

# Good Morning VIETNAM – A new destination for software offshoring?

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I still remember vividly the first time I visited Vietnam in 2002 on an offshore development visit. I was the Chief Information Officer for a major financial services company based in Orange County, California. There were four of us. I took along my Director of Enterprise Projects, Director of Shared Services and Software Development Manager.

We had spent the previous week in India meeting several large Indian software companies. We sat through countless meetings in Mumbai and Bangalore being wined and dined by our hosts. I was very impressed with the process maturity, the large campuses, the sheer number of staff, and the perceived US business knowledge exhibited by the Indian companies. We left India knowing that we would select one or several of these companies to engage in our initial offshore software development initiative.

We stopped by Vietnam as a favor to a friend who owned a software development company in Ho Chi Minh City (formerly Saigon). I had mixed feelings about this detour. I had heard many stories about Vietnam, most of them not good. The last thing on my mind was doing business there. However, I was pleasantly surprised.

We landed in Tan Son Nhat airport on a sunny and clear morning. My friend was at the gate greeting us and promptly whisked us directly to the “office.” As we pulled up to a three-story home, one of several dozens lining a narrow street, we were met by the entire company of 20 people. No one really spoke English. My colleagues did not speak anything but English. My friend and I tried our best to translate and facilitate. As we walked around the office, communication was done mainly through technical jargon, universal sign language, and lots of head shaking.

We ended our tour after 45 minutes and were invited to tea in the “conference room.” Actually, it was the enclosed patio at the back of the house. I was a little disappointed at the whole tour and the obvious lack of sophistication. There were similar looks among my team members. At that exact moment, my friend walked in with a stack of CDs. He gave each of us a CD as a parting gift. On it were the pictures of our visit taken just a few minutes prior, a complete description of their software development process, a diagram of their network infrastructure, a finished prototype of the application based on the requirements that I had sent over several weeks ago in advance of our visit, and a brief history of Vietnam and its software industry. I was most encouraged by the detailed work and low-key sales approach. The message I got was, “Yes, we can deliver what you gave us. Just give us a chance.” In fact, I was so impressed that I decided to take an ownership and executive position with a US-based Vietnam software development company about a year later.

It has been a great five years of growing and adjusting. We are doing very well supporting our US-based customers. Many lessons have been learned with some of the key points highlighted below:

### **Global software offshoring—it's a big pond out there.**

According to A.T. Kearney, 73% of Fortune 2000 companies say offshoring is an important part of their overall growth strategy. In 2007, the predicted value of the global offshoring market is \$50 billion. India currently holds 80% to 90% of the market. However, other countries are emerging to compete as the Indian software industry continues to mature, thus driving up the cost and increasing the turnover rate.

China is a new force with over two million Chinese software programmers available. China has its infrastructure and geo-political challenges.

Other emerging players in the Asia market are Malaysia (strong governmental support, good infrastructure skill, small labor pool, medium labor cost); the Philippines (English is well spoken, good Internet bandwidth, geo-political issues, low IT knowledge); Thailand (good overall business climate, good infrastructure, poor English skills, simmering geo-political problems); and Vietnam.

The Eastern European and Latin American countries are also very competitive. Ireland and Russia are too expensive. Hungary has poor English skills and infrastructure, Romania and Bulgaria still need to grow their talent pools.

Mexico is attractive due to the same time zone. It suffers from poor English skills and lack of IT processes. Costa Rica has a small talent pool. Brazil and Argentina are just starting the offshore business.

### **Good reasons to offshore to Vietnam**

Vietnam is a very attractive software offshoring destination because of the following reasons:

- **Labor is still very cheap in Vietnam.** A typical working-class person earns about \$50 USD monthly. An entry-level programmer earns between \$150–\$300 USD monthly. An experienced senior developer earns between \$350–\$600 USD monthly. The average salary for Vietnam IT professionals is about 50% less than that of their counterparts in India. Indeed, many Indian, Japanese and South Korean software companies are starting to outsource work to Vietnam and import Vietnamese IT resources to take advantage of the cheaper labor.
- **The Government is committed to grow the Information Technology business.** New IT companies receive a four-year income tax exemption as well as 0% import tax for material directly used in the software production. Companies also receive 0% of Value Added Tax (VAT) for software products and services and 0% export tax for software products. Furthermore, companies that locate their offices in selective

Software Parks receive a subsidize fee for their Internet access and much better up-time guarantee.

