

Saimaa University of Applied Sciences
Faculty of Business Administration Lappeenranta
Degree Programme in International Business
International Business

Uyen Tran

Importing/Exporting Food Products from Vietnam to Germany and Supply Chain Management

Thesis 2014

Abstract

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The purpose of this thesis was to provide information about importing/exporting food products from Vietnam to Germany, to analyze the risks in the supply chain of this kind of business and provide solutions.

The theoretical part was based on literature and different internet sources. Furthermore, it included some topics related to supply chain management and strategic sourcing.

The empirical data was collected by self-administered interviews to companies involved in this kind of business from both countries.

As a result of this thesis, there is a very high potential for importing/exporting food products from Vietnam to Germany. However, there are still many obstacles in the supply chain management that both sides should examine carefully and find the solutions.

Keywords: import, export, supply chain management, strategic sourcing.

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1 Introduction

1.1 Background of the study

Following the global trend, people and goods are becoming more and more international. Nowadays, things are traded internationally, and people are able to get products from all around the world without travelling. Countries export their competence products and import the others to earn as much money as possible.

Agriculture is the core competence of Vietnam, and they export a lot of food products. As the author of the thesis has lived in Germany for about 2 years, she has noticed that there are Vietnamese supermarkets (or Asian supermarkets where you can buy Vietnamese products) and restaurants in almost every city in Germany. In addition, many German supermarkets like Real, Kupsch, Edeka...also have some Vietnamese products. In addition, Asian food (including Vietnamese food) is becoming more and more popular even among the Germans. As an industrial country with a population of 82 million people (World population statistics 2014), Germany has a very high demand for importing food.

However, the German market has very strict requirements for food, and there is a very long distance between Germany and Vietnam. In this case, the supply chain management is very important to keep the quality of the food and give profits to the companies involved.

The topic is worth researching as it gives businesses ideas on how to improve the food trading business between Germany and Vietnam with focus on the supply chain management.

1.2 Objectives of the study

1.2.1 Purpose of the study

The study is made to create a reference for Vietnamese food exporting companies who want to sell their products to Germany and German companies who want to purchase food products from Vietnam.

The thesis should not be viewed as a booklet or guideline. It provides rather valid figures, cases, practical information, valuable cases and real life experiences. For this reason, this paper should be used as reference for entrepreneurs in Vietnam or Germany who want to export/import food from Vietnam to Germany. In addition, Food companies in other countries of Asian and Europe might find it helpful as well.

In the same vein, the thesis might be helpful for German and Vietnamese government as well as other Institutions to create policies, strategies, guidelines or services towards importing and exporting.

1.2.2 Research questions

Based on the above objectives, this study aims to find answer to the following questions:

- Why does Vietnam exports food to Germany? And why does Germany import food from Vietnam?
- What are the obstacles of the supply chain management in this field?
- How can the challenges be overcome?

1.2.3 Scope and limitations

Firstly, the scope of this thesis is limited only to the Business to Business (B2B) importing and exporting of food products from Vietnam to Germany.

Secondly, the results are only guaranteed within the time frame of the thesis. Hence, readers should check for the updated policies and current states of the trading activities between the two countries.

2 Literature on importing/exporting activities of food products from Vietnam to Germany

2.1 Definition of importing and exporting

Although the words "to import" and "to export" can be used to many cases, the author writes about importing and exporting for physical products. In 2002, Hinkelmann has defined the two verbs as following:

- To import is "to receive goods or services from abroad". (Hinkelmann 2002, p.103)
- To export is "to ship an item away from a country for sale to another country" (Hinkelmann 2002, p.75)

From the above definition, Figure 1 has been created to visualize the meanings of the two words with regarding to the transfer of goods from Vietnam to Germany.



Figure 1. Definition of "import" and "export".

2.2 Why food are imported/exported from Vietnam to Germany

2.2.1 Economic structure of Vietnam and Germany

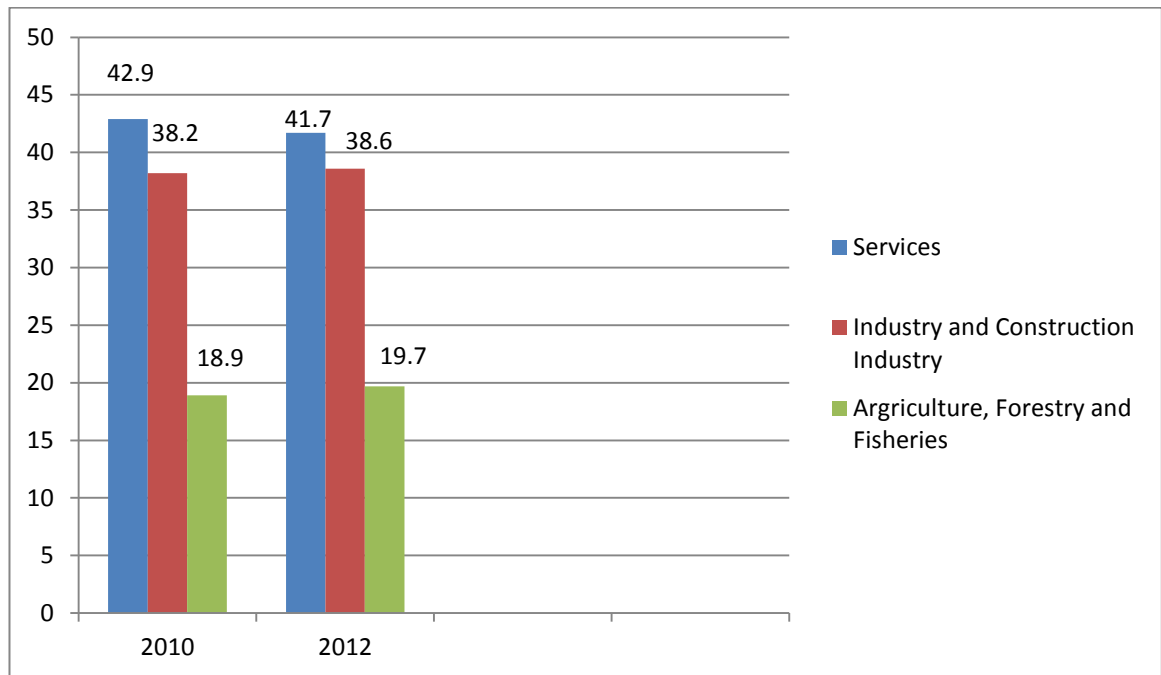


Figure 2. GDP structure of Vietnam in 2010 and 2012. (Minh 2012)

Figure 2 shows the GDP structure of Vietnam in 2010 and 2012. From this one, we can see that the GDP percentage of agriculture was increasing in from 2010 to 2012.

In 2012, Vietnam's percentage was the third in ASEAN, the ninth in Asia, and the thirty-second in the world. The reason for that is that about 70% of the Vietnamese population lives in the countryside and half of the Vietnamese labor is working in agriculture. Farmers and farms play a big role to the economy and they are said to be the "pedestal" to help the country to overcome the challenges coming from outside. (Minh 2012.)

In 2013, agriculture accounted for 18,4% of the Vietnamese GDP (VnEconomy 2013). Although this percentage has decreased compared to the year 2012, it was still a high number and is expected not to decrease much in the near future.

In contrast to Vietnam, Germany has food and agriculture products as main imported items. (The World Economy team 2013)

The economy structure of Germany in 2012 is shown in Figure 3.

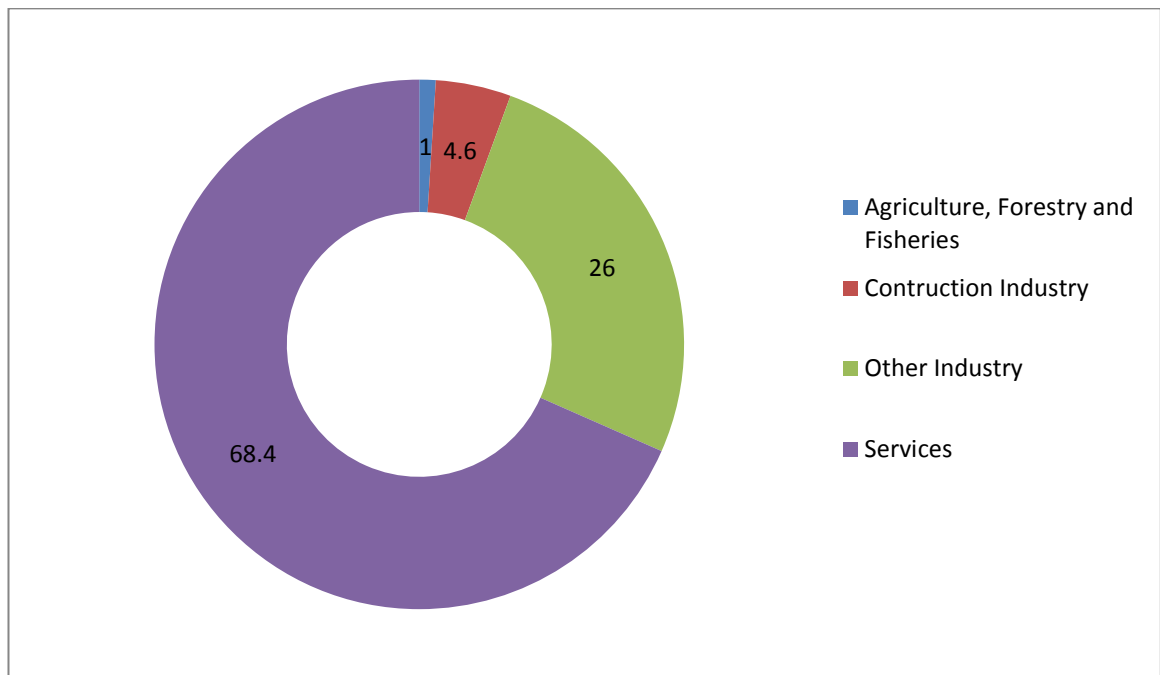


Figure 3. Economy structure of Germany in 2012. (The Statistic Agency of Germany 2012)

From Figure 3, we can see that agriculture only accounts for a very small part of the German economic structure (only 1%). The country is much more concentrating on Industry and Services. With the large population of about 82 millions, Germany is a very potential market for food exporting countries, where agriculture is still an important part of the economy like Vietnam.

