BUSINESS SPECIAL

Software Developers Making Global Impact

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Last year a number of leading analytical agencies, Gartner Group and Forrester Research among them, included Russia in their lists of the world's leading markets for IT outsourcing — only a few years ago it was hard to foresee the country receiving such recognition.

Over the last two years the average growth rate among Russian offshore software developers has been 30 percent to 50 percent. Some companies have performed even better — Reksoft turnover, for example, grew by 87 percent in 2005.

Recognition by international analysts "is a major step forward in the marketing of services provided by Russia-based export-oriented software development companies," said Svetlana Vronskaya, director for corporate communications at Reksoft.

"2005 was marked by $1 billion of market volume and we expect the 30 percent growth trend to continue into this year," she said.

According to the association of Russian software developers RUSSOFT, in 2005 the country's software export companies have been establishing representative offices in key regions.

Every third Russian company has a sales & representative office in the U.S. or Canada. Over one third of software developers have got sales offices in different parts of Western Europe: 12 percent in Germany, Austria and Switzerland, 12 percent in Scandinavian countries. These figures will most likely rise in 2006, according to RUSSOFT's annual survey. By improving foreign perceptions of Russia the credibility of Russian IT firms on the global market is increased and allows them to participate in tender lists, Vronskaya said. At the moment about 20 percent of Reksoft turnover comes from Germany, but it took the company around four years to establish its presence in that country, she added. Another sign of international recognition is that from the autumn of 2005 until the beginning of 2006 a number of Russian software service providers have either been acquired by another larger company or invested in by a third party, Vronskaya said.

Choosing the way

Mikhail Zavileisky, COO of DataArt's St. Petersburg office, divided Russian outsourcers into three groups.

"The first group has chosen the 'Indian way' - make a stake on large size, low prices and adequate quality. This way was tried out and is understandable to foreigners. The main problem is that the labor force in Russia is significantly smaller than that of India or China," Zavileisky said. Companies belonging to this group are a mixed bunch, occupying various niches on the global market, and are likely to open offices in the CIS, Eastern Europe and Asia to overcome the limits of the national labor market, Zavileisky said. Companies of the

second group follow the 'Irish way' — integrating into the world system through outsourcing and the realization of complicated, science-intensive, informal and 'impossible' projects.

"Specialization in applied fields and close, focused ties with a limited number of clients is typical of such companies," Zavileisky said. Despite the attractive correlation between risks and returns, this approach often results in the company being acquired by a strategic client. The third group of companies follows the 'Russian way' of trying to increase sales in the Russian market.

However, low prices and under-developed IT infrastructure leads to smaller return on investment than in other approaches, Zavileisky said.

Unique offer

One could forgive Russian outsourcers for repeating a joke told by the head of Intel in Russia, Steve Chase — "large projects we make in India, urgent — in America and impossible — in Russia."

The large number of science students in Russia (up to 50 percent of all university students, according to UNESCO) results in highly-qualified IT personnel. Most Russian IT employees hold IT Masters (seven years of higher education) or IT Specialist (five years) degrees.

"Russia possesses a unique intellectual capital and is known for its pool of well-educated talent that is constantly increasing in terms of quantity and quality.

According to RUSSOFT's report, although the availability of Russia's IT personnel and skills rose in 2005, in terms of the effectiveness of these skills Russia is still behind its competitors. The Gartner report suggests that the effectiveness of programming and project management skills belonging to US external service providers (ESP) is 100 percent. In Ireland ESP has 90 percent effectiveness, in India — 76 percent, in Russia — 74 percent, in China — 31 percent. According to DataArt's Zavileisky, between 10 and 20 Russian outsourcers are known abroad, increasing turnover by 20 percent to 100 percent in a year, though it is still debatable whether this growth results from the quality of services or the small size of the companies. Russia's presence in high-end offshore outsourcing is still rather insignificant, Vronskaya said. Russian software developers are mostly known in niche markets like anti-virus software or among companies specifically interested in the outsourcing topic.

However Russian developers are "noted for their ability to solve complex software engineering tasks," Vronskaya said. "We will be seeing more and more software development tasks with a stress on R&D, entrusted to Russian companies," she predicted.