South-East Asia • Vietnam

Truong Thanh Furniture Corporation: Keep the Earth Always Green

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Sector • Agriculture and Forestry, Consumer goods
Enterprise Class • Large domestic company
Executive Summary

The case study of Truong Thanh Furniture Corporation (TTFC) portrays a business’ contribution to poverty reduction in Vietnam. The evolution of TTFC from a private wood processing workshop to a large corporation is linked to a person who is viewed as the core actor in the company – Mr. Vo Truong Thanh.

Mr. Thanh realized in 1993, after 10 years as officer in a state-owned organization in Dak Lak Province, that poor people have little opportunity to move out of poverty unless jobs are created that produce added income and value. Dak Lak Province was one of the poorest provinces in terms of income and education. Without opportunities, the poor would continue cutting trees and burning forest to get land for cultivation and wood for heating which could not improve their income or living conditions remarkably because the value created from farming cultivation is too low. Mr. Thanh decided to stop working for the state-owned organization and set up his own private business: Truong Thanh Wood Processing Workshop.

A short time after operating, Truong Thanh Enterprise brought positive results in creating jobs and income for poor people and, of course, profits for the business as well. In 2000, however, Mr. Thanh realized the new challenges if operating as a private wood processing workshop. Firstly, the source of wood supply was gradually exhausted and exploring wood from the natural forests was prohibited because of its terrible damage to the environment. Secondly, the markets for exporting Truong Thanh products have expanded and are requesting high quality criteria that Truong Thanh would not meet if it does not invest and change the technology. These requirements were beyond the capacity of a wood processing workshop. To overcome these challenges, Truong Thanh set up plantations to grow forest. Truong Thanh had changed its business model to become a company to raise capital for new investment. After more than 15 years operating, it has quickly developed to become a public corporation and was listed on Ho Chi Minh Stock Exchange in 2008.

Today, Truong Thanh Furniture Corporation (TTFC) is known as a large domestic company which works on growing forests and processing and exporting wooden products in Vietnam. Its products consist of indoor, outdoor, floorings and others, which are mainly exported to markets such as the United States, European Union, Japan, Australia and locally purchased via its distribution agencies across the country.

Truong Thanh has become a large wood processing group in Vietnam with seven subsidiary companies, more than 1,400 employees and a total equity of VND660 billion (US$34 million). The company has experienced high growth during the last 15 years. Its growth and success has considerably contributed to create 6,500 jobs and income for farmers and processing workers.
Introduction

Truong Thanh Furniture Corporation (TTFC) is a Vietnamese business located in Tan Uyen District, Binh Duong Province – a province that experienced fast economic growth rate in recent years thanks to the local government policy of attracting foreign investment and developing industrial zones. TTFC is one of the largest wooden furniture manufacturers in Vietnam with chartered capital of VND200 billion (US$10 million).

TTFC has seven modern-technology factories and over 6,500 employees including wood processing workers and forest farmers. Its main products include indoor furniture, outdoor furniture, floorings and others such as sawn timber, wooden components, etc. 85% of TTFC’s products are exported to foreign markets such as the US, EU, Japan, Australia, and New Zealand. Only 15% of products are sold in domestic markets through its distribution channels.

From its start as a wood processing workshop with about 30 workers in Dak Lak Province in 1993 TTFC acquired the VINAPRIMART factory in 2000 after seven years in operation. TTFC has rapidly developed and expanded its operations to near provinces such as Binh Duong, Ho Chi Minh City and Phu Yen. As a result, TTFC currently has seven modernized factories located in these provinces, the largest one of which is located in Tan Uyen District, Binh Duong Province.

Currently, TTFC has developed into the holding company of Truong Thanh Group including seven subsidies with modern infrastructure, machinery and equipments in accordance with European standards and has become one of the leading wood processing corporations and exporters in Vietnam.

The company has experienced high growth rates over the last 15 years. Its growth and success has created jobs and income for forest farmers and wood processing workers. A large number of poor farmers work part-time for TTFC’s plantations for additional income. Others who are young and have working skills switched from farming to wood processing. This has resulted in significant contribution to poverty reduction in Vietnam.

