

Retail in Vietnam
Emerging market,
emerging growth



Summary



With increasing disposable incomes, rapid urbanisation and rising living standards, Vietnam is one of the most dynamic emerging economies in the Southeast Asia region. Retailers, in particular, have also been drawn by its relatively young population of consumers – of which 70% are aged between 15 and 64 years – who promise to be a key driver of robust market growth.

Potential aside, the retail sector has also demonstrated a resilience that, in today's turbulent environment, is highly prized. Despite the recent global economic slowdown, Vietnam's retail market grew at a healthy double-digit rate of approximately 10% year-on-year in 2013, beating the neighbouring economies of Malaysia (7%), Philippines (7%), Singapore (3%) and Thailand (1%)¹.

In this report, we will present the latest market intelligence and industry trends to enable you to identify and capitalise on the opportunities to succeed in the Vietnam retail sector.

¹ Economist Intelligence Unit

Overview of Vietnam's retail sector



Seven years after joining the World Trade Organisation (WTO), Vietnam has emerged as one of the most attractive retail markets in the world. Many international retail groups have entered the market, providing greater choices for consumers whilst creating intense competitive challenges for domestic players.

Vietnam's stable economic growth rate and population size of approximately 90 million people² provide an attractive backdrop for development of the retail industry. A relatively young population, coupled with rising income levels, increased urbanisation, and an attractive business environment supported by lower trade barriers and reduced corporate tax rates, have enhanced Vietnam's position as a high potential growth market³.

As the industry continues to embrace the wider international community, multinational retail groups have taken active steps to penetrate the market. Meanwhile, domestic retailers appear to have lagged in capturing the first-mover advantage and some have gradually lost market share to foreign groups. Although they still retain the upper hand at this stage, these domestic players will need to brace themselves for the competition which is likely to only become even more intense.

Table 1: SWOT analysis of Vietnam's retail market

Strengths	Weaknesses
<ul style="list-style-type: none"> • Preference for foreign brands as consumers perceive them to be of better quality and hygiene standards • Modern trade formats thriving in urban areas 	<ul style="list-style-type: none"> • Fledgling retail infrastructure, including distribution networks and logistics • Lack of modern trade outlets in second-tier cities • Expensive prime retail space, especially in first-tier cities • Limited options for developers in tenant mix agreements due to lack of branded retail chains
Opportunities	Threats
<ul style="list-style-type: none"> • Opening up of sector to foreign ownership by government • Burgeoning and aspirational middle class • Relatively young population with increasing disposable income 	<ul style="list-style-type: none"> • Relatively low levels of GDP per capita may indicate lack of purchasing power • High inflation rates contribute to higher costs of living and may lead to belt-tightening measures by consumers • Trade barriers may make the entrance and expansion of foreign retailers more difficult

² Economist Intelligence Unit

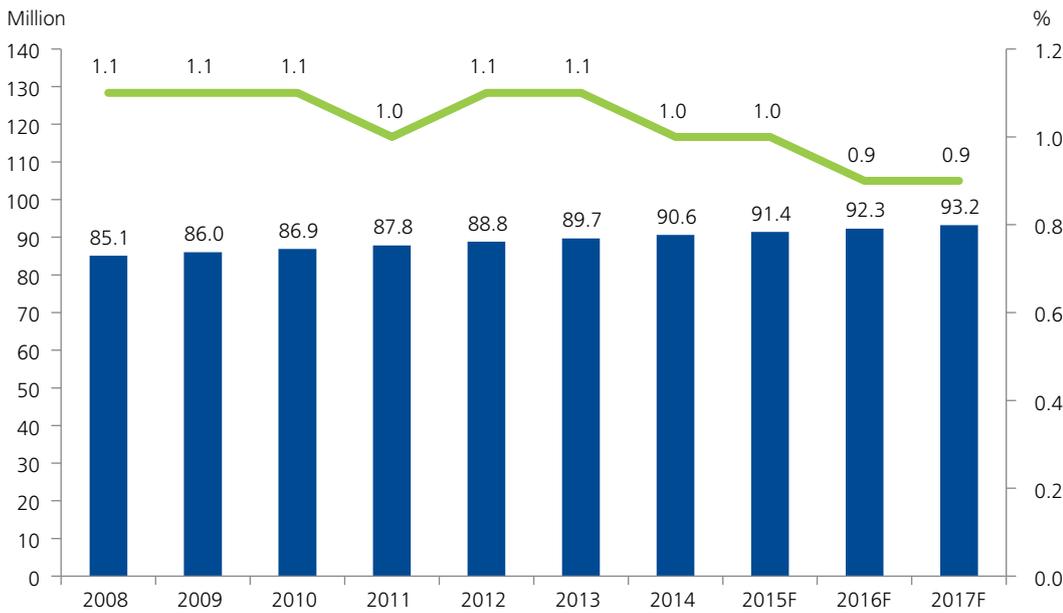
³ Vietnam ranked 28th in the 2014 Global Retail Development Index published by A.T. Kearney, which identifies the top 30 developing countries for retail investment.

The driving forces

Population

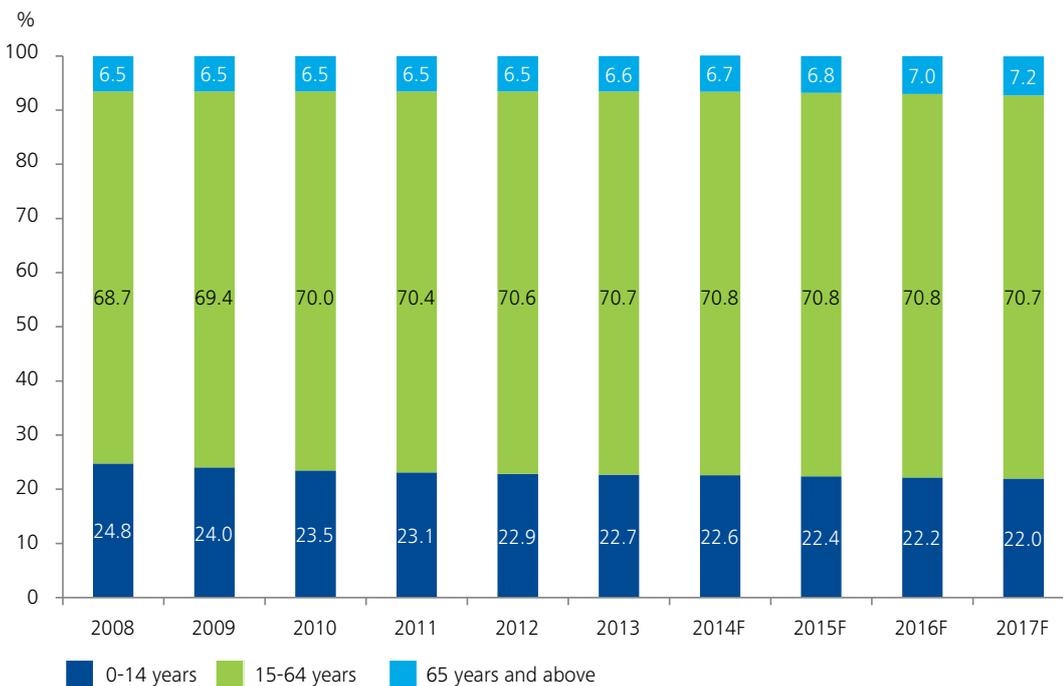
Vietnam's population of approximately 90 million⁴ (see Figure 1) is the main driver of growth in the retail market. 70% of the population is currently aged between 15 and 64 years, and this is projected to continue to increase by 2017⁵ (see Figure 2). This will spur the demand for greater choice in products, brands, and product categories.

