Strategic Research Area for Sustainable Development in East Asia
Research Center for Sustainable Development in East Asia
埼玉大学東アジアSD研究領域・東アジアSD研究センター

Discussion Paper series

SU-RCSDEA 2020-002

Vietnamese Marketing Channels in the Process of Retail Modernization

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Abstract

Vietnam's domestic distribution is characterized by a reliance on the traditional distribution sector and underdevelopment of the modern sector. However, the traditional distribution sector has not evolved to match the frequent changes in the country's economic situation. This article identifies suitable channel strategies for emerging countries through the use of field surveys and comparative studies of individual enterprises in the toiletries industry of Vietnam. We find channels that solely target modern distribution sectors while excluding traditional sectors and those that rely on independent traditional wholesalers as the sole agents, have limitations. Many individual enterprises have adopted an alternative channel strategy, employing independent distributors with delivery capabilities. An especially effective distribution channel is one that provides the independent distributors with knowledge from the manufacturer and helps to modernize them, in other words, builds relationship within traditional distribution sectors rather than to attempt complete integration or complete dependence.

Keywords: Channel Coverage, Distributors, Emerging Economy, Intermediaries, Modernization, Wholesalers

1. Introduction

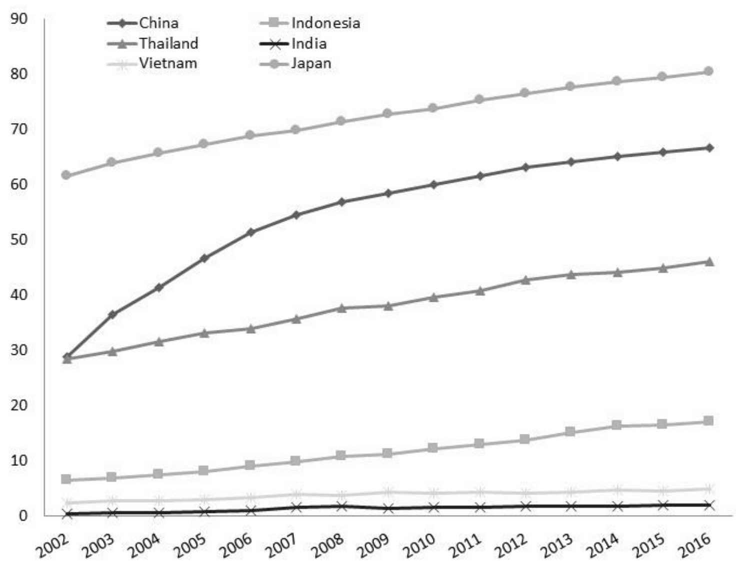
Since the introduction of the Doi Moi reforms in 1986, Vietnam has entered a new stage of economic growth. The country recorded a 7.08 percent growth rate in 2018, the highest since 2008, supported by export growth and strong domestic demand. However, as its economic growth started relatively late, Vietnam's level of development lags behind other East and Southeast Asian countries. The per capita GDP of Vietnam is lower than that of China, Thailand, and Malaysia, and slightly lower than that of Indonesia.

The characteristics of the Vietnamese economy, such as relatively late economic development and rapid growth, are directly reflected in the distribution sectors. According to Nguyen, Wood and Wrigley (2013), Vietnam is currently at stage three of distribution modernization—behind Korea and Thailand in stage one, and Indonesia in stage two. Maruyama and Trung (2012) identified distribution in Vietnam as being in "early stages of distribution modernization," and pointed out the limited modernization and the nation level strength of the traditional distribution sector. The share of the modern distribution sector has increased rapidly since the beginning of the 2010s but remains low overall. The portion of modern retail trade in Vietnamese food retail sales is smaller than in other Southeast Asian countries such as Thailand and Indonesia, and slightly higher than in India (figure 1). Further, the modern distribution sector's share of sales in the FMCG (fast-moving consumer goods) market in Vietnam was approximately 10 percent in 2010 and 25 percent in 2017. [1]

Vietnam's distribution structure, where traditional and modern distribution sectors co-exist, is very different from that of developed countries and has a significant impact on the marketing channel strategies of individual companies. This article examines desirable channel strategies in emerging countries that are in the process of modernization through consumer goods channels in Vietnam.

Despite a large amount of scholarly interest in the Vietnamese economy, there is a lack of literature that examines either the marketing channels of Vietnamese enterprises or the distribution of goods. This article will first clarify the characteristics of the current macroeconomic distribution structure of Vietnam and then examine case studies of various enterprises' (e.g. Unilever, Proctor & Gamble) channel strategies in Vietnam. Research on global channel strategy needs to investigate not only the existing standardization and adaptation paradigm, but also the strategic fit between micro-level channel selections of individual enterprises and macro-level local distribution structures. This study will explore the relationship between the marketing channels of consumer goods manufacturers and the macro distribution environment in Vietnam and will identify the similarities and differences between the channel strategies of individual companies.

Figure 1. The share of modern trades in the sales of food retailers in Asian countries



Source) *Euromonitor*.

2. Changing Distribution in Vietnam

2.1 Traditional Distribution Sector

This paper refers to domestic distribution sectors as "traditional" for the sake of convenience, but in reality, the history of Vietnamese distribution has been divided by the period of colonial rule and socialist economy. Traditional streets and canal markets existed in large numbers dating back to the pre-French colonial period (Waibel, 2004). However, as the sale of perishable goods was limited to places where it was officially permitted during the colonial period, traditional markets declined and during the period of the planned economy (1954–84), private transactions declined to an extreme extent. Shortages of goods, especially during and immediately after the Vietnam War, accelerated the decline of market trade. After the Doi Moi policies were implemented, farmers were allowed to lease their land for extended periods of time, which gave them both incentive and means to engage in market transactions and the markets became active again. Because of this, the traditional distribution system seen today in Vietnam was formed largely after the Vietnam War or Doi Moi.

The first type of traditional retail distribution sector in Vietnam is the independent small-scaled retailers (so-called mom and pop stores) and there are about one million stores nationwide (Maruyama and Trung, 2012, p.34). In Hanoi in particular, although specialty stores handling non-perishable goods such as clothing and daily necessities have a narrow frontage and an area of less than 10 m2, they are densely packed on one street and form a unique landscape. This is less common in Ho Chi Minh City, but even here there are many independent retails who have shops on the road and own land elsewhere.