Markets and Position of TTFC in the wood processing and exporting industry

The main markets of Vietnam’s wood processing industry are abroad. According to statistics by the Ministry of Trade, the export turnover of this industry was about more than US$200 million in 2002. However, the turnover reached almost US$2 billion in 2006, a ten-fold increase after four years. Since 2002, Vietnam’s wooden product exports’ turnover has dramatically increased at an average annual growth rate of 30%. This rate is estimated to continue in the future as the world’s demand for wooden products remains high. Table and figure 1 show the markets of the wood processing and exporting industry of Vietnam in 2005.
and 2006, with the US, EU and Japan being the largest markets. Besides, China, Australia and New Zealand are potential markets.

**Figure 1: Markets of Vietnam wood processing industry in 2006**

Source: General Department of Customs of Vietnam, Statistical Yearbook, 2006

With close to US$2 billion in turnover in 2006 (see table 1), Vietnam’s wood processing industry was ranked in the fourth position in ASEAN countries, after Malaysia, Indonesia and Thailand. The demand for wooden products is estimated to be very high in the future whereas the Vietnam’s market share is only about 0.78% of the world total markets. This is potential for Vietnamese wood processing companies like TTFC.

**Table 1: The markets and turnover of Vietnam wood processing and exporting industry**

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</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>744,083,385</td>
<td>$47,879,657</td>
<td>40.39%</td>
<td>566,968,429</td>
<td>$36,855,859.50</td>
<td>37.85%</td>
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<tr>
<td>EU</td>
<td>491,190,599</td>
<td>$31,606,723</td>
<td>26.66%</td>
<td>445,256,962</td>
<td>$28,943,989.11</td>
<td>29.72%</td>
<td></td>
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<tr>
<td>Japan</td>
<td>286,799,143</td>
<td>$18,454,712</td>
<td>15.57%</td>
<td>240,873,378</td>
<td>$15,658,006.55</td>
<td>16.08%</td>
<td></td>
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</tr>
<tr>
<td>China</td>
<td>94,067,697</td>
<td>$6,052,990</td>
<td>5.11%</td>
<td>60,341,237</td>
<td>$3,922,490.28</td>
<td>4.03%</td>
<td></td>
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</tr>
<tr>
<td>Other Asia</td>
<td>156,205,419</td>
<td>$10,051,376</td>
<td>8.48%</td>
<td>128,581,883</td>
<td>$8,358,482.72</td>
<td>8.58%</td>
<td></td>
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<tr>
<td>Australia and New Zealand</td>
<td>69,987,229</td>
<td>$4,503,480</td>
<td>3.80%</td>
<td>55,912,957</td>
<td>$3,634,629.34</td>
<td>3.73%</td>
<td></td>
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<tr>
<td>Total</td>
<td>1,842,333,472</td>
<td>$118,548,937</td>
<td>100.00%</td>
<td>1,497,934,846</td>
<td>$97,373,457.49</td>
<td>100.00%</td>
<td></td>
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</tbody>
</table>

Source: General Department of Customs of Vietnam, Statistical Yearbook, 2006

According to Vietnam Timber and Forest Product Association, Vietnam has about 2,000 wood processing enterprises, of which 640 (including 240 foreign invested companies and 400 Vietnamese enterprises) export their products to international markets. However, only about 30 Vietnamese firms have capability of international marketing and direct selling to retail chains in the world without the intermediary role of foreign trading companies, and
TTFC is one of these 30 companies. TTFC has been a direct supplier to leading supermarkets such as Carrefour, Metro, Tesco, Cosco and Homebase. In addition, it is a supplier of well-known retail shops such as Alexander Rose, Alinea, Lapeyre and Hartman.

From a small wood processing workshop in 1993, TTFC has impressively developed over 15 years and become one of the leading wood processors and exporters in Vietnam. In 2006, TTFC was ranked in the 12th position among wood processing and exporting companies in Vietnam. In ranking among wood processing and exporting companies owned by Vietnamese, TTFC was in the second position after Cam Ha Corporation (see table 2 below).

