

Buyer's guide

OUTSOURCING TO VIETNAM

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Outsourcing is now an integral feature of business life. As a growing number of global companies search for more cost-effective ways of working, finding a third party to take care of non-core functions could be an ideal and trending solution.

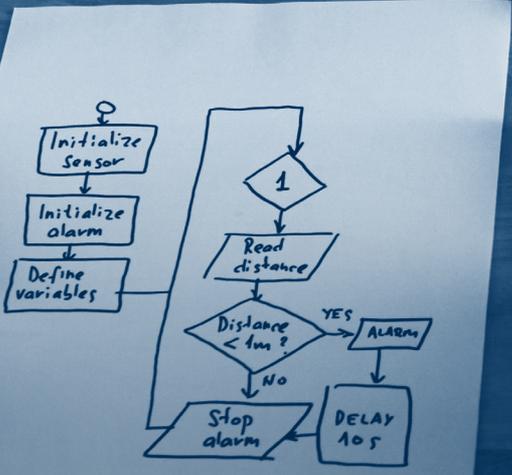
But when bringing a third party company to join your business, it is necessary to scrutinize every aspect from economical to even socio-political risks. Choosing the right destination, right partner, with a structured approach, you will hold the key to fully exploiting the benefits of outsourcing and go a long way ahead.

Recent years, Vietnam is becoming an emerging outsourcing marketplace in Asia for global enterprises, especially in the ICT industry. The country has numerous advantages of a young and talented labor workforce with lower cost compared to other outsourcing places in the region. The Vietnamese government also creates favorable conditions for international companies to invest in or cooperate with locals. However, things can not be smooth if you do not have an in-depth understanding of the locality and learn experience to overcome obstacles while working in Vietnam.

In this handbook, we focus on local insights and giving the fundamentals of outsourcing in Vietnam to help you to get the most out of work here. Each chapter of the handbook is about one specific object. In the first chapter, you can find basic knowledge about IT outsourcing and its different models which are common not only in Vietnam but also worldwide. The second one reveals challenges and opportunities while entering and working in Vietnam. The last chapter focuses on local insights of IT outsourcing and the best practices based on our own experience of 26 years working in the ICT field in Vietnam. All valuable information is gathered from reliable sources and clearly cited in the handbook for reference.

To conclude, wherever you are in the journey of outsourcing, we hope this handbook can partly find you well. And even you intend to outsource in Vietnam or not, this handbook surely provides you a myriad of valuable information.





CHAPTER I OVERVIEW OF OUTSOURCING

1. What is outsourcing?

Outsourcing (from “out” “source”, i.e. external source) is a management approach that allows delegating to an external agent operational responsibility for processes or services previously delivered by an enterprise. It can be defined as... “the purchase of a good or a service that was previously provided internally”.

Two of the most important drivers for outsourcing choices are cost efficiency and production reorganization. By outsourcing, companies can focus their efforts on core business, medium/long-term targets and diversification opportunities.¹

According to Deloitte, in its simplest term, outsourcing is contracting out of a business function to an external supplier, involving the transfer of people, processes, and assets. This contracting out can be undertaken at either an on-shore or off-shore location, and to one (single-sourced) or more (multi-sourced) outsourcing partners.

Outsourcing is most mature in the Information Technology sector (Information Technology Outsourcing - ITO) although it is increasingly developing to include a wide range of business processes (Business Process Outsourcing - BPO) such as HR, Finance, Procurement, Customer Service, and the wider back-office function.

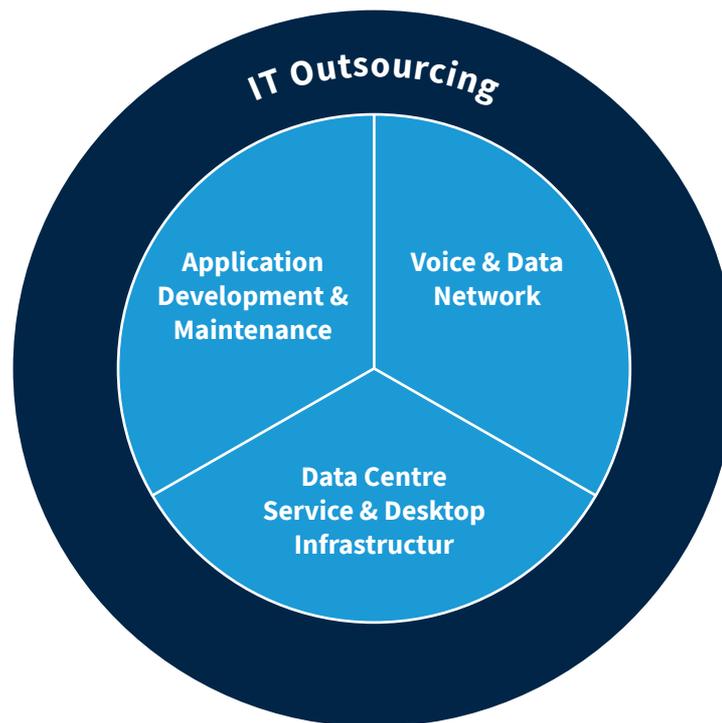
IT Outsourcing:

From small beginnings, in the 1980s IT Outsourcing has evolved into a sophisticated global market, and most companies, no matter how traditional their business model, have outsourced one or more layers of their IT function. Outsourcing IT has always been a complex exercise, in part due to the requirement to bundle IT into ‘services’ combining hardware, software, people, and processes. These services (‘towers’) often contain data center, end-user computing, service desk, application development and maintenance, and voice and data network packages.

For traditional IT outsourcing, there are intricacies in transferring staff, novating contracts, and assessing the financial impact of selling physical assets. These complications have been recently compounded by on-demand IT offerings, the evolution of offshore centers, and the advent of cloud-based offerings.²

¹ Outsourcing: Guidelines for a structured approach, Article in Benchmarking An International Journal, June 2003, Fiorenzo Franceschini.

