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RIQ Editorial

Differentiate or Merge

By Svetlana Vronskaya
Editor, Russian IT Quarterly

A year has elapsed since the first RIQ editorial was written, and I thought it would be logical to dedicate each mid-summer issue to reviewing the major trends in the Russian IT exports industry. It is logical since in the mid-summer, the domestic IT outsourcing community gets together in St. Petersburg to attend the key annual event of the industry - Russian Outsourcing and Software Summit (now RUSSOFT Forum), with results of the year traditionally summed up and discussed.

The aggressive growth rate of the Russian IT outsourcing market remained the main remarkable tendency throughout the year. The software exports from Russia grew by almost 54% in 2006 and reached \$1.6 billion in volume by 2007. Still small by global standards, Russia claimed the #3 place by market volume among offshoring locations, next to India and China.

The most palpable developments had to do with mergers and acquisitions in the Russian ICT market. While a number of domestic systems integrators kept on acquiring smaller companies, and at the same time merging with the quasi-equals, software outsourcers looked to turn away from purely Russian investments. It resulted in the acquisition of two Russia-based exporters by American and Baltic companies. Smaller players are engaged in active search of larger partners, to cooperate either on subcontracting basis, or by merging into one business.

A definite shift in the behavior of some Russian outsourcing providers is the soaring of activity on the Russian market with some negligence in marketing in overseas locations. This fact is easily explained by the boom in IT spending among Russian companies and the ample opportunities in systems integration in Russia.

This is why the past year has also seen more of foreign systems integrators offices on Russian ground, as well as a rapid appearance of new captive centers: EMC, Google, Hewlett-Packard, SAP... Moreover, the recent Russoft study on offshore software development in Russia, pointed to the fact that almost 20% of the entire market is attributed to the MNC-owned business units.

The government support of the country's IT companies seemed to have slowed down, but really, the initiative has shifted to the local governments of Russian regions, who are ready to take steps to promote their resident IT companies in both domestic and global marketplaces. Although the local authorities can not influence the state legislation on a large scale, they at least make all the necessary changes to the local laws and provide an adequate funding to pay for the participation of IT firms in international events.

The maturity of the market manifests itself in the clear tendency for specialization of mid-sized independent providers. While generic software development has certainly become the destiny of larger companies and most of them are now joining efforts with international business entities as software centers, smaller ISVs now tend to use the "value shop" model, focusing on particular verticals and business solutions.

This demonstrated success combined with engineering maturity will obviously cause another round of M&A activity. And this time, I think it will be more "A"s, since prospective acquirers will find access to brilliant customer bases and knowledge, be it process or technology know-how, which will lead to bringing more MNCs into the M&A spree.

Setting consolidation issues aside, I would say that the growing number of focused services providers brings richer customer experiences and makes the collective image of a Russian vendor more differentiated and precise. Even that by itself is a good message for the industry.



Summary

Russia Has Tools to Take Over Outsourcing

Citing stronger technical skills, lower staff attrition rates and a better cultural fit with the west, a white paper released by the IDC and Russoft, a Russian IT services exporters association, outlines factors that should give Russia an advantage over its offshoring competitors. [read more](#)

Deborah Perelman
eWeek
08.05.2007

The Russian Advantage

With the rising general concern over India's high attrition rates and the clearly swelling costs of engagement, India sets new challenges for companies involved in IT operations in the country. From Buenos Aires to Manila there has been a thorough search of better prices, resources, location and culture proximity, and knowledge. [read more](#)

Alexander Egorov
Outsourcing Strategist
17.05.2007

Nordic IT Veteran Joins Reksoft Board of Directors

Reksoft, a software outsourcing house headquartered in St. Petersburg, Russia, announced that its Board of Directors was joined by Veli Pohjolainen, an IT industry veteran with 20 years of experience in the IT services company in the Northern Europe. [read more](#)

Reksoft Press Service
22.06.2007

The Bangalore Experience Goes Baltic

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Indrajit Basu
South Asia
22.06.2007

Russian Developers Search for Partnerships

The Russian software development industry is working to move away from traditional outsourcing models, relying more on becoming partners with overseas companies and touting talent and innovation over cheap labor. [read more](#)

Wayne Rash
eWeek
22.06.2007



Russia Has Tools to Take Over Outsourcing

By Deborah Perelman
eWeek
08.05.2007

Citing stronger technical skills, lower staff attrition rates and a better cultural fit with the west, a white paper released by the IDC and Russoft, a Russian IT services exporters association, outlines factors that should give Russia an advantage over its offshoring competitors.

