

The Participation of the Poor in Supermarket-driven chains in Vietnam

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I ABSTRACT

Due to the use of labour saving and capital intensive technologies in supermarkets, poorer segments of the population may be excluded from potential benefits. The study assesses conditions for an increased involvement of the poor in the food value chains driven by supermarkets and other value-adding outlets in Vietnam. The trends of the different distribution chains were analysed through secondary data. Surveys on poor consumers' access to different retailing points were made in Hanoi and Ho Chi Minh City. Case studies of vegetable, litchi and flavoured rice chains investigated poor farmers' and traders' participation in distribution value chains, based on in-depth interviews of stakeholders along the chains on access to resources and markets, relationships with other actors and financial indicators. The employment impact of the different chains was assessed through secondary data and census of points of sale in selected urban districts.

Markets and street vendors are still the major players in food distribution, when considering quantities sold, as well as employment. Street vending and markets generate more employment by volume of business than supermarkets, especially for the poor. They are also the main points of sale for the poor consumers, who rarely purchase in supermarkets, because of price and distance constraints. Poor farmers have no direct access to supermarkets because of the requirements in terms of safety (for vegetables), quantities and conditions of delivery (for all products). Yet they can be indirect suppliers of supermarkets through the belonging to (or contracting with) farmers' associations involved in quality development and control through training and credit programmes. Supermarket supply through farmers' associations generally increases farmers' incomes when compared with traditional chains. Propositions aimed at maintaining the diversity of retail trade are finally made.

II INTRODUCTION

Although Vietnam is praised for its success in poverty alleviation, poverty and unemployment are still major concerns for the government and donors. In 2004, the poverty rate was estimated at around 20 percent (while it reached 58 percent in 1993). Vietnam would like to achieve the status of a middle-income country by 2010, i.e. increasing the present GDP of 600 dollars to a level in excess of 1,000 dollars per year (World Bank, 2007). Poverty in Vietnam is mostly rural. The rural poverty rate is 25 percent compared to 4 percent in cities. Yet urban poverty is underestimated as most of the migrants are not registered and do not benefit from social services. Cities are growing at a rate of 3 percent per year, although urbanisation remains limited in comparison with other Asian countries (25 percent in 2002

compared to an average of 36 percent for Southeast Asia). Reducing rural as well as urban poverty is one of the four pillars—termed social inclusion—in Vietnam’s 2006-2010 Socio-Economic Development Plan.

Food distribution is well known to be a key factor for the social inclusion of the poor, as it creates small-scale business activities and impacts on the access of the poor to food commodities. Although it is not as fast as in other countries of Asia, e.g., Thailand, the development of supermarkets goes at a steady path. In late 2001, Vietnam could count 70 supermarkets, 32 in Hanoi and 38 in Ho Chi Minh City, while there was none before 1990 (N.T. Loc, 2004). Consumers express a growing concern for the quality – especially safety – of food products (Figuié, 2004). This demand has favoured the development of the sale of food products by supermarkets, and also by new retailing enterprises operating at market stalls or shops, for whom efforts on visual quality (attractive presentation; packaging) and communication on product safety are major promotion tools.

The development of these innovative distribution chains goes together with value-adding activities: “modern” wholesale and retailing firms are characterised by investments in shelf presentation (packaging, storage), advertisement, selection of suppliers according to criteria of quality and regularity. These investments, together with economies of scale generated by volume distribution, add much value to the business of food distribution, relative to more traditional retail outlets which sell quite uniform, undifferentiated products, to the consumer (Goletti, 2004). Thanks to economies of scale, they also have a potential for cutting distribution costs and sell more affordable products to consumers (although most supermarkets still sell at higher prices than marketplaces at present, the situation may change with their expansion, as it has in Latin America in the 1990s). Hence it is legitimate to consider supermarkets, and other distribution outlets involved in quality efforts, as positive sources of income opportunities for a country like Vietnam where poverty alleviation is a major policy goal. The challenge is how to ensure that the value added by these new enterprises can effectively be distributed to the poorest people rather than primarily remunerating the persons able to invest in this demanding business, and excluding the poor who cannot compete with them.

