The Service Provider Has Left the Building … Bringing Services Back In-House

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by Tracey Tarrant, Chris Coulter

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There is a tendency to view "bringing services back in-house" as a sign of failure. That's not always the case. It is inevitable that contract terms expire or companies' priorities change. So repatriation of services should be seen as a fact of life, not as an admission of failure. Regardless of the cause, how should a business go about the process of, firstly, considering whether to bring project services back in-house and, secondly, preparing for the repatriation process to ensure that services can be brought back in-house without unnecessary loss of service continuity?

Making the Decision

Any decision to in-source must include an objective analysis of current business requirements, the services today being provided and, if there is a gap between the requirement and what is actually being delivered, how best to bridge that gap. As with any external outsourcing, an arms-length business case needs to be constructed. Some of the factors to consider in making that analysis are identified below.

Business Objectives

The initial decision to outsource will have been driven by high-level business objectives. These should be reviewed to see whether they have been (and continue to be) met. Even if they are being met, it may be that the business has evolved and those objectives need to be re-visited. An illustration of this is where services are outsourced to a joint venture vehicle intended to attract new customers on to a common platform but for which the market has failed to develop.

Actual Contract Performance

Customers often re-visit outsourcing arrangements for reasons beyond supplier performance. However, dissatisfaction with performance and perceived service delivery failure are also frequent causes of re-negotiation or termination. Furthermore, a supplier's contractual non-compliance may lend significant commercial leverage to a customer considering in-sourcing. It's essential therefore to ensure that there exists a reliable analysis of continuous service performance measured against the backdrop of what the supplier had contractually agreed to provide.

Contract Solutions?

If business objectives have changed or are not being met by the incumbent relationship, there may nevertheless be solutions lying dormant within the existing contract. So, it is prudent to check that new business objectives cannot be satisfied in a cost-effective manner by the pro-active exercise of unused contract measures such as benchmarking, service improvement obligations (*e.g.*, to introduce new technologies) or the use of service change control mechanisms. It's amazing how often companies simply ignore contractual "hooks" already negotiated that are lying right underneath their noses. The practical reality is that re-negotiation, short of repatriation, may deliver required solutions.

Repatriation Cost Surprises

With any change in services supplier, it is inevitable that there will be transition costs. Ideally, most exit costs will have been foreseen and so will be largely pre-negotiated in the existing services contract. Frequently, there will be specific compensation payable upon early termination. Either way, it's essential to identify any costs which bringing a service back in-house may attract. This is partly a question of assessing the existing supplier's contract rights and also a due diligence exercise for the customer to conduct on itself. Key diligence areas include HR and systems, since in these areas in particular it is likely that an in-sourcing customer, as distinct from an alternative supplier, will have resource/capacity gaps which need to be filled.

For HR, it will be important to establish the extent to which staff involved in the provision of the services will be available to transfer to the in-sourced business. Where staff presently provide services to more than one customer, there may be a need to recruit and train replacement staff as well as ensuring that suitably qualified personnel remain in place to manage the receipt of services.

In the context of systems, and unlike an alternative third party supplier, the insourcer is likely to need to use for a reasonably lengthy transition period the existing supplier's systems and processes. Frequently exit provisions assume transition away from the existing supplier's systems or defer negotiation of licence costs until exit. For the customer considering repatriation of services it is essential to have a clear picture of the future systems requirement and to identify the extent to which the requirement may lead to costs negotiations with the existing supplier.

Re-defining the Service Model
As is the case with outsourcing, in-sourcing a poorly performing service will not fix a problem. So, if problems are seen to exist then the resolutions to those issues need to be identified prior to the in-source. This may involve the transformation of services, systems or processes, all of which may incur a delivery cost.

An alternative structural issue to consider is selective in-sourcing where only a part of the outsourced service is in-sourced, and the remainder left with the incumbent or put out to tender. An advantage of this model is that it enables businesses to repatriate strategically important services. However where services are separated out, the remaining services need to be economically attractive to the supplier (in order to keep competitive pricing) and the cost of building and maintaining necessary interfaces identified.

Preparation – Minimising Loss of Continuity

Service Cover Log
Transition from an incumbent supplier can take a significant amount of time. Irrespective of whether an in-source is currently contemplated, businesses should maintain an active log of contract expiry points and, if available, break-point dates. This should enable the customer to start decision-making and transition activities in good time and to have enough time with service cover before having to lift out services. Having to negotiate an extension of services under time pressure can be costly and may affect service quality.

Planning
Planning is the key to any successful in-sourcing. Transition back will be at least as complex as the initial outsourcing and will require significant input from the business as people, assets and knowledge return to direct control. It will be necessary to re-establish internal processes and governance structures, it may be necessary to recruit to populate these structures and it may even be necessary to find places for people to sit. Each business function will need to be involved in integrating the returning business.

Early establishment of in-source project management and transition teams will be key to successful transition back, as will the support and buy-in of key stakeholders such as finance, IT and HR.

Work the Contract
It is essential for a company engaged in services repatriation to make the most of its existing contract. It is frequently the case that exit plans are out-of-date or, worse, have never been prepared. Likewise, procedures manuals may need to be created. Access to knowledge is also critical; training and knowledge transfer, access to systems and information provision will probably all be contractual rights but may not have been historically enforced.

In a more general review, a customer should identify areas of weakness and consider the extent to which the incumbent can be helpful in bolstering those areas.

Staff
Never underestimate the people factor. Outsourced staff may need to be sold on the concept of return in the same way they were sold on the concept of outsourcing (particularly if there are perceived differences in career structure and opportunities). Focus on how the process will be performed and how it will affect them and consider the use of meaningful incentives. A poorly managed process can lead to morale problems with consequent impact on performance at a critical time.

Encourage Exiting Suppliers to be Professional
There is a danger (notwithstanding the contractual position) that service provision could degrade during transition. This is of particular concern for business critical systems. Consider ways in which you can incentivise the supplier *e.g.* customer references, other work and even financial incentives (depending on the importance of the services to be transitioned).

Conclusion

In-sourcings can and do happen. There have been a number of high profile instances recently with Sainsburys, JP Morgan and Cable &Wireless all choosing this route. Indeed, the customer may well be best placed to provide certain services itself. However, transition back is a demanding, and exposed, phase for the in-sourcing customer and should only be undertaken after measured review and planning.

Ultimately, a successful in-sourcing can only happen through preparation, preparation and more preparation.