



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 11/23/2005

GAIN Report Number: VM5076

Vietnam

Retail Food Sector

2005

Approved by:

John Wade

FAS Hanoi, U.S. Embassy

Prepared by:

Truong Minh Dao

Report Highlights: Although the traditional retail sector still dominates the retail food sector, Vietnam's retail industry continues its steady transition away from the traditional trade to modern trade including modern mini-marts, supermarkets, hypermarkets and superstores. Modern trade has grown tremendously in the last six years and continues to show strong potential for further development. Some big foreign retail chains have closely studied this market sector for their future investment. Local importers will continue to play a major role in introduction, distribution, and promotion of imported food products in Vietnam. Best prospects for U.S. food products are apples, grapes, grocery snack foods (potato chips), dairy products, frozen potato and packaged foods i.e. canned food, sauces. Further growth and sophistication of the retail sector will create additional opportunities for U.S food exporters.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Hanoi [VM1]
[VM]

TABLE OF CONTENTS

SECTION I. MARKET SUMMARY	3
I.1. Status of Retail Sector	3
Table 1: Estimated Value of Overall Retail Food Sales	4
Chart 1: Vietnam Food Retail Trade Structure	4
Table 2: Number of modern retail outlets and traditional outlets.....	5
Table 3: Value of food sales of modern retail trade sector.....	5
I.2. Consumer Purchasing Behavior.....	6
I.3. Trend in distribution channels	6
I.4. Trend in services offered by retailers	7
I.5. Import market	8
I.6. Advantages and Challenges Facing US Products in Vietnam.....	8
SECTION II. ROAD MAP FOR MARKET ENTRY	9
II.1. Entry Strategy.....	9
II.2. Market Structure	11
II.3 Trends in Distribution	12
A: Modern retail trade sector: Super Markets/Hypermarkets/Store Chains	12
Table 4: List of major Supermarkets/Hypermarkets/Wholesale Stores.....	12
B. Traditional Retail Trade: Wet Market & Private Small Shops	15
SECTION III. COMPETITION	15
SECTION IV. BEST PRODUCT PROSPECTS	16
A. Products Present in the Market which have Good Sales Potential.....	16
B. Products Not Present in Substantial Quantities but which have Good Sales Potential ..	16
C. Products Not Present Because they Face Significant Barriers	16
SECTION V. POST CONTACT AND FURTHER INFORMATION	1746
State Regional Trade Groups.....	1746
FAS Cooperators and Participants	17
USDA/FAS Offices in Vietnam.....	17

[Toc120700376](#)

ECONOMIC OUTLOOK:

- With an averaged annual growth rate of over 7 % in the last five years, Vietnam's economy enjoys second fastest growing in Asia and its strong economy growth is expected to continue in years given Government commitment for further reform in legal, financial, institutional system and in market liberalization.
- This nation of over 82 million people - the second largest population in South East Asia - has enjoyed a young and well-educated population with 52% of that are under 24 years of age.
- Per Capita income in urban area has increased by 8%-10% per annum and living standards continue to improve. The size of the upper and middle class has nearly doubled in the last five years in major urban areas (Ho Chi Minh City and Hanoi).
- Vietnam exports continue to grow at a strong rate of about 20% in 2005 and the tourist industry continues to receive an increasing number of foreign tourists (an expected 3.4 million in 2005, a year on year increase of 16%). Moreover, Vietnam annually receives more than \$4.0 billion in remittance from overseas Vietnamese. These all brings an increasing amount of foreign currency earnings to the country.
- Foreign direct investment (FDI), which was registered at US\$ 4.0 billion in 2004, continues to increase. The rapidly expanding private sector also defines the healthy environment for investors.
- With such a large young consumer base, the improving per capita income and strong economic growth, Vietnam's best consumer years are still ahead and prospects for faster expansion of the retail sector in the next five years are very promising.

SECTION I. MARKET SUMMARY

I.1. Status of Retail Sector

Strong economic growth and improved per capita income has contributed to the robust expansion of Vietnam's retail trade. Nationwide retail sales of goods and services, which are estimated at \$19 billion to 20 billion per year, have enjoyed a high growth rate of over 10% per year for the last five years. As a proportion of total retail sales, food sales account for nearly 50 percent. Food retailing in Vietnam has sales of \$8.0 billion - \$8.5 billion and is growing at an average rate of over 9 percent per annum. With its current small share of only 9.0 percent to 10.0 percent of total food retail sales, modern trade promises to continue expanding at the very high rate of 18% per annum – the rate it has grown in recent years.

Table 1 shows estimation of overall retail food sales over the past five years.

