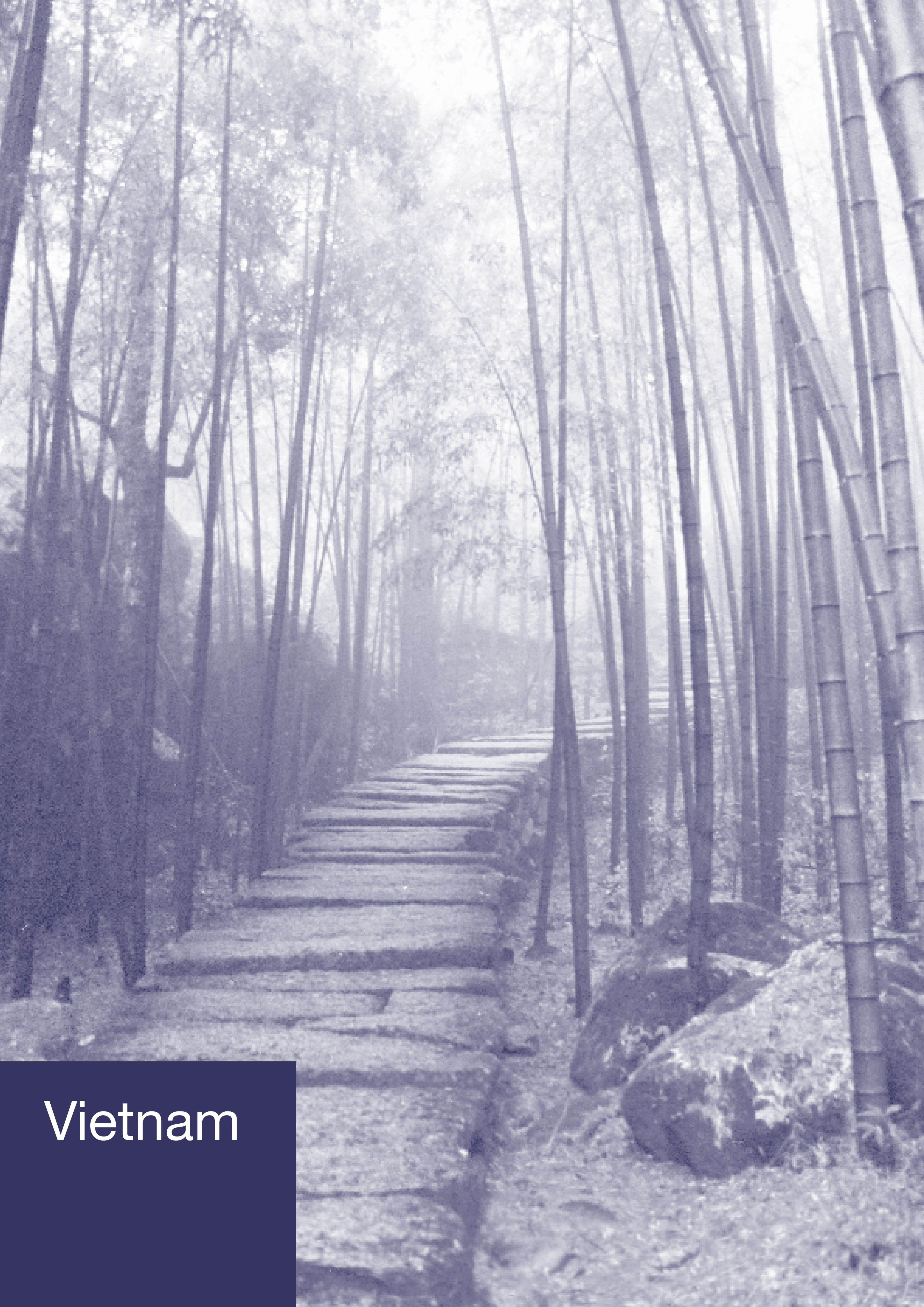
FROM BEIJING TO BUDAPEST

Winning Brands, Winning Formats*

2005/2006
4th Edition

*connectedthinking

PRICEWATERHOUSECOOPERS



Vietnam

Vietnam

ECONOMIC OVERVIEW

GDP and CPI

GDP and CPI

	2001	2002	2003	2004
GDP growth (%)	6.9	7.0	7.2	7.7
CPI (%)	-0.4	3.8	3.1	7.8

Source: EIU, August 2005

Unemployment (urban)

Unemployment

	2001	2002	2003
Unemployment rate (%)	6.3	6.0	5.8

Source: General Statistics Office of Vietnam

Economic forecasts

Vietnam's inflation levels have fluctuated greatly during the past ten years, increasing steadily in the past five years. The Consumer Price Index growth rate reached 7.8% in 2004, but is expected to drop to approximately 5% in 2006 and 2007.

