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# Analysis of retail market in Vietnam

Case : Vingroup

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<p>Since 2008, Vietnam is ranked as the 11th in the Global Retail Development Index (GRDI) and has been one of the top 30 fastest emerging global retail markets, according to a study of management consulting firm A.T. Kearney. Vietnam joined the WTO in 2015 and opened then officially its doors to retail business. By doing this, Vietnam allowed the establishment of 100% foreign capital retail companies. Before that, the foreign investors who wanted to do distributor activities in Vietnam were forced to joint ventures with Vietnamese partners so that capital contribution could not exceed 49%. Vietnamese retail market has been changing both in quality and quantity. It is expected that by 2020, the total market value of retail sales in Vietnam will reach \$ 180 billion. (Atkearney.com, 2008)</p> <p>This thesis aims at giving an overall picture of the retail market in Vietnam and to analyze the strategy of Vinmart supermarket chain, a Vietnamese retailer which belongs to Vingroup. The company stated its intention of becoming Vietnam's largest retailer in 2014.</p> <p>A literature review related to retail theories, retail concepts and e-commerce were adopted as a knowledge base for the research and case implementation. A qualitative research method was applied and the data was collected from secondary sources such as articles, journals, books, and reports to achieve the study's objectives.</p> <p>The results show the potential of the Vietnamese retail market and how intense competition between domestic and international retailers is as well as the possibilities to develop the retail sector in the future. It also shows that Vingroup is currently the top domestic retail brand in Vietnam and creates a balance between the Vietnamese businesses and foreign retailers in the domestic retail market.</p>	
Keywords	Vietnam, retail, Vingroup, e-commerce

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## 1 Introduction

### 1.1 Vietnamese retail market

With the population of 95 million and 70% of people aged from 15 to 64 (Le, 2016), the developing country Vietnam is now the target of many big retail companies from all around the world. The turnover of Vietnam retail market has reached over \$80 billion in the past years and forecast reaches \$100 billion in 2016 according to a survey by German market research company Statista (Mai, 2016). The country with mainly young consumers is potential to facilitate retail development because young people have more consumer power. Together with the economic development, the income of the middle class has gradually increased. Middle class is increasingly more aware of the expenditure, as well as of the luxury retail environment, which is modern and comfortable. Furthermore, as shown in figure 1 the liberalization of the retail sector in 2015 has made Vietnam an extremely lucrative market for international retailers all over the world. (Tạp chí tài chính, 2015)

In less than 10 years, Vietnam's retail market has welcomed many big international retailers like CircleK, Shop&Go, FamilyMart, BigC, Fivimart, Citimart, Simply Mart, Aeon, Lotte, Parkson, Takashimaya (British business group Vietnam,2016) and now Walmart is also waiting for the entry. From the consumer's side, the variety of the market gives more options and modern shopping habits, but from the perspective of competition, the "landing" of the foreign big retailers can make domestic retailer weaker. However, in 2014, Vingroup, a real estate company, with strong financial background has decided to invest into the retail sector and is aiming at becoming Vietnam's largest retailer. (Mai, 2016)

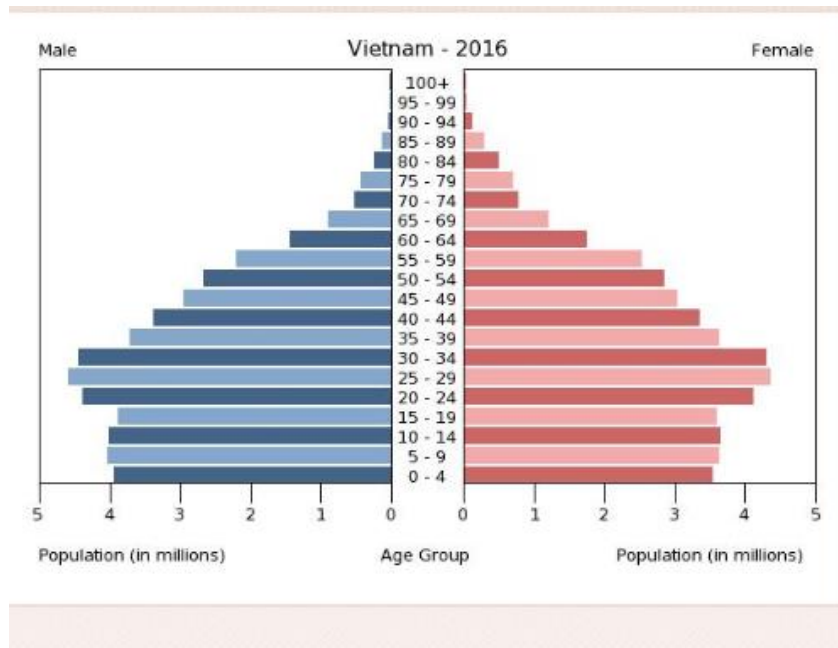


Figure 1. The population pyramid of Vietnam (CIA 2016)

According to the Central Statistical Office of Vietnam, in 2016 Vietnam's GDP for the whole year was 6.2%. The index fell 0.5% from 2015 (see figure 2). Despite the unfavorable trend of global economic recession, series of natural disasters and environmental incidents, Vietnam's retail sector is experiencing very good growth of about 8% due to strong domestic consumption while income and salaries are improved. (Bnews.vn, 2016)



Figure 2: Vietnam GDP growth rate (General statistics office of Vietnam 2017)

According to the research report "Asean connected 2016", The Hongkong and Shanghai Banking Corporation Limited HSBC confirmed that Vietnam's middle class has the fastest growth rate in Southeast Asia and is expected to grow from 12 million in 2012 to 33 million by 2020. Consumers' spending is on the increase due to a young population, rapid urbanization, and an increasingly open economy with increased employment, business, and income opportunities. Vietnam is ranked as one of the six largest economies in ASEAN (see figure 3) after Singapore, Malaysia, the Philippines, Indonesia, and Thailand. According to the report, due to high economic openness, rapid integration, and large labor force, Vietnam's GDP in 2020 could reach \$ 552 billion and GDP per capita of \$ 6,024 per person per year. (HSBC, 2016).

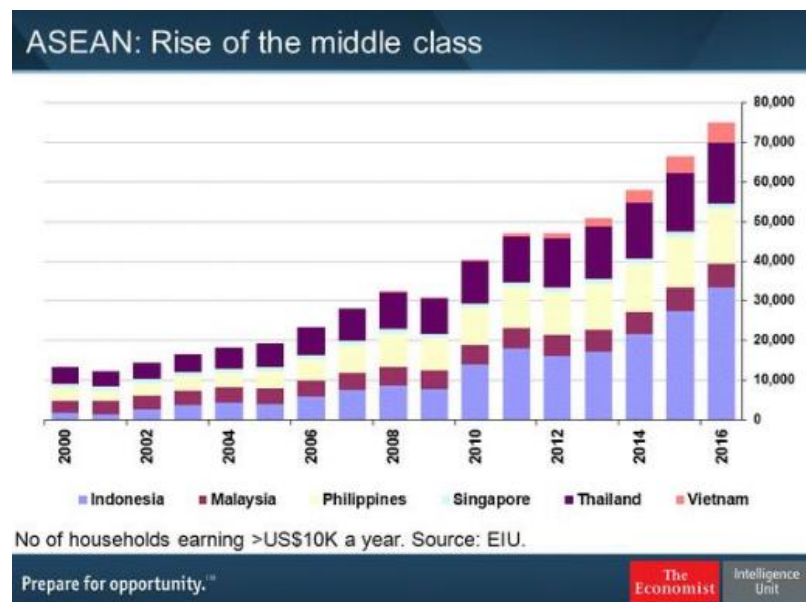


Figure 3: The rise of the middle class (The Economist, 2016)

The blooming for retail business happened in 2015 after the liberalization of the retail sector when Vietnam joined WTO. As shown in figure 4, in 2016, retail sales grew by 10.2 percent, faster than a 9.8 percent growth in 2015 (general statistics office of Vietnam, 2016). Even though modern retail formats such as discount store and vending machines have appeared in Vietnam long time ago but they are still primitive. On the other hand, E-commerce and online sales market in Vietnam are very potential but not really booming yet. With a population of over 90 million, the retail market of Vietnam



still has plenty of room for domestic and foreign investors. It is not too late for domestic businesses like Vingroup to be more prepared to compete on the retail market.



Figure 4: Vietnam retail sales 2016-2017 (General statistics office,2017)

## 1.2 Research objectives and methodology

There are two main objectives in this thesis. One is to provide an overview of the retail market in Vietnam. The second target is to analyze Vingroup's strategy on the retail sector and give suggestions how it could grow and win more market share.

The thesis aims at answering the following research questions:

- What is the current retail market situation in Vietnam?
- Who are the main players in the market?
- How has Vingroup positioned itself in the competition?
- What are competitive strategies of the main players?
- What is the growth strategy of Vingroup?

Vietnam's retail market is a large topic and therefore all the aspects with details could not be covered within the limit of a thesis. The Vingroup case company is discussed and the focus is mainly on the specific field of Vinmart supermarket and Vinmart convenience store, not all types of retail industry.

The research approach of this thesis is inductive, and it is qualitative research. The data was collected from secondary sources such as articles, journals, books, and reports. The market predictions and recommended solutions for the case company were mainly based on the data from the secondary sources.

### 1.3 Case company Vingroup

Vingroup Joint Stock Company (Vingroup Corporation) formerly known as Technocom Group, was established in Ukraine in 1993 by a group of young Vietnamese who worked in the field of food and had a success with the brand Mivina. Technocom was always on the list of top 100 largest enterprises in Ukraine from the early years of the 21st century. In 2000, Technocom - Vingroup returned to Vietnam with the expectation to contribute to the Vietnam economy.(Vingroup.net, n.d.)

Vingroup focused on investing in tourism and real estate with the 2 strategic brands Vinpearl and Vincom. At the moment, Vingroup is the number 1 real estate brand in Vietnam with series of complex of commercial center - office – luxury apartment in big cities, and famous for the trend of building urban- luxury- stylish apartment in Vietnam. Vincom and Vinpearl brand are also leading the tourism industry with hotel chains, resorts, sea villas, theme parks, 5-star golf park. In January 2012, Vinpearl Joint Stock Company and Vincom Joint Stock Company were merged and operates under the name of Vingroup Corporation. (Vingroup.net, n.d.)

Table 1: Vingroup business sector (Vingroup, 2017)

Vincom (Department shopping center)	VinEcom (eCommerce)
Vinpearl (Hotels, Tourism)	Vincharm (Beauty Care)
Vinpearl Land (Entertainment)	Vinfashion (Fashion)
Vinmec (Health)	Almaz (Food chain and International Convention Center)
Vinschool (Education)	Vinmart (Retail Business)
Vinhomes (Apartment and luxury Apartment)	Vincom Office (Office for rent)

According to VF Franchise Consulting, a Singapore-based consultancy based in Asia, in the first six months of 2016, it has advised for more than 20 brands (mainly in Food and Beverages business) looking for a franchise partner in Vietnam. In 2016, the franchise in Vietnam increased by 15-20% compared to 2015. Data from the Ministry of Industry and Trade shows that from 2009 to July 2016, Vietnam received 148 internationally registered trademarks. Most franchise brands are rapidly expanding their networks immediately and leading to enormous pressure for Vietnamese companies that are entering the field, especially in the retail sector. (Đào, 2016).

