



Contents:

RIQ Editorial2

Summary3

We are the second, third, fourth - we try harder!5

CEE strengthens its position in IT outsourcing market7

IT outsourcing becoming more popular, poll finds.....8

An interview with Valentin Makarov: The recovery of outsourcing business is already underway9

Offshore outsourcing on rise for SMEs in 2009 10

Reksoft spreads in the West 11



RIQ Editorial

The prospects of a Russian Silicon Valley

By Galiya Sayfutdinova
Editor, Russian IT Quarterly

The last few months have been subdued, even by the drowsy standards of summer. This has been compounded by the wait-and-see attitude of the business community looking forward to signs that the market has reached the bottom and is rising again.

The only visible sign of life has been the frantic efforts of rival service providers to secure contracts, apparently with little thought for the long-term viability of their loss-leading activities.

The Russian market stirred to life last month in a flurry of high-profile marketing activities organised by the government. Innovation Week saw a series of conferences and exhibitions take place in Moscow and St. Petersburg, and it was against this backdrop that President Dmitry Medvedev emphasised his latest economic strategy – changing the course of the country from natural resource supplier to high technology provider.

In essence, the Russian government is pursuing a truly ambitious aim – to create a new Silicon Valley on Russian soil, a production center for new high-tech products and technologies, headed by the state-owned Rosnano Corporation.

How realistic is this?

On the one hand, the pool of Russian high-tech products is quite shallow at the moment. These include military, space and nuclear energy technologies along with a few names like Kaspersky, SPIRIT and Abbyy.

However, Russia possesses a good nutrient solution to grow the innovations reef. Besides the famously high quality of Russia's technical education, the last ten years have seen the emergence of new IT and telecom service companies capable of working with both domestic and overseas enterprises. This seems to be a solid grounding for any successfully developing IT and innovations industry. Service companies working for a broad range of clients accumulate the best business practices, knowledge of business processes and best technology solutions. They become a source of knowledge for the domestic market, breeding highly competent personnel with rich, transferable skills, who are able to set up their own product companies or enhance existing ones. Service companies can also become the launch pad for various start-ups, as Reksoft was at an earlier stage of development, when the company developed Russia's most successful online retailer, the country's first internet payment gateway and a leading hospitality ERP system, alongside a number of niche products.

From this point of view, the prospects for a Russian Silicon valley look positive.

However, as we know, the nutrient solution is not enough to create life. A benevolent Creator must create the spark - in this case, entrepreneur activity.



Summary

We are the second, third, fourth - we try harder!

Multisourcing is defined as outsourcing of processes or sub-processes to two or more parties. This matches an old rule, used for good investing: "Don't put all your eggs in the same basket." It allows to avoid risks connected with dependence on one party or one geographical region.

The world has rapidly changed within the past couple of years. While associating the term "offshoring" automatically with India a few years ago, it is no more as clear any more. There are more and more countries competing with India for orders and projects [read more](#)

Global Services by Maggie Holland
22.07.2009

CEE strengthens its position in IT outsourcing market

There has been a shift from simple cost savings as a motivation to valuing the experience of outsourcing services providers and efficiency of cooperation between the client and provider teams, according to the research conducted by CEEOA [read more](#)

ITO News
24.07.2009

IT outsourcing becoming more popular, poll finds

Almost two thirds of firms have used IT outsourcing for some of their operations in past six months, new research claims.

A study conducted by the IT Job Board found that 64 per cent of businesses have used a form of outsourcing for some of the IT tasks, while 34 per cent have outsourced more than half of their IT department [read more](#)

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27.07.2009

An interview with Valentin Makarov: The recovery of outsourcing business is already underway

In continuation to our ongoing series - "upcoming outsourcing destinations " BPOVoice had an interview with Mr.Valentin Makarov, President RUSSOFT Association, regarding the benefits Russia has to offer and his views on the upcoming challenges. Here are the excerpts: [read more](#)

BPO Voice
05.08.2009

Offshore outsourcing on rise for SMEs in 2009

Large enterprises remain flat on offshore services for 2009, says a new Computer Economics report. Could financial fraud scandals that plagued companies such as Satyam in India have had any effect?

