

Eastern European IAOP Chapter

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Mining for Talent: Outsourcing Industry And Technology Landscape of Ukraine and Belarus

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AGENDA

- **Belarus & Ukraine Country Overview**
- **Technological Environment**
- **Business Environment:**
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 - **Government Support & Legal Conditions**
- **Education & Talent**
- **Comparison of Popular IT Outsourcing Markets**
- **Cost Savings**
- **Time & Travel**
- **Summary**





Belarus: Country Overview

Country Profile:

- **Capital:** Minsk
- **Population:** 9.5 Million
- **GDP in PPP:** US\$147 billion
- **GDP per capita in PPP:** US\$15,633
- **Official languages:** Russian, Belarusian

Outsourcing Industry Snapshot:

- **IT outsourcing market volume:** US\$ 0.8 billion
- **Number of IT outsourcing companies:** About 800
- **Number of specialists involved in IT outsourcing services industry:** 33,000

Macroeconomic Conditions:

- In 2008 Government started a program to attract more foreign investments
- 58th economy in the world (2012)
- Currency: Belarusian ruble (BYB/BYR)

Exchange rate: US\$1 = Br 9132

- World organizations:
 - CIS
 - The World Bank, International Monetary Fund
 - European Bank for Reconstruction and Development
 - GATT (General Agreement on Tariffs and Trade)
- Ease of Doing Business 2012: 58 (China – 91, India – 132)



Ukraine: Country Overview

Country Profile:

- **Capital:** Kyiv
- **Population:** 45 Million
- **GDP in PPP:** US\$345 billion
- **GDP per capita in PPP:** US\$7,598
- **Official languages:** Ukrainian, Russian

Macroeconomic Conditions:

- 37th Economy in the world
 - Total FDI in 2011 was \$45 billion
 - Currency: Hryvna (UAH)
- Exchange rate: US\$1 = ₴ 8.13*

Outsourcing Industry Snapshot:

- **IT outsourcing market volume:** US\$ 1.3 billion
- **Number of IT outsourcing companies:** over 1300
- **Number of specialists involved in IT outsourcing services industry:** 47,000

Trade organizations:

- CIS
- GUAM
- WTO



Things you probably didn't know...

World famous actress **Mila Kunis** ("Black Swan"), **Mila Jovovich** ("The Fifth Element") and **Olga Kurylenko** ("Quantum of Solace", "Oblivion") were born in Ukraine.



Ukrainians invented the largest plane in the world – the An-225 "Mriya". Originally it was designed for spacecraft transportation. Now it specializes in freight haulage.



George Gershwin wrote one of the world's most famous songs, "Summertime", after being inspired by an old Ukrainian lullaby called "Sleep Is Tiptoeing About" performed by the Ukrainian National Chorus.

Ukrainian "Yuzhmash" (Dnipropetrovsk) produces **the most environmentally friendly launch vehicles** in the world.

Nathan Shwartz, the founder of **Timberland**, was born in Odessa in a family of shoemakers.



Bart Mayer, Co-Founder of **Metro-Goldwyn-Mayer (MGM) Pictures**, was born in Minsk, Belarus



Marc Chagall, a famous painter, was born in Belarus. In his painting "Over the City" Chagall and his wife Bella appear to be flying over his native city Vitebsk





Technological Environment



Historical:

- The “Silicon Valley” of the USSR
- Used to manufacture over 50% of computers and computer parts for the USSR
- Software industry hub since 1960s
- Belarusian IT experts and companies have been involved in the design and construction of space stations, global communication systems, R&D projects for the military, and advanced nuclear developments projects.

Current:

- **Mobile/cellular:** 10+ million; mobile phone penetration nearly 110%
- **Internet users:** 57% of population

Historical:

- Ukraine is a leader in space flight and is among the top 5 countries in the world possessing a full technological range of a rocket based systems.
- Ukrainian city of Kharkov was the first location in Europe where the atom was split.