As a company has abundant financial resources, Vingroup continuously launches a lot of money to purchase competitor's supermarkets system such as OceanMart, Maximark and Vinatexmart to shorten the penetration time (see figure 5). On November 20th, 2014, the brand name Vinmart was officially launched on the Vietnamese market with the simultaneous opening of 9 first supermarkets in Hanoi. Less than two years later (June 2016), Vinmart already has 50 supermarkets /hypermarkets and 830 Vinmart+ convenience stores nationwide. On average, there are nearly 3 Vinmart supermarkets and 46 Vinmart + convenience stores (more than one new shop was established each day). (Vietnampictorial, 2016)

## 2015 - YEAR OF M&A IN VIETNAM

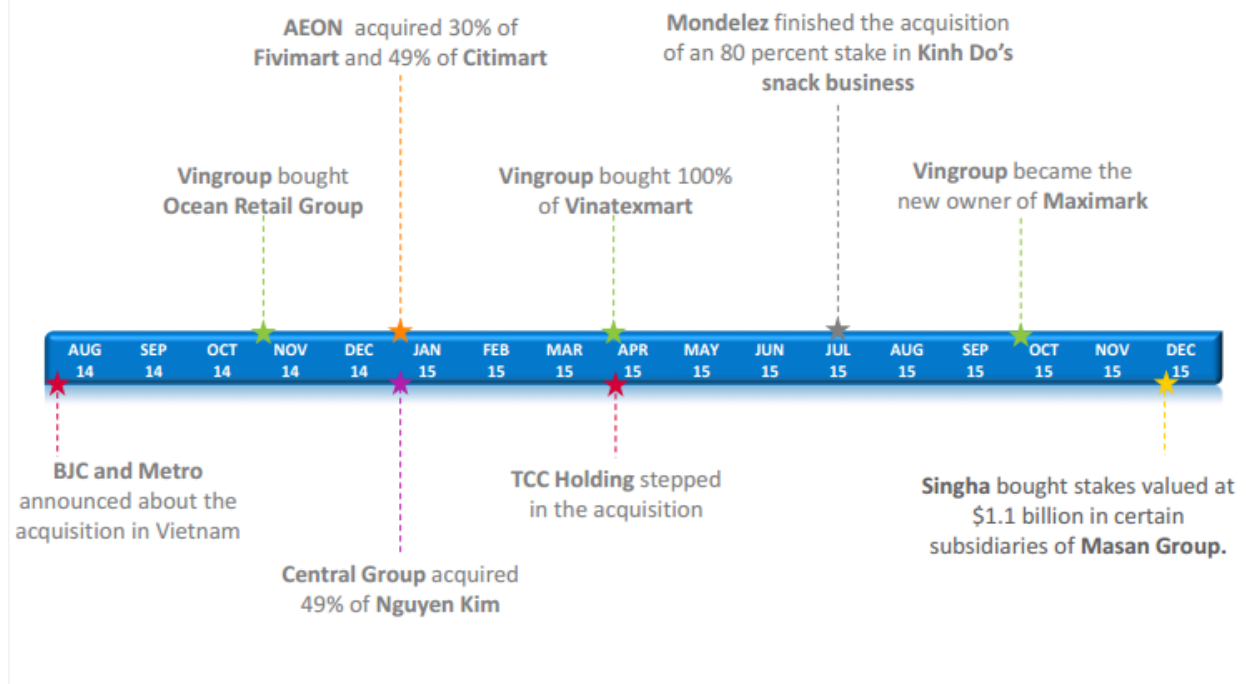


Figure 5: 2015- year of M&A in Vietnam (Nielsen Market pulse 2015)

The food retail business sector of Vingroup includes the brands Vinmart (supermarket) and Vinmart + (Convenience store) which are the strategic cards behind the real estate business. Currently, Vingroup is planning to open 400 shopping centers and home furniture chains by the end of 2019. The Group president Pham Nhat Vuong said that the company aims to increase its revenue from food retail sector from the current 20% to 50% over the next few years. (Phạm, 2016). VinMart is the supermarket with area from 3,000m<sup>2</sup> to 15,000m<sup>2</sup> and Vinmart + is the convenience store with an area of 150 to 300m<sup>2</sup>. According to Vingroup financial statement for the second quarter of 2016, net sales from Vinmart, Vinmart + and other retail were VND 2,465 billion; twice the same period last year. (VietNam Breaking News, 2016).

## 2 Retail industry

### 2.1 Definition of retail

“The word retail has its origin in French word retailer and means “to cut a piece” or “to break bulk’.” (Kazmi 2007:476). Kotler writes: “Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non-business use” (2013:386). Therefore, retailer is an important link between the final consumers and the product.

According to Kotler (2013), the main function of a retailer in the distribution process can be summarized as follows:

- Gathering and sorting products from different suppliers and manufacturers
- Providing information to consumers through advertising, displaying, sellers.
- Supporting market research, giving feedback to other distribution channels
- Product storage and care, prepare products for selling.
- Accommodating an easy sale facility by providing the correct product placement, time, credit policies and other services to customers.

According to Kotler (2013), distribution channel (also known as marketing channel) is a collection of interdependent organizations and individuals involved in the work of bringing the product to the consumer. (see figure 6). Distribution intermediaries are one or more organizations and individuals that act as a bridge between producers and consumers in the distribution of products. In practice, the intermediary can be a retailer, wholesaler, agent & broker. The sale of its products through intermediaries gives the manufacturer many advantages:

- Many manufacturers do not have the financial resources to distribute their products directly to the end consumer, direct distribution requires a lot of money and manpower.
- When using intermediaries’ distributors, the volume of sales will increase as a result of ensuring the widespread distribution and delivery of products to the target markets quickly.

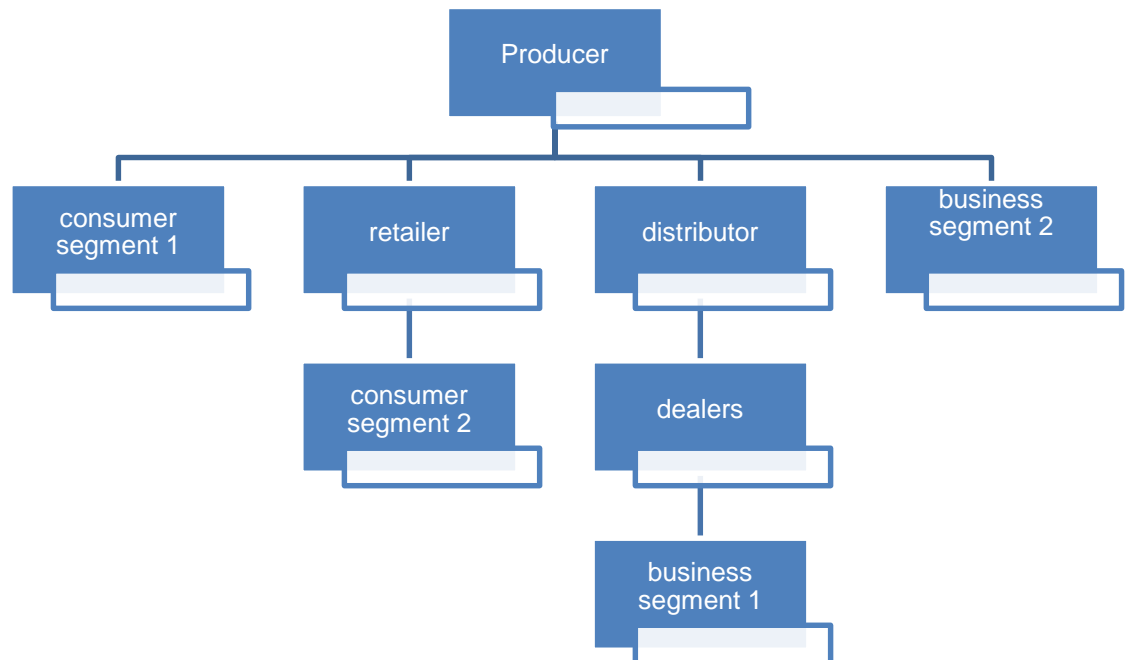


Figure 6: Multi- channel distribution system (Kotler et al., 2013)

Intermediaries will benefit the producers more than if the producers themselves take on the distribution of their own products thanks to contacts, experience of specialization and scale of operation.

- Direct distribution channels (Producer ->Consumer) are distribution channels in which the participants are the only producers and consumers. The goods produced will be distributed directly to the consumer without any intermediary delivery.
- Intermediate distribution channel:
  - 1-level distribution channel (Producer-> Retailers -> Consumers). Goods will be distributed to consumers through retailers.
  - 2-level distribution channel (Producer -> Wholesaler -> Retailers -> Consumers). Goods produced will first be distributed through 2 intermediaries: wholesalers and retailers and then to the consumers.
  - 3-level distribution channel (Producer -> Agents and Brokers -> Wholesalers -> Retailers -> Consumers). Produced goods will be distributed via 3 intermediaries chains including agents and brokers, wholesalers, retailers and then to consumers.

- Multi-level distribution channels: Participants in this distribution channel (except the manufacturer) play both distributor and consumer. The advantage of this type of distribution channel is the cost savings of promoting the product, but they have to pay a large commission for intermediate components.

## 2.2 Theory of wheel of retailing

Maccomb McNair (Hollander, 1960) has defined the theory of "wheel of retailing" with 4 stages illustrated in figure 7:

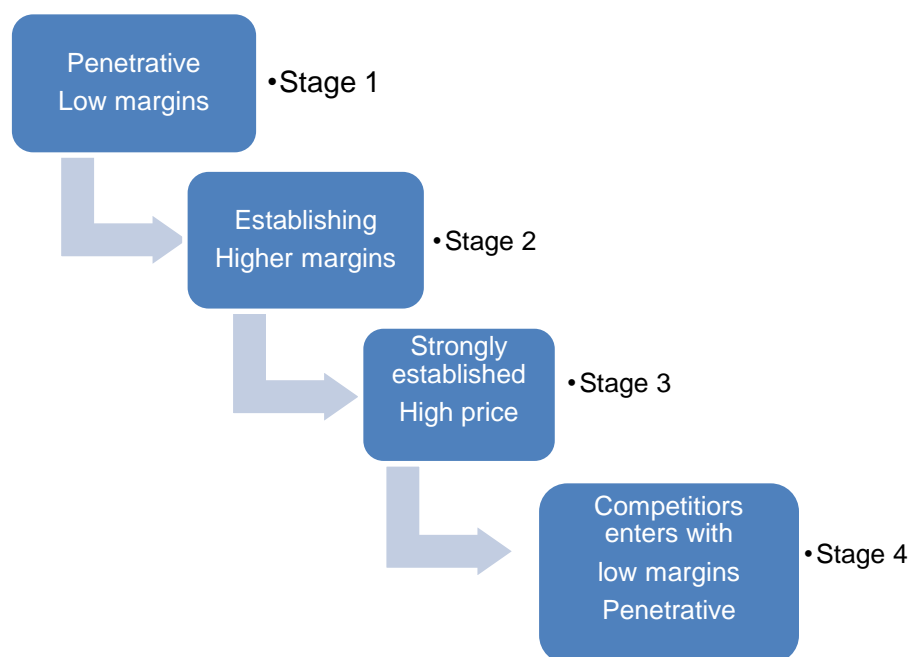


Figure 7: Four stages of wheel of retail (Hollander, 1960)

According to Kotler (2013), the basic concept of the wheel of retailing theory defines the process in retail marketing, explaining how a new retail chain is established. After a period of time improves the services and products. Then the chain is acquired by other larger retail chain, leaving its niche market to be filled by the newer discount retailer. A new retailer often enters the marketplace with low status, low-profit margin. Later business broadens its customer base and it is able to sell higher quality products and add more services and increase sales. The new competitor with low price, low margin,

low status continues the same evolutionary process. The wheel keeps on turning department stores, supermarkets, and mass merchandise through the same cycle of retail development. (Kotler et al., 2013)

### 2.3 Types of retailers

There are many types of retailers based on the diverse needs of customers. Arvind (2011) has classified them according to the following parameters:

1. Store based: Normally known as brick-and-mortar retailers
2. Non-Store based: E-stores, Online Retailers, TV Retailers, Direct Mail Retailers
3. Size: Drug Store, Convenience Store, Supermarket, Hypermarkets
4. Merchandise: Speciality stores, Department Stores
5. Brands: Single Brand, Multi-Brand
6. Pricing: Discount stores, Cash and Carry, Wholesale Club

Table 2: Type of retailers (Arvind, 2011)

Store based	Non Store based	Organization's Retail
Convenience store	Direct selling	Franchising
Department store	Telemarketing	The store chain
Category killers	Automatic	Retail co-operatives
Super markets	Online retailing	
Off -price retailer		
Discount store		
Multiple shops		

#### 2.3.1 Store based retailers

According to Kotler (2013), store-based retailers can be defined as following:

- Specialty stores: Specialty stores sell a narrow product range, but are very diversified. Examples include clothing stores, sport good stores, furniture stores, bookstores, flower shops.



