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## **Analysis of LOTTE's market penetration strategy in Vietnam FMCG industry**

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### **Abstract**

LOTTE is a Korean corporation that penetrated the Vietnamese market in the field of fast-moving consumer goods. LOTTE has successfully and quickly opened its business branches mainly in two major cities of Vietnam, Hanoi and Ho Chi Minh City. With the business strategy on commercial premises with a large area, with the size of investment capital and advantages of management capacity, few domestic enterprises can match and compete with LOTTE in the same way. This article will provide useful assessment results for large foreign corporations to consider whether to penetrate the Vietnamese market in this way and it entails potential opportunities and risks.

**Keywords:** LOTTE, penetration strategy, FMCG industry, Vietnam

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### **1. Introduction**

Vietnam is a country with a population of over 90 million people, ranking 14th in the world (World Bank, 2013). In addition, with the average age of the population of 28.7 and 60% of the population under 30, Vietnam is considered a country with a young population. In the next 10 years, about 17 million people currently aged between 10 and 19 will become a major source of labor and consumption in society. From these figures, Vietnam is considered to be entering a period of golden population structure. Moreover, Vietnam is a developing country with a high growth rate among the region. Increasing standards of living and income have led to an increase in people's spending ability. Despite just passing the economic recession threshold, Vietnam is still considered a potential market for the retail industry. Retail sales of services and services were rising constantly rising over period of 2009-2012, showing that the revenue of this industry still grew steadily with turnover of next year higher than that of previous year.

This is why so many foreign investors see Vietnam as a promising destination for the retail industry. And recently, the Ministry of Industry and Trade has approved the planning to develop the network of supermarkets and trade centers and forecast that by 2020, the proportion of retail sales through supermarkets and trade centers will account for 45% of the total retail of social goods. This is considered a golden opportunity for domestic and foreign investors. Although not having big names like Walmart, but Vietnam's retail market has witnessed the entry of many foreign investors such as Casino (France), Metro QC Cash & Cary (Germany), AEON (Japan), and most recently LOTTE (South Korea).

Vietnam is a special market with many opportunities but also many unique characteristics is a big challenge for domestic and foreign traders and investors. In order for a business to be successful, it is important to have a deep understanding of consumer behavior, traditional culture, legal factors and infrastructure to enhance the ability to apply international marketing knowledge in the most appropriate way. Many

marketing activities with large costs of the world's leading enterprises have failed or been inefficient, causing great losses to investors because the model of international knowledge is not fully adapted to the specific characteristics of Vietnam market.

For domestic small and medium-sized businesses, branding and marketing are really new while the costs of marketing and advertising activities are very large. The effectiveness of marketing activities usually does not come immediately, resulting in many businesses failing. The study of LOTTE's strategy to penetrate the Vietnamese market (Korea) will help us draw lessons for domestic and foreign businesses when entering Vietnam market.

On the basis of studying the basics of the FMCG Vietnam market penetration strategy, the article analyzes, evaluates and compares with the current situation of Vietnam's FMCG market. As a result, the identified limits and difficulties need to be overcome, based on which we can propose solutions to help foreign corporation to implement market penetration strategy in Vietnam.

### **2. Theoretical framework**

#### **2.1 Market penetration strategy**

The market entry strategy is to increase the consumption, increase the competitiveness of existing products in the current market of the trading company, in order to seek to increase the market share of existing products through increased marketing efforts. Market penetration strategies are widely used as individual strategies and linked with other strategies. Market penetration includes increasing the number of sellers, increasing advertising costs, broadly offering sales promotion names, or increasing public relations efforts.

#### **First-In Strategy on the market**

The first presence in the market is the market penetration strategy before all other competitors. Being first in the market allows the company to reap the benefits that other competitors are unlikely to achieve. The goal of this strategy is to create a leading position

in the market that competitors can hardly keep up. Pursuing this strategy requires businesses to meet many strict requirements such as:

- Be ready and able to take risks
- By all means keep leading the market
- Expand advertising promotion campaigns
- Create basic needs
- Assess your strengths carefully
- Have the qualifications necessary to maintain a distance from your competitors.

It is the rigorous requirements required to pursue this strategy that only a few corporations can achieve great success. The first strategy in the market can help businesses reduce costs through experience, constantly increasing growth, market share and profits.