Table 2: TTFC’s position in Vietnam wood processing industry, ranked by USD turnover

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership</th>
<th>Turnover (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Scancom Co.Ltd.</td>
<td>Foreign</td>
<td>41,637,887</td>
</tr>
<tr>
<td>2. Green River Wood &amp; Lumber Co. Ltd.</td>
<td>Foreign</td>
<td>40,801,246</td>
</tr>
<tr>
<td>3. Theodore Alexander Co. Ltd.</td>
<td>Foreign</td>
<td>34,591,588</td>
</tr>
<tr>
<td>4. Poh Huat Co. Ltd.</td>
<td>Foreign</td>
<td>34,561,159</td>
</tr>
<tr>
<td>5. San Lim Furniture Co. Ltd.</td>
<td>Foreign</td>
<td>34,126,261</td>
</tr>
<tr>
<td>6. Latitude Tree Co. Ltd.</td>
<td>Foreign</td>
<td>29,844,014</td>
</tr>
<tr>
<td>8. Great Veca Co. Ltd.</td>
<td>Foreign</td>
<td>26,148,977</td>
</tr>
<tr>
<td>10. Cam Ha Corporation</td>
<td>Vietnam</td>
<td>25,223,374</td>
</tr>
<tr>
<td>11. Standard Furniture Co. Ltd.</td>
<td>Foreign</td>
<td>21,023,016</td>
</tr>
<tr>
<td>12. Truong Thanh Furniture Corporation</td>
<td>Vietnam</td>
<td>20,137,930</td>
</tr>
<tr>
<td>13. RK Resources Co. Ltd.</td>
<td>Foreign</td>
<td>19,656,991</td>
</tr>
<tr>
<td>15. Johnson Wood Co. Ltd.</td>
<td>Foreign</td>
<td>18,620,162</td>
</tr>
</tbody>
</table>

Source: The Trade Ministry of Vietnam, 2007

In 2007, after two subsidiary companies had started their operations, TTFC’s turnover has increased remarkably and this led TTFC to the first position among Vietnamese wood manufacturers and the top five in Vietnam after four foreign invested companies. The typical difference of TTFC compared with other wood processing companies is that TTFC links its wood processing activities with forest activities for sustainable growth objectives. With two plantations growing by 15,000 hectares per year, TTFC is ranked at the leading position in the field of forest.

Though having a high position on the export markets, TTFC’s position on the domestic market is not high. TTFC has just started penetrating the local market since 2005. According to the company’s research on domestic consumers, the Truong Thanh brand name is now standing at the sixth position after Taiwan Interior Supermarket, Hoang Anh, Nha Xinh, Nha
Dep and Pho Xinh. Currently, TTFC has 9 distributors and 4 retail shops\(^1\). The company plans to expand and increase its local retail shops to 20 for achieving the objective of raising the domestic market proportion to 30\% in 2010.

Diversified strategy into domestic market can help TTFC to explore the local market and supply high quality furniture products to Vietnamese consumers. The domestic market is now considered a great potential because Vietnam has a population of 85 million people and the income per capita has remarkably increased in the recent years along with the growth of the economy and life condition improvements.

**TTFC’s Evolution and its Operations**

**TTFC’S EVOLUTION**

Originated from a private wood processing workshop, TTFC has impressively developed to become a large corporation with many subsidy companies established over time. After seven years operating as a private workshop, Mr. Thanh realized that wood processing industry had a great potential for development. However, it was hard for his business to expand and develop if operating as a private workshop due to lack of capital for investing in technology, developing raw material zones and penetrating international markets. At that time, his business faced many difficulties such as lack of capital, skill labour, and sustainable sources of raw material. With this thinking, Mr. Thanh decided to change his business into a limited company.

The evolution of TTFC has been characterized through important points of time since 1993 to date, as follows:

- **1993**: Truong Thanh was established as a wood processing private enterprise in Dak Lak Province.
- **2000**: Truong Thanh Furniture Co., Ltd (TTFC) was established as a limited company in Binh Chuan, Thuan An, Binh Duong Province and acquired VINAPRIMART, a 100\% foreign invested company.
- **2001**: For the first time, TTFC participated in international fairs in Singapore, the US, and Japan and approached more than 300 potential importers for starting the direct selling program to leading supermarkets such as Carrefour, Homebase, Castorama, Tesco.
- **2002**: Foreign customers ordered over the capacity, TTFC was established in Thu Duc, Ho Chi Minh City for its expansion.

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\(^1\) In Danang, Nha Trang, Buon Ma Thuot, Dalat, Ho Chi Minh City, Binh Duong, Binh Phuoc, Vung Tau, and Long Xuyen.
• 2003: Truong Thanh Furniture Co., Ltd was equitized and changed its name into Truong Thanh Furniture Corporation. Some key managers were offered the right to buy TTFC’s shares at the face value to become shareholders.