The report, released on May 6, aims to put Russia on the outsourcing map, citing the agility of its work force in troubleshooting, as well as its product development skills and ability to managing complex projects.

The report bases its research on executive-level interviews with U.S. and Western European companies that have used Russian software and services companies for offshore development projects.

"Several factors work as Russia's differentiators on the world market, such as the large pool of highly skilled professionals with mathematics and science backgrounds, capable of solving complex and math-intensive problems, and the ability of Russian companies to manage high-end, complex projects," said Vladimir Kroa, regional director for IT services research at IDC.

"Also, Western European and American organizations often perceive Russia as being a closer cultural fit than countries like India, China or the Philippines.

The report contrasts Russia's business environment with that of India, which pioneered the offshoring wave, asserting that with increasing labor costs and growing attrition rates, India has become a victim of its own growth. One quarter of the companies surveyed expressed that staff turnover, and its potential to destabilize a project, was a reason that they enlisted Russia's services instead.

"Attrition in Russia is very low [only 3 to 4]. This is a big advantage. There's no need to overstaff projects to insure against risk of high attrition. This saves money," one executive in the report anonymously commented.

According to the report, the experience level of IT and engineering professionals in Russia is said to be higher, even fulfilling a request by an executive that the technical staff on the Russian team have no less than eight years of experience.

Yet, the report primarily hones in on what it considers "soft factors" that make for the most positive differentiation between Russia and other offshoring hubs. The country's time zone differential, cultural fit and work ethic are purported to be a closer match for the United States and Western Europe, and are cited by six of the 20 respondents as a consideration in choosing Russia's outsourcing services.

"The initial investment is working out for us. We have learned to work together. European culture is closer to Western European culture than the Indian culture is. Eastern Europe is in a more convenient time zone," said an executive quoted in the report.

However, the IDC says that Russia will continue to live in India's outsourcing shadow unless it plays up the differentiators cited in the whitepaper. Furthermore, Russia needs to market its brand to the world, and get as much government support as it can, something that was considered essential to India's growth.

Finally, according to the report, Russia is encouraged to establish stronger customer reference lists, and that the more they can quote, the better off they'll be, as the offshore outsourcing market is only predicted to grow over the next several years.

The IDC report estimated that the value of IT services-related exports from Central and Eastern Europe to the onshore locations, such as the United States, reached about \$1 billion in 2005.



Yet, IDC believes that the value of captive services organizations, such as specialized R&D centers or dedicated back-office functions, have the potential to far exceed this.

The Russian Advantage

By Alexander Egorov, Reksoft CEO
Outsourcing Strategist
17.05.2007

"The ICT industry is the fastest growing industry in Russia and one of the most buoyant, dynamic and diverse in the world. Russia is currently in its fourth consecutive year of high double digit growth and is poised for a period of boom from 2007-2010. The country is well in the process of upgrading requisite infrastructure, and making legal and policy provisions for its ICT industry."

*"Russian ICT Industry - On a Stable High Growth Trajectory", December 13th, 2006
Frost and Sullivan*

As a recent study by Duke University and Booz Allen Hamilton concludes, offshoring "is now a strategic imperative of competing for talent globally". With this shift in the perception of offshore outsourcing away from a mere costs-saving initiative to a means of raising competitiveness through secured access to the necessary qualified resources, and ultimately - faster time-to-market, we have seen more European and North American enterprises looking for alternative destinations for sending work offshore. With the rising general concern over India's high attrition rates and the clearly swelling costs of engagement, India sets new challenges for companies involved in IT operations in the country. From Buenos Aires to Manila there has been a thorough search of better prices, resources, location and culture proximity, and knowledge.