Figure 1: Vietnam's total population and population growth rate, 2008-2017F



Source: Economist Intelligence Unit

Figure 2: Vietnam's demographic breakdown



Source: Economist Intelligence Unit

4 Economist Intelligence Unit

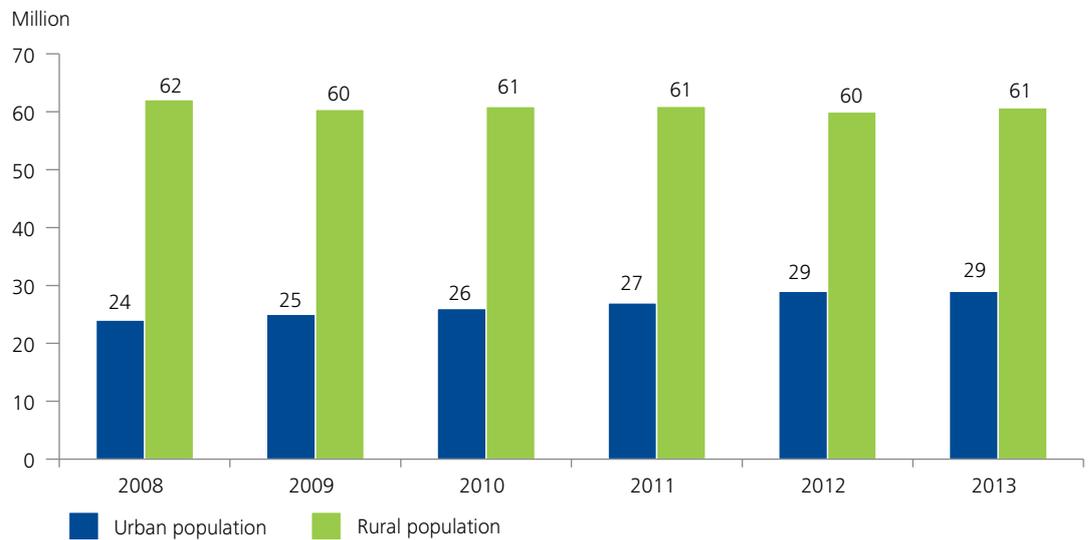
5 Economist Intelligence Unit

Urbanisation

In 2013, 32% of Vietnam's population was concentrated in cities. In absolute terms, this represented an increase of approximately 5 million or 21% since 2008 (see Figure 3). According to a draft national urban development programme proposed by the Ministry of Construction, Vietnam is expected to achieve an urbanisation rate of 38% with 870 urban areas by 2015. This is expected to increase to 45% with nearly 940 urban areas by 2020.

Most modern trade players focus initially on setting up in urban areas, such as in and around Hanoi and Ho Chi Minh City, making access to such modern retail formats easier for the urban population than for their rural counterparts. With increasing urbanisation, the modern retailer will soon have greater opportunities to extend its reach into previously untapped markets.

Figure 3: Vietnam's urban and rural populations, 2008-2013



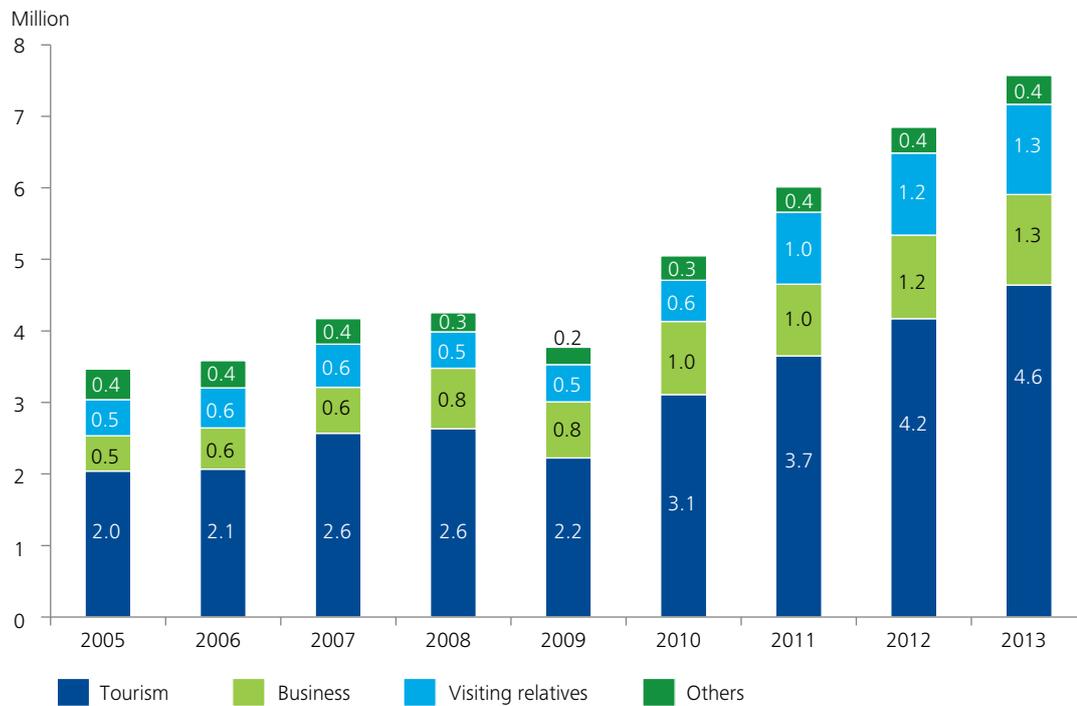
Source: Vietnam General Statistics Office

Tourism

Global and regional integration has not only enabled Vietnam to achieve economic success, but also to attract a greater number of international tourists. Tourist arrivals in Vietnam have more than doubled between 2005 and 2013, reaching more than 7.5 million tourists in 2013⁶ (see Figure 4).

As part of its plan to promote economic development, the government has also earmarked the tourism industry as one of the key drivers of growth for the retail market, as an increase in the number of tourists will provide a boost to the local retail sector. An increasingly international tourist consumer base – coupled with the growing sophistication and rising disposable incomes of the local populace – will provide favourable conditions for the entry of international retail groups, especially in the first-tier cities such as Hanoi and Ho Chi Minh City.

