



Studies on Retailing Innovation in Vietnam: A Policy and Consumers' Perspective

NGUYEN THI THANH TAN

(Degree)

博士（商学）

(Date of Degree)

2015-03-25

(Date of Publication)

2017-03-25

(Resource Type)

doctoral thesis

(Report Number)

甲第6300号

(URL)

<https://hdl.handle.net/20.500.14094/D1006300>

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氏 名: Nguyen Thi Thanh Tan

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Introduction

Since the implementation of Doi Moi from 1986, many changes have been taking place in the economic structure of Vietnam, including structural changes to its distribution system. Before 1986, under the planning system, all food distribution was carried out through a rationing system or state-owned stores. With the liberalisation of commerce and prices, business activities have continuously increased. In 1987-1988, markets for most products began to emerge. The traditional bazaar system (wet markets, mom and pop stores) became the central hub for all trade activities. In light of this rapid rate of economic development, a multitude of products and brands have flooded the Vietnamese market, not to mention a proliferation of advertising and retail outlets and a resulting expansion in consumer choices (Shultz, 1994). The rapid economic development and the relaxation of regulations on foreign direct investment (FDI) and food retailing have profoundly transformed both the traditional retail system and the distribution system in Vietnam throughout the 1990s. Especially, after Vietnam fully opened up its market under its commitment to the World Trade Organization (WTO) by the begin of 2009, a wave of new international retailers (e.g., Dairy Farm, AEON, FamilyMart) along with the existing foreign players (e.g., METRO Cash & Carry, Casino Group, Parkson, and Lotte Mart) began a new period of development in the Vietnam retail market with the rapid increase in the number of modern retail formats and changes in consumers' shopping behaviour with a shift towards these modern retailers.

After nearly two decades since the establishment of the first supermarket in Vietnam, modern distribution networks account for 20% of the total distribution of products in the entire country (and approximately 30–40 percent of the distribution of products in major cities), and forecasts predict that this is to continue changing resulting in 40% by the end of 2020 (Ministry of Industry and Trade [MOIT], 2012).

The modern distribution network grew at an average rate of 15–20 percent each year between 2000 and 2011 (MOIT, 2012). This tells us an obvious fact that supermarket chains are booming and will continue to spread rapidly in the foreseeable future. So, it is necessary to raise the question as to what are the reasons supporting this tremendous revolution of supermarkets in Vietnam in recent years? Why is it that a larger number of consumers continue shifting to supermarkets, leaving their long established-habits of shopping at traditional outlets behind?

The purpose of this study is, therefore, to provide information about the modernization of the food retailing system in Vietnam from three aspects including the government policies, retailers' strategies, and consumers' behaviours. Firstly, chapter 2 discuss some specific regulations related to the retail sector that have been operational in Vietnam following the economic reform, the Doi Moi, as well as the government policies implemented after the country became a member of the WTO and then analyze the impact of these regulations on changing the retailing system to provide the background information about the Vietnamese retail modernization from the government side. After that, the modern retailers' main strategies in Vietnam are discussed in chapter 3 based on (1) public information on the media, (2) modern store visits and observations that were carried out by the author, as well as (3) the information from a previously published study. In general, chapter 2 and chapter 3 are mainly focusing on summary of the information from the public data of the government and previously published studies in order to provide a background of the retailing modernization process in Vietnam. Finally, this study analyzes the supermarket innovation in Vietnam by using a binary choice probit model to compare consumers behaviour relating to shopping outlet choice after 5 years of joining in the WTO (in 2006 and 2012) in chapter 4, and using a bivariate probit model to analysis the high shopping frequency of Vietnamese consumers in the relation with their shopping outlet choice in chapter 5.

Based on the empirical evidence, this study indicated that supermarkets have rapidly spread in Vietnam and are increasing market share by providing various types of products and by continuing to add new, safe, high quality products at reasonable prices, and are gaining consumers sympathy step-by-step. The consumers are now evaluating the freshness and prices in supermarkets on a level that is almost similar to the organized traditional markets, and therefore, these factors no longer has a significant effect in shaping consumer preferences for retail outlets. However, the traditional retail outlets in Vietnam still maintain its important role in distributing fresh items due to its proximity advantages. Vietnamese consumers, in the short to medium term, seems to continue buying fresh food at a high frequency at traditional markets. This study offers recommendations and implications for policymakers and business operators for the modernization of the food retailing system in Vietnam.

The rest of the thesis is organized as follows: Chapter 1 introduces the macro-environment as well as provide the information about the modernization of retailing system in Vietnam in order to provide a background for the studies. Chapter 2 details some specific regulations that have been operational in Vietnam following the economic reform and the government policy implemented after the country became a member of the WTO. The impact of these regulations on changing the retailing system is also included. Chapter 3 discusses the retailers' main strategies in Vietnam. Chapter 4 analyzes the modernization of food retailing system in Vietnam by using a binary choice Probit model to compare consumers behaviour relating to shopping outlet choice after 5 years of joining in the WTO (in 2006 and 2012). Chapter 5 analyses the high shopping frequency of Vietnamese consumers in the relation with their shopping outlet choice by using a bivariate probit model. Finally, a short conclusion and some proposals for future research are also provided.

Chapter 1 – An overview of Vietnamese retail system

1.1 Macro-environment and changes in the retail system in Vietnam

1.1.1 Macro-environment

The Soviet-style centralized planning model was imposed in the late 1950s upon North Vietnam and in the late 1970s upon South Vietnam after the official reunification of the country in 1975. The government ordered that all trade and business operations of “bourgeois” tradesmen be abolished; only small merchants of retail goods who were not controlled by the state could exist (Charles and Hoa, 1996). Under the government planning system, all food distribution was carried out through a rationing system or state-owned stores. However, this centrally planned economy was not sustainable for too long as the country soon started suffering from an acute crisis with respect to staple goods. This failure prompted Vietnamese governments to introduce a renovation policy, known as “Doi Moi,” in 1986.

With the liberalization of commerce as well as price, business activities began to increase. The service sector expanded from 32.4 percent of GDP in 1985 to 37.19 percent in 2011 (in which, the highest rate was 44.06 percent in 1995 - General Statistics Office [GSO], 2013). Trade mark-ups contributed around 33 percent of the service sector’s total contribution to the GDP. The development of commercial activities was due to the rapid growth of the private sector. The percentage of private trade in total trade increased from a low of 42 percent in 1986 to 71 percent in 1991 and more than 85 percent in 2011 (GSO, 2012). In 1985, the state and cooperative sectors represented 60 percent of the retail business, while the private sector accounted for the remaining 40 percent. This breakdown was soon reversed, with the private sector contribution increasing from a little more than 50 percent in 1988 to 80 percent in 1993 (Venard, 1996). The number of persons working in trade establishments also grew

sharply, from about only 1.47 million in 1991 to nearly 4.6 million in 2005 and more than 5.8 million in 2011 (Table 1.1).

Table 1.1 Selected Indicators of Economics and Trade Development in Vietnam

Year	1991	1995	1999	2002	2005	2007	2010	2012
Real GDP growth rate	5.81	9.54	4.77	7.08	8.44	8.46	6.78	5.03
GDP per capital (in US\$)		287		440	642	843	1169	1749
Numbers of persons working in trade (Thous.)	1473.9	1936.6	2537.5	3106	4593.1	4929.5	5549.7	5827.6
Total retail of trade (Bil. VND)	33403	121160	200923	280884	480293	746159	1614078	2324943
Growth rate of retail of trade (%) (compared to previous year)	75.52	29.60	8.26	14.50	20.52	25.15	30.36	16.4

Source: General Statistics Office, 2013

The country has experienced strong economic growth in recent years. GDP growth rate was over 7 percent from 2001 to 2012. Furthermore, cities account for 70 percent of the national GDP owing to industrial and trading activities. This brings annual GDP per capital to over US\$2,000 in the urban center of the country (For example, the annual GDP per capital in 2011 of Hanoi was over US\$1,850 while Ho Chi Minh City was US\$3,000, and Cantho city was US\$2,350 – Ministry of Labour – Invalids and Social Affairs, 2012). However, Vietnam still relies on an agriculture-based economy and remains a developing country with an annual per capita income of US\$853 in 2010 (GSO, 2010), and if one only considers the cities (in which the annual per capita income was US\$1,311 in 2010 – GSO, 2010), economic indicators are representative of the middle-income group of countries in transition. Household revenues have increased, and food consumption patterns have been changing. Families with growing incomes are buying food rather than producing it themselves.

1.1.2 Changes in the retail system

Since the implementation of Doi Moi from 1986, a term meaning new thinking or renovation, many changes have been taking place in the economic structure of Vietnam, including structural changes to its distribution system. Before 1986, under the planning

system, all food distribution was carried out through a rationing system or state-owned stores. With the liberalisation of commerce and prices, business activities have continuously increased. In 1987-1988, markets for most products began to emerge. The traditional bazaar system became the central hub for all trade activities. In light of this rapid economic development, Vietnamese consumers have been struggling to make sense of the multitude of products and brands that have flooded into their market, not to mention the proliferation of advertising, retail outlets, and the resulting expansion in consumer choices (Shultz, 1994). Before 1995, most Vietnamese consumers had no choice but to make all of their purchases at traditional markets. Nowadays, in parallel with traditional outlets¹, one-stop, air-conditioned modern retail outlets where no price bargaining takes place represent another option for consumers. This modernisation process has contributed to the change in the Vietnamese retailing system.

In 1993, Vietnam saw the opening of its first supermarket, named ‘Minimart’ – a state-run enterprise – in HCMC. However, it closed down only four days after opening because it had completely exhausted its inventories, despite its prices being 20–30% higher than those of traditional retailers (Venard, 1996). Another supermarket, ‘Citimart’, followed in 1994; its success prompted the owner to start another supermarket chain, named ‘Maximart’, in 1995 (Cadilhon *et al.*, 2006). The first supermarket in Hanoi, named ‘Minimart Hanoi’, was opened in March 1995; about 70 more in HCMC and another 20 in Hanoi were quickly established thereafter (Maruyama and Trung, 2007a). However, only about one-third of these outlets survived to leverage the benefits of strong growth in Vietnam’s modern retail sector (Speece and Huong,

¹ Traditional retail outlets include *traditional organized markets* (formal markets established by local authorities), *mom & pop stores* (family-owned retailers who sell a limited variety of processed foods, dry goods, drinks, toys, household supplies, etc., and sometimes including fresh food), and *frog markets* (informal markets, including street vendors, that are not recognized by local governments and often operate without official permission from the authorities), for more information see Maruyama and Trung (2007b, pp. 235-238).

2002). The reasons for this failure could be that these outlets experienced difficulty in competing with a vast number of ordinary shops where price is the key issue among consumers. Speece and Huong (2002) found that prices were perceived to be much higher there than among traditional shops, and most consumers reported that they consider supermarket prices too high. In 1998, Vietnam, for the first time, tried to open its retail sector to foreign investment by granting a licence to the French Bourbon Group; another licence was granted to METRO Cash & Carry in 2001. This created intense competition within Vietnam's retailing sector, pushing it to impressively high levels of development. Modern distribution outlets like supermarkets, hypermarkets have since, been rapidly spreading in the country and taking shares from traditional retailers.

Moreover, after becoming a member of the WTO in 2007, Vietnam has experienced a more rapid changing in the retail system. Especially, by the begin of 2009, after Vietnam had fully opened up its market under its commitments to the WTO, a wave of new international retailers (e.g., Dairy Farm, FamilyMart, and AEON) joined existing foreign players (e.g., METRO Cash & Carry, Casino Group, Parkson, and Lotte Mart), pushing the Vietnam retail market into a new period of development. The expansion of retailers into different cities has shown that there are still many opportunities for new competitors that are just beginning to establish their operations in Vietnam. The initial successes of chains such as Big C, Saigon Co.op, and Hapro in Vietnam have prompted both local and foreign retailers to rapidly expand their businesses and inspired international giants to make plans to spread out into the country. According to Steven HL Goh, director of Retail Asia Publishing, Vietnam continues to offer numerous development opportunities as compared with other retail markets in the region, which are already saturated (VIR, 2011).

Although traditional retailers (wet market retailers and family-run stores) continue to vastly outnumber modern ones, many modern retail outlets have emerged and the

development of the modern retail business sector over a relatively short period of time has been impressive. After nearly two decades since the establishment of the first supermarket in Vietnam, modern distribution networks account for 20 per cent of the total distribution of products in the entire country, and approximately 30–40 percent of the distribution of products in major cities. The modern distribution network grew at an average rate of 15–20 percent each year between 2000 and 2011 (Ministry of Industry and Trade [MOIT], 2012). The traditional bazaar-based distribution system has been gradually changing because of this rapid development.

Over the past 20 years, Vietnam has seen a rapidly increase in the number of supermarkets, from only 10 supermarkets and two trade centres in six of 64 cities and provinces in 1995 to 638 supermarkets and 116 trade centres in 61 of 63 cities and provinces in 2011 (GSO, 2013). Especially, the number of newly opened supermarkets in the five years of Vietnam’s post-WTO integration (2007–2011) increased by over 20 percent compared to the previous five years (2002–2006), from 251 to 303. During the same period, the number of newly opened shopping centres increased by 72% from 36 to 62 (MOIT, 2013). Hanoi, the capital of Vietnam, had 88 supermarkets and 20 shopping centres by the end of 2011, just behind HCMC with 152 supermarkets and 27 shopping centres (Table 1.2).

Table 1.2 Number of modern and traditional retail outlets

Year	1995	2000	2004	2008	2009	2010	2011	2012
Supermarkets	10	107	210	386	451	571	638	659
Shopping centres	2	8	18	72	85	101	116	115
Traditional Organised Market	-	-	-	7871	8495	8528	8550	8547
Independent stores (in thousands)	-	588	619	900	-	-	-	-

Source: Maruyama and Trung (2007a), the General Statistics Office, and the Ministry of Industry and Trade.

Besides their rise in number, these supermarkets have also increased in size. In the

early stages, the average floor space of the typical supermarket store ranged from 500 to 800 m², but by 2000, a few supermarkets had larger floor spaces of around 2,000 m² or more (Speece and Huong, 2002).

Further, supermarkets have changed their stock composition. In 1994, about 95 percent of goods displayed in the cities' supermarkets were imports. Within one decade, domestic goods accounted for 70 percent of total stock; more specifically, between 85 and 90 percent of goods at big modern retailers (e.g. Co-op Mart, Big C, and Metro) are locally made products (Maruyama and Trung, 2007a, 2007b). The high inflation rate in Vietnam has caused a gradual increase in prices in recent years, prompting consumers to tighten their spending. In line with this, the Vietnamese government has launched a campaign, which propagates that "the Vietnamese are a priority for Vietnam's products". Under this campaign, many domestic products have been included in the list of items under the price stabilization program, which made them cheaper than similar imported products. Besides, domestic enterprises have been constantly improving their design, quality and manufacturing techniques to launch high quality goods. Thus, many consumers are now willing to use domestic goods. Domestic products now account for 90 to 95 percent of goods at most supermarkets (reported widely in the local media, such as VTC, 2011).

Additionally, a system of large shops and even larger and more diverse grocery stores has been built and has rapidly spread in big cities like Hanoi and HCMC. They offer a greater selection of fresh seafood, meat, and vegetables and a large range of imported beer, wine, canned goods, and dry grocery items; this selection is made possible by their significant cold storage facilities. Many ready-to-eat and ready-to-cook foods – which appeal to Vietnam's growing middle and high-income classes in the major cities as well as to the increasing number of international tourists – are also offered there (Maruyama and Trung, 2007a). Distributors and retailers have reported big

changes in consumption habits among the Vietnamese population: 57% of the family budget was spent on food, while the other 43% was spent on nonfood products. Consumer demand there has increased, and the range of products has widened (SGTT, 2012).

1.1.3. Appearance of online retailing system

By 2002, the concept of electronic commerce (e-commerce) was emerging in Vietnam. Although there were some consulting websites for online shopping, they tended to provide only one-way communication, rather than create dialogue with customers. The contents transfer was very poor and slow to update. On account of not really understanding e-commerce, many enterprises simply viewed the website as another place to showcase pamphlets or price quotations in another, modern (i.e., electronic) format, in addition to traditional marketing methods. In this sense, e-commerce in Vietnam during 2002–2003 was considered a matter of ‘ornamental goods’.

Three years later, the face of e-commerce business in Vietnam started to become clearer and more vivid. The quality of many websites had been significantly improved in terms of technology and digital content. Two-way communication was taking place between businesses and their customers, and information was being updated on a regular basis. Wholesale markets, supermarkets, and online stores were also becoming better known. Nonetheless, the total volume and value of transactions through such networks were still negligible, at least in comparison to ‘bricks and mortar’ transactions. Cash on delivery (COD) was the principal method of payment, as online shoppers had not yet acquired online shopping habits and the security infrastructure for e-commerce was still nascent.

By 2007, the online counselling service business in Vietnam saw an explosion in the number of e-commerce websites that were doing online business in earnest. The

promotion of online transactions took place at a much-quicken pace, and online payment methods were more flexible than ever before. Users, for example, were at this point able to pay by bank transfer for items purchased online. For the first time, Vietnam had begun to implement a multidimensional information model, in which the owners of online-shopping consulting websites served as a bridge that linked enterprises with consumers.

Since 2009, online shopping has become a favourite means of shopping among young consumers – especially office workers in big cities like Hanoi and HCMC. According to the results of a survey conducted by the MOIT in 2010 of 500 households vis-à-vis the use of e-commerce in the Hanoi area, 49% of households had an Internet connection, and an estimated 18% of Internet access was devoted to e-commerce; however, only 4% had ever used online payment services or online banking in making those transactions (Vietnam e-commerce report, MOIT – 2011). Today, many organizations conduct online sales – especially those in the aviation, travel, distribution, and consumption sectors; to date, online sales are increasingly being made of a wide variety of goods and services, such as air tickets, electrical and electronic goods, furniture, mobile phones, computers, books, tour travel, hotel bookings, and the like. Businesses taking part in e-commerce are offering increasingly flexible payment methods, including COD, bank transfers, and direct online payment.

The online shopping consulting services business in Vietnam has never been as vibrant as it is today; however, the number of truly successful websites of this type can be counted on one's fingers. Following 123mua! and Aha – e-commerce-promoting websites that were highly lauded by Business Week Magazine – another so-called phenomenon appeared, taking the name Vatgia.com (VN Price JSC). Launched on 15 July 2007 after only a short, seven-month enterprise-building period, Vatgia.com has attracted the attention of numerous domestic enterprises and consumers. This website

provides users with useful information, free of charge that allows them to make the most beneficial purchasing decisions. The most unique feature of Vatgia.com is its ability to filter and list all products in accordance with a user-specified price threshold. Today, Vatgia.com welcomes over 1.2 million visitors each day and helps facilitate transactions worth more than USD 8 million per month (according to vatgia.com website). Vatgia.com accepts three forms of payment from online shoppers: COD, bank transfer, and credit card. In addition, users are offered plenty of other useful information, such as businesses' latest promotions and, especially, feedback from consumers with regard to product features and their shopping experiences. In addition, to help users be more comfortable in making online payments, Vatgia.com also introduces them to reliable business partners, and users trade only with enterprises that have been authenticated and secured by Vatgia.com. With over 15 million products and more than 20,000 virtual booths available in the online database, Vatgia.com has now become one of the most powerful search-and-compare products tools in Vietnam.

Appearing about one year later, in 2008, was the giant eBay, which achieved a foothold in Vietnam's e-commerce market by franchising to PeaceSoft Company to build the website eBay.vn. In March 2011, eBay Inc. officially invested in PeaceSoft, and currently, buying products from the United States through eBay.vn is becoming more and more popular among the people of Vietnam. eBay users can directly select their desired items and order them on the website eBay.vn, whereupon the operational areas of eBay Vietnam will implement all the necessary importing procedures, such as those pertaining to payment, shipping, and customs. Vietnam's consumers are now, from the comfort of their homes, able to acquire goods from the United States or Europe. In addition, eBay Vietnam also offers importation services from other popular online shopping websites, such as those of Amazon, Best Buy, Victoria's Secret, Ralph Lauren, Nine West, and Apple. As its system is already available in over 40 markets worldwide,

the appearance of eBay Vietnam has upped the competition ante in Vietnam's e-commerce markets.

However, the e-commerce sector still accounts for only an estimated 0.3–0.5% of all retail sales in Vietnam; this figure is still not commensurate with its sales potential, as Vietnam has more than 31 million Internet users who account for 35.5% of the population (VEX, 2013). In addition, rapid growth in the mobile telecommunications services industry in recent years – offering services at very low prices, coupled with a strong increase in the number of mobile phone users – is providing conditions favorable to the development of mobile-based electronic trading activities, and of online retailing in Vietnam.

1.2 Some popular modern retailers in Vietnam

Vietnam is still in the early stages of retail modernization. Hanoi and Ho Chi Minh City are the two most developed cities in Vietnam. Hence, modern retail outlets such as department stores and supermarkets were first launched in these centers. From the retailers' point of view, fierce competition is more prevalent in Hanoi and Ho Chi Minh City. For this reason, retailers are increasingly launching stores or expanding their business in areas beyond Hanoi and Ho Chi Minh City. Today, modern retail outlets are present in all major cities. At present, most modern retail outlets are owned and operated by domestic retailers.

