YCP Solidiance

Vietnam Market Study on Formula Milk

For

ĐẠI SỨ QUÁN BRAXIN HÀ NỘI

Final Report

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Contents

List of Tables

List of Figures

Acronyms

AANZFTA	ASEAN – Australia and New Zealand Free Trade Agreement
ACFTA	ASEAN – China Free Trade Agreement
AHKFTA	ASEAN – Hong Kong Free Trade Agreement
AIFTA	ASEAN – India Free Trade Agreement
AKFTA	ASEAN – South Korea Free Trade Agreement
AJFTA	ASEAN – Japan Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
CAGR	Compounded Annual Growth Rate
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CVS	Convenience Store
EVFTA	EU-Vietnam Free Trade Agreement
F&B	Food & Beverage
FMCG	Fast-Moving Consumer Goods
FTA	Foreign Trade Agreement
LFS	Law on Food Safety
LLC	Limited Liability Company
GDP	Gross Domestic Product
HORECA	Hotel, Restaurant and Cafe
MARD	Ministry of Agricultural and Rural Development
MFN	Most Favored Nation
MOH	Ministry of Health
MOIT	Ministry of Industry and Trade
MNC	Multinational Corporation
RCEP	Regional Comprehensive Economic Partnership
RTD	Ready-to-drink
RTE	Ready-to-eat
TVC	Television Commercial
UHT	Ultra-high Temperature Processed
USDA	United States Department of Agriculture
VCFTA	Vietnam – Chile Free Trade Agreement
VJEPA	Vietnam – Japan Economic Partnership Agreement
VKFTA	Vietnam – South Korea Free Trade Agreement
VN-EAEU	Vietnam – Eurasian Economic Union

1. VIETNAM MARKET OVERVIEW AND OUTLOOK

Vietnam, an S-shaped country, is located in the heart of Southeast Asia. The country has 3,260 kilometers of coastline, bordering Cambodia and Laos to the east and China to the north. The geographical location of Vietnam has many advantages including the connection to global supply chains and to the growing consumer markets in Southeast Asia. The country is located on the shipping route from Asia to Europe adjacent to China, a big supplier of raw material in manufacturing industry. Vietnam has 63 provinces including the capital region of Hanoi and the largest financial and commercial hub in Ho Chi Minh City.

With 96.4 million inhabitants as of 2019, Vietnam is the third most populous country in ASEAN and the 15th in the world. Independent since 1945 and unified since 1975, the country has transformed itself from a planned to a market economy with GDP growth averaging 6.3% over the last decade. The economic structure has shifted from agriculture to the service sector which contributes more than 40% to GDP.

Table 1: Vietnam 2019 Socio-Economic Stats

Socio-Economic Stats - 2019
Capital: Hanoi
GDP: US$ 261.9 billion
GDP per Capita: US$ 2,715
Population: 96.4 million
Population Growth Rate: 1.01%
Total area: 331,698 sq. km
Key cities (population):
• Hanoi (8.01 million)
• Ho Chi Minh City (9.03 million)
• Da Nang (1.14 million)
Urbanization level: ~40%
Inflation rate: 4.0% (2019), 3.7% (2020e)
Major seaports: Saigon, Hai Phong, Vung Tau, Quang Ninh

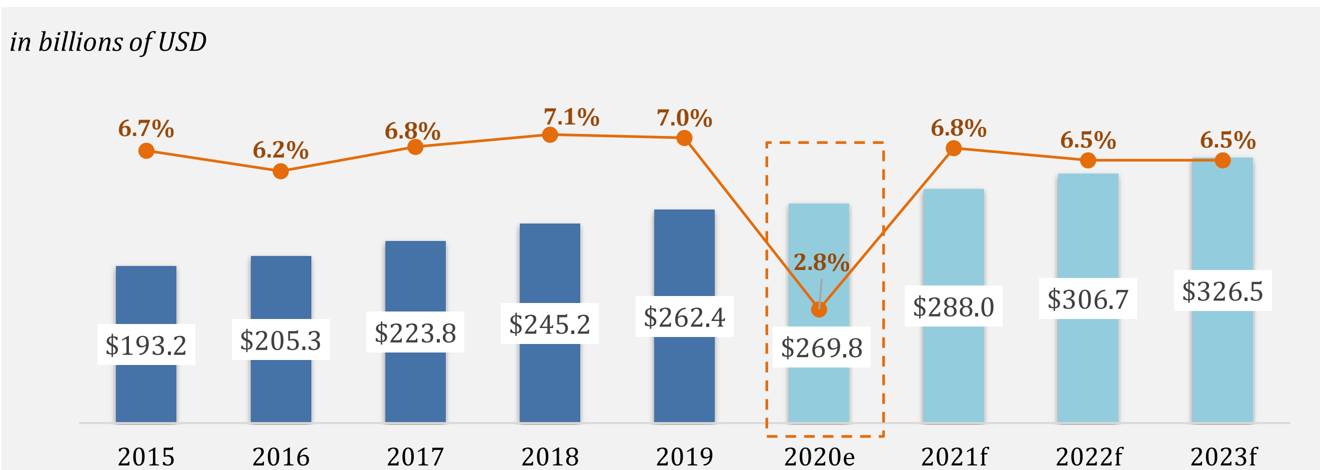
The economy of Vietnam is expected to maintain its strong growth momentum in both mid-term and long-term as external factors indicate Vietnam maintaining its position as an attractive destination for foreign investment. This is further enhanced by the active trade liberalization in Vietnam with 13 active FTAs as well as the ongoing trade conflict between the United States and China. The conflict has positively impacted the manufacturing sector in Vietnam as MNCs move production facilities from China to its southern neighbor. Additionally, Vietnam is undergoing a phase of economic restructuring and transformation with the government aiming to develop industry to position Vietnam as a manufacturing hub and integrated member of the global value chain. Vietnam aims to shift its industrial growth model from a quantity-focused model to productivity, quality, and efficiency-focused approach to promote the development of industries and products with high added-value and export value. The entry of foreign investors during this period is expected to bring invaluable knowledge and technology transfer, with the aim of strengthening the manufacturing capabilities and competitiveness of Vietnam. By 2035, the focus of the government will be the development of environmentally friendly and green industrial production that meet the international standards and maintain a highly competitive position for Vietnam within the region.

1.1 Vietnam Economy – 2020 Update & Outlook

Macroeconomic Landscape

Vietnam is one of the fastest-growing economies in the SEA with 7.0% GDP growth in 2019. This was the second consecutive year that the economy reached over 7% growth since 2011. Various sectors made significant contributions to GDP with growth in manufacturing being the largest (12% expansion) followed by the industry & construction sector (8.9%), services sector (7.3%) and agriculture, forestry & fishery sector (1.3%). In general, the economic outlook of Vietnam is positive and stable. Key drivers for this economic growth include attractive consumer market, positive manufacturing output, increasing disbursements of foreign investments, deeper integration into global trade, as well as beneficial impact from U.S.-China trade war.

Figure 1: Vietnam GDP and GDP Growth at Current Prices



Source: World Bank, Fitch Solutions, YCP Solidiance Research and Analysis.

Entering 2020, the CoViD-19 pandemic has challenged all economic sectors in Vietnam. The economy reported GDP growth for the first of 2020 at 1.81% on a year-over-year basis, its lowest rate in the last three decades. The services sector, accounting for nearly 42% of GDP in 2019, is expected to be the most severely impacted, as tourism and transportation are unlikely to fully recover until next year due to ongoing global pandemic restrictions. Tourism revenue from January to June dropped 53.2% as international flights were suspended from March 25. Q2 2020 saw the most severe decline as the government applied strict mobility and social distancing measures to contain the virus spread. In the first half of the year, the agroforestry-fisheries sector reported 1.19% y-o-y growth and contributed 11.89% to the overall economic growth. At the same time, the industrial sector expanded by 2.98% (equivalent to a contribution of 73.14%), while the services sector grew by only 0.57% contributing 14.97% to the national economy.

Yet, this was a relatively good performance, given the global environment, with at least half of the world's economies facing recession this year. The World Bank has forecast a 5.2% decline in global growth. Key takeaways on the macroeconomic situation in Vietnam for the first half of 2020 include:

- The national GDP reported positive growth, though at its slowest pace in the past three decades;
- While the State Bank of Vietnam eased monetary conditions to expand loans to businesses, inflation has been stable and is expected to be under 4% during 2020-2022 period; and

- Recorded a trade surplus in the first half of 2020 albeit exports contracted in Q2 2020.

Trade Performance

Vietnam is one of most open economies to international trade in Asia as evidenced by the value of trade in Vietnam representing 210% of total GDP in 2019. This is the second highest ratio in ASEAN after Singapore. Leveraging its strategic location, Vietnam is an ideal export hub to trade with other markets in ASEAN and globally with foreign investments and exports driving most of the economic development.

Figure 2: Vietnam Import - Export

in US$ billion

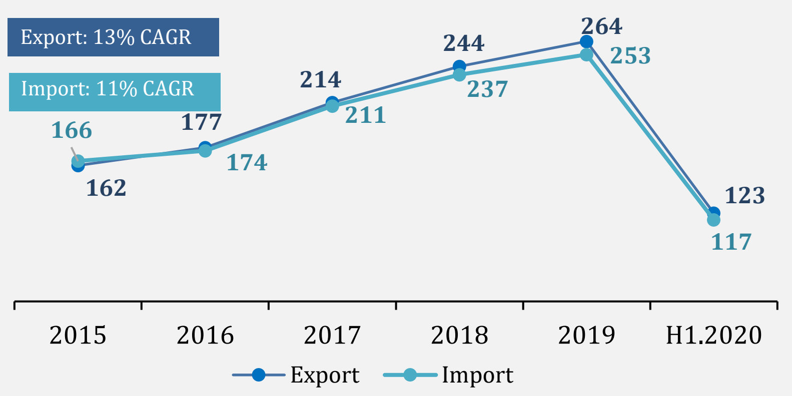


Figure 3: Top 5 Exporters to Vietnam

(import value – 2019)

1. China (US$ 65.5 billion)
2. South Korea (US$ 47.6 billion)
3. Japan (US$ 19.0 billion)
4. Taiwan (US$ 13.2 billion)
5. USA (US$ 12.7 billion)

In 2019, the main products exported from Brazil (US$ 2.4 billion) into Vietnam were corn, animal fodder and animal fodder materials, cotton, metal ore and other mineral products, and soybeans.

Source: Vietnam Customs Office, USDA

Increasing commitments to trade liberalization in Vietnam have guided the direction of trade activities. As of September 2020, Vietnam has signed a total of 13 Free Trade Agreements (FTAs) and is in negotiation with three other FTAs. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, signed in 2018) and E.U.-Vietnam FTA (EVFTA, signed in 2019) are the two largest FTAs that Vietnam currently participates. FTAs are helping attract foreign manufacturing companies into Vietnam, resulting in key knowledge and technology transfer. Additionally, FTAs allow Vietnam to expand trade networks to source cheaper raw material imports used in production eventually increasing the manufacturing competitiveness of Vietnam against others in the region. While Vietnam is an export-driven economy, it relies heavily on imports. Most imports are used to support the assembly or production of final products that are eventually exported overseas.

Table 2: Main Import and Export Products

Main Export Products	• Telephones, mobile phones & components • Computers, electrical products & components • Textile & garments • Footwears • Machine & equipment • Wood and wooden products • Fishery products	**Main Import Products**	• Computers, electrical products & components • Machine & equipment • Telephones, mobile phones & components • Fabrics • Iron & steel • Plastic products • Other base metals

In the first half of 2020, trade in goods in Vietnam totaled about US$ 240 billion, 1.4% lower than the first half of 2019. Exports in 2020 increased by 4.7% over 2019 due to the strong revenue from computers, electrical products, spare-parts, and components. However, imports went down by 2.9% in value due to a decrease in the import value of crude oil, machine & equipment, tools, and motor vehicles.

1.2 Vietnam Food & Beverage Industry Overview

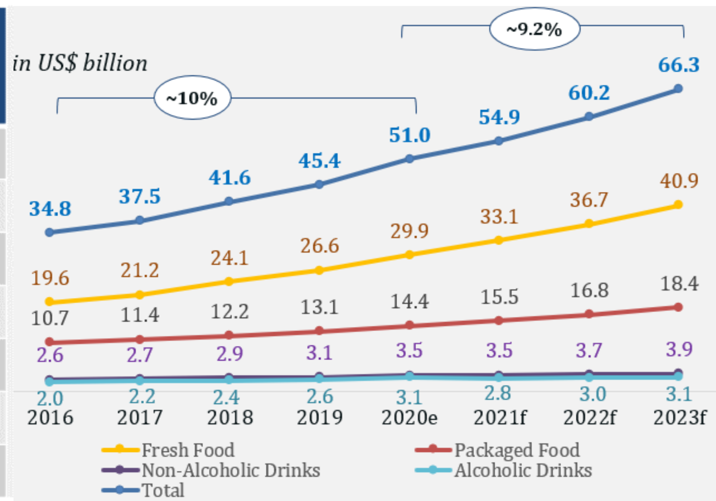
i. Industry Review

Vietnam is one of the largest markets for consumer goods in Southeast Asia and one of the fastest growing markets. Compared with other major economies in the region, Vietnam reported relatively high growth in all F&B segments. The food sector accounts for a substantial and growing part of GDP. Total F&B retail sales is expected to reach approximately US$ 51 billion by end 2020 with slightly slower growth than the past at 9.2% annually between 2020-2023. Fresh food is the biggest component with 59% market shares and is forecasted to gain more shares as the locals will keep spending more on fresh foods. Packaged food is the second largest segment while retail sales for non-alcoholic and alcoholic drinks contributed 7% and 6% respectively.

Table 3: F&B Sector Growth in ASEAN

Sector Growth – 2016-2020	Alcoholic Beverages	Non-Alcoholic Beverages	Packaged Food	Fresh Food
Indonesia	6.7%	0.2%	4.1%	N/A
Malaysia	5.9%	-2.0%	4.6%	N/A
Malaysia	11.4%	4.7%	5.2%	N/A
Philippines	10.2%	8.6%	4.5%	N/A
Singapore	1.8%	-1.5%	3.4%	N/A
Thailand	5.7%	4.7%	6.8%	5.2%
Vietnam	11.7%	8.3%	7.7%	11.1%

Figure 4: F&B Retail Sales in Vietnam



Note: Market value does not include sales in HORECA/foodservice channel.

Alcoholic drinks: beer, cider, spirits, wine, RTD

Non-alcoholic drinks: bottled water, carbonate, concentrates, juices, RTD coffee, energy drinks, sport drinks, specialty drinks

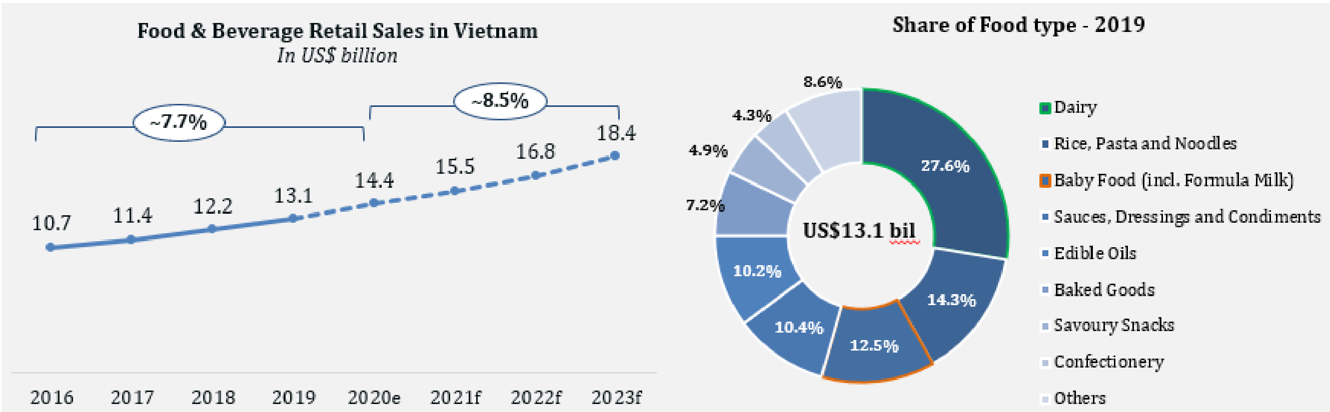
Fresh food: eggs, fish & seafood, fruits, meat, nuts, pulses, starchy roots, sugar & sweeteners, vegetables

Packaged food: edible oils, ready meals, sauces and dressings and condiments, soup, dairy, baby foods, confectionery, snack, ice-cream & frozen dessert, breakfast cereals, processed fruit and vegetables, processed meat and seafood, rice and pasta and noodle, other packaged foods

Source: Euromonitor, YCP Solidiance' analysis

The market outlook for packaged foods in Vietnam is positive with future growth expected to exceed past performance. Packaged food sales grew at approximately 7.7% between 2016-2020 due to demographic shifts and increased incomes. Growth is expected to be higher at 8.5% in the 2020-2023 period. Dairy and baby food were the largest and third largest contributors, respectively, to the packaged foods market accounting more than 40% of total revenue. Rice, pasta, and noodles ranked second with 14.3% contribution to food sales in 2019.

