Business Development Services in Viet Nam

A Study to Assess the Market for BDS among 1,200 Small and Medium Enterprises in Ha Noi, Ho Chi Minh City, Da Nang, Hai Phong, Dong Nai and Binh Duong

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Introduction

The private sector in Vietnam which includes a large number of small and medium enterprises (SMEs), is increasingly recognized to play a decisive role in sustaining the high economic growth which Vietnam has achieved in the last decade. The Communist Party of Vietnam and the Vietnamese Government have repeatedly confirmed the importance attached to the role of the private sector SMEs in their development strategies, particularly from the perspective of employment creation and poverty reduction. Over the last few years, a new wave of reforms has been emerging resulting in the Enterprise Law (2000) and the SME Development Decree (2001), creating a more favorable environment for private SMEs.

Despite a gradually improving operating environment, private sector SMEs continue to encounter several problems in their process of growth. Private enterprises still do not have a level playing field with state-owned enterprises. Poor access to credit and modern technology remain important barriers to faster growth. Newly established small and medium enterprises are also handicapped by their lack of modern management techniques, access to information and links to export markets. In this context, the malfunctioning of the business development services (BDS) market in Vietnam is hindering the development of the enterprise sector.

In the efforts to promote private sector growth, there is now an increasing consensus that developing markets for business services is the best way to enable a large proportion of SMEs to obtain the services they need and want. To provide a basis for efforts to develop the BDS market, three organizations joined hands to commission a research on the BDS market in Vietnam, being: (i) Vietnam Chamber of Commerce and Industry; (ii) GTZ through its SME Promotion Project; and (iii) Swisscontact through its SME Promotion Program.

While the study highlights the relative importance of BDS for SMEs, it clearly emphasizes deficiencies in the availability and the use of it. Vietnamese private small and medium enterprises still do not make adequate use of BDS in order to ensure their competitiveness, as a result of insufficient awareness of the importance and the benefits of outsourcing business functions. At the same time, the offer by local BDS providers is underdeveloped and more oriented at the demand of state-owned and foreign-owned companies rather than private sector SMEs; deficiencies exist in particular with regard to the quality and market orientation of the BDS offer, especially in relation to the offer of specialized services. Specific problems exist with relation to the role of public providers and regarding the legal framework for private BDS providers.

The findings of this study will be used by the three organizations as the basis to decide on priority interventions to development the market. At the same time, we trust that this research will be useful for those who are active in the field of SME and private sector promotion in Vietnam.

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The market assessment was conceived by GTZ and Swisscontact in Viet Nam. Ms. Corinna Küsel of GTZ and Mr. Paul Weijers of Swisscontact were the driving force behind the assessment and guided the process throughout the field work, data analysis and report writing. The author is grateful to them both for their help and guidance.

InvestConsult Group in Viet Nam assisted GTZ and Swisscontact with the design of the study, conducted the field research and tabulated all the data. They also prepared a preliminary analysis of the findings which provided many important insights on BDS markets in Viet Nam. Throughout the preparation of this report, InvestConsult assisted the author with data analysis and responded to a variety of requests for additional data analysis and information. Thanks to all the staff of InvestConsult who worked on the research. Special credit is due to Ms. Ho Ngoc Lam for her dedicated investment in the study.

Mr. Prashant Rana of GTZ, Nepal, provided technical assistance to the design and implementation of the market assessment. His help resulted in more valuable data and useful analysis. Special thanks are due to Mr. Le Duy Binh of GTZ Viet Nam who was instrumental in the implementation of the study, analysis of the data and preparation of the report. His assistance in facilitating communications and gathering feedback on the draft report as well as his own insights on the study results were invaluable.

Thanks are due to all those who participated in the workshops in Ha Noi and HCMC in May, 2002, at which the results of the study were presented. The feedback on the results as well as additional information on BDS markets in Viet Nam was very useful to the analysis of the study findings.

The author's sincere gratitude goes to Holm Miehlbradt for his moral support, technical assistance and help with many aspects of the report preparation.

Lastly, thanks are due to all the enterprises involved in the study. It is through their investment of time in the study that we are able to learn about BDS markets in Viet Nam.

Alexandra Miehlbradt

June, 2002

Executive Summary

Business Development Services (BDS) can help enterprises reduce costs, improve efficiency, access new markets, increase sales, enhance productivity and grow. Together with many other constraints, the malfunctioning of BDS markets in Viet Nam is hindering the development of small and medium enterprises (SMEs).

GTZ and Swisscontact both have programs in Viet Nam to promote the competitiveness and sustainable growth of private SMEs. For both agencies developing BDS markets is an important strategy for achieving this goal. With the aim of understanding existing BDS markets for SMEs in Viet Nam, GTZ and Swisscontact commissioned jointly a consumer research into these markets. The objectives of the research were:

- To develop a broad understanding of BDS markets for SMEs in Viet Nam.
- To identify the main constraints to and opportunities for developing BDS markets in Viet Nam.
- To gain sufficient information to design effective and efficient interventions to develop selected BDS markets in Viet Nam.

The study focused on 14 business services: accounting/auditing, business management training, business management advisory, legal services, advertising/promotion, market research, product design, trade fair related services, quality management and environmental management services, management information systems (MIS) software, business information on the Internet, computer related services, technical & vocational training and technology advisory services. The study included six areas: Ha Noi, Hai Phong, Da Nang, Ho Chi Minh City (HCMC), Dong Nai and Binh Duong.

The research was done in two parts: a quantitative consumer survey and qualitative discussions with groups of entrepreneurs. All the respondents in the study came from local, private sector, registered enterprises. The study did not include state-owned enterprises, foreign direct investment firms or household enterprises.

The key findings of the study can be summarized as follows.

What is the state of BDS markets in Viet Nam?

- Most private enterprises (93%) have tried purchasing business services at least once. On average, the SMEs in the survey had used 2.5 different types of BDS.
- There are some transactions in all of the service markets studied. Private sector suppliers, state owned companies and government agencies are active in all markets to varying degrees.
- Market penetration (the percent of enterprises that have purchased each service) varies from a high of 50% to a low of 2%. The services most used are Internet information, advertising & promotion, computer related services, legal services, accounting & auditing, trade fair related services and MIS software. Each of the other services has a market penetration level of less than 10%.

- The overall BDS market size for the six areas in the study is VND 400 billion (USD 27 million). It is important to note that SMEs are still a small part of the overall BDS market. Spending from state owned companies and foreign direct invested companies is much higher. Over 90% of SMEs' spending on BDS is in Ha Noi and HCMC due to the much higher number of enterprises in these areas.
- The outlook for growth in BDS markets is positive. Over the last three years the number of customers using each business service grew approximately 7% per year and 10% for those markets with the highest usage. Markets are young but growth is now accelerating. Trends indicate that many BDS markets are now at the "take-off" stage where rapid growth can be expected over the next few years.
- There are significant differences among the areas studied with regard to BDS. Ha Noi and HCMC have the most dynamic BDS markets covering a broader range of services than other areas. The market issues in Hai Phong are unique. Awareness is less than other areas, but demand among enterprises that understand services is strong. Supply has not responded adequately to this strong demand. The markets in Binh Duong, Dong Nai and Da Nang are weaker than those in the big cities. There is a lack of supply of some services in these areas.
- There are not significant differences among various consumer segments with regard to BDS. Manufacturing, trading and service enterprises all show similar behavior in purchasing BDS. Smaller enterprises tend to be more reluctant to try business services and are more cost conscious than larger enterprises. However, the differences are minor. Both those enterprises represented by women and by men in the survey show similar BDS purchasing habits.

What are the key strengths of BDS markets in Viet Nam?

- There is demand among SMEs for a variety of services. Overall economic growth and an increasing integration with world markets is fueling demand for BDS.
- Entrepreneurs have a high awareness and good basic understanding of the business services studied. Entrepreneurs are able to diagnose their business problems and choose appropriate services to help solve them.
- There are a variety of providers offering services in all markets studied. Some providers in every market offer good quality services, indicating that the necessary skills to supply high value services are present in Viet Nam.
- The BDS markets in Ha Noi and HCMC are vibrant and may be able to provide information, ideas and investment for other areas.

What are the key constraints to the growth of BDS markets in Viet Nam?

- Entrepreneurs lack comprehensive and reliable information about services and service suppliers. They tend to rely heavily on friends and colleagues for information which limits the information they receive.
- The business culture in Viet Nam encourages entrepreneurs to solve their business problems internally and discourages outsourcing business functions. Consequently, many enterprises do not view business services as important for their competitiveness and are reluctant to try new services.

- The available business services are frequently poor quality and of low relevance to SMEs. There is a lack of appropriate service products for SMEs. Enterprises want services with a clear and short term business benefit, particularly decreased costs, increased efficiency, saving time, increased ability to compete and more customers. Providers often do not offer service products which meet this demand.
- Providers are not effectively communicating the potential benefits of their services to SMEs. They lack marketing skills. This contributes to consumers' lack of useful information about services.
- A number of markets are controlled by the government. This has limited competition and resulted in a lack of consumer choice. This may also affect the quality of the services and, frequently, lead to high prices. State owned companies still enjoy a number of advantages over private sector suppliers which may be depressing private investment in the provision of BDS. A number of other government and donor actions and policies are also constraining the growth of BDS markets.

What are the high potential services, areas and consumer groups?

The study findings combined with information on the Vietnamese economy indicate that the following services show strong potential for growth:

- Business information offered both on a stand alone basis and embedded with other services.
- IT related services such as Internet information, computer related services and MIS software.
- Market related services such as advertising & promotion, market research, product design and trade fair services.

The geographical areas in the study which show the most potential for BDS market growth are:

- Hai Phong due to strong demand and a lack of appropriate supply.
- HCMC and Ha Noi due to the high number of enterprises and the dynamic existing markets on which to build.

The types of enterprises that are likely to significantly increase BDS use in the short term are those that are growing or reorganizing and those that are in sectors experiencing increased competition, particularly competition from foreign companies or imported goods.

What are the policy implications of the study findings?

Improving the legal and regulatory environment for BDS has the potential to increase both the supply of and the demand for BDS in Viet Nam. The following are priority areas for consideration.

- It is important to provide the basis for fair competition between state owned companies and private sector suppliers. Measures to level the playing field would encourage additional private investment in the provision of services.

- Allowing private sector investment in those markets that are currently controlled by the government would improve the quality of those services, increase consumer choice and, potentially, lower prices.
- Ensuring that there are no policy level disincentives to investing in the provision of business services provides the basis for investment. Proactive investment incentives might encourage private entrepreneurs to increase the provision of BDS.
- Improving enforcement of copyright laws and contracts would raise consumer confidence in business services. Proactively promoting BDS through an information campaign would help increase consumer acceptance of outsourcing business functions.

What are recommended program strategies for developing BDS markets?

An overarching concentration on information would be a useful program focus. Increasing the provision of information can have a positive impact on SMEs directly as well as on the development of BDS markets. The development of the supply chain for information could benefit from innovative public-private partnerships. It is important to explore and promote a variety of mechanisms for the delivery of information both as a stand alone service and embedded within other commercial transactions. In Viet Nam, business decisions are often made based on information from personal contacts. Therefore, programs should explore mechanisms for increasing the personal delivery of information.

Improving and increasing the supply of services is a market development priority in Viet Nam. There are a number of ways that programs could help raise the quality and availability of services, as follows:

- Assisting suppliers with product development and quality improvement,
- Assisting suppliers to improve their marketing,
- Developing a quality assurance system,
- Promoting franchising among international and domestic suppliers, and
- Providing investment information on market opportunities in BDS.

Stimulating demand for services is also important in Viet Nam, particularly for those markets still in their infancy. There are several program interventions which could help increase the demand for BDS, as follows:

- Assisting suppliers to identify and target high potential consumers,
- Assisting suppliers to develop customer referral marketing,
- Promoting the provision of embedded services, and
- Conducting a general social marketing campaign to increase consumer acceptance of outsourcing business services.

It is also important for donors and government to work together to rationalize subsidies for BDS. Subsidies for transactions should be gradually reduced in favor of using public money to promote the sustainable development of BDS markets.

Developing BDS markets in Viet Nam has the potential to help SMEs compete more effectively in the world economy, fuel economic growth and generate jobs. Many BDS markets are at a "take off" point. Improvements in the environment for BDS, as well as targeted program interventions can help markets achieve rapid growth, enabling more SMEs to get the business services they want to expand and develop their enterprises.

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Acronyms

BDS	Business Development Services
BIZIC	Business Information Center (under VCCI)
BPSC	Business Promotion and Service Center
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
HCMC	Ho Chi Minh City
ISO	International Standard Organization
IT	Information Technology
MIS	Management Information Systems
MOI	Ministry of Industry
NGO	Non-Government Organization
QM	Quality Management
SME	Small and Medium Enterprise
UAI	Usage, Attitude, Image
USD	United States Dollar
VASC	Software Development Company
VCA	Vietnam Cooperative Alliance
VCCI	Vietnam Chamber of Commerce and Industry
VND	Vietnamese Dong

Exchange rate

As of the date of this report, USD 1 is equivalent to VND 15,260

List of Terms

This list of terms refers only to the way these terms are used in this report. It does not necessarily reflect general usage in the international BDS field.

Business Development Services (BDS): Any non-financial service provided to businesses on either a formal or informal basis. In this report, this term is used interchangeably with business services.

Demand: the quantity and type of services that SMEs wish to purchase at any conceivable price. (Describes the behavior of consumers.)

Embedded Services: Business services that are provided as part of another commercial transaction. The cost of these services is not paid in cash by the SME. Instead the cost is covered by the margin on the commercial transaction.

Consumer: An SME that is a potential or actual user of BDS.

Customer: An SME that has purchased a particular BDS.

Intervention: A donor or government sponsored activity designed to develop a BDS market.

Market: SME consumers, BDS providers and the transactions among the two.

Provider: any individual, firm or institution that provides BDS directly to SMEs. They may be private companies, state-owned companies, NGOs, national or sub-national government agencies, industry associations, etc.

Service: the product consumed by SMEs (e.g. auditing, technical training, advice, information).

Supply: the quantity and type of services that providers wish to sell at any conceivable price. (Describes the behavior of suppliers)

Supplier: a private sector or for-profit individual, organization or mechanism that supplies BDS directly to SMEs.

I. Context of the Market Assessment

Since Viet Nam began opening its doors to private sector development in the late 1980s, the country has achieved remarkable economic performance. While the Asian economic crisis in 1997 damaged Viet Nam, the country's economy is now recovering. GDP growth in 2000 was 6.7% as a result of the Government's demand stimulation, rising consumption and strong export performance.[1]

It its 10-year socio-economic development strategy (2001 to 2010), Viet Nam is seeking to repeat its high performance of rapid growth, employment-creation and poverty reduction of the 1990s. GDP is expected to double in the next decade. Industrial GDP is targeted to grow at around 10 percent per year, driven in part by faster manufacturing growth. Given the fall of foreign direct investment and the stability of investment by state-owned enterprises and by the State Budget, this rate can be achieved only if the investment by the private sector increases from the current 7% to around 11 to 13% of GDP. It is widely accepted in the country that the private sector, particularly small and medium enterprises (SMEs), offer the best prospects both for generating employment and for generating economic growth. With its increasing integration into world trade, the Vietnamese economy needs to become more dynamic and competitive. Experience from other countries indicates that Viet Nam must have a strong and dynamic SME-sector to ensure the competitiveness, stability and development of its economy.

A. Small and Medium Enterprises in Viet Nam

Over 96% of enterprises in Viet Nam can be classified as SMEs. In addition to acting as an engine of growth, these enterprises are critical in generating employment and reducing poverty. SMEs employ approximately 25% of the labor force, create nearly 300,000 jobs annually and grow, on average, almost 7% per year. From 1997 to 2000, SMEs contributed approximately USD2.2 billion to the national economy.[2]

Over the last three years, the government has become increasingly supportive of private sector SMEs. In 1999, the National Assembly passed the Enterprise Law which allowed new forms of businesses in concert with international standards and more simple business registration procedures. This legislation opened the way for a flood of newly registered enterprises. In 2000 alone, approximately 14,000 new enterprises were registered, totaling approximately USD1.7 billion in registered capital. In 2001, the government enacted new incentives, policies and programs for SMEs. The definition of SMEs was changed to those enterprises with less than 300 employees or registered capital of less than VND10 billion. The government has formally established an Agency within the Ministry of Planning and Investment to coordinate assistance to SMEs and recommend policies for the promotion of SMEs as well as support credit guarantee schemes for SMEs.[3]

Despite the impressive growth and new support for SMEs, these mainly private sector enterprises face a number of constraints to growth. Private enterprises still do not have a level playing field with state-owned enterprises. Poor access to credit and

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[1] Source: Report on Viet Nam socio-economic situation in December 2001, General Statistical Office.
[2] Sources: Viet Nam Economic Times (December 7, 2001); Statistic Yearbook 2000.
[3] Source: Government of Viet Nam, SME Decree, November, 2001.

modern technology remain important barriers to faster growth. Newly established SMEs are often handicapped by their lack of modern management techniques, access to information and links to export markets.

B. Business Development Services

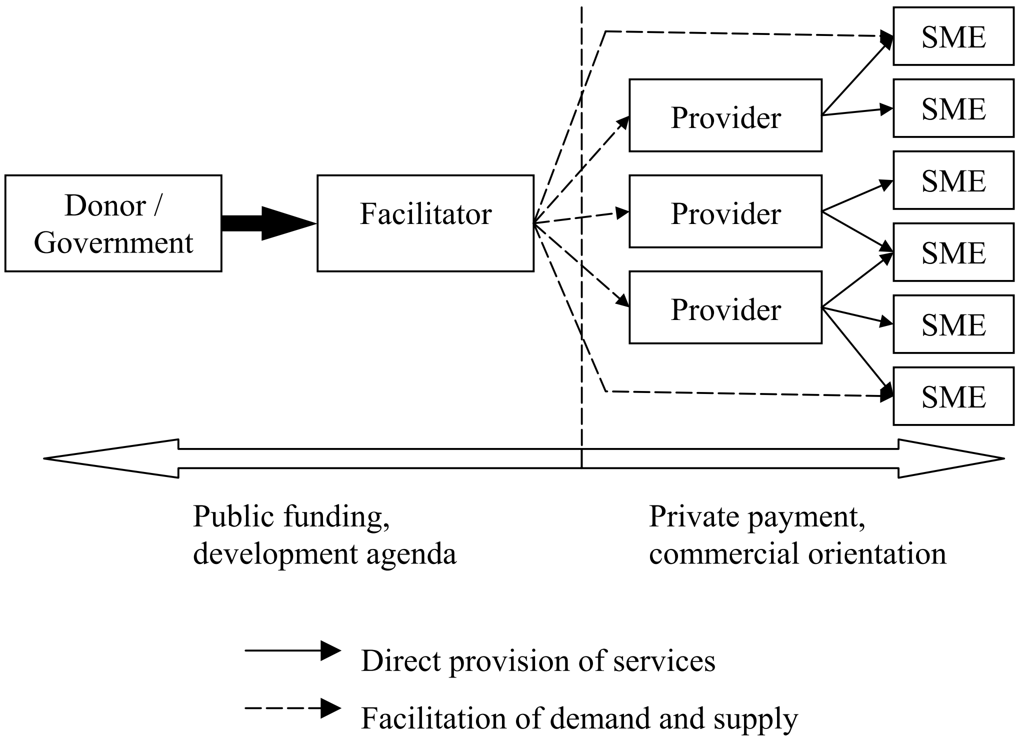
Business Development Services (BDS) refers to any non-financial service used by an enterprise to assist its business functioning or growth, provided in a formal or informal manner. A few examples of BDS are training, consultancy, management services, marketing, packaging, product design, quality assurance, distribution logistics, information, internet, IT and computer services, business linkage promotion, accounting services, courier and advertising. "BDS markets" encompass providers of business services, both commercial and publicly funded, SMEs who use BDS and the actual provision of services.

BDS can help enterprises reduce costs, improve efficiency, access new markets, increase sales, enhance productivity and grow. Together with many other constraints, the malfunctioning of BDS markets in Viet Nam is hindering the development of the enterprise sector. It is estimated that business services currently account for less than 1% of the country's gross domestic product (GDP) compared with an average of 10% in traditional market economies. The low availability and quality of BDS for SMEs is one of the reasons that the outsourcing of 'non-core' business functions is still very limited. This is one of the factors seriously affecting the productivity and competitiveness of Vietnamese SMEs.

