CUTS International

Competition Distortions Dossier

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1. Grab Gets US$2bn to Defeat Uber in Southeast Asia

Grab, the ride-hailing company competing with Uber in Southeast Asia, has pulled in US$2bn of new financing from existing investors Didi Chuxing, the ride sharing company that defeated Uber in China, and SoftBank.

Didi Chuxing said the round could expand by US$500mn more with inputs from other existing backers and new investors, too. A representative from Grab confirmed that SoftBank's Vision fund is not part of the current commitment, it is coming from SoftBank Group Corp.

A source confirmed that this new money gives Grab a post-money valuation of more than US$6bn. This is more than double the US$3bn valuation that Grab commanded from its most recent round of funding in September 2016, when it raised US$750mn.

Essentially, both Didi and SoftBank are doubling down on the belief that Grab has what it takes to defeat Uber in Southeast Asia, the same way that Didi Chuxing did in China when Uber agreed to sell its local business in August 2017. The hope of defeating the US firm was reignited this month when Uber agreed to sell its business in Russia to local rival Yandex.

https://techcrunch.com/2017/07/23/grab-raises-2b-from-didi-chuxing-and-softbank/

Food for Thought

Ride-sharing apps have taken off among Vietnam's rapidly expanding urban middle class as they provide four-wheeled comfort in a country better known for chaotic swarms of scooters and Southeast Asia's most expensive taxi fares. Uber launched its service in Vietnam three years ago and said Ho Chi Minh City and Hanoi already have the highest average number of trips per user out of the 300 cities in which it operates, double the rate in New York. But the Unicorn start-up and market-maker is facing tough competition from a home-grown ride-hailing app in Southeast Asia, the Singapore-based Grab.

Since its inception in 2012, Grab has become one of the most popular transport apps in the whole Southeast Asian region. The question now is not whether Grab is a worthy challenger of Uber's title but whether Grab is capable of supplanting Uber as the king of ride-hailing apps in the region altogether, not only in Vietnam. This is for the reason that, in addition to adopting a strategy of focussing on customer experience like Uber, Grab is also said to be wining by introducing new avenues of service to cater to the specific needs of its local clientele.

The GrabBike initiative was first launched in 2014 in Ho Chi Minh City. Its continuing success is owed to the city's underdeveloped public transportation system, which has led to a dependence on motorcycle-taxis called 'xe ôm'. GrabBike takes advantage of the customer's frustration with the

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unscrupulous prices set by 'xe ôm' drivers and the general preference for 'xe ôm' over car taxis for their ability to cut through grid-lock traffic.

Grab mimics Uber in implementing a rating system for its drivers and then goes one step further by offering a fixed fare for rides. GrabBike proved to be so popular that it has since been launched in Hanoi (as well as Bangkok, Thailand and Jakarta, Indonesia) with popular forums like TripAdvisor advocating for tourists to use their service over traditional motorcycle-taxis.

The other crucial strategy that earned Grab its competitive edge is the fact that Grab allowed cash. This is usuallly an advantage for drivers who specifically want to work for a service that pays cash and for the consumer who does not have a credit card, which is fairly common in Asia. Uber has recently come around with recognition and started accepting cash for its rides, but it might already be too late.

With these two localisation adjustments, Grab seems to be winning the competition over Uber. In addition, despite coming later to the market, Grab got its licence to legally operate in Vietnam first and is getting more and more funding by big investors. Meanwhile, over the past few days, there was rumor that Uber Vietnam would be forced to stop its operations after being charged VND$66.68bn (approximately US$3mn) in tax overdues and late payment fines. Although the CEO of Uber Vietnam has since then clarified this rumor but this is an impotant milestone, which shows the weakness of Uber in the fight against Grab in the Vietnam market.

Besides the fight between Uber and Grab, there is another fight between these firms with traditional taxi companies in Vietnam. Local cab firms like Mai Linh and Vinasun are bitterly complaining about unfair competition and increasing pressures from Uber and Grab. The business situation of these traditional taxi companies is said to be quickly deteriorating, and they were going for massive layoffs. Mai Linh has just announced the reduction of nearly 6,000 employees in the first half of 2017. Vinasun is also in a hurry when the technology storms hit. Only in the first six months of this year, nearly 8,000 employees of Vinasun have quited their jobs. Meanwhile, the number of Uber's and Grab's drivers has reached 15,000.

