

MARKETS OF INFORMATION TECHNOLOGY: RUSSIA AND GERMANY



STUDY ABOUT CROSS BORDER COOPERATION WITH
CHANCES AND RISKS 2006

In cooperation with



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INTRODUCTION



The progress of the Russian IT industry is holding up any longer. In the past years the Russian IT market increased around 25-30 % annually. It will expect a considerable increase of the export volumes at 1300 millions of Dollar for his year. In 20062 was the volume about 352 millions of Dollar.

Germany is one of the most important partners of the Russian IT firms. But in comparison to the USA it's always bad placed. Germany is becoming a central country for almost a quarter of the Russian partner.

Already about 65 % cooperate with partners in the USA. A positive signal is that almost the half of the most active IT firms commit in business for short notice and always fosters their contacts.

In 2006 organized German-Russian forum on the CeBIT by BITKOM is only one example for the current activities of German-Russian cooperation in the IT area. In 2007 Russia will be the twin land on CeBIT and they gain importance in future.

Companies from Germany work out good chances in Russia. But till now German firms have neglected Russia and it's clear, that this always reflected the German-Russian cooperation in the moment. Russia put their confidence in young experts and high talents - – the focus, in which the country is excellent equipped.

Very good chances for German firms were in the most successfully IT regions – Moscow, Sankt Petersburg, Novosibirsk, Nizhny Novgorod, but also other locations offers attractive viewpoints.

The Russians reached us. But for an intensive cooperation organisation it would be necessary, that no side stop. Offshoring, Outsourcing shouldn't be a taboo subject. Russian companies are open for different forms of cooperation to structure a long term relationship with partners from Germany. The cultural and spacing nearness serve as a good condition to that. Russians IT line of business met the new challenge really open: In Germany is just Karlsruhe and the Technology Region a new market with new viewpoints and an excellent cooperation base for Russia



Creativeness and determination of the Russian IT-peoples makes possible to put this targets into the practise. Obviously this cooperation makes a faster access possible of the German firms to the most innovative and drastic increasingly market of the information technology in Russia. The motto is: „We are open and ready for a close cooperation with the focus of bilateral success“.

**Valentin Makarov, the chairman of the board of Russian IT confederation
- Russian Software Developers Association (RUSSOFT)**



It's still a few known in Germany about the information economic in Russia. Although there have been more than 10 years a comprehensives studies of the Russian suppliers market from the feeder of the US-American market research- and technology advice firms or the AmCham. But only some great firms in Germany were interested in as far. Because of impression of BITKOM is there a change at present. Medium-sized companies of the German information economic starting slowly to consider an engagement in Russia. There is a booming market and an end refrain of the dynamic increasing phase.

"Russia offers fantastic possibilities. The earlier occupy German IT firms with the market and the Russian partners, the better are the chances for successfully business in the region. We returned very satisfied and optimistic", said Ulrich Dietz, member of executive committee of BITKOM, after the participation of BITKOM delegation at Russian offshore & software summit at the beginning of June 2006. This assessment will hopefully awake the curiosity of further companies.

The merit be consist in the study to lead the attention of the information economic in the technology region Karlsruhe to the huge potential that be in the mutual useful cooperation between German and Russian firms. This potential is also the reason for it that BITKOM had chosen Russian as twin land for the next year. In setting of this project will prepare a whole lot of activities that the existing forms for cooperation initiations lift of a new stage – collective meetings of both countries (www.bitkom.org/russia, www.soft-outsourcing.com). The signature of an arrangement between the BITKOM and the Russian partner association APKIT (www.apkit.ru), in which RUSSOFT represents the software sector, be immediate in store.

The time is coming, that the partners in Germany, which involved in the increase of cooperation with Russian ITK-offerer, in the interest of their stand in firms will stronger linked. The study of the economic promotion supported by CyberForum gives them an important impulse.

Dr. Mathias Weber, director of the area IT Services, BITKOM – federal association information economic, telecommunication and new media e. V.



INFORMATION TECHNOLOGY: RUSSIA AND GERMANY

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CyberForum is the IT-network in the technology region Karlsruhe with more than 600 members. Connoisseur of this line of business known this network since the year of establishment in 1997 also federal wide known because of their central competence. About the offered service by CyberForum, interested firms can get reasonable advices among other things about many special workshop- and seminars. Important decisions maker and opinion former from the TIMES-line of business (telecommunication, information technology,

media, entertainment, security) they meet to exchange experience and to network ideas and new technologies.

CyberForum offers a comprehensive choice especially about the partnership with the economic promotion Karlsruhe, potential members or cooperation partners also from Russia. Then the continuously advice and promotion in all questions about establishment, stabilization and expansion can be decisive for the success on German and international market.

Our dense net have many advantages for potential partners: arrangement of contacts to the firms and references are also included.

The chances for conversation and cooperation of German and Russian firms in information technology are enormous and could already improve by the study supported of CyberForum.

Elmar Buschlinger, the chairman of IT-networks CyberForum Karlsruhe



SHORT SUMMERY

Answers to core questions

What, Who, Where, When, How, Why? The theme the change of current stage of German-Russian economic relationship in the strategically cooperation's is an important matter of the economy and political decision trager in Russia and Germany. Because of this current matter was decided to examine the chances and risks of German-Russian cooperation in one of the most innovative line of businesses – the information technology.

