

EUROPEAN IT
OUTSOURCING
INTELLIGENCE
REPORT 2010.

PART 1: CENTRAL
AND EASTERN
EUROPE

IT Sourcing
Europe Ltd

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Executive Summary

This Intelligence Report summarizes the findings of *IT Sourcing Europe's* online survey and the most up-to-date industry studies and analyses for the purpose of comparing the major Central and Eastern European (CEE) IT Nearshoring locations and determining the most appropriate one for Western European companies to locate their end-to-end software/Web 2.0 application development.

The Report targets at all types of Western European companies who either outsource or plan to outsource their IT function nearshore.

In the course of *IT Sourcing Europe's* online survey all Central and Eastern European countries were analyzed in terms of their factual capability to bring value to Western European outsourcers and readiness to work in the conditions of Outsourcing 2.0¹.

The survey discovered that the following six countries are the most attractive for the outsourced nearshore IT development: Ukraine, Poland, Romania, Hungary, Belarus and the

¹ Outsourcing 2.0 is a next-generation stage of software development/Web 2.0 outsourcing aimed at process simplification (agility) and establishment of long-term and mutually beneficial relationships between the buyer and the service provider

Russian Federation. These countries were selected for final overview due to having:

- a) the highest IT outsourcing (ITO) market value in the CEE region (as of 2009);
- b) the lowest Total Cost of Ownership (TCO) of outsourced IT operations;
- c) the biggest IT workforce involved in ITO industry;
- d) the strongest R&D base;
- e) the best grasp of innovation and emerging technology.

This Report finds that Ukraine is the most attractive location for nearshore software/web 2.0 development due to low IT salaries, high attrition, strong R&D heritage from the Soviet past, high-tech education, innovation and available pool of IT resources.

Locating their core IT development in Ukraine, Western Europe's companies are likely to save 40 to 60% of their total in-house IT spending. Ukraine is followed by Belarus and Russia, which offer rather low software development rates, but still have unfavorable regulatory environment, are rather process-packaged and focused on providing outsourced systems integration and complex enterprise solutions.

Unlike Ukraine, which shows significant ITO market maturity in terms of Agile development and innovative business models, Russia and Belarus demonstrate higher level of bureaucracy and inflexibility and focus on traditional software development methodologies such as Waterfall as well as traditional engagement models (e.g., Offshore Development Center), which are unable to meet with such challenging and pragmatic requirements of today's high-tech epoch as fast time-to-market, better scalability and human capital-driven creativity versus process- and plan-driven development.

Being European Union members, Poland, Romania and Hungary demonstrate maturity of BPO markets and have a good offering of value-added and managed services. However, as our survey shows, they lag behind Ukraine in terms of end-to-end development, available IT resource pool (all three countries face significant IT labor shortages) and low software product development rates.

Introduction

Currently, the World Wide Web is over-communicated in terms of studies and researches that aim to compare and contrast traditional IT offshore outsourcing destinations such as India etc and emerging nearshore outsourcing markets such as Central and Eastern Europe, Latin America, Ireland etc. Some of these publications provide rather bulky and sometimes irrelevant macro- and microeconomic data and figures, the others analyze the outsourcing industry as a whole (Business Process Outsourcing (BPO), IT Outsourcing (ITO) and HR Outsourcing (HRO)), while the third are too industry- or technology-specific.

In our research we have focused on evaluating the current CEE ITO market only and measuring the factual capability of each of the selected CEE countries to help Western European clients save their IT spending, while retaining and improving the quality of their outsourced IT function. We have, therefore, analyzed 21 countries of Central and Eastern Europe (all countries from the border of Germany and south from the Baltic Sea to the border with Greece plus former communist countries), and limited our research to six countries only – Ukraine, Poland, Romania, Hungary, Belarus and Russia. These countries demonstrate the highest levels of the ITO market maturity and the biggest-in-the-region IT resource pools. Finally, we have expanded review of the ITO

potential of the above countries to the analysis of today's most cost efficient and innovative business models and methodologies, which are able to bring the best value to Western European companies in the realm of the challenging Outsourcing 2.0.

