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# Seizing the fast-growing retail opportunity in Vietnam

September 2019





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# Executive summary

Asian emerging economies are growing two to three times faster than developed economies—and Vietnam is one of the region's great success stories. The country's political stability, recent economic transformation, and growing middle class create an attractive business environment. The buoyant retail sector reflects these strong fundamentals and offers exciting growth opportunities for both regional and global companies.

This report shines a spotlight on the retail opportunity in Vietnam, first by taking a broader view of the country's macroeconomic outlook and then by examining key growth trends in the retail market itself. Finally, the report offers insight into how companies can translate the retail opportunity into profitable, sustainable enterprises.

## Vietnam's promising macroeconomic outlook

Vietnam is a strong contender for business investment when considered alongside other major Southeast Asian economies such as Indonesia, Malaysia, the Philippines, and Thailand.

Vietnam outperforms many of these economies on key macroeconomic indicators. It ranks second highest for forecast GDP growth, with a 6.5 percent compound annual growth rate (CAGR) per year, and has the fastest middle-class growth, forecast at 9.2 percent CAGR up to 2023. Vietnam's private consumption rate of 68 percent of GDP is the second highest in the region. Although Vietnam ranks last among these Southeast Asian economies on urbanization, there is considerable future growth potential.

In terms of business fundamentals, Vietnam outperforms comparable Southeast Asian economies, ranking highest in the region in three out of the four indicators measured. It leads the region in foreign direct investment (FDI) as a percentage of GDP, at 6.3 percent, and it is ranked highest for political stability and second for logistics competence. Out of the five countries, Vietnam ranks third on the World Bank's Ease of Doing Business index.

Finally, the rise in foreign direct investment (FDI) into Vietnam is a further indicator of the country's attractiveness to business. FDI has grown significantly over the past decade and exceeded \$19 billion in 2018.<sup>1</sup>

## Vietnam's fast-growing retail market

Vietnam's retail sector is the fastest growing in Southeast Asia and is poised for rapid modernization. The overall retail market is currently worth \$108 billion in annual revenues, a figure that is forecast to increase at a 7.3 percent CAGR over the next five years. Groceries and consumer electronics are the largest segments of the retail market, at 44 percent and 17 percent, respectively.<sup>2</sup>

In consumer electronics, leading players have already driven rapid modernization of the segment. However, in the larger grocery segment, Vietnam's modern trade penetration, at 8 percent in 2018, is low compared with that of other Southeast Asian countries.<sup>3</sup> This is expected to increase to 26 percent by 2025, as the groceries market is on the verge of significant modernization. If it follows the S-curve of comparable Southeast Asian countries, the modern groceries market is expected to grow from the current \$4 billion to \$20 billion by 2025.

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<sup>1</sup> Viet Nam Foreign Direct Investment, Trading Economics, 2018, [tradingeconomics.com](http://tradingeconomics.com).

<sup>2</sup> Market sizes: Retailing in Vietnam, Euromonitor International, 2018.

<sup>3</sup> Modern Grocery Retailers data, Euromonitor International, 2018; World Development Indicator, World Bank, [databank.worldbank.org](http://databank.worldbank.org).

Overall, Vietnam's e-commerce penetration is still low, at only 3 percent of total retail sales, but this is expected to rapidly increase in the next five years and show significant growth in the long term.<sup>4</sup> The drivers of this growth include Vietnam's young population and its high smartphone penetration—which today stands at over 80 percent of the population that is over 15 years of age.<sup>5</sup> The e-commerce sector is still in its early days, and key factors for success in this area include overcoming logistics challenges, especially last-mile delivery, managing the high rate of cash payments, and building consumer trust.

To succeed in Vietnam's retail market, companies will need to embrace three key trends. First, consumers are increasingly loyal to brands—especially local brands. Second, they prefer modern retail formats, as is evident from the rapid growth of such formats. And third, a wave of consolidation is under way across the sector.

These trends are already increasing the competitive intensity of the retail sector, particularly in groceries. In addition to large domestic and international players with an established footing in Vietnam, new competitors have entered the market in the past five years and embarked on a wave of acquisitions and new store openings.

### **Seizing the opportunity: how to succeed in vietnam retail**

McKinsey's observations of high-performing retailers across the region point to six key success factors common across retail winners. To reach Vietnam's consumers and win their loyalty in an increasingly competitive marketplace, it is necessary for retailers to invest in building scale across a broad network. Shaping compelling value propositions and honing attractive, trustworthy brands are also important, as is driving innovation across omnichannel platforms. All these should be backed up by robust operations and other business enablers, as well as relevant local knowledge.

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<sup>4</sup> Market sizes: Retailing in Vietnam, Euromonitor International, 2018.

<sup>5</sup> The State of Mobile in Rural Vietnam Report, 2018/19, Google, thinkwithgoogle.com.

# 1. Vietnam's promising macroeconomic outlook

In this chapter, we set out Vietnam's promising macroeconomic indicators, including its strong GDP growth, rising consumer spending, and potential for rapid future urbanization. We conclude the chapter with a brief review of Vietnam's evolution as a viable destination for foreign investors.

## Vietnam's positive macroeconomic indicators

During the past quarter century, Vietnam has emerged as one of Asia's great success stories. It has transformed itself from a nation affected by war in the 1970s to an economy that, since the economic and political reforms under Doi Moi in 1986, has posted annual average GDP per capita growth of 6.5 percent.<sup>6</sup> Vietnam has benefited from a program of internal modernization, a transition from its agricultural base toward manufacturing and services, and a demographic dividend powered by its youthful population.<sup>7</sup>

Vietnam's financial system recovered relatively quickly from the 2011–13 domestic real estate and macroeconomic downturns. Its economic growth rate rebounded from 5.2 percent in 2012 to 6.0 percent in 2014 and surged to 7.1 percent in 2018.<sup>8</sup>

With a population soon expected to reach 100 million people, Vietnam has a large domestic market and a growing middle class. Many Vietnamese are digital consumers, spending approximately seven hours a day online.<sup>9</sup> Smartphone penetration stands at more than 70 percent of the population (and, as previously discussed, more than 80 percent of adults).<sup>10</sup> Moreover, Vietnam has approximately 50 million e-commerce users, and this is growing rapidly.<sup>11</sup>

Exhibit 1

## From a holistic assessment, Vietnam has attractive macroeconomic and business environment fundamentals

		Vietnam	Philippines	Indonesia	Malaysia	Thailand
<b>Macro-economic indicators</b>	<b>GDP growth, 2018-2023, CAGR</b>	6.5%	6.7%	5.2%	4.8%	3.5%
	<b>Private consumption, 2018</b> % of total GDP	67.6%	73.8%	57.0%	57.3%	48.7%
	<b>Middle-class growth, 2018-2023, CAGR</b>	9.2%	6.7%	5.9%	2.8%	2.4%
	<b>Urbanization, 2018, % of total population, CAGR</b>	36%	47%	55%	76%	50%
<b>Business environment</b>	<b>FDI attractiveness, 2017</b> Inflow as % of GDP	6.3%	3.3%	2.0%	3.0%	1.8%
	<b>Political stability, 2017</b> WGI Index (-2.5 – 2.5)	0.31	-1.24	-0.51	0.16	-0.76
	<b>Ease of doing business<sup>1</sup>, 2018</b> WB Index (0-100)	66.8	56.3	66.5	78.0	77.4
	<b>Logistics competence<sup>2</sup>, 2018</b> LPI Index (1-5)	3.27	2.90	2.15	3.22	3.41

1. Includes 10 factors: starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; resolving insolvency.

2. World Bank international measure of the competence and quality of logistics services in a country; see <https://lpi.worldbank.org/>.

