

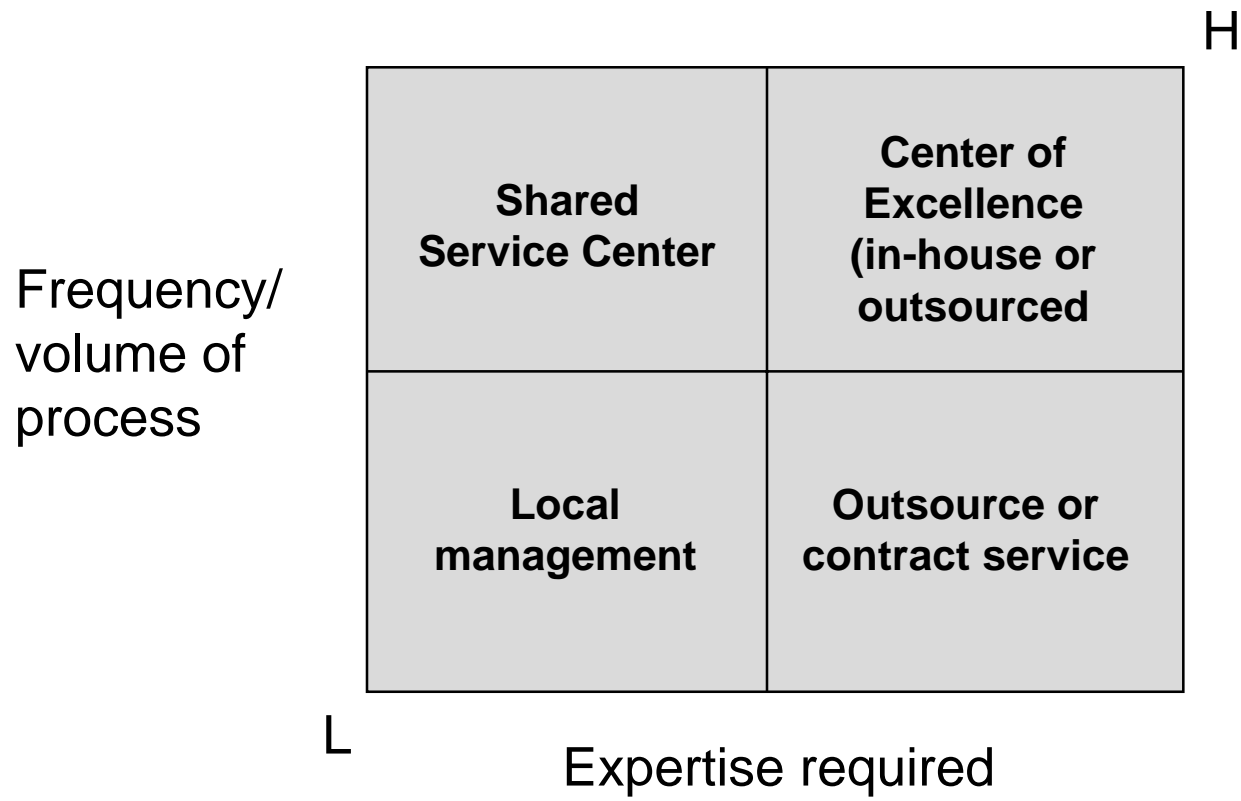


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Sourcing models

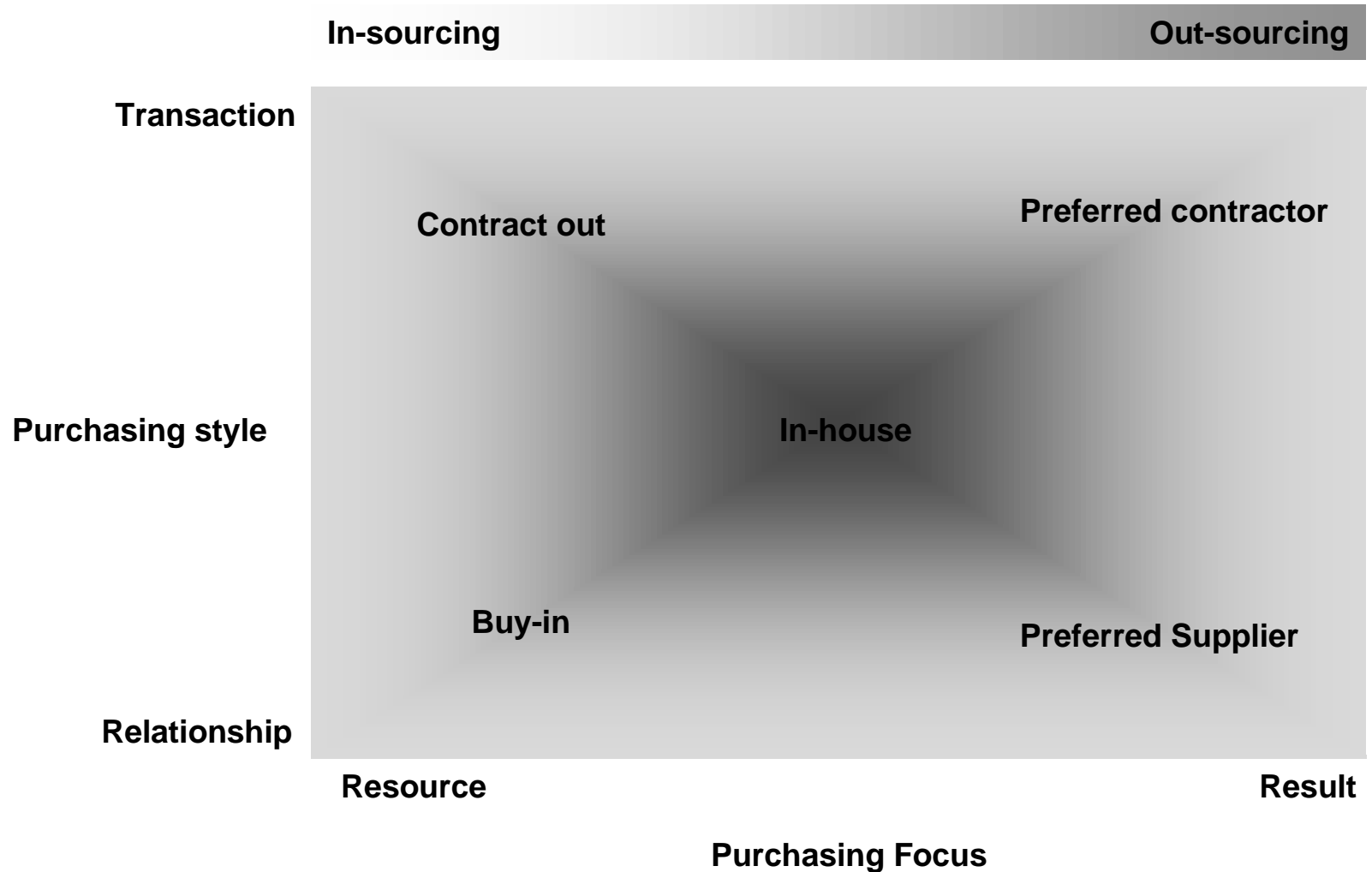


A framework for sourcing selection





Relationship and transaction based sourcing





Terminology

- In-sourcing
 - Internally managed
 - External resource buy-in
- Out-sourcing
 - Total
 - Selective - functional/process
 - Selective - multiple vendors
- Co-sourcing
 - Vendor relationship
 - Often shared ownership in provider company



Phenomena influencing sourcing decisions

- Focus on corporate core competences
 - Strategy shift: Away from diversification to core competences
 - Core competencies are activities in main value stream
- Perception of non-core activities as cost
 - Non-core cost minimization
 - Question: What is core?
- IT enables reduction of human expertise required (Call Centers, Shared Service Centers)



Two perspectives

- Macro-perspective - industry level
 - Industry changes
 - External development development (esp. IT)
- Micro-perspective - firm level
 - Cost reduction
 - Competence development



Types of activities

- Critical differentiators
 - Critical to operations and distinguish the business from competitors
- Critical Commodities
 - Critical to business operations but fail to distinguish the business to competitors
- Useful commodities
 - Provide incremental benefits to the business but fail to distinguish it from competitors
- Useful differentiators
 - Distinguish the business from its competitors in a way that is not critical to success.



Sourcing trends

- IT: Out-sourcing, co-sourcing
- HRM: Shared Service Center
- Support: Out-sourcing, contracting, Call Center



Considerations

- Where is the difference?
 - External sourcing vs Networks
 - ECR vs co-sourcing
- What constitutes a sourcing relationship?
 - Contractual relationship
 - Cooperation - what level



Sourcing decision making

- Business environment
- Cost
- Core activities