The second type of traditional retail sector is public or private wet markets. There are currently about 8,660 of these markets across the country and they continue to grow in number, even in 2015 (Table 1). Public wet markets are granted approved primarily by local governments. They often have minimal equipment, such as basic water supply and sewerage systems but have no refrigeration equipment and they focus on fresh foods, daily goods, and clothing. In Ho Chi Minh City the two major markets, other than the tourist-popular Ben Thanh Market, are Chợ Lon (which means "large market" in Vietnamese) and Chợ An Dong (An Dong Market). Many wet markets also serve as wholesale markets and smaller retailers and agents from rural areas will often visit larger markets such as Chợ Lon and Chợ An Dong to obtain goods for their own stores. In addition to the officially sanctioned marketplaces, there are a number of unauthorized wet markets and street stalls that do not appear in statistics. Most of the sellers in the unauthorized markets are farmers, and they use minimal, easily moved structures to display and sell their goods. Such unauthorized markets are often found in local cities.

Table 1. Trends in the number of markets, supermarkets, and shopping centers

Year	Markets	Supermarkets	Shopping centers
2008	7,871	386	72
2009	8,495	451	85
2010	8,528	571	101
2012	8,547	659	115
2013	8,546	724	130
2014	8,568	762	139
2015	8,660	799	174

Source: Statistical Yearbook of Vietnam.

There are various types of intermediary channels, which are focus of this article (Table 2). Typical wholesale merchants called Bán Buôn or Bán Sỉ, have stores in wet markets and sell goods to retailers who come to buy them. In Vietnam, the distinction between wholesale and retail functions are ambiguous, and wholesale and retail merchants coexist in the same wet markets and even some of relatively large retailers in streets also serve as wholesalers. Unlike retailers, wholesalers have small warehouses and a few employees in the markets. Nhà Phân Phối (in English, distributor) are another kind of intermediary channel. These have delivery and business negotiation capabilities, and their influence and impact is increasing in Vietnamese distribution. In remote areas that typical distributors cannot reach, or where distributors have limited distribution capabilities, distributors often ask to deliver goods to agents called Đại Lý, who sell goods on behalf of distributors. Similar intermediaries are called Thương Lái, a kind of trader who transport goods for agricultural distribution. In wet markets, there are independent brokers called Cò who introduce producers and farmers to wholesalers and earn money by commission. [2]

Table 2. Type of intermediaries in Vietnamese consumer goods distribution

Name	Name in Vietnam	Explanations	Ownership of products	Delivery function
Distributors	Nhà Phân Phối	Distributors offer broad market coverage and reduce costs for their suppliers by providing regional warehousing and customer services	○	○
Wholesalers	Bán Buôn or Bán Sỉ(in south)	Merchants in wet markets or streets who sell products to other channel partners, who in turn resell the products	○	×
Agents	Đại Lý	Individuals or companies who sell products on behalf of a supplier or distributor. Agents do not take physical possession to the goods or services and are typically remunerated on commission	×	△
Brokers	Cò	Brokers strive to bring potential buyers and sellers together. They are not supposed to have a long-term relationship	×	×

Source) Prepared by the author based on personal communications with manufacturers, wet markets, and retailers in Ho Chi Minh City, on March 25 and 26, 2019.

Wholesale distribution in Vietnam is largely passive and fragmented although there are various types of intermediary channels. Large wholesalers with nationwide networks are limited, and the wholesale function as an infrastructure is not fully developed in Vietnam. Until around 1990, goods shipped by manufacturers reached wholesale markets through private or state-owned wholesalers, and then travelled from wholesalers to retailers through agents, but it was not unusual for them to go through 4 or 5 stages of trade before reaching final consumers (Venard, 1996). It should be noted, however, that the macro-distribution structure of Vietnam is changing due to retail modernization and manufacturers' channel strategies, which will be described later in this article. For instance, Cadilhon and Fearne (2005) and Cadilhon, Moustier, Poole, Tam and Fearne (2006) analyzed the distribution of agricultural products by classifying them into traditional channels and modern channels which directly connect between modern wholesalers (Metro) and farmers. Although the latter modern channels have a limited share in Vietnam as a whole, it is said that the ability to procure goods from Metro in local areas has contributed to the modernization of local distribution through the improvement of goods' quality and have decreased and stabilized prices.

2.2 Modern Distribution Sector

Modern traders in Vietnam have a limited share the domestic sector but are experiencing rapid changes (Figure 1). The modern trade sector appeared in the first half of the 1990s. Supermarkets first appeared in Vietnam in 1993 and expanded primarily in Hanoi and Ho Chi Minh City (Maruyama & Trung, 2007a). Table 2 shows that the number of supermarkets and commercial centers more than doubled during the seven-year period from 2008 to 2015. Since Vietnam joined the WTO in 2007, the entry of foreign capital and the rise of local capital have promoted the modernization of Vietnam's distribution system. There are very few transactions on the internet in Vietnam, so most of modern trade sector consists of real store channels in the present.

The characteristics of the modern distribution sector in Vietnam are summarized as follows:

First, the dominant retail format has changed rapidly during a short term of development. Compared to countries such as China and Thailand, which have been affected by the globalization of retail since the 1990s, the influences of large discounters such as hypermarkets, discount stores, and cash and carry stores were not significant (Ihara, 2013). Metro was the major cash and carry retailer in Vietnam, but due to the rise of other retail formats, it lost its advantage as both a retailer and wholesaler, and finally withdrew from Vietnam in 2015.

On the other hand, the rise of convenience stores and specialty stores is remarkable. VinMart+, managed by Vin Group, a leading private company in Vietnam, has seen rapid growth since 2015 when Metro withdrew from Vietnam. There has been subsequent development of other foreign stores such as FamilyMart and Seven Eleven. In addition, category killers (specialty stores) such as baby shops and cosmetics specialty stores are emerging.

The Japanese Aeon Group has emerged as a growing group of shopping centers, since its establishment in 2014. As of 2019, Aeon has three stores in Ho Chi Minh City and one store in Hanoi; it plans to open its fifth store in Hanoi and a sixth store in Haiphong City near Hanoi in 2020. In addition to its shopping centers, the Aeon group has developed a supermarket business called Aeon Citimart in cooperation with Citimart.

Second, local retailers are gaining a larger share in the modern distribution sectors. Co-op Mart, run by local companies, and VinMart, run by Vin Group, are two key supermarkets, but other local companies are also emerging. Among specialty stores, five major chains (BiboMart, Kids Plaza, Con Cưng, TutiCare, and Shop Trẻ Thơ) and three cosmetic chains (HASAKI, NUTY, and Sammi Shop) have developed as local businesses.

Third, the influence of Western businesses is rather weak, while those of Asian businesses originating in South Korea, Hong Kong, and Thailand are strong. For instance, the hypermarkets Lotte Mart and EMart are Korean chains. In the H & B (Health & Beauty) format, Hong Kong chains are expanding its power; the Daily Farm's Guardian was the first to expand into Vietnam and Watson's has opened their first store in 2019. The hypermarket chain Big C was a business formerly owned by a French corporation but is now operated by Thai Central Group.

