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## Should Carrefour Expand into Vietnam?

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*Abstract-* In this paper I have briefly discussed whether should Carrefour expand into Vietnam or not. Hypermarkets market is growing, and Carrefour has built a very impressive brand name and has gone to great heights to become the world's largest retailer. Vietnam also is a growing country, and could be good chance for Carrefour there. I used PEST analyses to find out the possibility of Carrefour expansion into Vietnam. I went through the political, economic, socio-cultural, and technological factors. By the end of this paper, you will find the results and recommendations.

*Keywords:* carrefour, vietnam, PEST, expanding, hypermarket.

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# Should Carrefour Expand into Vietnam?

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**Abstract-** In this paper I have briefly discussed whether should Carrefour expand into Vietnam or not. Hypermarkets market is growing, and Carrefour has built a very impressive brand name and has gone to great heights to become the world's largest retailer. Vietnam also is a growing country, and could be good chance for Carrefour there. I used PEST analyses to find out the possibility of Carrefour expansion into Vietnam. I went through the political, economic, socio-cultural, and technological factors. By the end of this paper, you will find the results and recommendations.

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## I. INTRODUCTION

Carrefour is a French company created in 1958 with its headquarter near Paris and employing more than 380,000 people worldwide. It is the leading retailer in Europe and second retailer in the world. It also ranks well regarding revenues and profits, with €100.5 billion of revenues in 2014. The company operates in more than thirty-five countries around the globe thanks to its 12,000 stores. The company makes 53% of its sales outside of its domestic market. Feeling concerned about its products, Carrefour makes sure to partner up with local producers to ensure that 73% of all its food products are local, and therefore meet consumers' needs in the country they operate. The company cares about its local supply chain. The CEO of the company Georges Plassat is a well-disciplined leader who is known for his participative leadership style that has resulted in motivated employees and hence high yields. George Plassat has been the CEO of the company for four years now, promoted from Chief Operating Officer Carrefour SA. The company under the management of George states its vision as "exercise our leadership responsibility", the primary goal being to provide the customers with quality products and services. To achieve the above vision, the company works based on three pillars: eliminate any form of waste, protect biodiversity, and work alongside its partners. The primary purpose of reducing waste is to ensure the protection of biodiversity and ensure sustainability (Carrefour, 2016).

## II. PEST ANALYSIS

The PEST analysis is a framework for determining the external environment of a firm. It studies the major factors that can influence the operations of a business entity (Analoui & Karami, 2003). The four

factors discussed under the PEST analysis include the political factors, the economic factors, the socio-cultural factors, and the technological factors (Rao, Rao, & Sivaramakrishna, 2009).

Carrefour is a Multi-National Corporation based in France (Slamanig, 2013). The company is considering expanding its operations in Vietnam. A PEST analysis of Vietnam has been conducted for the enterprise.

## III. POLITICAL FACTORS

The political landscape of Vietnam is governed by a one-party socialist republic structure (London, 2014). The country has been ruled by the Communist Party of Vietnam, which has its roots in Marxism-Leninism (Books, 2010). The communist party actively restrains political and religious freedoms (Inc, 2015b). The ideology of the country is embedded in the concepts of collectivism (London, 2014). Individual liberties and goals aren't considered as a priority in collectivist societies. Rather the community members are encouraged to pursue shared goals (Taylor, 2004).

Since 1990's, the country has embraced a mixed economy. However, the Vietnamese Government still majorly determines the planning and controlling of business activities (Jandl, 2013). The Communist Party of Vietnam is reluctant to abandon its monopoly on the political hold (Inc, 2015). The leaders believe that allowing high economic liberalization could be a threat to their power. The party accepted a document in its 11<sup>th</sup> National Party Congress, suggesting that the market economy shall be approached with a socialists view (London, 2014). The state companies significantly determine the Vietnam economy, and the private corporations have a limited influence.

The constitution of the country was adopted in 2013 and implemented in 2014 (Case, 2015). The legal system of Vietnam is based on the communist legal theory and the French Civil war. The legislation is determined by the National Assembly that is driven by democratic centralism. It governs the local and foreign policy, socio-economic policies, and matters pertaining to the defense and security of the state. Furthermore, the National Committee has seven committees (Elliott, 2012). The current head of the state of Vietnam is Mr. Truong Tan Sang, who was elected by the National Assembly. In the political system of Vietnam, the President doesn't enjoy administrative powers. Rather, these powers are held by the Prime minister. The Council of Ministers is the highest executive body (Torremans, 2014).

