



Retail in Vietnam
Omnichannel takes off



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Foreword

Vietnam's economy looks set for a rapid rebound in 2022. This promising outlook is expected to have positive knock-on effects on its retail sector – which is itself in the midst of several significant transformations.

In this report, we will explore some of these transformative trends that we have observed in Vietnam's retail sector, and the opportunities that they present for retailers to innovate and develop multi-fold strategies. One trend that stood out was the accelerated normalisation of omnichannel retail on the back of the pandemic and its accompanying social distancing measures.

This was especially the case for the grocery retail segment, as consumers shifted away from traditional grocery retailers amidst the closure of such premises, and towards a greater array of other channels, such as convenience stores, supermarkets, hypermarkets, as well as e-commerce and mobile commerce channels. Indeed, the boom in the grocery retail segment also saw the entry of many non-grocery retailers into the segment, for example, as e-commerce platforms launched grocery arms to take advantage of the growing at-home consumption trend.

For their part, the non-grocery retail segment experienced some degree of decline in sales as consumers tightened expenditure on discretionary items. But several sub-segments defied this trend: Electronic and appliance specialist retailers, as well as health and beauty specialist retailers, for instance, experienced rapid growth as consumers increased their uptake of at-home entertainment and at-home health and fitness activities during the pandemic.

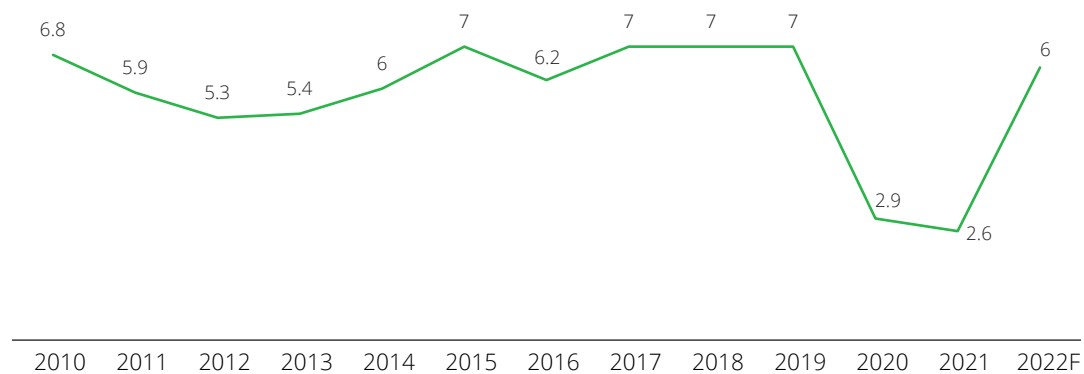
Later in the report, we will also discuss two developing trends that retailers should watch – the accelerated uptake of digital wallets and non-cash payments, and growth in the wholesale business-to-business (B2B) e-commerce segment – that will likely continue to play out in the years ahead, with wide-ranging, long-term knock-on effects for the sector.

We hope that this report will provide you with some insights into the rapidly evolving retail landscape in Vietnam and look forward to more conversations with you on its future trajectory.

Omnichannel takes off

Despite a slowdown in growth over the last two years as a result of the COVID-19 pandemic, Vietnam's economy is expected to make a speedy recovery in 2022 (see Figure 1 and 2). Buoyed by its progress in vaccinating its population and the lifting of some social distancing measures, its economy expanded by more than 5% in the first quarter of 2022¹. This bodes well for its retail sector, which has been experiencing rapid growth on the back of a relatively young consumer demographic with robust spending behaviours.

