

The process of procuring Vietnamese hyacinth handbags to Finland

Case study: Kloman

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Bachelor's Thesis

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<p>The overall purpose of the thesis is to establish a procurement process that can be used in global sourcing. To answer to the research question: “How to procure Vietnamese water hyacinth bags to Finland?”, four objectives have been established. These objectives will help to answers questions about motives and problems with global procurement, stages in procurement process, tools that often use in supply management and how supply chain strategy effects procurement.</p> <p>Theoretical part is conducted through empirical part in a reductive approach. The study is based on a qualitative method to provide a deep understanding of the process and interpret the meaning behind data. Data is collected through two main sources: primary data (in-depth interviews, observation) and secondary data (desktop research). Both sources are used together to solve four objectives.</p> <p>The paper also includes findings related to global procurement objectives. Vietnam’s cultural and communication is a major problem in global trade. It is emphasized that “identifying” suppliers from trustworthy sources will reduce time and money handicraft hyacinth industry is on a downside. By using leagility supply chain strategy and rule 80/20 will reduce the volatility of fashion product characteristics. One more unexpected finding has been found through interviews is water hyacinth bags are on the downside of their cycle.</p> <p>As an Haaga-Helia student who majors in Supply Chain and Marketing and a person who is passionate about handicrafts, the author wishes to combine academic knowledge and hobbies to become a successful business. The author used to work as a procurement officer; therefore, work experience motivated the author to test the market and see if a business plan can become a successful business.</p> <p>Kloman is the author’s business idea of turning Finland into a distribution channel in Nordics in the next five years and then expand to entire Europe in the next 10 years. The choice between Vantaa and Rotterdam was considered. Rotterdam had more advantages to become a European warehouse however, resource-limited made Vantaa become the destination for this period.</p>	
Keywords: procurement, global sourcing, supply chain strategy, supplier, portfolio purchasing, Vietnamese hyacinth handbag, Finland, process	

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1 Introduction

According to Australian Natural Resources (2015), water hyacinth is defined as “pest” due to causing water stagnation and reducing oxygen absorption of aquatic creatures. In Kenya, a baby died on Lake Victoria because of getting stuck four days after birth on the river full of these invasive species Kenya National Assembly Official Record (Hansard, p.2638). In Vietnam, more than 31,000€ in 2018 within 2 months was spent on manual removal as machine cleaning was not effective (Vietnam Net 2018.) However, 15 years ago in a Northern province of Vietnam, weaving water hyacinth became a job that both solve unemployment as well as the hyacinth invasion. (Vy 2016). Since then, this aquatic invasive spice has become a new material for handicraft businesses with more than thousands of products for carpets, sofas, baskets, drawers and decorative items.

The story of the evolution of the new eco-friendly material inspired the author after buying a bag from Ninh Binh in a journey. The author had an idea of exporting these handbags to Nordic countries, therefore, the purpose of this thesis is to decide if it is possible to build an eCommerce of bag business in Finland to test the market.

1.1 Background

With the knowledge gained from Haaga-Helia University of Applied Science and experience gained through previous work in the sourcing department at TOT (an Original Design Manufacturer) offering Nordic style furniture in Vietnam), the author understands the importance of procurement process in global business. A well-structured procurement process helps firms to reduce time, avoid lengthy unnecessary steps. A poor design process will result in additional costs, procurement planning does not the requirements, along with the frustration of end-users trying to perform daily activities. It is advised that processes “process should follow a different set of rules based on the type of items requisitioned and their consumption by the departmental units” (BvW Global.)

1.2 Case Company

Kloman is the author’s business idea which has not yet registered under a business name. “Kloman” initially was named after two dogs: Clodius (a Roman emperor) and Mansikka (strawberry in Finnish). The idea of this combination started when the author works with a friend about a dog food manufacturing. The business did not go well but the name stays as evidence of the good friendship between “the four”.

Kloman is a start-up business idea to boost eco-friendly products towards people that care about the environment and love bags. The company is brand new so all the data collected will be used for planning. Kloman aims to be a manufacturer and direct export but during this period the author is a private trader to test the market and gain knowledge about purchasing, production, distribution.... After this testing period will be a decision on forward integration or remain as a retailer.

The research is done specifically for the case company Kloman by considering their resources, strategies, supply power... for procurement processes bags from Vietnam to Finland. In this period. At the early stage of the company, the strategy focuses on Business to Customer, however, when an amount of customer is sufficient, the number of customers interested in these products will become a shred of solid evidence to convince Business to Business customers.

1.3 Research Question

The outcome of this thesis will be a Request for Quotation form and supplier pyramid used in the author's previous work. It also includes an overlook of the craft industry in Vietnam (export data, industry analysis, product's life cycle...) Cultural problems that buyers might meet will be listed together with possible solutions. Supply chain strategy requirements and strategies that are suitable for fashion products. The aim of this paper is to select a supplier that meets requirements to establish an e-commerce start-up.

The research question (RQ) is defined as: "How to procure Vietnamese water hyacinth bags to Finland?"

In order to find the optimal solutions for the RQ, four investigative questions have been established.

IQ 1: What are the pros and cons of procuring Vietnamese hyacinth bags from Finland?

IQ 2: How to spot the right supplier?

IQ 3: Which tools and models can be used to support global sourcing?

IQ 4: What are the possible recommendations for Kloman?

The table below presents the theoretical framework, research methods and results chapters for each investigative question.

Investigative Question	Theoretical Framework	Research Methods	Results (chapter)
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IQ: 1 What are the pros and cons of procuring Vietnamese hyacinth bags from Finland	Chapter 2	Observation, desktop research, own knowledge, in-depth interview	5.1
IQ: 2 How to spot the right supplier?	Chapter 3	Observation, desktop research, in-depth interview.	5.2
IQ: 3 Which tools and models can be used to support global sourcing?	Chapter 4	Desktop research, observation.	5.3
IQ: 4 What are the possible recommendations for Kloman?	Chapter 5		5.4

Table 1. The overlay matrix (Source: The current author)

1.4 Demarcation

In the theoretical framework, the procurement process (2.2), the last step “manage” will be omitted as this research does not reach that step yet. The purchasing four-stage approach (2.3) will be examined in the two first stages: Classification and market analysis. Since they are the most important part and relevant to the business. The research design will concentrate on only case study strategy (3.3) and only mono method qualitative (3.4) and Other methods and strategies will not be mentioned. In the data analysis process, this paper will not cover the shipping cost from Vietnam to Finland either providing logistics forwarders (4.2). The location of the research is limited to the Helsinki region as most of the garment stores are located around the cosmopolitan area (4.4.)

1.5 International Aspect

Garment is the second-largest consumer of the world's water supply and the second largest water polluter (Johnsen 2019). Many solutions and agreements have been made to improve environmental drivers. Meanwhile, in Vietnam, sustainable products have been made through plaiting hyacinth strips together to make fashionable bags. It might be a trend and a solution to replace rawhide or other fabric processing that ruin the ecosystem. However, this product now only available in a few Asian countries so global procurement plays an important role. In a mature market like Finland, it is crucial to provide a friendly product at a lower cost with higher quality.

1.6 Benefits

The person who gains the most benefits out of this research is the author. By having hands on the field, the author knows more knowledge about the industry through the interview as well as the cost of products, production process, competitor's strengths and weaknesses....

The group that will gain advantages from reading this paper are start-ups in handicraft business. This paper provides enough information on a procurement process, suggested a philosophy to have low stock holdings while enabling varieties of products. It also notes which products should be kept in stock and which products can use lean philosophy.

For business-to-business (B-to-B) partners, in the future, these data will be a reliable source that provides an overview of the products and its industrial growth. For a potential customer, this paper will be a reason to become a real customer after he/she understands the effort in reducing waste and attempt to promote for environment-friendly products.

Vietnamese information has low reliability, so this paper also provides sufficient data on the handicraft industry for people who are interested.

1.7 Key Concepts

Procurement is an approach to gain advantages from limiting non-added activities while still gaining cost reduction from global sourcing. It manages supply chain risk through the effective negotiation of contracts, cost and price models, quality and other supply characteristics. (Myerson 2019, 215.)

Global sourcing refers to the integration and coordination of procurement requirements across worldwide business units, looking at common items, processes, technologies and suppliers, supply chain strategy, supplier, portfolio purchasing (Birou & Fawcett 1993).

Supply chain strategy is an iterative process that evaluates the cost-benefit trade-offs of operational components. While the business strategy constitutes the overall direction that an organization wishes to go, the supply chain strategy constitutes the actual operations of that organization and the extended supply chain to meet a specific supply chain objective. (Ups 2005.)

Portfolio purchasing: a matrix developed by Peter Kraljic in 1983 useful for supplier segmentation (Jonathan 2017).

Vietnamese hyacinth handbag: Handcrafted bags are made in Vietnam by interlacing dry hyacinth strips (a kind of aquatic plants available in Asia) into warp and weft threads to make patterns. This job requires craftsmanship from artisans (self-definition from the author.)

Supplier (vendor) is a person, organization, or other entity that provides something that another person, organization, or entity needs. During transactions, there are suppliers and buyers. Suppliers provide or supply products or services, while buyers receive them. (Market business news)

Finland is the world's most Northern country with a severe climate located in Europe. This parliamentary republic country has a highly industrialized, largely free-market economy with per capita GDP almost as high as that of Austria and the Netherlands and slightly above Germany and Belgium; exports account for over one-third of GDP, particularly in the wood, metals, engineering, telecommunications and electronics industries (Central Intelligence Agency 2019.)

Process is a sequence of interdependent and linked procedures which, at every stage, consume one or more resources (employee time, energy, machines, money) to convert inputs (data, material, parts, etc.) into outputs. These outputs then serve as inputs for the next stage until a known goal or end result is reached (Business Dictionary.)

1.8 Risk and risk management

Loss of confidentiality: The research is about my entrepreneurial plan of a potential product. Any information that the author reveals can become useful for competitors in the future for example production tool, supplier relationship, cost calculation....

Communication: No matter if the research is done in a single language or more, communication error can always happen. An interviewee who gives false information to protect their business secret or not willing to answer will affect the result of the research. With this problem, the author will always smile and try to bring in a warm atmosphere.

In order to minimize the risks in this research, the author makes a plan of research including theoretical framework, research process, results and suggestion which can be found below.

Abbreviation:

BD: Binh Duong (name of a supplier)

B-to-B: Business-to-business

B-to-C: Business-to-customer

BH: Bien Hoa (name of a supplier)

DIY: Do-it-yourself

DT: Dong Thap (name of a supplier)

JIT: Just-in-Time

LA: Long An (name of a supplier)

MOQ: Minimum order quantity

NB1: Ninh Binh 1 (name of a supplier)

NB2: Ninh Binh 2 (name of a supplier)

NB3: Ninh Binh 3 (name of a supplier)

ODM: Original Design Manufacturer

RFQ: Request for quotation

SG: Sai Gon (name of a supplier)

2 Theoretical framework

2.1 Major motives and hindrances

Chapter 2 will cover the three most common motives and hindrances are drawn from the retail business regarding global procurement. Three factors that attract enterprises going for foreign sources are cost reduction, unavailability, quality mentioned in subchapter 2.1.1, 2.1.2 and 2.1.3. Top three challenges that firms are likely to meet in global trade are culture, logistics, and regulations which will be found in 2.2.1, 2.2.2 and 2.2.3

2.1.1 Motives towards global sourcing

Monczka & Trent present that global sourcing has been used interchangeably with foreign sourcing, international sourcing, and multinational sourcing. However, international sourcing, multinational sourcing, and foreign sourcing are defined as “buying outside the firm's country of manufacture in a way that does not coordinate requirements among worldwide business units of a single firm” (Birou & Fawcett 1993). Meanwhile, strategic global sourcing as defined above referring to the integration and coordination of procurement requirements across worldwide business units.

Quality, unavailability and cost have appeared in most of the researches as the top three reasons why firms go for global sourcing. The only thing changing is their orders (International Executive 1985, Cho & Kang 2001, 544; Rajagopal & Bernard 1994, 7-8)

Cost Reduction

According to Birou and Fawcett (1993, 34), 74% of businesses decided to source globally is due to the lower price in foreign markets. In a scenario, Tate (2013, chapter 1) indicates that a 5% reduction in material cost will reduce 5% of inventory value and leads to more than a 3% increase in Return on investment. According to the article “International Purchasing: Characteristics and Implementation” written by Monczka and Gjunipero in 1984, it is revealed that lower price (28%) is the leading reason why firms are motivated to source globally following reasons are their worldwide operation (26%) and products not available domestically (20%) (Wiley Periodicals 1985.)

Leupold is an example of a great world-class optics business for over a hundred years that using global sourcing. According to the Leupold's website, they produced the first ant frog scopes (1947), weather prof compasses (1957) and serve US military binoculars and riflescopes (1985). All the manufacturing and assembling processes are done in America however they import their optical glass from Germany and Japan (Ijaz 2019). It is believed

that it is still cheaper for Leupold even after minus all the direct and indirect costs such as costs of goods, transportation, duties and tax... than buying from the domestic market (Dutton 2008, 56.) Dutton also lists out a few costs that buyers need to bear in mind for example excess inventory, longer lead time, slower shipping, intellectual property risks...

Unavailability

Cho & Kang (2001, 544) states that the initial reason for international trade comes from the availability of unique products. The major reason for global trade is because some products available only in certain areas while cost advantage (discussed in the following part) plays as a minor reason for unavailability. Coffee; for example, is produced the most in Brazil and Vietnam because of the rich soil and high elevation (International Coffee Organization 2019.). Meanwhile, 99% of the global diamond supply comes from Africa because diamonds are formed under high temperatures and high pressures (Critchfield 2017; Kiprop 2018.) Food is typical for different cultures and its ingredients or tools may be found in specific countries such as Mexican Nacho, Turkey Kebab, Japanese sushi, Canadian Maple Syrup... Pharmacy industry is a typical example of the availability of materials in certain global sources. Shikimic acid, found in wild star anise; for example, is used to produce medicine against H5N1 flu available only in four provinces of China (Dutton 2008, 55).

Cho & Kang (2001, 544) specifies the fact that domestic buyers are in favor of foreign products is likely to lead to the unavailability of domestic products. For example, American children's clothing manufacturers had to squeeze their business after too much competition from cheaper foreign products. As a result, after losing their market to offshore suppliers and the reduction of children's clothing production in the US, the domestic market suffers a high dependence on the foreign supplies which may lead to the complete unavailability of the item.

