Paper # 12

Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance

International Conference
Hanoi, Vietnam - April 3-6, 2000

Creating a Market in Management Training for Vietnam's private firms: MPDF's experience

By
John McKenzie

Mekong Project Development Facility, an IFC Managed Initiative

Sponsors

German Technical Cooperation Agency (GTZ)
United States Agency for International Development (USAID)
Mekong Project Development Facility (MPDF)
Committee of Donor Agencies for Small Enterprise Development

Paper # 12

Committee of Donor Agencies for Small Enterprise
International Conference
on
Business Development Services

Creating a Market in Management Training for Vietnam's Private Firms:
MPDF's Experience
by
John McKenzie

1. INTRODUCTION

This paper tells the story of the Mekong Project Development Facility's (MPDF) program from 1997 to date to create a market in management training services for Vietnamese private enterprises. The paper deals with a range of issues that are receiving attention in the current debate on business development services (BDS)[1], including:

- use of preliminary market analysis
- management of relationships with partner service developers / suppliers
- product development
- product marketing (promotion, pricing, distribution…)
- issues related to transition in the marketplace

The paper provides background information about MPDF, the project implementing agency (section 2). It then discusses the Vietnamese context within which the project is being implemented (section 3). It continues by describing the events / steps that were undertaken during the initial implementation phase including market analysis and pilot testing, selection of service partners, product development and product marketing (section 4). It examines the results of the program (section 5) and the changes that occurred in the marketplace between program identification and implementation which led MPDF to modify and expand its strategy (section 6). The continuation of this strategy is the subject of the OLA paper, also presented at this conference. The paper concludes by drawing a number of lessons learned, that may interest either donors or BDS practitioners (Section 7).

[1] It should be noted that MPDF's training program was not a pilot to test the principles emanating from the current BDS debate. Rather, it was a series of experiments to provide appropriate training services to Vietnamese SMEs through local distribution channels.

2. MPDF AND ITS ROLE

The IFC established MPDF in 1997, as a five-year regional initiative to develop the domestic private (SME) sectors in Vietnam, Laos and Cambodia, with contributions from Switzerland, Finland, Sweden, Norway, Australia, Japan, the E.U., and the U.K.

Previously, the International Finance Corporation (IFC) has already established project development facilities (Facilities) in the Caribbean, Africa, Poland and the South Pacific. The main purpose of the Facilities is to assist domestic private firms (SMEs) to develop investment projects and to obtain financing. The Facilities provide IFC with a channel to offer services to SMEs (with a typical average project transaction size of around $1 million) which would otherwise be too small for normal consideration.

Like its predecessors, MPDF's main role is to provide investment project services to SMEs, including: assistance in development of business plans, project feasibility studies and financial plans; provision of technical and advisory services; introducing clients to domestic or international financial institutions to raise equity or long term loans; and helping to establish strategic business alliances between clients and other technical and commercial partners. MPDF targets firms with investment projects in the range of $250,000 to $10 million that can demonstrate competitive advantage and good growth prospects, with the aim of creating a demonstration effect and improving overall private sector practices and standards. Clients are charged fees for services, but cost recovery is minimal.

MPDF differs from the predecessor Facilities by incorporating a Business Support Services Program (Part B Program). This was in response to the findings of MPDF's feasibility study, which identified a special need in the region not only to intervene at the firm level, but also to strengthen the business support services framework

The Business Support Services Program aims to increase the range, quantity, and quality of business services made available by local service providers to private firms. The types of services include: financial services, education services, professional services, advocacy/networks, and information services. The target group to benefit from these services is registered private firms, i.e., formal, structured companies that are majority locally owned.

A typical program involves the following steps:

- Market analysis
- Identification of local and/or international partners to develop service products
- Product development
- Management of product distribution and marketing

In formulating its programs, MPDF looks for public or private sector partner organizations with:

- an established track record and a comparative advantage in their specific service area
- willing to share costs of product/service development
- committed to deliver new products/services on an independent and sustainable basis once a collaborative project with MPDF is completed

MPDF structures its larger Part B projects carefully to maximize cost recovery of operating costs. This means using subsidies for product/service development but not for service delivery. It also means working in genuine partnerships within which all partners have a stake in the outcome and ownership of final products.

MPDF has offices in Hanoi, Ho Chi Minh City, Phnom Penh and Vientiane. It has a staff of around 40, of which 10 belong to the Business Support Services Program.