• 2005: Truong Thanh Furniture Co., Ltd in Dak Lak Province was established as a subsidiary company of TTFC.

• 2006: Aureos South East Asia Funds (ASEAF) has invested and become the first foreign shareholder of TTFC. This year, Truong Thanh Ea H’leo Industrial Park Management Joint-stock Company in Dak Lak Province and Truong Thanh Wood Processing Joint-stock Company in Binh Duong Province were established as subsidiary companies of TTFC.

• 2007: TTFC attracted more foreign shareholders to raise the chartered capital to VND150 billion. This year Truong Thanh Youth Joint-stock Company in Phu Yen Province and Truong Thanh Plantation Joint-stock Company in Dak Lak Province were established as subsidiary companies of TTFC.

• 2008: TTFC is selected as one of 30 businesses to participate in the national brand name program. On 18 February 2008, TTFC has been listed on Ho Chi Minh City Stock Exchange (HOSE) and formally became a public holding corporation, known as Truong Thanh Wood Processing Group.

**TTFC’S PRODUCTS AND FINANCIAL MODEL**

Evolution of TTFC over time has quickly changed its business model, financial model and ranges of products. TTFC is committed to sell quality furniture produced with high technology and environmental standards. Currently, the company produces four main ranges of products, including indoor furniture such as tables, chairs, beds, and shelves, outdoor furniture such as tables, chairs, benches, loungers, wine trolley, etc., wooden floorings and wooden timber.

Before 2005, TTFC customers from developed countries such as the US and EU often kept for themselves the exclusive rights to invent and design new products and left mass production to Asian countries. At that time, TTFC’s products were ordered and produced under the designs of its foreign customers because TTFC brand name had not been well-known and TTFC had not clearly known of the foreign customers’ preferences. Realizing that designing and developing bring value added and profits, TTFC invested and spent much money for its research and development of new products. Thanks to such investment since 2006, TTFC can manufacture and sell products under its brand-name and design. Currently, as TTFC has clearly understood the demand and preferences of its customers and the TTFC
brand name has gradually become famous. This not only helps the company save production costs but also helps its designers be more creative and understood the like of customers.

Before 2003, TTFC was a private company financed by the owner’s equity and debts from the banks. However, in Vietnam, it was not easy for a private limited company to get enough capital for expansion because banks themselves lacked sources of capital for lending and they often lend maximum 70% of the investment amount whereas the owner’s equity of a private limited company is not much. With the expansion programs to meet the increased demand of its customers, TTFC has recognized the importance and necessity of financing from the financial markets. The Board of Directors lead by Mr. Vo Truong Thanh and Mr. Ta Van Nam decided to change TTFC into a corporation in 2003. Five years later, TTFC has gone public and has become a public corporation listed on the Ho Chi Minh City Stock Exchange (HOSE). At the moment, TTFC can finance its operations from the capital markets through issuing bonds and stocks to mobilize capital. Although it continues to use debts from banks, but operating as a public corporation, it is easier for TTFC to raise equity from shareholders’ contribution. Thanks to raising equity, TTFC can borrow much more from banks.

**TTFC MISSIONS AND OBJECTIVES**

TTFC was set up in 1993 with the clear mission to provide good quality products, competitive prices, on-time delivery, innovation and good services. To deliver products with competitive prices as promised, TTFC set up two plantations in Vietnam. This allows TTFC to have better control over sources of material supply. The small trees are used to make particleboards and the large logs to produce furniture. TTFC also staggers the trees growth in order to have a stable and sustainable supply of raw materials. Truong Thanh indeed recognizes the importance of preserving and enhancing the environment as these actions ultimately affect the health, safety and welfare of their customers, employees and the surrounding communities.

When asked about the objectives of TTFC, Mr. Vo Truong Thanh does not hesitate to reveal its ambitious objectives:

- To become one of the 3 highest revenue wood processing and exporting companies in Vietnam and ASEAN
- To become one of 3 leading brand names on the domestic markets
- To become one of 3 largest forest growing companies in ASEAN in 2015
- To achieve the growth rate of 20% in revenue and 30% in net income
- To achieve an EPS of VND3,000 annually

**VALUE CREATION**

TTFC brings the value to forest farmers and wood processing workers through creating jobs and income. In terms of society, its objectives are to create jobs and income for forest farmers and wood processing workers. These objectives are stated in TTF’s prospectus and often remarked in its annual reports. Creating jobs and income for the poor contribute to poverty reduction in rural provinces such as Dak Lak, Phu Yen and Binh Duong. In addition to supplying raw materials sustainably, growing forests helps TTFC to achieve the objectives of
environment improvement. The slogan: “Keep the Earth Always Green” shows TTFC’s awareness of environment protection.

