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Contemporary Issues in Global Market: Analysis on Handicraft Industry in Vietnam

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Abstract

Handicraft is an important heritage that symbolise identity of a culture and country, which also brings economic values to nation. Hence it is crucial to study handicraft industry, which preserve and promote cultural heritage. This study focuses on handicraft industry in Vietnam, and strives to examine the external environment that shape the performance of industry, to analyse the current industry competition, and well as propose recommendations to practitioners. PEST Analysis was employed to examine external environment of handicraft industry in Vietnam. Next, Porter's Five Forces Framework was used to analyse the industry competition. Lastly, VRIO Framework was used to assess the competitiveness of Vietnam handicraft industry. Implications of study were discussed and recommendations are provided to market practitioners.

Keywords: Vietnam, Handicraft Industry, PEST Analysis, Porter's Five Forces Framework, VRIO Analysis, Industry Competition.

Introduction

Handicraft is a hand-made product which is made by using a simple traditional tool. With the alluring varieties of handicraft items, the handicraft industry of Vietnam has not only provided a source of productive activities, incomes and livelihoods in rural areas throughout the nation, but the handicrafts that stand out as an important part of the country's cultural heritage has also allow Vietnam astounded the globe (Thu et al., 2019). Handicraft industry in Vietnam produce the handicraft products by using low production cost as the government of the Vietnam has opened the export activities and due to the economic evolution from the centrally planned become a market economy which has directly affected the handicraft industry expansion in Vietnam. In addition, handicraft industry also received the assists and encouragement from the Vietnam government in order to make out their potential by cottage industries in the international market (Barotax, 2014). However, the drawbacks of this industry include limited capacity, limited handicraft's design, as well

as lack of information about current market demand on the Vietnam handicraft. Moreover, due to the lacking of information and capacity it may lead to insufficient handicraft production and outdated style, pattern and design on handicraft products. This study strives to achieve the following objectives:

- To identify the external environment of the handicraft industry in Vietnam.
- To analyze the current industry competition of the handicraft industry in Vietnam.
- To assess the competitiveness of Vietnam handicraft industry.

Review of Literature

Overview of Vietnam Handicraft Industry

Vietnam, also known as the Socialist Republic of Viet Nam (SRV), lying on the eastern part of the Indochinese peninsula, is a strip of land shaped like the Letter 'S', with a total area of 330,966.9 square kilometers (Ministry of Culture, Sports & Tourism of Vietnam, 2013). With a total of 54 ethnic groups (Voice of Vietnam (VOV) World, 2013), Vietnam is a multi-religion country, which included six major religions, namely Buddhism, Muslim, Protestantism, Caodaism, Catholicism and Hoahao Buddhism (Le, 2016). Vietnamese is the official language that usually spoken by the majority of the Vietnamese. The other language, English also widely spoken in Vietnam, and it has been increasingly favoured as a second language in the nation (Central Intelligence Agency (CIA), 2016). Moreover, some of the Vietnamese also speak in Russian, French, Khmer and mountain area languages such as Montagnard and Cham (CIA, 2016). Adding on, the official currency using in Vietnam is Dong.

The major cities in Vietnam include Ho Chi Minh City, Nang, Phong and Tho. As the second largest city in Vietnam, Hanoi is the capital city of the nation, with a thousand-year history boasts many handicraft streets and guilds, in which there are 36 streets whose name begins with the word 'Hang' meaning craft (VOV World, 2013). Vietnam is one of the nations that experiences success in handicraft industry among many developing countries (Rachael, 2008). Handicraft industry embrace huge market potential in Vietnam, in which there are approximately 4,500 craft villages employ approximately 12 million people and create millions of seasonal jobs for farmers (VOV World, 2013), or, in other word, one third of the total regional workforce involve in the handicraft industry (Asia Seed, 2018).

Vietnam handicraft products is serve as a decoration as well as traditionally used for daily purpose (Hays, 2008). According to Vietnam's Ministry of Culture, Sports and Tourism (2018), there are six main categories of handicrafts in these industry, namely ceramic, bamboo products, lacquerware, mother of pearl inlaying, stone sculpture, jewelry, as well as wood works. Handicraft products is made with their cultural and history, in which each craft village has its own know-how, which has been passed down from generation to generation (VOV World, 2018).

Besides, handicraft industry provide a lot potential in Vietnam as Vietnam handicraft industry plays a critical roles to provide the job opportunity for the workers in Vietnam marketplace, especially for the workers who are staying in the rural areas in Vietnam (Rachael 2008). In other word, Vietnam handicraft industry has reduced the unemployment rate in Vietnam and has increased the income of the workers in the rural areas in order to reduce the poverty in Vietnam. Hence, the Vietnam government put extensive effort in promoting handicraft and tourism in a sustainable way of protecting and preserving the culture (Asia Seed, 2018), in which handicraft villages are introduced as a travelling package.

The handicraft villages, especially in Ha Noi and Ho Chi Minh City, have become popular tourist spots in Vietnam, due to it's a day-trip distance (Asia Seed, 2018). Therefore, it also help to increasing the number of the tourist every year in Vietnam and these traditional handicraft villages located nearby the transportation routes in order to give convenience for the tourists who are interesting to visit the craft villages. Moreover, the annual traditional craft Festivals which organized by craft industry had make the handicraft villages success in Vietnam and promote the local hand made products and attracting attention of tourist toward traditional handicraft products and its culture in Vietnam (HRPC & Artisan Crafts, 2015).

