Central and East European Market for IT Outsourcing: Advantages and Impediments

**Valdis Lokenbahs,
President, DATI**

**Lithuania Roundtable
Vilnius, December 3, 2002**

IT Outsourcing: Why Latvia?

- **Historically**

  Latvia- acknowledged R&D centre in the former USSR

  High education level

  Long standing software engineering traditions

  Experienced companies able to develop and implement large IT projects -
  pool of highly qualified professionals

www.dati.lv

IT Outsourcing: Why Latvia?

- **Geographically**

Location
(almost the geographical center of Europe)

One hour flight to the nearest
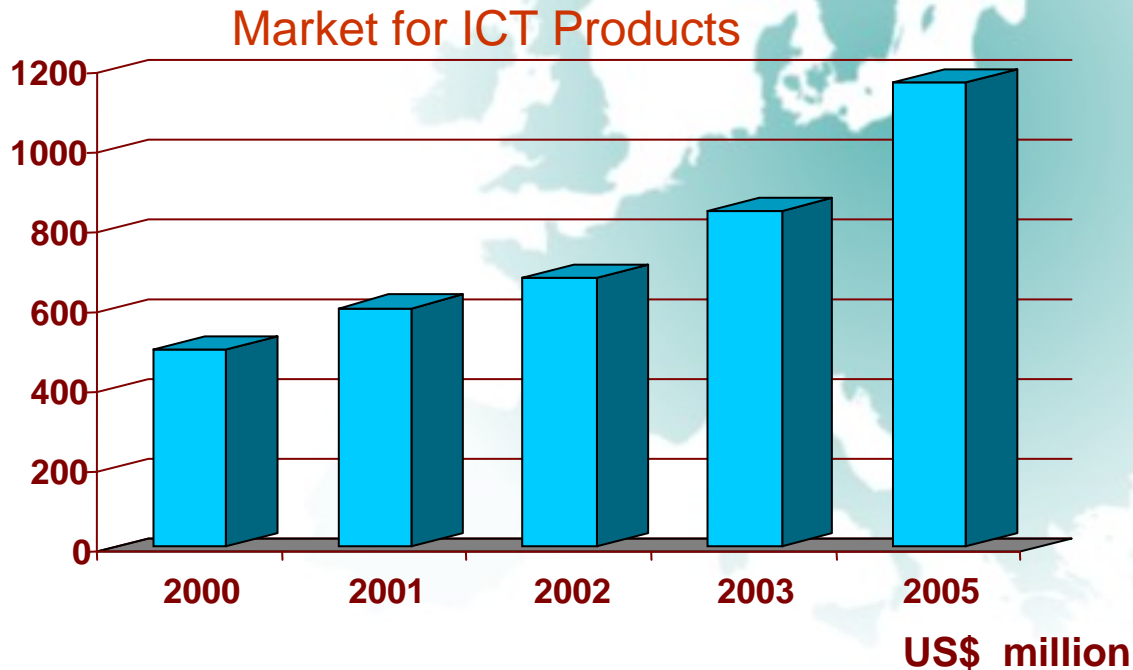European capitals

European time zone:
we work at the same time

IT Outsourcing: Why Latvia?

- **Economically**

  Fast developing country

  IT&T sector – defined industry priority

Market for ICT Products

US$ million

IT Outsourcing: Why Latvia?

- ## **Human resources**

  Skilled professionals with experience in practical outsourcing, able to adapt quickly to changing conditions and environment

  Young specialist generation:
  education oriented to export

  Mentality:
  meeting demands for service providers in Europe

  Western business culture

www.dati.lv

IT Outsourcing: Why Latvia?
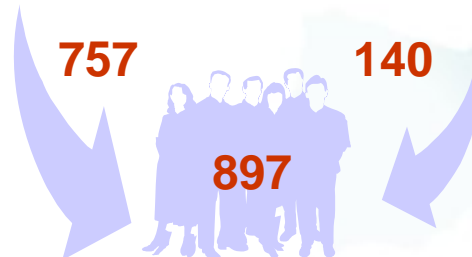
- ## Human resources

High prestige of IT education

Graduates in 2001

Enrollment in 2001, IT studies
2443 students

Number of students in universities
3898

Number of students in colleges and technical schools
1059

757   **140**

897

1011 self financed

1432 state financed

Graduates in 2001

IT Outsourcing: Why Latvia?

