

# The Market Survey on Russian Export Software Market 2005

RUSSOFT Association and Outsourcing-Russia.com



By support of  
Information & Computer Technologies Industry Association  
(APKIT)



Moscow – St. Petersburg  
2005

In 2004-2005, the Russian IT industry has shown considerable growth. Not a spurt, as five to three years ago, but stable, mature development, which shows that Russia is becoming a force to be reckoned with in the global IT outsourcing arena.

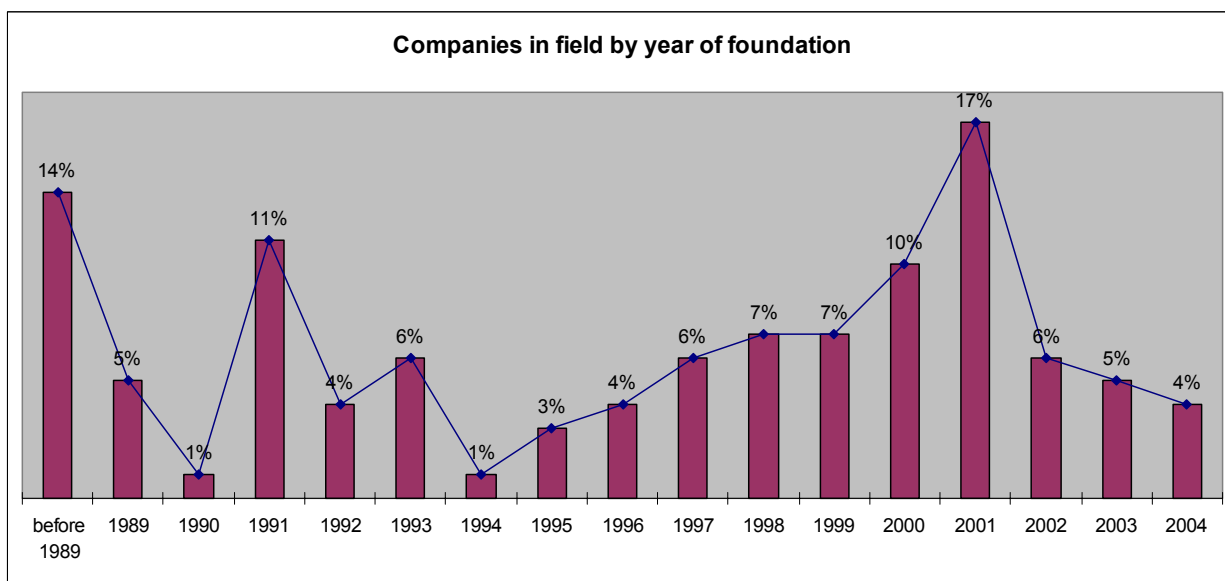
A survey of companies' export revenues in 2004 shows growth of 30% compared with 2003. The results of the first half of 2005 (a report on which will be available commercially later this year) turned out to be quite productive. Over 80% of respondents predicted positive overall market growth, and the same 80% stated their companies' revenue increase as a particularly remarkable achievement for the period.

### Market growth estimates

According to the annual market survey undertaken by RUSOFT and the Outsourcing-Russia.com portal, total software exports (for outsourcing both services and products) reached \$750mln in 2004. For the next year, respondents forecast even faster growth (50%), and for 2006 total exports are expected to grow 45%.

- Exports of software development and software engineering services produced by commercial companies and state-owned institutions are estimated as high as \$490mln;
- Exports of dedicated development centers of international corporations are estimated at up to \$130mln;
- On-line sales over the Internet (Digital River, SoftKey (Russia)) are estimated at up to \$80mln (\$70mln-\$100mln);
- Off-line sales, through direct sells and distribution channels, are estimated at \$50mln (\$40mln-\$55mln). Source – Independent Software Developers Forum (Dmitry Kourashov).