3. THE VIETNAM CONTEXT

In order to put the MPDF management training project in context, it is worth providing a rapid summary of recent events in Vietnam, and briefly describing its private sector.

i. Background

The events in Vietnam leading up to economic "renovation" and beyond can be summed-up as follows:

- Following unification in 1975, central planning was applied throughout the country. Despite the optimism of the planners, economic performance was sluggish.

- From 1980 to 1986, Vietnam experienced a period of crisis, involving widespread famine and hyperinflation, which coincided with a period of deterioration in relations between Vietnam and the West, and the gradual withdrawal of Soviet aid.

- In response, in 1986, the Doi Moi (Renovation) policy was introduced, although it was not until the late 1980s that the difficult steps of price liberalization, devaluation, freeing interest rates and foreign exchange controls, were taken. By the early 1990s, the foundations had been laid for the establishment of a formal private sector, including a Company Law (1990) and provisions for private activity in a new Constitution (1992).

- The response to the Doi Moi reforms was significant. For example, within two years, Vietnam went from being a net importer of rice to being the world's second largest exporter. The Vietnamese economy was transformed into a potential "Tiger" growing at 8 to 9 per cent per year

- Seen at present, however, Vietnam's economic leap forward has now slowed down. Annual GDP growth has fallen from around 10 per cent to 4 per cent. Some blame this wholly on the regional crisis. Others suggest that signs of slowdown were evident even before the crisis began; i.e. the Vietnamese economy has extracted the maximum mileage possible from the first round of reforms. Further reforms are now needed, e.g., privatizing the still-large state enterprise sector, restructuring the banking sector, improving the quality of public services, and increasing information flows of all types.

ii. The Private Sector in Vietnam: Size, Composition, Location[2]

On the face of it, Vietnam's private sector accounts for 60 per cent of GDP and 90 per cent of employment. However, this includes agriculture (66% of employment) and the

[2] Information in this section is taken from "SMEs in Vietnam: On the road to prosperity" by Leila Webster. MPDF Discussion Paper #10.

household enterprises (34% of employment) which together contribute 34 per cent of GDP.

The private non-farm sector comprises three groups of enterprises, as follows:

i. Household Enterprises: The Vietnamese household enterprise sector has grown rapidly, from 840,000 enterprises in 1990 to 2.2 million in 1996 with an accompanying growth in enterprise size, capital intensity and labor productivity. The average size of household enterprises is estimated at 3.3 workers (including the owner) in rural enterprises and 6.3 workers in urban areas.

ii. Vietnamese Private Companies: Vietnam's corporate private sector consists of three *legal forms:* "private enterprises" (sole proprietorship), limited liability companies, and joint-stock companies. For 1998, the GSO counted a total of 26,021 private companies nationwide of which 18,750 were "private enterprises", 7,100 were limited liability companies, and 171 were joint stock companies. (See Annex 1. Table: Number of Private Companies by Legal Status, 1993-1998). These private companies represent MPDF's main target group[3].

iii. Foreign-Invested Enterprises: Foreign enterprises are mainly in the form of joint-ventures between transnational corporations (providing capital and technology) and state enterprises (providing land).

Concerning the *sectoral* distribution: around half of all private companies were involved in trading (12,753 companies) in 1998, followed by manufacturing involving 5,620 companies.

As regards *location:* the South is home to about three-quarters of all private Vietnamese companies. Ho Chi Minh City alone accounts for a quarter of total companies and nearly one third of all people employed in private companies. The North (18%) and the Center (9%) have relatively fewer private companies

With regard to *manufacturing*: The state sector dominates industrial production with 53 percent of total output. The formal private sector share has actually fallen since 1995, from 10.5 percent to 9.6 percent in 1998. (See Annex 2. Table: Composition and Growth in Manufacturing GDP by Enterprise Sector, 1995-1998)

To summarize, the main characteristics of Vietnam's private sector are:

- Household enterprises account for the bulk of the private sector both in terms of employment and output

[3] In IFC/MPDF terms, all registered domestic private companies are considered to be "SMEs", even though some of these firms can be considered "large" by local standards.

- Vietnam's corporate private sector (registered private enterprises) accounts for only 1 per cent of employment and 7 percent of GDP.

- The corporate private sector grew strongly during the mid-1990s when investors and buyers were plentiful and the exchange rate was competitive; since the onset of the regional crisis, managers are operating in a much more competitive marketplace.

