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V. CONCLUSION
I. OVERVIEW

The beverage industry in Vietnam has existed for a long time and has been expanding more quickly over the past decades. The development of the industry was supported by foreign investment and the catch-up development of the domestic producers recently. In 1994, Coca-Cola constructed their first plant and has achieved high growth since then. In 1991 Pepsi Co also entered in Vietnam’s market under a joint venture and continues to have strong presence in Vietnam nowadays. A giant of the world beverage sector, Nestle, plans to increase its coffee sourcing from local farmers in Vietnam and has committed to a new coffee plant in the country. The USD 270 million plant will be constructed in the south-east province of Dong Nai and will produce Nescafe-branded products for the domestic and international markets. Products of the beverage sector are diversified with high quality meet consumers’ demand. The development of the domestic producers recently. In 1994, Coca-Cola constructed their first plant and has achieved high growth since then. In 1991 Pepsi Co also entered in Vietnam’s market under a joint venture and continues to have strong presence in Vietnam nowadays. In a similar but later move, a giant of the world beverage sector, Nestle, plans to increase its coffee sourcing from local farmers in Vietnam and has committed to a new coffee plant in the country. The USD 270 million plant will be constructed in the south-east province of Dong Nai and will produce Nescafe-branded products for the domestic and international markets.

II. Vietnam Drink Industry SWOT

I. OVERVIEW

The beverage industry in Vietnam has existed for a long time and has been expanding more quickly over the past decades. The development of the industry was supported by foreign investment and the catch-up development of the domestic producers recently. In 1994, Coca-Cola constructed their first plant and has achieved high growth since then. In 1991 Pepsi Co also entered in Vietnam’s market under a joint venture and continues to have strong presence in Vietnam nowadays. A giant of the world beverage sector, Nestle, plans to increase its coffee sourcing from local farmers in Vietnam and has committed to a new coffee plant in the country. The USD 270 million plant will be constructed in the south-east province of Dong Nai and will produce Nescafe-branded products for the domestic and international markets. Products of the beverage sector are diversified with high quality meet consumers’ demand. The development of the domestic producers recently. In 1994, Coca-Cola constructed their first plant and has achieved high growth since then. In 1991 Pepsi Co also entered in Vietnam’s market under a joint venture and continues to have strong presence in Vietnam nowadays. In a similar but later move, a giant of the world beverage sector, Nestle, plans to increase its coffee sourcing from local farmers in Vietnam and has committed to a new coffee plant in the country. The USD 270 million plant will be constructed in the south-east province of Dong Nai and will produce Nescafe-branded products for the domestic and international markets.

II. Vietnam Drink Industry SWOT

STRENGTHS
- Vietnamese consumers, particularly the young and affluent, are interested in brands, and, accordingly, renowned Western products backed by investment in marketing and promotions tend to have highly successful launches.
- The wealthy urban centers of Hanoi and Ho Chi Minh City now provide highly receptive consumer audiences.
- Alcoholic drinks are widely consumed and have gained popularity in recent years.
- Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.1% annually between 2000 and 2011.
- Competitive pressure is quickly intensifying in the drinks sectors, which is likely to drive greater sector dynamism and fuel growth.

OPPORTUNITIES
- Accession to the WTO, in January 2007, will continue to benefit Vietnamese exporters, with the gradual removal of market barriers and trade restrictions set to increase competition.
- Vietnam’s large domestic market, growing export opportunities and low labor costs, as well as the prospect of acquiring newly privatized drink companies, offer further investment opportunities.
- A growing tourism sector is fueling interest in convenience categories, in addition to sub-sectors such as soft and alcoholic drinks.
- In line with consumers’ rising disposable incomes, there are opportunities for premium-branded products in the soft and alcoholic drinks sub-sectors.
- The global trend towards health consciousness provides an opportunity for drinks manufacturers to diversify into perceived healthier options.

