

Socialist Republic of Viet Nam

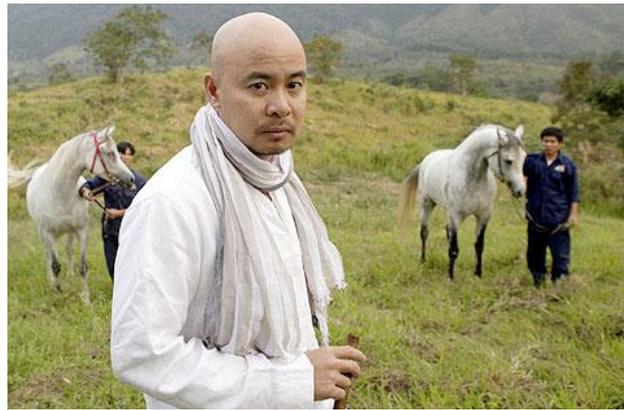
The Coffee Scented Dreams of a Young Entrepreneur

While a medical student, one entrepreneur realized the potential for economic growth in Viet Nam through the improvement of the coffee sector. With ideal environmental conditions for coffee cultivation in the country, Trung Nguyen Coffee Corporation was launched to tap into a market with vast potential. At first only providing coffee delivery services on a single bicycle, the company created what would become some of the region's most popular coffee brands. With domestic and international IP protection, the success of the entrepreneur's company has inspired a new generation of pioneers in Viet Nam and beyond.

Background

The Socialist Republic of Viet Nam (Viet Nam) is beginning to claim a place among the most ambitious nations, with government measures underway to liberalize the country's economy and support businesses and entrepreneurship.

A key player in the country's economic revival, Trung Nguyen Coffee Corporation (Trung Nguyen) is a producer, manufacturer and retailer of coffee products and is based in Ho Chi Minh City, Viet Nam. Since its foundation in 1996, the coffee company has developed its production capacity while creating a number of quality brands – including *G7*, *Legendee* and *Weasle*. As of 2013, Trung Nguyen was the largest coffee company in Viet Nam. At the same time, the business was expanding both regionally and internationally and inspiring a new generation of entrepreneurs in the country.



Dang Le Nguyen Vu, a medical student turned entrepreneur, founder of Trung Nguyen (Photo: Trung Nguyen)

From Student to Entrepreneur

Trung Nguyen – formerly called Trung Nguyen Coffee Factory Central Highlands – was established by Dang Le Nguyen Vu, a student-turned-entrepreneur. Mr. Vu established the company while he was still studying medicine in Buon Ma Thuot, the capital of Đắk Lắk province, Viet Nam.

As Mr. Vu recalled, “Spending time in the [Đắk Lắk] coffee region [a center of coffee production in the country], I realized that Viet Nam had the potential of achieving

high economic growth and becoming a powerful economy if the coffee sector could be improved and upgraded.”

Without much business experience but with a strong love of coffee and a desire to explore its economic potential, Mr. Vu (and a small group of fellow students) established a small coffee shop in Buon Ma Thuot. Named “Trung Nguyen” – which roughly translates to “central highlands” – the single-roomed coffee shop initially relied on a revenue-sharing agreement with coffee producers. “The initial capital for my business,” the entrepreneur would later say, “was the trust of growers who gave me their [coffee] beans based on the promise that I would share the profits with them.”



Viet Nam is the world's second highest producer of coffee (Photo: Stirling Noyes)

First delivering coffee drinks to clients in the area via bicycle, the entrepreneur and his colleagues soon advanced to motorcycle based deliveries in order to meet increasing demand. To expand the company's capacity and gain the knowledge required to be successful in the coffee production business, Mr. Vu recognized the need to engage in research and development (R&D) activities.

The entrepreneur also saw the need to strategically develop the company's human resources department. Mr. Vu noted: “You need to use your passion to drive your plans and move your organization forward, through [comprehensive] planning and excellent execution.” Furthermore, he said: “There was no Internet, no books or related materials on how to be an entrepreneur in Vietnam [at that time].”

