Competitive Analysis

Competitive Profiles and Analysis of Leading IT Services Players in Russia, 2014

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IDC OPINION

In 2013, the Russian IT services market expanded at its lowest rate for the last few years, to reach a value of $7,733.26 million.

- IDC does not present total IT services vendor revenue rankings in its 2013 study. Instead, the IT services suppliers are ranked by foundation market based on supply-side revenue minus offshore revenue. The systems integration foundation market accounted for the largest share of IT services revenue in 2013, and Technoserv was the leading provider on this market. The application consulting and customization foundation market was second, followed by custom application development. IBS led on both of these foundation markets.
- Most of the services providers in the country were Russian systems integrators, with only two international companies featuring prominently on the local market. IBM Global Services was first in terms of revenue generated from the provision of hosted application management services and second in hosting infrastructure services, whilst HP was second in both hardware support and installation and software support and installation.
- NVision had the broadest coverage across the foundation markets, being in the top three in four out of 13 markets. The company was first in network consulting and integration and information system outsourcing, second in application consulting and customization, and third in custom application development.
- Combined finance was the largest vertical market in Russia in terms of IT services spending in 2013, and CFT was the leading provider on this market. Government was the second-largest vertical, with LANIT the leading provider on this market. Communications and media was the third-largest vertical market and NVision led on this market.
- The consumerization of IT is gaining speed, and Internet access via smartphones and tablets will exceed PC access in the next few years, which will significantly change the IT services delivery model. Services companies that fail to address the cloud and mobility needs of their customers will not succeed on the more competitive IT services market.

SITUATION OVERVIEW

In 2013, the Russian economy significantly slowed and the IT industry was affected as a result. The decline in IT services was not as sharp, but several providers were forced to reduce their personnel due to the financial implications and also saw their revenue decline.

The most significant staff reduction last year took place at NVision. To avoid duplicating functions after its merger with SITRONICS, the company cut 584 jobs, reducing its staff by 14%, compared with the previous year. IBS had lost about 7% of its personnel engaged in systems integration by the end of 2013.

NVision's sales to key customers fell considerably last year, leading to a 40% year-on-year decline in the company's total revenue. CROC experienced a noticeable drop in revenue as well - 20% year on year, which was largely due to the worsening relationship with its long-time partner, Sberbank.

The sharpest decline on the IT market in 2013 was in equipment supply. Hardware distribution is becoming less and less profitable, with the decreasing number of distributors in Russia, which causes problems for the companies with a substantial share of hardware installation services. Software distribution also suffered - customers want to either buy packaged software directly from vendors, reduce the supply chain and optimize the cost, or to receive it as a service.

Nevertheless, not all services providers witnessed a slowdown in business. Despite the deteriorating economic conditions, services suppliers engaged in application consulting and customization and IT outsourcing (especially hosting infrastructure services) as well as those companies that were involved in ecommerce support and the analysis of large amounts of data did not witness any deceleration in their business.

IT services providers, such as PROGNOZ, I.T.Co., and Jet Infosystems, showed good dynamics, increasing their revenue by more than 20% year on year in 2013, and maintaining a high share of services in their business. Companies that can move from the mass resale of foreign products and standard services to the creation of value-added solutions and are capable of finding competitive niches will be in a better position over the forecast period.

Table 1 shows the top three IT services providers in each of the 13 foundation markets in Russia. Companies are ranked by 2013 supply-side IT services revenue minus offshore revenue.

TABLE 1

Overview of Top Three IT Services Companies by IDC Foundation Market in Russia, 2013

	Vendor 1	Vendor 2	Vendor 3
Hardware Support and Installation	LANIT	HP	Jet Infosystems
Software Support and Installation	CFT	HP	Borlas
IT Training and Education	Specialist	LANIT	Softline
Network Consulting and Integration	NVision	Technoserv	CROC
Systems Integration	Technoserv	Asteros	CROC
Information System Consulting	LANIT	ITG	I-Teco
Application Consulting and Customization	IBS	NVision	BDO Unicon
Custom Application Development	IBS	PROGNOZ	NVision
Application Management Outsourcing	AT Consulting	MAYKOR	BDO Unicon
Information System Outsourcing	NVision	Jet Infosystems	ARMADA
Network and Desktop Outsourcing Services	MAYKOR	Microtest	Optima
Hosted Application Management	IBM Global Services	I-Teco	IT Energy
Hosting Infrastructure Services	CROC	IBM Global Services	Tieto

Source: IDC, 2014

In 2013, NVision had the broadest expertise with a strong performance across four foundation markets: number one in network consulting and integration and information system outsourcing, second in application consulting and customization, and third in custom application development.

