AGILE INSOURCING:
A NEO POINT OF VIEW

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A brief introduction to Insourcing

A significant number of US based enterprises are bringing a portion of their outsourced work back into their internal technology function. At the same time, we are seeing significant growth in the nature and volume of work handled by 'captives' – a term spanning Global Inhouse Centers (GICs), Shared Services Organizations (SSOs) and Global Business Services (GBS) hubs. In our experience, the largest portion of this 'insourcing' or reversal of past decisions to outsource is occurring by moving work to offsite captives with the remainder back to onsite locations. A considerable proportion of this insourcing has been centered around Applications Development.

What are the key drivers behind the recent insourcing trend?

To better understand such decisions and to gain more insight into the key drivers and rationale, we conducted additional research and interviewed key executives from 20+ leading enterprises who have recently made the decision to insource some or most of their applications development work. Our findings from this research led us to an interesting conclusion: megatrends such as Digital and Intelligent Automation are compelling CIOs, CTOs and Application leaders to rethink ownership and control of their (previously outsourced) application lifecycle especially in the cases of business critical and product applications.

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Many of these executives who have decided to reverse previous outsourcing decisions have embraced new Agile methodologies of working within their in-house Application shops, including DevOps and SecDevOps.

We have dubbed this dual trend **'Agile Insourcing'** – an interplay of two interrelated initiatives: transformation from Waterfall to Agile and transition from outsourcing to insourcing.

Do new technologies demand new methodologies and a new mindset?

We think so, and here's why. Cloud Migration, Digital Transformation, Artificial Intelligence, Machine Learning, Robotic Process Automation, Big Data, Analytics, Internet of Things, and Blockchain are some of the trends sweeping the technology world these days. Early adopters have been attempting to harness the potential of these new technologies with the goal of delivering new products, richer customer experiences, while also reducing costs.

Many initial attempts to integrate these new technologies, while adhering to traditional application development methodologies (such as Waterfall) have failed. As a result, many IT executives have moved their teams to Agile –

not just as a methodology, but as a whole new way of working that is focused on quick incremental developments through rapidly iterating cycles (as opposed to a compartmentalized and linear assembly line that moves in only one direction).

The Agile philosophy supports a collaborative environment where cross-functional teams can produce, learn and improve. The ultimate aim is to meet user expectations with quick and continuous delivery of applications. In order to accomplish that, Agile focuses on releasing a 'minimum viable product' out to market as soon as possible and allows for changes to happen later in the cycle through each iteration.

The move toward 'Agile Insourcing' is typically driven by a combination of various factors, including:

- Market competition and customer requirements driving rapid new product introductions
- Need for speed-to-market and flexibility arising from tighter integration of technology and business
- Desire to protect knowledge and IP particularly in core areas that offer competitive advantage
- Harvested savings falling short of potential savings promised by the business case for outsourcing

