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RIQ Editorial

Re-focusing Time

By Svetlana Vronskaya
Editor, Russian IT Quarterly

Continuously praising Russia as a key destination for offshoring and nearshoring for Western Europe, we frequently overlook the fact that the domestic IT Market has a huge potential. In the past years exporting IT companies from Russia realized this and started to re-focus their operations to serve their home market. Recently, an enormous attractiveness of the neighbouring market became obvious to European enterprises.

Having built a solid production base on offshoring orders, Russian ESPs have actively rushed up the value chain and positioned themselves in a different way in Russia and CIS than they do overseas. This trend is confirmed by the newly issued study by Russoft IT association (<http://www.russoft.org>) which stated that Russia came up second among the most attractive markets for Russian IT services exporters (giving in only to US).

Since systems integration and other IT services are in high demand among Russian companies, large European IT services giants are in a hurry to establish a presence in Russia. Last three months have seen TietoEnator and T-Systems – two rivaling companies in respective Nordic and German markets – strengthening their positions in St.Petersburg, largely expanding their existing facilities. Both are attracted by the forecasts, made by analysts about the growth of the market – for instance, IDC projects in “Russia IT Services 2007-2011 Forecast and 2006 Vendor Shares” report that spending on IT services in Russia will increase at a CAGR of 21.3% over the five-year forecast period, with spending on IT services reaching \$7,8 million in 2011. They also point out that a lot of their existing clients are already in Russia and need to be served on site.

Technology MNCs which have already had the presence in Russia see strong sales results and compare the Russian market to the markets of the developed world, pointing out to the strong R letter in the overall BRIC development.

They also bring another interesting trend to light - the business came out of Moscow and the regional expansion began. For example, local Microsoft office reported 110% growth rate in Russian sales over the last year and was surprised to see 55% out of this revenue coming from the regions.

Serious investments in government IT infrastructure speeded up over the last nine months with the government organizations becoming one of the largest client segments for ICT providers.

An increasing competition and a higher caliber of domestic projects contribute to the growth of competence, clearer vendor strategies and continuous vertical or technology specialization. For international clients this will mean a familiar high level of service in Russia and a wider range of suppliers to choose from.



Summary

Russian ICT Industry All Set to Don the Mantle of IT Outsourcing Major

The Russian information and communications technology (ICT) is going from strength to strength on the back of robust economic growth, greater political stability, expanding consumer base, and increasing foreign investments. [read more](#)

Frost & Sullivan
24.07.2007

Re-engineered Globally

With the rising general concern over India's high attrition rates and the clearly swelling costs of engagement, India sets new challenges for companies involved in IT operations in the country. [read more](#)

Amrita Singh
Global Services
30.07.2007

Russia Bids to Become a Tech Tiger

Reksoft, a software outsourcing house headquartered in St. Petersburg, Russia, announced that its Board of Directors was joined by Veli Pohjolainen, an IT industry veteran with 20 years of experience in the IT services company in the Northern Europe. [read more](#)

Jason Bush
Business Week
03.08.2007

RNCOS Research Positions Reksoft as a Key IT Services Provider in the Eastern European Region

The research paper "Eastern Europe ICT and Outsourcing Market (2007-2011)" issued by RNCOS analysts, is a good example of the growing interest towards the potential of IT resources in Eastern and Central Europe. [read more](#)

Reksoft Press Service
16.08.2007

St.Petersburg Government Reinforces IT Support for the City

St.Petersburg Governor Valentina Matvienko rounded off the summer with signing a memorandum of cooperation with Oracle Corporation. This happened only a month after she made an agreement with the management of Microsoft Russian office. [read more](#)

Russian ICT Blog
03.09.2007

TietoEnator to Open Service Centre in St Petersburg, Russia

TietoEnator has opened a service centre in St Petersburg to serve current TietoEnator customers in Russia. [read more](#)

TietoEnator Corporation
27.09.2007



Russian ICT Industry All Set to Don the Mantle of IT Outsourcing Major

Frost & Sullivan
24.07.2007

The Russian information and communications technology (ICT) is going from strength to strength on the back of robust economic growth, greater political stability, expanding consumer base, and increasing foreign investments. With the Indian markets slowing, Russia has become a particularly strong contender as a provider of complex engineering IT outsourcing and solutions.