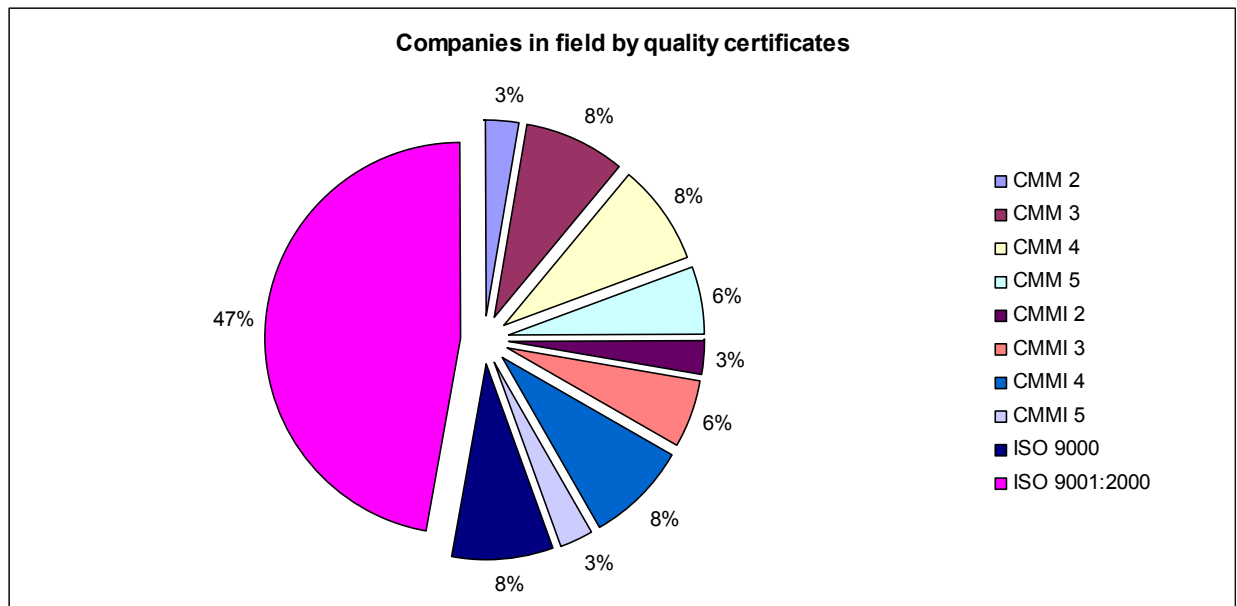
The number of new companies entering the market in 2004 did not change significantly from the previous year. The market is already saturated in terms of competition. It is well covered by various players with different core competences and service offerings, making it harder to penetrate.



Source: RUSOFT and [www.Outsourcing-Russia.com](http://www.Outsourcing-Russia.com)

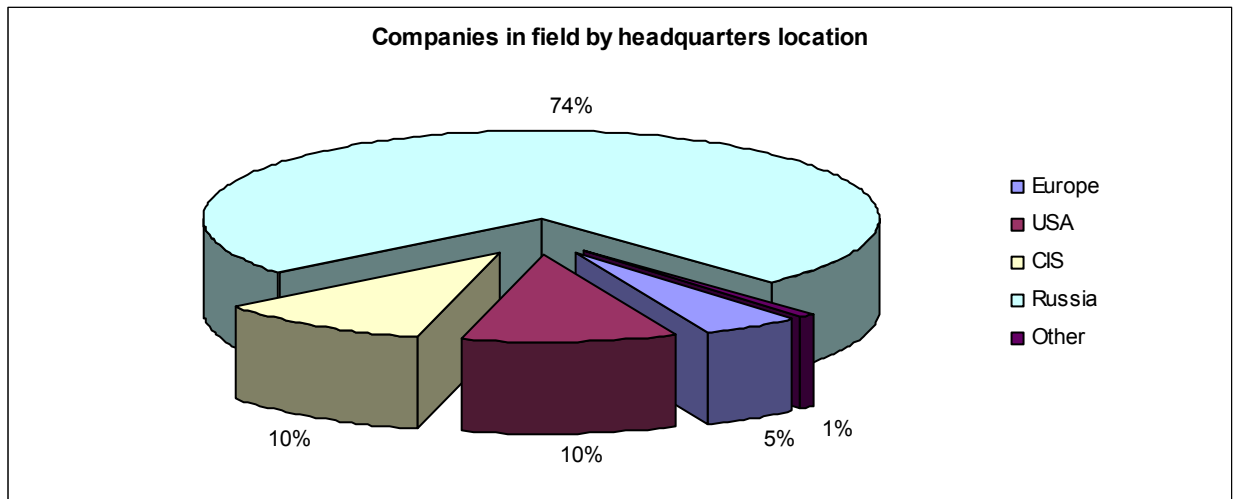
The surge of 2001, when lots of start-ups appeared on the stage, has since calmed down, which is an indication of the industry's maturation. Companies have moved from spawning new offices and gathering high-class specialists to investing in infrastructure, improving quality, satisfying customers, and taking other measures to develop their businesses to international levels.

