

**A STRATEGIC ANALYSIS OF THE FUTURE EXPANSION
OPTIONS FOR AN ESTABLISHED GAS COOKING
APPLIANCES MANUFACTURER IN VIETNAM**

by

**Yuen San Tang
B. Sc. (Hons), Universiti Putra Malaysia, 1999**

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Approval

Name: Yuen San Tang

Degree: Master of Business Administration

Title of Project: A Strategic Analysis of Future Expansion Options for an Established Gas Cooking Appliances Manufacturer in Vietnam

Supervisory Committee:

Dr. Neil R. Abramson
Senior Supervisor
Associate Professor of Strategy
Faculty of Business Administration

Dr. Pek-Hooi Soh
Second Reader
Assistant Professor
Faculty of Business Administration

Date Approved:

Abstract

This paper speaks to the prevailing business environment presently encountered at Kein Hing Industry Sendirian Berhad (KHI), a leading gas stove manufacturer based in Selangor, Malaysia. KHI manufactures gas stoves under the brand name “Zenne”. KHI aims to expand into Vietnam.

The scope of this paper covers topics such as company overview, external industry analysis, and internal company analysis using strategic tools such as Michael Porter’s five forces framework. This paper will evaluate each of the entry strategies for KHI to penetrate the Vietnamese market and conclude with recommendations for KHI’s expansion plan and suggest a sequence of implementation order and timeframe.

Dedication

~ To Mr. Toon Choy Yap, the Managing Director of KHI ~

Thank you for your support, advise, encouragement, and generosity that guided me throughout my one year MBA course. I truly appreciate that you have taken an interest to challenge me to be at best and mould me to become a better leader. I am looking forward to developing further as a leader and business person with your continuous guidance.

~ To My Parents, Mr. & Mrs. Kum Meng Tang ~

Thank you for your unending love and support throughout my lifetime. Both of you have given me so many opportunities to see the world from different perspectives. I love you both very much.

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1: Introduction

This paper presents strategic analysis of the potential for expanding the market share of Kein Hing Industry Sendirian Berhad (KHI), a leading gas cooking appliances manufacturing company, into the Vietnamese market.

1.1 Purpose

The analysis will include an assessment of the current performance of the company and an external analysis. Michael Porter's five forces framework (Porter, 1980) will be employed to identify the company's key success factors compared to its competitors in the gas cooking appliance industry in Vietnam. The company will be compared with its major competitors on the industry's key success factors (KSFs) to determine potential opportunities and threats. The paper will propose a plan for capitalizing on the company's opportunities and ameliorating the threats.

This paper will also investigate foreign market entry strategies for the company to expand in the Vietnamese market. Each strategy will be evaluated on its feasibility. An internal analysis will be conducted using the Diamond-E Framework (Crossan et al., 2005). Each strategy will be weighed according to management preference, organization, resources and environment. Finally, the paper will provide recommendations and a time sequence for implementation.

1.2 Overview of the Industry

The gas cooking appliance manufacturing and distribution industry is a mature and fully saturated market with ample numbers of rivals making low cost and low quality cooking appliances. According to a survey conducted by KHI in 2007, the household penetration rate for gas stoves was 70% and for cook-tops it was 40% in Vietnam (Yap, 2009). The many burning accidents that originated from the illegal and dangerous usage of uncertified modified gas tanks caused the Vietnamese government to take some drastic measures and clamp down many gas stoves and cook-tops dealers. Furthermore, the sharp rise in the price of oil indirectly affected the price of gas. Certainly the biggest factor contributing to the increase in gas prices is the recent spike in oil prices. Crude oil reached more than US\$140 a barrel in July 2008 (Energy Economics Newsletter, n.d.).

Cooking with fire is deemed necessary throughout Southeast Asia where almost all families use it to cook their food. As opposed to an electric appliance, a gas fired stove generates instant and more easily controllable heat, which is desirable when cooking with a wok or a frying pan. Southeast Asia has a population of about 568 million people (Wikipedia, n.d.) and, using an average of 5 persons per unit household, there are an estimated 113.6 million households (Yap, 2009). The product usage life span of a gas cooker is an average of 10 years. The yearly consumption of gas cookers in this region is roughly 11.36 million units (Yap, 2009). Vietnam has a population of 87 million (Euromonitor, 2009b). This works out to a demand for gas cookers of about 1.74 million units per year. Vietnam's population is also very young; the average being about 22 years. Hence, Vietnam is an excellent market for KHI to venture into.

The government of Vietnam does not subsidize or control the supply of gas in the country. By letting the gas supply float with open market prices, the Vietnamese government chooses to encourage the broader economy's competitiveness, although overall it is a closed and controlled market. At present, the Vietnamese people are paying double compared to gas prices in the neighbouring countries, which heavily subsidizes gas supplies. Except for Myanmar, per capita incomes in Vietnam are the lowest in the Association of Southeast Asian Nations (ASEAN) region. The much higher cost of gas can be considered a burden to consumers.

Despite the higher price of gas, gas cookers still remain the most popular type of large cooking appliances in Vietnam (Euromonitor, 2009a). The other two types of cookers are electrical cooker and dual fuel cooker, both of which are commonly used in Western households. The price of the dual fuel cooker is considered almost out of reach for people of average income in Vietnam. Vietnamese between the ages of 45 to 49 have the highest average annual incomes at US\$1,098 (Euromonitor, 2008). Electrical service is unreliable throughout the country which presents a considerable hurdle for anyone wishing to sell electrical cookers.

According to a survey conducted by KHI, most of the urban residences in Vietnam's largest cities enjoy approximately 50 square metres of living space for a three or four person family. With limited space for living, life style priority is given to living room comfort rather than allocating space to a large cooking appliance like the dual fuel type. Furthermore, the price of the dual fuel cooker is way beyond most peoples' budgets. Therefore, the affordably priced, smaller sized gas stove is still a runaway favourite.

In 2007, 89.7% of the cookers sold in Vietnam were gas, 7.2% were dual fuel appliances and 3.1% were electrical (Euromonitor, 2009a). Since gas cookers still remain the top seller compared to other cookers, there is still a niche market among Vietnamese consumers that KHI can access. KHI's brand, Zenne, is still new in the Vietnamese cooking appliance market and has no significant market share at this moment.

There are five types of hobs or cook-tops: gas hobs, standard electric hobs, mixed hobs, vitro-ceramic hobs and induction hobs (Euromonitor, 2009a). Even though gas prices increased in 2007, gas hobs commanded the biggest share at 90% (Euromonitor, 2009a).

In Vietnam, the Quang Vinh Co Ltd with its Goldsun brand dominated 24% market share of large gas cooking appliances in 2007, followed by the Fagor brand carried by The Tristar Corporation with 15% and the Rinnai Vietnam Co Ltd with 7% (Euromonitor, 2009a). Despite that, according to Yap (2009), Rinnai is the bestselling brand in North Vietnam, followed by Paloma and Sawana respectively. Rinnai products are distributed from Rinnai Corporation Japan, which is the leader in the cooking appliance industry in Japan. Rinnai cooking appliances have existed for a long time in Vietnam (Euromonitor, 2009a). Paloma, Sawana and Magic Flame are other popular gas cooking appliances in Vietnam.

According to Porter (1980), there are three generic strategies that a company can use to outperform other companies. These three strategies are overall cost leadership, differentiation, and focus. Rinnai is using a differentiation strategy rather than a low cost strategy to compete in the worldwide cooking appliance markets. The Rinnai brand

is famous for safe and high technology cooking appliances. Paloma products are made in Japan and also use a differentiation strategy to market its products worldwide. KHI aims to compete in this high end consumers market using a differentiation strategy to market Zenne gas stoves and cook-tops. Fagor, a brand name originating in Spain, and Sawana, from Taiwan, compete with a low cost strategy. Magic Flame and Goldsun are two Vietnamese brands that also implementing a low cost strategy, combined with local adaptation to market their cooking appliances.

In Vietnam, there are two main segments of cooking appliances customers. The first category consists of customers with more purchasing power, who are less price sensitive and are willing to pay more for higher quality products. These affluent customers are willing to pay more for brands like Rinnai and Zenne. The second group of customers are cost sensitive. This group of customers will be attracted to ultra low cost cooking appliance products manufactured in China. There is a large volume of imitation cooking appliances made in China but imported into Vietnam using Japanese or European words for brand names. The Chinese products compete for sales on a low cost strategy.

The Vietnamese practice the centuries old tradition of having a family dinner every evening. It is an important and valued social ritual. Hence, in contemporary Vietnam, the gas stove has relatively recently replaced traditional ways of creating fire to cook. The result is that Vietnamese people have become more dependent on using gas cookers, not less. The demand will continue to grow at a high double digit growth rate.

1.3 Overview of the Company

Kein Hing Industry Sdn Bhd (KHI) was incorporated on 14th March 1981 in Selangor, Malaysia. From a humble beginning producing casings for florescent lamps and air conditioner parts, KHI has managed to carve a niche in the areas of sheet metal forming, precision machining and components assembly and even design and fabricate full tool sets in-house. Notably, KHI is one of the top five home appliances metal forming companies in Southeast Asia. It is also one of the pioneer companies to venture into precision cold forging technology as part of its horizontal diversification plan.

KHI's present workforce consists of 680 people in six Malaysian factories and 220 people working for its subsidiary company, Kein Hing Muramoto Vietnam Ltd (KHMV) in Hanoi, Vietnam (Yap, 2009). KHMV core business is metal stamping, machining and assembly of metal components. KHMV did not produce or assembly any cooking appliances components in Vietnam. However, the knowledge derived from their experience setting up this joint venture allowed KHI management to gain exposure to international business and collect more information about Vietnam before venturing into exporting gas cooking appliances to Vietnam. Both aspects of this learning experience reduce uncertainty.

KHI supplies products to major industries such as the automotive, electronic components, home appliances, and audio-visual equipment industries. KHI has more than two decades of established relationships with its key customers like Panasonic Manufacturing Malaysia Berhad (PMMA), Muramoto Industry Company Limited (Japan), Sanden International Singapore and Denso Malaysia Sendirian Berhad.

KHI parts making business has been profitable and they have made a calculated choice to go into product manufacturing and consumers marketing. The management decision to undertake forward integration of its business occurred somewhat by chance. KHI has supplied PMMA with gas cooking appliance components for the last twenty years. Because of events that occurred in Japan, Panasonic made a quick decision to close down this troubled segment of its business. Immediately, KHI submitted an offer to acquire the gas cooking unit. The deal went through and thus began a new chapter for KHI. KHI and PMMA had celebrated achieving 2 millions sets of production. Following from this achievement, KHI set its sights on a new horizon and established a new corporate mission. KHI had gained exposure before Panasonic ceased their gas cooker business. Expanding and diversifying its business portfolio to include gas cooking appliances is a natural course of business for KHI.

Zenne's gas cooking appliances were born in 2005 as the brainchild of a group of KHI employees. Zenne's name is synonymous with eco-technology and eco-friendly gas cooking appliance products. KHI bought the production line and equipment to manufacture gas cooking appliances after Panasonic gave up manufacturing its "Panasonic" gas stoves and cook-tops in 2004. However, KHI did not buy the "Panasonic" brand name. Therefore, it was an uphill marketing battle for KHI to penetrate the gas cooking appliance market with a brand name that was new to consumers.

KHI reckoned that there was still a potential market for KHI to market its gas cooking appliances under the brand name "Zenne". Hence, as part of KHI's differentiation strategy, the company diversified its business portfolio from component

manufacturing to product manufacturing. KHI's first product was double burner table top gas stove marketed as model KGS 101.

Zenne started off manufacturing and selling three models of double burner table top gas stoves and three models of single burner table top gas stoves. After the successful penetration of table top gas stoves penetrate into Malaysia's market, Zenne began manufacturing and marketing cook-tops (built-in hobs) in Malaysia. The photos of the double burner table top gas stove Model KGS601 and cook-top Model KGH201, which are both top selling models in Vietnam, are shown in Figure 1-1 and Figure 1-2 respectively.



Figure 1-1 Double burner table top gas stove (Model KGS601) that is selling in Vietnam presently

Source: (Zenne, n.d.)



*Figure 1-2 Double burner cook-top (or built-in hob) (Model KGH201) that is selling in Vietnam presently
Source: (Zenne, n.d.)*

The Zenne gas cooking appliances, which received keen interest from the local and oversea markets, have been steadily gaining acceptance and consumer confidence. It is also noteworthy that Zenne has achieved the standard recognized by Japan Gas Appliances Inspection Association (JIA) and Electrical and Mechanical Services Department (EMSD), Hong Kong. JIA certification is a standard of inspection and certification system that is compliant with Japanese and overseas requirements for gas appliances (JIA, n.d). Zenne is the only product line in Southeast Asia that has achieved these high standards of accreditation. Besides, KHI is also an ISO 9001 and ISO 14001 certified company by TUV Nord (Malaysia) Sdn. Bhd. and AJA EQS Certification Malaysia Sdn. Bhd. respectively. ISO9001 is the quality management system, and ISO14001 is the environmental management system. Both systems are international standards governed by International Organization for Standardization (ISO) (ISO, n.d.).

What attracted KHI to venture into Vietnam in the first place? Panasonic Home Appliances Vietnam (PHAV) was establishing factories in Thang Long Industrial Park,

Hanoi in 2003. PHAV encouraged its key supplier, KHI, to spread its operation to Hanoi as well. Kein Hing Muramoto Vietnam Company Limited (KHMV) was formed in 2003.

KHMV, located in Hanoi's Thang Long Industrial Park, is a joint venture between KHI and Muramoto Industry Company Limited (MIC). MIC is based in Kobe, Japan and has 16,000 employees worldwide with operations in the United States, Mexico, China, the Philippines, Thailand, Indonesia, Singapore and the Czech Republic. MIC core activities include press work, metal mould production and assembly (Muramoto Group, 2005). KHMV engages in sheet metal forming, precision machining, and components assembly for Panasonic Vietnam Company Limited and Canon Vietnam Company Limited.

With KHMV based in Hanoi, KHI had taken an 'adapting strategic posture'; having the physical factory in country gained the confidence of local cooking appliances distributors (Merchant, 2008). 'Adapting strategic posture' means a company chooses to take its current industry structure and its future evolution as given, and reacts to the opportunities the market offers (Merchant, 2008). KHMV is the key to gaining the confidence of Vietnamese distributor. It indicates that KHI is serious in marketing Zenne in Vietnam.