WEAKNESSES
- There are wide income disparities between urban and rural areas, and local consumption patterns vary significantly according to income.
- The drinks industry remains largely fragmented, except for a few key sectors, such as alcoholic and soft drinks.
- Despite the growing presence of multinationals in the market, local firms continue to dominate the beer market.
- Vietnam’s infrastructure is still weak. Roads, railways and ports are inadequate to cope with the country’s economic growth and links with the outside world.
- Establishing separate breweries in different regions is costly but remains one of the best strategies to overcome the lack of infrastructure.

THREATS
- Vietnam’s WTO membership may result in smaller companies unable to cope with the increased competition being forced out of business.
- Elevated raw-material costs threaten profitability in a competitive market in which higher prices cannot easily be passed on to consumers.
- Rising unemployment levels are taking their toll on consumer confidence.

Source: Euromonitor International, VPBS Research

2. Beverage sales and growth:

In 2013, retail sales of the beverage sector in Vietnam reached USD 8 billion, a 7.6% rise compared with 2012. Alcoholic drinks were the largest category with 70% contribution to total beverage market value. It modestly grew 6.3% up to USD 5.6 billion, the lowest growth rate amongst other beverage categories. Soft drinks posted the highest growth of 12.4% to record USD 1.7 billion in sales value, while hot drinks was the smallest segment with USD 0.7 billion revenue in 2013.

<table>
<thead>
<tr>
<th>Beverage categories</th>
<th>2013 Sales</th>
<th>2013 growth</th>
<th>Key players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcoholic</td>
<td>USD5.6 bn</td>
<td>6.3%</td>
<td>Sabeco, Habeco</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>USD1.7 bn</td>
<td>12.4%</td>
<td>Pepsico, Tan Hiep Phat, URC VN</td>
</tr>
<tr>
<td>Hot drinks</td>
<td>USD0.7 bn</td>
<td>6.9%</td>
<td>Nestle, Vinacafe, Vinatae</td>
</tr>
</tbody>
</table>

The beverage market overall is growing rapidly and is becoming more diverse. Sales of beverage products are expected to increase between 6.3 – 7.2 percent per annum for the period 2011 – 2013.

- Non-alcoholic beverages: Due to a combination of westernization and rising health consciousness, both soft drinks and healthy alternatives, such as fruit and vegetable juices, are expected to grow. As the population becomes wealthier, demand for hot beverages such as coffee and tea is also expected to rise.

- Alcoholic beverages: Higher income levels and westernization are influencing alcohol consumption, which is increasing rapidly in Vietnam. Alcohol consumption is forecast to increase by around 6.5 – 7.5 percent each year for the period 2011 – 2013.
  - Currently, 98 percent of alcohol consumption is beer. However, as other alcoholic beverages such as spirits and wine become more affordable for consumers, demand is expected to rise.
  - Wine is expected to grow at around 4 percent per annum for the period 2011 – 2015. White wine is forecast to grow at around 6 percent per annum for the same period and red wine at 3 percent.
3. Beverage value chain:
Food and beverage manufacturers deal with many different suppliers, distributors and channels in taking their product to market.

4. Beverage distribution channels:
Vietnam possesses a dense retail network, widely spread throughout the country, including 424 supermarkets, 23 hypermarkets, 365 mini-marts and almost 779,000 of traditional markets and small private shops. While supermarkets and hypermarkets account for the majority, the convenience store model is still in its infancy. Grocery outlets are dominant with more than 636,000 units. The number of retail outlets is reported to have increased every year at a rate of 1.2% during the period of 2009 through 2013. Also, existing prominent retailers and wholesalers such as Saigon Coop, Big C, and Metro Cash & Carry have committed themselves to further expansion not only in big cities but also in many provinces. The continuous growth and expansion of mass retail outlets strongly encourages consumer purchasing and increases consumption value.

Vietnam allows foreign companies to import food and beverage products and distribute them through both wholesale and retail channels. However, companies need to be registered in Vietnam and have an investment license. Unless a company has an investment license for distribution and invoicing, foreign companies must work with an authorized agent or distributor in order to sell their products in Vietnam. Agent: An agent will sell products for a commission. A typical agent will also provide market research, marketing and promotion and after sales service to consumers. Distributors: Distributors will purchase goods from foreign companies for resale. Distributors can also sometimes perform the functions of an agent.
The majority of alcoholic drinks were distributed through on-trade channels due to rising common perception of drinking to socialize. Soft drinks followed the same pattern but at a less steep ratio of 80:20 relative to the ratio of 80:20 of the alcoholic drinks due to its convenience and high frequency of use. In contrast, hot drinks were mainly consumed through off-trade channels as Vietnamese consumers consider hot drinks a daily necessity and usually are consumed at home. In general, for each of beverage category, there was 65% of off-trade sales value gone through the traditional channels with almost 779,000 of traditional markets and private shops.