Methodology

To critically evaluate each selected country's ITO services offerings, we have surveyed each country's ITO suppliers listed in the major CEE sourcing directories². BPO and HRO services providers were excluded from the range of this online survey. Overall, 372 vendors from Ukraine, Poland, Romania, Hungary, Russia and Belarus were surveyed in terms of size, technology expertise, service offering, business model, clients and pricing structure. As only few providers indicate their prices on their web sites and/or in the above mentioned sourcing directories, we have used different software developers' online communities³ to determine the rates of the rest of providers.

² Offshore Experts, 2010; Ezgoal, 2010; CEE ITO Association, 2010

³ www.developers.org.ua; www.developerfusion.com etc

Quick ITO Facts

Ukraine

- ✓ ITO market value - EUR 389.6 million⁴
- ✓ Ukraine is in Gartner's List of Top 30 Outsourcing locations
- ✓ Kyiv, Ukraine's capital, is included in the Tholons' List of Top 50 Global Emerging Outsourcing Cities⁵.
- ✓ Kyiv is amongst the 25 safest cities for offshore/nearshore outsourcing⁶
- ✓ Ukraine's cities Kharkiv and Dnipropetrovsk rank 3 and 5 accordingly in terms of cost effectiveness in FDI Magazine's rating of Top 5 Major European cities⁷
- ✓ Ukraine is the 4th in Top 10 countries with the most certified IT professionals⁸
- ✓ Ukraine is in Gaming Industry's Top 12 European Countries⁹

⁴ Central & Eastern European Outsourcing Association, 2008

⁵ Tholons, 2009

⁶ Brown & Wilson Black Book of Outsourcing, 2009

⁷ FDI Magazine, 2010

⁸ Global IT IQ Report by BrainBench, 2009

⁹ The Global Gaming Industry Network, 2009

Country	M/E environment	Innovation	Innovative business models	IP Security	SD Costs	Availability of IT resources	Average score
Ukraine	3	5	5	3	5	5	4,3
Belarus	3	3	3	3	3	4	3,1
Russia	4	4	3	3	3	5	3,6
Poland	5	4	4	4	4	3	4
Romania	4	4	4	4	3	4	3,8
Hungary	4	3	3	5	4	3	3,6

Based on companies survey results, we have assessed each selected CEE country on a 5-point scale (where 1 is unsatisfactory and 5 is excellent) in terms of **macroeconomic environment, innovation and emerging technology, innovative business models, IP security, software development (SD) costs**, and overall **availability of resources** for effective nearshore development (see Table above).

The assessment results have shown that Ukraine is the most favorable place for Western European companies seeking to outsource their entire IT function / components of their IT function nearshore.

Overview of the Central and Eastern Europe's IT Outsourcing market

State of affairs during the economic recession

In 2008 the IT outsourcing market in Central and Eastern Europe (CEE) was estimated to be worth USD 3.1 billion, up by approximately 25% year on year¹⁰.

When the financial crisis had severely struck the world economies in 2008 – early 2009, the CEE ITO industry faced only insignificant decline of 5.1% of the total contract volume¹¹.

During the recession most of North American and Western European enterprises revised their investment budgets, looking out for savings on IT

¹⁰ CEEOA, 2009

¹¹ Gartner, 2009

Quick ITO Facts

Poland

- ✓ ITO market value - EUR 256.7 million¹²
- ✓ Poland is in Gartner's List of Top 30 Outsourcing locations
- ✓ Krakow, Poland's second largest city, is in the Tholons' List of Top 50 Global Emerging Outsourcing Cities. Krakow and Warsaw are 4th of 25 safest cities for offshore/nearshore outsourcing

services. Thus, most of in-house IT outsourcing projects were suspended or postponed, as the companies chose to focus on implementation of basic functionality rather than end-to-end development. On the other hand, most of large Western European businesses, needing to have regular IT support, maintenance and upgrade, chose to either outsource their projects nearshore or continue with their outsourced projects in order to escape losing competitive position in the long run as well as paying extra money for moving and completing operations in-house. This factor made a positive impact on retention of the majority of the outsourcing deals in the region.