Figure 4: Number of international tourists, 2005-2013

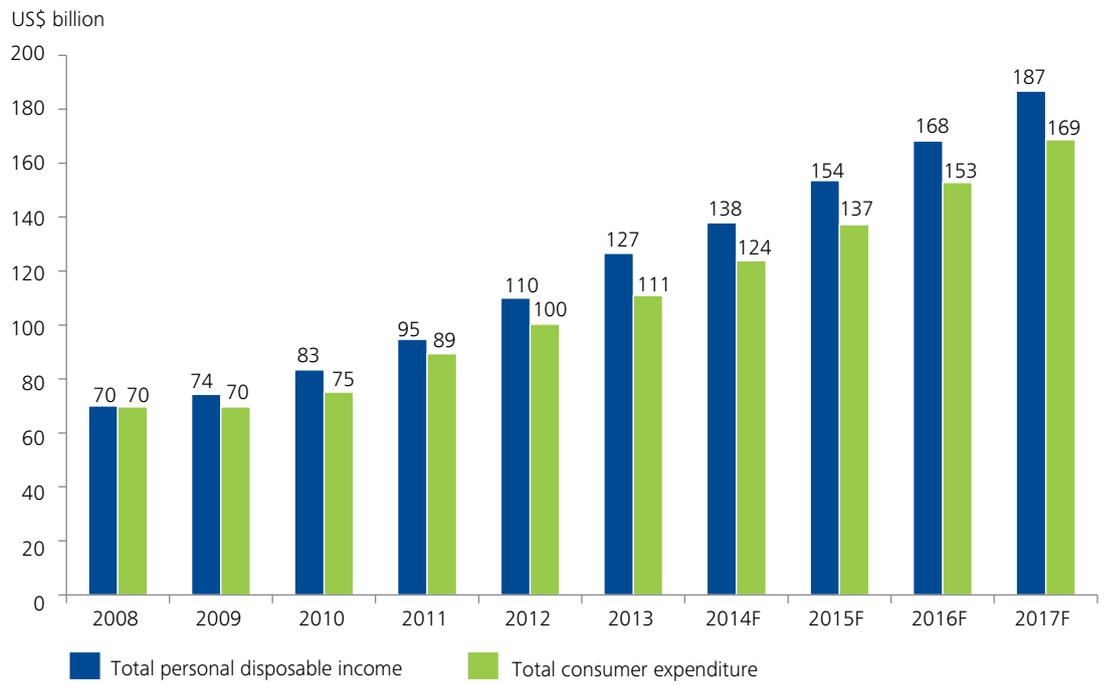


Source: Vietnam General Statistics Office

Income and purchasing power

Disposable income in Vietnam has increased significantly in the last decade, and is expected to continue to grow, on the back of the government's reform policy to open the Vietnamese market to foreign investment. Since then, Vietnam has evolved into a middle-income country with a total personal disposable income of US\$127 billion and total consumer expenditures of US\$111 billion in 2013 (see Figure 5). This increase in income will likely lead to a subsequent rise in purchasing power and growth in consumer retail spending.

Figure 5: Vietnam's total personal disposable income and total household consumption, 2008-2017F



Source: Economist Intelligence Unit

Legal policies

Although the government continues to exercise control over retailing, the sector has been liberalised under the conditions of Vietnam's membership under WTO and other trade agreements. Nevertheless, any given change in the regulations and/or policies of the government with regard to the retail sector will bring both opportunities and challenges to retailers.

WTO membership

Foreign investors have been allowed to own 49% of capital in joint ventures since 2008. In early 2009, fully foreign-owned companies could also be established and were allowed to operate in the market independently, leading to the entrance of many foreign retail outlets. In addition, under the WTO agreement, Vietnam will allow foreign retailers to set up businesses with 100% foreign capital from January 2015.

With their rich experience, abundant capital and structured modern operating methods, international retail groups have gained increasing popularity in the market and brought on intense competition for the domestic retailers, pressuring the latter to modernise in order to contend with the new players.

Trans-Pacific Partnership (TPP)

Vietnam is currently undergoing negotiation to participate in the Trans-Pacific Partnership (TPP). Should Vietnam participate, competition between domestic and foreign retailers will likely take place on a more equal footing. In addition, Vietnam is expected to experience an influx of retailers from Japan, South Korea and Thailand. Large developers, such as AEON Mall, Central Group, and CJ Group, have expressed great interest, gradually expanding their presence and announcing long-term plans for the market.

Other regional Free Trade Agreements (FTAs)

Vietnam has participated in a number of FTAs such as the ASEAN-China Free Trade Agreement, ASEAN-Korea Free Trade Agreement, ASEAN-Japan Comprehensive Economic Partners, ASEAN- Australia-New Zealand Free Trade Agreement, and Vietnam-Japan Economic Partner Agreement, which may impact the Vietnam retail market due to tariff commitments, for example, when companies are allowed to take advantage of lower or zero tariff rates. This arrangement allows companies to manufacture goods in Vietnam and export them to neighbouring countries where manufacturing costs would have been higher.

Economic Needs Test (ENT)

Currently, a foreign retailer must obtain a business licence, which entitles it to open a single retail outlet. Opening additional outlets will subject it to the ENT. During the ENT process, the licencing authority will examine the compatibility of the project with the population density, number of retail outlets and market stability in the district, as well as the district's Master Plan and scale.

However, as of June 2013, a change via Circular 08/2013/TT-BCT provided an ENT exemption for foreign investors looking to establish additional retail outlets of 500 square metres or less in an approved area and completed infrastructure. Whilst foreign investors are still required to obtain a business licence for additional retail outlets, the latest Circular provides a great improvement in the process and is a significant development in attracting foreign investors.

