VIETNAM'S FURNITURE & HOME DECOR

RESEARCH REPORT

EVBN
EU-VIETNAM BUSINESS NETWORK

This project is co-funded by the European Union

The EU-Vietnam Business Network (EVBN)

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Contents

List of Abbreviations

AEC	ASEAN Economic Community
CAGR	Compound annual growth rate
CIT	Corporate Income Tax
EVFTA	EU-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FOE	Foreign Owned Enterprise
FTA	Free Trade Agreement
GDP	Gross domestic product
TPP	Trans-Pacific Partnership
VAT	Value Added Tax
VPA-FLEGT	Voluntary Partnership Agreement-Forest Law Enforcement, Governance and Trade
B2C	Business to Client
B2B	Business to Business

Currency Exchange

The currency is converted to EUR (€) using the average value of 52W low and 52W high. Rates are compiled from Yahoo Finance.

EUR/US$	1.10
EUR/VND	24,418.48

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Executive Summary

Vietnam is considered to be one of the region's most attractive markets for foreign investors with a steadily increasing GDP and booming foreign direct investment, a pattern which is forecasted to remain stable in the upcoming years. Nominal GDP in 2016 is estimated to reach €189.4 billion, recording a y-o-y growth rate of 6.2%. The country's GDP is forecasted to attain €295.4 billion in 2020.

With a forecasted annual growth rate of 9.5% to 2020, the home décor and furniture industry in Vietnam will be growing at a rapid rate to meet with the increasing demand for furnishing. Household expenditure on home décor, furniture and services is estimated to reach €16 billion in 2020. As the upcoming free trade agreements (FTAs) between Vietnam and partners such as the EU, the U.S. and ASEAN nations come into effect in the future, the demand for home décor and furniture exports will increase as the movement of goods across the border for Vietnam and its partners becomes easier. Moreover, Vietnam's market and environment are becoming more attractive for foreign investors as more international brands are looking to relocate their manufacturing plants to Vietnam to reap the benefits that come with the FTAs, or looking to expand their business in Vietnam as the import taxes on home décor and furniture goods will be lifted.

The country's recent move to middle income level (GDP per capita is estimated to reach nearly €2,000 in 2016 and is forecasted to accelerate to over €2,800 in 2020) along with rising demand for real estate are pulling along the demand for home décor and furniture market. Vietnamese consumers are shifting towards high-quality, western style furniture at an affordable price. As a result, there have been new foreign invested brands that aim to meet the demand of this new trend like UMA, a joint-venture between Sweden and Vietnam.

This report will look at the potential for growth of Vietnam's home décor and furniture industry in the next 5 years. It will also dive into the impact of the EU-Vietnam Free Trade Agreement (EVFTA) on the industry.

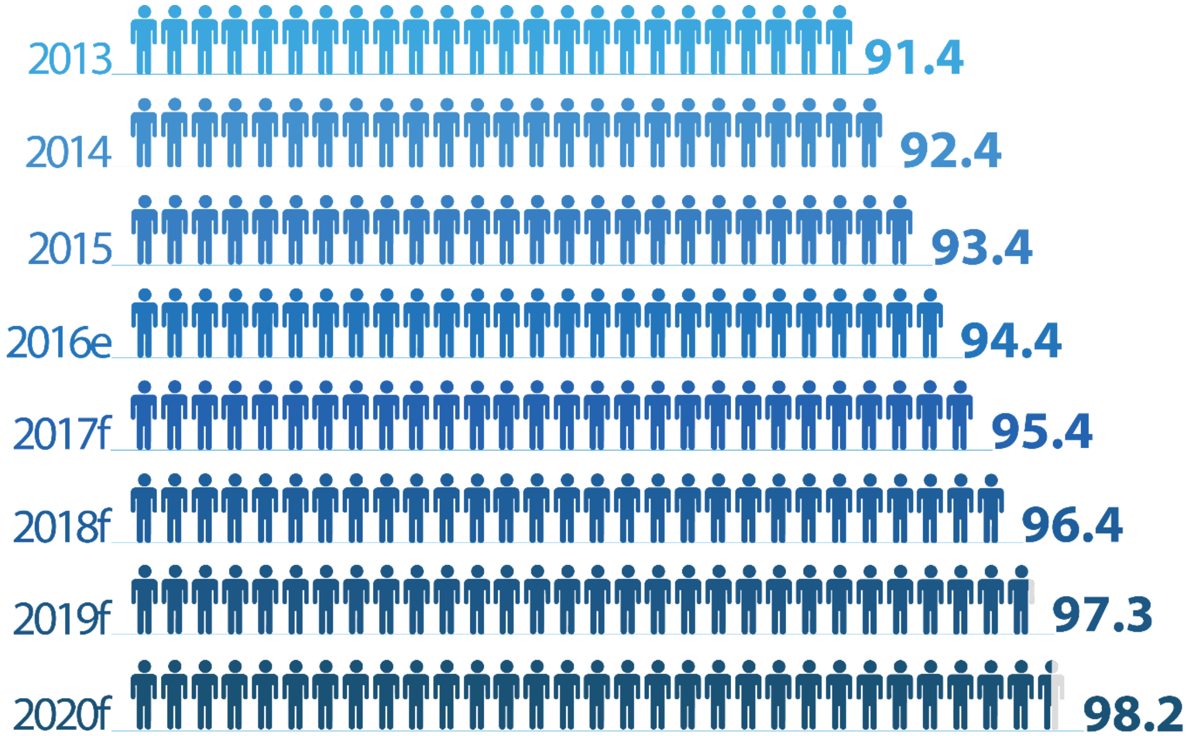
1 VIETNAM OVERVIEW

I. Geo-demographics

Vietnam comprises a landmass of 330,972.4 km2, a vast sea area including a large continental shelf and a string of archipelagos stretching from the Gulf of Tonkin in the North to the Gulf of Thailand in the South. In 2015, Vietnam's population was 93.4 million people and is projected to reach 98.2 million in 2020, an increase of 1% on average between 2015-2020.

Major cities in Vietnam are well-dispersed geographically, namely Hanoi, Hai Phong, Danang, Nha Trang, Ho Chi Minh City, and Can Tho. Hanoi, the capital of Vietnam, is the second largest city in Vietnam and is the country's political administrative centre. It is known for its rich culture with South East Asian, Chinese and French influences. Ho Chi Minh City, commonly known as Saigon, is the country's largest city and the commercial hub of Vietnam. By 2030, it will remain the biggest city with over 10 million citizens and that will account for 23% of the urban population.

Figure 1:
Map of Vietnam with key cities



*Unit: million people

Figure 2: **Vietnam's population 2013-20f**
Source: D&B

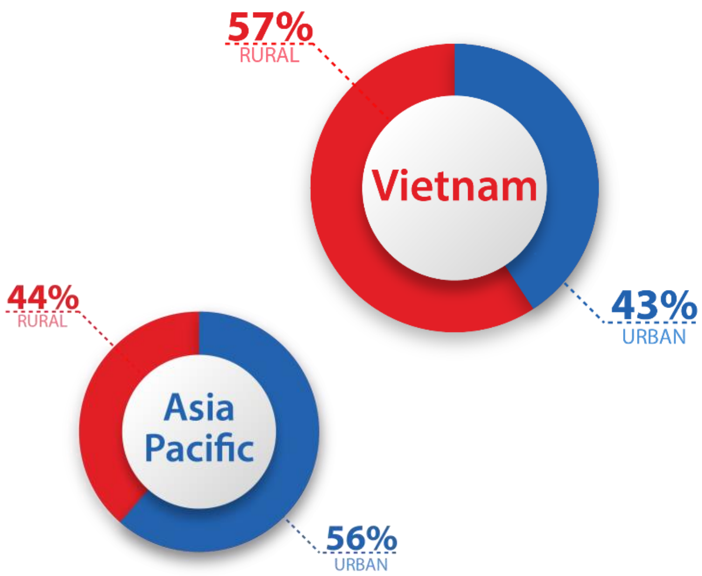


Figure 3: **Forecast of rural and urban population in Vietnam and Asia Pacific, 2030**
Source: UNDP

Although Vietnam remains predominantly rural, it is expected to undergo significant urbanisation in the next 14 years. By 2030, the urban population is forecasted to increase by 9%, reaching 44.3 million people, or 43% of the total population of Vietnam. This rapid urbanisation is caused predominantly by the growth of urban cities and the expansion of the urban-based industrial and services sectors. Moreover, high urbanisation rate causes a pressure on the construction sector to increase the number of high-rise apartment buildings and office buildings.

II. Vietnam's Economy

1. Gross Domestic Product

Gross domestic product (GDP) growth is expected to accelerate to 6.8% to reach €210.2 billion in 2017. With this growth rate, Vietnam remains one of the fastest-growing economies in Asia. The solid increase pace is foreseen to continue until 2020, projected to reach €295.4 billion. The outlook is underpinned by ongoing Government policies regarding the privatization of state-owned enterprises (SOEs), the maintenance of price stability, the lowering of trade barriers and reduced tax rate.

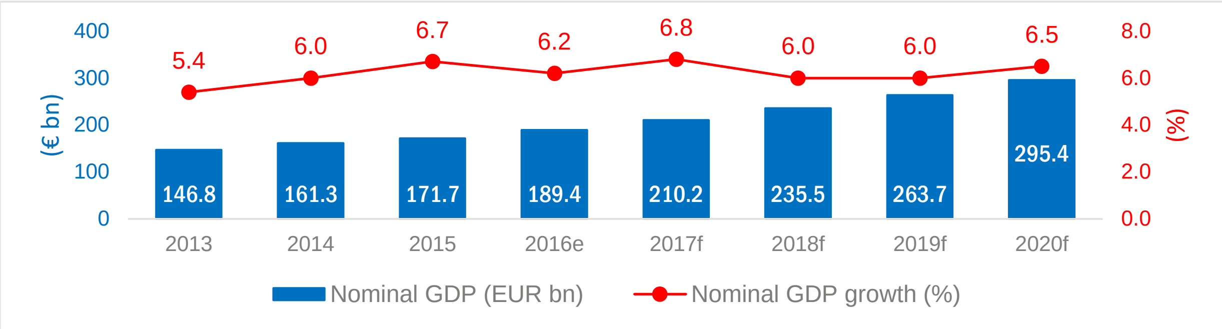


Figure 4: **Nominal GDP and GDP growth, 2013-20f**
Source: D&B

In 2015, Vietnam's nominal GDP per capita reached €1,868, a modest increase of 1.85% from 2014. Nonetheless, Vietnam has been recognised for its effort to increase the GDP per capita. Vietnam can be expected to reach a GDP per capita of €2,817 in 2020. A solid increase in GDP per capita suggests that an average Vietnamese will have more disposable income to spend on more goods than just basic needs.

