Industry report:

The e-commerce pivot in Vietnam.

2022

A Market Insight Report by Acclime Vietnam, supported by Kantar Worldpanel.
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In the last few years, Southeast Asia’s dynamic and vibrant economies have been growing significantly faster than other developed nations, a growth sustained in part by a consistent investment in digitization and in the e-economy cross-border frameworks. These dynamic factors present for foreign investors a major opportunity to tap into new business opportunities in the region, especially in the e-commerce sector, which is experiencing a breakthrough investment potential.

Vietnam is considered an ‘awakening dragon’ in the e-commerce space, alongside other major Southeast Asian economies such as Indonesia, Malaysia, and Thailand. Vietnam’s e-commerce potential is supported by its young, tech-savvy population, high internet penetration, rising income and progressive government policies which promote the digital economy.

E-commerce in Vietnam - a dragon awakening.
Vietnam’s transformation into a digital savvy economy

In May 2020, the Vietnamese authorities approved the master plan for national e-commerce development for the period of 2021 to 2025, designed to promote the broad application of e-commerce in all of the key economical pillars, targeting official institutions, private businesses and individual consumers alike. Some of their immediate goals are to narrow the digital usage gap between the major cities and other localities, build a sustainable virtual market as a holder for a multitude of digital marketplaces, and significantly increase cross-border online trading.

A report by Vietnam Ministry of Industry and Trade’s E-Commerce and Digital Economy Department showed that Vietnam’s E-commerce market recorded an estimated value of 13 billion USD in 2021, surpassing 5 billion USD in 2020. The e-commerce market volume is projected to continue to be a major pivot in the next years, where Vietnam may overtake its regional peers such as Thailand, Philippines, Malaysia and Singapore.

**Estimated value of Vietnam’s e-commerce market in 2021.**

13 billion USD

**Vietnam’s transformation into a digital savvy economy**

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**E-COMMERCE MARKET VOLUME IN SOUTHEAST ASIA, 2019 - 2021, FORECAST FOR 2025, BY COUNTRY billion USD**

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2025(F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>8</td>
<td>13</td>
<td>21</td>
<td>39</td>
</tr>
<tr>
<td>Thailand</td>
<td>5</td>
<td>12</td>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3</td>
<td>8</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>Philippines</td>
<td>3</td>
<td>5</td>
<td>12</td>
<td>26</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.9</td>
<td>4.9</td>
<td>9.8</td>
<td>19</td>
</tr>
<tr>
<td>Indonesia</td>
<td>35</td>
<td>53</td>
<td>104</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Statista)
E-commerce: crucial pillar of Vietnam’s economic development?

Vietnam’s internet economy has experienced significant growth in recent times, with the annual Gross Merchandise Volume (GMV) reaching 21 billion USD in 2021, bolstered by a 53% growth year-on-year in e-commerce. It is projected to record 220 billion USD in Gross Merchandise Volume by 2030, placing Vietnam second in Southeast Asia only after Indonesia, according to the e-Conomy SEA 2021 Report recently published by Temasek, Google, and Bain & Company.

There are four notable pillars of the digital economy which represent the foundation of the future growth of the sector: online media, transport & food, online travel, and e-commerce. The e-commerce pillar achieved 13 billion USD market value in 2021, accounting for more than 60% of the total internet economy volume and highest among the four key pillars and was boosted by an increase in online grocery purchases and experience goods.

With a supportive legal environment, a considerable market size, high smartphone adoption and internet penetration, Vietnam’s commitment to the economy’s digital transformation creates a major opportunity for large participants in e-commerce space to take advantage of these favorable assets, alongside proven success stories from Vietnamese local e-commerce platforms such as Tiki, Bach Hoa Xanh, and Sendo.

“It is essential for international investors to gain an in-depth insight about local e-commerce environment, the substantial opportunities to capture and create value in the digital economy, the regulatory framework governing the digital cross-border trade and potential challenges ahead, in order to reach Vietnam’s consumers and win in an increasingly competitive marketplace.”

Vlad Savin
Head of Business Development, Acclime Vietnam
Vietnam has emerged as one of Asia's great success stories, backed by a stable political system, commitment to sustainable growth, relatively low inflation, strong FDI inflows, youthful and digital population, and a strong manufacturing sector. In addition, the country has a large domestic market and a growing middle class. These dynamic factors have created an extraordinary opportunity for international investors to take advantage of regional growth and focus their attention on Vietnam, particularly in key sectors such as production, trade, services and e-commerce.
Vietnam story.
(Source: Vietnam General Statistics Office data)

98.51 million people, 2021. 68% is working force.

GDP growth, 2021
2.58%

CPI growth, 2021
1.84%

INTERNET ECONOMY SIZE, 2021
21 million USD

E-COMMERCE
SHARE OF TOTAL RETAIL, 2021
5.5%

GDP GROWTH RATE & CPI 2012-2021

GDP per Capita 2012-2021

VIETNAM IMPORTS AND EXPORTS 2012-2021 (BILLION USD)

TOP 10 IMPORTS SECTORS, 2021 (BILLION USD)

TOP 10 EXPORT SECTORS, 2021
Vietnam’s economy - resilient amidst headwinds

The fourth wave of the Covid pandemic in 2021 severely impacted the Vietnam economy, with lockdowns, suspension of business, travel restrictions, and disruptions in supply chains. However, the authorities’ actions facilitated the weathering of the storm, particularly with stimulus packages designed to help the most affected individuals and businesses through a combination of tax breaks and cash transfers.

Consequently, Vietnam’s economy remained resilient, expanding by 2.58% in 2021 and was one of the few countries in the world which recorded positive economic growth in 2020 and 2021, a noteworthy feat considering the GDP of neighboring Thailand contracted by 2.2% in 2021.

Recently, Vietnam’s GDP grew by 5.0% year-on-year (YoY) in Quarter 1, 2022 alone, according to the General Statistics Office (GSO). The World Bank predicts Vietnam’s economy to grow at 5.5% in 2022 while the IMF projects a higher 6.6%, followed by Philippines (6.3%) and Malaysia (6%).

Over the last decades Vietnam has experienced an impressive level of global integration coming from a low base, the country being the signatory of 16 free trade agreements with organizations and nations such as WTO, ASEAN and European Union, Japan, United Kingdom amongst others. On 30 of June 2019, Vietnam and European Union signed the European Union – Vietnam Free Trade Agreement (EVFTA), which is described as “the most ambitious free trade deal ever concluded with a developing country.” After the signing of the historical treaty, trade between Vietnam and the EU rose 14.8% in 2021 to 63.6 billion USD, reported by the Vietnamese General Department of Customs.

With the latest Regional Comprehensive Economic Partnership (RCEP) coming into effect on 1 January 2022, the trading relations between Vietnam and global markets will continue to improve, enabling Vietnam to consolidate its growth in the region.
Vietnam remains a highly attractive destination for foreign investors

Vietnam is considered a safe shelter from rising geopolitical tensions in the region, due to its economic resiliency, political stability and demographic growth factors. Despite the negative socio-economic consequences of COVID-19, the inflow of foreign direct investment into Vietnam still rose 9.2% annually in 2021. FDI into Vietnam totaled 31.15 billion USD based on the data released by the General Statistics Office of Vietnam for 2021. Ho Chi Minh city, Hanoi and Binh Duong were locations receiving the largest of FDI flows in Vietnam.

The country-wide development mechanism and Vietnam’s participation in free trade agreements enabled investors to take advantage of the market’s opportunities, even during Covid-19 conditions.

In terms of FDI sources, investors from Asia represent the majority of Vietnam’s capital inflows, Singapore ranked first with over 10.7 billion USD (which makes up 34.4% of total investment value), ahead of the Republic of Korea with around 5 billion USD and Japan nearly 3.9 billion USD. Among the most popular sectors for international investors, manufacturing and processing account for 48% of total registered investment capital, followed by real estate, electricity production and distribution, accommodation and food services.
The extensive lockdowns due to Covid-19 experienced in 2021 emboldened the manufacturing sector in Vietnam to speed up its advancements in productivity improvements and digital transformation. This shift towards digitalization has aligned the production sector in Vietnam with the active, agile cross-border e-commerce sector, leveraging each other’s assets and opportunities to enable a synergistic growth in both. Although Vietnam is less developed than many other e-commerce markets in SEA, it is the region’s fastest-growing online economy.

The Covid-19 pandemic has had an adverse impact on industries and a large number of enterprises have ceased operating. Recent statistics from the Vietnamese authorities showed that in 2021, about 90,300 firms closed, up 15.3% over the same period of last year.

However, although the pandemic caused major supply chain disruptions, it has enhanced dynamism in the Vietnamese e-commerce landscape with increasing numbers of digital buyers.

Based on a survey by Kantar Worldpanel,

*Over 51% respondents are shopping online, creating a strong foundation for the e-commerce consumer base in Vietnam and its potential of growth.*
When it comes to e-commerce, Asia is a fascinating region and it will come as no surprise that this region is the world’s largest marketplace, predicted to account for more than 60% of the total global market value by 2024.

The emergence of a growing middle-class in line with increased levels of income, internet penetration and smartphone ownership, social media usage have been a potent force in stimulating the expansion of the e-commerce sector in the Asia-Pacific region.

**E-commerce: new engine for growth in Asia**

Outlook of the digital landscape.
As a result of the explosion of social media apps, consumers are connected to online retailers more readily than ever before. Enabled by an increasingly efficient last-mile delivery infrastructure, e-commerce has become a cornerstone economic pillar seamlessly connecting consumers and retailers across Asia. Based on an analysis, the number of people who actively used e-commerce in 2021 in Asia was approximately 2.35 billion people, and it is estimated to grow to **3.13 billion people by 2025**.

According to Weforum, China continues to account for more than half of all e-commerce globally at 52.1%, propelled by a rapidly expanding consumer market and the development of digital technologies, the dominance of livestreaming, eye-catching short videos as well as the proliferation of mobile payments. According to Global Data Banking and Payments Intelligence Center in 2022, China e-commerce sales have reached 15.5 CNY trillion, with an expected annual growth rate of 12.4% between 2021 and 2025.

