

Vietnam FMCG Outlook 2024

Winning New Age Consumers
in Shifting Times





Vietnam in Shifting Gears: A Macro Outlook

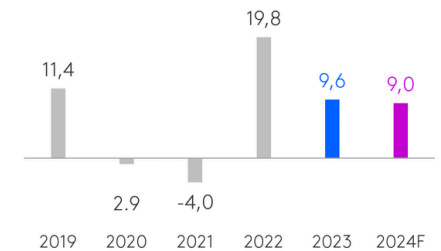
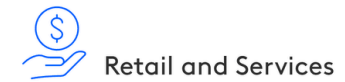
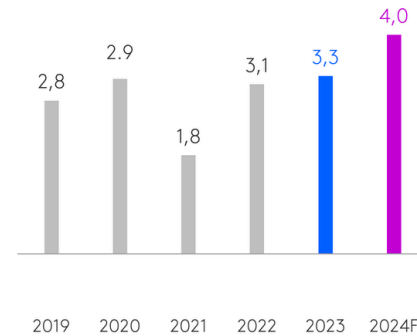
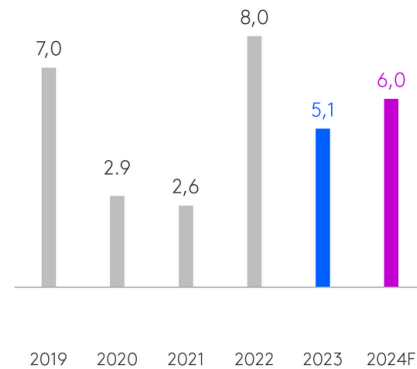
Decoding Vietnam's macro shifts: Economic, demographic, and consumer trends

Vietnam's economic outlook

After a strong post-Covid economic performance in 2022, Vietnam posted a slower GDP growth of 5.05% in 2023 due to various external headwinds and internal constraints. A slower-than-expected recovery in demands for exports from the country's key trade partners such as the US, EU and China put in a dent on its manufacturing and export sectors. This resulted in persistent waves layoffs, job losses and subsequently uncertainties in the public about their financial situation and future.

Retail sales continued to improve by 9.6%, a large part thanks to the boost of inbound tourism. Inflation in the whole year was kept well kept under the government's target of 4.5% and Consumer Price Index (CPI) increase was capped at 3.25% year on year. Despite this, the challenges of rising costs remain visible amidst economic uncertainty, particular for the financially struggling consumer groups.

Macroeconomic Indicators

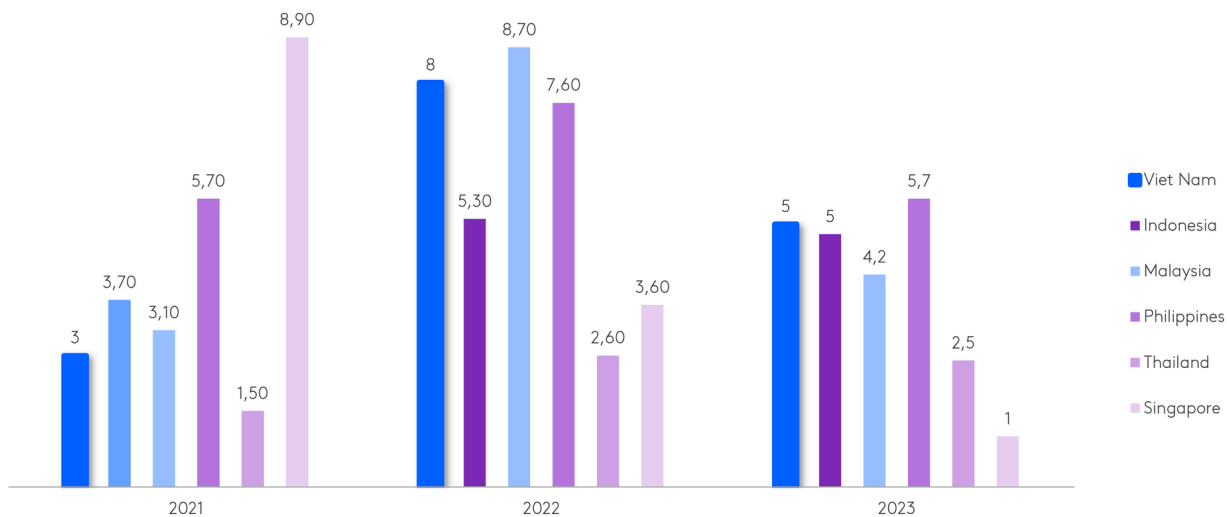


Vietnam on course for growth despite short term challenges

Though this year's GDP growth is below the Vietnamese government's target of 6.5%, the country remains among the fastest growing economies in the region.

