THE STATE OF VIETNAM SUPPLY CHAIN

RETAIL IN VIETNAM
HYPE OR PROMISE?

DRUGS IN VIETNAM

DYNAMIC VALUE NETWORKS
THE FUTURE OF GLOBAL SUPPLY CHAINS

THE REAL RETAIL BATTLE

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The Vietnam Supply Chain has brought together manufacturers and business leaders such as yourselves so that you may discuss, learn and share relevant experiences. The Consulate of Canada in Ho Chi Minh city has been actively participating in Vietnam Supply Chain events and we are happy to witness the growth of the supply chain community.

Audri Mukhopadhyay, Consul General of Canada

How Supply Chain Management improves Competitiveness of Vietnam in times of lower Growth?
Macro-economic Necessities and Micro-economic Challenges

Background:
Vietnam set itself a challenging target to become a Developed Economy by 2020. Over the past decade the economy has made big progress and had displayed impressive growth figures. At times where the global economy shows signs of slow-down Vietnam needs to be concerned how to sustain and further increase the Key Industrial Clusters that were responsible for the strong economic growth. A particular challenge in this transformation process is to keep a Regional Balance and to ensure that all geographic regions (South, Center and the North) are equally participating and contributing to the desired result.

The regional competitiveness is here addressed and the strength of Supply Chain in each of the Industrial Clusters will make a major difference to how the macro-economic targets can be achieved.

Other key developments in this setting are the increasing Trade among ASEAN plus China countries which poses a greater competitive threat to the Vietnamese economy as well as the political objective to complete the transformation and equitization of the SOEs and ensure their competitiveness in the marketplace.

In this scenario Vietnam Supply Chain will invite the Supply Chain and Industry Leaders to present, discuss and understand how Supply Chain Management can help to improve the Competitiveness of Vietnam, with a particular focus on the Northern Industrial Clusters and how Companies operating in Vietnam can benefit from Supply Chain Concepts, Tools and their organizational implementation to strengthen their position for the years ahead.

This Conference will deal with the following Key Challenges:
- How can the Northern Economic Region best be connected between Southern China and the Center and Southern part of Vietnam?
- What Industry Cluster have already developed in the north and what adjacent sectors are appropriate to further encourage?
- How is the current quality of Infrastructure and what is the outlook for the next 5 years?
- 3rd Party Logistics and Outsourcing - does the Supply meet the demand?
- Necessary Supply Chain Knowledge in Vietnamese companies especially current and former SOEs
- How to attract and develop young talent in the Northern Part in the Supply Chain Sector?
- Nationwide Coverage: How to develop Distribution Systems that cover all key economic territories?
- Economic Policies and ODA: How can the public sector contribute to the economic development and improvement of Supply Chains?
Column

34. Battening down the hatches
Inventory Management for lean times
As the global economy slows down, supply chain managers are under pressure to find ways to drive down inventory to allow companies to conserve cash for survival. In these difficult times, opportunities also arise to drive down inventory and increase supply chain efficiencies.

Profile

41. INTEL - A hightech vision for Vietnam
Intel is one of several companies which made headlines in 2011 with hefty investments in Vietnam indicating a long term strategic commitment to the country. The company’s investment of over US$ 1 bln in a 500,000 square foot facility is the largest assembly and test manufacturing plant in the world.

Event Report

42. The big winners in Vietnam Supply Chain
The Annual Vietnam Supply Chain (VSC) Community Gala Dinner & Awards was held at the Presidential Club in Ho Chi Minh City on December 2.

Industry

46. Selecting your 3PL Provider
Recent studies confirm that companies are now outsourcing more of their logistics activities – and they are outsourcing to a fewer number of service providers. Therefore, the selection of your Third Party Logistics (3PL) provider is becoming increasingly important to empower effective and efficient supply chain ecosystems that are essential for competitive advantage.

Book

Focus

52. Dynamic Supply Chains Delivering value through people
THE STATE OF VIETNAM’S SUPPLY CHAIN

Despite inflation and depreciation of the Vietnamese currency, the Vietnamese economy is still growing steadily, with GDP growth in the range of 7% for 2011. The country has seen a lot of FDI, especially in the high tech area and maintains its China plus one status, serving as a hedge against concentrating sourcing in China.

WAR OF THE SUPPLY CHAINS: THE REAL RETAIL BATTLE

With shaky financial markets and talk of a second wave of the 2008 global financial crisis heating up, companies are scrambling to prepare, defend and fight for survival.
Editor’s Letter

As the Vietnam Supply Chain community continues to grow and expand, with more conferences, networking events and training sessions, we are excited to release the new issue of the community’s magazine which is a reflection of the development of the industry.

This issue is packed with news, insight and analysis on the trends and challenges impacting Vietnam’s supply chain. Our feature stories look at the state of Vietnam’s supply chain and the promise of the retail sector, while other stories examine franchising, 3PL’s, supply chain strategy and look at industries to watch.

2011 saw foreign investment increasing in key sectors which promise to add value to Vietnam’s economy, beyond providing unskilled jobs. This trend is expected to continue as policy makers recognize the importance of looking to the future and taking cues from China’s growing pains. As such infrastructure and effective policy to facilitate business are priorities which will remain top of mind.

While manufacturing in China, continues to contract, Vietnam is experiencing unprecedented growth relative to other low cost countries, with its status as a China plus one option to hedge their bets against rising costs and less supportive policies for manufacturing in China.

Sectors that were previously closed, such as retail hold much promise as regulations ease and franchising and other modern retail formats take hold.

Certainly ongoing issues to look out for include inflation and rising wages and material costs. But, considering the ongoing jitters of the global economy and increased focus on global supply chains to maintain profits for companies of all kinds, the future looks bright for Vietnam.

We look forward to your comments and feedback.

Best Regards,
Russel Beron
Editorial Director, VSC Publication
Vietnam’s textile and garment exports jumped 38% to US$15.6bn

According to the Ministry of Industry and Trade, the biggest gain in year-on-year export turnover was seen in fibres, which rose 26% over 2010 to $1.8bn. There was no change in major export markets, with the US remaining the biggest client, worth US$7.1bn, a rise of 13% over the previous year. This was followed by the EU (up 25% to US$2.4bn) and Japan (up 43% to US$1.65bn). Growth was also seen to Korea, where Vietnamese exporters have benefited from the Asean - Korea Free Trade Agreement (AKFTA). The industry spent around US$6.8bn in 2011 on importing fabric for local production, a year-on-year rise of 26.1%.

Are wet markets on their way out?

The Ministry of Industry and Trade wants to move the nation away from traditional markets to a modern retail distribution system, accounting for 40 per cent of the total retail trade by 2020. Presently the modern retail distribution channels accounted for only 20 per cent of the total retail trade, including food, hardware, appliances etc, Deputy Minister Ho Thi Kim Thoa told a conference in Ha Noi. The rest was sold at traditional markets. Statistics from the ministry showed that the country now had more than 8,500 traditional markets, 615 supermarkets and 102 commercial centres. However, traditional markets accounted for 80 per cent of the total retail market, Thoa said.

Danang port set ambitious target for 2012

Danang port plans to handle 4.2 million tonnes of cargo in 2012, up 11 percent from 2011.

The largest port in the central region aims to modernize its facilities to boost the exchange of goods, develop its economy and transport transit goods between neighboring countries and other nations along the East West Economic Corridor (EWEC). Next year, the port will dredge areas along quays to receive large cargo ships. It is expected to receive the 252 metre long, 32.2 metre wide 75,000 DWT COSTA VICTORIA, carrying 2,400 passengers. In 2011, Danang port handled 3.85 million tonnes of cargo, up 16.6 percent from the previous year, of which container cargo reached 114,000 TEU (twenty-foot equivalent unit), up 28 percent. Key items exported through the port include toys, mineral ore, garments and textiles, footwear, and seafood.
Vietnam’s coffee exports in 2011 hit a record of $2.7 billion with a volume of 1.2 million tons—an increase of 45.4% in value from 2010, according to the Ministry of Agriculture and Rural Development. The US remained Vietnam’s biggest coffee buyer with 11.7% of the market share, followed by Germany with 10.1%. Some other markets saw relative growth such as Belgium (up 92.8% in quantity and three-fold increase in value on year) and Netherlands (up 46.4% in quantity and two-fold increase in value on year).

Vietnam collected approximately VND2,004.4 trillion ($95.28 billion) from the retail and services sector in 2011, up 24.2% from 2010, the General Statistics Office (GSO) said. The country’s total revenues were estimated to increase 4.7% in the year (price hike factors or inflation at 18.13% excluded), lower than that of 14% in 2010. The trade sector posted VND1,578.2 trillion turnover, up 24.1% from a year earlier, accounting for 78.8% of the country’s total revenue in the year. The hotel and restaurant sector reported VND227 trillion in revenue, up 27.4% from 2010, making up 11.3% of the country’s total revenue. Services sector showed on-year-increase of 22.1% to VND181 trillion, accounting for 9% of the nation’s total figure.

The Ministry of Industry and Trade has issued a circular on 2012 import quotas, saying that goods imported from Laos will be taxed at zero percent. Under the circular, the import rate of zero percent will be applied to commodities of Lao origin, including rice of various kinds and tobacco leaves. In addition, imported goods should have a certificate of origin (C/O), issued by an authorized office of the Laos People’s Democratic Republic and customs procedures cleared at border gates. At the same time, Vietnamese entrepreneurs are allowed to import rice and paddy products under import quotas. The circular will take effect as of January 1, 2012.
Home grown testing begins in Vietnam

Plastics and Rubber Technology Center in Hiep Phuoc Industrial Zone, HCMC has said it is ready to do tests on plastic and rubber products at the request of corporate customers.

The lab has state-of-the-art equipment worth over VND80 billion, director Truong Van Long said. In the past, plastics and rubber enterprises had to count on foreign labs but their testing fees were high. The presence of a local plastics and rubber testing center will help push down testing costs for plastics and rubber enterprises. Aside from domestic customers, the center does tests for foreign-invested footwear and packaging producers active in the city’s export processing and industrial zones. The city is home to around 2,000 plastics and 700 rubber enterprises that account for 80% of national output.

Vietnamese ships hit the water

The Nam Trieu Shipbuilding Industry Corporation (Nasico) recently handed over five ships to domestic and foreign partners. These vessels included a 9,200-ton ship delivered to Hanse Capital of Germany, a 53,000-ton cargo ship manufactured for the Hoa Ngoc Lan shipping company and three others for the Nam Trieu shipping company. Nasico is a subsidiary company of the Vietnam Shipbuilding Industry Group (Vinashin), which is implementing a comprehensive restructuring plan.

Vinamilk revenues grow on exports

Total revenue for Vietnam Dairy Product Joint Stock Company (Vinamilk) has reached US$1 billion for 2011, according to the company’s external relations manager Bui Thi Huong. Vinamilk reached a record of $133 million in export turnover and signed $10-million milk export contract with Thailand for the first time. Domestically, Vinamilk milk powder products account for about 30 per cent of the market share, a two-fold increase against 2009.

Cement exports hold their own

Vietnam aims to export 6 million tons of cement products, including 500,000 tons of cement and 5.5 million tons of clinker in 2012, primarily to Africa, according to the Vietnam National Cement Association (VNCA). Head of the VNCA’s office Nguyen Van Diep said cement exports had reached 5.5 million tons and reserves hit 3 million tons. The sector’s production achieved just 85 per cent of its total design capacity with 67 million tons, while consumption amounted to 91 per cent of the year’s target. The VNCA estimates total cement consumption in 2012 will reach 60 million tons, 52-53 million tons of which will be consumed domestically.
Vietnam has been listed among developing countries expected to lead the region in transport infrastructure growth next year, according to a report from Construction IQ, a division of the New-York-based International Quality and Productivity Centre. In its Land Transportation Outlook 2012, which focuses on the growth and development of tunnel and bridge construction in Asia, Construction IQ outlines project pipelines in Asia, revealing the largest infrastructure investments were gravitating towards the developing economies of mainland China, Vietnam and India. The report attributes the growth to the high number of urbanization and modernization initiatives being pursued by the governments of these countries.

