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Outsourcing Rivalry Doesn't Faze Malaysia

To combat competition from the Philippines, the country is positioning itself as a high-value rather than low-cost destination for voice services

by Lee Min Keong

Despite the emergence of the Philippines as a potential outsourcing rival, Malaysia says it remains unfazed because the country is positioning itself to be a destination that offers high-value competencies, rather than low-end voice services. "Growth comparisons in today's outsourcing world are no longer undertaken at an industry level, but at a vertical level," said Bobby Varanasi, head of marketing and branding at Outsourcing Malaysia, a non-profit association representing Malaysia-based outsourcing services providers. The country has ambitions of becoming a one-stop outsourcing center for multinationals and upstaging current favorites India and China.

Varanasi said, in an e-mail interview: "While some [outsourcing] locations leverage 'cost' drivers, some leverage 'competencies'. The Philippines leverages costs, while Malaysia leverages competencies." He noted that the Philippines continues to be a traditional U.S.-targeted market, focusing predominantly on the voice sector. For companies that are looking to outsource for the first time, voice processes and "low-level back-end non-core processes" are prime areas to be outsourced, he said.

Varanasi explained: "Given the increasing adoption of global sourcing by the U.S. mid-market sector, which had never outsourced before, [these companies'] prime focus is outsourcing voice-related low-end work, which will go to Philippines and India." "Malaysia's competencies around banking, financial services and insurance (BFSI), energy, retail, technology, logistics, supply chain management (SCM), and so on, are very well-known and recognized the world over," he said.

According to a recent market forecast by Canada-based XMG, the Philippines is poised to overtake Malaysia in the race for global outsourcing revenues. In 2006, both countries were neck-and-neck contributing 1.04 percent and 1.02 percent, respectively, of the world's revenues. XMG estimates the Philippines this year will grow to almost US$4.1 billion and account for 1.4 percent of the global market share, while Malaysia is expected to finish the year with US$3.6 billion revenues and 1.2 percent global market share. In fact, the research firm expects the Philippines, growing at an "unprecedented" growth rate of 62 percent CAGR (compound annual growth rate), to surpass Malaysia by the end of 2007.

XMG estimates that India will generate US$34.1 billion in revenue and claim an estimated 11.5 percent share of the global market by year-end, while China is projected to rake in US$13.1 billion revenues and a 4.4 percent share. "The right question to ask [though] is: Which destination is the best for 'process-oriented' operational competencies?" posed Varanasi, who is also chairman of the International Association of Outsourcing Professionals' Malaysian Chapter. "Responses to this question would include the following names: India, the Philippines, Brazil, Jamaica, Costa Rica, China, Poland, Ghana, Vietnam, Hungary, Romania, El Salvador and Guatemala," he said.

However, for outsourcing customers that are looking more closely at "design and industry competencies" to help their organizations be innovative and competitive, Varanasi said the following countries stack up higher: Israel, Russia, Singapore, Malaysia, Argentina, Ireland, Canada and the Czech Republic. He conceded, though, that Malaysia is not oriented toward providing low-end services. "Neither Malaysia's economic cost-structures nor the scale of its talent pool can cater to such volume-driven demand. Malaysia's population is approximately 28 million against the Philippines' 78 million," he explained, adding that Malaysians are oriented toward and capable of serving the higher-value needs of outsourcing customers.

According to Varanasi, Malaysian firms have been providing consulting services worldwide in the energy and BFSI sectors, which is reflective of their competencies in creating "top-line value". "We are positioning Malaysia as a destination for high-end value-driven competencies worldwide," he reiterated. He added that the country's education system, legal structures and business infrastructure are adequate in supporting the creation and sustenance of capabilities around technology research and development, logistics, SCM, energy and BFSI, including Islamic finance.

On its Web site, the Multimedia Development Corporation (MDeC) - which oversees the development of MSC Malaysia - has been touting the country's attractiveness as an outsourcing destination. Citing consulting firm A.T. Kearney's 2007 Global Services Location Index, the MDeC said Malaysia maintained its No. 3 ranking, outpacing the Philippines which was ranked No. 8, and Singapore at No. 11. India and China maintained their top and second placing, respectively, while Thailand ranked in fourth. At press time, the MDeC did not respond to ZDNet Asia's request for its comments on the XMG report.

According to the A.T. Kearney report, Singapore was overtaken by larger, lower-cost countries now competing to establish themselves as service centers--in the same way Singapore itself did 20 years ago. "In the Philippines' case, growth in the sector and currency appreciation has driven up wages in U.S. dollar terms by as much as 30 percent, reducing relative cost advantage," the report stated. "Nevertheless, the Philippines remains one of the lowest wage locations in the Index and now offers the lowest telecom costs of any country in the Index."

In China and India, double-digit growth rates have fuelled wage inflation in both countries. Average compensation costs for sample functions have spiked by some 30 percent and 20 percent in China and India, respectively, according to the A.T. Kearney report. "But these cost escalations have been matched by corresponding increases in skill supply and quality indicators," it said. "Malaysia, Thailand, Indonesia and Vietnam have also seen significant declines in telecom costs, while slower growth rates have moderated wage inflation."
