



THE MALAYSIAN OUTSOURCING INDUSTRY - SCALING NEW HEIGHTS

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➔ Oriente Médio

TRADE Arabia » 02/09/2009

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➔ China

China Daily» 02/09/2009

Service outsourcing brisk despite crisis: a chinese trade official said on Sept 1 the country's service outsourcing sector was doing brisk business despite the global economic downturn. *pág. 4*

➔ Ásia

Reuters» 30/08/2009

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The Malaysian outsourcing Industry - scaling new heights

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(live-PR.com) - Revenues from the Malaysian IT/ITeS outsourcing industry are expected to touch \$1.1 billion in 2009, according to a joint publication by Outsourcing Malaysia and ValueNotes. The industry is expected to grow at a CAGR of 15% to reach \$1.9 billion by 2013. Currently, IT outsourcing services in Malaysia have a greater share of the overall outsourcing market, followed by BPO services; while knowledge services outsourcing, still in its nascent stage, has a smaller share.

Government support, domain knowledge and industry expertise in BFSI, oil & gas and logistics has benefited the growth of the Malaysian outsourcing industry. Moreover, Malaysia's multi-cultural and multi-lingual capability is attracting business from Asian markets like China, Japan, South East Asia and the Middle East. According to Arun Jethmalani, CEO, ValueNotes, "Companies in the BFSI, oil & gas and logistics sectors, which had set up operations in Malaysia decades ago, are leveraging the country's multi-lingual ability and domain expertise in these verticals to set up IT and BPO centres in Malaysia."

Malaysia has been recognized as one of the preferred destinations for outsourcing, however it faces some challenges. "One of the major challenges for the Malaysian outsourcing industry is to overcome constraints with regards to scalability. The total number of employees in the industry is roughly comparable to the number of new hires by a leading Indian IT outsourcing service provider," says Suheil Patel, analyst and co-author of the report. Employee costs, too, are 15% to 20% higher when compared to other popular destinations like India.

One of the key concerns for the outsourcing industry in Malaysia is the need to move up the value chain to offer high value services as opposed to highly commoditized services in IT or BPO. Says Bobby Varanasi, an outsourcing consultant, "Strand Aerospace Sdn Bhd is a prime example of a Malaysian company moving up the value chain in outsourcing. The company specializes in computer-aided stress testing for engines of Boeing and Airbus."

Finding its own niche will be critical for the Malaysian outsourcing industry to sustain its growth. For example, a majority of the local Malaysian service providers serve the Asian and the Middle East markets. They are well poised to address the outsourcing opportunity in Islamic banking services from these markets. "Malaysian companies have started to focus on delivering business value to their clients through packaging of ITO, BPO and KPO. This should and will be one of the ways forward to differentiate Malaysian companies from others," said CEO of Cuscapi Berhad.

"Despite the challenges, our research has identified a multi-pronged and focused strategy for Malaysia to capture the burgeoning global outsourcing opportunities," said David Wong, PIKOM and Outsourcing Malaysia Chairman. "To sustain growth, Malaysia needs to carve its own niche that fits its strengths. For instance, Malaysia has become one of the preferred destinations to offshore services for companies in the Middle East, especially in key sectors such as oil and gas and Islamic finance. And we do need to further build on this. More importantly, we should also focus on our cultural and language strengths to cater to Asian markets in selected areas," he explained.

With consolidation and collaboration at the service provider's end and strong initiatives from the government for the outsourcing industry, Malaysian service providers will receive greater recognition in the global markets. However, given the challenges, providers will find it difficult to make a significant dent in the outsourcing market. Considering the scale, a focused approach backed by the government and industry initiatives will drive the success of the Malaysian outsourcing industry in the long term.

The report titled "Outsourcing in Malaysia: Scaling New Heights", a joint publication by Outsourcing Malaysia and ValueNotes, presents the competitive landscape of service providers in the Malaysian outsourcing industry. It features in-depth insights and analysis, including the competitive standing of Malaysia as an outsourcing destination, and future trends and challenges faced by the industry.

