



## Vietnam's Consumer Preference for "Affordable Luxuries"

Vietnamese consumers are increasingly purchasing fashionable and quality products to improve their living standards, although their income levels are still on the low side. They are now more confident about their future earnings in view of the country's economic expansion, which is boosting incomes and consumer spending. Foreign brands and suppliers are increasingly distributing medium-priced and value-for-money products to tap this emerging demand, including a wide range of imported goods due to lack of local products with comparable characters.

While Vietnamese consumers have a strong desire for fashionable goods, they are also concerned about quality following certain issues about product safety and standards. Saleable items, therefore, are largely those with good names and of a higher reputation. In general, the Vietnamese regard the standard of Hong Kong products as being of international quality, helping to facilitate Hong Kong players' entry into the Vietnamese consumer market.



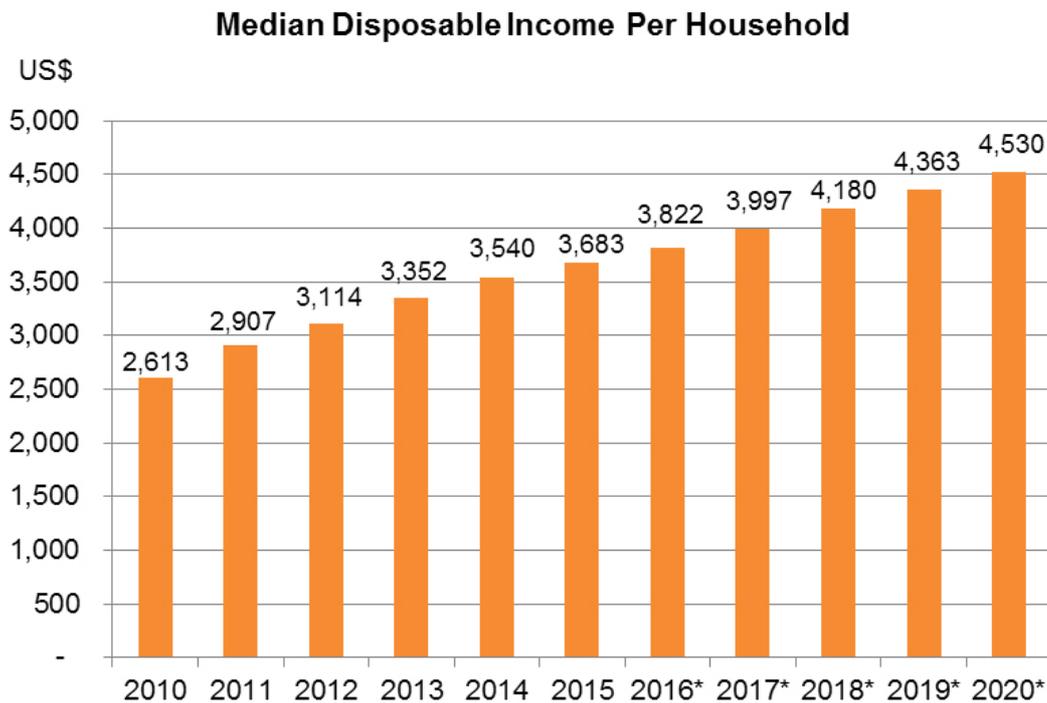
Vietnamese consumers are increasingly purchasing fashionable and quality products to improve their living standard (1).



Vietnamese consumers are increasingly purchasing fashionable and quality products to improve their living standard (2).

### Booming Consumer Market

Consumer expenditure has been increasing steadily in Vietnam, in particular due to rising incomes amid strengthening economic activity. During 2010-2016, the median disposable income rose by about 46% to an estimated US\$3,822 per household from US\$2,613, directly stimulating consumer spending on goods and services. Evidently, total consumer expenditure increased to an estimated US\$146 billion in 2016 from US\$80 billion in 2010, a hike of more than 80%.