Perhaps more telling than the rise of small and midsize companies' use of outsourcing is that the levels for large companies remain essentially the same, says a new report by Computer Economics. Small and midsize companies' use of offshore outsourcing services grew 10 percent from 2008 to 2009 [read more](#)

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Reksoft spreads in the West

Reksoft, a company offering expert software development and system integration services, has announced it is to open a regional office in Vienna [read more](#)

Reksoft Press Service
08.10.2009



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Multisourcing is defined as outsourcing of processes or sub-processes to two or more parties. This matches an old rule, used for good investing: "Don't put all your eggs in the same basket." It allows to avoid risks connected with dependence on one party or one geographical region.

The world has rapidly changed within the past couple of years. While associating the term "offshoring" automatically with India a few years ago, it is no more as clear any more. There are more and more countries competing with India for orders and projects.

However, India is still on the top of the list of offshoring nations. Long-term investment in education and IT sector pays back now. The names of Infosys, Tata or Wipro which stay for experienced and high-professional companies are world-known.

India's outsourcing industry has risen to become the foundation of the country's modern economy through aggressive targeting of export earnings, which reached an estimated \$47.3 billion in the year ended March, up 15.8 percent against a year earlier. The National Association of Software Services Companies (Nasscom), India's IT industry body, calculates that annual sales in the domestic outsourcing sector have grown to \$24.3 billion from \$13.2 billion just three years ago.

Nasscom also forecasts that the Indian outsourcing industry can potentially earn revenue of \$225 billion by 2020 in a conservative variant or even \$375 billion in an optimistic scenario.

However, due to high demand for well-qualified professionals, they are hard to get now. Also the fluctuation of personnel is a problem in Indian companies. And: the competition from at least 25 to 30 low-cost countries could reduce India's market share even by 10 percent, according to Nasscom.

The challenges are also recognized by companies outsourcing their operations and that makes sense for them to look for alternatives and to try to establish multi-co-operations: with India, China and other site(s).

China is a very interesting destination for offshore outsourcing. These factors which are of importance for foreign investors (agglomeration economies, infrastructure, institutional changes) have been much improved for the last couple of years. A working hour of a Chinese professional is even 30 to 40 percent cheaper than their Indian colleague, although the price should not be the only criterion to decide whether to outsource or not.

According to the statistics provided by the second China International Service Outsourcing Cooperation Conference, in the first five months of 2009 the number of newly-established outsourcing companies in China stood at 1,057, bringing 246,000 new jobs and generating a profit of \$3.52 billion, which is a 13.2 percent increase year-on-year. The contract amount stood at \$2.3 billion, with international outsourcing services taking 82.4 percent, a yearly increase of 45 percent. China has also huge economic growth rates: The GDP growth amounted to 6.1 percent in the 1st quarter 2009 and achieved 7.9 percent in the second quarter. And these figures were possible to reach in the difficult time of financial crisis.

China is not only interesting as an offshoring destination for American and European companies but also for Asian firms from Japan, Korea, Hong Kong or Singapore.

Malaysia has become an important player among the offshoring locations. In May 2009 this country hosted Asia Pacific Outsourcing Summit, one of the most important outsourcing events. That is one of the signals for Malaysia wanting to increase its yet important role in global outsourcing industry. Also a positive signal comes from the Malaysian government agency, MDeC, offering strong support for outsourcing industry in this country.

Malaysia has similar educational framework to India and possesses therefore a pool of high-qualified IT- and BPO-professionals. However, the local labour market is much smaller than that of China or India. That is the reason why the labour costs in Malaysia are higher



than in these both countries and Malaysia is trying to position itself as a provider of knowledge-intensive services.

India, China and Malaysia ... According to the 2009 A.T. Kearney Global Services Location Index™ (GSLI), these three are on the top of the global outsourcing destinations measured by the combination of: financial attractiveness, people skills and availability, and business environment.

