



## GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: E MARKETING

Volume 16 Issue 6 Version 1.0 Year 2016

Type: Double Blind Peer Reviewed International Research Journal

Publisher: Global Journals Inc. (USA)

Online ISSN: 2249-4588 & Print ISSN: 0975-5853

# The Current Situations and Solution in Mergers and Acquisitions of Retail Section in Vietnam

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**Summary-** Along with the opportunities for economic development from the opening policy, Vietnam's economy is facing many risks, including reduction in competitiveness capacity and the annexation of foreign enterprises that are the phenomenons predicted in the short and long term. In the context of deep integration, Vietnam has participated in many free-trade agreements with a strong commitment on opening the retail market and elimination of tariff barriers and non-tariff for goods, the retail sector of Vietnam is facing many significant challenges. Particularly in the retail sector with great potential, attraction, Vietnam's retail market is strongly attracting investment from the foreign retailers. In the past time, there has been a change of owners of many supermarkets and the investment and expansion of distribution network of foreign retailers that have made the domestic enterprises at risk of losing markets. With this competition, the enterprises' associating and sharing interests to support others' development is necessary. The question that if the State will have any policies to support the dosmetic retailers is interested by many people.

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**GJMBR-E Classification:** JEL Code: M31



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## I. BACKGROUND

a) *Overview of mergers and acquisitions (M&A) of the retail sector in Vietnam in the past time.*

- Mergers and acquisitions in the retail sector

In Vietnam, since the government enforces the policy on open economy, world economic integration and participation in the World Trade Organization (WTO), the mergers and acquisitions of enterprises have been formed gradually and grown rapidly both in number and scale.

In the commercial sector, one of the reasons for many fluctuations of Vietnam market in recent years is the business environment, including the distribution activities in the market in Vietnam has been significantly improved and the domestic and foreign large companies have seen the market's prospect. This prospect comes from the internal demands and the trend of economic integration, but also accompanying by new challenges in the context of obvious globalization and liberalization. According to the ranking in the global retail development index (GRDI) published annually by AT Kearney Market Consulting Group (the USA), Vietnam is continuous in the top 30 most attractive emerging retail markets in the world for foreign investment from 2008 to present.

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Specifically, in stage 2011-2015, the total retail and consumption sales of Vietnam was always positive growth. Besides, according to the statistics, the total retail sales in 2015 was nearly 2,470,000 billion dong, accounting for 76.2% of the total retail sales and consumption sales.

When assessing the prospect of Vietnam's retail market, many market research companies and experts said that Vietnam's retail market has a lot of prospects for development and achievement of higher growth in the future. In which, many factors prove that Vietnam's retail market will continue to bring high profits. It is forecasted that the motivation for promoting Vietnam's retail market is the consumption scale of more than 91.7 million people with golden population structure for higher consumption.

In 12 current common retail patterns, enterprises have the greatest expectations for the modern retail patterns, while the traditional retail patterns such as traditional markets or small itinerant retail patterns (peddlers) are considered as less promising. In addition, two retail patterns that are considered as the most promising, and also the strength of foreign retailers are the general supermarkets and shopping centers.

M&A transactions have grown significantly in recent years as an attractive investment channel in the country and foreign countries. In 2005, there were only 18 M&A transactions with the total value of 61 million dollars, in 2006, there were 32 transactions with the total value of 245 million dollars. The number of transactions continued to impressively grow in 2011 with the growth of 135.2%, the total value of transactions reached 1.7 billion dong, and in 2012, it reached the peak of 5 billion dollars. In 2014, the world M&A activities increased by 57%, reaching 4,400 billion dong, while Vietnam only increased by 33% with 313 transactions. In 2015, Vietnam had 525 transactions, jumped in number in comparison with that of 2014 with the value of over 4.3 billion dollars, increased by 40% compared to that of 2014.

*Looking back the background of Vietnam's M&A in the retail distribution sector from 2013 to early 2016, it can be found that:*

Firstly, despite the significant growth in 2015, the figures from IMAA also showed that Vietnam's M&A only increased in "quality" rather than increase in "quality", which meant that M&A in 2015 were only

mainly small-scale mergers and acquisitions. Vietnamese enterprises also prove its littleness when its figures were compared to that of countries in the region. In 2015, Singapore had 700 M&A transactions with the value of nearly 100 billion dollars, 141 million dollars / transaction in average, 17 times greater than that of Vietnam; that of other countries such as Thailand, Malaysia and Indonesia is 3 times greater than that of Vietnam.

