



VIETNAM BRIEFING

From Dezan Shira & Associates

Issue 56 • December 2023 | www.vietnam-briefing.com

Vietnam Market Entry Strategy for Foreign F&B Companies

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Introduction



ALBERTO VETTORETTI

Partner
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Vietnam has been rapidly rising as a key Southeast Asian market for a vast range of foreign food and beverage (F&B) products. From dairy and processed meats to fresh fruits and vegetables, Vietnam's 100-million-strong market are increasingly consuming more new foods and beverages every day.

In fact, the Vietnam market is expanding at breakneck speed. Wages are rising, cities are urbanizing, and a new consumer class is emerging, eager to spend on eating and drinking.

In addition to this favorable climate, Vietnam boasts over 15 free trade agreements that have effectively lowered trade barriers and tariffs, making it an ideal time for businesses to tap into this growing market.

In this edition of *Vietnam Briefing Magazine*, we delve into the dynamic F&B sector in Vietnam. We provide insights into the essentials of establishing an F&B enterprise in the country, discuss the regulations pertaining to franchising, and offer strategies for selling your products without necessitating a direct market entry.

The food and beverage industry in Vietnam is currently a hotbed of opportunity. With the right guidance and a thorough understanding of Vietnamese consumer preferences, foreign companies can reap substantial rewards.

With kind regards,

Alberto Vettoretti



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Credits

Publisher - Asia Briefing
Media Ltd.

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Miguel Enrico Anciano

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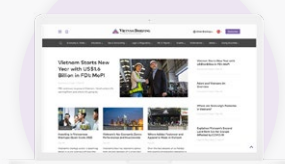
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Chinachem Golden Plaza, 77
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Vietnam's Food and Beverage Industry: An Overview

Vietnamese are curious eaters always in search of new flavors and tastes and this has seen a booming food and beverage industry in Vietnam.



Mark Barnes
Senior Editor, Vietnam Briefing
Author

Vietnamese love to eat and drink and after thousands of years, have developed a cuisine that is well known the world over. But it's not always the same. With 100 million people spread right down the spine of the 1,650 km long country, diversity has developed within the local food scene.

Food from northern Vietnam emphasizes freshwater ingredients, such as fish, mollusks, and crab, due to geographical challenges in growing spices and raising cattle. Central Vietnam boasts strong flavors enhanced by chili peppers and other spices. Southern Vietnamese cuisine incorporates lots of fruits and vegetables, with fresh herbs, seafood, and frequently coconut milk.

This love of food and variety has led to a booming food and beverage industry.

VIRAC Research reported recently that the total revenue of Vietnam's food and beverage industry in 2022 was VND 610 trillion (US\$24 billion), a 39 percent increase over 2021. Of that revenue, 95

percent came from independent restaurants and eateries and the remaining 5 percent came from chain restaurants.

What's driving growth in Vietnam's food and beverage industry?

Vietnamese people spend a sizeable portion of their incomes on food and drink. Estimates suggest that somewhere between 20 percent to 48 percent of household income is spent on food and beverage consumption. This is on the back of Vietnam's fast-growing middle-class population and a sizeable youth demographic with higher disposable incomes as a result of rapid economic development.

Growing disposable incomes

Vietnam's growing middle-class population reflects the country's compound annual GDP growth rate of five percent over the past 20 years.

This has led to disposable income per household estimated at US\$16,070 in 2023, up from US\$12,610 in 2020 and headed toward US\$25,220 by 2028, according to data compiled by Statista.

As disposable incomes increase, the budget for food, accommodation, and entertainment will expand, and F&B stakeholders stand to be among the main beneficiaries.

Social media

Given changing lifestyles and socio-cultural norms, Vietnam's younger population is more inclined to eat out and share their stories and experiences on social media. It is very common for young Vietnamese to spend their free time testing out restaurants and eateries recommended by their favorite 'food influencers'. Not to mention taking photos of the foods they post on their own social media accounts.

Photo communities like Facebook, Instagram, and Pinterest are all popular with local foodies and foodie communities—as in much of the world.

At the start of 2023, Vietnam had 77.93 million internet users, of which 70 million had social media accounts, or 71 percent of the total population.

Food and beverage trends in Vietnam

Alcohol

Vietnam is among Asia's top beer consumers. The market is estimated to be worth over US\$5 billion in 2023 and to grow each year by 7.76 percent up to 2027, according to Statista data.

