# Viable strategies for Ukraine ICT-companies to penetrate the German & Austrian market with offshoring-services
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# ICT-conferences during the Austrian EU-presidency (January – June 2006)

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- Nominated CEE-president of E-business Europe (Central European Platform for E-business, Content and E-Government
- 1997-2005: Sec-General of the Austrian Association for e-business and content-industry

## A personal foreword

When I took the place from Vienna to Kiev, already in the airplane two Ukrainian fellows recommended me two local ICT-companies: Kvazar-Mivto and MicroCosmic Group. A good example how individuals might support the establishment of a national ICT-brand.

Recommended **literature**: OFFSHORING INFORMATION TECHNOLOGY: Paul Tjia. Cambridge University Press. 2005. *ISBN-13 978-0-521-84355-3*

## Table of Content



**Key findings: strategies put forward to the Ukraine Software Industry to be applied simultanously:**

1. **Offshoring**: success in middle term, but in the long run not the overall success factor
2. **Localising and deploying foreign software** to the Ukraine market: success story of Estonia
3. **Selling Ukraine Software** in the EU and abroad: that's also the goal of the Romanian Software industry
4. **Pushing the domestic ICT-demand** for software in Ukraine (a long term strategy)

# I. General Trends of offshoring (Gartner Group):

- OSP (offshore-provider) has to **take over partly risks** (Gartner, Andreas Rösler-Schmidt, IT-Business, S. 60)
- OSP shall not try to find end-customers but to **find partners to establish a common value chain:** *"Man muß sich von der Idee verabschieden, immer an Endkunden zu verkaufen. – Das können die Anbieter noch nicht. Sie können jeder mit jedem als Partner, aber sie können keine Wertschöpfungskette aufbauen, wo das Geschäftsmodell schnell steht, wo die Prozesse quer über die verschiedenen Proivder laufen und so weiter"* (Gartner, Andreas Rösler-Schmidt in: IT-BUSINESS 2005, Vienna. page 60)
- **Service-mentality of companies:** We did not do it in the past, but we will try it.

# II. Outsourcing Study of Germany, Austria and Switzerland

## (done in Summer 2005):

Study carried out by BITKOM and Deutsche Bank Research in summer 2005, with the support of associations in Germany and Austria.
The full version in German language: see attached document.

Main results:

- Positive signal – also for your German customers: offshoring does not kill jobs in Germany, but makes German enterprises more competitive: they grow and create new jobs
- **20 percent increase of offshoring in the next 5 years expected**, especially in companies at about 100 employees
- **90 percent of all offshoring activities in Western Europe go to India** (the author has some doubts on that figure)
- Average cost savings:  10-20 percent
- Success factors for partnership: quality, keeping deadlines, same culture and mentality
- Going global was the driving force of the US-economy towards outsourcing

## Key message of the study:

- **Increasing demand** of German companies for outsourcing to CEE and China
- India still on a high level, but decreasing
- No interest into low-cost countries as Portugal, Spain or Ireland

## The economic situation of Germany:

- Low starting point: East Germany and Austria are still cheaper than West Germany
- High unemployment rate (4,5 mio unemployed in Germany)
- Artificial differentiation between positive domestic outsourcing and negative foreign offshoring
- Driving forces of offshoring in Germany
  - Cost factor still important, but decreasing
  - **Global coverage: 7x24 service. India is for that purpose more adequate than Ukraine**
  - Access to highly specialised staff
  - Flexibility of the processes
  - Faster time-to-market
  - Increased service quality
  - **Risk-sharing with the offshoring-company**
  - Step into new markets
- Two third of the German enterprsies are satisfied with outsourcing

## Typical outsourced processes

- Standardised, modular, easy to handle
- No core processes involved
- Not sector specific tasks
- Without direct contact to end-customers
- Mostly backoffice-tasks

## Outsourcing - A small starting business:

- 40 percent of the companies provide an outsourcing turnover of only 1 MEUR or below
- Trend from captive offshoring to multisourcing and preferred suppliers
- Major challenge: German companies cannot estimate the volume of cost savings