Many such pilgrims ended up in Eastern Europe, having found the region to offer a skilled labour pool, plus a pronounced cost savings advantage. Still only a 1 % share of the global offshoring market, Eastern and Central European countries present an attractive option, especially to Western European enterprises, due to geographic proximity, reduced communication and travel overhead, and the ability to support European languages.

Although Eastern Europe traditionally markets itself as an integrated region, each single outsourcing destination within it differs: from Hungary to Romania, from Czech Republic to Poland, from Lithuania to Slovakia. Besides some of the ex-Soviet republics (Byelorussia, Ukraine) position themselves as parts of the Eastern European region (although they lack both the large pool of IT professionals and the political stability). Each of these locations puts forth an offer, but altogether, they should be viewed as separate destinations with their own pluses (e.g. good BPO options) and minuses (limited workforce and rising prices).

I, however, have a strong feeling that even with all the visible benefits that the CEE region can offer, only Russia has the sufficient potential for becoming a 'leading' destination in the future. Already, Russia is ranked 7th in the volume of outsourcing contracts globally. There are a few theses to support the unique positioning of Russia as a major outsourcing location in Eastern Europe.

- The IT Labor force in Russia is larger than in all other EE countries combined, with 'guaranteed' long-term cost advantage.

Although McKinsey in its "Time to Go East" white paper reports that the offshoring activity in Eastern Europe is expected to reach over 100 thousand FTEs in 2008, it is by far less than what Russia can boast already (see table 1).

The quality of technical skill and education of the Russian IT workforce is certainly the country's advantage. According to the World Bank statistics, Russia has more personnel working in R&D than any country in Europe, and ranks third in the world for per capita number of scientists and engineers. Needless to say that such a solid base explains the permanent victories of Russian students in the annual ACM programming contests.



The number of graduates ready to enter the IT industry is estimated as 246'000 per annum which is more than twice as much as in the Eastern European countries and the Baltics together. Meanwhile, the industry utilizes just about 10% of this output, which secures the growth potential.

No clear plans for EU accession guarantee that the Russian cost advantage will stay relevant in the long term. And joining the WTO will not affect this sector of the economy much.

The year gone has left a strong sense of the fact that Russian vendors are leading in Eastern Europe, both in terms of size and capabilities. The top Russian players (10-12 companies) are getting to be more mature, thus widening the gap between themselves and the rest of domestic competitors. There is a clear sense of differentiation in the leaders' strategic positioning. Staying competitive in the long run calls for above-average growth rates, which organic growth can not secure. With this in mind, the M&A mood is now in the air with more Ms than As expected.

With the outsourcing market of one billion USD in volume for 2005, Russia is expected to grow at the rate of 30% in the next three years and thus surpass the whole of Eastern European outsourcing produce. As Pascal Matzke of Forrester Research pointed out, Central Eastern Europe is getting stronger, but advantages will be short-lived due to a number of risk factors such as the lack of national champions, absorption of the local talent by global providers and wage inflation which has already hit the large metropolitan areas. This gives the Russian players a chance to take over Eastern Europe in the global outsourcing marketplace.

- Whereas prices are lower than with Eastern European providers, the total cost of engagement (TCE) is lower than with most Asian suppliers.

Hosting a development center in St. Petersburg or Moscow means easy communication and commuting. At the same time, the cost of developing software in Russia incurs fewer costs than software development in Eastern Europe (see table 1). Both of these factors make for a lower total cost of outsourcing engagements for customers.

Table 1

	Baltics	Eastern Europe	Russia
Labour pool (FTEs)	40'000	45'000	246'000
Average salary in IT (EUR)	2000	2500	800
Hourly rates (EUR)	40-60	40-60	18-30
Volume of ITO market (EUR)	800 mln		800 mln

- Russia's improved economic landscape makes the country attractive for investment and a huge market with vast potential.

In 2005 the Russian Federation was acknowledged by the Economist Intelligence Unit as the most promising market in Eastern Europe. The reality of Russia's steady economic growth is also recognized by such credible sources as the World Bank and UNESCO, indicating that the country's macroeconomic climate has surely reached the threshold of fertility.