### **Strategy of early market entry**

The strategy of early market entry is the strategy of rapid entry and success after the market leader. The purpose of this strategy is to prevent the creation of a fortress of first market entry. Strategies of early market entry are often used in the following cases, when:

- The company can create loyal customers base due to the awareness of product quality and maintain their loyalty as the market develops.
- The company is able to develop a broad product line that can discourage early marketers and compete with competitors who choose a single market gap.
- The current investment is insignificant or when the technological changes are predictable.
- The early invaders are based on the experience curve that is difficult for the opponents to follow.
- Absolute advantages can be achieved by capturing raw materials, distribution channels.
- The starting price in the market is high.
- Potential competitors can be discouraged because the market is not decisive for them.

### **Intrusion-followed strategy (Laggard-entry Strategy)**

Following strategy is the strategy to enter the market following the development stage or the saturation phase of the market. There are two types of intrusions followed: intrusion as imitators or as initiators. Mimic intruders are intruders who launch products with similar characteristics to previously available products. Intrusion intrusion is the innovation, turning products into a completely new product into the market. Mimic intrusion usually doesn't last long. Intrusion initiation has a lot of inherent benefits, creating great profitability when pursuing this strategy. The benefits are: the availability of the latest science and technology, the ability to win better conditions for suppliers and customers, the ability to offer low prices. That's why, although there are no top-notch skills but the invasion strategy can bring a lot of success.

## **2.2. Modes of market penetration**

### **Export**

It is selling products directly into the market that has been selected. Many companies choose to set up a sales program for agents or distributors to represent them in that market. Agents and

distributors work closely to represent the interests of the company. They become the face of the company and therefore it is important to choose companies that work hard. This is the most traditional and easiest method to penetrate into the international market because the capital requirement is low while the risks are not high. Most Vietnamese enterprises are using this method to penetrate the international market. However, this method often has high transportation costs, is easily prevented by trade barriers, and cooperation with representatives is also difficult [5, 8, 9].

### **Licensing**

It is a form of franchise contract to use intellectual property products (for example: patent patents, copyrights of works, trademarks, technological processes, etc.) to proceed with the manufacture and sale of products in foreign markets for a certain period of time. It is a particularly useful strategy if the license buyer has a relatively large market share in the market the company wants to penetrate. However, the profits earned from licensing are often low and the company is easily involved in complex disputes. Through licensing, manufacturers can enter a hard-to-reach market because of restrictions on foreign exchange, import quotas or prohibitive tariffs. On the other hand, the licensee can learn everything that can be learned so that they can conduct independent production when the license expires [5, 8, 9].

### **Franchise**

It is a special form of licensing where the franchisor not only sells intellectual property but also forces the franchisor to agree to meet strict requirements on how to run the business. Franchising works well with firms that have a repeat business model. For example, grocery stores such as Highland coffee, Domino's pizza, etc. can easily switch to other markets. Development costs and modal risks are low but lack of quality control (eg KFC's food case in 2011 in Malaysia) and difficult to coordinate global strategy [5, 8, 9].

### **Joint Venture**

It is a special type of partnership that involves creating a third degree management company. It's a 1 + 1 = 3 process. The two companies agree to work together in a specific market, or geography or product, and create a third company to do this. Risks and profits are often divided evenly. The best example of a joint venture is Sony / Ericsson mobile phone. The joint venture helps the company to facilitate its access to attractive foreign markets by utilizing the knowledge of its local partners, the development costs and risks are divided equally, and has the advantage of politic. However, the venture also has drawbacks. That is the lack of technological control, the difficulty in integrating the global strategy, the disagreement between the two sides on the business strategy, profit sharing [5, 8, 9].

### **Direct investment**

This is the highest form of entering the foreign market. The company invests capital in the host country to establish its manufacturing enterprise. The company decides to invest directly abroad when it has enough experience in exporting activities, and the demand of the foreign market is large enough. Direct investment will have many advantages such as taking advantage of cheap labor and raw materials from the host country and

incentives of the host country to attract foreign investment; reduce transportation costs due to production near consumption markets; building close and friendly relationships with the Government and the public of the host country (for example by creating many jobs for local people,...); better understand the needs of customers to implement the motto of selling what they need; control the entire investment capital and production process and product consumption, thus take the initiative in building and executing business plans. Direct investment also has disadvantages such as high risks due to political, legal, cultural and economic turmoil that lead to strikes, etc. Direct investment also requires the company to have Good management team, fluent in the host country environment [5, 8, 9].