Table 1: Estimated Value of Overall Retail Food Sales

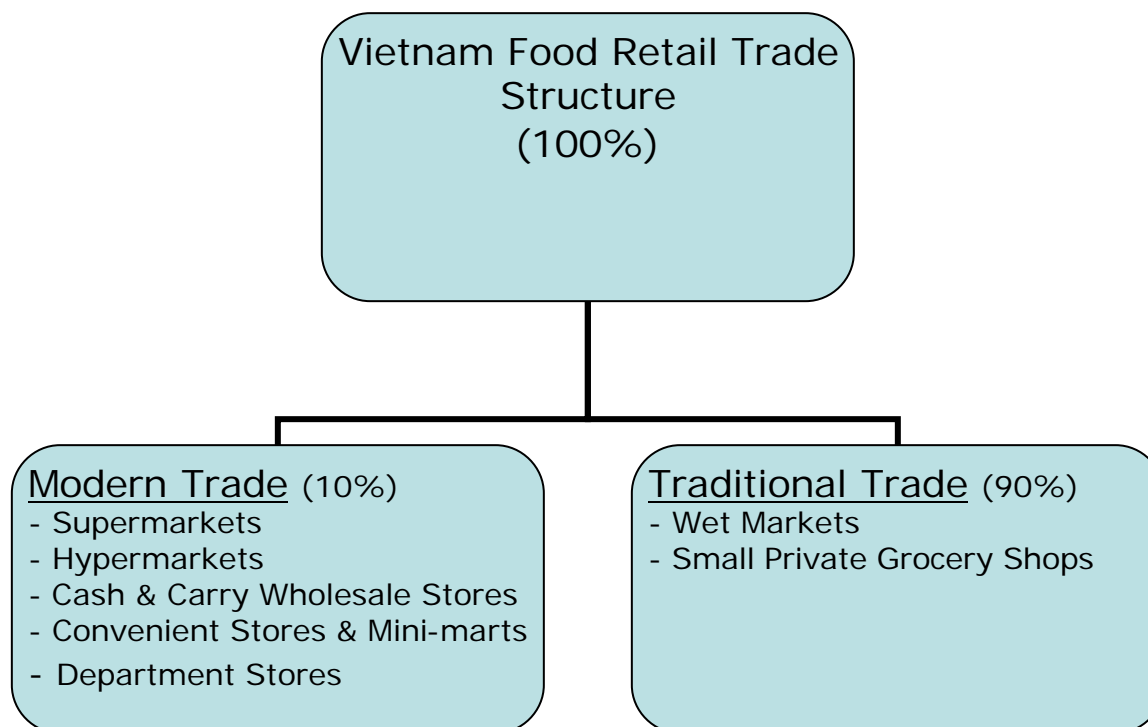
	2000	2001	2002	2003	2004	2000-2004 Average Growth
Value in US\$ billion	5.37	5.94	6.26	6.95	8.00	
% Growth	6.1	10.6	5.4	11	15.1	9.64

Source: Various Trade Sources incl. Euromonitor, General Statistics Office

The retail food sector in Vietnam is still dominated by traditional wet markets and small household-owned “mom and pop” shops. Modern retailers are expanding but are still under-developed. The traditional retail trade is being challenged by the booming modern trade with the number of supermarkets, convenient stores, mini-marts, hypermarkets, large wholesale stores and department stores recently increasing.

In conjunction with strong economic growth, rising income levels (especially disposable income), a growing middle class, an increasing young population and the expanding exposure to western lifestyle fuel the rapid growth of modern trade in Vietnam retailing. Over the last six years, modern trade in Vietnam has achieved an average growth of 18% per annum and is expected to continue to grow at the same level for the next five years. More consumers in urban areas demand an international shopping experience and increasing numbers are shifting from the ‘traditional’ to the ‘modern’ trade.

The chart below provides general view of Vietnam food retailing including traditional channels and modern channels:

Chart 1: Vietnam Food Retail Trade Structure

The booming Vietnam modern retail trade sector is still limited to major urban areas (mainly Ho Chi Minh City and Hanoi) and has been able to obtain only 9% - 10% of total food retailing.

Food products are currently sold to over 92 modern supermarkets, 30 modern mini-marts and convenient stores, 18 shopping centers and hundreds of thousands of traditional wet markets and small private shops.

Table 2: Number of modern retail outlets and traditional outlets

	2000	2001	2002	2003	2004
Supermarkets & Hypermarkets	46	51	68	75	92
Department Stores	8	11	14	16	18
Independent Stores	588,300	599,500	607,400	611,200	619,038

Source: Euromonitor and Post estimates

According to market surveys conducted by consulting firms, the Vietnam retail market is very promising and is becoming one of the most attractive destinations for foreign investment in Vietnam. Big foreign retail chains like Lotte Mart of Korea and Dairy Farm of Hong Kong have looked closely at this market for their coming investments. Almost all existing big retailers in Vietnam have committed for further expansion not only in big cities like Hanoi and Ho Chi Minh City (HCMC) but also in other cities (Can Tho, Da Nang, Hai Phong etc.)

In order to protect domestically-owned supermarkets, the government of Vietnam (GOV) so far has not encouraged 100% foreign-owned investment in the retail industry, which has slowed the growth of the modern retail sector. However, under pressure from WTO negotiating partners for more reforms in market liberalization and in accordance with the Bilateral Trade Agreement (BTA) between USA and Vietnam, the GOV has indicated that it will liberalize the sector in the very near future. Post expect that it is quite possible the government will allow 100% FDI in retailing and distribution within the next two-three years. Initially, foreign companies have been approve to form joint ventures with local partners on the condition that their control is smaller than 50 percent. This model has worked well for the case of the Cora chain and Seyu supermarket. One foreign retailer (Metro Cash & Carry of Germany) has been entered the market through its 100% foreign invested "cash & carry" operations that nominally at least requires customers to be wholesale purchasers. . However, this investment does not have the right to import directly.

The key constraints for modern retail development in Vietnam are low consumer income (despite recent gains) , the high cost of land rental, expensive electricity and growing inflation in the last two years (9.5% for 2004 and 7% estimated for 2005).

As official data on food sales in the modern retail sector are not available and some store-owners are reluctant to provide such data to the public, table 3 shows our best estimation of the total value of Vietnam modern retail trade.

Table 3: Value of food sales of modern retail trade sector

2000	2001	2002	2003	2004	Average Growth 2000-2004
310	380	430	500	670	18.50%

I.2. Consumer Purchasing Behavior

Vietnamese consumers spend a great portion of their expenditure on food items. Food expenditure is about 42 to 45 percent of total consumption expenditure, mostly for staple and basic food items like rice, meat, salt, sugar, vegetable oils, sauces. Very little is spent on high value processed food products. However, recent consumer surveys indicate increased spending on high-value products such as dairy products (UHT milk, fresh milk, yaourt, cheese etc.), meat, eggs, fresh fruits, vegetables, confectionary and snack foods.

Vietnamese consumers habit:

- Shop daily for their food use.
- Prefer fresh products
- Low percentage of people who have refrigerators and microwave.

Consumer trend in urban areas:

- Still low average income.
- More concern about nutrition, quality, hygiene and food safety.
- Brand loyal but still receptive to new products.
- Western style life is welcome.
- More dining out than before.
- Influenced by advertisement and promotion especially kids. One market researcher said that 18% of sales in modern trade are as the result of advertisement and promotion.