Source: IMF, World Development Indicator, Worldwide Governance Indicators, UN Population Database, World Bank Logistic Performance Index, CGIIDD

<sup>6</sup> GDP per Capita Growth (Annual %), World Bank, [worldbank.org](http://worldbank.org).

<sup>7</sup> "Sustaining Vietnam's growth: The productivity challenge," McKinsey Global Institute (MGI), February 2012, [McKinsey.com](http://McKinsey.com).

<sup>8</sup> GDP Growth, World Bank, 2019, [worldbank.org](http://worldbank.org).

<sup>9</sup> *Vietnam Digital Landscape*, We Are Social, 2018.

<sup>10</sup> *Vietnam Mobile App Market Report*, Appota, 2018.

<sup>11</sup> eCommerce in Vietnam, Statista, 2019, [statista.com](http://statista.com).

Exhibit 1 provides a snapshot of Vietnam's macroeconomic and business environment, compared with Indonesia, Malaysia, the Philippines, and Thailand. Vietnam's GDP growth, consumer spending, and strong middle-class growth indicate an attractive macroeconomic outlook.

Vietnam's economy is growing at the second-fastest rate in the region, with GDP growth forecast at a CAGR of 6.5 percent a year over the next five years.<sup>12</sup> Strong economic growth and high private-consumption levels, currently at 68 percent of GDP, are both fundamental drivers for the retail industry.<sup>13</sup>

In particular, Vietnam's middle-class growth—currently the highest in the region—stands out as a strong catalyst for increased consumer spending and retail growth.<sup>14</sup> Vietnam's middle class is expected to grow at 9.2 percent a year over the next five years and will make up over half the population by 2035.<sup>15</sup> Urbanization, at 36 percent of the population living in cities, is currently the lowest in the region but has considerable upside and growth potential: it is expected to increase quite rapidly over the next decade and reach 55 percent by 2030 (Exhibit 2).<sup>17</sup>

Vietnam has been rising steadily in the World Bank's ranking of the ease of doing business in different countries. It climbed from 78th place in 2015 to 69th place in 2019. Its overall Ease of Doing Business score of 66.8 is above the regional average of 63.4.<sup>17</sup>

The following macroeconomic indicators, examined in more detail, show Vietnam as a good contender for continued growth and attractiveness to business.

### A fast-growing economy in Southeast Asia

Since opening its market in 1986, Vietnam has had the fastest-growing economy in Southeast Asia, compared with Indonesia, Malaysia, the Philippines, and Thailand.<sup>18</sup> It was also identified as one of the top 18 outperformers of the 71 developing economies based on per capita GDP growth over the past 50 years.<sup>19</sup>

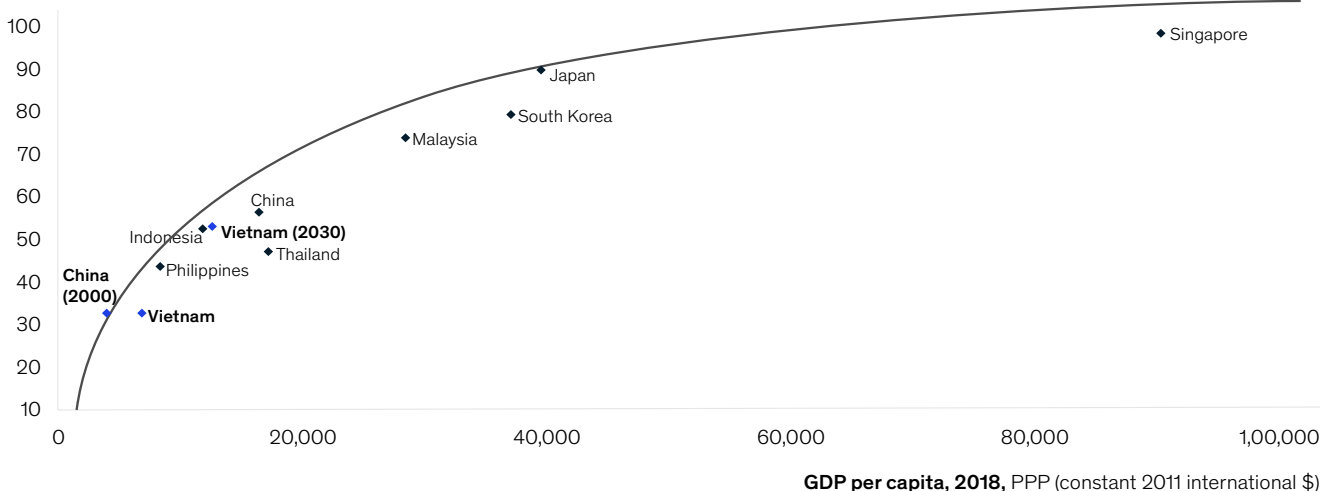
That said, Vietnam's GDP per capita is currently the lowest in the region, at \$2,518, compared with \$3,103 for the Philippines, \$3,963 for Indonesia, \$7,277 for Thailand, and \$11,373 for Malaysia.<sup>20</sup> But recent GDP growth statistics indicate that Vietnam's GDP is likely to rise. It has grown consistently over the past five years, at growth

Exhibit 2

## Urbanization in Vietnam remains low at about 36 percent but is expected to grow as GDP per capita rises

Urbanization relative to GDP per capita

Urban population, 2018, % of total population



Source: UN Population Database, World Development Indicator

<sup>12</sup> World Economic Outlook Database, April 2019, International Monetary Fund, imf.org.

<sup>13</sup> World Development Indicators, 2018, World Bank, worldbank.org.

<sup>14</sup> The middle class is defined as the sector of the population with an income above \$15 purchasing power parity (PPP) per day.

<sup>15</sup> Global Income Distribution Database, *Economist Intelligence Unit*, 2018, eiu.com.

<sup>16</sup> *World Urbanization Prospects 2018*, United Nations, Department of Economic and Social Affairs Population Division, population.un.org.

<sup>17</sup> Ease of Doing Business, World Bank, 2019, doingbusiness.org.

<sup>18</sup> GDP growth, World Bank, worldbank.org.

<sup>19</sup> "Outperformers: High-growth emerging economies and the companies that propel them," McKinsey Global Institute, September 2018, McKinsey.com.