- ### Quality and technological discipline

Leading Latvian IT companies have ISO 9001 quality certificates

AS DATI has been approved to the following Quality Management System

Standards:

ISO 9001:2000

The TickIT Guide Issue 5

IT outsourcing as export industry

1990: First achievement- SW project in Europe
(SWH Riga)

1994: First maintenance project
(SWH IS in cooperation with SoftwareAG)

1995: Second largest achievement – a step into
Europe tourism/logistics industry
(project for LTU)

1996: 120 specialists in Latvia work in SW projects
for German market

1995: First subsidiary of a Latvian IT company
established in Germany
(DATI Deutschland -sales representative)

IT outsourcing as export industry

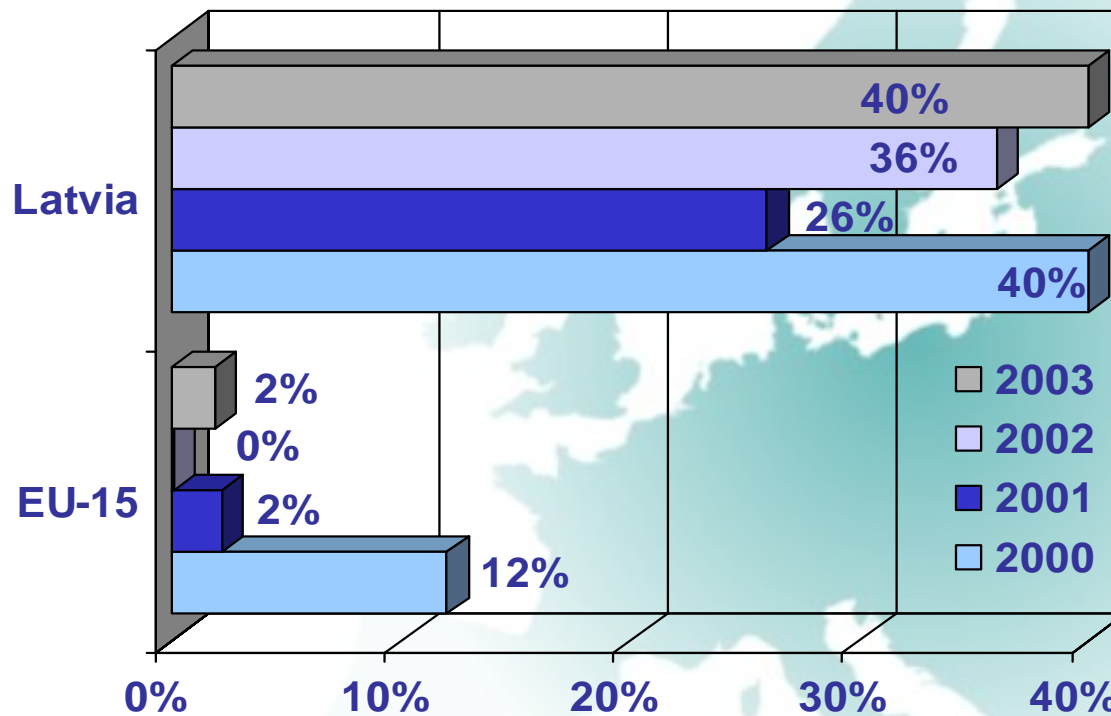2000: Latvian ICT export growth – 13%

2001: Transition to new work organization-
first Latvian subsidiary in Germany employing
only German specialists established
*(DATI Management Consulting GmbH, focus:
Insurance)*

2001: Establishment of Latvia's IS Cluster:
a collaborative network of export-oriented IT
businesses, educational institutions and other
organizations

