

WHITE PAPER

Russia as Offshore Software Development Location: Should You Consider This Your Next Move?

Sponsored by: RUSSOFT

Marianne Kolding

Vladimír Kroa

March 2007

EXECUTIVE SUMMARY

The past five years have seen a strong increase in the use of offshore resources to deliver IT services and gain access to resources for the development of information technology products. End users have started to diversify their sourcing strategies beyond India in a quest for the most suitable location to provide a reliable IT infrastructure and software solutions at competitive price without compromising service quality. Many offshore candidate countries have unique characteristics and qualities that can make them a suitable offshore location in their own right.

This White Paper is based on in-depth, executive-level interviews with 20 Western European and U.S.-based companies that have used Russian software and services companies for offshore development projects. It also draws on IDC's deep understanding of the offshore service delivery model and local Eastern European countries. The research suggests potential customers should consider the following key points:

- ☒ While price is usually the initial driver for organizations embarking on a nearshore/offshore project, companies quickly realize that price alone is a poor decision criterion and must be balanced by other considerations, not the least of which is the stability of the relationship, i.e., the rate of staff turnover.
- ☒ Customers cited strong technical skills, sound methodologies, and high education levels, which allow delivery on high-end, technically complex projects, as key strengths of the Russian software and services industry. In addition, softer factors – such as time zone differences, the closer cultural fit and similar work ethic to the Western world, the clear understanding of business issues – were often mentioned as differentiating Russia from other offshore locations. English-language skills are not a problem, and are continuing to improve as English fluency is increasingly emphasized in the educational system.
- ☒ Russia most likely will not challenge India's leadership in the offshore market, but IDC believes that in the current multisourcing environment several factors differentiate Russia on the world market. These factors, examined in this study and highlighted by end users, include:
 - ☐ The ability of Russian companies to tackle the non-standard tasks essential for troubleshooting, product development, and managing high-end, complex projects.
 - ☐ Russia's large pool of highly skilled professionals with mathematics and science backgrounds, capable of solving complex and math-intensive problems.

METHODOLOGY

This White Paper presents the results of a special IDC study commissioned by RUSSOFT, based on interviews with 20 large European and U.S. corporations that have used the services of RUSSOFT member companies.

The in-depth, analyst-level interviews were undertaken during January and February 2007.

The purpose of the interviews was to establish the criteria that led these companies to choose Russian providers, as well as the benefits and challenges they have experienced from the engagements.

Although the companies interviewed requested anonymity, the following aggregate profile of the interview sample can be presented:

- ☒ Of the 20 companies interviewed, 13 were in the IT sector (hardware, software, and services), and two in the telecoms sector.
- ☒ Companies interviewed ranged from small to very large, with revenues from approximately \$10 million to almost \$100 billion. (Seven companies had worldwide revenues above \$500 million).
- ☒ Companies interviewed ranged from those with offices in a single location to those with offices in close to 100 countries.
- ☒ Of the 20 respondents, 11 were at the VP or CXO level in their respective organizations, with the remainder holding senior positions, such as directors.
- ☒ All companies interviewed used their Russian suppliers for application development. The scope of the engagements varied, however, from specific tasks to involvement in the full R&D process, including design and testing, and maintenance.
- ☒ The majority of the companies interviewed either had previous experience in outsourcing development work to nearshore/offshore companies, or had been using their current provider for a long time (four years being the average).

IDC has used verbatim quotes from some interview subjects to illustrate specific points and attitudes; due to confidentiality reasons, however, these cannot be attributed directly to their sources.

SITUATION OVERVIEW

Offshore Outsourcing as a Strategy to Cope with Current Competitive Environment

The past five years have seen a strong increase in the use of offshore resources for the delivery of IT services, whether externally or internally, and for gaining access to resources to develop IT products. The "follow-the-sun" principle has been adhered to in software development for a long time, but only recently, with advances in telecommunications technologies and infrastructure, has it become a reality.

While efficient use of global resources can bring greater flexibility to software R&D processes and IT and business services delivery, the overarching driver for most has been costs, i.e., access to skills at a lower price. Consequently, the use of offshore or nearshore resources has become – for technology product companies, IT services providers, and end users of IT-based solutions – an integral part of their quest to remain competitive. They seek the most suitable location to support their internal or external clients at low cost without compromising service quality.