China’s big e-commerce names such as Alibaba, JD.com, and Pinduoduo have revealed an ambitious vision to grow their e-commerce business in the region and particularly in Southeast Asia, due to its consistent consumer base development, rising digital retail penetration and online usage.
Advanced technologies are shaping the e-commerce landscape

Technological innovation is making the online shopping experience as convenient as possible. Blockchain technology, machine learning, artificial intelligence, the internet of things, and 5G wireless systems are spreading across Asia and shaping the future of e-commerce. In essence, advanced technology lowers transaction costs and improves customer experience by leveraging on innovation and digitisation. Large firms like Alibaba in China, Rakuten in Japan or Shopee in Southeast Asia utilise AI for image recognition to automatically categorize objects by using visual cues and machine learning.

There is no doubt that the technological transformation is one of the key factors enabling e-marketplace growth in the Asia Pacific region. By adopting cutting-edge technologies and implementing them within e-commerce platforms and back-end supply chain frameworks, investors can take the advantage of chance to maximise profits as well as increase business efficiency and consumer satisfaction.

INTERNET USERS AND E-COMMERCE IN SOUTHEAST ASIA, 2021

440 million internet users in Southeast Asia, 2021

80% Internet users have bought at least one online service.

E-commerce is a major pillar in Southeast Asia’s economy and benefits from the region’s structural growth drivers such as a rising income, internet penetration and youthful population. The region now has more than 440 million internet users, and more significantly, 350 million of them, or about 80%, are digital consumers who have bought at least one online service.

Which segments attract more revenue?

In term of revenue, Asia’s e-commerce market represented 1,365 trillion USD in 2021 and is projected to reach 2,093 trillion USD in 2022. Fashion generated the largest revenue in the e-commerce market in 2020 at over 428 billion USD, followed by toys, hobbies & leisure, DIY market at 404 billion USD and the electronics, media segment at 335 billion USD.
**Advanced technologies are shaping the e-commerce landscape**

The pandemic was a strong catalyst for the increase in consumption of digital services and this trend will likely be predominant in post Covid-19 world. It is estimated that 60 million new digital consumers joined the internet economy since the pandemic started. Groceries and online food delivery have witnessed significant growth amid the pandemic with the total regional online food delivery Gross Merchandise Value (GMV) is expected to more than triple from 9 billion USD in 2020 to 28 Billion USD in 2025.

In Vietnam, the growth of delivery services has also pivoted. According to data from Kantar Worldpanel, 3 in 4 Saigonese were already using Food Delivery services at home even before COVID, but during the pandemic, 1 out of 5 non-users in Ho Chi Minh City started using Food and delivery services triggered by the Covid-19 lockdowns.

Based on the 'e-Conomy in Southeast Asia 2021' study, e-commerce is expected to significantly boost Southeast Asia economies in following years. E-commerce Gross Merchandise Value exceeded 120 billion USD by end 2021 which grew more than 62% YoY and it is predicted to reach 234 billion USD by 2025. The driving forces behind the double digit growth are consumer behavior shift, increased in the number of digital merchants and the convenience of digital services.

**E-COMMERCE GMV, BY YEAR, BILLION USD**

<table>
<thead>
<tr>
<th>Year</th>
<th>GMV</th>
</tr>
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<tbody>
<tr>
<td>2019</td>
<td>38</td>
</tr>
<tr>
<td>2020</td>
<td>74</td>
</tr>
<tr>
<td>2021</td>
<td>120</td>
</tr>
<tr>
<td>2025</td>
<td>234</td>
</tr>
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(Source: e-Conomy in Southeast Asia 2021)

Indonesia had the largest e-commerce market among the tiger club economies in the region in 2021, with Gross Merchandise Value valued at approximately 53 billion USD, an increase of 52% compared with the previous year. The country is closely followed by other emerging markets including Malaysia, Philippines, Thailand, and Vietnam. In term of the top online marketplace participants, Shopee, Lazada, Tokopedia and Bukalapak are the key participants in the region with hundreds of million of visits per month. Many of these are backed by notable investors like Lazada, some are owned by giants like Alibaba or Shopee, and others have received strong financial support from Sea Limited.

Therefore, it is obvious that Southeast Asia is not only an advanced digital economy, but also nurtures a vibrant and competitive e-commerce sector. With a continuous flow of direct foreign investments, the region aggregates cutting-edge technological innovation with state driven digital initiatives, thus laying the underpinning for the rise of e-commerce.
**Vietnam e-commerce positioning - a successful growth story**

Although Vietnam is less developed than many other e-commerce markets in Southeast Asia, it is one of the region’s fastest-growing online economies. The country ranked fourth largest in Southeast Asia with total online Gross Merchandise Value of 13 billion USD in 2021.

**According to the Foreign Investment Agency in Vietnam, 29.3% of the Vietnamese population has yet to participate in the digital economy, compared to only 10.1% in Thailand. This metric is extremely relevant because it signifies a strong growth potential, as Vietnam is likely to surpass Malaysia and Thailand and take second place behind Indonesia by 2025, based on a forecast by Google, Temasek and Bain & Company.**

Vietnam’s e-commerce market is diverse and competitive, nurturing hundreds of local and foreign participants striving to create value and win consumer market share. Ho Chi Minh city and Hanoi are the main e-commerce hubs in Vietnam offering strategic location, supportive infrastructure, with an increasing number of logistic providers having invested in large-scale warehouses and logistics centers. In the latest report released on April 2021 by the Vietnam E-commerce Association (VECOM), Ho Chi Minh City leads the e-commerce index with a total score of 67.6 points, followed by Hanoi with 55.7 points.

**In Ho Chi Minh City alone, there are currently 567 active e-commerce platforms.**

The market gap between the two largest cities (Hanoi and Ho Chi Minh City) and other provinces is being narrowed, with many online services related to e-commerce sector being launched at the local level, reaching out a large, untapped customer base.
Vietnam’s e-commerce cements dominant position in Southeast Asia

In recent years, the internet penetration in Southeast Asia is on the rise, supported by the high rate of smartphone ownership and rising middle class. In 2021, Vietnam had 73.2% internet users while Philippines, Malaysia and Thailand also have similar percentages, respectively 74.2%, 88.56% and 79%. Despite ranking the sixth place for internet users, Vietnam has the highest rate of the population shopping on e-commerce platforms in Southeast Asia, with 49.3 million people, equivalent 78.7%. Therefore, it is no surprise that Vietnam is predicted to increase its Gross Merchandise Value from 13 billion USD in 2021 to 39 billion USD by 2025.

The consistent growth of online shopping in Vietnam in Quarter 3, 2021 matches what was observed in the entire Southeast Asia region: over 50% increase, which in most part was due to Covid related lockdowns and social distancing measures.

Vietnam was home for 5 of the 10 most visited e-commerce platforms in Southeast Asia in 2020. Homegrown e-commerce platforms such as Mobile World, Tiki, FPT Shop, Sendo and Bach Hoa Xanh had the highest monthly traffic with an average of 81.6 million monthly visits. Therefore, when it comes to online traffic numbers, Vietnam was the second highest in the region, only after Indonesia. This strongly affirms the development potential of Vietnam’s e-Commerce market in competing with other countries in the region.

Vietnam’s E-commerce is well placed to pivot its growth in the Asia region supported by a tech-savvy population, progressive online policy framework development and rising consumer spending.

With this strong foundation, Vietnam is seen as one of the most exciting e-commerce markets in the region, offering untapped potential to international investors seeking to expand their digital ecosystems and create value in the digital economy.
E-commerce pivots from Covid-19 to new opportunities

Covid 19 has significantly transformed the shopping experience for consumers in Vietnam, with digital channels becoming the norm for accessing essential goods rather than the physical stores.

According to Kantar Worldpanel, in 2021 Vietnam experienced **65%** more online shopping trips compared to the previous year, with e-commerce accounting for **6%** of total FMCG market, compared to Thailand at **4%**. China and South Korea are leading the way with approximately **30%** of their FMCG market value being generated by e-commerce, which signals strong opportunities for growth in developing economies such as Vietnam, with a dynamic digital consumer base.

% GROWTH OF ONLINE SHOPPING TRIPS BY MARKET FMCG, 2021 VS YA, AND % VALUE SHARE OF E-COMMERCE IN TOTAL FMCG BY MARKETS

- **Malaysia**: 118% growth, **6%** value share
- **India (urban)**: 103% growth, **1%** value share
- **Vietnam (urban) (4 cities)**: 65% growth, **6%** value share
- **Chinese Mainland**: 37% growth, **27%** value share
- **Taiwan**: 37% growth, **16%** value share
- **Thailand**: 26% growth, **4%** value share
- **South Korea**: 17% growth, **33%** value share

(Source: Asia Pulse #1 2022)
Delivery services have also generated a notable growth, in sync with the e-commerce development post pandemic. According to Kantar Worldpanel, “

3 in 4 Saigonese were already using Food Delivery services at home even before the pandemic, and 1 out of 5 non-users commenced using delivery services amid the pandemic, reaching 86% monthly users.

Food delivery apps are extremely popular amongst digitally native Gen Z, Gen Y who use their phones consistently for everything from social interactions to work and fun. It is no surprise that these consumer classes are leading the way when it comes to food delivery app usage as well.

For e-commerce platforms operating in Vietnam, the pandemic generated a plethora of opportunities in creating effective business models, adapted to the local consumer behavior towards digital shopping. Apart from mega sales from key participants such as Lazada, Shopee or Tiki which boost the overall consumption levels in the e-economy, cooperatives or farmers selling their products online such as lychees, plums, and other specialties are also driving the e-commerce expansion and spicing up the competition.

Digital payment services, the financial sector’s key segment which enables the e-commerce ecosystem, has the potential to become mainstream in 2022. Covid-19 also created momentum for the trend of cashless payments in Vietnam, with many traditional stores now accepting payments via e-wallets among primary options such as cash, card. Fueled by new digital support programs and from the Vietnamese authorities, non-cash payments are projected to account for 50% of all e-commerce transactions. The strong support signal from Vietnam’s government and the market’s growth potential represent a golden opportunity for fintech investors to establish collaborations with e-commerce platforms and provide a wide range of innovative financial solutions for the online consumers in Vietnam.
Where there are opportunities, challenges arise

Due to its regional and commercial interconnectivity, the e-commerce sector was not exempted from the effects of the pandemic in the last two years. The pandemic generated a whiplash within global supply chains, and in particular those linked with e-commerce platforms during the peak of pandemic.

Manufacturing reduction posed significant challenges as hundreds of thousands of primary materials and products were out of stock or impossible to deliver due to supply chain disruptions, regardless of the significant spike in orders. In addition, the extended lockdowns in Vietnam forced both logistics and e-commerce participants to rethink their local strategies in order to improve the delivery process and cope with the imposed restrictions.

