

Increasing Competitiveness in Bat Trang Village A Case in Cluster Competitiveness

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According to legend, a ceramics-producing village was first settled on the site of the current Bat Trang village almost 1000 years ago. When King Ly Thai To moved the capital to a site on the Red River, he ordered 12 ceramics artisans to move with him to produce bricks to build the new capital. After they had contributed to the construction of present day Hanoi, these artisans chose to stay in their new home and continue ceramics production. As their business developed and prospered, more artisans joined them. The village was renamed Bat Trang in the 15th century, and has continuously produced ceramics until this day. In 1986, the Vietnamese government introduced the policies of *đổi mới* (renovation) and *mở cửa* (open-door) to stimulate growth in the stagnant economy. Since then, exports have driven impressive GDP growth, which has risen from 6.79% to 7.24% between 2000 and 2003. In the early 90's, this growth-engine began to also boost the non-export sector, however GDP per capita still remains very low, at \$483 in 2003¹.

The emergence of the private sector has played an important role in this economic growth. From 1991, until the Enterprise Law was passed in early 2000, only 30,000 new businesses were registered in Vietnam. Since the passing of the law, approximately 71,500 new firms and 800,000 family-run businesses have been registered, many of them in the industrial sector.² In 2002, small and medium enterprises (SMEs) accounted for 48.5 percent of Vietnam's total export values.³

SMEs are also invaluable for creating jobs for the estimated one million people who become of working age every year. With 50% of Vietnam's population under the age of 30, new job creation is a high-priority for the Vietnamese government. Even with these impressive contributions to Vietnam's economic development, the nascent private sector remains weak, lacking the necessary access to credit, intellectual property protection, and management skills to become internationally competitive.

The manufacturers in Bat Trang are fortunate in that they have almost 1000 years of history of ceramics craftsmanship and a village of skillful and talented artisans to draw upon; 83% of families living in the village are directly involved in the industry. Traditionally, products in Bat Trang were produced and sold by households at local markets, or more recently, sold by collectives. With the advent of *doi moi*, firms now have the opportunity to export and market directly, opening up new possibilities for generating prosperity for family-owned businesses. There are now 30 enterprises and 2,000 households in Bat Trang, many operating as small family businesses, outsourcing production from larger companies. Most

¹ "GDP by Sector," *Vietnam Economic Times*, February 2004, pg. 45.

² Quy Lam. "Entrepreneurs to the Fore," *Vietnam Economic Times*, October 2003, pg. 13.

³ Ibid.

firms are relatively new to marketing and exporting and lack the skills, strategies and contacts to take full advantage of their new access to world markets.

Donor Assistance

In the fall of 2002, the United States Agency for International Development (USAID)-funded Vietnam Competitiveness Initiative (VNCI), implemented by J.E. Austin Associates (JAA), investigated approximately 20 potential industry clusters during the fall of 2002, to provide assistance to during a one-year pilot project. The project uses a cluster approach, which is an informal, supportive grouping of stakeholders from all points in the industry value chain, to help each industry develop and leverage competitive advantages.

At first, Bat Trang was not considered a good choice for a pilot cluster. Bat Trang only produced \$40M in exports in 2002, 60% of which went to European markets. However, the village employs 20,000 people in a single industry, and Bat Trang is typical of more than 2,000 craft villages in Vietnam. Because it is only a 30-minute drive from Hanoi, Bat Trang has recently benefited from increased tourism to Vietnam, as tourists are attracted to the opportunity to see a traditional craft village at work, and to buy world-class ceramics at very competitive prices. Therefore, it was decided that this would be an excellent test case for the cluster model to be applied to rural economic development.

Further, the International Finance Corporation's Mekong Private Sector Development Facility (MPDF) had been working with Bat Trang as part of their effort to assist budding business associations. The Bat Trang Fine Arts Ceramics Association was about to be launched, and they did not yet have an international sponsor or coach to help guide them through their start-up.

Launching a Pilot Cluster

VNCI's intervention began with a fact-finding visit to meet with a number of business leaders who could potentially become champions of the cluster process. The meetings demonstrated that people generally were in favor of receiving USAID-funded development assistance. The village lacked know-how regarding penetrating foreign markets, and desired the sort of business analysis and strategy development that VNCI could provide.