One of the most noticeable trends in the sector is the shift toward the consumption of low and



Do Thanh Huyen

Manager
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“ With several Vietnamese coming back to the country, we have seen an increase in supermarkets by both domestic and foreign investors. There has been an increased focus on healthy food on one hand and popular fast food chains on the other. Further, a number of food delivery apps now make it easier to order a wide and diverse choice of foods. ”

no-alcohol beers, such as the Heineken 0.0 (zero alcohol) or Sabeco's Sagota—the first Vietnamese brewery to introduce non-alcoholic beer. Craft beers have also become increasingly popular.

Sustainability and healthy eating

Vietnamese food, often characterized by its use of fresh vegetables and spices, is perhaps more naturally in sync with healthy eating trends. For example, the country's top food exports include ingredients like pepper, fruit and vegetables, cashews, and coffee. That said, Vietnam's middle-class growing is increasingly engaged with global trends, including sustainable and healthy eating.

Hand in hand with the rise of healthy eating is the desire to ensure that food is coming

from sustainable sources. In fact, government campaigns are raising awareness about the need for food safety and cleaner supply chains.

This is enhancing the demand for organic products in combination with the desire for healthier diets. Vietnamese customers are becoming increasingly willing to pay higher prices for organic foods, environmentally conscious options, and foreign products.

All this means that there is plenty of opportunity for foreign firms, in terms of both distributing their products in Vietnam and establishing their own F&B enterprises.

Take-away food

Online food delivery, helped along by the COVID-19 pandemic, has become quite normalized in Vietnam. There are now a range of food and beverage delivery services operating around the country.

Some of the most popular players in the food delivery sector include:

- Eat.vn;
- Foody.vn;
- Now.vn; and
- Grab Food

Delivery apps allow customers to peruse multiple menus and explore new cuisines without necessarily visiting the restaurants in question and their delivery fees are relatively cheap—usually between VND 20,000 to 30,000 (US\$0.80 to US\$1.40).

The prices stay relatively low due to broad competition in the sector, which shows little signs of abating. Consequently, home delivery of foods

that Vietnamese would once have needed to go out for, is likely here to stay.

Finding new restaurants

Consumers are discovering new restaurants through delivery apps. A total of 88 percent of consumers become aware of new stores through delivery apps, and 74 percent of users browse through these apps when they haven't yet decided on a specific restaurant or store, according to the aforementioned GRAB report.

On average, GrabFood users spend 17 minutes making their ordering decisions.

Summary

Rising disposable incomes and a love of eating and drinking are likely to precede robust growth in Vietnam's food and beverage industry. This promises a wealth of opportunities for foreign firms. 🌸



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Market Entry Strategy Checklist: F&B Industry in Vietnam

Foreign F&B firms should approach the Vietnam market with a strategic and informed perspective. Here are some key considerations:

- **Market research:** Conduct thorough market research to understand the preferences, behavior, and needs of Vietnamese consumers. This should include local tastes, cultural nuances, and specific demand trends within the F&B sector.
- **Market entry planning:** Choose the right market entry strategy, whether it's establishing a local presence, partnering with local businesses, franchising, or utilizing e-commerce platforms.
- **Local partnerships:** Consider collaborating with local distributors, suppliers, and partners who understand the market dynamics, distribution networks, and regulatory landscape. These partnerships can help you navigate the market more effectively.
- **Regulatory compliance:** Familiarize yourself with Vietnam's regulatory environment, including food safety standards and import/export regulations. Ensure that your products meet all the necessary requirements to avoid any compliance issues.
- **Localization:** Adapt your products to suit the local palate and preferences. Tailoring your offerings to local tastes can significantly enhance your market appeal.
- **Branding and marketing:** Invest in strong branding and marketing efforts to build awareness and trust in the Vietnamese market. Utilize digital marketing and social media, as these are highly influential in the country.
- **Distribution and logistics:** Develop efficient distribution and logistics channels to ensure your products reach consumers in a timely and cost-effective manner, especially in the context of Vietnam's diverse geography.
- **Pricing strategy:** Carefully consider your pricing strategy to remain competitive while ensuring profitability. Take into account local economic factors and consumer affordability.
- **Supply chain management:** Maintain a robust and reliable supply chain to ensure a consistent flow of products and minimize disruptions.
- **Consumer engagement:** Engage with Vietnamese consumers, collect feedback, and adapt your products and services based on their preferences and feedback.
- **Sustainability and corporate social responsibility:** Demonstrate your commitment to sustainability and social responsibility, which can resonate positively with the environmentally conscious consumer base.
- **Long-term perspective:** Be prepared for a long-term commitment. The Vietnam market is evolving rapidly, and success may require patience and adaptability.

