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Vietnam IT Outsourcing – View of current players

18 September 2015

Background of Vietnam ITO survey 2015

Survey purpose

In cooperation with Quang Trung Software City, KPMG conducted a survey on Vietnam ITO industry in July – August 2015 with the aim to:

- Provide an overall picture on the current situation and prospect of Vietnam ITO industry

- Collect ideas and recommendations on how to efficiently develop ITO industry generally and ITO enterprises in particular

Background of survey participants

80 companies operating in IT business participated in the survey

- Of the total 80 participants, private companies dominate with 44 companies, followed by 33 foreign-owned companies and 3 state-owned enterprises

- Main business activities of the survey participants include: software development, mobile applications, and web development. Others services are data entry, web design, digital marketing, and IT infrastructure support

Executive summary

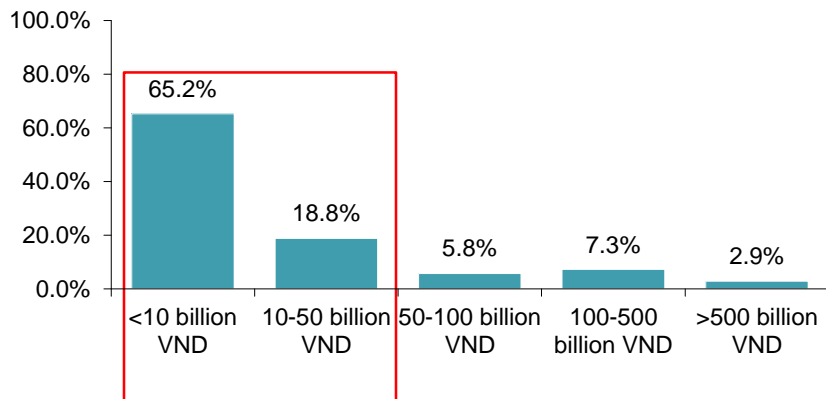| Area	Details
Vietnam as a potential market for ITO services	■ Vietnam is considered an attractive destination for IT outsourcing service thanks to its young and highly trainable labour force, competitive cost structure and a stable business environment ■ 98% of the survey respondents rated Vietnam as an attractive market for ITO business and indicated that they will invest in expanding their business in Vietnam
View on Vietnam ITO market	**Labour** ■ Labour force in Vietnam is characterized by eagerness, hard-working, and quick adaption to technological changes ■ Professional expertise of labour force is positively assessed by 56% of our survey participants. However, language skill seems to remain a barrier as around 87% respondents rated it at either average or below average ■ Despite the abundant and young labour force, access to high-skilled workforce remains difficult in Vietnam ■ Competitive labour cost has turned Vietnam into an attractive ITO destination in the context of rising labour cost in ITO hubs such as India or China. According to figures released by Adecco, average gross monthly salary in Vietnam was USD569 and USD2,049 for Programmer and IT Manager positions, respectively in 2015, which was only around 25 – 35% of the same figure in China **Infrastructure** ■ Majority respondents rated the stability, speed and bandwidth of electricity/telephone/internet infrastructure in Vietnam at average level. In order to support Vietnam ITO industry, infrastructure needs to be further improved as recommended by many respondents **Marketing strategies** ■ Marketing campaigns to promote image of Vietnam ITO industry are generally weak and inefficient ■ Currently, advertising through websites / forums related to ITO and through business partners' networks are the most frequent marketing methods used by majority of Vietnam ITO businesses
Upcoming opportunities and recommendations	**Opportunities** ■ Rising labour cost in other ITO hubs such as China and India may trigger more opportunities for Vietnam ■ Vietnamese companies expanding globally (e.g. FPT Software) have helped to enhance the image of Vietnam ITO industry ■ Government and relevant associations continue supporting Vietnam ITO industry and enterprises ■ Vietnam's further integration into the global economy (i.e. TPP, AEC) will further boost the country's infrastructure, and the quality of labour force **Recommendations** ■ The Government and IT enterprises should be working together to enhance the conditions for IT outsourcing development in various areas, including tax, human resources, infrastructure and marketing

