

Thailand Modern Retail Sector

February 2018

Prepared by:

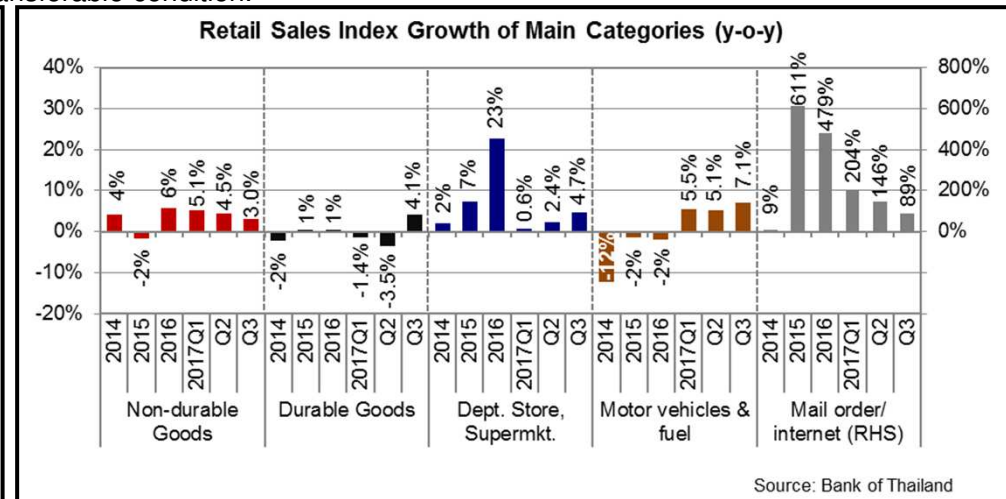
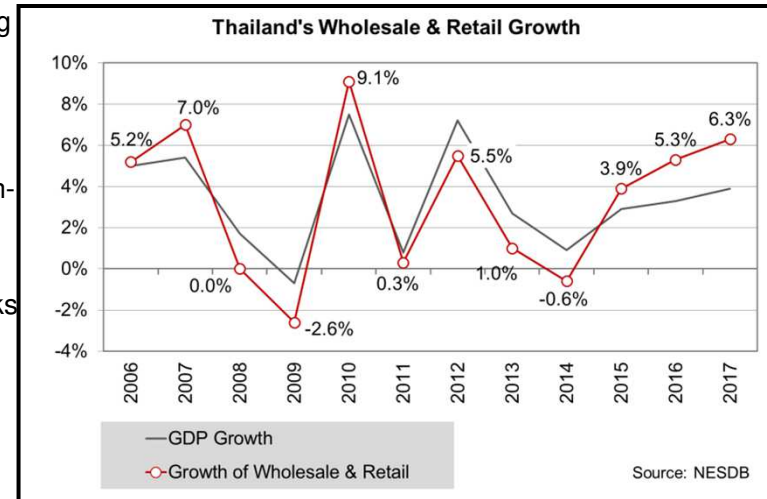
YBC & Spire (Thailand) Co., Ltd



Retail Market Performance

Thailand retail market showed some signs of recovery in 2015. Factors such as the expansion of household expenditure, government stimulus package, political stability, the increase in tourism are the key contributions to the retail market growth.

- The wholesale & retail is the 2nd largest sector in the Thai economy, after the manufacturing sector, with the value of 2.45 trillion baht in 2016 and contributed around 16%⁽¹⁾ of Thailand's GDP.
- The rising growth of wholesale & retail since 2015 is attributed to the improving political and economic condition. The easing household debt burden since 2016 was also considered as the key contributor to the sector growth.
- The retail sales index improved remarkably in 2016-2017.
- The durable goods have just shown some recovery signs in 2017Q3 while non-durable goods sales index has recovered since 2016 due to the easing household debt burden.
- The department store and supermarket sales index grew rapidly in 2016 thanks to the government stimulus package, improving consumer confidence and rising tourist spending.
- Online shopping experienced tremendous growth since 2015.
- Motor vehicle sales index has recovered since the 1st quarter of 2017 due to the expiry of the first-car buyer scheme's ownership non-transferable condition.