The company creates and distributes its value among stakeholders including forest farmers, wood processing workers and shareholders. Farmers working at the plantations grow forests and sell raw wood to the company. The company buys raw materials from forest farmers and import from other countries to produce wooden products. By 2008, 70% of raw materials were imported from South Africa, Brazil, Uruguay, Ghana, Togo, Myanmar, New Zealand. The rest was supplied by forest farmers. Farmers are distributed value in the form of income from selling raw wood. However, TTFC plans to reduce the proportion of imported raw materials to 20% in 2015 by developing its projects of growing forests. This means that jobs and income of forest farmers will be increased.

TTFC uses raw materials imported and bought from farmers to produce wooden products. Its products are then exported to international markets. The processing workers and management are distributed value in the form of salaries and the shareholders are distributed value in the form of dividends. By processing and exporting products to the international markets, TTFC creates additional value for wooden products, and then brings additional income for the poor people, thus helping them to move above the poverty line.

CONSTRAINTS AND OPPORTUNITIES

When asked about business constraints, Mr. Vo Truong Thanh does not hesitate to reveal that the company has been facing too many issues related to market, regulation, and knowledge of farmers and workers.

- **Markets**: TTFC’s key markets include the US, EU, Japan, and Australia. However, in 2007 and 2008, there was significant decline in demand from key exporting markets of TTFC as a result of the global financial crisis, trade problems, high fuel costs, and changes in exchange rates. To reduce the negative impacts of decline in demand by international markets, TTFC has recently penetrated the local markets. With a large population of 85 million people, the domestic market has high potential. However, it is not easy for TTFC to penetrate the domestic markets. Firstly, the brand names of TTFC are not as strong as other brand names such as Hoang Anh, Nha Xinh, Nha Dep and Pho Xinh because TTFC’s products are mainly designed and produced for export markets. Secondly, TTFC’s products are of high quality but are too expensive for low-income consumers.

- **Regulation**: The company has some commitments and its production is dependent upon the government policies. Changes in policies of growing and exploiting forest, importing wood materials are also the important constraints. For example, the government may increase tax rates or apply quota policy on imported wood raw materials. To overcome these constraints, TTFC has engaged with several provincial governments to reduce the concentration risk inherent if only working with one single local government. Priority should be given to provinces that demonstrate strong commitment and evidence of sound enabling environment.
• **Labour knowledge:** Although Vietnam has a young and large labour force, the quality of labour measured in terms of knowledge and working skills is not very high. This has affected TTFC’s production adversely. To overcome these constraints, TTFC usually offers technical courses and training to its processing workers. For example, young and strong people from farmer households are recruited and trained to directly work in TTFC’s workshops such as logs, timber, grading, air-drying, kiln-drying, rough milling, shaping, assembling, sanding, oiling and coasting. On the other hand, TTFC selects candidates from its engineers or managers and offer them scholarship for higher education abroad. These candidates are committed to come back and work as key engineers and managers for TTFC in the future.

<table>
<thead>
<tr>
<th>Education</th>
<th>Managers</th>
<th>Indirect employees</th>
<th>Direct employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctor</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Master</td>
<td>17</td>
<td>13</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Bachelor</td>
<td>55</td>
<td>205</td>
<td>59</td>
<td>319</td>
</tr>
<tr>
<td>High school</td>
<td>-</td>
<td>-</td>
<td>1,063</td>
<td>1,063</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73</strong></td>
<td><strong>218</strong></td>
<td><strong>1,122</strong></td>
<td><strong>1,413</strong></td>
</tr>
</tbody>
</table>

*Source: TTFC Annual Report, 2008*

### The TTFC and its Relationships

The critical actors that shaped the business include forest farmers, wood processing workers and key managers led by Mr. Thanh. At the end of 2008, TTFC had about 1,413 employees, including key managers, indirect and direct employees. The indirect employees are staffs who are employed to work at the office or management department whereas the direct employees are workers who are employed to work at processing workshops or plantations. Table 3 above shows the number of employees categorized in terms of their education and role. In addition, there are about over 5,000 poor farmers who work as forest farmers or workers at TTFC’s plantations. Most forest workers working for plantations are ethnic minorities or unskilled labour. It is very hard for these people to find a job except for work at TTFC’s plantations as forest workers.