2.2.2 Asian people The Vietnamese community in Germany

According to the Foreign Register Center (AZR), there are 7.6 million foreign people in Germany (December 2013). According to Mikrozensus, there are 7.4 million foreign people in Germany. From the total population of 81.9 million people in Germany, there are 16.3 million people with a migration background, which is 20% of the population. About 9 million of them have a German passport (December 2013) (Mediendienst Integration 2014.)

In Figure 4 we can see the nationalities of foreign people in Germany in the year 2011

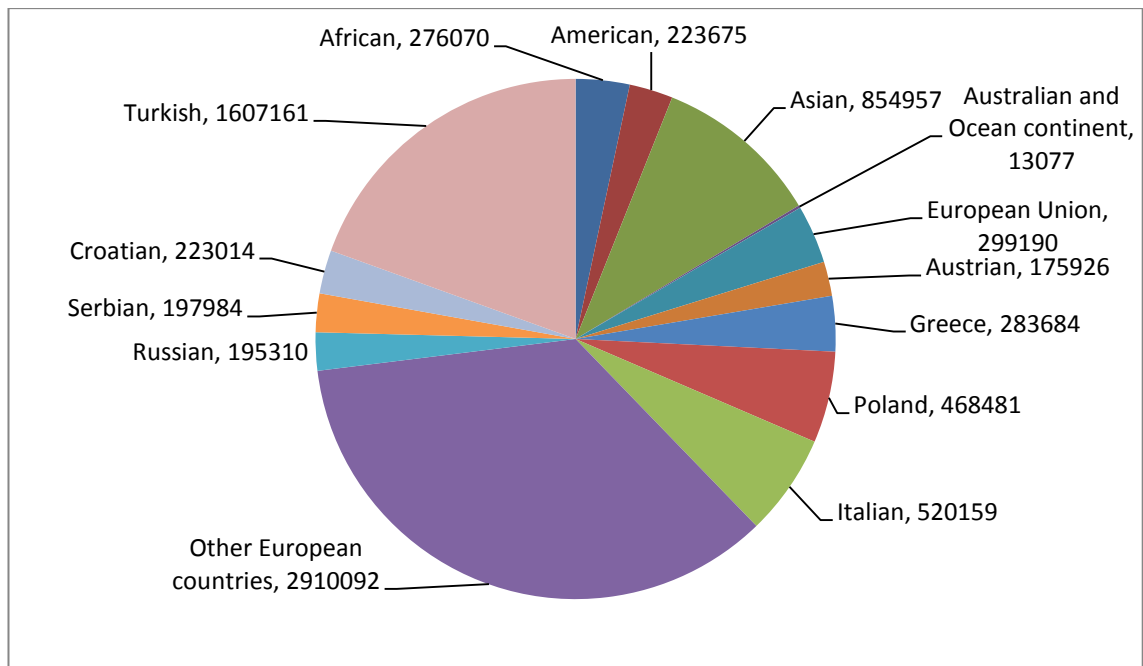


Figure 4. Nationalities of foreign people in Germany. (Federal central for political education 2012)

According to the figure above there are 854 957 people having an Asian nationality in Germany, which is about 8% and the third largest group of the foreign people in Germany (after Turkish and European countries). Those people can be one of the target customers for Vietnamese food.

As a part of Asian people in Germany, the Vietnamese community in Germany is relatively big. Germany has published that there are about 100 000 Vietnamese people living and working in Germany, 40 000 of them came to Germany as boat people during the Vietnam war. (Pham 2014)

Besides the boat people, most of the Vietnamese who are living in Germany nowadays were contract employees, who worked in the previous East Germany. (Goethe-Institut Prag 2012)

Nowadays, the Vietnamese community in Germany is quite stable, they work hard and follow the German law; most of them are very active in attending the activities in culture, art, exchange and meeting organizations. Many levels of leaders in Germany have assessed that the Vietnamese in Germany have integrated very well and have a big contribution in the development of Germany. Especially, the Vietnamese students study very well; their rate of going to the

specialized schools and universities is the highest among the foreign communities in Germany. According to the statistics, 53% of Vietnamese students study in specialized schools, this is the highest rate among all foreign students in Germany, while that rate of the German students is 45% and that of the Turkish students is only 11%. (Pham 2014.)

There are about more than 80 Vietnamese associations and organizations in Germany. The big associations which have strong impacts on Germany and Vietnamese people in Germany are: VIFI in Bochum (The Vietnamese culture women initiative in Germany), The Vietnamese Community in Berlin, The Vietnamese Associations of Veterans in Berlin, The Trang An Community, The Hanoi Community in Germany, The Thien Tu Tam Community in Berlin, The Vietnamese Community in Brandenburg, The Dien Hong Community in Rostock, The Vietnamese Community in Leipzig, Magdeburg, Dresden and Chemnitz, The Community of Thai Binh, Thanh Hoa, Hai Phong, The Kinh Bac Community, The Dong Xuan Shopping Center, The Asian- Pacific Ocean...(Pham 2014.)

There are more than 8000 Vietnamese companies in Germany, 1500 of them are in Berlin. The Vietnamese Businesses in Germany are mostly about commerce, services, restaurants, hotels, tourism, insurance, importing/exporting, and small manufacturers. In West Germany, most of the Vietnamese work in German companies. (Pham 2014.)

The Vietnamese businesses in Germany are very active in attending charity activities in their home country. Some of the successful businesses already came back to Vietnam to do some big investment projects and create jobs for many middle and small sized companies in Vietnam. They always want to help the development of Vietnam through investments in the home country. (Pham 2014.)

The Vietnamese communities in Germany always want to contribute to develop the friendship between Vietnam and Germany, firstly in exchanging information, introducing partners, and then doing specific projects from small to big according to their abilities. The Vietnamese people in Germany play a special role to

promote the Vietnamese image in Germany. They have helped a lot in building and developing the friendship between Vietnam and Germany. (Pham 2014.)

Besides being consumers for Vietnamese food in Germany, the Vietnamese community in Germany can also help a lot to improve and expand the trading activities of agriculture products between the two countries.

In Germany, the author has seen that the Vietnamese people have opened a lot of Asian supermarkets and restaurants, where they sell a lot of Vietnamese products. Those shops and restaurants are really helpful in the work of introducing Vietnamese food to Germans as well as other foreigners in Germany.

2.2.3 Relationship between Vietnam and Germany in March 2014

- Political relationship:

From the visits of the countries' leaders and the Hanoi Statement signed in 2011, a strategic partnership between Vietnam and Germany, targeting a development of political, economic, cultural and development political relationship, has been built. In addition, Germany also supports the Reform of the Vietnamese legal system. An important plan of the strategy was to build a "German House" in Ho Chi Minh City, where all of the representatives of the German institutions and interested companies would be. The decisions of building the "House" was made in 2013. (Federal Foreign Office 2014.)

Figure 5 shows a picture of Angela Merkel (Chancellor of Germany) and Nguyen Tan Dung (Prime Minister of Vietnam) after signing the cooperation agreement for the 2 countries.



Figure 5. Angela Merkel und Nguyen Tan Dung after signing the cooperation agreement. (Kleber 2011)

- *The cooperation of development:*

Vietnam is an important partner country of the German cooperation of development. Since 1990, Germany has supported Vietnam with 1, 8 million Euros. Germany will support Vietnam's economic growth ("Green growth"), and help Vietnam to increase the competitive competences. In order to do that, Germany and Vietnam will concentrate on cooperating in the fields of job training, environmental protection and energy. (Federal Foreign Office 2014.)

- *Economic relationship:*

Germany is the biggest European economic partner of Vietnam. The trading volume between the two countries in the year 2013 can be expected to be 7, 42 billion Euros. The import volume from Vietnam to Germany was increased to 5, 57 billion Euros (9% increase in comparison to year 2012), the exporting volume from Germany to Vietnam has decreased to 1, 85 billion Euros (25, 7% decrease in comparison to year 2012). (Federal Foreign Office 2014.)

The most important products that Vietnam exports to Germany are shoes, clothes, agriculture products (like coffee and pepper), seafood, electronics and furniture. Meanwhile, the most important products that Germany exports to Vietnam are machines, vehicles, equipment and also chemical products. (Federal Foreign Office 2014.)

As Vietnam wants to become an industrialized country in 2020, it has a big demand for the high quality machines from Germany. (Federal Foreign Office 2014.)

The delegation of the German economy that has offices in Hanoi and Ho Chi Minh City is a part of the German Chambers of Commerce. In Ho Chi Minh City, this delegation has a common office with the German Business Association, which is an organization of 160 German companies. German companies has invested about 400 Million USD in Vietnam (excluding most of the investigations through the Vietnamese branches). (Federal Foreign Office 2014.)