The Global Flow of Services

The competitive business environment pushes organizations to explore ways to be more operationally and financially efficient. With information technology being an inherent part of business operations, implementing and managing IT efficiently can make a difference to a business's bottom line. Further, companies are looking at ways to develop their products at a lower cost and with a faster time to market in order to improve both top-line growth and operating profits. Given these circumstances, companies have to evaluate the pros and cons of using offshore (or nearshore) locations for service delivery. At the same time, technology companies (such as IBM and HP), independent software vendors (such as SAP and Oracle), and global IT consulting and BPO providers (such as Accenture and Capgemini) are opening their own specialized service and development centers in nearshore/offshore locations, where they can tap into a pool of qualified, yet affordable resources. This fuels the global flow of services.

Central and Eastern Europe (CEE) has established itself as a prime location for offshore and nearshore services, particularly for clients based in the United States and Western Europe. IDC estimates that the value of IT services-related exports from Central and Eastern Europe to the onshore location (e.g., the United States and Western Europe) for expenditures by a third party reached around \$1 billion in 2005. Moreover, the value of captive services operations, such as specialized R&D centers or dedicated BPO back-office functions, far exceeds the aforementioned estimate for IT services-related expenditures.

What Makes Russia an Attractive Offshore Destination?

Russia is by far the largest country in the Central and Eastern European region, home to the largest labor force and the biggest pool of educated talent. Russia has historically produced highly skilled professionals, particularly research, mathematics, and engineering specialists, able to tackle non-standard tasks. The country has a strong education base, with universities in Moscow, Novosibirsk, St. Petersburg, and Nizhny Novgorod turning out large numbers of tertiary graduates.

Russian salaries remain much lower than those in Western Europe or the United States, while in terms of culture, Western European and American organizations often perceive Russia as being a closer fit than countries like India, China, or the Philippines.

Russian programmers, in particular, excel at high-end and complex systems design and development. This ability serves them well in applied fields of software engineering: high tech in general, precision electronics, medical devices, aerospace, and automotive, as witnessed by the companies interviewed for this study.

CUSTOMER VIEWPOINTS

This section incorporates respondents' decision criteria, experiences with outsourcing services and software development, and recommendations for companies considering following their examples.

Initial Decision Criterion Price, but Skills Access Strong Contender

This study and other IDC research shows that while price is what initially drives organizations to consider using nearshore/offshore resources (14 of the 20 respondents interviewed for this White Paper listed price as a criterion), companies quickly realize it must be balanced by other considerations. These include things like the stability of the relationship (i.e., staff turnover on the project) and shared management values. Any country attempting to establish a strong offshore IT delivery industry will always be compared to India, which pioneered the wave. But to some degree, the Indian software and services industry has become a victim of its own success. India's popularity as a delivery hub, whether for IT and business services or R&D, has led to increasing labor costs and growing attrition rates. The ability to claim greater workforce stability has become a differentiating factor for other countries positioning themselves in the global sourcing market. In fact, a quarter of the companies interviewed for this study mentioned lower staff turnover as one of the reasons why they chose a Russian software development firm rather than an Indian firm. According to one executive:

"Attrition [in Russia] is very low [only 3-4]. This is a big advantage. No need to overstaff projects to insure against risk of high attrition. This saves money."

Another factor for companies to consider, in addition to price and staff retention, is the quality and skills of the staff employed. The survey showed that access to the right skills was on par with price as a criterion for choosing a Russian software company (bear in mind that respondents generally were experienced in using offshore resources). As one executive put it:

"Price is always a consideration, but it's the skills that are really important."

Advanced Technical Skills Are Key Strengths...

It is clear from our research that respondents see technical skills and software development methodologies as key strengths in the Russian software and services industry. These strengths were mentioned repeatedly by all respondents. Beyond traditional technical skills, executives expressed satisfaction with the ability of Russian software development professionals to deal with highly complex projects. As some executives pointed out, the ability to make changes mid-project and to use robust, real-time languages is particularly important when developing mission critical, embedded applications and operating systems – and Russian providers are able to deliver to this requirement.

Strong software development methodologies and processes are key issues when a company engages an offshore firm to help develop and deliver a new product to market, but also for internally focused engagements, where weak processes may prolong the time it takes to develop and implement new supporting IT systems.

The lack of technical skills can delay projects or increase the time-to-market of new products, which is why the Russian software and services industry should stress that it offers skills often difficult for U.S. and Western European organizations to find. One

executive interviewed said his company had insisted that the Russian firm staff its delivery team with technical people with a minimum of eight years of experience – and that they were able to do this with a low turnover rate.