Table 1.3 List of Major Supermarkets, Hypermarkets, and Wholesale Stores in Vietnam as of 2012

Retailer Name Outlet type	Ownership	First store opened	Number of Outlets	Locations
Co-op Mart Supermarkets Convenience Stores (Co.op Food)	Local company operated under cooperative law	1996	61 supermarkets 45 convenience stores	Mainly in HCMC, the South and the South Center.
Hapro Mart Supermarkets	Private-owned company		16 (411 mil. \$)	Hanoi
Maximart Supermarkets Shopping centers	Privately-owned company	1995	1 supermarket 5 shopping centers	HCMC, Nha Trang, Can Tho, Khanh Hoa
Citimart Shopping center	Privately-owned company	1994	2 shopping center 16 supermarkets	HCMC, Hanoi, Binh Duong, Kien Giang, Nha Trang

Supermarkets				7 convenience stores	
Convenience stores					
Intimex Supermarkets Department Stores	Privately-owned company	2001	14 supermarkets and department stores	Hanoi, Hai Phong, Hai Duong, Hung Yen, Nghe An, Da Nang	
Fivimart	Privately-owned company	1997	13	Hanoi	
Satra Department stores Supermarkets Convenience stores	State-owned company	2001	2 department stores 3 supermarkets 14 Convenience stores	HCMC	
Big C Hypermarkets Supermarkets	Local joint venture with Casino Group of France	1998	21 hypermarkets and supermarkets	HCMC, Dong Nai, Hanoi, Nghe An, Hai Phong, Da Nang, Hue, Vinh Phuc, Nam Dinh, Hai Duong, Thanh Hoa, Binh Duong, and Can Tho	
METRO Cash & Carry Wholesale stores	100% foreign-invested company (Germany)	2002	19	HCMC, Hanoi, Hai Phong, Can Tho, Danang, Dong Nai, An Giang, Binh Dinh, Binh Duong, Vung Tau, Nghe An, Quang Ninh, Nha Trang, Buon Ma Thuot	
Lotte mart Shopping centers	100% foreign-invested company (Korea)	2008	4	HCMC, Dong Nai, Da Nang	

Note: METRO Cash & Carry has government permission for wholesale operations only, and does not have an import license.
HCMC means “Ho Chi Minh City.”

Source: Vietnam Ministry of Industry and Trade and supermarkets’ websites.

1.2.1 Domestic retailers

Saigon Co-op Mart is the largest state-owned retailer in Vietnam, owned and operated by the Saigon Union of Trading Co-operatives. It opened its first supermarket in 1996. It currently owns the biggest retail supermarket chain in Vietnam with 61 supermarkets, mainly in HCMC (with 25 supermarkets), and other provinces in the South (with 18 supermarkets) and the South Center (with 14 supermarkets) of Vietnam, while having only 1 supermarket in Hanoi. It saw a turnover of VND 16,000 billion (about US\$766.55 million) in 2011 (SGGP, 2012) and accounted for 60 percent of supermarket sales in Vietnam (Land Today, 2012). It plans to increase its supermarkets to 100 by 2015 (SGGP, 2012). In an attempt to improve its competitiveness, it has invested US\$1.5 million in developing a supermarket management software system. Further, it has expanded its warehouses and has built a large distribution center in an effort to reduce costs. The chain plans to partner with the Saigon Trading Corporation (Satra), which has 35 subsidiaries that play a leading role in the food processing and trading sectors in Ho Chi Minh City (VIR, 2006).

Intimex, state-owned company under the MOIT, has devised a 10-year development strategy, setting an ambitious goal of an annual business growth of 30 percent. The company plans to develop three levels of supermarkets and commercial centers: convenience stores that will sell necessities in small neighborhoods; supermarkets that will sell necessities at average prices to the majority of consumers; and commercial centers that will serve high-income earners and tourists. The company will also develop a large warehousing and distribution center (VIR, 2006).

Opened first supermarket in 1997, Fivimart chain is owned and operated by Nhat Nam Company, a member of TCT group which is one of the leading groups in Vietnam, and now has 13 supermarkets in Hanoi. It also plans to expand its supermarket system to other cities in Vietnam. In fact, it opened three other supermarkets in HCMC from Fivimart Supermarkets (www.fivimart.com.vn) provide buyers with a large selection of over 25,000 items.

Some distributors are also exploring the development of small-scale convenience stores as an alternative to superstores, especially in Vietnam's traffic-clogged cities. For instance, Citimart (www.citimart.com.vn) is serving consumers in townships with its 7 convenience stores. G7 Mart, a subsidiary of Trung Nguyen Coffee, plans to develop a new domestic distribution system and retail chain worth US\$395 million. G7 Mart aims to connect wholesale suppliers to the retail market and enhance the competitiveness of the domestic distribution system. It plans to open 5,500 stores throughout the country in the first phase and to establish 10,000 stores, 18 warehouses, and 7 trade centers over five years (VIR, 2006).

1.2.2 Foreign retailers

Even though foreign chains account for only a small percentage of the total number of supermarkets in Vietnam, they account for a large part in market share (Vietbao, 2013).

Initial supermarket successes have prompted both domestic and foreign investors to expand their businesses in Vietnam.

For instance, the French Bourbon Group opened its first hypermarket, called Cora Dong Nai, in Vietnam in late 1998. This hypermarket was located in Bien Hoa City, 30 km east of Ho Chi Minh City. Cora opened its second outlet, Cora An Lac, on the other side of Ho Chi Minh City in March 2000. A third outlet, a joint venture called Cora Mien Dong, opened in Ho Chi Minh City in mid-2001. The French chain opened its first outlet, Big C Thang Long, in Hanoi in January 2005. This outlet was located in Lang Hoa Lac, about 15 minutes from the center. This 12,000 m² supermarket is the largest in the North and offers more than 45,000 products, ranging from fresh food and appliances to garments, home decorations, and electronics, of which 95 percent are made in Vietnam (Thanh Nien Online, 2012). As of the end of 2012, the French chain had 21 stores across Vietnam and was one of the most successful retailers in Vietnam.

Wholesale and retail group METRO Cash & Carry, headquartered in Germany, was granted an investment license in March 2001 and began formal operations in the country in 2002. Metro has opened two centers in Ho Chi Minh City (in 2002 and 2003), one in Hanoi (in 2003), one in Can Tho (in 2004), a fifth center in Hai Phong (in 2005), and a sixth in Da Nang (in 2005). By the end of 2012, Metro had expanded to 19 stores in the entire country. Metro offers their customers a wide array of over 7,000 food and 8,000 non-food items. Consumers are required to use wholesale membership cards to gain entrance, but the cards are frequently circulated among friends, relatives, and neighbors. With economies of scale owing to its wide network of suppliers, Metro's prices are lower (by at least 10 percent) than those of any other supermarket in Vietnam (VNS, 2005). Metro's sale in Vietnam was VND 8,728 billion in 2009 (Tuoi tre online, 2012). It purchases more than 50 million consumer goods from various suppliers in Vietnam annually for its Metro systems around the world. Metro's purchases have

contributed significantly to improving the export turnover of Vietnam.

Malaysian retailer, Parkson, entered the market in June 2005 with the opening of the first of its 10 shopping centers in Vietnam, with a total invested capital of US\$70 million (VIR, 2006). Japan's Seiyu, which has been operating the Hanoi Seiyu since 2000, is working on obtaining licenses to extend its retail network to other provinces. In addition, a leading pan-Asian retailer, Dairy Farm, headquartered in Hong Kong, has negotiated an agreement to launch a supermarket chain and could enter into a partnership with Citimart. Similarly, large retailers from other parts of the world, namely, South Korea's leading retailer, Lotte Mart; China's Shenghui Group; Tesco, a strong newcomer from the UK; US giant Walmart; and the French group Carrefour, are also trying to obtain licenses to enter the Vietnamese market (VNS, 2005; VIR, 2006).

Chapter 2 – Retail policies and the impacts on retail system in Vietnam²

2.1 Regulations and policies on the retail system

2.1.1 Regulations on foreign direct investment (FDI)

2.1.1.1 Overview of regulations and policies for foreign investment

Since 1987, Vietnam has maintained a policy of encouraging FDI. As highlighted in the country's long-term development strategy, the continued ability to attract and utilize foreign inflow of capital, including official development assistance (ODA) and FDI, is considered a key element of economic success. In many aspects such as protection of rights, preferential treatment, and investment form, Vietnam's FDI policies, laws, and regulations are quite liberal in comparison to those of other Asian countries (Nguyen and Nguyen, 2007). In considering Vietnam's FDI laws and regulations, it should be noted that it is a late comer in FDI and is a poor, transitioning country whose immediate challenge is to reduce poverty and whose long-term goal is to become an industrialized economy in 20 years.

The country's liberal FDI policies are reflected in a number of regulatory changes and development. The first Law on Foreign Investment in Vietnam was passed by the National Assembly of Vietnam on December 29, 1987. This law was amended several times, namely in 1992, 1996, 2000, and most recently replaced by a new law on investment integrating both domestic and foreign investments (Law on Investment, 2005). These changes and amendments aim to remove the obstacles to the operation of foreign investors and to improve the investment climate in Vietnam. Usually, these changes entail providing more tax incentives, simplifying investment licensing procedures, and promoting transfer of technology. It must be noted that although some

² This chapter is based on the published study "Retail policy and strategy in Vietnam", in M. Mukherjee, R. Cuthbertson, and E. Howard (eds.), *Retailing in Emerging Markets: A policy and strategy perspective*, Routledge, pp. 94–123, 2014 which is co-authored with Masayoshi Maruyama and Le Viet Trung.

of these changes are owing to the Vietnamese government's own initiatives to accommodate foreign investors, many are owing to external pressures from international economic integration (such as under the bilateral trade agreements and commitments under the WTO).³

Table 2.1 Some regulations on the Foreign Investment before joining in WTO

Regulations	Year of issue	Main contents
Law on Foreign Investment	December 29, 1987	Defined the permitted investment area, investment forms, operation duration (normally 20 years), rights and incentives of foreign investors (including regulations on tax and profit treatment)
Amended to Law on Foreign Investment	1992	Grant foreign investors with more rights and incentives (allow FDI in the construction of infrastructure facilities, give the same tax treatment to joint ventures and wholly foreign-owned enterprises), and longer operation duration
Amended to Law on Foreign Investment	1996	Allow for new forms of investment (including build-operate-transfer (BOT), build-transfer-operate (BTO), and build-transfer (BT) contracts), and give more rights and incentives to investors
Amended to Law on Foreign Investment	2000	Acknowledge the right of foreign investors to merge with and acquire companies and branches and the right to change the form of investment
Law on Investment	November 29, 2005	Regulations on domestic and foreign investment

2.1.1.2 WTO commitments and domestic laws in the distribution sector

Most recently, the Law on Investment was passed on November 29, 2005, to replace all previous laws and regulations on domestic and foreign investment. The new law, which came into force on July 1, 2006, was intended to meet the requirements for accession to the WTO. Under this new law, foreign and domestic enterprises are treated equally, according to the rule of non-discrimination under the WTO. Since then, several other laws have also been passed by the National Assembly under the WTO accession process,

³ These external pressures are caused partly by an increased competition among host countries for FDI.

including the Competition Law, the Law on Bankruptcy, and the new Unified Enterprise Law.

In addition to developing its own FDI regulation framework, Vietnam has signed bilateral investment treaties with over 60 countries. Although Vietnam and the US do not have such a treaty, their Bilateral Trade Agreement contains an important chapter on investment and several articles relating to the WTO's Trade-Related Investment Measures (TRIMs). These bilateral arrangements have contributed to ensure that Vietnam's investment regime is in line with international standards and more favourable to foreign investors.

Table 2.2 Some legal documents relate to the distribution sector under WTO commitments

Regulations		Year of issue	Main contents
Decision No.10/2007/QĐ-BTM		2007	Publicizing roadmaps for goods trading and directly related activities
Decree No. 23/2007/NĐ-CP	No.	2007	Regulations for implementation of Commercial Law regarding goods trading and directly related activities of foreign-invested enterprises in Vietnam
Circular No. 09/2007/TT-BTM	No.	2007	Guides the implementation of Decree 23
Circular No. 05/2008/TT-BTM	No.	2008	Supplements and amends Circular 09/2007/TT-BTM
Official Letter 4422/BCT-KH		2008	Guidelines on issuance of business licenses for trading and distribution activities by enterprises with foreign owned capital which have been granted an investment certificate in an industrial zone, export processing zone or economic zone
Letter 6656/BCT-KH		2008	Specific guidelines on files for issuance of licenses for trading and distribution activities by enterprises with foreign owned capital

Vietnam has been a member of the WTO since 2007. Under its WTO commitments, Vietnam has to open up its service sectors to investors from WTO member countries. Further, Vietnam has to grant the rights to export, import, and distribute to foreign investors gradually. Under its WTO commitments, the country allows wholly foreign-owned companies (WFOCs) and joint venture companies (JVCs) to operate

distribution services. Distribution services include (i) commission agents' services, (ii) wholesale trade services, (iii) retail services, and (iv) franchising. Upon Vietnam's accession to the WTO, it must allow a foreign investor to establish a JVC with local partners or shareholders to engage in distribution services, with the foreign investor's capital contribution limited to 49 percent of total charter capital. From January 1, 2008, a majority of foreign-owned JVCs were permitted, and as of January 1, 2009, WFOCs were permitted in the distribution sector.

After Vietnam opened the distribution market following the schedule of specific commitments on services required for accession to the WTO, investment procedures were specified by various government documents (for examples, see Table 2.2).

Trading rights vs. distribution rights

Vietnamese law distinguishes between the acts of "trading" and "distribution," and thus, has different rules for foreign-invested enterprises (FIEs) in each.

A company (including JVCs and WFOCs) that is granted the right to engage in import and export (trading) is given the right to directly import and export permissible goods without having to go through a state-owned or local trading company. The right to import is the right to bring goods into Vietnam and includes the right to sell such goods to properly licensed distributors in Vietnam. The government provides a list of the goods that may be imported and exported. FIEs licensed to trade, including both JVCs and WFOCs, may import goods and sell them to one or more local licensed distributors for distributing to consumers.

Pursuant to Decree 23, distribution means the activities of wholesaling, retailing, agency for purchase and sale of goods, and franchising in accordance with the laws of Vietnam. A company that is granted a specific distribution right is given the right to directly sell goods to end users, who can be either organizations or individuals (retail) or

to sell goods to traders or other organizations (wholesale), but not the end-use consumers.

Investment certificate

All foreign investors must apply for and obtain an investment certificate (IC) prior to undertaking their first investment project in Vietnam. An IC is a legal document establishing the relevant FIE in Vietnam and sets out the specific business activities such FIE may engage in.

In investment projects in conditional sectors such as distribution services, foreign investors must undergo an investment evaluation by the licensing authorities and other relevant authorities such as the Prime Minister, the MOIT, or other ministries, for the principal approval or consulting of ideas. Such authority will ultimately exercise its discretion on whether to issue the sought-after license. The exact procedures and documents required for the evaluation licensing process will depend on many factors, including size, scale, location, and type of investment.

FIEs involved in trading and/or distribution activities require a separate distribution-specific business license in addition to an IC. For existing FIEs, the relevant provincial people's committee is responsible for issuing such business licenses after receiving written confirmation from the MOIT that the application meets the conditions agreed to by Vietnam in its international commitments. For newly established FIEs, the investor must submit an application dossier for investment to the licensing authority. This body must obtain the written approval of the MOIT before issuing an IC that serves as the legal basis for an FIE to conduct the stated trading and/or distribution activities.

Establishment of retail sales outlets

An FIE that is granted an IC permitting it to engage in distribution services is given the right to establish its first retail sales outlet from which to conduct the stated activities without submitting an application dossier for such an establishment. Such FIE is

prohibited from conducting retail activities outside the first established retail sales outlet unless expressly licensed to do so. The operation duration of the first retail sales outlet ends on the expiration date of the IC.

The establishment of the second and subsequent retail sales outlets is permitted on a case-by-case basis subject to compliance with the so-called economic needs test (ENT), which consists of an examination of a number of factors including the proposed number of additional retail sale outlets, market stability, population density in the proposed city or province, and conformity with the proposed city's or province's municipal planning. An FIE wishing to establish second and subsequent retail sales outlets must follow procedures for obtaining a license for such outlets. The licensing authority will issue the license upon receiving approval from the MOIT. The licensing process is described to take between 33 to 48 working days but, in practice, may take longer.

Anticipated changes

Foreign investors are awaiting the issuance of a new decree repealing Decree 23 on retail activities, which may resolve the outstanding issues on retail definition, establishment of retail sales outlets, and the ENT. Under the draft of the new decree approved on September 2010 (hereafter "Draft"), "retail" has been redefined in line with the WTO agreements, as follows: "the activity of selling goods directly to end-users for the purpose of consumption by individuals and households."

According to the Draft, the right to establish retail sales outlets after the first retail sales outlet will be considered based on the appropriateness to the proposed city's or province's municipal planning and three other criteria: proposed number of retail sales outlets, market stability, and population density. The Draft explains more clearly the contents, authorization, and principles for the establishment of national and municipal planning for retail outlets. In order to unify regulations on municipal planning at the national and provincial levels, the Draft further describes the principle of planning retail

sales outlets allocation, timeframe to complete the allocation, and procedures for publicizing and approving drafts of the allocation. The Draft also provides some further details on the ENT, with methods for determining the allowed number of retail sales outlets within a relevant geographic area, evaluating the stability of the current market, and defining the density of the population.

In conclusion, as Vietnam's legislative framework continues to evolve and investment procedures and practices are simplified, the country is becoming an attractive investment destination from a regulatory perspective. Coupled with Vietnamese consumers' rapidly growing per capita income and the country's young population, economic growth, and political stability, Vietnam will likely maintain its position as one of the world's most attractive destinations for retail investment.

2.1.2 Competition regulation

2.1.2.1 *Competition rules before the Competition Law*

The main regulations on anti-competitive measures before the Competition Law was passed included the following:

Table 2.3 Some regulations on competition before the Competition Law

Regulations	Year of issue	Main content
Commercial Law	1997	Provisions for protecting consumers and preventing other unfair competitive acts.
Decree 54	2000 (October 3)	Protection of intellectual property rights regarding trade secrets, geographical indication, and trade names and protection against unfair competitive practices relating to intellectual property
Ordinance on Price	2002 (April 26)	Prohibit agreement to fix prices in order to dominate the market beyond methods stipulated by law

However, these provisions were poorly enforced and had little effect on actual market competition owing to the lack of a comprehensive system of regulations focused on competition issues.

2.1.2.2 Overview of the Competition Law

Vietnam's Competition Law was finally passed by the National Assembly on December 2004, four years after the initial draft was created and implemented.⁴ This is Vietnam's first Competition Law, and it aims to control and regulate anti-competitive activities as well as create and sustain a fair and competitive environment in Vietnam. The Competition Law, which came into effect in July 2005, included six chapters with 123 articles regulating anti-competitive activities (restrictive and unfair competition activities), case handling procedures, and sanctions against violations (in Chapter I - General Provisions, and Article 1 - Scope of Regulation).

The implementation of this legislation was subsequently promulgated to deal with various issues of the Competition Law in detail, notably through the following:

Table 2.4 Some guiding documents on the implementation of Competition Law

Regulations	Year of issue	Main content
Government Decree No. 116/2005/ND-CP	September 15, 2005	Detail provisions for the implementation of the Law on Competition
Government Decree No. 120/2005/ND-CP	September 30, 2005	Deals with breaches of the Competition Law and related regulations
Government Decree No. 05/2006/ND-CP	September 1, 2006	Details on the establishment, functions, duties, powers, and organizational structure of the Competition Council
Government Decree No. 06/2006/ND-CP	September 1, 2006	Details on the functions, duties, powers, and organizational structure of the Competition Management Department under the Ministry of Trade (now is MOIT)

The Competition Law recognizes the right of businesses to freely compete with each other. However, it stipulates that competition practices must be within the legal framework and not infringe on national interest, public interest, or the legitimate rights and interests of other businesses and consumers.

The Competition Law deals with two categories of competition practices: practices in restraining competition – including agreements in restraint of competition, abuses of

⁴ The explanation of regulations is based on Tran Anh Hung (2010) and update relevant fact and data.

dominant market position or monopoly position and economic concentration - and unfair competitive practices. It also regulates the establishment, functions, and powers of administrative bodies for competition and competition legal proceedings. The Competition Law applies to organizations and individuals conducting business in all economic sectors including domestic private enterprises, state-owned enterprises, FIEs, and overseas enterprises operating in Vietnam. Note that under the laws of Vietnam, FIEs comprise JVCs and WFOCs, which are considered Vietnamese legal entities, while “overseas enterprises” encompass branch offices, representative offices, and other forms of commercial presence of foreign entities in Vietnam. Industry associations (comprising trade associations and professional associations) are also subject to the Competition Law.