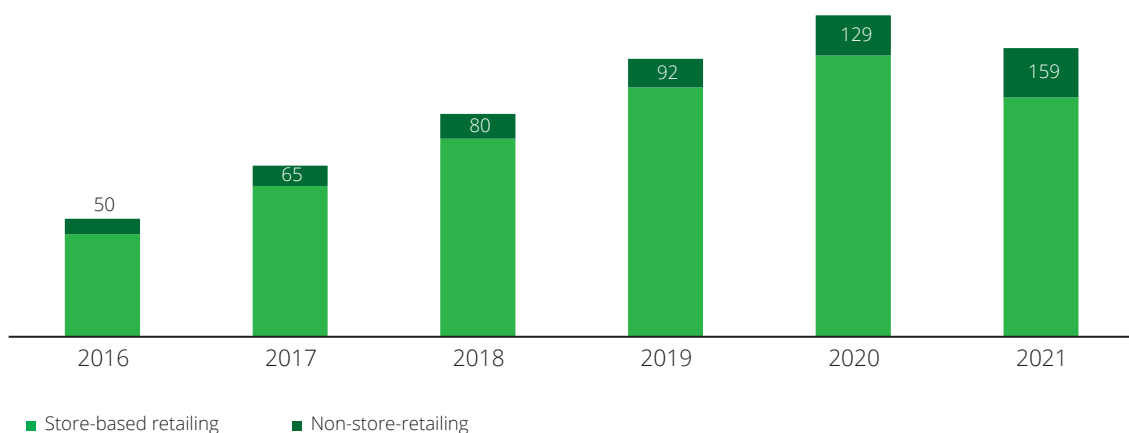
Figure 1: Vietnam's annual gross domestic product (GDP) growth (2010-2022F)



Source: GSO, Deloitte's analysis

In this report, we will examine how Vietnam's retail landscape has been remade by the changes catalysed by the pandemic, and explore several emerging dynamics in the non-grocery and grocery segments. Overall, we have observed a radically remade retail landscape: in a short span of two years during the course of the pandemic, non-store retailing sales have taken off and omnichannel retail is increasingly becoming the norm (see Figure 2).

Figure 2: Store-based retailing and Non-store-based retailing revenues (2016-2021) - VND Billion



Source: Euromonitor, Deloitte's analysis

¹ "Vietnam GDP grows 5.03% in first three months of 2022". Nikkei Asia. 29 March 2022.

Undoubtedly, there had already been a gradual shift towards omnichannel retail in the years prior to the pandemic. However, it was COVID-19 – and its accompanying social distancing measures – that truly accelerated this momentum. Today, most Vietnamese consumers in urban areas are well-accustomed to omnichannel purchasing behaviours, making purchases not only through brick-and-mortar stores and brand websites, but also through a variety of different third-party instant messaging platforms and food delivery applications – toggling between each of them to find the right delivery slot for their convenience, or the right promotional deals.

From the perspective of retailers, the shift to omnichannel retail represents a multifold strategy: by expanding their digital presences, retailers not only can mitigate some of the revenues losses associated with COVID-19 disruptions, but also tap into new customer bases. Specifically, through online or mobile platforms, retailers can now reach consumers who are located far away from their physical stores and have previously found it infeasible or impractical to visit them.

In addition, digital presences can also help retailers enhance their customer engagement: the e-commerce platform Shopee, for example, is one player that has leveraged the use of mobile games to enhance the overall user experience of its mobile application². Then, there is also the added benefit that a digital presence can help to drive traffic to physical stores, or vice versa. Customers searching and comparing product information online, for example, may decide to eventually visit a store to view the physical product before making a purchase. Conversely, they may browse products in different physical stores, before making the final purchase decision on the website.

As retail players seek to capitalise on this omnichannel trend, we are also witnessing the emergence of several new innovative partnerships within the marketplace. The “Ung ho nong san Viet” program, for example, was launched by the Saigon Union of Trading Cooperatives in collaboration with mobile payment platform Momo to support the local agricultural sector. Some of its recent initiatives include the promotional sales of locally grown lychees through the Momo e-wallet platform³.



²“Các bí quyết thu hút người dùng ứng dụng của Shopee và Garena”. Vietnam Business Insider. 14 August 2020.

³“Ứng hộ nông sản Việt trên nền tảng công nghệ thanh toán tiện lợi”. Bao Chinh Phu. 10 June 2020.