Although facing limited access to R&D resources, the largely self-taught entrepreneur read widely – including books on business strategy – in order to gain the knowledge required for building a successful enterprise. An early development in the company's R&D strategy was to ensure that it became a vertically integrated business – where a single owner manages the supply chain. To this end, Mr. Vu learned from rivals and relied on business models from around the world in order to ensure that the company had the capability to manufacture, package and distribute coffee products independently.

“[Trung Nguyen] understood that Viet Nam up until then had simply exported raw [...] coffee beans while European countries were making money through excellent branding of a product they couldn't grow. This is why [the company] decided to produce Viet Nam's first branded coffee,” the entrepreneur said. Being vertically integrated permitted Trung Nguyen to add value to its products. Rather than simply selling unroasted coffee in an unpredictably priced global market (as had been the case for traditional coffee producers in Viet Nam), the company created ready-for-sale, premium brands for the domestic and international market. As a result, the then small and medium-sized enterprise (SME) gained greater control of its production processes, products and prices – even though it procured raw coffee beans from networks of independent farmers. The SME also began to reap greater returns on investments. In addition to making changes in the company's production

structure, the entrepreneur set clear goals for Trung Nguyen and ensured key positions were filled with qualified and motivated personnel.

As Mr. Vu noted, “First and foremost you will need reliable partners and a good team. These people need to share your vision and be driven by a common vision.” With important developments established in the SME’s R&D strategy and human resources department, the fast-growing company could move forward with newfound ambition and confidence. Fifteen years after it was established, Trung Nguyen became a major player in the beverages sector of Viet Nam.

As of 2013, the company’s products were sold in over 50,000 retail outlets in over 50 countries and territories, such as the People’s Republic of China (PRC) and the European Union (EU). In the same year, Trung Nguyen managed over 60 of its own cafés and had become Viet Nam’s biggest coffee processing company and brand – with over 3,000 employees and an associated network of over 400 coffee farm workers. Mr. Vu, meanwhile, had become popularly known in Viet Nam as “The Coffee King.”

Inspired by Tradition

Trung Nguyen was established in part because of Viet Nam’s long tradition for cultivating coffee products. *Coffea Arabica* (a species of coffee) was first introduced to the Southeast Asian country by the French – who established plantations in Viet Nam in the 1850s. By the turn of the 20th century, the crop was flourishing in Tuyen Quang, Lang Son and Ninh Binh – which form part of the country’s Northern provinces.

A few decades later, coffee plantations were cultivated further south in Viet Nam, especially in the Central Highlands region – which is comprised of four provinces including Đắk Lắk (the same region where Mr. Vu studied medicine). Indeed, coffee producers in Đắk Lắk province, who were not only French but also increasingly Vietnamese in origin, grew approximately 1,000 hectares of the crop by the 1930s. At the close of the 20th century, coffee production covered 160,000 hectares in this region alone.

In the early part of 21st century, Viet Nam cultivates and exports coffee in ever greater units and species. In addition to *Coffea arabica*, the country has produced and exported *Coffea liberica*, *Coffea canefora* and *Coffea robusta* varieties. For decades, moreover, such coffee cultivation culture has been passed down the generations of farmers in Viet Nam as a form of traditional knowledge. Trung Nguyen has relied on this knowledge and tradition to develop the capacity of producers in the country and to create new products and brands while developing new avenues for commercializing coffee.

The Business of Geography

Viet Nam is a country with specific geo-climatic conditions and distinctive flora & fauna that have been conducive to cultivating a number of products including rice, rubber, tea and coffee. The country is also renowned for its fish and seafood products – indeed, the agricultural sector as a whole accounts for over 20 percent of Viet Nam’s GDP.

By exploiting the country's specific geography and agricultural traditions – sometimes referred to as *terroir*, the degree to which a product (such as coffee) can be distinguished based on a unique location or production culture – Trung Nguyen has been able to develop its business strategy.

