

## 11. Franchising

### Overview

	2003	2004	2005 (estimated)
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	N/A

*(Data is not available)*

Franchising in Vietnam is a relatively new phenomenon, but one that offers significant commercial opportunities for American firms. Previously deterred by government restrictions on royalty payments for technology transfer agreements, including franchise license agreements, new laws and regulations are now being formulated that may relax restrictions on franchising activities. As a result, prospects for engaging in franchise arrangements activities in Vietnam are expected to become much more attractive.

Consumer and economic conditions in Vietnam appear to be developing quite favorably for the entry of international franchising into Vietnam. There are hopeful signs that changes in law and regulations governing franchising, bolstered by Vietnam's anticipated entry into the World Trade Organization (WTO) will lead to a more transparent, open market. In addition, an expanding consumer class should create a wide scope for the development of international franchises.

With Vietnam enjoying a steady GDP growth rate of more than 7 percent annually, many entrepreneurs are seeking business opportunities from overseas. Awareness of franchise businesses in the United States is strong, with many Vietnamese businesses interested in acquiring the rights to operate American franchises. There appears to be a strong potential market for franchises in many sectors, with particular interest in services, including education and training, as well as the fast food industry. Other potential fields are business services apparel, cosmetics, beauty care and retail.

### Best Products/Services

Vietnam already has a number of successful domestically-based franchises, with current franchise operations focused on fast food outlets. Other business opportunities in the franchising sector remain largely unexplored. Presuming the new franchise law and other relevant regulations result in the anticipated market openings, Vietnam's franchise market could experience significant growth.

Some consumer goods and fast food firms have tested the franchise waters in Vietnam. These include Swatch, Clinique, Baskin-Robbins, KFC, Texas Chicken, Jollibee (of the Philippines), and Lotteria (of Japan). Major international film companies have established extensive networks of photo labs in franchise-like agreements with

Vietnamese entrepreneurs. Vietnamese companies are also beginning to enter the franchise sector, with many having ambitious expansion plans. Trung Nguyen Coffee, is probably the largest chain in Vietnam, with some 1,000 outlets, including several overseas. Kinh Do bakery presently has 25 establishments, including one franchise. A fast growing entry into the food sector is Pho 24, which now has 12 noodle shops in operations, including four operating as franchises.

As the legal and regulatory environment are improving, franchises could take advantage of the recent explosion in retail space development in Ho Chi Minh City and Hanoi, which has significantly increased the number of high-traffic sites that would be suitable for retail franchise outlets.

Potentially strong demand for U.S. franchises industries exists in Vietnam, especially for fast food restaurants, education and training, business management and retail. At present, the American franchise presence in Vietnam is quite limited. KFC, the first U.S. franchiser entered market in 1997 and opened its 14<sup>th</sup> establishment in end-2005.

## Opportunities

Presently, Vietnam still lacks a specific law governing its franchise sector. A decree issued by the then Ministry of Science and Technology in 1998 (ND 45 CP) included rules on technology transfer in 1998, which did not explicitly address the franchise sector, but had the impact of limiting the development of franchises. Under this decree, franchise royalties were capped at 5 percent of the net sale price, of which net sale price means the total sales revenue of products/services minus all taxes, full cost, shipping and marketing costs.

An amended commercial law, which has been passed at the end of 2005 by Vietnam's National Assembly, provides for a legal and regulatory climate more conducive to the development of the franchise sector. Together with the new commercial law, a Decree specifically stipulating franchising services is also expected to be issued. The franchise royalty has not yet been determined exactly, but it is expected to raise the royalty cap to 7 percent or more of the net sales revenue.

U.S. franchisers are encouraged to contact CS Vietnam about opportunities for expanding their businesses in the country.

The U.S. Commercial Service Vietnam is planning to conduct a series of workshops on franchising in 2006 and invites interested U.S. franchisers to promote their businesses in the local market.

In addition to outreach and educational programs, the U.S. Commercial Service is planning to lead Vietnamese franchise delegation to visit International Franchise Expo 2006 in Washington D.C.

## Resources

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For more information on the franchise market in Vietnam, please contact [Ha.Anh@mail.doc.gov](mailto:Ha.Anh@mail.doc.gov) at the U.S. Commercial Service, Hanoi, Vietnam and [Le.Anh@mail.doc.gov](mailto:Le.Anh@mail.doc.gov) at the U.S. Commercial Service, Hochiminh City, Vietnam. Visit our website at [www.buyusa.gov/vietnam](http://www.buyusa.gov/vietnam)