Table 3. Modern retailing in Vietnam

Year of entry	Chain Name	Formats	Country of Origin	Number of Stores (2018)	Remarks
1994	Citimart	SM	Vietnam	20	Aeon Citimart since 2014
1996	Co-op Mart	SM	Vietnam	99	
1997	Fivimart	SM	Vietnam	26	Cooperated with AEON since 2014 (resolution in 2018)
1998	Big C	HM	France→Thailand	35	French Casino group to Thailand Central Group
2001	Medicare	H & B	Vietnam	73	
2002	METRO [Mega Market]	C & C	Germany→Thailand	-	Metro Vietnam was sold to the Thai TCC Group in 2015: TCC Launched as Mega Market
2008	LOTTE Mart	HM	South Korea	13	
	Circle K	CVS	America	293	
2011	Guardian	H & B	Hong Kong	65	Owned by Dairy Farm International
2013	FamilyMart	CVS	Japan	160	Re-Entry into Vietnam
2014	Aeon	SC	Japan	4	Business and Capital Alliance with Citimart and Fivimart since 2014.
2015	Ministop	CVS	Japan	112	
	Emart	HM	South Korea	1	
	VinMart	SM	Vietnam	about 100	
	VinMart +	CVS	Vietnam	about 1,400	
	B's Mart	CVS	Thailand	143	
2017	7-Eleven	CVS	Japan	28	
2018	GS 25	CVS	South Korea	[50]	The number of stores represents the planned figure
2019	Watson's	H & B	Hong Kong	-	The first store opened in January 2019

Source: Prepared by the author based on the information available on the websites of each company, as well as personal communications with manufacturers, wet markets, and retailers in Ho Chi Minh City on March 25 and 26, 2019.

2.3 Regulations on Distribution and Foreign Capital

One of the reasons traditional distribution sectors and local businesses maintain a certain level of influence in Vietnam is the existence of regulations that are not only strict, but their standards of restrictions are so ambiguous that it is difficult for foreign companies to comply with them.

In 1977, soon after the end of the Vietnam War and the unification of the two Vietnams, the Vietnamese government has started to regulate foreign investment.[3] The first foreign investment law enacted since 1987, which was revised in 1990 and 1992. In the early Doi Moi period, the entry of foreign capital into import substitute industries was encouraged, but restrictions tightened as state-owned enterprises grew stronger in the mid-1990s. Restrictions became tighter because of the Asian currency crisis, by means of export duties, foreign currency balance regulations, and obligations to encourage domestic production.

It was Vietnam's accession to the WTO in January 2007 that significantly changed regulations in the commercial sector. Under a commitment to liberalize the service sector once Vietnam became a member of the WTO, the government promised to allow 100% foreign participation in distribution services (distributors, wholesalers, retailers, and franchisees) after January 2009. However, the ENT (Economic Needs Test) was introduced in 2007 to restrict unlimited entry of foreign enterprises. [4] After a first store has been established, retailers must meet the ENT’s qualifications before they can open further stores. The ENT's screening standards include the number of retail outlets, market stability, and population density in the area where the retailer plans to open stores. There has been some criticism, however, that the system is arbitrary and ambiguous. [5]

The laws and regulations related to foreign capital and distribution affect when and how quickly foreign consumer goods manufacturers and retailers can enter Vietnam. The entry into Vietnamese market was biased toward specific periods of time - in the first half of the 1990s and after 2007-, and the pace of entry did not increased even after 2007.

3. Research Design and Method

3.1 Research Framework

Distribution Structure and Selection of Marketing Channels

As we have seen, Vietnam's macro-level distribution structure is characterized by the rapid growth of the modern distribution sector while it simultaneously retains the strength of the traditional distribution sector. Although the modern distribution sectors not sufficient due to (because of) the lack of nationwide distribution networks, the traditional distribution sector is similarly fragmented and does not have as many functions as the distribution infrastructure. The division of Vietnam’s history due to economic reforms, colonial rule, and war did not lead to the rich accumulation of local enterprise in Vietnam and created a fragmented distribution structure. In addition, regulations in Vietnam continue to preserve the persistence and inefficiency of the traditional distribution sector. This kind of traditional distribution structure is typical in developing countries as Kaynak has examined (1986).

The main theme of this study is to clarify channel selection of individual enterprises that best fit the distribution structure in Vietnam. Venard (1996) 's study on Vietnam's channel strategy is strongly related to this study, but its information is too old to properly illustrate present Vietnamese marketing channels because it was published shortly after the entry of multinational enterprises into Vietnam. On the other hand, Maruyama and Trung (2007 a, 2007 b, 2012) and Nguyen, Wood and Wrigley (2013) have examined Vietnam's increasingly modernized distribution structure but do not frequently discuss manufacturer's marketing channels. This study argues that it is necessary to bridge the channel selection of individual enterprise with the macro-distribution structure in order to solve problems related to suitable channel selection in the changing distribution landscape of Vietnam and its overall impact on the distribution structure in Vietnam.

The above concern derives from Bartels's comparative marketing framework. According to Bartels (1968), research that focuses solely on the comparison of macro-distribution structures and does not focus on the marketing of individual companies leads to "environmental determinism." On the other hand, it is theoretically meaningless to point out minor differences in the channels of individual enterprises. When we reveal the relationship between macro-distribution structure at the national level and the marketing channels of individual enterprises, comparative analysis will be theoretically meaningful.

Adaptation-Standardization to Traditional-Modern Framework

In the area of international marketing studies, there are few research projects that consider both distribution structures in emerging countries and corporate strategies are. Although the dominant paradigm in this area has long been the "adaptation-standardization paradigm," channel research based on this paradigm is limited without certain exceptions (Shoham, Brencic, Virant & Ruvio, 2008). Scholars argue that, as a field, the marketing channel is difficult to standardize compared to other marketing 4P elements due to the significant differences in the distribution environment in the host country (Rosenbloom, 2010). Such difficulties in market channel research in international context have led to delays in scholarly studies. Some of the existing studies are based on a cross-cultural approach (Griffith, Hu & Ryans, 2000; Mehta, Anderson, Dubinsky, Polsa & Mazur, 2010) or a culture influence to channel relationship approach (Zhuang & El-Ansary, 2008). Among the studies which do not adopt a cultural approach, Dong, Tse and Hung (2010) is notable in that they examined "governance fit" of manufacturers' channel strategy and distributors' role in the Chinese market.

