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RIQ Editorial

Wind of Changes

By Galiya Sayfutdinova
Editor, Russian IT Quarterly

Though it's too early to sum up the results of 2008, we can already trace the most important trends of the previous year for Russian ICT market.

1. *Business consolidation.*

The year was marked by unprecedented number of merges and acquisitions on the Russian ICT market. Web-portal Merges.ru declares 122 deals were closed in this sector. All types of market players were buying and selling – telecom operators like Vypelcom (acquisition of Golden Telecom), Internet projects (Tiger Global Management buying 14, 5% of Mail.ru), systems integrators and outsourcing providers (Reksoft becoming a member of Technoserv group, Lanit-Tercom merging two of its daughter companies into one).

2. *Filtering into European markets.*

This year we observed first steps of Russian IT companies on its way on entering European market as full-rate players and not only work force suppliers. They opened new sales and development offices and strengthened their market activities in Europe. Thus, EPAM opened its point of presence in Sweden and Luxoft acquired local software developer in Romania.

3. *Opening of production centers in the low labour cost countries and Russian province.*

Due to the gradual growth of labour cost that took place in large Russian cities like Moscow and St-Petersburg IT company had to re-place some of their development centers to the province where the expenses are considerably lower or to the other countries of the former USSR and South East Asia. However, present economic situation might put an end to this tendency. As the labour cost in Russia decreases, it becomes much more profitable to use highly-educated and skilled resources that providers already accumulated in Russian megalopolises.

4. *Considerable demand growth from the local market.*

Growing Russian manufacturing sector along with oil and energy enterprises made the local demand for IT products and services skyrocket. According to RUSSOFT research, this year IT product and services export equaled with the local consumption for the very first time in Russian ICT history.

5. *Enhancement of intellectual property rights protection.*

According to Business Software Alliance statement, Russia holds the world record in effective struggle with piracy, and the main role in it BSA ascribes to the governmental authors' s rights protection programmes.

However, the present economic situation may affect the picture dramatically.

1. First of all, we observe a drastic change of solvent demand on various markets: a serious meltdown in the USA, an unstable economic situation in Russia. So change of sales destination vector looks very probable, but now the industry holds its breath waiting. Too much depends now on currency rates.



2. Though demand for outsourcing will continue growing, due to the overall IT cost cut the competition among the providers will increase.

3. At the same time Russia will experience labour cost decrease and it may provide its outsourcing companies with a competitive advantage in comparison with their rivals in Europe and America. As I've already said, it will also slow down or stop the opening of new production factories in Asia and Eastern European countries.

So the wind of changes is blowing and the whole IT development and support market is moving. What it will look like tomorrow? We don't know, but it depends on us.

P.S. Dear readers,

The wind of changes affected RIQ magazine as well.

Today I would like to present myself as a new Editor of Russian IT Quarterly. From now on I will inform you about recent trends and events of Russian IT industry. Please do not hesitate to write me, I would appreciate your feedback and ideas and try to implement them in the upcoming issues: pr@reksoft.com

Your sincerely,
Galiya Sayfutdinova,
Reksoft



Summary

Despite IT Market Slowdown in 2009, Central and Eastern Europe will Demonstrate Healthy Growth Rates

In the wake of the worldwide financial crisis, the European IT market is set to slow to just 1.2 pc year-on-year growth next year, an analyst has claimed [read more](#)

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European Technology Investors Return to Russian IT Market

The European Tech Tour Association (ETT), an independent organization committed to the development of emerging technology companies in Europe, announced its plans to organize the second Tech Tour visit to the Russian high tech sector. [read more](#)

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38 Billion Ruble for Business Incubators and Techno-Parks

Government-controlled Rosnano will inject over 240 billion ruble in nano-industry in the nearest eight years, Rosnano General Director Anatoly Chubais announced during the International Nanotechnology Forum in Moscow. [read more](#)

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Reksoft Explores New Trends of DACH IT Outsourcing

Reksoft, a leading software outsourcing provider with the primary development centers in Russia, explored new trends of IT outsourcing in DACH region at the recent seminar "Nearshore/Offshore Outsourcing" that took place in Frankfurt [read more](#)

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18.12.2008

Russian Software Exports to Cross US\$ 15 Billion by 2012

Outsourcing has emerged as the fastest growing segment of the Russian IT industry, according to new research report "Russia IT and Outsourcing Industry Forecast to 2011" by RNCOS. During 2002-2007, software exports from Russia grew at a CAGR of over 44% [read more](#)

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IT Outsourcing During Recession Time

IT outsourcing providers are likely to grow their business in the economic slowdown, researchers have claimed. Analysis of US Department of Commerce data by Forrester Research found that [read more](#)

Ihotdesk
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Despite IT Market Slowdown in 2009, Central and Eastern Europe will Demonstrate Healthy Growth Rates

Siliconrepublic.com
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In the wake of the worldwide financial crisis, the European IT market is set to slow to just 1.2 pc year-on-year growth next year, an analyst has claimed.