Oil output on the rise

Vietnam produced an estimated 15.18 million tons of oil in 2011, a rise of 1.1% from 2010, according to the government.

December’s output reached an estimated 1.42 million tons, up 4% from the same month last year, Reuters reported, citing a monthly report from the General Statistics Office. Vietnam’s crude exports this year are estimated to have risen 3.6% from a year ago to 8.27 million tons the government said on Wednesday. State oil and gas group PetroVietnam is raising its 2012 oil output target to 15.8 million tons, up 5.3% from this year, largely due to increasing overseas production.

Import taxes re-imposed on fuel products

Vietnam’s Ministry of Finance has re-imposed import taxes for gasoline, blend-stocks and jet fuel at 4%, a circular on the ministry’s website showed. Import taxes for these products were abolished early in 2011, from a previous tariff of 6%, due to heavy losses being incurred by state-owned oil products importers early in the year. Import tariffs for kerosene and diesel remained unchanged from their previous adjustments at 5%. Earlier this week, the finance ministry ordered local oil product retailers not to hike prices ahead of the country’s New Year holidays over January 21-29 in a bid to keep inflation at 9% in 2012 after it reached a high of 18.58% in 2011.
Wood products achieve healthy growth

Vietnam earned US$4.1 billion from exporting forest products and wooden furniture in 2011, representing a year-on-year increase of 14.7 percent. Traditional importers of the Vietnamese products include the US, China, Japan, the Republic of Korea, and the UK, according to the General Department of Forestry. In 2011, the country’s timber output reached 5.5 million cu.m, of which 5.1 million cu.m were logged from artificial forests. Vietnam also imported around US$1.3 billion worth of timber and forest product materials, mainly from China, Malaysia and the US.

Here comes credit

The banking system will develop credit card payment services with the aim of reducing the quantity of cash in circulation to 11 percent by 2015. It will also strive to increase the number of bank account holders to 35-40 percent of the population. The targets were set in a Prime Minister-approved project to accelerate non-cash payment services. To meet the targets, the banking system will diversify card payment services, with a primary focus on developing pay points. It aims to install 250,000 card payment machines to increase the number of transactions to 200 million a year by 2015. It will continue to pay State workers through bank accounts and encourage them to use credit cards in transactions.

Trade deficit drops

Vietnam’s export turnover was estimated at US$94,800 billion for 2011, up 35 percent against last year’s figure and a highest increase since 1995, according to the Vietnam Customs. With imports hovering around US$105.2 billion, this year’s trade deficit has dropped to the lowest level of 11 percent since 2002. Five key export items fetching over US$6 billion include garments and textiles, crude oil, seafood, footwear, mobile phones and spare parts. Five major import items worth more than US$6 billion each are machines, equipment and spare parts, computers, electronics components, and petroleum.
Mobile phone exports grow in leaps
The value of mobile phone exports is forecast to reach US$12 billion next year, the equivalent of a 60 per cent increase from last year, according to the Ministry of Industry and Trade. Mobile phones have recorded the fastest growth among exports in recent years, with total values of trade rising from US$2.1 billion last year to US$7.5 billion this year. Vietnam’s mobile phone exports have largely come from Samsung Electronics Vietnam Co Ltd.

Bridgestone to build largest plan in Vietnam
The Haiphong municipal People’s Committee has granted an investment license to Bridgestone Tire Manufacturing Vietnam Limited Liability Company to build a USD575 million factory in the city. The factory is the 50th of its kind in the globe and the fifth in Dinh Vu industrial zone in Haiphong. The total amount of foreign investment in Dinh Vu industrial zone has reached USD1.5 billion, with 45 percent coming from Japan. Built on an area of 102.43 hectares, the new factory is expected to go into operation in 2014 and create jobs for 1,900 labourers. When completed, it will be capable of producing 24,700 tyres a day, all for export.

Siemens Vietnam to expand operations
Siemens Ltd. Vietnam’s president and chief executive officer indicated that the company is planning to increase the business operations and production capacity of its factory in the southern province of Binh Duong to meet increasing orders. Erdal Elver told reporters in HCMC yesterday the expansion was aimed at producing more high-technology busbar systems and introducing new product lines in Vietnam, a market that earned the company a profit of 4.7 million euro in the financial year 2010. Elver said Siemens Vietnam had planned to develop local R&D engineers and already sent candidates to Germany for training so as to support the future development of the company’s products in Vietnam for the Asian region.

Vietnam logistics needs work
According to the Vietnam Freight Forwarders Association Viffas, Vietnam now has more than 1000 enterprises which provide logistics services, most of which, about 600-700 enterprises, are located in HCM City. Commenting on the capabilities of the enterprises, Mai Xuan Thieu, Head of the Vietnam Logistics Institute said the majority of enterprises have a modest capital of 1-1.5 billion dong. As a result, they mostly work as agents for multinational groups and undertake some phases of the logistics value chain. Thieu said that Vietnamese enterprises are not capable enough of providing transport services throughout Vietnamese territory with competitive costs, while there are different service providers who provide different kinds of services. Vietnam now has 49 ports and 217 wharfs, however, many of them still cannot meet international standards. Currently, Vietnamese companies only can meet 25 percent of the total domestic demand.
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Geodis Wilson delivers tailor-made integrated solutions to international and local customers with complete multimodal transportation service by air, sea, sea/air combined and road transportation for general & industrial project cargoes across five continents.

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The state of Vietnam Supply Chain

Despite inflation and depreciation of the national currency, the Vietnamese economy is still growing steadily, with GDP growth in the range of 7% for 2011. The country has seen a lot of FDI, especially in the high tech area and maintains its China plus one status, serving as a hedge against concentrating sourcing in China.

This report is a synthesis of learning at the annual Vietnam Supply Chain Congress held in Ho Chi Minh City in late 2011.
The state of Vietnam Supply Chain

Vietnam’s young and relatively cheap workforce, stable political structure and long coastline with several deep water ports continue to make it an attractive place to invest. While the fundamentals for growth and development are good, Vietnam still has many obstacles to overcome. These include rising labor costs, inflation and an underdeveloped infrastructure network which impacts transport and energy requirements. Vietnam is also primarily focused on manufacturing and has an opportunity to move up the value chain and grow their service offerings.

China + One

Vietnam has in the past decade become recognized for its role as “China plus One.” This is likely to continue as costs maintain a steady rise in China. “China has much better productivity and wider ranges, but it’s losing its edge,” says Frank Vossen of Seditex Vietnam, a quality control consulting service. This is indicative by China’s ongoing fall in its PMI index over the past few months. “Vietnam is gaining an advantage on China with certain products, however the problem in Vietnam is that the quantities are often smaller,” says Vossen.

Vietnam is still high on the radar of many companies who source the majority of their products from China. They see Vietnam as a way to hedge their risk of having too much exposure with China. In some cases even Chinese factories are setting up in Vietnam, taking advantage of lower production and labor costs. As costs rise in China, the question is where to put a new plant. Cheaper options include Western China and regional locations such as Vietnam.

However the Vietnamese manufacturers still have some catching up to do. “One major difference between Chinese and Vietnamese suppliers, is that Chinese vendors seem to be a lot more street-smart,” says Florian Beranek, chief technical advisor, UNIDO CSR Project Office. “Vietnamese suppliers are a lot more honest about price than the Chinese.”

Vietnam does not necessarily have to go the same route that China did and instead of trying to compete with China, it might be better reassessing its role. According to Paul Bradley, CEO at Caprica International, Vietnam needs to move more into the supply and demand chain. “We should not be looking to the West, but should develop knowledge in Vietnam.”
Leading exporters of cashew nuts, rice, coffee, seafood, fruits and vegetables. From a production point of view, raw materials are often an issue, with prices rising. “Garments and shoes are more flexible,” says Christophe Lefebvre, regional manager of ARENA, which manufactures furniture. “Our products are very basic. People want different material. The question is will Vietnam be able to make mixed material product. Industry has to be involved from a design and quality point of view. The carbon imprint is also very high, 95% of the wood used in production is imported. Planting trees is a long term process, taking 30-40 years,” says Lefebvre. “We also need a lean supply chain to ensure competitiveness.”

Another strong sector is garment and footwear production, with companies such as Adidas, Nike and many others having a strong base in Vietnam. “The garment industry has a strong future in Vietnam. Everything is here, all the players in the textile chain,” says Florian Beranek.

“One sector showing potential is agriculture and seafood,” says Matevz Verbic, Managing Director of Easy Tiger Sourcing, based in Ho Chi Minh City. “One of the issues is the need build infrastructure such as ports and refrigerated facilities to keep fresh seafood.”

In terms of development in other sectors, the signs are that a shift is occurring. “There is a movement in the market to higher industry. We have to give them time. There are still issues like power shortages which limits the ability to grow,” says Jonas Franceschina, director, Intercoop House & Garden. “The future of Vietnam is semi-automated production, not just a reliance on cheap labor, says Franceschina.

“There is a movement in the market to higher industry. We have to give them time. There are still issues like power shortages which limits the ability to grow,”
Higher Value Production

In order to take a greater share in the profits, Vietnam understands that they need to be more involved in design and higher value industries. From an investment point the authorities are making sure this happens.

Where the shift is most evident is in the high tech industry. A number of multinational players have made major investments in 2011, adding to earlier investments. These include, First Solar, a solar power manufacturer which invested $300 million, Nokia, which invested $280 million, Kyocera, which invested $250 million, Samsung, which contributed $1.5 billion and Intel, which made a heavy commitment of $1 billion into what is now one of their largest global manufacturing facilities.

Similar to China, where Vietnam shows some weakness is in the development of innovation and creativity. “Vietnam is at an early stage with regard to design. It takes time to develop and they need a hand,” says Florian Beranek. “In order to bring in good design, Vietnam companies need to go to various fairs and bring in outside design ideas,” says Florian. Companies such as Puma have made Vietnam an Asian hub, but still run their design out of Boston,” says Beranek.

Future of Sourcing

Sourcing, both from the point of view of foreign companies relying on Vietnamese and local suppliers to find raw materials to support production is another key area where Vietnam must focus on development.

“A lot of different sectors are developing, what is lacking is the specialization,” says Frank Vossen. Sourcing is all in different places with no logic in the development. On the plus side, the government is getting involved at a national level.”

From a sourcing for export point of view, Florian Beranek notes that “It’s important to have different groups of products to source, to try and cover different sectors and to hedge against the possibility of anti-dumping laws. The question is where will the future of sourcing will be, that will be an interesting thing to watch. At the moment there is cheap labor here, but how much demand will we see,” says Florian.

One of the key issues is the lack of sophistication of local manufacturers in their sourcing practices. “We support the local industry in sourcing raw materials, but often there is a lack of skill in how to source,” says Frank Vossen.

The solution to this issue is approached differently depending on the company’s philosophy. “If a supplier has no knowledge of interest in developing suppliers for a certain product, we will work with them over the long term. In some cases we need to show them how to have a better sourcing of raw materials,” says Christophe.

The logic here is that the suppliers will develop as a result of such nurturing and add value to their customers. Beranek offers the advice to “take suppliers with you to meet buyers in Shanghai, Hong Kong or other places and connect them with inside sources. This will help suppliers to develop to a higher level.”

Companies are acutely aware that aside from Vietnam there are other low cost markets such as Cambodia, Bangladesh and Indonesia, which all are competitive for garment production. Vietnam has an opportunity to differentiate itself and not just rely on low costs to compete.

