An Phuoc (A): Can Its Business Be Rescued from the Asian Financial Crisis?

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Case prepared by Professor Mai Thi Thanh THAI and Huong Thanh THAI

Prologue

Nguyen Thi Dien, the founder and owner of An Phuoc, was staring at several letters from An Phuoc’s major customers on a summer day in 1997. Although the weather was suffocatingly hot and humid, she had a chill running down her spine. One after another, the letters informed her that An Phuoc’s major orders had been cancelled and that its partners were closing their business because of the Asian financial crisis. It was clear that An Phuoc would have to close down its factories and make massive layoffs unless it could find a new market. What would it be?

Mrs. Nguyen Thi Dien

Nguyen Thi Dien was born in 1954 into a large family of six children in Vietnam. As the eldest child, she was used to taking care of others and assuming the responsibility of a leader. She had learned during her early years that being soft and flexible in appearance yet strong and determined at heart was the key to success. Indeed, her personality had been shaped by that very principle, and she was described by colleagues as a “born diplomat” who was good at building rapport and networking. In addition, her all-time favorite book, The 7 Habits of Highly Effective People by Stephen R. Covey, also had a strong impact on how she conducted business.

After graduating from Ho Chi Minh City’s Economics University, she began her career in 1977 at IMEXCO, a state-owned import-export company. At that time, working for the state was

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1 In 2012, the authors were presented with the Alma Lepage Award in recognition of the excellence of their case study. The award, which recognizes the outstanding quality of a case focusing on women, was founded thanks to a donation made by Alma Lepage to HEC Montréal in order to establish a fund, the revenue of which would go toward promoting the advancement of women in management. In keeping with this mission, each year the Alma Lepage Foundation awards grants as well as this award, by which HEC Montréal seeks to keep alive the avant-garde spirit demonstrated by this graduate of the School throughout her life.

2 Translation from French of case #9 00 2012 003 entitled “An Phuoc (A) : Nguyen Thi Dien pourrait-elle sauver son entreprise de la crise financière asiatique?”.

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4 Huong Thanh Thai is a Sales Executive at Ayo Furniture (www.ayo.net).

5 The company’s full name is An Phuoc Garment, Embroidery & Shoes Company Ltd. (www.anphuoc.com.vn).
only choice open to her because Vietnam had a centralized economic system that outlawed private interests. Her career path could have been like that of other state employees if tragedy had not struck IMEXCO in 1989, when an enormous fire destroyed its production facilities and led to the company’s collapse. She lost her job and was forced to stay at home. Since the job market was completely controlled by the state with an allocation scheme, it was impossible for Dien to find a job that would not require relocation far away from home. Therefore, she had no choice but to become a housewife because she had two children to look after.

After a year staying home as a housewife, she felt that this life was unbearable. She longed for an active life that satisfied her ego and her urge for socializing and contributing to social welfare. Coincidentally, with the enactment of the Private Enterprise Law and Company Law in 1990, Vietnam officially recognized the existence of non-state economic sectors. This change in government policy encouraged her to go into business for herself. Nevertheless, registration of private enterprises was not possible until the law went into full effect in 1993.

Through her family’s connections, she learned about opportunities to produce garments for state-owned apparel exporters. Unfortunately, she did not know how to sew and her sweaty palms prevented her from becoming a tailor. However, this did not deter her from entering the industry because she was so anxious to take any opportunity that could help her escape the life of a housewife while still being close to home to take care of her young children. She was convinced that anything could be learned and that she already had an eye for style. Furthermore, she believed that her experience at IMEXCO and the relationship with government agencies that she had cultivated during her time at this state-owned import-export firm could help her succeed in her business venture. In addition, her husband understood her desire and supported her. Although he gave her all the required investment capital, he was not convinced that the business would succeed. However, if it meant that his wife would have a job and be happy, he was prepared to lose his investment.

The Apparel Business

The apparel business is composed of several steps. The first step is product design, which includes activities ranging from researching new fabrics and styling trends to the creation of new designs, patterns and samples. It requires extensive knowledge about end-consumers’ preferences and needs as well as market trends. Designers must use various forms of intelligence gathering and analysis in order to identify the items that are the most likely to sell. They must be able to predict and understand the next fashions, fabric trends, colours, styles, price points, retail requirements, competitive forces and other sources of innovation. Intensive research and development (R&D) is often required to improve a product’s functional performance. They also need to master pattern-making techniques (both manual and computer-assisted) and grading methods to replicate patterns into all the proper sizes for any given market.

