

# The reasons to enter vietnam economics essay



## 1. 0 Introduction

Vietnam located at the eastern part of the Indochinese Peninsula and the center of South East Asia and a tropical country of the northern hemisphere. The government is runs by the Communist Party of Vietnam. In 1995, the population size in Vietnam reached 74million, ranking second in South East Asia, seventh in Asia-Pacific Region and twelfth the world over. The population size was then increased to 95 million people in the year 2010. Vietnam count as a poor country if refer to its own country GDP per person. After “ Dot Moi” came, the national economy has improved at a high rate thus it improved the living standards and national income of local people as well. The country is one of the fastest growing economies in global which had shown a consistent growth rate in the recent years. While according to World Economic Outlook of the International Monetary Fund in 2011, the GDP of Vietnam was increased per capita and develops from lower- income country to middle-income country (Richard Rousseau, 2011). Coca-Cola entered Vietnam’s market at 2004 and produced its own vitamin-packed energy drink along with some familiar brands such as Joy, Fanta, Sprite, and others for the local consumers. Besides, Coca-Cola builds three production plants in Hanoi, Da Nang, and Ho Chi Minh City.

## Reasons to Enter Vietnam

At 2004, Coca-Cola made its first move out from Africa, they decided enters to the Asia’s markets which include Vietnam. These acquisitions were in line with the Group’s growth strategy to expand into emerging markets, in order to underpin the organization’s position as an Emerging Markets Specialist

(Coca-Cola Sabco History, 2009). The first move of Coca-Cola into Vietnam is based on the new emerge and rapid growth of economy in Vietnam.

As the rapid population growth and improvement of economy in Vietnam, Coca-Cola took the opportunity to enter their market. Vietnam's economy was growing at between 4% - 8% after recovery from the Asian Financial Crisis of 1997. The enhancing of living and educational standards of Vietnamese help in providing employment opportunities to them. The entry of the firm in Vietnamese market able in enhance the economic development and create some job opportunities for the local people. As the soda consumption has reduced in the U. S., Coca-Cola is one of the soft drink industries that increasingly looking to expand their business in countries where there consist of higher national income rate and huge population (Bloomberg Business week New, 2012). This news had shown the reason that Vietnam still able to encourage more investment from Coca-Cola in Vietnam.

Moreover, Vietnam relies on the petroleum industry for its local energy consumption and for export; it will cause the economy of Vietnam more stable and attracted many foreign companies direct invest in Vietnam. This had attracted Coca-cola to enter Vietnam markets at 2004. Moreover, the payment for employees in Vietnam is quite low, therefore, it attract foreign companies moving into Vietnam instead of traditional market such as China, India, and Thailand. These all reasons push Coca-Cola chooses Vietnam and made it first move into it to operate its plants there.

## 2. 0 Analysis

### Gains of entering into a foreign country

#### Political Stability

Entering into a foreign country such as Vietnam consists of gains and shortcomings. One of the advantages to enter Vietnam is its political stability. According to Mr. Philippe Delalande in 2010, he mentioned that political stability is one of the factors that have helped Vietnam pursue its economic development policy. Others view from George E. Kobrossy in 2013, General Director of Zamil Steel Vietnam (ZSV) also mention the advantages which help in attracting foreign investors to the country is Vietnam's political stability, administrative reform and its efforts in upgrading infrastructure facilities. Coca-Cola faced problems to enter some countries few decades ago due to the politic issues that happened in the country. Standage (n. d) said that Coca-Cola did not exist in the former Soviet Union (Russia) because they worry that the revenue would go transfer to communist government coffers. While Webster (n. d) mention that Coca-Cola not enter French society because Coca-Cola was a mark of capitalism and a difference between capitalism and communism during Cold War. US brand like Coca-Cola found itself pester in politics, or singled out for criticism although they are not trying to get involved in politics, said Webster. Thus, for the obvious reason, Coca-Cola reentered Vietnam's market because of the political stability after Doi Moi (reformation) policy as they feel more assurance in expanding their business in a stable politic country.