- Department store sells a number of products, usually clothing, footwear, cosmetics, jewelry, household items, and furnishings, which is sold in private sections. It is managed by a purchasing manager or sales manager.
- The supermarket is a relatively large-scale, low-cost, self-service store designed to serve all consumer needs for food, detergents, home maintenance products. In developed countries, each supermarket sells about 10-15 thousand items.
- The discount store sells standard products (not substandard products) at lower prices because they accept lower rates and sell in larger quantities. To reduce costs, they use the facilities in cheap rented areas, cut prices sharply, advertised extensively and sold products of moderate widths and depth.
- Off- price retailers unlike average sellers, who regularly buy at wholesale prices and accept low-interest rates to keep retail prices low, often buy with less than wholesale prices and sell to consumers at a price below the average retail price on the market. The most common form of off-price stores is the factory's shop owned by the producer and operated by the producer, who sells excess products, limited production, or failed production.
- Category killers is a retail chain store which is dominant in its product category. They sell a wide variety of branded, fast-moving, high-value products such as jewellery, electrical appliances, cameras, handbags, small appliances, sports-wear. They generally offer an extensive selection at low prices which other smaller stores cannot compete. These stores are physically large and own the category of merchandise. They cut costs and profitability to be able to sell lower prices but larger sales volumes.
- Convenience stores are often open 24 hours and located near residential areas. They offer such products as processed food, canned goods, beverage, alcohol, cigarettes, pharmaceuticals (non-prescription) and cosmetics with slightly higher price.

The store-based retailer can choose from 3 service levels to diversify choice and to satisfy customers:

- Self-service retailers concentrate on common products and to some extent for selective products. Self-service is the basic factor of discount stores. Many customers want to make their own choices, compare on the spot to save money. They also offer self-service checkouts.
- The limited-service retailer has a higher level of sales support because they carry more shopping products require information, including pay by instalments and accepting a return of purchased goods.
- A full-service retailer has sales staff willing to assist in the selection process and on-site comparison. Full-service retailers have a high cost of maintaining service personnel, and they often apply to products with special needs (fashion, jewellery, cameras, etc.) with policies like return purchased goods, instalment payments, free home delivery. They offer customer facilities such as complimentary lounge and refreshments.

### 2.3.2 Non- Store based retailers

According to Kotler and Armstrong (2013), the non-store retails type is growing rapidly and account for an increasing share of retail sales. The main forms of non-store retail are explained as follow:

- Direct sell method is called multi-level marketing or pyramid sales was born many centuries ago by street vendors, and is still widely used today, especially for consumer goods. A business recruit independent sales person as distributors of their products, and those sale persons again recruit and sell to sub-distributors, who eventually will recruit others to sell their products, usually at the customer's home. Distributor fees include a percentage of the sales of the entire sales team recruited by the distributor as well as the amount earned in all cases of direct sales to retail customers. In this way of sale does not exclude cases where the initiators use tricks to make money while the product rarely reaches the hands

and satisfy the end consumer. Direct sell is a very costly and expensive way because of hiring, training, managing, and motivating the sales force.

- Direct marketing which includes telephone marketing, direct response marketing on Television and Internet shopping.
- Automatic sales are the form of vending has been applied to a wide range of products ranging from casual products (cigarettes, soft drinks, hot beverages, candy, breakfast cereals, newspapers) and other products and services (underwear, T-shirts, shirts, books, music albums, video tapes, automatic teller machines, etc.). Automatic vending machines are installed at factories, offices, hotels, restaurants, gas stations, train stations, and airports, and are available 24/24. An automated sale is a form of convenience, but expensive and often high in price because they are often located at distraction locations, high theft rates, and not always satisfying customers because they cannot return the goods.
- Purchasing Service is a form of the retailer with no warehouse, serving special clients, often are employees of large organizations such as schools, hospitals, government organizations. Members of this service have the right to purchase a select list of retailers at discounted prices. For example, a person who needs to buy a personal computer will receive a voucher at the premises of the purchase service, which will be provided to the retailer who contracted earlier and purchased at a discounted price. Retailers will pay a small fee to the service provider.
- Online retailing is the sale of goods and services by using the Internet. The development of modern technology along with the needs of saving time, effort and desire for more choices has given rise to another form of business. Online retailing works just like traditional business, just different in terms of operating environment. The seller creates a store online to display, introduce and sell products. There will be no cost for the premises, and labor.

### 2.3.3 Organization's Retail

According to Kotler (2013), beside independently owned retail stores, there are organizations retail such as cooperatives retailer, corporate chain stores, exclusive agents. Corporate chain stores consisting of several stores owned by a company that sells similar items. The store chain is run by the company and is strongest with department stores, pharmacies, restaurants, food stores.

Retail co-operatives include independent retailers that volunteer to re-group into an organization that unifies their business to enhance their competitiveness. Exclusive agents are contractual affiliations between the manufacturer, wholesaler (s) and retailers (franchisees). The franchisor allows the franchisee to franchise under the franchisor's brand in one area. The franchisee must follow the management procedures of the right holder to ensure quality. The income of the franchisee is agreed upon by the two parties and clearly stated in the contract. This form is also known as a franchise.

The main different between franchise organizations and other contractual system (voluntary chains and retail cooperative) is that franchise system are normally based on some unique products or service, a method of doing business; or the trade name, goodwill or patent that the franchisor has developed (Kotler 2013: 392)

### 2.4 Marketing decisions of retail businesses

"Retailers are always searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique product assortments and more or better services."(Kotler & Armstrong, 2012: p382-383). "Too many retailers, even big ones, fail to clearly define their target markets and positions." (Kotler & Armstrong, 2012: p383). According to Kotler, marketing for retail business differs from other types of marketing because of its unique nature: it sells end-products in small quantities to customers, usually at a semi-permanent location. It also uses the basic principles of 4P marketing mix, which is important in the case of retailers trying to move towards owning a large supply chain.

In order to gain the market share, first retailers should have full information on the key markets and from that decide what activities should be positioned in that market. The decision about positioning will govern every other decision. Other marketing activities will reinforce the position of the retailer in the market. Next, retailers must decide which product categories they sell, product quality, customer service associated with each type of product, and the environment in which the store sells goods or services to customers. Besides, the retail price should have associated with the purchase price, and additional services included. Retail prices are usually calculated according to the purchase price plus% profit. For different customer groups, retailers need different pricing. It is also necessary to adjust prices when there are fluctuations in the market. The retailer must also decide on the components of the mixed promotion to communicate to the customer. Last but not least, sales locations play an important role in attracting retailers' customers. Therefore, retailers need to identify the right criteria for choosing a location. (Buleen, n.d.)

### 3 E-commerce in retail

#### 3.1 Characteristics of E-commerce

According to Chaffey (2007), electronic business is the form of trading goods and service through the computer network worldwide (also known as the electronic market, virtual market, E-Commerce or E-Business). It is the virtual trading process through the transmission of data between computers in the distribution policy of marketing. The direct commercial or relationship between the supplier and the customer is conducted over the Internet. "E-business is aimed at enhancing the competitiveness of an organization by deploying innovative information and communications technology throughout an organization and beyond, through links to partners and customers. It does not simply involve using technology to automate the existing process, but should also involve using technology to help change these processes" (Chaffey, 2007).

Electronic business processes can be viewed from the inside of an enterprise (supply chain management, e-procurement) or from outside the enterprise (Electronic market, e-commerce).

For a country, e-commerce is seen as the driving force behind the development of the information technology industry, a key industry that is seen as a major contributor to the foundations of the new world economy. This is an opportunity for global economic integration. (Chaffey, 2007)

According to Chaffey (2007), characteristics of e-commerce can be explained as follows:

- The parties conducting transactions in e-commerce do not contact each other directly and do not need to know each other before.
- E-commerce is implemented in a borderless market. E-commerce has a direct impact on the global competitive environment.
- Transaction contract involves at least three parties, including network services or authorizing agency.

Types of e-commerce is often classified as shown in table 3

Table 3: Types of ecommerce (Chaffey, 2007)

Consumers	Enterprises	Government
C2C (Consumer to Consumer)	B2C (Business to Consumer)	G2C (Government to Consumer)
C2B (Consumer to Business)	B2B (Business to Business)	G2B (Government to Business)
C2G (Consumer to Government)	B2G (Business to Government)	G2G (Government to Government)
	B2E (Business to Employee)	

Difference between traditional retail and e-retail can be summarized based on 10 different topics. These are explained and compared in table 4 as follows:

Table 4: Comparison between traditional retail and e retail (LeVandung-LinkedIn, 2015)

	Traditional retail	E-retail
1.Nature	A form of purchasing or service through direct contact between seller and buyer	A form of purchasing and services through a global computer network
2. Partner involved	Directly involved: buyer and seller	Beside buyer and seller, there is always a third party involved in the transaction process: the service provider.
3.Market scope	Limited: Physical store	Unlimited market
4. Form of transaction	Directly between the parties involved the transaction	Indirectly transaction

5. Information network	Exchange information	Market
6. Sales channel	Manufacturers-> wholesalers->retailers -> consumers	Business->internet-> consumers
7. Time/location	Time is limited. Location is limited	24/7/365; All over the world
8. Mean of sale	Display good at store	Based on information and pictures. Through webpage
9. Collect information	Through market survey of sale staff	Through customer's information in the internet
10. Investment	Large investment	Small investment

There are many benefits when doing business by e-commerce. According to Chaffey (2007), it is no longer limited geographically, or by working time. Companies do not need to wait for customers to come to the store but actively seek customers themselves. It is easy to expand the domestic market and reach the international market as well as storing information, search, distribute and process information. Furthermore, it reduces problems in supply chain management such as excess inventory and late delivery. With e-commerce, business can save in rental and salary costs. They can also do marketing globally at extremely low cost. On the other hand, relationship with the customer is improved by offering easy communication and fast service: Business can deliver catalogues, brochures, information, quotes to customers in an extremely fast way. Finally, is the competitive advantage: The online business is a place for creativity, where business is free to apply the best ideas and best marketing strategy to attract and retain customers.



### 3.2 Omni-channel retailing

As retail technology continues to grow, the dividing line between the online business and traditional stores is becoming blurred. Omni-channel is a marketing method that unifies channels to increase brand coverage and customer interest, not only enhancing brand value but also driving sales significantly by crossing all media or devices that customers can reach and interact with, to make the purchase process more convenient. Omni-channel marketing makes a big contribution to the creation of Omni-channel retailing to serve the needs of social networking, website, and phone calls to smartphone applications. (Vietnam Retail Magazine, 2015)

Omni-channel retailing is described by Rigby (2011:11) as: "an integrated sales experience that melds the advantages of physical stores with the information-rich experience of online shopping." This is the retailer's all-in-one marketing model – the customers come from a variety of sources and use different devices to get retailer's information.

Omni-channel is increasingly popular due to the increasing number of Internet users, which makes it possible for retailers to increase their coverage at lower cost while still enhancing the value of the brand. This will significantly boost sales, providing retailers with an opportunity to reach their potential customers and enhance the shopping experience for consumers. Omni-channel marketing contributes significantly to the success of Omni-channel retailing, making consumers feel more interested in buying from websites, social networks, and mobile applications. (Vietnam Retail Magazine, 2015)

There is a lot of confusion between Omni-channel and Multi-channel. Essentially Omni-channel is just a development from Multichannel. Omni-channel derives from the needs and potential needs of customers and focuses more on branding and customer experiences as they engage in buying behaviour. With the Omni-Channel, retailers will have two major advantages; first expanding the business everywhere without having physical shop and secondly diversifying easily into products, and capturing the market and segmenting the customer base. (Vietnam Retail Magazine, 2015)

## 4 Analysis of the Vietnam food retail market

Regarding the number of enterprises doing business in the retail sector, statistics from the Ministry of Planning and Investment shows that the number of specialized businesses in retail operations is accounted for at least more than 50% of the total number of enterprises. From the perspective of foreign investors, this statistic also shows by the end of 2015, there were 1,735 foreign investment projects in the field of wholesale and retail with a total registered capital of over US \$ 4.6 billion, and was on top 6 categories which attracting the most foreign investment. (Chamber of Commerce and Industry of Vietnam, 2016)

Moreover, according to survey results of Nielsen, the belief of Vietnamese consumers always reaches a high position in comparison with consumers in markets around the world. According to the report of this organization, the belief of Vietnamese consumers continued to reach a high position in the first quarter of 2016 - ranking 5th in the world and third in Southeast Asia (after the Philippines and Indonesia, even higher than Thailand, Singapore, Malaysia). This proves that consumer demand will continue to increase in the coming time and boost the prospects of Vietnam's retail market. (Chamber of Commerce and Industry of Vietnam, 2016)

### 4.1 Current status of Vietnamese retail sales

According to the 2016 Global retail index development by AT Kearney, Vietnam GDP has grown 5.2% annually since 2013. There has been an impressive growth in retail sales area and retail sales increased 9.5% in 2015. Table 5 shows that Vietnam is ranked as the 11th with 50.8 scores and marked as "low market saturation and GDP growth that is highest among Southeast Asian countries in the GRDI."