Another obstacle e-commerce providers need to overcome if they desire to succeed in Vietnam is understanding and most importantly accepting the complexity of customer behavior. The demand for fast, low-cost delivery and for high-quality service has risen sharply as online shoppers become more agile, informed, and tech-savvy. The multitude of choices, diversity of products across dozens of different online channels, enable consumers to leverage the ‘power of the buyer’, thus requiring market participants compete against each other and also constantly adapt their technology and customer experience strategies to meet the requirements of the modern consumer.

In addition to the challenges mentioned above, e-commerce businesses must deal with e-commerce fraud, customer complaints and create organizational policies which address concerns about information security and data protection, which need to be fully aligned with government regulatory policies as well.

Growth drivers and flourishing digital economy

Vietnam is entering the digital revolution as the internet economy becomes an essential part of consumers’ daily lives. They prefer using digital services such as online shopping, online media, online travel, and online payments due to convenience and attractive sale promotions.

Based on “e-Conomy in Vietnam 2021” report, the digital economy reached a GMV (Gross Merchandise Volume) of 21 billion USD in 2021, underpinned by a 53% growth in e-commerce. Recently, the Vietnam’s government is advocating for the rapid development of its digital infrastructure and technological advancement with the aim of becoming one of the world’s leading nations in digitalisation.

E-commerce participants should leverage the potential growth opportunity of the sector and the government support to scale their operations, capture market share and enhance their service quality to the consumers.
The rise of the middle class

After 30 years of Doi Moi reform, Vietnam has experienced significant achievements which has driven the country's growth to new heights, transforming it into a medium-income country. The Vietnamese middle-class population is growing rapidly, and is expected to reach 21 million by 2030, World Data Lab projects. Hanoi and Ho Chi Minh City are the two locations concentrating most of Vietnam’s middle class demographics, alongside emerging provinces such as Danang, Can Tho and Hai Phong.

According to a study from McKinsey, the Vietnamese consumer can spend at least 11 USD per day in purchasing and according to the same report, Vietnam was predicted to have the highest CAGR (Compound Annual Growth Rate) in terms of middle-income population, with 10.1% within the ASEAN region. It is undeniable that Vietnam’s fast-growing middle class and dynamic consumer class are key indicators signaling the consumption pivot within the e-commerce and retail ecosystem.

High internet penetration

72.53 million internet users in Vietnam, 2021

Vietnam first accessed the internet in November 1997 as a part of the national economic development. In the last 20 years, the country has seen a tremendous increase in the number of internet users. According to Statista, in 2021, the number of internet users in Vietnam amounted to an estimated 72.53 million people, approximately 77.4% of the population, while Indonesia stands at 76.8% as a comparison. With the increasing accessibility of the internet and mobile devices, more and more people will have the opportunity to connect with and use e-commerce services on daily basis.
The government’s digital advancement

Vietnam’s e-commerce has made a remarkable transition since 1986. In the early years, Vietnam’s e-commerce has had a long-term roadmap to develop as traditional marketplaces and supermarket chains maintained their prevalence wildly popular in Vietnam. As of 2018, many global e-commerce participants entered the local market and created a great deal of buzz and excitement in the industry by using smart, consistent online advertisements and promotion techniques. This was picked up by the Vietnamese authorities who began to understand the depth of value and enormous potential of the e-commerce market segment, and consequently started to put in place policies to develop it as a key pillar of the digital economic development.

"The government expects that 55% of the population will be shopping online by 2025, with an average consumer spending rising to US$300 in 2022 from US$170 in 2016."

Big offers from top marketplaces

To thrive in the intensifying competition and gain more market share, e-commerce enablers and major brands are using campaigns to promote ‘super shopping days’ throughout the year such as Black Friday, ShopFest, 11.11, 12.12, and occasions. These initiatives not only have significantly helped retailers break records on sales and product views, but also benefited shoppers to high-quality products from famous global brands at market-beating prices.

Apart from B2C participants, D2C enablers also participate in these events to strengthen online marketing and sales, as well as bring new experiences to customers.

For instance, since January 2022, ShopBack welcomed more D2C (Direct to consumer) websites such as Samsung, Innisfree, Lancôme, Kiehl’s and others to provide a diversified rewarding shopping experience for their user base.

During ShopFest 12.12 last year, ShopBack managed to drive a 13x increase in revenue to their merchants and brand partners compared to an average day in December.

Initiatives such as Super Brand Days, ShopFest, Black Friday, Single Day not only help customers shop safely and conveniently but also accelerate the growth of e-commerce and support brands in developing their online customer bases.
What trends stand out?

User generated content (UGC) is growing

User generated content (UGC) is one of the dominant trends in Vietnam as well as the Asia region, linked directly with the pivot of social media. This humanised approach towards marketing not only enables customer loyalty because they trust real shoppers’ reviews rather than brands’ content, but it also drives sales and traffics for brands. According to Global Retail Path to Purchase Study 2021, 37% of Tiktok users discovered a product on TikTok and immediately went to buy it. This is 1.5x more likely to happen than the competitive average.

Emergence of digital payments

The growth of digital payments has been one of the leading driving forces behind Vietnam’s move toward becoming a cashless society, serving an affluent population with a highly urbanized demographics. Vietnam, home for over 30 providers with approximative 20 of these offering e-wallet modules, has nurtured two unicorns in the e-wallets space: Momo and VNPay. Leading providers such as Momo, VNPay, Moca, and ZaloPay dominate the market with their vast customer base and strong financial backing. At the moment, each platform tends to offer exclusive products and services to attract new users and retain more customers.

According to the State Bank of Vietnam,

"It is estimated there are 4.2 million authenticated e-wallet users out of the country’s nearly 100 million people, which leaves more than sufficient opportunities for newcomers with innovative ideas and exciting value propositions."
Cross-border e-commerce: the next big opportunity

Within the mainstream of economic integration coupled with the advancement of the digital transformation, Vietnam has significant opportunities to grow its cross-border e-commerce. The E-commerce and Digital Economy Agency’s (IDEA) Deputy Director said that the country has the highest cross-border e-commerce growth rate in the world at 3.7%. The number of Vietnamese sellers on the global platforms such as Shopify, Amazon achieved outstanding records in 2020. For example, in accordance with Amazon Global Selling Vietnam, amid the Covid-19 pandemic in 2020, there were over 100,000 Vietnamese sellers which have successfully debuted on Amazon. Although the cross-border e-commerce segment is expanding consistently, Vietnamese sellers need to make improvements to reach more customers, educate themselves on e-commerce scaling and incentive models, study foreign customers’ preferences and overcome language barriers.

Shoppertainment is on the throne

The pandemic has impacted how we shop and how we consume entertainment, due to months of 'stay-at-home' and travel restrictions. As consumers could not shop at the brick and mortar, online shopping became the best option to buy and to lower infection risk. In line with the e-commerce growth, shoppertainment is the new star in Vietnam. It reflects the way brands entertain consumers while promoting their products. In addition, the prevalence of short-form videos ‘reels’ on social media platforms like TikTok, Instagram reels is a strong catalyst for this trend.

In a TikTok’s survey, one in three respondents said they felt good and wanted to purchase through reviews from KOLs (key opinion leaders) or KOCs (key opinion consumers). Another key trend is livestreaming, where influential sellers host online product demonstrations to interact with customers. According to Lazada Vietnam, LazLive recorded a significant growth in the peak of the fourth Covid-19 wave, where LazLive’s revenue increased 5 fold and livestream views doubled every day.
M-commerce is taking off

The high mobile ownership and rapid internet development have boosted the mobile commerce segment in Vietnam. According to Statista,

"Vietnam had one of the highest mobile penetration rates in the world in 2021, with 68.2% of the population, ranked first and followed by Indonesia and Thailand with 61.7%, 59.3% respectively."

Based on Bazaarvoice’s latest global research, mobile is the top choice for browsing online for almost half of the consumer pool – 41%, thanks to its convenience, variety of choices and relevant reviews. These factors drive a major shift in customer behavior and shopping patterns, and enable a pivot in the mobile electronic commerce in Vietnam within the next few years. To leverage mobile commerce, investors need to capitalise in state-of-the-art platforms fully optimized for mobile usage, in order to create a seamless shopping experience for mobile customers.
Cashback – the emerging trend drawing customers to e-commerce

In the last two years of the pandemic, widespread job losses and wage cuts in Vietnam led to a sharp decrease in disposable income for spending and shopping. Therefore, people’s tendencies were to save more and rethink what is really essential.

According to the ShopBack’s internal data, after the lockdown (from Oct 2021 - May 2022), the average expense of ShopBack’s users was 2.2x compared to the lockdown’s period from Jan 2021 - Sep 2021, and the frequency orders also increased 30% with the top categories are Beauty, Moms & Babies and Home Appliances.

Jacky Ha, Co-founder and General Manager of ShopBack Vietnam commented:

Jacky continued: “ShopBack is on a mission to innovate the everyday shopping experience by helping users to save both time and money. ShopBack earns a commission for each purchase made via Shopback on partner platforms, and this amount is returned to customers in the form of cashback. In Vietnam, more than 350 e-commerce platforms, OTAs, brand.com are Shopback partners, including Lazada, Shopee, Tiki, Agoda, Traveloka, Dien May Xanh, Adidas, Samsung... And, we also have some cool features to enable users to earn more such as: Challenges – the small simple tasks that you can complete via the ShopBack app and earn extra bonus cashback, or “Watchlist” allows you to follow the offers of your favorite stores to get the upsized cashback notification everyday.”

In recent years, cashback for travel has grown considerably. Top travel merchants such as Traveloka, Booking or Agoda show a large uplift on e-commerce platforms. Since December 2021, ShopBack observed an interesting #revengetravel trend, which increased the redirects from the ShopBack application to the travel merchant’s platforms by 71% and the revenue of Travel category was 2.2x in May compared to March 2022.

ShopBack is an Asia-Pacific shopping and rewards platform, serving over 30 million shoppers across ten markets, partnering with over 10,000 e-commerce and shopping platforms.
The value in numbers - outstanding prospects

Vietnam’s online shopping has witnessed a remarkable development in terms of growth rate as well as scale and has become one of the fastest growing market segments in Southeast Asia.