Bordering the Gulf of Thailand, the Gulf of Tonkin and the South China Sea as well as the PRC, the Lao People's Democratic Republic (Laos) and the Kingdom of Cambodia (Cambodia), Viet Nam has a tropical climate to the south and monsoonal weather to the north. For over three decades, annual rainfall in the country has averaged 1,655 millimeters (mm); between 2,000mm and 2,500mm in the hills. The country's climate, moreover, is generally separated into a hot and rainy season (April to September with temperatures averaging 24 degrees) and a warm and dry season (October to March with temperatures averaging 20 degrees).



Viet Nam's *terroir* produces a coffee with bold and intense flavor (Photo: Hugh Derr)

Furthermore, the terrain in Viet Nam is defined by low, flat deltas to the south and north with highlands in the center and hilly and mountainous regions in the far north and northwest. Endowed with a variety of natural resources – such as coal, rare earth elements and, especially, fertile, volcanic soils and ideal weather for various crop cultivation, almost 20 percent of the country's land is used for agriculture; over 10 percent of the latter having permanent crops.

Coffee trees have thrived in Viet Nam's geo-climate with the Central Highlands region (located in the monsoon weather system) being particularly ideal. This region, in addition, produces over 50 percent of the nation's coffee, mainly *Coffea robusta*, a species which accounts for approximately 40 percent of the world's coffee production. Viet Nam's *terroir*, furthermore, has resulted in a coffee that is low in acid and with a smooth, strong and sharp flavor when brewed.

This unique taste and flavor has played a central role in Trung Nguyen's branding and commercialization success. It has also aided a rapid growth in coffee consumption and production in Viet Nam. Indeed, partly due to Viet Nam's *terroir* and its government's economic liberalization policies – which began in the 1990s and includes zero taxation on coffee exports, in the two decades following that period, the country became the world's largest exporter of *Coffea robusta*. At the same time, Viet Nam became the second largest overall exporter of coffee (1.15 million metric tons annually, 2010/2011), valued at US\$2.4 billion, according to Vietnamese government statistics.

IP in Action

In addition to relying on Viet Nam's *terroir* and coffee production capacity, Trung Nguyen has distinguished its products in the market by creating a number of coffee

brands and products. At the same time, the company has enhanced quality in its production processes, promoted and commercialized its products via its own network of cafés and distribution networks, and collaborated with industry partners.

Adding Value, Reaping Rewards

Trung Nguyen has relied on Asia’s growing middle class, which has had an increasing appetite for coffee and café shop culture – Vietnamese consumption of roasted and ground coffee products, for instance, rose to between 22 and 25 percent of the population in 2012. As Mr. Vu noted, “[Trung Nguyen expects] to benefit from the fast-growing popularity of coffee in many traditional tea-drinking countries of Asia. [The company hopes] to lift Vietnamese coffee consumption from one kilogram per head per year to as high as the five kilograms we see in Brazil.”

To this end, the company creates a variety of processed products (over 60,000 tons per year) such as instant and drip coffee (in a number of brands and products) and various kinds of Vietnamese tea. These products, moreover, are supported by colorful, well-packaged brands. As Mr. Vu said: “Viet Nam [traditionally exported] 90 percent of [coffee] beans raw. These beans carry no brands. That needs to be changed.”



G7 instant coffee, one of the company’s leading brands (Photo: Trung Nguyen)

Seizing on this opportunity, the company has been at the vanguard of coffee manufacturers in Viet Nam that have branded product portfolios. Some of Trung Nguyen’s most established brands are G7 (an aspirational instant coffee brand named after the “Group of Seven” community of ministers from the world’s seven

richest economies), *Passiona* (a low caffeine coffee product), and *Tra Tien* (a brand of tea). The company’s brands, in addition, are often commercialized via a number of product lines – G7, for example, is available in 11 different products including an instant coffee 3 in 1 mix and as an instant cappuccino mocha product.