Garment manufacturing, the second step, is labour-intensive and requires workers with some manual skill and the ability to operate machines to sew (or assemble item pieces) and construct finished garments, to press (or fold) and iron garments, to add specific details (e.g., screen printing, embroidery, buttons, trim), to clip loose threads, to dye and wash the garments, etc. In this step, quality control is essential to ensure that each production element is completed as
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intended. Errors must be found as early as possible in order to minimize rework and waste. Knowledge about different types of fabrics is essential to select the right fabric for each pattern, the right cutting tools, the right sewing thread, the right stitching techniques, etc. Therefore, before entering the production process, fabrics must undergo several tests to measure product attributes such as shrinkage, colour adherence, durability, consistency, etc. Since fabrics account for a large portion of the total cost, garment makers must find economic ways for cutting them. They must be familiar with the machinery used in the various stages of garment construction (such as fabric cutting, garment pressing, sewing, drying, etc.). For each stage, there are several machines, each with its own desirable features and advantages. For example, sewing machines range from the most basic lockstitch models to electronic machines that use advanced computer technology and have various functions (e.g., piping, binding, ruffling, pleating, darning, hemming and even making buttonholes and attaching fasteners). Therefore, garment manufacturers must be familiar with the characteristics of different types of machines so as to select the appropriate ones in accordance with the skills of their workers and the requirements for the final products. Generally speaking, good machines are required to obtain quality products and enhance production efficiency.

The next step is to distribute the garments to end-users through sophisticated distribution networks. This step requires extensive market knowledge, effective marketing strategies, differentiating services and strong logistics management. While entry barriers for garment manufacturing are relatively low, they are progressively higher in this third step, where lavish advertising budgets and promotional campaigns are needed to create and sustain brands. Furthermore, it is necessary to invest in sophisticated and costly information technology to manage inventories (e.g., bar coding and point-of-sale scanning used to provide immediate and accurate information on product sales, electronic data interchange to restock, automated distribution centres to handle small restocking orders, etc.).

The Textile and Apparel Industry

In Vietnam, this industry is rather young, despite the fact that local people have been making clothes for personal consumption for thousands of years. As a pivotal industry for Vietnam’s export-led industrialization, it has similarities (except for ownership type) with the textile and apparel industry in other developing countries during their process of export-led industrialization (Exhibit 3). Since local demand is largely met by household enterprises because they can provide tailored apparel at very low prices, most formal enterprises focus on foreign markets.

Vietnam began exporting textile and garment products in 1976 through subcontracting cooperation with countries in the Comecon economic block, namely, the former Soviet Union, Hungary, Czechoslovakia, and East Germany. Its partners supplied all the materials and style designs, while Vietnam processed and delivered ready-made clothes and received consumer goods. Since Vietnam had a centrally planned economy, all production and trade were managed by the state. In line with the country’s general economic situation, the industry was very stagnant. However, once the country launched its doi moi, the industry progressed markedly because it was prioritized by the government as part of the country’s industrialization process. Between 1987 and 1990, garment enterprises were set up everywhere throughout the country and attracted hundreds of thousands of workers (Hill, 1998). All the same, in light of the country’s central
economic planning legacy, private actors could only operate informally due to the absence of both a legal framework and the social psychological support for the establishment of private businesses.

After the collapse of Soviet Union and East European countries in the early 1990s, the textile and apparel industry underwent a serious crisis since product sales to and supplies of material and equipment from the Comecon plummeted. With the doi moi, Vietnam was determined to implement its export-led industrialization strategy in which the textile and apparel industry was to be a prominent driver. Therefore, textile and apparel producers were encouraged to seek new partners.