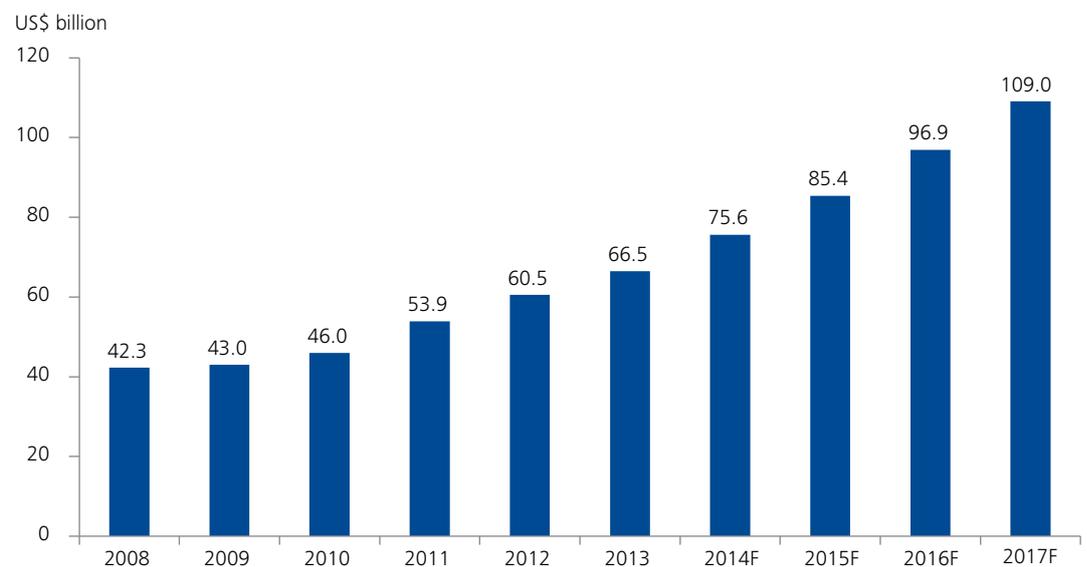
Current performance



Retail sales

Vietnam's retail market is characterised as being one of the most dynamic markets in the region with high annual growth rates. Hanoi and Ho Chi Minh City have been ranked amongst the top 10 Asian cities for retail expansion in 2014. Most notably, Hanoi was also ranked third after Beijing and Shanghai as the city with the liveliest retail market in the region⁷. Over the last few years, Vietnam's retail sector has also witnessed healthy growth rates, with retail sales growing by 60% from 2009-2013, and forecasted to reach US\$109 billion in 2017 (see Figure 6).

Figure 6: Vietnam's retail sales, 2008-2017F



Source: Economist Intelligence Unit

7 The Liveliness of Retail Markets in Asia-Pacific 2014, CBRE

In a recent survey, a third of retailers expressed an intention to open stores in Vietnam in 2014, a figure on par with Hong Kong and Singapore, the traditional gateways to the Asian retail market⁸. This sentiment is likely to continue with Vietnam's WTO commitments to completely open the retail market to foreign organisations in 2015. This will likely create a more intense competitive environment and further boost market development. Recent substantial investments and expansion plans by local and foreign retailers further underline the appeal of Vietnam's retail market, as seen in Table 2 below.

Table 2: Recent major entrants, expansions and potential entrants

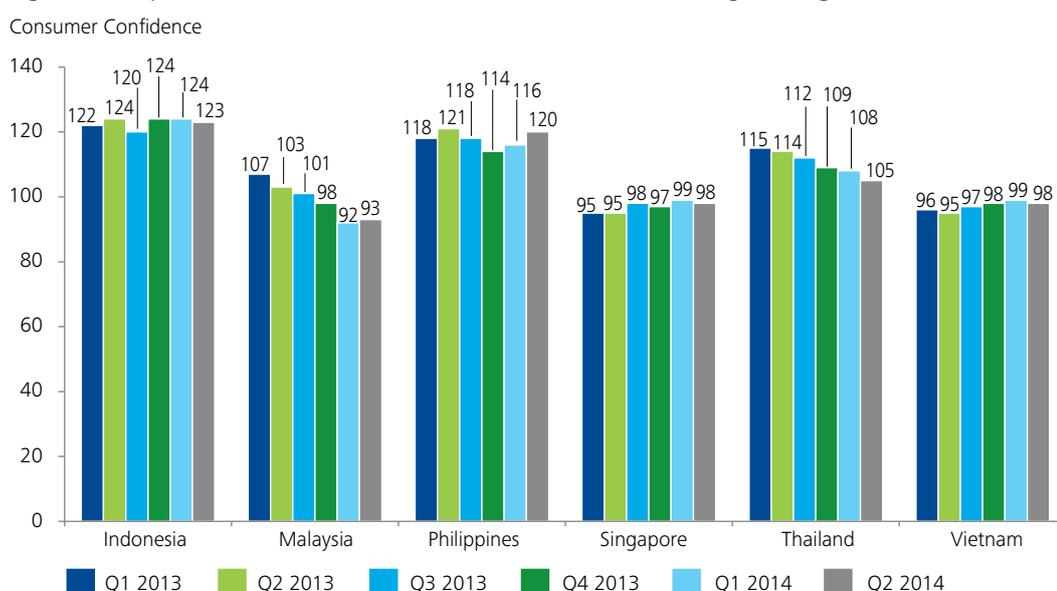
	New entrants	Expansions	Potential entrants
Shopping centres	AEON, SC Vivo City, Takashimaya	Big C, Citimart, Co.opmart, Fivimart, Lotte Mart, Maximark	Carrefour, Tesco Lotus, Walmart
Retailers	Banana Republic, Central Group, Christian Dior, Ermenegildo Zegna, Hermès, Payless ShoeSource, Springfield, Topshop	Baskin-Robbins, Mango (Mango He and Mango Touch), Parkson	Auchan, 7-Eleven

Source: Cushman & Wakefield Vietnam, 2013

Consumer confidence

Vietnam's Consumer Confidence Index (CCI) improved gradually after the recession, reaching 98 points in the fourth quarter of 2013 – its highest level in the last two years⁹. For the first two quarters of 2014, Vietnam's CCI remained well above the average global consumer confidence level, despite dropping one point in Q2 2014 from Q1 2014. Relative to neighbouring countries, Vietnam recorded an index rise in the last two quarters of 2013, second only to Indonesia, while other regional peers experienced a reduction over the same period (see Figure 7).

Figure 7: Comparison of Vietnam's Consumer Confidence Index with neighbouring countries



Source: Nielsen

Despite the positive outlook, Vietnamese consumers remain prudent with their spending. 85% of consumers have changed their spending habits to save on household expenses. In particular, spending on new clothes and entertainment outside the home are the first items to be foregone, followed by more careful use of gas and electricity¹⁰.

⁸ How active are retailers in Asia Pacific? 2014 edition, CBRE

⁹ Global Survey of Consumer Confidence and Spending, Nielsen

¹⁰ Political instability and rising food prices cause confidence levels to dip in many Southeast Asia markets in Q2 2014, Nielsen

Consumer behaviour patterns

The Vietnamese consumer is prudent, preferring to save rather than spend. While the last few years have seen a greater willingness to pay a premium for branded products that were deemed to be healthier or of a better quality, there has been a slight reversal of this trend with the current economic slowdown. As the consumers continue tightening their belts and decreasing expenditures, they have become more price-sensitive, preferring to purchase reasonably priced products instead of premium items. Pricing has also been ranked as the most crucial decision-making factor during purchase¹¹. In addition, reducing shopping frequency is seen as another way to lessen spending.

Vietnamese consumers, and especially the older generation, still prefer to shop in traditional trade outlets such as wet markets and grocery stores. However, with the increasing incomes and living standards, they have become more concerned about the quality, hygiene and safety of the products purchased. Hence, there has been a slight shift towards modern trade outlets for the hygienic, convenient and friendly shopping environments that they offer. Modern trade outlets have also implemented a wide variety of programmes to build customer loyalty and attract new customers, such as promotions and loyalty memberships.