One of the ways to achieve this is to implement quality assurance policies and systems within development organizations. The diagram below shows the most popular quality standards implemented by Russian development companies. Increased adoption of quality systems such as ISO and CMM(I) is another sign of the industry's maturation.



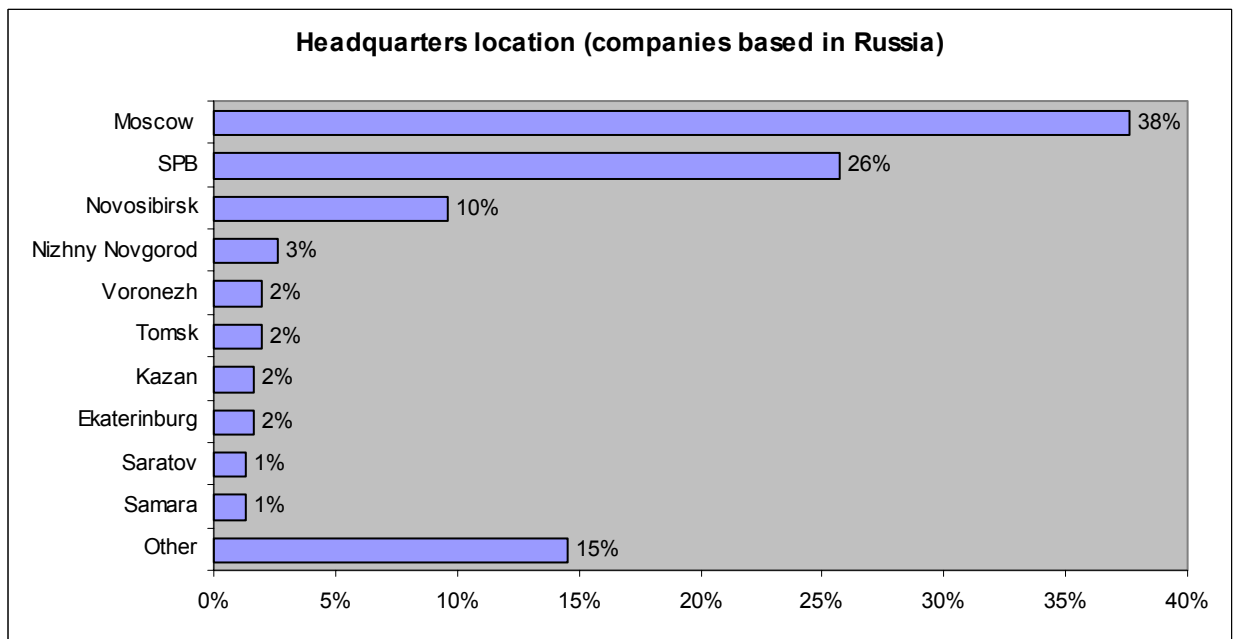
*Source: RUSSOFT and [www.Outsourcing-Russia.com](http://www.Outsourcing-Russia.com)*

Most players with development centers in Russia have their headquarters based in CIS countries – over 70% in Russia, 10% in other CIS countries. However, about 20% of head offices are located in the USA, Europe and elsewhere. Russia-based companies move their headquarters to target markets to capitalize on the proximity to customers and to be able to move up the value chain, offering more comprehensive services and placing account management on clients' territory.