- Source capabilities
- Source relationships
- Technology
- Revision



Business environment

- Understanding of unit's business impact
- Consider impact of sourcing revision on strategy
 - Cost
 - Quality
 - Flexibility
 - Time
- Question capacity utilisation of in-house services if demand is variable.



Cost

- Recognize the cost/savings for sourcing options
- Include all costs
 - Alternative revenue from re-deploying staff
 - Releasing facilities
 - Social costs of termination
- Use activity-based cost measures
- Avoid developing cost penalties for activities that remain, through increasing cost allocations or loss of economies of scale.



Core activities

- Core capabilities must be protected and retained
- Retain capabilities with high integration with core activities
- External sourcing for non-core activities
- Consider releasing key information about business, e.g. Customers, key technologies



Source capabilities

- Identify sources for each activity
 - Internal
 - External
- Avoid to create a monopoly supplier
 - Competition between source options
 - Especially valid for outsourcing
- Consider switching costs in case of revision



Source relationship

- Consider source capabilities, culture and fit
- Define expectations on service levels and development
- Ensure understanding of the rationale among key actors in the organization
- Specify expected performance, measurement, compensation, etc.
- Aim for simplicity and option for revision



Technology

- Consider technical capabilities of sourcing options
- Consider cost effects of revision, i.e. required investments in technology
 - There are always trade-offs
- Outsource where internal unit does not have the capability to keep up with changes



Revision

- Be ready to review, revise and develop sourcing arrangements
- Make sure you maintain capability to revise current options
 - External: Switching cost and in-house / out-house
 - Internal: Centralisation / Decentralization