The Competition Law also applies to state administrative bodies, but only to prohibit them from the following practices, which hinder market competition:

- Forcing an enterprise, organization, or individual to buy or sell goods or services to or from an enterprise appointed by a state administrative body, except for goods and services belonging to the state monopoly sectors recognized by law;
- Discriminating between an enterprise in the industry or locality which the state administrative body manages and any other enterprise;
- Forcing industry associations or enterprises to collude with each other in order to exclude, restrict, or hinder other enterprises from competing in the market; and
- Other practices that hinder the lawful business activities of enterprises.

This new law is the first to govern competition in the market comprehensively. In addition, it establishes supervisory authorities (including the Competition Commission and the Competition Council) to regulate competitive practices in the market and implements measures to enforce its provisions. It is another important step toward the development of a comprehensive system of commercial law in the country.

2.1.3 Regulations on prices

2.1.3.1 Regulations on prices before the Law on Price

Before 1986, when Vietnam was operating as a centrally planned economy, the state controlled the prices and outputs of enterprises and collectives through direct administrative orders. Since then, this control mechanism was gradually abolished through the renovation policy, Doi Moi, which set forth principles for the socialist-oriented market economy in Vietnam.

However, at the beginning of the renovation process, the state was still indirectly regulating market prices by controlling the price of goods and services of the state-owned enterprises (SOEs). Later, as privately owned enterprises became more significant in terms of quantity and contribution to the national economy, the need for a legal framework for the state's regulation of the market price emerged. As a result, Vietnam's National Assembly approved the Ordinance on Prices on April 26, 2002, codifying and consolidating other pieces of legislation on prices and price controls. Since then, several regulations on prices had been issued (see Table 2.5).

Table 2.5 Some regulations on prices before the Law on Price

Regulations	Year of issue	Main content
Ordinance No. 40-2002-PL-UBTVQH10	April 26, 2002	Lays down new forms of price management, including regulations appraising asset values, controlling monopoly prices, and preventing dumping
Ordinance No. 42-2002-PL-UBTVQH10	May 25, 2002	Self-protection in import of foreign goods into Vietnam
Ordinance No. 20/2004/PL-UBTVQH11	April 29, 2004	Anti-dumping measures for goods imported into Vietnam
Ordinance No. 22/2004/PL-UBTVQH11 (hereafter Ordinance 22)	August 20, 2004	Subsidies in the import of foreign goods and services into Vietnam (to protect the domestic industry against injury or likelihood of injury by imports of subsidized foreign goods)
Decree No. 89/2005/ND-CP	July 11, 2005	Detailing the implementation of a number of articles on the Ordinance 22
Decree No. 90/2005/ND-CP	July 11, 2005	Detailing the implementation of a number of articles of the ordinance on anti-dumping of imports into Vietnam

During almost 10 years of enforcement, these regulations were unable to provide an efficient legal mechanism that would control the prices of commodities and essential goods in the markets as its intended purpose. Consequently, owing to a lack of competition in the markets, particularly those dominated by the SOEs, such as gasoline, telecommunications, and civil aviation, consumers had to deal with unreasonable prices set by the market players.

As such, while the intended purpose of the Law on Price is to meet the requirements of innovation management practices, in line with the price mechanism of the market economy, and to encourage price competition while ensuring the role of prices in the economic market mechanism, the Law on Price has established a means for state intervention that will stabilize prices of certain goods and services.

2.1.3.2 Overview of the Law on Price

On June 20, 2012, the National Assembly passed the Law on Prices No. 11/2012/QH13 (hereafter LOP), replacing the Ordinance on Prices No. 40/2002/PL/UBTVQH10. The LOP came into effect on January 1, 2013. The law abolished certain contents of the previous ordinance that have been adjusted in the specialized legislation, such as regulations on anti-dumping and monopoly control. These contents were also specified in Ordinance 20 (anti-dumping of imported products into Vietnam) and the Competition Law. In addition, the LOP removed price stabilization measures that are impractical and contravene the WTO's requirements, such as subsidies for agricultural products.

In Article 5, the LOP also provides important principles in the state's management of the market price mechanism (Item 1) and regulation of prices under the LOP in order to review the implementation of price stabilization (Item 2). Such regulations significantly limit the scope and manner of state intervention in pricing decisions.

Particularly, the state will only be permitted measures to stabilize prices for goods as stipulated in Article 15.2 and determine prices for goods and services as specified in Article 19.3. Accordingly, goods and services subject to price stabilization are those essential to production and human lives that fall generally under two categories: (a) raw materials, fuel, and materials and services for production and circulation; and (b) goods and services that meet the basic needs of human sustenance.

Meanwhile, under the LOP, the state will determine the price or set a price limit for (a) goods and services under a state monopoly in sectors of production and business; (b) important natural resources; and (c) national reserves, products, services and public services that use the state budget. These goods are specified in Article 19 of the law and include land lease, electricity supply, and communication services. The government can submit additional products or services for price stabilization to the Standing Committee of the National Assembly for approval.

According to Article 16, the state may only stabilize prices when (a) the price of goods and services on the list specified in Article 15.2 of the law shows normal fluctuations or (b) the modified price level affects economic and social stability. Although it is unclear which circumstances constitute as affecting economic and social stability, the provision creates an essential framework for limiting the scope of the state management of pricing, based on which consumers and businesses can anticipate the adjustment measures of the state when prices fluctuate in the market. In addition, the LOP stipulates relatively specific methods for stabilizing prices (Article 17) as well as the principles and basis for price valuation (Articles 21 and 22).

2.1.4 Regulations on the quality of products and goods

The major law on the regulation of the quality of products and goods is the Law on the Quality of Products and Goods, approved on November 21, 2007. This law states that

“the State shall implement a uniform system to control the quality of goods.”⁵ However, the law also states that “in cases where international treaties to which the Socialist Republic of Vietnam is a party contain provisions which differ from the provisions of the Law, the provisions of such international treaties shall prevail.”⁶

The Law on the Quality of Products and Goods came into effect on July 1, 2008, and replaced the Ordinance on the Quality of Goods (approved December 24, 1999). The law provides that manufacturers and traders must take responsibility for the quality of the goods or products that they manufacture or trade in order to ensure their safety for humans, animals, plants, properties, and the environment and to enhance the productivity, quality, and competitiveness of Vietnamese goods and products.

This new law gives the Ministry of Science and Technology (MOST) overall responsibility for the quality of goods. The specific responsibility for the hygiene and safety of foods, however, is under the jurisdiction of the Ministry of Health (MOH).

Before the enactment of the Law on the Quality of Products and Goods, the government issued Decree No. 179/2004/ND-CP on October 21, 2004, (hereafter Decree 179) on state management of the quality of products and goods. Decree 179 details the responsibility of the MOST and of related ministries and branches with respect to the quality of goods. In case of overlapping responsibilities between two ministries, the MOST would be responsible for reporting to the Prime Minister, from whom it would receive a final decision. Decree 179 was promulgated to implement the now abrogated Ordinance on the Quality of Goods. While a new decree to implement the Law on the Quality of Products and Goods and to replace Decree 179 is not yet in place, such provisions of Decree 179 that are not contrary to the Law on the Quality of Products and Goods remain applicable.

⁵ Law on the Quality of Products and Goods, art 68.1.

⁶ *Id.*, art 4.3.

With regard to goods in general, quality standards cover areas such as technical specifications, experimentation methods, packaging, labelling, transportation, preservation of goods, quality management systems, and other issues relating to the quality of goods.⁷ The quality of goods is managed as per applicable standards and technical specifications. The system of Vietnamese standards includes national standards (known as “Vietnam Standards” or “Tiêu Chuẩn Việt Nam” [TCVN]) and standards applied voluntarily by businesses and individuals (known as “Tiêu Chuẩn Cơ Sở” [TCCS]).⁸ Vietnamese Standards are based on international, regional, and foreign standards; outcomes of scientific and technological research; technical progress; factual experience; and the results of evaluations, tests, experiments, inspections, and appraisals.

At one time, all goods were subject to a quality registration, where individuals and organizations that produced and traded goods had to follow certain quality standards required by the state.

However, when the Ordinance on the Quality of Goods came into effect, individuals and organizations that produce and trade in goods, including food, were required only to “announce” rather than “register” their own quality standards. Administrative procedures to announce quality standards are much simpler than the registration procedures. In an announcement, producers and traders must comply only with the quality standards that they have announced. In other words, producers and traders themselves decide the quality standards of their goods. Nevertheless, such quality standards must satisfy the Vietnamese standards or industry standards. Accordingly, the authoritarian role of the state regarding the quality standards of goods, including food, has been changed into voluntary commitments by entities to set and to comply with

⁷ Decision No. 42/2005/QĐ-BYT of the MOH, approved December 8, 2005 (hereafter Decision 42), art 2.2.

⁸ Law on Standards and Technical Specifications 68/2006/QH11, approved June 29, 2006, art 10.

their own quality standards.

2.1.5 Regulations on the environment

Vietnam enacted its first Law on Protection of the Environment in 1993. In line with international trends for greater awareness of environmental issues, a new, more comprehensive law was introduced in 2005. The new Law on Protection of the Environment No. 52/2005/QH11 came into effect on July 1, 2006.

Recent years have seen an even further heightening of environmental consciousness in Vietnam. Recent cases of environmental pollution have highlighted the importance of environmental laws and protection, in particular, as they relate to foreign investment activities. Depending on the severity of environmental damage caused, breaches of environmental laws can result in fines, compulsory clean-ups and relocations, suspension or prohibition of operations, and monetary compensation for damage caused.

Generally, Vietnam's environmental laws require investors to:

- Take environmental protection measures in the manner set out in their environmental impact assessment reports (EIARs) or environmental protection undertakings;
- Prevent and restrict activities that affect the environment adversely, including appropriate minimization and management of waste, and comply with applicable environmental standards (including technical standards on the quality of soil, water, air, noise, light, and radiation);
- Rectify any environmental pollution created by their activities; and
- Pay environmental taxes and protection charges.

The Ministry of Natural Resources and Environment (MONRE) is the primary authority responsible for environmental matters. Among other tasks, MONRE:

- Evaluates strategic environmental assessment reports;
- Issues certificates of satisfaction of environmental standards; and
- Supervises, inspects, and deals with breaches of the environmental laws.

In addition, other ministries and state bodies are entrusted with the responsibility of particular aspects of environmental protection and management. In particular, the People's Committees in each province, at all levels, organize the evaluation and approval of EIARs, while the Department of Natural Resources and Environment Inspectorate supervises activities and inspects manufacturing businesses and services establishments for compliance.

According to this new law, certain types of projects require the preparation of an EIAR. An EIAR assesses the environmental status of a project site and potential environmental impacts of a project and sets out specific measures and undertakings to minimize and prevent the adverse impacts of the project on the environment. It also contains the opinions of local authorities and community representatives, should there be any objection on environmental grounds to the project or disagreement with the proposed environmental protection measures. The substantial list of applicable projects includes nationally important (large) projects, telecommunications construction projects, industrial zones, many light and heavy manufacturing facilities, most mining projects, and large-scale tourism and entertainment projects.

EIARs are prepared concurrently with the feasibility studies for these projects. Project owners may prepare the EIARs themselves or hire a qualified consultancy firm to do so. EIARs are submitted for appraisal to the MONRE, relevant ministries, or People's Committee of a province depending on the type of project and, in particular, the level of authority required to approve the project. Where an EIAR is mandatory, the project may only be approved and issued with an investment certificate, construction permit, or operational permit once the EIAR has been approved.

Manufacturing, business, and services enterprises that are not required to prepare an EIAR must submit written environmental protection undertakings (EPUs) to the relevant provincial People's Committee. The undertakings cover location, form, and scale of the establishment as well as the energy that will be used and types of waste that will be produced. They must also include an undertaking to minimize and treat waste and comply with environmental laws. A certificate showing the registration of the EPUs is required before manufacturing or other business activities may commence.

2.1.6 Regulations on e-commerce and online retail

After the Master Plan on E-Commerce Development for the 2006–2010 Period was approved by the Prime Minister on 15 September 2005, Vietnam's system of legal documentation in the field of e-commerce became increasingly complementary and more complete.

Table 2.6 Some legal documents related to e-commerce in Vietnam

Date of issue	Legal documents
9/11/2005	Law on Electronic Transactions
29/6/2006	Law on Information Technology
09/6/2006	Decree No. 57/2006/ND-CP on e-commerce
15/2/2007	Decree No. 26/2007/ND-CP guiding the implementation of the E-transaction Law on digital signatures and C/A services
23/2/2007	Decree No. 27/2007/ND-CP on electronic transactions in financial activities
08/3/2007	Decree No. 35/2007/ND-CP on electronic transactions in banking activities
10/4/2007	Decree No. 64/2007/ND-CP on information technology application in state agencies
13/8/2008	Decree No. 90/2008/ND-CP on anti-spam
28/08/2008	Decree No. 97/2008/ND-CP on the management, provision, and use of Internet services and electronic information on the Internet
10/4/2007	Decree No. 63/2007/ND-CP on administrative sanctions for violations in information technology
16/01/2008	Decree No. 06/2008/ND-CP on administrative fines in commercial activities
20/03/2009	Decree No. 28/2009/ND-CP on administrative fines in the management, provision, and use of Internet services and the provision of electronic information on the Internet

The first legal document developed for this sector was the Law on Electronic Transactions, approved by the National Assembly on November 2005. This Law laid a

legal foundation for electronic transactions by recognizing the legal effects of data messages and providing detailed regulations with regard electronic signatures—the element that ensures the reliability of data messages. The Law on Electronic Transactions mainly regulates electronic transactions in state agencies and business, commerce, and civil relationships. Later, in 2006, the National Assembly went on to issue the Law on Information Technology, which comprises basic provisions on the application and development of information technology and measures to develop infrastructure related to these activities. In combination, these two laws regulate almost all the elements that relate to the use of information technology and e-commerce in Vietnam’s everyday life.

From 2006 to 2008, the Vietnamese government issued seven decrees that guide the implementation of the Law on Electronic Transactions; they have contributed to a sufficiently strong legal framework in developing electronic transactions, in some of the essential socioeconomic activity areas. The completion of a sanctions framework by which to handle administrative violations related to the application of e-commerce and information is in progress.

The decrees on e-commerce, electronic transactions in finance, and electronic transactions in banking look to guide the implementation of the Law on Electronic Transactions with respect to ‘data messages’, by specifying elements of the legal effects of data messages in commercial, financial, and banking activities. The Decree on information technology application in state agencies and the Decree on anti-spam have provided detailed guidance in some specific areas of electronic transaction application. The Decree guiding the implementation of the E-transaction Law on digital signatures and C/A services has formed the legal basis for the development of digital signatures and digital signature-certifying services—prerequisites to facilitating the development of electronic transactions on a massive scale.

2.2 Impacts of the regulations on the retailers

2.2.1 Influence of the open market policy on changing the retail system

In 1987, Vietnam issued its ever first Law on Foreign Direct Investment. Despite its relatively short history in incoming foreign investment, Vietnam has managed to attract a substantial amount of FDI. Vietnam has been quite successful relative to other countries, becoming the second largest FDI recipient once considering from the rate on GDP in the Association of Southeast Asian Nations (ASEAN), behind Singapore, according to a report by HSBC Vietnam (VOV online, 2013). Following this rapid economic development, Vietnamese consumers struggled to make sense of the multitude of products and brands that flooded into the market, the glut of advertising, retail outlet proliferation, and the confusion concerning consumer choices (Shultz, 1994). Before 1995, roughly 17 years ago, most Vietnamese consumers had no choice other than to purchase at traditional markets. Nowadays, consumers purchase at one-stop, air-conditioned modern retail outlets, namely, supermarkets and shopping centers, where unlike in traditional markets, no price bargaining takes place. This modernization process has contributed to the change in the Vietnamese retail system.

Moreover, after becoming a member of the WTO since 2007, Vietnam, under its WTO commitments, had to open up its service sectors to investors from WTO member countries. Specifically, the country had to grant the right to export, import, and distribute to foreign investors gradually. A wave of new international retailers (e.g., Dairy Farm, Best Denki, and FamilyMart) in the beginning of 2009 (when Vietnam fully opened up its market) joined existing foreign players (e.g., METRO Cash & Carry, Casino Group, Parkson, and Lotte Mart), pushing the Vietnam retail market into a new period of development. Modern retail formats such as convenience stores, small shopping complexes, and supermarkets became prevalent. Supermarket chains, in particular, became the dominant retail format in the country.

According to the MOIT, only five years after joining the WTO, Vietnam's retail industry developed fast, advancing trade and society while meeting the increasing and diverse demands of consumers. By the end of 2011, there were 638 supermarkets in 61 of 63 provinces and cities, an increase of 12.52 percent compared to 2010, and 116 trade centers in 32 of 63 provinces, an increase of 23.15 percent compared to 2010 (GSO, 2013). The number of new supermarkets established increased from 251 during 2002–2006 to 303 during 2007–2011, five years after the WTO accession; enjoy an increase of 20 percent. During the same periods, the number of newly established commercial centers increased from 36 to 62, an increase of more than 72 percent (MOIT, 2013). In addition, thousands of specialty shops and convenience stores (following models of developed countries) emerged throughout the country. The domestic market development in Vietnam has changed the face of retail trade as well as the shopping habits of consumers, thus contributing significantly to the modernization and development of the economy and society. According to general estimates, modern types of retail trade now account for 20 percent of total retail sales, more than double than that before the country joined the WTO (MOIT, 2013).

2.2.2 Impact on domestic retailers

2.2.2.1 *Impact on traditional retailers*

The huge numbers of supermarkets and commercial centers under Vietnam's newly opened market has put competitive pressure on traditional retailers, prompting them to gradually improve infrastructure, food safety, and cultural behaviour. However, despite these improvements, traditional markets are still weaker than modern retail channels such as supermarkets and convenience stores in the issues of goods quality and origin control. Besides, the victim and cultural behaviour of many traditional sellers are the most challenging.

In recent years, the annual sales in traditional markets have been decreasing sharply while those in supermarkets have been increasing consistently by 15 to 25 percent (SGGP, 2012). Especially in big cities, supermarkets have attracted consumers with their convenience, stable prices, and attractive promotions.

In the war to retain customers, small businesses in many traditional markets worked to overcome their weaknesses through various improvements and renovations. For example, representatives of Hoa An Market Management in Bien Hoa City said that its market is implementing two projects: a project to improve drainage and a project to improve market food safety under a national pilot program (Báo Đồng Nai điện tử, 2012). These projects plan to improve market conditions and infrastructure, especially in the areas of processed food and fresh food. In addition, they will control the origin of goods and the conditions for selling fresh food more stringently. The management board will also organize health checks and food hygiene and safety training for small businesses.

In addition, following governmental policy on the modernization of the traditional market system, Hanoi and other big cities have transformed their traditional markets by combining them with commercial centers. However, these new markets eventually closed down, showing that traditional markets are still preferred by a significant portion of people.

On December 5, 2012, the MOH issued Circular No. 30/2012/TT-BYT (hereafter Circular 30), which contains regulations on food safety conditions for business establishments that provide catering services and street food. Circular 30 specifies conditions for ensuring food safety in the street food business, from the location, equipment, and tools at the place of business to regulations for street food businesses. Circular 30 took effect on January 20, 2013.

It is estimated that Hanoi has over 26,000 street-food service establishments, but over 16,000 of these establishments are located outside of the jurisdiction of the food safety and hygiene authorities (PetroTimes, 2013). Pursuant to the provisions of Circular 30, these business establishments that do not meet the safety criteria will be eliminated.

Virtually every street in Hanoi has street food establishments that cater to the dietary needs of consumers, from breakfast food to snacks. Therefore, should such food establishments be eliminated under Circular 30, the daily lives of many people will be affected. To avoid elimination, these street-food stores must comply with several provisions, including storing ready-to-eat foods and drinks in glass cabinets to protect them from contamination by dirt, rain, sun, and insects such as flies. Such stores must keep invoices and documents showing the origin of ingredients and food additives in order to prove their products' food safety. Such food establishments must also obtain certificates of food safety training and periodic health examinations. The establishments' compliance with these provisions will change the food retail services industry significantly.

2.2.2.2 Impact on modern retailers

On February 15, 2007, after Vietnam joined the WTO, the Prime Minister issued Decision No. 27/2007/QĐ, describing a national commercial development project. Along with that, the Association of Vietnamese Retailers (AVR) was established, clarifying the requirements for the retail sector further. Today, besides the traditional market system, supermarkets are now also available in most provinces and cities nationwide.

Competition among domestic and foreign supermarket chains has been intensifying since Vietnam opened its retail market under its WTO commitments. With their

competitive advantages in capital and experience, foreign firms have been attempting to dominate the market. Meanwhile, domestic supermarket chains have been leveraging their advantages in proximity and understanding of consumer preferences and upgrading their distribution systems. Further, these local chains have been joining forces in order to compete better against their foreign rivals.

Through methods such as direct investment, joint ventures, and franchising, Vietnamese enterprises are expanding their sales networks, exploiting and combining the resources of various small businesses into large-scale systems with high levels of organization. Some retailers have organized into a chain model, increasing the number of their stores annually. For example, the Saigon Union of Trading Cooperatives (Saigon Co.op) has 60 Co.op Mart-branded supermarkets and 30 shops named Co.op Food; Hanoi Trade Corporation (Hapro) has three commercial centers, more than 40 supermarkets, and 36 convenience stores named HaproMart, which sell food and other goods; and Intimex, an import-export joint stock company (JSC) has 14 supermarkets and one shopping center (E-Newspaper of Industry and Trade [EOIT], 2012).