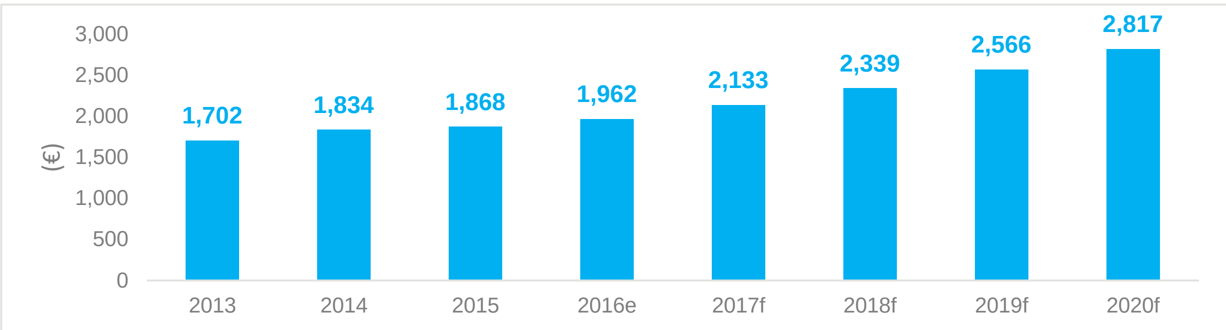


Figure 5: **Nominal GDP per capita, 2013-20f**
Source: D&B

2. Foreign Direct Investment

In 2015, Vietnam received a record €22 billion of foreign direct investment (FDI). This is a reflection of the increase in trade and production in Vietnam as more global manufacturing giants decided to move their production facilities to Vietnam to reap the benefits of numerous incentives to attract investments. Within 8 months in 2016, total registered capital of €9 billion in FDI. This amount is expected to continue to increase for the remaining months of 2016.

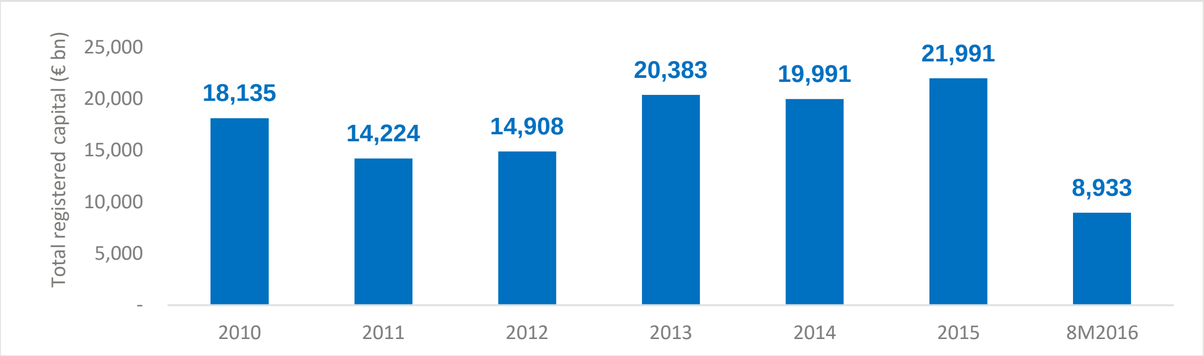


Figure 6: **Total registered FDI capital, 2010-8M2016**
Source: GSO

Ho Chi Minh City continues to be the province that receives the most FDI in 2015 as it is the commercial center of Vietnam. Other provinces such as Binh Duong and Bac Ninh also received a large amount of FDI, where several global giants like LG and Samsung choose to locate their manufacturing centres.

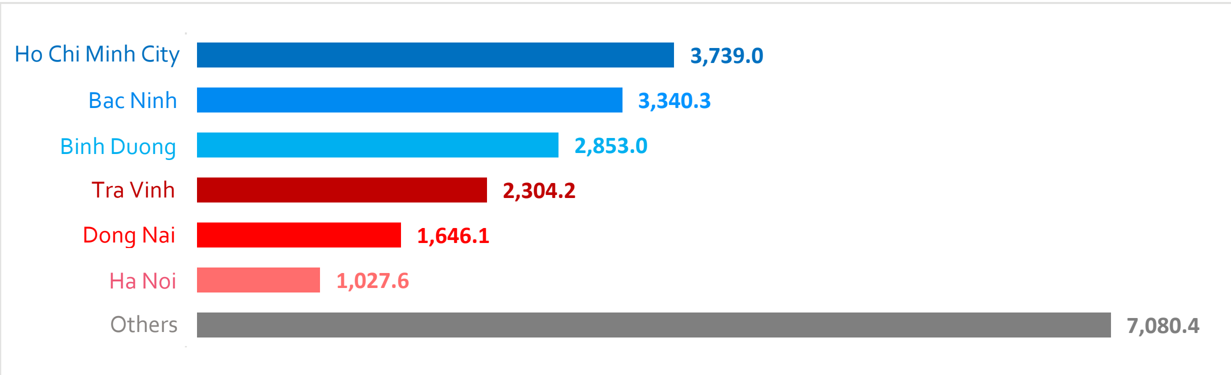
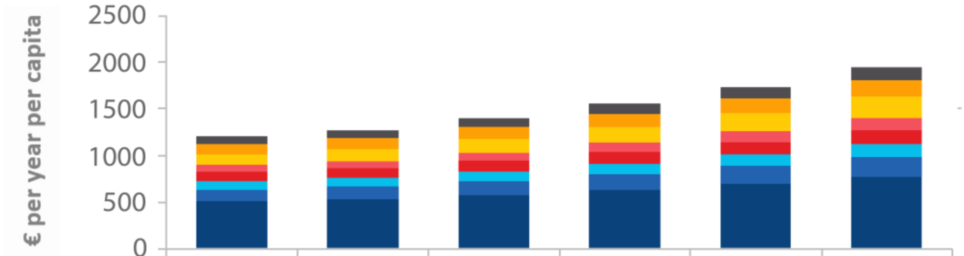


Figure 7: **Total registered FDI capital by provinces, 2015**
Source: GSO

III. Structure of consumption expenditures

As GDP per capita continues to grow between now and 2019, Vietnam people will also have more disposable income, which suggest a continuous increase in consumption expenditure. The CAGR of consumption expenditure for household goods and services will be 7% from 2016-2019. The growth is a reflection of increasing income per capita that leads to the improvement in the standard of living of Vietnamese people. Vietnamese consumers are now seeking for better quality products for their homes.



	2014	2015e	2016f	2017f	2018f	2019f
Other	77	84	95	108	124	143
Leisure & education	112	117	127	139	153	169
Transport & communications	116	127	145	167	194	226
Health	72	78	88	100	115	132
Household goods & services	101	105	114	125	137	151
Clothing & footwear	86	91	100	109	119	131
Housing & household fuels	124	133	148	166	187	212
Food, beverages & tobacco	517	537	584	640	704	778

Figure 8: **Structure of consumption expenditure, 2014-19f**
Source: EIU

2 OVERVIEW OF THE HOME DECOR AND FURNITURE INDUSTRY

As the definition and the grouping of products within the home décor and furniture differ among sources, definitions are provided below in order to give a clear understanding of which products are covered in this report.

- **Home décor:** home décor segment encompasses both decorative articles and functional items.
  - Bamboo, Rattan, Rush and Carpet products,
  - Ceramic products, and
  - Glass and glassware products
- **Furniture:** furniture products considered in this report is wooden furniture.

I. Production

1. Furniture

Vietnam's furniture market can be divided into two main segments, the common products and the high-end products. Common products are products made by carpenter's shops and local small enterprises. High-end products are usually imported products or products of well-known enterprises.

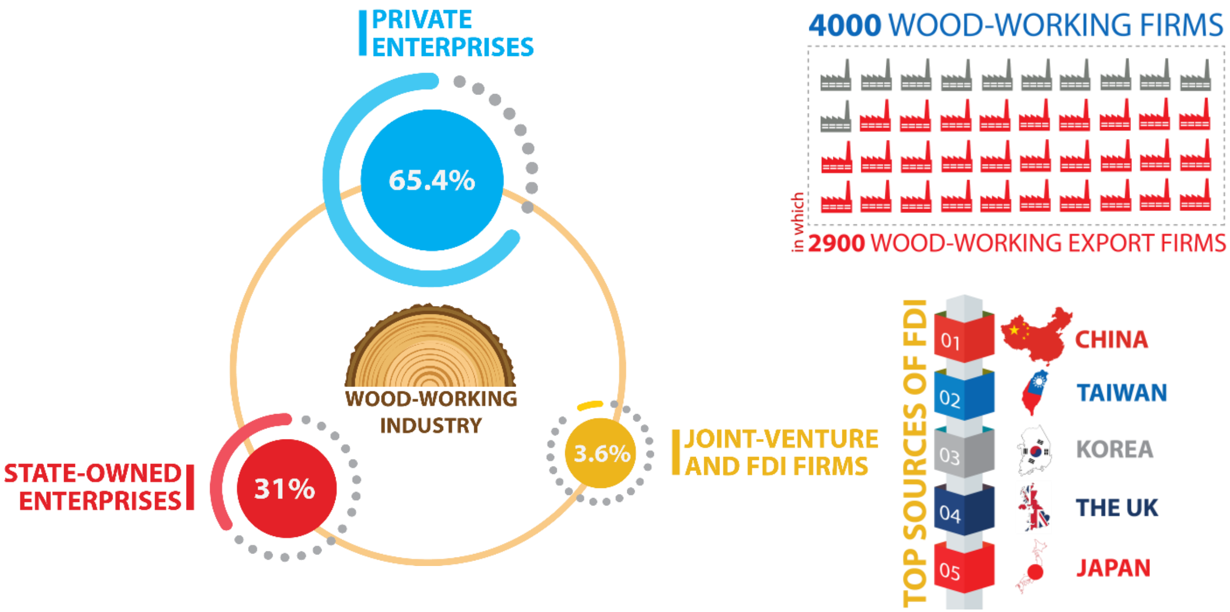
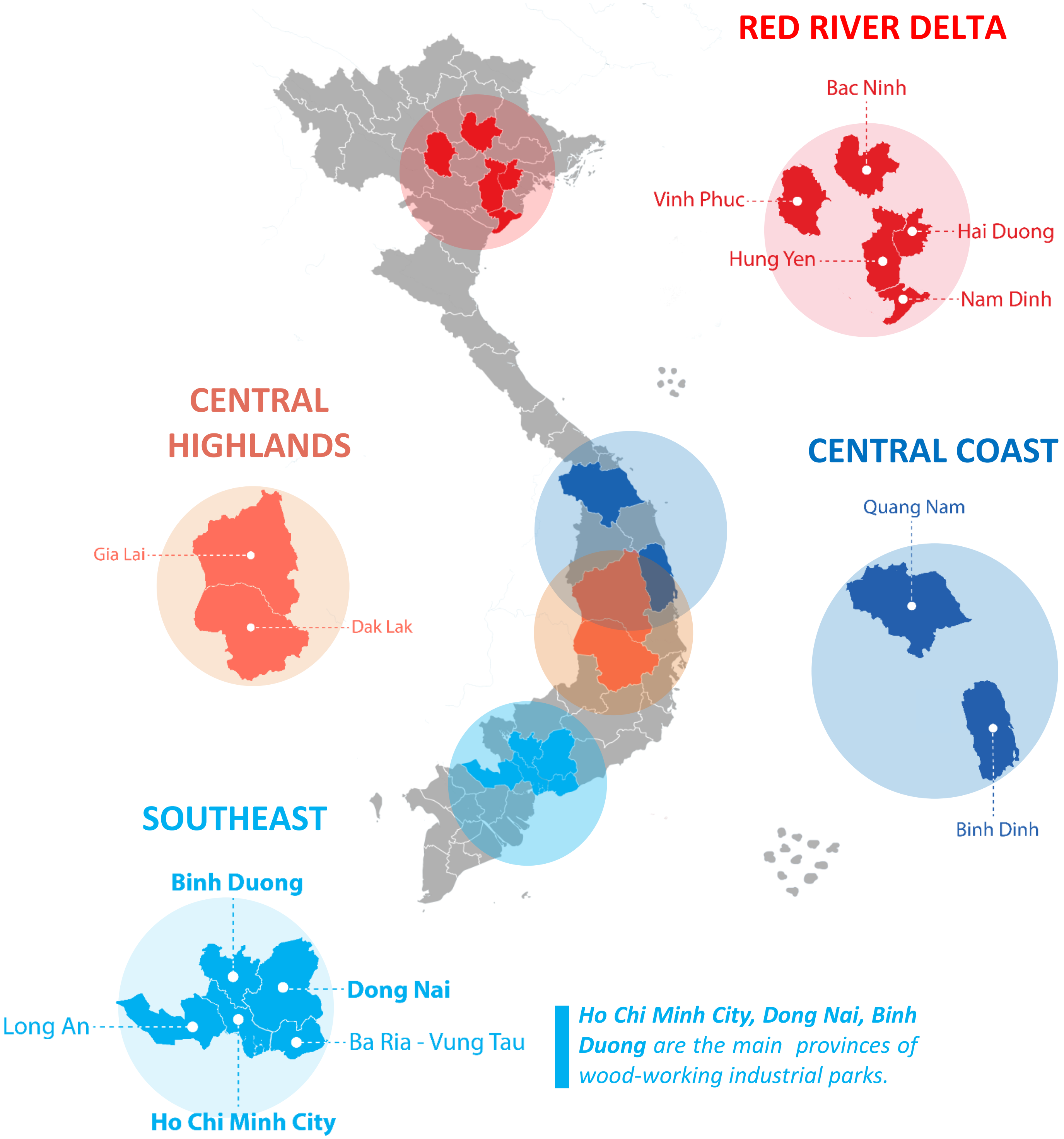


Figure 9: **Structure of Vietnam's Wood-Working Industry**

Source : Developing Country Sourcing

Wood-working firms are located in three main regions of Vietnam: north, south, and central. In the provinces shown below, wood-working firms of all sizes, small, medium, and large (including FDIs and joint-ventures), can be found. FDIs and Join-ventures are often based in industrial parks.