<sup>20</sup> Economist Intelligence Unit data, 2019.

rates from approximately 5.4 percent in 2013 to 7.1 percent in 2018.<sup>21</sup> This growth is expected to continue at a CAGR of 6.5 percent a year to 2023—making Vietnam’s GDP growth the second fastest among major Southeast Asian economies and well ahead of the average projected GDP growth of 5.3 percent in the region.<sup>22</sup>

### **Consistent population growth**

Vietnam’s population has grown consistently over the past five years, from approximately 90.7 million in 2013 to 95.5 million in 2018.<sup>23</sup> It is also expected to grow at a CAGR of 0.9 percent from 2018 to 2024.<sup>24</sup>

Over the last five years, the number of Vietnamese households has been growing at a faster rate (2 percent) than population growth (1 percent) as individuals are increasingly moving out from family homes.<sup>25</sup>

This sizable and growing population, combined with the increased adoption of a modern lifestyle and a large potential labor force, points to driving factors for economic growth. The labor force participation rate—the percentage of the total population aged 15 and above who are working or seeking work—was 76 percent in 2017.<sup>26</sup>

### **Highest middle-class growth in the region**

The Vietnamese middle-class population is expected to grow at a CAGR of 9.2 percent up to 2023 and is expected to represent over half of the Vietnamese population by 2035. This is the fastest growth in the middle class in Southeast Asian countries and provides an attractive catalyst for consumption growth. In 2015, the breakdown of income by class showed the global middle-class segment, measured at \$15 purchasing power parity (PPP) per day, to be 10 percent of the population. This is expected to increase to 18 percent in 2020, 25 percent in 2025, 50 percent in 2030, and about 55 percent, or 60 million people, by 2035.<sup>27</sup>

### **Rapid growth in consumer spending**

Disposable income per capita for Vietnam is currently low, at \$1,909, compared with \$2,429 in the Philippines, \$2,619 in Indonesia, \$3,761

in Thailand, and \$6,318 in Malaysia. However, Vietnam’s disposable income per capita is expected to grow quickly and reach \$3,062 in 2023 (9.9 percent CAGR), while this number is \$3,425 for the Philippines (7.1 percent), \$4,427 for Thailand (3.3 percent), \$4,431 for Indonesia (11.1 percent), and \$8,630 for Malaysia (6.4 percent).<sup>28</sup> Vietnam’s total consumer spending is growing at the highest rate in the region—7.2 percent a year—rising from \$76 billion in 2008 to \$167 billion in 2018.<sup>29</sup> The private-consumption rate also is high, at 67.6 percent of GDP. This is the second highest in the region, behind the Philippines (73.8 percent) and ahead of Malaysia and Indonesia (57.0 and 57.3 percent, respectively).

### **Low urbanization with high potential for growth**

Vietnam’s urbanization rate is still low when compared across the region, at 36 percent of the population, compared with rates between 47 and 76 percent in other Southeast Asian countries, as was shown in Exhibit 2.<sup>30</sup> This represents an area of high potential and expected growth. In fact, the Vietnamese urban population is expected to grow at a CAGR of about 3 percent up to 2025, while this growth rate is between 1 and 2 percent for Indonesia, Malaysia, the Philippines, and Thailand.<sup>31</sup>

By comparison, China’s urbanization rate in 2000 was at the same level as Vietnam’s today, and by 2018, it had doubled to about 60 percent.<sup>32</sup> Analysis of urbanization rates in comparable Southeast Asian countries indicates that the early stage of urbanization is likely to be rapid. For example, Thailand’s urbanization rate grew from 37 percent in 2005 to 48 percent in 2015; Indonesia’s from 36 percent in 1995 to 46 percent in 2005; and Malaysia’s from 38 percent in 1975 to 46 percent in 1985. Assuming that Vietnam’s growth follows a similar trajectory, urbanization will reach 55 percent in 2030.<sup>33</sup> Exhibit 2 shows the correlation between the increase in urbanization and growth in GDP per capita.

### **A host of additional macroeconomic strengths**

Vietnam commands other fundamentals to sustain growth, such as advanced road infrastructure,

<sup>21</sup> GDP growth, World Bank, [worldbank.org](http://worldbank.org).

<sup>22</sup> World Economic Outlook data, International Monetary Fund, 2019, [imf.org](http://imf.org).

<sup>23</sup> Population growth, World Bank, [worldbank.org](http://worldbank.org).

<sup>24</sup> World Economic Outlook Database, April 2019, International Monetary Fund, [imf.org](http://imf.org).

<sup>25</sup> *Economies and Consumers Annual Data: Number of Households in Vietnam*, Euromonitor International, 2018.

<sup>26</sup> Vietnam General Statistics Office, 2017.

<sup>27</sup> Global Income Distribution Database (CGIDD), Economist Intelligence Unit, 2018, [eiu.com](http://eiu.com).

<sup>28</sup> Economist Intelligence Unit, 2019, [eiu.com](http://eiu.com).

<sup>29</sup> World Development Indicator, World Bank, 2018, [databank.worldbank.org](http://databank.worldbank.org).

<sup>30</sup> World Development Indicator, World Bank.

<sup>31</sup> World Urbanization Prospects, UN Population Database, 2018, <https://population.un.org>

<sup>32</sup> World Development Indicator, World Bank.

<sup>33</sup> World Urbanization Prospects, UN Population Database.



seaports and airports, and a stable electricity supply, with a power grid covering 100 percent of the country.<sup>34</sup> Expanding trade relationships are expected to ease tariff barriers; these include Vietnam's participation in the Comprehensive and Progressive Trans-Pacific Partnership and European Union–Vietnam Free Trade Agreements.<sup>35</sup> Additionally, rising labor and operating costs in China and US–China trade tension have increased Vietnam's attractiveness as a manufacturing base. The country has a large and cost-competitive labor pool, with approximately 400,000 college graduates entering the workforce every year, compared with 200,000 graduates ten years ago.<sup>36</sup>

### **Vietnam's evolution as an attractive destination for foreign investors**

Foreign businesses are increasingly recognizing Vietnam's potential. Vietnam ranked highest in the region for FDI as a percentage of GDP, at 6.3 percent in 2017. By comparison, the Philippines' FDI inflow as a percentage of GDP was 3.3 percent, followed by Malaysia (3.0 percent), Indonesia (2.0 percent), and Thailand (1.8 percent).<sup>37</sup>

FDI into Vietnam has grown significantly in recent years, mostly driven by new bilateral and multilateral trade agreements. There has been a marked increase over the last decade as implemented or disbursed FDI grew from

\$11 billion in 2010 to \$19.1 billion in 2018. More recently, there was a 9.1 percent increase from 2017 to 2018; FDI in 2017 was \$17.5 billion.<sup>38</sup>

As of December 2018, there were more than 27,000 projects nationwide, with the total cumulative registered FDI in Vietnam at \$340.1 billion. The cumulative implemented or disbursed FDI was \$191.4 billion (56.2 percent of registered).<sup>39</sup> The majority of cumulative registered FDI goes to manufacturing (46.7 percent).<sup>40</sup> Cumulative registered FDI comes from 130 countries. Top originating countries include Japan, South Korea, Singapore, China, and Taiwan.<sup>41</sup>

FDI flows to all 63 provinces and cities in Vietnam, the largest of these being Ho Chi Minh City (\$45.1 billion, or 13.2 percent of total), Hanoi (\$33.1 billion, or 9.7 percent of total), and Binh Duong (\$31.7 billion, or 9.3 percent of total).<sup>42</sup> This distribution is similar to China's, where the largest FDI recipients by city are Beijing (\$17.31 billion, or 12.19 percent of total), Shanghai (\$17.30 billion, or 12.18 percent of total), and Hangzhou (\$6.83 billion, or 4.81 percent of total).<sup>43</sup>

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<sup>34</sup> Vietnam General Statistics Office, 2018.

<sup>35</sup> Lindsey Ice, "Vietnam poised to profit from free trade agreements," Vietnam Investment Review, January 3, 2019, [vir.com.vn](http://vir.com.vn).