In period of May – June 2006 analysed the **economic promotion Karlsruhe** together with the German and European partners **CLOE (Clusters linked over Europe)**, **CyberForum Karlsruhe** and **Russian Software Developers Association (RUSSOFT)** the current stage of this kind of cooperation and the future expectations of the potential partner. The economic promotion and RUSSOFT questioned collective German and Russian companies, which have interest in common projects. The partners would especially improve the service for the about 600 companies of the IT region Karlsruhe and the association RUSSOFT with the added firms and to support these on a possible foreign commitment. The following technical were chosen for the method of the study: survey, interview, analysis und summery of the results of current studies to this theme. Obviously the Rucklaufquote was at the Russian firms higher. But the focus is in Germany - in the technology region Karlsruhe. The initiator of this cross border study is the economic promotion Karlsruhe, which have years experience and a dense net of contacts. As a excellent location for information technical and „Internet capital Germanys“, as a region several times honoured from the European commission with the „Award for Regions of Innovative Excellence“ and therefore one of the most important High-Tech regions. Karlsruhe with the best traffic position in the middle of Europe, offers the technology region Karlsruhe the best conditions for the successes for the firms of both countries. The support for the development of the German-Russian cooperation is of all levels: advice, contacts, arrangements of industrial expense and professional international marketing.

The grouping to the treat by procedure- relocation, especially the afraid of the loss of work, is an express of a spread insecurity, which lead to that the wide public as well as single firms worry about the risks and ignore the full doubt, that procedure-relocation also contains the chance to venture and to gain something new of German-Russian economic relationships.



BACKGROUND AND OBJECTIVE OF THE STUDY

Our study is a considerable step for a solution of the innovation-cooperation problem between Germany and Russia. Therefore has this analysis the target to realize and to judge the chances and risks of cooperation in the IT area.

The target our study is: to record the problems of the German-Russian relationship and to examine the experiences and expectations of firms, which have interest in a collective project, but are uncertain faced of the decision to a commitment or investment due to different reasons.

Because of the unclear basis of the problem the writer have decided to carry out interviews with firms in Germany and Russia and to start a survey of committed potential partners. The questionnaire with an introduction of the study drawled by the economic promotion (enclosures) would be sent to Russian firms with help by RUSSOFT. During the study period were 11 Russian and 10 German firms actively involved and have considerable contribute to results of collective work.

The study has certain three fundamentally questions:

- **Why should economic activities between Germany and Russia in IT area be support?**
- **Which advantages and disadvantages stand in focus of this both partners?**
- **How can be initiate and modify the German-Russian economic relationships through procedure-relocation of IT-based services and production?**

In the last time some independent studies and reports were publiced, which occupy with this theme. The presented study based on results of different studies, but they are based mainly of interviews, which were carried out with firms from Germany and Russia. Below the motto „Think Global, Act Local“ represented this study the experience and consideration of the questioned firms from the Technology Region Karlsruhe and the added firms of the greatest Russian IT association RUSSOFT.

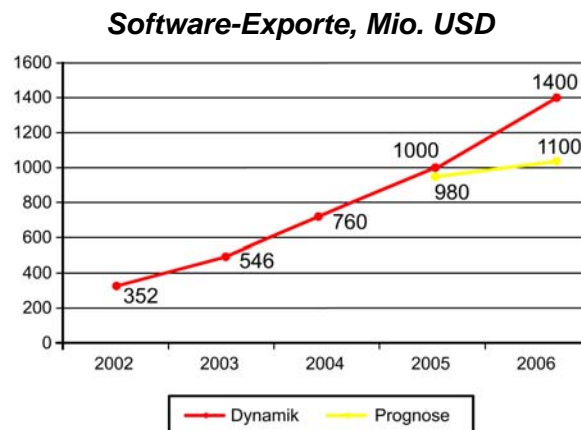


THE CURRENT RESULTS

1. WHY SHOULD ECONOMIC ACTIVITIES BETWEEN RUSSIA AND GERMANY IN IT AREA BE SUPPORT?

The activities of economic cooperation in IT area between Russia and Germany is cleared in the last time. Russia is getting an attractive partner for Germany thanks to the booming growth rate of the Russian IT market. With an export volume of USD 1 billion in 2005 the industrial sales increase in foreign trade to 30-40 % in the last time (Picture1). With them the economic dynamic of the local IT market provide – with a growth of 25-30 % - Russia a attractive space among other things in Central- und Eastern European countries (RUSSOFT, Outsourcing-Russia.com, 2006). In Russian most innovative line of business (Fostering Public-Private Partnership for Innovation in Russia: OECD, 2005) will expect a rise up to USD 2 Mrd. until 2008.

Picture 1: Russian software trade increase drastically



Source: The Market Survey on Russian Export Software Market 2005: RUSSOFT, Outsourcing-Russia.com, 2006

To current point is Germany for Russia a partner and the other way round – but its even not getting the most important. A fifth of the Russian IT-firms commit in the German speaking region (Germany, Austria, Switzerland), whereas about three quarters are active in the USA and Canada. Remarkable is that 40 % of the Russian IT-firms, which haven't long term contacts to the German partners, started a cooperation with Germany – in comparison: in the USA and Canada only 23 % (RUSSOFT, Outsourcing-Russia.com, 2005).



In the last time the global volume of the Offshoring-markets among to between USD 1.3 and 32 Med. Because the USA always urges (80 % of the total revenue in the IT-products- und service markets), Germany start slowly to move: 15 % of the German firms participate on Prozess-Verlagerungen – in comparison to Great Britain: 61 % of the British firms auslagern their business activities (Globalization and Offshoring of Software. A Report of the ACM Job Migration Task Force: Association for Computing Machinery, 2006). Also if in the meantime move only a few of projects and Prozesse from Germany to Russia, in the current survey are signs, that the sales will be enormous increase in the area IT-cooperation's in future. In the collective study „Offshoring-Report 2005 Ready for Take-off“ of BITKOM und Deutsche Bank Research 16 % of the questioned firms intend to verlagern their business pro...to Russia, Ukraine and White Russia in the next 5 years –in comparison: in India – 14 %, in China – 10 %, in Bulgaria and Rumania – 14% (BITKOM und Deutsche Bank Research, 2005).