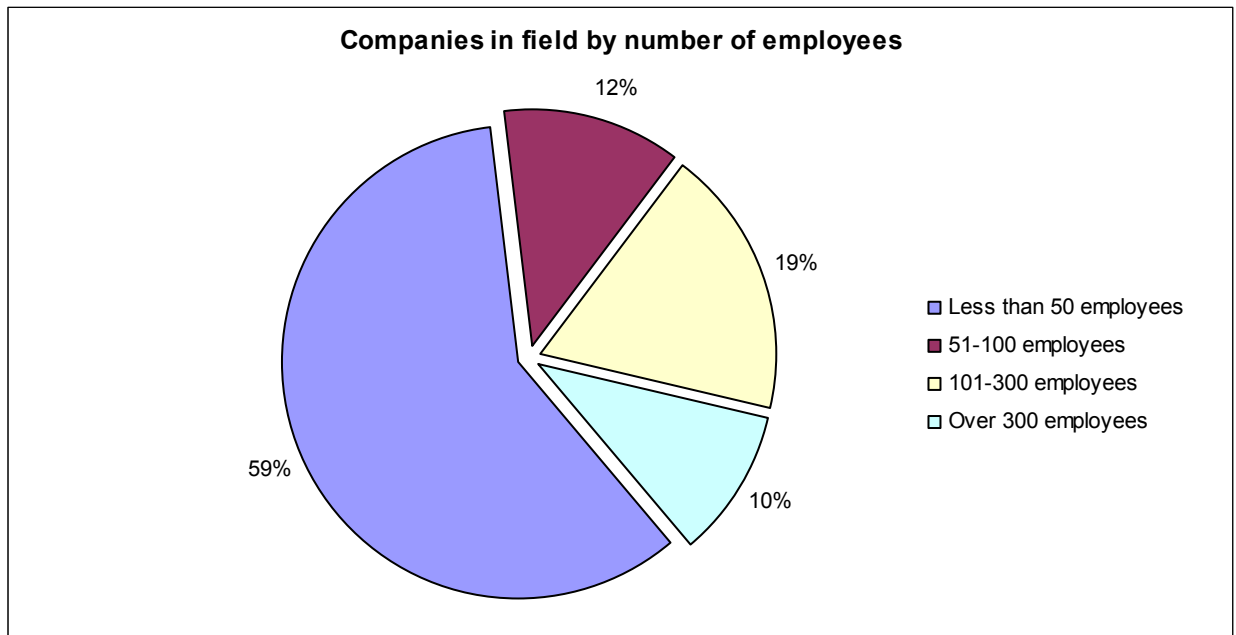
*Source: RUSOFT and www.Outsourcing-Russia.com*

Within Russia, Moscow and St. Petersburg continue to be the two most popular locations for software development. Apart from these two cities' obvious leadership in size and recognition levels, they offer the best infrastructure, ease of access for visiting customers, and numerous universities conducive to high availability of local talent for hire.