- Need to mitigate outsourcing risks largely due to increasingly sophisticated cyber-security threats
- Concerns over quality of suppliers' resources and/ or deliverables
- Inability to drive outsourced workforce to be more proactive and innovative
- Challenges in governing multiple and often high attrition supplier teams
- Political backlash against outsourcing and protectionist mindset of current administration
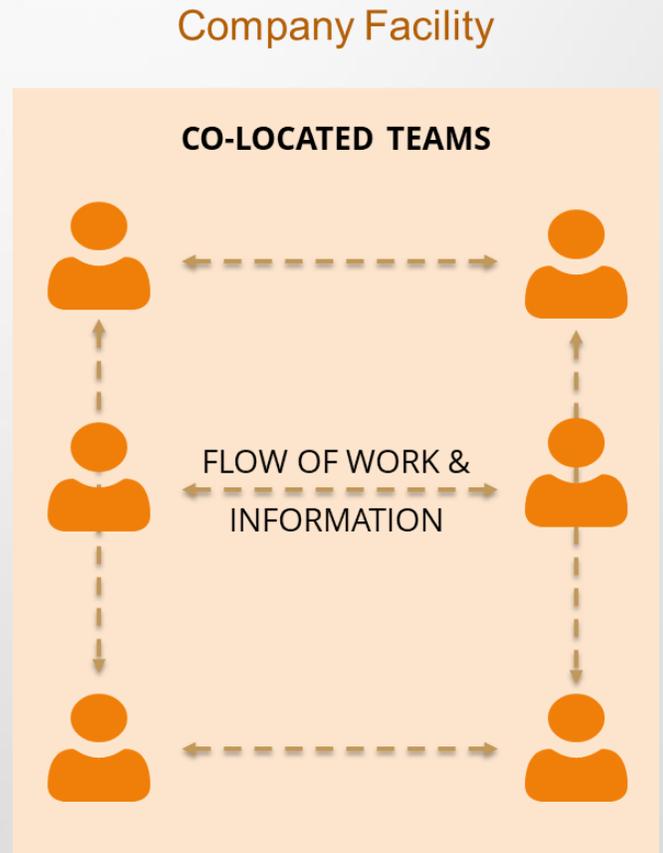
With Agile transformations, the emphasis is on quick delivery of small incremental prototypes that are allowed to 'fail fast' enabling teams to improve in the next iteration. This requires significant customer context and more of an evolutionary product lifecycle management approach than the design-once-build-once-and-maintain-forever type of thinking fostered by the Waterfall model.

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OUTSOURCING IN WATERFALL MODEL

Company Facility

Onshore Team

FLOW OF WORK & INFORMATION

Vendor Facility

Offshore Team
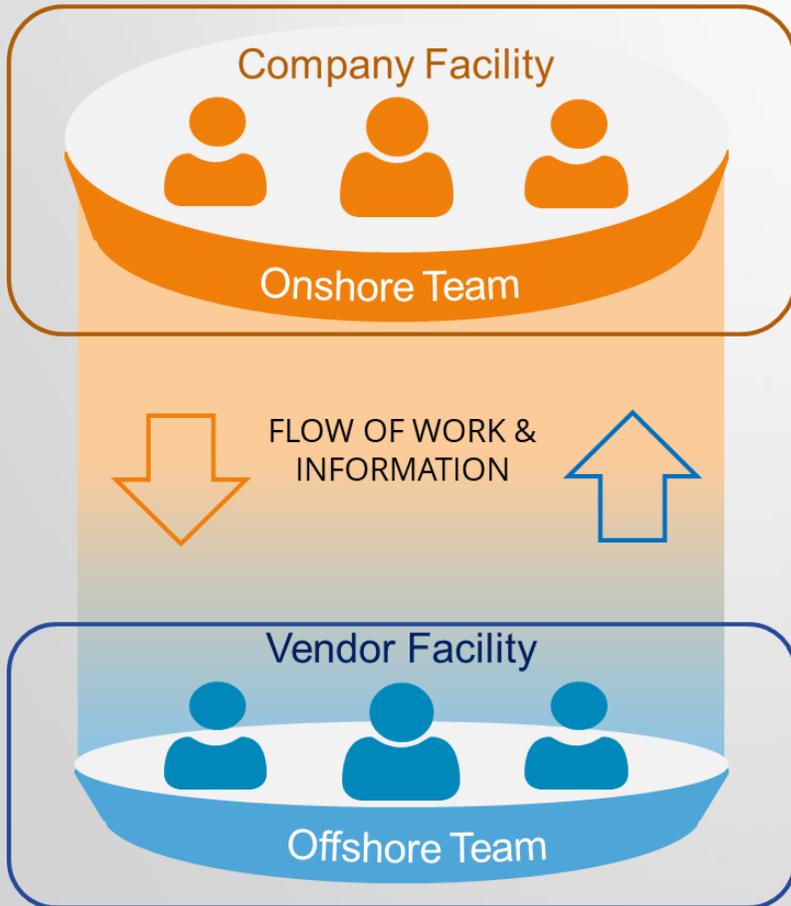
INSOURCING IN AGILE MODEL

Company Facility

CO-LOCATED TEAMS

FLOW OF WORK & INFORMATION

Vendor   **Employees**

What are the facilitators and inhibitors to Agile Transformation?