During this period, there was a major movement in the industry which saw production gradually shifted from the U.S., Great Britain and Japan to countries with lower labour costs. This movement dominated the international trade in textiles and garments in the first half of the 1990s. Vietnam became attractive because it had relatively low labour costs (Exhibit 4). At the same time, the newly industrializing Asian economies (the so-called “Asian Tigers”) of Hong Kong, Korea, Singapore and Taiwan were rapidly shifting away from labour-intensive textile and garment products. However, international garment and textile trade was heavily regulated by quota systems under the General Agreement on Tariffs and Trade within the Multi-Fibre Arrangement (MFA). Quotas were often the largest single expense in the overall cost of imported clothing, sometimes accounting for 15-20% of the factory price (Byoungho, 2004). In many instances, quotas determined the choice of location for garment production.

In December 1992, Vietnam gained access to MFA quotas after signing a textile trade agreement with the EU. Due to the U.S. trade embargo on Vietnam, the U.S. market was out of reach for Vietnamese producers until the embargo was lifted in 1994. Even then, most Vietnamese firms could not do business with the U.S. because the two countries had not signed a trade agreement. Therefore, Japan was Vietnam’s important partner in the 1990s.

Vietnam’s economic reform, together with the industry’s international movement from developed countries to developing and then to less-developing countries brought notable success for Vietnam’s textile and apparel industry. By 1997, the export environment had become intensely competitive and Vietnam had begun to develop a broad-based export drive, including a shift to higher-quality products and a greater product range. The industry attained an annual growth rate of 10.7%, accounting for 9.14% of the industrial GDP (based on the 1989 price index), generating about 20% of Vietnam’s total merchandise exports and 41% of manufactured exports, and employing half a million workers (80% of them women) (VINATEX, 2002).

Nevertheless, almost all garment exports were in the form of international subcontracting arrangements, in which buyers sought out domestic producers and generally provided them with imported fabrics (Hill, 1998). Vietnam’s fabric production in this period increased slowly and was insufficient for its garment production. Moreover, the fibres produced in Vietnam were of low quality due to poor machinery. Up until 1997, only 15% of the country’s weaving machinery was adequate, 45% was in need of repairs and 40% should have been scrapped (Hill, 1998).
The Vietnamese Economy in Transition

The Socialist Republic of Vietnam was born in 1976, a year after decades of war against France, Japan and the U.S. Although peace was achieved, the country had an extremely impoverished economy as a result of the escalated war that had killed millions of people and almost destroyed the country’s entire infrastructure. To make matters worse, the new government failed to steer the economy toward recovery since it prioritized heavy industry and focused on the Cach mang Quan he San xuat (Revolution of the Relations of Production), which dictated a policy calling for the national economy to be highly centralized, with two main forms of ownership: entire-people ownership (state ownership) and collective ownership. The economic model of the North was now forcefully imposed throughout the country, which resulted in a top-down economy dominated by large firms that produced few consumer goods.

In 1979, China invaded Vietnam, leading it to establish closer ties with the Soviet Union and its allies in the Council for Mutual Economic Assistance (generally known as Comecon). Similar to the Soviet Union’s economic model, this mechanism disregarded people’s personal interests, negated all elements of a market economy and destroyed all momentum for economic development. It made economic organizations inactive and inefficient in their operations, which led to complete reliance on the state. As a result, the entire national economy remained inert for a long time. Its annual growth rate stopped at 0.4%, while the population grew more than 2.3% per year, causing severe shortages in essential consumer goods and a trade deficit with imports at four to five times the level of exports. Inflation rose from 30-50% annually in the early 1980s to 587.2% and then 774.7% in 1985 and 1986 respectively (Thai and Chong, 2008). Consequently, the country fell into a serious crisis.

The domestic economic crisis, with its hyperinflation, a huge fiscal deficit, poor incentives for production, and stagnant income per capita, the disintegration of the socialist system in the Soviet Union and East European countries, and the undeniable failure of the Soviet economic model in Europe obviously compelled the Vietnamese leadership to abandon its orthodox socialist strategies. In the meantime, other East Asian countries had achieved outstanding successes in their pursuit of a market economy and integration into the world economy, which had been experiencing a fast-growing trend of regionalization and globalization. As a result, Vietnam was confronted with massive internal tension between its determination to maintain a socialist ideology and the pressure for the implementation of a market economy that was basically along the lines of a capitalist model.

