

The participation of the poor in Supermarkets and other Distribution Value Chains

Although their development has not been as fast-paced as in other countries in Asia, supermarkets are an increasingly common part of commodity trade in Viet Nam. In late 2001, there were 70 supermarkets in Viet Nam (32 of which were in Hanoi, and 38 in Ho Chi Minh City) while there were none before 1990 (N.T. Loc, 2004). By June 2004, the number of supermarkets in Hanoi grew to 55 supermarkets (including 9 wholesale centers, such as Metro), and by 2005, Ho Chi Minh City alone had 71 supermarkets.

The rise of supermarkets is part of a broader development of innovative food distribution chains whose activities add much value to the business; "modern" wholesale and retailing firms are characterized by investments in shelf presentation (packaging, storage), advertising, and a process of selecting suppliers according to criteria such as quality and timeliness of delivery. Thanks to economies of scale, they can also cut distribution costs and sell products at more affordable prices to a larger base of consumers.

However, due to a number of risks, poorer segments of the population may be excluded from the potential benefits of supermarkets. While supermarkets are indeed innovative and value-adding, their labour-saving and capital-intensive innovations (self-service, mass distribution, cash registers), negatively affect employment, and in particular, jobs held by the poor. In Europe and US, the development of a modern distribution system has coincided with a greater concentration of power in the hands of a few multinationals (such as Walmart), less and less favourable working conditions and salaries for employees, and creation of "food deserts", i.e., areas where it is difficult to purchase food without private transport (Acheson, 1998).

Hence in Vietnam, the major challenges for policymakers, businesses and the wider community are to ensure that: (i) the disadvantages of supermarkets do not outweigh the benefits, (ii) the value added by these new enterprises can effectively be distributed to all participants in the chain, including the poor and (iii) alternative distribution chains that can generate more value for the poor are maintained. This Bulletin summarizes a recent study by the Making Markets Work Better for the Poor Project (M4P) and Malica (Markets and Agriculture Linkages for Cities in Asia) which discusses these challenges and offers potential solutions¹. In particular, it discusses the impact of supermarkets on the poor - especially in their roles as consumers, traders and farmers.

Despite the advantages of Supermarkets and other Distribution Value Chains, the poor still have limited involvement

As consumers: In Hanoi, over 60% of the poor households surveyed have never shopped in supermarkets, and

only 2.7% shop in such stores regularly (i.e., from a few times a month to a few times a week). In Ho Chi Minh City, 33% of poor households have never shopped in supermarkets, and only 38.5 % shop there regularly. This sharply contrasts with the figures for

non-poor households in Ho Chi Minh City, where only 2% have never shopped in supermarkets and as many as 81.2% shop there regularly.

The consumers who do not shop in supermarkets cite prices, time and distance as their main reasons. According to the study, poor consumers generally have a positive opinion of their primary food outlets (which generally consist of formal markets, informal markets such as street vendors, and shops). In particular, poor consumers have specific and opposing perceptions of supermarkets and street vendors: the former offer good quality but also require high prices and time commitments, whereas the latter offer lower quality for cheaper prices and are more convenient in terms of time.

As traders: According to the survey, supermarkets create less employment, both per unit of area and by volume, than markets and street vendors. Supermarkets' share of total employment in the retail trade is estimated at around 6% (directly) and 11% (if taking into account indirect

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This bi-monthly bulletin is published with support from the Asian Development Bank (ADB) and the Mekong Private Sector Development Facility (MPDF).

The Markets and Development Bulletin provides a forum for the discussion of issues arising from research work conducted as part of the United Kingdom Department for International Development - ADB cofinanced project "Making Markets Work Better for the Poor" (www.markets4poor.org).

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¹ The study is a joint collaboration between Making Markets Work Better for the Poor Project and MALICA (Markets and Agriculture Linkages for Cities in Asia), a consortium between CIRAD, IOS, RIFAV, VAAS-ASD and Nong Lam University. An extended summary of the study is available at <http://www.markets4poor.org>, M4P week 2005 publication, P. Moustier and al, "The participation of the poor in supermarkets and other distribution value chains", pp. 45-52. See also forthcoming discussion paper and book.

employment².

Besides, while street vending and informal markets employ mainly the poor with required investment limited to 400,000 VND, entry to formal markets is constrained in terms of investment required (around 12,000,000 VND), and becoming an employee of supermarkets may be difficult for the poor because of low education.