Perhaps the most internationally renowned product in the company’s brands portfolio, *Weasel* is a Trung Nguyen coffee brand that can trace its heritage to a unique yet valued tradition in the country for cultivating coffee. For generations, farmers in Viet Nam gathered coffee beans that have been consumed and passed through the digestive tract of the Common Palm Civet (sometimes called a Civet cat or weasel, *Paradoxurus hermaphoditus*) – a small mammal that is native to Viet Nam and other parts of Asia.

However, unlike other Civet cat species in the region (which usually eat meat), the kind that lives in Viet Nam has a fruit-based diet – particularly coffee berries. Once eaten by the Civet and passed, virtually intact, via the mammal’s digestive tract, the coffee bean (which loses its outer shell during this process) is cleaned and processed

in order to form the ingredients of the *Weasle* brand. Due to its rarity (only 50 kilograms, approximately, of this product is produced annually by the company), *Weasle* coffee – which has an earthy, chocolate-like flavor – has not only become a high-end delicacy in Viet Nam; it has also commanded premium prices in regional and international markets – up to US\$3,000 per 1 kg bag, in 2013.

To capitalize on the fame of this product, Trung Nguyen has developed two complementary brands – called *Legendee* and *Creative Coffee*; they are in the mid-price ranges – which are made of synthetic enzymes that simulate the taste of *Weasle*. A further pillar of the company’s branding strategy has been to create attractive product sleeves with catchy marketing tags that reflect Trung Nguyen’s aspirations and hopes both for its products and for Viet Nam’s future progress.



Trung Nguyen’s aspirational brands are gaining customers around the world (Photo: Trung Nguyen)

“What we stress [through the company’s product packaging and branding],” the entrepreneur said, “[...] is creativity and the creative energy of what people can do to change their lives.” For example, “*Bringing creativity into coffee.*” and “*When we drink coffee, ideas march in like the army!*” are slogans that the company has used on its products in order to promote a sense of optimism and innovation – especially within the country’s fast-growing middle class.

In addition to creating an ecosystem of products supported with creative branding and marketing strategies, the company has implemented quality standards in its production processes – further enhancing Trung Nguyen’s competitiveness in a global market. To implement quality, the company has invested in both its farms and manufacturing facilities and relied on internationally recognized verification and certification systems for the agricultural industry.

Trung Nguyen has invested in its network of coffee farms by importing and installing high tech irrigation systems and utilizing quality fertilizer while enhancing the skill of producers and helping them reduce pesticide use. As Mr. Vu explained, “We don’t own any coffee plantations, but we’re investing in the farmers. In bringing [quality technology and farming practices to farmers, Trung Nguyen] helps them lift their quality so that they can sell their coffee at a higher price.”

Producers in the company’s network have, for example, relied on mobile phone technology which allows near-instant updates on international coffee prices – this has helped them sell their coffee products more efficiently or at optimal prices. By working with manufacturers such as Trung Nguyen, furthermore, producers can negotiate steady prices for their product with a trusted partner – a situation that was not possible when farmers relied on a volatile international commodities market.

Trung Nguyen, conversely, can rely on a steady supply from a small, but trusted, network of quality producers – which ensures the supply end of the company’s value chain. Trung Nguyen’s strategy to improve quality and efficiency, moreover, has been supported by a number of internationally recognized verification and certification

systems for safe and sustainable coffee growing practices. An example of this is EurepGAP – a common standard for farming practices created by a conglomerate of European supermarkets (GAP is the acronym for Good Agricultural Practices, a method of agriculture that ensures the safety of produce).

EurepGAP, and other systems like it, has allowed producers such as Trung Nguyen’s network of farmers (who were implementing the system as of 2013) to improve production standards and claim premium prices for their products. The certification has also been instrumental in increasing the company’s competitiveness and appeal, especially with clients in North America and Europe who demand certified business partners.

As the company’s founder said, “We expect to get certification from international organizations for the quality of our inputs [...] so that we can easily sell our coffee to selective markets, and leading American and European food retailers.” With increasing trust between the company’s coffee suppliers and international clients, Trung Nguyen has been able to enjoy better returns on investments and develop other important pillars of its branding and commercialization strategy – establishing the company’s own chain of branded cafés, for example.

