



Exporter Guide

FOOD & BEVERAGE IN VIETNAM

Market Profile
July 2011

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CONTENTS

1	MARKET STRUCTURE	3
1.1	Market Overview	3
1.2	Market Drivers	3
1.3	Market Potential	3
1.4	Import Trends	5
1.5	Key Players in the Market	6
1.6	Regulatory	8
1.7	Sustainability	9
2	MARKET ENTRY AND DEVELOPMENT	9
2.1	Market Entry Strategies	9
2.2	Points of Differentiation	10
2.3	Long term strategic issues for exporters to consider	11
2.4	Distribution Channels	11
2.5	Pricing	11
3	MARKET RESOURCES AND CONTACTS	11



1 MARKET STRUCTURE

1.1 Market overview

Vietnam is a developing nation with a population of over 88 million and a GDP of US\$100.5 billion for 2010. Vietnam's GDP growth was 5.3 percent in 2010 and this is expected to rise in the next few years.ⁱ GDP per capita was US\$1,140 in 2010, but there is a large gap between the wealthy urban population and the low income rural population. It is estimated that the average annual disposable income per capita in urban areas is around US\$4000 - \$5000.ⁱⁱ

Consumer spending on food and beverages is growing in Vietnam. The foodservice industry is forecast to be worth US\$13.3 billion in 2011 and is expected to grow at a compound annual growth rate of 4.2 percent per annum for the next two years.ⁱ The food and beverage retail sector is estimated to be worth US\$33.7 billion for 2011 and is expected to grow at a compound annual growth rate of 18.9 percent until 2014.ⁱⁱⁱ

Vietnam's food and beverage industry is becoming more developed and westernised.ⁱⁱ The growth of modern retail formats such as supermarkets presents opportunities for Vietnamese consumers to be more exposed to imported products, which are not generally stocked by traditional stores. The average Vietnamese diet is also changing to include more meat and dairy products.

1.2 Market drivers

Vietnam's developing economy and urbanisation are key drivers behind increased spending on food and beverage. Additionally, the following factors are influencing consumer trends:

- **Population and demographics:** Vietnam has a young population that is growing rapidly. Around one third of Vietnam's population is under 15.^{iv} The younger population are more receptive of convenience and processed foods, leading to increased demand for those products.
- **Trade:** Since joining the World Trade Organisation (WTO) in 2007, Vietnam has been importing more products from overseas. As a result, Vietnamese consumers are trending towards a more varied diet with a wider range of products.^v
- **Health consciousness:** Events such as the avian flu crisis and better health education are leading the Vietnamese to become more health conscious.^{iv} Healthy products, packaged products and modern retail channels (which are seen as hygienic) are expected to grow as a result.^v



- **Westernisation:** A large number of Vietnamese have migrated overseas to countries such as the United States, Canada and Australia. The overseas Vietnamese population keeps in close contact with relatives back in Vietnam, passing on information and encouraging Western lifestyles. This has led Vietnamese consumers to demand Westernised food and beverage products.ⁱⁱ

1.3 Market potential

Food products

The overall food market is expected to grow between 3.7 – 4.3 percent per annum for the period 2011 – 2013. There are several sectors and products that are expected to grow faster than the overall market:^{vi}

- **Meat:** Meat consumption is rising as consumers trend towards a more westernised diet. Sales of meat products totalled US\$589.6 million for 2010. This is expected to grow at a compound annual growth rate of 7 percent for the period 2011 – 2015. Poultry products are particularly popular with Vietnamese consumers. Sales of poultry products are expected to grow around 10 percent per annum for the period 2011 – 2015.
- **Convenience and processed foods:** Urbanisation, busier lifestyles and a young population are leading towards increased consumption of convenience and processed foods. Canned food products are expected to increase at a compound annual growth rate of 10 percent for the period 2011 – 2015. Ready-to-eat meals are forecast to grow at a compounded annual growth rate of 9 percent for the same period.
- **Dairy:** Rising consumption of dairy products and rising demand for dairy ingredients in food processing can be observed in the Vietnamese market. The dairy sector in Vietnam was valued at US\$476.6 million in 2010 and is expected to grow approximately 7 percent per annum for the period 2011 – 2015. Within the dairy sector, demand for fresh milk and dairy spreads are expected to perform particularly well. Fresh milk is forecast to grow around 11 percent per annum for the period 2011 – 2015. Dairy spreads are forecast to grow 11 percent per annum in the same period.
- **Healthy foods:** The increased health consciousness of consumers has led to an increased demand for healthier products. Fresh food products were valued at US\$1.2 billion in 2010 and this is expected to increase at rates between 6 – 7.2 percent per annum until 2015.