Philippines have been seen as one of the leading call center destinations, making about \$1 billion on exporting of call-center services. That is a huge amount and Philippines together with India possess about 50 percent of the global BPO market. Also the language and cultural similarities to the U.S.A. are of advantage of this country. The government offers incentives to attract foreign investors from the IT sector. Philippines have competitive cost structures and well-educated population. However, the country has also some disadvantages as political instability and weak infrastructure (public transportation, energy, telecommunications).

Another interesting destinations are the countries of Central and Eastern Europe (CEE), as Poland, Czech Republic, Hungary, Romania and Russia. Most of them have been members of the EU for a few of years, which is another sign, showing their legal, institutional and political stability. However, due to increasing costs these countries have fallen in the GSLI ranking comparing with the past years.

Some macroeconomic data about Poland: The GDP growth was 6.2 percent in 2006, 6.7 per cent in 2007 and 4.8 percent in 2008. The unemployment rate decreased from 15.1 percent in 2000 to 9.5 percent in 2008.

Poland is a country having a very good system of education. There are almost 500 universities and other schools of higher education in Poland and about 2 million people study there. Almost 50 per cent of population between 19 and 24 are students. Many big corporations locate their R&D centers in Poland showing their recognition to high quality level of the educational background of the Poles.

According to PAIZ (Polish Information and Foreign Investment Agency), foreign companies invested EUR 15.7 billion in 2006, EUR 16.7 billion in 2007 and EUR 11.0 billion in 2008 in Poland. The same agency is also of the opinion that Poland does not intend to compete with India with labour costs but with the possibility to provide more technology-advanced projects. As the demand for high-qualified specialists in India is very high, there is the lack of them occurred on the market, which can now be fulfilled among others by Polish specialists.

Czech Republic is four times smaller than Poland in terms of number of population, however, it also offers a very interesting option for outsourcing. Many companies from West Europe have already located their operations here. Czech Republic is for instance very popular among the German investors due to cultural similarities, knowledge of foreign languages, cost advantages, and good infrastructure. Czech Republic can also be reached within a few hours by flight, train or by car from many European towns and airports. However, as already mentioned, the country is relatively small, also the labour market is not as big so that the labour and rental costs are exploding.

Hungary is similar to Czech Republic in terms of population number. This country offers well-educated professionals, who speak many foreign languages. BPO companies located in Budapest, the capital of Hungary, offer their services even in 14 languages.

However, that what is perceived as good, is also high-demanded. Hungary has now similar problems as India: specialists are hard to be found at reasonable rates. Also the fluctuation of personnel is a problem in this country.

Have you heard about Capgemini establishing their shared service center in Romania? Or about Siemens, having their development center in this country? Romania, having joined the European Union at the beginning of 2007, is the second biggest of the 12 new member states. The country benefits from a multilingual labour force and boasts one of the fastest developing IT sectors in Europe. Moreover, the labour and rental costs are not as high as in Poland, Hungary or Czech Republic (yet!).



Russia is seen a premiere destination to outsource high-end, complex IT application development work. That is for good reason as the student population amounts to 3 million in this country and about 50 per cent of them major in technology, science or engineering. They spend approximately five to six years at university before having graduated with a BSc degree.

Except of that each of the major technology centers in Russia (as Moscow or St Petersburg for instance) is just two to three hours flight away from the major European capitals, making this destination attractive for companies from West Europe. Russia also has good developed infrastructure, which is one of the most important criteria for foreign investors.

We have turned from Asia to Europe during our brief multi-sourcing trip. What about other continents? How about the potential of America or Africa?

The region of East Africa (Kenya, Uganda, Tanzania and Rwanda) is perceived due to the availability of workforce at competitive prices as a serious player on the world outsourcing market. These countries have developed national BPO, KPO and/or ITO strategies and are currently at different stages of their implementation.

Regarding Latin America, Mexico and Brazil are interesting outsourcing destinations. They rank: 11 and 12 on GSLI 2009 list.

Mexico, offering IT and call-center services, is an important player on the outsourcing market. The knowledge of English, the population of 103 million and better cost structure comparing with the USA are the strengths this country offers. However, the cost have dramatically exploded in the past years, and deficit of qualified employees is observed in many industries now.