Evolving market dynamics

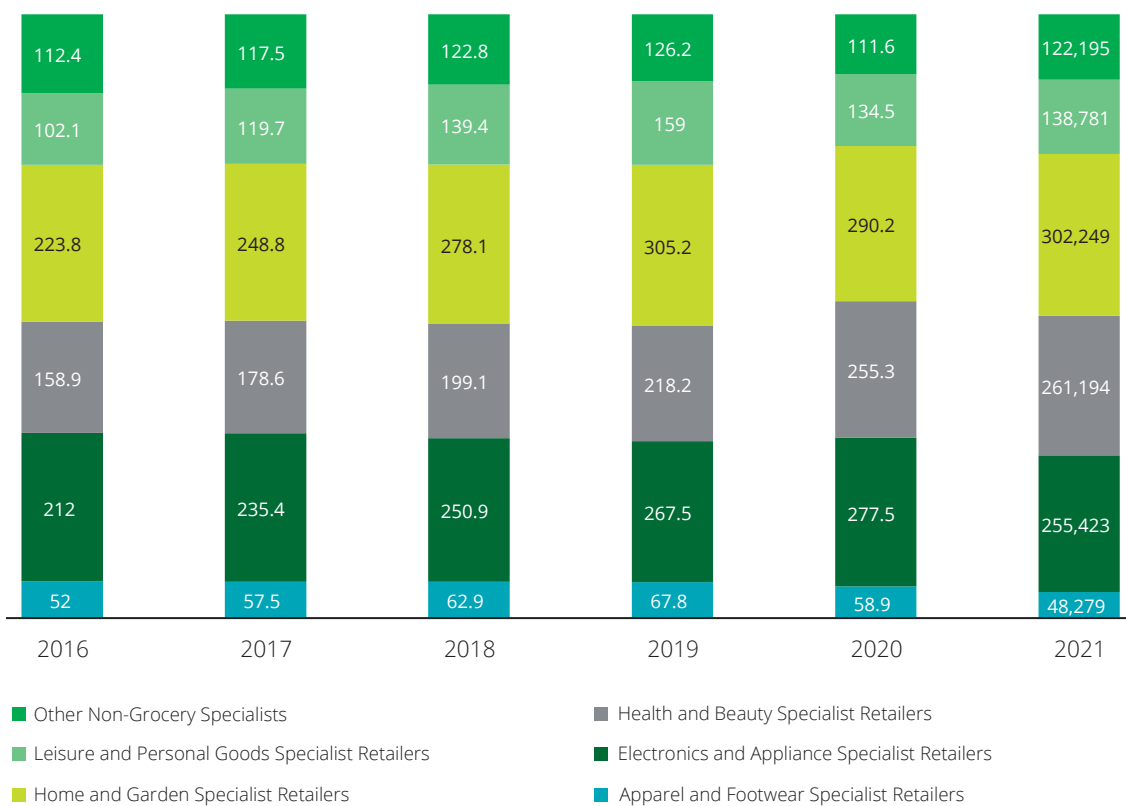
In this section, we explore some of the impacts of COVID-19 on the non-grocery and grocery retail segments in Vietnam, and the ways in which their market dynamics have evolved over the last two years:

Non-grocery retail segment

As consumers scaled back their discretionary expenditure, most non-grocery sub-segments had experienced some degree of decline in their sales numbers in 2020 and 2021 (see Figure 3). Indeed, even large retail chains have had to close some of their underperforming stores in response to dwindling consumer demand.

But it is not all doom and gloom. For some sub-segments – in particular, electronic and appliance specialist retailers, as well as health and beauty specialist retailers – there has been rapid growth in recent years, given the greater uptake of at-home entertainment and at-home health and fitness activities amidst the pandemic.

Figure 3: Non-grocery retail segment sales by type (2016-2021) – VND Billion



Source: Euromonitor, Deloitte's analysis

Overall, our general market observation is that retail stores in standalone locations tend to perform better than those located in shopping malls. One reason for this has to do with the high levels of traffic congestion in urban areas, which has resulted in many consumers preferring to frequent retail stores that are easily accessible from the street. Making a trip to a mall in the suburbs, on the other hand, could entail a long commute back and forth under the traffic conditions.

However, the catch is that rental prices for retail spaces in many of the urban centres – including Hanoi and Ho Chi Minh City – have been skyrocketing. This is especially the case for stores in prime areas, such as standalone stores located on main streets. As a result, some retailers have been exploring ways to better leverage retail spaces located in less busy streets or alleys, as well as e-commerce storefronts.

