Domestic Market and Problems to Solve

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1. Local companies in the domestic market

In the past few years when Vietnam was integrating more and more into the world market, the competitiveness of Vietnamese goods has been improved remarkably. According to many economic analysts, 2002 and 2003 are years in which Vietnam achieved an important breakthrough in export business due to the Vietnam-America Trade Agreement and clothing agreement. But in 2004, the Vietnam export met with difficulty because there was no factor of breakthrough left. To gain a growth rate of 8% a year, the export must rise by 15%. This is a heavy task that requires efforts from all industries and ministries.

As for export markets, local companies during their first stage of integration into the world market have met with difficulties in competing against foreign rivals. They should find market niches and establish footholds on the world market because many local goods are equal to foreign ones and saleable in many countries. This public image could be considered as a result of joint efforts by companies and the government.

On the domestic market, the competition has become keener and keener because most foreign countries that penetrated into Vietnam are multinationals with detailed strategies for each stage of development. They could accept losses in first years in order to defeat local producers and expand their market shares. In China and Thailand, foreign companies have controlled some 80% of the retail market. In Vietnam, when Metro – a global supermarket chain – open its branch in Vietnam, it could quickly attract a large number of buyers and wholesalers. If no measures are taken on time, small retailers will be expelled from their own retail market. Vietnamese companies should consider the domestic market as a basis for their development and a springboard for their entry to the world market.

Statistics show that staple exports from Vietnam in recent years are: clothing, footwear, aquatic products and handicrafts; but they aren't attractive in the eyes of local residents although the prices are low in comparison with foreign ones. The question is how to make local goods saleable on the domestic market. Many studies pointed out the following reasons for the failure to increase the share of local goods in the domestic market:

a. There is no strategy to build Vietnamese brand names.

Most local companies didn't care about this problem because they lack knowledge, and moreover, they face disadvantages when trying to protect their brand names. These disadvantages come from lenient sanctions against violations of intellectual property.

Many regulations also discourage them from building the brand names. For example, regulations force them to keep expenditure on advertisement under 10% of the production cost. This percentage is very small for producers of consumer goods, such as food, cosmetics, clothing or footwear. And as a result, they should spend more on ads and pay fine imposed by laws.

b. There are no professional distributors.

At present, the network of trading companies and distributors isn't strong enough. Many producers have to build their own distribution systems or even retail outlets. This practice is a waste of energy and isn't effective. A

waste and recycle it while Vietnam is reluctant to do the same. Other industries also face a similar situation. The government had better consider this policy weighing it against environmental issues and take measure to support local producers.

Some trading companies have developed their supermarket chains, such as Co-op Mart, or introduced franchising agreements, such as Trung Nguyên Coffee Company, thereby playing important roles in the domestic market and increasing their market shares. They are good examples of methods of penetrating new markets. Absence of a network of professional wholesalers and retailers is really an obstacle to the development of consumer markets.

network of professional distributors could not only reach end users but also collect feedback needed for producers to adjust their business strategy. That is one of reasons why many producers could sell their goods on foreign markets and fail to reach local consumers. Moreover, many producers, after securing a foothold in foreign markets, fail to realize the importance of the domestic market. For example, after the lawsuit against Vietnamese fish and shrimp, many producers of aquatic products started to open retail outlets in Vietnam, and they then realized the potentials of the domestic market. Similarly, local consumers could only buy over 80 products made from the local fish after the lawsuit. This means that local traders fail to engage in trading specialized products.

c. There is no diverse campaign to enhance the brand name.

Although they have tried their best to increase the output, most local companies didn't think of registering their brand names and taking part in international trade fairs that are good opportunities to market their goods and advertise their brand names.

Some organizations and the press have recently held festivals and contests to praise and encourage consumption of local goods, but these efforts are temporary and limited in certain cities or provinces, so they fail to represent the whole community of companies.

2. Problems to solve

a. Developing networks of distribution:

At present, most companies haven't got national network of distribution, so they should build places for trading (marketplaces, supermarkets, exchange centers, etc.) and establish good relations between production and distribution.

Companies should carry out market researches with full attention paid to each season and local conditions. When the export of fish to America slowed down, many exporters started to study different tastes of consumers and many months passed before they could supply products suitable to each province.

The network of retail outlets is also necessary. Many companies that got accustomed to wholesaling or exporting goods in large quantities are reluctant to spend time and money developing retail outlets. Haprosimex specializing in handicrafts and processed farm products has secured footholds in 54 countries, and in 2003 it started investing in new production lines with a view to making canned food for the domestic market. In early 2004, it inaugurated many outlets but the sales weren't high as expected. This means that Haprosimex has to carry out more studies on needs and tastes of customers before it can make saleable products.

b. Securing reliable sources of raw materials:

At present, many industries that gained high export values are facing difficulties caused by increasing prices of raw materials and foreign competition. Before 2003, for example, Chinese plastic goods paid antidumping rates varying from 62% to 120% imposed by the EU. From February 2004 on, China became a WTO member and it was free from that tax bracket, and as a result, Chinese plastic goods sold to the EU are from 15% to 20% cheaper than Vietnamese ones. Chinese goods are even flooding the Vietnamese market. This is originates from the fact that China decided to import plastic

c. Improving the competitiveness:

Besides efforts made by distributors, producers have also to take measures to reduce intermediate cost that is on the increase in comparison with the increases in the output, especially cost of supporting services and waste materials. Statistics show that wasteful use of raw materials has surpassed the allowed technical standards. Obsolete machines are also a reason for this situation. To reduce the production cost, producers should modernize production lines, rationalize costs and expenditures, and struggle against wasteful use of raw materials.

Joining the WTO could help exporters reduce payments in taxes but it could pose serious problems for them in expanding their market shares. Both producers and distributors have to adjust themselves to the new situation and work our suitable strategies instead of relying too much on support from the government, which is contrary to laws of the market economy.■