



30⁺ YEARS
IN VIETNAM
& CAMBODIA

The implications of Decree 100 for Vietnam beer industry

2024 Update

—

KPMG in Vietnam



Foreword

01

After the COVID-19 pandemic, the beer market in Vietnam began to show signs of recovery in 2022, surpassing the sales volume of 2019.

Despite this upward trend, 2023 proved challenging for the industry due to several factors: The Vietnamese Government intensified the enforcement of Decree 100, rising costs of production materials, and consumption scrutiny amid economic uncertainties.

02

On 16 February 2024, the representative of the Ministry of Industry and Trade confirmed that this year's Tet consumption of beer and alcohol has decreased compared to 2023, attributed to higher awareness amongst people concerning Decree 100.

This study seeks to offer insights into how beer companies in China, our largest neighbor, navigated comparable regulatory challenges to sustain growth.

We initially hypothesize that Vietnam and China have considerable parallels in their social, political, and economic landscapes, as well as in the consumer product sector, particularly in the beer industry.

By examining the Chinese context, our goal is to extract valuable lessons applicable to Vietnamese companies.

The research team compiled a mix of hard data, including statistics and consumer research, as well as soft data, such as market signals and published insights, to yield more pragmatic results for the study.

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**Driving Under Influence*



Summary

01

Non/low alcoholic beer

Non/low-alcoholic beer has yet to gain popularity in China and has been on a downward trend since 2017.

During Tet 2024, Non/low-alcoholic beer sales only accounted for 0.5% of total beer sales. The sales mainly came from activation events and bundle promotions to raise product awareness.*

** Sharing from Industry Insight*

02

Premiumization trend

In China, premium beer is anticipated to see significant growth, driven by the expanding affluent and upper-middle-class.

In Vietnam, while the middle class is growing rapidly, the affluent and upper-middle-class segments are not expanding at the same rate. As a result, the trend towards premium beer in Vietnam may progress more gradually.

03

The beer industry faces headwinds ahead

The rigorous enforcement of Decree 100, a sluggish economic forecast, escalating production costs, and higher special consumption taxes on alcoholic products are collectively influencing beer prices and consumption trends in Vietnam.

04

The alcohol-free wave from young generation

There's an emerging consumer needs for sustainability and health consciousness globally.

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**Driving Under Influence*



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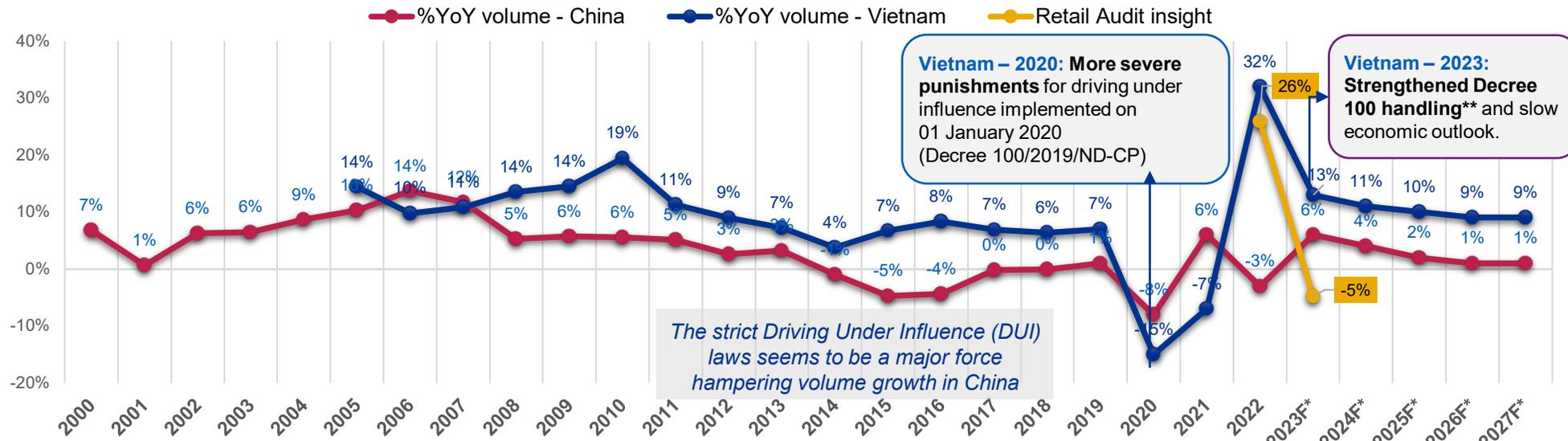
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**Driving Under Influence*



Despite optimistic predictions for the Vietnamese beer market from 2023 onward, the recent retail audit insight for 2023 indicated negative growth. This implies uncertainty for the upcoming period.

For the first time in 20 years with the exception of Covid period, Vietnamese beer market witnessed negative growth, which is inconsistent with Euromonitor's prediction of positive growth recovery after Covid.



Vietnam – 2020: More severe punishments for driving under influence implemented on 01 January 2020 (Decree 100/2019/ND-CP)

Vietnam – 2023: Strengthened Decree 100 handling** and slow economic outlook.

The strict Driving Under Influence (DUI) laws seems to be a major force hampering volume growth in China

China – 2011: Amended laws to criminalize driving under influence. Imposed serious penalties (including jail time) for driving with a blood alcohol level of above 80mg/100ml

China – 2013: Revised regulations for application and use of Motor Vehicle Driving Licenses: strict DUI laws with heavier penalties for motor vehicles drivers

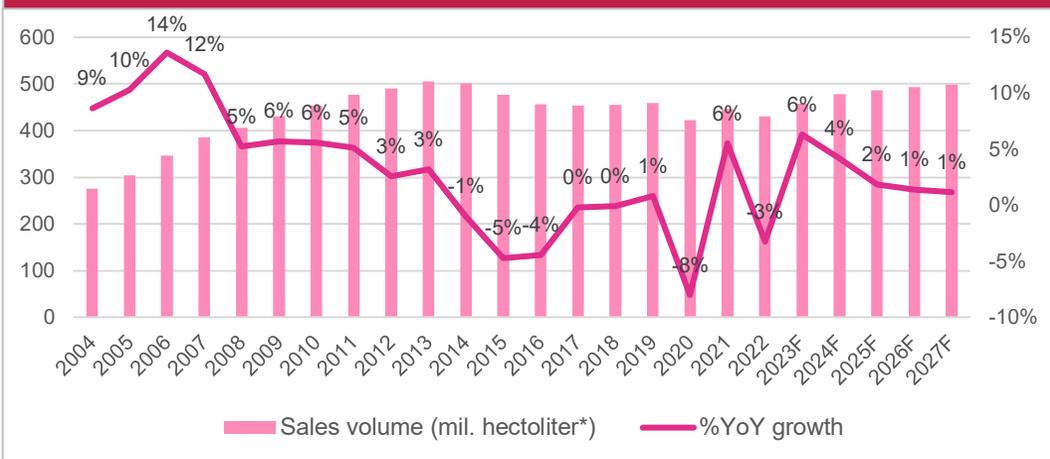
China – 2014-2016: Abnormal weather conditions, particularly rainstorms in the mid-lower regions affecting the cultivation of crops which are raw materials for the beer industry

China – 2023: stricter criminal liability for individuals guilty of driving under influence

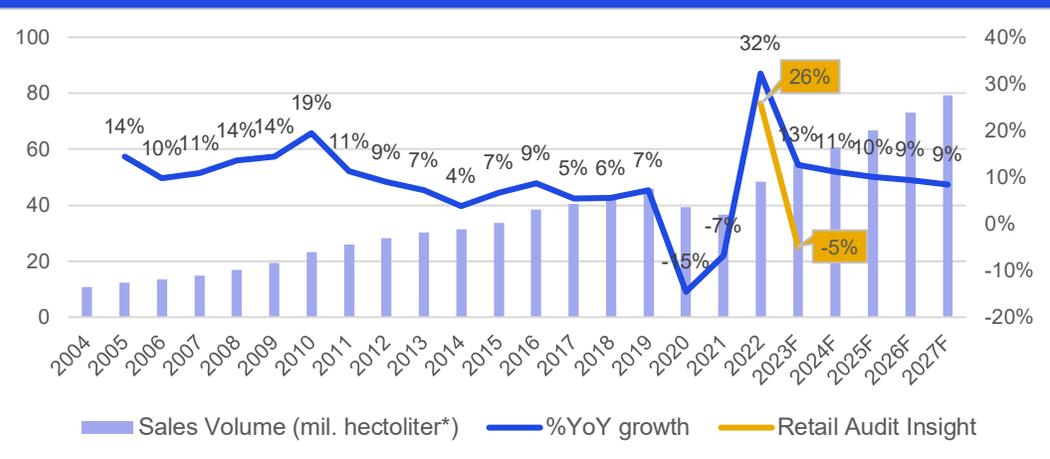
*Sales forecast was published by Euromonitor in June 2023 (VN) & July 2023 (CN). | ***The decree 100 is unchanged, the government strengthens its handling by conducting more tests on drivers and riders.

