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RIQ Editorial

Software development outsourcing as a driver of IT market

By Galiya Sayfutdinova
Editor, Russian IT Quarterly

This year Russian IT industry alongside with Reksoft celebrates its 20th anniversary. We've passed a long way from the ruins of USSR scientific institutes to \$16-billions IT market growing each year.

And the software development outsourcing has been the main IT market driver and inspirer for all those years.

When the USSR collapsed, thousands of highly-qualified engineers and scientists working in institutes on national defence and space exploration projects were left out of work.

This created a unique market opportunity in the country: a pool of highly-skilled technical personnel – engineers, software developers, system architects – available for a very low price, sometimes for ten times less than the corresponding labour force in the West. For clients in the US and Europe, it was the ideal moment to launch an outsourced software development centre.

And outsource they did, and the 1990s saw many outsourcing companies established to meet the demand, Reksoft among them.

They were high-tech islands in the sea of a turbulent domestic economy. Most of the outsourcing companies worked for foreign customers, mostly from Western Europe and USA. This was because the software industry in Russia had been undergoing a great depression, and domestic demand for IT services was nearly non-existent.

It was a surreal atmosphere in Russia in the 1990s. States rose and fell, first capital was accumulated, public assets were plundered, crime and corruption flourished. And in the middle of this havoc, men and women with MScs and PhDs were solving the most complex software development tasks for international clients.

These communities became a cornerstone of the Russian IT ecosystem. It was a Russian IT talent reservoir that gradually accumulated the deepest knowledge of programming technologies from local universities and best practices learned through work and cooperation with world market leaders.

This accumulated business knowledge was transferred to the local market. In a few years, many of them looked like private business incubators, giving birth to new IT projects and products. It was a two-pronged process: both the management of the development centres, interested in good investments, nurtured the new projects, while their employees, looking for an entrepreneurship opportunity, created their own start-ups. Business knowledge accumulated in

international projects combined with the Russian engineers' excellent IT skills and brought forth a tremendous harvest of local product IT companies. (At Reksoft alone, six start-ups were spun off).

Thus outsourcing companies has served as a basis for product sector development.

Then the Russian economy recovered from its crises and the reviving domestic industry started to provide a stable local demand for IT services. So the software development companies now turned to Russian clients. Some of them merged or entered into partnerships with system integrators (SI). Some of them established their own departments of SI or IT consulting pursuing the goal of creating a one-stop-shopping point for the customer. The process of shifting international experience and global best practices to the local market continued.

Today, local clients generate about a third of Russian IT outsourcing companies' revenue, with the rest coming from overseas clients. 30% of the revenue from the local market is not much, which demonstrates that the market for outsourcing services is still developing here. But it also promises huge growth potential, at the point in the future when the international experience and Russian brains of the outsourcing companies will be in demand at home.

With a volume of nearly \$16bn and a growth rate of 17% in 2010 according to IDC, we expect a good share of the pie for outsourcing companies at the Russian market.

We see something symbolic in it. The first Russian IT companies are coming home.

Summary

Gartner upgrades worldwide IT spending forecast

Gartner on Thursday upgraded its forecast for worldwide IT spending, saying it will grow 7.1 percent this year to \$3.7 trillion as companies migrate to the cloud and spend more on software and IT services [read more](#)

Computerworld by Agdam Shah
30.06.2011

Is Offshoring Different in the Cloud?

Offshoring IT work to India, China, Eastern Europe, and even South America has been a staple of IT cost reduction. And by definition the Cloud means location independence. Generally speaking, they're practically made for each other.

But in CRM and related systems, there are good reasons to keep the work in-country, or even in your building. This isn't just a matter of costs, but of business value and risk containment [read more](#)

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How does e-commerce affect developing countries? Google was curious about that question and others when the company commissioned the Boston Consulting Group (BCG) to analyze the "nature and size of commercial activity on the Internet" and its overall impact on Russia's economy [read more](#)

Modern Russia
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Gartner upgrades worldwide IT spending forecast

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Gartner on Thursday upgraded its forecast for worldwide IT spending, saying it will grow 7.1 percent this year to \$3.7 trillion as companies migrate to the cloud and spend more on software and IT services.

The research firm previously forecast a growth of 5.6 percent in worldwide IT spending compared to last year, in which spending totaled \$3.4 trillion and increased 5.9 percent from 2009. Growth in IT spending will continue through 2012, said Richard Gordon, research vice president at Gartner, in a statement.