Vietnam's retail market has been opened widely for foreign investors after Vietnam joined WTO in 2007 and several free trade agreements (FTA) such as ASEAN FTA, ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-New Zealand & Australia FTA and soon Vietnam-European Union (EU) FTA in 2018 have been signed. (AT Kearney, 2016). Accordingly, since 2015, Vietnam has eliminated tariffs on 93% of tariff lines from ASEAN

countries, to 97% by 2015. In the coming time, Vietnam will continue to eliminate 70-80% of the tariff lines as committed in the ASEAN+, Multilateral or Bilateral Agreements. (Chamber of Commerce and Industry of Vietnam, 2016)

Table 5: GRDI retail development index (AT Kearney, 2016)

### 2016 Global Retail Development Index™

2016 rank	Country	Market size (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Population (million)	GDP per capita, PPP	National retail sales (\$ billion)
1	China	100.0	61.2	36.2	92.5	72.5	1,372	14,190	3,046
2	India	53.7	54.3	75.8	100.0	71.0	1,314	6,209	1,009
3	Malaysia	81.2	83.4	23.5	50.4	59.6	31	26,141	93
4	Kazakhstan	56.4	37.3	61.9	70.2	56.5	18	24,346	48
5	Indonesia	64.3	38.9	50.2	68.9	55.6	256	11,112	324
6	Turkey	85.9	46.4	31.9	53.1	54.3	78	20,277	241
7	United Arab Emirates	95.2	100.0	1.3	18.0	53.6	10	66,997	69
8	Saudi Arabia	91.2	64.9	21.3	31.5	52.2	32	53,565	109
9	Peru	47.3	52.8	50.4	57.2	51.9	31	12,077	70
10	Azerbaijan	33.9	30.8	80.9	59.3	51.2	10	18,512	17
11	Vietnam	22.7	24.5	68.7	87.4	50.8	92	6,020	87

0 = low attractiveness  
100 = high attractiveness

0 = high risk  
100 = low risk

0 = saturated  
100 = not saturated

0 = no time pressure  
100 = urgency to enter

According to the Vietnam General Statistics Office, the Vietnam GDP per capita reached an estimated \$2,215. It went up \$106 compared with 2015 and purchasing power parity PPP is \$ 5,600 per capita. Since 2008, with global economic integration trend and market-oriented reforms, Vietnam began moving from low-income countries to lower middle-income countries, even though the income in Vietnam is still far away from the average income from the group of middle-income countries.

However, the increase of foreign investors shows positively that the economic life in Vietnam is more and more about quality. Citizens from big cities like Ho Chi Minh, Hanoi will have much higher income than the national average - about 2 to 3 times. According to a study released by the World Bank (2015), the urban areas in Vietnam have expanded spatially by 2.8% per year, among the fastest rates in the region. The rapid growth of urban expansion in Hanoi by 3.8% and Ho Chi Minh City by 4.0% per year

are much faster growth rates than in other East Asian countries, except in China. (English.thesaigontimes.vn, 2015). It is obvious that Vietnam's urban middle-class is a target group for the increasing number of modern food retail chains. Consumers living in first and second-tier cities have higher income and are more open to new and quality products than shoppers in rural areas.

According to the Ministry of Industry and Trade of Vietnam, in Vietnam, there are around 750 supermarkets of which foreign retailers make up 40%, 130 shopping centers of which 31 are Foreign Direct Investment and 9,000 traditional markets. By 2020, Vietnam has about 1,200 to 1,300 supermarkets, 180 department stores, 157 shopping centers, and 1 million retail outlets operated by individuals. Figure 8 shows that the retail sales growth is recovered and continues to grow really high during the first months of 2017. The retail growth rate is expected to grow by 11.9 % during 2016-2020 with the market value reaching \$179 billion by 2020, of which modern retailing accounts for 45%. (Vietnam Breaking News, 2016). According to Ministry of Industry and Trade, the retail sales of State-owned enterprises accounted for about 10%, local private enterprises accounted for 86%, FDI enterprises took up approximately 4%. Notably, FDI enterprises had a modest number of 90 retailers throughout the country. However, sales of these retailers were 3-4 times higher or even 7-8 times as compared with a local supermarket due to large-scale operations.” (VietNam Breaking News, 2016)

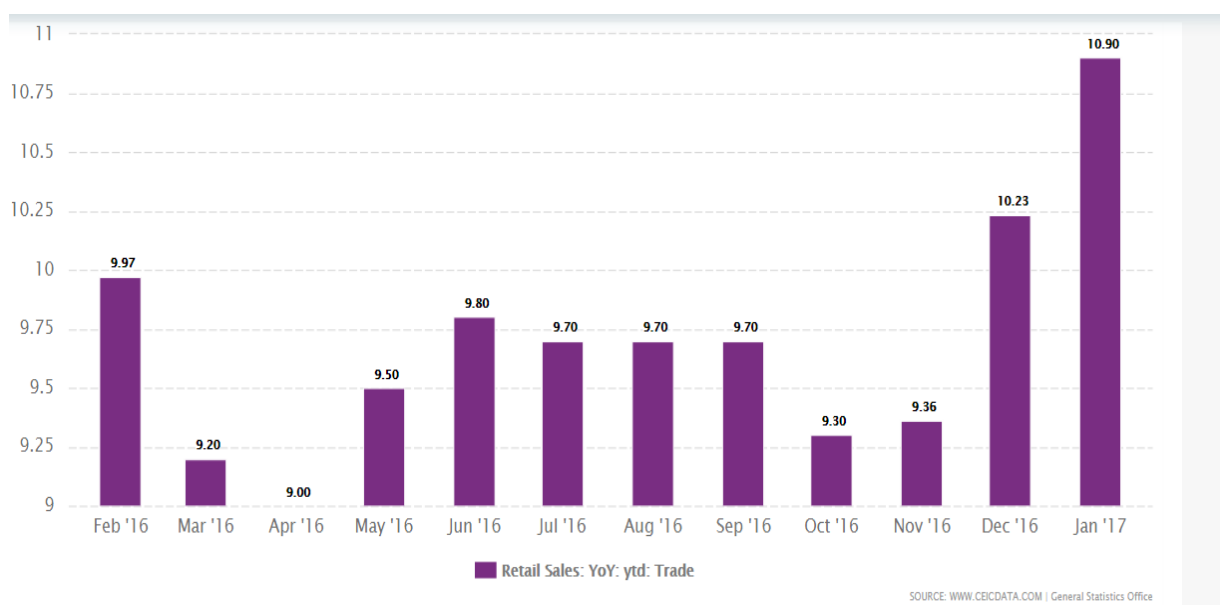


Figure 8: Vietnam retail sales growth (general statistics office, 2017)

#### 4.2 The main competitors in Vietnam's retail market.

In Vietnam, traditional and modern type of retailers is existing and competing with each other. Many foreign retailers from South Korea, Japan and Thailand have built up the distribution systems in Vietnam and are aiming at higher market share in this high potential market. The competition between the domestic and foreign retailers is becoming harder. The foreign retailers have invested into department stores and supermarkets such as AEON, Big C, Lotte and Metro Cash & Carry. Among the foreign retailers, Central Group from Thailand is one of the best-known names to Vietnamese which has been taken over by Big C Vietnam with a deal worth of 1 billion euros. Investors from Thailand - TCC Holding and Central Group were very quick to take over big retailers in Vietnam like Metro Cash & Carry Vietnam and Big C and purchased 49% of stakes in electronics retailer Nguyen Kim in January 2015. They also bought Zalora Vietnam for \$10 million in 2016. Through those merger and acquisitions, Thai retailers have achieved about 50% of the Vietnamese retail market. (DealStreetAsia, 2017)

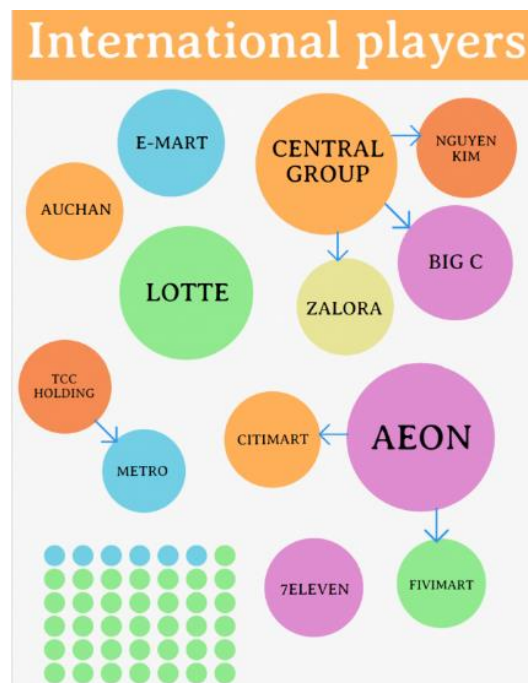


Figure 9: Major international retailers in Vietnam (DealStreetAsia, 2017)

Figure 9 shows the major international retailers in Vietnam. In 2016, South Korea's leading retailer Emart launched a \$60 million shopping center in Ho Chi Minh City and opened 11 other supermarkets. The firm expects to expand its network to 60 stores in Vietnam by 2020. At the same time, Walmart from the US and Auchan from France are preparing to enter the Vietnamese market. Japanese investors have also made big investments in Vietnam: Aeon plans to build 20 Aeon malls in Vietnam and also announced its double acquisitions – 30% of Fivimart and 49% of Citimart. (DealStreetAsia, 2017).

According to the Euromonitor (2015), International fast food revenue in Vietnam in 2015 was \$747.2 million, increased by 9% as compared to 2014. Foreign fast-food chains including Burger King, Domino Pizza, KFC, Lotteria, McDonald's, Pizza Hut and Starbucks are present in Vietnam

Domestic retailers may have more knowledge about domestic customers, but international retailers have number of other strengths. For example FamilyMart has used their experience in loyalty programs, branding, and effective marketing approach in order to operate their branches better in the local area: Family Mart offers fast-food service for busy office workers by putting fast food stalls and developing fast-food snacks. (Vietnamfranchise.net, 2015). Knowing that Vietnamese young people are really interested in Japanese culture, Aeon introduces their own brand TopValu for authentic Japanese kitchenware and utensils. The company is now looking for solutions to produce these products in the domestic market. (Vietnamfranchise.net, 2015)

#### 4.3 Swot analysis of Vietnam's retail market

According to Deloitte Southeast Asia (2014), the following SWOT analysis of Vietnam's retail market is presented as follows:

##### Strengths:

- Vietnam joins AFTA, WTO and Trans-Pacific Partnership (TPP) has created a lot of opportunities for future retail to join the supply chains of many major corporations in the world, especially the electronics and high-tech supply chain.

- The modern trade trend is increasing and Vietnam is considered one of the attractive retail markets.
- Multinational orientation in the retail market has created optimum modern retail models, especially in value-added services.
- The rate of economic development in Vietnam has helped the middle class to grow and has resulted in a higher consumer demand. The luxury urban centers of Hanoi and Ho Chi Minh City are becoming very potential customer markets.
- Vietnamese consumers, especially the young and wealthy one, are becoming more and more interested in foreign-brand products. The foreign products supported by strong investment in marketing and promotion programs are very popular in Vietnamese market as consumers perceive them to be of better quality and hygiene standards.