As farmers: As potential suppliers to supermarkets, the poor often lack direct access because of the supermarkets' strict safety and quantity requirements. Especially in the case of vegetables, supermarkets want to work with suppliers who: (i) can display quality control certificates (even if out of date), or provide evidence from Department of Agriculture and Rural Development (DARD) of regular quality control; and (ii) can deliver vegetables and/or other products daily. The bulk of vegetables supplied to Hanoi supermarkets now originate from "leading" safe cooperatives outside the city (such as Van Noi, Van Tri, and Duyen Ha) or semi-public companies (such as the Technical center for fruits and vegetables, and Bao Ha). The safe vegetable cooperatives are comprised of voluntary farmers' associations, which involve farmers who have neighborhood and/or family relationships and who have a higher-than-average financial capacity and land size. The co-operatives also have small vans to transport vegetables to the supermarkets and can collect enough vegetables to meet the supermarkets' requirements in terms of quality and diversity.

Advantages of supermarkets to farmers

For poor farmers in particular, supermarkets can yield positive benefits. According to the study, the sale of commodities to high quality retailers can generate additional income for farmers, especially those who are organized in associations³. For example, farmers in Anh Dao cooperative who supply ordinary tomatoes from Da Lat area to Coopmart generate profits per kilo that are 400% higher than what they might receive in traditional chains. In Hanoi, the Soc Son farmers who supply Bao

Ha, which in turn supplies supermarkets, receive 23% higher profits than the other Soc Son farmers.

The main advantages of supermarkets for farmers stem from the stability in **prices and quantities demanded**. In Ho Chi Minh City, the vegetable prices paid by supermarkets can be up to 10 to 20% higher than prices paid in traditional chains. In both Ho Chi Minh City and Hanoi, supermarkets purchase **consistent quantities of vegetables** on a weekly basis, **at more stable prices** than do the traditional chains. This can translate into yearly contracts with estimated quantities and prices that are negotiated more precisely each week. However, it should also be noted that the stability in quantities and prices demanded vary among supermarket chains and is diminishing due to increasing supermarket competition and development.

Challenges faced by farmers in supplying supermarkets

However, poor farmers that supply supermarkets with produce may face several challenges when it comes to meeting the supermarkets' requirements concerning quality, safety, diversity, and delivery. They may also have to accept less favorable terms of payment and may encounter variable loyalty from supermarkets.

Quality requirements: Supermarkets have strict requirements for the physical quality of products. In Ho Chi Minh City, particularly, they have imposed a grading system and will only purchase Grade 1 products⁴. In Hanoi, as of yet, the physical quality requirements set down by supermarkets are limited to minimal damage and consistency in both size and packaging.

Safety requirements: In Hanoi, supermarkets select suppliers, especially those of vegetables, according to whether they can produce a certificate of safe vegetable production (even if out of date). In Ho Chi Minh City, Cu Chi, and Da Lat, DARD inspects suppliers. Metro and Coopmart perform also their own inspections on an occasional basis; when problems are identified, Coopmart charges farmers for the cost of inspection. In Hanoi, some

supermarkets and suppliers agree in advance that if there are any consumer complaints of vegetable poisoning, both parties will jointly identify the source of and resolve the problem.

Diversity requirements: Supermarkets place pressure on suppliers to increase the diversity of supplied vegetables, but sometimes the quantities of particular varieties demanded can be too small. For example, Anh Dao cooperative supplies 32 varieties of vegetables, but for four of those varieties, the quantities sold are less than 10 kg.

Delivery requirements: Supermarkets ask that suppliers provide daily deliveries; this is usually done by small van in the case of vegetables, or motorbike.

Terms of payment: In traditional chains, farmers are paid by cash either immediately or within one to three days. Supermarkets do not offer as favorable terms; in Ho Chi Minh City, for example, they can pay as late as 15 days after the sale, often through a bank account.

Unbalanced power: As with any other type of buyer, not all relationships with supermarkets guarantee suppliers security of outlets. In Ho Chi Minh City, some Da Lat cooperatives complain that some supermarket chains more and more frequently change suppliers to get the lowest possible prices and are observed to break their supplying relationships without giving explanation.

Conclusion

Currently in Vietnam, and especially in Hanoi, supermarkets cannot be considered a poor-friendly distribution chain. However, they do potentially offer income generation opportunities for small-scale farmers who can form associations and guarantee product quality. The study makes the following recommendations so that food distribution systems might better fit the needs of the poor, whether they are farmers, consumers or traders.