The main objective of the paper is to assess conditions for an increased involvement of the poor in the food value chains driven by supermarkets and other value-adding retail outlets. Supermarkets are considered here in the Vietnam definition of shops covering more than 500 m², with self-service. In Vietnam they include retail supermarkets and wholesale supermarkets (Metro chain). The poor here are considered: (i) as consumers of food products, (ii) as suppliers of food products – be they producers, traders or employees of enterprises involved in production and trade. The main hypotheses tested in the study drawn from the literature are summarised below:

- As consumers, the poor are excluded from supermarket access in the first step of supermarket development because of higher price and distance from home; the situation may

change in a second step when prices go down and the outreach of supermarket widens (Reardon and Berdégúé, 2002; Hagen, 2002).

- As employees in trade distribution, the poor are excluded from supermarket development in the sense that supermarkets are characterised by labour-saving and capital-intensive innovations (self-service, mass distribution, cash registers).

- As farmers, the poor are generally excluded from supermarket development due to the requirements in quality assurance and large-scale supply, as well as delays in payment (Reardon and Berdégúé, 2004, 2005; Rondot and al, 2005). Conditions for the poor to have profitable access to supermarket-driven chains and other quality chains include the supplying of niche products and the set up of producer groups.

- Supermarkets vary as regards social objectives, i.e., their balancing of ethical standards versus competitive pricing (Fox and Vorley, 2004).

III METHOD

The data collection method is summarised in Table 1. The trends of the different distribution chains were analysed through the gathering of secondary data. Surveys on poor consumers' access to different retailing points were made in Hanoi, Ho Chi Minh City and Moc Chau, as well as comparison of prices between the different points of sale in these cities. Case studies of four value chains were conducted: vegetables supplying Hanoi from Soc Son and Moc Chau; vegetables supplying Ho Chi Minh City from peri-urban areas, Duc Trong and Don Duong districts in Lam Dong Province; litchi from Yen The district in Bac Giang province in the North; flavoured rice from Nam Dinh (Hai Hau district) in the North. The choice of the case studies results from the following considerations: (i) involvement of the poor (even in small numbers) in production and trade – see Table 2; (ii) involvement of supermarkets and other quality chains in the marketing. In-depth interviews of stakeholders along the chains, as well as census of traders, investigated the patterns of horizontal and vertical coordination that link the poor to the markets; the distribution of costs and benefits between the farmers and the traders along the chains; the respective advantages and drawbacks involved in supplying different types of outlets; the employment impact of the different chains.

Table 1-Data collection per issue

Issue	Nature of information	Collection method
C1-Trends	Changes in retail points Policies	Documents/interviews from department of trade and other administration
C2-Consumers' access	Where and what they buy, and why they buy at certain places Prices differences between SM, markets, street vendors	Surveys of poor households: 110 in Hanoi, 110 in Moc Chau, 52 in HCMC (+65 non-poor) Comparison for 10 products in Hanoi and HCMC
C3-Suppliers' access	4 Value chain analyses (vegetables to Hanoi and HCMC, litchi Bac Giang, rice Hai Hau)	
Impact on employment (retail)	Nr of persons employed by SM, markets, shops, street vending	Census in 2 districts and extrapolation

Mapping of value chains	Nature and location of intermediaries	Cascade interviews from sample retailers to farmers
Organisation of value chains	Relationships (horizontal+vertical)	In-depth interviews on sample of traders (retailers, wholesalers, collectors) and farmers
Performance of value chains	Constraints and opportunities in production and marketing	
Distribution of costs and benefits		