In a favourable outlook, the Asian Development Bank (ADB) projects a strong GDP growth rate of 6% for 2024. This positions Vietnam as one of Southeast Asia's fastest-growing economies. Moreover, the Centre for Economics and Business Research (CEBR) predicts a substantial increase in Vietnam's economic size between 2023 and 2038. By 2024, Vietnam is expected to move up to the 33rd place in global economic rankings, and by 2038 could reach the 21st place. This impressive trajectory highlights Vietnam's significant long-term potential as both an economic power and a

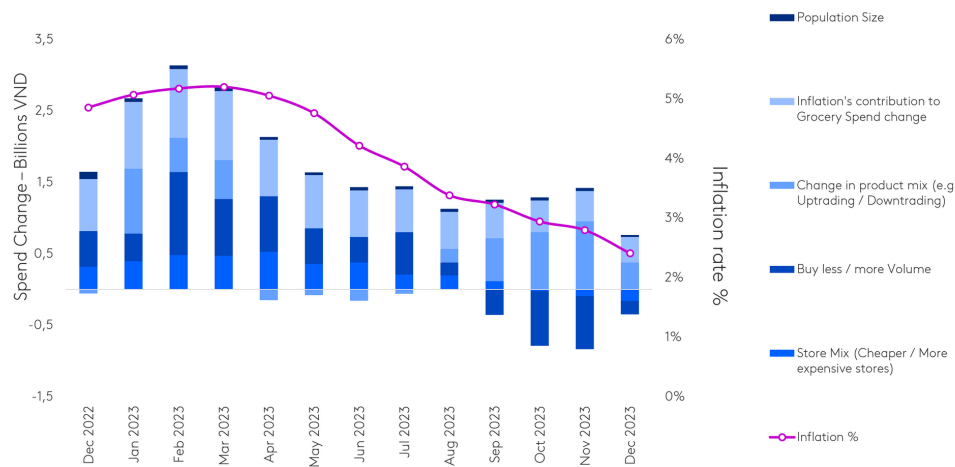
gr¹ **GDP Growth rates among Southeast Asian countries**



While 2023 presented obstacles and 2024 poses short term headwinds, Vietnam's long term economic trajectory remains robust, reflecting the country's resilience and stability. Navigating global uncertainties and capitalising on future opportunities will be crucial as Vietnam charts its course toward a prosperous and influential future on the global stage.

Consumer reactions in shifting times

Consumer reactions in shifting times



In a turbulent economic climate, Vietnamese consumers displayed a **mix of strategies** to cope with rising prices of FMCG. In the first quarter, they embraced uptrading, venturing for bigger shopping trips to secure cost savings through higher volume purchases.




However, by the second quarter, signs of downtrading emerged, signifying a shift towards lower-priced alternatives. This trend continued into the latter half of the year, with **consumers cutting back on volume even as inflation slowed**. This shift highlights the complex decision-making process of Vietnamese consumers navigating an evolving economic environment.