When the villagers were asked about their willingness to cooperate, however, it was quickly discovered that this could be a difficult challenge. On the surface, there were many people in Bat Trang that expressed willingness to work together. More than 30 companies and 200 family producers had agreed to join the fledgling business association. After scratching a bit deeper, however, reluctance emerged to cooperate by sharing information and collaborating on projects that was surprising. When one company leader was asked about his experience with foreign buyers, his reply was "not good." When asked why, he explained that they are too demanding and require bigger orders that they can fill.

An American buyer recently approached a Bat Trang company, but they could only meet 60% of the requirement, so the American buyer went to China to find another source. The company manager was asked if they considered sharing the other 40% with another local Bat Trang firm, or, perhaps giving 20% each to two

other firms. The manager replied very strongly that he would “never” do this because, “I hate my competitors, they would try to steal my customers if I gave them any information about them.”

In spite of such evidence of lack of a cooperative spirit, the new business association’s leadership persuaded VNCI that the business community in Bat Trang would welcome assistance. VNCI scheduled an initial workshop to introduce the project with the assistance of its local counterpart, the Hanoi School of Business (HSB), for November 5th. It was decided to hold the workshop at HSB in order to use their first-rate technology and teaching facilities. This turned out to be a mistake, because only seven people attended, out of approximately 30 that were anticipated. Of those seven, only two were actually Bat Trang business people, the others were members of related and supporting industries or professions in Hanoi. No one from the business association made the journey from Bat Trang.

Rather than give up, VNCI proceeded to give their presentation and share ideas with this small group. From this, two valuable lessons were learned: First, VNCI should have gone to Bat Trang rather than try to bring Bat Trang to Hanoi. Vietnam has been “workshopped and seminared to death,” so it was simply asking too much for the busy Bat Trang people to take several hours out of their schedule to attend a strange-sounding workshop at HSB. The second lesson was that VNCI failed to secure the support of the real leaders of Bat Trang before the workshop was scheduled. The original business association leadership, with whom VNCI made their initial contacts, did not get elected to official association leadership positions. This election occurred two days prior to the workshop. Since the new leadership did not know what VNCI was trying to do, they did not give their support by encouraging their members to attend the workshop. The only people that actually came were those with whom VNCI had already established some level of personal relationship. In a way, VNCI had to start over.

A second big workshop was organized in Bat Trang in early December. Having learned a hard lesson the first time, much more homework was done to determine who should become the cluster champions, key contacts, and other participants for the meetings. VNCI also invited JAA President, Mr. Kevin Murphy, who has led similar initiatives in more than 50 countries, to help run the 45-person meeting. Mr. Murphy told engaging parables to explain the importance of cooperation for achieving success, and provided examples of how similar ceramics clusters were beginning to exploit global markets. He summarized cluster initiatives by saying, “it’s not doing things better, but doing better things.” Mr. Murphy then asked those assembled if they would like to work with VNCI. After the meeting, the association leadership presented VNCI with a formal written request for assistance. One participant came up to a VNCI staff member and said (in Vietnamese), “Thank you for helping to give us a new way of thinking. We understand that we need this more than we need money.”

Bringing in an International Expert

An international expert in ceramics engineering with over 35 years of industry experience in Asia, Europe, and the U.S, was recruited to assist VNCI in their work with Bat Trang. VNCI also recruited a team of HSB MBA students to conduct field

research in early January on the technical skills and capacity of Bat Trang manufacturers, based on questions submitted by the ceramics expert.

In late January, the ceramics expert came to Vietnam to visit stakeholders along the Bat Trang value-chain to further assess the state and needs of the cluster. He visited the Hanoi College of Industrial Design and learned that the key to the ceramics industry in Bat Trang is its traditional ash-glaze and skilled workers. Bat Trang, however, is losing these skilled artisans to better-paying manufacturers in southern Vietnam, and many children are expressing interest in studying other subjects. Everyone VNCCI interviewed said that preserving Bat Trang's heritage was the first priority of the village.