In parallel with the fast pace of the economic growth, the scale of Vietnam’s e-commerce market progressed from a low starting point of about 4 billion USD in 2015 to about 13 billion USD in 2021. According to the Ministry of Industry and Trade, since 2016, the growth rate of e-commerce in Vietnam averages 25 to 30% per year.

Therefore, Vietnam’s dynamic e-commerce market is unlocking new business opportunities and receiving great attention from both domestic and foreign investors.

Scalability potential

The proportion of new internet users which are shopping online increased from 77% in 2019 to 88% in 2020 due to the extended lockdowns during the pandemic.

During the five-year period from 2016 to 2020, the number of online shoppers in Vietnam increased by 16.6 million, thanks to the increasing number of internet users in 2020 which was approximative 70% of the population.

In 2020, the proportion of enterprises selling goods on social networks made up 41% while the proportion of enterprises doing business on e-commerce marketplaces increased by 5% within one year from 2019 to 2020.
Pre-pandemic, the digital consumer penetration in Vietnam was at 60.5%. However, Covid-19 was a noteworthy catalyst for the increase in the new digital consumer numbers in 2020 and 2021, with a growth of 6.2%.

Based on research from Kantar Worldpanel, the percentage of online buyers in FMCG was significantly different between urban and rural areas in Vietnam. To be more specific, FMCG for in-home consumption in metro areas skyrocketed over the years and was accelerated dramatically by the fourth wave of Covid-19 from May to November 2021 and subsequent lockdown nationwide. For non-metro areas, the sector has witnessed a consistent growth reaching the latest point at 10.6%.

From a transactional perspective, ‘cash is king’ and remains a significant part of the payment culture in Vietnam, accounting for 78% in 2020. However, the development of 4G/5G infrastructure and the vast number of mobile users have laid the foundation for the emergence of e-wallets, which experienced significant growth in 2020/2021 and will continue to evolve and expand together with the entire e-commerce ecosystem in Vietnam.
E-commerce is thriving and playing a crucial role in the future of Vietnam’s digital economy. Based on Decree 52/2013/ND-CP, the e-commerce is “the conduction of a part or the whole process of commercial activities by electronic means connected to the Internet, mobile telecommunications network or other open networks.” Within the electronic commerce business foundation, the models which investors use to create value are represented by the three main e-commerce pillars: Business-to-Consumer (B2C), Business-to-business (B2B) and Social Commerce.
Business-to-Consumer (B2C) - the major pivot of Vietnam’s e-commerce

B2C e-commerce landscape in Vietnam is represented by an intense competition among domestic and international participants who have been investing large sums into promotional and PR campaigns, designed to quickly acquire and retain market share.

Consumer behavior changes in the digital era, together with successful strategies from investors who managed to tap into a strong customer base have boosted the e-commerce revenue in Vietnam to 13 billion USD in 2021, with a growth rate of 62% year on year.

Furthermore,

“The ratio of B2C revenue accounted for only 5.5% compared to the total retail sales. Identifying the gap and opportunity in the market, numerous international investors have invested significantly into fast-growing e-commerce start-ups to leverage on the first-mover advantage.”

In the intense race to attract customers, despite having strong financial resources, several participants decided to give up and leave the sector. Robins, Adayroi, and Lotte are some of the large enterprises which exited the online market because they weren’t able to sustain the significant losses at the front-end generated by expensive campaigns designed to build and sustain their customer bases.

In order to secure a strong competitive position in the Vietnamese market, apart from building a solid financial foundation, an effective strategy and in-depth insight about local regulations and consumer culture are of paramount importance.

When it comes to monthly visits, Vietnamese homegrown platforms achieved breakthrough records compared to regional participants. As of the third quarter of 2021, The Gioi Di Dong was the most visited domestic B2C e-commerce website in Vietnam, with approximately 60 million website visits per month, followed by Dien May Xanh, Tiki, Bach Hoa Xanh and others. The top 5 most chosen platforms in 2021 for urban online shopping - FMCG, Shopee, Facebook, Lazada, Bach Hoa Xanh, and Tiki are dominating the market share based on the number of transactions.
Business-to business (B2B) - Infancy opportunity

In contrast to the prevalence and success of B2C, B2B e-commerce remains relatively new in Vietnam but presents an attractive value proposition for investors, as its potential to thrive is considerable. First and foremost, Vietnam is well known for being a regional hub for manufacturing goods and is seen as one of the key locations for the “China plus one” supply chain diversification strategy in recent years.

Electronics, footwear and lifestyle items are the major items produced in Vietnam, and B2B platforms can tap into the manufacturing base and growth to provide a wide range of goods with affordable prices. However, the number of B2B enterprises accounts for only a small percentage compared to B2C companies in the e-commerce marketplace.

Another substantial driver for the B2B e-commerce potential in Vietnam is represented by the country’s free trade agreements, including the European-Vietnam Free Trade Agreement (EVFTA), the Regional Comprehensive Economic Partnership (RECEP), the Vietnam-Japan Economic Partnership Agreement (VJEPA) and other important FTAs, which offer major benefits for cross-border e-trading by leveraging on preferential customs tariffs.

Consequently, under the umbrella of these FTAs, B2B e-commerce in Vietnam is expected to bloom in the following years, building on the foundation of trade internationalization and foreign invested manufacturing growth.

Social commerce - Transforming the online shopping experience

There is no doubt that social networks are increasingly popular and widely used by the Vietnamese consumers. From conversational channels for connecting with friends and family to shopping sites for embedded in the social networks, social media is considered one of the most popular shopping online channel in Vietnam alongside major B2C e-commerce platforms. It serves both city shoppers and non-metro citizens.

According to Statista, the number of active social network users in Vietnam as of January 2021 amounted around 77 million people, accounting for over 78% of the population.

Based on a study from Bain & Company, Vietnam’s social commerce accounted for 65% of the entire e-commerce market size, leading the Southeast Asia region and representing a significant opportunity for investors.

Global social media companies own the largest portion of the Vietnamese social media users: Facebook is still on the throne with 93.8% of the number of users aged 14 to 64, followed by Zalo (91.3%), TikTok (75.6%), and Instagram (59.7%). In particular, TikTok promotes TikTok Shop, which gives businesses the opportunity to tap into the power of e-commerce on this popular social platform which has captured significant attention in Vietnam. Apart from international platforms, Vietnam is also the home of numerous small social networks, such as Ototfun, Tinh te which have great significance within the e-commerce shopping component.
According to our research, Vietnamese consumers prefer conversational commerce, with user-friendly experiences and more direct, personal communication. Most of the actions happen within the inbox and consumers tend to make purchases via direct messages, therefore brands can take advantage of this personal connection with the customers to build trust and loyalty in their value proposition. Additionally, it is essential to implement feedback verification features to boost consumer confidence when buying on social platforms, as users can often be discouraged if security and client support are not effective within the social commerce ecosystem.

Vietnam is a promising market for social commerce in Southeast Asia, benefiting from underserved internet users in the rural areas, high urbanization rate as well as unique social and consumer behaviors for online shopping.

As a result, social commerce industry in Vietnam is expected to grow by 66% on annual basis to reach over US$2 billion in 2022, which indicates a strong sector dynamics. Investors who can seize this opportunity and tap into dedicated consumer niches in the social commerce space and build trust in their value proposition will gain significant, long term rewards.

Mapping the e-commerce market in Vietnam

In 2021, Vietnam’s e-commerce market grew 24% compared with previous year. In accordance with the Vietnam E-Commerce Association (VECOM), online shopping traffic in Vietnam in 2021 grew by 150% compared with the previous year, with daily visits to e-commerce sites reaching 3.5 million. This signals not just consistency in the market progression patterns year on year, but an actual transformation in the way Vietnamese users are undertaking shopping, shifting their habits towards online and social platforms with priority.

Vlad Savin
Head of Business Development, Acclime Vietnam
Numerous foreign investors expanded their digital commerce footprint in Vietnam, predominantly from China, Japan, United States, and South Korea. Notably, Vietnam is home of five key successful Southeast Asian e-commerce platforms, namely Shopee, Lazada, The Gioi Di Dong, Tiki and Sendo. According to our research, Shopee’s market share has increased exponentially in Vietnam, with approximately 73.5 million website visits in the last 6 months of 2021 (from March to August) and occupies the number one place on the map of e-commerce in Vietnam.

Within the domestic B2C e-commerce platforms in Vietnam, The Gioi Di Dong holds the dominant position, with approximately 50 million website visits per month, accounting for 29% of the market. Other Vietnamese e-commerce platforms such as Tiki, Sendo, Bach Hoa Xanh are also in the top of most visited e-commerce platforms in Southeast Asia, which represents concrete evidence of the major potential of e-commerce in Vietnam.

It is obvious that B2C and social commerce models constitute the majority of the activity within the e-commerce ecosystem in Vietnam, although B2B or C2C are gaining popularity. Investors interested in the market can reap significant rewards if they are able to understand and leverage on culture alignment, branding, competitive positioning and marketing strategies to convince Vietnamese consumers of their value proposition.
It is obvious that B2C and social commerce models constitute the majority of the activity within the e-commerce ecosystem in Vietnam, although B2B or C2C are gaining popularity. Investors interested in the market can reap significant rewards if they are able to understand and leverage on culture alignment, branding, competitive positioning and marketing strategies to convince Vietnamese consumers of their value proposition.

In logistics terms, most platforms have their own in-house logistics with complete control over order fulfillment. This provides more flexibility in managing the customer's experience, ensures the shortest order processing time and delivery time with the lowest cost, optimizes the use of resources, and reduces fraud. However, developing and maintaining in-house logistics requires investors to have a large resource pool of supply chain experts, financial capacity as well as technology. This is a reason why many e-commerce participants choose to combine both in-house logistics and third-party providers to ensure they maintain their ability to manage customer expectations in a timely manner.

