

Vietnam now receives nearly 8 million international arrivals a year. However, when asked, 95% said they do not plan on returning. This makes Vietnam the very definition of a “once in a lifetime” vacation. Most of Vietnam’s tourists are low spending (backpackers) who relish the adventure. Vietnam’s National Association for Tourism (VNAT) needs to understand that marketing budgets should focus on the huge potential market to the north rather than wealthier Europeans and North Americans. Vietnam’s competitive advantages as an international travel destination match perfectly with the new middle class Chinese consumers’ purchase considerations. Like Americans traveling to Mexico, the Chinese are likely to become repeat customers to Vietnam’s beautiful coastal locations. Additionally, it is both easier and cheaper to reach these new Chinese travelers.

## **Vietnam Tourism: Killing a Bad Product with Good(?) Marketing**

MGT Management Consulting  
January 2013

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Quantify Your Strategy**

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### **Introduction**

In November at a hospitality management conference in Ho Chi Minh City, one of the keynote speakers advocated for Vietnam to expand marketing in North America and Europe as a way of increasing demand for tourism in Vietnam. As anyone who has read our recent series on Vietnam tourism could guess, we disagree with this strategy. Vietnam should not focus on those markets at all, and instead, concentrate its limited marketing budget almost entirely on the growing number of new Chinese consumers because their purchase considerations closely align with Vietnam's competitive advantages. Recent studies have shown that a vast majority (85%)<sup>i</sup> of visitors say that they will not return to Vietnam. Other surveys show that Vietnam's actual return rate is near 5% (Thailand's is 50%)<sup>ii</sup>. In addition, the Western visitors who arrived in Vietnam by cruise ship spend less in Vietnam than in other countries<sup>iii</sup>. In another survey of 1,048 visitors, most were disappointed in what Vietnam had to offer in terms of souvenirs and merchandise<sup>iv</sup>.

A well-known advertising idiom says, "Nothing kills a bad product faster than good marketing". Making the giant assumption that Vietnam can develop good tourism marketing, focusing on developed countries is just asking to kill the product. Already, travel sites like Tripadvisor.com are inundated with reviews and comments about Vietnam's lack of facilities, entertainment options, and overall uncleanliness. Even positive reviews of Vietnam demonstrate that the country is just not ready to provide sophisticated travelers with the vacation they desire. In a CNN.com review listing Hanoi's top ten attractions, number one is the adventure of walking across the street. Number two is drinking plastic cups of unpasteurized, "ridiculously priced beer" on the sidewalk while sitting on small plastic chairs. Not exactly the attractions most middle class Westerners are going to fly halfway across the world to experience, particularly if they have children. Of course there is a very strong "backpacker" tourism market that does appreciate these types of activities, and Vietnam is very popular among them. Unfortunately they stay at \$10/night mini-hotels and spend very little money in-country.

So why pay premium advertising prices to reach a market whose purchase considerations either don't match your product (Western middle class) or if they do, the return on investment is low (Western backpackers), when there is a huge market of potential customers that are easier and cheaper to reach and whose expectations will align with the product?

In this month's *Vietnam Resort Report* we present our argument and break down the reasons Vietnam needs to face facts and understand in the future, all facets of its economy will be tied to China, especially tourism. That is not necessarily a bad thing, as

the rise in Mexican income following the rapid increase in U.S. consumers after World War II has shown us. Mexico now ranks tenth in international arrivals thanks to its symbiotic relationship with the U.S.

The rationale for targeting Europeans and North Americans is that they spend more money per day, and are thus more valuable. This is of course true, but it doesn't necessarily mean that targeting this market segment has the best return on investment. Other factors must be considered, and that is the focus of this report.

However, keep in mind that what is best for Vietnam as a whole, is not necessarily what is best for each individual resort. All-inclusive five star resorts definitely have different competitive advantages than Vietnam's tourism industry in general, and should market accordingly. The key for these businesses is to control the customer experience from arrival to departure.

### **Cost Effective Tourism Marketing**

Like any business decision, marketing expenditures need to have a positive return on investment. Decisions about marketing strategy depend on four variables.