However, according to many domestic modern retailers, the competition between domestic and foreign investors is unequal. For instance, Mr. Nguyen Ngoc Hoa, chairman of Saigon Co.op, said that domestic companies lack experience in developing modern retail systems and are unable to export through the retail system, while foreign companies are experienced in export and have very strong sales forces (EOIT, 2012). Further, large-scale foreign corporations operate various types of businesses, including retail and wholesale, while most Vietnamese enterprises are small and medium sized. Vietnamese enterprises also do not have enough capital or social influence to buy land and build large supermarkets. Besides, looking for land to open supermarkets, commercial centers are also very difficult. To find a large enough area to open trade center not only requires a strong capital but also to have the support from many sides.

For example, Saigon Co-op faced land problems in building a commercial center and decided to solve the problem by building the commercial center beside the already existing traditional market. However, they could not reach an agreement with the small traders in the area and cannot build the commercial centers at the end (EOIT, 2012).

Domestic modern retailers also pointed out that they did not develop as expected because they did not receive adequate attention and support from the government. One of the disadvantages of Vietnamese retail enterprises is the absence of support policies or incentives for investment in infrastructure such as construction and equipment, many of which must be imported but are not exempt from taxes.

To overcome financial barriers, four large domestic retailers, namely, Saigon Co.op and Satra (Ho Chi Minh City), Hapro and Phu Thai Group (Hanoi), combined to form a retail group named Vietnam Distribution Association Network Development (VDA) on February 1, 2007 (VnMedia, 2007). The VDA plans to build warehouses throughout the country, which will be the core of the distribution network of the domestic enterprises and from which the enterprises can purchase goods for import and export. The VDA also plans to build hypermarkets to compete with the foreign retailers.

In addition, Mr. Nguyen Huu Thang, chairman of Hapro, also commented that since the open market is here to stay, Vietnamese enterprises need to develop competitive advantages and avoid confrontations with large foreign retailers by focusing on the development of small- and medium-scale distribution chains throughout local residential areas (EOIT, 2012).

Mr. Thang also pointed out another disadvantage of domestic enterprises that is the lack of government guidelines for uniform supermarket planning and construction. For example, in Ho Chi Minh City, there are areas with many supermarkets and shopping centers and others with very few or no such establishments. Therefore, enterprises have had to compete fiercely, leading to slow goods sales. In addition, when domestic

enterprises wanted to open supermarkets in provinces, some local authorities imposed state requirements that they would otherwise not impose on foreign companies. Therefore, the state planning should clearly indicate the rules regarding the locations of the supermarkets so that they are evenly distributed in the cities and other localities. Especially, in order to create equality, local planning should focus on the projects of small and medium Vietnamese enterprises while foreign investments should focus on medium to large enterprises.

Moreover, according to the president of the AVR, Mr. Phan The Rue, it is too much for the local hierarchy in licensing. Some provinces were also planned for commercial land. However, these planning seem to follow the will of the subjective rather than focus on the needs and opinions of retailers.

2.2.3 Impact on foreign retailers

Historically, retail has been one of the most restricted investment sectors for foreign investors in Vietnam, where regulations and policies are designed to limit their access in the hope that domestic players would develop and fill the market space. Prior to the country's WTO accession in January 2007, very few foreign-invested retail operations were licensed in the country, and they tended to be negotiated on a case-by-case basis with the Vietnamese government and accompanied by heavy capital investment commitments.

Upon joining the WTO, Vietnam agreed to a roadmap to open up market access in the trading and distribution sectors in general, and now foreign investors have, at least on paper, clear rights to access the market to import all non-restricted goods and to engage in all kinds of distribution services, including retail activities.

Through the country's open market policy, the world's largest retailers such as METRO Cash & Carry (from Germany), Casino Group (from France), Parkson (from

Malaysia), and Lotte (from South Korea) continue to expand their scope of activities through their modern retail model and advanced management. Since Vietnam joined the WTO, the number of these foreign retailers' stores significant increased. For instance, the number of METRO Cash & Carry increased from 7 to 19 stores, the number of Big C hypermarkets increased from 5 to 21, and Parkson opened seven additional shopping centers.

Despite these additional rights, practical and policy barriers still hampered foreign investment in the retail sector, and the government has been under increasing pressure to follow through on its WTO commitments.

Under the provisions of Decree 23, procedures for investment licensing and retail establishment permits for second and subsequent retail outlets need to be approved by the MOIT on a case-by-case basis. This provision is in addition to the usual licensing procedures, and represents new legal barriers to investment. According to the official documents of the MOIT, new licensing criteria for foreign investors include management experience, business capacity, and financial viability, albeit the required levels for each criteria have not been officially specified. It is thus necessary to clarify the criteria in order to create a more transparent investment environment for foreign players.

Regarding retail establishment permits, Decision 10 requires "the right of distribution of foreign investors in association with the right to be the first retail establishment, the establishment of additional retail outlets in addition to the first retail establishments to be considered on the basis of an economic needs test (ENT)." However, empirically, there is no exception for "the right to be the first retail establishment," which means that a retail establishment in general and the first retail establishment in particular are both subject to an ENT and must be approved by the MOIT. In addition, according to the MOIT, transfer of shares of existing establishments

to foreign investors will also entail an ENT. In this case, the use of the ENT contradicts its purpose as defined by the WTO, causing unnecessary barriers to foreign investors interested in entering the market by buying shares from existing enterprises.

Examining economic needs requires the assessment of the following main criteria: (i) the number of service providers present in a geographic area, (ii) the stability of the market, and (iii) the geographic scale of the market. These criteria are specified in accordance with the conditions in the country. Meanwhile, Circular 09 adds two new criteria for evaluation that are entirely outside the scope of the above schedule: (iv) population density and (v) appropriateness of the investment projects with local planning. In order to avoid violating its WTO agreements, and to ensure the transparent and consistent application of criteria to the various types of businesses, Vietnam must publicize and implement the requirements for each criteria, including appropriateness with local planning, market stability, and population density.

However, according to Mr. Pascal Billaud, CEO of Big C Vietnam, the retail industry in Vietnam is still not as competitive as it should be. Many retailers worldwide are still looking for investment opportunities in Vietnam. The biggest barrier for such investors, however, is not the legal framework, but the increasingly expensive price of land (SGGP, 2012).

Ho Chi Minh City and Hanoi have the highest commercial and residential rental prices in the ASEAN. According to a 2010 survey of the business environment by the Japan External Trade Organization (JETRO), Ho Chi Minh City has the highest commercial rental costs in the ASEAN. Specifically, the average commercial rent per m² in the city is US\$57 a month, surpassing or matching those in other major cities in Southeast Asia, including Singapore (US\$46.40 per m² per month) and Bangkok (US\$19.80 per m² per month), as well as in other major Asian cities such as Seoul (US\$49.80 per m² per month) and Beijing (US\$57.20 per m² per month).

According to the report, rent in two other major Vietnamese cities, Hanoi and Da Nang, are also expensive at US\$42 and US\$18.30 per m² per month, respectively. Similarly, residential rent for foreigners in Vietnam is expensive, being the second highest in the ASEAN. The average rent for foreigners in Hanoi is US\$3,050 per month, more expensive than that in Hong Kong, which is US\$2,062 per month.

In addition, according to a 2011 survey by the Vietnam Chamber of Commerce and Industry (VCCI), of the 1,970 foreign enterprises in Vietnam in 2011, only 20 percent have land use rights certificates, down from 33 percent in 2010. This indicates that the waiting period for obtaining land use license, currently 143 days, has not improved.

Similarly, regarding transparency, the ability to access business planning documents, such as plans for infrastructure projects or land use, has not improved. As of last year, access to legal documents, such as laws and ordinances, of the central and provincial legislations has been rated 2.9 in a scale out of 5, down from 3.1 in 2010.

Another concern of foreign enterprises according to the survey is the clearance period for the export or import of goods. In fact, waiting period for customs clearance of imported goods has increased about 0.5 day, while for goods for export about 0.7 day. Thus, the country's two largest cities, Hanoi and Ho Chi Minh City, are slow and costly for businesses in terms of obtaining customs clearance for export and import. Another aspect that has not improved significantly is the time it takes to join the market. In 2009, foreign enterprises normally waited two months before officially participating in the market. Although this has now been reduced to 43 days, it is still quite long. Binh Duong Province has the lowest waiting period at 33 days.

These barriers hinder not only foreign retailers but domestic retailers as well. Therefore, the government should publicize and implement clear guidelines for supermarket planning and construction in order to control commercial rent prices and consequently promote the development of the retail industry.

Chapter 3 - Retail strategies of modern retailers in Vietnam⁹

3.1 Changing consumers after economic reform

Vietnam's transition from a centrally planned economy to a market economy and from an extremely poor country to a lower-middle-income country was reflected in the changing behaviour of consumers in Vietnam. The combination of policy changes, market reforms, current consumer demands, the re-emergence of local entrepreneurs, and investments by multinational corporations has dramatically changed the lives of the Vietnamese (Shultz 1994). The country has experienced strong economic growth over the past two decades. The average GDP growth rate exceeded 7.3 percent between 1990 and 2011, making Vietnam one of the fastest growing economies in the world. Furthermore, cities currently account for 70 percent of national GDP due to industrial and trading activities. By the early 1990s, per capita income was still among the lowest in the world. Less than 20 years later, Vietnam is about to enter the ranks of middle-income countries. GDP per capita increased from US\$90 in 1990 to US\$1375 in 2011 (GSO, 2013). The percentage of the population earning less than US\$1 per day declined from 51 percent in 1990 to 8 percent in 2008, outpacing both China and India (Mantsios, 2010). Annual GDP per capita has doubled in the country's urban centres. The economic indicators of Vietnamese cities tend to be more in line with the middle-income group of countries in transition. Over the last few years, Vietnam has ranked third in the world in terms of its consumption ratio. Vietnamese consumers have been spending more to satisfy their growing demands (VNN 2007a). The average propensity for consumption reflected in the GDP of Vietnam is high when compared with its neighbors. From 1996 to 2005, the ratio fluctuated between 70–82 percent,

⁹ This chapter is based on the published study "Retail policy and strategy in Vietnam", in M. Mukherjee, R. Cuthbertson, and E. Howard (eds.), *Retailing in Emerging Markets: A policy and strategy perspective*, Routledge, pp. 94–123, 2014 which is co-authored with Masayoshi Maruyama and Le Viet Trung.

compared with 56 percent in Singapore, 58 percent in Malaysia, and 68 percent in Thailand. Consumption growth in Vietnam was 7.7 percent in the period between 2001 and 2005, which is much higher than the 1.4 percent increase in the population (VNN 2007b).

Household revenue has increased (e.g., annual urban per-capita income was US\$1,311 in 2010 – GSO, 2010) which has naturally given rise to changes in consumption patterns among the rising middle class, wherein more money is spent and less is being saved, and higher requirements have been instituted with regard to product quality and safety. For example, about 62% of Vietnamese people now eat outside the home every day (SGTT, 2007). In addition, the findings of a 2004 survey show that up to 85% of urban dwellers in southern Vietnam chooses to shop at supermarkets, because they believe that these markets offer a convenient shopping environment and high-quality products (TNN, 2004). Vietnamese consumers are becoming smarter and more sophisticated. They are concerned about not only the quality and price of the products they purchase but also the quality of the stores they visit; they also often visit several different retail outlets before making purchase decisions (Nguyen, Nguyen, and Barrett, 2007).

Previously, motorbikes, air conditioners, refrigerators, washing machines, and visual audio equipment were considered to be luxury products in urban areas. They have now become popular even in rural areas (VNN 2007b). Today, Vietnam reportedly has more motorbikes per capita than its neighbouring countries: nearly 169 per thousand inhabitants, compared with 44 in China and 79 in Indonesia. According to official records, there are nearly 16 million motorbikes throughout the country, whereas only 1.2 million motorbikes were officially recorded in 1990. There has been tenfold growth over a short 14-year period despite the fact that motorbikes can be twice as expensive in Vietnam as in neighbouring countries due to import taxes (Freire 2009). The purchase

of high-value products like cars and other brand-name products is on the rise in urban areas (VNN 2007b). Over 110,000 cars were sold in 2009, representing a 37 percent increase from 2007 (ET 2009). The growing affluence of Vietnamese consumers is reflected in the increased diffusion of high-tech products throughout the country. In total, 94 percent of the country's upper-class consumers now own PCs, and a staggering 97 percent own at least one mobile phone. Even within lower socioeconomic groups, over half of the population owns a mobile phone, which was not the case ten years ago (Nielsen 2008). Today, the Internet is widely available throughout Vietnamese towns and cities. By 2007, the percentage of the Vietnamese population that had regular access to the Internet had skyrocketed to 18.97 percent, exceeding the global average of 16.9 percent (VNN 2007c). Recently, the number of people using the Internet in Vietnam grew to about 23.2 million and has continued to increase rapidly (VNE 2010). In addition, 93 percent of the adult population is now literate. The number of households with electricity has doubled since the early 1990s to an impressive 94 percent in 2008 (Mantsios, 2010).

Vietnam has approximately 60.6 million consumers, including 16.9 million young people between the ages of 20 and 29 (VNN 2008). The demographic of younger Vietnamese have shown more consumer confidence than their parents and spend more than they save. A recent survey by the TNS World Panel Vietnam, a market research firm, revealed three major characteristics of the new generation of consumers. First, they are younger than those in the previous generations (about 60 percent of Vietnamese consumers are under 30 years of age) and have stringent and complex product requirements. Second, they spend more on body and healthcare products and appreciate product utility. Third, they tend to enjoy going shopping in safe and comfortable environments (VNN 2008). These active young consumers represent a powerful new consumer force and shape the trends that affect most of the country's industries,

especially the modern retail sector.

In 2011 and the first half of 2012, the gloomy economic situation affected the shopping habits of Vietnamese consumers. While the major channels for household food and non-food consumable shopping remained markets and supermarkets/hypermarkets, there were changes in consumers' shopping behaviour. The high inflation rate resulted in escalating prices. Market shoppers, who are usually consumers with low-to-middle incomes, resorted to going further to wholesale markets where the prices are a bit lower. Although despite popular belief, supermarkets/hypermarkets do not generally carry higher price tags than markets. The opposite can be the case, and this is especially true during an economic downturn. Many supermarkets and hypermarkets joined a government programme pledging to maintain many important commodity product prices stable even in case of rising inflation.

As the result, many consumers who used to do their household food and non-food consumable shopping at markets switched to supermarkets/hypermarkets.

3.2 Retail strategies in the transitional retail environment

In accordance with the strong levels of competition witnessed in the emerging retail markets with complicated changing consumers—especially after Vietnam's WTO accession—modern retailers in Vietnam have used four main strategies to compete in the market: low-price strategy, high-quality and safe products strategy, premium image and better services strategy, and location proximity strategy.

3.2.1 Low-price strategy

According to the results of a survey executed by Maruyama and Trung (2007a, 2007b), consumers have been more likely to purchase foods and beverages at traditional outlets, rather than modern outlets, to secure better pricing; however, that situation is now changing. In recent years, Vietnam has seen rapid price increases (i.e., the so-called

price storm), especially among food products (by 1.5–3-fold during 2009–2011), prompting consumers to tighten their purchases. While prices at traditional markets, especially for food, have been increasing daily, many supermarkets like Big C, Co.opMart, and Metro have tried to stabilize prices and provide low-price and high-quality products by leveraging their negotiating power with suppliers and their ability to sign long-term supply contracts, and by making efforts to join cities' price stabilization programmes (VBN, 2010). The price stabilisation programme is a programme in which joining enterprises are able to access the loan from temporarily idle budgets with the interest rate of 0% or use the budget to support bank lending rates for businesses in order to provide some essential commodities which was listed by the government (e.g. rice, pork, cooking oil, etc.) at a stabilised low price (at least 5 to 10% lower than normal price in the market). The purpose of this programme is to control inflation and stabilize the economy, as well as to achieve social welfare. It was applied in HCMC in 2002 and then applied in Hanoi in 2007. These efforts have resulted in prices in many supermarkets being lower and thus more competitive, compared to those seen in traditional retail markets. With this low-price strategy, supermarkets are now attracting more and more customers throughout the week.

Supermarkets, in line with the low-price strategy, have also started to subcontract their private-brand products to local manufacturers. In general, the products of private retailer brands tend to be 10–30% cheaper than comparable name-brand products (and sometimes, up to 70% cheaper, during special campaigns), because the retailers work directly with the manufacturers and have low marketing and advertising costs (VNE, 2011; VEX, 2011). Worldwide, supermarkets that produce and distribute their own private-brand products are quite common, but in Vietnam, this is a phenomenon that has emerged only in recent years, and mainly for food, frozen, processed, cosmetics, household, and apparel products. These private-brand products are usually preferred by

low and middle-income consumers. Three supermarkets (Big C, Saigon Co.opMart, and Metro) have developed strong private-brand businesses: Big C, for example, now has six private brands, including the Big C brand (which covers all lines in household, cosmetics, liquids, and grocery products, and is a strong alternative to market leaders), Wow! (Big C's exclusive value brand), eBon (an exclusive cold meat brand), Casino (the leading brand in France for home and body care, whose products are directly imported), Bakery by Big C (a brand name for breads and cakes), and the most recent one, 'Big C flavour' (introduced in June 2011 and which focuses on fresh food such as vegetables, seafood, meat, delicatessen, etc.).

Furthermore, since low prices constitute the key factor in this strategy, many promotion campaigns that focus on price are also implemented to attract those who make household purchases. For instance, every day, Big C customers can explore various promotions, new items, and exclusive items in several categories; many of these products are manufactured in Vietnam or imported from abroad. Every three weeks, Big C releases a promotion through which it offers attractive pricing and free gifts. Consumers need only sign up for the store's free newsletter via mail or mobile phone, which will ensure that they will not miss any future Big C promotions.

Over 2011-2012, Vietnam retailing saw an increasing trend of 'bán hàng lưu động' (mobile vending) in both rural and urban areas. Retailers sought to bring products closer to consumers, especially during the special occasion such as Tet holidays (the Lunar New Year). Retailers either set up temporary stores in particular areas or sold products from vans. The product portfolio of these mobile stores was limited, however. Key grocery products such as rice, oil or sugar accounted for a large percentage of their product range. Saigon Union of Trading Cooperatives (running Saigon Co.op Mart) was one of the players active in 'bán hàng lưu động' in 2012. The company collaborated with local government offices to sell products in rural areas and on the outskirts of cities

where the presence of modern grocery channels is weak. Within urban areas, Saigon Union of Trading Cooperatives meanwhile occasionally set up pop-up stores in industrial parks to sell products to workers throughout the year (Euromonitor, 2013).

3.2.2 High-quality and safety products strategy

In line with economic development, Vietnamese consumers are now increasingly concerned about the quality of the goods they purchase, and food safety. Understanding this trend, many retailers choose to ‘lure in’ customers by ensuring high levels of product quality and food safety. Many methods of food safety and quality management under international standards are being applied, such as those pertaining to ISO, HACCP, and GMP. Modern retailers like Big C, Metro, Co.opMart, and HaproMart have specific requirements to ensure the quality of a variety of products. For example, suppliers of fresh food must meet their requirements in terms of quality, packaging, storage, and transportation, while all industrial products must have quality certificates, meet labelling requirements, and be preserved and transported under appropriate conditions. All cosmetics products must have a quality certificate (quality standards, safety, etc.) and must meet labelling requirements. To appraise products, stores frequently send them to laboratories to determine whether or not they meet certain standards; in addition, the production environment is frequently tested with regard to factors such as water and air quality and food contamination, *inter alia*.

Through its strict quality control system and the development of technology and modern equipment used in production, packaging, and storage systems, products at some large modern retailers are considered to have a higher level of quality and food safety than traditional retailers, and so they are attracting more and more Vietnamese consumers. Despite the food safety regulations issued by the MOH, traditional retailers continued to be at a disadvantage vis-a-vis the modern retailers in the ensuring high

standards as they lacked appropriate cold storage facilities. Moreover, these traditional retailers sourced their fresh produced from wholesale markets and farmers on a daily basis who remained unaffected by the stringent quality control system of the government. This further reflected the poor implementation of regulations in Vietnam, despite the intention to modernise the sector through appropriate regulations such as the quality control regulations.

3.2.3 Premium image and good services strategy

Vietnam's rapid modernization and economic development have changed its consumers' shopping patterns. Young consumers now enjoy shopping in safe and comfortable environments, and brand-name products are currying greater favour among them. Thus, rather than focus on a low-price strategy, many modern retailers have chosen to set their stores at a premium level and target the new generation of consumers—namely, individuals with middle to high incomes and who tend to spend more and save less. Foreign retailers have mainly chosen this strategy and are having great success with it. Their stores operate in the form of shopping centres, shopping malls, or department stores that have large spaces and offer a wide range of high-class, brand-name products. In addition, these retailers provide outstanding customer service in order to ensure a high level of business performance and success. Restaurants, popular franchise food outlets, and entertainment spaces such as cinemas, game centres, karaoke booths, and playgrounds tend also to be included in such shopping malls, where customers can find a great range of products and services in a single destination; this enhances their overall shopping experience. Furthermore, the provision of better service is also an important point in building up their premium image from the customers' perspective. The Garden, Vincom, and Parkson are some well-known shopping malls in Vietnam today, and they are also among the largest (Vietbao 2009, VTC News 2012).