Quality

It is interesting to note that three fourth of firms start purchasing internationally because of the lower cost as mentioned above. However, quality is ranked number one, unavailability ranks second and then lower cost as three crucial criteria that influence sourcing decisions (Birou & Fawcett 1993, 34.) Rjagopal and Bernard (1994, 10) share the same opinion after the result of 300 companies voted quality as the most important criteria in evaluating a supplier.

Tate (2013, chapter 1) states that in this era, the relationships between purchasing, suppliers, and quality is becoming more and more important because it will directly impact a

firm's reputation. Rajagopal & Bernard (1994, 7- 8) also proves this with their findings. The top push-factor why a firm starts looking for global sourcing in America is because of the absence of a suitable domestic supplier. In Europe, it is the pressure from offering products with lower price but higher quality and in Japan, it is pure their culture to offering their products with high quality at a lower price (Japan Today 2013)

2.1.2 Hindrances toward global sourcing

Culture and languages difference, logistics support and foreign law and regulations are mentioned in many types of research as major problems of buying offshore (Birou & Fawcett 1993, 35; Lysons, K. & Farrington 2016, 461.)

Culture and language

There are five elements that shape a culture including symbols, language, beliefs, values and artifacts (2012 books, 53). In a high context culture, information is implied through physical context such as body language, facial expression, tones of voice... while low context culture's messages are expressed explicit code (verbal language or rules) (Edward 1976, 91). He lists out some examples of high context-oriented cultures such as China, Korea, Japan and Germany, Scandinavia, America are typical more on the low context side. The difference in these factors will cause misunderstandings and problems in global trade. To prevent misunderstandings and breakdowns in communication requires an in-depth understanding of cultural difference (Lysons & Farrington 2016, 461).

Logistics support

As mentioned above, purchasing from overseas markets create competitive advantages however, it also takes longer times for products to arrive and logistics carries more risks. Good support from logistics providers can help to reduce lead time, goods damage, help them to arrive on time (Lysons and Farrington 2016, 461). Birou & Fawcett (1993, 25) reveals that firms finding "JIT sourcing requirement" and finding "qualified foreign supplier" as the most challenging. Following these major challenges are logistics support, culture difference and customs regulations. Moreover, logistics prices can drive global sourcing decisions. Confederation of Indian Industry corporate with Maersk (an international shipping company) to estimate the export growth if total logistics cost is reduced. It is reported in the garments industry that 10% cost reduction of 7.463\$ for a full container will create 5-8% more on potential export (Maersk 2017, 5)

Government rules and regulations

Lysons and Farrington (2016, 461) emphasize that handling Duty and Customs regulations require and expert knowledge from specialists or forwarders to avoid delays in customs clearance which is likely to result in contract failures. Dutta states on an economic discussion website that it is critical that governments use the tariff and quota policy to protect their domestic market. He explains “tariff” means import tax and “quotas” means limit quantity.

Fortune (2019) financial magazine delivers an update about bilateral trade between the two biggest economies in October as follows. In May 2019, America increased tariff on Chinese products from 10% to 25%. Since then, all of the Chinese exports are imposed on a certain amount of tariffs. Some products; for example, salmon is subjected to 42% import tax. Every time when the US increases its tariff, the Chinese fires back and increases its tariff as well. This leads to a shortage of commodity products in China and forces them to source globally. They now buy soybeans from Brazil at 3% tariff and salmon at 17%. At the same time, they reduce the import tax from these products to make up for the loss.

2.2 Procurement Process

2.2.1 Basic procurement process

Mangan & Lalwani (2016) introduces a basic four-stage of procurement process to develop a sourcing strategy which is illustrated in Figure 4. However, the research will not cover the last step “manage” because the research does not reach this step yet.



Figure 1. Procurement process (Source: Mangan & Lalwani (2016, 153))

Specify:

In this first stage, firms need to determine which requirements are needed from the supplier side. These requirements should come from technical, commercial and end-user use. The problem in this step is sometimes, the buyers do not understand the market better than the supplier to define clear criteria. That makes the specification become ambiguous. From own experience working in a sourcing department, here are the criteria that firms often look for from the supplier side:

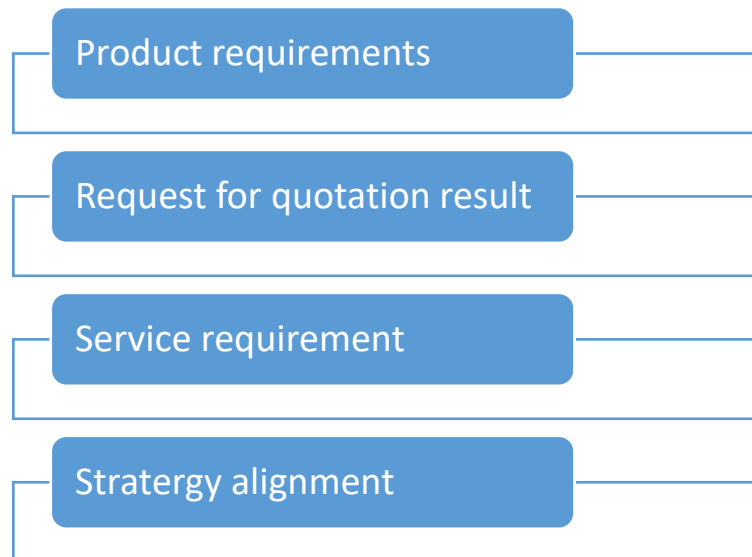


Figure 2: Criteria for choosing a supply (source: the present author)

Identify:

Enterprises need to classify suitable potential suppliers who can meet the defined requirements or specifications. In this step, buyers need to express the company’s strength and promote contract opportunities for potential suppliers. Figure 5 illustrates a supplier pyramid used in the author’s previous work as a sourcing officer. There are two main criteria

categories in this pyramid. Primary criteria for supplier's products such as quality, price, uniqueness. The secondary criteria are from the supplier capability such as customer service, lead time, experience...

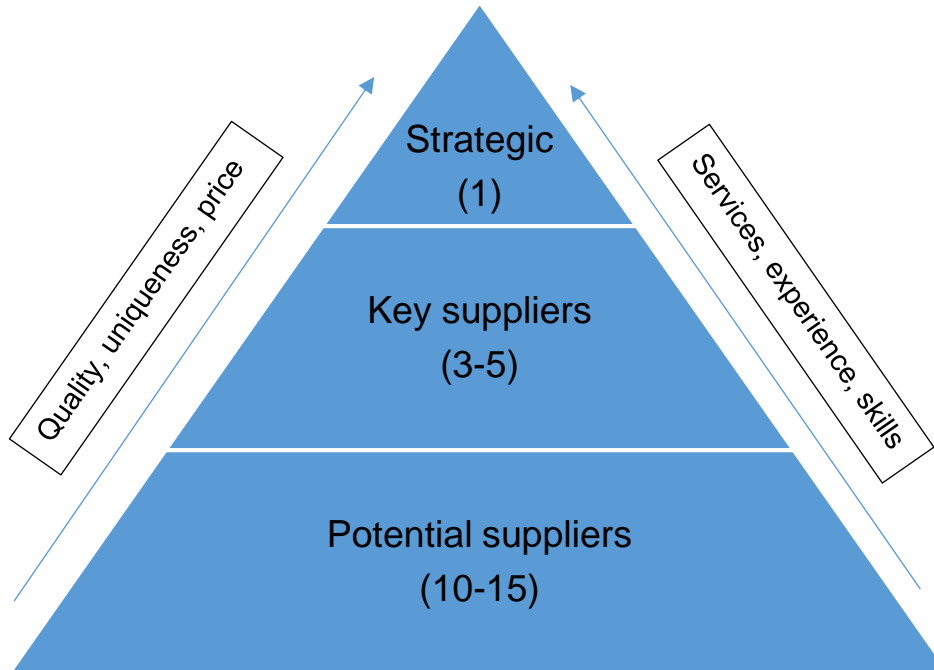


Figure 3. The supplier pyramid (the present author)

It is not a fix data but most of the time, it is suggested to choose 15 most potential suppliers from professional contacts, annual reports, trade fairs, sourcing agents, Internet....

Select

Request for quotation criteria regarding price, Minimum order quantity (MOQ), lead time, sample available, red invoice providing. With experience in purchasing from China, the author recognizes that most firms have experience in export however they cannot provide a red invoice for customs clearance because they do not register under a company. Therefore, asking directly about a "red invoice" will be clearer than asking about export experience or export documents.

Criteria for selecting a suitable supplier should not only focus on quality-price balance (Mangan & Lalwani 2016, 153) but should focus on the supplier side as well such as years of experience, customer services.

After having a list of potential suppliers, sourcing officers will contact and ask for RFQ and suppliers that do not meet the requirement for example MOQ is too high will be rejected.

After this step, there will be around 10 suppliers available and the sourcing officer will ask for sample orders.

After samples arrive, a procurement manager will choose the five best products based on quality and make interviews with them. The three-best supplier in the market based on product and service factors. A supplier assessment is sent to a top-level manager.

The last contract negotiation is taken between the top-level manager, sourcing manager and the supplier to choose the strategic partner that the company working with in the future. The second best is a substitute.

2.2.2 Procurement strategies:

A procurement strategy needs to have these following seven characteristics (Myerson (2019, pp.41-42):

- Align with the overall business goal by working with other departments
- Contribute to the top and bottom lines (product development, working capital improvement)
- Manage risks systematically by using risk analysis, disaster planning
- Use supplier relationship management consistently
- Tailor category strategies
- Adopt technology, for example, real-time data
- Recruiting and retaining top talents

Procurement has become a strategic approach in nowadays business. Myerson (2019, pp.44-46) also introduces eight strategies that enterprises can apply:

Make or buy decision

This is the decision when to buy and when to produce a product. Break-even point is an accounting tool that can be used to see if it is worth to invest in purchasing machinery for production or just focus on outsourcing.

Outsourcing

Outsourcing is defined as a procurement strategy when “major non-core functions are transferred to specialists, efficient, external providers” (Lysons & Farrington 2016, 361). Since outsourcing does not focus on core activities, it helps firms to lower operation and labor cost. It also reduces capital expenditures and increases flexibility. However, it carries the risk of security and product or service quality.

Insourcing:

Insourcing is an action that a company develops facility back in their home countries instead of outsourcing. The reason for this might come from low quality, low productivity or government regulation.

Near-sourcing

This is a trend in the US when some or all operations are placed close to their end customers. For example, when energy cost is high, it is economical to source in the Caribbean or Mexico because it is close to America.

Vertical Integration

When a company enters industries, which add value to its core products is called vertical integration (Hill & Jones 2007, 315). The expansion can be backward vertical integration (backward to the input product industry) or forward vertical integration (forward the output product industry).

Few or many suppliers

Companies can choose to have a few suppliers or many for a product. Many suppliers can be used for commodities where the price is a key order qualifier. A few suppliers are used for core products when firms want to establish a strategic supplier relationship.

Joint ventures:

This is a form of share collaborative ownership between entities to reduce risk, improve skills, reduce cost and reduce risks.

Virtual Companies:

Virtual companies work by depending on various supplier relationships to provide services when needed. This strategy requires low investment but effective in performance and flexibility.

2.3 Tools and models used in supply management

Kraljic (1983) expressed his opinion that "Purchasing must become supply management" and pointed out supply strategy is based on two dimensions: the importance of purchasing and the complexity of the supply market". To minimize supply vulnerabilities and produce more profit, firms are suggested to follow these four steps: classification, market analysis,

strategic positioning and action plan. However, this chapter will cover the two first steps (3.1 and 3.2) because they are the most important part and relevant to the business.



Figure 4. Purchasing process: a four-stage approach (Source: Kraljic 1983)

2.3.1 Kraljic's purchasing portfolio matrix

This is the first step when firms identify all of their purchased material, services in terms of profit and supply risk. Profit impact is assessed based on volume in quantity and in cost, product quality or business growth. Supply risk is valued by the availability, the number of suppliers, competitive demand, make-or-buy decision, storage risks and substitution. Products categories are shown in Figure 2.

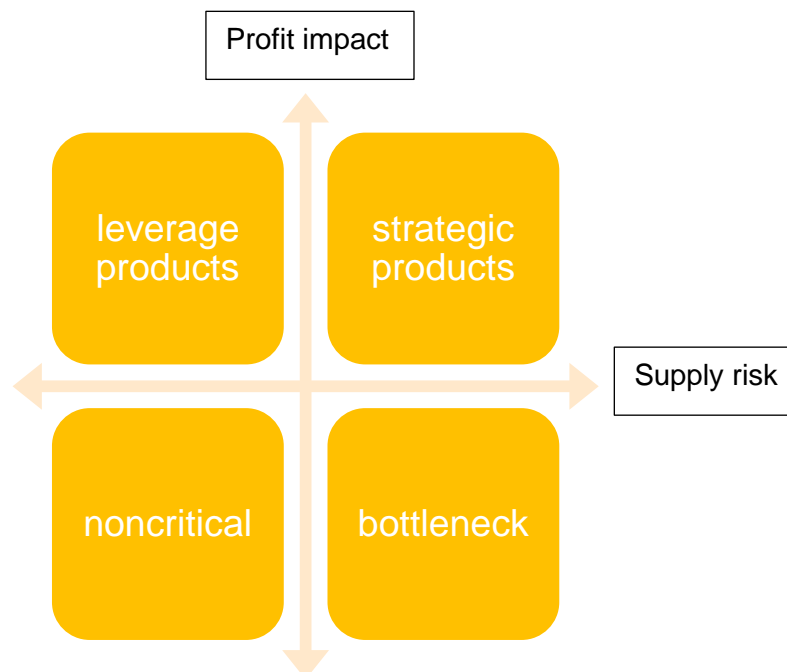


Figure 5: Purchasing portfolio matrix (Source: Kraljic 1983)

Strategic products (high-profit impact, high supply risk).

Products that are the key component of a business often belong to this group, for example, the importance of raw materials to manufacturing. Therefore, the profit it brings in is high but at the same time, the risk is high because strategic products are the output of a business, a small change in price will affect the whole supply chain. To effectively manage this category, it requires accurate demand forecasting, analytical skills, deep market understanding. Companies need to focus on developing a long-term supply relationship and develop it from the top level. These relationships are often under long-term contracts globally. Suppliers often involve in product designs and development.

Bottleneck (low-profit impact, high supply risk)

Products that have a low impact on business but having high scarcity belongs to this group. For example, a new supplier with leading technology in the field. It is high risk because there are a few suppliers and they become dominant in the market. It often has short term or one-time contract and requires a high-level decision. Due to the high risk, it's necessary to have a back-up plan and seek more substitutes.

