

VIETNAM - 2018

FOOD AND BEVERAGE

Date: 08th June 2017



Consumer demographics

From 2015 to 2050, Vietnam's population is projected to increase by around 21m to 114.6m. Those in the middle age group (40-64 years old) are forecast to be the largest group, accounting for 30.9% of the total population by 2050. The younger age group (20-39 years old) will decline from 34.8% to 25.1% during this period. The population of those under 20 is projected to decrease by 2.9mn, making up 22.4% of the total. Among this group, babies and toddlers under 4 will drop the most, from a figure of 8.3% in 2015 to 5.7% in 2050. Pre-teenagers (10-14 years old) will make up 5.5% of the total population (a drop from 7.1% in 2015) and teenagers (15-19 years old) 5.5% (a drop from 7.5%). According to BMI Research, the urban population will double during the period and make up to 53.8% of the total population, increasing from 31.4mn to 61.6mn. (Business Monitor International Ltd, 2018)

Essential spending

Economic growth is expected to be consistent thanks to steady foreign direct investment flows, strong domestic demand, rising tourism and resilient exports. Vietnam has a low unemployment rate at 3.4% (Business Monitor International Ltd, 2018) growing minimum wage increasing 28.1% over the past 10 years from 2008. The minimum wage in 2017 was from USD 113- 175/month, depending on the regions (Vietnam News, 2017). Following these trends, the wage base, though remaining low, will increase and bodes well for private consumption, which is estimated to grow by 7% in 2018. At the same time, household-spending is forecast to grow by 11%. (Business Monitor International Ltd, 2018)

Food and non-alcoholic drinks remain the lead in essential spending, accounting for 20.5% of total household spending. It is forecast to grow by 11.6% over the period of 2018-2022. Meanwhile, alcoholic drinks altogether with tobacco spending will grow by 11.7% per annum. (Business Monitor International Ltd)

Due to the growing household income, consumer preference is likely to shift towards higher-value products. Vietnamese consumers of different income levels are especially careful about the safety, and quality of products. In this sense, they are increasingly willing to pay a higher price, especially to buy products from foreign brands.

Moreover, the ongoing expansion of the mass grocery retail industry in both main cities and smaller towns is bolstering food consumption as consumers can obtain products at competitive prices.

Eating and shopping habits

Natural ingredients and fresh local food remains at the centre of Vietnam's culinary culture. On average young Vietnamese spend 80-120 USD/month for local food stuffs, such as sticky rice, fried corn, milk tea and Vietnamese

coffee (Rama, 2018). Japanese food with restaurants and cafes, recently opened, have helped contribute to the diversification of food culture in Ho Chi Minh city.

Food is a key community activity for the Vietnamese – e.g. family parties, staff outings. Eating out is a common habit for Vietnamese citizens in urban areas.

The Vietnamese liking for fast food is becoming stronger. For example many Vietnamese children chose deep fried chicken made in the fast food way and hence the obesity rate is increasing in big cities. (Rama, 2018)

Korean and Japanese food is now a popular choice by local people as many of the dishes contain rice and fresh ingredients. Middle- Eastern and Asian-Mexican cuisines such as Indian, Pakistani and Mexican are also entering the market, though currently most of their customers are Western.

According to Tran Dang, President of the Vietnam Functional Food Association, the functional food sector has grown 9-10% yoy.

In 2016, Vietnam was ranked 16th among the largest alcoholic beverage consuming countries, in the world. 77.3 percent of the male population consume alcoholic products, often to observe social etiquette and networking as well as developing business relationships.

Vietnamese people are willing to pay higher prices for foreign alcoholic beverages, in the belief the products are of higher quality. According to a 2020 projection, 492.9 million litres of high-end products will be consumed, while the figures for mid-range and low-cost products will be 3 and 1.34 billion litres, respectively (Vietnam Briefing, 2018).

Vietnamese consumers are showing a willingness to shop at the expanding range of convenience stores. More than one-thirds of households in Vietnam has shopped at a convenience store at least once in the past year (ASEAN Today, 2017).

Market overview

According to A.T. Kearney, Vietnam ranked 6th in the Global Retail Development Index in 2017, raising the country's profile to one of the most potential retail markets for investment. By December 2017, there were 800 supermarkets, 150 shopping malls, 9,000 traditional markets and approx.2.2 million retailers in Vietnam. Convenience stores and mini-marts are the fastest growing segments (ASEAN Today, 2017).

