USAID LINKAGES FOR SMALL AND MEDIUM ENTERPRISES (USAID LinkSME)

Opportunities and Challenges for Vietnamese SMEs in Joining Global Supply Chains (Part 1)

AmCham Supplier Day 2019
Ho Chi Minh City, October 16, 2019

Ron Ashkin, Project Director
Implications of U.S. – China Trade Tensions on Supply Chain

(Author’s Analysis)

• The “New Normal”
  o Supply chain re-thinking and re-alignment is permanent, not just a blip
  o Longer-term structural change is afoot
• Altered geographic organization
  o China is no longer “the world’s factory” to the exclusion of other manufacturing locations
  o Manufacturing location now depends on end market(s)
  o Supply chain now depends on source market(s)
• Businesses have established new supply networks and will continue to do so
  o Some are regionalizing
  o Some are re-designing products
• The shift is in Vietnam’s long-term benefit as the nation works its way up the development ladder
Headlines in the News

• “Vietnamese Firms Yet to Tap Chances from U.S.-China Trade War”
  – Vietnam Panorama, October 1, 2019

• “Global supply chains remain out of reach of VN businesses”
  – Vietnamnet, August 22, 2019

• “Vietnam exporters too dependent on imported materials”
  – Vietnamnet, February 11, 2019

• “Vietnamese firms struggle to join FDI supply chain”
  – VN Express International, November 28, 2018

• “Vietnam needs stronger links with global supply chains”
  – Vietnam Economic News, October 7, 2018

• “Vietnam still struggling to develop supporting industries”
  – Vietnamnet, April 18, 2018

• “Vietnam’s electronics industry struggles with low local content”
  – Thoi Dai Vietnam Times, November 30, 2017
Vietnam’s Challenge: Connecting SMEs to Supply Chains

1. Small and Medium Enterprise (SME) Landscape
   - 98 percent of total enterprises
   - 63 percent of employment
   - 45 percent of GDP
   - Only 1,800 SMEs in supporting industries across all sectors (MOIT)

2. Lead Firms in Vietnam
   - Foreign direct investment (FDI): $35 billion in 2018 – up a further 69% year-on-year through June 2019
   - Largest investors: South Korea, Japan, Singapore, now China
   - FDI firms dominate Vietnam’s exports (70%)
   - Lead firms co-locate with their foreign suppliers

3. SME Linkages to Lead Firms
   - Local content in Vietnam is low by regional and global standards
   - Why? Low technology adoption, poor productivity, lack of experience with lead firms, inadequate standardization, shortage of skilled staff and management, language barriers, limited access to finance, low reliability…
Global Firms Look for Total Cost to Market

- Low labor cost is only one factor of production
- Total cost to market includes all costs:
  - Labor
  - Materials
  - Cost of capital (both investment capital and working capital)
  - Transport and logistics
  - Duties, taxes, and fees (both formal and informal), etc.
- Inadequate local supply chain raises all costs other than labor, and also minimizes local labor participation
- Locating for low labor cost is the wrong reason for Vietnam’s economy – a “race to the bottom”

Overall, is Vietnam a lower cost manufacturing location than China?
A New USAID Project Addresses This Challenge

• USAID Linkages for Small and Medium Enterprises (LinkSME)
  • Purpose:
    o Systemic changes in business relationships between Vietnamese small and medium-sized enterprises (SMEs) and lead firms
    o Significant increases in the quantity and quality of linkages between Vietnamese SMEs and lead firms
  • Objectives:
    1. Strengthen the SME-lead firm business linkage framework
    2. Enhance Vietnamese SMEs’ capacity to participate in supply chains
  • $22.1 million through September 2023
  • Currently operating in electronics and metals sectors, to expand
  • Implemented in cooperation with intermediary organizations such as business associations, chambers, SME promotion agencies, export development centers
A New USAID Project Addresses This Challenge

- **USAID Linkages for Small and Medium Enterprises (LinkSME)**

  **Project Structure**
  
  - Donor: United States Agency for International Development (USAID)
  - Primary Counterpart: The Office of the Government (OOG)
  - Co-counterpart: Ministry of Planning and Investment (MPI)
  - Implementer: IESC
Key Implementing Personnel and Office Locations

Key Personnel

<table>
<thead>
<tr>
<th>Project Director</th>
<th>Deputy Project Director</th>
<th>Technical Team Lead</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ron Ashkin</td>
<td>Duong Thi Kim Lien</td>
<td>Frank Weiand</td>
</tr>
</tbody>
</table>