Owing to the relatively low incomes of the majority of Vietnamese, the demand for high-end consumer goods remains weak. However, high-income earners are increasingly purchasing greater quantities of expensive consumer electronic devices, furnishings and designer clothes, which are viewed as desirable status symbols.

On a per-capita basis, Vietnam's spending on packaged foods and beverage is also relatively low as compared to its peers in Southeast Asia. The per-capita expenditure on foods and non-alcoholic beverages was only US\$200 in 2011, whereas this figure was US\$600 in Indonesia, US\$1,000 in Malaysia, and US\$900 in Thailand¹². This indicates an under-penetration of the market, although this is expected to grow as GDP per capita rises.

At the moment, online shopping is not yet widespread or prevalent in Vietnam. Nevertheless, this is a development that retailers should stay ahead of, as Vietnamese consumers have already shown an inclination towards conducting online research on the product and brand before even shopping at the brick-and-mortar store. With increasing internet penetration, the growth of online shopping is likely to be poised for a boom in the mid- to long-term.

11 Shopper Trends Study 2012, Nielsen

12 Euromonitor International

Sector analysis



The retail sector is fragmented, with small family-owned businesses dominating the industry. Nevertheless, the number of modern retail outlets is growing in urban areas. Statistics from the Ministry of Industry and Trade show that more than 700 supermarkets, 125 shopping centres and 8,600 traditional markets are currently operational throughout Vietnam. Of these, 4% of the supermarkets and 25% of the shopping centres are owned by foreign businesses.

With the retail sector slated to be open to entry by foreign players in January 2015 under the country's WTO commitments, consumers are likely to benefit from greater variety and choice. Retailers, however, will need to deal with a more competitive retail environment, with fiercer competition for premises. Smaller retailers who are unable to cope with the new demands run the risk of going out of business.

Foreign retailers in Vietnam

Vietnam has emerged as a hotbed for numerous global and regional multinational retail giants. A few notable players with presence or expansion plans in Vietnam include:

AEON (Japan)

AEON opened a US\$100 million shopping centre in Ho Chi Minh City in January 2014. Another complex is expected to open in October in Binh Duong province, and a third in Hanoi is due for completion in 2015.

Auchan (France)

In May 2013, Auchan announced that it will invest US\$500 million in Vietnam over the next decade.

Berli Jucker (Thailand)

In August 2014, Berli Jucker acquired Metro Vietnam for US\$848 million. It plans to open 205 outlets of its branded convenience store, B's Mart, in the next four years.

Central Group (Thailand)

In February 2014, Central Group confirmed plans to open two Robinsons department stores in Vietnam within the year. The first was opened in Hanoi in March; the second, in Ho Chi Minh City, will open by the end of the year.

E-mart (South Korea)

South Korea's largest retailer is expected to officially enter the Vietnam market in 2015, and is likely to opt for a joint venture agreement.

Lotte (South Korea)

Lotte has opened six shopping centres in the country since 2008, including a US\$45 million shopping mall in Phan Thiet City which opened in late 2013. The company's latest project, approved in February 2014, is a US\$34 million shopping mall in Vung Tau. Lotte is aiming to open 60 new supermarkets across Vietnam by 2020.

Marks & Spencer (UK)

In September 2014, Marks & Spencer opened its first outlet in Ho Chi Minh City. It plans to open 20 stores in the next five to six years.

NTUC Fairprice (Singapore)

Singapore's Fairprice and Vietnam's Saigon Co.op opened their first joint venture store, Co.opXtra Plus, in Thu Duc District, half an hour from downtown Ho Chi Minh City, in May 2013.

Parkson (Malaysia)

Parkson plans to open one to two more shopping malls a year, subject to the market performance and the retail real estate outlook.

Domestic retailers in Vietnam

Many of Vietnam's domestic retailers have quickly grown in size and enjoy high brand recognition among consumers. Some of the local heavyweights to watch out for are:

Citimart

With 15 existing supermarkets, four mini supermarkets and eight convenience stores, Citimart aims to have 70 supermarkets and convenience stores by 2015, with a focus on small stores between 1,000-2,000 square metres.

Fivimart

Fivimart plans to open 30 outlets throughout the country by 2020.

Ocean Group

Ocean Group has plans to develop 70-80 Ocean Marts and Ocean Malls nationwide by 2015 to cover an area of 200,000 square metres.

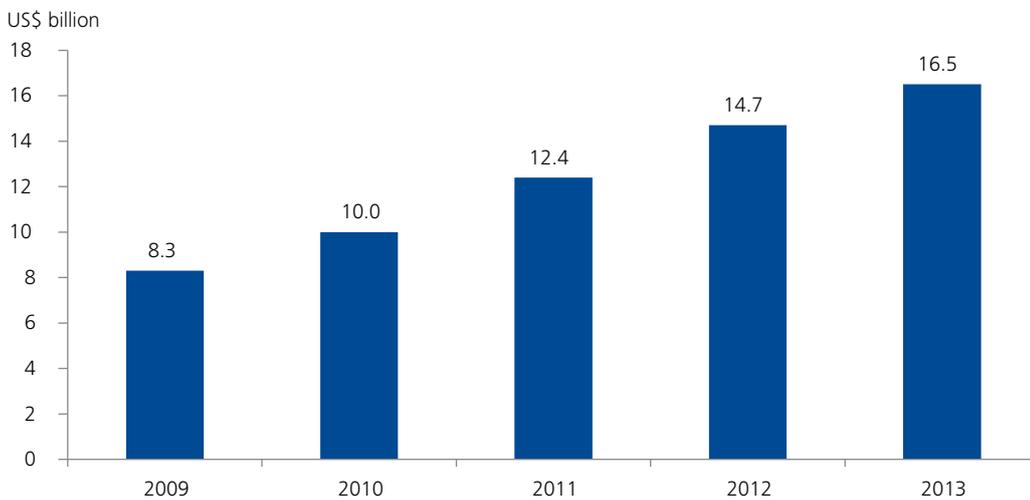
Hanoi's retail market

Market overview

Hanoi has been ranked as the third most targeted city for retail expansion in 2014 amongst Asia Pacific cities, after China's Beijing and Shanghai. It has also been ranked – together with Ho Chi Minh City – in the top 10 for new retailer entrants in 2012 and 2013¹³.

With a population of over 7 million people, an urbanisation rate of 43% and a GDP per capita of over US\$2,500¹⁴, Hanoi is widely regarded as one of the key high potential retail markets in Vietnam. Its optimistic outlook has also been bolstered by strong retail sales, which have been on the rise from 2009 to 2013 (see Figure 8).

