Report: Russia Has Tools to Take Over Outsourcing

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A new IDC white paper cites stronger technical skills and better cultural fit with the west as factors differentiating Russia from its outsourcing competitors.

Citing stronger technical skills, lower staff attrition rates and a better cultural fit with the west, a white paper released by the IDC and Russoft, a Russian IT services exporters association, outlines factors that should give Russia an advantage over its offshoring competitors.

The report, released on May 6, aims to put Russia on the outsourcing map, citing the agility of its work force in troubleshooting, as well as its product development skills and ability to managing complex projects.

The report bases its research on executive-level interviews with U.S. and Western European companies that have used Russian software and services companies for offshore development projects.

"Several factors work as Russia's differentiators on the world market, such as the large pool of highly skilled professionals with mathematics and science backgrounds, capable of solving complex and math-intensive problems, and the ability of Russian companies to manage high-end, complex projects," said Vladimir Kroa, regional director for IT services research at IDC.

"Also, Western European and American organizations often perceive Russia as being a closer cultural fit than countries like India, China or

the Philippines."

The report contrasts Russia's business environment with that of India, which pioneered the offshoring wave, asserting that with increasing labor costs and growing attrition rates, India has become a victim of its own growth. One quarter of the companies surveyed expressed that staff turnover, and its potential to destabilize a project, was a reason that they enlisted Russia's services instead.

"Attrition in Russia is very low [only 3 to 4]. This is a big advantage. There's no need to overstaff projects to insure against risk of high attrition. This saves money," one executive in the report anonymously commented.

According to the report, the experience level of IT and engineering professionals in Russia is said to be higher, even fulfilling a request by an executive that the technical staff on the Russian team have no less than eight years of experience.

Yet, the report primarily hones in on what it considers "soft factors" that make for the most positive differentiation between Russia and other offshoring hubs. The country's time zone differential, cultural fit and work ethic are purported to be a closer match for the United States and Western Europe, and are cited by six of the 20 respondents as a consideration in choosing Russia's outsourcing services.

"The initial investment is working out for us. We have learned to work together. European culture is closer to Western European culture than the Indian culture is. Eastern Europe is in a more convenient time zone," said an executive quoted in the report.

However, the IDC says that Russia will continue to live in India's outsourcing shadow unless it plays up the differentiators cited in the

whitepaper. Furthermore, Russia needs to market its brand to the world, and get as much government support as it can, something that was considered essential to India's growth.

Finally, according to the report, Russia is encouraged to establish stronger customer reference lists, and that the more they can quote, the better off they'll be, as the offshore outsourcing market is only predicted to grow over the next several years.

The IDC report estimated that the value of IT services-related exports from Central and Eastern Europe to the onshore locations, such as the United States, reached about $1 billion in 2005.

Yet, IDC believes that the value of captive services organizations, such as specialized R&D centers or dedicated back-office functions, have the potential to far exceed this.

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