Known as *G7Express Cafés* and *Trung Nguyen Coffee*, the shops have tapped into the nearly 50 percent of coffee customers in Viet Nam who, according to surveys, prefer to consume coffee in cafes, as compared to other locations such as the home (Ipsos Business Consulting, 2013). Based on contemporary but casual open space architectural designs – and offering coffee drinks, *smoothies* (a blended drink made of fruits) and snacks while playing the latest hits as background music, the cafes have attracted a wide socio-economic customer base (mainly upwardly mobile customers between 20 and 50 years old) and helped the SME meet increasing demand for its products.

At the same time, the shops have raised awareness of Trung Nguyen’s brands in the nation’s consciousness. Commensurate with the company’s branding and commercialization strategy, Trung Nguyen has promoted its products via industry fairs and festivals – such as the Buon Ma Thuot Coffee Festival, held in the Central Highlands area. The company has also endeavoured to raise the profile of coffee in the country – and to introduce Viet Nam’s coffee to the world – via its own “coffee village” in Đắk Lắk province.



The company creates an inviting atmosphere for its cafes (Photo: Trung Nguyen)

The village is a complex of shops, traditional coffee houses and gardens that has front lined Trung Nguyen’s many brands. It has also included an educational coffee museum – which has over 2,000 exhibits – with a souvenir shop attachment. Since it

opened in 2008, the museum has promoted Trung Nguyen and become a centre of tourism that has reaffirmed the region's claim of "coffee capital" of Viet Nam.

In large part due to its robust branding and commercialization strategy and impressive investment drive (tens of millions of US dollars), by 2007 Trung Nguyen was operating three processing facilities in Viet Nam: in Đắk Lắk, Binh Duong and Lam Dong province (a facility that produces tea). Five years later, in 2012, the company was implementing a US\$80 million, three-year expansion (part of 10 year coffee production expansion drive) in the Central Highlands area of the country – which would lead to a new processing facility in the area.

Overall, the SME's modern production facilities (five of them, in 2013, including a US\$110 million factory) had a capacity to process 120,000 tons of coffee every year. As of 2013, Trung Nguyen's coffee products were commercialized via a wide network of local, regional and international distributors as well as over 60 *G7Express Cafés* and *Trung Nguyen Coffee* shops in Viet Nam (in 2010) and in other countries, such as the Republic of Singapore (Singapore).

In the same year, the company exported its brands and products to over 60 countries and regions around the world – the EU, Japan, the PRC, and the Republic of Korea, to name a few. Each region, furthermore, has been approached with a targeted commercialization strategy. The company, for instance, has focused on developing its distribution networks in countries around Viet Nam which form the Association of Southeast Asian Nations (ASEAN).

"For ASEAN," Mr. Vu noted, "which is a market I see as a domestic rather than an international one, we will focus more on the distribution system [such as franchise agreements with local retailers], particularly for instant coffee." In other markets, such as North America, the company had in the same period focused on commercializing its products via Internet-based sales and through supermarket distribution networks – Costco, an international supermarket chain based in the United States of America (USA), is an example. In the EU and other countries in that region, meanwhile, Trung Nguyen had developed distribution collaborations with established industry partners including Nestle, a multinational foods and beverages manufacturer based in the Swiss Confederation.

The Intangible Nature of a Coffee Bean



The company's USA trademark registration (Photo: USPTO #3924871)

With hundreds of millions of dollars invested in its production, branding and commercialization strategy, Trung Nguyen has also ensured protection for its corporate identity – including the identity of its many brands. To this end, the company has relied on the intellectual property (IP) system.

With a view of expanding into the lucrative American market, the company registered [Trung Nguyen](#) (in

2004 and 2011) as a trademark via the United States Patent and Trademark Office (USPTO). The SME, moreover, registered the phrase [Trung Nguyen, Coffee, The Place For Coffee Lovers](#) (2010) at the USPTO. Indeed, Trung Nguyen has protected a number of trademarks in the USA including [G7 Coffee Instant Coffee](#) (2010) and [G7 EXPRESS CAFÉ CHUYEN CÀ PHÊ NGON & BÁNH MÌ GIÒN](#) (2013), both registered at the USPTO.

