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Market appeal in an emerging economy: Supermarkets and poor consumers in Vietnam

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ABSTRACT

With the arrival and development of supermarkets, Vietnam is currently experiencing significant changes to its food system and more particularly the distribution system. The objective of this paper is to analyse the risks and benefits of this development to poor urban consumers in Vietnam. The analysis is based on surveys of food purchasing practices conducted in Hanoi from 2004 to 2006. It shows that poor consumers depend on a diversified network of formal and informal outlets to ensure food accessibility, credit opportunities and low prices. Poor consumers purchase very little from supermarkets due to material constraints (price, transport, etc.), although they have a high opinion of supermarkets and in particular the quality of the products sold. In order to be favourable to poor consumers, food distribution policies should aim to maintain the balance of the different forms of outlets and enforce public quality standards to guarantee the right of all to safe food.

Introduction

This paper investigates the impact of the development of supermarkets on the food purchasing practices of the poor in Hanoi. We will begin by presenting the rise of the consumer as a specific actor in the Vietnamese economy before examining the development of supermarkets in Vietnam and their potential impact on poor consumers.

The rise of the consumer in Vietnam

Vietnam, a communist country, laid the foundations for a market economy in 1986. Since then, the country has experienced a high level of economic growth together with a boom in household food consumption (Figuié and Bricas, 2003). The eating patterns of Vietnamese households have changed considerably in urban areas (Le Danh et al., 2004). Their diet is more diversified (more meat and fruit) and new products have become popular (vegetable oil, ice cream, soft drinks, etc.). Eating practices are also changing, for example with more people eating out and snacking between meals.

Shopping for food supplies has also been affected. Ration coupons, which were used until 1986 for the distribution of basic food items produced locally or provided through Soviet food aid programmes, have disappeared (and with them the black market). In addition to the many open-air markets, private stores and to a lesser extent supermarkets have become more common in urban areas, offering a wide variety of goods from many countries.

Until only a few years ago, the Vietnamese consumer was still absent from the social and economic landscape, eclipsed by both the overwhelming need simply to provide for a malnourished population and an ideology that condemned all forms of ostentatious consumption, especially foreign goods which were seen as a symbol of economic imperialism (Vann, 2005). It was not until 1991 that private advertising was permitted and this event marked the birth of the Vietnamese consumer. Many foreign investors, including supermarket chains, began to establish a foothold in what promised to be a profitable market.[1] According to Kearney's (2007) Global Retail Development Index, Vietnam ranks fourth in the list of countries offering the best opportunities for retail sector development. Marketing studies were conducted to see what behaviour patterns these new consumers adopted, influenced as they are by Buddhist, Confucian and Taoist cultures, the periods of Chinese, French and American occupation and communist dogma. Consumers are described as being torn between the desire to act in accordance with collective norms and the wish to assert individual values, between support for national production and the attraction of imported goods (Le Thi and Jolibert, 2001; Shultz et al., 1994; Vann, 2005).

[1] To date, only two foreign corporations are present in Vietnam: Bourbon/Casino/Vendémia (France) and Metro Cash and Carry (Germany). In the last few months, however, growing interest from other international corporations has been observed, including Dairy Farm (Hong Kong), Carrefour (France), Wal-Mart (United States), Tesco (United Kingdom), Giant (Singapore) (Mission Economique de l'Ambassade de France au Vietnam, 2006).

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Investigating the impact of supermarkets on poor consumers

Numerous works (such as Reardon and Berdegué, 2002; Codron et al., 2004; Dries et al., 2004; Hu et al., 2004; Vorley et al., 2007) have investigated the impact of supermarkets or, more broadly speaking, the impact of a modernised distribution sector on agriculture or on the agri-food industry in areas where this development can be observed, including Asia. These works focus primarily on the impact of supermarkets on poor or small-scale producers. Few studies have focused on the issue of their development in relation to consumers (as underlined by D'Haese and Van Huylenbroeck, 2005). Some of these studies examine the impact on retailing prices, providing only partial or diverse conclusions. The impact of supermarkets on retail prices is a much-debated subject. Vorley et al. (2007) argue that within the concentrated chain structure of modern distribution networks, a reduction in the costs of food obtained through economies of scale is transmitted to consumers and shareholders, while the residual value shared by actors further upstream (in particular small-scale producers) is diminishing. Supermarket chains are increasingly targeting both the premium market and the mass market through discount stores (Biénabe et al., 2007). In Ecuador, supermarkets provide higher quality at lower prices representing a "triumph for the consumer", although not for the small-scale farmer (op. cit.).