Beer consumption in China is plateauing, influenced by stringent DUI laws and an aging population. Although Euromonitor predicts a positive growth trajectory for Vietnam's beer market, other sources indicate a more cautious outlook.

China's beer market has reached saturation point since 2017, sales volume is expected to stabilize from 450 – 500 mil. Hectoliter



Vietnam's beer market is projected to growth at higher rate than China and there's no sign of saturation yet



*1 hectoliter = 100 liter

China's beer industry faced challenges in 2020 and 2022 due to COVID lockdowns. Despite this, the fluctuations in growth rates and the projected recovery period show less variation compared to Vietnam.

As of December 2023, China's revised DUI law, which severely penalizes driving under influence, may further impede beer market growth. Additionally, decreased interest from younger consumers and modest economic growth expectations are also influencing the industry.

Vietnam's beer industry made a remarkable recovery in 2022, leading to optimistic growth projections from Euromonitor for the subsequent years.

However, Vietnam's GDP growth slowed to 5.05% in 2023, a marked decrease from the 8.02% expansion in 2022, falling short of the 6.5% target and even below the average annual growth rate of 5.87% over the past decade. Consequently, Retail audit insight reviewed that actual growth in 2023 was [-5%].

This tepid demand for beer, combined with the government's stricter implementation of Decree 100, has prompted many beer companies to revise their 2024 targets.

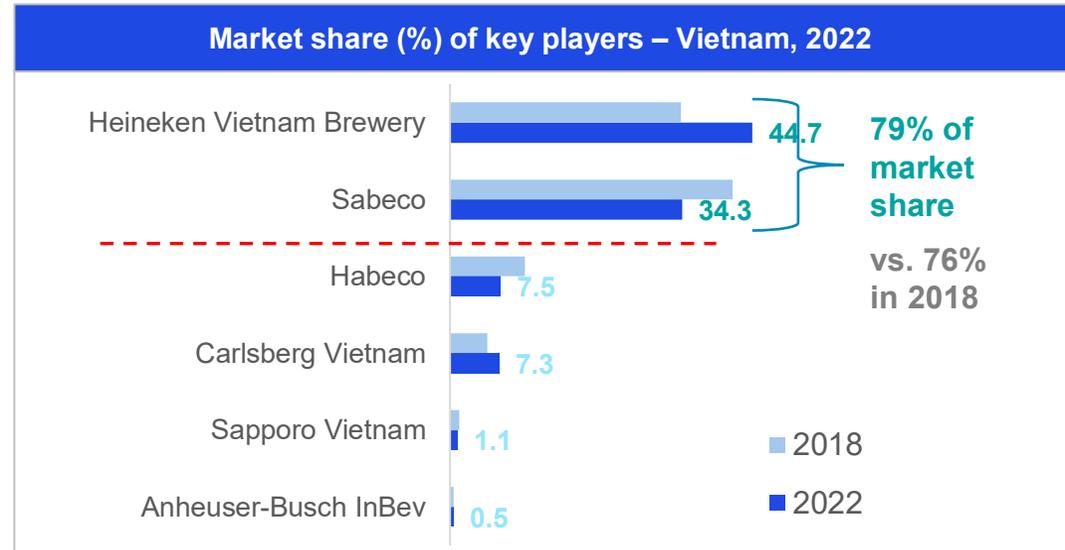
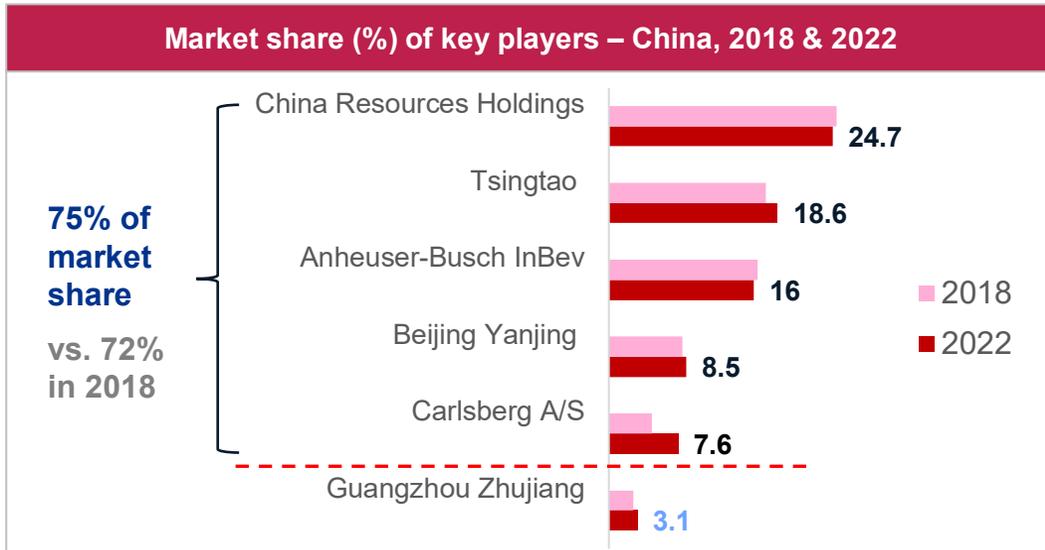
Source: Euromonitor, theinvestor, vietnamnews

The Chinese beer market exhibits stability, with key players consistently holding their positions. In contrast, Vietnam's beer market is more concentrated, highlighted by Heineken Vietnam Brewery recently overtaking Sabeco as the market leader.

In China, State-Owned Enterprises (SOE) still maintained their market-leading position with local brands dominating the market shares. **Snow** (of CRH) took **23%** share in 2022, followed by **Tsingtao** with **12.2%**.

In Vietnam, local brands became less favorable, thus market shares of international brands increased in 2022.

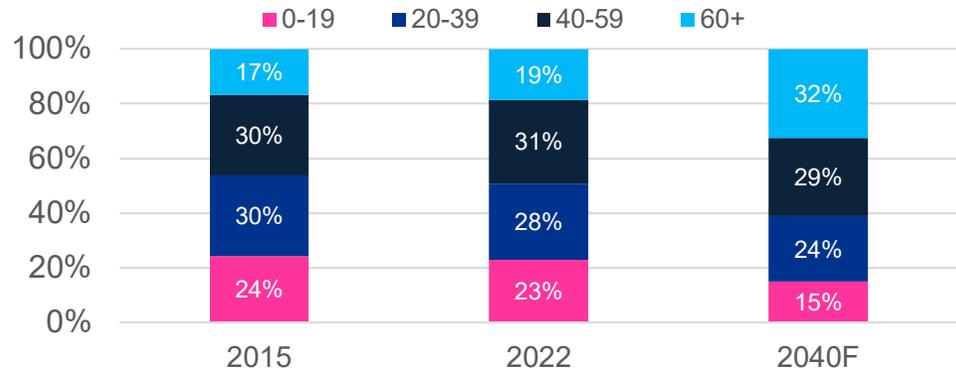
Tiger (of Heineken Vietnam Brewery) took **31%** share compared to **26%** in 2018, while both **Larue** and **Heineken** saw their shares rise from **4%** to **7%** over the same period. In contrast, shares of local brands like **Saigon** and **333** (of Sabeco) declined to **23%** and **11%**, respectively, down from their previous shares of **28%** and **14%**. Among local brands, only **Huda** (now owned by Carlsberg) saw a **2%** increase in market share, reaching **6%** in 2022.