The next day, the ceramics expert had the opportunity to visit one of Bat Trang's most celebrated artisans, Mr. Tran Do, who began working in the industry when he was only 9 years old. The ceramics expert viewed his workshop and was impressed by his production; Mr. Do is able to cast his molds an exceptional number of times per working shift. But the most impressive sight came when the ceramics expert visited Mr. Do's showroom at his house, where he viewed a bright red glaze that the ceramics expert thought was technically impossible. Of his visit to Mr. Do's studio, he said, "I viewed some of the most outstanding pottery/art that I have ever seen."

In the ceramics expert's final trip report, he noted that the "primary need [of Bat Trang] is to reduce defects, especially in export products." Most manufacturers were lacking basic process controls and standardization. Thus, pinholes, caused by an inconsistent temperature in the kiln or under-heating a product, are the major defect in most items. The ceramics expert discovered that some manufacturers under-fire domestic products in order to save energy costs, but sacrificing quality in the meantime. He took samples of raw materials; including gypsum, kaolin, clay, feldspar, and silica; prepared body and glaze materials, and finished products back to the U.S. to analyze the quality of the materials and the safety of the finished products.

The ceramics expert observed that Bat Trang's top quality production is among the highest in the world, but, as the president of the Bat Trang Fine Art Ceramics Association says, 80% of Bat Trang's total output is low quality, which hinders the development of the industry. Some products are sold for as low as 300VND on the domestic market, approximately \$0.02USD!

The discoveries of this fieldwork, and those from the survey conducted by the MBA students, were used to prepare a draft analysis of the current state of the industry. Using GAP Analysis, SWOT Analysis, Benchmarking, and Diamond Analysis, the ceramics expert and two business strategists created a draft menu of possible strategic action initiatives to review with cluster members.

On January 21st, Bat Trang cluster members were again assembled. The meeting featured a variety of inputs, including the ceramics expert's analysis of the cluster and sample action initiatives, and global benchmarking of Bat Trang's products and industry. Perhaps more importantly, the business school approach was limited, allowing the team to engage in a more relationship-focused interaction. For example, Mr. Murphy helped open the meeting by singing an American folk song, "Catch the Wind," and the ceramics expert performed a few magic tricks.

These performances were answered by two Vietnamese songs and an original poem by one of the participants. His poem captured all the key themes of cluster engagement, including building better strategies, cooperation, and active pursuit of the international market.

Developing a Competitiveness Strategy

After the workshop, VNCI turned their attention to developing a comprehensive Competitiveness Strategy for Bat Trang. Results from a diagnostic analysis of the Bat Trang ceramics industry, combined with input from cluster members, helped VNCI to identify five crucial action areas, or zones of cooperation, for improving Bat Trang's competitiveness: marketing, quality improvements, workforce initiatives, research and design linkages, and tourism. A menu of potential action initiatives was developed under each zone for the industry to select for implementation at the appropriate time, and when it could identify the necessary resources and partners for implementation.

VNCI submitted the Competitiveness Strategy to the association leadership at the end of February for their review. A week later, VNCI staff contacted the president of the association to arrange a meeting to discuss the document. She was disappointed when, agreeing to the meeting time, the president of the association told her they disagreed with the Competitiveness Strategy.

The VNCI team was very nervous when they met with the association leadership in early March. The president of the association told them he was impressed with the depth of knowledge VNCI had gained about their village, and was "honored by the ceramics expert's impressions" of their skill. He said that his encouragement had given Bat Trang the confidence to embark on their plan to build the tallest vase in Vietnam. The VNCI staff was pleased to hear the positive feedback, but still nervous to learn the details that made the association leadership unhappy with the Competitiveness Strategy. The president of the association then said, "But there is some disagreement with this document. We need to correct a few dates in the Bat Trang history section."

Action initiatives can be selected by the entire cluster, a sub-cluster, an individual cluster member, or another organization for implementation. After presenting the menu of initiatives to the cluster leadership, the vice-president of the association stood up and declared, "I agree with this strategy. And, the poor tourists shouldn't have to wait. I will open a restaurant with safe food and provide clean toilets next to my workshop." After this meeting, the VNCI team was optimistic about further cooperation, and Bat Trang's interest in thinking strategically about their ceramics industry's long-term, sustainable growth.