3.2.4 Location proximity strategy

While foreign retailers tend to focus on the premium image strategy—usually within a large space, which typically requires that their stores be located on the outskirts of cities—domestic retailers tend to choose to operate their stores in high-density residential areas, in order to appeal to consumers’ desire to have ease of access. According to the results of interviews of the CEOs of 51 local firms (Maruyama and Trung, 2012), local retail firms operate mainly in high-density residential areas (72%); only a few choose to be located in suburban areas (4%). The most frequently cited reason for this preference is the convenience and ease of attracting consumers (75%); ‘ease of renting or finding expected areas’, ‘cheap rent’, ‘less competition’, or ‘higher income area’ are rarely cited reasons (totalling less than 15%). Proximity was the most important factor in their location strategies, because motorbikes constitute the major means of transportation among its consumers: 98% of the sample indicated that consumers mainly used motorbikes to travel to their stores.

Moreover, to meet consumers’ daily needs for sundry items and to be more convenient for customers—in other words, to be more competitive—many retailers also choose to operate chains of convenience stores or mini supermarkets. Convenience stores in Vietnam compete with roadside stalls and traditional markets. As of the end of 2012, there were about 1,000 convenience stores and mini supermarkets nationwide. About 30 retail chains, including well-known brands such as Circle K, Shop&Go, Ministop, FamilyMart, B&B, Day&Night, Co.opFood, SatraFoods, New Chợ, CExpress, and Hapromart, are currently operating in the country. Convenience stores can be classified into several groups, including food chains like Vissan (100 sales points), Foocomart (44 sales points), Co.opFood (45 sales points), and Hapro (130 sales points). The number of 24/7 convenience stores has also increased rapidly. In addition, Shop&Go, which has 83 sales points, is now considering expansion into northern

Vietnam. FamilyMart has opened 27 shops and plans to have 300 shops by 2015 and 1,000 by 2020. Ministop has opened its first 12 shops in HCMC and plans to open 500 shops in the next five years, while Circle K currently operates 33 of the 550 shops it plans to have open by 2018 (DTO, 2012).

3.3 Discussion of online retail strategy

As of 2012, e-commerce had become popular, and it is now widely used in enterprises in many business sectors, and at many scales. Enterprises are increasingly interested in developing and improving the quality of their websites, as this is an important and effective channel through which to promote a company's image and products, make contact, and provide customer care. Along with building their own websites, enterprises have realized great benefits from participating in e-commerce platforms, both domestically and abroad. Participation in the 'online wholesale market' has helped businesses attract customers at a very low cost. According the Vietnam E-Commerce Association's (VECOM) 2012 report of e-commerce in Vietnam (based on a survey of 3,193 enterprises), about 42% of the surveyed enterprises have websites and 12% participate in e-commerce platforms; the quality of online business activities has also continuously increased, with 36% of websites now making provisions for online orders. In all, 20% of firms with an e-commerce platform have cited its high efficiency (VNE, 2013).

It is forecasted that the world economy as well as the economy of Vietnam will continue to face many difficulties in the short to mid-term. Enterprises must continue to find ways to reduce costs, maintain and expand markets, and improve their productivity and business performance. The promotion of e-commerce applications is a suitable direction for enterprises that wish to achieve these goals. In the next few years, e-commerce will continue to develop, with there being many forms of online business;

the number of e-commerce participants will greatly increase, pushing enterprises to focus more on the application of e-commerce to expand their market and provide customer care. At the same time, the provisions of convenient and secure methods of online payment will be not only vital to the success of banks but also to that of all enterprises that want to succeed in online sales.

Vietnam's e-commerce market, which totaled approximately US\$300 million in 2011, is expected to grow at an average rate of 75 percent per year between 2011-2015 to reach upwards of US\$2.8 billion by 2015 (VB, 2013). While this seems to be largely optimistic, Vietnam's e-commerce sector is still very fragmented, and has no clear market leaders in both the C2C and B2C e-commerce markets yet. No e-commerce company has reached a market share of more than 5 percent, which has left Vietnam's e-commerce market up for grabs to new entrants to the sector.

In addition, the growing affluence of Vietnamese consumers is reflected in the increased proliferation of high-tech products throughout the country. In total, 94% of the country's upper-class consumers now own PCs, and a staggering 97% own at least one mobile phone. Even within lower socioeconomic groups, over half of the population owns a mobile phone; this was not the case 10 years ago (AC Nielsen, 2008). Today, the Internet is widely available throughout Vietnamese towns and cities; the number of people using the Internet in Vietnam has grown to about 31 million, and is continuing to increase rapidly (VEX, 2013). The rapidly growing presence of the Internet, information technology, and mobile networks has created new opportunities and trends for virtual business, online business, and the promotion of the development of e-commerce.

Chapter 4 - A comparative study on consumers' retail outlet choice in Hanoi after five years of WTO

Abstract

This chapter analyzes the supermarket revolution in Vietnam by using a binary choice Probit model to compare consumer behaviour after 5 years of joining in the WTO (in 2006 and 2012). The results indicate a big change that consumers of processed food and beverage have been shifting to supermarkets from mom and pop stores, whereas traditional markets continue to dominate for fresh food. Consumers choose to shop at supermarket mainly due to the perception of food safety and fixed retail prices, whereas traditional markets focus on establishing good relationships to retain consumers. The key factors that previously attracted consumers to traditional markets, such as freshness, cheap prices, and convenient access no longer have a significant impact on consumers' choice of shopping outlets. This is mainly because supermarkets have won consumers' trust by their consistent endeavor to maintain freshness and offer stable prices while competing with traditional outlets. This study offers recommendations and implications for policymakers and business operators for the modernization of the food retailing system in Vietnam.

4.1 Introduction

In 2007, Vietnam became a member of the World Trade Organization, and it has since experienced rapid change in its retail industry. By early 2009, Vietnam had fully opened up its domestic retail market under its commitments to the WTO. This resulted in the entry of a wave of international retailers into the domestic market (e.g., Dairy Farm, FamilyMart, and AEON) in addition to the existing foreign players (e.g., METRO Cash & Carry, Casino Group, Parkson, and Lotte Mart). Thus, the Vietnam retail market entered a new phase of development with the rapid increase in the number of modern retail formats and changes in consumers' shopping behaviour with a shift towards these modern retailers. During the five years since 2007 (2007-2011), after Vietnam joined the WTO, there were 303 newly opened supermarkets, which is an increase of over 20 percent compared to the 251 supermarkets opened during the previous five years (2002–2006). During the same period, the number of newly opened shopping centers

increased by 72 percent, from 36 to 62 (MOIT, 2012b).

Rising consumer expenditure and changing market dynamics has caused the retail industry in Vietnam to expand rapidly from revenues of around VND 480.3 trillion (about USD 30.02 billion) in 2005 to approximately VND 2,325.5 trillion (about USD 111 billion) in 2012 (GSO, 2013). In 2012, the retail industry recorded a year-on-year increase of 16 percent in revenues (GSO, 2013). With this strong foundation, the value of retail sales is expected to surpass VND 4,770 trillion (about USD 238.5 billion) by 2015 (MOIT, Annual Report, 2012a).

Besides, the Vietnamese authorities have strongly encouraged the development of modern retail distribution outlets in the cities to address the perceived problems with food sanitation and safety (Cadilhon et al., 2006). Until 2005, about one decade after the introduction of supermarkets, modern distribution networks only accounted for less than 10% of the total product distribution in the country, while more than 90% of all products were still distributed through traditional channels (VNS, 2005b; Maruyama and Trung, 2007a, 2007b). However, according to the MOIT, these rates had currently changed to 20% for modern channels and 80% for the traditional channels in the entire country (MOIT, Annual Report, 2012a). The MOIT aims to raise the ratio of products distributed through modern channels to 40 percent by the end of 2020 (MOIT, Annual Report, 2012a). Hence, there has been a shift in business from traditional outlets to supermarkets and department stores. Modern retail channels, especially supermarkets and shopping centers, have been gradually changing the traditional distribution system—the bazaar-based system—and are expected to play a crucial role in the future growth of the retail industry and improve their market position.

Despite the rapid expansion of the supermarket system in Vietnam, there has been little academic research from the consumers' perspective. Many published studies have generated data from interviews with wholesalers, supermarkets, and suppliers (e.g.,

Venard, 1996; Cadilhon et al., 2006; Maruyama and Trung, 2012). Speece and Huong (2002) conducted the first case study from the consumers' perspective, with a sample size of 176 respondents, on the early development of modern retailing in Hanoi. Their study focused mainly on middle class consumers, and their results indicated that mini supermarkets had become an important part of the retail industry since their successful introduction in Vietnam. Meanwhile, Figuié and Moustier (2009) conducted a survey of food purchasing practices in Hanoi and analyzed the risks and benefits of supermarket development on poor urban consumers. They show that poor consumers in Hanoi depend on a diversified network of formal and informal outlets to ensure food accessibility, credit opportunities, and low prices, while material constraints impact their ability to purchase from supermarkets. Maruyama and Trung (2007a, 2007b) conducted the first studies on the links between consumer behaviour and preferences, and the development of particular kinds of markets as well as consumers' shopping behaviour, which involves barriers to the advancement of markets (traditional and modern markets). Based on a consumer survey conducted in Hanoi in 2006, Maruyama and Trung (2007a, 2007b) found that freshness, price, and convenience were key factors in consumers' choice of traditional outlets for fresh food, while price played a key role in the selection of shopping outlets for processed food, drinks, and nonfood items. These factors, in addition to consumers' shopping habits related to the purchase of fresh products in traditional markets, are major deterrents to the development of supermarkets.

However, to the best of author's knowledge, there has been no quantitative comparative or longitudinal study to examine changes in consumers' perspectives relating to traditional markets and modern retail outlets in Vietnam. This is the first empirical study on the supermarket revolution in Vietnam that compares consumers' shopping behaviour in Hanoi across two different years. The results of this study offer

recommendations and implications for policymakers and business operators.

4.2 Theoretical framework

Previous studies have highlighted the expansion of supermarkets and modern distribution in the food marketing systems of developing countries (i.e. Reardon et al., 2003, 2004; Trail, 2006). Supermarkets are increasingly expanding into smaller rural towns and taking market share from traditional retailers. This study examines traditional organized markets and supermarkets to explain the food retail system in Vietnam.

Consumer preferences for retail outlets are influenced by a combination of socioeconomic and geographic variables. Previous studies have shown the safety and freshness of perishable food to be important to ethnic communities (Goldman et al., 1999, 2002; Goldman and Hino, 2005; Maruyama and Trung, 2007a, 2007b, 2010). We can infer that the differences in freshness and food safety levels between traditional markets and supermarkets strongly impact consumers' retail outlet choices. Housewives may not buy fresh food from supermarkets based on their perception of these products not being as fresh as those at traditional markets. However, consumers who value safety may shop at supermarkets, where suppliers are subject to stringent quality control. Hence, we can state the following hypotheses:

H1. *Consumers are more likely to shop for fresh goods at traditional organized markets if they perceive that traditional markets offer a higher level of freshness.*

H2. *Consumers are more likely to shop for food products at supermarkets if they perceive that supermarkets offer a higher level of safety.*

Supermarkets are perceived as being clean, modern, and large retail outlets with facilities such as lighting, refrigeration, and air-conditioning that considerably raise their operating costs. They also have large budgets for advertising, branding, and customer

service. The resultant perception that supermarkets are more expensive strongly influences consumer preferences for traditional markets (Maruyama and Trung, 2007b). Accordingly, we present the following hypothesis:

H3. *Consumers who value lower prices are less likely to shop at supermarkets.*

Various socioeconomic factors affect consumer preferences for retail outlets. Many empirical studies have shown that consumers with higher incomes are more likely to shop at modern supermarkets owing to the higher opportunity cost of their time. Shopping at multiple traditional retail outlets is more time-consuming than one-stop shopping. In addition, having more storage space and transportation possibilities make for consumers need not make frequent shopping trips, which helps save their time (see, e.g., Betancourt and Gautschi, 1986, 1990; Goldman et al., 2002, Maruyama and Trung, 2007b). We can therefore expect the following:

H4. *Consumers with higher incomes are more likely to shop at supermarkets.*

On the other hand, Maruyama and Trung (2007b) showed that the relationship between buyers and sellers has a significant effect on consumer preferences for retail outlets. This relationship can be considered a guarantee of both price and quality of goods (as well as food safety) because the seller's focus is to satisfy and retain the customer. Hence, we can expect the following to be true:

H5. *Consumers who value strong relationships with sellers are more likely to shop at traditional organized markets.*

An integral part of Vietnamese culture, bargaining has long been considered one of the “arts of shopping” and is viewed as a contest between buyers and sellers. Customers who are better at bargaining obtain lower prices which make them feel like winners, and

are more likely to shop at traditional markets. On the other hand, customers who consider bargaining to be a waste of time are more likely to shop at supermarkets where prices are fixed. Hence, we should observe the following:

H6. *Consumers who do not prefer bargaining are more likely to shop at supermarkets.*

Consumers may also prefer shopping at retail outlets where they receive better service. Although supermarkets are self-service outlets, they usually have sales assistants to attend to customers. They address customers' requirements and offer information about products in an effort to aid purchasing decisions. In contrast, sellers at traditional markets may respond inappropriately when a customer complains or asks too many questions. This behaviour makes the customer uncomfortable, leading to a shift in preference in favor of supermarkets. Thus, we present the following hypothesis:

H7. *Consumers who value good service are more likely to shop at supermarkets.*

Geographical location may influence preferences for retail outlets as shoppers may prefer traditional markets that are conveniently located (Maruyama and Trung, 2007b). This study defines convenience as accessibility to the markets, and includes parking facilities and proximity to the workplace or commuting routes. In addition, due to the requirement of setting up a larger floor spaces shopping outlets, supermarkets usually located in suburban areas, which could be a drawback. If so, we should expect to observe the following:

H8. *The more importance consumers place on the convenience for shopping, the more likely of shopping at traditional markets.*

Furthermore, consumers who usually shop within a walking distance or travel by bicycle may be more likely to choose traditional markets. Shopping habits may differ between men and women, or younger and older consumers. Having little children may

also affect consumers' choice of retail outlets.

4.3 Research design and descriptive data

4.3.1 Research design

This study analyzes the shopping behaviour of Vietnamese consumers through a survey—conducted in the inner city of Hanoi in 2012—and then makes a comparison with the results of Hanoi in 2006 to study the change in their shopping habits. The data for 2006, taken from previous studies, were based on a consumer survey conducted by Maruyama and Trung (2007b and 2009) in Hanoi between March and April 2006. Subsequently, a questionnaire with the same content was administered over a two-week period in June 2012. The survey results illustrate current trends in consumer perceptions of supermarkets and traditional retail outlets.

In this survey, the questionnaires were sent out randomly to 1,200 inner-city households in Hanoi (including seven urban districts). The questionnaire was included instructions that it need to be answered by the family member responsible for household shopping. These questionnaires were distributed through the inner-city areas based on statistical data of residential distribution. A total of 613 questionnaires were returned, and after eliminating incomplete responses, 502 questionnaires were used for the analysis. The response rate in 2012 was quite high (about 42 percent) as compared to 2006 (about 21 percent) because the method of conducting this survey was improved (e.g., changing the format of the questionnaires to make it easier to answer, making it shorter by eliminating unnecessary parts, etc.), which evidently made it more effective. When the data was compared, we can observe that the distribution of respondents (i.e. final sample) represented the distribution of population (i.e. Hanoi inner city) (see Table 4.1). The sample of year 2006 too represented its population by household distribution (see Maruyama and Trung, 2009).

Table 4.1 Distribution of respondents and population of the study area

Urban distric	Final sample		Population	
	Number	%	Number	%
Ba Dinh	69	13.8	225910	13.9
Cau Giay	73	14.5	225643	13.9
Dong Da	98	19.5	370117	22.9
Hai Ba Trung	84	16.7	295726	18.3
Hoan Kiem	55	11.0	147334	9.1
Tay Ho	52	10.4	130639	8.1
Thanh Xuan	71	14.1	223694	13.8
Total	502	100	1619063	100

Source: Data of population distribution was taken from General Statistic Office of Vietnam – GSO, 2009

The first part of the questionnaire contained basic questions on socioeconomic and demographic factors, and the key survey items concerned proximity to stores, frequency of shopping, and perceptions of different retail formats. Consumers were asked to state the outlets from which they purchased three major types of products: (1) fresh food items (meat and poultry, fish, fruit and vegetables), (2) processed food and beverages (packaged food, canned food, frozen food, dry provisions, confectionery, alcoholic beverages, milk, tea, soft drinks and juice), and (3) non-food products (clothing, shoes, furniture, household appliances, toiletries, drugs, and electrical appliances). This study classified the retail outlets mentioned by the respondents into four types: traditional organized markets, frog markets, and mom-and-pop stores (traditional formats), and supermarkets (modern format).

This study also employs data from earlier studies, research reports, and statistical records for Vietnam. Furthermore, the author visited the main traditional organized markets and modern retail establishments in the inner city of Hanoi in June 2012.

4.3.2 Descriptive data

The analysis of the 2012 survey indicates that majority of the respondents were female

(about 78 percent), similar to the 2006 survey (85 percent). This is reflective of the fact that women in Vietnam are usually responsible for shopping and are the most influential within the household. In comparison with other Asian countries, Vietnam has the highest proportion of female shoppers (ACNielsen, 2004). This decline in the share of women responsible for shopping is attributable to the increasing trend of women joining the workforce. Over 80 percent of the respondents were employed (e.g., in government offices, state or private companies, representative offices of joint-venture companies, banking offices, schools, and universities or hospitals) while less than 20 percent were housewives, students, or small business owners. Thus, a significant majority of supermarket consumers have stable jobs in the formal sector (Nhieu et al., 2005).

Table 4.2 Demographic characteristics of respondents

Demographic characteristics of respondents	Hanoi 2006 (sample size = 413)		Hanoi 2012 (sample size = 502)	
	Number	%	Number	%
Sex: Male	63	15.3	110	21.9
Female	350	84.7	392	78.1
Age of respondents				
18 - 29	197	47.7	292	58.2
30 - 39	125	30.3	162	32.3
> 40	91	22.0	48	9.6
Average monthly income per family				
VND 2 mil. - 6 mil.	-	-	129	25.7
VND 6 mil. - 15 mil.	-	-	208	41.4
> VND 15 mil.	-	-	165	32.9
University graduated	-	-	430	85.6
Owning a motorbike	-	99	489	97.4
Owning a television	-	100	457	91.0
Owning a refrigerator	-	92	409	81.5
Owning a car	-	10	86	17.1

Source: Data for Hanoi 2006 were taken from Maruyama and Trung (2007a,b).

Table 4.2 describe some demographic characteristics of the respondents in this study. In general, the demographic characteristics of the respondents is slightly biased towards higher educated and younger households. It is expected that highly educated consumers would have a better perception not only about the traditional bazaar but also about the

modern retail format, which would enable them to respond in a more informed manner. In addition, young shoppers often prefer a clean environment, food safety, good service, fixed prices, and the availability of preprocessed and time-saving items, such as frozen and chilled foods. On the other hand, older consumers do not frequently shop outside their own neighborhoods because they prefer to physically examine the products and have little need to conserve time. Therefore, this sample clearly depicts the competition between the modern and traditional formats as well as their strengths and weaknesses.

4.4 Empirical results

Table 4.3 summarizes the types of retail outlets where consumers in Hanoi did most of their shopping in 2012. With respect to the purchasing behaviour for fresh food, 49.4% of the respondents indicated that they do most of their shopping at traditional organized markets. Buying fresh food at frog markets accounted for 38.6% of purchases, whereas only 9.4% of the respondents purchased fresh food regularly from supermarkets. As in 2006, over 90 percent of consumers do most of their shopping at traditional markets. However, the proportion of consumers who purchase fresh food at a frog market has almost doubled, from 20.1 percent in 2006 to 38.65 percent in 2012, while the proportion for organized markets decreased substantially from 73.4 percent in 2006 to 49.4 percent in 2012. In other words, there has been a “shift” in consumer preferences from the organized market to frog markets.

This change is attributed to two factors: the high inflation rate and the government’s program to rebuild organized markets. First, the rapidly increasing price in Vietnam in recent years (the so-called “price storm”), especially for fresh products, caused consumers to tighten their purchases. Hence, they are increasingly choosing to shift their purchases to frog markets where prices are lower because the sellers do not have to pay additional charges (such as stall rentals or management fees) as in an organized

market. Second, in an effort to upgrade and modernize the traditional organized market system, the Vietnamese government instituted a program to rebuild the organized market. Some old organized markets were relocated in the basements of tall buildings, where commercial centers are located on the first and second floors and rental offices on the upper floors. This attempted regeneration of the traditional market is expected to establish a modern and convenient retail model. By the end of 2012, the government rebuilt three big organized markets in Hanoi. However, this business model did not go well as was expected because of a lack of customers, which led to the exit of many stalls. There were few customers even during the traditional peak shopping hours (TPO, May 2012). The high cost of renting a stall in such commercial centers resulted in higher product prices; hence, consumers avoided these markets. Further, while the market was being rebuilt, the sellers found another spot for continuing their businesses, which led to the formation of small frog markets. The buyers became familiar with these frog markets and sellers found that their businesses were doing well; hence, many of them then did not want (nor did they need) to move again when the rebuilding of new markets was completed.