Beverage products

The beverage market overall is growing rapidly and is becoming more diverse. Sales of beverage products are expected to increase between 6.3 – 7.2 percent per annum for the period 2011 – 2013.

- **Non-alcoholic beverages:** Due to a combination of westernisation and rising health consciousness, both soft drinks and healthy alternatives, such as fruit and vegetable juices, are expected to grow. As the population becomes wealthier, demand for hot beverages such as coffee and tea is also expected to rise.^v
- **Alcoholic beverages:** Higher income levels and westernisation are influencing alcohol consumption, which is increasing rapidly in Vietnam. Alcohol consumption is forecast to increase by around 6.5 – 7.5 percent each year for the period 2011 – 2013.^{vi} Currently, 98 percent of alcohol consumption is beer. However, as other alcoholic beverages such as spirits and wine become more affordable for consumers, demand is expected to rise.^v Wine is expected to grow at around 4 percent per annum for the period 2011 – 2015. White wine is forecast to grow at around 6 percent per annum for the same period and red wine at 3 percent.^{vi}

1.4 Import trends

New Zealand's food and beverage exports to Vietnam were valued at NZ\$246.6 million for the year ended December 2010. This represents growth of 36.4 percent from 2009. The growth was primarily driven by a 185.6 percent increase in butter exports and a 507.9 percent increase in exports of non-concentrated or sweetened milk and cream.

The top products that New Zealand exported to Vietnam in 2010 were:^{vii}

Product	2010 exports (\$NZ million)	Change from 2009	% of NZ's food & beverage exports to Vietnam
Milk and cream (concentrated or sweetened)	120.4	+10.7%	48.8%
Butter	81.9	+185.6%	33.2%
Milk and cream (other)	14.1	+507.9%	5.7%
Spirits, liqueur and other (less than 80% alcohol content)	6.42	+77.5%	2.6%



Product	2010 exports (\$NZ million)	Change from 2009	% of NZ's food & beverage exports to Vietnam
Fresh apples, pears and quinces	3.12	+108.2%	1.3%
Cheese and curd	2.97	-2.6%	1.2%
Whey and other natural milk products	2.53	-52.1%	1.0%

1.5 Key Players in the Market

Retail channels

While the food and beverage retail sector is not very developed, it is growing rapidly with an expected compound annual growth rate of 18.9 percent for the period 2010-2014.

The sector is fragmented and still very traditional. Most stores are independent and family operated. The top five companies hold only a 3 percent market share.^{iv}

The most important retail formats for the food and beverage market are:ⁱⁱⁱ

- Traditional stores, convenience stores and gas stations:** This retail format holds 62.4 percent of revenues in the industry and is expected to grow at a rate of 19.7 percent per annum for the next few years.ⁱⁱⁱ Most of these small retailers are traditional and independently owned stores, even in urban areas. The largest city in Vietnam, Ho Chi Minh, has over 2,000 wet markets and 6,000 independent stores.^{iv}
- Large retailers:** Large and modern retailers such as hypermarkets and supermarkets account for only 5.4 percent of market share. However, large retailers have the highest forecast sales growth rate of around 21.4 percent per annum until 2014.ⁱⁱⁱ Consumers are starting to prefer the perceived hygienic conditions, convenience and air conditioning of modern retailers.^{iv}
- Food and drink specialists:** Specialist retailers such as bakeries and butchers hold around 29.4 percent of market share. These retailers are forecast to grow around 16.3 percent each year until 2014.