***Ho Chi Minh City, Dong Nai, Binh Duong** are the main provinces of wood-working industrial parks.*

Figure 10: **Map of Key Wood-Working Provinces in Vietnam**
Source: Developing Country Sourcing

In 2015, the furniture manufacturing industry in Vietnam produced €636 million worth of furniture, which was an increase of 7.4% from 2014. This was a result of the rapid growth of the construction sector as Vietnam's GDP continues to grow strongly at an average rate of 6% per year. The furniture industry will continue to expand on average 9.6% each year from 2015-2020, given that domestic property demand will continue to increase in the next 4 years along with increase in trade activities with trade partners like ASEAN countries and the EU. As forecasted, in 2020, Vietnam's furniture manufacturing industry can be expected to produce €1 billion worth of products.

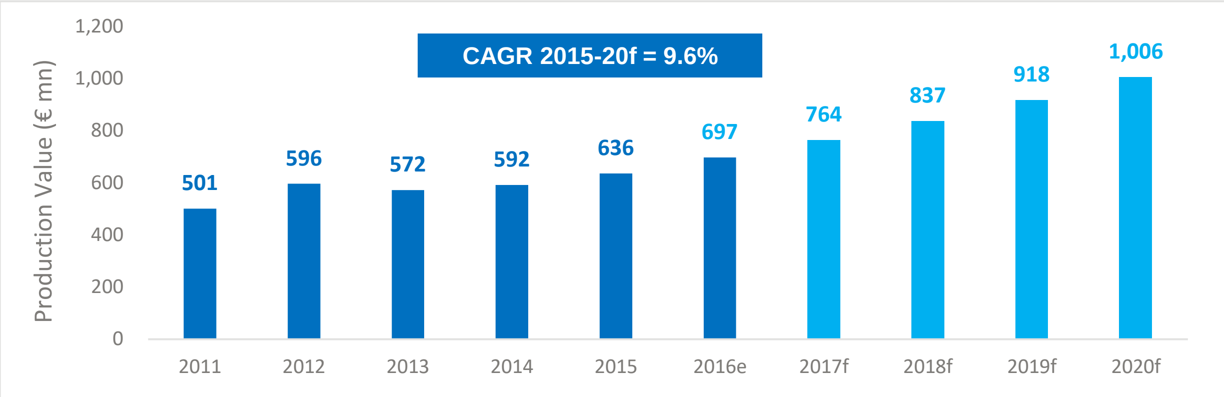


Figure 11: **Production value of furniture industry, 2011-20f**
Source: GSO and Oxfords Economics

2. Home Décor

The home décor industry consists of several sectors, including handicrafts, ceramics, glass, glassware, bamboo, rattan products and pottery. The majority of Vietnamese home décor products are produced by craft villages, situated mostly in northern Vietnam. With about 1350 craft villages, Hanoi is viewed as the cradle of the nation's craft industry. SMEs account for 90% of the total number of craft villages and the majority of them are locally owned. Meanwhile, foreign funded enterprises are typically from China, Taiwan, Germany and Russia. Handicrafts alone make up 90% of the home décor industry production, with more than 2000 handicraft villages of about 13 million workers.

Size	Number of employees	Average annual revenue	Production capacity
Small	Less than 50	€220,000-1,300,000	16,000 pieces/month
Medium	50-70	€1,300,000-3,200,000	16,000-140,000 pieces/month
Large	More than 70	€10,000,000	140,000 pieces/month

Figure 12: **Summary table of production enterprise sizes**
Source: Developing Country Outsourcing

Each craft province tends to specialize in specific products. For example, Ha Tay, Ha Nam, Thai Binh, Thanh Hoa, Khanh Hoa and Tien Giang are where most rattan, bamboo, sedge products and handicrafts are produced. Rattan furniture is particularly popular in Germany, Italy and the U.S. Meanwhile, pottery products are mainly produced in Hanoi and the provinces of Dong Nai and Binh Duong and the production of terra cotta products concentrates in Dong Nai, Vinh Long, Ha Nam and Bac Ninh provinces. Recently, many initiatives are put in place to nurture the home décor industry through a variety of mechanisms and policies which aim at helping manufacturers promote their products, find customers and expand their share of the market. Examples of these initiatives include the Hanoi Design Centre, and the Vietcraft Excellence label. The Hanoi Design Centre is the first ever design centre in Vietnam, formed as a partnership between Vietnam Handicraft Exporters Association (Vietcraft) and School of Industrial Design, Lund University, Sweden. The centre was created with the purposes of improving Vietnam's competitiveness and increasing handicraft export by providing trainings to handicraft designers and artisans on product design, and new knowledge like international market requirements and merchandising techniques. To improve the brand image of Vietnamese handicraft products, the Ministry of Trade in collaboration with Vietcraft created the national label Vietcraft Excellence. The label certifies products that are sustainable on all value chain levels, as well as offer added values representing national cultural characteristics. This branding initiative gives Vietnamese handicraft products an edge over mass produced products in overseas import markets like the EU and the U.S.

II. Household Expenditure on Home Décor and Furniture Products

In 2015, total consumption expenditure of all households in Vietnam on household goods, defined as household furniture, home textile products and services came at €10 billion, which was an increase of 9% from 2014. With an average GDP growth rate at 6%, coupled with rapidly growing construction sector and increasing household income, household expenditure on household goods and services can be expected to continue to increase at an average rate of 9% from 2015-2020.

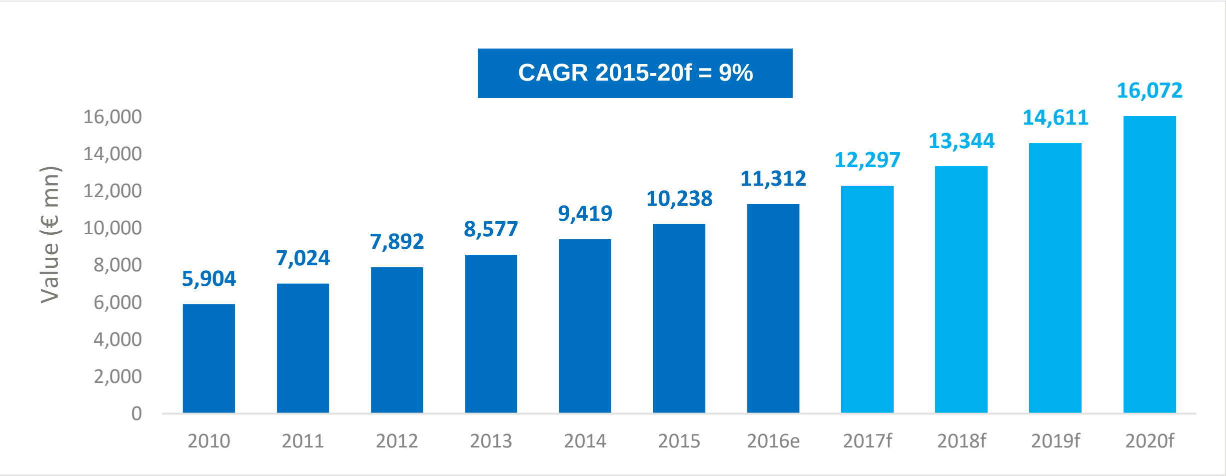


Figure 13: **Market Demand for Household Goods and Services, 2010-20f**

Source: Economist Intelligence Unit

III. Home Décor and Furniture Imports

Since the home décor and furniture industry in Vietnam is mostly export-oriented, the majority of domestic market of furniture is taken by imported products. Home décor and furniture imports are mostly from China, Malaysia and Thailand.

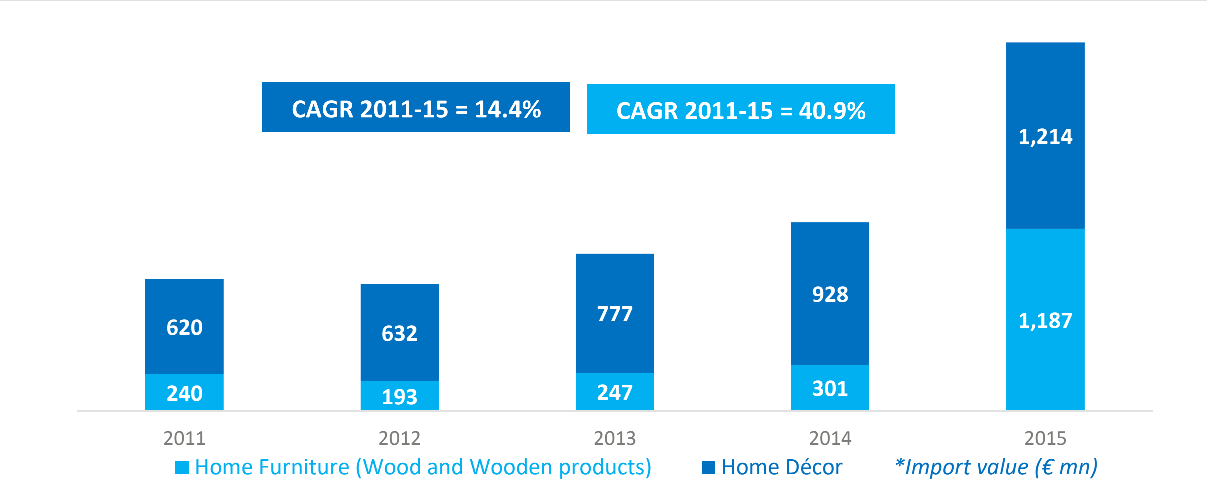


Figure 14: **Import Value of Home Décor and Furniture, 2011-15**
Source: Trade Map

Home décor and furniture imports from 2011-2015 have been increasing at a fast pace between 2014 and 2015. Home furniture has been growing at an impressive CAGR of 40.9%, meanwhile CAGR for home décor products was also impressive at 14.4%. Within home décor imports in 2015, home textile accounted for 96%, while the remaining 4% is split between ceramic, bamboo & rattan products.