The following quotes further confirm the above arguments:

- ☒ *"[The Russians'] technical resources are outstanding and their capacity and ability to think is also great."*
- ☒ *"Responses from Russian companies to the RFI were excellent. [We] really wanted someone who was very open and transparent – [we] found the greatest degree of openness in Russia."*
- ☒ *"Russian programmers are really good at making changes as the project goes along, which is really important in the telecom industry because requirements change so quickly."*

...But Softer Factors Also Seen as Clear Differentiators

Softer factors – such as time zone differences, the closer cultural fit and similar work ethic to the Western world, and the clear understanding of business issues – were often mentioned as clear differentiators for Russia against other offshore locations. As one executive put it:

"[The] initial investment is now paying off for [us]. [We] have learned to work together. Eastern European culture is closer to Western European culture than the Indian culture is. Eastern Europe is in a more convenient time zone."

The issue of a closer cultural fit seemed to be particularly important to respondents, with six of 20 saying it was one of the reasons why they had chosen to engage a Russian firm. The smaller time zone difference was seen as making day-to-day communication easier, although it was also noted that offshore firms will generally "change their clocks" to the local time of their customers. That being said, the benefit or differentiator most often mentioned in connection with Russian firms was their ability to understand business needs and requirements and match these to the delivered product.

Final Evaluation: Time to Market and Flexibility for Product Delivery are Key Benefits

The majority of respondents mentioned time to market and flexibility of product delivery as the key benefits of outsourcing. Given that most of the companies interviewed had used offshore resources to develop a product to be sold to customers, these are important advantages. As discussed at the beginning of this study, remaining competitive is a driving factor behind the use of offshore resources. Although price is often the initial trigger for embarking on an offshore/nearshore strategy, the ability to be more agile in the market place and to feed the revenue line by getting new products out to customers is a more positive outcome than simply saving money.

What is the Drawback? No Single Issue Stands Out

There are no clear patterns in the challenges respondents have encountered when outsourcing work to Russia. The difference between local time and Russian time is a factor, but is generally seen as better than the time-zone difference with India. Some

respondents mentioned weaker English skills than those offered by India, but most perceived these to be improving rapidly. Respondents often considered weaker English skills a reasonable trade-off for a closer cultural fit. Most of the other challenges were those encountered in the startup phase of any project, whether involving offshore resources or not: establishing processes, setting up communications channels, defining roles, ensuring everyone understands objectives and tasks, and so on.

Communication, Clarity of Requirements, and Strong Processes are Key to Successful Relationships

The recommendations respondents would give others considering the use of nearshore/offshore resources can be divided into three groups: pre-engagement, start-up phase, and during the engagement. The verbatim recommendations create a clear checklist:

- Initial considerations:
 - "Be clear on the reason for going offshore."*
 - "Consider the time zone. Cost and convenience of traveling to/from the outsourcing location can make a difference."*
 - "Start small."*
 - "Be clear about the requirements, the size of the project, and the expertise needed."*
 - "Do your research. Speak with people who have worked with the company that you are considering."*

- In the start-up phase:
 - "Be very thorough about selecting the remote management team (who from the outsourcer will manage your project?)."*
 - "Get your people motivated."*
 - "Communications is #1 priority. Establishing a process for daily communications is essential in any outsourcing relationship."*
 - "Allow time for communication and team building – build it into the project plan. Relationship-building is very important, it will make the project easier."*
 - "Select the right people and let them carry the program, make it their mission."*

- Throughout the duration:
 - "Develop strong relationships with the management of the firm and the project."*
 - "Learn each others' cultures – exchange team members."*
 - "Allow time for knowledge transfer."*

- ❑ *"Build the trust. Forge a strong relationship."*
- ❑ *"Stick to the schedule. Use them as experts, in some cases, they know more than you do."*
- ❑ *"Keep on top of what needs to be monitored."*
- ❑ *"Spend time talking to them, explaining requirements."*

None of the recommendations related specifically to engaging with a Russian provider as opposed to, for example, an Indian or Chinese provider. Most can be seen as good housekeeping rules for any engagement with an external service provider, and, as such, are of great value. Many organizations have experienced headaches and disappointments because they underestimated the complexities of engagements spanning different organizations, time zones, languages, and cultures.

CHALLENGES AND OPPORTUNITIES FACING THE RUSSIAN SOFTWARE DEVELOPMENT INDUSTRY

Russia, as an offshore location, has been living in the shadow of India, as have most other "offshore" countries. The Indian software and services industry was quick to establish a strong profile in the market through Nasscom (National Association of Software and Services Companies), and has the Indian government behind its efforts to promote the Indian brand. Russia must play catch-up. Although the profiles of Eastern European countries as offshore locations have been raised in the past few years, there is still some way to go before these countries, including Russia, have established a brand as strong as India's.

