

According to the New York Times publication, American companies are cashing in on outsourcing their IT and non-IT needs to Eastern Europe along with the Western European organizations. Such multinational players as Dell, IBM and Morgan Stanley have recently outsourced their services to Eastern Europe and expect other US companies to do so. What advantage is hidden behind the Eastern Europe's IT scene?

In 2008 the outsourcing business of Eastern Europe was estimated at nearly \$2 billion, representing just a tiny fraction of the global IT outsourcing market, estimated at about \$386 billion. According to the Gartner Dataquest predictions, in the next four years Eastern Europe is expected to outstrip the rest of the offshore market concentrated mainly in the "classical" locations like India. By 2010 Eastern Europe's IT outsourcing market share is predicted to expand up to 30%, while the global market share is anticipated to grow by 25% only. The secret of Eastern Europe's success may in part be due to a potent mix of attributes that no other rival region can offer: a multilingual and highly educated talent pool and an abundant, yet undiscovered consumer market.

Outsourcing is booming as Eastern Europe moves more rapidly to integrate economically in its more successful western neighbors. This process reflects the progress consisting in reduced unemployment rates and increasing development of a real estate business offering high-rise office space. The outsourcing boom is also fueled by the fact that Western Europe currently experiences significant labor shortages in some of the extremely important occupations. To ease the strain, Western Europe has no other choice than to turn to its eastern neighbor. So, the chain of interdependencies between two Europes is self-evident.

And how is it going with outsourcing in the traditional destinations? A recent Forbes publication sheds some light on the actual state of affairs in India, once the hottest offshore outsourcing spot. Although India is commonly believed to be riding high on outsourcing with 4 million people involved in IT-enabled services in 2008 that account for 7% of GDP, Forbes points out that the reality is far from a perfect picture. The wages are rising in India. In 2007 the Indian salaries rose 15.1% from 14.4% in 2006. This year the analysts expect them to rise 15.2%. Today's cost advantage for IT outsourcing to India is assessed to be 1:3 at its best. Attrition rates are scary, too.

According to Forbes, India is still the world's back office whose tech industry is, in fact, a services industry. India's greatest oversight is that it never did the thinking, it only executed. As a result of this, India did not learn how to invent technology products of its own. Tech-sector venture capitalists that once chased India are now unable to deploy their capital and have to divert it to other industries such as real estate and hotel, retail and non-tech sectors.

Another huge difference between India and Eastern Europe is attitude towards customers. Forbes says that the "Indians are complacent and will not take risks", they simply outsourced the thinking to their clients. Eastern Europe is hungry for more business contacts with the rest of the world, integration in the global IT market, improving their living conditions etc. The Eastern European companies, using their local resources and talents, strive to supply their customers with innovative, sophisticated and smart solutions; they are ready to take the whole burden of the client's problems on their own shoulders. They are creators rather than executors.

According to the Gartner's Hype Cycle for Emerging Technologies, in the next ten years only companies that dedicate all their resources to learning and mastering new trends and technologies will be able to "keep the head above the water". With today's cost structure 1:3 India still attracts US companies. But what will happen when this structure becomes 1:1.5? There will be no reason for the US companies to use India as their back office that does not generate any bright ideas. Enough executors can be found in Georgia, Oklahoma or British Columbia. Today Eastern Europe with its great technology potential has all the chances to become more compelling than India or any other classical outsourcing destination. They say that the next stage of IT outsourcing will be smartsourcing. Smartsourcing suggests that the processes be executed and the ideas be generated jointly by all the parties involved. Today Eastern Europe seems to be ready to follow this new model of outsourcing. Locations like Ukraine have a great potential to open a new page in the history of the outsourced business development.

Sources: Forbes, The New York Times, Gartner.