

# Briefing

No 13

## The Participation of the Poor in Supermarkets and other Distribution Value Chains\*

### I. Objective

The main objective of the study is to assess conditions for an increased involvement of the poor in the food value chains driven by supermarkets<sup>1</sup> and other value-adding retail outlets. The poor here are considered as (i) consumers of food products, and (ii) suppliers of food products – the producers, traders, or employees of enterprises involved in production and trade.

### II. Questions

The main questions of the study can be summarized as follows:

- What are the trends in the development of adding-value wholesale and retail distribution in Viet Nam (including supermarkets) – these will be termed in the rest of the document distribution value chains (DVC)?
- What are the effects of new distribution chains on the poor as consumers and suppliers of food products?
- How can modernization of distribution better fit the demand for food and income of the poor?
- Among present and alternative distribution chains, which ones should be promoted and supported with more positive effects on the poor?

<sup>1</sup> Supermarkets are considered here in the Viet Nam definition of shops covering more than 500 m<sup>2</sup>, with self-service. In Viet Nam, they include retail supermarkets and wholesale supermarkets (metro chain).

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### III. Hypotheses

The main hypotheses tested in the study drawn from the literature are summarized below:

- As consumers, the poor are excluded from supermarket access in the first step of supermarket (SM) development because of higher price and distance from home; the situation may change in a second step when prices go down and the outreach of SM widens (Reardon and Berdégue, 2002; Hagen, 2004).
- As employees in trade distribution, the poor are excluded from SM development in the sense that SM are characterised by labour-saving and capital-intensive innovations (self-service, mass distribution, and cash registers).
- As farmers, the poor are generally excluded from supermarket development due to the requirements in quality assurance and large-scale supply, as well as delays in payment (Reardon and Berdégue, 2004, 2005; Rondot and al, 2005). Conditions for the poor to have profitable access to supermarket-driven chains and other quality chains include the supply of niche products and the setup of producer groups.
- Supermarkets vary as regards social objectives, i.e., their balancing of ethical standards versus competitive pricing (Fox and Vorley, 2004).

### IV. Methods

#### A. Organization of Study

The study is organized into the following components:

- Component 1 (C1): assessing trends in the development of supermarkets and other distribution value chains.

- Component 2 (C2): assessing poor consumers' access to distribution value chains.
- Component 3 (C3): assessing poor farmers' and traders' participation in distribution value chains for selected products: vegetables supply to Hanoi from Soc Son and Moc Chau; vegetables supply to Ho Chi Minh City (HCMC) from peri-urban areas, Duc Trong, and Don Duong districts in Lam Dong Province; litchi from Yen the district in Bac Giang province in the North; flavoured rice from Nam Dinh (Hai Hau district) in the North. The choice of the case studies results from the following considerations: (i) involvement of the poor in production and trade, (ii) involvement of supermarkets and other quality chains in marketing.
- Component 4 (C4): exploring future trends in the participation of the poor in DVCs.

## B. Data Collection

The data collection methods for components 1, 2, and 3 are presented in Table 1. The trends of the different distribution chains were analyzed through the gathering of secondary data. Surveys on poor consumers' access to different retailing points were made in Hanoi, Ho Chi Minh City, and Moc Chau, as well as comparison of prices between the different points of sale in these cities. In-depth interviews of stakeholders along the chains, as well as census of traders, investigated (i) the patterns of horizontal and vertical coordination that link the poor to the markets, (ii) the distribution of costs and benefits between the farmers and the traders along the chains, (iii) the respective advantages and drawbacks involved in supplying different types of outlets, and (iv) the employment impact of the different chains. Component 4 is based on the presentation and discussion of the conclusions and recommendations of the study in different workshops.