<sup>36</sup> Bao Van, "Young, educated, unemployed: Vietnamese graduates struggle to find jobs," Thanh Nien News, January 9, 2016, [thanhniennews.com](http://thanhniennews.com); Dr. Tran Anh Tai, "Link education with application, universities with businesses," Vietnam National University, 2009, [js.vnu.edu.vn](http://js.vnu.edu.vn).

<sup>37</sup> The World Bank has not released FDI inflow as a percentage of GDP for Vietnam and Malaysia in 2018. The most recent data are for 2017, which is used for consistency.

<sup>38</sup> World Development Indicator, World Bank, 2017, [databank.worldbank.org](http://databank.worldbank.org).

<sup>39</sup> Vietnam General Statistics Office, 2019.

<sup>40</sup> Vietnam FDI Report, Foreign Investment Agency, 2018.

<sup>41</sup> Brief on Foreign Direct Investment of 2018, Ministry of Planning and Investment, 2018, [mpi.gov.vn](http://mpi.gov.vn).

<sup>42</sup> "FDI situation in 2018," Foreign Investment Agency of Vietnam, 2018, [fia.mpi.gov.vn](http://fia.mpi.gov.vn).

<sup>43</sup> "China foreign direct investment: Capital utilized: prefecture level city," CEIC, 2018.

# 2. Vietnam's fast-growing retail market

Asian emerging economies are growing two to three times faster than advanced economies, attracting companies across sectors and industries, from automakers to insurers. The prospects in Vietnam reflect this trend. Discerning consumers with greater spending power, and urbanization are rising quickly among the nation's approximately 100 million people, driving real GDP growth of about 7.1 percent in 2018 and a CAGR of 6.5 percent between 2018 and 2023.<sup>44</sup>

In this chapter, we focus in on Vietnam's retail market, given that consumer retail is the largest segment in the country's household spending, accounting for 26 percent of the total.<sup>45</sup> In comparison, residential housing takes the second-largest share of household spending, at 20 percent; hospitality and entertainment take up the third-largest share (16 percent), followed by transport, communication, and healthcare (13, 8, and 3 percent, respectively). Education takes up 2 percent, and the rest, 13 percent.<sup>46</sup> We examine the factors contributing to the rapid growth of retail in Vietnam and highlight three key trends: increasing consumer brand loyalty, growing preference for modern retail formats, and consolidation of key players.

We also shine a spotlight on modern trade. This ranks among Vietnam's most promising industries, as the market is in an early stage of development in the grocery segment, which accounts for close to half of the total retail market. Traditional grocers still dominate today, but millions of consumers with more disposable income, less time for shopping, and greater concern for food safety are increasingly turning to modern formats. This trend is likely to be amplified by infrastructure improvements that make stores more accessible, smaller households that translate into more shopping trips, and growing demand for high-quality imported goods.<sup>47</sup>

## A fast-growing retail market in the region

Vietnam is a fast-growing retail market in Southeast Asia. The current size of the market is \$108 billion, and it is forecast to grow at 7.3 percent a year over the next five years. By

comparison, Indonesia's retail market is forecast to grow at 8.2 percent, the Philippines' at 7.7 percent, Malaysia's at 7.5 percent, and Thailand's at 4.9 percent.<sup>48</sup> Groceries and consumer electronics are the largest segments of the retail market, at 44 percent and 17 percent, respectively.

In particular, Vietnam's modern grocery market is expected to grow rapidly over the next five years—at a CAGR of 25.8 percent between 2018 and 2023, more than double that of any other country in the region (Exhibit 3).<sup>49</sup> This impressive growth can be attributed to two major factors. First, Vietnam is at the high-growth inflection of the S-curve of modern grocery penetration, as we will discuss in more detail. Second, significant investment is flowing into Vietnam's modern grocery segment, from both foreign and local investors.

The following factors have enabled the rapid growth of the Vietnamese retail market:

- **Increased wealth and disposable income.** Vietnam recently moved to a lower-middle-income country, with the World Bank removing Vietnam from International Development Association loans for low-income countries. Vietnam is aspiring to move to the upper-middle market.<sup>50</sup>
- **Increased urbanization coupled with population growth.** As discussed in the previous chapter, urbanization in Vietnam remains low, at approximately 36 percent; however, this is expected to grow to approximately 55 percent by 2030.<sup>51</sup> This is coupled with continued growth in Vietnam's population, also discussed in the previous chapter.

<sup>44</sup> Marco Breu, Matthieu Francois, Dymfke Kuijpers, and Alex Sawaya "How grocers can outperform in Vietnam: Standing tall in a crowded market." McKinsey & Company, March 2018, McKinsey.com.

<sup>45</sup> Business Monitor International, Vietnamese Household Spending, 2019.

<sup>46</sup> Business Monitor International, Vietnamese Household Spending, 2019.

<sup>47</sup> "Vietnam's consumer preference for 'affordable luxuries,'" HKTDC Research, 2017.

<sup>48</sup> Retailing in Vietnam/Indonesia/Thailand/Philippines/Malaysia data, 2018–2023, Euromonitor International, 2018–19.

<sup>49</sup> Euromonitor, Grocery market size, 2018; McKinsey analysis.

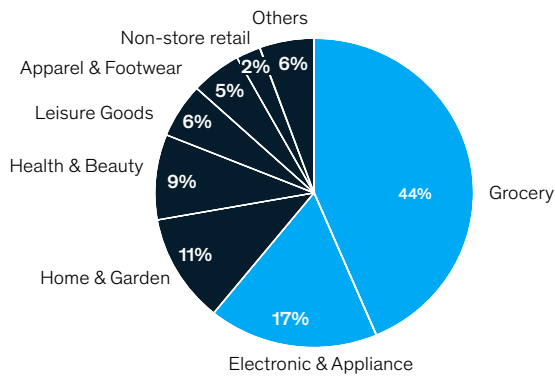
<sup>50</sup> Borrowing Countries, International Development Association, World Bank, [ida.worldbank.org](http://ida.worldbank.org).

<sup>51</sup> UN population database, World Development Indicator.

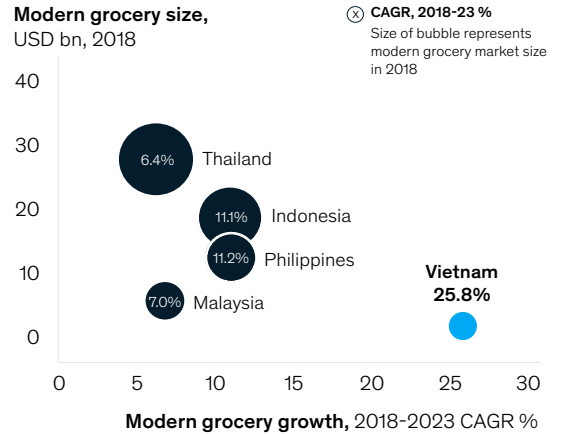
## The Vietnam modern grocery market is expected to grow at 25.8% p.a. over the next 5 years, ahead of other SEA markets