By approaching the Vietnam market with a well-researched, adaptable, and culturally sensitive strategy, foreign F&B firms can tap into the immense potential this dynamic market has to offer.



How to Start a Food and Beverage Business in Vietnam

Establishing a food and beverage business can be a financially very rewarding experience. Foreign investors should, however, plan for a number of regulatory processes and procedures.



Mark Barnes
Senior Editor, Vietnam Briefing
Author

Whether you are looking to set up a small cafe, a Vietnamese-style eatery, or a chain of fast-food restaurants, there are a number of steps that you will need to take in order to ensure you are compliant with all relevant laws and regulations. The first step is to establish a legal entity. This involved applying for an Investment Registration Certificate often referred to by its acronym IRC.

Applying for an IRC

An IRC is required of all foreign-owned investment projects in the food and beverage (F&B) sector.

To apply, an investor must prepare:

- An application, including details of the project in Vietnam;
- A proposal for the investment project, including details of lease agreements or land use needs;
- Financial statements from the last two years of the company's activities if the local project is not a new business;

- Details of the investors and their authorized representative/s if the investor is a company;
- A lease agreement or memorandum of understanding (MOU) with a landowner; and
- Any other documents proving the eligibility and capacity of the investor.

After completing these documents, an outcome should be provided 15 days from the date on which the documents are submitted.

In exceptional cases, particularly where the sector of intended operation is not governed by the WTO, this process may take longer.

Applying for an ERC

An Enterprise Registration Certificate (ERC) is required for all new businesses in Vietnam.

As part of the application process, the following information should be prepared:

- An application,
- A company charter;
- A list of all board members; and
- A list of legal representatives and their letters of appointment and authorization.

It takes three days to process an ERC application from the date when the documents are submitted.

Post-licensing procedures

Once the IRC and ERC have been issued, there are a handful of small details that need to be handled.

These include:

- Seal carving;
- Bank account opening;
- Labor registration;
- Business license tax payment;
- Charter capital contribution; and
- Public announcement of company establishment.

Requirements to establish a company in Vietnam

Minimum capital requirements

For most sectors and business lines, Vietnam requires no minimum capital requirements.

However, the registered capital will be assessed by The Department of Planning and Investment for whether it is adequate to cover the expenses of the business until it generates enough revenue to cover its costs. It is possible to set up a basic business services company with less than US\$10,000 in some cases, but in most cases, it would be at or above this threshold, depending on the nature of the business.

Company registered address

A business requires a legal address in Vietnam to incorporate a company in the country. When registering a company, a company submits documents that serve as proof of the address that will be used as the location for the business. This address may be checked during the incorporation process by The Department of Planning and Investment.

Company legal representative

A company is required to have at least one legal representative. The legal representative of a Vietnam-based company can hold a Company President, Director, or General Director position. A legal representative will need a residential address in Vietnam. A legal representative does not need to be Vietnamese but foreign nationals will require a work permit.

Summary

Starting a F&B business in Vietnam can be very rewarding and the market is far from full. That said, there are a number of administrative hurdles that must be overcome to set up a cafe, restaurant, or eatery in Vietnam. Understanding these requirements can make that process much smoother. 🌸



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Registering a Franchise in Vietnam

Foreign firms seeking to tap into the dynamic Vietnam F&B market should note the differences between registering a business entity and registering a franchise in Vietnam.



Mark Barnes
Senior Editor, Vietnam Briefing
Author

Normally, when a foreign firm starts a business in Vietnam, it must obtain an Investment Registration Certificate (IRC) by submitting an application dossier to the Ministry of Planning and Investment. In general, the application dossier is likely to take two to four months to prepare, and approval for the IRC—which is at the discretion of the relevant department—is generally announced within 15 days.

If a new foreign-invested company is being established together with an investment project when the IRC is issued, the foreign investor will also have to apply for an Enterprise Registration Certificate (ERC). Although the laws stipulate that the licensing authority must issue an ERC within three working days, in practice, it often takes longer.

There is, however, an alternative for franchises. With an often-shorter timeframe, simpler procedure, and reduced need for customization, registering as a franchise may be a better option in Vietnam.

Franchise registration requirements

Vietnamese traders or foreign traders aiming to engage in commercial franchising activities must undergo the process of registering such activities with the authorities. This is outlined in Decree 35/2006/ND-CP and supplemented by Decree 120/2011/ND-CP.