According to IDC, the downturn in the world economy is affecting demand for IT in both mature and emerging markets across Europe, the Middle East and Africa (EMEA).

IT spending in Western Europe will fall to just 1.2 pc, reflecting a sharp decline in capital investment and a contraction in GDP.

However, the regions of Central and Eastern Europe and the Middle East and Africa will continue to demonstrate relatively healthy growth rates.

"The IT market in Western Europe has moved into a phase of very sluggish growth for the foreseeable future," said *Marcel Warmerdam*, research director, European IT Markets, with responsibility for EMEA IT market research. "Many IT users are already resetting priorities in view of tougher times, with many projects being postponed or cancelled."

While EMEA's emerging economies are also being affected by the crisis, they will be more resilient in the short term, and market growth will recover quicker, given demand fundamentals.

"While growth in the IT markets of Central and Eastern Europe and the Middle East and Africa regions will slow in 2009, affected by downturns in Russia, Turkey, and South Africa, we anticipate a sharp recovery already in 2010 in view of requirements for infrastructure development," said *Steven Frantzen*, senior vice-president for EMEA research.

According to IDC, the IT markets in Central and Eastern Europe and Middle East and Africa will experience growth of 9.4pc and 8.5pc respectively in 2009.

In terms of technology sectors and demand, IDC expects discretionary spending on IT hardware to be the main focus of cutbacks in 2009. PC refresh cycles will be delayed, while new planned projects will be postponed or scaled back and, as business growth is projected downward, demand for storage and servers will be weak.

Sharply falling application service providers (ASPs) will also affect revenues. Growth of – 2pc is expected here for next year, with positive growth only resuming in 2011. Similarly, the growth rate for expenditure on software has been almost halved to 4.1pc for 2009, reflecting IDC's expectation that major business software upgrades will be delayed, particularly in the infrastructure space.

The IT services market will also feel the recession as demand for project-oriented services will be affected, and pressure may abound to renegotiate existing outsourcing contracts.

"We are likely to see a major shift in the type of IT spending as users increasingly focus on cost reduction and gaining efficiencies," said Warmerdam. "In fact, despite the troublesome short-term picture, there are a few silver linings."

These silver linings include double-digit growth in IP phones and smart phone handhelds, despite a general hardware slowdown; open source adoption by cost-conscious firms; the



development of the software-as-a-service business model; growth in demand for outsourcing; and the use of green tech and virtualization to improve data-centre efficiency.

Other silver linings include business continuity and IT security attracting investment, regardless of the economic climate, and the fact that the credit climate will bring on more regulation and compliancy efforts and the need for storage, software and data management investment.

European Technology Investors Return to Russian IT Market

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The [European Tech Tour Association \(ETT\)](#), an independent organization committed to the development of emerging technology companies in Europe, announced its plans to organize the second Tech Tour visit to the Russian high tech sector.

The Russian IT industry attracts foreign investments despite the turmoil in the financial markets since it is one the most promising sectors with the annual growth rate of 25%.

The first Tech Tour in Russia resulted in investments into the domestic tech Yandex, Parallels, Acronis and SJ Labs. And as mentioned in Tech Tour announcement, the past few years brought to light a number of technology start-ups in application development, internet services and fables design which urge for the new visit.

This time the projects will be selected in areas of new materials and processes, electronics equipment, software applications, voice and data transmission, value-added services and wireless solutions.

38 Billion Ruble for Business Incubators and Techno-Parks

Kommersant
03.12.2008

Government-controlled Rosnano will inject over 240 billion ruble in nano-industry in the nearest eight years, Rosnano General Director Anatoly Chubais announced during the International Nanotechnology Forum in Moscow.

According to *Chubais*, the annual investments will exceed \$1 billion. At the very beginning, Chubais went on, the government contributed 130 billion ruble into Rosnano's stock capital, and the corporation intends to inject 92 billion ruble in nano-production. The remaining 38 billion ruble will go to boost infrastructural projects, for instance, the creation of business incubators and techno-parks.

