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The Thai Retail Market



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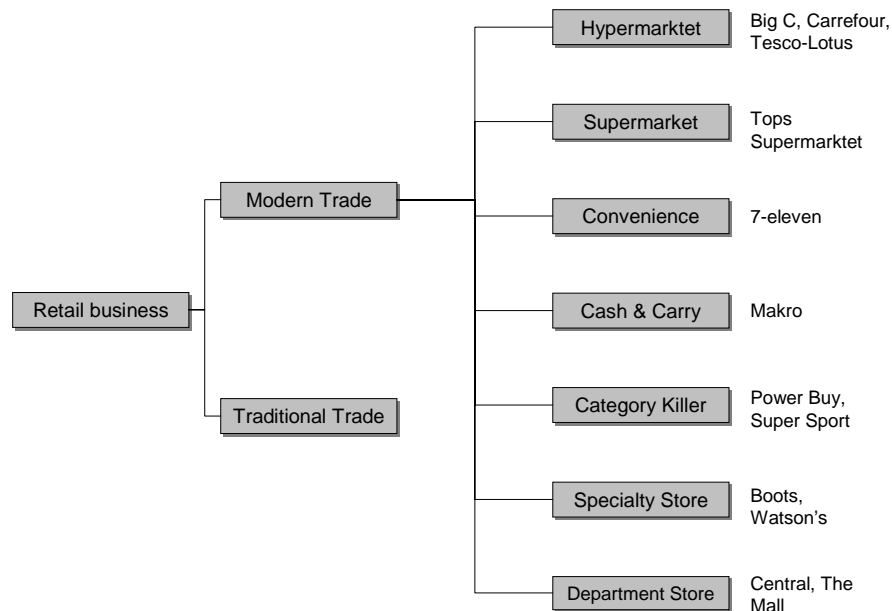
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1. Main Characteristics of the Thai retail market

1.1 Structure of the Thai retail market

The retail trade is one of the most important economic sectors in Thailand, in 2008, total retail sales are expected to reach U.S. \$78 billion. (Source: MillwardBrown, Marketfocus Thailand, October 2007) During the last ten years, following the economic crisis, Thailand's retail landscape, particularly in prime locations in Bangkok and other major urban centres, has changed dramatically. Traditional small independent retailers have gradually been replaced with modern and often foreign-owned, large retail chains. The following figure gives an overview over different formats of modern retail outlets in Thailand.



Thai Retail Business Structure (Source: Thai Retailers Association)

The traditional stores typically sell all basic items required for day-to-day living and are traditionally located in every small community throughout the country. Most of the stores also carry some basic medication such as painkiller pills, cold pills, stomach-upset pills, and bandages, although they do not have a license to sell pharmaceutical products. Normally, these stores operate out of a shop house and do not use or have any electronic data processing in any sequence of their operations.

The majority of modern trade stores and outlets are concentrated in the Bangkok metropolitan area. The modern trade store concept includes department stores, discount stores or hypermarkets, convenience stores, specialty and category killer stores, and supermarkets. Thai consumer behaviour has also been dramatically changed and modern trade stores have gained very high popularity and quickly reached a high retail market share.

