

IN THE AVANT-GARDE

COMMERCE MAGAZINE ASKED EXPERTS FROM THE CHAMBER MEMBERSHIP ABOUT THE STRENGTHENS AND WEAKNESSES OF UKRAINE'S INFORMATION TECHNOLOGIES SECTOR, AS WELL AS THE INVESTMENT POTENTIAL AND GROWTH OPPORTUNITIES



OLEG BODNAR,
COUNTRY MANAGER
CISCO UKRAINE

What are the greatest strengths and weaknesses of the market of IT solutions for business in Ukraine?

The Ukrainian IT market is strong because it is still under-developed, therefore telecommunication solutions, software, security etc. are in great demand. Economic development stimulates the opening of new companies that require technologies, thus forming demand. In addition, there is already competition in the market, though it is not too aggressive as of yet. This accelerates progress, improves the quality of services and extends the range of products.

Comparing the Ukrainian IT market with that of other developing economies (Africa, Middle East, Latin America), Ukrainian clients are more sophisticated and educated, so working and promoting IT solutions here is easier. Customers are fast to adopt new technologies, and therefore the local market grows more quickly. Compared to previous years, operators have dozens more

communication channels to offer. This is also stimulating IT development, as it speeds up the data exchange across the country.

As for weaknesses, one of them is the government paying attention to IT only in words or on paper. Practical activities by the State are still in the future. The existence of effective and comprehensive budget programs for IT procurement for schools, institutes and hospitals would push the market forward even faster. Another weakness is that our regulatory bodies are not working in sync, and are not yet at the level of the developed countries, in terms of certification, licensing and other important aspects. There is still a somewhat Soviet approach, with a lot of difficult bureaucracy and procedures, and it still takes too much time to certify and recertify IT products.

Another thing is that Ukrainian customers have not become accustomed to service and consulting yet - they still just want low prices, which often leads them into traps, and therefore, they do not have an option to enjoy a reputable suppliers' quality services. Systems are often installed in a sloppy way, because suppliers and integrators were trying to minimize their costs.

What is, from your point of view, the investment potential and growth opportunities for this market in Ukraine?

Ukraine's most dynamic sectors are the construction of real estate, domestic tourism and the hotel business. In other developed economies, IT is in high demand in these sectors, and from the IT point of view, it is a niche worth investing. Construction is going on all around, but proposals for related IT work are scarce.

What is your assessment of the Ukrainian IT-business oriented sector: its size, annual sales, revenues and profit? What are the most popular IT solutions among Ukrainian and foreign businesses in Ukraine?

Profits in distribution can be up to 10%,

in system integration up to 35% and in the consulting 50% or more.

Could you please compare the Ukrainian market with the developed markets of the United States and Europe? How are locally developed IT solutions for business perceived by foreign customers? Are they competitive?

I will not compare them, because many have done this before me. I would say that foreign investors arriving on the Ukrainian market have more trust in the big international IT developers when it comes to software or telecoms equipment. Therefore, they often bring along their own standards and use them to replace local developments used by the companies they buy, some of them being internationally known ones. However, local solutions are still used for specific market tasks required by local regulatory policy, because it would be costly for the customer to order additional modifications to international systems.

What does your company see as some of the competitive advantages that Ukraine has for attracting investment in the sector your company works in, and what are the challenges it currently faces in the same regards?

When an investor looks at the world map, thinking of a new place to investment, one of Ukraine's advantages is having a population of 47 million. It is a big market for telecommunication and financial services, as well as everyday goods. So if you compare Ukraine to other European countries, say Bulgaria or Romania, the market here is bigger, though less developed. But everything changes - people have more information and demands, which pushes the market ahead. We are closer to Europe and have more liberal views than our eastern neighbors.

There are also creative financing opportunities for IT customers to stimulate demand and investment in Ukraine and one example is our division, Cisco Capital, that offers financial services to our customers by helping them to finance IT projects. ■



VICTORIA YEVTOSHENKO,
HEAD OF SALES AND MARKETING
ISS - INFORMATION SOFTWARE
SYSTEMS LTD.

What are the greatest strengths and weaknesses of the market of IT solutions for business in Ukraine?

SaaS (Software as a Service) - a new IT business that is emerging in Ukraine - provides tremendous opportunities. The SaaS solution is on the way to becoming a turning point [for software] in Ukraine, as it gives customers affordable access to licensed software. It is based on a "pay as you go" subscription licensing model accessed via the Web.

The deployment of SaaS in Ukraine, provides the SMB&SOHO market with easy access to a full range of professional, licensed IT products.