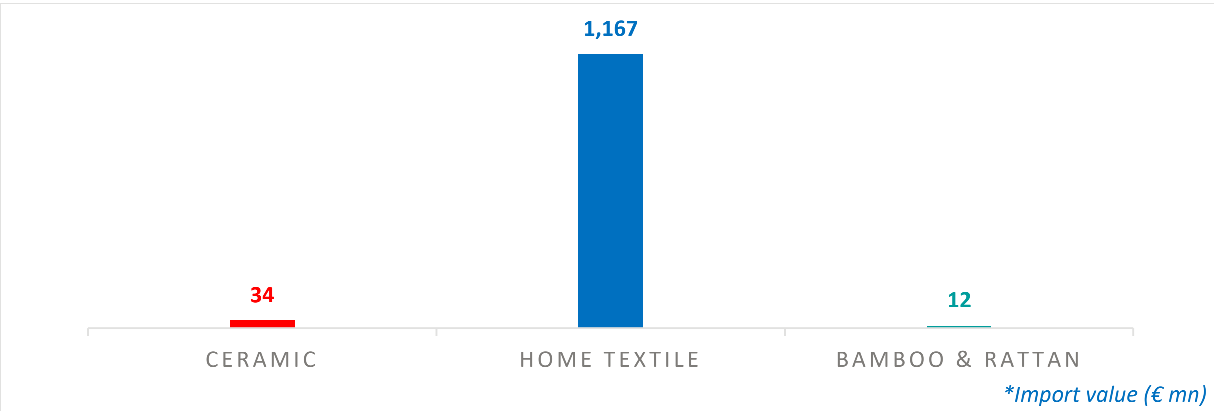


Figure 15: **Home Décor Import Value, 2015**
Source: Trade Map

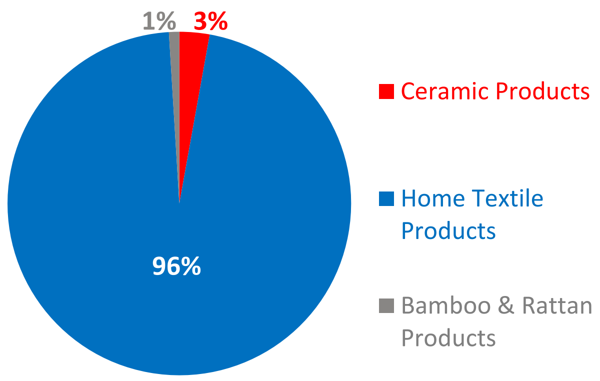


Figure 16: **Home Décor Import Structure**
Source: Trade Map

The majority of home décor imports are home textile products, which include tapestries, carpets, bedding, curtains and other textile products. Vietnam's custom law dictates that home décor and furniture imports are taxed at 25% duty tax, unless the exporting country is in a free trade agreement with Vietnam. For example, China can export home décor and furniture products into Vietnam with a preferential rate of 0%. However, as soon as the EVFTA comes into effect, European countries will be able to export their products into Vietnam at 0% duty tax which will make European products more competitive.

On the other hand, upcoming FTAs like the EVFTA will intensify the competition for small and medium domestic market-oriented manufacturers since more foreign competitors will be driven to enter the market, selling products at a lower price than currently. Import home décor and furniture is hoarding 80% of the domestic market.

IV. Home Décor and Furniture Export

1. Home Furniture Export

Vietnam ranks 1st in Southeast Asia, 2nd in Asia and 4th worldwide in wooden furniture export. The figure below shows that in 2015, Vietnam exported €6.3 billion worth of home furniture products and €1.5 billion worth of home décor products. Over the period of 5 years from 2010-2015, both industries, home décor and furniture, have been growing at a rapid rate of 10.9% and 12.4% respectively.

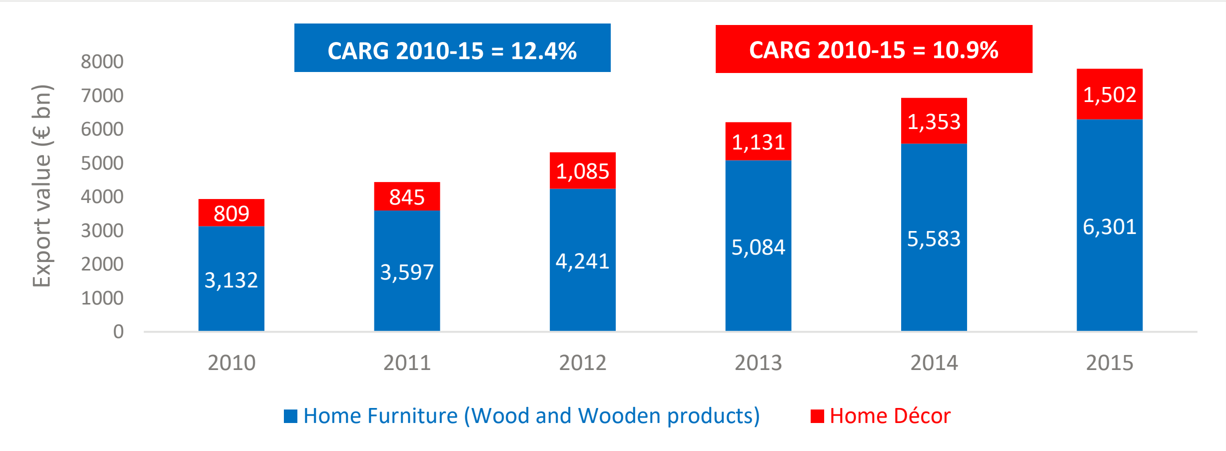


Figure 17: **Export Value of Wooden Furniture, 2010-15**
Source: Vietnam Customs

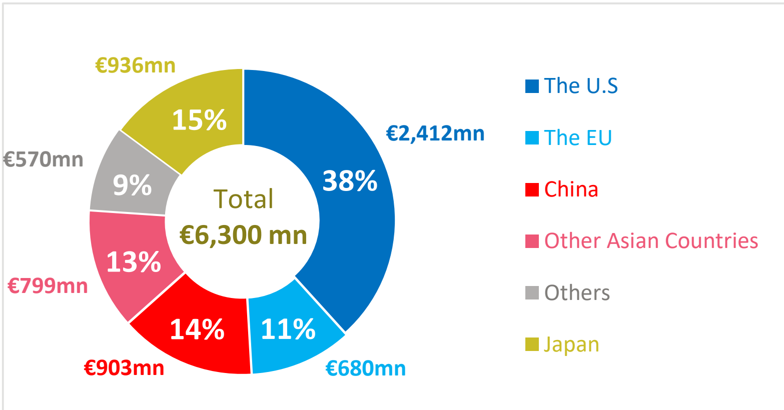


Figure 18:
Market share of Furniture Export by Countries, 2015
Source: Vietnam Customs

Vietnam's wooden furniture is exported to more than 100 countries. Vietnam's biggest furniture export markets remain the US, China, the EU and Japan. In 2015, the US alone accounted for 38% of total export value of home furniture, followed by Japan and China at 15% and 14% respectively. The EU together made up 11% of Vietnam's total export value.

Immediately following the implementation of the EVFTA, the EU will cut the import tariffs imposed on Vietnamese products such as textiles, and majority of furniture products to 0%. Nonetheless, exporters must be able to guarantee the statutory origin, meaning the material is not illegally harvested, and the sustainability of the timber material in compliance with the regulations of the Voluntary Partnership Agreement for the Forest Law Enforcement, Governance and Trade (VPA-FLEGT[1]). VPA-FLEGT is a bilateral agreement between the EU and timber exporting countries such as Vietnam, aiming at reducing illegal logging by strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber. The EVFTA is the first step to achieve implementation of the VPA that is currently being negotiated.

[1] http://www.euflegt.efi.int/vietnam

2. Home Décor Export: Home Textiles, Ceramic, and Bamboo and Rattan Products

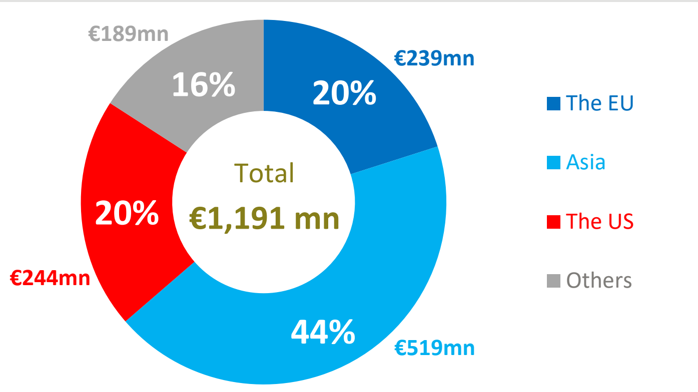


Figure 19: **Market share of Home Textile Export by Countries, 2014**
Source: Trade Map

Similar to home furniture export market, in 2014 although Asia, as a whole, accounted for the most share of Vietnam's home textile export value, the US alone was the biggest importer of Vietnam's home textile products, followed by the EU. Home textile includes both standard and ethnic products such as bed linen, table linen, carpets, tapestries, woven and crocheted products.

Besides the US, the EU was Vietnam's biggest market for ceramic product exports in 2014, accounting for a total of 44% of Vietnam's ceramic export value. Common ceramic export products include pots, vases and statuettes.

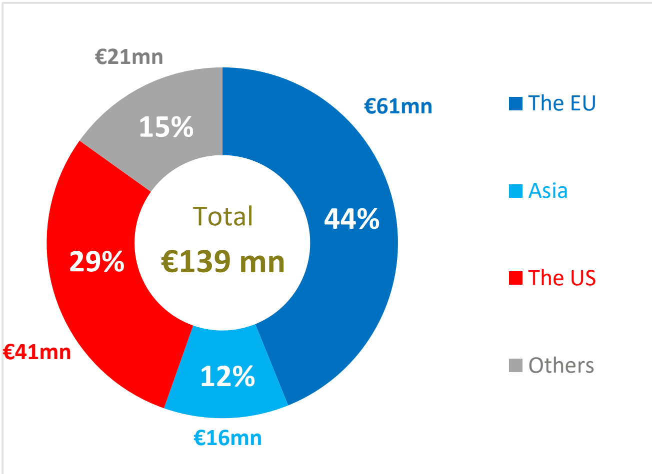
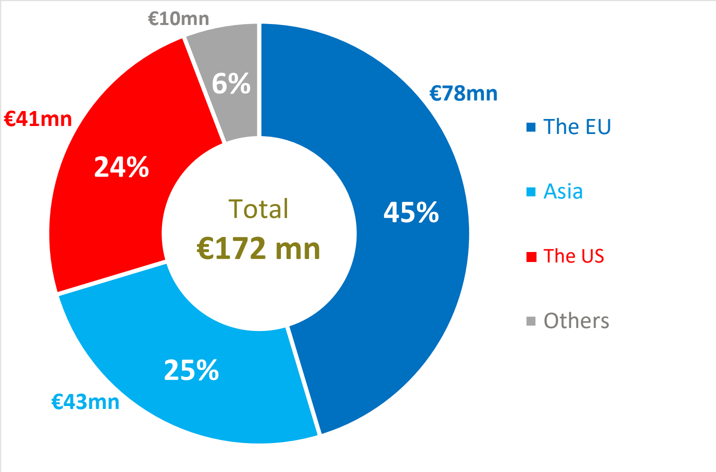


Figure 20: **Market share of Ceramic Products Exports by Countries, 2014**
Source: Trade Map



The EU accounted for 45% of Vietnam's total export value from bamboo and rattan products in 2014. Germany and Italy particularly prefer bamboo and rattan products from Vietnam.

