

Ho Chi Minh City leads the way in 'food-retail revolution'

DISTRIBUTING FOOD PRODUCTS IN VIETNAM HAS ALWAYS BEEN A KEY TO SUCCESS AND FAILURES TO FOOD VENTURES IN VIETNAM, SAYS DAMIEN DUHAMEL



ROAD conditions are poor; reliable trucking companies are hard to find; the cold chain is often and easily violated; and retail outlet managers have limited merchandising skills. On top of that, the domestic logistics industry is still poorly serviced. Foreign logistics companies mostly focus their efforts on the hard-currency export business and Vietnamese logistics companies have still much to learn.

The picture is, however, no longer bleak. Food distribution is going through some impressive changes in Vietnam, especially in and around Ho Chi Minh City (HCMC). Food product distribution and retailing have been boosted by the boom in minimarts and supermarkets in the past three to four years. An evolution, but certainly not yet a revolution.

Research indicates that only 8% of food products are being distributed through minimarts and supermarkets in the greater HCMC agglomeration (to compare, approximately 45% of food is distributed through supermarkets in Malaysia). With rising disposable household income, this figure will enjoy double-digit growth over the coming years with a projected 30% increase before 2010.

There are several factors accelerating the growth of food distribution through supermarkets:

■ **Reliability:** Supermarkets guarantee the lowest prices, cutting down intermediaries' margins. The Vietnamese are quick to understand this. During the first few weeks of operation, the French-owned supermarket Cora Dong Nai (located about 25km from the city centre) was swamped with "mom-and-pop" store owners purchasing tonnes of goods at cheaper prices than those offered by their usual wholesalers without having to bargain.

This is definitely key to the development of supermarkets in Vietnam and more players can be expected. One new player is Metro, a German hard-discounter, which set up its first outlet recently.

■ **New shopping experience:** Supermarkets like Cora offer a "shopping-centre" experience to shoppers. For example, Cora boasts of 30 small stores selling anything from CDs to fashion, toys and candies, all under one air-conditioned roof. In a country that is still lacking mega-shopping-mall landmarks, this is definitely a plus.

■ **Less bootlegged-food products:** Supermarkets boost consumers' confidence in food products as the products must be properly labelled and checked by the store management. Reputable supermarket chains will not offer food products that have gone past their expiry date. Perishable foods are well conserved in chilled/frozen shelves and kept in cleaner environments. This is key when, like elsewhere in Asia, young urbanite households opt for one to two children, and value the good health of their smaller families.

■ **Government support:** The Vietnamese government is very keen to push for the development of supermarkets. Unlike in other South-east Asian countries, it welcomes foreign players in the industry and has licensed two foreign players to date — French-owned Cora with three supermarkets in HCMC's vicinity; and Metro with two outlets.

The government sees supermarkets as a tool to better control food prices; reduce food smuggling; collect taxes (unlike wet markets); streamline the food-product supply chain; and boosting business and retail outlets for Vietnamese food companies.

Supermarkets are, therefore, gradually changing the traditional distribu-

tion system. Some supermarkets have started to subcontract products under their house brands to local manufacturers. Some have become sole agents for selected imported branded products.

There are some obvious food opportunities for both foreign MNCs and SMEs in Vietnam and supermarkets definitely represent safer distribution partners. The following products offer immediate potential:

- Salted snacks foods;
- Confectioneries;
- Dairy products;
- Cold cuts; and
- Processed fruits and vegetables.

Imported food represents less than 7% of total consumed food, there is a strong argument for localisation. Localisation of processing facility in Vietnam will also allow investors to better control distribution channels.

A good case study is Unilever, which flooded the market with its Walls ice-cream in the late 1990s from its factory located west of HCMC. In a matter of days, Unilever-owned trucks delivered both freezers and ice-creams to more than 1,000 outlets in the city, capturing the bulk of the market overnight. To date, Unilever has no contenders.

For those food MNCs looking to venture into Vietnam, some strategic recommendations include production localisation; investment in a fleet of refrigerated vans; and, last but not least, strong partnerships with the leading supermarkets and minimarts. This is a simple yet sound strategy in a challenging market. **ra**

Damien Duhamel is a Managing Partner at Clearstate, a leading global growth and innovation strategy firm with offices throughout Asia. Damien has previously studied and worked for five years in Vietnam and has helped several multinational to enter Vietnam and develop their operations.

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