Grocery and consumer electronics are the two largest retail categories by value

Breakdown of Vietnam retail market, % 2018, 100% = USD108 bn



Vietnam's modern grocery market is the fastest growing in SEA



Source: Euromonitor, McKinsey analysis

- **Increased sophistication.** Urbanization leads to a change in consumer preferences, with less time for shopping and increased demand for convenient, easy-to-cook, packaged fresh food. There is also increased emphasis on food safety; for example, the 2016 marine life disaster drove middle- and high-income households toward modern trade for fresh food, as it is perceived to have better food safety.
- **Consolidation of top local players.** Over the past few years, the market has been consolidating as top local players acquire smaller companies to expand and increase their share. For example, Mobile World acquired pharmacy chain Phuc An Khang, and Vingroup acquired supermarket chain Fivimart, convenience-store chain Shop & Go, and electronics and appliance specialist retailer chain Vien Thong A.
- **Entry of international players.** The market is attractive to foreign retailers— for example, Zara, H&M, Massimo Dutti, Pull & Bear, 7-Eleven, and GS25—with others coming soon, including Uniqlo and IKEA.
- **Rise of e-commerce.** Vietnam has one of the fastest-growing retail channels, with many large players expanding their presence in the country. The internet-economy market size is expected to grow from \$9 billion in 2018 to \$33 billion in 2025, the second-fastest growth

in Southeast Asia.<sup>52</sup>

- **Rise of social media.** Increasing use of social media creates demand, connects customers and retailers, and boosts sales of fashion products via platforms such as Instagram and Facebook.
- **Growing consumer finance.** Vietnam's consumer finance segment has grown rapidly, at approximately 59 percent year on year from 2014 to 2018.<sup>53</sup> Recently, big retail players (Lotte, AEON) have launched their own consumer finance companies to complete their value chain. This shows that these retailers see consumer finance as an important driver for retail growth.<sup>54</sup>

### Modern trade penetration: potential for growth

Modern trade holds great promise in Vietnam, as mentioned earlier. In consumer electronics, leading players have already driven rapid modernization of the segment. But in the larger grocery segment, Vietnam's modern trade penetration, at 8 percent in 2018, is quite low when compared with that of other Southeast Asian countries (Exhibit 4). Indonesia's modern trade penetration in groceries stands at 17 percent, the Philippines' at 32 percent, Malaysia's at 46 percent, and Thailand's at 47 percent. Likewise, Vietnam's modern grocery trade spend per capita, at \$38, lags behind that of other economies in

<sup>52</sup> e-*Economy* SEA 2018, Google and Temasek, 2018.

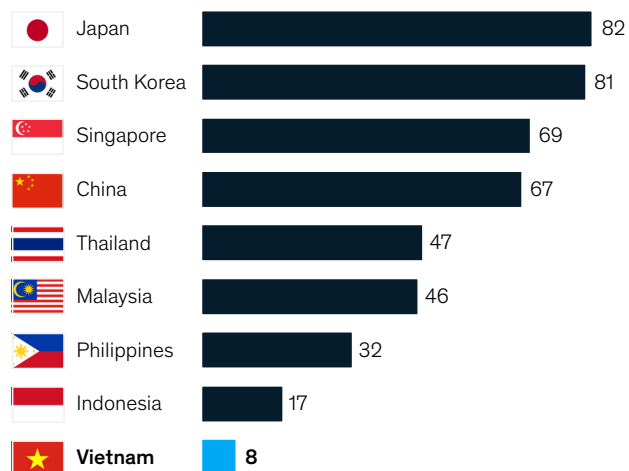
<sup>53</sup> Vietnam Consumer Finance Market 2019, FiinGroup, 2019.

<sup>54</sup> Thao Nguyen, "Consumer finance market: An attractive opportunity," *Kinh te & Do thi*, May 4, 2019, kinhtedothi.vn.

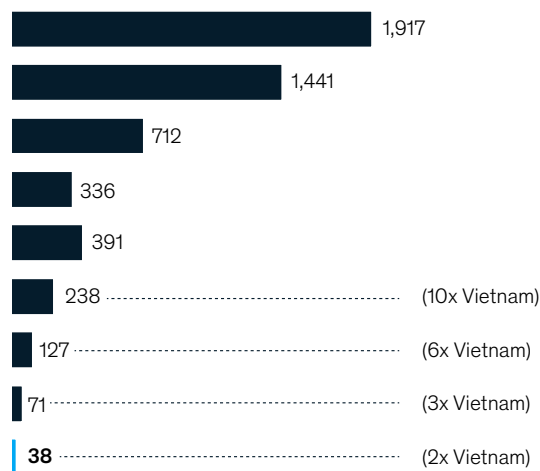
Exhibit 4

## Modern trade's share of Vietnam's grocery market is low compared with that of other countries

Modern grocery share<sup>1</sup>, 2018, Share of total grocery %



Modern grocery spend per capita, 2018, USD



<sup>1</sup> Based on total revenue of USD 4.8 billion in Exhibit 8.  
Source: Euromonitor, World Bank

the region. Indonesia's is double that, at \$71; the Philippines' is \$127, Malaysia's is \$238, and Thailand's is ten times Vietnam's at \$391.<sup>55</sup>

Although Vietnam's modern trade penetration in groceries is low, it has significant potential for growth and is forecast to increase from 8 percent to 26 percent by 2025.<sup>56</sup> This market is on the verge of significant modernization and is likely to follow the S-curve of other, more developed Asian

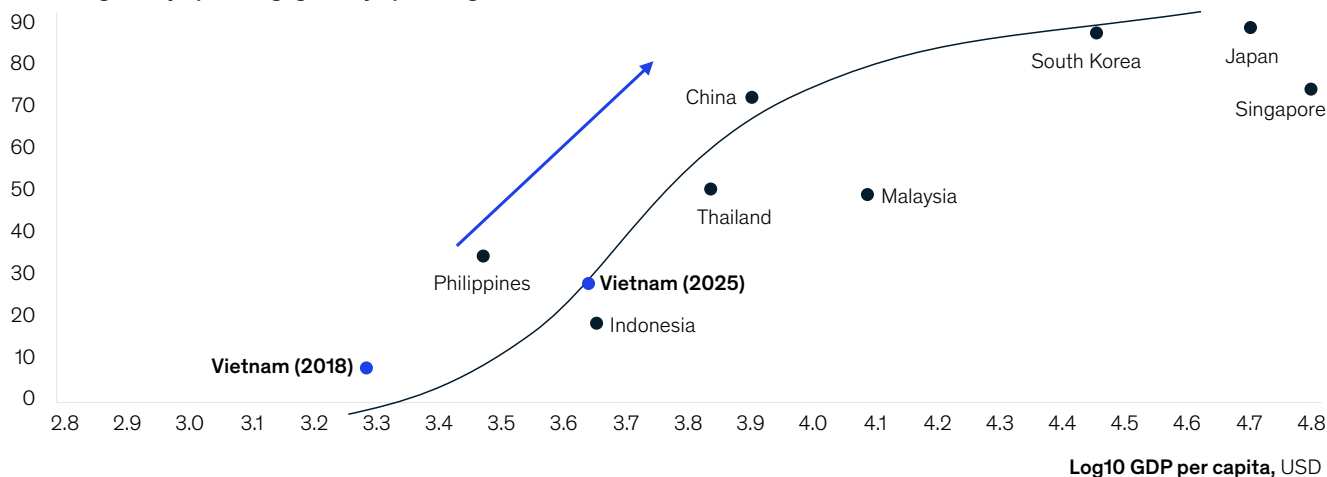
countries' modern grocery penetration (Exhibit 5). As GDP per capita rises, the total grocery market is expected to grow from \$47 billion to \$75 billion. Within this, the modern grocery retail market is expected to grow from \$4 billion to approximately \$20 billion by 2025.<sup>57</sup> The growth ahead is reflected in the increasing competitive intensity of the modern grocery market (see sidebar, "Intensifying competition in modern grocery formats").

