

DataArt and the Global Financial Meltdown

Posted by: Steve Hamm on October 14

The global financial meltdown is shaking up the IT off-shoring industry, and it's not just India where uncertainty about the future reigns. I got on the phone with Alexei Miller, an EVP at DataArt, the New York-based but Russia-centered boutique outsourcing firm. Miller, who was in St. Petersburg, was cautiously optimistic. Still, DataArt has put all of its expansion plans on hold.

A lot of the company's clients are in the financial services industry, though none of its biggest banking clients, such as BNP Paribas, have been hit hard. (A couple of hedge funds that DataArt did some work for actually went out of business late last year, but it had minimal impact on the firm.) Miller predicts a couple of quarters of chaos, then a recovery. "A lot of people (on Wall Street) will get burned but it won't kill the business," he told me. "After this madness is over we hope to ramp up after about six months."

In the meantime, DataArt is playing it safe. It raised about \$6 million from private equity investors over the summer--as a financial reserve to cushion it in the event of a slowdown. Revenues grew so fast in the first half that it's on a pace to hit \$18 million this year, up 50%, even though revenues have been flat for the past three months and could slow in the next couple of months.

The company, with 450 employees, has programming offices in Russia and Ukraine, and was planning on establishing an office in Belarus. Those plans are on hold now. Also, it had started marketing in France and Sweden, but will pull back now. Its main markets are the US and England.

DataArt learned some important lessons from the crash of 2001/02. Back then, most of its clients were dot-coms, and it lost 95% of its business in two months. Now it's much more diversified, with clients in financial services, health care, media, and travel.

For determined companies, difficulty only makes them stronger.