Table 2-Sample for in-depth Interviews of stakeholders of selected value chains

Sample	Commodities			
	Litchi, Bac Giang	Vegetables, North	Vegetables, South	Rice, Hai Hau
Supermarket managers or purchasers		13	8	19
Wholesalers	3	4 (2/village of Moc Chau)	4	6 Hanoi wholesalers 3 food companies 20 Hai Hau wholesalers
Market retailers	6	8	6	10
Shop vendors	6	11		10
Street vendors	6	12		10
Collectors	3 (1/3 communes in Yen The district)	5 (2/village of Moc Chau, Chien Ly and An Thai)		13
Farmers	80 including: - 10 poor/commune in 3 communes of Yen The district (Phon Xuong, Hong Ky, Dong Son) - 20 non poor in 2 communes of Yen The district (Phon Xuong, Hong Ky) - 10 non poor in Luc Ngan district	32=16/village of Moc Chau randomly chosen from list given by collectors	120 farmers in Don Duong and Duc Trong districts (Lam Dong Province) 2 heads of farmers' organisations in Cu Chi district, 3 heads of farmers' organisation in Lam Dong Province 10 tomato farmers in Lam Dong Province (7 in Duc Trong, 3 in Dong Duong), 2 farmers in Cu Chi district.	44 farmers in 2 communes (Hai Phong, Hai Toan) (randomly chosen from list given by collectors)

A prior setting of ad-hoc poverty lines was performed. The national standard of poverty (100,000 VND¹/month in rural areas, 150,000 VND in urban areas, before 2006, 200,000 and 260,000 respectively after 2006) is defined at a general, national level; each province has its own standard of poverty. The Vietnam Consultative Group Meeting Vietnam Development Report on Poverty of 2003 acknowledges the fact that the national standard is useful for time comparison of poverty rates but is inadequate for practical purposes of survey conduct on poverty or for aid allocation. This explains why the standards given by the local administrations have been used in the study, and for the survey on the poor consumers of Hanoi and Ho Chi Minh City, we used the standard of women's union, who is the one who

¹ 1 USD=16,000 VND in 2005.

allocates support funds to the poor households, and who guided us towards them for our surveys. So the lines were taken as: 80,000 VND/month (5 USD) in the rural areas of Northern Vietnam, 130,000 VND/month (8 USD) in the peri-urban districts of Hanoi, 250,000 VND/month (16 USD) in Lam Dong province; for urban residents, the poverty line is taken from women's association, i.e., 300,000 VND/month (19 USD) in Hanoi and 500,000 VND/month (31 USD) in Ho Chi Minh City.

IV MAIN RESULTS

A) The fast development of supermarkets

The official definition of supermarkets dates only from June 2004. The main criterion is size, more than 250 m² for specialized supermarkets and more than 500 m² for general supermarkets; other criteria include number of products. Before 2004, the department of trade registered the number of establishments calling themselves supermarkets, which were commonly more than 200 m². Based on this definition, the number of supermarkets has increased quickly between 1990 and 2004 (17%/year in Ho Chi Minh City and 14%/year in Hanoi between 2000 and 2004, to reach 55 supermarkets in June 2004 in Hanoi (plus 9 trade centers, including Metro), and 71 supermarkets in Ho Chi Minh City in 2005.

The three leading supermarket companies are: Coopmart, Vietnamese-owned, with 13 supermarkets, growing at 40% per year in terms of supermarket number; Metro, German-Vietnamese (4 hypermarkets, 30% per year), and Big C (French-Vietnamese, 4 hypermarkets). The policies of the Vietnamese government favour retail concentration: the eviction of informal markets and street vendors is present in the legislation, while public support to supermarket investment is provided for.

B) Little access by poor consumers

Market retailers and street vendors are the main points of sale for the poor consumers, who rarely purchase in supermarkets, because of price and distance constraints (see Table 3). This situation may change though if prices in supermarkets go down, as already reflected by the higher frequentation of supermarkets in Ho Chi Minh City as compared with Hanoi: while prices in Hanoi supermarkets are 10 to 40% higher than in markets, in Ho Chi Minh City prices are similar. The food purchased in supermarkets is mostly dry processed food, e.g. sugar or dry milk.