Figure 5: Food & Beverage Market in Vietnam



Dairy products

- *Drinking milk*
- *Cheese*
- *Butter and spread*
- *Yogurt and sour milk*
- *Condensed milk*
- *Cream*
- *Other dairy products*

Baby foods

- *Formula milk*
- *Dried baby food*
- *Prepared baby food*
- *Other baby food*

Source: Euromonitor, YCP Solidiance Research and Analysis

ii. International Trade in Food & Beverage

Vietnam is blessed with natural advantages. The various microclimates from north to south result in favorable conditions for a variety of seasonal agricultural products. The country is an exporter of rice, coffee, tea, cashews, and pepper. Major imported products are fruits and nuts, frozen fish and meat, corn, soybean, and dried vegetables. Fragmented and small-scale farming, labor intensive production, poor infrastructure, and less developed technology have restricted Vietnam from increasing productivity. Moreover, some areas in Vietnam are extremely vulnerable to flooding, particularly in the lowland rice production areas. Vietnam continues to struggle to find sustainable solutions to adapt and solve these problems. Recently, the government has promoted the adoption of new technologies and modern processes in order to increase productivity.

Table 4: Vietnam Main F&B Trading Products

Main export foods	• Fishery products • Fruits and vegetables • Cashew nuts • Coffee • Rice • Cassava and cassava products • Pepper • Pastries, sweets, and cereal products • Animal fodders and animal fodder materials	**Main import foods**	• Maize (corn) • Dairy products • Fresh fruits • Fresh and processed vegetable • Beef & beef products • Tree nuts • Poultry meat • Prepared food • Pork products • Soya beans

Source: Vietnam Custom Office, USDA

With rising disposable income and a young population driving consumption, demand for imported agricultural products and processed food ingredients is expected to grow.

Import of F&B products to Vietnam reported strong growth of 19% during the 2014-2019 period. Three trading partners having more than USD 1 billion turnovers for exporting F&B products to Vietnam include the US, Argentina and Thailand. F&B products imported to Vietnam from the US are varied, from corn, soybean, vegetables, meats to dairy products. Imports from Argentina were mainly corn and wheat while F&B products from Thailand are mainly fruits. Two other key exporters are Australia (cereals and fruits and nuts) and China (vegetables, fish, and sugar).

Figure 6: Vietnam F&B Import - Export

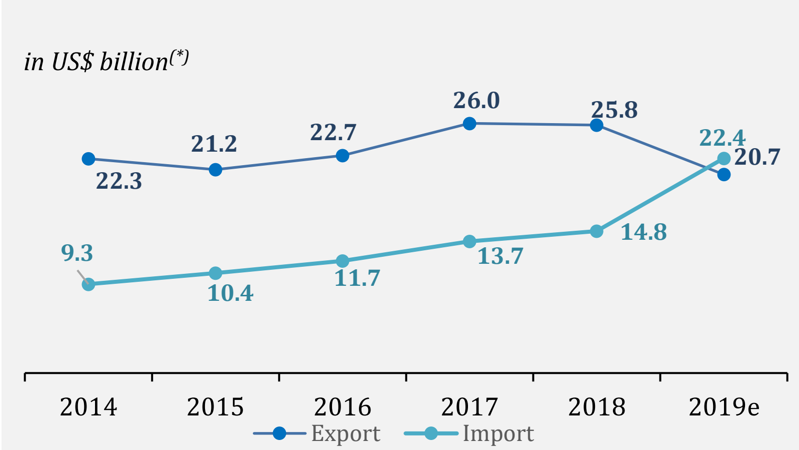


Figure 7: Top F&B Exporters to Vietnam

(import value – 2018)

1. USA (US$ 1.86 billion)
2. Thailand (US$ 1.15 billion)
3. Argentina (US$ 1.09 billion)
4. Australia (US$ 0.94 billion)
5. China (US$ 0.92 billion)

In 2018, the main products imported from Brazil (about US$ 730 million in total F&B import) included cereals (corn & wheat), soybean, meat, and pepper.

Note: (*) Trade values were collected from Trademap for 19 HS Codes covering F&B products (HS 01, 02, 03, 04, 07, 08, -09, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 21 and 22). Under this 19 HS-2 digits group, irrelevant codes with product descriptions that indicate non-food uses were excluded (such as animal for breeding purpose, 070110-seed potatoes, 1505-wool grease, etc.)

Source: Vietnam Custom Office, Trademap, USDA, YCP Solidiance Research and Analysis

<u>Drivers</u>

Figure 8: Vietnam Population 2019

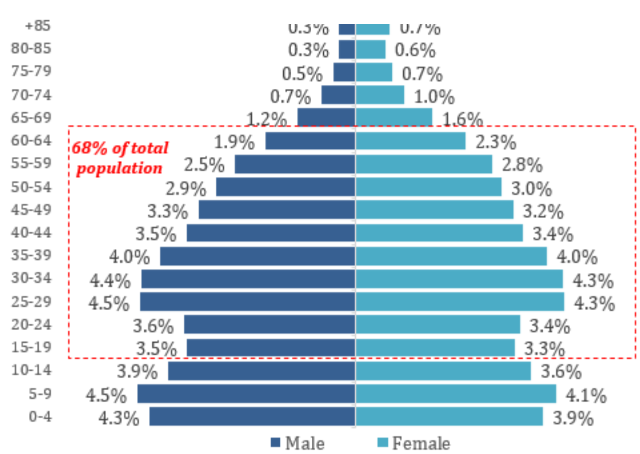
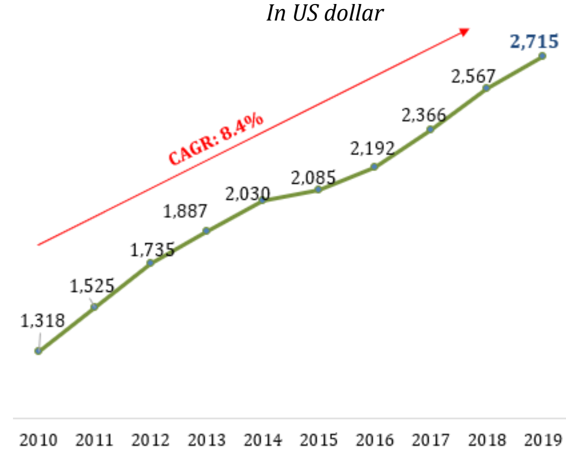


Figure 9: Vietnam GPD per Capita

In US dollar



Source: World Bank, Vietnam General Statistics Office

- **Young and growing population makes Vietnam an attractive market for consumer goods.** With more than 96 million people, it is the 15th most populous country in the world and third in Southeast Asia. Moreover, Vietnam currently enjoys a prime demographic structure in which the population between 15-64 years old accounts for more than two-third of the entire population.
- **Stable and solid economic development drives growing income and purchasing power.** Vietnam has one of the fastest-growing middle-classes in Southeast Asia. The Ministry of Planning and Investment forecasted that more than half of the country will be considered middle class by global standards by 2035. GDP per capita, a moderate indicator for consumer tastes and preferences, has grown 8.4% annually over the past ten years, demonstrating the gravitation towards higher-priced branded products, including imported formula milk.
- **Robust expansion of modern trade stores** gives consumers greater access to greater varieties of formula milk. In 2019, the number of supermarkets and department stores increased 16% and 23% over 2018, respectively. Though modern retail channels are concentrated in major urban centers, such as Hanoi, Da Nang and Ho Chi Minh City, recent network expansion efforts have been placed in second-tier cities, such as Binh Duong and Vung Tau. The number of convenience stores grew even faster, from 1,608 stores in 2018, to about 4,000 stores in mid-2020, due to the aggressive expansion plans from Vinmart+. Vinmart+, now under Masan Group, has 2,300 outlets across Vietnam as of 2019. Formula milk products, both powder and ready-to-drink, are becoming increasingly widespread across modern trade channels and chains as they seek to brand themselves as a one-stop-shop destination.
- There is an **opportunity for imported products to capture market share through the growing interest in foreign foods as consumers perceive them to be of better quality and hygiene standards.** Vietnamese consumers, particularly the young and affluent, have strong recognition of foreign brands. Accordingly, well-known foreign products, supported by strong marketing and promotional campaigns, have a reasonably high chance of successful launches. Consumers are generally more informed making products that provide specific health benefits, such as certain types of formula milk, more attractive and more actively sought out.
- **The continuous efforts to more deeply integrate Vietnam into the global supply chain** and its FTA negotiations give more accessibility to foreign products in general. As of September 2020, the country has signed 13 FTAs and is in negotiations for another three agreements which, once completed, will bring free trade access of 57 foreign markets to Vietnam. The free trade commitments of Vietnam under the 13 signed FTAs have widened access to foreign dairy products. Current import duties on formula milk products (under HS Code 19011020) from countries participating in these 13 FTAs are mostly set between 0%-10% (see Appendix C for more details). Notably, two recently effective FTAs, CPTPP and EVFTA, will further promote dairy imports from Europe, the traditional dairy trading partners for Vietnam. According to the EVFTA, Vietnam will soon remove all tariffs on processed food from pre-EVFTA duties up to 40% (including infant foods) after a maximum of seven years.

Table 5: Vietnam and FTAs

Title	Description
ASEAN Free Trade Area	Vietnam is one of the founding members of the Association of Southeast Asian Nations (ASEAN), a regional organization comprising of ten Southeast Asian states that promotes intergovernmental cooperation and facilitates economic integration amongst its members, founded in 1967. The ASEAN Free Trade Area, signed in 1992, included a Common Effective Preferential Tariff (CEPT) for the promotion of free flow of goods. To meet the target of zero import duties, member countries gradually lowered their import duties so dairy imports, including formula milk, into Vietnam from the rest of ASEAN are now duty free. *Notable imported formula milk brands into Vietnam:* • *Thailand: Mead Johnson – Enfamil, Enfagrow* • *Singapore: Abbott, Nestle Nan Organic* • *Philippines: Nestle Nan Optipro 3/4*
ASEAN – South Korea Free Trade Agreement (AKFTA)	The ASEAN-Korea FTA includes all ASEAN nations and South Korea which commit to eliminate or reduce tariffs on over 90% of all traded goods between the members. AKFTA was implemented in 2005 with an amendment to include additional goods in 2007, and services and investments in 2009. Since its implementation, 86% of import tariffs in Vietnam have been eliminated since 2018 with the remaining 14% of import tariffs to be either: (i) reduced to a rate of 5%, (ii) partially reduced, or (iii) applying the most favored nation (MFN) rate. Beginning in 2020, formula milk products exported from South Korea to Vietnam are duty free. *Notable imported formula milk brands into Vietnam from South Korea: Imperial Dream XO, I am Mother, Lotte Foods – Nubone/Grand Noble, With Mom*
ASEAN – China Trade Agreement (ACFTA)	ASEAN has a trade treaty with China that effectively eliminated or reduced tariffs on about 8,000 products, or about 90% of imported goods from China. The agreement came into effect in 2006 with Vietnam committed to eliminating tariffs for about 90% of the 8000 imported products within 10-12 years. For any remaining tariffs, Vietnam committed to reducing tariffs to a rate of 5% to 50% by 2020. Chinese dairy products, including formula milk, are now duty free.
ASEAN – Japan Comprehensive Economic Partnership (AJCEP)	AJCEP was implemented in December 2008. In 2019, Japan and five members of ASEAN (Laos, Myanmar, Thailand, Singapore, and Vietnam) signed the first protocol for AJCEP to further promote trade and investment among the members. Vietnam now applies a range of 0-30% import duties on dairy products imported from Japan. *Notable formula milk exporters from Japan: Meiji (formula milk, drinking milk, yogurt), Glico Icreo, Wakodo (formula milk, yogurt), Morinaga*
ASEAN – Australia and New Zealand Free Trade Agreement (AANZFTA)	ASEAN, Australia, and New Zealand entered into an FTA in 2009 and established zero import duties on most goods traded between its members, including dairy products. Currently formula milk products from New Zealand and Australia bear no tariffs when entering Vietnam. *Notable formula milk exporters:* • *Australia: Bellamy's Organic, Alula S26, Bubs, Blackmores, Novalac* • *New Zealand: GoodHealth, Alula S26, PureLac*
ASEAN – India Free Trade Agreement (AIFTA)	The ASEAN-India free trade agreement came into effect in 2010 but took a longer time to reduce tariffs across the various product lines. At the end of 2016, tariffs of over 4,000 products had been lowered or eliminated. In 2020, dairy products

	imported into Vietnam from India are charged a tariff of 0% to 9%.
ASEAN – Hong Kong FTA (AHKFTA)	Officially negotiated in 2014 and effective as of June 2019, AHKFTA offers easier market access for goods between ASEAN and Hong Kong. In January 2020, Vietnam issued Decree 07/2020/ND-CP for a preferential tariff for the 2019-2022 period. As of 2020, tariffs applied to Hong Kong formula milk remain relatively high, compared with other FTA partners, ranging from 2% to 20%.
CPTPP	The Trans-Pacific Partnership (TPP), or TPP-11 after the withdrawal of the U.S., was renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On 08 March 2018, CPTPP was officially signed by its 11 members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The overall goal of the CPTPP is to bring import duties to 0% on all tariff lines. The CPTPP also contains several regulations related to trade and investment, such as regulations on technical barriers to trade, food safety and hygiene, regulations on customs and trade facilitation, regulations on investment environment, and investment protection. Import duties levied on dairy products from six of the members (Australia, New Zealand, Canada, Japan, Mexico, and Singapore) are now set at 0%-5% with further reduction in the next ten years.
Vietnam – Chile FTA (VCFTA)	Signed in November 2011, VCFTA came to effect in 2014. Vietnam committed to eliminating tariffs on nearly 88% of goods originating from Chile within 15 years. Nearly 84% of tariff lines were eliminated immediately when the agreement went into effect. Chile will eliminate tariffs for most of goods from Vietnam by 2029. In 2020, Vietnam applies a 4% duty for formula milk imported from Chile (under HS Code 19011020).
Vietnam – EU (EVFTA)	The Free Trade Agreement (EVFTA) and the Investment Protection Agreement (EVIPA) between Vietnam and 27 European Union member states was ratified by the European Parliament on 12 February 2020 and approved by the Vietnamese National Assembly on 08 June 2020. Both Agreements were signed on 30 June 2019. EVFTA became effective 01 August 2020 while EVIPA is waiting further ratification by the E.U. Parliament to take effect. Currently, import tariffs for dairy products exported from the E.U. are from 0% to 20% (8.3% for formula milk), but will be completely eliminated in five years. *Notable formula milk exporters:* • *Germany: Nestle Nan, HiPP, Humana* • *France: Gilbert Laboratories – Physiolac, France Lait, Dumex* • *Ireland: Abbott Grow, Similac* • *Netherland: Similac Abbott, Friesland Campina – Frisolac, MeadJohnson Enfamil, Nestle Nan*
Vietnam – Eurasian Economic Union (VN-EAEU)	VN-EAEU came into effect in October 2016 between the Eurasian Economic Union (EAEU), a trade block including: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia, and Vietnam. The Vietnamese government has committed to eliminate import duties on 90% of goods originating from the EAEU in a ten-year tariff reduction schedule. Import duties on 88% of goods from the EAEU are scheduled to be eliminated with 43% of tariff lines already eliminated. Other remaining tariffs are set to be reduced within 10 years. Formula milk products imported to Vietnam from the EUEA are currently taxed at 0-4.5% as of 2020. *Notable formula milk exporters: Russia (Nestle Nan)*
Vietnam – South Korea FTA (VKFTA)	VKFTA came to effect in 2015 with Vietnam committed to eliminating import duties on nearly 90% of products from South Korea by 2030, with South Korea committed to eliminating tariffs for over 95% of products imported from Vietnam. *Notable formula milk exporters: Imperial Dream XO (formula milk), I am Mother*

	(formula milk), Lotte Foods – Nubone/Grand Noble (formula milk), With Mom (formula milk)
Vietnam – Japan Economic Partnership Agreement (VJEPA)	Vietnam - Japan Economic Partnership Agreement came into effect in 2009. Under the VJEPA , 92% of goods traded between Vietnam and Japan are tax exempt or to be reduced within ten years from the agreement effective date. According to the agreement, import duties for dairy products from Japan to Vietnam are from 0-30%. *Notable formula milk exporters:* *Meiji (formula milk, drinking milk, yogurt), Glico Icreo (formula milk), Wakodo (formula milk, yogurt), Morinaga (formula milk)*
FTAs in negotiation: *1. RCEP (ASEAN+6): negotiations started in 2013 among ASEAN countries, China, South Korea, Japan, India, Australia, and New Zealand* *2. Vietnam – EFTA (Norway, Switzerland, Iceland and Liechtenstein): officially announced in May 2012, negotiations between Vietnam and EFTA members are still ongoing* *3. Vietnam – Israel: the two countries began discussing a potential FTA in December 2015*	

Source: Vietnam Ministry of Finance, YCP Solidiance Research and Analysis

Current Trends

- **Rising domestic consumption of high-end products and stronger awareness on food safety** drive demand of quality imported F&B products. At the same time, to stay competitive in the market, local food processors are putting more efforts on improving food quality, packaging initiatives, and new offerings. There are also increased interest and demand for organic and healthy options with natural ingredients within the formula milk segment. The main driver for imported formula milk products is the perception of higher quality and higher safety standards in comparison to local formula milk.
- **Ready-to-drink formula milk** is increasingly viewed as a potential option for working mothers with more modern careers and busier lifestyles. Convenience is the primary driver for the ready-to-drink formula milk segment. However, despite having the same composition as powder formula milk, mothers still generally prefer powder formula milk over ready-to-drink formula milk.
- **E-commerce is catching more interest from experienced mothers** with the expansion of internet and smart phone usage. E-commerce has become a major channel to expand new product awareness to the married demographic. Although traditional markets still account for a major part of formula milk retail sales, its revenue growth is expected to slow down in coming years with the expansion of modern channels, including e-commerce and convenience stores. Consumers are increasingly purchasing from e-commerce sites because of limitations on offerings in traditional offline stores as demand for new and foreign brands found through online research grows.