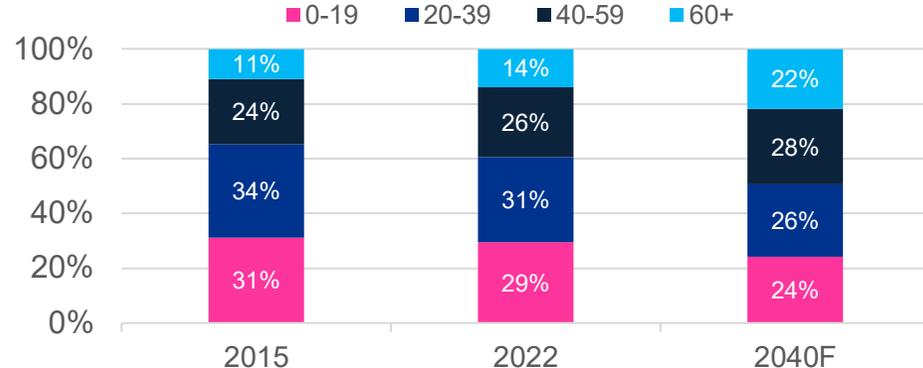
Source: Euromonitor

The beer markets of China could potentially shrink due to greying population and the tendency to reduce beer consumption after the age of 55.

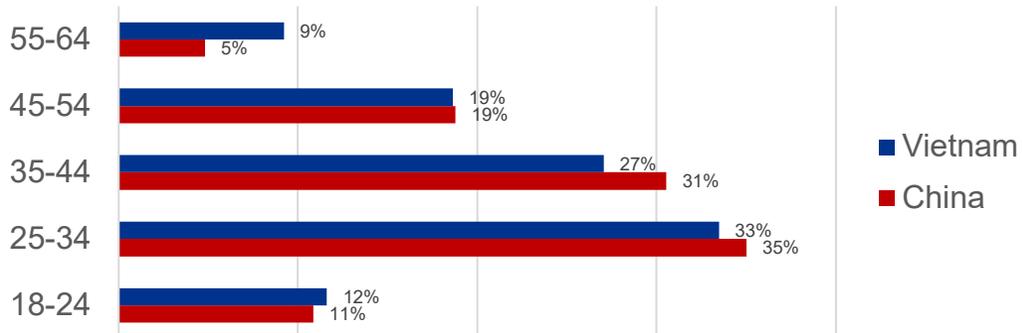
China has grey population with 49% aged over 40 years old. In 2040, this figure is projected to reach 61%



Vietnam's population is more evenly distributed. People over 40 years old in 2022 is 40% and is projected to reach 50% in 2040



Beer consumption by age group



In China and Vietnam, the majority of beer consumption occurs in the 25-44 age group, with China showing higher rates.

Vietnam has almost twice the beer consumption in the 55-64 age group compared to China.

Both nations must adapt to younger consumers' preferences, including health, DUI laws, and premiumization. China's lower consumption among older groups and their larger proportion in the population emphasize the need to capture the younger market in terms of both market share and spending.

Source: Euromonitor, Statista

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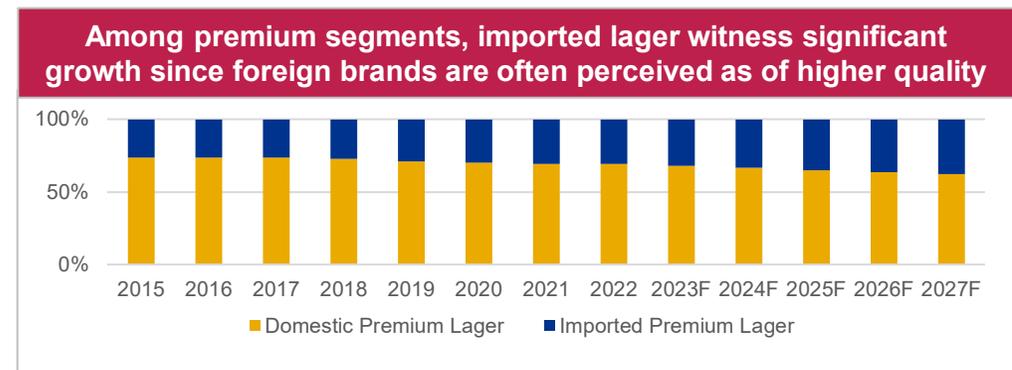
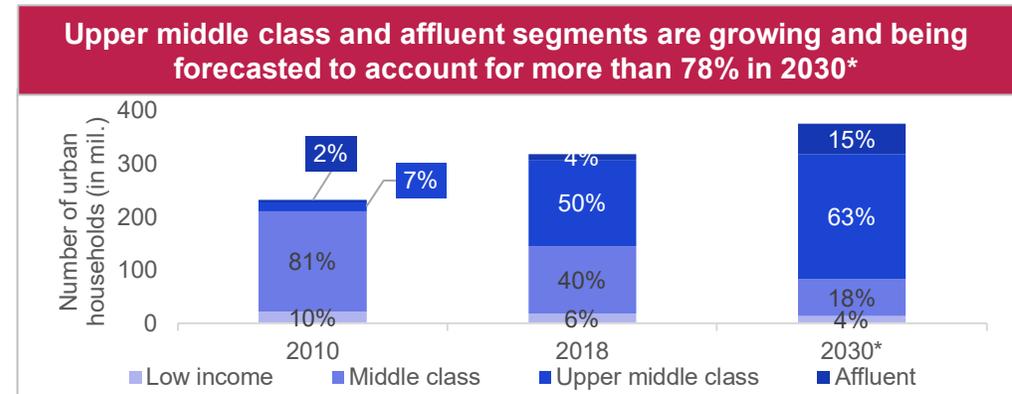
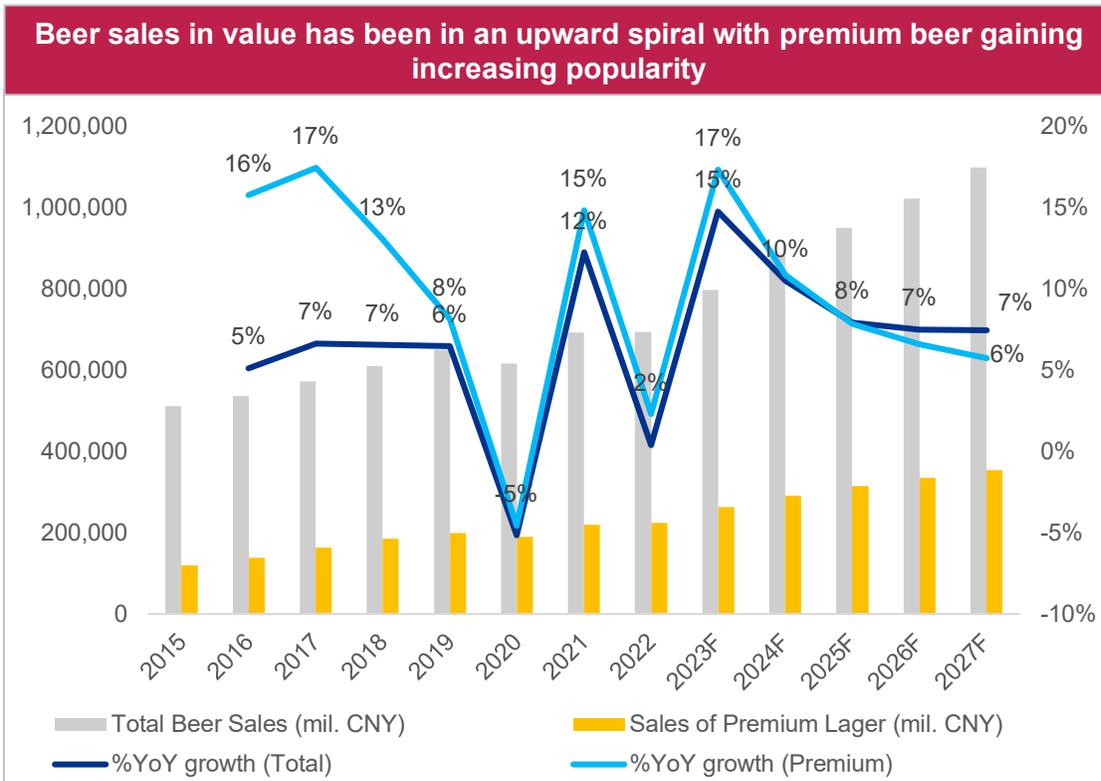
**Driving Under Influence*