Recommendations

The study makes a number of recommendations to help integrate the poor into supermarket distribution systems so that they can better access the ben-

² E.g. employment in the supermarket general activities (administration, security, etc.).

³ High quality retailers include not only supermarkets, but also shops and stalls (both individual and in markets).

⁴ The category of Grade 1 products mostly relates to the freshness and the absence of damages.

efits while minimizing potential risks.

For farmers:

A number of activities can be undertaken by and on behalf of farmers. To begin with, the study calls for greater support for farmers' associations that are involved in improving quality of production. Specifically, this can be achieved through dissemination of success stories, provision of advisory services (with a particular focus on technical training in the areas of physical quality and food safety), better access to credit programs, and establishing a clearer value-added tax (VAT) system. Another area for action is that of participatory food quality control. There should be a widespread system to monitor food safety and to impose sanctions in cases of non-compliance, provide laboratories and certification bodies with accreditation, and encourage participatory guarantee systems (PGS) in which farmers' associations, consumer groups and supermarkets form sustainable partnerships. Farmers could also benefit greatly from capacity building assistance related to forming contractual arrangements, specifically through: broader awareness of successful examples, such as the Moc Chau vegetable cooperative, access to training on farmers' rights and responsibilities in supplier contracts, and the development of codes of good practices for supermarkets. Finally, greater attention should be paid to identifying new market niches for the poor and encouraging product specialization; for example, special types of pigs may be a niche product for poor people in certain geographical areas.

For traders and consumers:

In order to allow traders to maintain their livelihood and ensure that consumers have access to diverse retail outlets, the study recommends several measures. First, street vendors could be allowed to operate in designated areas (perhaps outside main streets); also, the organization of special farmers' markets as alternative distribution channels should be encouraged. Credit support should be provided to those vendors who make an effort to upgrade their businesses. Finally, decisions on relocating markets should be made after consultation with traders that may be affected.

Paule Moustier, CIRAD, MALICA coordinator

Talking heads

Despite the advantages of Supermarkets and other Distribution Value Chains, the poor still have limited involvement



The poor have limited participation in supermarkets because they often go shopping early in the morning while supermarkets tend to stay open late. Also, going to supermarkets can cause a lot of inconvenience due the long distances involved, need for a costume change, driving times, and higher prices... Meanwhile shopping in traditional markets is more convenient since they have fresh food at lower prices. Also, consumers can communicate more easily with traders, create connections, and receive discounts. In supermarkets, this is not possible; in fact, consumers are even watched by store guards.

Tran Quang Son, trader in Mai Xuan Thuong market, HCM City



At present, the production capacity of the cooperative is about 30 tons/day, with 15 kinds of vegetables. Only 1.5 to 2 tons/day are sold to supermarkets, 12 tons/day go to collective restaurants, and the rest is distributed to the wholesale markets. Supermarkets pay 10 to 15% higher prices, but the products they demand are first class ones only.

Nguyen Hoang, Head of safe vegetable cooperative, Tam Phu Trung, Cu Chi

We know that our activities are illegal, but we have no other choice to earn money to feed our families. We come from the countryside where our farms are small. We think it would be good to develop an association, and also to get some training, so that we can improve the quality of our products

Nguyen Thi Lan, street vendor, Ha Nam

Advantages of supermarkets for farmers and challenges faced by farmers in supplying supermarkets

A rice street vendor I know had never been to a supermarket, but after she



saw the television news about fake Chinese milk, she told me that she would go to a supermarket to buy good milk for her little child. This shows that the poor will shop at supermarket as they realize that they can rely on the quality of food sold there.

Nguyen Thi Quynh Chi, Head of Viet Nam Consumers' Association



Supermarkets have strict requirements in terms of quality, packaging and transportation. Each supermarket chain may also have its own rules; for example, Big C requires additional moral terms, while CoopMart selects suppliers who offer lower prices. In terms of payment, Big C pays after 15 to 20 days while Binh Duong super-market pays just after 2 days.

Now that there is fierce competition among suppliers, the cooperative has to invest more in tractor-pulled ploughs, vans, a nursery, etc. This leads to capital difficulties, since we have to borrow from banks and pay the interest every month. Also, because the cooperative lacks any post-harvest solution such as cold storage, we can only sufficiently meet market demand by adjusting our quantity of production.

