



Vietnam Market for Franchising

By U.S. Commercial Service – Vietnam
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Overview

The franchising model is popular and well-suited to a developing economy like Vietnam. Rising incomes and an emerging middle class are generating growth in consumer-driven sectors. There is considerable demand for lifestyle-oriented products and services, as well as growing interest in western-style food and beverage concepts.

Franchising first took hold in Vietnam in the 1990's with the appearance of well-known foreign fast food chains like KFC, Lotteria, and Jollibee. With the passage of several franchise laws and decrees, franchising businesses have become more widespread in recent years, with a number of foreign and domestic franchise brands operating in the market. While Vietnam's entry into the World Trade Organization in 2007 heralded the opening of the retail sector to foreign investment, the slow and bureaucratic approval process for retail licenses still hinders the establishment of many businesses. Franchising offers a quicker alternative.

The market is still relatively small and competition is increasing as more brands enter the market. However, growth prospects are bright as local investors become more familiar with franchising and are increasingly exposed to successful franchise concepts. This is especially true in the urban centers of Hanoi and Ho Chi Minh City, where incomes are over twice that of the national average. In 2011, the national average income was close to \$1,300 per year, but was \$2,700 in Hanoi and \$3,600 in Ho Chi Minh City.

The franchise sector in Vietnam is poised for continued growth, not only in traditional sectors of fast food but also in other such sectors as retail, education, entertainment, health care, and lifestyle-oriented businesses.

Sub-Sector Best Prospects

The Vietnam market is open for foreign franchisors in various sectors, such as retail, fast food restaurants, fashion, convenience stores, and education. At present there are more than 90 international franchising systems operating in Vietnam and consumer awareness of American food and beverage franchise brands is quite strong. Food and Beverage brands are by far the most prevalent, with the following key franchises already in the market: KFC, Subway, Starbucks Coffee, Jollibee, Lotteria, Bread Talk, Burger King, Carl's Jr, Pizza Hut, Hard Rock Café, Domino's Pizza, Roundtable Pizza, Z Pizza, Coffee Bean and Tea Leaf, Popeye's Chicken, Illy Café, Baskin Robbins and Gloria Jean's Coffee.

In general, American brands enjoy a reputation for quality. Best prospects for American franchisors include: fast food, quick service restaurants, business services, health and nutrition,

education services, health care, children's services, cleaning and sanitation, hospitality, beauty and skincare, entertainment, and convenience stores. In the past two years, a number of famous food and beverage American brands have entered the market, including Subway, Starbucks Coffee, Burger King, Baskin Robbins, Z Pizza.

Several Vietnamese businesses have joined the trend toward franchising, such as Trung Nguyen Coffee, Pho 24, Kinh Do Bakery, AQ Silk, Shop and Go, and Coffee24Seven. Highland's Coffee is one of the most visible franchise concepts, especially in Ho Chi Minh City. A number of local restaurant chains have successfully franchised their winning formulas throughout the country and in overseas markets as well, such as Pho 24 and Trung Nguyen Café.

Opportunities

There are several factors that will contribute to the growth of foreign franchises in Vietnam and that have attracted foreign franchisors to expand into this market, including:

- Per capita GDP and per capita incomes are on the rise, and incomes in the urban areas (such as Ho Chi Minh City, Hanoi, Da Nang and Can Tho) have seen significant growth.
- An emerging middle-class – with disposable income – is driving demand for high-quality food and beverages, education, entertainment and lifestyle oriented products and services.
- High-end, well-known “premium” brands are in demand. Vietnamese consumers often associate Western brands with quality, life-style, and reliability.

Consumer patterns vary throughout the country: between urban and rural areas, and especially between the northern region with cities such as Hanoi, Danang in the Central Coast region, and Ho Chi Minh City and the Mekong Delta region in the south.

While retail development in Ho Chi Minh City and Hanoi is growing, finding suitable and affordable real estate remains a challenge for retail franchise outlets. However, a big difficulty foreign franchisors face in Vietnam is the high retail premises rents. The rents of retail premises in Vietnam are one among the highest in the world, which have been increasing steadily by 20-30 percent per annum. According to a local franchisee, the rents account for 25-30 percent of the total revenue of franchise shops, which makes it very difficult to maintain profitability.

To be successful in Vietnam, new-to-market franchisors should consider the following suggestions:

- One of the biggest challenges is identifying and conducting due diligence on partners to determine suitability and financial viability. Many local companies may not have a full understanding of brand value and/or legal regulations relating to franchising. Establishing good communication, setting clear expectations and achieving mutual understanding should not be taken for granted. U.S. franchisors are advised to work with the U.S. Commercial Service in Vietnam to identify potential partners and to conduct basic due diligence.
- U.S. franchisors should register their intellectual property rights and be prepared to take legal action against IP violators. Also, register your URL's and related websites in Vietnam.

- Franchisors should exercise care in preparing franchising contracts to avoid problems down the road. It is advised to work with a law firm when developing the contract and appropriately register the franchise business.
- Understand cultural differences and adjust market access strategies accordingly. U.S. franchisors should consider adapting to local culture, habits, and tastes to guarantee success in the market.
- While retail real estate development in Hanoi and Ho Chi Minh City is growing, finding suitable and affordable space remains a challenge for retail franchise outlets.
- Do your research when setting price of the product and the franchising fees to achieve rapid expansion. Local investors are only now becoming familiar with the franchising concept and may be reluctant to make too large an initial investment. Some franchisors opt to make direct investments in their first store in order to prove the concept and generate future franchise sales.
- Seek qualified legal advice to ensure compliance with Vietnamese franchise laws, properly structure contracts and navigate local licensing requirements

Legal Environment

With Vietnam's entry into the WTO, it is expected that franchising activity in the country will increase markedly over the next few years. In the past, Vietnamese law did not provide a clear basis for franchising arrangements, but the passage of Decree No. 35 and Circular No. 09 in 2006 laid the groundwork for franchising to develop in Vietnam. The new decree provides for key concepts in franchising, requirements of franchise agreements and State administration of franchises.

Per regulation, a foreign franchisor is not required to have a legal presence in Vietnam and is permitted to franchise in Vietnam without establishing a business entity in Vietnam. However, a foreign franchisor is required to have been in business for one year prior to franchising in Vietnam. A Vietnamese primary franchisee must also have been in business under the foreign franchisor for one year prior to sub-franchising in Vietnam. A foreign franchisor registers its activities with the Ministry of Industry and Trade ("MOIT"), while a local franchisor registers with the local Department of Industry and Trade. The franchise agreement must be in Vietnamese and may be translated into English.

Web Resources

International Franchising Association: www.franchise.org
 Email: ifa@franchise.org

Franchising Law Website: www.franchising.com

Local Franchising Registration Procedure
http://dvc.moit.gov.vn/g/Service_Providers_Detail.aspx?row_id=1

Trade shows and events:

1. International Franchise Expo in New York. The U.S. Commercial Service will organize a Vietnamese business delegation to visit the International Franchise Expo hosted in New York on June 20-22, 2013.
2. Vietnam International Shop and Franchise Show 2013 To showcase your concepts to potential investors in Vietnam, consider taking part in this fair 2011 on October 31st - November 2nd, 2013 at the Saigon Exhibition & Convention Centre in Ho Chi Minh City.

For more information, please contact:

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