Vietnam is one of the main handicrafts exporters in Asia. With an annual sales of US\$ 3 billion (Asia Seed, 2018), the export of handicraft items generate more than US\$ 1 billion annual income (VOV World, 2018), Vietnam is progressively revealing its potential and wide-ranging of handicraft product to the international markets (Runckel, 2006). In recent years, there are average 13 percent of export rate for Vietnam handicraft annually. Vietnamese has sustained in producing, designing and exporting wide range quality of extensive eco-friendly of the handicraft products in Vietnam and exporting internationally, especially exporting to Europe, America, Japan and Australia (Thietkeweb, 2015). Moreover, one of the important export market for craft leading Vietnam such as ASEAN, Germany, Australia, China, Europe , India, Malaysia and Ukraine. Therefore, the Vietnam government has promoting a speedily developing handicraft industry in order to boost the economic development through all regions of the country (Runckel, 2006). Indeed, Vietnam has gained competitive advantages as the field of the production of handicraft Vietnam ranked second in Asia after China. Therefore, Vietnam handicraft industry gain an advantages that importer be likely to leave China and find the alternatives supplier in Vietnam marketplace.

Theories on Structured Models

Firstly, PEST Analysis is used to identify the external environment of the handicraft industry in Vietnam by using four factors, which are political, economy, sociocultural and technology. Secondly, Porter's Five Forces Model is carried out to analyze the current market competition of handicraft industry in Vietnam. Lastly, VRIO Framework is employed to assess resources and capabilities of this industry, also provide base in providing recommendations to further improve the performance of this industry.

PEST Analysis

PEST Analysis is a common framework of the macro-environmental factors which examine all external environmental elements of the strategic management. PEST is the acronym for four important elements, namely Political, Economic, Social-cultural and Technological, which are the factors that can affect an organization. There are various types of opportunities and threats for a firm from the external environment, and the management of the firm has only little or no influence towards the external environment (Gupta, 2013). Johnson (1993) highlighted that it is very important to figure out the factors that might affect a number of vital variables that are likely to influence the firm's costs, as well as the supply and demand levels.

According to Zhang *et al.* (2012), PEST analysis is a useful tool to make sure the collected external information can be used effectively and it typically leads to adapt the scanning information into the actionable ideas. This framework helps firm to recognize the market growth or decline of the market

growth, position of the industry, path and potential for the operations (Kotler, 1998). Particularly, this analysis is helpful and useful for an industry or company when it entering into a new markets in a new countries as this analysis assist the industry or business familiarize to the realities of the new circumstances and environments and also assists to breakdown the free of insentient assumptions in a new environments (Abdullah & Shamsheer, 2011).

Porter's Five Forces Model

Porter's Five Forces Model is a useful framework by assisting manager to gain a better understanding the primary structure in an industry, and subsequently identifying the opportunities and threats more efficiently and effectively, as well as helps managers to estimate the profitability and attractiveness of an industry. Porter (2008) argued that Five Force's Model gives a comprehensive picture of all the competitive factors such as potential entrants, rivals, buyers, suppliers and also the substitutes in an industry, which highlighting or affecting the investment rates, prices of goods and services, costs of production and other strategies requirement which need to be contended by an industry.

Thurlby (1998) pointed out that Fives Forces Model bring an understanding of the nature of each of the factors and bring an essential intuitions for an industry in order to enable them to determine an appropriate strategies that can lead to successful of the industry. For instances, UK clothing manufacturing industry used Porter's Five Forces model which assist the industry to analyze the competitiveness of the UK in clothing manufacturing industry and also aids the industry to examine how the IT investment assist the small- and medium-sized manufacturers in dealing with the challenges of the supply chain in the industry (Adewole, 2005).

Porter's model is presenting a potential tool which allows the marketers to evaluate the number of locations, impact of the key factors which affect and control the general authority of each force and also provided the particular amendment to the products and services in boundaries (Porter, 2008). Besides, there are three horizontal components and two vertical components involved in Porter's model. Theses horizontal components including the existing rivalry intensity, threat of new competitors and substitute's threat while for the vertical components, it involved bargaining power of supplier and customer which will directly affecting the decision which decided by an industry (Toor, 2014).

VRIO Framework

Jay Barney, one of the inventors of the Resources-Based View had established the VRIO Framework (V – Value; R – Rarity; I – Imitability; O – Organization), which helps in evaluating and understanding weather primary sources of the competitive advantage that relative to the rivals are proficiencies or internal resources. VRIO framework allows the industry to assess and evaluate the primary sources of maintainable competitive advantages and also determine the abilities to ensure the firm in bring up their competitive status and roles in the marketplaces (Andersén, 2011).

Furthermore, VRIO framework also allow the industry to analyze the competences which hidden in the operations activities of the industry (Andersén 2011). Lin *et al.* (2012) highlighted the advantages of using the VRIO Framework include 1) helps to determine the most potential competence which are the value-creation effort of the firm in an industry; 2) allows the industry have better understanding about the strengths and weakness of the firm in the industries in order to assists the top management to make the decision more efficiency and effectively; 3) aids the industry to define

the forces which affecting the competitive advantages at the recently state of developmental, thus the top management has ability or capability to handle the difficulty situation effectively and maintain the competitive advantages and industries; and 4) assist in evaluating and analyzing the intangible assets and resources which are uncertainty.

