



## Vietnam

Vietnam is a densely-populated, developing country that in the last 30 years has had to recover from the ravages of war, the loss of financial support from the old Soviet Bloc, and the rigidities of a centrally planned economy. Substantial progress was achieved from 1986 to 1997 in moving

country risk rating is “B”. Policy towards foreign capital and real GDP growth rate are the lowest risk. Inflation rate direction and corruption in banking sector are the highest risk in Vietnam (“A” is lowest risk and “E” is highest risk).

### Why mobile phone in Vietnam?

Because of the following eco-

social security, and plentiful and low cost labor force – encourage Vietnamese’ high market demand.

### WEAKNESSES

Biggest weakness is poor physical infrastructure and mobile operator service.

Vietnam is putting considerable effort into modernization and expansion of its telecommu-



# Mobile phone in Vietnam

CAO MINH TRI (\*)

*Case study report (using data in 2005)*

*For Asian business project development and implementation of strategy*

forward from an extremely low level of development and significantly reducing poverty. Growth averaged around 9% per year from 1993 to 1997. The 1997 Asian financial crisis highlighted the problems in the Vietnamese economy. GDP growth of 8.5% in 1997 fell to 6% in 1998 and 5% in 1999. Growth then rose to 7% in 2000-04 even against the background of global recession. Since 2001, however, Vietnamese authorities have reaffirmed their commitment to economic liberalization and international integration. They have moved to implement the structural reforms needed to modernize the economy and to produce more competitive, export-driven industries.

### Assessing country risk

In Asian countries, when we review Economics policy risk and Economics structure risk of Vietnam, forecasted overall

economic growth indicators, people can use more widely in telecom facilities:

The poverty rate was consequently reduced from 11.0% in 2003 to 8.3% in 2004 due to the strong economic growth;

Growth created jobs for an estimated 1.6 million people in 2004;

Increase in per capita income because of the open market option.

### SWOT Analysis

#### STRENGTHS

Biggest strength is very high market demand while the proportion of people having mobile phone is still low now.

These factors - slightly accelerated rate of economic growth, GDP growth and population growth, continuing market-oriented economic and administrative reforms, stable politics and

nication system, but its performance continues to lag behind that of its more modern neighbors. In domestic all provincial exchanges are digitalized and connected to Hanoi, Da Nang, and Ho Chi Minh City by fiber-optic cable or microwave radio relay networks; main lines have been substantially increased, and the use of mobile telephones is growing rapidly.

#### OPPORTUNITIES

Biggest opportunity is continuing decrease in mobile phone/telecommunication charges.

Globalization, rapid technology changes, official policy encouraging foreign investment especially telecommunication service, significantly competi-

tive business environment effects decrease in telecommunication charges.

## THREATS

Worst threat is high input expenditure and illegally imported mobile phone without tax. More and more critical competition in world economics, especially in the region, threaten illegally imported mobile phone.

## Business concept

**1. Strength:** Economic and GDP growth will increase the per capita income so people can afford to buy more and more expensive mobile phones.

**2. Weakness:** Due to poor physical infrastructure, mobile phone cannot be used in remote areas; besides, the unstable waves and bad service make consumers be upset and do not want to use it anymore.

**3. Opportunity:** Joining WTO and MFNs with many developed countries will help to make better business environment: law, finance, technology...

**4. Threat:** More and more critical competition, especially in a new and potential market like Vietnam.

**5. Need:** market share expansion for the company, hi-tech application (GPRS, VoIP, banking...) for customers and better supply for consumers.

**6. Uniqueness:** only Nokia provides GPRS service in Vietnam in 2005.

**7. Opportunities:** fee cut, hi-tech services, dominate market share (Nokia and Samsung get over 70% in Vietnam).

**8. Competitive position:** Nokia has better quality, designs,

and functions as compared to others.

**Business advantages:** customer loyalty/confidence in the Nokia product.

**9. Relationship to technology:** initial phase on technology transfer and later phase on setting up R&D facilities.

**10. Relationship to international business implementation:** joint venture negotiation, collaboration with local partners.

**11. Problems expected:** due to poor physical infrastructure, mobile phone cannot be used in remote areas; besides, the unstable waves and bad service make consumers be upset and do not want to use it anymore.