2002: Rapid development of co-operation in the UK
*(60 specialists in Latvia involved in projects for UK
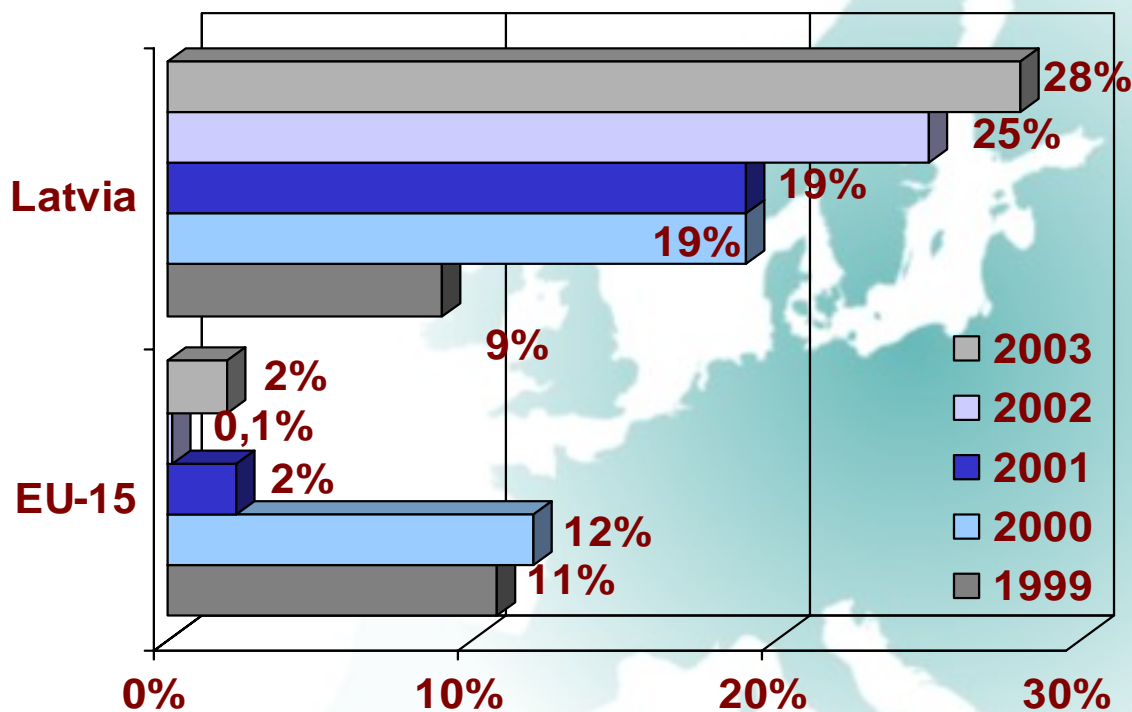clients)*