Zenne had successfully penetrated the domestic, Hong Kong, Singapore, Vietnam and Philippines market. KHI then started to export overseas using a global adaptation strategy by exporting its existing models to different countries. However, in the last two years, KHI began to better understand the local Vietnamese consumers' requirement for a cooking appliance. In Vietnam, consumers prefer the front face of tabletop gas stoves to be larger to project a classier image and indicate the household is part of the modern

Vietnamese life style. The marketing department of KHI collected this information and requested that the design change be incorporated in the new models. Objectively the changes are more product repackaging than performance advantage. However, product repackaging can create better product acceptance. KHI is flexible and will offer a few gas stove models adapted to local requirements.

Zenne is extremely energy efficient and designed to reduce the amount of carbon released into the atmosphere. KHI would like to participate and contribute to society by not contributing to global warming. KHI knows that it will not solve the global warming problem nor it is a “techno-fix”. Without doubt it is contributing to lowering the usage of gas, with a roughly 30% reduction compared to imitation brands (Yap, 2009). Quite simply, as the effects of global warming have worsened, KHI would like to contribute as part of its corporate social responsibility effort.

1.4 Overview Current Strategy in Vietnam

In Malaysia, KHI is undergoing a transition from components maker to consumer goods manufacturer. The venture into Vietnam puts KHI at a ‘level two uncertainty’. According to Merchant (2008), ‘level 2 uncertainty’ means the future can be described as one of a few alternate outcomes, or discrete scenarios. Another common situation for ‘level 2 uncertainty’ is that the value of the strategy undertaken by a company depends on its competitors’ strategies, and those cannot yet be observed or predicted (Merchant, 2008). Hence, the future options for expanding marketing of Zenne products in Vietnam includes export through distributors, licensing to a Vietnamese company, establishing

joint venture with local company or establishing wholly owned businesses (Beamish et al., 1997).

KHI has been in the Vietnamese market since 2007 by exporting through a sole distributor in Hanoi, the Nhat Hoa Company Limited or 'Cong Ty Trach Nhiem Huu Han Nhat Hoa' in Vietnamese. KHI took a 'no-regret moves' by building connections and networking with Vietnamese distributor and consequently gaining competitive advantage (Merchant, 2008). 'No-regret moves' are moves that will pay off no matter what happens (Merchant, 2008).

The Nhat Hoa Co. Ltd. (Nhat Hoa) is owned by Miss Le Thi Minh Hoa. The company has 15 years experience in importing and distributing gas cooking appliances for households and restaurants, gas accessories, electric refrigerators and other household devices. Nhat Hoa's office is located in the Hoan Kiem district with a showroom in the Ba Dinh District. This distributor has 22 employees, 300 dealers in North Vietnam and a branch office in California, United States (Nhat Hoa, n.d.). Currently, Nhat Hoa is also distributing and selling gas stoves under the brand names Sawana and Nikko from the Taung Liang (Vietnam) Co Ltd.

Nhat Hoa distributes Zenne gas stoves and cook-tops to its dealers located around Hanoi. The problem with the current distribution method is that it makes KHI 100% reliant on Nhat Hoa's effort to distribute its products. Nhat Hoa is carrying Zenne's competitors brand at the same time. KHI does not possess any information about the dealers to whom Zenne products are being distributed. Even though KHI has been building excellent business relationship with Nhat Hoa in order to market its products in Vietnam, KHI cannot establish a direct connection to any of Nhat Hoa's dealers. KHI's

dependence on one sole distributor will hinder its progress to rapidly penetrate and take a dominant market share of gas cooking appliances in Vietnam. KHI's management team views the slow progress of market penetration as an area of concern which needs to be addressed quickly.

KHI entered Vietnam in a low risk manner due to their unfamiliarity with Vietnamese culture and the high level of uncertainty associated with government policies. Although, KHI has managed to tap into the cooking appliance market in Vietnam with low start up costs and gained more familiarity and experience from dealing with its distributor, it is natural for KHI to want its strategy to evolve to one with more potential.

KHI began venturing into Vietnam through directly exporting products, which is the best entry method for a neophyte company to minimize international market and political risks rather than attempting to maximize control over a new international marketing operation (Root, 1987). The problem with the export strategy is that it will most likely generate low sale volume and profit for KHI. Licensing, joint venture or wholly owned subsidiaries beckon as having a lot more potential than exporting. However, these alternative options pose greater risk for KHI's expansion. KHI concern now is whether to stick with exporting or advance into export, contractual or investment entry modes (Root, 1987).

Presently, KHI product strategy is based on differentiation rather than price. KHI differentiation strategy presumably offers additional value to customers who are willing to pay for. Table 1-1 illustrates the problems faced by KHI employing a differentiation strategy by exporting export through a distributor.

		Cost Based					Differentiation							
		Low Cost, Adequate Quality					High Quality, Adequate Cost							
		1	2	3	4	5	6	7	8	9	10			
Product Strategy	Source Rapid Follower						←————— X —————→					Innovative		
R&D Expenses	Low											X High		
Structure	Centralized						X					Decentralized		
Decision Making	Less Autonomy			X							Autonomy			
Production, Service	Economies of Scale											X Economies of Scope, Flexible		
Labour	Mass Production											X Highly Skilled, Flexible		
Marketing	Comparative, Push	X												Pioneering, Pull
Risk Profile	Low Risk						X					High Risk		
Capital Structure	Leveraged (Debt)	X												Conservative (Equity)

Table 1-1 Present KHI's Strategy Fit Grid (for Zenne gas stoves and cook-tops export strategy through a distributor)

Source: (Bukaszar, 2008)

KHI product strategy is to produce safe, reliable and high technology gas stoves and cook-tops rather than following other brands' trends. KHI made a very high investment to upgrade its research and development capability to produce quality gas stoves and cook-tops. However, exporting through a distributor affects the structure and decision making autonomy because the information that informs the KHI's decisions is filtered through the distributor. For example, the decision as to which dealers or retailers to distribute to is made by KHI's distributor and not by KHI. The net effect of this exporting strategy is that the distributor has final say in choosing the dealers or requesting changes to the gas stoves design to adapt to local requirements. Hence, more centralized

authority and low autonomy of decision making is moving KHI toward a cost based strategy rather than a differentiation strategy. The export relationship makes the differentiation strategy employed by KHI less effective.

With Zenne's order quantity still below 10,000 units per month, KHI cannot achieve economies of scale. KHI production has to adopt economies of scope and be flexible according to demand. In addition, KHI requires a highly skilled labour force to run components and assembly lines. KHI insists that all its production employees go through production training before running actual production. With the existing direct exporting strategy, the marketing score is low based on the 'push' system. KHI is facing a high risk with their capital structure based on debt because of the costly initial investment. Exporting through a distributor dilutes KHI's differentiation product strategy and makes it less effective, leading to the conclusion that a cost strategy may be more successful.

My nine years of experience in marketing, sales, quality control, and management in KHI prompted me to study the competitive forces faced by KHI, identify KHI's key success factors and future expansion options, and formulate strategies to help KHI stake out a position in its industry. Therefore, the purpose of this project is to remedy the problems inherent in a differentiation strategy and examining a potential expansion strategy for KHI, followed by recommendations and a sequence of implementation plan.

1.5 Scope, Methodology and Assumptions

The scope of this paper is to provide a basic framework for the company to access its market and to expand further in Vietnam. The primary research, including the facts and figures, comes from interviews conducted with KHI's Managing Director, email

correspondence with KHI's corporate planner and research engineer, reference books, websites and a literature review. The secondary research sources include field trips to investigate the gas stove market in Hanoi, Vietnam and the company's annual report.

1.6 Structure

The introduction has reviewed KHI's background and the cooking appliances industry in Vietnam. It also explored the options available for Zenne gas cooking appliances sales expansion into Vietnam.

Chapter 2 examines the external environment of the industry and competitors, based on the key success factor that will be identified. By listing the company's opportunities and threat and comparing them against its competitors, entry strategies are proposed (Root, 1987).

Chapter 3 is a critical analysis of the company internal strengths and weaknesses based on the Diamond-E Framework (Crossan et al., 2005). The analysis will be fitted into the company's management preference, organization structure and resources. This section defines what the company must possess in order to acquire a larger market share.

Chapter 4 is the recommendation for the company progress in Vietnam. The recommendation will be listed according to sequence and implementation requirements.

2: Industry Analysis – The Five Forces of Competition

Chapter 2 will examine the five contending forces faced by KHI and identify its key success factors. The purpose of using Porter’s Five Forces framework is to identify KHI’s competitive advantages or key success factors (KSF) over its competitors. KSFs are the basic source of competitive advantage that determine the success of a company in an industry. Next, a comprehensive competitive analysis will be conducted to benchmark KHI against its competitors. KHI will be compared against its direct competitors in relation to the key success factors identified earlier. After that, an evaluation of opportunities and threats will be discussed. Opportunities will highlight the areas in which KHI is doing better or could do better than its competitors, while threats will reveal where its rivals are or are likely to perform better than KHI. The chapter will conclude with a discussion of several proposed strategic options for KHI’s expansion by taking advantage of opportunities and mitigating threats.

2.1 Industry Analysis - Porter’s Five Forces

Porter’s Five Forces highlight five contending forces including the entry of new competitors, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitutes, and the rivalry among existing competitors that determines the profitability of an industry, and are of great importance in strategy formulation (Porter, 1979). In Porter’s book, *Competitive Advantage* (1985, p4), he states that “the collective strength of these five competitive forces determines the ability of firms in an industry to earn, on

average, rates of return on investment in excess of the cost of capital.” According to Porter (1979), understanding these forces also proves helpful when considering areas for diversification and finding a position in the industry from which a company can best defend itself against these forces or can influence them in its favour.

In this section, Porter’s Five Forces analysis (Porter, 1980) will be used to examine all the five contending forces (threat of entry, powerful buyers, powerful suppliers, substitutes, and intensity of rivalry) to develop an external analysis of KHI’s decision to attempt to expand Zenne’s market share in the Vietnamese market. I understand that industry analysis deals with forces that affect all the companies in the industry. However, I have chosen to present more illustrative examples from KHI and its rivals to add depth to this paper.

2.1.1 Threat of Entry (High Threat)

According to Porter (1980), the threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect. In actual fact, the existing competitors were counting how many months Zenne would be able to survive in the cut-throat gas cooking appliance industry (Yap, 2009). The existing competitors have somehow dropped into the zone of marketing convergence, selling based on price only. Zenne is keenly aware of being a new entrant; it must start out with some new marketing approaches. There are seven threats of entry that can be assessed as high threats in the gas cooking appliance industry. The barriers to entry include economies of scale, production differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale, and government policy (Porter, 1980).

Economies of Scale (-)

According to Porter (1980), economies of scale refer to declines in unit costs of a product (or an operation or function that goes into producing a product) as the absolute volume per period increases. In relation to economies of scale, new entrants are limited to two options. The company will either come in at a large scale and risk a strong reaction from the market or come in as a small scale operation and accept cost disadvantages (Porter, 1980). Since KHI made a modest entry, the economies of scale affected KHI in the areas of research and development overheads, material purchasing, and higher assembly costs (Yap, 2009).

As KHI adopted an exporting approach to enter Vietnam, therefore, the expectations for supplying large volumes to compete in the market will be limited. With this approach, KHI obviously incurred a lot of shipping, packaging, warehousing, and insurance costs. With these extra costs, KHI may have difficulty competing with Rinnai in terms of profitability. KHI continues to do metal stamping and machining processes and the machines used to produce gas stoves are the same as the machines used to produce components for their existing multinational customers. Consequently, KHI is able to share a large proportion of the cost associated with manufacturing gas stove components.

The cost of marketing Zenne is very much inversely proportional to the volume of gas stoves delivered to Vietnam (Yap, 2009). As KHI has to rely on Nhat Hoa, Zenne's marketing movement has been very much restricted. According to Yap (2009), KHI was unable to achieve economies of scale and this constituted a setback for Zenne brand expansion.

Product Differentiation – Brand Identification (+)

In order for Zenne to stand out and be differentiated from competing products, KHI needs to create brand identification and customer loyalties (Porter, 1980). Although KHI bought the production line from Panasonic, capturing customer loyalty for the Zenne brand name would be a long drawn out process, given that the brand hardly existed two years ago. For a new entrant like KHI, the start-up losses will persist for an extended period of time before Zenne overcomes customer loyalty to existing brands (Porter, 1980).

However, the scenario was different for Rinnai in Vietnam. Being the first mover in this industry, Rinnai has gained more customer loyalty because its brand has already been well known for high quality cooking appliances since its establishment in 1920 in Japan.

According to McMurray (1959), stove manufacturers adopted the marketing technique of pasting large inspection tags or certificates with the stoves' serial numbers and some Japanese words to create a better impression with customers. In Vietnam, Zenne used a similar marketing technique; they used Japanese wording and a "Made in Malaysia" logo. Moreover, gas cooking appliances made in Malaysia are perceived to have higher quality because Panasonic used to produce kitchen appliances in Malaysia, which were exported to the Vietnam market (Yap, 2009). During those years, all the Panasonic products' packaging included the distinctive words "Made in Malaysia". Presently, Vietnamese consumers have a general belief that foreign products, suggested by the "Made in Malaysia" label, are of better quality than products made in China or even in Vietnam itself. To penetrate the Vietnamese consumers' mindset, the perception that foreign products are of high quality becomes a key success factor for KHI.

KHI emphasizes the importance of research and development (R&D) for higher quality gas stoves and cook-tops. Hence, KHI has a good R&D team and testing facility in Malaysia that enables KHI to achieve the objective of competing based on a differentiated strategy and to be at par with or even better than Rinnai's cooking appliances. KHI owns Horiba brand carbon dioxide testing equipment from Japan to test the carbon dioxide and carbon monoxide levels produced when gas is burned by its products. Carbon monoxide is toxic when inhaled. Acute carbon monoxide poisoning can lead to unconsciousness and even death. Zenne's gas stoves and cook-tops release 40 percent of the carbon monoxide and carbon dioxide levels specified by Japan's Gas Appliances Inspection Association (JIA), which means their emission rates are far below the maximum allowable standard (Yap, 2009). According to Thiem Sui Wong (2009), a KHI Research Engineer, the test that he conducted for carbon monoxide emission rate and percentage of heat efficiency, indicated that Zenne produces lower carbon monoxide emission rates and higher percentages of heat efficiency compared to Rinnai's single and double burner gas stoves.