The revised projections reflect the minimal impact on tech spending of the Japan earthquake and tsunami on March 11, which affected supply chains and caused extensive damage to buildings and factories along the country's eastern coast. The earthquake may have caused problems in supply of components, but it hasn't affected overall IT spending, Gordon said.

The hardware segment is poised for the fastest growth, but the greatest amount of spending will take place on telecom, according to Gartner's forecast. Spending on telecommunications will increase to \$2.1 trillion, growing year-over-year by 6.9 percent, but slower than the 7.3 percent growth last year. Hardware spending is expected to grow faster than other sectors, at a rate of 11.7 percent to \$419 billion, albeit slower than last year's growth rate of 12.1 percent.

Spending will grow in the software and IT services segments, partly driven by the growing adoption of public cloud services and software-as-a-service. On a percentage basis, spending on IT services will more than double, growing by 6.6 percent to reach \$846 billion. Last year, spending on IT services totaled \$793 billion, growing only by 3.1 percent. Software spending is expected to grow by 9.5 percent year-over-year to \$268 billion, Gartner said.

Though a marginal part of overall IT spending, cloud computing services are emerging as a driver for IT spending in some markets, growing by more than four times than overall IT spending, Gordon said. The effect of migration to public cloud services spending likely will spill over to the software sector as companies spend more on software-as-a-service.

"At about \$10 billion, software as a service ... already accounts for 10 percent of enterprise applications software spending, and by 2015 this share is expected to increase to close to 15 percent and to exceed \$20 billion in annual spending," Gordon said.

But the overall spending on the cloud is still nominal, Gartner said. Spending on public cloud services will be roughly \$89 billion this year, compared to \$74 billion last year. The market will continue to grow and reach \$177 billion by 2015, but at the time be only 5 percent of the total IT spending.

Is Offshoring Different in the Cloud?

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Offshoring IT work to India, China, Eastern Europe, and even South America has been a staple of IT cost reduction. And by definition the Cloud means location independence. Generally speaking, they're practically made for each other.

But in CRM and related systems, there are good reasons to keep the work in-country, or even in your building. This isn't just a matter of costs, but of business value and risk containment.

Why? It's all about the data. Compared to all other enterprise systems, CRM data has the highest chances of data quality problems. For example, in an accounting system, you'd never tolerate a duplicate invoice or a journal entry from an unknown source. In CRM, it happens all the time. Most of the data in a CRM system is entered by hand, by people who don't really care about consistent, coherent data. For many, CRM data quality is just not their job: they're sales reps trying to close a deal, or partners trying to register a lead, or customers filling out a registration form. They'll spell their name right, but even the e-mail address they enter may be fake.

Even when data is regularly cleansed and deduped, CRM systems have a never-ending problem with duplicate and phantom records being created by external system integrations and industry data imports. All too frequently, there's no DUNS number for the company or other reliable indicator of who's who. The more CRM and related customer-facing systems you have, the bigger this problem gets. I know of one large IT vendor that creates 100 new duplicate accounts in their system every day, and that's after they've applied all their deduping tools.

Despite all these negatives, the CRM holds the best information you've got about your existing customer relationships, current pipeline, and future prospects. By every possible measure, that data is worth far more than the system it resides in.

So keeping that data in as good shape as possible is a cornerstone to CRM success. Even though the cloud lets you move data around the world in a heartbeat, it's very hard to communicate the nuance of how to make the data more valuable and meaningful to your organization. Further, the tiny details of how to improve the data are likely to change over time — they seem to evolve as part of your information culture. None of this is easily documented or formalized, so it doesn't communicate well outside of your buildings.

In addition to the underlying value of (read: the cost of acquiring and maintaining) all that data, there's the risk of losing control of it. Nobody wants to have the company name in headlines about hacks into the customer records database. So keeping secure custody of the data at every part of your IT supply chain really matters. And this is tough to enforce across international borders unless you own the facilities and employ all the workers. On this front, subcontractors are tough enough in your own country.