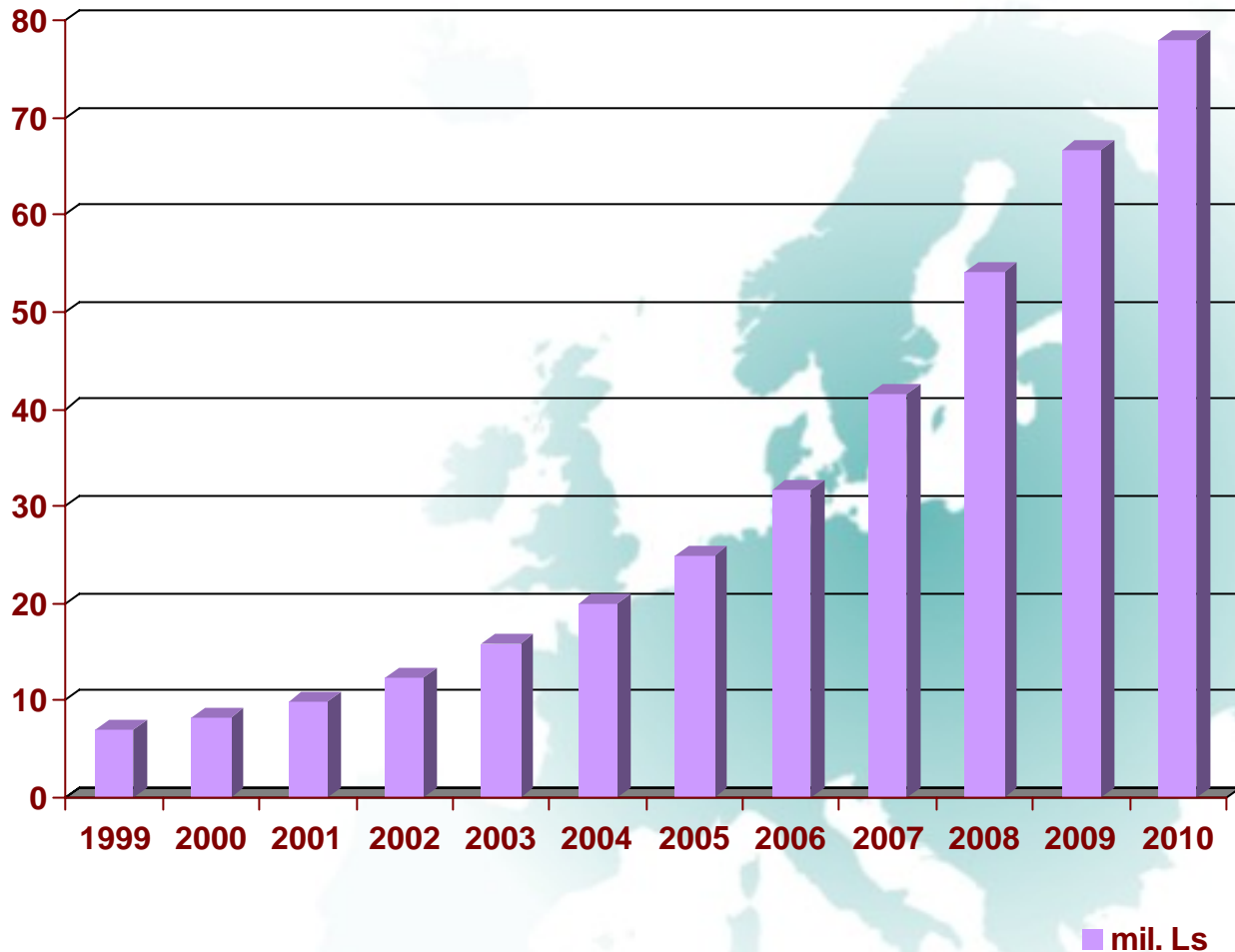# Development of IT Industry

Growth of IT market

Chart: Growth of IT market

Latvia:
- 2003: 40%
- 2002: 36%
- 2001: 26%
- 2000: 40%

EU-15:
- 2003: 2%
- 2002: 0%
- 2001: 2%
- 2000: 12%

Legend:
- 2003
- 2002
- 2001
- 2000

Axis: 0%, 10%, 20%, 30%, 40%

Source: EITO & LETA

www.dati.lv

Development of IT Industry

Export Growth of IT Latvia

Latvia: 28% (2003), 25% (2002), 19% (2001), 19% (2000), 9% (1999)

EU-15: 2% (2003), 0,1% (2002), 2% (2001), 12% (2000), 11% (1999)

Legend: 2003, 2002, 2001, 2000, 1999

Source: EITO & RITI

www.dati.lv

Income of LR from the export of IT

Source: The Software Development Industry and the Baltic
Countries: an Estimation of the Future (RITI, 2000)

www.dati.lv

European paradox:

excellent research - inability to turn

results into competitive products

EU (DGXII)

Why Latvia?

Because Latvia:

- Lives in one rhythm with Europe

- Works with perspective

- Implements most daring objectives

- Provides perfect IT outsourcing

Outsourcing technologies

I half of 1990s: rapid development of outsourcing
(emerging business sphere, sold as product, offshore development- sharp growth)

II half of 1990s: India- a leader in outsourcing
(offshore development - habitual fact)

2001:   crisis in IT
(outsourcing: to be or not to be?)