Current state of affairs

In the second half of 2009 and in Q1 2010 the industries have begun to show signs of slow, yet confident recovery. While in 2008 and first three quarters of 2009 the global outsourcing activity was at its lowest level since 2001, in Q4 2009 the global IT outsourcing market's total contract value reached \$24.7 billion, which is 20% up sequentially and 40% up year-on-year and the best quarterly performance since Q2 2008¹³.

Outsourcing to Central and Eastern Europe is expected to grow exponentially over the next 10 years, according to numerous researches¹⁴.

Investors and management are anticipating 30% annual revenue growth. CEE, above all regions, is expected to leverage its competitive advantage in the high-growth areas of offshoring and nearshoring and possibly move ahead as the most attractive labor arbitrage alternative for Western European clients. CEE has vast potential due to its large population, innovation, qualification of its software engineers and government programs supporting the outsourcing industry. Some CEE countries have capitalized on their time zone advantages and back-office proficiencies by offering new business models and innovative approaches to attract outsourcing work.

Currently, outsourcing is booming in the region, as the CEE countries move more quickly to integrate economically with their more affluent Western neighbors and show actual progress in terms of unemployment reduction, governmental incentives to attract foreign capital and create favorable conditions for successful international partnerships etc. Factors such as labor shortage in the Western Europe's IT sector, high taxes and complicated regulatory environments encourage many businesses to look at Eastern Europe in order to ease the strain.

But low labor costs are not necessarily the solution that Western companies are seeking in outsourcing. The technological potential of young graduates in Ukraine or Poland is one of the primary reasons why Western companies choose

¹² Central & Eastern European Outsourcing Association, 2008

¹³ TPI Sourcing Index 2010

¹⁴ Gartner, Everest Market Vista 2009

Quick ITO Facts

Romania

- ✓ ITO market value - EUR 300.5 million¹⁵
- ✓ Romania is in Gartner's List of Top 30 Outsourcing locations
- ✓ Bucharest, Romania's capital, is in the Tholons' List of Top 50 Global Emerging Outsourcing Cities
- ✓ Bucharest ranks #1 in the FDI Magazine rating of Top 10 Eastern European Cities¹⁶
- ✓ Bucharest is 11th of 25 safest cities for offshore/nearshore outsourcing

to outsource to CEE. Strong R&D base – a heritage from the Soviet and communist past – combined with high-quality technical and engineering education guarantee the region's brightest IT talent pool.

Other features that turn CEE into one of the world's most attractive and multi-promising outsourcing hubs include such incentives as simplified tax structures, visa-free entry (e.g., Ukraine) and construction of high-tech parks (e.g., Belarus, Romania, Ukraine).

CEE is also interesting from the perspective of nearshore outsourcing for offering shorter journey times, smaller or no time zone differences, proficient foreign language skills and cultural proximity. Besides this, CEE countries remain some of the world's greatest untapped markets for services and consumer goods. This is another reason why Western companies are eager to bring their capital to the region. Nearshoring to CEE serves Western companies as a springboard to the Eastern European markets. Romania with its 22 million people and Ukraine with its 47 million people offer new export and business partnership opportunities for Western companies.

Western Europe is now leading an outsourcing growth curve within the global outsourcing market, changing the entire IT outsourcing landscape worldwide. UK and Western European clients demonstrate a distinct preference for

nearshoring to the CEE region over offshoring to India and South East Asia. On the other hand, large North American companies also view CEE as a perfect offshoring destination primarily because of higher quality of delivered products/services and better understanding of business needs compared to traditional outsourcing centers.