Mitigating the Risk of Cloud Services Failure: How to Avoid Getting Amazon-ed

There's also the issue of regulatory compliance. PCI audits, HIPPA, FERPA, and eTrust may seem hard enough, but there's another one that many companies don't know about. The European Union's personal information privacy directive (95/46/EC) has some pretty specific requirements regarding safeguards, but it goes further with process controls around handling any information that can identify a specific person. Most U.S. companies use a safe-harbor strategy that is easier to achieve, but even this approach means tight process controls for any IT function that stores or manipulates "personally identifiable

information." It's not entirely clear whether the theory behind the safe harbor strategy works with offshore operations. This is an area of active legal interpretation, so you'll need to consult with your attorneys (certainly don't interpret this article as legal advice!).

Clouds Offshore

So what can you sensibly offshore in cloud-based CRM projects? Classic software development of classes, triggers, and other infrastructure code can be routinely offshored.

When it comes to user interface screens, security settings, and report/dashboard design, however, this is best done right next to the users. Even being in another building may be too far away. For the same reason, final acceptance testing has to be done in country, even though unit, system, and performance testing can be done entirely overseas.

Much of cloud system administration can be offshored as well, although you'll need a tight ticket reporting/case management system to get the best leverage. But some parts of administration — particularly full-system backups and record deduping — really can't be offshored. There's just too much risk in the completeness of the information.

Some parts of data cleansing and manipulation can be offshored, particularly if all personal information is column-partitioned or otherwise obfuscated so that the data cannot be linked back to the individual (again, consult your attorneys). For example, cleansing a bunch of addresses, when linked only to obfuscated keys (not any person's name), shouldn't pose much risk: it's about as informative as a street map. When it comes to personal financial, educational, or health-related data, however, I don't know of a good way to offshore any of that processing.

However, the front end of the CRM lead creation process — doing online research and demographic targeting — is a perfect target for offshoring. As long as the offshore people know what to look for, Google (GOOG) is as equally effective over there as it is here.

Vkontakte Said to Be in Talks on 2012 U.S. IPO

Bloomberg
27.06.2011

Vkontakte, the largest Russian social networking web site, is in early discussions with investment banks about a potential initial public offering, said people with knowledge of the talks.

The company has discussed selling shares in New York as early as next year, said the people, declining to be identified as the matter is private. No final decision has been made on whether to press ahead with an offering or on a valuation, the people said.

The social network is among a group of Russian web companies that have held their own against Google and Facebook in one of Europe's largest markets. Yandex NV, the owner of the most popular Russian search engine, raised \$1.3 billion in an IPO last month in New York, this year's largest technology IPO worldwide.

"Regional social networks often have advantages over global players like Facebook in their home region when it comes to language, marketing and having established networks

present," said Alexander Braun, an analyst at Montega in Hamburg, Germany. "That could help them create the critical mass needed for a viable IPO."

Vladislav Tsyplukhin, a spokesman for Vkontakte, didn't return calls and e-mails seeking comment.

Vkontakte's shareholders include Mail.ru Group, which also owns a stake in Facebook. Valeria Komissarova, a spokeswoman for Mail.ru, couldn't comment Thursday, as the company doesn't control Vkontakte.

Vkontakte had 58 million users worldwide as of last month, including 35.2 million in Russia, according to comScore. The services of the site and other Russian Internet companies are also popular in countries such as Kazakhstan and Tajikistan, which have large Russian-speaking populations.

Tuenti, the Spanish social networking site owned by Telefonica, said last month that it would open up to users outside the country to increase its growth potential. Local sites in Japan and China also remain popular competitors to Palo Alto, California-based Facebook.

In Germany, the student social network StudiVZ.net, owned by Verlagsgruppe Georg von Holtzbrinck, has battled Facebook over intellectual property rights in past years. An IPO of the networking site is unlikely, Montega's Braun said, citing declining user numbers at its sites.

U.S. IPOs have raised \$30.5 billion so far this year, the most in major markets, beating the \$23.6 billion for initial sales in mainland China and the \$13.6 billion for Hong Kong deals.

Professional-networking site LinkedIn trades about 46 percent above its May IPO price when it raised \$353 million. Yandex trades about 20 percent higher than its initial price. Shares of Renren, the Chinese social networking site that completed an \$855 million IPO last month, more than halved since its offering. The stock gained 29 percent on its first day of trading.

Russian programmers collect gold at World Programming Contest

Reksoft Press Service by the materials of Russoft
25.06.2011

A team from St. Petersburg State University has received a gold medal at the International Collegiate Programming Contest World Finals held in Orlando, Florida. Russian teams led the field in the overall number of awards won.