The economical performance of the Russian Federation over the last five years is more than impressive. According to the estimates of the World Bank Economic Unit, in the time span between 1998 and 2005, Russian GDP grew by an estimated 48 percent, while the real income of population went up by 46 percent. The country achieved an unprecedented macroeconomic stability along with strong budgetary and current account surpluses.

This fact was also confirmed by upgrades in the international credit rating that Russia received in 2005 and 2006. January and October of last year have seen Standard and



Poor's and Moody's awarding Russia an upgraded investment rating, respectively. Fitch upgraded Russia's sovereign rating in August 2006 to 'A-'. Standard and Poor's has placed the Russian debt the equivalent of one level higher in its 'BBB-' category. In its annual foreign direct investment rating in 2005, A.T.Kearney moved Russia from the 11th to the 6th position in the index of the most attractive countries for investment.

The booming domestic ICT industry (\$12 bln according to IDC) reflects this economic growth and contributes to further development of modern infrastructure in the country.

Another Russian trend that is worth to be mentioned is the occurrence of FDIs into Russia-based IT services companies. We have witnessed the Nordic investment into the St.Petersburg-based Reksoft in November, funds coming to Epam Systems in February and acquisition of Nizhny Novgorod's Telma by a Swedish system integration house. The Nordic Venture Network visit to Russia in April and the creation of a state-managed investment fund with a special focus on IT - all serve as evidence to the rising attractiveness of investing into Hi-Tech Russia.

- The Russian government has gotten serious about its support to IT companies and introduced a series of measures to facilitate the development of the IT industry in the country.

Along with the overall favorable initiatives brought up by the government for the whole high-tech sector (which include the development of a number of technoparks around the country, the federal law "On Special Economic Zones in the Russian Federation"), the achievements so far include one of the most useful and fast-paying law on the industrial VAT exemption for IT services companies (effective from January, 2006).

On August 11, 2006, the Russian Prime Minister Mikhail Fradkov signed the law launching the venture fund with a special focus on ICT industry. The Ministry of IT and Telecommunications lobbied for the IT fund creation to ensure that the sector does not remain underfinanced compared to other high-tech sectors.

The State Duma of the Russian Federation has finally passed the long-awaited law on tax incentives for export software development companies based in Russia. The law will come into effect on January 1st, 2007. According to the new legislation, companies engaged in software outsourcing activities will get a major tax relief due to the reduced unified social tax paid per employee.

And on top of that, the Ministry of IT and Communications announced in August of 2006 that it created the Federal Agency of Software Exports support. The main goal of this entity will be to promote the software outsourcing sector in the global marketplace through the support of special events in the target markets as well as to raise the public awareness of the opportunities available through cooperation with Russian ESPs.

- The maturing Russian domestic market brings new opportunities to both Russian ESPs and international companies.

The ICT Industry is growing fast and according to the estimates of the Ministry of IT and Communications, it has reached the volume of \$40 billion in 2006, demonstrating a five-year CAGR of 21.8%. As the IT sector becomes more mature - the segment by segment growth pace changes too. IT Services are getting more and more important, diminishing the share of Hardware (32.5% and 56.5% of the IT market size, respectively). The growing market is a huge opportunity for IT Services providers since they have a chance to offer more sophisticated services up the value chain thus strengthening their own positions. In the mid-term this will lead to a situation when Russian ESPs will offer services such as systems integration to international customers.

On the other hand, the notably growing demand for IT services on the Russian market attracts foreign IT vendors, and they admit that Russia is one of the most lucrative marketplaces for their services and products, SAP, Hewlett-Packard, Microsoft and IBM are just a few examples of successful ventures in Russia.

- Russia has a slightly different set of offering being well suited for high-end software R&D, and product development.



Russia will most likely never outperform India in the cost aspect, but the combination of a vast human force potential and the ability for creative thinking and strong technical background allows Russia to do product design and R&D better than any other country on the market. The clients that already chose Russia as an outsourcing destination over closer Eastern European regions are the best proof: Deutsche Bank, Fujitsu Siemens Computers, Nokia, Siemens, TietoEnator, T-Mobile and T-Systems.