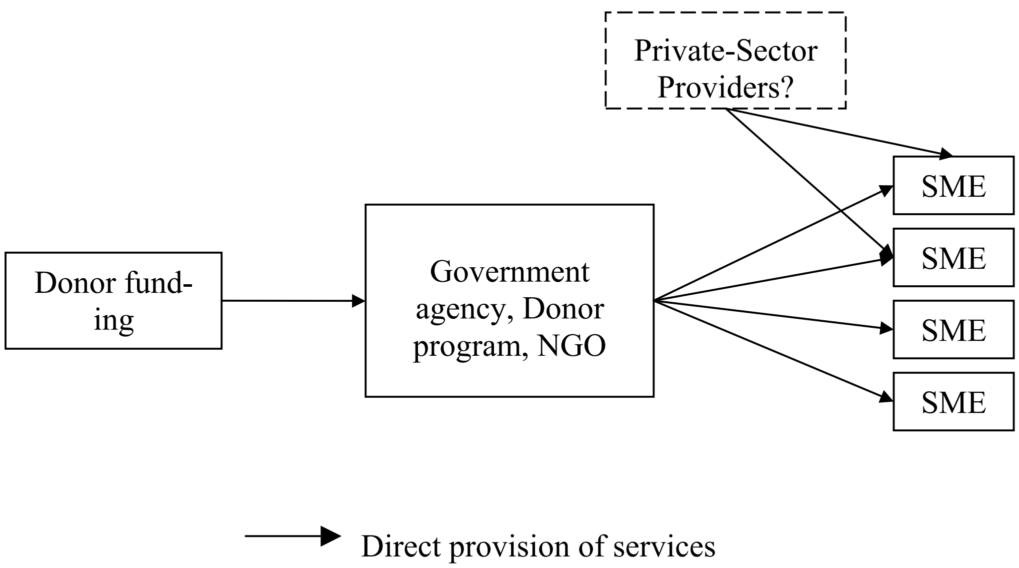
Traditionally, donors and governments have intervened in BDS markets at the level of the BDS transaction: directly providing services to SMEs via public BDS providers (Figure 1.1B), or permanently subsidizing services delivered by other BDS providers. In this approach, donors and governments have tended to substitute for underdeveloped BDS markets, possibly crowding out existing or potential commercial suppliers of services. These traditional approaches have failed to achieve high outreach (access to services by a large proportion of the target population of SMEs), since the numbers of SMEs served is limited by the amount of subsidies available. Institutional sustainability has been low, since programs often cease when public funds are exhausted; this effect has often been masked in industrialized countries by the much greater level of funding available. Lastly, the services provided have often had limited impact on enterprises because they have been designed and delivered with public funds rather than responding to demand from SMEs.

Figure 1.1: Actors and Their Roles

A. New Approach: Facilitate Market Development



B. Old Approach: Substitute for the Market



International best practice now points to a new, more effective approach to providing SMEs with business services: developing commercial markets for BDS. The BDS market development approach is driven by the belief that the objectives of outreach and sustainability can only be achieved in well-developed markets for BDS, and not by direct provision by donors and governments. This shifts the focus of public and donor intervention away from direct provision and subsidies at the level of the BDS transactions, toward the facilitation of a sustained increase in the demand and supply of services. In the market development approach, subsidization of transactions (Figure 1.1B) should be replaced by private payment for services, as in Figure 1.1A. Similarly, donor and government support should be shifted away from direct support to particular BDS providers and towards facilitation functions that develop the market in a sustainable way. Programs to develop BDS markets aim to address factors which are limiting SMEs' purchase of the services they want, and/or endeavor to better exploit market opportunities for improving SMEs' access to, and use of the BDS they want. [4]

C. Market Assessment Sponsors

The German Agency for Technical Cooperation (GTZ) and the Swiss Foundation for Technical Cooperation (Swisscontact) both have programs in Viet Nam aimed at promoting the development of the private sector. Both GTZ and Swisscontact follow an approach of BDS market development in the promotion of private sector small and medium enterprises.

1. GTZ-VCA SME Promotion Project

The overall goal of the GTZ-VCA SME Promotion Project is to promote the competitiveness and sustainable growth of private small and medium-sized enterprises. In this context, a conducive policy framework, and a functioning market for business development services are essential, and thus key objectives of the project.

Under the management of the Vietnamese Co-operative Alliance (VCA), main cooperating organizations are the Business Promotion and Service Center (BPSC), the Directorate for Standards and Quality (STAMEQ) and the Vietnamese Chamber of Commerce and Industry (VCCI), the Ministry of Industry (MOI) as well as a loose network of business service providers in different fields.

Main areas of intervention are:

- Interventions at the policy level to create a conducive policy framework for the private sector and specifically an enabling environment for the development of a market for Business Development Services (BDS); as well as enhancing awareness about BDS (mainly in cooperation with VCCI);
- Developing the offer and the use of business information by SME; in the past the project has mainly focused on internet-based information services, e.g. through the internet-based information system for SME www.smenet.com.vn (transferred to VCCI-BIZIC), or the Eximpro web page established by VASC (www.exim-pro.com); increasingly the project focuses at business information also as a tool

[4] Adapted from "Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention" 2001 Edition, by the Committee of Donor Agencies for Small Enterprise Development. Available at www.ilo.org/publns

for matching supply and demand and for awareness building (also at the provincial level);

- Strengthening the supply of services in quality management and social standards, through the qualification of providers of QM services (in cooperation with STAMEQ and MOI);
- Developing the institutional capacity of and the offer in the field of training and consultancy, with a focus on management training, consultancy and environmental management (mainly in cooperation with BPSC and selected VCA provincial centers.

The project also endeavors to strengthen the organizational development and the networking between partner organizations.

2. SWISSCONTACT in Viet Nam

Swisscontact SME promotion program in the Mekong region includes potentially Viet Nam, Laos and Cambodia and shall contribute to Swisscontact's overall goal of Small and Medium Enterprise Promotion. The program started in 2001, with concentration on Viet Nam only.

The overall objective of the program is to increase the competitiveness of the SME target sub-sectors and the socio-economic conditions of its entrepreneurs and employees. This will contribute to the following components:

- Improved markets
- Improved markets
- Employment generation
- Improved environmental conditions of the SMEs
- Enabling environment for SMEs
- Improved gender balance conditions

The approach the program applies is anchored in the sub-sector approach, with integration of BDS market development methodologies. This allows for interventions related to embedded BDS, and focuses on services that tend to be sub-sector specific. The program started in Ho Chi Minh City, focusing on the plastic sub-sector where 800 enterprises are registered. In the future, the program will expand to other sub-sectors, as well as to other urban areas in Viet Nam.

Swisscontact signed a cooperation agreement with the Viet Nam Chamber of Commerce and Industry (VCCI) of Ho Chi Minh City. The cooperation is based on support to the ultimate target-group organizations in the private sector. Along with these activities, the VCCI is assisted in its organizational development by means of advisory assistance and human resource development.

D. Market Assessment Research Organization

In order to conduct the market assessment, GTZ and Swisscontact engaged Invest-Consult Group. InvestConsult is a group of business and legal consultancy companies in Viet Nam. They provide a range of services and studies including market research and surveys to both companies and development organizations. Based on the overall design and objectives of the study, InvestConsult Group finalized the questionnaire and sampling strategy for the study. InvestConsult Group conducted all the field research in the 6 areas covered and prepared the data tables summarizing the results of the survey. InvestConsult also managed the qualitative research gathering. Finally, InvestConsult conducted the preliminary analysis of the data from both the quantitative and qualitative aspects of the research.

II. Summary of the Research

Before designing interventions to develop BDS markets, it is critical to understand existing markets. A market study can identify weaknesses and opportunities in BDS markets, the reasons behind the lack of demand for or supply of services, and the extent of market distortions. This understanding can help to identify local commercial providers and mechanisms of service delivery and payment, choose intervention strategies, identify institutions and networks to build upon, and provide a baseline for measuring progress in market development.[5]

With the aim of understanding existing BDS markets for SMEs in Viet Nam, GTZ and Swisscontact commissioned consumer research into these markets. The objectives of the research were:

- To develop a broad understanding of BDS markets for SMEs in Viet Nam.
- To identify the main constraints to and opportunities for developing BDS markets in Viet Nam.
- To gain sufficient information to design effective and efficient interventions to develop selected BDS markets in Viet Nam.

The research included two parts:

- A quantitative consumer survey.
- Qualitative discussions with groups of entrepreneurs.

All the respondents in the study came from local, private sector, registered enterprises. The study did not include state-owned enterprises, foreign direct investment firms or household enterprises. Therefore, the study only examined the part of the BDS market serving local, private sector, registered enterprises.

To date the study has used only consumer research and secondary data to assess BDS markets. GTZ and Swisscontact may also conduct supplier interviews or other research at a later date to get a deeper understanding of BDS markets. Further research, particularly supplier assessments, will probably focus on particular geographical areas, enterprises sectors or business services.

A. Consumer Survey

The quantitative consumer survey was designed based on the “Usage, Attitude, Image” market study, a consumer survey tool commonly used in the private sector to gain an overview of a particular market. This tool has been adapted to look at the markets for a range of business services for small and medium enterprises. The questionnaires were administered through personal interviews.

The consumer survey gathered information on key aspects of BDS markets including:

- SMEs’ awareness, understanding and usage of specific business services,

[5] “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention” 2001 Edition, by the Committee of Donor Agencies for Small Enterprise Development.

- SMEs' frequency of use, amount spent and payment methods for specific business services,
- Suppliers of business services and information channels for learning about them,
- SMEs' satisfaction with specific business services,
- SMEs' reasons for using or not using specific business services,
- Trends in SMEs' expenditure on specific business services, and
- SMEs' perception of the importance of specific business services.

Using this information, key parameters of business service markets are described below, including market size, market penetration levels, key constraints to market growth and opportunities to develop specific service markets.

The consumer survey covered 1,211 private enterprises in six areas: Ha Noi, Hai Phong, Da Nang, Ho Chi Minh City (HCMC), Binh Duong and Dong Nai. All enterprises included in the survey were registered, non-state enterprises, meaning that they are governed by the Law on Enterprise passed by the National Assembly of Viet Nam in 1999. The enterprises included have all been in operation for at least one year.

B. Qualitative Consumer Research

The qualitative discussions were conducted using the "Focus Group Discussion" methodology, where small groups of similar entrepreneurs are brought together to discuss particular business services. Discussions were conducted with both users and non-users of various business services. The discussions focused on getting more in depth information on specific BDS markets and discovering the reasons for particular trends and realities identified in the consumer survey. The discussions covered the following key areas:

- The decision factors for purchasing a particular service the first time,
- The benefits that SMEs want and get from a particular business service,
- Consumers' satisfaction with services and what they would like to see improved,
- How consumers choose a supplier for a particular business service, and
- Reasons why SMEs do not use a particular business service, or stop using it.

This information is used below to determine specific ways to build demand for business services and improve the supply of those services.

Twenty focus group discussions were conducted involving approximately 140 enterprises in the same six areas as the consumer survey. Enterprises were chosen from the survey respondents based on their usage of various business services and their willingness to participate in a discussion.

C. Business Services Studied

While there are many different types of business services, the assessment focused on 14 particular services. These services were chosen either because they tend to have reasonably high usage among SMEs in other countries or GTZ and Swisscontact have a particular interest in promoting the service. The services studied, grouped into five categories, are as follows:

Management

1. **Accounting/ Auditing:** Outsourced services related to financial matters, book keeping, auditing and making financial reports for the enterprise owner. For example, engaging a company to review accounting books, develop an accounting system, or engaging an auditing company to prepare auditing reports.

2. **Business Management Training:** All types of training activities, generally offered in a classroom setting, related to various aspects of business establishment and operation such as entrepreneurship, general management, marketing – including exports, production and financial issues.

3. **Business Management Advisory:** All types of advisory services, generally one-to-one consulting/advisory to entrepreneurs, related to various aspects of business establishment and operation such as entrepreneurship, general management, marketing – including exports, production and financial advice.

4. **Legal Consultancy:** Advice and services related to laws, rules and regulations related to business establishment, operations, taxation and exports, litigation.

Marketing

5. **Advertising/Promotion:** The service in which professional(s) conduct activities to publicize the image of a certain enterprise as well as advantages of its products/services - in various media - to ensure that more products/services are bought by the customers/clients or advise entrepreneurs how to conduct such advertisement / promotion campaigns.

6. **Market Research:** The service in which outsourced professional(s) study factors such as demand, supply, customer behavior, and the legal and administrative framework in the market to facilitate the presence of a new enterprise in the market and/or to promote product sales of a certain enterprise in the market.

7. **Product Design:** The service in which outsourced professional(s) assume the task of preparing outlines, designs and technical specifications of a conceived product for the reference of and in order that a product/service can be produced.

8. **Trade Fair Participation Arrangement and Advisory Services:** Logistic and advisory services delivered by outsourced professional(s) to arrange the presence of a certain enterprise at a trade fair to promote its product’s image, to seek partners or to sell products. For example, exhibitions and trade fairs organized by VINEXAD.

Quality & Environment

9. **Quality Management and Environment Management Training and Advisory:** Training activities and advice delivered by professional(s) in order to improve the quality of the products and processes and to minimize harmful effects on the environment of business activities. These are usually related to productivity improvement and cost reduction. For example, quality management according to ISO norms.

Information, Communication

10. **Management Information System Software:** The service in which outsourced professional(s) design software and adapt applications that can efficiently manage information on administrative matters and other business activities of a certain enterprise. For example, purchasing accounting software or management software.

11. **Internet access to seek information for business:** Accessing Internet to seek information for business purposes. This excludes accessing the Internet to send/receive emails or browse for personal purposes. The access must be to retrieve information to be used for business such as market information, legal documents, information on sellers and partners.

12. **Computer related services:** This includes physical maintenance and repairs of computers, software adaptation, customization and development; as well as training and advisory services.

Technical /Vocational

13. **Technical & Vocational Skills Training:** Any training activities delivered in classroom and also in the company by outsourced professional(s) to (1) provide information on how to use and take full advantage of a machine (2) to improve the expertise of workers in a certain skill or trade.

14. **Technology Advisory Services:** The service, generally one-to-one advice, refers to the selection of the best technology for the enterprise and transferring technology procedures. It also includes instructing the enterprise on how to use the new technology.

It is important to note that the quantitative survey data on usage for 13 of the 14 services is statistically significant, meaning that the sample of users is a reasonable representation of the population of enterprises who use services in the areas studied. However, the usage level for management advisory services is so low that some of the data on this service may not be an accurate representation of the use of this service in the general population of enterprises. While figures for awareness, understanding and market penetration are representative of the enterprise population, other figures for this service may not be.

D. Profile of the Respondents

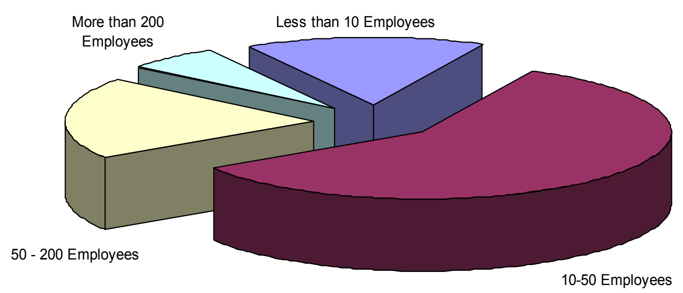
The respondents in the consumer survey represent a cross section of enterprises in Viet Nam. A quota sampling strategy was used to ensure representation in the sample from a variety of different types and sizes of enterprise. The proportions of enterprises with the characteristics below represent those in the sample, which may be somewhat different from those in the enterprise population overall.

The respondents in the survey came from three sectors: trading (20%), services (35%) and manufacturing (45%). These proportions in the sample were designed to reflect the greater interest of the sponsoring organizations in manufacturing and service enterprises as opposed to trading enterprises. The actual proportion of these sectors in the general enterprise population in the 6 locations is trading (33%), services (27%) and manufacturing (40%). In the analysis of the survey results, market penetration and market size have been adjusted to the proportions in the overall enterprise population. All other results reflect the results for the survey sample.

Examples of some of the most prevalent types of businesses in the sample are:

- **Trading:** motorcycle and spare parts, oil, gas and chemicals and general trading
- **Services:** advertising, printing services, equipment services, consulting services, transportation and forwarding, and tourism, hotel and restaurants
- **Manufacturing:** building materials, garments, ceramics and porcelain.

Figure 2.1: Survey Respondents by Number of Employees

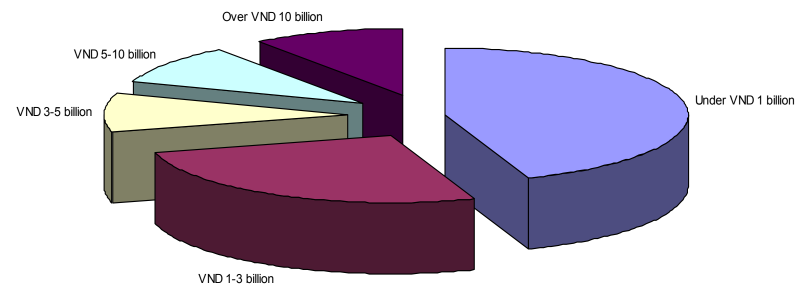


The majority of the firms in the sample had between 10 and 50 employees (See Figure 2.1). There was some variation by area. Relative to the overall figures, Ha Noi, Hai Phong and Da Nang had a higher proportion of businesses with fewer employees. Dong Nai and, to a lesser extent, HCMC and Binh Duong had a higher proportion of businesses with more employees. Over 97% of the respondents in the survey had less than 300 employees, meeting the government's criteria for SME status.

As shown by the figures on number of employees, the size of firms in the sample was generally small, reflecting the reality in Viet Nam. Almost 60% of the firms in the survey had less than VND 1 billion in registered capital and 90% of the firms in the sample had less than VND 3 billion in registered capital. The respondents in HCMC and Hai Phong tended to have somewhat more registered capital, while the respondents in Da Nang and Binh Duong tended to have somewhat less.

Figure 2. 2 shows respondents' sales in the last year. There was considerable variation by province. Ha Noi, HCMC and Da Nang had respondents with somewhat higher turnover. Hai Phong, Dong Nai and, in particular, Bin Duong had respondents with lower turnover. The respondents from manufacturing enterprises reported somewhat higher turnover than the average, while the respondents from service enterprises reported somewhat lower turnover.

Figure 2.2: Survey Repondents by Last Year's Sales



Most respondents serve local markets exclusively; over 85% of respondents had no export sales. When considering only the manufacturing sector, 67% had no export sales. In HCMC exports were somewhat more important to respondents; one quarter of HCMC respondents reported some sales come from exports. Exporting is more common among larger companies than among smaller companies.

Figure 2.3: % of Respondents by Type of Registration

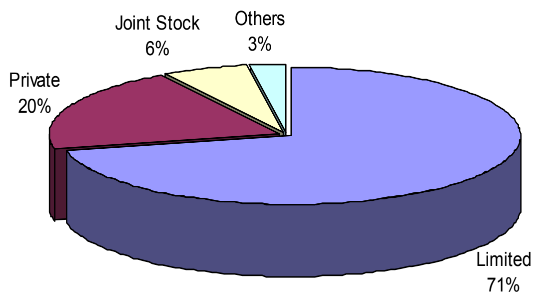


Figure 2.3 shows the form of firm registration of the respondents.[6] Seventy one percent of respondents came from limited liability enterprises, but this varied widely by province. Respondents from Ha Noi and HCMC had more limited liability enterprises and less of other types. Well over half the respondents from Dong Nai and Bin Duong were registered as private enterprises. The highest proportion of joint stock companies was in Hai Phong (14%).

Most businesses in the survey were fairly new. Over 20% were only a year old and almost 70% were between 1 and 5 years old. Only 6% of the enterprises had been operating more than 10 years. Businesses in Hai Phong tended to be somewhat older than the average. But otherwise, there were only minor variations by province. Most businesses reported that they started operation and registered in the same year. However, approximately 9% were in operation over three years before they registered. Approximately 2% of businesses were in operation for over 10 years before they registered, many taking advantage of the recent legislation to register their businesses.

[6] Under the Enterprise Law, which regulates the registration of private sector companies, most common forms of registration are: "Private", "Joint-stock", Limited Liability with more than 1 owner". (Other forms, such as partnership, are not very frequent). While all companies covered by this research belong to the private sector, the form of registration as "private" refers to individual ownership.

Age, education level and sex are three characteristics of entrepreneurs or managers that affect BDS buying habits in some countries. In the Viet Nam sample, over 60% of the respondents were over 35 years old, while only 3% were under 25. Almost three quarters of the respondents are college graduates. Most of those who are not, finished secondary school. Binh Duong respondents, however, generally had a much lower education level with less than 20% graduating from college and almost 20% lacking a secondary education. Dong Nai also had a somewhat lower education level than the average. Younger respondents tend to have more education than older respondents. Seventy one percent of the respondents were male and 29% were female.