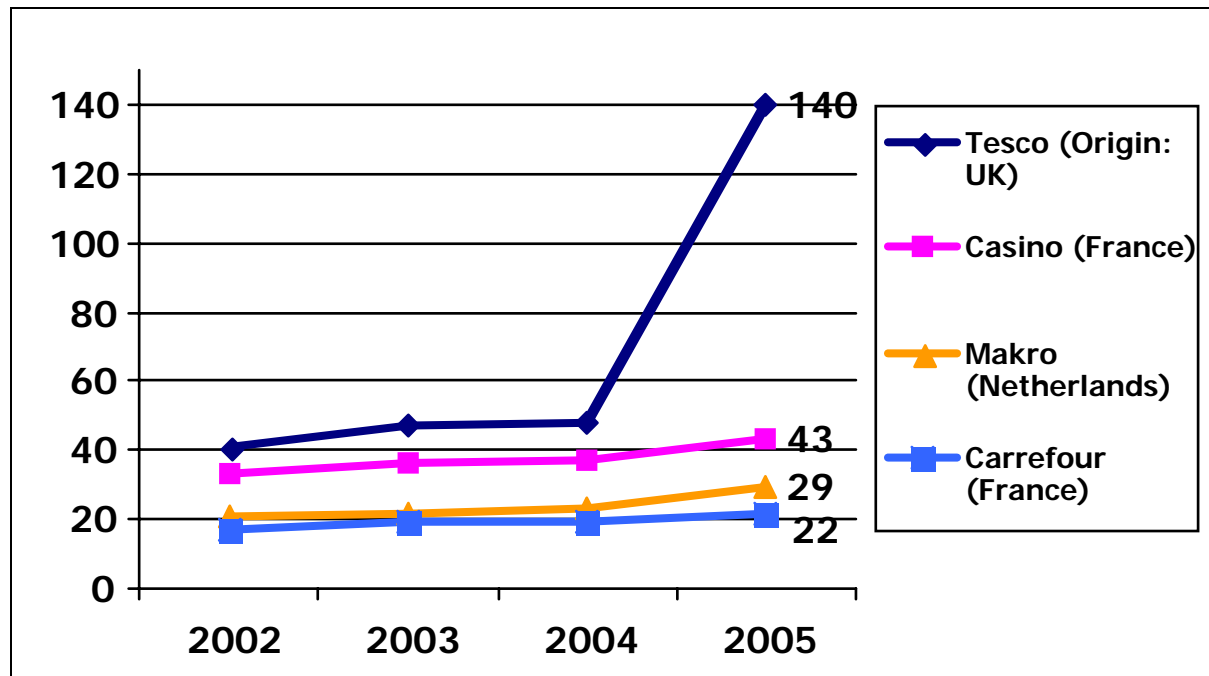
As the number of discount stores continues to grow, the number of family shop houses and family-run department stores still operating has fallen. Some shop house operators have transformed their stores into 7-Eleven franchises, while others have installed air-conditioning, brighter lighting and less-cluttered display units. Some have begun offering delivery services and off-premises sales of consumer products at weekend markets in order to survive in the intense competition.

1.2 Details on different types of retail businesses

Department Store: The two major players in this sub sector are The Central Group of Companies and The Mall Department Store Co., Ltd. The Central Group of Companies owns not only the Central Department Stores, but also the Robinson Department Store chain. Most Central Department Stores capture medium to high-end clients, while the Robinson Department Stores are aimed for lower income shoppers. The Mall Department Stores capture middle to high-class shoppers. The Mall Department Store Co., Ltd. also owns the Emporium Department Store and the Siam Paragon Shopping Mall, both of which capture high-end local customers and international tourists.

Discount Stores/Hypermarkets: Grocery retailing accounts for the majority of retail sales in the country. There are four discount store operators in Thailand at the moment: Tesco Lotus, Big C, Carrefour, and Siam Makro. All of them are owned by foreign investors: Tesco Lotus (Tesco from UK in partnership with the CP Group of Companies); Big C (Casino from France in partnership with The Central Group of Companies); Carrefour (Carrefour from France, originally in partnership with the Central Group of Companies); and Siam Makro (Makro from the Netherlands in partnership with CP Group of Companies). Only Siam Makro that

operates as a cash and carry wholesale outlet with required membership; the other three discount stores operate as a cash and carry retail and wholesale store and are open to general public with no membership required. The following figure shows the expansion of the 4 biggest players in the food retail market.



The Big Four: Discount chain outlets in operation, 2002-2005 (Source: Thai Retailers Association)

Recent Trend: Tesco Lotus has introduced a Value Store retail format aimed at serving the upcountry market and express minimarkets to be built-in at gas stations. Big C Supercenter Plc has opened Big C Compact, a scaled-down version of its bigger stores for upcountry locations. The new store formats have had a significant impact on other imported retail formats such as 7-Eleven and Tops as well as some locally owned department stores.

Convenience Stores: The growth rate of convenience stores was at approximately 35 percent per year during the last years. Most convenience stores are located near major bus stops and on the corner of main streets. 7-11 is the sole leader in this subsector. The local stores are owned and/or operated by the CP Group of Companies, a major agriculture processor, telecommunication, and retail trade business operator in Thailand. There is no real competitor for 7-11 so far, with Family Mart and V-Shop remote second and third brands in this subsector. Both

Family Mart and V-Shop have a difficult time competing with 7-11 and fighting for customers with other retail outlets.

