



Franchising in Vietnam

Le Anh
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Summary

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

Franchising first took hold in Vietnam in the 1990's with the appearance of well-known foreign fast food chains like KFC, Lotteria, and Jollibee. With the passage of several franchise laws and decrees, franchising businesses have become more widespread in recent years, with a number of 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. However, growth prospects are bright as local investors become more familiar with franchising and are increasingly exposed to successful franchise concepts. This is especially true in the urban centers of Hanoi and Ho Chi Minh City, where incomes are significantly higher than the national average. The franchise sector in Vietnam is poised for continued growth not only in traditional sectors of fast food but also in other such sector as retail, education, entertainment, health care, and lifestyle-oriented businesses.

Market Demand

Several factors contribute to the growth and attractiveness 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, education, entertainment and lifestyle oriented products and services.
- High-end, well-known “premium” brands are in demand. Vietnamese consumers often associate Western brands with quality, life-style, and reliability.

Market Data

Industry observers note that Vietnam has major advantages for franchise development. First, the economy has been growing steadily at 7-8 percent in recent years. Second, a young population of 85 million people is becoming more economically independent as disposable incomes rise. Particularly in

the urban areas, consumer demand is surging for higher quality products and services that cannot be satisfied by local production. Franchising businesses that introduce Western and high-end products and services are expected to match the growing demand. Third, the political system is stable and welcomes foreign investment.

Franchises in Vietnam are increasing at a rate of about 30 percent annually, with more than 100 systems operating under both foreign and Vietnamese brand names. Vietnam already has a number of successful franchises, with current franchise operations focused on fast food outlets. Other business opportunities in the franchising sector remain largely unexplored. Many Vietnamese companies will opt for franchising to expand their market share at home and abroad. However, many still have a limited understanding of brand value and legal regulations relating to franchising.

Best Prospects

The market is open for foreign franchisors in various sectors, such as retail, fast food restaurants, fashion, convenience stores, and education. At present there are approximately 70 international franchising systems operating in Vietnam and consumer awareness of American food and beverage franchise brands is quite strong. Key franchises in the market include: Jollibee, Lotteria, Bread Talk, Carl's Jr, Pizza Hut, Hard Rock Café, Domino's Pizza, Coffee Bean and Tea Leaf, Popeye's Chicken, Illy Café, and Gloria Jeans Coffee.

In general, American brands enjoy a reputation for quality. Best prospects for American franchisors include: fast food, quick service restaurants, business services, health and nutrition, education services, health care, children's services, cleaning and sanitation, hospitality, beauty and skincare, entertainment, and convenience stores.

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

Market Entry

The basic regulations on franchising are provided in the *Commercial Law* adopted by the National Assembly on 14 June 2005 (Commercial Law). These regulations are elaborated in *Decree No. 35/2006/ND-CP* of the Government dated 31 March 2006 (Decree 35), and *Circular No. 09/2006/TTBTM* of the Ministry of Industry and Trade (MOIT) dated 25 May 2006 (Circular 09). Related regulations on franchising can also be found in the *Intellectual Property Law* (Intellectual Property Law) adopted by the National Assembly on 29 November 2005, and the *Technology Transfer Law* (Technology Transfer Law) adopted on 29 November 2006.

The regulatory authorities for franchise activities include the MOIT and provincial Departments of Trade (DOT). The MOIT has the power: (a) to provide guidance for implementation of policies and legislation on franchising; and (b) to organize the registration of franchises. MOIT has the jurisdiction to receive the registration of (a) franchises from abroad to Vietnam, and franchises from an export processing zone, a non-tariff area or a separate customs area within Vietnam to other locations within Vietnam; and (b) franchises from Vietnam to a foreign country, and franchises from locations within Vietnam to an export

processing zone, a non-tariff area or a separate customs area within Vietnam. In short, new franchise companies from abroad must register with MOIT in order to sell a master franchise.

A franchisor registers its business and receives the registration of the franchise to be granted to the local Franchisees from the provincial DOT. Based on the documentation that is submitted for registration, MOIT or the DOT has discretion to determine whether or not a particular distribution or licensing arrangement is a “franchise”. A distribution arrangement is seen as a sales arrangement. It is subject only to the condition that the distributor must have registered its retail or wholesale business.