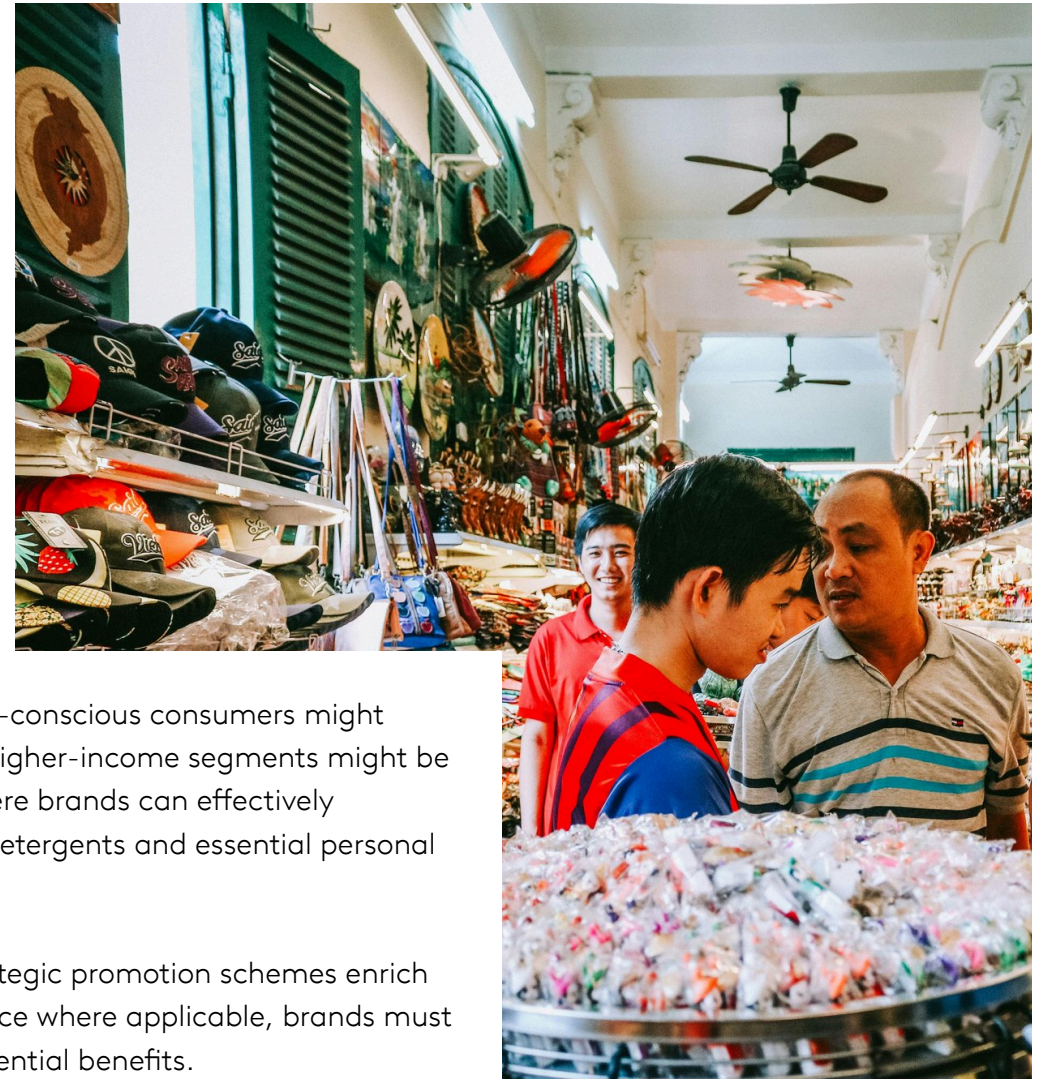
While rising prices and economic uncertainty may present a picture of tightened belts across the board, the consumer landscape is nuanced. Essential categories remain at the forefront of budgets, discretionary spending may see cuts, particularly in categories like eating out and entertainment.

However, it is important to recognise that **consumers haven't entirely shut down their wallets**. They're still willing to "splurge," but their spending is driven by value. Added values in health, experiences, and convenience may prompt them to seek out products that justify their worth.

This presents a unique opportunity for FMCG brands to navigate challenging times and position themselves for growth. The key lies in **understanding how different consumer segments are adapting their behaviour** and adopting strategies that cater to these shifts.

Spending behaviour by pressure groups

Pressure Group	 Comfortable Families	 Managing Families	 Struggling Families
% Families	20	52	28
% Value Contribution	27	45	28
% FMCG spending change 3 months ending May 2023 vs. YA	+10	+5	+1



