

EXPEDITING THE DEVELOPMENT OF MODERN TRADING PATTERNS IN THE RURAL MARKET

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In rural Vietnam, besides traditional trading patterns like rural marketplaces, there have emerged new ones such as supermarkets and trading centers. Albeit the number of such modern patterns is quite humble, they have helped change the face of rural market. This paper tries to shed light on the demand for such new trading patterns in the rural market and how they have developed thus far, and then proposes some solutions to the development of Vietnam's new trading patterns in Vietnam's rural market.

Keywords: rural market, trading pattern, supermarket, trading center.

1. Demands for modern trading patterns in rural Vietnam

To develop modern trading patterns in the rural market is an indispensable part to the rural industrialization and modernization process and the rural reform program as directed by the PM Decision 491/QĐ-TTg dated April 16, 2009. This is explained through practical and scientific fundamentals below:

- Rural marketplaces have existed since early ages and are very familiar with villagers. However, if the new focus is just on developing the network of such markets, it is improbable to meet the need for commodities exchange and trading which is rapidly expanding due to the extensive agricultural production and the growth of manufacturing and service sectors. Additionally, albeit income of many households is

low, the per capita average income in rural areas is substantially being improved, especially that of townspeople and active farmers who adapt well to the market mechanism.

- More than 70% of Vietnam's population dwells in rural areas where potentials for retailing market has not been examined and tapped by companies. Meanwhile, the Prime Minister has approved the project of "developing the rural trading in the period 2010-2015 and orientations to the year 2020", which will enjoy an investment of VND9,126 billion from the government budget. Accordingly, until 2020, all communes will have marketplaces satisfying new rural standards; and 80% of towns will possess small and medium-size distribution systems. Enterprises expanding their business to rural areas can enjoy preferential policies on tax,

credit, and infrastructure. Apparently, the aforementioned issues illuminate the development prospect of the rural retail market, and enterprises can feel safe and sound to develop modern trading patterns in rural areas.

- In some rural areas, especially in rural townships, many modern trading patterns have emerged, and together with rural marketplaces making a harmonious combination of traditional and modern trading. The appearance of convenience shops, DIY stores, supermarket, and trading centers, etc. has substantially improved the local trading activities, and thereby meeting the need of rural socioeconomic development.

- The rural urbanization and modernization process and the rural reforms have posed an urgent need for establishment of modern trading patterns which are supposed to change the face of rural areas and facilitate their socioeconomic development.

Through the aforementioned issues, it is to assert that the establishment of modern trading patterns in rural market is an indispensable part and a matter of concern to researchers, managers and business owners as well.

2. The development of modern trading patterns in the rural areas in the past

Overall, although the rural Vietnam consumes around 70% of commodities, the distribution network of local enterprises has not been expanded or run effectively in rural market. Most of 400 supermarkets and trading centers in Vietnam are primarily built in big cities and provincial towns.

In the past, retailing enterprises, when expanding the system of supermarkets or trading centers, mainly concentrated on big cities with high spending power such as HCMC, Hà Nội, Hải Phòng, and Đà Nẵng, etc. Yet recently, this trend has been veered to other markets by many local and foreign investors. Retailers have focused on expanding retail stores, supermarkets, convenience stores, and trading centers, etc. For example, the period 2007-2008 saw just 200 to 250 supermarkets and trading centers

nationwide, but this figure jumped to 571 ones in 2010 alone. Of them, around 23 trading centers and 26 supermarkets have been operated by foreign-invested enterprises. Many wholesale markets and retail systems have been set up; there have been 8,500 to 9,000 marketplaces of any kind up till now. Modern trading patterns have quickly taken its place in the rural economy and around 20 to 30 percents of commodities have been distributed through new channels (i.e. big retailers) such as Saigon Co.op, Hanoi Trade Corporation (Hapro), Saigon Trading Group, Nguyễn Kim Appliances Center, Nhất Nam JSC, and Phú Thái Corporation, etc.