Methods & Perspectives

This is a qualitative research that utilising secondary data, especially from online journal, articles, books and international organizations which are related to the handicraft industry in the Vietnam country. According to the Church (2001), secondary data analysis refers to the origin data or information that available in the published articles or journal which including statistical information, text, graphs, tables.

The first approach that adopted in this research is PEST Analysis, which helps to scan the external market environmental of the Vietnam's handicraft industry in aspects of the Political, Economic, Social and Technological. PEST Model which be used for examining the current market growth and current position of industry as it is a powerful framework for an industry (Babatunde & Adebisi, 2008). Besides, it can paints a pictures on the industry that affected by the external factors and ensure all the external data can be used effectively then convert it to the actionable ideas in the marketplace (Wilkinson, 2007). Therefore, PEST model is employed to examine the current potential position of the handicraft industry more effectively.

Second approach that is being adopted in this study is Porter's Five Forces, which is believed as an effective method that is used to obtain a better understanding regarding the challenge faced by the Vietnam handicraft industry. Besides, it also helps to determine the profitability and capability of the handicraft industry (Cafferky, 2005). The five components such as rivalry among the competitors, threat of new entrants, bargaining power of the suppliers, buyer power of the buyers and threat of substitution give better understanding on the competitive capability and achievement of the handicraft industry in the country.

The last approach that is being adopted is VRIO Framework, which discusses value, rareness, imitability and organization of the products or resources in an industry (Barney, 2002). By adopting the VRIO Model in this study, it helps to determine the most potential resources and capabilities that will helps to create value for the industry (Andersén, 2011). In light of this, VRIO models also aids in proposing some useful recommendations improving the performance of handicraft industry in Vietnam (Barney & Hesterly, 2006).

Findings

PEST analysis

Political Factors

Vietnam is a single-party communist state that constituted by 59 provinces and 5 municipalities (Pham, 2015), which emphasized more on market-oriented economic policies. However, the Vietnamese government controls the freedom of speech, and this has directly affected the internet usage, specifically the use of the public media and individual blogs as well as the access to which can be blocked without announcement (The Canadian Trade Commission Service, 2012). Apart of that, corruption practices are popular in Vietnam. Vietnam has been ranked relatively poor in the Transparency International Corruption Perceptions Index in 2014, which was the 119th out of 174

countries (Transparency International, 2014). According to Stiftung (2014), the corruption situation in Vietnam remains as a serious problem even though there are some aggressive actions have been taken to solve and reduce the corruption problems. For instance, the Vietnam government set rules and regulations as well as established governmental agencies for anticorruption (Smith, 2012). Unfortunately, the corruption problem are still continues to tarnish and influence the international image of Vietnam due to violations of the human rights and restriction of the civil rights in Vietnam (Stiftung, 2014).

Nonetheless, Vietnam is still known as one of the higher political stability countries in South East Asia (Anne *et al.*, 2013). Foreign investors see Vietnam as an attractive country as the high stability political, young and well-educated population, high saving rate, and increased in consumer spending in Vietnam country (Gulf One, 2013). These are made available through a policy named 'Doi Moi'. 'Doi Moi', an impressive transformation of Vietnam from a central economy to a market-oriented economy (Neubart & Roeckel, 2008), leads to lower inflation rate and brings higher economic growth in Vietnam. Under this policy, the Vietnam government offer favorable incentives to foreign investors in order to attract more foreign direct investment inflow, which made available through tariffs and tax reduction, elimination of barriers restriction and currency surrender rates in Vietnam (Thanh *et al.*, 2004). This enables Vietnam continue attains its political stability and nonexistence of the Violence (Lydall, 2008).

In terms of government's support in promoting the growth of local handicraft industry, the government has established some rules and regulations, which particularly support the development of the raw material supply, location for investment and trade encouragement in Vietnam marketplace (Ernst & Young, 2014). Firstly, Vietnamese government provides the Vietnam handicraft industry with capital assistance in term of the infrastructure investment which including water and electricity supplies, as well as the building of road (Tosto, 2009). Moreover, the government also provides factories with the capital assistances in order to support and assist the locals, especially those who stay in the rural areas and wish to take part in the handicraft production (Tosto, 2009). Secondly, Vietnamese government provides incentive for the producers of handicraft in Vietnam, in which they are allowed to rent land at lowest rate (Ernst & Young, 2014). Moreover, for those producers who transfer their manufacturing out of the areas, they will get some benefits from Vietnamese government such as zero pay for the land rental fees for a total of three years period (Tosto, 2009).

Thirdly, in order to expose the local handicraft producers to international marketplace, the Ministry of Trade and the Industry undertakes directly the oversea Trade Council. Fourthly, the Ministry of Science, Technology and Environment in Vietnam provide funding to the Vietnam handicraft industry in order to boost the innovation of technology, use of the raw materials, and development of design capability for handicraft products in Vietnam (Tran *et al.* 2008).

Fifth, the training center developed by Vietnam government provides training courses for the Vietnam handicraft industry, in order to improve and enhance the skills of workers (Hung, 2015). Besides, it also offers VND 200,000 per month as allowances for each person who are participating any handicraft training courses in Vietnam. Furthermore, Vietnamese government gives investment incentives to the exporters of handicraft industry, in order to support and promote the export of handicrafts (Meyer, 2005). For instances, exporters of handicrafts are benefited from variety types

of the investment incentives, which including reduction or exception in terms of lands use taxes, individual income tax, imported machine, import tax and land rents (Tosto, 2009).