SaaS allows any organization to test and deploy new applications more quickly and more efficiently. This is one of its strongest points, enabling the deployment of the most necessary software applications, such as CRM, while requiring less time, money and human resources. In turn, this boosts companies' productivity, helping them to concentrate on their core business.

SaaS solutions opportunities will be enhanced by major vendors, as Microsoft, Salesforce.com, NetSuite, etc progress in their strategy to produce products in both the SaaS and on-Place formats. More than 1,000 Web-based applications are already available.

The vendors are developing SPLA (Service Provider License Agreement) programs to support host providers. Under such an agreement, SaaS providers have low start-up costs and an opportunity to develop in their own profession-



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al IT field. We expect more and more Ukrainian companies to start providing services using the SPLA model, operating with various vendors.

However, although the SPLA program looks very attractive to the IT industry, the growth of the SaaS growth could be stunted by the low level of trust in the outsourcing model on the Ukrainian market.

Another bottleneck is the quality and reliability of the Internet services.

So the growth of SaaS in Ukraine will match the development in the IT environment, which is increasingly offering the technical and business development opportunities of the new century.

What, from your point of view, are the investment potential and growth opportunities for this market in Ukraine?

According to Gartner Inc., the world market for SaaS is skyrocketing. At present, up to 30% of the software sold in the world is purchased using the SaaS model. In Ukraine, up to 5% of the software ordered in 2009 will be purchased on a monthly fee basis. In Ukraine, SaaS opens huge growth opportunities to customers, who want access to licensed software and IT service providers that can offer a variety of professional services.

The SaaS model also has no borders - Ukrainian software products and services can be sold to customers anywhere in the world. The strengthening of the SaaS model in Ukraine will open up unimaginable new op-

portunities to Ukrainian software developers to directly access customers around the world by offering their software use services through Web access.

How does the Ukrainian market compare with the developed markets of the United States and Europe? How are locally developed SaaS solutions for business perceived by foreign customers? Are they competitive?

Integrating SaaS solutions into the Ukrainian market will open the door to Ukraine to world business via the virtual space of the Internet. The next challenge will be to ensure the competitiveness of Ukrainian solutions. When offering software products from international manufactures, we tend stay within our own market, as you can hardly imagine customers coming to Ukraine for services that are available in their home countries. To make a mark internationally, we have to bring our own products onto the "virtual" (Internet) market. Are we ready to do that? Most probably not, as so far, we have not been able to ensure that we have top-notch software engineering. So quality will be the main issue.

What does your company see as some of the competitive advantages that Ukraine has for attracting investment in the sector your company works in, and what are the challenges it currently faces in the same regards?

Ukraine's slow, but steady movement towards European integration, the government's efforts to combat software piracy, and greater efforts by the big software companies to protect their intellectual property rights in the courts are making it inevitable that one day, companies will rather use licensed SaaS software than risk their reputations and businesses by using cheap, counterfeit software. The honest, lawful environment of the SaaS solution is ideal for attracting investors looking for a transparent and reliable business. How far is this day in the future? That depends on the development of Ukraine's Internet services and the growth of trust in its IT service providers.

Does doing business in Ukraine differ much working in Western Europe? What are the differences and the similarities?

The SaaS business in Ukraine does differ from that in Western Europe. We have a lot of work to do to increase the licensing culture and intellectual property rights protections, as well as accustoming end-users to only using "clean", licensed software. SaaS is a useful and effective tool in bringing Ukraine's business culture closer to that of Europe, in this regard. ■

VALERIY KUTSYI,
CHIEF OPERATING OFFICER,
MIRATECH



Ukraine: the most attractive IT and the fastest-growing outsourcing destination in Central and Eastern Europe

Technology shrinks our world, and information technology shrinks it the most. But it also greatly expands business opportunities for those who are talented and entrepreneurial. Wherever you live, wherever you work, today you can sell your creativity and qualifications through delivering modern IT solutions to an ever-increasing number of customers. However, most of these are still big corporations based in the United States and Western Europe. This is precisely the case for Miratech, with 60% of our sales in the United States, 30% in Western Europe and just 10% – so far – in Ukraine and Russia.

Ukraine's IT outsourcing industry revenues are growing fast: in 2004 they were \$101 million; in 2005 –\$156 million; and in 2006 – \$246 million. The increase in IT outsourcing in 2006 was as high as 47%. These growth rates are impressive, but the absolute volume would have been, and should have been, much higher, but Ukraine's figures don't look so bad compared with Poland's \$300 million and Hungary's \$200 million. However, they are still much lower than Russia's \$1.8 billion and miles away from China's \$3.6 billion and India's \$31 billion in 2006.