Table 3-Purchasing behaviour of Hanoi and HCMC poor households

	Hanoi	HCMC
Income/head	<300000 VND/month	<500000VND/month
Food purchase places (for weekly purchases)	1. Informal market (95%) 2. Street mobile vendors (30%)	1. Formal market (62%) 2. Street mobile vendors(40%) – shops (40%)
Purchase in SM	61% never go	33% never go

	0% go everyweek	15% go everyweek
Declared SM constraints	High Price	High Price
	Distance	« No habits »
	« No habits »	
Declared SM advantages	Quality and diversity	

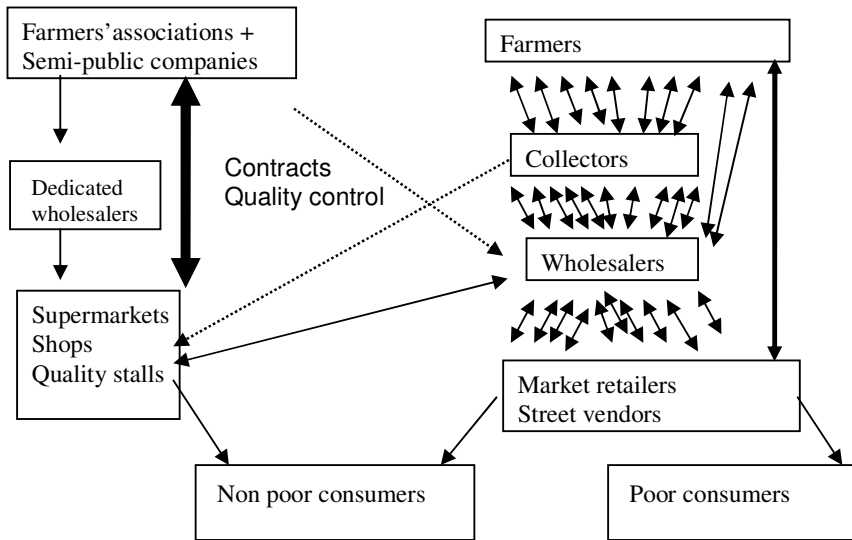
VND: Vietnam Dong – SM: Supermarket – HCMC: Ho Chi Minh City

Source: Surveys in 2005 by M. Figuié and Truyen in Hanoi (110 households) and Phan Thi Giac Tam in Ho Chi Minh City (52 households).

A) Segmentation of quality versus ordinary value chains

The study shows the segmentation of the food chains between supermarkets and quality food shops, mostly involving the middle and high income consumers, and supplied by farmers' associations and large-scale farms (including semi-public companies), successful in developing IPM production (in the case of vegetables) or specific taste characteristics (in the case of litchi and rice); while conventional chains involve numerous small-scale farmers, collectors, wholesalers and retailers (see Figure 1). Supermarkets are either supplied directly by farmers' associations, or through dedicated wholesalers. While transactions in conventional chains are characterised by competitive pricing and low net marketing margins (less than 50%), transactions in supermarket chains are regulated by contracts (written in 80% of cases) with specifications on quality and delivery.