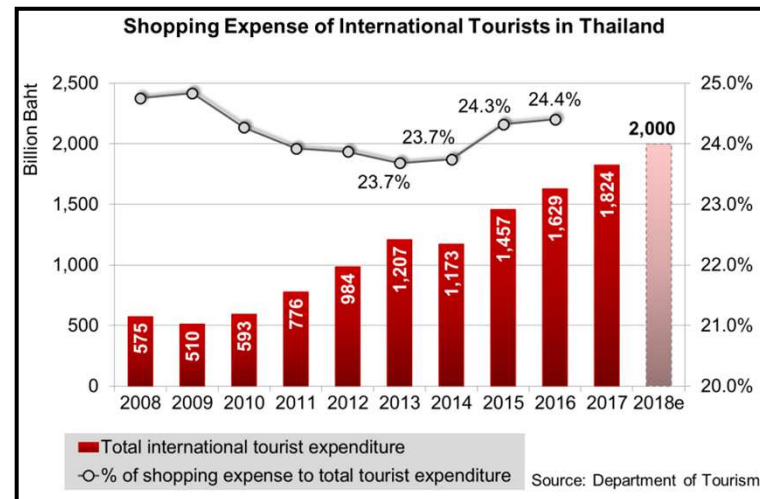
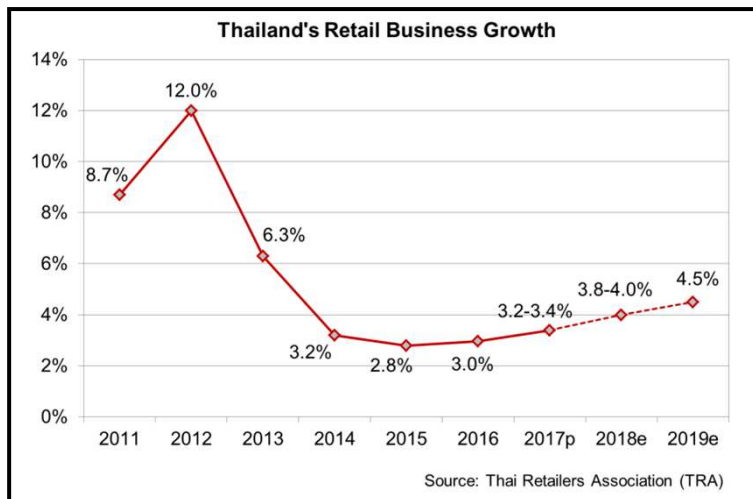
Note: ⁽¹⁾ Calculated from Thailand's GDP at current market prices

Retail Market Outlooks

Thailand Retailer Association (TRA) forecasted that the retail business will experience further growth of **3.8%-4% this year and 4.5% in 2019**. Meanwhile, the Thailand Shopping Center Association (TSCA) has a more positive view that the growth of Thailand's retail business will reach **4%-5% in 2018**.

Key drivers of the retail business growth in the upcoming years

- The further improvement of global and Thai economic conditions, i.e. export and private investment growth, will raise the consumer confidence and spending atmosphere.
- The public transport infrastructure plan, from the construction of mass transit routes in BMR to the high-speed train routes to the road extension to upcountry, will drive both tourism and urban development along the routes. This creates the potential market for modern retail.
- The development of shopping malls in Bangkok and other main cities. I.e. Icon Siam, Central Phuket, Gateway Bangsue, Terminal 21 Pattaya, and Blue Pearl.
- The increase in the number of international tourists along with trend of rising consumption and shopping expenditures.
 - The number of tourist arrivals increased by 11% CAGR from 19 million in 2011 to 35 million in 2017. As forecasted by the Tourism Authority of Thailand (TAT), the number of tourists will be around 34-35 million or grow by 5% from last year.
 - The international tourists likely to spend more on shopping, as shown. The amount spent on shopping increased from 23.7% (of total tourist expenditure) in 2013 to 24.4% in 2016. This is mainly due to Chinese tourists, which are the largest group of international tourists in Thailand. Chinese tourists allocate than 40% of their travel budget⁽²⁾ to shopping.



Retail Market Outlooks

Despite these opportunities, retailers may face some challenges. This may push some to expand and others to adapt and adjust their business strategies accordingly to be more competitive.