Two companies featured strongly in three foundation markets: LANIT led in hardware support and installation and information system consulting and was second in IT training and education; CROC was first in hosting infrastructure services and third in systems integration and network consulting and integration. IBS enjoyed the leading positions in both application consulting and customization and custom application development, while MAYKOR was number one in network and desktop outsourcing and second in application management outsourcing.

The majority of services providers are Russian systems integrators, with only two international companies – IBM Global Services and HP – featuring prominently on the local market. IBM Global Services was number one in hosted application management and second in hosting infrastructure services, while HP was second in both hardware support and installation and software support and installation services.

Table 2 shows the top three IT services providers in each of the 14 vertical markets. Companies are ranked by 2013 supply-side IT services revenue minus offshore revenue.

TABLE 2

Overview of Top 3 IT Services Companies by Vertical Market in Russia, 2013

	Vendor 1	Vendor 2	Vendor 3
Resource Industries	LANIT	I.T.Co	Parma Telecom
Construction	HP	Stins Coman	I-Teco
Combined Manufacturing	LANIT	IBS	NVision
Transportation	Technoserv	IBS	Asteros
Communications & Media	NVision	Technoserv	Compulink
Utilities	Optima	Compulink	Technoserv
Retail	MAYKOR	CROC	Jet Infosystems
Wholesale	Stins Coman	Systematica	R-Style
Combined Finance	CFT	LANIT	IBS
Professional Services	IBS	HP	Tieto
Government	LANIT	NVision	ITG
Healthcare	ARMADA	IBS	NVision
Education	IBS	I.T.Co	HP
Consumer and Recreational Services	Specialist	Systematica	Tieto

Source: IDC, 2014

Some companies occupied leading positions on several vertical markets in 2013. LANIT was first in the combined manufacturing, resource industries, and government verticals and second in combined finance. NVision was number one in communications and media, second in government, and third in both combined manufacturing and healthcare.

In 2014, Russian services providers were affected by the worsening economic situation and the international sanctions associated with the crisis in Ukraine. Thus, R-Style has already faced problems regarding the implementation of planned solutions for their customers. Certain equipment prepared for Stroygasmontazh, R-Style's customer, was prohibited from export because the customer was black-listed.

As a consequence of the sanctions, Russian customers are becoming concerned about the potential risks associated with international vendors that can refuse to sell additional modules. Some systems integrators are considering a possible shift to non-U.S. suppliers, such as Huawei or Samsung, and to domestic software applications if Russian analogs are available. Western sanctions spur attempts to create domestic software and hardware in Russia.

Regional Market Players

In recent years, the IT market in Russia's regions has undergone significant changes. The shortage of IT specialists, the necessity of business transformation from a startup into a fully fledged company, falling profits, and the expansion of large federal companies have forced many regional players to exit the market. Some of them became subsidiaries of such companies as Technoserv, LANIT, NVision, or MAYKOR that now have offices throughout the country, and continued to work in their historical territories. Some regional players, on the other hand, have learned how to adjust their business and are becoming increasingly prevalent on the local markets.

The Forus group of companies, based in Irkutsk, is one of 1C's main distributors and services partners in Siberia and the Far East. The company has its own 1C-certified training center as well as an IT personnel recruitment center. IT services generate 12% of Forus' total revenue, 70% of which relates to systems integration, with more than 60% of contracts in retail.

Perm hosts such companies as ICS Perm and Parma-Telecom. The majority of the latter company's IT services revenue comes from consulting in the resource industries. In 2013, Parma-Telecom continued its cooperation with LUKOIL Overseas and, after last year's SAP ERP system implementation, performed a modernization of the company's IT management system.

In Tyumen, the largest local IT companies are Tumbit, Arsenal+, Rastam IT, Zapsibnefteservice, Tyumen Computer Company, INEX-technique, and ICS.

UNIT, HOST, Crona CS, and USSC, all based in Yekaterinburg, jointly have revenue in excess of $130 million.

Galex, with revenue of $33.40 million, is the leading systems integrator in Barnaul and the Altai Region. The company's IT services solutions generate just under half of its total revenue, more than 80% of which is related to systems integration. The main sources of income for Galex are the construction and government verticals; together providing about 60% of the company's IT services revenue. In 2013, Galex implemented IT infrastructure at the Barnaul Administration, the Legislative Assembly and Judicial Department of the Altai Krai.

All these regional market players have strengthened their position and compete with larger companies for market share in their regions.