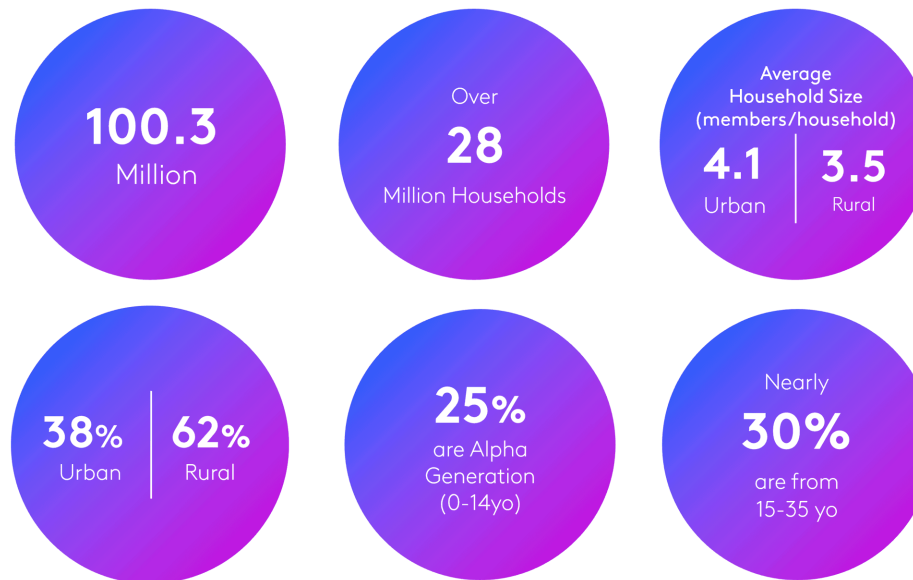
Analysing spend changes across different consumer groups is crucial. Budget-conscious consumers might demand more affordable options and value-driven promotions. Meanwhile, higher-income segments might be less sensitive to price increases and more receptive to premium offerings, where brands can effectively communicate the unique value they provide. For example, in categories like detergents and essential personal care, consumers may opt for larger pack sizes to save more cost per unit.

While competitive pricing is integral, introducing different pack sizes and strategic promotion schemes enrich an encompassing strategy to cater to different groups. To justify premium price where applicable, brands must highlight the unique value the products provide, be it saving, health or experiential benefits.

The 100 million people club

Vietnam in 2023 hit the milestone of crossing the 100 million people mark, solidifying its position as the 15th most populous nation in the world, carrying within it both challenges and tremendous opportunities. Understanding the country's evolving demographic structure is crucial to capitalise on Vietnam's major consumer market.

Rapid urbanisation is also painting a new picture for Vietnam. As individuals and households migrate to cities, incomes rise, creating an increasingly powerful consuming class. McKinsey forecasts by 2035, over half of Vietnamese population will enter the globally-defined middle class. This shift holds significant potential for FMCG businesses as demand for diverse products surges. Understanding the specific needs and aspirations of this urbanising population will be key for brands to tap into this growing market.

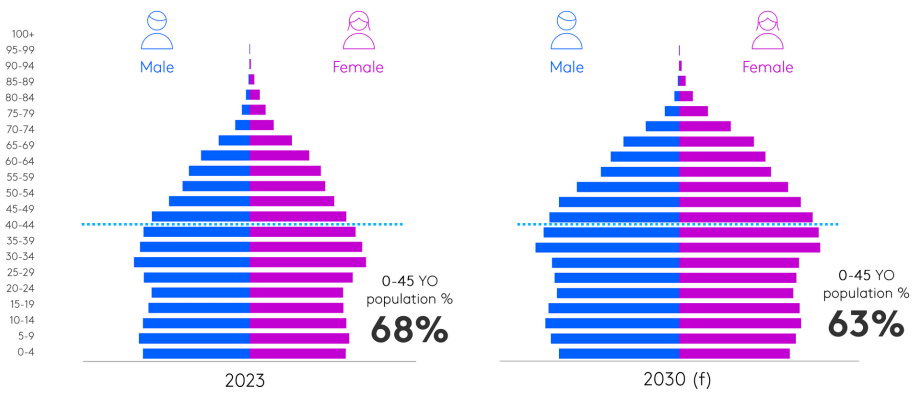




From golden age to global stage

While Vietnam's youthful population has historically been an immense advantage, the country is transitioning beyond its peak "golden population" period. While concerns over an aging population are present, it's crucial to recognise and capture the unique opportunities this period presents. Vietnam still boasts a relatively young and well-educated workforce, positioning itself as a valuable player in the global market. Maximising the potential of its youthful "golden population" is crucial for the country to unlock its full economic potential and achieve its ambitions of becoming a high-income nation.

Capturing the remaining benefits of a young workforce while adapting to an aging population and their preferences requires proactiveness and innovation. Vietnam's demographic shift signifies a rising demand for products and services catering to the growing senior population. Investing in specified and age-appropriate products not only ensure the well-being of the silver generation but also unlock their potential as consumers, helping brands be more present to more people.



Future drivers of consumption



Generation Alpha, currently in their early years, are digital natives with unparalleled exposure to information and global trends. They represent a future generation of decision-makers with distinct preferences and spending habits. Businesses that cultivate brand loyalty early on by offering innovative and engaging experiences stand to win over this influential group.