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The National Assembly of Vietnam passed these two laws in 2005: Law on Enterprise (LOE) and Law on Investment (LOI). All the business and investment activities in Vietnam are governed by these two laws. The LOE determines the kinds of firms that are allowed to be conducted in Vietnam. On the other hand, the LOI deals with the investment activities, rights and duties of the investors, and the State management of investments (Jandl, 2013). The country has pursued multiple bilateral and multilateral trade agreements including the ASEAN Free Trade Agreement with China, Korea, Australia, New Zealand, Japan and India; the ASEAN comprehensive investment agreement; the Bilateral Trade agreement with America, and the Convention on the Establishment of the Multilateral Investment Guarantee Agency (Jandl, 2013).

In January 2015, the Government of Vietnam has issued new labor laws (commonly referred as the Decree 05). According to the updated labor laws, the employer can change his terms only once in the employment contract appendix. Contracts with retired employees can be extended, provided that the old workers are in good health. Employers are required to give overtime pay to the employees, who work on holidays and on the night shift (Gundling, Caldwell, & Cvitkovich, 2015).

The country has a history of tensed relations with the United States (Wells, 2005). The efforts to normalize the US-Vietnam relations started in 1995, and the both countries signed a bilateral trade agreement in 2000 (Mongay, 2012). Vietnam is now a pro-American society, and a vast majority of its population consider that United State is its friend (Stokes, 2014). Similarly, Vietnam has a history of wars with France. But both countries have formed diplomatic ties since 1970's. In the past few years, France has invested heavily in Vietnam.

The politics of the country is expected to be stable in future. The Government is trying to develop a policy for supporting international trade (The World Bank, 2015). The political risk of investment in Vietnam is very low (McTernan, 2015). The country has a zero terrorism index. Because of the small political and economic risks, it is considered an ideal country for investments. So, the political environment supports Carrefour entry into Vietnam.

#### a) *Economic Factors*

Vietnam is one the most rapidly growing economies in the South East Asia. The country has maintained a healthy economic growth rate of 7% over the past few years. Vietnam started to pursue a Socio-Economic Development Strategy in 2011 (Elliott, 2012). The strategy has been developed for a period of 9 years i.e. 2011-2020. As a part of its strategy, Vietnam intends to become a developed economy by 2020 (Bodewig, Badiani-Magnusson, & Macdonald, 2014). Since 2006,

the GDP of the country has been consistently growing. The GDP for the last three years has been 171.2, 186.2, and 198.8 Billion Dollars (The World Bank, 2015).

The Gross National Savings (as a percentage of GDP) of Vietnam have been 33.2%. The country was ranked at 17<sup>th</sup> position for its Gross National Savings, out of total 144 countries (World Economic Forum, 2015). It has been projected that the economic growth in future will remain healthy. The infrastructure of the country is growing (Jandl, 2013). Out of a total of 144 countries, Vietnam stood at 81<sup>st</sup> position in its infrastructure, and at 92 for its institutions (World Economic Forum, 2015).

Over the last decade, Vietnam has attracted massive foreign investment. The Foreign Direct Investment stock in 2015 amounted to 23 Billion Dollars (Noi, 2015). In the same year, the country has imported good worth 165.65 Billion US Dollars, and the exports have reached to the value of 162.11 Billion US Dollars. Its major export partners are the United States of America, China, Japan, South Korea, Hong Kong, and India (Tzu-Wen, 2016). While, the primary import partners have been China, South Korea, Japan, Taiwan, Thailand, and Singapore. It should be noted that it has maintained high volumes of imports and exports with Japan.

From 2010-2014, the country has witnessed some macroeconomic instability, with double-digit inflation, high unemployment, high interest rates, and currency devaluation. But after 2014, the country is showing signs of a healthy economy (Kabe, Ushiyama, Kinkyu, & Hamori, 2016). The inflation has become lower in recent months. Specifically, the inflation rate was 2.28% in May 2016. An unemployment rate of 2.31 percent was observed in the country in 2015. In 2015, the average interest rate has been 6.5 percent. The country scored 4.7 (on a scale of 1-7, with '7' being the best, and '1' being the worst) on the competitiveness of its macroeconomic environment (World Economic Forum, 2015). Vietnam stood at 78<sup>th</sup> position (out of 144 countries) for the efficiency of its goods market.

