IT Outsourcing in Ukraine

Industry survey and case studies

Scope

- Ukraine
- Software industry and trends
- Business growth factors and obstacles
- Salaries and rates
- Models of cooperation
- Cases
    - EDA development
    - Outsourcing in Telco
    - Embedded Software
- Summary

Ukraine

- Located in Eastern Europe

- Population is around 50 million

- Borders:
  Russia, Belarus, Moldova,
  Poland, Slovakia, Hungary, Romania

- Capital : Kiev, 3 million

- Cities over 1 million:
  Kharkov, Dnepropetrovsk, Donetsk, Odessa

Software Industry

- 20,000-25,000 engineers in Software development
- Grown last 7 years up to 40% a year
- Concentrated in
  - Kiev, Kharkov, Dnepropetrovsk, Lvov
  - Odessa, Nikolayev, Kherson, Simferopol, Sevastopol, Donetsk

Software Industry (cont)

- Companies:
  - Over 10 people: about 1200 companies
  - Over 100 people: about 20
- Largest:

  Aricent, SoftServ, Global Logic, Exigen, EPAM, Infopulse, Miratech, Luxsoft, Ciklum, Celenia, Lohica

- Experties:

  Java, .NET, C, C++, "light technologies" – PHP, Python, Ruby

Trends

- 2001-2006: growth up to 40% per year
- Limits
  - For larger companies: absorb new personnel
  - For start ups: establish marketing and find customers
- Starting 2006 – switch sources of growth – graduates; Preserve growth in cities with university infrastructure: Kiev, Kharkov, Lvov, Dnepropetrovsk
- 2006-2007 growth 20-25%, salaries are growing, companies extending operations to smaller cities (saving costs)

Growth and obstacles

Pro

- Good technical education
- Relatively inexpensive workforce
- Visa limitation to EU and USA preserves workforce
- Some experience in business (4-7 years)
- Some management and technology expertise
- Market structurization

Contra

- Involved taxation
- Same visa limitations makes marketing more complex

Diversification

- Independent testing
- IT Support
- Other BPO:
  - Phone customer support
  - Data entry

Salaries and rates

- Salaries in development vary from 1000 to 2500/mo depending on position, technology and background

- Rates in SW development
    - Regular $25-$30/hr
    - Sometimes – as high as $50/hr
    - PHP/web can be around $15/hr

- Call centers and IT support – $7 to $15/hr

Cooperation models

- **Three stable models of offshore SW development:**
  - Project model – fixed price according to specification
  - Time&Material –more flexible w.r.t. change of requirements.
  - "Virtual office extension" – most flexible, remote engineers work under direct technical/project management from customer side and closely interoperate with customer's staff.
  - Third model alleviates situations with rapid-changing requirements, is most flexible

Software summary

- Software offshore development services are in structurization process

- Price structure is established

- Community started to self-organize

  - www.outsourcing-forum.com.ua

  - www.hi-tech.org.ua

  - www.developers.com.ua

- More detailed analysis of SW development –look for http://www.hi-tech.org.ua white papers.

Case 1. Tiny group, EDA tool development

- US startup opened small office in Kiev – 3 engineers.
- 2 years of development, 3 tools were created.
- Separate Ukrainian business entity.
- Payments by milestones.
- Simplest approach, minimum of related risks.
- Requires attention to management, attention to possible spec misinterpretations, remote office need to be precisely focused.

Case 2. Small group Development in Telco

- US company (about 50 employees) opens R&D office to develop new platform for massive message processing.

- 10 developers.

- After year – expands operations moving network operation centre to Kiev, +15 employees.

- Significant attention to development.

- New owners decided to reduce presence.

- Staff moved in US, product was deployed.

Case 2. Small group Development in Telco (cont)

- **What is important:**
  - ❑ It is hard to deploy complex production system remotely. That possibly require personnel relocation.
  - ❑ There is some luck of trust to outsourcing to Ukraine.
  - ❑ Special attention has to be paid to communication of groups – topic for psychology of small groups?

Case 3. Medium group for Embedded Software

- US Public company (about 500 employees) opened R&D office in Kiev.

- Operated via partner for first 2 years.

- Have bought group when it was clear that operations were successful .

- Better isolation from possible risks, allows to "try before buy", but for higher cost.

Conclusions

- Outsourcing of SW development puts larger management burden onto company. Scope of possible issues is wide, but most of them are known from regular in-house operations.

- Outsourcing allows
    - decrease cost of development;
    - find technically literate personnel;
    - improve company market position.

Thank you!

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