Compared to conventional cast iron burners, the Zenne stainless steel burner has some technological advantages, which are an additional selling point that the dealers find appealing. 'Burner' is the term used to describe the assembled 'burner head' and 'burner body' in gas stoves and cook-tops. That is, the burner is the assembled component which releases the blue flame after combustion. 'Burner heads' designed with Zenne's 'twister flame' technology consists of a 'burner cap' and 'burner ring'. The non-magnetic, stainless steel burner cap is coated with high heat resistant layers to enhance durability.

The ‘venturi’ design ‘Burner body’ is shown in Figure 2-4. Stainless steel burners are better for the environment and easier to maintain compared to iron die cast burners.



Figure 2-1 Zenne’s burner cap
Source: (Zenne, n.d.)



Figure 2-2 Zenne’s burner head consists of a burner cap together with a burner ring that enables the system to draw clean air (O₂) and release nearly zero amounts of carbon monoxide (CO)
Source: (Zenne, n.d.)

KHI’s R&D is led by Masao Hara, a Japanese gas stove and cook-top expert designer. Hara designed the Zenne stainless steel burner that burns with a ‘twister flame’. ‘Twister flame’ is the term that Zenne uses to describe the design of the stainless steel gas burner that creates an intense whirling flame in the centre core, thus securing maximum

heat transfer. Zenne's 'twister flame' design is a breakthrough innovation from Japan's advanced technology. It burns vertically as opposed to a conventional stove's flame that shoots sideways and delivers less efficient heat transfer.

'Twister flame', a design that helps save gas, is key to marketing Zenne in Vietnam. This unique characteristic reduces both gas consumption and green house gas emissions (Yap, 2009). As a result, Zenne gas stoves and cook-tops save time and money and lessen the impact on the environment. KHI needs to aggressively promote 'twister flame', Zenne's key feature, to Vietnamese consumers. The present distributors and dealers like the technology. This burner head design enables the conversion of 90% to 98% of gas to flame (Yap, 2009). The best KHI's competitors can do is no more than 75% conversion from gas to flame, leaving a significant amount of unburned gas to escape into the surrounding area.



Figure 2-3 Zenne's 'Twister' flame design by KHI

Source: (Zenne, n.d.)

When some brands of gas cooking appliances brand are lit, the consumer can even smell the unused gas. This gas-leaking problem comes from poorly designed appliances, lack of consumer knowledge about gas and lack of government regulations or a legal framework for product liability (Yap, 2009). Besides its 'twister flame', Zenne also has to

promote and educate the Vietnamese about its ‘venturi’ burner body design. The ‘venturi’ burner body design generates the twister flame, which transfers maximum heat energy to the pot in the shortest time.

‘Venturi’ is the name of the Italian scientist who discovered the pressure differences when a liquid or gas passes through constricted pipe or tube (Yap, 2009). The ‘venturi’ burner body is the heart of the stove or cook-top. Air is mixed with gas prior to combustion in a gas stove cook-top. Zenne’s ‘venturi’ stainless steel burner body design enables a more complete mix of air and gas during combustion. Other brands, with different burner body designs, have less efficient mechanisms to mix the gas and air, which results in the release of a higher percentage of carbon dioxide and carbon monoxide. For example, the die cast burner body design used in Paloma gas stoves are is unable to mix gas and air as effectively as the stainless steel ‘venturi’ burner body.



Figure 2-4 ‘Venturi’ burner body assembled with burner cap manufactured by KHI
Source: (Zenne, n.d.)

In addition to the twister flame and the venturi burner, Zenne product performance is enhanced by a superior gas control valve. KHI machine Zenne gas control

valves in-house to the closest tolerances of the industry's highest standards. The Zenne valve controls gas volume per minute with a high degree of accuracy. Tuning the gas injection from high to low volume is as precise as a car engine's fuel injector. The gas control valve is capable of 36,000 turning cycles and will last for 9.9 years (Zenne, n.d.). As well, Zenne products are equipped with a safety valve that automatically cuts off the gas flow if the flame fails accidentally.



Figure 2-5 Gas control valve used in Zenne
Source: (Zenne, n.d.)

These technological aspects of Zenne are key success factors for KHI to compete with other brands in Vietnam. Since KHI is using a differentiation strategy, product differentiation would be a basis for competitive advantage, especially with more affluent customers. By incorporating higher technology and building better quality gas cooking appliances, KHI can charge more for better value. A foreign quality certification, by JIA, and more advanced technical innovations are Zenne's marketing strengths in Vietnam. An effective marketing strategy is an essential key success factor for KHI to gain entry into a new market. In order to stand out against the competition, KHI's marketing should emphasize Zenne's strong technological advantages. An effective marketing strategy

combined with Zenne's key design and technologically advanced features form the basis for a new first mover advantage for KHI.

Capital Requirement (-)

For KHI to compete with Rinnai, Paloma, Goldsun, and Fagor in Vietnam, significant financial resources are required. Zenne required USD \$100,000 to enter the Hanoi market (Yap, 2009). In order to expand into other major cities in Vietnam, additional hard cash injections will be needed. The capital required to cover start up losses, inventories, unrecoverable advertising costs and research and development is high for a small firm like KHI. However, being at level 2 uncertainty, this capital investment was a no regret move for Zenne when it entered the Vietnamese market (Merchant, 2008).

Cost Disadvantages Independent of Scale (+)

Established cooking appliance manufacturers, regardless of company size and economies of scale, may have cost advantages over new entrants. KHI has an advantage in terms of proprietary product technology, favourable access to raw materials, and existing learning and experience curves (Porter, 1980).

KHI invested heavily in research and development. This investment resulted in technological advancements becoming one of the key success factors that differentiate KHI from its competitors. KHI's advanced design characteristics are kept proprietary through patents. KHI has patented the "Zenne" brand name and its twister designed burner and partnered with Panasonic to promote the "Tornado" Range hood in its product

brochures (Yap, 2009). This pairing strategy will boost Zenne's image with Vietnamese consumers.

KHI also maintains good relationships with its metal suppliers like Sumiputeh Steel Centre Sendirian Berhad and JFE Shoji Steel (Malaysia) Sendirian Berhad in order to maintain a secure supply of the raw materials needed to produce the metal components for its products. In addition, KHI management frequently visits their component suppliers in Hang Zhou, China. Establishing contacts with principal suppliers in order to preserve favourable access to raw materials is an added advantage to counter barriers to entry for KHI.

KHI benefited from the knowledge it gained from being the main supplier of gas stove components for Panasonic over the past two decades (Yap, 2009). This experience provided KHI employees with skills needed to operate some processes related to manufacturing the components. As workers improve their methods, performance and techniques for measurement and control of operations, unit costs decline over time (Porter, 1980).

As the lead supplier to Panasonic for two decades, KHI management also learned Panasonic's strategy for building relationships with distributors and dealers. To establish the Zenne brand in the Vietnamese consumer's mindset and gain acceptance by dealers, KHI needed an effective advertisement and product promotion campaign. Cash rebates for dealers with good sales performance are non-existent in Vietnam (Yap, 2009). There are also no conventional incentive rewards, like overseas trips, to motivate dealers. KHI has organized trips for Vietnamese dealers to Malaysia, which was a tactic that Panasonic implemented in Malaysia.

Access to distribution channels in Vietnam (-)

According to Porter (1980), a barrier to entry can be created by the new entrant's need to secure distribution for its product. When KHI first entered the cooking appliance distribution industry in Vietnam, the market was already saturated with brands like Rinnai, Paloma, Sawana, Fagor, Goldsun, Magic Flame, and Chinese imitation brands served by the local distributors. KHI had chosen to export directly, which is the most common way for a manufacturer to penetrate an international market for the first time (Root, 1987). Exporting was a learning experience for KHI and enhanced their international sophistication, commitment and knowledge about doing business in a country with a different language and cultural background (Root, 1987). It also provided contact with distributors.

Nhat Hoa was the first distributor for KHI contacted. Nhat Hoa was chosen because it had experience handling a similar product line, was willing to carry inventories and cooperate with manufacturers, had excellent after-sales servicing capability, a good reputation with dealers or retailers, financial strength and overall experience (Root, 1987). Nhat Hoa is KHI's prime gas appliance distributor in North Vietnam (Yap, 2009). One of Zenne's key success factors is their ability to build a good relationship with Nhat Hoa's management. However, Nhat Hoa's dealer stores compete with Magic Flame shops in Hanoi.

Rinnai, being the first mover in Vietnam, gained competitive advantage. As the Rinnai brand is well known, securing distribution channels are not a problem for Rinnai. On the other hand, Goldsun is a local Vietnamese brand and is made in Vietnam. Goldsun can easily provide readily available service to its customers. Fagor is a subsidiary of the Spanish company Fagor Electrodomesticos, S Coop. In the Asia Pacific

region, Fagor has a presence in Malaysia, Thailand and Singapore as well as Vietnam. Magic Flame appliances are manufactured in China, but the owner is a Vietnamese who owns numerous stores in northern Vietnam. Hence, KHI has to place more emphasis on its marketing and technology in order to combat existing dominant brands that have been in the Vietnamese mindset for a long time.

Exporting is a competitive disadvantage to expanding foreign market sales because distributors generally do not push individual products as hard as the originating company. Companies with their own local sales and service outlets usually perform better in term of sales and profits. For KHI, being confined only to exporting will eventually become a barrier to more effective entry. Therefore, an effective entry strategy becomes an important key success factor in determining KHI's success in penetrating the Vietnamese market. Entry strategies such as investing in a joint venture or a wholly owned company can offer quicker and more reliable delivery of products to distributor, dealers, retailers or even consumers. These strategies also afford better provision of after-sales services, direct distribution through a loyal sales force, and project an image of a committed local company (Root, 1987). Hence, investment entry strategies create greater marketing advantages for the Zenne brand compared to the direct exporting strategy (Root, 1987).

Government Policy (-)

In Porter's book, *The Competitive Advantage of Nations* (Porter, 1990), government bodies established local product standards or regulations that mandate or influence buyer needs. According to Porter (1980), government can limit or even foreclose entry into

industries with controls such as licensing requirements and by limiting access to raw materials.

However, the Vietnamese government is encouraging the conversion from oil based charcoal to gas burning stoves due to environmental pollution and health issues. These initiatives created a window of opportunity for Zenne's safe, gas saving, energy efficient gas stoves.

Competitors' Retaliation (-)

In establishing a new brand, KHI faced stiff competition from local brands such as Goldsun and Magic Flame and international brand like Rinnai. Goldsun and Magic Flame that had penetrated Vietnam market long before Zenne arrived. It is relatively easier for these rival brands to be acceptable locally as the management of the companies promoting these products do not encounter a language barrier. As for Rinnai, the brand name is already well-known among Vietnamese for its consistency in making high quality products.

Rinnai's products are priced higher than Zenne products. Recently, Rinnai has come up with a new range of lower-priced products to compete with Zenne's pricing. This action suggests that Rinnai is retaliating because Zenne is gaining market share in this industry.

Summary

In the cooking appliance industry, being the first mover into any country is definitely an added advantage. Unfortunately, KHI did not have this KSF as the market in Vietnam is saturated with other well established brands. However, KHI's competitive

advantage lies in the ability to produce technologically advanced gas cooking appliances. KHI could possibly be the first mover in marketing such gas cooking appliances in Vietnam. Besides, foreign quality and an effective entry strategy also add strength to KHI's key success factors.

2.1.2 Powerful Buyers (High Threat)

According to Porter (1980, p.24), buyers compete in the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other at the expense of industry profitability. Buyers are powerful in the cooking appliance industry. This is particularly applicable to KHI. There are generally two categories of cooking appliance consumers in Vietnam, high and low end customers. The high end customers will have the financial strength and power to respond to a company that is competing with a differentiation strategy and sells superior quality products. KHI is competing with multinational companies (MNCs) that typically go for higher end customers that can afford and are willing to pay product differentiation costs. MNCs cooking appliances feature high technology, safety and are usually well marketed with good after sale customer service to satisfy high end customers' needs.

On the other hand, low end customers will be attracted by companies competing on cost and go for low-cost imitation stoves or cook-tops from China. Low cost is a competitive KSF for companies that cannot compete as well with a differentiation strategy.

Buyer switching costs (-)

It is relatively straightforward for KHI's buyers to switch to another brand of cooking appliances. The distributor or dealer faces relatively low switching cost. Since KHI is competing with other well-established companies, buyers are easily enticed when high technology products sell at reduced prices, and there are discounts for bulk purchases, and incentives like free vacation trips from these rivals. Given ample opportunities to switch, buyer power is enhanced and poses a significant threat to KHI (Porter, 1980).

Moreover, Zenne products are 100% more expensive than its competitors' (Yap, 2009). Hence, the hurdles Zenne faces to gain entry to retail channels are higher prices, low switching costs and dealer loyalty to existing brands like Rinnai. Competitive pricing is an important KSF in this industry. KHI has marketing and customer service teams that monitor Zenne's pricing compared to rivals and handle Vietnamese customers' requirements and complaints.

An intensive marketing strategy can be a KSF for KHI to compete with MNCs in terms of product differentiation. KHI needs to expand its promotion of the Zenne brand to Vietnamese consumers. In addition, availability of excellent customer service also influences a consumer's decision to buy a particular brand. Magic Flame offers 24 hour customer service in Hanoi. Excellent customer service is another KSF that KHI needs to improve in order to gain customers' confidence.

Buyer information (dealers, retailers, end consumers) (-)

In *Competitive Strategy (1980)*, Porter says that when the buyer has full information about demand, actual market prices, and even supplier costs, this usually

gives the buyer greater bargaining power than when the information is poor. Nhat Hoa, KHI's main distributor, is a local company with good connections to dealers and full access to cooking appliance market information. Therefore, they are in a good position to command favourable prices from KHI.

KHI needs to invest more time to build a better relationship with Nhat Hoa, as Nhat Hoa controls most of Zenne's buyers' information. Even though Nhat Hoa does not disclose who their dealers are or the volumes purchased by each dealer, KHI needs to maintain the relationship with Nhat Hoa in order to continue exporting into Vietnam. The present good relationship with Nhat Hoa is a KSF for KHI to successfully penetrate the Vietnamese market.

According to Porter (1980), retailers can gain significant bargaining power over manufacturers when they can influence consumers' purchasing decisions. Knowing that the distributor is free to promote whatever brand they prefer to dealers or end consumers, KHI has to develop some incentives to motivate distributors to promote Zenne products. KHI has been organizing dinners, company parties, golf tournaments and overseas trips for distributor and their dealers to enhance its KSF in building relationships.

