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# **EXPORT STRATEGY-HOW WILL TUAN PHONG INSERT ITSELF INTO THE APPAREL GLOBAL VALUE CHAIN?**

by

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This thesis was written as a part of the master program at NHH. Neither the institution, the supervisor, nor the censors is - through the approval of this thesis - responsible for neither the theories and methods used, nor results and conclusions drawn in this work.

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## **ABSTRACT**

This paper gives an overview of the garment industry in Vietnam, describes the apparel company Tuan Phong, based in Ho Chi Minh City. Then, I use Integrated Strategy Model framework of Svein Ulset to shed light on the strategic direction of the company in future. In particular, the growth of the company should be accomplished in three phases. In the next three years, capacity should be expanded along with reorganization of the current organization. In the following three years, exports should begin. Here, we recommend a priority of foreign markets in this order: the US, the EU, and Japan, although flexibility is considered better than dependency on one single market. Also, diversification into hot items is expected. In the following three years, capabilities upgrading to move from original equipment manufacturer to original brand manufacturer is critical to bypass the regional middlemen in East Asia.

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## INTRODUCTION

With its full membership in the WTO in 2007, Vietnam has opened itself to the world. In the near future, structural changes and opportunities should arise in many aspects of the economy with entry of foreign enterprises, liberalization of the private sector, etc. Indeed, “The state enterprises now operate under a market environment rather than under the compulsory orders of the central planning committee. In addition, Vietnam has opened up opportunities for the development of the private sector in which the market mechanism has gradually emerged (CIE 1998). As a result, Vietnam has achieved an impressive economic growth, which averages around 7.8 per cent per year for the 1991-2000 period”<sup>1</sup>

Regarding the apparel market, Vietnam is expected to grow as a manufacturing base to supply to foreign buyers in developed countries. More and more orders from corporate buyers are supposed to take place. As a matter of fact, “Vietnam’s Textile and Garment industry plays an important role in the Vietnamese economy. The industry consists of around 2,000 enterprises; of which 25 are state-owned and 1,500 are private enterprises including 450 foreign-owned enterprises, with over 2 million employees involved. 55 % of them are located in and around Ho Chi Minh City, 30 % in and around Hanoi, and 15 % in and around Da Nang. Vietnam is ranked as the 10th largest textile and apparel export country in the world.”<sup>2</sup>

Therefore, to catch up with the speed of this growing pie of export orders and to capture a leadership position in the future is important for many Vietnamese manufacturers. For example, “Reported by Vitas, a line-up of big importers and well

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<sup>1</sup>[http://findarticles.com/p/articles/mi\\_hb020/is\\_3\\_22/ai\\_n29236342/](http://findarticles.com/p/articles/mi_hb020/is_3_22/ai_n29236342/) (6. June 2010)

<sup>2</sup>

<http://www.ambhanoi.um.dk/en/menu/CommercialServices/MarketOpportunities/Sector+Analysis/TextileAndGarment/> (6. June 2010)

known brands such as Gap and Union Bay are negotiating export processing prices for 2010 with many Vietnamese firms”<sup>3</sup>

Tuan Phong is a small company in Vietnam, with the ambition of growth to capture the opportunities ahead. Currently, there are constraints respecting size, varieties of product lines, capabilities in various areas to meet international standards of foreign buyers, organizational structure, and market knowledge.

Regarding growth, there are many options at the moment. One can decide to focus on branding and compete in the domestic retailing market, targeting end-customers. On the other hand, one can choose to pay attention to corporate buyers in foreign markets (usually developed countries), who outsource production to low-cost countries like Vietnam and China. In this paper, I will argue that given the latter choice is better one for Tuan Phong, and the way in which such growth is pursued will be elaborated at length in the discussion.

Therefore, the objectives of this paper are:

- \_Give an overview of the Vietnamese apparel industry
- \_Describe Tuan Phong and its current competitive position
- \_Prescribe the direction for growth, using the Integrated Strategy Model
- \_Elaborate on implementation of such strategy

This paper is organized as follows: Chapter 1 gives a clear picture of the development of the apparel industry in Vietnam up until now. Given the particularity of the country, relevant nuances about the rapid changing situation up until the current moment are very important in understanding the strategy Tuan Phong can follow. Chapter 2 is about Tuan Phong. Here there will be information about the company's product line, size, market segment, price, competitive position, etc. Chapter 3 discusses the theoretical framework to be used as guidance in the strategy discussion. Specifically, the Integrated Strategy Model of Svein Ulset is used. Given the comprehensiveness of this model, I will not go into detail about every element of

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<sup>3</sup> <http://www.sourcinginvietnam.com/blog/vietnams-apparel-export-to-the-us-and-eu-drop.htm> (6. June 2010)

it. Instead, certain elements of the model considered relevant for the case will be paid more attention. Chapter 4 is the discussion of the road ahead: export will be the path to go; the rationale behind as well as the fashion in which such strategy is pursued is discussed using the theoretical framework aforementioned. Chapter 5 is the conclusion.

Due to budget constraint, subscribed information and many of the most recent researches that could contribute to the paper were not obtained. Time and geographical distance also limit information exchange between me and key informers.

# CHAPTER 1

## INDUSTRY INFORMATION

### 1.1. The world trade regime:

A quick look at the history development of the global apparel business will reveal that this is a heavily regulated industry.

To begin with, the period from 1956 to 1973 was characterized by protectionism. For example, the voluntary export restraint VER was used by the US against Japanese imports. Thus, “production facilities soon sprang up in other lower wage countries, and imports from other Asian countries to the US overtook that of Japan”. In addition, a number of short-term bilateral agreements flourished: “a three-year bilateral agreement with Japan covering wool and synthetic textiles. Similar five-year bilateral agreements were also signed with Hong Kong, Taiwan and Korea.”<sup>4</sup>

On the other side of the Atlantic Ocean, Europe also built a bulwark against imports. “European countries also sought protection from Asian imports. Japan, once an advocate of free textile and the world largest exporter of textiles, wanted trade restrictions, as it was losing ground to less developed countries and had become a major textiles importer.”<sup>5</sup>

In the period from 1974 until 1994, there was a partial reduction in trade barriers. The MFA-Multifibre Arrangement, signed in 1974, is described as follows: “generally, importing countries were required to allow for an annual quota growth rate of 6%. During the 21 years of the MFA from 1974 to 1994, the quota system gained depth, involving more countries, and the product coverage also became wider”. What’s more, renegotiation, often annually, almost always aggravate the

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<sup>4</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University of Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

<sup>5</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University of Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

protectionistic nature of these bilateral agreements. For instance, “the 6% annual quota growth rate was often reduced”, “unilateral actions by importing countries were allowed under the MFA whenever imports of a particular product caused or threatened market disruption”.<sup>6</sup>

However, the latest period from 1994 to 2004 is brighter for trade.

First of all, the MFA was revised because it violated GATT’s general preference for customs tariffs<sup>7</sup>. In addition, “it was also in conflict with the GATT principle of treating all trading partners equally as agreements under the MFA were bilateral rather than multilateral”<sup>8</sup>. On the whole, the MFA was good news for Vietnam; because in order “to circumvent the quota restrictions, buyers and manufacturers turned to countries that were relatively new to textiles and clothing trade and therefore were not subject to quota restrictions”<sup>9</sup>. In particular, “garment manufacturing only sprang up from mid-1980s to late 1990s in some Southeast Asian countries, which were previously little known in the global industry”<sup>10</sup>.

Therefore, a mechanism was in place to gradually abolish all protectionistic measures. That is: The ATC-The Agreement on Textiles and Clothing. This is “a 10-year programme for the progressive integration of textiles and clothing into GATT 1994 rules”. However, there is something called the transitional safeguard mechanism, “a special transitional safeguard mechanism to protect WTO members against insurgence in imports that could damage or threaten their domestic industries

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<sup>6</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University o Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

<sup>7</sup> International Textiles and Clothing Bureau. 2001. Conduct of textile trade relations under GATT/WTO. <<http://www.itcb.org/Documents/itcb-mi1.pdf>> (6. June 2010)

<sup>8</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University o Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

<sup>9</sup> Hyvärinen, A. 2000. Introduction of the agreement on textiles and clothing (ATC) and its implications on developing country producers/exporters. ITC, Geneva. <<http://www.intracen.org/btp/issues/atc/publications/ecolabatc.pdf>> (6. June 2010)

<sup>10</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University o Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

during the transitional period”. January 1<sup>st</sup> 2005 is the date for complete quota phase-out.<sup>11</sup>

The implication here is that “countries that were severely constrained by quotas, notably China and India, would benefit most. On the contrary, developing countries that benefited from and were protected by the restrictions would find it difficult to deal with the open competition”. Thus, this can be seen as bad news for Vietnam, since “the growth of export revenues for China and India, however, could occur at the expense of other less competitive countries”. For example, Bangladesh and Sri Lanka were both forecasted to be losers: “it was estimated that more than one million jobs would be lost in Bangladesh in the years following the complete quota phase-out”; and “for Sri Lanka, it was forecasted that about 40 to 50% of factories would close down and about 100 000 jobs would be lost”<sup>12</sup>.

It’s actually not that bad for developing countries. At least, “the post-quota era was not expected to be all rosy for China”<sup>13</sup>. In fact, “since China could be categorized by the US as a non-market economy until December 2016, it is particularly prone to anti-dumping measures under the so-called “non-market economy methodology””<sup>14</sup>.

Following the ATC, despite opposition from the US and the EU, “the WTO was not receptive to the idea of extending the quota regime, and no country had

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<sup>11</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University of Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

<sup>12</sup> Oxfam. 2004. Sticked up: how rich-country protectionism in textiles and clothing trade prevents poverty alleviation. <[http://www.oxfam.org.uk/resources/policy/trade/downloads/bp60\\_textiles.pdf](http://www.oxfam.org.uk/resources/policy/trade/downloads/bp60_textiles.pdf)> (6. June 2010)

<sup>13</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University of Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

<sup>14</sup> Bei, H. (2004) “Tide of complaint foreseen...”

agreed to raise it at the WTO”<sup>15</sup>. On the other hand, “both the US and the EU had not been shy in invoking transitional safeguards or anti-dumping measures”<sup>16</sup>.

## **1.2. History of the Textiles and Garment (T&G) industry in Vietnam:**

“The textile and garment industry been existing in Vietnam for at least a century, while traditional handicraft activities such as embroidery, silk weaving have existed for much longer. Vietnamese historians have written that many Vietnamese dynasties had to tribute different kind of valuable fabrics made by Vietnamese to China”; “it is said that the development history of the industry has started when Nam Dinh Textile Complex was established in 1897. The industry grew more quickly in the post Second World War. In the south, the firms were established by using modern European machinery. In the North, state enterprises equipping machinery from China, Former Soviet Union and Eastern Europe, were also established over this period”<sup>17</sup>

There are two important chronological milestones: first, after the liberation of the North in 1954, the government restored and reconstructed the Nam Dinh silk factory, established some new ones like Vinh Phu Factory, Thang Long Garment Company, etc. Second, after the reunification of Vietnam in 1975, the government took over many companies in the south, e.g. Thang Loi Textile Company, Viet Thang Textile Company, etc. The government then established new companies like Hanoi Textile, Nha Trang Textile. Lastly, local authorities also took part in setting up T&G companies<sup>18</sup>.

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<sup>15</sup> International Herald Tribune. 2004. Bush rejects pressure from Congress to extend global textile quotas. Paris June 11<sup>th</sup>, 2004

<sup>16</sup> Lee, A. et al (2005). Trade restrictions and Hong Kong’s textiles and clothing industry. Asia Case Research Centre, University o Hong Kong. <[http://cb.hbsp.harvard.edu/cb/web/product\\_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499](http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=HKU383-PDF-ENG&conversationId=152761&E=67499)> (6. June 2010)

<sup>17</sup> *Vietnam clothing and textile industry handbook*. (2010): International Business Publications, USA

<sup>18</sup> *Vietnam clothing and textile industry handbook*. (2010): International Business Publications, USA

Following 1975, “Vietnam adopted a command-style economy, which permitted very limited private sector activity, even in agriculture. The strategy also locked the country out of high-growth East Asian economies, and further enmeshed it with the then Comecon bloc, in particular the USSR”<sup>19</sup>. This market has remained the major destinations for Vietnamese apparel until the collapse of the USSR in the late 1980s. Right then, Vietnamese manufacturers quickly switched to supply to the quota-free Asian markets<sup>20</sup>.

A very important regulatory change was the Reform program in 1986 called Doi Moi. This is the result of the disappointment from the strategy of locking into the Comecon; and the reform essentially involves “a shift from a centrally planned to a market economy, and opening the economy to international trade and investment”<sup>21</sup>. Moreover, “the collapse of the USSR in the early 1990s, and the sudden withdrawal of the large Soviet aid program, strengthened the position of the reformers and accelerated this process”<sup>22</sup>.

It is worth noting that “even with the Doi Moi, the goal was to initiate a transition from a planned to a market economy, rather than to reform the political system, whereas the country continues to be organized politically along orthodox communist lines”<sup>23</sup>

International relations have been improving for Vietnam over the years. With the EU-Vietnam Textile and Clothing Agreement in 1992, “by late 1990s 43.3% of

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<sup>19</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. World Development, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>20</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. Journal of Economic Geography, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>21</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. World Development, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>22</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. World Development, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>23</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. Journal of Economic Geography, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

Vietnam's clothing exports were going to the EU market"<sup>24</sup>. Thus, Vietnam's experienced an export success in T&G: "Exports have risen from \$43 million to over \$1.3 billion from 1985 to 1996"<sup>25</sup>. "Quota-free Asian markets were among the first that Vietnam's producers targeted", and the EU was a major market for garment exports thanks to quotas from bilateral agreements in 1992, 2003, and a revision in 2005 which allowed Vietnam to export to the EU without quotas. Vietnam became a WTO member in 2007<sup>26</sup>. In addition, "by 1996, Europe and Japan absorbed a similar proportion of Vietnam's garment exports (43% and 42%, respectively of the total), with developing East Asia buying most of the rest"<sup>27</sup>

On the other hand, the relation between Vietnam and the US was getting better with the lift of the US embargo on Vietnam in 1993. Nevertheless, there were extremely high tariffs because Vietnam was denied normal trade relations (NTR), because the country is not considered a "non-market economy"<sup>28</sup>. Good news came in December 2001 when the US-Vietnam Bilateral Trade Agreement (UBSTA) took effect, thereby Vietnam became an NTR. After that, "Vietnamese textile and garment exports to the US rose from \$49 million in 2001 to an astonishing \$951 million in 2002"; but "MFA-style export quotas to the US were imposed on Vietnam with effect from 1 May 2003"<sup>29</sup>. Anyway, "the bilateral trade agreement with the USA, effective

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<sup>24</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776.