**TOP E-COMMERCE WEBSITES BY VISITS IN VIETNAM, Q4/2021**

<table>
<thead>
<tr>
<th>Name</th>
<th>Local/foreign owned</th>
<th>Business model</th>
<th>Product categories</th>
<th>Ownership</th>
<th>Logistics</th>
<th>Visits in Q4 2021 (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopee</td>
<td>B2C, C2C</td>
<td>General retail</td>
<td>Sea, Tencent</td>
<td>In house, 3rd party</td>
<td>88,956,700</td>
<td></td>
</tr>
<tr>
<td>thegioididong</td>
<td>B2C</td>
<td>Electronic devices</td>
<td>Mobile World Investment Corporation</td>
<td>In house</td>
<td>59,590,000</td>
<td></td>
</tr>
<tr>
<td>tienvayxanh</td>
<td>B2C</td>
<td>Consumer electronics, Home appliances</td>
<td>Mobile World Investment Corporation</td>
<td>In house</td>
<td>24,420,000</td>
<td></td>
</tr>
<tr>
<td>Lazada</td>
<td>B2C, C2C</td>
<td>General retail</td>
<td>Alibaba</td>
<td>In house, 3rd party</td>
<td>20,633,300</td>
<td></td>
</tr>
<tr>
<td>TIKI.VN</td>
<td>B2C</td>
<td>General retail, Tourism, Transportation</td>
<td>JD.com</td>
<td>In house</td>
<td>17,866,700</td>
<td></td>
</tr>
<tr>
<td>FPT Shop</td>
<td>B2C</td>
<td>Electronic devices</td>
<td>FPT Corporation</td>
<td>In house</td>
<td>9,310,000</td>
<td></td>
</tr>
<tr>
<td>Diethanoi</td>
<td>B2C</td>
<td>Grocery, fresh food</td>
<td>Mobile World Investment Corporation</td>
<td>In house</td>
<td>5,026,700</td>
<td></td>
</tr>
<tr>
<td>Sendo.vn</td>
<td>B2C, C2C</td>
<td>General retail</td>
<td>FPT Corporation</td>
<td>3rd party</td>
<td>4,946,700</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Statista)
According to Vietnam e-commerce White Book 2021, Vietnam has traditionally been a cash-dominated economy, with cash accounting for 78% of payments in e-commerce transactions. However, in recent years, authorities have been facilitating cashless payments in the country through a policy framework designed to boost non-cash payments in Vietnam within the 2021-2025 period.

Digital payment models will fastly integrate within the economic fabric of all major industry segments in Vietnam, and one of the first ones to enable a true synergy with cashless payments is obviously the e-commerce sector.

Cashless payments - the gateway into the Vietnamese economy

Unlocking the digital payment potential.
Vietnam - an ideal nurturing ground for the development of super apps?

With a large tech-savvy consumer base and consistent push by the government to boost digital payments and e-commerce initiatives, the Vietnamese economy is preparing for the move towards a cashless model. Over the past years, fierce competition among online payment providers has led to a ‘survival of the fittest’ situation, where e-payment providers have developed with new initiatives to attract more customers as well as retain them. Furthermore, the spending within digital commerce was estimated at nearly US$250 per capita in 2021 and it is likely to grow significantly in 2022 and beyond thanks to the introduction of 5G and high smartphone adoption.

Momo, VNPay, Zalopay, Viettel Pay, Shopeepay and Moca are the six of the most popular digital wallets in Vietnam’s two main cities, Hanoi and Ho Chi Minh City, collectively covering over 90% of online payments. Momo is the leading digital payment service provider with over 25 million customers. The platform grew with 2.27 billion USD market value last year and became one of the famous “unicorns” in Vietnam together with VNPay.

A survey from VISA found that 76% of respondents have used e-wallet apps for shopping since the pandemic started, leaving plenty of opportunities for new entrants and active market participants to capture this potential market. Furthermore, latest data from the State Bank of Vietnam showed that during the early months of 2021, an estimated 200 million transactions worth 3.38 billion USD were made using e-wallets.

The rise of the digital payments is also supported by the consistent growth trend of the internet economy and the increasing middle-income class population. Millennials and Gen Z are leading the charge towards a cashless future, and platforms such as Momo, ZaloPay and Shopee Pay are their go-to payment ecosystems due to their super app functionality and exclusive services for customers.

### MOST USED E-WALLETS IN VIETNAM 2021 BY GENERATION

<table>
<thead>
<tr>
<th></th>
<th>Gen Z</th>
<th>Millennials</th>
<th>Gen X</th>
</tr>
</thead>
<tbody>
<tr>
<td>VNPT Pay</td>
<td>54%</td>
<td>59%</td>
<td>47%</td>
</tr>
<tr>
<td>Moca</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>ViettelPay</td>
<td>24%</td>
<td>16%</td>
<td>27%</td>
</tr>
<tr>
<td>ZaloPay</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>ShopeePay (Airpay)</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>MoMo(Airpay)</td>
<td>6%</td>
<td>8%</td>
<td>6%</td>
</tr>
</tbody>
</table>

(Source: Statista.com)
The digital payment ecosystem

Electronic Payment Gateway Services

Electronic Payment Gateway Services are services providing technical infrastructure to connect between the payment acceptance units (the Sellers) and banks (where the Purchasers have owned their payment account), assisting customers make payments in e-commerce transactions, electronic bill payments and other electronic payments. The platforms act as a bridge between the purchaser and the seller in electronic transactions, enabling clients to make non-cash payments quickly and conveniently, and keep their personal information secure.

In Vietnam, some of the more popular electronic payment gateway service providers include:

Electronic wallet services (e-Wallet service)

Pursuant to Decree 101/2012/ND-CP of the Vietnamese Government, an e-wallet service is regulated as a situation where “a provider of payment intermediary services provides a client with a nominal electronic account on an information carrier (such as electronic chip, mobile phone sim, computer, etc.) that enables the client to store a sum of money in the form of deposit equivalent to the sum of money transferred from the customer’s payment account at a bank to a secured payment account of the provider of digital wallet service with the ratio of 1:1.

E-wallets in Vietnam are growing widely and are used to pay for goods and services at supermarkets, convenience stores, e-commerce websites such as Shopee, Lazada, Tiki, or other applications such as Grab, Spotify, Delivery Now. E-wallet proviers are maintain their growth trajectory and competitive position by incentivising users with frequent promotions, discounts and points accumulation.

Integration with e-commerce - synergy and mutual benefits

The trend of digital wallets has taken the e-commerce ecosystem and multitude of platforms by storm, offering excellent benefits to both sellers and buyers. For merchants, e-wallets keep vendors safe against fraud and ensure customers are genuine. Payments are instant, at the exact time of the purchase so that there are no delay or payment issues in case of last-minute cancellations due to external, subjective reasons. From the customer’s perspective, e-wallets allow them to pay quickly and efficient with a single click. Furthermore, digital payments offer numerous rewards to shoppers which also help companies increase their engagement level.

“To stand out from the crowd, it is essential for digital payment providers to balance the growth of their user base and create a sustainable, solid business model, but planning in the same time future innovations and fintech services such as lending, wealth management and insurance, taking as an example from the path laid by Alipay in China.”
E-commerce: new engine for growth in Asia

The emergence of Vietnam as a manufacturing hub and the rapid adoption of e-commerce by the country’s young demographic have created a strong foundation for the development of the logistics sector within economy. For e-commerce platforms which are under immense pressure to service customers as fast as possible, the logistics ecosystem gives companies a competitive edge. For this reason, e-commerce giants are investing considerably to improve their inhouse logistics systems to address two of the most important needs of their customers: speed of delivery and flexibility.

Vietnam’s freight and logistics market is expected to contribute 5-6% to the country’s GDP, recording a growth rate of 15-20% by 2025. Consequently, there are favorable opportunities for international investors to tap into the logistics market’s potential, particularly in segments such as express delivery and logistic services which address the growing e-commerce needs in Vietnam.

Logistics - the backbone of e-commerce.
Building a sustainable e-commerce logistics ecosystem

According to Asia Pacific’s leading business transformation consultancy, TMX, a comprehensive supply chain strategy needs to be in place to build a sustainable system with flexibility and scalability.

“Businesses also need to constantly evaluate their supply chain strategy against KPIs, data, and any other changes in the market, and adjust their strategy accordingly.

To ensure this, businesses need to engage with their strategy regularly through monthly contingency planning meetings. This instils the habit of anticipating external challenges, and helps businesses adapt accordingly to ride them out with minimal disruption. Having such organised and routine supply chain planning sessions is imperative to business success – on top of helping businesses weather potential volatilities, these sessions can also positively impact sales, and optimise inventory and manufacturing”

Stable climate for foreign investors

Vietnam’s economic and political stability is seen as key advantage of the country compared to other nations. Therefore, several notable companies have begun investing in the logistics sector in Vietnam to seize development opportunities, addressing the increasing demand for warehousing and delivery services.

TMX stated that,

With the economy restarting across the country, many logistics players are now looking at how they can better serve their customers. To do so, many are investing in digital systems which create better visibility across the business and allow these players to better manage their labour to cope with the huge peaks experienced in e-commerce logistics.

Recognising the logistics industry is critical to spur economic growth, being linked with important development pillars such as manufacturing, trade, industrial real estate and infrastructure, the Vietnamese authorities adopted an Action Plan to improve the Competitiveness and Development of Vietnam’s Logistics Services by 2025. This decision supports foreign investors to secure a place in Vietnam’s logistics sector. For instance, CapitaLand Development build its first logistics and industrial urban project in Vietnam, worth 1 billion USD and Best Express Vietnam has invested 20 million USD in developing commodity sorting centers in Bac Ninh and Ho Chi Minh City.

Despite the prolonged COVID-19 pandemic and its complicated developments, Vietnam’s logistics sector gained nearly 3 billion USD in 2021 from international investors - a clear sign of commitment to the future growth of the sector.
In-house logistics, a significant asset for e-commerce providers

E-commerce giants in Vietnam Tiki, Lazada, and Shopee have developed their own logistics ecosystems such as Shopee Express, Tiki Now and Lazada Express, in order to optimize their storage, pick up, delivery and return times during peak seasons. In-house systems help business control quality, speed and performance. Cost is another benefit for managing internal logistics systems, as e-commerce providers can take advantage of internal staff flexibility to deliver products efficiently to metro areas with a lower Cost Per Unit than Third Party Logistics (3PLs).

Tiki is leading the market in applying in-house logistics with TikiNow Smart Logistics which can deliver over 200,000 packages per day across the country thanks to state-of-the-art automation and large fulfillment centers. Furthermore, its unique TikiNow 2-Hour Delivery service and 1-hour for fresh produce are pushing the boundaries of what fast delivery means, enabled by innovation and consumer demands for speed.