Nordic IT Veteran Joins Reksoft Board of Directors

Reksoft Press Service
22.06.2007

Reksoft, a software outsourcing house headquartered in St. Petersburg, Russia, announced that its Board of Directors was joined by Veli Pohjolainen, an IT industry veteran with 20 years of experience in the IT services company in the Northern Europe.

For many years, Veli Pohjolainen has been the top executive with TietoEnator - the largest IT services company in Northern Europe with 16'000 employees and 1.6 billion Euro in revenues. During his career Mr. Pohjolainen held various management positions, including the position of Senior Executive Vice President and Member of the Executive Committee and retired from the company in 2005.

While being the member of TietoEnator's management team since 1989, Mr. Pohjolainen played a central role in creating the company's strategy and led its Banking and Finance vertical.

Mr. Pohjolainen was appointed Reksoft Member of the Board to boost the company's business development activities in the Nordic region and to advise the management on strategic issues.

"Mr. Pohjolainen has a unique experience of being with TietoEnator from when it was only 400 people company until it turned into an European IT powerhouse. We are confident that he will contribute this experience to help Reksoft to grow at the same speed," stated Allan Martinson, a fellow Reksoft Board Member and managing partner of MTVP, a venture capital firm.

"Reksoft has always regarded Northern Europe as the target market, which resulted in more than 20% of our FY2006 revenue coming out of this region. I believe that the support of Mr. Pohjolainen will add value and immensely enhance our customer relationships in the Nordics," added Alexander Egorov, Reksoft CEO.

"For me it is a fascinating opportunity to offer my experience and knowledge to Reksoft. I have already seen the great commitment from the management team to lead Reksoft to evolve into the world class professional services company," confirmed Veli Pohjolainen.

The Bangalore Experience Goes Baltic

By Indrajit Basu
South Asia
22.06.2007

Whenever Scott Livermore, the Boston-based engineering manager at Pilot Software, a United States-based strategy management software company, runs short of programmers and needs outsourcing, he turns not to what has been obvious so long to many of his competitors: an Indian information-technology (IT) outsourcing service provider. Instead, he hops on to a flight to Moscow to seek the services of Auriga, a boutique software-services vendor in Russia that has 250 software programmers.



According to Livermore, he had to look away from India not just because Pilot's experience with offshore programmers in India didn't work for his company, but also because "Russian programmers work just as well as their American counterparts, and come up to 40% cheaper".

To all the fans of India IT outsourcing talent, Pilot Software (a subsidiary of the German software giant SAP) may appear one of the few cases where the India experience went sour. But Pilot is not an isolated example. Even as many Western companies continue to turn to India for their IT and business services needs, a growing number of large as well as smaller outsourcing services-seekers from Western Europe and the United States have realized that "Bangalore" lies not just in India, but also in Central and Eastern European countries such as the Czech Republic, Hungary, Poland, Russia, Ukraine and Belarus.

"Central and Eastern Europe has established itself as a prime location for offshore and nearshore services, particularly for clients based in the United States and Western Europe," said the global research outfit IDC in a recent report. And although the IT outsourcing market of the region is still tiny—about 1% of the nearly US\$386 billion global outsourcing market—IDC estimated that the value of IT services-related exports from Central and Eastern Europe to the onshore location (eg, the United States and Western Europe) for expenditures by a third party had exceeded \$1 billion.

Moreover, if the value of captive services operations, such as specialized research and development centers or dedicated back-office functions, is included, the revenue numbers could far exceed that estimate.

India has shown the way and the Eastern Europe and Central Asia region, as its economy tries to quickly integrate with its more affluent Western neighbors, is trying to become not only the extended workbench of high-cost companies, but also their back office.

"There has been a significant shift in the outsourcing strategies that many companies are adopting lately," said Alexei Miller, executive vice president of Data Art, a provider of high-end software outsourcing services for small and medium-scale enterprises. Although Data Art is headquartered in New York, it runs its development center in St Petersburg, Russia, and also maintains an office in London, a market that according to Miller contributes almost 50% to his company's total revenues because Data Art can serve from Eastern Europe.