Key economic forecasts

	2005	2006	2007
GDP growth (%)	7.8	7.0	7.3
CPI (%)	7.8	6.0	5.6

Source: EIU, August 2005

Area ('000 sq km)[1]: 331.7
(US 9,600 – EU25 3,981 – World 133,700)

Capital[2]: Hanoi
(Number of inhabitants: 1.75 million)

Population (million)[3]: 83.1
(US 293 – EU25 456 – World 6,376)

GDP (USD billion)[3]: 45.5
(US 11,735 – EU25 12,723 – World 39,503.5)

GNI per capita (USD)[1]: 480
(US 37,870 – EU25 22,810 – World 5,110)

Currency: Vietnamese Dong (VND)

Languages: Vietnamese, English, Chinese

Main religions: Buddhist, Hoa Hao, Cao Dai, Catholic

Government type: Communist state

Sources: CIA Factbook; (1) World Bank 2005; (2) City Population;
(3) Economist Intelligence Unit 2004 data

REGULATORY ENVIRONMENT

Foreign direct investment

FDI

	2001	2002	2003	2004
FDI (VND bn)	20,524.4	22,103.2	22,892.6	30,786.6
FDI (USD bn)	1.30	1.40	1.45	1.95

Source: EIU, August 2005 (Exchange rate: December 31, 2004)

FDI contribution has increased rapidly over the past decade. The government has implemented significant measures, such as additional investment incentives, legal and administrative reforms and elimination of the dual pricing policy, in order to create a more favourable investment environment. However, the regulatory environment and the poor enforcement of regulations still pose major challenges for FDI.

The top-five contributors by country in terms of total FDI capital are Singapore, Taiwan, Japan, South Korea and Hong Kong.

Property/Real estate regulations

Land use rights

Foreign individuals, including foreign enterprises, are generally not permitted to purchase land. Instead, they acquire "land use rights" by leasing property. Foreign Invested Enterprises (FIEs) cannot assign or sell their land use rights or sublease them.

Obtaining land use rights to large plots of land in prime urban locations can be difficult and costly. Foreign investors often consider investment in the form of a joint venture enterprise on the grounds that a Vietnamese investor may provide land use rights as their capital contribution.

There have been a growing number of shopping malls coming on stream in the past few years, but they remain a relatively new alternative for retail businesses. A good example of this is Parkson Vietnam, a member of Malaysia's The Lion Group, which has recently invested USD7 million in a retail space. It plans to set up nine other centres, investing USD70 million over the coming five years.

High rental rates

For a country at a relatively early stage of economic development, Vietnam has surprisingly high property prices – especially in urban centres and key commercial districts. Ho Chi Minh City (HCMC) and Hanoi have some of the highest rental costs in East Asia because office space is limited in prime locations.

According to international property consultant, CB Richard Ellis, prime office space in the Saigon district of HCMC rents for USD26 per sq ft, compared to USD25 in Singapore and USD23 in Hong Kong.

Restriction on FDI

It is important to note that Vietnam still controls and restricts FDI in certain areas. The ability, for example, to invest in major retailing and distribution business is heavily restricted. Relaxation of these controls can be expected with the accession of Vietnam to the WTO, and upon the implementation of bilateral agreements, notably the US/Vietnam Bilateral Trade Agreement.

Other regulations

Competition Law

The new Competition Law came into force on 1 July 2005. It appears to be modelled on a number of laws used by different countries, including the European Union. The Law regulates practices that promote unhealthy competitive activity, including agreements that restrain competition, abuse of dominant or monopoly positions, unhealthy advertising and promotional practices, as well as other activities contrary to the interests of businesses and consumers. The Law also appears to discourage horizontal contracts that restrain competition and illegal multi-level selling schemes. Whether vertical distribution and retail agreements that impede competition will be discouraged remains unclear.