Currently, Vietnam has about 500 IT companies with over 10,000 professionals ranging from software developers, quality assurance specialists and graphic specialists to network engineers, project managers and operational support specialists. The majority of these companies are small with less than 100 employees. The larger companies are more matured with their operating processes as most are certified with CMM level 3 or above.

- **Vietnam is a young country** with over 32% of the population under 14 years old and 63% of the population between the ages of 15 and 64. The people are hard working, loyal, and eager to learn. Relations with the US have been good. English is widely recognized as the “second” language replacing French.

Many US companies are doing business in Vietnam with giants like Nike, Proctor and Gamble, and Intel leading the way. Other countries such as Singapore, South Korea, Taiwan, Australia, Japan and France also have sizable investments across multiple industries.

The software offshoring industry is also attracting a diverse set of clients, including Anheuser Busch, Bayer, BMG, BP, Cisco, IBM, Merrill Lynch, Nortel, NTT, Sony, and many others.

- **Companies that want to do business in Vietnam should also consider the large Vietnamese expatriate community** in the US. Orange County, California, is home to over 250,000 Vietnamese-Americans. San Jose, Dallas, Houston and Washington D.C. are the other cities with high numbers of Vietnamese-Americans. The Vietnamese-American communities tend to be highly educated and very technology-focused. They are also very affluent and want to invest in Vietnam.

They are a good source to find US-educated executives, project managers, technical architects and other professionals that understand US business processes and requirements. They speak the language and appreciate local customs and business etiquettes. A core requirement for successful software offshoring is the ability to communicate and manage the offshore vendor.

## **The challenges**

Here are the challenges facing companies wanting to do business in Vietnam:

- **Like with most third-world countries, Vietnam has a pressing need to upgrade its national infrastructure** (roads, electricity, telecommunications, Internet bandwidth and access.) This is a challenge for local IT companies. The entire country is operating on a 1038 Mbps backbone. There are 565 Mbps of fiber optical line between Thailand-Vietnam-Hong Kong and 2.5 Gbps fiber optical through the North-South Vietnam backbone. There are five Internet Exchange Service Providers (IXP),

15 Internet Service Providers (ISP), and six IP telephone services (VNPT, Viettel, SPT, ETC, Vishipel and Hanoi Telecom).

Larger companies do have their own backup power generators and multiple access points. Smaller companies are at the mercy of the local infrastructure. The government is actively working to improve roads and creating new access corridors via various international joint-ventures.

- **The lack of understanding and respect in regard to Company and Customer's Intellectual Property (IP)** is another major issue facing Vietnamese IT companies. Most companies do not have established processes to handle software licensing, data security, and IP protection. Publicly traded US companies with compliant requirements based on SOX, Gram-Leach-Bliley and HIPAA restrictions must push these requirements down to all their vendors. It is tough to enforce these processes and audit requirements to Vietnamese vendors in particular and to all offshore vendors in general.

A related challenge is the lack of understanding of US business processes and requirements. This is somewhat a cultural and social issue. I remembered having to spend over two days explaining the US mortgage lending concepts, least of all the sub-prime mortgage approval processes, to my Indian and Vietnamese teams. It took the teams a long time to adequately comprehend the core business requirements. Meanwhile, we are asking these folks to develop applications and solutions based on these business processes and requirements.

As a result, the first wave of applications were created technically well (all technical requirements were met) but functionally poor (limited flexibility and creativity for future enhancements).

- **Scalability is an issue with Vietnam software offshoring.** Since most companies are small, they do not have in-house technical talents or available resources to take on large-scale projects (ERP, Enterprise Applications) that require short ramp-up time.