Besides, in order to enhance the export activities and investment in Vietnam handicraft industry, Development Assistance Fund and the National Export Assistance Fund are offered to the local manufacturers and exporters (Bodewig *et al.*, 2014). Lastly, the Ministry of Labor, Invalid and Social Affairs in Vietnam assists the workforce of the handicraft industry by offering training courses to them in order to improve their professional, skills and design capability in the handicraft industry (Asian Development Bank, 2013).

Economic Factors

The shift of Vietnam from a centrally-planned to a market economy has changed the Vietnam country from one of the poorest country in the world with per capital income around \$100, into a lower middle-income country within a quarter of a century with per capital income of over \$2,000 by the end of the year 2015 (The World Bank, 2016). The country achieved Gross Domestic Product (GDP) of US\$ 193.6 billion in 2016 (The World Bank 2016). Vietnam currently is one of the most dynamics emerging countries in East Asia region. The Vietnam government plays an active role in reducing the poverty of the citizen, and has successfully reduced the portion of the people living in extreme poverty from over 50 percent in the early 1990s to only 3 percent in 2016, in which the country (The World Bank, 2016).

The currency of Vietnam is Dong (VND). Vietnam government has maintained severely and forcefully to cope and governor of the Vietnam currency (VDN) by using a daily fixing and trading brand. The interbank exchange rate in Vietnam was kept unchanging at VND 20, 828 against the US dollar in year 2012 (BTL 2014). This exchange rate has only increased by 1 percent, which is within the official margin limit that established by the State Bank of Vietnam that currently stands at plus and minus 3 percent. The State Bank of Vietnam more prefer on slow alterations of the VDN in order to minimize the disturbance of business (BTI-Project, 2014).

Vietnam has been able to improve the stability of the macroeconomic, with the yearly price index of the consumer rising only 0.6 percent in August 2015 (The World Bank, 2016). Furthermore, according to the General Statistics Office of Vietnam, the inflation rate of Vietnam in July 2016 was recorded at only 0.34 percent; whilst, the average of the inflation rate from 1996 to 2015 in Vietnam was recorded 6.89 percent. Besides, interest rate was recorded at 6.50 percent in 2014, and the average interest rate from 2000 to 2016 in Vietnam was 7.44 percent (The State Bank of Vietnam, 2016).

Vietnam is a true emerging market which offering ground floor and growing opportunities for the foreign exporter and investors. Moreover, the Vietnamese government also encourages exporting business (Szydlowski, 2008). The total export of the Vietnam has reached 70.7 billion in year 2008, in which the primary export destination were US and Japan, which recorded 20.8 percent and 12.5 percent, respectively (Trading Economic, 2016).

Foreign direct investment (FDI) plays a critical factors in the advancement of the economy in Vietnam, because the economy of the Vietnamese will unlikely return to the growth rate without an increasing in the FDI in Vietnam (Szydlowski, 2008). The average of FDI was US\$ 3,668.20 million from 2001 until year 2015, and it has increased to US\$ 7,199 million in the third quarter of 2016 (Trading Economics, 2016).

According to Trading Economics (2016), the monthly wages rate in the manufacturing in Vietnam has increased from VND 3,924 thousands in 2013 to VND 4,364 thousand in 2014. Vietnam's handicraft industry plays a critical role in reducing the poverty of the villager or workers in rural areas, in which the industry employed over 10 million of the Vietnamese workers in the handicraft production fields (Szydowski, 2008). According to the General Statistics Office of Vietnam, the unemployment rate in Vietnam was decreasing from the first six month of 2015 from 2.44 percent until the first nine month of 2016 to 2.36 percent.

The production of the handicraft industry in Vietnam gradually grow approximately nearly 9 percent annually due to the limited agricultural activity, the growth in the population, as well as the support from the government such as promotion of the handicraft industry to domestic market and global markets (Szydowski, 2008). Apart of that, some local producers in handicraft villages also play an important role as intermediaries between the producers and buyers (Mard, 2001). Therefore, local handicraft industry have begun expanded from the small business to larger and global business and emphasized on exporting to the larger and global market (Szydowski, 2008).

Social Factors

The growth of population from 86.9 million people in year 2010 to 91.7 million people in 2015 (Trading Economic, 2016) has made Vietnam the most inhabited nations in the world (Nguyen, 2013). Vietnam's population growth rate is around 1 percent in the most recent year (The World Bank, 2016). Vietnam has an abundant labor force, in which the majority of population about 53,748 million peoples or 62.6 percent of the total population is under the working age, which range from 15 years old until 65 years old of Vietnam (Le, 2015).

With the density of population consists almost 300 people per square kilometer in Vietnam, most of the Vietnamese people live in the countryside and rural areas. For those who live in urban area, most of them are located in Noi, the capital city, and Ho Chi Minh City, the heart of finance (World Bank 2016). Further, Vietnam is considered as a high rate of urbanization country, which consisting nearly 70 percent of the total population in Vietnam is still living in the rural areas, engaging in the agricultural activities which offer a substantial amount of the inputs for biogas production (Bui, 2014). However, the people there are facing limited technological facility, which cause firms face difficulties in expanding their customer base that are heavily emphasized on high technology (Le, 2015).

Next, concerning to the languages, religions and ethnicity in Vietnam, Vietnam consists of total 54 ethnic groups, in which the Kinh ethnic group make up to 85.7 percent of total population; and 15,672 million of Vietnamese people or 18.25 percent of total population are religious followers, while the rest of them are atheist or non-believers (Aiba *et al.*, 2013; Hall & Patrinos, 2013). Moreover, the Kinh's language is the official Vietnamese language, while English is second most spoken language in the country (Dang, 2010). Therefore, language is not a big problem in doing business in Vietnam compared to other ASEAN countries such as Indonesia and Philippines, where many languages co-exist and used in mass media (Aiba *et al.*, 2013).