Draft Common Investment and Unified Enterprise Laws

The Vietnamese Government is currently drafting these laws in preparation for WTO accession. The two laws are expected to become effective at the same time in 2006. The Common Investment Law combines two previous investment laws – the Law on Foreign Investment and the Law on Promotion of Domestic Investment. The Common Investment Law seeks to apply investment incentives equally for foreign and domestic investors, as well as possibly remove or reduce restrictions placed on foreign investment in Vietnamese enterprises. The Unified Enterprise Law will introduce a universal business registration system and provide four business structures: private enterprise, limited liability company, shareholding company and partnership.

Under the current law on investment in Vietnam, foreign investment in the retail and consumer sectors of Vietnam is not generally encouraged. The right to distribute goods on a commercial basis is strictly regulated and generally reserved for local distributors. Only FIEs that are licensed to engage in manufacturing can set up their own distribution in Vietnam and then only distribute what they manufacture.

Tax

Effective corporate tax rates are still high due to a deduction cap placed on advertising and promotion expenses equal to 10% of total other expenses, and non-deductibility of various other bona fide business expenses. The Vietnamese Government applies preferential tax rates to certain businesses depending on the industry, sector and location of the operation.

VAT

The standard VAT rate is 10%. Exported goods are zero rated and a 5% VAT applies to certain essential goods and services.

Imports

Generally, where exporters are not party to bilateral (BTA) or regional trade agreements, import tariffs remain quite high – particularly on goods that can be manufactured locally. The most notable BTAs include the US-Vietnam BTA of 2001 and the EU-Vietnam BTA of 2004. As an ASEAN member, Vietnam is also a party to the ASEAN Free Trade Agreement (AFTA) and has committed to applying a 0-5% tariff on a comprehensive list of goods by 2006. Vietnam's major imports are refined petroleum products, steel, machinery and fertilisers.

DEMOGRAPHICS AND CONSUMER BEHAVIOUR

Population

Population evolution

According to the latest data, Vietnam's population is heading towards the 83 million mark.

Population

	2001	2002	2003	2004
Population (m)	79.8	80.9	82.0	83.1

Source: EIU, August 2005

Population by age group

The population is relatively young, with almost 67% being 15-64 years of age.

Age profile

% of total population	1998	2003	2008 (f)
0 – 14 years	34.5	31.0	27.9
15 – 64 years	60.1	63.5	66.6
Over 65 years	5.4	5.5	5.5

Source: EIU, September 2004

Urbanisation of the population

Vietnam's urbanisation rate has not grown significantly, with an increase of just 2.7% from 1998 to 2003.

Urban/Rural split

% of total population	1998	2003	2008 (f)
Urban	23.1	25.8	28.7
Rural	76.9	74.2	71.3

Source: EIU, September 2004

Income/Buying power

Access to a statistical breakdown of the income, expenditures and savings of the Vietnamese population is difficult due to a number of reasons, including the lack of institutions dedicated to information gathering and statistics in Vietnam. Furthermore, personal banking remains relatively new and the Vietnamese economy continues to be predominantly cash-based. Also, Vietnamese savings in the form of gold and foreign currency are considerably high.

Consumer behaviour

Average household spending patterns

Similar to other developing countries, the vast majority of Vietnamese remain poor. Therefore, it is likely that a large proportion of Vietnamese incomes are spent on basic goods and services such as food, clothing, hygiene products, transportation, etc.

A survey conducted by Taylor Nelson Sofres between 1995 and 2000 showed that close to a quarter of the consumption of an average Vietnamese household is on groceries.

Lifestyles/Shopping habits

The average Vietnamese consumer continues to rely on small open markets and domestic owner-managed shops for their basic needs, such as food and clothing. Although large foreign-owned retail outlets and shopping malls in major urban centres, such as HCMC and Hanoi, attract much attention and visitors, it is highly unlikely that the average Vietnamese consumer can afford to shop regularly at such establishments.

Brand/Price sensitivity

Although Vietnamese generally prefer foreign brands to domestic brands, it is likely that they remain fairly price-sensitive given their low-income position.

An example of this foreign product preference was shown in a recent survey conducted by an international market research institute, where Vietnamese products accounted for 6% of the domestic electronic audio visual market in 2004, while Japanese trademark products held 48% and South Korean trademarks 35%.