² The outsourcing handbook: A guide to outsource, Deloitte.



With globalization and the rapid advancement of information and communication technology (ICT), it is now easier for companies to break up their service functions, and outsource some of these functions to low-cost locations overseas on the basis of geographical diversification either by contracting the job to a third party (offshore outsourcing) or by setting up a subsidiary at an overseas location to undertake the same (which is also termed offshoring). This largely complements the existing phenomenon of production fragmentation, wherein manufacturing activities were also broken down into stages and undertaken in different countries in line with their comparative advantage.

Vietnam, with the software industry's annual growth at 40%, is making a big push to turn itself into an outsourcing powerhouse. Foreign investors continue to show a high level of confidence that Vietnam will deliver on its potential. IT outsourcing services generate around \$3 billion a year, according to Vinasa. Moreover, outsourcing companies in Vietnam have over the years made inroads into the markets of the US, Japan and several European countries. Vietnam has recently overtaken India to become Japan's second-largest software outsourcing partner after China, accounting for around 21% of the market, according to the Japan External Trade Organisation, while US and European markets have generated growth rates of 20-30% per year.³

According to a survey by US-based software vendor BetterCloud, 73% of organizations will use software outsourcing. Vietnam has emerged as a cheaper outsourcing destination compared to traditional markets, such as China and India. This helped the software industry reach revenues of US\$8.8 billion in 2018, according to the Vietnam Software and IT Services Association. The government is developing high-tech parks and is also offering several incentives to further the industry. For example, Da Nang has developed as a software outsourcing center, particularly for Japanese businesses.⁴

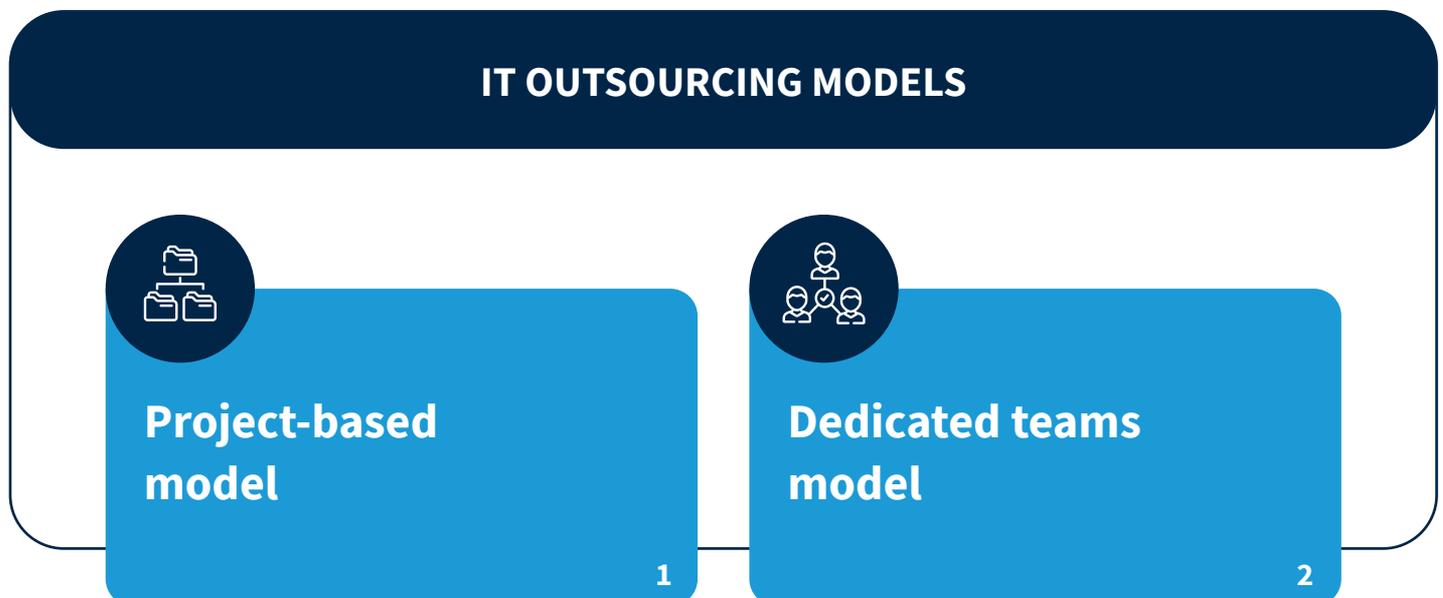
³ Vietnam's IT industry sees high growth rates, although education and training challenges remain, OxfordBusinessGroup.

⁴ Vietnam's IT Sector: 5 Industries to Watch, Vietnam Briefing.

2. Outsourcing models

You can see different outsourcing models available in software project management. However, in this handbook, we only mention 2 typical models that may fit you the most. Besides, we also provide our own insights for a diverse view of the two models:

- *Project-based model*
- *Dedicated teams model*



a. Project-based model:

According to Outsourcing Review⁵, with project-based IT outsourcing, you delegate the completion of an entire project to a third party. This typically involves having to first explain the full requirements of the project to members of the outsourcing company, such as project managers and business analysts, and they will then be responsible for forming the development team and seeing the project through to its completion.

Pros.

Project-based outsourcing takes a large bulk of the work off your hands, as the outsourcing company will be largely responsible for the development of the entire project from start to finish. They will form the development team, carry out project management, and implement quality control.

Cons.

This method gives you limited control over your project and developers. With extra services such as project management, business analysis, and quality assurance, this model can also cost a lot. It also requires that you define the full specifications of your project at the beginning, which may be very hard. Moreover, misunderstandings with project requirements can lead to significant mistakes that can delay project completion.

At CMC Global, based on the detailed specification document of the project provided by client, CMC Global team will work internally to send client a comprehensive solution

⁵ Project-based Outsourcing vs. Dedicated Team Model: Pros and Cons, IT Outsourcing Review: Ukraine.

