

**Russian IT Sector Trends and Prospects -  
Product, Sector Play via Synergistic Partnerships**

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# Key macroeconomic trends driving IT sector development

## Macroeconomic trends

- Economic growth remains lukewarm across the board, except plastics, online retail, tools and equipment, meat, electronics
- Most sectors are in or are approaching state of saturation
- Certain sectors have deeper cash pockets, e.g. transport, mining, construction, fertilizers, mobile telecoms
- Generally, funding has dried up for corporates (both debt and equity)
- Spending remains weak, as population income growth is slowing
- CPI inflation picking up again, further threatening consumption

## Effect on companies

- Margins are declining in most sectors, as corporate profit is outgrown by nominal GDP
- Competition is toughening, further affecting earnings and investor confidence
- Most companies are hesitant to invest in business expansion
- Many market players are undertaking efficiency improvement and cost-cutting measures
- Most economic sectors are ripe for asset consolidation, as soon as capital markets reopen
- At the same time, many vertically integrated structures divest non-core assets, thus promoting horizontal integration

## Effect on IT sector development

- IT sector growth is stimulated by companies' attempts to tackle inefficiency and gain a competitive edge
- Massive investments in IT are made mostly by more cash-rich government authorities and large corporations
- Companies seek answers to finite efficiency improvement questions, predominantly needing customized solutions

## Key focus for market expansion

- Facing austere economic conditions, IT market players must place their focus on new growth points, e.g. eCommerce, transportation, warehouse and logistics sectors
- Also of interest are cash-rich entities operating in increasingly competitive markets, e.g. oil product manufacturing and retail
- Emphasis must be put on products and solutions that deliver measurable results in improving speed and effectiveness of business processes; strong brand name and comprehensive solutions are starting to be found less appealing

# Major IT industry trends and Russian market players' needs

TRENDS

NEEDS

1	2	3	4	5
Efficiency improvement	New product, user experience creation	Tackling complexity	Market structure changes	Customized solutions
<ul style="list-style-type: none"> <li>■ BPM segment stays robust, driven also by companies' horizontal integration</li> <li>■ BI solutions taking off from low base, but tools need sophistication</li> <li>■ Cloud technologies spreading apace, but are held back by security concerns at LEs, pricing mismatch for SMEs</li> <li>■ IT directors/CIOs not always inclined to make changes, fearing higher accountability</li> </ul>	<ul style="list-style-type: none"> <li>■ Content-rich services become increasingly important</li> <li>■ BI solutions developing rapidly, but adoption slowed by lack of methodologies</li> <li>■ UE turns into key element driving product enhancement, but execution not always convincing, as client-oriented approach yet to get entrenched</li> <li>■ Growing interest in VoIP, virtual ATNs</li> <li>■ IT consulting sees rising demand</li> </ul>	<ul style="list-style-type: none"> <li>■ Big Data management changes face of data centers, turning them into system integrators, and fragmenting company DBs</li> <li>■ Customization in high demand, further solidifying local SIs' market standings</li> <li>■ Interoperability, product integration become crucially important for installed products</li> <li>■ Rising interest in portal technologies, virtual machines' integration</li> </ul>	<ul style="list-style-type: none"> <li>■ Government-funded IT projects become sweet spot for most market players</li> <li>■ Infrastructure + IT projects on the rise, causing IT companies to do engineering and construction</li> <li>■ Standalone services find it more and more difficult to survive</li> <li>■ Mobile integration becomes emerging trend, but widespread adoption to take more time</li> <li>■ IaaS, PaaS operating models starting to turn heads</li> </ul>	<ul style="list-style-type: none"> <li>■ Many companies order solutions for specific processes, situations, having had bad experience with launch of complex IT systems</li> <li>■ Customization is in high demand, further strengthening local SIs' market standings</li> <li>■ SIs good at developing complex service packages to meet clients' needs using vendors' technologies, but often lack coherent own products</li> </ul>
<ol style="list-style-type: none"> <li>1. Orderly product development process</li> <li>2. Product management leadership capable of ensuring commercially sustainable operations</li> <li>3. Clear vision of required product/service concept</li> </ol>		<ol style="list-style-type: none"> <li>4. Improved sales &amp; marketing techniques utilizing ROI calculation, success stories</li> <li>5. Detailed understanding both of client's business and industry best practices</li> </ol>		

# Most attractive market segments for Japanese IT companies



## Top priority:

- ERP, CR, BPM, ECM software for eCommerce
- Electronic trade instruments and platforms; B2B matchmaking platforms; logistics and international trade process management systems
- Big Data and data center management systems
- Software for multi-functional process optimization
- Production of components and software for household and industrial electronics



## Medium priority:

- B2C-oriented online services (e.g. online ticket and hotel booking and trip planning) that may be brought to the Russian market
- Mesh network solutions
- Software and solutions for managing P2P and M2M networks
- Games, including social and network games
- Solutions for complex IT integration projects



## Lower priority:

- Healthcare IT, including mHealth and eHealth segments
- Internet of things (connecting and controlling various objects through the Internet)
- Software and solutions for energy efficiency (including smart home and smart building systems)
- Trade robots and IT systems for international financial markets

# Main risks for business development

## Market saturation

Growing number of market segments are in or are approaching state of saturation, eroding margins and creating risk of quick product replication by local competitors