“Exports are moving up the value chain in Vietnam,” says Mike Gildea, CEO Agility Asia. “We don’t see any threat to Vietnam in terms of sourcing. As long as infrastructure continues to develop and inflation is kept in check.”

Focus on Quality

Another key question in the competitiveness of Vietnam against China and other low cost sourcing countries is quality. Quality issues continue to persist in Vietnam. Some of these issues include unreliability of information, difficulty of communication and lack of competence in sourcing. Other issues include a high rate of rejection and low productivity. According to many experts, this is changing though.

In the past, the majority of companies in Vietnam were government or foreign rep offices. Now the private sector is growing and foreign companies are increasing their presence. According to Frank Vossen who runs Seditex, a quality control and consulting service run out of Ho Chi Minh City, the key is “to match existing know-how and develop the right tools. “As Vietnam reinvents its supply chain with a focus on price, it should not forget quality.”

In terms of quality, things are changing already. “What will happen in the next few years is that companies will start inspecting their products in Vietnam,” says Frank Vossen.
The state of Vietnam Supply Chain

Regulatory Hazards

Along with private enterprise the Vietnamese government is also instrumental in the country’s economic success and needs to play a more active role, similar to the Chinese central government.

While they government has traditionally been supportive on the export side, they are quite restrictive in other areas such as the import of certain consumer goods, granting retail and other business licenses and placing limits on transportation.

Custom’s procedures are also behind where they could be. According to Jim Winkler, project director at the Vietnam Competitiveness Initiative, a USAID project geared at improving Vietnam’s ability to compete internationally, “In Singapore it takes 10 minutes for a container to clear customs whereas in Ho Chi Minh City it takes 3-7 days. Governments need to understand the metrics.”

There are also certain disadvantages for foreign companies doing business in Vietnam. Winkler adds that, “It takes foreign invested enterprises twice as long to get licenses. They have higher regulatory burdens.”

The Retail Promise

Retail is one area where the authorities are determined to maintain a tight grip. According to Frederick Burke, a lawyer and managing director of Baker & Mackenzie in Vietnam, “For many retail sectors, it is difficult to get retail service licenses. They need to find a workaround or a partner,” says Fred Burke.

Protectionism supports local retailers and brands but limits the overall development of the sector. Restricting growth limits process improvements and best practices which are generally brought in by outside players. Another issue is the skill and service levels of retailers. “Basic retail skills are lacking. Maintaining consistency of service in retail is critical,” says Mark Wrice, a retail consultant focused on Vietnam.

The retail sector is still growing at a steady rate as some foreign players who have managed to enter with the right partner are thriving. This includes hypermarkets, supermarkets and convenience store chains such as Metro, Wow (Big C), Coop Mart, eBon, Shop & Go and Family Mart. Of course local players such as Saigon Coop have done well with the support of the government.

According to Vietnam’s General Statistics Office (GSO), the total retail sales of goods and consumer services in 2011 increased 24.2% compared to 2010. This figure sounds high, but it needs to be factored in that without price increases, the growth would be less than five percent, a number which also reflects the reduced buying power of Vietnamese consumers who don’t necessarily receive wage increases to match the high rate of inflation – above 10%.

Securing Talent

As in other markets, Vietnam is challenged with attracting the right resources to work in the supply chain field. According to Kevin at Adecco, “Talent is elusive, it’s nowhere but it’s everywhere.”

The problem is the sector is viewed as less appealing compared to banking or other fields that promised greater financial rewards.

“We need to let the new generations know that supply chain is a cutting edge field. We also need to make the industry more exciting for governments,” says Paul Bradley at Capricia.

Another strategy that companies focus on the secure talent is to focus on developing their personnel. “Training is very important to us,” says Tuan Vu at Kimberley Clark. Having a young workforce is an advantage since they are eager to learn. “We invest a lot in training and try to rotate people into different jobs and create a good working environment.”

Ed Carey, president of Vietnam Operations at furniture manufacturer, Theodore Alexander, “We focus on developing our own people and bringing them through the organization. Our biggest problem is getting basic labor. We compete with Nike and other big manufacturers.”

An ongoing issue that Vietnam is experiencing is wage increases. Staff costs are increasing at a rate of 22% a year which is slightly offset by the devaluation of the Dong. The signs are clear that Vietnam’s low cost labor advantage is rapidly eroding and the country must look to higher value add into their production other than low cost labor.
Logistics Infrastructure

Infrastructure, both for logistics and in other areas such as power is an ongoing concern in Vietnam which will require significant investment to reach an acceptable standard.

Overall logistics spend in Vietnam is 18-24% of GDP, higher than China and much higher than that of Europe and the U.S. “This cost is obviously a concern for companies who have to add up lower labor costs and decide if the logistics challenges are worth it.”

“On a provincial level, the development is starting to happen,” says Florian Beranek. Three ports are being built along with a new airport, even before the capacity need is there, which is a credit to the authorities.”

Fundamentally Vietnam has the right ingredients for a solid infrastructure. The country has a long coastline with several deep water ports, strong riverways and a large population of young workers to fill positions. Vietnam currently has 250 Industrial parks, with 84 under construction, which is necessary to attract foreign businesses.

On the plus side a lot of regional development is occurring as countries in South-East Asia build networks as the East-West Highway, which runs from Myanmar to Vietnam, cutting through Thailand and Laos. “There are also several North-South links to China. “Vietnam will have an increasingly more important role in regional geopolitics,” says Florian.

According to Chris Catto-Smith of Freshport, a cold chain logistics consultant, “The lessons applicable in Thailand are similar for Vietnam. We need to put the fundamentals in place. The opportunity for air-freight is immense. If product is packed properly you can put more volume on a pallet which can quadruple profits for carriers, but it requires supply chain integration.”

“In Thailand they can get a greater quantity of pomelos on a pallet through a better quality box. The Vietnamese are keen to embrace good quality standards. Sometimes you need to show people where they can save money. The big opportunity in Vietnam is the level of innovation. I think the future of this country is very bright,” says Catto-Smith. “Unfortunately, about 25% of fresh product is lost before it reaches the market and is thrown away at the destination port,” says Catto-Smith. “There is a strong need to improve the fresh supply chain.”

At the moment, Vietnam experiences high losses due to damages and suffers from slow transit times. For example it takes approximately 4 days to go by road from Hanoi to Ho Chi Minh City, a distance which could be covered much faster with better roads.

According to Mike Gildea of Agility, a 3PL provider with strong operations in Vietnam, “All large customers have strong international standards. Companies need to work with people on the ground. One issue is how to negotiate with local logistics vendors and ensure they meet local standards. There is also a strong need to offer cross-border solutions and reduce the need for air-freight by creating regional networks,” says Mike Gildea.

These remarks are echoed by Jacques van Niekerk of Holcim Cement, which has sizable operations in Vietnam. “Developing local partners and suppliers is a problem. In cement, supply chain and logistics requirements and solutions are quite unique. You have to solve the unique problems in each market.”

A number of logistics and infrastructure projects are currently underway, often receiving funding from other countries and aid agencies such as JICA, however Paul Winkler estimates that U.S. $160-200 billion of infrastructure is required to get Vietnam to an acceptable standard.

The Road Ahead

Some of the many advantages of operating in Vietnam are its political stability, entrepreneurial spirit, young, eager working population and a high literacy rate. The fundamentals for continued investment are good and include the labor market potential and the country’s geopolitical position.

On the other hand Vietnam has a long way to grow. According to Jim Winkler of US AID, which has completed in depth research into developing the country’s competitiveness, “Vietnam is a low value added producer. Most materials are imported and the main input is labor. For example they produce 110 million pairs of shoes a year for Nike. Does this help the country,” he asks?

In order to continue to develop, Vietnam understands that they must focus on higher value industries, as China is doing, at the same time industry requires improved infrastructure to support growth.

Other issues include inflation, as the Vietnamese Dong continues to depreciate. Electricity is also a big concern, resulting in frequent brownouts. According to Paul Winkler, it costs a small manufacturer U.S $3-4000 per brownout.

Corruption is still an issue which is felt by most companies, adding costs and complications. It results in overloading of trucks and makes competing against local companies more difficult since foreign companies generally want to follow the rules. “We need to get people to a place where they want to follow the rules,” says Jacques van Niekerk. The Vietnamese need to maintain a long term view as opposed to a hand-to-mouth mentality.

Most of these challenges are par for the course in a developing economy and Vietnam appears to navigating quite smoothly through the issues. They have strong models with China and Thailand to learn from and have good support which indicates a bright future for the country.
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With shaky financial markets and talk of a second wave of the 2008 global financial crisis heating up, companies are scrambling to prepare, defend and fight for survival. Retailers are realizing that to survive, the real battle they need to win against their competitors is not about price or brand, but supply chain versus supply chain.

Using war in the context of supply chains is fitting given that logistics and supply chain management originated in the military and still benefits from innovation adopted in war time.

Napoleon, who famously said, ‘An army marches on its stomach,’ understood the importance of supply chain very well and leveraged it with great effect. One of his great innovations was to create the first train regiments, entirely dedicated to the supply and the transport of equipment. Interestingly, supply chain failure was also his downfall as he mounted his Russian campaign relying on foraging, an insecure source of supply, when the Russians adopted a scorched earth policy.

There are numerous other examples of how wars have been won or lost on the strength of supply chains. In World War 2, Britain’s success against the Nazi’s tonnage war -- a military strategy aimed at destroying merchant navy supply ships -- helped the allies to stay in the war and establish a second front, which defeated Germany. The speed with which the US overwhelmed Iraq in Desert Storm was underpinned by US military supply chain capabilities.

Despite the obvious importance of supply chain management, the field is still undervalued. In the retail world, while merchandisers, marketers and retail channels battle it out on the frontlines, the supply chain troops ensure the supply of raw material and products arrive at the right time, at the right place and in the right quantity to satisfy consumer demand. The success or failure of these supply chains actually determines the competitiveness of retailers and brands as much as an army’s success depends on supply lines.

Today, retailers and brands are successful to the extent that they build innovation into their supply chain to address shifting global trends. Key trends impacting retail supply chains include:
1. Globalisation of the supply base: Retailers today source a growing variety of products from a wide range of low-cost countries and need to coordinate these sourcing efforts. While China is still the best option for sourcing large volumes of a wide range of products, wages and material costs are rising and companies have found success with apparel and footwear suppliers in Bangladesh, India, Cambodia and even more remote parts of China. The result is added complexity, as there are more suppliers to manage across time zones with varying competencies.

2. Channel diversification: New buzzwords such as multi-channel and omni-channel retailing refer to the growth in retail formats including online and catalogue formats and the need to deliver a consistent consumer experience across these channels. How to deliver that same experience in terms of quality and customer experience is often a supply chain challenge as retailers must ensure delivery, pricing and returns across channels.

“Multi-channel and omni-channel retailing refer to the growth in retail formats including online and catalogue formats and the need to deliver a consistent consumer experience across these channels.”

3. Shrinking margins: Material costs are increasing while pressure stays to maintain lower prices, forcing retailers to find innovative ways to improve margins and profitability. For some retailers this has meant expanding to new and growing markets such as China. For most, this means finding ways to reduce costs and increase efficiency through technology, resource optimisation and better supply chain management.

4. More demanding consumers: Consumers are more informed and demanding variety, quality and lower costs and they have multiple choices for spend. According to a recent report by Gartner titled Key Issues for Consumer Goods Manufacturers, it is imperative for consumer goods companies to invest in consumer engagement, customer collaboration and innovation — or risk being at a competitive disadvantage. Consumers today have greater choice and as information is more widely available through social networks, they can be more easily influenced.