I.3. Trend in distribution channels

While HCMC and Hanoi have a growing number of modern outlets, the rest of the country still heavily relies on traditional marketing channels. Although small “mom and pop” shops and wet markets continue to play a major role in food distribution, the number of supermarkets, hypermarkets and wholesale supermarkets continues to develop fast in urban areas because of:

- A growing number of western-minded consumers, especially in urban areas.
- A growing middle class where both parents are working and less time is available for shopping for food.
- The aggressive promotion, appealing prices and discounts, and the wide range of products offered by large supermarkets attracting even lower-income consumers.
- The increasing acceptance by the consumer of processed and packaged products. Many products traditionally sold in bulk are now readily purchased in packages.
- Many consumers are more willing to buy from supermarkets because of the generally guaranteed hygiene and quality.

The five-day workweek, coupled with the expanding disposable income of the urban family, has accelerated the trend of purchasing ready-to-eat, snack, and luxury food items. Local food producers have begun to supply shoppers with ready-to-eat and semi-prepared food items. The pre-prepared food items consist of various food ingredients, chopped or sliced and wrapped in a package for home use. This new trend is expected to trigger demand for more varieties of ready-to-eat and semi-prepared dishes and has greatly increased imports of Western food products. There are ample opportunities for U.S. food products to enter this market. Best growth products in recent years have been dairy products (i.e milk powder infant formula, UHT milk, cheese and butter); fresh fruits, confectionary, snack foods, processed fruits, fruit juices, breakfast cereal, wine, baby foods.

With a dynamic, well-educated population of 82-million consumers, Vietnam is both an opportunity and a challenge for American high-value consumer-oriented foods and

beverages. Vietnam is evolving and is becoming more integrated with its Association of South East Asian Nations (ASEAN) neighbors; continues to implement a U.S.-Vietnam Bilateral Trade Agreement (BTA); and aspires to join the World Trade Organization (WTO) next year.

Vietnamese consumers in big cities have become accustomed to higher quality consumer-ready products. U.S. products are appreciated as of higher quality. However price continues to be the main factor for purchasing of consumer-ready products. Local consumers have begun shopping daily in supermarkets and are beginning to purchase U.S. fresh fruit, canned goods, condiments, sauces, snack food, nuts, soups, wine, and a variety of other products. While local products continue to be strong sellers because of price, the quality of most locally-made produces has not yet reached international standards. At some point in the near future, local consumers will begin to demand higher quality levels.

As foreign companies accessing to local trading and distribution rights are still restricted, local importers continue to play a major role in distributing and promoting imported products in Vietnam. Typically, they have their own sales agents and distribution fleet and are in direct contact with supermarkets, wholesalers, and in many cases with thousand of grocery stores as well. Some importers are involved in imports of a wide range of products with no particular loyalty to a specific product, brand or origin. Other importers are working exclusively to develop markets for specific labels. As they tend to promote their products more heavily, these importers may require more involvement from the exporter in order to penetrate this market.

I.4. Trend in services offered by retailers

Supermarkets in Vietnam tend to be located in big stores that include a number of fast food restaurants, entertainments (mainly games) and specialty shops. The number of adjacent shops varies from 18 to 25 and is meant primarily to attract a large number of visitors. Department stores usually devote a relatively large space for ready-to-eat food and entertainment.

In many cities, the lack of adequate entertainment and amusement sites draws many families to visit department stores and big supermarkets to roam around where they often end-up buying or at least exposed to new-to-market products.

Major retail chains have recently invested more resources in developing fresh, chilled and frozen sections as well as ready-to-cook and ready-to-eat food sections. They also provide additional in-store services (i.e. acceptance of credit/debit cards, ATM services, food courts, bakery corners, home delivery, and gift wrapping service) in order to attract more customers and to compete effectively with open-air wet markets. Interest in nutritional characteristics of food should continue to grow. Saigon COOPMART chain has just started home delivery for customers who are able to place orders over US\$7.

To support evolving consumer preferences, retailers have focused more on marketing practices. Promotional and advertisement campaigns are more aggressive, with in-store promotions, store fliers, seasonal discounts, and preferences for frequent customers. Packaging sizes have been reduced to lower the prices, and more generic brands (especially for staple foods such as rice, salt, wheat flour and sugar) have been introduced.

Internet sales of food products and direct selling to consumers have just been introduced. Internet retailing should see increased sales in coming years.

"Multi-level marketing" concept has recently been introduced in Vietnam however it has met resistance from government officials. These officials doubt the value of the product marketed

under this concept; worry about its over-stated and unreal advertisement skill and suspect they will evade taxes.

I.5. Import market

The GOV continues to discourage imports through relatively high tariffs and non-tariff barriers. Import tariffs range from 20 percent to 50% for processed foods and are 65 percent for wine and alcoholic drinks.

Department of Animal Health/SPS requirements for animal products and Food Administration Department/food registration requirements for imported foods are cumbersome. They requiring excessive documentation and are sometimes not based on sound science practice. Moreover, import valuation of imported foods is in most cases not based on transaction value contrary to Vietnam's agreement with the United States.

Consumption of imported consumer-ready food products is expanding as per capita income is increasing in urban area. Also, Vietnam receives more than \$4.0 billion in annual remittances from overseas Vietnamese, a large portion of which is spent on consumer goods. The overseas Vietnamese supports their family in Vietnam by not only sending home a great amount of money but also by sending plenty of parcels of consumers goods. This has helped introduce and promote western-life styled consumption and new-to-market food products to consumers in Vietnam. Trade data indicates Vietnam imported \$260 million of consumer-ready foods in 2004 up from \$252 million in 2003, \$239 million in 2002, and \$152 million in 2000. The actual level of consumer-ready imports is higher given Vietnam's porous borders and under-invoicing problems.

US food products enjoy a wide-spread positive reputation among local consumers for their high quality, safety and innovativeness. U.S. exports of high value and consumer-oriented foods and beverages to Vietnam after staying for several year at around \$20 million, in 2004 surged to a record of over 51 million, 165% higher than in 2003, but still only 20 percent of total consumer-oriented imports. Exports of U.S. consumer-oriented products to Vietnam in January to September, 2005 reached \$64 million, 110% higher than the export value for the same period of 2004.

