IT Outsourcing: global trends, Russia's place in the Global market

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Future of IT-services in the crisis time. Estimations of experts

2007

Incl. Export of
IT-outsourcing

2014-2015

Total volume of IT-services
will reach $ 1 Trln

IT-outsourcing
Total -$230 B

In-house IT-services
$520 B

Gartner China
Outsourcing Summit
Chengdu, 2008

Crisis and its impact on the IT-outsourcing. Negative side

- Cut of investment projects leads to cut of new outsourcing projects (US is the first hit)
- Effective and easy services, aimed at cutting expenses at customer side, win
- Crisis leads to protectionalism, to the growth of unemployment , to less salaries and to more competitors in the US and in Europe
- Servicing companies immediately witnessed decline in orders (up to 15%), particularly in Banking, Insurance, Retail, Construction, ...

Are there any positive aspects of the crisis?

- Gartner predicts more IT-outsourcing due to urgent needs of businesses to cut expenses on their own IT-departments
- Gartner predicts bigger market of IT-outsourcing services as a general trend in the IT market (from $750 B in 2007 to appr.$1 Trln in 2012-2013)
- Devaluation of RUR contributed to better competitiveness of Russian service providers
- Crisis contributed to amelioration in the HR area. It leads to slight unemployment and to a more adequate relations between employers and employees

BRIC countries in the Global IT outsourcing competition

- Gartner China Outsourcing Summit: With its “10-100-1000 Program” China will emerge as the main contender to India in the outsourcing in the nearest years
- NASSCOM India Outsourcing Leadership Forum (Feb 2009): India will keep its leradership with substantial growth in 2009
- Brazil will position itself as the major outsourcing destination for the US market

Export of IT-Services in BRIC countries in 2007

Brazil - $1 B

Russia - $1,3 B

India - $22,9 B ($14,8 B in projects)

China — $1,14 B

Data provided by BRIC IT-Associations for the Gartner China Outsourcing Summit, Chengdu, November 18-20, 2008

The Best 100 Global Service Providers in 2009

- EPAM Systems (Belarus-Russia)
- Exigen Services
- IBA (Belarus)
- Luxoft
- Mera NN
- Reksoft
- Intetics (Ukraine)
- Itransition (Belarus)

Global Services&NeoIT, 2009

Russian IT-service providers in the list of 10 major IT-outsourcing providers in the Central and Eastern Europe