Investors have deemed rural areas as an attractive place to develop their modern retail networks; yet the number of investors is quite humble. Given information released by the Center of Business Studies and Assistance (BSA), just around 15 enterprises are successful in the rural market and most of them are producers of fast moving consumer goods such as Unilever, P&G, ICP, PepsiCo Vietnam, Coca cola Vietnam, Tân Hiệp Phát, Vinamilk, Kinh Đô, Mỹ Hảo, and Vina Acecook, etc. with the retail revenue from rural outlets ranging between 20 and 25 percents of their gross revenue. The remainders include Vietnamese make of products, China-made ones, and unlabelled products.

Among Vietnamese enterprises making their own way in the rural market, it is impossible to exclude Saigon Co.op with 28 out of 30 supermarkets from the Central Coast to the South Vietnam. In 2009 alone, Saigon Co.op did launch its Co.opMart in the Thanh Hà Trading Center in Phan Rang City of Ninh Thuận Province. It is also the 38th one of the Co.opMart chain and the 18th provincial branch of Saigon Co.op. As was planned in 2009, Saigon Co.op will invest in more 12 supermarkets nationwide which amount to VND500 billion; and in 2015, its supermarkets will be present in all provinces and cities.

Hanoi Trade Corporation, after four years of setting up its retail networks named as Hapro Mart, has launched some supermarkets and

convenience stores in Bắc Kạn, Thanh Hóa, Thái Bình, and Hưng Yên, etc. In Hà Nội, Hapro, as per its 2011 plan, will develop a Hà Nội Shopping Outlet in Hải Bối - Bắc Thăng Long, and a Hà Nội Shopping Center in Dương Xá - Gia Lâm; and construct five medium-sized trading centers which occupy an area of 1,000m² each. In addition, Hapro also puts ten supermarkets which represent 1,000m² each into operation; establishes 30 to 70 Haprofood grocery stores that are to supply safe foods and vegetables. In sum, in its business strategy, Hapro has paid its due attention to the retail network in rural areas. Some other enterprises such as Citimart and Maximark in HCMC have also invested in trading centers and supermarkets in provinces of Khánh Hòa, and Đồng Tháp, etc.

Several foreign-invested enterprises such as Big C and Metro strive to win a place in the stage. Metro Cash & Carry, after stirring up the market with eight wholesale hubs in HCMC, Hà Nội, Hải Phòng, Đà Nẵng, and Cần Thơ, has invested in the ninth one in Biên Hòa City of Đồng Nai Province. Metro Group has been constructing another distribution center in Quy Nhơn City of Bình Định Province. Besides, Big C together with Phong Phú Textile Corporation officially inaugurates a hypermarket in Huế, whose gross investment capital amounts to VND300 billion. Thus, after 11 years in Vietnam's market, Big C has possessed nine supermarkets in HCMC, Hà Nội, Hải Phòng, Đà Nẵng, Đồng Nai and Huế.

Local authorities are also concerned about the development of modern trading patterns in rural areas. Thái Bình Province is a typical instance. In 2008, the Department of Trading and Tourism in Thái Bình Province did establish a project of developing supermarkets and trading centers in the province for the period 2008-2015 and orientations to 2020, that is:

Table 1: Modern trading patterns in Thái Bình and plans for 2015 and 2020

| Trading pattern | In 2008 | Till 2015 | Till 2020 |
|----------------------|---------|-----------|-----------|
| 1. Supermarkets | 04 | 41 | 78 |
| <i>In districts:</i> | 0 | 31 | 53 |
| 2. Trading centers | 01 | 14 | 21 |
| <i>In districts:</i> | 0 | 9 | 14 |

Source: Decision 511/QĐ-UBND dated Mar.18, 2008 by the People's Committee of Thái Bình Province.

Supermarkets and trading centers in Thái Bình province are mainly located in the Thái Bình City whereas there are just some small-sized convenience stores in towns, districts and along arterial roads. These stores, however, can be developed into supermarkets in the future. According to the master plan up to 2015, the province strives to have seven to ten supermarkets and first-class trading centers, which will be comprehensive trading and service complexes that serve as hubs for flows of goods of the whole system. Such supermarkets will be housed in the city and some towns in order to link small-sized supermarkets in districts and facilitate the supply and exchange of commodities. Moreover, this system also includes warehouses and freight yards which are on the outskirts of the city and near to material zones. Trading buildings will be located within crowded residential areas or trading centers, and must be appropriately allocated among wards of a city. Each town should house at least one or two second-class general supermarkets and small-sized trading centers.