Current:

- **Mobile/Cellular:** 49+ million
- **Internet hosts:** 234,349
- In 2011 Ukraine was ranked 9th in the "**Top 10 Internet countries in Europe**"

Business Environment: Outsourcing Industry

- **Outsourcing Market Size:** 0.8 US\$ bill
- 33,000 Software Professionals
- Market Growth +25%
- 16,000 ICT graduates every year
- 50 years of software industry
- Minsk is an emerging outsourcing destination according to **Tholons 2012**
- Included in **Gartner's Top Offshore Locations 2012**



- **Outsourcing Market Size:** 1.3 US\$ bill
- 47 000 Software Professionals
- Market Growth: +18%
- 30,000 ICT graduates every year
- Kyiv and Lviv included in **Tholons' Top 100 Outsourcing Destinations 2013**
- Kyiv is amongst the **25 safest cities** for offshore/nearshore outsourcing
- Ukraine is the 4th in Top 10 countries with the **most certified IT professionals** (after US, Russia and India)



Cultural Proximity

Think & Work “à la Western”:

Belarusians and Ukrainians share the same cultural and business principles with customers in Europe and the USA

Eastern European Mindset Proximity:

In the Ukraine you can find many young dedicated people who really want to work hard to please you. But don't expect they will just say 'Yes, we will', but will give a good discussion to find out what the best way is. The only question is if you as client can handle such criticism and understand that you can get better results through it.



Ha Vo, COO at Railsware, Netherlands

*“In the last fifteen years **Belarus has quickly grown individualistic** with all the values of the western mind. **The country is strongly West-oriented.** An average Belarusian can laugh at the same things that American will do; **their working process and the way of making business is similar to the American and European.**”*

-FORBES Magazine

Cultural Differences

Are there differences between Eastern Europe and the Western clientele?

- Some cultural differences do exist...
- Self-criticism tends to be greater in Slavic cultures (“great” for Americans tends to be evaluated as “alright” for most Slavs)
- Stubbornness: if something is being done incorrectly there is an urge to fix it
- The cultural proximity and business environments are still much more similar than other outsourcing destinations, such as India or China. The differences that do exist are easily manageable.



London-Minsk: 1870 km

London-Kiev: 2130 km

London-New Delhi: 6710 km

Government Support & Legal Conditions



Supporting Organizations:

- Infopark:
www.infopark.by

- Belarus Hi-Tech Park
www.park.by

Favorable Tax System:

- IT companies are exempt from all corporate taxes, including VAT, profit, real estate and land taxes.
- Individual income tax has a fixed rate of 9% for the employees of HTP companies. That resulted in a fast boost of IT industry in the country.
- Even payroll taxes are reduced to average wage in the country, effectively meaning that payroll taxes are paid on about 30% of the wage

Supporting Organizations:

- Ukraine Hi-Tech:
www.hi-tech.org.ua
- IT Ukraine
www.itukraine.org.ua

Newly Adopted Tax System:

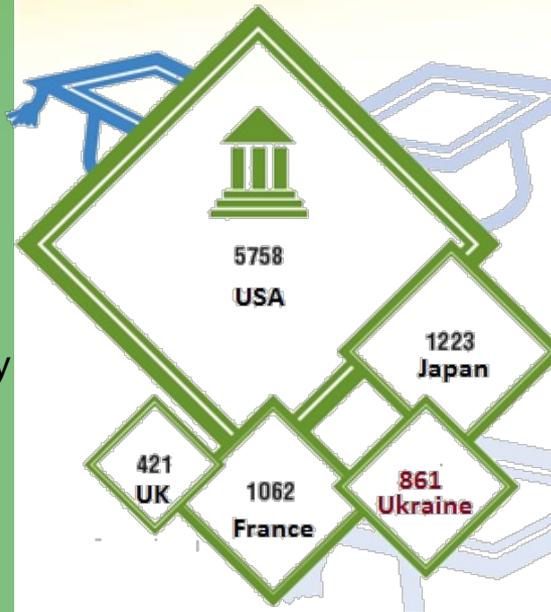
- Unified tax code adapted in 2010
- One of the main goals of the new system is to attract foreign investors
- Corporate income tax to be reduced to 5% for IT companies by 2014



Education



- 55 universities
- Spends 6% of GDP on education; ranking 30th (of 132) in global education spending
- Possibility to be trained entirely in English
- Belarus is among the top 30 countries in the world for higher education attainment and accessibility (Legatum Prosperity Index 2012) – ahead of Switzerland, the United Kingdom, India, China, as well as Japan.
- Belarusian State University (BSU) was ranked in the top 10 of programming universities worldwide (the TopCoder challenge)