Besides, the labor force in Vietnam is still under-skilled as Vietnamese workers are lack of such skills as technical, language and behavioral skills. Therefore, it is difficult for foreign firms to recruit local people as managers, directors or leader. They are not being able to fulfill the top position due to non-existence of advanced management skills and significant knowledge in law and financial fields in

Vietnam (Le, 2015). Hence, it is important for Vietnam to make its labor force become more productive and effective (World Bank, 2016).

Besides, the Vietnam is kind of collectivist society, which is relationship-oriented that emphasized more on team work spirit (Kohl, 2007). Vietnamese often work in group, rather work individually, in order to improve and increase the efficiency of the in handicraft industry (Anthony 2011). In addition, employers should also concern on the families members of the employees by providing some allowance or benefits such as childcare leave, free medical treatment, and family trips and so on in order to increase and maintain the loyalty of the employees to the particulars industries or company (Anthony, 2011).

Technological Factors

In the beginning of strategic plan of economic and social development within period of 2011 until 2020, the primary target of the Vietnam government infrastructure building (Nam, 2016). Vietnam has been building many expressways in order to allow the local transport network be eventually upgraded to fulfill the requirements of the rural industrialization and modernization as well as connect itself with the national system (Anthony, 2011). The heavy investment into infrastructure has been coupled with tax cuts, reducing the land lease and services prices and electricity for both domestic and foreign investors.

Besides, the Vietnamese government also emphasis on the scientific and technology renovation, which used to improve the competitive edge of local products and supporting businesses in purchasing patents in particular prioritized areas, such as informational technology, new material technology, biotechnology, manufacturing technology and automation (Anthony, 2011). Apart of that, Vietnam was ranked number 7 under the high internet usage among other Asian countries, with a total of 49 million people in 2016 (Vu, 2016). Besides, the IT hardware and software markets have also grown about 13 to 15 percent per year for the past 5 years, which are mainly imports because Vietnamese manufactures are still relatively new to the industry (The Canadian Trade Commission Service, 2012). The technology markets in Vietnam are currently growing but still in the early stage of developments which offers great opportunity for any company with a technological products and services in order to obtain good market share in an emerging marketplace (Dang, 2010).

According to the Canadian Trade Commission Service (2012), the handicraft exporter facing high transportation cost when exporting the handicraft products to others countries, they heavily rely on air-freight as well as waterborne freight. This is because almost all the producers of the Vietnam's handicraft are small- and medium-sized enterprise, and there are only few producers are presently functioning at a mass production (The Canadian Trade Commission Service, 2012). The transportation cost of 50 containers which shipped from Vietnam to another countries over 17 to 35 days by waterborne-freight is US\$ 322, 000 (The Canadian Trade Commission Service, 2012). This present another huge challenge to Vietnam handicraft industry as transportation cost will indirectly be a disadvantage to their product competitiveness in international marketplace.

Porter's Five Forces Model

Rivalry among Competitors

Handicraft industry of Vietnam is facing high rivalry among competitors as they face numerous of the competitors from countries such as China, India, Philippines, Indonesia and Thailand. These

competitors have equal size and market share of the handicraft products (Bodewig *et al.*, 2014). For instances, India is the one of the important suppliers and producers of handicrafts to the world market, therefore India able compete with Vietnam handicraft industry although Vietnam handicraft industry has strong competitive capacity due to its capability to supply larger orders, lowers labour cost and availability of the raw materials resources for handicraft production in Vietnam (Bodewig *et al.*, 2014).

Besides, Vietnamese handicraft industry do not produce unique handicraft products which is undifferentiated from its competitors thus it resulted in easily for the competitors compete with the handicraft products in Vietnam country (Bodewig *et al.*, 2014). Moreover, handicraft industry faced high rivalry among competitors due to the slow growth of the handicraft industry in Vietnam. For instances, the growth of the handicraft industry in Vietnam is slowed to 7 percent in the first seven months of 2013 due to the residual effects of the global economic crisis and thus the total sales of overseas also exceeded \$2.5 billion by year end. Therefore, there are many competitors can able to compete with Vietnam handicraft industry which is slow in industry growth (EU-Vietnam Business Network (EVBN), 2012).

Threat of New Entrant

Vietnam handicraft industry faced high threat of new entrant due to low production cost, especially low labour cost (Meyer *et al.* 2005). For instance, the labor cost for the Vietnamese worker is between ranges of US\$ 0.2 to US\$ 0.6 per hours; while the India handicraft industry also have cheap labor rates which resulted to the competitive prices (India-Craft, 2011). Therefore, new entrants that come from other countries such as India can easily enter the handicraft and compete with the Vietnam industry. Besides, there are just little initial capital needed for the production in handicraft industry in Vietnam thus the new entrant can easily enter into the Vietnam handicraft industry with low capital investment requirement and allow the new entrant produce the handicraft products at low cost by using lower labor cost in Vietnam handicraft industry (Noi, 2015). In addition, the handicraft products that produced by Vietnam handicraft industry is not unique, which is similar with the handicraft of the competitors thus the new entrant can easily come into the Vietnam handicraft industry (Szydowski, 2008).