III. Overview of the Results

A. Overview of Service Use

1. Market Penetration

The vast majority of SMEs in Viet Nam have at least tried using business services. Only 7% of respondents reported that they had never used any business services. The only province in which there was significantly more SMEs who had never tried BDS was Hai Phong where almost 30% of SMEs had never tried a business service. Although a slightly higher percent of smaller enterprises do not use BDS, almost 90% of SMEs with less than 10 employees have tried BDS at least once. The type of enterprise, sex and education of respondent did not have much bearing on SMEs' propensity to try BDS at least once.

On average, the SMEs in the survey had used 2.5 different types of business services. The average in Ha Noi was a little higher, just over 3 different types of services. The average in Dong Nai and Binh Duong was lower, less than 2 different types of services. Large enterprises generally use more types of services than small companies. For example, large enterprises in Ha Noi use five or six different types of services, whereas enterprises with less than 10 employees use one or two different types of services in all locations. Interestingly, those respondents with higher education reported using more types of services than those with less education. Businesses in manufacturing, trading and services all reported using roughly the same number of business services types.

Figure 3.1: Market Penetration

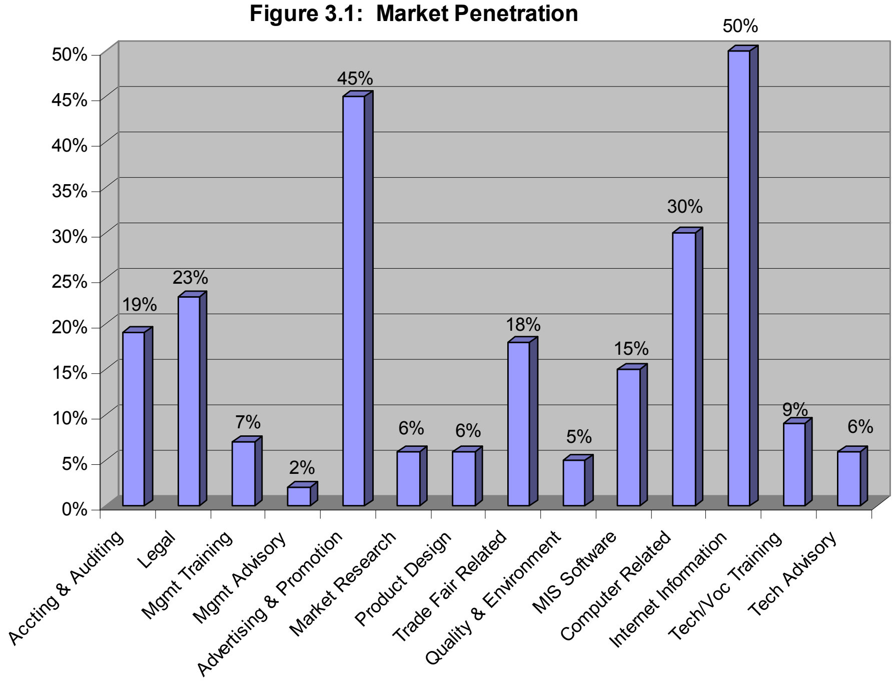


Figure 3.1 shows that BDS markets in Viet Nam are at varied levels of development. The advertising and promotion market is quite well developed, although the study found that most of the purchases were for media space rather than advertising and promotion design. Computers have been quickly integrated into many businesses in

Viet Nam. Business information from the Internet is the most used service, reaching 50% of SMEs. Other computer related services such as maintenance, troubleshooting and web-site design have also gained considerable consumer acceptance. Even MIS software purchase and support services have gained a measure of acceptance among SMEs. While market penetration for accounting and auditing services, legal services and trade fair related services are still relatively low, the fact that approximately one fifth of enterprises outsource these services shows that there is significant demand. Most other BDS markets are currently quite weak but all markets show some level of activity that could provide the basis for growth.

The low market penetration in some markets is due to the reluctance of enterprises to try services, even when they have a clear understanding of them. This is due to a combination of several factors. First, entrepreneurs are risk averse and want to be assured of benefits to their business before purchasing. Second, in Vietnamese business culture, enterprises often favor addressing their business issues internally rather than inviting in outside assistance. Third, there is a lack of appropriate, quality business services available. Entrepreneurs will not purchase services if what they want is not available.

2. Market Size

Table 3.1 Number of Users Per Service

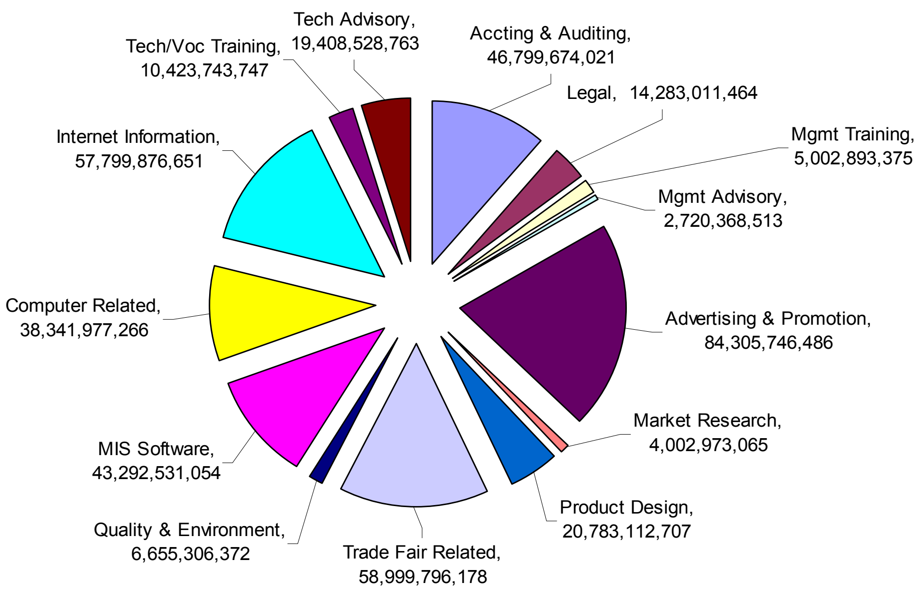
Service	Number of Users
Internet Information	19,854
Advertising & Promotion	18,038
Computer Related	11,813
Legal Services	9,261
Accounting & Auditing	7,514
Trade Fair Related	7,347
MIS Software	5,875
Tech/Voc Training	3,532
Management Training	2,900
Product Design	2,505
Market Research	2,481
Tech Advisory	2,366
Quality & Environment	2,197
Management Advisory	752

In the six provinces studied, there are just over 40,000 registered firms. Table 3.1 shows the number of these firms that are using each type of service. There are clearly enough current users for all types of computer services to attract investment in the supply of these services. Similarly the number of firms in the markets for accounting & auditing services, legal services, advertising and promotion and trade fair related services are sufficiently high to attract private capital. However, other markets with only a few users, such as the technical advisory market, may not be big enough to immediately attract private capital. These markets may require outside assistance in stimulating demand in order to assure potential private investors of sufficient demand for their services.

The total market from private sector enterprises for all BDS studied in the six areas surveyed is just over VND400 billion (just over USD27 million). It is important to keep in mind that the market from local private enterprises is only a small proportion of the whole BDS market. State-owned companies and foreign direct investment companies currently have much higher spending on BDS than private enterprises. For example, in the market for auditing services, just 2% of revenues and 9% of customers come from non-state, local enterprises.[7] Therefore the whole market for BDS is much larger than the part examined in the study.

Figure 3.2 shows the monetary market size for each service in Vietnamese Dong. Generally, the markets with the highest penetration are also those with the highest monetary value. However, the market for product design, which looks relatively weak in terms of market penetration at only 6%, still has a reasonable monetary size of over VND20 billion (almost USD1.4 million). Therefore, it may present a good niche market for particular providers.

Figure 3.2: Market Size for Each Service in Dong



Almost 60% of the money private enterprises spend on BDS is in HCMC. In fact, HCMC and Ha Noi together represent over 90% of BDS spending. Markets outside of these two cities are still relatively small. The BDS markets in HCMC and Ha Noi can act as a powerful catalyst in developing other markets. They can be both demonstration sites and a source of knowledgeable providers who may want to invest in other areas or franchise services to other areas.

Almost half the money spent on BDS is from manufacturing enterprises. Trading enterprises spend just over a third of the total amount, while the service sector spends the least. The main reason for this is not higher market penetration among manufacturing enterprises. Instead, the key reasons are that there are slightly more manufacturing enterprises registered in the six areas studied, they tended to spend somewhat more per service in the last year and the sector uses a somewhat broader range of services than the trading and service sectors.

[7] Viet Nam News, November 30, 2001 "Auditors urged to case net wider"

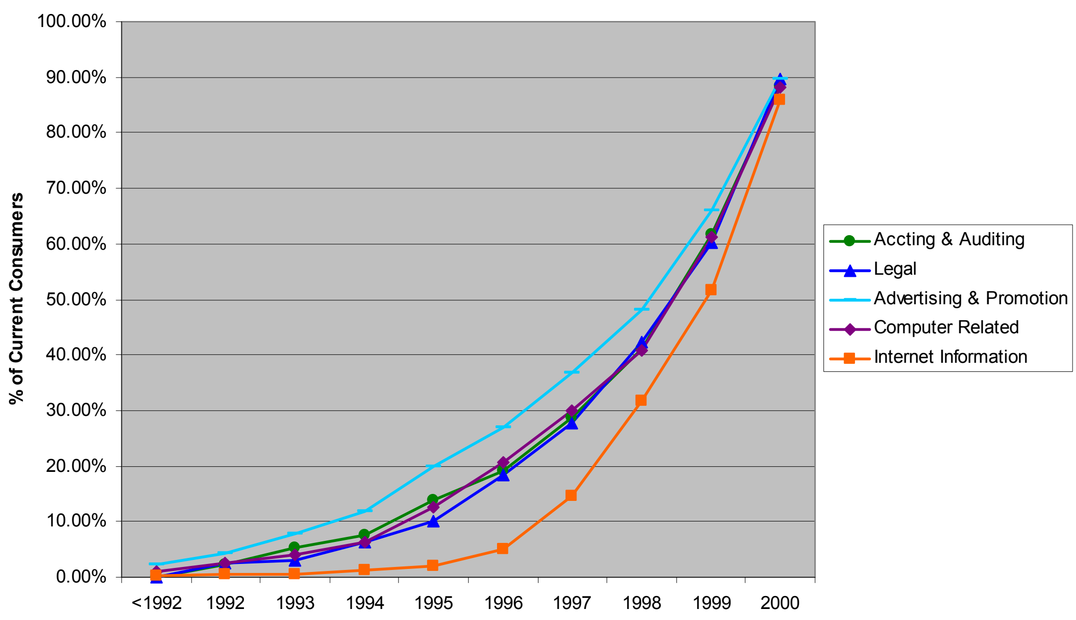
3. Market Growth

The outlook for growth in BDS markets in Viet Nam is positive. Growth has been reasonable over the last few years but now appears to be accelerating. In 2001, the whole service sector in Vietnam grew 6.1%. It appears that BDS are an important contributor to this growth and will continue to support the growth of the overall service sector.

The engine of growth for BDS markets in Viet Nam over the next few years will be new consumers. During 1996-1998 the BDS customer base grew approximately 5% per year. From 1999-2001, the customer base grew approximately 7% per year. For the seven services most used, the growth rate during this period was 10% per year. Most customers who begin using business services keep using them. Only 3% stop using any BDS, either temporarily or permanently, although they may not continue to purchase all the services that they have tried.

Growth in BDS markets is accelerating. Figure 3.3 shows the percent of current consumers that were already using the service in each of the last 9 years and before 1992. In all of these markets, there has been rapid growth in the consumer base since 1995. The figure shows that BDS markets are at a "take off" stage, where more rapid growth can be expected over the next few years. Existing enterprises can be expected to enter BDS markets at a higher rate than in previous years. In addition, the growth in the number of enterprises in Viet Nam (35% in 2000) will fuel faster growth in BDS markets as these new enterprises also start purchasing BDS.

Figure 3.3: Service Consumer Growth in High Penetration Markets



The survey shows that Viet Nam can expect moderate growth in spending per consumer. While 45% of respondents have seen no change in their BDS expenditure over the last 2 years, 36% see expenditure increasing. While many enterprises are not sure how their BDS expenditure will change in the future, 22% expect to increase their expenditure next year as compared to only 2% who expect to decrease their expenditure next year.

B. Overview of Demand

The basic conditions necessary for an SME to demand a service are:

- The SME knows the service exists.
- The SME has a basic understanding of the service.
- The SME concretely understands the specific benefits that the service can provide for his/her business.
- The SME sees that these benefits are applicable and useful for his/her business as well as address a priority issue in his/her business.
- The SME is willing to pay an outsider to deliver the benefits to his/her business.
- The SME is convinced that suppliers can deliver the promised benefits.
- The SME feels that the potential value of the benefits are worth whatever risks s/he perceives in purchasing the services.

The following conditions are necessary for a transaction to actually take place:

- The SME can find a supplier that meets their particular needs and wants with an appropriate service product.
- The SME and the supplier are able to agree on a price and payment mechanism that is profitable for the supplier and both reasonable and feasible for the SME.

The study shows that SMEs' basic awareness and general understanding of BDS is quite high. In other words, SMEs know that most BDS exist and can provide a basic definition of what each service is. Therefore, demand stimulation should not focus on basic awareness raising.

However, there are problems with the other demand conditions. The study indicates that many SMEs – over half the non-users for most services – do not feel a need for particular services in their businesses. Some SMEs do not concretely understand the specific benefits a particular service can offer their businesses; others do not think that this benefit is necessary or a priority for their businesses. Many of the SMEs that are interested in purchasing a service are not convinced that suppliers can deliver the promised benefits. SMEs often do not think the potential benefits of purchasing a BDS are worth the risks. They perceive the risks to be generic or low quality services which do not deliver the benefit they need and the potential for service suppliers to compromise their businesses, for example by selling proprietary product designs to other businesses or informing the competition about proprietary business information. In general, in Vietnamese business culture, entrepreneurs try to solve their business problems internally first and only outsource services as a last resort. Spending on BDS is generally reactionary rather than a planned expenditure for business improvement.

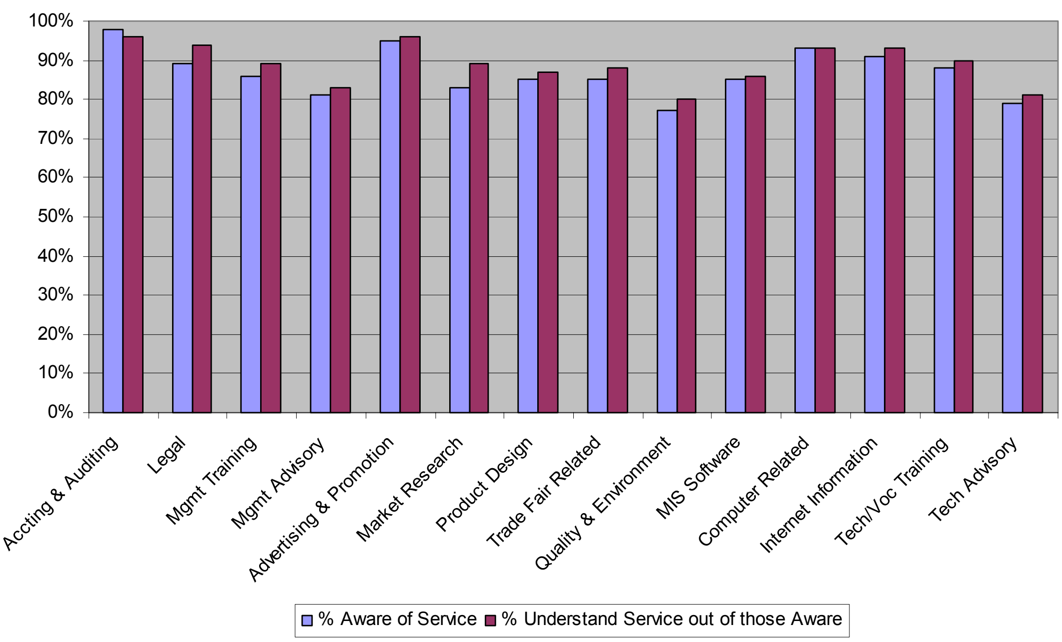
In general, Vietnamese entrepreneurs demand benefits from BDS that are concrete, specific to a particular business issue such as reaching customers or lowering costs and can be realized in the short term. Therefore, demand stimulation must clearly show entrepreneurs what is the concrete, specific and short term benefit that can be gained from a particular service. In addition, demand stimulation must show entrepreneurs why outsourcing a BDS may be a good option. This involves convincing SMEs that services will actually provide the benefit they advertise and that their business information will be kept confidential. It also involves changing the business culture to one in which outsourcing BDS is considered a good way to help develop businesses and address business issues.

Once SMEs are prepared to purchase a service, they look for a good supplier. This is also a constraint in Viet Nam. Information about BDS mainly comes from personal sources – it is often neither comprehensive nor completely reliable. Some SMEs do not have information on any suppliers. However, a more common problem is that SMEs do not have enough information to confidently choose an appropriate supplier for their needs. They also do not have enough reliable information to differentiate good quality, honest suppliers from poor quality or dishonest suppliers.

1. <u>Awareness and Understanding</u>

Basic awareness and understanding of services is strong in Viet Nam. The vast majority of entrepreneurs are aware that various business services exist and have a reasonable understanding of what the services are (Figure 3.4). Program interventions do not need a strong focus on raising entrepreneurs' awareness and understanding of services. Resources would be better spent on strategies to improve the quality of services and induce trial.

Figure 3.4: Consumer Awareness and Understanding of Services



However, this high level of awareness and understanding does not translate into a high trial rate. There are a variety of reasons for low trial. One of them is that a high basic understanding of services does not mean that SMEs necessarily understand the specific benefits that particular services can provide for their businesses. Demand stimulation activities need to raise this "specific understanding" among potential BDS customers.

2. Information Flow

In Viet Nam, business decisions are made based on information from personal contacts. The most important source of information about suppliers and services are entrepreneurs' colleagues and friends. For most services, the majority of respondents get information this way. However, information from personal sources is often not comprehensive or completely accurate.

For some services other sources of information are also important. For example, mass media is an important source of information for advertising and promotion services and Internet services. It is also an important complement to personal information in the markets for legal services, business management training, trade fair services, MIS software services and technical and vocational training. Government offices are a significant source of information for business management training and quality & environmental services. Business associations and VCCI are an important complement to other sources of information for trade fair related services. Websites, email, brochures and directories are not yet a significant source of information on BDS providers in Viet Nam.

Demand stimulation should aim to provide SMEs with more comprehensive and more reliable information about business services and providers. In order for SMEs to view this information as trustworthy, interventions must develop personal channels for information delivery.

3. Reasons for Purchasing Services

Understanding why entrepreneurs choose to purchase a service for the first time is critical to determining how to stimulate demand. In Viet Nam, the reasons for outsourcing business services are usually internal to the business, such as a lack of in-house expertise, rather than external such as competitors purchasing the service or advice from friends and colleagues. This shows that entrepreneurs are capable of diagnosing business problems and choosing appropriate services to respond to them. Interventions to stimulate demand will have to encourage entrepreneurs to respond to internal business issues by purchasing BDS and demonstrate how services can effectively address those issues.

For some services, entrepreneurs can outsource the service at a lower cost than doing the functions in house, such as accounting & auditing, MIS software, computer related services and technical advisory services. Customers of these services also note that they improve business efficiency. Providers of these services should emphasize their capacity to lower customers' costs. Some services are outsourced because enterprises do not have the capability in house to take on the function, in particular accounting & auditing, legal services, product design, computer related services and technical or vocational training. For these services, providers should advertise their capacity to provide critical services at a reasonable cost.

The push to use advisory services, technical training and MIS software and to some extent Internet information is the growth in entrepreneurs' businesses. The growth makes entrepreneurs feel the need for the services in order to manage the increased complication of their businesses. Customers of technical training and advisory also noted that increasing competition in their sectors pushed them to upgrade the skills and technology of their workers. This finding indicates that providers of these services should target growing business sectors with increasing competition. Similarly, a key reason for using management training, MIS software and computer related services is an entrepreneurs' desire to improve internal management functions. Providers of these services should also target enterprises that are expanding or diversifying.