## ADVANTAGE

### Macroeconomic Environment

\* Macroeconomic stability: stable politics; economic growth maintained its rapid rate in 2004 (7.5%); unified law by 2006; expansionary fiscal stance.

\* Country credit growth: accelerated to 28% (2003)- 36% (July 2004) -> in response to, raising compulsory reverse requirements for dong and US dollar deposits

## DISADVANTAGE

### Environment Component

• Market environment: the buying power is significantly different from areas; high costs of doing business; undeveloped capital market.

• Regulatory: bureaucracy, corruption; poor enforcement of laws; complicated system and not be unified until 2006.

• Infrastructure: poor physical.

## OVERVIEW OF INVESTMENT CLIMATE IN VIETNAM

### Advantages

Population size, corporate income tax and international trade relation are advantages for mobile phone in Vietnam.

Population size of 80 million people (labor force 40 million; high literacy rate and inexpensive labor cost) will expend rapidly domestic market demand. It can reduce capital cost and increase benefit comparing with project in other countries. Educated people can easily access to information technology.

Corporate income tax rate for domestic enterprises is 32% and for foreign investors is 25% only in 2005.

International Trade Relation forced to respect the international trade law and regulation. Moreover it is low risk in investment and benefit is guaranteed. [Late 1998 Vietnam entered into the Asia-Pacific Economic Cooperation (APEC) and Vietnam Bilateral Trade Agreement in December 2001. It is committed to enter into and fully comply with its obligation under the ASEAN Free Trade Area (AFTA) by 2006.

### Disadvantages

S&P Vietnam's foreign, local currency bond rating is BBB- and B, and poorly developed infrastructure causes more expenditure in remote areas.

Vietnam got a rating of 2.6 out of 10 in the corruption index

Shortage of managerial talent and skilled workers effect on higher salary for these employ-



ees. Managerial level cost 2-3 times higher than in other Asian countries.

## VIETNAMESE BUSINESS ENVIRONMENT

Wages and prices indicate economic freedom score 3. **Positive effect** is that telecom- service providers can set their own charges (Effective from 6th Jan 2003) under the new guidelines. **Negative effect** is low profit for the company because of price competition/promotion in the market.

Score 2.6 (Ranked 102 out of 146 countries) indicate the transparency in Vietnam. It is lowest rank among Southeast Asian countries. Project also studies more about paying taxes take time 1,050 hours per year compared with region 251 hours per year and OECD 192 hours per year. Other negative impact is getting credit private bureau coverage Vietnam is 00% comparing with region is 12.7% and OECD is 58.0%. Nevertheless, Vietnam's tax payable is 31.5% it is nearly the rate of the best in the region which, 31.2% but it still weak if compared with OECD is 46.1%. The good point is dealing with licenses (procedures number) is 14, the best in the region is 17 but the best of OECD is 14.

### Location analysis

The main advantage is booming economic in Ho Chi Minh City's increasing prosperity can be attributed to its exceptional economic growth and development. It has an average growth rate of 11.2% per year; experiencing an industrial growth rate of 13.2%; CPI is up 1.54% in 2003 compared with 2000; achieving highest GDP per cap-

ita (US\$1,800 in 2004) in the country; the 3rd cheapest place to live in Asia and ranks 56th in the world and opportunity to export or to use the city as a hub to expand our business throughout Southeast Asia.

Other reason of choosing place is booming local market. An enormous market potential to make our investment a lucrative one. The population is young, well-educated and growing, with over 50% under the age of 35. They are increasingly perceptive and trendy due to 21st century communication and susceptibility to foreign influence; income is growing, as is disposable income and spending; a mall culture is now prevalent. Shopping is about pleasure and no longer just to satisfy basic needs; consumers are quality conscious. They want the new and the latest so there is a lot of opportunity to build brands and businesses and increasing potential foreign consumers who do business or travel in the city.

The rapidly developing of infrastructure Ho Chi Minh City boasts the best infrastructure in the nation, including modern transportation and telecommunication systems and it also possesses a well developed telecom sector with a level of cost equal to the regional average; It sets

the tasks from now to 2010 are to complete construction of the three-level post network and to develop post and telecommunications services. The ratio of telephone to people is aimed at 28.4:100 by 2005 and 35.9:100 by 2010 compared with the previous projections of 25:100 and 30:100 respectively. The development of internet services is also top priority; well-educated business people with modern thinking make good potential partners.