3 Main Vietnamese agriculture exporting products and the current stand of exporting to Germany

3.1 Main Vietnamese agriculture exporting products and current stand of exporting to Europe

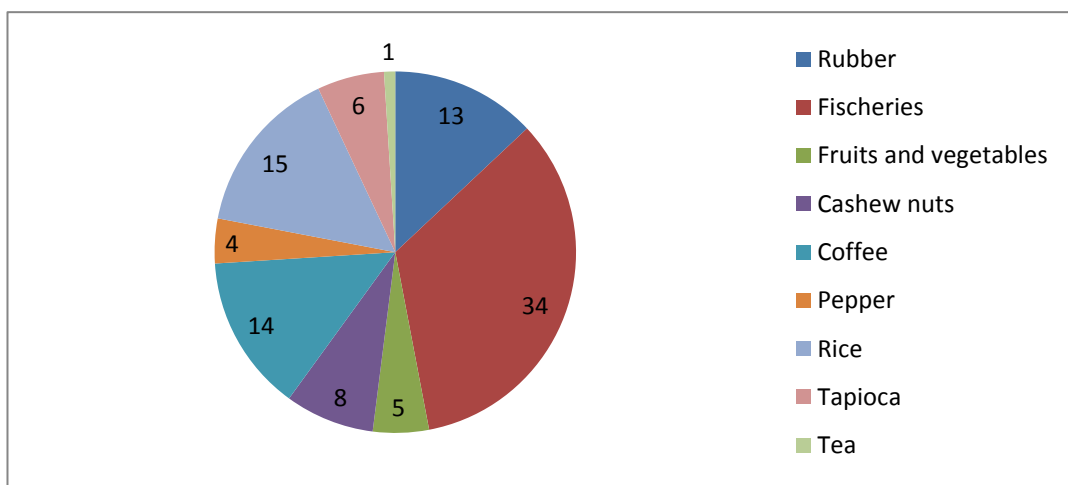


Figure 6. Structure of the Vietnamese agriculture export revenues (%). (Ministry of Industry and Trade of the Socialist Republic of Vietnam 2014)

According to figure 6, fisheries are the most important agricultural exporting product of Vietnam (34 % of the revenues), followed by rice (15%), coffee (14%), rubber (13%), cashew nuts (8%) and Tapioca (6%). Although the revenues of pepper and tea still increased compared to the year 2012, they are still less than 1 billion USD.

From 2008 to 2013, the number of markets which import Vietnamese agricultural products has increased from 107 to 129. (Ministry of Industry and Trade of the Socialist Republic of Vietnam 2014) This rapid increase has proved that the Vietnamese government and businesses have made efforts to expand their export markets.

In the European markets, the main agricultural exporting products from Vietnam are fisheries, coffee, tea, peppers, vegetables and fruits. The revenues that Vietnam earned in 2013 from those markets are: 1,15 billion USD for fisheries, 1,1 billion USD for coffee, 285 million USD for cashew nuts, 240 million USD for pepper and 44 million USD for vegetables and fruits. With about 500 million people and purchasing power per person of 32700 USD/year, Europe is a very potential market for Vietnamese goods. However, European countries have very tight standards for food products to protect their people and environment. In the future, Vietnamese food exporting companies will have to compete very tightly with the world biggest exporters if they want to expand the sales in this very potential market. (Ministry of Industry and Trade of the Socialist Republic of Vietnam 2014.)

3.2 Current stand of Vietnamese food products exported to Germany

To analyze the current stand of the export activities of exporting Vietnamese food to Germany, firstly, the author collected the advantages and disadvantages of Vietnamese food products and the Vietnamese food manufacturers from the website of the Vietnam Trade Promotion Agency (2009). Based on that information, the opportunities and threats of Vietnamese products when exported to Germany will be indicated.

3.2.1 Advantages

- Germany is a big country and the purchasing power of Germany is quite stable.
- The Germans can buy a very big variety of products.
- Some products from Vietnam have been imported to Germany and are holding a very good position in the market.

- Many Vietnamese companies have created long term strong relationships with the German businesses.
- There are quite many Vietnamese people living in Germany, including a big number of people who have studied in Germany.
- Germany has a very big network of business representatives in Vietnam (240 offices and branches).
- Germany and Vietnam have a good political relationship.
- Vietnam has joined many international trading organizations, such as WTO (World Trading Organization), WB (World Bank), IMF (International Money Fund)

3.2.2 Disadvantages

- Many of Vietnamese companies still lack competitiveness and professional skills to do international business.
- Some of Vietnamese products cannot be sold in Germany with a good price because the quality is not good. Vietnamese companies still have problems with processing and packaging. In addition, hygiene and food safety is still a big problem for Vietnamese products.
- The Vietnamese country brand is still not popular in Germany.

3.2.3 Opportunities

- A big and stable income is achievable.
- There is a big opportunity for many product ranges.
- Vietnam has the opportunity to export more products to Germany in the future, because some good products have created an image for the country.
- The Vietnamese people in Germany can create a stable bridge for the business relationship between 2 countries.
- The political relationship can help the international trading activities between the two countries a lot.
- As a member of many international trading organizations, Vietnam can expand the market in foreign countries such as Germany more easily.

3.2.4 Threats

The competition in the German market is very tight. This is a big threat for products which lack quality.

When the brand of the country is not good, the Vietnamese high quality products might have to be sold with low price or under the brand of other countries. This can lead to a big loss to Vietnam's exporting revenues.

From the above analysis, we can see that Vietnamese products really need to improve quality in order to get a good position in Germany. In addition, a big effort in marketing and create long term relationship with the German companies are also necessary.

4 Supply chain management and purchasing for the German companies who import food from Vietnam

4.1 Definition of supply chain management:

Some definitions about the supply chain management:

"I define it as a system or process that supports an organization's total needs for the supply of goods, services, and processes required to accomplish the goals and tasks established by the organization. It is the optimization of material costs, transportation, handling, quality, reliability and services to internal or external customers. Supply management involves the consolidation of certain business activities such as purchasing, transportation, warehousing, inventory control, quality assurance, and materials distribution into one management department." (Turner 2011, p. 1.)

"A supply chain is a network of facilities and distributions that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers".(Bhatnagar 2009, p. 1.)

From the above definitions, the author can create a definition of her own: Supply chain management as managing the system and processes in which prod-

ucts go from the raw materials, be handled and transported, go through the organizations and then for the end customers to achieve the goals of the organizations, which is profits in most of the cases.

An example: In order to clarify the definition of the supply chain management, Figure 7 was created to express the Supply Chain of food products. As displayed, to reach the hands of the end customers, the food may go through farmers, traders, manufacturers, wholesalers and retail stores. Because of their characteristics, some food products might have more or less intermediate stations.

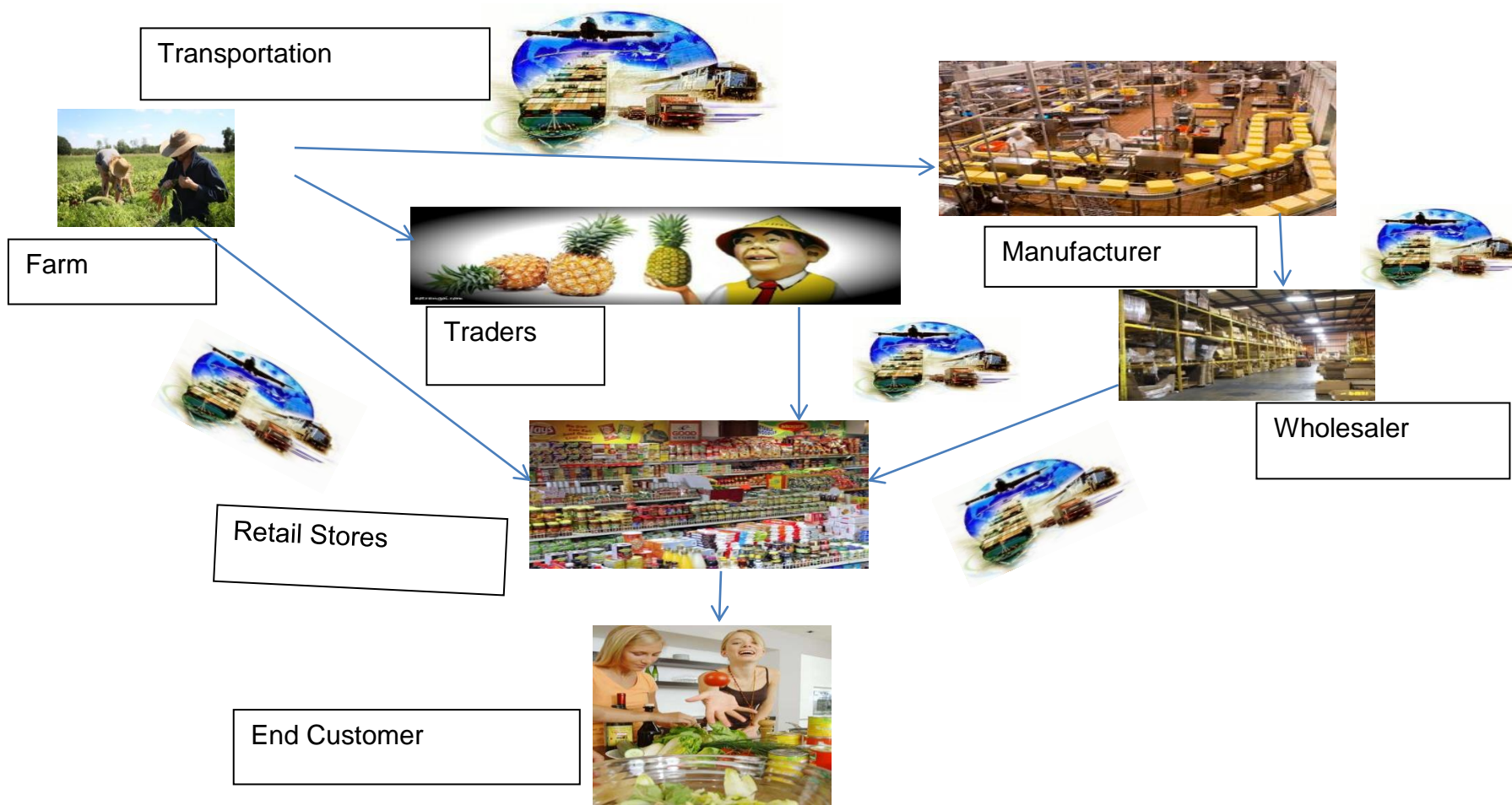


Figure 7. Supply Chain of goods.

4.2 Importance of supply chain management and purchasing

We all know the basic function of the supply chain management and purchasing is to get raw materials or components to support the productions. In addition, a good Supply Chain Management and Purchasing strategy can also add values to the companies' profits. Despite being cost centers, a good supply chain management and procurement also help to increase the profits of the organizations. (Turner 2011, p.2.)