Figure 8: Hanoi retail sales, 2009-2013



Source: Hanoi's People Committee

Hanoi has witnessed the entrance of some of the biggest heavyweights in retail such as South Korea's Lotte Mart and Robinsons department stores under Thailand's Central Group. Japan's AEON mall is also planning to open its third shopping centre in the Long Bien District, having opened its first one in Ho Chi Minh City in the first quarter of 2014 and with the second in Binh Duong slated for opening in November 2014. Some of the outlets present in Hanoi are provided in Table 3.

In the third quarter of 2014, Hanoi's total retail space supply reached approximately 700,000 square metres, representing an increase of 2.2% quarter-on-quarter and 22% year-on-year¹⁵. In total, Hanoi has about 73 supermarkets, 19 electronic marts, 2 wholesale markets, 3 hypermarkets, 18 shopping centres or department stores, and 17 retail podiums¹⁶.

13 How active are retailers in Asia Pacific? 2014 edition, CBRE

14 Vietnam General Statistics Office

Table 3: Key retail outlets in Hanoi

No.	Main players	Brands origin	Retail type	No. of outlets	Stores	Location	Year of opening
1	Big C	France	Supermarket	4	Big C Thang Long	Tran Duy Hung, Cau Giay	2005
					Big C The Garden	Me Tri, Tu Liem	2010
					Big C Me Linh	Me Linh	2011
					Big C Megamall Long Bien	Long Bien	2011
2	Fivimart	Vietnam	Supermarket	19	FiviMart Ton Dan	Hoan Kiem	1997
					Fivimart Truc Bach	Ba Dinh	2002
					Fivimart Dai La	Hai Ba Trung	2004
					Fivimart Nguyen Phong Sac	Cau Giay	2006
					Fivimart Dang Tien Dong	Dong Da	2007
					Fivimart Hoang Hoa Tham	Ba Dinh	2007
					Fivimart Hoang Quoc Viet	Cau Giay	2007
					Fivimart Nguyen Chi Thanh	Ba Dinh	2007
					Fivimart Lo Duc	Hai Ba Trung	2008
					Fivimart Nguyen Van Cu	Long Bien	2008
					FiviMart Syrena	Tay Ho	2008
					FiviMart Ly Thai To	Hoan Kiem	2009
					Fivimart Thien Son Plaza	Tu Liem	2009
					Fivimart Trung Yen	Cau Giay	2009
					Fivimart La Thanh	Dong Da	2012
Fivimart Thai Thinh	Dong Da	2013					
Fivimart Tran Quang Khai	Chuong Duong Do	2014					
Fivimart Truc Khe	Lang Ha	2014					
Fivimart Truong Chinh	Dong Da	2014					
3	Hapro	Vietnam	Supermarket	6	Hapro Mart C12 Thanh Xuan	Thanh Xuan	2006
					Hapro Mart D2 Giang Vo	D2 Giang Vo, Ba Dinh	2006
4	Metro Cash & Carry*	Thailand	Wholesale	2	Metro Thang Long	Pham Van Dong, Tu Liem	2003
					Metro Yen So	Hoang Mai	2007
5	Ocean Mart	Vietnam	Supermarket	6	Ocean Mart Ha Dong	Xa La, Ha Dong	2013
					Ocean Mart Royal City	Nguyen Trai, Thanh Xuan	2013
					Ocean Mart Starbowl	Pham Ngoc Thach, Dong Da	2013
					Ocean Mart Thang Long	Tran Dang Ninh, Cau Giay	2013
					Ocean Mart Times City	Minh Khai, Hai Ba Trung	2013
					Ocean Mart Trung Hoa	Nhan Chinh, Thanh Xuan	2013
6	Parkson	Malaysia	Department store	2	Parkson Viet Tower	Thai Ha, Dong Da	2008
					Parkson Keangnam	Pham Hung, Tu Liem	2012
7	Vincom	Vietnam	Shopping centre	4	Vincom City Tower	Ba Trieu, Hai Ba Trung	2004
					Vincom Galleries	Mai Hac De, Hai Ba Trung	2009
					Vincom Megamall Royal City	Nguyen Trai, Thanh Xuan	2013
					Vincom Megamall Times City	Minh Khai, Hai Ba Trung	2013

*Recently acquired by Berli Jucker

Source: Cushman & Wakefield

15 Hanoi retail sector briefing Q3 2014, Savills World Research

16 Cushman & Wakefield Vietnam holds market headway event in Hanoi (press release), 4 April 2013, Cushman & Wakefield

Ho Chi Minh City's retail market

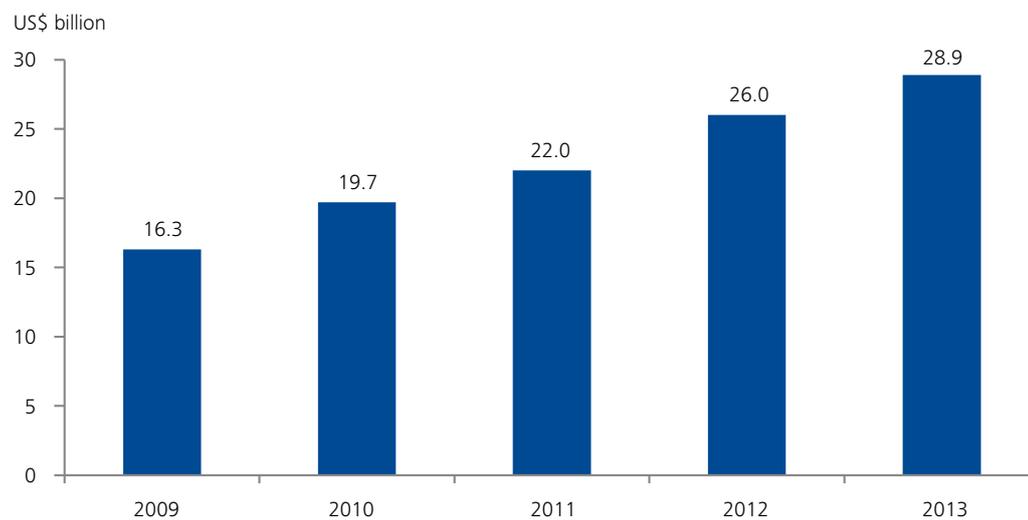
Market overview

Ranked within the top 10 for new retailer entrants in 2012 and 2013¹⁷, Ho Chi Minh City is witnessing a marked shift from traditional trade formats to modern trade formats. In the first quarter of 2014, for instance, Ho Chi Minh City welcomed AEON mall to its Tan Phu District, a total investment of US\$100 million which added a net leasable area of 47,000 square metres to the market over three floors. Foreign retailers such as Big C and Parkson which have already established presences within the city are now also looking into expansion plans within the city.

