

SEIKO IDEAS CORPORATION

[Market Profile]

Retailing 2014: sprint & accelerating for 2015

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[The paper highlights the landmarks of the Vietnamese retailing market in 2014 with the appearance of both foreign and local players as well as shows the trend of the market in 2015]

2015 – The important milestone

The year 2014 witnessed a number of changes in the Vietnamese retailing market. A lot of big M&As happened with the appearance of big international brands. With giant players' participation and changes in macro policies, the year 2015 is believed to be a great year for retailing.

According to the report “The liveliness of retail markets in Asia – Pacific 2014” conducted by CBRE, Vietnam is one of potential and highly-evaluated markets in the region, ranking 2nd after China.

TOP 10 MARKETS WHERE RETAILERS INTEND TO OPEN STORES IN 2014

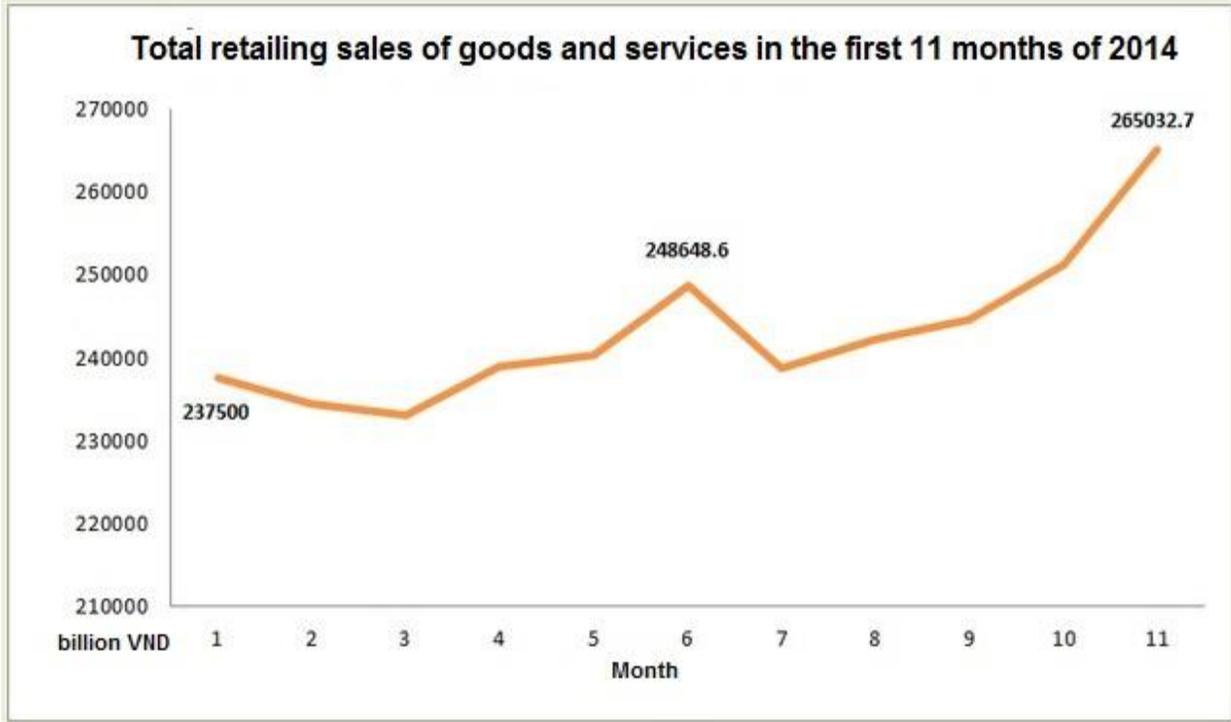


Source: CBRE Survey - How Active are Retailers in Asia Pacific 2014?

According to the Ministry of Industry and Trade, modern retailing will account about 40% in Vietnam in 2020. Currently, this figure is 20%. Retailing in Vietnam has still been under control of traditional kinds of retailing with sidewalk markets accounting for 80% of the market.

However, this situation is predicted to be changed soon. Young population structure, improving purchase power thanks to the strong rise of middle-class people, higher awareness of food safety and hygiene are key factors pushing needs for modern retailing shops.

Moreover, Vietnam ranked 28th in the 2014 Global Retail Development Index published by A.T.Kearney. “Stabilizing macro-economics, falling inflation and a more attractive business environment resulting from lower trade barriers and reduced corporate tax rates are key factors that help Vietnam attract international retailers”, A.T.Kearney said.