▪ The Rise of Digital Influence

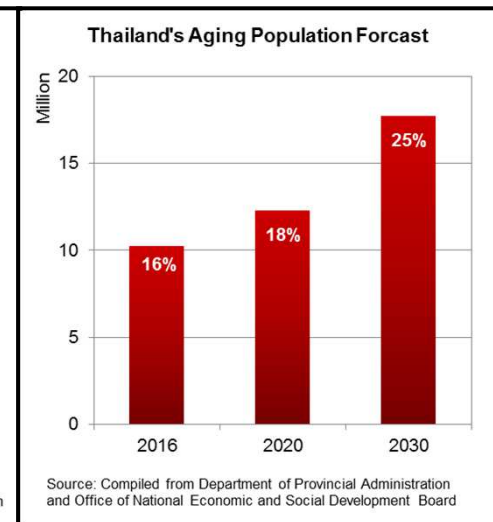
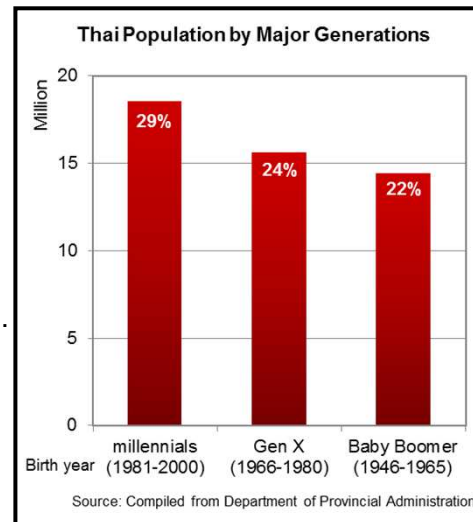
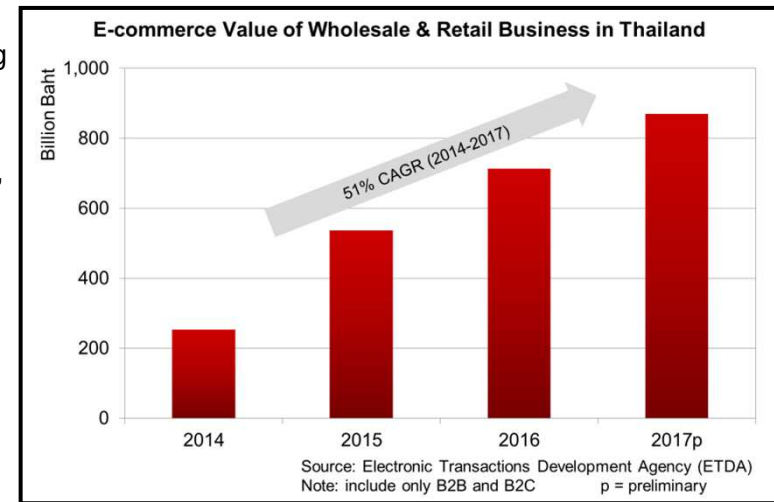
- ↪ The increasing mobile and social media penetration have been changing consumer behavior towards online shopping, e-payment, and product and price's online research.
- ↪ The entering of big international e-market place players, i.e. Alibaba, JD, 11Street, as well as the e-retailers such (www.brand.com) resulted in more intense competition.

▪ Changes in Consumer Lifestyle and Demand

- ↪ The rising middle class continues to drive the modern retail market with the stronger buying power.
- ↪ Higher education level of the people and exposure to international products are the key factors changing consumer demand to be more sophisticated and unique.
- ↪ The growing urbanization, smaller household, and hectic lifestyles have an impact on the consumption and shopping behavior. Ready-to-cook and ready-to-eat meals are increasingly popular among urban people. The purchasing behavior has become slight but more frequently.

▪ Demographic Trends

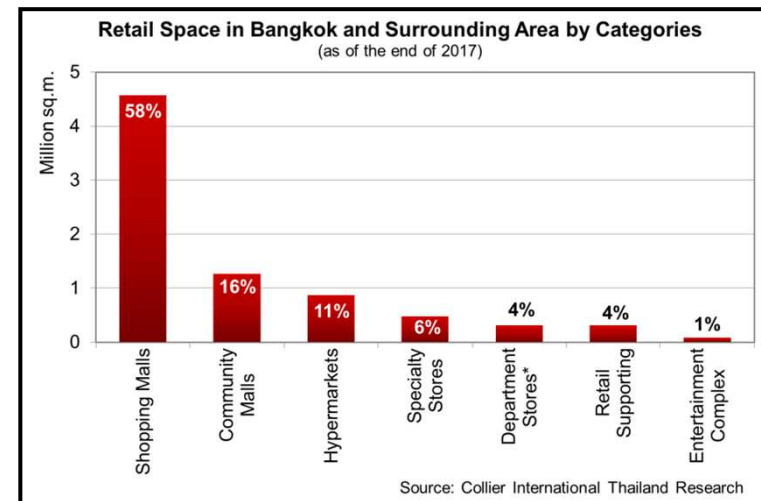
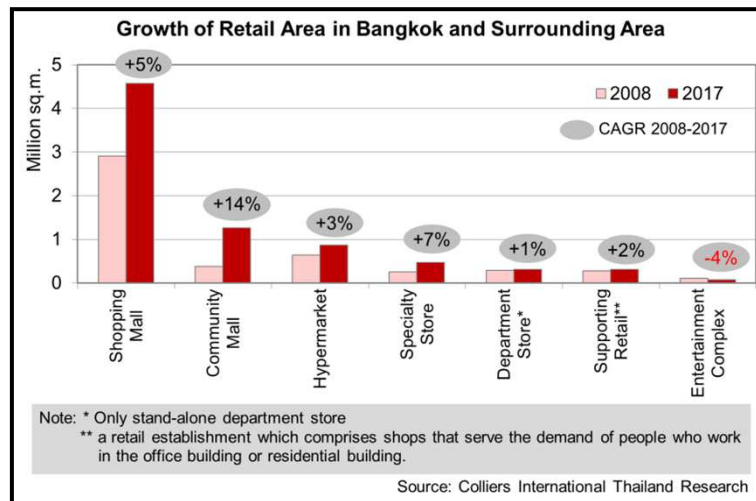
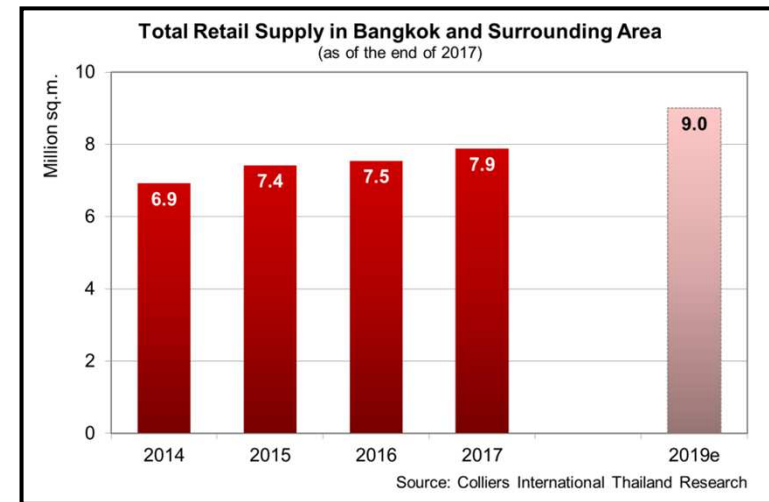
- ↪ Millennial is the largest consumer age group in Thailand, hence they have a large influence on retail market trends. This generation is tech-savvy, information-driven, social, selective and financially literate.⁽³⁾
- ↪ The aging population will drive changes in retail market in various aspects, ranging from product and service offerings, design, and facilities.