While sales volume has been stagnant, the dollar value of beer sales has been increasing, fueled by premiumization.

Considering China's inflation rate at approximately 2% and a volume growth of around 1-4% from 2024 to 2028, the dollar value of beer sales is increasing, reflecting a trend in premiumization. This trend is driven by the expanding affluent and upper-middle-class segments, who are seeking more diverse and sophisticated beer experiences.

However, this trend may slow down from 2025 onwards, as forecasts indicate that the year over year growth of premium lager will begin to lag total beer growth in 2025.



*China Household income class: Affluent: over \$3500/monthly; Upper middle class: \$1600-3500; Middle class: \$580-1600; Low income: below \$580

Source: Euromonitor, Statista

Trends in China: Brewery-Restaurant Collaborations May Support Growth Of Beer After The Pandemic.



Chongqing (by Carlsberg) created an experience store in Shanghai by collaborating with Hou Hotpot (a type of Chongqing hotpot).

By pairing Chongqing beer with spicy Chongqing hot pot, the brand offers an authentic culinary experience to customers and builds a strong brand image.

Joy Brew Flagship and Local Stores

Develop innovative business models and build bistros with distinctive features, enabling in-depth communications between brands and customers



Open New Joy Brew Stores Across the Nation:
Joy Brew Flagship Store + Joy Brew Local Stores



China Resources Holdings launched its first pub, called Joy Brew, in 2023 to create a new marketing and sales channel for its products.

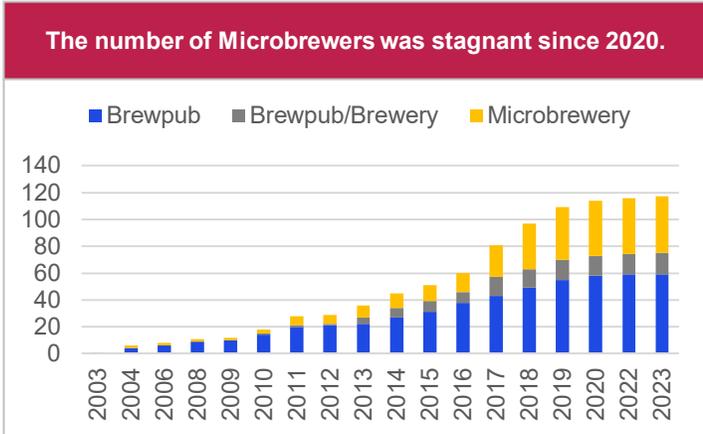
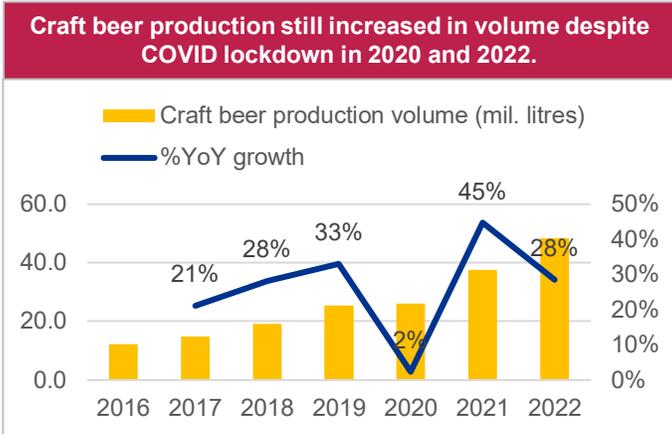
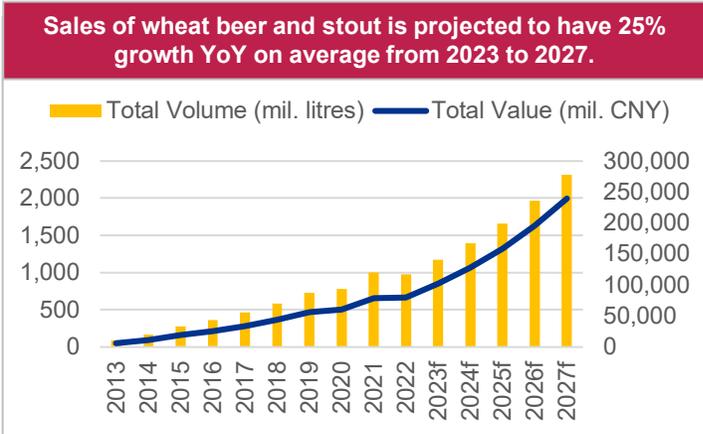
Offering unique on-trade consumption experiences can help build brand awareness and attract more consumers, especially the younger generation of legal purchasing age who are seeking diverse and innovative drinking experiences.

Source: Euromonitor, China Resources Beer annual report

Consumers continue to spend more on craft beer, with its volume maintaining double-digit growth despite challenges posed by COVID-19 and DUI regulations.

Despite a modest increase in the number of microbreweries since 2019, many are extending their reach across major Chinese cities. Craft beer is becoming increasingly popular among consumers of all genders. This rise in popularity is further fueled by domestic breweries diversifying their offerings, particularly with fruit-flavored and milder options, attracting a growing female consumer base.

Consequently, wheat beer and stout have seen significant growth, rising from 6% of the total beer volume in 2017 to 11.5% in 2022.



The key formula for craft beer expansion in China is to offer a diverse range of flavors and styles, coupled with creating a social atmosphere. With the trend of premiumization in beer, craft beer is expected to have positive growth potential in the near future. Targeting beer connoisseurs and those in search of unique drinking experiences, particularly among younger, legally-aged consumers, craft beer is set to see increased demand as these younger adults become the primary market.

Li Qing, founder and CEO of URBREW, stated at a 2022 craft beer forum that China's craft beer market is reaching a new level of maturity. He anticipates the next decade to be a 'golden era', marked by a significant rise in market penetration.

Source: Euromonitor, Statista, Ratebeer, equalocean

Trends in China: Potential For The Growth Of Craft Beer.

In China, there is a growing demand for alternative and high-quality beer styles. The trend of opening pubs that offer a variety of premium beers, aimed at enhancing customer experience, is influencing not just small breweries but also the major industry players.



BrewDog, a pub chain based in Scotland, tied up with AB inBev to expand to China in 2023. AB inBev would start brewing BrewDog's beers and open more bars in the country. The brand plans to expand in China by showcasing its passion for beer, taste, flavor, community, and sustainability.