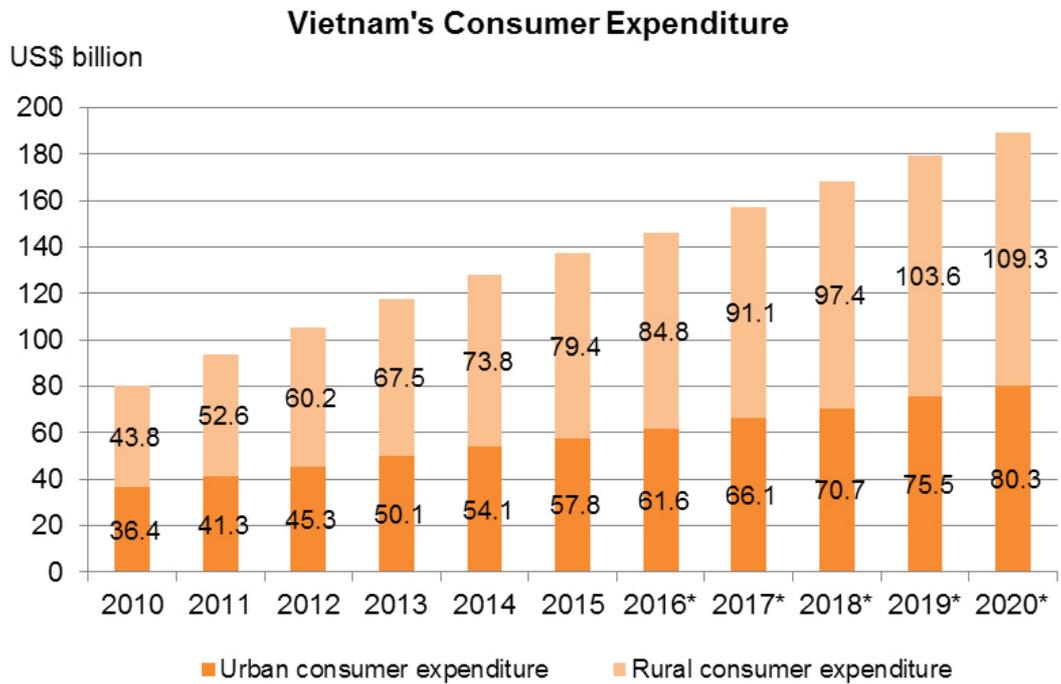


\* Estimate/forecast  
 Source: Euromonitor

The faster growth in consumer expenditure compared with income rises can be attributed to the strengthening of consumer confidence due to Vietnam’s bright economic outlook and low unemployment, spurring confidence in consumers about their future earnings. The average unemployment rate of working-age labour was about 2.3% in 2016, made up of 3.2% for urban areas and 1.9% for rural areas [1].

Unemployment in rural areas is lower than in the cities due to increases in domestic and export demand for quality agricultural and aquatic products, aiding growth of primary production activities in the countryside areas. The benefits of economic development have also spread from major cities to the rural parts of the country. Furthermore, workers living in rural areas are increasingly attracted to employment in newly established industrial parks and economic zones nearby. All of these factors have helped to boost the income of rural residents, directly stimulating their spending.

In fact, almost two-thirds of the country’s population live in rural areas, and their consumer expenditure accounts for about 58% of the country’s total. During 2010-2016, rural consumer expenditure rose by about 94%, more than the 69% increase of urban consumer expenditure in that period. But the average spending by urban residents is still higher than that of rural dwellers, as they account for only one-third of the population but spend 42% of the country’s consumer expenditure.