In this study, we will present a perspective that captures both the channel strategies of individual enterprises and the macro-distribution environment in emerging markets. Distribution in emerging markets faces fragmentation as Rosenbloom (2010) has pointed out. There is commonality in the macro-distribution environment of emerging countries, including the small size of retailers, multi-level fragmented distribution, and passive wholesaling. In other words, the distribution system in emerging countries as a whole is in the pre-modernized state, even if modern distribution sectors have been somewhat expanded by the entry of foreign capital.

Wholesalers play key roles in channel selection in these distribution environments (Samli & El-Ansary, 2007). If a manufacturer or retailer operating in an emerging country seeks immediate channel "efficiency" and substitutes its own function without using the wholesaling channel, it may save margins and increase control in the short term, but loses "effectiveness" in its ability to supply more products. Endo (2013; 2014) investigated the coexistence of modern and traditional distribution sectors in emerging countries based on a case study of Thailand. He classified individual corporate channels according to the degree of channel integration and highlighted that channels that utilize the management resources of local partners, such as joint ventures and partnerships with local wholesalers, are more effective than integrated channels in terms of establishing connections with the traditional distribution sector. Ihara (2013; 2014), and Ihara and Patnaree (2019), in their examination of the channel strategies of individual manufacturers in East Asia, identified the necessity for channel strategies in emerging countries to pursue not only direct control and a high degree of integration by manufacturers, but also to ensure coverage by making effective use of wholesaling.

What these studies have in common is that they investigate the undeveloped distribution environment as a whole where tradition and modern trades coexist in emerging countries. They argued that the expansion of trade with foreign and modern retailers is not the only effective channel choice for individual enterprises, at the same time, the expansion of the modern sector is not the only solution for the modernization of distribution at the macro-level. Rather, they identified the importance for manufacturers with modern production and distribution systems to build and maintain networks with traditional wholesalers. This "traditional and modern" framework is thought to be more effective for studying the marketing channels of emerging economies which were not sufficiently researched by the traditional "standardization and adaptation" framework.

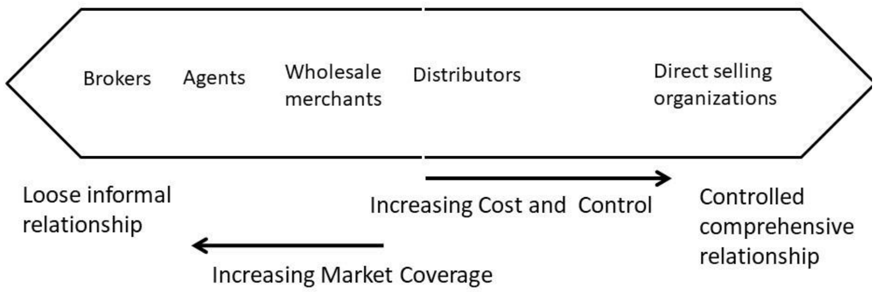
Channel Selection in Emerging Economy

Let us turn again to Samli and El-Ansary (2007)'s tradeoff between short-term channel Effectiveness and channel Efficiency in an emerging economy. Stern and El-Ansary (1996) discuss channel performance in terms of **Effectiveness**, **Equity** (Fairness), and **Efficiency**. **Effectiveness** corresponds to the ability to deliver the goods desired by the end consumer in the short term, and to simulate demand in the long term, which can be replaced by the concept of Coverage, which indicates how much demand in the domestic market has been met, or marketing Control. **Efficiency**, on the other hand, represents channel productivity or financial performance and can be replaced by financial Control or Cost.

In emerging countries where tradition and modernity coexist, according to the channel frameworks, multinational enterprises tend to emphasize modern channels and to neglect wholesale channels in the search for short-term savings transaction costs, i.e. **Efficiency**, but this approach tends to impair high Coverage, i.e. channel **Effectiveness**, and which in turn impairs channel Cost such as promotion costs, i.e. **Efficiency** in the long run. This is the dilemma of channel selection which Samli & El-Ansary (2007) identified and the problem that Japanese companies often face when they operate in emerging countries (Ihara, 2014).

Wholesale use is a key, but in emerging countries where existing wholesalers are passive, reliance on existing major wholesalers is not always the right choice. Figure 2 is a generalization of the choice of intermediary merchants. Distributors in Vietnam are located in the middle of the figure while general wholesalers and agents (Dai Ly in Vietnamese) in the market are located on the left. At this time, the selection point of intermediaries is whether or not they have delivery capabilities or product ownership, whether or not there is an exclusive contract, etc. (Table 2). Distributors and wholesalers both own goods but only distributors own delivery functions. Agents do not have ownership and make money from commission fees. An exclusive contract which aims to increase manufacturer's control can be applied to any type of intermediary but an exclusive contract would result in the loss of the wholesaler's original function of product variety. By making these choices, manufacturers achieve the right balance between conflicting effectiveness and efficiency or coverage, cost, and control.

Figure 2. Selection of intermediaries in marketing channels



Source) Author's creation based on Bellin (2006, 2016).

3.2 Research Methods

The cases in this paper focus on toiletries distributors, with an emphasis on Unilever, Proctor & Gamble, Kao, Unicharm, and local enterprises operating in Vietnam, as well as their related wholesale and retail businesses. The author engaged in personal communication with the head of a subsidiary of Kao Vietnam on February 28, 2018 in Japan, and with a number of manufacturers, wholesalers, markets, and traditional retailers on March 25-26, 2019 in the central area of Ho Chi Minh City (District 1, District 5, and Tan Binh district).

In Vietnam it is extremely difficult to obtain financial information, such as profits and sales, due to the constraints of statistical data. Retail Coverage, which is an important index for the viewpoint of this study, is not usually published. The author reconstructed the cases by collecting piecemeal data from both the aforementioned interviews and printed documents. *Unilever Magazine*, an in-house magazine of Unilever was very useful as it included detailed descriptions on Vietnam. Vietnamese languages newspapers and magazines, local statistics, and yearbooks were also very useful for data collection on individual enterprises.

4. Cases of channel strategies in Vietnam

4.1 Toiletry Manufacturers in Vietnam

The leading players in the Vietnamese toiletries market (household products such as detergents, hair care and skin care products, and paper diapers) are Western enterprises such as Unilever, P & G, Colgate, and Kimberley & Clark and Japanese enterprises such as Kao, Unicharm, Rohto Pharmaceutical, and Lion. Local enterprises include Dai Viet Huong and LIX Detergent.