Within the supermarket arena, local chain Co.opmart has emerged as the biggest and most successful player. Its long history in the Ho Chi Minh retail market has given it a first-mover advantage and it is generally perceived by consumers as offering a high quality of service. Nevertheless, its firmhold in the market is being increasingly challenged by the foreign competitor, Big C, which also provides a wide range of products and is boosted by an experienced management. Some of the key retail outlets in Ho Chi Minh City are provided in Table 4.

With a population of approximately 8 million people, an urbanisation rate of 82.5% and a GDP per capita of over US\$2,500¹⁸, Ho Chi Minh City has witnessed a healthy increase in retail sales from 2009-2013 (see Figure 9).

Figure 9: Ho Chi Minh City's retail sales, 2009-2013



Source: Statistical Office in Ho Chi Minh City

In the third quarter of 2014, Ho Chi Minh's total retail space supply was approximately 851,000 square metres, down 2% quarter-on-quarter due to temporary renovations in the Satra Pham Hung and Pico Plaza shopping centres. Shopping centres account for the majority of retail space, occupying 45% of the total area. They are followed by supermarkets at 30%, department stores at 15%, wholesale markets at 6% and, retail podiums at 4%¹⁹.

17 How active are retailers in Asia Pacific? 2014 edition, CBRE

18 Vietnam General Statistics Office

19 Ho Chi Minh City retail sector briefing Q3 2014, Savills World Research

Table 4: Key retail outlets in Ho Chi Minh City

No.	Main players	Brands origin	Retail Type	No. of outlets	Stores	Location	Year of opening
1	AEON Mall	Japan	Shopping centre	1	AEON Mall Tan Phu	Tan Phu	2014
2	Big C	France	Supermarket	6	Big C An Lac	Binh Tan	2002
					Big C Mien Dong	District 10	2002
					Big C Hoang Van Thu	Phu Nhuan	2006
					Big C Go Vap	Go Vap	2008
					Big C Phu Thanh	Tan Phu	2010
					Big C Truong Chinh	Tan Phu	2012
3	Co.opmart	Vietnam	Supermarket	24	Co.opmart Cong Quynh	District 1	1996
					Co.opmart Hau Giang	District 6	1998
					Co.opmart Nguyen Dinh Chieu	District 3	1999
					Co.opmart Phu Lam	District 6	2001
					Co.opmart Thang Loi	Tan Phu	2001
					Co.opmart Nguyen Kiem	Phu Nhuan	2003
					Co.opmart Phu My Hung	District 7	2003
					Co.opmart Ly Thuong Kiet	District 10	2006
					Co.opmart BMC	Tan Phu	2007
					Co.opmart Nhieu Loc	District 3	2007
					Co.opmart Binh Tan	Binh Tan	2008
					Co.opmart Hung Vuong	District 5	2008
					Co.opmart Tuy Ly Vuong	District 8	2008
					Co.opmart Nguyen Anh Thu	District 12	2009
					Co.opmart Rach Mieu	Phu Nhuan	2009
					Co.opmart Dinh Tien Hoang	Binh Thanh	2010
					Co.opmart Hoc Mon	Hoc Mon	2010
					Co.opmart Phu Tho	District 11	2010
					Co.opmart Cu Chi	Cu Chi	2011
					Co.opmart National Way 13	Binh Thanh	2011
					Co.opmart Can Gio	Can Gio	2012
					Co.opmart Hoa Binh	Tan Phu	2012
					Co.opmart Hoa Hao	District 10	2012
					Co.opmart Phan Van Tri	Go Vap	2012
4	Lotte	South Korea	Shopping centre	2	Lotte Mart	District 7	2008
					Lotte Phu Tho	District 11	2010
5	Metro Cash & Carry*	Thailand	Wholesale	3	Metro Binh Phu	District 6	2002
					Metro Hiep Phu	District 12	2002
					Metro An Phu	District 2	2006
6	Parkson	Malaysia	Department store	5	Parkson Sai Gon Tourist Plaza	District 1	2005
					Parkson Hung Vuong Plaza	District 5	2007
					Parkson CT Plaza	Tan Binh	2008
					Parkson Flemington	District 11	2010
					Parkson Paragon	District 7	2011
7	Vincom	Vietnam	Shopping centre	2	Vincom Center B	District 1	2010
					Vincom Center A	District 1	2012

*Recently acquired by Berli Jucker

Source: Cushman & Wakefield Vietnam, 2013

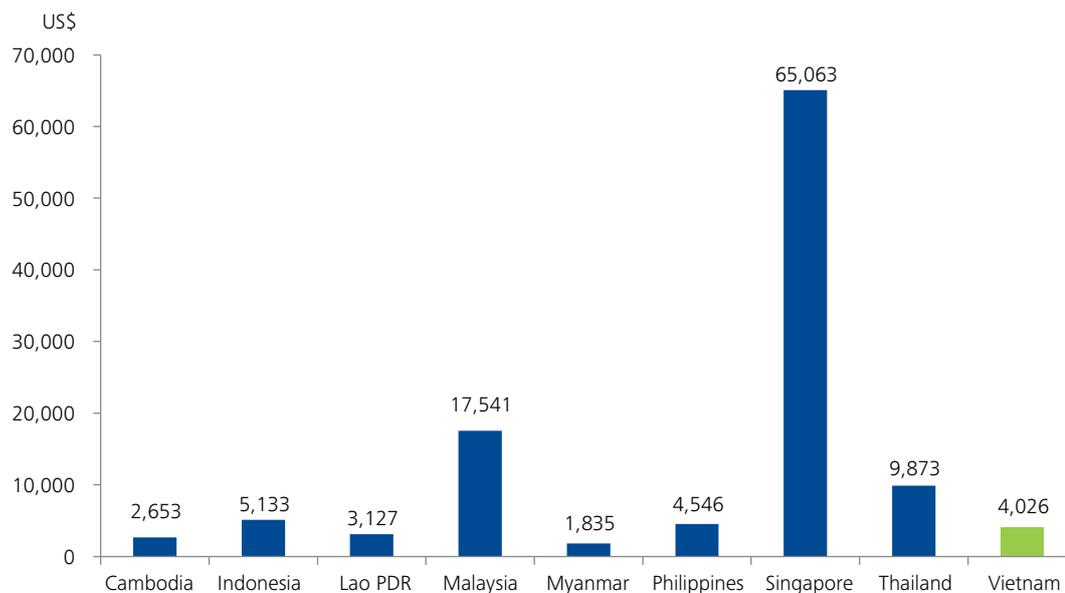
Challenges for the sector



Low GDP per capita

Despite its rapid development, Vietnam's GDP per capita (purchasing power parity) remains lower than many of its counterparts in Southeast Asia (see Figure 10). This has caused some of the larger foreign retail giants to take a wait-and-see approach. Walmart, for example, although having set up a representative office in Vietnam to procure clothes, shoes, and household products for export to its supermarkets in Canada, Chile, China, and Mexico in June 2013, has yet to establish a retail presence in Vietnam.

