

# Franchising in the food service sector in vietnam marketing essay



An overall review of Vietnam's franchise industry will be provided to give a basic understanding of the context of this study. Moreover, the development and current status of the franchise industry in Vietnam will explain the necessary carry-out of the project.

## **Area of Research**

The research on this project falls into the field of business in term of franchising as a method of market expansion. Additionally, studies on impact of socio-economic environment are also of paramount importance to this project.

## **Overview of the Franchise Industry in Vietnam**

Franchising is increasingly becoming an international activity. According to Hoffman and Preble (1993) by 2000 there were at least 60% of all US franchisors expecting to operate overseas. Franchising has undoubtedly effect positively the US economy with one out of twelve businesses is franchised, accounted for about \$1 trillion in sales and employed more than 8.5 million Americans (Alon 2004). Shane (1996) argues that franchisors look for foreign franchisees to bond against and monitor potential franchisee opportunism. For emerging markets, Alon (2004) mentions numerous socioeconomic benefits of franchising such as job creation, tax, economic modernization or increase in consumer choice. The costs of this model were also discussed by Alon (2004) in term of social pressure, cultural clashes and challenges to national cultures.

Though franchising is a very popular business model in developed countries it is relatively new in Vietnam. According to Vietnamnet (2009), by

November 2009 there are about 90 brand names of both Vietnamese and foreign have been franchised with over 800 franchised shops set up.

Vietnam is a developing country which according to Edwards (2009) has a consumer population growing faster than China and thousands of aspiring entrepreneurs. Also with a strong interest in established brands, Vietnam is rapidly emerging as a franchise-friendly nation (Edwards 2009). Becoming the World Trade Organization's 150th member on January 2007 has opened the Vietnam's market to foreign investors. According to the recent Viet Nam Food and Drink Report (2009) the country's rapidly developing economy will continue to outperform most of other Southeast Asian countries. Vietnam has a great potentials for franchising also because of its stable politics and fast growing, consumer-oriented population of which 70 per cent are under 30 (Vietnamnews 2009). " The aspiring urban middle class has increasing disposable income and an insatiable appetite for quality goods and Western brands" (Vietnamnews 2009).

Regarding regulations, the 2005 Law on Intellectual Property (amended in 2009) have extended the regulatory framework and protection for intellectual property rights and franchising. It is one of six countries in the Asia and Pacific region to make the process of registering and protection trademarks easier (Kong and Zwisler 2007). However, the enforcement of these rights may remain a concern and a challenge for franchisors (Vietnamnews 2009). The Vietnamese government also enacted franchise regulations to make them more flexible for international investors, such as allowing full foreign ownership (Piniiparakarn 2009).

The Vietnam Franchise Association and the Business Centre from the Republic of Korea forecasted that the Vietnamese franchise sector will earn revenue of US\$36 million in 2010 if it grows at the current rate (Vovnews, 2009). William Le Sante, CFE, who chairs the International Franchise Association's Glomak Committee, said it was one of the most aggressive trading partners of the United States. Several franchising events have been held in the last 24 months and two books on franchising were written by the owner of a local noodle franchise chain (Kong and Zwisler 2007). Although Vietnam was previously considered to be lagged behind the rest of Asia in the franchise sector, it is now seeing an unprecedented level of interest from the international franchise community.

### **3. 4 Conclusion**

The potentials of Vietnamese franchise industry are significant, nevertheless, not many Vietnamese entrepreneurs understand it throughout to catch up with the trend. Having researched about this market for a while and with an interest of setting up an international brand in Vietnam in the future, the author carry out this project to firstly evaluate a business plan and secondly to serve as a reference to foreign companies in food service sector who may contemplate to enter the Vietnam market through the franchising approach.

## **Literature Review**

### **Introduction**

The objective of this literature review is to firstly provide definitions for a range of franchising terms which will be mentioned frequently in the project. A brief history of franchise development will also be presented for better

understanding. Finally, a review on food service sector in Vietnam will be discussed to relate to the focused research area of the project.

This literature search was initially based on library sources which include books, printed journals and previous Aston projects. For more up-to-date data, electronic resources such as e-library and Google scholar were used. However, no books or journals about this specific area of franchising has been studied about before; therefore, search on Vietnamese franchise industry was extended to a less academic source including internet resource and newspaper (both in English and Vietnamese).

It was perceived that franchise is a very popular topic which has been well-researched about. A single search of 'franchise' on EBSCOHost alone generated 45515 hits, however, with 'franchise' and 'emerging markets', the result reduced significantly to 77. This revealed that franchising in emerging markets, which are often some countries in Eastern Europe, Middle East, Latin America or Asia, was much less researched about. That prompted the necessity of this project to examine the potential markets, with the specific case of Vietnam. This research will take a review of 17 journals and articles to obtain comprehensive review of the industry in this region.