In December 1986, the Communist Party of Vietnam, the sole and ruling political party in Vietnam, launched the doi moi (renewal) process for a so-called Kinh te Thi truong Theo Dinh huong Xa hoi chu nghia (socialist-oriented market economy). When Vietnam began its renewal process, it understood that its determination and efforts to rebuild the country would not be conditioned by the availability of foreign aid. As such, it had to open up the economy and invite inflows of foreign investment to accelerate economic growth. When the Soviet Union collapsed in the early 1990s, Vietnam could no longer be a member of the economic club of communist countries, which meant that searching for alternative markets became a must. Thus, the marketization and internationalization processes of the Vietnamese economy have been taking place simultaneously.
By the early 1990s, remarkable policy improvements had been made to promote private-sector participation and foreign investment. It was only then that considerable amounts of financial assistance began to flow into Vietnam; however, the country no longer enjoyed economic aid from the Soviet bloc following its collapse in 1991. With the doi moi, the barriers that traditionally segmented local business opportunities and local firms from their international counterparts were gradually dismantled. Thus, the rate of internationalization of the Vietnamese economy accelerated, especially since the country normalized relations with the United States, which led to a bilateral trade agreement, and became a member of the Association of Southeast Asian Nations and the Asia-Pacific Economic Co-operation Forum. As a result, Vietnam enjoyed healthy inflows of foreign direct investment (FDI) and started to make some outward FDI. Its exports grew much faster than its GDP and were, in fact, the highest not only in the dynamic East Asian region, but in the world as a whole (Phan et al., 2003). The total value of exports and imports in 1997 was more than 10 times their value in 1986 (Exhibit 5).

The renewal brought about striking economic progress for Vietnam. Its real GDP growth rate reached a record-high level of 9.5% in 1995 and remained among the highest in the world. Phenomenal growth was seen in all three major sectors (agriculture, industry and services), although the agricultural sector’s share of Vietnam’s GDP decreased. Nevertheless, Vietnam was still a poor country with very low GDP per capita (Exhibit 6).

The development of Vietnam’s economy led to a widening of the gap between the rich and the poor. In fact, the income gap between the richest and the poorest 20% in Vietnam increased seven-fold in the late 1990s and has been constantly increasing since 1986, when the central economic planning system was demolished (GSO, 2000). With their increasing purchasing power, the “new rich” began to seek luxury goods in pursuit of heightened social status. As in other Asian countries, consumers purchased luxury products in order to fit in with peers, and they usually cared more about the visibility of logos than the quality of the products (Thuy, 2008). Vietnam’s young generation was brand conscious and fashionable. Its members preferred to wear famous foreign brands such as Calvin Klein, Levi’s, Nike, Versace, etc. (Vietnam Economic Times, 2000). Since Vietnam had a large population of young people (Exhibit 7), it was seen as an emerging market for luxury goods.

Despite improvements brought by the doi moi, doing business in Vietnam remained challenging. Many regulations, especially tax and customs regulations, were designed to control rather than assist.  

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1 The bilateral trade agreement between Vietnam and the United States went into force in December 2001. Under the deal, the United States was to significantly reduce its tariffs on most imports from Vietnam. In return, Vietnam agreed to undertake a wide range of market-liberalization measures, including extending most-favoured nation status treatment to U.S. exports, reducing tariffs on goods, easing barriers to U.S. services, committing to protecting certain intellectual property rights and providing additional inducements and protections for inward foreign direct investment. More information is available from the US-Vietnam Trade Council at http://www.usvtc.org.

2 Vietnam became a member of the Association of Southeast Asian Nations (ASEAN) in 1995. With 10 member countries, ASEAN’s mission is to accelerate economic growth, social progress and cultural development in the region and promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter. More information is available at http://www.aseansec.org.