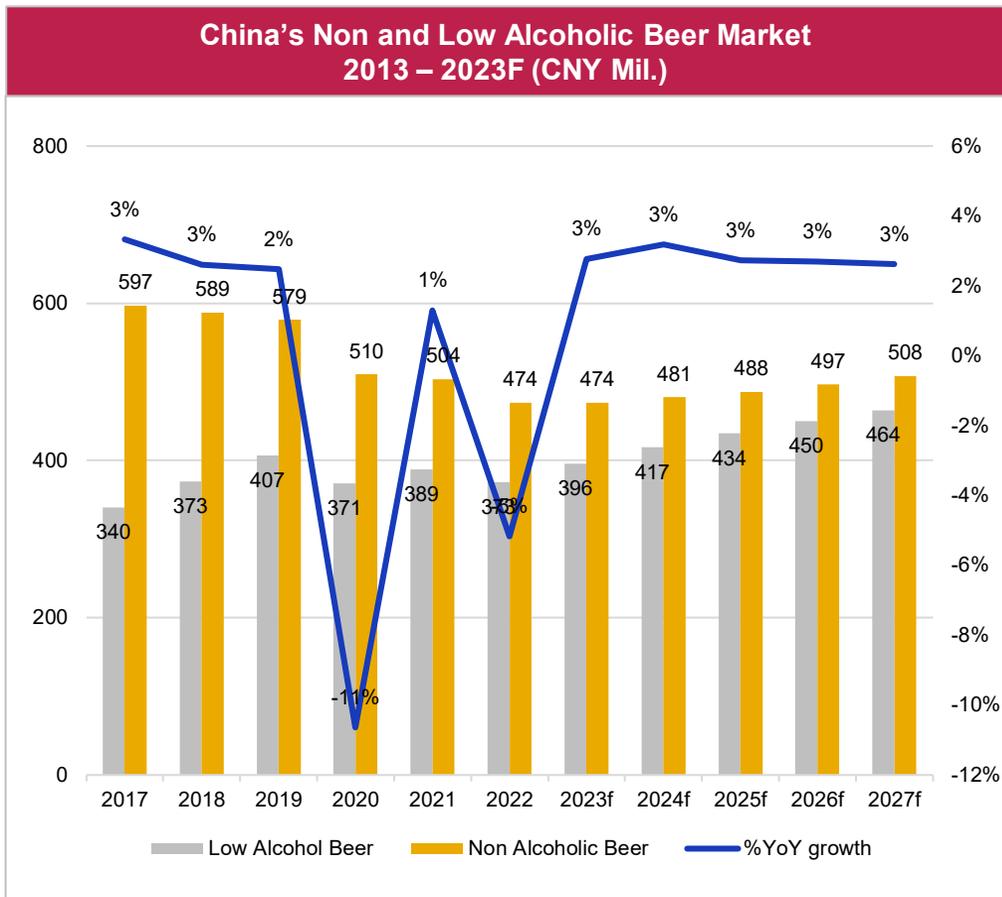


NBeer Craft Brewing, a domestic craft beer player, offers a wide range of craft beer flavors for consumers, both online and in bars, to provide on-trade drinking experiences and educate consumers on beer.

Source: Euromonitor, BBC

On the other hand, low/non-alcoholic is predicted to have modest growth.

The ongoing decline in total volume sales in 2022 indicates that non/low alcoholic beer has yet to gain popularity among Chinese consumers. In China, regular beer remains the preferred choice for those who enjoy alcoholic beverages, while health-conscious consumers tend to opt for soft drinks, cider, or ready-to-drink (RTD) alternatives.



Key observations

Tailwinds for Low/non-alcoholic beer:

- Consumers are increasingly open to spending more on premium non-alcoholic beers that provide a superior taste experience and are made with high-quality ingredients.
- Young females and individuals living alone represent key target demographics for non/low-alcohol beverages. These groups often prefer citrus flavors in beer, cider, and flavored alcoholic drinks for their refreshing, light, and distinct taste.

Headwinds for Low/non-alcoholic beer:

- The low/non-alcoholic beverage category offers various products such as sparkling teas, sparkling fruit wines, and kombucha thereby resulting in intense competition among brands vying for consumer attention.
- Modern young consumers often drink with mindfulness, prioritizing not getting drunk. Additionally, with the ubiquity of social media and the constant presence of cameras, younger generations are inclined to maintain more control over their behavior and image.

Opportunities for Low/non-alcoholic beer:

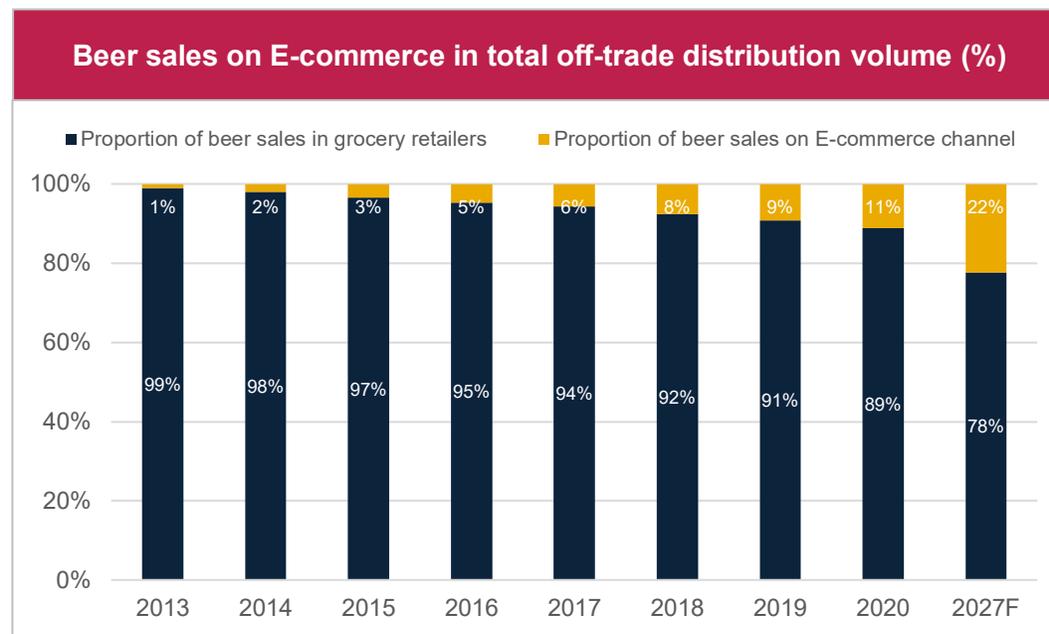
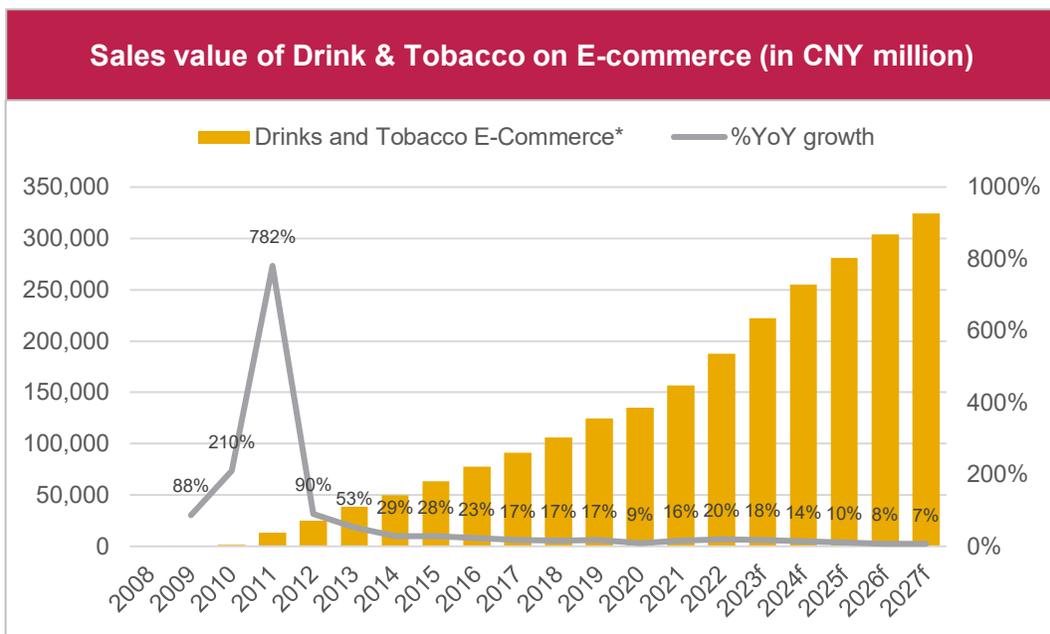
- In Japan, the non-alcoholic beer sector is diversifying its range to include a broader spectrum of styles, flavors, and brewing methods. This expansion features low-calorie, gluten-free, and craft-style options, along with beers enhanced with vitamins, minerals, and other health-beneficial ingredients, catering to health-conscious consumers.
- Focus on Sustainability: Consumers are increasingly interested in sustainable products. Brands are responding by using recycled materials in their packaging and sourcing ingredients from sustainable sources.
- Evolving Retail Landscape: The rise of online shopping and specialty stores dedicated to non-alcoholic beverages is making it easier for consumers to find and purchase their preferred brands.

