

"GOING GLOBAL" TO ACHIEVE MARKET EXPANSION

Vietnam: Ready for Franchising

With a consumer population growing faster than China's, thousands of aspiring entrepreneurs and a strong interest in established brands, Vietnam is rapidly emerging as a franchise-friendly nation.

BY WILLIAM EDWARDS, CFE



As this is being written, it's mid-December in Hanoi and Ho Chi Minh City (formerly Saigon). The temperature is the mid-70s and Christmas is in the air. This is the last of 16 trips outside the United States for us in 2008—a very busy international licensing year—bringing five, well-known U.S. brands to this new and fast developing franchise market: Abrakadoodle, Carl's, Jr., The Melting Pot, Round Table Pizza and Signs Now.

Although I have lived in China, Hong Kong and Indonesia and have been going to Asia since 1972, I had never been to Vietnam, a country that the United States fought in a long war 30-plus years ago.

The questions arose: Would it be like China? Would we be welcome? Would there be investors who know what franchising is?

A Very Brief History

Vietnam sits just to the southwest of China along the South China Sea east of Thailand. It is a country about the same size as New Mexico, but with 86 million people.

In the late 1880s, the French colonized Vietnam and stayed until 1954 when defeated in a war. The U.S.-Vietnam war concluded in 1975. Then, in 1986 the Communist Vietnamese government enacted a "renovation" policy that liberalized the economy and brought structural reforms needed to modernize the economy and to produce more competitive, export-driven industries. Vietnam is now a member of the World Trade Organization, which is comforting for foreign companies seeking to do business in this country.

And the results are a consistent GDP annual growth rate of 7 percent to 9 percent, which is why we were there to bring U.S. franchises to this very interesting and dynamic country.

Why Vietnam Now?

This is a consumer-focused country with almost 70 percent of the population born since the war with the United States ended. It is a rapidly-developing market with a fast-growing middle class that is brand, quality and convenience focused. Plus, they have a two-year-old balanced franchise law that encourages foreign franchisors to enter the market.

Our company travels all over the world seeking licensees for more than 20 franchisor clients, but it
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Christmas in Vietnam

Just 8 percent of the population of Vietnam is Catholic, but the Christmas holiday seems to be celebrated by everyone—at least in the two major cities. Store windows are decorated, hotels have two-story trees in the lobbies. Christmas music can be heard as you walk down the street. Most interesting are the large trees along the major streets, this one in particular. Note the Communist flag above the tree.

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would be hard to find a more pro-United States country than Vietnam. They simply love U.S. brands and the American way of doing business. Remember, most of the population has been born after the Vietnam war. Today they are focused on building their economy and improving the lives of their families.

The growing consumer class is developing faster than China did, having learned some lessons of what not to do in the way of laws and regulations. The second language in school is now English, a change from French in the past. The literacy rate is over 90 percent and education is a major focus for everyone wanting to get Western standards as soon as possible.

As with any country in the early stages of franchising, the focus is on training: children's concepts, health and beauty, business services and, of course, food and beverage. KFC and Pizza Hut are doing well and beginning to add many new outlets. Dale Carnegie and Gloria Jean's are there, as is Jollibee from the Philippines and Lotteria from Japan. Crestcom has

started management training operations. There are, of course, several homegrown franchises, such as Highlands Coffee, which looks a lot like Starbucks.

A New Franchise Law in 2006

It appears the Vietnamese government looked at China and decided to make their law simpler and more balanced.

There is registration and disclosure, but it is not onerous. The local licensee has to

have one year of operations under their belt before they can sub-franchise, which is a good thing. It is possible to franchise in almost all business sectors except military and explosives-related concepts.

Successful First Trip Took Nine Months to Organize

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Nay, commercial counselor for the United States in Vietnam, put together a team of Brent Omdahl, Bill Marshak, Le Anh and Ha Anh in the two cities that arranged all the logistics we needed, placed ads and carefully identified and screened the candidates we met for each brand.

Our program was designed to be educational, as well as marketing. We began the first day in each city discussing what is franchising and what are master and area licenses. What an investor should look for in a foreign franchise was also discussed. Then the first government approved U.S.-Vietnamese joint venture law firm, August Bao Law Group, discussed the legal structure and process to acquire and operate a foreign franchise. Finally, we made a brief slide presentation on each of the five U.S. franchise brands we were bringing to Vietnam.

At the Hanoi Hilton hotel (a very different place than where future U.S. Sen. John McCain stayed in the late 1960s), there were 72 conference attendees. In Ho

Chi Minh City, there were 84 attendees. It seems the two U.S. Commercial posts were trying to out-do each other.

After the first morning general session in each city we conducted 12 one-on-one meetings with pre-qualified license candidate companies in Hanoi and 17 similar meetings in Ho Chi Minh City. This was a tremendous turnout, which is a testimonial to the Commercial Service, the quality of the U.S. brands represented and the entrepreneurial spirit in Vietnam.

Also attending the morning educational sessions were lots of news media. Ken August of the August Bao Law Group and I gave many newspaper and TV interviews.

The Future for Franchising

In Ho Chi Minh City, we met the entrepreneurs that have started a "Franchise Club" as a precursor to establishing a franchise association. This group was, of course, introduced to the International Franchise Association and plans to attend the International Franchise Expo in

Washington, D.C. this spring.

Vietnam is a country full of aspiring entrepreneurs at all levels of the economy. New-business development seems to come naturally, but they know they need Western business systems and standards to compete in the global marketplace. There is a growing understanding of the role that franchising can play in creating good businesses with strong training, which results in good jobs being created. And they prefer U.S. franchises.

But it is early in Vietnam's franchise development. Not all franchises will find customers who can afford their products or services. And intellectual property is still a challenge, as is investment for master and area licenses for foreign franchise brands. ■

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