Price Purchases (-)

When KHI first entered the Vietnamese market, it did not sufficient 'local' knowledge to sell directly to consumers. KHI has to export through a distributor or dealer in Vietnam. This export strategy means that each transaction involves substantial volumes. The size of each sale raises the importance of the buyer's business to KHI (Porter, 1980). When a distributor purchases Zenne gas stoves and cook-tops from KHI, the wholesale price is a significant fraction of the buyer's total costs. The distributor's or

buyer's profit comes from selling to consumers at a price higher than the price purchase. Since the initial purchase price is the largest portion of the buyer's costs, buyers are price sensitive and tend to purchase selectively. Competitive pricing and technological advantages are among the reasons buyers select Zenne products and constitute KSFs in this industry.

At present, the dealers in Vietnam are buying based on price and do not have a good selling strategy. In order to persuade dealers that they should pay more for higher quality products, Zenne needs to emphasize its selling points: technology, foreign quality, safety and reliable customer service. However, if KHI enters using an investment strategy, such as joint venture or wholly owned subsidiaries, KHI could sell directly into the market. An investment entry strategy would be a KSF for KHI to gain more market share and reduce the power buyers have under a direct exporting strategy.

Impact on Quality (+)

When the quality of the gas stoves or cook-tops is important to enhance a buyer's reputation, they are generally less price sensitive (Porter, 1980). Fortunately, Nhat Hoa places high importance on maintaining a reputable name in the industry and, therefore is willing to sell higher quality cooking appliances to dealers and end consumers. KHI's KSFs lie in manufacturing better quality products and maintaining a good relationship with this distributor.

Most consumers not understand the mechanics of gas combustion or how product design contributes to safety or fuel efficiency. Therefore, low-priced gas stoves from China have a distinct price advantage for low end customers. Even though Zenne claims

to have higher quality products and competes on a differentiation strategy, it will be beneficial if KHI can find a way to educate Vietnamese consumers about efficient gas usage (Yap, 2009). KHI should promote its technology, such as ‘twister flame’, ‘excellent burner body design’ and safety features, to high end customers. A more intensive marketing strategy, such as distributing more product catalogues that emphasize Zenne’s technology and participating in exhibitions and promotional events, should enhance KHI’s competitive advantage.

KHI is compliant with the JIA H001 which is the basic inspection standard for gas appliances for domestic use conducted by the Japan Gas Appliances Inspection Association (JIA) (JIA, n.d.). This certification adds value to Zenne as a highly quality product. This foreign certification and the perception that foreign products are of better quality than domestic products are important KSFs for Zenne.

Threat of backward integration (+)

Powerful buyers can pose a threat of backward integration (Porter, 1980). This threat could occur if the distributor or dealer works with low cost manufacturers from China to produce and compete with low-end products. Similarly, the distributor can form a joint venture company with MNCs to dominate the high end cooking appliance market. At this time, the chances of backward integration by dealers and distributors are still slim. Maintaining the KSF of a good relationship with a distributor is still beneficial to KHI. Alternatively, KHI may even consider doing a joint venture with this distributor to prevent backward integration and neutralized buyer power by forward integration into the buyer’s industry through this joint venture. This threat will be alleviated if KHI switches

from distributor to joint venture or wholly owned subsidiary since KHI controls the switching decision for its expansion. KHI was wise to gain experience in its target country through exports before it eventually undertakes another hurdle by investment entry (Root, 1987). An effective entry strategy is undoubtedly a key success factor for KHI to escalate its market presence.

Summary

The bargaining power of buyers poses a high threat for KHI. KHI should continue to maintain its KSF by continuing to foster a good relationship with its distributor in Vietnam. Besides, KHI should place more emphasis on marketing aggressively to promote the Zenne brand. KHI should promote Zenne as a product with higher technology values than its existing rivals. KHI should train more Vietnamese to provide convenience and assessable customer service to high end consumers. Competitive pricing is another KSF in this industry when it comes to buyers' selection of which brand to purchase when there is a wide range of high end products to choose from. Foreign quality becomes a key success factor in Vietnamese consumers' mindsets when it comes to purchasing gas cooking appliances. By expending more effort on these KSFs, KHI is gaining more a broader experience curve in exporting and perhaps moving towards more risky but rewarding entry strategies such as joint venture or wholly owned subsidiaries in the future.

2.1.3 Powerful Suppliers (Low Threat)

Suppliers can reduce an organization's profit by raising their prices or reducing the quality of goods or services (Porter, 1980). When discussing KHI, the term

'suppliers' refers to labour, sheet metal suppliers, rubber component suppliers, tempered glass suppliers, bolts and nuts supplier, casting component suppliers, and stickers, labels and packaging materials suppliers. Since, KHI is producing the metal body of the gas stoves in Malaysian factories; this competence reduces the dependence on others.

However, KHI is dependent on suppliers with sources from Japan, Thailand, North America and Europe for raw materials. KHI also did machining in-house on casting components purchased from suppliers. KHI's machining processes refine the purchased components to more precisely fit the assembly of gas stoves and cook-tops. The quality of die casting components supplied to KHI is insignificant, since KHI has to perform secondary processes after receiving the components.

Suppliers parts concentration (+)

For cooking appliance manufacturers, any changes in the supply chain can also produce market threats (Meredith, 2007). The supply threat can come from a manufacturer in China that would be willing to copy Zenne's gas burner design, supply on original equipment maker (OEM) basis and find its way forward in the chain and into the hands of Zenne's competitors.

The market threat can exist from both parts and component suppliers. KHI management must be aware of any changes in suppliers' products and service offerings, especially if the suppliers are foreign producers located in different geographical locations, because this often makes it difficult to detect any changes (Meredith, 2007). For instance, Malaya Spring Industries, based in Malaysia, supplies Zenne with plastic components and springs. Using the knowledge gained from working with Zenne products, Malaya Spring Industries could sell to Zenne's competitors.

Zenne's main suppliers are Chinese. For example, the glass top for cook-tops and the flame failure device are all made in China. The dependence on sources from China poses a low threat to KHI. The majority of the components purchased, such as casting components, rubber parts, bolts and nuts, packaging and labelling materials, and tempered glasses can be obtained from other sources. Luckily these components are not dominated by a few companies, which reduce the supplier power threat for KHI.

KHI management also must be aware of any changes in materials management. For most burners, the conventional designs use ferrite cast iron, but Zenne uses stainless steel. Burners made from stainless steel enable a complete gas combustion, which produces a blue flame (Yap, 2009). Zenne's top panel also uses stainless steel. The top panel is covers the interior components of gas stoves. Stainless steel is commercially available, but at a price, thus lowering the threat of restricted raw material supply. KHI has had business relationships with a handful of raw material suppliers for over twenty years. Having relationships with these suppliers widens KHI's purchasing options for metal sheet and stainless steel supplies. The increase in raw metal prices in 2007, due to worldwide shortages of raw metals, posed a threat for metal sheet allocation to small company like KHI. Sheet metal needs to be ordered at least three to six months before it is actually needed. A good, long term relationship with raw material suppliers is a KSF for KHI as it enables it to get first hand information about material shortages.

Restricted access to raw materials has been a threat to Zenne's sales projections since 2007. The price of oil rose throughout 2007; drilling for oil become more aggressive and investment in new or previously marginally profitable drill sites became palatable. Drilling rigs consume massive quantities of alloyed materials such as

chromium and nickel (Yap, 2009). These are precisely the elements needed to produce stainless steel. In 2007 and 2008, the supply and demand of material became a significant economic factor. It caused the price of stainless steel shot up rapidly which squeezed the profitability of Zenne.

Stainless steel producers increased their prices three-fold in less than one year. Following the raw material price upheaval, KHI had to raise the price of its Zenne cooking appliance in tandem within the shortest lead time. This change rippled forward in the supply chain and directly affected Zenne's survival. If Zenne's selling price is increased, KHI will be almost certainly be rebuked by distributors, dealers and end consumers. The technology of developing gas stoves and cook-tops burners from stainless steel was a great achievement. However, when the price of stainless steel climbed to stratospheric levels, the technological advantage vanished overnight. KHI management did not foresee this implication during the design stages.

Market threats can also arise from secondary process suppliers. For example, the burner cap is one of the core components of the burner that facilitates the mixture of gas and air for combustion. Zenne's burner cap is coated with one layer of ceramic paint. This feature is unique characteristic to Zenne's products. The purpose of the ceramic paint is to protect the stainless steel from rapid oxidation caused by the high temperatures to which it is subjected when the stove is lit (Yap, 2009). If the Japanese supplier decides to sell this patented ceramic paint to competitors, KHI will face a significant threat from its rivals (Yap, 2009).

In addition, KHI outsources a process called 'enamel coating' to powder coating suppliers in Malaysia. Even though, there are several powder coating suppliers in

Malaysia, the quality of the coating surface and the service provided by the suppliers varies depends on the price and whether the outsourcing company is an important customer for the coating company. In order to maintain Zenne's technology as a KSF, KHI needs to continue to upgrade its quality management system to keep track of its supplier processes and component purchasing.

Another key component for gas stove is the gas control valve, which is fabricated in-house in KHI's Malaysia factories. KHI also produces its own burner body, the metal frames for the gas stoves body and the 'burner cap' that creates the magical 'twister flame'. Being able to produce these key components in-house is an added advantage to KHI's key success factor of maintaining high technology products.

Importance of volume and price to suppliers (-)

Since KHI is unable to produce in sufficient quantities to take advantage of economies of scale, its suppliers charge higher prices for low volume orders (Yap, 2009). However, as KHI increases its sales quantity and production economies of scale are achieved, KHI will be in a stronger bargaining power position when facing these suppliers' demands.

Sixty-five percents of the components used in Zenne gas stoves and cook-tops are produced in-house in KHI (Yap, 2009). KHI's KSF lies in producing products with technical advantages and having the ability to manufacture and assemble precision components in-house. These factors enable KHI to compete with Rinnai and other high end gas stoves brands in Vietnam.

If KHI converts its entry strategy from direct exporting to joint venture or wholly owned subsidiary, KHI is more likely to achieve higher sales volumes and increased

profit margins. This assumption is based on Zenne being a competitive product and KHI employing a competent local sales force in the future. The increase in sale volumes that will follow an investment entry strategy will put KHI a better position to negotiate lower component prices from its suppliers. A switch in entry strategy will give KHI more autonomy in decision making and stronger negotiation power. The correct entry strategy is a key success factor for KHI in ameliorating powerful supplier threat.

Impact on inputs on cost and differentiations (+)

Fortunately, the purchased components, such as casting parts, rubber rings, bolts and nuts are not differentiated and with no built up switching costs, which reduces supplier power over KHI. Since the suppliers are not concentrated, KHI is at liberty to switch to another supplier, if they have enough time to study the alternate components and conduct trial tests. Moreover, the suppliers' products are not an important input in the assembly of Zenne gas stoves and cook-tops. The components also are storable, which reduces the potential threat by suppliers towards KHI (Porter, 1980).

The higher price that KHI pays for its components and the cost of manufacturing its gas control valve in house resulted in overall higher production costs. The only feature that differentiates Zenne is its quality blue flame generated from the in-house manufactured gas control valve. A blue flame indicates a higher temperature than a yellow or orange flame. Zenne's marketing strategy should revolve around the fact that it burns hotter and cleaner, is safer and more fuel efficient therefore lowering the cost of gas.

Summary

KHI capability to produce Zenne's key components in-house is definitely a strong KSF in the area of technology. Higher technology is one of the most important KSFs for KHI to fight head on with big MNCs in the cooking appliance industry. The experience curve that KHI management gained from working as the key supplier for gas cooking appliance components supplier to Panasonic definitely sets KHI apart from other brands with similar quality standards.

Although labour is recognized as an important supplier, KHI can still get acquire a workforce to fill in the employment gap in Malaysia. KHI's component suppliers also pose no forward integration threat as these companies prefer to focus on their existing core competencies. KHI has good marketing features like the 'twister flame' that creates hotter blue flames, a superior gas control valve and stainless steel burners. However, its marketing strategy in Vietnam is limited due to its dependence on a sole distributor.

A change from distributor to joint venture or wholly owned will build up KHI's strength in effectively negotiating for better component pricing from its suppliers. The ability to maintain a long term relationship with its component and raw materials suppliers is a KSF for KHI. Besides, an effective entry strategy is an important key success factor to reduce the threat of backward integration by suppliers.

2.1.4 Substitutes Products (High Threat)

Indirect substitutes posed a higher threat than direct substitutes as the cooking appliance manufacturers are well aware of their competitors who market the same kind of products (Meredith, 2007). The indirect substitutes for gas stoves and cook-tops are induction cookers, infra-red cookers, electric stoves, portable stoves, coal burning stoves

and eating at restaurants instead of cooking at home. Therefore, collectively these indirect substitutes are potentially serious competitors and threats to gas stoves and cook-tops manufacturers.

Induction cookers are an indirect substitute, which use electricity to heat the induction coil for cooking. Induction cookers are considered a high value innovation and a potential threat to penetrate the traditional gas stove and cook-top markets in places like Japan. Generally, young couples like the so called 'clean and fast cooking' method offered by induction cookers. However, in Vietnam, the supply of electricity is unreliable in both urban and rural areas but gas availability is fairly good, thus gas stoves and cook-tops can still project growth.

Another potential substitute product is the infra red cooker, which was developed in Taiwan. This product is not a high threat because it was not widely accepted by consumers. Infra red cookers use gas to heat up an element. The element transfers heat to a pot or pan but with an inefficient transfer rate. Infra red cookers can also radiating heat instead of using the energy for cooking. The heat can be felt intensely even as far away as half a meter from an infra red cooker, (Yap, 2009). The concept of infra red cookers comes from heaters used in the winter. A huge amount of heat is dissipated to the areas around the cooker. Compared to gas stoves, infra red cookers are 30% less efficient (Yap, 2009). While other general gas stoves' standard heat efficiency is 45%. Zenne's gas stoves and cook-tops heat efficiency is 53% (Yap, 2009). There is a niche for Zenne to grow in Vietnam with higher technological efficiencies as a KSF despite the threat of substitutes.