Figure 10: Vietnam's GDP per capita (purchasing power parity) in comparison to other economies in the region, 2013



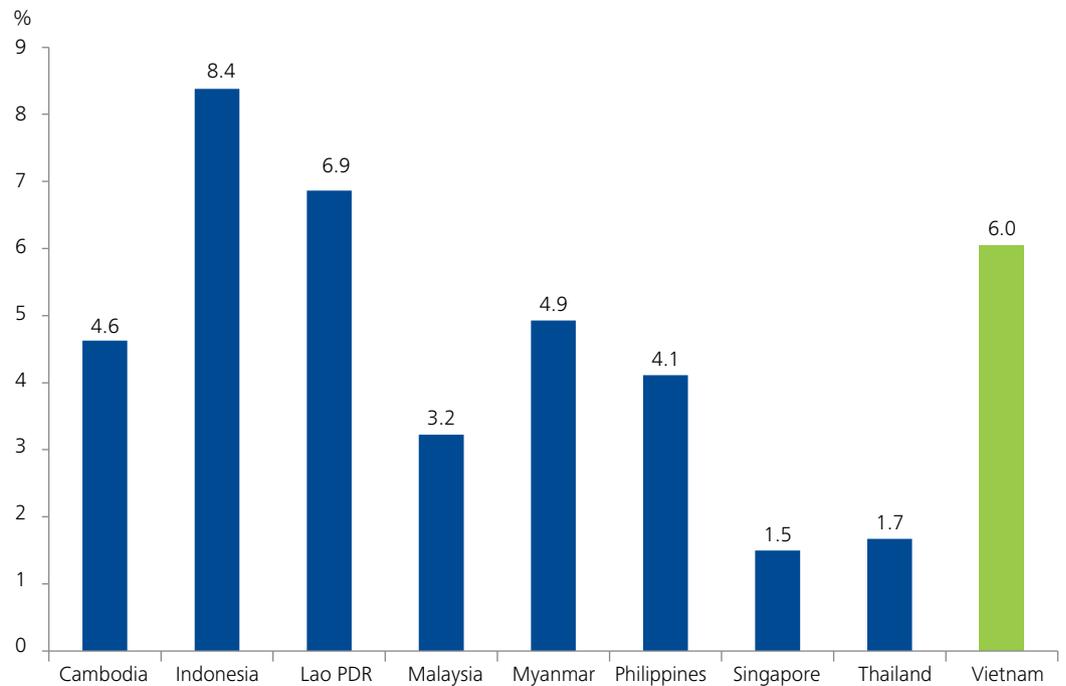
Source: ASEAN Statistics

High inflation

Vietnam faces a higher rate of inflation relative to the other economies in Southeast Asia (see Figure 11). As inflation pressures mount and the cost of everyday goods skyrocket, consumers will begin tightening their belts, foregoing non-essentials as they are forced to focus on basic needs. Even if they continue to spend, consumers are likely to become more value-conscious, choosing instead to switch to lower priced items or private label products.

But retailers not only have to deal with a decreased consumer willingness to spend. They would also have to contend with consumer products manufacturers who will need to pass on the increased costs of production to consumers. At the same time, retailers need to intensify their marketing efforts, for instance, in the form of promotions, as the increasingly price-sensitive consumer seeks out the best value-for-money propositions.

Figure 11: Vietnam's inflation rate in comparison to other economies in the region, 2013



Source: ASEAN Statistics

Trade barriers

While foreign retailers are allowed to enter the Vietnam market and set up their first retail outlets with relative ease, the opening of subsequent retail outlets require the permission of the local departments of industry and trade, whose decision on whether or not to grant the licences for the additional outlets is based on a set of considerations. One reason for the authorities' refusal has been that the localities in question do not require any more retail outlets under their interpretation of the ENT framework (see "Legal policies" section under "The driving forces").

The ENT framework has also been described by the European Chamber of Commerce in Vietnam as a trade barrier for foreign investors interested in the Vietnam market, as the ENT has been interpreted and applied in multiple ways for different localities. A lack of clear and transparent guidelines that are applied consistently over time and localities has the potential to create lengthy – and hence, costly – delays. This, in turn, makes it challenging for foreign retailers to gain sufficient size in order to benefit from economies of scale. Nevertheless, the government has maintained that the existence and usage of the mechanism is a necessary measure to protect the interests of domestic retailers against foreign competition.

Fledging retail infrastructure

Acquiring prime retail real estate remains a challenge in Vietnam due to disproportionately high rents and a shortage of reliable property managers. There are also problems with poor logistic networks and local suppliers that fail to adhere to international standards, compounding the supply chain problems and resulting in hidden costs which have the potential to derail Vietnam as a low-cost market²⁰.

A number of foreign retailers, such as Singapore's FairPrice and Japan's AEON have approached local and regional companies to form joint ventures to help mitigate these issues. Others choose instead to set up franchised operations in order to dodge the complications arising from joint ventures or direct investments. Still others have used the tried and tested method of buying existing networks, as with the recent acquisition of Metro outlets by Thailand's Berli Jucker.

20 Vietnam's retail boom tempts global players to plod through red tape, 14 October 2014, Nikkei Asian Review

Looking ahead



While the high-end or premium retail segment is not expected to take off exponentially in Vietnam's retail sector in the short-term, owing to the relatively low incomes of the majority of the consumers, the consumer focus on quality and safety is only going to intensify.

Following the notorious 2007 food scandal which drew national attention to a variety of contaminated foods, including rice noodles containing formaldehyde, banned pesticides in vegetables and fruit, and toxic soy sauce²¹, consumers have become increasingly concerned about health and food safety, and especially so for child health, with children well-being the top priority among households²². This has resulted in a preference for foreign goods, as Vietnamese consumers tend to perceive domestic products to be of lesser quality.

With middle-class workers now accounting for 25% of all workers in Vietnam²³, retailers should also focus on aspirational purchases in the medium- to long-term as the consumption expenditure per capita continues to rise and consumers look towards products that can better represent their new status.

Modern retail formats such as shopping centres, supermarkets and hypermarkets will play a crucial role in Vietnam's future retail sector growth, given the scale needed to support a market of 90 million consumers. In particular, the rapid growth of urban residential areas is likely to result in greater demand for large-scale commercial centres. Currently, the modern retail channel accounts for around 20% of sales in Vietnam²⁴, representing a latent market opportunity for investors.

With the upcoming sector liberalisation under its WTO commitments, Vietnam's retail arena is likely to witness intensified competition. Will domestic retailers be able to retain their first-mover advantage and consumer mind share? Or will foreign retailers be able to capitalise on their vast experience and networks to build scale? The battle lines may have been drawn, but it all boils down to understanding the market and getting the fundamentals right.

21 Vietnam's retail boom tempts global players to plod through red tape, 14 October 2014, Nikkei Asian Review

22 Consumer Lifestyles in Vietnam August 2014, Euromonitor International

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