**Table 1: Data Collection per Component**

C1-Trends	Changes in retail points Policies	Documents/interviews from department of trade and other administration
C2-Consumers' access	Where and what they buy, and why they buy at certain places	Surveys of poor households: 110 in Hanoi, 110 in Moc Chau, 52 in HCMC (+65 non-poor)
C3-Suppliers' access	Price differences between SM, markets, street vendors	Comparison for 10 products in Hanoi and HCMC
C3-Suppliers' access	Four value chain analyses (vegetables to Hanoi and HCMC, litchi Bac Giang, rice Hai Hau)	
Impact on employment (retail)	No. of persons employed by SM, markets, shops, street vending	Census in two districts and extrapolation
Mapping of value chains	Nature and location of intermediaries	Cascade interviews from sample retailers to farmers
Organization of value chains	Relationships (horizontal + vertical)	In-depth interviews on sample of traders (retailers, wholesalers, collectors) and farmers
Performance of value chains	Constraints and opportunities in production and marketing	
	Distribution of costs and benefits	

C = Component; HCMC = Ho Chi Minh City;  
SM = Supermarket

## V. Main Results

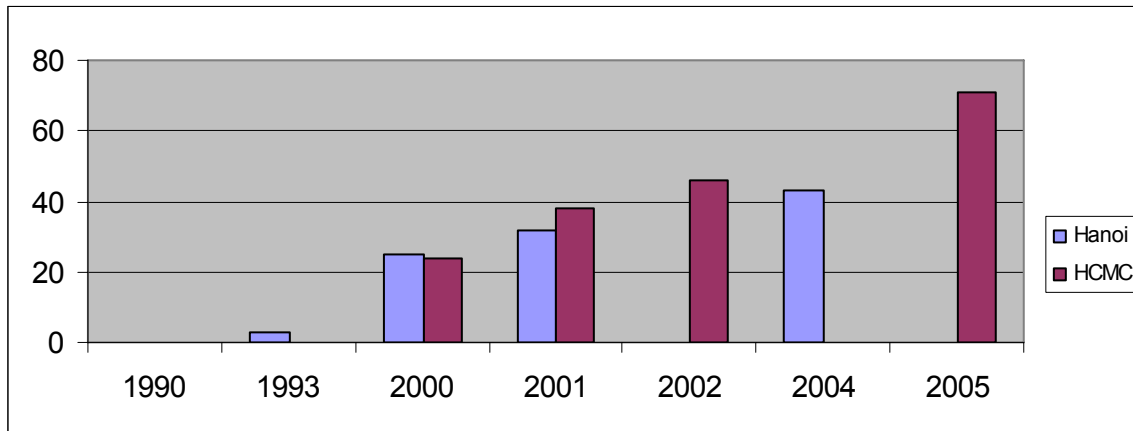
### A. The Fast Development of Supermarkets

The official definition of supermarkets dated only from June 2004. The main criterion is size, more than 250 m<sup>2</sup> for specialized supermarkets and more than 500 m<sup>2</sup> for general supermarkets; other

criteria include number of products and presence of toilets. Before 2004, the department of trade registered the number of establishments calling themselves supermarkets, which were commonly more than 200 m<sup>2</sup>. Based on this definition, the number of supermarkets has increased quickly between 1990 and 2004 (17%/year in Ho Chi Minh City and 14%/year in Hanoi between 2000 and 2004, to reach 55 supermarkets in June 2004 in Hanoi (plus 9 trade centers, including Metro), and 71 supermarkets in Ho Chi Minh City in 2005

Figure 1).

**Figure 1: Trends in Supermarket Numbers**



Source: Department of Trade, collected by Hoang Bang An (RIFAV) and Le Thanh Loan (Nong Lam University)- taking shops calling themselves supermarkets (>200 m<sup>2</sup> for half of them).

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

### B. Little Access by Poor Consumers

Market retailers and street vendors are the main points of sale for the poor consumers, who rarely purchase in supermarkets, because of price and distance constraints (Table 2). This situation may change though if prices in supermarkets go down, as already reflected by the higher frequentation of supermarkets in Ho Chi Minh City compared with Hanoi; while prices in Hanoi supermarkets are 10 to 40% higher than in markets, in Ho Chi Minh City prices are similar. The food purchased in supermarkets is mostly dry processed food, e.g., sugar or dry milk.