% buy drinks by themselves

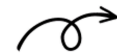
1/3

7-12 YO buy their own drinks at least once a week



Number of drinks / week | Urban 4

5.4



6.9



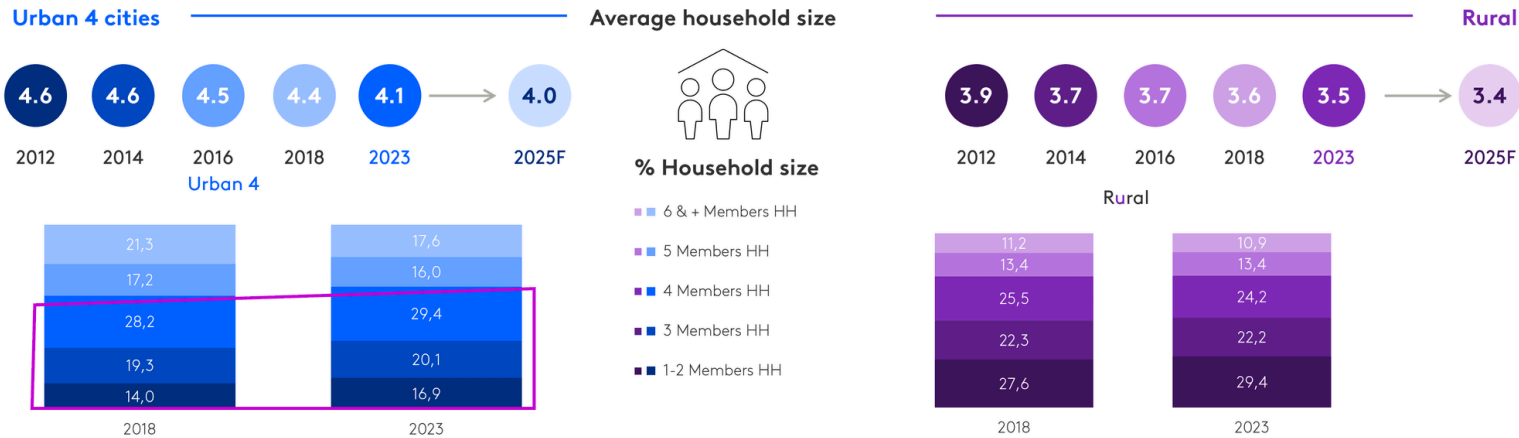
Kids 7-12 YO in 2016
Gen Z



Kids 7-12 YO in 2022
Gen Alpha

Together with Gen Alpha accounting for 55% of the population, all of Gen Z are on the cusp of entering the workforce within the next five years, presenting another exciting opportunity. This generation, known for their independence and willingness to try new experiences, will likely have vastly different demands compared to previous generations. Brands that cater to their desire for individuality and authenticity will be well-positioned to capture their spending power.

Shrinking household size, expanding needs



Vietnam's demographic landscape is undergoing a significant shift: shrinking household size coupled with rising household income.

The nuclear Vietnamese family size is getting smaller with both urban and rural families averaging fewer members than a decade ago. Gone are the days of single-size-fits-all products. The rise of smaller households drives an increasing demand for smaller and single-serve pack sizes. Consumers, now with more disposable income, prioritise products that cater to their unique needs and preferences. This holds especially true for next gen consumers such as Gen Z and Gen Alpha, often characterised by their needs for individual expressions and personalised experiences.

Smaller family size and rising income also suggest a shift in consumer preferences beyond pack size. As discretionary income rises, consumers empowered by technology and diverse needs are increasingly willing to invest in value-added and premium products that cater to their individual desires. This presents a fertile ground for FMCG brands to innovate and expand their reach by appealing to a broader range of personal requirements.