The tariffs and duty rates in Vietnam are subject to change. Value Added Tax varies and is usually around 10% (Central Intelligence Agency, 2015). From 2014, the country has maintained a corporate tax rate of 10%. The trade barriers in the country are low (Inc, 2015). It should be noticed that around 67, 823 business entities closed in 2014, with an increase of 13% from the previous year. 74,842 new companies were formed. 'Access to financing' and 'corruption' have been identified as the primary problems for doing business in the country (World Economic Forum, 2015).

It can be concluded that Vietnam is an ideal market for investors, because of the economic growth, high macroeconomic competitiveness, and low trade barriers. The economic environment is favorable for Carrefour to expand its operations into Vietnam.

b) *Socio-Cultural Factors*

The culture of Vietnam has its origins in the ideologies of Buddhism, Confucianism, and Taoism (Murray, 2010). The official language of the country is Vietnamese and is spoken by around 87% people. Other languages, like English, French, Russian, and Chinese are also spoken in Vietnam. Various symbols are used to represent the nation of Vietnam. Some examples of the symbols include the five-pointed gold star, different types of red and golden stars, the depiction of Ho Chi Minh, and illustration of laborers and military men (Murray, 2005).

Several ethnic groups live in Vietnam (Minahan, 2012). The majority of ethnic groups enjoy friendly relationships. But, some minority groups complain of discrimination (Taylor, 2004). Another dimension of Vietnamese culture is that its people are very conscious about their relationship with their environment (Pham & Rambo, 2003).

The consumer market of Vietnam is attractive. According to the latest census, its population is 91.7 Million and is expected to grow to 93.2 Million by 2017 (The Economist Intelligence Unit, 2016). Seventy percent of the population is 15-64 years old and is supposed to remain the same by 2017 (The Economist Intelligence Unit, 2016). The people of the country are actively pursuing a quality education. The country scored 5.9 (on a scale of 1-7) at the health and primary education competitiveness. Moreover, it scored 3.7 (on a scale of 1-7) for its higher education and training (World Economic Forum, 2015).

Vietnam has a good workforce. As for the past year, the working age population was around forty-eight Million. It is expected that the working age population will reach at its peak in 2025 (Libicki, Shatz, & Taylor, 2011). A total of 53 Million people were employed in Vietnam in 2014, out of which 46.6% were working in the sectors of agriculture, forest, and fishery; 21.3% were employed in the industry and construction; and 32% were serving in the service sector (Bodewig, Badiani-Magnusson, & Macdonald, 2014). Out of a total of 144 countries, Vietnam stood at 34th position for its market size, and at 49th place for its labor market efficiency (World Economic Forum, 2015).

The young middle class pursues electronic and luxury goods (Nkhoma et al., 2014). The consumer confidence in Vietnam reached an all-time high of 144.80 in December 2015. Over the last decade, the consumer spending has increased at a very fast pace, reaching up to 2,591,337 Billion Vietnamese Dollars in 2014 (Trading Economics, 2016). From 2002-2016, the average year-on-year retail sales of Vietnam has averaged at 21.56 percent. In February 2016, the YoY retail sale was recorded at 8.23 percent (Trading Economics, 2016).

Over the past five years, the disposable income of the Vietnamese consumers has increased by 32%

(Euro Monitor, 2016). The customers have taken the advantages of the growth in disposable income, as evident from the fact that during the same time, the consumer spending has grown by 33%. The middle class has the highest contribution the increase in consumer spending (Euro Monitor, 2016). The standard of living of Vietnamese is also getting better, day by day. A large number of people are moving from rural areas to urban areas of the country (Bousquet, 2015).

Euro monitors International has discovered the top five consumer trends of Vietnam (Euro Monitor, 2016). It has been revealed that children have the highest influence in the household spending in Vietnam. It has been found out that customers prefer local products over international ones. An increase in demand for health-care products has been determined, as consumers become more health conscious. The need for the products that offer higher comfort, more convenience, and high speed has also increased. Lastly, the institute has revealed that young consumers tend to purchase products, which reflect their individual self. The Vietnamese consumers are becoming increasingly fashion oriented. The trend of online shopping is increasing (Euro Monitor, 2016).

c) *Technological Factors*

The industry of Information Technology has been fostering in Vietnam, throughout the past decade. From 2005 to 2010, the information technology sector kept growing at a steady rate of 13-15 percent. The country enjoys a favorable reputation in the fields of Science and Technology (World Bank, 2016).