TTFC creates jobs and income for forest farmers and wood processing workers. TTFC’s success or failure affects their interests. The shareholders and Board of Directors represented by Mr. Thanh have benefited from the success of the company. At present, Mr. Thanh leads a team of 3 key managers known as deputy directors.

Mr. Thanh is the founder, Chairman and General Director of TTFC. With his excellent knowledge of wood processing industry and 25-years of experience in running and managing the wood processing business, Mr. Thanh plays a very important role in the success of TTFC. He is not only an excellent director but also a good policymaker. During the interview, Mr.
Thanh revealed that he often has policies that encourage other actors’ efforts to work for the success of TTFC.

Such policy of encouraging farmers in growing and protecting forests is one of the interesting approaches presented by Mr. Thanh. This policy helps the company to achieve many different objectives. Firstly, the company may ensure a sustainable source of material supply at the same time to create jobs and income for forest farmers. Thanks to this policy, farmers in Dak Lak Province may have an additional income of VND1.5 to 2 million (US$77 to US$103) per month. This has contributed remarkably to poverty reduction in rural areas of Vietnam. Secondly, this policy helps the company to gradually replace the imported source of material with supply from the natural forest, which is estimated to be replaced by the cheap source of material supply from the growing forest in the future. With 15,000 hectares of growing forest today and up to 100,000 hectares in the future, TTFC itself may meet 30% of its demand for wood raw materials now and 50% in the coming years. Lastly, with this policy TTFC has made a significant contribution to recovering forests and improving the environment in Vietnam. Additionally, this creates a good image of TTFC as a business with responsibility and awareness of environmental protection. It also helps the company to achieve the quality certificate to export TTFC’s products to the EU markets.

In addition, Mr. Thanh has encouraged talented employees to work hard and to contribute their knowledge and management skills for the development of TTFC. This approach has been applied since TTFC changed into a corporation from a private enterprise. In 2003 and in 2008, Mr. Vo Truong Thanh offered the right for key managers to buy TTFC shares at the face value while TTFC’s market value is higher. This policy changed their role from the key managers to become shareholders, which contributed for them to help TTFC succeed because the success of TTFC benefits themselves in turn. This policy may be considered a differentiation of TTFC compared with other companies in the wood processing industry in Vietnam.

Besides Mr. Thanh, there are some other key actors who have contributed to the success of TTFC remarkably. Mr. Ta Van Nam is one of the key managers. He is not only the First Deputy General Director but also considered one of the founders of TTFC. Mr. Vo Van Huy and Ms. Ngo Thi Hong Thu are the key managers with high education and good management skills. To encourage these key managers’ highest efforts, the company has used options as a bonus policy for the key managers who have made important contributions. This is an effective tool to solve the ‘agent problem’ or conflict of interest between key managers and shareholders of TTFC. For this policy, TTFC offers the options to its key managers. The key managers have the right to buy TTFC shares at the predetermined price or exercised price. Their benefits are the difference between the market price and exercised price. Therefore, they make effort to run the company so that the market price is always higher than the exercised price. This has also benefited the shareholders because the market value of the firm is maximized.
In addition to the key managers, forest farmers and wood processing workers are the key to the success or failure of TTFC. The company encourages poor farmers in Dak Lak province to participate in growing and/or caring for the forest. Those farmers who have land may use their land to grow forest. They may borrow from the company for their initial investments. After 5–7 years the forest is harvested and farmers may sell raw woods to the company. Currently, TTFC has 15,000 hectares of forest planted per year and its objective is to expand to 100,000 hectare in 2015. The forest farmers may earn about VND20 million (US$1026) for each hectare per year. This helps the farmers increase their income. As a result, they may move out of poverty. Those farmers who do not have land may work as forest workers. TTFC has two plantations at which poor farmers can work as workers to grow and care for forests. They may work part-time to earn additional income. TTFC pays them about VND 60,000 (US$3) per working day. With the additional earnings, their income can increase and they may move above the poverty line.

