



FREE ARTICLE

www.ictrussia.com

IT outsourcing in Central and Eastern Europe

Source: "IT outsourcing market in Central and Eastern Europe 2008"

September 2008

 **PMR**
PUBLICATIONS

Central and Eastern European (CEE) region is emerging as one of the world's leading IT outsourcing locations. Although labour costs are higher in the CEE than, for example, Asia, the region has managed to turn both its geographical and cultural proximity with Western Europe and its multi-lingual labour force to its advantage.

Defined as mid- to long-term supply for a specific service, outsourcing in the IT industry has today replaced offshore outsourcing. A growing trend among IT companies worldwide is to relocate various parts of their business, chiefly IT and human resources, to countries with lower labour and production costs and better growth prospects. At least 70% of major Western European companies recently surveyed by Ernst & Young (over 600 decision-makers were canvassed) outsource at least one arm of their operations, and 20% of them are set to increase their outsourcing volume over the next two years. The same survey, which covered companies with a turnover of at least €100m in France, the U.K., Germany, Italy, Spain and Belgium, shows that in their drive to gain a competitive edge businesses are turning to outsourcing primarily as a means of trimming costs (49%) and improving quality by hiring specialists (33%). The functions most commonly outsourced are maintenance (76%), logistics (73%) and computing/telecommunications (68%).

IT outsourcing in the CEE region

According to the main indicators of growth for the IT outsourcing industry, i.e. chiefly market volume, the number of IT professionals and IT companies providing outsourcing services, and the cost of one professional for the end customer, Central and Eastern Europe (CEE) is now on a par with established global outsourcing centres such as India, China and Russia. Imports of IT-based services from the CEE countries into the EU-15 rose by an average of 13% a year between 1992 and 2007. By way of comparison imported services from India increased at only slightly faster (14%) during the same period.

Nevertheless, IT outsourcing overheads in CEE countries remain steep, and the availability of human resources in the region is still low compared to Asia, especially India and China. However, what makes the CEE region so attractive for IT outsourcing orders is easier and better project management due to cultural and geographical proximity and a frequently common language (especially in the case of near-shoring locations). Another key factor working against Asian locations such as India or the Philippines (where English is the sole operating language) is that staff in the CEE region speak a variety of languages.

The IT outsourcing market in the CEE region was worth €1.65bn in 2007, with Ukraine leading the way followed by Romania and Hungary.

Roughly 3,170 IT outsourcing companies with 10 or more employees are operating in the CEE countries covered in the survey. In general, the entire region is saturated in terms of small IT outsourcing companies currently undergoing intensive development. Ukraine and Romania are at the head of the CEE pack, followed by Poland and Bulgaria, each of whom has only half the number of IT outsourcing companies active in Ukraine. The total number of professionals in IT outsourcing companies in the region hovers around 55,000. Ukraine and Romania continue to boast the largest pool of IT professionals in the region, accounting for almost half of the region's entire IT outsourcing human resource potential. In addition, a number of multinational IT outsourcing players have managed to gain a foothold or expand their presence in CEE countries, the largest of which are Accenture, Logica CMG, EDB, Siemens and Nokia.

Largest IT outsourcing markets in Central and Eastern Europe, ranked by market value (€m), 2007

Country	Value of market (€m)	Number of IT outsourcing companies	Number of IT outsourcing employees*
Ukraine	369.9	800	14,000
Romania	282.9	600	12,500
Hungary	258.4	300	9,000
Poland	210.8	400	7,800
Czech Republic	201.3	360	7,500
Bulgaria	174.1	400	8,000
Estonia	95.2	110	3,700
Slovakia	54.4	170	2,500
Slovenia	10.2	30	450
Total	1,657.2	3,170	55,450

* The figures indicate only IT specialists working in IT outsourcing services minus administrative personnel.
Source: Hi-Tech Initiative, PMR Publications, 2008

www.pmrpublications.com



CEE selling points

One of the region's clearly unbeatable advantages is that it offers a highly educated, multilingual pool of talent, which is both reasonably close at hand in geographical terms, and can be tapped at relatively low cost. The success of both outsourcing in general and IT outsourcing in particular in the region has also been helped by improved economic conditions and the entry of some CEE countries into the EU.