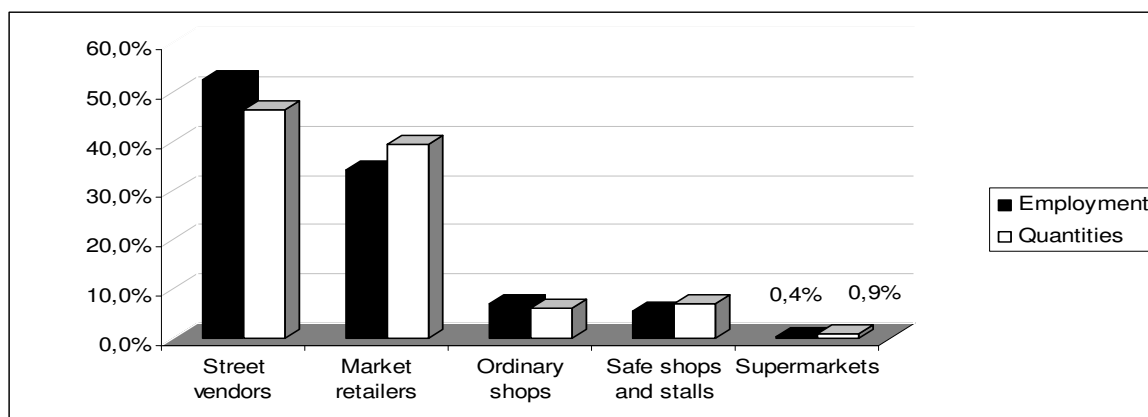
Figure 1-Simplified food commodity chains supplying Hanoi and HCMC



B) Little access of the poor as traders

Markets and street vendors are still the major players in food distribution, when considering quantities sold, areas of sale, as well as employment. Supermarkets create less employment per unit of area or volume than markets and street vending. So the development of supermarkets is likely not to compensate the loss of employment in street vending and market places. The share of supermarkets in total employment by retail trade is estimated at around 6% - without taking account street vending nor shops, only retail markets, while the share in Hanoi retail business is around 15%. Figures are similar for food as compared with total business. Yet figures are higher for supermarkets when taking into account indirect employment (11% instead of 6% of employment). As regards the share of supermarkets in vegetable trade employment, it is less than the share in volume of business (see Figure 2). Selling the same quantity of vegetables provided more than 3 times employment for street vendors than for supermarket employees (see Table 4).

Figure 2-Share of Hanoi vegetable retail points in employment and quantities



Source: Son and al (2005) – Note: this is based on a census of retail points in two districts (Cau Giay and Hoan Kiem) and then extrapolation to the whole urban Hanoi as defined in 2004 (with Long Bien and Hoang Mai as new urban districts; when taking only the urban districts as defined before 2004, we find lower share for street vending than for retail markets: 38,5% for street vending in terms of employment (32% for quantities), 51,5% for market retailers (resp. 56,4%), 5,3% for ordinary shops (resp. 4,3%), 4,1% for safe shops (resp. 5,4%), 0,64% for supermarkets (resp., 1,4%).

Table 4-Employment by volume of trade

Selling 1 ton of vegetables retail in a day gives employment to....

13 street vendors
10 retailers
8 shop vendors
5 employees of medium-scale supermarkets
4 employees of Big C

Source: data on quantities traded and employment by sale points in Son and al. (taking indirect employment into account).

Besides, while street vending and informal markets employ mainly the poor, as they do not require special qualifications nor investment (investment for street vending is limited to 400 000 VND, i.e., 25 USD), entering formal markets is constraining in terms of finance (12 M VND, I.e. 750 USD), and becoming an employee of supermarkets may be constraining in terms of qualification.

C) Little access of the poor as farmers

The results confirm that the poor have no direct access to supermarkets because of the requirements of the latter in terms of safety (for vegetables) and quantities (for all products). The only poor farmers are found:

- In the flavoured rice chains: 20% of the farmers (around 520) are poor (earning 50 000 to 60000 VND/month). They mostly supply supermarkets through food companies, and more recently a farmers' association.

- In the Moc Chau vegetable chain, six families stepped out of poverty through contracts with the safe vegetable cooperative which supplies safe vegetable shops in Hanoi.
- In the Soc Son vegetable chain 32% of farmers involved in the safe vegetable groups supplying Bao Ha company are poor (earning less than 130000 VND/month).
- In the peri-urban farmers' associations supplying Ho Chi Minh City supermarkets, 5% of farmers are small-scale (with area less than 2900 m²).