Other farmers who are not interested in working at TTFC plantations can work as wood processing workers in TTFC factories. Currently, TTFC have seven factories which can create jobs for over 1,000 workers. With a population of 85 million, Vietnam is considered a country with low cost labour and a surplus labour force. However, according to Mr. Thanh, Vietnam is facing the dilemma of labour force surplus whereas businesses like TTFC remain challenged by a lack of skilled labour. To resolve this issue, TTFC received support from other actors. These actors include the German Technical Corporation (GTZ) and the Royal Danish Government. The German Technical Corporation sponsors 50% of the training centre costs. The Royal Danish Government provides technical assistance in training and sponsors via the Private Sector Development Program (PSD). Thanks to the training centre, workers who are from poor families are trained the proper skills to work as wood processing workers at the TTFC factories which employ about 2,000 workers paying an average monthly income of VND2.5 million.

2 Including workers at TTFC’s subsidiaries
Results Created by TTFC

Originally a private wood processing workshop in 1993, TTFC has quickly become a leading wood processing and exporting company in Vietnam. After over 15 years operating in the wood processing industry, TTFC has achieved economic, social, and environmental results. The critical actors including key managers, forest farmers and wood processing workers have positively contributed in achieving results, which have helped to reduce poverty.

**ECONOMIC RESULTS**

In terms of economic results, TTFC has achieved a strong increase in revenues and profits. Thanks to this, the size of the company measured by total assets, total owner’s equity has increased remarkably. Table 4 shows the financial results of TTFC over the last three years. In 2008, pre-tax and after-tax profits of TTFC went down as compared with 2007 due to the global economic crisis. Nevertheless, its revenue, total assets, and owner’s equity remained increasing. Although the 2008 performance was not good because the global crisis strongly affected the demand for TTFC’s products from the main markets such as the US, EU and...
Japan, TTFC believes that the results of 2009 will be improved as the state of Vietnam’s and the global economy will have gradually overcome the crisis.

Table 4: Economic results of TTFC during the years 2006 – 2008 (Unit: VND million)\(^1\)

<table>
<thead>
<tr>
<th>Items</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td></td>
<td>VDN</td>
<td>US$</td>
<td>VDN</td>
</tr>
<tr>
<td>Total assets</td>
<td>489,658</td>
<td>31,421</td>
<td>1,373,330</td>
</tr>
<tr>
<td>Current assets</td>
<td>429,265</td>
<td>27,546</td>
<td>997,994</td>
</tr>
<tr>
<td>Long-term assets</td>
<td>60,393</td>
<td>3,875</td>
<td>375,336</td>
</tr>
<tr>
<td>Liabilities and owner's equity</td>
<td>489,658</td>
<td>31,421</td>
<td>1,373,330</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>413,573</td>
<td>26,539</td>
<td>687,651</td>
</tr>
<tr>
<td>Long-term debts</td>
<td>15,665</td>
<td>1,005</td>
<td>15,665</td>
</tr>
<tr>
<td>Owner's equity</td>
<td>60,420</td>
<td>3,877</td>
<td>670,014</td>
</tr>
<tr>
<td>Net sales</td>
<td>325,102</td>
<td>20,862</td>
<td>611,276</td>
</tr>
<tr>
<td>Operating profits</td>
<td>22,549</td>
<td>1,447</td>
<td>54,353</td>
</tr>
<tr>
<td>Pre-tax profits</td>
<td>22,861</td>
<td>1,467</td>
<td>58,303</td>
</tr>
<tr>
<td>After tax profits</td>
<td>22,701</td>
<td>1,457</td>
<td>56,029</td>
</tr>
</tbody>
</table>

Source: TTFC Annual Reports, 2006-2008

SOCIAL RESULTS
Development and economic results of TTFC have significantly affected the social life of the rural provinces where TTFC’s factories or plantations are located. TTFC’s establishment and operation have created a great opportunity for the poor people to move out of poverty by working as wood processing workers or forest farmers for TTFC. To date, TTFC employs more than 1,400 employees with the monthly average income of VND2.5 million or US$128. In addition, it creates jobs in growing forest for more than 5,000 poor farmers with additional income of VND 60,000 or US$3 per day. Such social results have moved more than 6,000 people out of poverty. Household incomes have been increased and, as a result, their living conditions such as healthcare, childcare, housing and education have improved.

