FMCG companies in Vietnam are attempting to target and design their products to meet demand, given that consumers are changing their shopping habits to cope with rising prices.

PHOTO: VIET TUAN

Smarter & wiser

■ LINH SAN *reports*

The consumer price index (CPI) was forecast to increase by 0.1-0.2 per cent in June against May, according to the Ministry of Industry and Trade's Market Management Board. In the first five months of this year it has increased 13.3 per cent over the same period last year, the General Statistics Office reported. With inflation concerns in mind, many consumers have been saving and only spending on bare necessities, especially the middle and low-income segments. Urban households have been forced to rearrange their fast moving consumer goods (FMCG) budget towards packaged groceries at the expense of beverages, home care and personal care.

According to Kantar Worldpanel, an average household spent just one-fifth of their FMCG budget on packaged groceries in 2010. A year on such spending accounts for nearly one-quarter and, at the same time, other spending is being cut to stay within budget. The largest spend continues to be on dairy, which accounts for more than one-third of all FMCG spending in urban areas. "Vietnam's market is facing many challenges at the moment," said Mr Fabrice Carrasco, Managing Director of Kantar Worldpanel Vietnam, Philippines & Indonesia. "Inflation has had a strong impact on every consumer's life. In that respect, it is crucial that manufacturers and retailers have a thorough understanding of consumers and their different reactions during inflationary times."

COPING WITH PRICE RISES

Almost all FMCG companies in Vietnam, such as Unilever, Kinh Do, Coca-Cola and the Masan Group declined to answer VET's questions about their business operations. Mr Emre Olcer, General Manager of P&G Vietnam, told VET that, overall, the FMCG market has been affected by the economic downturn, although to a lesser extent compared with other market segments. "Consumers are very price conscious at the moment but their purchasing decisions also very much depend on product quality, their income and market sentiment," he said.

Given the way current state of the market, P&G considers innovation to be the heart of its business and designs new products to meet market demand and improve consumer lives in small but meaningful ways. "We are reaching people at all levels, from rural income earners to affluent consumers, and innovating to win by bringing in trusted brands and products," Mr Olcer added. P&G's target is to retain the strong growth momentum of recent years and reach greater heights this year and in subsequent years. "In order to this we will implement different strategies to reach out to more consumers and at the same time invest in developing our own people to deliver on our mission of touching more lives in more parts of Vietnam," he said.

While the Masan Group also declined to talk to VET, according to a recent statement it released in April, Masan Consumer's net sales growth for the first quarter of 2012, amid a challenging retail market, was 16 per cent over the same period of 2011. Masan Consumer now manufactures and distributes a range of food products, including soya sauce, fish sauce, chilli sauce, instant noodles, instant coffee and instant cereal. The company commenced operations in 2000 and has subsequently grown its product portfolio, domestic sales and distribution channels to establish a leading position in Vietnamese branded consumer food products, with key brands being Chin-su, Tam Thai Tu, Nam Ngu, Omachi, Oh Ngon and Tien Vua.

The statement also said that Masan Consumer continues to invest and transform its operating platform by increasing points of sale to 175,000 as at the end of March this year, from 164,000 in December 2011, to further extend the reach of its mass market products to rural areas, completed the integration of its supply chain and distribution channels with Vinacafe's, and fully automated its fish sauce processing facility with the installation of two additional production lines, increasing total monthly capacity to 24 million litres.

With an ambition to become both the Vietnam and Asia Pacific leader in the food and beverage category, Kinh Do has undergone a drastic transformation over the last few years through investment in building a strong foundation for the future. The company thought 2012 would be a year of progress and consolidation in a challenging environment. "Going forward in 2012, the operating environment will continue to be challenging and we will continue to have to work hard to grow sales and improve profitability, with macro-economic policies still focused on managing the delicate balance between inflation and growth," Mr Tran Kim Thanh, Kinh Do Group's Chairman, said in a company statement.