<[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>25</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. *World Development*, Vol. 28, No. 2.

<<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>26</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776.

<[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>27</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. *World Development*, Vol. 28, No. 2.

<<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>28</sup> USITC (2002) US-Vietnam Bilateral Trade Agreement takes effect, heralding lower duties for imports from Vietnam. *International Economic Review*. US International Trade Commission of Economics USITC, Publication 4389

<sup>29</sup> Nadvi, K. et al. 2004. Vietnam in the global garment and textile value chain: impacts on firms and workers. *Journal of International Development*, Dev. 16, p. 111-123.

<<http://www3.interscience.wiley.com/journal/106573055/abstract?CRETRY=1&SRETRY=0>> (6. June 2010)

from December 2001, has turned the USA almost from scratch to become the single largest market for textiles and garments from Vietnam. In 2002, 30% of the exports went to the USA, 20% to the EU, and 18% to Japan”<sup>30</sup>.

In 2007, Vietnam became a full member of the WTO. All trade restrictions were abolished. The great potential of the EU and US market should have been unleashed. Popular belief at the time was like this: “another milestone was reached on 11 January 2007, when Vietnam joined the WTO and the USA was obliged to remove all quotas on textile and clothing imports from the country. This removal of quotas is widely expected to boost US demand for Vietnamese clothing, especially for lower-end products”<sup>31</sup>

However, the financial crisis 2008 hit the industry. “Vietnam Textile and Garment Association (Vitas) has reported that the country’s apparel export in first ten months to two major markets US and Europe Union fell 4.5 percent and 3.5 percent correspondingly compared with the same period of 2008”<sup>32</sup>

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<sup>30</sup> Knutsen, Hege Merete and Nguyen, Cuong Manh. 2004. Preferential treatment in a transition economy: the case of state-owned enterprises in the textile and garment industry in Vietnam. *Norwegian Journal of Geography*, 58:3, 125-135. <<http://www.informaworld.com/smpp/content~db=all~content=a713800941>> (6. June 2010)

<sup>31</sup> <[http://www.just-style.com/analysis/vietnam-eyes-soaring-textile-and-clothing-exports-by-2010\\_id98051.aspx](http://www.just-style.com/analysis/vietnam-eyes-soaring-textile-and-clothing-exports-by-2010_id98051.aspx)> (6. June 2010)

<sup>32</sup> <<http://www.sourcinginvietnam.com/blog/vietnams-apparel-export-to-the-us-and-eu-drop.htm>> (6. June 2010)

## CHAPTER 2

### COMPANY INFORMATION

#### **1.1 Brief history:**

In 1992, Tuan Phong was a small sewing factory with about thirty workers and fifteen machines. The factory produced khaki trousers and supplied to markets (physical places) in Ho Chi Minh City, e.g. An Dong and Tan Binh markets. Sellers in these markets in turn, sell to wholesalers who distribute the products to retailers in Ho Chi Minh City, i.e. to shops in the city centre or to shops and physical markets in other provinces.

At that time, end-customers (I mean the typical target customers of Tuan Phong) mostly buy clothes at shops or markets. In addition, this period was characterized by keen competition among many small suppliers, who produce clothes of inferior quality, sell at low price but place fake brands on their products like Dockers, Armani, etc. Tuan Phong was no exception.

2001 marks the beginning of an increase of supermarkets in Vietnam. Many supermarkets were opened, e.g. Saigon Coop, Big C, Metro, etc. The owners believe that from here, their target customers also switched to the habit of buying clothes in supermarkets, instead of physical markets and shops. In other words, the supermarkets were more and more replacing physical markets and small shops as the main distribution channel of clothing for the low-end, quality-conscious customers. They put it like this: as customers go to supermarkets to buy commodities like shampoos, toothpaste, etc. they also move to the clothing areas; and over time establish a habit of spending their budget on clothes in supermarket as well.

Thus, since 2001 Tuan Phong has moved to sell at supermarkets, abandoning the old ways of distribution. Working with supermarkets, thing had to set in more formal ways. First, the company had to abandon the fake-brand strategy and have its own brand name; thus the brand Zennio was born. Second, sales revenues will be documented on red bills for value-added tax.

Tuan Phong officially became Tuan Phong Ltd, a company of limited liability in 2003. It has transformed itself from a very small factory to an SME with about one hundred workers and eighty machines. Below is the categorization of business legal entities for in Vietnam:

**Table 1-Company types<sup>33</sup>**

|  |  |
|--|--|
| <b>Private company</b>   | Owned by one individual who is liable for all activities to the limit of all his/her assets. An individual is entitled to establish one private company only.  |
| <b>Limited liability company (Ltd) with one member</b>         | Owned by one organization or individual. The owner is liable for all debts and other property obligations up to the amount of the charter capital of the enterprise. The company is managed by the owner as the chairman of the company and a director or general director.  |
| <b>Limited liability company(Ltd) with two or more members</b> | Owned by several (up to 50 members), who may be individuals or organizations. A member is liable for the debts and other property obligations of the enterprise up to the amount of capital he/she has contributed. The company is managed by a member's council, a chairperson of the council and a director.   |
| <b>Joint stock company (JSC)</b>                               | A JSC is either established from the outset as private or an equitized SOE. The charter capital is divided into shares, and shareholders (a minimum of three), who may be either individuals or organizations, are liable for the debts and other property obligations of the enterprise up to the amount they have contributed. A JSC must have ordinary shares and preference shares, and usually shareholders are free to assign their shares to other persons with some restrictions. The company is managed by a General Meeting of Shareholders, a Board of Management and a director. |
| Source: Vietnam Economic Times No. 150, August 2006            |  |

<sup>33</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. Journal of Economic Geography, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

Orders have been increasing year by year since the company was established, and sales have been impressive:

**Table 2-Revenues since 2005, currency=VND<sup>34</sup>**

| <b>Year</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues    | 9 billions  | 16 billions | 22 billions | 30 billions | 36 billions |

**Table 3-Garment sales of Vinatex since 2006, currency= VND<sup>35</sup>**

| <b>Year</b>  | <b>2006</b>         | <b>2007</b>         | <b>2008</b> | <b>2009</b> |
|--------------|---------------------|---------------------|-------------|-------------|
| Viet Tien    | 6 billions          | 8.7 billions        | N/A         | N/A         |
| Gia Hoi      | 7.5 billions        | 10 billions         | N/A         | N/A         |
| To Kim Hai   | 8.3 billions        | 7.8 billions        | N/A         | N/A         |
| Thanh Cong   | 4.3 billions        | 4.9 billions        | N/A         | N/A         |
| Thang Loi    | 7.3 billions        | 5.6 billions        | N/A         | N/A         |
| Viet Thang   | 3.8 billions        | 5.7 billions        | N/A         | N/A         |
| Tuan Phong   | 4.7 billions        | 6.5 billions        | 10 billions | 12 billions |
| <b>Total</b> | <b>239 billions</b> | <b>301 billions</b> | N/A         | N/A         |

**Table 4-Garment sales of Metro in 2007, currency= VND<sup>36</sup>**

| <b>Year</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|-------------|-------------|-------------|-------------|
|             |             |             |             |

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<sup>34</sup> Interview

<sup>35</sup> Interview

<sup>36</sup> Interview

|  |                     |            |            |
|--|---------------------|------------|------------|
| Aulantic (the private label of Metro itself) | 40 billions         | N/A        | N/A        |
| Ha Gatini                                    | 28 billions         | N/A        | N/A        |
| Tuan Phong                                   | 2.4 billions        | 7 billions | 9 billions |
| <b>Total</b>                                 | <b>140 billions</b> | N/A        | N/A        |

A quick look at the tables above shows that Tuan Phong is relatively a small player, and that there are many small players with no dominant ones who sell in Vinatex. In case of Metro, the private label Aulantic and Ha Gatini are the two most dominant players.

### **1.2 Supplier-buyer relationship of Tuan Phong:**

Tuan Phong produces khaki pants and jeans under the brand name Zennio. Khaki pants have been the main focus, accounting for roughly 70% of monthly revenues. The products are distributed in domestic supermarket chains, notably Coop Mart, Vinatex, and Metro. While Coop Mart and Vinatex are state-owned, and Metro is a foreign-owned one. As of 2008, there were about 100 supermarkets belonging to these chains all over the country from the north to the south, and the number is supposed to go up in the coming years.

Coop Mart and Vinatex have the following arrangement with Tuan Phong. After signing the contract to sell products at these supermarkets, Tuan Phong is supposed to manage sales and promotion itself so that revenues would be high. At the end of the month, twenty percent of revenues will go to the supermarket, and eighty percent belongs to Tuan Phong. In this mode, collection of sales revenue for Tuan Phong is at the end of the month, the company has the discretion to set prices and is totally responsible for the sales performance.

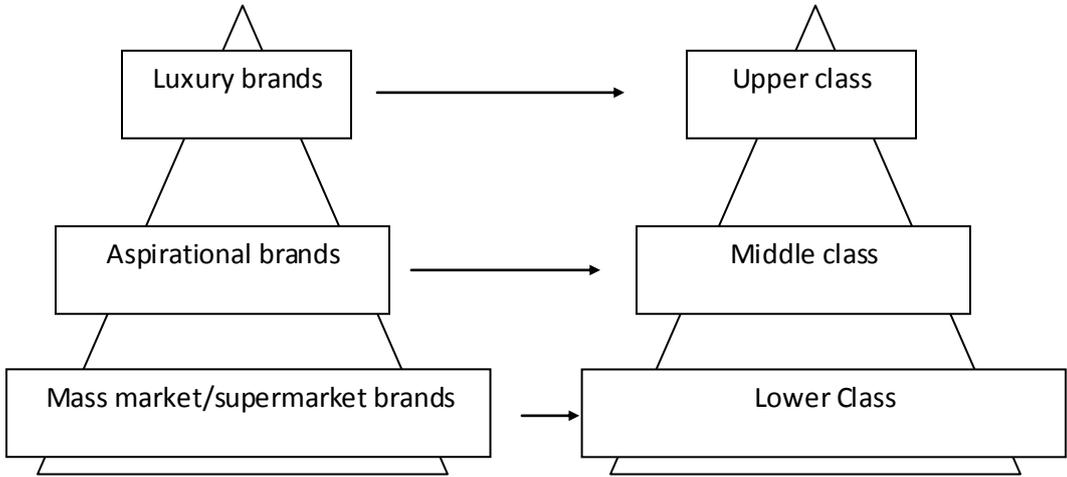
On the other hand, Metro buys the products from Tuan Phong and payment is made earlier. After the deal, sales management is left to the supermarket. Metro would buy in very large orders but requires lower price.

**1.3 Market segments and domestic competitive dynamics:**

According to the owners, even among supermarket brands, there are different levels of price ranges between companies. The lowest class is suppliers who sell their products from 80 000 VND to 110 000 VND, with relatively inferior product quality. The middle class is suppliers who set prices from 100 000 VND to 200 000 VND. Tuan Phong belongs to this group, along with other competitors like Huong Thoi, Tan Hoang Anh, Tuong Duy. The ‘high class’ are populated mainly by state-owned companies like Viet Tien, Viet Thang, Nha Be, Tay Do. They sell from 150 000 VND to 200 000 VND.

The figure below gives an illustration of fashion brands.

**Figure 1-Hierachy strucure<sup>37</sup>**



As aforementioned, Tuan Phong’s customers belong to the mass market, competing directly with Binga, Viettien, Vietthang jeans, Torino, etc. Here there are many small competitors. Noone is really a market leader. It is worth noting that SOEs are very active at the export market, but not so at the domestic one. However, we

<sup>37</sup> Okonkwo, Uche: Le new Luxe (2007). (in: Luxury fashion branding. Palgrave Macmillan, New York, p.240)

can still find many SOE players in the domestic market, especially at the mass market segment: Viet Tien, Gia Hoi, To Kim Hai, etc. At the aspirational level, their presence is more limited. The reason, according to insiders' opinions, is that SOEs are not as good as some private companies and especially foreign companies in branding and marketing, which plays a more and more important role than price and quality if we move up the above hierarchy. Another reason is that the export market was expanding very quickly, even SOEs often find themselves limited in terms of capacity to satisfy foreign orders, thus they have to subcontract orders to other factories<sup>38</sup>. Furthermore, "some large state owned enterprises have their own retail outlets in major cities including Hanoi and Ho Chi Minh City, but for most the domestic market is of little importance and the goods that are sold at such outlets are often overproduced garments for exports"<sup>39</sup>.

That said. There are a few exceptions. Recently, a limited number of SOE brands have ventured into the aspirational field: "Previously, Vietnamese brand names did not develop distribution networks or sales at big trade centres, simply because they thought they would not have room in spaces reserved for foreign big brands. Nowadays, the companies think big. High end trademarks have been trying to penetrate big trade centres. San Sciario products, for example, are available at the Parkson chain, while Gosto, Jemma, Mattana, TT-up, Manhattan are selling at Zen Plaza, Diamond, Parkson and Paragon"<sup>40</sup>. This is understandable, since the export market was in difficulty since the Financial Crisis 2008: "When large consumption markets such as USA, the EU and Japan meet difficulties, the garment and textile industry is the first sector making efforts to turn back and occupy the domestic market"<sup>41</sup>

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<sup>38</sup> Interview

<sup>39</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1.

<[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf)> (6. June 2010)

<sup>40</sup> <<http://www.lookatvietnam.com/2010/01/vietnamese-producers-aim-for-high-grade-market.html>> (6. June 2010)

<sup>41</sup>

<[http://www.dangcongsan.vn/cpv/Modules/News\\_English/News\\_Detail\\_E.aspx?CN\\_ID=367913&CO\\_ID=30113#K20yOaw9ERTC](http://www.dangcongsan.vn/cpv/Modules/News_English/News_Detail_E.aspx?CN_ID=367913&CO_ID=30113#K20yOaw9ERTC)> (6. June 2010)

A rough classification would put these Vietnamese private companies in the aspirational group of the domestic market: Ha Gatini, N&M, PT 2000, Nino Maxx, Viet Thy, Blue Exchange, etc. They are now facing foreign competition, e.g. Yishion (from Hong Kong), etc. Typically, these brands have their exclusive stores downtown in big cities, and rent spaces at department stores. Typically, these retailers do have their own plants and design team, but will mostly order production from other manufacturers<sup>42</sup>. Insiders' opinions are that this segment is a turf of keen competition. Currently there aren't any dominant players.