\* Estimate/forecast  
 Source: Euromonitor

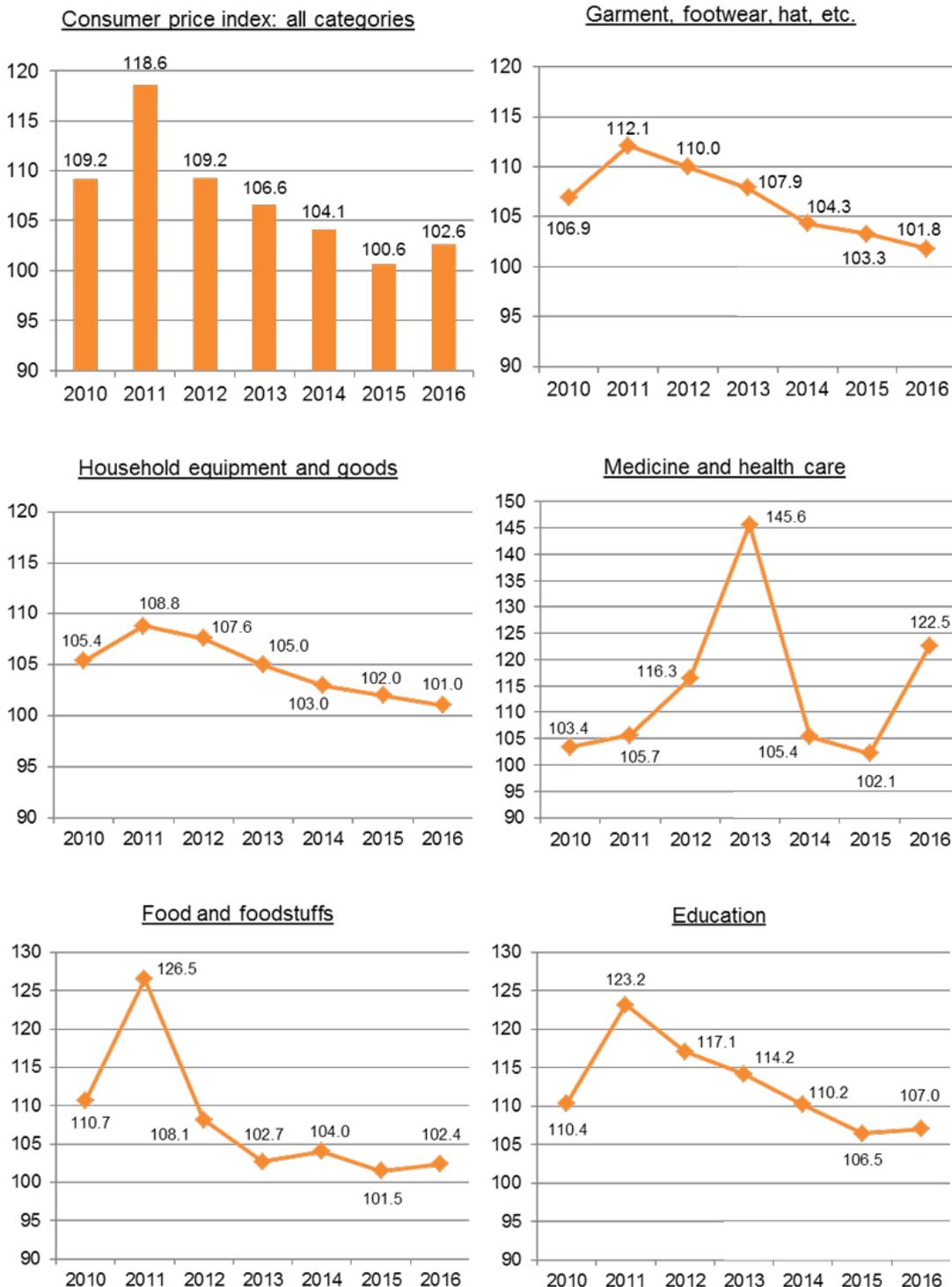
### Consumption Affected by Higher Living Costs

The cost of living is also rising fairly rapidly in Vietnam. Inflation exceeded 10% just a few years ago, especially in 2011 on the back of higher food and fuel prices. Devaluations of the Vietnamese currency, Dong, in that period also resulted in higher prices of imports. Nonetheless, price levels have stabilised somewhat in past few years, although higher prices of basic items such as foodstuffs and medicals have squeezed the budgets of ordinary households.

Spending on housing, food items and transportation, for example, accounts for almost 60% of consumer expenditure. Consumers, therefore, have become prudent in their spending on other items and tend to look for value-for-money and reasonable quality, while coveting fashionable items (see section below).



### Average Consumer Price Index



Remark: previous year = 100

Source: General Statistics Office of Vietnam; Ministry of Planning and Investment of Vietnam