SLAs: Key tool for customer relationship management

Service level agreements are talked about often—but are they really helpful? Do they assist in building a partnership with the business or are they an impediment to establishing a workable relationship?

Based on my experience, I believe a good service level agreement, backed up by solid performance metrics, a robust pricing mechanism and a strong customer management plan, results in a win-win partnership between the service center and the business. This combined approach is what I refer to as a service management framework.

Elements of the service management framework

- * Governance
- * Service Charging/Pricing
- * Service Level Agreements
- * Performance Metrics
- * Appropriate feedback mechanisms

Governance is the ability to enable, sponsor and enforce the right decision-making. It is a formal mechanism that drives the partnership between the shared services operations, its customers and the key stakeholders. Governance typically operates at the strategic level, and as such, ensures that the SSC operations are aligned with the stated vision and strategies. It provides visibility to stakeholders, and it provides a forum for decision-making (e.g., related to delivery model, locations, leveraging of infrastructure investments, synergies, etc). At the tactical level, governance “operationalizes” the strategy, establishes expectations on service provision, reviews service performance, and facilitates the resolution of issues. At the operational level, it resolves operational issues and drives continuous improvement.

Chargeback is a mechanism that defines the basis for charging for services to customers. It will be necessary to determine your operating model first. Are you a cost center or profit center? If a cost center, then your objective is to recover all costs. If you operate as a profit center, then the objective is to over-recover and make a profit that is normally fed back into the operation to fund continuous improvement projects. There are many alternatives to determining a chargeback method; some work on budget, budgeted volumes or actual transactions. You will also need to decide on your chargeback drivers, which determine how you allocate costs. A common approach is to operate on a full cost recovery model and to allocate costs to customers based on actual usage.

Pricing will normally be based on projected volumes and costs to deliver the services. However, some companies will also include a non-conformance pricing method. This involves charging the customer for any transactions that are “non-conforming,” i.e., received in a non-standard way or outside cut off times. This approach is often used where significant behavioral changes are required. In addition, there are also SSCs that pay a missed KPI penalty, which means a credit is processed to the respective customer on a monthly basis for any missed key performance indicators. This kind of pricing strategy requires transparent pricing and regular communication with the customer as to why they are being charged for non-standard transactions, for example, or for the SSC to understand why penalties have been incurred.

The other type of pricing often seen is non-participative pricing. This is usually found in situations where the SSC has a mandate from the executive group. It means that under certain conditions a customer must use the services provided by the SSC. If they do not, they will be charged as if they do, regardless of who provides the service. This charge acts as an encouragement to use the inhouse SSC, and not to procure required services elsewhere.

The service level agreement identifies the inputs that are required from the customer and allocates responsibility for service delivery between the SSC and the customer. It also defines the appropriate levels of service to meet customer needs. The rationale for the SLA is that it clarifies the relationship and expectations between SSC and customer and provides a framework for performance measurement and process improvement, increasing understanding and building joint accountability.

The key components of the SLA generally include the purpose and scope of service provided, governance model, operational hours and exceptional circumstances, performance measurement and reporting, non-conformance management, customer feedback, help desk, quality management and process improvement. The SLA also defines the general pricing approach and the escalation model.

Performance reporting integrates the four dimensions of incentive compensation reporting, balanced scorecard, process reporting and customer reporting (against SLA). It enables the SSC to measure and track organizational performance, operational performance, customer service delivery and individual performance.

The intent behind introducing key performance indicators is to ensure clarity and accountability for the end-to-end processes. Movements in the KPIs can be used as lead and lag indicators to address service failures.

In some SSCs, account manager roles have been introduced to implement and operate the service management framework. This role acts as an intermediary between the customer and the SSC. In my experience, these roles have proven very valuable and enable a partnering approach to be implemented.

China Daily» 02/09/2009

Trade Arabia » 04/09/2009

China pledges more financial support for outsourcing industry

A Chinese trade official said on Sept 1 the country's service outsourcing sector was doing brisk business despite the global economic downturn.

