Decision Framework, DF-15-3289 **Research Note**
8 March 2002
C. Young, F. Karamouzis

Bringing IT Services in House

There are several drivers that can cause an enterprise to bring services in house after they have been sourced to an external services provider. Ultimately, substantiated business benefit is what matters most.

Core Topics
Business Management of IT: Service Management Strategies

Sourcing: Sourcing and Procurement Strategies

Key Issues
What key business drivers and factors should be considered in developing optimal sourcing strategies?

What best practices will drive integrated service management to manage the service impact on the enterprise?

When Should an Enterprise Consider Bringing Services Back in House?

There are a variety of circumstances and business forces that may result in the decision to bring a service back in house. Here we discuss business scenarios that may lead an enterprise to shift all or part of service delivery from an external services provider (ESP) to in-house resources.

- *Strategic Repositioning:* The internal organization responsible for overall service delivery reconsiders the service's strategic role in the product or service portfolio. For example, the enterprise may determine that knowledge capital accumulated through direct, front-line interactions with customers as part of the customer care process of the customer relationship management (CRM) function provides a strategic advantage. As a result, the enterprise decides that customer-facing services should not reside with an ESP, but rather with in-house employees, as these services are too important to the overall customer relationship to be outsourced.

- *Changed Economics or Competitive Positioning:* The internal service provider develops or acquires new skills or capabilities that make it competitive with the external marketplace — this might result, for example, from a softening in the market for hot skills. Alternatively, the ESP's pricing structure changes, rendering it too expensive for the perceived value delivered.

- *Vendor Relationship Change:* The relationship with the vendor sours beyond repair and other external alternatives are unappealing. For example, service levels are consistently not met and the ESP is unable or unwilling to make corrections; the ESP determines the relationship is not profitable and walks away from the contract; the contracting enterprise determines the relationship is not viable because the ESP is too difficult to work with; or the ESP goes out of business.

- *Changed Consumer Expectations:* The consumers of the service seek changes in the cost/performance ratio or the establishment of new service and performance criteria — demands that the service provider is unable or unwilling to meet.
- *Changes in Sourcing Strategy:* The enterprise determines the sourcing environment is too complex to manage effectively. For example, if many ESPs are involved in supporting a critical business or IT support process, the enterprise may choose to reduce the number of strategic relationships and, by default, bring some services back in house.
- *Re-engineering Adjacent or Dependent Processes:* The enterprise radically changes or reduces service delivery requirements through continuous improvement or process-engineering activities. It determines that the ESP is no longer necessary, or that the scope of activities has been changed or reduced to the extent that internal sourcing is competitively viable.
- *Mergers and Acquisitions:* In any merger or acquisition deal, the enterprises involved may have certain services that are outsourced. Determining the synergies between the enterprises may involve bringing a once-outsourced service of one enterprise under the umbrella of the newly acquired or merged entity's internal service delivery capability.
- *Change in ESP Business/Product Strategy:* The ESP's product and service strategy calls for the managed obsolescence of the product or service. The service may be retired or deliberately rendered uncompetitive in the hope that the customer will purchase a more-profitable product. Likewise, ESP product line strategies may create vulnerabilities, causing the consuming enterprise to spread its risk. Regardless of the situation, significant changes in the ESP may lead the enterprise to decide to bring the services back in house.

How Should Services Be Brought Back in House?

In determining how to re-source, internal services providers must ask themselves, "What resources will I need to deliver this service to meet or beat what's available in the external marketplace?" These resources generally fall into four categories:

- *Processes:* Including cost-effective fulfillment mechanisms, project management, quality assurance and control, and disaster recovery/contingency processes.
- *People:* Skills and capabilities — to deliver the service and to manage the customer relationship — as well as the ability to react to potential disasters and execute disaster recovery options.
- *Tools* for process automation and monitoring, such as network monitoring, or change, problem or work management systems
- *Access:* How the service will be triggered or initiated and the extent to which it will involve self-service, self-support and self-diagnosis

Step 1: Document Business Case — Compile the key business objectives, the financial case for the sourcing decision, and supporting qualitative and quantitative analysis.

Step 2: Define Detailed Performance Measures — Document the business rules, service levels and metrics to clarify customer expectations regarding the nature of the relationship, the levels of service to be delivered, the price and how performance will be measured, monitored and reported.

Step 3: Design High-Level Processes — Processes will ultimately drive all other requirements, so the first step in planning to resource internally is to examine the high-level process flow for 1) delivering the service, 2) managing the service, and 3) disaster planning and execution. Common methodologies and process definitions such as the Information Technology Infrastructure Library can be very helpful here (see “An Introduction to IT Service Management,” COM-10-8287).

Step 4: Identify Resource Requirements — Based on the process flows, the capabilities and skills required become clear, along with the activities that will be performed and the tools required to support fulfillment.

Step 5: Gap Analysis — Compare required resources with available resources and develop a gap assessment.

Step 6: Address Gaps — Acquire (train, hire or rent) the necessary people resources to deliver the service. Deploy the necessary tools.

Risks

Often, an enterprise decides to bring services back in house after years of outsourcing, resulting in significant organizational changes such as new roles, responsibilities, skill sets, competencies, personnel, tools and methodologies. As with any large-scale transition, the enterprise must manage the risks involved. Common risk areas encountered by enterprises that bring services in house include:

- Overdesigning for expected service levels
- Inability to scale, or insufficient time for skills development or transfer
- Miscalculation regarding required vs. available resources
- Poorly designed processes
- Poorly implemented or nonexistent tools
- Tools deployed as a substitute for process engineering
- Failure to take advantage of a vendor relationship to achieve cross-training
- Failure to consider other dependencies (especially for infrastructure-related services) on governance and architecture
- Failure to establish accurate customer expectations or to prove performance in terms credible to service consumers
- Failure to address the legal ramifications of changing providers — both in terms of lagging contractual clauses and asset (hardware, software, data and intellectual property) ownership and rights questions

This procedure and risk profile can be used as a self-assessment checklist to ensure that 1) the enterprise does a complete analysis in building the case for bringing a service in house and 2) no critical success factors are overlooked in the execution planning.

Bottom Line: An enterprise should carefully consider its options and risks with regard to bringing services back in house. It is imperative that the IS organization clearly articulate the role that service plays within the overall portfolio as well as provide a comparative analysis to ensure that internal services delivery and management will support the decision.