Barriers

- As local and imported formula milk brands are working hard to improve both quality and packaging of their products, new entrants to imported formula milk will face **higher competition** in penetrating the market. The government is encouraging less reliance on formula milk in a campaign to encourage mothers to raise their children with breastmilk, and as a result, more stringent regulations and requirements will likely hinder market penetration of new imported formula milk.
- Vietnam is a middle-income country with clear income disparity between urban and rural consumers. As food expenditures are linked closely with household income, preference for imported foods are generally

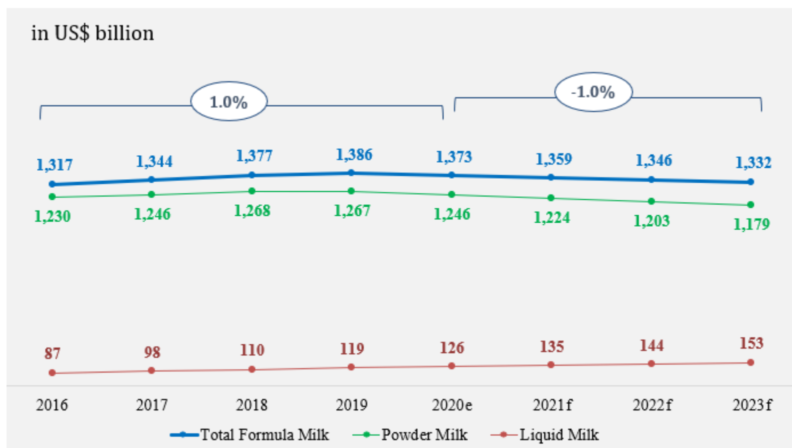
limited to a small relatively wealthy population in major cities. **Demand for imported products are limited in rural areas** which house more than 63% of the population.

- Vietnam **restricted advertisement on formula milk** for infants, particularly formula milk for children two and older, to encourage more mothers to breastfeed their children through the **Law on Food Safety (LFS) 55/2010/QH12** issued on 17 June 2010. The restrictions on advertising has effectively slowed growth of the formula milk market in Vietnam.
- Strict regulations on food safety challenge imported food products. According to the Vietnamese Law on Food Safety Number 55/2010/QH12, imported food, food additives, processing aids, imported food-packaging tools, and food packages and containers must adhere to certain conformity requirements and be registered at a competent state agency, must obtain a notice of satisfactory completion of import requirements issued by a designated inspection agency for each goods lot, and for some specific products, obtain a certificate of free sale or health and safety certificate.

2. VIETNAM FORMULA MILK MARKET OVERVIEW

2.1 Demand

Figure 10: Formula Milk Retail Sales in Vietnam



Source: Euromonitor, YCP Solidiance Research and Analysis

In terms of actual consumption, total retail sales for formula increased modestly for the last five years while a modest trend of decline is projected for the next three years. This trend reflects a general change in attitudes towards formula milk with more consumers leaning towards more natural products and less processed alternatives. Parents are buying more pasteurized liquid milk, or UHT milk, rather than fortified formula milk because of the perception that it is healthier for children. In recent years, the government tightened restrictions for marketing and promoting powder milk, especially for children up to two years of age, in order to encourage mothers to breastfeed their children. The CoViD-19 outbreak has also negatively affected the sales of powder formula milk with the segment experiencing lower sales due to its high price. Organic liquid milk is becoming more popular alternative in the high-end and higher-priced categories.

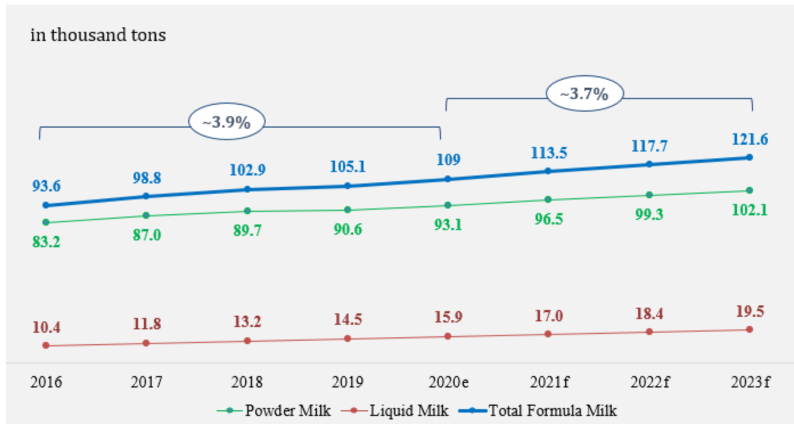
There are limited growth opportunities with heavy competition in the infant formula milk segment. Imported formula milk still has some market presence as there is consumer preference for foreign formula milk products, such as Japanese (e.g. Meiji, Glico, and Wakodo) and American (e.g. Abbott and Mead Johnson) brands that some consumers perceive to be beneficial for children under two that still need supplements to their diet but with digestive systems too weak to handle cow milk.

2.2 Supply

Locally-produced formula milk grew steadily in recent years and is expected to continue in a similar trend in the next three years. Large local companies and multinationals, such as Vinamilk, Friesland Campina, and Nutifood, have produced multiple milk product lines, including weight-gaining, DHA-enhanced, and height-enhancing products for children up to three months or two years in order to meet the demand of increasingly particular consumers. Local manufacturers are confident about attracting consumers willing to spend a slight premium for quality formula while still being price-sensitive to the more-expensive imported formula milk.

The current formula milk supply consists of two main sub-segments: mainstream and premium. These segments are identified through their price points with brands priced from VND 400,000 (US$ 20) per 0.9kg can considered premium. Abbott leads the premium segment with 30% of market share, followed by Mead Johnson at 15%, Nestle at 10%, and the remaining split between Meiji, Morinaga, Glico, Wakado, and various other brands. Vinamilk and Nutifood make up the mainstream segment with each company accounting for 70% and 30% of the segment, respectively.

Figure 11: Formula Milk Supply in Vietnam



Source: Euromonitor, YCP Solidiance Research and Analysis

Imported formula milk is expected to achieve 40% whereas local production accounts for 60%. Export are expected to grow, with MNC's such as Vinamilk and Nutifood setting up either foreign entities overseas and / or partnering with foreign brands to introduce Vietnamese products to foreign markets. Friesland Campina are also capable in their export capacity to other markets as they only have three manufacturing plants in the world, one in Netherlands and two in Vietnam.

Imported Formula Milk to Vietnam

Import of formula milk is projected to grow modestly through 2023. Japan and Singapore accounted for nearly half of imported formula milk in Vietnam, mainly consisting of Japanese brands or subsidiaries of American brands in Singapore. Ireland, Australia, and South Korea were also significant exporters of formula milk in terms of volume representing another quarter of the imported formula milk market.

Figure 12: Formula Milk Import in Vietnam

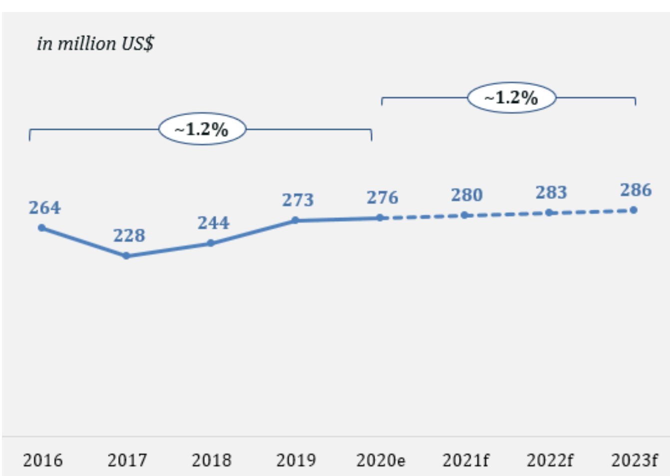
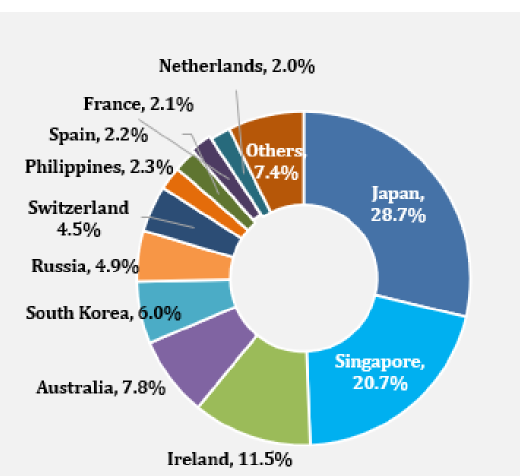


Figure 13: Main Exporters – Formula Milk

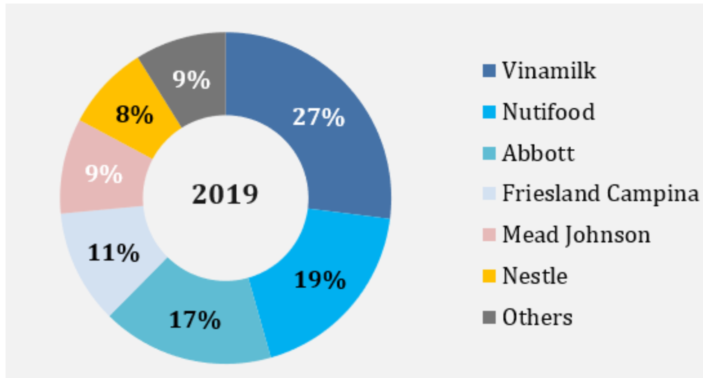


Source: Trade Map, Vietnam General Statistics Office, YCP Solidiance Research and Analysis

3 COMPETITOR LANDSCAPE

3.1 Market Share

Figure 14: Formula Milk - Key Players



Source: Speeda, YCP Solidiance Research and Analysis

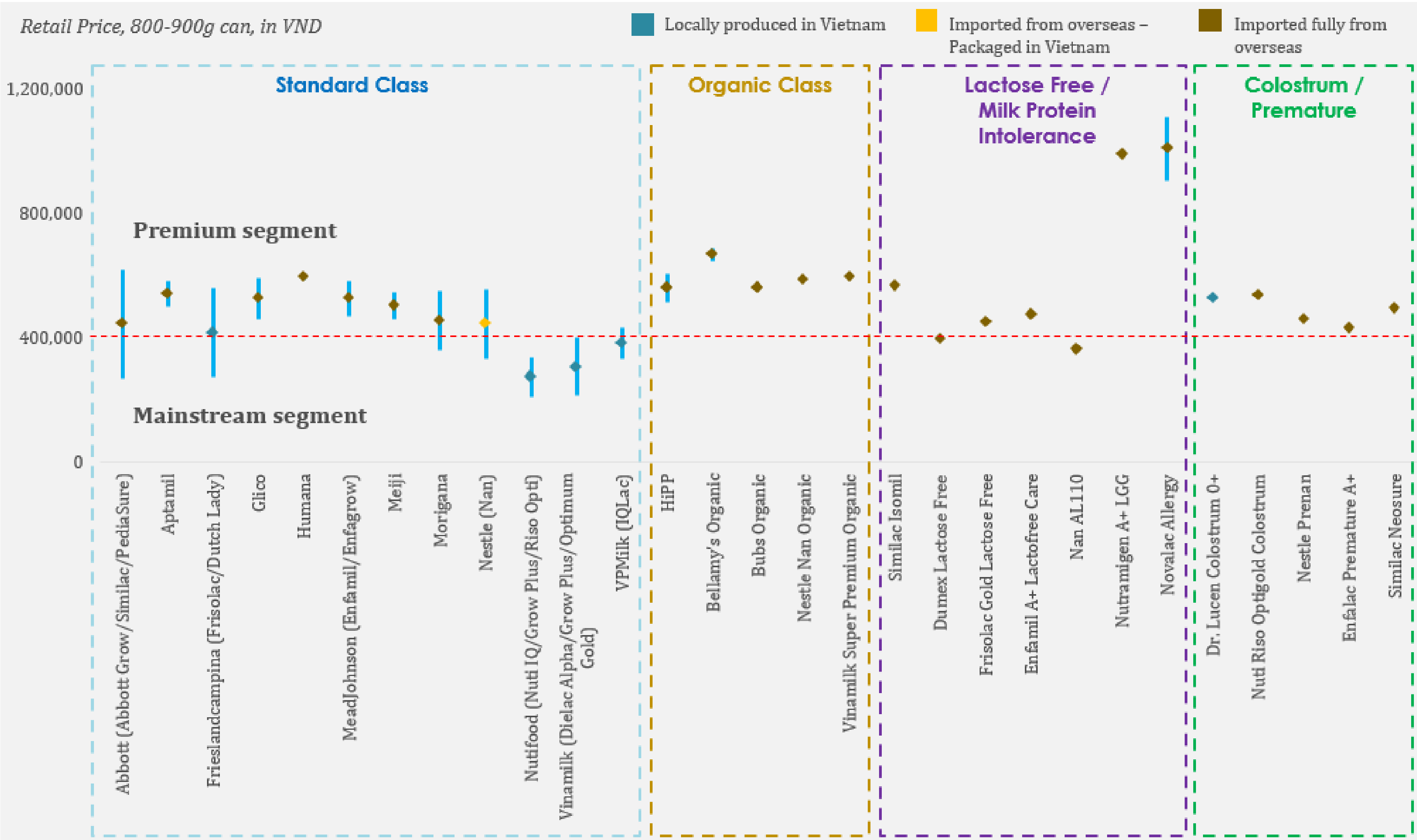
Vinamilk was the market leader in formula milk segment in Vietnam as of 2019, accounting for over one-quarter of the market. Nutifood held about one-fifth of the market mainly due to their relatively cheaper price point, strong promotional activities, and their wide brand recognition as a clinically-approved formula milk for children. Abbott accounted for 17%, relying on a strong distribution network, high-quality brand image, and physician recommendations. Other major foreign brands in Vietnam included Friesland Campina, Mead Johnson, and Nestle, accounting for 11%, 9%, and 8% of market share respectively. Friesland Campina and Mead Johnson held stable market positions by maintaining good business and a generally positive reputation among their existing consumer base. Nestle experienced strong growth with new customer relationship management (CRM) schemes attracting new consumers to their formula milk products.

Formula milk products in Vietnam can be classified into four main types: standard, organic, lactose-free, and colostrum. Standard formula milk, both domestic and foreign, are promoted as basic nutrition for children with additional benefits including weight-gain, height-gain, digestion promotion, and brain development. Local brands, such as Nutifood and Vinamilk, tend to set different price ranges based on the target age of the product. Products targeted for older children (for ages two and above) are cheaper than products targeted for children under two. Nutifood is particularly popular in rural areas, while Vinamilk is more popular in urban areas. Friesland Campina, Abbott, and Nestle compete in both the mainstream and premium segments with product offerings within both price ranges. Imported brands, such as Aptamil, Glico, Meiji, and Morinaga, target high-end urban customers in the premium segment. Price differences based on the target ages for the products in the premium segment are far less significant than in the lower-price segments.

Organic, lactose-free, and colostrum milk account for smaller market share compared to standard formula as they are generally consumed by specific niche consumers. Organic formula milk, such as Bellamy Organic at Annam Gourmet or HiPP at specialty maternity and baby shops, is popular at premium stores in large cities. Due to their branding as a high quality and premium product, their pricing is high and inelastic.

Lactose-free and colostrum milk, though generally still in low demand, is becoming increasingly more popular with niche consumer groups. These products are also priced at primarily within the premium segment mostly because they limited in both demand and supply. However, there are some brands that have both mainstream and premium offerings, such as lactose-free Dumex and Enfalac Premature A+ colostrum milk, in an attempt to be generally more competitive.