#### Weaknesses:

- Vietnam's infrastructure like roads, railways, and ports are not sufficient for the country's economic growth as well as for the external world. Vietnam's retail distribution network is still underdeveloped and companies tending to scale up need to invest in the development infrastructure as well as to open new stores.
- There is a large disparity in income between urban and rural areas, which makes a difference in income-based, and limits the potential buyers.
- The price advantage of large and foreign retailers has made it difficult for domestic and small retailers to compete and offer low-cost products.
- Foreign retailers tend to grow strongly thanks to their financial strength, well-known brand, and well-arranged business. They penetrate the Vietnamese market by acquiring local retailers.

#### Opportunities:

- The multimarket concept is still very new. However, with the development of the modern retail market, this concept will have many great opportunities for development in Vietnam.
- The modern retail sector is just concentrated on urban centers in the North and South Vietnam, which means that there are still many potential places like Central and other locations for retail businesses to develop.

- The new concept of retailing; private labelling and discounts needs to be more prevalent for consumers.
- The rapid urbanization and development of many new condominiums are a favourable condition for the establishment of modern retail outlets to meet growing customer demand.

#### Challenges:

- Due to fierce competition, there is a high risk that small and domestic retailers and traditional stores may have to shut down.
- Increases activity could cause retail margins to fall.
- Decrease value of currency Vietnam Dong may cause inflationary pressures.
- Improvement of the supply chain and infrastructure, quality of goods, and customer satisfaction for products and services.

#### Threats

- In the fierce competition, most Vietnamese suppliers will suffer because in order to attract customers, retailers will usually ask suppliers to offer the lowest price which leads to not much of profit made. Those who can follow the long-term price war are often strong and powerful enterprises. (VnExpress, 2015)
- The world economy and the domestic economy is still under many uncertainties in the development.
- Too many foreign retail businesses are entering the market. This creates a great competitive pressure in the market, especially when foreign enterprises have competitive advantage over Vietnamese enterprises in terms of capital and premises. They also have the professional level of reliable from domestic and foreign suppliers as well as flexible payment method.
- Domestic enterprises have increased rapidly in terms of quantity but the quality of development is not synchronous because of lacking long-term strategy, lack of professionalism and management experience.
- Merger and acquisition deals are becoming more frequent in the retail market when domestic distributors lose market share, also manufacturers encounter troubles.



#### 4.4 Competitive strategies

According to Mr. Vaughan Ryan, Managing director of Nielsen Vietnam, in 2016, there are more than 1.3 million traditional stores and it is a complex network of trading. There is always fierce competition among small individual shops but this is still a channel with the largest number of stores and brings the greatest revenue for manufacturers. Most of the manufacturers have predicted that traditional retail channels in Vietnam will fade and no longer have the major impact on the market when the market is growing. However, the reality proved otherwise. In 2015, for the first time, the growth rate of this channel has been growing faster than the modern trade channel throughout the past decade. This channel currently accounts for over 85% of the turnover of Fast Moving Consumer Good industry, equivalent to approximately US \$ 10 billion. (Nielsen, 2016). Figure 10 shows that the percentage of consumers who shopped in the traditional grocery in 2014 dropped as compared to 2012 and increased in the convenience store in the same period.



Figure 10: traditional grocery vs convenience stores 2014 vs 2012 (Nielsen thought leadership, 2014)

According to a Nielsen's report (2016), there are five other important factors that affect the choice of Vietnamese consumers today; the availability of the product (62%), high quality products (57%), convenient location (54%), service or shop staff (51%) and proper sorting of goods (51%). (Vietnam Retail Magazine, 2016).

Foreign retailers are currently competing with local retailers in modern retail category (shopping centers, supermarkets and convenience stores). However, at the moment

Vietnam's retail food market is still dominated by traditional or small individual independent stores ideal for small-quantity/high-frequency food purchases. The advantages of traditional market retail are that usually they have lower rental costs, sufficient logistic costs, fresh food supply source, and low operational costs. They offer convenience, flexible package-size with competitive prices, especially for fresh products and dried food. Most of the categories in traditional markets are local products and people can bargain.

According to Euromonitor's "Grocery Retailers in Vietnam report 2016", traditional retailers account for 94% of sales while modern retailers account only for 6%. However, industry experts expect the modern food retail sector to account for around 20% of sales in Vietnam by 2025. The domestic retailers at the moment including VinMart and Saigon Coop and famous domestic producers such as Vissan, Vinamilk and Trung Nguyen are developing their own distribution systems to gain more market accessibility and to promote their brands outside Vietnam. (Vietnam Retail Magazine, 2016). As a result, there are grounds to believe that traditional markets, supermarket and convenience stores could replace each other on the move. For example, when there is inflation, most housewives choose to go to the traditional market because they can bargain as compared to fix prices in supermarkets. Meanwhile, consumers will go to buy grocery in convenience store due to the factor "just nearby". (Duy Khánh, 2016.)

#### 4.5 Governmental influences in Vietnamese retail market

When facing the wave of merger and acquisition from foreign retailers, many countries in Asia have had many strong policies to protect domestic retailers. For example, in Malaysia, all forms of investment is required to be approved by the specialized commission of the Ministry of Commerce. Prior to implementing the investment in infrastructure, foreign businesses must joint venture with domestic enterprises, the maximum ownership rate is 70% and ensures that 30% of the value of the product is provided by small and medium domestic enterprises. India requires foreign retailers to set up joint ventures, in which the capital of foreign investors does not exceed 51%, the minimum investment is \$100 million. The minimum requirement of the opening place to sell must meet about 1 million people and foreign operator is not allowed to trade online or wholesale. (Finance magazine, 2016).

Meanwhile, in Vietnam, the phenomenon of foreign retail brands penetration is increasingly strong because Vietnam has not planned a specific, detail retail network. At the same time, at some local provinces, the licensing of investment for foreign retailers is not controlled tightly enough so many retailers are still free to compete fiercely with local retailers. Moreover, enforcement is not serious, for example, although the Ministry of Industry and Trade has regulations for some items which are not allowed to be distributed by foreign investors. Commerce law (Circular 34/2013/TT-BCT) states: "Foreign retailers are not allowed to distribute rice, sugar cane, cigarettes and cigars" but the market survey shows that in supermarkets, retail stores of most FDI-invested supermarkets are publicly selling these items. (Finance magazine, 2016)

According to the Vietnam Chamber of Commerce and Industry (VCCI), the priority support measures for the domestic retail sector are relatively low (just focus on tax incentives for large-scale supermarkets, trade centers and markets in rural areas). At the macro level, there are no guidelines or frameworks to limit the support measures for this sector. On the other hand, the legal framework affecting the development and implementation of measures to support the retail sector is shaped by international commitments, regulations and relevant domestic legislation. In the context of Vietnam's deep integration into the global economy, being a WTO member and according to a number of trade agreements, Vietnam's trade and investment policy measures are bound by pledged from many angles. (Finance magazine, 2016). The majority of domestic retail distribution companies in Vietnam are operating in a state of inadequate capital. This affects a lot to business and brand development. As a result, from a policy and domestic retailer's perspective, the State should have appropriate support measures to accelerate this process, particularly in the sense which individual retailer can't afford if it is too costly. In general, state support will be significant in the orientation of development for the retail sector systematically and in the long run. (Science forum, 2016)

Vietnam has introduced a number of criteria and publicly announced the process of applying Economic Needs Test (ENT) in the licensing of FDI retail businesses in Vietnam. However, in practice it is not applied thoroughly. With a potential retail market like Vietnam, the use of ENT as a useful commercial tool to protect the retail industry as well as the nascent domestic enterprises is of concern. (Đào, 2016). When the tariff lines are gradually removed, in order to take advantage of opportunities, domestic enterprises must meet the country's requirements on technical barriers, exchange rates, intellectual property rights and distribution networks. Therefore, there should be a close connection between the State and enterprises in trade promotion activities, support training in market information and trade promotion policies of intra-regional markets. (Đào, 2016)

## 5 E-Commerce in Vietnam

The legal basis to regulate e-commerce activities in Vietnam comes rather late in comparison with many countries in the world. At the end of 2005, Vietnam had the "E-transaction Law" and in 2006 a new decree guiding the implementation of this law was introduced. While the traditional channel is still dominant in the market, E-commerce has developed step by step thanks to the rapid growth of the internet and mobile usage.

### 5.1 The overview of Vietnam's E-commerce market

In the past few years, E-commerce has made great progress in Vietnam. Before customers considered the internet is the place just to look for information before they went to the physical store to shop, but now they can order from home/office, and get delivery quickly. At the moment customers are getting more used to online shopping for fashion items, books, cosmetics, electronic devices, and even food. "Vietnam's e-commerce sales expanded by 37% in 2015 to over \$4 billion, which is nearly 3% of total national retail, and are expected to hit \$10 billion in the next five years." (Nikkei, 2016). According to Vietnam E-commerce and information technology agency, in 2013, there were 10,000 e-commerce platforms and websites registered by 2015, doubling the number from 2014. (VECITA, 2016)

Currently, the size of the Vietnamese e-commerce market is about \$ 4 billion by the end of 2016, about one-third of the \$ 120 billion of the Japanese market. However, in terms of growth, Vietnam is one of the fastest growing markets in the world. The growth rate of e-commerce in Vietnam is about 35%, 2.5 times higher than Japan. Consequently, experts recognize that although there are still challenges, especially in the context of globalization and the development of technology, which allows enterprises to easily sell online in other countries, ecommerce in Vietnam is still a land of possibilities for domestic businesses, including start-ups. (Báo Diễn đàn doanh nghiệp điện tử, 2017)

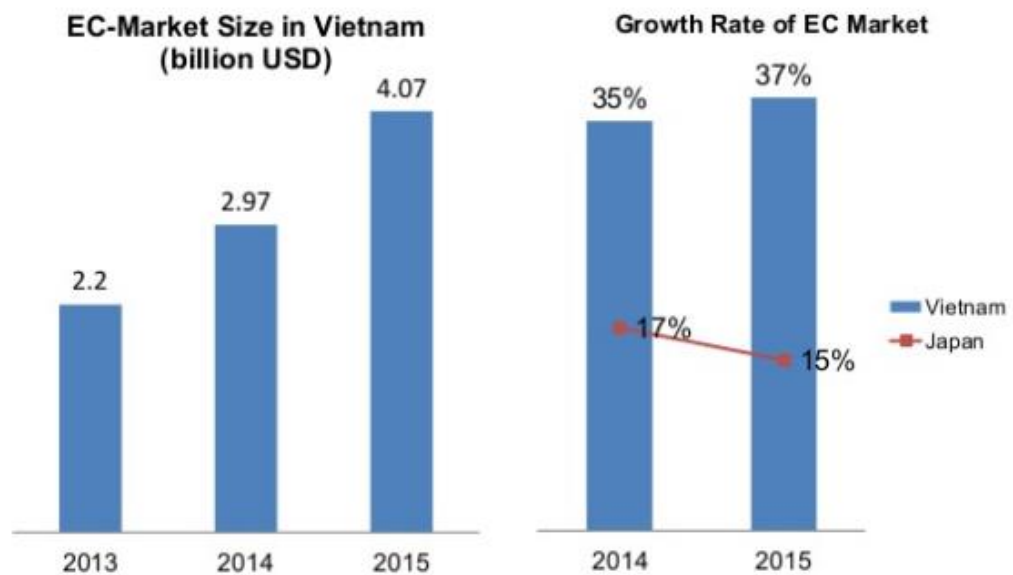
For e-commerce, the number of people with connected Internet connections is vital to the survival and development of the industry. Vietnam has a large population exceeding 93 million, with over 47 million Internet users (44% of total population), high internet and smartphone usage rate which are favourable conditions for e-commerce development. The percentage of smartphone use in Vietnam is over 70%, even in rural areas has reached over 50%. (Báo Diễn đàn doanh nghiệp điện tử, 2017). So the e-commerce market has the right to be confident; if it gets the right attention and investment, the potential is enormous. (See figure 11)



Figure 11: Digital in Vietnam (SMI Intelligence, 2016)

Statistics released by eMarketer market research company in 2015 shows that more than 32 million Vietnamese regularly use social networks, accounts for nearly 36% of the population. Research by Nielsen also states that more than 30% of consumers are closely associated with online shopping and used social networking as a referral before making decision. (Ministry of Industry and Trade, 2016)

## Market Size of VN EC and its Growth Rate



Market reached 4.07 billion (excluding C2C shopping demand of Facebook).  
The growth is double of the market of Japan

Sources: "Japanese Ministry of Economy, Trade and Industry" & "VECITA"



Figure 12: Market size of Vietnam ecommerce and its growth rate (Japanese ministry of economy)

E-commerce penetration is an important indicator in e-commerce, which is measured by the proportion of e-commerce compared to traditional retail. According to Euro monitor, in 2011, the proportion of e-commerce in Vietnam accounted for 0.25% market, reached \$154 million. By the end of 2016, this figure is nearly tripled, reaching 0.71% with capitalization 6 times higher. (Ministry of Industry and Trade, 2016). However, the market share of Vietnamese e-commerce is quite modest. In comparison with other countries in the world, e-commerce in Vietnam has only just begun and the scale is not large yet.