- Foreign investment has dropped to a small fraction of a few years ago, but its contribution to Vietnam's growth and exports has become significant in a short period of time;

4. MPDF'S MANAGEMENT TRAINING PROGRAM

i. Why did MPDF choose Management Training Services for SMEs?

Preliminary data gathering during MPDF's feasibility study phase indicated high potential demand for management training by domestic private companies in Vietnam.

- **On the demand side:**

- The potential market was small but growing fast: Between the early 1990s and end 1996 MPDF's target group of registered private companies had increased by around 40 percent per year to a total of around 19,000. During the same period, the number of household firms had increased by more than two-and-a-half times to 2.2 million. In addition, the Government was preparing to equitize (privatize) or sell-off around 6,000 state enterprises.

- There was evident need for managers in many of the young private firms to acquire and/or upgrade formal business skills and to learn about the outside world.

- Open door reforms had unleashed "education mania" at all levels of a society that places great value in learning.

- **On the supply side:**

- A number of university business faculties had started to offer MBA programs as well as executive management short courses. In some cases, donors were sponsoring program development, providing foreign expertise and training local faculty.

- Business support organizations such as chambers of commerce were offering short courses. In some cases, donors were sponsoring international consultants to provide training courses (GTZ, UNDP, etc.).

- Regarding executive management short courses, training service providers were mainly targeting executives from foreign joint ventures and large state corporations. Courses were being offered on a small class size / high cost basis. Providers had the potential capacity to offer SMEs a high volume / low unit cost alternative, but no one was yet doing so.

- During the first half of the 90s, neither government nor donors were very active in SME promotion so the training market for this group, though tiny, was not much influenced by subsidies.

A preliminary review of existing training course materials showed that content was mainly borrowed from Western business schools and was appropriate for Western corporate managers rather than those from Vietnamese SMEs.

ii. Preliminary Steps

In view of the perceived need and demand for SME training, the lack of appropriate course material and the limited availability of short courses, MPDF took the decision to firstly invest in the development of course curriculum. This decision was feasible in the context of MPDF's five-year time horizon.

MPDF's decision was also informed by two pieces of preparatory work that it commissioned during late 1997:

- a Business Services study, with a focus on training services
- a management training pilot course with the NEU Business School in Hanoi

A Business Services Study

MPDF engaged Dorothy Riddle to conduct a survey of Business Services in Vietnam[4]. The research involved interviews with 64 business service providers and 89 manufacturing companies in both public and private sectors. (See "What do we know about BDS Services" by Dorothy Riddle, also presented at this conference)

In the survey, training services ranked second after computer services in importance to respondents. Key findings on training were that:

- on average, each month, firms invested 3 days of internal staff time in training and bought-in an average of 16 days of training services
- the main purpose for using training services was for skills upgrading (63 percent)
- most respondents (74 percent) made use of externally-provided training, of which 78 percent was provided by the public sector.
- 59 percent of the firms indicated that they were not able to get the training expertise they needed in Vietnam
- respondents focused their recommendations primarily on content, which they felt needed to be more up-to-date, of international quality, and localized for the Vietnamese situation. Training should be carefully matched to customers' needs, with both basic and advanced training options. The training itself needed to be practical, not theoretical. The method of instruction needed to be designed to ensure skills transfer from the classroom back to the workplace.

[4] "Business Services in Vietnam" by Dorothy Riddle and Galaxy Consulting Ltd. MPDF Discussion Paper #

The NEU Business School Pilot

In order to pilot test the market, MPDF contracted with the National Economics University (NEU) Business School in Hanoi, to offer three 36 hour management training courses for SMEs in Hanoi (each for 25-30 participants) using a range of materials. The courses were advertised in local newspapers under the MPDF name. The price was $50 per course; all courses were oversubscribed. The purpose of the pilot was to:

- obtain some idea of level of demand
- gauge pricing levels
- obtain feedback on preferences regarding course content, length and delivery mode
- evaluate materials and presentation
- determine priority choices of participants in terms of subject matter

In terms of course subject, four topics were determined to be the most needed/popular: Accounting/Finance, Human Resources, Production/Operations Management, Marketing.

iii. Identification of Partner Organizations / Principles of Engagement

With the above reasoning and market feedback, MPDF proceeded with curriculum development. Because of the importance of local content, MPDF reached agreement on a joint initiative with four training suppliers:

- The National Economics University Business School, Hanoi (NEU)
- Ho Chi Minh City Economics University Business Faculty, HCMC (HEU)
- The School of Industrial Management, HCMC University of Technology, HCMC (SIM)
- Swiss/ Asian Institute of Technology management training program, HCMC (AIT)

The ground rules for course development were agreed as follows:

- Courses were to be developed in: Accounting/Finance, Human Resources, Operations Management, Marketing. The training suppliers agreed that these were priority subject areas.
- each institution would select one subject areas, in line with its own particular specialization.
- a course of 36 hours duration would be developed for each subject, with strong emphasis on local case studies appropriate to local business practices with tools adapted accordingly.
- MPDF would identify four international SME specialists (one per topic) and make them available to the partner institutions for 30 days total (over 2-3 visits) to work with the team of local subject matter specialists.
- Local university/specialist team were in charge of the process of materials development, and had discretion over when/how much of the international subject matter specialists were required

- MPDF would provide an academic supervisor, responsible for checking overall quality and consistency of all material produced for all four courses.

At the conclusion of the material development phase:

- MPDF would provide a subsidy for materials testing, including advertising and promotion of two pilot courses, but course fees should be applied that would cover operating costs.
- Participating training organizations would swap tested course materials, i.e. each institution would receive three fully developed and tested courses in exchange for having developed only one.
- MPDF would promote and advertise the courses after launch on an ongoing basis
- Partner organizations could use the MPDF and IFC/World Bank names when promoting the course.
- Participating universities wold have exclusive use of the materials along with MPDF for a 12-month period.

During the negotiation of terms and conditions with the partner institutions, AIT dropped out; fortunately, NEU agreed to assume its role. The product development workload was shared-out as follows:

NEU	Human Resources
NEU	Marketing
SIM	Production/Operations Management
HEU	Finance and Accounting

iv. Product Development

▪ ***Identification of international subject matter specialists***

MPDF began searching for international SME subject matter development specialists through an extensive network of university and institutional contacts. The task of identifying appropriate candidates with both subject matter expertise and SME experience was far harder than anticipated. Ultimately the following persons were identified and recruited in November-December, 1997:

- Elaine Romanelli, Team Leader, Georgetown University, (USA*)
- Margaret Christie, Marketing, Monash University, (Australia*) .
- Ricardo Ernst, Production Management, Georgetown University, (Venezuela*)
- Wasif Khan, Accounting and Finance, Lahore Business School, (Pakistan*)
- Dennis Raposa Gil, Human Resources, Inter-Active Group, (Philippines*)

* denotes nationality

- ***Objectives of Content Development***

The aim of each content development team was to produce 36 hours of course material:

- in line with international quality standards
- localized for the Vietnamese context
- appropriate to SME client needs
- practical versus theoretical
- up-to-date, embodying current thinking/concepts
- blending information with skills training
- designed to facilitate skills transfer from classroom to workplace

- ***The Content Development Process***

The following timeframe was determined for content development and testing:

- start content development, January 1998
- end content development, June 1998
- materials testing, July-August 1998
- revise material, September-October 1998
- standardization, harmonization, reformatting, reproduction, November-December 1998
- exchange course materials, January 1999

In terms of process, the initial idea was to have international and Vietnamese counterparts, each meet with boxes of their most recent training materials, sitting together and creating an appropriate blend for the local SME market. But the process was, in fact, less logical:

- some teams did not have adequate material and a significant proportion of new materials and case studies had to be generated
- in some teams there was divergence of viewpoint that required arbitration

At this point the role of Elaine Romanelli, the team leader, became critical:

- to manage the interaction between international and local specialists
- to review content on a course-by-course basis to ensure quality both in terms of content and presentation
- to ensure the consistency and compatibility of the four courses as a whole package
- to develop standard formatting, applied throughout the four courses to ensure uniformity of presentation

- ***Materials Testing***

In July-August, 1998, the partner organizations ran test-runs for each of their 36-hour courses. Course fees were set by the universities themselves (at around $75); in addition MPDF provided each institution with a subsidy for promotion of the new course.

Materials were revised, based on feedback from testing. Then, during the period November-December courses were standardized, reformatted and reproduced. Course packages were exchanged in January 1999.

v. Course Marketing

In order to prepare the partner universities to market the courses effectively, MPDF hired a local firm, Galaxy Consulting, to carry out a market review. Galaxy interviewed 18 service providers and 16 service users, with the key findings as follows:

- *Quality:* Most firms were not able to differentiate quality prior to a training event. Firms typically appreciated the value of a course after the event. However, firms cited quality as their primary criterion for selecting a course. Factors associated with quality included: degree of relevance to the business, offering solutions to urgent problems, courses offered by reputable (foreign) institutions.