Specialty Stores: Boots and Watsons are the number one and two leading specialty stores in Thailand. Boots is owned and operated by Boots of the United Kingdom and concentrates on health, beauty and pharmaceutical products. Boots stores are managed by a pharmacist. Watsons stores concentrate more on beauty and body care with small healthcare and pharmaceutical products. Watsons stores in Thailand are operated by Watsons from Hong Kong in partnership with the Central Group of Companies.

Category killer: Stationery and office products: there are two major operators of this category killer sector; Office Makro operated by the CP Group of Companies, and Office Depot, a US based stationery and office product chain store. The Central Group of Companies is the license holder for the Office Depot stores in Thailand. Office Makro stores are located in major business centers and are wholly owned by a local corporation. Its expansion has been faster and it currently has more outlets than its competitor. On the other hand, Office Depot is a licensed operation, with The Central Group of Companies paying the license fee. Office Depot has only three outlets; one is out of town in the industrial area, while the other two are in the business center inside Bangkok.

Electrical appliances: Power Buy is actually the electrical appliance section of the Central Department Store and the Robinson Department Store. The Central Group of Companies separates the electrical appliance section out as another profit center.

Sporting Goods: Super Sports is also owned and operated by the Central Group of Companies with the same practice and concept as Power Buy. The management would like to separate this section out as another profit center.

Do-It-Yourself home accessory products: Home Pro, owned and managed by a local major real estate developer, Land & House Co., Ltd., is the sole leader in this subsector. Home Pro stores sell both local and imported home accessories and products. They also provide home modification, refurbishing, and plumbing services to clients. The Home Pro stores have very good business connections

with most building contractors in Bangkok and metropolitan area. They offer wholesale prices to the contractors with quantity purchasing. The second leading DIY home accessory store is True Value, a licensed DIY home accessory store from the United States. Most of the products sold in the True Value stores are imported at high price. This has driven away clients to Home Pro stores. True Value stores cater to mostly expatriates who know the store from their homeland.

Supermarkets: Tops Supermarket is the sole leader in this subsector. It is owned by CRC Ahol from the Netherlands in partnership with the Central Group of Companies. Tops Supermarkets are attached with almost every Central Department Store and Robinson Department Store location. Most other supermarket operators' locations are stand-alone and are located in medium to high-end residential areas and in locations with a high density of foreigners. Expansion of supermarket stores is very limited. Supermarkets compete not only among themselves, but they have to compete with all the discount stores and the department stores. All of the discount stores and department stores in Thailand have supermarket sections built in to their stores. Most of the items in discount stores are cheaper than the same items found in the supermarket (Source: STAT USA).

1.3 Performance indicators for the Bangkok Retail market

As the following table shows, the majority of retails business establishments are located in the Bangkok Meproliis region.

Whole Kingdom	Bangkok Metropolis	Vicinity	Central region	Northern region	Northeastern region	Southern region
18,237	8,086	1,603	1,798	2,127	2,596	2,027

Number of retail business establishments (except of motor vehicles and motorcycles) by region (Source: National Statistical Office Thailand)

As of January 2007, the total stock of retail space across Bangkok stood at 4.79 million sqm. This includes 313,000 sqm completed in 2006, the majority of which was from major retail centers including the re-opening of Central World after a massive renovation, King Power Complex on Soi Rangnam, JJ Mall and three

community and neighbourhood malls by Siam Future (The Avenue Chaeng Wattana, The Esplanade and La Villa). In 2008, an additional 110,000 sqm of retail space is expected to enter the Bangkok market, from Central Chaeng Wattana and three mixed used development projects with retail components - Jamjuree Square (formerly CU Hi-Tech), Asoke Complex and Noble Remix.