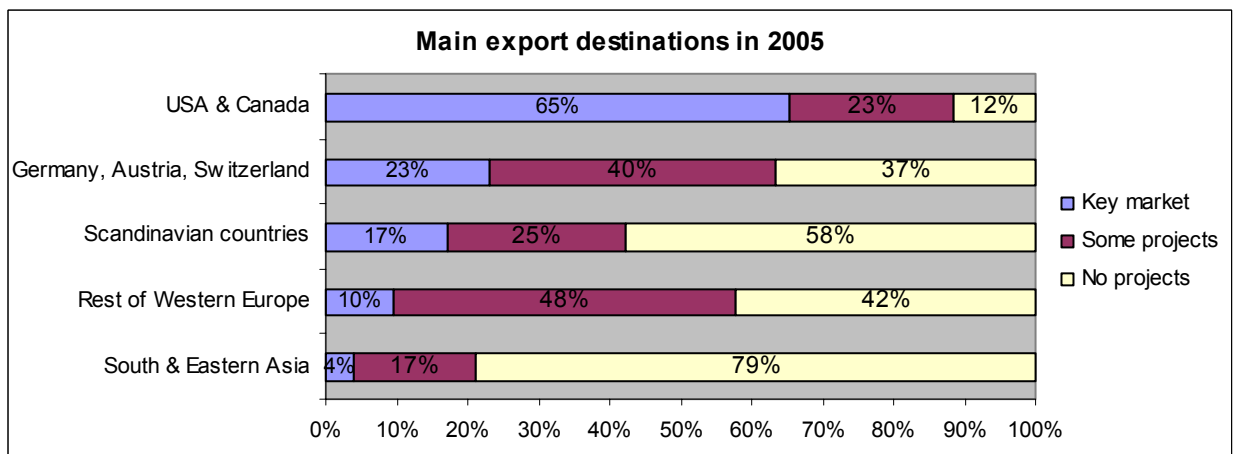
*Source: RUSOFT and www.Outsourcing-Russia.com*

The size of development centers continues to increase. The average headcount has reached 150, up 8% from the previous year. This is a reflection of the inevitable growth trend of the industry. However, more than half of respondent companies still employ less than 50 people (see diagram). This means that a relatively small group of market leaders continues to grow in size at a fast pace, with most players remaining at the same level in terms of headcount.



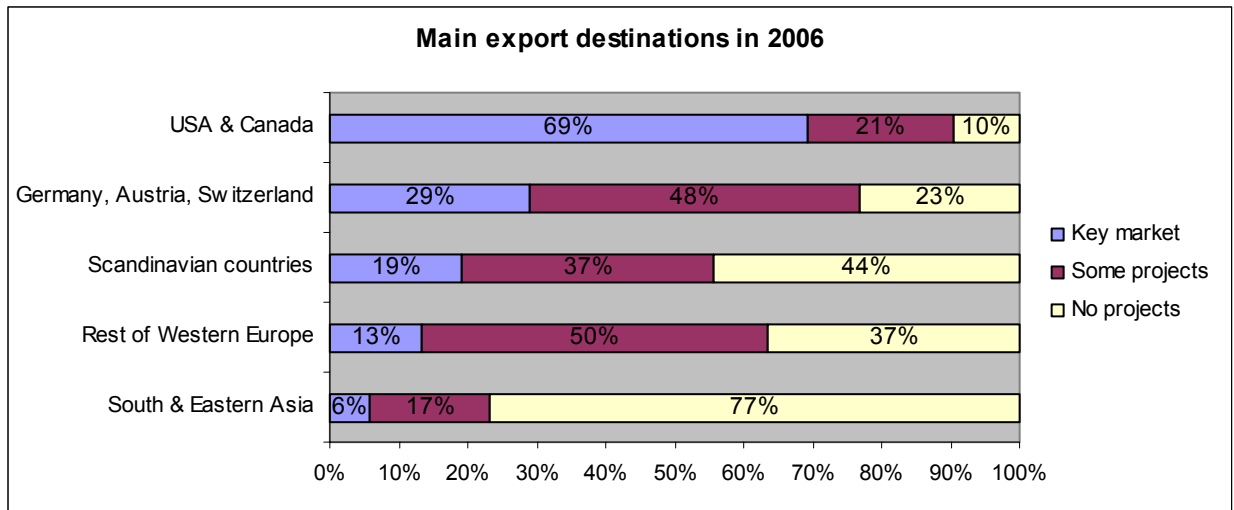
Source: RUSOFT and [www.Outsourcing-Russia.com](http://www.Outsourcing-Russia.com)