Even within this aspirational group, there are sub-levels. A 'more premium' class of competitors in this category, selling their products at higher price than Ha Gatini, Yishion, etc. are mostly foreign brands from East Asia: Levi's Strauss, Giordano, Bossini, Mango, Espirit, and Debenham. Here the market size is supposed to be smaller, and yet there are relatively many entrants. A prominent feature at this level is that distribution carries a more exclusive character. For example, currently mango has only one shop, Espirit has two shops in Vietnam<sup>43</sup>.

Lastly, at the luxury segment, international brands dominate. No room for local companies, either private or state-owned whatsoever. In addition, more and more players are supposed to enter the country in the near future: "More and more international fashion brands will arrive in Vietnam in the time to come, as more shopping malls in central HCM City open this year...Meanwhile, IPP Group, which once brought many brands to Vietnam, including Chanel, Lancome, Burberry, Salvatore Ferragamo, Bally, Coach, Tumi and Tag Heuer, has decided to cooperate with Saigon Tourist to upgrade the ground floor of Rex Hotel into a shopping centre of international brand names to be completed in the third quarter of 2010"<sup>44</sup>.

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<sup>42</sup> Interview

<sup>43</sup> Interview

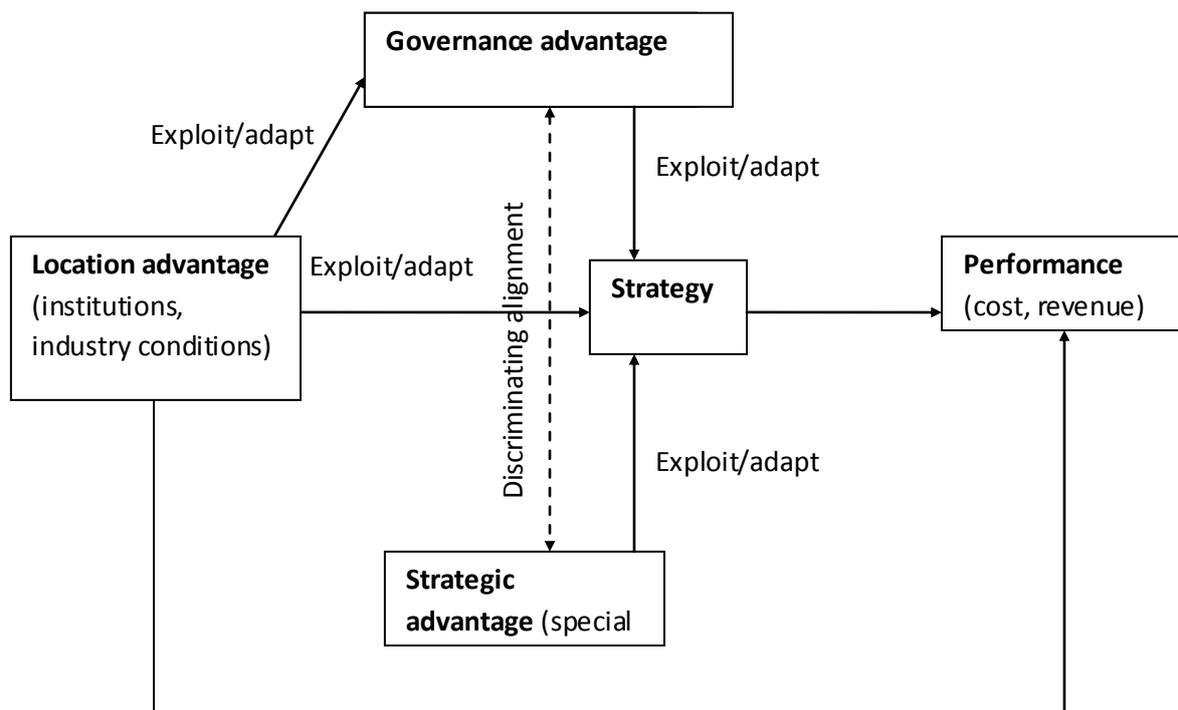
<sup>44</sup> <<http://vietnambusiness.asia/international-fashion-brands-mark-vietnam/>> (6. June 2010)

## CHAPTER 3

### THEORETICAL FRAMEWORK

In order to shed light on future strategy for Tuan Phong, the Integrated Strategy Model of Svein Ulset (2009) is used. Overall, this is how it is graphed:

**Figure 2-An integrated TCE strategy model 1<sup>45</sup>**



In brief, this is what the model implies: a company has three sources of competitive advantage, by which it can exploit or adapt in order to derive the best strategy, so that performance is high. Those sources of competitive advantage are either from within the company: Strategic advantage, for example special assets, and the artful organization of such; or from without: the location, with its institutions and industry conditions, which can be supportive and attractive.

<sup>45</sup> Ulset, S. 2008. Lecture slides, International Strategy. Bergen: Norges Handelshøyskole

The model was originally used to discuss the strategies of multinational enterprises at two levels: business and corporate. First, business-level strategy of MNEs like market entry, strategic alliances, global competition management are elaborated based on the model. Second, corporate-level strategies of MNEs like diversification & acquisitions, multinational structures & learning, corporate governance, and corporate social responsibility are also explained by the same tool.

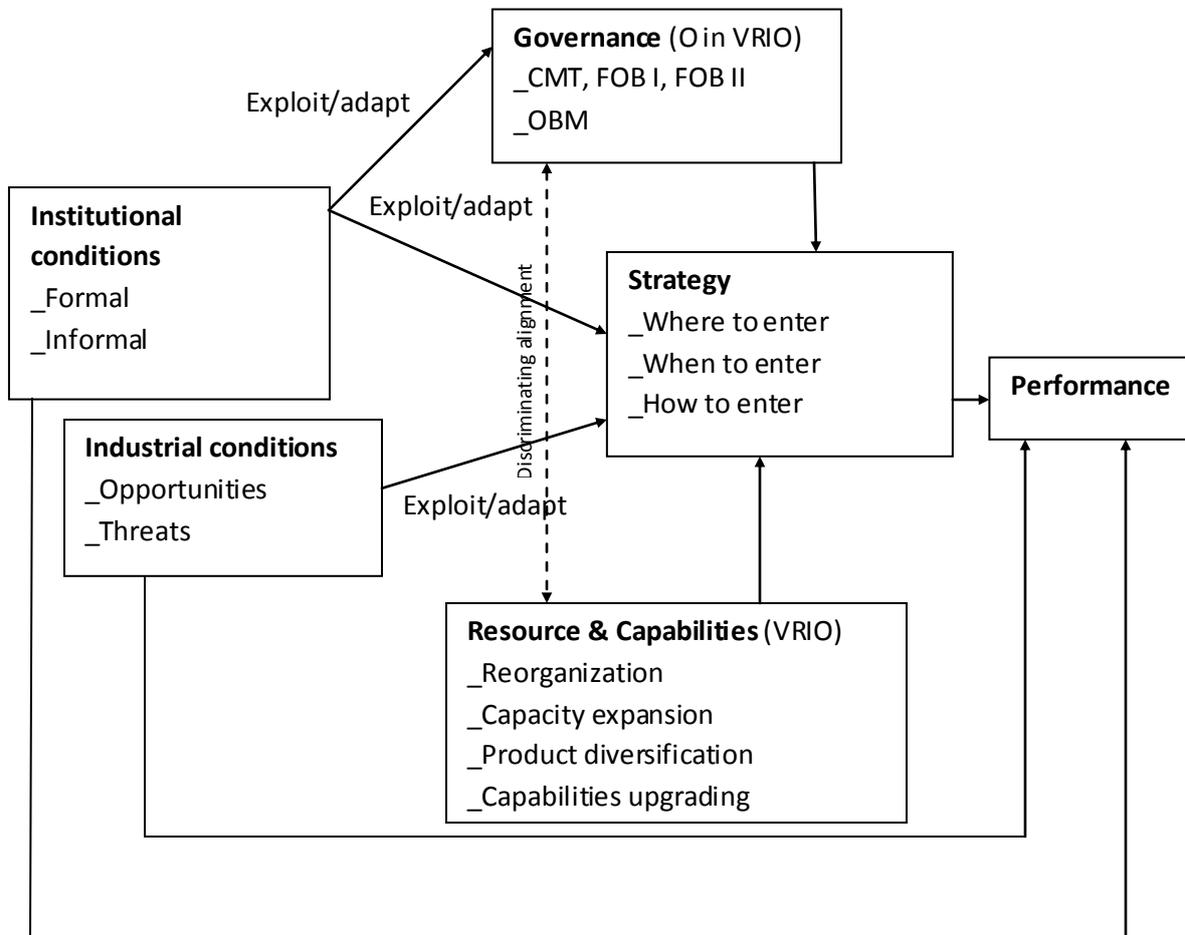
In our case, the application of this model is somewhat different: the company in question is not an MNE. The export strategy of Tuan Phong that will be discussed somehow corresponds to the business-level strategy of market entry; with nuanced difference from that of an MNE: in this case, customers are corporate buyers, the entry here is not necessarily directly entering national markets competing with incumbent firms but rather, entering a competitive sphere for orders, against other companies from home.

In the framework above, note that there is an arrow connecting directly location advantage to performance. That implies that certain conditions relating to the institutions, the industry, etc. can make an industry attractive and therefore the profitability of an 'average firm' is high. However, within one industry there are always big divergences in terms of performances among firms. That is why despite the fact that an industry can be considered not attractive, certain exceptional firms still do quite well.

Each element of the framework above can be broken down into more details and therefore give a more elaborated strategy model as in Figure 3. In particular, the location advantage of can be examined in terms of institution and industry. The strategic advantage can be analyzed using the resource-based view of the firm, while the governance advantage is actually an extension from the RBV; it talks about the effective organization of resources. I will take a tour through each elements of the framework.

Institutions: this is the rules of the game. There are two kinds of institutions: formal and informal. The former refers to the laws, regulations, etc. while the latter talks about cultures, norms, and ethics.<sup>46</sup>

**Figure 3-An integrated TCE strategy model 2<sup>47</sup>**



Regarding institutions in market entry decision, there are three formal institutional constraints: regulatory, trade barriers, and currency risks<sup>48</sup>, of which regulatory and trade barriers are more relevant in our case.

Regulatory risks are defined as “those risks associated with unfavourable government policies”<sup>49</sup>. In case of export market, the world trade regime as well as

<sup>46</sup> Peng, Mike W. (2009): Global strategic management. South Western

<sup>47</sup> Ulset, S. 2008. Lecture slides, International Strategy. Bergen: Norges Handelshøyskole

<sup>48</sup> Peng, Mike W. (2009): Global strategic management. South Western

the Vietnamese government can impose unfavourable conditions for Tuan Phong. For example, tariffs, quotas, anti-dumping measures can limit the possibilities of entering the export field. On the other hand, inefficient quota allocation mechanism from the Vietnamese government can also lead to difficulties for Tuan Phong. On the other hand, certain regulatory trends like liberalization of the world trade regime or privatization of the domestic industry can imply opportunities and market gaps to fill.

Resources and capabilities have a lot of implication on how Tuan Phong can enter the export market. The theoretical approach for this element of the model is the Resource-based view of the firm, which is defined as “a leading perspective of strategy which suggests that differences in firm performance are most fundamentally driven by differences in firm resources and capabilities”<sup>50</sup> Resources and capabilities can then be divided into tangible or intangible. Tangible resources and capabilities are “assets that are observable and more easily quantified”<sup>51</sup> and some examples are financial, physical, technological, and organizational resources and capabilities. On the other hand, intangible resources and capabilities are “hard-to-observe and difficult-to-codify resources and capabilities”<sup>52</sup>. Some examples of this are human, innovation, and reputation resources and capabilities.

Heavily emphasized in the resource-based view is the VRIO framework. V stands for valuable, R for rare, I for inimitable, and O for organization. First, there is the question of value: “only value-adding resources and can possibly lead to competitive advantage, whereas non-value-adding capabilities may lead to competitive disadvantage”<sup>53</sup>. Second, there is the question of rarity, the rarer your resources are, the better it is, just being valuable but not rare “will lead to competitive parity but not an advantage”<sup>54</sup>. Third, there is the question of inimitability, for which

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<sup>49</sup> Peng, Mike W. (2009): Global strategic management. South Western

<sup>50</sup> Peng, Mike W. (2009): Global strategic management. South Western

<sup>51</sup> Peng, Mike W. (2009): Global strategic management. South Western

<sup>52</sup> Peng, Mike W. (2009): Global strategic management. South Western

<sup>53</sup> Peng, Mike W. (2009): Global strategic management. South Western

<sup>54</sup> Peng, Mike W. (2009): Global strategic management. South Western

intangible resources are supposed to be more difficult to imitate than tangible ones. Lastly, there is the question of organization. This is about how to organize the resources and capabilities in an effective manner. For example, decisions about whether to integrate an activities in-house or to outsource using value chain analysis is a way to effectively organize capabilities, after identifying which ones are core activities and which ones are peripheral<sup>55</sup>.

Regarding entry mode, for the case of Tuan Phong, we can look at it as how the company will insert itself into the global value chain. The company can enter as an original equipment manufacturer, or an original brand manufacturer, directly exports to foreign market, subcontract to other exporters, or indirectly export through regional trading companies, etc. As will be analyzed later, there is a close link between a company's capacity, capabilities, experiences, international contacts, etc. and the level of service it can offer to corporate buyers, and therefore the entry mode. Since the growth strategy proposed for Tuan Phong takes a long time frame, we'll see that there is an evolutionary nature in how the company can gradually upgrade itself in the global apparel business.

So, for the analysis of Tuan Phong's growth strategy, certain elements from the model will be given most attention: institution, resources and capabilities, governance, and strategy. On the contrary, I'll not go into any depth about the transaction-cost theory regarding the discriminating alignment of resources and governance, I'll not mention the industry-based view, with its emphasis on Porter's Diamond framework. In brief, the theoretical framework will be used in the most relevant way, combined with literature from fashion-related sources to shed light on the company's strategy.

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<sup>55</sup> Peng, Mike W. (2009): Global strategic management. South Western

## CHAPTER 4

### DISCUSSION

In this chapter, I'll argue that the conditions of institution is highly supportive for the entering the export market; the governance modes from which Tuan Phong can exploit in an evolutionary manner, and capabilities the company need to strategically focus in order to move on.