Table 6: Price Range of Formula Milk Brands in Vietnam



Source: YCP Solidiance Research and Analysis

3.2 Top 03 Players

Table 7: Top 03 Local Players

Local brands	Vinamilk	NutiFood	FrieslandCampina
Full Name	Vietnam Dairy Products JSC	Vietnam Nutifood Nutrition Food JSC	Friesland Campina Vietnam Company Limited
Year of Establishment:	1976	2005	1995
Revenue	VND 56,400 billion (2019)	VND 633 billion (2018)	VND 7,399 billion (2017)
Note on Operation / Production	13 factories across Vietnam	2 factories in Binh Duong and Hung Yen	1 factory in Binh Duong, Vietnam as a Joint Venture with Protrade 1 factory wholly-owned in Ha Nam
Product Types	• Standard formula milk • Organic formula milk	• Standard formula milk • Colostrum formula milk	• Standard formula milk • Lactose-intolerant formula milk
Brands	• Dielac Alpha Gold • Optimum Gold • Grow Plus • Dielac Grow • Dielac Alpha • Optimum Comfort • Dielac Pedia • Dielac Grow Plus with Bird Nest • Yoko Gold • Platinum	• Grow Plus + • Riso Opti Gold • Nuti IQ Gold Step • Nuti IQ Step • Pedia Plus • NuVita Grow • Dr. Lucen	• Friso
Market Share (2019)	• 27%	• 19%	• 11%
Distribution Network	• 251,000 points of sale • 430 stores • 200 distributors	• >60,000 points of sale • 96 distributors • Direct selling to >1,200 kindergartens	• >150,000 retailer households • >150 distributors
Value Proposition	• Well-established local brand • Affordability • Easy to buy	• Well-established local brand focusing on clinically approved products • Affordability • Massive promotional gifts to consumers upon purchasing	• International quality milk from the Netherlands • Long-standing presence in the Vietnam market
Commercial Strategies	• Strong distribution network	• Strong distribution network	• Concentrating on existing consumers to

Local brands	VINAMILK	NutiFood	FrieslandCampina
	• Massive multimedia marketing campaign • Multiple product line to cater to different customer sub-segment.	• Massive multimedia marketing campaign • Multiple product line to cater to different customer sub-segment.	encourage to encourage them to buy more • Currently switching to digital marketing to target consumers reading up on product • Focusing on E-commerce and Mom & Baby channel

Table 8: Top 03 Foreign Players

Imported Brands	Abbott	Mead Johnson Nutrition	Nestlé
Full Name	3A Nutrition (Vietnam) Company Limited	Mead Johnson Nutrition (Vietnam) Company Limited	Nestle Vietnam Limited
Year of Establishment:	2012	2008	1995
2018 Revenue	VND 9,812 billion	VND 1,390 billion	VND 14,228 billion
Note on Operation / Production	• Completely import their formula product via their exclusive in-house distributor – 3A Nutrition • Currently importing majority formula milk for baby and a small portion for elderly formula milk	• Completely import their formula product via their rep office in Vietnam • Currently only offering baby formula milk	Despite having factories in Vietnam, Nestle still have to import their baby formula milk in from other countries
Product Types	• Standard formula milk • Lactose - intolerant formula milk • Colostrum formula milk	• Standard formula milk • Lactose - intolerant formula milk • Colostrum formula milk	• Standard formula milk • Organic formula milk • Lactose - intolerant formula milk • Colostrum formula milk
Brands	• Similac • PediaSure • Grow	• Enfamil • Enfagrow	• Nan
Market Segment	Premium	Premium	Premium
Distribution Network	• 40,000 point of sale	Exclusively working with Advanced Distribution with: • 8 distribution centers, • 57,500 point of sales • 18,000 sub-distributors nation wide	N/A

Imported Brands	Abbott	Mead Johnson Nutrition	Nestlé
Value Proposition	• Strengths in developing clinically approved products • Dependent on doctor's recommendation and pharmacy channel	• Strengths in developing clinically approved products • Dependent on doctor's recommendation and pharmacy channel	Nestle' global brand of developing healthy, natural, and organic products
Commercial Strategies	• Segment themselves into high-end segment due to pricing • Aggressive promotion	• Segment themselves into high-end segment due to pricing • Aggressive promotion	• Segment themselves across all types of formula milk to capture market exposure • Aggressive Customer Relationship Management (CRM) to gain new consumer groups

4 DISTRIBUTION LANDSCAPE

4.1 Distribution Channel

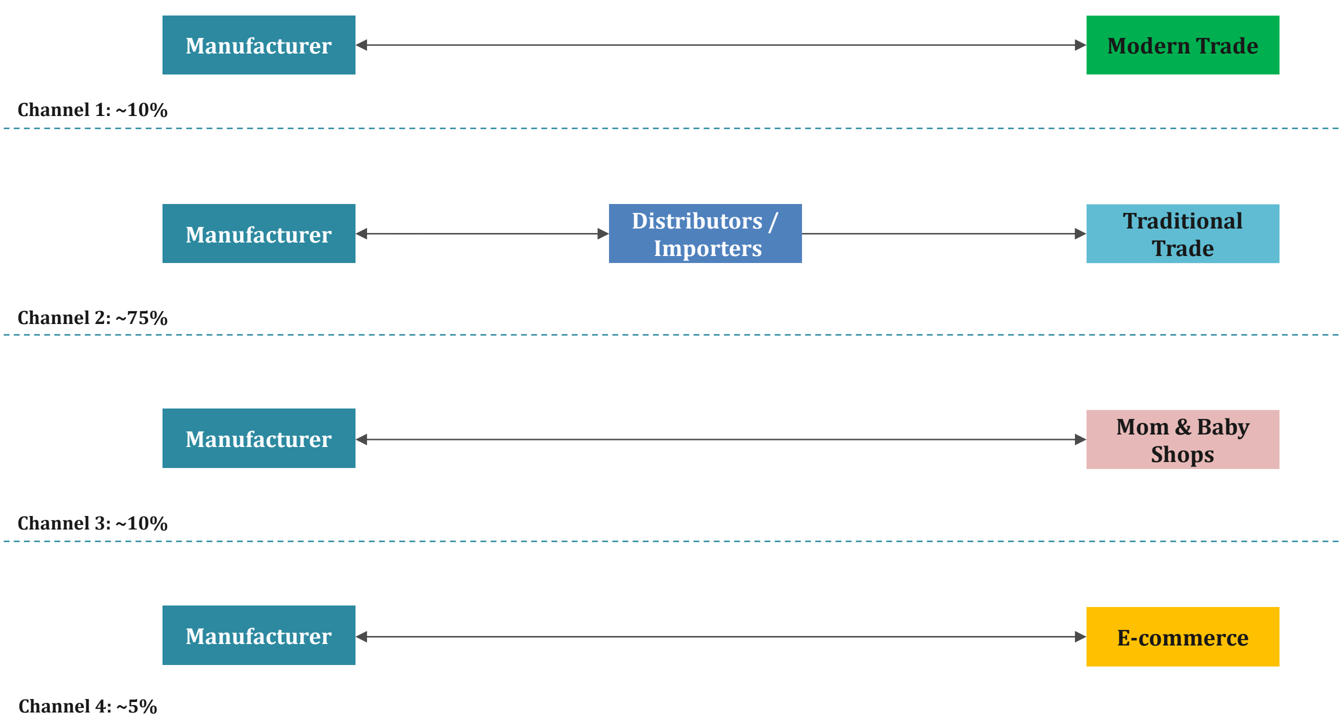
Table 9: Retail Channels for Formula Milk in Vietnam

Channel	Description	Illustration / Key players
Wet Market Traditional Trade	An open marketplace, typically with stalls and kiosks, that sells fresh perishable goods (e.g. meat, fish, vegetables, fruits) alongside dry and packaged goods	
Mom-and-Pop Shop Traditional Trade	A small-scale traditional trade store selling various FMCG product categories, from household care, personal care, packaged and dry food, and dairy targeting consumers its immediate surrounding neighborhood	
Specialty Store – Mom and Baby Shop	A specialty store offering products for pregnant women, infants, and children, such as formula milk and baby food, breast pumps and parts, diapers, baby carriers, nursing bras, teething necklaces, nursing tops, swaddling blankets, cribs and mattresses, strollers, car seats, and so forth.	BIBO MART KidsPlaza concung shoptretho

Supermarket & Hypermarket Modern Trade	A large retail store offering a variety of foods and household goods, mostly on self-service basis. While hypermarkets, such as Lotte Mart and Big C, are generally known for having a wider variety of products due to their size in comparison to supermarkets, such as Vinmart and Co.opmart, the two are rarely differentiated in general practice in Vietnam. As of 2019, there were 3,510 supermarkets and hypermarkets in Vietnam with Co.opmart, Vinmart, and Big C being the most common.	
E-commerce	An organized online platform where manufacturers, companies, traders, and individuals can sell their products over the internet. As of 2019, the trading volume through e-commerce platforms in Vietnam remained low at around 1% of total retail sales and was still mainly concentrated in Hanoi and Ho Chi Minh City, but market potential is high. The CoViD-19 pandemic has changed consumer behavior normalizing and growing e-commerce.	

Source: Euromonitor, YCP Solidiance Research and Analysis

Figure 15: Distribution Channels for Formula Milk in Vietnam



Source: YCP Solidiance Research and Analysis

There are distinct distribution channels for formula milk depending on the end-retailers. Distribution to modern trade shops, accounting for an estimated 10% of the formula milk market, show that manufacturers distribute products directly to supermarkets, hypermarkets, and convenience store chains which increases efficiency for both the manufacturer and the retailer. Most typically, manufacturers deliver products directly to the distribution centers of the retail chain, and the chain will use its own logistics network to deliver products to each of its branches.

In the traditional trade channel, which accounts for about three-quarters of the formula milk market, distributors act as a middleperson between manufacturers and retailers. Distributors negotiate margins and monthly transaction volumes based on their own ability to sell product to retailers. Distributors typically serve specific regions based on their size, logistical network strength, and physical presence serving retailers with whom they likely have longstanding relationships.

Similar to modern trade stores, manufacturers also sell directly to specialty maternity and infant shops, such as Concung or Bibomart, accounting for about 10% of the market. The specialty shop share is expected to grow and replace some traditional trade channels as parents become more informed about formula milk choices on the market. Consumers are increasingly shopping for formula milk at specialty stores in order to get introduced to new products as well as exploit the expertise of more knowledgeable staff.

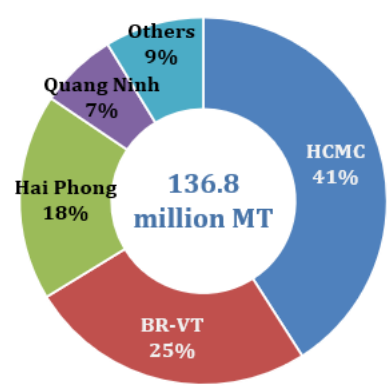
E-commerce accounts for about 5% of the market and consists of various online platforms, such as Tiki or Lazada, where manufacturers can either directly list their products or sell and advertise product through independent online retailers. E-commerce is expected to growth the fastest of the four main distribution channels, but as the transaction volumes and values are still relatively small compared to other channels, manufacturers have yet to fully develop their presence online.

4.2 Logistics

According to Vietnam Seaports Association, the country has a total of 78 seaports concentrated in two regions: Quang Ninh and Hai Phong in the north, and Ho Chi Minh City and Ba Ria – Vung Tau in the south. Ports in the central region (Da Nang) and Mekong Delta region are small and mainly serve for smaller-scale domestic goods transport.

However, the majority of seaports in Vietnam are considered medium- or small-scale. Vietnam has only two deep sea ports which can handle containerships of a capacity of 100,000 DWT or larger: Cai Mep Port in Ba Ria-Vung Tau (south) and Lach Huyen Port in Hai Phong (north).

Figure 16: Major Ports of Import in Vietnam - 2019



Source: Vietnam Seaport Association

As formula milk products are considered common goods, they have no major restrictions in terms of movement through ports. As a result, the movement of formula milk products simply follows demand

Imported formula milk most commonly enters Vietnam through ocean freight, but air freight shipments also help supply the market. There is no specific requirement on the packaging type while the shipping volume simply depends on demand.

4.3 Profiles of Top Three Distributors

	ADVANCED DISTRIBUTION
Company	Advanced Distribution Co., Ltd.
Year of Establishment	2004
Company Type	Distributor / Importer
Contact Details	Address: 1D Pho Quang Street, Ward 2, Tan Binh District, Ho Chi Minh City Telephone: +84 (0) 28.3997.2779 Website: https://adcompany.com.vn/
Key Personnel	Ms. Truong Quoc Chi – Director
Revenue	2016: VND 2,543 billion 2017: VND 2,248 billion 2018: VND 2,357 billion
Company Highlights	• Distributes Mondelez (USA), Lotte (South Korea), and various other FMCG, healthcare, cosmetics, and homecare products • Two offices in Vietnam currently, one in Ho Chi Minh City and one in Hanoi • Currently have 14,000 sqm warehouse space with over 6,500 pallet positions and 60 trucks sitting across 8 distribution centers
Product Offerings	• Mead Johnson (exclusively)
Distribution	• 8 distribution centers • 57,500 point of sales (3,000 modern trade stores such as Vinmart, Saigon Co.opmart, Aeon; 49,500 traditional trade stores and 5,000 pharmacies) • 150 sub-distributors to serve additional 18,000 traditional trade stores
Commercial Strategy	• By aligning themselves with major brands, such as Mead Johnson, in its early growth, Advanced Distribution leverages established relationships with its extensive distribution network and capabilities • Strong distribution network allows them to continue selecting the brands that they would like to carry
Market Reputation	• Strong distributor using both technology and logistics advantages to cater to manufacturing brands

PhuThai The Leading Distribution Group	PHU THAI GROUP
Company	Good Food Company Limited
Year of Establishment	1993
Company Type	Distributor / Importer
Contact Details	Address: HCO Building, 44B Ly Thuong Kiet Street, Hoan Kiem District, Hanoi Telephone: +84 (0) 24.3565.9099 Website: https://phuthaigroup.com/
Key Contact	Mr. Pham Dinh Doan, General Director
Revenue	2016: VND 875.67 billion 2017: VND 880.37 billion 2018: VND 643.83 billion
Company Highlights	• Currently distributing P&G (USA), Rohto (Japan), Kewpie (Japan), Mayora (Indonesia), and Chang Beer (Thailand) • Berli Jucker Public Company Limited (BJC) from Thailand acquired 65% share of Phu Thai Group
Products Offerings	• Friesland Campina products, including Friso Formula Milk
Distribution	• 9 distribution centers across Vietnam distributing to both modern trade (with presence in all key supermarkets, such as Vinmart, Saigon Co.opmart, and Aeon) and traditional trade retailers
Commercial Strategy	• By aligning themselves with specific brands, such as Friesland Campina and P&G, in its early development, Phu Thai Group leverages established relationships along with a strong distribution network and capabilities
Market Reputation	• Strong distributor with nearly 30 years of experience as one of the leading distributors due to their exclusive distribution of Friesland Campina products

	HOANG LAN
Company	Hoang Lan Group
Year of Establishment	1994
Company Type	Distributor / Importer
Contact Details	Address: 25 Le Thi Rieng, Ben Thanh Ward, District 1, Ho Chi Minh City Telephone: +84 (0) 28.3832.4441 Website: http://hoanglangroup.com/
Key Contact	Ms. Huynh Thi Nuong, Director
Revenue	2015: VND 69.80 billion 2016: VND 76.54 billion 2017: VND 54.65 billion
Company Highlights	• Previously exclusive distributor for Lactalis Group • Experience distributing Meiji, Morinaga, Snow, and Tulip formula milk • Carries olive oil and pate product lines
Product Offerings	• Formula Milk: Meiji, Morinaga, Snow, and Tulip • Cheese: California Select Farm • Butter: Bretel, Lactalis – President line
Distribution	• Traditional trade retailers • Modern trade retailers: Annam Gourmet, Saigon Co.opmart, Vinmart • Hotel – Restaurant - Catering
Commercial Strategy	• Targeted retailer distribution dependent on product line and segment, e.g. Pons olive oil is targeted to all modern trade retailers while Bretel butter is only available in high-end retailers • Focus on HORECA and industrial channels
Market Reputation	• Well-known and established distributor with presence in Hanoi and in Ho Chi Minh City • Known as one of the leading retailers for imported goods, mainly from Europe and the U.S.