Table 4.3 Places where consumers do most of their shopping

	Hanoi 2006				Hanoi 2012			
	<i>Fresh food</i>		<i>Processed food & beverages</i>		<i>Fresh food</i>		<i>Processed food & beverages</i>	
Retail outlets	Number	%	Number	%	Number	%	Number	%
Frog markets	83	20.1	3	0.7	194	38.6	5	1.0
Organized markets	303	73.4	83	20.1	248	49.4	47	9.4
Supermarkets	27	6.5	119	28.8	47	9.4	357	71.1
Mom-and-pop stores			208	50.4	13	2.6	93	18.5
Total	413		413		502		502	

In the case of processed food and beverages, the majority of the respondents (nearly 72 percent) indicated that they do most of their shopping at supermarkets while mom-and-pop stores and organized markets were the less popular choices (about 18 and

9 percent, respectively). Compared with 2006, there is only a slight change in the percentage of Hanoi respondents who indicated that they make most of their purchases for fresh food at a supermarket, while purchases of processed food and beverages increased by about 2.5 times. The data indicate that although traditional organized markets still dominate the retail arena for fresh food products, it is evident that supermarkets are gradually gaining a significant position in this sector. In particular, the biggest change is that processed food and beverages are now distributed mainly through supermarkets rather than mom-and-pop stores.

In an attempt to explain such a change in the shopping behaviour of consumers in Hanoi within six years, the respondents were asked to grade the importance of factors (reasons) that influence their decisions in choosing retail outlets. In other words, these data were used to compare modern supermarkets with traditional organized markets in the case of fresh food, and with mom-and-pop stores in the case of processed food and beverages. The Probit model for binary choice was applied to provide a detailed analysis.

Table 4.4 summarizes the definition and descriptive statistics of the variables used in the empirical model for two cases: fresh food and processed food and beverages. Explanatory variables used in the empirical model include importance ratings for the following factors as presented in the theoretical framework: FRESH (or NEWGOODS), goods SAFETY, CHEAP price, keeping close relationship with USUALSELLER, CONVENIENCE, good SERVICE from the sellers, no need to bargain (NOBARGAIN), and INCOME. Some other variables that may influence a consumer's choice of a particular retail outlet for shopping are also added, such as some demographic variables (SEX, CHILD, and AGE), and the vehicles shoppers use (TRANSPORTATION).

Table 4.4 Definition and description of the variables used in the model

		Fresh food				Processed Food & Beverages			
		2006		2012		2006		2012	
Variable	Definition	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
FRESH	How important do you rate freshness? (From 1 to 5) Not important at all = 1, very important = 5	4.39	0.79	4.19	0.87				
NEWGOODS	How important do you rate the newness of produced goods? (From 1 to 5) Not important at all = 1, very important = 5					3.37	1.51	3.87	1.02
SAFETY	How important do you rate the safety of goods to your health? (From 1 to 5) Not important at all = 1, very important = 5	3.79	1.33	3.88	1.04	4.11	1.20	4.32	0.88
CHEAP	How important do you rate cheap prices? (From 1 to 5) Not important at all = 1, very important = 5	2.98	1.18	3.31	1.00	2.89	1.16	3.12	0.93
USUALSELLER	How important do you rate maintaining a close relationship with sellers? (From 1 to 5) Not important at all = 1, very important = 5	2.72	1.33	2.36	1.18	2.19	1.31	1.89	1.12
CONVENIENCE	How important do you rate convenience? (From 1 to 5) Not important at all = 1, very important = 5	3.60	1.16	3.53	1.00	3.35	1.20	3.15	0.96
SERVICE	How important do you rate the service given by sellers? (From 1 to 5) Not important at all = 1, very important = 5	3.09	1.28	3.24	1.02	3.22	1.33	3.17	1.10
NOBARGAIN	How important do you rate the absence of bargaining? (From 1 to 5) Not important at all = 1, very important = 5	2.72	1.34	2.79	1.34	3.51	1.30	3.31	1.11
INCOME	Monthly average income in your family in VND by 2006 Per person: 0.5 to 1.5 mil. = 1, from 1.5 to 2.5 mil. = 2, more than 2.5 mil. = 3 2012 Total family: less than 6mil. = 1, from 6 to 15 mil. = 2, more than 15 mil. = 3	1.74	0.75	2.10	0.77	1.74	0.75	2.09	0.76
SEX	Female = 0, male = 1	0.15	0.36	0.20	0.40	0.15	0.35	0.21	0.41
CHILD	Are there any children aged younger than 6 in your family? Yes = 1, otherwise = 0	0.40	0.49	0.34	0.47	0.42	0.49	0.34	0.47
AGE	Age of the respondent: Less than 30 = 1, between 30 and 40 = 2, more than 40 = 3	1.74	0.80	1.53	0.68	1.72	0.78	1.52	0.66
TRANSPORTATION	What mode of transportation do you use to go shopping? On foot or bicycle (simple means) = 0, otherwise (motorbike) = 1	0.53	0.50	0.66	0.48	0.74	0.44	0.80	0.40

Note: Not important at all = 1, not really important = 2, important = 3, quite important = 4, very important = 5
Results for 2006 were taken from Maruyama and Trung (2007).

Table 4.5 Results from the Probit binary choice model

Variable	Expected sign of hypotheses	Fresh food		Processed Food & Beverages	
		Dependent variable		Dependent variable	
		= 1 if shopping at organized markets = 0 if shopping at supermarkets		= 1 if shopping at <i>mom & pop</i> stores = 0 if shopping at supermarkets	
		Coefficient		Coefficient	
		2006	2012	2006	2012
FRESH	H1 +	0.45**	0.03		
NEWGOODS				- 0.004	- 0.20*
SAFETY	H2 -	- 0.46*	- 0.87***	- 0.15**	- 0.09
CHEAP	H3 +	0.30**	0.07	0.22***	0.03
USUALSELLER	H5 +	0.76***	0.33**	0.32***	0.15*
CONVENIENCE	H8 +	0.32**	0.09	0.05	0.20**
SERVICE	H7 -	0.18	- 0.38**	- 0.05	- 0.14
NOBARGAIN	H6 -	- 0.42***	- 0.89***	- 0.18***	- 0.21**
INCOME	H4 -	- 0.44**	- 0.15	0.04	- 0.09
SEX		0.23	- 0.61*	- 0.16	0.53***
CHILD		0.55	- 0.02	0.20	- 0.02
AGE		0.06	0.06	0.06	0.06
TRANSPORTATION		- 1.31***	- 1.67***	- 0.44***	- 1.64***
CONSTANT		0.54	4.40	0.43	0.38
Log likelihood		- 35.52	- 52.91	- 173.08	- 148.82
Number of observations		330	281	327	439
LR chi ² (12-14)		115.87	134.67	82.64	147.75
Prob > chi ²		0.0000	0.0000	0.0000	0.0000
Pseudo R ²		0.62	0.56	0.19	0.33
Percent correctly predicted		98.20	98.23	85.58	86.48

Note: ***, **, and * indicate coefficients are significant at the 0.01, 0.05, and 0.1 levels, respectively.

Results for 2006 were taken from Maruyama and Trung (2007).

Table 4.6 The correlation matrix for independence variables in the Probit model

	FRESH / NEWGOODS	SAFETY	CHEAP	USUALSELLER	CONVENIENCE	SERVICE	NOBAGAIN	INCOME	SEX	CHILD	AGE	TRANSPORTATION
FRESH / NEWGOODS	1.000											
SAFETY	0.379	1.000										
CHEAP	0.181	0.126	1.000									
USUALSELLER	0.116	0.074	0.201	1.000								
CONVENIENCE	0.129	0.063	0.182	0.205	1.000							
SERVICE	0.278	0.165	0.134	0.281	0.232	1.000						
NOBAGAIN	0.060	-0.029	0.392	0.287	0.094	0.157	1.000					
INCOME	0.138	0.042	-0.061	-0.004	0.119	0.048	-0.077	1.000				
SEX	-0.243	-0.019	-0.055	-0.097	-0.128	-0.123	-0.094	-0.099	1.000			
CHILD	0.111	0.062	-0.086	-0.088	0.114	0.004	-0.095	0.337	-0.058	1.000		
AGE	0.086	0.124	-0.078	0.014	0.068	-0.029	-0.094	0.238	-0.046	0.219	1.000	
TRANSPORTATION	0.028	0.097	-0.071	-0.029	-0.063	-0.023	-0.144	0.162	0.051	0.056	0.095	1.000

Stata (V10.0) was used to estimate the coefficients of the Probit model, and the results are reported in Table 4.5. The Chi-square test statistic and pseudo R-square showed that the model is highly significant.

In the case of fresh food, we can easily see that there is no change in the negative and significant coefficients of SAFETY and NOBARGAIN, nor in the positive significant coefficient of USUALSELLER for Hanoi data from 2006 to 2012. These findings imply that up to now, a high level for the safety of goods and not having to bargain are the main factors shifting consumers to supermarkets for fresh food, while keeping good relations with sellers is considered an important characteristic in retaining consumers of fresh food at traditional organized markets. Particularly, the negative significance of SAFETY and NOBARGAIN implies that consumers who are highly concerned about the safety aspect of goods would be less likely to shop at traditional organized markets, whereas consumers who do not like bargaining would be more likely to shop at supermarkets. Thus, both sets of Hanoi data from 2006 and 2012 support H2 and H6. In other words, goods safety and not having to bargain are still important factors that attract consumers to supermarkets. Nonetheless, the positive significance of USUALSELLER for the data from both 2006 and 2012 implies that consumers find good relations with sellers to be important when choosing to shop at traditional organized markets. Intuitively, a regular buyer at traditional markets often builds relationships with certain sellers and these relationships can be considered a guarantee for not being cheated on weight, as well as receiving a competitive price and a higher quality of goods (or goods safety) because the sellers try to make sure buyers are satisfied so that they will return. Thus, H5 is supported. Finally, the negative sign for TRANSPORTATION in both datasets suggests that consumers who go shopping using auto-vehicles for transport (motorbike or automobile) are more likely to choose supermarkets.

The positive significance of FRESH, CHEAP, CONVENIENCE, and the negative significance of INCOME in 2006 may show that a consumer with a higher level of concern regarding freshness, cheap prices, and convenience would be more likely to choose shopping at traditional organized markets, whereas consumers who have higher levels of income would be more likely to shop at supermarkets. Therefore, Hanoi data in 2006 support H1, H3, H4, and H8. However, the insignificance of these factors in 2012 implies that these four hypotheses are no longer supported. In other words, freshness, cheap prices, and convenience—which were the key significant factors attracting consumers to traditional organized markets (Maruyama and Trung, 2007b) in the past—are now not significant in shaping consumers’ preference of shopping outlets. This is mainly because supermarkets have won consumers’ trust by their consistent endeavor to maintain freshness and offer stable prices while competing with traditional outlets. As a result, supermarkets are no longer perceived as places for people with high incomes.

In addition, the coefficients for SERVICE and SEX are also significant for 2012, but not for 2006. The negative sign for SERVICE means that consumers who are interested in service would be more likely to shop at supermarkets, while the negative sign for SEX suggests that it is more likely that men will buy fresh food at supermarkets. This is intuitively correct, since a man is usually weak at bargaining required when shopping at traditional markets. Hence, the data for 2012 support H7. Only CHILD and AGE did not appear to be important in the choice between organized markets and supermarkets in both datasets.

In terms of processed food and beverages for both years, NOBARGAIN is significantly negative while USUALSELLER is significantly positive. This means that it is more likely that a consumer who considers bargaining a waste of time or dislikes it would shop at supermarkets while consumers who prefer to maintain good relations

with sellers would shop at traditional organized markets. Hence, our data support H5 and H6. The variable TRANSPORTATION also shows a significant and negative effect in both of these cases, suggesting that consumers are less likely to select supermarkets for processed food and beverage items if they use a simple means of transportation to go shopping. These findings stress that using auto-vehicles for transportation and not having to bargain are the key factors that have always attracted consumers to shop at supermarkets.

Similar to the case of fresh food, the variable CHEAP appears to be significantly positive for the year 2006 and insignificant for the year 2012, implying that our H3 is supported by the data for 2006 but not for 2012. This emphasizes that lower prices are no longer the strong point in attracting consumers going to mom-and-pop stores for processed food and beverage items. In addition, the appearance of CONVENIENCE instead of SAFETY with a positive sign from the data for 2012 compared with the 2006 data indicates that consumers are no longer as concerned about safety when purchasing processed food and beverage items as they used to be but pay more attention to convenience. This is intuitively correct as processed food and beverage products are usually produced by well-known companies and, therefore, the quality (including safety) as well as the price is uniform. Hence, consumers tend to shop for these items at easily accessible outlets. Finally, the negative significance of NEWGOODS in 2012 means that the novelty of produced goods has become a strong point for supermarkets in attracting consumers in recent years. Hence, supermarkets can now attract more women, who are careful when purchasing processed food products, as indicated by the positive sign of SEX. Service of sales personnel (SERVICE), having small children in respondent households (CHILD), and the age of respondents (AGE) were not found to have much impact in this model. Interestingly, INCOME does not have a significant effect on consumers' choice in either year.

4.5 Discussion

The shopping patterns and street life of Vietnamese consumers are changing as the country rapidly modernizes. The growth of supermarkets is accompanied by the closing of many traditional markets and bans on street vendors. Supermarkets offer a clean and convenient shopping environment with longer hours, diverse products, better hygiene, free parking spaces, and fixed prices; in addition, buyers are not cheated by falsified weight measurements. The cold storage systems allow supermarkets to retain the freshness of their products, whereas at traditional markets, fresh goods are only available early in the morning. Therefore, supermarkets appeal to young shoppers and office-going consumers, who do not have the time to shop early in the morning.

Despite the growth of supermarkets, traditional markets retain an important position in Vietnam; consumers prefer to physically examine the fresh food products they purchase. Previously, consumers shopped at traditional organized markets as they offered fresher products, lower prices, and convenience; further, an established relationship with sellers protected consumers from being cheated (Maruyama and Trung, 2007b). However, the situation is changing with the recent high inflation rate in Vietnam. Prices at traditional markets, especially for food, are increasing daily; while supermarkets can maintain stable prices because of their negotiating power with suppliers and long-term supply contracts. In addition, supermarket chains benefit from economies of scale that allow them to reduce their costs, and therefore, further reduce prices. Furthermore, supermarkets can compete with traditional organized markets by maintaining the freshness of their food, superior technology, stringent quality, packaging, and storage systems. There is no doubt that supermarkets have won consumers' trust by their consistent endeavour to maintain freshness and offer stable prices, as reflected in consumers' high evaluations, which was shown in Table 4.7.

Table 4.7 Evaluations of market performance

	Evaluation of Supermarkets (mean)		Evaluation of Organized Markets (mean)	
	2006	2012	2006	2012
	413	502	413	502
Sample size				
Elements				
Variety of product lines	3.70	3.75*	3.65	3.5
Air conditioning	3.70	3.75	-	-
Cold storage	3.67	3.59*	2.7	2.46
Product variety	3.60	3.65*	3.48	3.35
Quality of merchandise	3.56	3.45*	3.33	2.88
Product display	3.51	3.48*	2.89	2.80
Location	3.42	3.40*	3.19	3.11
Scale	3.40	3.53*	3.18	3.03
Parking facilities	3.29	3.43*	2.81	2.58
Service	3.25	3.26*	3.11	2.82
Advertisement and promotion	3.23	3.52*	2.62	2.62
Checkout	3.12	3.16	-	-
Reputation (honesty of sellers)	3.07	3.34*	2.86	2.62
Distance (density of supermarkets)	2.99	3.15*	3.34	3.49
Price level	2.94	3.21*	3.20	2.93
Freshness	2.70	3.25	3.68	3.30
Return and adjustment policy	2.63	2.88*	2.39	2.35

Note: Scale from 1 to 5: 1 = very bad, 2 = bad, 3 = normal, 4 = good, 5 = very good. To compare whether the means of each element for evaluation of Supermarkets and Organized markets are the same or different, a two-tail t-test was conducted and the * mean there is a significant difference for these elements between the evaluation of Supermarkets and Organized markets at the 5% level for the 2012 data.

It is impressive that the evaluations for the “Price level” and “Freshness” in the supermarkets and organized markets are now almost the same, and even that the “price level” in supermarkets is considered to be better than in organized markets. Therefore, consumers are not pay much attention to these factors in their shopping outlets choice. This explains why FRESH and CHEAP no longer has a significant effect in shaping consumer preferences for traditional outlets in 2012.

The analysis also indicates that traditional organized markets are sustained by consumers’ long established habit of purchasing fresh products from sellers with whom they have developed a relationship. Consumers depend on this relationship for an

assurance of lower prices, product quality, and not being cheated.

The data indicate that the traditional market is no longer the major distribution channel for food and beverages. Although traditional organized markets still play a major role in distributing fresh goods, supermarkets are now the main channel for processed food and beverages, especially in big cities. This is the result of rapid economic growth and technology development, as well as government policies for modernizing the country's retailing system. As part of its efforts to modernize the retail market system in Vietnam, the MOIT approved the "Plan for development of the supermarket systems, shopping centers throughout the country up to 2020 and vision to 2030" in October 2012. Accordingly, about 1,200 to 1,300 supermarkets will be established across the country by 2020, which is an increase of 585–695 supermarkets as compared with 2011.

Chapter 5 - Where to Shop and How to Shop: Bivariate Probit Analysis of Vietnamese Consumer

Abstract

The shopping frequency of Vietnamese consumers for fresh food is extremely high. They shop almost daily, and the majority of them do most shopping for fresh food at traditional outlets (organized bazaars, mom and pops stores, and informal markets), despite the recent growth of supermarkets. This preference for shopping at traditional outlets may closely relate to the high shopping frequency of Vietnamese consumers in the way that consumers who choose to shop at traditional outlets may shop more frequently for smaller quantities due to the higher importance of freshness, while consumers who choose to shop at supermarkets may shop less frequently in large quantities to save time. To examine this issue empirically, the bivariate ordered probit model was used to analyze the factors that influence consumers' store choice and shopping frequency based on data from a consumer survey collected from Hanoi and Ho Chi Minh City. The empirical results show that there is a degree of dependence between the two variables: where to shop, and how to shop. The results also indicate that freshness and distance play an important role in shaping the high shopping frequency, and distance, trip costs, and retail services have a significant impact on consumers' store choice.

5.1 Introduction

The Vietnamese consumer shops for fresh food at an 'extremely high' frequency. The Vietnamese consumers' near-daily habit of purchasing small quantities of fresh food frequently at traditional organized bazaars is a long-held custom, since they live in a scarce and traditional economy (Venard, 1996). According to the discussion with many respondents when the author was collecting data for this study, many Vietnamese consumers did not use refrigerators to store perishable vegetables for more than a day, and they have not purchased fresh food from supermarkets in the past, given their traditional perception that refrigerated products are not fresh.

However, in the light of economic development, the change in consumers' shopping behaviour has also influenced modern distribution in big cities, contributing to the change in structure of the Vietnamese retail distribution system. Big

supermarkets—with modern infrastructure, diverse products, stable prices, good quality, and attractive promotions—have appealed to consumers who have been discontented with small traditional outlets, characterized by fragmented retail sales, unstable prices, and low-quality goods. This has been attested by a consumer survey done by AC Nielsen-Vietnam in November 2008, which showed that Vietnamese consumers now prefer to shop at modern retail centers rather than traditional markets (CLI, 2010). Another survey conducted by Saigon Marketing Newspaper in 2008 revealed that around 50% of the consumers in Ho Chi Minh City were purchasing goods from supermarkets whereas only 15% bought products from traditional markets (CLI, 2010). Modern retail markets offer greater convenience with longer working hours, diverse products, better hygiene, and fixed prices. According to a survey administered to 800 households in HCMC by Saigon Co.op, food safety was the priority for 98 percent of consumers, while 89 percent were price-conscious consumers (TST, 2011).

While higher incomes and the diffusion of high-performance refrigerators led households to keep fresh food for daily meals under cold storage, reducing their trips to market, Vietnamese consumers, however, still do their shopping for fresh food very frequently at traditional markets. Traditional markets still continue to hold an important position in Vietnam, with a large consumer base, despite the recent expansion of supermarkets as consumers prefer to physically examine fresh goods (Cadilhon et al., 2002). Further, the longstanding relationships between buyers and sellers in traditional markets present the biggest hurdle in the expansion of the modern retail sector in Vietnam (VEF, 2012).

