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IT insourcing can bring jobs, cost savings back in-house, experts say

By Rachel Lebeaux, Associate Editor
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IT insourcing, or bringing previously outsourced IT functions back in-house, is on the rise, experts say, as the global economic recession, IT outsourcing scandals and the potential cost savings of decreasing the number of outsourced contracts have caused companies to give [insourcing](#) another look.

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"The pros of insourcing are the speed and control of business change," said Ben Trowbridge, CEO of Alsbridge Inc., a Dallas-based IT outsourcing and business process optimization consulting firm. Trowbridge said his company's IT insourcing evaluations have increased about 15% this year. "There's a sense of intimacy with the business users that's hard to achieve with outsourcing. And it can mean saving jobs."

Dave Rice, previously global CIO at Insight Enterprises Inc., said he once pulled IT help desk and customer service functions back in-house when outsourcing companies were not properly meeting his organization's needs.

"We had some unpleasant experiences -- our customers were unhappy," said Rice, currently CEO at True Cloud LLC, a cloud computing services firm. "I wasn't satisfied that we were getting the same proximate IT services. You have to be very, very careful with anything that affects the broader perception of IT, and make sure you don't diminish that service -- people will immediately notice."

Only 9% of CIOs said they planned to increase IT outsourcing this year, according to the latest update to Gartner Inc.'s [2009 CIO Agenda survey](#), and many are considering insourcing previously outsourced functions.

In most cases, the newly insourced work previously involved contract programmers and consultants, according to Mark McDonald, group vice president and head of research at the Stamford, Conn.-based consultancy and author of the CIO Agenda study. "For the average company, the cutback is temporary as investments are delayed or postponed," McDonald said.

Rice said a slowdown in outsourcing activities this year could stem from companies reaching a "saturation point." He also posited that it is very difficult to get sustainable cost savings out of outsourcing.

"It's intriguing, because of the initial cost benefit -- you look like a hero in the short term," Rice said. However, when it comes time for clients to renew their contracts, their companies have often grown or added requirements that might drive up the price of the IT outsourcing contract.

Rice said he takes a good, hard look at which functions to outsource and which to keep in-house in the first place. In his experience, when moving toward outsourcing a hosted infrastructure, "that's a step you don't come back from," he said. To bring it back in-house would basically entail hiring and training an entire in-house workforce.

Trowbridge said insourcing is strongest around applications and development, although it varies from company to company. In addition, virtualization has given infrastructure outsourcing less of an edge.

"Virtualization could take the upside out of outsourcing and make it more effective to do it yourself," Trowbridge said.

Doing so, of course, demands a lot of work, and Trowbridge warned that it's a difficult task involving application and server work. Plus, given the number of layoffs over the past year, many companies are currently short on skill sets if not the number of employees that would be needed to insource previously outsourced IT functions.

Why IT insourcing appears to be on the upswing

Insourcing has been attractive in the past for businesses in the throes of change, but market conditions are ripe these days as well. The economic recession and the scandal at IT outsourcing firm [Satyam Computer Services Ltd.](#) have led some companies to renegotiate

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There's a sense of intimacy with the business users that's hard to achieve with outsourcing. And it can mean saving jobs.

Ben Trowbridge
CEO, Alsbright Inc.

These same factors are also causing companies to look in-house to see if internal staff could do the work for even less money or greater benefits than a renegotiated outsourcing contract could provide. A company's decisions should largely depend on whether the right labor is located in its geographic marketplace. "If the labor's not there, you could get into a pretty high-cost game," Trowbridge said. "The question is, is it more efficient?"

Rice said that good candidates for insourcing are smaller, auxiliary services that affect the external perception of the business. Whenever renewing an outsourcing contract, "it's certainly worth a conversation" whether to bring the work in-house, Rice said.

Trowbridge advises companies to benchmark prices in the market before making any decisions.

"Look at what you would spend to do it yourself, and make a good, measured decision on this," Trowbridge said.

Listen to our podcast with Trowbridge on the [pros and cons of insourcing](#).

Let us know what you think about the story; email: [Rachel.Lebeaux, Associate Editor](mailto:Rachel.Lebeaux@csis.com)

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