



VIETNAM BRIEFING

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Getting Your Goods to Market in Vietnam

Navigating Vietnam's Distribution Network for Goods and Services Pg 04

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Introduction



ALBERTO VETTORETTI

Partner
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Vietnam is emerging as a key market in Southeast Asia for a vast array of foreign goods and services, ranging from gourmet cheeses to automobiles. With a population of 100 million consumers, the demand for products is increasing rapidly as wages rise, cities urbanize, and a new consumer class emerges.

The market is expanding at a breakneck pace, with more than 15 free trade agreements reducing trade barriers and tariffs. This presents an excellent opportunity for businesses to tap into the Vietnamese consumer market.

However, entering the Vietnam market can be challenging. A thorough understanding of Vietnamese consumers and businesses, as well as the country's distribution network, is essential to maximize returns.

In this issue of *Vietnam Briefing Magazine*, we explore the basics of distributing goods in Vietnam, including the country's distribution network structure, how to find a local distributor, and working with Vietnamese firms. By following this guidance, businesses can successfully penetrate the Vietnamese market and capitalize on its rapid growth.

With kind regards,

Alberto Vettoretti



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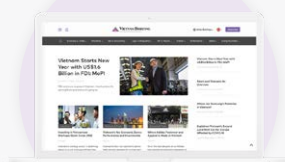
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Navigating Vietnam's Distribution Network for Goods and Services

Alongside rapid GDP growth, Vietnam's consumer class is getting bigger and richer and spending their newfound wealth on a variety of foods, entertainment, travel, and assorted goods. In this chapter, we look at how these goods move in and around Vietnam.



Mark Barnes
Author

Vietnam boasts a vast distribution network, spanning its long and narrow geography. The country's distribution infrastructure comprises a central spine from which road and rail split off to supply its outer regions. Its extensive coastline, which stretches from north to south, features numerous ports facilitating global trade.

Additionally, Vietnam has approximately 22 airports that are used to transport a diverse range of goods across the country. Notably, the Hanoi to Ho Chi Minh City air route is one of the world's busiest.

Vietnam's land border crossings with Cambodia, Laos, and China see millions of tons of goods crossing through border stations every day.

It is through these ports, airports, and border crossings that goods enter and exit the country, being transported by trucks, trains, and planes to retail outlets throughout Vietnam.

Traditional retail

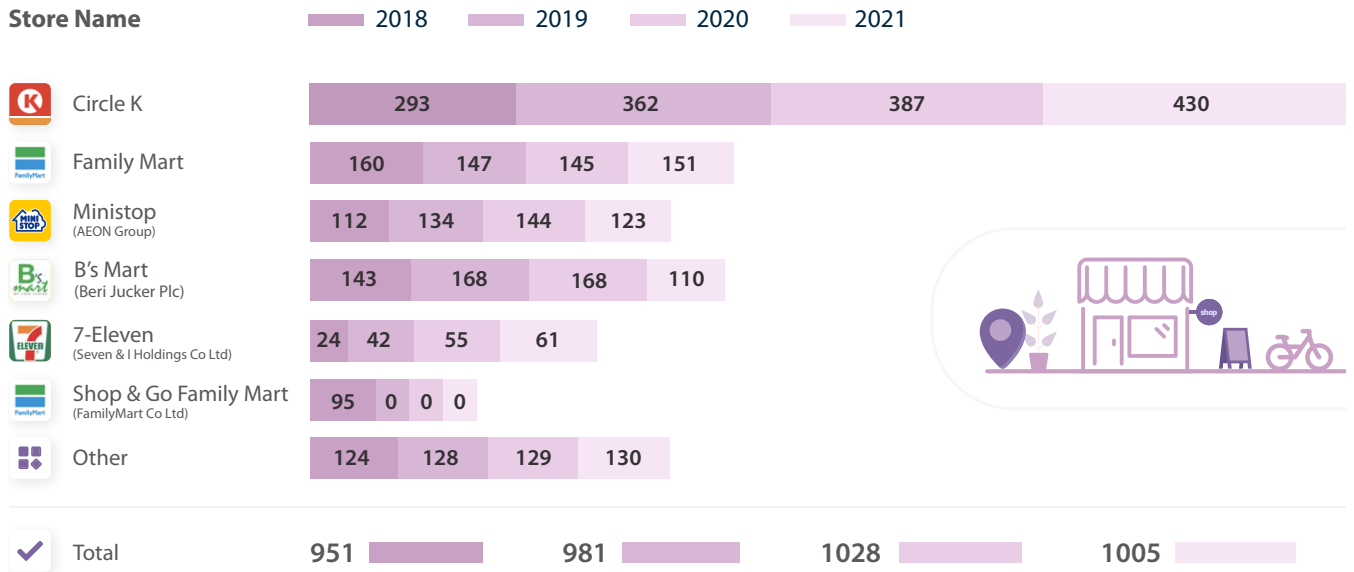
According to a 2021 Euromonitor market report, Vietnam is home to approximately 1,005 convenience stores, which are split among six key brands, both domestic and international.