**Table 2: Purchasing Behaviour of Hanoi and HCMC Poor Households**

	Hanoi	HCMC
Income/head	<D300,000/month	<D500,000/month
Food purchase places (for weekly purchases)	1. Informal market (95%) 2. Street vendors (30%)	1. Formal market (62%) 2. Street vendors(40%) – shops (40%)
Purchase in SM	61% never go 0% go everyweek	33% never go 15% go everyweek
Declared SM constraints	High price Distance « No habits »	High price « No habits »
Declared SM advantages	Quality and diversity	

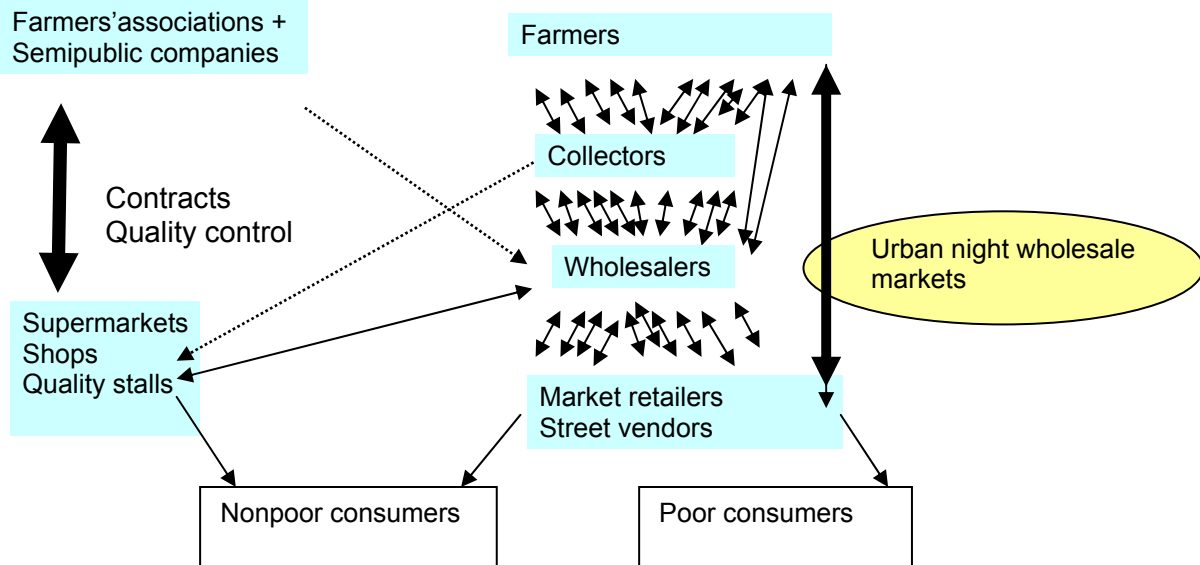
D = Viet Nam Dong; HCMC = Ho Chi Minh City; SM = Supermarket  
Sources: Figuié and Truyen (2005); Phan Thi Giac Tam (2005).

**C. Segmentation of Quality versus Ordinary Value Chains**

The study shows the segmentation of the vegetable chains between supermarkets and quality food shops, mostly involving the middle- and high-income consumers, and supplied by

farmers' associations and large-scale farms, successful in developing IPM production, versus traditional chains involving small-scale farmers, collectors, wholesalers, and retailers (Figure 2). The organization of chains is similar for litchi.