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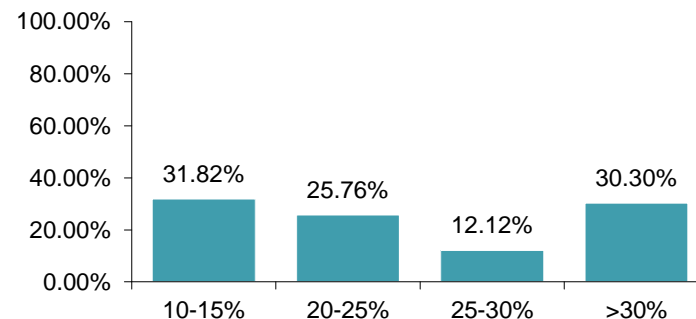
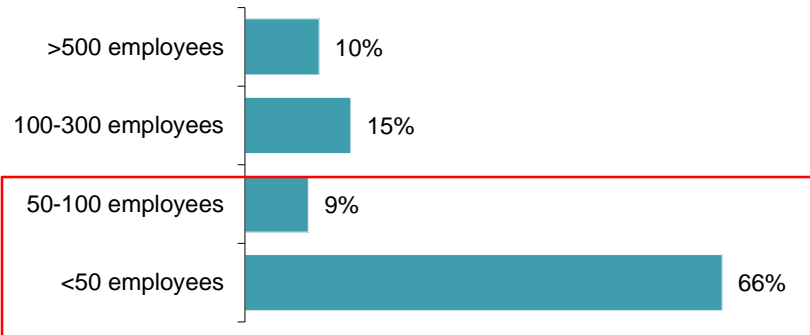# Performance of IT outsourcing businesses

Revenue

Revenue in 2014

Expected growth in 2016

- The industry is dominated by small-scaled private enterprises. 84% of survey participants had revenue of below VND50 billion (approx. USD2.27 million) in 2014 while only 2.9% earned more than VND500 billion (USD22.7 million)

- Revenue is mainly driven by export services (80%). Going forwards, many companies plan to expand their markets for ITO services to Europe, Australia, America and selected Asian countries (Hong Kong, Japan, and Singapore)

- High growth expectation is set. Nearly 70% of respondents plan to grow more than 20% in 2016
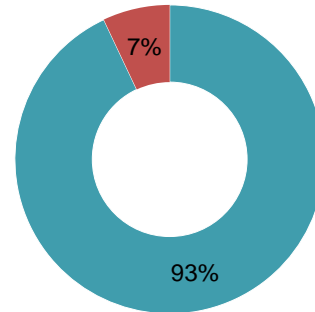
Human resources

Employees size within surveyed organizations

>500 employees	10%
100-300 employees	15%
50-100 employees	9%
<50 employees	66%

Vietnam ITO market is characterized by the dominance of small-scaled companies in terms of employment. 75% of surveyed companies have less than 100 employees

All respondents have plans for expanding their workforce in 2016
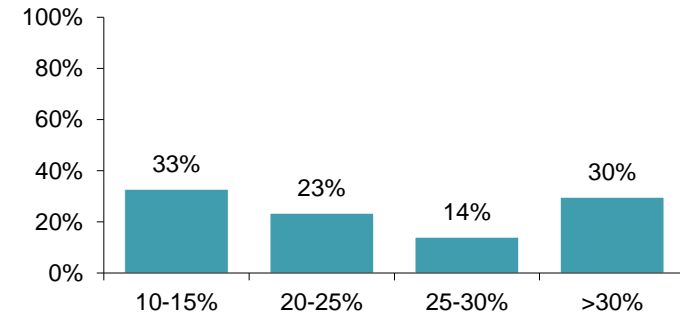
Employees breakdown by qualifications

7%
93%

IT employees in Vietnam are graduated from colleges / universities and above

- Colleges and university degree
- Master degree and above

Expected employees growth in 2016 within surveyed organizations

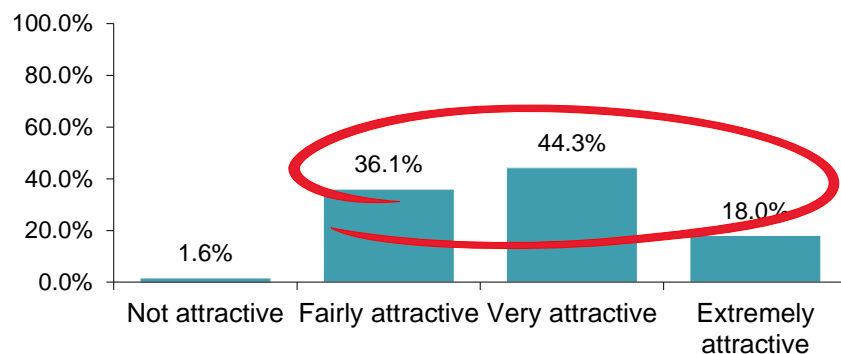| 10-15%	20-25%	25-30%	>30%
33%	23%	14%	30%

