DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia

Case Study

Power Tools Manufacturer Reduces Costs by Moving to Vietnam

To reduce costs and trade risks, a US-listed manufacturing conglomerate specializing in the production of power tools, sought to relocate their long-term operations from South China to Vietnam. The manufacturer required help from an experienced team in determining the best location, method and factory to manage the impact of relocating into a region that is still developing its supply and infrastructure network.

Challenges

Our client faced the following challenges in shifting to Vietnam:

1. Deciding where to strategically locate their factory to integrate it into the supply chain as seamlessly as possible.
2. Quickly and cost-effectively scaling operations to minimize the impact of a supply chain shift.
3. Finding a factory to acquire that best suits their requirements.

Solutions

We helped our client overcome their challenges by:

1. Analyzing which region and industrial zone would best lessen supply chain disruption.
2. Conducting a feasibility study to determine the most cost-effective solution to relocate long-term operations.
3. Researching suitable facilities to target for acquisition, taking into consideration product requirements and short and long-term goals.

Impacts

Client determined an M&A would best support their short and long-term goals in the region. They were able to select from a list of targets most suitable for their operations and existing supply chain, saving money, time and manpower otherwise spent establishing a sourcing network.

CHALLENGE: Knowing where to strategically relocate operations to.

China has long been a competitive production hub. However, costs such as land, wages, and taxes have slowly but surely been increasing for manufacturers; our client was not alone in feeling the pressure in their margins. Coupled with trade risks, Trade War related or otherwise, they knew it was time to relocate their facilities

But where should they relocate to?

Having operated long-term in the South of China, their supply chain was optimized for their current location. They needed a business environment that could replace the "golden age" of China manufacturing in terms of low costs, incentives, infrastructure and supply chain availability, and they needed to be able to set up quickly to not disrupt production obligations to buyers and distributors.

They needed to:

- Determine which country to relocate to, and then which region and zone to set up in
- Understand the differences in doing business in said country and China
- Decide how to set up; and
- Ultimately identify a target to acquire.

SOLUTION: Conducting a thorough study into the best country, location, and factory to shift to.

Our Business Intelligence (BI) team took the lead in assisting the client.

Their first course of action was to provide a Location Study, so that the client understood where in SE Asia they could best achieve their goals.

From our office in S. China, the Vietnam BI team visited the client's factory in person to understand what the client desired to replicate outside of China. This was particularly useful to see production requirements and operation capacity first-hand.

From the Location Study, the client selected Vietnam as their ideal country substitute. The incentives, costs, level of development, and projected conditions of the market most aligned with their requirements. After country selection, we were then able to help them narrow down on which region and industrial zone would best support their type of production and supply chain.

Although similarities exist in doing business in China and Vietnam, there are also many differences, both subtle and overt. To prepare them for future operations in a new market, we used our experience in both locations to provide a comprehensive advisory on the differences of doing business in Vietnam.

Equipped with knowledge of what the client wished to replicate in Vietnam, the BI team next tackled the question of how to best set up. Since the client required something cost-effective and timely, we compared greenfield investment against a merger and acquisition.

Ultimately, DSA advised on an M&A. While the country is rapidly developing, it can be daunting for a long-time operator in China to make the move there. Merging or acquiring a factory that already has an established sourcing network is a shrewd way to enter the market; saving time, effort, and energy that setting up a supply chain would require.

Settled on an M&A, we helped the client with target identification. The BI team compiled a list of 20 promising companies. They examined each company's operational history, ownership structure, licensing details, facilities, subsidiaries or additional operations and other vital information.

BI also assessed the willingness of each target to sell or obtain a strategic partner. After the client evaluated the prospects themselves, we set up matchmaking meetings with the targets.

IMPACT: Cut costs while maintaining capacity.

With average wages in Vietnam 370/o that of China's, the average office rent roughly 50% and a lower CIT rate (20%) and Goods/Services Tax rate (up to 10%), our client was able to lower their overall costs. By choosing to proceed with an M&A, they were able to acquire an existing sourcing network and supply chain.

Dezan Shira & Associates was able to help them with site location, understanding the business environment, assessing whether to start as a greenfield investment or do an M&A, and finally with target identification.

Ultimately, the client was able to achieve what they set out to accomplish. They lowered their trade risk in a politically stable market, and they found a cost-effective solution to protect long-term growth by lowering their operational costs and taxes and by acquiring a pre-established supply chain.

> *Dezan Shira's operational presence across Asia was a significant asset during this case. As the project started, a combination of our S. China and Vietnam teams toured Company's facilities. The Company was able to introduce DSA to many critical attributes of its operations that would need to be identified or replicated in Vietnam, providing invaluable insight that allowed us to give a more tailored set of recommendations for availability of partners and potential to build facilities from the ground up*

Pritesh Samuel
Head of Business Intelligence
Dezan Shira and Associates

Pritesh Samuel
Head of Business Intelligence
Dezan Shira and Associates
+84 28 3930 2828
pritesh.samuel@dezshira.com

Kyle Freeman
Partner
Dezan Shira and Associates
+86 188 1062 6802
kyle.freeman@dezshira.com

CONTACT US

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