

Vietnam's retail industry analysis



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1. Overview of Supermarket Industry in Vietnam

In the past 10 years, the retail industry in Vietnam has remarked increase in the number of supermarkets. According to statistics of Ministry of Industry and Trade of Vietnam, in 2009, Vietnam had 446 supermarkets (increased by 62 stores, comparing to 2008). In particular, the retailers FDI had 31 stores and domestic enterprises have 425 supermarkets (FDI retail sales account for only 4-5% of total national retail sales). Many leading retailers of foreign firms as Metro Cash & Carry (Germany), Big C Bourbon (France), Parkson Lion Group (Malaysia), Diamond Plaza (South Korea), Lotte (South Korea) have been present in Vietnam. The key players in retail market in Vietnam are shown in the Table 1

A. T. Kearney – U. S. consulting firm, in 2007, Vietnam ranked 4th among the 7 countries with attractive retail market in the world, in 2008, this rank rose to the first top.

Vietnam's Ministry of Industry and Trade considered that the retail market in Vietnam has been vibrant and would open up more business opportunities for both domestic and foreign retailers as well as consumers.

2. Porter's Five Forces Framework and Retail Industry in Vietnam

Source: (Porter 2004)

Five Forces Analysis determines that five important forces driver competitive power in a business situation. They are: supplier power; buyer power; competitive rivalry; threat of new entrants and lastly, threat of substitute.

Supermarket industry in Vietnam will be examined through Porter's Five Forces framework as following analysis.

2. 1 The rivalry between existing sellers in the market

Joining WTO has made Vietnam's retail be more competitive, so this also has led to a decrease in price. RNCOS analyses that international retailers will try to capture the Vietnam retail market and domestic retail shops that will not be able to compete with them. Most Vietnamese supermarkets are small and independent and they couldn't dream of competing against international giants. The giant international retailers are fully prepared to lose money for an extended period of time, selling products cheaper than Vietnamese competitors, to win the market share, even if it means driving an untold number of local businesses out of business. The largest and strongest of domestic retailers might now consider joining hands to lower prices, improve quality and selection, and become more service oriented. Looking at what is in store, they might create a united force-a strong network of wholesale distributors/dealers and cooperate with large international business groups to effectively be cooped by them.

2. 2 Bargaining power of buyers

Individually, customers have very little bargaining power with retail stores. It is very difficult to bargain for a better price of products. But Vietnamese consumers are more and more knowledgeable in term of choosing products or deciding the price, so retailers would consider the quality of services as well as products. Many supermarkets in Vietnam have experienced in some campaigns of ostracizing products that are harmful or unclear origin.

Furthermore, the switching cost is low as buyers can easily find many sellers in open-markets, small stores or neighborhood shops.

2. 3 Power of suppliers

The power of suppliers is moderate. Although a tremendous number of suppliers have provide goods or logistic services in Vietnam, a little of them can match required standard. It leads to some key suppliers try to put up the price.

2. 4 Threat of new entrants

The barrier for new entrants is not strong, because the size of market is big and the government has opened the market for FDI. However, in the recent year, Vietnam is lack of space for developing new chain of supermarket (VOV News), so new entrants will face with the challenges in finding the location as well as negotiating in renting premises.

Being aware of challenges as the foreign firms are allowed to set up business in the retail industry, many Vietnamese enterprises have actively banded together to build large-sized and competitive distribution systems. As a result, the establishment of the Vietnam Distribution Association Network Development and Investment Joint Stock Co. (VDA) was seen as the start of an industry trend geared towards greater cooperation between retailers.

2. 5 Threat of substitute products

The tendency in retail is not to specialize in one good or service, but to deal in a wide range of products and services. This means that what one store offers you will likely find at another store. Retailers offering products that are unique have a distinct or absolute advantage over their competitors.

3. PESTEL Analysis

The PESTEL Framework classifies macro-environmental influences into six main types such as: political, economic, social, technological, environmental and legal” (Johnson, et al. 2005).

