



BY BILL SCHWEBER, EXECUTIVE EDITOR

## Are we losing our innovation religion?

If you really want to worry about the state of our industry—for both our engineers and our companies—pick up a copy of the March 21, 2005, *Business Week*, which is available free online with registration or at your local library. The multifaceted cover story “Outsourcing Innovation” filled in the details with examples and numbers of what many of us already know or have heard: Not only engineering-design roles, but also all of the functions—the very essence of many companies—are “going away.” We are helping them to evaporate.

This issue is not about simple globalization. Globalization itself—locating your staff worldwide to take advantages of various perceived attributes they offer, for both technical expertise and lower cost—is unavoidable given the time, cost, complexity, and pressures of today’s designs. Also, globalization provides an around-the-clock advantage and the technology-enabled ease of transferring data and designs from Point A to Point B.

But why stop there, many companies are asking? You can outsource product design to a third party, which in turn may use big chunks of external IP (intellectual property); you can outsource physical manufacturing; and now, you can even outsource your research and development. The article gave plenty of examples of which companies are using this approach and the results in apparent cost (read “people”)

### Outsourcing innovation starts a dangerous downward spiral.

savings. What’s left? Not to worry, many say: The companies that outsource so many aspects of their roles can do the upfront product definition, as well as the product marketing. Sounds like a plan, doesn’t it?

However, all this outsourcing buries a reality: Once your outsource partners learn how you define products, how you market them, and whatever other “secret” understanding you have or you assume that you have, and you have an “in” on your markets, those partners no longer need you. It’s that simple. The “secret sauce” you think makes a difference may not be such a secret or

maybe isn’t the barrier to entry that you thought it was.

You already see this entry of new players in diverse markets, such as home appliances and consumer products. In these markets, companies most of us have never heard of are using widely available chip sets and components and quickly developing a significant presence in the markets of long-established market leaders.


If a company thinks it can survive and remain a market force if it just does marketing and branding, while abandoning true R&D, design, and innovation, the company is deluding itself. The shelves of Wal-Mart are full of brands that used to be real players and now exist only as nameplates.

Remember RCA? Once the undisputed leader in TV innovation, the company spent more than a billion in 1950s’ dollars to develop color TV as we know it today, including architecture, CRTs, imagers, and much more. Then, in addition to its other corporate missteps, such as going to conglomerate mode and supplying home appliances, carpets, rental cars, and more, it began the process of shedding. It outsourced the labor-intensive soldering of the wired TV chassis that predate pc boards, albeit using US-sourced components. Next, the manufacturing of these components—mostly passives—moved; then, the design of these components traveled. Next came manufacturing of the more complex parts; then, their design; and, soon, all that was left was an empty shell of a well-respected brand, and a name that used to have distinctive value—but now had none.

When your functions and true added value have atrophied by that magnitude, anyone can step in and take away your markets, shelf space, and business. Today’s smart move to outsourcing almost everything may be the dumbest long-term move a company can make. **EDN**



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