Furthermore, the traditional taxi firms in Vietnam are also making great strides in the race to regain their market shares. In addition to developing its own electronic hailing app, Vinasun has recently spent VND$27bn to buy Vinasa (a smaller taxi firm) in a strategic move to expand to smaller provincial markets. A subsidiary of Mai Linh Group, Mai Linh Joint Stock Company in the North, is seeking shareholders' comments on the supplementation of passenger transportation business by scooters. Previously, Vinasun also said that they are doing some market research, considering the provision of online motorbike taxi service to increase competitiveness and retain customers.

Notably, Viettel Telecommunication Corporation (Viettel Telecom) and Gonow Passenger Transport Agency recently signed a comprehensive strategic cooperation agreement. Accordingly, Viettel would help Gonow, a start-up company in the field of transportation, to build and develop its website <www.gonow.vn> with a separate mobile application. In addition, Viettel would also develop the marketing system, customer care service, online payment service and bank-plus service for Gonow at over 10,000 Viettel transaction officies nationwide. Gonow would use the multimedia switchboard system, SMS TV channels, electronic invoices and brand identity systems of Viettel.

2. Giant Home Appliance Chains Elbow out Small Traders

Large home appliance retailers are expanding rapidly in Vietnam, pushing small traders to the verge of disappearing. Dien May Xanh, the home appliance arm of Vietnam's largest mobile retailer Mobile World JSC (MWG), has expanded its business throughout the country to 473 stores, and recently purchased Hanoi-based chain Tran Anh Digital World in order to penetrate the Northern market more easily.

https://e.vnexpress.net

Media Mart is also becoming a major player, and has opened 43 stores in the North since it entered the market in 2013. In Hanoi alone, Media Mart has trebled its number of stores to 18 over the past five years, and is planning to open six more.

As a newcomer to the appliance sector, Vingroup's VinPro chain is also gaining in reputation. In a report released last year, MB Securities (MBS) said small traders currently account for nearly half of the home appliance market with around 7,000 small stores across the country.

But with the expansion of big companies that offer various products and good customer services, MBS said small traders are likely to disappear.

https://e.vnexpress.net/news/business/in-vietnam-giant-home-appliance-chains-elbow-out-small-traders-3637240.html

Food for Thought

Thanks to the recent exemption applied to import taxes for various categories of products, including some consumer electronics, Vietnam has recently been witnessing the increasing presence of affordable products imported from Japan and other Association of Southeast Nations (ASEAN) countries. Accordingly, demand for consumer electronics was strongly stimulated during 2015 and 2016, continuing into 2017 and resulting in strong growth in both volume and value terms. Additionally, with living standards improving and average disposable incomes rising, Vietnamese consumers are more willing to pay extra for more advanced technologies, which also played an important role in driving the already fierce competition in the electronics retailing market.

Accounting for the majority of total volume sales of consumer electronics, smartphones continued to dominate the industry in 2016 and early 2017. Indeed, smartphones are single devices that can take on the role of numerous other consumer electronics devices, including handling email, browsing the internet, taking photographs and videos and playing video and music content. Moreover, smartphones can be used anywhere and at any time. As such, smartphones are priority purchases for Vietnamese consumers of all income segments. The result is that sales of other consumer electronics products are suffering as consumers favour smartphones. In addition, on account of the rapid falls being seen in unit prices, the penetration rate of smartphones continues to increase.

Mobile World JSC maintained the leading position in electronics and appliance specialist retailers. In addition to its network of store-based outlets, Mobile World JSC is also one of the largest online consumer electronics retailers in Vietnam, with more than one million daily visitors to its websites: (www.thegioididong.com) and (www.dienmayxanh.com). The company has adopted an omni-channel strategy to its operations, which involves the close integration of the online and offline aspects of its business. For instance, thanks to its nationwide store network, the company is able to offer 30-minute delivery for online orders for consumers in many locations.

Although offline sales remain predominant in the retail distribution of consumer electronics, the market share of Internet retailing is rising, cannibalising offline sales as consumers become more familiar with online channels. However, due to the 'touch-and-feel' factor, after seeking all information related to their prospective purchases online, consumers still generally prefer to acquire products that they have had personal experience with in a store, with electronics and appliance specialist retailers, especially popular.