I half of 2000s: specialization in outsourcing services

Knowledge Society

Height level specialists, Industry Branch

Back Office

Consultants

Consultants
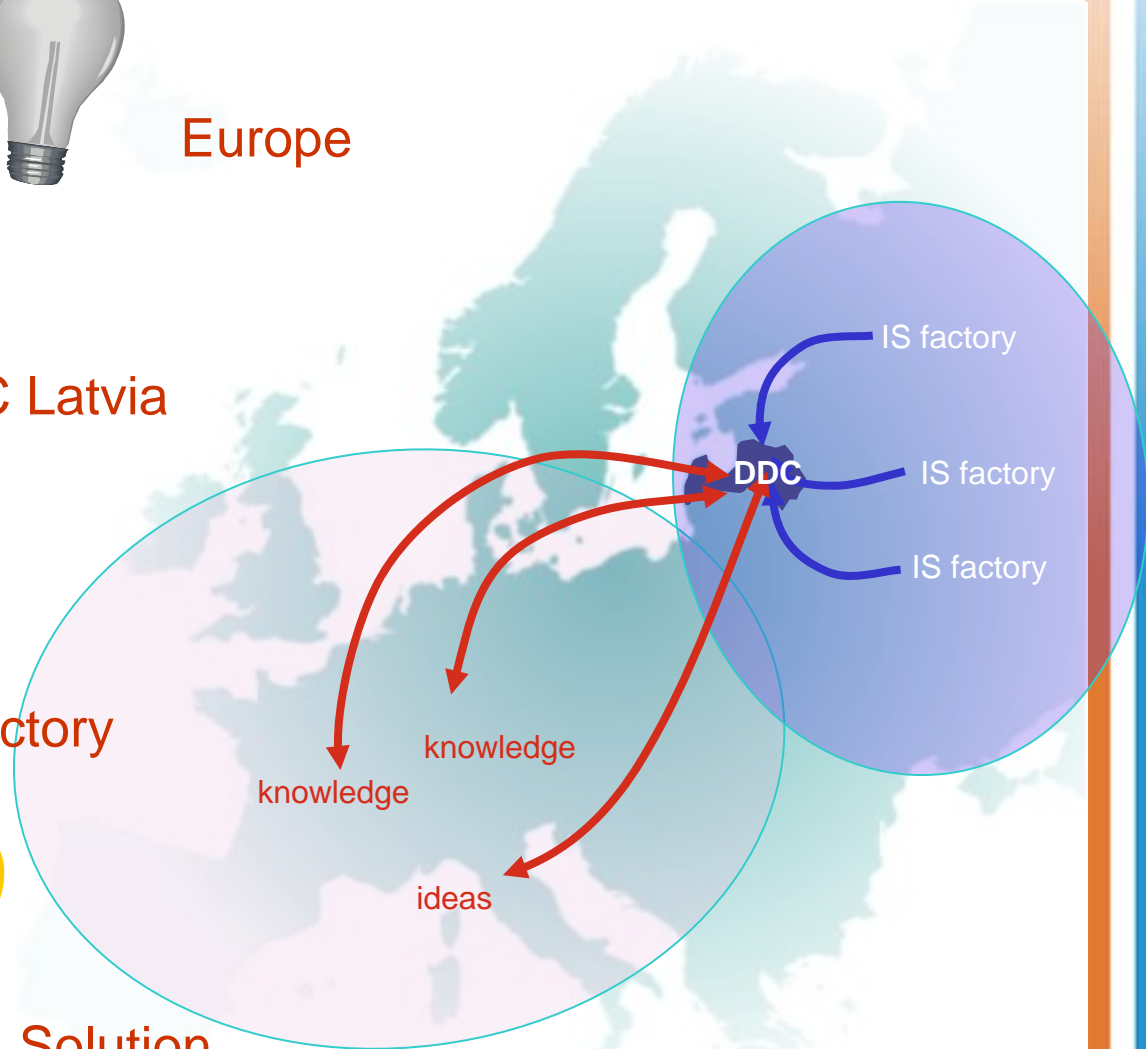
Consultants

Specialization of Latvia - DDC

Europe

DDC Latvia

1001001 101101

IS factory

Solution

IS factory

DDC

IS factory

IS factory

knowledge

knowledge

ideas

Specialization of Latvia - DDC

Functions carried out in West:

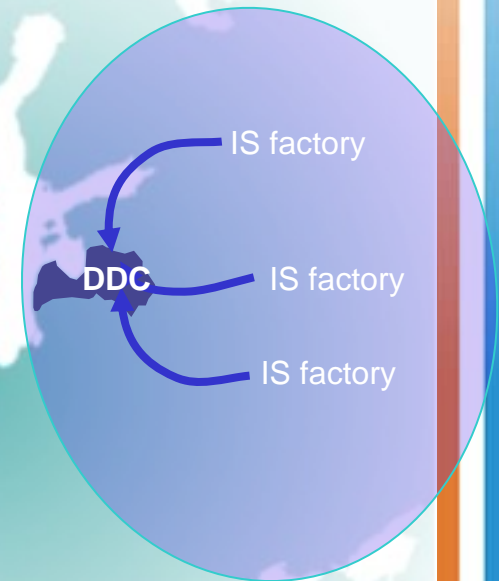- audit

- business consultancy

- development of specification requirements

- implementation

- education

- help desk

DDC

knowledge

knowledge

ideas

Specialization of Latvia - DDC

Functions carried out in Latvia:

- audit

- system analysis

- development of subsystems

- testing of developed subsystems

- integration

- implementation

- maintenance

IS factory

DDC   IS factory

IS factory

Application Maintenance Services – rising star in outsourcing

Chief objective:
satisfied client having a smoothly running information system

Objective for next 5 years:
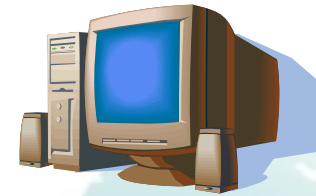to stabilize and ensure rapid development of AMS

Maintenance of clients' IS is transferred to specialized organizations
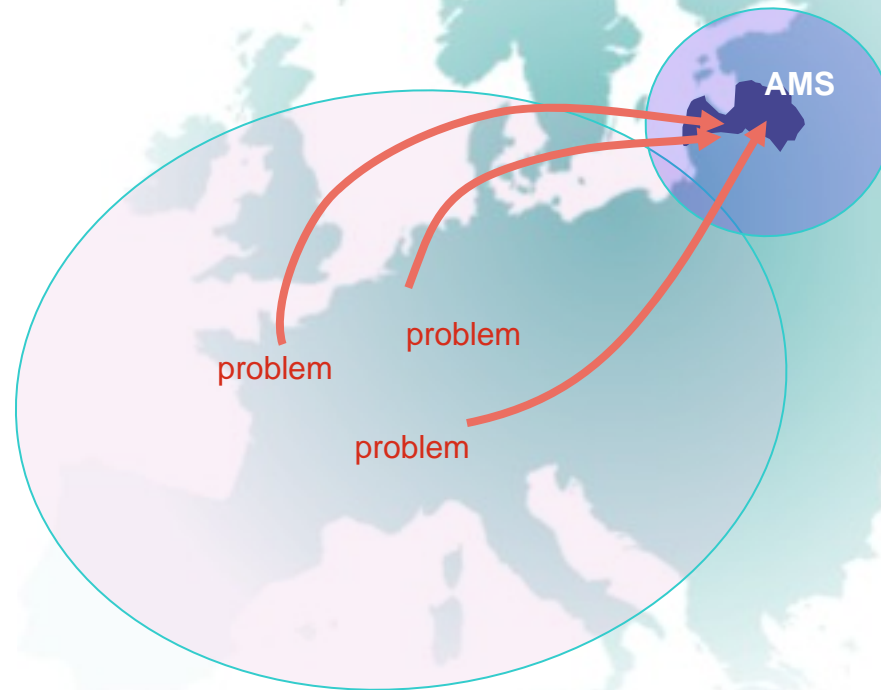
Application Maintenance Service Provider

Problem
Problem
Problem
Problem

Call Center

AMS

problem

problem

problem

Application Maintenance Service Provider

Problem
Problem
Problem
Problem

Call Center

AMS

AMS Provider

Consultants

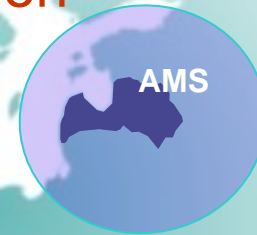# Application Maintenance Service Provider

Consultants for specific problems, such as

Data base administration

Security

AMS

Operating systems

etc

Impediments

Political

Solution

- NATO 2004

- EU 2004

Impediments

Branding

Solution

Joint activities at different levels:

- governments

- International organisations

- IT companies

Impediments

Mutual trust

Solution

- Collaboration in projects.

- Trust is not taught, trust is gained

Impediments

Latvia: a small part of Europe

Solution: think global

Baltic joint cluster:

- Increase of producing force

- Deeper specialization

- Best specialists for best clients

Cooperation among countries

www.dati.lv

Think global, act local

The essence of Outsourcing is to enable a person to focus on the core business

Thank You for Your Attention!

**Valdis Lokenbahs,
President, DATI**