Finally Brazil has been one of the most important nearshoring destinations, especially for the USA. That for three main reasons: overall costs are about 40 per cent lower than in the USA, time and geographical proximity which allow greater level of control and better project flow, and cultural similarity to that US Americans have, i.e.: similar work ethics, creative problem solving and fast implementation of solutions.

Conclusions? There are two things which we can be sure of: India will remain the top outsourcing destination for a long time yet. But other countries, ranking second, third, fourth and so on the list of the global outsourcing destinations will try their best, by the motto: "We are the second (third, fourth...) – We try harder". And that is a solid basis for multi-sourcing.

CEE strengthens its position in IT outsourcing market

ITO News
24.07.2009

There has been a shift from simple cost savings as a motivation to valuing the experience of outsourcing services providers and efficiency of cooperation between the client and provider teams, according to the research conducted by CEEOA.

The research "Central and Eastern Europe IT Outsourcing Review 2008" conducted by CEEOA, provides an evidence of the rapid development of IT outsourcing services market in the Central and Eastern Europe. The CEE cluster becomes the real player on the global outsourcing market. The clients are getting more interested in the "nearshoring" to the CEE region than in the offshoring to India or China. The customers become more sophisticated in their business relationships. There has been a shift from simple cost savings as a motivation to valuing the experience of outsourcing services providers and efficiency of cooperation between the client and provider teams. The advantages of the CEE countries such as cultural compatibility with Europe and North America, technical and business experience are of great value for the clients.

One of the main objectives of the research conducted by the Central and Eastern European Outsourcing Association (CEEOA) with the support of Council of European Professional



Informatics Societies (CEPIS) is to provide the holistic view on the potential of the CEE region as a global cluster for provision of nearshore IT outsourcing for the Western European countries and for offshore IT outsourcing for the North American market.

"CEE IT Outsourcing Review" is conducted for the second time. The 2007 research report "Central and Eastern Europe IT Outsourcing Review 2007" indicated that there was a great interest from the clients consuming outsourcing services and research companies. Following positive feedback for the 2007 Report, the CEEOA decided to commission an annual review on "CEE IT Outsourcing Review", resulting in this 2008 Report. "CEE IT Outsourcing Review 2008" was conducted during January to July 2009. The national IT and outsourcing associations, largest outsourcing companies, and independent experts were invited as respondents. The Ukrainian software development company NET Technology Center WEB100, who provide offshore outsourcing services and deals with the development of IT solutions for B2B communications and business solutions based on Social Media approaches, sponsored the research.

The research examines key development indicators of the IT outsourcing market in the 16 countries of the Central and Eastern Europe region including market value, number of professionals, number of IT companies providing outsourcing services and market rates.

"CEE IT Outsourcing Review" includes the detailed country profiles, experts' estimations on the outsourcing market development during the recession period, their opinion on new tendencies and forecasts for the market recovery, profiles of the leading outsourcing companies in the region.

Victor Maznyuk, President of Ukrainian Hi-Tech Initiative, one of the CEEOA founders, noted, «Outsourcing industry in the Central and Eastern Europe does not suffer significantly during the financial crisis. At the outset of 2009 there was insignificant number of the outsourcing companies closures. The outsourcing industry always expected from the outsourcing players to meet the client requirements quickly and to control the expenses. Having a great experience of the development on the competitive market of outsourcing services provision, the Eastern European companies learned how to work successfully during the recession period without taking drastic measures and significant business changes.

As a whole, the crisis produced the effect of improvement in the industry. The number of IT specialists slightly increased, their salary and rental fee underwent insignificant drop. This allowed companies to reduce the cost of services and to be confident during the recession period. Without any doubt I can claim that outsourcing industry is ready for the increase of provided services value in view of the forthcoming economic recovery."

IT outsourcing becoming more popular, poll finds

IHotDesk
27.07.2009

Almost two thirds of firms have used IT outsourcing for some of their operations in past six months, new research claims.

A study conducted by the IT Job Board found that 64 per cent of businesses have used a form of outsourcing for some of the IT tasks, while 34 per cent have outsourced more than half of their IT department.

Furthermore, the survey discovered that 50 per cent of businesses predict they will continue to use IT outsourcing in the next six months.