New Country Industry Forecasts from the Frost & Sullivan Economic Research and Analytics team addressing the Russian ICT Industry reveal that particular opportunities exist in the offshore software development, broadband technologies and equipment, managed network security, IP telephony, packaged software, communication value-added services (VAS), 3G networks, and digital broadcasting in fixed line telephony sectors of the industry.

Russia has a strong advantage in offshore software development, which is becoming the fastest growing sector in the IT industry. The country plans to increase its IT outsourcing exports with the goal of becoming one of the top three global outsourcing destinations by 2010. There exists a strong scope for greater foreign investments in Russian ICT design and development centers.

Broadband Internet is expanding rapidly due to the rising connectivity of Russian towns, in line with the Government's E-Russia policy focus. The increased focus on E-Governance and ICT diffusion at all levels of schooling is boosting the uptake of ICT goods and services by government agencies and schools. Meanwhile, new special economic zones (SEZs), techno-parks, and provision of venture capital are enhancing opportunities for small businesses in the Russian ICT industry.

As corporate Russia increasingly switches from closed networks to IP networks to increase efficiency, markets for enterprise resource planning (ERP) as well as managed network security and IP virtual private networks (VPNs) have received a shot in the arm. IP telephony is catching on in the mobile telephony segment and this could be the first step toward full-scale adoption of next-generation networks based on packet telephony.

"Communication VAS, particularly ring tones and logos, media projects, and information and entertainment in the mobile content market, is the fastest growing segment of telecommunication services," says Farheen Pasha, Team Leader, ICT, Frost & Sullivan's ERA group. "Currently, less than 50.0 percent of the telephone lines in Russia are digital; however, the government aims to completely switch from analog to digital mode by 2015."

Although the Russian Government had historically passed over the interests of the ICT industry in favor of others such as oil and gas, it has steadily increased interest in the IT industry. It is also actively involved in developing the telecommunications infrastructure and is a strong participant as well as regulator in this field.

Russia's vast human resources and low labor costs hold it in good stead in the ICT industry, while its competent education system provides its people with high levels of skills, excellent training, as well as intensive scientific and engineering expertise. However, a substandard process quality and a weak legal system and intellectual property right (IPR) enforcement impair it. This scenario is set to change, with the present government placing unprecedented focus on the development of the IT industry.

The Government is sparing no efforts to upgrade the telecommunications infrastructure and services throughout Russia. It has deployed a supportive framework for the development of the ICT industry to make it competitive in both domestic and international markets. It hopes to improve information transparency and enhance the efficiency of the public as well as private sectors.



The Government is also committed to raising the levels of penetration, diffusion, and awareness of ICT goods and services in Russia. Moreover, a series of high-profile industry reports changed the general perception that the ICT infrastructure in Russia is inadequate by publishing positive articles.

Russia has been the biggest spender on IT among the central and eastern European (CEE) countries and its spending has been higher than the global average since 2002. This is mainly due to the growing affluence of the Russian population and the global awareness of its enterprises. This industry's growth is high and stable, considering it witnessed double-digit growth for the last five years and is poised for further growth until 2010, though consumption trends in telecommunication vary across regions as well as segments.

"The United States and the European Union (EU) recognized Russia as a market economy in 2002," notes Pasha. "With a gross domestic product (GDP) of more than \$814.76 billion and an economic growth rate of 6.7 percent in 2006, Russia is poised for further strong growth in the future."

Re-engineered Globally

By Amrita Singh
Global Services
30.07.2007

As outsourcing moves up several notches from writing code and answering calls, companies such as Boeing, Rolls Royce, Smiths Aerospace and General Motors are betting on getting their engineering components designed abroad.

After tweaking code, testing software, answering calls and processing documents, it's time for global service providers to look at offshoring of engineering services. This comprises a gamut of services, be it designing an airplane's wings or an automobile's high-tech diagnostic system using 2D drafting, 3D modeling, conceptual design, design validation, quality consulting and other engineering solutions. Global corporations such as General Motors, Intel, Texas Instruments, GE, Daimler Chrysler, Bosch, Boeing, Airbus, DuPont, ABB, Bechtel and Caterpillar are keen on buying such services from a host of providers in destinations like Russia, China, Mexico, Israel and India.

