

When Does Insourcing Make Sense?

Many outsourcing relationships are born in the heat of significant enterprise transformations, often driven by the need to reduce costs dramatically and rapidly due to an organizational imperative. The urgency and target-driven objectives at the inception of these outsourcing relationships can often lead to overly aggressive decisions on the part of the company and are often coupled with an outsourcing provider's incentive to accept (or even expand) the proposed contractual scope and scale in the spirit of winning and scaling the relationship.

Unfortunately, we have increasingly been engaged by clients with a heightened level of buyer's remorse as a result of an outsourcing program. Some of the symptoms our clients frequently experience include:

- Outsourcing costs and/or headcount have been increasing while the contract scope has remained relatively unchanged.
- Internal and external consumers are being negatively impacted (e.g., too many errors) and/or customer satisfaction has decreased.
- Considerable finger-pointing exists between the business, shared services and/or the outsourcing provider around timeliness, quality and accountability.
- Outsourcing provider talent and attrition management has become a visible problem and/or a recurring discussion topic.
- Lots of rework and outsourcing provider's errors are being fixed by the client.



Some organizations in this situation contemplate simply ending the outsourcing relationship. But if your organization is experiencing any of the symptoms highlighted above, it is likely worth the effort to determine the root cause of the issues. In our experience, a deeper dive often reveals that the relationship can be saved, but some significant changes may be required. Potential causes of these dysfunctional relationships include:

- Certain outsourced activities require greater understanding of the client's business than the outsider has been able to acquire.
- The outsourcing provider may be a poor match to deliver a specific subset of the services.
- The current interaction model between the business and the outsourcing provider is too complex (e.g., too many handoffs), leading to long cycle times.
- In the worst situations, the outsourcing provider is not qualified to deliver many of the services.

Solutions can range from selective insourcing to improving the governance structure to unwinding the entire relationship. Obviously, the latter can be extremely expensive, disruptive and time-consuming. Our recommended approach: bring a scalpel rather than a hatchet when considering next steps.



When to Consider Insourcing

While outsourcing can be beneficial in certain contexts, there are scenarios where insourcing may be the better strategic choice. Organizations should consider insourcing when:

- 1. The Function Is a Core Competitive Advantage:** If the outsourced function directly impacts your company's ability to compete effectively in the market, keeping it in-house allows for greater control, agility and innovation.
- 2. Customer Experience Is Being Compromised:** If outsourcing has led to declining service quality, longer resolution times or customer dissatisfaction, insourcing can help restore service excellence and brand reputation.
- 3. Data Sensitivity and Security Risks Exist:** For functions involving highly sensitive data, regulatory compliance or intellectual property protection, insourcing mitigates risks associated with external vendors.
- 4. Lack of Cost Efficiency Over Time:** When outsourcing costs rise unexpectedly due to hidden fees, change orders or increasing service demands, insourcing may present a more sustainable long-term cost model.
- 5. High Levels of Customization Are Required:** If your business requires highly specialized or industry-specific expertise that an outsourcing provider struggles to deliver, insourcing can ensure the necessary depth of knowledge and control.
- 6. Dependence on External Providers Is Creating Vulnerabilities:** Relying too heavily on a third party for a mission-critical function can introduce operational risks. If an outsourcing provider underperforms or exits the business, insourcing ensures continuity and resilience.



Finding the Right Balance

Organizations should evaluate their strategic goals, operational efficiencies and financial models before making insourcing decisions. A hybrid approach (e.g., right-sourcing) may be the best path, selectively insourcing critical functions while maintaining external partnerships where they add value. By regularly assessing the effectiveness of outsourcing relationships and being prepared to insource when necessary, companies can optimize performance while maintaining agility in a rapidly evolving business landscape.



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