Looking back to the four-year history of Bach Hoa Xanh

Son Tran – son.tt@vdsc.com.vn

Late 2015 – early 2016: Initial experiment

The Gioi Di Dong chain was still in its "golden era" and Dien May Xanh was just starting to pick up. MWG was growing at 60% annually in revenue and profit. Foreseeing that the smartphone market would soon be saturated and consumer electronics would not be enough to carry the high growth for long, MWG's management started to think about a new retail market that is big enough for their long-term growth prospect while still fragmented with no industry leader. Foods & FMCG retail was the answer and Bach Hoa Xanh – the grocery chain was born in late 2015.

MWG got the idea from Alfamart – top two largest grocery chain in Indonesia and tried to replicate it. The new chain must be in the size of a convenience store to penetrate into residential area while having a product mix of a "mini supermarket". The very first Bach Hoa Xanh stores were just under 100 sqm and Binh Tan - the densest district in HCMC was chosen to experiment the new chain.

Back then, MWG was expanding at a crazy pace, The Gioi Di Dong/ Dien May Xanh total storecount almost doubled in one year (from 629 to 1,206). There was not much resources left for Bach Hoa Xanh, it ended 2016 with just 40 stores.

2017: Started to expand quickly

Despite that The Gioi Di Dong and Dien May Xanh were still expanding very fast, their abundant cash flow was still enough to accelerate Bach Hoa Xanh. MWG had a very positive operating cash flow that year of nearly VND 2,700 bn after two negative years. Therefore, BHX's problem was no longer its CAPEX needs, but finding a 'success model'.

In early 2017, MWG had 50 BHX stores, all in the Binh Tan district with average monthly sales/store of VND 1 bn and average ticket size of VND 50,000, these numbers were already outstanding compared to other minimart chains.

It moved to Tan Phu and focused on penetrating these two crowded districts. However, store cannibalization started to take place and BHX's average sales quickly decreased to just around VND 700 mn at the end of 2017, with 283 stores at that time.

Also in 2017, BHX started to cooperate with big fresh food providers for a sustainable supply chain, namely Hoang Anh Gia Lai for fruits.

2018: A complete change in store model

BHX's monthly sales were still in a downtrend and hit VND 600 mn/store in Feb 2018. MWG's management realized it was because of the inappropriate model. Small stores deep into residential areas could not generate enough traffic and sales and the small size could only offer limited amount of SKUs that failed to meet customers' daily needs.

From Q2/2018 they completely changed BHX's store model. Accordingly, new stores would be opened from standard (150-250 sqm) to large size (300 sqm) located on main routes that lead to residential areas or right next to wet markets. Besides, new stores have bigger selling space and more SKUs for fresh produces, from ~100 of old model to 300-500 of new model. New KPI measurements were applied: friendly attitude, clean and well-organized selling space, food freshness, quick and precise food processing.

As a result, monthly sales/store quickly recovered and reached VND 1.2 bn at the end of 2018. Because of the growing scale and higher fresh produce contribution in sales, BHX's gross margin surged from 14% to 18% that year. It started to fill up HCMC and moved to other Southern provinces.

Still, not all old-model stores were able to be enlarged and converted to new models, many of them were closed and it resulted in a lot of expenses.

BHX ended 2018 with a total of 405 stores (90% in HCMC). It also accomplished an important milestone of **EBITDA break even at store level in December 2018**.

2019: Replicating the optimal model to other regions.

It took MWG the first quarter of 2019 to completely convert/close all the remaining old-model stores before massively expanding BHX, there have been around 60 new stores every month since then.

As fresh produce/total sales ratio already reached 50% and there is not much room to improve further, BHX switched the focus to optimizing procurement. Besides being able to negotiate better pricing from FMCG suppliers due to its bigger scale, BHX has been cutting more middleman (distributors) and working directly with more fresh food suppliers. Consequently, its gross margin went up from 18% to 20% YTD.

At Oct 31st there was a total of 866 stores of which 452 were located in 20 provinces in the South- and South-Central Coast.

The acceleration in store and DC expansion resulted in high expenses that revenues from current stores cannot cover yet. So far, after 4 years, BHX still has yet to make MWG profit.

Moving forward, MWG set the target of completely break even for BHX in 2020. There is still a lot to improve but we believe BHX is following the right track.

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HEAD OFFICE

141 Nguyen Du St., Ben Thanh Ward,
Dist. 1, HCMC

T +84 28 6299 2006
F +84 28 6299 7986
E info@vdsc.com.vn
W www.vdsc.com.vn

HA NOI BRANCH

10th Floor, Eurowindow Building, 2 Ton That Tung,
Trung Tu Ward, Dong Da Dist., Hanoi, Vietnam

T +84 24 6288 2006
F +84 24 6288 2008
E info@vdsc.com.vn
W www.vdsc.com.vn

NHA TRANG BRANCH

50 Bis Yersin, Nha Trang City

T +84 258 3820 006
F +84 258 3820 008
E info@vdsc.com.vn
W www.vdsc.com.vn

CAN THO BRANCH

95-97-99 Vo Van Tan St., Ninh Kieu Dist.,
Can Tho City

T +84 292 381 7578
F +84 292 381 8387
E info@vdsc.com.vn
W www.vdsc.com.vn