That the Russian market will be getting more attractive for German firms also proved the index for the business climate of German firms in Russia (IGUR) discovered the accosiation of German economic in RF in cooperation with the delegation of German economic in RF and the Moscow office of Düsseldorf employer advice Droege & Comp.: Since 2002 the index 2005 increase of 59,8 to 65,9 percent points (accosiation of German economic in the Russian promotion, 2006).

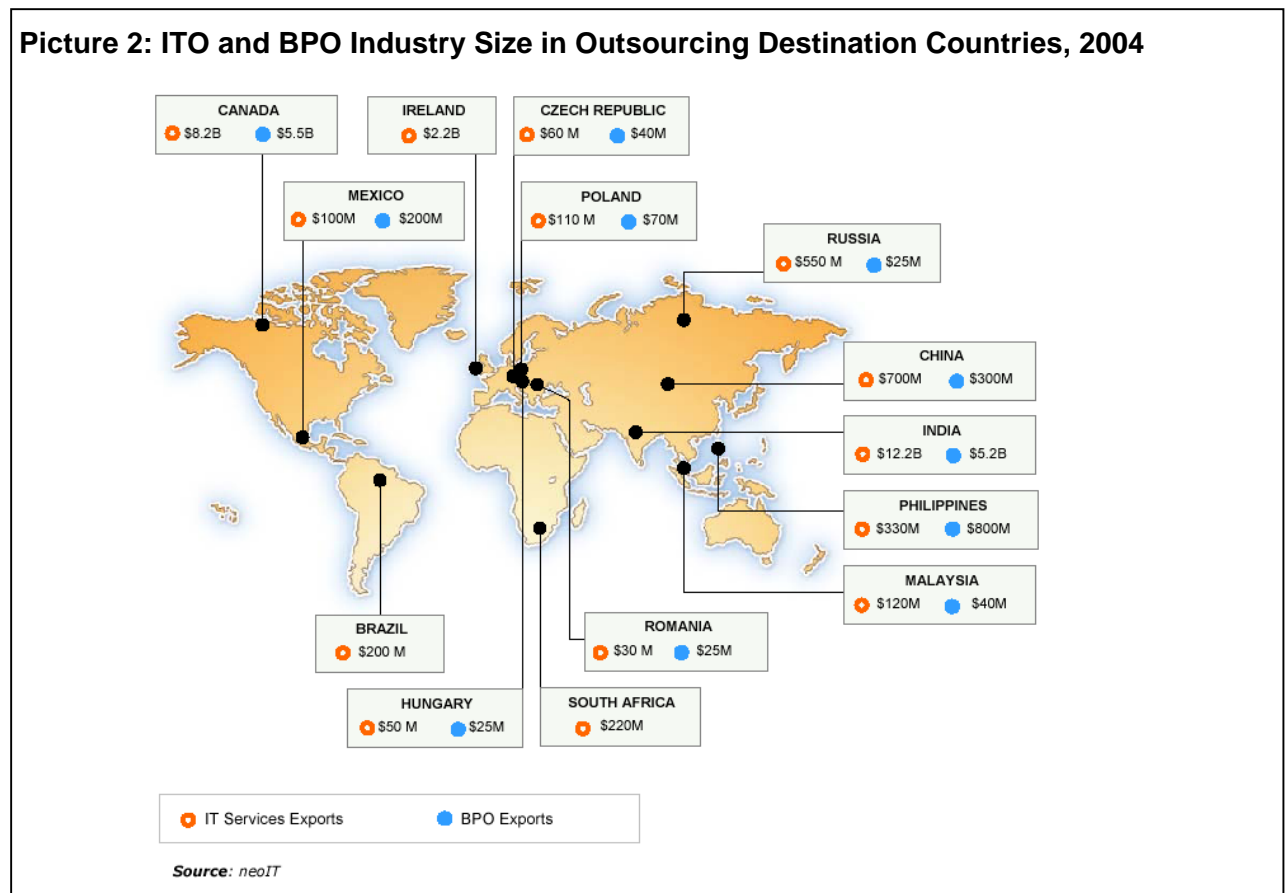
As a turned out result of our study shows that Germany will regard as an important potential partner of Russia. No one company from Russia would resign cooperation with German companies. 82 % of the questioned participant has pointed out to cooperation in the German market. 45 % have understood a technology transfer under the commitment (Offshoring, coproduction, licensing). Bei 33 % it's a trade partnership (export, import). But only two Russian firms are integrated in the close cooperation's (they have Joint Venture and a subsidiary company). One of the questioned firms has stainable contacts, but hasn't concluded a business at present.

Only two of questioned German firms commit successfully (one of them sales his products in Russia and the second produces in Russia). The number of “inexperienced” firms on German side is higher: 5 firms haven't still concerned this subject, but they would commit in Russia by possibility. One of the involved firms eliminates this completely.

Result: reciprocal interest is there, but also many reservations appear of the agenda with this theme. The Russian economic potential should surely provoke more German attention.



Under the other Central- and Eastern European countries Russia always appear (Picture 2).



Obviously a good sign for the development of the German-Russian cooperation the made decisions by BITKOM that on 2007 onwards to name annually a twin land on that be concentrate the foreign activities and to start this initiative with Russia (BITKOM, 2006).

WHICH ADVANTAGES AND DISADVANTAGES STAND IN THE FOCUS OF A COMMITMENT FOR BOTH PARTNERS?