Comments on Vietnam ITO industry

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Attractiveness of Vietnam ITO industry

Voice of current ITO players

Assessment on Vietnam ITO industry's attractiveness

- 98% of the survey respondents rated Vietnam as an attractive market for ITO industry and indicated that they will invest in expanding their business in Vietnam

Voice of independent organisations

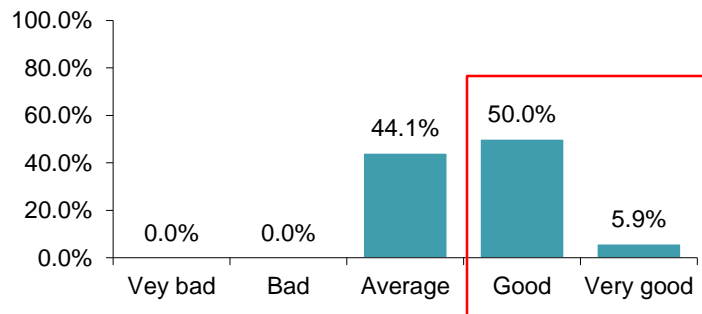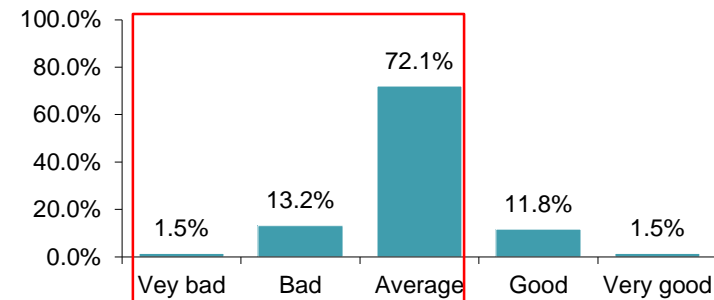| THOLONS	*HCMC and Hanoi ranked 18th and 20th position in top 100 outsourcing destinations in 2015*
GARTNER	*Vietnam as an Asia tier 1 emerging – market location for outsourcing in 2014*
A.T KEARNEY	*Vietnam ranked 12th in top 50 outsourcing destinations in 2014*

Quality of the labour force in terms of professional expertise

Quality of the labour force in terms of language skill

- Abundant and young labour force equipped with good professional expertise is one of key attractiveness points of Vietnam ITO market as rated by 56% of respondents
- Language skill of labour force currently remains a barrier for Vietnam ITO industry as 87% respondents rated it at either average or below average

"Our decision to open the ITO centre in HCMC is based on various factors: geographical location, competitive cost and skilful labour force"
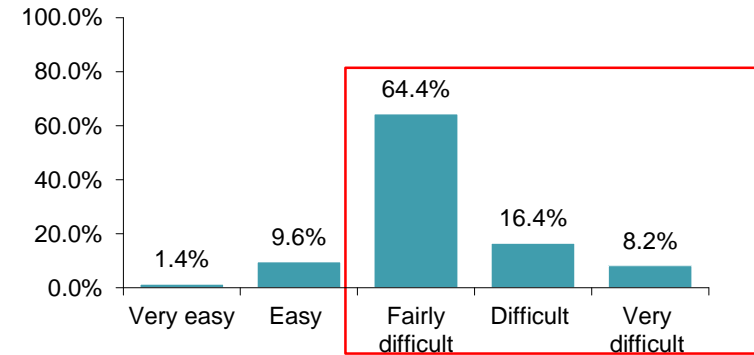- Mr. Muthamma Acharya, communication representative of Robert Bosch Engineering and Business Solutions Vietnam-

Quality of labour force (cont.)