Exhibit 5

## Modern segment grocery penetration is expected to grow as GDP per capita increases

Grocery spending at modern retailers at different income levels, 2018

Modern grocery spending/grocery spending, %



Source: World Bank, EIU

<sup>55</sup> Modern Grocery Retailers data, *Euromonitor International*, 2018; World Development Indicator, World Bank, 2018, worldbank.org.

<sup>56</sup> Market sizes: Grocery retailers and modern grocery retailers in Vietnam, 2018-2023, *Euromonitor International*, 2018.

<sup>57</sup> World Bank, EIU, McKinsey & Co. analysis, and expert interviews.

## Intensifying competition in modern grocery formats

With Vietnam's modern grocery market poised for rapid growth, its competitive intensity is increasing. In addition to large domestic and international players with an established footing in Vietnam, a wave of new competitors has entered the market in the past five years. But the pathways of these players' expansion strategies have varied greatly.

Casino, the European grocer, made its first foray into Vietnam in 2003 via Big C. It was followed by South Korean Lotte, which entered in 2007. Since then, Casino has divested, and the other foreign players' store expansions have seemingly slowed. Auchan, another European grocer, entered Vietnam in 2015 but exited four years later.<sup>1</sup>

Newer players include AEON, Asia's largest retailer, and VinCommerce, which acquired the Ocean Mart supermarket chain in 2014. AEON entered Vietnam in 2011 and has increased market share to 2 percent in 2018. VinCommerce has since led an expansion drive encompassing both further acquisitions and greenfield store openings. VinCommerce currently leads in a number of stores, with over 100 supermarkets and approximately 1,900 minimarkets, followed by Bach Hoa Hanh and Saigon Co.op with around 500 and 460 outlets respectively. (Exhibit A).

These companies have gained market share from incumbent retailer Saigon Co.op. As recently as 2012, Saigon Co.op captured more than two-thirds of the supermarket and convenience store business in Vietnam. Increased competition since that time, including from new entrants such as Vingroup, which has grown share to 27 percent, have decreased Saigon Co.op's share to 47 percent (Exhibit B).<sup>2</sup>

<sup>1</sup> Pauline Neerman, "Auchan leaves Vietnam as well as Italy," *Retail Detail*, May 15, 2019, retaildetail.eu..

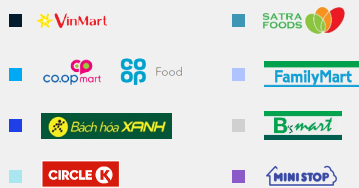
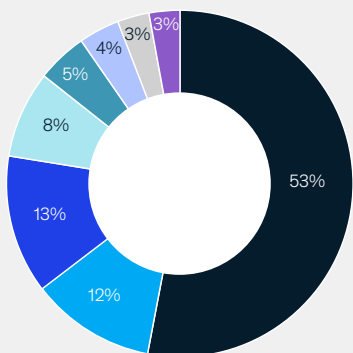
<sup>2</sup> Marco Breu, Matthieu Francois, Dymfke Kuijpers, and Alex Sawaya, "How grocers can outperform in Vietnam: Standing tall in a crowded market," McKinsey & Company, March 2018, McKinsey.com.

Exhibit A

### By number of stores, VinCommerce dominates the convenience store and supermarket segment

Market share of retail chains, by number of outlets, April 2019

Company's outlets as % of total outlets

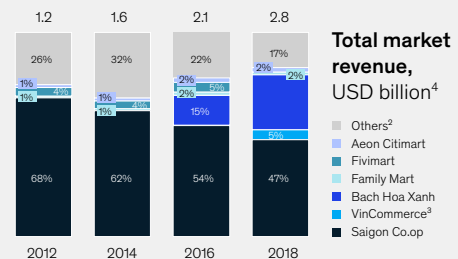


Source: BVSC research

Exhibit B

### Newer players have gained market share at the expense of older players

Market share by revenue<sup>1</sup>, % of total market revenue



Years of operation, As at end of 2018



1. Revenues of convenience stores and supermarkets

2. Maximark, Circle K, Ministop, etc.

3. VinCommerce acquired Fivimart in 2018, and Shop & Go and Zakka in 2019

4. Nominal retail sale price excluding sales tax

Source: Euromonitor, VinCommerce data

## E-commerce penetration on the rise

Vietnam's e-commerce industry is one of the fastest growing in the region and is expected to grow from \$2.8 billion to \$15 billion between 2018 and 2025.<sup>58</sup> This is driven by Vietnam's youthful population and high smartphone penetration, which has doubled since 2014 to 51 million smartphones, enough to provide a device for more than 80 percent of the population over 15 years of age.<sup>59</sup> Vietnam also has Southeast Asia's highest internet economy gross merchandise value as a percent of GDP: 4 percent, ahead of the region's average of 2.8 percent.<sup>60</sup>

According to a survey of Vietnamese online shoppers, the most popular e-commerce categories include clothing, footwear, cosmetics, technology, appliances, and gifts. Roughly 30 percent of respondents indicated that they shop online to make tour and hotel bookings and buy train and air tickets as well as movie and concert tickets.<sup>61</sup>

This being said, the e-commerce sector is in its early days, and many players are still operating at a loss. Key success factors for e-commerce players include overcoming logistics challenges, especially last-mile delivery outside tier-one cities, and the fact that 75 percent of payment is currently cash on delivery.<sup>62</sup> However, players are diversifying to tap entire ecosystems and invest long term across these to create a sustainable business model.

## Key trends to watch: focus on brands, shift to modern retail formats, consolidation of key players

Three key trends are evident in the retail market. First, consumers are increasingly loyal to brands; second, they prefer modern retail formats; and third, key players are consolidating.

## Consumers are loyal to local brands

There is evidence that the vast majority of consumers in Vietnam—69 percent, according to one study—believe that local brands are most attuned to their needs and tastes. Around half of consumers say they would choose a local brand over a global one, a decision driven both by national pride and the belief that local brands offer good value for money.<sup>63</sup>

Accordingly, Vietnamese retail brands are gaining popularity. Forbes released a list of the 40 most valuable brands in Vietnam in 2018, with the total value up 50 percent from the previous year to \$8.1 billion. Consumer and retail companies account for 41 percent of the total brand value in Vietnam.<sup>64</sup>

## Customers are adopting modern retail formats

As previously discussed, modern trade will take increasing share from traditional trade as people migrate from the countryside to urban areas, adopt a more modern lifestyle, and enjoy higher disposable income.<sup>65</sup>

Modern retail formats in Vietnam have exhibited rapid sales growth in recent years, and this growth is likely to continue. Within the modern format grocery segment, the supermarkets and convenience store categories accounted for \$1.2 billion in sales in 2012, and this grew to \$2.8 billion in 2018—a CAGR of 15 percent (Exhibit B in the preceding sidebar).