Source: Euromonitor, foodnavigator-asia, chinadaily, scmp

After the pandemic-induced surge in online sales, the e-commerce sector is entering a phase of normalization, with growth expected to stabilize from 2024 onwards.

IWSR reports that China boasts the highest percentage of online alcohol purchasers among key markets, with nearly 60% of beverage alcohol buyers shopping online. However, spirits dominate in terms of online sales value, while beer presently constitutes less than one-fifth of the total e-commerce value in this category.

The sales value of Drinks & Tobacco through e-commerce in China is projected to grow steadily in the coming years, at a slowing rate. By 2027, beer sales via e-commerce are expected to account for 22% of the total beer sales in the country.



* In our 2020 report, Beer was included in Food & Beverage sector. As of latest data from Euromonitor in 2023, beer now belongs to Drink & Tobacco sector.

Source: Euromonitor, Statista, ecommercedb

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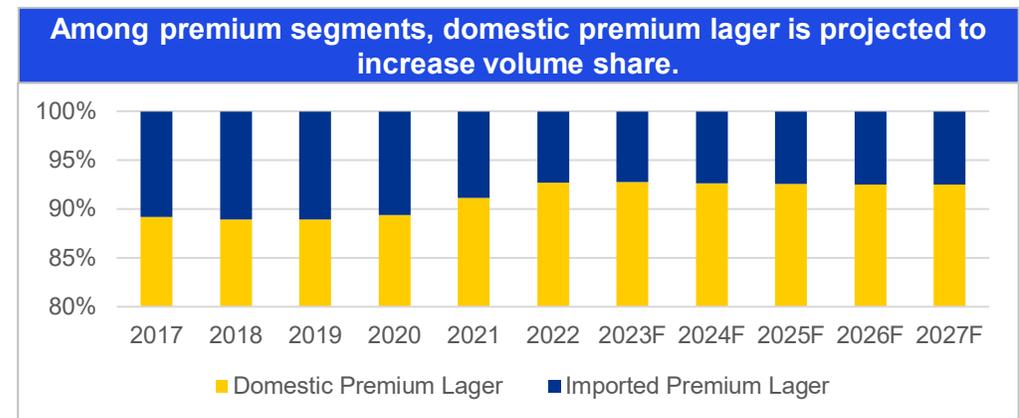
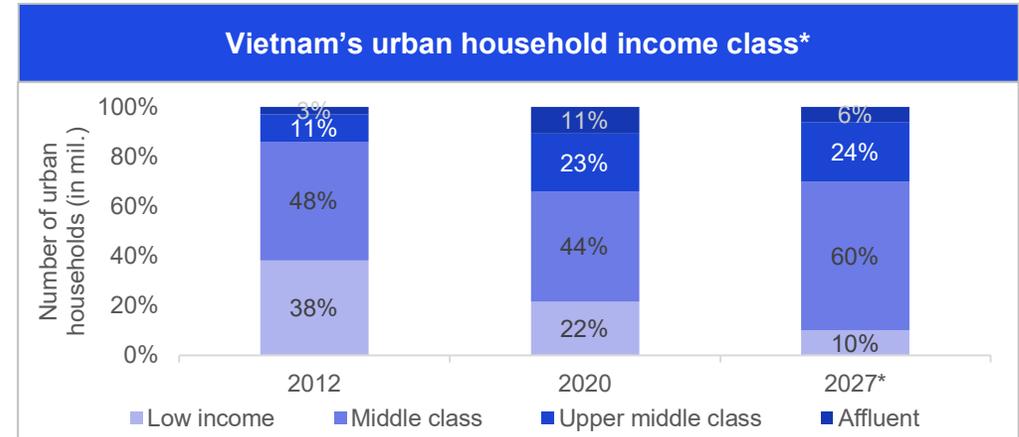
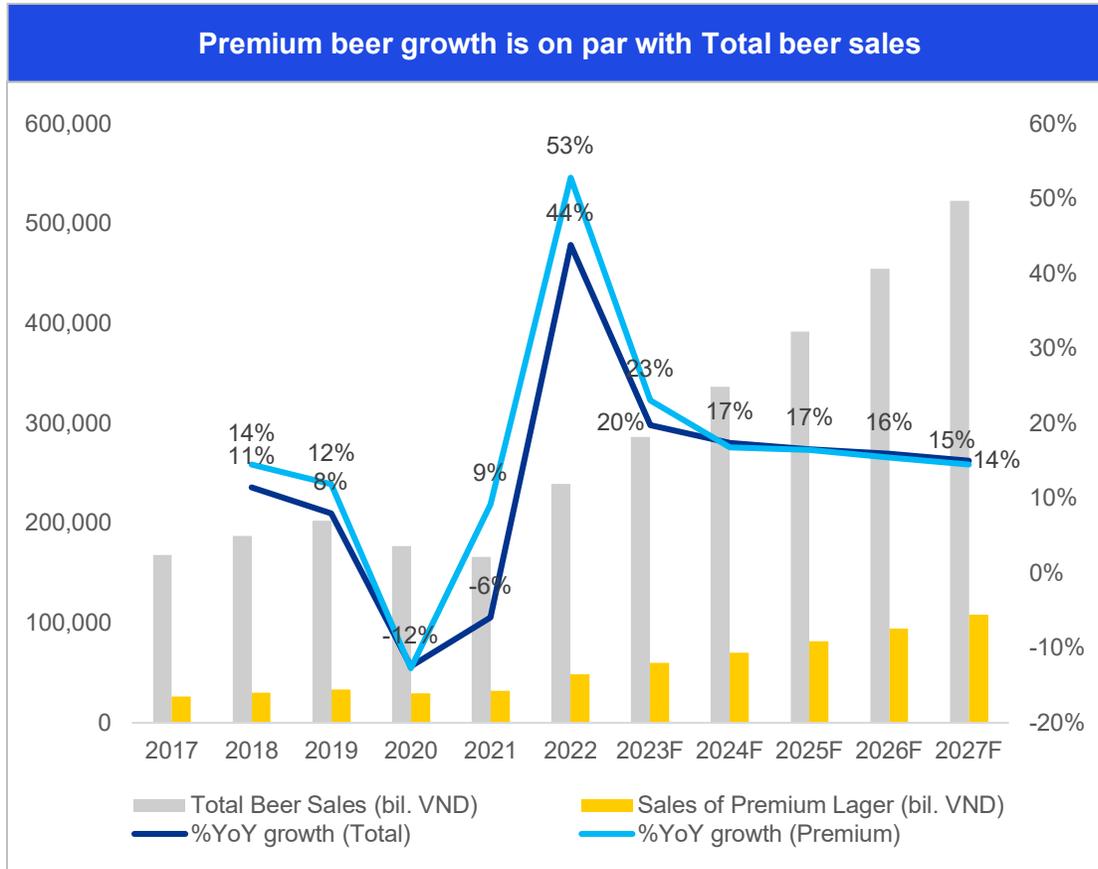
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**Driving Under Influence*



In Vietnam, premiumization may advance more gradually as the middle class grows rapidly, while affluent and upper middle class remain static.