Vietnam is currently the second largest off-shore ITO service supplier for Japan. For Japanese clients, it is important that the labour force in Vietnamese ITO businesses are equipped with:

Understanding of Japanese culture

Hard working, accountability and discipline

ITO labour for Japan market

Good language skill (Japanese and / or English)

Professional expertise and knowledge

Difficulty level in hiring IT engineers in Vietnam

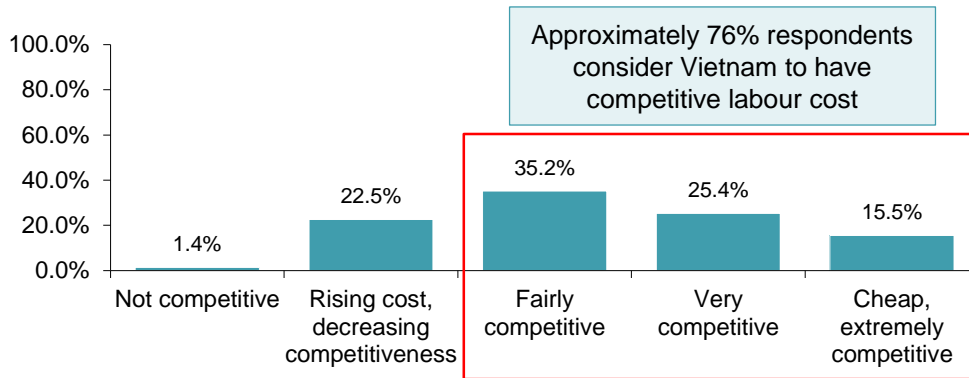| Category	Value
Very easy	1.4%
Easy	9.6%
Fairly difficult	64.4%
Difficult	16.4%
Very difficult	8.2%

IT engineers, especially highly-skilled IT engineers are on rising demand from both local and foreign-invested enterprises, while the supply is not sufficient. 89% of respondents said that it's difficult to find good talents

Labour cost

Labour costs in Vietnam market

Approximately 76% respondents consider Vietnam to have competitive labour cost

- Not competitive: 1.4%
- Rising cost, decreasing competitiveness: 22.5%
- Fairly competitive: 35.2%
- Very competitive: 25.4%
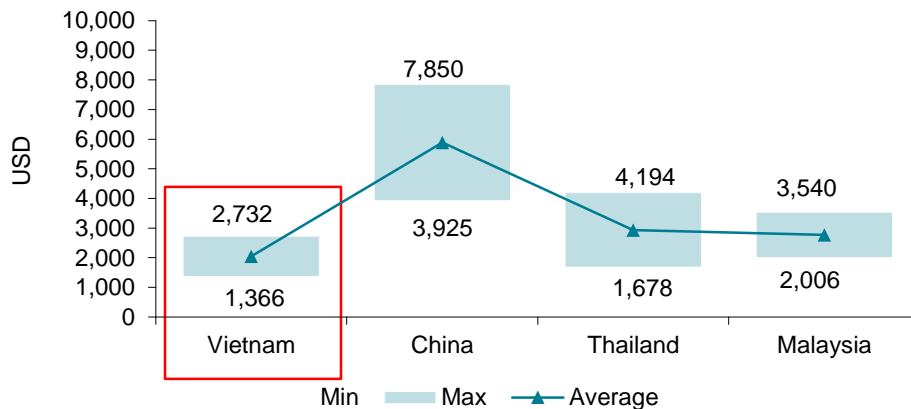- Cheap, extremely competitive: 15.5%

*"We select Vietnam as **China and India have high labour cost** while other countries do not have labour force as skilful as Vietnam's"*
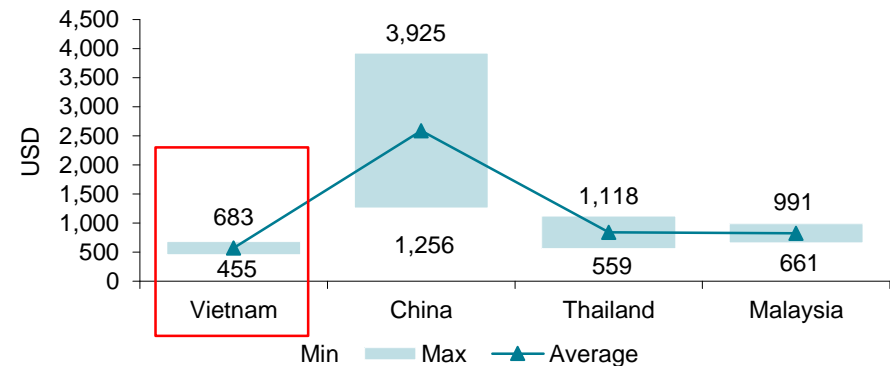- Mr. Pham Binh Nguyen, Chief Technology Officer, Gianty -

"Vietnam is now an alternative destination for ITO industry against China and India in the context of rising labour cost and high turnover ratio in these two countries"
- Mr. Josh Lieberman, Chairman, KMS Technology -