According to the e-commerce survey by the Vietnamese E-Commerce and Information Technology Agency in 2015, the value of e-commerce market reached \$ 4.07 billion, increased 37% as compared with the previous year, which accounted 2.8% of the total retail sales of consumer goods and services nationwide. The most popular types of

goods and services purchased online are clothes, shoes and cosmetics (see figure 13). These two categories account for over 80% of the listing and take over 50% of the sales. (Ministry of Industry and Trade, 2016)

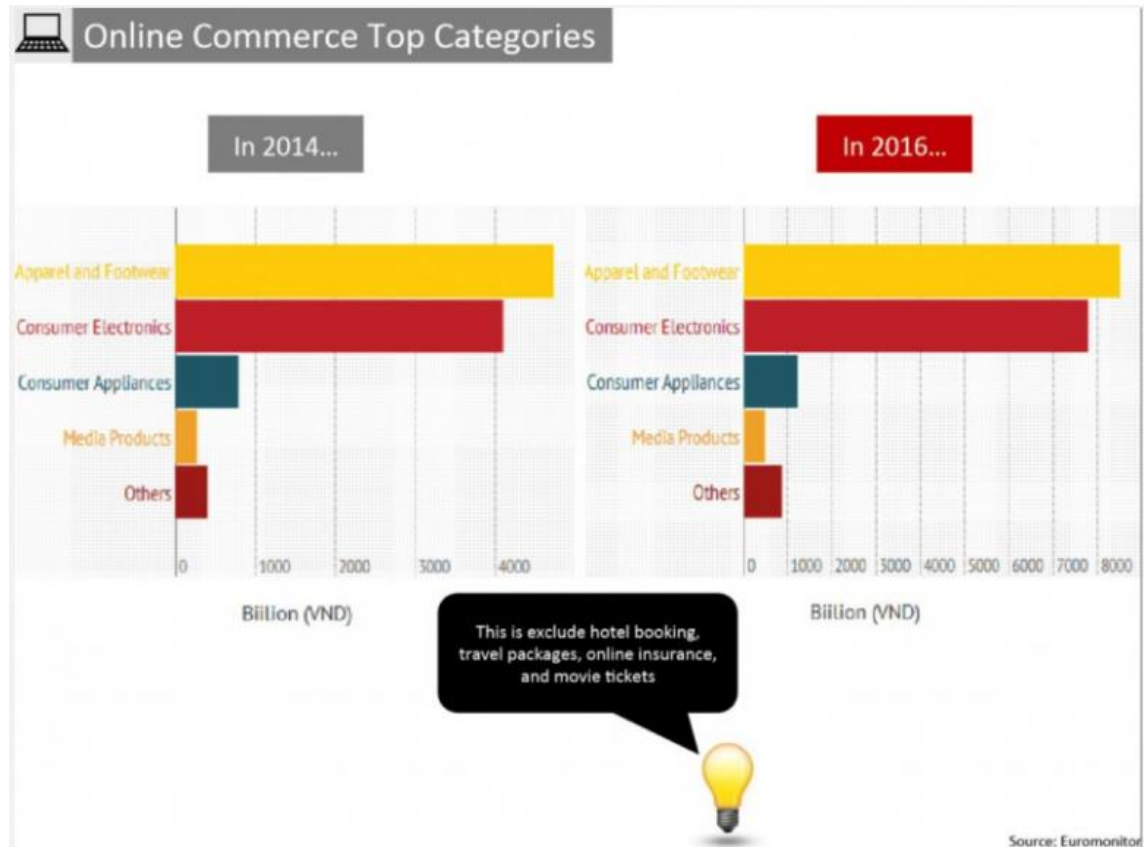


Figure 13: Online categories in Vietnam (Euromonitor 2016)

According to Epinion (2012), Vietnam's online shopping website can be divided into 4 categories

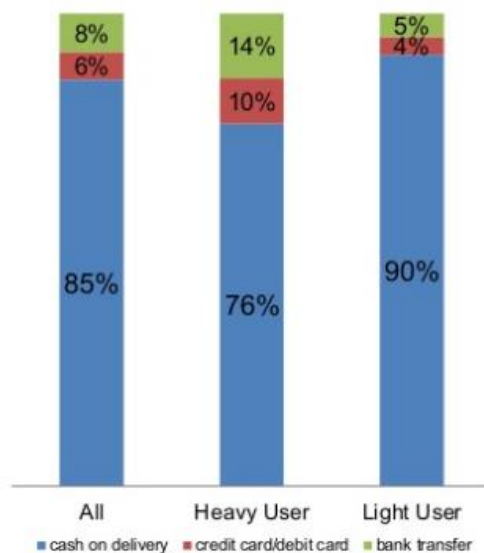
- Coupon sites are quite popular in Vietnam. The owner of the site bought products/ service in bulk from suppliers and resell to consumers as the redeem-able coupon at discount rate. Payment is usually cash on delivery.
- Online retail sites are online stores which owned by a big company and sells mostly electronics, they can accept credit cards as well as cash on delivery
- Classified ads sites are paid by individuals/ small companies to the site owner to sell online new/used items with payment directly to poster and buyer



- Commercial sites are similar to classified ad sites but for more serious small business to make mass sales, could be paid via the site or direct to poster and products are delivered by the poster.

E-commerce depends on many factors such as good economic development, infrastructure and good online payment system. In Vietnam, the first two factors have been overcome, but the online payment system factor has not developed yet. Credit card usage in Vietnam is very low and COD (cash on delivery) is the main method to pay for online shopping. (See figure 14). According to Dinh Thi My Loan, the chairman of the Vietnam Retailers Association, the biggest problem of e-commerce is payment method. Mostly in Vietnam consumers do online shopping but still pay by cash after getting delivery at home. The percentage of buyer paid by cash on delivery accounted for 85%-90%; payment via Internet banking/credit card / ATM card accounts for 6%-10% and the most popular delivery method is still mainly by means of scooters.(Baohaiquan.vn, 2016)

### Payment Methods



85% of EC users choose cash on delivery as a payment method.

On the other hand, heavy users use credit/debit cards and bank transfer more often, so consumer's concern about purchasing may lead to cash on delivery.

Also, high usage rate of cash on delivery results in high order cancellation rate in Vietnam.

Q. How did you make a payment for that order?

※"Heavy User" is someone who shops on EC once in 2/3weeks or more. "Light User" is someone who shops on EC once/month or less.



Figure 14: Payment method when shopping online (Asia plus Inc.)

## 5.2 The difference between traditional retail and online retail

Online retail has very different characteristics from traditional retail. Usually, at traditional stores in Vietnam, orders are processed at the store, which means that all activities from the order to delivery happen at the same time. So if a traditional retailer wants to expand their business, they must open new stores, hire new salesforce, set up on-the-spot sales.

In online retail, orders are not processed at the time when customers place it. Time of purchase and time of receive is completely separated. The consequence, business needs salesforce to handle the processing of the purchase order into a successful transaction (until the customer receives the order). This department is called e-commerce logistics. On the other hand, with the growing popularity of online advertising, an online store expands its business does not take too much time and effort like traditional stores. They just simply add advertising budgets (free social media). It is clear that online retailing has the advantage to expand, much faster than traditional retail. However, this advantage is a catastrophe if the retailer is not able to handle orders at large scale. (Vietnam Retail Magazine, 2016).

## 5.3 Challenges

The potential of e-commerce in Vietnam is undeniable. However, there is unfairness of cross-border online transactions between import and export with individual customers. Individual customers purchase goods and services online from abroad more than foreign individual buyers purchase products online from Vietnam. Vietnamese consumers, especially the younger generation of consumers, are more eager to buy products from foreign e-commerce websites such as Amazon, eBay, etc. The reason for this phenomenon is that foreign goods are diverse and have better quality. In addition, global online merchants have a high reputation. In addition, the cost of completing orders for online purchases from overseas is lower than in Vietnam (Baohaiquan.vn, 2016)

The psychology of buyers is also an important factor, Vietnamese consumers are accustomed to traditional shopping style and do not trust the internet environment when

there are many cases of scams and poor quality products. Therefore, although the demand for product online search has increased, there is still high percentage of users only consider it as a means to refer to the product.

Vietnam E-commerce association analyses: "Most Vietnamese enterprises, especially small and medium enterprises, have not properly invested in research of foreign customers' tastes for direct selling without needed intermediaries". In terms of credibility, domestic online retailers are also more likely less competitive than many global online sellers. And another factor is that many times, the quality and design of domestic products are far from that of other countries. (Vietnam Retail Magazine, 2016)

A challenge for Vietnamese online retailers is technology infrastructure, many e-commerce businesses and individuals doing business online also struggled because of the unstable internet. Therefore, if the platform is more stable, the barrier to e-commerce will be narrowed. (Baohaiquan.vn, 2016).

Logistics in e-commerce is understood as the process of order fulfilment, including packing, shipping, money collect and after-sales customer care. The high cost of logistics is also due to the buyers doesn't trust the quality of e-commerce business yet; most buyers still want to check the item first and then pay later for the shipper. That is the reason why the delivery speed reduces to half. In order to improve the competitiveness of logistics in e-commerce, it is necessary to have logistic companies specialized in e-commerce. (VTV online news, 2016).

On the other hand, at the e-commerce market, there is a similarity in categories of goods, transportation, payment, reliability without the difference. Therefore, if e-commerce enterprises want to succeed, they should find a niche market. (Baohai-Quan.vn, 2016)

## 6 Case company analysis

### 6.1 Vingroup retail sales

Figure 15 shows the net revenue of Vingroup. In the first 6 months of 2016, Vingroup's retail net sales reached \$195 million, accounting for 18% of the group's net revenue. To compare with the revenue of the 18 years of operation Big C Vietnam was about \$665 million, while Vingroup's retail system has been in business just two years, it shows that Vingroup has achieved to the certain level of success in retail sector. (BizLIVE,2016).