The first enterprise to move into Vietnam was Kimberly-Clark, which began initial operations under the name TN Vinathai Cc. Ltd. in 1991. They were followed by Unilever (established in February 1995), P & G (July 1995), Kao (November 1995), and Colgate-Palmolive (1996). Rohto Pharmaceutical (1997) and Unicharm (2007) entered the market more recently. Lion Corporation was the last one to launch, and entered the Vietnamese market in 2017 after seeing the favorable response to Rohto.

Unilever’s influence in Vietnam is very strong, as it is in many places such as India and other Southeast Asian markets. It is not always clear whether Unilever's strength in Southeast Asia is due to its first-mover advantage or to the superiority of the channels they have utilized themselves. Vietnam does not have a long history of foreign investment and Unilever began their investment at the same time as P & G, Kao, and others. One of the aims of this study is to experimentally examine how the superiority and inferiority of marketing channel strategies of European, American, and Japanese companies in Vietnam, given a relatively even starting point, led to their market outcomes.

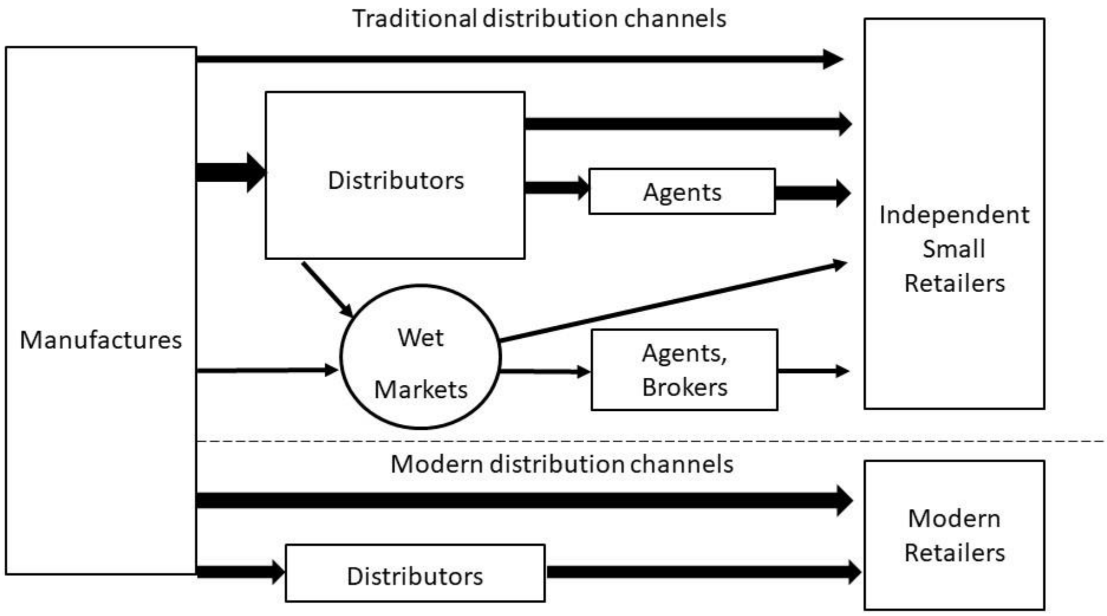
4.2 Marketing Channels of Toiletry Goods in Vietnam

According to Vernard (1996), wet markets were the dominant channel for the distribution of consumer goods until the 1980s, as shortages of goods had persisted since the Vietnam War. Goods shipped by manufacturers reached wet markets where, in most cases, wholesale functions and agents could mediate between markets and retail merchants. In rural and remote areas, four or five layers of transactions were normal between manufacturers and retailers. However, the distribution channels of toiletry goods in Vietnam changed drastically with the rise of foreign manufactures and their introduction of distributor's channels in the 1990s. As described below, with the rise of distributor channels, the role of wet markets has diminished, and agents are less involved in the process.

At present, the channels of toiletries in Vietnam are roughly divided into traditional and modern trades.[6] In traditional trades, distributor channels are becoming more prominent and products produced by manufacturers are often distributed to retailers through distributors. As a result, the number of transactional steps from manufacturer to retailer has been reduced (Figure 3). However, wet market channels remain. It is common for manufacturers to visit markets or retailers directly, or to divide roles and responsibilities with manufacturers taking responsibility for negotiations and distributors taking charge of delivery. The wet markets play a key role where the distributor does not make enough visits or where the retailer's recommendations are different from the distributor's deliveries. In these cases the retailer goes to wholesale markets to purchase goods themselves. In addition, some large markets in Ho Chi Minh City serve as suppliers for local retail merchants or agents. In modern trades, direct trade between manufacturers and retailers is becoming more common. As shown in the following sections, the scope of direct trade varies depending on the manufacturer.

Due to the diffusion of distributor channels, retail prices have become more stable. Retail prices are often printed on the packaging of goods by manufacturers. Retailers generally maintain their prices, but in some cases they do not. In instances when retailers keep the suggested manufacturer's prices, prices are determined by adding a three to five percent margin to the purchase. For instance, detergents sold by retailers for about 17,500 Dong were purchased by the retailers for 16,500 Dong, and the difference between the price paid to the distributor and the price charged to the customer is about 1,000 Dong. Powerful independent retailers also sell to nearby small retailers at a discount of about 500 Dong from the price printed on the goods. When retailers visit wet markets directly, there is usually not much difference between the purchase price there and the purchase price from the distributor. However, a portion of retailers and intermediaries try to make money by taking advantage of the difference between discounted purchase price and retail price when certain products are sold cheaply as a promotion at the wet market.

Figure 3. Channels of toiletries products in Vietnam



Source) Autor's creation based on his field survey in March 2019.

4.3 Channel Strategies of Individual Enterprises

Unilever

Unilever entered Vietnam in February 1995 with two joint ventures, Viso (Vietnam Soap) and Haso (Hanoi Soap Factory). Initially, Unilever owned a 66.7 percent share in both companies and the remaining 33.3 percent was controlled by the state-owned enterprise Vietnam National Chemical (Vinachem), but Unilever has since bought out the capital of Vinachem, and Unilever Vietnam is now a 100 percent subsidiary of Unilever. Joint ventures with state enterprises provided an advantage over competitors because they provided access to production facilities and distribution networks from the start. On the other hand, the lack of marketing capability of joint venture partner became problematic when the shortage of goods removed, and marketing was needed.

In the 1980s, there was still a lingering shortage of goods after the Vietnam War, and even Viso, which began in 1975 as a state-owned enterprise, did not have their own sales forces. Wholesalers usually came to the factory to purchase goods directly, paid in cash, and transported goods by themselves.[7] However, in the 1990s, shortages of goods began to resolve, and manufacturers' goods became difficult to sell.