#### **4.1 Institutions:**

In order to insert oneself into the global apparel value chain, a company needs to satisfy certain requirements of the chain. This is called the global value chain approach, GVC. The main entry barriers to the chain are industry, market, chain, and institution<sup>56</sup>. Industry entry barriers are about entry barriers as in Porter's diamond. The clothing industry is considered to have relatively low entry barriers "due to the high labour intensity and correspondingly modest investment"<sup>57</sup>. Market entry barriers are about the varying degrees of difficulty to enter specific national end-markets, due to different tariffs and quota. Chain entry barriers are related to resources and capabilities needed in order to successfully cooperate with other members of the chain. Lastly, the institutions also serve as "local and national regulatory influences over the construction of supplier entry barriers"<sup>58</sup>. In this section, we'll see that the institutional framework in Vietnam has profound impact on the opportunities for local companies.

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<sup>56</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776.  
<[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>57</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776.  
<[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>58</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776.  
<[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

#### 4.1.1 Industry growth due to liberalized world trade regime:

Industry growth is a rationale behind why pursuing garment export is a reasonable strategy. The more liberalized world trade regime means that the market entry barriers into the global value chain, as aforementioned in the introduction, is greatly reduced.

With the dismantling of barriers in the world trade regime over time, the export markets for Vietnamese garments have been growing quite fast. Indeed, “Exports have risen from \$43 million in 1988 to over \$1.3 billion in 1996. They approximately doubled (in nominal US\$ terms, in 1989, and over each of the periods 1989-91, 1991-92, 1992-94, and 1994-96”, plus “garments have been by far the most important, its exports in the 1990s generally exceeding those of textiles by a factor of six”<sup>59</sup>.

For a more recent picture, “all together we can conclude that at the industry level exports have continued to rise steeply after 2004 to the main markets, with the exception of Japan where growth has been more modest”<sup>60</sup>. Below is the data from the same source:

**Table 5-Garment exports to main markets, Vietnam, 2000-2007, in US\$ million**<sup>61</sup>

| Market | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Growth<br>2004-<br>2007 |
|--------|------|------|------|------|------|------|------|------|-------------------------|
|        |      |      |      |      |      |      |      |      |                         |

<sup>59</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. World Development, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>60</sup> Schaumburg-Müller, H. 2009. Garment exports from Vietnam: changes in supplier strategies. Journal of the Asia Pacific Economy, 14:2, 162-171. <<http://www.informaworld.com/smpp/content~db=all~content=a910186390>> (6. June 2010)

<sup>61</sup> Schaumburg-Müller, H. 2009. Garment exports from Vietnam: changes in supplier strategies. Journal of the Asia Pacific Economy, 14:2, 162-171. <<http://www.informaworld.com/smpp/content~db=all~content=a910186390>> (6. June 2010)

|        |      |      |      |      |      |      |      |      |       |
|--------|------|------|------|------|------|------|------|------|-------|
| US     | 50   | 45   | 495  | 1796 | 2474 | 2603 | 3044 | 4465 | 80.5% |
| EU     | 609  | 599  | 609  | 580  | 762  | 882  | 1243 | 1489 | 95.4% |
| Japan  | 620  | 588  | 620  | 514  | 531  | 604  | 628  | 704  | 32.6% |
| Others | 614  | 730  | 614  | 587  | 619  | 749  | 919  | 1122 | 81.3% |
| Total  | 1892 | 1962 | 1892 | 3654 | 4386 | 4838 | 5834 | 7780 | 77.4% |

Source: Vietnam Textile and Apparel Association (VITAS) (<http://www.vntextile.com>)

As the table indicates, overall growth of garment exports was 77% from 2004 to 2007. A closer look reveals that “from almost no (direct) export to the US market in 2001, it constituted 57% of the export from Vietnam in 2007”<sup>62</sup>.

To make a comparison with other exporting countries, we can look at how Vietnamese exports have been performing in the US market alone:

**Table 6-US imports of apparel, 2004-2007<sup>63</sup>**

|                   | Value (US\$, in billion) |        |        |        | Share (%) |      |      |      |
|-------------------|--------------------------|--------|--------|--------|-----------|------|------|------|
|                   | 2004                     | 2005   | 2006   | 2007   | 2004      | 2005 | 2006 | 2007 |
| Vietnam           | 2.562                    | 2.725  | 3.222  | 4.358  | 4         | 4    | 4.5  | 5.9  |
| China             | 8.928                    | 15.143 | 18.517 | 22.745 | 13.8      | 22   | 25.9 | 30.8 |
| Rest of the world | 53.278                   | 50.845 | 49.890 | 46.819 | 82.3      | 74   | 69.7 | 63.3 |

<sup>62</sup> Schaumburg-Müller, H. 2009. Garment exports from Vietnam: changes in supplier strategies. Journal of the Asia Pacific Economy, 14:2, 162-171.

<http://www.informaworld.com/smpp/content~db=all~content=a910186390> (6. June 2010)

<sup>63</sup> Schaumburg-Müller, H. 2009. Garment exports from Vietnam: changes in supplier strategies. Journal of the Asia Pacific Economy, 14:2, 162-171.

<http://www.informaworld.com/smpp/content~db=all~content=a910186390> (6. June 2010)

|       |        |        |        |        |     |     |     |     |
|-------|--------|--------|--------|--------|-----|-----|-----|-----|
| Total | 64.768 | 68.713 | 71.629 | 73.922 | 100 | 100 | 100 | 100 |
|-------|--------|--------|--------|--------|-----|-----|-----|-----|

Source: Major Shippers Report: Us Imports by Category, October 2008. Available at <http://www.otexa.ita.doc.gov/msr/catV1.htm>

The table shows that “garment import to the US market has been increasing but with a falling growth rate from about 6% in 2005 to a modest 3% in 2007, but the shifts over the four-year period in the distribution of import shares have been significant”. Also, China managed to double its US import share from 13.8% to 30.8%, leading to decreases of US import share for Latin American and some Asian countries, e.g. Mexico and Bangladesh. Despite that, Vietnam has achieved about 50% increase in its share of US garment import. So, “Vietnam has performed much better than the average of the rest of the world, but far behind the increase in the export from China”<sup>64</sup>.

In fact, Vietnamese export performance in the US market has been very impressive. In 1999, 85% of Vietnamese export go to the EU and Japan, only 2% were to the US; then in 2000, after the bilateral trade agreement UBSTA cutting average tariff from 35% to 5%, T&G exports rose dramatically from 49\$ million in 2001 to 952\$ million in 2002, resulting in quota imposition from the US in 2003. Moreover, “its competitiveness in the Japanese market shows clearly that Vietnamese firms can operate in a quota-free environment and retain market share”<sup>65</sup>.

Such strong growth in apparel exports, compared to the rest of the world and in second place to China, has sustained until recently: “It’s been almost a year since the US and EU lifted all restrictions against garment imports from China at the beginning of 2009. According to Just-Style, China’s share of garment exports grew from 41.3% in 2008 to 46% in 2009. Vietnam also saw a growing market share over

<sup>64</sup> Schaumburg-Müller, H. 2009. Garment exports from Vietnam: changes in supplier strategies. *Journal of the Asia Pacific Economy*, 14:2, 162-171.

<http://www.informaworld.com/smpp/content~db=all~content=a910186390> > (6. June 2010)

<sup>65</sup> Nadvi, K. et al. 2004. Challenges to Vietnamese firms in the world garment and textile value chain, and the implications for alleviating poverty. *Journal of the Asia Pacific Economy*, 9:2, 249-267. <

<http://www.informaworld.com/smpp/content~db=all~content=a713703420> > (6. June 2010)

the last year thanks to the similar reason. But for garment makers in the rest of the world, the double whammy from competition and recession has led to sheerer fall of garment sales”<sup>66</sup>.

What’s more, garment has even replaced the crude oil as the main export industry for the country<sup>67</sup> and this growth is expected to prolong into the future. In 2007, right after Vietnam joined the WTO, the Bush administration imposed anti-dumping measures on Vietnamese garment exports. However, “After the eradication of the program, several garment companies of the US have been feeling confident and secure in trading with Vietnam, which is now regarded as the second largest supplier after China” and “Since early 2009, the US has stopped checking Vietnamese apparel entering the country; as a result, the apparel-manufacturing sector of Vietnam has been growing at a faster pace”<sup>68</sup>.

The implication for Tuan Phong here is that exporting is a lucrative business.

#### **4.1.2. Harassment relaxed:**

The private sectors have been historically harassed by the government, with its inefficient SOEs dominating the market for long time. However, recently the situation is becoming less and less of such a grave character.

Succinctly, these statement best describe the role of the Vietnamese government: “There is a large and generally inefficient state-owned enterprise sector; its private sector faces active harassment and discrimination” and there is

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<sup>66</sup> <<http://blog.dhgate.com/garment-export-restrictions-removed-good-news-or-bad-news.html>> (6. June 2010)

<sup>67</sup> <<http://www.vinatex.com/WebPage/News/NewsDetails.aspx?ArticleID=486>> (6. June 2010)

<sup>68</sup> <<http://www.rncos.com/Blog/2009/12/Vietnam-Apparel-and-Textile-Industry-Holds-Promising-Future.html>> (6. June 2010)

an “irresistible political pressure to confer additional benefits on these firms at the expense of private firms”<sup>69</sup>.

The ownership structure of the industry has been featured by an extremely high state share; “the SOEs have occupied a predominant position in the production and export of textile and garment”; “although attempts are made to cut subsidies to SOEs and promote participation of non-SOEs, state sector still enjoy privileged access to land, capital, bail-out facilities and garment export quotas”; “as a result, a majority of production and export of textile and garment is recorded by SOEs”. In particular, state share in the garment sector was 36%, non-state share was 49%, and foreign-invested share was 15% in 1999.<sup>70</sup>

**Table 7-Garment and and textile output in Vietnam by ownership (percent)<sup>71</sup>**

|                           | Garments |      | Textiles |      |
|---------------------------|----------|------|----------|------|
|                           | 1995     | 2001 | 1995     | 2001 |
| <b>State sector</b>       | 34.8     | 31.7 | 56.8     | 48.5 |
| Central state sector      | 13.2     | 15.6 | 43.6     | 38.1 |
| Local state sector        | 21.6     | 16.1 | 13.2     | 10.4 |
| <b>Non-state domestic</b> | 47.1     | 43.2 | 25.9     | 23.3 |

<sup>69</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. World Development, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>70</sup> *Vietnam clothing and textile industry handbook*. (2010): International Business Publications, USA

<sup>71</sup> Nadvi, K. et al. 2004. Challenges to Vietnamese firms in the world garment and textile value chain, and the implications for alleviating poverty. Journal of the Asia Pacific Economy, 9:2, 249-267. <<http://www.informaworld.com/smpp/content~db=all~content=a713703420>> (6. June 2010)

|  |      |      |      |      |
|--|------|------|------|------|
| <b>sector</b>  |      |      |      |      |
| Collective sector  | 0.3  | 0.6  | 1.8  | 1.6  |
| Private sector   | 1.6  | 1.2  | 1.5  | 1.2  |
| Household sector   | 35.7 | 21.9 | 21.6 | 12.8 |
| Mixed economic sector                                    | 9.4  | 14   | 1    | 4.7  |
| <b>Foreign-invested sector</b>                           | 18.2 | 25.1 | 17.3 | 28.2 |
| Total  | 100  | 100  | 100  | 100  |
| Source: GSO (2001), from outputs at constant 1994 prices |      |      |      |      |

As the table shows, there is high concentration of state share in business activities, especially in the textile industry. This is a serious problem; indeed, “the pattern is clearly unusual by international norms: there is an extremely high state share, notwithstanding a decade of reform”; “the performance of state-owned enterprises, both in general and in textiles and garments, is very weak”; and “Vietnam is one of the most unusual cases of reforming transitional economies, in the sense that the SOE share appears to have been increasing”<sup>72</sup>

Even at the level of industry associations, the private sector is bullied. Idealistically, “such associations can overcome problems of ‘market failure’, which

<sup>72</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. World Development, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

arise when certain measures are desirable on an industry-level basis but are unattractive or unprofitable for private firms... In addition, industry associations can play a critical role in educating policy-makers about the realities of fast-changing international commercial issues and challenges, the more so in a transitional economy such as Vietnam where comparatively few bureaucrats have an adequate understanding of these issues"; however, in Vietnam, "there continues to be deep mutual mistrust between much of the bureaucracy and the private sector... there are two industry associations representing firms, one principally for state enterprises, and the other for private firms. There is little contact between them, and the industry cannot speak to the government with one voice"<sup>73</sup>.

Harassment came in many forms: access to land, access to capital, access to export quotas, and contact with buyers.

Regarding land policy, there are two types: long-term rights and rental leases. Since 1995, all land-use rights on commercial properties were to be transferred into rental leases. "Land-use rights of private Vietnamese and foreign enterprises cannot be used for other than the licensed purposes. This rigidity reduces the flexibility of the enterprises because they cannot follow market signals and shift to other business activities... In contrast to private Vietnamese and foreign enterprises, land was initially assigned to state enterprises free of charge. This changed in 1995 when the system of rental leases was introduced. Nevertheless, private Vietnamese enterprises and foreign enterprises pay more for the use of land than state enterprises"<sup>74</sup>.

Access to capital is another form of harassment. "Loans at low interest rates from the mainly state-owned banks are extremely difficult for private enterprises to

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<sup>73</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. World Development, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>74</sup> Knutsen, Hege Merete and Nguyen, Cuong Manh. 2004. Preferential treatment in a transition economy: the case of state-owned enterprises in the textile and garment industry in Vietnam. Norwegian Journal of Geography, 58:3, 125-135. <<http://www.informaworld.com/smpp/content~db=all~content=a713800941>> (6. June 2010)

obtain”<sup>75</sup>. It is especially unfair if we acknowledge the fact that “at the same time, the credit structure for state enterprises is riskier than for private Vietnamese enterprises, measured by the debt-equity ratio... However, private enterprises have become more socially accepted and some of them have grown and attained a good footing in the market”<sup>76</sup>. The previous problem of access to land aggravates the problem of access to capital as well: “it is well known that small-medium enterprises rely on land as collateral in loan applications”<sup>77</sup>; and “since private enterprise owners generally lack ownership rights over land and buildings, they have few possibilities to offer collateral against loans from the official banking system”<sup>78</sup>.