2. Outsourcing models

proposal including timeline, team structure, deliverables list technical solution and quotation. CMC Global will start to implement the project once getting the approval from the client on the proposal.

Note: Detailed document is SRS (Software specification requirement) including functional description of the application and its mockup or at least wireframe design.

If the customer does not have SRS document, CMC Global needs to involve in the requirement analysis phase. The output of this phase is SRS document.

CMC Global responsibility	Implement the project according to agreed timeline, deliverables list.
Client's responsibility	<ul style="list-style-type: none"> - Provide specification document (SRS) of the application/system. - Provide needed information for project implementation requested by CMC during the implementation phase. - Provide feedback after the project is accomplished.
Timeline	CMC will follow the agreed timeline in the proposal.
Cost	<p>Cost will be calculated upon the effort estimated by CMC. CMC will send the effort estimation in a work breakdown structure (WBS) template. This effort is typically measured by the number of resources that CMC need to use and the duration CMC could finish the project. The unit for effort may be monthly rate, daily rate or hourly rate.</p> <p>For example: The monthly rate is \$2,200 The equivalent daily rate would be \$100 The hourly rate would be \$13 If the project is estimated 23.4 Man Month. The cost will be $23.4 \times 2200 = \\$51,480$</p>
Payment phase	The timeline for payment is typically based on delivery milestones. There will be an upfront payment required once the contract is signed.

2. Outsourcing models

b. Dedicated team model:

With the dedicated team model, you hire remote developers who will report directly to you and work for you full-time but will remain in the dedicated team provider’s office. They may form your entire development team, or they may collaborate with your in-house developers. This model is also known as IT staff augmentation or IT outstaffing.

Pros.
Hiring dedicated developers gives you full control over your project. It also gives you more flexibility with your project costs, as you can easily add or remove developers as your requirements change. Moreover, it does not require you to define the full set of project requirements at the beginning, and you can immediately detect and correct mistakes as they appear.

Cons.
Staff augmentation requires constant communication and collaboration with your remote dedicated developers, so when hiring from a distant country, time zone differences and language barriers may pose challenges. Though this is also true for project-based outsourcing.⁶

CMC Global will provide dedicated & full-time technical resources based on customer’s skillset requirement.

CMC Global responsibility	Provide suitable CVs and arrange the qualification process (test, interview) for the client to qualify the resources. - Have the agreed resources to be on-board after qualification process. - Find the alternatives in case current resources are not up to client’s expectation.
Client’s responsibility	- Provide the detailed information of resource augmentation request including resource quantity, working duration, required technical skillset, language ability etc. - Qualify the candidates. - Assign the tasks to CMC technical resources. - Give advance notice for CMC if there is any request for adding up or cutting down or changing the resource.
Timeline	Based on how long the client wants to hire our resources. However, minimum timeline required is 6 months.

⁶ Project-based Outsourcing vs. Dedicated Team Model: Pros and Cons, IT Outsourcing Review: Ukraine.

2. Outsourcing models

<p>Cost</p>	<p>The cost will be calculated upon the number of hired resources and their working timeline.</p> <p>For example, you are hiring 4 Java developer in 6 months and the rate for Java developer is \$2200 The total Man Month is: $6 \times 4 = 24$ Man Month The cost will be $24 \times \\$2200 = \\$52,800$ Please note that we offer different rates for different position and experience level.</p>
<p>Payment phase</p>	<p>The payment will be made monthly upon the number of Man Month of that month.</p>

If you are concerning what is the suitable model for you, here are some tips:

Project-based outsourcing is recommended for clients who:

- *Have a small, short-term project.*
- *Have all the requirements of the project set in stone.*
- *Don't need or can't monitor the project progress too closely.*

The dedicated team model is recommended for clients who:

- *Have a large or long-term project.*
- *Want the freedom to change project requirements as they please.*
- *Prefer close monitoring of their developers and project progress.*
- *Need flexibility in extending their existing development teams.*



CHAPTER II

VIETNAM AS AN ALLURING OUTSOURCING DESTINATION

As Vietnam moves from low-tech manufacturing to a service-oriented economy, the country's information technology (IT) market is increasingly gaining traction, giving competition to IT firms in China and India. While Vietnam is steadily gaining traction as a premier country to outsource IT support, it still has its challenges. So what are the challenges and opportunities of outsourcing in Vietnam?

1. Challenges

a. Government related issues:

According to the article "Vietnam as an IT Outsourcing Destination" by Chau Phan, Capstone Project, Business Policy and Strategy Honor Spring 2008, the present government clearly struggles with finding what it feels is an appropriate balance between pro-market and pro-socialist ideology, often with mixed results. While success and progress in the IT sector are notable, particularly when compared with other sectors, the nation has been slow to broadly execute the second phase of modernization. The Vietnamese government continues to suffer from a reputation for slow-moving, corrupt, and capricious relations with foreign firms as well as a lack of transparency and legal protection for firms doing business in the country.

b. Project scale:

In a survey of The World Economic Forum's 2017 Global Human Capital Report, Vietnam is ranked 64th out of 130 countries, for large-scale outsourcing project, Vietnam still has a gap to offer infrastructure for a thousand-person operation. Comparisons with Indian market, the two are significantly different in scale and capabilities. There are only a few firms that have over 200 developers and no outsourcing firm currently has a deep talent pool of 700 plus developers common among the larger global outsourcing firms in other countries.⁷

c. Language barrier:

While most of the outsourcing projects require English as the main communicating language, Vietnamese still pretty weak at this point. However, in recent years, local companies are paying more attention to tackle the issue. Language training courses for programmers are often organized to improve language skills for employees. At CMC Global, language skills are one of the indispensable standards in training for project managers or developers.

⁷ Vietnam as an IT Outsourcing Destination by Chau Phan, Capstone Project, Business Policy and Strategy Honor Spring 2008.