A separate report from Euromonitor, focusing on supermarkets, estimated that there were 5,669 supermarkets operating in Vietnam in 2021. This marks a significant increase from the 1,672 stores recorded in 2016 - almost triple the number in just five years.

Online marketplaces

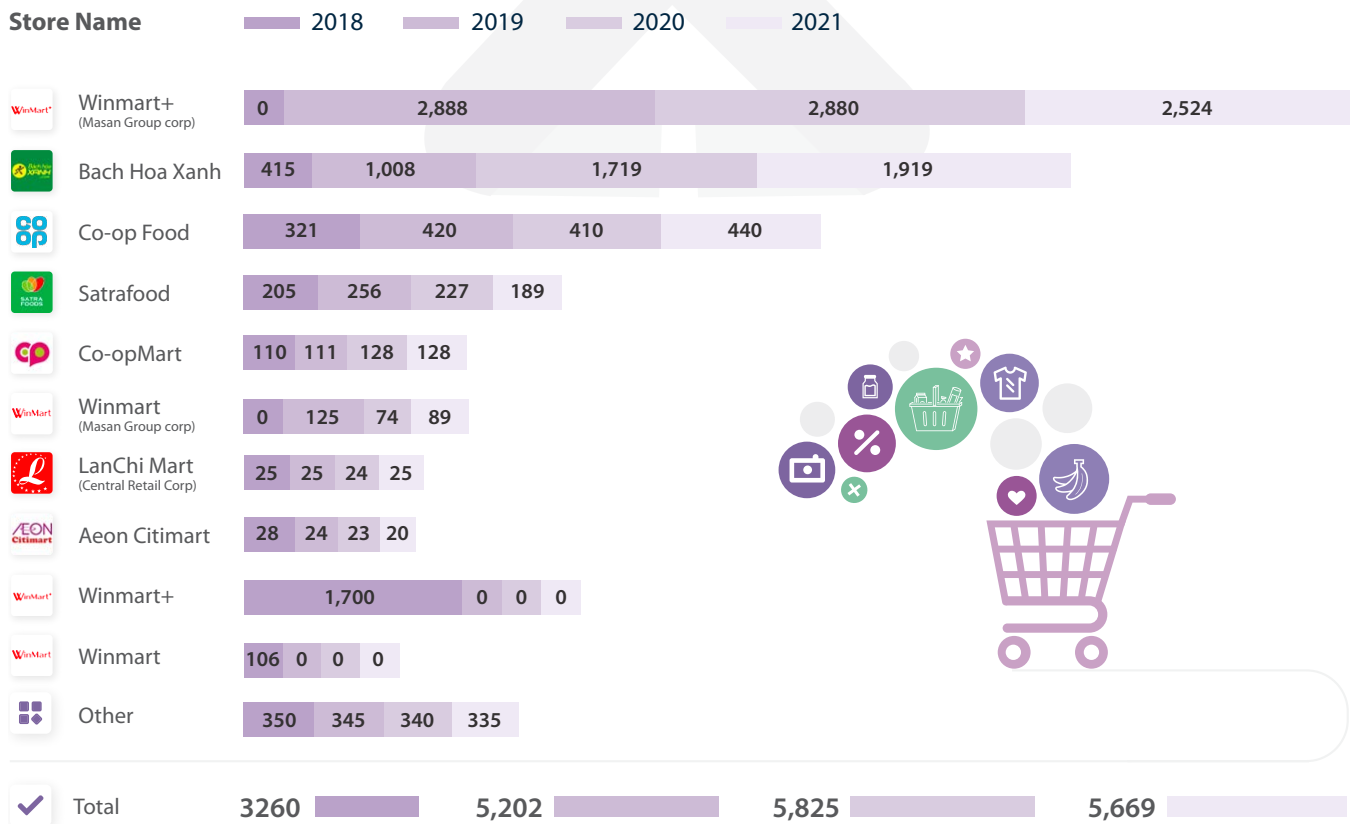
In Vietnam, the development of e-commerce has leapfrogged traditional retail like supermarkets and convenience stores. The convenience of online shopping and the ability to store large volumes of goods at low-cost warehouses has led to a relatively low demand for big-box style shopping complexes. This trend is further reinforced by the