5. Tax and duties on beverage:

**Inbound manufactured products**
Local manufactured products are subject to special consumption tax (SCT) and VAT as follows:

\[
\text{Special consumption tax (SCT)} = \text{SCT rate} \times \text{Selling price before VAT} (*)
\]

\[
\text{VAT} = \text{VAT rate} \times (\text{Selling price before VAT} (*) + \text{SCT})
\]

(*) Including package value

**Imported products**
Imported products are subject to Import Tax, Special Consumption Tax (SCT) and VAT as follows:

\[
\text{Import Tax} = \text{Import tax rate} \times \text{Import price} (*)
\]

\[
\text{Special Consumption Tax (SCT)} = \text{SCT rate} \times (\text{Import price} (*) + \text{Import tax})
\]

\[
\text{VAT} = \text{VAT rate} \times (\text{Import price} (*) + \text{Import tax} + \text{SCT})
\]

(*) Including package value

<table>
<thead>
<tr>
<th>Beverage Type</th>
<th>Current Import Tax</th>
<th>Current Special Consumption Tax (SCT)</th>
<th>From July 1, 2015 (Draft) Special Consumption Tax (SCT)</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine &gt; 20% alcohol</td>
<td>45%</td>
<td>50%</td>
<td>65%</td>
<td>10%</td>
</tr>
<tr>
<td>Wine &lt; 20% alcohol</td>
<td>50-55%</td>
<td>25%</td>
<td>35%</td>
<td>10%</td>
</tr>
<tr>
<td>Beer</td>
<td>35%</td>
<td>50%</td>
<td>65%</td>
<td>10%</td>
</tr>
<tr>
<td>Soft drinks(carbonate)</td>
<td>20 - 40%</td>
<td>0%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>
II. BEVERAGE CATEGORIES BREAKDOWN

1 Alcoholic drink:
As increasing Vietnamese’s exposure to drinking cultures around the world couples with their popular perception of drinking to socialize, Vietnam alcoholic drinks consumption continues growing y-o-y and has gained the biggest retail sales among other beverage categories. Further, rising numbers of tourists and expatriates living in big cities also incentivize alcohol-serving retailers to expand, which in turn stimulates local consumption as rising adoption of western lifestyle becomes more prevalent.

A. VOLUME/ VALUE AND GROWTH:
In 2013, Vietnamese people drank a remarkable 3.15 billion liters of alcohol, equivalent to VND 119.5 trillion (USD 5.6 billion), representing double-digit CAGR of 10.1% and 10.6% during 2010 to 2013. Despite its slowing growth since 2012 because of reaching maturity, alcoholic drinks remains one of the potentially lucrative markets in Vietnam. It is expected to reach USD 6.3 billion in 2015 by Euromonitor International.

![Graph showing alcohol consumption volume and growth](image-url)

![Graph showing alcohol consumption value and growth](image-url)
B. ALCOHOLIC DRINK CATEGORIES BREAKDOWN:

Alcoholic beverage consumption is largely driven by the beer category which accounted for 98% of sales volume and 91% of sales value in 2013. Spirits and wine accounted for only 2.3% volume share (74 million liters) and 8.8% value share (VND 10.4 trillion or USD 492 million). In 2013, beer consumption recorded more than 3 billion liters, equivalent to VND 109.1 trillion (USD 5.2 billion).

C. BEER:

While Vietnam was leading in the SEA region with 29 liters of beer consumption per capita in 2012, the country captured the 4th position for the entire Asia region, only after Japan (64 liters), South Korea (45 liters) and China (37 liters). According to Vietnam Breweries Associations (VBA), beer consumption per capita rose approximately 10% up to 32 liters in 2013. As such, Vietnam is considered one of the beer loving countries and is among the most attractive destinations for international breweries.