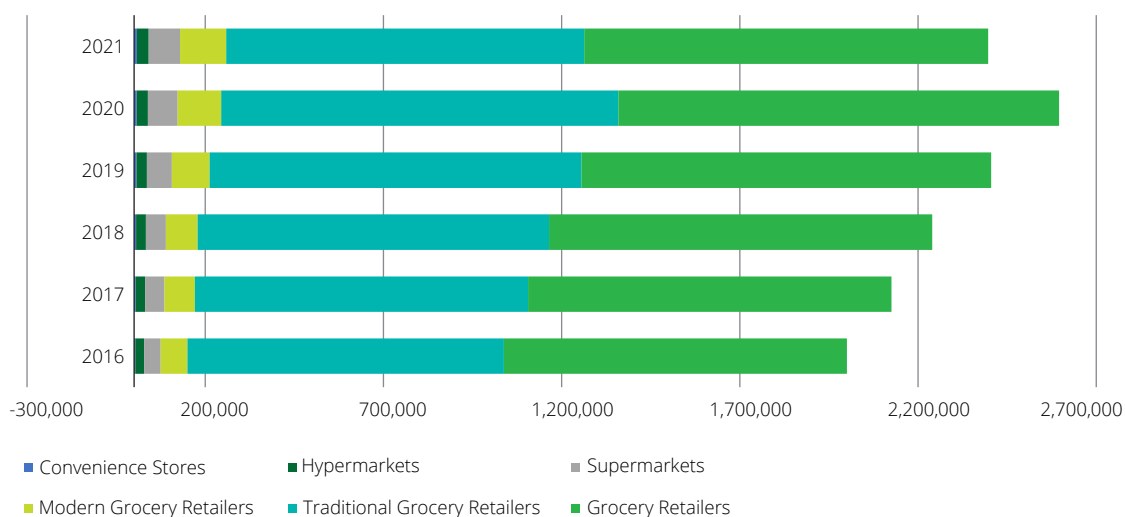
While being not the preferred choice for consumers who are in a hurry, shopping malls had been on a rapid expansion path prior to the pandemic. Although these locations are less accessible, they are never able to compete with their unique ability to offer integrated shopping and entertainment experiences that standalone locations may be unable to provide. For families, in particular, shopping malls offer a one-stop shop for both non-grocery and grocery items.

Grocery retail segment

Within the grocery retail segment, traditional grocery retailers continue to hold the majority of market share. This dominance, however, experienced some degree of erosion during the pandemic: following the detection of a substantial number of COVID-19 positive cases in their premises, many traditional grocery retailers had to temporarily suspend operations during the pandemic. As a result, consumers who typically purchased from these retailers shifted their consumption to other grocery retail channels, such as convenience stores, supermarkets, and hypermarkets (see Figure 4).

Given the boom in the grocery sector as consumers switched to pandemic-induced, at-home consumption habits, it is also worth noting that many non-grocery retailers have also begun to make their foray into the grocery retail segment. Earlier in May 2021, for example, the e-commerce platform Tiki launched its grocery arm TikiNgon to cater to the growing demand for online shopping in the fresh foods category.