The project found that the main disadvantages will be high competitive, it is the best place for investment in Vietnam such as too many rivals; moreover, the consumers are not brand loyal and high risk such as investment in technology is a high risk decision, because the life cycle of technology is becoming shorter and the funds spent are large. There is also the risk of the technology being copied and having low commercial viability. Therefore, only businesses with strong finances, qualified human resources and a large market, or those which have support from the Government, can invest in technology research and participate in the technology transfer market.

## COMPARISON OF BUSINESS COST

	Hanoi	Ho Chi Minh	Shanghai	Singapore	Bangkok	Kuala Lumpur	Jakarta	Manila
Worker's salary/month	94	113	248	468	176	329	64	228
Engineer's salary/month	251	221	447	1,313	378	668	190	344
Middle-level manager's salary/month	511	488	453	2,163	727	1,407	723	620
Expenses for office lease/month/m <sup>2</sup>	23	16	24	42	13	17	19	28
Expenses for house rent for foreign representative	1850	1800	1500	2,285	1420	920	2000	1970
International telephone cost (A 3 minute call to Japan)	8.52	8.52	4.3	2.23	3.11	2.61	2.59	3.78
Electricity cost for business/KWh	0.07	0.07	0.035	0.05	0.03	0.06	0.0177	0.09
Container transportation (40/ft/container) (from factory to Yokohama port)	1825	1,375	880	670	1,466	895	1,252	994
Normal petrol price (1 liter)	0.31	0.31	0.3	0.74	0.34	0.29	0.138	0.35



## PROJECT FUTURE

Choose to CONTINUE because of the government reforms programs being followed such as: expansion of the “One - Stop Shop” Network, set up a unique law for every business in the country and further initiatives aimed at improving investor confidence and tackling corruption are in the pipeline.

## PARTNERSHIP NEEDS

### *Related-Market segment access*

Nokia, Samsung... are strong enough in technology, finance, management skills... to penetrate the Vietnam (Ho Chi Minh City) market. The only problem is how to access and get the most market share. It requires a powerful partner to leverage its strength with a new growth opportunity.

## PARTNERSHIP EFFECTIVENESS

### *Adjusting the strategy and objectives*

Nokia, Samsung may have difficult in adjusting the strategy and objectives of the Vietnamese partner because of the difference in culture, business notion, investment climate... So, it is possible to have conflict and no closed cooperation in the project. The set target may not be fully achieved.

### **Entry strategy**

For doing business, entry strategy is an important factor for foreign investors. There are sixes entry strategies; Exporting, Licensing, Franchising, Joint Venture, Wholly owned subsidiaries and Alliance. For mobile phone in Vietnam, joint venture is competitive advantage in entry

strategy.

### **Joint Venture**

A joint venture is a strategic alliance between two or more parties to undertake economic activity together. The parties agree to create a new entity together by both contributing equity, and they then share in the profits, losses, and control of the enterprise. In



order to enter a market, foreign companies require forming Joint Ventures with domestic firms. This requirement forces technology transfers and managerial control to the domestic partner. Moreover, joint venture can access to local partner's knowledge and local market shares. But lack of control over technology, adoption of global strategy to localize, cross cultural and management conflict may be disadvantages for joint venture.

### **Key Success Factors**

Awareness, Build a capability to manage alliances, and Empower the people closest to the market are key success factors for doing business in Asia/Vietnam.

### **Awareness**

Asia is a portfolio of countries diverse in culture, size, stage of economic development and local “business system” and “style”.

Translating a global strategy into an Asian strategy therefore required significant planning, research, analysis, and insight to prioritize where, when, and how to enter.

Build a capability to manage alliances

Influencing decision making on major projects of a business system requires subtle relationship building at multiple levels. When this is beyond the ability even of empowered country managers, relationship gaps can be temporarily filled with a variety of well-managed alliances that build trust on many levels. Alliance management capabilities for using best practices – in the creation, maintenance, and dissolution of alliances – need to be plan for, and developed, in the region.

Empower the people closest to the market

Empowerment of the country managers within a strategic framework is important for a successful business.

## CONCLUSION AND RECOMMENDATION

Based on feasibility, project has been choosing in Ho Chi Minh City. ●

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