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The time is now in Vietnam, as Damien Duhamel identifies key opportunities in the agrifood sector.

Vietnam: Seize The Day!

FOR more than a decade, investors bypassed Vietnam. The country suffered from its initial mismanagement of foreign investment, and like its Asean neighbours is also suffering from the "Invest in China" syndrome.

However, with a 6.5 percent GDP growth in 2002 and a forecasted seven percent in 2003, a single digit inflation rate, a market of 80 million literate and hardworking people, a surge in commodity exports, a boom in tourism and an increasingly enterprise-friendly government, a multitude of business opportunities in the agrifood sector in Vietnam are opening up for the wise investor.

HARVESTING THE BOUNTY OF NATURE

Most of the country's agro products, such as coffee, rice, cashews, meat, seafood, pepper, fruit and vegetables are sold fresh or preliminarily processed, due to a lack of processing technology. According to the Ministry of Agriculture, only five to seven percent of fruits and vegetables, one percent of meat, 15 percent of coffee, 50 percent of cassava and 80 percent of rice are processed each year. Up to a third of the production is lost after harvest.

Investors are advised to steer clear of tropical fruits, as the sector is already dominated by Thailand and the Philippines.

Because of its poor quality, Vietnamese agro products tend to be much cheaper than those from other countries. The price of Vietnamese rice, for example, is US$10-15 per ton lower than Thailand's, while coffee is US$50-100 per ton cheaper than that of other coffee exporting countries.

Given the current circumstances, most Vietnamese agro products have no choice but to be restricted to the domestic market. This is the result of inadequate processing equipment and facilities, antique preservation methods, the lack of a reliable logistics chain, consumer needs-mismatch and poor marketing skills, not to mention limited access to capital and training.

The Vietnamese Government understands this massive hurdle, and has made the development of the agribusiness sector in Vietnam a key priority. Synovate Business Consulting estimates that between now and 2015, the industry needs a minimum of US$7 billion to build plants and upgrade handling and processing equipment, to boost production and product quality. The bulk of the investment will have to come from foreign investors.

The following sectors represent substantial opportunities for foreign companies, as well as presenting unique problems.

FRUITS & VEGETABLES

Currently, most fruits and vegetables are sold fresh on wet markets. There is only a small export market for Vietnamese exotic fruits around Asia, as Thailand and the Philippines are miles ahead in this business.

The opportunities for processed fruits and vegetables are in the huge domestic markets for soups, drinks, purée, paste, essence, canned and prepared fruits and vegetables. The possibilities for experienced, technology-driven and marketing-focused enterprises are almost limitless in this field.

Problems: Fruit and vegetable production is dispersed among many small orchards and producers, making it very difficult to buy large quantities regularly from a predetermined set of suppliers. If you are looking to buy large quantities at a bulk rate, think again.

MEAT

At present, most animals are killed in the early morning in suburban abattoirs. The meat is then prepared 'the old fashioned' way, and distributed along a cold chain which is at best unreliable. Most of the meat is sold in wet markets without any form of protection against dust, sun, heat and bacteria.

More and more urban Vietnamese now understand the value of clean food and are rushing to buy their perishables from supermarkets. Currently, the meat processing industry in Vietnam generates revenues of US$340 million annually. Synovate Business Consulting estimates that the industry is growing at 10 to 12 percent a year. There are fantastic opportunities in the whole beef value chain: from cattle to animal feed, modern slaughterhouses, Western style cold cuts, processing equipment and meat processing training. The demand is great, while the local capabilities are minor.

Problems: In a country of fishermen, beef is considered a relatively expensive delicacy. For most Vietnamese there is a lack of affordable local supply. The supply of beef is insufficient to bring prices down.

SEAFOOD

This is one of the booming agricultural sectors with very heavy government support. While the fishing industry is more or less closed to foreigners, the seafood-processing field is open to all. Asian companies from Japan, Thailand, Malaysia and Singapore have done very well in this field, mostly for export markets.