Besides, Vietnam handicraft industry is making sustained profits in Vietnam due to lower production cost and low labor cost in Vietnam, therefore, the new competitors can enter easily to the Vietnam handicraft market to reduce the profit of the Vietnam handicraft industry (British Council, 2012). Moreover, the Vietnamese government reduces the tariffs and barriers on the exporting items in order to support the development of the handicraft villages and also support the promotional for the international tourism come over the handicraft villages industries in Vietnam (Hoang, 2000). Therefore, government reducing the tariffs and barriers can lead to new entrants easily move to handicraft industry in Vietnam marketplace (Hoang, 2000).

Bargaining Power of Buyer

The bargaining power of buyer is high because business buyers purchase in large volume. Large-volume buyers are particularly potent forces if heavy fixed costs characterize the industry. Besides that, the Vietnam handicraft product is standard and undifferentiated (Hung, 2015). The buyers can always find alternative supplier, such as furniture industry in Vietnam as they have excellent skills in

producing the handicraft furniture products with low costs production, keep improving the quality of the furniture products and also have wide range of the materials for the furniture production in Vietnam (Trinh, 2013).

According to Viet Delta Corporation (2013) stated that buyers have power on pressure the price of the handicraft which created by the suppliers of the handicraft industry in Vietnam due to the switching cost to switch to alternative suppliers is low and also the handicraft industry in Vietnam have inadequate exploitation of their tourism resources, out-of-date technology, low production capacity and also limited number of designs which lead to insufficient for brand expanded in the marketplace and unable to meet the demand of the customers in the Vietnam marketplace for the handicraft products in Vietnam. Therefore, buyers also can easily switch to another alternatives seller such as China and India where gain more competitive advantages compared seem to Vietnam handicraft industry (Viet Delta Corporation, 2013).

Bargaining Power of Suppliers

The bargaining power of the suppliers in Vietnam is low, this is because there are limited or only traditional product range due to lack of the innovation and new design of the handicraft in Vietnam (Eiligmann, 2009). The suppliers of the handicraft industry are not able to invest in machinery or equipment in order to raise the quality of their handicraft products and has produced poor products quality due to the low labour skills or missing knowledge about the expectations of tourism and productivity of handicraft is low (Frauenrath, 2010). In addition, Vietnam handicraft industry is using the local suppliers to produce the raw material for the handicraft production and the suppliers are using the raw material without FSC certificated wood which resulted in they have to imported approximately 80 percent of raw materials from oversea suppliers (Noi, 2015).

Also, the local suppliers' experiences shortage of the capital and small-scale production and the production of the raw materials is heavily dependence on the foreign imports which leading selling prices of the local market for handicraft products in Vietnam (EVBN, 2012). Therefore, the suppliers of the handicraft industry in Vietnam have no power to control over the price of the raw materials of the handicraft products and lead to handicraft industry move to alternatives suppliers more easily to get the best alternatives of the raw materials as the switching cost for moving to another alternatives suppliers is low (EVBN, 2012).

Threat of Substitution

The threat of substitution of Vietnam handicraft is high because there are numerous of substitutions from the neighboring competing countries, which produce similar kind of the handicraft products especially in India, China and Malaysia (Panagariya, 2004). India handicraft industry has huge demand for the handicraft products in both national and international markets, as India handicraft industry able to meet the demand of the customers and have enough quantity and quality of the supply for the handicraft products in India and handicraft industry in India have high technological support as well as provided unique and innovative handicraft products in India (Bodewig *et al.*, 2014). For instances, glass and ceramic, woodwork, stone craft, clay, metal, jewelry which produced in the Indian handicraft industry in India (British Council, 2012).

The substitution of the Indian handicraft products are standardized products, which meet the requirements of the global markets. Besides, the Indian handicraft industry also producing based on

low labor rate, low cost production, government support and proper management in order to ensure high production efficiency for the handicraft products in India marketplace, thus the Indian handicraft products are highly price competitive for the global market and can be placed as an alternative handicraft products for Vietnam handicraft products (Bodewig *et al.*, 2014). Furthermore, the furniture industries in Vietnam also can be one of the substitution products for the handicraft industry in Vietnam as furniture industries have plentiful labor with low wage rate and having excellent handicraft skills in producing the handicraft furniture products in Vietnam. As a result, the handicraft industry in Vietnam faced high threat of substitution for replacing its handicraft products in the marketplace (Trinh, 2013).

VRIO Framework

Raw Material

The local producers in Vietnam using none FSC-certificated and none-environmental friendly raw materials, such as uncertificated wood. Besides, Vietnam handicraft industry has only limited raw materials, in which the shortage of raw material in local market has increased the reliance on raw materials, imported from foreign countries which consisting raw rattan, bamboo (Hieu 2010). Vietnam handicraft industry import approximately 80 percent of raw material from its neighboring countries such as China and India (Noi, 2015).

As a result, the raw materials like certificated wood, bamboo, rattan are valuable because it is a useful resource in producing quality handicrafts products in Vietnam. Unfortunately, the raw material is low in rareness in the marketplace (Vu, 2015). Hence, Vietnam handicraft industry can import the raw material from abroad when it faces shortage in the supply of raw materials. Besides that, the raw materials are costly to imitate as well due to the difficulty in imitating it (Vu, 2015). Lastly, handicraft industry has ability to exploits this raw material to produce the handicraft products in Vietnam. This resulted in raw material of the handicraft industry in Vietnam has temporary competitive advantages in Vietnam marketplace (Noi, 2015).