Key consumer items include: dairy products, fresh delicious fruits (apples, table grapes), canned fruit and vegetables, confectionary products, snacks, canned meat products, chilled and frozen meat, wine and beverages.

I.6. Advantages and Challenges Facing US Products in Vietnam

<u>U.S. Advantages</u>	<u>Challenges for U.S. Exporters</u>
Improving income and a rapidly-growing middle class fascinated with American culture (music, movies, fashion): carries over to American food.	Price-sensitive consumers. Shipping costs and transportation time are higher than Asia, and Australia.
U.S. foods are recognized as high quality items, and being a great value for the price.	Twenty-year absence from this market limits knowledge of U.S. foodstuff suppliers, and general preference is for European (French) food items.
Strong ties between the U.S. dollar and the Vietnamese Dong (less currency risk).	Difficult direct shipments from the U.S. since small lot sizes results in transshipping through third-country ports like Hong Kong &

	Singapore.
Low level of U.S. competition in the market.	Low level of experimentation by Vietnamese urban dwellers with new types of Western food.
	Low tariff applied on food products imported from South East Asian (ASEAN) Countries under the Asian Free Trade Agreement (AFTA).
Vietnam-USA Bilateral Trade Agreement in place since December 2001 helps reduce tariff for some food items; create better business environment and further liberalizes the trading and service market.	High tariffs, cumbersome and excessive requirement of Customs Department, and Food Administration; non-science based sanitary and phytosanitary requirements on animal products in general.
Growing number of western-style fast food restaurant chains, bakeries and coffee shops, as retail food sector transitions to more modern structure.	US exporters not very flexible and responsive to importers' requirements; frequently do not conform with Vietnam regulations.
	Limited infrastructure and distribution for perishable products

SECTION II. ROAD MAP FOR MARKET ENTRY

II.1. Entry Strategy

The best way to enter into this market is to appoint a local partner for directly importing the products or to act as an agent to arrange for importing distributing and marketing. The appointed local partner should be responsible for the widest distribution for your products as well as to undertake the marketing efforts necessary to create awareness for your products among consumers.

Business relationships are very important for success and therefore efforts to make regular visits with local partner as well as with key retailers should be a priority.

It is critical for US exporters to spend time and effort to study potential markets for the products before initiating sales. They should also visit Vietnam to gain a first-hand feel of the market, preferably around the Food & Hotel Show organized in Ho Chi Minh City in early December of every year. US exporters are encouraged to review the FAS exporter guide as well as trade policy reports before hand. Exporters can contact FAS-Hanoi or FAS-Ho Chi Minh City to assist them in conducting market briefing and setting up initial meetings with potential importers and major retailers.

Success in introducing your product in this market depends on a good local representative and effective pricing strategy. The local partner should preferably be an importer and distributor who is able to strongly enter both traditional channels and modern retail channels. A food supplier wishing to reach all Vietnamese consumers must work with the modern retailers as well as the open-air wet markets and shops. While HCMC and Hanoi have a growing number of modern outlets, the rest of the country still heavily relies on traditional marketing channels. According to two major importers of branded food items from USA and European countries, sales volume to supermarkets is currently under 40 percent of their total sales.

Consider the following before selecting an agent:

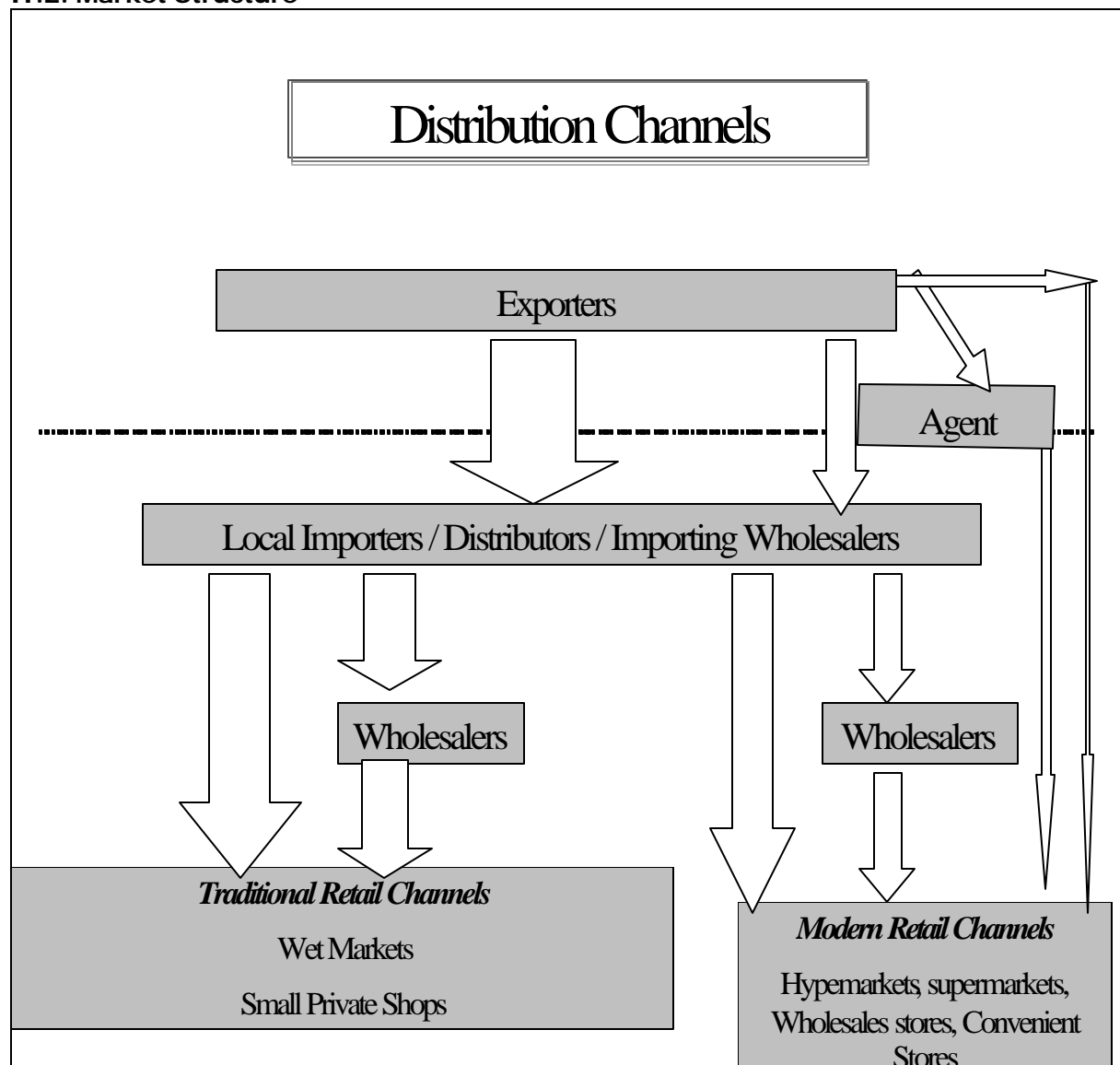
- Good relationship with retailers and ability to deal with local regulators.
- Expertise in setting up distribution networking.
- Those with fewer clients and smaller set-ups are easier to work with as they are more adaptable and committed than those with a large infrastructure and big reputations.
- US firms should evaluate all distributor prospects, and thoroughly research the more promising ones. Check the potential agent's reputation through local industry/trade associations, potential clients, bankers, and other foreign companies.
- FAS-Vietnam maintains major lists of potential importers.