- 861 Universities
 - 84% graduation rate
 - Provides training in 74 fields and 600 specializations
- Ranked 16th from 105 countries for the total number of university students
- Ranked 46th for higher education (out of 139) in Global Competitiveness Report
- Has 6% of world's physicians, mathematicians and programmers
- Ranked 7th for the number of students pursuing technical specializations (Global Education Digest)
- Kyiv National Taras Shevchenko University is one of the top 10 programming universities worldwide (the TopCoder challenge)

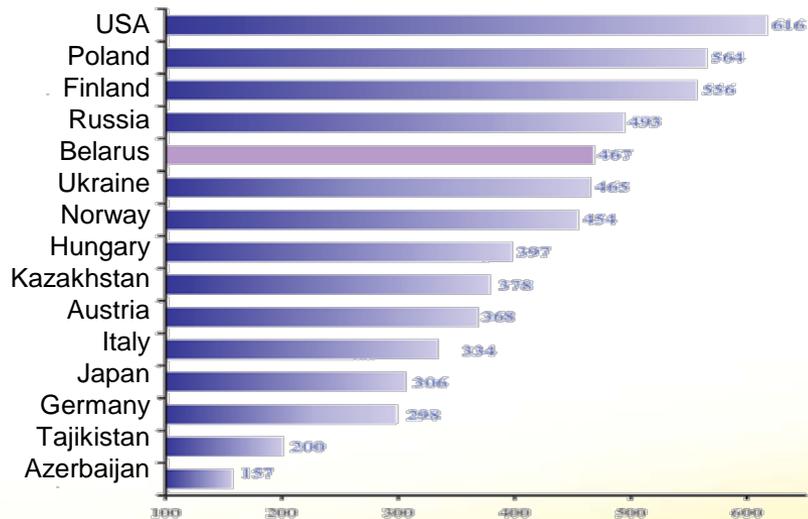
Talent Pool

- 16,000 ICT graduates every year
- For every 10,000 people there are 467 students in Belarus (5th in the world after USA, Poland, Finland and Russia)
- **Technology & Engineering** is the choice of study for **each 4th student in Belarus**
- 61.5% of researchers work in the field of Technology & Engineering



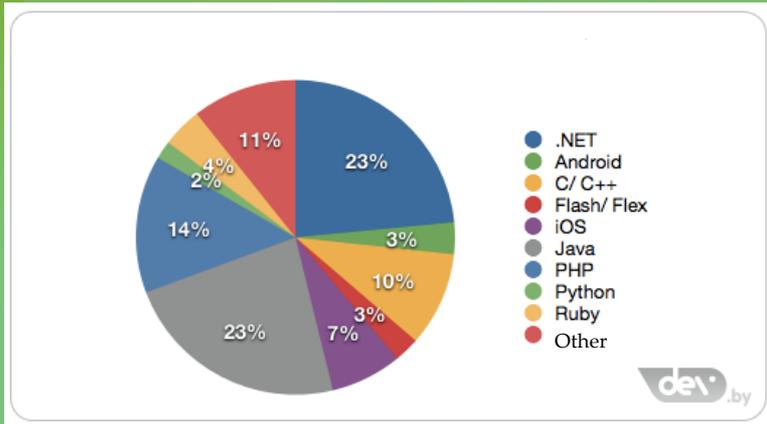
- 30,000 ICT graduates every year
 - about 30% work in software development after graduation
- For every 10,000 people there are 465 students in Ukraine (6th in the world after USA, Poland, Finland, Russia and Belarus)
- *Lifelong learning* policy of the Ukrainian government allows over 30,000 graduates to be retrained annually
- 508,000 students enter Ukrainian technical institutions annually
- 44.6% of higher institution researchers work in the field of Engineering & Technology