5. Need for operational efficiency: Turbulent economies and pressure on resources are forcing retailers to squeeze efficiency wherever they can. This is the turf of supply chain management, which enables visibility into processes and identifies areas of process improvement. These areas might include design, manufacturing, sourcing, logistics and finance, all links in the supply chain.

Knowing and understanding these trends is less difficult than finding and adopting the right strategies in the retail supply chain. So what are best-in-class, forward thinking retailers doing to ensure their supply chains are ready for the new retail wars?

1. Developing strategic road maps: Strategic supply chain planning is critical to retailer success; usually these plans incorporate clear metrics and tracking to ensure plans stay on target. Planning is made possible through accurate, real-time information gathering, which allows data to be centrally integrated for effective decision-making. Tools such as Critical Path Management (CPM) enable data to be rolled up centrally in real-time which allows supply chain managers to manage by exception and adjust planning and resources to avoid supply chain delays.

2. Shifting to direct sourcing: Retailers who are not already sourcing directly are setting up buying offices in the regions where they source from, mostly Asia. According to a report by Mickey North Rizza and Janet Suleski at AMR Research, “Best-in-class organisations like Zara have design, manufacturing, and execution for vast swaths of their products in approximately 14 to 15 days. Compare this with an average of approximately 270 days for seasonal products at other apparel companies.” Shifting to direct sourcing as opposed to using an agent or middleman is a strategy many companies are adopting to speed up their time to market and reduce costs.

3. Developing private label brands: Own or private label development is not a new trend, but it is one that continues to grow in importance. For retailers, this usually involves getting into areas they weren’t usually involved in and makes supply chain management critical as retailers extend themselves into the territory of brands. According to a recent study by Retail Systems Alert Group Research (RSAG Research), adding private label products to the merchandise mix improves gross margins and drives sales because it enables retailers to deliver differentiated products that offer higher margins at competitive prices for consumers. Another aspect of private label is that creating new products puts more responsibility on the retailer to manage the entire design, development, and sourcing process more efficiently.

According to IDC’s March 2011 Retail Insights report, benefits for fashion retailers of Product Lifecycle Management (PLM) adoption include:

- Increased gross margins by 5–9 percent
- Unified sourcing processes from concept to delivery life cycle
- Cutting costs by 25 percent
- Lead times reduced by several days (15–20 percent reduction)
- Direct sourcing savings of over 12 percent
- Improved compliance
- Improved product quality and safety for products and production

“Adding private label products to the merchandise mix improves gross margins and drives sales because it enables retailers to deliver differentiated products that offer higher margins at competitive prices for consumers. Another aspect of private label is that creating new products puts more responsibility on the retailer to manage the entire design, development, and sourcing process more efficiently.”
4. **Adding greater variety and quality:** Effective supply chain management enables retailers to deliver more product variety at similar quality and reduce cycle times at the same time. Aside from product variety, new trends such as multi-channel and omni-channel retailing are also growing in importance as retailers grow sales online and through catalogues and in new channels such as Facebook stores. Online retail is expected to grow at a CAGR of 10% to 2015, significantly higher than traditional retail. To ensure success, retailers need to integrate their service and quality offering, delivering a similar experience for the consumer in every channel.

5. **Employing collaborative processes and technology:** Most retail supply chains are still manually intensive, relying on Excel spreadsheets and emails to exchange information, which results in errors and inefficiency. Shifting to automated and transparent centralised processes should be a priority for retailers. Technology-based workflow and information process improvements such as product lifecycle management (PLM) and critical path management (CPM) enable retailers to improve collaboration and visibility and shorten product cycle times. "Retail PLM/ MLM applications improve bottom-line and top-line performance by enhancing supply chain visibility and responsiveness, eliminating the gaps between planning and execution," noted analyst firm IDC in their Global Retail Insights report.

Whether in war or in commerce, the terms ‘logistics’ and ‘supply chain management’ are often used interchangeably without a clear distinction. A key differentiator is actually in the level of information gathered and the processes established to improve decision-making. Supply chain management incorporates forecasting, predictability and risk mitigation, which enables just-in-time inventory replenishment and leaner supply chains.

The most innovative retailers align information gathered through their supply chain to their strategic business goals. If Napoleon were here today, he would rely on his supply chain information to foresee any global or domestic risk and know when and how to prepare resupply for his armies. Retailers today have the same opportunity.

Russel Beron is based in Hong Kong where he works with Core Solutions, a provider of retail product lifecycle management, global sourcing and supplier collaboration software solutions. Learn more at www.coresolutions.com
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Dynamic Value Networks
The future of Global Supply Chains

What are Dynamic Value Networks?

According to Paul Bradley “Companies on the leading edge of supply chain management are transforming their supply chains into a stream of multi-dimensional networks that can creatively adapt to dynamic consumer demand.”

Paul Bradley sites a number of case studies which are pushing the boundaries of manufacturing and supply chain management. These companies include Apple as well as Li & Fung and Arshiya International in Asia.

According to Bradley, Li & Fung is a perfect example of a company employing Dynamic Value Networks to their advantage. They are one of the largest manufacturers in the world, growing from 7,500 to 20,000 virtual factories in 48 countries in only three and a half years, producing billions of dollars in consumer products.

While Li & Fung has its roots as a long established Hong Kong trading company, they have scaled rapidly in the past decade by going to factories around the world and locking in up to 30-40% of the factories excess capacity. Li & Fung’s private company has also acquired the franchise rights for stores in specific parts of Asia including Toys’R’Us, Calvin Klein, and Ferragamo further leveraging their retail knowledge across brands.

“Essentially Li & Fung is a network orchestrator, buying materials and controlling the supply chain through virtual manufacturing, while not having to own any factories,” says Bradley.

Li & Fung is not the only supply chain innovator coming out of Asia. In India, Arshiya International is creating 5 FTWZ hubs (logistics cities) linked to an integrated rail network that is completely transforming the way product moves across the country.” Currently known for its fragmentation, the future of India’s logistics sector might be quite different as a result.

Another example is Apple, which is an expert in what Bradley calls, “Knowledge Network Orchestration.” Apple has succeeded in shifting its supply chain to a virtual network, where they rely on large contract manufacturers such as Foxconn, but most of the revenue they generate returns to the U.S. With iTunes, they have essentially digitized knowledge, using the iPod, iPad and iPhone and other devices as delivery vehicles or virtual ports, where content is the product they ship.
Most of the ink about the recent passing of Steve Jobs has focused on his genius at product innovation and creativity when the reality is that Apple’s key to success was really supply chain management. Who did Jobs pick as his successor? Tim Cook, formerly Chief Operations Officer, in charge of manufacturing, logistics, inventory and supply chain, who joined Apple in 1998 and was also instrumental in the success the company is today.

Bradley points out that while Apple makes great products, they are really just vehicles for delivery of content over a virtual supply chain which is controlled and run as a profit center by Apple. Not only do we pay top dollars for our iPhone, iPad, iPod and whatever else they put in front of us, but then we go to the iTunes store and buy music, books and other entertainment.

Apple has a battalion of contract manufacturers who produce their product for a fraction of the profits, while Apple focuses on design and content delivery. Then there are the applications or “apps,” another brilliant business model where hundreds of thousands of developers produce applications for Apple. The best part is that they don’t get paid by Apple, the customers pay and then Apple takes a hefty commission.

**What does this all mean for Vietnam?**

According to Bradley, Vietnam needs to learn from these cases since a lot more manufacturing will be shifting there, both physical and virtual. Vietnam has an opportunity to sidestep the shift that China has to make today from the workshop of the world to a value added provider. If Bradley is right, the rise of Asia will lead to new models of dynamic value networks.
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Retail in Vietnam - Hype or Promise?

By Julien Brun

For the last 3 years, the domestic market was presented as one of the pillars of a strategy to resist global and local economic turmoil. This article looks at the reality of Vietnam’s promising retail sector, forecasting how the environment might look in coming years?

Favorable Dynamics of Past Years

Since 2009, Vietnam’s retail sector was identified as having a huge almost unlimited potential. In 2011 Vietnam reached the rank of the 6th most attractive country for retail worldwide, third in Asia behind China and India, according to AT Kearney. In the same year, retail recorded a growth of 21%, which is helped by inflation, but is still impressive. With rapid expansion, the sector, which totaled US$64.8 billion in 2009, is expected to surpass 90 billion USD by 2012. Such encouraging figures show that retail in Vietnam, though small, is supported by a number of favorable conditions and is still promising for investors with concrete plans for the market.

Foreign investment in Vietnam’s retail sector, spurred by economic growth, has led to several key players in the market. Beside long established local players such as Coop-Mart and MaxiMark, France launched the first hypermarket in the country with Big C, a brand of the Casino group. Japan also has a long established presence with value priced home-ware supplier Daiso, and electric appliances supplier Sumitomo. Japan has also invested in the Seiyu and FamilyMart chains. The United States has brought in a succession of smaller franchised format outlets such as KFC, Pizza Hut and the newly set up Burger King and Gap, along with potential investment projects from Wall Mart and Starbucks. The Wholesale Cash & Carry sector is dominated by German giant Metro, which has found success in Vietnam. Vietnam also encourages cooperation with retailers in neighboring countries. The near future will see the launch of Vietnamese branches of Breadtalk and Alfamart, Indonesian brands.

The growth of multinational retailers in Vietnam is tied to a significant evolution...
in Vietnamese regulations after joining the WTO in 2007. This promoted a progressive loosening of restrictions which climaxed with the Open Trade Agreement, where from January 2009, retail and distribution services, formerly difficult to engage in, were officially entitled to enjoy 100% foreign ownership.

Traditional trade still strongly dominates Vietnam’s retail sector, holding 87% of the market against only 13% for modern trade, far behind Indonesia (43%) Thailand (46%), or China (64%). With over 900 stores in 2011 and 625,000sqm of retail space, the modern trade sector in Vietnam is clearly one of the least developed in the region. As an illustration, HCMC, with 0.09 square meters of modern trade retail space per inhabitant, is far behind Bangkok (0.78), Kuala Lumpur (0.64) or Jakarta (0.38), according to research by Savills in 2011. Obviously this spells opportunity.

Emerging Middle Class

Vietnam’s young demographic and emerging middle class with growing purchasing power is one of the key drivers of Vietnam’s retail sector. Over the past 6 years (2005-2011), the GDP per capita in Vietnam doubled, while urban monthly income (Hanoi, HCMC, Da Nang, Can Tho) in the range of 6.5 to 13.5 million Vnd surged from 5% in 1999 to 46% in 2011, to include 7.4 million people in this income bracket (source: TNS Vietcycle 2011).

With new expectations and needs, these new generations are redefining the Vietnamese consumption model and adopting new consumer behavior. Conspicuous consumption is an expression of social and economic development which also comes with product diversification and a fast paced modern lifestyle. These young new consumers are sensitive to brands and show a preference for quality products that exude internationalism.

According to Nielsen research, Vietnam also benefits from one of the highest consumer confidence worldwide, ranking 11th in the global consumer confidence index for 2010, which remained steady in 2011. This is another indicator of a bright potential future.

The Current Reality

As we enter 2012, the enthusiasm of the past few years previous years has been somewhat mitigated by hard realities. The trends are not as favorable as forecasted and Vietnam’s retail market attractiveness has slid further in the GDRI rank to 23rd position in 2011, a downward slide of 11 places since 2010, 6 more since 2009 and a further 6 more since 2008, according to AT Kearney.

Why the downward slide? Unlike some other markets, in Vietnam, domestic rather than external factors predominate. The tightening of monetary policy, stubbornly high inflation and rising concern about macroeconomic stability has slowed retail sales volume growth in most sectors.

“The growth opportunities remain strong but they are certainly harder to materialize, now that the low-hanging fruits have been picked, or fallen off the tree,” said Yoann Painbeni, Associate Director Nielsen Vietnam at the Vietnam Supply Chain Congress in November 2011.