1. Luxoft

2. EPAM Systems

3. Exigen Services

5. Reksoft

6. MERA Networks

8. DataArt

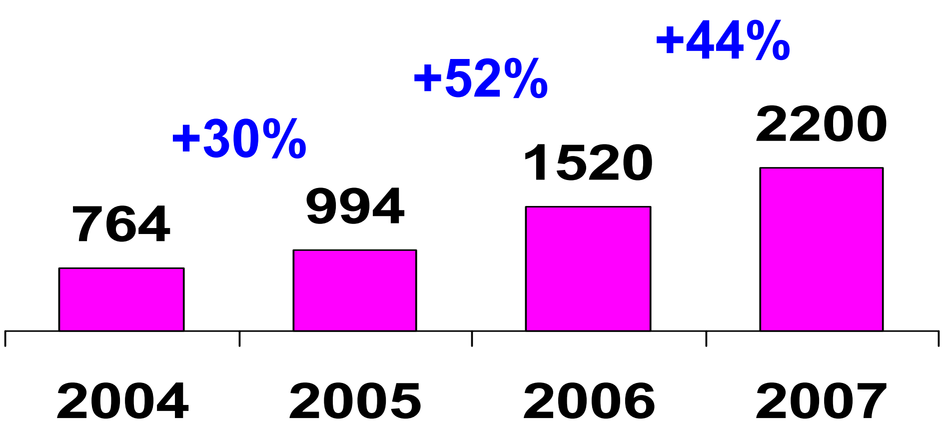
10. Auriga

Global Services and NeoIT, 2009

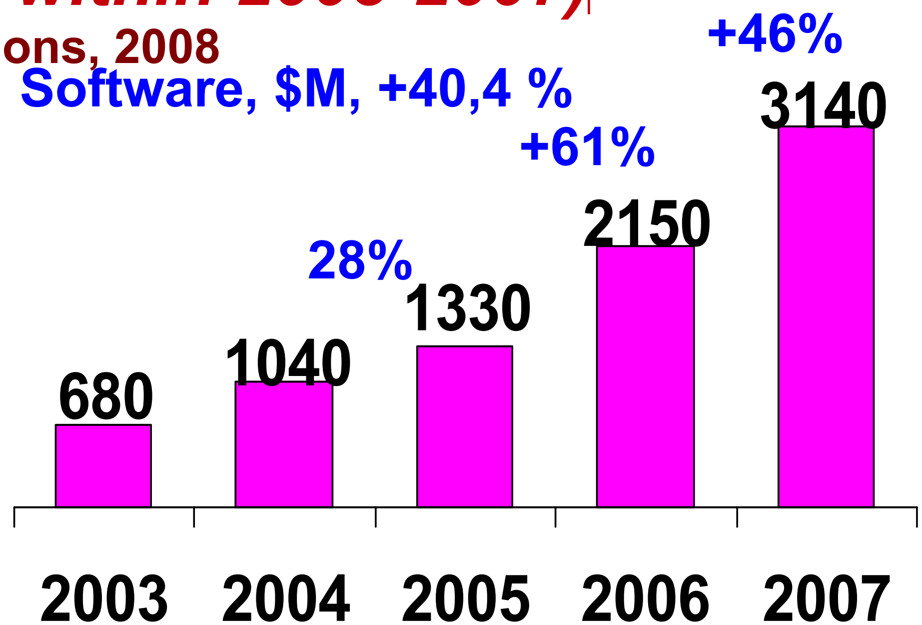
Russian IT market *($18 B in 2007, 23% average growth-rate within 2003-2007)*

Source: Ministry of IT&Communications, 2008

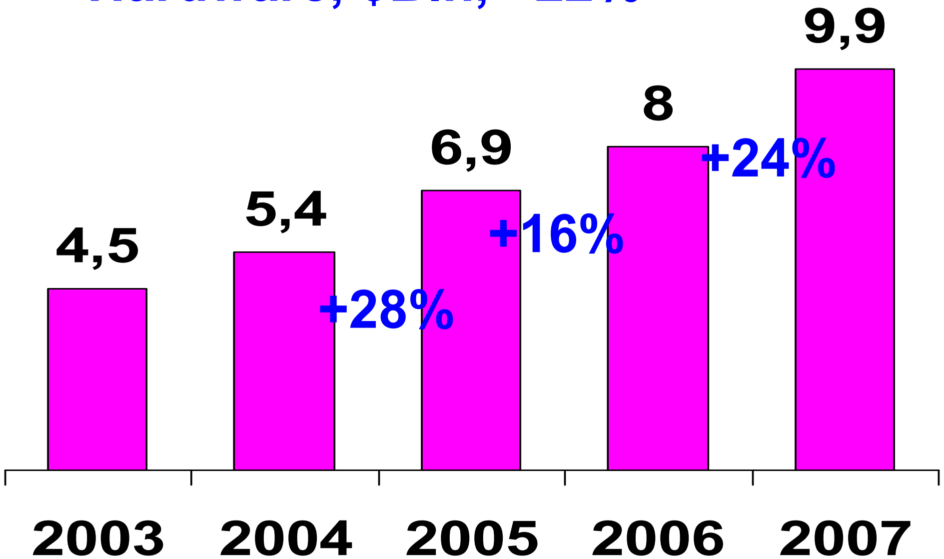
Export of Software and Services, $M,+42%



