



Contents:

RIQ Editorial2

Summary4

Facebook focuses on Russia.....5

Gartner reveals IT outsourcing challenges5

Cisco, Nokia in Talks to Join Russia’s ‘Silicon Valley’ Project.....5

The Continued Growth and New Face of IT Outsourcing6

Avoid Outsourcing Headaches7

India finds Europe tougher as wage costs rocket8



RIQ Editorial

Summing up

By Galiya Sayfutdinova
Editor, Russian IT Quarterly

To mark the start of summer, the Russian IT outsourcing community gathered in St. Petersburg to attend the industry's key annual event – the Russian Outsourcing and Software Summit (now known as the Russoft Forum), where the results of the year are traditionally summed up and discussed.

The attendees shared the latest news and gossip, speakers detailed current market trends, and Russoft revealed the preliminary results of 2009 Russian IT market research.

Russian IT exports in 2009 have stayed almost flat growing only to \$2.7bn from the previous year (2.6 bn). The comparison with the active growth of such outsourcing giants as India and China partly reflects a tendency that has been noticeable among Russian outsourcers over the last few years – a move up the value chain.

Despite retaining considerable cost advantages compared to Europe and the US, these days Russia cannot be called a low-cost destination or compete on price with Asian BPO specialists. However, Russian companies have proven to be unbeatable performers in complex high-end projects demanding flexibility, creativity and a readiness to innovate.

Russian companies have been moving away from simple body-selling, and are taking on more tailor-made, fixed-price projects that demand an imaginative approach. This type of business is less sensitive to market trends than mass outsourcing, which has resulted in the Russian IT export staying flat.

But the Russian IT industry is certainly growing more mature. That is proved by a number of acquisitions made by foreign investors in Russian IT and Internet companies, such as the Tencent/Digital Sky deal, and global Internet players like eBay, Facebook, and Paypal entering the Russian market.

Another sign of market maturity is the structuring and consolidation of the main market players. This year, due to economic instability, this process went especially actively. A lot of small companies and freelance teams found themselves swept off the market or acquired by larger players. Other companies spun off minor concerns to focus on their core business.

Last year was also marked by government action on the IT market. The Russian government procurement was a main driver for the domestic IT industry, with expansive projects like “Electronic Russia” and “Electronic Government”, while great effort were made to create and sustain the country's innovations ecosystem. The most significant project, among new technology parks development and the formation of a State science corporation, was the development of the Russian Venture Company (RVC), a State venture fund for seed investments. Benefited by the appointment as CEO of Professor Igor Agamirzian, a famous scientist and past Microsoft Head of GR, RVC immediately invested in several promising start-ups in Russia. Last week brought news on RVC joining its efforts with Morgan Stanley and Chevron for entering international markets with the first project of investing in BrightSource Energy, a US-based developer of solar thermal power plants.



Another customer sector growing as the economy crisis lifts was the telecommunications industry. That brings us to the prospects of the next year revealed at the Russoft forum by Robert Farish, IDC Vice-President and Regional Director in Russia. With the popularity of mobile accessories growing daily, as well as that of notebooks, smartphones and other communication tools, this sector could well be the driver of IT outsourcing industry in the near future. And as the fastest-growing internet and mobile markets are Russia and Asian countries – India, Japan, China, the global vendors and integrators will need not only outsourcing services but also reliable on-site support. Ex oriente lux. Light is shining on IT vendors from the East again.