Evolution of Consumer Concerns

Indicators suggest that the Vietnamese Consumer Confidence Index will stabilize at a fairly positive level for 2012. However, continuous price increases on essential products and utilities will keep consumers and businesses in Vietnam cautious about spending. Vietnamese households have recently developed new concerns, among which 1) health, 2) increasing food prices and 3) increasing utility bills (electricity, water, gas) are at the top. Consequently, overall spending is expected to decline in the coming 12 months and FMCG sector has already seen a growth of only 13% in 2011 against 21% in 2010 and it may slow down further in 2012.

Nielsen consumer surveys showed that in 2011 more than 80% of people are cutting expenses on “unnecessary” items such as entertainment, eating out and electronics, while maintaining current spending on family related expenses such as education, healthcare and household utilities. In addition, both TNS and Nielsen share insight related to the new consumer behavior and attractiveness of promotions. As the future is less certain, discounted prices are the preferred promotions. In the mean time, household savings are increasing steadily.
with an approximate 20% of earnings as compared to 10% in 2008. The signs are that Vietnamese consumers seem to be preparing for rainy days.

With two thirds country’s GDP generated by household consumption (ranking 3rd after US and South Korea), there is no doubt the effect a drop in consumer spending would have on the Vietnam’s economic dynamism.

**Space Availability**

Aside from the cooling down of domestic demand, retail players have encountered major development roadblocks, among which is the difficulty for market players to find affordable retail space. According to a Savills benchmark, prime location rental prices in HCMC and Hanoi are comparable to those in Jakarta, Kuala Lumpur and Seoul.

All players, foreign and local, will tell you that it finding large surfaces for supermarkets or hypermarkets remains one of the top factors limiting their expansion. Even though the real estate sector is currently facing intense deceleration, prime location rental prices remain high, making large commercial spaces unaffordable and lengthening the return on investment period. Given the population density and that urban planning is in its infancy, introducing new supermarket formats in urban areas is still complicated as it involves the painful task of compensating and relocating numerous inhabitants.

At least for now, wet markets and small family shops, which are an integral part of Vietnamese culture don’t seem to be going anywhere for the meantime.
Entry Constraints for Foreign Players

While the regulatory environment is in theory getting better for foreign companies, in practice there are still challenges. Grey areas remain in legal definitions mean that requirements for registration and approval criteria for retail licencing are unclear and confusing. According to Baker & McKenzie, while quantitative restrictions and non-tariff measures no longer apply since 2009, the liberalization is still incomplete and will be implemented progressively in several phases. The current “one try” policy concerning foreign investors limits their venture to a single store. A market-needs analysis and additional validation procedures are then required to expand foreign retail activities further.

This “Economic Needs Test” (ENT), normally banned by the General Agreement on Trade in Services, is based on three criteria: (1) number of existing service establishments in the geographic area, (2) stability of the market, and (3) geographic scope. Undoubtedly, the subjective nature of ENT’s lengthen and complicate the registration process. Clearly the retail market is only open to a certain extent with local retailers protected against having to openly compete against aggressive and more operationally efficient foreign players. Despite recent signs of some easing for licensing, retail is still a well guarded activity when it comes to foreign direct participation.

Connecting Rural Areas

Increasing urbanization will also impact the future of retail in Vietnam. The United Nations foresees an urbanization ratio of 35% in 2020 for Vietnam, as compared to 30% today. Thus, retailers have to address a strategic supply chain question to fully exploit Vietnamese market potential on the long run: how to reach rural population?

According to Nielsen research, in 2010 71% of investors expected rural Vietnam to have an increased impact on their company’s growth. With 40% of Vietnam’s FMCG sales, the rural market has an even greater potential than the already urbanized areas. Indeed, the development of rural Vietnam would pioneer a new market of 63 million consumers. To capture this possible growth a strong understanding of the present situation is required. The investors must prioritize to target a small well-defined area of this vast potential, choosing the right location and shopper type. But the retail market cannot size such opportunities if geographic isolation persists. Good strategies are useless without access to the targeted area. It is effectively road infrastructure that determines the future of the Vietnamese countryside. Road transportation is at the core of the country’s logistics comprising 77.8% of the total freight in 2008-2009. This country is still impaired by the very poor conditions of a third of the roads resulting in reduced accessibility and isolation of rural communities. Current road development projects respectively attempt to solve urban congestion, increased truck traffic, and the lack of industrial connections with ports, while countryside accessibility still remains of secondary priority.

A Crystal Ball?

Vietnam offers countless opportunities for the retail sector, with numerous emerging markets still to conquer. As the purchasing appetites of young Vietnamese consumers continue to grow, the limited number of modern retail players cannot keep pace. Indeed, now is the ideal time for investors to shape Vietnam towards its ideal future. However the current regulatory environment, lack of affordable retail space, fragmentation of the supply base and constrained logistics sector limit the market reach and return on investment. More than ever, the bright future of Vietnam’s retail sector is dependent on a strong legal, supply chain, and infrastructure foundation. As we enter 2012, the year of the Dragon, in Asia a symbol of power, strength and good luck, we can only hope that this spells an auspicious turning point for Vietnam’s retail sector.

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Franchising in Vietnam
A way to sidestep Traditional Retail limitations

As the retail sector grows in importance, the concept of franchising is of increasing interest in Vietnam. This article looks at franchise from both the public and private business law perspectives, with a view towards market entry and expansion.

The public business law perspective

From the standpoint of public business law, franchising is regulated by international commitments, especially commitments Vietnam made to the WTO. The most important of these commitments are those that protect intellectual property rights and the Schedule of Commitments on services ("WTO Commitments"). Franchise is also governed by the Commercial Law 2005 and its guiding documents.

In its WTO commitments, Vietnam committed to open the market for distribution services, by means of franchising. Particularly, “distribution services” include: commission agent services, wholesale services, retail services, and franchise.

In addition to the horizontal commitments for distribution services, Vietnam’s commitments on foreign investors’ commercial presence in Vietnam are: “None, except a joint venture with a Vietnamese partner(s) is required, and foreign capital contribution shall not exceed 49%. As of 1 January 2008, the 49% capital limitation shall be abolished to none. After 3 years from the date of accession, “branching is allowed” - with the condition that the head of the branch must permanently reside in Vietnam.

From a public law perspective, except for a few types of goods excluded from the commitments on market opening for distribution services, franchising is almost restriction free. What is most interesting is that compared to standard retailing, which is subject to extremely tight restrictions on the number of retail outlets, franchises are not subject to this restriction. This makes franchising an attractive option for retailers with plans for multiple outlets.

Under the WTO Commitments, those distribution services other than franchise are subject to one common constraint: “The establishment of outlets for retail services (beyond the first one) shall be allowed on the basis of an Economic Needs Test (ENT)”. In the WTO Commitments, ENT is detailed in footnote No. 24, which stipulates, “Applications to establish more than one outlet shall be subject to pre-established publicly available procedures, and approval shall be based on objective criteria. The main criteria of the ENT include the number of existing service suppliers in a particular geographic area, the stability of market and geographic scale”.

At the first glance at footnote No. 24, the term “based on objective criteria” looks good. If much attention is given to this though, a concern arises around the words “key criteria”. With even more attention, such “key criteria” are very general and open and inviting for controversial explanations and interpretation of the persons applying the laws. It has been over four years since Vietnam entered the WTO, the specific clarifications of ENT have not been issued, and the opening of retail outlets beyond the first one is therefore extremely difficult for foreign investors. The Economic Needs Test has been compared to the complaints which might lead one to see an Ear-Nose-Throat specialist – a running nose, sneezing and tinnitus. Franchises, on the other hand are not subject to the ENT test, which is less of a nuisance and as such has been chosen by many foreign investors as a more appropriate choice to enter the Vietnam distribution market.

Additionally, the Commercial Law 2005 and its guiding documents stipulate the requirements for franchise, including some requirements that spill over into private business law.
The private business law perspective

According to Part 8, Chapter 6 of the Commercial Law 2005, a franchise contract is a contract in which the franchisor is obligated to give franchise and provide technical support to the franchisee, while the franchisee is obligated to make payment in favor of the franchisor. The franchisee can continue to transfer the franchise to another party if it is permitted in the franchise contract, or if the franchisor allows the franchisee to do so.

A franchise contract must satisfy the conditions of validity stipulated in the Civil Code.

As prescribed by law the franchisor must meet a number of conditions. One of these conditions is to register the franchise activities before concluding the franchise contract. This requirement is buried deep in the procedural provisions for conducting a franchise from franchisor to franchisee. This requirement is often neglected by the parties – a point that if neglected may lead to the invalidity of the franchise contract.

The object of a franchise contract is the franchise itself. According to Article 284 of the Commercial Law 2005 such a contract object includes intellectual property rights and relevant technical assistance. The subjects of franchise contracts are intangible assets. It is often not easy to reach a consensus among the parties as to the quality of such intangible assets.

Public business law has provisions to support this. The franchisor must disclose information about the franchise so that all intellectual property rights can be properly registered and protected. Government support for this is limited, however, due to the difficulty in evaluating such intangibles as IP. The best strategy to ensure that IP is properly valued and registered is to conduct a sensible business evaluation (on brand reputation, networks, financial capacity, etc. of the franchisor; and the franchisee’s abilities to develop the franchise) and a well drafted franchise contract.

The franchise contract is a tool for mutual cooperation and benefit where normally the benefit of one party is the obligation of the other. In a franchise relationship, the contract governs the purchase and sale of the rights to use a business idea which has been developed and proven in practice. The terms and conditions are by and large under the control of the seller.

The price for the franchise must be set at a point appropriate for the nature of the franchise and the financial capability of the franchisee. The rights assigned should be specific and limited and address the risks as well as sanctions for violation. The term should allow for sufficient development of the business but be aware of any expiration of rights. It is best if the term is set after consideration of the proposed business plan of the franchisee.

A snapshot

Compared to other methods of business, franchising has many advantages. It is a way to proliferate a business idea that has been proven successful; it spreads the financial risk from the franchisor to franchisee; and it offers a system of support and training to the franchisee to turn the investment into a successful and profitable business recognized across territories. In Vietnam, franchising is even more attractive as it is not subject to the strict constraint of an Economic Needs Test that is applied to other forms of distribution services.

Franchising is subject to regulations of both public business law and private business law. Between the restrictions erected by public business law and those which may be created in private business law, a choice of the latter is generally more comfortable. It offers franchise parties choices that they may take or reject at their discretion.
As the global economy slows down, supply chain managers are under pressure to find ways to drive down inventory to allow companies to conserve cash for survival. In these difficult times, opportunities also arise to drive down inventory and increase supply chain efficiencies, concerns which are less of a priority a better economy.

In this article, we discuss the following 5 approaches currently used by Hewlett Packard (HP) Asia Pacific to draw down inventory in the short and medium time frames while managing impact to sales:

1. **Manage product variety.**
2. **Improve forecast accuracy.**
3. **Streamline the entire supply chain.**
4. **Segment products and provide differentiated service levels.**
5. **Match operations planning and replenishment to actual shipments.**

### 1. Optimize product variety to achieve sales and operations objectives

Variety management is the process of rationalizing the products carried. This allows the business to not only reduce inventory but also all the overhead associated with each additional product listed. While very effective in reducing inventory and supply chain overhead, this approach is also challenging as it requires sponsorship from the marketing and sales side of the business.

One approach to variety management would be to rank all products according to a single criterion (for example profitability or revenue) and discard the lowest ranking products: “Trimming the tail” (See figure 1). This approach, while fast and relatively easy, has a number of inherent flaws. There may be products in the long tail which are critical complementary products to faster moving products, or some of the long tail products may be dominant in their market segment and are “cash cows” which need little support and contribute substantial margin to the business. There may also be products in the head (e.g. a high volume products), which could be cut as they are easily substitutable with a more strategically important product.