For Agile to work efficiently, the customer/ business user needs to interact closely and frequently with the Applications team. Ideally this is best achieved through co-located face-to-face meetings and interactions. By its nature, it is difficult to do Agile when teams are spread across multiple locations. While there are companies who are currently practicing distributed Agile, it is not an easy task when geographical and time-zone separation inhibits the Agile way of working. Coordination and communication between internal teams and remotely located teams is not always synchronized, smooth and seamless as is particularly critical in an Agile DevOps environment.

Another inhibiting factor is having a resource mix drawn from different enterprises with their own unique organizational cultures and priorities, and there may be an additional hurdle from cultural differences between countries. In a team comprising employees and resources from multiple vendors, it is difficult to align goals and priorities of all team members and maintain that alignment and cultural uniformity through the duration of the project.

When these two fault-lines – geographical and time-zone separation on the one hand and differences in organizational allegiances and work cultures on the other – are superimposed, the difficulty to implement Agile increases exponentially. As a consequence, teams gravitate to their comfort zones and default to traditional practices that results in a work pipeline between teams in a non-Agile, linear fashion.

While it is true that Agile can succeed in an outsourced, multi-vendor, multi-location environment, it is far from ideal. Making Agile function in these conditions requires considerable overhead in the form of executive oversight and governance. Quite often this proves to be unsustainable in the long run even after some initial demonstrations of success.

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It follows that Agile is best executed and managed in co-located facility by teams comprising resources employed by the same organization working towards a common goal with a shared cultural environment. Insourcing for those business priorities may be the answer that allows you to realize all the benefits of Agile transformations.
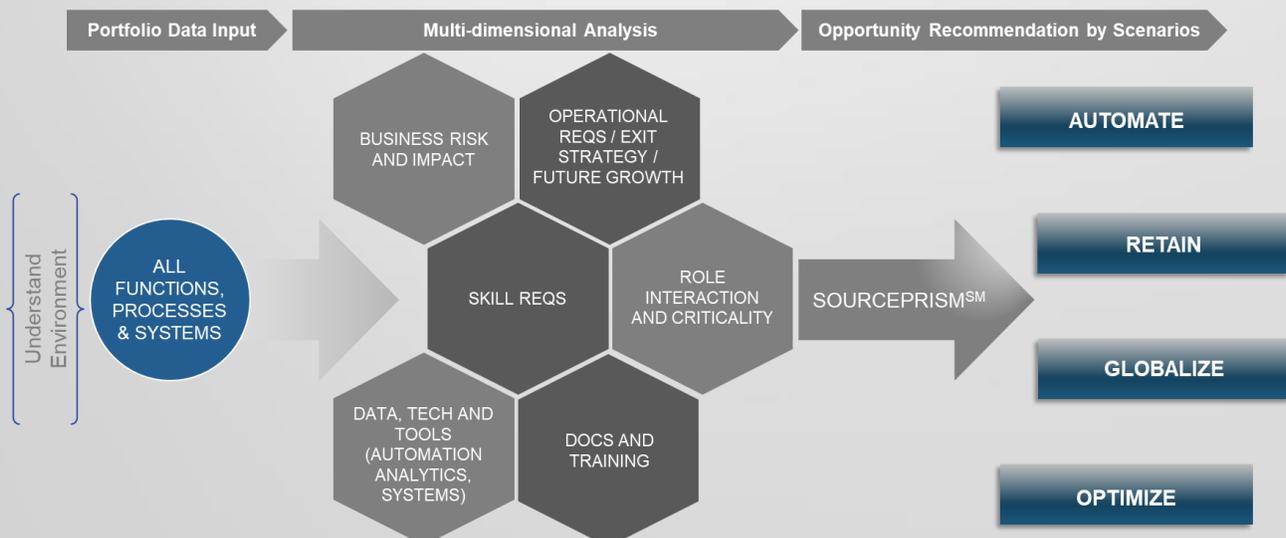
How do you decide what to insource?