Next, access to export quota was the most obvious obstacle for the private sector. Quota allocation was always to benefit SOEs. Until the mid-1990s, these firms were still exclusive quota receivers. “Gradually, and following much concerted lobbying and tedious bureaucracy, a trickle of private firms-usually those whose owners had good bureaucratic connections-began to receive small allocations”, which means that quotas are mainly “channeled in the direction of the industry’s least efficient (state-owned) firms”<sup>79</sup>. This point illustrates how important the state-connectedness is. Although a small amount of quotas were allocated based on auction, this process is not transparent, and quotas were usually traded on the black

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<sup>75</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>76</sup> Knutsen, Hege Merete and Nguyen, Cuong Manh. 2004. Preferential treatment in a transition economy: the case of state-owned enterprises in the textile and garment industry in Vietnam. *Norwegian Journal of Geography*, 58:3, 125-135. <<http://www.informaworld.com/smpp/content~db=all~content=a713800941>> (6. June 2010)

<sup>77</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. *World Development*, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>78</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>79</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. *World Development*, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

market<sup>80</sup>. In addition, “resale or transfer of export quotas from state enterprises to private enterprises is illegal. It is, however, well known that state enterprises sell export quotas to private Vietnamese enterprises. It is by such indirect export quotas that private enterprises usually get access to the market in the European Union”<sup>81</sup>.

Lastly, contact with buyers has been until now blocked with the best effort from the government. It was of a graver character in the past: in the 1980s, Vietnamese citizens were even not permitted to have any communication with foreigners without the approval of the authority, and the situation only got more relaxed since the mid 1980s<sup>82</sup>. When it comes to business contacts, “state institutions commonly mediated contacts between buyers and Vietnamese suppliers. Suppliers that obtain orders through the state system are more likely to be state-owned or at least state-connected than private ones”, not enough, “red tape and bureaucracy were mentioned by buyers as being difficult to overcome, especially in cases in which they had tried to find other suppliers than those suggested by officials”<sup>83</sup>. For example, “most new buyers access new manufacturers through traditional channels like the Ministry of Industry, the Chamber of Commerce, or Vietnamese embassies in their respective countries. This particularly hinders private garment companies since they are basically excluded from these channels. State-controlled institutions and organizations usually channel buyers to traditional state-owned manufacturers, thus

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<sup>80</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>81</sup> Knutsen, Hege Merete and Nguyen, Cuong Manh. 2004. Preferential treatment in a transition economy: the case of state-owned enterprises in the textile and garment industry in Vietnam. *Norwegian Journal of Geography*, 58:3, 125-135. <<http://www.informaworld.com/smpp/content~db=all~content=a713800941>> (6. June 2010)

<sup>82</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. *World Development*, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>83</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

eliminating private garment companies completely”<sup>84</sup>. In Ho Chi Minh City for example, contacts between local businessmen and Japanese partners were often channeled through AGTEK, the garment association in Ho Chi Minh City. The way it works is like this: orders were funneled from the association board and only those closest to board members can ever obtain the orders<sup>85</sup>.

So much was about state harassment of the private sector. That’s why so far SOEs have been dominating the export market: “it is clear that large SOEs have been able to insert themselves into the value chains of leading global buyers... while the numbers of private garment firms are expanding, especially in the south, such producers are unable to access the higher quality and higher value chains”<sup>86</sup>. However, not surprisingly, SOEs’ performance has been problematic. Moreover, “the managerial and incentive structures in Vietnamese SOE firms are such that there is generally little motivation to achieve these spillovers (learning from foreign partners) and to diffuse them throughout the domestic economy”<sup>87</sup>. In addition, in 2001, “Vietnam has never used up some categories of the granted quotas” for the EU market “due to the lack of appropriate technology, labour, and business skills”, and “a bad new for T&G is that these two industries had the lowest level of utilization rates among the manufacturing industries both in 1997 and first half of 1998”<sup>88</sup>. Finally, most notorious was for the state sector was “the long-running financial scandal in the country’s largest state-owned factory at the huge Nam Dinh complex”, in which

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<sup>84</sup> Oteifa, H. et al. 1999. Vietnam’s garment industry: moving up the value chain. MPDF private sector discussion No. 7. <[http://www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/PSDP+7/\\$FILE/PSDP-No-7-EN.pdf](http://www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/PSDP+7/$FILE/PSDP-No-7-EN.pdf)> (6. June 2010)

<sup>85</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>86</sup> Nadvi, K. et al. 2004. Vietnam in the global garment and textile value chain: impacts on firms and workers. *Journal of International Development*, Dev. 16, p. 111-123. <<http://www3.interscience.wiley.com/journal/106573055/abstract?CRETRY=1&SRETRY=0>> (6. June 2010)

<sup>87</sup> Hill, H. Export Success Against the Odds: A Vietnamese Case Study. 2000. *World Development*, Vol. 28, No. 2. <<http://ssrn.com/abstract=253247>> (6. June 2010)

<sup>88</sup> *Volume 3. Textile and garment industry in Vietnam-an:overview*. 2001. Institute of economics-IDRC/CIDA project. <[http://www.vern.org.vn/veem/veem\\_tradelib/TradeLib\\_Report3.pdf](http://www.vern.org.vn/veem/veem_tradelib/TradeLib_Report3.pdf)> (6. June 2010)

“mismanagement, poor investment decisions, and corruption occurred on a grand scale”<sup>89</sup>.

The good news is that Vietnam joined the WTO in 2007, so the government has lost its card in controlling quotas. The EU and US, now quota-free, are very attractive destinations for Tuan Phong.

The second positive institutional change for Tuan Phong is the demise of SOEs. First of all, “the system of direct government subsidies to the state enterprises was terminated by 1992”<sup>90</sup>. Since 1992, there is already an equitization program in place for various industries in the economy: “Vietnam, which plans to accelerate the privatization of hundreds of state-run firms this year, will retain full control of companies that operate energy projects, the national railroads and flight-control operations, Prime Minister Nguyen Tan Dung said... The Communist-run government is pushing the full or partial privatization of state-run firms, including some banks and insurance companies, to boost the supply of shares to the country's overheated stock markets”<sup>91</sup>. However, there is a caveat here: “equitization has proceeded slowly due to resistance from managers and fear of job losses”<sup>92</sup>. Moreover, “equitization in Vietnam is found to target small SOEs and no larger ones, and it does not address the efficiency problem with state ownership since the state typically remains a controlling share of the equitized SOEs”<sup>93</sup>. In addition, “although the importance of

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<sup>89</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>90</sup> Knutsen, Hege Merete and Nguyen, Cuong Manh. 2004. Preferential treatment in a transition economy: the case of state-owned enterprises in the textile and garment industry in Vietnam. *Norwegian Journal of Geography*, 58:3, 125-135. <<http://www.informaworld.com/smpp/content~db=all~content=a713800941>> (6. June 2010)

<sup>91</sup> <<http://www.nytimes.com/2007/03/28/business/worldbusiness/28iht-dong.1.5056464.html>> (6. June 2010)

<sup>92</sup> Knutsen, Hege Merete and Nguyen, Cuong Manh. 2004. Preferential treatment in a transition economy: the case of state-owned enterprises in the textile and garment industry in Vietnam. *Norwegian Journal of Geography*, 58:3, 125-135. <<http://www.informaworld.com/smpp/content~db=all~content=a713800941>> (6. June 2010)

<sup>93</sup> Sjöholm, F. 2006. State owned enterprises and equitization in Vietnam. Working paper 228. <<http://swopec.hhs.se/eijswp/papers/eijswp0228.pdf>> (6. June 2010)

the state-owned sector has declined in recent years, around 35-40% of Vietnam's GDP is still constituted by output from SOEs. As such, a continued push for higher efficiency in the SOE sector is necessary for Vietnam to maintain the high growth levels it has enjoyed over the past decade. Nonetheless, we see a high likelihood for further delays in planned equity sales as the potential for criticism at the 11th National Congress of the Communist Party of Vietnam in January 2011 has compressed the likelihood of key policy decisions over the coming year”<sup>94</sup>

Nonetheless, the long-term view is that SOEs should demise gradually. In such event, there will be a more ‘fair-play’ field for the private sector, coupled with the growth of export orders, it is there for new leaders to capture the pie, albeit we should not be over-optimistic about the speed of the equitization process.

#### **4.2 Governance:**

Of the aforementioned four barriers to enter the global value chain (industry, market, chain, and institutional barriers), we’ve covered the institutional barrier corresponding to the institutional element in the Integrated Strategy Model. Now, positive moves in the institutional framework can open doors and opportunities; but in order to insert oneself into the global apparel value chain, Tuan Phong also needs to be well informed about industry barriers. In other words, the capabilities of individual firms and the current make-up of the global value chain, with certain functions and activities being concentrated in regional clusters will determine how Tuan Phong, as a garment company from Vietnam, can fit in. We need to look at the value chain as a whole.

Here again, the global value chain approach proves very helpful to complement our theoretical model. First of all, definition: “a value chain is the range of activities involved in the design, production and marketing of a product, although there is a critical distinction between buyer-driven and producer-driven value

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<sup>94</sup> <<http://www.emergingmarketsmonitor.com/file/87685/progress-in-privatisation-process-needed.html>> (6. June 2010)

chains”<sup>95</sup>. Global value chain can be either producer-driven, or buyer-driven. “In producer-driven value chains, large, usually transnational, manufacturers play the central roles in coordinating production networks (including their backward and forward linkages). This is typical of capital- and technology-intensive industries such as automobiles, aircraft, computers, semiconductors and heavy machinery. Buyer-driven value chains are those in which large retailers, marketers, and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in developing countries. This pattern of trade-led industrialization has become common in labour-intensive, consumer-goods industries such as garments, footwear, toys, handicrafts and consumer electronics. Tiered networks of third-world contractors that make finished goods for foreign buyers carry out production. Large retailers or marketers that order the goods supply the specifications”<sup>96</sup>.

The apparel industry exemplifies a buyer-driven value chain. “The relative ease of setting up clothing companies, coupled with the prevalence of developed-country protectionism in this sector, has led to an unparalleled diversity of garment exporters in the third world... Entry barriers are low for most garment factories, although they become progressively higher when moving upstream to textiles and fibres”<sup>97</sup>. Below is the classification of production mode:

### **Table 8-International production systems**<sup>98</sup>

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<sup>95</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization.  
<<http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf>> (6. June 2010)

<sup>96</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization.  
<<http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf>> (6. June 2010)

<sup>97</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization.  
<<http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf>> (6. June 2010)

<sup>98</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization.  
<<http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf>> (6. June 2010)

|   |   |
|---|---|
| <b>Assembly</b>                             | A form of industrial subcontracting, in which garment sewing plants are provided with imported inputs for assembly, most commonly in export processing zones  |
| <b>Original equipment manufacturing-OEM</b> | A form of commercial subcontracting. The supplying firm makes a product according to a design specified by the buyer; the product is sold under the buyer's brand name; the supplier and buyer are separate firms; and the buyer lacks control over distribution. |
| <b>Original brand name manufacturer-OBM</b> | The upgrading by manufacturers from the production expertise of OEM to first the design and then the sale of their own brand products.  |

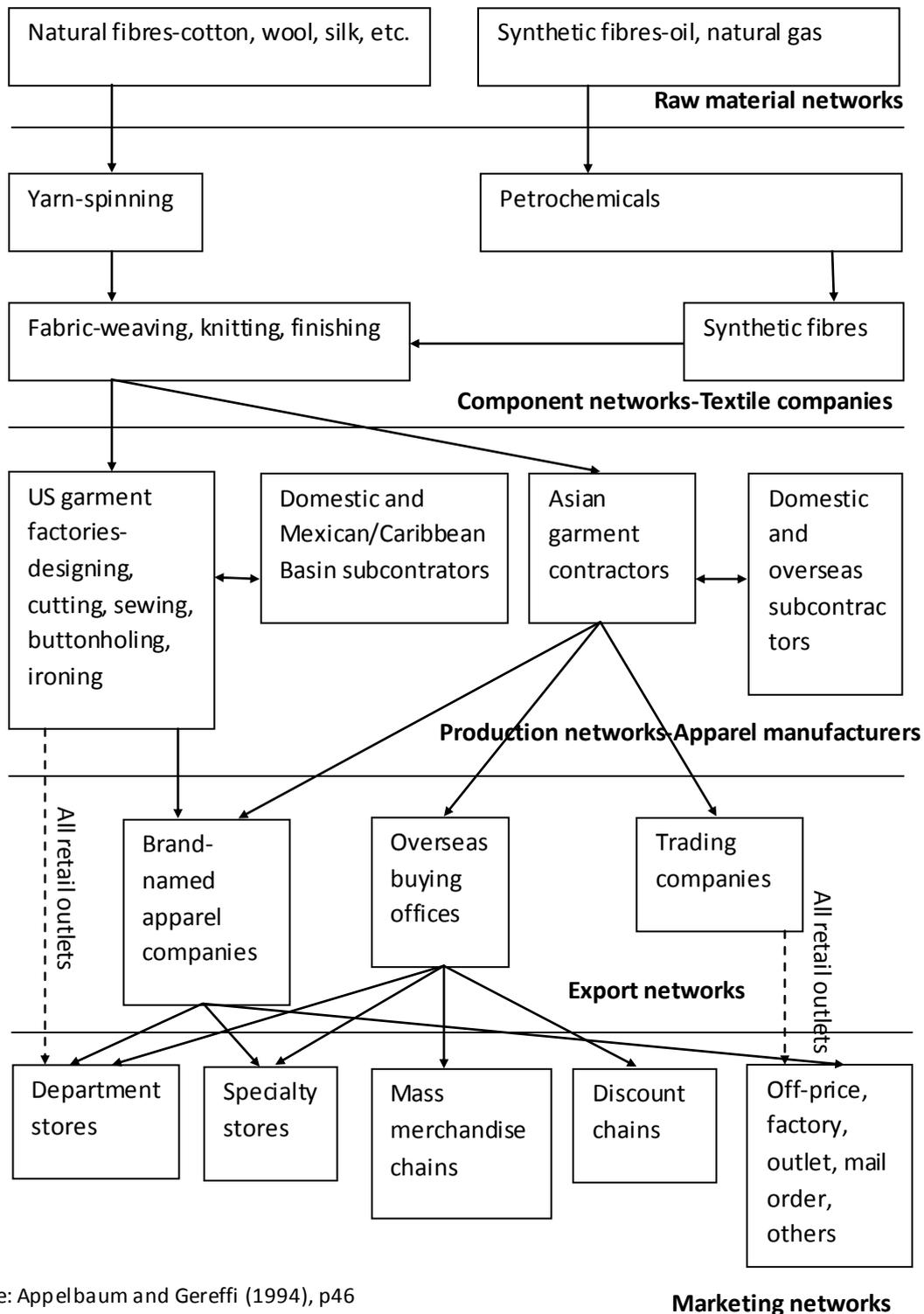
The current configuration of the global value chain is like this: “Japanese companies and some firms in the East Asian NICs moved on from OEM export to original brand name manufacturing (OBM), supplementing their production expertise with the design and then the sale of their own branded merchandise at home and abroad... Retailers and marketers in developed countries tend to rely on full-package sourcing networks, buying ready-made apparel primarily in Asia, where manufacturers in Hong Kong (now named as Hong Kong Special Administrative Region (SAR) in China), Taiwan Province of China and the Republic of Korea historically specialized in this type of production. But as wages have risen, multilayered sourcing networks have been developed; low-wage assembly can be done in other parts of Asia, Africa or Latin America while the NIC manufacturers coordinate the full-package production process. Branded manufacturers (in developed countries), by contrast, tend to create production networks that focus on apparel assembly using imported inputs. Full-package sourcing networks are generally global and the production networks of branded manufacturers are

predominantly regional”<sup>99</sup>. The following figure illustrates whole global apparel value chain.