No significant changes have taken place in the key geographical markets distribution. The USA and Canada still top the list, with 65% of the respondents indicating them as their primary target geographies for 2005. Germany, Austria and Switzerland, with their traditional high level of technological development, trail behind, targeted by almost 25% of Russian companies. They are followed by Scandinavian countries and Finland, which are a traditional target for St Petersburg companies. The amount of vendors targeting South-East Asia has dropped to 4% from 5% in 2003, leaving this region a low priority market for the Russian providers, with their traditional affinity to the West.



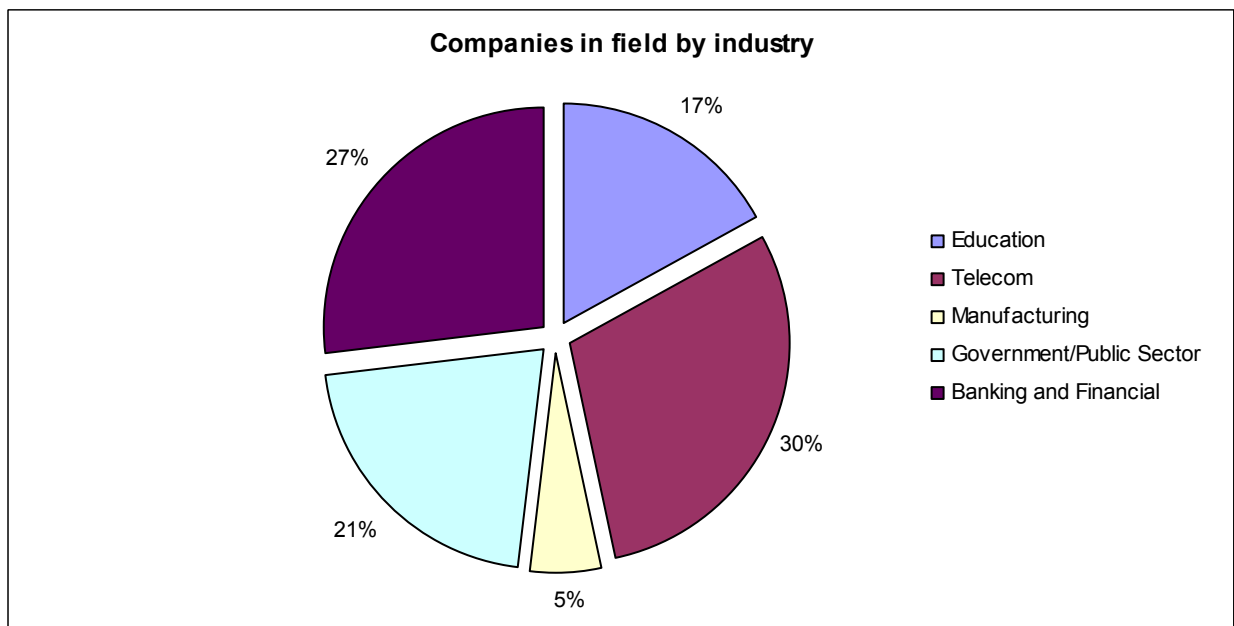
Source: RUSOFT and [www.Outsourcing-Russia.com](http://www.Outsourcing-Russia.com)

However, none of the respondents is moving to abandon those markets, and some even plan to increase their presence there. These are likely niche suppliers capitalizing on long-term connections with their clients in those areas. With continuous growth of the economy in the Middle East due to increased fuel prices we will probably see new players trying also to enter those markets, while the majority of marketing efforts will still be directed at the USA and Western Europe.