Leverage (high-profit impact, low supply risk)

This group often takes a large amount in purchasing but the products are provided by many suppliers. This requires a medium level of decision. For these items, the strategy is to reduce costs by leveraging both volume and spend. As there are many suppliers available locally so focusing on a few ones will save time and make it easier to manage.

Noncritical (low-profit impact, low supply risk)

This group has the lowest impact on the business and often available locally. They can be for example commodities or office supplies. They require functional proficiency as a key performance. Reducing the time and process of this group is the best tactic. Many suppliers offer e-catalog enabled by company procurement cards to boost automation. (chapter 3)

2.3.2 Porter's Five Forces – Market analysis

Porter (2008) claims that any business regardless of size is under the effect of five forces that shape the strategy. They are suppliers, buyers, substitutes, existing rivals and new entrants. The chart below show

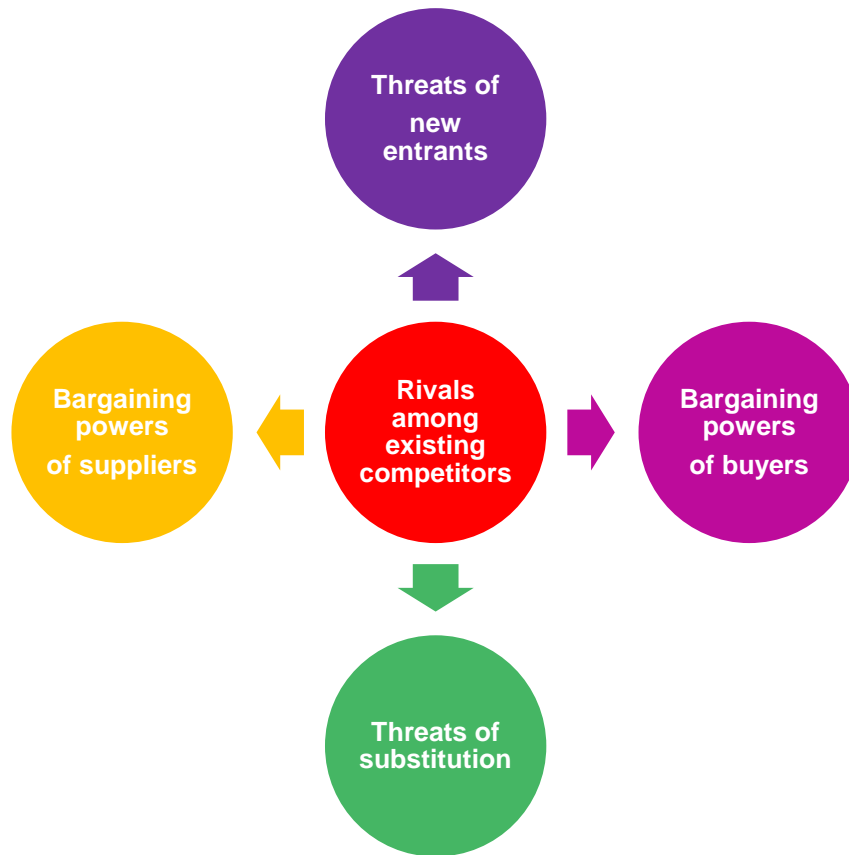


Figure 6: Porter's Five forces (Source: Porter 2008)

- When there are too few key suppliers in the industry, their powers become stronger.
- Differentiation of products: When a supplier offering a product that is highly differentiated from others, they gain more benefits.
- If a supplier group is more concentrated than the industry it is selling to. For example, there are 3 top suppliers holding for 80% of the total market share, they are likely to drive the cost.
- Importance of volume to the supplier. If your purchase takes up for only a small amount of the supplier capacity, the supplier has more power.
- If industry participants face high switching costs in changing suppliers, the suppliers are stronger. ERP system is an example with heavy investment and enterprises rarely switch between SAP and Oracle.
- The supplier group does not depend heavily on a certain industry because they serve different industries.
- Threaten of forward integration
- If there are no substitutes. For example, Pilots' unions gain a huge supplier bargaining power over airlines because there is nothing to replace a well-trained pilot.

Buyers:

- If there are only a few buyers relative to the number of suppliers
- If the buyer's volume is big comparing to the size of the supplier, they have more bargaining power.
- If the industry's products are not differentiated, buying decisions will focus on price and buyers can always find an equivalent product.
- If the switching cost is low, it easy to change the vendor.
- Buyers' determinant is high when they can integrate backward by producing materials for themselves.

Substitutes:

A substitute product, which has the same or similar function to another product, can threaten an industry. For example, Coca-Cola vs Pepsi, WhatsApp vs paid messages, Uber vs traditional taxi.

- If a substitute's price is attractive enough to trade-off the product.
- If the buyer's switching cost is low, it is easy for them to change to a substitute.

Rivalry:

- If there are many rivals equal in size and power.
- When the industry growth is slow, competitors fight fiercely for market share.
- If the exist barrier is high (high fixed cost), companies may still be in the business even they make no profit.
- Products are nearly identical results in competitors cutting prices to attract more customers.
- Capacity must be expanded for efficiency.
- The fixed cost is high and the marginal cost is low. Basic material business like paper has to cut their price close to marginal costs to cover the fixed cost while demand is low.
- If the product is perishable, price is often cut off while it still has value.

New Entrants:

- Having advantages from supply-side economies of scale. It means when a firm produces at larger volumes will have lower costs per unit because fixed costs are spread equally over products or they can have better trade terms from suppliers.
- The more network effect an enterprise has, the more entrant bargaining power it creates for newcomers. For instance, people are attracted by eBay online auction because the company is popular and it has the most potential trading partners.

- The larger the switching costs (product specification alter, information system...) the less attractive it is for an entrant.
- when capital requirement (inventories, equipment...) is big in order to compete in the field, it will limit the attempt to enter an industry. However, if the return on investment is attractive investors may still invest in the business.
- Incumbents advantage no matter of size. Each business has its own advantages for rivals to bypass for example technologies, raw material access, brand identities, locations...
- Unequal access to distribution channels is a problem not only to new entrants but also to existing competitors.
- Restrictive government policy can be either an advantage or disadvantage to new entrants. For example, licensing or restriction on Foreign Direct Investment can hindrance the ability to enter a new market. In contrast, government policies can make entry more attractive through subsidies or funding basic research.

2.4 Supply chain strategy:

Fisher (1997, 106) suggests firms understanding the nature of the demand for products before choosing a supply chain strategy. He emphasizes that all products fall into two categories: functional or innovative nature. Functional products satisfy basic needs; hence, they are stable, predictable with long cycle time but low-profit margin due to high competition. When companies introduce technologies or innovation to increase their profit margin, these products become innovative for example in fashion apparel or personal computers.

Fisher (1997, 107) points out that innovative products often have a short life cycle time from 3 months to 1 year with medium variants. The contribution margin reaches up to 60% which means 60% of sales can be used to cover the fixed cost or become profit but also easy to run out of stock 10%-40%. Lead time for make-to-order is relatively short (1 day to 2 weeks). Then what is the best strategy for the fashion business?

Lean strategy:

Toyota production system is often linked with “lean thinking” to eliminate all wastes. This can be applied when the demand is predictable. Procurement can become more efficient if these 8 wastes are focused (Myerson 2019, 7):

- Transportation: unnecessary movement of materials and transport documents.
- Inventory: excess stock due to poor prediction or wrong information in material requirement replenishment.
- Motion: Unnecessary movement (bending, searching, walking)
- Waiting: Waiting time for material flow or decision.
- Overproduction: produce more than it is required.
- Over-processing: there are more steps than it needs
- Defects: Poor quality leading to rejects and rework
- Skills: staffs focus on too many administrative tasks than improvement.

Agile strategy:

An agile strategy is often applied where the lead time is short and the demand is unpredictable (Mangan & Lalwani 2016, 69). Zara is a successful firm that applies a highly responsive supply strategy to turn designs to products at a store within two weeks (Petro. G, 2012). First, their robots will do cutting and dyeing fabrics to create “gray goods”. When there is an order, Zara will source shops in Portugal and Galicia to finish the work. They also use just in-time inventory concept. Small-batch deliveries twice a week to all of their stores make them the fastest fashion retailer.

Towill & Mccullen (1999) claims that if applies correctly, agile Manufacturing reduces demand amplification up to 58% and 45% in global inventory. However, it requires involvements of not only buyers and suppliers but also other stakeholders to achieve. The expertise of buyers, suppliers and other stakeholders can adopt Early Supply Chain Involvement. Just in Progress using postponement opportunities can be used to cut down on waste and still be able to respond to changes in demand.

Leagile strategy:

Christopher et al. (2004, 367) mention four characteristics of the fashion industry including short life cycles, high volatility, low predictability and high impulse purchasing. Therefore, to manage a logistics fashion pipeline, organizations need to notice the following factors: time-to-market, time-to-serve and time-to-react.

Leagile supply chain is a hybrid strategy combining both lean and agile strategies. By using postpone production, this strategy allows base products to be produced at a remote location (lean production) then configured into customer’s requirements (agile process) through decoupling point. “Decoupling point is the point in the material flow streams to which the customer’s order penetrates” (Mason-Jones et al. 2000,4065). Figure 5 shows in more detail a leagile supply chain. With this strategy, the upstream will be able to cut down cost with less product variety by applying lean manufacturing and the downstream is still capable of delivering quick responses with high product variety through “agility” (Ben Naylor et al. 1999)



Figure 7. Leagile supply chain (Source: Mason-Jones et al. 2000,4065.)

Madhani (2017, 9) recognizes that if Pareto 80/20 rule is applied, 20% of products will make up for 80% of a firm’s revenue. This leads to a strategy that 20% of popular products can be produced by using lean or even make to stock. If the demand is stable and predictable. The remaining volatile 80% of total products should be produced in agile and make to order:

Leagile supply chain enables upstream above the decoupling point gain these following benefits from Lean thinking (Lysons & Farrington 2016, 133):

- Reduction in initial and subsequent cost of suppliers by using value analysis and learning curves.
- Productivity is improved with the help of high automation and high skilled workers
- A pull system will leave no waste as production will not start until the previous step is finished.
- When a supplier fails to meet the quality requirement, both supplier and assembler will try to find a solution.
- After negotiations, a cost reduction of a four-year life of a product is made between both parties.
- Long term commitment about price, quality, delivery, proprietary rights... are assured by a long-term contract between assemblers and suppliers.

A leagility strategy also helps firms to take advantages from postponement (Lysons & Farrington 2016, 136)

- Fewer stock variants will lessen inventory cost even inventory can still be held at a generic level.
- This makes the same components become flexible to be used on different models.
- It helps to forecast easier than with various finished products.
- The ability of customization means a higher level of variety can be offered at a lower cost.

3 Research Design

This chapter will cover research philosophies, approaches, strategies (only case study), choices (only mono method), time horizon and analysis techniques. The research onion is illustrated in figure 6 show more detail of the research design.

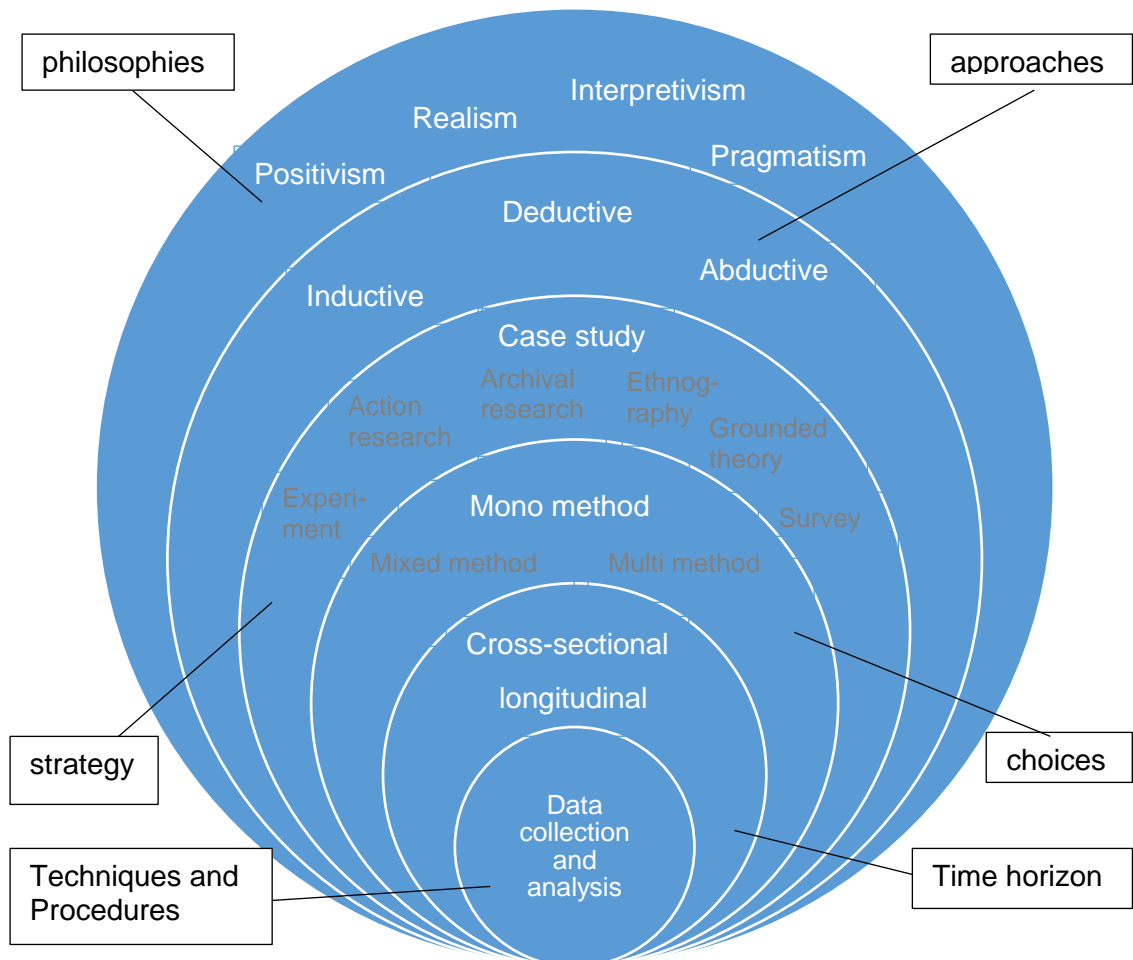


Figure 8. The research onion (Source: Saunders et al. 2016, 164)

3.1 Research philosophy

Research philosophy is related to beliefs and assumptions about the development of knowledge (Saunders et al. 2016, 124). Saunders et al. (2016, 136-143) introduce five major philosophies: positivism, critical realism, interpretivism, postmodernism and pragmatism. Positivism is a scientific method that using observation and measurable facts to establish law-like generalizations. Causal explanation and prediction are played as a contribution. Critical realism focuses on explaining what we see and experience. Interpretivism focuses on different human physical phenomena because they create meaning. Postmodernism emphasis on languages and relations to give opinions about marginalized views. Pragmatism is only relevant when it supports action. In this paper, interpretivism is applied because to understand procuring processes, richer understanding and interpretation need to be explained from contexts. This research philosophy assists research carriers to express the meaning of the subject than analyzing numeric data like quantitative research (mentioned in 3.3).