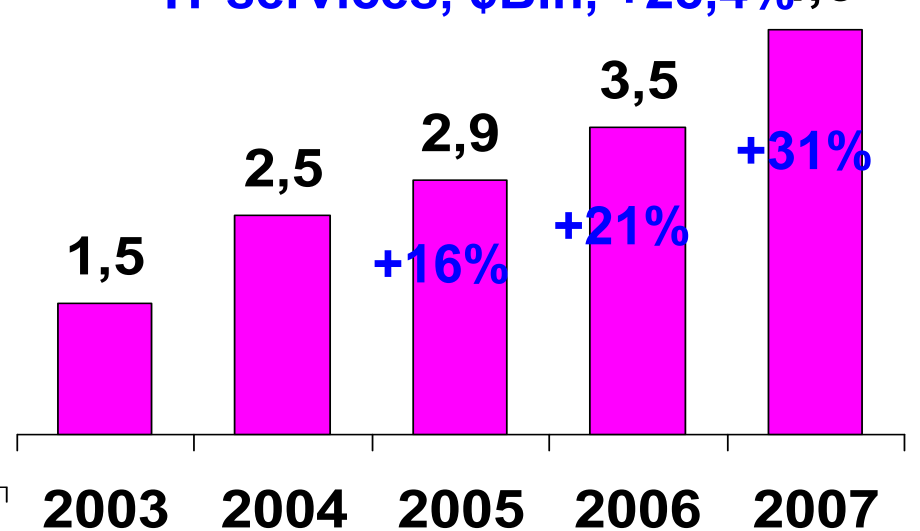
Software, $M, +40,4 %

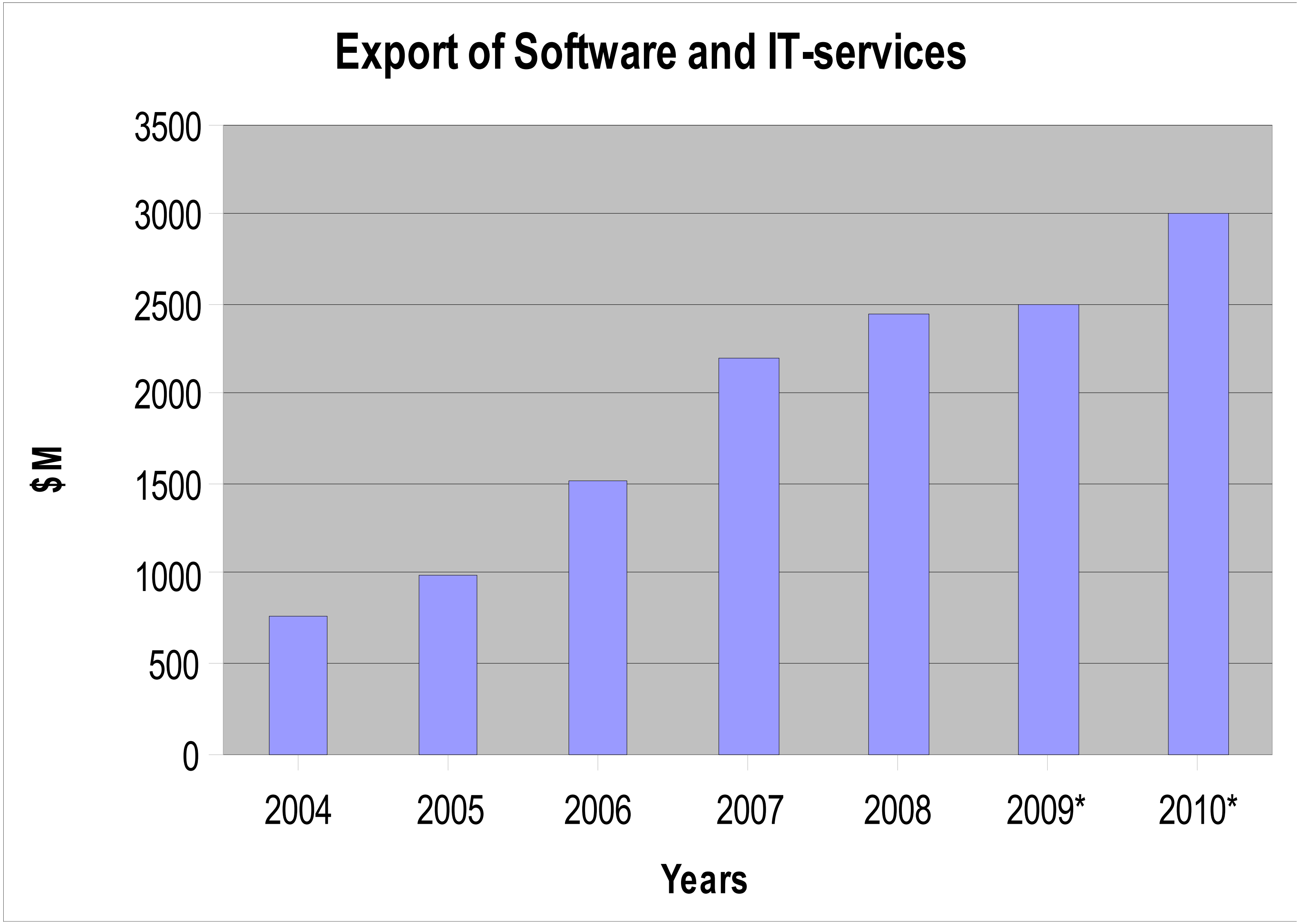


Hardware, $Bln, +22%

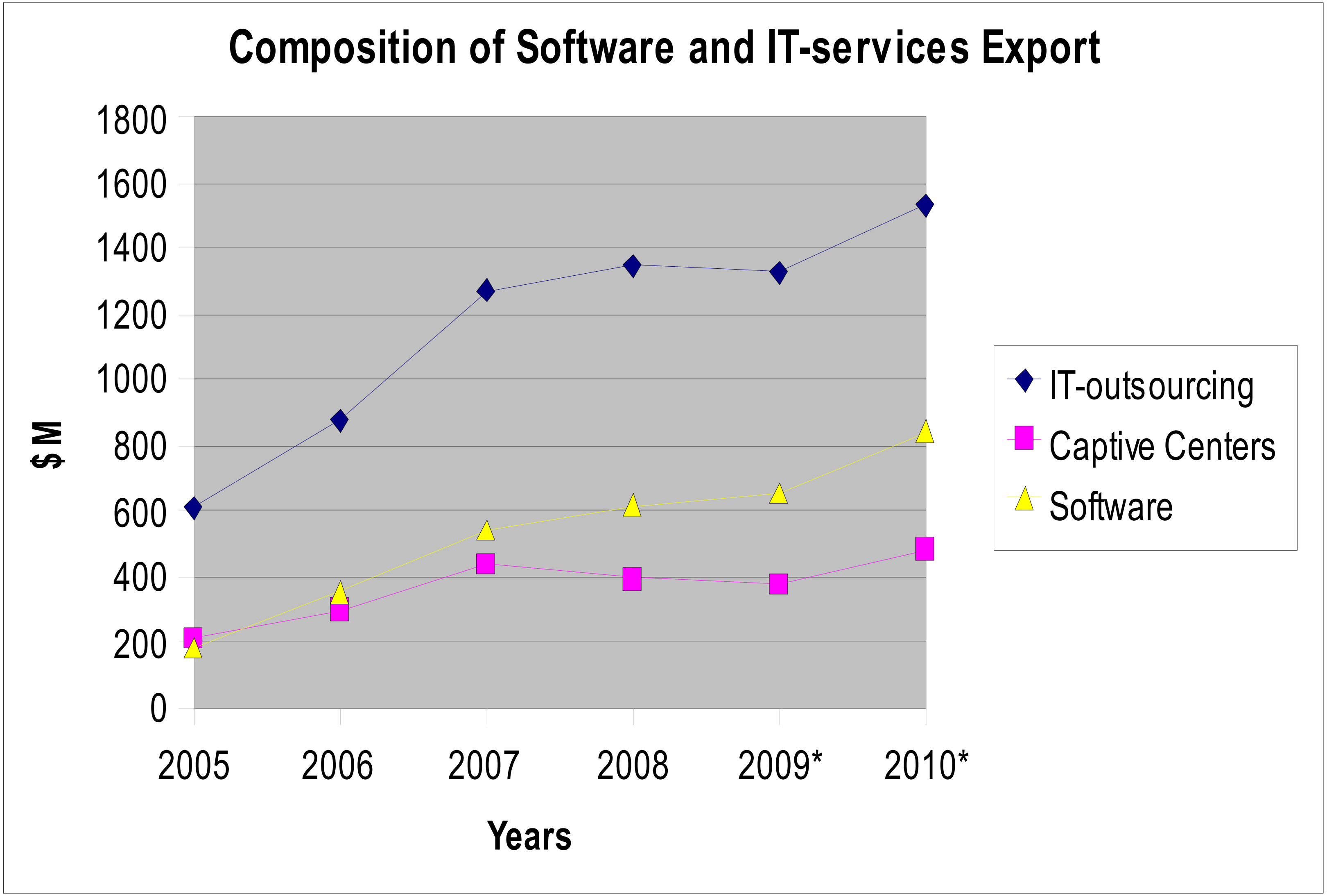


IT services, $Bln, +28,4%





RUSSOFT annual market study, 2009, preliminary data



RUSSOFT annual market study, 2009, preliminary data

Russian Outsourcing Industry Profile Details

Total Amount of Exports of IT Services - $1,3 B (2007)