Summary

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The Continued Growth and New Face of IT Outsourcing

Although economic recovery is slowly improving the world of commerce and IT projects that have been held back are gradually starting to receive funding, many CFOs are still very mindful of cost savings. The IT outsourcing industry is riding this wave of change to meet the needs of continued growth and the IT community has probably already seen its most significant changes and trends for the year. The shifting landscape over the first quarter of 2010 has important implications for CFOs considering IT outsourcing [read more](#)

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Avoid Outsourcing Headaches

Outsourcing is expected to be a booming business again in 2010. Some 62% of outsourcing service providers in the latest survey from Duke University's Offshoring Research Network and PricewaterhouseCoopers reported plans to expand the scale of their existing offerings. And 82% of respondents to a Grant Thornton survey reported that some portion of their supply chain is purchased internationally [read more](#)

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India finds Europe tougher as wage costs rocket

This month sees a major local wage rise at Indian outsourcers, which could make IT work more expensive and give Europe's IT specialists and rival outsourcing countries a boost. Wages had been rising by 10-15% annually before the global slowdown, as the Indian companies struggled to keep staff from being poached by rivals such as IBM and Accenture who hire by the thousands in India [read more](#)

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Facebook focuses on Russia

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29.06.2010

Foreign IT companies expansion on the Russian market goes on. Facebook is planning to further expand its presence in the Eastern markets as its overall growth begins to falter.

The social networking giant is looking to the countries like Russia, Japan and China, where Facebook doesn't hold the primary position among social networks, said Mark Zuckerberg, Facebook CEO, in his speech on Cannes festival.

In Russia the company must compete with Vkontakte.ru, which boasts over 75 million customers across the CIS. Facebook currently has just over 500 million users world wide. 'If we succeed, chances are that we will become a company that would combine 1 billion people,' added Zuckerberg.

Gartner reveals IT outsourcing challenges

Ihotdesk
04.06.2010

Businesses which opt for IT outsourcing need to focus on strategy and risk management to make the most of it, a leading IT analyst has advised.

Gartner has predicted that 30 per cent of outsourcing deals could be affected by inflexibility up to 2012, but pro-active companies will be able to avoid this.

Firms can reduce the chances of problems arising on deals through proper risk management, while thoroughly planned strategies can ensure the delivery of IT from outsourcing providers can match the overall aim of the company.

At present, "many organizations struggle to develop an effective and efficient sourcing environment, which is necessary to achieve positive sourcing outcomes", according to Frank Ridder, Gartner research director.

When managed correctly, agreements between companies and their IT providers can bring a variety of benefits to both parties.

One of the most positive aspects to IT outsourcing is the fact that it enables firms to focus on their key business strategies, knowing their IT needs are in safe hands..

Cisco, Nokia in Talks to Join Russia's 'Silicon Valley' Project

Bloomberg.com by Maria Ermakova and Maria Levitova
20.05.2010

Cisco Systems Inc. and Nokia Oyj plan to join Russian President Dmitry Medvedev's project to develop a technology hub near Moscow, part of a drive to diversify the economy away from natural resources.

Nokia, the largest handset maker, is in "the final stage of talks on the Skolkovo project" and may join the venture's board, said Viktoria Eremina, a spokeswoman for the Finnish company, by phone from Moscow today. Cisco spokesman Alexander Palladin said talks were "ongoing" and declined to elaborate.



Medvedev in March asked billionaire Viktor Vekselberg to oversee efforts to create a Russian version of Silicon Valley in the Moscow suburb of Skolkovo, where tax breaks and other incentives will be offered to lure investment to spur innovation and production of high-technology products. Medvedev, 44, has called the government's reliance on oil and natural gas revenue "humiliating."

Nokia plans to build a research center in Skolkovo, which is already home to the country's most prestigious business school, Eremina said. Cisco, based in San Jose, California, is considering setting up a production facility in Russia, Palladin said, without being more specific the location.

"Cisco here in Russia must strengthen its relations with government bodies," Palladin said. "Undoubtedly Russia is very important for the company," he said. Cisco already has a research center in the Volga River city of Saratov.

Skolkovo is the cornerstone of the Kremlin's efforts to turn Russia into a "white-collar" country, said Vladislav Surkov, Medvedev's first deputy chief of staff, in March. Last month, Medvedev named Craig Barrett, a former head of Intel Corp., the largest chipmaker, as co-chairman of Skolkovo's supervisory board.