A number of services respond to entrepreneurs' desire to increase their customer base or target new markets. These services are advertising & promotion, market research, trade fair services and Internet information. Providers of these services should target enterprises that may be stagnating and should show SMEs how their services will help them increase sales. Some businesses perform a number of these functions in house. So it is also important for these providers to show potential customers how outsourcing these services will generate better results at lower cost than performing them in-house.

Laws and regulations are a stimulus for some services. The main reason entrepreneurs try quality and environmental services is because they need a certification as a legal requirement. Laws and regulations are also an impetus for trying legal services, particularly when an entrepreneur is just establishing his/her business or changing its legal status. Accounting & auditing services also often include advice and assistance with preparing tax declarations. In fact, many enterprises actually hire experienced individuals from state owned enterprises or officials from the tax agency for this service. Providers of services for which laws and regulations are a key issue should show consumers how their services can help enterprises comply with regulations in an efficient and confidential manner.

4. Reasons for not Purchasing Services

Understanding why entrepreneurs do not purchase particular business services is also critical to program planning. Reasons for not purchasing services can be divided into two categories: those that the program can address, such as a lack of professional providers or inappropriate service products, and those that the program can not address, such as the fact that a particular service is not needed by some businesses. Information on entrepreneurs' reasons for not using services can then help a program determine the potential for increasing demand for a particular service and what constraints need to be addressed in order to persuade non-users to try a service.

For most services, the reason for not purchasing the service mentioned most often is that the service function is not required in the respondent's business. Approximately half the non-users for each service mentioned this as a reason for not using the service. Another important reason, particularly for legal services and to a lesser extent quality and environmental services, MIS software and management training and advisory is that the respondent had not yet faced any problems with that function in his/her business. In general, the entrepreneurs who gave these answers are not likely to purchase services in the short term. Growth in their businesses, changes in the business environment and changes in the business culture over time may make them potential customers. But these are not the consumers that a program should focus on in the short term.

Many businesses may in fact have no need for many of the available business services. However, some of the businesses that gave these answers may not understand the specific benefits that particular services can provide. For these enterprises, better information may provide the stimulus to consider purchasing services. Targeted information and better service marketing may have the potential to increase entrepreneurs' understanding of specific service benefits.

Another key reason for not using services is that respondents get the service done in-house. This reason was stated by 20-40% of non-users for many services and 75% of those not purchasing accounting & auditing services. Some of these respondents are potential customers if suppliers can show that outsourcing services will either lower entrepreneurs' costs or increase the quality of the service with minimal additional risks. Enabling providers to demonstrate to customers that outsourcing may be better than producing services in-house may require both improving providers' services and their ability to market those services.

A small proportion of non-users for each service stated that either they could not find a suitable service supplier for the service they wanted or that the service was too expensive. While only 3%-15% of non-users mentioned these reasons, they can be targeted as the most likely new service users in the short term. These respondents already want a particular service. In order to reach them, suppliers need to respond to their demand for particular service products packaged in such a way that they are affordable. Helping suppliers understand and respond to demand will be a helpful program intervention. For example, the survey shows that there are approximately 3,000 businesses in the six areas studied who want trade fair services but can not find a suitable supplier. If a program can help providers reach half of those, that is 1,500 additional customers for trade fair services.

Although it did not figure prominently in the survey data, many non-users in the focus group discussions explained that appropriate service products for the services they want are not available. They are concerned that suppliers do not offer good quality or reliable services. Quite a few respondents are also worried that suppliers will not keep their business information confidential or will provide the results of product design or market research to other companies, thus compromising their competitiveness. These findings show that lack of appropriate service products, quality services, reliable suppliers and assured confidentiality is dampening demand for business services. It also demonstrates the prevailing business culture in which entrepreneurs tend to address their business problems internally rather than outsourcing services.

5. Perceived Value of Services

The survey asked respondents to rate the importance of each service for the day to day operation of their businesses and for the competitiveness of their businesses. The results are shown in Figure 3.5 and Figure 3.6. As above, the findings demonstrate the prevailing business culture. While many businesses thought that services were somewhat important, most did not see them as a very high priority. The percentage that thought services were extremely important, which would be likely to make them buy, is relatively low. For the importance of each service to daily business, only advertising & promotion was over 20%. For the importance of each service to business competitiveness, only advertising & promotion and internet information were over 20%.

Figure 3.5: Importance of each Service to Day to Day Business Operations

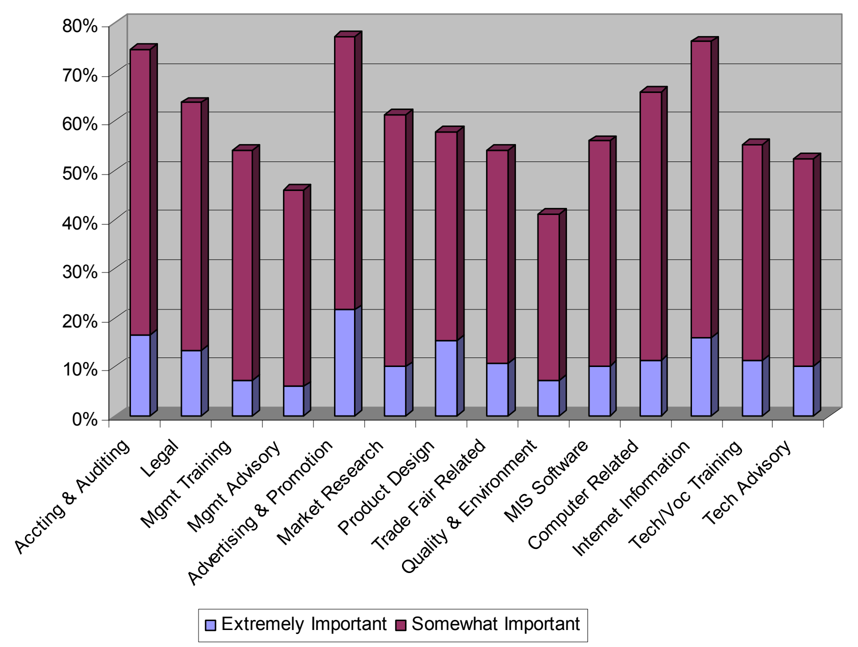
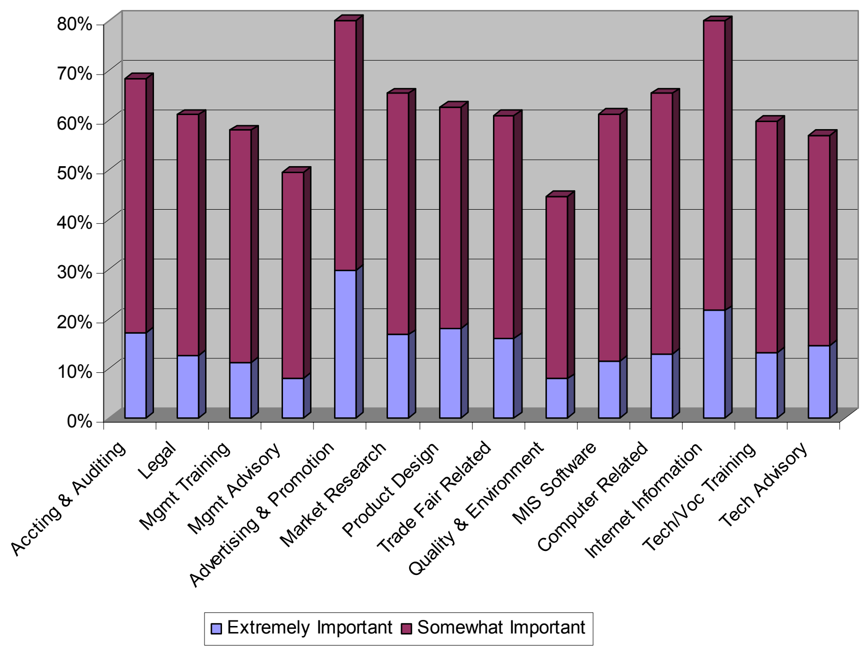


Figure 3.6: Importance of each Service to Firm Competitiveness



The results show that businesses are open to considering the purchase of a variety of business services, as evidenced by the high figures for "somewhat important." However, most businesses are not currently convinced that business services are essential to their business operation and growth. Therefore, efforts to stimulate trial of business services will need to concretely show businesses how services can benefit them by lowering costs, lowering risks or increasing sales. Efforts to stimulate trial will need to start changing the business culture to achieve a higher acceptance of the idea of outsourcing services.

6. Service Benefits Expected

In general, entrepreneurs expect services to provide concrete and specific benefits to their businesses. The benefits most desired are decreased costs and increased efficiency, saving time, increased ability to compete and an expanded customer base. Entrepreneurs also expect outsourced services to be higher quality than what they could produce in-house at the same cost. A number of respondents also want services to make them more confident in managing their businesses. This result shows that some entrepreneurs expect a personal aspect to service provision. Some respondents want services to reduce their risks by helping them to avoid making costly business mistakes.

Many entrepreneurs find it difficult to keep updated on the business issues that affect them, such as changing regulations, markets and product designs. Entrepreneurs expect most services to include the provision of information updates. For example, entrepreneurs expect legal firms to distribute a newsletter with updates on changes in the legal and regulatory environment for businesses. Entrepreneurs expect trade fair facilitators to have updated information about available trade fairs that will help entrepreneurs select those fairs that are appropriate for their businesses.

7. Demand for Other Services

Apart from the services formally included in the study, respondents indicated demand for a variety of other services. Some of the services that featured most prominently in respondents' comments are:

- Business information on such topics as business services and suppliers, changes in the legal environment, markets, prices, technology, market opportunities and investment opportunities,
- Export/import support services,
- Tax related advice and services,
- Transportation and delivery services,
- Insurance, and
- Equipment repair and maintenance.

In particular, the demand for information seems to be strong. While only a few respondents specifically stated that they want business information, many expressed a desire for more information about a variety of business topics. Provision of business information can be a very useful service on its own. In addition, experience in other countries has shown that the provision of business information can also help develop the markets for other business services in a variety of ways. It can increase consumers' knowledge about services and service suppliers. It can also increase suppliers' knowledge about potential customers for their services. Specific information can provide the impetus to connect potential customers with service suppliers. Experience in other countries also shows that business information services can be delivered on a commercial and profitable basis through a variety of mediums and mechanisms such as radio, business to business magazines, point of sale outlets, web pages and embedded in other services or other commercial relationships.

C. Overview of Supply

There are a variety of existing suppliers in all the markets studied. All markets have some involvement from private suppliers, from state owned enterprises and from government agencies – although the extent of the involvement varies. There are at least a few suppliers in each market that are providing good quality, relevant services to SMEs.

However, much of the existing supply is relatively poor quality. This may be partly because many suppliers do not offer products that are appropriate for SMEs. In addition, many suppliers do not appear to be communicating effectively with consumers through their marketing efforts. In some areas outside the cities, there is a lack of supply for some services. The presence of subsidies in some markets may be suppressing private sector investment in service provision. In addition, government control of some markets is limiting consumer choice and service quality.

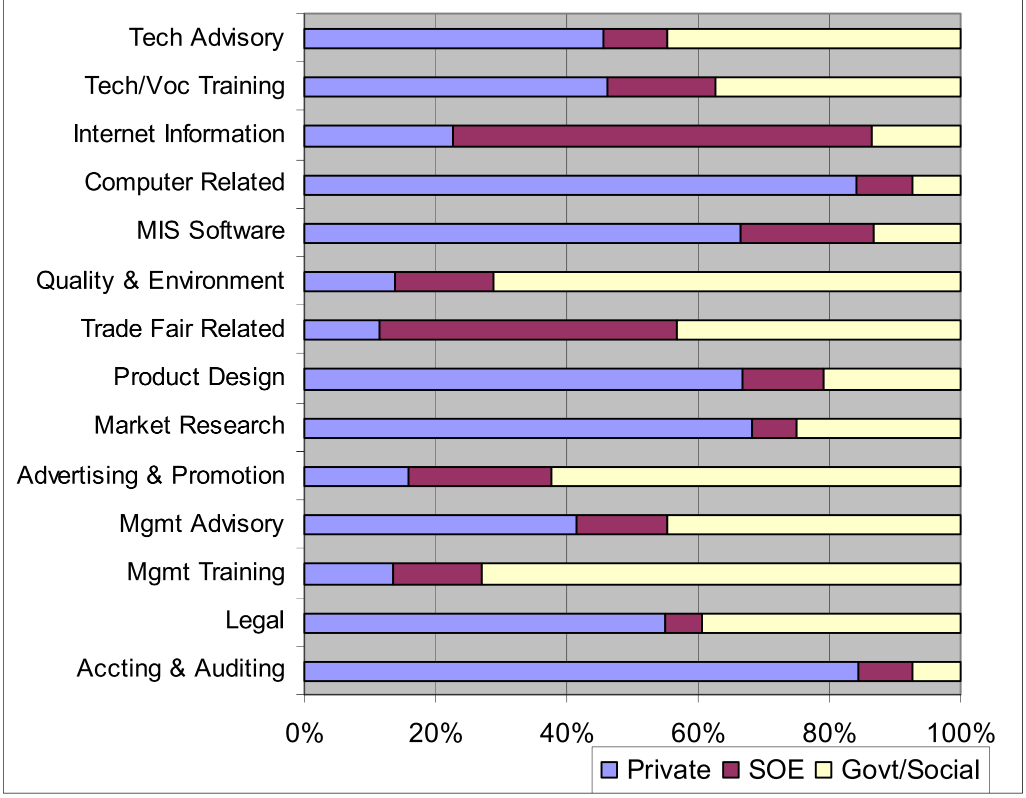
These findings indicate that improving the quality of services in Viet Nam as well as helping suppliers develop products that are appropriate for and desired by SMEs must be a top program priority. The growth of BDS markets will be severely constrained unless suppliers are offering what SMEs want and can deliver the business benefits they promise.

It is important to note that these findings rely only on consumers' perceptions of the available supply of BDS in Viet Nam. Additional information on the supply of services could be gained through direct supplier interviews and observation. This additional research would provide a greater understanding of why suppliers in Viet Nam are not offering appropriate products for SMEs and why services are often not good quality in the eyes of consumers. Supplier interviews would also provide insights into the constraints that suppliers feel in increasing and improving service provision for SMEs. This information could be used to develop interventions to improve the supply of services that would be attractive to the suppliers themselves.

1. Types of Providers

There are a wide variety of types of BDS providers in Viet Nam. Both the private sector and the state sector are important sources of services. Different types of providers are important in different service markets. Figure 3.7 summarizes the types of suppliers for various service markets by dividing them into three categories: private which includes individuals and private companies, state owned enterprises and government/social which includes government agencies, social organizations and donors.

Figure 3.7: Percent of Respondents Who Use Various Supplier Types



Individuals offering services dominate the market for accounting & auditing services and are also important in the markets for market research, product design and technical & vocational training. Private sector firms operate in every service market. They are particularly important in the markets for legal services, market research, product design, MIS software and computer related services. Many of the providers of these services may be private SMEs themselves.

State-owned enterprises also operate in every service market. State owned enterprises dominate the market for Internet Information and are also important in the markets for advertising & promotion, trade fair services and MIS software. Government agencies have at least a minor role in every service market. They are the key player in the markets for advertising & promotion and quality & environmental services. Government agencies also have a 23%-42% share in the markets for legal services, business management training, business management advisory and trade fair services.

Government restrictions in several markets govern the structure of supply. The operation of private sector enterprises in the media or as Internet service providers is restricted; however, these restrictions are loosening, as the government is opening up the market for example in the Internet sector. The survey results on suppliers show that most advertising & promotion services are advertising in the media rather than advertising design services. However, some government agencies provide minor ad design services together with media placement. Private involvement in the advertising and promotion market is creative design services as well as billboard and other non-media advertising. Private internet information services are mainly access to the internet through internet cafés or other private establishments. The government also does not technically allow private sector enterprises to offer management training. However, private enterprises are allowed to offer computer training, language training or in-house training. The involvement of the private sector in management training reflects informal private providers or formal private providers offering management training informally.

Social organizations and donors are not key service providers. However, together they do influence some markets through a minor share in the market. For example, social organizations and donors together have between 15%-27% of the markets for business management training, market research, product design, trade fair services, technical & vocational training and technology advisory services.

2. Location of Providers

Most providers, particularly private providers, are in Ha Noi and HCMC. This means that SMEs from other areas often have to go to the city to purchase services. In particular, there are very few private providers in the provinces in the following markets: legal services, advisory services, trade fair services, market research and technical training and advisory services. However providers in some markets do have branches in the provinces including internet information services, computer services, MIS software services. In addition, some training providers offer training periodically in the provinces. Overall, there is a lack of convenient and accessible supply for some services in many of the provinces.

3. Level of Market Subsidization

Free or subsidized provision of services can often dampen private sector investment in the provision of services for two reasons. First, some potential providers are reluctant to try to compete against free or subsidized services from government, social organizations or donors. Second, the provision of free or subsidized services affects consumers' perceptions of what they should have to pay for services. If an enterprise gets a free or very inexpensive service, his friends and colleagues may be reluctant to pay full cost for the same service.

In Viet Nam, the provision of free services is quite rare. Even most government agencies charge some fees for their services. In most BDS markets, well over 90% of service users have paid for services. However, in three markets the provision of free services is significant: business management advisory, technical & vocational training and technology advisory services. Government agencies, social organizations and donors often offer subsidized services. The markets where these types of providers are prominent may also receive significant subsidies. Figure 3.7 shows which markets have significant involvement from potentially subsidized providers – legal services, quality and environmental services, business management training, trade fair services, technical & vocational training and technology advisory services. Before planning efforts to stimulate these markets, it would be important to understand better the level of subsidies in these markets and how the subsidies are affecting both the demand and supply of these services.

4. Basis of Competition

Understanding how consumers choose a service provider shows on what basis providers compete. Personal recommendations and a provider's reputation are the two most often stated reasons for choosing a particular provider. For accounting & auditing services, where trust is critical, a third of respondents chose a close friend or relation as their provider. Many entrepreneurs make personal visits to suppliers before they make their choice. The relationship that develops between the provider and the entrepreneur is often a decisive factor in entrepreneurs' choices. Because the purchase of a service is based on a customer's trust that the provider will deliver a useful service, personal relationships play a very important role.

Other reasons for choosing a provider that are significant to some respondents are tailored services, reliability and quick provision of the service. Often, entrepreneurs are looking for a package of services related to a specific issue and expect follow-up support from the service provider. Image is also an important factor. Entrepreneurs are looking for providers that appear professional and modern. The prestige of a supplier can also affect consumers' choices.

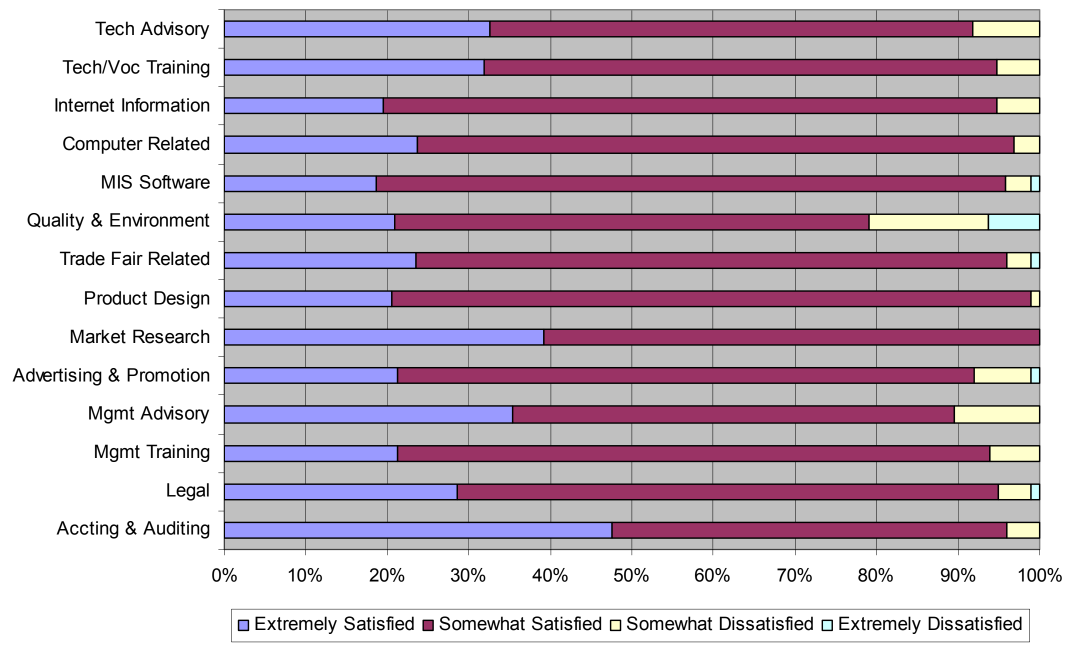
For a few services, a lack of choice is significant, for example in the markets for trade fair related services and quality & environmental services. Interestingly, price was a minor factor in the choice of supplier in most markets with the exception of the accounting & auditing market. For the most part, providers are competing on the basis of a reputation for quality services that will generate personal recommendations and an overall good reputation among consumers.