Leading retail companies

- **Saigon Co-Op:** Saigon Co-Op is the leading modern retailer in Vietnam. The company operates 52 stores in the largest city Ho Chi Minh. Saigon Co-Op has been rapidly expanding since 2006 with sales growth rates per annum of 30-50 percent.^{iv}

Other large international retail companies that have a presence in Vietnam include Casino (French), Metro (German), Dairy Farm (Hong Kong), Parkson (Malaysian) and Lotte (Korean).^{iv}

Hotels, restaurants and institutions (HRI)

The HRI sector is made up of 88.4 percent food products and 11.6 percent beverage products. Food sales are expected to grow at a compound annual growth rate of 3.9 percent for the next few years, while beverage sales are expected to grow at a compound annual growth rate of 6.6 percent for same period.ⁱ

The foodservice sector in Vietnam is dominated by independent street vendors and full service restaurants. These two channels account for 87.7 percent of the foodservice sector's profits. The different foodservice channels are:ⁱ

Channel	Forecast 2011 profit (US\$ million)	Growth from 2010	% of sector profits
Street and mobile vendors	6,026.5	3.2%	45.7%
Restaurants-full service	5,545.3	5.0%	42.0%
Pubs and bars	424.5	4.6%	3.2%
Cafes	300.7	5.1%	2.3%
Leisure	300	4.2%	2.3%



Channel	Forecast 2011 profit (US\$ million)	Growth from 2010	% of sector profits
Hotels and lodging	278.5	4.2%	2.1%
Restaurants - quick service	166.7	7.1%	1.3%
Nightclubs	126.3	4.3%	1.0%
Takeaways	13.8	6.2%	0.1%
Transportation (e.g. air, rail)	4.7	4.4%	0.0%

1.6 Regulatory

Information provided in this section is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor.

Duties and tariffs

New Zealand and Vietnam both belong to ASEAN - Australia - New Zealand Free Trade Area (AANZFTA). Since 2010, the ASEAN Free Trade Agreement has removed or lowered tariffs on most of New Zealand's exports to other AANZFTA countries. On many dairy products, tariffs are still in place but are being gradually lowered down to zero.

For more information including tariff calculation, visit the website: www.asean.fta.govt.nz.

Industry standards

Vietnam has a variety of general and product specific regulations around imported products. Food and beverage products are subject to inspection when exported to Vietnam.ⁱⁱ

Imported food and beverage products are subject to the same regulations as domestic products. Standards are governed by the Ordinance on Hygiene and Safety of Foodstuffs. The legislation can be found on the website: www.vietnamlaws.com.



Labelling requirements

Food and beverage product labels must display the following information clearly:ⁱⁱ

- Product name
- Name and address of organisation that is responsible for the product
- Country of origin
- Quantity
- Manufactured date and expiry date
- Ingredients and ingredient quantities
- Hygiene/safety information and warnings
- Instructions for use and preservation

For more information, please see Degree 89 (Circular 89/2006/ND-CP on August 2006) on the following website: www.dncustoms.gov.vn.

1.7 Sustainability

Sustainability and environment issues have a very low profile in Vietnam. However, there are signs that awareness of sustainability and environmental concerns are starting to grow. For example, consumers and retailers in Vietnam boycotted monosodium glutamate (MSG) made by the Taiwanese-owned MSG Vedan Vietnam when it discharged untreated waste water into the Thi Vai River, one of the largest rivers in the South of Vietnam.

Consumers will not currently accept significant price differences for sustainable products. While demand for organic products is minimal currently, there are some good opportunities around nutritious products for babies and children.



2 MARKET ENTRY AND DEVELOPMENT

2.1 Market entry strategies

Marketing and promotion

Vietnamese consumers are price sensitive and have little brand loyalty. However, with rising incomes and westernisation, this is starting to change. Products are increasingly competing on brand and quality.ⁱⁱ Careful thought around marketing and promotion strategies will help a product succeed in the Vietnam market in the long term.

Vietnam has strict regulations around advertising. Mass market advertising for alcoholic beverages with alcohol content above 15 percent is not permitted. Other limits on advertising and promotions include:ⁱⁱ

- Requiring approval from the relevant government ministry to advertise certain products.
- Spending on advertising and promotion cannot be more than 10 percent of total spending.