Note: ⁽³⁾ Results from 2014 Consumer survey conducted by SCB Economic Intelligence Center

Competitive Landscape: Shopping Mall⁽⁴⁾ and Department Store

- Shopping malls are still expanding amid gloomy economic situation and the rise of e-commerce.
- IN BANGKOK:** Despite the limited land in Bangkok, the shopping mall areas, *which include department stores*, in Bangkok are still increasing.
 - In the CBD area, the property developers tend to develop mixed-use properties, including the shopping mall as a key component, to use the expensive parcel more efficiently. Many large, luxury shopping centers were designed as Bangkok's landmark to attract international tourists.
 - Bangkok suburb areas have also been the target locations of the large-sized shopping centers recently. They serve the shopping needs of new suburban communities and nearby provinces growth.
 - In terms of number, community malls had been the fastest-growing retail format in Bangkok and vicinities for the last 10 years. However, it had slower growth in the past 3-4 years as many community malls, which are run by new players, cannot maintain their popularity. Several community malls cut their rental rate to attract tenants.



Note: ⁽⁴⁾ Including community mall

Competitive Landscape: Shopping Mall and Department Store

- **UPCOUNTRY:** The shopping malls and department stores have been penetrating upcountry areas mainly due to the limited land in Bangkok, the growing number of tourists and the upcountry's urbanising population.
 - ↳ More intense competition in upcountry is anticipated. According to Thai Shopping Centers Association (TSCA), the main target locations for shopping mall expansion are the provinces along high-speed train routes (i.e. Nakhon Ratchasima), EEC provinces (Chonburi & Rayong), and the popular tourist destinations (i.e. Chiang Mai, Phuket, Hat Yai, Samui).
 - ↳ The second-tier provinces in the north and north-east regions of Thailand are also the main destinations for the recent development of several shopping malls due to the increasing population, rising income, and the change in people's lifestyle.

Large Shopping Malls Opening in 2018-2021

Project Name	Type	Launch	Location	GFA (sq.m.)	Total project area (Rai)	Developers
Bangkok						
Gateway Bangsue	Shopping mall	2018	Bangsue	100,000	9	TCC Group
Icon Siam	Mixed-use	2018	Charoen Nakorn (Chao Phraya riverside)	750,000	50	Siam Piwat Group, CP Group
Emsphere	Shopping mall	2020	Sukhumvit	200,000	20	The Mall Group
One Bangkok	Mixed-use	2021	Lumpinee	1,830,000	104	TCC Group
Dusit Central Park	Mixed-use	2021	Silom	403,000	24	Central Group, Dusit Group
The Bangkok Mall	Mixed-use	2023	Bangna	650,000	100	The Mall Group
Other Provinces						
Terminal 21 Pattaya	Shopping mall	2018	Chonburi	180,000	50	Siam Retail Development Group
Central Phuket	Shopping mall	2018	Phuket	400,000	57	Central Group
Dara Harbour City	Shopping mall	2019	Chonburi (Sri Racha)	125,700	34	Central Group, Property Perfect Group
Blue Pearl	Mixed-use	2019	Phuket	650,000	160	The Mall Group

Source: Compiled from companies websites and public news

Competitive Landscape: Shopping Mall and Department Store

Major shopping mall operators, namely **Central Group, The Mall Group, Siam Piwat Group, TCC Group, Siam Retail Development Group, and Siam Future Development Group**, have been continuously expanding as well as renovating their malls amid the low level of consumer confidence and purchasing power over the last few years.