I believe that the greatest resource Ukraine has is the creativity of its IT professionals. If we supplement this with reasonable practicality, Ukrainian IT professionals can be hired to do the job at the level of their Western colleagues but at lower wages, given the higher costs and standards of living in the West.

As Ukraine's standard of living improves, the country has to establish itself as a major global high tech hub. Therefore, Ukraine's IT sector has to deliver products that can qualify it for the high tech premier league of the world.

Of course, at present, Ukraine can't compete with India in the total volume of IT services, but we're still very far from saturation in our market niches. People talk a lot about IT outsourcing and customers' cost saving. Yes - lower wages are still a factor for those who order IT solutions, but competence, ability to form a qualified team at short notice, and even a shared mentality and passion for work are becoming increasingly important, and in many cases even decisive.

Is Ukraine's IT sector ready for such a challenge? Yes, it is, but... only here and there, in some places. There are just a few companies capable of being players on the global IT market and a couple of dozen at the national level. The larger companies employ only around 2,500 people in total. The labor shortage is already acute, and this is a challenge for Ukraine's universities. Ukraine can be proud of its university education in computer science, engineering and mathematics, but more practical attitudes are needed. It's worth stressing that most IT solutions supplied from Ukraine are custom-built and oriented to the specific goals of particular customers. Services pertain mainly to legacy systems and lack innovations. Most vendors rely on partners to sell their services, and direct go-to-market, having finally become a practical issue, still mainly remains challenging and expensive.

While Ukraine is a visa-free state for citizens of the United States and European Union, Western governments on the other side of the borders are reluctant to facilitate the visa regime for Ukrainian IT specialists. Because of long queues for visas and excessive visa procedures, our key experts are sometimes forced to cancel important meetings and presentations. This is not fair treatment. As a result, both Ukrainian and the Western sides are missing a great deal of interesting opportunities.

Nevertheless, thanks to Ukraine's IT leaders, foreign customers are discovering that collaborating with Ukrainian IT companies allows them to minimize project costs and still get the highest quality and excellent performance. The other advantages of Ukraine's IT market are its highly educated and motivated workforce, with their excellent abstract thinking and problem-solving skills (though it is lacking some modern teamwork skills); generally good English language skills, often with at least one other European language (in most cases, German, French, Italian, or Danish). Business education used to be an issue, but Ukraine's IT industry now possesses an increasing number

of highly qualified personnel with job-relevant experience. Ukrainian IT specialists learn fast, often performing at the level of expatriates and foreigners not only in software engineering, but also in management.

However, conditions for the IT business in Ukraine are still rather tough. For instance, even office facilities remain a problem for Miratech, though the company has performed hundreds of projects for customers in 20 countries, mainly for companies from the Fortune 500 list. Ukraine's high taxes and the excessive load of social charges on wages, combined with the issue of legal and regulatory protection of intellectual property rights and the problem of piracy, hold back the development of our IT industry.

And it is our governments who have been shortsighted. Through a booming IT business, Ukraine would stand a better chance of succeeding in today's globalized world. IT is an excellent, but possibly the very last chance for us to catch up with the wealthier countries. At the recent Central and Eastern European Outsourcing Summit 2007 in Kyiv, our government, through its first vice premier, promised to implement a number of long-awaited regulatory changes to favor IT companies and IT professionals. These measures would include the adaptation of Ukrainian legislation to bring it into compliance with international standards, and some related fiscal privileges in terms of easing the heavy burden of social charges on wages, as well as the liberalization of the taxation of IT professionals.

Miratech was among the first Ukrainian IT companies to enter the European, and subsequently global IT markets. Our high-tech services, since the company's foundation in 1989, have been in demand mainly in the United States and Western Europe. At present, Miratech is starting to actively match its best skills and competencies, acquired in global projects with Western corporate clients, to Ukraine's fast growing market. Our domestic customers are major mobile telecommunications operators, banks, and ministries. Efficient interaction with clients, which is unimaginable in today's business without Contact Centers, CRM systems and the other applied services that we implement, is a priority issue for any modern company. The Ukrainian business elite is now ready to pay for quality, coming to the conclusion that the way to their competitiveness and success is paved with modern IT solutions. We are ready to work with them to implement world level IT solutions here in Ukraine.

But so far, the main markets for Ukraine's IT sector lie to the West, in the European Union and North America, and the Ukrainian IT sector remains a gold mine with mostly undiscovered treasures...

VIKTORIYA IGROVA,
REGIONAL DIRECTOR,
WORLDAPP, INC. (FORMERLY SURVEY
SOFTWARE SYSTEMS)



What are the greatest strengths and weaknesses of the market of IT solutions for business in Ukraine?

