



Best Practices: Offshoring & Outsourcing

Experts provide both strategic and tactical insight for vendors looking to move work off-site.

By Dmitry Loschinin

Offshore Outsourcing: Why Russia?

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Russia is about to become one of the most popular destinations for offshore software development. According to Gartner Group, the Russian market size for exported IT services approached \$500 million in 2004 and is growing at a rate in excess of 25 percent per year.

So why should European and American firms choose Russia? The reasons are simple: Russia is the best location for technically challenging tasks; it has a huge pool of high-tech and engineering talent built upon one of the finest education systems in the world; it has a very strong home-grown IT sector that is receiving strong government support; it has both cultural and geographical proximity to the West; and it has a distinct cost of labor advantage.

Let's take a look at each of these factors in more detail.

Technology Expertise

Boeing, Dell, Deutsche Bank, Alcatel, Reuters, London Stock Exchange and Siemens are examples of more than 250 global companies active in Russia-based offshore software development. Why are these giants turning to Russia rather than elsewhere?

Initially companies outsourced routine tasks such as mainframe maintenance and Y2K fixes. Western firms found it smart to hand tedious code work over to Asian firms. The next phase involved low- to medium-level software development tasks. Nowadays, however, more complex Oracle, Microsoft .Net and Java programming are in heavy demand.

And Russia is the best place to find such resources.

Russia has gained a well-earned reputation for application development, data management, web application/design, content management, e-commerce, ERP, office applications, education, entertainment and middleware. Additional areas of strength include custom R&D and design work, embedded systems development, specialized testing, software package integration and translation services. In fact, while other countries are getting projects to handle commoditized coding projects, Russia is increasingly the destination for high value, sophisticated, mission critical application development.

A long list of analysts and industry experts like Esther Dyson and Intel's Steve Case have said the Russians are the absolute tops when it comes to complex programming. Gartner Group stated that only India, China and Russia were capable of scaling up enough to meet the demands of large-scale projects. That's why Gartner estimates that Russia will capture a five percent share of the North American offshore services revenue by 2007.

Tremendous Talent Pool

Russia's workforce is comprised of skilled and highly experienced high tech and engineering talent with creative minds and good communication abilities. In fact, Russia was ranked third by UNESCO in the number of scientists and engineers per capita worldwide. In addition Russia has a talent pool of over 4.7 million students, 50 percent of which are majoring in science, math, and computer sciences. Further, these students regularly win international programming contests. In the world's most prestigious competition, the Association of Computing Machinery (ACM) International Collegiate Programming Contest, for example, Russia has won four gold medals in the last six years.

Dr. Deborah A. Palmieri, president of the Russian American Chamber of Commerce headquartered in Denver, CO, said Russia was of great interest to American high tech because of the superiority of its software engineers and their exceptional theoretical ability. As a result, the financial services sector now trusts the country with the development and maintenance of mission critical systems.

Thriving IT Marketplace

Russia's IT market has come a long way in a short time. The country has, for example, a very strong home-grown IT sector with almost 300 software companies operating today and a total market size of \$2.5 billion. Due to growing government support, IT's share of Russian overall exports has gone from 0.3 percent to more than five percent in the last two years.

Those numbers were achieved in parallel with a healthy overall national growth. The IMF recently quoted an average annual GDP growth in Russia of 7.1 percent over the past six years, with its IT sector expanding by 22 percent per annum.

The Russian IT sector is also increasingly sophisticated in terms of quality control. The leading IT outsourcers have been certified to meet the highest global quality standards such as CMM and CMMI.

Companies looking to outsource offshore will find in Russia mature and dynamic businesses utilizing rigorous software development discipline, high quality standards and flexible management processes.

Cultural and Geographical Proximity

There are many exotic destinations for outsourcing. Most, however, create scheduling difficulties and cultural challenges. Asia, for instance, is typically 12 or more hours ahead of the U.S. When programmers are working, their U.S.-based counterparts are sleeping - and vice-versa. In addition, the customs and business practices are quite different. It generally takes a while for both sides to come to terms with each other's preferences and peculiarities.

Not so with Russia. For Europe, time differences are negligible, and for the Eastern Seaboard at least, there's only six hours' difference. The latter part of the Russia business day coincides nicely with the start of business in American offices.

Further, culturally the West has more in common with Russia than with Asia.. A major portion of Russia is, after all, in Europe, and, since the fall of communism, Russia has become increasingly Westernized. Years of globalization has made the country very familiar with America and its ways. Consequently, today, Western firms will find in Russia a maturing legal system, strong intellectual property laws, along with an anti-piracy mindset and a familiar framework of business practices.

Lower Costs

Obviously, there are labor rate advantages compared with the U.S., where salaries for American programmer can exceed \$60,000 per year. A U.S. firm could obtain the same or better talent in Russia for between \$14,000 and \$18,000 per year. But that isn't the only way costs are reduced.

By using Russian talent, Western firms can bring products to market far faster. How? Outsourcing can be used to hand off a range of important, but non-core tasks such as product development, maintenance, bug fixing and more - leaving the American or European talent free to work on its core competency. That can make a difference of months, and sometimes years, off the software release timetable.

Many of those new to offshore software development, including startups, are turning to Russia to access sophisticated and experienced engineers. Veterans of the outsourcing world, on the other hand, look to Russia for its skilled workforce and to diversify risks. They reason that it is better to have at least one large development hub closer to home, rather than relying on its entire operation on countries at the opposite end of the earth.

The simple fact is that it's far easier to outsource to Russia than Asia or the Pacific Rim. A combination of technological expertise, the educational strength, strong IT infrastructure, cultural proximity and lower costs makes Russia one of the world's most dynamic countries for IT outsourcing.

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