The ACM International Collegiate Programming Contest (ICPC) is a multitier, team-based programming competition operating under the auspices of ACM and headquartered at Baylor University. The contest involves a global network of universities hosting regional competitions that advance teams to the ACM-ICPC World Finals.

Participation has grown to several tens of thousands of the finest students and faculty in computing disciplines at almost 2,000 universities from over 80 countries on six continents.

The contest fosters creativity, teamwork, and innovation in building new software programs, and enables students to test their ability to perform under pressure. Quite simply, it is the oldest, largest, and most prestigious programming contest in the world.

Why more businesses are nearshoring in Eastern Europe

Computerweekly by Kathleen Hall
06.06.2011

Low-cost, highly skilled IT labour and a relatively close proximity to the UK is making Eastern Europe an increasingly attractive destination to UK businesses for offshoring IT services.

The legacy of the former Soviet Union country's engineering-based education system has fuelled a rapid increase in the number of companies providing IT outsourcing and software development services in the region, according to the Central and Eastern Europe Outsourcing Review 2010.

Technical talent a big attraction

The high level of technical skills in the former Soviet region attracted minicab company Addison Lee to Samara, home to the university which built the launch vehicle of the first man in space, Yury Gagarin.

Peter Ingram, IT director at Addison Lee, says he first considered moving IT work to the region when the company needed to rewrite its main booking platform. "It was something we could do in the UK ourselves, but the daily rates of programmers meant that was quite expensive. So we picked a team in Russia and a team in India and sent each a week's worth of source code that needed to be written in a new language as a test," he says.

"The guys in India said yes to everything, copied the mistakes we had deliberately put in there, and didn't ask us anything about the business - it was all very systematic. The team in Russia looked at our proposition, asked if it was functional, noticed the mistakes and asked us why we did things in this way. They really challenged us and had much better engagement," he adds.

Ingram picked Russia as the country of choice to offshore IT work to, and since moving there in 2004, the company has increased development work and added new projects. "Now the Russian team also supports the products they have written. For example, a CRM solution they have written, deployed and now support. The time zone is also better for us than somewhere such as India as they are four hours ahead, and the culture is similar, which helps," he says.

Ingram says collaboration is a key to making it work. "We spend a lot of time in Russia and the developers also come over here. If you are not close to the coal face things fall apart as the employee does not necessarily know the whole picture. We have a good pool of talent. The guys are graduates, they are keen to work and show a lot of willing."

Choosing the best skills

Daniel Marowitz, head of global transaction banking at Deutsche Bank, works with Russian outsourcing company. Marowitz agrees that there are unique skill sets in the region. "There is a lot of talent in Russia and the Ukraine in particular," he says.

Although the company still has more bodies based in India than Russia, both regions are well suited to different purposes, he says.

"If I was to make a very broad generalisation, I would say India is good at processing in a factory model, doing things quickly and being cost-efficient, and Eastern Europe is a better destination for more experimental tasks."

Marowitz says a large global company such as Deutsche Bank cannot limit itself to using the talent from just one particular region. "The aspect of wanting more for less money is only part of the story. It's more important that we are getting the talent that is the best in the world."

India faces increasing competition from Europe

In an increasingly globally connected world, that is a sentiment Indian outsourcing providers are also starting to share. Many large players have now established bases for themselves in Eastern Europe.

Indian outsourcing company MphasiS recently expanded into Poland for a nearshore presence. The company has been publicly listed in India for the past 14 years, and deals with infrastructure, applications and BPO. Around 90% of MphasiS's services are delivered in India.

Ganesh Pai, senior vice-president at MphasiS, says the company wanted a presence in Poland because of the cultural similarities the area shared with some of its European clients, a more convenient time zone for them, and a better range of language skills to allow MphasiS to leverage more business across Europe.

"I think India is fending off increasing competition. Many of our peers are already [in Eastern Europe], we don't claim to be the first. Poland came out top as an area for us because of its high technical and language skills. There also seemed to be a sense that doing business there would be easier [than some other countries in the region]."

The company currently has around 10 people based in Poland, but in the next two years Pai would like to see this grow to 200.

As Poland's economy continues to grow apace, the country could also become a new market for MphasiS, rather than just a supplier to the company, he says. "Indian pure players have traditionally been dependent on mature economies for growth, but Poland's GDP rate has performed very well in recent years. We are not necessarily looking at Poland as a new market right now, but I think with the country's global aspirations it may become one as its companies grow. Having a base there already should help us take advantage of that."