### **Franchising: definitions, history and current status**

Franchising was defined as an organizational form based on a legal agreement (Shane 1996) between one firm – the franchisor who sells the right to market the products or services under its brand name and using its business practices to a second firm – the franchisee (Combs et al, 2004). In exchange for their outlet's profit, the franchisee pays a lump sum amount of

up-front franchise fee and an annual royalty fee based on sales (Rubin 1978 cited in Shane 1996). Beshel (2001) states that there are two main types of franchises: product distribution (simply selling the franchisor's products) and business format (using franchisor's complete operating method as well as their product, service and trademark). For the purpose of this project, the business format franchising will be focused on mainly since the research is about food service sector.

The history of franchising rooted back to as far as shortly after the Civil War in the USA with Singer Sewing Machine Company. However, according to Gonçalves and Duarte (1994) the real boom only occurred in the beginning of the 1950s with the appearance of business format franchising. Throughout the 1950s and 1960s US franchise systems developed revolutionarily then in early 1970s after the US domestic market were saturated, US franchisors begun to internationalize their concepts (Alon 2004). From 1971 to 1985, U. S. franchisors opened foreign outlets at a rate of 17 percent per year which was twice as fast as that of domestic outlets (Aydin and Kacker 1990 cited in Shane 1996). Alon (2004) believes that 63 percents of US franchisors are seeking international franchisees in more than sixteen industries however food retailing, recreation and hotels are sought more aggressively.

Nowadays, International Franchise Association (2009) estimates that more than 800 companies are franchising internationally and an additional 100 companies begin their international expansion every year. Emerging markets are said to be under-retailed and are significant regions for franchise to grow (Swartz 2000).

Connell (1999 cited in Hoffman and Preble 2004) says that the franchising concept is a highly flexible and adaptable one and ideally suited for developing service economies. More and more nations recognize that franchising activity can help their economies grow effectively (Hoffman and Preble 2004). According to Alon (2004) there are at least fifty-five national franchise associations, as published by International Franchise Association 2004. In Vietnam, the Vietnam Franchise Club which was a precursor to establishing an association was founded in 2006 with good prospects (Tuong 2006).

## **Vietnam and the food service industry**

Upon the country's entrance to WTO, fast-food giants have been aggressively targeting Vietnam: KFC arrived in 1997 and quietly spread across HCMC before entering Hanoi in May 2006. This leading restaurant has expanded from 17 stores in 2006 to its current 55, with the first fast-food ad campaign (Smith 2009). Gloria Jean's and Pizza Hut are other examples of US-based franchises that are already operating in the country. Jollibees from the Philippines and Lotteria from Japan are targeting the best real estate at Ho Chi Minh City and Hanoi's malls (Edwards 2009). Smith (2009) informs that " Global franchises soon to open include Burger King, Popeye's, Round Table Pizza, Melting Pot, Carl's Jr from the US, and Bread Talk, Cavana and Koufu from Singapore, to list a few appearing in HCMC's business press". Local successful entrepreneurs are not ignoring this new trend of the business expansion mode. Trung Nguyen Coffee, which looks like Starbucks, and Pho 24 – the traditional noodle soup – are those among homegrown franchises that are mature enough to venture offshore. In Vietnam, Trung

Nguyen Coffee has opened more than 1000 outlets and Pho 24 has 65 locations (Smith 2009).

## **4. 4 Conclusion**

While there are many well-researched studies about franchising and in the US, Europe or China, there are not yet an academic one about Vietnamese market and its potentials. The franchise industry in Vietnam is blooming at its very early stage with great opportunities but also obstacles. For this reason, the project is being carried out to examine the industry as a whole and to review the experience of the existing foreign and domestic franchisors and franchisees in Vietnam in order to generate recommendations for those who may want to attempt this market in the near future.

## **Methodology**

### **Introduction**

In order to obtain sufficient informative data for this research, a triangulation approach is necessary as this “ uses more than one method or source of data in the study of social phenomena” (Bryman and Bell 2003, p. 291) therefore it will balance the strengths and weakness of different methods. Cooper and Schindler (2003) suggest that the first step in an exploratory study is to search in the secondary literature or a desk-based research. The project will be based mainly on this method. To collect more comprehensive information of both quantitative and qualitative data regarding franchising and franchising in Vietnamese food service market, this research will utilize the two other methods:



Survey – structured interview

Case-studies

The strengths and weaknesses of each method will be discussed as below.

### **Desk-based research**

Maylor and Blackmon (2005) define desk-based research as research that is based on indirectly collected data. The ultimate purpose of this project is to review the experience of existing franchises, and as Cooper and Schindler (2003) recalls, by reviewing prior studies the methodologies that proved successful and unsuccessful can be identified.

The most obvious advantage of secondary analysis is that it requires less money, time and fewer personnel (Kiecolt and Nathan 1985). For the fact that this project is carried out in the UK but studies about Vietnam, this method eliminates the cost of observing and affiliating with large organizations in the targeted country to collect data. Another strength of this method that Bryman and Bell (2003) mentions is that it provides opportunity for cross-cultural analysis, which is very crucial for this particular project as information regarding Vietnamese markets are limited therefore comparison among other nations is indispensable.