There have been very few academic studies relating to the typical characteristics of the high shopping frequency of Vietnamese consumers, especially from the consumers' viewpoint. McDonald et al. (2000) conducted a survey on Hanoi consumers' reaction to the introduction of supermarket in Vietnam. Their results indicated that Hanoi

consumers have reacted positively to supermarkets, but consistently exhibit an inefficient pattern of frequent visits (often more than three times per week), but low purchases (average 2.9) on each occasion. Meanwhile, Jensen and Peppard (2007) studied food-buying habits in Hanoi based on a consumer interviewed survey. Their study descriptively showed that Hanoi consumers shopped so frequently at market (average once a day) and from street vendors (every other day) and less frequent at supermarket (about once a week). However, their study focused mainly on roving street sellers and their threats which come from the government banning policy rather than make clear the reasons for such frequently food-buying habits of Hanoi consumers. Maruyama and Trung (2009) studied this issue based on a consumer survey conducted in Hanoi in 2006. Using the probit model, they analysed the factors that influence consumers' shopping frequency without taking into account the consumers' preferences for shopping outlets, a factor that might have a strong impact on shopping frequency. That is, it is likely that consumers who choose to shop at traditional markets may shop more frequently and in small quantities, while consumers who choose to shop at a supermarket may shop less frequently and purchase large quantities to save time. The primary purpose of this study is, therefore, to provide a basic model to analyse the factors influencing both consumers' shopping frequency and their retail outlet choice based on quantitative consumer survey data from Hanoi and Ho Chi Minh City (HCMC)—the same survey conducted among Hanoi consumers in previous studies by Maruyama and Trung (2007 and 2009), using the bivariate ordered probit model. Then this study results are compared with the results from previous studies to find the changes taking place in Vietnamese consumers' habits relating to retail outlet choice and shopping frequency, as well as the reasons behind these changes.

5.2 Theoretical framework and hypotheses

In accordance with previous studies, we employ a theoretical framework in which each consumer chooses the shopping frequency that will minimize shopping costs.¹⁰ Assume that the consumer's shopping cost includes the cost of the shopping trip and an inventory cost at home.

5.2.1 How to shop: Determination of optimal shopping frequency

Suppose that a consumer's shopping cost is composed of a shopping trip cost and an inventory cost at home. Denote the distance from the retail outlet as l , the shopping trip cost of a unit distance as t , and the number of shopping trip to the outlet in a week (shopping frequency) as x . Then the consumer's shopping trip cost is $2tlx$. Denote the quantity of purchase in a week as q , then the quantity of purchase per one shopping trip is q/x . If this quantity is used evenly by the shopper, the average quantity of the good on hand at home is $q/(2x)$. Denoting the inventory cost per one unit of the good at home as c , the inventory cost at home is given by $cq/(2x)$. If the good is kept on hand, the freshness will diminish at a rate of f for one unit of good. Thus the consumer's shopping cost can be expressed with the following function

$$C_h = 2tlx + \frac{(c+f)q}{2x}$$

where we assume that t and c are constant.

The consumer decides the frequency of shopping x by minimizing this shopping cost function C_h . From the first order condition, we can determine the optimal shopping frequency of consumer with the following formula:

$$x^* = \sqrt{\frac{(c+f)q}{4tl}} \quad (1)$$

Substituting this into the consumer's shopping cost function, we have

¹⁰ See for example, Reinhardt (1976), Lenten et al. (1981), Bacon (1984), and Maruyama and Trung (2009).

$$C_h = 2\sqrt{(c+f)qtl} \quad (2)$$

In the light of equation (1) we have the following result.

Proposition 1:

Equation (1) shows that if the diminishing rate of freshness f and the inventory cost at home c are large, trip cost t is small or the distance from home to the outlet is close (l is small), the shopping frequency will be increase.

Hence, we can derive the following theoretical hypotheses relating to consumers' shopping frequency (how to shop).

- H1:** The higher the consumers rate freshness as an important factor, the more frequently they are likely to shop.
- H2:** The closer the traditional markets are for shopping from home, the more frequently consumers are likely to shop.
- H3:** Households that have large inventory costs at home are likely to shop more frequently.
- H4:** Households that have low shopping trip costs are likely to shop more frequently.

5.2.2 Where to shop: Determinants of consumer store choice

The consumer store choice is examined by using a new variant of the circular city model as in Salop (1979). Suppose that consumers are distributed on a circle of radius L with an equal density 1. Consumers are homogeneous except for the difference of their location. In this section, we derive the consumer's shopping cost function given by the equation (2). For the sake of simplicity, we will use the linear approximation of it, which is specified as follows:

$$C_h = 2\sqrt{(c+f)qtl}.$$

There are two types of retailers. There are many small neighbourhood retailers (traditional retailers) serving a local market, the number of these retailers is denoted by

n , and it is assumed that these retailers are distributed on a circle with an equal length of distance $(2\pi L/n)$ from each other. Additionally we assume that a large-scale supermarket exists in the center of a circle. Let c_s and F_s denote the average cost and fixed cost for the small retailers, respectively, which are same among the small retailers. Let c_L and F_L denote the average cost and fixed cost for a large-scale supermarket, where it is assumed that

$$c_s > c_L \text{ and } F_s < F_L.$$

The large-scale supermarket provides several kinds of retail service which is evaluated by consumers. The consumer's valuation of retail service is denoted by v . Each consumer decides to purchase from the shop which minimizes the sum of the shopping costs and the retail (net) price (i.e., retail price minus the consumer's valuation of retail service).

We will consider the competition among a large-scale supermarket and small retailers by using the non-cooperative pricing game. That is, we suppose that the large-scale supermarket and small-scale retailers set independently and simultaneously their own retail price, given the others' retail prices. The Nash equilibrium of this game can be given as follows.

If the i -th small retailer sets its retail price p_i , given that the other small retailers set an equal price p and the large-scale supermarket sets p_L , then the sales quantity of i -th retailer is $Q_i = q(2l)$, where $2l$ is the market area for i -th retailer, which is given by

$$p_i + 2\sqrt{(c+f)qt}l = p_L - v + 2\sqrt{(c+f)qt}L,$$

that is,

$$2l = \frac{p_L - v - p_i + 2\sqrt{(c+f)qt}L}{\sqrt{(c+f)qt}}.$$

See Figure 1. In this figure, i -th retailer located at S_i . The distance from a large-scale

store L is the radius of a circle.

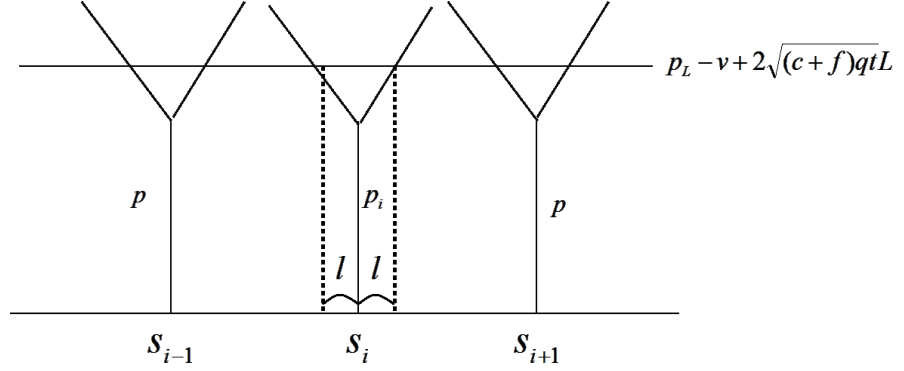


Figure 1. The market area $2l$ for i -th retailer S_i

Now we assume that

$$c_L - v + 2\sqrt{(c+f)qt}L > c_s.$$

Then for each retail price set by a large-scale supermarket $p_L (> c_L)$ the small retailer can select each retail price $p_i (> c_s)$ which yields a positive market area $2l$ for each small retailer. Hence we can confine our analysis to the case where $2l$ is positive.

The consumers who located in the neighbourhood of the i -th small retailer decide to purchase from the small retailer. Then the i -th retailer maximizes its profit

$$\pi_i^d = (p_i - c_s)Q_i - F_s = 2(p_i - c_s)ql - F_s$$

with respect to the retail price p_i , given the others' retail prices. From the first-order condition for maximization, it follows that

$$p_i = \frac{(p_L + 2\sqrt{(c+f)qt}L - v + c_s)}{2}. \quad (3)$$

In the following we assume that each small retailer sets an equal price ($p_i = p$ for any i).

The large-scale supermarket maximizes its profit

$$\pi_L^d = (p_L - c_L)Q_L - F_L = (p_L - c_L)(2\pi L - 2ln)q - F_L$$

with respect its price p_L , given the others' retail prices. Q_L is the quantity of sales of

the large-scale supermarket. From the first-order condition it follows that

$$p_L = \frac{\pi L \sqrt{(c+f)qt}}{n} + \frac{c_L + v + p_i - 2\sqrt{(c+f)qt}L}{2}. \quad (4)$$

Solving the equations (3) and (4) for p and p_L , the small retailer's price is given by

$$p = \frac{2\pi L \sqrt{(c+f)qt}}{3n} + \frac{2\sqrt{(c+f)qt}L - v + c_L + 2c_s}{3}, \quad (5)$$

and the price of large-scale supermarket is given by

$$p_L = \frac{4\pi L \sqrt{(c+f)qt}}{3n} + \frac{v - 2\sqrt{(c+f)qt}L + 2c_L + c_s}{3}. \quad (6)$$

From the equations (5) and (6) we can see that both retail prices are decreasing when the number of small retailers is becoming large.

From the equations (5) and (6) the profit of small retailer is given by

$$\pi_i^d = \frac{q}{\sqrt{(c+f)qt}} \left(\frac{2\pi L \sqrt{(c+f)qt}}{3n} + \frac{2\sqrt{(c+f)qt}L - v - (c_s - c_L)}{3} \right)^2 - F_s. \quad (7)$$

By setting $\pi_s^d = 0$ in the equation (7), the number of small retailers is given by

$$\bar{n} = \frac{2\pi L \sqrt{(c+f)qt}}{3\sqrt{F_s} \sqrt{\frac{(c+f)t}{q}} + v - 2\sqrt{(c+f)qt}L + (c_s - c_L)}.$$

Using the equations (5) and (6), the equilibrium total sales of small retailers

$Q_s = \sum_i Q_i$ and a large-scale retailer Q_L are given by

$$Q_s^* = \frac{2\pi L q}{3} + \left[\frac{2\sqrt{(c+f)qt}L - v - (c_s - c_L)}{3\sqrt{(c+f)qt}} \right] nq \quad \text{if } 0 < n < \bar{n}, \quad (8)$$

$$Q_L^* = \frac{4\pi L q}{3} - \left[\frac{2\sqrt{(c+f)qt}L - v - (c_s - c_L)}{3\sqrt{(c+f)qt}} \right] nq \quad \text{if } 0 < n < \bar{n}. \quad (9)$$

The average distance of the shoppers to small retailers is given by $D \equiv \pi L / (2n)$. Hence it can be seen that given the distance to a supermarket L , if the number of small

retailers n increases, then small retailers become closer for shoppers. Then we can show that

$$\frac{\partial Q_s^*}{\partial D} = \frac{\frac{\partial Q_s^*}{\partial n}}{\frac{\partial D}{\partial n}} = - \left[\frac{2\sqrt{(c+f)qt}L - v - (c_s - c_L)}{3\sqrt{(c+f)qt}} \right] \frac{2n^2}{\pi L} q < 0$$

$$\Rightarrow D \downarrow \rightarrow Q_s^* \uparrow, \text{ and}$$

$$\frac{\partial Q_s^*}{\partial v} = \frac{-nq}{3\sqrt{(c+f)qt}} < 0 \Rightarrow v \uparrow \rightarrow Q_s^* \downarrow.$$

The comparative statics with respect to the parameters c, f, t are somewhat complicated, but we can show that

$$\frac{\partial Q_s^*}{\partial c} = \frac{\partial Q_s^*}{\partial f} = \frac{(v + c_s - c_L)nt\sqrt{q}}{6(\sqrt{(c+f)t})^3} > 0 \Rightarrow c \uparrow \rightarrow Q_s^* \uparrow, Q_L^* \downarrow, \text{ and}$$

$$f \uparrow \rightarrow Q_s^* \uparrow, Q_L^* \downarrow,$$

$$\frac{\partial Q_s^*}{\partial t} = \frac{(v + c_s - c_L)n(c+f)\sqrt{q}}{6(\sqrt{(c+f)t})^3} > 0 \Rightarrow t \uparrow \rightarrow Q_s^* \uparrow, Q_L^* \downarrow.$$

It follows that the following Proposition.

Proposition 2:

Comparative statics shows that if the diminishing rate of freshness f is small, the distance from supermarket L is small, the inventory cost at home c is small, and trip cost t are low, or the valuation of service provided by supermarket v is large, the market share of supermarket will increase.

Hence, we can derive the following theoretical hypotheses relating to consumer's retail outlet choice (where to shop).

H5: The higher the consumers rate freshness as an important factor, the more likely they are to shop at traditional retailers.

- H6:** The closer the traditional retailers are for shopping, the more likely customers are to shop at traditional retailers.
- H7:** Households that have low inventory costs at home are more likely to shop at supermarkets.
- H8:** Households that have high trip costs are more likely to shop at traditional retailers.
- H9:** The higher the consumers rate retail service as an important factor, the more likely they are to shop at supermarkets.

However, it can be argued that the Vietnamese consumers' characteristic frequent shopping trips at traditional retailers is probably due to other factors, including quantity purchased per trip, transportation means, and some demographic variables such as income, age, family size (number of members in the family), or whether or not there are children in the family. Thus, we will test above hypotheses by using an empirical model including these other factors.

5.3 Data and variables

To obtain information on the consumers' shopping frequency and retail outlet choice, a detailed consumer survey was conducted in HCMC in May 2011 and in Hanoi in June 2012. Hanoi and HCMC are the two biggest and most developed cities in Vietnam and modern retail outlets, such as department stores and supermarkets, were therefore first launched in these centres. Thus, the author chose to survey at these two cities with the expectation that consumers in these two cities would have better experiences and better perception not only about traditional bazaar but also modern retail format in order to make it possible for them to give more highly informed answers. The questionnaires were sent out randomly to 1,200 inner city households of each city based on statistical data of residential distribution. A total of 1,208 questionnaires were returned, and after eliminating incomplete survey questionnaires, the remaining 950

(466 questionnaires of HCMC and 484 questionnaires of Hanoi) complete and consistent questionnaires were used as a sample for Vietnam. It is asked that the questionnaire be answered by the family member who is the most responsible for shopping for the family; thus, the sample is biased towards females.

Table 5.1 Shopping frequency for fresh food in Vietnam

Shopping Frequency	HCMC (2011)		Hanoi (2012)	
	Number	%	Number	%
Everyday	138	29.6	177	36.6
5-6 times	72	15.5	68	14.0
3-4 times	131	28.1	132	27.3
2 times	78	16.7	57	11.8
Less than 2	47	10.1	50	10.3
	466	100.0	484	100.0

Source: Our original consumer surveys conducted in HCMC in May 2011 and in Hanoi in June 2012.

With respect to the number of times per week shoppers go to buy fresh food, there is a high shopping frequency for Vietnamese consumers, with almost half of the respondents (45.1 per cent in HCMC and 50.6 per cent in Hanoi) indicating that they shop at least five times a week. About 27 per cent of respondents in Hanoi and 28 per cent of respondents in HCMC indicated that they shop three to four times a week. Less than 27 per cent of the respondents indicated that they shop no more than twice a week (26.8 per cent in HCMC and 22.1 per cent in Hanoi) (see Table 5.1).

The bivariate ordered probit model was selected for the empirical analysis in order to investigate the high shopping frequency for fresh food related to store choice. Explanatory variables and the sample statistics included in the bivariate ordered probit model are presented in Table 5.2. The explanatory variables used in the empirical model include *DISTANCE* from home to fresh food outlets, owning a *REFRIGERATOR*, transportation means (*ONFOOT*), and importance ratings for factors such as the level of *FRESHNESS* of purchased items and retail *SERVICE*. We also added some other

variables which may influence consumer decision-making regarding the choice of shopping frequency, that is, the factor of *INCOME*, *FAMILY* size, *QUANTITY* purchased per shopping trip, as well as some other demographic variables including *CHILD* and *AGE*, as presented in the theoretical framework.

Table 5.2 Variable definition and sample statistics

Variable	Definition	Mean	SD
FRESHNESS	What is your importance rating for the factor of freshness? (From 1 to 5) ⁽¹⁾ Not important at all = 1, very important = 5	4.33	0.87
DISTANCE	How far is it from your house to the outlets for fresh food? (From 1 to 5) Less than 200m = 1, 200m-1km = 2, 1- 2km = 3, 2-5km = 4, more than 5km = 5	1.99	0.79
REFRIGERATOR	Does your family have a refrigerator? Yes = 1, No = 0	0.87	0.33
AGE	Age of the respondent	30.54	8.56
INCOME	Monthly average income in your family in Vietnamese dong (VND): Less than 2 mil. = 1; from 2 to 4 mil. = 2; from 4 to 6 mil. = 3; from 6 to 10 mil. = 4; from 10 to 15 mil. = 5; more than 15 mil. = 6	4.49	1.39
CHILD	Does your family have any children below 6 years of age? Yes = 1, No = 0	0.36	0.48
FAMILY	Total number of members in the family (continuous variable)	3.40	1.60
QUANTITY	How many days do you often use for each time you buy? One day or less = 1, 2 days = 2, 3-5 days = 3, 6-7 days = 4, more than 7 days = 5	1.75	0.90
Retail SERVICE	What is your importance rating for the factor of service of salesman? (From 1 to 5) ⁽¹⁾ Not important at all = 1, very important = 5	3.26	1.00
ONFOOT	What kind of transportation do you use to go shopping? On foot = 1, otherwise = 0	0.32	0.47

Note: Not important at all = 1, not really important = 2, important = 3, quite important = 4, very important = 5

Table 5.3 The correlation matrix for independence variables in the model

	FRESHNESS	DISTANCE	REFRIGERATOR	AGE	INCOME	CHILD	FAMILY	QUANTITY	SERVICE	ONFOOT
FRESHNESS	1.000									
DISTANCE	0.051	1.000								
REFRIGERATOR	0.195	0.043	1.000							
AGE	0.086	0.019	0.098	1.000						
INCOME	0.131	0.111	0.146	0.226	1.000					
CHILD	0.071	0.038	0.059	0.095	0.291	1.000				
FAMILY	0.051	-0.052	0.143	0.267	0.527	0.351	1.000			
QUANTITY	0.130	0.256	0.115	0.015	0.111	0.062	-0.015	1.000		
SERVICE	0.234	-0.024	0.068	0.023	0.025	0.042	0.026	0.022	1.000	
ONFOOT	-0.088	-0.458	-0.099	-0.003	-0.118	-0.049	0.010	-0.198	0.008	1.000

5.4 Empirical results

The coefficients of the bivariate ordered probit model were estimated using Stata (V10.0), and the results are reported in Table 5.4. The Chi-square test statistic and pseudo R-square analysis show the model is significant.

Table 5.4 Results of bivariate ordered probit regression

Dependent variable	Store choice		Frequency	
	= 0 if shopping at organized markets		= 1 if shop less than 3 times	
			= 2 if shop for 3 to 4 times	
	= 1 if shopping at supermarkets		= 3 if shop more than 4 times	
	Coefficient	SE	Coefficient	SE
FRESHNESS	0.198**	0.085	0.085**	0.044
DISTANCE	0.478***	0.079	−0.128**	0.051
REFRIGERATOR	−0.199	0.231	0.094	0.121
AGE	−0.008	0.008	0.006	0.004
INCOME	0.157***	0.058	−0.057*	0.032
CHILD	−0.057	0.134	0.241***	0.081
FAMILY	−0.013	0.048	0.034	0.028
QUANTITY per shopping	0.438***	0.062	−0.746***	0.045
Retail SERVICE	0.108*	0.062	0.010	0.037
ONFOOT	−0.759***	0.213	0.200**	0.087
Cons	−0.263***	0.070		
<i>Cut11</i>	4.423	0.541		
<i>Cut21</i>	−2.448	0.274		
<i>Cut22</i>	−1.753	0.271		
<i>Cut23</i>	−0.791	0.267		
<i>Cut24</i>	−0.306	0.266		
<i>Rho</i>	−0.258	0.065		
Number of observations	950			
Wald chi2(11)	141.13			
Prob> chi2	0.000			
Log likelihood	−1511.75			
Percent correctly predict	95.09			

LR test of indep. eqns. : chi2(1) = 14.36 Prob> chi2 = 0.0002

Note: *** and ** and * indicate coefficients are significant at the 0.01 and 0.05 and 0.1 levels, respectively.