Third-class supermarkets and convenience stores, as planned for the year 2020, would take over from retail stores; and supermarkets would gradually take the place of convenience stores. In Thái Bình, to develop supermarkets and trading centers to replace retail stores is indispensable and suitable to strategy to transform Thái Bình as a purely agricultural province, build industrial clusters in districts and develop a centralized agricultural production, thereby expediting the rural industrialization and modernization in the

province. At present, supermarkets and trading centers in Thái Bình, as mentioned above, are mainly located in the Thái Bình City while small-sized convenience stores made their appearance in towns, districts and along arterial roads. Still, they would be a basis for development of supermarkets in the future.

Other provinces in Vietnam have also made plan to develop networks of supermarkets and trading centers, especially in rural areas, and simultaneously adopt policies to attract investment in this field. However, it is apparent that modern trading patterns, despite developed in rural market, are rather simple and unprofessional. Mini-supermarkets and convenience stores operate with some difficulties in towns and districts.

Prime reasons for the aforementioned matters are as follows:

- While rural marketplaces have mushroomed in rural areas, local authorities have not paid proper attention to modern trading patterns. Due to lack of planning, guidelines, managerial capacity and unanimous standards, etc., modern trading patterns in rural market are developed spontaneously. Moreover, each locality has not concerned itself with developing rural infrastructural systems, and allocation of premises to trading centers is also impeded by the modest land stock.

- Incentives to investment in the modern retail system in rural areas adopted by local authorities contain a lot of drawbacks, and thereby becoming less attractive in the eyes of investors from other provinces.

- Many of enterprises are not interested in the rural market and have not changed their mind towards such opportunities. Most of them have not set up any distribution channel in rural areas for fear of high cost and potential risks.

- Many enterprises that engaged in modern trading patterns in the rural market do not have a strong financial potential and have not determined their long-term strategy in the rural market, and thus their selling prices are often higher than those in rural marketplaces or retail

stores. Meanwhile, low price is the primary concern of majority of rural consumers when making a purchase decision.

- Majority of rural consumers are not used to making a purchase from modern trading facilities. When questioning some residents in Vũ Quý Commune (Kiến Xương District, Thái Bình Province) why they are not fond of purchasing from a mini-supermarket which is located in the heart of the commune, we realize that the habit of buying commodities from commune marketplaces or retail stores is quite popular. Many of them do not like the procedures in the supermarket (i.e. choose products and pay at the checkout operator). They also believe that commodities displayed in supermarket would be very expensive and unaffordable. Such the commonly-held belief has made the revenue of Liên Thắng Trading Center in Sóc Town of Vũ Quý Commune, which is formerly a traditional retail store, decline sharply.

- Income and purchasing power of rural consumers is rather low, especially in purely agricultural districts where the ratio of poor households is high. Thus, enterprises with high competitiveness have not concerned themselves with investing in supermarkets in rural areas.

3. Some recommendations for development of modern trading patterns in the rural areas in the future

a. For relevant authorities:

- Planning to develop modern trading patterns in the rural market: When developing socioeconomic infrastructure, proper priorities should be given to trading centers and supermarket networks according to a master plan appropriate to local socioeconomic conditions and those in neighboring provinces. The planning must be thoroughly undertaken, meeting scientific and practical requirements. Zoning residential areas must be accompanied with trade development in specific areas in order to promote the efficiency of supermarket networks and trading centers, thereby avoiding

formal or unpractical zoning which can cause unnecessary waste. It is also needed to organize the urban space, traffic and residential conditions, especially the land stock for supermarkets, trading centers, and supporting works (e.g. parking lots, traffic roads, etc.).

At the present time, medium and large-sized supermarkets and trading centers should be developed in the heart of towns where population density is pretty high and traffic conditions are favorable. Additionally, convenience stores and mini-supermarkets in rural areas where goods are sold at reasonable prices are also suitable to income, purchasing habits, and residential features of many rural areas in Vietnam.

- We should work out preferential policies to aid investors in constructing modern trading facilities in the rural market: In fact, it is not an easy task to persuade enterprises to invest in trading centers or supermarkets in rural areas when they might have to bear a high cost and business performance might not be high. Therefore, local authorities should keep amending and perfecting preferential policies, and then propagate them so that enterprises can be sure about their long-term benefits when investing in the rural market.