Nevertheless, it is clear there are good opportunities for the Russian offshore industry, not only because the use of offshore resources is a growing trend that has yet to peak, but also because Russia has a competitive edge over its rivals. IDC believes, however, that the Russian software development industry must take a few key steps to take full advantage of these opportunities, such as:

- ☒ Establishing the key strengths of the Russian software and services industry. This can be done by highlighting the differentiators pinpointed by the respondents to this study, such as Russia's ability to deliver on high-end, complex projects; technical skills; and cultural and time-zone fit.
- ☒ Marketing the Russia brand to the world. From the start, India used CMMI quality levels to establish its credentials in the market. While quality levels remain important, these are now taken for granted to some degree, at least from the large, established Indian providers. The differentiators mentioned above could be part of the brand value of the Russian software and services industry. Any support the Russian government can give in building the brand will be valuable, as official trade delegations will be able to help spread the word, while official backing at home will help convince customers and prospects that crucial infrastructure investments will be made and maintained.
- ☒ Creating strong reference customers. A key success factor for any company in the technology market these days is a strong list of reference customers. Russian software and services companies must establish stronger lists of customers they can quote.

CONCLUSION – WHAT SHOULD THE CUSTOMER CONSIDER?

Our research suggests that customers see the ability to deliver on high-end, technically complex projects; strong technical skills; understanding the business needs of the customer and translating these into the final product – not to mention the closer cultural and time zone fit – as key differentiators separating Russian software and services firms from their competitors. For custom application development engagements, customers further highlighted the following:

- The ability of Russian companies to tackle the type of non-standard tasks essential for troubleshooting and product development.
- The large pool of highly skilled mathematicians and scientists capable of solving complex and math-intensive problems.

For many organizations, the promise of lower-cost access to skilled resources is the key factor in their decision to enter into offshore engagements with providers with whom they may not previously have worked. Many organizations – particularly smaller companies – embarking on such engagements have limited experience in handling external service providers and even less experience dealing with a supplier based in another country. IDC believes a few simple questions can help an organization start out on the right track:

- How good is the fit between my company and the offshore vendor? Is there a cultural affinity? Do we understand each other's language – both literally and metaphorically? Does the vendor understand our business needs and can it design technological solutions to meet those needs?
- Does the vendor have the skills we think necessary in terms of, for example, experience and specific technologies? Does it have a good track record of retaining staff for the duration of a project (or at least for a reasonably long term)?
- How good are the project management skills? How much will I need to invest myself?
- Can I talk to other customers and hear their views of the vendor – good and bad?

It is clear that as global sourcing takes hold, organizations will have a wider choice of countries from which to source appropriate skills. While India is still considered the leading location, other countries, such as Russia, should also be considered. Our findings indicate Russia's software engineering industry has matured from its nascent stage and, in many respects, deserves a prominent place on the offshore map. In particular, Russia could take the lead for outsourced development of high-end and complex projects.

APPENDIX – PROFILES OF RUSSIAN SERVICE PROVIDERS

The profiles in this section are based on information from the vendors and publicly available information.

Aplana Software

Company Overview

- ☒ Established: 2001. Member of the I.T.Co. Group.
- ☒ Locations: Russia (Moscow), Ukraine (Kyiv), the UK (Swindon, Wiltshire), and the United States (Huntingdon Valley, PA).
- ☒ Staff: 200+.
- ☒ Revenue total/offshore: \$8.5 million in 2006, 20% offshore (estimate).

Services Portfolio/Strategy

Aplana Software focuses on custom software development, maintenance, and testing, as well as on systems development and integration. Aplana also includes in its services portfolio the implementation and customization of third-party software solutions, development and maintenance of specialized solutions, professional services, and consulting services.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Telecoms, manufacturing, IT, banking, and finance.
- ☒ Geographies: Russia, Western Europe, and the United States.
- ☒ Marquee Customers: International – Wrigley, Procter & Gamble, OTIS, GE Medical Systems, and Raiffeisen Bank Austria; Domestic – Central Bank of Russia, Ministry of Industry, Science and Technologies of Russia, TNK-BP, MTS, and Gazsviaz.

Differentiators

- ☒ High effectiveness and development productivity; simple organization structure and efficient information infrastructure.
- ☒ Flexible offshore development center resource-allocation model.
- ☒ Mature customer relationship processes – transparent communications and real-time information sharing. Aplana also tailors its existing software development process to the customer's corporate quality standards.

Artezio

Company Overview

- ☒ Established: 2000. Member of the LANIT Group.
- ☒ Locations: Headquartered in Moscow with production facilities in Moscow, Saratov, and Minsk (Belarus).
- ☒ Staff: 300+.
- ☒ Revenue total/offshore: \$8.2 million in 2006, 79% offshore.