**Figure 2: Simplified Vegetable and Litchi Commodity Chains Supplying Hanoi and HCMC**

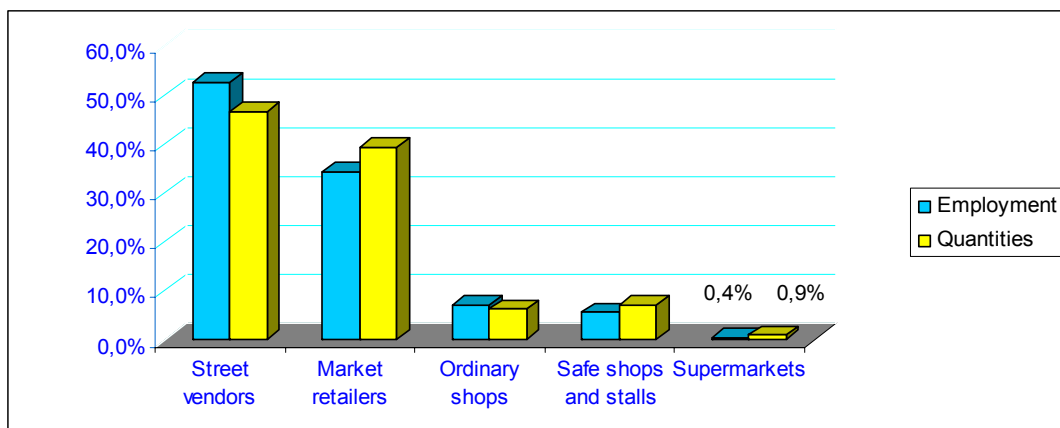


**D. Little Access of the Poor as Traders**

Markets and street vendors are still the major players in food distribution, when considering quantities sold, areas of sale, as well as employment. Supermarkets create less employment per unit of area or volume than markets and street vending. So the development of supermarkets is likely not to compensate the loss of employment in street vending and market places. The share of supermarkets in total employment by retail trade is estimated at around 6% – taking into account neither street vending nor shops, but only retail markets, while the share

in Hanoi retail business is around 15%. Figures are similar for food compared with total business. Yet figures are higher for supermarkets when taking into account indirect employment (11% instead of 6% of employment). As regards the share of supermarkets in vegetable trade employment, it is less than the share in volume of business (Figure 3). Selling the same quantity of vegetables provided more than three times employment for street vendors than for supermarket employees (Table 3).

**Figure 3: Share of Hanoi Vegetable Retail Points in Employment and Quantities**



Note: This is based on a census of retail points in two districts (Cau Giay and Hoan Kiem), and then extrapolated to the whole urban Hanoi as defined in 2004 (with Long Bien and Hoang Mai as new urban districts). Taking only the urban districts as defined before 2004, there was lower share for street vending than for retail markets: (i) 45.50% for street vending in terms of employment (50.00% for quantities), (ii) 43.50% for market retailers (resp. 37.00%), (iii) 6.00% for ordinary shops (resp. 5.00%), (iv) 4.60% for safe shops (resp. 6.00%), and (v) 0.73% for supermarkets (resp. 1.40%). Source: Son et al. (2005).

**Table 3: Employment by Volume of Trade**

<b>Selling 1 ton of vegetables retail in a day gives employment to....</b>	
	13 street vendors
	10 retailers
	8 shop vendors
	5 employees of medium-scale supermarkets
	4 employees of Big C

Source: Data on quantities traded and employment by sale points in Son et al. (2005) (taking indirect employment into account).

Besides, while street vending and informal markets employ mainly the poor, as they require neither special qualifications nor investment (investment for street vending is limited to D400,000), entering formal markets is constraining in terms of finance (D12 million), and becoming an employee of supermarkets may be constraining in terms of qualification.

#### **E. Little Access of the Poor as Farmers**

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

- In the flavoured rice chains: 20% of the farmers (around 520) are poor (earning D50,000–D60,000/month). They mostly supply supermarkets through food companies and, more recently, a farmers' association.

- In the Moc Chau vegetable chain, six families stepped out of poverty through contracts with the safe vegetable cooperative which supplies safe vegetable shops in Hanoi.

- In the Soc Son vegetable chain, 32% of farmers involved in the safe vegetable groups supplying Bao Ha company are poor (earning less than D130,000/month).

- In the peri-urban farmers' associations supplying Ho Chi Minh City supermarkets, 5% of farmers are small-scale (with area less than 2,900 m<sup>2</sup>).

