



Stanford eCorner

The Impact of Outsourcing on Intellectual Property Protection

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Outsourcing is a common trend in the market right now and has been a topic at every board meeting. The economics for outsourcing are compelling, but it is hard to know what the intellectual property protections are like. Though copyright and patent protection exists in theory, it is still difficult to ensure protection overseas.



Transcript

Good question. Trend in outsourcing and impact on intellectual property protection. Well, outsourcing is a topic of discussion at every board meeting I go to and I go to board meetings of two-person startup companies and I go to Cisco board meetings and everything in between. Everybody is talking about outsourcing and what to do about it. I think it's clearly something that's happening across the board. What's remarkable is how many startup companies are being started with outsourced technology development from day one. I have a startup company where all of the engineers are in St. Petersburg, Russia. All the management are here. It's just the communications and so on but the cost of an engineer is a thousand dollars a month at St.

Petersburg compared to \$10,000 or more for here so the economics are compelling. The question is what is the intellectual property ownership in St. Petersburg, Russia? The laws, is it well developed? The court decisions aren't legion. It's very hard to know. I mean in theory there's a copyright patent and so forth but you kind of never really know where the rubber hits the road how well protected your intellectual property is in Russia or China, India. India is clearer. That's what's holding people back. That's why many of the outsourced operations are things like quality assurance as opposed to the core development of the technology but we're seeing gradually more and more core technology go offshore for development because by and large, companies are realizing good results from off shoring though they're finding that it's not perfect and that the biggest problem is oversight communication. We had a great example of a company that has 80 engineers in three different locations in Russia and has headquarters here. They just had the new version of their product redone, recoded in India.

In India, it was QA, it works perfectly, they delivered it here, company can't start it up. Lots of back and forth, they're asleep and we're awake and so forth, lots of back and forth. They finally asked, well, what are you running for the startup script? The company told them the same startup script we gave you to develop the product. Oh yes, that startup script didn't work. We used something different. The product works but the startup script doesn't. You're just installing it wrong. They told them how to install them then that worked. So that kind of basic communication is still a challenge. IP, that's the next frontier.

I mean it's creating a lot of work for lawyers right now, trying to figure out what the international protection of copyright trade secret, patent trademark is going to be as a result of off shoring. They say companies are gradually tip-toeing up to putting their core technology development offshore.