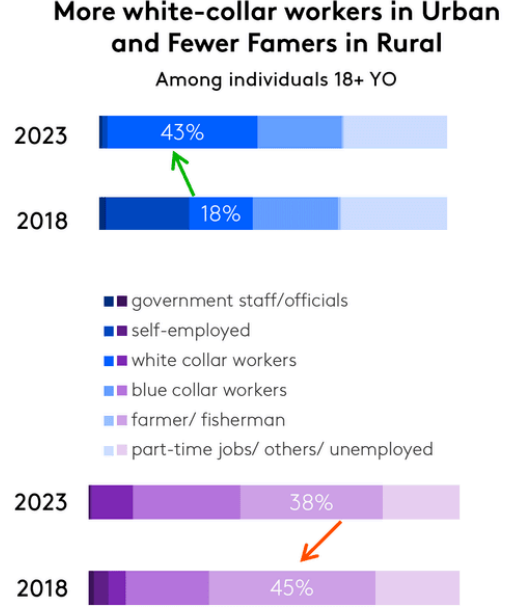
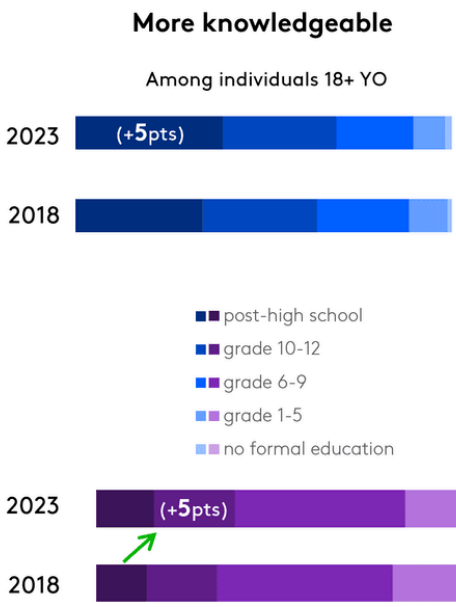
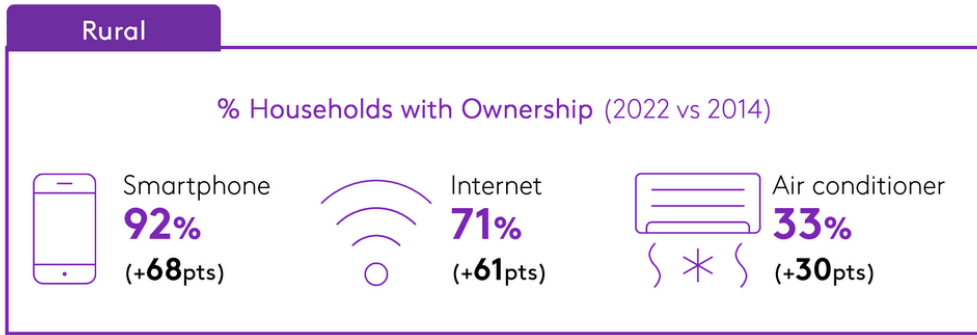
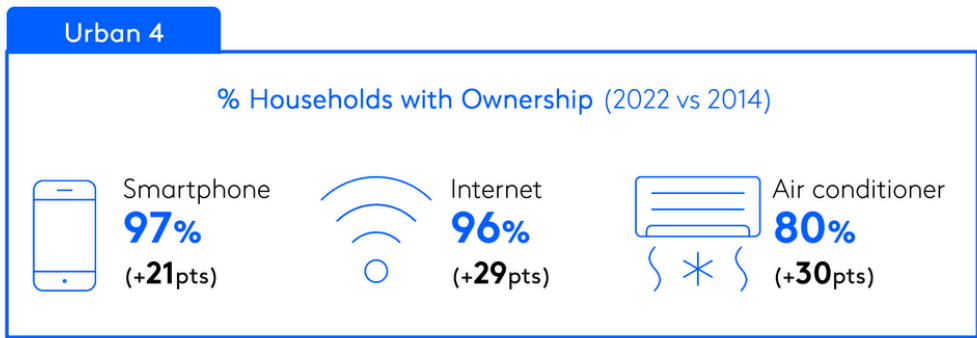
The new age consumers

With rising education levels, a surge in white-collar jobs and ubiquitous smartphone and internet access, Vietnamese households are more connected than ever. This transformation is not just changing lifestyles but also revolutionising FMCG consumption.

The quest for knowledge has empowered consumers to become smarter shoppers. They actively research products online, compare prices across platforms and stores, and demand transparency from brands.

This translates to a buying process that is no longer linear but multifaceted, with a constant loop of exploration, research, comparisons, and reviews playing a crucial role in decision-making.

While the rise of e-commerce has been integral of Vietnam's digital revolution, shoppertainment, the seamless blend of entertainment and shopping is poised to become the defining feature in the new age of online commerce. For brands, live-streaming commerce presents a unique opportunity to showcase products in an engaging and interactive format. It's crucial for brands to explore the dynamic world of digital commerce, by connecting with their target consumers on the platforms where they are the most active.