## Ranking of mostly outsourced processes:

- Application management
- Data entry
- Archiving and long term preservation
- User help desk
- Application hosting
- Server hosting
- Web hosting

## Scepticism relating to outsourcing of business processes:

- Accounting
- Logistics
- Human resource management
- Procurement
- Core business areas: marketing, sales, research-development, design and content development, manufacturing

## Success factors to provide offshoring services to Germany:

- Access to qualified personal
- Cost savings
- Contact partner in Germany (communication is still a problem: Ukraine is in that regard much better than italy and Spain: English capabilities in the two latter countries are terrible)
- English language
- Deployment of quality management systems
- Political stability in the country
- ESTABLISHING A LONG-TERM PARTNERSHIP. See the 1-2 years initial phase required to establish contacts in China and Japan
- Cultural factors
- German language
- Getting access to new sales-market: low importance
- (low fluctuation of the personal)

## Key challenges for outsourcing:

- Quality, deadlines, costs
- Data protection and confidentialy: you are OUTSIDE the EU
- Project management
- Lack of sector-specific knowhow
- **Culture and mentality:** communication with Chinese mostly fails, since they are not allowed to say NO and admit their faults
- Language barriers
- Lack of general knowledge deficits:
- **TRANSACTION COSTS are crucial**: these are NOT physical communication costs (IP-telephony) but mainly those to find a common way of communication (costs to achieve a contract; negotiation costs; intercultural costs)

## III. Near-Shore model of an Austrian consultancy firm which matches CEE-offshoring services with EU-clients:

The approach of an ICT-company based in Austria, Budapest, Beograd:
• 6 services: **software development is only one of 6 services supplied**
• 6 services: analysis, design, consulting, maintenance, software development

**Their approach:**
• Common analysis of the functional specifications on-shore
• Ready delivery of the final functional specifications
• Fix-based price reasoning, fixed deadline and full responsibility with the outsourcing partner
• Invoice against expenditure (time and material): the customer fully controls and manages the project during the project phase.
**• Success factor: guidelines for communication (for both parties)**
• Key staff will be introduced to your German/Austrian customer
• Readiness to work in German/Austria both during phase of analysis and development
• Key staff speaks German language

### Near-Shore model of that Austrian Offshore-consultant:

• High level Design: 30 percent requirement for onsite work
• Low level design; 20 percent requirement for onsite work
• User acceptance test: **80 percent** requirement for **onsite** work
• Installation and acceptance: 100 percent requirement for onsite work

## IV. Foreign models and recommendations

### UN-ITC recommendations from the workshop 2002 in Vilnius:

• UN-ITC recommended to the CEE-countries to **copy** the success story of **Ireland or India** - an approach which lead to a **heavy debate between the CEE and UN-ITC**
• Reasons why Ireland and India are unique and **not adequate for the CEE:**
  - Unique case of Ireland: localisation of US-software to EU-market
  - India: language advantage and strong exchange with the American educational market
• No final recommendation or unique model could be found for the CEE-region

## The Israeli model:

- Due to highly sensitive market and political environment both foreign as well as domestic offshoring was defacto **forbidden** by the Government
  - o Even the Government did not outsource to the private Israeli sector
- Now radical rethinking: Government starts outsourcing to a large scale to the Israeli software industry
- **Therefore, the Israeli software industry requires higher capacities – an opportunity for the Ukraine software industry** (In September, Mr Wagner delivered a lecture in Tel Aviv to the Israeli Software Industry and has established close ties with Israel software companies)

## The Bulgarian Model:

- In 2000, about 100 Bulgarian software companies formed an alliance (association)
- They hired a German representative (Mr K) with perfect Bulgarian language capabilities
- Mr K started marketing in the German speaking area and addressed personally the most important companies
- German customers concluded a **contract only with Mr K**, not directly with the Bulgarian company. By that approach the Bulgarian companies tried to establish more trust, reliability and security in case of bankruptcy or failure of an Bulgarian company
- Safety model for Austrian clients: if a Bulgarian company goes bankrupt or fails, Mr K organises immediately another service company from Bulgaria