Emerging middle and upper class

Similar to many emerging economies, Vietnam's recent reforms have increased the income gap between the rich and poor. In 1998, Vietnam's GINI* index was recorded at 36.1 (Sub-Saharan countries typically stand at 50, while Scandinavian countries typically record 25). In 2002, the income of households within the wealthiest 5% was 20 times that of the poorest 5%, an increase of 17 times over those recorded in 1999 and 15 times those in 1996.

The growing urban middle and upper classes have shown a particular interest in foreign luxury brands, electronics and cosmetics. From 2003-2005, consumption of electronic products such as digital cameras and televisions has increased by more than 250%.

Note: The GINI* coefficient is a measure of inequality developed by the Italian statistician Corrado Gini and published in his 1912 paper "Variabilità e mutabilità". It is usually used to measure income inequality, but can be used to measure any form of uneven distribution.

RETAIL & CONSUMER SECTOR PERFORMANCE

Major consumer goods players

Domestic consumer goods companies in Vietnam include Kinh Do Bakery, Thai Tuan Textile, Biti's Shoes and Slippers, Trung Nguyen Coffee, Vinamilk, Tuong An Cooking Oil, and Saigon Trading Corporation (SATRA).

Among the major foreign players are Unilever, Procter & Gamble, Coca Cola, British American Tobacco, Philip Morris, Johnson & Johnson, AC Johnson, Triumph, Nestle, Colgate Palmolive and L'Oréal.

Major retail players

Major domestic retailers

Some of the major retail players in Vietnam are Saigon Co-op (operator of Co-op Mart and Co-op stores), Phu Nhuan Jewellery Joint Stock Company (PNJ), Cong Ty Phat Hanh Sach Thanh Pho Ho Chi Minh (Fahasa), AA Corporation and Viet Tien Garment Company.

Major foreign retailers

There are a handful of foreign retailers in Vietnam, including Metro Cash & Carry, Groupe Bourbon and Parkson. Germany's Metro Cash & Carry operates four centres in HCMC, Hanoi, Can Tho and Hai Phong. Metro's ability to offer some of the lowest prices has enabled it to do well in the local market. France's Bourbon Group operates four Big C hypermarkets. The company plans to establish hypermarkets in Hai Phong, Da Nang and Can Tho. Parkson, a Malaysian company, plans to open three shopping centres in HCMC and Hanoi during its first two years in Vietnam followed by the development of a national retail chain. Finally, Dairy Farm, a Hong Kong-based company, is in the process of obtaining an investment license. It is important to note that despite the financial and managerial prowess of these foreign players, the local market remains dominated by domestic companies.

The country's first supermarket was opened in HCMC in 1994. Now there are more than 90 supermarkets. Although these stores have continually achieved an average growth rate of 20% per year, their turnover only accounts for 10% of the country's total retail sales, and 90% of retail sales are still made by local neighbourhood markets.

Market share evolution by retail format

Foreign invested and private companies have been growing at the expense of the state owned sector, which has seen consistent declines from a 30.4% market share in 1990 to an estimated 16% in 2003.

Share of total Vietnamese market by sector

	1993	2000	2001	2002	2003 (f)
State owned (%)	21.8	17.8	16.7	16.2	16.2
Private (%)	78.2	80.6	81.7	79.9	81.2
Foreign invested (%)	0	1.6	1.6	3.9	2.6

Source: General Statistics Office of Vietnam

E-commerce

A very small percentage of Vietnamese households have access to the internet. The most common and affordable access is in the form of internet cafes and shops that charge patrons hourly rates. E-commerce remains in a very early phase of development. There have been increasing calls from certain groups within the business community for the Vietnamese Government to draft a law on e-commerce as such law currently does not exist.

M&A activity

The draft Common Investment Law, expected to be effective in 2006, provides for mergers and acquisitions as a form of direct investment. Currently, however, the provisions provided in the draft Law for regulating such transactions are not detailed. Given the early stage of economic development and weaknesses in the current legal framework, mergers and acquisitions are rare in Vietnam. A notable recent transaction involved the merger of Vinamilk and Saigon Milk in 2005. Although the merger and acquisition of companies is rare, both Vietnamese and foreign consumer goods companies have embraced the practice of acquiring assets such as trademarks. Kinh Do recently purchased an ice cream trademark from Unilever, while Colgate Group purchased the Da Lan toothpaste trademark from a Vietnamese owner.