The Kremlin courting companies from the U.S., Europe and Asia for the project, Arkady Dvorkovich, Medvedev's chief economic adviser, told reporters in Moscow today. "The most intensive discussions are with Cisco," Dvorkovich said.

The Continued Growth and New Face of IT Outsourcing

GlobalServices by Don Jones
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Although economic recovery is slowly improving the world of commerce and IT projects that have been held back are gradually starting to receive funding, many CFOs are still very mindful of cost savings. The IT outsourcing industry is riding this wave of change to meet the needs of continued growth and the IT community has probably already seen its most significant changes and trends for the year. The shifting landscape over the first quarter of 2010 has important implications for CFOs considering IT outsourcing.

It should come as no surprise that outsourcing giants like China and India still take the lead in the IT outsourcing "revolution." According to findings from the BDO 2010 Technology Outlook Survey, China now ranks as the number one preferred outsourcing destination for both current and future markets. After China, the next highest ranked outsourcing destinations are Southeast Asia and India. Asia is at the forefront of the reversal of the IT insourcing trend as more Western companies have found it cheaper and better to invest in Eastern markets such as China and India. Even countries in the East have started to outsource their IT needs, and according to some analysts, Asia will account for 26.3 percent of the global consumption of IT and business process outsourcing services in the next decade, up from nearly 20 percent today. With the expected rise of the outsourcing industry, Asia's chip makers are also expected to see significant growth and profit in 2010.

As discussed in a previous column, in 2009 companies in the U.S. took steps toward cost savings by outsourcing locally. This approach is a recent phenomenon that has accounted for significant activity based on pulling work back into the U.S. Many companies took advantage of a robust job market that was mostly due to a sagging economy. For example, Qwest Communications International Inc. (NYSE:Q) recently opened its new Washington-area facility to take advantage of cheap local technology talent rather than outsourcing a component of its IT base. In addition, Staples, Inc. (NYSE: SPLS) recently expanded in the U.S. in order to provide IT outsourcing services to small businesses. However, the recent data is still somewhat contrary to the perceived trend that IT outsourcing growth will be losing speed in the future. While some factors indicate that companies are moving away from IT outsourcing, it still makes sense for most to continue the practice as technology and infrastructure in the East catch up to meet Western demands. In fact, the IT outsourcing



industry is alive and well and it appears to be growing. According to the BDO survey, 46 percent of the CFOs surveyed say IT services and programming are the most common functions that are currently being offshored. Competition in the outsourcing world has grown and the IT outsourcing industry is poised for continued expansion in 2010.

This expansion has led to some interesting trends. In order to compete for U.S. businesses looking to send more of their IT outsourcing components offshore, IT outsourcing companies are employing new strategies to set themselves apart from the competition by forming “strategic partnerships” and consolidating resources. A strategic partnership is generally formed among several outsourcing service providers to help broaden market share and improve offerings; essentially replicating the “bigger is better” approach. While unofficial strategic partnerships have existed in many variations unbeknownst to U.S. customers that purchased IT outsourcing services from these companies, the official practice has grown to become more commonplace among IT outsourcing providers that are looking to team up with their competitors to deter market entry.

IT outsourcing service providers are also refocusing and streamlining their business models to prepare for greater demand in 2010. Simply put, the practice of IT outsourcing allows companies to focus on business. Thus, IT outsourcing firms themselves have decided to employ the same principle to their own operations and business models. On March 4, customer relationship management firm Convergy (NYSE:CVG) sold its human resource management line of business to NorthgateArinso, a large human resources software and services provider. With this move, Convergy will be able to refocus on its core business model without having to maintain and leverage resources. This will also give Convergy an opportunity to focus on its investments in and efforts to grow its Customer Management and Information Management businesses. Also, on March 5, business consulting firm Infosys (NASDAQ:INFY) announced plans for new services such as cloud computing and platform-based offerings. This is in line with adopting a pay-per-use business model, wherein customers will be paying only for what they use, and what results they achieve with regards to certain aspects of IT outsourcing.