Services Portfolio/Strategy

Artezio offers total application lifecycle services, including requirement analysis, design, application development, and enterprise application integration, as well as application testing, and maintenance. Artezio's core expertise lies in the following technology domains: enterprise information portals, data warehousing and business intelligence, and content and knowledge management. Artezio also sets up software development centers for technology companies. In that capacity, it provides project management consulting, IT training, recruiting, and outstaffing.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Telecoms, finance, healthcare, education, and IT.
- ☒ Geographies: Russia, United States, Japan, Austria, Germany, Switzerland, and the United Kingdom.
- ☒ Marquee Customers: International – GlaxoSmithKline, Siemens BS, SwissComMobile, and Organon; Domestic – Parus, Nvision Group, Protek, TopS BI, and CROC.

Differentiators

- ☒ Artezio adapts to the business objectives of its customers and offers several flexible global delivery models.
- ☒ Expertise in enterprise information portal development and enterprise application integration using the Service Oriented Architecture approach.
- ☒ Well-developed IT project management consulting capabilities.
- ☒ Established trust and collaboration with local governments, industry associations, and educational institutions in the Moscow area as well as across Russia.

Auriga

Company Overview

- ☒ Established: 1990. Incorporated in the United States, 1993.
- ☒ Locations: Headquartered in the United States (Amherst, New Hampshire) and Moscow, with software development center and embedded development training center at Moscow State University. Additional regional software development centers in Russia (Kazan, Nizhny Novgorod).
- ☒ Staff: 270+.
- ☒ Revenue total/offshore: \$8.5 million in 2006, 93% offshore (estimate).

Services Portfolio/Strategy

Auriga offers a wide range of offsite and onsite software development, maintenance, and testing services. The vendor's technology and solutions portfolio includes embedded services, real-time systems, Linux and Windows Kernel, workflow knowledge management, and CRM solutions. Auriga also offers industry solutions for

ISVs, OEMs, and other high-tech companies in the fields of medical devices, telecoms solutions, and aerospace.

Strategically, Auriga focuses on delivering robust business and technology solutions to high-tech companies and specialty equipment manufacturers worldwide.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: telecoms, healthcare and medical devices, aerospace and transportation, media and entertainment, IT, manufacturing, and security.
- ☒ Geographies: Russia, United States, and Europe.
- ☒ Marquee Customers: IBM, Toshiba, Motorola, Reuters, Financial Times, HP, LinuxWorks, Draeger Medical, Pigeon Point Systems, Verdasys, Queplex, and BroadVision.

Differentiators

- ☒ Has 17 years of experience in offshore software development.
- ☒ Team of highly qualified specialists (9.5 years of experience on average) with low attrition and rotation; close ties with Moscow State University and other top Russian technical universities.
- ☒ Expertise in embedded systems and system-level development for a wide range of operating systems and hardware platforms.
- ☒ Specially focused offering for high-tech companies providing refined offshore development center capabilities and flexible engagement models.

Data Art

Company Overview

- ☒ Established: 1997.
- ☒ Locations: Headquartered in the United States (New York) with additional offices in the United States and the UK (London), and development centers in Russia (St. Petersburg, Voronezh) and Ukraine (Kherson).
- ☒ Staff: 300 (97% offshore).
- ☒ Revenue total/offshore: \$7 million in 2006, 100% offshore.

Services Portfolio/Strategy

DataArt's main business is application development, software testing, R&D, system integration, business automation tools, and IT consulting. DataArt provides custom financial software solutions for capital markets and hedge funds as well as for the telecoms and media sectors. DataArt competes in markets demanding industry expertise and delivery speed, and the company's processes are focused on optimizing these two factors.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Financial services (asset management), telecoms, and media.
- ☒ Geographies: Europe and the United States.
- ☒ Marquee Customers: BNP Paribas, Spirent Communications, Motorola, Ernst & Young, Standard & Poor's, BBDO, Complanet, Cancer Research, Passlogix, AIG, and Mail.ru.

Differentiators

- ☒ Specific business domain expertise.
- ☒ Proprietary development methodology.
- ☒ Extremely low attrition rate (2%).
- ☒ Client retention rate: 90% over the last 10 years.

Digital Design

Company Overview

- ☒ Established: 1992 in St. Petersburg, Russia.
- ☒ Locations: Headquartered in Russia (St. Petersburg), with a development center in St. Petersburg and additional sales offices in Europe and the United States.
- ☒ Staff: 239.
- ☒ Revenue total/offshore: \$9.5 million in 2006, 15% offshore.