D) Key role of farmers' associations promoting quality

Ten farmers' associations, which work in the form of commercial organisations with shares, are regular suppliers of supermarkets for the selected products. Their ability to supply supermarkets is related to the combination of functions they bring to their members: technical training (e.g. as regards safe vegetable production), input supply, collective marketing, quality control, labelling indicating product origin, credit supply. Farmers' organisations are vehicles of the government support to farmers, in particular in the area of quality development, where the city departments of agriculture, trade, science and technology are particularly involved.

E) Slight increases in farmers' profits

Supermarket supply through farmers' associations generally generates increases in farmers' incomes when compared with traditional chains, with a lot of variations: no difference for baby tomato chain, 38% increase for the litchi chain, 25% for Soc Son vegetable farmers, 13% for water convolvulus in peri-urban Ho Chi Minh City, 73% for flavoured rice, 400% for Dalat tomatoes from one cooperative supplying Coopmart. This is due to higher final retail prices (see Moustier and al, 2006).

F) Advantages and constraints of supermarkets for farmers

While the main advantages of supermarkets relate to stability in prices and quantities bought, the disadvantages relate to their requirements in terms of quality, diversity, delivery, as well as less favourable conditions of payment, and possible opportunistic behaviour (see Table 4). While the relationships between Ap Dinh farmers' association and Coopmart (in Ho Chi Minh City) and Van Noi farmers' cooperative and Intimex (in Hanoi) are described by suppliers as long term and loyal, in Ho Chi Minh City, Da lat cooperatives supplying Metro complain of the frequency in the change of suppliers to get the lowest possible prices, sometimes at the expense of vegetable safety.

Table 5-Summary of advantages and constraints of supermarket and traditional chains

	Supermarket chain	Traditional chain
<i>Advantages for supermarkets :</i>		
Prices	10 to 20% higher	
Security	Regular weekly purchases in quantities and prices	More variable demand in quantities and prices

<i>Drawbacks for supermarkets :</i>		
Quality requirements	Physical quality requirements Safety requirements	Lax requirements
Diversity	More than 10 varieties required in HCMC (check)	No requirement
Payment conditions	15 days Unsold products have to be paid back for 2 SM	1 to 3 days
Transport	Daily delivery to supermarket	On farm collection

Source : farmers' interviews (see Table 2)

V CONCLUSIONS

The study confirms the exclusion of the poor as consumers and traders from supermarket-driven chains in the short term. As farmers, the poor are also excluded, except in the case of flavoured rice and some Moc Chau farmers. Farmers' associations with quality promotion (safety, taste related to origin) are key to the inclusion of small-scale farmers. Finally, supermarkets differ relative to loyalty with their suppliers.

The present diversity of retailing points in Vietnam should be maintained as it fits the diversity of consumers' purchasing power and allow small-scale traders to maintain their livelihoods. Street vendors could be allowed to operate in designated areas (outside main streets); Credit support should be provided to those vendors who make an effort to upgrade their businesses. Decisions on relocating markets should be made after consultation with traders that may be affected. The organization of special farmers' markets as alternative distribution channels should be encouraged. Quality food shops managed by farmers' groups have also been found as a good alternative to sales in supermarkets, both for farmers and for consumers.

Greater support should be given to farmers' associations that are involved in improving quality of production. Specifically, this can be achieved through dissemination of success stories, provision of advisory services (with a particular focus on technical training in the areas of physical quality and food safety), better access to credit programmes. Another area for action is that of participatory food quality control. There should be a widespread system to monitor food safety and to impose sanctions in cases of non-compliance, provide laboratories and certification bodies with accreditation, and encourage participatory guarantee systems (PGS) in which farmers' associations, consumer groups and supermarkets form sustainable partnerships. Farmers could also benefit greatly from capacity building assistance related to forming contractual arrangements with supermarkets, specifically through: broader awareness of successful examples, access to training on farmers' rights and responsibilities in supplier contracts, and the development of codes of good practices for supermarkets. Finally,

greater attention should be paid to identifying new market niches for the poor and encouraging product specialization; for example, special types of pigs or fruits may be a niche product for poor people in mountainous areas.

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