When polled about the actual roles which have been outsourced, 79 per cent cited software developers, 71 per cent reported programmers and 67 per cent opted for IT support positions.



Teresa Sperti, head of international marketing at the IT Job Board, claimed that IT outsourcing is becoming an increasingly common choice for businesses, as they seek to cut their costs over the recession.

Recently, the EquaTerra 2Q09 Advisor and Business/IT Service Provider Pulse Survey found that businesses are using IT outsourcing to cut costs, not drive their competitive advantage, during the economic downturn.

An interview with Valentin Makarov: The recovery of outsourcing business is already underway

BPO Voice
05.08.2009

In continuation to our ongoing series - "upcoming outsourcing destinations " BPOVoice had an interview with Mr.Valentin Makarov, President RUSSOFT Association, regarding the benefits Russia has to offer and his views on the upcoming challenges. Here are the excerpts:

BPO: - What makes Russia one of the most interesting destinations of Eastern Europe for outsourcing?

Valentin Makarov: - Russia provides a number of particular advantages for customers in the field of outsourcing compared to other Eastern Europe:

- Scalability (we have much bigger human resources. Russia is #1 in the World by number of engineers per capita),
- High-tech skills and experiences (Russian engineers keep top level knowledge and experience of releasing huge R&D projects in Space, Ocean, New Materials, etc., which have been conducted within Cold War time),
- Cost (Russia is a low cost destination vis-à-vis Eastern Europe).

As an accumulative result, the volume of outsourcing projects generated by East European countries all together is smaller than that of Russia alone.

- What are your current challenges?

In 2007-2008 we were experiencing growing problems with new human resources. The High School was not able to follow fast growth of the industry demand (the growth rate of export in Russia was around 50%). The effectiveness of High School is and will be a big problem for the further growth. Fortunately, the crisis and related cut of IT-expenses led also to dismissal of IT-staff in many small businesses in Russia. The freed qualified people were immediately reengaged by the outsourcing industry.

- Where do you see the main business coming from in the future?

From the geographical point of view we expect recovery of IT markets in the US and Europe (which are for long time the major markets for Russian outsourcing industry).

The majority of businesses expect recovery and growth of the Russian local market (where outsourcing is well underdeveloped) and in the CIS countries.

As to the spheres of outsourcing we expect more complex projects of outsourcing services, not only software development and maintenance, but also growing outsourcing in IT-infrastructure, system integration, cloud computing, IT-consulting.

- How much support have you received from your government in projecting Russia as a business friendly country?



- The software development export-oriented industry enjoys tax incentives (in social taxation) which provides exporters with 10% tax reduction on the average.

There are 4 High Tech Free economic zones in Russia where IT business enjoys tax reduction and other measures of support.

There exists a program of developing venture capital in Russia (Russia Venture Corp) and two major Nationwide corporations devoted to development of Innovative business (Ros technologies and Ros nanotechnologies)

There is a program of constructing Technoparks in Russia (particularly for IT business). We have also had Russian politicians participating in PR actions (like delegations to CeBIT and similar events).

- In your opinion, how much time Russia has before the costs finally catch up?

- According to our recent report, we consider that the recovery of outsourcing business is already underway since May-June 2009. It will take some 6-9 months more for full recovery. The main reason for such expectations is related to the fact that during recession all business looks for cutting unproductive expenses (including IT). Outsourcing is one of most effective means to do it. So it will grow faster than previously, but in forms which are not that familiar to the Russian industry (more IT-outsourcing rather than software development outsourcing alone).

Our report of 2009 provides the following expectations: in 2009 the growth of software export would reach 5%-8%, in 2010 the growth may reach 18%-20%.

- Your views on the recent KPMG report which states that the confidence in the BRIC service sector has increased?

We are closely working with KPMG and share many of their views. The confidence in BRIC countries grows as these countries have the same advantages as Russia has compared to Eastern Europe: scalability, availability of qualified resources, lower prices, huge internal market which also attracts outsourcing customers as a destination for their products and services.

- What is your take on the current trend of nearshoring?