In the course of exchange of the economic and economy basic conditions in Russia German firms have to prepare of turbulences Umfeld, which commit in Russia. As Russia is a developing country ein Schwellenland with high sales and with huge risks at the same time, die Umfeldveränderungen forced the German firms to be more flexible.

A summary about selected studies and reports to this theme of Verlagerung indicate detailed fact. At first will be quote and discuss about the possible disadvantages of Offshoring:



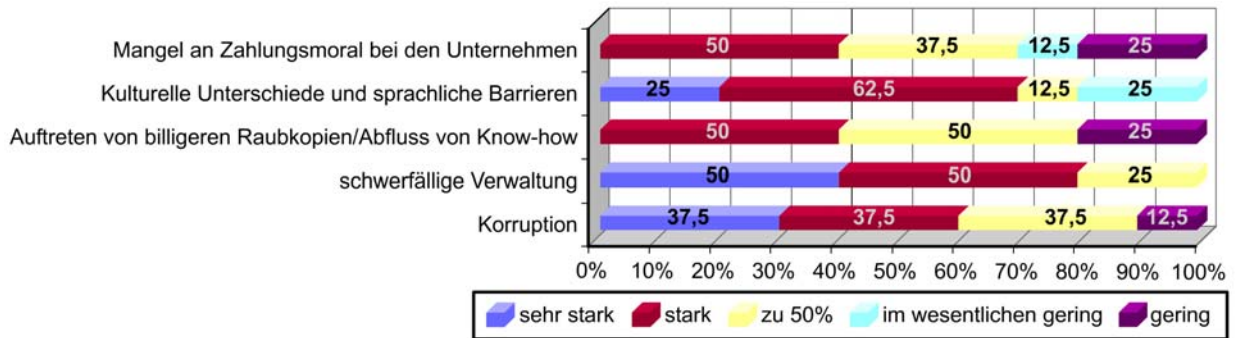
- **Reduction of jobs at home (Germany):** But the measure problems of Offshoring activities allow any correct representation to the following question. When can be realizing a direct causative connection between direct investments and reduction of jobs at the location of origin? Which effects has Offshoring of occupation? Furthermore it would point out to the fact in many studies, that job effects of Offshoring would mostly overestimated and that the relocations of business activities abroad (Russia) not inevitable results in reduction of jobs in Germany. „About a third of the questioned costumers [305 interviewer of Offshoring-service] expect even in future partially Offshore a construction of employees of 5 % or more. “ (BITKOM und Deutsche Bank Research, 2005)
- **Risks of dependence (Russia):** In the Russian public will often discuss the risk of the dependence of question o the Offshoring-service. It would be important to get the interest of both countries under the hat. Furthermore the risks seems not so great, if it note that primary innovations the decisive key for the industrial nations to be competitive, because the growth rate of the catch up countries base mostly on modification or imitation of products and services.
- **Risk of the loss of business secrets:** A strength manner of cheap pirate copies through the knowledge transfer is a for the active German firms in Russia a very big problem. The following difficulties would be number frequently to this focus: get around corruption in Russia, torpid department, frequent changes of the demand.

We want to especially known: Which importance admits the German firms to the certain challenges and which of these would be overestimate of the view of the Russian firms? The participants got answers for cross. According reach the contents from the shortage of the paying moral of firms till to corruption. Our survey find out that challenges as torpid department, corruption, cultural and language difficulties for German firms appear mostly by cooperation with Russian partners and this has a huge effect of the development of bilateral cooperation. Interested that cultural and linguistic impediments gains always significance, although it speak about the cultural nearness between Russian and Germany in the last time. Also a strength manner of cheap pirate copies through the knowledge transfer is for German firms in Russia a big problem. At Russian firms will admit the shortage of paying moral the lowest meaning (Picture 3).



Picture 3: Cultural differences, language difficulties and Slow department put always a strain on the German-Russian cooperation

"What a importance take you in the challange, which given to German firms in a cooperation with Russia partner?"



Quelle: Wirtschaftsförderung Karlsruhe/ M. Borisova

Russian firms have clear said that positive aspects and the chance through cost reduction and market opening will disguise the existed problems to importance. The questioned Russian firms are united about a list of overrate disadvantages: 91 % of the firms have the opinion that cultural and linguistic difficulties can be disproving by direct contact. The results of the study correspond to this viewpoint: 64 % of the questioned Russian firms are the proportion of the English speaking employees between 85 % and 100 %. The remaining firms are 37 %.Whereas only 6 % of the Russian staff speaking fluently German. Its no huge problem for the IT world, in which English is, became the mother tongue, to push the development of the German-Russian cooperation.

64 % of the firms agreed that the challenge as shortage of paying moral is no typical disadvantage of the Russian IT market. And more as the half (55%) are united that the ,Abfluss of Know-how und corruption cant numbered to the difficulties in the business. For Example a involved firm has comment to the theme torpid department, which is numbered to four best firms in the Central- and Eastern Europe (RUSSOFT, 2006): „Ponderous bureaucracy is there, but we’ll be able to convince a German partner that it’s not applicable to them, they simple will not have to deal with it“.

The good reputation point out that this line of business is a exception rather than the pratice. A good trend point out a wide circulation of international standards in the IT line of business (Picture 4).



