

Company offers a new kind of outsourcing

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Outsourcing call centers and software programming has become standard practice for businesses worldwide. Less common is companies outsourcing their R&D.

One Israeli company, however, is giving hi-tech firms the opportunity to contract out their research and development.

The services this company offers are almost like double outsourcing. A business that needs outsourced research and development approaches Sytron, an Israeli company founded in 2000, and Sytron in turn employs and manages teams of engineers in Romania.

"Romania is a very interesting place," Sytron Chief Executive Officer Yiftach Lorch told United Press International in a telephone interview. "They have talent that we manage using Israeli research and development experience."

"(The country) is strategically located ... (and fast-growing), though the economy's absolute figures are still low."

And, most importantly for cost-conscious businesses, a Romanian engineer costs "one-third of a typical (American) engineer," he said.

Also along the lines of cost, Lorch said that only about 20 percent of the R&D process is core development that involves intellectual property. The remaining 80 percent is "more trivial work, with no real intellectual property involved." This portion is a good place to cut costs by

outsourcing the work, Lorch concluded.

Besides cost, outsourcing R&D provides a company with extra staff when needed and allows the company to bypass the development learning curve, Lorch said.

After all, he joked, "TTM ('time to market') also means 'time to money.'"

So why go through a developed country, Israel, if you want to outsource in a cheaper place like Romania? For one, Lorch said, "Israelis' understanding of technology is deeper than in developing countries."

He added that managing an R&D project is not so easy -- "many people know how to start a project, but few know how to bring it to completion."

Israeli experience in R&D also comes in handy for quality assurance, finding the right people to staff the team, and in bringing hi-tech expertise to the Romanian team, Lorch continued.

Bernard Golden, the CEO of open source strategy consulting firm Navica, echoed the need for solid management of outsourced workers, based on his experience working with companies that have outsourcing arrangements.

"Most companies believe they will save money by using ... outside resources, but fail to recognize that they will need to invest some of that savings in processes and project management people to ensure the outsource entity performs according to expectations and schedule," Golden wrote to UPI in an e-mail message.

"In my experience, this is the single greatest factor in outsourced

relationship failure. It's tempting to believe that the outsource company will 'do the right thing,' but, absent a rigorous process, outsourcing can be a nightmare," Golden said.

When many people think of cheap hi-tech outsourcing, however, they think of India. Lorch said Sytron chose Romania over India for several reasons.

First of all, Romania is geographically closer to Israel and there is a large number of Romanian-speaking Israelis who can help not only with issues of language, but also issues of culture, he said.

Secondly, "India is a totally different world," Lorch said, citing the experience of a friend who worked in Romania for a year on a telecommunications software project and is now working in India. "They have their own culture and their own pace in life, and the ability to get results is far lower than in Romania."

"Not that I'm against Indians -- on the contrary," he continued. "But for delivering projects to customers under intellectual and time pressure, I daresay Romania is ... better."

Outsourcing is not without its pitfalls, however. For one thing, the business doing the outsourcing and the company doing the work have different goals, Golden said.

"They may not focus on your project as much as you want. They may routinely rotate personnel due to resignations, or wanting to build staff skills, even if those employee rotations hinder your project's progress. Above all, they are an outside entity and you need to treat them as such and put measures in place to protect your intellectual property," Golden explained.

Management consultant Nan Andrews Amish even warned against the outsourcing of R&D.

"R&D jobs should be kept close to the parent company shores. When these jobs are outsourced, the company is training its next generation of competitors," Amish wrote in an e-mail to UPI.

While outsourcing overseas has picked up speed in the last few years, the practice has been around within the U.S. economy for much longer -- before going to India, businesses moved their call centers to the rural Midwest, according to "The Outsourcing Bogeyman," a report on the practice by Daniel W. Drezner in a 2004 issue of Foreign Affairs.

Drezner wrote that many analysts are warning that American jobs will be lost to outsourcing in the coming years. "Forrester Research estimates that 3.3 million white-collar jobs will move overseas by 2015. ... Deloitte Research predicts the outsourcing of 2 million financial-sector jobs by 2009. ... In one May 2003 survey of chief information officers, 68 percent of IT executives said that their offshore contracts would grow in the subsequent year," Drezner wrote.

However, he continued, many of the outsourcing figures thrown around are alarmist in nature. Drezner pointed out that while American Express set up operations in India more than 10 years ago, no one was worried because more jobs were being created on American soil than were being lost to India.

Furthermore, "most jobs will remain unaffected altogether: close to 90 percent of jobs in the United States require geographic proximity," Drezner wrote.

In other words, close to 90 percent of Americans are in no danger of losing their jobs to outsourcing.

In the hi-tech, world, however, outsourcing is a reality. "The only constant in hi-tech is change," Lorch said, and outsourcing can be a way to "manage that change for the benefit of customers."

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