Completing a franchising registration dossier

Foreign firms that wish to operate a franchise in Vietnam must complete a registration dossier. This is outlined in Circular 09/2006/BTM and consists of the following components:

An application for the registration of franchising activities, utilizing form MD-1 outlined (an example is outlined in the circular).

- A sample franchise brochure that encompasses the following information:
 - » Details about the franchisor, its organizational

chart, members of the board of directors, the department responsible for franchising, and information in litigation related to its franchising activities in the past year;

- » Information concerning franchise trademarks/ services and intellectual property rights;
 - » Information about the initial costs to be borne by the franchisee, the additional financial obligations of the franchisee, and the franchisee's initial investments;
 - » The franchisee's obligations in terms of procuring or leasing equipment to comply with the franchisor's specified business systems, as well as other financial obligations of the franchisee;
 - » Obligations of the franchisor before and during the contract, including training obligations, additional training courses, and decisions regarding the selection of business premises;
 - » An overview of the general market for the goods/ services covered by the franchise agreement, along with market development prospects;
 - » Information about the franchisor's franchise system, such as the number of operating franchises, discontinued franchisees, the number of signed, transferred, and terminated franchise contracts, among others; and
 - » A sample franchise contract encompassing the contract's title, term duration, conditions for contract renewal, conditions for contract cancellation, obligations arising from contract cancellation, contract modification, conditions for contract transfer, regulations regarding cases of death, and disqualification of the franchisor/ franchisee.
- The certificate of establishment or an equivalent document verifying the legal existence of the foreign trader.
 - Documentation proving the protection titles of industrial property rights in Vietnam or abroad.
 - Audited financial statements for the previous year.
 - Evidence of sub-franchise approval (if applicable).

Fees and costs for registering a franchise in Vietnam

In the past, the cost of establishing a franchise in Vietnam was US\$703, as stated in Decision No. 106/2008/QD-BTC. However, this Decision was revoked in 2017. Presently, registration of franchising activities no longer incurs any costs or fees.

Processing franchise registrations in Vietnam

In accordance with Article 18 of Decree 35/2006/ND-CP (with certain provisions invalidated by Decree 120/2011/ND-CP), the current authority for registering franchises lies with the Ministry of Industry and Trade. This is usually with the support of provincial Departments of Industry and Trade.

The procedure for processing a franchise registration is as follows:

- The registration dossier is submitted to the Ministry of Industry and Trade or the Department of Industry and Trade in the province in which the application is being lodged.
- Within five working days of receiving complete and valid documentation, the relevant agency will register the commercial franchising activities in the commercial franchising register. They will also provide written notification to the trader regarding approval of the registration.
- In cases where the application is incomplete or deemed invalid, the relevant agency must issue a written notice to the intended franchisor. This notice will request them to supply additional information. It will be sent within two working days of receipt of the application.
- If the relevant agency refuses to register the franchise, they must provide written notification to the intended franchisor. In this communication, they must clearly state the reasons for the refusal.

The registration procedures for contracts concerning the licensing of industrial property shall adhere to the provisions outlined in the legislation pertaining to industrial property.

Changing a franchise's registered information

A notice of change of information needs to be sent to the authorities when there is a modification in the registered information, for example, a name change. This must be done where the original registration took place and within a period of 30 days. This includes modifications to any of the following documents.

From Decree No. 35/2006/ND-CP:

- Certifications validating the legal status of the franchisor; and
- The title of protection for industrial property rights in Vietnam or abroad, if applicable.

From Circular 09/2006/TT-BTM:

- The trade name of the franchisor;
- The address of the franchisor's head office;
- Telephone and fax numbers (if applicable);
- The date of establishment of the franchisor;
- Indication of whether the franchisor is the original franchisor or a secondary franchisor;
- The business type of the franchisor;
- The field of the franchise;
- Details regarding the registration of commercial franchising at a competent authority;
- The right to utilize trademarks of goods/services and any other intellectual property possessed by the franchisee; and
- Comprehensive information regarding the registered goods/service marks and rights to intellectual property objects in accordance with the relevant laws.

Compliance and penalties

According to Article 75 of Decree 98/2020/ND-CP, which addresses infringements related to commercial franchising, penalties can be imposed for incompliance. Franchising without a contract, for example, may incur a fine ranging from VND 1,000,000 (US\$43) to VND 3,000,000 (US\$128).

Remedial measures could also include the compulsory return of illegal profits obtained from committing the infringements that are specified in Article 75.