The narrowing gap between urban and rural consumers in terms of income, education, connectivity in Vietnam presents a fascinating shift. rural consumers' shopping behaviours may emulate those in urban cities. This translates to increased demand for FMCG products and open doors for many categories to reach rural shoppers. Increased connectivity and mobile device ownership is transforming digital shopping behaviour in rural areas, which is projected to develop at higher speed than urban areas in the next 3 years.

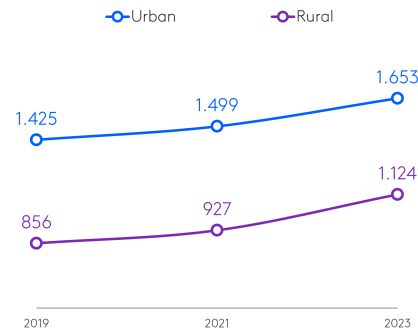
Shopping behaviour:

Does increasing price have an impact on purchased volume?

The average monthly FMCG spend has risen steadily over the past five years, with a notable surge in urban areas (10.27% increase in 2023 compared to the previous two years) significantly outpacing the growth seen in 2021 compared to 2019 (5.19%). Similarly, rural average FMCG spending jumped 21.3% in 2023 compared to the previous two years, making the 8.3% increase from 2019 to 2021 look modest.

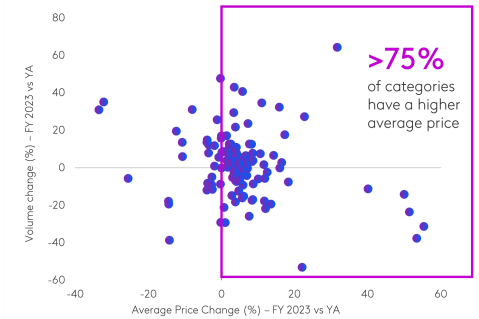


FMCG Monthly Spending (000 VND/Month)



A closer look reveals that this substantial surge in FMCG spend was primarily driven by rising prices and does not translate to a bigger basket. As price hikes have been evidence since late 2021, shoppers are essentially “paying more for less”. In 2023, over 75% of FMCG categories have a higher average price while only half of all the categories were able to gain volume.

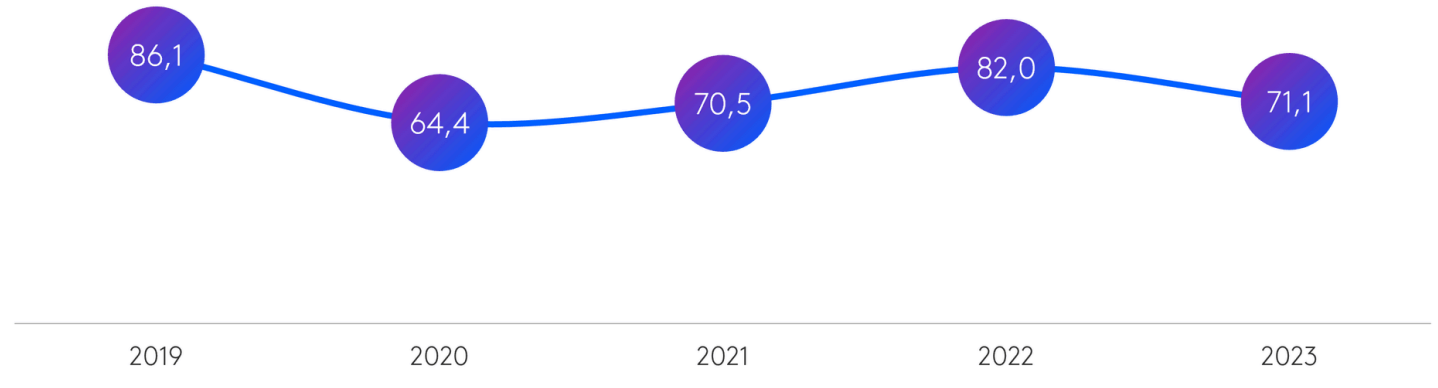
Do price changes have a statistically significant impact on the change in volume purchased?



Even in difficult times, some brands thrive while others find growth elusive. While competitive pricing coupled with strategic promotions is a must, success in securing consumers’ share of wallet hinges on brands’ ability to seize the opportunities to offer consumers smarter solutions and value-driven choices.