Figure 21: **Market share of Bamboo and Rattan Exports by Countries, 2014**
Source: Trade Map

To increase export of home décor products, the Vietnamese Ministry of Agriculture and Rural Development is offering specific incentives including building and developing stable and sustainable zones for natural raw materials, developing traditional handicraft products using low-cost technologies and providing trainings. It is also boosting trade promotion abroad, especially in large and potential markets such as Russia, Australia, Latin America and Northern Europe.

V. Trends

Spending on furniture has been changing as consumers are increasingly willing to spend on mid and high-end home décor and furniture products with an estimated 1.5 million Vietnamese people capable of spending on high-end home décor and furniture products.

Products produced in Europe are in high demand for their top-grade designs and quality. The head of UMA, a foreign invested furniture company with a domestic manufacturing plant in Binh Duong, Vietnam, reinforces his agreement for this trend by commenting on the rising demand for contemporary styles that are mainly supplied by foreign imported brands and high-end domestic suppliers such as Nha Xinh. Much of locally produced products for domestic consumption are still made from average and low-value timber, such as particle boards and MDF. These products target low to middle-income consumer groups. However, as GDP per capita and household disposable income are on the rise, in the future the trend of western style products will create a pressure to local manufacturers to come up with innovative design to compete with foreign products.

There is a growing trend of the younger generation to move out of their parents' house. A traditional Vietnamese family usually consists of multiple generations living together under one roof. Now, more and more younger people have an option to move out, which leads to an increase in rental trend. They place greater emphasis on new and stylish furniture with affordable prices. Therefore, not only domestic manufacturers are trying to capture the growing home décor and furniture market, global giants like IKEA are also considering their potential for expansion to Vietnam. Mike King, retail manager of IKEA Singapore, Malaysia and Thailand expressed the company's interest in seizing the opportunity from Vietnam's rapid urbanization. IKEA is reportedly looking for partners in Vietnam.

VI. Key growth drivers

1. Economic Drivers

As Vietnam's economy continues to improve and grow, the home décor and furniture industry can also expect to grow along. Rising household income leads to improvement in living standard as Vietnamese consumers become more able and willing to spend more on high quality goods.

The construction sector is expected to grow at a steady high rate of 6% annually, Vietnamese consumers are showing a high demand for high-rise apartment buildings from mid to high end. Vietnamese consumers see property as a long-term investment that offers high return by renting out to young families and expatriates. Besides the demand for living space, the demand for office buildings is also on the rise because more foreign companies are looking to expand to Vietnam, and now foreign companies can buy back and own the buildings they have constructed. This demand in high-end office buildings pulls along an increase in the demand for office furniture and, in particular, décor items.

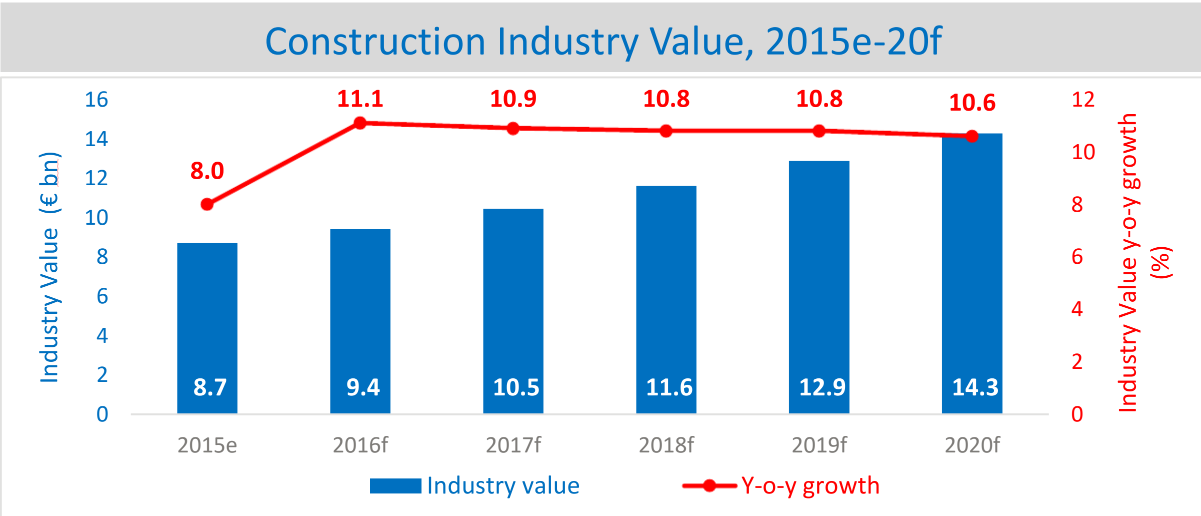


Figure 22: **Vietnam's Construction GDP 2015-2020f**
Source: Ipsos BC

2. FTA Drivers

A number of free trade agreements that Vietnam has recently concluded or negotiated provide a great boost to home décor and furniture export in the future. Examples of these agreements include the ASEAN Economic Community (AEC), the EVFTA, and the debatable Trans-Pacific Partnership (TPP), given the newly elected U.S. President expressed his strong opposition. These free trade agreements eliminate or reduce taxes for many key import products to Vietnam such as home décor and furniture. Before the EVFTA, Chinese manufacturers have the most advantage in Vietnam's market since they are able to take advantage of their mass production system that produces low price products, and 0% duty tax. Meanwhile, although there is a demand for western-style, high quality products, the prices remain high due to high duty tax on imported products from European countries. After the implementation of the EVFTA, European SMEs will become more competitive as the prices of their products can be lower, meaning European SMEs will be able to capture the unmet demand for home décor and furniture. Moreover, as taxes on Vietnam's home décor and furniture products are also levied, European SMEs can source Vietnamese products for European markets.

Product category	Base (%)	Year			
		1	2	3	4
Bamboo & rattan furniture	5.6	0			
Quilted textiles	8	0			
Earthernware or fine pottery	6	0			
Glass ceramic items for indoor decoration	11	8.3	5.5	2.8	0

Figure 23: **Tariff Schedule on Vietnam Exports of Sample Products**
Source: The EU Website

Product category	Base (%)	Year							
		1	2	3	4	5	6	7	8
Bamboo & rattan furniture	25	18.8	12.5	6.3	0				
Quilted textiles	12	0							
Earthernware or fine pottery	30	26.3	22.5	18.8	15	11.3	7.5	3.8	0
Glass ceramic items for indoor decoration	35	30.6	26.3	21.9	17.5	13.1	8.8	4.4	0

Figure 24: **Tariff Schedule on EU Exports of Sample Products**
Source: The EU Website

3. Low Labor Cost Driver

An increase of minimum monthly salary has been in effect since the beginning of 2015. The minimum wage per month depends on the region and is structured as follows:

- **Region One** (which includes urban hubs in: Hanoi, Hai Phong, Ho Chi Minh City) - €127
- **Region Two** (which includes rural surroundings of Hanoi, Ho Chi Minh City, Hai Phong plus the capital cities of Hai Duong, Hung Yen, Bac Ninh, Thai Nguyen, Nha Trang, Can Tho and Rach Gia) - €113
- **Region Three** (which includes capital cities and the main districts in the provinces of Hai Duong, Vinh Phuc, Phu Tho, Bac Ninh, Nam Dinh, Phu Yen, Dong Nai and Tien Giang, Ben Tre) - €98
- **Region Four** (the least developed areas in Vietnam, all other areas) - €88.

In comparison with other ASEAN countries and neighbours, the wage level of Vietnam is lagging behind. The labour cost of Vietnam is half of Thailand's, only one-third of China's, and even lower than the Philippines'. This drives the relocation of several furniture manufacturers from China to Vietnam as they seek to keep low costs since labor cost in China is on the rise.

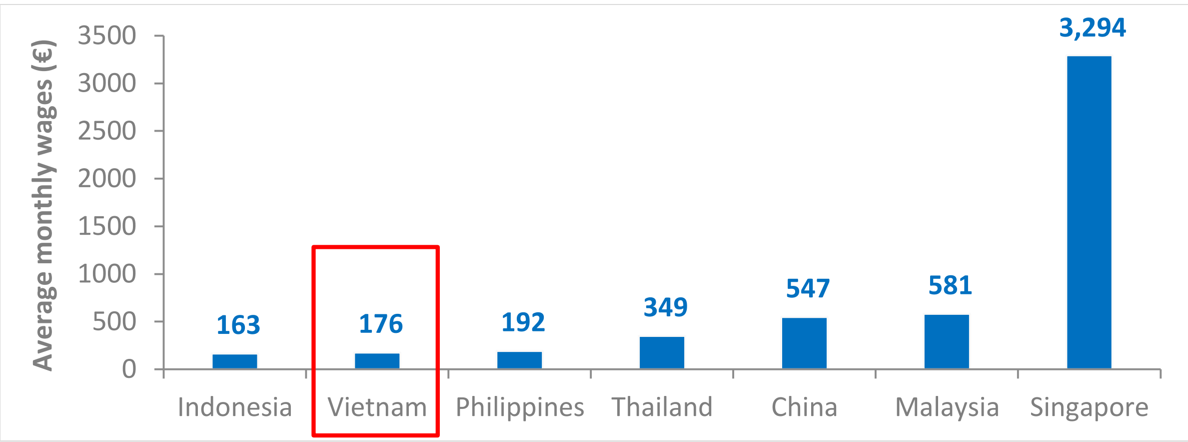


Figure 25: **Average monthly wages by countries in 2013**
Source: International Labour Organisation

3 COMPETITIVE LANDSCAPE

I. Overview

One of the most important competitive advantages that makes Vietnam a top choice for wooden furniture industry is the favorable environment for foreign investment. While labor wage in China is on the rise, Vietnam still offers a large pool of labor with a lower wage rate. Many new free trade agreements, such as the EVFTA, further make Vietnam an attractive production location, besides other benefits such as low operational costs, and stable political condition.

II. Case Study: Truong Thanh Furniture Corporation

Figure 26: **Truong Thanh Logo**
Source: Company website

Truong Thanh Furniture Corporation is one of Vietnam's top domestic manufacturers of wooden furniture. Established in 1993 in Dak Lak and later relocated to an industrial zone in Binh Duong in 2008. Truong Thanh currently employs 1538 skilled employees as of 2015. In 2015, Truong Thanh achieved a revenue of €105 million, an impressive increase of 75% from 2014. Truong Thanh offers a wide range of wooden furniture, from interior furniture such as bed frames, coffee tables, couches and wardrobes, to exterior furniture like garden chairs and tables.

Figure 27: **Some of Truong Thanh's products**
Source: Company website

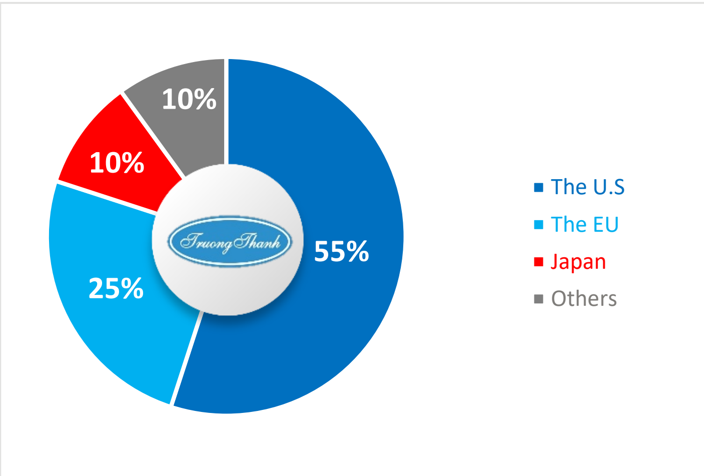


Figure 28: **Truong Thanh Export Structure**
Source: Viet Trade

The company exported about 70% of the total production to the EU, Japan, the U.S. and Australia. Its main foreign clients are retail giants such as Costco, Tesco, Walmart, IKEA, Lowe's and Pier 1 Imports.

