

R&D Outsourcing – The India Edge: Key Insights and Success Factors

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The story of R&D outsourcing in India dates back to 1985-86 when Texas Instruments was the first to set up a center in Bangalore. GE and Intel soon followed suit, as did other global technology and telecom companies like Cisco, Microsoft and Motorola. The trend gained strength as, not just large, but medium, small and even startups set up research bases in India.

The R&D outsourcing market for IT in India is estimated to grow more than \$8 billion by 2010 from \$1.3 billion in 2003, at a CAGR of 30%, according to ValueNotes' research.

India is now well on the road to becoming the world's favorite destination for outsourcing. But a low cost advantage does not spell sustainability. Moving away from call-centers and other low-end services, firms are now beginning to exploit the intellectual caliber that is available in India. Evidence of high-end outsourcing is evident from the large number (over 150) established R&D outsourcing centers in India.

Outsourcing models for R&D vary, from captive to third party to contract assignments. The pioneers of R&D outsourcing phenomenon were from the information technology vertical. R&D centers in the telecom sector came next, and automobiles and pharma are the emerging verticals.

Neeta Joshi, senior research analyst at ValueNotes says, "Selection of key person to run the R&D operations is one of the most important factors for success. A strong champion in the parent company also helps the cause of the R&D center."

Other factors that help successful operations are:

- Selection of key person to run the R&D operations
- Champions of the R&D set up
- Human Resource management
- Strong quality systems
- Integration and Communication
- Cultural Issues
- Affiliation with educational institutions/ universities
- Clear Roadmap
- Early Successes

There are a variety of factors that drive the increasing momentum of R&D off-shoring/outsourcing industry. Availability of highly skilled manpower, cost-effectiveness, proximity to fast-growing Asian markets, benefit of follow-the-sun schedules and information security solutions are some of them. There are also some inhibitors that hold back this momentum like -

- Inadequate infrastructure
- Security and intellectual property laws
- Quality of higher education
- Political risk

The report is based on secondary data as well as extensive interviews with key people at the Indian R&D centers, to understand reasons for success/failure and other attributes of the successful companies.

About ValueNotes

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The ValueNotes Outsourcing Practice is one of the largest information providers on the outsourcing industry. Our Outsourcing Practice uses a comprehensive, analytical framework providing fresh insights into the fast emerging and yet, complex outsourcing space. We extensively track the outsourcing space in-depth through a regular analysis of news and events and continuous primary research and contact with the industry.

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