Ms Mai Thi Tuyet Hoa, Director of Consumer Research Vietnam at Nielsen, told VET that consumers are becoming smarter and wiser in budgeting and shopping, so FMCG companies need to work harder on proving the value of their products and brands. "While value is different from price, consumers in certain categories are downgrading to cheaper brands, which is a huge opportunity for mass/mainstream brands," she said. "For premium

brands, the key challenge is to work out the right proposition to justify the price difference."

Kantar Worldpanel's research findings also identify the different methods adopted by consumers to cope with price hikes, such as rationalising, bulk buying and down-trading. Apart from rearranging their spending, consumers have also taken certain products out of their basket. Non-food categories such as personal care and household care were those that have suffered the most from such moves. For instance, popular but non-necessary categories such as glass cleaner, air freshener, shaving foam, lipstick and hair products appear to have either fallen down the shopping list or been removed altogether.

Bulk buying - where consumers go shopping for FMCG less frequently but increase their purchases - was also observed as another reaction among consumers during inflationary times. Smart consumers went for big pack sizes as an economical solution. According to a Lifestyle Survey conducted by Kantar Worldpanel, nearly two-thirds of urban housewives agree that "I buy a bigger size because the price is usually less expensive". As a result, more and more households head for big pack sizes when shopping for FMCG products.

Not all consumers, however, have the same reaction towards inflation. While the majority buy smart in bulk, down-trading was found among low-income shoppers, who switched to more affordable solutions. This group seeks both lower prices and smaller pack sizes, disregarding the relatively lower quality. One of the most noticeable reactions of those shoppers towards high inflation was buying shampoo and hair conditioner in sachets instead of bottles. They also chose the powdered detergent of low price brands or private labels to replace mainstream brands.

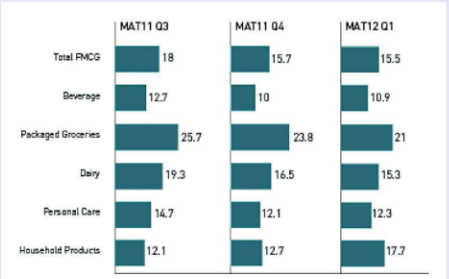
In order to sustain growth during inflationary times, "value for money" should be a key message in the communications and offerings of every FMCG company, according to Mr Carrasco. "Value for money does not mean only focusing on cheaper products and giving discounts, but is more about highlighting the value equation of the product offering and justifying the price with appropriate benefit levels," he said.

There are two different consumer trends happening at the same time in the FMCG market. While low-income consumers focus on different tactics to manage their spending, including seeking cheaper prices, upper-income shoppers do not find themselves overly affected by inflation and retain a better value for money attitude in their choices. "Therefore, dual marketing is needed, to target different groups of consumers," said Mr Carrasco. "The key to success lies in flexibility in understanding and adapting to the different demands of different consumer groups. Moreover, businesses should be well prepared to pick up on the initial signs of recovery and lead the way."

Mr Olcer believes that Vietnamese consumers are, in general, very wise purchasers, appreciating value for money products, and are very progressive in terms of looking for new products and better quality that improve their lives.

In line with steady inflation, total FMCG market value growth in urban Vietnam has continuously increased, according to Kantar Worldpanel's latest report. With growth of 15.5 per cent in the latest period, Vietnam was still one of the fastest growing FMCG markets in Southeast Asia. ■

CATEGORY VALUE



Source: Kantar Worldpanel, Quarter 1, 2012

THE HANOI CLUB HOTEL & LAKE PALAIS RESIDENCES

STOP SEARCHING ELSEWHERE!

Meetings Conferences Product Launches
Seminars Executive Retreats Private Parties
Workshops Corporate Dinners Wedding Banquets

For enquiry & assistance, please contact 04.38238115, ext: 6027
or e-mail: banquet.manager@hanoi-club.com

76 Yen Phu Street, Tay Ho District, Hanoi, Vietnam
Website: www.hanoi-club.com * www.facebook.com/TheHanoiClub