Localities should expedite public participation in renovation, upgradation, and construction of new supermarkets and trading centers on the basis of voluntariness and mutual benefits. It is possible to call for various resources through different channels such as attracting foreign and domestic investment, joint venture between foreign and local enterprises, and public-private partnership, etc.

The government should encourage franchise so as to develop distribution channels in the rural market. For enterprises with their own products or supermarkets with best-known trademark, it is not necessary to run branches in towns or districts but instead can employ local competent distributors. Private investors can franchise their business to others if requirements are met. This aims to provide a solid foundation for the establishment of modern trading patterns in the

rural market. The government should promulgate preferential policies in terms of tax and credit, etc. to encourage investors to set up distribution channels in the rural market, and simultaneously help the government soothe away its burden of developing distribution channels in the rural areas, especially in remote areas.

It is also crucial that the more efficient the distribution system of an enterprise is, the more it must be supported by the government. Thus, there should be supportive policies for the sake of enterprises with numerous branches and franchises.

Rural reform and socioeconomic development programs in rural areas must be synchronously implemented so as to create jobs and enhance income for rural residents, and thereby boosting the purchasing power in the rural market accordingly. This is also to help rural residents change their purchase habits and get them familiar with modern trading patterns. In so doing could the development of modern trade models be viable and sustainable.

b. For enterprises:

- Changing their perception of investment in the rural market: An enterprise may suffer loss and poor business performance when investing in the rural market; yet it is just in the short term. Investment in the rural market, in the long term, is a far-sighted decision of smart investors. Investors should bear in mind that to conquer the rural market in the short term is extremely challenging due to dispersion of rural population, poor purchasing power and different consumer behaviors. If a supermarket or trading center would like to charge high prices to recover principal quickly, they would never attract rural consumers and even make them shy away from modern trading system. Therefore, in order to penetrate deep into the rural market, enterprises should work out strategic plans to commit and orient themselves toward long-term targets.

- We should establish a suitable network of distribution channels in the rural market: Enterprises need to be aware of the fact that to invest and establish widespread distribution

channels in the rural market will not only help them avoid face-to-face competition with foreign retailers but also link the whole distribution system, and thereby promoting the flow of domestic goods. Many participants in the bring-Vietnamese-goods-to-rural-areas program state that the sale of Vietnamese products is not high enough due to lack of distribution channels instead of the exotic-goods-weighted habit of rural residents. Therefore, establishing distribution channels, especially modern trade models in the rural market, is really necessary and must be taken into account.

Choosing the modern distribution channels through the supermarket networks, trading centers, and specialized stores, is an inevitable tendency, which will help enterprises compete better in the economy. Moreover, traditional distribution channels such as ordinary marketplaces, kiosks, retail stores, etc. should also be well managed. Setting up a distribution network that supplies goods at reasonable prices and possibly best quality is essential for an enterprise to penetrate into the rural market. To do so, the enterprises must carry out researches on consumer tastes and demand, and advertise their products to rural customers.

- We should also develop products suitable for the income and purchasing behavior of rural residents: Due to the fact that majority of rural residents have low incomes, enterprises should aim at producing basic necessities with appropriate prices to serve their life such as garments, household appliances, and agricultural

materials, etc. Developing essential goods with reasonable price, durability and quality, and suitable for consuming habits of rural residents will ensure a firm foothold in the rural market. Besides, the product quality should be thoroughly considered as well; and packaging may be simplified so as to reduce production cost and selling prices.

Almost all rural residents live on agricultural production, thus enterprises should help them sell their produce. Once their agricultural output is sold well, they will have enough disposable income to buy high-quality products in supermarkets or trading centers. Enterprises should be the strong link in the chain of agricultural product supply and guarantee the sustainable development of the chain as well as harmonize benefits of both enterprises and rural residents. Helping rural residents improve their income is really beneficial to enterprises in the long term.

Developing modern trading patterns in the rural market is an indispensable part of the rural socioeconomic development, which is to modernize the domestic commerce and proactively integrate into the world economy. The aforementioned measures, if conducted synchronously together with the mutual responsibility of local authorities, enterprises, etc., will definitely expedite the development of modern trading facilities in rural areas in the near future■

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