

Thailand



ECONOMIC OVERVIEW

GDP AND CPI

In 2003, strong GDP growth of 6.7% was attributable to private consumption, which continued to reflect favorable income conditions and low interest rates. Private investment has picked up remarkably, providing an improved investment environment.

Key economic indicators	1999	2000	2001	2002	2003
GDP growth (%)	4.4	4.6	1.9	5.2	6.7
CPI (%)	0.3	1.6	1.6	0.7	1.8

Sources: Office of the National Economic and Social Development Board

UNEMPLOYMENT

The 1997 financial crisis triggered a sharp rise in Thailand's unemployment rate, which peaked in mid-1999 at 5.3%. At the end of 2003, the number of unemployed people stood at 0.54 million, representing 2.0% of the total labor force. The workforce stands at approximately 35 million people, the majority being under 30 years of age.

Year	1999	2000	2001	2002	2003
Unemployment rate (%)	4.2	3.6	3.2	2.2	2.0

Sources: Office of the National Economic and Social Development Board

ECONOMIC FORECASTS

Thai economic growth is forecast at 6.5% in 2004. This estimate takes in negative external factors, such as soaring oil prices, foreign interest rate trends, the impact of southern unrest on tourism, or the possibility of economic slowdown. If oil prices and other risk factors worsen further, growth could drop to only 5.5%.

The impacts of avian influenza epidemics on GDP in 2004 was estimated to be around 0.39% comprising 0.29% from exports, 0.08% from tourism, and 0.02% from private consumption expenditure.

Headline inflation is projected at 2.2%. This is due to improved economic performance, higher production



Area ('000 sq km): 513.1
(US 9,600 – EMU 2,500 – World 133,700)

Capital: Bangkok

Population (million): 63.8
(US 288.4 – EMU 305.5 – World 6,200)

GDP (USD billion): 126.9
(US 10,400 – EMU 6,600 – World 32,300)

GNI per capita (USD): 2,000
(US 35,400 – EMU 20,320 – World 5,120)

Currency: Thai Bhat (THB)

Languages: Thai, English

Main religions: Buddhist 95%

Government type: Constitutional monarchy

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costs and rising wages and salaries. Price increases mainly relate to food and beverage items, since prices of non-food products are likely to rise at a lower rate.

Moreover, the strengthening of the baht is helping to contain import prices.

REGULATORY ENVIRONMENT

FOREIGN DIRECT INVESTMENT

Since March 3, 2000, all foreign business operations have been controlled by the Foreign Business Act 1999 (“FBA”). The FBA reserves certain business activities for Thai companies by restricting participation from foreigners, or “aliens”, defined as any natural or legal entities not of Thai nationality. Presently, any company whose share capital is 50% or more owned by foreign nationals is deemed to be alien.

Under the FBA, a retail business is a restricted business in which aliens may not participate unless they obtain a business license from the Department of Business Development or a promotion certificate from the Board of Investment. However, the restriction is lifted if certain minimum capital requirements are met. For retail businesses the minimum capital requirement is the greater of: a) THB100 million; and b) THB20 million per outlet. For wholesale businesses the minimum capital requirement is more arduous at THB100 million per outlet.

PROPERTY / REAL ESTATE REGULATIONS

Under the Land Code, a company that is 50% or more owned by aliens cannot own land in Thailand unless granted investment promotion incentives by the Board of Investment. Many foreign companies circumvent this law by acquiring land through companies owned by reliable Thai nominees.

The government has recently proposed an amendment to the Land Code whereby foreign investors will be permitted to own land through long leases for periods of up to 99 years. However, this amendment is still being considered by the Thai parliament.

OTHER REGULATIONS

Store opening regulation

The Building Control Act B.E. 2522 imposes zoning regulations aimed at controlling hypermarket expansion. The Notification dated March 22, 2004 prohibits construction of hypermarkets in inner-city areas and restricts new stores in the suburbs. All stores spanning more than 300 square meters will be subject to zoning regulations.

Construction permits will be issued subject to certain conditions. For instance, the store must be located close to a public road or highway, a traffic management plan must be prepared and approved by the Traffic and Transport Bureau and an environment impact must be studied and approved by the Ministry of Natural Resources and Environment.

Competition regulation

The Trade Competition Act came into force in 1999 and is designed to regulate against anti-competitive business practices. The Act specifically prohibits a dominant firm (as yet undefined) from engaging in activities, which include price-fixing and the manipulation of supply/demand. The Act also sets out, in principle, a pre-merger notification rule relating to merger and acquisition activities that could lead to a monopoly or significant reduction in competition.

DEMOGRAPHICS AND CONSUMER BEHAVIOR

POPULATION

Population evolution

Thailand's total population has risen from 62.8 million in 2002 to 63.0 million in 2003. Bangkok has higher projected growth than other regions and the proportion of women is expected to rise in relation to men.

Year	1999	2000	2001	2002	2003
Population (million)	61.6	61.8	62.3	62.8	63.0
Population growth (%)	0.3	0.3	0.8	0.8	0.3

Source: Ministry of Interior (<http://www.nso.go.th>)

Current forecasts estimate that the population will increase to 70 million by 2016. The rate of population growth has declined significantly during the last forty years from a level of 2.7% per annum between 1960 and 1970, to 1.05% between 1990 and 2000. The slowdown in the growth rate has primarily been caused by a state led birth control campaign during the 1980's.