This is totally right. As $\text{Profits} = \text{Sales} - \text{Costs}$, every dollar which is saved by effective procurement and supply management will add the same value to the profits as every dollar gained from the sales activities.

In order to get long term profits, German companies really need to manage the supply chain and procurement activities very carefully and strategically.

5 Obstacles/ Risks in global supply chain management for German companies

5.1 Why we need to analyze obstacles/risks

As it was already mentioned, the supply chain management is very important for every business, as it has a big impact on the companies' production activities and profits. A disruption in the supply chain can cause many bad effects like interruptions in operations, delays to deliver to customers, loss of reputation. We are living in a world that technology is changing constantly and customers' expectations are increasing very rapidly, not only about product quality and price but also about the sellers' or suppliers' quickness of response. Even if the companies already have an established supply chain, a disruption can also be caused by unexpected factures like political issues, natural disasters, and changes in laws. Therefore, it is very necessary for every company to have an eye on the risks of their supply chain. The longer the supply chain is the bigger risks it has, especially when the flow of the goods is over such a big distance like it is from Vietnam to Germany. In the following part, the risks of global sourcing will be introduced based on the book Hand Book for Supply Chain Risk

Management (published in year 2011) of the authors Omera Khan and George A Zsidisin with examples concerning the current state of global sourcing from Vietnam to Germany.

Figure 8 shows an example of bad effects caused by breaks in supply chain.



Figure 8. An example of bad effects caused by breaks in supply chain.

5.2 Types of risks

There are many of risks in global sourcing. The cause of risks can be categorized in 2 groups:

- Traditional sources: stability, customs issues, cost issues and currency fluctuations
- New sources: cost of increased inventory, qualitative cost of bad quality, security issues, faster product obsolescence, rising wage rates in developing economies, port congestion, increased lead times, and generally rising transportation costs.

The risks in global sourcing are included in 4 types: cost risks, quality risks, lead time risks and security risks.

Cost Risks:

The main risk of costs is the increase in some of the important cost components which are included in the costs of global sourcing. Most of the companies make buying decisions only based on the unit cost including transportation costs, but do not consider costs of inventory like in-transit inventory, stock-outs, obsolescence, and damages due to long and variable lead time.

As the distance from Vietnam to Germany is very far, damages during the transportation processes are not avoidable, especially for biological products like food. To keep the transportation costs low, companies usually transport dried or already-made-food from Vietnam to Europe by ships, which usually take months. This can cause very serious damage to the food if the temperature and humidity of the ships are not carefully taken into account. Because of the special characteristics of the product type, food with damages is not allowed to be sold in any form, especially in Germany where the standards of food are very high.

Because of the far distance, the delays in delivery due to natural disasters should also be considered. This causes a big amount of inventory, which is also a part of costs.

According to the Maplecroft, Vietnam ranks the 26th about being affected by the climate change. Vietnam belongs to the tropical monsoon area and is one of the five typhoon drives of the Asia Pacific area. Therefore, this country usually has to confront natural disasters. The degree, effected areas and cycles of natural disasters are increasing in Vietnam. In the recent 12 years, disasters like storms, floods, flash floods, landslides, and droughts have harmed a lot of people and property killed more than 9600 people. The loss caused by natural disasters is estimated to be 1.5% of the nation GDP per year. (Bao 2013.)

Besides the natural disasters in Vietnam, natural disasters happening on the way from Vietnam to Germany should also be seen as a risk.

In addition, sourcing decisions also usually do not consider currency fluctuations, rising wage rates in low-cost sourcing regions, cost of ensuring security

(insurance cost for example), additional airfreight due to natural disasters and port congestion, and the cost of intellectual property loss.

During June 2014, the exchange rate of the Vietnamese currency, the dong, fluctuated very wildly. On the 5 June, it even reached the maximal rate set by the Vietnamese central bank, when 1 US dollar was equal to 21,246 dong at the Vietcombank (Join Stock Commercial Bank for Foreign Trade of Vietnam). As the US dollar is a popular international currency; this high fluctuation will have a big impact on the Vietnamese international trade. (shanghaidaily 2014.)

VND per 1 EUR

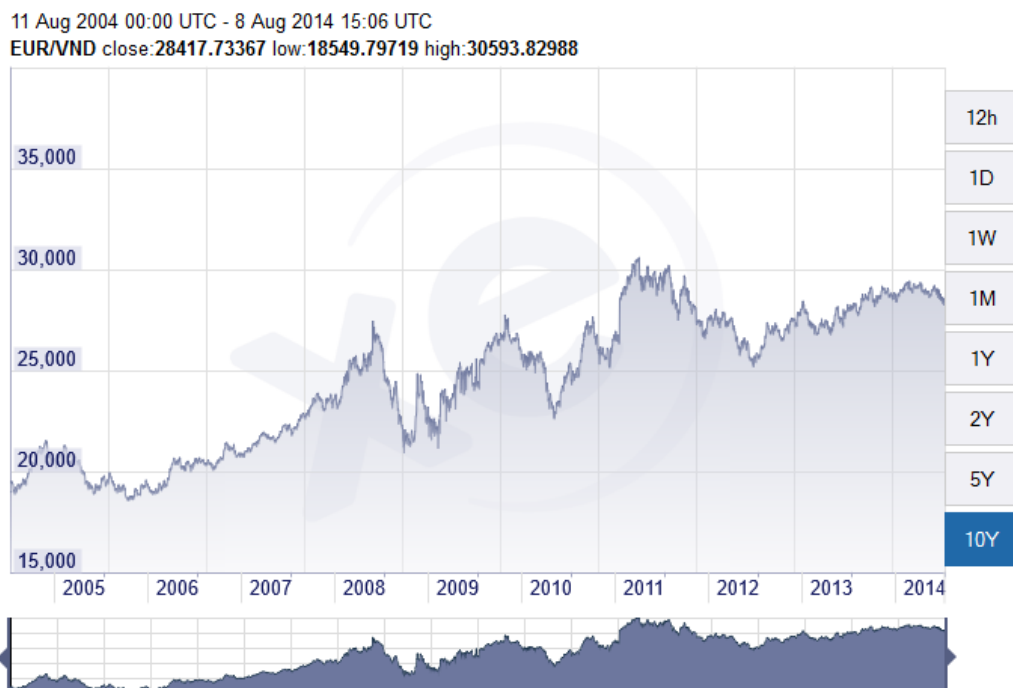


Figure 9. Euro/ Vietnam dong fluctuation from 2004 to 2014. (XE Currency Charts 2014)

Figure 9 shows that in the past 10 years, the Euro's value over Vietnam dong has increased almost 50%. This is a good sign for the exporting businesses from Vietnam to Germany, as the Vietnamese goods are getting cheaper to the Germans. However, as Vietnam is a developing country, it is possible that the exchange rate will change into the other direction in the near future.

Another important cost factor in global sourcing is wages from the sourcing country. In November 2013, the Vietnamese government decided that from 31

December 2013, the Vietnamese minimum wages will be increased from 14 to 17 percent (depending on region) compare to the previous minimum wages. (Vietnam Briefing 2013.)

The new minimum wages are applied for enterprise, co-operatives, house hold businesses, foreign companies and international organizations operating in the country. (Vietnam Briefing 2013) The minimum wages in Vietnam applied from December 2013 are shown in figure 10.

Region	Current Minimum Wage (VND per month)	Min. Wage Level from Dec. 31, 2013 (VND per month)	Percent increase
I	2,350,000	2,700,000	15
II	2,100,000	2,400,000	14
III	1,800,000	2,100,000	17
IV	1,650,000	1,900,000	15

Figure 10. Minimum wages in Vietnam from 31 December 2013. (Vietnam Briefing 2013)

Based on the basis of living standards, Vietnam is divided into 4 different geographic regions (Vietnam Briefing 2013):

- Region 1: urban and some suburban districts of Ho Chi Minh city, Hanoi, Hai Phong, and the cities of Bien Hoa, Binh Duong, and Vung Tau. (Vietnam Briefing 2013)
- Region 2: the rural areas of Hanoi and Ho Chi Minh City plus the urban Can Tho and Da Nang. (Vietnam Briefing 2013)
- Region 3: the provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong and Vinh Phuc. (Vietnam Briefing 2013)
- Region 4: the rest of Vietnam. (Vietnam Briefing 2013)

According to Figure 10, the minimum wages were increased up to 2 700 000 VND per month, which is about 130 US dollars.

Enterprises are encouraged to pay their employees upon the region minimum wages. Especially, they have to pay at least 7% more than the minimum wages

for skilled workers with vocational or higher level training. (Vietnam Briefing 2013.)

For the year 2015, the national wage council wanted to recommend that the minimum wages should be increased between 300 000 and 400 000 Vietnam dong (14-18 US dollars). The proposal was already approved by most of the agency members and will be submitted to Prime Minister Nguyen Tan Dung for approval in September 2014. (Minh 2014 & Tran 2014.)