Most importers who are interested in dealing with US food suppliers prefer to:

- * Purchase consolidated containers of many food items in small quantities to avoid extra cost for inventory
- * Seek exclusive agreements from exporters.
- * Ask for advertisement and promotion support from exporters.
- * Ask for payment under some credit terms.

The key to success for exporters is to focus on 'reasonable' entry pricing for their products, which is specifically targeted at the desired consumer base.

II.2. Market Structure



Distribution of imported foods:

Distribution of imported foods goes thru one of the four basic models as follows:

- 1) **Exporters --> Importers/Distributors --> Big Modern Retailers**
- 2) **Exporters --> Importers/Distributors --> Wholesalers --> Retailers**
- 3) **Exporters --> Local Agent--> Importers/Distributors --> Wholesalers --> ----- --> Retailers**
- 4) **Exporters--> Big Modern Retailers** (Big C, Metro, Saigon Coop, Maximart)

Model No.1 and No.2 are the most common practice in Vietnam.

In Vietnam, most food importers are also distributors. They often directly move their imported products to big retailers in urban areas and let wholesalers and their agents help move their products to thousands small retailers in both urban and rural areas. Due to relatively low purchasing power, most modern retailers source their imported foods through importers/distributors. Only a few big chain like Metro, Cora, Saigon Coopmart, and Maximart have tried buying directly from foreign suppliers.

Vietnam distribution infrastructure and facilities for perishable products is a big constraint for importing products. The distribution systems are often equipped with out-of-date technology and transport products using an inadequate and fragmented cold chain and improper handling.

II.3 Trends in Distribution

The modern retail sector is expanding rapidly, but the traditional sector will continue to dominate the distribution system for some years to come. Utilizing state-of-the-art technology and equipment and taking advantage of strong finances, large retailers put in place central warehousing and distribution systems in the big cities and increasingly import directly (particularly perishable products i.e. fresh produce, frozen meat and vegetable) from foreign suppliers. They will open more outlets not only in the big cities but also in other regions to maximize their capacity.

With firm commitments from the government to liberalize markets, Vietnam will receive more foreign investments in distribution..

A: Modern retail trade sector: Super Markets/Hypermarkets/Store Chains

- Modern retail trade is expected to continue to expand at a very fast pace of over 18% per annum over the next five years.
- About 16 percent – 20 percent of imported food items are sold through modern outlets.
- Most supermarkets, hypermarkets, and wholesale stores buy most of their imported products from importers/distributors or agents.
- A few are importing directly from foreign suppliers, particularly perishable products and specialty products.

Table 4: List of major Supermarkets/Hypermarkets/Wholesale Stores

Retailer Name/ Outlet Type	Ownership	No. of Outlets	Sales Turnover (US\$ mil)	Locations and expansion plan	Imported Food Purchasing Agent
COOPMART/ Supermarket & Convenience Stores	Local company operated under co- operative law	13 supermarkets 6 convenient stores	136	- Mainly in HCMC. - Just expanded to Can Tho and Long Xuyen. - Plan: other cities	- Mainly from importers/distributor s and wholesalers. - Small portion of food imported directly
CORA / Hypermarkets and Supermarkets	Local Joint Venture with Casino Group of France	3 Hypermarkets 1 Supermarket	26	- HCMC, Dong Nai and Hanoi	- Mainly from importers/distributor s and wholesalers. - Small portion of food imported directly
Maximart Supermarkets and Department Stores	An Phong Private- Owned Company	3	31	- HCMC and Nha Trang - Expand to Cantho soon	- Mainly from importers/distributor s and wholesalers.
Citimart Supermarkets and Convenient Stores	Private- Owned Company	6 Supermarkets 5 Stores	20	- HCMC, Hanoi, Can THo, Dong Thap	- Mainly from importers and distributors

Intimex Supermarkets and Department Stores	State-owned company	4	10	Hanoi, Haiphong	- Mainly from importers and distributors
FIVIMART	Private-Owned Company	3	2.5	- Hanoi and plan to expand to HCMC	- Mainly from importers and distributors
Binh Dan Supermarkets	Private-Owned Company	2	2.5	-HCMC	- Mainly from importers and distributors
SATRA Supermarkets	State-owned Company	2	2.5	- HCMC	- Mainly from importers and distributors
Diamond Marts	Private-Owned Company	6	2.5	-HCMC	- Mainly from importers and distributors
Metro Cash & Carry wholesale stores	100% Foreign Invested Company (Germany)	6	220	- HCMC, Hanoi, Hai Phong, Cantho, Danang	- Mainly from importers and distributors
SEYU Supermarket	Local Joint-Venture with Seyu of Japan	1	?	- Hanoi	
PAKSON Department Store	Local Joint-Venture with Pakson of Malaysia	1	?	- HCMC	
* Metro Cash & Carry has government permission for wholesale operations only, no import license					

