Market Overview

The franchising model is popular and well-suited to a developing economy like Vietnam, where an increasing number of local investors look for new business opportunities. Rising incomes and an emerging middle class are generating growth in consumer-driven sectors. There are also an increased number of foreign workers, international tourists and expatriates visiting and working in Vietnam. Those factors have contributed to the strong growth of the Vietnam franchising market in the past few years; especially in the food and beverage sector.

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

The market is still relatively small and competition is heating up as more brands enter the market, but several brands are noticeably absent. Meanwhile, growth prospects are bright as local investors become more familiar with franchising and are increasingly exposed to successful franchise concepts. It is especially true in the urban centers in Hanoi and Ho Chi Minh City where incomes are higher than the national average. In 2010, the average income was US$ 2,500 per year in Hanoi and US$ 3,000 per year in Ho Chi Minh City.

In general, the franchise sector in Vietnam is poised for continued growth in several areas including food and beverages, retail, education, entertainment, health care, and lifestyle-oriented businesses. Among these best sales franchise prospects, the food and beverage sector is ranked at the top in the developing stage in this market. This report is intended to highlight prospects, opportunities, and guidance for U.S. franchisors of food and beverage brands to expand into the Vietnamese market.

Best prospects

There are no official statistics on the market size of F&B sector in Vietnam. Best prospects for the F&B sector include Quick Service Restaurants (QSR), cafeteria, ice cream, coffee shop, family restaurant, and specialty restaurant. At present, there are approximately 70 international franchising systems operating in Vietnam. Key F&B franchises in Vietnam include: KFC, Carl’s Jr., Pizza Hut, Hard Rock Café, Domino’s Pizza, Popeye’s Chicken, Subway, Illy Café, Lotteria, Jollibee, Bread Talk, Gloria Jeans Coffee and others. These international brands have received positive response in the markets, and they will likely continue to expand store networks by working with local operators.
Several Vietnamese businesses have joined the trend toward franchising, such as Trung Nguyen Coffee, Pho 24, Kinh Do Bakery, Wrap and Roll, 3A, Ta Bread, and Coffee24Seven. Pho 24 is one of the most visible franchise concepts with a number of outlets throughout the country and in overseas markets as well. In the short run, these franchise businesses are quite successful in offering local food and beverages with traditional tastes at affordable prices. Some observers notice that some of them are facing difficulties for further development because of lack of effective franchise system management and quality control mechanisms.

American F&B franchises with several popular brand names presently play a leading role in this market. In general, Vietnamese consumers have welcomed American food because of their quality, consistency, and life style perception. Consumers are expecting to see more franchise concepts from the U.S.

**End-Users**

According to a recent report by TSN Vietnam on Vietnamese consumer trends, the wealthy income class has increased by 33 percent per year, while the middle class in urban Vietnam has doubled in two years. (Source: Vietnam’s Shifting Consumer Landscape by Ralf Mathaes, Managing Director of TSN Vietnam, 2010). TNS’s statistics also show that among a population of 88 million, 4 percent (1mil) are considered “wealthy”; 24 percent (6.2mil) are “affluent”, and 44 percent (11.4mil) are “middle class”. Consumer spending patterns (in order of priority) are education, food and beverage, health care products/services, transportation, household utilities, and personal equipment.

Key customers groups:

- Urban consumers in Hanoi, Da Nang, and Ho Chi Minh City.
- Consumers in emerging middle-class with disposable income;
- Office employees and white collar workers;
- Foreign workers and their family members;
- Foreign tourists. According to the Vietnam Tourism Industry, there were five million international visitors to Vietnam in 2010. The number is expected to grow over 11% during 2010-2014.

**Opportunities**

There are several factors that will contribute to the growth of foreign franchises in Vietnam, including:
• Per capita GDP and per capita incomes are on the rise, and incomes in the urban areas (such as Ho Chi Minh City, Hanoi, Da Nang and Can Tho) have seen significant growth.

• An emerging middle-class – with disposable income – is driving demand for high-quality food and beverages and lifestyle oriented products and services.

• High-end, well-known “premium” brands are in demand. Vietnamese consumers often associate Western brands with high quality, an affluent lifestyle, and product reliability. In general, U.S. brands are well perceived, especially in the Southern region.

• Franchise Law and regulations are in place, are generally favorable for foreign brands.

To be successful in Vietnam, franchisors should consider the following suggestions:

• One of the biggest challenges is identifying and conducting due diligence on partners to determine suitability and financial viability. Many local companies may not have a full understanding of brand value and/or legal regulations relating to franchising. Establishing good communication, setting clear expectations and achieving mutual understanding should not be taken for granted. Financial strength is only one factor to consider. This process takes a lot of time and patience.

• U.S. franchisors should register their intellectual property rights and be prepared to take legal action against IP violators. Also, register your URL’s and related websites in Vietnam.

• Franchisors should exercise care in preparing franchising contracts to avoid problems down the road. It is advised to work with a local law firm when developing the contract and appropriately registering the franchise business.

• Understand cultural differences and adjust market access strategies accordingly. U.S. franchisors should consider adapting to local culture, habits, and tastes to guarantee success in the market.

• Consumer patterns vary throughout the country: between urban and rural areas, and especially between the regions of Hanoi and the North, Da Nang and the Central Coast, and Ho Chi Minh City and the Mekong Delta region in the south.

• While retail real estate development in Ho Chi Minh City and Hanoi is growing, finding suitable and affordable space remains a challenge for retail franchise outlets.

• Localizing menu and ingredients are a good practice for several foreign F&B businesses. Some experts noted Vietnamese rice was not sold initially at fast food restaurants. However, rice has been added to their menus because 90% of the customers are Vietnamese and rice is the dish which can bring the highest turnover. Other Western dishes have also been localized to suit local tastes.
Legal Environment

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

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

Trade shows and events


2. Franchise Trade Mission in Dec 2011: Organized by the Franchise Team to bring U.S. franchise concepts to visit Jakarta, Hanoi and HCMC. More details will be released soon.

3. International Franchise Expo in D.C. The U.S. Commercial Service will organize a Vietnamese business delegation to visit the International Franchise Expo hosted in Washington D.C. in April 2012.

Resources

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

Franchising Law Website: www.franchising.com

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

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