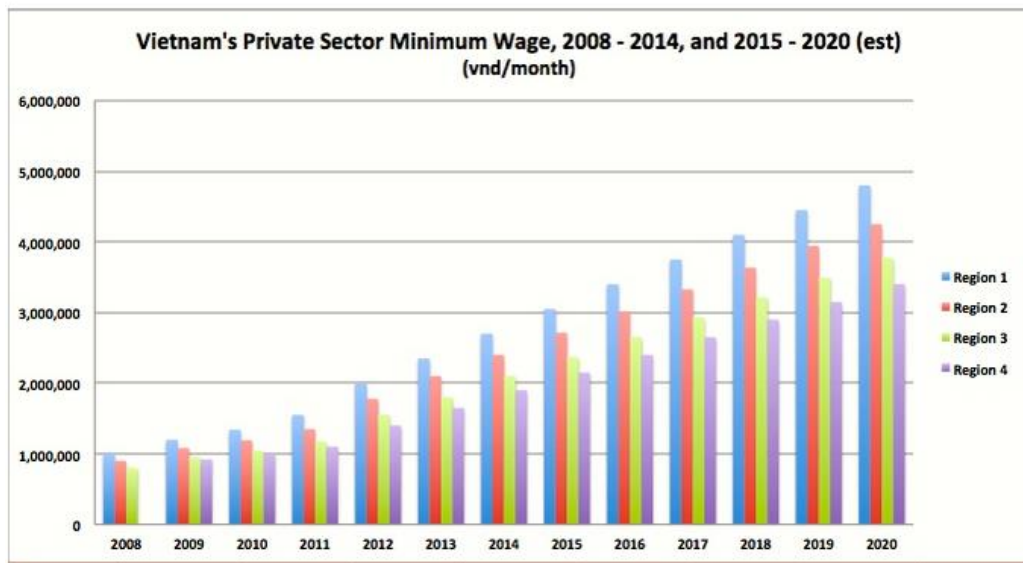


Figure 11. Vietnam's Private Sector Minimum Wage from 2008 to 2014 and from 2015 to 2020. (estimated) (Amcham Vietnam 2014)

Figure 11 shows the Vietnam's Private Sector Minimum Wage from 2008 to 2014 and from 2015 to 2020 (estimated based on the recent trends). According to the figure, the minimum wages in Vietnam will increase greatly (about 70%) until 2020. In the author's opinion, this is a very important point that companies should consider in the sourcing decision when importing goods from Vietnam, as the selling prices will increase together with the wages of the workers.

Quality Risks:

It is clear that quality is a big concern in global sourcing. Although the global purchasers usually already take into account the quality trade-offs when decid-

ing to source from a low cost country, the global suppliers also need to improve their quality to increase the competitiveness.

The Vietnamese-made products usually lack quality. This is threatening them even in the competition in their home market. In November 2012, the import turnover of milk, vegetables, fruits, confectionery and medicines in Vietnam was 1,38 billion USD, which was 12,5% more than that of November 2011. From January to November 2012, the total import of those products in Vietnam was 13,3 billion USD, building up 12,6% of the Vietnamese total import. Among these, vegetables and fruits increased 16,8%, confectionery and cereal products 66,4%, medicines 20,2% and plastic goods 24,1%. (Thai 2012.)

Those products can easily be produced by Vietnamese companies, but many Vietnamese people still choose foreign products because of 2 main reasons:

- The quality of Vietnamese products is lower than that of foreign products. (Thai 2012.)
- The tariff agreements for free trades like ASEAN, ASEAN-China, ASEAN-South Korea, and WTO give foreign products more opportunities to enter the Vietnamese market. (Thai 2012.)

The free trade agreements are giving foreign products more chances to gain customers in Vietnam, offering Vietnamese consumers a wider choice. However, this is also a big challenge to Vietnamese products, most of which have lower quality than imported products. Most of the Vietnamese companies are trying to improve their quality to create a better image in the eyes of the consumers (Thai 2012.)

Although quality is a high risk of global sourcing from Vietnam, it is a good sign Vietnamese companies are trying to improve their quality because the competition is getting hard for them in term of quality even at their home market.

Lead time reliability:

An aspect that is usually neglected in choosing global supplier is lead time reliability. This is very important when sourcing from such a far distance like from

Vietnam to Germany. According to the website searates.com (2014), the time for a ship to go from Vietnam to Germany is approximately 27 days, which is a long period.

When the suppliers are not responsive, it might lead to that the goods have to be delivered by airfreight, which is rather expensive.

Lead time risks:

Lack of control of issues such as customs, port congestion, capacity constraints, and geopolitical issues can increase the lead times a lot. While global sourcing is usually based on the reduction of costs, most companies usually do not take those factors into account. This is a very big mistake, which has a big impact on inventory costs and delivery time to the customers.

In Vietnam, it takes about 300 hours (about 13 days) for the exporting goods to go through the Vietnamese customs. This is 2 times longer than in other ASEAN countries. However, the Vietnamese government is working to reduce ½ of this lead time in 2015. (Thu 2014.)

Security risks:

Nowadays, there is war everywhere. Wars increase the likelihood of violation or crimes happening to communications, water way or airport. Therefore, security risks such as information systems security, infrastructure security, terrorism and crime are getting more and more attention of the global purchasers.

Having a strategic position in south-east Asia and a long continental shelf with a lot of potential for oil, Vietnam, especially the Vietnamese East Sea is very attractive for the strong neighboring country, China.

For many years, there has always been a strong tension between Vietnam and China over the Vietnamese sea. Recently, the situation is getting worse with the happening of the following event:

On 7.5.2014, the Vietnamese Ministry of Foreign Affairs organized an international conference to tell the world that from 1.5.2014, China illegally put an oil

rig into the Vietnamese sea. Around this oil rig, there were hundreds of military ships and helicopters. Those Chinese ships and helicopters intentionally hit and attacked the Vietnamese police ships when the Vietnamese police went there to tell them to withdraw. (Phuong & Van 2014.)

Figure 12 shows a picture of a Chinese boat attacking Vietnamese police on Vietnamese sea.



Figure 12. Chinese boat attacking Vietnamese police on Vietnamese sea. (Phuong & Van 2014)

On 16.07.2014, the Chinese oil rig was returned to China. However, the reason of this return and what China will do after this are still unknown. (Hoang et al. 2014.)

The sea tension between Vietnam and China is a big risk for the Vietnamese foreign trade in which the goods are transported by sea freight, which also include the food exporting business from Vietnam to Germany.

6 Value-based supplier selection

6.1 Best value definition

People might think that best value in this context is the best price that a purchaser gets from his/her supplier. However, the cheapest products may not provide the best value.

In the context of decision making, Swami Dayananda Saraswathy has defined value as "the regard for a thing, situation or attitude, which for some reason, is esteemed or prized by the value-holder". (Lyer 2009, p. 60.)

According to the U.S.Federal Acquisition Regulations, best value "means the expected outcome of an acquisition that, in the Government's estimation, provides the greatest overall benefit in response to the requirement", while the Federal Highway Administration described best value as: "The overall maximum value of the proposal to a sponsor after considering all of the evaluation factors described in the specifications for the project including but not limited to the time needed for performance of the contract, innovation design approaches, the scope and quality of the work, work management, aesthetics, project control, and total project cost of the formulas or other criteria for establishing the parameters for the Best Value are generally clearly defined with the goal of being objective" (Sollish & Semanik 2010, p. 117.)

Christopher Barlow of North Western University said that "value is about discovering relationships among the various goals of those who affect and are affected". Value is a relationship, which is established by the following comparisons: performance compared to needs, intent compared to performance, needs compared to requirements, requirements compared to features or attributes, features or attributes compared to satisfactions. Higher use, esteem and exchange values can increase value, but higher cost can decrease value. (Lyer 2009, p. 62.)

According to Miles (1972), "Values enhances with increasing performance, if and only if, the customer needs, wants, and is willing to pay for, more performance ". (Lyer 2009, p. 63.)

The process of selecting the best supplier is not simply just as "selecting the best deal". In fact, it includes a good deal of performance and trade-off analysis, because the offers from different suppliers usually do not include the same mix-

ture of factors. It is difficult to define the highest offer, and there is no tangible metric to do this kind of evaluation.

6.2 Best value factors

Unit price and the involved costs are always important in sourcing selection. However, in best value approach, other nonprice factors are also taken into account in order to get the most benefits for performance, risk management and other intangible factors. (Sollish & Semanik 2010,p. 117.)

These factors are very important for the sourcing decisions. Examining these factors helps to quantify the key factors of the offers. (Sollish & Semanik 2010, p. 117.)

6.3 Price

“Price” means the cost of acquiring the product or service. When talking about price, people usually only think of the unit cost, the transportation cost and duties. However, in sourcing, we should also consider Total Cost of Ownership, which is basically what the purchasers have to pay during the whole lifetime of the products/service, for example installation, maintenance, replacement parts, employee training, disposal...(Sollish & Semanik 2010, p. 118.)

We cannot compare Total Cost of Ownership between the offers base on feeling. To do that, we need to create a system with accurate data. A study by Industry Canada has found out that the total cost analysis helps 80% of companies to reduce their total cost. (Trent & Roberts 2009, p. 64.)

The total cost controlling helps companies to:

- identify the impact of different cost elements (Trent & Roberts 2009, p. 64)
- track where the costs can be improved (Trent & Roberts 2009, p. 64)
- get a better understanding of the supply chain (Trent & Roberts 2009, p. 65)
- make the sourcing decisions to be more fact based. (Trent & Roberts 2009, p.65)

During the author's internship at Bosch GmbH in Leinfelden (Germany), she had the chance to work with the company's Total Cost of Ownership analyzing system. This is a tool used for calculating and comparing costs between the offers, taking in to account unit costs, transportation costs, duties, packaging and tooling costs. When offers were received, the system just needed to be given all important data from the Quotations like unit costs, demand, number of deliveries per year, tooling costs, tool lifetime, terms of delivery, part size and weight, additional packaging cost. Then the system would automatically calculate the Total Costs. This is a very good tool to help purchasers get an exact number of the costs in the shortest time. Companies, especially the big ones, should create a similar system in order to reduce time and effort required to calculate Total Costs. Depending on the products and the companies, the cost components can be different.

6.3.1 Quality

Quality has a high impact on the products' performance. Performance requirements cannot be met when the quality of the item is low. A good quality product is a product that works exactly like how it is designed. (Lyer 2009,p. 70.)

When the products are defect, it leads to an increase in cost to a cost to replace, or repair. Before making decisions, the purchasers should evaluate the expected level of defects, compare to industry standards and other suppliers in order to reduce the cost of poor quality. (Sollish & Semanik 2010, p.118.)

For purchasing from a low cost country like Vietnam, quality is really needed to be considered carefully. This is especially important for food product, because bad quality food can have negative effects on the customers' health. When the customers have to go to the hospital, the shops are in a big trouble.