- *Price:* Most SMEs did not determine training needs in advance, nor set aside a specific training budget. Training decisions, were "as it comes" and highly influenced by availability of funding according to the business cycle. Firms did not cite price as being the major determinant in a training purchase decision.

- *Promotion:* Courses were provided on an ad-hoc basis by suppliers and announced 1-2 months prior to the start date, usually in the newspaper.

- *Packaging:* Courses on offer in the market were generic subject-matter products (accounting, marketing…etc.). No courses were marketed to address specific needs (i.e. sectors, size, special interest groups, etc.).

Based on these findings, Galaxy recommended that the SME course providers should:

- educate potential customers in advance about the benefits of their training courses
- conduct customer surveys to identify specific needs
- cooperate and cultivate longterm relationships with business support organizations, associations and other networks
- promote in a very targeted manner through direct mail/direct contact
- offer tailored courses to firms with similar profiles
- in terms of pricing, value not money is the issue; market on the basis of quality, not price

- selling line: international quality assured by links to reputable foreign institutions / products appropriate for local SME environment delivered via local channels

vi. Development of Product Delivery Capacity

With product developed, MPDF and its partners started to plan training delivery, however, some important constraints emerged:

- The partners had limited numbers of trainers and the most experienced lecturers were in demand to undertake a range of other teaching assignments.
- The trainers needed instruction in how to use the new course materials
- Adult training skills were generally perceived as being weak

MPDF decided to sponsor an instructor training program:

- *the aim:* to train a pool of 20 trainers in Hanoi, 20 in Ho Chi Minh City (lecturers in Vietnam have relative freedom to work for multiple organizations, so trainers in the pool could originate from a range of organizations and would be available to any institution for delivery).
- *implementing agency contracted*: NEU Business School, Hanoi.
- *recruitment*: partner organizations were free to propose candidates also advertisements were placed in newspapers. Excellent response, NEU screened all candidates.
- *criteria for selection*: postgraduate degree, business background, training experience
- course content: covering curricula, allowing specialization in 1-2 subject areas, important focus on adult teaching techniques (and MPDF brought in an expatriate specialist in adult education to assist NEU team).
- *course duration*: one month full time in each location; participants were paid a small indemnity and contracted to teach a minimum of courses in coming 12 months.
- *main selling feature for participants*: acquiring new skills, prestige of being lecturer, plus opportunity for supplementary income
- *in exchange for underwriting training of this pool of trainers*: MPDF signed an agreement with NEU to provide 10,000 student hours of training within 18 months, starting June 1999:

The instructor training was completed in the two locations during March and April 1999.

vii. Implementation: Training Course Delivery into the Marketplace

Following advertising in the press, the training courses went on offer in July 1999, under the terms as follows:

▪ Pricing

The business school were free to set their own prices in line with their cost structures. MPDF estimated that a course price of $70 would be adequate to cover costs and generate a reasonable margin if participants numbered 25.

Assuming a class size of 30 participants, the typical course cost structure might be as follows:

-	remuneration for trainer	$700
-	reproducing course materials	$300
-	advertising / promotion	$200
-	overheads (room rental, administration…)	$400
-	margin	$500
	Total	$2,100

- Scheduling

Courses were normally scheduled during working weekday evenings (3 hour sessions), Monday to Saturday inclusive, for a period of two weeks,

- Promotion

Courses were announced in the local press 4-6 weeks before the event. If courses were under-subscribed, then they would normally be cancelled.

viii. Results

During the period July-December, 1999, MPDF left the partner institutions to carry out course delivery without significant monitoring or supervision. In December, a progress review was conducted. Findings of the review were encouraging. During the six month period, 20 courses were delivered at which 574 managers (attending at least one of the courses) had been trained.

Partner Institution	Type of Course	Date	# of Participants	Location
NEU	Marketing	7/26-8/10/1999	10	HN
	Finance	8/20/1999	80	HN
	HRM	8/18-8/31/1999	29	HN
	POM	10/4/1999	11	HCM
	Finance	10/25-11/9/1999	22	HN
	Marketing	11/16-12/3/1999	19	HN
	Marketing	1/10-16/2000	20	HN
SIM	SIM delivered 12 Production/Operations courses in HCMC and other provinces in the south, 360 participants in total			
HEU	Finance	8/17-29/1998	23	HCM
Grand total	**574 participants**			

The relatively poor performance of HEU was partly MPDF's fault, as there was relatively limited ongoing supervision of course delivery in Ho Chi Minh City during the period.

