

# Outsourcing firms must move up value chain

Local SMEs, hit by talent shortage, should embrace technology to increase productivity and efficiency



**THE** country's SMEs face two challenges in growing their business – shortage of skilled talent and moving up the value chain. Although they may appear to be unconnected, both issues are related, Outsourcing Malaysia (OM) chairman David Wong points out.

Talent shortage – along with increasing labour costs – is a persistent weakness that continues to plague SMEs, which is why instead of hiring more staff, smaller companies should look to technology to increase productivity and efficiency.

"We want to spread the word to tell SMEs to move up the value chain and use technology. Deploy technology instead of hiring more staff," Wong says, adding that this issue is particularly relevant for outsourcing as it is a service-reliant sector.

"Hiring people is not always the best solution. If you automate well, you don't need a lot of people, and it makes a big difference in terms of cost and what you can deliver [to your customers]."

The outsourcing industry, which Wong reveals has grown an average 15% per annum, is slowly seeing a change as more SMEs in the sector are moving up the value chain to knowledge-process outsourcing (KPO).

This, along with business process outsourcing (BPO) and information technology outsourcing (ITO), form the bulk of the country's outsourcing sector.

BPO and ITO contribute the bulk of revenue to the industry (40% each) this year, with the remaining 20% coming from KPO deals.

A new type of outsourcing, known as business management services under BPO, is rapidly emerging as the highest growth segment for outsourcing in Malaysia. It encapsulates outsourcing companies that are able to innovate solutions to fit their customers' needs, which is a reflection of changing roles for both parties.

"It's becoming a role with a strong partnership element, and it's about management to drive efficiency and productivity based on agreed-upon key performance indices (KPIs) instead of just [going through] processes," Wong says.

This is a different relationship from the earlier days, when outsourcing companies and customers practised a vendor-customer model, and expectations of customers have gone beyond that.

Outsourcing SMEs must focus on niches by providing solutions instead of just products to compete globally, says Wong



by Calyn Yap



photo by Anwar Faiz Ahmad Tajudin



## Going global

SMEs should not be complacent and must move up the value chain from entry-level outsourcing. Otherwise, it might lead to Malaysia's outsourcing companies losing their chance to compete significantly on a global level, Wong states.

ICT is a key enabler to innovation that SMEs can leverage on, as the country is facing a serious talent shortage. "This is why we have to play it a bit smarter, and we need to know how to leverage on technology smartly in order to compete," he says.

As a comparison, Wong shares that while average local outsourcing companies have a staff strength of 300 to 500, their peers in India and China have more than 5,000 to 10,000.

"In this, size does matter to be invited to tender for some jobs. This contrast shows our limitation in capability of undertaking volume-driven outsourcing projects, which means we have to focus on specialised solutions instead of just products to remain globally competitive," he says.

Citing a scenario where an outsourcing company does not have more than 1,000 staff and at least three to four locations or delivery centres, he says these companies would not even be invited to tender.

"That's why we encourage them to come together. They can always team up as a consortium, and we don't see a lot of that in the industry yet. What's been happening, though, is that the big boys are acquiring companies in the data centre space, and they're very aggressive at it," notes Wong.

## Growth projections

Moving up the global value chain is essential, but the mindset of SMEs in the industry have to change as well. They can no longer be content to secure local deals only, but must set their sights on the international market to spur growth.

"They need to be hungry and be aware of what's happening in the world

around them, and tap the global business instead of only the local business," he stresses.

Wong says in terms of advantages, Malaysia has financial competitiveness in relatively steady costs and ready infrastructure, and strong support from the government and associations. However, funding options can still be improved and talent remains the weakest link.

He acknowledges, nonetheless, that there are other significant challenges to address should local outsourcing companies want to increase their footprint regionally or even internationally. These include issues of financial strength, company capability and mindset, talent and expertise, as well as size and depth of solutions offered.

"For example, capability is totally different on the global level. Along with the size and depth of your solution, as well as readiness of talent and expertise, we have a lot of room to improve in [to be competitive on a global scale]."

The mainstay of the industry predominantly revolves around business from the financial services industry, information technology-related infrastructure such as data centres as well as logistics and supply chain services.

Wong notes that the growth of shared services outsourcing (SSO) will continue its upward trajectory as more companies farm out non-essential business functions.

"Companies are beginning to find it's not easy to hire and maintain talent, so they choose to focus on the core activities and outsource the non-core areas," he says.

He shares that the areas where Malaysian outsourcing companies can specialise in to remain competitive and perhaps even lead the market, include Islamic banking, healthcare and manufacturing.

"SMEs [in the outsourcing industry] should be working to scale up, through consortiums or mergers, and focus on certain niches to ensure competitiveness." **FocusM**

## Malaysia as leading hub for outsourcing

**OUTSOURCING**, an Entry Point Project (EPP) under the Economic Transformation Programme's (ETP) Business Services National Key Economic Areas, is the core focus for Outsourcing Malaysia (OM), which looks to increase the reach of local outsourcing companies.

According to OM chairman David Wong, the outsourcing sector consists of information technology outsourcing (ITO), business process outsourcing (BPO), and knowledge-process outsourcing (KPO). The first two subsectors each contribute roughly 40% to the country's overall outsourcing revenue, and the remaining from KPO.

The industry had its beginnings in shared services companies owned by foreign companies based in Malaysia to provide non-core services to their own companies such as information technology and customer support, which eventually expanded to them offering BPO services to other business organisations.

"We felt there was a lack of local capabilities, and we wanted to see a similar type of local success that India enjoys. Our objective hasn't changed, and we've particularly focused on enhancing SME capability in export," Wong notes.

Since its establishment in 2006, OM has about 150 members representing 80% of the country's total revenue for outsourcing services. The association recently opened up its membership to local and foreign shared services and outsourcing players, which form about 30% of the local market.

The intention, says Wong, is to leverage the expertise and knowledge, as well as potential partnership opportunities to enable outsourcing companies and shared services companies to contribute continually to industrial growth.

As SMEs are already at a disadvantage at the outset because of a lack of scale, he shares that OM wants to be their voice and their platform to tap opportunities.

"Everything seems to be against SMEs, and it's not easy, which is why organisations like OM play an important role," Wong says, adding that OM is a chapter of the National ICT Association (Pikom).

To address the pressing need for skilled talent, OM has also established a talent council to promote outsourcing as a career path through facilitation of talent placement from universities into companies in the industry.

Last year, the industry recorded RM1.59 bil in revenue, up from RM1.25 bil in 2012 from international outsourcing deals.