The excitement is not without good reasons. Engineering services, a \$750 billion a year global industry promises to be the next big frontier for offshore firms to tap. While only \$10 billion to \$15 billion of the \$750 billion is at present offshored, the potential is huge—about \$150 billion to \$225 billion is expected by 2020, according to consulting firm Booz Allen Hamilton. In the same time span, the global spending on engineering services is projected to increase to over \$1 trillion. Already global companies in telecom, automotive, aerospace, utilities, construction and industrial machinery domains are looking at global engineering service providers to cut costs and provide innovative solutions for next-gen products.

Offshoring Drivers

Though cost saving is the key driver for engineering work being offshored to global providers, there are other benefits as well. Across managements, the benefits are threefold. First, at the CEO and board level, engineering outsourcing helps companies cut costs by outsourcing expensive R&D and engineering support. Second, at CTO level, engineering outsourcing helps augment capability—outsourcing helps engineering teams reduce their product-development cycle and improve time to market, and helps in innovation by drawing in ideas and talents from different geographies and cultures. Third, at the program-manager level, outsourcing helps add to capacity through ramp up and multiple shifts at an outsourced location.

Such benefits make providers like Russia's Auriga very attractive for buyers of engineering services. Auriga is one of the oldest companies in Russia providing services from development centers in Moscow, Kazan and Nizhny. The company is headquartered in the U.S., has a European sales office in France, and is planning to increase its presence further in Europe.



Some of its clients include Queplix, BroadVision, NMS Communications and Drager Medical. For Drager medical, a Germany-based manufacturer of medical equipment, Auriga is developing a remote view subsystem for patient monitoring and a new version of its critical care workstation. While for NMS Communications, a U.S.-based provider of telecom applications, Auriga is developing new signaling, support and voice-processing services.

Like Auriga, there are other Russian companies that are actively providing engineering services to customer companies globally. Another Russian engineering services provider DataArt offers engineering services in financial, telecom, media and life sciences domains. "We do new application development, and software R&D in our chosen verticals. We serve both end users (e.g. investment banks) and third-party software manufacturers (ISVs), primarily in the mid-size sector," says Alexei Miller, EVP, DataArt.

Global Providers

Russia is one offshore destination that is very attractive for such work as almost 50 percent of the student population in the country majors in technology, science or engineering, which is far more than in China, India, Japan or the U.S. Moreover, Russian science graduates spend between five and six years at university before entering the workforce, ensuring a more thorough training, according to Russoft, the Russian IT association.

Currently, more than 1.3 million degreed professionals are circulating in the economy, with an estimated 2.35 million more in the university system. If the numbers and studies seem too academic, the actions of global technology leaders speak of the strength of the Russian talent pool. Across the region, independent research and development centers are owned by Sun Microsystems, Intel, Alcatel, IBM, HP, and many others have been springing up.

"The advantage [of engineering services offshoring] is in the combination of cost and value, which make certain types of high-end, analytical work very relevant to Russia," says Miller. "While cost is comparable to destinations like India, the quality of easily available R&D talent [in Russia] is higher. Russia has the resources to offer for advanced mathematical research, quantitative analytics, etc."

But providers across the globe are not too far behind in cashing in on the opportunity. As per a spokesperson of an Indian-based engineering service provider, "Russia has a tradition of excellent engineering. China, Mexico, Eastern European, India and other low-cost countries will all be viable destinations for customers looking to outsource engineering [services]. India's advantages are talent, scale, program-management skills and experience, intellectual-property protection regimes and cultural compatibility to increase the engineering work that will be offshored."

The other significant advantage for India is that the offset clause (that ties companies to buy some services from India if they are selling products there) mandated by the government for aerospace and defense contracts means that significant engineering work will need to be delivered out of India. Global majors such as Rolls Royce, Toshiba, Smiths Aerospace, General Motors are getting critical components of their engineering design work done in India.

