

Belarus Attempts to Become the Eastern European Bangalore

Outsourcing Journal

March 2005

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For a long time outsourcing buyers have praised India as a source of low-priced yet high-quality IT workforce. Today the country enjoys the lion's share of offshore IT outsourcing business. India's IT services export reached \$12.6 billion in 2003-2004, according to India's IT and telecom minister Dayanidhi Maran.

Inspired by India's success, a number of nations, including Eastern Europe, have recently started looking for their niche in the IT outsourcing arena. Since the 1980's the city of Minsk in Belarus has had sister city arrangements with Bangalore, a major center of Indian outsourcing. Now Belarus, the former Soviet republic landlocked between Poland and Russia, is coming into its own as an IT outsourcing location.

What Makes Belarusian Outsourcing Different

The major differences between Belarus and many of its competitors in the outsourcing area are the strength of the country's leading outsourcing companies and the conditions under which they have been evolving.

With its modest population of 9.9 million, Belarus hosts the largest and most established European IT outsourcing providers to the east of Germany. Five of its largest IT outsourcers are at least 10 years old, an age well above average for a private business in Belarus. Two major ones, IBA Group and EPAM Systems, have respectively 1500 and 1200 employees, while the next largest outsourcer in the region, Luxoft from Russia, has around 850. EPAM and IBA occupy the first two positions of the "Top 5 to Watch in Central and Eastern Europe" section of the "Offshore 100," a list of the world's leading IT and BPO outsourcing providers published in January 2005 by consulting firm neoIT and monthly newsletter CMP's Managing Offshore. A few other local outsourcers such as Sam-Solutions, Belhard, and ScienceSoft employ 150-400 IT staff.

An emigrant from Belarus, Arkadiy Dobkin founded EPAM Systems together with his schoolmate Leonid Lozner in the US in 1993. Headquartered in Princeton, New Jersey, where it has over 50 employees, EPAM is the winner of Technology Fast 500 award in 2002, 2003 and 2004, while its development centre in Minsk became the first CMMI 4 certified company in Europe.

IBA earned its CMMI 4 certification just two weeks after EPAM. The company emerged in 1993 as a partnership between IBM and Minsk R&D Institute for computer development, once one of the cornerstones of the Soviet computer industry. In 1999, IBM withdrew as shareholder of IBA but remained its main customer and strategic partner. Currently, about 600 out of IBA's 850 software engineers in its Minsk office work on projects for IBM.

Smaller companies cannot boast CMMI certifications but nevertheless demonstrate high growth. ScienceSoft, founded back in 1989, has increased its revenue by 34 percent and its staff by 27 percent to 180 employees in 2004, according to its owner Dr. Val Tsourikov.

"If you compare Belarus to Russia and Ukraine in terms of the size and age of IT outsourcing companies, the industry in Belarus would look the most mature," says Lozner, who is also EPAM's VP of Technology and Infrastructure. Still, although it might look superior on the Eastern European scale, Belarusian IT outsourcing industry is by far less impressive in comparison to India, where the largest firms employ tens of thousands of programmers each and have hit the \$1 billion revenue level.

The Belarusian IT outsourcing industry employs between 3,000-3,500 software engineers, according to the former head of the president's administration Ural Latypov. Market Visio, a Gartner partner in Russia, estimates the

Belarusian outsourcing industry's revenue was \$90 million in 2004. For a comparison, in 2003 exported IT services totalled \$475 million in Russia, \$22 million in Poland, \$20 million in Hungary and \$26 million in Czech Republic, according to a June 2004 report by neoIT.

The country's strength is rooted in its mature technical infrastructure and reputable educational system inherited from Soviet times when Belarus used to manufacture over 50 percent of the computers and computer components in the former USSR. In March 2004, a team from Belarusian State University was among the top three out of over 3,000 teams at a major international college programming contest in Prague, outscoring their counterparts from MIT and Harvard University.

Limited domestic demand for the IT labour force is another factor that spurred the early orientation to offshore outsourcing. Luxoft CEO Dmitry Loshchinin once noted that while in Russia programmers were actively hired by banks and other organizations; in Minsk they did not have other opportunities except offshore programming.