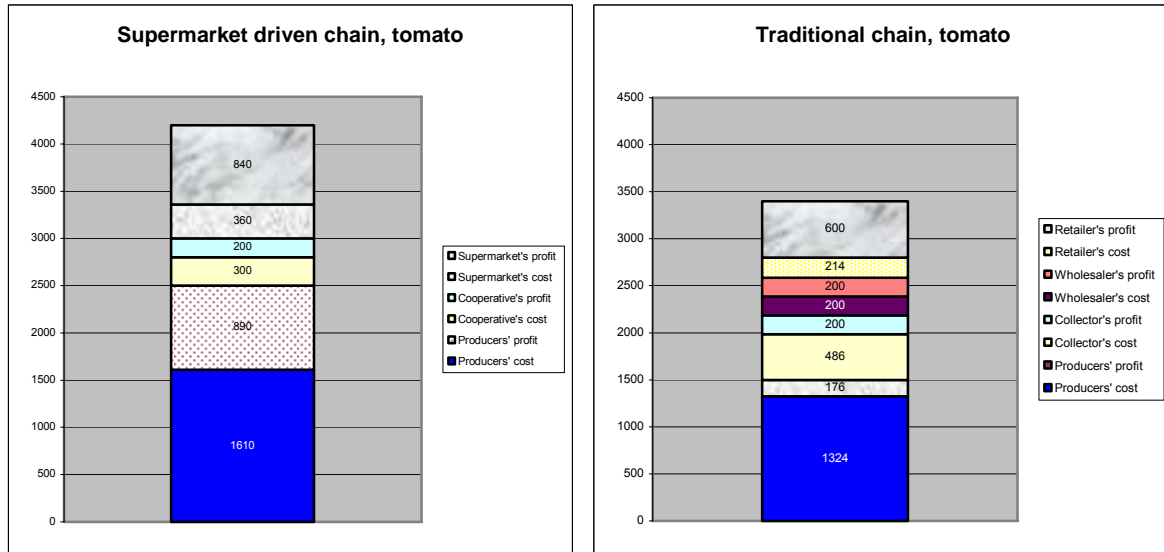
#### **F. Key Role of Farmers' Associations Promoting Quality**

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

#### **G. Slight Increases in Farmers' Profits**

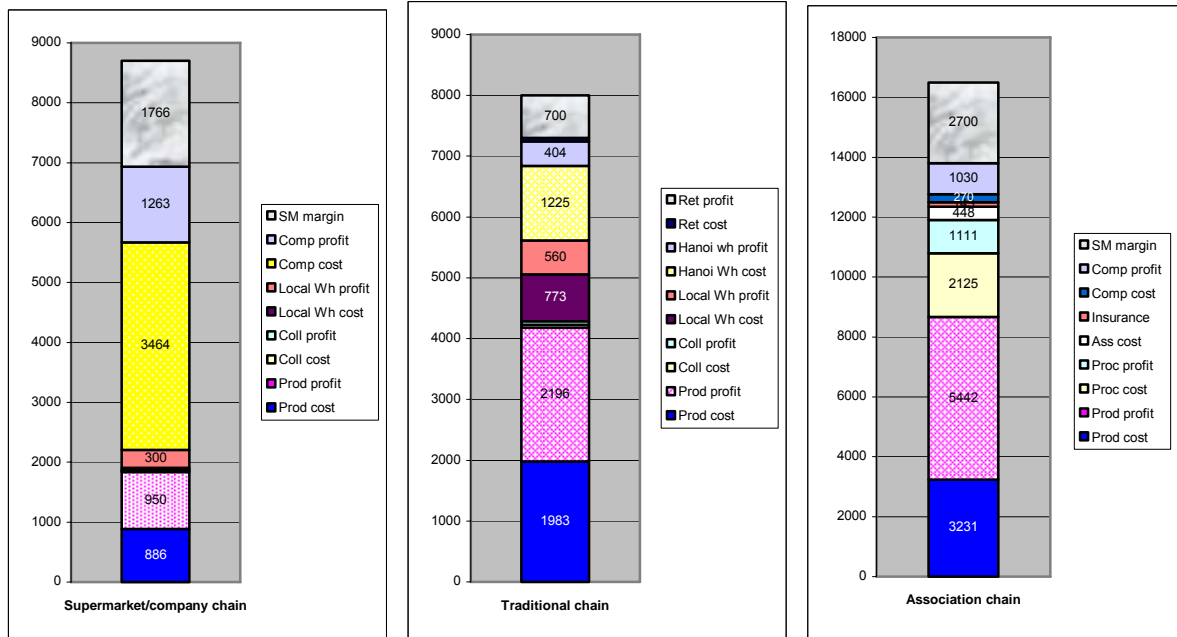
Supermarket supply through farmers' associations generally generates increases in farmers' incomes when compared with traditional chains, with a lot of variations: (i) no difference for baby tomato chain, (ii) 42% increase for the litchi and rice chains, (iii) 25% for Soc Son vegetable farmers, and (iv) 400% for water convolvulus in peri-urban Ho Chi Minh City (Figures 4 and 5).