Reardon and Berdegué (2002) observe a two-stage development pattern in Latin America: first supermarkets conquer the more affluent clientele in large cities before attracting the middle and poor classes, spreading from the large cities to smaller cities, from urbanised areas to rural areas, from rich countries to poor countries. Poorer consumers are not directly affected by the development of supermarkets until their activity reaches the consolidation phase. Reardon et al. (2003) also describe a two-stage process concerning the kind of products sold by supermarkets; initially, consumers can mainly buy dried, processed and pre-packed food; fresh food is only available at a later stage.

Hagen (2002) also presents the development of supermarkets as a two-step process in terms of attracting consumers:

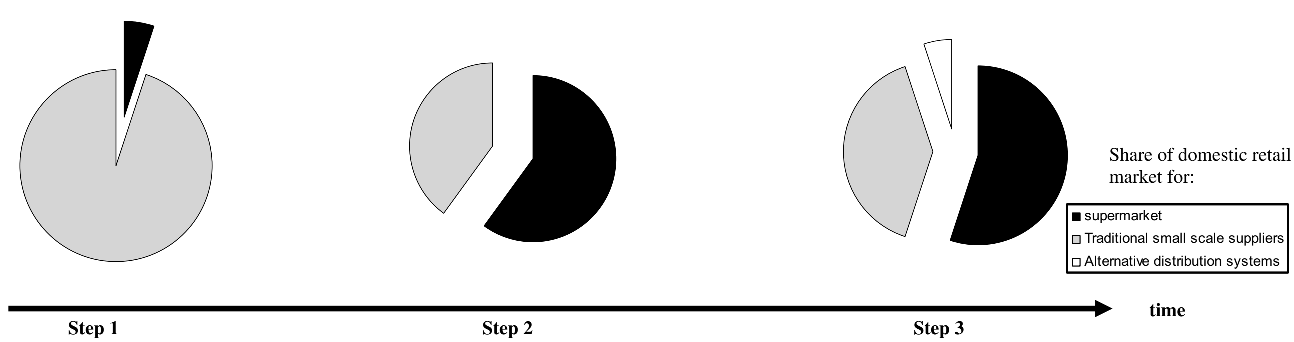
1. The first step in the development of a supermarket in a given country is the start-up. At this point, supermarkets enjoy only a small market share and prices are higher than on traditional markets; supermarkets attract a more affluent clientele.
2. The second step is that of expansion: logistics and management improve and economies of scale are achieved, contributing to a reduction in prices. At this stage, supermarkets can begin to attract a low-income clientele.

The spread of supermarkets reduces the cost of food and therefore allows consumers to spend more on non-food items, thereby contributing to economic growth by stimulating consumption. However, this drop in prices occurs only after supermarkets have already become well established in a country (Hagen, 2002).

According to Kinsey (1998), the concentration of distribution inherent to the development of supermarkets creates situations of monopoly and the resulting impact on prices is still unclear due to mixed evidence; moreover, supermarkets tend to offer goods that include new services, which could eventually cause retail prices to rise.

The development of supermarkets, and the concentration of distribution that characterises this development, leads to a reduction in the number sales outlets (Reardon and Berdegué, 2002). Variety in this regard may matter as much to the consumer as does the variety of goods themselves. Nevertheless, Vorley et al. (2007) provide a number of examples, such as Mexico and India, testifying to the considerable resistance of small-scale retailers to competition from hypermarkets which can be explained by convenience, proximity and the possibility of obtaining short-term credit as well as by the fact that wet-markets are often still preferred by consumers when purchasing fresh products.

These authors also considered a third stage in the development of agri-food supply, marked by a partial resurgence of small-scale suppliers (see Fig. 1): in the model put forward by these authors, the first two stages are characterised by a rapid decrease in the number of small-scale suppliers with supermarkets taking their place in the structure and governance of agri-food supply (in the second of these two stages the decrease is even more significant, leading to reactions from producers' lobbies and an anti-supermarket sentiment); in the third stage (which occurs much later, mostly in industrialised countries), high-income consumers contribute to a resurgence of small-scale producers and suppliers who market specialist foods (traditional, local) through farmers markets, home



Supermarkets characteristics		
Step 1	*Step 2*	*Step 3*
high retail prices high income shoppers	low retail prices all types of shoppers	low retail prices all types of shoppers but part of high income consumers turns to alternative distribution systems (farmers markets, home delivery schemes, internet…)

Fig. 1. The three steps of supermarket development [based on Hagen (2002), Vorley et al. (2007)].