

### ■ LATEST NEWS

- ▶ Biotech
- ▶ University Tech
- ▶ IT/New Media
- ▶ Special Features
- ▶ Money
- ▶ Tech Culture
- ▶ People
- ▶ Business Briefs
- ▶ Columns
- ▶ Editorial
- ▶ Hardware
- ▶ Community
- ▶ TechLaw
- ▶ Events
- ▶ Resource
- ▶ Nanotech
- ▶ TechLife
- ▶ Innovation
- ▶ Marketing
- ▶ Tech Space

### ■ CURRENT ISSUE

**January, 2005**

- ▶ University Tech
- ▶ IT/New Media
- ▶ Money
- ▶ Tech Culture
- ▶ People
- ▶ Business Briefs
- ▶ Marketing
- ▶ Tech Space

## Understanding the Offshoring Market

Conversations with Russian Development Firm CEO

RTP - To gain further insight on growing IT offshoring trends, we recently spoke with Michael Zaitsev, the CEO of Dataart, a development group with with R&D based in St Petersburg, Russia that recently opened up a office in RTP. Prior to joining DataArt as CEO, Zaitsev co-founded Russia's leading Internet portal, Port.ru.

TTJ: Give us a little background on your firm.

Zaitsev: DataArt was founded in 1997 by a group of software developers in St. Petersburg, Russia and New York City. In 1999 the company experienced rapid growth (we had close to 200 employees) and the management learned what NOT to do during the time of rapid scaling. Year 2000 was the year of NASDAQ meltdown and downsizing for our clients and for DataArt. We decided that our top priority was to keep the core team. While some downsizing was unavoidable, every executive took a salary cut in order to keep as many people on the development team as possible. This was a painful time which further refined our values and taught us many important lessons. After a successful 2003 the company was hiring again and by mid-2004 the company grew to back to 150 people.

Our main focus is SME (small and medium size enterprises) with primary specific industry focus on biotech, healthcare, printing and financial (specifically hedge funds).

TTJ: What overall trends are you seeing in IT outsourcing right now?

Zaitsev: Tremendous growth...The main driver to go offshore remains cost savings but also in a few cases clients go for expertise. According to Gartner this year offshore will become more than 50% of all IT outsourcing. Local presence is extremely important for software outsourcing and so many international companies are opening US offices and acquiring local companies. At the same time American IT companies are going offshore by opening their own development centers in India, Russia, etc. Intel, Boeing, Motorola, Sun, Lucent and many other American companies have their own offshore centers in Russia in some cases employing over 1000 people.

Another important factor: there will be a wave of segmentation of outsourcing providers catering to small-medium size businesses and large businesses. Business Process Outsourcing (BPO) will grow even faster than IT outsourcing.

TTJ: Describe the Russian IT development community...how did this become a focal point?

Zaitsev: You may be shocked to learn that Russia has only a few schools teaching formal computer science. In India, for example, the majority of developers come

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from a computer science background. This is driven by an industry that requires standard skills to be plugged into 1000's of people software factories.

Russian software engineers, on the other hand, come from applied math, physics, engineering or scientific backgrounds and then pick up development skills by working for a Russian or Western development companies. Arguably, that background makes them better problem solvers, they can better understand the scope of a project when it's poorly documented or when only high-level business requirements are known.

Overall in the next few years I think Russia will significantly increase its share in the R&D section of the world's software outsourcing.

TTJ: Where is the new development talent coming from in Russia? How does your company go about finding them?

Zaitsev: Our strategy has been to hire the best talent on the market, people with over 5 years of experience. But now we are facing more competition in the HR market. The Russian economy is doing great and the growing outsourcing community in St. Petersburg is turning the city into Russia's Silicon Valley.

As most of our developers come from two leading Universities in St. Petersburg which are famous for being the top finalists in International programming competitions for the last five years, one of the things we did was establish closer relationships with these schools. We now have programs for students to come to our premises and learn the operations of a software development center. We also organize internships and offer stipends.

TTJ: Do you have a feel for just how much of the Russian IT work comes from the US?

Zaitsev: About 40%, give or take 5%. The remainder works out to approximately 30% from the internal Russian market and 25% from Europe. Another 5% comes from other countries like Asia, etc. What's interesting is that different Russian cities seem to export software to different regions in the world. St. Petersburg exports 70% to Europe, so DataArt is not typical as 75% of our revenue comes from the US and 25% from the UK. Moscow firms do a huge amount of work for internal Russian market, and Novosibirsk, a city in Siberia, exports 70% to the US.

TTJ: How is your firm looking to differentiate vs. other international and Russian development firms in particular, is this just a cost issue?

Zaitsev: One of many other differentiators is our focus on small and medium size businesses. We try not to get involved with Fortune 1000 companies.

We concentrate on the US market only, the only exception is UK. The Russian economy is currently doing great and therefore the internal software development and consulting market presents a good opportunity. Many of our Russian-based offshore outsourcing rivals choose to retrain people to work on the internal market. We, however, stick with our strategy and actively acquiring various industries expertise in the US.

We also think that local presence is a very important differentiator with some other vendors of our size. That's why we opened a representative office in Research Triangle Park.

TTJ: What trends are you seeing in IT development from a technology standpoint?

Zaitsev: In one sentence the main trend is getting closer to business and further from technologies. What's important is knowing specifics of the industry. Let's take

a CRM example. It can be implemented in various industries but what is important is for a technology provider to have deep industry expertise to implement it right.

What is really interesting is various new carriers of technology: cell phones, smart phones, as well as things like RFID (wireless tag technology). We are watching new areas but are careful about jumping into them as we have to be very careful as a small company – we don't have the huge R&D budgets of consulting giants. However sometimes we have to face new technologies as we get involved in the clients projects.

TTJ: What are the upcoming plans for your company?

Zaitsev: We plan to increase our local presence in various parts of the US by opening more offices with project management capabilities. As far as talking about revenues, we plan to grow approximately 70% this year. We carefully manage our growth to make sure we don't have a negative impact on the quality of our service. This growth will be supported by approximately 30% growth in people count this year. We have heavily invested over years in Human Resources as it is a main asset of a consulting company and we are proud to win a title of Best Employer in St. Petersburg overpassing such rivals as IBM (Russia).

Regarding Research Triangle Park, we plan to increase our local project management team to keep with the demand. We plan to give free consulting to local companies by looking at their systems and offering advice on how we can help. We are glad to speak to any company that thinks that software can make them more effective or help them save money, especially if they are in our target industries, e.g. biotech or pharma.

Further Information on Dataart can be found at [www.dataart.com](http://www.dataart.com)

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