In 2003 the Vietnamese government estimates that more than US$2.2 billion worth of seafood will be exported from Vietnam. Domestically, the industry suffers from the lack of proper cold chain infrastructure. As in the rest of Asia, most seafood is prepared quasi-live.

Problems: Vietnamese seafood does not command high prices. There are serious hygiene problems which are hampering faster growth and higher margins from the Japanese, US and European markets. The country is still in need of HACCP training, as well as other ISO accreditation.

Vietnam is expected to export more than US$2.2 billion worth of seafood this year.

There is a huge need for proper fish feeding, pond cleaning, wastewater and pollution treatment, better water and seafood quality and testing equipment. The Vietnamese aquaculture industry is also hampered by a disorganised multitude of small, cash-strapped aquafarmers.

DAIRY PRODUCTS

Currently importing 90 percent of its milk products (to the tune of US$330 million), Vietnam seeks to quadruple its dairy cattle over the next eight years, to meet rising demand and boost rural incomes. Unfortunately, milk remains beyond the means of many poor rural households. The per capita consumption of 6.5 litres is still low, compared to 34 litres in Malaysia, and 27 litres in Thailand.

Still, the Vietnamese are avid consumers of yoghurt, ice cream, dairy drinks, cheese, baby food, and butter. There are already a few dairy food players in the country, but there is still plenty of room for aggressive and long-term niche players. The dairy industry is expected to continue to grow at a steady eight to 11 percent a year in the medium term.

Problems: Investors are recommended to stay away from the dairy cattle business. Australia and New Zealand have demonstrated their strength in this field, and it is more cost-effective to

[below] The meat processing industry is worth US$340 million annually.

import milk and then process it, rather than to venture into local milk production. The probability of combining the right climate, skills, productivity, and economies of scale is simply too slim. The industry is also strongly dominated by government-backed Vinamilk, which reportedly plays the rules of 'free competition' to its own advantage.

SNACKS & CONFECTIONERY

The confectionery business is dominated by numerous small players, most of whom have insignificant branding. As in the case of La Vie mineral water (see box story), a few foreign players were able to capitalise on this lacuna and have built strong brands in almost a matter of months. These include Philippines-based Liwayway in salty snacks, and Lotte in chewing gum. Few Vietnamese entrepreneurs have the technical and marketing skills, or the overseas exposure to new confectionery trends, not to mention the necessary capital. Clearly, this is a situation which will not last much longer.

Problems: The low margin and price per item mean that mass distribution must be quickly organised to gain momentum, in a country where mass distribution is anything but easy to organise (logistically and financially). Bootlegging and counterfeiting is a national sport, and companies can expect to have their brand usurped in a short time. In the case of La Vie mineral water, the company fought and won every single copyright infringement to make its case clear.

TURNING WATER TO GOLD: THE LA VIE STORY

July, 1994. The scene: Long An, 50 km south of Ho Chi Minh City. The occasion: the inauguration of La Vie mineral water plant – the result of a partnership between a small Singaporean investment company called Corporation Franco-Asiatic and Vietnam-based Long An General Trading Co.

Humble in size, the plant housed several brand new machines from Italy and France, and was run by a few expatriate managers and a large number of young Vietnamese sales staff. The mood was upbeat; the Vietnamese staff proud to work for the very first foreign mineral water brand in Vietnam.

In the same month, the company launched its mineral water branded "La Vie" ("Life" in French). Back then few thought that La Vie would conquer Vietnam. In a matter of months, La Vie was officially and unofficially distributed from Ho Chi Minh City to Hanoi, and from Danang to Phnom Penh in Cambodia. The product captured the bulk of the Vietnamese mineral water business, leaving importers of Indonesian mineral water in despair.