6.3.2 Technology capability

"Technical capacity includes unique designs or advanced technology that increases sales. It might cover how the supplier employs technology, either internally or with its customers. It could also evaluate how the supplier is positioned

in the marketplace as a developer of new technology” (Sollish & Semanik 2010, p. 118.)

In the author’s opinion, the food industry does not require high technology from the manufacturers. Technology capability in this case may include mainly the capability to produce a big amount of products and the recipes to make the food tasty.

6.3.3 Lead time

Time is always valuable. Because of marketing purpose, or customers’ requirements, the time that the products go to the market or are delivered to the customers may have a big impact on the sales. (Sollish & Semanik 2010, p. 118). Especially for B2B, time of delivery is very important, because you may have to pay additionally to cover the delays. Usually, time of delivering products to the market or customers depends on how well the suppliers can meet the deadlines. Therefore, the purchasers should include the lead time of the suppliers into consideration. Although the time of delivery is usually written on the trading contract or quotations, the purchasers should also control this by tracking the status of delivery or/and the results of previous orders from the same suppliers.

According to the author’s knowledge, the time of appearing on the markets for products like food is very important. As those products do not require high technology from the manufacturers, they are easily replaced with similar products. The companies/shops that offer the products first can earn quite much money of the “first sales”.

6.3.4 Service

Besides technical support, warranty coverage, and replacements, service also includes how the suppliers do their responsibility and make the customers satisfied. How the suppliers’ react to the customers’ complaints or request for information can also be considered as an aspect of service. (Sollish & Semanik 2010, p. 118.)

Services like technical support, warranty coverage, and replacements are very preferable as they help to reduce additional cost occurring in the future. However, when comparing the offers in terms of services, the purchasers should also consider what kinds of services are really needed to avoid paying for things that they do not need. This requires a very good understanding of the products.

How the suppliers' react to the customers' complaints or request for information is pretty much dependable on the culture aspects. Buyers should understand this in international trading to avoid misunderstanding. As being a Vietnamese living in Germany, the author has noticed that the Vietnamese react much slower than the Germans. The culture difference can be seen more clearly with complaints. While the Germans are quite direct, the Vietnamese are really afraid of "losing their face".

6.3.5 Process improvement

"Process improvement rates the supplier's internal systems for driving continuous improvement, driving added value in all categories over time". (Sollish & Semanik 2010, p.118). Every company needs to improve their process to increase the customers' satisfaction. This is important for strategic purchasing. If the process improvement rate of the suppliers is high, the buyers can be more confident to put them into the list of "preferred suppliers" for future business. However, it is very difficult to measure this rate; it is pretty much based on the feeling of the buyers.

Although those factors (except process improvement) are usually included in the trading contracts, and the suppliers are responsible if they break the contract rules, the purchasers should also examine them carefully. If the purchased items arrive late or are defected, it will also affect the companies' production process and delivery time, which have a big impact on the sales and the company images.

7 Supplier selection based on scorecard

7.1 Definition of scorecard

Scorecard (can be understood as Balanced Scorecard) can be defined as:

“A strategic management tool that helps to measure, monitors, and communicates your strategic plan and goals throughout the organization in a way that is understood by everyone.” (The Financial Gazette 2003) (Hatch et al. 2008, p. 6)

“A balanced scorecard is a framework for implementing strategy that translates an organization’s mission and strategy into a set of performance measurements” (Horngren et al. 2005) (Hatch et al. 2008, p. 6)

Although the scorecard systems can be used for many operational and management purposes (Hatch et al. 2008, p.6), the scorecard used in purchasing decisions will be discussed in this thesis.

In the context of sourcing decisions, scorecard can be understood as a method to quantify the aspects of offers into scores to make it easier to decide which supplier is the best.

7.2 Process of the selection based on scorecard

In this part, the steps of making purchasing decision based on scorecard taken from the book Strategic Global Best Practices (2010) of the authors Fred Sollish and John Semantik (pp. 118 – 123) will be introduced.

To begin the scorecard evaluation, these information/data should be defined/collected:

- Request for proposals
- Acquisitions plan
- Methodology/best practices
- Evaluation process
- Evaluation criteria and standards.

To make the evaluation objective, it is important that the evaluated factors have to be made measurable. Below is an example where the requirement and criteria, and the standards for measuring the response were defined. (Figure 13)

Requirement

Provide rapid on-site network printer repair to ensure a maximum downtime of 30 minutes.

Criteria

This factor evaluates the adequacy of the proposed technical approach for quick, on-site recovery from network printer failure.

Standard

Proposed technical approach provides credible means to reliably recover from all network printer failures within 30 minutes

Using a scale of 1 to 4, you can establish a specific set of evaluation criteria. Note the progressively increasing value going up the scale:

Meets the Standard =1

Proposal A: Printer will be equipped with a standard parts pack including removal and replacement tools.

Meets Above Standards=2

Proposal B: Printer will be equipped with a standard spare parts pack including removal and replacement tools along with a 24/7 800 number for service support.

Proposal C: Spare printers will be available for customer installation in all buildings.

Exceeds Standards and Expectations=4

Proposal D: Spare printers will be available in all buildings and will automatically replace any out-of-service printer through network rerouting

Figure 13. Example where the requirement and criteria, and the standards for measuring the response were defined. (Sollish & Semanik 2010, p. 119)

When the criteria are already defined, the buyers can create a matrix like this:

	Overall Weight	Question A	Question B	Question C	Total Score
Price					
Quality					
Service					
Technology					
	= 1.00				

Figure 14. Simple Scorecard Layout. (Sollish & Semanik 2010, p. 120)

In this step, buyers have to break out each major category into smaller criteria. In the example in Figure 14, the sub elements are described as questions. (Sollish et al. 2010.)

However, in the author's opinion, the sub elements can be described as normal sentences as well. For example, for the Quality, buyers may want to know how good the quality from this supplier compared to the others is, or the increasing rate of the quality.

The buyers can decide the overall weighting scores, normally it should be 1 or 100, and each category is a fraction of which. Based on individual weighting factor, the buyers can give each sub element a score. This score would be then multiplied by the overall category weight.

	Overall Weight	Question A	Question B	Question C	Total Score
Price	.35				
Quality	.30				
Service	.20				
Technology	.15				
	=1.00				

Figure 15. Adding Overall Weighting. (Sollish & Semanik 2010, p. 120)

Figure 15 shows an example of how the overall scores can be divided by categories. Usually, the score division is based on the companies' needs. For example, the price has more weight because the company wants to reduce the product price.

In the next step, the evaluation questions/sentences for the sub elements are developed (example in Figure 16), and then the scaling for each sub elements are defined (Figure 17)

	Overall Weight	Question A	Question B	Question C	Total Score
Price	.35	Comparative amount	Length of stability	?	
Quality	.30				
Service	.20				
Technology	.15				
	= 1.00				

Figure 16. Evaluation sub categories. (Sollish & Semanik 2010, p. 121)

	Overall Weight	Question A	Question B	Question C	Total Score
Price	.35	1-5?	0-6?		
Quality	.30				
Service	.20				
Technology	.15				
	= 1.00				

Figure 17. Scaling for sub categories. (Sollish & Semanik 2010, p.121)

Then, each sub category will be given a score (example on Figure 18).

	Overall Weight	Question A	Question B	Question C	Total Score
Price	.35	2	2	4	
Quality	.30	3	3	3	
Service	.20				
Technology	.15				
	= 1.00				

Figure 18. Scoring for sub categories. (Sollish & Semanik 2010, p. 121)

The next step is calculating total weighted scores. This is done by calculating the scores earned in the whole category, and then multiplying with the category weighting factor. In the example in Figure 19, the total score of the price category is 8, multiplied with the weighting factor (0.35), giving a weighted score of 2,8.

	Overall Weight	Question A	Question B	Question C	Total Score
Price	.35	2	2	4	8
Quality	.30	3	3	3	
Service	.20				
Technology	.15				
	= 1.00				

Figure 19. Calculating the total score. (Sollish & Semanik 2010, p. 122)

Finally, we can line up the scores of all the suppliers in order to get a clear picture of the comparison (example on figure 20).

	Overall Weight	Supplier A	Supplier B	Supplier C
Price	.35	2.80	1.90	3.25
Quality	.30	2.70	2.00	2.80
Service	.20	1.60	1.60	2.20
Technology	.15	1.65	1.55	1.80
Total		> 8.75	> 7.05	> 10.05

Figure 20. Summing up. (Sollish & Semanik 2010, p. 122)

8 Profiles of the interviewed companies

In May 2014, with 2 designed questionnaires, some telephone interviews with 6 food exporting companies in Vietnam and 4 food importing companies in Germany were conducted. The aim of those interviews was to get more practical data and opinions of the companies involved in the businesses of importing/exporting food from Vietnam to Germany, Below are the company profiles.

8.1 Companies in Vietnam

- Tien Giang vegetables and fruits joint stock company
 - o Products exported to Germany: frozen pineapple IQF and canned pineapple
 - o Interviewed person: Nguyen Hoang Chuong (vice team leader of the trading team)
- Dai Thanh Limited

- Products exported to Germany: frozen pangasius fish, fresh fish
- Most favored products in Germany: frozen pangasius fish
- Interviewed person: Ha Van Tinh (trading manager)
- Go Dang Seafood Joint Stock Compang (Godaco)
 - Products exported to Germany: pangasius fish fillet, white clam, yellow clam, squid ring, seafood mix, seafood cocktail
 - Interviewed person: Mr. Nguyen Duc Phong (sales manager of frozen seafood)
- Hai Huong Seafood Joint Stock Company
 - Products exported to Germany: pangasius fish fillet
 - Interviewed person: Ho Dong Phuong (sales manager)
- Thuan Phong Co., Ltd
 - Products exported to Germany: rice paper, rice noodles, banh hoi
 - Interviewed person: Le Bao Thu (vice director)
- Hoa Loc Cooperative
 - Products exported to Germany: fruits
 - Interviewed person: Nguyen Van Thuc (exporting sales employee)

The reason why these companies were chosen is that they together create a good combination of different food products: fruits and vegetables, seafood and processed food, from neutral food like fish to very Asian food like rice noodles.