Main Office: Hanoi
6th Floor, 10 Chu Văn An, Dien Bien Ward, Ba Dinh District, Ha Noi

Regional Office: Ho Chi Minh City
Unit 14.4, E-town Central, 11 Doan Van Bo, Ward 12, District 4, HCM City
Benefits for Vietnam

• **Business Enabling Environment**
  • Lessons learned inform best practice institutional, regulatory, and administrative reforms that lower costs for SMEs
  • Easing doing business and increasing international integration
  • More competitive SMEs, more investment in SMEs

• **Intermediary Organizations**
  • Permanent capacity built for business support organizations across both public and private sectors

• **SMEs**
  • Higher local content means more value addition will be captured in the local economy
  • More supply chain jobs and higher incomes
Benefits for Participants

- **SMEs**
  - Connections with lead firms interested in increasing local content in Vietnam and deepening their local supply chain
  - Access to lead firm procurements
  - Technical assistance to upgrade to meet lead firms’ requirements

- **Lead Firms**
  - Connections with qualified Vietnamese SME suppliers who understand lead firm needs
  - Better information about suppliers’ product lines, capabilities, capacities, and efficiency
  - Bottom line – reduced cost of locating Vietnamese suppliers

- **Business Support Organizations**
  - Improved capabilities to facilitate business linkages between SMEs and supply chains
USAID Linkages for Small and Medium Enterprises Contact Information:

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        Greg Leon, Director, Office of Economic Growth and Governance gleon@usaid.gov

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          Lien Duong, Deputy Project Director duonglien@link SME.org
          Frank Weiand, Technical Advisor fweinand@link SME.org

Register online at http://bit.ly/LinkSME1
USAID LINKAGES FOR SMALL AND MEDIUM ENTERPRISES (USAID LinkSME)

Opportunities and Challenges for Vietnamese SMEs in Joining Global Supply Chains (Part 2)

AmCham Supplier Day 2019
Ho Chi Minh City, October 16, 2019

Ron Ashkin, Project Director
Huge Supply Chain Opportunities in Manufacturing Sectors

- Study of Trump Administration’s tariffs on China shows that some industries have more incentive to relocate than others
- Share of some sectors significantly affected by tariffs:
  - Pharmaceuticals 100%
  - Basic metals 100%
  - Electrical equipment 90.6%
  - Electronics and computers 88.4%
  - Machinery 66.2%
  - Transport equipment 62.2%
Huge Supply Chain Opportunities in Manufacturing Sectors

### U.S. and China trade standoff: What’s at stake

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers &amp; electronics</td>
<td>$186.5</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>$49.9</td>
</tr>
<tr>
<td>Miscellaneous manufacturing</td>
<td>$44</td>
</tr>
<tr>
<td>Machinery</td>
<td>$38.7</td>
</tr>
<tr>
<td>Clothing</td>
<td>$29.8</td>
</tr>
<tr>
<td>Fabricated metal</td>
<td>$26.5</td>
</tr>
<tr>
<td>Furniture</td>
<td>$25.8</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>$21.7</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$21.4</td>
</tr>
<tr>
<td>Plastic &amp; rubber products</td>
<td>$20.2</td>
</tr>
<tr>
<td>Leather and similar goods</td>
<td>$20</td>
</tr>
</tbody>
</table>

Source: US Census

Vietnam’s largest export sectors
Huge Supply Chain Opportunities for Vietnam

- USAID LinkSME analysis quantifies current growth potential for Vietnam through strengthening local supply chain at

$58 billion (USD)

* All sectors, based on 2018 trade flows
Connecting to Global Supply Chains: The First Step for SMEs

Understand buyer requirements
(Both global trends and specific company needs)

- Quality
- Quantity
- Timeliness
- Cost
- Data
- Customer Service
- Standardization
- Labor, Health, Safety, Environment, Social…
Connecting to Global Supply Chains: Next Steps

Consider your capabilities
- What can you offer today?

Identify, investigate and prioritize gaps
- What are the differences between your capabilities and what buyers need?

Upgrade within resource availability
- Financial
- Technology
- Human

Move quickly, one step at a time
- Deal with high impact, easy to implement issues first, while addressing longer-term challenges

Every SME has different needs
- Get assistance from USAID LinkSME and its partners to connect with buyers and upgrade your capabilities

USAID Linkages for Small and Medium Enterprises
What Does Every SME Need?

Customers!