Promoting Eastern Europe as an outsourcing destination

Growth in IT outsourcing in Eastern Europe continues to increase. In 2009, the number of IT specialists employed in companies providing IT outsourcing and software development in the region (not including Russia) reached 95,000, found the Central and Eastern Europe Outsourcing Review 2010 report. Romania was found to be the country with the highest growth of IT specialists, increasing by about 12% compared with 2008. Ukraine followed with over 9% growth.

But the biggest problem Eastern European outsourcers face is the strong perception, especially in the US, that outsourcing is an "Indian business", says Kontsevoi.

"In many cases business executives simply don't take Eastern Europe into consideration at all. I believe that various Eastern European industry and business associations must play a greater role in promotion of the region as outsourcing destination. Unfortunately, there is nothing similar to NASSCOM [The National Association of Software and Services Companies, which represents Indian IT outsourcers]," he says.

Choosing an offshore destination will always depend on the type of IT work involved. But as long as India remains the default country of choice for companies seeking to take advantage of large pools of low-cost skilled labour, the region will have to work hard to further change perceptions, which by all accounts already appear to be shifting.

Google report: How does e-commerce affect developing countries?

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How does e-commerce affect developing countries? Google was curious about that question and others when the company commissioned the Boston Consulting Group (BCG) to analyze the "nature and size of commercial activity on the Internet" and its overall impact on Russia's economy. "Russia Online: How Internet is Transforming the Russian Economy" was released this month and indicates, among other things, the tremendous potential for growth in Russia's Internet economy.

Top 5 points from the report:

1. The Internet has a direct impact on Russia's GDP: In 2009, the estimated contribution of the Internet to Russia's GDP was \$19 billion (or 1.6 percent of its overall GDP). The report notes that although the figure may seem small compared to the revenue of other larger Russian brick-and-mortar companies, that value was reached despite low broadband penetration and underdeveloped e-commerce. The Internet's potential to drive future growth then is vast and stretches across all sectors, including consumption, private investment, government spending and net exports.
2. The Internet's impact in Russia extends far beyond GDP alone: Consumer economic impact (e.g. e-commerce), business economic impact (e.g. business-to-business sales over the Internet) and broader social impact (e.g. social media sites) are all key drivers in Russia's nascent Internet economy and vital measures of growth even though they may not be reflected in overall GDP.
3. Russia's major barrier to Internet growth lies in its "digital divide": Inconsistencies in Russia's regional infrastructure hinder its overall growth. The report fleshes out the vast differences in Internet penetration around the country.
4. The Internet in Russia has "reshaped" industries: The report outlines how the retail and the public service industries have shifted dramatically as a result of the Internet, offering examples such as OZON.ru, Russia's version of Amazon.com; the food retail sector's 7th Continent and e-government initiatives across Russia. The report also discusses the potential for growth in the travel and tourism industries.
5. The Internet will continue to greatly impact small and medium-sized enterprises (SMEs), which are vital to Russia's economic growth: The report notes a "diversified and well-balanced economy cannot survive without SMEs." In recent years, many SMEs in

Russia have developed as a result of the Internet. The Internet provides SMEs with key tools larger companies have always had access to, including sales and marketing channels, ways to expand global reach and ways to “automate” company processes. In Russia, SMEs comprise 25 percent of total corporate revenues per year. The report carries several compelling examples of SMEs in Russia that have flourished as a result of the Internet include:

- Ecwid: Founded in 2010, Ecwid is a software solution for online retail development. With Ecwid’s software, a company can upload a store Website onto a Webpage or social media site in a short period of time. Ecwid can be used by both new and existing businesses, which drives online sales as well as the development of smaller retailers.
- Avito: Founded in 2007, Avito is Russia’s largest platform for free classified advertising. In 2010, the estimated value of goods sold with Avito’s help exceeded \$3 billion.
- Wikimart: Founded in 2009, Wikimart is a site hosting more than 2,000 stores that together offer 555,000 products and attract more than 100,000 visitors daily.

In conclusion, the report offers a bullish outlook for the “rapid future growth” of Russia’s Internet economy, stating it could potentially account for up to 3.7 percent of GDP by 2015. The report also outlines specific policy recommendations to maximize the Internet economy’s growth, including updating Internet infrastructure, introducing legislation to foster Internet use by individuals and businesses and improving overall e-commerce in Russia.