"Outsourcing from India has been the mainstay for many smaller and medium companies globally. And in the last five years there have been many success stories, but many negative stories as well," said Miller. "The current realization is that if you want to strike value out of an outsourcing relationship, you have to think deeper and look beyond India to get something else. And that something else cannot come from one location but from many locations and from many vendors."

What is unusual about this trend is that even as costs in Eastern and Central European countries are relatively high and human resources are still scant compared to their Asian counterparts, something other than cost savings is driving companies to the region.

"While price is what initially drives organizations to consider using nearshore and offshore resources, companies are realizing that it must be balanced by other considerations," said the IDC report. These include things like the stability of the relationship (ie staff turnover on the project) and shared management values. Take the instance of Hermes Software, a 600-employee, \$55 million revenue IT services company with its headquarters in Slovenia and development centers in Croatia, Serbia, Vienna, Stuttgart, Dublin and Sarajevo.

"Our edge over Indian companies is proximity to our customers," said Hermes chief executive officer Peter Testen. "We address customers which are close to their territories, and being pretty much of the same cultural background, it gives us some specific advantages like a better understanding of their problem, faster, and most importantly being able to offer appropriate solutions to customers that have problems connected to time-to-market."

Western companies see other factors such as time zone differences, a similar work ethic, and the clear understanding of business issues as important criteria that drive many companies to Central and Eastern Europe instead of India.



Indeed, a smaller time zone difference makes communication easier, and "this means that vendors are much more likely to throw something over the fence and get something back that they want without having to send project managers at very step of the way, and without having to craft super-detail technical and design specs [specification documents]", said Steve Keil, CEO of Sciant, another boutique IT services vendor with headquarters in Zug, Switzerland and its main development center in Sofia, Bulgaria.

Nevertheless, outsourcing to Central and Eastern Europe is not an easy decision and there are still a few challenges that confront those choosing to do so. "The companies face difficulties scaling," said Peter Schumacher, founder of the international strategy consultancy Value Leadership Group. "This is a weakness. For example, in Ukraine, setting up a 200-person team would require up to nine months. In addition, the work would have to be split across multiple locations, perhaps as many as four. These are important constraints that make it difficult to shift large projects to nearshore locations."

The other problem is attrition, according to a Value Leadership study as in many of the Central European and East European countries attrition levels are increasing; rates of 10% to 15% are not uncommon. This has resulted in a problem that India also faces. "Since these states are partly driven by the small size of the talent pools in each country, compensation levels across nearshore markets are increasing rapidly too," said Schumacher. "In some countries, for example Slovenia, there is a shortage in IT professionals. Other countries are experiencing a brain drain. For instance, about 1 million people have emigrated from Poland these last years to seek opportunities and take up positions in the United Kingdom and other countries."

The moot question, therefore, is what then? Should it be India or the European upstarts? This is a tricky. According to experts, while there are similarities across the region as a whole, buyers must address each country individually when assessing its appeal and viability as an outsourcing destination. For instance, said Alexis Sukharev of Auriga, "Even though the Central and East European IT export industry is still [relatively] small and fragmented, it has some unique features, like strong engineering talent and programmers who show more flexibility than some other offshore locations."

Moreover, added Schumacher, the nearshore firms offer a unique positioning because the economics of offshore projects favor larger projects. "The cultural proximity of the nearshore firms allows for an efficient start-up process and gives nearshore firms a productivity edge with small projects," he said. Many smaller and medium-sized IT services-seekers in the Western world see this as a benefit as they need vendors who can provide high-impact small teams on short notice.

Russian Developers Search for Partnerships

By Wayne Rash
eWeek
22.06.2007

The Russian software development industry is working to move away from traditional outsourcing models, relying more on becoming partners with overseas companies and touting talent and innovation over cheap labor.

According to Valentin Makarov, president of the Russoft Association, Russian service providers are concerned about more than just the specifications of the program a company is creating.