According to Porter (1980), substitutes products are other products that can perform the same function. Direct substitutes are rated as medium risk (Meredith, 2007). Direct substitutes are the similar cooking appliances that competitors are marketing the Vietnam market. KHI's prime competitor, Rinnai, is presently in the same price range. The other brands, such as Paloma, Magic Flame, Goldsun and Fagor, are trailing behind in technology.

According to Porter (1980), substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. KHI management must pay attention to trends in the gas cooking appliances available in Vietnam. They must be aware of their rivals' products, quality, design developments and price trends. The ability to forecast these trends can help KHI earn better profit margins. . In this scenario, KHI must always benchmark against its competitor, like Rinnai, in order to reduce the threat from substitution.

Relative price performance of substitutes (-)

Zenne's price is comparable to Rinnai's. However, Zenne may score lower points in competitive pricing against low cost strategy brands such as Magic Flame and Goldsun. The Vietnam market is not only saturated with cheap imitation gas stoves from China but Zenne's rivals are beginning to diversify their product range in order to compete for market share. Even Rinnai is producing some low grade gas stoves especially for Vietnam's low end consumer market.

Zenne has to market on higher price as it possesses better technology and a safer product for Vietnamese families. Besides, KHI existing good relationship with distributors and dealers can spread the word to promote Zenne. When the dealers or

distributors understand Zenne is a better quality product than its competing brands, they are able to promote its key features to potential high end customers.

Switching costs (-)

Poorer quality gas stoves made in China and Vietnam are priced lower than Zenne products. If KHI's distributor or dealers decided to switch to another brand, the switching cost for Nhat Hoa to indirect substitutes or direct substitutes is relatively low. Hence, switching cost pose a huge threat to Zenne. Zenne must improve its present poor marketing strategy in order to build more confidence with Vietnamese consumers. In order to improve its marketing strategy, KHI can collaborate with Nhat Hoa to participate in more exhibitions and organize more technical training for Nhat Hoa's dealers and their staff to promote Zenne's technology. These activities can be an intensive marketing strategy for KHI to create a distinctive brand for Zenne, to foster closer ties with Nhat Hoa and Zenne's dealers and to provide excellent customer service to dealers and distributors.

Buyers propensity to substitutes (-)

Urban consumers are more inclined to buy low end cooking appliances and rural consumers still prefer the traditional method of using coal. Nevertheless, the Vietnam government is encouraging Vietnamese citizens to convert from oil based charcoal fuel to gas burning stoves. The reason behind this conversion is because the oil base charcoal used in Vietnam pollutes the environment badly and could inflict serious lung damage.

This Vietnamese government direction gives KHI the green light to go ahead and attempt to penetrate the Vietnam market with Zenne products (Yap, 2009).

One of the external complementary products for gas stoves and cook-tops is the supply of gas. Sales of better engineered gas stoves and cook-tops depend upon the cost to purchase gas. Higher gas costs in Vietnam, will increase the chance of Zenne sales, as consumers will be looking for way counter the increasing gas price by purchasing higher quality gas stoves. The volume of sales of gas stoves in Vietnam was initially directly related to the supply of gas. The supply of gas was poor, in fact almost non existence a few years ago, resulting in low gas stoves and cook-tops sales. As a consequence, gas stoves and cooktops sales are heavily depend upon the sale of the gas. Thus, gas stoves and cook-tops have a high degree of dependency on a single complementary product, gas. However, gas price and supply is controlled by the Vietnamese government. Therefore, the market threat is neutral.

In 2009, a 14kg tank of gas cost US\$14 in Vietnam (Yap, 2009). Zenne's gas stoves and cook-tops are about 25% more energy efficient than comparable models using a cast iron burner (Yap, 2009). Zenne's technology, in term of energy efficiency, is a great marketing tool for KHI and a KSF to compete in this industry. Zenne's stainless steel burner is also about 20% more expansive than most high end brands in Vietnam except for the brand imported from Japan. Hence, Zenne's burner has a cost saving in gas consumption (Yap, 2009).

Summary

In order to compete with direct and indirect substitutes, KHI management has to put more effort into its marketing strategy as it is an important KSF in the cooking appliance industry in Vietnam. KHI management needs to spend more time to strengthen the relationship with its distributors and dealers in order for them to think of Zenne first when it comes to introducing gas stoves and cook-tops to potential high end Vietnamese consumers. Higher technology continues to be an important KSF for KHI to compete with its substitutes. Competitive pricing is also a KSF in gaining volume of sales in the Vietnam market. Zenne's product is higher in price, as KHI adopts a differentiated strategy as opposed to a cost strategy; therefore Zenne is competing in the high end market at par with Rinnai.

2.1.5 Intensity of Rivalry (Low Threat)

Rivals in the cooking appliance industry use tactics such as price competition, advertising battles, enhanced customer service, extended warranties, product introductions, bundled sales of related products and incentive trips for dealers (Porter, 1980). In order to compete successfully in the cooking appliance industry in Vietnam, KHI has to understand the segmented customer market share, the strength and weakness of each rival and its concentration, acquire information on threats from homogenous product offerings and achieve product differentiation through technology (Porter, 1980).

Segmented Market Share (+)

The gas stove and cook-top market share for high end consumers in Vietnam is divided among a few major players, Rinnai, Paloma, Sawana, Goldsun, Fagor, and Magic

Flame. The total population in Vietnam was 87 million in 2008 (Euromonitor, 2009b). However, gas stoves and cook-tops are successfully marketed only in urban areas because they are not affordable for lower income groups. The total number of people in urban areas was 24 million in 2008 (Euromonitor, 2009b). The urban population represents the target market in which Zenne will compete with other high end brands. KHI can use its KSF in better technology and good relationships with distributors and dealers to gain a bigger share in this saturated market. Using the present strategy of direct exporting, KHI will be able to tap into the Vietnam market successfully. If KHI chooses to expand through joint venture, KHI would potentially gain a bigger market share.

Competitive Concentration of Competitors (+)

Zenne's main high end cooking appliance competitor is Rinnai from Japan (Yap, 2009). Other competing brands include Paloma, also from Japan, Sawana from Taiwan, Magic Flame from China and Goldsun from Vietnam. The rest of the market share consists of a great many OEM brands.

The competing brands mainly sell in two major cities, Hanoi and Ho Chi Minh. KHI has managed to penetrate Hanoi markets because of its good relationship with Hanoi's distributors. In order to expand into Ho Chi Minh in South Vietnam, KHI has to find another distributor with a similar distribution network as Nhat Hoa in Hanoi.

Presently, KHI is working on building a new relationship with a new distributor in Ho Chi Minh. KHI produces used to be distributed by Fortune in Ho Chi Minh. The relationship with Fortune was more geared towards licensing than exporting as KHI manufactured Zenne gas stoves under the name of 'Nano' as requested by Fortune.

Fortune decided to renounce its licensing with KHI when Fortune management discovered that KHI had established a good relationship with Nhat Hoa in North Vietnam and that Nhat Hoa was selling the same products.

Homogenous Products Offerings (+)

Zenne, Rinnai, Paloma, Sawana, Fagor, Magic Flame, Goldsun and a few hundred brands made in China offer the same homogenous gas appliance products. How can Zenne stand out in the Vietnam market? Zenne has to focus on high technology to compete in an upscale market since KHI's competing strategy is based on differentiation. As well, an intensive marketing strategy, such as increased television and newspaper advertisements may help to expand demand for Zenne (Porter, 1980).

According to Yap (2009), Rinnai is Zenne's primary competitor for the same price range of gas stove. The rest of the rivals are trailing behind in technology and services. Rinnai started as one brand with one product. Rinnai Corporation is widely regarded as the incumbent industry leader and is Japan's largest manufacturer of gas appliances (Rinnai, n.d.). Rinnai is a differentiation strategy company. Research and development is its foremost concern. Rinnai sells a diverse range of kitchen appliances product. Rinnai's headquarters are in Nagoya, Japan and it maintains an international presence through 15 overseas sales and manufacturing companies (Rinnai, n.d.). In Vietnam, Rinnai's success was attributed to its key success factor, taking first mover advantage in marketing high end gas cooking appliances.

Zenne is a four year old brand with market presence in Malaysia, Hong Kong, Pakistan and Vietnam. It is obvious that Zenne has limited capacity to compete head on

with Rinnai. However, Zenne has its own KSF as it manufactures better quality products with technological advances and maintains good relationships with dealers and distributors. These KSFs will be the foundation that KHI can build on. Vietnam is a growing market for KHI. Should KHI chooses an investment entry strategy, KHI can expand its market share faster in Vietnam. Besides Rinnai, Zenne is also competing with Paloma, Sawana, Fagor, Magic Flame and Goldsun.

Paloma was established in 1911 in Japan (Paloma, n.d.a). Paloma's core business is the manufacture and sale of gas appliances and air conditioners. The company has research and development plants, manufacturing plants and sales branches in various cities in Japan, and overseas subsidiaries in the United States, Mexico, Canada, Australia, New Zealand and Singapore. Paloma is using a differentiation strategy to compete globally. Paloma is selling the same kind of products as Rinnai and Zenne, such as 2 and 3 burner gas stoves with highly polished stainless steel finishes (Paloma, n.d.b). Paloma's gas stove marketing strategy is reliability and durability and they claim to have a minimum 10 years lifespan (Paloma, n.d.b). However, Paloma gas stove sales in Vietnam are lower than Rinnai's. Paloma gas stoves use a die cast burner, which does not deliver as effective gas combustion as a stainless steel burner.

Sawana is a gas appliance brand produced by Taung Liang Industries (Malaysia) Sendirian Berhad (Taung Liang Industries (M) Sdn Bhd, n.d.) manufactures gas appliances for sold under their customers' own brand name. Taung Liang was founded in 1988 and is a subsidiary of Taung Liang Industries Co. Ltd, a company that manufactures gas water heaters in Taiwan (Taung Liang Industries Co. Ltd., n.d.). Taung Liang has sister companies that manufacture pressure regulators and ignition equipment in China

and burners and cast iron products in Vietnam (Taung Liang Industries (M) Sdn Bhd, n.d.). Taung Liang's office is in Binh Duong Province, Vietnam (Mekong Research, n.d.). Taung Liang also services Nhat Hoa. Taung Liang supplies gas stoves under the name of 'Nikko' to Nhat Hoa in Vietnam (Nhat Hoa, n.d.). Recently, Taung Liang has been producing some Sawana gas stoves models in Vietnam.

Fagor Electrodomesticos, established in 1954 in Spain, manufactures components for household appliances, semiconductors, castings for the automobile industry, numerical control systems, cookware and accessories. Fagor is the fifth largest appliance manufacturer in Europe, and the number one induction cook-top producer in the European Common Market. The Fagor brand is currently present in 100 countries. They operate 16 factories on 3 continents (Fagor, n.d.). In order to provide excellent customer service, Fagor has a total of 105 dealers, with 74 dealers in North Vietnam and 31 dealers in South Vietnam (Fagor, n.d.). Forty-nine dealers, or 47% of Fagor's dealers, are located in Hanoi city. Fagor's marketing strategy is very intensive. Its products are available in almost every city in Vietnam.

Goldsun Joint Stock Company was established in 1994 and began to manufacture gas stoves in its Hanoi factory in 2002 (Goldsun, n.d.). Goldsun is the only gas stove brand made in Vietnam. Goldsun has network of distributors in Vietnam, but mainly focuses its product in North Vietnam, which accounted for 80% of its total kitchenware sales in 2004 (Mekong Capital, n.d.). The company produces various brands to target specific customers, with Goldsun as its flagship brand.

Magic Flame Co. Ltd is owned by Nguyen Thanh Huong, a Vietnamese citizen who created the leading gas appliance distributor in North Vietnam in 1993 (Hanoi Times, 07 January 2009). Magic Flame gas stoves are made in China. Magic Flame has 28 stores and showrooms just in Hanoi, distributing gas canisters and providing 24 hour service (Magic Flame, n.d).

Zenne cannot compete by lowering its price against high end MNCs like Rinnai and Paloma. Price cuts are quickly and easily matched by rivals, and once matched they lower revenues for all firms unless industry elasticity of demand is high enough (Porter, 1980). When it comes to competing with homogenous products such as high end gas stoves by Rinnai, an intensive marketing strategy, competitive pricing, an effective entry strategy and excellent customer service are equally important KSFs in the gas cooking appliance industry.

At this time, Zenne's marketing strategy is not as intensive as Rinnai's or Fagor's because KHI is exporting and is dependent on Nhat Hoa's requirements. KHI needs to improve its marketing strategy, which is an important KSF. KHI management should consider expanding Zenne's market share through a joint venture or a wholly owned subsidiary.

Product Differentiation by technology (+)

One of Zenne's competitive advantages over Rinnai and other brands is its certification under the Japanese Gas Appliances Inspection Association (JIA), a distinction it has held since 2007 (Kein Hing, n.d). At this moment, only the gas cooking appliances made by Rinnai in Japan are JIA certified. The products made in Rinnai's Indonesia plant are not.

Zenne has to aggressively market its strong technological advantages – namely its twister flame, venturi burner body design, gas control valve, thermal resistant ceramic coating burner cap and safety valve. Zenne needs to advertise these features as consumers generally purchase cooking appliances based on price alone.

Most customers also look at the aesthetic value when they purchase table top gas stoves or drop-in cook-tops. When they buy from a dealer, there is no chance for them to see the flame of the gas stoves or cook-tops. It is not a general practise in Southeast Asia, including in Vietnam, for gas combustion to be demonstrated (Yap, 2009).

Summary

JIA Certification, ‘Twister flame’, ‘venturi’ burner body design, gas control valve, burner cap and safety valve are KHI’s technological KSFs to compete with its rivals. KHI needs to be more aggressive in its marketing strategy as it is an important KSF. Being a quality, foreign product is also a KSF for KHI. Besides, KHI has to inform consumers that Zenne produces high quality and reliable gas stoves and cook-tops with superior technology and safety, which are the main reasons it is competitively priced compared to other brands. Good relationships with distributor and dealers is another KSF that will determine KHI’s success in promoting Zenne to Vietnamese consumers. Excellent customer relationships is another KSF that KHI needs to improve to compare favourably to Rinnai, Paloma, Sawana, Fagor, Goldsun and Magic Flame. First mover advantage is a KSF that KHI did not possess, as its competitors had already established their branding years ahead of Zenne. However, the choice of the right entry strategy with the right timing could be one of KHI’s most important KSFs. On top of that, the Zenne brand

could possibly be the first mover in improved technology gas cooking appliance in Vietnam.