Another innovative trend for IT outsourcing is the practice of going green. IT outsourcing firms are spending a great deal of time, money and effort on state-of-the-art green data centers, such as the one recently built by Affiliated Computer Services (ACS) in the United Kingdom. The center boasts “best-of-breed technology with the highest caliber of green credentials,” and the ability to save up to 70 percent of energy costs while reducing the carbon footprint of the company by approximately 4,200 metric tons annually. With this impressive data center, ACS is flexing its green muscles and showing its potential IT outsourcing clients that it supports the practice of becoming a more environmentally friendly IT outsourcing firm, thus ushering the company into the general public’s (or any potential client’s) good graces.

Technology company CFOs see competition and innovation as important factors that will define the landscape of the IT outsourcing industry. The continued growth of the IT outsourcing industry through competition and innovation allows these CFOs to take advantage of the best IT outsourcing services and products they can afford.

Avoid Outsourcing Headaches

IndustryWeek
21.04.2010

Outsourcing is expected to be a booming business again in 2010. Some 62% of outsourcing service providers in the latest survey from Duke University's Offshoring Research Network and PricewaterhouseCoopers reported plans to expand the scale of their existing offerings. And 82% of respondents to a Grant Thornton survey reported that some portion of their supply chain is purchased internationally.

With that level of business given over to third parties, be they located domestically or globally, there's bound to be relationship issues that arise. And indeed, the Duke/PricewaterhouseCoopers survey shows just that. For example, some 30% of



outsourcing deals in 2008 were not renewed at the expiration of their first contract. The reason? Unrealistic client expectations and the lack of a client outsourcing strategy were the two leading causes, according to the outsourcing service providers. Talk to clients, however, and it's typically relationship management, as well as governance and innovation, that are identified as factors that most impact outsourcing decisions, says PricewaterhouseCoopers Managing Director Charles Aird.

Blaming the client is simply a joke, adds Lance Heft, CEO of International Tube, a specialty metal tubing company in Pottstown, Pa., that provides outsourcing services to producers in the medical, electronic and industrial markets. A more likely cause is that the service provider failed to perform the due diligence required to meet the client's expectations, Heft says.

Wherever the truth lies, it's clear that actions can be taken on both the client and the provider side in an outsourcing arrangement to better assure success.

Larry Harding, founder of international services provider High Street Partners, suggests clients create a task force for an outsourcing project as opposed to having a sole owner of that project. In his experience, clients sometimes get caught up in the enthusiasm of an outsourcing arrangement "and listen to the good news, but filter out the bad," he says. A task force, which may include finance and human resource functions, can help temper that enthusiasm, he suggests.

Heft, too, likes multiple sources of contact at the client firm, but for different reasons. What works best for International Tube, he says, is to include as a contact the person who put together the outsourcing arrangement, as well as a contact in engineering and the quality department. "That way we can know who to get in touch with, and if it's a quality issue we don't need to bother the first point of contact for something that could be a very simple question," he explains.

"It's also important that the contact points be responsible and available to address questions from the service provider," Heft says. "At that point it becomes a true partnership."

The International Tube CEO says the best advice he can offer to create a successful outsourcing relationship for both parties is to establish open communication from the start, as cliché as he acknowledges such advice sounds. "And the only way that you get open communications from the onset is by interviewing one another," Heft says.

That means it's important for the company that is readying to outsource a product to be as prepared as possible when entering discussions with potential outsourcing providers. Have an internal meeting first and include all parties with a stake in the results, Heft says. "At that meeting collect every question from every angle - from quality, from purchasing, from shipping, from engineering, from the marketing department. They should get all those people in a room and say, 'What's important to you?'"