Regional considerations

Vietnam is split into three distinct regions. Each of these regions has a central urban hub.ⁱⁱ

- **North:** Hanoi city
- **Central:** Da Nang city
- **South:** Ho Chi Minh city

Consumers in each region have different purchasing habits and considerations. It is recommended that companies focus on one region only when entering the market. Ho Chi Minh is the most developed city and the recommended starting location for consumer products. If companies are aiming to target more than one region, it is recommended that they tailor entry strategies to each region.ⁱⁱ

2.2 Points of differentiation

New Zealand companies should continue to leverage New Zealand's environmental reputation. Food hygiene and safety should be emphasised as these are big issues in Vietnam and consumers are willing to pay a premium for good quality, safe products.



2.3 Long term strategic issues for exporters to consider

Vietnam is a rapidly developing nation and exporters must be prepared to adapt their strategies to meet the needs of a frequently changing market.

Exporters should also be aware of Vietnam's frequent regulatory changes. Although Vietnam has an open market policy, the Government is conscious of protecting the local agricultural sector, which has been negatively impacted at times by 'open door' policies. Therefore, the Government may use tools to restrict agricultural imports such as new decrees and circulars. There is strong internal policy to develop local agriculture in order to ensure food security and independent supply for Vietnam's large population.

2.4 Distribution Channels

Because the retail market is highly fragmented and there is a lack of large players, direct selling to retailers is extremely rare. The most common market entry strategy when working with food and beverage products is to work with a local partner, trader, distributor or agent. However, volume products for use as raw materials in factories (dairy ingredients, salted hides, animal feed ingredients, etc.) are typically sold directly to the end-user.

Vietnam allows foreign companies to import food and beverage products and distribute them through both wholesale and retail channels. However, companies need to be registered in Vietnam and have an investment license. For example, Fonterra Brands has transformed from a representative office into a limited liability company, so it can import and distribute products in the Vietnamese market.

Unless a company has an investment licence for distribution and invoicing, foreign companies must work with an authorised agent or distributor in order to sell their products in Vietnam.ⁱⁱ

- **Agent:** An agent will sell products for a commission. A typical agent will also provide market research, marketing and promotion and after sales service to consumers.
- **Distributors:** Distributors will purchase goods from foreign companies for resale. Distributors can also sometimes perform the functions of an agent.

It is recommended that companies perform due diligence when selecting a local representative such as researching their clients and history.



2.5 Pricing

While Vietnamese consumers are price sensitive, the pricing of a product will also affect their perception of that product so discounting a product is not always effective. It is important to price a product appropriately. Generally, Vietnamese consumers do expect to pay a premium on foreign products.

Imported products in Vietnam will face the following mark-ups:ⁱⁱ

- Import agent fees
- Custom duties
- Value-added tax (range from 5 – 10 percent)
- Consumption tax (for products such as alcoholic beverages)



3 MARKET RESOURCES AND CONTACTS

ORGANISATION	WEBLINK
ASEAN Free Trade Agreement	www.asean.fta.govt.nz
Ministry of Industry and Trade	www.moit.gov.vn
Vietnam Customs	www.customs.gov.vn
Dong Nai Customs	www.dncustoms.gov.vn
Directorate for Standards, Metrology and Quality (STAMEQ)	en.tcvn.vn
HCM City People's Committee	hochiminhcity.gov.vn
TRADE EVENTS	WEBLINK
Food & Hotel Vietnam	www.foodnhotelvietnam.com
Wine for Asia	www.wineforasia.com
Wine & Spirits Asia	www.winespiritsasia.com

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- i Source: Datamonitor, Foodservice in Vietnam to 2013 (Databook), published December 2010
- ii Source: US Commercial Service, Doing Business in Vietnam: 2011 Country Commercial Guide for U.S. Companies
- iii Source: Datamonitor, Food and Grocery Sales via Key Retail Formats in Vietnam to 2014, published February 2011
- iv Source: Deloitte & Planet Retail, Hidden Heroes Emerging Retail Markets beyond China, Link: www.planetretail.net
- v Source: Economist Intelligence Unit, Vietnam: Consumer Goods and Retail Report, published December 2010
- vi Source: Datamonitor, Link: www.datamonitor.com
- vii Source: World Trade Atlas, Link: www.gtis.com