Rosnano won't have less than 50 percent in the business undertaking, Chubais emphasized, adding that the corporation is ready to cover up to 90 percent of all investments required under the projects. According to Chubais, they may provide both the long-term money (up to 10 years) and cheap funding (at 8 percent on year).

The corporation will withdraw from the business projects once "the companies get on their feet." "When pulling out of projects, we won't be governed by the capitalization of those companies, as our task is to arrive at the maximum production rather than the maximum profits," Chubais pointed out.



Reksoft Explores New Trends of DACH IT Outsourcing

Reksoft Press Service
18.12.2008

Reksoft, a leading software outsourcing provider with the primary development centers in Russia, explored new trends of IT outsourcing in DACH region at the recent seminar "Nearshore/Offshore Outsourcing" that took place in Frankfurt.

This event brought together C-level representatives from DACH leading enterprises such as RWE AG, enterpriser GmbH & Co KG, 7 Principles, BHN, WireCard AG and others to discuss the new models of outsourcing engagements for businesses under volatile market conditions.

Both influential end-users and experienced system integrators covered a wide array of topics such as the current IT market and outsourcing trends in Germany, changes in demand for offshoring in DACH and outsourcing regulatory update.

According to Dr. Mathias Weber, Area Director IT Services, BITKOM, 2008 marks an era of changes for the DACH IT market. About 43% of enterprises, large companies in particular, have to review their expenses structure and reduce costs (Bitkom survey, Nov.2008).

Outsourcing models are also being modified. The clients are hardly satisfied with one-stop service providers anymore. Looking for cost-effectiveness, clients place specific inquiries at niche and regional suppliers. Competition increases bringing more preferences to the customer (Deloitte consulting).

However at the moment only 10% of German IT-enterprises have integrated the offshore services into their day-to-day work (Berlecon - Marktanalyse). Thus offshore outsourcing offering services at 25-30% lower cost than similar ones produced in DACH promises a great potential for German market. That is why Experton group predicts offshore outsourcing growth with CAGR 8,2 % up to year 2010.

But cost-efficiency is not the only reason for outsourcing IT services and software development. "Companies that offshore with an emphasis on improving performance ultimately save 3.5 times more money than the companies, motivated to offshore for cost reasons," - states A.T. Kearney.

Nowadays outsourcing process implies not only service but also know-how transition. Alexander Egorov, Reksoft CEO, pointed out the traps that must be expected by both the customer and the provider during the process and the ways to escape them.

"Our German partners use the term "Multisourcing" more and more frequently, implying close cooperation of the customer and the supplier based on mutual trust, goal orientation and sticking to the time-frame, - Alexander Egorov says. - We believe that creation of such environment between the customer and contactor is the only way to success in the outsourcing projects".

Russian Software Exports to Cross US\$ 15 Billion by 2012

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Outsourcing has emerged as the fastest growing segment of the Russian IT industry, according to new research report "Russia IT and Outsourcing Industry Forecast to 2011" by RNCOS. During 2002-2007, software exports from Russia grew at a CAGR of over 44% as compared to just 24% growth recorded in the IT spending during the same period. As for future, the country is projected to export software worth over US\$ 15 Billion by 2012.



As compared to other outsourcing destinations in Eastern Europe, Russia has a strong advantage in offshore software development. Closer proximity to the US and Europe, similar time zone, and government and association support has given thrust to the outsourcing industry. Also, Russia has the largest pool of qualified software professionals with advanced technical skills as compared to professionals in Eastern Europe, India or China.

Increasing investment from foreign companies and government initiatives, like development of techno parks and liberalizing tax structure for software companies, will drive the software exports from Russia in future. Besides rising investment, the government's commitment to develop the IT and outsourcing industry will also provide the desired platform for the future growth of the outsourcing industry.

IT Outsourcing During Recession Time

Ihotdesk
23.12.2008

IT outsourcing providers are likely to grow their business in the economic slowdown, researchers have claimed. Analysis of US Department of Commerce data by Forrester Research found that the IT budgets of North American and European businesses are expected to increase by three per cent. Chief information officers are expected to focus on improving efficiency and helping to cut costs by increasing productivity, the report said.

"Sellers of communications equipment, software, and IT consulting and outsourcing services will see one or two quarters of declining revenues, but on average will still grow modestly in 2009," said Andrew Bartels, vice president at Forrester.

IT outsourcing firms are predicted to benefit from companies looking to reduce costs. "Whenever there's a downturn people outsource more, not less," says Gartner analyst Linda Cohen. "Organizations want to take costs out wherever they can. CFOs are pounding on their CIOs to just outsource it, just offshore it."