The secret of its success? These can be summed up in eight critical points:

- A small, experienced expatriate management team.
- Good management of the Vietnamese joint venture partner. This is critical.
- Strong human resource orientation. La Vie provided its employees with the type of benefits offered in developed countries (extended maternity leave, company trips, etc), thus ensuring strong company loyalty.
- Dealing swiftly with all patent and trademark infringements. The company has won more than 50 cases – a warning to all would-be counter feiters and product pirates.
- A powerful and efficient distribution network across the country.
- Regular innovations in packaging.
- Premium quality and pricing. These result in good margins for retailers.
- Massive and regular marketing campaigns. The exposure rapidly builds brand equity and market share, keeping other potential foreign entrants out.

Today, La Vie has grown to be one of the most recognised brands in Vietnam, and one of the most successful agribusiness companies in the country. The company did well because it had a good knowledge of the market, and a clear understanding of the competitive environment and market segmentation. After many successful years, the company was sold for an undisclosed amount to Perrier Vittel of Nestlé.

PACKAGING

As of 2002, there were more than 700 packaging firms in Vietnam grossing US$72 million in revenue. This is a clear jump from the early 1990s, when large packaging firms could be counted on two hands. Unfortunately, the increase in the number of players has not been matched by any real improvement in packaging quality and design.

The problem is hurting Vietnamese goods both domestically and overseas, where processed food is exported mostly to former communist countries such as Russia and Cambodia. The only exception is the instant noodle business, where the quality and packaging standards are every bit the equal of their Chinese, Thai or Indonesian counterparts.

Instant noodles aside, the country remains in urgent need of international standard packaging. Companies such as Tetra Pak and Sidel have been very successful since their early days in Vietnam. Imports of processing and packaging equipment totalled US$370 million in 2002, while another US$200 million worth of equipment was assembled or made in Vietnam. This excludes the large refrigeration equipment market (worth US$580 million).

Problems: As in all types of machinery, Vietnamese companies often prefer second-hand equipment from China at discount prices, without anticipating the consequences. Therefore, to capitalise on the country, it is necessary to be present locally to develop 'Guanxi' (connections). Others pitfalls include the serious shortage of finance for expensive equipment.

PROCESSING COMMODITIES

These industries are semi-closed to the average entrepreneur, with the Vietnamese government eager to promote Vietnamese-owned projects on one side, and large MNCs monopolising bulk purchasing on the other. There are only a handful of truly successful projects in the commodity processing business in Vietnam.

The "killer application" remains processing equipment, for which there is huge demand in Vietnam. While there is still a large market for second-hand machinery, more and more clients expect after sale services and training and a level of client-servicing quality that only established dealers can offer. Chinese and Taiwanese suppliers lead the second-tier price range, while Japanese, French, German and Italian equipment dominate the first-tier. US firms are lagging behind, and have yet to make significant inroads.

Snacks and confectionery offer immense opportunity… if investors can get around the problem of product piracy.

[facing page] Dairy products such as yoghurt, ice cream, dairy drinks, cheese, baby food, and butter are very popular among the Vietnamese.

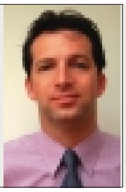
CARPE DIEM

In a country where agribusiness opportunities flourish by day, foreign companies would be well advised keep Vietnam on their strategy map.

Clearly, 2003 is not 1994. La Vie was indeed a pioneer and has reaped the fruits of its initially risky investment. On the other hand, Vietnam is also filled with well-publicised cases of equipment delivered but never paid for, joint venture partners walking away with capital, technology and skills, and numerous other business horror stories.

However, with the right market intelligence, the appropriate business model, and a meticulous review of problems and opportunities, foreign companies can repeat the success of La Vie in different fields. Building a brand, capturing market share, launching innovative products – these remain possible for the company with skill, courage – and a dash of luck. APFI

Damien Duhamel is the Asia Pacific Director for Synovate Business Consulting. He has spent the last 12 years in Asia, including five years in Vietnam.



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