

The Myths and Realities of Product Development And Outsourcing

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The recent years have shown dramatic boom in product development and it seems most companies are changing and adapting this practice. The numerous benefits promised by outsourcing products and services are enough to lure any company to at least try this new system. Other companies, on the other hand, are forced to outsource their products just so they can be competitive in the market where their competitors are already outsourcing and dropping their prices. In the midst of all these, companies should be wary of some of the false promises of myths in outsourcing. Many outsourcing firms, especially those product development firms, can be misleading in their promises. Companies thinking of product development outsourcing should be well aware of what is real and what myths are.

The Truths in Outsourcing Product Development

Companies thinking of outsourcing product development should know the realities behind this industry beforehand. One good guideline is the one enumerated by the Medical Device & Diagnostic Industry on med-tech outsourcing and OEM.

The most basic truth is **outsourcing is cheaper**. In in-house product development, as the company grows, it spends less amount of time for new product development so that it can maintain existing products. This will have a negative impact in the production or design of new products and in the general productivity of the company. When more products are added to the company's line of products, the company now needs to hire more engineers or again run them over through a new process of product development. More resources are then spent; while more time for productivity is lost.

Moreover, facilities and equipment for testing and development of the product takes cost much as compared with outsourcing. According to Gene Long of Altron Inc., "Those companies that try to make everything in-house end up spending millions of dollars, with a need to update every 3 to 5 years to stay competitive. "A good contract manufacturer can typically save an OEM 10-20% of the OEM's true burdened costs."

Another basic truth is that **outsourcing saves a lot of time**. Most outsourcing companies can really accommodate tight schedules. These companies have large pool of people they can use when needed.

Notwithstanding unrealistic expectations from clients, outsourcing firms for product development can really be flexible with the demands and deadlines of the clients.

Outsourcing firms welcome staff for projects as overseers or collaborators. Albert “Ace” Edwards, director of sales and marketing of Sector Electronics Inc says, “In many projects that we have worked on, we have had employees of the contracting company work full time at our facility to learn and keep current on the project as it is transitioned back to their facility.”

Outsourcing firms may also possess the same expertise. Most companies are reluctant to engage in outsourcing for product development since they believe that these outsourcing firms could not possibly have the same expertise as the in-house product development. “Many companies find it hard to believe that a particular vendor is better equipped and more knowledgeable about certain products and processes,” says Mark Saab, president of Advanced Polymers Inc. said. “Most companies often assume they have to do projects in-house, when the better choice is to outsource.”

Dirk Smith, director of business development at Minnetronix Inc. says this is not particularly true. “An outsourcing partner having considerable experience with rechargeable batteries, embedded microcontrollers, medical sensors, dc and stepper motor control are likely more equipped to assist the company in developing a next-generation insulin pump. With this scenario, a background in insulin-pump design would be extremely advantageous, but not a required attribute needed for a successful development effort.”

Most med-tech companies are worried about their technology being stolen by outsourcing companies.

Outsource companies do not particularly steal technology. Smith says most contract design and manufacturing companies take confidentiality very seriously. Of course, experience with similar products and applications are definite advantage. Product development engineers with an understanding of the product application and product-use scenarios will have a running start on the project, Smith adds.

Most of the failure in outsourcing comes from the belief that the quote makes the outsourcer. **Companies need to know more than the price quote.** “Every contract development or manufacturing company offers something unique - with distinctive experience, capabilities, perspective and focus,” Smith says. Numerous contract manufacturers offer services in product design, but are extremely biased towards manufacturing. Similarly, large outsourcing companies may focus on mainstream and high-volume products primarily, even with little experience and real internal incentives in assisting startup companies with prototypes and initial clinical trial devices”. In this case, a thorough investigation should be done before outsourcing for product development. It is also important to remember that quality comes with a price and those with the lowest bid should be skeptically evaluated.

Lastly, companies thinking of outsourcing for their product development should remember that **no one can work with unspecific information and inadequate funding.** Jay Murray, sales manager of Sealtech Inc. says, “Many do not understand that they may need to pay for a minimum run of material even though their order may only consume a small portion of it. Some folks also come to us only with their ideas and presume that we will perform all R&D, make drawings, and produce prototypes with small or no charge at all.”

Further, if you provide inaccurate or wrong information, you should not expect that the outsourcing team could give accurate quotes or that the product will meet your expectations. “No outsource company can compensate for flaws in your own forecasting and planning, says Sundberg the Director of sales and marketing at Technical Services for Electronics, “ While we strive to predict both OEM’s spoken and unspoken requirements, we are still unable to deliver miracles,” he asserts.

False Assumptions in Outsourcing Products

Dr. Panish Punaram, assistant professor of strategic and international management at the London Business School and a scholar at the Advanced Institute of Management in London, and Kannan Srikanth cleared several issues or “common myths” in product development from the study of financial service firms in the United States and Europe practicing outsourcing.

According to the study, one of the most common myths is the belief that outsourcing firms **can be everything all in the same** time. Many companies believe that product development outsourcing firms can be cost efficient, very effective in its service and can increase or decrease production at all times. These are all realistic expectations but many companies really cannot deliver those three qualities all at the same time. One gets to be sacrificed as in the case of efficiency in cost and effectiveness. If a company wants a very effective product, definitely the cost of it will increase. It is best for companies to accept this truth even before they outsource for product development.

Another false belief is that it is **as simple as buying**. When outsourcing for product development many companies believe that it is as simple as buying the product. One thing, many companies do not know that there are transaction costs and other restrictions in outsourcing for product development. Many companies also fail to see that there are attached additional expenses of moving the product development operation for one place or location to that of another and the necessary adjustments, which again entails additional costs, in managing the development of the product.

A good contract solves everything is another wrong assumption. Companies thinking of outsourcing for product development should know that it is a partnership and not just a one-time deal. No matter how many contingencies are put in the contract, the result or the product outcome shall be determined by the kind of partnership the buyer and vendor created. The best thing to do is for companies to write a contract that shall allow for negotiations should changes occur. Nevertheless, contracts are still important. Although informal documents can dictate the vision, aim and relationship of the project, they are not substitute for the contract since they will not stand in court and are open to different interpretations.

Another very common false assumption is that companies believe that **vendors are responsible for everything**. Most companies think that outsourcing for a product enables the company to be free of any liabilities and that it is their insurance to having a good product. As exemplified by Punaram, in case of seat-belt system, it is still the car manufacturer's responsibility to make sure that the product, in this

case the seatbelts is up to standard before distributing it to customer. This was seen in the many lawsuits faced by Ford Motor Co. for its defective tires from Firestone.

Moreover, upon signing of the contract, most companies turn over the whole project to the vendor. They believe that it is no longer in their hands. Remember, it is a partnership and the success or the failure of it shall be dictated by the kind of partnership the two companies have.