Thanks to rising Internet penetration as well as the strong performance of electronic wallets and financial cards in Vietnam, Internet retailing is expected to thrive in the country over the years to come. Accordingly, consumers are becoming more familiar with online shopping as it is faster and more convenient than shopping in store-based retail outlets. The consumer electronics industry is therefore set to benefit from the rising trend towards this channel. Besides, the Vietnamese retailing market is becoming more competitive due to the development of Internet retailing, which offers consumers the ability to quickly compare prices and services among various different online shops.

3. Drug Administration Rejected the Claim of Eight Pharma Companies

The Drug Administration of Vietnam (DAV) – Ministry of Health has recently sent explanation to the Office of the Central Steering Committee on Anti-Corruption, answering the claim of eight pharmaceutical companies located in the South of Vietnam. The DAV confirmed that these claims are unfounded.

Previously, eight pharma companies filed a complaint to the Government Inspectorate and the Central Steering Committee on Anti-corruption. The claim was about the DAV and its Director, Truong Quoc Cuong, accusing him of giving undue preferential treatment to a number of companies who received import quota and licences for vaccines as biological drugs (so as to avoid costly laboratory tests). This was said to be supporting foreign companies and squashing domestic enterprises, due to the reason of ‘private interests’.

Replying to this complaint, the Drug Administration said they were only doing the right functions and in accordance with the assigned authority.

http://www.trendnex.com/en/en-news/47-health/1855-drug-administration-rejected-the-claim-of-8-pharma-companies

Food for Thought

This case happened seven years ago and since then has either got intentionally buried or was simply forgotten by the public. But more recently, another serious case got discovered, renewing consumer concerns about mis-conducts in the health industry of the country. Several executives of VN Pharma were found guilty of falsifying technical documents and invoices, and smuggling 9,300 batches of H-Capita, worth VND$5.6bn (appproximately US$251,000) from Canada to Vietnam in 2013 and 2014. VN Pharma was also accused of bribing doctors into writing out prescription for cancer patients for using this drug.

Asia’s pharmaceutical sector has been expanding rapidly in recent times and in line with the region’s strong economic growth, especially in ASEAN countries. Vietnam’s pharmaceutical sector, in particular, is teeming with opportunities. The combination of Vietnam’s expanding population, higher levels of health awareness, and increased access to medicines across the country, should provide a roaring engine for the pharmaceutical sector’s acceleration in the upcoming years.

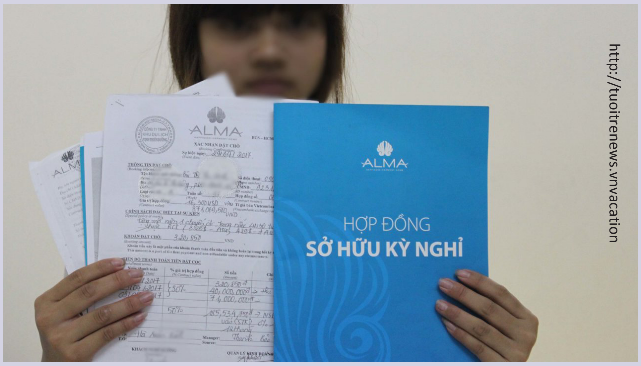
However, the domestic pharmaceutical sector is said to be faced with challenging structural weaknesses, the most notable of which are low affordability of medical drugs; inadequacy of the price control regime, which leads to large price variances across Vietnam; widespread corruption among healthcare officials; an inadequate intellectual property regime, which hinders the future flow of foreign investments; and most seriously the menacing presence of counterfeits in the market.

The Government needs to take appropriate measures to set these problems right as soon as possible. Not only the domestic pharmaceutical and health industries would suffer when consumers turn elsewhere for treatment, but the image of the Government in general and its civil servants would also bear the grave consequences of corroding public confidence.

4. Vietnamese Buyers Shocked at Reality of Vacation Ownership

Customers who paid fortunes for timeshare packages offered by a resort operator in Vietnam are realising that the deal is far from what it was promised to be.