The modern retail trade concept (initially called supermarkets) has grown tremendously in the last six years, going from only 2 supermarkets in the early stage (1998) to more than 92 in 2005. Before 1999, open-air wet markets and non-staple food small private shops were the norm, yet in the most recent six years, Vietnam's urban economy has begun a steady transition away from the traditional trade (open-air wet markets and small shops) to modern trade (supermarkets, hypermarkets, shopping centers, etc.). More than two third of supermarkets and department stores are based in HCMC and Hanoi. Today, Hanoi has more than 24 supermarkets, while HCMC has in excess of 50 modern shops.

Local chains are still dominating the market but foreign-invested retailers are also very quickly in expanding, creating a good competitive environment in the modern retail sector. The key domestically-owned supermarket chains are Saigon Coopmart, Intimex, Maximark, and Citimart. The three foreign-owned chains are Cora (recently renamed "Big C", a French investment), Metro Cash & Carry (a German investment) and Pakson (a Malaysian investment).

Supermarkets in Vietnam carry a wide range of goods including food, clothing, shoes, and durable products. Most supermarkets devote about 40-50 percent of the physical space to food, and the rest is divided among all the other commodities. The shop-owners are quite willing to rearrange the physical space to boost the floor allocation for whichever goods are doing best that month. Both large hypermarket and wholesale stores (e.g. Metro and Big C) and shops within a multi-store shopping mall (e.g. Diamond Plaza, Saigon Center, Pakson) are being built in Vietnam. Most of the shops have made some provision for parking -- more for motorcycles than cars. In the Vietnamese supermarket business, it is estimated that approximately 35%- 40% of total sales are from food, of which imported food accounts for a small percentage ranging from 15 percent to 25 percent of total food sales. About 9% - 10% of the country's total food and beverage retail sales and roughly 16%-20% of

imported food and beverage sales are sold through modern trade channels.

The largest hypermarket (in terms of checkout lanes and parking spaces) is still the French invested Big-C Hypermarket (1998) in Dong Nai Province, 45 minutes outside of HCMC. Big-C boasts 37 checkout lanes and carries a wide assortment of foreign and domestically produced foods and consumer goods. Big C currently has two hypermarkets and one supermarket in the south of HCMC and one hypermarket in Hanoi (opened in 2004). The Casino Group of France, who owns the Big-C chain, has announced an investment plan to build more stores in Vietnam. They also say they will become completely foreign owned in the coming year and unlike other fully foreign-owned companies until this point in time retain the right to import directly.

Ho Chi Minh City has an estimated population of nearly 8 million and is considered the economic and commercial center of Vietnam. The city has the largest concentration of upper and middle class consumers in Vietnam and thus investors in retail distribution are particularly interested in this city. Hanoi Capital has about 3.2 million people with a large number of employees of the government, foreign missions, and international organizations that can be targeted with modern distribution chains. Can Tho City – the commercial hub for the Mekong Delta region and Danang City – the commercial hub for the central region are also strategic locations for setting modern retail distribution.

Ho Chi Minh City (HCMC) - the biggest commercial center of Vietnam - is the most economically dynamic area in the country. With the highest annual GDP growth rate (42.5% in the four-year period of 2001-2004) in Vietnam, HCMC has attracted the most foreign and domestic investment for a wide range of projects. Although the national average GDP per capita is just over \$450 per year, in HCMC it is estimated at over \$1,300. In conjunction with strong economic growth, the supermarket sector in HCMC has grown tremendously in recent years. HCMC is now home of 50 supermarkets, 2 wholesale stores and one hypermarket. Until early 1999, the only Western-style shopping center (multiple stores and a parking lot) in Vietnam was the joint venture (Singaporean investors and the Vietnamese Army) Superbowl Shopping Center. Since 1999, there have been at least 16 new shopping centers launched in HCMC. This retail revolution seems certain to continue as all the domestic and foreign-owned chains plan to develop additional shopping centers in HCMC suburbs and surrounding regional cities. According to trade sources, HCMC supermarkets are averaging 100,000 walk-thru customers a day, which is good, but still a very small percentage of a city population of nearly 8 million.

Two new upscale shopping centers Pakson and Saigon Center opened in HCMC in 2005. Paksons Shopping Center, a Malaysian investment is located in the center of HCMC with the goal of creating an attractive shopping space for both foreign tourists and local people. Many additional projects (both large and middle-sized) are due to open in HCMC, Hanoi and the surrounding regions. Saigon CoopmartT (a state-owned supermarket chain) currently owns 11 stores in HCMC and takes a 50% share of supermarket sales in HCMC. It has just opened two stores, one in Can Tho City and one in Qui Nhon. Saigon COOPMART is planning on constructing 10 more stores in 2006 including three stores in HCMC and seven in other cities.

Metro, the international grocery chain, known in the developing world for their cash and carry operations, entered Vietnam by setting up two large (each roughly 10,000 square meters) wholesale centers in HCMC. The first store opened in April 2002 and the second store was established in December 2002. Those stores are operating as a cash and carry operation nominally for wholesale customers but controls on access are weak. It offers additional services such as delivery for large customers. Recently, Metro opened three more

stores in Hanoi, Can Tho and Haiphong, and it has announced that it will open one more center in Danang before the end of 2005. These stores have currently attracted more than 350,000 registered customers. Metro plans to build 8 stores in Vietnam.

Metro has already had an impact on the grocery sector, but it is important to note that Metro is not directly importing commodities. Given Vietnam's current restrictions on distribution and importing rights, only licensed importers may bring commodities into Vietnam. So, until the laws are changed (it is hoped within the next 5 years), Metro needs to work with many local (and usually small) importers to source most of the imported goods that it needs.