2.2 Industry Attractiveness

Figure 2-6 is a graphical representation of Porter's Five Forces (Porter, 1980) that KHI faces when expanding Zenne market share in Vietnam. KHI is facing high threats in three out of five forces: potential entrants, buyers, and substitutes. The industry competitors and suppliers pose low threat to KHI's expansion in to the Vietnam market. Despite high threats on three forces, Vietnam is still a potential market for Zenne. The key success factors identified through these five contending forces will be described in section 2.3.

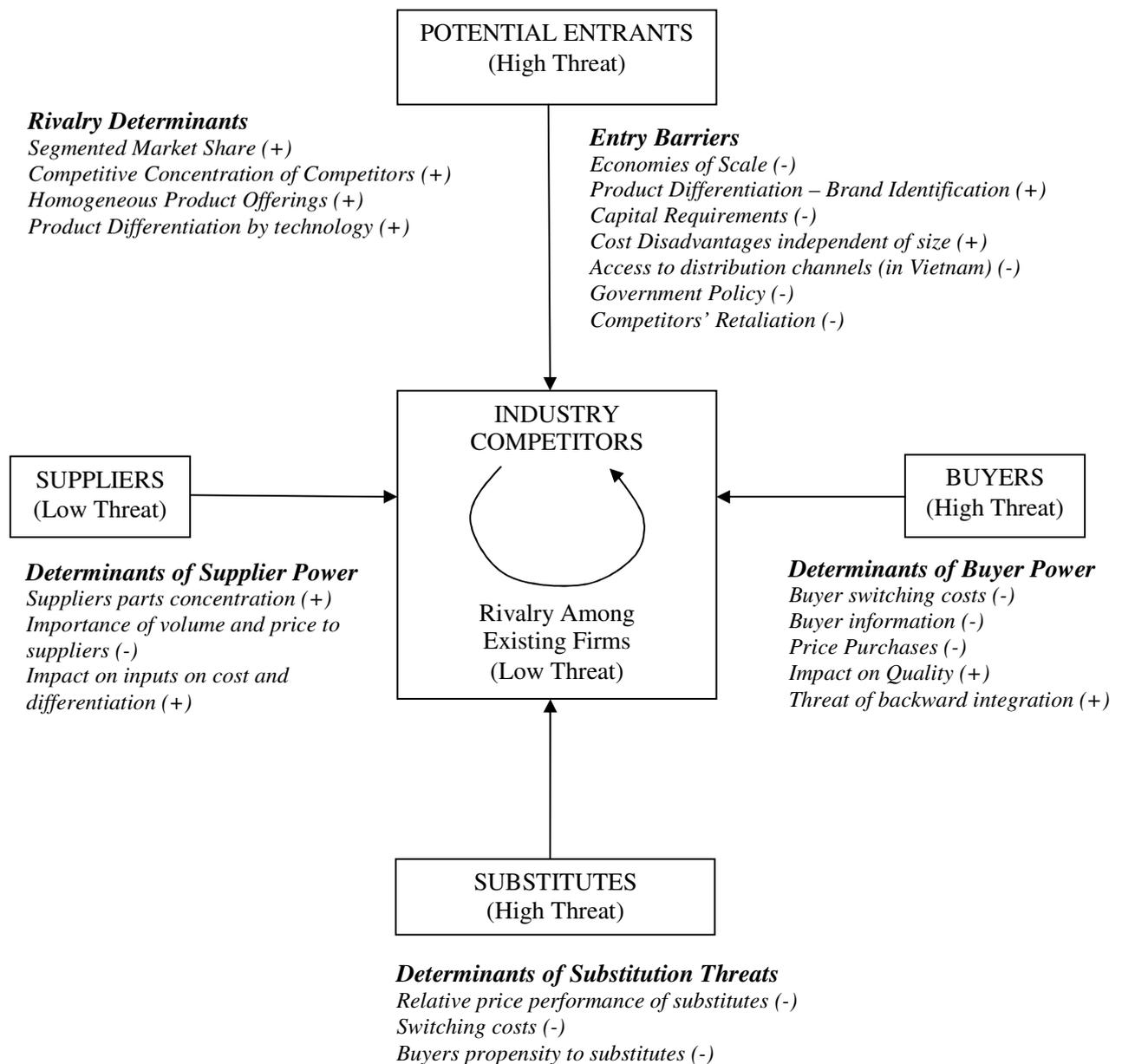


Figure 2-6 Analysis of Porter's (1980) Five Forces for Zenne gas cooking appliances in Vietnam

2.3 Key Success Factor (KSF)

Using Porter's Five Forces analysis, a number of key success factors are identified for the cooking appliance industry. Each of these key success factors is then

benchmarked against KHI’s competitors to evaluate the opportunities and threats that KHI faces.

In Table 2-1, these KSFs are rated using a three point scale, with three being the most important and one being the least important KSF relative to success in the cooking appliance industry.

KSF according to its importance	Importance Index
Technology	3
Marketing strategy	3
Entry Strategy	3
Foreign quality	2
Competitive pricing	2
Good relationship (with dealers or distributors)	2
Customer service	1
First mover	1

Table 2-1 Key success factors (KSFs) for cooking appliances industry in general

The eight key success factors identified are:

(a) Technology:

Zenne emphasizes safety and gas and energy efficiency. Zenne’s ‘twister flame’, ‘venturi’ burner body design, durable gas control valve, stainless steel burner cap, and safety valve are Zenne’s selling features in terms of better technology than its rivals.

(b) Marketing strategy:

KHI is currently employing a direct exporting marketing strategy. This strategy limits KHI’s options in promoting Zenne branding to Vietnamese consumers.

(c) Entry strategy:

Presently, KHI is using a direct exporting strategy to enter the Vietnam market. If KHI sticks with this strategy, it will be a barrier to effective entry and pose a threat to KHI. However, if KHI changes to an investment strategy of either joint venture or wholly owned subsidiary, there is an opportunity for KHI to gain more sales volume, autonomy in decision making and pioneering in marketing Zenne as the first mover of higher technology gas cooking appliances.

(d) Foreign quality:

Foreign quality products with JIA certification is perceived as higher quality in the Vietnamese consumer's mindset. Gas cooking appliances made in Japan and Malaysia are presumed to have higher quality than those made in China or even locally made in Vietnam.

(e) Competitive pricing:

Since Zenne is a high end product, its pricing is more competitive against its rivals like Rinnai and Paloma. Zenne's gas stove price is definitely higher than low quality, low priced, imitation gas stoves produced by China's manufacturers.

(f) Good relationship (with dealers or distributors):

KHI has formed a good relationship with its key distributor, Nhat Hoa, in North Vietnam. KHI is still working on building a new relationship with a new distributor in South Vietnam. Brands by MNCs like Rinnai, Paloma and Fagor have long established good relationship with dealers and distributors throughout Vietnam.

(g) Customer service:

In order to sell a product well, especially when the brand name is still new, a company needs to invest more time and money into excellent customer service.

For a new brand like Zenne, KHI needs to spend more resources to create an association between the brand name and excellent customer service.

(h) First mover:

The incumbent company that moves into an industry or new market first gains first mover advantage. Rinnai is the market leader in the gas cooking appliance industry and the first mover in the Vietnam market. Zenne does not have this advantage. However, KHI can be first mover for higher technology gas cooking appliances if KHI moved into either a joint venture or wholly owned subsidiary strategy.

Key Success Factor (KSF)	Porter's Five Forces (Porter, 1980)				
	Threat of Entry	Powerful Buyers	Powerful Suppliers	Substitutes Products	Intensity of Rivalry
Technology	X	X	X	X	X
Marketing strategy		X	X	X	X
Entry strategy	X	X	X		X
Foreign quality	X	X			X
Competitive pricing		X		X	X
Good relationship		X	X	X	X
Customer service		X			X
First mover	X				X

Table 2-2 Zenne's key success factors in relation to Porter's Five Forces

Table 2-2 summarizes the KSFs that can be identified by applying Porter's Five Forces. "X" denotes the presence of a KSF. Although KHI has established good relationships with its suppliers, dealers and distributors, this KSF is only rated 2 in term of importance in Table 2-1 based on KHI's competitiveness against its rivals' performance to market their products to Vietnamese consumers, as shown in Table 2-3. Based on Porters Five Forces analysis (Porter, 1980), technology, marketing strategy, and entry strategy are the most important KSFs for KHI to expand successfully in Vietnam.

2.3.1 Competitive Analysis

In Table 2-3, for every KSF, KHI will be benchmarked against its competitors. The rival companies will be evaluated using a five point scale, with five being the best performance, three being average performance and one being the worst performance. The cumulative points for each of the companies are a multiple of the importance index and the performance index.

KSF	Importance Index	Performance Index							Opportunity /Threat
		Gold sun	Fagor	Rinnai	Magic Flame	Paloma	Sawana	Zenne	
		C	C	D	C	D	C	D	
Technology	3	1	2	4	1	3	2	5	Opportunity
Marketing strategy	3	3	4	5	3	3	3	2	Threat
Entry strategy	3	N/A	3	5	N/A	3	5	1	Threat
Foreign quality	2	1	3	5	1	4	1	5	Opportunity
Competitive pricing	2	4	3	2	4	2	4	2	Threat
Good relationship	2	5	3	4	5	4	3	5	Opportunity
Customer service	1	3	4	5	2	4	4	1	Threat
First mover	1	1	3	5	1	3	2	1	Threat
Cumulative Points*		36	52	74	35	54	53	50	
Ranking		6	4	1	7	2	3	5	

Table 2-3 Comparison of KSFs for Zenne and its competitors

Remark for table 2-3:-

- *Cumulative Points = Importance Index x Performance Index)
- 'N/A' represents not applicable for this KSF as Goldsun and Magic Flame are local Vietnamese brands. Even if Goldsun or Magic Flame score 3 in the performance index, their ranking still remain the same as above.
- 'C' represents cost based strategy company, 'D' represents company with differentiation strategy

KHI's main target is to benchmark well against the industry leader, Rinnai because both Zenne and Rinnai are competing based on differentiation strategy. The rest of the existing brands in Vietnam, such as Paloma, Sawana, Fagor, Goldsun, and Magic Flame are used for comparison to identify Zenne's opportunities and threats in this

market. Zenne is rated 5 (the highest) for KSF in technology as compared to Rinnai and other brands.

Opportunities

(a) Technology

Fundamentally, for KHI to achieve competitive success, KHI must manufacture high-quality differentiated products in order to charge premium prices. Hence KHI made a bold step by heavily investing in research and development to avoid directly competing with low cost producers from China. The usual competitive advantage possessed by an MNC entering a new foreign market is superior technological differentiation (Root, 1987).

Zenne gas stoves and cook-tops are fuel efficient, which in layman's terms, means money saved on gas. Thus, Zenne's fuel efficient technology is a very useful marketing point in Vietnam as price of gas in Vietnam is twice as much as in Malaysia.

(b) Foreign quality

Owning quality foreign products is usually associated with higher status in Vietnamese society. Zenne's selling point is the endorsement from a Japanese certification body, JIA, and 'Made in Malaysia' label.

(c) Good relationship (with dealers or distributors)

Zenne has developed a good relationship with its key distributor, Nhat Hoa, in North Vietnam. The foundation of this relationship enables KHI to explore and gain knowledge about doing business in Vietnam.

Threats

(a) Marketing strategy

Until recently, KHI did not have any marketing strategy in Vietnam. Its distribution is solely dependent on Nhat Hoa's requirement capacity. KHI needs to improve its marketing strategy in order to promote Zenne's brand name to Vietnamese consumers. KHI can do some advertising in Vietnam's major newspapers and on Vietnamese television channels to promote Zenne's branding. KHI should also improve its website to include advertisements in Vietnamese. The second most important KSF for MNCs in foreign markets is effective local marketing which must be developed quickly before technological differentiation advantages are eroded (Root, 1987).

(b) Entry Strategy

Presently, direct exporting hinders KHI ability to expand its sales further as KHI is completely dependent on its only distributor's monthly sales volume. The biggest problem with using a distributor is that it represents various products and may not be 100% committed to pushing the Zenne brand. KHI can lessen this threat by changing its entry strategy KSF from exporting to investment in either a joint venture or a wholly owned subsidiary. KHI has the potential to increase its sales volume, advance its authority in marketing decisions and provide direct service to end consumers. MNCs with an advantage in technological differentiation are often more confident developing riskier entry strategies such as joint venture or wholly owned (Root, 1987).

(c) Competitive pricing

Magic Flame and Goldsun compete on a low cost strategy with lower quality products compared to Rinnai, Paloma, Sawana and Zenne. KHI's product, Zenne, is built with higher technology but is priced too high to market to low end consumers. Since

Zenne's target market is high end customers, KHI needs to be more aggressive in marketing to compete with Rinnai. Rinnai is also producing low end products at the same time to compete with other top selling local brands. Nonetheless, Zenne should not be making low cost gas stoves or cook-tops, as this step may dilute Zenne's branding image as a high end product and KHI will be stuck in between cost and differentiation strategy.

(d) Customer service

KHI top management has been organizing trips to visit its distributors and dealers in Vietnam. Moreover, KHI has organized two annual dinners in Malaysia for its Vietnamese distributors and dealers. The purpose of these gatherings was to build relationships with its distributor and dealers and to impress them by showing them KHI's factories and bolstering their belief in KHI's sincerity and commitment to doing business in Vietnam. Customer service is usually improved when an MNC has its own wholly owned sales and service locations, as opposed to working through distributors (Root, 1987).

(e) First mover

KHI does not have any first mover advantage. Only Rinnai has this KSF as Rinnai was the first brand to move into the Vietnamese cooking appliance market. But, KHI can weaken this threat by being the first mover of improved technology gas cooking appliance in Vietnam, assuming a more effective marketing strategy.

2.4 Entry Strategy for International Markets

According to Beamish et al. (1997), there are four strategies that a firm can use to enter an international market, namely:-

- (a) Exporting;
- (b) Acting as licensor to a foreign company;
- (c) Establishing joint ventures outside the home country with foreign companies; and
- (d) Establishing or acquiring wholly owned businesses outside the home country

Each strategy has its strengths and weaknesses. Each strategy may achieve a different set of outcomes. Each strategy has its own prerequisites and limitations.