Of these, companies like QuEST are focused on engineering services outsourcing while others have a diversified portfolio of work. Bangalore-based QuEST is a 1,000 people service provider with centers in India, the U.S. and Italy. Among current projects, it's doing a significant part of the design from scratch to drawing of a complex valve for a U.S.- based water-treatment product manufacturer.

In other cases QuEST is helping customers coordinate their manufacturing by identifying and qualifying providers and managing the relationships. It has also set up a subsidiary called QuEST Manufacturing to make precision components.

Some India-based providers like Infosys have worked on designing parts of the Airbus A-380 wing, currently undergoing test flights. The tech major also works with Spirit Aerospace, which was earlier part of Boeing. Another provider, HCL has over 1,000 engineers working in the aerospace arena with clients like Boeing and aerospace suppliers like Hamilton Sundstrand and Smiths Aerospace.



Automobile outsourcing work, too, is getting a boost as makers can reduce IT costs per car by as much as 60 percent. At Wipro, 1,000 people are working on developing applications for global car majors.

However, the Indian brand name is not as strong in engineering services outsourcing as it is in IT services and BPO, and the country needs to build significant manufacturing capability to tap into the engineering space. While the current engineering graduate base is adequate, it is not suitable for engineering tasks, and the country will need about a quarter million engineers by 2020. Such services call for a good grasp of the engineering fundamentals.

Seeking Multiple Providers

Customers might source their requirements from multiple providers from across the world. For instance, they could source the basic work from India and the more complex work from Israel or Russia.

Whatever be the model, sourcing engineering services will definitely be the next big thing globally. As a report on Globalization of Engineering Services from consultants Booz Allen Hamilton notes: Many companies begin offshoring to cut costs, but then expand their commitments for more strategic reasons.

Companies like General Motors use offshoring primarily as a tactical tool to help cut costs, while others like Toyota see the offshoring of product development in more strategic terms as a way to help open up new markets and boost overall productivity and quality. Whatever be the reasons, American and European companies looking for engineering services are set to look beyond their shores.

Despite the hiccups, a lot of companies are sourcing engineering services from India via captive units or through third-party providers. "At present engineering service offshoring is about 5 percent to 10 percent of the total work offshored to India. The latter is growing as there is lot of interest among clients," says Sid Pai, Managing Director, TPI India. "Though in engineering services it's early days as yet and key driver is the cost arbitrage advantage that India offers."

Aerospace and Automobile Focus

Indian companies have focused on engineering services for aviation and automobile sectors. Currently, India-based vendors like HCL Technologies, Satyam, Infosys, Wipro, TCS and smaller niche players such as QuEST, are estimated to undertake work worth \$600 million to \$700 million annually.

Russia Bids to Become a Tech Tiger

By Jason Bush
Business Week
03.08.2007

It has been fifty years since the Soviet Union launched Sputnik, proving to an astonished world that the Russians could beat the West at its own scientific game. Now a vastly different Russia is once again back in the technology race. Spearheaded by President Vladimir Putin, with backing from leading businessmen and investors, the country has embarked on a sweeping program to promote a high-tech economy. The prize this time: a position in the emerging technologies that will shape the future global economy.

Putin set the tone in April when, in his annual address to the Russian senate, he announced a massive \$7 billion program, financed from the state budget, to promote the development of nanotechnology—a new science that involves manipulating matter at the microscopic level, with applications from industry to medicine. Russia's fledgling venture capital industry also is getting a shot in the arm, thanks to a \$1.2 billion state-backed technology fund. And construction began last year on seven new technology parks at locations around Russia, aimed at encouraging technology businesses to set up shop near



scientific research centers. To head the technology drive, Putin has tapped one of his most trusted lieutenants, Deputy Prime Minister Sergei Ivanov, who is widely seen as the favorite to become President when Putin steps down next March.

Strong Educational Foundations

On the face of it, Russia has strong tech foundations. Despite the economic tribulations that followed the Soviet Union's collapse, its scientific legacy lives on in the form of 3,500 scientific research institutes employing 600,000 scientists and engineers. Russian universities churn out some 200,000 science and engineering graduates each year. "We identify Russia as one of the emerging countries with an excellent education system, and a culture of developing high technology," says Ashish Patel, managing director for Intel Capital (INTC) in Europe, which has so far invested in a smattering of Russian technology ventures.