5. THE CHANGING MARKETPLACE – MPDF'S INITIATIVES TO REMAIN COMPETITIVE

i. A downturn in the management training market

During the two-year period from project inception in late 1997, to training course delivery in late 1999, a number of significant changes took place in the training marketplace:

On the supply side:

- New management training services providers entered the market place, particularly new private sector business schools, and private universities with business faculties.

- New donor funded training programs were launched (UNIDO, GTZ/VICOOPSME, …) that began to offer training courses to SMEs at subsidized prices. In some cases these courses were being offered via the same partner institutions as MPDF's, and in some cases using the MPDF course material.

- the local government in HCM City funded an initiative for exporters called the 1,000 Managers Program: a 4 month part time training course at a subsidized rate of $50; HEU and SIM were amongst the institutions involved.

On the demand side:

- the growth in numbers of new SMEs entering the market slowed dramatically; the average annual growth in number of registrations of private enterprises in Vietnam fell from 40% per year during the period 1993 to 1997 to 4% in 1998.

- severe downturn in the business cycle due to the Asian crisis meant that individual firms had fewer resources available to devote to training, and many firms were focused more on survival than developing management capacity.

In spite of promising results during the July to December implementation phase, the change in the marketplace caused a number of ill-effects to MPDF's program, as follows:

- Partner institutions complained that course places were becoming more difficult to sell

- as the partner instuitutions had a range of other (mainly subsidized) training opportunities, their commitment to MPDF's program became mixed.

- In some cases the partners were using the course materials for purposes that were not intended by MPDF, i.e. to train state-owned enterprises and foreign invested firms, and/or as part of competitor (subsidized) training programs

ii. MPDF's response

In order to overcome these constraints, MPDF began to pursue some new initiative strategies:

i. To strengthen communications and follow-up with existing partner institutions

In July 1999, MPDF recruited a program officer for Ho Chi Minh City who became responsible, later in the year, for actively managing the relationship between MPDF and its partner institutions. New collaborative arrangements were agreed with HEU and NEU.

ii. To multiply the number of partner institutions offering classroom training

During November 1999 and January 2000, MPDF screened multiple new classroom training service providers amongst the new private sector schools and provincial schools/centers. Three new universities were selected in the South (Binh Duong, My Tho and Can Tho) all of which are situated in areas where private sector firms are heavily concentrated.

MPDF has signed agreements with these three providers as follows:

- MPDF requires the new service providers to use a high proportion of time input from the existing pool of trainers to ensure quality of teaching.
- MPDF will sponsor a further round of instructor training to enlarge the pool of qualified lecturers (March/April 2000).
- New service providers will deliver a minimum eight 36-hour courses for up to 30 participants at a minimum of $50/course during 2000.
- MPDF will provide an advertising budget of up to $2,000 for the eight courses

Anticipated course delivery during 2000

Institution	Period	Courses Planned	Participants	Total Trained
HEU	Mar/Dec	8	Av.25/course	200
Binh Duong	Mar/Dec	8	Av.25/course	200
My Tho	Mar/Dec	8	Av.25/course	200
Can Tho	Mar/Dec	8	Av.25/course	200
NEU		8	Av.25/course	200
SIM		Under discussion	?	?
TOTAL				1,000

iii. OLA and the Value Added Retailer (VAR) network

MPDF is about to undertake an ambitious project with the Open Learning Agency and this is the subject of a paper by Geoff Stevens and Mark Nielsen. This is strategy involves the re-working and reformatting the management training course content (in the form of self-study work books, CD Roms, video tapes, etc.) and distributing it through a Value Added Retailer network, involving publishing houses, distance learning centers, internet service providers and others. The aim of this initiative is distribution of course content beyond the classroom.

6. LESSONS LEARNED

Lessons for Donors

i. It can be done…

MPDF's experience indicates that for SME management training, the market development approach can work. Since July 1999, 574 managers have attended at least one of MPDF's courses and during 2000, about 1,000 more managers are expected to do so. These courses have been delivered at a price that has generated a decent fee for the course instructors as well as generating a reasonable margin (after overheads) for the partner institutions.

ii. BDS Market development requires high quality / affordable products

Market development means offering service products that give value to the customer, which:

- are easy for customers to understand and relate to their needs (ideally, the process should also be enjoyable and/or convey prestige).