Key strategies of the shopping mall operators

Central's Shopping Mall	Target Markets
Central	Bangkok & primary provinces i.e. Phuket, Nakhon Ratchasima, Chonburi
Robinson Lifestyle	Second-tier provinces i.e. Kanchanaburi, Saraburi, Roi Et, Chantaburi
Tops Plaza	Third-tier provinces i.e. Pichit, Phayao

- **The store network expansion is among the key strategies of many shopping mall operators for market dominance.**
- **Central Group, the country's largest shopping mall operator, aims to expand its stores to cover all segments and locations by designating different brands according to markets. On the other hand, the Mall Group focuses on developing large mixed-use projects in Bangkok and major tourist destinations.**
- Several shopping malls offer customers' experience to boost foot traffic amid the rise of e-commerce.
- Provide a co-living atmosphere (i.e. jogging track, pet-friendly area, playground, and etc.)
- Provide co-working space (i.e. free wifi open space, battery charging station, and etc.)
- Arrange special events to attract the main customer/target groups in the area
- Increase the online marketing budget to boost physical shopping in malls.
- Leverage big data analysis to develop tailored marketing campaigns for individual shoppers, which is more effective than mass marketing strategy
- **Digital marketing, i.e. marketing via the mobile application, social networks, and influencer marketing, to reach a massive customer base**
- **The store network expansion** is among the key strategies of many shopping mall operators for market dominance.

Competitive Landscape: Shopping Mall and Department Store

The department store in Thailand was dominated by Thai players, namely **Central Group** and **The Mall Group**. However, the Japanese players have been continuously entering into the Thai market by having partnerships with Thai operators. Isetan and Tokyu have been in the Thai market for a long time. Lately, Takashimaya has entered into the Thai market with the plan to launch more stores in the future.

The increasing popularity of online shopping and the entry of several international e-commerce players into the Thai market has adversely affected department store sales growth over the past few years. Therefore, department stores have been adapting to the rise of digital influence.

Store Networks of Major Department Stores in Thailand

	BMR	Upcountry	Nationwide
Robinson	12	34	46
Central	14	7	21
The Mall Group*	9	2	11
Tokyu	2	-	2
Isetan	1	-	1

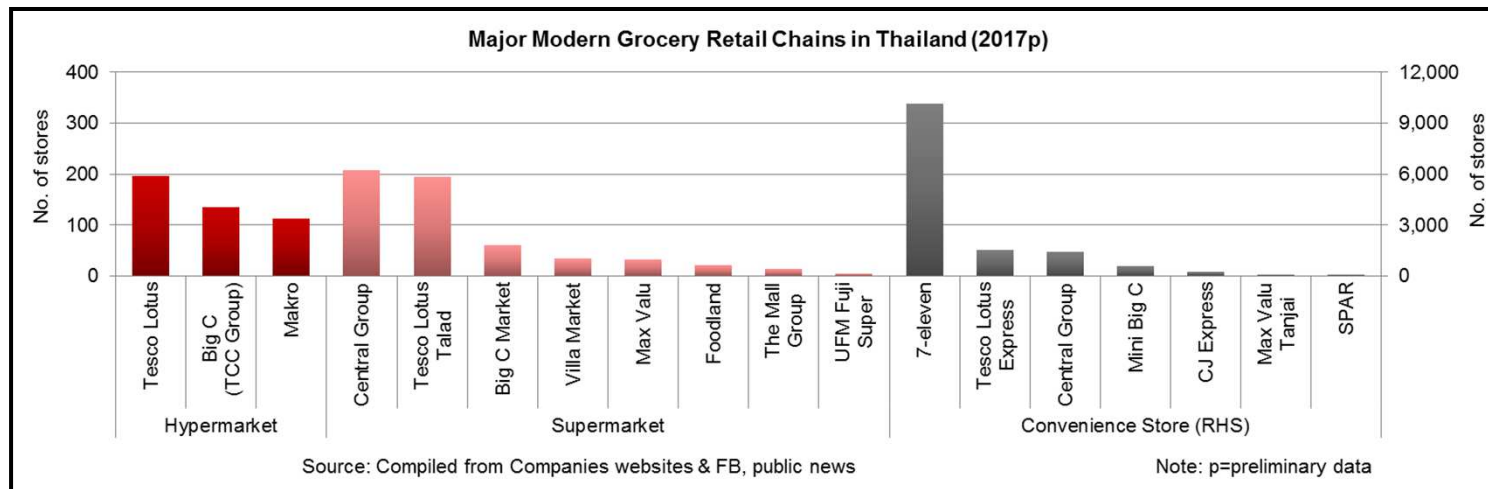
Note: * Include joint venture department stores (Emporium, Siam Paragon, EmQuartier, and Blue Port)

Key strategies of the department stores

- Shift toward omnichannel retailing to provide consumers seamless browsing and shopping experience
 - To launch online shopping websites and attractive promotions for online shopping
 - To adopt the mobile application to promote brand awareness and offer personalized promotion to boost sales
 - To use more online marketing, primarily through social media
 - To spend big on IT, logistics systems, e-commerce platform and related facilities to serve the increasing online shopping and fulfil their omnichannel offerings
- Provide in-store devices, i.e. mobile payment device