Picture 4: Change of the quality security in Russian IT area

- First in Russia CMMI Level 3 certified (member of RUSSOFT)
- First in Europe CMMI Level 4 certified (member of RUSSOFT)
- First in Europe CMMI Level 5 certified (member of RUSSOFT)
- 3 companies CMM(CMMI) Level 4 certified (2 members of RUSSOFT)
- More than 20 companies ISO 9001/2000 certified within a project supported by the State Foundation for SME support
- First in Russia Governmental “Award for Quality” awarded to a software company (member of RUSSOFT)
- September 2003 – Fort Ross Consortium (now RUSSOFT) got status of the “Russian Chapter of the QAI USA” within the “Quality Days” in St Petersburg
- Since 2001 - Strategic Cooperation between Fort Ross (now RUSSOFT) and QAI India

Quelle: V. Makarov: Russian Software Industry. Emerging Opportunities for Cooperation. RUSSOFT, Russian-German IT Forum 2006

After the summary of the current studies could quote usual possible advantages of Offshoring in Russia:

- The potential of the Russian market with 142,5 million costumers
- The high increase of the gross domestic product – on average 1997-2006 4,7 % the standardized low labour costs.
- The lower company duty (so-called „Duty dumping“, that will practise many MOE-countries through the reduction of the company duty)
- High productivity

To the strongest advantages of Russia in the IT area are number this following features in our survey: high qualification of the employees (100 %of the companies), low costs (91 %) and the potential of the technology transfer (55%). Good qualified junior executives strengthen the present status of the Russian IT industry (Picture 5).



Picture 5: Annual ACM International Collegiate Programming Contests

- **2000**
World Champions: St. Petersburg State University
Silver Medal: St. Petersburg Institute of Fine Mechanics and Optics
Among winners: Moscow State University, Novosibirsk State University
- **2001**
World Champions: St. Petersburg State University
- **Gold Medal:** St. Petersburg Institute of Fine Mechanics and Optics
Among winners: Moscow State University, Ural State University, and Southern Ural State University
- **2002**
World Champions: Shanghai Jiao Tong University, China
Silver medals: Saratov State University (European Champions),
Among 10 winners: Moscow State University, St. Petersburg Institute of Fine Mechanics and Optics
- **2003**
World Champions: Warsaw State University
Gold medals: Moscow State University, St Petersburg State University of Fine Mechanics and Optics
Silver medals: Saratov State University
- **2004**
World Champions: St Petersburg State University of Fine Mechanics and Optics
Gold medals: Belorussian State University, Penza State University
Silver medals: Izhevsk State University
- **2005**
World Champions: Shanghai University of Robotics
Gold medals: Moscow State University, St Petersburg State University of Fine Mechanics and Optics

Quelle: V. Makarov: Russian Software Industry. Emerging Opportunities for Cooperation. RUSSOFT, Russian-German IT Forum 2006

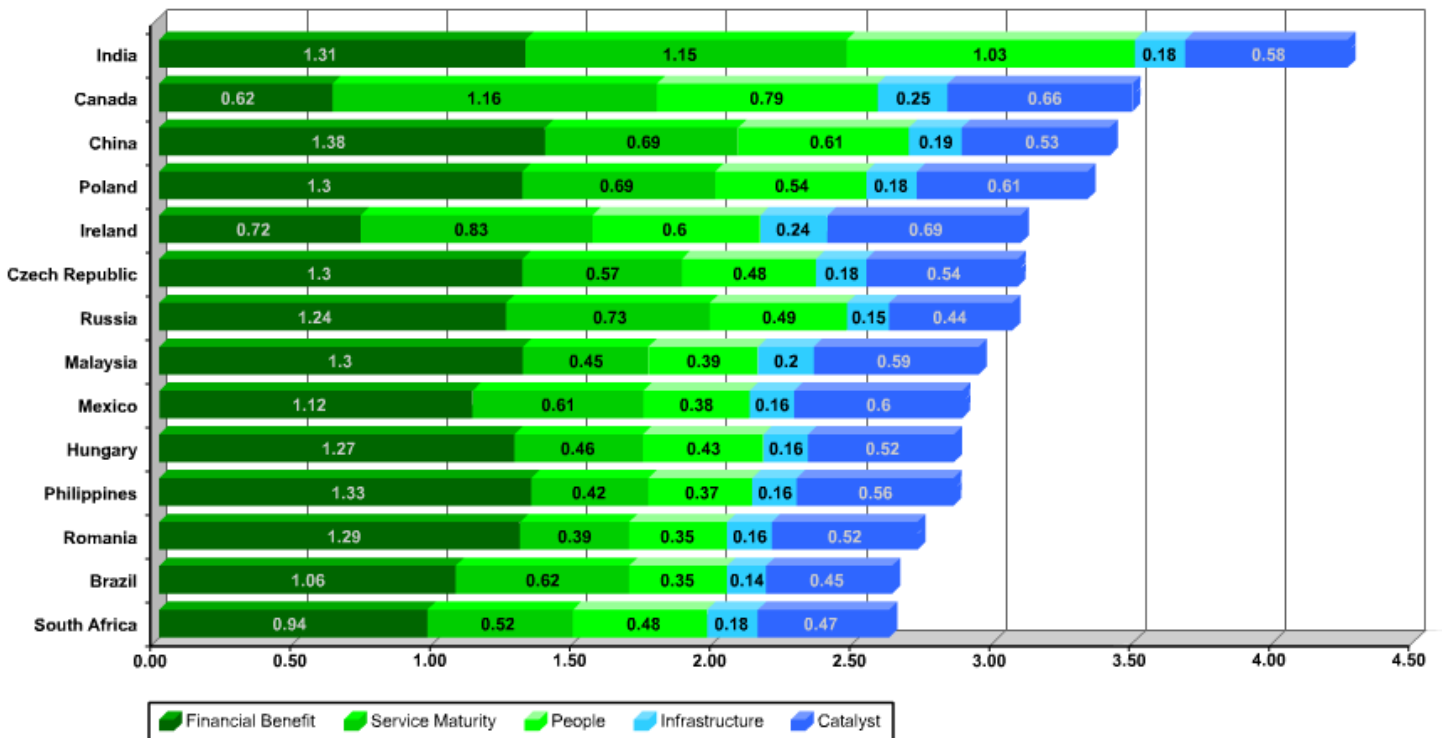
The proportion between chances and risks regard as the most important bearings strategy for German and Russian companies, neoIT Offshore Attractiveness Index (ITO) can give a summery about the Russian IT field and und serve as analysis tool. In the list of central locations for procedure-relocations Russia take the middle position (Picture 6, page 18). If we going in the dead of the analysis, so followed the answer of the question: Which peculiarity have the Russian market?