- **Applications Development** - appr. $520-$650 M or 40%-50% of total Exports
- **Applications Outsourcing** (Maintenance & Management) appr. $260M-$300 M or 20%-25% of total Exports
- **Enterprise Apps (ERP)** --- appr. $130 M or 10% of total Exports
- **R&D services** (embedded development or engineering services) – appr. $130 M or 10% of total Exports
- **BPO** (Business Process Outsourcing) – less than 1 % of Total Personnel Employed for Exports of IT Services
- **Call Centers** – less than 1 % Total Personnel Employed for Exports of IT Services
- **Infrastructure Outsourcing** (Data Center, desktop, help desk, storage etc.) - less than 1% of Total Personnel Employed for Exports of IT services
- **Telecommunications** (embedded development or engineering services) – appr. $130 M or 10% of Total Exports

Russia - Country Differentiators
(supported by estimations of NeoIT, IDC, Frust&Sullivan)

RUS®SOFT
NATIONAL SOFTWARE DEVELOPMENT ASSOCIATION

- World best educational background (consecutive winners of every software development contest: ACM, Google, Microsoft, Intel, ...). Very low attrition rate (2-6%) due to “team-sourcing”

- Science intensive and hard business goals' best solution providers with huge R&D experience. Specialized in high-end software and product development, which acts as a differentiator from lower-priced offerings

- Highly integrated with resources in Ukraine and Belarus, Russian software services industry represents a unique East-European Outsourcing Pole, culturally and linguistically close to USA and to EU

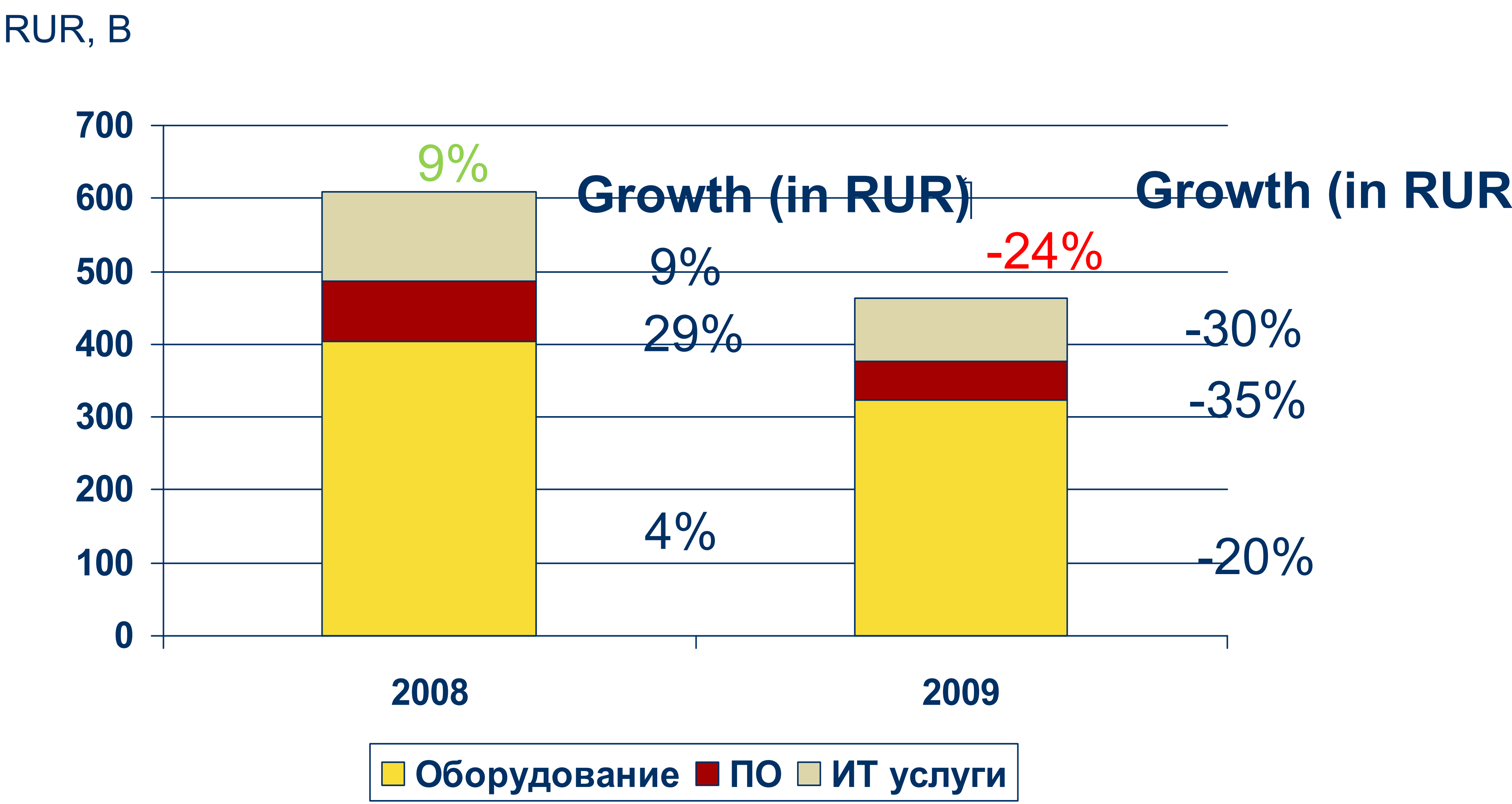
- Russia is among the most attractive and fast growing IT-markets, providing new revenues to National service providers and attracting international vendors with their Captive centers ($0,4B in 2007) and sales offices