Consumer priorities in uncertain times

The economic situation will be better or the same as today in the next 12 months
% Vietnamese households agree in Urban 4 key cities



2023 proved challenging for both consumers and businesses in Vietnam. Challenging global economic conditions and their local impact dampened Vietnamese consumers' confidence.

While Vietnamese consumers showed a slightly more optimistic view for the economic picture in Q3 2023, the average consumer index in the whole 2023 was more similar to that of 2021, the year when Covid-19 peaked in Vietnam.

The year witnessed a significant rise in financially vulnerable families, growing from 20% in Q2 2022 to 30% by the end of 2023. Consumer concerns over rising costs and household income are consistently top of mind, exacerbating the perception about their financial future. In this challenging environment, consumers exhibit seemingly polarising trends: **they may become more cost-conscious in certain categories while still willing to splurge on others.**



Price Sensitivity

Rising grocery prices coupled with concerns over income and job security add to the financial pressure. Consumers must rationalise and carefully scrutinise every purchase when costs become a paramount concern. To manage their budgets, they increasingly refer to different stores and platforms to seek the best deals and more likely to switch brands based on price promotions and value offerings. More cost-conscious in certain categories while still willing to splurge on others.

Beyond Price

The quest for value

As the cost-of-living burden is weighing on consumers, the quest for value extends beyond quantities or the price tag. Value takes the centre stage, regardless of the price point.

To maximise every dollar spent, cost-conscious consumers seek products that deliver the most "bang for their buck," prioritising essential categories and quantities at accessible prices. This may appear as growing preferences for multipack, bigger pack size or multi-use products, offering convenience and affordability.

Evolving health needs

Consumers are increasingly prioritising their health and well-being, more specifically the Covid-19 pandemic. This search for value now extends to evolving demand for products with additional value propositions like healthier ingredients, stress-reducing properties, or natural alternatives.

Brands offering such value-added features, even at premium prices, resonate with health-conscious consumers seeking solutions that enriched their overall well-being in an increasingly busy lifestyle.

Diverse age demographics have distinct health demands. For instance, in beverage choices, younger generations like Gen Z seek products that support digestion or enhance skin health while Generation X, with different health concerns, may prioritise drinks that act as a health booster or address specific health problems. Brands positioned to understand and meet these different needs stand to secure a larger share of the consumer wallet.

3 main consumer priorities in volatile times



PRICE SENSITIVITY

- May cut volumes, downtrade or buy bigger packs to save costs
- Refer to different channels to seek the best prices
- Purchase more volume on promotions



EVOLVING HEALTH NEEDS

- Prefer products that solve specific health needs
- Focus on not just physical health but mental health& well-being
- Prioritise natural and locally sourced ingredients



THE QUEST FOR VALUE

- Price-value perception (promotions, bulk packaging, saving benefits)
- Value propositions driven by enhanced convenience, personalised experiences, and sustainable value



Strategies for FMCG brands and manufacturers in 2024



Short term challenges, long term opportunities

Consumers will continue to rationalise their spending in 2024. In a budget-conscious environment, brands need to offer compelling value propositions that go beyond competitive pricing.

In the long term, Vietnam's consumer market boasts immense potential due to its population structure, expanding workforce and consuming class as well as rapid urban development rate. Brands need to be prepared to cater to these demographic shifts including aging population and the narrowing urban-rural gap.



Catering to the new age consumers

Empowered by education, technology and connectivity, today's consumers are savvier than ever. They have more sophisticated needs for information, products, and experiences. They are less loyal to any one brand, have a non-linear purchase journey, but are willing to go the extra-mile for value-added experiences.

Smaller family size and increasing household income present opportunities for brands to meet the rising demand for personalisation, premiumisation and experiential offers. Offering personalised products tailored to individual needs and preferences will be crucial especially for Gen Z and Alpha consumers.



Fulfilling consumers' quest for value

Value goes beyond just price. It can encompass convenience, experience, and high quality. The quest for quality extends across all consumer segments and categories but becomes even more pronounced in a price sensitive and value-conscious environment.

Creating compelling value propositions that resonate with Vietnamese consumers, regardless of their budget or background will allow brands to win more consumers and achieve sustainable growth in the country's ever-competitive FMCG landscape. Brands that develop products that address the changing preferences, evolving demands and diverse demographic needs stand a higher chance to win.



Thrive in Turbulence
4 growth pillars for the future

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