## Foreign Direct Investment

One of the gains of Coca-Cola is that Vietnamese government provides many investment incentives for foreign investors, the corporate income tax is low compared to other countries in South East Asia (standard rate is 28% and preferential rates from 10% to 20%). The Foreign Investment Agency reports that by 15 December 2011 Vietnam had attract more than 13, 667 foreign investment projects, with a total capital of around RM612 billion (Foreign Investment Agency, 2011). Foreign-invested companies including Coca-Cola accounted for around 27% of the country's exports, 35% of the country's total industrial productivity, constituted 13% of GDP, and contributed around 25% of total tax incomes (Vietnam Investment Review, 2001). Thus, there are about US\$300 million was announced to invest in Vietnam by Coca-Cola for further capture growing opportunities in one of the most developing consumer markets (Staff, 2012). Under commitments made by Vietnam as part of its agreement to the World Trade Organization, Vietnam offered foreign enterprise which included Coca-Cola the general right to import products and sell them to licensed distributors. The process to obtain an investment certificate for foreign-owned company is much easier now.

## Low labor cost

Vietnam is gaining competitive advantage for labor-intensive production industry on the basis of low salary level (Meyer, 2005). In the research on labor costs, Japan labor cost in one month is \$1, 810, continue by \$1, 144 in Singapore, \$82 in Indonesia, and then Vietnam rank the second lowest place which is US\$49 a month and follow by the highest is Cambodia with \$47. 36 (EuroCham, 2010). Coca-Cola who has chosen to set-up regional offices in

Vietnam help Vietnam proven the extensive labor pool is competitive in the market (GLC, 2007). According to the information collected, we found that Coca-Cola Vietnam invest in Vietnam to help boost the local business sales and created 500 new jobs locally in Vietnam while the total labor force that gain this benefit is 99 percent of local Vietnamese (Staff, 2012). This high percentage use of labor force proves that Coca-Cola Vietnam is afforded to hire more local employees due to their low labor cost or low wages.

## **Low production Cost**

Coca-Cola entering Vietnam because one of the gains is they can exempted from import duties to build fixed assets, such as bottling machinery, means of transport, and production materials that are not produced locally. Additional exemptions are available for raw materials, parts and materials imported for production of goods for export. Coca-Cola's revenue in central Vietnam had witnessed a double digit growth over the past few years; three bottling plants of the company produce more than 608 million liters per year in Vietnam (Nordic Industry Development, 2012). Therefore, Coca-Cola beverages Vietnam invested over \$3 million into its second Danang-based purified bottle water production chain, with a capacity of up to 6, 000 of 500ml bottles per hour due to the low production cost they gain in Vietnam (Nordic Industry Development, 2012).

## **Variety Product Lines that meet Vietnamese's Beverages Need**

Coca-Cola enters Vietnam as they met the demand for hydration, nutrition and energizing refreshment of their customer in Vietnam. Coca-Cola has variety brand of products in Vietnam such as Coca-cola, Coca-cola Light,

Fanta, Joy, Minute Maid, Dasani, Real Leaf, Samurai, Schweppes and Sprite. Joy is bottled water drink that pure and has the largest share of 32% compare other brand that company produce. Coca-Cola has the second largest share of 23% continue by Sprite with the percentage of 18% and Fanta which has 17%. Other brands like Samurai obtain 5% from the market share while Minute Maid and Schweppes each occupied 2. 5% (Soft drink-Vietnam, 2010). They offer high quality product that meet the need of their target market. For example, Samurai is targeted on the underserved market which is the Vietnamese male adults who need an energy boost, as most of them have heavy workloads. This vitamin-packed energy drink is fortified with six essential B vitamins and has an exciting and refreshing taste with a carbonated, sweet flavor that appeals to the Vietnamese palate and popular among the target group. (Coca Cola Sabco, 2009)

## **Shortcomings of entering into a foreign country**

### **Unable to generate wholly-owned subsidiary business**

One of the shortcomings of Coca-Cola in Vietnam is that foreign-based companies are generally not able to have wholly-owned subsidiary without production in the country. Therefore, importers would normally cooperate with local partners. (Nguyen & Meyer, 2004). This had caused Coca-Cola lost a great opportunity in generating more profits. Coca-Cola started-up their bottling plants through joining venture with local Vietnamese partner using the name of Coca-Cola Vietnam. (DDDN, 2013) With the holding only 60 percents of the venture, Coca Cola has limited control over the resources, information and financial leverage to expand their business model and caused this business to be unprofitable. (Álvarez, 2003) According to Ho Chi

Minh City Department of Taxation, Coca-Cola's cumulative losses are US\$180. 6 million, even bigger than its equity of US\$141. 6 million and Coca Cola was doubted that having transfer pricing. (TuoiTreNews, 2012).