The number of university students per 10,000 population



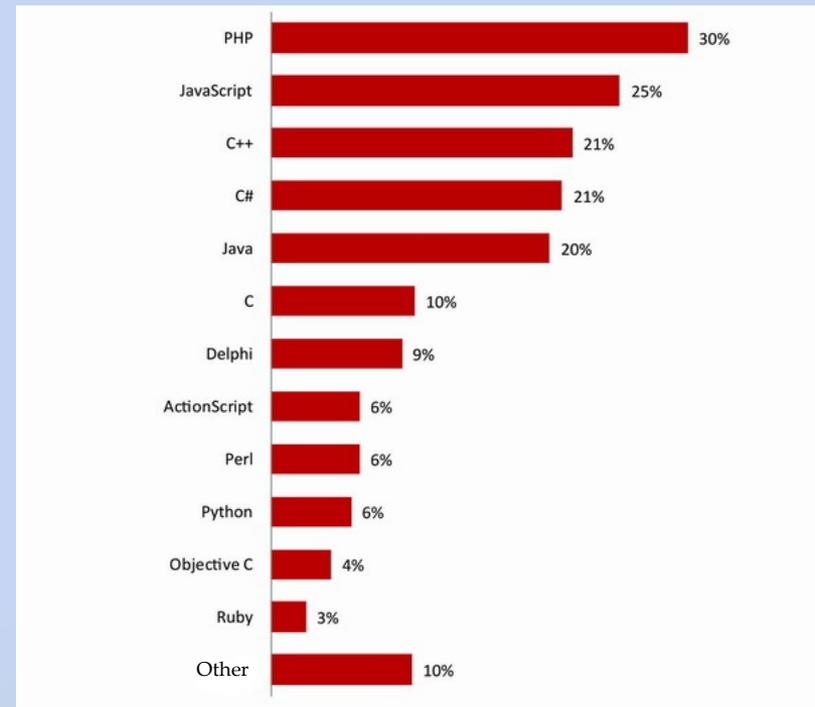
IT Labor Market Overview

The percentage of specialists in various technologies in Belarus



69% of Ukrainian IT specialists identified **IT** as their hobby. The next two are the **Literature** (56%) and **Movies**(54%).

The percentage of specialists in various technologies in Ukraine



Comparison of Popular IT Outsourcing Markets

	Belarus 	Ukraine 	Russia 	Romania 	Mexico 	Egypt 	India 	China 
Population (M)	9.5	45	138	22	115	84	1,205	1,343
Outsourcing Market Volume (B US\$)	0.8	1.3	4	0.6	15	1.1	70	20
Outsourcing Market Volume per capita (US\$)	84	29	14	27	130	13	58	15
Outsourcing Market Growth	25%	18%	27%	40%	10%	7%	10%	13%
Typical Rates (max-min), \$/hour	38 - 12	42 - 14	56 - 17	46 - 13	64 - 37	38 - 11	35 - 10	40 - 12
Rates in IT (compared with US, %)	37%	42%	54%	43%	79%	36%	33%	38%

* Sources:
<http://itonews.eu/>
<http://www.russoft.org/>
<http://www.payscale.com/>
<http://www.averagesalariesurvey.com>
<http://www.bipsearch.com/>
<http://www.worldbank.org/>

Cost Savings:

- Comparable to labor costs in many Asian countries 
- Hourly labor wages in the IT sector are on average 5% to 36% lower in Belarus than in many other outsourcing locations in Central and Eastern Europe
- Minsk is ranked 185 out of 300 cities in the "Cost of Living Index 2011," where 1 is the most expensive.

Western Companies are likely to save **40 - 60% of their total in-house IT spending**

- According to *European IT Outsourcing Intelligence Report*

- Lower wages than EU members (including other EE countries like Poland, Hungary, Czech Republic, Slovakia and Romania)
- The annual salaries of IT professionals in the Ukraine range from \$18,000 to \$48,000, depending on the job profile. Wages vary between regions.
- Kyiv ranked as most expensive region; Kharkov the next biggest city is about 15% cheaper 



"For IBM...the total cost of its employees in India used to be about 80% less than in America; now the gap is 30-40% and narrowing fast."

– Bundeep Rangar,
The Economist, January 2013

Cost Comparison

- 44% of outsourcers still consider cutting costs as the main reason to outsource
- Eastern Europe is seen as less cost efficient than India or China, but that is likely to change:
 - rising salaries of these countries drive outsourcing costs up:
 - World-at-Work* estimates salary rise of 10.7% for India and 8.8% for China

Cost comparison:

All in USD/hr*	Belarus	Ukraine	India	China	Germany	USA
Hourly Rates (max-min)	38-12	42-14	35-10	40-12	90-30	90-31
Average Hourly Rate for Software Engineer	23	25	21	23	52	61
Project Manager	30	32	28	31	77	80
Senior Developer	26	28	23	26	64	72
Junior Developer	18	19	14	16	34	31

*Hourly rates estimated using *BLS, ILO, Payscale.com* and *ITOnews.eu*

...plus transportation costs...