Convenience stores in Vietnam



Source: Euromonitor

Supermarkets in Vietnam



Source: Euromonitor

lack of space in Vietnam's cities, which have grown in both size and population at breakneck speed over the last decade.

Vietnam's e-commerce market generated US\$14 billion in revenue in 2022 and is expected to reach US\$32 billion by 2025, cementing the e-commerce sector as a primary distribution channel in the country.

While there are thousands of online retailers operating in Vietnam, three local brands – The Gioi Di Dong, FPT Shop, and Hoang Ha Mobile – dominate the online sales market. Nevertheless, a number of big international retailers, including Shopee and Lazada, are also operating in Vietnam.

Social commerce

Social commerce, as a subsector of e-commerce, is also gaining momentum as a dynamic and cost-effective channel for businesses and enterprises to approach customers.

Though not quite as efficient and simple as e-commerce, this form of transaction has become incredibly popular in Vietnam.

According to a recent Bain & Co report, social commerce in Vietnam accounted for 65 percent of Vietnam's US\$22 billion online retail economy last year.

Warehouses

There is around 100 hectare of warehouse space in northern Vietnam and around 280 hectare of warehouse space in the south. This number is set to increase as demand surges for more and varied consumer goods.

Furthermore, the e-commerce boom is seeing many retailers forgoing traditional retail stores and instead operating solely online. This is driving up demand for warehouse space and delivery services.

Courier, express, and parcel services

Vietnam's courier, express, and parcel services has grown exponentially in recent years and is continuing to expand. With a CAGR estimated at 15 to 18 percent, it is expected to be a US\$3.5 billion industry by 2024. This has seen a range of courier and delivery services spring up around the country offering low-cost, speedy delivery powered by the sharing economy and individual sub-contractors working with apps like Grab.

Summary

There is a myriad of ways of getting products into Vietnam along with a range of transport services to get them into the hands of Vietnam's retailers, to then have them passed on to Vietnam's 100 million consumers. Choosing the right way to do this can be critical to the successful launch of new products and brands. 🌸



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How to Find a Distributor in Vietnam

Using a local distributor can be a low-cost, low-risk, very quick way to enter the Vietnamese market. Finding the right distributor, however, can be tricky. Here's what you should be aware of when embarking on a distributor-dependent market entry.



Mark Barnes
Author

High inflation and interest rates, along with currency fluctuations are all making it expensive and risky for businesses to expand into markets overseas. Between permits, registrations, and visas, as well as hiring staff and dealing with in-country logistics, it can also be a lot of work.

In this light, using a local Vietnamese distributor may be a better option. This is not always easy and there are risks involved.

That said, with the right advice and guidance, this can be an effective way of testing the waters, and with the right local partner, it can be a very lucrative way to get products and services to market in Vietnam.

Why use a distributor in Vietnam?

Ultimately, using a distributor means a smoother, faster market entry. There are a number of reasons why this is, but three core reasons stand out.

Communication is easier

Vietnamese is a tricky language to learn. Though English is commonly spoken, it is far from universal. Translating Vietnamese is easy enough with myriad digital tools available. However, the mismatch in structure and syntax can make accurately interpreting what is being said very difficult. A local distributor can avoid these problems.

It's also worth noting that Vietnam is rich in tradition and culture, and this can play a big part in how people communicate. How respect is inferred and to whom it is directed, for example, can be a complex and nuanced web with over 14 different pronouns that are used interchangeably depending on who is talking to whom and in what context.

Understanding these fundamentals of the Vietnamese language can be crucial to successfully entering the Vietnamese market.

Local distributors have established distribution networks

Local distributors already have established distribution networks. A good local distributor will know retailers and transportation firms and have the connections a business needs to quickly and effectively get their products to market. Furthermore, local distributors already have relationships with a broad range of people in the supply chain. The value of these relationships should not be underestimated. In Vietnam, it is common for businesses to lean heavily on personal relationships in order to get work done. Successful distributors will have these networks and know how to utilize them most effectively.