Services Portfolio/Strategy

Digital Design's main competencies stem from software development in areas such as information security, embedded software, BI solutions, electronic document management and workflow systems, and portal-based solutions. Digital Design's strategy is to provide a highly customer-oriented service supported by a talented, motivated team and a world-class system.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Finance, transportation, healthcare, government, education, and manufacturing.
- ☒ Geographies: Central and Eastern Europe, Western Europe, and the Americas.
- ☒ Marquee Customers: Ford Motor Company, Heineken, Heidelberg, IBM, FINN FANI, Cubio, International Paper, Stora Enso, Ciprico, Pulkovo Airlines, Russian Railways, Tetra Pak, and Volvo.

Differentiators

- ☒ Transparent, documented software development process.
- ☒ Treating each customer as unique, providing best possible solution.

- ☒ Customer satisfaction monitoring based on American Customer Satisfaction Index Methodology.

EPAM

Company Overview

- ☒ Established: 1993.
- ☒ Locations: Headquartered in the United States (Lawrenceville, New Jersey) with offices in Boston, the UK (London), Hungary (European Headquarters, Budapest), Germany (Frankfurt), and Russia (Russian Headquarters, Moscow). Ten offshore development centers in CEE, the major ones in Moscow, Budapest, Belarus (Minsk), and Ukraine (Kyiv).
- ☒ Staff: 2,700.
- ☒ Revenue total/offshore: \$80 million in 2006; 90% offshore.

Services Portfolio/Strategy

EPAM focuses on delivering software engineering services to top platform vendors including SAP, Microsoft, and BEA, and end-to-end business solutions to enterprise clients. Included in the vendor's services portfolio are offshore software development, application testing, application maintenance and support, application re-engineering, enterprise application integration, and software localization. EPAM offers services for ebusiness, CRM, data warehousing and business intelligence, content management, knowledge management, and enterprise information portals.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Finance, healthcare, retail, oil and gas, telecoms, media, IT, manufacturing, transportation, wholesale, business services, utilities, government, and education.
- ☒ Geographies: The Americas, Western Europe, and Central and Eastern Europe.
- ☒ Marquee Customers: Enterprise – Reuters, London Stock Exchange, Colgate-Palmolive, British Telecom, William Hill, Empire, CareFirst BlueCross BlueShield, Schlumberger, and Halliburton; Technology – SAP, BEA Systems, Microsoft, and Hyperion.

Differentiators

- ☒ Largest resource pool in Central and Eastern Europe (Russia, Hungary, Ukraine, Belarus).
- ☒ Strong onsite presence (70+ people in the United States, 220+ people in the EU) enables EPAM to deliver complex, mission-critical, and highly tuned specialty applications addressing the business demands of global corporations.
- ☒ Continued access to talent thanks to EPAM's reputation. Extensive investments in employee training and motivation, and a client-oriented corporate culture. Low attrition rate.

Exigen Services

Company Overview

- ☒ Established: 1992.
- ☒ Locations: Headquartered in the United States (San Francisco) with operations and delivery centers in Boston, Latvia (Riga), Lithuania (Vilnius), Ukraine (Kyiv, Odessa, Dnepropetrovsk), and Russia (St. Petersburg, Dubna, Kazan) and sales offices in Germany (Frankfurt) and Sweden (Stockholm).
- ☒ Staff: 1,800.
- ☒ Revenue total/offshore: \$55 million in 2006, 100% offshore.

Services Portfolio/Strategy

Exigen Services provides technology-driven application outsourcing services, focusing on delivering custom solutions to enterprise clients based on its proprietary IP and vertical expertise in banking, insurance, media, healthcare, and other industries. The company offers offshore application development, maintenance and support, legacy re-engineering and migration, and enterprise application integration services. Exigen Services merged with StarSoft in February 2007 to form one of the largest providers of application outsourcing services in Central and Eastern Europe.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Finance, insurance, media, healthcare, telecoms, government, transportation, manufacturing, and business services.
- ☒ Geographies: The Americas, Europe, and the Middle East and Africa.
- ☒ Marquee Customers: T-Mobile, CSC, AXA, Universal Music, Prudential, AIG, and Deutsche Post.

Differentiators

- ☒ Technology-driven application outsourcing: combination of core proprietary IP and deep business process expertise in key verticals.
- ☒ World leader in distributed Agile development endorsed by leading industry experts.
- ☒ Offshore development centers in EU member states Latvia (European headquarters) and Lithuania, as well as Russia and Ukraine.
- ☒ Ample human resources to sustain growth; closely affiliated with universities in Russia, Ukraine, and the Baltic States.

IBA Group

Company Overview

- ☒ Established: 1993.