Hanoi's modern retail trade sector has always lagged behind HCMC, but it is now rapidly catching up. During 2002-2005 seven large supermarkets opened in Hanoi and two opened in Hai Phong. Intimex has dominated modern retail trade in the North of Vietnam with three supermarkets in Hanoi and one in Hai Phong. Three more stores are to open with the next year. Recently, the Big C chain has opened its first store in Hanoi. The Big C store has 6,500 square meters of space for a wide range of goods and an additional 6,000 square meters for restaurants. As of September 2005, Hanoi has roughly 24 large shops and supermarkets. Several of the large domestically owned chains from HCMC, especially Saigon COOPMART chain are looking to open outlets in Hanoi in the near future after land and supply chain issues can be resolved.

B. Traditional Retail Trade: Wet Market & Private Small Shops

According to the Ministry of Trade, there are about 8,000 traditional wet markets in Vietnam and hundreds of thousands of small private shops spread all over the country. Household-owned shops and wet markets are still most popular in Vietnam's retail industry. Most of these outlets offer only the basics with limited selection, lack of refrigeration, fixed prices, no modern technology, and little or no ambience. Floor space normally ranges from 100 to 300 square feet. Outside of HCMC and Hanoi, food distribution heavily relies on these traditional channels. It is estimated that 80%-84% of imported foods are distributed thru this traditional trade.

SECTION III. COMPETITION

The biggest competitor for US foods in the retail food market is Australia, China, ASEAN countries and the local food industry. Potential US exporters should understand that Vietnam's diverse agro-industrial base already offers many products at competitive prices. The leading multinationals from other countries have just started establishing food processing operations in Vietnam and are able to offer a range of western-style products at reasonable prices, though the quality may be inferior to imported products due to the poor quality of the raw material supplies. Most products from China, and ASEAN countries also enjoy lower tariffs than U.S. products. While some consumers are aware of quality differences and insist on world standards, most will sacrifice quality for affordable prices.

Products from Australia, New Zealand, the European Union (EU) and other Asian countries (China, Thailand) directly compete with like items from the United States. In addition to the freight cost advantages, market sources report that suppliers from these countries are more responsive to importers' demands for smaller shipment sizes, and are more willing to modify product specifications to meet Vietnam food laws, in contrast to many US suppliers. Australia and New Zealand aggressively promote their products in the Vietnam market. Recently, countries like Thailand have also organized trade promotions in Vietnam. Market promotions by these countries are mainly through trade missions, trade servicing, in-store promotions, and participation in food shows.

SECTION IV. BEST PRODUCT PROSPECTS

The below table shows U.S. food products present in the market that have good sales potential including market share of some selected U.S food products in total imports. The import data in 2004 by commodities are our estimation as there are no published official statistics data on imports of consumer food products for Vietnam.

Category A: Products Present In The Market That Have Good Sales Potentials

Commodities	Import Tariff Rate	2004 Vietnam Imports	2004 Total US Exports	Jan-Sep 2005 US Exports	% change Jan-Sep 2004	Market share of US (%)	Competing Country
Beef Meat (HS 020220-30)	20%	1,400	9	792	8,144	0.64	Australia
Potato frozen (HS 2004)	40%	n.a.	131	147	58	n.a.	Canada
Fruit Juice (HS 2209)	40%	n.a.	232	513	152	n.a.	Australia
Wine (HS 2204)	65%	8,000	400	335	131	5.00	France
Raisin (HS 080620)	25%	n.a.	590	555	94	n.a.	Iran
Apple (HS 080810)	25%	9,500	1,000	1,500	239	10.53	China
Processed fruit and vegetable (HS 2004, 2005)	50%	8,000	1,410	1,329	43	17.63	Thailand
Table Grapes (HS 080620)	25%	6,000	3,000	1,529	17	50.00	China
Poultry meat (HS 020714)	20%	10,000	8,368	855	-85	83.68	Australia
Dairy products (HS 0401; 0402 & 0404)	20%-30%	160,000	29,140	39,860	124	18.21	New Zealand
TOTAL FOOD IMPORTS		260,000	50,577	64,050	110	19.45	

Source: Department of Commerce & Trade Sources

A. Products Present in the Market which have Good Sales Potential

Of U.S. products that are already present in Vietnam market, delicious fresh fruit especially apple and grapes continues to have the best sales prospects. The next most important U.S. sales item in the retail sector are dairy products, chicken meat, processed fruits and vegetables. Canned foods, such as canned vegetables and mixed cocktail are also common. Some of the best selling processed foods include frozen french fries, fruit juices, breakfast cereals, snack food/biscuit/crackers, popcorn, baby food, dressing, sauces & seasonings and wine.

B. Products Not Present in Substantial Quantities but which have Good Sales Potential

There are also good opportunities for sales of other American high value items. Many of these are not yet in the market in significant quantities. These include beef, other-than-raisin dried fruits and nuts (mainly almond and pistachios) and chocolates.

C. Products Not Present Because they Face Significant Barriers

American products that have not sold well in Vietnam include seafood, bourbon whisky. Retailers that serve the middle and lower income segment also reported difficulties in selling American wine and beer. Imports of U.S. chicken parts, which have great potential demand in Vietnam, have just been banned since November 04, 2005 as a result of emergency measurement of GOV against AI outbreak and flu pandemic.

SECTION V. POST CONTACT AND FURTHER INFORMATION

U.S. Department of Agriculture / Foreign Agricultural Service (USDA/FAS)

First point of contact for updated reports and trade data is the USDA/FAS Web Page:

<http://www.fas.usda.gov>

The FAS web site will also provide additional information about the staff, resources, and programs coordinated by FAS/Washington to promote international trade.