- yield tangible short and medium term benefits.

MPDF's aim has been to develop excellent training course materials in Vietnamese that provide a range of tools, skills and concepts for SME users. Considerable up-front investment has been made in developing a package that is easy for service providers to deliver, i.e. comprehensive, well presented, accompanied by notes and teaching aids for instructors. MPDF has found that up-front investment in easy-to-use products has meant that relatively inexperienced instructors could deliver effective training.

iii. Go global, think local.

Information technology is making access to standard service products increasingly easy, and customization of such products increasingly flexible.

In the early stages of MPDF's product development phase, it was unknown to what extent the training materials would be uniquely tailored to the Vietnamese context. In the end, around 80 percent of the input to course material originated from generic / international sources. The remaining 20 percent of material development involved preparation of case studies and examples to put the generic material in local context, plus a small proportion of effort to address unique practices in the local environment and culture.

The process became one of adapting a platform product. We considered that this process was not dissimilar to current methods of motor vehicle assembly, where the same chassis and engine block is used to create a wide range of different pick-up trucks, sports cars or mini-vans.

vi. BDS market development requires more time and donor commitment than previous approaches

Donor SME support projects in the past can be characterized as being short-term, "funds in, outputs out" type initiatives. In the new BDS approach, market development is a prior condition to services being delivered and the desired outputs and impact being achieved. The new approach is almost certainly more complicated and long-term than the old one, even if it can yield better results. The new approach should be governed by new rules:

- Longer-term vision with regard to project term: on the basis of regular review donors should commit to staying with a project for the medium to long term if it works, and to closing it down if not.

Within MPDF, for example, the management training program has already been under pressure to deliver services to firms that are receiving assistance through another MPDF branch on the investment projects side.

v. Developing markets requires an ability to respond to change – projects need to be designed for flexibility and rapid decision making

MPDF is relatively unusual for a donor initiative, insofar as it has been delegated a high level of decision making autonomy by its donor board. Decisions about program design and management are largely internal also; it has rapid/local access to funding. This autonomy and flexibility has allowed MPDF to manage its program in response to changes in the market place (in fact more like a business than a "project"), and this is viewed as an important success factor.

vi. New types of international expertise will be required for BDS market development projects

The BDS market approach require low-cost delivery of service products, and international expertise is too expensive to use for service delivery in the marketplace (hence the unsustainability of previous SME support projects).

In BDS market development projects, new types of international expertise will be required including world-class service product developers, IT technicians, marketing specialists, etc.

MPDF has found that the long term "SME generalists" have become fairly redundant in this type of project. Rather, short term / high-skill focused inputs are required. But, finding the people to provide this specialist input is very difficult.

vii. ***Subsidies out of the marketplace, and encourage other donors to do same***

There is ongoing discussion about the merits of "upstream" subsidy of product development as well as the "downstream" subsidy of consumers (by vouchers, etc.). These form of subsidy are relatively harmless to market development in comparison to direct subsidies into the marketplace i.e. donor subsidy to lower point of sale cost price of services. If donors, as a group, wish to pursue BDS market development, then they should take a coordinated approach to removing market distortion. MPDF's management training courses are currently facing unfair competition from a range of subsidized alternatives.

Lessons for Practitioners

i. Work with groups of BDS service providers.

Working with numerous service providers has the following advantages:

- delivery channels are multiplied and volume is achieved
- risk is spread in event of a service provider failing
- avoids dealing with a cartel that may eventually dictate terms

MPDF has not only tried to multiply its use of similar types of service providers, but to begin diversifying service products and types of service providers.

ii. Ensure service provider buy-in.

In the case of the Management Training project, partner service providers were required to invest "sweat equity" in the form of materials and significant staff time at the product development stage. At the course delivery stage, partners have signed agreements to deliver minimum numbers of courses or student/hours of training in return for support.

iii. Establish a clear financial incentive structure for your BDS suppliers; understand their motivations for working with you.

In order for a market to work, services need to be priced affordably, but high enough to cover personnel, overheads and other expenses as well as generate a margin for the service provider/supplier. Not only does the supplier have to make money, but also it has to generate a margin as good as, or better than, from providing a different service.