It's easier to manage

Foreign companies engaging local distributors typically do so on an outright sale basis. As in, the foreign supplier sells their goods to the distributor and the distributor is liable for the full payment. This means that the risk of not being able to sell the goods is taken on by the local distributor.

How do you find a distributor in Vietnam?

Finding a local distributor can be as simple as conducting a search online. However, this can be risky with many unknowns. It's also, to an extent, unnecessary. There are a number of tried and tested ways to get high quality advice on finding a distributor in Vietnam.

Business matchmaking services

Business matchmaking services connect foreign enterprises with local distributors that meet their specific requirements. For example, a business matchmaking service will typically already have connections in product specific fields. For example,

cold chain distributors for dairy products or perishables.

What's more, business matchmaking services will provide analysis and insights into the market and provide valuable business intelligence to further assist entrants into the Vietnamese market.

Connecting with local associations

Connecting with local associations, particularly national chambers of commerce, can be extremely helpful when entering the Vietnamese market. These institutions have their own broad networks and offer networking events that are often attended by a mix of both international and domestic industry leaders.

Some of the key local associations foreign investors should be aware of are:

- American Chamber of Commerce Vietnam (Amcham Vietnam)
- European Chamber of Commerce (Eurocham Vietnam)
- Australian Chamber of Commerce (Auscham Vietnam)
- Canadian Chamber of Commerce (Cancham Vietnam)

Market research

There are a number of foreign firms already working with domestic Vietnam enterprises in imports, exports, and distribution. Networking events can be a great way to meet like-minded business owners for advice. This is usually most effective in person, but there are a broad range of social media groups that producers can use to find and vet local distributors.

That said, this has its limitations, and it can be difficult if firms are unfamiliar with the local culture

or those that lack the time to undertake the necessary network. Moreover, it can result in costly lapses in due diligence. In instances like this, it is advisable to speak with a third-party professional services firm to provide the necessary information that is aligned with the client company's business goals and corporate culture.

Are there risks working with local distributors?

As with any business partnership, there are a number of risks when working with local distributors. This is particularly true when combining two business cultures from different parts of the world. Understanding these risks can help businesses to safeguard against them.

A lack of control

When a company engages a local distributor they give up some control of the sales process. The Vietnamese firm in a distribution agreement will generally handle the sales, marketing, and customer service aspects of moving a product. This can have consequences for suppliers if these activities are not executed to the required standard. A failure to adequately carry out an exchange, repair, or refund of a faulty product may lead to consumers singling out the brand publicly rather than the distributor.

Conflicts of interest

Distributors often work with a number of different suppliers at any one time. In the event that they are responsible for two similar products, they may choose to favor one over the other by limiting the supply available on the market or the number of facings in a supermarket, for example. This can be particularly problematic when exclusivity clauses are included in distribution contracts. Firms should

look into their local partners' other distribution agreements and ensure from the outset that there are no conflicts of interest or that if there are there is a plan in place to mitigate this risk.

Cross-cultural communication

Whereas a local firm's ability to communicate with Vietnamese consumers can be an asset, communicating with Vietnamese suppliers may be a challenge for some foreign firms. Foreign firms often find that they have a vastly different work ethic from their local counterparts. For example, responding to emails can often take days and communications are not always clear. Vietnamese people tend to avoid outright refusing a request and will often agree to a proposition even though they do not intend to follow through. This can make business partnerships tricky. That said, this can be mitigated through clear communication from the foreign partner and through consistently checking and reconfirming arrangements.

Summary

Overall, utilizing a local distributor to get products into the hands of Vietnamese consumers is a cost-effective option, with proven results. It does, however, mean giving up some control over how goods are sold in Vietnam. 🌸



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Partnering with a Vietnamese Firm

For more control over a business's operations, foreign market entrants often establish joint ventures with local firms to get their products or services to market. This approach reduces the risks associated with navigating an unfamiliar market but also comes with its own set of challenges, such as the need for effective communication and conflict resolution between partners.



Mark Barnes
Author

Foreign market entrants may opt to establish joint ventures with local firms in Vietnam for greater control over their business operations and to facilitate the distribution of their products or services.

This approach presents several opportunities for foreign companies, including access to local market knowledge, expertise, and networks, as well as reduced risks associated with navigating an unfamiliar market.