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<sup>99</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization

**Figure 4-The apparel commodity chain**<sup>100</sup>



Source: Appelbaum and Gereffi (1994), p46

**Marketing networks**

<sup>100</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization

The trend in developed countries recently is that among retailers now have their own private labels, and together with branded marketers (the so called 'born global' companies e.g. Nike, Reebok) they are increasingly outsourcing from low-cost countries. So, retailers, once customers of branded manufacturers, now are competing against them. Therefore, Branded manufacturers had no choice but to join the wagon of engaging in foreign production. They also reacted by integrating forward, investing in brand names and retail outlets.<sup>101</sup>

Next, let's zoom into Asia, we'll see that companies from East Asian NIEs managed to successfully export to developed countries in several decades; and later they moved on to become the leaders of a multilayered sourcing hierarchy in Asia. They are the typical examples of industrial upgrading, going from assembly to OEM production with full-range package services. A very important aspect of OEM production mode is that the companies go through a valuable learning curve: "The OEM export role has many advantages. It helps entrepreneurs to learn foreign buyers' preferences, including international standards for price, quality and delivery. It also generates substantial backward linkages in the domestic economy, as OEM contractors are expected to develop reliable sources of supply. Moreover, OEM production expertise increases over time and spreads across different activities. Suppliers learn about the downstream and upstream segments of the apparel value chain from the buyer and this can become powerful competitive weapon"<sup>102</sup>

Many of these East Asian companies have gone one step further to become original brand manufacturer. As mentioned the competitive dynamics earlier in chapter 2, part 1.2, many aspirational brand names (at the upper level) that dominate the domestic market are from Hong Kong. One of the reasons why it is believed by the company owners of Tuan Phong that the upper middle-income segment is not attractive for the company is the dominance of these foreign companies. Not to

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<sup>101</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization.  
<<http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf>> (6. June 2010)

<sup>102</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization.  
<<http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf>> (6. June 2010)

mention capital, size, etc, their extensive experience in branding and marketing, as seen in the several decades of exporting, upgrading and learning, make them very formidable compared to Vietnamese firms.

Over time, at a regional level, East Asian companies have focused on higher-value-added activities and subcontract production to developing countries like Vietnam, either for their own sales under their own brands or to re-export the garments to developed countries. As such, the regional coordination in Asia and its sales to importers in developed countries is called triangle manufacturing: “Triangle manufacturing thus changes the status of NIE manufacturers from being established suppliers for United States’ retailers and designers to being middlemen in buyer-driven value chains that can include as many as 50-60 exporting countries”<sup>103</sup>.

In other words, while there are certain retail buyers who directly source from Vietnam, using a representative office; most other buyers “place orders with large regional garment manufacturers with whom they have had a long standing relationships. Many of these manufacturers are headquartered in Hong Kong. The Hong Kong manufacturers organize production through their own FDI or joint venture facilities in Vietnam or pass on the order to Vietnamese suppliers. This can lower costs of chain governance for the brand retailer... In contrast to the large ‘global’ traders from Hong Kong and Japan, who tend to source from SOEs, smaller regional traders from Taiwan and South Korea largely deal with small private and household based garment firms in Vietnam and supply regional markets, other developing countries, and lower price segments of markets in the EU and now the US... Given the predominance of triangular sourcing-through producers and traders-Vietnamese companies were often unaware of the final destinations of their goods”<sup>104</sup>

No doubt, because of triangle manufacturing, most garment exports from Vietnam to developed countries have been indirect. The following figure illustrates

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<sup>103</sup> Gereffi, G. and Memedovic, O. 2003. The global apparel value chain: What prospects for upgrading by developing countries? Vienna: United Nations Industrial Development Organization.

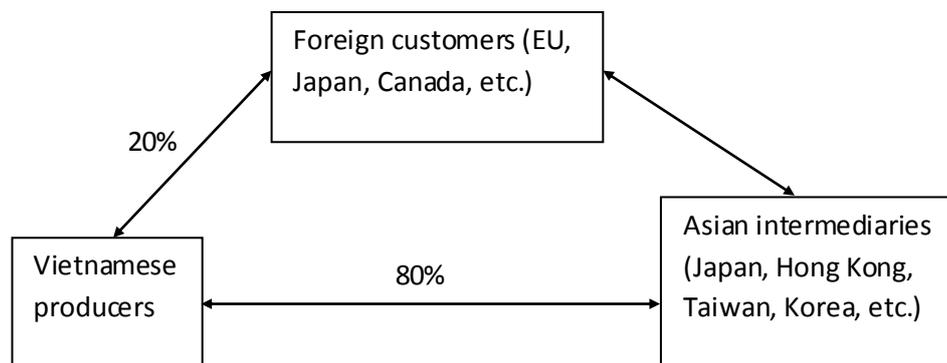
<http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf> > (6. June 2010)

<sup>104</sup> Nadvi, K. et al. 2004. Vietnam in the global garment and textile value chain: impacts on firms and workers. *Journal of International Development, Dev.* 16, p. 111-123.

<http://www3.interscience.wiley.com/journal/106573055/abstract?CRETRY=1&SRETRY=0> > (6. June 2010)

this point. Among other things, this is because “firstly, few Vietnam’s garment manufacturers can provide services such as material sourcing, designing, logistic arrangement and full-package service for buyers, which are preconditions for buyers to source directly from a country. Secondly, the long distance between Vietnam and US or EU makes it ineffective in terms of costs (quality control and travel expenses) and convenience. Finally, many international buyers traditionally rely on their agents instead of developing sourcing capacity in house”<sup>105</sup>

**Figure 5-Triangle manufacturing<sup>106</sup>**



As the figure shows, this is not the most desirable form of export for a Vietnamese company: “The value added that Vietnamese producers receive is low under this form. On average, Vietnamese producers do not receive more than 20% of recorded export value. The rest, 80% of export value, are captured by foreign buyers and brokers, who normally provide materials, accessories and design”<sup>107</sup>.

My proposition for Tuan Phong is that the company should at best try to bypass the intermediaries by establishing direct contacts with foreign buyers. This isn’t simple. First, the government would block information regarding business contacts. Even in situations created for direct contacts between partners like trade

<sup>105</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

<sup>106</sup> Volume 3. Textile and garment in dustry in Vietnam-an:overview. 2001. Institute of economics-IDRC/CIDA project. <[http://www.vern.org.vn/veem/veem\\_tradelib/TradeLib\\_Report3.pdf](http://www.vern.org.vn/veem/veem_tradelib/TradeLib_Report3.pdf)> (6. June 2010)

<sup>107</sup> Volume 3. Textile and garment in dustry in Vietnam-an:overview. 2001. Institute of economics-IDRC/CIDA project. <[http://www.vern.org.vn/veem/veem\\_tradelib/TradeLib\\_Report3.pdf](http://www.vern.org.vn/veem/veem_tradelib/TradeLib_Report3.pdf)> (6. June 2010)

fairs, “it was common for Vietnamese state organizations to select the participant suppliers”<sup>108</sup>. Second, and this is common for many Vietnamese companies, is the ability to source fabrics from abroad, since the Vietnamese textile industry is not competitive in the region. In fact, sourcing fabric abroad is impulsive due to “the inability of the local textile industry to meet the various demands of foreign buyers for specific fibre content, fabric construction, design, finish, quality, and competitive prices”<sup>109</sup>. In general, the Vietnamese textile industry can only offer “low-to-mid level quality, but high quality fabrics still need to be imported from China, Taiwan, etc”<sup>110</sup>. Interviews with company owners of Tuan Phong also confirm such facts. Actually, Tuan Phong has already been importing fabrics from South Korea and Taiwan. The company owners say that recently there have been many bankruptcies of textile companies (mostly state-owned), and that local garments are both ugly and expensive; despite being charged with tariffs, imported fabrics are still generally both more beautiful and cheaper.

Furthermore, there are a number of other reasons of why exporting directly has been difficult for most Vietnamese companies and the answers to overcoming these barriers lie in upgrading the necessary capacity and capabilities of the firm in question. Such a process of upgrading is continuous, requiring a pattern of growth, reinvestment, and learning.

Put differently, the strategy proposed for Tuan Phong is to first to position itself into the global value chain as an original equipment manufacturer, and second to try its best to bypass the intermediaries in East Asia by trying to establish direct contacts with buyers and evolving itself through an upgrading process. Regarding the latter point, Tuan Phong will particularly need to enhance the scope of its activities

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<sup>108</sup> Thomsen, L. Accessing Global Value Chains? 2007. The Role of Business State Relations in the Private Clothing Industry in Vietnam. *Journal of Economic Geography*, Vol. 7, Issue 6, p. 753-776. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155886](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155886)> (6. June 2010)

<sup>109</sup> Oteifa, H. et al. 1999. Vietnam’s garment industry: moving up the value chain. MPDF private sector discussion No. 7. <[http://www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/PSDP+7/\\$FILE/PSDP-No-7-EN.pdf](http://www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/PSDP+7/$FILE/PSDP-No-7-EN.pdf)> (6. June 2010)

<sup>110</sup> Buisnan L. and Wielenga G.J. 2008. Textile and garment industry in Vietnam. Groningen: University of Groningen, Faculty of Economics and Business. <<http://www.keepandshare.com/doc/1514992/onderzoek-bandolera-870k?da=y>> (6. June 2010)

from merely undertaking cut-make-trim (CMT) to free-on board (FOB), as well as improving capacity, delivery, etc. In the longer term, becoming an original brand manufacturer is envisaged. Generally, it goes down to improving resources and capabilities over time.

For now, “a large part Vietnam’s garment manufacturers are doing CMT for buying agents and buying offices. The proportions of CMT and FOB are 70% and 30% respectively”<sup>111</sup>. The CMT arrangement is the like a “putting out” arrangement in a modern sense: the buyers provide the fabrics, design specifications, etc. all that’s needed for the producers is to cut, make (sew), and trim. Under this arrangement, the producers carry relatively small risk compared to buyers or traders. The reason is that the latter parties need to forecast invest capital in advance regarding “demand fluctuations that change frequently and unsystematically based on fashion trends and vogues. In this context, risks related to non-performing inventory becomes substantial, and therefore capabilities to effectively manage such risks are crucial... This is one of the main reasons why the value-added content of the current production modality is low for Vietnamese suppliers”<sup>112</sup>. According to the same source, a second source of risk that buyers (regional intermediaries) carry is that there is a potential to shirk from producers, e.g. embezzlement of input materials, late delivery. In fact, “governing such networks is itself a highly knowledge intensive function, prone to contract uncertainty with serious post-contractual moral hazard issues”<sup>113</sup>. The CMT mode can be considered equivalent to the assembly mode of production as defined in table 8.

A more sophisticated mode of production compared to CMT is Free-on-board (FOB). Under this arrangement, “Vietnamese suppliers purchase the necessary input

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<sup>111</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi.  
<<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

<sup>112</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1.  
<[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf)> (6. June 2010)

<sup>113</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1.  
<[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf)> (6. June 2010)

materials instead of being supplied for free by their buyers”, so in the end the producers are paid for the whole garment, not just a processing fee. There are three types of FOB, with incremental levels of added value: FOB I, FOB II, FOB III. Among these, FOB I and FOB II are equivalent to the OEM manufacturing mode, while FOB III corresponds to the OBM as in table 8.

**Table 9-Types of FOB<sup>114</sup>**

|         |  |
|---------|--|
| FOB I   | Vietnamese firms purchase input materials for processing from suppliers that are designated by foreign buyers. The difference between this and CMT is thus very small.                                   |
| FOB II  | Vietnamese firms receive garment samples from foreign buyers. Based on these samples, they produce similar garments using materials that they must procure somewhere without any directions from buyers. |
| FOB III | Under this arrangement, the Vietnamese firms initiate production of garments based on their own design, with no prior commitment of any kind from foreign buyers.  |

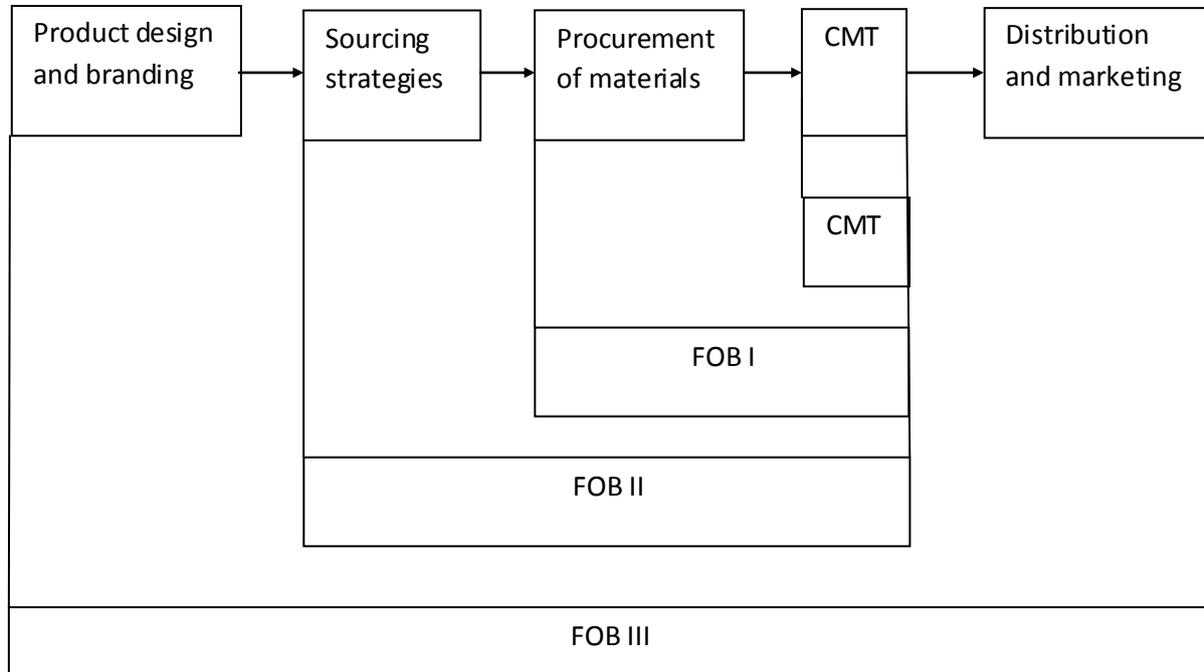
All these types of production modes or contractual arrangement can be illustrated in the following figure.