Competitive Landscape: Grocery Modern Retail Store (Hypermarket, Supermarket, Convenience Store)

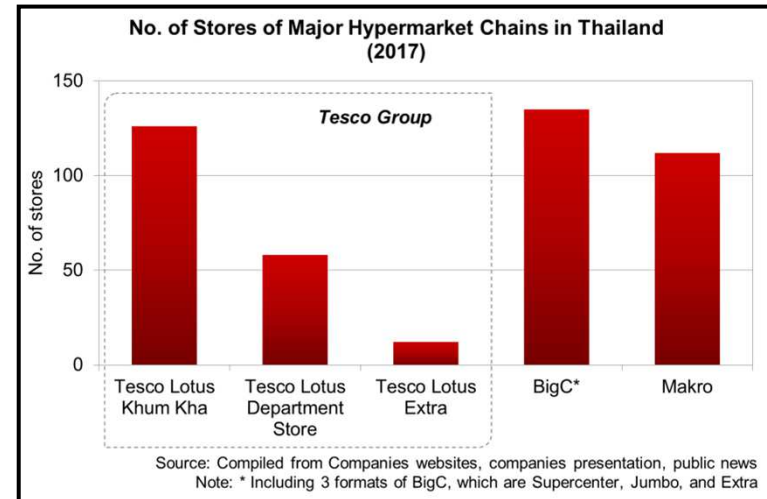
- Grocery modern retail market in Thailand is dominated by local operators, namely CP group (7-eleven & Makro), Central Group (Tops), and TCC Group (Big C).
- The growing income and high-potential growth in food retail have encouraged international grocery retailers to expand their businesses. The major international operators include Tesco Group, Family Mart, Aeon Group, Lawson, and Fuji Super. The current market situation and trends of each segment are different.
 - ↪ **Hypermarket:** Over the past few years, the hypermarket sales declined. This is due to the economic slowdown that impacted the purchasing power of low-mid incomers, their main customers. Hypermarket operators tend to penetrate second-tier provinces with smaller stores.
 - ↪ **Supermarket:** This segment enjoys strong growth due to the growing number of tourists and is impacted less by the economic downturn. The number of supermarkets has been growing in line with the shopping mall expansion.
 - ↪ **Convenience store:** This segment enjoys the fastest growth due to several factors, such as low investment capital, small land area required, relatively low penetration in upcountry, and less strict regulations.
- Fresh food, fresh-cooked, and ready-to-eat meals have played an increasing role in the grocery modern retail stores to serve the current consumer lifestyle.



Competitive Landscape : Grocery Retail Store (Hypermarket, Supermarket, Convenience Store)

Hypermarket

- There are three hypermarket chains in Thailand – Tesco Lotus, Big C, and Makro. Tesco Lotus dominates the market with almost 200 stores nationwide, followed by Big C.
- Recently, the hypermarket experienced the slowest growth, compared to supermarket and convenience store, due to the economic slow down that impact the purchasing power of the low-income group, which are the main customers.
- The town planning and building control regulations are the main inhibitor. Therefore, the hypermarket operators, such as Tesco Lotus and Big C, have gradually shifted the investment focus to smaller size, which affects the competitive environment in supermarkets and convenience stores sectors.
- There has been intense competition between Tesco Lotus and Big C since they focus on the same target group: low-income households. In contrast, Makro differentiates itself from those two hypermarkets by positioning itself as the food solution provider that offers a comprehensive range of fresh foods for retailers and HoReCa (hotel, restaurant, and catering) operators.
- The price is the critical element of the hypermarket's competitive strategy, especially for Big C and Tesco Lotus. Both hypermarkets gain an advantage over each other in different products. Tesco Lotus offers low-priced vegetables and fruits as it supplies directly from producers. Meanwhile, Big C acquires a wide range of consumer products from its affiliated company (BJC).
- Despite online shopping's increasing popularity, food produces are increasingly important income source since Thai consumers still prefer to select fresh meat, vegetable, and fruits. Therefore, the hypermarket chains have expanded the food section area with more variety, including fresh food, ready-to-cook, fresh-cooked, and ready-to-eat food.