Optimists can point to the growth of Russia's information technology sector, which has taken off in recent years despite minimal government support. Russian software exports have risen from just \$120 million in 2000 to \$1.5 billion last year—surging by 54% last year alone. The sector's growth also has been boosted by the arrival of in-house programming centers for major multinational corporations including IBM (IBM), Motorola (MOT), and Boeing (BA). Indigenous Russian IT companies are now mulling \$1 billion initial public offerings.

The downside? Russia's IT industry still represents just 1.5% of gross domestic product. That compares with 5% in the U.S.—or 12% in Ireland, a model for high-tech success. Russia's annual software exports are one hundred times smaller than its exports from oil and only around one-tenth those of India. And in other sectors besides software, Russia still lags technologically. At 1.2% of gross domestic product, the country's research and development spending is still just half the Organization for Economic Co-operation & Development (OECD average).

Nanotech Cronyism?

That explains why the Kremlin now wants to pump more of Russia's huge oil and gas profits into high-tech research. So far, nanotechnology has especially captured the imagination of politicians. This year \$5 billion is being plowed into a new state corporation, Rosnanotech, that will be responsible for overseeing and coordinating research in the area. Russia will certainly need to invest billions to catch up with other countries.

But Putin's initiative has also raised eyebrows. "It looks like monopolization of finance," says Irina Dezhina, an expert on science policy at the Institute for the Economy in Transition in Moscow, who notes that the nanotech program will receive three times more state funding than the rest of Russia's scientists put together. Mikhail Kovalchuk, the director of the Kurchatov Institute that will be the center of the new corporation, is a close friend of Putin's from his St. Petersburg days. That has fed gossip that nanotech funding is being awarded on personal or political grounds—hardly a recipe for future commercial success.

That's a risk with any large state funding program. To kick-start innovation, private cash will be critical—as will be the financial savvy of hard-headed investors. So it may be more encouraging that Russian business also seems to be jumping on the high-tech bandwagon. In May, Mikhail Prokhorov, a leading Russian metals and banking tycoon, announced the creation of a \$17 billion holding company that will focus on high-tech investments, including alternative energy and nanotechnology.

State-Private Investment Outfit

Russia's other recent governmental initiative, the launch of the Russian Venture Company, may well prove to be a smarter bet than simply pouring state funds into research. Russia plans to invest \$1.2 billion via 10 to 12 privately managed funds, with 49% of the finance coming from the state and the rest from private investors. The first three management companies were selected in May, having already raised \$150 million in private funding. As well as Russia's VTB Asset Management & Finance Trust, they include Bioprocess, a U.S.-backed investment fund specializing in biotechnology.



Russia borrowed the idea from Israel, where a similar scheme begun in 1993, called the Yozma fund, helped kick off a venture capital industry that has since raised \$10 billion for high-tech investments, including around 4,000 startups. But some are doubtful. "The problem with Russia isn't a lack of money. It's a deal-flow problem. There are not enough investment opportunities" says Thomas Nastas, president of Innovative Ventures, a U.S. investment fund that has been searching for high-tech investments in Russia since 2001.

He and other investors emphasize a lack of business skills on the part of Russian scientists—many of whom are aging and have limited English proficiency and business experience. (There are, however, a small but growing number of Russian entrepreneurs and executives returning home to launch new ventures after successful gigs in the U.S.) Then there's the absence of seed capital for new businesses, which are rarely funded from scratch by venture capitalists. "Even if you're a motivated researcher who wants to start a business, you face huge problems" says Dezhina. In the U.S. the government provides \$2 billion each year to start new companies through the Small Business Innovation Research Program. In Russia, she notes, the equivalent government program has a budget of just \$40 million a year.