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<sup>114</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1.

<[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf)> (6. June 2010)

**Figure 6-FOB classification according to the production flow and functional process<sup>115</sup>**



FOB III is the farthest goal to achieve and evolve into for Tuan Phong. Here branding and marketing plays a key role. Also here, the companies would “have changed their primary function from suppliers to coordinators of their own value chain, with some functional responsibilities of buyers”<sup>116</sup>.

#### **4.3 Resources and capabilities:**

Look back at the chapter on theory, it was mentioned that there is a relationship between the governance modes, e.g. CMT, FOB, original equipment

<sup>115</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1.

[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf) (6. June 2010)

<sup>116</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1.

[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf) (6. June 2010)

manufacturer, original brand manufacturer, etc. and the nature of the resources and capabilities that a company possess. We cannot discuss one but not mentioning the other. So, in this section, a discussion of what to improve at the company levels in order to achieve its goals is presented.

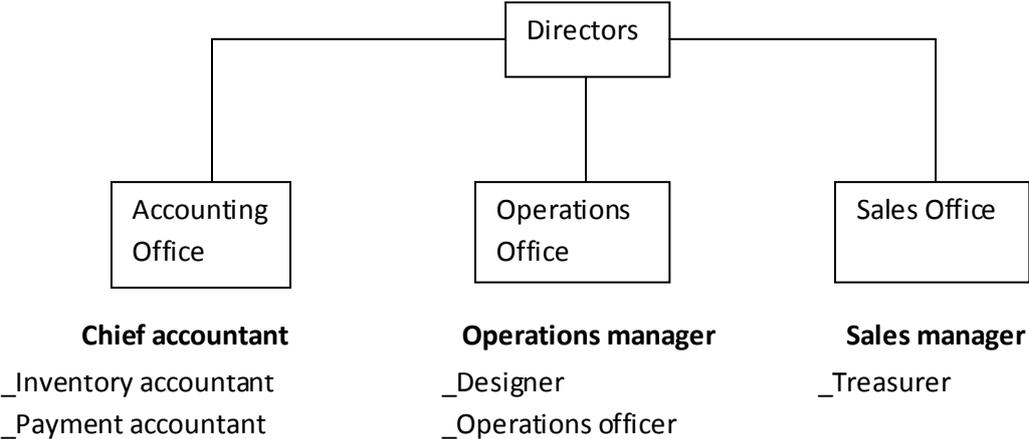
**4.3.1 Capacity Expansion:**

The first thing to do in the next three years is to expand capacity. Company owners of Tuan Phong believe that their current clients are expanding their number of supermarkets nationwide. Therefore more and more orders are expected to come. Retaining earnings and reinvesting in new plants and machines are ways to boost growth. The informers also believe that at least a company size of 300 machines is required in order to undertake foreign orders.

**4.3.2 Reorganization**

Next, reorganization is necessary right now. Below is the current organizational chart

**Figure 7-Company structure<sup>117</sup>**



<sup>117</sup> Interview

Tuan Phong is owned by two people: Mr. Le and Mrs. Pham, each owns 50% of the company's total assets. Mr. Le is officially head of the company, with the title general director. He is at the same time the operations manager and the designer. On the other hand, Mrs. Pham is the sales manager, there is a treasurer reporting directly to her. Being a co-owner, Mrs. Pham not only heads the sales office but also is responsible for recruitment and participates with Mr. Le in setting strategies. The accounting department is headed by the chief accountant. The inventory and payment accountants report to her. The former is responsible for updating information about the inventory, e.g. buttons, zips, press studs, buckles, threads, marks, chains, etc. while the latter is responsible for updating information about accounts payable and accounts receivable. The chief accountant is then prepare financial reports to owners and tax officers.

The problem is that the general director holds to many positions simultaneously. Reorganization is to be implemented. I propose that a human resource office should be set up; one person in charge is enough. A designer should be hired. In addition, two people should be hired for marketing and sales. In fact, right now even basic things like company brochures and product catalogues are non-existent. Interestingly, this is not an exception among Vietnamese companies: “most companies do not have company profiles, nor information about their products or services in a readily available form for international buyers. Companies seldom participate in international or local trade fairs, and have no idea about the requirements of foreign markets. They also lack knowledge in promoting their products business to business”<sup>118</sup>.

### **4.3.3 Production arrangement**

After two years of domestic expansion, Tuan Phong can start exporting to foreign markets. I propose to enter the field under the FOB I right away if financially possible, instead of CMT. First, “CMT work offers limited scope for upgrading, and

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<sup>118</sup> Oteifa, H. et al. 1999. Vietnam's garment industry: moving up the value chain. MPDF private sector discussion No. 7. <[http://www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/PSDP+7/\\$FILE/PSDP-No-7-EN.pdf](http://www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/PSDP+7/$FILE/PSDP-No-7-EN.pdf)> (6. June 2010)

continued reliance on it increases vulnerability”<sup>119</sup>. Second, FOB I is not too risky for Tuan Phong to undertake. In fact, “although this form of contractual arrangement takes the FOB form, the fundamental difference from CMT is very different; furthermore, Tuan Phong can gain more knowledge about sourcing fabrics abroad as well as establishing contacts with more foreign textile producers since “buyers specify not only the exact specifications and colour of the textile and accessories that Vietnamese suppliers must procure, but also from which textile producers they must procure”<sup>120</sup>.

#### **4.3.4 Product diversification:**

When Tuan Phong starts to export, it is recommended to diversify into a few items that would sell well. This certainly depends on specific partners. However the following information in 2005 about the US market, coupled with table 9, gives hints about categories are doing well in exports:

“It is noted that Vietnam nearly fill the quota for categories 334/335, 338/339, 340/640, 342/642, 359-S/659-S, 434, 440, 620, and exceed quota for categories 638/639, 647/648 and 341/641. It is noted that in 2005 the most important category of 338/339 (30% of total export value to US market) nearly filled quota (96.58%), the remaining 3.42% unfilled is likely the result of the quota distribution system of Vietnam. However, in the first half of 2005, when China was not imposed by quota, its export on this category increased nearly 450% while that of Vietnam fell 29%. The drop means that Vietnam is not competitive in this category compared with China but still competitive compared with other exporting countries”<sup>121</sup>.

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<sup>119</sup> Nadvi, K. et al. 2004. Challenges to Vietnamese firms in the world garment and textile value chain, and the implications for alleviating poverty. *Journal of the Asia Pacific Economy*, 9:2, 249-267. <<http://www.informaworld.com/smpp/content~db=all~content=a713703420>> (6. June 2010)

<sup>120</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1. <[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf)> (6. June 2010)

<sup>121</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

**Table 10-US Garment Imports from Vietnam in 2005: Quota and Fill Rate<sup>122</sup>**

| Category    | Product         | Unit | Quota 2005 | Fill Rate | Quota 2006 Increase |
|-------------|-----------------|------|------------|-----------|---------------------|
| 200         | Sewing Thrds    | Kg   | 324,210    | 29.43%    | 13.36%              |
| 310         | Comb Cot Yrn    | Kg   | 734,876    | 7.66%     | 13.36%              |
| 332         | Cot Hosiery     | Dpr  | 1,080,700  | 1.97%     | 13.36%              |
| 333         | Suit Coats      | Doz  | 38,905     | 40.36%    | 13.36%              |
| 334/335     | Cotton Coats    | Doz  | 697,247    | 89.59%    | 13.36%              |
| 338/339     | Cot Knit Shirts | Doz  | 14,183,582 | 96.58%    | 15.65%              |
| 340/640     | Wov Shirts M/B  | Doz  | 2,146,505  | 96.92%    | 13.36%              |
| 341/641     | Wov Blouses     | Doz  | 823,040    | 110.14%   | 13.36%              |
| 342/642     | Skirts          | Doz  | 583,796    | 83.25%    | 13.36%              |
| 345         | Cot Sweaters    | Doz  | 307,851    | 24.77%    | 13.36%              |
| 347/348     | Cot Trousers    | Doz  | 7,199,151  | 84.69%    | 15.65%              |
| 351/651     | Nightwear       | Doz  | 516,012    | 74.78%    | 13.36%              |
| 352/652     | Underwear       | Doz  | 1,965,906  | 64.76%    | 13.36%              |
| 359-C/659-C | Coveralls       | Kg   | 351,041    | 17.82%    | 13.36%              |
| 359-S/659-S | Swimwear        | Kg   | 567,368    | 85.67%    | 13.36%              |
| 434         | Wool Coat M/B   | Doz  | 15,863     | 79.97%    | 8.37%               |
| 435         | Wool Coat W/G   | Doz  | 39,138     | 61.33%    | 8.38%               |
| 440         | Wov Wool Shirts | Doz  | 2,448      | 98.41%    | 8.37%               |

<sup>122</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi.  
<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html> (6. June 2010)

|         |                |     |           |         |        |
|---------|----------------|-----|-----------|---------|--------|
| 447     | Wool Trsrs M/B | Doz | 50,919    | 54.83%  | 8.37%  |
| 448     | Wool Trsr W/G  | Doz | 31,335    | 34.68%  | 8.37%  |
| 620     | MMF Wov Fab    | M2  | 6,877,575 | 77.08%  | 13.36% |
| 632     | MMF Hosiery    | Dpr | 540,350   | 4.90%   | 13.36% |
| 638/639 | MMF Knit Shirt | Doz | 1,289,975 | 104.11% | 13.36% |
| 645/646 | MMF Sweaters   | Doz | 208,578   | 48.17%  | 13.36% |
| 647/648 | MMF Trousers   | Doz | 2,097,655 | 101.18% | 13.36% |

Source: United States International Trade Commission

Regarding the EU market, the picture in 2003 and 2004, as shown together with table 10, can also suggest a range of certain product categories to diversify into, so as to sell to foreign buyers:

“Vietnam has competitive advantages of Categories 7, 8, 14, 15, 16, 17 and 21 in EU market by having quite good growth rates and market shares.

Shirts for man and female including categories 7 and 8: Although quota fill rate of Vietnam for these cats in the year 2004 is not very high due to EU raised quota for Vietnam by the end of the year and enterprises could not make full use of the added quota, export growth rate for the categories is quite high. Especially for category 7, export turnover increased more than 88% in the year 2004 in comparison with the year 2003. Growth rate of categories. 8 reached 5.04%. Exports for the same categories of other countries seems to be high in quantity but the growth rates tend to decrease. Except for export of category. 8 of India, other suppliers could not filled all quota. Besides, Eurotex has requested consideration of China textile safeguards on twelve categories of textile and garment and category 7 is one of those.

Outerwears belong to categories 14, 15, 17, 21: For this categories, EU imports increased remarkably, ranging from 6 to 14% for each category. Export growth rates of Vietnam for these cats are also high: 42% for category. 17, 80% for category 15, 181% for category 14. Particularly for anoraks and category 21, EU imports mainly from Vietnam with the share of 86 % in 2003 and 87% in 2004. Vietnam almost faces

no considerable competition for this cat. Quota fill rates of other suppliers for these cats are not so high.

For men or boys' suits and ensembles of category 16: Export from Vietnam to EU increased sharply at the rate of 15% while export of the same category from China was still largest in quantity but trends to fall (-8% in the year 2004 in comparison with the year 2003)."<sup>123</sup>

**Table 11: Competitive garment products of Vietnam in EU market<sup>124</sup>**

| Exporters        | 2003                     |               | 2004                     |              | % Exp<br>2004/2003 |
|------------------|--------------------------|---------------|--------------------------|--------------|--------------------|
|                  | Export<br>(US\$ million) | % quota fill  | Export<br>(US\$ million) | % quota fill |                    |
| <b>Cat. 7</b>    |                          |               |                          |              |                    |
| <b>India</b>     | <b>88.87</b>             | <b>106.78</b> | <b>80.98</b>             | <b>97.84</b> | <b>91.12</b>       |
| Market share (%) | 42.67                    |               | 37.98                    |              |                    |
| <b>Hong Kong</b> | <b>30.33</b>             | <b>75.49</b>  | <b>27.51</b>             | <b>63.33</b> | <b>90.69</b>       |
| Market share (%) | 14.56                    |               | 12.90                    |              |                    |
| <b>China</b>     | <b>12.89</b>             | <b>103.00</b> | <b>17.93</b>             | <b>98.03</b> | <b>139.15</b>      |
| Market share (%) | 6.19                     |               | 8.41                     |              |                    |
| <b>Pakistan</b>  | <b>10.29</b>             | <b>58.40</b>  | <b>16.33</b>             | <b>72.12</b> | <b>158.69</b>      |
| Market share (%) | 4.94                     |               | 7.66                     |              |                    |
| <b>Indonesia</b> | <b>12.38</b>             | <b>76.18</b>  | <b>12.15</b>             | <b>66.18</b> | <b>98.11</b>       |

<sup>123</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi.  
<<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