- **Financial Benefit:** According to the critics as cost advantages (Company duty, running costs, etc.) the Russian IT market stays competitiveness – in comparison to the other locations: Canada, Island, Mexico, Brazil und South Africa.
- **Service Maturity:** Readiness of procedures, high competences of suppliers, economic situation of the Russian IT markets und security of process let gain Russian attractively for the German firms. In this matter have China, Poland, Tschechia, Malaysia, Hungary, Philippines, Romania, Brazil und South Africa worst advantages...
People: Good qualified employees thanks to the high standard of education in Russia are more qualified than the colleagues from Tschechia, Malaysia, Hungary, Philippines, Romania, Brazil und South Africa. A enormous human resources refer to clearly perspectives for German firms für deutsche Firmen in sense of technology transfer.
Infrastructure: Infrastructure in Russia offers comparable possibilities with other Central and Eastern Europe states.
- **Catalyst:** Concerning to transcultural compatibility, public supports and political environment Russia takes worse position in this country list. But as to the present time Russia always gain more importance in the IT industry and appear on the political agenda, could expect positive trends for improvements of basic conditions.



Abbildung 6: neoIT Offshore Attractiveness Index – ITO 2005



Quelle: neoIT

As one of the most important results of the study appears that Prozess-Verlagerungen the basis to manage further cooperation's and opened the both countries chances for more growth. 70 % of German forms and 64 % of Russian firms consider Offshoring/Outsourcing as a starting point for further intensive cooperation between Germany and Russia, which has follow the integration of specifically factors of the countries. By Offshoring means, that this kind of cooperation can serve as basis for development other cooperation forms. But under the point of view that procedure-relocation serves the German as well as the Russian economy. A German firm stressed, that they doesn't make Offshoring. It can only be cooperation with Win-Win-Situation". The majority of Russian firms (almost three quarters) have commented that they regard Outsourcing as a long term strategy or as a mutual change of experience. Although two aspects turned out from the conversation to be worth to reflection:

- **Germany:** Offshoring contains to the forms of foreign activities, which only demand a minor tie of capital and management outputs abroad. In this sense is the risk of firms for the German firms comparatively low by this form of cooperation.



- **Russia:** As the economic growth in Russia based above all of work intensive production as well as the support and processing of raw materials, is in the present Russia a progress, which not based on innovations but of modify and imitation. For this reason could push Prozess-Verlagerungen the economic development in Russia.

Fact: In the last time published studies and reports, which occupy with the theme Prozess-Verlagerung, pointed out to the fact that Russia gain importance by the theme Offshoring. Nevertheless would frequently overestimate the negative effect of Offshoring to the German economic. To this continual challenge in the German-Russian cooperation should react the firms with flexibility, speed and continual innovations.

- **HOW CAN BE INITIATING AND MODIFY THE GERMAN-RUSSIAN ECONOMIC RELATIONSHIPS THROUGH PROCEDURE-RELOCATION OF IT-BASED SERVICES AND PRODUCTION?**

For the mutual successfully cooperation organisation are the following results of the study of huge importance:

- **Shortage of information is one of the greatest bars in the German-Russian cooperation:** A fifth of the questioned German firms can't find any reliable information, which they could need for the business planning. German firms get important information about the business in Russia through personal contact. (This is right by all firms) or more than the half of the firms from the medias (Radio, newspapers, magazines or technical literature). More than 20 % have doubts on the available information, because Russian picture in Germany will represent frequently pessimism and seems of the judgement of the Russian firms far away. Only one company is satisfied with the information. No wonder that about a third of the questioned firms search direct, reliable sources. On the Russian side looks the picture similarly. An example point out that the Technology Region Karlsruhe as important IT location in Germany and Europe is the majority 82% of the questioned Russian firms still unknown at present.



- Worse networking:** However, if the majority of German firms will estimate a huge commitment on Russia IT market as a great challenge with future sales, the intensified still standing of poor standard. More than the half of German firms (56 %) need for further developments, a huge commitment from the Russian side as well as more support and act recommendation from the German side. Russian firms are to 100 % united that they need as support more commitments from German part for their business process in Germany. 64 % of the questioned firms have quote as the greatest impediments the missing of contact partners in Germany.

In view of the current situation Russia have to consciouse to his strength. It comes into existence of intensive change of information, so a partner will find the following advantages: high education quality, intensive economic dynamic, old traditions und gained experiences in IT area etc. (table 1). For a successfully cooperation organisation should the both partners strength their locations and inform about their strength.

