Baby food market in Vietnam shows strong growth

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The market for baby food in Vietnam reached VND280 billion in retail value sales in 2004, according to a new report published by global market analyst, Euromonitor International. This is in fact one of the most active markets within packaged food, with a very strong rise in demand and supply, registering retail volume CAGR growth of almost 19% in the 1998-2004 period.

Strong sales with better living standards
This healthy market growth is mainly driven by socioeconomic changes where parents want the best for their newborn babies as standards of living continue to improve. Baby products, including toys, clothes and especially baby food are all experiencing strong growth. At the same time, hectic lifestyles, shorter maternity leave and longer working hours have also left mothers with increasingly less time to take care of their children. As a result, they tend to opt for baby food that offers convenience and good nutrition.

These socioeconomic trends, however, are most apparent in urban areas, where most women work in companies and therefore their time schedule is busier. In rural areas, on the other hand, most women work in agriculture, and so the hectic lifestyle does not exist and the need for baby food, in turn, is somewhat smaller.

Price hike due to increased cost
2004, however, saw value growth exceeding that of volume as a result of substantial price increases. Despite public criticism, Euromonitor International anticipates the price of baby food products will strongly increase in 2004, mainly driven by the weak Vietnamese Dong against the US dollar and the Euro. A large share of baby food (both finished products and ingredients) is imported, mainly from the Netherlands, France, Switzerland and the US, among others. Moreover, the import tax is relatively high at 30-50% for finished products, resulting in the absolute price of baby food being highly sensitive to exchange rate movements.

Under the preparations for joining AFTA (Asean Free Trade Area), however, import tax for products originating from the ASEAN region will be reduced from 15-20% in 2003 to 15% in 2004, 10% in 2005 and 5% in 2006. This will consequently, lower prices for some baby food products that are being imported from the ASEAN region.

In addition to the rising prices of imported baby food products, domestic products also experienced price increases due to very high inflation rate in Vietnam in 2004, resulting from a series of factors, including SARS (Severe Acute Respiration Symptom) and avian flu outbreaks, and the rising costs of transportation and labour.

Furthermore, increased advertising and promotional spend on baby food, especially on milk formula, during 2003 and 2004, in the hope of improving brand image, have led not only to better consumer loyalty, but also to increased prices.

Increased demand for branded products
Before 2003, the demand for unbranded baby food products in Vietnam was relatively high due to their low price. Unbranded milk formula was mostly imported from China and was of low quality and nutrition. Following the baby food scare in China in 2003, the Vietnamese government introduced strong measures to control the sale and quality of unbranded baby food, including the mandatory requirement to brand all products in an attempt to make producers more responsible. In addition, an education campaign by the Government and producers was rolled out, influencing consumers to move towards better-quality products, despite the higher price, reports Euromonitor International.

Tighter government quality controls reduce wet market revenues
As a result of the Governmentâ€™s actions following the baby food scare in China, checks have been carried out regularly on the wet market for unbranded products and low-quality products. The wet market in Vietnam, even though common place for food in general, is no longer seen as a safe place to buy baby food, with Euromonitor Internationalâ€™s new research indicating that consumers are increasingly turning away from the wet market towards supermarkets and independent stores. These outlets offer consumers convenience, lower prices, wide product range and good quality.

Demand for dried baby food is highest
Within baby food, dried varieties are the most popular among the Vietnamese largely due to their affordability, according to Euromonitor International. Compared to prepared baby food and milk formula, dried baby food is about a quarter of the price and is therefore more affordable to a wider consumer group, including lower income ones. Moreover, breast-feeding is a popular practice in Vietnam, making milk formula only a supplement to a motherâ€™s milk, where as dried food is

a complete replacement for home-made food.? In consequence the trend towards dried baby food is stronger than the trend towards milk formula.

This sector has also experienced strong development in terms of new products, which has in turn aided the popularity of dried food. The local producer Dong Tam Co and Nestl? Vietnam, for example, have introduced new ingredients to the Risolac brand and the Nestl? brand, including new meats and vegetables ingredients. This wide range of choices is an important factor influencing consumerâ€™s demand for dried baby food.

Baby food consolidated with two companies leading
Euromonitor Internationalâ€™s research shows the market for baby food in Vietnam is dominated by two producers, Nestl? Vietnam and Vietnam Dairy Products Co Ltd, whose strength lies in their wide range of products, good distribution network and reasonable price. These two companies have more brands than any other producer, including standard, follow-on and toddler milk formula as well as dried baby food of various flavours. Their products are also very affordable. Most Nestl? Vietnam products are produced in Vietnam or imported from regional countries and therefore cheaper than other foreign products, such as those of Abbott Laboratories, Bristol-Myers Squibb or Novartis.

Despite local companies being rather late in entering the baby food market, they have been relatively quick in catching up, gaining share from foreign competitors. Their success is due to reasonable prices, good product quality and new product developments. Prices are about 80% of those of international brands, while the quality is almost the same, making domestic products more suitable to the income level and the need of local consumers. Domestic companies, however, are still very quiet in terms of advertising, resulting from both a lack of finance and experience, thus limiting their success.

Future outlook
In the near future, Euromonitor International expects the average unit price of baby food products to decrease as a result of a combination of factors, including increased competition, new product developments, capacity expansions for a number of factories and membership of the AFTA. Moreover, as the urban market is nearing saturation point, producers are hoping to expand their market into rural areas, which account for more than 70% of the population. The living standards in rural areas are much lower than cities, so in order to integrate into the rural market producers are more than likely going to be forced to compete on price.

Dried baby food is expected to continue to be the main driving force behind baby food due to its very affordable prices, convenience and nutrition. Above all, however, the importance and cultural tradition of breast-feeding in Vietnam is the main factor pushing dried baby food sales ahead of milk formula sales.

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