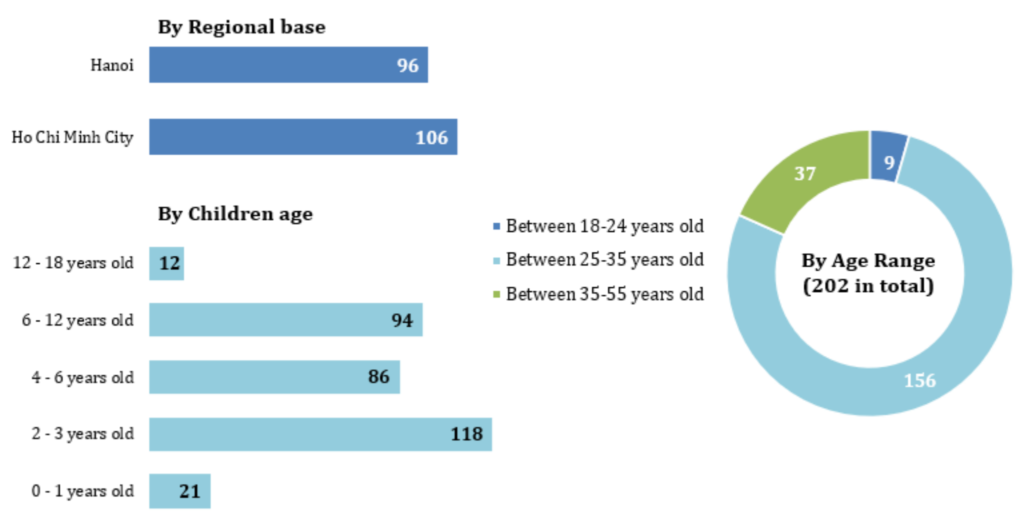
5 CONSUMER INSIGHTS

5.1 Consumer Online Survey Overview

The consumer survey was conducted online targeting female consumers of formula milk in Vietnam to understand local consumer behavior, preference, and usage of formula milk as well as their preference toward Brazilian products. In order to participate in the survey, a consumer had to meet all of the following criteria:

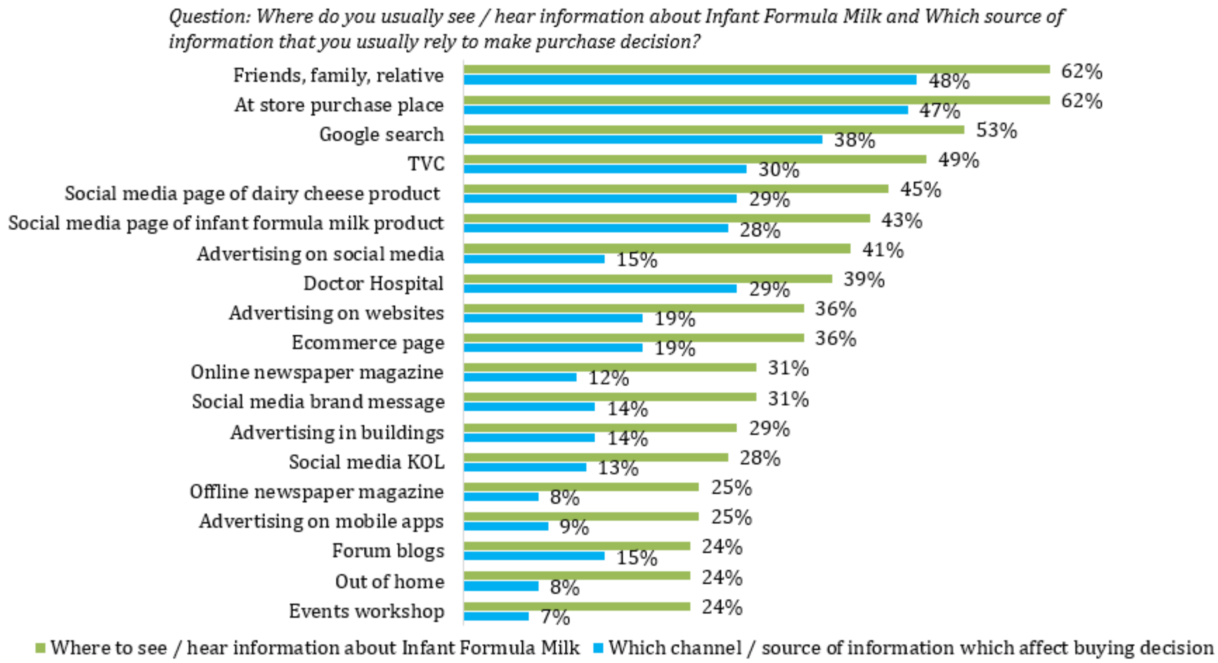
- Mother with at least one child from 0 to 12 years;
- Living in Hanoi or Ho Chi Minh City, the two largest urban markets in Vietnam;
- Monthly household income of at least at VND 20,000,000 (roughly US $1000) as respondents are expected to be knowledgeable about imported formula milk products and afford mid-range to premium goods; and
- Have purchased formula milk products within the last three months for their children

Figure 17: Consumer Online Survey - Respondents Profile



5.2 Consumer Usage Journey

Figure 18: Consumers Touchpoints for Awareness and Decision-Making Impact



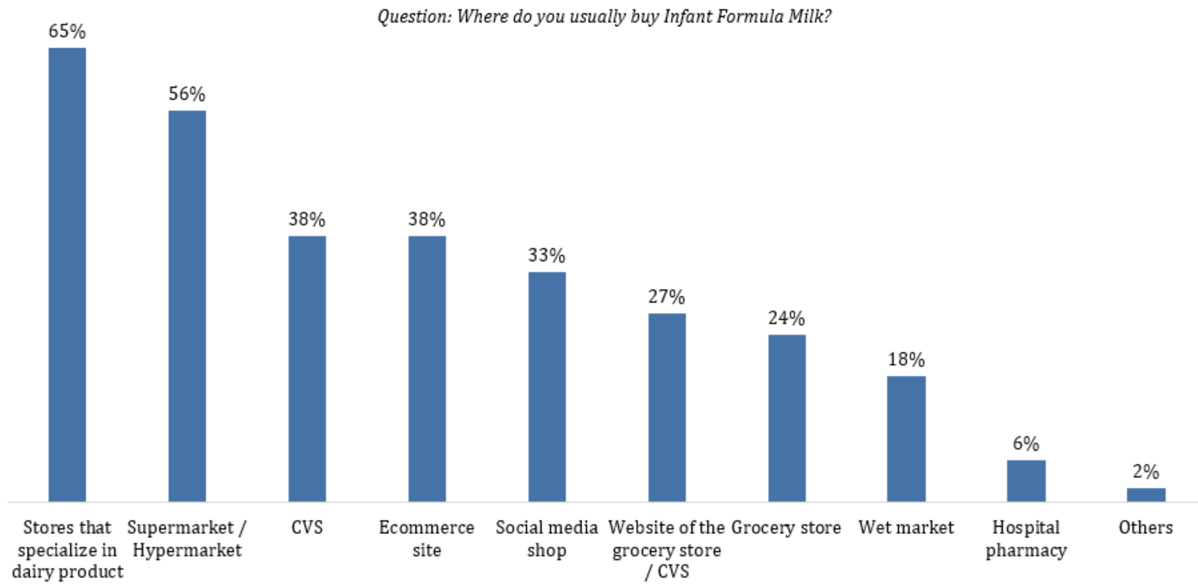
Source: Consumer Survey, YCP Solidiance Research and Analysis

Consumers were asked to identify the source from which they typically see information about infant formula milk and which of the sources influenced their choices most. Word of mouth from friends, family, and relatives were both the most common and influential source of information with 62% and 48% of respondents, respectively. In-store marketing also had a similar response indicating that consumers have relatively high trust in the advertising at their place of purchase.

Consumers noted Google, TVC, and social media pages of either dairy products or infant formula milk products as popular channels for information about their infant formula choices. The internet and social media were among the most important channels for consumers to understand product information with consumers using social media and the internet to research and compare products.

Respondents noted a relatively high impact from doctors and healthcare facility staff on decision making for formula milk. First-time mothers tended to be more curious and receptive to recommendations from a doctor or healthcare worker on which formula milk brand is good for their kids. Moreover, some milk brands have collaborated with obstetric hospitals to provide small cans or packs of formula milk for mothers immediately after giving birth to help them feed their newborn child in targeted advertising and brand awareness campaigns.

Figure 19: Consumers Touchpoints for Buying Formula Milk



Source: Consumer Survey, YCP Solidiance Research and Analysis

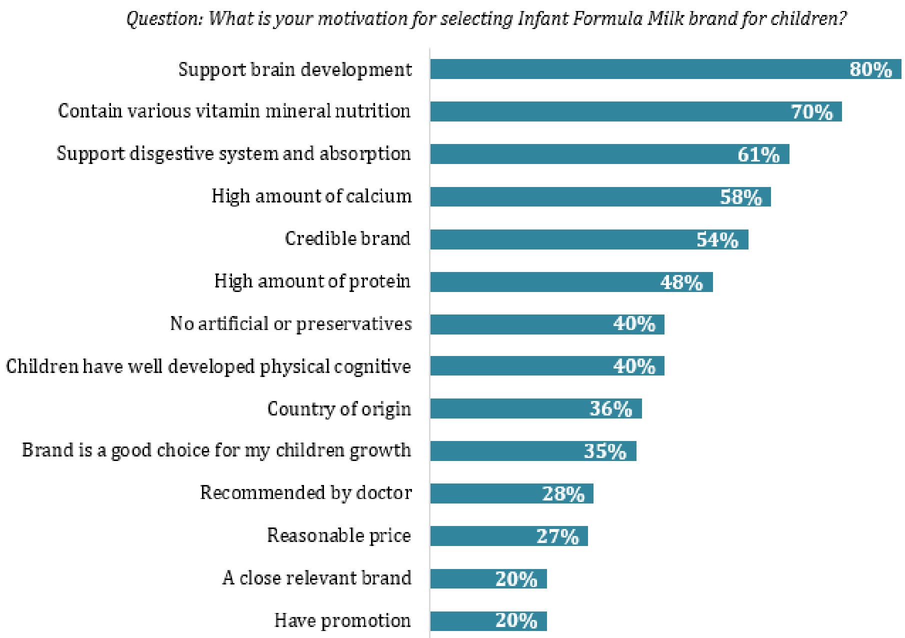
Around 65% of respondents chose stores that specialize in dairy products to buy formula milk while about 56% typically purchased milk at a supermarket or hypermarket. Consumers viewed specialty stores and supermarkets as trustworthy sources in terms of food safety and viewed these channels as having the most competitive pricing as well.

Convenience stores and e-commerce sites had similar popularity among the consumers with 38%. Consumers that bought milk from these channels predominantly already had a brand in mind or had already done research. Consumers that purchased from convenience stores kept an eye out for promotions and discounts.

Consumers chose to purchase from open air wet markets and hospital pharmacies relatively less because of numerous factors ranging from lack of cleanliness to overall convenience. For consumers that purchased milk at open air markets, it was simply that it was out of convenience while they were there buying other unrelated products. Purchases of formula at a hospital pharmacy were limited almost entirely to gifts for newborns and immediate convenience.

5.3 Consumer Behavior

Figure 20: Reasons to Use Formula Milk



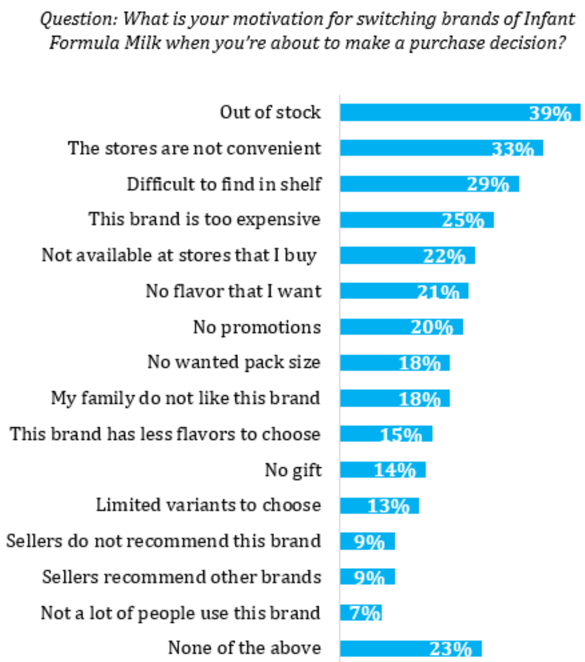
Source: Consumer Survey, YCP Solidiance Research and Analysis

Consumers highly believed that using formula will help the overall development of their children, such as brain development (80%), added vitamins, minerals, and nutrition (70%), support for digestive system and absorption (61%), and high amount of calcium (58%).

Qualitative factors associated with brands are also important when considering the use of formula milk. Factors such as brand credibility (54%), country of origin (36%,), consumer brand trust to ensure growth (35%), and physician recommendation (28%) were the main factors in the consideration of a formula milk brand among respondents.

Reasonable price and promotion were the lowest ranked reasons consumers chose formula milk for their children. Respondents considered price and promotion of somewhat importance in terms of budget, but the qualitative factors around the perception of the benefits and safety of the product were more fundamental than cost savings in the minds of most respondents.

Figure 21: Barriers to Use Formula Milk

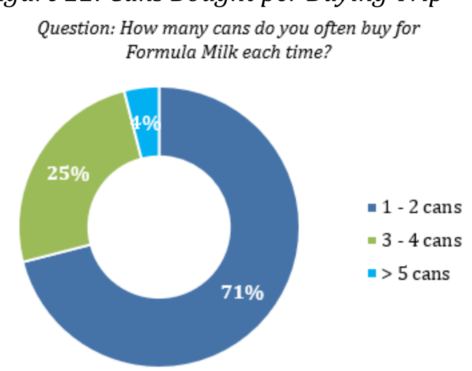


Inaccessibility to products were the main reason for consumers to switch brands. Only when a particular product was not in stock (39%), was not conveniently accessible at the shops convenient to the consumer (33%), was too difficult to find product (29%), or was no longer supplied at the store that the consumer typically shops (22%) did the respondent switch to a new product. Most noteworthy was the 23% of respondents that reported that they would not change brands.

Although the justification for consumers changing formula milk brands were predominately more fundamental reasons, such as the preference of the children (18%), the taste preferences of infants and children can be hard to gauge especially when shopping for formula for the first time. Moreover, there was a reasonable bloc of respondents that cited the lack of bonus gifts (14%), promotions (20%), and desired can sizes (18%) for them switching brands which signaled consumers preferences for certain brands may not entirely be inflexible.

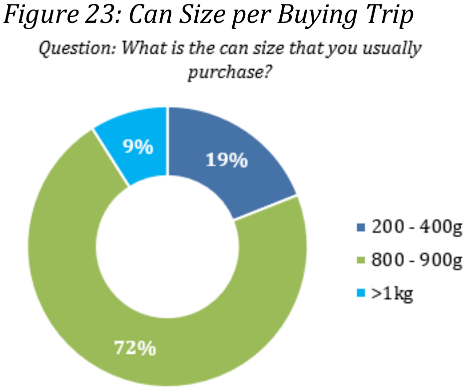
Sellers were found to have limited impact on consumers changing brands, as only 9% of respondents cited them as influential in switching brands.

Figure 22: Cans Bought per Buying Trip



Source: Consumer Survey, YCP Solidiance Research and Analysis

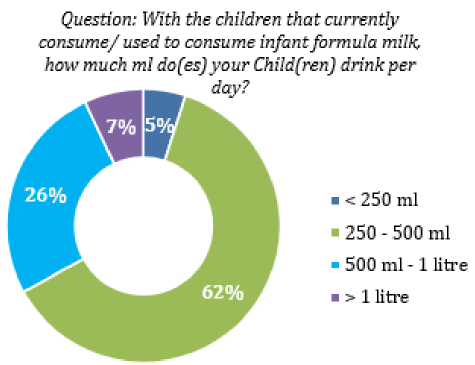
Figure 23: Can Size per Buying Trip



Source: Consumer Survey, YCP Solidiance Research and Analysis

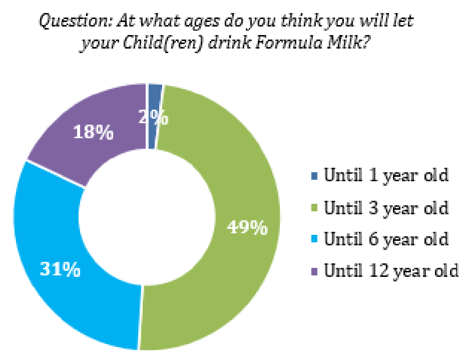
Consumers generally bought from one or two 800-900g cans during each trip spaced out at about every two weeks (about 56%). Few people bought more than five cans per purchase with a similarly small number having bought can large than one kilogram per shopping trip.

Figure 24: Average Formula Milk Daily Usage



Source: Consumer Survey, YCP Solidiance Research and Analysis

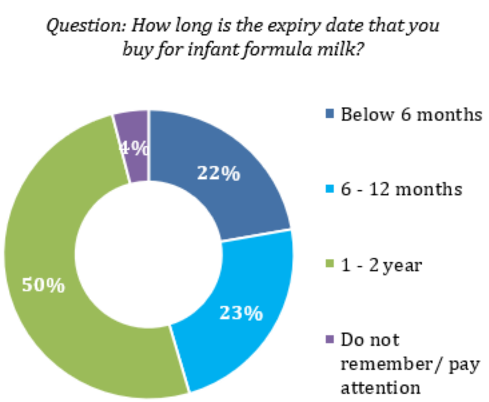
Figure 25: Average Formula Milk Age Usage



Source: Consumer Survey, YCP Solidiance Research and Analysis

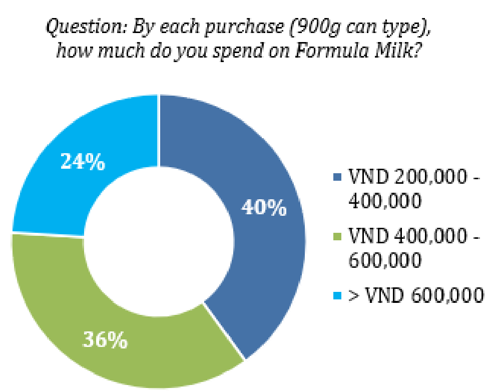
Respondents mixed about 250-500ml of formula milk per day, consistent with respondents buying new containers every two weeks. Nearly half of the respondents let their children use formula milk until the age of three while nearly another third of respondents fed their children formula until six. Less than one in six of the respondents left their children on formula up to the age of 12. A minority of about 2% of respondents noted that they took their children off formula early and switched to organic or liquid milk.