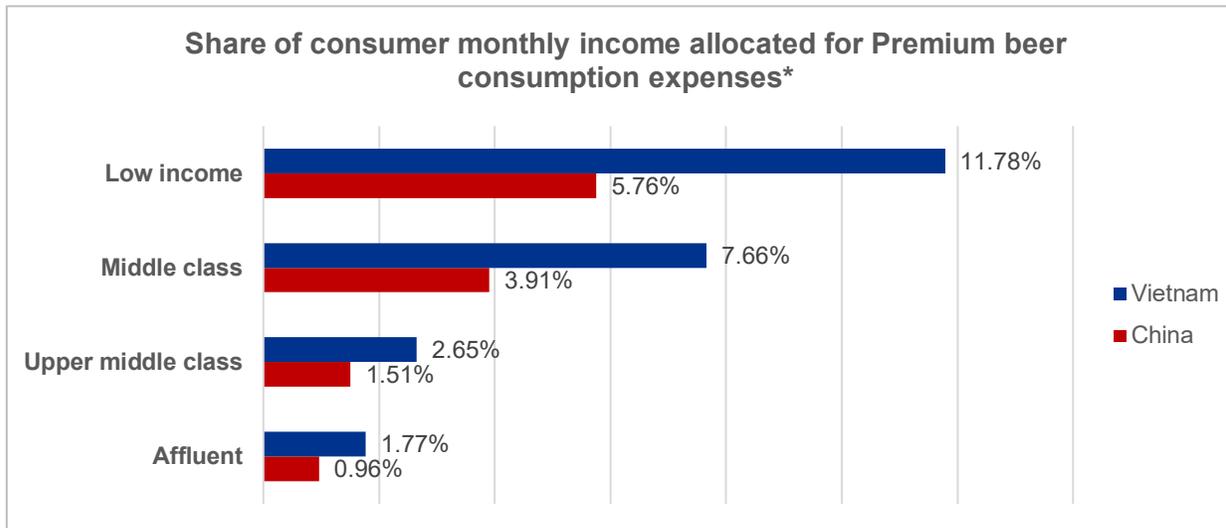
Vietnam's middle class is projected to encompass up to 60% of the population by 2027, while the upper-middle and affluent classes are anticipated to see only marginal increases. In line with this demographic shift, the premium beer segment is expected to grow alongside the overall sector, with domestic premium lager poised to capture an even larger market share in the future.



*Vietnam Household income class: Affluent: over \$1500 per month; Upper middle class: \$750-1500; Middle class: \$225-750; Low income: below \$225

Source: Euromonitor

Assuming similar per capita beer consumption, the Vietnamese middle class needs to allocate twice as much of their income to premium beer as the Chinese middle class.



Assumptions for Share of wallet calculation:

- The per capita beer consumption volume in Vietnam is calculated using China's corresponding figure as a benchmark for comparison, which is ~7 cans (330ml) per month.
- The price analysis assumes that the on-trade retail price is approximately 2.5 times higher than the off-trade retail price.
- Data spanning from 2018 to 2023 is used for these calculations.

- The significant difference in Share of wallet for premium beer is largely attributed to the wider income disparity between the two countries compared to the relatively smaller difference in premium beer prices.
- For the same quantity of premium beer consumed, Vietnamese middle class would need to allocate a larger proportion of their monthly income compared to Chinese middle class (7.66% vs. 3.91%). As spending 8% of monthly income on beer can be considered excessive, premium beer consumption in Vietnam is likely to be driven by the upper-middle and affluent classes rather than middle class.
- This is potentially a key reason for more gradual growth in premiumization in Vietnam as the affluent and upper middle class are predicted to remain relatively stable.

While the actual beer consumption volumes in Vietnam and China differ, we use an equal consumption volume for comparison purposes.

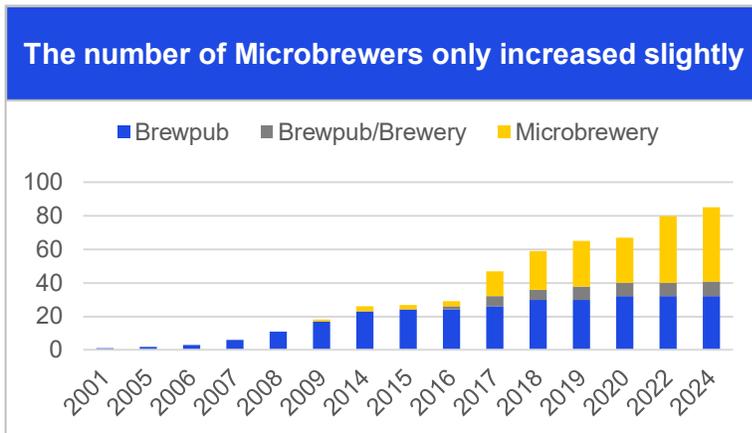
*The figures used for calculation were collected from various sources from Statista, Euromonitor, ecommerce websites, etc.

Despite impressive recovery in 2022, 2023 was a challenging year for craft beer in Vietnam.

Craft beer has been gaining popularity in Vietnam, especially among the younger generation. Gen Z, eager to embrace global trends, is drawn to elite experiences like craft beer tasting and on-site brewery visits. Meanwhile, middle-income consumers are showing more discernment in their food and beverage choices. The distinct recipes and on-site brewing offered by domestic craft beer brands are particularly appealing to these quality-conscious consumers.



* There is no record of Stout, wheat beer or dark beer available in Vietnam.



The slow economic outlook in 2023 somewhat impacted Vietnam's craft beer industry. With reduced discretionary spending by locals and stricter driving under influence laws, local breweries have initiated various retention strategies to maintain customer engagement:

- Brewers East West and Heart of Darkness shifted their focus to **servicing more tourists**.
- Several companies are exploring **lower-cost drinks** and **creating new mixes** to attract consumer interest
- Some are pivoting to **contract brewing**, producing beers for other brands.
- 7 BRIDGES brewery is **promoting local sustainability** champions by featuring these heroes and their stories on their special edition beer can labels.

In April, the Vietnamese government announced Decision 508/QD-TTg, mandating an increase in the special consumption tax (SCT) on beer and alcohol products by 2030. This decision is likely to result in higher craft beer prices, potentially raising profit concerns for brewers. However, this price increase might also create a trading-up effect: with craft beer becoming more expensive, it could be perceived as a more premium or luxury product, thereby enhancing its perceived value.

Source: Euromonitor, Ratebeer, vietnam-briefing

According to the Ministry of Industry and Trade, consumption of beer and alcohol in Tet 2024 has decreased compared to 2023, confirming consumer's scrutiny on beer and low demand.



On the morning of 16 February 2024, the Ministry of Industry and Trade held an online conference in Hanoi, during which a representative confirmed that this Tet's beer and alcohol consumption had decreased compared to the previous year. This was attributed to people's increased awareness of the regulations regarding alcohol consumption and responsible driving.

“My household income decreased. My neighbors are also struggle financially, so we should cut back on celebrating.”

Mr. Khoi, Hue

“Most of this Tet is spent with family, there will be no need to buy much Tet shopping, no alcohol, no new clothes during Tet, just time to rest and enjoy the spring.”

Mr. Ka, TP. HCM



“There's so few beer customers! They mostly order carbonated beverage or water. Beer customers have dropped 80%. Usually every year, in the months approaching Tet, beer prices increase.

This year, there are even discounts and promotions, but buyers are still sparse.”

Ms. Loan, TP. HCM

Source: <https://dttc.sggp.org.vn/>

Non/low-alcoholic beers are predicted to have modest growth as brewers are struggling to create real demand from consumers.