Figure 4: Grocery retail segment sales by channel (2016-2021) - VND Billion



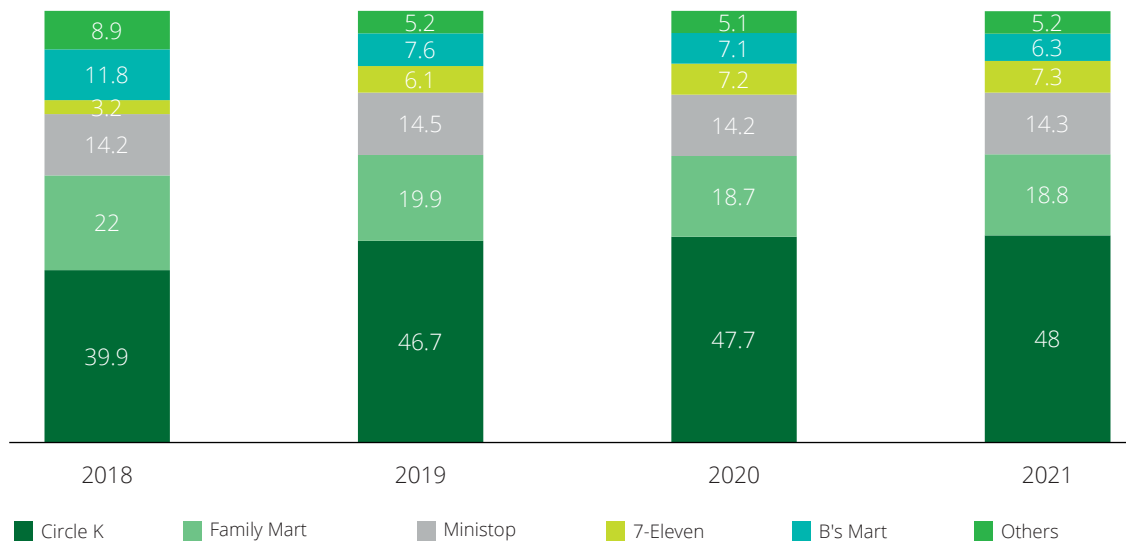
Source: Euromonitor, Deloitte's analysis

• Convenience stores develop omnichannel presences

Amidst the pandemic, many convenience store chains quickly moved to develop their omnichannel presences, and expand their presences on food delivery platforms to enable consumers to conveniently order ready-to-eat meals and other items through these applications. Some players have also built and launched their own proprietary mobile applications to engage more directly with their customers – for example, by launching loyalty programs, and offering exclusive discounts and promotions.

Overall, foreign chains dominate Vietnam's convenience store sub-segment, with four of the top five brands owned by foreign multinationals (see Figure 5). Armed with extensive experience of operating convenience stores around the world, these chains have proven themselves quick to adapt to the changing market dynamics in recent years.

In response to growing consumer demand for ready-to-eat products, for example, several players could be observed to have partnered with local manufacturers to increase their assortment of local snacks, and set up separate dining areas within their stores. As a result, convenience stores are quickly gaining popularity amongst younger Vietnamese consumers, who associate these stores not only with a wide range of hot, ready-to-eat meals, but also as lounge areas where they can meet and socialise.

Figure 5: Market share of top five convenience store chains in Vietnam (2018-2021) - %

Source: Euromonitor, Deloitte's analysis

Mobile payments crucial for expansion of convenience stores

With its significant rural population and lack of digital payments infrastructure, cash generally remains the preferred mode of payment in Vietnam. The picture, however, is significantly different in urban areas, where uptake of mobile payments is accelerating.

Apart from the heightened consumer acceptance of contactless payments on the back of the pandemic, this trend is also being fuelled by the efforts of mobile payments players who are doubling down on expanding their footprint – for example, by leveraging a range of partnerships with banks and retailers, including convenience stores, to attract and retain customers.

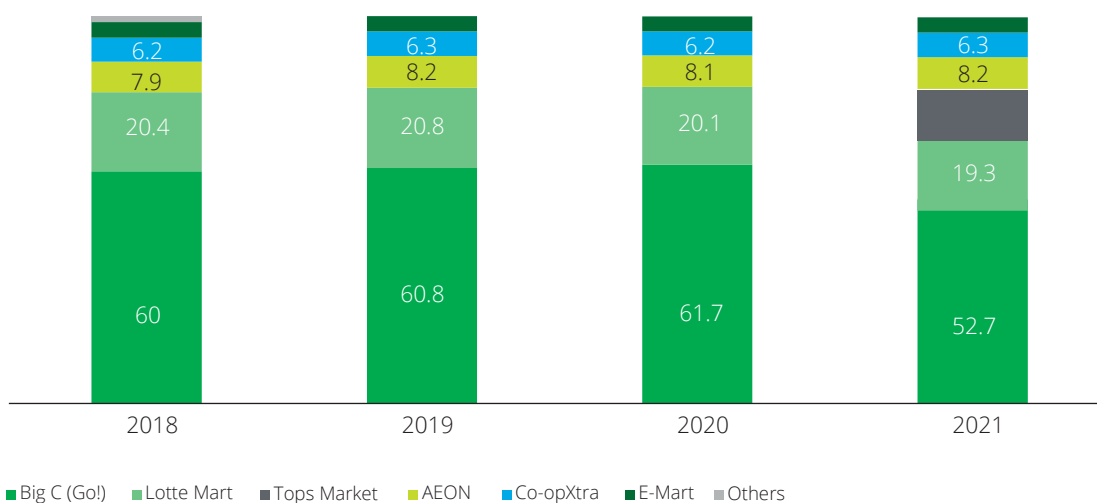
Given that convenience stores typically appeal to the same customer demographic – that is, younger urban consumers who not only tend to be more tech-savvy, but also enjoy socialising in convenience stores – the growing adoption of mobile payments is likely to mean that they will also grow in importance as a mode of payment for convenience stores.