Nguyen Cong Thua, Head of Anh Dao cooperative, Da Lat

At present, Thanh Ha litchi has a quali-



t y certificate but it is still difficult for consumers to distinguish the origin of litchi when they make their purchases. We now supply three supermarkets in Hanoi and while we feel secure about those relationships, we still find t h e contract and payment procedures difficult. Often we receive the payments as late as one month. Furthermore, supermarkets do not always purchase all the litchis that we supply; sometimes they return products due to bad quality, which can cause us a lot of difficulties.

Vu Dinh Bat, Head of Thanh Ha litchi association

At the moment, there are some complaints from farmers about delays in payments from supermarkets, but usually supermarkets do not deal directly with individual farmers. It would be easier if there were cooperatives that linked farmers and supermarkets; then the supermarket and the cooperative could work together to reach agreement on contractual terms such as delivery times and payments.

CoopMart has a contract with the city's Health Department to check the quality of vegetables. If the test results are good, the products are certified, if not, we warn the suppliers, or can even stop the contract.

Tran Thi Tuyet Hong, Director, Sai Gon CoopMart

Recommendations



At present, consumers still cannot distinguish between safe and unsafe vegetables. We would like our vegetables to have a certificate or a trademark so that consumers can tell the difference. Our marketing skills are still weak, but if farmers were trained in marketing and had more access to information, it would be more convenient for us. We also would like the state to support us in improving our access to seeds, technical knowledge, and opportunities to interact with both scientists and markets through events such as workshops and fairs.

Ngo Van Nghi, farmer from safe vegetable production program, Thanh Xuan, Soc Son



Supermarkets can support farmers through cooperatives; for example through the Ap Dinh cooperative, we introduce farmers to guidelines and our requirements to farmers. Through cooperatives, farmers can improve their knowledge. Also, cooperatives also can form larger federations of cooperatives

so that they are better able to satisfy market demand.

Tran Thi Tuyet Hong, Director, CoopMart



In my opinion, farmers are not fully aware of the meanings of trademarks and labels, so there should be some training to raise their awareness.

An intermediary agency like HCACS plays an important role in creating connections among the authorities, farmers and traders, as well as in supporting and monitoring large contracts among them. We also plan to support farmers by constructing a market information system.

Tu Minh Thien, Director, HCMC Center for Agriculture Consultancy and Support (HCACS)

Viet Nam lacks a system to certify the quality of agricultural products. Only through such a system, which should not be run by the Government but rather by consumers and farmers, can quality be assured and consensus among different actors be created. At present, there is no such agency; nor can the Government certify the quality of all commodities. If there were some points capable of testing and certifying the quality of vegetables supplied to supermarkets, this would benefit consumers, traders and producers.

Professor Dao The Tuan, Viet Nam Agricultural Science Institute



As potential suppliers of supermarkets, the poor should organise themselves into groups. They should then identify the various product characteristics and services that supermarkets demand. It is no longer enough to produce a product that is safe to eat; many Vietnamese farmers will reach this goal in time with some technical assistance. Producers have to supply a service that is linked to their product (for example, special packaging, processing, delivery, unique

variety, flexibility in orders, etc.). It is this combination of product + service for which supermarkets are looking. The objective for poor farmers' groups should be to create value through innovation and competition.

Jo Cadilhon, Marketing officer, FAO Regional Office for Asia and the Pacific, Thailand



Supermarket development is often viewed as an unavoidable trend because it satisfies the demand of consumers, and because it is also an image of modernity. Yet because this type of innovation is capital-intensive rather than labour-intensive, it creates less employment than other forms of distribution, such as market retailing. We have estimated in the study that the daily sale of one ton of vegetables results in the employment of 13 street vendors, as opposed to only 4 employees in a supermarket. This is why it is necessary to protect the business of market and street vendors, provided that they commit to fulfilling key requirements in terms of food safety and agree to have limited access to the busiest streets. Establishing an association for street vendors so that they can discuss their operating conditions with the authorities is a crucial and preliminary step.

Paule Moustier, CIRAD - MALICA, coordinator of supermarket study

As an agency dealing with domestic market policy, we have to deal with street vending and keeping the city attractive. However, we also have to consider the livelihoods of poor people. The idea of reserving some streets for street vendors, such as a flower trading street on Hang Luoc, for example, is feasible. This solution can be tested in a small area before being expanded to a larger one. Also, the idea of organizing street vendors into an association is worth considering.

Associate Professor Dr. Hoang Tho Xuan, Director General, Domestic Market Policy Department, Ministry of Trade