Thanks to the crisis, even companies that had never before had any outsourcing contracts have turned to consider outsourcing their IT function nearshore. Anticipating faster turn-around, such companies make short-term agreements with the CEE vendors, aiming to produce immediate improvements to the bottom line. However, companies with extensive outsourcing experience squeeze value out of their long-term transactions and drive their IT function to the higher level. In an environment when Fortune 500 companies disappeared overnight, outsourcing deals have helped many companies 'keep the head above water' and withstand the most challenging times.

Key ITO industry trends

IT outsourcers' profiles and geography change

The end users of IT outsourcing services have changed after the recession. Before 2008 the

¹⁵ Central & Eastern European Outsourcing Association, 2008

¹⁶ FDI Magazine, 2010

Quick ITO Facts

Hungary

- ✓ ITO market value - EUR 274.8 million¹⁷
- ✓ Hungary is in Gartner's List of Top 30 Outsourcing locations
- ✓ Budapest, Hungary's capital, is included in the Tholons' List of Top 50 Global Emerging Outsourcing Cities
- ✓ Budapest is 7th of 25 safest cities for offshore/nearshore outsourcing¹⁸

major consumers were large companies who perceived offshore outsourcing as a way to fight labor shortage in the domestic market. Today, these companies refuse to outsource ambitious IT projects, while still using outsourcing mainly to upgrade and ramp up their business functioning (service-level agreements).

The loyalty of in-house IT personnel has increased, which has in turn reduced ITO popularity among big players. However, ITO is becoming more popular among small to mid-sized companies as well as start-ups, venture capital backed companies, municipal and not-for-profit organizations. Currently, such companies avoid hiring expensive domestic IT staff, in part due to the inability of using their skills and expertise in full scope. Therefore, they turn to nearshoring as a way to cut costs and maintain IT function at a competitive level.

In the past years the CEE ITO market was mainly occupied by the US companies striving to expand their existing offshore operations and go beyond India. Such companies moved to CEE for the purpose of having an extra back office in case something goes wrong with their Indian suppliers. Some of them appreciated CEE IT talent pool, powerful R&D base and cultural and mentality proximity so much that they curtailed operations

in India and began to actively use the services of Offshore Development Centers or hybrid business models (onsite + offshore) in CEE.

According to Everest Market Vista Research¹⁹, in 2009 36% of all IT outsourcing contracts belonged to EU. This figure suggests that Western Europe and UK are gradually, yet confidently gaining the dominant share in the global ITO market, catching up with the United States. Although recession had no critical impact on the US ITO industry, most American buyers move their operations from offshore (India) to nearshore (Latin America) and yield their competitive advantage in CEE to Western European outsourcers.

Buyers become more demanding and challenge suppliers to differentiate their position and value

Ultimately, to retain competitive advantage, Western companies are seeking a combination of speed, cost management and growth supported by business agility and unprecedented technological innovation. Service providers are, thus, challenged to respond to client's business demands through building capabilities to solve technical problems,

¹⁷ Central & Eastern European Outsourcing Association, 2008

¹⁸ Brown & Wilson Black Book of Outsourcing, 2009

¹⁹ Everest Research, 2009

Quick ITO Facts

Russia

- ✓ ITO market value – EUR 660.6 million²⁰
- ✓ Russia is in Gartner's List of Top 30 Outsourcing locations
- ✓ Moscow ranks 2 in FDI Magazine's rating of Top 5 Major European Cities in terms of economic potential²¹

Belarus

- ✓ ITO market value - EUR 227.5 million²².
- ✓ Belarus is not in Gartner's List of Top 30 Outsourcing locations, but is in Gartner's List of 42 locations that establish an environment likely to be attractive for IT outsourcing

²⁰ In4Media, 2009

²¹ FDI Magazine, 2010

²² Central & Eastern European Outsourcing Association, 2008

expand services, build consultative front ends and bespoke solutions for client's differentiation.

As shown by the industry research, neither cost reduction, nor tactical sourcing associated with IT outsourcing are able to provide immediately what each business player needs today – innovation, cost efficiency, agility and speed. New sourcing options and outsourcing management skills are needed to achieve a perfect synergy between the buyer and the vendor.