Franchising contracts for franchises from overseas to Vietnam, and from Vietnam to overseas must be registered with the MOIT not later than fifteen working days from the date of execution of the contracts. The application to register franchising activities must contain the following documents:

- Application for registration of franchising activities (in the standard form);
- Introduction letter on the franchising system (in the standard form);
- Certified copy of the Franchisor’s business registration; and
- Certified copy of patents and certificates of intellectual property rights of the Franchisor, if any. *If any of the above documents is in a foreign language, a Vietnamese translation is required. The Vietnamese translation must be certified by a Vietnamese Notary Public.*

Within five working days from the date of receipt of a full and valid application, the authority shall register the franchising activities and notify the franchisor of such registration. If the franchising contract involves objects of intellectual property rights, the part on granting the right to the franchisee to use the objects of IPR must be made into a separate part in the franchising contract. It is also subject to the laws on intellectual property. When a Master Franchise originates from abroad, the local Master Franchisee cannot sub-franchise to a Sub-Franchisee unless that local Master Franchisee “has already run [the primarily] franchised business for at least one year” and has obtained a written consent from the Franchisor to subfranchise. The purpose of this restriction is to help ensure the sustainable development of a franchising network. The theory is that the Master Franchisee should gain certain experience to run the franchised business before sub-franchising to others.

Market Issues & Obstacles

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

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

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

- One of the biggest challenges is identifying and conducting due diligence on partners to determine suitability and financial viability. Many local companies may not have a full understanding of brand value and/or legal regulations relating to franchising. Establishing good communication, setting clear expectations and achieving mutual understanding should not be taken for granted. U.S. franchisors are advised to work with

the U.S. Commercial Service in Vietnam to identify potential partners and to conduct basic due diligence.

- U.S. franchisors should register their intellectual property rights and be prepared to take legal action against IP violators. Also, register your URL's and related websites in Vietnam.
- Franchisors should exercise care in preparing franchising contracts to avoid problems down the road. It is advised to work with a law firm when developing the contract and appropriately register the franchise business.
- Understand cultural differences and adjust market access strategies accordingly. U.S. franchisors should consider adapting to local culture, habits, and tastes to guarantee success in the market.
- Do your research when setting price of the product and the franchising fees to achieve rapid expansion. Local investors are only now becoming familiar with the franchising concept and may be reluctant to make too large an initial investment. Some franchisors opt to make direct investments in their first store in order to prove the concept and generate future franchise sales.
- Seek qualified legal advice to ensure compliance with Vietnam retail laws, properly structure contracts and navigate local licensing requirements.

Trade Events:

1. **Franchising Webinar** U.S. franchising companies are encouraged to participate in the upcoming webinar on the Vietnam franchise market hosted by the U.S. Commercial Service in Vietnam on March 23, 2011.
2. **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. on April 1-3, 2011.
3. **Vietnam International Shop and Franchise Show 2011** To showcase your concepts to potential investors in Vietnam, consider taking part in this fair 2011 on November 3rd - 5th, 2011 at the Saigon Exhibition & Convention Centre in Ho Chi Minh City.

Resources & Contacts

Ms. Ha Anh, Commercial Specialist
U.S. Commercial Service Hanoi - American Embassy in Hanoi
E-mail: Ha.Anh@trade.gov

Mr. Le Anh, Commercial Specialist
U.S. Commercial Service, U.S. Consulate General in Ho Chi Minh City
E-mail: Le.Anh@trade.gov

Ministry of Industry and Trade
21 Ngo Quyen St. Hoan Kiem District
Hanoi, Vietnam
Tel: [84-4]-3826-4550
Fax: [84-4]-3826-4696
Web site: www.mot.gov.vn
Contact person: Mr. Hoang Xuan Bac
Deputy Director General, Legal Department

Hanoi Department of Trade
10 Le Lai Street
Hanoi, Vietnam
Tel: [84-4]- 39342-492
Fax: [84-4]- 38243-984
Web site: www.hanoitrade.com.vn
Contact person: Mr. Nguyen Viet Hung
Deputy Director, International Relations

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