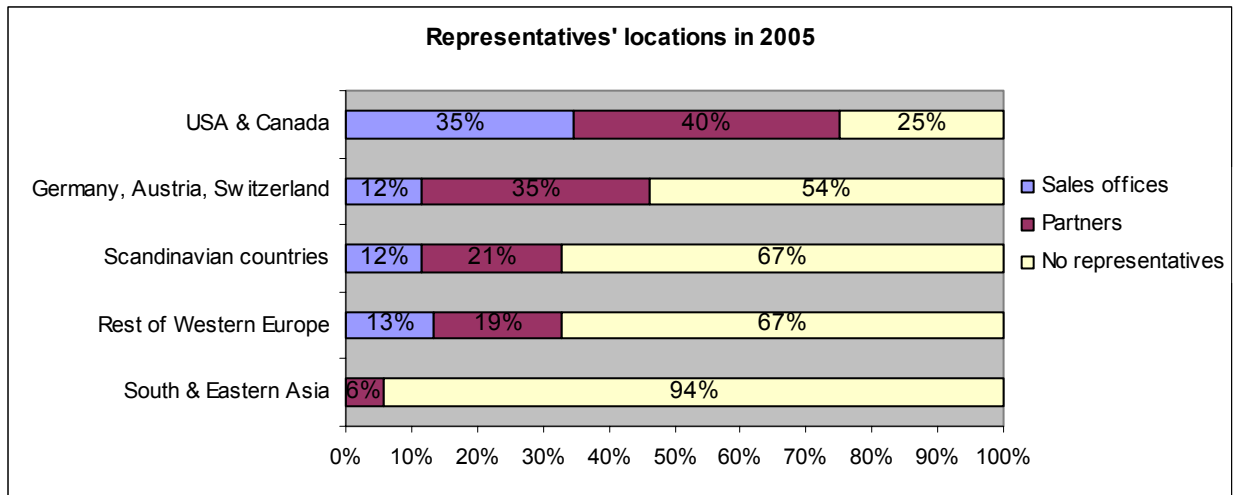
*Source: RUSSOFT and www.Outsourcing-Russia.com*

A look at the industries in which customers of Russian providers are engaged shows a fairly typical distribution, with financial services (including banking and insurance), plus the telecoms and government sectors in highest demand. Russian companies also have a remarkable number of clients in education, and manufacturing is at the bottom of the list.



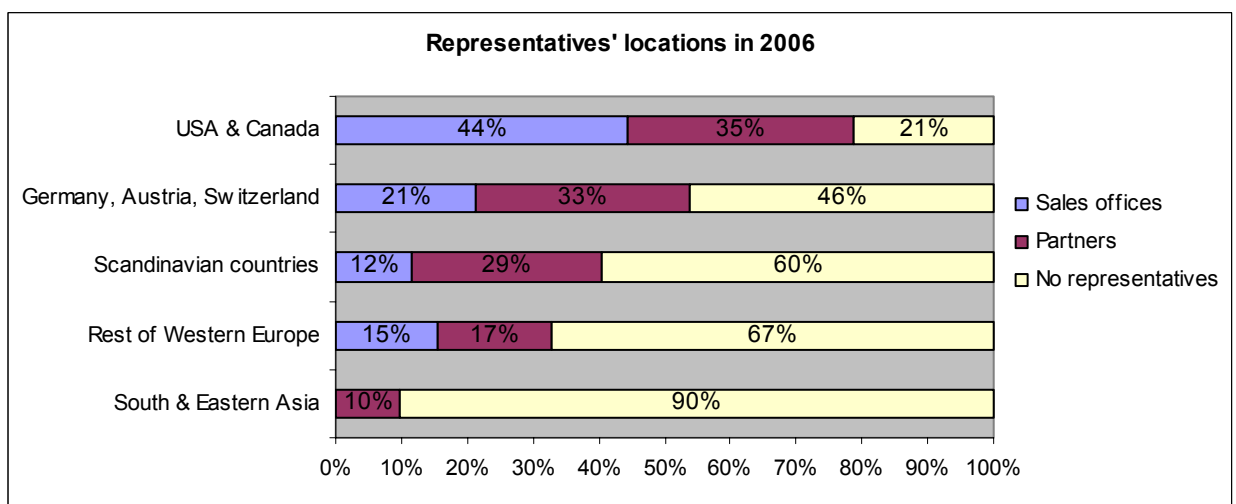
*Source: RUSSOFT and www.Outsourcing-Russia.com*