Tabel1: Benchmarking: Advantages Russian in comparison to the competitor (Summery of answers of the questioned Russian firms)	
Of the business level (Advantages in view of a concrete company)	Economic basic conditions (advantages in view of the complete condition of IT-line of business in Russia)
<ul style="list-style-type: none"> Dedicated software development centres, scientific intensive R&D, maintaining and re-engineering legacy applications Onshore process optimization with offshore outsourcing High qualified engineering staff, competences in embedded systems, multimedia solutions, industrial experience, telecom, finance, government, transportation German-speaking capability, cultural fit High quality management Experience in using modern cutting edge IT technologies 	<ul style="list-style-type: none"> Highly qualified manpower, low costs Innovations in main industry domains Investment opportunities Russia is an ideal nearshore software outsourcing destination within two-hour flight reach Experience with complex projects Creativity, geographical neighbourhood, attitude to work High level of education, fundamental education of IT specialists



<ul style="list-style-type: none"> • Effective infrastructure • Own R&D platform for additional cost and efforts savings during the development of different business applications • Large resource pool, customer-oriented services, reduction of costs without loss in quality 	
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The recommended actions from the numerous current studies form a complex system of act recommendation: Improvement of investment climate, support of trade, creation of the legal basic conditions etc. With them it takes into consideration that should give prominence intensify of network cooperation as a beginning. Therefore could arise completely other act recommendations by regarding.

ACT RECOMMENDATION: FOCUS- NETWORK COOPERATION

Obviously it's realizable to initiate and modify the German-Russian economic relationship through Offshoring/Outsources; from the Prozess-Verlagerung can be further developing network cooperation. Its important to quote that the protection of advantages of procedure-relocation to make possible a transition from negative signs to the readiness and ability of firms, the own resources with at a time worldwide most progressive FuE-, productions- and distribution knowledge of other economic partners in the global market.

As a reason of the execute trends it can be quote that a new develop step is marked with the integrate aspects of worldwide based on the division of labours development and production, organization networks, information- and communication medias and capital providing in the German-Russian cooperation. Global competitiveness assumes global cooperation ability and global cooperation ability assume global competitiveness. Only who is competitive is a potential cooperation partner. In the sense: The ability to cooperation is the right way to international competitiveness.

Our study have arise this following focus and act recommendations:

- **Offshoring/Outsourcing as innovation is obviously risk and expensive.**
- **Innovation network should follow to the favour of the bilateral cooperation also by procedure-relocation**



- **Is the cost reduction the central target of procedure-relocation in the German-Russian relationship, the dangers can be caused that through the relocation of the greatest part of their production in Germany jobs can be lost. That is to say that this cooperation form could lead to social problems. The consequence will be a strong reduction of the efficiency of the bilateral cooperation.**
- **Offshoring should be noted as a supposition for further cooperation in the area innovations and because of the increasing international competition in R&D-ability as a way to foreign countries (Russia) for local firms (German companies) and to save their position on local position in Germany.**
- **Innovation networking and thus increasingly combine cooperation could initiate, modify and control the German-Russian economic relationship.**
- **Cluster should make possible an international adjustment for their members.**

A useful tip: in central of German-Russian cooperation should stand a Business Matching of partners with high activity for an intensive cooperation. A good condition in the Technology Region Karlsruhe makes possible a tie of cooperation: the from Karlsruhe managed European network „CLOE – Cluster linked over Europe“, which also network in IT-area partners from Germany, Eastland, France, Great Britain, Sweden, Austria, Romania and Russia (www.clusterforum.org).

Summarized: The future will force a strong intensification. It's to hope that the voluntary measures will be adapted to the control of the German-Russian economic relationship in time. Examples of the practise shows, if it comes to a regular changeover of the problem, then every innovation comes too late! In the short (product- and process innovation), as well as in further sense (market- and organisation innovation).

The development of a digital world economy and then the coming structural change have raised a huge series of new questions about the international innovation competition of a country. Innovations are an important determination factor of growth and prosperity of national economy. But which firm could execute an innovation, if they do without all danger and risks. From this view we would like to plead to recognize the chances of the procedure-relocation and to create conditions in the German-Russian economic cooperation, which allow the huge firms as well as the little and medium sized firms (KMU) to take this chance better as in past.



FINALLY WORDS

Dear partners,

We thank everybody for the contribution in our study – for your interest, commitments and your active support.

The target was to provoke interest in cooperation of both partners – Russia and Germany – and to lead the beginning for an intensive German-Russian economic relationship in the digital economy.

An amazing result of our study: There are a high potential for German-Russian cooperation in the IT-area that we have even frequently neglected and not used.

„Successful strategies for profitable and value developing cooperation: In this motto represent our act recommendation: Create strain able contacts with reliable partners on both sides. We offer from our side international platform for your business.

We would like to thank the **neolIT** for their useful information and graphically representation.

Yours faithfully and best wishes for the economic success.

Your study-team



ENCLOSURE:

I. Letter for German-Russian firms

Dear Sirs,

Who wants to be international competitive have to speed up to be in the new markets – **Russia** move in the focus quite times by the **theme information technology**.

In a **study** analyse the **economic promotion Karlsruhe** together with the German and European partners **CLOE-Clusters linked over Europe, CyberForum Karlsruhe** and **Russian Software Developers Association (RUSSOFT)**, the chances and risks of German-Russian cooperation in IT area until June 2006. The partners would improve the service for the about 600 firms of IT region Karlsruhe and the connected firms of association RUSSOFT and to support these by a possible foreign commitment.

We attempt with the enclosed short questionnaire to achieve an overview about already consisting or planned business cooperation's. We kindly offer you a personal conversation to your targets and experience. Your contact person of economic promotion is Mrs Marina Borisova, Tel.: 0721 133-7315

Kind regards

Ralf Eichhorn



II. Questionnaire for German and Russian firms
(German Questionnaire - side 1)

Rückfax
49(0)721/133-7309

Wirtschaftliche Aktivitäten in Russland

Absender:

Firma: _____

Ansprechpartner: _____

Anschrift: _____

Telefon: _____

Fax: _____

Email: _____

1. Haben Sie Erfahrung im Offshoring / in Kooperationen mit Russland?
Mein Unternehmen ...

- A. nutzt die Vorteile und platziert sich in Russland
Offshoring
Kooperation
Vertrieb
Produktion
Sonstiges

B. hat nur einige Kontakte zu den Partnern in Russland geknüpft, aber noch kein Geschäft abgeschlossen

C. hat sich noch nicht mit diesem Thema befaßt, aber will sich in Russland engagieren

D. kein Interesse an Projekten in Russland, im Fokus ein anderes Land

Zielländer : Indien Osteuropa China Sonstiges.....