## Limited Control

There a major part of Vietnamese business still owned and controlled by the government and local authorities although there is dramatically growth of private business in Vietnam in recent years (Embassy, 2005). State ownership is still dominant, and issues like informal business practices or land leasing still cause headaches to foreign investors. From the information we analyze, we believe that Coca-Cola also face more difficulties in accessing bank financing, land, and other critical resources that private and smaller enterprises faced the same problems (Tenev, 2003). Coca-Cola as a foreign investors enter Vietnam this Communist country need follow their "culture" and unfortunately control as well as restricted their business operation in order to continue survive in Vietnam. We believe that Coca-Cola need to have personal relationships in order to sustain their business under Vietnam's control because there are some enterprises also follow the same "culture" with Coca-Cola. There are 40 percent of the enterprises believed they had to have personal relationships to receive allocated and transferred lands if regarding to the land use procedures (Vietna. net Bridge, 2012).

## Drinking Water Problems

The last shortcoming of entering Vietnam is about drinking water problems. Drinking water is a key element for healthy life and it is a cornerstone for sustainable community. Most of the consumers of beverages who are concern of the water resource and it will directly affect their purchase

decision. (Dickson, 2005) Thus for this obvious reason, Coca cola acknowledged that clean water is critical to operate in sustainable community like Vietnam. In many part of Vietnam, clear water is still a dream. However, Coca-Cola wasted 2. 43 liters of water just to produce 1 liter of beverage on average. (Kenan Institute Asia , 2010) Thus, it has given a big impact toward the environment. “ Our business can only be as healthy as the local communities where we operate; access to clean water is one of the most important barometers of a community’s health.” by Muhtar Kent, Chairman and CEO, the Coca-Cola Company. Coca Cola also understand that the issue of water wastage for the production not only affects the ecology and environment but it affects the corporate image of their company as well.

### **3. 0 Recommendations**

In past decades, Coca-Cola adopted joint venture with the local partners to penetrate into the Vietnamese market. However, many partners had quit the venture as they unable to bear with the consecutive loss made. These losses are basically caused by the unnecessary spending and poor cash flow in the business. Thus, in order overcome the problem, jointing venture with local partner such as Chuong Duong Beverage Co. is not sufficient to expand their business efficiently, Coca-Cola should joint venture with other foreign firms who are large enough to support them in term of financial and management as well as serve the demand of the market. For instance, the PepsiCo. has jointed venture with Japanese beverage and wellness company Suntory Holdings Ltd. in Vietnam in order to sustain long term growth in Vietnamese market. As Suntory has a consolidated business foundation in South-East Asian markets, PespiCo is boosting its current market position in order to

compete with their competitors. (RTT , 2012) Beside, In order to generate more revenue, Coca-Cola should follow the footsteps of FedEx to consider in application for wholly-owned subsidiary. FedEx is expected to be the firm that having 100 percents of subsidiary in Vietnam. This could help them to have long-term commitment in Vietnamese market as they able to take advantage in this growing market. (Linh, 2012)

In order to solve the limited control problems, Coca-Cola can establish a harmonious relationship with the local authorities since it easier to solve bureaucratic problems if and when they occur especially in Communist country. Relations with local and central authorities can be developed as cooperative relationships, and networking and building personal relationships is recommended to expand their business in Vietnam. Coca-Cola Company should build a close relationship with government so that they will provide more subsidies and privileges to Coca-Cola including the decreasing cost in power usage and cheaper raw materials. Gifts to the appropriate persons and doing more charity to the poverty residents may enhance the atmosphere and smooth the business process given that sending presents is part of traditional Vietnamese culture.