Figure 26: Preferred Expiry Dates per Purchase



Source: Consumer Survey, YCP Solidiance Research and Analysis

Figure 27: Average Spending per 900g Can



Source: Consumer Survey, YCP Solidiance Research and Analysis

About half of the respondents preferred expiration dates about one to two years after manufacture. 45% of respondents preferred expiration dates under a year partially due to discounts on these products when the expiration date is near. More than three quarters of all respondents chose products that were under the VND 600,000 (roughly US $30) with two in five of all respondents spending less than VND 400,000 (roughly US $20).

5.4 Brands Perception

Abbott had the highest brand recognition in the online survey. Three Abbot products Abbot Grow (18%), Similac (13%), and PediaSure (12%), were the three most recognizable brands. Vinamilk lagged reasonably behind Abbot with two offerings: Dielac Alpha (11%) and Optimum Gold (9%). Notably, Abbott holding reasonably higher market share as an imported brand compared to Vinamilk, a local brand, shows that local consumers still have more positive brand recognition of foreign brands over local brands.

There were numerous other brands that have reasonably good recognition in Vietnam including Nan from Nestle, Grow Plus from Nutifood, and Friso and Dutch Lady both from Friesland Campina. Other brands mentioned included Enfamil from Mead Johnson, Meiji, Glico, Aptamil, and Morinaga.

Figure 28: Formula Milk Brands that Consumers Recognize

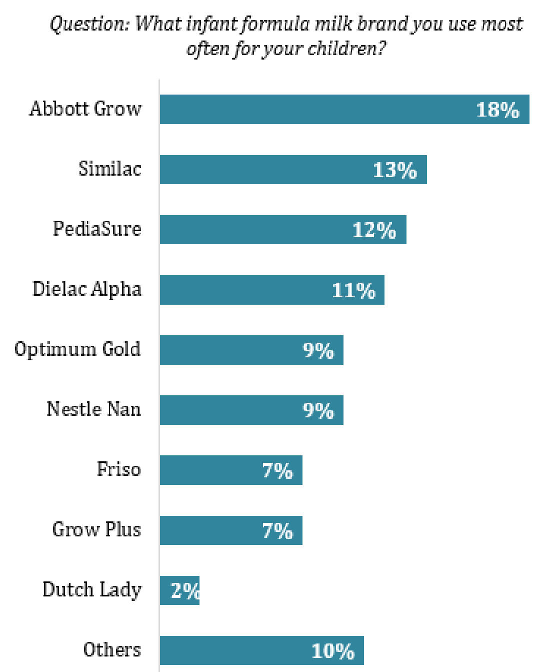
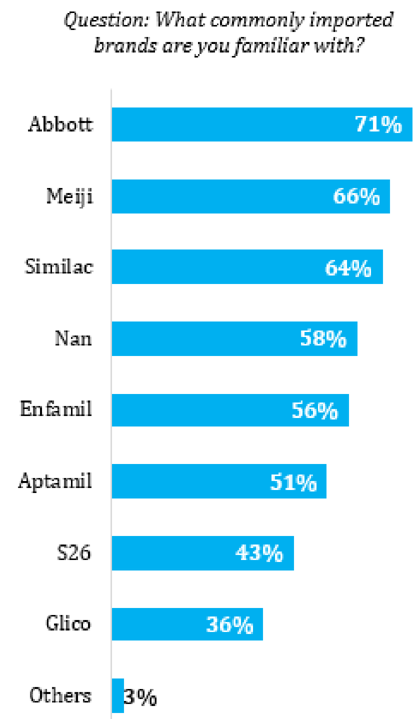


Figure 29: Imported Formula Milk Brands that Consumers Recognize



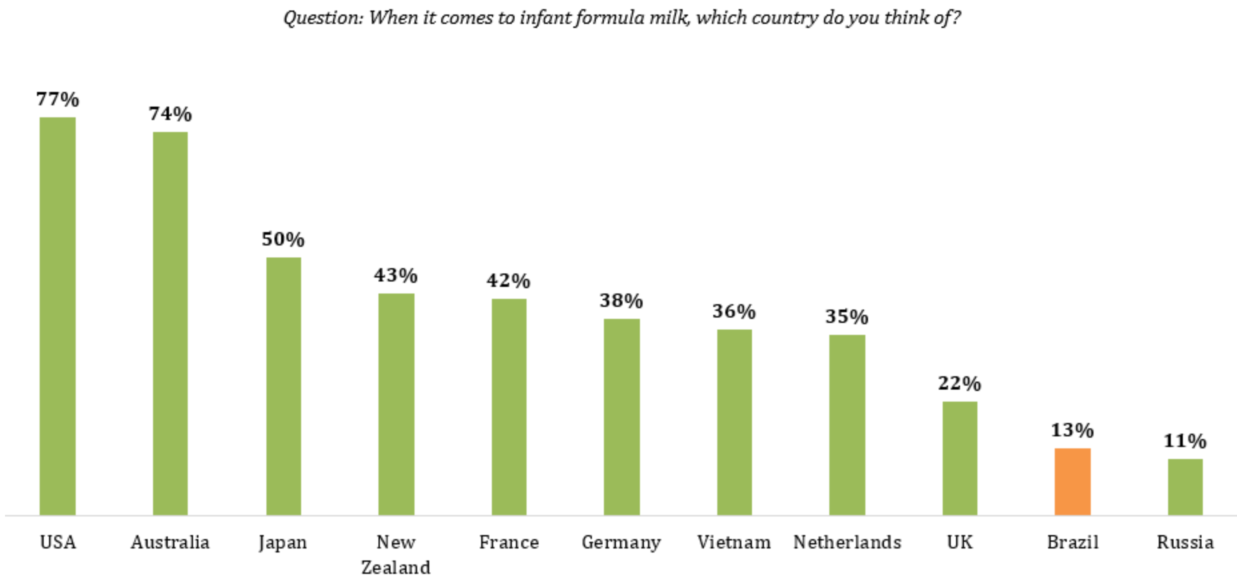
Source: Consumer Survey, YCP Solidiance Research and Analysis

Of the imported brands, consumers were mainly familiar with American brands (e.g. Abbott brands and Enfamil from Mead Johnson). Swiss (e.g. Nan from Nestle), Japanese (e.g. Meiji and Glico), Australian (e.g. S26), and British (e.g. Aptamil) brands accounted for nearly all of the remaining imported brands due to their longtime presence in the market as well as their expansive in-store marketing strategies, particularly in specialty shops, specialty dairy stores, and supermarkets.

Lesser known and smaller brands, like Blackmores and XO, were a much less common response as they do not have major marketing activities and generally serve a niche customer base.

5.5 Brazilian Perception

Figure 30: Countries of Origin that Consumers Recognize with Good Formula Milk Products

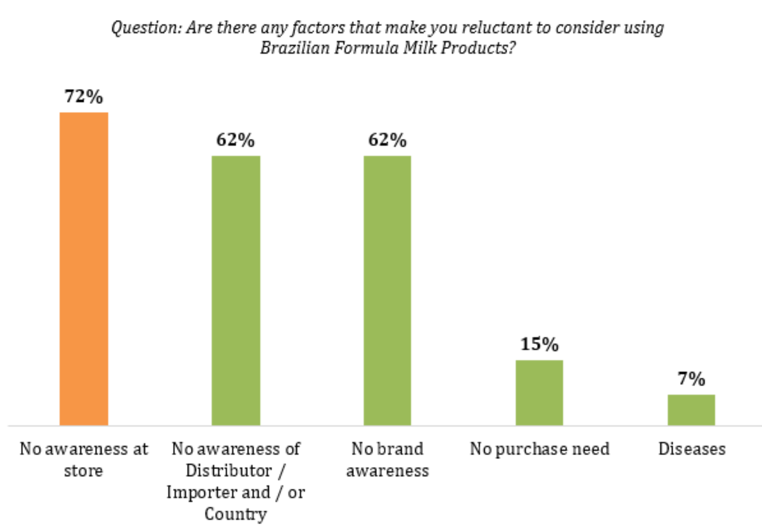


Source: Consumer Survey, YCP Solidiance Research and Analysis

Respondents had a strong association with the United States, Australia, and Japan for formula milk products. These countries were perceived to have advanced and high-quality offerings. New Zealand, France, and Germany were perceived as having high quality formula milk products due in large part to their good reputation in dairy products in general.

Vietnam (Vinamilk) and the Netherlands (Friesland Campina) shared a similar level of consumer trust in formula milk products based on a longstanding positive local reputation for both brands. Strong branding from Aptamil helped boost the United Kingdom, but most surprisingly, there was awareness on Brazilian-branded formula milk products in the group of surveyed consumers though there may have been a slight bias as respondents were aware that the survey was conducted to understand the Vietnamese perception of Brazilian dairy products.

Figure 31: Barriers that Prevent Consumers from Buying Brazilian Formula Milk Products



Source: Consumer Survey, YCP Solidiance Research and Analysis

According to 72% of respondents, the greatest barrier that prevented consumers from buying Brazilian formula milk products was the lack of presence of Brazilian formula milk products. 62% noted a lack of brand awareness and knowledge of providers carrying Brazilian formula milk products was problematic.

Regarding the overall perception of Brazilian products, consumers in Hanoi were found to be slightly more open to trying Brazilian-made formula milk than consumers in Ho Chi Minh City. The openness score, 6.6 for Hanoi and 6.1 for Ho Chi Minh City, was scored out of ten with ten indicating complete openness and one being complete unwillingness. The scores in the range of six reflect a reasonably moderate level of unwillingness to try new formula milk brands from Brazil.

6 LEGAL REVIEW

In general, food manufacturing and trading businesses in Vietnam must comply with the Law on Food Safety (LFS) 55/2010/QH12 issued on 17 June 2010. The LFS regulates the rights and responsibilities of food organizations and individuals to ensure food safety; conditions for food safety; food production and trading; food import and export; food advertisement and labeling; food testing; food risk analysis; prevention and dealing with food safety incidents; information, education, and communication on food safety; and state management of food safety. According to the LFS, all imported food, including dairy products, shall be subject to state inspection for food safety, except in cases where the state inspection of food safety is exempted. Imported dairy products are only granted customs clearance once inspection results show that the products in question meets import requirements. The most updated legal document on food safety is Decree 15/2018/ND-CP dated 02 February 2019 in which the government has simplified registration procedures for prepackaged and processed foods as well as introducing a new regime of import inspections.

There are three governmental bodies that are responsible for state management on food safety:

1. Ministry of Industry and Trade (MOIT): responsible for most prepacked and processed food products. Under Decree 15/2018/ND-CP, processed milk products, excluding micronutrient-enriched products and functional foods under the management of the Ministry of Health, are under the management of the MOIT:

    - Liquid milk (including liquid milk that contains flavorings or other food additives): pasteurized products & products sterilized by ultra-high-temperature processing or other high-temperature methods
    - Fermented milk: liquid and solid
    - **Powdered milk**
    - Condensed milk: sweetened and non-sweetened
    - Cream: pasteurized and UHT
    - Soy milk
    - Other dairy products: butter, cheese, and other products from processed milk

2. Ministry of Agriculture and Rural Development (MARD): responsible for agricultural products including raw milk. In the cases where the contents of a shipment fall under the jurisdiction of more than one ministry, the Ministry of Agriculture and Rural Development shall be the inspecting authority
3. Ministry of Health (MoH): bottled water, natural mineral water, food ice; functional foods; micronutrients in food, additives, flavorings, food processing aids; tools, packaging materials directly in contact with food; other products which are not under the inspection of MOIT and MARD

6.1 Vietnam Regulation on the Import of Formula Milk into Vietnam

According to the current Vietnamese Law on Customs 54/2014/QH13, customs declaration procedures should be conducted electronically with some few specific exceptions. The general customs procedures, supervision, and inspection of imported foods in Vietnam are regulated under Decree 8/2015/ND-CP issued on 21 January 2015 and further detailed in Circular 38/2015/TT-BTC, dated 25 March 2015, on customs procedures, customs supervision, inspection, export tax, import tax, and tax administration applied to exported and imported goods.

There are five main steps related to the customs clearance procedure for imported dairy products, including formula milk, into Vietnam:

Step 1. Preparation for customs import declaration and supporting documents. The customs import declaration in Vietnam is a standard, official form used for customs clearance purposes in which the importer declares all information required for the assessment of the taxable value of the import shipment. In general, standard customs clearance documents are listed below, but depending on the specific shipment and requirements of customs office of entry, the importer may need to prepare and present other documents:

- Commercial/sales contracts (copy)
- Commercial invoice (copy)
- Packing list (original)
- Bill of lading (copy)
- Certificate of origin (original)

In addition, there are some other documents specifically required for the import of formula milk products as described in Table 10. The customs authority at each port of entry may use their own judgement on the type of documents necessary for customs clearance, so the exporter should consult the local customs authority and an experienced importer to prepare documents in advance. It is common that an exporter and importer hire an agency to guide and support them in preparing relevant customs documents.

Table 10: Legal Documents Supporting the Import of Formula Milk Products in Vietnam

Type of Document	Description	Submission Form	In-charge party	Issuance Office
Certificate of Analysis (COA or C/A)	A form to validate that microbiological and physical / chemical tests have been conducted by an appropriate laboratory in the exporting country.	Original copy or copy notarized by the Consulate in Vietnam	Exporter	Independent Testing Center which has ISO 17025 accredited.
Certificate of Good	A certificate that manufacturing sites	A copy of original	Exporter	Competent

Manufacturing Practice (if any)	and their respective manufacturing methods follow the conditions of Good Manufacturing Practice (GMP).	copy in any language with a sufficient version in English is required.		agency in export country
Certificate of Statement of Product Standards	A certificate that ensure foodstuffs follow the appropriate product quality standards.	Vietnamese	Importer	Ministry of Health, Department of Food Inspection.
Free sales certificate, or Certificate of Exportation, or Health Certificate	A certificate which is issued by a competent authority of the country of origin/exporting country, which assures safety of users or permit free sale of the products in the country of origin/exporting country	A copy legalized by Consulate in Vietnam	Exporter	Competent authority in export country.
Product Declaration for Foodstuff	All imported foodstuffs need to have a Product Declaration, which is a form validating that the product has been announced to the Vietnamese authorities. Application files shall be dispatched to Ministry of Industry and Trade via online public service platforms, by post, or directly.	Vietnamese	Importer	Ministry of Industry and Trade
Veterinary Health Certificate for Animal Products	A certificate verifying that products of animal origin have been examined according to the relevant procedures, are not contaminated, do not have any contagious disease, and follow with Vietnamese veterinary regulations.	A notarized copy in original language accompanied by a Vietnamese translation	Exporter	Competent authority in export country.
Quarantine Registration	A form assures that an importer has applied for quarantine at the customs office of entry. Under Circular 25/2016/TT-BNNPTNT, dairy products are listed as subjects of quarantine of terrestrial animals and animal products. Quarantine registration is a form assures that an importer has applied for quarantine at the customs office of entry.	Vietnamese	Importer	Department of Animal Health, Vietnam Ministry of Agriculture and Rural Development
Quarantine Certificate for Animal Products	A certificate ensuring that animal products in application has been in quarantine and that their importation has been approved.	Vietnamese	Importer	Department of Animal Health, Vietnam Ministry of Agriculture and Rural Development
State Quality Inspection of Imported Goods	Quality inspection at the customs office of entry. The Ministry of industry and Trade (MOIT) is responsible for the inspection.	Vietnamese	Importer	Ministry of Industry and Trade

Table of Standards Applied in the Facility	A certificate ensuring that the appropriate quality conditions for foodstuffs are being met at the importer's facilities.	Vietnamese	Importer	Provincial Food Safety Management Authority
Veterinary Health Certificate for Animal Products	A certificate verifying that products of animal origin have been examined according to the relevant procedures, are not contaminated, do not have any contagious disease, and follow with Vietnamese veterinary regulations.	A notarized copy in original language accompanied by a Vietnamese translation	Exporter	Competent authority in export country.