Regarding shopping frequency, the coefficient *DISTANCE* is negative and significant, suggesting that the closer the distance to the shopping outlet, the more frequently consumers are likely to shop. Meanwhile, positive and significant coefficients for *FRESHNESS* and *ONFOOT* imply that it is more likely that consumers' shopping frequency will be higher if he/she rates freshness at a high level of importance, and/or goes shopping on foot. It is noteworthy that the positive sign of *ONFOOT* is opposite to the expected sign of the hypothesis H4, but is consistent with reality. It could be that, even though the transportation cost per unit of distance (t) (opportunity cost of time) for consumers who go shopping on foot is expected to be higher than that for consumers who go shopping by motorbike, the distance (l) travelled by the former could be much shorter than the distance travelled by the latter. Therefore, the total transportation cost (tl) for the former could be smaller than that for the latter. Hence, in light of equation (1), the shopping frequency for consumers who go shopping on foot is higher than for consumers who go shopping by motorbike. Thus, both hypotheses H1 and H2 were supported at the 5 per cent level, whereas hypothesis H4 was not supported. The variables *QUANTITY*, *INCOME*, and *CHILD* also appear to have significant effects. The negative sign of *QUANTITY* and *INCOME* indicates that the respondents who buy a large quantity per shopping trip and/or those who have a higher income are more likely to shop less frequently, whereas the positive sign of *CHILD* suggests that the respondents who have small children (under 6 years old) in their family tend to shop more frequently. Intuitively, consumers who have small children would pay more attention to the freshness of food, as it would be more nutritious and safer for their children, leading to an increase in shopping frequency. Owning a *REFRIGERATOR* did not have a significant effect on consumers' shopping frequency in Vietnam in recent years. Hypothesis H3 was not supported.

Regarding consumer retail outlet choices, the coefficients *FRESHNESS*,

DISTANCE, *INCOME*, *QUANTITY*, and retail *SERVICE* are positive and significant, while the coefficient of *ONFOOT* is negative and significant.

It is worth noting that the coefficient *FRESHNESS* is *positive* and significant, which implies that consumers who pay more attention to freshness would be more likely to shop at supermarkets. This contrasts with our expectation that if consumers rate freshness as an important factor, then they are more likely to shop at traditional neighbourhood retailers, as stated in hypothesis H5. We think that this is mainly because supermarkets have won consumers' trust through their consistent efforts to maintain freshness throughout the day using modern cold storage systems, whereas fresh foods at traditional outlets are usually only fresh in the early morning due to the lack of storage facilities. Hence, consumers are now more likely to think that the level of freshness in supermarkets and organized markets is almost the same, or even higher for the former. Thus, hypothesis H5 was not supported.

The positive significant coefficient of *DISTANCE* implies that consumers are more likely to shop at traditional markets if they are a shorter distance away from home. Given the fact that the number of supermarkets in Vietnam by the end of 2012 was 659 against 8547 traditional organized markets, traditional markets have a proximity advantage over supermarkets. Additionally, because of the requirement for larger floor spaces for shopping outlets, supermarkets are usually located in suburban areas, which could be a drawback. Thus, hypothesis H6 was supported at the 1 per cent level. The coefficients *INCOME*, retail *SERVICE*, and *QUANTITY* per shopping trip are also positive and significant, suggesting that consumers who have a higher income, have a higher-level concern about retail services, and/or often shop for larger quantities are likely to choose a supermarket. In contrast, the negative and significant coefficient of *ONFOOT* implies that consumers who walk to go shopping are more likely to choose traditional markets. This finding is associated with the positive significance of

DISTANCE, strengthening the proximity advantage of traditional markets. Thus, both hypotheses H8 and H9 were supported at the 1 per cent and 10 per cent level, respectively. Other variables included owning a *REFRIGERATOR*, *AGE*, *FAMILY*, and *CHILD* did not have a significant effect on consumers' recent shopping outlet choices in Vietnam. Therefore, hypothesis H7 was not supported.

5.5 Discussion and conclusion

The rapid growth of the economy and the attendant busy working life has encouraged Vietnamese consumers to change their shopping habits. If shopping for fresh food less than five times a week was not considered frequent by Hanoi consumers in 2006 (Maruyama and Trung, 2009), it is now normal for a consumer to shop only three or four times a week. This empirical study shows that quantity purchased per shopping trip is the biggest factor shaping Vietnamese consumers' shopping frequency, with the largest coefficient value (0.746). Consumers who buy a large quantity each trip are more likely to shop less frequently. Transportation means (shopping on foot), distance to shopping outlets, level of concern about freshness, having children under 6 years old, and the respondent's income also has significant effects, while other variables such as owning a refrigerator, the age of the respondents, family size, and level of concern about retail services did not have a significant effect on the recent shopping behaviours of Vietnamese consumers.

In a study on Hanoi consumers' shopping frequency based on the same questionnaire used in this study collected in 2006, Maruyama and Trung (2009) used the binary choice probit model (between high-frequency shoppers and low-frequency shoppers) to analyse the Hanoi consumers' shopping frequency data. They concluded that the level of concern for freshness, distance to the shopping outlets, the age and gender of respondents, and having children under 6 years of age had a significant effect,

while owing a refrigerator, income, and family size did not appear to have significant effect on shopping frequency. By using the same methods to analyse the data from Hanoi and HCMC, we found that with this model, the level concern for freshness has become insignificant factor shaping consumers' shopping frequency (see Table 5.5). This does not seem reasonable, considering Vietnamese consumers' long-established habit of using fresh food, considering it indispensable and shaping their frequent shopping behaviours. Moreover, the correct predictions from such model did not very significant, with only about 56 per cent correctly predicted. By using the bivariate ordered probit model, we observe that ρ was significant in our context, indicating that a degree of dependence exists between the two variables: where to shop and how to shop. In other words, the bivariate ordered probit model was superior in this case.

Table 5.5 Probit result and marginal effect

Variable	Expected coefficient sign	Coefficient	Marginal probability
FRESHNESS	H1(+)	0.072	0.028
DISTANCE	H2(-)	-0.193***	-0.076
REFRIGERATOR	H3(-)	0.127	0.050
AGE	+	0.006	0.002
INCOME	-	-0.089**	-0.035
CHILD	+	0.342***	0.135
FAMILY	+	0.047	0.019
QUANTITY per shopping	-	-0.942***	-0.372
Retail SERVICE		-0.034	-0.014
ONFOOT	H4(+)	0.201*	0.079
Cons		1.452***	
Log likelihood		-490.23	
Number of observations		950	
LR chi2 (10)		334.84	
Prob > chi2		0.0000	
Pseudo R2		0.255	
Percent correctly predicted		55.53	

Note: *** and ** and * indicate coefficients are significant at the 0.01 and 0.05 and 0.1 levels, respectively.

In summary, the results of this study provide a basis for understanding the fresh

food shopping habits (i.e. shopping frequency and shopping outlet choice) of the Vietnamese consumers and can facilitate a discussion about the potential future changes in Vietnamese consumers' shopping behaviour and its food retailing system. Supermarkets are gaining consumers' trust, not only for processed food and non-food items but also for fresh products. However, in the short to medium term, the traditional markets in Vietnam will maintain its major role in distributing fresh items due to its proximity advantages.

Conclusion and future research

The rapid economic growth and technological advancement, as well as the efforts of the government to build a modern distribution system, are expected to dramatically change the structure of the retail industry in Vietnam. Membership in wholesale clubs (e.g., METRO Cash & Carry) and hypermarkets (e.g., Big C) could eventually leave behind small sellers and intermediaries that have served traditional Vietnamese markets. Technological development and economies of scale are likely to benefit modern retailers over traditional retailers. However, this study indicates that traditional markets continue to be the major distribution channel for fresh food in Vietnam in the short to medium term.

The empirical evidence on consumers' choice of shopping outlet in chapter 4 shows a big change in Vietnamese retail system that processed food and beverages are now distributed mainly through supermarket rather than mom and pop stores, whereas consumers continue to make most of their purchase for fresh food at traditional markets. The results of the study in this chapter indicate that food safety and the convenience of fixed prices are the main factors attracting consumers to supermarkets, while maintaining a strong relationship with sellers is important to consumers who purchase fresh food at traditional organized markets. The key factors that previously attracted consumers to traditional markets, such as freshness, cheap prices, and convenient access (Maruyama and Trung, 2007b) no longer have a significant impact on consumers' choice of shopping outlets. This result does not imply that consumers are less concerned with the freshness and price of goods, but rather that supermarkets have won their trust through a consistent endeavor to maintain freshness and offer stable prices while competing with traditional outlets.

The empirical study on the high shopping frequency of Vietnamese consumers in

chapter 5 shows that quantity purchased per shopping trip is the biggest factor shaping Vietnamese consumers' shopping frequency. Consumers who buy a large quantity each trip are more likely to shop less frequently. Transportation means (shopping on foot), distance to shopping outlets, level of concern about freshness, having children under 6 years old, and the respondent's income also appear to have significant effects. Modern retail outlets like supermarkets are gaining consumers' trust, not only for processed food and non-food items but also for fresh products due to its prior technologies and storage system. Therefore, it is reasonable that Vietnamese consumers' shopping behaviour for fresh food in the future may trend toward a relatively high frequency at supermarkets or a relatively low frequency at supermarkets. However, in the short to medium term, the traditional markets in Vietnam will maintain its major role in distributing fresh items due to its proximity advantages.

Contributions

The results of this dissertation provide a basis for understanding the strengths and weaknesses of the two major retail formats, as well as the government policies on retail sector, and can facilitate a discussion on potential future changes in the Vietnamese retail industry. This study offers recommendations and implications for policymakers and business operators for the modernization of the food retailing system. Traditional markets were perceived as “one-stop fresh food markets” providing a variety of fresh products, while supermarkets were considered to be a better option for purchasing processed food and beverages as well as non-food items. Traditional markets should focus on the distribution of fresh food with a stringent process for ensuring quality (including freshness) and safety, at a low price; whereas supermarkets could be the primary distribution channel for processed food, drinks, and non-food products. Thus, traditional wet markets and supermarkets can be considered equally important and

should complement each other. The government should support the development of modern outlets alongside the modernization of traditional markets. In particular, retail policies should be toward improving the quality of food services by upgrading existing bazaars and public markets (Bucklin, L.P, 1977) to become more facilitated, well-equipped, more comfortable, cleaner and hygiene; rather than to mix with modern shopping center. This could pave the way for modernization distribution system, characterized by efficient pricing and stringent quality management.

The findings of this study are of special significance to the growth of domestic supermarkets and the increasing number of international supermarket chains entering Vietnam. The results have major implications for the future strategies of companies in the retail industry and executives can apply these findings to develop additional formats to better address niche consumer demand.

Limitations and Future researches

Even though the process of retail modernization takes place in many large cities in Vietnam, the present study is limited to only Hanoi and HCMC, the two biggest cities (first-tier cities) of Vietnam. Thus, this case study has a low degree of generalization. The question that needs to be studied is whether the results we identified in the present studies are shared across the country, such as in other second-tier cities, third-tier cities in Vietnam. Another important issue that needs to be studied is whether our results are shared with other developing countries.

In addition, most of our data for analyzing in the present study only came from a limited number of consumer surveys conducted in Hanoi and HCMC. Thus, the initial findings reported are best taken as preliminary evidence and as a base for urgently needed further research and discussion. A more comprehensive analysis should use a combination of data collection, not only on consumer data but also from retailers, wholesalers, the wet market side, and the supermarket side. Further fieldwork should be

carried out such as a consumer survey that matches the population, a detailed survey of retailers, wholesalers, market management managers, supermarket managers, and key informants.

And last but not least, there is a potential pitfall in cross-group comparisons of probit coefficients in the analysis in chapter 4 due to the differences in residual variation. Differences in coefficients between the two groups (here, 2006 and 2012 samples) may be attributable to group differences rather than differences in effects. Thus, a further study may consider removing the effect of residual variation by assuming that the coefficients for at least one of the independent variables in the model are consistent across the group estimations (see Allison, 1999). In addition, a nested linear probability model can be applied as a check to test for changes in coefficient signs, significance, or magnitudes over time.

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Consumer Questionnaire

Prepared by Nguyen Thi Thanh Tan
Graduate School of Business Administration, Kobe University, Japan.

Objective of Survey: This survey is only used for my study at Graduate School of Business Administration, Kobe University. I would like to know about the criteria consumers choose when they go shopping, their consumption habit, the main factors that affect consumers' shopping behavior, and their perception on different retail outlets in Hanoi and Ho Chi Minh City, Vietnam. Being one member who is the most often responsible for shopping activity in your family, please answer me all the following questions.

I. SOME DEFINITIONS USED IN THIS SURVEY

1. **Frog markets:** informal markets that are not recognized by local governments and often operate without official permission from the authorities including: street vendors, sidewalk markets, informal markets outside the official markets,...
2. **Organized markets:** formal markets with many stalls which are located inside covered structures established by local authorities.
3. **Supermarkets:** refer to traditional supermarkets which are self-service store offering a wide variety of goods such as food, beverages, household appliances, ...
4. **Mom and pop store:** family-owned shops selling a limited variety of processed foods, dry goods, drinks, toys, household supplies, etc., and sometimes including fresh food.
5. **Fresh food:** is the fresh and perishable items such as meat and poultry, fish, fruit and vegetables, etc,....
6. **Processed food:** is the food items that have been processed and packaged, have a long expiry date such as packaged food, canned food, frozen food, dried food, confectionery....
7. **Drinks:** including alcoholic beverage, milk, tea, soft drinks and juice,...

II. GENERAL SURVEY

Age:..... Gender: ☐ Male ☐ Female Address: No. Street District.....

How many person are living with you now?:..... Have children under 6 years old? ☐ Yes ☐ No

Education:

☐ Post-graduate ☐ Under-graduate ☐ College ☐ High school ☐ Other

Profession:

☐ Staff ☐ Teacher/Researcher ☐ Business ☐ Worker ☐ Other (write down).....

Average monthly income of all member who are living with you as a family (or yourself if alone, including the money you get from your parent) (in VND)

☐ less than 2mill ☐ 2 – 4 mill ☐ 4 - 6 mill ☐ 6 – 10 mill
☐ 10 - 15 mill ☐ 15 - 20 mill ☐ more than 20 mill

Does your family have the following things?(can choose multi-answers)

☐Television ☐Motor Bike ☐Refrigerator ☐Washing machine ☐Air-condition ☐Car ☐None

III. SURVEY ABOUT SHOPPING HABITS

1. Where do you do most of your shopping for fresh food, processed food and beverage ? (choose only 1 answer which fit your situation best and mark an X in your selection box)

Shopping place <i>Kind of goods</i>	Frog markets	Organized markets	Supermarkets	Mom and Pop stores
Fresh food				
Processed food and beverage				

2. Please rate the importance of each reason from 1 to 5 for choosing above shopping place for each kind of goods.

1. Not important at all 2. Not really important 3. Quite important 4. Important 5. Very important

	Kind of goods Reasons	Fresh food	Processed food and beverage
1	Freshness, newly produced product		
2	Quality		
3	Cheap price		
4	Usual retailer		
5	Convenience (close to home, easy to access...)		
6	Safety of goods		
7	Good services of sellers		
8	Can bargain		
9	Clearly price (not have to bargain)		
10	Scale of store		
11	Variety of product lines		
12	Parking lot (large, free...)		
13	Return and adjustment policy		
14	Decoration and advertising at stores		
15	Shopping atmosphere		

3. How often do you go shopping per week for these goods? (choose only 1 answer which fit your situation best and mark an X in your selection box)

Shopping times <i>Kind of goods</i>	Everyday (or more than 7 times)	5 - 6 times	3 - 4 times	2 times	Less than 2 times
Fresh food					
Processed food and beverage					

4. What times do you often go shopping for these goods? (choose only 1 answer which fit your situation best and mark an X in your selection box)

Shopping time <i>Kind of goods</i>	Before 8 AM	8 - 10 AM	10 AM - 5 PM	5 - 7 PM	After 7 PM
Fresh food					
Processed food and beverage					

5. How many days do you often use for each time you buy? (choose only 1 answer which fit your situation best and mark an X in your selection box)

Day-uses <i>Kind of goods</i>	1 day (or less)	2-3 days	4 - 5 days	6 - 7 days	More than 7 days
Fresh food					
Processed food and beverage					

6. How much time do you spend for each time you go to buy? (Not include transportation time) (choose only 1 answer which fit your situation best and mark an X in your selection box)

Shopping place <i>Kind of goods</i>	Less than 30 minutes	30 - 60 minutes	1 - 2 hours	More than 2 hours
Fresh food				
Processed food and beverage				

7. What kind of transportation do you use to go shopping? (choose only 1 answer which fit your situation best and mark an X in your selection box)

Transportation <i>Kind of goods</i>	On foot	Bicycle	Motorbike	Car	Others (bus, taxi,...)
Fresh food					
Processed food and beverage					

8. How far is it from your house to the outlet you often go to buy? (choose only 1 answer which fit your situation best and mark an X in your selection box)

Distance <i>Kind of goods</i>	Less than 200 m	200 m - 1 km	1 - 2 km	2 - 5 km	More than 5 km
Fresh food					
Processed food and beverage					

9. Average travel time to go for shopping? (from your home/working place to the selected market) (choose only 1 answer which fit your situation best and mark an X in your selection box)

Distance <i>Kind of goods</i>	Less than 10 minutes	10 - 20 minutes	20 - 30 minutes	30 - 60 minutes	More than 1 hour
Fresh food					
Processed food and beverage					

IV. MARKET EVALUATIONS

How do you evaluate the performance of organized markets in Hanoi at present?

	<i>Grading</i> <i>Elements</i>	Very bad (1)	Bad (2)	Normal (3)	Good (4)	Very good (5)
1	Quality of merchandise					
2	Freshness					
3	Price levels					
4	Clean and hygienic environment of markets					
5	Safety of goods to health					
6	Services of sale person					
7	Honest of seller					
8	Variety of products lines					
9	Variety of one kind of goods					
10	Location					
11	Scale of markets or store size					
12	Distance (convenience, near home, etc.)					
13	Parking lot					
14	Return and adjustment policy					
15	Product display					
16	Advertisement and sales promotion					
17	Management at markets					
18	Infrastructure (cold storage, equipment)					

V. SURVEY OF SUPPERMARKET

1. How often do you go to supermarkets? (choose only 1 answer which fit your situation best)

☐ Everyday
 ☐ Twice a week
 ☐ Once a week
 ☐ 1–3 times a month
 ☐ Less than one a month
 ☐ Never

2. Which channels do you get information about a supermarket and go there? (choose only 1 answer which fit your situation best)

☐ Television advertisement
 ☐ Newspaper
 ☐ Your friends
 ☐ Seen on the street
 ☐ others

3. In which situations do you go to supermarkets?

<i>Situation</i>	<i>Never (1)</i>	<i>Rare (2)</i>	<i>Sometimes (3)</i>	<i>Often (4)</i>	<i>Always (5)</i>
Planned before going					
Accompany with friends					
Just happen to pass buy					

4. What are the reasons for going to supermarkets? (Multiple choice is Ok)

	Reasons	Please tick “X” in this column
1	To buy everyday necessities	
2	The ability to search for something unique	
3	Quick examination of prices	
4	Curiosity	
5	Enjoyable and relaxing	
6	Reasonable prices	
7	Fixed price (clearly, not have to bargain)	
8	Fashionable	
9	Guarantee of quality	
10	Freshness	
11	Safe and clean	
12	Prestige image	
13	One-stop service	
14	Self service	
15	Good services of salespersons	
16	Others (please write down)	

5. What kinds of goods did you buy at supermarkets?

	Goods	<i>Never</i> (1)	<i>Rare</i> (2)	<i>Sometimes</i> (3)	<i>Often</i> (4)	<i>Always</i> (5)
1	Fresh food					
2	Ready-to-eat food					
3	Processed food					
4	Frozen food					
5	Drinks					
6	Clothes					
7	Confectionery					
8	Footwear					
9	Toiletries					
10	Personal care products					
11	Household amenities					
12	Others (please write down)					

6. How much do you pay on average for the receipt each time you go shopping at supermarket?(in VND)

☐ less than 100 thous. ☐ 100-200 thous. ☐ 200-300 ☐ 300-500 ☐ 500-1mil. ☐ more than 1 mil.

7. Are you a faithful customer of one supermarket?

☐ Yes

☐ No

8. What kind of transportation do you use to go shopping?

☐ On foot ☐ Bicycle ☐ Motorbike ☐ Car ☐ Others

9. How far is it from your house to the closest supermarket that you know?

☐ Less than 200m ☐ 200m - 1 km ☐ 1-2 km ☐ 2-5 km ☐ 5-10 km ☐ more than 10 km

10. How do you evaluate supermarket performance at present?

	<i>Grading</i> <i>Elements</i>	Very bad (1)	Bad (2)	Normal (3)	Good (4)	Very good (5)
1	Quality of merchandise					
2	Freshness (newly)					
3	Price level					
4	Check out					
5	Services of salesperson					
6	Variety of products lines					
7	Variety in each kind of product					
8	Location					
9	Scale of supermarket					
10	Distance (density of supermarkets)					
11	Cold storage					
12	Air conditioning					
13	Parking lot					
14	Return and adjustment policy					
15	Product display					
16	Advertisement and promotion					
17	Development of reputation					

11. In which condition you will go to supermarkets more frequently?

	<i>Condition</i>	<i>Don't care</i>	<i>Not really important</i>	<i>Quite important</i>	<i>Important</i>	<i>Very important</i>
1	Higher income					
2	Lower price					
3	More product variety of non-perishables (processed food, drinks and non-food items)					
4	Supermarket near my house					
5	Better services of salespersons					
6	Fresh produce has more freshness					
7	More variety of fresh foods and daily necessities					
8	Others (please write down)					

12. Where do you prefer to go shopping, at supermarkets or traditional markets?

☐ Supermarket ☐ Traditional market

Thank you very much!