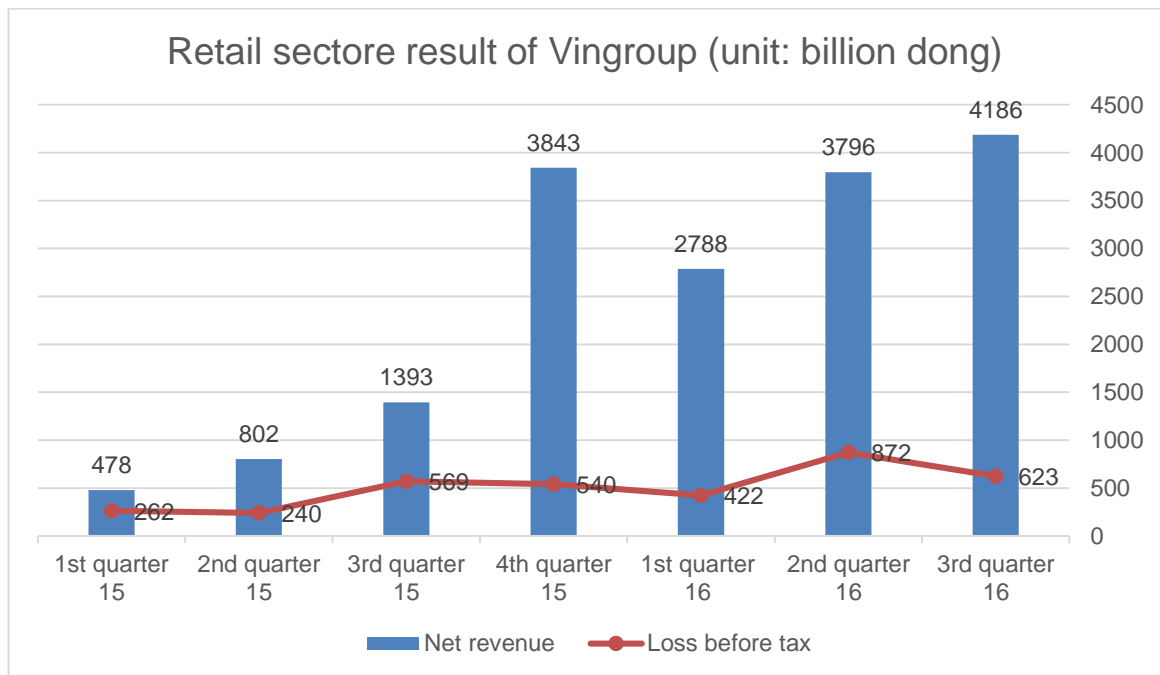


Figure 15 : Retail sector result of Vingroup (VietnamFinance,2017).

In 2015, Vingroup officially entered the field of e-commerce with the "adayroi.com" e-commerce platform. In addition to the familiar goods such as fashion items, technology products, services, "adayroi" also has a number of special industries that the e-commerce business has never had such as cars, motorcycles and fresh food. (BizLIVE,2016)

According to Vingroup financial report, at the end of 2016, the group's retail sales reached VND 8.9 trillion dong, ranked at no. 2 among Vingroup's businesses, just behind the real estate business. Compared with other domestic supermarket retailers, Vingroup's sales were in the top category. Saigon Coop, the largest retail chain in Vietnam, reached VND 25 trillion dong revenue in 2016, followed by BigC with approximately VND 20,000 trillion dong revenue. However, both Saigon Coop and BigC have been developing in Vietnam for more than a decade. This shows Vinmart and Vinmart+'s growth rates are amazing. (Le, 2016)

## 6.2 The growth strategy of Vinmart and Vinmart+

Vinmart has the great advantage as a source of great financial strength from Vingroup. But in order to survive in the fierce retail competition, financial capacity alone is not enough. Management skills, experience, and long-term strategic vision are also required. According to the CEO of Vingroup, it is important to find good locations before foreign retailers could take over. Vingroup accepts 30% of new stores to be opened as non-profitable for a period of time in order to utilize good location so that no competitor could expand in that area, especially if the location is in the urban areas. Gradually this system will set up a ring and become a barrier for customers not to enter the competition. (BizLIVE, 2016)

18 Vinmart supermarkets are located in the Northern provinces, Hanoi has nine supermarkets, meanwhile, in Ho Chi Minh City, there are only 3 Vinmart supermarkets, the remaining are Vinmart + convenience stores. Vingroup's strategy is to establish a dominant position in retail supermarkets in the North; meanwhile in Ho Chi Minh City, where the competition is already fierce, convenience store model is much more compact. (Marketing chien luoc, 2016) The company expects to be able to use its experience and knowledge gained in the local real estate business to develop its retail segment. (Phạm, 2016)

The growth strategy has been to launch massively Vinmart + store. Vingroup opens two Vinmart + new stores each day with an aim to quickly gain market share. Vinmart+ is chain of convenience shops with the size of less than 500m<sup>2</sup>, which are located in an

interspersed manner and scattered all over small streets and alleys of residential areas in big cities in order to provide ease and convenience to the consumers. The locations where Vingroup places Vinmart+ must meet the daily shopping needs of consumers quickly and conveniently. According to Nikkei 2016, Vingroup currently operates 880 Vinmart + stores in both Hanoi and Ho Chi Minh City. The company is planning to open 10,000 more stores by the end of 2019. (Vietnam Retail Magazine, 2016)

Since food hygiene and safety are the most important concern of consumers at the moment in Vietnam, Vingroup's strategy is to create a safe, high quality, convenient place to shop for food as compared to the low quality food in some traditional markets. This is Vingroup's professional and well-evaluated strategy to make themselves outstanding from another major retail brand in Vietnam. Besides everyday necessities that customers can easily buy anywhere, Vingroup launches the eco agricultural-branded Vineco, which is only available in Vinmart and Vinmart + and the company is active in the whole supply of food chain. The technology, seed and agricultural equipment have been transferred from world famous agricultural societies like Israel, Japan, Netherlands. (Phạm, 2016)

Vingroup also runs a program "Companionship, support and promotion of domestic production" to assist local businesses in producing consumer goods, contributes to the generation of organic food and quality goods for the market. From that they aim to build the National brand and then the world-class brands, focus on food safety to protect the health of the community as well as the long-term sustainable future. According to Vingroup, enterprises, which participate in the program, will be assisted in bringing goods into the supermarket system with preferential conditions. Specifically, Vingroup has applied a zero-profit policy for a year for the fresh food products. The entire discount will be refunded to the supplier with the aim of providing additional funding to the suppliers to invest in product quality and hygiene. In addition to distribution preferences, small and medium Vietnamese enterprises will be supported by Vingroup in technology, quality control systems, sales and marketing etc. Vingroup is also willing to invest in the same business to optimize production and to improve product quality. This program demonstrates the social responsibility and the competitiveness of domestic production. (Phạm, 2016)

To assist Vingroup's suppliers is also the goal of improving the quality of supplier. Suppliers get the benefits to get their products to the market shelves but they have to compete fiercely with each other in terms of product quality because Vingroup will gradually eliminate the weak suppliers. Furthermore, when the discount rate is 0%, suppliers will have to reduce the price because other competitors will be dragged into the price competition of Vingroup even though they do not want to. (Lập kế hoạch kinh doanh, 2016)

### 6.3 Merge and acquisition

Vingroup has entered the Vietnamese retail market by continuously buying existing supermarket chains. Vingroup bought Maximark chain in October just after two weeks of negotiations. Maximark has the total of 4 supermarkets in Ho Chi Minh City and 5 in different cities across the country which all located in very advantageous and strategic areas. In October 2014, Ocean Group sold 70 % of the retail and property management sector to Vingroup and officially changed its name into Vinmart. In early 2015, Vingroup bought the whole stake of Vinatextmart, which belongs to the Vinatex nation's leading textile and garment group with the deal worth US\$10.28 million. Vingroup now owns total 39 Vinatextmart supermarkets. Furthermore, Vingroup has also purchased 80 % shares of Hop Nhat Company, which is Vinlinks now, with US\$10.97 million to develop their own freight and express delivery for the retail segment. The long-term development strategy of Vingroup is to expand its retail network as quick as possible. (BizLIVE,2016)

### 6.4 Competition analysis

#### 6.4.1 Main Competitors

There are many competitors already in the market and names can be listed like 7 Eleven, B's Mart, Bách Hóa Xanh, Circle K, Co.opFood, Hapro, SatraFood, Shop&Go. B's Mart owns more than 150 stores, Shop & Go has more than 210 stores, Circle K has nearly 180 shops, Ministop has about 60 shops (Vietnam Retail Magazine, 2017).

Saigon Co-op, one of the big player in the retail market, has also been quietly expanding its network. It now runs 78 Co-op Marts, 90 Co.op Foods, 2 Co.opXtras, Sense City Can Tho, HTV Co.op – a TV shopping channel and contributes capital to SC VivoCity joint venture in district 7, HCM City. Besides, the other two competitors in the market, Hapro (the Hanoi Trade Corporation) and Satra (the Saigon Trade Corporation) have also been gearing up to scale up their business. (Mai, 2016)

The other big competitor is Aeon from Japan, Aeon has poured more than \$ 500 million into 3 trade centers in Tan Phu (HCMC), Binh Duong (2014) and Long Bien (2015). According to Yukio Konishi, the president of Aeon mall, Aeon doesn't have the challenge with the premise as Aeon's goal was to build department stores only in the suburban area with an average about 10 hectares for each and committed to long-term investment in Vietnam. (Le, 2016)

The retailer Berli Jucker Public Company Limited (BJC) from Thailand has significantly changed the scale with the deal of Metro Cash & Carry Vietnam worth up to EUR 655 million. BJC also bought the Family Mart chain of Japan in a joint venture with Phu Thai Group. The world's largest retailer Walmart (United States) is setting the necessary stage to set foot in Vietnam market through the increase of bringing Vietnamese products into their supermarkets around the world. (Le, 2016)

#### 6.4.2 Competitor Big C in Hanoi and Vinmart

In Hanoi market, there are not many big competitors at the moment. The shopping chain with a slow transition as Intimex, Hapro has long not been attracting consumers. The Hanoi market has 3 notable names such as Big C, Co-op Mart, and Aeon-Fivimart. Among those, Big C is the strongest competitor because of a long time operating and the level of success. In Hanoi, it is difficult to find such a large space for supermarkets; Big C follows the model of hypermarkets which has the sales area of over 4,000m<sup>2</sup> and is located outside of the city. With large scale, Big C's goods volume is also higher than other retailers and its get better discount than the competitors. Big C has changed the slogan "cheap price for all" to "best price" in 2014 and promised to consumers that



they can buy the cheapest at BigC compared to the supermarkets in the area. (Marketing chien luoc,2016)

Vietnamese do not have a habit of shopping for the whole week. Instead, they go to the supermarket several times a week to buy fresh products. Therefore, the supermarket which has an average area of 1,000m<sup>2</sup>, near the residential area, accessible with the scooter is still superior. Vinmart has the all advantages above. All 3 biggest entertainment centers in Hanoi today included Royal City, Times City, and Vincom Ba Trieu are belonging to Vingroup and Vinmart & Vinmart+ are presented there. This is an advantage that no supermarket chains in Hanoi can compete with. (Marketing chien luoc, 2016). Vinmart also gradually sets up a ring system around Hanoi, and it becomes a wall for stopping customers coming to Big C. The location of BigC and Vinmart can be seen in figure 16

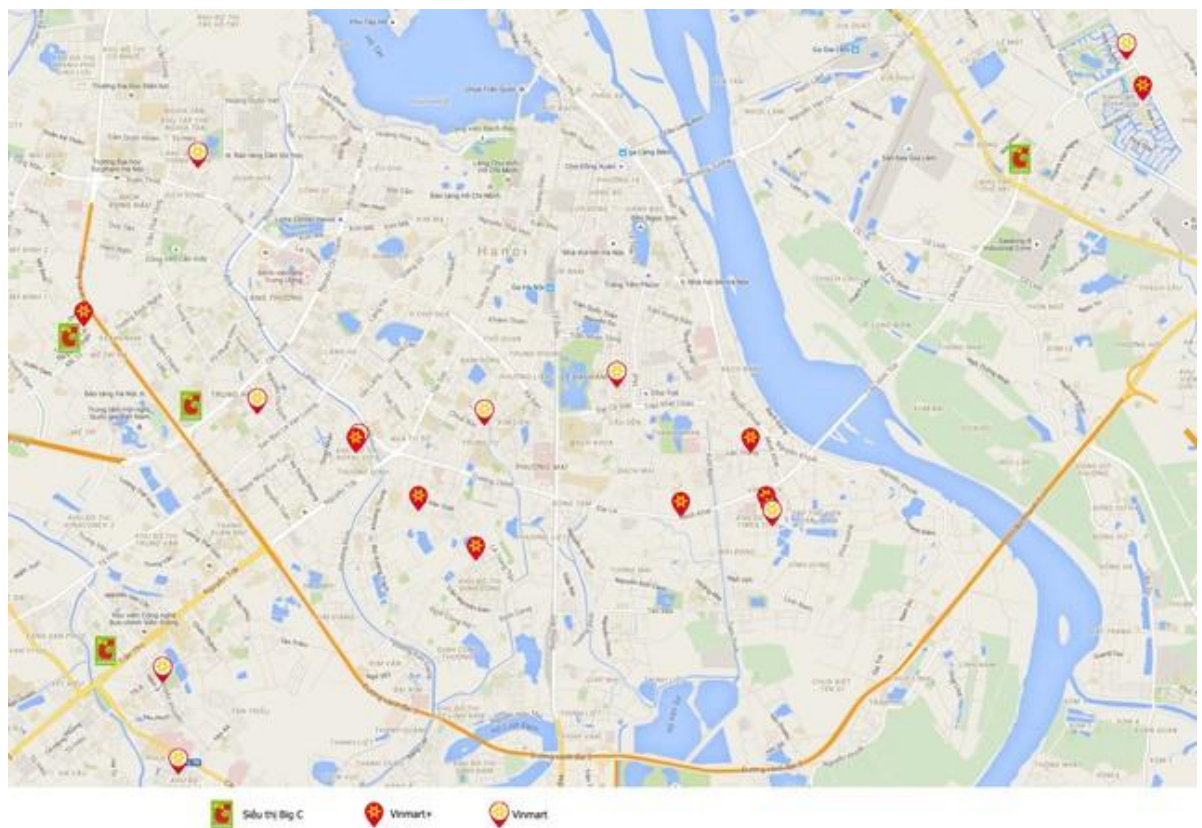


Figure 16: Big C and Vinmart location in Hanoi (Marketing chien luoc, 2016)