## Near-shoring services of Ukraine companies to EU-customers:

- CONS: **Onsite**-work in the EU is still difficult for Ukraine companies due to the strict visa regime applied by Schengen
- However, the visa regime of Switzerland and the Netherlands seems to be more flexible

# V. Does the Austrian market pay off for Ukraine ICT-companies?

Experiences of the Austria ICT-industry and manufacturing industry:

- Since 1995 they were flooded by outsourcing-offers from the neighbouring countries
- Once a month an CEE-delegation gives a presentation in Vienna
- Uncoordinated marketing activities of the CEE-countries
- Austrian companies lack help and support to select those CEE-offers
- This intermediary function has to be done by established ICT-solution providers in Austria

**Pros and cons of the Austrian offshoring-market towards Ukraine:**

- A. Main specialisiation of the Austrian ICT-industry:
  - E-Government
  - GAMES (Austria has about 15 key players in the European market)
  - MUSIC and video industry

- B. Main Austrian **manufacturing** industries: automotive industry, financial sector (ERSTE, RZB, HVB), manufacturing, environmental and alternative energy technology
- New **emerging** industries in Austria: biotech, nanotech, quantum computer

## Are Austrian companies flexible to outsource to Ukraine?

- English not that much accepted as in Germany (exception: multinationals)
- Small software industry, except Siemens, SNT, IBM and other international players
- In the past 30 years, Germany already outsourced software engineering to Austria
- Dominance of SIEMENS, IBM, SNT and other companies which outsource already to Hungary and other CEE-neighbouring countries
- The key ICT-companies from Poland, Slovak Republic and other CEE succeeded in Germany and the U.S., **but they failed in Austria**

## Outsourcing to Austria – hope in some niche areas:

- Several Austrian companies entered the Ukrainian-market: supermarket chain BILLA
- Localisation of foreign software
  - Asset of Ukraine: Multilingual: Ukraine, Polish, Russian, even Hungarian
- Survey of the Viennese Chamber of Commerce in 2005: Ukraine ranks on the **THIRD** place as main destination of Austrian exporters

## Vienna – a good destination to get in touch with 400 CEE-Headquarters based in Vienna:

- More than 400 multinationals have their CEE-headquarter based in Vienna: HP, IBM, Coca Cola,
- Vienna – the easiest way to get in touch with all CEE-countries
- Vienna – perfect place for lobbying and international contacts

## Reasons for low Austrian demand for offshoring:

- Lack of trust
- Missing contact to CEE-colleagues
- Nearshoring more easier to offshoring to distant countries

## Success story of the Austrian outsourcing company SNT:

• Followed the Austrian and international companies starting from Vienna towards East
• One of the largest integrators and system operators in the CEE – going from East to the Western Eurepan countries

## Barriers for offshoring:

• Language: German companies work more in English than Austrians are used to
• Culture: the main argument against India and FOR Ukraine
• Requirement of flexibility
• Requirement for constant interactio
• The Legal requirements of the EU are not always know to CEE-companies:
  - e.g. EU-Data-Protection Directive: data transfer the EU is subject to prior confirmation by national authorities in the EU
    - o Vor allem Unternehmen aus den Branchen Energieversorgung, Finanz oder Gesundheit sind einer Reihe national vorgegebener Regeln unterworfen. Diese müssen auch für den Offshore-Outsourcing-Anbieter gelten. Er muss auch auf branchenspezifische Anforderungen eingehen können. (Titel: Riskantes Offshoring; http://business.telekom.at/telekom/news/kundenmagazin/bs08/4min/offshoring.xml.php

# VI. Future Trends:

Costs of hardware and software are decreasing. Where to make money?
• 1) Customization
• 2) **Creative industries**: design + architecture + multimedia + content
• 3) Quality is KEY, instead of accessibility and open source
• 4) Digital TV boosting convergency and cross-media
• 5) Risk-Sharing: off-shoring goes in the direction of PPP-models
• 6) **Pan-European services:** see the eContent Plus Programme
• 7) **Public sector information (PSI):**
    o Increase the quality of public registers and public services
    o Huge digitisation projects are emerging in all EU-countries
    o Metadata management
    o National registers will be established (both by public and private industry)
• 8) Implementation of **Basel II regime**: each company has to set up risk and crisis management and prove that towards its bank