"When you come to Russia, the question is, 'What is your problem?'" Makarov said, adding that this approach is different from that used in most of the rest of the world, where programmers simply code to a specification and provide no input into whether the specification makes sense. "You create a joint team," he said.



The Russian companies also are trying to be more proactive in getting that message out. For example, Russoft, which represents Russian companies, is planning a U.S. tour next year, something it's done in the past.

Throughout the conference, the story was the same. Russian development companies want to be viewed differently from competitors in India, China or South America. Instead of being thought of as outsourcing providers, the Russians want stable, long-term relationships that span the course of years. "I call it team-sourcing," Makarov said. "You have a team dedicated to solving just your problems."

Makarov said that because the Russian software industry has low turnover, Russian companies can offer teams that stay together for a decade or longer, giving them more depth of knowledge than what's normally found in more traditional outsourcing.

Another differentiator is that Russian development companies can help define a customer's problem and a solution. "Most U.S. companies don't know what they're looking for, so it's hard to find what they can't define," said Dean Davison, an analyst with NeoIT. Davison said many companies are still trying to figure out what they need. "They're doing exploratory work," he said.

Most U.S. companies start out with outsourcing that's aimed almost exclusively at reducing cost, Davison said, something that helps them learn about how outsourcing works and that can lead to more effective relationships with offshore partnerships. However, he said most U.S. companies don't choose where their work is being done. In some cases, they might not even know.

"There are many times the American client chooses a service provider," Davison said. "They may be in Russia, China, India or all of the above."

For many companies that provide such services, the decision as to where to send work greatly depends on what needs to be done rather than simply being a search for the lowest price. "The cultural alignment to the West is key to us and our clients," said Alex Adamopoulos, general manager and senior vice president of Exigen Services, in Boston. "There's a strong collaborative effort as part of the [Russian] culture. This [country] is very results-oriented rather than task-oriented. That also leads to a more successful engagement. These are people who solve business problems."

Adamopoulos said the ability to be integral to the solution process is bringing bigger and bigger enterprises to companies that provide the services of Russian developers.

"One of the trends we're seeing is larger enterprise clients that have traditionally sourced to India are coming here because they want business problems solved and they realize that there's a higher level of specialization here," he said.

Adamopoulos said a critical point is that the Russian workers won't follow a specification blindly. "There's a willingness to push back in a good way," he said. "They challenge what they see, they ask questions to understand, they say 'no' more than 'yes' and they're very creative thinkers."

He said he's found that Russian developers work well with the Agile Alliance methodology, which lends itself to effective rapid development. He also said that the Russian developers are particularly effective on jobs where their cultural sensitivity plays a major role. "In areas like social networking sites and [user interfaces], there is more creativity on the customer-facing side. That leads to a better deliverable," Adamopoulos said.

While Exigen Services is based in the United States, Russian and Eastern European service providers are finding the same trends. Andriy Cherevko, marketing department manager for SoftServe, in Lviv, Ukraine, said the cultural alignment and the ability to solve problems have led to a series of successes for his company in dealing with U.S. customers.

"We have a good working relationship with our partners in the U.S.," Cherevko said. "In most cases, it's like a partnership. We try to build long-term relationships with our clients. Our objective is to solve business problems for our clients. The main result of our corporation is the business objective for our clients."



Cherevko said one notable success stemming from this partnership and cultural connection was a real estate application that enables agents to virtually fly over a property they're interested in, inspect it from all angles and even buy it online.

He said the technology was incorporated into a larger application from Real Estate on the World Wide Web, or RE3W, a real estate software company in Santa Ana, Calif.

"Russian developers are creative. They have pretty strong skills in architecture, design and testing," said Dmitry Loschinin, president of Luxsoft, in Moscow. "They have very strong engineering skills, software skills and electronic skills."

Loschinin said this combination of skills means that Russian engineers also understand how hardware and software work together, leading to much of Russian work being used in embedded systems.

Loschinin said companies looking for commodity programming for well-defined tasks might do better in India or elsewhere. But, he said, "for new development, or systems where you need to put a lot of things in place before you start coding, Russian talents can contribute to success."