The Vietnam beer market had a CAGR of over 10% in volume and value during the period from 2010 to 2013. However, as the market becomes saturated, growth cannot be as fast as it was prior to 2011. Beer is forecasted to grow at a slower pace with an average 5.3% per annum and the sales will be USD 5.7 billion by 2015.

Lager is the main type of beer in Vietnam since Vietnamese consumers are already familiar with the taste of lager and are reticent to try new tastes. Thus, other types of beer such as dark beer, stout and low-alcohols have only a limited presence in the market. Standard lager holds the lion’s share of its biggest shares of 67% of total lager due to still low disposal-income per capita. Also, there was a large gap of at least 43% higher in unit price range of each segment including premium, standard and economy.
Sabeco continued to lead the beer market with 47.5% value share in 2013. Its prominent brands such as Saigon Export, 333 Export and Saigon Lager accounted for 46.8% market shares by brands. Vietnam Brewery and Habeco hold the second and third positions with market shares of 18.2% and 17.3% respectively. While Hanoi beer brand of Habeco took 15.8% of brands share, Heineken and Tiger of Vietnam Brewery occupied 11.5% of the pie. The top three players Sabeco, Vietnam Brewery and Habeco, together, hold 83% of value sales of beer in 2013.
2. Soft drink  
A. VOLUME/ VALUE AND GROWTH

Thanks to the growing health conscious of Vietnamese people and demand for more convenient in today’s busier lifestyles, soft drinks with health benefits saw a remarkable growth, such as RTD (ready to drink) tea, energy drinks and fruit/vegetable juice. Consumers also have concerns about food safety and the hygiene of unpackaged drinks. Thus, products like bottled water, as a daily necessity, enjoyed good performance since it has more benefits of convenience and cleanliness than common tap water.

Among other beverages, soft drinks enjoyed the highest value growth rate of 12.4% in 2013 and the strongest CAGR of 12.2% over 2010 to 2013. It was also the only category that recorded double-digit growth of 15.9% in 2013 and CAGR of 17% over 2010 to 2013 in terms of sales volume. In 2013, soft drinks reported 2.4 billion liters consumption, equivalent to VND 36.2 trillion (USD 1.7 billion).

B. SOFT DRINK CATEGORIES BREAKDOWN:

In 2013, PepsiCo was leading the local soft drinks with 25.5% market share, closely followed by Tan Hiep Phat (THP) with that of 22.7%. PepsiCo is prominent among carbonates with brands such as Pepsi, 7-up and Mountain Dew, while THP was the pioneer of RTD tea with Zero Degree and Dr. Thanh brands which led to a booming demand for this herbal product during 2009 to 2010. The company highly dominated the RTD tea market itself with 41% market shares. Its strong competitor is Universal Robina Corporation (URC), with C2 brand which is also well-recognized by its taste and handy bottle size.

C. READY-TO-DRINK (RTD) TEA:
Tea is perceived as one of Vietnam’s traditional drinks and enjoy a long history. With the advantages of convenience, refreshing and thirst-cooling characteristics, RTD tea is the best choice for the tropical country with high humidity. Further, it also offers good health benefits with low sugar content and more vitamins and minerals relative to carbonates. As such, RTD contributed 58% to soft drink revenue while carbonates took only 16% shares in 2013.
3. Hot drink: A. VOLUME/VALUE AND GROWTH:

Hot coffee and tea are long-standing traditional drinks of Vietnamese people. These require time to serve by boiling ground coffee or tea leaves with water in a coffee filter or teapot. Thus, development of instant products offers a perfect solution not only to maintain the traditional drinking habit but also ensure convenience and timesaving for busy lifestyles. A variety of formulas were successfully introduced with 3-in-1 and 2-in-1 instant format for both coffee and tea. As such, the growth of hot drinks is largely driven by instant products. Although the growth rate was not as high as soft drinks, hot drinks recorded revenue of VND 14.1 trillion (USD 667.5 million), rose 6.9%, and consumption volume of 117.1 thousand tons, grew 7.3%.