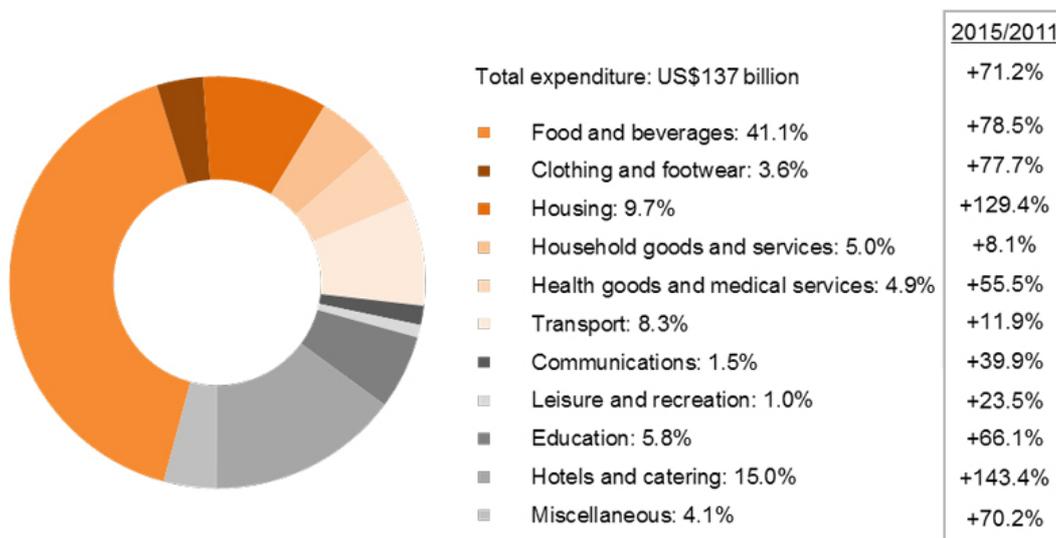
Consumers are increasingly health-conscious and try to avoid high medical expenses by keeping themselves healthy. Notably, price levels of medicine and health-care products



increased by 45.6% in 2013 and 22.5% in 2016, pushing up spending on health goods and medical services, which account for about 5% of total consumer expenditure. Consumers are also very concerned about the quality of products that may have an impact on their health, as there are often scandals about poor quality – or even toxic – foodstuffs, toys or personal-care products.

Such concerns extend to other products such as clothing, footwear, electrical appliances and household items. Consumers, sensitive to news or even rumours about hazardous or harmful products, prefer brands with a good reputation. Reputable brands not only appeal to consumers due to their design or function, but also because they are often promoted as being of international quality while projecting a healthy image. Hence, Hong Kong quality suppliers with a reputation in the international markets could have an advantage in tapping Vietnam’s consumer demand.

**Vietnam's Consumer Expenditure by Category**



Remark: 2015 figures. All percentages are calculated in US dollar terms.  
Source: Euromonitor

### Fashionable Products Preferred

Despite the tighter budget, Vietnamese consumers are purchasing more higher-end products. In particular, office staff and younger professionals with higher salaries often look for branded products, and are used to comparing local and imported items. This is along with the improvements in incomes of the middle-class households [2], which are now accounting for about 23% of the total in the country. [3]

But the purchasing power of the Vietnamese on the whole is still relatively low compared with other more developed economies in [ASEAN](#). The median disposable income per household was about US\$3,822 in 2016, or about US\$320 a month, as indicated above. Monthly salaries of young professionals and office managers could amount to US\$400- US\$800, depending on their profession and experience. But a typical middle-income household usually earn less than US\$1,000 a month.

This low average income level means that demand for mid to high-priced products is relatively weak, especially in the rural area which accounts for more than half of the



expenditure. Indeed, Vietnam only accommodates a small niche market for luxury and high-priced goods.

But as the Vietnamese economy opens up, consumers are coveting quality products and fashionable items. In view of the budget constraint, middle-income consumers are largely looking for mid-range items with fashionable design and reasonable quality. This has attracted the attention of many international brands, which were already being lured by the country's economic potential. These players are increasingly distributing their medium-priced products via dealers or even their own channels in order to tap this emerging demand. As a result, in major cities such as Ho Chi Minh city, Hanoi and Da Nang, where most households of higher income reside, consumers can enjoy a wide variety of choice for fashionable products of both local and foreign brands.

Due to booming internet applications and mobile communications, the Vietnamese are familiar with the lifestyles of advanced countries. Youngsters are particularly influenced by Korean and Japanese movies and pop stars, and in turn the related fashion trends. And because of its history, French heritage and Western dining habits are widespread.



Some Vietnamese consumers prefer to purchase luxury timepieces to show off their social status. (Photograph provided by Cititime)



Affordable luxury watches are frequently purchased by young and mid-aged professionals in Vietnam. (Photograph provided by Cititime)

Indeed, Western lifestyles are deeply rooted in the minds of the middle to upper-income classes. Even middle-aged consumers are increasingly looking for products that can express their individual personality. This is a result of Western companies promoting the individuality of their brands – the likes of *Adidas*, *Reebok*, *Nike* and *New Balance* (footwear), as well as *Mango*, *Zara*, *H&M* and *Diesel* (fashion apparel). Hong Kong-related names such as *Giordano* and *Bossini* (apparel) can also be found in the market.