## VII. Some reflections on the Ukraine, part 1:

Increase **domestic** demand in the Ukraine (a complex long-term goal which is more challenging than outsourcing, but worth for action)

- o Government enforces A2A (internal effects)
- o Government enforces E-Government services to business (A2B)
- o Start with a small city as BEST PRACTICE, not on national level

• What are the **current strenghts** and weaknesses of Ukraine Software-industry?
• Specialise on 2-3 strenghts and niche areas
• Shall Ukraine establish a **brand** for the Software-industry? YES and NO.
• Please continue to teach **physics** in the ICT-education
• And your informaticians are encouraged to learn also the traditional **documentation and librarian science** as taught by your libraries and archives (see the E-Government initiative of california, bespoken at the E-Government conference ITAPA 2005 in Bratislava)
• Collaborate with international organisations as e.g. EBRD, Worldbank

### Recommendations for Ukraine ICT-companies, part 2:

• **Subcontracting** to one of the hundreds of EU-projects: e.g. IST, eTEN, eContent

- Ukraine companies are NOT eligible to become a partner in an EU-project, but my qualify as subcontractor (no contract required with the European commission)

• Ukraine already applicable for cross-border projects (INTERREG): Please address the EU-Delegation in Kiev
• Those are the most important driving forces of informatisation in Western-Europe:

- o **National government**: see Romania: tax incentives if you pay your taxes online
- o **NGOs and civil society**
- o **Sector-specific clusters:** automotive, environmental, water, consulting (they work quite well in Austria)
- export-clusters: they work quite bad in Austria

### Boosting domestic demand (instead of offshoring)

• G2B: E-Government as driving force
• E-Government as PPP-model as driving force
• Preparing all SME for EU-partnership
• **Swedish** model: 1 PC for every citizen:

- o cofunded by worldbank and government
- o every private EUR is doubled by the government

• **Finnish** model of public librairies as one-stop shop for citizens
• **Hungarian** model of telecottages (a kind of public-private collaboration model)

- Serbian model:

## Driving forces and their means:

• **Local Governments**: e.g. city of Vienna
- o Goal: create a model city
- o Local governments are more flexible
- o Foreign companies might operate in the city without tax expenditure, if they offer their serves half the price to the city

• **National Government**
- o Funding application of farmers only online (EU-project eFARMERS)
- o Electronic Billing

- **Implementing a model e-government city:** already in the concept stage in Ukraine
- **Transfer instead of parallel innovation:** Do not establish software when plenty of products are available in the EU, which you could easily adopt (success story of Estonia relying primarily on Scandinavian e-business and egov-solutions).

## VIII. Initiatives in Central- and Eastern Europe (CEE) to establish a common CEE-Forum for ICT (A) and a common CEE-brand (B)

**1997-2001: East-West Multimedia Meeting**
• Organised by the Soros-Foundation
• At the Lake Balaton in Hungary
• Mix of conference, fair and EU-project meeting
• Participants from the EU and all CEE including Kazahstan, Azerbaijan

**2003: Meeting of 10 CEE-ICT-ssociations in Austria**
• Common understanding for a common CEE-brand
• US-investors and clients do not look on a particular country, but on the whole region

**13-15 February 2006:**
• Largest ICT-fair and congress of Austria: ITnT: www.itnt.at
• Ministerial roundtable with 10 ICT-ministers from Central Europe
• Meeting of **ICT-associations** from Central Europe: http://www.icon-vienna.net/cms/
• Plus meeting with **international organisations** operating in the CEE as for instance Worldbank, EBRD, UNDP, UN-ITC (the responsible Directors for ICT or the CEE-region)