Advertised as an opportunity to access free yearly international vacations for over 35 years, as well as a chance to make easy money by reselling the ownership package, a timeshare package offered by Paradise Bay Resort Co. Ltd. (ALMA) has proved to be more trouble than it is worth.



Now, customers who bought or made deposits for the timeshare properties, sold at up to VND$320mn (approximately US$14,000) a piece, are seeking recourse against the company.

ALMA’s under-construction resort, located in south-central Nha Trang City, is advertised as a 30-hectare complex filled with hundreds of villas and luxury apartments, as well as entertainment and public facilities, along the city’s Long Beach.

Customers who purchase ALMA’s timeshares are allowed to exchange vacations among one another or lease, resell, or bequeath the properties at will, the salesman said, adding that early buyers could potentially make a quick buck after reselling the ownership to latecomers. However, the reality of ALMA’s offer is not quite as advertised.

Trinh Anh Tuan, Deputy Director of the Vietnam Competition Authority (VCA), signed a dispatch addressed to ALMA, requesting the company to process customer complaints and report the results to VCA.

http://tuoitrenews.vn/business/41909/vietnamese-buyers-shocked-at-reality-of-timeshare-ownership

Food for Thought

Fifty years ago, the concept of timeshare entered the market with the expensive IBM computers. Timeshare means the owner has the right to use a product or service for a limited period of time and shares that product or service with other owners. Nowadays, timeshare is being applied in many sectors, especially the real estate industry. Timeshare is very popular in the world, but has just entered the Vietnam market since 2009 and is still quite new in the country, similarly as the name 'vacation ownership'.

Customers participating in vacation ownership programmes are entitled to use vacation real estate (fixed or flexible) for one week, one year for a long period of time, usually 25 years. Every year, vacation owners also pay an annual service fee of US$200-300 per year. Besides, customers have the right to donate, buy, sell or inherit vacation ownership. Specifically, customers have the opportunities to exchange with other vacation owners in more than 100 countries around the world. When exchanging vacations, customers have to pay US$100-300 for a successful exchange as well.

It can be seen that the nature of vacation ownership is service ownership rather than real estate ownership, so investors are not obliged to have a guarantee of the bank as in the case of buying tenements. Therefore, if the investors do not have sufficient financial capacity to carry out the project, the only remaining way is for customers to bear the same risks with investors. As they are not real estate owners, they will not get the ownership certificate (the 'pink book' as called in Vietnam). So legally, investors are still the owners. This means that the investors have the right to pledge, mortgage vacation real estate to the bank for loans. In case the investors are unable to repay debts, the bank has the right to sell the property to recover the debt and therefore, customers will loss their vacation ownership.

Moreover, 25 years is a very long time. Hence, customers cannot predict whether the investors would be successful. At the same time, the amount of money that customers have paid to investors is a debt that is not guaranteed, so it might not be refunded when investors fall into bankruptcy. Even if investors have not fallen into bankruptcy but are performing a debt repayment obligation under the court's decision, the debt owners cannot request for compulsory sale of the real estate to execute the judgement.

In addition, timeshare model seems to fit only international customers because they have the necessary and sufficient conditions to participate. There are more than 2,000 resorts following timeshare model around the world and all these places are obviously in 4-5 stars category.

Meanwhile, in Vietnam, there are not many 5-star world class resorts and hotels. Moreover, resort investers in Vietnam are not interested in timeshare, they only want to sell to one customer. Vietnam's economy is facing many difficulties, and therefore the average income level is not high, while the real estate in the timeshare system is aimed at enjoying without ownership and it is not suitable to the psychology of Vietnamese people.

Despite interesting promotions about financial investment deals bringing profits to customers, in reality, the customers of vacation ownership have to bear many risks. Therefore, the State management agencies in the localities across the country where the relevant projects are located, as well as relevant central agencies, such as the Ministry of Industry and Trade (MOIT) and the Ministry of Planning and Investment (MPI) should inspect, verify and warn consumers to be more cautious when deciding to participate in the timeshare model.

This Competition Distortions Dossier is prepared by CUTS Hanoi Resource Centre. The information in this newsletter has been collected through secondary research and CUTS Hanoi is not responsible for any errors therein. The press clippings used here have been suitably adapted and summarised to convey their essence to the reader without any distortion of content.

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