Truong Thanh has planned to expand its domestic sales by expanding its distribution channel to 20 retailers across the country and targeting the high-end furniture segment by cooperating with Vingroup, Vietnam's retail giant.

III. Case Study: UMA

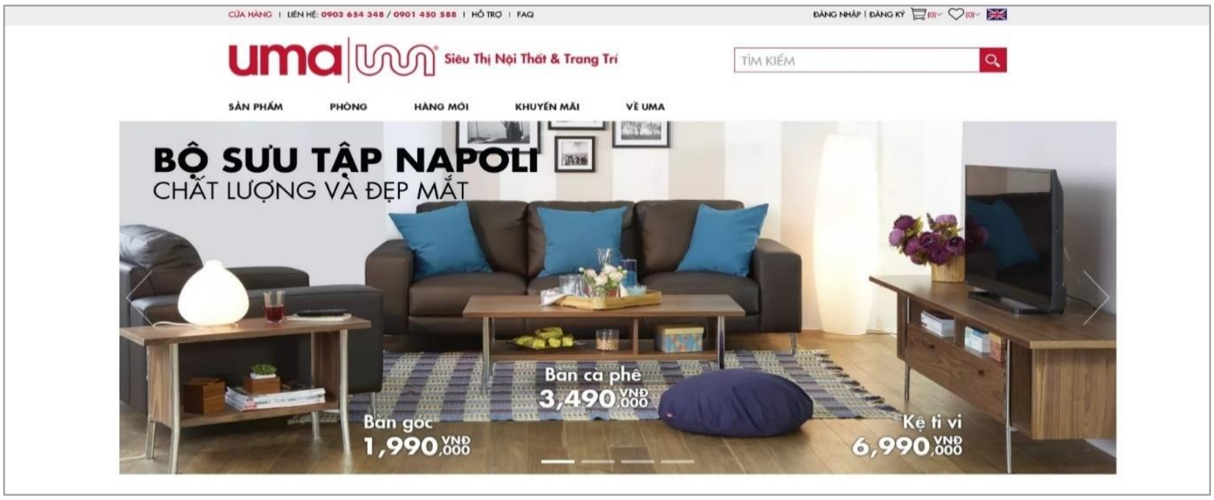


Figure 29: **UMA website**
Source: Company's website

Founded in 2006 as a 50-50 joint venture between two Sweden natives and a Vietnamese, UMA has grown from a small local business in Vietnam to become Vietnam's top furniture retail chain. UMA currently has 12 stores, 7 in Hanoi and 5 in Ho Chi Minh City. UMA offers a wide range of products from bedroom, living room and kitchen furniture to home décor items and accessories such as bedding, pillows, crockery, storage solutions and office amenities.

According to UMA, 85% of their products are produced by local Vietnamese manufacturers in compliance with Swedish designs and quality standards. It also has a design studio in Vietnam. UMA's success is credited to targeting the correct customer segment, which is middle income families and young professionals with a taste for IKEA feel. To keep prices low, UMA produces most of its products locally.

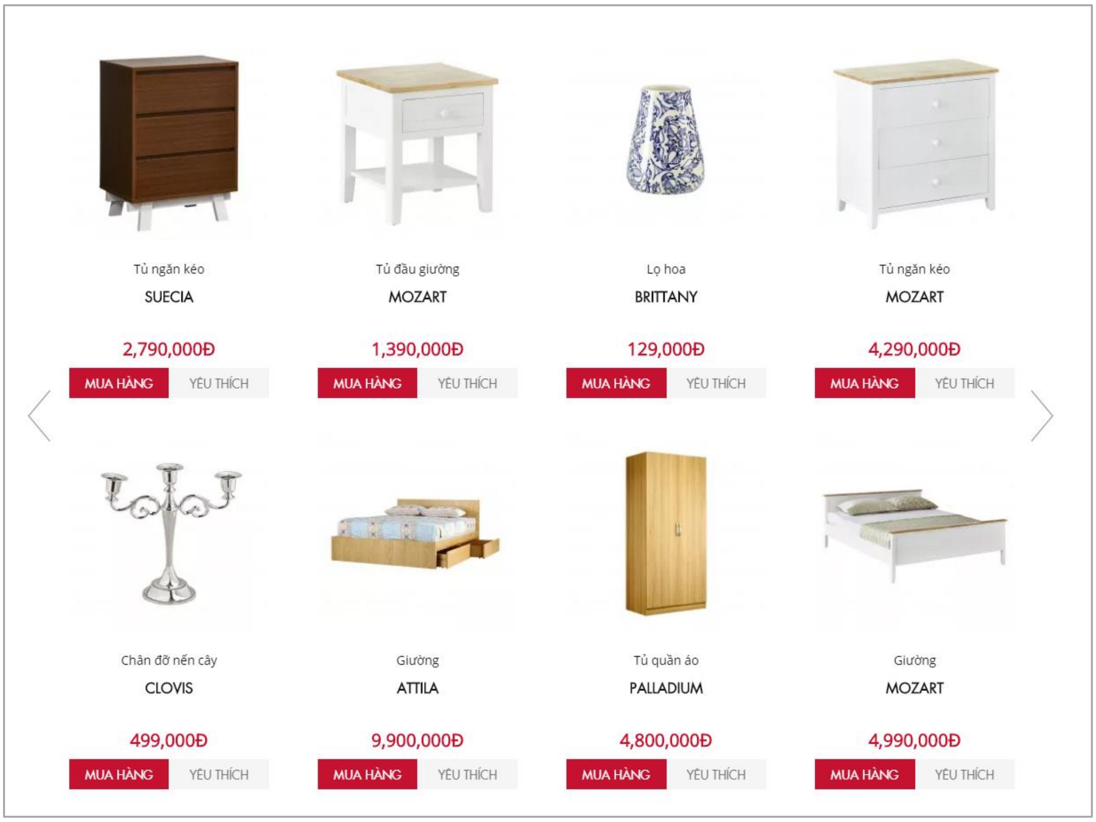


Figure 30: **Some of Uma's products**
Source: Company's website

Uma's products and shopping experience replicate that of its better known Swedish peer IKEA. The brand offers products sold as a complete unit, or an option of delivery and assembly service similar to IKEA. This brand targets consumers who are looking for modern and western style furniture, hence, it is popular in the expatriate community and among young Vietnamese. UMA prices its products at low to mid-range with acceptable quality, meaning the products can last for medium term (3 to 5 years).

UMA's main channel is retail sale to end-users like homeowners. However, it also supplies for small projects such as office spaces and small hotels. The brand plans to expand its sales through online retailing with the creation of a working website that maximizes the convenience of online shopping to tap into the potential of e-commerce in Vietnam. It is also expanding its service by offering interior design service to attract more customers.

4 CLIENT AND DISTRIBUTION

I. Price Structure

Vietnam's furniture market can be segmented into common products and high-end products. Products in the furniture segment includes wooden furniture such as beds, tables, couches, chairs, wardrobes, drawers, and shelves. The price range below is the average price range of typical products.

Product segments	Name of manufacturers	Products	Lowest price (on average)	Highest price (on average)
Common products	HÒA PHÁT GROUP, XUÂN HÒA, Truong Thanh	Office chairs	€16 (400,000 VND)	€164 (4 million VND)
		Office desks	€25 (600,000 VND)	€246 (6 million VND)
		Dining sets (table & chair)	€123 (3 million VND)	€246 (5 million VND)
		Beds	€123 (3 million VND)	€369 (9 million VND)
High-end products	nhà xinh, AA Corporation, BoConcept	Office chairs	€123 (3 million VND)	€819 (20 million VND)
		Office desks	€369 (9 million VND)	€942 (23 million VND)
		Dining sets (table & chair)	€1230 (30 million VND)	€+4095 (+100 million VND)
		Beds	€573 (14 million VND)	€2047 (50 million VND)

Figure 31: **Average price structure by segment**
Source: Companies' websites

Common products are made by local Vietnamese manufacturers with prices ranging from a few hundred VND to a few millions VND. High-end products are mostly imported or produced by foreign invested companies with prices starting at tens of million to hundreds of million VND. Despite their high prices, the demands are still high and on the rise thanks to their high quality and attractive design. They are popular among upper-class families and foreign offices.

Prices of locally produced handicraft and home décor items in Vietnam are higher than prices of imported Chinese products. Local manufacturers struggle to keep their prices competitive against imports from China as they are unable to match China's mass production capability since Vietnam's handicraft manufacturers are mainly small-scale craft villages. The price of low-end home décor items is usually less than €7, consisting mainly of terra cotta, bamboo and MDF products. Mid-end items cost between €9 – €18, often made of marble, lacquer and eggshell. High-end products usually range above €18 and from materials such as fiberglass and marble. Below are the prices of sample products in each price segment:

Product segments	Sample products	Common materials	Price range (based on segment and materials)
Low-end	  Garden pots, vases in ceramics, mother-of-pearl vases	Mother-of-pearl, lacquer, bamboo, terra cotta	**< €7**
Mid-range	  Bamboo vases, eggshell items	Marble, terra cotta, stone, bamboo, eggshell	**€9 – €18**
High-end	  Marble vases, lamps	Marble, fiberglass, pottery, wood, ceramic with intricate designs	**> €18**

Figure 32: **Average price structure by segment**
Source: Developing Country Sourcing

II. Profile of customers

There are two different groups of customers that can be identified in Vietnam's furniture market:

1. B2C Segment

Customers in this group are private consumers like homeowners. Manufacturers and importers sell their products to end-users who buy the furniture for the purpose of serving their livelihood. There is a difference in furniture-consuming characteristics between cities and rural areas.

- In rural areas, consumers still prioritize classic furniture items like bed, wardrobe and chest of drawers. There may not be much attention to the design as consumers in rural areas tend to prefer simple, traditional styles while also having less disposable income.
- In urban areas, consumers have interest in kitchen and functional furniture with emphasis on contemporary designs. Vietnamese consumers tend to seek social value from buying furniture and their social status can be reflected through the items they display in the house.

While many Vietnamese consumers buy furniture and home décor products at showrooms and furniture stores, half of the consumers visit workshops instead of stores to purchase custom made products with cheaper prices. This behavior is particularly evident in older generation consumers who tend to prefer products made from natural wood since they last longer, which is equivalent to more economic value.

Younger generation consumers tend to not care much for the material as long as the designs fit their taste and the quality is acceptable. According to a survey in 2012 by a report on the potential of Swedish furniture companies in Vietnam, Vietnamese consumers of all age groups find factors such as quality, functionality, aesthetic design and price are the most important influencers in their choice of furniture.

Vietnamese consumers also enjoy updating their homes with new furniture and décor items often. Based on the same survey, Vietnamese consumers tend to update their homes every 6 to 12 months. Consumers aged 24-35 tend to update their homes most frequently and consumers above the age of 55 rarely perform any update.