Russian IT-market, 2007-2008 ($M)

Source: IDC, 2009

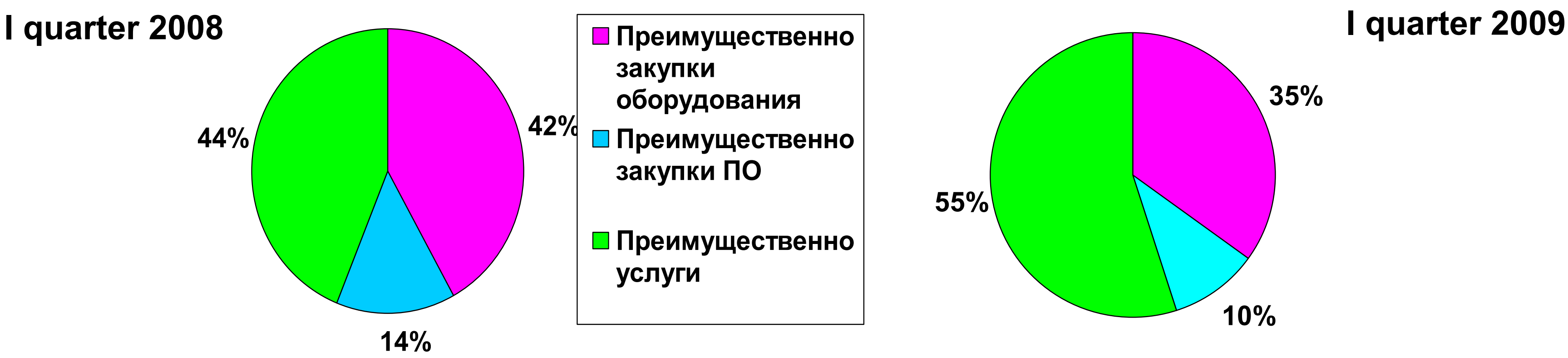
Russian IT-market, 2008-2009 (RUR)

IDC Analyze the Future



Source: IDC, 2009

Significant changes in IT-tenders



Conclusions:

- **Strong growth of predominantly "servicing" tenders**
- **Volume of tenders on standard "software" purchase decreased by 30%**

Average data on predominant structure of tenders, Ist quarters of 2008 and 2009

Source: IT Ltd, Marketing Department

Crisis: U, L, W? Predictions of IT-market major segments' development in time of crisis

Major drivers of fall: devaluation of RUR and cut of new investment projects