RTD tea enjoyed a rapid increase in 2009 to 2010 and then slowed down, yet still maintained two-digit growth. In 2013, RTD tea reported VND 21 trillion (USD 994 million) value of sales, an increase of 12.2%, and 1 billion liters volume of sales, rose 13.3% compared to 2012. It represented a robust CAGR of 15.9% in volume and 14.9% in value over the period of 2010 to 2013.

### Hot drinks sales volume and growth

Hot coffee and tea are long-standing traditional drinks of Vietnamese people. These require time to serve by boiling ground coffee or tea leaves with water in a coffee filter or teapot. Thus, development of instant products offers a perfect solution not only to maintain the traditional drinking habit but also ensure convenience and timesaving for busy lifestyles. A variety of formulas were successfully introduced with 3-in-1 and 2-in-1 instant format for both coffee and tea. As such, the growth of hot drinks is largely driven by instant products. Although the growth rate was not as high as soft drinks, hot drinks recorded revenue of VND 14.1 trillion (USD 667.5 million), rose 6.9%, and consumption volume of 117.1 thousand tons, grew 7.3%.

### RTD tea market share

![RTD tea market share graph]

- **Tan Hiep Phat (THP)**: 41%
- **URC Vietnam**: 19.6%
- **Interfood**: 10.8%
- **Tan Quang Minh (TQM)**: 10.2%
- **Tribeco**: 9.1%
- **Zero degree green tea (THP)**: 9.4%
- **C2 cool & clean (URC VN)**: 9.2%
- **Wonderfarm (Interfood)**: 6.1%
- **Nute green tea lemon (TQM)**: 4.1%
- **Tribeco (Tribeco)**: 21.1%
- **Other**: 20.8%

### RTD tea brand shares

- **Tan Hiep Phat (THP)**: 46.4%
- **Zero degree green tea (THP)**: 9.4%
- **URC Vietnam**: 4.1%
- **C2 cool & clean (URC VN)**: 6.1%
- **Interfood**: 5%
- **Tribeco**: 19.6%
- **Wonderfarm (Interfood)**: 9.1%
- **Nute green tea lemon (TQM)**: 10.8%
- **Tribeco (Tribeco)**: 10.2%
- **Other**: 21.1%

### Hot drinks sales value and growth

![Hot drinks sales value and growth graph]

### RTD tea brand shares

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- **Wonderfarm (Interfood)**: 9.1%
- **Nute green tea lemon (TQM)**: 10.8%
- **Tribeco (Tribeco)**: 10.2%
- **Other**: 21.1%
B. HOT DRINK CATEGORIES BREAKDOWN:

Coffee continued to lead the hot drinks market with 60.8% share of total category revenue (VND 8 trillion or USD 378.7 million), followed by tea with 28.2% shares (VN3.7 trillion or USD 175.1 million). Vietnam continues to be, no doubt, a strong coffee drinking country.

In 2013, coffee posted a higher value growth of 7.7% than the overall hot drinks category, of 6.9% thanks to robust accelerating demand for instant coffee which currently accounts for 75% of the total sales value of coffee. While 3-in-1 products (mixture of coffee, milk and sugar) have been widely accepted by consumers since their initial launch in 2011, there has been a gradual shift to the 2-in-1 format (coffee with sugar or milk), instant cappuccino and latte (Italian taste) as alternatives. There is also a minimal presence of 4-in-1 instant coffee with ginseng or other nutritional additives.

C. HOT DRINK MARKET SHARES:

The domestic hot coffee market was largely controlled by local companies including Vinacafe Bien Hoa, Trung Nguyen and Viet Thai International, which together occupied 56% market share in 2013. The competitive advantage of these competent players is their deep penetration of the Vietnamese coffee culture and the benefits of consumers’ preferences and tastes. However, with a colossal budget allocated to marketing and promotion, Nestlé Vietnam has firmly captured consumers’ brand awareness and holds the first position with 33% market share.