![Trimming the tail](image)
Inventory Management for Lean Times

The preferred approach used by HP’s Strategic Planning and Modeling (SPaM) team is to first assess the cost of every product across the entire lifecycle and estimate the variety and volume driven costs of complexity. We can then determine guidelines for assessing incremental costs and benefits of retaining or delisting each product. We would then develop a cost of complexity calculator for evaluating product complexity Return on Investment (ROI). An example of one such calculator is shown in figure 2. This approach can be used retroactively on existing products, but more importantly can be proactively applied to determine if a product should be introduced.

2. Determine if low forecast accuracy is driving over production

Low forecast accuracy can be a result of bias and/or variability of forecast error. Figure 3 illustrates the different kinds of forecast error. Diagnosing the type of error in place is difficult without proper tools in place. Dashboards provide management teams with reports showing products and regions with the greatest error rates. Charts and illustrations allow them to identify the type of ongoing error.

Systematic forecast bias could be driven by a number of factors, chief among which is to continue building forecasts based on past economic conditions and/or revenue target cascading down from top management. In the current economic situation, failure to recognize the sharp decline of the market and rapidly adjust sales forecasts down may result in a bias towards over forecasting. In such circumstances, you could consider either de-coupling the manufacturing forecast from the sales forecast or tweaking their replenishment process to match demand profiles (see section 5 for more information on matching demand profiles).

Forecast error variability is harder to protect against. In past operating environments, supply chain managers had the option of buffering against forecast error variability with inventory, a.k.a. safety stock. With the pressure to drive down inventory, this option is fast becoming restricted. An alternative is to apply demand management techniques to reduce demand variability. This makes it easier to forecast, resulting in lower forecast error variability.

“In the current economic situation, failure to recognize the sharp decline of the market and rapidly adjust sales forecasts down may result in a bias towards over forecasting.”
3. Streamline the entire supply chain, including channel partners & suppliers

As inventories build up across all partners in the supply chain, it becomes more important to collaborate to reduce redundant buffering. Risk pooling – holding inventory up the supply chain – reduces the risk of stocking out in one distribution center while another is oversupplied, should be considered. However, the trade-off of risk pooling could be increased lead time or expediting costs if downstream supply chain inventories are not planned appropriately.

In situations where a company sells to partners down the supply chain, inventories close to the end customer are more critical than upstream stockpiles to offering a high level of service to the end customer. For example, in Figure 4, the service level provided to the end customer is determined more by the inventory at the retailer, not the manufacturer.

At HP we have found that for some products, end customer service levels were rigid compared to service levels provided by HP to our channel partners. Figure 5 illustrates a hypothetical situation where if we held 0 weeks of safety stock, the service level provided to channel partners would have been 50%. Yet end customer service level would have been only a few percentage points lower than if HP carried 6 weeks of safety stock. Even if not operating at the “optimal” allocation of inventory between HP and the channel, there is clearly a point of diminishing returns in adding inventory at the HP DC when the goal is to maintain a high end customer service level.

In order to maximize the service level to the end customer while minimizing system wide inventory, it is important that all parties in a supply chain cooperate to create the optimal supply chain. This may mean that some of the parties may have to bear a greater part of the costs. At the same time, a means of sharing the overall benefits should be developed in any supply chain optimization project.

4. Provide differentiated service levels by product segment

One common error in supply chain planning is to offer the same level of service for all products offered. Thus, a bulky low margin product would be expedited in freight alongside a smaller high margin product. After all logistics costs are factored in, it is possible that low margin products actually turn into negative margin products. Without activity based costing, it is often impossible to tell definitively if low margin products slip into negative margins. However, the cost and complexity of implementing activity based costing means that such processes are not likely to be in place.

Segmentation works by grouping products by a list of criterion then offering different service levels based on the product groupings. Thus, the most critical products will continue to be offered fast turnaround times and high availability while non-critical products will be placed on more cost effective supply chains. Segmentation criteria could include profit contribution, sales volume, market share requirements or strategic value (core vs. extended products). By offering lower service levels or longer lead times for the bulk of products which account for a small percentage of sales, both inventories and supply chain costs can be reduced.
Inventory can be reduced by matching production and replenishment to demand. Many businesses operate under revenue targets cascaded down from strategic planners on a quarterly basis. These targets form the basis of the monthly forecasts which guide the marketing, sales, and supply chain efforts within the quarter (or month). Because these targets are developed at a strategic level, tactical level demand profiles are sometimes ignored. For example, while planning at a strategic level may be done in time blocks of months, the supply chain manager is often asked to provide availability at the day or week level.

The demand profile, how much you sell in each day or week in a month, should not be ignored when the company does its planning and replenishment. Ignoring this information amounts to planning and replenishment under the implicit assumption of uniform daily forecasts within a month. For example, even with perfect monthly forecast, a consequence of incorrectly anticipating demand skewed to the beginning of the month is early procurement of raw materials, early production, early stocking, and excess inventory.

### 5. Match operations planning and replenishment to actual shipments

Many approaches are available to reduce inventory. In this environment of slowing demand, it is critical that supply chain improvement efforts allow the sales organization to maintain competitiveness. The list provided here is merely a small sample of efforts undertaken at HP to drive down our inventory while protecting market share.

![Demand pattern of sample SKUs](image)

**Figure 7**  
SKU demand profiling – decomposing monthly demand into weeks

### Conclusion

Many approaches are available to reduce inventory. In this environment of slowing demand, it is critical that supply chain improvement efforts allow the sales organization to maintain competitiveness. The list provided here is merely a small sample of efforts undertaken at HP to drive down our inventory while protecting market share.
Drugs in Vietnam

WATCH OUT!

Despite concerns over intellectual property, Vietnam’s pharmaceutical market shows a promising future. “Vietnam is one of the fastest growing economies in Southeast Asia since growing economy, liberalized trade, and technological advancements are providing opportunities to every sector in the country,” a report by Indian researcher, RNCOS’ stated.

The Potential

According to the Vietnamese Ministry of Health’s Drug Administration, the pharmaceutical sector’s revenue is forecast to hit US$2 billion in 2012, compared to around US$1 billion in 2007. The amount that Vietnamese people spend on buying medicine products is increasing exponentially each year. The government is encouraging foreign firms to invest in the field of vaccine production as the country imported US$59 million worth of vaccines last year to meet local demand.

Rising drug consumption and government investment make Vietnam an attractive pharmaceutical market. Many foreign investors developed an interest in Vietnam’s medicine market after it became a member of World Trade Organization (WTO) in 2007, the administration’s head Truong Quoc Cuong said.

Under Vietnam’s WTO commitments, foreign investors can establish 100% foreign-invested hospitals or set up business cooperation contracts with Vietnamese partners. The minimum capital for hospital construction is US$20 million. To date, Vietnam’s health sector has attracted 70 foreign direct investment (FDI) projects totaling US$908 million, according to the Ministry of Planning and Investment’s Foreign Investment Agency said.
Drugs in Vietnam – Watch Out!

The fundamentals

Vietnam’s population will be the eighth largest in the Asia Pacific region by 2016 with one of the youngest demographics in the region. From a legal perspective, recent changes have been made to IP law, which are encouraging. Demographically, Vietnam has a large and young population, which will be the eighth largest population in the Asia Pacific region by 2016.

Drug consumption in per capita terms is expected to increase by 70.0% in 2014. Local drug production met around half of the nation’s needs in 2010. The government has announced that improving the domestic pharmaceutical industry is the health sector’s highest priority over the next few years, in order to meet 70.0% of the nation’s drug demand by 2015. A plan to develop and restructure Vietnam’s pharmaceutical industry is underway, which includes boosting the production of essential drugs in order to cut prices, stabilize the market and reduce the country’s dependence on foreign pharmaceutical imports. Other targets include increasing investment in scientific research & technological application and expanding co-operation with foreign pharmaceutical companies.

The Challenges

The Drug Administration of Vietnam (DAV) has warned that drug prices are likely to continue to rise due to volatile raw material prices and the VND-US$ exchange rate. To review the local pharmaceutical market and prevent large drug price increases, the DAV has announced several measures. Accordingly, the DAV will step-up the inspection of drug price quotations by pharmaceutical companies through health workgroups and will promptly publish the results. The DAV will also supervise the enforcement of state regulations on drug price management and exercise sanctions on violators.
A High Tech Vision for Vietnam

Intel is one of several companies which made headlines in 2011 with hefty investments in Vietnam indicating a long term strategic commitment to the country. The company’s investment of over US$ 1 bln in a 500,000 square foot facility is the largest assembly and test manufacturing plant in the world.

The state-of-the-art facility in Ho Chi Minh City will test the latest technology microprocessors and chipsets for defects and repackage them for Intel’s global supply chain. It is both the first investment of its kind by the semiconductor industry in Vietnam, and the largest single factory within the intel assembly test global network. The facility is projected to employ as many as 4,000 people when in full production and will offer a range of employment opportunities spanning from hardware manufacturing to sales and marketing.

Intel was the first major foreign high technology investor in Vietnam and has run a sales and marketing office in Ho Chi Minh City since 1997 which provided sales and support to original equipment manufacturers (OEM), developers and end-users.

The new facility, which is the size of five and half football fields, is an answer to analysts and pundits who criticize Vietnam for relying too much on low value added manufacturing, such as textiles and footwear, and agricultural exports, such as rice, coffee and seafood. The World Bank and Vietnam’s Academy of Social Sciences (VASS) was quoted for saying in a report that the nation depends too much on exploitation of natural resources while its industry, much of it dominated by large state-owned groups, lacks dynamism.

If indicators are correct, Vietnam’s role is changing. CT Lim, a senior operations manager at Intel, speaking about Intel’s operation in the global context, said that “Computing and communication have converged. Design is now taking place in Asia as well as in the U.S., Israel and other places.”

The Vietnam factory differs from Intel’s other recent big investment of US$2.5 bln in a chip manufacturing plant in China, in that a chip manufacturing plant actually produces chips. However, assembly and test is a critical final step in the end-to-end manufacturing of Intel’s silicon products.

Intel said it was attracted to Vietnam by its skilled, vibrant workforce, as well as the support Intel has received over the past four years from the Vietnam government, the Saigon Hi-tech Park and suppliers. The project was first announced in 2006, and construction began in March, 2007, according to information provided by Intel.

Finding the right workers is not easy. Intel has also paid out at least US$4 million in scholarships to help talented Vietnamese students study foreign language courses in the US.

Intel is not the only high tech player with keen eyes on Vietnam. Significant investments over the past year have been made by companies such as Samsung, Nokia, Kyocera, First Solar and others. While many of these investments are landing in high tech parks around Ho Chi Minh City, various high tech parks are also being built around Vietnam to attract investment with incentives such as tax holidays and low rents.

In 2011, Vietnam received $11.6 bln in new FDI pledges, a figure which the government expects to match in 2012. A national program unveiled recently, “Developing High Technology Till 2020” is expected to see the country have some 500 enterprises providing hi-tech products and services by 2020. The program will focus on developing four hi-tech industries, namely information and communication technology (ICT), biotechnology, automatic technology and new material technology. Given the indicators, it appears Vietnam’s high tech trend is set to continue.

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**Recent Major Foreign High Tech Investments into Vietnam**

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<th>Company</th>
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<td>Bosch</td>
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<td>Germany</td>
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The Big Winners in Vietnam Supply Chain

The Annual Vietnam Supply Chain (VSC) Community Gala Dinner & Awards was held at the Presidential Club in Ho Chi Minh City on December 2.

The objective of the VSCC’s Award is to encourage continuous improvement of supply chain management knowledge & practice and highlight the enterprises and people that are driving excellence in Vietnam’s supply chain. Through the award, VSC Community aims to promote the cross industry collaboration that will enhance the global competitiveness of Vietnam.