Gross monthly salary for IT Manager position – 2015

- Vietnam: Min 1,366 – Max 2,732
- China: Min 3,925 – Max 7,850
- Thailand: Min 1,678 – Max 4,194
- Malaysia: Min 2,006 – Max 3,540

Min ▬ Max ▲ Average

Gross monthly salary for Software developer / Programmer – 2015

- Vietnam: Min 455 – Max 683
- China: Min 1,256 – Max 3,925
- Thailand: Min 559 – Max 1,118
- Malaysia: Min 661 – Max 991

Min ▬ Max ▲ Average

Source: Adecco salary guide 2015

Infrastructure serving ITO industry

Stability level of electricity/telephone/internet

Speed, bandwidth of electricity/telephone/internet

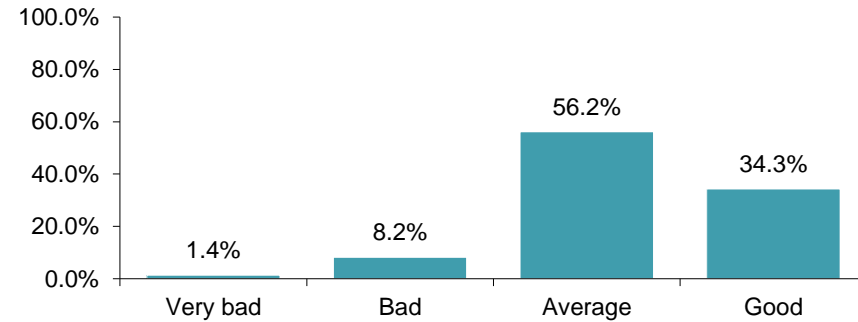**Majority respondents rated the stability, speed and bandwidth of electricity/telephone/internet in Vietnam as average. In order to support Vietnam ITO industry, infrastructure needs to be improved as recommended by many respondents**

Roles of relevant associations in Vietnam ITO industry

Relevant associations in IT industry have been acknowledged for their achievements in supporting the country's ITO industry and enterprises. However, to further develop Vietnam's ITO industry corresponding to its potential, there is a need for closer cooperation among enterprises, associations and the Government

Generally, associations have performed positively to promote Vietnam ITO industry generally and ITO enterprises particularly

Associations should be more active in promoting Vietnam ITO companies to overseas markets

Associations' effectiveness in supporting Vietnam ITO enterprises has not been widely compiled, evaluated and informed yet
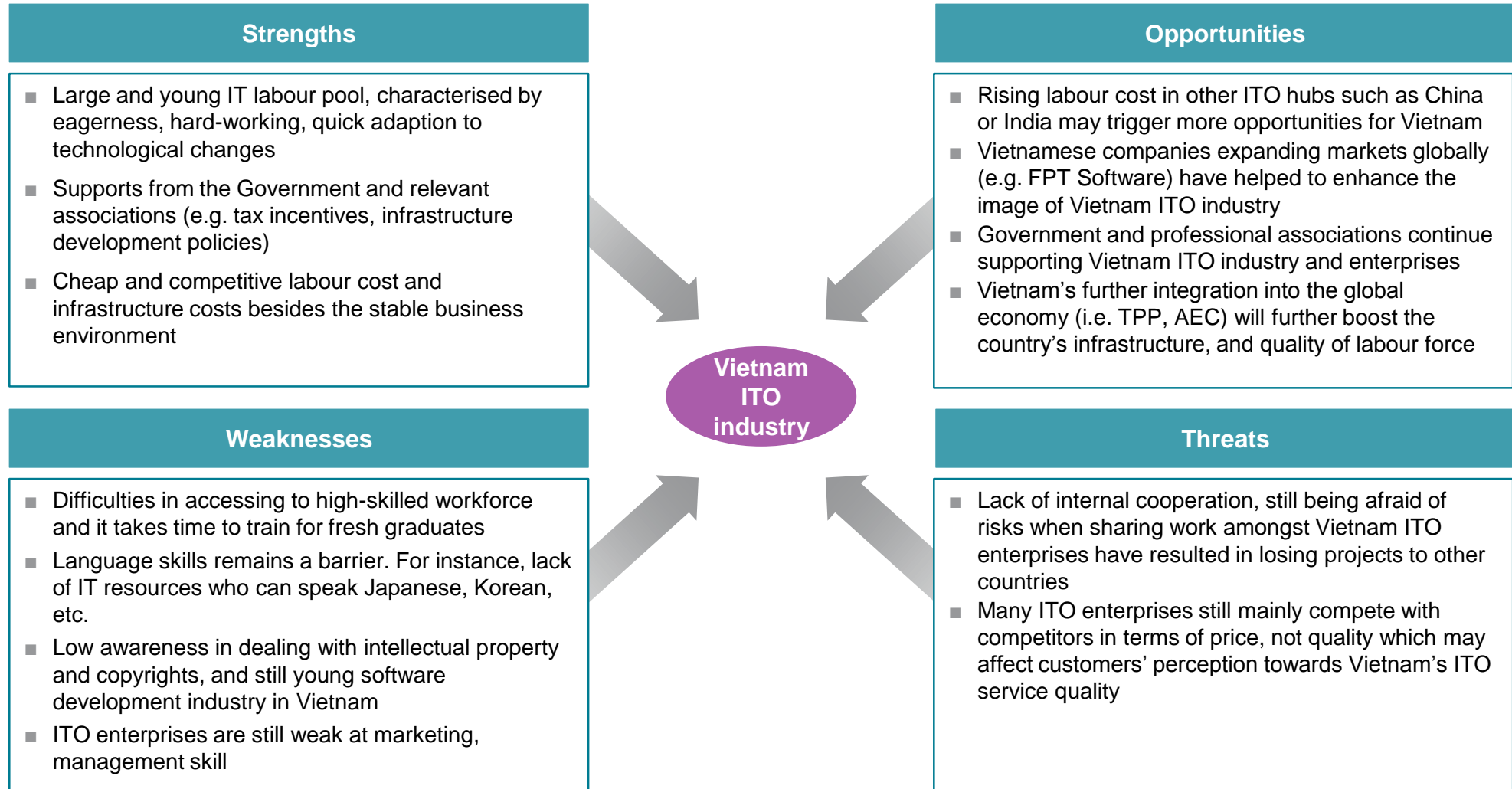
Associations help provide industry information for local and foreign-invested enterprises with interests