Lower trade barriers and reduced corporate tax rates, which are believed to have intense effects on the retailing market, are all closely related to the milestone 2015. In the end of 2015, the Asean Economic Community (AEC), which is a common market with population of 600 millions and free movement of goods, services, investment and labor, is highly possible to be valid. Besides, Vietnam's process to join Trans-Pacific Partnership (TPP) is likely to make important progress in the upcoming year.

Vietnam's favourable factors from macro and micro drew many foreign companies' attraction. In 2014, the market witnessed huge M&As of both domestic and foreign companies with the participation of a number of big international players such as Aeon, Takashimaya, Lotte, E-mart, Berli Jucker, Robins, etc.

Foreign enterprises: accelerating

The year 2014 witnessed a big amount of investment and big deals in the retailing industry, especially in the second half of the year.

At the beginning of August, the Vietnamese retailing market was shocked by the huge deal in which Metro (Germany) sold the whole Vietnamese business section with the price of \$879m. The whole 19 Metro Cash & Carry supermarkets of Metro were purchased by **Berli Jucker Group** (Thailand). This deal was a big surprise because in 10 years of presence in Vietnam, Metro, in spite of deficits in reports, was considered to be running well in Vietnam. The proof is the fact that the expansion speed of Metro Vietnam was only after China in Asia.

After selling the whole Vietnamese business section to Berli Jucker, all 19 supermarkets were renamed. Before that, Berli Jucker also impressed with the deal in which it purchased the whole Family Mart chain, linking with a Vietnamese partner and renaming it as B'mart.



Big events in the Vietnamese retail industry in 2014

Not pursuing the M&A strategy as BJC, the Japanese group **Aeon** chose a multi-sided accessing strategy. Entering Vietnamese market since 2008, Aeon didn't expand mass. The Japanese investor began with the G7-Ministop convenience store chain, cooperating with a local partner, Trung Nguyen.

Up to this year, Aeon just opened 02 malls in the South, which were Aeon Mall Ho Chi Minh City and Aeon Mall Binh Duong with the total surface of above 70,000 m² each.

Until now, Aeon poured more than \$500m into Aeon Tan Phu (HCMC, Jan 2014), Aeon Binh Duong (Binh Duong, Oct 2014), Aeon Long Bien (Hanoi, 2015) and Aeon Binh Tan (HCMC, 2016).

Moreover, Aeon continued to cooperate with two other local partners, which are Citimart and Fivimart to widen its system.

Overall, Aeon's strategy was varied. Not only did the group build huge malls with its own brand

but it also cooperated with local brands with smaller scale to build the distribution systems and stores. With this way, Aeon could both boost its development speed and raise consumers' awareness of Aeon's goods and brand.

The third brand in the Vietnamese retailing industry in 2014 is **Lotte**. Opening the 2nd highest shopping centre in Hanoi, Lotte Centre possessed a prime location on Dao Tan – Kim Ma road next to Daewoo Hotel. With a full complex of apartments, mall, hotel, restaurants and entertainment zones, the Korean group showed their ambition to make Lotte Centre Hanoi the no.1 modern entertainment centre in Hanoi.

Besides, Lotte also boost widening its Lotte Mart supermarket chain with opening 06 shopping centre in the nationwide, including Hanoi, HCMC, Binh Duong, Da Nang, etc.

In addition to above prominent brands, there were many big players who were gradually entering the market such as Robins (Central Group, Thailand), Takashimaya (Japan), Auchan (France), Mark & Spencer (the UK), etc.

It's impossible to ignore the veteran brands in the market such as **Big C**. Being one of the foreign enterprises with the longest history in Vietnam, Big C supermarket chain was always in the top of the biggest retailer in Vietnam, keeping its expansion to remote provinces, cities.

The mass expansion of a number of foreign brands was the proof for the market's attraction. But as a result, the competition was getting more and more cut-throat. ***The foreign retailers are rushing to build their own systems through a variety of ways, from direct investment, M&As to joint venture and associates.*** This accelerating process will continue in 2015.

The year 2014 also recorded a big player's leaving the game, which is Metro Cash & Carry. BJC's deal to purchase Metro was mainly due to the mother group Metro's difficulties, being forced to narrow its scale.