Following the geographical distribution of target markets, the Russian companies have been establishing representative offices in key regions. According to the research, every third Russian company has a sales & representative office in the USA or Canada by June 2005. And more than one third of respondents have sales offices in Western Europe (Germany, Austria, Switzerland 12%; Scandinavian countries 12%). And these figures will most likely rise in 2006.



Source: *RUSSOFT* and *www.Outsourcing-Russia.com*

At present, Russian firms continue to engage different partners in order to boost their sales as an alternative to setting up their own local presence in certain areas.



Source: *RUSSOFT* and *www.Outsourcing-Russia.com*

Nine percent of companies are seeking to increase their local presence in the USA by opening a sales or representative office there. Another 25% have no presence in the USA, but 4% want to change that policy next year. Also, 9% of companies want to set up shop in Germany or Austria in 2006. Companies using local partners in those countries seem to be satisfied and see no need to make radical changes there. Russian companies' expansion into Scandinavia is likely to take place through new alliances and partnerships.

The trend to establish a local physical presence in target markets reflects the best known method for marketing goods and services – namely, be where your clients are. Successful global players in the software outsourcing scene (primarily large Indian firms) have all taken that path, building sales and marketing, and account- and project-management capabilities in target areas to serve their customers' needs better. It is no

surprise that North America, the world's largest consumer of IT services, is the biggest magnet drawing Russian providers. The fact that Russian companies plan to almost double their direct presence in the Western European markets is also understandable: Russians are close to the Europeans both geographically and culturally, with only a few hours' flight and a couple of time zones between them, which makes Russia an ideal outsourcing destination for Western Europe.

The figures are largely taken from the survey of the Russian software development industry produced jointly by RUSSOFT and [www.Outsourcing-Russia.com](http://www.Outsourcing-Russia.com).

In general, the survey shows continuing confident growth of the industry and makes for several interesting observations. The software product market, booming now with thousands of developers selling their products over the Internet, deserves a separate close look. Software outsourcing companies have also grown significantly, while government scientific research centers experienced less important growth. In terms of human resources, the wages of software developers have risen, heightening competition among employers. Looking at the distribution of software development companies on the map of Russia, the important role of St. Petersburg as a technology center and a leading destination for establishing dedicated development centers is striking. When asked about their future, most CEOs of Russian companies are optimistic about the growth of the market. Many predictions are made regarding consolidation of leading players.

The full version of this RUSSOFT & Outsourcing-Russia.com Joint Survey 2004/2005 will be available in November this year. Please feel free to contact our team of analysts for in-depth information on the Russian software development industry or assistance in finding a reliable partner in Russia. Please visit [www.outsourcing-russia.com](http://www.outsourcing-russia.com) for news of the Russian IT-industry and a comprehensive database of Russia-based software development companies.

We would like to thank all the companies that participated in the survey for helping RUSSOFT and WWW.OUTSORUCING-RUSSIA.COM to produce this report:

AGAVA Software Company	<a href="http://www.agava.com/">http://www.agava.com/</a>
Akma, Ltd.	<a href="http://www.akma-software.ru/">http://www.akma-software.ru/</a>
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PHYSICON - OpenTeach Group	<a href="http://www.openteach.com/">http://www.openteach.com/</a>
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StarSoft Development Labs	<a href="http://www.starsoftlabs.com/">http://www.starsoftlabs.com/</a>
TELMA	<a href="http://www.telma.ru/">http://www.telma.ru/</a>
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