ITO services buyers do tactical external sourcing for software / application development and do not want to under-utilize their service provider's critical product development capabilities, quality and processes. Thus, they tend to have an accurate picture of current project status, threats, risks, resource gaps etc. Clients tend to work diligently with their vendor's project teams to make sure that their tiniest change request is responded appropriately and timely. First-time users of the ITO services usually have unrealistic expectations in terms of delivery schedule and labor costs. Additionally, they may not know what type of application they want until the very end of the project. It means that ITO suppliers should be ready to revise their pricing structures and make them as transparent as possible to prevent clients from paying overheads.

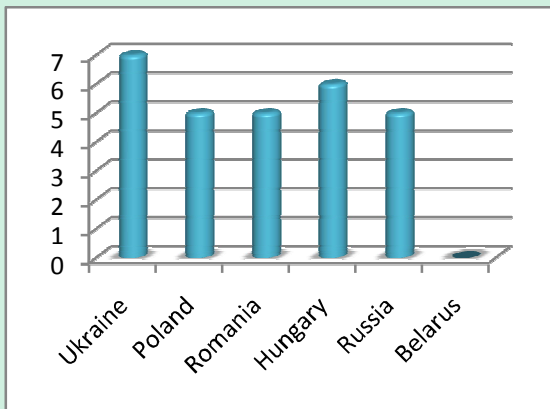
Short-term cooperation and immediate revenue generation are no longer the goal

Today, both the service content and delivery formats are changing, as the rational side of contracts begins to play an essential role in the post-crisis IT partnerships. Before the meltdown, the buyers were offered rather standard service packages, which did not necessarily meet with all of their business needs and challenges. Currently, providers aim to offer individualized services for each certain client and to retain highly qualified teams of IT specialists, which is not always affordable among in-house IT departments. The major focus is on quality maintenance, IT spending optimization and client's capitalization through offloading core end-to-end development to the outsourcing partner. In the recent past, a lot of the CEE vendors were dependant on their technological expertise and aimed to adjust client's needs to available technology. Today the situation is different, with the providers focusing on client's needs and adjusting technology to these needs.

Software delivered as a service (SaaS) is transforming the current ITO provider profile

Although SaaS still accounts for a small percentage of the total IT outsourcing revenue, its impact on the ITO landscape is disproportionately large.

Gartner's Cost Effectiveness Rating of Ukraine, Poland, Hungary, Romania and Russia on a 10-point scale (where 1 is least cost effective and 10 is most cost effective)²³



Note: Belarus is not rated, as it is not yet included in Gartner's List of Top 30 Outsourcing Locations

SaaS allows providers to operate multiple business models, which in turn increases general and administrative expenses. To successfully operate SaaS models, vendors need large capital investments. As a result, providers who aim to generate one-time revenue hits from short-term contracts are forced to transform their business models and to seek long-term outsourcing partnerships in order to leverage their 'cloud' expertise and increase revenues by using it in a proper way.

Innovative business models are needed to better link clients with their vendor-supplied development teams

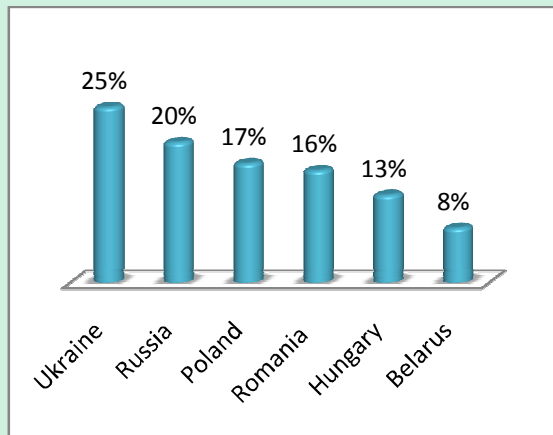
Striving to evolve strategic long-term outsourcing relationships, Western clients express readiness to move from project-based services and staff augmentation to more effective business models, able to handle core software development.