Source: European Union report on the Food and Beverage – Market Entry Handbook for Vietnam, Decree No. 15/2018/ND-CP, Decree 19/2012/TT-BYT, Circular 25/2016/TT-BNNPTNT, YCP Solidiance Research

Step 2. Registration and Installation of VNACCS: The Vietnam Automated Cargo and Port Consolidated System (VNACCS) is the state automated customs clearance platform for the electronic submission of customs import declaration and supporting documents. In order to use the VNACCS, importer must first obtain an E-Customs Registration and download the software from the Customs website (https://www.customs.gov.vn/ChuyenMuc/VNACCS_VCIS/Default.aspx). In addition, a digital signature must be approved by the customs authorities for this purpose.

Step 3. Registration for relevant inspections

- Quarantine registration: According to Circular 25/2016/TT-BNNPTNT, dairy products are under the category of terrestrial animals and animal products subject to quarantine. The importer shall apply for the quarantine registration at a local quarantine agent operating under the Ministry of Agriculture and the National Agro-Forestry-Fisheries Quality Assurance Department. The quarantine shall be carried out at the port of entry or checkpoint. Upon the decision of the quarantine authority and agreement from the customs authority, the foods can be moved to an inland quarantine location.

- Registration for inspection for food safety: According to Decree 15/2018/ND-CP dated 02 February 2018 which elaborates some articles of the LFS, dairy products are subject to food safety inspection. The inspection shall be conducted at the checkpoint unless the authorized inspection agency agrees to different locations for the purpose of safe storage of the product.

Step 4. Open and submit the customs import declaration form

- The importer must open and submit the customs import declaration to Vietnam Customs Office before or within 30 days of arrival

- Upon the submission, the product shall be classified into one of the below three categories:

Greenline – Simplified inspection	Yellow line – Ordinary inspection	Red line – Strict inspection
The import is exempt from inspection on documents and exempt from inspection on actual shipment	The import is subject to document inspection but exempt from inspection on actual shipment	The import is subject to both document inspection and actual shipment inspection

Step 5. Completion of the import procedure: depending on the outcome of Step 4, the importer has to follow different steps to complete the custom clearance:

Greenline – Simplified inspection	Yellow line – Ordinary inspection	Red line – Strict inspection
Submit following documents at customs office at entry to complete customs clearance: • Printed customs declaration form • Receipt of VAT and import tax payment	• Undergo the document inspection with the customs office: submit supporting documents and/or revise customs declaration form as per custom officer request • Physical inspection on the shipment may be requested by the customs officer if there is any suspicion of the accuracy of the documents	• Undergo document inspection as similar to the Yellow line • Upon satisfactory outcome on the document inspection, customs authority shall conduct physical inspection of the actual shipment (such as weight and types of imported foods)

6.2 Other Legal Regulations related to the Distribution of Formula Milk Products in Vietnam:

Technical requirement:

The Vietnamese government has issued certain legal documents requesting formula milk products distributed in the country must follow technical provisions of the state. The general requirements are:

- Ingredients and food additives in production must ensure the food safety and hygiene, be gluten-free, and suitable for the digestion of infants
- Nutritional safety and the nutritional adequacy must be scientifically proved to support the growth and development of infants

For more details, importers and exporters should consult below technical provisions

1. Circular no. 20/2012/TT-BYT dated 15 November 2012 promulgating the National Technical Requirement on infant formula for children up to 12 months of age. (Link to Circular 20 – in Vietnamese)
2. Circular no. 21/2012/TT-BYT dated 15 November 2012 regulating the National Technical Regulation on special medical-treatment products for children aged 0 to 12 months (Link to Circular 21 - in Vietnamese)
3. Circular no. 22/2012/TT-BYT dated 25 November 2012 issuing the National Technical Regulation on supplementation formula products for children aged from 6 to 36 months (Link to Circular 22 - in Vietnamese)

Labeling Requirement

To import and distribute F&B products in Vietnam, the exporter should comply with the state requirements on labels on products. Label means any manuscript, printed copy, drawing, photocopy of words, pictures, images that is stuck, printed, attached to, casted, or carved on the container of good or other kinds of materials to be attached to the good or commercial container. The state requires that good labels should present essential information to enable consumers to identify the good, give suitable selection, consume, and use; to enable manufacturers and traders to advertise the good; and to enable regulatory agencies to carry out the inspection and supervision.

In Vietnam, the Ministry of Science and Technology is responsible for enforcing the goods labeling requirement. Mandatory contents on the labels of goods are stipulated in the Decree on Good Labels No. 43/2017/ND-CP, including:

- Name of product

- Name and address of the enterprise responsible for the food product
- Origin of the product
- Quantity
- Ingredients and ingredient quantities
- Date of manufacture and expiration date
- Warning (if any)
- Instruction for use, instruction for storage

The information on the label must be written in Vietnamese. For food imported into Vietnam with labeling that does not contain or insufficiently contains mandatory information in Vietnamese, a secondary label containing mandatory information in Vietnamese is required. The Vietnamese content shall be consistent with the original label text.

6.3 Import Tariffs and Duties

Vietnam applies three rates of duties for import products: (1) preferential rates apply to imports originating from any country, group of countries or territory which accords Vietnam most-favored nation (MFN) treatment; (2) special preferential rates apply to imports originating from any country, group of countries or territory that has an agreement on special preferential import duties with Vietnam; and (3) standard duty rates apply to other imports. The standard duty rate is 50% higher of the preferential rate for each corresponding product. Products imported from Brazil are subject to MFN rates.

Formula milk is under HS Code 190110, yet it is worthy to note that it can be potentially registered under HS Code 0402 for milk and cream; concentrated or containing added sugar or other sweetening matter. The import of dairy products under HS 0402 is presented in "Vietnam Market Study – Cheese and Dairy Products."

Importers should advise local customs office in identifying the right HS code for each shipment in order to arrive accurate tariff and taxable duties.

Table 11: Import Tariff for Formula Milk Products in Vietnam

HS Code	*Description*	*Import Tariff – 2020, from Brazil*
0402	Milk and cream; concentrated or containing added sugar or other sweetening matter	
040210	-In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 %:	
04021041	- - Not containing added sugar or other sweetening matter, In containers of a net weight of 20 kg or more	2%
04021042	- - Not containing added sugar or other sweetening matter, In containers of a net weight of 2 kg or less	5%
04021049	- - Not containing added sugar or other sweetening matter, Other	2%
04021091	- - Other, In containers of a net weight of 20 kg or more	2%
04021092	- - Other, In containers of a net weight of 2 kg or less	5%
04021099	- - Other, Other	2%
040221	-In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 %, Not containing added sugar or other sweetening matter,	
04022120	- - In containers of a net weight of 20 kg or more	2%
04022130	- - In containers of a net weight of 2 kg or less	5%
04022190	- - Other	2%

HS Code	Description	Import Tariff – 2020, from Brazil
040229	-In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 %, Other	
04022920	- - In containers of a net weight of 20 kg or more	*2%*
04022930	- -, In containers of a net weight of 2 kg or less	*5%*
04022990	- -, Other	*2%*
04029100	-Other, Not containing added sugar or other sweetening matter	*2%*
04029900	- Other, Other	*2%*
190110	Food preparations; of flour, meal, starch, malt extract or milk products, suitable for infants or young children, put up for retail sale	
19011010	*- - Of malt extract*	*10%*
19011020	***- - Of goods of headings 04.01 to 04.04***	***7%***
19011030	*- - Of soya-bean powder*	*18%*
19011091	*- - Other, medical foods*	*7%*
19011092	*- - Other, for children age over 1 year but not exceeding 3 years*	*10%*
19011099	*- - Other*	*10%*

Source: Vietnam Customs Office, Vietnam Ministry of Finance, Decree 57/2020/NĐ-CP on 25th May 2020 providing amendment and supplements on export and preferential import tariff schedules.

7 CONCLUSION AND RECOMMENDATION

7.1 Evaluation on Market Potential for Brazilian Formula Milk Products in Vietnam

The market outlook for formula milk products in Vietnam is not as positive as the expectation for other dairy products. The reducing birth rate and movement toward liquid milk for toddlers two and older will have certain impact on local formula milk consumption. In addition, the CoViD-19 pandemic in 2020, and potentially 2021, has put more pressure on the whole economy. Vietnamese consumers are more inclined to consider affordable products than premium options due to budgetary constraints. Interviews with importers revealed that mainstream products will be their current priority while premium products, such as organic, will have a better chance of market entry once the economy has rebounded.

However, Vietnam holds a strong position to be a potential market for imported formula milk in the region as local consumer spending has outpaced its ASEAN peers. The economic boom over the past decade with increasing personal income generates greater demand for higher-value products in modern retail channels.

Strength	• Vietnam is a large and growing consumer market, strengthened by its political and social stability • Young parents with growing income are more willing to spend on quality foods for their children, including imported and organic products • Demand for dairy ingredients is high as many local dairy processors (including Vinamilk and Nutifood) rely on imported milk powders and ingredients, such as New Zealand, France, and Australia
Weaknesses	• Overall retail market of formula milk is reaching saturation (1.0%) in 2021-2023 • The competition is high in both the mainstream segment (Vinamilk, Abbott, and Friesland Campina) and premium segment (Japanese and western brands) • Lack of customer awareness on Brazilian products • Both private and public sector are promoting breastfeeding • Restriction on advertisement for formula milk product for babies under two years

Opportunities	• Growing demand in premium segment, such as organic products • Modern retailers are expanding to meet the growing consumer demand in rural areas, expanding accessibility to new consumer group • Vietnamese consumers are open to new products as reflected in the consumer survey • State efforts in improving its Global Competitiveness while administrative barriers are expected to be improved or removed in the near future. For example, the latest Decree on Food Safety management, Decree 15/2018/ND-CP, has allowed self-declaration for pre-packaged and processed foods instead of state authorization and record keeping as stipulated in previous regulations. Yet, dairy products for children up to 36 months are still subject to registration for product declaration at authorized agents
Threats	• High-level of regulatory uncertainty negatively impacts importers in all channels • Multiple FTAs with multiple trade partners, including traditional key exporters of dairy products such as New Zealand, Australia, and a number of European countries, creates further challenge for Brazilian products to compete in the market. For example, dairy products imported from New Zealand and Australia are subject to 0% import duties according to AANZFTA. And in 5 years, dairy import from EU will be entitled for tariffs reduction and elimination according to EVFTA • Plant-based milk, including milk made from soybean, rice, nut, grain, and seed, is catching more and more interest from local population • Cumbersome import administrative procedures can be challenging to new entrants

Table 12: Evaluation on Market Opportunity for Formula Milk segments

Product segment		Demand		Competition
Standard class	● (green)	• Gradual trend toward organic and liquid milk as soon as possible • Standard class still accounts for majority of total formula milk market	● (red)	• Well-positioned competitors for both local and imported brands • Top 6 players (Vinamilk, Nutifood, Abbott, Friesland Campina, Mead Johnson, Nestle)with strong reputation and consumer bases already established ~90% of total market
Organic class	● (yellow)	• Small but growing consumers from Middle to Affluent-class leaning towards organic products • Short-term challenge due to Covid-19 which restrict household spending	● (yellow)	• Limited competition from competitors offering the same organic formula milk • Consumers more willing to switch to premium standard products of already established brands
Lactose-free class	● (yellow)	• Niche market for babies who can't break down lactose • Rising awareness from mothers with babies who can't break down lactose	● (yellow)	• Medium competition from competitors offering the same product type • Well-established brands all carry a product line within this segment
Colostrum	● (green)	• Increasing rate of premature births • Middle to Affluent-class Mothers are more willing to spend for products similar to breastmilk	● (yellow)	• Low to medium competition from competitors offering the same product type

● Promising ● Neutral ● Challenging

Among the sub-segments of formula milk products currently available in Vietnam, standard formula has the largest demand and is the most consumed in all population segments. Associated with biggest demand, the standard formula segment also has the most competition with offerings from both local and foreign brands. Demand for organic and lactose-free products is growing despite their small demand bases. Competition in these two segments is less heavy than the standard formula segment. Furthermore, colostrum milk consumption is expected to grow as premature births in Vietnam have increased and the willingness of parents to spend more on products perceived as vital for their children is high. According to statistics, the number of premature babies in

Vietnam in recent years has increased around 100,000-110,000 per year from a myriad many reasons. Despite its modest size, colostrum milk is a segment with potential for entry and expansion to be explored.

7.2 Market Entry Strategy for Brazilian Formula Milk Exporters

Given the heavy competition in the standard segment and niche demand in other segments, Brazilian exporters should equip themselves with local market knowledge before entering the market. Each player should identify what products best suit the market, which consumer group to focus on, what value proposition to offer, and through which channel to sell.

Table 13: Market Penetration Recommendation

Product segment	Recommendation			
	Target consumer group	Focused Marketing channel	Distribution channel	Proposed price points
Standard class	Mass market	• TVC • Social Media • In-store marketing	• Stores that specialize in dairy products • Supermarket / Hypermarket • Mom & Baby shops	• Mainstream Segment
Organic Class	Middle to Affluent class (similar to HiPP)	• TVC • Social Media • In-store marketing	• Stores that specialize in dairy products • Premium Supermarket / Hypermarket • Mom & Baby shops	• Premium Segment
Lactose-free	Consumers with needs for lactose-intolerant products	• Social Media • Doctor Consultation • Forums / Blogs for Moms • In-store marketing	• Stores that specialize in dairy products • Mom & Baby shops • Doctors / Hospitals	• Mainstream to Premium Segment
Colostrum	Middle to Affluent class	• Social Media • Doctor Consultation • Forums / Blogs for Moms • In-store marketing	• Stores that specialize in dairy products • Mom & Baby shops • Doctors / Hospitals	• Premium Segment

Market penetration channels for consideration

Figure 32: Vietnam Market Penetration Journey

Business Incubation

Brazilian exporters should study the Vietnamese market carefully for their specific dairy product offerings to understand market segmentation and marketing strategy. Exporters can obtain market insights by getting advice from local contacts, such as local business associations, chambers of commerce, and industry experts. Exporters can also hire local agencies to conduct specialized research on market demand, consumer behavior, competition landscape, and marketing strategy for each product line.

Trade fairs and exhibitions are common B2B and B2C business matching platforms in Vietnam. Participation in such events can help Brazilian exporters build their first impressions with the local business community. Exporters can register for a physical booth to present their products or join the exhibitions as a guest to gather relevant industry contacts. Vietfood and Propack are the most well-known food-related exhibitions organized by the Ministry of Industry and Trade to promote the local food market as well as export opportunities for Vietnamese products. The event is organized annually, but due to CoViD-19, the 2020 event is converted to a virtual exhibition.

Table 14: Relevant Trade Fairs in Vietnam

Vietnam FoodExpo 2020 – Virtual Exhibition • Brief: The largest international tradeshow for food and food industry in Vietnam. HCMC's 2019 event hosted 550 enterprises from 20 countries and territories with about 650 booths. • Timeline: 09 – 12 December 2020 • Location: • Link for registration: Vietnam FoodExport - Virtual Exhibition
Vietfood & Propack Vietnam 2021 • Timeline: 17 – 20 November 2021 • Location: Ho Chi Minh City • For more information: Vietfood & Propack 2021
ILDEX Vietnam 2021 • The 8th International Livestock, Dairy, Meat Processing and Aquaculture Exposition in Vietnam • Timeline: 21 – 23 July 2021 • Location: Ho Chi Minh City • Link for registration: ILDEX 2021

Trading Focus - Partnership with local distributors / importers

Importers play a crucial role in distributing import dairy products to retail stores in Vietnam. Setting up business relationships with local experienced importers and distributors would be beneficial for Brazilian exporters in three key areas:

- Leveraging their current distribution networks in Vietnam, especially with modern trade channels (e.g. supermarkets, hypermarkets, specialty shops)
- Leveraging their consumer knowledge to carry out an efficient marketing strategy for each distribution channel
- Leveraging their understanding of local regulations and existing relationships with relevant authorities to handle the paperwork, including product registration, shipment and product inspections and customs clearance procedures

A list of notable formula milk importers is provided in Appendix B for reference. Exporters are recommended to conduct satisfactory due diligence on their potential local importers and distributors on legal, commercial, and financial capability to ensure that the partner can fully meet their long-term business objectives and plans in Vietnam. Exclusive or authorized partnership models work well in Vietnam depending on the business strategy of the exporter and the negotiation with local partners. Since Vietnam is a long, narrow country where each region has different social and cultural characteristics, there is notably different regional consumer behaviors. Exporters may want to establish a trading or commercial base in each region, starting first with Ho Chi Minh City in the south and Hanoi in the north.

The due diligence process should be executed by a local professional agent given that business information in Vietnam remains not totally transparent, limited to government office platforms and subject to several rounds of validation.

Sales representative office

In the early stage of market entry, Brazilian exporters who wish to have a direct presence in Vietnam can consider setting up a sales representative office (RO) as a base to explore the market. Establishing and running an RO entity is a common and low-cost method for market entry for new entrants to gain better understanding of the local business climate. An RO can also collaborate with contracted importers and distributors to better promote the product penetration into the Vietnamese market.