These strengths have come to the fore as Western European companies, faced with increasing labour shortages in various professions, have turned their eyes Eastward. In 2007 Hungarians and Czechs earned on average a quarter and Slovaks only a fifth of what their peers made in Western Europe (compared to the average salary published by Eurostat). However, according to recent calculations made by www.outsourcing-asia.com in recent years costs have risen sharply in CEE countries, especially in the new EU members, and they now top those in Asia. An IT engineer in the Czech Republic is paid about €5.03 an hour, compared with a corresponding salary of €2.38 an hour in China and €1.63 an hour in India. In Romania and Bulgaria, the same specialist can expect to earn €3.13 and €2.99 an hour, respectively.

On the other hand, the added value that CEE professionals offer, in terms of a better education and multilingual skills, still pays dividends for many Western companies. In general, average labour costs for non-public services in the new EU member states are around one-fifth of those in Germany. In Romania and Bulgaria labour costs are less than 10% of those in Germany. The most expensive wage bills in the IT outsourcing industry are in Poland, Hungary, Romania, Czech Republic and Estonia.

The costliest IT outsourcing markets in Central and Eastern Europe ranked according to the maximum yearly labour cost of one IT professional (€)*, 2008

Country	€ minimum	€ maximum
Poland	22,323	44,918
Hungary	22,030	44,591
Romania	20,439	42,430
Czech Republic	20,405	41,315
Estonia	20,841	39,367
Slovakia	17,871	35,525
Slovenia	18,765	35,214
Ukraine	17,661	33,797
Bulgaria	18,529	33,353

* These estimates are based on the yearly cost per professional, which is calculated as the amount the end customer pays for the services of one IT specialist yearly. This includes: salary, taxes, office facilities, etc. (PMR consolidated estimates based on figures from national IT associations).
Source: Estimates from national IT associations, 2008

www.pmrpublications.com



Macroeconomic and institutional factors also play an important role in a company's choice of where to outsource its IT services. It will first scrutinise a country's data protection and intellectual property laws very carefully before deciding to outsource. If they fail to do their homework properly, outsourcers may face the risk of contracts go unpaid or their businesses going under completely if a government changes its policies unpredictably. A number of variables can tilt the balance in favour one location or away from another, including the state of a country's institutions, the level of its economic development and degree of political stability, observance of the rule of law, the quality of its bureaucracy and its economic and monetary policy. With Western companies keen to move sizeable chunks of their operations to CEE locations, most of the region's governments have gone out of their way to offer them incentives, such as simplified tax structures and subsidies for office construction.

Some of the largest IT outsourcing contracts in the region in the past decade include:

- Germany's Commerzbank, for example, does its data processing in the Czech capital Prague.
- Siemens has transferred its accounts and R&D operations to Prague.
- The Dutch electrical conglomerate Philips operates a shared services centre outside Warsaw.
- Morgan Stanley opened a business services and technology centre in Budapest to supplement a math research centre the company established there in 2005.

Future of IT outsourcing in the CEE region

CEE

The CEE's IT outsourcing services market is forecast to expand by 30% by 2010, compared with 25% for the global market as a whole during the same period (as calculated by the research firm Gartner). Global giants have already started to move parts of their operations to the region. They include U.S. companies such as IBM, Dell, Capgemini and Morgan Stanley. IBM, for example, has a combined staff of 5,500 employees in two offices in Brno (the Czech Republic) and Budapest (Hungary), which support 500 global clients. Also, some of the €27.8bn that the company spends globally on supply chain procurement is sourced in Budapest and Sofia.

By 2012, off-shoring start-ups in the region are expected to make a considerable dent in India's dominance on the IT outsourcing market. By then, according to a poll carried out by Gartner, about 30% of Fortune 500 enterprises will outsource to three or more countries in the CEE region compared to 10% of those companies in 2007.

Russia

According to forecasts made by the Russian Ministry of Communications, between 2006 and 2010 the Russian IT market is expected to treble in value terms and will be worth €27.1bn. Meanwhile, Bharat Book Bureau predicts that Russia is in a good position to attract ITO contracts in the coming years due to its cost efficiency and abundant human resources. Russian software exports are set to soar by nearly 80% between 2007 and 2010, according to the same source. Most outsourcing projects will come from consultancy firms, ICT industry and research and development companies. All in all, Russia's IT outsourcing industry will grow by more than 30% by 2010.