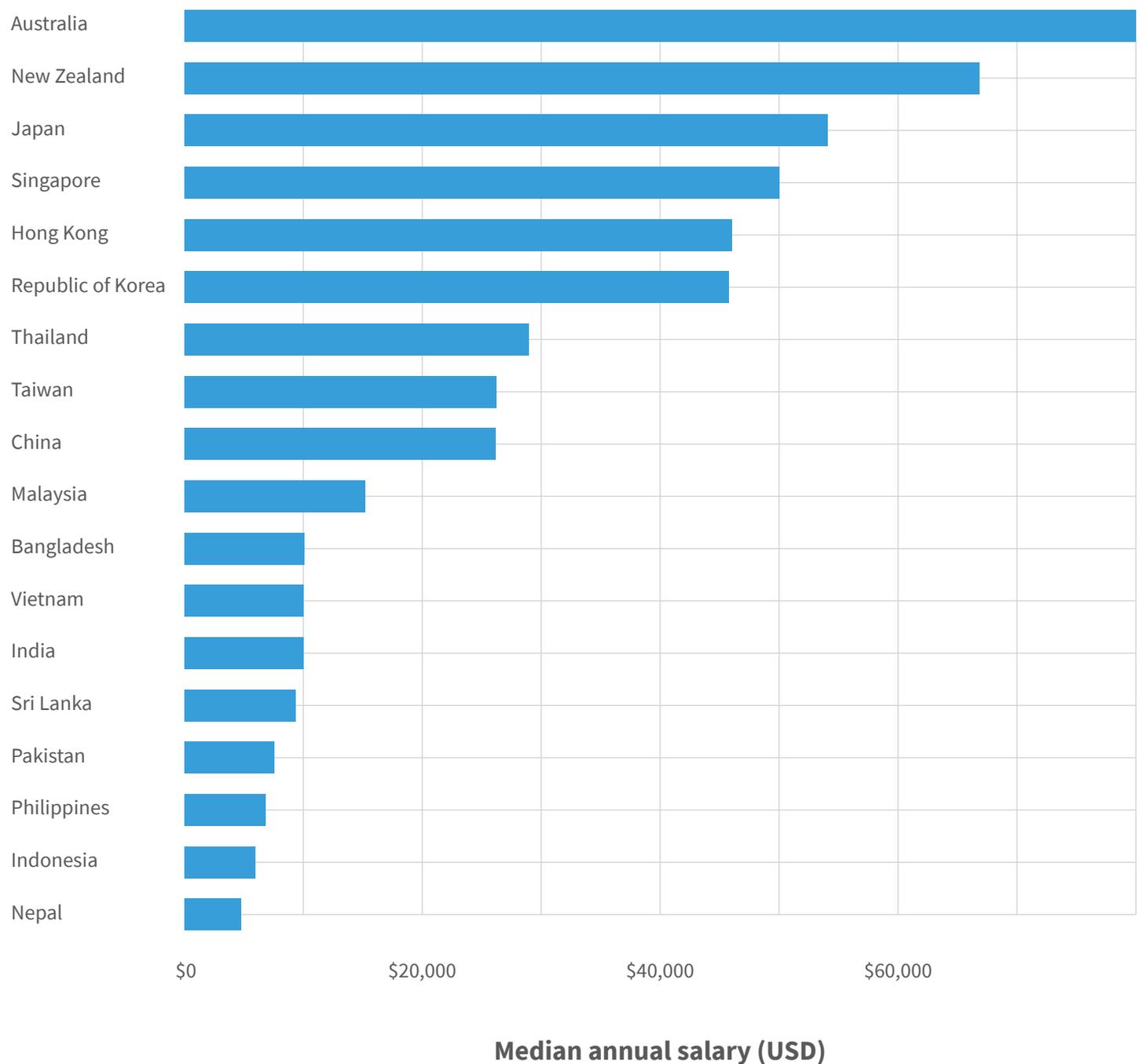
2. Opportunities

a. Low-cost labor force:

Vietnam has a growing number of IT professionals however most of them are getting the payment lower than their peers in the region. Highly-skilled engineers in Vietnam earn around \$10,000 per year which is \$5000 lower than the average cost in Malaysia. And even with the same skills, they can earn nearly \$30,000 in their neighbor Thailand. Competitive labor pricing has always been an attractive reason for global entrepreneurs to come to Vietnam. According to the survey of [stackoverflow](#), Vietnam only ranks 7th bottom-up in median salaries for developer range.

Developer salaries in Asia-Pacific

Median salaries for developers range dramatically across this region



2. Opportunities

b. Top 5 software service providers:

According to a research of AT Kearney’s 2019 Global Services Location Index (GSLI 2019), Vietnam is among the top 5 IT service providers. Based on 3 main factors which are financial attractiveness, people skills and availability, and business environment, Vietnam has surpassed Brazil to reach level 5. The research also shows that big companies in the world continue to select Vietnam as an attractive location to invest in. In fact, Japanese companies use services in Vietnam for ITO and BPO. Vietnam has a growing highly skilled workforce and dedicated to improving English proficiency to compete for better services.

