

# Preparing to export to Vietnam

## Market entry and start-up considerations

There are many ways in which UK companies can approach the Vietnamese market:

- export directly
- set up an agency
- appoint a distributor
- open a representative office
- open a branch
- enter into a business cooperation contract
- enter into a build-operate-transfer (BOT) type contract
- franchise/licensing

For direct exports, it is recommended that you employ a local representative as your importer and/or distributor. Pre-registration of exporters and producers is required in certain cases. Developing personal relationships is vital in Vietnam.

You should seek legal advice before entering into the Vietnamese market.

## Agents and distributors

An agent is a company's direct representative in a market and is paid commission, whereas a distributor buys products from the manufacturer and sells them on to customers. The difference between the cost of purchasing products and selling them on (the profit) forms the distributor's income. Entering a market by working with an agent or distributor can have several advantages; it reduces time and costs, and companies can benefit from the local knowledge and networks of the agent. However, there are some drawbacks. For example, employing a third party will result in an additional cost to your products, and you may lose some control and visibility over sales and/or marketing. There are also intellectual property rights protection implications, increasing the risk of your product being copied or counterfeited.

Given these considerations, you need to select agents and distributors carefully.  
(Source – UKTI)

## Representative office and branches

A representative office is not an independent legal entity and consequently is prohibited from doing business in Vietnam. They are permitted to conduct market research, serve as a liaison with an overseas parent company and/or serve other supporting roles such as ensuring quality control and facilitating the implementation of the contracts of the parent company.

A branch office is the subsidiary of a parent company and does not constitute a separate legal entity according to Vietnamese law. In contrast to a representative office, a branch office is entitled to do business in Vietnam. Given restrictions in setting them up, in practice these are not common in Vietnam.

## Direct and indirect investment

Direct sales into the Vietnamese market can be difficult and for most UK companies it is more effective to approach the market through local business partners (agents and distributors) who have the ability to distribute goods and provide locally-based technical support. Licensing and franchising are also becoming increasingly popular options. It is possible to set up a representative office, a branch office, a joint venture or a wholly foreign-owned enterprise in Vietnam.

UK Trade & Investment (UKTI) can provide validated lists of agents/potential partners, key market players and potential customers, approach contacts on your behalf to establish if they are interested in working with you, as well as arranging appointments and organising events.

Your local UKTI office will advise you on how to commission a tailored report for your specific needs and can also provide a list of the best potential partners. A visit to Vietnam will enable you to meet some of these partners and appoint a local contact.

Suggested questions to ask agents/distributors are listed below. You should also conduct due diligence to verify this information:

### - **Background**

- company size, history and ownership (private or state-owned)
- quality and quantity of the sales force
- customer feedback and trade/bank references

### - **Distribution channels**

- regional coverage
- types of outlets covered and frequency of visits
- transportation and warehousing facilities
- **Are they right for you?**
  - Does the agent/distributor have a genuine interest in representing your product?
  - Can they benefit from actively promoting your interests (is it a win-win)?
  - Do they also represent any competing companies/products?
  - Can you communicate effectively with your counterpart?

Once a working relationship has been established, the agent/distributor needs to be managed actively. This may be achieved by the following:

- Visiting as regularly as is practicable at a senior management level. This shows interest in and commitment to the agent and the market. It will also provide you with an opportunity to learn about conditions in the market and see how your products are faring.
- Working closely with the agent to show them how they can profit from your products.
- Helping to prepare marketing and sales plans for the agent.
- Providing regular training for sales staff and after-sales training for technical staff in the UK.
- Linking performance to incentives and agreeing milestone targets.

*(Source – UKTI)*

## Setting up a company in Vietnam

Those wishing to directly invest in setting up a company in Vietnam has two options: they can establish a 100% foreign owned company or set up a joint venture. Once this has been decided the business should consider which kind of business form is the most appropriate. There are six possible business forms in Vietnam: (1) private enterprise; (2) partnership; (3) one member limited liability company; (4) limited liability company with two or more members; (5) joint stock company; and (6) corporate group. In certain sectors, investment will be subject to certain conditions – at the moment

these sectors include, but are not limited to: banking and finance, real estate and development of education and training.

Further details concerning investment procedures in a number of the larger Vietnamese provinces can be found at: [www.vietnam.eregulations.org](http://www.vietnam.eregulations.org).

## Joint ventures

A joint venture (JV) is an organisation jointly owned by one or several Vietnamese and foreign partners. A JV can be formed by way of equity contribution, whereby ownership, risk and profit are shared based on each party's monetary contribution. Alternatively, a JV can be incorporated, with liabilities and profit distribution being decided by contractual agreement.

There are a number of ways that joint ventures can be beneficial. A good local partner may contribute market knowledge and strong marketing and distribution channels, and they may help reduce the costs and risk of market entry. Establishing and running a successful JV can be challenging, but the key is to discover and nurture the right partnership. Expectations may be on the contrary, and issues such as differences in culture and/or business practices may need to be overcome. It is also essential to maintain the ability to communicate effectively, and to take control, where necessary. It is crucial to carry out corporate and financial due diligence before you sign up to any partnership or contract.

It is also advisable for companies to plan an exit strategy. Like a marriage, it is better to have a prenuptial agreement than a messy divorce! (*Source – UKTI*)

## 100% foreign-owned enterprises

Where permitted, these forms of investment are a popular option for foreign companies, as they give the investor complete control over their business entity, as well as allowing them to enjoy the full profit from its operation. Generally, these investments also give greater protection to the investor's intellectual property rights, compared with a joint venture. They allow the foreign investor to issue invoices and receive revenues in VND. (*Source – UKTI*)

## Business cooperation contract (BCC)

This is a cooperation agreement between foreign investors and at least one Vietnamese partner in order to carry out specific business activities. An investor is permitted to sign a BCC in order to cooperate in production and share profits or to share products and other forms of business cooperation. The investors also have an unlimited liability for the debts of the BCC.

## BOT type contract

An investor is permitted to sign a build-operate-transfer, build-transfer-operate and build-transfer contract with a competent State body in order to implement projects for new construction, expansion, modernisation and operation of infrastructure projects in the sectors of traffic, electricity production and business, water supply or drainage, waste treatment and other sectors as stipulated by the Prime Minister.

*(Source – UKTI)*

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