Partnering with a Vietnamese firm can offer foreign companies a cost-effective and efficient approach to entering the Vietnamese market by leveraging the local partner's knowledge and connections.

In some industries, engaging a local partner may even be legally required.

However, while partnering with a local firm presents several benefits, it does not necessarily guarantee an easy market entry.

Foreign companies may still face challenges as they navigate differences in cultural and business practices, communication barriers, and complex legal and regulatory frameworks in Vietnam.

Nevertheless, collaborating with a local partner remains a popular and effective strategy for foreign companies looking to establish a foothold in Vietnam.

Do you need a Vietnamese partner to establish a business in Vietnam?

While previously a local business partner was required for foreign companies to start a business in Vietnam, there are now several sectors in which 100 percent foreign ownership is allowed.

However, some industries still have restrictions on foreign ownership, known as "conditional" sectors in Vietnam.

Conditional business lines

Conditional business lines in Vietnam refer to sectors with restrictions on foreign ownership and operations.

Foreign investors who wish to conduct business in these sectors must comply with certain conditions and regulations set by the Vietnamese government.

Failure to meet these conditions may result in penalties, fines, or even revocation of business licenses. The sectors include:

- Advertising services;
- Agriculture, hunting, and forestry related services;
- Telecommunication services;
- Travel agencies; Tour operator services; Entertainment services;
- Electronic gaming businesses;
- Container handling; Customs clearance services; Auxiliary transport services;
- Internal waterways transport, rail and road transport services;
- Banking;
- Pharmaceuticals; and
- Defense.

SUCCESSFUL PARTNERSHIPS

Sanofi and Vinapharm



The collaboration between the French pharmaceutical and healthcare MNC Sanofi and Vinapharm dates back to 1993, and their expanded partnership agreement now encompasses all of Sanofi Vietnam's products.

Vinapharm is a significant collaborator in Sanofi's newly constructed factory in Saigon Hi-Tech Park, with a total investment of US\$80 million. The new facility has been designed based on modern architectural models and meets the Good Manufacturing Practices (GMP) regulations of the Ministry of Health and Australia's TGA.

The factory has an initial capacity of 90 million boxes of medicine, and the potential to increase production to a maximum of 150 million boxes annually, manufacturing a wide range of pharmaceutical and healthcare products.

Their collaboration has gone from strength to strength in Vietnam, and these two firms continue to work together successfully.

Foreign Ownership Limits in Some Key Sectors

Percentage of foreign capital contribution based on WTO Specific Commitments in Services

Description	Notes	VN	AFAS	WTO	VJEP	VKFTA	EVFTA	CPTPP
Telecommunication services	Non-facilities-based services			65				
	Facilities-based services			49				
Services incidental to agriculture, hunting and forestry				51				
Basic telecommunication services: Virtual Private Network (VPN)	Non-facilities-based services			70				
	Facilities-based services			49				
Audiovisual Services with regard to motion picture production, distribution and project services.				51				
	Special cases			51				
Maritime transport services	Establishment of registered companies for the purpose of operating a fleet under the national flag of Viet Nam			49				
Electronic games business				49				
Internal waterways transport		49	51	49	49	49	49	49
Road transport services			70	49-51	49-51	49-51	49-51	49-51
Maritime transport services	Container handling services		70	49	49	49	70	49
	Establish VN flagged fleet	49						
Rail transport services			70	49-51	49-51	49-51	49-51	49-51
Security service business		<50						
Price appraisal services		35						
Logistics		49-51						
Aviation		34-49						
Air transport services		34						<30

Source: Vietnam Foreign Investment Agency

Choosing the right local firm to partner with

Challenges

Information can be hard to find

Vietnam's business environment has undergone significant changes in the last decade.

However, some successful businesses still prefer to maintain a low-profile to avoid increased scrutiny from authorities.

As a result, it is not uncommon for local companies to operate without a website.

And, if they do, the website is often poorly maintained with contact details that are hard to locate or not updated.

This can be challenging for foreign firms who

are accustomed to doing business in a more straightforward and transparent manner.

Communicating with Vietnamese firms can be difficult

Even if a foreign firm manages to locate a potential partner online with contact details, they may encounter a second common problem: Vietnamese companies may not respond to phone calls or cold emails, particularly if the form of communication is in English.

Furthermore, there may be cultural differences to navigate, particularly in terms of working styles and managing human resources.