### 3. Research results and discussion

#### 3.1. All about LOTTE corporation

LOTTE (Hangul: 롯데 그룹) is a multinational corporation headquartered in Korea and Japan. LOTTE Group was founded by Mr. Shin Kyuk-ho in June 1948 in Tokyo, Japan, formerly LOTTE Company. Mr. Shin Kyuk-ho was born on October 4, 1922 in Korea but he lives, studies and works in Japan. He graduated from Waseda University Chemistry. In April 1967, Mr. Shin Kyuk-ho expanded his business to the Korean market by establishing LOTTE Confectionery Company in Seoul. LOTTE Group has two branches: Japan LOTTE Group and Korea LOTTE Group. The current president of LOTTE Group Korea is Mr. Shin Dong Bin - his son Shin Kyuk-ho. Currently, LOTTE Korea Group is present in 22 countries around the world and is the 5th largest corporation in South Korea with total assets. The name LOTTE was coined by founder Shin Kyuk-ho, inspired by the beautiful, talented and popular heroine CharLOTTE in the novel *The Pain of Werther* (1774) by German writer Johann Wolfgang von Goethe. With the hope that LOTTE Group will receive the love and trust of everyone like the main character in the story, the beautiful and talented CharLOTTE. LOTTE Group operates in 6 fields:

- Food: LOTTE Confectionery, LOTTE Chilsung Beverage, LOTTE Foods, LOTTERIA, Angel-in-us Coffee.
- Retail: LOTTE Department Store, LOTTE Mart, LOTTE Super, LOTTE Home Shopping, LOTTE Hi-mart, LOTTE.com.
- Travel/ Services: LOTTE Hotel, LOTTE Duty Free, LOTTE Cinema, LOTTE Logistic, LOTTE Asset Development, LOTTE Data Communication.
- Chemical / Construction / Manufacturing: LOTTE Chemical, LOTTE E&C, LOTTE Aluminum, Korea Fujifilm, Canon Korea Business Solution.
- Finance: LOTTE Card, LOTTE Insurance, LOTTE Capital.
- Development research / Support: LOTTE R&D Center, LOTTE Academy, LOTTE Scholarship Foundation.

Some Korean LOTTE Group companies are currently present in Vietnam: LOTTERIA (1998), LOTTE Mart (2008), LOTTE Cinema (2008), Angel-in-us Coffee (2008), LOTTE Rental (2008), LOTTE-Sea Logistic (2009), LOTTE Data Communication - LDCC (2009), LOTTE Coralis (2009), LOTTE E&C (2009), LOTTE Asset Development (2009), LOTTE DatViet Homeshopping (2012), LOTTE Hotel (2013), LOTTE Department store (2014), LOTTE E-Commerce (2016), LOTTE.vn (2016), LOTTE Duty Free (2017), LOTTE Finance

(2018). LOTTE Mart is a subsidiary of LOTTE Group of Korea, a major supermarket chain that sells a wide range of groceries, clothing, toys, electronics and other goods. LOTTE Mart opened its first branch in Guui-dong, Gang Byeon and Seoul (South Korea) on April 1, 1998. In 2008, LOTTE Mart expanded to overseas markets in the following countries: China (May), Indonesia (November), Vietnam (December). As of February 2018, LOTTE Mart has a total of 294 supermarkets across the globe: Korea 123 supermarkets, China 112 supermarkets, Indonesia 46 supermarkets and Vietnam 13 supermarkets.

The first LOTTE Mart supermarket in Vietnam is LOTTE Mart South Saigon built in District 7, Ho Chi Minh City, which is also the headquarters of LOTTE Mart Vietnam. LOTTE has invested 13 LOTTE Mart supermarkets in Vietnam and has the ambition to open 60 supermarkets by 2020. In the last 4 years, LOTTE Mart's revenue increased by 400 million USD per year, in 2016 exceeded 2 billion USD. However, despite a sharp increase in sales, during the past 10 years, LOTTE Mart continuously reported losses. The highest peak was in 2015 when the loss exceeded 200 million USD. In 2016, LOTTE lost about 11 million USD. In total, after 10 years of doing business in Vietnam, LOTTE accumulated losses of about 87 million USD. With this result, the largest retail giant in South Korea made many people think of the business activities of many "giants" such as Coca Cola, Pepsi, BigC, Metro Cash & Carry suspected to show signs of transferring prices and tax evasion in Vietnam when constantly reporting losses and continuous expansion. According to the financial report from LOTTE Shopping Korea, as of December 31, 2016, LOTTE Vietnam Trade Center Joint Stock Company has total assets of about 400 million USD, charter capital of 171 million USD. Despite constant losses, debts near the threshold of tens of trillion, LOTTE Mart continues to expand the system in Vietnam. According to information from this group, since entering the Vietnamese market, LOTTE Mart is estimated to have spent more than 400 million USD investing in infrastructure and equipment for 13 trade center and supermarket belonging to LOTTE Mart system. Also according to the group, LOTTE Mart system attracts an average of nearly 80,000 visitors and shop every day (equivalent to more than 30 million visitors / year).