- ☒ Locations: Development Centers in Belarus (Minsk, Gomel), Czech Republic (Prague, Brno), and Bulgaria (Sophia). Additional sites in Germany (Wegberg-Dalheim), the United States (Mountain View, CA), Cyprus (Limassol), Russia (Moscow), and Belarus (Mogilev, Novopolotsk).
- ☒ Staff: 2,000.
- ☒ Revenue total/offshore: \$61 million in 2006, 69% offshore.

Services Portfolio/Strategy

IBA Group's main business areas are software development, maintenance and support (with special focus on mainframe systems and applications), Internet and -business solutions; SAP and other ERP systems; and Lotus technologies. Additionally, the company performs migration of legacy systems to innovative platforms and technologies.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Finance, transportation, retail, wholesale, healthcare, government, education, manufacturing, utilities, business services, and communications.
- ☒ Geographies: Central and Eastern Europe, Western Europe, the Americas, and the Middle East and Africa.
- ☒ Marquee Customers: IBM, T-Systems, Goodyear, Coca-Cola, Lupus GmbH, Beltransgaz, Tupolev PSC, Belarusian Railway, National Bank of Belarus, and Belarusbank.

Differentiators

- ☒ A total of 2,000 multilingual IT and business professionals worldwide.
- ☒ Expertise in system and application development for different computer platforms, including IBM mainframes, Intel, RISC, AS/400, and mobile technologies.
- ☒ Low attrition rate.
- ☒ IBA Group employs a matrix organizational structure that is flexible and adaptive to customer requirements and contributes to strong customer retention.

Lanit-Tercom

Company Overview

- ☒ Established: 1991 (out of the Software Engineering Laboratory and Mechanical Engineering Department at St. Petersburg State University).
- ☒ Locations: Headquartered in Russia (St. Petersburg).
- ☒ Staff: 350+.
- ☒ Revenue total/offshore: \$8.5 million in 2006, 90% offshore.

Services Portfolio/Strategy

Lanit-Tercom provides a variety of services including the development of software/hardware systems, re-engineering of system software and electronic equipment, IT consulting, and offshore development center setup. The company handles both mass-production and customized programming projects. Lanit-Tercom employs a variety of development techniques, from traditional Waterfall models to Microsoft Solutions Framework and Agile software development methods.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Finance, transportation, retail, healthcare, government, education, utilities, and communications.
- ☒ Geographies: Central and Eastern Europe, Western Europe, and the Americas.
- ☒ Marquee Customers: Relativity Technologies, Blue Phoenix, Italtel, and International Intellectual Group, Inc.

Differentiators

- ☒ Access to programming talent via long-term cooperation with St. Petersburg State University.
- ☒ Technical experts have no less than 12 years of professional experience and a PhD in Computer Science or Software Engineering. All researchers and developers hold at least a master's degree.
- ☒ Over 15 years of experience on the Russian IT market.
- ☒ Strong IT consulting and offshore development set-up capabilities.

Luxoft

Company Overview

- ☒ Established: 2000.
- ☒ Locations: Headquartered in Russia (Moscow) with offices in the United States (New York, U.S. headquarters) and the UK (London, Luxoft Europe). Sales and marketing offices in the United States (New York, San Jose, Seattle), the UK (London), and Germany (Hamburg). Development centers in Russia (Moscow, St. Petersburg, Dubna, Omsk), Ukraine (Kyiv, Odessa), and Canada (Vancouver).
- ☒ Staff: 2,220.
- ☒ Revenue total/offshore: \$68 million in 2006, 63% offshore.

Services Portfolio/Strategy

Luxoft provides high-end software development services and technology solutions for enterprise clients worldwide, including product development capabilities and embedded systems development expertise. Luxoft also provides consulting services and specialized training and captive center set-up services.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Finance, communications, media, energy and utilities, IT, transportation, manufacturing, government, and education.
- ☒ Geographies: Central and Eastern Europe, Western Europe, the Americas, and Asia.
- ☒ Marquee Customers: Boeing, Caterpillar, Citibank, Dell, Deutsche Bank, IBM, UBS, Thomson, U.S. Department of Energy, Areva, T-Mobile, and Harman/Becker.

Differentiators

- ☒ Highly educated and experienced staff (80+% of staff has a Masters degree, 80+% of staff has 5 or more years' experience, 94% employee retention rate).
- ☒ Follows set industry practices with deep business domain expertise.
- ☒ Size and global reach.
- ☒ Strong focus on processes and quality: first in Europe to achieve Level 5 CMMI quality certification; offers a unique Client Engagement Framework called LUXguide to accommodate client outsourcing requirements.