World Economic Forum has published a report on the competitiveness of Vietnam for 2014-2015 (World Economic Forum, 2015). The country stood at 87<sup>th</sup> position (out of an entire 144 countries) in the competitiveness for innovation, and at 99<sup>th</sup> place for the technological readiness (World Economic Forum, 2015). The details of the technical readiness of Vietnam have been presented in the table 1.

Technological Readiness Dimensions	Value (1-7)	Rank (out of 144)
Availability of latest technologies	3.9	123
Firm-level technology absorption	3.9	121
Foreign Direct Investment and technology transfer	4.2	93
Percentage of individuals using the Internet	43.9	77
Fixed broadband Internet subscriptions/100 pop	5.6	77
Int'l Internet bandwidth, kb/s per use	15.9	90
Mobile broadband subscriptions/100 pop	18.8	81

The information and Communication Technology (ICT) sector of Vietnam is developing at a





good pace. There are approximately 9.23 Million Telephone lines in the country (HSBC, 2016). The mobile phone subscriptions in Vietnam have reached 120 Million. There are 732 secure internet servers in the country (HSBC, 2016). It can be seen from the table that the web usage in the country is increasing. This factor supports the trend of online shopping, which is also on the rise.

It has been projected that the IT sector of Vietnam will grow in future (Greene, 2014). As a part of its strategic plan, the government of Vietnam intends to reduce its technological and scientific gap with the rest of the world by 2020 (Nkhoma et al., 2014). Vietnam manufactures more hardware as compared to software. A large number of technology workers are employed in factories, rather than in offices (Greene, 2014). The country offers value across the IT services sector. The IT industry has reached a mature stage. Vietnam has been ranked as one of the most financially competitive service market (A.T. Kearney, 2016).

It can be concluded that the most prominent factor of the technological landscape of Vietnam is the potential for technological growth. In recent years, more IT companies have been recruiting talent from Vietnam. The infrastructure of the country also supports its technological advancements. As the consumers become more technology oriented, it is easier for firms to take advantage of the latest business solutions. Considering these factors, it is recommended that Carrefour should enter Vietnamese market.

#### IV. RESULTS AND RECOMMENDATIONS

After conducting a detailed PEST analysis, it has been established that Vietnam is an attractive market for Carrefour because of a number of reasons. First of all, the economy of the country is growing. The economic and political environment of Vietnam is stable, and there are no major external threats to Carrefour in Vietnam. Secondly, the consumer market is becoming attractive, as the disposable income of consumers is increasing. Hence, Carrefour should expand its operations in Vietnam, but it should develop strategies to minimize the financial and market risks.

It is recommended that Carrefour should enter Vietnam by forming a 'joint venture' with a local giant. Carrefour shall be able to take the advantage of the already existing brand awareness, brand image, and brand loyalty of its partner. Through the joint venture, the multinational corporation will quickly reach a large audience, without putting in too much time and marketing campaigns (Doole & Lowe, 2008). Carrefour already has experience of entering new markets by establishing joint ventures. For example, it has joint ventures with 'Majid Al Futtaim' in UAE and Jordan, 'MAF' in Pakistan, and 'Sabanci' group in Turkey.

Apart from the cost reduction, the financial risk of investing in the new business venture shall also be

shared by two partners, thus reducing the risks for Carrefour. The joint venture will also offer the benefit of minimizing political risks and non-tariff trade barriers (Paul, 2008). Moreover, it will also help Carrefour to gain a competitive advantage over other international retailers in Vietnam. Developing a secure and sustainable supply chain is a major challenge for any retailer. It would be easy for Carrefour to develop a strong supply chain, provided that it has a partner that has already established its supply network.

It is suggested that Carrefour adopts the methods of road freight, air cargo, and contract logistics. As a giant retailer, it will place several local and foreign products in its stores. For local goods, the method of contract logistic is recommended. A contract should be formed with a supplier that has already developed its network, and supply chain so that the risks are minimized (Peter F. Wanke & Walter Zinn, 2004). The foreign products (i.e. either the good is perishable or non-perishable, costs and the efficiency of cargo would be considered) can be brought through ship cargo and air freight.

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