Thomas Harris - Vice President of Fulfilment at Tiki Corporation provided insight about in-house logistics, and how it works efficiently at Tiki. Thomas said,

"Within e-commerce, the logistics frameworks gives companies a competitive edge. Every day, it’s becoming more and more obvious that e-commerce giants are investing considerably to improve their in-house logistics. One of the major aspects is speed and the quicker the delivery, the greater the likelihood of conversion. The clearer the information about payment and delivery time, the more your customers will convert. Therefore, to improve these areas, companies are looking into innovation such automation be it fulfilment, sortation or delivery and using tech to further improve visibility to the customer and speed of delivery and flexibility."
He commented, “One example is the TikiNOW Smart Logistics (TNSL) team worked with the Ho Chi Minh City People’s Committee and Department of Industry and Trade to set up a cold chain solution over a weekend, so Tiki could offer fresh fruit and vegetable and to help support the people of Ho Chi Minh due the most severe lock down. The Department of Industry and Trade worked on mobilizing trading and logistics companies to support goods distribution in Ho Chi Minh City during the emergency response to the Covid-19 pandemic. During that time the distribution and consumption of essential agricultural and food products on e-commerce platforms was considered one of the crucial and effective solutions to supply necessities to the City’s people.”

He continued, “Tiki aims to build a magical experience for consumers and farmers by opening mini warehouses aiming to develop a new integrated cold chain e-commerce solution which is unique in Vietnam market. Supplying every kind of every essential item people need, fresh, frozen & aqua products. Guarantee best price by sourcing directly from farms and from operating the end-to-end supply chain from farm to fork. Commit to deliver at door within 60 minutes right after placing the order.

We are really passionate about 60 mins fast delivery. From a user’s point of view, why do I even need to waste a few hours of my life to go somewhere if I can have everything delivered in 60 mins.”
The art of logistics optimisation - 3PLs, TMS, WMS

Applying in-house logistics, third-party logistics (3PLs) or a hybrid system to an e-commerce operator requires appropriate analysis and strategy. Mr. James Christopher, Delivery Director - Asia at TMX, who has comprehensive experience in the supply chain and logistics industry, has provided valuable insight and analysis of solutions.

According to James,

“E-commerce has raised Vietnamese consumer’s expectations of efficiency and convenience, leading to traditional store-front sales losing value. As a result, companies are required to invest in technology to ensure their last mile logistics runs as efficiently as possible.

We are seeing an increasing number of companies in Vietnam looking to invest in logistics software such as Warehouse Management System (WMS) and Transportation Management System (TMS), as well as automation solutions to keep up with the increase in orders. Some are incorporating this visibility into a control tower to manage costs, improve customer service, and drive continuous improvement.

Companies need to benchmark the decision of in-housing and outsourcing against their current business model, while keeping in mind that there is no one-size-fits-all solution. Generally, businesses at the beginning of their maturity would be more likely to out-source, while more mature companies may benefit from in-sourcing some logistics activities, but again that is on a case-by-case basis. It is therefore important to understand where the growth is, as well as the operational maturity of the company within Vietnam.

The benefit of in-house systems is the ability to better control the customer experience. However, companies may have challenges with in-sourcing, as it is never purely just in-sourcing a truck or warehouse – the business operations around it also need to be supported.”

James said,

“With their in-depth knowledge of the market, 3PLs can drive value, particularly where volumes are lower or when businesses do not have a complete picture of their growth forecasts. Such information may not necessarily be available to one business and hence, working with a 3PL provides companies with access to key information. However, this may also mean that they could lose a bit of control and visibility over their logistics function.

He continued, “Companies can also explore a hybrid system in which the company retains certain aspects of the business such as the building lease, fitout (i.e. racking, etc.) and WMS or TMS system capabilities, but at the same time, outsources the warehouse operations and transport to third parties.

TMX’s on-ground experts across the region, including in Vietnam, can provide the necessary expertise and insight in freight strategy, optimised fleet utilisation and transport procurement to support businesses in choosing the right solutions”.
Challenges faced by e-commerce logistics

Like any other industry which combines a complex set of requirements, processes and technologies, the e-commerce logistics in Vietnam has its own challenges as well.

One of the biggest hurdles delivery service providers are currently facing is cash on delivery, as the majority transactions in Vietnam are still conducted using cash as the main payment method, which leads to higher operational costs and lower efficiency within the supply-chain ecosystem.

“In addition, the complexity of legal framework and regulations covering the logistics sector and permitted activities can often be a barrier for market entry for international investors who seek to operate logistics business lines. As per the current statutory requirements, foreign investors are permitted to undertake storage and warehousing activities - services auxiliary to all modes of transport, however for road freight transport activities, foreign investors cannot hold more than 51% of shares in a logistics enterprise operating in Vietnam.”

Phuong Vo
Head of Incorporation, Licensing and Secretarial Services, Acclime Vietnam

Cross-border supply chain disruptions due to the pandemic have also adversely impacted the logistics and e-commerce industries. According to Tiki, to maintain fast delivery times during the peak of pandemic in 2021, they have set up a cold chain solution over a weekend to be able to offer fresh fruits and vegetables to the people of Ho Chi Minh City, under the most severe lockdown in the city which last for a few months. This model was considered one of the most effective solutions used to maintain the delivery of goods in the peak season as well.

Even though the logistics sector in Vietnam maintains an outstanding growth trajectory, in line with the development of the e-commerce and manufacturing ecosystems, overseas participants should have a clear understanding of the challenges inherent to the Vietnamese market and find creative and cost-effective ways to provide solutions to these potential roadblocks.
The trends shifting the status-quo?

Green logistics

Green logistics is on the map to become one of the most prevalent trends in the logistics ecosystems. Electric and solar vehicles, biodegradable packaging, environmentally friendly warehouses and carbon emission reduction will be the top priorities for logistics companies in upcoming years.

Blockchain

Despite Blockchain being a concept relatively new in Vietnam, it can bring a myriad of benefits for operators and e-commerce platforms, including helping ease many of the interactions in global trade logistics, improving supply chain transparency and optimizing costs and time. In the near future, it is considered to become an integral part of the logistics ecosystem.

Innovation and technology

The future of logistics is paved with innovation and technology. AI, Machine Learning, Warehouse robotics, cloud computing are predicted to dominate Vietnam’s logistics transformation in the following years. LogTech will enable stakeholders cope with the fast-growing of online shopping, cross-border commerce and changing demands of customers.

The impact of trade openness on Vietnam’s e-commerce

International trade integration is one of the integral priorities since the start of Doi Moi reform when Vietnam became a country with a high level of international economic integration. 1995 marked a first important milestone when Vietnam became a member of ASEAN, then the country built solid relationship with other nations by signing a multitude of treaties with partners inside as well as outside ASEAN (i.e. Vietnam’s participation in the UK - Vietnam FTA and CPTPP).

As of 2021, Vietnam has signed 15 Free Trade Agreements, and the total number of Vietnam’s trading partners in FTAs is 56 economies, including 55 countries and 1 territory, a testament to the nation’s efforts to further integrate into the world economy.

EU-Vietnam Free Trade Agreement (EVFTA) is one of the historical treaties that Vietnam signed with EU on the 30th of June 2019, boosting trade and investment on both sides, and helping the country to further integrate into the international community. Within the treaty terms, Vietnam has increased its benefits in terms of market access granted to EU service providers, with additional sectors will be opened up for EU investors in specific timeframes for the next 10 years. The Ministry of Industry and Trade revealed that Vietnam exported goods worth 45.8 billion USD to the EU in 2021, up 14.2% year-on-year, thanks to the EVFTA.
The benefits of the free trade agreements will enable Vietnam's cross-border commerce to take off rapidly by taking advantage of the reduced tariffs to attract potential investors to produce high quality products in Vietnam and export them to different parts of the world. In comparison with other countries in the region, Vietnam possess a fantastic growth potential for cross-border e-commerce.

As mentioned the previous chapter, Vietnam has the highest cross-border e-commerce growth rate in the world at 3.7% and it is developing in the early stages in the form of importing goods via orders on e-commerce platforms such as Amazon and Alibaba.

Recognizing this trend, the authorities have launched various initiatives such as the program named “Viet Nam National Pavilion” on the Chinese JD.com e-commerce platform to promote Vietnamese products and connect Vietnamese businesses with international customers. The challenges that Vietnamese businesses, especially SMEs have to face are fierce competition with local giants and foreign e-commerce rivals, couple with the underdeveloped e-commerce infrastructure and systems management. While foreign companies in the e-commerce sector have a strong competitive advantage, with efficient processes, good service quality, skilled human resources and advanced technology, the smaller, local participants need to improve their operations and systems to become truly competitive. Quality investments into Vietnamese firms will accelerate their transformation and enable them to be competitive in a growing but highly competitive e-commerce market.
Like many other countries, Vietnam experienced several lockdowns and a daunting economic downturn to deal with the coronavirus pandemic over the past two years, which significantly impacted key sectors, with retail no exception.

Covid-19 created a fundamental shift in the consumer’s behavior in Vietnam, which generated high demand for consumer goods, especially during peak season. Nevertheless, social distancing and lockdowns forced people to shop online to avoid infection. Thus, the digitalization of the shopping experience has changed consumer behaviors across different touch points, from offline to online, from wants to needs, with a greater focus on health and a shift toward e-commerce. In order to succeed and thrive in the new normal, market participants need to entail a mindset shift and redefine the consumer experience to thrive in the new normal.

Deciphering the digital consumer’s portrait.
Change is inevitable - habits and trends in online shopping post Covid

Based on the data from Kantar Worldpanel on consumer habit changes in FMCG consumption 2021, 48% respondents switched from offline channels to online due to the impact of Covid-19 and more than 50% of online sales were incremental. This means that the retail movement boosted by the pandemic made a huge contribution to the growth of the online shopping channel in Vietnam.

According to iDEA, 88% of online shopping users, mostly between 18 and 45 years old, made online purchases at least once in 2020, most of whom access online shops using mobile devices, which account for 87% of sales compared to 38% of desktop users.

In Vietnam, the majority of digital consumers come from urban areas with approximately 74% while Indonesia, Thailand, and Malaysia accounts for 44%, 41% and 46% respectively. This figure shows the rapid urbanization rate in Vietnam is one of the key factors driving the growth of the market.

According to research from Kantar Worldpanel, personal care products are leading as the most popular online goods purchases. Covid-19 also was the trigger which convinced more consumers in Vietnam to start shopping online for packaged foods and household products as well.