5. Service Quality

While it is difficult to make an objective assessment of service quality, it is possible to learn what consumers think about the quality of services. If consumers are dissatisfied with the quality of services, this is an important area for program intervention.

Figure 3.8 summarizes customer satisfaction with the services in the study. The figure shows that markets have differing levels of quality in customers' eyes. Customers perceive accounting & auditing services and market research services as being good quality. Almost all customers of these services are extremely or somewhat satisfied. Satisfied customers of these services said that they were able to lower costs or reach new markets as a direct result of the service. Those providers with after sales support and who offered a package of services designed to help entrepreneurs realize a business benefit produced the highest satisfaction. The perception of value – getting a good service at a reasonable price – is also important in satisfying customers. The study shows that there are some providers in every market that do offer quality services that satisfy customers.

Figure 3.8: Customer Satisfaction with Services



However, for many services, quality is a problem. Quality and environmental services stand out as having quite poor quality in consumers' eyes. Over 20% were dissatisfied with the service and only just over 20% were extremely satisfied. Considering that customers often inflate their satisfaction ratings for surveys, the results shows that consumers are not particularly satisfied with quality and environmental services. The modest ratings for extremely satisfied in many markets show that there is considerable room for improving the quality of services in BDS markets.

In focus group discussion, some respondents expressed dissatisfaction with the quality of services. In particular, respondents complained that some providers were not professional, that the quality of service provision declined over time and that providers do not offer services regularly. For example, entrepreneurs purchasing trade fair services felt that they did not get enough help with designing their booths and that there was minimal after sales support. Some respondents felt that the confidentiality of their business information had been compromised by service providers. The focus group discussions also showed that even some of those entrepreneurs who were satisfied with services, were only satisfied because they had low expectations when they purchased the service.

Respondents were particularly critical of Internet services. They noted that the price is higher and the quality lower than other countries in the region. They expressed frustration that the quality of such a vital service was poor. Internet customers want more competition in this market so that they have a wider choice of providers and so that providers are forced to increase service quality in order to attract customers.

IV. Comparative Analysis of Service Markets

Service markets in Viet Nam differ quite widely. BDS markets are at different levels of effectiveness and face different issues. While programs can implement some interventions to stimulate all BDS markets, most interventions should be tailored to specific service markets.

A. Key Marketing Issues

In order to build a market for a business service, consumers must know about the service, understand what the service is, try the service and keep using the service. In marketing terminology, the percentage of consumers who know about the service is called the "awareness ratio." The percentage of consumers who understand the service out of those who are aware is called the "understanding ratio." The percent of consumers who try the service out of those who understand it is called the "reach ratio." The percentage of consumers who continue using a service out of those who tried the service is called the "retention ratio."

Table 4.1 below shows the overall awareness, understanding, reach and retention of business services in Viet Nam. For the survey, respondents were judged aware if they had heard of the service. They were judged to understand the service if they could correctly describe it. "Reach" is all respondents who have ever used the service out of those that understand it. "Retention" is all the respondents who have purchased a service more than one out of those who have tried it. This liberal definition of retention was used because continuing and regular use for a service differs significantly by consumer segment and service type. However, a consumer will only use a service more than once if it is valuable to him/her.

Table 4.1 Awareness, Understanding, Reach and Retention

Services	Awareness	Understanding	Reach	Retention
1. Accounting & auditing services	98%	96%	23%	87%
2. Legal Services	89%	94%	24%	67%
3. Business management training	86%	89%	10%	60%
4. Business management advisory	81%	83%	4%	53%
5. Advertising and promotion	95%	96%	53%	65%
6. Market research	83%	89%	7%	62%
7. Product design	85%	87%	8%	76%
8. Trade fair related services	85%	88%	20%	68%
9. Quality & Environmental services	77%	80%	9%	57%
10. MIS software related services	85%	86%	19%	47%
11. Computer related services	93%	93%	36%	83%
12. Internet information	91%	93%	51%	94%
13. Technical & vocational training	88%	90%	12%	72%
14. Technology advisory services	79%	81%	9%	50%

Table 4.1 highlights the marketing issues in each service market. Those boxes not highlighted indicate market strengths. Yellow (light shading) indicates a moderate marketing problem and red (dark shading) indicates a serious marketing problem.

The table shows that awareness and basic understanding are rarely marketing problems in Viet Nam. The only markets in which awareness is an issue are the markets for quality and environmental services and technology advisory services. Even in these markets, awareness is only a minor problem.

The table also shows that the key problem in most markets in Viet Nam is reach – persuading consumers to try a service for the first time. This problem is particularly acute for business management training, business management advisory, market research, product design, quality & environmental services, technical & vocational training and technology advisory services. There are a variety of reasons for this problem. Entrepreneurs are often naturally risk averse. Many also do not see a need for particular services. The business culture in Viet Nam discourages outsourcing of services. However, a lack of suppliers and appropriate, good quality service products is also a factor. The cost of services may also be a factor in some markets. Those services with generally lower unit costs such as Internet information and advertising and promotion have higher reach rates than those with generally higher unit costs such as training and advisory services.

Overall, retention of customers is reasonable. With the exception of MIS software, the majority of customers that try a particular service continue to use it. The lower rate for MIS software is more likely because it is a new service that is needed infrequently, rather than high dissatisfaction with the service. Almost ninety percent of customers for accounting & auditing services keep using these services. More than 90% of those that try getting information over the Internet continue to do so.

However, a number of service markets also have a problem retaining customers. In some other countries, 80%-90% of customers that try a service once keep using it. However, in Viet Nam, 25%-50% of customers have only used a particular service once. For example, 50% of customers for technology advisory services and 40% of customers for management training services have used these services only once. In part, this is because BDS markets in Viet Nam are young. Some of those who have tried the service once may plan to use it again but purchased it only recently and only need the service infrequently. The survey indicates that this is a factor in the markets for management training, management advisory and MIS software services. It may also be a minor factor in the markets for legal services, quality and environmental services and technical & vocational training. In addition, some services are needed only once – such as quality management services aimed at enabling enterprises to obtain quality management certification. Some entrepreneurs purchase a service only once to learn how to do it and then perform the function in house. However, the reasonably high proportion of customers that stop using particular services indicates that many services need to be improved in order to convince customers to keep using them. In focus group discussions, a key reason many respondents gave for stopping the use of particular services was the poor quality of the services provided. In some markets, there may also be a lack of variety of service products, which would encourage entrepreneurs to purchase services more than once.

Two markets that have quite successfully overcome all four marketing challenges are the markets for computer related services and accounting & auditing services. It would be helpful to talk with suppliers in these markets to learn how they have addressed each of the marketing challenges, particularly persuading consumers to try services and building a loyal customer base.

B. Relative Effectiveness of the Markets

It is possible to roughly order the service markets studied on a continuum from weak to effective. The order is based on overall market penetration and the extent to which markets have successfully addressed the key challenges of awareness, understanding, reach and retention. Looking at the relative strengths of markets can provide an indication of where programs might focus their interventions. The current belief in the international BDS field is that it is best to focus neither on very weak markets, where demand and potential for growth are questionable, nor very effective markets where interventions may distort more than develop markets. The most potential for impact comes from focusing on somewhat weak markets with solvable market weaknesses and clear market opportunities. There are exceptions, however. For example, it may be useful to intervene in a market that is basically effective overall, but ineffective for particular consumer segments or geographic areas. There may also be compelling reasons from a development perspective for intervening in very weak markets. Intervening in very weak markets will require more intense interventions and a longer time frame than other markets.

Figure 4.1: Relative Strength of Vietnamese BDS Markets

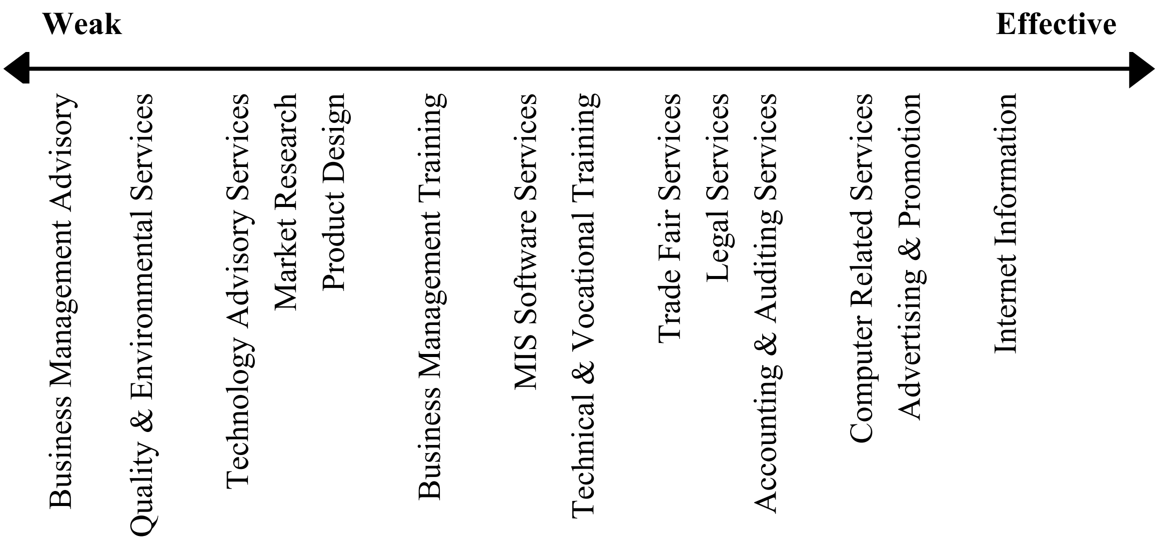


Figure 4.1 shows the approximate relative strength of the BDS markets studied. The strength is judged only on the overall market, rather than each market's performance in reaching particular consumer segments or provinces. If the strength for a particular consumer segment or province is analyzed, the relative position of the markets might change somewhat.

Figure 4.1 shows that three markets are working relatively well: Internet information, advertising & promotion and computer related services. This finding does not mean that these markets are effective; it means that they are relatively more effective than other markets. There are still areas for improvement in these markets, such as increasing customer satisfaction. Nevertheless, these three markets can be a source of learning on how to build other BDS markets.

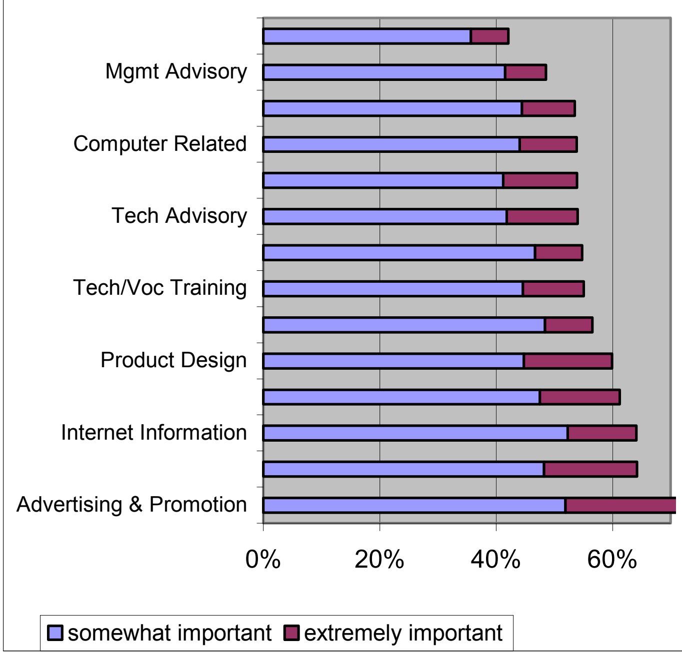
The nine services in the middle of the continuum, all show some serious market weaknesses. They have moderate or low market penetration and moderate or low reach. Some of these markets also have difficulty retaining customers. Many of these markets could be effectively stimulated with outside intervention.

The two weakest markets, quality and environmental services and business management advisory both show serious marketing problems. The market for management advisory services is particularly weak, with only 2% market penetration and only 4% reach[8]. These markets would require a longer time frame for development and multiple interventions to address a variety of market problems. These markets may not be the best choices to start a BDS market development program. They are best tackled once a program has gained experience with better functioning markets.

C. Potential for Growth

Potential for growth of the customer base in a BDS market can be judged by the potential demand of non-users. While no market assessment will give fool proof information on potential demand, one reasonable measure is the proportion of non-users who say a service is important for the competitiveness of their businesses (See Figure 4.2).

Figure 4.2: Percent of non-users who say service is important for competitiveness



It is important to realize that this is only a rough estimate of market potential. Many of the enterprises, particularly those who say the service is only "somewhat" important do not represent potential buyers. Therefore, the figures should not be taken as the absolute proportion of enterprises that will purchase services in the future, but rather a rough gauge of the relative potential for growth in various BDS markets. It is also important to realize that this analysis is not an analysis of demand. Those markets with higher market penetration often have higher demand but show lower potential for growth because more demand is being met than in other markets. This analysis looks only at the potential for

[8] Market penetration is the number of SMEs in the survey that have used a service divided by the total number of SMEs in the survey. Reach is the number of SMEs in the survey that have used the service ever divided by the number of SMEs in the survey who understand the service. While market penetration is a bottom line indicator of market development, the reach ratio isolates the problem of "trial," the extent to which SMEs are willing to try a service that they understand.

turning non-users into users. It does not consider other objectives of market development such as providing current users with better services.

The figure indicates that those markets with the most potential for increasing market penetration are advertising & promotion, market research and internet information. Others markets with reasonable potential are accounting & auditing and product design services.

How much of this potential might be realized by program interventions? The survey indicates why those non-users who say a service is extremely important do not actually buy it. Those entrepreneurs who stated a reason that is addressable by the program such as they can not find a suitable supplier or the service is too expensive are strong potential customers that the program can target. Those who stated reasons such as the service function is not required in their business are probably not potential customers in the short term. Using this analysis, a program could help realize a relatively high proportion of the potential demand for the following services: advertising & promotion, market research, trade fair related services, MIS software services, Internet information and technology advisory services. Many potential users do not purchase a service because they perform the function in-house. If a program can address this reason by making it more attractive to outsource services, then it could also help realize a reasonably high proportion of the potential demand for product design services, computer related services and technical training.

Combining the two analyses above, the markets with the highest growth potential from program interventions are: advertising & promotion, market research and Internet information.

D. Categorization Demand/Supply[9]

When designing a program, it is helpful to know not just if a market is weak or strong but also if demand is weak or strong and if supply is weak or strong. Being able to categorize the market both by demand and supply can help with program design. For example, in a market with strong supply but weak demand, a voucher program might be appropriate to help persuade SMEs to try the service. But in a market with weak supply and strong demand, technical assistance to suppliers, product development and/or efforts to help start up suppliers are more appropriate to increase and improve available product offers. Table 4.2 provides some illustrative suggestions for the types of interventions that might be appropriate in the four different types of markets: strong demand and strong supply, strong demand and weak supply, weak demand and strong supply and weak demand and weak supply.

[9] Portions of this section have been reprinted from "Assessing BDS Markets – What Have We Learned So Far?" by Alexandra Miehlbradt for the International Labour Organization: December, 2001.

Table 4.2 Illustrative Interventions in Different Types of Markets

Supply / Demand	Strong	Weak
Strong	▪ No intervention	▪ Technical assistance to suppliers ▪ Product development ▪ Help start new suppliers ▪ Promote supplier franchising
Weak	▪ Voucher program ▪ Provision of information to consumers ▪ Promote "third-party paid-for" services ▪ Promote trial inducing marketing (e.g. coupons, one free trial, demonstrations) ▪ Promote customer referral marketing	▪ Multiple interventions on both demand and supply side ▪ Promote embedded services

In the sense used here, "weak" demand means that only a few SMEs are currently ready to purchase service. The reasons why many SMEs are not ready to purchase services may be different in different markets. For example, SMEs may not be aware of services, may not think the services are important or may not have information about suppliers. "Weak" demand may be the result of a few or many factors. When analyzing why demand is "weak," it is important to determine what aspects of demand a program can address, such as lack of information, and what aspects a program can not address such as many SMEs do not want the service or find it irrelevant to their businesses. Markets can work when only a few SMEs want the service; they can become niche markets served by a few suppliers. However, in order to achieve outreach, many programs may want to focus on markets with higher demand – where SMEs may want the service—but demand is weak due to other factors such as lack of information or difficulty paying up front.

In the sense used here, "weak" supply means that supply is not responding to demand. Again, this may be for a variety of reasons. There may not be enough suppliers. Suppliers may not be offering products that SMEs want. Suppliers may not be marketing their products effectively or may not be running their businesses well. As with demand, it is important for a program to pinpoint why supply is weak before designing a program.

Market assessment data can provide the information for categorizing market demand and supply as strong or weak. When determining the level of demand and supply, the more assessment information is available the better. The most accurate categorization will result from a market assessment that includes both quantitative and qualitative consumer research as well as supplier interviews or other research targeted at the supply side. However, it is possible to roughly categorize markets based solely on quantitative consumer research. Figure 4.3 plots the markets in Viet Nam on a demand and supply grid. Market penetration for each service is provided for reference.

The level of demand relies on the following three variables:

- SMEs' awareness of services
- SMEs' assessment of how important each service is for their business to be competitive

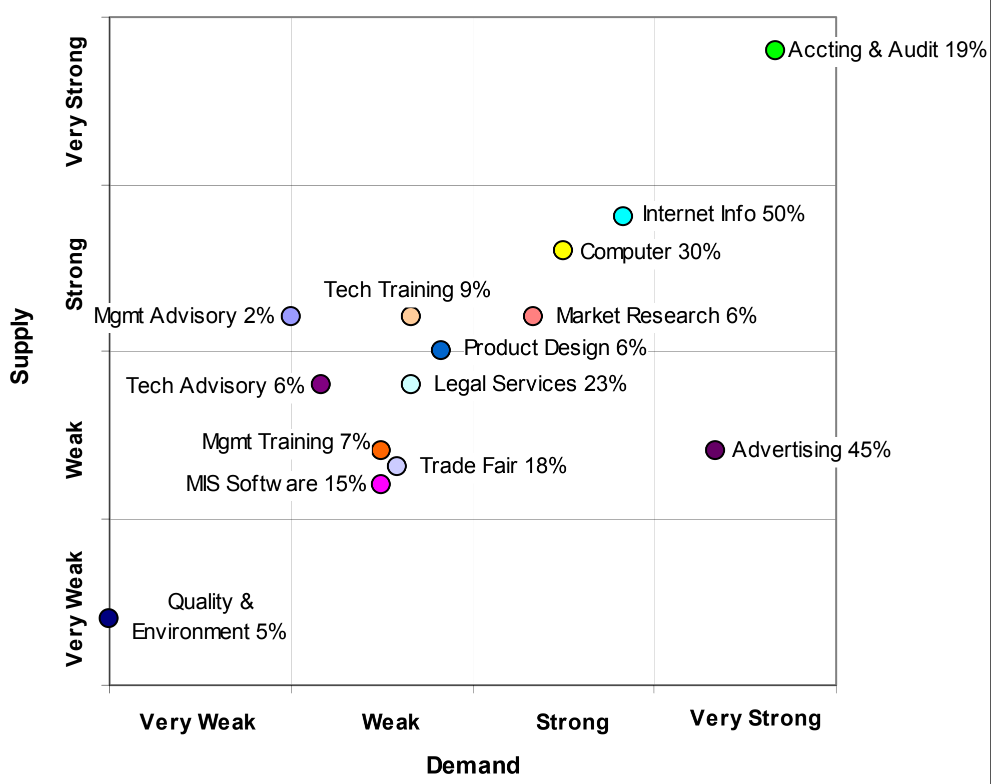
- The percent of non-users whose reasons for not purchasing the service are potentially "actionable" by a program (i.e. responses other than "Service function not required" and "Yet to face any problem with that function.")

The level of supply relies on the following three variables:

- Each service's retention rate (the percent of SEs that use a service more than once out of those that use it once)
- SMEs' stated satisfaction level with services
- The percent of SME users that said they choose their supplier because it was the only one they knew; this is a negative point because it shows a lack of choice and a lack of competition among supplies

Based on these variables, a rating was calculated for demand and supply in each market. It is important to note that Figure 4.3 shows the relative position of various markets in Viet Nam on the grid. In other words, the markets were compared only with each other in the context of Viet Nam, rather than markets in other countries or an absolute standard of market development.