#### 3.2. Discussion

LOTTE brand wants to become a super corporation in Asia in the coming years with Samsung and Toyota. In order to realize this ambition, LOTTE is promoting overseas investment activities as the domestic market continues to grow slowly. For example, in the retail segment, LOTTE is currently facing a new barrier in Korea. Because a law in 2012 forced big brands like LOTTE Mart to close supermarkets at least twice a month and not open 24 hours a day, in order to facilitate smaller-scale retail chains. Can compete equally. And yet, in Korea, during the campaign, one of the candidates' promises is to impose a ban on opening more supermarkets in cities of less than 300,000 people. This means that even large retail chains like LOTTE Mart are not allowed to open more supermarkets in 50 of the 82 cities in Korea. On the other hand, Korea is in the trend of aging population, low birth rate. Consumer trends are forecast to change significantly. Therefore, LOTTE has stepped up investment in Indonesia, Vietnam and Myanmar over the past time. To date, LOTTE has spent more than 9.6 billion USD on M&A deals in Asia.

Regarding the retail segment, LOTTE Mart is targeting 700 supermarkets in the region in 2018. Regarding the expansion strategy in Asia, LOTTE Group's Chairman, Mr. Shin Dong Bin, said LOTTE will look for positions that can allow the deployment of many types of businesses such as supermarkets, convenience stores, hotel and fast food chain LOTTERia.

Vietnam is currently considered as one of the three important markets of LOTTE Mart in Asia, besides China and India. From the beginning, instead of investing directly in the retail industry, LOTTE used the pedal strategy to penetrate the Vietnamese market. According to the investment certificate issued to LOTTE Mart in October 2006, the charter capital of this business is 65 million USD. In particular, Minh Van Private Enterprise produces 13 million USD, accounting for 20% of charter capital. LOTTE contributed 52 million USD, equivalent to 80% of charter capital. After that, LOTTE bought the capital contribution from a domestic partner to turn it into a 100% foreign-owned enterprise, and also increased its charter capital from USD 65 million to 120 million USD. Although the growth rate of LOTTE Mart in Vietnam is still not comparable with China or Indonesia, in terms of revenue, the Vietnamese market has more potential, with an annual growth of 47.5 %; while China is 7.8% and Indonesia is 13.7%.

Present in Vietnam for 10 years, LOTTE owns 12 companies operating in many fields from confectionery (Bibica, LOTTE Vietnam), fast food (LOTTERia), retail (LOTTE Mart, LOTTE Department Store), entertainment (LOTTE Cinema), real estate (LOTTE Hotel & Resorts), e-commerce (LOTTE.vn), information technology. Among them, the most prominent is the presence of the central chain system. LOTTE Mart commercial and supermarket. LOTTE is having difficulties in China when many LOTTE Mart supermarkets are closed after sanctions. To compensate for the increasing risks and losses in China, LOTTE Group has shifted its focus from China to Vietnam, a country where many Korean companies are on a steady growth momentum and are eager to open. Wide presence. LOTTE Mart only operated 12 stores in China after 74 stores were forced to close and 14 others voluntarily stopped operating. Now, according to South Korean media, the company is planning to withdraw from China and sell its stores there.

#### 4. Conclusion and Recommendation

From the analysis and evaluation of LOTTE's business data and situation in Vietnam, it can be seen that LOTTE has not been in Vietnam market for a long time but has achieved great developments. In the context of the current strong international economic integration, the Party and the State of Vietnam always focus on creating favorable conditions for foreign investors to have the best investment and development opportunities. LOTTE is a South Korean enterprise, a country that has had good diplomatic relations with Vietnam for many years, its investment in Vietnam is a right step, showing that this corporation has noticed many potential of Vietnam market

Vietnam is a country belonging to the gateway region of Southeast Asia, with extremely favorable natural and climatic conditions, a modern and synchronized transportation system, a coastline of more than 3260 km, and a land border adjacent to it, such as China, Laos and Cambodia. With favorable trade conditions, businesses like LOTTE, AEON have seen the potential and have invested in Vietnam, with the main industry

being retail focusing primarily on fast-moving consumer goods. Vietnam's population is increasing, living needs are increasing, time is limited so people need to use items with high convenience and cost savings. LOTTE is tapping into the tastes of Vietnamese consumers. If this group continues to promote operations and build a strategic business strategy, this will certainly be a very developed corporation, since then, boosting Vietnam's economy to develop strongly.

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