This is not a unique Vietnam issue. With the possible exception of India, most offshore companies cannot handle a spike in workload without sacrificing technical quality and suffering long ramp up time. It is especially harder in Vietnam due to the still small talent pool and the tendency of Vietnamese to stay at a job out of loyalty to the company and management team.

- **Another issue to consider is the government policies.** It is very favorable right now. The country is stable and does not have any visible geo-political unrest. However, the challenges of doing business in a communist country are there. Laws may change overnight. Foreign ownership and joint-venture partnership are not well defined. Compliance and Audit laws are fairly vague. Corruption is a problem. Large multi-national companies such as Nike or Intel may not have these problems. Smaller US companies with local Vietnam offshore partners need to be aware and sensitive of these changes.

## What can you do if you want to offshore your software development to Vietnam?

All software offshore initiatives pose risks. CIOs have wrestled with the “risk versus reward” model forever. How much money can we save? How can we impose our own quality and audit checking? What kind of work should we offshore? What are we going to do with our in-house staff? What is our exit plan if this does not work? How do we facilitate the time-zone differences?

Vietnam is an attractive destination for software offshoring. It is cheaper than India and the Eastern European countries. The workforce is young, diligent, loyal and growing.

Here is how to minimize the negatives and maximize the positives:

- **Take the time and do your diligence.** Find out about the company and its current roster of clients, technical capabilities, operating processes, and level of understanding of US business processes and requirements.
- **Consider starting out with small projects** to make sure the vendor can deliver quality products on time. It is a good idea to ask for a fix-cost proposal with a firm deliverable date for the first project. This eliminates the contractor’s needs to extend the deadline to charge more hours since the hourly rate is low. It is also a good way to determine if the vendor has the ability to ramp up in a short time.
- **Make a genuine attempt to be a good customer and partner** by providing the vendor with training materials regarding your business vertical and unique business processes/requirements. Consider sending a trainer overseas to train the offshore staff or inviting their team to come over to your facility for training.
- **Set your goals and objectives up front including your exit strategy.** The vendor should know from day one your expectations and how you will judge performance, results, and quality of work. It should be crystal clear to both parties when and why the relationship grows, shrinks or terminates.
- **Engage a US-based Vietnam software consulting company to facilitate the start-up and transition processes.** Make sure to conduct due-diligence on these companies before engaging their help. These companies bring the following value:
  - They have done business in Vietnam and understand the local language, customs, etiquettes, laws, and other idiosyncrasies. Their primary goal is to facilitate and translate your business processes and requirements to the Vietnam vendor(s) and assist in delivering the applications and products.
  - They can assist in selecting the “right fit” vendor(s). Different companies have different skill sets. There are times when you may need to engage several companies that offer complementary services. They can also assist in securing the best deal. In Vietnam, everything is negotiable and you are expected to bargain.

- They can provide project management and other leadership resources with their network, including access to the Vietnamese-American community.
  - They are cheaper than hiring full-time in-house offshore managers. You only pay for the hours you need. There is no learning curve since they are the experts in this marketplace.
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**Author’s Bio:**

Michael H. Wilson is an international technology executive with proven success driving profitable growth by using best practices to move beyond technology initiatives to form cost-effective and business-focused strategies and solutions for companies. He is fluent in Vietnamese.

He is the President and Chief Operating Officer for IT21 Inc ([www.it21inc.net](http://www.it21inc.net)), an international software company with offices in Orange County, California, and Ho Chi Minh City, Vietnam. He served as CIO for several large financial services and manufacturing companies. He is an experienced information technology executive and system architect with over 20 years experience. He has in-depth experience leading software offshore initiatives by partnering with Indian and Vietnamese companies.

Michael received his Bachelor’s degree in Engineering Systems Science from UCLA, and his Master’s degree in Electrical Engineering from Loyola Marymount University. He also holds an executive management certificate in Manufacturing Management and Strategic Planning.