2.4.1 Export / distributor

According to Root (1987), exporting is the most common way for a manufacturer to enter international business for the first time. Thus, exporting becomes an international learning experience for KHI. The knowledge it gains will enable it to become a full-fledged international player (Root, 1987). Exporters usually deal with counterparts who are either import traders in the target country, export traders in the domestic market or direct channel to trading house dealers. This strategy is low cost, low risk, and involves minimal changes to the financial, structural, operational, management and overall administration of the organization.

The export strategy acts as a test bed for KHI to assess the target market in a foreign country such as Vietnam. KHI can evaluate the feasibility of expanding as well as assessing the acceptance of the Zenne brand and products in the Vietnam market. Vietnam joined ASEAN in 1995 and on 7 November 2006, became a new Member of the World Trade Organization (WTO) (Tien, 2008). Due to ASEAN Free Trade Area

(AFTA) Agreement, KHI, which is in Malaysia, is only required to pay a five percent (Wikipedia, n.d.) export tax to the Vietnam government instead of the 40 percent (Euromonitor, 2009b) paid by other non-ASEAN members. According to Athukorala (2006), under the AFTA regime, tariffs have been cut to a maximum level of 5 percent for all imports, other than those on a limited “sensitive” list. KHI enjoys this tax advantage because Malaysia and Vietnam are both members of the AFTA.

2.4.2 Licensing / franchising

International licensing agreements include a variety of contractual arrangements whereby domestic companies (licensors) make their intangible assets (patents, trade secrets, know-how, trademarks, and company name) available to foreign companies (licensees) in return for royalties and/or other forms of payment (Root, 1987). The downside of licensing or franchising is the risk of losing exclusive propriety control.

According to Arnold and Buchanan (2008), the most popular foreign investment avenue in Vietnam is the joint venture enterprise. According to Arnold and Buchanan’s article on “Corruption, foreign direct investment and the cost of doing business in Vietnam”, under Vietnamese law, a joint venture can be approved for a maximum term of 50 years and they are considered to be legal entities with limited liability, with each partner’s liability limited to paid-in capital (Arnold and Buchanan, 2008, p.134). KHI has to adhere to the requirement of a minimum foreign ownership of 30 percent for joint venture companies. However, no maximum limit is enforced (Arnold and Buchanan, 2008).

2.4.3 Joint Venture

According to Root (1987), joint venture is the second best investment entry strategy for manufacturers. An international joint venture happens when two or more companies of different nationality share ownership of a firm (Beamish et al., 1997). The level of ownership can be majority equity, equal or minority equity. Partners companies in joint ventures agree to share capital and other resources with common objectives to mesh complementary skills from different organizations, to assure or speed market assess, to leapfrog a technology gap, and to strategically respond to more intense competition (Beamish et al., 1997; Root, 1987).

International joint venture (IJV) seems to be an attractive compromise for KHI, despite the disadvantage of being difficult to manage. The present strategy of exporting is unlikely to lead to significant market penetration for KHI, while building wholly owned subsidiaries is too slow and requires too many resources and licensing does not offer an advantage in terms of financial return (Beamish et al., 1999).

Vietnam is open to foreign investment in all sectors, and literally does not place any restrictions on the share of foreign investment in the total equity of the investment (Leung S., 1996). Moreover, Vietnam refunds profit tax to foreign investors reinvesting any part of their profits for a period of three years to encourage reinvestment (Leung S., 1996). Vietnam's foreign investment policy and profit tax refunds are incentives for KHI to venture into a broader entry strategy, either joint venture or wholly owned subsidiary.

KHI is able to assess the political and financial risk of doing business in Vietnam through the experience gained from the corporate alliances formed in KHMV. This learning curve provides a foundation for KHI to make a decision on whether to strengthen Zenne's branding and marketing effort and gain higher sale volume by

partnering with a local company. MNCs may discard their IJV strategies in favour of wholly owned strategies when they have learned how to operate effectively in a foreign business environment (Root, 1987).

2.4.4 Wholly owned

According to Root (1987), the first-best entry strategy for manufacturers to invest abroad is through sole ventures. An international wholly owned company means a firm did not have any partner and invests 100 percent into a foreign enterprise. The advantage of a sole venture is that the company has full control to carry out its own strategy in the target country and gain all the profits (Root, 1987). When setting up a wholly owned company in Vietnam, KHI has to be aware of four constraints: access to finances, access to land, worker skills and transportation (Tien, 2008).

Alternatively, KHI can undertake a hybrid strategy by establishing a wholly owned company in North Vietnam and continue to do direct exporting through its present distributor by routing sales through the distributor. KHI can set up a company with a rental office in Hanoi. KHI local sales team will sell products by booking orders through Nhat Hoa and provide direct service to all customers through the local KHI office in Hanoi. The initial cost involved to set up this company will be a one-time charge for the new company's registration fee, and other monthly expenses such as office rental, salaries for one manager, one technical support staff, one sales staff and one administrative clerk. This hybrid method allows KHI to use more than one strategy to mitigate the inherent limitations of using just a single option and thus greatly improves the scope and reach to achieve the organization's ultimate objective.

The successful adoption of each strategy very much depends on several key factors such as management preference and experience; organizational structure, systems and culture; and the company's resource allocation for operational, human and financial requirements (Root, 1987).

3: Internal Analysis - Implementation

In this chapter, an internal analysis will be conducted on the four entry strategies into a foreign market proposed by Root (Root, 1987) and Beamish (Beamish et al., 1997). KHI management preferences (experience, team); organization structure (structure, system, organization culture); and resources (operational, human, financial) will be assessed to identify the strengths and weaknesses based on the four entry strategies.

3.1 Management Preference (Preference, Experience, Team)

3.1.1 Preference

The probability of a successful investment entry can be magnified by building on experience gained through prior experience exporting to the target country or market (Root, 1987). KHI's top management prefers to enter Vietnam through direct exporting. According to Yap (2009), KHI prefers to continue exporting as long as the monthly quantity remains below 10,000 units. Once Zenne's sale exceeds 10,000 units per month, KHI will choose to either create a joint venture with a distributor or set up a wholly owned company. Meanwhile, for the present exporting strategy, KHI management wants to ensure that its end retailers will have a gross profit of 20 percent. Dealers and distributors will make around 15 to 20 percent gross profit selling Zenne gas stoves and cook-tops. However, the disadvantage of direct exporting is that it limits KHI ability to reach Vietnamese dealers and consumers, creates too much dependence on its distributors, provides inadequate market intelligence, leads to ineffective marketing,

restricted channels to tap customer information and inferior customer service. In addition, a sales target of 10,000 units might be more easily attained with sales that focus on Zenne products rather than also representing competing products as is the case with the current distributor.

KHI once licensed its products through contract manufacturing to Fortune Co. Ltd., a South Vietnamese company in Ho Chi Minh. Fortune wanted Zenne gas stoves and cook-tops to be imprinted with its own brand name, Nano. KHI spent its own money printing packaging for Nano. KHI made a mistake by not asking any payment up front to develop the product for Fortune. KHI wasted its resources developing products for another company when it could have used the money to improve its marketing of its own brand in Vietnam. Finally, Fortune relinquished the OEM or licensing agreement when they found out that KHI had another distributor, Nhat Hoa in North Vietnam. This unfavourable episode, combined with the unreliable Vietnamese laws governing OEM manufacturing and licensing, taught KHI the importance of licensing agreements. KHI's management now prefers to concentrate on its own proprietary brand (Lim, 2009). The drawback of a licensing entry strategy is that it does not allow a manufacturer, like KHI, to control the production and marketing of the licensed products (Root, 1987). Hence, a licensing or franchising entry strategy will be omitted from further discussions on KHI's options for expansion into Vietnam.

In most instances, after a company's initial successful entry into a foreign market, the company will normally look to exert a stronger and more varied form of control over the target market. Once KHI has stable monthly orders exceeding 10,000 units, KHI will consider expanding through investment entry strategies. Joint ventures would be an

attractive option for KHI. The prime target for joint ventures will be with Nhat Hoa, KHI's sole distributor in North Vietnam. Nhat Hoa has extensive distribution networks in North Vietnam. They are capable of pushing a new brand into the market. Nhat Hoa management has the local knowledge regarding relationship building, culture, and government support. Through joint ventures, KHI can offer Nhat Hoa a chance for backward integration and the ability to diversify upstream into manufacturing, an opportunity that would allow them to obtain certain manufacturing skills and technology transfers. Furthermore, co-operation with Nhat Hoa has so far been successful. Nhat Hoa has provided sufficient information and support for the expansion plans into North Vietnam. The joint venture with Nhat Hoa could create the opportunity for KHI to develop in the South Vietnamese market.

KHI management tends to favour hybrid strategies that consist of wholly owned operations combined with exporting. This hybrid strategy tends to give more authority to KHI management in terms of marketing methods and sale volume control. Although Vietnam started to open up to foreign direct investment (FDI) since the initiation of the renovation reforms (*Doi Moi*) in 1987, the concept of joint ventures remains a relatively new for distributors. According to Tien (2008), a new Law on Foreign Investment was approved just one year after the reform was launched in 1986. Since then, the law has been amended five times – in 1990, 1992, 1996, 2000 and 2003 (Tien, 2008). However, under the policy, FDI firms have full freedom to use after-tax profits, which is a positive incentive for KHI to venture into a wholly owned operation (Tien, 2008).

3.1.2 Experience

KHI had gained knowledge about Vietnam and experience dealing with dealers and distributor in the gas cooking appliances industry from directly exporting for five years. KHI's management have ample joint venture experience from its four joint venture companies. KHI operates under the Kein Hing International Berhad (KHIB) group, which is listed on the second board of the Kuala Lumpur Stock Exchange (KLSE). However, the main operating unit of the KHIB group is under KHI, which is wholly owned by the group. In Vietnam, Kein Hing Muramoto Vietnam Co. Ltd and Kein Hing Polychrome are joint ventures between the KHIB Group and Muramoto Incorporation Japan (MIC) and Polychrome Sdn Bhd respectively. In Malaysia, KHIB Group has a minority share position in S&Y Metal Stamping Sdn Bhd and Polychrome Sdn Bhd.

Although KHI did not own any wholly owned companies in Vietnam, the experience dealing with Nhat Hoa and the licensing experience with Fortune gave KHI an indication of how a hybrid method would operate.

3.1.3 Team

KHI has a strong marketing team in Malaysia to promote Zenne's branding. KHI has well developed programs in place to provide training for its Vietnamese staff on the Malaysian marketing as well as the technical aspects of gas stoves and cook-tops. As well, KHI has Malaysian staff from two of its retailing companies, Kein Hing Appliances Sdn Bhd and Zenne Appliances Sdn Bhd. that are ready to support a potential Vietnamese joint venture or a wholly owned investment.

Mr. Toon Choy Yap has been the Managing Director of KHI since 1983. Mr. Yap has a Bachelor of Science degree, cum laude, with a major in Mechanical Engineering, from Washington State University and over 26 years of experience in metal stamping/forming and the technical know-how to deal with his Japanese counterparts. He is an entrepreneur who practises a democratic style of leadership and always likes to nurture new talent in the company. Mr. Yap prefers work delegation and insists that the departmental manager and assistant manager share information. Mr. Yap is the key person behind the development of Zenne and pushing the product onto the international market. He has been monitoring and building extensive networks for Zenne branding in Vietnam, Hong Kong, Singapore, the Philippines and Malaysia. For each country, Mr. Yap employed experienced sales managers to monitor and track Zenne's progress.

Mr. Masao Hara is the Director of Product Development for gas cooking appliances in KHI. He has over 30 years of experience designing gas stoves and cook-tops, know how on product development life cycles and extensive knowledge on dealing with various customers and suppliers in Japan, China and Hong Kong. Mr. Hara is presently leading the research and development team for Zenne gas cooking appliances in KHI.

Mr. Yap's management, marketing and manufacturing experience combined with Mr. Hara's designing and development background helps create a high calibre management team for KHI. Both joint venture and wholly owned strategies are now viable options with KHI's current management strengths.

3.1.4 Gap in Management Preference and Gap-Closing Actions

In order to market more than 10,000 units of Zenne per month, KHI needs to bridge the pricing gap. Since Zenne is a new brand, it faces problems with brand familiarity and will have a hard time in the market because it carries a higher price. KHI should forcefully improve on its marketing KSFs.

3.2 Organization (structure, system, organization culture)

3.2.1 Structure

Figure 3-1 refers to KHI as one of the main operating units under Kein Hing International Berhad (KHIB) group which is listed on the second board of Kuala Lumpur Stock Exchange market. The rest of the subsidiaries and associates are under varied forms of joint ventures.

KHI's organizational structure is based on a flat and top-down hierarchy. KHI's managers and assistant managers understand their roles and functions in each department. This structure enable KHI to send any Malaysian departmental manager or assistant manager to support KHI's operation in Vietnam should the joint venture or hybrid method of wholly owned with exporting strategy proceed.

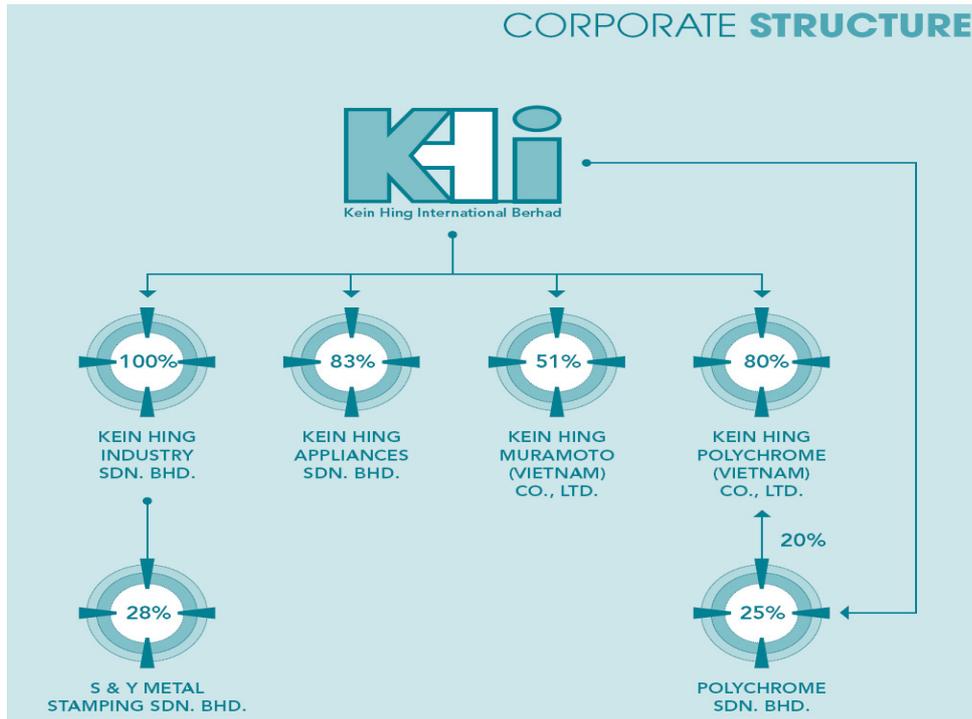


Figure 3-1 KHiB Corporate Structure
Source: KHiB Annual Report 2008

Table 1-1 represents KHi's Strategic Fit Grid for their present exporting strategy. Figure 3-1 shows a potential for the hybrid option of a wholly owned company combined with exporting, which would enable KHi to compete with a differentiation strategy. Under the exporting strategy, there are four grey areas that are lean towards a cost based strategy for KHi. These areas include structure, decision making, marketing, and capital structure.

