Managing R&D Outsourcing in India

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October 1, 2009
Agenda

- Off-shoring and outsourcing
- The evolving rationale for selecting emerging economy
  - Revenues
  - Costs
  - Talent availability
- What to watch out for
Focus is on off-shoring to India – outsourcing is one component
Offshoring can reduce cost AND increase revenue

- Revenue enhancement may end up becoming a bigger reason to offshore, compared to cost savings
- The company aspiring to be #1 in the world has to be #1 in Asia – Bain and Company
- In 2010, emerging economies will drive virtually the entire growth of global GDP. In 2014, emerging economies’ contribution to GDP will be 50% - IMF
- In 2000, the share of Rapidly Developing Economies in world R&D was 13%; by 2008, it had increased to 20% - Boston Consulting Group
- Current business models may not work for the next billion customers in emerging-market countries
Setting up R&D in emerging economies is the critical first step in tapping these markets

- Developing new business models
- Developing new products
  - Local requirements
  - Local tradeoffs
- Leveraging local supply chains
- Using local standards, not imposing Western ones
- Open innovation
Costs in India are (still) low

- Direct costs: About 25% of US costs
- Even after adding indirect costs, still 40-60% of US
  - Co-ordination
  - Overheads in both teams
  - Difference in productivity
- Costs can be managed
- Cost increase is an issue
India, not just for lower-cost, higher-revenue, but also talent availability

- 500,000 Engineering graduates per year
- World-class Universities – included in world top 100
- Large number of Indian students at US Universities
  - Many will return
- Expats returning with experience
- Lack of senior talent – not as big an issue
- Official Indian Government position encouraging entry
  - “Think innovation, Think India”
  - “The World’s Knowledge Hub of the Future”
- India’s R&D investment has been growing at 40% per year
- Attrition can be high
  - Outsourced – bench strength compensates
  - But good practices can manage in-house centers
Doing business with India is not challenge-free

- Increased costs of communication and co-ordination
  - Direct, and indirect
- Difficulty accessing needed information on timely basis
- Cultural differences
- Language barriers
- Intellectual property protection
- Attrition
- Hidden costs
- Rising costs
Thank You

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