3.2 Research approach

The root of this business started from the moment the author by chance knowing about a new sustainable material used in bag making. The author; therefore, search for information about this interesting material as well as stories around this business.

On “Viet News today” website, after growth in water hyacinth products, Long An’s citizens expect to get rid of poverty from this wild natural material. Harvesting water hyacinth not only reduces the state’s expense for removing these plants from blocking rivers but also becomes a source of income. The article mentioned that finished basketwork and carpets from Long An province will be gathered by Hiep Luc agricultural cooperative in Bien Hoa (export processing zone). After that, these plaits will be exported to Sweden, Australia, US... (Viet News, 2018.) From data provided by the Vietnam Ministry of Industry and Trade in 11 months of 2018, Sweden is an existing market with almost 7200 USD of imported plaited products like rattan, bamboos and hyacinths. However, the neighbor country Finland imports 12 times less than that. The reasoning process continues as follow:

Premise 1: Sweden is a key market of Vietnamese plaited products in Nordic countries.

Premise 2: Finland is a neighbor country with similar geography, culture and society.

Conclusion: Finland might be interested in Vietnamese plaited hyacinth handbags.

Inference from those two known premises to conclusion can easily fall in between induction and abduction. Saunders et al. (2016, 145) compare between abduction and induction that abduction generates testable conclusions while induction produces untested conclusions. The word “untested” seems to be vague because if the conclusion is untested how can we collect data to form theory? Another problem is further researches can be done to test if Finland is interested in the handbag made from a natural material, but no one can prove what is the extent of “effective”. While DeMichele (2018) thinks that all human reasoning belongs to only one of the three approaches formally. Abduction is to form a hypothesis, after that induction is used to test and deduction is to prove it to be true or false.

Saunders et al. also state that the inductive approach starts with specific facts then generalizing to a conclusion in a bottom-up way. Both premises and “the best guess” stay equal but not forming the conclusion directly from the primes. DeMichele (2018) states that “abduction infers to the best explanation to a state of events, rather than form evidence provided by the premises. It doesn’t reason straight from a premise to a conclusion but ruling

out with possible explanation until you are left with the most likely". He also noted that an abduction is a form of induction where data or evidence is limited, and the conclusion is drawn based on guesswork. In this sense, the conclusion is an abduction.

However, on Stanford Encyclopedia of Philosophy website defines the "analogical approach" as comparing between two existing similarities to support the conclusion of future similarities. The following formulas are established.

S is similar to T in certain accepted respects

S has some feature Q

then T also has some feature Q.

or even Q feature that is similar to Q.*

Sweden is interested in plaits and products made of plaiting materials. Finland is a geographically close country that also interests in green products. Therefore, they are probably keen on a brand-new type of handbags plaited from water hyacinth.

The article then continues establishing the relationship between analogical thinking with deductive and inductive one. Both are examined and believed to have a connection with the analogy. However, induction seems to be more popular and there are more characteristics of it pointed out. For example, generalizing from specific, sampling and using the past success to guess future. Moreover, Farnam Street classifies "analogous reasoning" with "genialized", "statistical", "sample", "predictive" and "causal inference" in the induction category. After considering the above information the author supports the idea that inference is conducted inductively.

3.3 Strategy

The strategy is chosen as a case study of Kloman start-up company because a case study can generate intensive insights and produce an in-depth understanding of the procurement process in a real-life context. A case study is chosen when the borders between a phenomenon and the context are not clear (Saunders 2016, 184). With an experiment, the context depends heavily on variables and leading to validity problems. A survey is limited by the number of data collected is enough to draw a conclusion. However, a case study has its own limits because of its intensive understanding required nature. It requests research carriers to first identify then define and gain access to the case study real-life

setting. A case study often uses both quantitative and qualitative analysis to utilize the understanding of the phenomenon. The methodological choice will be discussed in the following part.

3.4 Methodological choice

In this stage of the start-up, the author will focus only on selecting potential suppliers and buy samples for customer research later. To choose the most outstanding supplier for the business, the author needs to work directly with them, asking questions, discussing to understand if they are potential or not. Therefore, a method that provides in-depth understanding would be a good choice. A method that has interpretive philosophy is called “qualitative” (Saunders 2016, 168.). This paper is conducted mostly in qualitative methodology, however, the number of Finnish stores, the rank of motives when procurement globally is done quantitatively to see the popularity of products as well as the importance ranks of different factors.

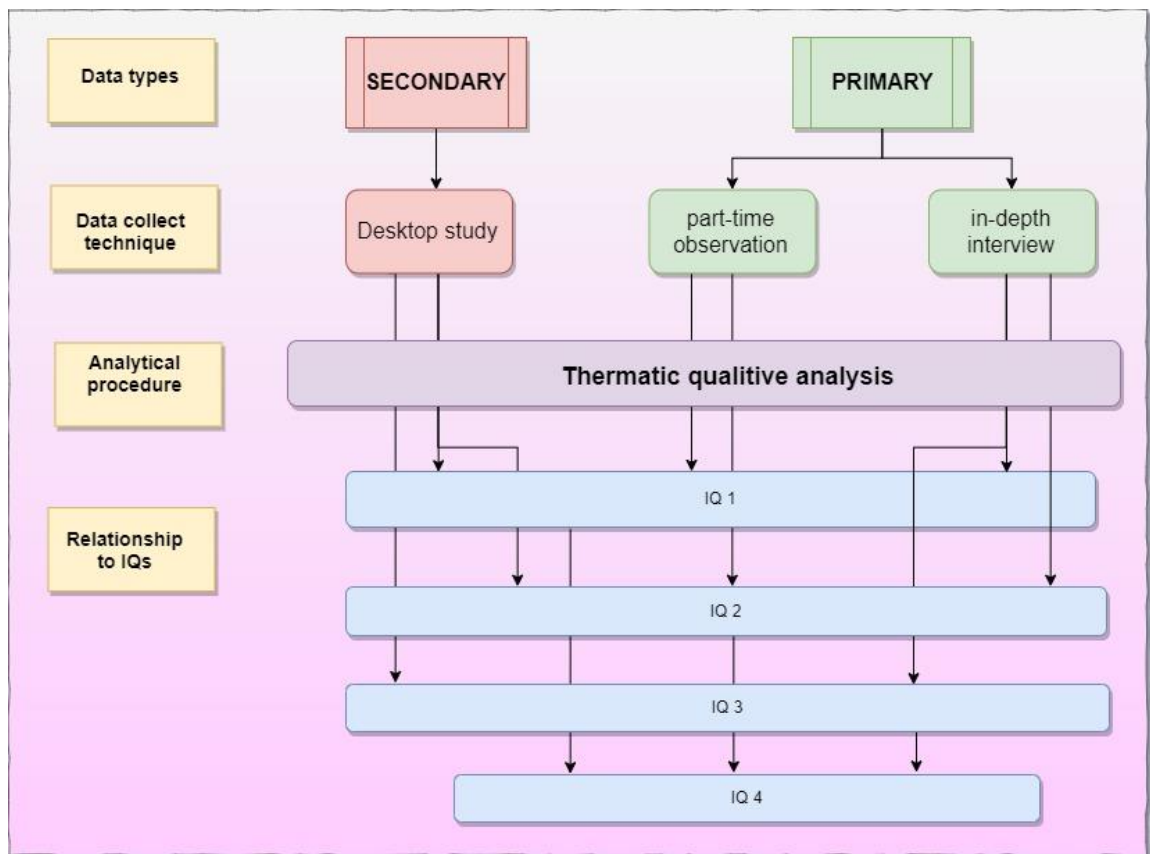


Figure 9. Research methods (Source: the present author)

Data collection technique: The research was done based on the two main sources of data: primary and secondary. Secondary data primarily comes from desktop research that was used to collect supplier information, purchasing process, industry data... Secondary data

was easier to collect however the validity of it is hard to access. Primary data was collected through 8 in-depth interviews with suppliers and based on previous observation at the workplace and in this interview. After that, these data were analyzed in thematic qualitative to interpret into deep and intense understandings. The result from IQ 1 was found with a combination of desktop study and from the interview. IQ 2's result was conducted from all three sources. IQ3 was a combination of online research and an in-depth interview. After that, the suggestion was proposed based on findings from those three questions.

3.5 Time horizon

When the study is taken at a particular time, it is called cross-sectional studies. This paper and most academic research are done in a cross-sectional study horizon, under a time constraint and made use of survey strategy. However, many courses allow students to work in a longitudinal manner. The strength of this study is the capacity for changes and development. This assists better measurement over variables being studied.

4 Analysis procedure

This chapter will include factors that make global procurement become an opportunity or a possible problem under the handicraft sector.

Sources of information is collected mainly from online newspapers and a wholesale group. After that available information (website, social media) will be used to have contacts with a salesperson and more product information. Before the interview, basic information delivered through text messages. The following table shows the difference in source of information between Kloman and foreign buyers.

Source	Kloman	Foreign buyer
Wholesale group	3	
Website	1	1
Social media	1	
Network	2	1
Newspaper	1	
By chance	2	
Agent		3

Table 2: Source of supplier information (Source: the present author)

4.1 Motives and problems

4.1.1 Motives

The water hyacinth bag business has a lot of advantages to become a successful start-up. HS code of this product is HS46021990 (European Customs Portal). The reasons for global procurement with this product come primarily from price and availability (Table 4)

4.1.2 The missing of friendly summer bags

The origin of this start-up idea comes from the unavailability of the products (both raw materials and labor kills) of the products in Finland. In 2016, the lovely purple water hyacinth was officially banned in the EU after being added to the Invasive Alien Species list meaning they cannot be sold or grown elsewhere within EU territory (Daily Mail, 2016.) Moreover, this product requires high craftsmanship. The author's relative who has been weaving hyacinth products for nearly 20 years in a craft village in Ninh Binh admitted that she did not know how to make the bags. She explained these bags require more complicated

weaving techniques than frame products (using iron frames and plaiting out of it) and perhaps available only in that village. Therefore, it means the product is available only in certain areas of Vietnam.

According to the author's own researches, there are only three retailers providing hyacinth bags: Stockmann, Zalando and Glitter with only one or two models. In Finnish they are known as "olkilauku" (means straw bag) and sold at 40€ at Zalando, 62€ at Bubble Room and 70€ at Stockmann's website. At a Glitter's store in Itäkeskus in summer 2019, a big size of a simple model was sold at 40€. In general, from personal experience, the price range is 1.5 times higher than a leather bag and 2 times higher than straw bags. If the customers want to own more collection, the closest and shortest place to buy these products is through Amazon German and Etsy (biggest handmade e-commerce).

From the knowledge acquired after the interview with a wholesaler in Saigon (Appendix Interview 5), the author recognizes that most of the summer bags in H&M, Lindex, Mango... are Chinese straw bags. Straw bags are made from paper straw (a kind of man-made twisted paper) but most of the time marketed as water hyacinth. The shortage comes as two sides of the same coin. It is perhaps because the market does not react positively with the products (price, design, functions, size...) Or it might be that this handicraft business in the textile and clothing has not exploited yet. In conclusion, there is a need for more sustainable fashion bags in Finland like bamboo, water hyacinth, raffia, wicker, seagrass and corn husk.

4.1.3 An hour in Finland is 1.5 days in Vietnam

According to Alibaba and Etsy, Thailand, China and Vietnam are four main producing countries for hyacinth bags. After some distance researches, a comparison of the minimum hourly salary for a beginning level of artisans within Finland and these countries is conducted. The result is shown in table 3 below.

The Finnish salary is 10 times on average higher than in Vietnam, Thailand and China. It is clearly shown that the labor cost in China is highest among these three countries at a minimum of 2.6€ per hour in Shanghai and 1.57€ in the far distance areas. This is also the country with the highest annual bonus reported (China Briefing 2018) and a huge gap between rural and urban regions. Every Thai employee from different regions enjoys relatively the same amount of money around 1.14€ and a decent amount of annual bonus (Thai Public Broadcasting Service 2019; Insider Singapore 2018). Finally, Vietnam is the

country with the cheapest labor cost of all (minimum 1.13€ at metropolitan areas) also the lowest performance bonus rate (8.3%).

Minimum monthly salaries for artisans in Finland versus Vietnam, Thailand, China 2019							
	FIN- LAND	VIETNAM		THAILAND		CHINA	
		Lowest	Highest	Lowest	Highest	Lowest	Highest
Salary ratio	1	13	9	8	8	7	4
Monthly salary	1,684€	126€	181€	209€	215€	268€	415€
Monthly salary (own currency)	1,684€	3,162,360 VND	4,526,940 VND	7,015 THB	7,202 THB	2,080 CND	3,224 CND
Performance bonus	15%	8.3%	8.3%	16.92%	16.92%	30%	30%
Exchange rate	1	0.00004	0.00004	0.02986	0.02986	0.12887	0.12887
Working days	20	20	20	20	20	20	20
Working hours	8	8	8	8	8	8	8
Hourly salary	9.15	0.79	1.13	1.12	1.15	1.57	2.60

Table 3: Minimum monthly salaries for artisans in Finland vs Vietnam, Thailand and China in 2019 (Source: Vietnam Government Portal 2018; Thai Public Broadcasting Service 2019; China Briefing 2019; Finnish Textile and Fashion Federation & Industrial Union 2018, 30)

Minimum salary is calculated by multiplying hourly salary with the performance bonus and working hours per month (assuming working days are 20 and working hour is 8 hours per month).

Regarding the fact that all four qualified manufacturers are in Region IV in Vietnam, so the gap is 13 times higher than in Vietnam. It means that one hour of using labor in Finland costs less than using the same labor in Vietnam for 1.5 days. This will help to determine later on salary for staff salary (fulfillment, sales and training...) and the use of lean strategy (chapter 5). And it somehow explains why a lot of countries buy finished bags from Vietnam. To many enterprises, this is the biggest advantage to buy from Vietnam because of the cheap cost of labor resulting in cheaper price to buy. This remains the number one competitive advantage when buying products from offshore suppliers.