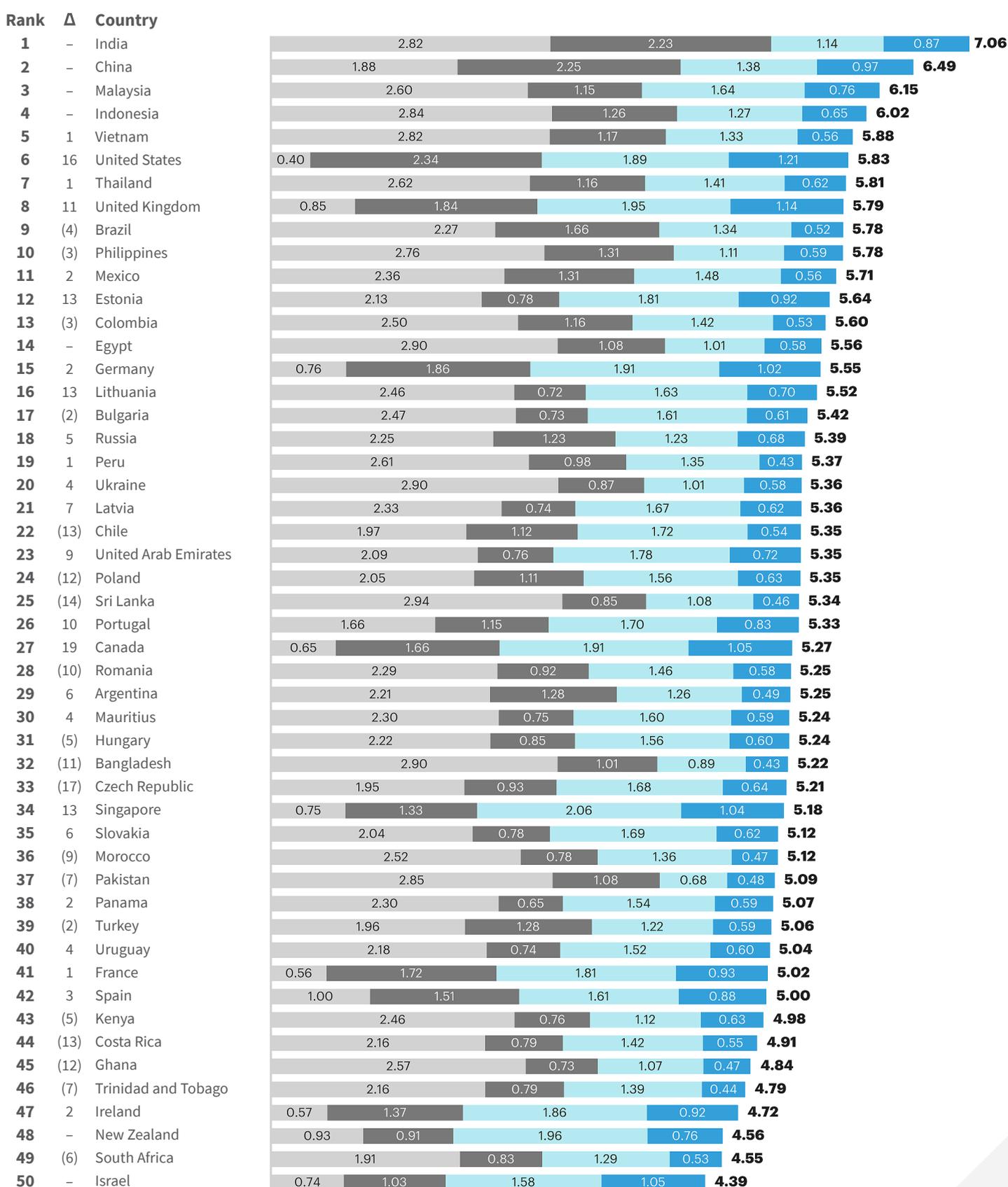
GSLI overall country rankings

The top three remain the same, while the United States, United Kingdom, and Germany perform well in the top 15

- Financial attractiveness
- People skills and availability
- Business environment
- Digital resonance

Notes:
For France, Germany, the United Kingdom, and the United States, Tier II locations are assessed. Numbers may not resolve due to rounding.

Source:
Kearney GSLI 2019



2. Opportunities

c. Political and economic stability:

Vietnam has a stable socio-political environment that offers favorable conditions for foreign businesses. Moreover, Vietnam's GDP has grown by 7.4% on average annually (CEIC) and become the fastest growing country in the APAC region. Therefore, there are enough factors to be confident about a stable environment to ensure the project can work efficiently.

From political standpoint, Vietnam has had over 40 years of stability. The current government has been in place since the reunification of Vietnam in 1975. Since then, Vietnam has been constantly integrating and developing with many international cooperations.

Another reason that makes Vietnam unique is the absence of ethnic and religious conflict. Almost 95% of the country is ethnic Vietnamese and over 80% of the population has no declared religion. Largely because of this, Vietnam has none of the social and religious conflicts that arise in other outsourcing destinations.⁸

⁸ Vietnam as an IT Outsourcing Destination by Chau Phan, Capstone Project, Business Policy and Strategy Honor Spring 2008.



CHAPTER III

APPROACH TO OUTSOURCING IN VIETNAM

1. Choose the right IT service provider

In this handbook, there is no comparison among IT service providers in Vietnam, instead, we suggest the complete guide to select your right partner step by step. No matter when and where you would like to go outsource, these tips can lead you through the journey successfully.

a. Define your final goal:

Making a decision is never easy. A goal which is not clear and relevant may cause things more confusing, especially when choosing an IT service provider for your business. The good news is setting an appropriate goal has its own rules and you can do that by answering these questions in SMART.

SMART goals are⁹:

- **Specific:** *Well defined, clear, and unambiguous.*
- **Measurable:** *With specific criteria that measure your progress towards the accomplishment of the goal.*
- **Achievable:** *Attainable and not impossible to achieve.*
- **Realistic:** *Within reach, realistic, and relevant to your life purpose.*
- **Timely:** *With a clearly defined timeline, including a starting date and a target date. The purpose is to create urgency.*

In this situation you need to think about:

- *What are your business priorities: is it cost-saving, scalability, time-to-market, competencies, vendor diversification, or something else?*
- *Which outsourcing model will align with your current business strategy?*
- *What services do you expect?*
- *What can be outsourced and what can be kept in-house?*
- *Timeline: What is your delivery plan? When do you want to finishing the work?*

b. Compare your vendor list:

Once you have set your final goal to achieve, you need to start working on researching and collecting as much information as possible. Make a vendor list and create your own criteria to ensure that you'll find the right partner. Here are some sources to consider:

- **Your friends:** *If you have a network in Vietnam, that's a lucky sign, you can ask them insights about IT industry or related information or even request them to help you connect directly to a service vendor. That could save a lot of time!*
- **Google:** *Of course this is the top-of-mind searching engine for everyone. You can visit sites for seeking top IT service providers in Vietnam such as Clutch, Crunchbase, Goodfirms, Vinasa. CMC Global proud to be on **the list of Sao Khue Award from Vinasa** for "Best Outsourcing Service in 2019".*
- **Consulting vendors:** *Before working with an IT partner in Vietnam, you can find reports from Nielsen, McKensy, etc to get an in-depth understanding of the market and make it easier in choosing partner.*
- **CMC Global's blog:** *Here we provide insights into the IT service industry in Vietnam and share our experience during years working in this field or if you have any idea sharing, do not hesitate to contact us for advice.*

⁹ <https://corporatefinanceinstitute.com/resources/knowledge/other/smart-goal/>

1. Choose the right IT service provider

c. City selection:

You will go to Vietnam and find your own IT service vendor but which city? Have you ever think about it? In Vietnam, Ho Chi Minh City and Hanoi are two main places which have many potentials for IT outsourcing services.

HCMC is a dynamic city that is expected to be Silicon Valley of Vietnam with the establishment of Sai Gon Hi-tech Park, one of the national technology projects. Because of the support from the government, HCMC has stable social conditions, positive GRDP growth, favorable IT infrastructure, and convenient living standards.

Hanoi is the capital of Vietnam with a rapidly growing economy. The city also welcomed many tech giants like Intel, Nokia, Samsung to open offices and factories here. Since this is a capital city, the social and political conditions are extremely stable and safe to develop businesses.

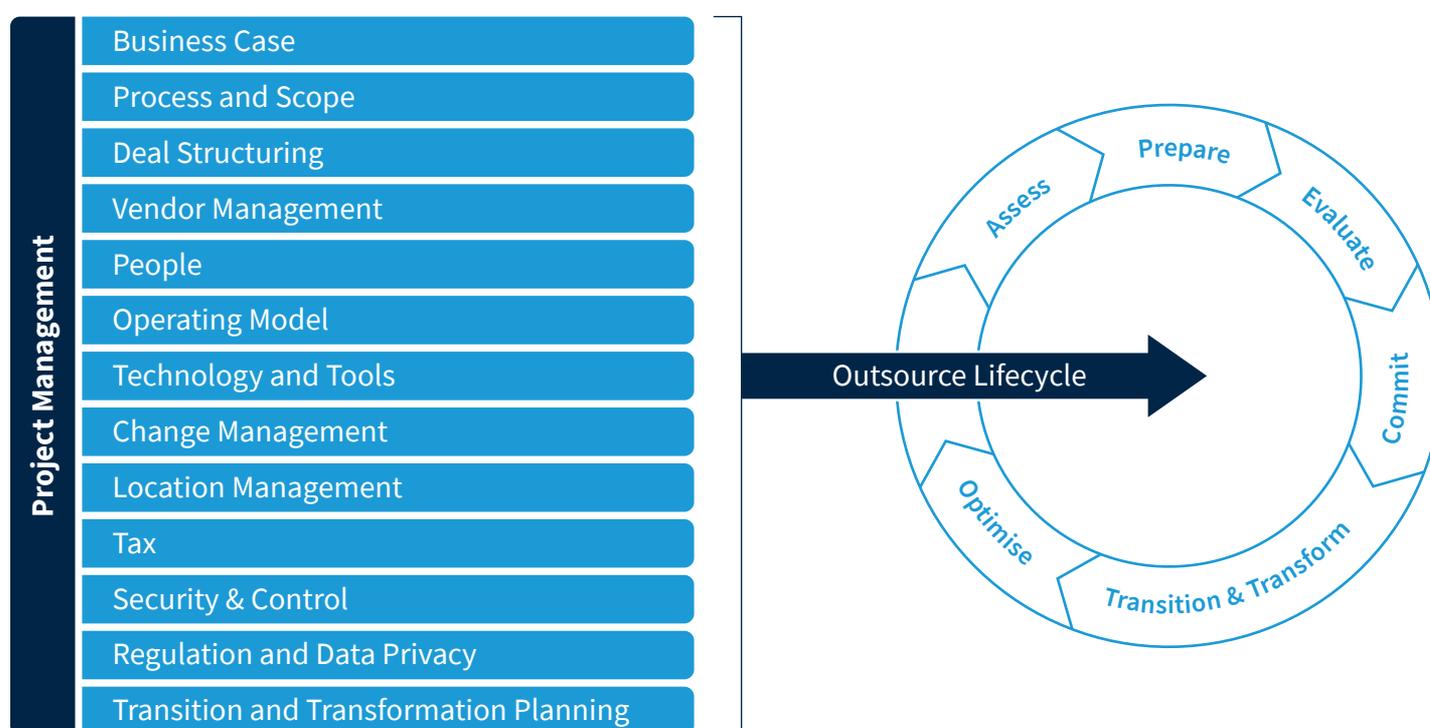
Recent years, Da Nang has emerged as a major outsourcing hub of Japan. In 2017, Japanese IT enterprises contribute 47% of software industry revenue of this city. Da Nang is expected to be fertile ground for many enterprises to visit and develop their business.

CMC Global has its footprint in all these cities with the continuous establishment of offices in ***Ho Chi Minh*** and ***Da Nang*** last year. In a year, we have opened two new branches exposing our imperative strategy of expanding and becoming a leading IT service provider in the region. By 2023, CMC Global sets the target to become Top 5 Technology Services and Solutions companies in Vietnam.

2. Process to outsourcing

According to Deloitte Outsourcing Advisory Service (OAS), comprehensive approach means we can support development, operating model design, business case negotiation, transition management and programme governance.

The OAS method is based around six phases of activity and 13 streams of work:



The six phases of activity can be defined as follows:

Assess: Define objectives and assess capacity.

Commit: Contract development and finalisation.

Prepare: Service level definition and RFP creation.

Transition and Transformation: New service implementation.

Evaluate: Response evaluation and supplier selection.

Optimise: On-going supplier and vendor management.