Overcoming these challenges is crucial for the success of a joint venture. In this regard, working with a professional services provider who is familiar with the local culture and business landscape can be invaluable.

SUCCESSFUL PARTNERSHIPS

Toyota Vietnam and Vietnam's Engine and Agricultural Machinery Corporation



The Toyota Vietnam Company (TMV) is a partnership between three major entities, including Toyota Motor Corporation Japan holding a 70 percent stake, Vietnam Engine and Agricultural Machinery Corporation owning 20 percent, and Singapore KUO Co., Ltd., which holds the remaining 10 percent.

Established on September 4, 1995, with a total investment of US\$89.6 million. TMV manufactures vehicles at its plant in Vietnam's Vinh Phuc province.

What to look for when choosing a JV partner

Firms that are open to change and willing to adapt

Vietnam's business culture is evolving, and while it may not align with the practices of foreign firms, there are signs of progress.

Decision-making can be challenging due to cultural and structural differences, as it's not always common to raise issues or disagree with senior staff.

However, this is gradually changing, especially among younger workers in emerging industries. There is a growing desire to operate like modern businesses, and foreign firms that partner with the right domestic companies can help steer them towards prosperity.

Business leaders who are straight forward and professional

In traditional Vietnamese businesses, decision

making often occurs over extended periods in informal settings, such as local bars or restaurants.

While this may initially seem refreshing, foreign firms can find it time-consuming and a hindrance to progress once the novelty wears off. It is important for foreign firms to assess the leadership team of their Vietnamese partner company and ensure a suitable level of professionalism exists.

Once a partnership is established, it can be challenging to dissolve.

What are the benefits of partnering with a Vietnamese firm?

More control

Compared to using a distributor, working with a Vietnamese company can give foreign firms a lot more flexibility and control. As part owner of the company, firms can get involved in key decision-making and influence strategy and planning. This

SUCCESSFUL PARTNERSHIPS

Honda Vietnam and Vietnam's Engine and Agricultural Machinery Corporation



Honda Vietnam is the largest FDI joint venture in Vietnam. This is a partnership between Japan's Honda Motor Company, Thailand's Asian Honda Motor Company, and Vietnam's Engine and Agricultural Machinery Corporation.

Honda Vietnam has invested more than US\$400 million in the establishment of three factories, comprising two motorcycle factories and an automobile assembly plant in Vietnam. Two of these factories are located in Vietnam's Vinh Phuc province, north of Hanoi. The third is in Ha Nam south of Hanoi.

can pay huge dividends whereby foreign firms can utilize their experience and expertise giving themselves and their Vietnamese partner the edge over their competitors.

Dealing with the authorities

Entering into a partnership with a Vietnamese firm can be very productive when roles are clearly defined and each side plays to their strengths. Having a local partner with boots-on-the-ground knowledge and experience can make market entry much easier.

This is particularly true when working with the authorities to arrange permits or certifications, for example.

Familiarity with local business customs and culture can help to build a firm's professional relationships which can often be utilized to simplify processes and procedures and move things along faster.

Less red-tape

Furthermore, by partnering with an established Vietnamese firm, foreign firms may find that they have access to already established distribution networks, professional networks, as well as premises that are already fitted out and ready to go. In this way, firms can focus on improving what already exists to make it more profitable rather than become bogged down with working through the red tape involved in establishing a new business.

Foreign ownership limits

There are also foreign ownership limits in a number of key sectors. As a result, by regulatory necessity, foreign firms may need to partner with a Vietnamese company. This is most common in,

but not limited to, key services like banking, mining, and defense.

Notably, Vietnam is currently on a trend towards greater deregulation and market liberalization and foreign ownership limits in many sectors are being reduced. By partnering with a local firm now, it may give foreign companies a first-mover advantage in the future if ownership limits are relaxed.

Foreign firms may also find, down the track, that they are able to buy out their local partner making for a much more seamless market entry.

Summary

Forming a partnership with a Vietnamese firm has its challenges; however, it does give a business more control over how its products are distributed in Vietnam and their market reach. This may also result in higher profit margins and better returns.

But businesses should choose their local partners carefully to ensure they avoid conflict and that their market entry is as smooth as possible. In this respect a boots-on-the-ground consultancy can help. As experts in due diligence, business matchmaking, and cross-country benchmarking, Dezan Shira and Associates is a leader in assisting new firms to enter the Vietnamese market. 🌸



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