In which, there are three features that make M&A transactions of Vietnam even smaller than of other countries in the region. Specifically, most of Vietnam enterprises are small and medium, reaching 97%. The scale of these enterprises in Vietnam in general is also much smaller than that of the countries of the region; The process of restructuring and promoting equitization of the state enterprises in past time has just focused on equitization, restructuring and sale of shares of the subsidiaries. Therefore, the value of M&A in Vietnam are small in comparison to that of other countries in the region; Foreign investors in Vietnam in recent years are quite conservative because they must learn about the route and the success possibility before deciding to invest.

Secondly, the smallness of Vietnam enterprises is also proved by the acquisitions of foreign enterprises or domestic enterprises by foreign enterprises, which are the biggest M & A transactions. Vietnam enterprises only play the role of acquirers in small enterprises, in the other cases, they are mostly the acquired enterprises.

The investors in Japan, Korea have emerged with a series of business transactions. Typically, Aeon simultaneously acquired 30% of the shares of Fivimart and 49% of the shares of Citimart. Or Lotte from Korea has suddenly announced its control of Diamond Plaza Trade Center when owning 70% of its shares.

Thirdly, in addition to the presence of foreign enterprises, in the domestic market, the large distribution enterprises in the country such as Saigon Co-op, Vissan, Vingroup also have new steps in order to dominate the market. For example, Vingroup acquired 70% of the shares of Ocean Mart supermarket chain, then renamed it into Vinmart ... However, in addition to promoting the own development of brand and distribution network, the domestic enterprises tend to cooperate and merge with each other. In addition to Vingroup and Saigon Co-op, there are also other retail enterprises such as Saigon Trading Corporation (Satra) and Hanoi Trade Corporation (Hapro), in spite of both transformation steps, but they seem still very slow in this race.

#### b) Some observations and evaluations

The year 2015 can be considered as the pivotal year for Vietnam's integration with a series of new FTAs that have been signed and intended to be signed. After signing ASEAN Trade in Goods Agreement (ATIGA), tax

of most goods is down to 0% and the highest tax rate is only 5%. Recently, the fact proves that the great corporations in Asia are rapidly approaching Vietnam market with a series of chains of retail stores in Thailand, Japan, Korea. This is really the big concern for the Vietnamese retail sector. From these factors, Vietnam retail sector will face both opportunities and challenges from the integration. The integration will help Vietnam enterprises to learn about management experience, use of capital and laborers and get the opportunities for cooperation and development and improvement of competitiveness. However, the integration will also put enterprises in direct competitions and risk of being taken over by foreign enterprises.

From the perspective of Vietnam's economy and the international economy, the integration today can be seen as the objective factor affecting a flat market. In which, the entities are the governments running the economy according to integration commitments. Accordingly the domestic enterprises and foreign enterprises together operate in a market equally, so the competition is inevitable that comes from the integration demand.

## II. DISCUSSION

### a) The trend of M&A activities in the retail market and some recommendations for Vietnam in the upcoming time

Vietnam's retail sector is witnessing a strong and fast penetration by many ways by foreign retailers into the domestic market. This is the inevitable trend of Vietnam's deeper integration into the economy in the region and in the world.

From the demand of integration of the domestic economy, WTO's commitments on opening the distribution market, Trans-Pacific Partnership Agreement (TPP) and Free Trade Agreements (FTAs) and when the commitment to implement free trade area between ASEAN members takes full effect, all ten member countries will be subject to a comprehensive economic integration into a unified common market with the scope of 600 million people, then Vietnam market and Vietnamese goods will look forward to a borderless trade market with a lot of competitions.

On the other hand, in the context that the retail markets of the countries in the region are approaching the saturation point, Vietnam market with more than 91 million people, including 60% of young consumers, the proportion of modern retail of Vietnam is only 25% of the distribution channels, much lower than that of countries in the region such as Thailand (34%), Malaysia (60%), the Philippines (33%), China (51%), Singapore (90%). According to the general plan on commercial development of Vietnam, until 2020, the country will have about 1200-1500 supermarkets, 180 commercial centers and 157 shopping centers, trying to reach the

rate of modern retail of 45% of the retail distribution channels in the market. Therefore, Vietnam retail sector is becoming an extremely attractive destination for foreign investors. In the future, foreign retailers will increasingly appear on the retail market of Vietnam, the competition will become increasingly fierce and M&A in the retail sector is inevitable and will become more vibrant.

Besides, IMAA data also shows that M&A in the countries such as Thailand, Indonesia and Malaysia is decreasing in both quantity and value in recent years, while M&A of Vietnam is gradually growing. Therefore, in the upcoming period when the policies become clear, the business environment in Vietnam becomes attractive with the favorable trend for trade, through M&A, Vietnam will also benefit from the foreign capital that will be increasingly invested into the retail market.