**Figure 4: Costs and Profits Relative to the Tomato Retail Price in Ho Chi Minh City**



Source: Phan Thi Giac Tam and Le Thanh Loan (2005).

**Figure 5: Costs and Profits Relative to the Tomato Retail Price in Ho Chi Minh City (values)**



Source: Binh et al. (2005).

**H. Advantages and Constraints of SM for Farmers**

While the main advantages of supermarkets relate to stability in prices and quantities bought, the

disadvantages relate to their requirements in terms of quality, diversity, delivery, as well as less favourable conditions of payment, and possible opportunistic behavior (Table 4).

**Table 4: Summary of Advantages and Constraints of Supermarket Chains**

	<b>Supermarket Chain</b>	<b>Traditional Chain</b>
<b>Advantages for supermarkets</b>		
Prices	10–20% higher	
Security	Regular weekly purchases in quantities and prices	More variable demand in quantities and prices
<b>Drawbacks for supermarkets</b>		
Quality requirements	Physical quality requirements Safety requirements	Lax requirements
Diversity	More than 10 varieties required in HCMC (check)	No requirement
Payment conditions	15 days Unsold products have to be paid back for 2 SM	1–3 days
Transport	Daily delivery to supermarket	On farm collection

HCMC = Ho Chi Minh City; SM = Supermarket

## VI. Conclusions and Recommendations

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

For small-scale farmers to better benefit from the development of supermarkets and other adding-value outlets, the following actions are recommended:

- (i) Support farmers' associations involved in quality promotion:
  - Disseminate success stories.
  - Run advisory services, including technical training (on physical quality and safety) and credit programs, i.e., for retail sale.
  - Design a clearer VAT system.
- (ii) Participatory food quality control :
  - More widespread control of food safety and sanctions by administration.
  - Accreditation of laboratories and origin certification bodies.
  - Participatory guarantee systems (PGS) with partnerships between farmers' associations, consumers' associations and supermarkets.

- (iii) Capacity building on contractual arrangements :
  - Disseminate success stories e.g. Moc Chau vegetable cooperative.
  - Train farmers on rights and responsibilities.
  - Codes of good practices for supermarkets.
- (iv) Identify new market niches for the poor, e.g. special races of pigs.

For the poor to find employment in retail trade distribution, and for poor consumers to have access to diverse retail outlets, the following set of actions is recommended:

- (i) Maintain retailing diversity:
  - Tolerate street vendors (except in main streets) and organize credit support to street vendors to upgrade their business.
  - Consult traders when relocating markets.
  - Organize farmers' markets.
  - Encourage diversity in supermarket chains.

## VII. References

### A. List of Reports

#### 1. Component 1

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### B. Other references

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This briefing paper is one of a series produced by the Regional Technical Assistance Project *Making Markets Work Better for the Poor*, which supports activities in Cambodia, Lao People's Democratic Republic, and Viet Nam. The purposes of the project are to (i) conduct analytical work on the functioning of markets and the extent to which the poor are able to benefit from them, and (ii) build capacity to support pro-poor market development through research activities, networking and the promotion of policy dialogue in the three project countries. The project is co-financed by the Asian Development Bank (ADB), ADB Institute, and the UK Department for International Development. More information on project activities is available at [www.markets4poor.org](http://www.markets4poor.org).

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