- **Why is USAID LinkSME’s Approach Different?**
  - USAID LinkSME starts with the buyer – demand comes first
  - With our partners, we help connect SMEs to lead firm procurements – real commercial opportunities
  - Technical assistance then follows the linkage
  - Once an SME is linked to a potential buyer and understands their requirements, the incentive to upgrade is clear
Business Deals Create the Incentive to Upgrade

1. Firm Identification

2. Pre-Qualification

3. Matchmaking

4. Technical Upgrade

✓ Economic value created for SMEs and Vietnam’s economy
✓ Multiplier ("spillover") effect from more local content

✓ Capacity built for sustainability, replication, and scale
✓ Lessons learned to inform Government policy
Typical Procurement Process of International Companies

Procurement process at most International Organizations looks as below:

Activities:
- Design demand and planning
- Purchasing
- Performance management
- Contract management
- Supplier relationship management

Sub Activities:
- • Procurement strategy and operations advisory
- • Demand and compliance
- • Tax effective procurement
- • Procurement skills and capability assessment
- • Category management
- • Complex sourcing levers
- • Inbound logistics
- • Performance management (KPI tracking, PPM surveillance, delivery performance, supplier review…)
- • Tax effective procurement
- • Supplier relationship management

Key Processes:
- Planning and Demand assessment
- Requirements & Specifications
- Make vs. Buy Analysis
- Pricing, SLA Definition
- Supply Order Management
- Requisition & Approval
- Receipt, Inspection & Invoicing
- Reconciliation, Control & Payment
- Logistics Management
- Quality Management
- Warehouse Management
- Inventory Management
- Strategic Sourcing & Tendering
- Contract Management
- Negotiation
- Supplier Relationship Management
- Identification & Registration
- Supplier Risk Management
- Performance Management

Key supplier touch points
Supplier’s Journey With An Organization Starts with His Onboarding

In order to become a part of an International Organization’s Supply Chain, the Supplier undergoes the following onboarding process:

1. Supplier Pre Assessment
   - OEM Supplier Approval
   - Assessment of Organization, Management, Financial Status, Capability, Know How
   - Detailed evaluation of capability & know how of all departments, quality, capacity

2. Supplier Evaluation
   - Process or System Audit
   - Audit Passed

3. Supplier Audit

Result
- Supplier approved to attend RFQ / RFP process

Criteria
- Technologies
- Quality
- Cost
- Responsiveness
- Dependability

Behaviors
- Trust and integrity
- Respect and care for each other
- Teamwork and collaboration
- Closed loop communication
- Metrics
Once Approved, the Supplier Proceeds to the RFQ / RFP Process

As a part of the Request For Quotation (RFQ) / Request For Proposal (RFP) process, Supplier is required to fulfill all the requirements of the RFQ / RFP package. Shown below is a typical RFQ / RFP process:

**Step 1**
Organization floats the RFQ / RFP package

**Step 2**
Suppliers submit their competitive bid

**Step 3**
Review bids and shortlist suppliers for negotiation

**Step 4**
Suppliers undergo negotiations with the organization

**Step 5**
Finalize suppliers & implement contracts

Typical contents of RFQ / RFP Package:
- Confirmation of Interest from Suppliers
- Confidentiality Agreement / NDA
- RFQ / RFP Overview
- RFQ / RFP related questions from Suppliers
- Supplier Questionnaire
- General Terms + Conditions
- Specification & pricing Workbook
General Evaluation Criteria during RFQ / RFP stage

During the RFQ / RFP stage, suppliers may be evaluated on one or more of the following criteria:

<table>
<thead>
<tr>
<th>Capabilities</th>
<th>Cooperation</th>
<th>Price</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting (metrics, spend, price paid, etc.)</td>
<td>Quality Response</td>
<td>Lowest Purchase Price</td>
<td>Environmental Programs</td>
</tr>
<tr>
<td>Product Development</td>
<td>Sales Service</td>
<td>Fixed Price for Period</td>
<td>Quantity Fulfillment</td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>Technical Service</td>
<td>Regular Price Reductions</td>
<td>Labor Stability and Training</td>
</tr>
<tr>
<td>Capacity</td>
<td>Administrative Service</td>
<td>Price to Indices</td>
<td>Currency Risk</td>
</tr>
<tr>
<td>Number of Facilities</td>
<td>Organization</td>
<td></td>
<td>Engineering Capabilities</td>
</tr>
<tr>
<td>Quality System</td>
<td>Ethics</td>
<td></td>
<td>Warranty</td>
</tr>
<tr>
<td>Cost Control</td>
<td>Partnership</td>
<td></td>
<td>Inspection Services</td>
</tr>
<tr>
<td>Geographic Locations</td>
<td>Supplier Management Commitment</td>
<td></td>
<td>Local Content</td>
</tr>
<tr>
<td>Planning Flexibility</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logistics Integration</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Innovations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronic Communications</td>
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</table>