## Homologation issues

Tailoring products and services for Russian market may prove to be a major challenge, requiring competencies in adjacent product areas and uninterrupted access to customers for product upgrades and service

## Limited access to clients

LE segment roughly divided among local vendors, including SIs providing complex service solutions, therefore reducing opportunities for penetration into companies with new products; while SME client base in most segments too shallow for massive sales and marketing effort

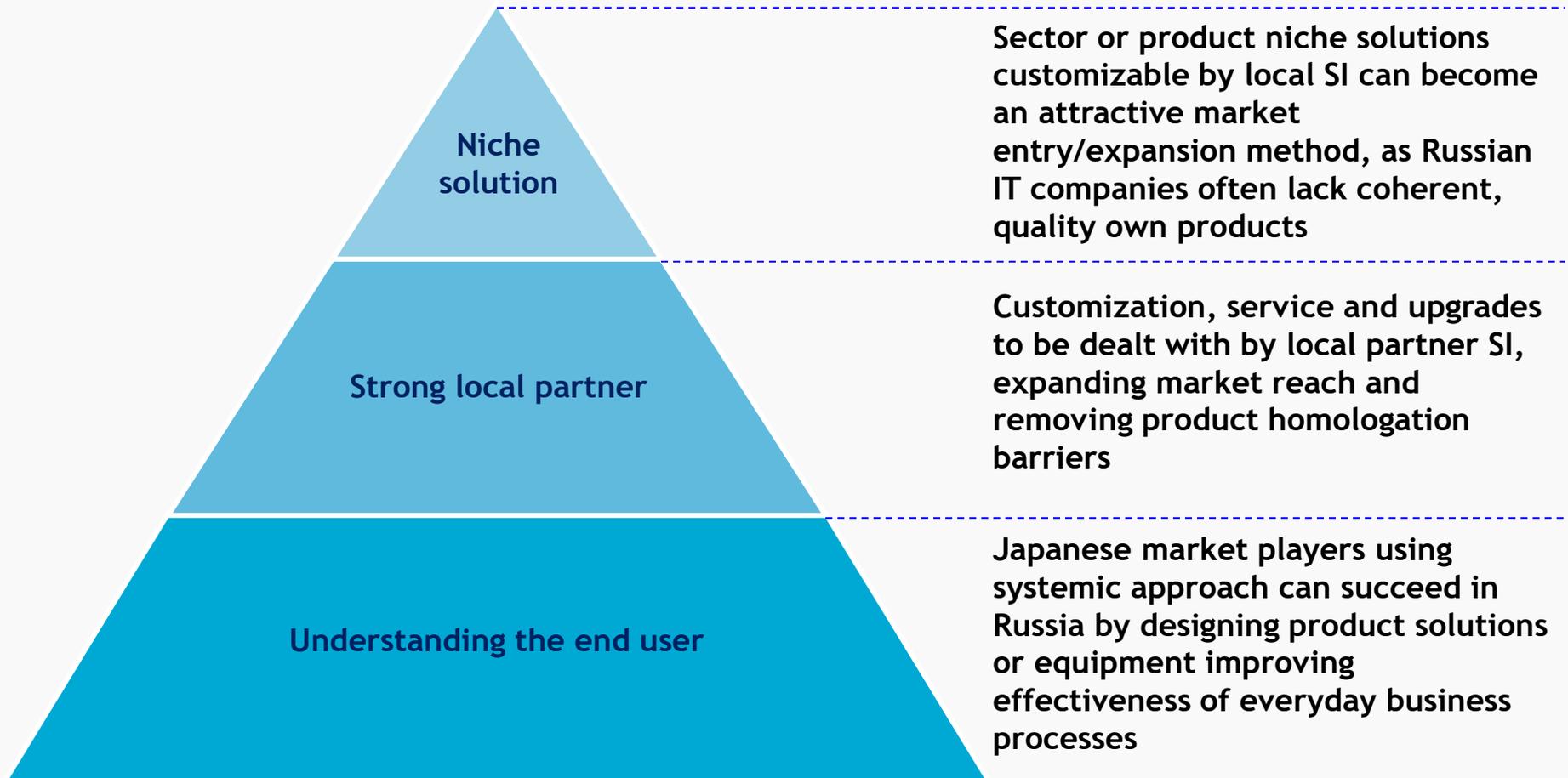
## Lack of required competencies at Russian partners

Insufficient product development, product management, and sales & marketing skills of Russian IT companies can potentially reduce effectiveness of solutions developed by Japanese market players, unless complemented by proper training and assistance

## Administrative barriers

Significant amounts of bureaucracy and widespread non-market compensation forms in government and corporate contracts can affect business development and product competitiveness

# Key success factors for Japanese IT companies in Russia



# Recommendations for market strategy and partnership format

Successful market entry and expansion requires selecting the optimal format for building local partnerships, maximizing the synergetic effect:

**1** Partnership with local SI in development, sales, upgrade and service of focused sector or niche solution for Russian market

**2** Opening own representative office/ branch in Russia and hiring local staff, simultaneously establishing partnerships with either local SIs or companies in adjacent service areas

**3** Acquiring or creating JV with capable local company/ product team for developing and servicing products for the Russian market, ensuring sufficient motivation and market reach

**4** Acquiring or creating JV with capable local company/ product team to bring Russian-developed products into Japanese and/or global markets

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