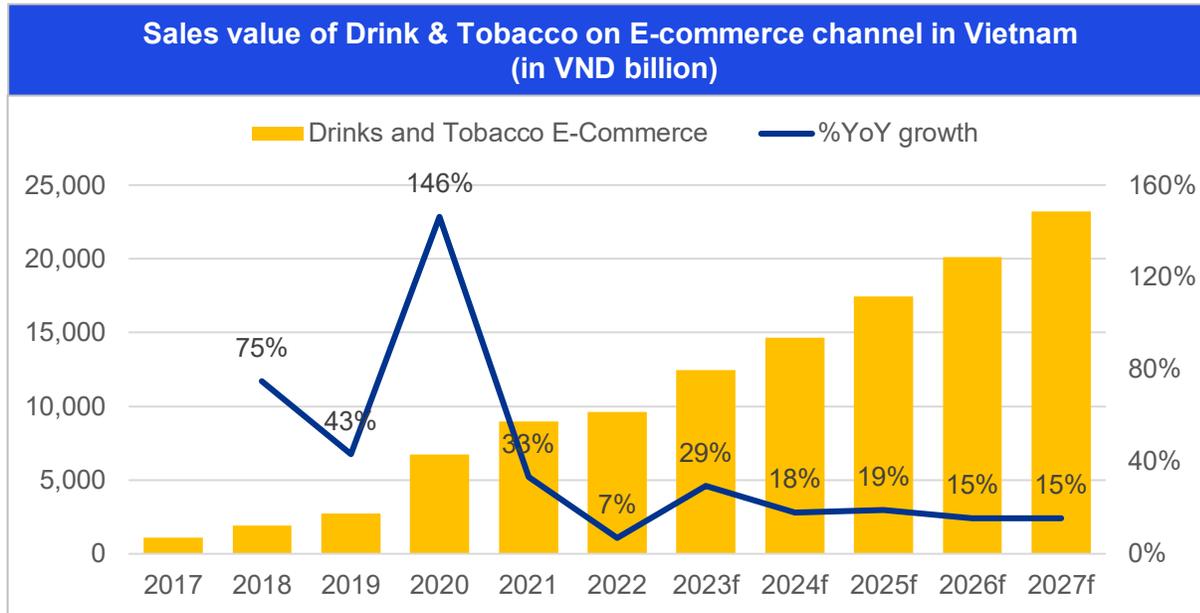


- Non/Low Alcoholic Beer accounts for just 0.12% of total beer sales from 2021 to the forecasted period of 2027. Despite increasing sales values, the year-over-year growth of these beers appears to be declining.
- However, during Tet 2024, Non/Low Alcoholic Beer sales accounted for 0.5% of total beer sales value. Industry sources reviewed that most of these sales came from activation events and bundle promotions, where Non/Low Alcoholic Beer was sold together with normal beer.
- In the near future, many brewers plan to maintain their Non/Low Alcoholic Beer presence by expanding to modern trade channels and increasing promotional activities to build awareness.
- However, the lack of a clear definition and rules for Non/Low Alcoholic beverages creates uncertainty for brewers, causing them to be more cautious in their movements with Non/Low Alcoholic Beer.

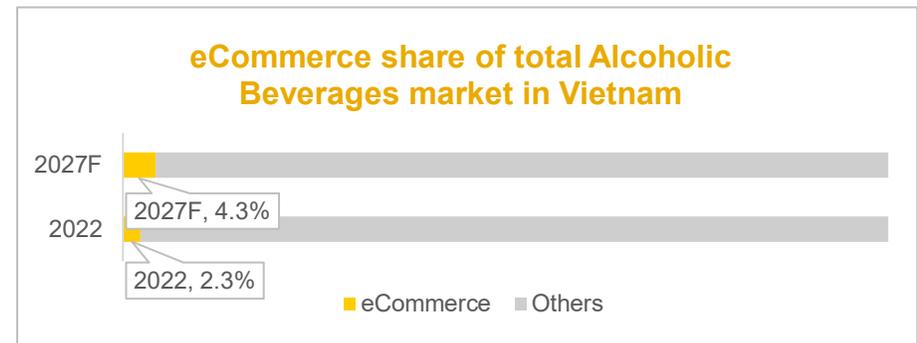
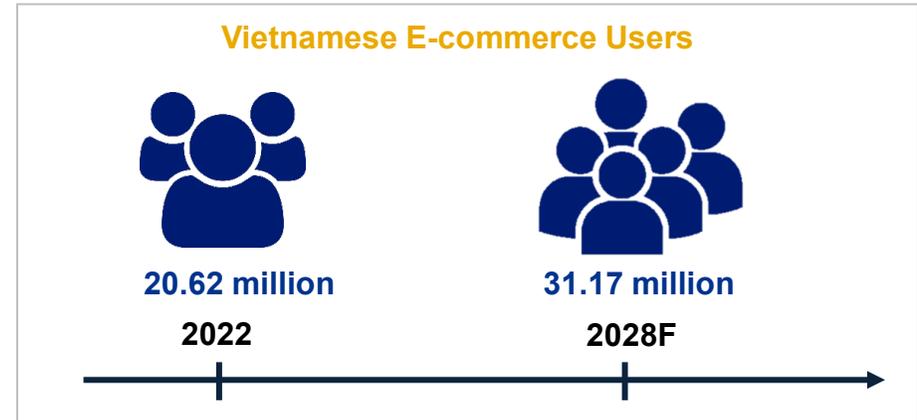
Source: Euromonitor, Industry Insight

E-commerce sales of Drinks & Tobacco in Vietnam are rising more sharply than in China, with a notably higher proportion of beer sales through online channels.

IWSR forecasts that Vietnam's online beer market will hit US\$57.7 million by 2023, making up 28.8% of the country's Alcoholic Beverages e-commerce market. This is notably higher than China's beer e-commerce market, which accounts for less than 20%. In comparison to total beer sales, online sales currently hold a 2.3% share in Vietnam and are projected to grow at an average rate of 16.8%, reaching 4.3% by 2027.



According to Statista and ECDB, The Vietnamese Alcoholic Beverages eCommerce is projected to reach market volume of US\$340.7 million by 2027, accounting for 4.3% of total sales of Alcoholic beverage. In which ecommerce sales for beer will account for US\$100.7 million (30%).



Source: Euromonitor, Statista, ecommercedb

How we can help

Intelligence

Customer Experience (CX) Insight

CX insight as a service, allow business to continually survey, monitor and analyze their customer satisfaction through technology.

Sales Growth Diagnostic

Sales Growth Diagnostic Services analyzes sales processes, team effectiveness, and metrics to help businesses identify areas for improvement and achieve their revenue growth goals through actionable recommendations.

360o Business Intelligence

Provide end-to-end Business intelligence & reporting automation solution that allows business to have real-time visibility on their business performance across functions and value chain.

Over offering covers operational performance as well as financial and ESG compliance reporting.

Growth

Strategy & Market Entry

Our strategy and market entry services help companies assess market opportunities, develop entry strategies, and execute them effectively.

eB2B

Our eB2B Channel Development Consulting Service helps businesses develop and implement an optimized eB2B strategy using the leading e-commerce models and AI-powered technology solutions.

Customer Engagement & Loyalty

Our Customer Engagement and Loyalty Consulting Service provides businesses with a personalized and engaging customer experience following leading practices and technology tools such as a Customer Data Platform (CDP), loyalty tech, Superapp engagement (e.g. Zalo, Momo), and gamification.

Optimization

AI-Powered SFE

Our AI-Powered Sales Force Effectiveness (SFE) service leverages AI technology to revolutionize the traditional SFE/SFA processes, optimize sales funnel, improve team performance, and drive sales uplift and productivity.

Commercial Operations

Apply leading practices and technology to improve the efficiency and effectiveness of a company's sales, marketing, and customer service operations to maximize sales & marketing ROI.

Go-to-Market Optimization

Our service delivers an end-to-end approach to optimize businesses' strategies for launching, scaling, and marketing their products and services. We provide detailed product-market fit/gap analyses, coupled with distribution performance optimization, customer segmentation and omnichannel engagement to improve both gross and net revenue.



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