The award is open to companies in various fields including manufacturing, logistics, distribution, retail, technology and consulting. The award nominations are assessed by a panel of judges comprised of leading figures in Vietnam’s supply chain community.

For the 2011 award, this panel included, Vu Quoc Tuan, Supply Chain Director of Kimberly Clark Vietnam, Dr. Eckart Dutz, General Director of CartridgeWorld Vietnam and Co-founder of the Vietnam Supply Chain Community, Julien Brun, General Director of CEL Consulting, VP French Chamber of Commerce in Vietnam, Co-founder of Vietnam Supply Chain, Mark Millar, International Advisor of Vietnam Supply Chain & Managing Director of M Power Associates and Mehran Ravanpay, Regional Supply Chain Director, DELL.

Criteria for evaluation included: the nature and complexity of the operations; value generated: impact on customer, revenue, cash flow or margin; ability to communicate and share within and out the company and impact for Vietnam within the related industry.
Winner Best Factory 2011: Theodore Alexander

- For the complexity of their products (4000SKU) & processes (flexible workstations)
- For their quality system efficiency (1/1000 defect)
- For their process orientation and continuous improvement culture
- For their low turnover and focus on people skill development

The Nominees:
- Theodore Alexander - Furniture & home decoration
- Schneider Electric - Power Distribution, home contactors & circuit breakers

Winner Best Supply Chain Partner 2011: CBRE

- For their clear commitment to invest into the field of Industrial Real Estate and Factory location projects.
- For their comprehensive and multi-objective framework to identify the best long-term decision and allow for trade-offs to achieve minimum overall costs for client.
- For their open and transparent information collection and computation process to achieve a mutually beneficial result for both parties involved.
- For their willingness to share industry updates to the community

The Nominees:
- CBRE

Winner Best Professional 2011: Pierre-Andre Quentin

- For his achievements this year and his commitment in building up a new function in Big C Vietnam
- For his hands-on approach and problem solving capability
- For his leadership skills
- For his integration to local culture and social engagements

The Nominees:
- Thomas Neff, DKSH - Country Logistics Manager
- Pierre-Andre Quentin, Big C - Supply Chain Manager
- Tran Van Mathilde Thuy, Metro Cash & Carry Vietnam Head of Fresh/Ultra Fresh Supply Chain Operations
- Nguyen Quoc Yen, Holcim Vietnam, Supply Chain Deputy Director
- Pham Ngoc Binh Long, Schneider Electric - Country Manager
Event Report: The Big Winners in Vietnam Supply Chain

Winner Best Green & CSR Supply Chain 2011: Puma and Friesland Campina (Ex Aequo)

Puma Innovative Global Commitment
• For their Bold and Long-term Commitment to focus on Sustainability (Company Mission: Most desired and sustainable Brand in Sportswear)
• For their Innovative and comprehensive assessment of all Environmental Impacts through a P&L system which captures all environmentally relevant issues and balances those off against improvements and savings.
• For their Ecological driven Product and Packaging Changes to reduce environmental impact. Bio-degradable shoes and "Clever Bag" to reduce packaging waste.
• For Green Office: Carbon neutral Head office operation

Friesland Food a Social Impact & Development of Local Supply Chain Practice
• For their effort to develop sustainable local upstream supply basis for dairy production
• For their multi-organizational approach to involve equally: Farmer - Governmental Organization - Processor (Friesland Campina)
• For a secure cold chain from the farmer to the processing plant
• For a mutually fair payment scheme to the farmer that ensures consistent supply

The Nominees:
• Puma Vietnam - Global Environmental Impact reduction program
• Friesland Campina Vietnam - Dairy development Program in Vietnam

Winner Supply Chain Implementation Excellence: Metro Cash & Carry

• For an industry-leading supply chain framework and processes in different category segments
• For a comprehensive framework to select and develop their supplier and to integrate them into the Metro Supply Chain Network
• For setting win-win framework with farmers - the social benefit to Vietnam community in rural areas
• For their innovative approach to fresh product logistics

The Nominees:
• Metro Cash & Carry - Integrated fresh supply chain implementation
• Big C - Set up of a new proximity fresh retail chain, New Cho
• Holcim Vietnam - Material Off-Loading Optimization
• Unilever Vietnam - Customer Service Excellence Program

Winner Best 3RD Party Logistics Provider 2011: Geodis Wilson

• For their amazing growth (80%) in tough times and structured business development (recruitment and 100% growth target next year)
• For their recent move (2011) to focus on complex domestic logistics (as opposed to their traditional Freight Forwarding)
• For the very positive feedback of (most) of their customer and ability to adapt to their requirements

The Nominees:
• Toll Logistics
• Geodis Wilson
• Vinafco
The Big Winners in Vietnam Supply Chain
Selecting your 3PL Provider

Mark Millar

Mark Millar leverages over 20 years of global business experience to provide independent Consulting, Education and Advisory services that create value for clients by improving the performance of their logistics and supply chain activities in China and the Asia Pacific region.

Acknowledged as an industry thought leader, clients have engaged Mark as Speaker, Moderator, Master of Ceremonies or Conference Chairman at more than 200 functions in 17 countries. His articles are regularly published by trade magazines in five languages.

Mark serves on the advisory board of several leading organisations and his industry contributions have been recognised with a number of accolades, including being named in the “Who’s Who of Power Players in Supply Chain Management in China”, the “Pro’s-to-Know Thought Leaders in Supply Chain” and as “One of the Most Progressive People in World Logistics”.

Contact him at mark@markmillar.com

Outsourcing More to Less

Recent studies confirm that companies are now outsourcing more of their logistics activities - and they are outsourcing to a fewer number of service providers. Therefore, the selection of your Third Party Logistics (3PL) provider is becoming increasingly important to empower effective and efficient supply chain ecosystems that are essential for competitive advantage.

Whilst the 15th Annual Third-Party Logistics Study found that 65% of shippers are increasing their use of 3PL services, the 2010 Global 3PL & Logistics Outsourcing Strategy survey by Eye-for-Transport also presents some interesting findings:

1. 97% of Shippers intend to increase their use of 3PL’s in the future
2. Shippers are consolidating their vendor base of 3PL’s – the proportion of shippers using between one and three service providers has more than doubled year-on-year to 58%, whereas in 2009 almost 60% of shippers were using four or more 3PL’s
3. 47% of shippers have recently switched 3PL or are currently planning to change 3PL, of these, 31% were changing because of Service and 16% changing due to Cost
4. Shippers report that Best Quality Service is most important when choosing a new 3PL, whereas 3PL’s think Shippers consider Lowest Price to be most important

With the increasing reliance on a fewer number of 3PL providers to execute even more of your supply chain, selecting your 3PL provider becomes increasingly critical, and so it is essential to have both a clear selection process and appropriate evaluation criteria.
Selecting your 3PL Provider

Challenges in selecting a 3PL provider

The selection process will typically take 3-4 months and involves considerable effort managing the RFQ (Request For Quotation) project. With the majority of 3PL service providers offering a comprehensive range of capabilities, it can be quite challenging to differentiate between them.

It is also challenging to evaluate the different providers and their offerings - as opposed to the selection and evaluation of physical products, for Logistics Services there is no opportunity to touch, feel and test the offering prior to making your selection. You have to be able to see through and beyond the power-point and the sales pitch to determine how the provider will be able to deliver on the promise – consistently, reliably and cost effectively. The resulting agreements will typically be long term commitments (3-5 years is typical) thereby reinforcing the importance of making the right choice.

The consequences of selecting an unsuitable 3PL provider are significant. The potential impact on your business’ supply chain ecosystem could adversely impact customer service, profitability and stakeholder value. The process to repair an incorrect selection is lengthy, painful and costly. Fully recovering from an unsuitable selection – from trying to fix the situation through to migrating to a new 3PL provider - could take up to two years.

Engaging an external resource on a contract basis can benefit the process of evaluation and selection by combining project leadership – alleviating the burden on in-house resources from the additional workload – together with industry experience and expertise, to provide an independent and knowledgeable perspective to the project.

Based on over twenty years global experience in third party logistics, here are some insights into international best practices in Selection Process and Evaluation Criteria.

The consequences of selecting an unsuitable 3PL provider are significant.
Evaluation Criteria for selecting your 3PL provider

It is important to compile your criteria for evaluating the potential 3PL providers and for the project team members to independently rate and score the participants. Rather than compiling the actual total scores, compare each team member’s resulting ranking of the bidders (first, second, third place) – this will neutralise the impact of some team members being more generous with their scores than others. Having collated the rankings, explore any significant areas of difference through discussion and review of specific line item details.

In compiling your evaluation criteria, include both quantitative and qualitative factors, together with consideration of future potential requirements. Consider the following seven main categories for your evaluation criteria to support your selection process. Within each category, expand the detailed expectations and requirements to match your business needs and specific circumstances.

1. **3PL Provider** – size and scale of their operations, people and finances. What is their standing in the industry? Market reputation, competitive positioning and financial viability; are they the appropriate size for your company? Amount of their senior management involvement in the bid process? Are they committed to your company and your business? Will you be important enough to their business? Consider their corporate DNA – vision, values, approach to corporate responsibility. Are they a good organisational fit for your company?

2. **Logistics Solution** – do they have the operational capabilities? Does the proposed solution meet your business needs? Consider operational aspects such as their warehouse, equipment, space? Do they have the necessary expertise? Similar solutions for similar customers? From the geographic perspective, does their logistics network provide adequate logistics services for the origins and destinations within your supply chain?

3. **Economics** – how do they rank from the financial perspective - are they competitive on price? Are there opportunities for economies of scale? Are they flexible in their pricing approach? Have you addressed the pricing process for new and emerging requirements that will arise further down the line?

4. **Technology** – how robust are their information technology platform and systems, and their ability to integrate with your IT systems? How do you rate their IT capability and competence? What prior experience do they have of similar system integrations?

5. **Future Proof** – are they and their solution able to grow with you as your business grows? Is their solution scalable and flexible? Can they meet your future potential needs? How quickly can they ramp up operations? Do they have the capability and financial means to expand their skills base and operations?

6. **Value Add** - do they have the experience, knowledge and expertise to help you improve your company’s logistics activities? How do you perceive the provider in terms of industry leadership? Will they take a proactive approach to explore and propose mutually beneficial solutions?

7. **Services Delivery** – your confidence levels in their ability to ‘deliver on the promise’ – execute on their proposed solution to deliver the operational requirements and business benefits – consistently, reliably and cost effectively. Will they successfully deliver on your requirements through the three additional marketing P’s that are critically important in Services businesses – the Physical results, the Processes and the People? What are the experiences of other customers – through anecdotal evidence and client references?
It is critical to adopt good process and use proven evaluation criteria to choose your 3PL provider. The selection process is an intensive, time-consuming project that requires specific expertise and additional resources - over and above normal business activities – for the duration of the project. Consider engaging an independent, external resource to add value to the process and reduce the burden on in-house resources.

The consequences of making a mistake are significant. At a recent logistics industry conference attended by numerous leading international companies, the anecdotal consensus was that changing your 3PL provider as a result of poor performance is a painful process, that will take 9 to 12 months and will cost between 15 to 25% of your annual logistics spend!

In the context of delivering services, prior experience is a very powerful means to evaluate alternative providers – think about restaurants, schools or hair dressers. Successful service delivery manifests itself through the three P’s of Services - the Physical results, the Processes and the People.

As you do not yet have any prior experience of the service providers being evaluated, you should place considerable emphasis on those that do – existing customers as client references plus market references from former customers and industry advisors. In the context of references in service businesses, I like to use my simple two question litmus test of customer satisfaction: Would you buy again? and Would you recommend?