| Service | | | |
|---------| | | |
| On Time Delivery | | | |
| Lead Times | | | |
| Cycle Time Reductions | | | |
| Response Time | | | |
| Metrics Data | | | |

| Quality | | | |
|---------| | | |
| Quality Standards | | | |
| Quality Inspections | | | |
| Number of Rejections | | | |
| Preventive Maintenance | | | |

<table>
<thead>
<tr>
<th>Possible Selected Evaluation Criteria – EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting</td>
</tr>
<tr>
<td>On Time Delivery</td>
</tr>
<tr>
<td>Quality Inspections</td>
</tr>
<tr>
<td>Geographical Location</td>
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<tr>
<td>Warranty</td>
</tr>
<tr>
<td>Local Content</td>
</tr>
</tbody>
</table>

Supply Market Insights

Requirements
Shortlisted Suppliers Are Then Invited for Negotiations

For global players, the key idea behind a negotiation may include one or more of the following aspects. If the suppliers are able to fulfill the requirements, they may win an opportunity to develop business relationships with the global players.

- Average Annual Cost Reduction
- Annual Productivity increase
- Expected Annual Savings in the form of Total Cost of Ownership (TCO) initiatives
- Better Compliance and Customer Service
- Continuous Improvement initiatives
- Cost Transparency
Typically, the International Organizations (with supplier involved in development process) have following expectations from T1 Suppliers:

- Solid and Reliable Management
- Account Management with one face to the customer approach
- Project Management Organization in place (Project Teams)
- QM System certification: ISO 9001, 19949, 14001, OHSAS, IATF 16949
- Technical Change Management
- Systems functionality
- Highly Innovative Supplier
- Development responsibility & regular simultaneous engineering team participation

T1 Supplier
Once Integrated, Supplier Performance Is Regularly Monitored

Contracting is not the end of the Supplier Journey. Once finalized for contracting, International Organizations constantly monitor the performance of these suppliers. Common Key Performance Indicators for suppliers are developed around the following areas:

1. Understand and listen to your customer
2. Experienced with specific customer processes (purchasing, ordering, accounting, etc.)
3. Well managed company with healthy financial background
4. High production flexibility to cover volume change (+/- 10% to 20%)
5. Innovation, annual cost reduction, annual savings, continuous improvement
6. Cost Transparency (cost break down, quotation analysis forms, etc.)
7. A reliable, professional and stable organization
## Not All Suppliers Can Make It to The Global Supply Chain

For successful integration into global value chains, suppliers must get rid of the following drawbacks:

<p>| | |</p>
<table>
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<tbody>
<tr>
<td>1</td>
<td>Lack of and/or fragmentary operation/control system across supplier’s supply chain</td>
</tr>
<tr>
<td>2</td>
<td>Gap between Commitment and Delivery to the customer</td>
</tr>
<tr>
<td>3</td>
<td>Short term gain vs. long term win approach</td>
</tr>
<tr>
<td>4</td>
<td>Lack of LEAN practices and insufficient Quality Management (QM) system</td>
</tr>
<tr>
<td>5</td>
<td>Lack in problem solving techniques – no analytical approach</td>
</tr>
<tr>
<td>6</td>
<td>Absence of Safety Standards / Safety behavior</td>
</tr>
<tr>
<td>7</td>
<td>Missing customer orientation</td>
</tr>
<tr>
<td>8</td>
<td>Communication (Language, system, structure…)</td>
</tr>
</tbody>
</table>
Common Management Trainings Needed by Vietnamese SME Suppliers

• Expectations of foreign companies when doing business
  ➢ How to present the company to international customers
  ➢ International supply chain requirements

• Customer service and customer orientation

• Root cause analysis and problem solving

• Production-related topics such as:
  ➢ Implementing ISO standards
  ➢ Process control
  ➢ QA/QC
  ➢ Lean manufacturing/Six Sigma
  ➢ 5S
How Can Vietnamese SMEs Participate?


- Benefits:
  - You will be eligible for future project activities such as trainings and supplier day events
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