Domestic enterprises: Cooperation instead of confrontation

In fact, although foreign enterprises had bold moves, the biggest retailing group in Vietnam was still Saigon Co.op. With a system of more than 70 supermarkets nationwide, Saigon Co.op possessed the biggest market size in Vietnam. However, it's difficult to see it as an advantage of the local retailer.

Modern retailing market only accounted for 20%. It means that there were rooms for development. Enterprises were in fierce competition to draw consumers' attraction. ***Regarding financial power and experience, domestic retailers were still on weaker side in the race with foreign rivals.***

On the other hand, even without the participation of foreign brands, local retailers had their own problems.

In Vietnam, the regional matter in the retailing had a strong effect. Brands who were successful in the Northern hardly managed to run business in the South and vice versa.

Saigon Co.op was still in difficulty in rushing to the Northern. After failures, this supermarket chains opened only 02 supermarkets which were pretty far from the centre of Hanoi, being on its way to expanding to other Northern provinces such as Hai Phong, Quang Ninh. In contrast, famous retailers in the North such as Phu Thai, Fivimart also didn't manage to rush to the South, closing their supermarkets there after a while.

Meanwhile, with experience on a variety of markets, Big C and Metro were enterprises with long histories in Vietnam and presence in the whole nationwide. 06 centres of Lotte appeared in Hanoi, HCMC, Binh Duong, Da Nang, etc. Aeon was also building its shopping centre in Hanoi. Regional problems seemed to be not an obstacle to international retailers.

To overcome these inherent disadvantages and accumulate power to cope with the wave of foreign enterprises, local brands chose cooperation instead of confrontation. International experience of foreign retailers was the point that local ones need to learn. **Saigon Co.op** decided to partner with the famous Singaporean retailer **NTUC FairPrice**. Phu Thai Group, one of the famous retailers in the North, chose Family Mart, and after that, the Thailand group BJC.



Southern **Citimart** and Northern **Fivimart** chose to associate with Aeon. As for Citimart, Citimart's 30 supermarkets were renamed as Aeon-Citimart. In return, Citimart would have Japanese goods on their shelves. More importantly, Citimart would have chance to learn more about a multinational group's management style.

A local player that can be an exception regarding to financial power is **Vinmart** of Vingroup. Belonging to one of the biggest groups in Vietnam, Vinmart, in 2014, sped up thanks to M&A deals. In October, Vingroup purchased the whole chain of Oceanmart (Ocean Group) and renamed it as Vinmart.

Till the end of 2014, 79 Mart, Alphanam group's supermarket, sold its locations to Vingroup. With selling the only location, 79 Mart, despite keeping its brand, was considered to withdraw from the market. Alphanam Group's chairman Nguyen Tuan Hai told, to have profits, this supermarket chains needed to open about 50 locations meanwhile the group didn't want to invest any further.

About Vingroup, after M&A deals, Vinmart supermarket chain currently have 13 locations, going to open 40 other ones in the near future. This will be a potential brand in the Vietnamese retailing market.

Online Retailing – can't be the mainstream in 2015 yet

Up to present, most of the big brands had their own online retailing channel. According to experts in the field, the trend of online retailing in the future is inevitable. Currently, a lot of big retailers from Japan, South Korea and Thailand are about to enter Vietnam. **Lazada** just received investment and promised to boost its development in Vietnam. **Rakuten**, the biggest online retailer in Japan, was also on its way to enter Vietnamese market with more than 30 million people using Internet.

Domestically, **Vingroup**, one of the biggest group in Vietnam, was about to launch its project Vin-Econ in the beginning of 2015. A number of big deals also happened, such as VNG's selling its ecommerce section to FPT, 03 Japanese investors' pouring capital into Sendo. It can be referred that the year 2015 will witness a huge inflow into ecommerce.

However, it's pretty impossible to forecast the results. Foreign enterprises' ecommerce sites such as Lazada, despite some successes, had to cope with cultural differences.

As for the project Vin-Ecom, inspite of huge investment from Vingroup, had to delay its launching plan 03 times in 2014. Up to now information of Vin-Ecom's products haven't been published.

According experts in the ecommerce field, cash flow into Vietnam's ecommerce in 2015 will be strong but it hardly can become the trend immediately.

Potentials

After big events in 2014, cash inflow into retailing in 2015 is potentially strong. The competition is not only in big cities but also in rural areas. The year 2015 with important milestones in both macro policies and groups' investment straties will be a great year for retailing.

(Cafebiz)

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SEIKO IDEAS - 9th Anniversary

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