The company has also sought to protect its IP in other important markets such as the EU. In this region, Trung Nguyen registered a trademark for [Trung Nguyen Be Getting New Sources of Creative Inspiration](#) (2003), [Trung Nguyen inspire your creative sources](#) (2004), and [Trung Nguyen G7 Coffee](#) (2004) at the Office of Harmonization for the Internal Market (OHIM). Four years later, a trademark for [G7 Coffee Instant Coffee](#) (2010) was also registered at OHIM.

The company, furthermore, has applied for several other trademarks in the EU – including [COFFEE Legendee](#) (2013) and [Weasel Coffee 1857 The King of Coffee](#) (2013), also via OHIM – with a view to protecting its high-end brands and products. In addition to utilizing the USPTO and OHIM, the company has registered several trademarks and brands – [Trung Nguyen Coffee, the place for coffee lovers](#) (2009) and [Weasel Coffee, 1857, The King of Coffee](#) (2012), for instance – via the Madrid system for the International Registration of Marks (Madrid system). Managed by the World Intellectual Property Organization (WIPO), the SME's Madrid system registrations have been designated in 23 countries where the company expects to do business. Altogether, the SME has dozens of trademark registrations covering all the major markets where it currently operates (or plans to operate) – Cambodia, the EU, Japan, Laos, Singapore, the USA, and the PRC, for example.

Having comprehensively protected its brands and products around the world, Trung Nguyen has ensured its future avenues of expansion on the Internet by registering at least three domain names (as of 2013). The registrations are: [trungnguyen.com.vn](#) (the company's flagship website, aimed at the Vietnamese market); [trung-nguyen-online.com](#) (which focuses on Online sales to the USA); and [trung-nguyen-online.co.uk](#) (which manages Online sales to the United Kingdom).

The Value of IP

Despite taking steps to ensure its IP around the world, Trung Nguyen has had to face challenges to its IP. In 2000, for instance, another company registered “Trung Nguyen” as a trademark in the USA before the Vietnamese SME had done so. Mr. Vu negotiated with the registrant until that trademark registration was withdrawn – thus allowing Trung Nguyen the opportunity to register the mark. Subsequently, Trung Nguyen has proactively registered trademarks even before expanding into a new market, country or region or, indeed, while still in the process of developing new products and brands.

Going Forward

In just over 20 years since its foundation, Trung Nguyen has evolved from an obscure SME in Viet Nam's “coffee capital” to an international manufacturer of coffee products with an impressive portfolio of global brands. In the process, the

company has dominated the domestic coffee market in Viet Nam and set its sights on growing internationally.

Due to its success, the SME has continued to invest in its growth and expansion drive, including the acquisition of Eatul Coffe Company, a manufacturer of coffee products that was previously affiliated to Vinacafé Bien Hoa JSC, a partly state-owned producer and processor of coffee products that is based in Hanoi, the second largest city in Viet Nam.

In 2011, moreover, Trung Nguyen's G7 instant coffee product accounted for approximately 75 percent of the instant coffee market in the north of Viet Nam. In the same year, the company had revenues of around US\$250 million. With demand for coffee set to increase in the ASEAN region, the PRC and other parts of Asia, Trung Nguyen is confident of future growth and better year on year business results – up to US\$1 billion by 2015, according to Mr. Vu's estimation.



Trung Nguyen's successful use of the IP system has helped it to become an internationally recognized company (Photo: Trung Nguyen)

Seeing a Future in Coffee Beans

With a strong love of coffee and a grand ambition for his country, Dang Le Nguyen Vu began an unlikely career in the coffee business. A little over two decades later, the largely self-taught entrepreneur had mastered the art of making, branding and commercializing coffee products. Relying on quality, aspirational brands, and international protection via the IP system, the entrepreneur has helped revolutionize Viet Nam's coffee industry while supporting producers and inspiring a new generation of business pioneers in the country.