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Modest Now, Russian Outsourcing Has Big Hopes

By ERIN E. ARVEDLUND

MOSCOW, Dec. 14 – Off a snowy path winding through the campus of Moscow State University, the godfather of Russian outsourcing, Alexis G. Sukharev, is packing his boxes and moving to bigger offices in the city, hoping to help create what could soon be Russia's version of Silicon Valley.

Mr. Sukharev, 58, is well known to American information technology executives. He was the first to create a commercially successful Russian outsourcing company on the eve of the fall of the Soviet Union in 1991.

His original client was Hewlett-Packard. His latest client is I.B.M.

Mr. Sukharev has tracked the Russian outsourcing boom of the last two years, one he hopes will mirror the success of India's technology parks and outsourcing. He has little fear of the backlash in the United States against offshoring.

"Republicans have never had a problem" with outsourcing, Mr. Sukharev said, and with the party still holding the majority in Congress, he does not foresee any legislation barring it.

"I had a meeting recently with the U.S. deputy secretary of commerce, and he said offshoring is good for the United States," he said. "I think it's bad for small groups of people who suffer a lot, particularly outsourcing of white-collar jobs. But the Democrats made it a major campaign pillar, which was simply populist. The world is too simply about globalization now. Outsourcing is unstoppable."

Moreover, he says some Western companies he has visited, like Bechtel, which has 200 different proprietary programs, "are not cutting people because of outsourcing." Instead, he argues, companies are farming out new business to



Alexis G. Sukharev created a successful outsourcing company.

companies like his, or to Indian or Chinese companies.

Mr. Sukharev is encouraged by Russia's recent initiatives to back software programming centers, beginning with one in Dubna, a center for nuclear research after World War II and still a science hub today, situated 77 miles north of Moscow.

But Russia still lags far behind India, according to Luxoft, an outsourcing company here, which said that India's \$11 billion outsourcing industry last year, dwarfed Russia's, at \$500 million. Still, the Russian ministry in charge of communica-

tions and information technology estimates that the nation's figure could grow to \$2 billion in the next two years.

Indian companies are considerably more mature," Mr. Sukharev said, with some having tens of thousands of employees. And the Indian government was quick to offer their home-grown companies tax breaks and near-zero customs duties in some cases. "They're about 12 years ahead of us. But the gap is closing."

And, there are day-to-day obstacles. Always a powerhouse in cybernetics, Russia still boasts a talented pool of scientists – but many are jolted by the realities of commercial business as opposed to pure research.

"The biggest problem," Mr. Sukharev added, "is finding skilled workers who not only specialize in theory, but in practice. Many still need English-language training." Often new hires here require several extra months to understand how and why they are working on practical applications for business clients, Mr. Sukharev says.

Still, that figure for programmers is growing.

In 2004 the number of Russian graduates with master's degrees in computer science or majors in software engineering was 68,126, up 6.9 percent from 2003, according to the Russian State Statistics Committee.

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"We're seeing our growth in all outsourcing companies here," said Julia Rovinskaya, spokeswoman for Luxoft in Moscow, but she echoed many of the problems Mr. Sukharev identified, especially English-language training.

Russia also needs new infrastructure, something India has made more headway on. Russia lacks the wealth of basic Internet "backbone" infrastructure already in place in the United States and India; that has kept inexpensive, high-bandwidth Internet capacity out of reach for many here, he says. A T-1 line, a fast, dedicated phone and data line, with unlimited capacity might cost \$500 a month in the United States. In Russia, it costs \$50,000 a month. "That is something only the Russian government can build," he said.

Until 1990, Mr. Sukharev, a Ph.D. in computational mathematics, was professor of operations research and numerical analysis at Moscow State University. As the Soviet Union collapsed, he founded Auriga, set up a branch office in Amherst, N.H., and has been commuting between the United States and Russia ever since.

Today, Auriga is neither the biggest nor the highest-profile of Russia's outsourcing companies, though its clients include BroadVision, and LynuxWorks. IBS, a holding company with sub-

siidiaries like Luxoft and with Esther Dyson among its investors, is much larger. But Mr. Sukharev's views are still considered an excellent barometer of the trends and health of Russia's information technology sector.

Dreams of rivaling India in taking on technical work for Silicon Valley.

And now, though Mr. Sukharev sits many miles from the Kremlin, he may be in the perfect position to gain the ear of government leaders. President Vladimir V. Putin recently led a delegation to India with Leonid D. Reiman, Russia's minister of communications; Russian business executives, including Mr. Sukharev; and computer scientists to visit the technology giant Infosys and learn how India's government helped along its outsourcing boom.

Mr. Putin has now also agreed in principle to a government-sponsored concept to help develop Russia's computer programming industry – though few details have been put in motion.

"Execution is everything," Mr. Sukharev concedes.

Russian outsourcing companies want to compete with India's giants, like Infosys, Satyam and Wipro. But size does matter, and Mr. Sukharev

says that Russia has only one or two outsourcing companies with at least 1,000 employees.

"We just don't have big companies," Mr. Sukharev said, "but we can compete on price."

Russian programmers work for \$15 to \$25 an hour, about the same as their Indian competitors, he estimates. IBS is one of Russia's bigger companies, with over 3,000 employees, and clients include Shell, BP, J. P. Morgan, Ford and the United States Department of Energy.

Russia cannot replicate the balmy climate of India or Silicon Valley in California. And Auriga and other Russian outsourcing companies desperately need the country's famously thick red tape to dissolve if they are to grow.

Customs clearance is a continuing nightmare, Mr. Sukharev said. "We live in constant fear" that software may be confiscated or stuck in customs, he added. Just five years ago, Auriga imported a color laser printer that authorities confused with advanced hardware for research and development. It was confiscated.

So why is Mr. Putin interested in outsourcing now?

"He understands Russia's I.T. industry has potential," Mr. Sukharev said. "But we have to learn from and partner with Indian companies. He wants to show the Russians the way to the top/

For more information

www.auriga.com
info@auriga.com
+1 (603) 673-2300 (U.S.)
+7 (495) 975-7400 (Europe)