Heft stresses that it's just as important for the outsourcing provider to quiz the client as it is for the other, more typical exchange to occur. "What we try to do is when a potential client asks us a question, we try to read between the lines as to what and why they are asking. Normally by asking, 'What do you mean? How does that help you? What are you trying to glean from that information?' - that lets us make a list of exactly what that customer expects from us as a manufacturer and as an outsourcing partner to deliver exactly what that customer needs," he says. "And then we make sure we can actually perform in the manner that they want us to perform in, and we walk away from business if we can't."

India finds Europe tougher as wage costs rocket

IT Europe by John Garatt
15.04.2010

Impending wage hikes and soaring rupee make Indian outsourcing more costly.



This month sees a major local wage rise at Indian outsourcers, which could make IT work more expensive and give Europe's IT specialists and rival outsourcing countries a boost. Wages had been rising by 10-15% annually before the global slowdown, as the Indian companies struggled to keep staff from being poached by rivals such as IBM and Accenture who hire by the thousands in India.

Firms such as Infosys, who had frozen annual wage hikes in April last year due to the business downturn, are expected to raise the salaries for all its staff this month, putting pressure on their margins.

Steria, which is looking to India both for resources, and for increasing business in the country itself, predicts Indian wage parity with Europe in a few years. Its CEO Francois Enaud (left), told IT Europa he will not be paying the 10-15% wage rises this April even if others do. "This [rising rupee and wage hikes] is a continuing issue, and a double whammy, and dilutes the labour arbitrage argument," adds John Torrie, Steria SVP and CEO, UK and India. But, he says, it will only be a few years - as short as five years, perhaps before wage rates in India and Europe achieve some sort of parity. But the main point is that the skills will not be available in Europe anyway, so there is no choice as to where expansion and growth can take place.

And the rivals in Russia are interested in this: Ekaterina Zabelinskaya, Head of Sales Department, Reksoft told IT Europa: "The rise of rates in India is a normal situation for any growing economy. Each outsourcing destination has to go through it as soon as the economical situation in the country improves, and India is no exception. However, it poses a new challenge for outsourcing providers - will they be able to increase value of their services along with the price?" Russian IT companies coped with this challenge five years ago, and now they see a new opportunity on the market.

"As the ruble remains stable and as Russian providers didn't go dumping during the economy slowdown, now we do not need to change the rates. And our prices remain the same. So the current situation provides certain preferences for the Russian IT companies who have been intercepting complex high-end projects from Indian outsourcers for a long time and now get an additional argument in their favour."

But the story is also driven by available skills: "The major value of India to us is about the quality of the people we can recruit," says Steria's John Torrie. And when China starts looking outwards instead of inwards, that will become an area to reckon with as well, he says. There will be huge competition when this happens, he predicts. For Steria it is always a matter of balancing the onsite-offshore model. The derived value to the client is more than just cost-saving and labour arbitrage. And the IT areas in demand are expanding, but getting increasingly sophisticated: "Business intelligence and knowledge management are the two main areas; we can never get enough people with the skills, unless I run the project out of India," says John Torrie.

"We are still on a mission to educate people on India. There are still preconceptions about what the business environment is like. People are very surprised. We need to use that resource pool in order to benefit the UK and Europe. It also helps to define where our education system is going and the graduates it is turning out. I don't see where we are going to use all these arts graduates that are coming out, but India is unashamedly growing engineers."

India actually gets the accreditations before everyone else, and it usually has the accreditations ahead of Europe, he says. David Cotterill, Steria UK marketing director - "We are quite open and transparent in the approach, no hidden agenda. Security is taken incredibly seriously. I'd almost state that the Indian security is better than any other office in the world, because it has to be."

The Indian government is paranoid about its reputation, adds John Torrie. Compliance issues come up a lot in the UK as part of this argument, he says, which is part of questioning the integrity of the Indian model. "We can show compliance but there is a suspicion over India on data compliance and governance, I can understand why they do this. Governance makes it harder for the Indian pure plays to exist in the UK. For Steria, which maintains the data on site, we work with all the biggest financial institutions, and we don't have a problem."