Small business stays alive by outsourcing

Netologic relies on programmers in Belarus; success abroad leading to growth at home

BY SHIRA BOSS-BICAK

Netologic Inc., a small company that sells ratings of stock analysts, would be operating in the red—or not at all—if it hadn't stumbled on a key to profitability. The company's four-person management team works out of a headquarters in Hoboken, N.J., while a staff of 20 is located in an office in Belarus. One programmer telecommutes from Ukraine.

Though most of the attention on outsourcing has focused on big businesses, New York City's small businesses find it an essential tool, too. Without it, companies like Netologic, which start with a good idea but little capital, would have a much smaller chance of survival—and their ideas would have little opportunity to make it to the marketplace.

"It's terrifically important to keeping costs down," says Lawrence J. White, professor of economics at New York University's Stern School of Business. "If you were forced to buy from the U.S. rather than abroad, a lot of businesses would find it too costly and couldn't compete."

Product development

Founded by two options traders in 1999, the company needed to hire programmers to develop its flagship product. The business crunches public data to measure the accuracy of Wall Street analysts, ranking them by stock and sector, and overall. Customers are retail as well as institutional investors, such as J.P. Morgan Chase. Some of them use the information to evaluate their own analysts.

Netologic's product required software engineering. But from 1999 to 2001, when the product was in development, programmers were hard to come by, and very expensive.

"We were so desperate about programming that we went out and got Java for Dummies," says Kei Kianpoor, who co-founded Netologic with John Eagleton.

By mid-2000 the partners turned to outsourcing by posting projects on Elance Online. "We were able to tap a huge pool of employees," Mr. Eagleton says.

They found significant savings in working with the respondents from abroad. While hiring programmers in several countries, they got lucky with a Belarusian, who hired more staff locally. That blossomed into a formal arrangement: Netologic incorporated a foreign company, bought an office building in Mogilev, and now employs 16 programmers and four data entry technicians there. They're paid an average of $12 per hour, with which they manage their own benefits. That's about a third of the $71,000 median salary earned by a midlevel software engineer in New York, according to Salary.com.

Making a profit

When the company was founded, the owners anticipated needing perhaps four programmers, and say they could not support the current staff of more than 20 at American wages. Revenues have grown to more than $1 million and the company is profitable, according to Mr. Kianpoor.

The success that has come from outsourcing abroad is leading to job growth at home. Netologic plans to expand stateside by hiring five more people before the end of the year to handle customer service and account management.

THRIFTY MOVE: Netologic co-founders Kei Kianpoor (left) and John Eagleton found affordable programmers overseas.

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