Losing Steam

The momentum created by this meeting was interrupted in the spring by SARS. Both MPDF's business association development workshop and a return visit by VNCI's ceramics expert were delayed due to the outbreak. A visit by US MBA students, whom VNCI had asked to conduct a focus group exercise on pricing, was also cancelled. In the meantime, VNCI focused on developing a tourist brochure and village map. The purpose of the brochure was to improve the experience of tourists visiting the village by guiding them to interesting sites and explaining the

history of the village and the styles of ceramics produced there. It was also hoped that the brochure would be a quick way to demonstrate to the village the benefits of cooperation.

The association leadership was disappointed that the ceramics expert's trip had been delayed; they were very impressed with him during his first visit, both with his technical and industry knowledge, and his willingness to get his hands dirty and feel the composition of different materials. In early June, VNCI was finally able to plan for his follow-up trip. The ceramics expert's tasks were four-fold: to provide results of materials he had brought to the US for testing, to conduct small-group consultations with manufacturers on set topics (body mix and glaze, molds and decorations, and kiln technology), to conduct a large workshop on process controls and standardization, and to discuss market positioning.

The first morning after the ceramics expert arrived in Hanoi, he apologized to VNCI staff and explained that he hadn't been able to find any industry colleagues who were willing to conduct free testing on the samples he had collected from Bat Trang during his first visit. Later that morning, he went with VNCI staff to Bat Trang to review his workplan with the leadership of the association. VNCI staff had been asking repeatedly about a possible conflict in the schedule with a workshop conducted by Hanoi University of Technology (HUT) on energy saving on July 3rd. At the meeting, the leadership of the association assured VNCI staff that they would postpone the HUT workshop for the VNCI workshop on process controls, which they said they thought was more important.

On June 30th, the ceramics expert began the first of three days of consultations by meeting with a group of manufacturers interested in body mix. Both the ceramics expert and VNCI staff were surprised at the nature of the questions and the response to the answers. The questions were very technical and the manufacturers showed sincere disappointment whenever the ceramics expert said he would have to research the answers. One VNCI staff member said, "The manufacturers thought an expert with 35 years of experience would know all of the answers to their questions right away."

The ceramics expert was surprised and disappointed that many of the questions were so specific and related to mass-produced Chinese ceramics, which he felt were inferior to the highest quality of the Bat Trang stoneware. Vietnamese had been using hand-made Bat Trang ceramics for generations; the Chinese products were appealing to Vietnamese consumers because their mass-produced look implied modernity and prosperity. Bat Trang's desire to emulate Chinese ceramics was reflected in their questions: "The level of rust in Vietnamese clay is above 2%; in China, they use black clay. What are the good points of this clay? What is the name of the mine in China where it comes from and where is it? Who can we contact to purchase it?"

Although he agreed to respond to all of the questions the best he could, the ceramics expert was dismayed that the questions showed Bat Trang did not aspire to the highest quality Bat Trang products, or to international industry best practice, but to competing solely with China. He and Bat Trang mutually agreed that the third day of consultations on kiln technology should be canceled. The next day, on July 2nd, Bat Trang called VNCI to say that they would hold the HUT workshop on the 3rd and they would like the VNCI workshop to be postponed until

the 4th. On July 3rd, during the HUT workshop, Bat Trang asked to postpone the workshop again, until July 7th. They then asked, “What did you say the topic of the workshop was again?” VNCI told them the workshop was about process controls and standardization. Bat Trang replied, “We don’t think this is urgent, this isn’t our most pressing problem. I don’t want to call 100 people to a workshop if this isn’t very important to them.”

VNCI staff assumed that the leadership of the association was worried about their reputation if they asked people to attend a workshop that they could be as unhappy with as they were with the consultations. With the large workshop canceled, VNCI offered to the ceramics expert that he could return to the US, where he planned to work on answering the questions from the small-group consultations. Despite follow-up from VNCI, these answers were never received.