However, relying on secondary analysis means the author may lack of control over data quality or may be biased in unobservable ways, and the materials may not answer the research questions (Maylor and Blackmon 2005).

### **5.3 Structured interview**

A survey is a way to collect data from a range of respondents by asking them questions (Maylor and Blackmon 2005). Structured interview is one form of survey in which the researcher asks pre-set questions, using the same wording and order of questions in the interview schedule (Kumar 2005). It provides uniform information which assures the comparability of data.

Due to the fact that the research is based in the UK while the market to research about is in Vietnam, telephone and online interviews will be focused on. Although these types of interview can help remove some potentials of biases compared to personal interviews (Bryman and Bell 2003), it can be difficult to contact the people and organizations and will have to be done without observations. Therefore, if the author has an opportunity to fly to Vietnam later within the time frame of the project, face-to-face interviews will be conducted.

Targeted interviewees of the research are senior managers of representative franchise companies, ideally are from both foreign and Vietnamese corporations.

### **Case studies**

Hair et al (2007) mentions that case studies focus on gathering information about a particular firm or industry. “ The logic of conducting a case study is that in order to obtain a complete picture of the entire situation one must examine a real-life example” ( Hair et al 2007, p. 203). Case studies can derive general conclusions from a limited number of cases (Gummesson

2000) therefore this project will focus on studying about a small number of franchise companies in Vietnam.

It is a common understanding that selecting a case is difficult. Stake (1995 cited in Tellis 1997) recommended that the selecting process offers the opportunity to maximize what can be learned, within a limited time.

Therefore the selected cases should be easy and willing. Based on these criteria, the following four franchises in Vietnam are selected:

KFC

Pho 24

Highlands Coffee

Fanny Ice Cream

The fact that two of these are foreign and two are domestic franchises and each of them operates in different food segments would have a comprehensive picture of franchise experience in Vietnam food service market. Moreover, the fact that these companies are relatively big in Vietnam makes their information accessible.

## **Ethics**

“ Business ethics is relevant to business researchers because ethical issues occur through many phases of the research process” (Hair et al 2000, p. 62).

This project will comply with the principles mentioned in the Aston Business School research ethical guidelines (Evans 2004) such as informed consent, deceptions, and rules on plagiarism. For the methods being used are

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interview and survey, confidentiality is top priority. Names of interviewees and corporate's internal information will not be reveal.

## **Task list**

Task

Problems

Solutions

Search and obtain literature and books on franchising concepts, frameworks, franchising in emerging markets, particularly in Vietnam.

Limited searching skills.

Franchising in Vietnam has limited academic resources.

Seek guidance from library information specialists.

Use less academic resources such as newspapers, internet, and forum.

Review literature to identify the relevant, reliable and useful information.

Large amounts of information, time constraints, subjective analysis

Scheduling and planning will solve problems of time. Consulting supervisors, course mates and textbooks about critical review of data.

Review organizational documentations to identify the context.

Published documents may not present data truly.

Limited access for the cases of Vietnamese corporations.

Contact companies' personnel.

May use paid service via data agents.

Identify franchisors and franchisees in Vietnam for structured interviews,  
sample size of four companies

The chosen companies may not be the best presentations for franchise  
industry in Vietnam.

Consult supervisors or experienced entrepreneurs in Vietnam.

Contact four companies to arrange interview

Companies' ignorance

Try other companies in the same field

Prepare interview questions

Lack of experience in preparing interview questions, leading to inappropriate  
or useless questions

Consult supervisors and business interview guidebooks.

Conduct interviews with four companies

Companies not give honest answer

Identify relevant information

Transcribe interviews

Time constraint, misunderstanding information

Consult guidance on qualitative research

Analyze interview transcripts

Ethics

Guidance on qualitative analysis via books.

Consult ethical guidelines.

Link findings from each method.

Inexperience

Subjective

Guidance on qualitative and quantitative analysis via books.

Consult supervisors for advices.

Write report and make recommendations

Inexperience

Guidance on business reports/ books.

Revise report

Lack of focus

Adding too much words

Consult guidance on business research writing.

Send thank you letter to interviewees.

## **Gantt Chart**

### **Month**

**Oct**

**Nov**

**Dec**

**Jan**

**Feb**

**Mar**

**Apr**

**May**

**Jun**

**Jul**

**Aug**

**Brainstorm dissertation topic**

**Finalize topic**

**Desk research**

Literature review Search/Obtain/Review

## **Structured interviews**

Identify companies

Contact companies

Prepare interview questions

Conduct interviews

Transcribe interviews

Analyze information

## **Case study**

Obtain internal information

Observe companies' service if possible

Analyze information

## **Link findings**

## **Write up**

## **Revise**

## **Submit project**