As stipulated by Decree 07/2017/ND-CP, a Vietnam-based representative office of a foreign trader is a dependent unit of the foreign trader which is allowed under the provisions of Vietnamese law to conduct market surveys and a number of commercial promotional activities permitted by Vietnamese law. However, an RO is not allowed to conduct profit-making activities in Vietnam. Exporters should consult with local licensing agents for detailed guidance on the legal registration for setting up an RO in Vietnam.

Limited Liability Company

Once market confidence is confirmed, Brazilian exporters can establish a legal entity in Vietnam to conduct full scope of business which can include importing, assembling, manufacturing, repackaging, warehousing, distributing, and trading. The most common form of legal entity for foreign companies in Vietnam is limited liability company (LLC). The LLC is a legal entity established by its members through capital contribution to the company. All of the members of an LCC are liable for the financial obligations of the entity to the extent of their capital contribution. An LLC can have from 1 to 50 members (single-member limited liability company or multi-member limited liability company).

Brazilian companies can choose to set up their 100% foreign-owned LLC or a partly foreign-owned entity if they wish to partner with a (or multiple) local partners.

The establishment and operation of foreign-owned business in Vietnam are governed by the Law on Investment 2020 and the Law on Enterprise 2020.

Building brand image through hospital / clinic channels

When choosing formula milk for infants and toddlers, parents in Vietnam regularly solicit recommendations from numerous sources, including doctors. Formula milk exporters should, through their local resource or local agents or distributors, approach well-known obstetric and pediatric hospitals.

Table 15: Notable Obstetric Hospitals in Vietnam

1	National Hospital of Obstetrics and Gynecology	Address: 43 Trang Thi, Hoan Kiem, Hanoi Website: http://benhvienphusantrunguong.org.vn/
2	Hanoi Obstetrics and Gynecology Hospital	Address: No. 38, Cam Hoi, Hai Ba Trung, Hanoi Website: http://benhvienphusanhanoi.vn/
3	Bach Mai Hospital	Address: 78 Giai Phong, Dong Da, Hanoi Website: http://bachmai.gov.vn/
4	Vinmec International General Hospital	Address: 458 Minh Khai, Vinhomes Times City, Hai Ba Trung, Hanoi Website: https://vinmec.com/
5	Thu Cuc International General Hospital	Address: 286 Thuy Khue, Tay Ho, Hanoi https://benhvienthucuc.vn/
6	Tu Du Hospital	Address: 284 Cong Quynh, District 1, HCMC Website: https://www.tudu.com.vn/
7	Hung Vuong Hospital	128 Hong Bang, District 5, HCMC https://bvhungvuong.vn/
8	University Medical Center HCMC	Address: 215 Hong Bang, District 5, HCMC Website: http://www.bvdaihoc.com.vn/
9	Hanh Phuc International Hospital	Address: 97 Nguyen Thi Minh Khai, District 1, HCMC Website: https://www.hanhphuchospital.com/
10	Mekong Ostetrics and Gynecology Hospital	Address: 243 Hoang Van Thu, Tan Binh, HCMC Website: http://www.mekonghospital.com.vn/

Extra notes on local business practice

To establish a good business relationship in Vietnam, Brazilian companies should be aware of the basic local business practices and etiquette as shown below:

- Face-to-face meetings are a prerequisite in Vietnamese business culture with relationships normally developed after the first few in-person meetings; punctuality shows your professionalism and respect to local partners
- Connection and introduction are important for initial approach with most Vietnamese business contacts mostly on referral; essentially a business relationship is formed based on the recommendation of another business associate
- Seniority is very important to the Vietnamese, especially when dealing with state-owned enterprises or government bodies; rather than addressing the other party as simply Mister, Miss, or Missus, it is always appropriate to address the other party by his designation for example Chairman [Name], Director [Name], Manager [Name], and so forth
- Business dining is common with invitations from Vietnamese partners to go out for dining and drinking being very common and a sign of positive relations
- While English is widely used in larger business meetings in Vietnam, Brazilian exporters should confirm in advance with local partner(s) if interpretation should be arranged for smooth communication.
- Given the difference in social culture and business practice, Brazilian exporters can consider hiring a local consultant to conduct deep-dive market research, partner search, or develop a detailed market entry roadmap and strategy for their specific products.

Appendix A - List of Interviews

No.	Category	Company	Position
1	Formula Milk Manufacturer	Nutifood	Area Sales Manager
2	Formula Milk Manufacturer	Friesland Campina	Ex-Sales Director
3	Importer / Retailer	Annam Gourmet	Sourcing Specialist
4	Importer / Distributor	GoodFood	Sales Supervisor
5	Importer / Distributor	Hoang Lam	Deputy Director, Product Development Department
6	Importer / Distributor	Hoang Lan	Import Specialist
7	Importer / Distributor	Phu Thai	Account Specialist
8	Specialty shop	Bibomart	Salesperson
9	Importer / Distributor	Hang Ngoai Nhap	Director

Appendix B - List of Formula Milk Importers/Distributors in Vietnam

No.	Name	Type	Dairy Products & Brands	Contact Details
1	Quang Thanh Food	Importer / Distributor	Powder / Liquid Milk: Milo, Essential, A2 Formula: PediaSure, Ensure, Lactylium	Website: http://quangthanhfood.com/ Address: 178 Tran Quang Khai Street, Ly Thai To Ward, Hoan Kiem District, Hanoi Tel: 024.629 74 074
2	TT TRAVEST Co., Ltd.	Importer / Distributor	Formula milk: Tsure Milk Butter: Promex Drinking Milk: Promex, Oldenburger	Website: http://tsuremilk.com Address: 69 9th street, Phuoc Binh Ward, District 9, Ho Chi Minh City Tel: (+84) 08 37282299
3	Kim Yen Import Export	Importer / Distributor	Formula milk: Modilac	Website: http://modilac.vn Address: 978 Tran Hung Dao, Ward 7, District 5, Ho Chi Minh City Tel: (028) 38768617
4	Vitamin House	Importer / Distributor / Retailer	Drinking milk: Arborea, Devondale, Cremo, Australian Milk Powder Formula milk: Ensure, PediaSure, Blackmores, A2, S26, Hikid, Enfamil Condensed milk	Website: https://www.vitaminhouse.vn Address: 563 CMT8 Street, Ward 15, District 10 Tel: 096.135.6668
5	3H Vietnam Trading JSC	Importer / Distributor	Formula milk: Baby's only organic, Insulac, Blackmores, Green Meadow, Lait, Gallia, Appeton, Aptamil from Germany, Nutrilon from Germany, S26 from Singapore	Website: http://sieuthisua247.com Address: 12, 139 Alley, My Dinh Ward, Hanoi Tel: 0984.394.967
6	Hoang Anh Tu Trading and Services Co., Ltd.	Importer / Distributor	Formula milk: Nan, Ensure, PediaSure Drinking milk: Harvey Fresh, Australia Student Health, Auking Care	Website: https://hangngoainhap.net.vn Address: 3B Le Quy Don, Ward 12, Phu Nhuan District, Ho Chi Minh City Tel: 0933 07 03 06
7	MESA Group	Importer / Distributor	Milex Formula milk	Website: http://www.mesa.com.vn Address: 202 Ly Chinh Thang, District 3, Ho Chi Minh City Tel: N/A
8	Phu Thai Group	Importer / Distributor	Friso Formula Milk	Website: https://adcompany.com.vn Address: 1D Pho Quang Street, Ward 2, Tan Binh District, Ho Chi Minh City Tel: +84 (0) 28.3997.2779
9	Advanced Distribution	Importer / Distributor	Mead Johnson Formula Milk	Website: https://phuthaigroup.com Address: HCO Building, 44B Ly Thuong Kiet

				Street, Hoan Kiem District, Hanoi Tel: +84 (0) 24.3565.9099
10	Hoang Lan Group	Importer / Distributor	Cheese: California Select Farm Butter: President Formula Milk: Morinaga, Meiji, Snow, Tulip	Website: http://hoanglangroup.com Address: 25 Le Thi Rieng, Ben Thanh Ward, District 1, Ho Chi Minh City Tel: +84 (0) 28.3832.4441
11	Van An Trading Co., Ltd.	Importer / Distributor	Formula milk: HiPP Yogurt: Milcow	Website: http://vanan.vn Address: B2 Zone, Industrial Road No. 4, Sai Dong B Industrial Park, Long Bien District, Hanoi Tel: 090.170.1516
12	Hoang Le Co., Ltd.	Importer / Distributor / Retailers	Butter: Paysan Breton, NZMP, Petit Normand, Zelachi Cream: Dairymont, Tatua, Vivo, Paysan Breton, Drinking milk: Cremiere de France, Paysan Breton, Conaprole, etc. Cheese: NZMP, Conaprole, Frico, Tatua, Kiwifood, Paysan Breton Formula Milk: Aptamil	Website: https://kiwifood.com.vn Address: 21A Ly Nam De Street, Hoan Kiem District, Hanoi Tel: +84 968 052 361
13	Song Than Hanoi Joint Stock Company	Importer / Distributor	Meiji Formula Milk	Website: N/A Address: 26/26 Vuong Thua Vu Street, Khuong Trung Ward, Thanh Xuan District, Hanoi, Vietnam Tel: 024.3568 2815
14	Snb Distribution Co., Ltd	Importer / Distributor / Retailer	Glico Formula Milk	Website: https://snb.com.vn Address: 11th Floor, Song Hong Tower, 2 Tran Hung Dao Street, Hoan Kiem District, Hanoi Tel: 024.3933.5399
15	Traphaco Joint Stock Company	Importer / Distributor / Retailer	Formula milk: Westland products of New Zealand Gold and Pure Nutrition	Website: https://www.traphaco.com.vn Address: 75 Yen Ninh Street, Ba Dinh District, Hanoi Tel: 18006612
16	Duc Nam Import - Export and Production Joint Stock Company	Importer / Distributor	Formula milk: Beanstalk	Website: http://dunamex.com.vn Address: 3 Alley 1, Cau Buou Street, Thanh Tri District, Hanoi Tel: 024.35120393
17	Natural Food Group	Importer / Distributor	Formula milk: Bellamy's Organic	Website: https://natural-food.asia Address: 2A Dang Huu Pho Street, Ward Thao Dien, District 2, Ho Chi Minh City Tel: (+84) 28 38 408 957
18	Huong Thuy Manufacture	Importer / Distributor	Formula milk: Aptamil – exclusive	Website: N/A Address: 39 Residential Area 18A, Nguyen Huu

	Service Trading Corporation		distributor	Tho Street, Phuoc Kien Ward, Nha Be District, Ho Chi Minh City Tel: N/A
19	VN Ikigai Trading JSC	Importer / Distributor	Formula milk: Meiji	Website: N/A Address: LK14, Plot No-06, Bo De Ward, Long Bien District, Hanoi Tel: N/A

Appendix C – Vietnam 2020 Import Duties (%) on Formula Milk Products under signed FTAs

HS Code	*ACFTA*	*ASEAN (ATIGA)*	*AJCEP*	*VJEPA*	*AKFTA*	*AANZ-FTA*	*AIFTA*	*VKFTA*	*VCFTA*	*VN-EAEU*	*CPTPP(*)*	*AHKFTA*	*EVFTA*
0402	***Milk and cream, concentrated or containing added sugar or other sweetening matter.***												
04021041	*0*	*0*	*0*	*0*	*0*	*0*	*5*	*0*	*1*	*0*	*M: 0-1; #: 0*	*2*	*2.2*
04021042	*0*	*0*	*0*	*0*	*0*	*0*	*5*	*0*	*4*	*0*	*M: 0-1; #: 0*	*2*	*2.2*
04021049	*0*	*0*	*0*	*0*	*0*	*0*	*5*	*0*	*4*	*0*	*M: 0-1; #: 0*	*2*	*2.2*
04021091	*0*	*0*	*4*	*4.5*	*0*	*0*	*9*	*0*	*7*	*0*	*M: 1.6; #: 0*	*4*	*4.1*
04021092	*0*	*0*	*4*	*4.5*	*0*	*0*	*9*	*0*	*7*	*0*	*M: 1.6; #: 0*	*4*	*4.1*
04021099	*0*	*0*	*4*	*4.5*	*0*	*0*	*9*	*0*	*7*	*0*	*M: 1.6; #: 0*	*4*	*4.1*
04022120	*0*	*0*	*0*	*0*	*0*	*0*	*9*	*0*	*1*	*0*	*0*	*2*	*2.2*
04022130	*0*	*0*	*0*	*0*	*0*	*0*	*9*	*0*	*4*	*0*	*0*	*2*	*2.2*
04022190	*0*	*0*	*0*	*0*	*0*	*0*	*9*	*0*	*4*	*0*	*0*	*2*	*2,2*
04022920	*0*	*0*	*6*	*7.5*	*0*	*0*	*9*	*0*	*7*	*0*	*M: 1.6; #: 0*	*4*	*4.1*
04022930	*0*	*0*	*6*	*7.5*	*0*	*0*	*9*	*0*	*7*	*0*	*M: 1.6; #: 0*	*4*	*4.1*
04022990	*0*	*0*	*6*	*7.5*	*0*	*0*	*9*	*0*	*7*	*0*	*M: 1.6; #: 0*	*4*	*4.1*
04029100	*0*	*0*	*0*	*0*	*0*	*0*	*9*	*0*	*6*	*0*	*M: 6; #: 4*	*8*	*8.3*
04029900	*0*	*0*	*30*	*30*	*0*	*0*	*9*	*0*	*7*	*0*	*M: 12; #: 8*	*20*	*16.6*
190110	***Food preparations: of flour, meal, starch, malt extract or milk products, suitable for infants or young children, put up for retail sale***												
19011010	*0*	*0*	*6*	*7.5*	*0*	*0*	*10*	*0*	*3*	*4.5*	*M: 5; #: 2.5*	*10*	*8.7*
19011020	***0***	***0***	***0***	***0***	***0***	***0***	***9***	***0***	***4***	***4.5***	***M: 2.5; #: 1.2***	***10***	***8.3***
19011030	*0*	*0*	*8*	*10*	*20*	*0*	*10*	*0*	*37*	*9.1*	*M: 10; #: 5*	*20*	*17.5*
19011091	*0*	*0*	*0*	*0*	*0*	*0*	*9*	*0*	*5*	*4.5*	*M: 2.5; #: 1.2*	*10*	*8.7*
19011092	*0*	*0*	*0*	*7*	*0*	*0*	*10*	*0*	*12*	*4.5*	*M: 5; #: 2.5*	*10*	*8.7*
19011099	*0*	*0*	*5*	*7*	*0*	*0*	*10*	*0*	*12*	*4.5*	*M: 5; #: 2.5*	*10*	*8.7*

Note: (*) M – for Mexico; # - For other CTPTT's country members (Australia, Canada, Japan, New Zealand, and Singapore)

Source: YCP Solidiance's Research

- *Decree No. 153/2017/ND-CP on Vietnam's Special Preferential Import Tariff to implement the ASEAN-China Agreement on Trade in Goods during 2018-2022*
- *Decree No. 156/2017/ND-CP on Vietnam's Special Preferential Import Tariff to implement the ASEAN Trade in Goods Agreement during 2018-2022*
- *Decree No. 160/2017/NĐ-CP on promulgating Vietnam's special preferential import Tariff for implementation of the ASEAN – Japan Comprehensive Economic Partnership in the period 2018 – 2023*
- *Decree No. 155/2017/ND-CP on Vietnam's Special Preferential Import Tariff to implement the Economic Partnership Agreement between the Socialist Republic of Vietnam and Japan during 2018-2023*
- *Degree No. 157/2017/NĐ-CP on Vietnam's special preferential import Tariff for implementation of the ASEAN – Korean Free Trade Agreement in the period 2018 – 2022*
- *Degree No.158/2017/NĐ-CP on Vietnam's special preferential import Tariff for implementation of the ASEAN - Australia/New Zealand in the period 2018 – 2022*
- *Decree No. 159/2017/ND-CP on Vietnam's Special Preferential Import Tariff to implement the ASEAN-India Agreement on Trade in Goods during 2018-2022*

- *Decree No. 149/2017/ND-CP details preferential taxes of Viet Nam to implement the VKFTA during 2018-2022*
- *Decree No. 154/2017/ND-CP on Vietnam's Special Preferential Import Tariff to implement the Vietnam-Chile Free Trade Agreement during 2018-2022*
- *Decree No. 150/2017/ND-CP on Vietnam's Special Preferential Import Tariff Schedule to implement the Free Trade Agreement between Vietnam and the Eurasian Economic Union and its member states during 2018 – 2022*
- *Decree No. 57/2019/ND-CP on preferential export tariff schedule and special preferential import tariff schedule under the comprehensive and progressive agreement for trans-pacific partnership in the 2019-2022 period.*
- *Decree 07/2020/ND-CP on Vietnam's Special Preferential Import Tariffs for the Implementation of the AHKFTA in the period of 2019-2022*
- *Decree No. 111/2020/ND-CP dated September 18, 2020 of the Government on the Preferential Export Tariff and Special Preferential Import Tariff of Vietnam for the implementation of the Free Trade Agreement between the Socialist Republic of Vietnam and European Union in the 2020 - 2022 period*

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