1. The % chance of success to convert the target into a customer
2. The size of that potential target market
3. The expected value of a new customer (discounted over time)
4. The cost (per person) of reaching that target market

The formula is:

$$ROI = ((\% \text{ Chance} * \text{Population Size}) * EV) - \text{Cost to reach a person}$$

The expected value (EV) is a function of *Total Money Spent – Round Trip Cost* plus the discounted EV of future visits multiplied by the chance of future visits. The formula looks something like this:

$$EV = (1 + \sum_{t=0}^n (\% \text{ chance of returns}) * \sum_{t=0}^n (\text{Total \$ Spent} - \text{Round trip cost}) / ((1+i)^t))$$

Obviously, if the benefit is positive, the marketing money should be spent. If a limited amount of money is available for marketing, then the market segments should be ranked by the return on investment. With this formula, we can look at the variables and compare strategies targeting different target markets in an effort to prioritize how Vietnam's marketing money should be spent.

### **Chance of Success in Converting a Target into a Customer**

Market segments are determined by purchase considerations. Target marketing is the process of grouping and then reaching people with the same purchase considerations.

Effective target marketing is reaching the people with purchase considerations matching your product's attributes, with an appropriate message to convert these people into customers.

MGT Management Consulting has developed a proprietary market segmentation framework which analyzes purchase considerations of different target markets and compares them to the competition. Ideally, market surveys are used to determine the purchase considerations and their relative importance for each segment. For this report we are using our educated guess.

Competitors			Purchase Consideration	Market Segments		
Nearby Alternative	Thailand	Vietnam		Chinese Middle Class	Western Middle Class	Western Back-packer
3	5	8	Purchasing Power <sup>v</sup>	8	4	7
6/8 (China/West)	7/5	8/4	Time & Cost to Destination	8	4	3
4	7	8	Unique Experience / Adventure	5	6	9
7	7	7	Climate/Beach	6	7	7
8	5	3	Safety/Familiarity	5	8	1
6	6	6	Shopping <sup>vi</sup>	7	3	2
8	8	4	Tourism facilities	6	8	4
7	6	2	Cleanliness	3	6	2
			Market Size	6	9	5
			Market Growth	10	1	3

Nearby Alternative would be Mexico/Caribbean for North Americans and the Mediterranean for Europeans. For Chinese it is places like Singapore, Malaysia, and Bali.

The values in the chart **are relative to each other**. The higher the value, the more important it is (for market segments) or the greater the strength (for competitors). A large gap between Vietnam and the competition demonstrates a competitive advantage for the country that is best exploited by targeting segments that highly value that same product attribute.

*Chinese Middle Class:*

Without doing the research, we would guess that the new Chinese middle class travelers (income above \$1,500/mo.) have limited time and money to spend on vacation. Purchase considerations such as cost and travel time are important. Shopping is also important, but as their income is significantly less than Western middle class, shopping for them is more cross-border trade than souvenirs. Vietnam is the closest destination and the cheapest, both to get there and once they arrive. As we showed in our previous

research reports, there is a significant correlation between increase in travel and the relative change in income levels between neighboring countries. Chinese income levels are growing vis-à-vis Vietnam.

*Western Middle Class:*

Americans and European middle class have significantly higher levels of income than their Chinese counterparts. They are looking for more safety and less adventure than the other two segments. They also value nice weather for their vacations. Nearly all their purchase considerations are better suited for nearby alternatives (Mexico and the Caribbean for Americans, the Mediterranean for Europeans. As the economies in Southern Europe deteriorate, the in-country costs will decrease and SE Asia will be even less attractive as a cheaper destination, once airfare costs are added.

*Western Backpackers:*

Like the Chinese, the Western backpackers are looking for a cheap vacation. However, they are more willing to take the time and expense of finding a unique, once in a lifetime experience because they have the free time (students). Safety and shopping are not important either. Vietnam matches very well with their purchase considerations.

*Conclusion:*

Vietnam's competitive advantages match Chinese middle class and Western backpackers' purchase consideration much better than Western middle class. However, Vietnam has trouble differentiating itself from Thailand (and other SE Asian countries) for backpackers. We would expect those two market segments to be more inclined to respond positively to the country's marketing and enjoy their vacations more.

**Market Size**

Our market segmentation framework includes comparing market size and market growth. The relative values reflect the number of potential customers, but does not include the amount they spend. That is covered below.

*Chinese Middle Class:*

With income levels rising at 7% per year, the number of Chinese middle class travelers is rapidly increasing, and will soon surpass the other market segments. Population is stagnant, so all the growth is coming from a rise in income. As we have written in previous reports, McKinsey & Company expects 230 million Chinese to have disposable income for the first time by 2022.