## Summary

**Several common CEE-projects are on the table:**

- Establish a regional or **CEE-brand for offshoring** (see presentation at the workshop Feb 2006 in Vienna, done by one of the most outstanding branding experts from Ausria)
- Target the offshoring-offers from the CEE towards EU-member states
- Establish a **outsourcing directory** for the CEE-region (A) or certified information brokers (B)
- **Intermediary strategy:** Ukraine companies shall not approach directly potential customers in Germany or Austria, but to address the local ICT-solution providers
- Good starting point for common reflection of a future coherent approach in the CEE: UNDP is currently preparing the next funding period 2006-2010
- EBRD annual meeting in Beograd, 2005: they are looking for qualified project proposals
- European Research Area, i2010 and Lisbon agenda: creating a common European space for collaboration and "centers of excellence"
- Establish a **partnership between government and private sector**
    - Which risks could be sharee?
    - **Concerted action**: see electronic signature implementation in Germany and Austria as NEGATIVE example

## The Austrian EU-Presidency in 2006 and its ICT-conferences:

See next page, please.

# IX. The Austrian EU-Presidency 2006: January to June

http://www.eu2006.at/

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Directory of the major ICT-events in Vienna:

9 February 2006: Expert seminar „**Trust in the Net**"
10 February 2006: Expert seminar **„eGovernment for all Europeans"**

**13-15 February 2006:**

- ITnT: the largest **ICT-fair of Austria** with forum for the **CEE-software Industry**
- ICON.Vienna: **CEE-Ministerial conference** with ICT-ministers, **CEE-associations** and international organisations (EBRD, UNDP, Worldbank, UN-ITC)
- BEST ICT-Project (business and public policy project). AWARD Ceremony
- http://www.icon-vienna.net/cms/
- Contact the organisers: Mr Krumpak and Mr Wagner: gkwagner@via.at

16-18 February 2006: IRIS 2006
International conference on **E-Governmant and Legal informatics** and Public Registers (Language: **German**; but translation could be organised by the participants).
http://www.univie.ac.at/RI/IRIS2006/

2-3 March 2006: EU-conference on **Cross-content and Cross-Media**
• Digital-TV started already in Germany and Austria, large roll-out from 2007 on
• Convergence of devices, content and services: television via mobile operator

31 May – 2 June 2006: **New IT-Solutions for Courts, Administration of Justice and Legal Information System"** (Ministry of Justice)

19-21 June 2006, Graz: ARTEMIS: Annual Conference of the **embedded systems** European technology platform

21-23 June 2006:
Cultural Heritage Conference „ An Expedition to European **Digital Cultural Heritage "**

**IMPORTANT NOTICE:**

- • Attendance to these conferences **only on invitation** by the European Commission since the number of participants is limited to about 200 experts per conference.
- Therefore please contact Mr Wagner for a conference invitation and obtaining visa: gkwagner@via.at Tel: 0043-676-369.36.10
- On average, only 3-4 participants per conference will be applicable. Therefore, **join forces and nominate a maximum of TWO Ukraine-representatives**

**Cheap carriers to Austria:**

- **SKYEUROPE**: www.skyeurope.com (Warshaw– Bratislava; Kiev-Bratislava)
    - From Bratislava to Vienna (only 60km) a regular shuttle bus is established which brings you directly to METRO in Vienna.
- **AUA – REDTICKET**: www.aua.com (go to the REDTICKET area)
- **Ukraine Airlines:** http://www.ukraine-international.com/eng/

My coordinates:


Mr Gerhard K. WAGNER

Designated CEE-president of ITB-Europe
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www.itbeurope.org


Lectures worldwide on following subjects:

- **E-Government** (negative and positive lessons in terms of strategy, registries and public information in Germany, Austria and Switzerland)
- **The content- and publishing market** in Central- and Eastern Europe (collection of 600 CD-ROM and DVD from that region)
- Expert in **EU-projects** (eContent programme) for public sector information
- Strategies for **information society** + information industry + information government
- **PPP: Public-private partnership i**n the ICT-sector (collection of examples in Europe)
- Consultant for CEE-countries and Israel high-tech industry


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