The 13 streams of work can also be identified:

Business Case: How will the business case for the deal be defined and managed?

Change Management: How will the impact of the change be managed?

Process and Scope: What are the processes and/or services affected?

Location Management: Which locations will be sourced to and how will real estate be managed?

Deal Structuring: How will the contract be structured to best suit the organisation's needs?

Tax: How will the tax structure be optimised to support the deal?

Vendor Management: How will third party vendors be effectively engaged and managed?

Security & Control: How will the organisation ensure policy and procedures are followed?

People: How will any negative impact on staff be minimised?

Regulation and Data Privacy: How will data be protected and regulations complied with?

Operating Model: How must the structure of the organisation change?

Transition and Transformation Planning: How will the project transition and transformation elements be planned and managed?

Technology and Tools: What change to the technology landscape must be made?

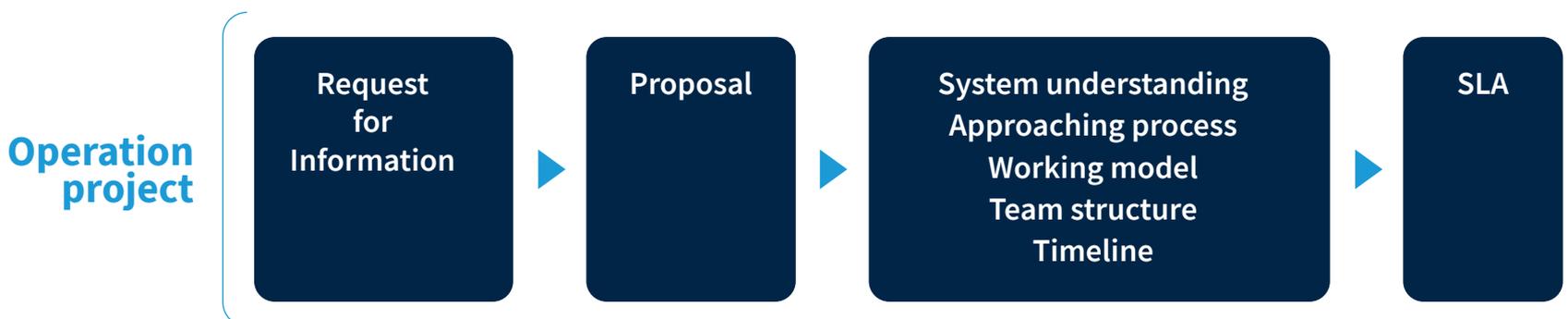
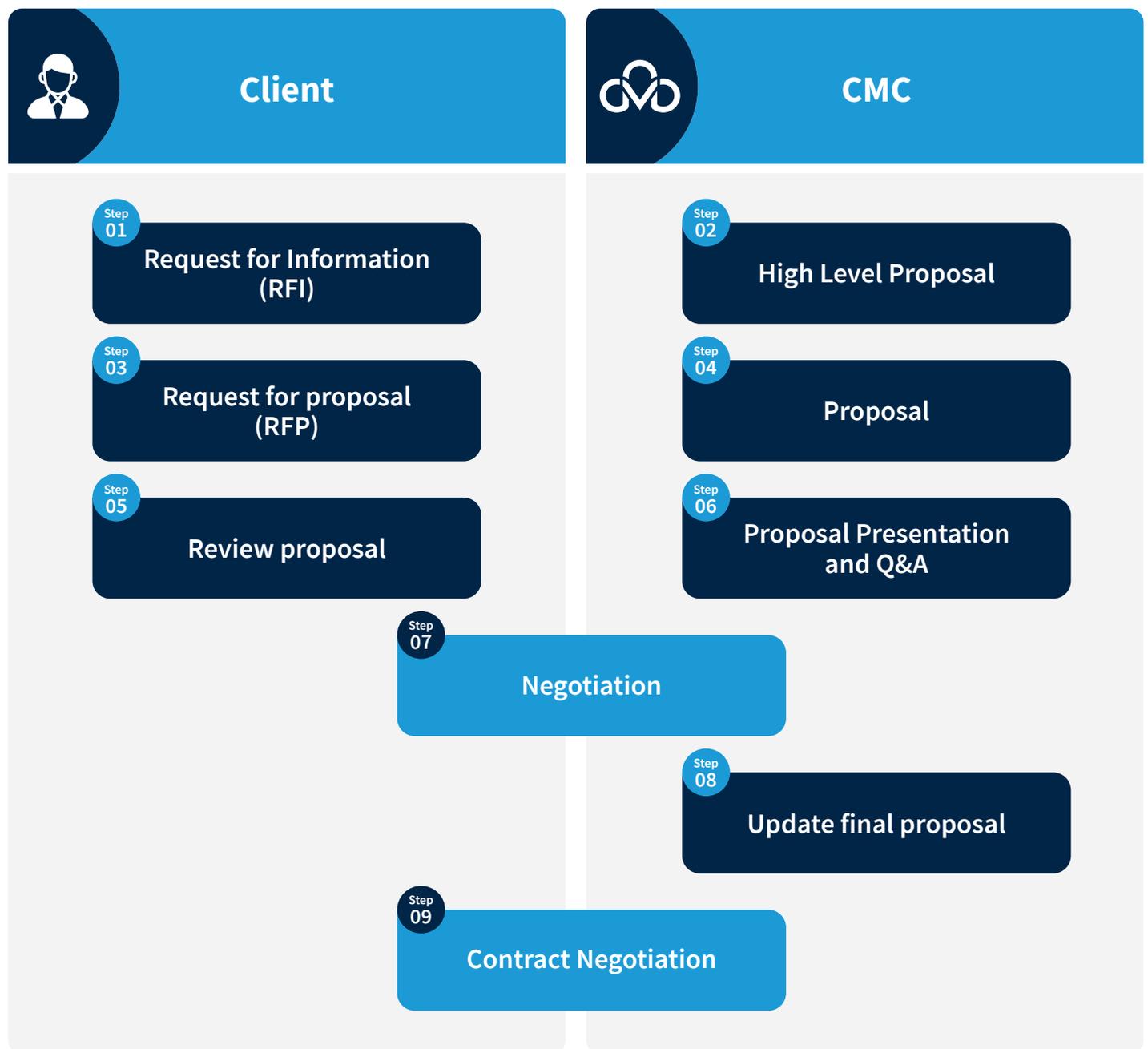
In addition, Project Management is required across every stage and activity of the outsourcing lifecycle to manage and control the effort.