2. Welche Bedeutung messen Sie den Herausforderungen zu, denen sich ein deutsches Unternehmen bei der Zusammenarbeit mit einem russischen Partner stellen muss?

Bewertung:

- Korruption
schwerfällige Verwaltung
Auftreten von billigeren Raubkopien/Abfluss von Know-how
Kulturelle Unterschiede und sprachliche Barrieren
Mangel an Zahlungsmoral bei den Unternehmen
Sonstiges



(German Questionnaire - side 2)

3. Woher beziehen Sie Informationen über Geschäftsgeschehen in Russland?

- durch persönliche Kontakte/aus eigener Erfahrung
- durch Gespräche mit Fachleuten auf internationalen Messen
- aus den Massenmedien (Rundfunk, Zeitungen, Zeitschriften, Fachmagazinen)
- durch offizielle Kontakte mit den Industrie- und Handelskammern, staatliche Behörden etc.

4. Vertrauen Sie den Informationen über Russland, die Ihnen zur Verfügung stehen?

- Ja, absolut
- Habe Bedenken, weil Russlands Bild in Deutschland zu pessimistisch dargestellt wird und von der Realität entfernt sein könnte
- Finde keine zuverlässige Informationen, die für eine Geschäftsplanung gebraucht werden könnten
- Hätte gerne die Information von direkten zuverlässigen Quellen in Russland

5. Als Unterstützung für Ihre Geschäftsprozesse in Russland bräuchten Sie...

- mehr Engagement von der russischen Seite
- mehr Beförderung der eigenen und Handlungsempfehlungen von deutscher Seite

6. Wie wird Ihre Entscheidung sich in Russland zu platzieren von Ihren deutschen Partnern bewertet?

- als negative Imagewirkung
- als große Herausforderung, die zukünftig große Profite bringen könnte
- als Risiko
- als attraktive Initiative, der sie wahrscheinlich auch folgen könnten

7. Welche Bedeutung hat/hätte für Sie Offshoring-Erfahrung?

- kurzfristige Strategie/Gewinne
- langfristige Strategie/gegenseitige Erfahrungsaustausch
- Ausgangspunkt einer intensiveren Kooperation

Bitte senden Sie mir Informationen über die Ergebnisse der Studie zu:

Ja Nein

Bitte nehmen Sie direkten Kontakt mit uns auf:

Ja Nein

Vielen Dank für Ihre Unterstützung!



III. Questionnaire for German and Russian firms

(English Questionnaire - side 1)

Answer Fax

49(0)721/133-7309

Business Activities in Germany

Sender:

Company: _____

Contact person: _____

Address: _____

Telephone: _____

Fax: _____

Email: _____

1. Have you already been engaged in a co-operation with Germany?

My company ...

- A. benefits from a co-operation with German partners
- Export/Import
- Technology transfer (offshoring, co-production, licensing)
- FDI from a German partner
- Franchising
- Joint Venture
- Subsidiary
- Other

B. has already established some contacts but till now – no deal, no result

E. Germany has never been my target market but I would welcome pilot projects with German companies

F. No interest in Germany at all
Priority partner-country

2. Are you acquainted with the Karlsruhe Region IT Cluster (approx. 600 members: www.clusterforum.org and www.cyberforum.de)?

Yes No

Target regions in Germany.....



(English Questionnaire - side 2)

3. To support your business operations in Germany you will need...

- more involvement from German partners
- more support in Russia

4. How do you assess a business experience in the field of offshoring/outsourcing?

- Short-term strategy / turnover growth
- Long-term strategy / experience exchange (for both participating parties)
- Starting point for further intensive co-operation

5. What are your strengths and weaknesses in Russian-German co-operation ?

Strengths:

- low costs
- know how transfer/ new technologies
- highly qualified manpower
- good knowledge of English
- English-speaking staff, in %:

-
- good knowledge of German
- German-speaking staff, in %:

Other

Weaknesses:

- Macroeconomic environment
- Poor technical infrastructure
- No contact person in Germany
- Cultural and language barriers
- Other

6. Which negative assessments do not reflect the reality of the Russian IT market (cons that your company demystify through the direct contact with a German partner)?

- Corruption
- Ponderous bureaucracy
- Know how drain
- Cultural and language barriers
- Lack of payment moral
- Other



(English Questionnaire- side 3)

7. Benchmarking: Russia's unique capabilities (compared to Eastern Europe, India, China etc.)?

With respect to your company (unique point-of-sales, point-of-services):

.....

with respect to Russia (unique opportunities in the Russian IT industry for German companies):

.....

Please send me the results of the study:

Yes

No

I would like to be contacted:

Yes

No

Thanks for your co-operation!



SELECTED STUDIES

Externalisation of firms from the German-French PAMINA-Region to the Central- and Eastern Europe countries. A report of the PAMINA Club of economic promoter under the direction of working group „MOE-Länder“, 2005.

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Globalization and Offshoring of Software. A report of the ACM Job Migration Task Force. Association for Computing Machinery, 2006.

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Offshoring Report 2005. Ready for take-off. BITKOM und Deutsche Bank Research, 2005.

The Market Survey on Russian Export Software Market 2005. RUSSOFT Association and Outsourcing-Russia.com, 2005.



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