Besides, in order to reduce the price to attract customers, the amount of ordered goods must be large enough, therefore Vingroup's strategy is to increase the number of supermarkets to get the best deals. That is the reason why the current price of Vinmart is also quite competitive compared to Big C. (Marketing chien luoc,2016)

After Big C Vietnam was bought by Central Group Thailand, Big C has raised the discount rate by 25% for some Vietnamese items if the suppliers want to distribute their goods to the system, this makes most Vietnamese suppliers feel too difficult to cooperate with Big C as well as to survive and make a profit to reinvest. Normally, depending on whether the supplier is big or small, whether the product sells well not, the supermarket offers different discounts and increases each year. Besides that, suppliers are also subjected to a variety of other costs for supermarkets when they open new stores, shipping or run promotions. Big C requires the highest discount as compared with domestic supermarkets. (Marketing chien luoc,2016)

Meanwhile, Vingroup applies the policy of preferential trade discounts for small and medium enterprises of Vietnam through the retail system of the corporation. Fresh products will be distributed at the same price as the supplier offers within a year. In addition to supporting other businesses, the group also said it would be directly involved in the consumer goods sector, including food production, beverages, and household products. (Linh Huynh, 2016). The support package of Vingroup has cherished the efforts of Vietnamese manufacturers to build a high-quality Vietnamese goods brand in order to compete fairly and on a par with foreign competitors. This competitive pressure is the opportunity for Vietnamese enterprises to actively improve and upgrade the quality of products "(Marketing chien luoc,2016).

#### 6.4.3 Competitor 7-eleven and Vinmart+

7-Eleven will open its first store in Ho Chi Minh City in early 2018 and set a target of opening 100 stores in the first 3 years according to Nikkei (2017) and 1,000 stores in Vietnam within 10 years. These numbers are still small as compared with Vinmart+. Vinmart+ now has more than 1,000 stores nationwide and plans to open 10,000 stores over the next 10 years. However, 7-Eleven is considered as the most successful convenience store chain in the world history with more than 60,000 stores in about 20 countries

and territories. (Vietnam Retail Magazine, 2017) 7-Eleven has successful experience in many countries as well as experience in chain opening and management, retail chain operations and has strong financial background. These advantages will make it easy for this brand to penetrate the Vietnamese retail market. However, in the retail market, the advantage of the location is the leading factor to occupy the market share. Coming to Vietnam's market later than most other brands, 7-Eleven is sure to have to spend a lot of money to get the good location, in which Vingroup is already one step ahead of the competition. Currently 7-Eleven's strategy is not yet revealed, but Vingroup is ready for the response by speed up the scale of expanding.

### 6.5 Challenges and opportunities of Vingroup

Despite the advantages and successes in many areas, that does not completely guarantee the success of Vingroup retail sector in the future. Facing many strong and big competitors like Aeon, Walmart, Lotte Mart, E-Mart requires a long-term strategy to survive and more investment. Furthermore, according to Forbes Vietnam, the traditional market is also a challenge for VinMart since the traditional stores are available almost everywhere. In order to stay in the competition, Vingroup has to improve facilities and quality of human resources combined with an excellent customer service.

With the strategy to open many stores at a short time, Vingroup may have to exchange between the quality of the store and the number of new stores. According to To Linh Huynh (2016), the head of market research at Mekong development, in order to reach a large target of the number of stores, Vingroup had to invest a large amount of capital at the beginning and it is difficult to recover quickly. Besides that, professionalism and management team building cannot take place on the second day. (Linh Huynh, 2016)

Only in the first 6 months of 2016, Vingroup lost VND 1,218 billion in the retail business. There are two main reasons for this: one is that Vingroup is maintaining a low gross margin, for example selling products near the cost of capital to attract more customers. Vingroup's gross margin for the first 6 months of 2016 was at 7.1%. The second reason is that the cost of sales has increased sharply. In the first 6 months of 2016, Vingroup's sales expenses increased sharply to VND 2,434 billion; gone up to 3.3 times compared to VND721 billion in the same period last year. (Cafebiz.vn, 2016). Vingroup also

acknowledged in the second quarter of 2016's financial report that the increase in sales was due to the development of supermarkets. As a result, Vingroup was inevitably suffering losses in its retail segment. (Cafebiz.vn, 2016)

For Vinmart and Vinmart+, in order to increase competitiveness in the future, first, they should use their advantages as a domestic enterprise to build the long-term mutual understanding and affection between local retailers and consumers to expand market share. Domestic business understands consumer tastes and has an advantage of an available trade network and familiar brands in the past few decades. Secondly, improve the quality of products or packaging design to attract more customers. Third, offer discount programs, promotions to improve the purchasing power of consumers. Fourth, improve the quality of human resources, not only for direct sales but also for customer care and good management. Besides, Vingroup needs a strategy for rural areas. The rural market is very large. Although the income of people in the rural area is not as high as the urban, but people have confidence in high-quality Vietnamese goods, and the demand for essential consumer goods is also very large. (Tạp chí tài chính, 2015)

## 7 Conclusion and recommendations

This chapter aims at giving a summary of all the work done in this thesis based on the external analysis of the Vietnam market retail and the case of Vingroup. The objective of the research was to study the current situation of Vietnamese retail market and how Vingroup positions itself in the context of fierce competition. Qualitative research method was adopted and research was based on secondary source, which included books, journals, and published materials. The recommendations based on different sources are also included. The research has met the author's goal: to analyze and understand what is happening in the retail market in Vietnam and gain certain knowledge about it.

After looking at the market performance in detail with the statistical numbers, there are grounds to believe that Vietnam's retail market will have strong development in the coming time. It can be seen that the retail market in Vietnam is developing very quickly and attracts both domestic and foreign retailers. Foreign retailers who have been present in Vietnam since early as Big C, Metro, and recently Lotte, Aeon. In the context of deep integration, Vietnam has strong commitments in opening up the retail market as well as removing tariff and non-tariff barriers to goods and retail. Vietnam has such attracting factors like big population, the rise in people's income and liberation economic. While domestic firms have struggled for a long time to establish a retail chain network, the big foreign retailers with financial strength tend to acquire and merge to penetrate and expand the market share. The intense competition with international retailers has increased difficulty for Vietnamese retailers. For that reason, it reveals the weaknesses in labor, professionalism, capacity, management, technology of Vietnamese retail business, which leads to the consequences that small retailers have to leave the market. However, the expansion of foreign retailers' market share could be considered as an indispensable trend of international economic integration, which can even bring new impetus to the development of the market. Especially through stimulating the development of the market. It increases competition of domestic retailers through the natural pressure to enhance the capacity, cooperation and development among local retailers and finally brings this way benefits to consumers. (Chamber of Commerce and Industry of Vietnam, 2016)

The competition between traditional and modern trade still continues. Small-scale traditional grocery stores still have their own vitality and exist in parallel with convenience stores, supermarkets, and hypermarkets because they have the strong presence in the fast-paced, fast-moving and short distance competitiveness areas. 70-75% market share still belongs to traditional retailing types mostly owned by local retailers. Therefore, the possibility of imported goods dominating the whole retail market in Vietnam is very unlikely to happen in the near future. However, if Vietnamese goods are not improved in terms of quality, domestic retailers cannot take the advantage of short distance of distribution and if they fail to ensure food hygiene and safety and do not succeed in creating attractive packaging for Vietnamese consumers, then the market share will likely be occupied by imported goods and foreign enterprises. At the end it is decided by the Vietnamese consumer, not because of the number of foreign retailers in the market as well as their actions.

The modern retail, as a medium to small-sized supermarkets, convenience stores, will continue to flourish in the future, corresponding to the development characteristics of Vietnam's consumption habits. For example, in urban environment where space is limited, young consumers appreciate convenience and short distance.

Products imported from partner countries with new agreements signed (eg TPP, EVFTA) included 10 TPP partners, of which only three new partners are Canada, Mexico, Peru; 28 EU countries, 05 EEA countries, and Russia will surely reach the Vietnamese market more conveniently, more competitively, and thus be an additional source of value for the retail input in Vietnam. However, it should be noted that goods from these new partner countries may not compete directly with Vietnam's domestic goods, or if there is competition from the same category, it is usually also in the other market segment (higher compared to the popular market segment that domestic goods Vietnam is met). Therefore, the risk that domestic goods must share market share with groups of imports from these partners in the future when these FTAs are effective is not likely to be too serious. (Chamber of Commerce and Industry of Vietnam, 2016)

According to Dinh Thi My Loan, the chairman of the Vietnam Association of Retailers, every 100,000 people would normally require a large shopping center; 10,000 people would normally need a supermarket; 1,000 people would need 1-2 convenience stores.

However, even Vietnam's big cities such as Ho Chi Minh City and Hanoi do not meet this requirement. In addition, more than 70% of the population live in rural areas, but the distribution and retail system are still quite poor and not meet the requirements. Therefore, the retail market of Vietnam still has gaps for domestic and foreign investors. (Phạm, 2014)

With the growth of the Internet, 3G and mobile devices, e-commerce in Vietnam is developing very fast. The number of businesses investing in this sector is increasing. People living in big cities like Hanoi and Ho Chi Minh City have high demand for online shopping. However, the technology platform infrastructure is still under development and the consumer still prefer the traditional shopping style, meanwhile most online shoppers still choose cash on delivery as payment. There is no 3rd professional partner yet to ensure the delivery without affecting the quality of service, most e-commerce businesses have to build their own team to take the initiative in control and coordinate as well as customer service quality.

The VinMart + system with about 1,000 stores in the most strategic locations across the country is the desire of any retailer to invest in the Vietnamese market. Vingroup is occupying the largest retail market, with the fastest growth. Vingroup has been developing closed production chain from production to consumption, providing safe products with competitive prices and cooperate with Vietnamese farmers. Vingroup has a clear goal to support small and medium enterprises in Vietnam to promote Vietnamese goods, willing to keep 0% discount rate for fresh food suppliers in order to help them to reinvest and protect the market from the foreign brand. The retail system of Vingroup will be an effective bridge for high-quality Vietnamese goods to reach a large number of consumers in Vietnam.

The moves taken by Vingroup show that Vietnamese investors are formidable rivals to foreign famous retailers, and have reassured that the retail market will not fall into foreigners' hands. Vingroup now has the initial success in establishing its brand, system as well as its market share and position in the retail sector. The important thing in the near future is that Vingroup must effectively implement different strategies to develop

the retail sector such as considering how their stores will play a role in their multichannel retail strategy and how they can use them to enhance their stores; focusing on branding outside the city area and developing organic food supply. It is difficult to confirm the success, but it is certain that Vingroup is trying to create a strong enough counterpart for international retail distribution groups in Vietnam which many domestic retailers wanted to set up but did not succeed.



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