When the president of JAA facilitated a large cluster meeting in Bat Trang in January, he told the audience “if Bat Trang is like other clusters, you’ll have five or six initiatives under way in the next few months. This will require a few key people working with [VNCI] on these initiatives.” The president of the association, in his closing speech at the end of that meeting, said he would find people for the “initiative teams.” Six months later, the tourist brochure was the only initiative underway; the ceramics expert’s large workshop was canceled, he hadn’t analyzed the quality of materials used in Bat Trang, and the association leadership hadn’t developed any “initiative teams.”

The Brochure Initiative



The outside of the Bat Trang tourist brochure

The day the final draft version of the tourist brochure and map was presented to the association leadership, the VNCI team was very surprised when they were presented with a brochure for a photography exhibition on Bat Trang, scheduled to open two days later in Hanoi. Had VNCI had this information just two weeks earlier, the project could have leveraged effort and media contacts to help the village increase the benefits and exposure of their exhibition. This could have been a great opportunity to reach a large audience and

launch the tourist brochure at the same time.

Fortunately, the association leadership was very pleased with the design and quality of the brochure. Their only changes were a request to include a photo of the tallest vase in Vietnam, to mark its location on the map, and to include a photo of boats on the Red River being loaded to take Bat Trang wares into rural markets. The association leadership agreed that the brochure had to be printed and distributed both in Bat Trang and Hanoi before tourists began arriving in December for the Southeast Asia Games (SEA Games) and the beginning of the high tourist season in Vietnam.

VNCI arranged for the tallest vase in Vietnam to be photographed with its producer that week, but after three weeks of fruitlessly reminding the association

to send the additional photo they wanted included, VNCI decided they had to go to print in order to meet their December deadline.

VNCI staff developed a plan to distribute the brochure to approximately 100 major hotels, travel agencies and other tourism stakeholders in Hanoi and abroad. The administrative assistant for the association was trained in distribution and basic follow-up techniques for future distribution needs, and monitoring the success of this product. Initially, 10,000 copies of the brochure were ordered, but the response, both from the association and tourism stakeholders, was so positive that 17,000 brochures were distributed in December.

The distribution team surveyed a select number of brochure recipients, 100% of whom answered that they would use the brochure to promote tourism to Bat Trang. Approximately half of the survey respondents gave predictions of how much they thought the brochure would impact tourism to the village; the average prediction was a 29% increase. To show their appreciation, the association invited the VNCI team to be guests of honor at their village festival to open the SEA Games.



The inside of the Bat Trang tourist brochure

The Future

In theory, effective clusters result in increased sales, higher profits, and better jobs. After one year, it is just too soon for VNCI to report these results for such a nascent cluster initiative. Building a sustainable cluster can take years of work and coaching, by both internal and external cluster champions. Cluster members often have to begin to see positive results, however large or small, to be convinced of the value of cooperation and persevere with the cluster. Hopefully, arrivals of tourists with the Bat Trang tourist brochure in hand will be one such positive result of clustering.

Two weeks after VNCI was invited to the Bat Trang village festival, the pilot project ended. Start-up activities had begun in the fall for the new, three-year VNCI-II project, which was being implemented by a different contractor. One of these important start-up activities was to decide whether or not VNCI-II would continue working with the three clusters the pilot initiative had engaged. By the time the pilot-project ended, the VNCI-II team had decided to build upon VNCI's work with two other industries, but was undecided whether or not to continue working with Bat Trang.

Questions for Discussion

1. Did the association leadership support the cluster-building work? How could this have been improved?
2. How could VNCI have better dealt with the unwillingness of Bat Trang ceramics producers to cooperate with one another?

3. How could VNCI have better planned the follow-up visit of the ceramics expert?
4. Did the consultant help or hinder the cluster-building process? Did he do what he said he would do?
5. Who was the driving force behind this cluster-building initiative? Was this appropriate?
6. Was VNCI proactive enough in engaging both cluster leadership and members?
7. Was the brochure initiative effective as a “quick-win” to garner enthusiasm for the cluster-building work?
8. Was Bat Trang a good choice for a pilot cluster?
9. If you were the director of VNCI-II, would you continue working with Bat Trang? Why or why not?

About the Authors

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