss of market share. Logistics is a critical but non-core activity for a producer, but it is a core activity for a transportation company.
- Non-core, non-critical activities supply no competitive advantage. Even if performed poorly, they are less likely to seriously harm an organization in the short term, although they are still important. Examples include cleaning, catering and security.

The increased focus on core business operations and developing competitive advantage has left companies wondering what to do with their non-core, less strategic processes, such as distribution and inventory management, accounting and HR, credit card processing and product testing. Although these processes are vital to the day-to-day operations of many organizations, users view them as overhead functions that do not define their business and, therefore, contribute little to their identity and bottom line.

This notion, however, is changing as outsourced processes help companies save money or increase productivity. In other words, a non-core business process may start to contribute to the bottom line by being outsourced.

Companies are currently determining which functions or processes are core to their business, and which are non-core yet critical. Competition and rapidly changing IT options are driving companies to realize the potential benefits of outsourcing functions and processes to parties that specialize in these areas. The total number of processes that companies consider core is inevitably shrinking, while the proportion of non-core yet critical processes will continue to expand as margins in a competitive environment are squeezed and customer service becomes increasingly competitive.

Corporations must consider all their business processes as "mission critical," examining and optimizing them where possible. Outsourcing non-core processes to vendors helps to accomplish this goal. Since these outsourced processes will then be in the hands of a vendor for which they are core, the chosen vendor must be the best of its type, excellent at the processes it does.

Today's competitive corporation must optimize every process to achieve the best possible business performance. The "core/non-core" definition merely distinguishes the processes that are best kept in-house from those that are best outsourced. The issue is not which processes are important or unimportant, since all functions contribute to overall performance.

In fact, the market tendency is to reconsider which processes make up the core set, and to outsource even some processes previously considered as integral to the internal structure, such as accounting, tax reporting, debt collection, customer support and so on. Using outsourcing effectively is therefore a great way to keep your business streamlined and functioning at the best of its competitive ability.

Original url:
https://www.themoscowtimes.com/2011/02/14/business-processes-for-outsourcing-core-vs-non-core-a4991