Although Offshore/Nearshore Development Centers (ODC/NDC) with their strict project management hierarchy continue to expand in the CEE region, the innovative engagement models emerge as a response to tougher competition in the IT market, requiring more transparent and value-added relationships between the clients and executors supplied by ITO vendors. One example of such innovative partnerships is a model, in

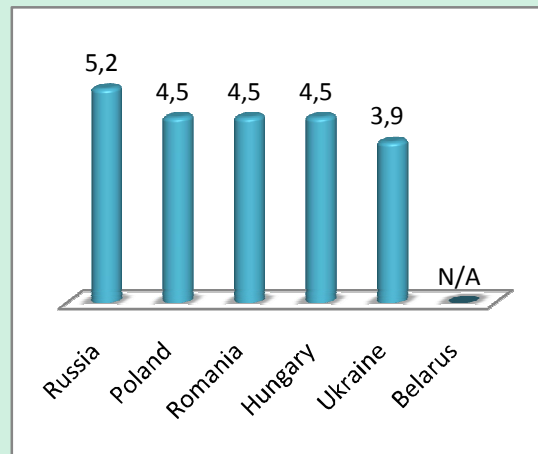
which the local supplier locates the client's project team in its office and solves all of the clients' administrative and HR issues, while the client has 100% management of its vendor-supplied development team, its members' salaries and career growth. This model has a better potential to maintain/increase employee retention and achieve better quality of delivery, compared to traditional ODC or project-based models, in which the client communicates with IT staff through vendor's project management and incurs losses in case of project staff turnover.

²³ Gartner, 2010.

Percentage of annual science & IT graduates of the total annual university graduates²⁴



Macroeconomic Stability / Global Competitiveness Index²⁵



Calculating Total Cost of Ownership (TCO) of nearshore versus in-house IT development

To roughly determine the cost efficiency of locating core software development operations nearshore, we have compared the selected 6 countries in terms of IT personnel monthly salaries, monthly office occupancy costs per 2 workstations (developer + project manager) and business travel costs.

Overall, we have done a simplified and rough calculation of TCO. Normally, TCO is comprised with a greater number of indicators such as, for instance, long-term expenses (employee replacement, scalability), risk/change management expenses etc, but they should be estimated individually for every project and team size, and do not differ significantly amongst the analyzed countries.

Even the simplified estimation proves significant cost advantage that Western European companies gain when choosing to move nearshore. Again, Ukraine proves to be the lowest-cost nearshore ITO destination.

This finding generally supports the latest Gartner's rating of the Top 30 Outsourcing Locations in terms of IT development cost.

²⁴ Based on data from SourcingLine, UNESCO and Belarus Department of Education

²⁵ World Economic Forum, 2009

Estimation of the Total Cost of Ownership of the nearshore outsourced development							
	UK	Ukraine	Belarus	Russia	Poland	Romania	Hungary
Software developer's average salary + benefits ^I (in USD / month)	6,000	1,800	1,950	2,500	2,300	2,200	2,000
Project Manager's average salary + benefits ^{II} (in USD / month)	7,000	2,000	2,100	3,500	2,500	2,700	2,300
Office occupancy cost ^{III} (in USD per employee workstation per month)	1,900*2 = 3,800	410*2 = 820	480*2 = 960	830*2 = 1,660	583*2 = 1,116	458*2 = 916	450*2 = 900
Travel costs ^{IV} (in USD)		1,000	1,150	2,300	1,350	1,300	1,200
TCO ^V (in USD)	16,800	5,620	6,160	9,960	7,266	7,116	6,400

^I Calculation is based on mean salaries of senior developers with the following expertise: .NET, C++, Flash/Flex, JAVA, PHP and Ruby. Sources: ITjobswatch.Co.Uk, Developers.Org.Ua, Payscale.Com, Diz-By.Biz

^{II} Sources: ITJobsWatch.Co.Uk, Developers.Org.Ua, Payscale.Com, Diz-By.Biz

^{III} Class A office rent, utilities, telecommunications and cost of hardware and maintenance in the capital city.