When choosing a channel to address these new challenges, Unilever focused on "saturation coverage" of its products across the country in a short period of time.[8] In order to act quickly against competitors, Unilever drew heavily on the experience of other local subsidiaries (India, Indonesia, Thailand, etc.) and introduced what they had learned there to the situation in Vietnam. Although there are differences in the names and roles of intermediaries in each country, what all subsidiaries have in common is a method of hiring and educating distributors who have delivery capabilities, in addition to traditional wholesaling, for the active distribution of goods to retailers.

As the preferred channel to achieve such a strategy, Unilever in Vietnam placed the highest priority on its approximately 150 distributors operating nationwide.[9] Distributor salesmen visited retail outlets exactly once a week and enthusiastically promoted the benefits and quality of Unilever's product. On their weekly visits, the salesmen would deliver the previous week's order, take a new order at the same time, and, significantly, they collected money one week later which provided a week of credit for the retail outlets. This cycle of "one-week credit," which Unilever achieved in India and Southeast Asia, was not initially adopted by P & G or any other competitors in Vietnam and became a potent weapon in attracting small sized local retailers.[10]

Unilever's distributors are characterized by: (1) they are relatively small in size, (2) they are capitally independent and deal exclusively with Unilever's products but some of them trade products made by other manufactures, (3) they follow Unilever's strict policy on sales and distribution. Typical distributors have warehouses, credit facilities, transportation, and their own employees. Unilever has several training centers for managing and training distributors and wants its retailers to stop buying from wholesale markets altogether and focus on buying from Unilever's distributors, but in practice, buying from the wholesale market is common.[11] However, retailers are now primarily using distributor channels, and the role of wholesale markets has become a complementary channel.

While Unilever has made strong inroads into traditional distribution as above, they are also showing their strength by responding to the sales system of the modern distribution sector. In case of Unilever, the core of channel is distributors in modern distribution sector. Unilever trade with modern retailers through distributors without newest formats like baby care, in which Unilever is doing direct transaction with retailers except distributors.

Thus Unilever’s presence expanded from major cities to smaller towns and villages in 1996, covering more than 30,000 retail stores, and now covering about 300,000 stores.[12] Since 2013, Rural Development Programs has been developed to further strengthen rural penetration. Unilever’s total sales in Vietnam exceeded 270 million dollars in 2014 and about 37 percent of them came from rural areas（Singh & Duce, 2016）. The company's overwhelming coverage of channels is based on synergies with products that meet local needs, a rich product line-up, and a large advertising investment.

Proctor & Gamble

Proctor & Gamble is the second largest manufacturer of toiletries in Vietnam after Unilever. The company established a joint venture with a state enterprise and began operations in their first factory in 1995. P & G Vietnam has grown rapidly since its foundation, though its growth has not matched that of Unilever. P & G's "Tide" and "Ariel" are ranked 2nd and 3rd in the laundry detergent market, while Unilever's "Omo" occupies the overwhelming share more than 60 percent.[13]

P & G was one of the first U.S. enterprises to invest in Vietnam, and entered the country around the same time as Unilever, and their process of integrating the local partner in the joint venture was very similar to Unilever’s. Its channel strategy also looks like similar to Unilever at a glance, but there are important differences to note.

P & G ranks second after Unilever in terms of channel coverage (estimated from the number of P & G retail outlets). In 1995, P & G traded with 50 to 60 distributors, but has reduced this number to maintain better control and now focuses on seven distributors.[14] P & G's distributors are (1) large companies, (2) independent companies which are primarily exclusive to P & G in the area of toiletries, and (3) in most cases, they entrust their transactions with retail stores to agents (as stated Dai Lý) rather than their own salesmen. For instance, one of the major P & G distributors, Phú Thái Hanoi Commercial JSC (founded in 1993 and employs more than 1,000 people), is a large company that handles a wide range of daily necessities from food and toiletries to cosmetics and pharmaceuticals and they deal with 50,000 retailers though 500 agents nationwide.[15] The company only sells P & G products in its toiletries category, and other brands in categories where P & G doesn't have products in Vietnam.

These P & G channels are an indirect form of channel management compared to Unilever and cannot overturn Unilever's dominance in traditional retailers in terms of coverage and shopfront management. P & G’s salespeople are not as consistent with their field visits [16] and they don't always come once a week. They also do not offer the benefits of credit sales. The differences of the quality of channel management in the traditional sector are reflected in the difference between market shares of Unilever and P & G.

On the other hand, P & G has worked to strengthen its modern distribution channels and has been increasing its direct dealings with hypermarkets and supermarkets through a manufacturer-retailer alliance approach. Nevertheless, sales through modern distribution accounts for only about 20 percent of P & G Vietnam's total sales.[17]

Kao

Kao Corporation, a Japanese toiletries manufacturer, took an early interest in the Vietnamese market and entered Vietnam in 1995, almost at the same time as Unilever and P & G. Kao’s positioning of products in the Vietnamese market is middle-high quality and middle-high price band, with a focus on skin care "Biore," sanitary goods "Laurier," detergents “Attack," and disposable diapers "Merries." "Attack" does not have small sized packages as the other competitors do and does not have cheaper derivatives of the detergent such as "Attack easy" or "Attack Jazz 1" which are seen in Thailand and Indonesia.

When Kao first entered Vietnam, it adopted a strategy that was very different from other companies. It adopted direct channels to retailers, and established seven sales branches across Vietnam. However, most of branches have been closed because of the high cost burden and limited sales. After that, Kao increased relationships with up to 60 distributors, but when it became difficult to control, the company reduced its dealings to two highly skilled distributors. Currently, Vietnam Kao deals directly with the modern distribution sector and retail stores in Ho Chi Minh and Hanoi and deals with retail stores in rural areas through distributors.[18] Of their two distributors, one is a major local company with capital from a Japanese trading company and employs nearly 60 agents. The sales area is mainly in 10 urban areas and no credit is given to small retailers.

Though Kao does not focus on traditional distribution, it does focus on strengthening modern distribution channels for the future and is in the process of expanding its coverage by attracting new baby shops and cosmetics specialty stores.

As described above, Kao's channel strategy emphasizes strict control and cost reduction compared with other companies rather than expanding coverage of traditional distribution. As a result, Kao’s distribution channel is limited in terms of coverage, but well controlled. In other words, the company appoints only highly capable distributors and agents are effectively managed by local distributors or Japanese trading companies. Kao's own salespeople are well trained and have a good reputation because of their extensive hands-on training.[19] However, in terms of overall financial performance, Kao Vietnam has a good share in skin care products and sanitary products, but its overall sales and operating income are considerably lower than those of Unilever and P & G.[20]

Unicharm

Unicharm is a manufacturer that specializes in disposable diapers and is known for its effective strategies in emerging markets, such as their focus on the middle and low-end segment and active M&A (Mergers and Acquisitions), where many Japanese companies are struggling.[21] Unicharm’s "Diana," a local brand in Vietnam which Unicharm has acquired and maintains, holds an equal share of the Vietnamese diaper market with

Kimberly-Clark.