If KHi proceeds with a joint venture, but as a majority shareholder, KHi will need to consult with Nhat Hoa about all decisions that would affect both parties. The decision making structure will have less autonomy. However, if KHi continues with the hybrid method, it would allow the company to make autonomous decisions on branding and

marketing of Zenne's and how to expand the sales volume. The hybrid method enables KHI to address the weakness in the local marketing inherent in the direct exporting strategy. The hybrid method will indirectly make way for KHI management to lead and dictate the organization structure which can gear towards the strategic formulation of an important marketing tool. The improved gas burning technology which is having the blue hue flame is the key marketing tool. The marketing tool is pointing towards the branding of Zenne. The hybrid method will allow KHI management to create a new image focusing on its high technology gas cooking appliances. With the hybrid method, KHI has higher risks and a decentralized structure compared to a joint venture method. Moreover, the hybrid method allows KHI management to make quick changes when dealing with competitors' retaliations in Vietnam. Hence, the hybrid method is a strategy that provides more leeway for KHI to manoeuvre along the path of being the first mover with improved technology.

3.2.2 System

KHI has a well developed human resource training system in place. Every employee goes through job function training under the supervision of their superior or departmental manager. All KHI Vietnamese staff will be trained in Malaysia first, then assume their job functions in Vietnam. This training prepares KHI staff to be able to support and start up the investment entry strategy in Vietnam. KHI has strong managers in finance, sales, purchasing and production control in Malaysia. These managers' skills can be smoothly transferred to the newly hired employees to enable the hybrid strategy.

3.2.3 Organization Culture

KHI's organization culture is performance oriented. Employees that do not fit well into KHI's culture will not remain in the organization, either through resignation or management assistance. Although KHI has a stringent performance driven culture, KHI management are able to retain the best employees to enable growth. KHI's company direction has always been based on a differentiation strategy for its gas cooking appliances and the metal forming business portfolio. If KHI goes ahead with the joint venture, based on cultural differences, there could be a potential dispute on whether to use KHI or Nhat Hoa's style of management.

3.3 Resources (operational, human, financial)

3.3.1 Operational

With the direct exporting strategy, KHI Vietnamese sale staff is presently based in KHMV's factory in Thang Long Industry, Hanoi. For KHI to expand either through a joint venture or the hybrid method, KHI will need, at minimum, to rent office space of 150 square metres in Hanoi. The present market rate for office rent in Hanoi city is around US\$3,000 for 150 square metres. It is advisable that this rental office to be located in either Hoan Kiem district or Ba Dinh district, both in Hanoi, where Nhat Hoa's office and showroom are located respectively.

With the present direct export strategy, KHI does not possess any warehouse to store Zenne stocks. All Zenne products are shipped to Nhat Hoa's warehouse. KHI needs to address this issue if it proceeds with the wholly owned operation.

The Vietnamese government faces a shortage of foreign exchange. Sales by dealers and distributors usually are cash transactions. Most dealers in Vietnam do not have bank accounts. They preferred cash to cheques. KHI will face a problem in the collection of money from dealers and distributor when implementing the wholly owned strategy. Moreover, it is tough to find Vietnamese employees sufficiently trustworthy to handle large volumes of cash transactions.

3.3.2 Human resources

KHI has to continue its hiring process to filter through and attain the right Vietnamese employees that can fit in with KHI's organizational culture. This hiring process will be a continuous activity for KHI as long as the company survives. The cost of employing staff to fill in the posts of one manager, one technical staff, one sale staff and one administrative staff is shown in Table 3-1. A Malaysian manager is needed to handle cash transaction from dealers and distributors. KHI needs at least US\$4,800 to US\$6,000 a month for salary expenses. This amount does not include the air ticket, accommodation, allowance for meals and living expense for Vietnamese staff that will be sent to Malaysia for training for a period of at least four to six months prior to the office setup. The training time, salary and effort put in by KHI's Malaysian managers to train up the Vietnamese staff is also excluded. These hidden costs are estimated to be approximately US\$5,000 per month.

Position	Range of Salary in US\$	
	From	To
1 Manager (a Malaysian)	4,000	4,500
1 Technical staff	300	600
1 Sale staff	300	600
1 Administrative staff	200	300
Total	4,800	6,000

Table 3-1 Tentative salary range to set up an office in Hanoi

3.3.3 Financial

As illustrated in the April 30, 2008 balance sheet shown in Table 3-2 below, the KHIB Group's equity is approximately US\$ 20million while debts are roughly US\$ 18.5million. The gearing ratio or debt to equity ratio is close to 1 which is considered quite healthy at this moment. The quick ratio is also approximately 1:1.

BALANCE SHEETS					
AT 30 APRIL 2008					
	Note	2008 RM	Group 2007 RM restated	Company 2008 RM	2007 RM
Assets					
Property, plant and equipment	3	83,712,355	85,233,659	362,307	367,430
Prepaid lease payments	4	5,517,034	5,901,809	-	-
Investments in subsidiaries	6	-	-	54,181,043	53,517,543
Investments in associates	7	3,298,021	3,125,359	500,722	811,383
Other investments	8	802,150	577,575	-	-
Amount due from subsidiary	10	-	-	6,270,333	5,917,419
Total non-current assets		93,330,462	94,839,402	61,314,405	60,613,775
Receivables, deposits and prepayments	10	25,738,499	23,387,662	2,655,536	405,881
Inventories	11	12,284,310	10,215,151	-	-
Tax recoverable		-	5,745	-	-
Cash and cash equivalents	12	6,216,084	6,645,514	260,638	343,872
Total current assets		44,239,783	40,255,072	2,919,174	750,753
Total assets		137,570,245	135,094,474	64,233,669	61,364,528
Equity					
Share capital	13	49,500,000	49,500,000	49,500,000	49,500,000
Reserves		19,413,230	15,201,542	2,835,234	2,634,254
Total equity attributable to shareholders of the Company		68,913,230	64,701,542	52,335,234	52,134,254
Minority interests	13	2,765,451	3,043,385	-	-
Total equity		71,678,681	67,744,927	52,335,234	52,134,254
Liabilities					
Loans and borrowings	14	16,588,684	20,741,438	6,270,333	6,149,950
Amount due to Directors	15	3,671,122	4,342,020	-	-
Deferred tax liabilities	9	5,678,000	7,000,000	-	-
Total non-current liabilities		25,937,806	32,083,458	6,270,333	6,149,950
Payables and accruals	15	19,238,529	17,165,058	3,112,269	2,985,954
Current tax liabilities		48,104	-	-	-
Loans and borrowings	14	20,667,125	18,100,031	2,515,833	93,360
Total current liabilities		39,953,758	35,265,089	5,628,102	3,080,324
Total liabilities		65,891,564	67,349,547	11,898,435	9,230,274
Total equity and liabilities		137,570,245	135,094,474	64,233,669	61,364,528

Figure 3-2 Balance sheet dated April 30, 2008

Source: KHIB Annual Report 2008

Since KHIB is financed on equity, it will not be difficult for KHI to budget around USD \$14,000 monthly in order to set up an office for a joint venture or the hybrid strategy in Hanoi. This total consists of US\$3,000 for rental, US\$6,000 for salary and US\$5,000 for hidden costs associated with training new Vietnamese employees. Given its present financial strength, US \$14,000 is still a feasible figure for KHI to proceed with the hybrid strategy. In addition, KHI needs to pay US\$10,000 for a one time registration

fee to develop a wholly owned company. The registration process will take about two months.

3.3.4 Gap in Resources and Gap-Closing Actions

The main human resources concern for KHI is the shortage of manpower, well versed in the Vietnamese language, its customs and culture, territorial preferences (North, Centre, South) and business channels (Lim, 2009). In order to address the gap of employing qualified Vietnamese staff, KHI has to continue hiring, training and conducting layoffs.

KHI's management have had unpleasant experiences in the past with Vietnamese staff turnover. Every year KHI management will pick an average of 50 Vietnamese employees to be trained in their Malaysian factories. Industrialization is developing at tremendous speeds in North Vietnam with many new MNCs being set up. The Vietnamese staff resigned after obtaining the training in Malaysia to join these MNCs. In spite of that, KHI still needs to continue the effort of training some Vietnamese staff to hold important positions to allow the joint venture or wholly owned company operation to proceed. KHI needs knowledgeable Vietnamese employees in marketing, sales, technical and administrative positions. KHI management needs to address the gap in training talented Vietnamese employees. KHI has managers for each department in Malaysia to bridge this gap in management and the finances to support it.

As for operational resources, KHI can rent a 1,000 square metre warehouse space from the KHMV factory in Thang Long Industrial Park to use as Zenne's warehouse. The estimated cost for warehouse rental from KHMV will be approximately US\$5,000. Regarding the issue of collecting cash from dealers, KHI has to send a trustworthy

Malaysian staff member to manage the new office in Hanoi. It may take time to locate suitable office space in Hanoi. In the meantime KHI can register a wholly owned company for Zenne under KHMV's address.

4: Conclusion

Overall, this paper has demonstrated that the strategic proposal for entry outlined is feasible for implementation by KHI to expand Zenne's branding and sale volume in Vietnam. In determining which entry strategy presents KHI with the best advantages, Porter's Five Forces have been used and analyzed. The potential entrants, buyer power, and substitutes are at a high level of threat. However, the suppliers posed a low threat and the rivalry among the existing firms will also be a low threat if KHI goes ahead with the investment entry strategy. Since KHI is a differentiation company focusing on a higher technology as its KSF, KHI stands a chance to be the first mover with this improved technology into the Vietnamese consumer market. KHI management must devote more effort to improve the present threats associated with their marketing strategy. It is acceptable that Zenne is priced higher than rivals' products, which are based on a low cost strategy. Hence, Zenne did not receive a high score on its competitive pricing KSF. Competitive pricing in a differentiation company is not a threat if customers are willing to pay more for the high end products. Opportunities or threats depend on the relative strength of differentiation versus cost based companies products in the Vietnamese market. KHI's threats on marketing and customer services can be avoided by entering into a hybrid method of combining wholly owned and exporting strategy.

The Diamond E-framework systematically highlights the strengths of KHI and the areas of improvement required to achieve the hybrid method. The management preferences section highlighted the experience of KHI's top management who are

capable of taking Zenne's branding forward, improving the organizational structure, changing the system and culture so it is flexible and can accommodate changes and highlighted the resources KHI has for investing into this strategy.

The required actions proposed herein are to fill in the internal gaps and weaknesses outlined in chapter three. For KHI to execute its objective of expanding Zenne's sales volume and branding, a logical sequence of actions is needed.

4.1 Recommendation

KHI should proceed with the hybrid method of wholly owned subsidiary and continue the export relationship with Nhat Hoa in North Vietnam. At the same time, KHI should continue to look for the most appropriate distributor besides Fortune in Ho Chi Minh City. Perhaps the wholly owned company supporting Nhat Hoa sales and services will be able to get local South Vietnamese interest. KHI should start revising their Zenne website to incorporate the corporate social activity that they did as part of branding the image for KHI and Zenne. Corporate social responsibility (CSR) can be used to promote Zenne to the Vietnamese. In addition, KHI should have a dedicated webpage in the Vietnamese language. KHI should continue the training programs for Vietnamese staff. Finding and retaining qualified staff to run the wholly owned operation in Hanoi will continue to be a trial and error process.

KHI needs to register a start-up company and start looking for office and showroom space in Hanoi. KHI management will need to draft the agreement with Nhat Hoa for the hybrid method of a wholly owned and exporting operation.

4.2 Subsidiary Recommendation

In the short term, KHI needs to ensure its distributor, Nhat Hoa, develops more dealers and has these dealers displaying more Zenne products. KHI needs to continue to foster closer ties with Nhat Hoa and its dealers. KHI should market aggressively by advertising on the radio and television stations and in newspapers in Vietnam.

4.3 Time Line

Gap	Duration	Gap-Closing Actions	Implementation Months						
			1	2	3	4	5	6...	
HR	1 year	Train qualified Vietnamese employees	→						
OR	2 months	Register a wholly owned company in Hanoi (temporarily using KHMV's address for registration while searching for a new office site)	→	→					
OR	2 months	Look for a suitable office site			→	→			
OR	1 month	Draft agreement for hybrid method with Nhat Hoa	→						
MP	2 months for planning	Marketing plan (advertisement) to bridge pricing gap and brand familiarity	→	→					
OR	1 month	Create Zenne website in Vietnamese	→						
OR	After registration	Set up Zenne warehouse in KHMV			→	→	→	→	→
OR	2 months	Appoint Malaysian manager in Hanoi office	→	→					

Table 4-1 Time Line for Implementation

Note:

- 1) HR represents human resources, OR represents Operational Resources, and MP represents Management Preference
- 2) Employees training needs to start way before other gap-closing actions.

Refer to table 4-1, KHI should give priority to train its human resources for at least six months before the registration of the wholly owned company begins. The training duration for Vietnamese staff should be carried out at least one year. When KHI starts to register for a wholly owned company, there are a few actions that can be carried out in parallel such as drafting the agreement for hybrid method with Nhat Hoa, hiring a Malaysian Manager, creating a marketing plan to bridge the pricing gap on brand familiarity and establishing Zenne website in Vietnamese language. The Malaysian Manager should be involved in the whole set up process of the wholly owned company. For the next two months onwards, KHI should look for a suitable office in Hanoi and set up Zenne's warehouse in KHMV premise. The marketing advertisement, organizing the warehouse and training employees will be long term activities for KHI's new wholly owned company in Vietnam.

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