Such foreign branded products and other imported items are normally priced on a par with their price levels in other advanced Asian economies, despite the lower income level in Vietnam. The high-priced items mainly target a smaller group of high-income consumers and expatriates. And the most saleable products are largely the mid-range brands that are priced at relatively more affordable levels.

Moreover, a number of local retail outlets in major cities sell certain "Made in Vietnam" items branded with foreign names. Those items are usually the residuals of batches of products that were produced for export but ended up being sold domestically. Such locally produced products are well received in the market due to their lower prices. Of course, certain fake or counterfeited products can also be found in open markets and various local shops, normally targeted at low-income consumers.



Spurred by consumers' desire for fashionable items, some Vietnamese fashion brands such as *Blue Exchange* and *Ninomaxx* (fashion apparel) have performed very well in recent years. Many companies have also started to make use of online and mobile platforms to reach customers, especially younger ones, and promote their brands and image. However, online shopping is still in the early stages in Vietnam, due partly to the immature development of online payment systems. [4]

### Affordable Luxuries in the Eyes of a Watch Retailer in Vietnam

"Smartwatches could be potential products in Vietnam's consumer market, but mid to high-end fashion watches that could be regarded as affordable luxuries are the most saleable items at the moment," Le Hoang Chuong, general manager of *Cititime Mall*, told *HKTDC Research*. He indicated that young professionals and adults under 35 years old were the major purchasers for such affordable luxuries, which were usually the foreign-branded watches. Some prefer to purchase these timepieces to show off their social status, while for others it is a way of expressing their personal style.

*Cititime* has operated in the Vietnam retail market for more than 20 years, and has a reputation for selling a wide range of mid to high-end watches and luxury timepieces. *Cititime Mall* in Ho Chi Minh city is the company's three-storey retail outlet with an area of 1,400 square metres. The company is the authorised dealer of a wide range of reputable watch brands from Switzerland, Japan, the US and some other Western countries.

Le pointed out that Vietnamese liked to wear luxury watches, but due to their budget constraints they focused on "luxury models that are of affordable prices". He said: "Affordable luxury watches, which are actually referred to those priced between US\$100-500, are frequently purchased by young and mid-aged professionals, especially the Swiss and Japanese models. These watches can be worn for office purposes, and at the same time meet the budget requirement of the customers."

Luxury watches priced at more than US\$1,000 are also selling fairly well in Vietnam, although they are mainly purchased by a small number of high-income consumers. Regardless of whether they are luxury timepieces or lower priced "affordable luxury" models, consumers are very concerned about the quality, in addition to the price and brand.

According to Le, provision of after-sales services is the key to success in the market for affordable luxury, as this represents the warranty of quality to the customers. In this regard, *Cititime Mall* accommodates a service centre, with technical experts seconded from Switzerland providing specialised repair and maintenance services for its customers.

Le said: "The set-up of a service centre at the *Cititime Mall* can help the company to fence off the challenges from other competitors that offer similar products and brands sourced from shuttle traders, who import the high-priced products via informal channels without proper customs declaration and tax. Although such products are offered at lower prices, they usually lack proper warranties and maintenance supports, which are now very important to customers.



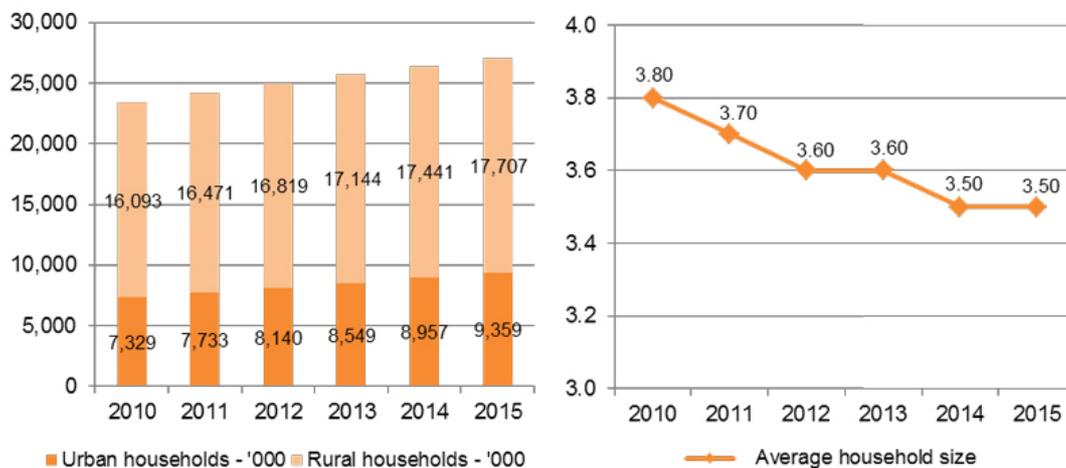
"Although Hong Kong brands are yet to establish a name in Vietnam's upmarket, timepieces produced by Hong Kong companies are of a high reputation in the industry. Consumers in general recognise that Hong Kong-origin timepieces are of good quality comparable to international brands. Therefore, *Cititime* is open for further co-operation with Hong Kong suppliers, including those of fashionable items and smartwatches."