### 7 Evaluation Criteria for selecting your 3PL Provider

|------|-----------------------|--------------------------|---------------------------|

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“Indaba CEO Dinner” - Asia Supply Chain Trends

By Mark Millar

Roadmap: Asia Supply Chain Trends

01. Complex Dynamics

► Globalization Balance is shifting - through 2050 is “The Asia Era”

► Asia: One Region, Multiple Markets, Two Worlds

► Two worlds - Factory and Shop - Interconnected and Converging

► MNC’s Came for the Workers
Stay for the Shoppers

Workers

“Urban Economic Clout moves East 2025, more than 20 of top 50 Cities in Asia”

02. Changing Landscape

► Substitute, SupplementAlternative, Additional Domestic, Export

► The Decision to Offshore - top factors in selecting locations for manufacturing and supply operations

► Asia Options: Ease of Doing Business

► Vietnam Rising - Key Opportunities
1. Accelerate Infrastructure
2. Global Supply Chain Integration
3. Developing Consumer Market

► Changing Landscape Asia Retail Fragmented Development

► Changing Landscape
Asia Dynamics - Consumer Market Potential
**03. Distribution Challenges**

► Logistics Performance Index (LPI)
Trade Logistics in the Global Economy

- 1. Customs
- 2. Infrastructure
- 3. International Shipments
- 4. Competence
- 5. Track & Trace
- 6. Timeliness

► LPI Logistics Performance Index - variations throughout Asia!

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<th>Infrastructure</th>
<th>Internat'l Shipments</th>
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► Supply Chain Resilience - four pillar model to drive Competitive Advantage
- 1. Visibility
- 2. Flexibility
- 3. Collaboration
- 4. Speed

► Supply Chain Software
► Core Competency

**04. Top 10 Vietnam Supply Chain Congress**

- 10. Speed - Nurture – Harvest
- 9. Dynamic Value Networks
- 8. Problem Child – Cows – Dead Wood – Stars
- 7. Change and Speed – need for Adaptability
- 6. Knowledge Convergence
- 5. Technology: Shaping & Connecting World
- 3. High Tech investments gravitating to VN
- 2. Supply Chain Blues & Meat Balls at Vasco’s
- 1. Who is the Lady Gaga of VN Supply Chain?
CALENDAR

MARCH
- MAR 07: Networking “Let’s support each other” & Dialogue “Women in Supply Chain”
- MAR 10: Supply Chain Challenge “Measuring your Supply Chain knowledge”
- MAR 15: Members’ Breakfast
- MAR 17: Academy “Practical Introduction to Supply Chains”
- MAR 21: Group Breakfast @ District 2, Retail & Distribution Fresh & Cold Chains
- MAR 30: Factory Tour

APRIL
- APR 04: Academy “Transportation Management”
- APR 06: Conference “People in Supply Chains” & Career Expo
- APR 07: VSC Young Talent Training Camp
- APR 07: Academy “SC Performance / KPI”
- APR 13: Members’ Breakfast
- APR 18: VSC Mini Supply Chain MBA Program
- APR 20: WAREHOUSE Conference
- APR 21: Academy “Warehouse Management”

MAY
- MAY 15: Members’ Breakfast
- MAY 19: Academy “Strategic Sourcing”
- MAY 25: Factory Tour

This calendar is updated monthly. For most updated activity calendar or more details / registration, email to: info@vietnamsupplychain.com

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Having a weak link in your supply chain is not a problem. If you know where it lies.

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If you’re looking to expand your knowledge on supply chain strategy, you might want to check out John Gattorna’s 2010 book, Dynamic Supply Chains: Delivering Value Through People.

As a follow-up to his 2006 book, Living Supply Chains, Dynamic Supply Chains stresses the need for a radically different business model as a result of the Global Financial Crisis, and presents ‘dynamic alignment’ as that model. The book emphasizes how supply chains are about more than warehouses, transport and technology.

According to Gattorna, “The primary focus is on re-interpreting customers’ differing expectations, and using this insight as the frame-of-reference to design the internal cultural capability to respond in the most appropriate ways. The ultimate aim is to eliminate over-servicing and reward those customers currently being under-serviced.”

Four generic supply chain types are identified and described in detail, on both the demand- and supply–sides. On the supply-side, the aim is to reconnect suppliers to enterprise chains rather than operating with separate procurement strategies, unconnected to the front-end. New ways of segmenting suppliers are suggested, which are quite different to conventional methods.

Gattorna identifies and describes a limited number of ‘hybrid’ supply chain configurations that he demonstrates with real examples, and in the process demystifies much of the complexity that has built up in contemporary supply chains.

Content:

- Goes beyond logistics, operations and procurement to include the real drivers of dynamic supply chains - the people who run them
- Includes the impact of the recession with chapters covering: creating appropriately aligned strategies; new and efficient organization designs; and the ‘forgotten half of the equation’, supply-side supply chains.
- Shows you how the whole leadership team can drive the activity necessary to create a truly customer-focused business.
- Includes diagnostic tools to help you assess how aligned your business and supply chains are with your markets and customers.

Reader Review

“Most books on supply chain tend to be too academic and most often provide unexciting reading once you get past the basic theory. This book is different in both its premise (different types of supply chains shaped by different types of customer behavior) and the real-life examples that support Gattorna’s theories. And where other tomes on the topic emphasize the role of process and technology in the supply chain, Gattorna places equal emphasis on the human element that makes the difference between success and failure.”

About the author

John Gattorna has worked in and around corporate logistics networks and supply chains for over two decades. In the 1980’s, disenchanted with the lack of predictive power in the logistics theories and practices of the day, he set out to find a new business model that would better inform the design and operation of enterprise supply chains.

Based in Sydney, Australia, Gattorna teaches at several universities around the world, speaks regularly at international conferences, and advises boards and the C-suite of several multi-national companies on how to apply alignment principles to their businesses.
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3 Minute Challenge

There are 30 words related to Supply Chain Management in the below puzzle. Can you find them all in 3 minutes?
If you do, email to SCMfun@aino.com.vn to share us the joy.

<table>
<thead>
<tr>
<th>ACTIVE INVENTORY</th>
<th>BULLWHIP EFFECT</th>
<th>FREE ON BOARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSEMBLE TO ORDER</td>
<td>CARRYING COST</td>
<td>GREEN SUPPLY CHAIN</td>
</tr>
<tr>
<td>AVAILABLE-TO-PROMISE</td>
<td>CASH TO CASH CYCLE TIME</td>
<td>HUB AND SPOKE SYSTEMS</td>
</tr>
<tr>
<td>BACKLOG</td>
<td>CROSS DCKING</td>
<td>INDIRECT LABOR</td>
</tr>
<tr>
<td>BACKORDER</td>
<td>DIRECT LABOR</td>
<td>INVENTORY BUFFER</td>
</tr>
<tr>
<td>BENCHMARKING</td>
<td>EOQ</td>
<td>INVENTORY BUFFER</td>
</tr>
<tr>
<td>BILL OF MATERIAL</td>
<td>ENGINEER TO ORDER</td>
<td>INVENTORY TURNOVER</td>
</tr>
</tbody>
</table>

www.aino.com.vn
This Mini MBA covers the content and methods normally being taught at an Executive MBA Program. The objective of this course to make the student familiar with the Strategic Dimension of Supply Chain Management and especially on how Supply Chain Management can be used to improve the performance of company in areas like Cost, Service and Quality. The content is based on practical examples from globally operating companies but always with a critical view on how those concepts and practices can be implemented in the Vietnamese market-place. Sectors that are in the focus are FMCG (Food and Non-Food), Retail, Automotive, Textile especially Fashion and the key export sectors of Vietnam. The topics cover all key areas of Supply Chain Management from Sourcing and Manufacturing to Planning and Distribution and also touch on the latest developments on Green Supply Chain and Risk Mitigation in Supply Chain systems.

**Learners’ Benefits**
- Comprehensive and Up-to-date Curriculum
- Supply Chain Management taught from a Strategic and overall Business Performance perspective in 36 hours
- Appropriate Mix of practices from Developed and Developing Markets
- Delivered by Facilitators with strong academic and practical background (> 15 Yrs of Supply Chain Experience in Vietnam and South East Asia)
- Accredited by VSC and 1 year free Membership of VSC

**Class Times**
- In 06 weeks: Wed evenings (18:00-21:00) & Saturday mornings (08:30-11:30)

**Entry Requirements**
- Bachelor or MBA, ideally with min. 2 years of Supply Chain Experience
- Intermediate English

Course starts on Wed 02nd May 2012. Registration deadline: 15th April 2012. Early bird & group discounts available, saving up to 20% of the course.

Contact us now to reserve your seats.
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Supply Chain People Conference 2012

Soure. Recruit. Develop. Retain Talents
HCMC, 09th May 2012

Every organization is impacted by supply chain because every organization has one. Failing to manage your company’s talent needs is the equivalent of failing to manage your supply chain. Today’s highly competitive markets require increasing numbers of competent managers for the planning, implementation and control of complex international networks.

Supply chain managers ask questions like, ‘Do we have the right parts in stock?’ ‘Do we know where to get these parts when we need them?’ and ‘Does it cost a lot of money to carry inventory?’ These questions are just as relevant to companies that are trying to manage their talent needs. In other words, the principles of supply chain management, with its emphasis on just-in-time manufacturing, can be applied to talent management.

Joining the “SUPPLY CHAIN PEOPLE” Conference organized by Vietnam Supply Chain on Wednesday 09th May 2012 13:00-17:30 in Ho Chi Minh City, you will learn, being shared about how to SOURCE. RECRUIT. DEVELOP. RETAIN your talents in supply chain.

• 60% of business failure is due to supply chain.
• 90% of supply chain issues come from people mistake.
• 95% of people mistake is due to mis-communication.

Thus, the “Supply Chain People” Conference of Vietnam Supply Chain will focus on the key theme: COMMUNICATION for 2012.

Who should join this conference
• General Managers, General Directors, Chief Ref, Country Managers, CEOs
• Managers/Directors/Heads of Supply Chain or functions related
• Managers/Directors/Partners of Human Resources, Talent Development

Key Topics covered
• Overview of University curriculum related to Supply Chain
• Job and labor market review & trends
• Recruitment practices (generic + supply chain insight)
• Career path in Supply Chains
• Motivational Incentive
• Establishing a culture
• How a HR consultant would tackle communication issues
• Communication tools for collaboration
• Process & formal communication benefit
• Speaking the same languages

Programme
12:30  Delegates’ Arrival & Welcome Reception
13:00  Training: “Talent on Demand Approach”
       A fast-track training in 60mins for HR Managers to learn about the concept of “Supply Chain Management” and how to apply it into talent management
14:00  Opening Remarks by Vietnam Supply Chain
14:10  Conference
15:30  Break
15:50  Conference (continued)
17:30  Closing
18:00  Cocktail Networking

Exhibition
Only available for Training & HR Support Service providers
Please contact Ms. Quyen Nguyen: info@vietnamsupplychain.com for more details.
Limited space available.

Sponsorship Opportunities
Please contact Ms. Quyen Nguyen: info@vietnamsupplychain.com.

The supply chain is "the biggest leverage point we have."
Dell
"The supply chain is the business model."
Zara
"Customer value lies in our ability to architect and operate supply chains."
Li&Fung
Vietnam Supply Chain Congress 2012
Source. Make. Deliver

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“Congratulations on the very professional organisation of the Event. It was a great function and a fantastic networking opportunity. It was an honour to be a part.”
Adam Balarin, Vice President, Supply Chains, Unilever Vietnam

Confirmed Keynote Speaker
Dr. John Gattorna
B.E. (Melb); MBA (Monash); PhD (Cranfield)
Supply Chain Thought Leader & Writer of Living Supply Chains
Dynamic Supply Chain Alignment and Dynamic Supply Chains

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