Store Formats of Tesco Lotus and Big C in Thai Market

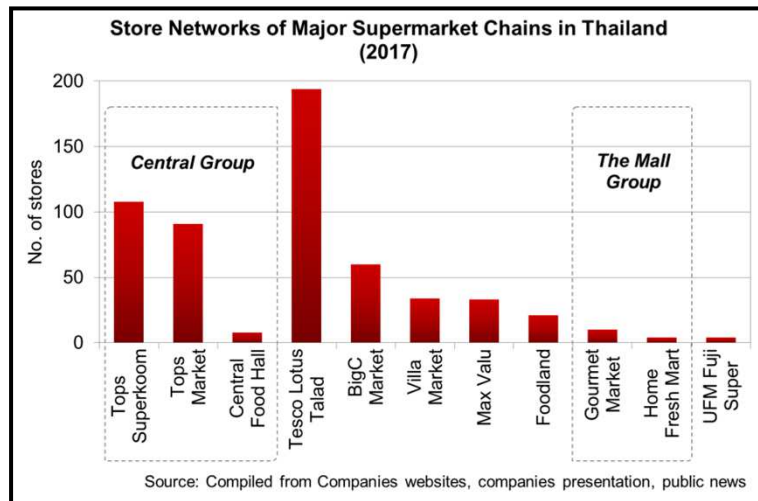
Formats	Tesco Lotus		Big C	
	Brands	No.	Brands	No.
Hypermarket	<ul style="list-style-type: none"> Tesco Lotus Khum Kha Tesco Lotus Department Store Tesco Lotus Extra 	196	<ul style="list-style-type: none"> Big C Supercenter Big C Jumbo Big C Extra 	135
Supermarket	<ul style="list-style-type: none"> Tesco Lotus Talad 	194	<ul style="list-style-type: none"> Big C Market 	60
Convenience Store	<ul style="list-style-type: none"> Tesco Lotus Express 	1,557	<ul style="list-style-type: none"> Mini Big C 	574

Source: Compiled from companies' websites

Competitive Landscape : Grocery Retail Store (Hypermarket, Supermarket, Convenience Store)

Supermarket

- Supermarket enjoyed a strong growth of around 8-10%⁽⁵⁾ per year over the past 1-2 years. Its main target customers are mid-high income groups and expatriates, who are impacted less by economic slowdown. The growing number of tourists have also contributed to the supermarket sales growth.
- Local operators dominate the market. Central Group is the largest supermarket operator in Thailand with its three brands, Tops Superkoom, Tops Market, and Central Food Hall, to penetrate different market segments.
- Similar to the hypermarket segment, there has been intense price competition between Tesco Lotus Talad and Big C Market as they focus on the same target customers.
- Villa Market and UFM Fuji Super are supermarket chains that offer a wide range of imported goods and caters to foreigners, mainly western and Japanese expatriates. Meanwhile, Tops Market, Central Food Hall, and Gourmet Market focus on mid-upper class customers and international tourists.
- A variety of premium local products are offered to international tourists. Meanwhile, the large corners for imported products are arranged to attract the mid-upper class customers and expatriates.
- The supermarket chains tend to expand the food segment, i.e. fresh food, prepared food, and grab-and-go bars. Also, the dining area has been providing in the supermarket to create in-store experiences for the millennials.



Major Supermarket Chains in Thailand (2017)

Operators	Brands	No.	Target customers
Central Group	• Tops Superkoom	108	Mid-low income group, small retailers
	• Tops Market	91	Mid-high income group
	• Central Food Hall	8	Mid-high income group, tourist, expatriates
Tesco Lotus	• Tesco Lotus Talad	194	Mid-low income group
TCC Group	• Big C Market	60	Mid-low income group
Villa Market	• Villa Market	34	Mid-high income group, expatriates
Aeon Group	• Max Valu	33	Mid-high income group
Food Land	• Food Land	21	Mid-high income group
The Mall Group	• Gourmet Market	10	Mid-high income group, tourist, expatriates
	• Home Fresh Mart	4	Middle income group
UFM Fuji	• UFM Fuji Super	4	Japanese expatriates

Source: Compiled from Companies websites, companies presentation, public news

Note: ⁽⁵⁾ Thai Retailers Association (TRA)

Competitive Landscape : Grocery Retail Store (Hypermarket, Supermarket, Convenience Store)

Convenience Store

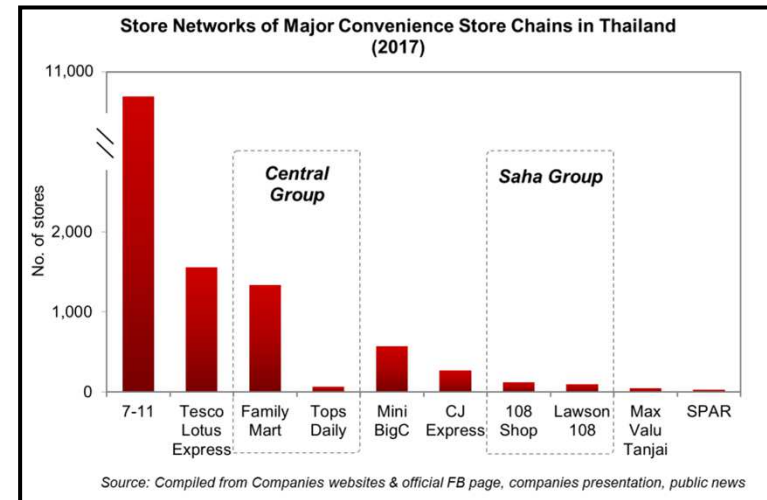
- The convenience store is the fastest-growing format among other modern retails as only small investment capital and smaller land size is required.
 - 7-11, which CPAll Plc operates., dominates the convenience store market in Thailand with the total number of stores exceeded 10,000 in 2017, followed by Tesco Lotus Express and Family Mart.
 - There is stiff competition in this segment. However, the fast-paced lifestyle has since caused growth in this segment.
 - The more intense competition comes from new players' entry and the major operators' accelerating store expansion strategy.
- ↳ Major convenience store chains plan to expand their store network by offering franchise deals.
 - ↳ Major chains have partnered with petrol station operators and property developers for market penetration.