Figure 4.3: Categorizing BDS Markets



The graph illustrates a relative characterization of each market in terms of the level of demand and supply. It shows, for example, that there is strong demand for advertising & promotion services but weak supply. Therefore, this market could benefit from interventions such as technical assistance to suppliers, product development and an improvement in the legal and regulatory framework for supplying these services. While the supply of technical training is relatively strong, the demand is somewhat weak. Therefore, this market could benefit from demand stimulation interventions such as customer referral marketing or a social marketing campaign. The market for MIS software has somewhat weak demand and somewhat weak supply. Therefore, interventions would need to address both parts of the market. The market for accounting and auditing services has very strong demand and supply. Therefore, any intervention in this market should be careful not to distort what is already working in the market and should narrowly target consumer segments or areas where there are clear market weaknesses.

This analysis only represents the overall situation of supply and demand in the six areas studied. The grid will look somewhat different for particular areas studies. For example, the market for accounting and auditing services in Hai Phong shows both weaker demand and weaker supply than the overall data. Both demand and supply for market research services are weaker in Dong Nai. Developing this market in Dong Nai would require more intense interventions than in other areas.

E. Key Factors in Developing Specific Markets

There is considerable variation among service markets in Viet Nam with respect to the effectiveness of the market and the key market issues. While it is possible to design a program that develops several BDS markets, it is helpful to tailor interventions to specific service markets. Below, key factors in building specific markets are discussed. Because issues common to many markets are discussed in other sections of the report, the focus below is on issues unique to each market.

1. Accounting & Auditing

Accounting and auditing is already a relatively strong market. Interventions in this market should be light and narrowly target specific market issues.

The key reasons why enterprises outsource accounting & auditing services are to decrease costs, to comply with laws and regulations and because they lack the capability to perform the function in house. The key reason why some enterprises do not outsource accounting & auditing services is because they perform these functions in house. Therefore, service suppliers should advertise their capacity to perform a critical business function at a reasonable cost and higher quality than in-house. Service suppliers should also emphasize how they can help enterprises comply with regulations in an efficient manner. In order to generate repeat users and positive word of mouth referrals, suppliers must assure confidentiality of customers' business information and provide regular service with good follow-up.

2. Legal Services

The demand and supply of legal services is reasonable. Interventions should focus on both the demand and supply sides but do not need to be very intense. Rather interventions should narrowly target specific market issues.

Enterprises purchase legal services in order to comply with laws and regulations as well as because they lack in-house capability to perform needed legal functions. The main reason why enterprises do not purchase legal services is because they have not had any legal problems. Quite a few enterprises only use legal services when they face a particular legal issue such as incorporation or changing from one business type to another. To build this market, suppliers must show enterprises how legal services can help them comply with laws at a moderate cost and how legal services can help enterprises with various issues, not just once but regularly. Persuading enterprises to use services regularly may encourage them to try different legal products rather than only legal advice and assistance with legal compliance. One way for suppliers to encourage regular use is to provide regular updates on legal issues. One satisfied legal customer said, "I have always been updated on all newly issued regulations." Regular use by current customers will encourage word of mouth referrals that will also contribute to building a bigger customer base.

3. Business Management Training

Both the demand and supply of business management training services is relatively weak. Interventions to build this market must target both supply and demand and be reasonably intense. Reaching smaller enterprises will likely require development of appropriate payment mechanisms and promotion of embedded or informal supply.

The key reason that enterprises purchase management training is to help them handle business growth and/or increasing competition. The majority of non-users do not feel that this service is necessary or have not faced any management problems in their businesses. Therefore, suppliers should specifically target growing enterprises, and sectors with increasing competition. Personal referrals are a big factor in building demand. Therefore, customer satisfaction must be a priority. Customers want practical training, experienced trainers and the integration of information updates on current business issues.

This market is more distorted than most, with both users and non-users expecting training to be partly subsidized. The donor and government community should cooperate to gradually lessen distortion in this market and use funds for activities that will sustainably develop the market without subsidizing transactions.

4. Business Management Advisory

While the supply of business management advisory services is relatively strong, demand is quite weak. Efforts to develop this market should focus on demand stimulation, developing new products which are appropriate to different consumer segments and promotion of embedded supply.

Enterprises purchase business management advisory to help them handle business growth or reorganization. Suppliers should target enterprises that are growing or experiencing a reorganization. Many non-users do not feel any need for this service. The key competition for suppliers is informal advice provided by family and colleagues. Therefore, increasing the supply of advisory services embedded either within the provision of other services or through other business relationships may be one way to increase consumer acceptance of this service.

5. Advertising & Promotion

While the demand for advertising & promotion services is very strong, supply is somewhat weak. Therefore, efforts to develop this market should focus more on the supply side. One of the key issues in the supply of advertising & promotion services is government control of the media which means government has a monopoly on ad space. This control could also mean that government employees get a reasonable share of ad design services which they perform informally when customers want to place media ads. The control limits service quality and consumer choice as well as discouraging private sector investment in advertising & promotion services.

The key reason why enterprises purchase advertising or promotional services is to gain new customers. Demand stimulation should focus on disseminating case studies of enterprises gaining new customers by using advertising & promotional services. Suppliers must be able to prove their capacity to help enterprises get new customers. The key reasons why enterprises do not use this service is because they do it in-house and it is too expensive. To attract customers, suppliers need to offer cheaper service products and promotions for first time use. Satisfaction with these services is relatively low. Consumers want suppliers to provide more creative ideas, more attractive ads and better after sales follow up. One dissatisfied customer said, “The after-sales service is not good or even not yet offered; this type of service should be improved a lot."

6. Market Research

The demand and supply of market research services is reasonable. However, market penetration is still quite low for several reasons. Awareness and understanding of services is slightly lower than in other markets. Reach is very low possibly because it is a relatively young market and the unit cost of services is quite high. Stimulating demand for market research should focus on helping entrepreneurs understand the specific benefits that can result from outsourcing this service. Improving supply should focus on developing low cost introductory products.

Enterprises purchase market research services with the aim of increasing their customer base. Non-users mainly do not see a need for the service or perform market research in-house. The most likely new customers are those that perform the service in-house. One customer explained why he shifted from doing market research in house to outsourcing, “I used to have the market research done by my employees, but you know they are not professional market researchers so, I decided to have this work done by outsiders.” Suppliers could encourage more enterprises to make this shift by offering low-cost introductory products and emphasizing the difference better quality market research will make to companies’ profits.

7. Product Design

The demand and supply of product design services is slightly weaker than those for market research. Market penetration is low for similar reasons. Developing the market for product design services should focus on improving suppliers’ capacity to deliver high quality services and encouraging enterprises to try outsourcing this service.

Enterprises mainly purchase product design services because they aim to increase their customer base and lack the in-house capability to perform this function. Non-users either do not see the relevance of this service to their businesses or perform the function in-house. There is considerable distrust among consumers of product design suppliers. Both users and non-users worry that suppliers will not keep product designs confidential. Consumers also feel that some product designers lack creativity or do not develop products that match a company's image. Developing this market requires simultaneously helping suppliers to provide better quality services and improving consumers' image of these services. Greater enforcement of copyright laws would also increase consumer confidence that they can reap the profits from new product designs.

8. Trade Fair Participation Arrangement and Advisory Services

Both the demand and supply of trade fair related services are currently quite weak. However, market penetration is reasonable because many enterprises have been willing to try this service once. Developing this market should not only focus on bringing in new customers but also encouraging repeat use of trade fair services.

Enterprises go to trade fairs to increase their customer base and develop business partnerships. They expect related services to help them generate new customers and potential business partners through trade fair participation. The majority of non-users do not see the need for the service. However, focus group discussions showed that many enterprises do not have enough information about trade fairs to confidently choose one that would be most appropriate for them. They also do not feel confident that they would be able to use the trade fair effectively. Trade fair related services must go beyond mere logistical arrangement. They should help enterprises choose the right trade fair and use the trade fair effectively to generate new customers and business partners. Efforts to stimulate demand should make use of success stories.

9. Quality & Environmental Management and Advisory Services

The market for quality & environmental services is currently extremely weak among private sector SMEs. Awareness, understanding and retention are all lower than in other markets. This market is still in its infancy. Efforts to develop this market should focus on high potential consumers who will be the "early adopters" of this service. Once the service has been purchased by more "early adopters," demand stimulation can widen to encourage broader consumer acceptance of the service. Supply must also be improved to ensure that consumers get what they expect from services and are satisfied enough to recommend the service to others.

The main reason why enterprises purchase this service is for obtaining certification. Most non-users do not see the relevance of the service to their businesses or have not faced any problems with this function. Demand stimulation should be forward-looking, showing consumers how these services can help them compete in an economy increasingly integrated with world trade. For example, suppliers should target companies involved in export who may require this service in order to sell to international buyers. Satisfaction with this service is relatively low. It will be important to determine the reasons for dissatisfaction and help suppliers make the necessary improvements in their services.

10. MIS Software Purchase and Support Services.

The market for MIS software is relatively weak on both the demand and supply sides. However, the high level of computer integration in businesses in Viet Nam has helped this market achieve 15% market penetration. Retention is very low, probably due in large part to this market being very young. Efforts to stimulate demand should focus not only on bringing in new customers but also on encouraging repeat use of MIS related services.

The key reason why enterprises purchase MIS software is to help them handle growth in their businesses. When customers purchase MIS software, they expect to get more accurate and more relevant information from their businesses on a regular basis. They expect that these improvements will help them lower their costs and increase their ability to compete. Non-users do not see the relevance of the service to their businesses or have not faced any problems with managing information in their businesses.

Both users and non-users generally want a package of services – the software along with training and technical assistance in its use. They want advice to go beyond the technical aspects of using the software and include how to use information to increase their profits. While some businesses will want comprehensive service packages, others may be satisfied with some advice and suggestions at the point of sale as well as a follow-up phone call to address any problems with the software. Efforts to stimulate demand for this service should focus on those customers that have already experienced positive benefits in their businesses from other types of computer use or services.

11. Computer Related Services

The market for computer related services is quite strong on both the demand and supply sides. Many businesses in Viet Nam recognize the importance of computers in their businesses to improve their ability to compete in a number of different ways. Private sector suppliers have responded to demand with a range of services that enterprises want.

Enterprises outsource computer related services because they lack the in-house capability to address their computer related problems. They expect services to save them time and money. Those that do not purchase this service either perform it in-house or do not need it, most likely because they do not use computers in their businesses. Building demand for computer related services should be linked with computer hardware suppliers. The most likely new users of computer related services are those that have just purchased a computer. Supply should be improved by increasing both reliability and the speed at which suppliers respond to requests from companies.

12. Information Seeking Through Internet

This is one of the strongest markets due to a high integration of computers in businesses and reasonably low unit cost. Demand is quite strong. Supply is available but there are significant problems with quality and price. The government controls internet service supply through government agencies and state owned companies. Consumers feel that the price of services is too high, choice is limited and the quality of service provision is low. For this service, market development should focus on addressing these supply side issues.

Customers seek information on the Internet for a variety of reasons. They aim to get business information about trends, prices, markets, competitors and technology. They aim to gain new customers and reduce costs of communication. Seeking information helps them develop their businesses and better handle increasing competition. For example, one customer said, "You see, my firm is a trading one. Using this service has helped us a lot to get updated information about the market, the trend of prices of our products, etc.." Another customer said, “By having a walk on the internet, my company has found both domestic and international consumers." While many non-users do not feel the need for the service, a significant proportion either can not find a good supply or think the service is too expensive. There is little need to stimulate demand in this market. The high level of consumer acceptance is encouraging more enterprises to try the service without external efforts.

However, dissatisfaction with services is very high. One customer said, "The price of the service is much higher in comparison with other countries. I have expected a lower price of the service and more service suppliers so that I will be able to choose one among them." Customers complain that internet access is slow, the price is very high and there is not enough Internet content in Vietnamese and specific to Vietnamese companies. Increasing competition in this service would help to address many of these complaints. In addition, programs can play an important role in helping content providers increase the availability of Viet Nam focused information offered in Vietnamese.

13. Technical and Vocational Training

While the supply of technical and vocational training services is reasonable, demand is somewhat weak. Efforts to develop this market should aim to stimulate demand and help suppliers offer products that are more relevant to enterprises in specific sectors.

Enterprises purchase technical training to help them compete and they expect that the training will concretely improve their capacity to compete. For example, one customer said “With trained staff, our products have been able to compete with products of other companies in the same field especially the foreign ones. In other word, I am very satisfied with the service provided.” Those that have not purchased this service generally do not see the relevance to their businesses or do their training in-house. Demand for this service could be stimulated by disseminating case studies such as the one of the customer above. Supply could be improved by developing new training courses that would be appropriate for different types of enterprises and also by integrating current information on products into training courses.

To a certain extent, the demand for this service is being dampened by employees’ tendency to leave for a better job once they have been trained. Employers do not believe in contracts that require their workers to stay for a certain period of time after training, either because the workers are not registered or because they think the contracts will not be enforced. At the policy level, improving mechanisms to enforce contracts as well as encouraging enterprises to register workers will help address these issues.

14. Technology Advisory Services

The market for technology advisory services has quite weak supply and demand. Awareness and understanding of this service is somewhat lower than other services. However, the ineffectiveness of the market results mainly from two factors – the services currently provided are not relevant to many enterprises and supply of advice about many types of technology is not available. Efforts to develop this market should target high potential consumers and increase the ability of suppliers to respond to a wider range of inquiries.

Enterprises seek advice on technology in order to make sure that new technologies help them improve productivity and compete effectively. For example, one customer said, "My company's manufactured covers have met international standards so that we are able to sell them to foreign companies." Another said, "It helps us to increase my company's productivity, gaining big profit." Most non-users do not see the relevance of the service. Interventions to develop this market should identify enterprise sectors where new technologies are a significant issue. Programs can then help technology advisory suppliers gain access to information on technologies in these sectors and target these sectors with their marketing efforts.

F. Recommendations

The study indicates that the service markets which have the highest potential to respond to program interventions are: business information, IT related services including Internet information, computer related services and MIS software related services, and market related services including market research, product design, trade fairs and advertising & promotion. Most of these services enjoy relatively strong demand. They also show reasonable potential for growth. Each of these markets has an existing base of demand and supply on which a program could build. In addition, each of these markets is experiencing constraints to growth that a program could address.

The markets for accounting & auditing as well as legal services also show some potential to grow as a result of program interventions. Particularly in the market for accounting & auditing services, however, a program should be careful not to distort the many aspects of the market that are already functioning well.

Based on the study findings, the other markets will be more difficult to develop. Interventions will need to be more intense and a longer time frame will be needed. Interventions in these markets should be targeted towards high potential consumers and help suppliers develop very clear service benefits that address priority business issues for particular types of enterprises.

V. Analysis of the Areas Studied

Not all of the six provinces included in the study have exactly the same market issues. The overall results of the study represent the issues in Ha Noi and HCMC quite well. However, each of the other areas has market development issues that are unique. These findings, summarized below, indicate that it is important for programs to adapt a BDS market development program to the specific issues present in each area.

A. Market Size by Area

The markets in HCMC and Ha Noi are much larger than the provincial markets. Together, HCMC and Ha Noi represent 92% of the total expenditure on the BDS studied in the six provinces (Figure 5.1). However, greater expenditure in HCMC and Ha Noi is not due to consistently higher market penetration or consistently higher amounts spent by customers. It is due to the much higher number of enterprises in the cities as compared to the other areas (Table 5.1).

Figure 5.1: Market Size by Location in VND

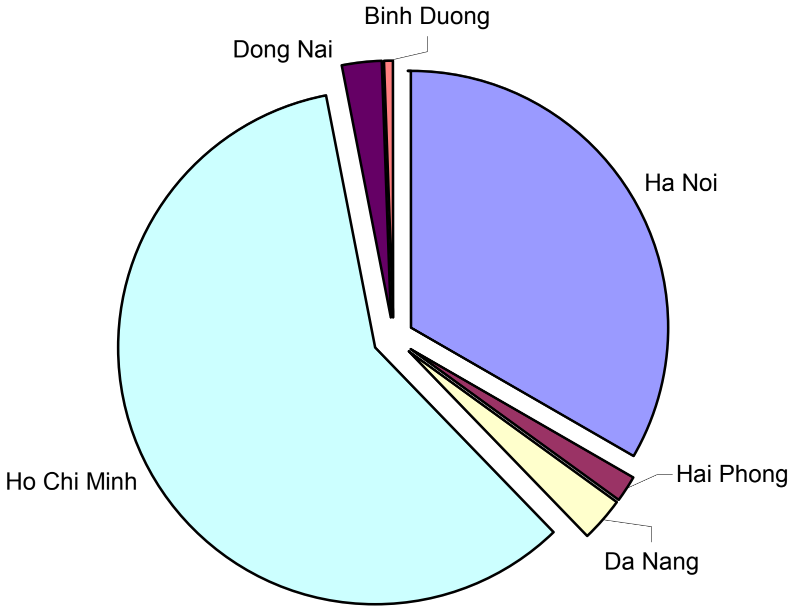


Table 5.1 # of Enterprises per Area

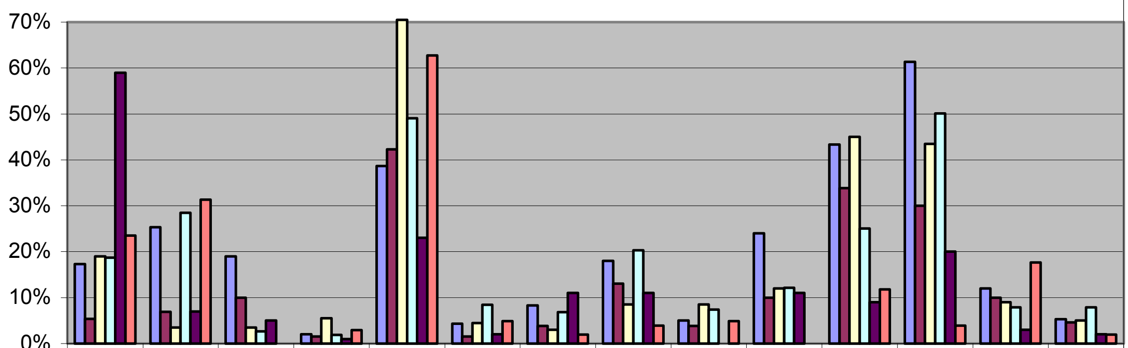
City/Province	# of Enterprises
Ha Noi	10,933
Hai Phong	1,338
Da Nang	2,127
HCMC	23,485
Dong Nai	1,001
Binh Duong	1,123

In many provincial areas, there are only a few users for particular services. For example, only 37 enterprises in Da Nang have used legal services and only 21 enterprises in Dong Nai have used market research services. The implication is that it will be difficult to encourage private investment in service provision for some services outside of the cities. In order to develop the availability of services in provincial areas, it will be better to consider business models in which a supplier can serve a number of different areas.

B. Market Penetration by Service by Area

While there is considerable variation in market penetration by area, no one area stands out for consistently higher market penetration. (Figure 5.2) It appears that the integration of computers into enterprises is higher in the cities. IT related services (MIS software, computer related services and Internet information) generally have higher market penetration in Ha Noi and HCMC. Market penetration in Dong Nai is usually lower than in other areas, but it is higher for accounting & auditing and product design. Market penetration in Binh Duong is often lower than other areas, but it is relatively high for accounting & auditing, legal, advertising & promotion and tech/voc training. This higher market penetration may be due to less in-house capacity to produce services than in other areas. While Ha Noi and HCMC do not stand out as having particularly high market penetration for any given service, they have reasonable market penetration across a wide variety of services.

Chart 5.2 Market Penetration by Province



	Accting & Audit	Legal	Mgmt Training	Mgmt Advisory	Advertise & Promote	Market Research	Product Design	Trade Fair	Quality & Environ.	MIS Software	Computer	Internet Info	Tech/Voc Training	Tech Advisory
Ha Noi	17%	25%	19%	2%	39%	4%	8%	18%	5%	24%	43%	61%	12%	5%
Hai Phong	5%	7%	10%	2%	42%	2%	4%	13%	4%	10%	34%	30%	10%	5%
Da Nang	19%	4%	4%	6%	71%	5%	3%	9%	9%	12%	45%	44%	9%	5%
HCMC	19%	29%	3%	2%	49%	8%	7%	20%	7%	12%	25%	50%	8%	8%
Dong Nai	59%	7%	5%	1%	23%	2%	11%	11%	0%	11%	9%	20%	3%	2%
Binh Duong	24%	31%	0%	3%	63%	5%	2%	4%	5%	0%	12%	4%	18%	2%

It appears that one factor which may affect market penetration is the types of suppliers in a particular area. The prevalence of private sector companies appears to correlate with market penetration. In general, a higher proportion of users purchase from private sector BDS suppliers in the cities than the provinces. Those provinces that have a relatively higher proportion of private sector companies for a particular service tend to have somewhat higher than average market penetration. However, sometimes another type of supplier, such as a social or professional association, state owned companies or, occasionally, donor supported projects appear to boost market penetration, making up for relatively under developed private sector supply. In general, markets that are dominated by individuals, indicating a mainly informal supply of services, tend to have lower than average market penetration. This seems to show that as markets develop they tend to generate more formal suppliers. There are other factors that also affect market penetration; they are discussed in the next section.