4.1.4 Quality as a brand identity

After own experience gained by observing at TOT company as a sourcing assistant, the author was taught one thing that when giving a decision on buying a product, price should never be the first reason but the ratio between price and quality is a determinant. During that time, the author observed that the company's strategy focuses on the middle class so not only their products are premium but their partners are premium as well. For example, if there are three last potential suppliers selected, the one that is likely to not be chosen is the one offering the lowest price. It can be explained as they don't want the company's image to be affected by using cheap materials as well as to avoid bad quality due to price competition. If the two products are exactly similar then the price matters but if there is a huge difference in quality that will affect customer's choice then the price at this time is not as important as quality.

Among all suppliers, NB1 is the only supplier that has a quality strategy to compete with others. It is shown clearly in how detail they fix the smallest complaint from customers like using transparent threads to hide thread knots, make the products have more forms, make hyacinth look whiter... They focus on improving product quality through feedbacks and complaints. If we talk about quality hyacinth bags among Vietnam, Thailand and China, no one can bypass Thailand. They have their own tools to make hyacinth flatten before weaving. Then hyacinth is cut to the right size and pinned into the model. These extra processes make their products look so neat. Thailand is not only famous for water hyacinth bags but also for hyacinth leather and bags made out of leaves (Jacinto & Lirio; Tree Tribe).

4.1.5 Government regulation as an advantage

As mentioned in 2.2.3 that government rule can limit as well as motivate global procurement. In this handicraft case, it receives more supports from both Vietnamese and Finnish sides. Vietnam export VAT is 0% and all handicraft products are exempt from export duties (HP global.) Moreover, these products import to the EU enjoy 0% import tariff and needs to pay only a 24% VAT rate in Finland (discussed below). These rules and regulations make it easier for bilateral trades between Vietnam and EU members.

According to the European Custom Portal, goods imported into the EU from non-European Union Countries are subjected to import tax and customs duty. If the total value of goods (including shipping, insurance) is less than or equal 22€, it is exempt from custom charge. If the total value of goods is more than 22€ but less than 150€, VAT is applied but

the product is custom-free. If the total value is more than 150€, both import fees and import VAT are applied. The customs charge is calculated as follow:

Customs charge = (Value of goods + Shipping Costs) * Customs Duties * Import Turnover Tax

From own experience gained, Taric measurement is often used to check import tariffs, trade agreements and other useful information. More detail information can be found in the Appendix.

According to the Taric tool (Appendix I), a 3% Erga Omnes tariff is applied for all third countries exporting this product to the EU. However, a country might be eligible for many preferential agreements to reduce customs tariff and exporters can choose the one that is the most benefit for them (European Commission.) Vietnam has a General Agreement with the EU therefore if a certificate of origin is available; therefore, the product is exempt from customs duty. Import Turnover Tax means import VAT tax from a non-EU country (German Trade and Investment). When importing hyacinth bags to Finland, they are subjected to a general VAT rate at 24% (Finnish Tax Office).

4.2 Problems

4.2.1 Etiquette that only exists in Vietnam

Language is the problem most of sourcing officers will counter when having business with the Vietnamese. Only one out of five suppliers in bag business are able to speak English fluently (Interview 8) because she has a background in translation and English is a must. English actually a compulsory course for students from grade one but they are not able to use it as education heavily focuses on grammar. This is a big hindrance to many enterprises from opening their doors to the global.

Like many other Asian countries, Vietnam is a high context culture. The Vietnamese people don't say think verbally and directly but using a lot of implications. Most of the information is implied like a message and the opposite person needs to understand it. It is often expressed through their pitch of voice and facial expression. Moreover, the Vietnamese have a high "sense of shame", so they are not willing to admit publicly they are wrong or bad because they are afraid to lose their faces. In interview 6 (Appendix VIII), after pointing out some mistakes, the supplier turned her voice and became unfriendly. Given the fact that NB1 is thought to be the number one supplier in satisfying customer's needs, they are not willing to accept their mistakes.

The third thing is if a customer comes asking for the price but not buying it, the seller gets mad and behaves unprofessionally. The author experiences this attitude in everyday life and in business in the North but rarely happens in the South. After a while asking about price but not buying yet, the supplier glanced at the author contemptuously. This is a bad thing; unfortunately, it still exists in Northern Vietnam no matter in Hanoi or small towns. She still held the conversation but replied in a short and firm voice then finally, she said frankly that she was angry because we did not buy yet. In Interview 8 (Appendix X), the supplier expressed her thought directly about customers coming just to see the products without buying even samples made her feel uncomfortable.

Through Table 2 it is reported that suppliers do not advertise themselves. Only one of them has an official website. Three suppliers advertise through a wholesale portal. One is living on press and newspaper plus Facebook advertising. Two of them depend on available relationships and acquaintances. The reason might be affected by culture. The Vietnamese people believe that low prices and attract people and they can save on advertising. Plus, they are afraid of advertising themselves because it is seen as "boasting". The supplier chosen is the one does not advertise themselves at all (appendix IX) but is found by chance.

This leads to the fact that most of the trades in the hyacinth bag business are with trading companies. The price is slightly higher however, the buyer can avoid most of the problems listed above.

4.2.2 Logistics support

Through practice in this business, the author calculates that $\frac{1}{4}$ of sales price comes from tax and more than $\frac{1}{4}$ of it comes from logistics activities. This is by far the biggest expense on business. By saving more on logistics, more profit will be generated. When looking for products outside the country, it is crucial that the supplier offers a Free on Board (FOB) price. This shipment term means that the supplier delivers goods to a port that the buyer requires. This is important because if the buyers buy direct products from suppliers without a third party when there is support from the supplier will reduce cost in outsourcing forwarders. Through own experience in import and through Table 2, most of the small factories will only sell products at Ex-work (Exw) price however they always have connections with logistics providers to deliver the goods. This is easier for them to find a good logistics provider considering price and service because if they help a customer with their purchase, it is likely they will come back to you.

4.2.3 US-China trade war

The trade war between China and the US is threatening Vietnam of getting punishment after Vietnam's export surplus with the US. Xuan & Uyen (2019) reflects the impact of the trade war to Vietnam in an article "Vietnam won the U.S.-China Trade war but is now in trouble itself". In this article, Chinese exports reduced by almost 14% while the Vietnamese export to this market has increased by 40%. Sixty component manufacturers that supply for Foxconn and Samsung have built their own factories in Hanoi to practise transshipment through Vietnam. Together with Chinese manufacturers are American firms like Nintendo, Sharp relocate their production to Vietnam to dodge the higher tariff. Vietnam has been listed as a possible currency manipulator by the US Treasury Department and a 400% tariff on steel. Since it is suspected that Vietnam sourced raw materials from South Korea and Taiwan in late July 2019. America is the biggest market for Vietnamese handicraft products. More or less, it will be affected if the Americans continue to pressure on Vietnam.

4.3 Models and tools

Costs in business should be classified into categories presented by the Kraljic portfolio matrix (1983) for better sourcing strategies. By understanding the nature of products, companies can choose a suitable strategy for each product. Products and services are listed in Figure 8 below.

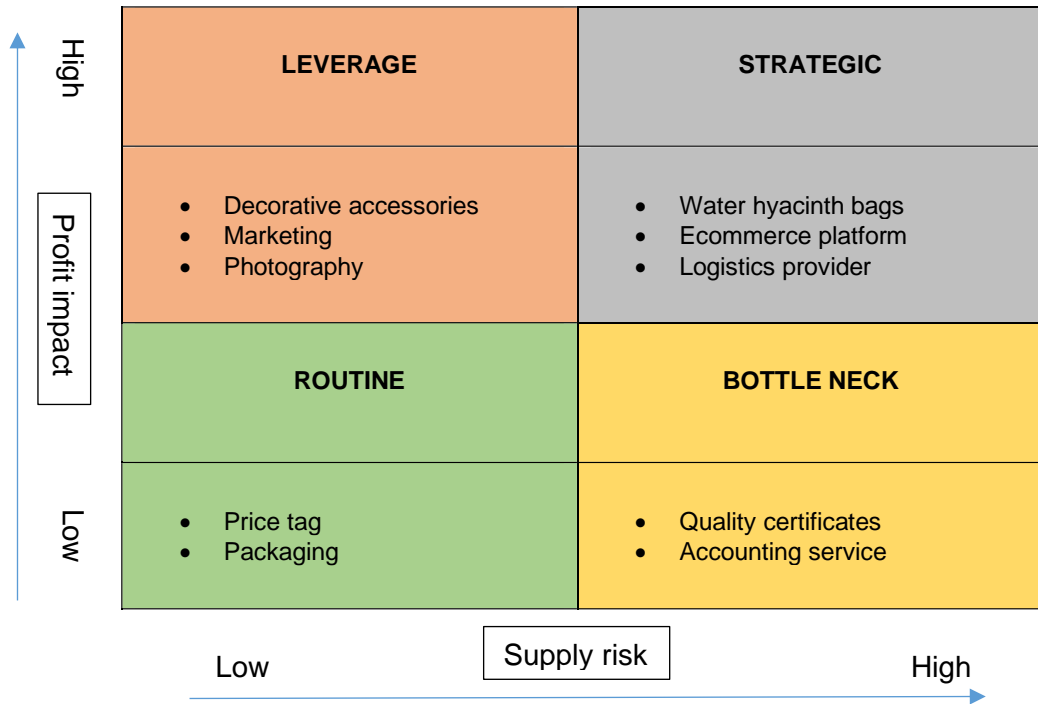


Figure 10: The Kraljic portfolio matrix in e-commerce bag business (Source: the present author)

To an e-commerce business, finished products are the main revenue so they belong to the Strategic products group. This product requires strategic supply management because it is the spirit of the whole business. An e-commerce platform is the most accessible source that a company offers when there is no “brick and mortar” property. Once the platform is down without being timely fixed will affect severely sales. The third element that plays as a key component for an online business is a trustworthy logistics provider. For big retailers, they have their own transportation like Zara, H&M, but for a small start-up, outsourcing a logistics provider is imperative. In Finland, according to the author’s online research, Posti and Matkahuolto are the two companies offering parcel delivery in entire Finland within 3 working days.

In the leverage category, products that contribute value to the business will be listed out. Decoration is a necessary part that makes the products outstanding and differentiated.

However, these accessories are abundant and available both domestically and globally. Product photography sounds like a part of content marketing, but the author wants to highlight the importance of good visuals in an online business. Flashlight (2017) conducted a survey of over 1500 respondents to find out that almost half of the American consumers rate high-quality images as the most influential factor when making buying decisions online.

Any products that contribute little or nothing to the business core but plentiful are routine products. In this bag business, office suppliers and product tags can be listed in. Product tags play quite an important role in giving customer information about the origin of products, price, usage, contact information... but they take up a small amount of the total cost and printing service is always available.

Typical examples of bottleneck items are accounting and auditing services. In this business, both activities are outsourced due to the small size of the enterprise. In Finland, an accounting firm will handle bookkeeping, payroll services and notify related authorities (Tax office). The financial statements will be made then submitted to an independent auditor. The routine of the auditing is often once per year to check accounts, revenue and spending based on financial statements and bookkeeping (European Union b.) These service does not add value to products, but they are important, and they are high scarcity due to no substitution. Certificate Of quality also belongs to this group. Certification (ISO 14001-environmental management certificate) does add some value to the final products but not too much. They have a high establishing fee and annual fee and only a few firms offering this service.



Figure 11: Five forces that shape the Handicraft Industry (Source: the current author)

Hyacinth bag is already a substitute

Water hyacinth by itself is a sustainable substitute for leather. Accordingly, if the price for a hyacinth bag is higher than a leather one, customers can easily come back to buy leather products or with different materials (cotton, straws...). Nguyen Quoc Hung – CEO of Kim Boi handicraft enterprise revealed that handicrafts are products that customers buy only when they have extra money. When the budget is tight, they will skip these products for more saving (Saigon Investment 2018.) when the economy goes down or in crisis, consumers become more aware of their expenditures and these types of products are cut down.

The switching cost is low for consumer goods and it is easy to change from one brand to the other. Hence, if a consumer group is price sensitive, they can easily switch from one supplier to another one without being affected. This reminds retailers of focusing on building brand loyalty and choose the right target customer.

The numbers of tremendous substitute bags (leathers, cotton, silk, linen....) and low switching make these three following forces have more powers than a hyacinth bag retailer.

Buyers have a lot of options

If this business does not exist, customers still have available options to shop from. This is the reason that makes the business seems less attractive when substitution has a huge impact on buying decision. Moreover, customers often buy these products during summertime (Maria 2018; Norokorpi 2017; Virtamo 2016) and when they have extra money as mentioned above. Another factor that makes customers become more powerful is there might be not enough customers interested in this product.

If a buyer buys in large amount, they generate more sales, therefore, they have more bargaining power. In this stage when the company focuses most on end customers, this situation will not likely to happen but it is an element that will affect their bargaining power in the future when the company expands.

Rivals are huge

When talking about rivalry in the retail business. There are a huge number of retailers (H&M, Mango), manufactures (Marimekko, Zara) and boutiques (Lumi boutique) offer substitute products of hyacinth bags. However, when considering sustainable products, only Stockmann and Zalando (mentioned in 4.1.1) offers this type of product with a few models. Even Kloman focus on satisfying only a specific customer group that loves vintage styles, high environmental awareness, it still needs to compete aggressively with traditional clothing stores. In general, the threat of existing rivalry is high and it comes from indirect competitors offering leather or cotton bags.

Recently, the growth of plaits and plaiting material products show slow growth. The amount of export grows every year but cannot keep up with the pace of general export growth. It increased a small amount of only 3 million dollars from 2015-2016 which led to a 7% slower growth compared to the overall export growth. In 2017, a drop of 15% implied that foreign markets lose interest in the products. However, 2018 witnesses a positive growth of 13% from 272\$ to 348\$. From Interview 8 (Appendix), a supplier reveals that hyacinth handicrafts are no longer on its thriving period. It has been going down for 5 years. These factors indicate that there is a need for new products, new materials or innovation in the hyacinth bag business.