Vendor Market Shares by IT Services Foundation Market

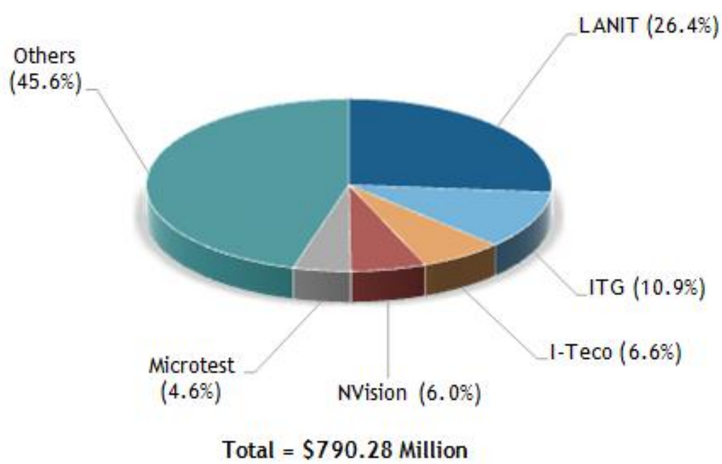
This section of the study provides information on relative shares of IT services vendors by IDC's 13 core segments, called foundation markets. As in the reporting of total services revenue, IDC does not subtract revenue delivered via third-party channels or through subsidiaries. Nevertheless, the subcontracted share that is common in areas such as support services and systems integration is accounted for at the aggregate level.

Information System Consulting

The information system consulting foundation market was valued at $790.28 million in Russia in 2013, representing a year-on-year increase of 5.4% and constituting 10.2% of the total IT services market.

FIGURE 8

Information System Consulting Foundation Market Vendor Shares in Russia by IT Services Revenue (US$M), 2013



Source: IDC, 2014

The key vendor developments in this category are as follows:

LANIT placed first on the information system consulting services market in Russia in 2013, with revenue of $275.76 million and a 26.4% share. The company develops IT strategy for automation of enterprises, optimization of business processes, and support of IT implementations, and among its clients are Norilsk Nickel, RussNeft, Gazprom Media, Sukhoi, and Eldorado. Last year, consulting was a large part of LANIT's process control system implementation at Aleksinsky Chemical Factory and Oracle Hyperion Planning platform implementation at TBM.

INLINE Technologies Group (ITG) ranked second on the information system consulting services market in Russia in 2013, with revenue of $113.91 million and a 10.9% share. ITG has a subsidiary, ITG Consulting, which specializes in the implementation of management information systems and provides integration solutions for BA applications. In Russia, ITG Consulting is a strategy partner of Capgemini. Among ITG's clients are Billa, BMW, Tchibo, Danone, Aeroflot, Gazprom, and TNK-BP.

I-Teco came third on the information system consulting services market in Russia in 2013, with revenue of $69.29 million and a 6.6% share. I-Teco is focused on the development of information system strategies. In December 2013, the company completed a nine-month project to standardize Infinitum Asset Services' IT services infrastructure in accordance with ISO/IEC 20000:1-2011.

TABLE 8

Total Supply-Side Revenue on the Information System Consulting Foundation Market in Russia, 2013

	Value (US$M)	Share (%)
LANIT	275.76	26.4
ITG	113.91	10.9
I-Teco	69.29	6.6
NVision	62.58	6.0
Microtest	47.91	4.6
Parma Telecom	31.92	3.1
I.T.Co.	31.74	3.0
Technoserv	29.94	2.9
Systematica	29.21	2.8
Compulink	26.23	2.5
Others	327.75	31.3
Total	1,046.23	100.0

Notes:

The table reflects IT services revenue from the supply side minus offshore revenue.

Actual spending by end users from the demand side was $790.28 million.

Source: IDC, 2014

Synopsis

This IDC study presents the top IT services providers in Russia, including their market shares, based on their respective performances in 2013. Furthermore, it examines in great detail the performances of the top 10 IT services providers in Russia. The study contains market size and shares for the top 10 service vendors by IDC's 13 foundation market categories.

The study answers the following questions:

- Who are the top IT service providers on the Russian market?
- Who are the top 10 providers for each of IDC's 13 services categories?

"The abilities to perform complex, large integration projects and apply new technologies have become more valuable assets. Companies engaged in large systems integration projects are in a good shape; however, competition in this sector is growing. New forms of IT services delivery are changing all foundation markets, including systems integration, forcing integrators to compete not only among themselves but also with new players, such as pure-play and telecommunications cloud services providers. To be competitive, systems integrators have to invest significantly in new technologies and restructure their business." – Research Manager Alexander Prokhorov, IT Services, IDC Russia

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