Coca-Cola spent over 5milions to 2. 1 billion populations in Pacific for the effort of managing the clean water resources with the Community Water Partnership (CWP) program . For example, in Vietnam, Coca-Cola enhances their corporate image and improving the water quality through the “ Plain of Reeds Wetland Restoration Project” and “ Clean Water for Communities (Phase II)”, more than 10, 000 Vietnam residents able to access to the clear water through. (Staff, 2012) However, these programs don’t really have a

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significant improvement to clean water issue. Thus, in order to achieve efficiency and effectiveness for the business and production operation, Coca-Cola needs to have advance water recovery system besides their CWP program. Water resources always is the global challenges for the beverages company especially operate in country like Vietnam who facing serious issue of clean water. Indeed, Coca-Cola claimed that the technology that they developed not only can reduce operational water needs but it also improves water use efficiency by up to 35percents. (The Coca Cola company, 2012). However, we believe that this technology can be improved by learning from competitor's innovation such as PepsiCo. With the helping of Siemens Industry Automation Division PepsiCo has installed an integrated reuse solution at Santiago's snack plantation. It helps the manufacturing facility in increasing its wastewater treatment capacity by 20percents and it is a beneficial technology that incorporating environmental. Besides, the system will reduce 70 percents of fresh water consumption. (Warrendale, 2012)

Nonetheless, as we all know these two giant beverage companies were competed aggressively in the industry over a century. Additional, one of the competitive advantages of these companies to retain their uniqueness is their innovation and technology. Therefore, if these two companies could alliance themselves in term of sharing their technology among themselves to solve the water wastage issue it could bring a better water quality to Vietnamese as well as enhances their production especially the bottling process. Since they have the same interest, they can cooperate under the Strategic alliance basis. Strategic alliances are agreements between companies that remain independent and are often in competition. (R. J.,

1999). Many alliances are designed in order to seek for improvement in volume, divide fixed costs of production and distribution. A very good example Coca-Cola can refer is the alliance of Nestlè and Haagen-Dazs. “ We believe we can grow better together than separately” said a Diageo spokesperson. Nestlè would contribute its frozen dessert technology, while Haagen Dazs would contribute to distribution through the network of points of sale with its name. (E, 1999). The alliance of these two companies for production and marketing has allowed Nestlè sought to build critical mass in the ice cream sector and a way to reduce costs by operating its plants in California and Maryland at full capacity. (Pellicelli, 2003)

Besides, further improvement in competitive advantages can be done through improving Coca-Cola’s variety product lines. As we know few of the Coca-Cola product lines like Samurai, Coke Light, and Joy win a competitive advantage in Vietnam’s market. If compare to Coca-Cola biggest competitor market’s strategy, PepsiCo had entered the food market and earn over \$13 million to their business. Besides, PepsiCo also engaged in snack food which brand under Frito-Lay to gain more market’s share. Thus, we suggest that Coca-Cola Company also can increase their market share by extends their product brand in snack as what PepsiCo done. Coca-Cola Company can invest in a new snack brand to attract more consumers in the Vietnam food market. This strategy can be effectively and efficiently implement because snack food is commonly consumed by Vietnamese families but Vietnamese will consume snack food that import from United State due to its lower price (What We Eat to Help Us Grow, 2010). Coca-Cola Company can produce healthy snack food with lower price to attract Vietnamese who focus in

health such as Frito Lay which their tasting chips are low fat and ingredient all are natural which contain no artificial colors, flavors or preservatives (Pepsico, 2012).

## 4. 0 Conclusion

Coca-cola as a global leader in beverages industry offer hundreds of brand over the world had entered Vietnam market by offer quality product that can be trust and fulfill the need of Vietnamese. Coca-Cola Company help people lead to an active and healthy lifestyle by provide the information of the beverages. Coca-Cola Company announcement an investment plan of invest \$300 million in Vietnam over the next three years to build new infrastructure, create jobs, develop strong partnerships and build its brands in the country.

In the research, we found that enter to Vietnam market have it advantages and disadvantages. After we analyze, we realize that the gains of Coca-Cola is more than shortcomings after enter Vietnam. In order to overcome the shortcomings, Coca-Cola needs to adopt immediate solution and effective strategies in order to strengthen their market position in Vietnam.