Sources: DTZ's 13th annual Global Office Occupancy Costs Survey 2010

^{IV} Calculation is based on an average cost of a business class flight from London to the capital city, including custom taxes, average cost per night for a standard single room in a five-star hotel in the capital city's downtown, average cost of meals per day at a restaurant located in the capital city's downtown. Sources: Wego.Com, Hotel.Ua, Booked.Net,

Booking.Com, KyivRestaurants.Com, VirtualTourist.Com, WayToRussia.Net.

^V Per a 2-employee team (senior software developer and project manager) per month + business trips from London nearshore

Nearshore ITO Profile of Ukraine: Close-Up

- The continuing decentralization of the outsourcing industry in Ukraine remains a positive factor for IT services market development. Currently, outsourcing accounts for more than 70% of software development activity in Ukraine.

Today's demand is driven by two key factors:

1) Crisis has forced many Western European companies to save their domestic IT investments and locate their IT operations nearshore due to lower costs and bigger IT talent pools; and
2) Companies have begun to look for new sources of cost saving and eventually opt for IT Nearshoring, as it allows funding through operational costs and not through direct investments.

- The world economic meltdown set up a task of transferring to innovative business models to allow companies to optimize their internal processes, to determine critical business processes and increase their efficiency, to seek new ways of client attraction and to implement innovative channels of service offerings.
- Affected by the economic stagnation, small outsourcing services providers have to merge with

the larger players or discontinue their operations. Leading outsourcing companies are restructuring and optimizing their business to become more client-centric. This leads to substantial revenue growth and brings Ukrainian ITO market beyond traditional outsourcing (typical of India and China) and up to the next stage of outsourcing maturity (Outsourcing 2.0).

- Ukrainian ITO industry faced no massive layoffs, unlike other industries, and managed to retain the best IT specialists. It denotes a rather stable labor market in the country.
- Ukrainian government has recently reprioritized its support for the IT industry and, as a result, has undertaken a series of emergency measures to stabilize the banking sector. Additionally, the government has created the Ukraine Development Gateway Project aimed to promote support for information economy in the country²⁶.

Many experts believe that 2010 will be the year of rapid growth of Outsourcing 2.0 in Ukraine.

Conclusions and recommendations

With the highest ITO market value in the CEE region, more than 30,000 IT graduates each year, Western orientation, WTO membership (since

2008), numerous high-tech parks and the highest democratic level among the non-EU CEE countries²⁷, Ukraine is emerging as a Silicon Valley of the CEE region. Ukraine is planning to enter EU in the long run and is permanently adjusting its IT safety regulations to the Western European standards.

Ukraine's infrastructure is rapidly evolving, in part thanks to the upcoming Euro-2012 World Cup that it will be hosting together with Poland.

The availability of extensive IT talent pool, supported by the highest in the CEE region public expenditures on education²⁸, can ensure that every single industry segment gets highly qualified IT workforce.

Of the 113 analyzed Ukrainian ITO providers, 97% primarily do project outsourcing on a fixed-price/time-and-materials (T&M)/milestone basis; slightly more than 50% engage with clients by establishing offshore/nearshore development centers (ODC/NDC), while more than 40% offer a hybrid business model, i.e. a mix of onsite and offshore resources.

²⁷ Legatum Institute, 2009

²⁸ Legatum Institute, 2009

²⁶ www.ukraine-gateway.org.ua

Of all 6 countries analyzed in the course of our survey, Ukraine has the best offering of innovative business models, which are able to bring value to Western European buyers in the realm of Outsourcing 2.0.

The distinctive hallmarks of these models are:

- a) focus on establishing long-term relationships with clients,
- b) managing outsourced operations as if they are managed in-house, and
- c) accelerating client's time-to-market.

Such mix is the best fit to the Outsourcing 2.0 concept, as it allows close interaction between the buyer and provider, better understanding of client's business needs and opportunity to fully monitor and track the development process.