3. 1 Political Factors

On January 11, 2007, Vietnam formally joined the World Trade Organization (WTO) becoming its 150th member. Accession is politically significant, symbolizing Vietnam’s acceptance into the global economy and the wider international community. It will also loosen the restrictions and tariffs on Vietnam’s exports to other member countries, and open further foreign investment: it is expected be US\$ 22 Billion in 2010, already buoyant as liberalization opens the economy up further. Beside the opportunities after joining the WTO, Vietnam’s retail industry also has to face up with the challenges of weak legal framework, restrictive environment, and weak intellectual property protection laws, etc.

3. 2 Economic Factors

GDP growth

Vietnam’s GDP has increased significantly by 5. 32%, in spite of global financial crisis with strong expansion in industry and services.

Vietnam became a WTO membership in January 2007. The full-year GDP is expected to maintain at 8. 2% in Vietnam. Overall GDP has increased by 1. 3% from 2001 to 2005. As GDP growth of Vietnam was fairly good in the past and presents the healthy economic position attracted many foreign retail

players in the country and will definitely attract many others in the near future.

Vietnam – Economic Indicators 2001-2009

Items

2001

2002

2003

2004

2005

2006

2007

2008

2009

GDP(% real change pa)

6.9

7.1

7.3

7.8

8.4

8.2

8.5

6.2

5.32

Consumer Prices(%change pa: avg)

-0.4

3.8

3.1

7.8

8.3

7.5

8.3

23

6.88

Employment (in thousands)

38,563

39,508

40,574

41, 586

42, 527

43, 339

44, 174

44, 916 Bottom of Form

N/A

Source: General Statistic Office of Vietnam

Higher income per capital

Vietnam has enjoyed the rapid growth of income per capital. It reached to USD\$1052 in 2009 while this rate in 2007 was only \$835. This would be evidence for the growth of purchasing power (General Statistic Office of Vietnam, 2009).

In addition, the employment level gradually increased by of 1. 16% for the period spanning from 2001 to 2008. This has reinforced the growth of per head income, which has influenced the retail market in Vietnam.

Contribution of retail industry in GDP

In addition, Retail sales increased gradually from USD\$ 20, 436 billion to USD\$ 32, 163 million for the period 2004-2009. It reflects the growth of retail market in Vietnam and attracts new business to enter this industry.

3. 3 Socio-Cultural Factors

Culture Factors:

Traditionally, Vietnamese consumers do shopping in traditional open-air market (Gian Report, 2005). It has restricted supermarkets in changing the habit of consumers.

Population:

Year

Total of population

Urban

Rural

in thousand

in thousand

%

in thousand

%

2006

84, 137

22, 793

27. 09

61, 344

72. 91Top of Form

2007

85, 172

23, 399

27. 47

61, 773

72. 53

2008

86, 211

24, 233

28. 11

61, 978Bottom of Form

71. 89Bottom of Form

Source: General Statistic Office of Vietnam

According to the statistic of Vietnam's government, Vietnam's population is reaching to 86. 2 million in the year 2008. In other world, the population has increased at a percentage of 1. 02% and it is one of the trends for the growth of retail industry in the country. Besides the growth of urban population has and housing projects in the cities would facilitate the growth of

supermarkets. Moreover, over 67% of Vietnamese population is between 15-64 year olds, representing a powerful consumer force.

3. 4 Technological Factors

Internet is now widely used in over the world. According to Vietnam Internet Network Information Center, In June, 2010 Vietnamese internet users increased reached 35% of population. Therefore, it would be a new way in future for the retailers to meet their consumers.

Through applying internet and payment technology, retailers, especially supermarkets can accept net payment.

3. 5 Environmental Factors

The issue of environmental pollution is significant. Therefore, in particular, consumers tend toward using environmentally friendly and safety products, so such origin should be clean and unused plastic bags will become more common. These trends required buyers be careful in selecting input goods and packages.