8.2 Companies in Germany

- Sued Store Asia Markt
 - Main Business: retailer of Asian food
 - Goods imported from Vietnam: dried noodles, instant noodles, soy sauce, mixed powder, prawn crackers, fish sauce, seafood
 - Interviewed person: Lu Thi Hong Hanh (owner of the shop)
- Asia shop Thien Phung
 - Main Business: importing fruits and vegetables from Vietnam
 - Interviewed person: Nguyen Thuy Lan (director)
- Euromex Seafood
 - Main Business: importing seafood
 - Goods imported from Vietnam: frozen shrimp, fish, and crab

- Interviewed person: Nguyen Quoc Tuan (director)
- Thuy Son Leipzig GmbH
 - Main Business: importing dried food
 - Goods imported from Vietnam: dried noodles, instant noodles, bamboo shoots
 - Interviewed person: Vo Thanh Long (director)

These companies were selected to be interviewed because they are 2 different kind of business (Sued Store Asia Markt and Asia shop Thien Phung are retailers and the others are wholesalers). In addition, this combination imports a big variety of food products. Therefore, they can help to get a comprehensive picture about the importers in Germany.

9 Answers from the interviews

9.1 Answers of companies in Vietnam

Tien Giang vegetables and fruits joint stock company:

- The most preferred products in Germany: frozen pineapple 1/12 cut and 10 mm thick.
- Reasons to export to Germany: Germany is a very potential market and has a very high purchasing power.
- Challenges in the German market: there is no challenge.
- Biggest competitors: competitors from Thailand.
- Direct customers to export to Germany: supermarkets and wholesalers because they have very high demand and good brands.
- Way to export to Germany: direct export to Germany with no third country.
- Way of transportation for delivery: sea freight.
- Requirements of customers in Germany:
 - Germany requires low antibiotics, which is according to the European standards.
 - The quality has to reach the European standards.
- What they want to improve/ be improved:

- Better preservations during the transportation.
- Reducing the cost of transportation.
- Finding more customers.
- Predictions of the exporting to Germany business in the next 5-10 years:
In the future, the company will expand the business in Germany and improve their brand image.

Dai Thanh Limited:

- The most preferred products in Germany: frozen file pangasius fish.
- Reasons to export to Germany:
 - Frozen file pangasius fish is liked in Germany because it is easy to be cooked, has low price and neutral taste.
 - Germany is a big and stable market.
 - German companies usually work very seriously, in a certain way and have strategic long term business plans.
- Challenges in the German market:
 - Quality has to be high.
 - Germany has very strict rules for food hygiene.
 - The competition in Germany is becoming very tight in terms of price and product quality.
- Direct customers to export to Germany: supermarkets and wholesalers.
- Way to export to Germany: direct export to Germany.
- Way of transportation for delivery: sea freight.
- Requirements of customers in Germany:
 - Ensuring the food hygiene.
 - Having a big variety of products.
 - Competitive prices.
 - Offering multiple payment methods.
- What they want to improve/ be improved: According to the Vietnamese exporting rules, companies have to spend a lot of time to get the goods out of the country and send to Germany:
 - 7-10 days to get a product certificate.

- 3 days to get the results from the National Agro- Forestry- Fisheries Quality Assurance Department.
- 1-2 days at the customs.
- More than 20 days for transportation.

The whole process costs a lot of money, which will then cause a raise in selling price and has direct impact on the competitiveness of the company.

- Predictions of the exporting to Germany business in the next 5-10 years: Their sales in Germany are expected to increase about 20%.

Go Dang Seafood Joint Stock Company (Godaco)

- The most preferred products in Germany: Pangasius fish is the best sold and has the biggest volume. Godaco's pangasius fish has Global Gap and ASC (Aquaculture Stewardship Council) certificates. Godaco's white clam is the second best sold product and also has MSC certificate.
- Reasons to export to Germany:
 - The selling prices to Germany are lower than to the US, but still much higher than to Asian markets.
 - Germany has very big import volume.
 - Germany is the center for exporting to other European countries.
- Challenges in the German market:
 - Germany has high requirements for quality. The sanitary government accepts only a little amount of bacteria, low antibiotics, and undetected heavy metal.
 - Consumers may require organic pangasius fish, or they may require that the fish is raised under the Global Gap or ASC standard. Those 2 methods require a very good control system, which costs much money and time, and the employees also have to be trained.
- Biggest competitors: there is no direct competing country for Vietnamese pangasius fish in Germany. However, there is a very tight competition between the Vietnamese companies. Besides, there is also indirect com-

petition with other kind of fish. When the prices of fish are too high, the Germans may choose meat or chicken to replace fish.

- Direct customers to export to Germany: the main direct customers are wholesalers.
- Way to export to Germany: The main direct customers are wholesalers in Germany. However, sometimes the company also sells products to trading companies in Vietnam or a third country, or through trading consultant companies.
- Way of transportation for delivery: sea freight with freezing systems, air freight for nonfrozen fish.
- Requirements of customers in Germany:
 - o The processing plants must be approved by European Union and recognized under the approved plant number.
 - o The plants have to be approved by the Vietnam's sanitary government on both HACCP (Hazard Analysis and Critical Control Points) documents and facilities, or together with the EU's sanitary commission before the plants are approved to export to Germany or EU.
 - o Germany requires slight additive treatment.
 - o Storing temperature of frozen seafood is normally at minus 18 or 20 Celsius degrees.
 - o At the moment, Germany has no technical barrier for pangasius fish from Vietnam.
- What they suggest to overcome the challenges in German market:
 - o The company is trying to reduce the use of antibiotics in pangasius farming, or stop using pangasius before harvest according to guidelines.
 - o Attending international seafood exhibition to get more customers.
- Predictions of the exporting to Germany business in the next 5-10 years: Godaco has invested on 200 hectares of pangasius farm, 15% of which will have Global Gap and ASC certificates. Besides, the company will also build 2 pangasius processing plants, one clam processing plant and one fish food processing plant. Workers and staffs are trained, equipment are imported from Germany, Denmark, or Japan. The board of

management consists of Vietnamese and foreign experts; the company has a good financial structure. Godaco may basically have more favorable factors or conditions to continue its business development with German partners. However, some of other Vietnamese processors or exporters may have difficulty from now on due to the economic crisis of the world generally, and in EU particularly.

Hai Huong Seafood Joint Stock Company

- The most preferred products in Germany: frozen pangasius fish
- Reasons to export to Germany: this is a big market with high purchasing power because Germany is the biggest economy in Europe. The selling price in Germany is quite high comparing to other markets.
- Challenges in the German market: Germany has very high standards for hygiene and safety of food. The price of products is really dependent on EUR, and USD. The transportation costs are too high; this is a big part of the selling price.
- Biggest competitors: The biggest competitors come from Thailand and China.
- Direct customers to export to Germany: wholesalers and supermarkets in Germany because they have a big demand and they are more reliable.
- Way to export to Germany: direct to Germany
- Way of transportation for delivery: sea freight.
- Requirements of customers in Germany: The quality of products has to be high and meet the requirements both from Vietnam and from Germany.
- What they want to improve/ be improved:
 - o Better preservation during transportation.
 - o Having long-term contracts with logistic partners to get better transportation cost.
 - o Finding more customers who have big impact on the market.
 - o The Vietnamese companies should work together, not compete with each other, in order to protect themselves in the foreign market.

- Predictions of the exporting to Germany business in the next 5-10 years:
The company's sales in Germany are predicted to increase about 10%.

Hoa Loc Cooperative

- The most preferred products in Germany: Hoa Loc mango
- Reasons to export to Germany:
 - o Germany is a big stable market; the purchasing power there is very high.
 - o Many products from Vietnam can get lower tax rates from Germany
- Challenges in the German market:
 - o The competition in Germany is becoming very tight, especially when China gets the WTO membership and 10 joined the European Union recently.
 - o The company still lacks professionalism in international trade.
- Biggest competitors: Thailand and China.
- Direct customers to export to Germany: wholesalers.
- Way to export to Germany: direct export to Germany
- Way of transportation for delivery: airfreight and sea freight.
- Requirements of customers in Germany: European Union has very strict rules for plant protection products residues. About 40% of Vietnamese vegetable samples have high plant protection products residues, 28,5% exceed the Nitrat limit, 100% exceed the coliform limit, and 46,8% exceed the Ecoli limit.
- What they want to improve/ be improved:
 - o Better preservation system during transportation.
 - o Reducing the cost of transportation.
 - o Finding more customers in Germany.
- Predictions of the exporting to Germany business in the next 5-10 years:
The sales in Germany are expected to double in the next 10 years.

Thuan Phong Co., Ltd

- The most preferred products in Germany: rice paper.

- Reasons to export to Germany: The company exports to many countries: America, Japan, Korea, Australia, the Netherlands. Germany is not an important market for them.
- Challenges in the German market: there is no challenge.
- Biggest competitors: no competitor.
- Direct customers to export to Germany: wholesalers.
- Way to export to Germany: direct export to Germany.
- Way of transportation for delivery: sea freight.
- Requirements of customers in Germany: there is no specific requirement.
- What they want to improve/ be improved: Reducing the cost of transportation.
- Predictions of the exporting to Germany business in the next 5-10 years: The sales in Germany are expected to double in the next 10 years.

9.2 Answers from the companies in Germany

Sued Store Asia Markt

- Products with biggest demand from Vietnam: dried food (rice noodles, instant noodles).
- Reasons to import from Vietnam: the dried food from Vietnam has good quality and it is cheaper than products from China and Thailand. After 2 years of trial, they can see that their customers are satisfied with the product quality. The Chinese products have bad hygiene and food safety quality.
- Challenges of importing from Vietnam:
 - The number of Vietnamese products is yet small.
 - The Vietnam's image is still not popular in Europe.
 - The deliveries from Vietnam are usually late.
 - The packaging and preservation systems from Vietnam are yet not good. Due to the climate difference, the products are usually molded or broken.
 - The cost of transportation and tax rates are still high.
 - There are many exporting companies in Vietnam, but it is difficult to find a good one for long term corporations.