Traditional local wet markets remain the biggest channel of shopping in Vietnam with 75% market share in 2017 (Retail Magazine, 2017). They are facing challenges from the increase in convenience stores, supermarkets and hypermarkets. In many cases the markets are in need of investment as well as improved structured management.

The domestic modern Saigon Co-op is the leading retailer and is continuing to expand its business, 90% of their products are made in Vietnam (VOV The voice of Vietnam, 2017). Foreign retailers such as Big C, Lotte, Aeon are also expanding in the larger cities.

According to Nielsen Vietnam, the number of convenience stores had increased to over 1,500 as of June 2016. Famous foreign brands such as Circle K, Familymart, Shop&Go and B's Mart now occupy 70 percent of the market (VnExpress, 2017). Although a competitive market, retailers are expanding with the aim to stretch their influence in the market. A more recent entry is 7- Eleven.

Local convenience outlets such as Vinmart, Co.op Food, Satra Food, and Bach Hoa Xanh are growing. By 2017, Saigon Co-op had 200 Food stores and they plan to open a further 500 in Ho Chi Minh City and southern provinces, in 2018. Satra have 170 Food stores and they plan to open another 60 (Vietnamnet, 2018). The new player Vietnam's Mobile World opened 372 Bach Hoa Xanh (Green Department Stores) in Ho Chi Minh City in May 2018 (Tuoi Tre News, 2018).

There is an increasing trend of importing farm products from Japan. Though prices of Japanese products are higher than those from other Asian countries such as Korea and Thailand, Vietnamese consumers are willing to buy them for the high quality and specific tastes. (Vietnam Economic News, 2017)

Fast food chains are investing heavily in Vietnam though some are struggling within the marketplace. Lotteria has about 200 stores, KFC 140, Jollibee 100, Burger King 13 and McDonald's 20 with a planned expansion to open a further 100 restaurants.

By July 2017, there were 1,000 Japanese restaurants open in Vietnam. More than half of the Japanese restaurants within Ho Chi Minh city (Vietnamnews, 2017). To serve this increasing demand, Japanese food companies are setting up more local businesses to process and preserve products, especially in the southern region- Ho Chi Minh City, Ba Ria- Vung Tau and Dong Nai (Vietnam Economics News, 2017).

Access to basic foods for the Western resident population are available via outlets such as An Nam Gourmet or the mini-marts in district 2 of Ho Chi Minh City though the demand remains limited.

Opportunities

The increasing population bodes well for retail companies up to 2050.

The increasing urbanized population will draw higher associated investments into these urban areas. The spending capacity is considerably higher in the urban area compared to that in the rural area.

Following the sustained economic growth (GDP grew 6.8% in 2017, (Office, General Statistics, 2017), the low unemployment rate and consumers having increasing discretionary spending power, retail sales are estimated to keep rising despite price inflation, up to 3.7% in 2018 (Asian Development Bank, 2018). Consumers with higher income will also look for higher quality and higher value products and, retailers will respond by offering a wider range of premium food and drinks alongside other non-essential products and imported foreign brands.

Consumers with lower incomes will continue to spend on less expensive products, as their finances dictate. Retailers will therefore need to continue to offer low cost, budget and discount products to satisfy consumers' sensitiveness on pricing.

The importation and registration processes are relatively easy for functional food products. If the products meet the standards of hygiene and food safety required by the Vietnamese law, no further testing is needed (Emerhub, 2018).

Increasing consumption of alcoholic beverages and preference for premium international brands will also open new opportunities to import beer, wine and spirits to Vietnam.

Challenges

New retailers to the market will face strong competition. Partnering with local distributors for product distribution is likely to remain an option for entry to the market.

From 2018 onwards, special consumption tax rates imposed on alcoholic products with ABV $< 20^\circ$, $\geq 20^\circ$, and beer, will be 35 percent, 65 percent, and 65 percent respectively (Vietnam Briefing, 2018).

The Ministry of Industry and Trade has also put a cap on the number of licenses for liquor distributors or wholesalers, limiting to no more than 249 issued for liquor distributors and 996 for liquor wholesalers during the period of 2015 and 2025.

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