*Western Middle Class:*

Obviously this market is very large. American middle class travelers have made Mexico the tenth most visited country in the world. However, income levels in America and Europe have not been rising for the middle class and neither is the population. Growth is stagnating.

#### *Western Backpackers:*

Like the Western middle class, this market is not growing much. Population is basically stagnant. The only growth in this market in the future may be the middle class travelers migrating to backpacking because of a reduction in income.

#### *Conclusion:*

As we have shown in previous research, the number of new Chinese middle class consumers will be unprecedented in the history of consumerism. At the same time, the U.S. middle class is stagnating. It won't take long before Chinese international travelers outnumber all other countries; they ranked 3<sup>rd</sup> in 2011.

#### **Expected Value of Traveler**

How much each tourist will spend, including the chance of them returning and spending more in the future, is as important as the quantity. The chance of return is related to how closely their purchase considerations match the country's strengths. However, the category of Unique Experience/Adventure should not be strongly considered since the tourist has already been to the country.

#### *Chinese Middle Class:*

Research has shown that the Chinese begin travelling internationally when their income reaches about \$18,000 per year. This is a relatively low amount of income compared to the middle class in Europe and America. Obviously, since their purchase considerations skew towards wanting less expensive vacations, the expected value of a Chinese tourist is relatively low. However, sharing a border with Vietnam means that the cost of arriving in Vietnam is much cheaper than travelers coming from Europe and America. Another factor to consider is that Chinese tourists are more likely to shop than the other two segments, spending money on items they may have bought at home at higher prices.

#### *Western Middle Class:*

This target segment has more disposable income and spends more on vacations than the other two. However, the cost of arriving in Vietnam is higher, and these tourists are less intent on shopping than the Chinese.

#### *Western Backpackers:*

By definition, this market segment does not spend much money in-country. They stay and eat at one and two star hotels and restaurants, take bus trips, and do not buy goods to take back with them.

#### **Marketing Costs**

China's economy is rapidly urbanizing. McKinsey & Company estimates that the country will have 221 cities with populations above one million by the year 2025. Europe has 35 cities today with populations above 1 million.<sup>vii</sup> Urbanization drives efficiency which increases individual wealth which creates consumers.

There are several reasons why marketing to these new Chinese middle class consumers is more cost-effective than marketing in western countries:

- It is cheaper to roll out local marketing campaigns in cities, rather than national campaigns. Cities like Guangzhou already have higher GDP's than many countries in Europe.
- The middle class Chinese market segment is so large that Vietnam's message could be extremely focused on certain attributes. When advertising in North America or Europe, the message must be broader.
- Vietnam's competitive advantage of being cheap and close is even greater in south China. Highlighting warm temperatures and beaches could be used in marketing to northern China.
- One language and culture instead of many in Europe.
- The new Chinese consumers have had less experience with marketing and are more likely to pay attention to the message.

## **Conclusion**

The Vietnam National Administration of Tourism (VNAT), destination marketing organizations, and most tour operators, resorts, and hotels need to be realistic about their product when deciding on a marketing strategy. Vietnam's geographic location south of the world's fastest growing group of consumers is a great advantage that must not be overlooked. It is understandable to see the comparative wealth of Americans, Canadians, and Europeans and believe they represent the ideal tourist for Vietnam. However, other variables must be considered. Size and growth of the potential market, the chance of converting the target into customers, cost of travel and in-country purchases, the chance of repeat visits, and the cost of advertising must all be part of the equation. When those factors are considered, then the Chinese market is the obvious choice for Vietnam's advertising programs.

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<sup>i</sup> <http://luxuryvietnamhospitality.com/2012/12/06/most-foreign-visitors-do-not-return-to-vietnam/>

<sup>ii</sup> [http://www.economist.com/blogs/asiaview/2010/10/vietnams\\_tourism\\_promotion](http://www.economist.com/blogs/asiaview/2010/10/vietnams_tourism_promotion)

<sup>iii</sup> <http://thedevelopmentadvisor.com/news/vietnam-remains-an-amateur-in-developing-tourism-industry/>

<sup>iv</sup> <http://english.vietnamnet.vn/fms/travel/52681/vietnam-fails-to-persuade-tourists-to-spend-money-on-souvenirs.html>

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<sup>v</sup> Purchasing power – how much their home currency can purchase in the visiting country for hotel, tours, and other vacation expenses.

<sup>vi</sup> A combination of purchasing power and the quality of the shopping experience

<sup>vii</sup> *Preparing for China's Urban billion*, McKinsey Global Institute