Having made the in-principle decision to insource Applications work, the question that needs to be answered is – what to bring back? While these choices are largely dependent on your business and technology imperatives and the key drivers behind the insourcing initiative, there are some common considerations that facilitate this answer. For many years, our Advisors have used our proprietary **Neo SourcePrism^{SM} framework** to provide guidance and recommendations on what to outsource and what to retain in-house.

Our constantly evolving framework now helps clients decide what to insource, what to automate, and what to retain as outsourced.

The SourcePrism^{SM} framework uses a unique approach to assess any given portfolio of Applications (or 'Products') using our proprietary Core/Context methodology. It is highly customizable and adapts easily to specific client contexts, to identify what is Core and must be retained (or brought back), based on parameters such as business criticality, affinity (need for interaction with business users), mobility (dependence on location of resources), product maturity, IP and security considerations and other similar factors. Based on this quantitative assessment, overlaid by the expertise of our Neo Advisors, we are able to discover and prioritize opportunities for retention/ insourcing.

NEO IT SERVICE DELIVERY ASSESSMENT PROCESS
ANALYZING WHAT TO RETAIN & SOURCE DOMESTIC/REGIONAL/GLOBAL

NEO IP: SOURCEPRISM^{SM} IDENTIFIES LOCATION/OWNERSHIP/AUTOMATION/OPTIMIZATION OPPORTUNITIES

Portfolio Data Input — Multi-dimensional Analysis — Opportunity Recommendation by Scenarios

Understand Environment

ALL FUNCTIONS, PROCESSES & SYSTEMS

BUSINESS RISK AND IMPACT

OPERATIONAL REQS / EXIT STRATEGY / FUTURE GROWTH

SKILL REQS

ROLE INTERACTION AND CRITICALITY

DATA, TECH AND TOOLS (AUTOMATION ANALYTICS, SYSTEMS)

DOCS AND TRAINING

SOURCEPRISM^{SM}

AUTOMATE

RETAIN

GLOBALIZE

OPTIMIZE

Key takeaways

As business and technology leaders look to accelerate their business and be more agile, one solution worth exploring is Insourcing portions of their technology expertise. The accelerating change in both technologies available and customer wants can benefit from Agile transformation with an internal team that has business context, industry knowledge, and the right skill sets.

If you explore insourcing, we highly suggest leveraging a proven methodology such as Neo's SourcePrism[SM] so that you make the right decision on what should remain with your partners and what you should bring back to your own team. In addition to evaluating potential outsourced Applications scope for insourcing, Neo SourcePrism[SM] also supports the development of a business case to justify such a transition

About the authors

Hemant Puthli
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Hemant brings over 30 years' experience in IT and Management Consulting Services. Over the last 12+ years, he has led Neo Group engagements with several clients across diverse industries, involving strategic transformation projects such as sourcing portfolio assessment, partner selection, contract negotiation, sourcing/ governance organization design, governance tool implementation and support services oversight, health-checks and readiness assessments.

Atul Vashistha
Chairman, Neo Group & Supply Wisdom

Atul is the Chairman and CEO of Neo Group, a firm he founded in 1999. Neo is recognized globally as a leading supply and outsourcing analytics, monitoring and advisory firm. Atul is recognized globally as a leading expert on globalization, outsourcing and governance. Consulting Magazine named Atul one of the 'Top 25 Most Influential Consultants' and 'Top 6 IT Powerbrokers'.

Since 1999, Neo Group has advised and supported Global 2000 enterprises, empowering them to build new capabilities and generate rapid savings by leveraging global talent, analytics and automation.