Notwithstanding the several changes which converted the generic base of offline consumers into online, there are significant generational variations in the frequency of purchased goods.
Generation Z and Millennials are likely to buy fashion items or accessories while Generation X- and middle-aged groups prefer to purchase electronics and home appliances. These shopping behaviors make up the cornerstone of an effective product development and promotion plan tailored for each consumer bracket and their specific needs.

“Fresh food has become the biggest shopping category since the Covid-19 pandemic has started, experiencing consistent high growth. To address this need, several online shopping platforms launched the fresh category on their e-commerce marketplaces in Vietnam, with Tiki Ngon, and Nowfresh leading the way. In addition, the average of products per capita was from 5 to 15 products and services, this number was accelerated by the pandemic due to lockdowns.”

With regard to Vietnam’s consumers spending on online shopping, the average online spending in 2020 was US$240 per person, higher than the $225 spending of 2019. In 2022, it is projected to increase to approximative $270 per person, boosted by the recovery of the economy and the consistent development of the e-commerce sector.

**Consumer needs transforming the shopping experience**

The key factors driving consumers towards online, thus choosing e-commerce platforms to satisfy their shopping habits are: reputation, promotional campaigns & vouchers, free shipping, authenticity of products, originality and wide variety of items.

On the other hand, online fraud, lack of test and trial options, shortage of sellers, communications issues, information security are the most significant hesitating factors for consumers when choosing to make an online purchase.

Young, digital savvy population with strong mobile online shopping habits have enabled the growth of one of the pivotal online shopping segments in Vietnam - livestreaming. It has emerged as one of the most attractive ways to introduce products across a multitude of channels, with major benefits for both e-commerce and social media investors, who can leverage each-others platforms to generate new revenue and brand loyalty.

**Sustainability in online shopping - a new trend in consumer behavior**

Based on Kantar’s data, Vietnam ranks 4th largest marine plastics polluter in the world. The government and manufacturers are doing their part in the sustainability and environmentally friendly movement, and the shoppers do their part too. About 60% of consumers agreed that they are personally affected by environmental problems and 57% stopped buying some products or services because of their impact on the environment or society. This figure demonstrates Vietnamese buyers have a strong desire for sustainable shopping, worry about plastic waste and evaluate the responsibility of companies and governments alike in regard to environmental concerns.
Highly active buyers who are consistent in their e-commerce spending habits represent a incredibly dynamic user segment worthy of consideration. Also called “smart users”, the super shoppers usually search for deals with no shipping fee (“freeship”) and always choose the best offer amongst several e-commerce marketplaces in Vietnam, such as direct discounts, vouchers or free gifts.

Vietnam’s ratio of female-to-male labor-force participation was 87% in 2020 according to World Bank, a reality which presents large opportunities for e-commerce providers, as women are the ones who hold the purchasing power in the household in Vietnam. Women spend more time daily than men taking economic decisions for their families, and the power of the female consumer is likely to grow in the short term and long term in Vietnam’s shopping environment. As more women become educated and continue to make more informed and strategic decisions for themselves and their families, the importance of appealing to this demographic is paramount. In addition to that, based on a research from iPrice, Vietnam’s women e-commerce leadership ratio ranks second in Southeast Asia, accounting for 46%, a figure higher than in Thailand, Philippines, and other countries in the region. Therefore, e-commerce investors are advised to include in their offerings and market strategies products and services that meet the needs of those clicking the purchase button.

**Based on the ShopBack’s internal data, after the lockdown in Vietnam ended (from October 2021 - May 2022), the average expense of ShopBack’s users on the platform was more than twice compared to their spending in the lockdown period (from January 2021 - September 2021). In addition, the frequency of the orders also increased with 30% for the top categories Beauty, Moms & Babies and Home Appliances.**
Key trends - consumer behavior in 2022

According to Kantar Worldpanel, there are five emerging trends in consumer shopping behaviors this year.

Firstly, customers will continue to rationalize their expenditure by spending on essential items such as food, healthcare products and de-prioritizing a list of non-essential categories.

Secondly, home will be the new store because more categories try to communicate and shift toward in-home occasions.

Third, digitalized innovation offers new shopping experience for buyers with new services, and new ways to interact with the brands.

Embracing the rise of ‘convenience driven retail’ is the next trend with the high demand across the country.

Well-being and a sustainable lifestyle are the preferred trends by young consumers, and it is the hot topic in the following years.

The pandemic has undoubtedly accelerated many digital behaviors and encouraged the greater adoption of e-commerce in Vietnam, enabled in its fundamental structure by a growing middle class and swift demographic and technological developments. To win over the market, e-commerce market participants and investors should be ready to think outside of the box to adapt their entire strategy and market positioning to the local needs and specific behaviors of the Vietnamese population.
Everyone will agree that Vietnam has been a development success story. Economic reforms, coupled with beneficial global trends, have helped propel Vietnam from being one of the world’s poorest nations to a middle-income economy in one generation. With growth forecasted to continue, it is a very exciting country to be in right now.

Another indicator for the huge progression Vietnam has experienced is the number of smartphone subscribers and we now have over three quarters of Vietnam connected to the internet. Once having a smart phone in hand, connected to the internet, that opens the user to many new potential experiences and ways to shop. Today 71% of internet users in Vietnam have made at least one purchase online, and the average number of categories people shop online for is increasing meaning that the value of the internet economy is expected to continue to grow and there remains plenty of opportunities in this space.

According to Peter Christou - General Manager, Worldpanel Division, at Kantar Vietnam, "The pandemic has changed the way people shop around the world and Vietnam is no different. It has motivated more shoppers to go online and challenged online retailers to improve their service. Older consumers, who were more traditional in their shopping habits were forced online as the world shut down. Now, familiar, and comfortable with technology, Digital Seniors are empowered to make purchases and use services through this channel."

One of the other most talked about phenomena from the pandemic is the rise of Rapid Grocery Delivery (RGD) apps and with lower labour costs Vietnam is a country where this has really been developing, another space to watch out for is the circular economy, for second hand sales.

Before the pandemic, shoppers chose e-commerce because its prices were competitive compared to physical stores. During the pandemic, e-commerce grew further thanks to expanded fulfilment capabilities, including rapid grocery delivery services. Now, what makes shoppers click ‘buy’ in their online shopping baskets? Price and promotion are still the top reasons for shoppers choosing online retailers with brand and product assortment and product quality closely following price-related motives.

In Vietnam for Grocery shopping – which is considered by many as e-commerce’s last frontier to penetrate properly, we have seen significant growth in the past 7 years. Online has increased 10 times in shopper base and 20 times in value share in for In Home FMCG with now over half of household’s in in Urban 4 Key Cities shopping online for FMCG at least once in a year. In HCMC that’s higher, almost 60%.

Social commerce is a very important part of online shopping in Vietnam however it is being squeezed in with the enormous development of E-Commerce sites and bricks and mortar retailers making the transition to online which was sparked significantly by the COVID-19 outbreak.

In the next five years, 8 in 10 merchants anticipate more than half of their sales to come from online sources, are you ready for a fiercer competition?
Although the e-commerce market is dynamic, the industry still presents challenges due to a lack of clarity within the legal and investment framework governing the sector in Vietnam. In order to enter the Vietnamese e-commerce market, investors should consider conducting a comprehensive analysis of the regulatory requirements required to leverage on the market’s opportunities, before planning their commercial and promotional strategy.

Regulatory framework - barrier or opportunity?
**Forms of e-commerce activities in Vietnam**

E-commerce activities are represented in different forms and electronic means. According to the Vietnamese laws, investors in the sector can operate under three types of e-commerce platforms:

<table>
<thead>
<tr>
<th>TYPES OF E-COMMERCE OPERATIONS</th>
<th>E-commerce activities conducted via a website (Web)</th>
<th>E-commerce activities conducted via an application installed on an electronic device (App)</th>
<th>E-commerce activities conducted via mobile telecommunication networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>REMARKS</td>
<td>E-commerce activities conducted via a Web or App have many points of similarity, discussions and general information regarding an E-commerce Web can be interpreted interchangeably with App.</td>
<td>At present, it has no specific regulations for this kind. Therefore, this Chapter will only focus on the former activities.</td>
<td></td>
</tr>
</tbody>
</table>

In terms of the operation nature, an e-commerce Web/App in Vietnam can be mainly classified into 2 different forms:

**a. E-commerce Sales Web/App.**
Referring to where a company in Vietnam sales its own goods/products or provides its own services online, and the mentioned goods are required to be owned by the company.

**b. E-commerce Services Web/App, includes:**
(i). E-commerce Web/App as a Trading Floor;
(ii). Online Promotion Web/App; and
(iii). Online Auction Web/App. It refers to an e-commerce ecosystem for 3rd parties (traders, organizations and individuals) to carry out trade promotion, sale of goods or supply of services.

However, an e-commerce Web/App can integrate different E-commerce forms. For example:

- [https://www.lazada.vn](https://www.lazada.vn) is an e-commerce platform having the functions of (i) E-Commerce Sales Web, (ii) E-Commerce Trading Floor, and (iii) Online Promotion Web.
- [https://www.foody.vn](https://www.foody.vn) is an e-commerce platform having the functions of (i) E-Commerce Trading Floor; and (ii) Online Promotion Web.
Taxation for e-commerce offshore providers

On September 29th, 2021, the Ministry of Finance issued Circular 80/2021/TT-BTC to provide implementation guidelines on the Law on Tax Administration and Government Decree No. 126/2020/ND-CP. One of the important provisions under Circular 80 is tax administration provisions concerning e-commerce, digital-based businesses and other services of overseas suppliers without having a permanent establishment in Vietnam.

Referring to tax obligations of overseas suppliers, Ms. Phung Nguyen, Director - Accounting and Tax at Acclime Vietnam commented,

“Overseas suppliers are required to register for an electronic tax transaction through the website of the General Department of Taxation, ensuring that the entity has the ability to access and use the internet, and has an email address assigned to deal directly with the tax authority.

Overseas suppliers can authorize organizations or tax agents in Vietnam to conduct tax registrations, declarations and payments on their behalf. In case the overseas supplier authorizes an organization or tax agent to operate under Vietnamese law (hereinafter referred to as ‘authorized party’), the authorized party is responsible for carrying out the following procedures: tax registration, tax declaration, tax payment according to the contract signed with the overseas supplier.

