The Insource vs Outsource Conundrum

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Today's borderless world offers organizations a wide variety of fulfilment (insource v/s outsource) and location (onshore, nearshore or offshore) choices to enable their business and technology workloads.

Making the right choice is an ever evolving conundrum with increasing complexity as organisations scale with agility, advance rapidly into newer markets and consolidate their overall market/ financial positions.

An unprecedented shift in spending is also driving critical client choices from pure to hybrid models of fulfilment. There is a tectonic shift from the traditional largely outsource (accounting for ~80% in 2010) to a hybrid model of insource, co-source (shared responsibility model between the client & service provider to jointly deliver business outcomes) and outsource (accounting for ~71%, 2020) for fulfilment of their technology and business workloads across all types of locations.

This shift in spend by global clients is driven by the need to leverage vendors/partners for:

- **Consolidation** of nearshore/ offshore spend with few key strategic vendors/partners

- **Building focussed capabilities** inhouse for new technologies, ways of working and talent through new engagement models

- **Scale** by increasing nearshore/ offshore headcount focusing on a combination of legacy, modern and futuristic systems, and processes

- **Modernization** by churning out commodity/ volume workloads on an ongoing basis to strategic vendors and redeploy cash flow to develop skills/ capabilities inhouse focused on new age workloads

Since each organization is unique when it comes to their options for fulfilment and location mix, we have developed a decision framework in the above context that builds on a common set of principles and leverages our experience working with client workloads and fulfilment roadmaps.

Our framework focusses on orchestrating balance across fulfilment (insource/ outsource) and location (onshore/ nearshore/ offshore) to maximize financial and business impact for clients. This is achieved through 3 key building blocks:

1. **Value drivers continuum**

- An understanding of value drivers (cost, control, innovation, risk, profitability, etc.), as well as an appreciation of current state and aspirational state on a continuum of these value drivers, is essential to help define the design dimensions and use these dimensions to classify the workloads into insource and outsource.

2. **Workload categorization matrix** [importance (budget/ spend) vs risk (business impact)]
   - Categorizes insource workloads into four broad categories for enablement
     - Non critical (low importance, low risk) workloads requiring a 'selective build' approach e.g. Tactical workloads requiring control

     - Constrained (high importance, low risk) workloads driving need for 'Inhouse Build' e.g. Standardized workloads but with regulatory constraints

     - Bottleneck (low importance, high risk) workloads necessitating the search for COTS$^{\#}$ alternatives e.g. for inhouse application workloads

     - Strategic build (high importance, high risk) workloads enabled through Strategic Partnerships with vendors e.g. workloads constrained by IPR ownership

   - Categorizes outsource workloads into four broad categories for enablement
     - Non critical (low importance, low risk) workloads requiring a 'simplified, standardized, consolidated buying' approach e.g. standardized non regulatory workloads

     - Leverage (high importance, low risk) workloads driving need for 'Commodity Buying' e.g. workloads with medium-low end roles with focus on efficiency/ cost

     - Bottleneck (low importance, high risk) workloads necessitating the search for 'Buy' alternatives e.g. workloads with underlying legacy roles

     - Strategic buy (high importance, high risk) workloads enabled through Strategic Partners e.g. workloads focussed on outcomes, new age technologies and high end skills

3. **Location view matrix** [Location (across onshore/ nearshore/ offshore) vs Fulfilment (Insource/ outsource)]
   - Provides location guidance for each of the four workload categories under insource and outsource
     - Insource workloads
       - Offshore for Non critical 'selective build' workloads

       - Onshore for Constrained 'Inhouse Build' workloads

       - Onshore + Nearshore for Bottleneck 'Build' workloads

       - Hybrid of onshore, nearshore and offshore for Strategic build workloads

     - Outsource workloads
       - Offshore for Non critical 'Buy' workloads

       - Nearshore and offshore for Leverage workloads

- Onshore and Nearshore for Bottleneck workloads

- Hybrid of onshore, nearshore and offshore for Strategic buy workloads

The decision framework helps unravel the conundrum for clients globally enabling them to make the impactful fulfilment and location decisions including possible engagement models with strategic partners.

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