ENVIRONMENTAL RESULTS
With high awareness of environmental protection and improvement, TTFC asks its subsidiaries and stakeholders, especially farmers, to keep the earth always green. This philosophy is selected as the slogan of the company. The awareness of environmental empowerment and improvement for sustainable development has originated from experience participating in the global wood exporting markets. Understanding that the source of raw wood supply from the natural forest is limited and environmental protection is so important, TTFC has increased its areas of growing forest from thousands of hectare to hundred-
thousands of hectares. Growing forest, exploiting and re-growing are the great ways that help TTFC to create and combine benefits for all: the business, poor people and the environment.

**GROWTH STRATEGY AND FUTURE OUTLOOK**

At the annual shareholders meeting, TTFC always emphasizes the company’s vision of achieving a leading position in the expanding forest and wood processing industry in Vietnam and ASEAN countries. In the annual report of 2008, TTFC indicates three long term strategic objectives of the company. The first strategic objective in the long run is to become a diversified business and manufacturing group, known as a multi-industry group, with operations including wooden product processing and exporting, growing and harvesting forests, building; leasing; and managing industrial zones, and real estates. However, TTFC remains using 70% of its resources for wood processing and forest growing, the core business activities of the company. TTFC plans to plant up to 100,000 hectares of forests in Vietnam. After 4 years of planting, TTFC can have the first harvest and use small trees to produce MDF and particle board. The second and third harvests are planned in year 8 and year 12. Therefore, after 2016, TTFC can supply between 500,000 and 1,000,000 cubic meters of wood. The second objective is to list TTFC shares on the international stock markets. This objective helps TTFC to mobilize huge sources of capital for expanding its operations and achieving its long term objectives. The last objective is to build up the TTFC brand name to become internationally recognized.

According to Mr. Thanh, to achieve these objectives, TTFC follows a low cost but high quality strategy. TTFC’s low cost strategy is based on implementing local comparative advantages which are its strong points in terms of using low cost labour, domestic sources of raw material supply from forest planted by its plantations, and benefiting from encouraging government policies for businesses having forest growing operations.

TTFC’s high quality strategy is based on its strong assets in technology investment, R&D and building up its strong brand name on the international markets. At present, TTFC has many of the state-of-the-art machines and equipments in Vietnam. These machines and equipments were imported from technologically advanced countries such as Italy, Germany, and Japan. These modern machines and equipments help TTFC to manufacture the products with high quality and lower the ratio of wasted raw materials.

To achieve these objectives, TTFC must overcome a number of challenges. The negative effect from the global economic crisis is the first challenge. The economic crisis caused the demand for high quality furniture products to strongly decline and this affects job creation and income improvements for poor farmers and processing workers remarkably. Nevertheless, TTFC expects that the crisis will be over soon. However, when the crisis is over, TTFC may face a new challenge which is often followed after the crisis, that is a lack of skilled labour forces and experienced managers.
References

INTERVIEWS
Mr. Vo Truong Thanh, Founder and General Director, Truong Thanh Furniture Corporation

PUBLICATIONS
General Department of Customs of Vietnam, Statistical Yearbook, 2006,
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WEBSITES
www.truongthanh.com.vn
Annexes

Annex 1: Organizational structure of TTFC

TRUONG THANH FURNITURE CORPORATION

Wood Processing

Truong Thanh Incorporated Company
Truong Thanh Furniture Incorporated Company
Truong Thanh Furniture Co., Ltd
Truong Thanh Wood Processing Joint-Stock Company

Others

Truong Thanh – Eah’leo Industrial Park Management Joint-stock Company
Truong Thanh Youth Joint-stock Company
Truong Thanh Plantation Joint-stock Company
Annex 2: Managerial structure of TTFC

General Meeting of Shareholders

Board of Supervisory

Board of Directors

Secretary to the Board of Directors

Board of Investors Relation

General Director

Board of Assistants and Secretaries

Board of Internal Auditors

Deputy General Director 1

Production Depart.

Deputy General Director 2

Planning & Wood Depart.

Deputy General Director 3

Informatics Depart.

Deputy General Director 4

ERP Project Depart.

Deputy General Director 5

Sale & Marketing Depart.

ISO Depart.

Technical & Designing Depart.

Purchasing & Supply Depart.

Import & Export Depart.

Training Depart.

C.o.C Depart.

Accounting & Finance Depart.

Admin & Human Resource Depart.

Co-operation Depart.
The case was completed in December 2010 and released in 2011.

The information presented in this case study has been reviewed by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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