Russia is today the third leading global destination for IT outsourcing, albeit well behind India and China in this respect. India's popularity as an outsourcing destination for IT services has driven up its labour costs, which in turn has offered Russia space to compete. According to various estimates from the International Association for Outsourcing Professionals (IAOP), employee turnover in Luxoft, the largest provider of IT outsourcing services in Russia, is five times lower than in India and four times lower than in China.

Russian IT service providers will continue to eat from the global IT pie. U.S. and European firms are expected to continue working with Russian companies rather than their Indian counterparts, mostly because Russian companies are known for being able to implement more complex projects. Analysts from major market research firms agree that Russia's IT outsourcing industry is not necessarily about to overtake India globally in terms of market volume. Rather, it hopes to specialise in and draw revenues from more complex and innovative projects, e.g. those connected with IT security or dedicated software development.

About PMR

PMR Ltd. (www.pmrporate.com)

is a publishing, consulting and market research company providing information, advice and services to international businesses interested in Central and Eastern Europe. With highly skilled staff, top ranked websites and over ten years of experience, PMR is one of the largest companies of its type in the region.

PMR divisions: PMR Consulting (www.pmrconsulting.com)

provides a wide range of services in 17 countries of Central and Eastern Europe, including market entry feasibility studies, CI (competitive intelligence), strategic advisory, FDI assistance (M&A and Greenfield projects), quick consulting as well as any other services and support a company might require to enter a market, find a business partner or gain reliable information. Our services are always tailored to the specific requirements of our clients, many of which are Fortune 500 companies.

PMR Research www.research-pmr.com

is a specialised research unit of PMR Ltd. It offers a full range of market research, analytical and marketing services: quantitative and qualitative research, preparation of sector analyses, desk research, and database preparation services. PMR Research specialises in the provision of services to clients from the IT, telecommunications, pharmaceutical and construction sectors. Our services are available in most Central and Eastern European countries.

PMR Publications www.pmrpublications.com

provides reliable market intelligence for business professionals interested in Central and Eastern European countries. Publications by PMR analyse the business climate in the region, in particular in the construction, retail, IT, telecommunications and pharmaceutical sectors. PMR Publications offers both free and paid subscription newsletters, internet news portals and in-depth reports.

To find out more about Poland and Central and Eastern European countries please visit www.polishmarket.com and www.ceemarket.com, as well as the regional and national sectoral portals dedicated to construction (www.constructionpoland.com and www.constructionrussia.com), IT and telecom (www.ceeitandtelecom.com, www.ictrussia.com and www.itandtelecompoland.com), retail (www.retailpoland.com, www.ceeretail.com, www.russiaretail.com) and pharma (www.pharmapoland.com).

PMR Ltd., ul. Supniewskiego 9, 31-527 Krakow, Poland
tel. /48/ 12 618 90 00, fax /48/ 12 618 90 08,
www.pmrporate.com
www.ceeitandtelecom.com

Contact PMR

Customer service

tel. /48/ 12 618 90 30
e-mail: sales@pmrpublications.com

Marketing

tel. /48/ 12 618 90 20
e-mail: marketing@pmrpublications.com

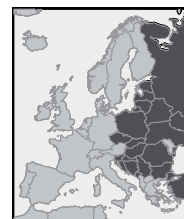
PMR's recipe for market success:

*Take an idea,
add reliable intelligence,
fold in customised market
research and press
with fine graded
competitive advisory.*

Want a hand
in turning corporate
ideas into market success?

PMR Ltd. delivers more than reliable intelligence, it also specialises in a full range of market research as well as in comprehensive management and business consultancy.

PMR Research (www.research-pmr.com) is the custom market research unit of PMR Ltd. providing a full array of market research services including customer satisfaction studies (consumer and B2B), brand awareness and brand image studies, segmentation, distribution and competition studies, as well as in-depth sector analyses using PMR Research's proprietary methodology.



PMR Consulting (www.pmrconsulting.com) provides a wide range of tailored consultancy, including market entry feasibility studies, CI (competitive intelligence), sourcing, strategic advisory, FDI assistance (M&A and Greenfield projects), business partner searches, quick consulting, and any other services and support a company might require.



PMR delivers:
top quality
consulting and research

Thanks to our partners in the region,
we can provide comprehensive
regional services on countries
in Central and Eastern Europe.

For more information visit: www.pmrporate.com