Mirantis

Company Overview

- ☒ Established: 1993 (as ProSys LLC changed name to Mirantis in 2001).
- ☒ Locations: Headquartered in the United States (Foster City, CA) with offices in Russia (Moscow, St. Petersburg).
- ☒ Staff: 200.
- ☒ Revenue total/offshore: \$9.2 million in 2006; 66% offshore.

Services Portfolio/Strategy

Mirantis provides a range of mature, dedicated services designed to support the day-to-day operations of its customers' distributed infrastructure environments.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Variety of industries.
- ☒ Geographies: Worldwide.
- ☒ Marquee Customers: Cadence Design Systems, London Bridge, Genesis Microchip Corporation, Virtio, MIPS Technologies, Terrawave Solutions, and Veritas.

Differentiators

- ☒ Core method for converting a customer's own on-site technology infrastructure into an offshore development operation.

- ☒ Recruitment subsidiary in Russia (Ventra Employment) houses a database of 50,000+ candidates.
-

Reksoft

Company Overview

- ☒ Established: 1991.
- ☒ Locations: Headquartered in Russia (St. Petersburg) with additional locations in Russia (Moscow), Sweden (Upplands Vasby), and Germany (Munich).
- ☒ Staff: 350+.
- ☒ Revenue total/offshore: \$11.4 million in 2006, 70% offshore.

Services Portfolio/Strategy

Reksoft offers a variety of IT services including application development, maintenance, and support; packaged software implementation; systems integration; and offshore development centers. Furthermore, the service provider offers product R&D and engineering. Reksoft is focused on the telecoms sector and on clients from Western Europe.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Online banking, telecoms, and hospitality.
- ☒ Geographies: Central and Eastern Europe, Western Europe, and the Americas.
- ☒ Marquee Customers: Aastra Telecom, Dirol Cadbury, First Hop, Francotyp-Postalia, Fujitsu Siemens Computers, Philip Morris, Saxo Bank, SoftBrands Hospitality, Springer, Swisscom Mobile, and T-Systems.

Differentiators

- ☒ Over 16 years of experience on the Russian outsourcing market.
 - ☒ Low turnover rate of 4.5% ensuring project continuity.
-

TerraLink

Company Overview

- ☒ Established: 1994.
- ☒ Locations: Headquarters in Toronto with offices in Moscow, St. Petersburg, Chelyabinsk, Vladivostok, and New York.
- ☒ Staff: 140+.
- ☒ Revenue total/offshore: \$13.8 million in 2006, 31% offshore.

Services Portfolio/Strategy

TerraLink is focused on providing clients with a highly customized engagement model with its team operating as an integrated extension of the client's team. Specialized skills include document management systems, portals and workflow on Open Text, Documentum, Hummingbird, and Sharepoint platforms. TerraLink has significant experience with engineering platforms commonly used in the oil & gas and mining industries, such as Bentley and Maximo. TerraLink also provides CAD services and mathematical modeling for the mechanical, aerospace, and automotive engineering industries.

Focus Markets – Verticals, Geographies, and Marquee Customers

- ☒ Verticals: Aerospace, mechanical and automotive engineering, oil & gas, mining, financial services, insurance, legal, and telecommunications.
- ☒ Geographies: The Americas, Europe, and the Middle East and Africa.
- ☒ Marquee Customers: British Petroleum, Chevron/Agip/British Gas (JV), Carnegie Mellon School of Computer Science, Renaissance Capital, Bloomberg, Goldman Sachs, Airbus, and Renault.

Differentiators

- ☒ Bespoke service with highly customized engagements and optional build-operate-transfer model (opportunity for client to acquire offshore center). Tight integration with client and adoption of client business processes.
- ☒ Western management team based in Russia using GAAP reporting, with D&B rating, liability insurance and strong US investors ensuring transparency, credibility, and compliance.
- ☒ TerraLink is one of the few providers offering an offshore support model with teams working 24 hours to field calls in English directly from U.S.-based end users.
- ☒ Exceptionally strong communication and interaction. All project staff speak English and regularly speak directly with client teams to keep them informed and involved.

RUSSOFT

RUSSOFT is an association of software developing companies from Russia, Belarus, and Ukraine.

Formed in May 2004, through the merger of the Fort Ross Consortium with the National Software Development Association, RUSSOFT is headquartered in Saint Petersburg, Russia. The organization counts over 80 member companies employing over 7,000 programmers and software engineers.

All the companies profiled in this paper are members of RUSSOFT.

Copyright Notice

External Publication of IDC Information and Data — Any IDC information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Vice President or Country Manager. A draft of the proposed document should accompany any such request. IDC reserves the right to deny approval of external usage for any reason.

Copyright 2007 IDC. Reproduction without written permission is completely forbidden.