C. Key Issues by Area

While there are some findings which are common throughout the areas studied, there are also some variations per province that are worth noting. This section highlights those BDS market issue in each province which are different from the common findings and which would affect the design of a BDS market development program.[10]

[10] Retention has not been calculated by area because the sub-sample base for calculating this ratio is usually too low to make the figures of reasonable statistical significance.

1. Ha Noi

Table 5.2 Awareness, Understanding and Reach in Ha Noi

Service	Awareness	Understanding	Reach
Accting & Auditing	95%	97%	19%
Legal	91%	95%	29%
Mgmt Training	84%	94%	24%
Mgmt Advisory	74%	83%	3%
Advertising & Promotion	95%	97%	42%
Market Research	83%	92%	6%
Product Design	87%	90%	11%
Trade Fair Related	87%	92%	23%
Quality & Environment	70%	79%	9%
MIS Software	87%	93%	30%
Computer Related	95%	96%	47%
Internet Information	94%	97%	67%
Tech/Voc Training	87%	92%	15%
Tech Advisory	75%	85%	8%

For the most part, the general findings of the study also apply to Ha Noi. However, Figure 5.2 highlights some interesting findings with regard to reach. Ha Noi has significantly higher reach than other areas for management training and for IT related services. This higher reach is responsible for the higher market penetration for these services in Ha Noi. The high reach for IT services probably reflects a higher level of computer integration in businesses than in some other areas. It would be helpful to explore the reasons for the higher reach for management training in order to provide lessons that might be applied in other areas.

Entrepreneurs in Ha Noi generally place a higher value on services than entrepreneurs in other areas. Relative to other areas, entrepreneurs in Ha Noi rarely do not use a service because they have not faced a problem with that function. Instead, their reasons for non-use tend to be either that they do not need the function in their enterprises or they do the function in house. Satisfaction with services in Ha Noi is lower than in other areas. It is difficult to know if this is because entrepreneurs in Ha Noi are more difficult to please or the supply of services in Ha Noi is of poorer quality than in other areas. Either way, improving customer satisfaction is a particular priority in Ha Noi.

Similar to the overall findings, the key priorities in Ha Noi must be to increase reach and improve service quality. IT related services may have particular potential in Ha Noi as the consumer acceptance rate is sufficiently high to encourage rapid market growth.

2. Hai Phong

Table 5.3 Awareness, Understanding and Reach in Hai Phong

Service	Awareness	Understanding	Reach
Accting & Auditing	56%	82%	12%
Legal	30%	85%	27%
Mgmt Training	38%	78%	33%
Mgmt Advisory	22%	66%	*
Advertising & Promotion	77%	91%	60%
Market Research	18%	*	*
Product Design	20%	81%	*
Trade Fair Related	36%	81%	45%
Quality & Environment	18%	*	*
MIS Software	34%	84%	35%
Computer Related	65%	92%	57%
Internet Information	64%	93%	51%
Tech/Voc Training	34%	80%	37%
Tech Advisory	23%	67%	*

* indicates that the sub-sample base is too low to calculate the ratio with a reasonable level of statistical significance.

The BDS market issues in Hai Phong are unique. This area is very different from the other areas included in the study. Figure 5.3 shows some of the key differences. Basic awareness about services is much lower in Hai Phong than in other areas. For example, awareness of market research services is only 18%. Understanding of services, even when enterprises are aware of them, is a little lower than other areas. The implication is that, unlike other areas, raising basic awareness and understanding of services in Hai Phong must be a market development priority.

However, once entrepreneurs understand services in Hai Phong, they try them to a much higher degree than in other areas. This finding is reflected in the data on reach in Figure 5.3. For example, reach for technical and vocational training is 37% compared to an overall average for all areas of just 12%. It is possible that this important difference can be attributed to a sharp contrast in business culture between Hai Phong and other areas. Historically, business people in Hai Phong start their businesses with a higher level of savings than in other areas. Businesses are older than those in other areas. There is a strong entrepreneurial culture. Entrepreneurs tend to be less risk averse and spend money more easily than in other areas of Viet Nam. The business culture is reflected in Hai Phong entrepreneurs' reasons for using services. Relative to other areas, they seem to be more open to persuasion, responding to advice from friends and colleagues more readily than in other areas. Economically, Hai Phong is also better off than other areas. Growth is higher and the government in Hai Phong is actively promoting SMEs through tax incentives and infrastructure development. It might be helpful to look more closely at the business culture and economy of Hai Phong to see if there are any lessons that can be applied to demand stimulation in other areas.

However, it appears that supply has not responded adequately to the strong demand in Hai Phong. Although customers in Hai Phong tend to be more satisfied with services than in other areas, a higher proportion than in other areas choose their supplier because there is no other choice. In addition, a higher proportion of non-users in Hai Phong than in other areas report that they have not used particular services because they can not find a suitable supplier. A higher proportion of non-users than in other areas also report that they do not purchase particular services because they are too expensive. This may be partly because they have to purchase services from suppliers in Ha Noi or HCMC.

Overall, Hai Phong appears to be the most promising area for program intervention because the market issues in Hai Phong are more easily addressed than in other areas. An awareness raising campaign could significantly increase awareness and understanding of services. Because reach is at a reasonable level, this effort alone would likely significantly stimulate demand. Encouraging investment in the supply of services in Hai Phong is likely to be easier than in other areas because of the strong demand, particularly if coupled with an awareness raising campaign. An increase in the level of supply is likely to increase the number of transactions in BDS markets, even without an increase in service quality.

3. Da Nang

Table 5.4 Awareness, Understanding and Reach in Da Nang

Service	Awareness	Understanding	Reach
Accting & Auditing	100%	99%	19%
Legal	96%	80%	5%
Mgmt Training	98%	73%	5%
Mgmt Advisory	98%	66%	9%
Advertising & Promotion	100%	97%	73%
Market Research	98%	74%	6%
Product Design	98%	67%	5%
Trade Fair Related	97%	76%	11%
Quality & Environment	96%	64%	14%
MIS Software	98%	66%	19%
Computer Related	100%	83%	54%
Internet Information	100%	79%	55%
Tech/Voc Training	99%	75%	12%
Tech Advisory	95%	62%	9%

The key difference between Da Nang and other areas is that demand is weaker and more difficult to address through program interventions. While awareness of services is extremely high in Da Nang, understanding is lower than in the cities. Entrepreneurs in the survey frequently gave the wrong definition for services or confused one service with another. Although reach for advertising & promotion as well as computer related services is significantly higher than the average, reach for accounting & auditing, legal services, management training, trade fair related services is relatively low.

Although understanding could be increased through a well targeted consumer information campaign, other demand issues are not so easily addressed through program interventions. A significantly higher than average proportion of entrepreneurs in Da Nang state that they do not use particular services because they are not required in their businesses. Often three quarters of non-users give this reason. The perceived value of services for business competitiveness is also significantly lower than other areas.

While many of the general findings of the study apply to Da Nang, a BDS program in this area will require a most sustained demand stimulation effort. Demand stimulation in Da Nang must not only address understanding of services but also a well-rooted belief that services are not necessary to businesses.

4. Ho Chi Minh City

Table 5.5 Awareness, Understanding and Reach in HCMC

Service	Awareness	Understanding	Reach
Accting & Auditing	98%	97%	20%
Legal	100%	99%	29%
Mgmt Training	98%	93%	3%
Mgmt Advisory	96%	88%	2%
Advertising & Promotion	100%	95%	52%
Market Research	97%	91%	10%
Product Design	98%	92%	8%
Trade Fair Related	98%	91%	23%
Quality & Environment	94%	88%	9%
MIS Software	96%	90%	14%
Computer Related	99%	94%	27%
Internet Information	98%	97%	53%
Tech/Voc Training	99%	94%	9%
Tech Advisory	94%	85%	10%

For the most part, the general findings of the study also apply to HCMC. This is perhaps the best developed market because of the large number of enterprises in HCMC and a relatively well developed supply.

The somewhat higher level of BDS market development is reflected in the study findings. Awareness of services is higher in HCMC than other areas. Understanding is also somewhat higher in HCMC than other areas. However, reach is not consistently higher in HCMC. In fact, for some services, such as accounting & auditing, management training and computer related services, it is actually slightly lower than the average for all areas. Nevertheless, a wider variety of BDS is purchased in HCMC because the greater number of enterprises and suppliers produce a more diverse market.

In general, entrepreneurs in HCMC have a higher level of satisfaction with services than in other areas. This may be partly because they are easier to please than entrepreneurs in other areas but also may reflect more competition and a higher quality of supply in HCMC relative to other areas. In HCMC, entrepreneurs' reasons for non-use are generally that the service is not required or that they do it in house. A lower proportion state that they have not faced any problems with that function in their business than in other areas.

Similar to the general findings of the study, the market development priorities in HCMC are to increase reach through targeted demand stimulation among high potential clients and to increase the quality of supply. Interventions to develop BDS markets in HCMC should be careful not to distort what is working well in these markets. Suppliers in HCMC can provide a resource for the development of supply in other areas.

5. Dong Nai

Table 5.6 Awareness, Understanding and Reach in Dong Nai

Service	Awareness	Understanding	Reach
Accting & Auditing	91%	98%	66%
Legal	92%	99%	8%
Mgmt Training	92%	97%	6%
Mgmt Advisory	92%	93%	1%
Advertising & Promotion	92%	98%	26%
Market Research	92%	98%	2%
Product Design	92%	97%	12%
Trade Fair Related	92%	97%	12%
Quality & Environment	91%	96%	0%
MIS Software	91%	96%	13%
Computer Related	92%	98%	10%
Internet Information	91%	97%	23%
Tech/Voc Training	92%	98%	3%
Tech Advisory	91%	98%	2%

Enterprises in Dong Nai tend to have somewhat lower turnover than other areas. In addition, entrepreneurs tend to have somewhat less education. These two factors may contribute to somewhat lower market penetration in Dong Nai relative to other areas. Despite this, Dong Nai has both higher awareness and higher understanding of services than in other areas. However, reach is extremely low and significantly lower than the average for most services. Only two services stand out as having much higher reach than other areas, accounting & auditing and product design. It is unclear why reach is so high for these two services. For accounting & auditing, it may be partly attributable to a donor sponsored project, as Dong Nai is the only area where a donor/project is involved in the supply of accounting services. It may also be attributable to a reported tightening in legal requirements and the enforcement of enterprise accounting laws in Dong Nai. In product design, over 80% of customers purchase from individuals. It appears that these probably informal enterprises are doing a better job of enticing customers than the more formal sectors in other areas. Learning what has produced the relatively high reach for these two services in Dong Nai might provide lessons for increasing the reach of other services.

Issues on both the demand and supply sides are producing a somewhat weaker market in Dong Nai. In general, entrepreneurs in Dong Nai have a lower perception of the value of services than in other areas. A higher proportion of non-users than other areas do not use particular services because they do not feel that they have faced any problems with that particular business function. While supply is difficult to judge because of the low number of users, satisfaction with accounting services is lower than in other areas. This may reflect poor quality supply and is likely to further lessen entrepreneurs' willingness to purchase other BDS. Focus group discussions also indicate a quantitative lack of supply in Dong Nai. Users of many services make service purchases from suppliers located in the city.

While the priorities in Dong Nai are the same as those indicated in the overall findings, the intensity and duration of interventions will likely need to be higher in Dong Nai. Both demand stimulation efforts to increase reach and change business culture as well as supply stimulation efforts to increase the quantity and quality of supply are needed. Both will need to be implemented relatively intensively over a longer period of time than in other areas.

6. Binh Duong

Table 5.7 Awareness, Understanding and Reach in Binh Duong

Service	Awareness	Understanding	Reach
Accting & Auditing	98%	99%	24%
Legal	98%	100%	32%
Mgmt Training	76%	95%	0%
Mgmt Advisory	79%	91%	4%
Advertising & Promotion	93%	99%	68%
Market Research	79%	95%	6%
Product Design	83%	94%	3%
Trade Fair Related	60%	80%	8%
Quality & Environment	58%	76%	11%
MIS Software	70%	80%	0%
Computer Related	95%	97%	13%
Internet Information	76%	88%	6%
Tech/Voc Training	91%	98%	20%
Tech Advisory	60%	80%	4%

Like Dong Nai, BDS markets in Binh Duong are relatively less developed than other areas. However, the reasons are different. Awareness of some services such as management training, trade fair related services, quality & environmental management services, Internet information and technology advisory services are significantly lower than the overall average. Understanding, however, is quite strong and is similar to other areas.

Reach is significantly lower than other areas for some services. It appears that this finding is more due to a lack of supply rather than lower than average demand. In particular, reach is very low for management training, product design, trade fair related services, technology advisory services and IT related services. The low reach of IT related services may reflect a low integration of computers into enterprises. However, for the other services it may reflect a lack of suppliers. A much higher proportion of entrepreneurs than in other areas stated that they had not purchased particular services because they could not find a suitable supplier.

Reach for accounting & auditing services, legal services, advertising & promotion and technical & vocational training is significantly higher than the overall average, indicating relatively good demand for some services.

In Binh Duong, the priorities are slightly different from other areas. Binh Duong does need some basic awareness raising about various BDS. The key area for intervention in Binh Duong, however, is to increase the availability of services, so that those non-users who are looking for a supplier can find one more easily. Once supply has been increased, a program can see the effect on the number of transactions and gauge to what extent efforts to stimulate trial on the demand side or to improve the quality of services on the supply side are needed.

D. Recommendations

The study indicates that Hai Phong is the area with the most potential to benefit from program interventions. Demand is strong but supply has yet to respond adequately to demand. Weaknesses in demand in Hai Phong, relatively low awareness and understanding, are easier to address through program interventions than demand weaknesses in other areas. Ha Noi and HCMC also show considerable potential for BDS market growth. Because these are already quite dynamic markets, interventions should be carefully targeted in order not to distort existing markets. While weaker than the markets in Ha Noi and HCMC, Binh Duong shows potential because the key market weaknesses, low awareness and poor supply, can be addressed through program interventions. Dong Nai markets are weaker than in other areas. Therefore, market development in this area will require more intense efforts on both the demand and supply sides. Da Nang may be the most challenging area for a program because market weaknesses are difficult to address through program interventions. Demand in this area is weaker than other areas because entrepreneurs do not see the usefulness and value of services. While demand stimulation efforts can address this weakness, it is more difficult than raising basic awareness, for example.

VI. Comparative Analysis by Consumer Segment

The overall findings of the study are generally applicable to all consumer segments. A comparison of various consumer segments shows only minor differences among them. These differences and the program implications are discussed below.

A. Comparison of Key Issues by Enterprise Sector

The overall results of the study are applicable to all three sectors studied. There are only minor differences among manufacturing, service and trading enterprises with respect to the findings on BDS markets. On average, the manufacturing enterprises in the survey are slightly larger than other sectors; only 8% have less than 10 employees and 40% have over 50. By contrast, trading enterprises are the smallest; 23% have less than 10 employees and only 6% have over 50 employees. This difference may be responsible for some of the small variations among the sectors. For example, trading enterprises appear to be more cost conscious than other enterprises, but this may reflect enterprise size rather than sector.

1. Market Size

No single sector dominates BDS markets in Viet Nam. However, in monetary terms, the manufacturing sector accounts for 46% of spending, somewhat more than the other sectors (Figure 6.1). This is not because market penetration of individual services is significantly higher among manufacturing enterprises. It is because there are somewhat more manufacturing enterprises than service or trading enterprises, the manufacturing sector uses a broader range of services than other sectors and manufacturing enterprises often have higher annual spending per service. (The number of registered private enterprises in each sector in the six provinces studied is presented in Table 6.1.) The service sector accounts for only 18% of total spending. This is because there are somewhat fewer service enterprises and because service enterprises often have lower annual spending per service than other enterprises.

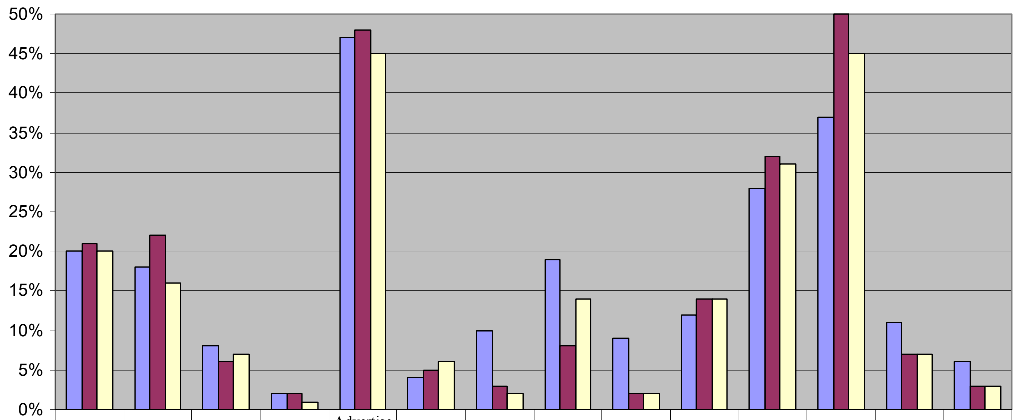
2. Market Penetration

Table 6.1 # of Enterprise per Sector

Sector	# of Enterprises
Manufacturing	16,174
Services	10,680
Trading	13,153

There are not big differences in market penetration among the three sectors. This result differs from many other Asian countries where often either service or trading enterprises are underserved by BDS markets. The main differences in market penetration are for those services geared towards manufacturers, specifically, product design, trade fair related services, quality & environmental management services, technical & vocational training and technology advisory services. Interestingly, the service sector has the highest market penetration of Internet information services. Most other markets have similar penetration among all sectors.

Figure 6.2: Market Penetration by Enterprise Sector



	Accting & Audit	Legal	Mgmt Training	Mgmt Advisory	Advertise & Promote	Market Research	Product Design	Trade Fair	Quality & Environ.	MIS Software	Computer	Internet Info	Tech/Voc Training	Tech Advisory
Manufacturing	20%	18%	8%	2%	47%	4%	10%	19%	9%	12%	28%	37%	11%	6%
Services	21%	22%	6%	2%	48%	5%	3%	8%	2%	14%	32%	50%	7%	3%
Trading	20%	16%	7%	1%	45%	6%	2%	14%	2%	14%	31%	45%	7%	3%

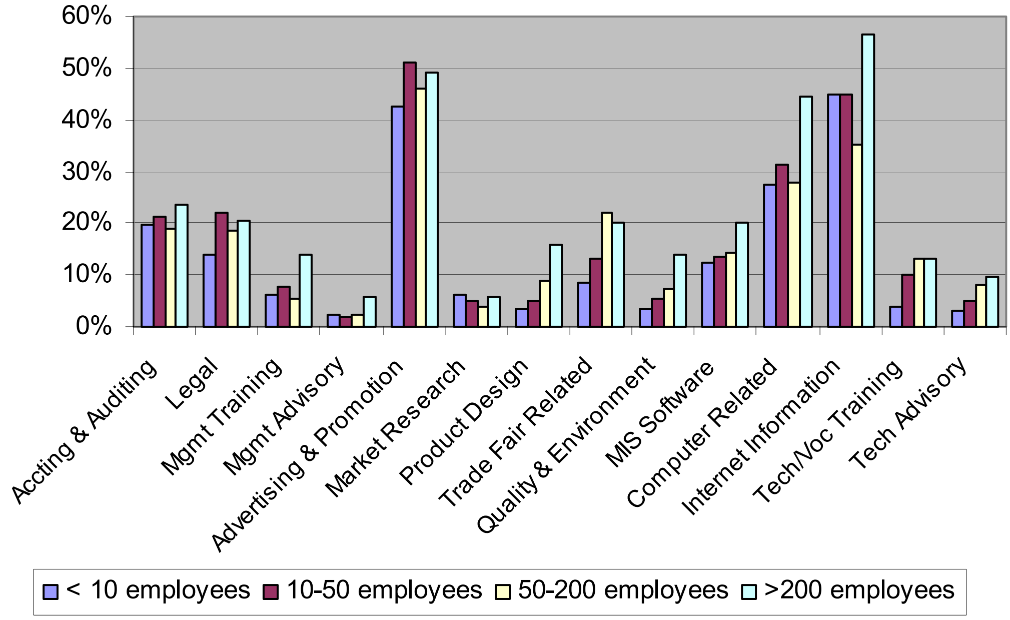
In general, location and type of service seem to be the key factors in how BDS markets behave in Viet Nam, rather than sector. Awareness and understanding are similar across all three sectors. Reach is lower among service and trading enterprises for those services that are geared toward manufacturers such as technical & vocational training and product design. The differences in reasons for non-use of services also reflect the particular services only. A higher proportion of trading and service enterprises do not feel the need for product design and technology advisory services, for example, than manufacturers. One interesting finding is that manufacturing enterprises tend to get more free services than other sectors. Nevertheless, it is not necessary to tailor program interventions to individual enterprise sectors.