In August 2011, Unicharm acquired a 95 percent stake in “Diana” through Thai Unicharm with a deal valued at US $128 million. The remaining five percent is held by Diana founder Doe, who promised to hand over it to Unicharm at a later date. [22] Diana Vietnam is a new company, founded in 1997, which manufactures and sells paper, diapers, tissue paper, toilet paper, and sanitary products, and was engaged in a fierce market share war with Kimberly-Clark. Diana has a network of channels to more than 30,000 retailers and supermarkets across the country, which Unicharm wanted to acquire and leverage.

After the acquisition, Unicharm maintained its "Diana" brand and introduced "Many Poko." The acquisition has gone well, and Unicharm surpassed longtime rival Kimberly-Clark in revenue and profit in 2016. Unicharm's sales costs are lower than Kimberly-Clark's and channel costs are also estimated to be lower. [23]

While Unicharm's inherited its channels to traditional distribution from a local company, another characteristic of Unicharm is its penetration into the modern distribution sector, especially emerging baby shops. Disposable diapers are still expensive for the average Vietnamese consumer who is not part of the middle or higher segment. Compared with other toiletries, disposable diapers have a higher share in the modern distribution channel, such as supermarkets and baby shops, which is easier for foreign companies to develop, and are less dependent on traditional distribution channels.

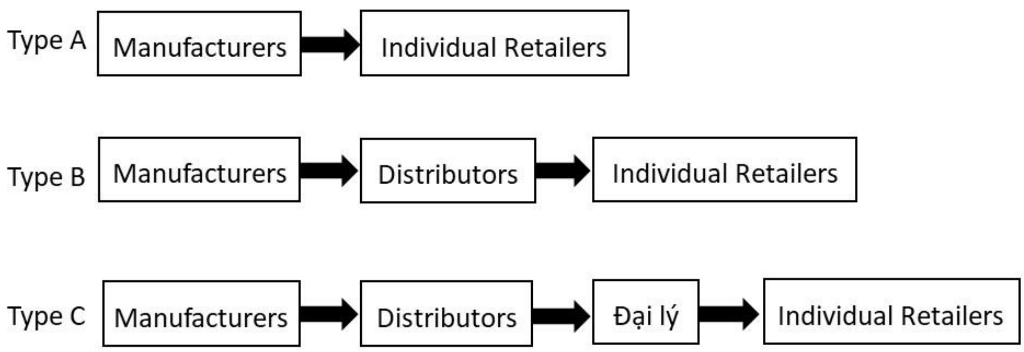
Local Enterprises

In the Vietnamese detergent market, local enterprises have been weak for quite some time. Since around 2012, however, local brands such as Dai Viet Huong's "ABA," and LIX Detergent's "LIX" have gradually grown and, although still small in scale, they have a market share of more than 10 percent in total.[24]

Lix Detergent was found in 1972 as a French private enterprise. [25] The company once merged to VISO (Vietnam Soap Company) during 1978 to1980, and the company still keeps feature as a public enterprise even after its separation from VISO, Lix's detergent has been familiar with Vietnamese people in the 1980s and the 1990s, however, since the strong marketing attack of Unilever and P & G in 1995, its brand disappeared from Vietnamese markets. Lix Detergent revived by receiving OEM contract from Unilever in 2013, and started to put effort into own Lix brand again.

Lix Detergent covers Vietnamese market with 168 distributors, [26] however, because major distributors prefer not to deal with local brands which inferior to brand power, the salespeople of the company were more likely to go directly to retailers and markets. They would load up a small amount of goods and travel to retailers to deliver goods and collect payment. However, the frequency of visits, regularity, enthusiasm, and financial benefits to retailers of local manufactures are not as well organized as with Unilever. Local enterprises with weak brands and sales are in a difficult position but low prices of their products are helping them to penetrate the mass market. About 40 percent of Vietnamese wash their clothes without washing machines, and local brands have been accepted by such people.

Figure 4. Type of channels in Vietnamese toiletries



5. Results and Discussions

The key to effective channel selection was the selection of distributors. Figure 4 shows three types of channel selection. In Type A, manufacturers exclude distributors and trade with retailers directly. In Type B and Type C using distributors, manufacturers trade with many small-and-medium-sized distributors in Type B, while trading with a few large-sized distributors in Type C.

Kao selected Type A with a mix of Type C. Kao started out with direct sales channels to retailers through sales offices, but realized that this approach would impair channel coverage and, in the long run, would also impair channel efficiency from a financial perspective. Because of this, Kao switched to dealing directly with the modern distribution sector and using distributors in conjunction with the traditional distribution sector. Kao was able to save on channel costs, but its weakness in terms of penetration into traditional distribution continued.

The P & G scheme, on the other hand, is type C. By employing a small number of large distributors, P&G achieved good performance in asset efficiency, which is shown in the asset turnover ratio of the company (Table 4) with a considerable coverage of retail outlets, but could not catch up to Unilever in terms of thoroughness because it utilized indirect control.

The type B channel is the primary channel of Unilever, Unicharm and local enterprises. Not only did Unilever expand its channel by dealing with a large number of relatively small distributors, it was also able to quickly roll out a significant retail coverage with highly educated and trained distributors who conducted store visits and accepted payments on short-term credit. Local enterprises also adopt Type B, but they differed from Unilever in thoroughness of distributor management, and tried to expand their coverage by using cheap human resources such as in-house salespersons against traditional retailing. As a result, Unilever outperforms other companies in terms of channel effects and is the most efficient channel.

M&A is another option for effective use of intermediary channels. Unicharm's new acquisition strategy in Vietnam makes it a cost-effective alternative to rival channel coverage in a short period of time.

The generalization of each case is as follows; Type A is a typical channel choice for multinational companies operating in emerging countries, focusing on control with high investment cost and resulting in lower coverage. Another typical example is type C, where channel selection is left to a small number of major distributors, resulting in an indirect dependence on many agents and a weakening of terminal control. Many companies had a common practice of using distributors, but Type B Unilever had its own programs, which included programs to train and modernize distributors, and to transfer knowledge. We can argue that these channel selections resulted in managerial performance of each enterprises, although we should be careful that channel selection is not only the factor to affect it. Table 4 shows that Unilever is superior in most of financial performances, such as sales profitability, market shares, except P&G is superior in asset turnover ratio.