- **Hypermarkets grow in popularity for bulk buying and assortment**

During the pandemic, the hypermarkets sub-segment had sought to capitalise on the shift to digital channels by expanding their online presences, both in terms of e-commerce and mobile commerce. Leading players, for example, leveraged their presence on food delivery platforms to enable consumers to order grocery items in bulk – and thereby offer greater value and savings to those who would prefer to minimise the number of physical shopping trips that they will need to make.

Overall, foreign multinationals continue to dominate the hypermarkets sub-segment (see Figure 6), with many players able to leverage their unique product assortments – for example, exclusive distribution of Japanese or Korean products – as competitive advantages. Looking ahead, hypermarkets should also consider ways in which they can leverage their large-scale layouts and formats to develop more entertaining shopping experiences for consumers.

Figure 6: Market share of top five hypermarket chains in Vietnam (2018-2021) - %



Source: Euromonitor, Deloitte's analysis

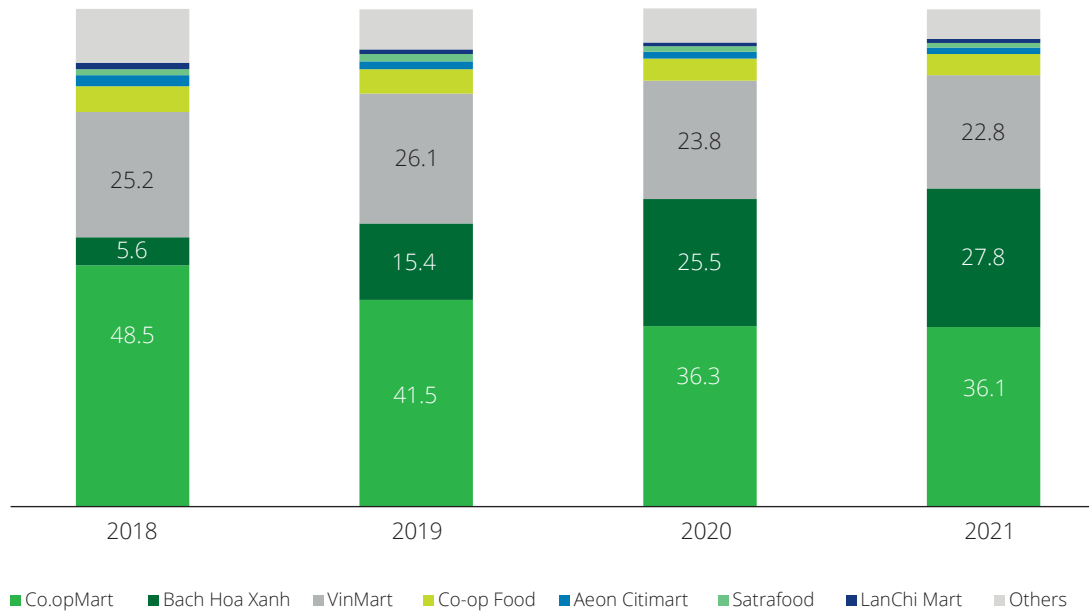
- **Supermarkets capitalise on private label products and smaller formats**

As had been observed with hypermarkets and convenience stores, the supermarkets sub-segment had benefited from the shift in consumer expenditure away from traditional grocery retailers during the pandemic. At the same time, as consumers become increasingly price-conscious amidst the uncertain economic climate, supermarket chains have also been able to capitalise on this with the attractive pricing of their own private label products.