- The economic laws in Vietnam change very rapidly.
- Direct suppliers from Vietnam:
 - Farmers (10%): cheaper price but no guarantee for quality and the capacity.
 - Individual traders (10%): no guarantee for quality and keeping the promise according to contracts.
 - Wholesalers (80%): very good for long term cooperation.
- Way of importing: 50% direct import from Vietnam, and 50% indirect through Holland.
- Way of transportation: airfreight for fresh vegetable and sea freight for dried food.
- Requirements for Vietnamese products:
 - Products have to meet the European or WTO requirements.
 - Quality has to be high and equal for every item.
 - Nice packaging and stable price.
- Predictions for importing from Vietnam in the next 5-10 years:
 - Imports from Vietnam are expected to increase about 30-50%, especially for seafood because the Vietnamese seafood can already compete with Thailand and Bangladesh.
 - The frozen agricultural products from Vietnam (citronella, sweet potatoes...) are becoming better very rapidly.

Euromex Seafood

- Products with biggest demand from Vietnam: frozen shrimp, fish, and crabs.
- Reasons to import from Vietnam: Vietnam has a big variety of products.
- Challenges of importing from Vietnam:
 - The quality of Vietnamese products is not stable, sometimes good and sometimes bad.
 - The cost of transportation for frozen products is too high.
 - The packaging quality for frozen products from Vietnam is not so good.
- Direct suppliers from Vietnam: 100% wholesalers.

- Predictions for 5-10 years about importing from Vietnam: the imports of Vietnamese frozen seafood are expected to increase 40% if Vietnam reduces the exporting tax to decrease the selling price.

Tinh Son Leipzig GmbH:

- Products with biggest demand from Vietnam: rice noodles, instant noodles, fresh bamboo shoots.
- Reasons for importing from Vietnam:
 - o Vietnamese food is cheap and has good quality.
 - o The source of suppliers in Vietnam is very big.
- Challenges of importing from Vietnam: the quality cannot last for a long time in the products; the exporting tax rate in Vietnam is too high.
- Direct suppliers from Vietnam: big manufacturers.
- Requirements for suppliers: guaranteed quality and on time delivery.
- Predictions for 5-10 years in the future about importing from Vietnam: the imports from Vietnam are expected to increase about 20%, especially for rice.

Asia shop Thien Phung:

- Products with biggest demand from Vietnam: aromatic vegetables, fresh Vietnamese fruits.
- Reasons to import from Vietnam: Vietnamese products have cheap prices.
- Challenges of importing from Vietnam: vegetables and fruits are easy to be broken after the long transportation; the costs for air freight transportation are too high.
- Direct suppliers from Vietnam: big manufacturers.
- Way of importing from Vietnam: always direct importing from Vietnam.
- Way of transportation: air freight.
- Requirements for Vietnamese products: vegetables and fruits have to look nice, green and have no pesticides.
- Predictions of the near future for the imports from Vietnam: The imports are expected to increase about 10%.

10 Analysis of the interviews

10.1 What to import/export?

From the interviews we can see that fruits/vegetables and sea food from Vietnam are very potential products for this kind of business. The reason for this is very clear. Although being a very small country, Vietnam has very long coast lines (about 3300 km). The warm and humid climate provides a very good condition for the development and farming of fruits/vegetables and breeding animals including seafood. This is why Vietnam can offer a big variety of seafood, fruits, and vegetables. In contrast to Vietnam, Germany has a very short coastline, where it is also very cold and not good for the growth of sea food. In addition, although not being so cold like in north Europe, the winters and autumns in Germany are still too cold for the growth of vegetables and fruits. Furthermore, the costs of growing vegetables in greenhouses are very high. Due to unfavorable natural condition, Germany needs to import the seafood and farming products from other countries, and Vietnam is a very potential country for those products.

In addition, the company Thuan Phong has informed that they are having a very good business in Germany (no competitors, no specific requirements for their products). This is because of the characteristics of their products. China also produces rice noodles. However, rice paper (Thuan Phong's main exporting product) is a unique product from Vietnam. I have been in a lot of Asian shops in Europe and have realized that no other country has this kind of product. Therefore, the Vietnamese companies have nearly no competitors for rice paper. This may also be the reason for why there are no specific requirements for this product, because standards can only be created when there are multiple numbers of varieties.

In short, to have a good position in a foreign market, people should choose to export the products that the foreign country cannot (or has difficulties) to produce. The best products to export are the ones that no other country can offer. On the other side, when making decisions to source from a country, the global

purchasers should do research about the favorable conditions of the foreign country in order to get a wide range of choices and potential for big demands.

10.2 Why people export/ import food from Vietnam to Germany?

One common reason from the Vietnamese point of view is that Germany has a big import volume. Each market/ country has its own characteristics. When entering a foreign market, companies have to spend a lot of time, money, and efforts to understand about the importing rules, market requirements, working culture... and adjust themselves according to these characteristics. Therefore, it is more profitable to find a big market than a big number of markets with small demand.

From the German point of view, cheap prices are the main reason to import from Vietnam. This is quite understandable because when you buy a big number of products, you would mostly prefer the cheap ones, especially for food, for which the final consumers do not have high needs for an exact product. For example, if the price of mangos gets too high, people would prefer to buy apples instead.

10.3 Challenges of importing/exporting food from Germany

There are two big problems which appear in all of the interviews (except from the Thuan Phong company). The first one is quality, which includes packaging quality, preservation during transportation and food safety. European countries in general and Germany in particular have very strict rules for food quality. Products are not accepted because of broken packaging, having high amount of bacteria, or many residues of antibiotics or plant protection products, even if just slightly above the standards. Products have to go through a lot of tests before they can be sold in Germany. This is a big challenge for suppliers from developing countries like Vietnam, where there is a lack of professional farming infrastructure, equipment and trained personal. The Vietnamese companies and government have much work ahead to solve this problem.

The second problem is high transportation costs. This is very understandable because the distance between Vietnam and Germany is so big. At the moment,

despite the expensive transportation, Vietnamese products are still quite cheap in Germany because the costs of producing in Vietnam are very low. However, Vietnam is a developing country. This will lead to an increase in the production costs in the future, which will also affect the selling price. Because of this reason, companies with a strategic mind should work to find a way to reduce the transportation costs in order to keep their competitive competences in the future.

10.4 Business partners for exporting/ importing

All of the interviewed companies tend to find big companies to work with. The reason for this might be that it would be easier for them to get big volumes, manage long-term relationships, and for the purchasers, big suppliers are considered to be safer. This is a bad sign for Vietnam. In Vietnam, most of the agriculture items come from farmers. Many Vietnamese people have their own gardens, which are from several hundred quadrat meters to 1 hectare. They grow plants/ animals by themselves and then sell to the traders or manufacturing companies. Of course, the German companies can buy products from big trading companies (who buy products from the farmers or from individual traders) to get a big number of products. However, this long supply chain will cost much more money than using big farms. In addition, the private farmers are usually not trained in farming, and “little gardens” are mostly not certified or regularly tested. Therefore, we cannot expect high quality products from them. Besides, in countries like Vietnam, with a big population, when so many people have their own gardens, there is not enough space left for the big farms with professional equipment and farming techniques. To cultivate, the Vietnamese government has to find some way to reduce the number of private “gardens”, leave space, and invest in more technology for big farms.

10.5 Predictions of the companies about the future

All of the interviewed companies say that the activities of exporting to Germany or importing from Vietnam will increase in the next 5-10 years. This is a very good thing. It shows that the Vietnamese products already got positive feedback

and are accepted in Germany. That is a good motivation for Vietnam and Germany to do research and investments to develop this kind of business.

11 Conclusion and suggestions for further research

According to the results of this research, the business of importing/ exporting food products from Vietnam to Germany has a very good potential to develop in the future. However, the supply chain management is a big issue for this kind of business. To overcome those challenges, the Vietnamese suppliers should give a big effort to improve their quality not only just after production, but also after the long transportation process to Germany. This requires a big investment in sourcing, training staff, production techniques and finding good transportation partners. On the other side, the German importers should also pay more attention in finding good suppliers from Vietnam and maintain a long term relationship with them.

This research is mainly about finding the challenges of doing importing/exporting of food from Vietnam to Germany business and gives an idea of how to solve these problems. However, there are still many possibilities for further research about this topic, for example, how to improve the Vietnamese product quality and ensuring this quality along the long transportation to Germany, or strategic global purchasing with focus on Vietnam for German companies.

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Appendices

Appendix 1: Lists of questions for the companies in Vietnam

1. What do you export to Germany? What are your best sold products for exporting to Germany?
2. Why do you export to Germany?
3. What are the challenges you are facing for exporting products to Germany?
4. Who are your biggest competitors in Germany?
5. Who are your direct customers to export Germany? Supermarkets, wholesalers or other kind of business?
6. Do you export directly to Germany or through a third country?
7. Which kind of transportation do you use?
8. What are the German customers' requirements?(about quality, prices, transportation...)
9. What do you want to improve/ be improved in the future to get better sales in Germany?
10. What is your predictions about your exporting to Germany business for the next 5-10 years?

Appendix 2: List of questions for the companies in Germany

1. What do you import from Vietnam? What is (are) the product(s) that you import from Vietnam the most?
2. Why do you choose to import from Vietnam?
3. What are the challenges you are facing when importing products from Vietnam?
4. Who are your direct suppliers to import from Vietnam? Farmers, traders, or wholesaler?
5. Do you import directly from Vietnam or through a third country?
6. What are your requirements for Vietnamese product/ suppliers?
7. What do you want to be changed so that it will be easier/ more profitable for you to import from Vietnam?
8. What are your predictions for the activities of importing from Vietnam in the next 5-10 years?