On the other hand, the climate in Vietnam is change by areas like tropical in south; monsoonal in north with hot, rainy season (mid-May to mid-September) and warm, dry season (mid-October to mid-March). This affects costs of storing products.

Specially, the transportation infrastructure in Vietnam cannot serve the demand of travel. Consequently, so retailers have been suffered higher prices of logistic services that are often implement in midnight to avoid traffic jams.

3. 6 Legal Factors

As a commitment with WTO, Vietnam opened retail market for foreign owner-retail firm on 1st Jan, 2009. So the domestic businesses have faced big challenges as they have to compete with multi-national groups that outweigh them in finance and management experience.

However, the current legal system for retail industry has been completed as no consistent regulations on distribution services or not to clarify the concept of wholesaling, retailing, etc (Vietnam Economy & Investment Article).

Activities of supermarkets are binded under the regulations of Ministry of Industry and Trade, and Center for Standards, Metrology and Quality in Vietnam.

4. The Drivers of Change of the Retail Industry in Vietnam

The government's control

As representatives of the Ministry of Industry and Trade, the Ministry is developing the master plan to develop Vietnam's trade 2009-2015 and orientation to 2025 " with the aim of developing infrastructure systems in a reasonable period of 2009 -2015 material to create an environment more favorable than, more civilized and more modern, improved business environment, market development, including planning the retail market. Set targets retail sales growth over 18% in the period 2010-2015 and increased to the highest level is over 20% per year in subsequent years.

With government support and favorable consumer confidence will open new perspective for retailers in Vietnam. Traditional retail channels will continue to dominate the market, but government decision to allow 100% entry to <https://assignbuster.com/vietnams-retail-industry-analysis/>

foreign retailers under WTO commitment will lead modern retail to realize unrealistic growth (RNOS, 2009).

Consumer behavior

Shoppers have preferred convenient hours and locations, outstanding services as and reasonable prices. It is reason why retailers compete in seeking convenient premises and high quality and stable source of goods.

The boom of FDI in Vietnam

The market of 86 billion of population is a big pie that many foreign investors keep their eyes on. This was clearly evident in the activities of many players as they prepared for the foreign invasion by aiming to offer better service, improve product quality, implementing more marketing activities and strengthening relationships with local partners.

4. The Industry Life Cycle Model

The growth of an industry's sales over time is used to chart the life cycle. An industry life cycle is classified into four distinct stages. They are: introduction, growth, maturity, and decline. Sales typically begin slowly at the introduction phase, and then take off rapidly during the growth phase. After leveling out at maturity, sales gradually decline. In contrast, profits generally continue to increase throughout the life cycle, as companies in an industry take advantage of expertise and economies of scale and scope to reduce unit costs over time.

Source: (Johnson, et al. 2005)

Viewing the retail industry in Vietnam in general and supermarkets in particular, the industry has shifted to the growth stage, where reflect the high growth of retail sales. Also, with 100% opening for foreign firm entrants is evident for the low entry barriers. Because of this, domestic retailers should utilize efficiently opportunities from supports of governments and the in-depth understandings of the local market to strengthen competitive advantages and avoid losing market shares in the homeland.

5. Scenario for the Future of the Industry

In the next period, many prospects will come to Vietnam's retail market. The reason is that when consumers have passed the psychology of "tighten consuming" in the time of economic crisis (VOV News, 2010). Government support and favorable consumer confidence will result in positive outlook for retailers in Vietnam. Traditional retail channels will continue to dominate the market, but government decision to allow 100% entry to foreign retailers under WTO commitment will lead modern retail to realize unrealistic growth.

The new trend for the retail market will be consolidations through an increasing pace of mergers (SIS International Research, 2010).

Though, over 70 percent of Vietnam's population lives in rural areas, retailers have not been able to enter this market. Domestic retailers intend to expand into rural markets by establishing effective distribution channels. Key factors that will contribute to their success include location, supply, and the number of buyers.