3 Vietnam became a member of the Asia-Pacific Economic Co-operation Forum (APEC) in 1998. APEC is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. Since APEC’s establishment, the region has consistently been the most economically dynamic part of the world. APEC’s 21 member economies account for more than a third of the world’s population, over 50% of world GDP and more than 41% of world trade. More information is available at http://www.apecsec.org.sg.
facilitate firms’ development (*Business Issues Bulletin*, 2005). Because administrative infractions were criminalized and penalties for violations could be costly, everyone was kept on edge. Managers learned to take the many regulations that pertained to nearly all aspects of their businesses for granted, not to mention the fact that many of these regulations were hard to find, vaguely formulated, variously interpreted, frequently changed and poorly communicated (Webster, 1999). Weak business laws and policies also placed Vietnam among the worst countries in terms of protecting investors (World Bank, 2006). Legal enforcement was the weakest link of Vietnam’s legal system (*Business Issues Bulletin*, 2004) due to the fact that it depended more on the discretion of officials than on the letter of the law (Webster, 1999). According to the Vietnam Chamber of Commerce and Industry, the worst problems in Vietnam’s business environment were administrative red tape, excessive administrative procedures for business operations, arbitrary interventions of governmental administrative bodies, government officials harassing and creating difficulties, and lack of transparency and accountability of government administrative agencies (*Business Issues Bulletin*, 2004). The problems in Vietnam’s legal system and bureaucracy created opportunities for corruption, since they made it possible for authorities to make arbitrary and unpredictable decisions and to practise favouritism. As a result, Vietnam was ranked among the 30 most corrupt countries in the world (Transparency International, 2001).

Vietnamese managers operated with far less information than managers in other countries would tolerate. They faced serious shortages of key information about products, markets, technologies, trends, and so on simply because up-to-date and high-quality information sources were rare in Vietnam and managers’ ability to search for information was restricted by many barriers. Moreover, managers had limited information technology capacity and very little familiarity with computers (Market Behavior, 1999). The government’s censorship policies, control of all publishing and media, the high cost of accessing the Internet (which was only introduced in Vietnam in the mid-1990s) and closed-stack public libraries made it too costly for firms to look for information sources outside of Vietnam. Furthermore, language barriers restricted access to information not available in Vietnamese and limited communication with foreign suppliers and buyers. Private firms were further handicapped because most of the limited information infrastructure in place had been built to channel information and opportunities to state companies. Information about key contracts was held internally by ministries and their enterprises, with little access for outsiders. Most Vietnamese business people felt that state-owned enterprises (SOE) always had priority access to the truly valuable information from their line ministries (Webster, 1999). Moreover, when potential buyers came to Vietnam to find trading partners, they were usually directed to SOEs as potential partners.

**An Phuoc**

An Phuoc was established in 1992 as a small sewing workshop in the south of Vietnam. Its founder, Nguyen Thi Dien, wanted her business to go smoothly and to prosper, so she named the firm An Phuoc (“An” stands for peace and “Phuoc” stands for prosperity). At the beginning, this workshop was organized informally, since Vietnam did not recognize the existence of non-state economic sectors. At the time, all firms in the garment industry were state-owned enterprises operating in an oligopoly market structure due to Vietnam’s centrally planned economic structure. Thanks to Dien’s prior work experience in a state-owned import-export company and
the network she had developed, An Phuoc became an export garment producer for Vietnamese state-owned exporters as a subcontractor. All inputs for production were provided, so An Phuoc’s job was to manage production processes. Therefore, its major investments were in sewing machines and human resources. During this time, she learned that a small sewing workshop such as hers had almost no bargaining power over these clients and that the only way to get orders was to deliver consistent quality. Her success in quality control enabled An Phuoc to acquire increasingly larger orders from the same customers, and in less than a year it quickly grew to employ 50 workers and 40 sewing machines.

When Vietnam’s Private Enterprise Law went into effect in 1993, allowing for the registration of private enterprises, Dien registered her workshop as An Phuoc Garment, Embroidery & Shoes Company Ltd. The success of the An Phuoc sewing workshop enabled her to raise enough investment capital from private sources for 300 new sewing machines and about 400 new employees for this newly created enterprise. Her company now had the capacity not only to produce for other exporters, but also to act as a direct exporter. Through personal networks, Dien found Japanese outsourcers who were looking for ways to produce their garments in Vietnam to take advantage of its low labour costs. She managed to arrange a non-equity partnership with a few Japanese outsourcers, under which the Japanese partners provided all input materials and designs, whereas An Phuoc focused on CTM (cut-trim-make) production. The partnership arrangement gave An Phuoc access to stable output markets and allowed it to steadily increase production without having to search for new customers. In fact, these outsourcers sold their products not only in Japan but also internationally. Some of them had their own brand names, but others were subcontractors for European and American clothing marketers.