Modernization of store formats can also be seen in the consumer electronics segment. In consumer electronics, specialist chains have already taken a strong position. They increased their share of sales in the segment from 39 percent to 75 percent between 2014 and 2018—and helped to double the size of this market over this four-year period, from \$9 billion to \$19 billion (Exhibit 6).<sup>66</sup>

<sup>58</sup> Google and Temasek, *e-Conomy SEA 2018*.

<sup>59</sup> *The State of Mobile in Rural Vietnam Report 2018/2019*, Google and Mobile Marketing Association, 2018.

<sup>60</sup> Google and Temasek, *e-Conomy SEA 2018*.

<sup>61</sup> Ella Zoe Doan, "Most popular online shopping categories according to online shoppers in Vietnam," Statista, 23 July 2018, statista.com.

<sup>62</sup> Google and Temasek, *e-Conomy SEA 2018*.

<sup>63</sup> "Vietnamese consumers support local brands," *Vietnam Economic Times*, April 29, 2016, vneconomictimes.com.

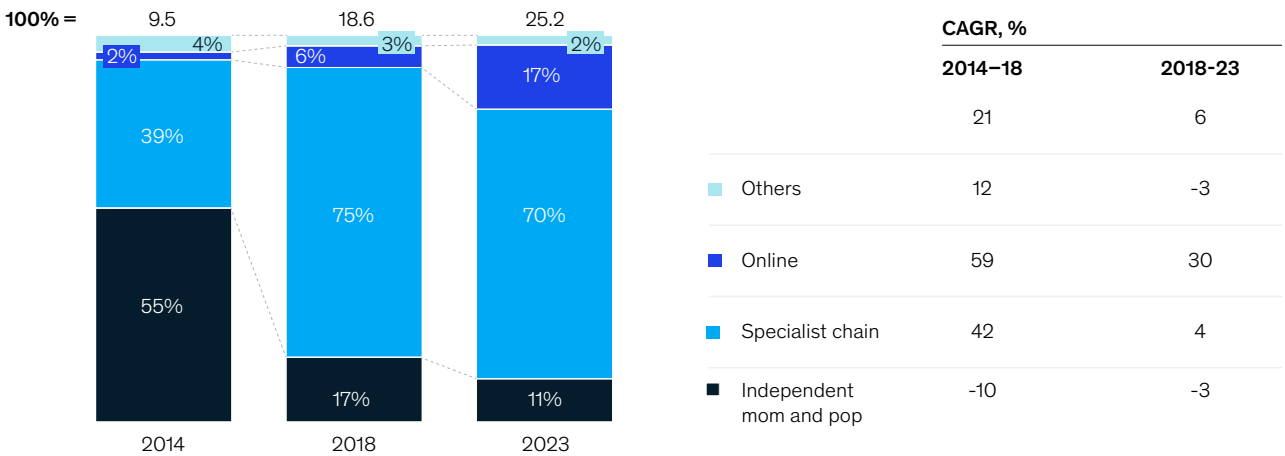
<sup>64</sup> "Forbes lists Vietnam's most valuable brands, Vinamilk, Viettel remain top," *VN Express International*, August 1, 2018, vnexpress.net.

<sup>65</sup> Breu et al., "How grocers can outperform in Vietnam."

<sup>66</sup> Market sizes: Electronics and appliance specialist retailers in Vietnam, 2014–2023, *Euromonitor International*.

## Rapid modernization was driven by leading players in consumer electronics; in future, online channel expected to take share from offline specialist chains

Consumer electronics sales by type of retailer, %, Total consumer electronics sales, USD billions



Source: MWG annual report 2014-17, FPT annual report 2014-17, Euromonitor

By aggressively rolling out new store formats and investing heavily in advertising, they have achieved strong sales productivity. Increasingly, these chains are moving sales online: in consumer electronics, online sales as a share of total sales is expected to almost triple from 6 percent in 2018 to 17 percent by 2023.<sup>67</sup>

### Top players are consolidating

As retail modernizes, the market is expected to consolidate around top local players. Currently, Vietnamese traditional retail has a 92 percent share of the total grocery market.<sup>68</sup> The top three

modern retail players make up another 6 percent of the market, and other modern retail players make up the last 2 percent.<sup>69</sup> If Vietnam follows other countries in the region, as modern retail penetration grows, the top three players will take up a much larger share of the retail market. By comparison, Thailand's modern retail penetration is at 47 percent (versus Vietnam's 8 percent), with the top three players holding a 35 percent market share and other modern retail players holding 12 percent, leaving 53 percent for traditional grocery retailers.<sup>70</sup>

<sup>67</sup> Market sizes: Consumer electronics in Vietnam, 2014-2023, *Euromonitor International*.

<sup>68</sup> Market sizes: Grocery retailers and traditional grocery retailers in Vietnam, *Euromonitor International*, 2018.

<sup>69</sup> Brand shares: Grocery retailers in Vietnam, *Euromonitor International*, 2018.

<sup>70</sup> Market shares and brand shares: Grocery retailers, modern grocery retailers and traditional grocery retailers in Thailand, *Euromonitor International*, 2018.

# 3. Seizing the opportunity: How to succeed in Vietnam retail

Retail players face growing competition from both foreign and local companies as players are drawn by increasing growth. However, by leveraging lessons in innovative technologies and more advanced markets, players can identify the factors associated with a greater chance of success. According to our research and observations, retailers that are perceived as offering convenience and value for money and that rigorously manage resources and margins will be most likely to succeed in the Vietnamese market. In particular, based on our experience in working with leading retailers across Southeast Asia, we have observed the following six success factors that stand out as keys to making the most of retail opportunities in the region (Exhibit 7).

Exhibit 7  
Retail leaders exhibit 6 key success factors

	CP All (7/11)	BJC	Central Group	Alfamart	Robinsons Retail	Dairy Farm	
<b>Parent group</b>	CP Group	TCC	Central Group	Sumber Alfaria Trijaya	JG Summit	Jardines	
<b>Network and scale</b>	<b>Supermarket</b>						
	<b>Hypermarket</b>						
	<b>CVS</b>						
	<b>Others</b>						
	<b>Total outlets<sup>4</sup> (home market)</b>	11,000 13'-18' CAGR: 8%	8501 (2017) 16'-17' CAGR: 30% <sup>1</sup>	1392 <sup>1</sup> 13'-18' CAGR: 3-7% <sup>1</sup>	14,300 <sup>1</sup> 13'-18' CAGR: 14%	1,849 13'-18' CAGR: 12%	1,626 (2017) 12'-17' CAGR: 1%
<b>Compelling value proposition</b>	Convenience Ready to eat	Merchandising Authority Price	Convenience Large range Price	Convenience Price	Merchandising Authority Price	Distinct value proposition for different chains	
<b>Strong business enablers</b>	<b>Distribution</b> Own logistics subsidiary or exclusive logistics partner						
	<b>Proprietary brand (own product<sup>2</sup>)</b>		Multiple brands, e.g., Zilk, DOZO (ThaiBev)	Tops Supermarket: My Choice, Tops, Love the Value (house brand)	Alfamart	(Universal Robina)	Multiple brands, e.g., Guardian
	<b>Loyalty program /data<sup>3</sup></b>	12mm	12mm	20mm	10mm <sup>4</sup>	1.2mm	NA
<b>Strong brand equity</b>	Asia's Fab 50 Companies	Thailand's Top Corporate Brand Values 2018	Tops Supermarket: Superbrands 2016; Brand of The Year 2016 from World Branding Awards	Indonesia's Top Brand Award	Asia's Fab 50 Companies	Hong Kong Top Service Brand	
<b>Privileged access and local knowledge</b>			Parent group has own real estate business				
<b>Omni-channel platform</b>						wellcome.com	