State Regional Trade Groups

The State Regional Trade Groups (SRTG) are four regionally located, non-profit trade development organizations that help U.S. food producers and processors sell their products overseas. USDA's Foreign Agricultural Service (FAS), the State Departments of Agriculture and private industry fund the SRTG's. They carry out promotional activities that increase exports of U.S. high-value food and agricultural products. Activities of the organizations are directed by the State Departments of Agriculture, state agricultural promotion agencies, and coordinated with FAS' Washington and country offices overseas, and include: International trade exhibitions, overseas trade missions, reverse trade missions, export education, in-country research, and point-of-sale promotions in foreign food chains and restaurants in markets around the world.

The SRTG's also administer a cost-share funding program called the "Branded" program, which supports promotion of brand name food and agricultural products in overseas markets. The SRTG's include: the Western U.S. Agricultural Trade Association ([WUSATA](#)), in Vancouver, Washington, the Mid-America International Agri-Trade Council, ([MIATCO](#)) in Chicago, Illinois, the Southern U.S. Trade Association ([SUSTA](#)) in New Orleans, Louisiana, and the Food Export USA ([FoodExport USA NE](#)) in the Northeast. See the FAS web site for more details.

FAS Cooperators and Participants

The American food and agriculture industry benefits from a large number of associations and organizations that support export market development. These groups, referred to as "participants" and "cooperators" receive support from FAS to conduct activities overseas such as trade missions, pavilions at trade shows and informational seminars.

A database of these organizations, including contact information, is available at

<http://www.fas.usda.gov/scripts/mos/HomeOffDir.asp>.

Partners and Cooperators which offer on-line databases and directories of suppliers are listed at

<http://www.fas.usda.gov/agx/Buying/Partners.htm>

USDA/FAS Offices in Vietnam

The physical addresses of the FAS Offices are shown below. Contact the FAS Offices for the U.S. and Vietnamese Mailing Addresses:

Foreign Agricultural Service / Agricultural Affairs Office (Ag Hanoi)

U.S. Embassy – Annex Building

Rose Garden Building, 3rd Floor

6 Ngoc Khanh, Ba Dinh District

Hanoi, Vietnam

Tel: 84-4-831- 4580

Fax: 84-4-831- 4573

Email: AgHanoi@usda.gov

Contacts:

Mr. John Wade - Agricultural Attaché

Ms. Bui Thi Huong - Agricultural Specialist

Ms. Nguyen Thi Huong – Agricultural Assistant
Ms. Phan Thi Thu Huong - Administrative Assistant

Foreign Agricultural Service / Agricultural Trade Office (ATO - HCMC)

U.S. Consultant General – Annex Building
Saigon Center Building, 9th Floor
65 Le Loi Street, District 1
Ho Chi Minh City, Vietnam
Tel: 84-8-825-0502 Fax: 84-8-825-0503
Email: AtoHoChiMinh@usda.gov

Contacts:

Mr. Truong Minh Dao - ATO Marketing Specialist
Mr. Tran Quoc Quan - Agricultural Assistant
Ms. Pham Khanh Linh - Administrative Assistant & Trade Show Coordinator

**American Chamber of Commerce—Hanoi and Ho Chi Minh City
American Chamber of Commerce (AmCham)**

Hanoi Chapter
Press Club, 5th Floor
59A Ly Thai To Street
Hanoi, Vietnam
Tel: 84-4-934-2790; Fax: 84-4-934-2787
Email: adam@amchamhanoi.com
Website: www.amchamhanoi.com
Contact: Mr. Adam Sitkoff, Executive Director

**American Chamber of Commerce (AmCham)
Ho Chi Minh City Chapter**

76 Le Lai Street, District 1
Ho Chi Minh City, Vietnam
Tel: 84-8-824-3562; Fax: 84-8-824-3572
Email: amcham@hcm.vnn.vn
Website: www.amcham.org.vn
Contact: Mr. Herb Cochran, Executive Director

Key Government Contacts**Ministry of Trade (MOT)**

31 Trang Tien Street, Hanoi, Vietnam
Tel: 844-825-3881 Fax: 844-826-4696
Contact: Mr. Nguyen Dinh Luong, Director, International Relations

Ministry of Planning and Investment (MPI)

2 Hoang Van Thu, Hanoi, Vietnam
Tel: 844-843-0333; Fax: 844-733-0536
Contact: Mr. Duong Duc Ung, Director, Foreign Economic Relations Department

Ministry of Health (MOH)

Food Administration Department
138A Giang Vo Street, Hanoi, Vietnam

Tel: 844-846-3839; Fax: 844-846-3739

Email: cucqltp@hn.vnn.vn

Contact: Dr. Tran Dang, Director, Food Administration Department

Clearance for Food Ingredients and Additives

The Food Administration Department is the primary contact for most questions and concerns regarding approved food ingredients, food safety issues (Vietnamese and International Standards), general food-related trade and food registration questions.

Ministry of Agriculture and Rural Development (MARD)

2 Ngoc Ha Street, Hanoi, Vietnam

Tel: 844-845-9670; Fax: 844-845-4319

Email: leminhmard@fpt.vn

Contact: Mr. Le Van Minh, Director, International Cooperation Dept

*** Department of Plant Protection (of MARD).**

189 Son Tay Street Hanoi

tel: (84-4) 851 8195

fax: (84-4) 533 0043

email: lemautoan@fpt.vn

Contact Mr Le Mau Toan

*** Crop Protection Department / Phytosanitary Sub- Dept.**

28 Mac Dinh Chi, Dist.1, HCMC

Tel: 848-829-4568; Fax: 848-829-3266

Email: kdtv2@hcmc.netnam.vn

Contact Mr. Nguyen The Phu - Director

*** Department of Animal Health of Viet Nam (Of MARD)**

No 15, Gate 78, Giai Phong St., Phuong Mai, Dong Da District

Hanoi, Vietnam

Tel: (84-4)868-7151, (84-4)869-6788 25

FAX (84-4)869-1311

Email: quanganh.dah@fpt.vn

Contact Bui Quang Anh, Director

*** Regional Animal Health Center / HCMC**

124 Pham The Hien, Dist.8, HCMC

Tel: 848-8568-220; Fax: 848-8569-050

Email: rahhcm@hcm.fpt.vn

Contact: Mr. Dong Manh Hoa, Director