The change in policy, efforts to restructure the state-owned enterprises to develop the domestic economy to create conditions for promoting M&A, especially in the retail sector, the prospects for M&A will continue to be promoted by some recent policy moves such as the Investment Law and the Enterprise Law (amended and supplemented) taking effect from 01 July 2015. Besides, the Government issued Decree 60 in 2015 to allow relaxation of the ownership ratio of foreign investors in many sectors, with the commitments on equitization of large state-owned enterprises, the rises of private companies in the country, the interests of foreign capital flows for investment opportunities and M&A in Vietnam are expected to be the driving motivation for M&A in the upcoming time.

#### b) *The visible impacts from the policy*

Firstly, the safety for the investments under the new Enterprise Law will be improved. Vietnam ranked 116 out of 188 countries in terms of the level of protection of investors, but with the new law, this ranking position of Vietnam will increase and be equivalent to ASEAN – the sixth, that means it can be increased by 50 ranks and placed 60-70 in the ranking table if other countries have no change. This has a strong impact on the belief of investors in Vietnam.

Secondly, the new Enterprise Law does not restrict the implementation of M&A, merger of companies of different types as the former law does, it means that a joint stock company may be merged with a limited liability company without change of the type of the enterprise.

Thirdly, the changes in the Investment Law, in terms of procedures, M&A is easier and simpler than foreign investors' establishment of new enterprises. For example, to establish an enterprise, the foreign investor must perform at least 30 procedures, but under the new law, when buying shares with capital contribution of less than 51%, not subject to conditional business, they do not perform the investment procedures, but only register

the change of members. The simpler procedures will stimulate M&A activities.

In addition to the great opportunities in attracting capital flows from ASEAN for Vietnam's retail sector, the entry of foreign goods is inevitable. The trend of massive infiltration of foreign retail enterprises means that domestic goods will be overshadowed and suffer from difficulty in appearing in the foreign supermarkets in spite of enough necessary conditions set out by the distributors. In fact, with the influx of goods imported at the tax rate of 0%, the enterprises cannot be contrary to the laws of the market that is to only use the Vietnamese goods without choosing imported goods with good quality, proper price, clear origin and guarantee in all aspects for consumers. Therefore, in order to compete with imported goods and to get a sustainable place, the domestic manufacturing enterprises need to improve their products' quality with lower production costs and the retail enterprises need to set out retail products with high-quality supply services, and take advantage to capture the market.

According to assessment of the experts of A.T. Kearney, M & A activities in the consumption – retail sector all over the world will continue to boom in 2016 and continue in 2017. The reason why M&A market in the consumption – retail sector continues to be active in this year is that the business prospects of the enterprises in this year is expected not to be positive with lower profits and slow growth. It is forecasted that in 2016, there will be about 40% of enterprises aiming to promote sales through M&A and the expected figures for next year is 50%.

It is forecasted that in the near future, the M&A market of Vietnam begins to start a new wave which is recognized as the 2<sup>nd</sup> wave of the expected total value of M&A of 20 billion dollars. Some industries attracting M&A activities are retail, foods and drinks, Fast-moving consumer goods...

### III. SOLUTION

#### a) *Some solutions for enterprises and the state for Vietnam's retail market*

For the state, it needs to properly settle the following issues:

Firstly, continuing to improve the system of laws and legal documents on M&A, the guiding documents on M & A.

Secondly, the State must take right and suitable steps and measures to manage M&A in the retail sector effectively, on the one hand, well controlling and building a good and sustainable competitive business environment, on the other hand, encouraging the enterprises to develop through merger of the current small and medium-sized enterprises in Vietnam.

Thirdly, continuing to efficiently implement the planning on restructuring the Industry and Trade sector

on building the leading retailers and the reasonable and scientific retail system in the localities of the all country and resolutely implementing the plan in a right way.

Fourthly, building a set of criteria and guiding the localities to use "Economic needs test – ENT" to control the number of new outlets to foreign retailers.

*b) For the enterprises, it should implement the following measures*

Firstly, the retail enterprises should urgently improve the supply quality with lower prices of goods, to do this, they must find a way to associate with the manufacturers or invest in manufacture of products and goods for their own supply systems, on the other hand, constantly improving the quality of sales and post-sales services.

Secondly, rapidly creating and developing the chain systems in the localities, looking for favorable business location and methodical investment.

Thirdly, the retail enterprises need to overcome challenges from traditional shopping models into modern shopping models and invest in chain of stores, retail supermarkets, associating to develop new retail forms; Branding and strongly participating in the sales models via e-commerce, online sales on TV, telephone.

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