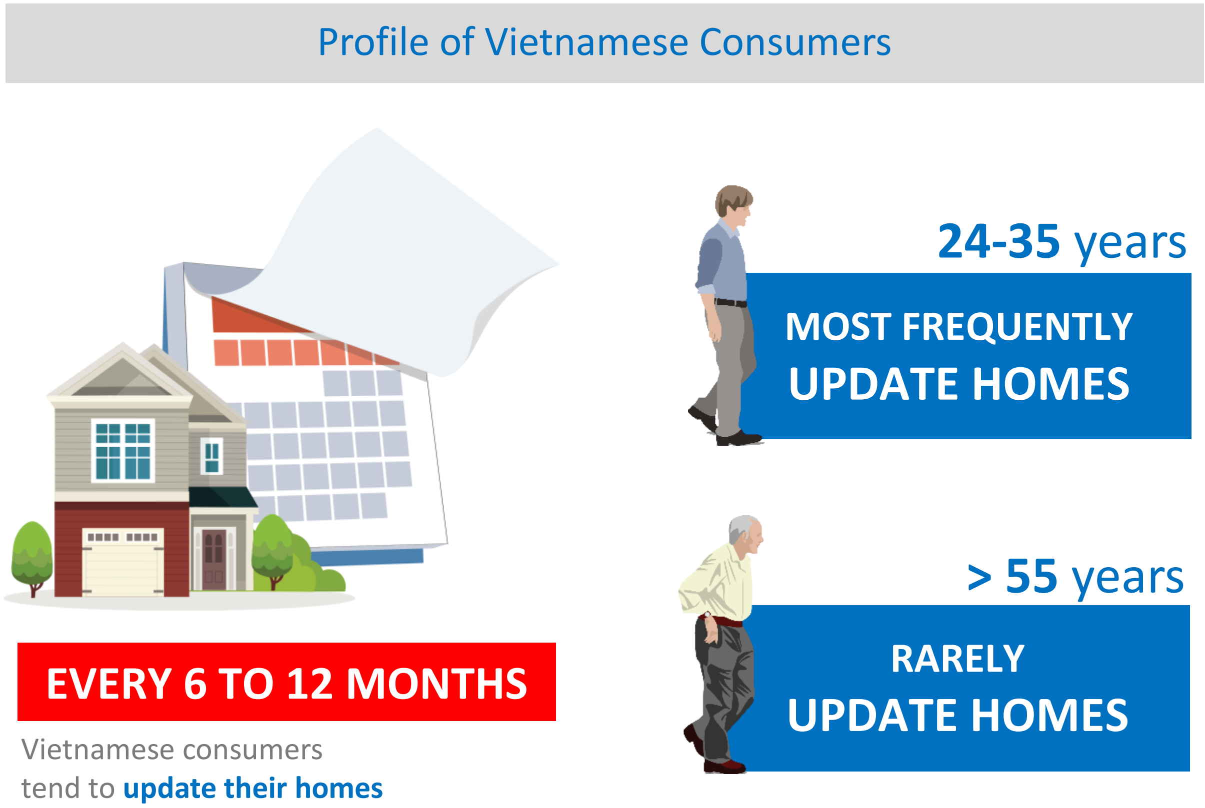


Figure 33: **Profile of Vietnamese Consumers**
Source: The Potential of Swedish Furniture Companies in Vietnam

2. B2B Segment

There are manufacturers that offer their own furnishing service like AA Corporation. AA Corporation is one of Vietnam's top furniture companies that also cover customers such as high-end hotels and cruise ships. The company receives funding from trusted investors such as Maj Invest Holding in Denmark. AA Corporation produces its own products and offers design and decoration services. Some of their top profile customers include Starwood group, Marriot, Hyatt and Fairmont.

Figure 34: **AA Corporation and their projects**
Source: Company website

There are two key factors that facilitate the growth of B2B customers in the hotel industry and the commercial building industry. Firstly, Vietnam is growing as a hot spot for tourists from over the world.

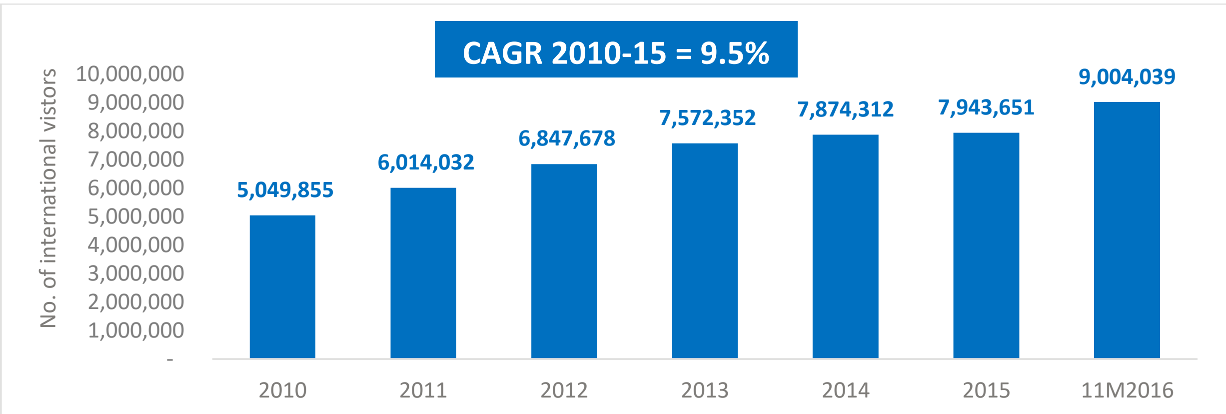
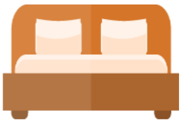


Figure 35: **Number of international visitors to Vietnam, 2010-11M2016**
Source: Ministry of Culture, Sports, and Tourism

Between 2010 and 2015, the number of tourists visited Vietnam grew by 9.5%. As of November 2016, 9 million international visitors have chosen Vietnam as their destination, contributing 6.5% to the country's GDP. Hanoi and Ho Chi Minh City are still the top two cities for tourists, while coastal cities like Da Nang and Nha Trang are growing in popularity, resulting in an increase in beach resorts. Vietnam's tourism industry is set to continue to grow for the foreseeable future as Vietnam continues to establish itself as a leading destination in Southeast Asia. Along with continuous improvement in infrastructure, more hotels can be expected to make their appearance to meet with the growing demand for room supply. Some upcoming high-end hotels include Dusit Thani Nha Trang, InterContinental Hanoi Landmark 72, and Hilton Da Nang.

QUICK FACT

7.9 millions
International arrivals in 2014



1,399
Number of new rooms in 2014
(Hanoi and HCM City)

Figure 36: **Quick Fact on Vietnam's Hotel Industry**
Source: Hotel Intelligence Vietnam

OTHER NEW HOTELS

The Reverie Hotel, HCM City: **257** rooms
Hilton Garden Inn Hanoi: **86** rooms

UPCOMING HOTELS:

Dusit Thani Nha Trang: **439** rooms
InterContinental Hanoi Landmark 72: **359** rooms
Le Méridien Saigon HCM City: **350** rooms
Hilton Danang: **193** rooms

Figure 37: **Quick Fact on Vietnam's Hotel Industry**
Source: Hotel Intelligence Vietnam

On the other hand, in Ho Chi Minh City, the demand for office buildings exceeds supply. Currently, most vacant office spaces in the centre districts of Ho Chi Minh City are occupied. Nonetheless, the demand for office space continues to rise. This is the result of foreign companies setting up representative offices in the city, and the rising trend of moving offices from private houses to office buildings to enjoy greater conveniences, including reasonable rental, while being in favourable locations. According to CBRE, as Vietnam continues to become an attractive country for foreign investment, there will still be a shortage of supply for office buildings. Both office buildings and hotels are potential clients for B2B service, and both offer a positive outlook to the home décor and furniture industry.

III. Distribution Channels

Domestic manufacturers have two channels to sell to domestic consumers and overseas consumers. Small, mid-size, and large manufacturers can sell their products to domestic consumers through distributors in the regions, who then distribute the products to a chain of furniture retailers. They can also sell their products directly to B2B clients like hotels and office buildings through furnishing contractors. On the other hand, small, mid-size and large manufacturers can reach export market consumers through exporters, who distribute the products to retailers like Pier 1 Import, IKEA, or through furnishing contractors to reach B2B clients.

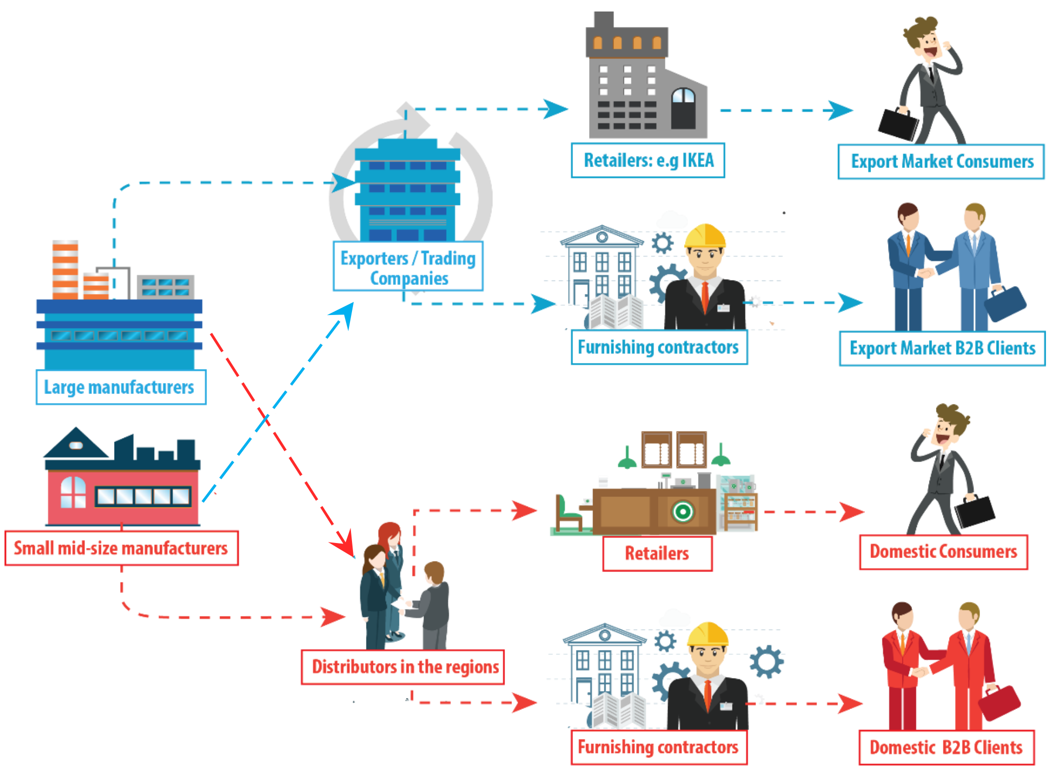


Figure 38: **Common Distribution Channel of Domestic Manufacturers**
Source: Ipsos Business Consulting

Common furniture products can be found in retailers like home-centres, where a mix of brands are presented as well as small individual street shops. In Hanoi, popular ‘furniture street’ includes Minh Khai and De La Thanh street. Meanwhile, in Ho Chi Minh City, consumers can find numerous street shops on streets like Ngo Gia Tu.

Figure 39: **Examples of Furniture Street Shops in Vietnam**

Foreign home décor and furniture products are typically imported into Vietnam by trading companies. They are then distributed to wholesalers. The products can either reach end-users through the retail sale channel, which consists of department stores and special showrooms, or through the project sale channel such as furnishing contractors for commercial spaces such as hotels and office buildings. The target customer segments of this distribution channel are upper-class families and high-end commercial buildings’ tenants.