The average net rental for ground-floor space of prime retail centers in central Bangkok has now risen for seven consecutive years, off a bottom of 1,190 baht/sqm/month in 1999 to the current level of some 1,910 baht/sqm/month. However, it has not yet reached the previous peak in 1996 (2,310 baht/sqm/month). With limited future supply planned for completion between 2007 and 2008, the average rental is likely to rise further but at a much slower pace this year due to a weaker economic outlook and increased competition (Source: Jones Lang Lasalle Market Research).

Existing Stock	4,792,000 sqm
New Completions in 2006	313,000 sqm
Under Construction	183,000 sqm
Average Vacancy Rate – All Grade	12.6%
Average Vacancy Rate – Prime Grade	8.2%
Average Rental (ground floor)	1,914 baht/sqm/month

Some performing indicators concerning the Retail market in Bangkok (Source: Jones Lang LaSalle Research, January 2007)

2. Attractiveness for foreign retailers

The following figure shows the TOP 20 rated countries in the Global Retail Development Index developed by AT Kearney. The index ranks emerging countries based on more than 25 macroeconomic and retail-specific variables. It shows that Thailand is ranked as number 12 of the worlds most interesting markets for global retailers. Thailand used to be ranked even better but due to the uncertain political situation since September 2006 and a therefore slightly higher country risk dropped to rank 12.

2006 rank	Country	Region	Country risk	Market attractiveness	Market saturation	Time pressure	GRDI score
		Weight	25%	25%	30%	20%	
1	India	Asia	55	34	89	76	100
2	Russia	Eastern Europe	43	59	53	90	85
3	Vietnam	Asia	43	24	87	81	84
4	Ukraine	Eastern Europe	42	37	76	81	83
5	China	Asia	58	40	57	86	82
6	Chile	Americas	67	57	47	48	71
7	Latvia	Eastern Europe	58	50	31	88	69
8	Slovenia	Eastern Europe	78	52	25	70	68
9	Croatia	Eastern Europe	57	51	28	91	67
10	Turkey	Mediterranean	46	59	64	40	66
11	Tunisia	Mediterranean	58	40	79	25	65
12	Thailand	Asia	57	39	49	72	64
13	Korea, South	Asia	68	73	35	36	63
14	Malaysia	Asia	66	49	54	38	62
15	Macedonia	Eastern Europe	32	32	75	64	61
16	United Arab Emirates	Asia	78	67	33	25	60
17	Saudi Arabia	Asia	53	46	67	30	59
18	Slovakia	Eastern Europe	61	51	23	78	58
19	Mexico	Americas	54	67	47	28	57
20	Egypt	Mediterranean	45	35	81	35	60

Global Retail Development Index (Source AT Kearney)

3. Legal conditions

In 2007 the military-installed government approved the draft of a new 'Retail and Wholesale Business Act' and transmitted it to the National Legislative Assembly for final approving. The cabinet expects the legislation will be put into force by the next government. Under the proposed draft, the Interior Ministry would assume responsibility of curbing the expansion of giant retailers by exercising its power under the City Planning Code and Building Code. The new law would balance the regulatory power of national and local commissioners, who will regulate the retail business. It is a response to protests over the last few years by small store operators who believe the rapid expansion of multinationals chains has been squeezing family businesses out of existence. Foreign investors, particularly from Europe, have expressed fears about the Retail Business Act, and draft amendments to the Foreign Business Act, arguing that the laws would make Thailand less attractive to invest in. The US took a similar stance when it cited Thailand's move to introduce the retail business law as one of its alleged reasons for downgrading Thailand's trade status to "priority watch list". Once approved, the retail trade laws would restrict the building of vast, modern retail outlets, whether locally owned like smaller shops - or bigger players like Tesco Lotus. Supermarkets or hyper marts would be subject to rules and regulations. The law will also focus on zoning regulations, and assign specific areas where retail outlets can be located. Small retailers have been putting up a fierce fight against the retail giants, particularly Tesco Lotus, which has expanded its presence to districts and sub-districts nation-wide. (Source: The Nation, Bangkok Post).

4. Conclusion

The Thai retail market is highly competitive, but also very dynamic and there is still potential for further growth as the economy continues to grow. With its large population and unsaturated consumer market, Thailand is still an attractive market for foreign retailing investment. Nevertheless, future developments concerning the legal conditions and the overall political stability should be taken into account.

5. Thai Retail Sector – Related Institutions

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