Spanning a wide range of product categories from fresh vegetables to home care and clothing, these private label products tend to enjoy high levels of trust from consumers as a result of the credibility of their overall parent brand. By keeping abreast of the latest consumer trends, supermarket chains have also been able to introduce relevant and innovative products to cater to their customers' evolving demands. In response to the growing concern over food safety, for example, some players have introduced new lines of organic vegetables to their private label brands.

Overall, this sub-segment has a relatively larger number of domestic players (see Figure 7). One particular sub-type of supermarkets, known as 'mini supermarkets', has also been gaining traction in recent years. Spanning a retail space of less than 500 square metres, these compact supermarkets enable supermarket chain players to penetrate densely populated residential areas – where convenience stores are typically located – and challenge the dominance of convenience store chain players in these locations.

Figure 7: Market share of top seven supermarket chains in Vietnam (2018-2021) - %



Source: Euromonitor, Deloitte's analysis



Trends to watch

In the year ahead, Vietnam's retail sector is expected to experience a rapid rebound. Although there are some lingering concerns that e-commerce sales may taper off with the relaxation of COVID-19 social distancing measures, we believe that at least some of the new omnichannel habits will become permanent as consumers grow accustomed to the convenience that they offer.

Looking ahead, we also expect two other developing trends to continue to play out in the retail sector, with wide-ranging, long-term knock-on effects:

- **Accelerated uptake of digital wallets and non-cash payments**

A stark contrast from a few years ago, there are now a wide variety of digital and e-wallet payment methods in the Vietnam market. With digital wallets growing increasingly popular amongst urban affluent consumers, this trend is set to continue to accelerate – thereby setting the stage for hypergrowth in the e-commerce sector.

Some of the latest developments to encourage greater uptake of digital payments include the draft plans set out by the Prime Minister's Draft Decision on the National Strategy for Digital Economic and Social Development to 2025, with a Vision to 2030, which has proposed the objectives of achieving a digital payment rate of 50%, and ensuring that 80% of Vietnam's population has access to electronic payments accounts by 2025⁵.

- **Growth in wholesale B2B e-commerce segment**

While we have focused mostly on the business-to-consumer (B2C) e-commerce segment in this report, it is worthwhile noting that there has also been a boom in the wholesale, business-to-business (B2B) e-commerce segment. In fact, Vietnam is now Southeast Asia's fastest-growing B2B e-commerce market: in 2020, its market value reached USD 13.2 billion, and this is expected to continue to grow at a compound annual growth rate (CAGR) of 43% until 2025⁶.

Several high-profile marketplace developments include VinGroup's launch of Vietnam's first business-to-business-to-consumer channel (B2B2C) platform known as VinShop, as well as VNG Corporation's pre-series B investment in Telio, a B2B e-commerce start-up⁷. El Industrial, Vietnam's first industrial-focused B2B marketplace, also recently received seed funding to expand its operations. Currently, El Industrial serves the procurement needs of over 500 wholesale customers by enabling them to easily source from multiple suppliers and identify the best deals available⁸.

Ultimately, the bottomline implication of these trends is clear: we are set to witness the end-to-end digitisation of Vietnam's retail sector. Indeed, digitisation will no longer be limited to the front-end, B2C experience: from procurement to shipping and payments, we can expect to witness an upcoming, wide-sweeping digitisation of the entire retail supply chain.

⁵ "Vietnam to open e-payment for 80% of population by 2025". Hanoi Times. 9 August 2021.

⁶ "Vietnam's first industrial, B2B e-commerce marketplace gains momentum". Tech Wire Asia. 15 October 2021.

⁷ "Telio gọi vốn chiến lược từ VNG, GGV Capital và Tiger Global". VnExpress. 12 November 2021.

⁸ "Vietnam's first industrial, B2B e-commerce marketplace gains momentum". Tech Wire Asia. 15 October 2021.

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