Associations assist Vietnam ITO enterprises in seeking opportunities for exporting services to overseas

Associations should take more interest in domestic demand for ITO service and act as a bridge to connect customers with ITO enterprises

ITO industry in Vietnam – SWOT analysis

Strengths

- Large and young IT labour pool, characterised by eagerness, hard-working, quick adaption to technological changes
- Supports from the Government and relevant associations (e.g. tax incentives, infrastructure development policies)
- Cheap and competitive labour cost and infrastructure costs besides the stable business environment

Opportunities

- Rising labour cost in other ITO hubs such as China or India may trigger more opportunities for Vietnam
- Vietnamese companies expanding markets globally (e.g. FPT Software) have helped to enhance the image of Vietnam ITO industry
- Government and professional associations continue supporting Vietnam ITO industry and enterprises
- Vietnam's further integration into the global economy (i.e. TPP, AEC) will further boost the country's infrastructure, and quality of labour force

Vietnam ITO industry

Weaknesses

- Difficulties in accessing to high-skilled workforce and it takes time to train for fresh graduates
- Language skills remains a barrier. For instance, lack of IT resources who can speak Japanese, Korean, etc.
- Low awareness in dealing with intellectual property and copyrights, and still young software development industry in Vietnam
- ITO enterprises are still weak at marketing, management skill

Threats

- Lack of internal cooperation, still being afraid of risks when sharing work amongst Vietnam ITO enterprises have resulted in losing projects to other countries
- Many ITO enterprises still mainly compete with competitors in terms of price, not quality which may affect customers' perception towards Vietnam's ITO service quality

Recommendations for development of ITO industry

Tax

- Maintain tax incentives for both local and foreign-invested ITO companies

- Reduce Personal Income Tax for ITO employees

- Simplify tax procedures, paperwork

- Extend tax exemption for small-sized companies

Human resources

- Enterprises cooperate with universities/colleges in providing more practical training curriculum to match enterprises' requirements

- Universities/colleges should have quality career orientation programs for students, equip IT students with soft skills and, language skills besides a practical training curriculum

Marketing activities/Associations

- Need more effective promotion programs to market Vietnam ITO services

- Develop networks and associations to connect Vietnam ITO enterprises with global organisations / clients

- Relevant professional associations act as a liaison body between ITO companies and potential customers

Infrastructure

- Improve infrastructure to further support the development of Vietnam ITO industry

- Develop more IT centralised industrial parks

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