Summary

Overall, Vietnam's growing economy, vibrant consumer market, and favorable investment policies make it an attractive destination for franchise expansion. By adhering to the registration requirements and leveraging the opportunities available, foreign investors can tap into the immense potential that Vietnam offers, fostering successful and mutually beneficial franchise ventures. 🌸



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**Q+A**

Choosing a Local F&B Distributor in Vietnam

One way for foreign firms to tap into Vietnam's F&B market is to use a local distributor. Here's what firms should know if considering pursuing this option.



Do Thanh Huyen
Manager
Business Intelligence
Dezan Shira & Associates

Finding a local distributor can be as simple as searching online. However, this can be risky with many unknowns. It's also, to an extent, unnecessary. In this short interview, Huyen Do at Dezan Shira and Associates' Business Intelligence Advisory, runs through what firms should know about finding a distributor in Vietnam.

Why should firms consider using a distributor in Vietnam?

Ultimately, using a distributor means a smoother, faster market entry. There are a number of factors why this is but three core reasons stand out. For example, communication is easier when you have a local partner.

Vietnamese is a tricky language to learn. Though English is commonly spoken it is far from universal. A local distributor can avoid this problem.

It's also worth noting that Vietnam is rich in tradition and culture, but also has a very distinct geography and history. It has two large cities of roughly equal size, separated by more than 1,100 kilometers. These cities are Vietnam's largest consumption centers but have very different climates and histories, leading to significant variations in consumer behavior and preferences. Therefore, local distributors are often better positioned to deploy tailored communications to reach the specific preferences of customers in the north and south, and the cities in between.

Additionally, 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 also 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.

What kind of tasks do distributors take care of?

The distributor is usually responsible for the import procedures, customs compliance, and other in-market legal compliance, such as product registration and labeling. Distributors also generally arrange local markets and cover the marketing costs. If they buy in bulk, they also usually take care of warehousing and inventory management.

What should firms consider when deciding between establishing a local presence versus using a local distributor?

Firstly, distributors will expect heavy discounts and generous credit terms given that they will take care of most of the business operations in the country.

Furthermore, companies that import food and beverage products are usually conglomerates that import for a range of business areas, and the food import business may receive less attention than imports with a higher retail price point. On that note, it is not unusual for food and beverage

products to be discontinued at short notice if other business lines perform better. In this light, businesses should confirm what other products a distributor specializes in, and if it is food and beverage imports, they should confirm how long a firm has been operating in this field.

Also, not all local operators pay close attention to changes in policies and import regulations, and therefore distributors cannot always be relied on to update vendors on changes and adjustments that may need to be made. It is therefore recommended that firms keep an eye on any changes to policies and regulations that may impact their product themselves.

How do you find a distributor in Vietnam?

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

The American Chamber of Commerce, known locally as AmCham, or the European Chamber of Commerce, EuroCham, for example, can be very helpful for connecting with local businesses.

There are a number of foreign firms already working with domestic 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; however, there are a broad range of social media groups that producers can use to find or vet local distributors. Business matchmaking services are also very popular in Vietnam.

Can you explain how business matchmaking services work?

Business matchmaking services connect foreign enterprises with local distributors that meet their specific requirements. A business matchmaking service provider 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.

Overall, utilizing a business matchmaking service to get your products into the hands of Vietnamese consumers is a cost-effective option, with proven results. Of course, companies can also attempt to source local distributors by themselves. However, I would say business matching services would be more helpful in verifying the distributor's business operations and making sure that you don't miss any distributors with low online profile but a strong local network connection. 🌸

Establishing a Trading Company

If a business wishes to go it alone and engage in import and export activities themselves, including domestic distribution (i.e., retail, wholesale, and franchising trade activities) in Vietnam, the most common method chosen is to establish a trading company.

Generally, a trading company is inexpensive to establish and can be of great assistance to foreign investors by combining both sourcing and quality control activities with purchasing and export facilities, thus providing more control and quicker reaction times compared to sourcing purely while based overseas.

Trading companies are also the ideal choice for foreign companies that need to source in Vietnam in order to resell in Vietnam. Without a Vietnamese trading company, the alternative would be to buy from overseas and have the goods shipped out of Vietnam before then reselling back into Vietnam via local distributors (which means additional logistical costs, customs duties, and VAT).

Trading and distribution is still a sensitive sector for foreign investors. Therefore, the licensing process can vary between four to six months from the date of submitting the application dossier to the licensing authority, until the Investment Registration Certificate (IRC) can be issued.

For more information contact: vietnam@dezshira.com



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