MPDF found, for example, when working with its university partners in some instances, that SME training was subordinate to long-term academic programs in terms of allocation of lecturer resources. Also, that its own courses could potentially be displaced by SME contracts from other donors, if these were considered more lucrative, i.e., more highly subsidized.

iv. Service providers need various forms of support once they start marketing products.

Product development and transfer alone are clearly not enough. Service supplier partners need a range of types of ongoing support, which may include:

- quality control
- issuance of certificates
- remedial service support and upgrades
- advertising and branding
- other customer oriented marketing schemes (e.g. vouchers)

MPDF is now addressing such issues in part by establishing a Value Added Retailer network (as discussed in detail in the OLA paper)

v. Anticipate loss of control

Donors love control: They want specific target groups to benefit from their projects; they require their partners to provide timely and often detailed reports on services delivered; all this and more is neatly determined within a Logical Framework.

The relationship between donor/project and suppliers in a BDS market development context is quite different to the one in previous SME promotion activities where the donor directly funded its own project or institution, or contracted with consultants to provide services. In the market development context, the donor has less direct control on process and outcomes. Some examples from the MPDF experience:

- partners have taken training products developed for SMEs, and used them in more lucrative training contracts with foreign invested and state owned companies

- Basic data on each participant is collected at each training event and submitted (name, address, contact numbers, position, activity of firm, number of workers). However, obtaining other feedback, or training evaluation forms (which donors hold so dear) is impossible. Partners consider the additional work of collecting such (nonessential) data as a tax.

- Partners have advertised courses, to which MPDF has directed clients, that have later been cancelled because of a lack of subscriptions.

- Partners have used MPDF's course materials to offer training courses subsidized by other donors.

In sum, in the BDS market development context, service providers will sometimes act in their own interests, and this may not coincide with donors' interest.

ANNEX 1

Table: Number of Private Vietnamese Companies by Legal Status, 1993-1998

	1993	**1994**	**1995 ***	**1996**	**1997**	**1998 (est.)**
Private Companies	6,808	10,881	15,276	18,894	25,002	26,021
Year-on-year growth	--	*60%*	*41%*	*24%*	*32%*	*4%*
"Private Enterprises"	5,182	7,794	10,916	12,464	17,500	18,750
Year-on-year growth	--	*50%*	*40%*	*14%*	*40%*	*7%*
Limited Liability Companies	1,607	2,968	4,242	6,303	7,350	7,100
Year-on-year growth	--	*85%*	*43%*	*49%*	*17%*	*-3%*
Joint-Stock Companies	19	119	118	127	152	171
Year-on-year growth	--	*526%*	*-1%*	*8%*	*20%*	*13%*

Source: "SMEs in Vietnam: On the road to prosperity" by Leila Webster. MPDF Discussion Paper #10, Hanoi, Vietnam.

ANNEX 2

Table: Composition and Growth in Vietnamese Manufacturing GDP by Enterprise Sector, 1995-1998

	1995		**1996**		**1997**		**1998**	
	Share	**Growth**	**Share**	**Growth**	**Share**	**Growth**	**Share**	**Growth**
Manufacturing Output (in billions of VND)	**30,230**	**13.5%**	**34,339**	**13.6%**	**38,743**	**12.8%**	**42,613**	**10.0%**
Public	***61.0%***	***11.9%***	***59.3%***	***10.5%***	***56.4%***	***7.3%***	***54.1%***	***5.5%***
- State Sector	59.6%	11.7%	58.0%	10.6%	55.6%	8.1%	53.3%	5.5%
- Collective Sector	1.4%	17.4%	1.4%	6.7%	0.9%	-28.0%	0.8%	3.0%
Private	***28.7%***	***16.8%***	***28.1%***	***11.3%***	***28.1%***	***12.6%***	***27.8%***	***9.0%***
- Households and Farmers	18.2%	21.0%	17.8%	11.4%	18.3%	15.6%	18.2%	9.8%
- Formal Private Sector	10.5%	10.2%	10.3%	11.3%	9.8%	7.4%	9.6%	7.6%
Foreign-Invested Sector	***10.3%***	***14.9%***	***12.5%***	***38.5%***	***15.5%***	***39.7%***	***18.1%***	***28.1%***
Total	***100.0%***		***100.0%***		***100.0%***		***100.0%***	

Source: "SMEs in Vietnam: On the road to prosperity" by Leila Webster. MPDF Discussion Paper #10.