The IT market in Ukraine has shown a solid growth for the last five years. Although use of domestic products is still not high enough, Ukrainian information products are now more and more in demand in the West. The United States and the European Union remain major importers of Ukrainian software development services.

The number of software development businesses is constantly and rapidly growing. The majority of these companies in fact contribute to and stimulate overall economic growth and progress in Ukraine by creating new workplaces and attracting investment, however their core products are directed towards foreign business, and are usually not applied to the domestic market.

We can be proud of our IT specialists - we are very able to attract investment due to the relatively inexpensive cost of labor, but business in Ukraine is still not ready to implement and use serious software solutions, especially online applications.

What, from your point of view, are the investment potentials and growth opportunities for this market in Ukraine?

I think that the ability of the domestic IT market to grow and develop depends directly on overall government policy on business development in Ukraine. The awful facts that tax policy in Ukraine is [flawed], that the legislative

branch still requires substantial improvement, and that Ukraine is still a corrupt country, with a poorly functioning justice system, pose serious problems, and do nothing to stimulate major foreign investments. Needless to say that under such circumstances, applying advanced concepts and technologies and implementing modern IT solutions proves difficult.

Speaking about the online solutions for business offered by our company, which have actually become more and more popular with U.S. and EU businesses – we don't just need good political conditions – we also need well-developed infrastructure and high demand for service oriented infrastructure. The general level of technological awareness in the country is also important. There are still outlying areas of the country where small- and medium-sized businesses view modern IT technologies more as toys, rather than really helpful business tools.

What are the most popular IT solutions among Ukrainian and foreign businesses in Ukraine?

The most popular software products on the Ukrainian market are specialized desktop applications used for accounting, banking and other such purposes.

And of course, outsourcing services are also in constant demand. In 2006 and 2007, Ukraine was ranked among the five most attractive outsourcing services deliverers for western countries.

In 2006, the increase of exports in the IT industry was 60%, with the total being \$280 million, while the growth of the IT market was 25-30%. As predicted by the IDC computer market research company, the Ukrainian IT market can expect approximately 15-17% growth in 2007-taking its value to \$2.4-2.5 billion.

How does the Ukrainian market compare with the developed markets of the United States and Europe? How are locally developed IT solutions for business perceived by foreign customers? Are they competitive?

Despite the salary raises for programmers and general price increases in 2006 and 2007, the cost of software development is still competitive and very attractive to western customers.

However, the low prices have only really attracted small- to medium-sized businesses as clients for outsourcing services, and this will determine the volume of IT outsourcing in 2007. The market will only be able to attract larger clients if government programs are started to develop the IT industry and create a positive image of Ukrainian developers all around the world. The overwhelming majority of large businesses owners in the United States and EU still assess the risks connected with outsourcing IT technologies to Ukraine as too high.

Another factor that could help the development of the Ukrainian IT market is the unstable political situation in the Middle East, which is causing a large number of customers to turn away from the traditional outsourcing market leaders: India, Israel and Pakistan. A redistribution of the market is going to start in the near future, and for Ukraine this is definitely a chance to grab market share, as it will be for Central European countries as well.

What are the competitive advantages that Ukraine has in attracting investment in the sector your company works in, and what are the challenges you currently face in this regard?

Our biggest competitive advantage is our people. We try to attract, retain and develop the best talent available on the market.

The second biggest is our internal corporate culture. We don't see our company as just having an office in the United States, one in Ukraine, one in UK etc. We foster the vision and practice of being one global organism, and stimulate this by rotating people around locations all over the world.

Sadly, our greatest challenge is the Ukrainian job market, especially in the IT sector. Currently we're seeing stiff competition between IT companies for qualified staff, which for us means we lack candidates for vacant positions we have in a newly opened subsidiary in Ukraine.

What investment projects has your company implemented lately? How much did they cost, and which were the most successful? How much did you invest in 2007?

One of our recent investment projects was opening a subsidiary of WorldAPP in Ukraine. The goal of this business unit will be to adapt our products to the Ukrainian market and to promote and support them locally. Recently we were named No. 794 among the fastest growing privately held U.S. companies by INC 5000. We believe that this project will be a success here, as it has been in the United States.

Does doing business in Ukraine differ much from working in Western Europe? What are the differences and similarities?

When comparing doing business in Ukraine and in Western Europe, I would say that the similarities are in the technologies. Having a global market and reasonably good infrastructure allows us to utilize service-oriented applications with the same ease as our European colleagues.

The major difference lies in the environment in which businesses operate, in which frequent political changes negatively influence business development and general economic growth in Ukraine.