With the ability to communicate in English (which was rare in Vietnam at the time because the country had been closed for a long time and English was considered the language of the enemy due to the U.S.’s role in the war that ended in 1975), she was able to acquire accurate information directly from international sources, whereas other Vietnamese firms had to rely on information distorted by propaganda and/or by incompetent information providers. This information access together with on-site assistance from Japanese partners allowed An Phuoc to be up-to-date on modern techniques for producing quality garments. Most importantly, her experience in an import-export company and her relationships with key government agencies helped her to obtain export licenses, which was very hard for most people due to government control of export quotas and a rigid institutional environment. It should be noted that the government imposed almost 300 market access controlling licenses, 84 of which were abolished in 2000 by the Vietnamese Prime Ministerial Decision on the Renewal of all Types of Licenses Inconsistent with the Provisions of the Law on Enterprises. The ability to obtain sufficient export quotas gave An Phuoc a strong competitive edge because it could ensure timely delivery, provided that production was properly managed, while other firms struggled to get their garments delivered to their foreign customers.

Believing that the ability to produce goods at a consistent quality level would be the critical factor for An Phuoc’s success, Dien invested in quality machines and secured technical assistance from her Japanese partners. There were always two Japanese specialists at An Phuoc’s production premises to train her workers and guide her on quality control. On the other hand, most of An Phuoc’s workers were women (typical for this industry), so Dien used strategies that relied on emotion and personal relationships to persuade them to dedicate their best efforts for An
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An Phuoc. The company was proud that it was able to satisfy picky consumers in difficult markets such as Japan and Europe.

An Phuoc’s strategy of focusing on production quality, exploiting rents from asymmetric information, fostering relationships with government agencies and relying on partnerships worked well. From a small workshop in 1992, it had grown to become a relatively large firm with 1,500 workers and 1,000 specialized machines to supply apparel products to several countries across Europe and Asia, mostly through Japanese outsourcers, namely, Nissho Iwai Corporation, Itochu Corporation and Minoya.

Impact of the Asian Financial Crisis on An Phuoc

The Asian financial crisis (or “Asian flu”) began in July 1997, after a period of economic unrest that began in Thailand and South Korea with the financial collapse of Kia Motors. Most countries in Southeast Asia experienced slumping currencies, devalued stock markets and other asset prices, and an abrupt rise in private debt. The flu severely hit the U.S. and Japan, although it did not make their economies collapse. On October 27, 1997, the Dow Jones Industrial plunged 554 points (or 7.2%) and the New York Stock Exchange was briefly suspended. The crisis had indeed led to a drop in consumer and spending confidence and caused serious concerns about Asian economies.

The substantial currency devaluation in East Asian countries led to a relative increase in prices of goods made in Vietnam, thereby hampering its traditional comparative advantage (i.e., cost factor). Furthermore, Vietnam’s trade and investment patterns were dominated by economies that were either troubled or at least experiencing subdued economic growth. As a result, there were frequent reports of orders being cancelled, especially from Japan, and of buyers demanding price cuts of up to 20% for subcontracted orders in which imported inputs (principally fabric) were provided.

Since Japan had been severely hit, almost all of An Phuoc’s major purchasers cancelled their orders. An Phuoc had to come to terms with the most daunting challenge it had ever faced: the risk of closing down its factories and laying off over a thousand workers. Neither searching for new buyers in existing markets nor searching for new export markets seemed feasible.

At the time, Vietnam was not widely seen as an outsourcing destination in the international clothing industry. Moreover, Vietnamese garments did not have a good reputation among international consumers. Furthermore, most Vietnamese garment firms had very limited choices of export markets before the bilateral trade agreement with the United States went into effect in 2001. At the same time, the government’s export license requirements made matters prohibitively difficult for private firms. Although An Phuoc had the technical capacity to produce high-quality products and the ability to obtain export quotas for its products, it knew nothing about international consumers. An Phuoc had experience as an outsourcee for a few Japanese firms only. As such, if it wanted to continue to produce export goods, it would have to look for new outsourcers. However, the crisis had increased production costs and decreased international sales prices, making it tough to make a profit margin. With its very small international business
network, the chances of finding new outsourcers with considerable orders to sustain An Phuoc’s production were very slim.

