

What is Insourcing



Tom Cole – Claymore Solutions Inc.

Many people ask me what I mean when I use the term “Insourcing”. Quite simply insourcing is just the opposite of “Outsourcing”. Rather than buy services, the business requires, from a third party service provider you obtain the resources to provide the service internally. By this definition you are all insourcing today, the question then becomes what services are best to insource and what makes sense to outsource? The answer is different for every company. Many companies start out outsourcing and later insource some or all of the outsourced services, others outsource even more.

The recent recession has driven an increase in outsourcing and specifically off-shoring (sending work to lower cost centres). This is all driven by one criterion “Lower Cost”. History has proven though that blind cost cutting does not benefit the bottom line. All we need to do is look back at 1972 oil crisis and the impact on the US auto makers at that time. They did not recover until they studied Japanese production methods, streamlined their processes and invested in training and tooling to work smarter not harder.

Insourcing is similar in many respects, to be effective you need to study the outsourcer and implement the same cost management techniques. The challenge then is how can you manage cost while providing increased value to your business.

The outsourcer has several levers that are used to lower the cost of delivering services and drive their profit margin.

Skilled resources - The outsourcer already has resources for most skills required to take over your services. This allows them to resource at the partial FTE(Full Time Equivalent) level. If you have 10 FTE managing your Infrastructure but spend 50% of their time on projects or new technology evaluations the outsourcer can operate on 5 FTE or less.

Process Adherence - By implementing best practices such as ITIL and CMMi the resources only work on activities that are of priority, all time is logged and issues / results cataloged. All changes to the environment are recorded and linked to the assets the change impacts, software versions are managed in a source catalog. This process adherence increases productivity, reduces errors and makes resolving incidents faster.

Labour Arbitrage - In the case of off-shoring or near shoring the service provider can reduce cost by utilizing lower cost labour resources.

Leveraging of Assets - The outsourcer will try to drive maximum capacity out of their assets, software licences, data centres, office space, servers and storage are all either consolidated or virtualized.

Economy of Scale - Service Providers generally are tier one clients to all of their vendors, spending multi-millions per quarter. This allows them to get the best discount on hardware and software.

In reality, however, none of these areas can ever be fully exploited due to constraints from the client. If

the client forces the service provider to take their existing staff the provider needs to factor severance costs and a lower rate of *staff leveraging* into their price. If the client will not allow work to go off-shore then *labour arbitrage* is minimized. If control is too tightly held by the client or they want to retain ownership of assets then *leveraging* and *economy of scale* are no longer valid.

The good news is you have the ability to use all the same cost management levers with fewer constraints. You are in control in an insourced environment.

Skilled Resources – By standardizing the tools and systems used you can reduce the need for multiple specialists and drive up the utilization of your staff. If those small special skill requirements still exist, contract specialists can be used on a part time basis, most small and medium sized companies don't need full time project managers or enterprise architects.

Process Adherence – The service providers enforce these process for a reason, it lowers cost and improves service. You can enforce all the same processes. If you haven't already, get a ticketing system and implement Incident Management and Change Management. Once you have that in place implement another process.

Leveraging of Assets – Take a look at your inventory and gather performance data. You can leverage your own assets by driving up hardware utilization (application stacking and/or server virtualization). Standardize the number of platforms you support. Review all your licenses, do you need 3 databases, 2 applications server platforms, multiple - utilities, backup systems, development tools, ERP's. Reduce and reuse, leverage the licenses you have and put strict governance rules in place to manage non-standard exceptions.

Labour Arbitrage – You are probably wondering how can I do this one! There are two main ways, first reduce your hiring criteria, do you really need 5 years experience to fill a new hire role? Start an intern practice with your local educational institutions, hire new graduates and mentor them internally. Your overall average compensation will drop. Use rural virtual resources, if possible, much of our burdened salary costs in large cities is due to the office space and cost of living. There are many skilled resources who live (or want to live) in rural areas and would accept lower compensation in return for working from home in a location they want to live in. If a service provider can manage resources half way around the world you can manage someone in a rural location.

Claymore Solutions Inc. can guide you through the implementation these proven cost reducing methods. If you are contemplating bringing work back in-house or just need to reduce your budget we can help.

For more information on how Claymore Solutions Inc. can help you, contact us at info@claymoresolutions.com or visit us on the web at www.claymoresolutions.com.