Time & Travel

All prices in USD**	Belarus	Ukraine	India	China
Roundtrip* from New York JFK (\$; hrs)	821; 12 hrs	767; 12 hrs	1181; 19 hrs	943; 16 hrs
Roundtrip* from London Heathrow (\$;hrs)	390; 3 hrs	281; 3-6 hrs	718; 9-14 hrs	742; 13-20 hrs
Visa Needed	Yes	No	Yes	Yes
Time Zone	EET (UTC +2)	EET (UTC+2)	IST (UTC +5.30)	DST (UTC +8)

*Roundtrip to the capital city

**Cheapest ticket, prices estimated 2 months in advance

Ukraine was considered one of the top 10 countries to visit in 2012. The Lonely Planet travel guide recommended that tourists get acquainted with the “great unknown destination in Europe” – and by great they were not only referring to Ukraine’s status as the largest country in Europe by area.

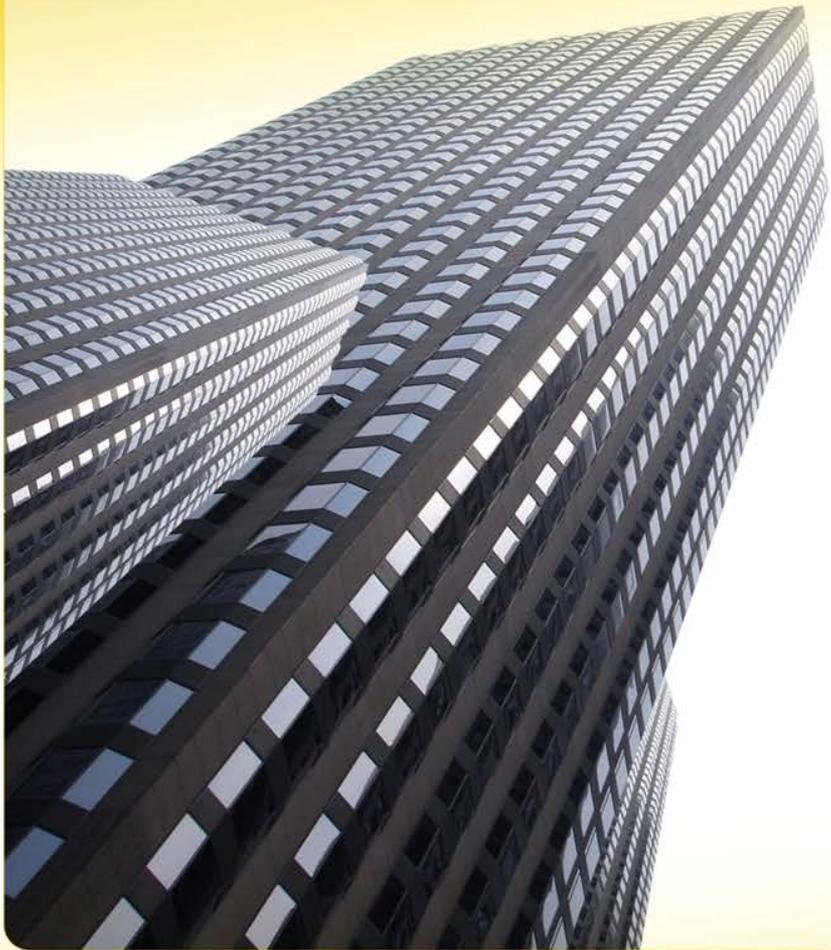
...all of these companies already vested:



So...Why Eastern Europe?

- High-quality engineering professionals
- Cultural proximity and western mentality
- Full intellectual and creative rights immediately vested with clients
- Strong education system
- Deep scientific tradition
- Competitive rates
- Governmental support
- Mature and growing outsourcing market

Intetics: a brief intro



- Established: 1995
- Head Office: Chicago, IL
- Global Locations:
 - Minsk, Belarus
 - Kiev & Kharkov, Ukraine
 - Dusseldorf, Germany
- Over 450 employees
- Customers in 30+ countries

- ISO 9001 & ISO 27001
- 70% Certified Staff
- Microsoft & Oracle Gold Partner
- 2011-13: #1 Outsourcing Rising Star
- 2006-13: Top Outsourcing 100
- 2007-13: Global Services 100
- 6-Time Inc 500|5000 Honoree
- European IT Excellence Award
- NOA Outsourcing Award
- CRN Fast 100, Software 500

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IAOP Chapter: Eastern Europe

Virtual Meeting: Oct 8-9th, 2013



THANK YOU!

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