Moreover, targeting the domestic market was also almost impossible because it was dominated by existing players such as the Vietnam Textile Corporation, Viet Tien, May 10, and so on. An Phuoc did not have any experience producing low-end garments. It did not have its own brand name to sell higher-end garments. Nevertheless, Dien realized that An Phuoc had been producing for Pierre Cardin, a brand name with international prestige, through the orders from her Japanese partners. In addition, she also learned that while Pierre Cardin was a big international brand name, it had never been distributed through any formal channel in Vietnam. Moreover, Vietnam’s fashion-conscious consumers tended to prefer imported goods and goods with foreign cachet. She thought that having the Pierre Cardin brand name would help An Phuoc compete with major players in the domestic garment industry. After initial discussions with Pierre Cardin, it looked like An Phuoc could acquire the right to use the Pierre Cardin brand in the Indochina region (i.e., Vietnam, Laos, and Cambodia) through franchising or licensing arrangements. Nevertheless, she would have to increase her capital five-fold because of Pierre Cardin’s requirements for fabric quality and the production process. Consequently, her company’s products would have to be sold at prices three to five times higher than those of An Phuoc’s competitors at US$45 each. This pricing level would be ridiculous considering that Vietnam’s GDP per capita was under US$400. This strategic turn obviously brought with it incredible risks. Since no one had ever done anything like this before, it was uncertain whether the idea would work. An Phuoc’s extreme pricing could kill the business altogether.

What should be done now?
Appendix

Exhibit 1: Nguyen Thi Dien

Exhibit 2: A Sewing Shop Floor at An Phuoc
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Exhibit 3: Key Features of the Textile and Apparel Industry in Vietnam

<table>
<thead>
<tr>
<th>Feature</th>
<th>Spinning fibre</th>
<th>Weaving</th>
<th>Garments</th>
</tr>
</thead>
<tbody>
<tr>
<td>History</td>
<td>Very recent</td>
<td>Most recent</td>
<td>Very recent</td>
</tr>
<tr>
<td>Intensity factor</td>
<td>Capital-intensive (especially fibres)</td>
<td>Labour intensive</td>
<td>Very labour intensive</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>Significant</td>
<td>Moderate</td>
<td>Less important (except in international marketing)</td>
</tr>
<tr>
<td>Owners</td>
<td>Mainly state-owned firms and some foreign firms</td>
<td>Mainly state-owned firms and some foreign and private firms</td>
<td>State-owned firms and private firms</td>
</tr>
<tr>
<td>Vertical integration</td>
<td>Very common</td>
<td>Common</td>
<td>Present, but less common</td>
</tr>
<tr>
<td>Size</td>
<td>Large firms dominate</td>
<td>Large and medium firms dominate</td>
<td>Medium and small firms dominate</td>
</tr>
<tr>
<td>Distribution market</td>
<td>95+% domestic</td>
<td>Mainly domestic and very small export</td>
<td>Mainly export</td>
</tr>
</tbody>
</table>

(Source: Adapted from Hill, 1998)

Exhibit 4: Comparative Labour Costs in Textiles, 1994 ($/hour)

| Country          | Vietnam 0.4 | Thailand 1.4 | China 0.5 | South Korea 4.0 | Indonesia 0.5 | Hong Kong 4.4 | India 0.6 | USA 11.9 | The Philippines 1.0 | Japan 25.6 |


Exhibit 5: Vietnam’s Exports and Imports

(Source: Compiled from COMTRADE, 2008)
Exhibit 6: Vietnam’s Gross Domestic Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Real growth</th>
<th>Per capita (current US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.6%</td>
<td>5.1%</td>
</tr>
<tr>
<td></td>
<td>85</td>
<td>91</td>
</tr>
</tbody>
</table>

(Source: Compiled from UN, 2011)

Exhibit 7: Vietnam’s Demographic Structure

(SOURCE: Ministry of Health, Health Statistical Yearbook 2000)
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