In 2013, Vietnam National Tea (Vinatea) continued to lead the local tea market, with 32% of the sales value, followed by Unilever Vietnam with that of 15.5%. Vinatea is long-established with its industry experience and technology. Between 2010 and 2013, the tea category saw robust branding strategies come to the fore with international companies. This has led to the rising market share of Unilever Vietnam with well-recognized Lipton brand including Yellow Label and Clear Green.
IV. TRENDS AND DEVELOPMENT

1. Spirits major Diageo acquires additional stake in Halico:
In June 2012, UK drinks group Diageo acquired an additional 10.62% stake in Vietnamese spirits firm Hanoi Liquor Joint Stock Company (Halico). Diageo is seeking to capitalize on the robust growth of the branded spirits sector in Vietnam. Diageo’s strategy is focused on marketing and brand building, with enormous sums invested in effective brand communication. It acknowledges the strength of its eight global priority brands’ in comparison to the rest of its portfolio and allocates disproportionate levels of marketing investment towards these brands.

2. SMB eyeing regional growth:
Philippine brewer San Miguel Brewery (SMB) has its sights set firmly on the demand potential in the markets of Cambodia, Laos and Vietnam. The brewer plans to set up three new breweries in these countries, with a planned investment of around USD 100mn per plant. The Vietnamese beer market is dominated by more established market players such as Habeco and Sabeco, and it will not be easy for SMB to entrench a strong foothold against the companies’ market dominance.

3. Regional brewers spreading their wings across Vietnam:
Asia Pacific Breweries (APB) saw strong sales in 2012, with 12% sales growth in Vietnam and Thailand, Just Drinks reports. The owner of Tiger Beer saw a 9.7% rise in sales to USD 625.24mn and a 27.7% increase in operating profits to USD 134.04mn. Dutch brewer Heineken recently secured full control of APB after the shareholders of Fraser and Neave (F&N) voted in favor of the firm’s USD 4.5bn bid. Japanese brewer Sapporo has announced that it intends to significantly increase its beer production in Vietnam in the period up to 2019. Japanese brewer Asahi Group Holdings has announced that it intends to extend its operations across Asia through a series of acquisitions. Also looking to capitalize on the Vietnamese potential, in 2011, Danish brewer Carlsberg purchased the remaining 50% stake in Vietnamese brewer Hue Brewery Company.

4. Spirits and Soft drinks potential attracting investors:
US consumer goods packaging supplier Crown Holdings is to open its fourth manufacturing plant in Vietnam by mid-2013 in a bid to ramp up global production, reports Beverage Daily. The Asian market is proving to be a very exciting prospect for multinational cognac producers. The leading four global cognac houses, Hennessy, Rémy Cointreau, Martell and Courvoisier, are all actively seeking out new markets to diversify their presence beyond China.

5. Coffee potential perking up sector investments:
Masan Consumer in 2011 acquired a 50.1% stake in the Vietnamese coffee producer Vinacafe Bien Hoa Joint-Stock Company. US coffee giant Starbucks recently launched its instant coffee brand in Singapore as it looks to build a stronger footprint in the Asia Pacific region.

6. Ready-to-drink tea attracts investment:
In September 2012, the Daily reported that Tan Hiep Phat Group began construction of a new plant in northern Ha Nam province. Deputy director of Tan Hiep Phat Group, Tran Phuong Uyen, was quoted as saying that the new plants will produce soft drinks of natural origin, doubling the company’s existing annual capacity of 1bn liters per year.
Beverage Supply Chain
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INCREASING NEED FOR SUPPLY CHAIN PROCESS STANDARDISATION & RESPONSIVENESS; IT OPTIMISATION NEED

Brewing & Beverages Supply Chain
Some key drivers in 21st Century

**SUPPLIERS**

- Increasing need for responsive supply chain including integration of demand, supply & reverse logistics.
- Drive to reduce out-bound costs
- Distribution optimisation & closer relations to key distributors
- Reverse logistics

**CONSUMERS**

- Increasingly complex channel management

**PLANNING**

- Need for improved supply chain visibility. Move to ERP standardisation. Keep it simple

**INFORMATION TECHNOLOGY**

- Keep it simple

- Move to planning standardisation within multinationals
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