She continued, “After receiving the identification code of the tax payable amount to the state budget as notified by the relevant tax authority, the overseas supplier shall pay tax in a freely convertible foreign currency to the state budget revenue account. According to the notice on the website of the Taxation Department, the correct identification code must be recorded in the state budget payable directly sent by the tax authority.

Registered non-resident suppliers will pay the tax on a quarterly basis, while banks and intermediary payment service providers will deduct and remit tax monthly.

In case the overseas supplier pays more than the payable tax amount according to the declaration, the overseas supplier may offset the payable tax amount in the next tax period.”
Tax calculation & responsibilities of overseas suppliers

After the initial registration, overseas suppliers will start declaring and paying value-added tax (VAT) and corporate income tax (CIT) on a quarterly basis at the deemed rates on the revenues they receive: Taxable revenue refers to the amount received by the non-resident supplier from its clients in Vietnam, determined based on payment information (credit card or bank account information), residency information (billing, delivery, or home address), and access information (mobile phone country code, IP address, and landline address).

Deemed rates for calculating VAT follow Decree No. 209/2013/ND-CP dated December 18, 2013 of the Government on detailing and guiding implementation of several articles of the Law on Value-Added Tax. Deemed rates for calculating CIT follow Decree No. 218/2013/ND-CP dated December 26, 2013 detailing and guiding the implementation of the Law on Enterprise Income Tax. Overseas suppliers can authorize organizations or tax agents in Vietnam to conduct tax registration, declaration, and payment on their behalf. In case overseas suppliers do not register, declare and pay taxes in Vietnam, the Vietnamese organizations that purchase goods or services from overseas suppliers or distribute goods or provide services on behalf of overseas suppliers will be responsible for declaring, withholding, and paying VAT and CIT (following Circular No. 103/2014/TT-BTC dated August 06, 2014 of the Ministry of Finance guiding the performance of tax obligations of foreign organizations and individuals doing business in Vietnam or earning income in Vietnam).
Cross-border compliance in Vietnam for e-commerce platforms

To avoid tax evasion and create efficient conditions for international service providers that do not have a permanent establishment in the country to comply with Vietnamese tax laws, Vietnam’s General Department of Taxation (GDT) launched the Electronic Information Portal for Foreign Suppliers and the eTax mobile app that is good signal for cross-border tax problems of the past few years.

Prior to the portal’s launch, according to the provisions guiding the implementation of several articles of the Law on Tax Administration, if foreign service providers do not register, declare, and pay tax in Vietnam, the banks and intermediary payment service providers of the Vietnam individual buyer are responsible for subtraction and payment on their behalf. However, in current regulations, banks do not have the right to deduct from customer accounts without consent. Therefore, for cases where banks are forced to withhold money to fulfil tax obligations, the National Assembly must promulgate a law that allows local tax departments to authorize banks to do so. In case, the buyer is an organization in Vietnam, it holds the responsibility for withholding and pay tax on behalf of foreign service provider.

Consequently, under current regulations, foreign e-commerce service providers are required to register and pay tax for the revenue they earn in Vietnam regardless of its value, as there is no threshold for exemption from declaring and paying tax.

Steps to establish a foreign owned e-commerce enterprise in Vietnam

Foreign investors will generally go through 3 stages to establish a Foreign Owned e-commerce enterprise in Vietnam:

**STAGE 1** Incorporation of a company in Vietnam, by attaining (i) the Investment Registration Certificate (IRC); and (ii) the Enterprise Registration Certificate (ERC)

**STAGE 2** Attainment of the Trading License for: (i). E-commerce Sales Web/App (where retail is carried out); and/or (ii). E-commerce Service Web/App at the Department of Industry and Trade (“DoIT”)

**STAGE 3** Registration/Notification of Web/App to obtain the respective Blue/Red tick at the Ministry of Industry and Trade (“MoIT”) for e-commerce Sales Web/App, and e-commerce Service Web/App respectively. (Specified in the following Section below)
Process of registration or notification of web/app:

<table>
<thead>
<tr>
<th>Authority</th>
<th>Notification of Sales E-Commerce Website</th>
<th>Registration of E-commerce Trading Floor, Online Promotion Website, and Online Auction Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Industry and Trade (MOIT)</td>
<td>Receipt and handling of the registration for websites is done online by the Ministry of Industry and Trade on the e-commerce management portal at <a href="http://www.online.gov.vn">www.online.gov.vn</a></td>
<td></td>
</tr>
</tbody>
</table>

Creating an account to access the system of MoIT

- **Step 1**
  - Providing required information and documentation of the owner
  - (3 working days)

- **Step 2**
  - Receive the account activation (username and password) via email

Registering the e-commerce website

- **Step 3**
  - Using the registered account for logging in, choose a feature “Notification of the sales e-commerce website” and fill in all required information.
  - (3 working days)

- **Step 4**
  - Receiving code segment for insertion into the sales online website and displayed onscreen as a “notified” sign

Registering the e-commerce service provision website

- **Step 3**
  - Using the registered account for logging in, choose a feature “Registration of e-commerce service provision website” and fill in all required information and upload documents.
  - (7 working days)

- **Step 4**
  - Receiving the notice confirming adequacy and eligibility of the application and submitting physical documents to MOIT
  - (5 working days)

- **Step 5**
  - Receiving code segment for insertion into the sales online website and displayed onscreen as a “registered” sign
Referring to restrictions and potential barriers for foreign investors and entrepreneurs when investing in the e-commerce sector in Vietnam, Ms. Phuong Vo, Head of Incorporation, Licensing and Secretarial Services at Acclime Vietnam commented:

"Companies in Vietnam can only undertake activities for which they are licensed, which generally involves specific business lines registration, along with sub-license registration for certain business lines. For foreign investors and E-commerce activities, this can be somewhat complicated."

Phuong continued: “specific matters to consider and plan for include:

• Where a company seeks to retail its own products online via its website, in addition to registering the website, the company needs to register appropriate e-commerce trading business lines for Online Retail (registration is via the relevant Department of Planning and Investment – “DPI”) and a Trading License for retail services (registration is via the relevant Department of Industry and Trade – “DoIT”);

• Where a company seeks to provide e-commerce services via an E-Commerce Trading Floor, an Online Promotion Website (or App) or an Online Auction Website (or App), it also needs to register the e-commerce business lines (issued by the relevant DPI) and hold a Trading License for e-commerce services (issued by the relevant DoIT);

• E-commerce services business lines are not mentioned in Vietnam’s WTO commitments, therefore foreign invested companies must first seek approval from relevant Ministerial level authority (generally, the Ministry of Industry and Trade and the Ministry of Planning and Investment) for approval to register e-commerce services business lines in order to operate e-commerce services, which can take some considerable time in practice. For clarity, online retail through a company’s own website is not restricted by WTO commitments, but e-commerce services business lines are.

Given the complications that these restrictions and requirements can introduce, appropriate strategies to register and apply each step are critical to reducing the timelines for foreign investors to undertake e-commerce activities.”
Looking ahead, Vietnam’s e-commerce growth is expected to pivot to USD 39 billion by 2025, ranking second in the region only after Indonesia, and signifying a threefold growth compared with 2020. This outstanding growth perspective is buoyed by a consistent foreign investment flow into the country’s digital economy, rising internet penetration and high urbanization rate, in line with the Vietnamese authorities’ commitment to put in place efficient regulatory policies for supporting online shopping by 2025.

International investors who are able to take advantage of these factors and successfully compete for a place in the market, will solidify their presence in Vietnam, reap the rewards of the digitization trend of the entire economy and create longstanding value.
Vietnam’s developing e-commerce market poised for double-digit growth

Still in early stages of development, Vietnam’s e-commerce ecosystem brings together a myriad of opportunities which enable complementary, key sectors to expand - logistics, digital payments, cashback, social commerce, infrastructure, live streaming, LogTech, blockchain, fintech, robotics, green solutions and so on. However, regulatory barriers, increasing demand in the market, know-how & technological gaps present several challenges worthy of attention.

In the new post Covid environment, the e-commerce market in Vietnam is forecast to continue its substantial growth, which will continue to remain urban-driven. To succeed, investors should “Think global. Act local” and consistently invest in brand building and sustainable growth. Furthermore, ESG performance and green solutions are becoming more prevalent in the e-commerce narrative, with specific focus on green solutions, environmentally friendly supply-chain models, and social governance programs.
References & engagement team.

Research references.

Data and metrics were corroborated in partnership with Kantar Worldpanel, a global market research company focused on guiding enterprises with strategic insights and innovative solutions.

In addition, Tiki, TMX, ShopBack have also provided valuable information and specifics.

Additional research references:
• The World Bank
• Statista
• General Statistics Office of Vietnam
• Vietnam Investment Review
• J.P Morgan
• VECOM
• Idea
• Google and Temasek and Bain & Company
• Weforum
• State Bank of Vietnam
• McKinsey
• Foreign Investment Agency Vietnam
• Grab
• World Data Lab
• VISA
Engagement team.

If you have any questions regarding this study, please don’t hesitate to contact us.

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Matthew is a qualified accountant who has resided in Vietnam for over 17 years. He has extensive experience working in Australia for Big 4 accounting firms and investment funds, and since Matthew relocated to Vietnam he has spent much of his time advising foreign investors on successfully undertaking business in Vietnam, corporate investment transactions, market entry and corporate finance. He also currently sits on a number of boards in Vietnam, advising as an independent non-executive director.

Matthew graduated from Monash University in 1994 with a Bachelor of Commerce and qualified as a Chartered Accountant in Australia in 1997.

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Acclime Vietnam is one of the most reputable and trustworthy names in the corporate services sector in Vietnam, with more than 130 staff working across 3 key cities: Hanoi, Ho Chi Minh City and Danang. Acclime Vietnam has been assisting foreign invested and locally owned companies to enter, expand, operate and succeed in Vietnam, while maintaining the highest level of professional standards through proactive compliance, reporting assistance and advice.

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Kantar is the world’s leading data, insights and consulting company providing brands and retailers with a unique, 360-degree understanding of consumer behaviour across the globe.

Worldpanel is a part of Kantar, delivering a holistic market measurement, giving brands and retailers the power to spot emerging trends and respond quickly to changing behaviour.

Kantar is shopper-centric, continuously monitoring the purchase and usage behaviour through the largest omnipanel in the world. Their vertical expertise includes consumer goods, retail, e-commerce, foodservice, beauty, home, fashion, footwear, media and entertainment, mobile, home appliances, books, home improvement, toys and gift cards.

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