Geographical and cultural proximity to the EU is also important. "Minsk is within a two and a half hour flight from Frankfurt, and one hour after landing you can already be at our office," says EPAM's Lozner. Lennart Jakobsson, CEO and Owner of Swedish high tech company Litcon Invest AB, says Belarus exceeded his expectations when he came there for the first time: "I met many Belarusian businessmen and IT professionals and was amazed by how easy it was to communicate with them. They are really willing to cooperate and, most importantly, they get things done in a fast and proper manner," he says. Now Jakobsson is considering setting up a software company of his own in Belarus.

Major Challenges

However, despite the continuing expansion, outsourcing industry in Belarus confronts some important challenges.

A major one is the country's political image. President Lukashenka, who came to power in 1994, has driven the country in a sort of political isolation from the West because of his authoritarian style of rule and intolerance to opposition. This is not inspiring for Western companies looking for Central and Eastern European-based (service providers; Belarusian outsourcers sometimes position themselves as "Eastern European" or even "Russian" companies.

Belarusian business also suffers from a hard taxation burden, excessive regulation, and bureaucracy. However, the economy is experiencing fast growth triggered by a favourable economic situation in the region. Belarusian government says the country's GDP rose by 6.8 percent in 2003 and by 11 percent in 2004.

ScienceSoft's Tsourikov recalls that when his company was just starting to work with US partners some ten years ago, the latter were quite anxious over the political and economic developments in Belarus. "But now I can say that there was not a single issue related to the situation in the country during all these years," says Tsourikov.

Multinationals such as Bosch, Coca-Cola, 3M, Deloitte & Touche, and Capgemini have established their offices in Belarus long ago while Alcatel, Ericsson, Karl Zeiss and MAN formed joint-ventures with local companies.

In spring 2004, the Belarusian government announced an initiative to create a high tech park that would consolidate IT outsourcing companies and promote their services. Latypov emphasised that the park "is conceived as a place where high tech businesses are free from bureaucratic barriers. This refers to registration, licensing, and other issues."

Strategies of Growth

Although IBA and EPAM are the largest outsourcers in the region, they are still too small to compete with larger Indian outsourcing providers. "Sometimes we cannot even get into a tender because the client wants the bidders to have at least 2000 employees," says EPAM's Karl Robb. Therefore, the companies strive to further increase their staffs and establish development centers outside Belarus.

Specialization is another competitive strategy. Being at the top of a market niche can bring large amounts of business and secure high margins. In this regard IBA is hoping for its mainframe and Java expertise and considerable experience in SAP and Baan implementation, while EPAM, aside from building up competence in Java

and .NET, targets the niche for software solutions for the US healthcare and insurance market.

Maintaining high standards of personnel motivation and compensation is also important, as high wages in the West are seductive to Belarusian programmers. To keep the attrition rate low, the companies introduce measures ranging from providing social packages and stock options to organizing sports activities for their staffs. For example, IBA regularly organizes corporate tennis and pool tournaments, while EPAM maintains a racing team with its own racing car, which is also used to provide skid control courses for the employees. "We want our employees to feel really happy and comfortable at home when they are back from long business trips abroad," says Dr. Valentin Kazan, IBA's Deputy Director responsible for outsourcing projects.

Looking into the Future

Today Belarus is trying to become a new European travel destination. The hope is that the future of Belarus as a tourist destination may further push the government to open up and democratise the country in search for a competitive advantage.

Belarus became closer to the West on May 1, 2004 when 10 new members, including three neighbouring countries of Belarus, joined the EU. Without a doubt, this will generate momentum for Western European business to uncover the potential of their Eastern counterparts. For Belarus, however, a lot will depend on the efforts of the government and political climate in the country.

The Belarusian government has recently announced an ambitious goal to boost the country's IT services export to 4 percent of that of India by 2008. IBA, EPAM, ScienceSoft, and a few other companies are mature enough to have a share of the European outsourcing market. And that is very good for Belarus indeed.