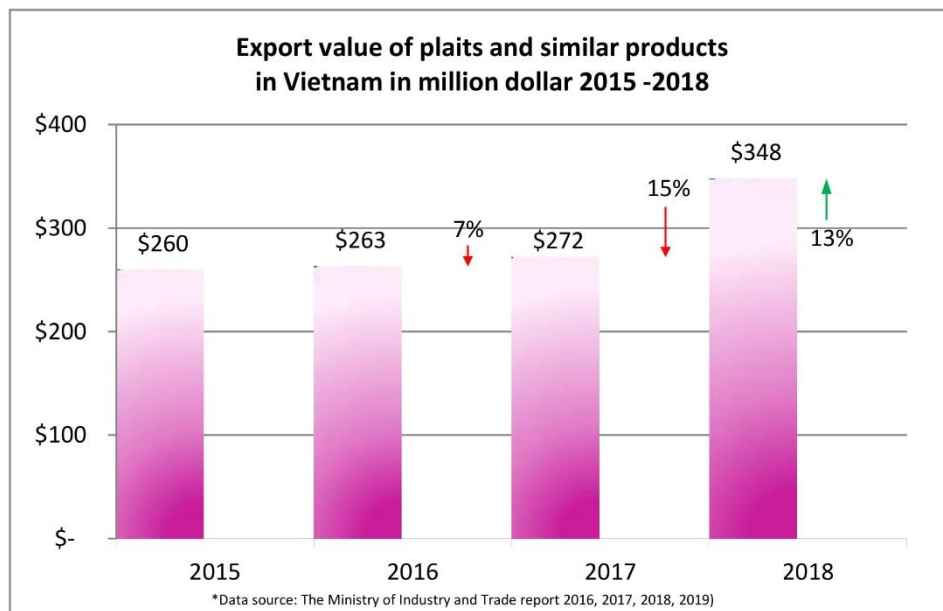


Chart 1: Export data of plaits and similar products in Vietnam (2015-2018) (Source: Ministry of Industry and Trade annual report 2017, 2018, 2019)

Too few bag suppliers

In the handicraft business, the number of suppliers is small comparing to the number of customers. It is improved by how hard it was to find a legit manufacturer. Firstly, it is a fact that there are a few hyacinth bag makers in the industry. The author has visited 10 manufacturers but only half of them are qualified as bag manufacturing. Partly because the business has low profit so most of them focusing on hyacinth décor or furniture. The second reason is that it is not traditional in Vietnam to advertise their business on the Internet **mentioned above** so perhaps there are more “hidden” suppliers. Another reason that makes it so hard to find a bag business is because of the wrong information provided by the seller. They claim that they are manufacture but they are a retailer (Appendix Interview 8).

When there are a few suppliers in the industry, key suppliers hold an even stronger position in the market. As seen clearly in Appendix II, NB1 and DT have the highest price over other manufacturers because they are more concentrated than in the industry. This makes it easier to drive the cost higher than it actually is and it is more difficult to approach them as a new customer. Both of them having an unfriendly attitude through the interview might be explained by the fact that they know they are dominant in the market and they know customers have no other choice if not choosing them. While other suppliers show a modest attitude during the interviews and show a willingness to cooperate.

Another reason makes these suppliers stay on top of other business come from their competitive strategy. Both of them choose a differentiation strategy focusing on making their

products unique that customers if not choosing them will not have a chance to buy a similar model. This makes their products higher than other factories but customers have no choice if they want to source quality and fashionable designs. NB3 and NB2 focus on becoming price leadership. However, it is obvious that the handicraft business does not carry much fixed-cost. The two biggest costs are labor costs paid per commission product and raw materials are variable costs. The fixed cost comes mainly from marketing (most of them apply JIT production so inventory is not mentioned). Given the fact that these two manufacturers are not marketing themselves so all of the costs are variable costs. Economies of scales are important for industries with a high fixed cost to spread these costs over individual products to lower cost per unit (Hill & John 2007, 309). BD is the only designer that using a focus differentiation strategy when she focuses on customers with retro and vintage styles and trying to serve this group.

The threat of forward integration is high. Forward integration is known as “vertical integration” is a strategy to go forward in an industry that sells the company’s products (Hill & John 2007, 315). It is not hard for suppliers to open their own department store. The retail business by itself does not require too many technological advances. Plus, suppliers have huge price advantages from producing their own products and a characteristic of this handicraft industry is low fixed costs make them become potential competitors. However, our plan is to sell products in Finland but not in Vietnam, therefore, this factor may not be realistic at this point but it still stays as a strong determinant.

Threats of new entrants are low

When it is hard to find a supplier in a handmade bag business, it also becomes a problem for new rivalries. To find a long-term partner requires a trustworthy source of supplier information, negotiation skills, contract management.... As the products are available only in a few countries, it is crucial to have contacts or support from agencies that will raise the cost.

Problems do not come from input information but also for output information. How to sell products for customers, which distribution channel to choose... these factors impact new entrants’ strategies. As they come later, their products, services need to be differentiated from previous ones.

New entrants also have to bear in mind incumbent advantages from existing rivalries. For Kloman, the advantage might be network when the author has resources close to suppliers and easy to switch from a retailer to manufactures. Another advantage comes from design and decoration to satisfy Nordic tastes. It can be the number of networks created

on social media or websites overtime. Newcomers need to overcome these challenges before being able to compete.

4.4 Procurement process

Step 1: Specify:

From experience living in Finland and online research and through interviews, Finnish customers have a tendency to be more interested in products that are in big size, made from natural materials, have simple looks, patterns are either extremely big or extremely small. Specifically, to hyacinth bags, Finnish customers prefer round big bags that have almost no colorful decoration or being dyed. With other current market of this product, product criteria are generally simple designs and natural materials (Table 2)

Therefore, the requirements for a supplier is presented below:

- Products: unique designs, good quality, not whitened, not dyed, firm and stable, creative.
- RFQ: MOQ not too high, samples available, fast delivery, price, good shipment term, able to issue the red invoice,
- Sales service: provide enough information, willing to solve customers' problems, easy to contact
- Strategy: have plans in the future, environment focus, improvement.

Through the interview and own knowledge acquired through trade with different countries, the author creates Table 4 with product requirement, reasons for global procurement and procurement strategy of different countries.

Market	Reasons	Procurement channel	Bag preference	Procurement strategy
Japan	Cheap, not available	Online research, Agents	Minimalist, big size	Big quantity and small variety to enjoy economics of scales Logo are produced in Japan then sent to Vietnam to be processed and packed.
German	Cheap, not available	Agents, online research	Natural look, big size, big pattern	Buy in big quantity with long lead-time. Products are processed in Vietnam Preferred handmade products
US	Cheap, not available	Agents	Huge variety in shapes, colors and decoration	Focus on quality and uniqueness Extremely cautious in price

China	Save time on production, cheaper price	Acquaintances	Small size	Buying raw materials and semi-finished products with massive amount
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Table 4. Procurement criteria of different countries in hyacinth bag business. (Source: the present author)

Step 2: Identify

After online researches and contacts from own networks, the author contacted suppliers to ask for more information following by a visit to their manufacturers. Often in this step, buyers will send Request for Quotation through email and visit them only before selected key suppliers. However, the author wants to visit all possible hyacinth bag manufacturers to provide more information for this paper so a few of them the author comes without previous contacting.

From interview results, quite a lot of companies depend on agents in Vietnam to look for hyacinth bags and from other relationships. The author did not have experience in this industry so the source that the author used the most at the beginning is online research first. Most of the contacts come from a wholesale group as this is the biggest group for retailers to meet wholesalers. The author also looks at a trustworthy industry website like Vietnam handicraft association (Vietcrafts) but information about bag business is not available. A lot of them are trading companies and they outsource it from small private manufacturers. The author wishes to visit their factories to see in person how a product is produced and gained knowledge from people who make products by their hands.

Select:

8 suppliers includes: Ninh Binh 1 (NB1), Ninh Binh 2 (NB2), Ninh Binh 3 (NB3), Sai Gon (SG), Dong Thap (DT), Bien Hoa (BH), Long An (LA), Bin Duong (BD) are selected through different sources. It is interesting that the chosen supplier was not known before but being found by chance on the way to another factory. The channel that is the most trustworthy in Vietnam is still through networks. The author visited only two manufacturers that are suggested. However, 3 other manufactures in Hanoi were contacted through the author's network but they do not offer specifically hyacinth bags. In the interview 8, a direct export reveals that foreign buyers also use the recommendation from their network in sourcing. While in Vietnam, most suppliers are found on a wholesale website then with foreign buyers, using an agent is a more trustworthy source of information. The following supplier assessment is made through analyzing the interviews (Appendix Interview 1-8), Request for Quotation (Appendix I) and observation, the author concludes about their strengths, weakness, as well as their strategies in Table 5.

	Weakness	Strength	Marketing strategy	Strategy	Production strategy
NB1	Hard to communicate, not provide samples	High understanding of products, good at solving customer's complaints. Excellent designs and quality	Content marketing, word by mouth,	Differentiation	JIT
NB2	Not know English, not advertise products, objective	short lead-time, have many relationships, kind and helpful, provide training, have many employees, using dry machine due to bad weather in short lead-time, product value is more than money value	Acquaintances,	Price leadership	Make to stock and JIT
NB3	not focus on quality	Linguistics skills, having foreign friends, products price is low	Through acquaintances	Price focus	JIT, cooperation with relatives
DT	Not register as a company to save on tax, a bit unfriendly, price is too high	New ideas on real-life tours, new ideas on making hyacinth cup handles, focus on building own brand, most well-known in the market, building a green image	Press, newspapers and TV channels	Differentiation	JIT
BD	New, inexperienced	Good designs, having clear vision and goals	Wholesales website	Price focus	JIT

Table 5. Supplier assessment (Source: The present author)

NB1 is considered as a leader in the market (Appendix Interview 6). They have been in the business for a long time. They have their own strategies that are not often seen in Vietnam. They follow a differentiation strategy that focuses on new designs and product quality. They understand both domestic and international markets. They offer solutions for customers and fix their complaints or feedback. The same as most of the other people in general in Vietnam, photography is not allowed because they are afraid of being in trouble. This is hard to explain but in the case of NB1, "pictures in our manufacture is forbidden to protect our designs" even their new products or processing process are available on social media.

The biggest problem that makes them unqualified is about communication. They expressed a bad attitude when the author just wanted to collect product information and buy-

ing only samples. They showed an irritating attitude and refused to sell samples. The author has chances to talk with a representative in Saigon, the CEO in Ninh Binh and a salesman in Ninh Binh, all of them have the same attitude. Given they are leading manufacture in the business, in the long run, this relationship cannot maintain. Due to the highest product quality and highly differentiated product, NB1 is still listed as a key supplier even having serious communication problems.

DT is the most famous bag manufacture in Vietnam. Through the conversation (Appendix IV) the owner said she did not want to register as a company because she wanted to save money on tax. This is a typical Vietnamese business model without spending money on marketing, company register, website building... However, it is interesting that DT offers products with the highest price in the market even DT belongs to the lowest salary region in Vietnam. It is even more interesting when DT's product quality is not ratio with the price. Zippers are not supported by another layer of fabric which often used by experienced suppliers. Weaving patterns do not look neat and the decoration is most suitable for Asian tastes. The author assumes that sales from their revenue are highly impacted through articles on the Internet. Listed problems can be fixed easily through negotiation however, with the highest price, the second "pickiest" supplier after NB1 and medium quality, DT is listed as a key supplier.

Even DT products are only acceptable, they have their own strategy. Through the interview, the owner revealed that she is expanding the workplace to make a real-life tour for visitors and many of them have tried it even it has not finished yet. She added the tour will include hyacinth harvesting from a channel, drying, splitting and weaving under the instruction of artisans. Artisans not only come to work but giving training of a unique craftsmanship job. DT's product development is inspiring when it is the first manufacturer in Vietnam that offering hyacinth handles for coffee cups. This shows that the owner understands hyacinth as sustainable and try to create more value from the materials than processing hyacinth products based on orders. DT is the manufacturer that shares the closet strategy with Kloman. The only problem that is hard to tolerate is the medium product quality compare to too high price.

NB3 is a live example of the reliability of information in Vietnam (Appendix X). Only when the real supplier said that the person the author contacted was her customers but not cooperating anything with her, the author felt loss of trust with not only him but with the supplier. NB3, in general, is a small enterprise. A good feature that NB3's production has is they split into two parts: manufacturing base products and finishing products. Customers

with different purposes and buy from either of them. NB3 salesman is a trustworthy person that reveals the hyacinth business has been down for five years and also the person who revealed the price of a base for calculating labor cost in the industry. However, the quality of their products is only average. Products do not stay in the right form and the cloth quality is bad.

NB2 is the only supplier that has products make to stock, but the price is the cheapest (Appendix II, table 5). The author rarely believes in cheap products because cheap is often related to low quality. However, it is not right in this case. From Appendix IX, this is the owner who is the friendliest supplier of the top three. She is willing to give information, support new business, willing to deal with price discount if both parties commit to work in the long run. The firm also solves the problems that all of the hyacinth bag suppliers deal with is how to dry the bags in the wintertime by outsourcing a dry machine. NB2 has the potential to be even more successful in the field than it is current. By using machines, NB2 is able to compete through lead time that is most of the time a key factor in purchasing decisions. Product quality and product variety are only after NB1. However, it is extremely valuable when comparing between product price and its quality. Trying to compete by price does not seem to be the right choice for NB2.

BD is a new supplier that benefits from family relationship (Appendix I). The owner has background in architecture so the designs look both gentle and personal. The price of the product is not too high but among medium high. BD is the only supplier that focus on certain groups of customers and try to satisfy their needs (Table 5). BD has the most favorite designs among other suppliers however, due to lack of artisans, the lead time will be longer than others and BD is a retailer but not a manufacturer so it won't be suitable to be a long-term partner.

4.5 Recommendation

After the procurement process taken in one month, it is advisable that Kloman should look for more trustworthy sources to identify supplier contacts. Consulting an agent is a method used by foreign buyers that have a little experience in the market. The cost will be increased but it is time-saving and product quality is assured. That is why many suppliers chose a trading company instead of working with manufacturers.

While selecting suppliers, communication is a key factor after product quality. If suppliers show their willingness to cooperate, it is a good sign that when there is a problem, both parties can fix it together. If the supplier is qualified in all aspects except for communication, it will not work in the long run. Both parties must meet the minimum requirements from each other and have better features than competitors.

From problems that happened during the interview, it is good to make a note for different countries with typical problems. Therefore, next time, when another procurement process in that country or in neighbor countries. Those tips and real-life experiences can be used to predict and limit risks and problems.

Shipping costs are based on two sizes: the weight and the size, which one is higher will be chosen (Ampuja 2015). A typical e-commerce package is composed of 40 percent air and filler, therefore, the cost is driven tremendously when cost based on size is considered. Dimensional weight or cubic weight is calculated by multiplying length x width x height-in centimetre and divided by 5000 (Ups). With this calculation, an efficient package of socks can cost 3 times higher than its actual cost (Ampuja 2015.)