### Children and Younger Households Driving Consumption

Vietnam's consumer market is also influenced by the spending of youngsters and teenagers. This is due in part to the traditional value that parents have a duty to raise their children well, and expect to be taken care of by them in their old age. Therefore many parents are willing to "invest" in their children by spending more on related goods and services.

Also, the two-child policy enforced in the past couple of decades has resulted in decreases in household size, effectively reversing the tradition of big families. More importantly, the increasing cost of living, particularly in major cities, has discouraged younger couples from having many children. Together with the increase in female participation in the workforce in view of increasing demand from foreign-invested factories and local businesses, these factors have seen the birth rate and household size fall in recent years.

Household Size in Vietnam



Source: Euromonitor



### Vietnam's Crude Birth Rate

Unit: ‰

	2010	2015
Whole country	17.1	16.2
Urban area, of which:	16.4	15.3
Hanoi	18.8	16.3
Ho Chi Minh city	15.1	13.7
Hai Phong	16.6	15.2
Da Nang	19.3	17.6
Rural area	17.4	16.7

Source: General Statistics Office of Vietnam

However, the number of households has kept rising. In the urban areas, it rose by 28% to more than nine million during 2010-2015, much faster than the 10% growth of the rural areas in the same period. Younger couples increasingly prefer to have a small family or one or two children and live independently from their parents, allowing them to spend more on improving the quality of life of themselves and their children.

Evidently, educational goods and services account for almost 6% of consumer expenditure, higher than the 5% share of household goods and services. It is quite common for Vietnamese children and teenagers to have nice clothes, bicycles and smartphones, as parents are more willing to purchase better-quality products at higher prices for them. This has attracted the attention of both local and foreign suppliers who are keen to tap the children segment of Vietnam's consumer market.

### Emerging Market Opportunities

As Vietnam's consumers are increasingly buying fashionable and quality items, the country has become an emerging market for suppliers of a wide range of consumer goods such as clothing and footwear, consumer electronics and household items. Indeed, many Vietnamese purchase locally produced products of lower costs due mainly to their limited budget. Moreover, the government also makes an effort to promote "Made in Vietnam" in a bid to encourage import substitution.

But Vietnam in general lacks the local supplies that are competitive enough in terms of quality, design and features in addition to prices. This is despite the huge processing activities in the country, which are largely meant for exports. Consumers always weigh between price, quality and features when making purchases, instead of country of origin. It follows that value-for-money products with reasonable quality, affordable prices and fashionable designs are sought after in the market.

Vietnam is now filled with local products and a wide range of imported items produced in ASEAN countries and China, including Western and Asian brands. But there are also huge amounts of low-priced Chinese products sold in the mass market, which are mainly regarded as non-brand items. Many are of low quality and have an inferior image, especially those available at open markets or low-end retail outlets. Furthermore, certain product safety and quality issues have arisen in recent years, including food items with banned preservatives, toys containing toxic paints, and clothing accessories and household items laced with heavy metals that are harmful to health. Unfortunately, some of the issues are related to Chinese items.



While Vietnamese consumers in general have a preference for products from Europe, Japan, Korea and Thailand, they still accept products made in China, especially those bearing recognisable brands or with a good reputation. This has provided Hong Kong companies with an edge, as they are able to render quality products made on the Chinese mainland, among other places, with competitive prices and fashionable designs. More importantly, most Vietnamese believe that Hong Kong players are able to meet international standards in terms of product safety and quality, something which is increasingly important for Vietnam's consumers.

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[1] Source: General Statistics Office of Vietnam

[2] The middle class is defined as the number of households with between 75.0% and 125% of median income.

[3] Source: Euromonitor (estimated figure for 2016)

[4] For more information, please see: [Vietnam's New Distribution Opportunities](#)

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