Convenience store chains	Key partners	Partner's business
7-11	PTT	Petrol stations
Tesco Lotus Express	Esso	Petrol stations
Mini Big C	Shell, Caltex, Bangchak	Petrol stations
Lawson 108	Susco, Esso, Caltex	Petrol stations
Family Mart	Aspire, LPN, Pruksa	Condominium

- ↳ Some petrol stations have operated their convenience stores, by developing own brands and importing international chain, to increase income diversification.

Petrol stations	Convenience store brands	Type of ownership
PTT	Jiffy	Owned brand
Bangchak	Bai Chak Mart	Owned brand
	Spar	Master franchise from Netherland
PT	Max Mart	Owned brand
Shell	Deli	Owned brand

Hypermarket and supermarket operators have moved forward to open smaller stores to tap into changing shopping habits, which lighter but more frequent.



Expansion Plan of Major Convenience Store Chains

	2017p	Plan	
7-11	10,268	13,000	In 2021
Family Mart	1,336	3,000	In 2021
Lawson 108	100	208	In 2020

Source: Compiled from company website and public news

Competitive Landscape : Grocery Retail Store (Hypermarket, Supermarket, Convenience Store)

Convenience Store

- In addition to the store expansion, which is the major driving force for this segment's growth, the convenience store chains have adopted various strategies to attract and retain their customers
 - ↳ Develop new store model to enhance brand recognition
 - ↳ Offer more variety of products, especially ready-to-eat foods, to capture the hurried lifestyle
 - ↳ Offer special/exclusive products to differentiate from the competitors
 - 7-11 → Partner with SMEs to offer exclusive products or “Only At 7-11”
 - Family Mart → Offer a wide range of Japanese foods and plan to offer products from “Matsu Kiyo” in the stores
 - Lawson 108 → Offer a variety of Japanese foods
 - ↳ Extend value-added services, i.e. courier service, dine-in area, accessible open space, etc.

New Store Formats of Leading Convenience Store Chains

	7-Eleven	Family Mart
Launched	November 2017	Mid-2017
Concept	Digital Store	Fresh Fun and Friendly
Design	“Outer Space” design	Japanese-style
Special offerings	<ul style="list-style-type: none"> - EV charging station - Bike sharing station - Digital transparent display - Self-checkout - Online shopping kiosk - Digital product label - Digital energy saving monitor - Robot 	<ul style="list-style-type: none"> - Open space/ co-working space - Free wifi - Gachapon - Japanese product items - Restroom - Fresh fruit & flower corner - Courier service (by Kerry Express)

Source: Compiled from public news

Major Japanese Modern Retailers in Thailand

Major Japanese Modern Retailers in Thailand

	Launched	Retail Format	Local Partners	No. of stores (2017p)
Tokyu	1985	Department store	Ch. Kanchang Group	2
Fuji Supermarket	1985	Supermarket	Srikrung Wattana Group	4
Max Valu	2007	Supermarket, convenience store	-	51
Matsumoto Kiyoshi	2015	Specialty store (health & beauty)	Central Group	18
Isetan	1992	Department store	Osotsapa Group	1
Family Mart	1993	Convenience store	Central Group	1,336
Daiso	2003	Specialty store (one-price)	Saha Group	98
Komonoya	2009	Specialty store (one-price)	Central Group	31
Tsuruha	2012	Specialty store (health & beauty)	Saha Group	24
Lawson108	2013	Convenience store	Saha Group	54
Takashimaya	2018e	Department store	Iconsiam (CP Group, Siam Piwat)	-
Don Quijote	2019e	Discount store	TOA Group	-

Source: Compiled from companies' websites, official Facebook pages, and news

Note: p = preliminary, e = expected

Related Acts & Regulations

Foreign Equity Restriction in Retail and Wholesale Business⁽⁶⁾

- The retail and wholesale business is prescribed as business which Thai nationals are not yet ready to compete with foreigners under the Foreign Business Act B.E. 2542 (1999).
- The foreign business license (FBL), issued by the Director-General of the Department of Business Development (DBD), is required for the foreign majority company prior to operating the retail and wholesale business in the following cases:
 - **Retail business** having the total investment capital <100 million baht or having the capital of each shop <20 million Baht
 - **Wholesale business** having minimum capital of each shop <100 million Baht
- Therefore, there are three forms of investment for the foreign investor to participate in retail and wholesale business in Thailand as follow:



Note: ⁽⁶⁾ Summarized from Foreign Business Act B.E. 2542 (1999)