Table 4. Comparison of channel strategies and managerial performances of Unilever, P&G, Kao and Lix in Vietnam

	Unilever	P & G	Kao	Lix
Number of distributors	around 150	7	2	168
Retail store coverage	almost 100%	70 ~ 80%	around 50%	70 ~ 80%
Sales ratio in urban areas	60 ~ 65%	-	75 ~ 80%	
Transactions with modern retailers	Distributor channels, without direct transactions in baby products	direct transactions	direct transactions	direct transactions
Net Sales (million Dollars) 1)	More than 250	250-100	100 or less	100 or less
Profit (ROS) 2)	T1	B2	unknown	unknown
Asset Turnover Ratio 3)	T2	T1	unknown	unknown
Market Share	70% share in laundry detergent and significant share in general toiletries	Laundry detergent accounts for 20% of sales, and share in hair care products is on the rise.	Market share of laundry detergent is low, doing well in skin care and sanitary products.	10% in laundry detergent

Note: 1) Net sales in 2010.
2),3) The ranking means T1 (Top 25%), T2(Top25-50%), B2(Bottom25-50%) and B2(Bottom 25%) , ranked by *VRN500* based on the position of the company in 437 samples of the industry.
Source: *VRN500(Vietnam top 500)2001 company profile*s, *Trí thức trẻ* ,Personal communications.

6. Conclusion

In this paper, we examined suitable channel strategy in emerging countries, taking Vietnam as an example. This study revealed that intermediary channels play an important role in emerging markets where modern and distribution sectors are underdeveloped and distribution functions are fragmented. Furthermore, among the various types of intermediary channels, distributors with delivery functions played the most important role, not normal wholesalers and agents in traditional markets.

Overall, when a manufacturer selects a channel under the distribution environment in emerging countries, it is necessary to deal with intermediary channels as a bridge to traditional retail for pursuing both channel **Efficiency** and **Effectiveness**, rather than attempting a complete integration (Type A). Even in cases of non-integration, however, the channel type that only makes use of existing intermediaries (Type C) was well **Efficient**, but not sufficiently **Effective**. And the key to success in both **Efficiency** and **Effectiveness** was the type that encouraged intermediaries and manufacturers' own efforts to strengthen their distribution, credit, and sales functions, or in other words, modernized them (Type B). The accompanying finding, which is less important than the previous finding, is that channel effects also differ according to the choice of formats of modern retailers. In Vietnam, there has been a rapid shift of format from hypermarkets and discount stores to convenience stores and specialty stores. It is effective to respond quickly to such changes in order to gain presences in the modern distribution sector.

In this way, an effective approach to analyzing channels in emerging countries is to look at both the modern and traditional distribution sectors. Based on framework of channel selection, this study examined it is key how modern manufacturers not only deal with the modern distribution sector, but also how they modernize the traditional sector through transactions. This type of framework is a good fit to analyze both macro- and micro-distributions of emerging markets, and it is necessary to pay attention to the building of relationships with traditional distributors by modern manufacturers. This study has a limit in quantitative observation, but by enriching further studies, findings and methods of this study will contribute to future channel research in emerging markets that is in the process of modernization.

Acknowledgements

The authors would like to thank Ms. E. Kojin and Ms. M. Fujita (either Institute of Developing Economies) for lending their expertise on regional studies in Vietnam. I also thank Mr. Nguyen Thanh Tung for inspecting distribution sites and collect data in Vietnam. This work was supported by JSPS under Grants-in-Aid for Scientific Research (Issue # 16 K03769).

Footnotes

1. Figures are based on the data of AC Nielsen and personal communications with the president of Kao Vietnam on February 28, 2018.
2. Information on agricultural product distribution in Vietnam is based on personal communication with E. Kojin (Institute of Developing Economies) on March 11, 2019.
3. The information is based on a description of foreign capital regulations in Vietnam on JETRO's website (https://www.jetro.go.jp/world/asia/vn/invest_02.html) and personal communication with M. Fujita (Institute of Developing Economies) on August 6, 2018.
4. Cabinet Order 23/2007/ND-CP, Ministry of Commerce Notification 09/2007/TT-BTM.
5. ENT was revised in 2013 and 2018. Under the 2013 amendment (Notification 08/2013/TT-BCT), a certain degree of deregulation was implemented, but the ambiguous criteria have raised concerns among foreign companies about the arbitrary application of the Vietnamese government. The 2018 amendment (Cabinet Order No. 09/2018/ND-CP) specified the exemption introduced in 2013 as it is "Not applicable to convenience stores or mini super

marts", clarified the criteria for exemption, but imposed stricter regulations on foreign capital.

6. Based on the field survey and personal communications on 25 and 26 March 2019 at Ho Chi Minh.
7. *Unilever Magazine* (in-house magazine), 1996, Issue 2, No. 100, p. 31.
8. *Unilever Magazine*, 1996, Issue 2, No. 100, p. 32.
9. *Vietnam News* (Vietnam English Newspaper), 2018.1. 18.
10. *Unilever Magazine*, 1996, Issue 2, No. 100, p. 32.
11. According to personal communications with small retailers on 25 and 26 March 2019 at Ho Chi Minh City.
12. *Vietnam News* (Vietnam English Newspaper), 2018.1. 18.
13. Fiin Group, *Vietnam Detergent Market Report 2018.*
14. Vietnam Report Joint Stock Company, *Vietnam top 500 company profiles*, 2012, p. 485.
15. Information on the company can be found in the Vietnam Yearbook as well as on Phú Thái's website (Vietnamese version; https://phuthaigroup.com/Desktop.aspx/Tin-tuc/Tin-noi-bat/55000000000000000000000000000000/).
16. According to personal communications with retail stores on 25 and 26 March 2019 at Ho Chi Minh City.
17. Based on personal communications with the retailers with whom P & G does business on 26 March 2019 at Ho Chi Minh City.
18. Based on the personal communication with Kao Vietnam on 25 March 2019.
19. *Asia-Pacific Economic Review*, May 2017 (Vietnamese Economic Magazine).
20. *Trí Thức Trẻ (Young Intellectuals)*, November 7, 2018.
21. *Harvard Business Review*, May 2012, pp. 1-6.
22. Information on Diana is mainly based on *NCĐT* (Vietnamese Economic Magazine, September 14, 2011).
23. *Trí Thức Trẻ (Young Intellectuals)*, July 26, 2018.
24. *Trí thức trẻ (Young Intellectuals)*, November 15, 2019.
25. Website of the company (http://www.lixco.com/vi/ve-cong-ty/lich-su-phat-trien/).
26. *Trí thức trẻ (Young Intellectuals)*, November 15, 2019.

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