Brand Name

Handicraft industry in Vietnam accumulated experiences in the export market, it is one of the largest exporters in Asia with the average of the 13 percent export rate annually. This has also boosts up the handicraft brand name, namely Vietcraft Excellence, which created by the Vietnam Promotional Agency that aims to broadcast national value for handicraft sectors in Vietnam (Vu, 2015). This has provided an opportunity for the Vietnam handicraft industry to strengthen its position and expand their export to foreign market. Vietnam handicraft export value has increased by 8 percent over year to US\$ 1.6 billion in 2014, which accounting for 1.5 percent of the market share of the world (Vu, 2015). Therefore, this national trade name, Vietcraft Excellence for the handicraft industry in Vietnam, has improved the competitiveness of the Vietnam handicraft industry in both domestic and international marketplaces. Moreover, with this trade name, handicraft industry also gets more opportunities to access the European market which is the most important outlets of the Vietnamese handicraft sectors (Vu, 2015).

Consequently, Vietcraft Excellence is a valuable brand name that helps to improve the competitiveness in the marketplace (Noi, 2015). This brand name is rare as well and it is exclusively built for the Vietnam handicraft products in accessing European market. As a result, the handicraft

brand name with organizational capability to exploit its brand name to sell its handicraft products internationally is costly to imitate (Vu, 2015). Thus, this has resulted in temporary competitiveness advantages for their brand name in Vietnam handicraft industry.

Expertise

Handicraft industry in Vietnam created abundant job opportunities for the local workforce in Vietnam, whereby 10 million of the total regional workforce is employed in Vietnam handicraft industry and the income of the handicraft industry' labor can be triple of those farmers in Vietnam (Bergelin & Wastesson, 2006). Besides, there are high amount of the skilled workers who is hardworking, quality and good in delivery in Vietnam handicraft industry that has the capability to acquire the knowledge and new technology quickly and more effectively (Noi, 2015). Therefore, those skilled workers are able to cope with the large and small orders as manufacturer of the handicraft industry tend to produce the handicraft product in bulk with cheaper price and lower production cost. These products are mainly focus on some larger retailer IKEA from Sweden as well as Walmart and Peer1 from US (Noi, 2015).

As a result, Vietnam handicraft industry has valuable expertise assisting them to product quality of the handicraft products and able to cope with both large and small order from the customers (Vu, 2015). This expertise is no rare as its skills and capability can be train easily in another marketplace in producing handicraft products which lead to it is costly to imitate the skilled work force as financial support needed to provide the training activities for workforce in order to improve and enhance their expertise. Hence, the organizational has capability to exploits this workforce to produce the handicraft products in order to gain profit in marketplace (Noi, 2015). It resulted in handicraft industry gain temporary advantages in its expertise workforce in Vietnam handicraft industry.

Design

Handicraft industry in Vietnam has poor and limited design of the handicraft products, which subsequently make it difficult for the industry to compete with the foreign products in the local market (United States Agency International Development (USAID), 2006). For instances, pottery and silk products in Vietnam handicraft industry unable to compete with the similar products that made from China. Besides, lacks of the innovative design of the handicraft products in Vietnam leads to low added-value and cheap price for the finished goods which resulted in impact on the economic development as well as local brand promotion for the handicraft products in Vietnam (Thoa & Tan, 2013). Moreover, handicraft industry also suffers from low level of the design capacity which through the design services and consultancies, design graduates and in-house designers who fail to meet the needs of the customer demand in marketplace (Thoa & Tan, 2013).

Due to the limited design of handicraft products in Vietnam, the Vietnam handicraft industry has low valuable of the handicraft design as its design of the handicraft is no rare and lead to less costly to imitate the particular handicraft design in Vietnam handicraft industry with the low capability of the organization to exploit its design of the handicraft products in Vietnam marketplaces (Noi, 2015). It resulted in handicraft industry gain competitive disadvantages in design of the handicraft products due to its limited and lack of the innovative design of the handicraft products in Vietnam.

VRIO Framework for Vietnam handicraft industry

Grounded by VRIO Framework, Table 1 illustrates the four types of the capability and resources, which are raw materials, brand names, expertise and design of the handicraft products that determine the competitiveness of Vietnam handicraft industry. Besides, it is found that the raw material, brand name and expertise for the handicraft industry are resulted in parity competitive advantages while that design of the handicraft products in Vietnam handicraft industry is competitive disadvantages in marketplaces. Therefore, recommendations have been proposed on addressing the problem of the handicraft design in Vietnam marketplace.

Table 1: VRIO Framework for Vietnam Handicraft industry

Capability and Resources	Value	Rarity	Imitability	Organization	Competitive Implication
Raw materials	Yes	No	Yes	Yes	Parity Competitive Advantages
Brand names	Yes	No	Yes	Yes	Parity Competitive Advantages
Expertise	Yes	No	Yes	Yes	Parity Competitive Advantages
Design	No	No	No	No	Competitive Disadvantages

Source: (Thoa & Tan, 2013)

Firstly, according to the Peter *et al.* (1999) stated that, handicraft industry should implement a strategy on new handicraft product design and development with the long term vision in order to manages all design and development process. Thus, the handicraft industry has to put excessive effort into new design and development for more effective process in handicraft industry.