One Problem: Intellectual Property

But the biggest problem, investors and entrepreneurs complain, is Russia's hazy protection of intellectual property rights. In particular, the state is reluctant to let scientists exploit their inventions if they were funded with the government's help. "There are lots of bright scientists in Russian government institutions, and I'd love to work with them. But I can't because my invention will be claimed by the government," says Dmitry Kulish, a former Intel venture capitalist who recently formed a biotech startup to make anti-hepatitis drugs. Alexei Oblayov, global business analyst with U.S. biotech giant Genencore in Moscow, says that the company has rejected the idea of working with Russian academics for similar reasons. "If it's academic research, it's unclear who owns this. The only business model that works is a private research institute," he says.

All of which explains why, outside the blossoming IT industry, so few Russian innovations have yet enjoyed commercial success. Still, many observers are now more optimistic, pointing out that Russia's big technology push is only just beginning, with more initiatives likely now that the issue is being prioritized by the government. "All the pieces of this innovative ecosystem are now coming together," says Oleg Koujnikov, a former Intel executive who returned to Russia to head venture funds at Russian investment bank Troika Dialog. "The key asset is human capital, and that's what Russia has."

RNCOS Research Positions Reksoft as a Key IT Services Provider in the Eastern European Region

Reksoft Press Service
16.08.2007

Reksoft, software outsourcing company, headquartered in St. Petersburg, Russia, is proud to announce that it was featured in the report on the Eastern European ICT and outsourcing market among the region's established IT services providers.

The research paper "Eastern Europe ICT and Outsourcing Market (2007-2011)" issued by RNCOS analysts, is a good example of the growing interest towards the potential of IT resources in Eastern and Central Europe.

The Eastern European IT sector is considered to be one of the fastest growing industries due to a number of reasons. The local software industry grew by 12% in 2006, and the region's highly skilled labour pool and economic costs present an excellent opportunity to investors.



Russia's attractiveness as an emerging outsourcing destination is particularly singled out in the study. With the outsourcing market of 1.6 billion USD in volume for 2006, Russia is expected to grow at the rate of 30% in the next three years and thus surpass the whole of Eastern European outsourcing produce.

You can obtain a copy of the research on Research & Markets website - <http://www.researchandmarkets.com/reports/c65312>.

St.Petersburg Government Reinforces IT Support for the City

Russian ICT Blog
03.09.2007

St.Petersburg Governor Valentina Matvienko rounded off the summer with signing a memorandum of cooperation with Oracle Corporation.

This happened only a month after she made an agreement with the management of Microsoft Russian office. Microsoft agreed to provide the city authorities with software and hardware necessary for the government projects and to take part in the professional trainings in information technologies.

The agreement on Intentions with Oracle aims at strengthening the existing partnership between the City of St.Petersburg and Oracle Corporation and at exploring information technology e-government projects. In signing the agreement, the parties expressed mutual interest in considering co-operation in the design and implementation of a series of new city information systems based on leading-edge technologies, and which will integrate with the existing St. Petersburg IT systems to provide government services to citizens and to businesses.

By partnering with two IT giants, the government of St.Petersburg has proved its interest towards the making information technology an inherent part of the city life. The city authorities became very attentive to the needs of the local IT community and have been looking for proving additional tax incentives for the IT market players. Only this year, their efforts brought two MNCs' technology centers to St.Petersburg - Hewlett-Packard and EMC. Oracle announced the plan to open a new office in the city, too.

TietoEnator to Open Service Centre in St Petersburg, Russia

TietoEnator Corporation
27.09.2007

TietoEnator has opened a service centre in St Petersburg to serve current TietoEnator customers in Russia. The service centre offers infrastructure and hosting services, project and application management services, and expertise in digital customer service development.

TietoEnator President and CEO Pentti Heikkinen said: "Many of our customers are expanding their business in Russia. We want to support our Nordic and European key customers' existing and future businesses in Russia by providing a full range of IT services in the country. Russia has a long tradition of excellent technical education, and the country has decided to compete with India on outsourcing. We want to have local presence in Russia to be able to provide high-quality, cost-effect services for our customers."



The establishment of St Petersburg office is one step in expanding TietoEnator's operations in Russia. A secondary purpose of the service centre is to help identify new business opportunities in the area. TietoEnator has been present in Russian market since 1998. A branch was established in year 2002 having major Russian banks as customers.