After an actual importing of 30 samples, there is a problem raised. The box of 30 bags was too big compared to the dimensional size required by the airlines, therefore, the author had to split them into two. The characteristics of these bags are lightweight but take up too many spaces as they are not foldable and flexible like cloth. This will lead to a huge problem later in shipping fees and inventory costs.

According to the author's current calculation, only shipping cost from Vietnam to an end customer in Finland is now 30% of the total product. Meanwhile, an average of 14% of logistics costs in Finnish firms is reported in 2015 and 2017 (Turku University 2018, 13). Lyons & Farrington (2016, 133) have a nice comparison between lean philosophy and traditional approach as follows. In traditional production sales price is cost plus profit; however,

in lean production, profit equals sales price minus cost. All of the waste cuts down without affecting quality will go directly to the profit.

Water hyacinth bags often come with bamboo or rattan handles which takes up 25% of dimensional space. It is necessary for a solution to reduce the size of each product while increasing a variety of products. The author then comes up with the solution of taking off the handles and buy them separately. The product does not look so different between a bag woven out from the handle and the product that has a handle sew-in. This will be a request for the next order. This requirement does not only reduce freight costs and holding costs but also reduces the time of production. From own knowledge acquired, the author knows that artisans need to weave horizontally to add more warps and make the bag looks balanced when adding a handle. If the handle is added later, the process will not be disrupted and strips will not have to be split to make more warps while weaving.

To increase the variety while keeping the stock low, the author will buy all plain hyacinths bags and decorative accessories separately. By doing this, customers have more customizations while the business doesn't get pressure on overstocking. Base products will be produced in Vietnam. Handles, accessories will be added in Finland after an order. This supply chain strategy is called "Leagile" (subchapter 2.4).

Based on data collected and analyzed, the start-up idea does not look so optimistic. The first thing to consider is the popularity of the products. Through online researches and observation at clothes stores, the products are not popular in Finland yet. This sounds like an opportunity for a new business idea to work with but the following reason does not support it.

The products are seasonal and suitable only during summer. The author does use the bag for the whole years around but many of the author's friends questioning about having a hyacinth bag in the middle of winter. In chapter 4.3, hyacinth bags are mentioned in Ilta-Sanomat as hot trends of summer for many years. A fashion blogger confessed that she was waiting for a round seagrass bag for the whole spring and it was available only during summertime at Lindex (Sliik 2018.) Many other bloggers claimed that they use straw bags during summer times but not so many of them use all year long (Elle 2017; Maria 2018; Ritämaki 2018). H&M has three hyacinth suppliers in Vietnam but there is no collection of hyacinth bags in Finland which also means negative.

The second thing is from Chart 1, the export data has fluctuated and from interviews with suppliers, the hyacinth handicraft business is on a downside. The overall growth reflects

that a product is still in favor of or not. If a general growth shows a negative sign within a few years. It implies that the product might be over its summit time and on the way to go down.

A suggestion for Kloman is that the next step of market research should be done to promote more about products while gaining knowledge of customer behaviors and buying decisions. Understanding what a customer needs and satisfies it is the key in business.

The next step is to solve the logistics cost. When the logistics cost is double the average amount, it shows that logistics management is not efficient. Therefore if 10-15% of logistics cost can be cut down, it will go directly to the revenue.

Applying Agile to gain benefits from both lean and agility. This will increase the variety of products for customers while having lower stock. This is a solution not only for Kloman but can apply for many different fashion products.

If this plan goes slowly, changing from bags to dog's house made of hyacinth might be an idea to start with. As dogs are treated better in European countries than the rest of the world. A doghouse is used at home mostly, so it won't depend on weather or season. If the plan cannot go further, the author suggests a new direction to work with hyacinth leather. Leather is replaced by faux leather due to price and ethical reasons. However, if a new material made from hyacinth that looks almost like fabric or leather that does not require any processes damaging the environment will be a good idea with a high barrier for competitors. The dying powder can be used from leaves (indigo), roots (turmeric), fruit (avocado pit) available in Vietnam.

5 Validity

There are in total 18 suppliers connected, 8 individual visits have been made from 12th July to 08th August across Vietnam in five locations: Ninh Binh, Dong Thap, Sai Gon, Binh Duong, Dong Nai. One is chosen as a strategic partner and two others are key suppliers. The interview is done in an hour per visit and mostly during the weekend due to a tight work schedule.

After suggestions from artisans working in different provinces, it is noted that Ninh Binh and the West are the two areas that supply most of the hyacinth bags. However, Dong Thap is the only province in the West that the author could visit due to lack of contacts and time limit, the author could not visit other provinces.

Participant bias: The price listed in RFQ may not be the selling price for wholesales as when selling samples, suppliers either offer for free for big companies or charge a higher price for small companies as they only sell in buck. Therefore, the price listed is only relative but will be pretty close to the price after a contract negotiation.

Researcher error: the author did not focus too much on Interviews 8 due to the temperature was too high and forgot to ask about lead time. Another question that was missing in Interview 7 also about lead time was not asked after the salesman showed a lot of impolite airs and gestures. The middle rate used in this whole paper are middle rate provided by an online currency converter so it can be used for informative purpose but not a real selling or buying price. The author did not mention about buying for export because suppliers tend to raise the price as the Vietnamese think when someone lives aboard, they need to pay higher.

Due to the shortage of hyacinth bag suppliers, there are only 4 suppliers are qualified as hyacinth bag manufactures. This number may not be used as a shred of persuasive evidence for the result however, the conversations with other suppliers do contribute to the total result.

The reliability and validly of this paper are at least 80% due to the small number of suppliers found. The result has been translated exactly as the original version. Suppliers show an honest attitude because the author comes as a customer but not as a researcher otherwise the result will be less reliable.

6 Reflection

Having this paper done feels like a success before graduation. All of the theoretical frameworks are gathered to support real-life phenomenon and when there is a problem raised, it is time to dig deeper into theory. The author is not a person who does not believe in theory will try to fail on doing things and learn lessons from failures. It reflects clearly through the methodological choice that is inductive. However, after the paper is done, the author thinks that if it was done in an abductive approach, it will be rounder and more organized.

The trip over many cities in Vietnam opens the author's eyes. There are places in Vietnam where the road is still made of soil and feels like living in an isolated forest. The living standard is low, artisans get paid under minimum salary, owners focus mostly on price instead of finding ways to get known by more customers. Seeing people trying to lower their own prices to compete with others is sad because handmade products will never have it as a twin. They are made from the hands of people, not hand of robots or machines and should be treated as an art.

Kloman hopefully will be a successful business. After this paper, customer research will be carried for a better understanding if there is a demand in Finland for these sustainable products. It will not only fresh material but also solve unemployment problems in a developing country in Vietnam.

After the procurement process, the author learns that identifying is the first and the most important step in the process. Suppliers were not chosen from professional contacts, which leads to many extra costs: traveling cost, time-consuming but the chosen supplier is still not the best. And the process will need to repeat again if there are no suppliers to meet the necessary requirements. Therefore more time should be invested in identifying suppliers.

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Appendix

I. Taric measure information

11/6/2019

TARIC Measure Information



User Guides, Information and Downloadable data:[[Info](#)] [Help](#) | [What's new?](#) | [Information](#) | [FAQ](#)

TARIC measure information

[Hide all information]

The reference date is 06-11-2019

Last update: 05-11-2019

Area: Viet Nam - VN

Goods nomenclature code: 46021990

Measure type:

Order number:

Measure publication start date must be after: 06-11-2019

Measure publication start date must be before: 06-11-2019

Legal base:

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SECTION IX WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL; CORK AND ARTICLES OF CORK; MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKERWORK

CHAPTER 46 MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKERWORK

4602 **Basketwork, wickerwork and other articles, made directly to shape from plaiting materials or made up from goods of heading 4601; articles of loofah :** ^(TN701)

- **Of vegetable materials :**

4602 11 - - **Of bamboo :**

4602 12 - - **Of rattan :**

4602 19 - - **Other :**

4602 19 10 - - - Straw envelopes for bottles

4602 19 90 - - - Other :

4602 19 90 10 ▼ - - - - Hand-made

ERGA OMNES (ERGA OMNES 1011)

→ Third country duty (01-01-2011 -) : **3.70 %**

[R0861/10](#)

→ Suspension - goods for certain categories of ships, **0** ^(EU003) [R2658/87](#) boats and other vessels and for drilling or production % ^(TM510) platforms (01-07-2016 -) :

[Hide conditions]

B1	Presentation of a certificate/licence/document C 990	Apply the mentioned duty
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https://ec.europa.eu/taxation_customs/dds2/taric/measures.jsp?Lang=en&Taric=46021990&EndPub=&Domain=TARIC&op=&MeasText=&Offset=0&Ar... 1/2

B2	Presentation of a certificate/licence/document	Measure not applicable
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Additional information/Documents produced/Certificates and authorisations

C990 End use authorisation ships and platforms (Column 8c, Annex A of Delegated Regulation (EU) 2015/2446)

[Specific Help]

GSP (R 12/978) - General arrangements (SPGL 2020)

→ Tariff preference (01-01-2015 -) : 0 %

R0978/12

Top

4602 19 90 90 ▼ - - - - Other

1 - 2 / 2

- EU003 According to The Special Provisions of Section II (A) (3) of the Preliminary Provisions of the Combined Nomenclature the suspension of customs duties for goods for certain categories of ships, boats and other vessels and for drilling or production platforms shall be subject to conditions laid down in the relevant provisions of the European Union with a view to customs control of the use of such goods.
- TM510 1. Customs duties shall be suspended in respect of goods intended for incorporation in the ships, boats or other vessels classified at the following CN codes 8901 10 10; 8901 20 10; 8901 30 10; 8901 90 10; 8902 00 10; 8903 91 10; 8903 92 10; 8904 00 10; 8904 00 91; 8905 10 10; 8905 90 10; 8906 10 00; 8906 90 10 for the purposes of their construction, repair, maintenance or conversion, and in respect of goods intended for fitting to or equipping such ships, boats or other vessels.
2. Customs duties shall be suspended in respect of:
(a) goods intended for incorporation in drilling or production platforms:
(1) fixed, of subheading ex 8430 49, operating in or outside the territorial sea of Member States, or
(2) floating or submersible, of subheading 8905 20, for the purposes of their construction, repair, maintenance or conversion, and in respect of goods intended for equipping the said platforms.
(b) tubes, pipes, cables and their connection pieces, linking these drilling or production platforms to the mainland.
- TN701 According to the Council Regulation (EU) No 692/2014 (OJ L183, p. 9) it shall be prohibited to import into European Union goods originating in Crimea or Sevastopol.
The prohibition shall not apply in respect of:
(a) the execution until 26 September 2014, of trade contracts concluded before 25 June 2014, or of ancillary contracts necessary for the execution of such contracts, provided that the natural or legal persons, entity or body seeking to perform the contract have notified, at least 10 working days in advance, the activity or transaction to the competent authority of the Member State in which they are established.
(b) goods originating in Crimea or Sevastopol which have been made available to the Ukrainian authorities for examination, for which compliance with the conditions conferring entitlement to preferential origin has been verified and for which a certificate of origin has been issued in accordance with Regulation (EU) No 978/2012 and Regulation (EU) No 374/2014 or in accordance with the EU-Ukraine Association Agreement.

II. Request for Quotation report of key suppliers

Supplier	MOQ	Price	Lead time	Shipment term	Samples	Red invoice
BD	3			Exw	Yes	No
DT	10	5.8 -9.6		Exw	Yes	No
NB1	10	6.4 - 7.2		Exw / FOB	No	Yes
NB2	5	3.1 -5.4	2 weeks	Exw	Yes	Yes
NB3	5	4.2 -5.8		Exw	Yes	No

III. Interview 1

Location: Binh Duong province

Date: 12.07.2019

Position: owner (later known as BD)

T: Can I come and visit your factory? I am interested in your products and designs.

BD: Our factory is a bit far from here but I can show you. Our products are actually bamboo main but because the market has been shifting to hyacinths so we also adapt to it
It took us 30 mins by bike from the center to the factory

T: I see most of them here are trays and baskets. Where are the bags?

BD: Bags are our side products. I study at Architecture University and interested in this business so I asked my dad to produce them for me. Actually, only a few of our employees can weave this one. The Westerners can do it only.

T: Wow. Because you have art talent. That's why your products are so amazing.

BD: I want to focus on people that have good taste in art, young ladies with retro and vintage style kind of. I just started last year.

T: So do you sell only in the domestic market or in other markets as well.

BD: As I mentioned before. I just start this business. Plus, if the business was in Saigon, I could have more customers from both inside and outside, but it is too risky. I want to have a good base: several loyal customers, regular orders and at least a good website before I go a few steps further.

T: It sounds like you inherit your business orientation from your father. How long does it take to produce one bag like the one you showed me?

BD: Thank you. Often 2-5 hours for one model. If it is complicated, then more than 6 hours.

T: How much do they cost?

120.000 (4.8€) - 160.000 (6.4). Some that have expensive accessories it will be like 180.000 (7.2)

T: And is the MOQ 3?

BD: Yes

T: Except for hyacinth, what else do you have?

BD: Bamboo, rattan, palm leaves, seagrass... Anything that you want, I will supply.

T: Because I live in Saigon, how can I get your products?

BD: I will send it to My Hang coach and you will receive them in the Western Bus Terminal.

T: It sounds great. Then how long does it often take for an order?

BD: How much is an order?

T: Well. the average they often buy from you.

BD: It will often take around 2-3 weeks for an order.

IV. Interview 2:
Long An province
Location: Long An
Date: 13.07.2019
Position: salesman (later known as LA)

Hi. I am from Saigon and I am looking for water hyacinth bags.

LA: We don't have it here. We Have only hyacinth furniture.

T: I think you're the biggest hyacinth manufacturer in the market right now, but you don't have?

LA: Exactly. We are the biggest one. We still have one more manufacturer here, but we honestly don't have this product. You need to go to Ninh Binh. They are mainly for these products. The salary is expensive here so we can't make it.

V. Interview 3

Location: Bien Hoa city

Date: 19.07.2019

Position: salesman (later known as BH)

T: Hi. I heard that you have exported a lot of water hyacinth products. I am looking for bags to sell.

BH: We don't produce those bags. It takes a lot of time to produce them and the profit is low.

T: So what kinds of products you have?

BH: We have only "frame products" and mat products. Bags are craft products.

T: What is a frame products?

BH: You insert an iron frame and weave out of it to make drawers, basket. Bags also made from frame then pull it off. Foreigners love these products so much.

T: May I ask where do you often export to?

BH: To the US. It's my biggest market.

T: Do you mind telling me how much do you export per month?

BH: Well I can't answer this question. But if you are looking for those bags, go to the West.

