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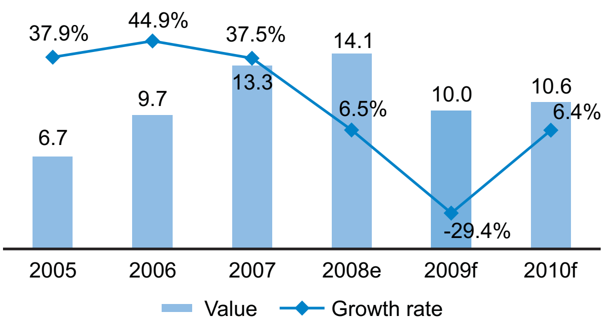
Ukrainian IT market to change its development model in 2009

The economic crisis has transformed the Ukrainian IT industry. During the last two months of 2008 sales in key market segments dropped by 20-50%. The declining purchasing power does not represent the only challenge for IT companies in Ukraine. Changes in buyers' needs have made many established IT products and services needless. In 2009 almost all vendors will have to re-think their business models, search for new products and optimise performance. Those who manage to pass this exercise successfully will stay in the business and even gain better market positions.

Leading distributors and system integrators in Ukraine do not expect the Ukrainian IT market to recover quickly. In 2009 market volume will be approximately 30% smaller than in the previous year. Sales could begin to climb again only in 2010, and only if the overall economy improves in Ukraine. Future growth rates will also not be as high as they had been in the past.

Value (UAH bn) and growth rate (%) of the IT market in Ukraine, 2005-2010



e – estimate
f – forecast
Source: IT market in Ukraine 2009. Development forecasts for 2009-2013, PMR Publications, a division of PMR, 2009

But despite the economic crisis, in the country with 46 million citizens, developed industry, banking sector and infrastructure, there is still significant potential for IT business. Ukraine had heavily underinvested in IT in the past and still falls behind other Central and Eastern European countries in PC penetration level, IT spending per capita and usage of management information systems in traditional business.

Suppliers of IT products and services to Ukraine mention that even in industries very much affected by the crisis, such as banking and metallurgy, there are strong players who have been able to stabilise their operations and have implemented anti-crisis measures. These companies already use advanced IT systems and will need further IT investments for efficiency improvement. However, their IT needs and the projects they are looking for are different from the mainstream IT needs and projects executed before the crisis.

In 2009 the role of the Ukrainian IT market engine will pass from retail hardware sales to corporate IT system optimisation and upgrade projects. The market will not ask for design and engineering of new data centres and network infrastructure, supply of high-end servers and lots of performing workstations as it had in 2007 and 2008. These segments will shrink significantly. The future also looks bleak for multi-month implementations of new full-scale ERP, CRM or BI systems.

What Ukrainian IT buyers will be looking for is improvement and better performance of existing IT systems. Solutions like server and data storage virtualisation, cost control or modifications of corporate information systems due to business restructuring have high chances of market success in 2009.

IT projects should meet at least the following three basic criteria to be in demand during an economic crisis:

- Should be fully operational within three months and start generating or saving money immediately after implementation.
- Should be focused on resolving specific business problems, be simple and clear. Chances to implement sophisticated complex solutions are low.
- Should have high and transparent return on investments (ROI) and entail low risk.

These changes represent big challenges and opportunities for vendors active on the Ukrainian IT market. In addition to the current problems of liquidity, lower revenues, high costs and unsold inventories, IT companies will need to resolve more fundamental issues of careful selection of market segments and of building up attractive solutions and developing the right internal competences.

Companies with a portfolio of established clients have better chances of survival. The most optimistic forecasts for market performance are formulated by suppliers of solutions for corporate information systems and IT consultants, while retailers of in-a-box software and PCs do not expect their market segments to behave well. Some PC retailers have started to develop additional services, like "computer first aid" and support services, to balance sales.

The interviews with leading market players showed significant variance and sometimes even contradiction in the respondents' vision of interesting market segments and sellable solutions. For example, some managers believe IT outsourcing has good chances while others think that lower wages and surplus skills will make outsourcing needless during the crisis.

Almost all Ukrainian IT vendors developed anti-crisis packages for their clients at the end of 2008. Also, they started to offer new distribution models, like SaaS (software as a service), leasing and even trial piloting. It is difficult to forecast which model will become successful as today the Ukrainian IT market is dependent on a number of highly unpredictable factors, including performance on export markets and internal political development in the year of president elections of 2009. One issue is certain: changes will happen fast and results will be visible closer to autumn 2009.

This article is based on the report "IT market in Ukraine 2009. Development forecasts for 2009-2013" published by PMR Publications in January 2009.

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PMR Ltd. Sp. z o.o.
ul. Supniewskiego 9
31-527 Krakow, Poland
tel. /48/ 12 618 90 00
fax /48/ 12 618 90 08
sales@pmrcorporate.com
www.pmrcorporate.com