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

Challenges

Weak legal framework

Despite a rash of new laws, Vietnam's legal framework remains weak. Although the Vietnamese authorities strive to adopt the best practices of other countries, proper implementation and consistent interpretation remains a challenge. Further, the predictability of legal issues is often difficult as the laws are constantly undergoing change and development. The interpretation and implementation of the new Competition Law will likely impact the retail and consumer industries. In addition, the new Intellectual Property Law (expected in late 2005) will impact the consumer products industry.

Restrictive environment

The regulatory environment remains restrictive. Certain sectors deemed sensitive by the government are not open to foreign investors, or are conditional on approval being obtained from relevant state bodies.

High import tariffs

The Vietnamese Government generally protects the manufacturing industry in Vietnam. Therefore, import tariffs applied to manufactured consumption goods generally remain high for parties excluded from bilateral trade agreements or the AFTA.

Outdated and poor infrastructure

Infrastructure such as modern transportation, communications and utilities remains weak. The vast majority of the population lives in rural areas where basic infrastructure, such as communications and roads, remains poor. Establishing large to medium scale retail outlets and markets in such areas continues to be difficult. For this reason, major malls and markets generally remain within cities such as HCMC, Hanoi, Can Tho and Hai Phong.

Weak intellectual property protection laws

The US-Vietnam BTA provided a major impetus for the development of Vietnamese laws protecting intellectual property (IP). Vietnam is a signatory to numerous conventions and treaties aimed at protecting IP rights and a new Intellectual Property Rights Law is currently being drafted and is expected to be passed at the end of this year. Currently, provisions within the 1996 Civil Code govern IP rights. Despite the Civil Code and the new draft Law, in practice, brand and trademark protection remains weak. This is evident as the sale and distribution of pirated media and counterfeit merchandise remains prevalent.

Media remains regulated

The Vietnamese Government generally protects domestic advertising and promotion companies. Foreign advertising companies are generally denied direct media access.

Labour

Although education levels are relatively high in Vietnam, a lack of available skilled labour poses a challenge to companies trying to grow in this environment. The cost of skilled labour is also relatively high compared to the rest of the region with the major centres like Hanoi and HCMC experiencing rapid wage inflation for skilled positions in recent years.

Opportunities

Rapid growth in incomes

Within East Asia, Vietnam's growth rates are second only to China. Growth is expected to remain steady at approximately 7.5% for 2005 and the two years beyond. In 1993, the World Bank estimated that 58% of Vietnamese lived in poverty; within nine years, the proportion living in poverty dropped by about half to 29%.

WTO Accession

Vietnam first applied for WTO membership in 1995. However, at the time, the country's legal and regulatory framework fell short of that required by existing members. Although it is unclear whether notable reductions in the Most Favoured Nation import duty rates (MFN) will result from accession in 2006 (latest predictions), the WTO has already benefited the Vietnamese economy as a major driver of legal reforms and market liberalisation.

Low import tariff for ASEAN members

As a member of the ASEAN, Vietnam is party to the ASEAN Free Trade Agreement (AFTA) and has committed to reducing tariffs on a comprehensive list of goods by 2006.

Large, growing and young population

Vietnam's population is one of the youngest in East Asia, with approximately 70% of Vietnamese people under the age of 35 or within working age. There is a clear preference for foreign brands among the population; this preference is especially evident amongst Vietnamese urban youth. Although Vietnam is one of the world's poorest countries, Vietnamese are notably brand-conscious.

Emerging trends

Emphasis on brands and brand development

Although it may be difficult to quantify at the moment, the Vietnamese have shown a general preference for foreign brands over domestic equivalents. International consumer products companies have invested heavily in the advertising and promotion of their products through multiple avenues, including television, billboards and promotional campaigns.

The rise of luxury and cosmetic products

Similar to China several years prior, Vietnam is seeing rapid growth in luxury brands. Companies like Mercedes-Benz, Louis Vuitton, Mont Blanc and Cartier have established themselves in Vietnam's major urban centres. These companies establish their outlets in upscale malls and luxury hotels. Even Hanoi, the city viewed among Vietnamese as being frugal and cost-conscious, now hosts a Louis Vuitton store.

Cosmetic and toiletries have also seen large gains in recent years. In 2003, the sale of such products grew by 19% year on year reaching VND5.09 trillion. The cause of such tremendous growth appears to have been the rapid rise in income, particularly among urban women, as well as heavy investment in advertising and promotion.