VI. Interview 4:

Location: Dong Thap province

Date: 27.7.2019

Position: owner (later known as DT)

T: I have heard a lot from you on TV and on popular press. How did you come up with this business?

DT: Did they say that I am 26? I am actually just 25.

T: Oh yeah. They said so. So we're at the same age.

DT: Well, my parents have done this for long about 20 years so I knew about those weaving techniques since I was small but 5 years ago. At that point there was no bag specialty business, we only process décor items like mats, flowerpots and basketworks for foreigners.

T: Ok so how many products do you have right now?

DT: We have around 1000 models to serve customers monthly.

T: Where do they often buy from you?

DT: Most of them going to Hue (one of the best tourist attractions in Vietnam). I receive a lot of orders from Saigon as well.

T: So you sell only in Vietnam?

DT: Of course we have customers from the US, Japan, German.

T: So you're familiar with import regulation in the EU?

DT: I cooperate with a logistics company and they do the paperwork.

T: Why don't you do it by yourself so you don't have to share your profit?

DT: I don't want to pay tax so I don't register as a company. Plus the logistics company can help me with this.

T: OK how much these hyacinth bags cost? They really have fresh looks.

DT: Yes. We design and decorate them by ourself so they are always unique in the market. Their price range is from 150.000 -250.000 (6€ – 10€).

T: How about this bamboo one? I have never seen elsewhere?

DT: It costs 14€

T: Is this the retail or wholesale price?

DT: It's the wholesale price.

T: Then what is your MOQ for those bags?

DT: Minimum of 5.

T: T: It must take a long time to weave these ones because they are pretty expensive.

DT: It takes around 4 hours to finish one bag so one day an artisan can weave only two bags.

T: Then how long does it take for an order to be ready?

DT: of course, it depends on the size of the order. I want to satisfy all of them but normally for 2 weeks. If the order is big then 1 month to 1.5 months.

T: So the artisans come here to work?

DT: Yes. If you came 30mins earlier, you could see them here. They don't only come to work but also to demonstrate how these bags are made. This morning I welcomed two groups coming for exhibitions. They tried our real-life experience tours and they wove these little baskets.

T: Wow. That is an excellent idea on how to show people about interesting craftwork. Can you tell me more about it?

DT: It is a real-life tour. I will hire the pond in front of my place and put a boat there so people can experience all the processes like hyacinth harvesting, drying, weaving, polishing.... Here I will break this wall and extend the factory, so we have more space.

T: so, these hyacinths are picked from that pond as well?

DT: No. Not enough. We need to buy dry strips from a merchant. When the raining season coming, it will become short and price increases.

VII. Interview 5

Location: Saigon

Date: 30.07.2019

Position: owner (later known as SG)

T: Hi, I am looking for water hyacinth bags.

SG1: Come in. Come in. The products are inside.

(The author realizes she is not a manufacturer, but she is a wholesaler. Her place is full of bags with more than 10.000 products)

T: So you're a wholesaler? You have like 1.000 products?

SG: Yes but much more than that number. I supply for all of the shops in Ben Thanh market. I have two shops in Ben Thanh as well.

T: So do you sell for foreigners?

SG: Yes. A lot of them are foreigners.

T: How about their tastes?

SG: They often buy not so big ones so easy for traveling.

T: How could you build up your emperor like this?

SG: It comes time by time. First, I also sell like a merchant like you. I sold crafts but I was not lucky with the business. Then I switched to selling bags. I have been in this business for only 3 years. Then I become bigger.

T: Why I can't find you on Facebook or social media? I found you through a merchant at the main accessory market.

SG: People even come to ask for supplying for me. I don't need to look for customers.

T: You must have been through a lot to have today right?

SG: Well. It's a long story. When I couldn't sell those crafts I was so sad. But I continue investing more money on bags. Seeing that the profit isn't high enough, I invested 38,520€ for buying from China. I have a relative often driving between two countries, so I ask him to find me a supplier. I don't know how they make it but you can never beat the price with a Chinese supplier. For example, with these bamboo bags. They are Chinese because they look darker or these rattan round bags also from China. They have two sizes, in Vietnam we have three, but you can never buy it at this cheap price.

T: Is this because they use machines to weave?

SG: No. They are handmade but I don't know how they can do it. Here are the water hyacinth bags.

T: Wow they look so different from other models.

SG: Yes because I have my own design team.

T: I know you sell on bulk only but at a starting point can you sell me some samples so I can take pictures and test the market?

SG: You can use my pictures to sell online first. When you have an order, then take from me but take me a message because I am not sure if they are in stock or not. A few old models may not be out of stock or someone just comes to take them that I don't remember. I always want to support students like you because I used to have a hard time like you so I want to help. Here is the contact of a customer. She also starts selling online but she is good at photography. Here are my bags but taken in her styles.

T" How much did she buy from them when she started?

SG: Well, you will need capital for goods around 400€ around 10 products in stock for each. Do not buy too many products. You should just use my pictures if you don't know how it goes yet.

VIII. Interview 6

Location: Ninh Binh province

Date: 08.08.2019

Position: salesman (later known as NB1)

Website: <http://vinacrafts.com/>

T: Hi, I called you yesterday to see some bags.

NB1: Welcome in.

T: Wow this product looks so cool.

An employee: Yes. It is out new products.

NB1: Why don't you sew the edge with a sewing machine?

An employee: Because it will leave some thread knots there and our customers don't like it so I have to sew this whole edge by using fishing lines

NB1: and what is that?

An employee: it's a plant that we use for decoration because the stalk is small and flexible so it's chosen.

NB1: Wow. I am really impressed with your products but there are only a few of them.

You don't have them in stock?

NB1: No we only make to order (3.2).

T: Alright. So do you sell only for locals or for foreigners as well?

NB1: Both but it's easier to sell for foreigners than local ones?

T: why?

NB1: Because they always want white hyacinth (4.2). This is not the real color. The real color looks a bit dark and they complain about why other places sell white hyacinth bags, but you are selling dark ones. I tried to explain to them, that other places using sulfur dioxide to whiten them, but they still want the white ones. Then we must use bleaching chemicals to satisfy them. Foreigners do not care if it is white or black. Natural looks (4.3) are good.

T: Oh these products look like it has something on it.

NB1: Yeah because of our wet weather. You just need to rinse and put them under the sun.

T: Do customers complain about this?

NB1: It happens only in the North. Humid air will make it mold. You can't avoid it. If you live in the South where it's hot all year or in cold climate the mold won't grow.

T: And this bag is softer than others? I think the harder one looks better.

NB1: No. We put more hardening substances to make it has more form when customers ask. The Vietnamese customers are so peaky. Often buy too little but asking for a lot (4.4)

(She started showing irritation on the face)

T: Anyways, how could they find all the way here?

NB1: Like you, through our website and Facebook (4.2). Some of our old customers introduce new ones (4.2) as well. Sometimes we have to refuse them because it is at our full capacity.

T: I heard that other businesses often cooperate with each other.

NB1: We don't do it here. Employees are full-time and they come here to work so we can correct them immediately and we need to keep our own design confidential (3.1).

T: OK. I see it. Which countries are you often selling to?

NB1: Many. Both Western and Eastern. German, Australia, Japan, Korea... (4.1)

T: What else do they like except for the natural look?

NB1: They like big designs (4.3) so it is even easier to weave. We don't have to split the stalk.

T: So you're familiar with the export process?

NB1: Yes. We can handle everything (2.6).

T: So how do you price your products?

NB1: it depends on the size. Small, medium and big (2.2).

T: How much are they?

NB1: 160.000 - 170.000 - 180.000 (6.4€ - 6.8€ - 7.2€) (2.2)

T: so what is your MOQ?

NB1: 10 (2.1)

T: Can I buy some samples because I want to keep them as proof of the product quality later on.

NB1: No. (2.5) 10 for each

(She looks pretty mad)

T: Well, I am sure customers come back to you because of your high-quality products.

NB1: We try to build our brand loyalty and focus on quality (3.1). There are a few manufacturers offering the same products and they can be a few pennies cheaper but their quality can never beat us. If you don't want to buy it here, go to other places.

T: I don't mean it. I am just trying to look for more information because I don't want to waste time switching between suppliers and suppliers.

IX. Interview 7

Location: Ninh Binh province

Date: 08.08.2019

Position: owner (later known as NB2)

T: Hi, I by chance cross this place and seeing you drying these products. Are they for sale?

NB2: Yes. I am selling them. There are more products inside.

T: I tried to look for these products in the South but not many places offering them.

NB2: Exactly because the main source of this bag is from Ninh Binh. Our customers are mostly from Saigon and Hanoi. I provided training sometimes and there are people from Dong Thap, Long An (the South) ... coming to learn

T: Wow. You send them to Saigon? How do you arrange transportation? The buyer or the seller do it?

NB2: If they live far away, I can order transportation for them (2.3) because I live here so I know which one goes to where. There are trucks going the route Saigon-Hanoi and it takes only one day. I can help you with payment or you pay when you pick up.

T: Do you know how much transportation cost? Because I also want to open one store in Saigon.

NB2: You can add 0.2e for each product (2.3). It doesn't cost anything. Sometimes for small orders, we can use Shoppe (Vietnamese e-commerce website). A friend just told me about it.

T: That is so impressive. Do you have any foreign customers or just selling to locals?

NB2: Yes we do. Most of our customers are Japanese (4.1).

T: Why do they like our products? Because it's cheaper or what?

NB2: Because they don't have it and it's cheap (1.1). To make it even cheaper they often order in big quantity around 1000 but not using so many models (4.5). They prefer minimalist looks not those complicated weaves (4.4). The latest one sent us their brand tag so we can sew it into the cloth. In general, everything is done here because it is cheaper. (4.5)

T: So you are familiar with export documents?

NB2: I do not directly do it (2.6). I just received the order from private traders (4.2) and process them.

T: Why don't you do your marketing yourself? I couldn't find you on the Internet. It would be a big pity for not knowing your awesome business.

NB2: This is a traditional craft village so everyone knows other people and we share if the order is too big (4.2). No need to do marketing. Plus I do not know English (1.3) so I cannot do it by myself.

T: Alright. I don't know much about this product. Can you tell me how they are made?

NB2: When there is a customer order, I send dry hyacinth with the deadline to artisans' home. Then I polish them and dry under the sun.

T: How long does it take to fulfill orders?

NB2: well it depends. If they are as big as 1000pcs then one month otherwise regular orders often take around 7 days, max 10 days (2.4). if it is less than 300 I have them in stock (3.2).

T: Two weeks is a really short time for 1000pcs. You must have a lot of employees?

NB2: Around 60 people at peak.

T: Do you encounter any difficulty in this business?

NB2: I keep the profit low to attract customers (3.1). Each product I got only 0.2e profit. Plus during wintertime when it takes too long to dry then I have to outsource a dry machine to shorten the time (3.3, 3.1). It adds to the costs as well.

T: Then how much do they cost? I want to buy some samples first but hopefully, you can give me the wholesale price as I really want to cooperate with you in the future.

NB2: It depends on the size and the accessories, for example, strap leather 0.77euro, zipper cost 0.77euro, a handle is 0.96e. A product will range from 3.1-5.4 euros (2.2). But for sure I can support you with samples (2.5)

T: Great. Anyways, how much is your MOQ?

NB2: Around 10 (2.1)

X. Interview 8

Location: Ninh Binh

Date: 08.08.2019

Position: owner

The person I contacted actually lied to me that he had his own factory until the day I arrived in Ninh Binh and met the woman. Here is the interview with her.

NB3: So you're looking for these bags?

T: It is really hard to find the way here because he didn't show me the direct way.

NB3: Yeah. Because he is not living here. He sometimes buys my bags to resell and sometimes he introduces customers to me.

(The author starts feeling frustrated)

T: Ok. Can you show me the bag?

NB3: We don't have much of them here. As you can see. We have only these ones.

T: They look unique.

NB3: Yes because they are just released from China.

T: Did you get these hyacinths from the ponds?

ND3: No. We don't have enough time to dry them. A few years ago I had to buy from the West because Chinese people came and buy all of the raw hyacinths in the South. They even ordered a lot of our twisted hyacinth strips and that year I had to buy a truck of dry hyacinths from the West. They had good soil so the stalk was really high and fat but I was so disappointed finding out they pour water inside hyacinths to make them heavier.

T: what did you do after that?

ND3: I was so mad because I had so many orders but what I could do? I had to dry them again

Are you new to the business?

T: Yeah

NB3: What a pity! It's down now. If you have been in this hyacinth business for the previous 5 years, you could have earned a lot. It is not at a peak anymore.

T: Really?

NB3a: Yeah. We used to work with full capacity. Only these round mats are never out-of-date. We got orders all year round.

T: So these bags are mainly procured during the summer?

NB3: Yes. Let me show you some samples I still have.

T: Wow they look pretty unique.

NB3: We now just produce if there are any orders. We don't stock anymore. As you can see I produce only these semi-finished products. If you want to buy a finished one, I'll show you my sister.

T: OK. Then how much these frames cost.

NB3: Not expensive. Just 1.54€ for this one because it is basic.

T: I think this one looks really good.

NB3: That is an expensive one. The base must be double that (3.08) because it takes a lot of time to twist them into strips then plait them with other normal weaving techniques. (Here is the following interview with NB3's sister).

T: Hi. I am looking for bags

NB3: OK. We don't have many samples right now. They are at the sewing place.

T: if I cant see the products how could I buy them?

NB3: well I can take you some pictures and send them to you. But there are three basic sizes.

T: Do you have any experience with export?

NB3: Yeah. I used to study Chinese translation, so I sell mostly to my acquaintances in China

T: So you do direct export?

NB3: No. I sell to Chinese tourists through my connection.

T: How do you think their taste vs our taste.

NB3: They like small bags the most. Big size is fine but those medium sizes are pretty hard to sell.

T: I really want to buy these bags for samples. Can you support me at this stage because I want to test the market reaction first?

NB3: Of course. The MOQ is 5 but I can provide you samples with buck price as well. I appreciate people coming from far away like you coming here at least to buy samples. I don't like his customers that much. 5 of them coming here without buying anything.

T: OK so how do you price them. Well, I sell these in a bundle of three for 13.5 euros. The brown zipper is a bit more expensive than the other one.

How much do they often cost? Around 4.2 to 5.8. Are you in a hurry because this is lunchtime, those bags are not done yet.

T: Yes. I need them within 2 hours, so I am not late for the coach and my plan is pretty tight.

NB3: OK. I will try to contact her but if it isn't in time then I can deliver it through coaches for you.

I was tired under 40 degrees and after the lie I really lost interest in digging for more information about the business.