One of such innovative models that *IT Sourcing Europe* recommends for consideration during nearshore outsourcing decision making is the Client Own Team model, in which IT employees fully belong to and are 100% managed by the client. The key differentiator of this model from traditional remote team model is that the client, not the vendor, makes the final decision on recruiting development team members and has 100% managerial control of both the outsourced

project and each team member's compensation. Such control is very important, as it allows client to retain the best employees and, thus, to keep the project at a higher quality level from initiation to completion. This model is perfect for outsourced end-to-end software product development, as it is transparent, agile, fully scalable and independent from the vendor's technology skill sets. It is equivalent to managing own in-house team, but for lower costs and with no HR or administrative hassle, which is often associated with setting up own IT operations in a lower-cost country.

Another innovative engagement model that would be valuable for both the early-stage and established high-tech companies is one in which the provider takes full ownership of the complete software product development process, platform and technology architecture and ensures a level of continuous visibility and iterative control, equalling that of managing an in-house team. The advantage of this model consists in the following: the provider delivers a fully functional product, based on client's ideas, in a fraction of the time it takes to build the same product in-house (3 - 5 months) and the client is able to receive early prototypes for early customer/investor feedback.

IT Sourcing Europe suggests that Western European companies that consider locating their

end-to-end software product / Web 2.0 application development nearshore should consider partnering with:

- Western European based vendors, as they are well aware of and perform in accordance with the EU industry and IP protection standards;
- vendors who have extensive experience with Western European clients, 'touch and feel' of innovation and current business environment;
- vendors with an innovative engagement offering, able to ensure long-term cooperation, agility, scalability, faster time to market and payment transparency in order to prevent salary kickbacks, 'spaghetti programming' (simple coding which lacks creativity and innovation) and other negative practices associated with the traditional offshore outsourcing.

Comparison chart of the Ukraine's leading ITO services providers:

	EPAM Systems	Globallogic	Luxoft	Ciklum	Infopulse
Country of origin	United States	United States	Russia	Denmark	Ukraine
Locations in Ukraine	Kyiv, Kharkiv, Lviv	Kyiv, Kharkiv, Lviv, Mykolaiv	Kyiv, Dnipropetrovsk, Odessa	Kyiv, Kharkiv, Dnipropetrovsk, Donetsk	Kyiv
Global Headcount	4,500+	3,000+	3,000+	900+	600+
Years of ITO experience	15+	10+	10	8+	10+
Clients	Mainly large, including Fortune 500 companies	200+, mainly large to mid-sized	20+, mainly large from UK, Germany, Ukraine and Italy	100+, mostly small and mid-sized from Scandinavia, UK, Germany, Switzerland, Austria etc	40+, mostly mid-sized companies from US, Belgium, France, Germany, Ireland, Scandinavia, Russia and Ukraine
Business models	Offshore development center (ODC), project based	Version 1.0 SM , strategic alliances, project based	ODC, project based	Client Own Team, project based	ODC, project based
Major software development methodology	Agile	Agile	Agile	Agile	Rational Unified Process
Communication between clients and employees	Through PM	Through PM	Through PM	Both direct interaction and through PM	Through PM
Who makes the final recruitment decision?	Vendor	Vendor	Vendor	Client	Vendor
Do clients know employees' salaries?	No, just a contract price paid monthly	No, just a contract price paid monthly	No, just a contract price paid monthly	Yes	No, just a contract price paid monthly

About IT Sourcing Europe

IT Sourcing Europe Ltd is a European company specializing in nearshore IT outsourcing market analysis and consultancy. Our services include:

- Independent IT Outsourcing market research and analysis
- Independent surveys of Western European outsourcers and their IT outsourcing demand
- Independent surveys of Central and Eastern Europe's IT Outsourcing services providers and their factual capability to deliver top quality products and services on time and on budget
- Consultancy and recommendations to companies planning to change their current outsourcing strategies
- Consultancy and recommendations to companies planning to outsource their IT function nearshore
- Custom market and competition research and surveys

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