B. Comparison of Key Issues by Size of Enterprise

Remarkably, the study findings show fairly minor differences among enterprises of different sizes, judged by the number of employees. Figure 6.3 shows the market penetration of each service by number of employees.[11] The figure indicates that market penetration is somewhat higher among larger enterprises than smaller enterprises. However, the difference is not consistent and for many services is only significant when comparing enterprises with over 200 employees to those with fewer than 200 employees.

[11] Market penetration in this figure reflects the sample only. It has not been adjusted to reflect differences between the sample and the overall population.

Figure 6.3 Market Penetration by Number of Employees



There is not much difference in the level of awareness among enterprises of different sizes. Those enterprises with over 200 employees show a slightly higher awareness level; otherwise the levels are similar. The smallest enterprises, those with less than 10 employees, have a slightly lower level of understanding than other enterprises. Enterprises with over 200 employees have a slightly higher understanding level than other enterprises. The biggest difference is in reach. The smallest enterprises show lower reach for services that tend to have higher unit costs, such as training, advisory services and trade fair related services. Enterprises with more than 200 employees generally have a somewhat higher reach rate than other enterprises.

Smaller enterprise non-users tend to feel less often a service function is required in their businesses when compared with larger enterprises. By contrast, the larger enterprise non-users more often recognize a need for the service but do not purchase it for other reasons such as they do it in house or they can not find a suitable supplier. In general, larger enterprises have a higher perceived value for a wider range of services. Larger enterprises value services with high unit costs such as trade fair related services and training whereas smaller enterprises do not value these as highly. Smaller enterprises also tend to be more cost conscious than larger enterprises when choosing a supplier.

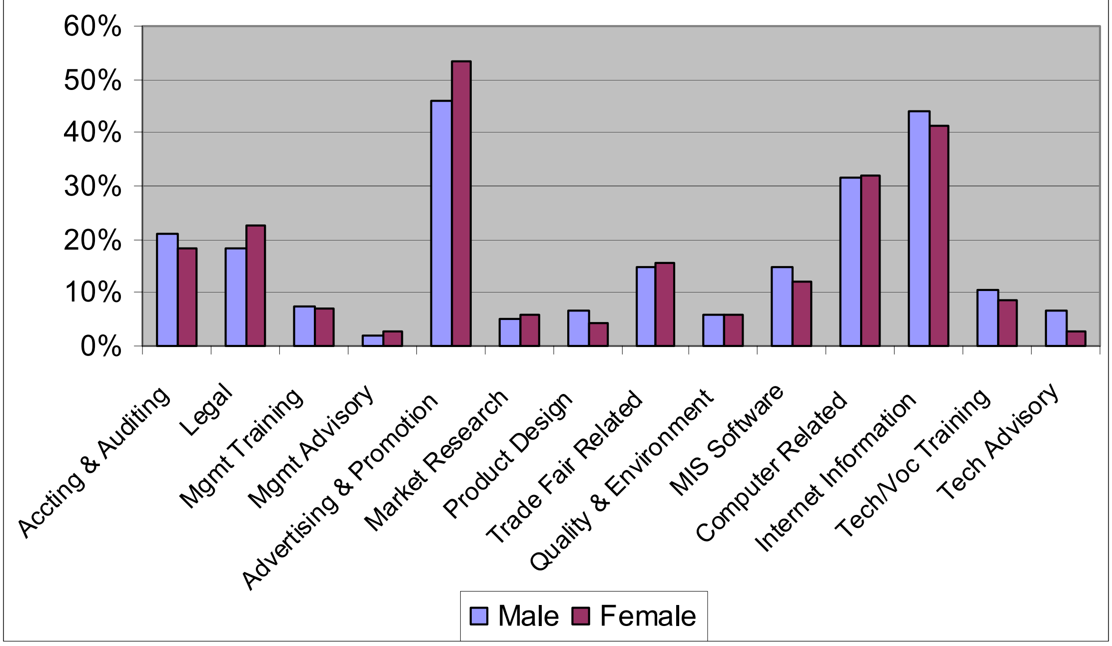
It does appear that smaller enterprises are either underserved or not knowledgeable about suppliers in some sectors. For a variety of services such as technical & vocational training, advertising & promotion and market research, a higher proportion of smaller enterprises said that they chose their supplier because it was the only one they knew. Smaller enterprises also tend to purchase services from individuals, many of whom are in the informal sector, more than larger enterprises.

The key priorities for all sizes of enterprises are the same – increasing reach by encouraging enterprises to outsource services and improving supply. However, smaller enterprises may require more intense demand stimulation particularly for high unit cost services. Reaching smaller enterprises may also require a more intense effort to encourage suppliers to actively market their services towards the lower end of the market. It may also be worth exploring ways to promote the informal supply of services in order to reach smaller enterprises.

C. Comparison of Key Issues by Sex of Respondent

There are few differences between those businesses with male respondents and those with female respondents in the survey. There is a slightly higher proportion of men in manufacturing and a slightly higher proportion of women in trading, but the difference is only approximately 5%. Similarly, women have slightly higher representation among smaller enterprises and men among larger enterprises, but again the difference is only approximately 5%.

Figure 6.4 Market Penetration by Sex of Respondent



There are very few differences among enterprises represented by men and those by women with respect to BDS markets. Figure 6.4 compares market penetration among enterprises with male and with female respondents.[12] The figure shows that there are only minor differences between male represented and the female represented enterprises. Other results also show no or only minor differences. Awareness, understanding, reach and retention are similar for men and for women. However, women tend to be somewhat more cost conscious when choosing a supplier than men. A higher proportion of women reported that price was a key consideration in their choice of supplier. In some markets, a higher proportion of women reported that they chose their supplier because it was the only one they knew. This may be because women have more difficulty than men in getting information on suppliers or because suppliers tend to focus on marketing to men more than to women. However, the differences are only minor.

[12] Market penetration in this figure reflects the sample only. It has not been adjusted to reflect differences between the sample and the overall population.

Overall, the differences between men and women do not indicate that it is necessary to tailor BDS market development interventions to women and to men. A common approach to both will probably not favor one sex over the other.

D. Recommendations

The study indicates that only minor adjustments are necessary in an overall program plan in order to target specific consumer segments. Reaching smaller enterprises will require somewhat more intense interventions on both the demand and supply sides. Some specific strategies to develop markets for small enterprises are:

- Developing cheaper service products and creative payment mechanisms for services that typically have a higher unit cost;
- Working with suppliers to develop products and marketing strategies specifically aimed at smaller enterprises;
- Fostering informal or embedded supply of services; and
- Promoting service products among small enterprises that are likely early adopters of specific services.

VII. Summary Analysis and Recommendations

A. Strengths and Weaknesses of BDS Markets

Although service markets and geographical areas vary in Viet Nam, some generalizations are possible. Table 7.1 outlines the major strengths and weaknesses of demand and supply in Vietnamese BDS markets.

Table 7.1 Summary of the Strengths and Weaknesses in BDS Markets

	Demand	Supply
Strengths	▪ High awareness of services ▪ High basic understanding of services ▪ Entrepreneurs are able to diagnose their business problems and choose appropriate business services ▪ Economic growth and world trade are fueling demand for BDS	▪ Providers exist in all BDS markets ▪ There are a variety of providers offering services; private suppliers are active in all markets ▪ Some providers offer good quality services
Weaknesses	▪ Lack of perceived need for services ▪ Low valuation of services ▪ Too much reliance on friends and colleagues for information ▪ Business culture emphasizes solving business problems internally and discourages outsourcing BDS	▪ Frequently low quality of services ▪ Lack of supply in some areas and for some services ▪ Lack of appropriate service products ▪ Poor marketing ▪ Subsidies and advantages for state owned providers may be negatively affecting private supply of services ▪ Controlled markets offer limited consumer choice and low quality services

For all services, there are existing markets on which to build. Entrepreneurs are generally aware of services and have a basic understanding of them. Most entrepreneurs have purchased at least one BDS. Even though market penetration is low for some services, there are some transactions in every market studied. Suppliers exist in all markets and both the state and private sectors are active in all markets. In addition, some basic conditions for developing BDS markets already exist. Economic growth in Viet Nam is both fueling demand for BDS and creating favorable conditions for private investment in the supply of services. Vietnamese entrepreneurs seem to have a good grasp of their own business problems and they are able to choose appropriate services to address their business issues. Some providers in each market are offering good quality services, showing that the necessary skills for quality service provision in every market are present in Viet Nam.

However, there are a number of serious weaknesses in Vietnamese BDS markets. Many enterprises do not currently view most business services as important to their day to day operations or their competitiveness. They do not view outsourcing services as a valuable way to concretely impact their profits in the short term. This is a result both of the current business culture which emphasizes addressing business problems internally and of the lack of appropriate service products in BDS markets. Entrepreneurs' over reliance on personal sources for information results in a lack of comprehensive and reliable information about available services and service providers. Services are often poor quality and of low relevance to enterprises. Providers are not doing a good job of communicating the specific benefits of their services to consumers and persuading consumers to try services. There is a lack of availability of services in some areas, particularly outside the cities.

Some donor and government actions have contributed to weaknesses in BDS markets. In some markets, donor and government subsidies for service provision may be depressing private sector investment in the supply of services. Subsidies are also creating an entitlement mentality among enterprises, in which subsidies become a condition of demand for some services. It is important to note that service prices are not a key constraint to the development of BDS markets in Viet Nam. Therefore, transactional subsidies are not addressing a key market problem. While many enterprises are clearly cost conscious, appropriate introductory products and payment mechanisms are likely to do more to increase SMEs' purchases of services over the long run than subsidies for transactions.

A number of government policies limit or depress investment by the private sector in the delivery of BDS. First, there are actual regulatory limitations for some service types such as advertising and internet related services through state media control and limitations on the private provision of training. Second, the playing field between state owned and private sector BDS providers is not level, resulting in unfair competition that puts private providers at a disadvantage. Last, there may also be regulations which favor investment in manufacturing enterprises over service enterprises. These policies constrain the development of private BDS supply. The actions of the government also affect demand for BDS. One of the reasons why many enterprises limit their purchase of BDS is a lack of trust in private sector suppliers. While this problem is wider than only government policy, the government's lack of enforcement of copyrights and contracts is contributing to low consumer confidence.

B. Key Constraints and Opportunities in BDS Markets

What are the constraints that are most damaging to the effectiveness of BDS markets? International experience and the study findings show that those market problems which are most detrimental to BDS market growth are:

- Entrepreneurs' lack of good information on services;
- A business culture which discourages outsourcing services;
- The frequently low quality of services;
- The lack of appropriate service products;
- Poor service marketing; and
- Controlled markets.

These should be the priority areas for policy and program interventions.

What are the key opportunities for building BDS markets? International experience and the study findings show that the most promising overall market opportunities are:

- The overall economic growth and integration of the Vietnamese economy with world trade which is fueling demand for BDS;

- Strong demand for many services, particularly information, IT related services, accounting & auditing and services that help customers increase sales such as advertising & promotion and market research;
- Unmet demand for services in most BDS markets as a result of inappropriate service products, lack of supply and lack of information; and
- Dynamic BDS markets in Ha Noi and HCMC which may be a source of information, ideas and investment for other areas.

It will be helpful for both donors and government to design efforts to develop BDS markets within the context of these opportunities.

Which specific service markets, areas and consumer segments are the most promising for BDS market growth? The study findings combined with information on the Vietnamese economy indicate that the following services show strong potential for growth:

- Business information offered both on a stand alone basis and embedded with other services.
- IT related services such as Internet information, computer related services and MIS software.
- Market related services such as advertising & promotion, market research, product design and trade fair services.

The geographical areas in the study which show the most potential for BDS market growth are:

- Hai Phong due to strong demand and a lack of appropriate supply.
- HCMC and Ha Noi due to the high number of enterprises and the dynamic existing markets on which to build.

All enterprise sectors, all sizes of enterprises and both women and men have potential for increased use of BDS. High potential consumers are not so much identified by their consumer segment as by their enterprise situation. For most services, those enterprises that are likely to increase BDS use in the short term are those that are growing or reorganizing and those that are in sectors experiencing increased competition, particularly competition from foreign companies or imported goods.

C. Recommendations

BDS markets in Viet Nam will continue to grow even without policy changes or program interventions. However, the rate of growth will be constrained unless policy issues are addressed. In addition, donors and governments can productively intervene in BDS markets in Viet Nam to encourage more growth of BDS markets, help ensure that the business services enterprises want are available and address market functions which are unlikely to be taken on by the private sector in the short term. It is important to minimize the market distortion that these interventions create, by carefully targeting interventions to only address market weaknesses and limiting the use of public funds to those activities that will sustainably build BDS markets. Figure 7.1 presents a summary of recommended interventions to address the key market issues identified in the study. A more detailed discussion is presented in the two sections below.

Figure 7.1: Summary of Suggested Interventions

Issues	Recommended Interventions
• Reliance on personal sources of information • Demand for business information	• Overarching program focus on information • Explore a variety of collection and delivery mechanisms
• Frequently low quality of services • Poor marketing	• Product development and supplier technical assistance • Quality assurance services or quality certification
• Lack of supply in some areas • Lack of competition in some markets	• Promote investment in private supply through incentives • Create conditions for fair competition between state owned and private providers • Promote supplier franchising • Provide information on market opportunities to existing and potential suppliers
• Lack of perceived need for services • Unfavorable business culture	• Help suppliers identify and target high potential consumers • Conduct a general social marketing campaign to improve consumer acceptance of outsourcing services
• Some government policies are constraining markets	• Dialogue between the private sector and government on the legal and regulatory environment for BDS • Allow private investment in more types of services
• Subsidies may be suppressing private supply	• Promote rationalization of subsidies among donors, government and social organizations • Shift public money away from subsidizing transactions and towards market development

1. Policy Level

Improving the legal and regulatory environment for BDS has the potential to increase both the supply of and the demand for BDS in Viet Nam. The government could increase the availability of business services by promoting private investment in the supply of BDS in several ways. First, investment incentives might encourage private entrepreneurs to invest in the provision of BDS. At the least, ensuring that there are no policy level disincentives to investing in the provision of business services provides the basis for investment. Further measures to level the playing field between state owned companies and private suppliers of business services would encourage additional private investment in the provision of services. Allowing private sector investment in those markets that are currently controlled by the government would improve the quality of those services, increase consumer choice and, potentially, lower prices. This measure is relevant for advertising services, Internet services and training.

There are also a number of measures which the government could take to increase the use of BDS. Improving enforcement of copyright laws and contracts would raise consumer confidence that the services they pay for will increase, rather than compromise, their ability to compete. The government has considerable influence on public opinion. Proactively promoting BDS through an information campaign would help increase consumer acceptance of outsourcing business functions.

2. Program Level

Lack of information emerged from the study as a cross-cutting constraint to the development of BDS markets. Increasing the provision of information through a variety of mechanisms can have a positive impact on SMEs directly as well as on the development of BDS markets.

The development of the supply chain for information could benefit from the involvement of both the public and private sectors. The government and business associations already gather a variety of business related information. They are also well positioned to disseminate some types of information, while other types of information can best be disseminated through commercial channels. In this respect, developing business information services will require innovative interventions to promote public-private partnerships and encourage organizations to gravitate towards the roles for which they are most suited.

It is important to explore and promote a variety of mechanisms for the delivery of information. In Viet Nam, a major portion of information delivery is embedded in other commercial transactions. An explicit effort to promote the delivery of embedded information can be a useful program strategy. In Viet Nam, business decisions are made based on information from personal contacts. Therefore, in order to be effective in stimulating changes in SMEs and purchase of BDS, information delivery must have a personal aspect. Programs should explore mechanisms for increasing the personal delivery of information, for example, increasing BDS suppliers' access to information which they can pass on to their clients on a personal level. Programs can also promote the delivery of information through other channels such as the media, associations and the Internet.

Improving and increasing the supply of services is a market development priority in Viet Nam. There are a number of ways that programs could help raise the quality and availability of services, as follows.

- **Product development and quality improvement:** SMEs want services with a clear and short term pay-off. New consumers often want low-cost introductory service products. Many suppliers do not offer products that meet this demand. Programs can help suppliers to develop and learn to deliver service products that meet SME demand.
- **Marketing:** It appears that many BDS suppliers do not have good marketing skills. Programs can help suppliers learn how to demonstrate to consumers the benefits of services and persuade potential customers to try purchasing services.
- **Quality Assurance:** The prevalence of low quality or fraudulent BDS suppliers has contributed to low consumer confidence in private BDS suppliers. Consumers need some way to differentiate the good and honest suppliers from the others. Interventions which help BDS suppliers to regulate their own industry and certify members could improve consumer confidence. However, care must be taken in this type of intervention because quality assurance programs can be subject to corruption, become somewhat arbitrary or leave out good, but informal, suppliers.
- **Franchising:** Supplier franchising is one way to increase the quantity and improve the quality of supply. Programs could encourage international BDS suppliers to franchise services in Viet Nam and city-based suppliers to franchise services in other areas.
- **Investment Information:** Existing and potential suppliers may not be aware of the market opportunities available in the supply of BDS. In addition, potential investors may be looking for market information to develop business plans for the provision of BDS. Programs can provide access to information on market opportunities and market information for BDS provision.

Stimulating demand for services is also important in Viet Nam, particularly for those markets still in their infancy. There are several program interventions which could help increase the demand for BDS, as follows.

- **Market segmentation and targeting:** For services with low market penetration, it is important to increase the number of "early adopters" for the service. A critical mass of "early adopters" will increase consumer acceptance of the service and generate essential personal referrals. Programs can help suppliers target high potential consumers with the personal sales approach often necessary to persuade a new customer to purchase a service. It is not feasible for suppliers to pursue a personal sales approach on a very wide scale. Therefore, suppliers need assistance in learning how to segment the market and target high potential consumers. Much of the information needed for this segmentation is available from this market assessment. Suppliers can also be taught simple consumer research methods that will help them identify high potential consumer groups. Lastly, promoting market research services can help other types of BDS suppliers identify potential customers.
- **Development of customer referral marketing:** Most entrepreneurs in Viet Nam make decisions on the purchase of BDS with the input of friends and colleagues. Customer referral marketing takes advantage of this decision making process by

providing customers with incentives to recommend services to others. Programs can help suppliers develop, test and refine customer referral approaches to marketing their services.

- **Promotion of Embedded Services:** In most economies, some enterprises get access to specific services through their commercial relationships with buyers and input suppliers. For example, exporters often provide market information and product design services to the SMEs from whom they purchase goods. Embedded services not only provide SMEs with access to specific business services with no up front cash outlay but also increase consumer acceptance of services, generally without distorting commercial markets for those services. Programs can promote the provision of embedded BDS within efforts to develop specific enterprise sub-sectors.
- **General social marketing:** BDS markets will grow considerably faster if the business culture in Viet Nam becomes more accepting of outsourcing services. A general social marketing campaign can help change business culture by showing entrepreneurs the benefits of outsourcing services. A social marketing campaign can disseminate case studies of the successful use of BDS and information on business trends and issues that are likely to stimulate demand for specific services. In addition, a campaign can highlight cases of other countries where BDS has contributed to SME competitiveness. A social marketing campaign can be conducted through the media, business associations and BDS providers themselves.

It is also important for donors and government to work together to rationalize subsidies for BDS. Subsidies for transactions should be gradually reduced in favor of using public money to promote the sustainable development of BDS markets.

Developing BDS markets in Viet Nam has the potential to help SMEs compete more effectively in the world economy, fuel economic growth and generate jobs. Many BDS markets in Viet Nam are at a "take off" point. Improvements in the environment for BDS, as well as targeted program interventions can help markets achieve rapid growth, enabling more SMEs to get the business services they want to expand and develop their enterprises.