<sup>124</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi.  
<<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

|                     |               |                     |                  |                     |               |
|---------------------|---------------|---------------------|------------------|---------------------|---------------|
| Market share (%)    | 14.56         |                     | 5.70             |                     |               |
| <b>Thailand</b>     | <b>4.98</b>   | <b>56.09</b>        | <b>6.31</b>      | <b>47.88</b>        | <b>126.63</b> |
| Market share (%)    | 2.39          |                     | 2.96             |                     |               |
| <b>Vietnam</b>      | <b>2.76</b>   | <b>81.93</b>        | <b>5,186,586</b> | <b>58.04</b>        | <b>188.18</b> |
| Market share (%)    | 1.32          |                     | 2.43             |                     |               |
| <b>Total import</b> | <b>208.30</b> |                     | <b>213.20</b>    |                     | <b>102.35</b> |
| <b>Cat. 8</b>       |               |                     |                  |                     |               |
| <b>Bangladesh</b>   | <b>130.09</b> | <b>Surveillance</b> | <b>132.69</b>    | <b>Surveillance</b> | <b>102.00</b> |
| Market share (%)    | 43.50         |                     | 43.99            |                     |               |
| <b>China</b>        | <b>18.32</b>  | <b>101.19</b>       | <b>27.38</b>     | <b>95.87</b>        | <b>149.42</b> |
| Market share (%)    | 6.13          |                     | 9.08             |                     |               |
| <b>India</b>        | <b>58.91</b>  | <b>106.11</b>       | <b>56.07</b>     | <b>100.26</b>       | <b>95.19</b>  |
| Market share (%)    | 19.70         |                     | 18.59            |                     |               |
| <b>Hong Kong</b>    | <b>27.90</b>  | <b>53.60</b>        | <b>21.60</b>     | <b>36.30</b>        | <b>77.44</b>  |
| Market share (%)    | 9.33          |                     | 7.16             |                     |               |
| <b>Indonesia</b>    | <b>18.91</b>  | <b>73.96</b>        | <b>17.73</b>     | <b>63.42</b>        | <b>93.74</b>  |
| Market share (%)    | 6.33          |                     | 5.88             |                     |               |
| <b>Vietnam</b>      | <b>14.29</b>  | <b>99.04</b>        | <b>15.01</b>     | <b>55.92</b>        | <b>105.04</b> |
| Market share (%)    | 4.78          |                     | 4.98             |                     |               |
| <b>Total import</b> | <b>299.04</b> |                     | <b>301.63</b>    |                     | <b>100.87</b> |
| <b>Cat. 14</b>      |               |                     |                  |                     |               |
| <b>China</b>        | <b>10.25</b>  | <b>71.30</b>        | <b>11.35</b>     | <b>59.31</b>        | <b>110.73</b> |

|                     |              |                     |              |                     |               |
|---------------------|--------------|---------------------|--------------|---------------------|---------------|
| Market share (%)    | 96.85        |                     | 94.13        |                     |               |
| <b>Vietnam</b>      | <b>0.23</b>  | <b>46.03</b>        | <b>0.64</b>  | <b>87.81</b>        | <b>281.13</b> |
| Market share (%)    | 2.14         |                     | 5.28         |                     |               |
| <b>S. Korea</b>     | <b>0.67</b>  | <b>0.78</b>         | <b>0.67</b>  | <b>0.75</b>         | <b>100.07</b> |
| Market share (%)    | 0.63         |                     | 0.56         |                     |               |
| <b>Taiwan</b>       | <b>0.40</b>  | <b>0.83</b>         | <b>0.41</b>  | <b>0.08</b>         | <b>10.33</b>  |
| Market share (%)    | 0.38         |                     | 0.03         |                     |               |
| <b>Total import</b> | <b>10.58</b> |                     | <b>12.06</b> |                     | <b>113.93</b> |
| <b>Cat. 15</b>      |              |                     |              |                     |               |
| <b>China</b>        | <b>18.93</b> | <b>101.78</b>       | <b>20.91</b> | <b>97.96</b>        | <b>110.44</b> |
| Market share (%)    | 60.69        |                     | 59.48        |                     |               |
| <b>Ucraina</b>      | <b>5.37</b>  | <b>Surveillance</b> | <b>7.01</b>  | <b>Surveillance</b> | <b>130.42</b> |
| Market share (%)    | 17.22        |                     | 19.93        |                     |               |
| <b>India</b>        | <b>1.72</b>  | <b>20.17</b>        | <b>2.08</b>  | <b>19.84</b>        | <b>120.96</b> |
| Market share (%)    | 5.52         |                     | 5.92         |                     |               |
| <b>Croatia</b>      | <b>1.16</b>  | <b>Surveillance</b> | <b>1.33</b>  | <b>Surveillance</b> | <b>115.32</b> |
| Market share (%)    | 3.71         |                     | 3.80         |                     |               |
| <b>Vietnam</b>      | <b>0.73</b>  | <b>103.29</b>       | <b>1.32</b>  | <b>94.05</b>        | <b>180.19</b> |
| Market share (%)    | 2.36         |                     | 3.77         |                     |               |
| <b>Total import</b> | <b>31.19</b> |                     | <b>35.16</b> |                     | <b>112.70</b> |
| <b>Cat.16</b>       |              |                     |              |                     |               |
| <b>China</b>        | <b>18.67</b> | <b>102.99</b>       | <b>17.17</b> | <b>93.35</b>        | <b>91.98</b>  |

|                           |              |                     |                |                     |               |
|---------------------------|--------------|---------------------|----------------|---------------------|---------------|
| Market share (%)          | 89.97        |                     | 91.51          |                     |               |
| <b>Croatia</b>            | <b>0.68</b>  | <b>Surveillance</b> | <b>0.70</b>    | <b>Surveillance</b> | <b>101.90</b> |
| Market share (%)          | 3.29         |                     | 3.71           |                     |               |
| <b>Vietnam</b>            | <b>0.50</b>  | <b>Surveillance</b> | <b>0.57</b>    | <b>Surveillance</b> | <b>115.57</b> |
| Market share (%)          | 2.39         |                     | 3.05           |                     |               |
| <b>Bosnia-Herzegovina</b> | <b>0.18</b>  | <b>Surveillance</b> | <b>0.22</b>    | <b>Surveillance</b> | <b>126.87</b> |
| Market share (%)          | 0.85         |                     | 1.20           |                     |               |
| <b>Total import</b>       | <b>20.75</b> |                     | <b>18.76</b>   |                     | <b>90.42</b>  |
| <b>Cat. 17</b>            |              |                     |                |                     |               |
| <b>China</b>              | <b>6.10</b>  | <b>50.29</b>        | <b>6.43</b>    | <b>46.04</b>        | <b>105.50</b> |
| Market share (%)          | 97.53        |                     | 96.89          |                     |               |
| <b>Vietnam</b>            | <b>0.15</b>  | <b>Surveillance</b> | <b>0.19</b>    | <b>Surveillance</b> | <b>142.28</b> |
| Market share (%)          | 2.15         |                     | 2.88           |                     |               |
| <b>Total import</b>       | <b>6.25</b>  |                     | <b>6.64</b>    |                     | <b>106.20</b> |
| <b>Cat. 21</b>            |              |                     |                |                     |               |
| <b>Vietnam</b>            | <b>12.37</b> | <b>60.73</b>        | <b>13.81</b>   | <b>56.51</b>        | <b>111.71</b> |
| Market share (%)          | 86.04        |                     | 87.71          |                     |               |
| <b>Cambodia</b>           | <b>0.63</b>  | <b>Surveillance</b> | <b>899,078</b> | <b>Surveillance</b> | <b>141.83</b> |
| Market share (%)          | 4.41         |                     | 5.71           |                     |               |
| <b>Laos</b>               | <b>0.61</b>  | <b>Surveillance</b> | <b>408,977</b> | <b>Surveillance</b> | <b>67.51</b>  |
| Market share (%)          | 4.22         |                     | 2.60           |                     |               |
| <b>Total import</b>       | <b>14.37</b> |                     | <b>15.75</b>   |                     | <b>109.58</b> |

Interviews with company owners indicate that they do plan to diversify into male and female shirts right next year. This is the right move.

#### **4.3.5 Quality standards:**

This is particularly important in the case of EU buyers. The following is self-explaining: “To be certain that garment suppliers are capable to provide garment at a certain quality, EU buyers normally require garment suppliers to achieve certain types of quality certificate. The most widely used quality management system is ISO 9001:2000. The standards of ISO 9001:2000 provide a framework for standardising procedures and working methods, not only with regard to quality control but to the entire organisation: from purchasing to processing, quality control, sales and administration. ISO 900:2000 requires that you describe exactly your processes (or activities), and develop procedures according to which the processes or activities should be performed, and then follow these procedures in daily business activities. This process guarantees that you always do things the same way and produce stable quality products. There are numerous benefits associated with a certified ISO 900:2000 management system: improved product, process and service quality; increased customer satisfaction levels; improved productivity, less waste; and an expectation from buyers”<sup>125</sup>.

#### **4.3.6 Enhanced services:**

Among other things, fabric sourcing is actually the most critical, and is the first capability Tuan Phong should develop, before enhancing other services like packaging, shipping, etc. Frequent trips to Hong Kong, China, Taiwan, and South

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<sup>125</sup> Vietnam Textile and Apparel Association. 2006. Export marketing guidelines for Vietnam’s garment manufacturers to EU market. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

Korea are recommended in order to study and build contacts with textile producers, since textiles from Vietnam are of inferior quality.

In order to obtain this, two things need to be acquired: knowledge and finance, since the following are among the reasons why upgrading has been difficult for most Vietnamese companies: “Weak material sourcing skills, including understanding all kinds of fabrics and yarns, including their characteristics and uses, mill location and negotiation; and sourcing materials require manufacturers to have enough financial resources and be able to face risks related to un-usage of purchased materials resulting from possible broken-down contracts”<sup>126</sup>.

Further into the future, to become an original brand manufacturer is to be able to offer full-package services to foreign buyers, which means being able to perform a number of service: “material sourcing, designing, logistic arrangement and full-package service for buyers, which are preconditions for buyers to source directly from a country”<sup>127</sup>. In other words, the company should finally be able “to undertake coordination roles of the production and distribution networks and govern them efficiently”<sup>128</sup>. This, in turn, implies the ability to “identify most suitable suppliers for certain products in terms of price, quality, timely delivery, and quota availability; control production quality; identify and contract with material providers; and shipping arrangement for materials into manufacturer’s country and for finished garment out of the country”<sup>129</sup>.

#### **4.4 Strategy:**

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<sup>126</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

<sup>127</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

<sup>128</sup> GOTO, K. 2007. Industrial upgrading of the Vietnamese garment industry: an analysis from the global value chains perspective.7. RCAPS working paper No. 07-1. <[http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1\\_RCAPS\\_WP.pdf](http://www.apu.ac.jp/rcaps/modules/webpublication/content/07-1_RCAPS_WP.pdf)> (6. June 2010)

<sup>129</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

This part discusses more on where and when to enter the export market.

Let's consider market choice, where to enter. First of all, of the three markets, Japan is the less desirable one, because "here Vietnam's export growth has been relatively modest for a long period even before 2004"<sup>130</sup>. Furthermore, it is worth noting the difference between EU and US buyers: "EU buyers are more concerned about quality than US buyers. They pay higher price and normally at lower quantity per order than US buyers. Also differently from US buyers, who provide materials to manufacturers, more than half of EU buyers require manufacturers to source materials and send material samples to them for approval. Finally, unlike US buyers, EU buyers tend to stick to familiar garment providers"<sup>131</sup>.

There is actually a trade-off between choosing the US or the EU. Although the US market is less demanding than EU, it requires large-scale production. On the other hand, upgrading capabilities, not merely capacity, merit penetration into the EU. "In comparison to US buyers, EU buyers normally order garment of more complicated design and smaller volume. Some Vietnam's garment manufacturers, which get used to orders from US buyers with simple design and large volume, find difficult to meet these requirements of EU buyers. Reasons given to explain this include fragmented markets of different countries with different characteristics and end-users more fashion-sensitive (most of the world's fashion centres are in EU, including Paris, Milan, and London; while New York is the fashion centre in US). This means garment SMEs with its smaller production capacity would have a certain advantage over large garment enterprises in exporting to EU"<sup>132</sup>.

My proposition is that the US market should be prioritized over the EU, since producing for the EU imply one important thing: sourcing fabric on one's own. One

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<sup>130</sup> Schaumburg-Müller, H. 2009. Garment exports from Vietnam: changes in supplier strategies. *Journal of the Asia Pacific Economy*, 14:2, 162-171.

<<http://www.informaworld.com/smpp/content~db=all~content=a910186390>> (6. June 2010)

<sup>131</sup> Vietnam Textile and Apparel Association. 2006. Garment export strategy 2006-2010. Hanoi.

<<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

<sup>132</sup> Vietnam Textile and Apparel Association. 2006. Export marketing guidelines for Vietnam's garment manufacturers to EU market. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

should only do that later, when the experience in fabric sourcing and the finance necessary to carry on such working capital is well in place. In fact, “different from export to US market, export to EU to a large extent requires Vietnam’s garment manufacturers to source materials. Therefore, garment enterprises want to export to EU market should build relations with material suppliers in advance”<sup>133</sup>. That said, flexibility should be maintained at a certain level. An interesting point is that by “selling to customers in different markets using various forms of export mode at the same time” and not being “locked in with only one buyer at a single market”, is key to flexibility and to be able to shift customers when conditions require<sup>134</sup>.

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<sup>133</sup> Vietnam Textile and Apparel Association. 2006. Export marketing guidelines for Vietnam’s garment manufacturers to EU market. Hanoi. <<http://www.vietrade.gov.vn/ket-qua-du-an/category/3-nganh-d.html>> (6. June 2010)

<sup>134</sup> Schaumburg-Müller, H. 2009. Garment exports from Vietnam: changes in supplier strategies. Journal of the Asia Pacific Economy, 14:2, 162-171. <<http://www.informaworld.com/smpp/content~db=all~content=a910186390>> (6. June 2010)

## CHAPTER 5

### CONCLUSIONS

This paper discusses export strategy for Tuan Phong Ltd, using the Integrated Strategy Model.

First, a snapshot on the world trade regime, the Vietnamese garment industry, and the company along with its current position in the domestic competitive dynamics was given as background information.

Second, an theoretical framework was elaborated, with its emphasis on market entry strategy, a business-level strategy applied to this particular case, as opposed to the case of MNE entering a new national market. Besides, only the most relevant elements of the framework were used to discuss the future strategy of Tuan Phong.

Third, an extensive discussion based on those elements aforementioned was presented. I started with institutions. The point here is that opportunities for export arose for the private sector due to both positive movements in the world trade regime and the liberalization of the domestic economy. Then, the governance element was mentioned. Here it is necessary to grasp the whole picture of the global apparel industry, as well as the nuanced regional relationship with brokers in East Asia, in order to understand where Tuan Phong could be if it ever enters the export market. This point links directly to contractual arrangement like CMT or FOB. Next, resources and capabilities were mentioned. In order to move on with export, capacity expansion, reorganization, product diversification, quality standards, and enhanced services are to be achieved over time. Finally, the strategy to enter export markets is that the US is recommended over the EU due to less stringent requirements on style, quality, etc. albeit their orders are larger and are best suited for larger-size companies.

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