- Nearshoring has some advantages (which we enjoy in Europe and may enjoy in Japan): fast person-to-person communication (which means more trust and effective decision making), the same time zone which let you tune the development in real time, cultural closeness (which proved to be considered much more important compared to previous years).

Offshore outsourcing on rise for SMEs in 2009

E-week.com
05.10.2009

Large enterprises remain flat on offshore services for 2009, says a new Computer Economics report. Could financial fraud scandals that plagued companies such as Satyam in India have had any effect?

Perhaps more telling than the rise of small and midsize companies' use of outsourcing is that the levels for large companies remain essentially the same, says a new report by Computer Economics. Small and midsize companies' use of offshore outsourcing services grew 10 percent from 2008 to 2009.

"There is a surprisingly sharp increase in the number of smaller companies using offshore service providers, but little or no change among larger companies," said John Longwell, Director, Research for Computer Economics, in a news release. "As larger customers cut



back on IT spending, offshore service providers appear to be moving down market. They are doing a better job of connecting with smaller IT organizations."

In 2008, 14 percent of the 200 companies surveyed went offshore; In 2009, that number has grown to 24 percent. From a news release on findings from the report:

"The bulk of offshore outsourcing to date has been among large organizations, defined as those with more than \$1 billion in annual revenue, according to the study. These organizations, however, showed almost no change in the overall percentage of organizations using offshore service providers. Among large organizations that outsource some work, about 46 percent are using offshore service providers this year compared to 48% the previous year."

The report is titled "IT Outsourcing Statistics 2009/2010: Outsourcing Trends and Cost Experiences for 11 Key IT Functions" including the largest area-application development.

"While the frequency of offshore outsourcing may be rising, this does not mean the actual size of the market for offshore services is increasing. Along with technology vendors, offshore service providers are experiencing the effects of the slowdown in IT spending. The most widely outsourced function, application development, is being particularly impacted by the slowdown in capital spending by IT organizations, according to the study," says the report's abstract.

One of the areas that is possibly affecting the lack of offshore growth for large organizations could be some of the financial fraud scandals that hit some of the large Indian firms in 2008 and carried over in to 2009, namely the company Satyam. Earlier this year, The New York Times profiled some of these issues in its article "Troubles of Satyam Could Benefit Rivals and two U.S. Companies:"

"The \$50 billion-a-year offshore outsourcing business was growing at a 29 percent annual rate until the credit crisis hit last fall, Mr. Bourgeois said. But he now forecasts growth in 2009 to be about 10 percent.

"The impact on other Indian outsourcing companies is unclear, but analysts say that, long term, the fraud could have wide implications. The scandal at Satyam — a company listed on the New York Stock Exchange and audited by an American accounting firm, PricewaterhouseCoopers — raises doubts about other Indian companies.

"This is a crisis of trust," said Frances Karamouzis, an analyst at Gartner. "It's not really Satyam at stake; it's the India Inc. brand." Still, the growth for small and midsize companies in offshore outsourcing is not to be overshadowed by the scandals. Offshore outsourcing is not only in India, but many other countries including China, and many Eastern European countries. There is also a hybrid market in place that includes U.S.-based companies that have offshore operations. That trend has gained a lot of attention from companies such as IBM who had large layoffs in 2009, with much of the work being sent overseas.

Reksoft spreads in the West

Reksoft Press-Service
08.10.2009

Reksoft, a company offering expert software development and system integration services, has announced it is to open a regional office in Vienna.

The opening of an Austrian office conforms to Reksoft's corporate strategy. In 2008, the company took the decision to establish remote delivery centres in Russia and nearby countries and a network of regional offices in Western Europe.

Currently, Reksoft operates three overseas offices, in Stockholm, Munich and Amsterdam.

"Historically, the German-speaking market has always been a priority for our company," says Ekaterina Zabelinskaya, Reksoft's Director of Sales. "This region is home to the clients who have worked with us the longest - major enterprises like T-Systems, Fujitsu



Technology Solutions, Francotyp-Postalia, First Data International, and Swisscom. Reksoft draws around 30% of its revenue from this region."

In the near future, Reksoft plans to open a new regional office in Finland, and step up its marketing activity in the Netherlands.