Service outsourcing lets overseas companies transfer service operations to providers in China so they can deal with their core business. Service outsourcing helps overseas clients manage business operations such as technology, training, logistics and advertising.

In June this year China had 6,673 companies specializing in service outsourcing, including the introduction of 1,406 new ventures between January and June, said Lin Zheyang, deputy chief of foreign investment department with the Ministry of Commerce, addressing an international conference on service outsourcing development Wednesday.

The companies completed \$2.56 billion worth of international service outsourcing contracts from January to June, up 32.5 percent from the same period last year, said Lin.

"The government has adopted a strategy of introducing a host of preferential policies to encourage and support development of service outsourcing since the start of the year, which has been effective," said Lin. He said the strategy had also provided jobs.

Lin said 1.22 million have found employment in the country's service outsourcing sector, 82 percent of them college graduates.

The service providers are now primarily clustered around the Bohai Sea rim in north China, the Yangtze River Delta in east China, and the Pearl River Delta in south China.

Lin said greater efforts would be made to encourage innovation, and to work for China's brand names in future development of service outsourcing.

"In accordance with development momentum, it is probable the sector could attain the pre-set target of doing \$30 billion worth of business by the year 2013," said Lin.

Arab Bank starts Dubai Outsource Zone ops

Arab Bank has commenced its Gulf and Yemen back-office operations at Dubai Outsource Zone (DOZ), the world's first special economic zone for the outsourcing industry and a member of Tecom Investments.

Headquartered in Amman, Arab Bank has had existing banking operations in the Middle East for over seven decades. As a subsidiary owned entirely by Arab Bank, the first private financial institution in the Arab world, Arab Company for Shared Services will handle the back-office transactions of the bank for UAE, Qatar, Yemen and Bahrain, with an estimated 300 employees to be based at DOZ (including employees from Arab Bank, UAE).

The Arab Bank's back-office operations at DOZ will aim to centralize and standardize core business processes tailored to the needs of the GCC market. Business processes include back-office related transactions.

"DOZ facilitates companies to access resources, partnerships and ideas in a business environment that enables companies in the outsourcing industry to gain a stronger foothold in the region, stated Ismail Al Naqi, executive director, Dubai Outsource Zone.

"We are proud to host the back-office operations of Arab Bank and look forward to welcoming similar major entities as part of DOZ's endeavour to support Dubai's ambition of creating knowledge-based economies in the region."

"Not only will the move help us fulfill our strategic vision to centralise and standardise, it will also synergise our core business processing," added K S Shankar, managing director of Arab Company for Shared Services.

The special economic zone currently hosts 82 companies in sectors including banking and finance, accounting, IT, payroll processing, engineering, research and development as well as design.

Reuters» 30/08/2009

Mosaic to Use Ceridian Multinational Human Resource Outsourcing Solution

World's largest combined producer of phosphate and potash will use Ceridian human resource (HR) solutions to support large, multinational workforce

Ceridian Corporation, a leading provider of managed human resource, employee benefits administration, tax filing, payroll outsourcing and talent management solutions, announced today that The Mosaic Company will use Ceridian HR Outsourcing (HRO) to support its multinational shared services HR environment.

"We are looking forward to working with Ceridian and implementing the industry's best HR solutions," commented Cindy Redding, vice president of HR for Mosaic. "Throughout the sales and vendor review process we were very impressed with both Ceridian's level of customer service and the quality of their total HR solution."

Mosaic will utilize Ceridian's service center, HR, payroll, health & welfare administration, LifeWorks employee assistance programs, tuition reimbursement, leave administration, e-Learning, recruiting and talent management solutions.

"We look forward to another strong HRO partnership," notes Keith Strodman, executive vice president and general manager, Ceridian HRO & Multinational Solutions. "Mosaic needed a partner that could provide its HR services within an aggressive timeline. Our experience with spin-offs provides Mosaic with a variety of best practices and the ability to achieve the company's goals for its approximately 7500 employees across the U.S., Canada and several other countries throughout Asia and Latin America. The global employee portal will provide Mosaic with a common user experience and integration of several HR solutions."

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