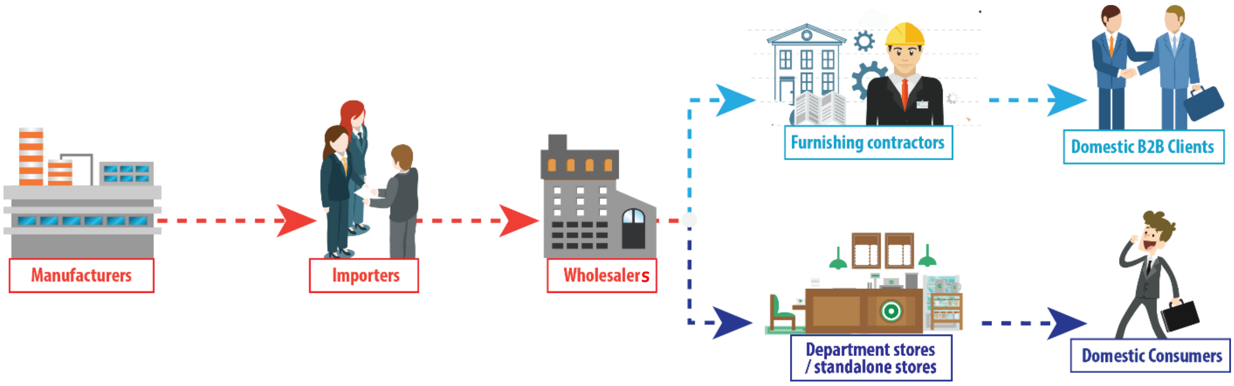


Figure 40: **Common Distribution Channel for Import Home Décor & Furniture Products**
Source: Ipsos Business Consulting

5 REGULATION AND LEGAL FRAMEWORK

I. Regulatory and Legal Framework of Home Décor and Furniture Industry

Vietnam currently taxes furniture imports at 25% duty tax and 10% value added tax (VAT). Vietnam applies preferential duty tax rates to countries with whom it has a free trade agreement.

Free Trade Agreement Names	Preferential Tax Rates
ASEAN[2]-China FTA (ACFTA), ASEAN Trades in Goods Agreement (ATIGA), ASEAN-Korea FTA (AKFTA)	0%
ASEAN-Australia-New Zealand FTA (AANZFTA)	7%
ASEAN-India FTA (AIFTA)	17.5%
Vietnam-Chile FTA (VCFTA)	19%

Figure 41: **Vietnam tax rates on furniture and home décor import**
Source: Vietnam Customs

[2] ASEAN countries include: Brunei, Cambodia, Indonesia, Vietnam, Thailand, Singapore, Lao PDR, Myanmar, Malaysia, and the Philippines.

II. Forms of Market Entry

1. Joint venture

This form is where foreign investor(s) jointly applies with a Vietnamese partner(s) to establish a company. The joint venture can be established as a limited liability company with more than one member, as a joint stock company or as a partnership. UMA furniture company started its investment under this form as a partnership between two Swedish partners and one Vietnamese partner. The benefits of this form of investment are the reduction in the cost of investments from the foreign investor side and the local partner's contribution of local market knowledge. Joint venture businesses are subject to corporate income tax (CIT) at 20% from 2016.

2. Wholly foreign owned enterprise (FOE)

A 100% FOE can be set up by one or more foreign investors and the investors are not subject to minimum investment capital restrictions. Besides being liable for CIT, FOEs also have to pay business license tax per annum based on the amount of registered capital:

Level of business license tax	Registered capital	Business license tax payable per year
Level 1	Over €410,000 (over 10 billion VND)	€120 (3 million VND)
Level 2	€205,000 to €410,000 (5 to 10 billion VND)	€80 (2 million VND)
Level 3	€82,000 to €410,000 (2 to 5 billion VND)	€62 (1.5 million VND)
Level 4	Below €82,000	€41 (1 million VND)

Figure 42: **Vietnam tax rates on furniture and home décor import**
Source: EY Doing Business in Vietnam

This form carries huge costs in term of time required to complete all investment steps such as establishing a manufacturing plant, and capital investment. Moreover, it is also subjected to more risks than other forms of market entry since the company will need a large sum of capital to cover operation, and if applicable, production costs. Many furniture FOEs in Vietnam are big export manufacturers from Taiwan and China like Great Veca and Grand Art Furniture.

3. Branch office

Foreign companies are allowed to establish branches in Vietnam to conduct trading activities. A branch office is defined as a dependent unit of a foreign entity that is permitted to conduct trade activities, and open accounts in Vietnam and transfer their profits abroad. To obtain a license for opening a branch office, the business must have been operating for at least 5 years as from the date on which it was legally established, or obtained business registration. The license last for 5 years and may be renewed. Similar to other forms, branch offices are subjected to CIT at 20% from 2016.

4. Representative office

A foreign investor can come into Vietnam's market without having to obtain investment licenses for establishing a legal entity by opening a representative office. Although a representative office is not permitted to conduct direct commercial activities, including sales or purchase of goods, it can study the business environment, search for trade or investment opportunities and partners, act on the behalf of its head office to negotiate and sign contracts, supervise the implementation of contracts and investment projects and promote its company's goods and services. Furthermore, no special taxes are applied to representative offices, except for personal income tax.

5. Franchise

Another way that a foreign brand can join Vietnam's market is by obtaining a license for franchise. This method was chosen by JYSK, a global furniture brand from Denmark. NeatClean JSC, its Vietnamese partner, obtained a franchise agreement with the brand to open its first two stores in Hanoi in late 2015.

The foreign franchisor is not required to establish itself as a business entity in Vietnam. It has the option instead to establish a representative office in Vietnam to oversee its franchise operations. In this case, the franchisor is considered a foreign contractor in Vietnam. If a foreign franchisor is a business entity in Vietnam such as a limited liability in Vietnam, then the franchisor is subjected to CIT at the rate of 20% from 2016. On the other hand, a franchisor as a foreign contactor is subjected to foreign contractor tax, which includes two components: VAT, and CIT.

Industry	Effective VAT	Deemed CIT
Trading: distribution, supply of goods, materials, machinery and equipment in Vietnam	Exempt	1%
Services together with provision of goods	3%	2%
Royalties	Exempt	10%
Manufacturing, other business activities	3%	2%

Figure 43: **Foreign contractor tax rates for relevant industries**
Source: EY Doing Business in Vietnam

III. Impact of the EVFTA on Vietnam's Home Décor and Furniture Industry

The negotiations on an EVFTA were concluded in December 2015. The agreement is foreseen to come into force in 2018. This is considered an important milestone for both Vietnam and the EU that reinforces the economic partnership between both parties. The EVFTA aims to increase FDI from the EU, which will bring along new skills, knowledge and technology for many industries in Vietnam, including the home décor and furniture industry.

There are two key benefits from the EVFTA for Vietnam's home décor and furniture industry. The first benefit is the lifting of duty taxes on both Vietnamese and European products. After the implementation of the EVFTA, European SMEs in the home décor and furniture industry will have better market access as more Vietnamese consumers will be able to afford European home décor and furniture products. On the other hand, as duty tax on Vietnamese products to the EU is lifted, European SMEs can source Vietnamese products for their markets.

Secondly, Vietnamese manufacturers will be able to purchase high quality raw wood material from Germany, Denmark and Sweden. Currently, Vietnam's furniture industry largely depends on import of raw materials from other Southeast Asian countries due to the restriction on domestic timber harvesting. Therefore, more high quality products can be produced to meet with the rising domestic demand.

The EVTFA also poses significant challenges for local manufacturers. Although the majority of manufacturers in the home décor and furniture industry are local private manufacturers, their share in the domestic market is humble compared to foreign imported brands. Therefore, local manufacturers will have to face intensified competition against European products, which are high in demand.

IV. Other FTAs that May Affect Trading Activities of European Countries

Besides other FTAs that Vietnam has with countries like Korea and China, which give these partner countries preferential tax rate on home décor and furniture, there are two other FTAs that may affect European trade with Vietnam:

- **The ASEAN Economic Community (AEC)**: an agreement between 10 ASEAN countries to form a competitive single market and production base with free flow of goods, services, labor and investments across 10 member states. The AEC can potentially put pressure on European brands to compete with products from other 9 member states, such as Thailand, who may be able to offer quality products at a lower price than imported European products.

- **The TPP:** an economic agreement between the U.S. and other member states such as Japan and Canada. The TPP encourages and allows freer movement of goods between the U.S. and its partners, including Vietnam. This FTA provides a huge opportunity for Vietnam to increase its share of the U.S. furniture market, its biggest export client, as well as its share of the world's furniture market. The TPP may pose challenges for some leading European suppliers of world furniture like Germany and Italy to compete against suppliers from other Asian signatories to the TPP.

Summary

Vietnam's home décor and furniture industry is expected to continue growing strongly in the foreseeable future. As Vietnam's economy continues to grow rapidly at 6% every year, GDP per capita will also increase alongside. This reflects a high CAGR of demand for both home décor market, and furniture market. The consumption expenditure on household goods and services is promising with 9% increase on average each year.

A rising economy with higher disposable income is one of the key factors for the growth of the home décor and furniture industry in Vietnam. Increase in income leads to a growing demand for high quality, contemporary European style products. Moreover, many upcoming FTAs between Vietnam and partners like the EU, ASEAN, and the U.S. expose Vietnam to greater opportunities to expand its overseas home décor and furniture markets in some key countries including the EU states, and the U.S. European SMEs can also take advantage of the levied duty tax on European products to expand their businesses to Vietnam, a potential market. Nonetheless, European SMEs should consider the negative effects such as intensified competition against Vietnamese products in the home markets, and potential competition with other trade partners of Vietnam.

There are a variety of options of market entry that European SMEs can look into such as the opening of branch office or representative offices, franchise, FOE and join-venture. One high-potential customer segment for European SMEs are B2B clients, such as hotels and office buildings as the demand for both are rapidly increasing. Interested European SMEs can look into providing products and decorating services for many upcoming hotels and office spaces through numerous distributors in Vietnam or a partnership with a furnishing contracting firm. Concerning time and investment required of a European SME, it seems that a joint-venture business or a branch office is the ideal form of market entry. The Vietnamese government is striving to improve the conditions to attract more FDI, such as reducing CIT from 25% in 2015 to 20% from 2016. Therefore, Vietnam can be an attractive location for European SMEs seeking to expand their market.

List of Trade Fairs and Exhibitions

Name and Content	Time	Venue	Organiser
Vietnam International Furniture & Home Accessories Fair (VIFA-EXPO) Indoor & Outdoor Furniture, Handicraft, Home Décor	Annually in March	Saigon Exhibition and Convention Center - SECC District 7, Ho Chi Minh City	HCMC Department of Industry and Trade Handicraft and Wood Industry Association of HCMC (HAWA)
Lifestyle Vietnam Home décor & handicraft, furniture, home textiles & embroidery, ethnic items	Annually in April	Saigon Exhibition and Convention Center - SECC District 7, Ho Chi Minh City	Vietnam Gift and Housewares Association (VIETCRAFT)
Vietnam Furniture & Home Furnishing Fair (VIFA HOME) 2016 Wooden furniture & home décor	Annually in November	Phu Tho Sporting Event Hall HCMC	Handicraft and Wood Industry Association of HCMC (HAWA)
Vietbuild International Exhibition in Hanoi, Danang, HCMC, and Can Tho Indoor & outdoor furniture, home décor, construction materials	**Hanoi:** Annually in March and July **Danang:** Annually in April **HCMC:** Annually in June & August **Can Tho:** Annually in October	National Exhibition Construction Hanoi	Vietbuild Construction International Exhibition Organization Corp

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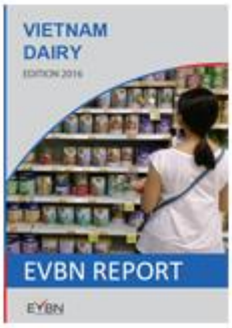

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