1. Estimated based on press search  
 2. Parent group own separate brands sold through the retail chain  
 3. As at end of 2017 4. As of 2018  
 Source: CapitalIQ, Euromonitor, company annual reports, press search, expert interviews



# The top players in Vietnam have differentiated value propositions

● # of members ● Weak presence ● Strong presence

	Aeon	Bach Hoa Xanh	Big C	Lotte	Saigon Coop	VinCommerce
<b>Parent group</b>	Aeon	Mobile World	Central Group	Lotte	Saigon Union	Vingroup
<b>Retail revenue<sup>1</sup></b> USD mm	322	277	1,446	491	2,812	722
<b>Network and scale</b>	<b>Supermarket</b> 28 ●				109 ●	<b>VinMart</b> 113 ●
	<b>Hypermarket</b> 4 ●		36 ●	13 ●	4 ●	
	<b>CVS/Minimart</b> 112 ●	512 ●			352 ●	<b>VinMart*</b> 1901 ●
	<b>Total outlets</b>	144 ●	512 ●	36 ●	13 ●	465 ●
<b>Value proposition</b>	Premium (Japan quality)	Service/ Price Merchandise	Price	Experience	Price	Merchandise Convenience Service
<b>Business enablers</b>	<b>Distribution</b> Partnership with Sagawa	Partnership with Sagawa ●	Owens logistic distribution network ●	Lotte logistics Vietnam ●	Owens logistics subsidiary ●	Owens logistic network + exclusive 3PL ●
	<b>Proprietary brand (own product<sup>2</sup>)</b> Top Value ●		Big C brand ●	L-Brand (Lotte bev./ conf./food) ●	Coop Mart Private Label ●	VinMart Home/ Cook/ Good/ Care, VinEco, Vsmart ●
	<b>Loyalty program /data</b> AEON member card		Big C member	L.Point		
<b>Brand equity<sup>3</sup></b>	#4 ●	Not in top 10 ●	#2 ●	#6 ●	#3 ●	#1 ●
<b>Access and local knowledge</b>	4 shopping malls	No separate real estate business	4 shopping malls ●	<b>LOTTE LOTTE</b> Invest in VN projects ●	2 shopping malls	69 shopping malls 19 operating projects
<b>Omni-channel platform</b>						 "Scan & Go" VinMart 4.0 ●

1. Nominal retail value RSP excl sales tax (2018) 2. Parent group own separate brands sold through the retail chain  
3. Most Trusted Retailer in the grocery category in Vietnam by Vietnam Report (2018).  
Source: Company websites, Euromonitor, press search

## Network and scale

A large, well-connected network is vital to driving retail growth and scale. The ability to grow these networks depends on the player's access to funding, the skill of its team, and the ability to find and acquire quality locations. For example, Vingroup in Vietnam has amassed substantial real estate assets. Furthermore, players such as Vingroup and Mobile World have teams dedicated to finding suitable sites and locations (Exhibit 8).

Major players have followed the approach of building a dense network of smaller stores in urban areas that are accessible without a car and have offerings tailored to medium-size baskets. Expansion offers the benefits of scale, such as superior bargaining power leading to competitive pricing and higher margins. But expansion must be carefully managed. Leading retailers have achieved successful expansion by using a consistent format tailored to the market, together with a uniform visual identity. For supermarkets, for example, this will mean midsize stores tailored to urban locations, with high visibility for

categories prized by traditional grocery shoppers, including fresh vegetables, meat, and fish.

## Compelling value propositions

So far, there is no clear winner in the Vietnam groceries market. Our assessment shows that, compared with other markets where modern trade is well established, players in Vietnam have not yet managed to create distinctive and differentiated value propositions. Reasons include the relative newness of modern trade, gaps in capabilities in the market, and consumers' lack of familiarity with the format.

We have observed that players are often unsuccessful if they try to excel in every dimension—price, assortment, merchandising, experience, service, and convenience. It is better to focus on a clear and compelling value proposition that works economically and attracts customers from competitors. Successful retailers differentiate themselves from competitors by selecting and focusing on the right factor that fits best with customers' needs, instead of trying to focus on all of them.

## Strong business enablers

Strong business enablers are especially important to success in countries with less developed business and transportation infrastructure. In Vietnam, where only 25 percent of consumers adopt digital payments, this is fundamental to the ability to scale.<sup>71</sup> To overcome the lack of payments and logistics infrastructure in the region, e-commerce player Lazada built in-house capabilities in cash on delivery and last-mile delivery to better serve customers. Other enablers include building proprietary products and loyalty programs. These help consumers gain trust in brands and reinforce the company's value proposition.

## Strong brand equity

Strengthening brand equity through marketing efforts and establishing trust with customers in daily business is essential for building a loyal customer base. This is especially crucial in Vietnam, where consumers are still developing trust in new brands. Local players have the advantage over global brands in perceived friendliness and often gain support from local customers.

## Local knowledge

Local knowledge is especially important for expansion in developing markets like Vietnam. Extensive, on-the-ground experience is particularly valuable for foreign entrants to understand local tastes, rules and regulations, and trends, such as where the next up-and-coming neighborhood may be.

## Innovation and omnichannel platforms

As retailers face increasing competition in Vietnam, innovation and omnichannel platforms will be a key differentiator. This means providing customers with unique, delightful journeys that span both the offline and online worlds. For example, Freshippo in China, owned by Alibaba, puts emphasis on fresh grocery displays reminiscent of wet markets. However, this is

integrated with an app that guarantees delivery times of less than 30 minutes for customers living near its stores. Suning.com in China takes a different approach: it sells consumer electronics via its online stores and select "smart" stores in key cities. This enables it to reduce the costs of operating brick-and-mortar stores yet still offer customers an omnichannel experience.

Like expansion, innovation requires access to funds. However, the ability to build a strong organizational culture and attract top talent is as important in driving innovation. Going forward, winning retailers will have to compete for talent with foreign companies, both domestically and overseas. Winning in retail, in the future, may come down to who has the best workforce.

□ □ □

Vietnam's economy stands out as being among the fastest growing and stable in Southeast Asia. Its key macroeconomic indicators, particularly the high forecast growth in GDP and the middle class, combined with the existing high private-consumption rate, create an attractive and sustainable environment for investment. Vietnam's business fundamentals are strong, most notably shown in the recent increase in FDI investment and in the country's rise in the rankings in the World Bank's Ease of Doing Business index.

These factors point to opportunities in Vietnam's retail market, which is already growing quickly. The retail sector offers large potential, particularly in modern trade formats. Although modern trade penetration is currently lower than in other countries in the region, it is predicted to grow significantly faster than forecast GDP. E-commerce, too, is on the rise; although still in its early stages, it offers rich potential for long-term growth.

All in all, Vietnam retail offers exciting growth opportunities for companies with the boldness and imagination to build meaningful scale, shape compelling brands and value propositions, build local access and knowledge, and innovate across omnichannel platforms.

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<sup>71</sup> Google and Temasek, *e-Conomy SEA 2018*.







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September 2019  
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