2. Process to outsourcing

With this model you can mostly reach every IT service providers not only in Vietnam but worldwide. However, based on regional and business features, the process might have been customized to closely adapt to customer requirements.

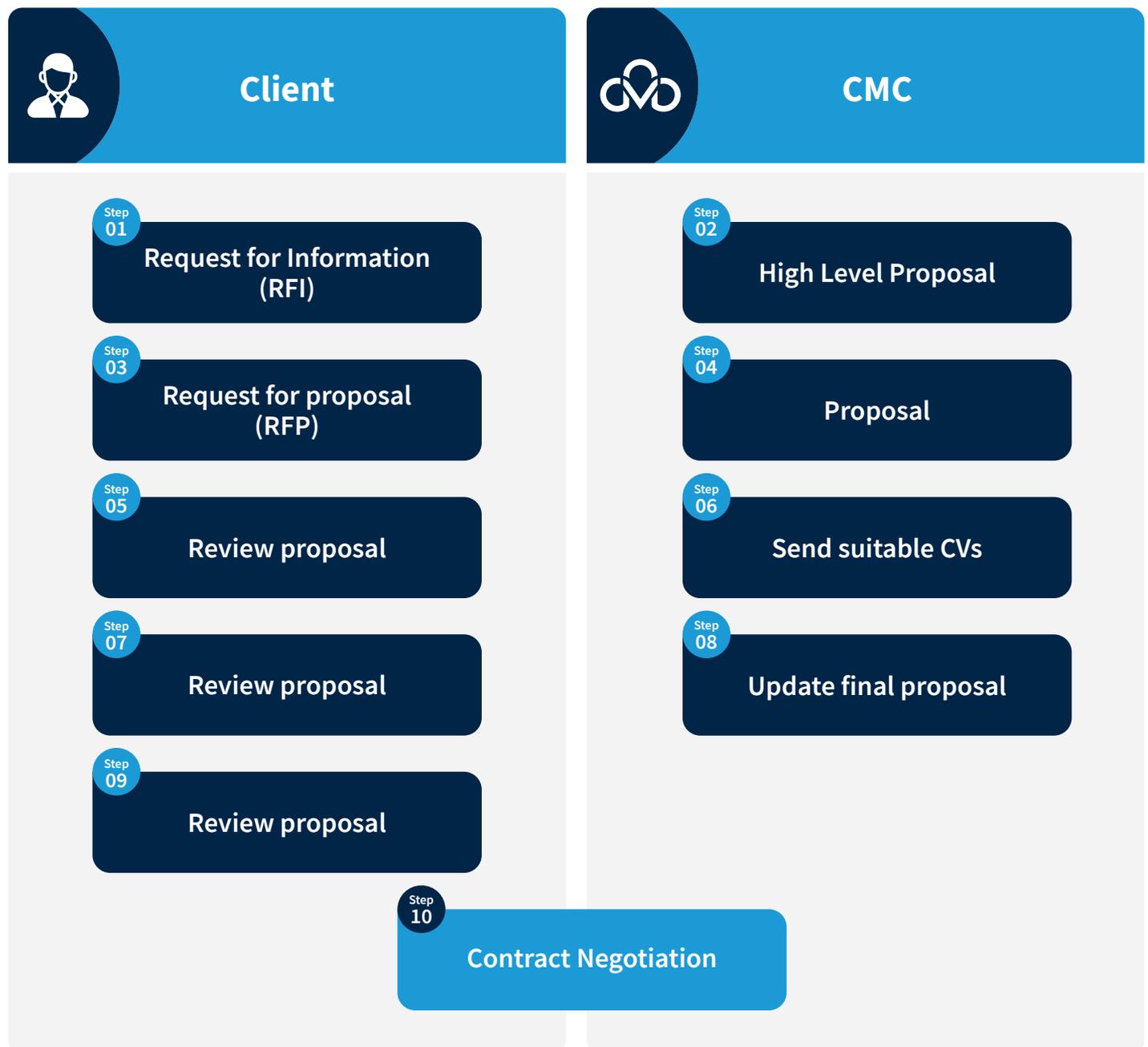
At CMC Global, we provide collaboration process based on two main models:

a. Project-bases model:



2. Process to outsourcing

b. Headcount model:



1. CMC Global is a Vietnam IT company founded in 2017

With 26 years of experience acquired from CMC Corporation in the field of Information & Communication Technology (ICT), CMC Global has been providing a wide range of comprehensive IT services, from consulting firm to implementing infrastructure to achieve the highest level of requirements.

CMC Global will not stop as an exporter of IT services to international customers, but will become a provider of system integration services and solutions of Vietnam to the world.

2. Our services

We provide 2 comprehensive IT services including:



TRADITIONAL SERVICES

- Application Services
- Managed Services
- Migration
- Testing



DIGITAL TRANSFORMATION SERVICES

CLOUD PROFESSIONAL SERVICES

- DevOps IT Professional Service
- Cloud Migration
- Cloud Managed Service
- Cloud Testing

RPA IMPLEMENTATION

- AI Platform Consulting & Design
- Chatbot Implementation
- Big Data Infrastructure Implementation

AI IMPLEMENTATION

- AI Platform Consulting & Design
- Chatbot Implementation
- Big Data Infrastructure implementation

DIGITAL MARKETING OPERATION

- SEO Service
- Monitoring & Optimization
- Marketing Automation

3. Find more about us

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LinkedIn 

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