Secondly, Vietnam handicraft industry have to realize the important of the design as a key market factors which might lead the handicraft industry loss the competitive advantages in highly competitive and demanding marketplace (Thoa & Tan, 2007). Besides, according to Leavy (2010) stated company also have to concern on the designers of the handicraft products in Vietnam industries as the inventions and the knowledge of the designers might affect the design performances of the handicraft industry and lead to unable to meet the demand of the customers for the handicraft products in Vietnam.

Thirdly, Vietnam handicraft industry should have to provide a deepest understanding on the design of the handicrafts products which consisting of types of the design software for handicrafts products, characteristic of the design development of handicraft products for each sub-categories of the handicrafts production in Vietnam handicraft industry (Thoa & Tan, 2013).

Conclusion

There are three objectives which have to meet in this research report. The three objectives are firstly, to examine the current market of the handicraft industry in Vietnam; secondly, to analyze the challenges faced by handicraft industry in Vietnam; and lastly, to propose some recommendation on addressing the further research into the handicraft design.

To identify the external environment of the handicraft industry in Vietnam

Hence, by adopting the PEST analysis in this research report, the current market of the handicraft industry in Vietnam has been examined. After accessing the overall external market of the Vietnam and Vietnam handicraft industry through PEST analysis, it is found that Vietnamese government set some rules and regulation to support the raw material development, location to invest as well as trade encouragement of the handicraft industry in Vietnam.

Besides, Vietnamese government offers the capital assistances in term of the infrastructure investment for the handicraft industry in Vietnam as well as provides the producers of the handicraft products with the funds in order to support innovation of the technology use of raw materials and improve the design of the handicrafts. Moreover, Vietnamese government also offers financial support and training course for the handicraft industry with the aim to support the handicraft production and operation process. Furthermore, current handicraft industry is the main exporters after Asia as handicraft industry in Vietnam had expanded from the small business to large business as well as exporting to global market. For example, production of the handicraft in Vietnam has gradually growth which nearly nine percent annually.

In addition, Vietnam handicraft industry plays a critical role in reducing the unemployment rate in Vietnam marketplace and attributed to reduce the poverty for the people who stay at rural areas in Vietnam as Vietnam handicraft industry provides job opportunities for the Vietnamese workers. Furthermore, most of the businesses in handicraft industry in Vietnam are of small and medium enterprise thus these handicraft industry faced high transportation cost in shipping their handicraft products to another countries such as China, India and so on.

To analyze the current industry competition of the handicraft industry in Vietnam

Michael Porter's Fives Forces Framework was employed to analyze the challenges faced by the handicrafts industry in Vietnam. Vietnam handicraft industry faces high rivalry among the competitors as it provides undifferentiated handicraft products for the customers in Vietnam marketplace, thus the competitors who provide similar handicraft products are able to compete with the Vietnam handicraft industry. Moreover, Vietnam handicraft industry also faces high threat of new entrant as Vietnam handicraft industry produces the handicraft with low cost of the productions and generating sustainability of the profit, so the new entrant come into the Vietnam handicraft industry to reduce its profit and also due to low capital investment requirement to enter into the Vietnam handicraft industry.

Besides, the bargaining power of the buyers is high in Vietnam handicraft industry as handicraft industry producers have insufficient of the innovation, limited of design, insufficient exploitation of its tourism resources and low production capacity which lead to Vietnam handicraft industry unable to produce unique and differentiate products for the desired buyers. Therefore, buyers of the handicraft industry have power to pressure the handicraft industry in term of selling price of the

handicraft products and also have high capability switch to alternative suppliers with low switching cost needed.

In addition, Vietnam handicraft industry faces high threat of substitution for its handicraft products in Vietnam as the switching cost is low thus the buyers of the handicraft industry able to switch to alternatives easily. Moreover, there are best alternatives compared to Vietnam handicraft industry such as India which produced standardized products that can able to meet the requirement of the global buyers and Indian handicraft industry are able to produce best quality handicraft products more efficiency and effectively.

To assess the competitiveness of Vietnam handicraft industry

Lastly, VRIO Framework was used to analyze the capability and resources of the handicraft industry and thus propose some recommendation on addressing the further research into the handicraft design. In this VRIO framework, four types of the capabilities and resources were examined, which includes raw material, brand name, expertise and design of the handicraft industry in Vietnam. It is found that raw material, brand name and expertise which used by the Vietnam handicraft industry are resulted in parity competitive advantages in marketplace as these resources are valuable, low in rareness, costly to imitate with the capability of the organizational to exploits its resources in Vietnam handicrafts industry. Furthermore, the design of the Vietnam handicraft products has resulted in competitive disadvantages as the design of the handicraft products add no valuable, no rarity and easily to imitate as well with low capability of the organizational to exploits the design into its handicraft production.

After analyze the capability and resources of the handicraft industry, there are three recommendations to be proposed to policy makers as well as market practitioners in addressing the further research into the handicraft design. Firstly, the Vietnam handicraft industry should put great efforts in implementing the strategy on the new design development for the Vietnam handicraft products with the long term vision in order to manage well the design development in all handicraft production process. Secondly, Vietnam handicraft industry has to realize the importance of the design of the handicraft product as design of the handicraft products can lead the industries loss its competitive advantages in handicraft marketplace. Therefore, Vietnam handicraft industry also has to make sure the designer of the handicraft industry is able to produce such effective and innovative design of the handicraft products compared to others. Moreover, the market players of Vietnam handicraft industry should have clear understanding on the design of the handicraft products in Vietnam in term of the process of the design, characteristic of design development, difference design software for handicraft products and so in order to make sure to improve and enhance the design of the handicraft products in Vietnam.

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