Population by age group

Age group total (%)	1999	2000	2001	2002	2003
0-14	24.0	24.0	23.4	23.3	24.2
15-64	70.0	70.0	69.9	69.9	68.8
65+	6.0	6.0	6.62	6.8	7.0

Sources: Office of National Economic and Social Development Board

INCOME/ BUYING POWER

Average annual income in Thailand has gradually improved in the wake of the 1997 financial crisis.

Year	1999	2000	2001	2002	2003
Average annual personal income per capita (in THB)	51,384	52,338	53,643	54,950	N/A

Sources: National Economic and Social Development Board

The table below indicates that average household income is significantly higher in Bangkok than in the provinces. In particular, the North and North Eastern regions are generally extremely poor.

Average annual household income by region in THB (2002)	
Region	Per household
Whole Kingdom	164,832
Greater Bangkok	338,836
Central	169,536
North	114,360
Northeast	111,348
South	149,844

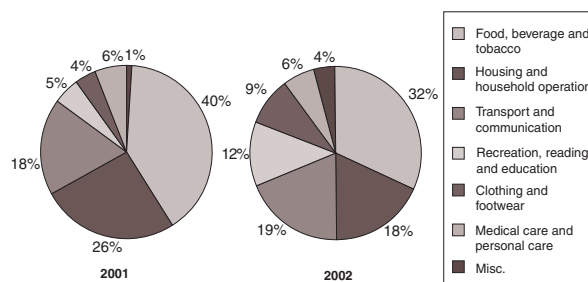
Source: National Statistical Office

CONSUMER BEHAVIOR

There has been no significant change in the breakdown of household spending between 2001 and 2002.

As accommodation is plentiful and thus relatively cheap in Thailand, Thai consumers spend less on accommodation than the majority of their western counterparts. Accordingly, the larger portion of disposable income that may be spent on goods increases the country's attractiveness to retailers.

Breakdown of household spending in 2001 and 2002



Category total (%)	2001	2002
Food, beverage, and tobacco	40	33
Housing and household operation	26	19
Transport and communication	18	19
Recreation, reading and education	5	12
Clothing and footwear	4	9
Medical care and personal care	6	6
Misc.	1	2

Sources: National Economic and Social Development Board

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RETAIL & CONSUMER SECTOR PERFORMANCE

MAJOR CONSUMER GOODS PLAYERS

Company name	Category of products	2003 Sales (THB billion, incl. VAT)	2002- 2003 Growth (%)
Thai Union Frozen Products	Food processor	40.3	18
Serm Suk	Beverage bottler	15.0	-1
Thai Vegetable Oil	Food processor	12.6	47
President Rice Products	Food processor	9.3	12
Thai President Foods	Food processor	4.5	5
Malee Sampran	Food processor	3.0	7
Tropical Canning	Food processor	2.6	-7
Lam Soon	Food processor	3.4	31

Source: Ministry of Commerce

MAJOR RETAIL PLAYERS

Retail sales and major retail players

Historically, the Thai retail industry was dominated by wet markets and small family-owned grocery stores, which formed part of the local community. Wet markets are currently struggling, but they remain a popular choice for fresh food shopping, whereas small traditional local grocery stores have come under substantial pressure; those that fail to adapt and upgrade, are being forced to close down.

Modern retail outlets, primarily Thai ventures, came to prominence during the economic boom in the early to mid-1990's. However, with the economic crisis of 1997, the retail landscape has changed significantly as many modern retailers suffered major debt problems and required capital investment from international partners. These international retailers have brought in new business practices and transformed local shopping patterns. A new breed of more budget-conscious and more demanding consumers has emerged. These shoppers have become accustomed to the convenience and price advantages offered by discount stores.

The wholesale and retail sector continued to expand in 2003 despite the new zoning regulations. As greater-

Bangkok nears saturation, retailers have begun focusing on opportunities upcountry.

Hypermarkets

The accelerated expansion strategies of several of the major hypermarket chains has led to major upheaval in the Thai retail environment in recent years. Many of these chains have promoted western-style consumer behavior of visiting shopping malls, eating fast food and shopping at modern retail outlets. Own-label products are playing an increasing role in hypermarkets that enjoy an image of quality. Credit card service is also a new and popular strategy used to boost more the market share of hypermarkets.

The major retailers are expected to continue reducing new store sizes in the future in a bid to reduce investment costs and enhance flexibility in reaching the community.

The hypermarket sector is extremely competitive in terms of price. The margins obtained are relatively low so the ability to create economies of scale is vital.

Four large multinational companies dominate the hypermarket sector in Thailand, namely:

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Company name	Number of stores	Ownership	2002 Net sales (THB billion, incl. VAT)	2003 Net sales (THB billion, incl. VAT)	2002-2003 Growth (%)
Tesco Lotus	48	Tesco, UK	54.3	64.7	19.2
Big C	37	Casino, France	38.2	42.3	10.8
Siam Makro	26	Makro SHV, The Netherlands	37.2	39.2	5.4
Carrefour	19	Carrefour, France	16.5	N/A	N/A

Sources: Companies' annual reports

Tesco Lotus

Tesco Lotus was established in 1998, when Tesco UK purchased the Lotus chain from the CP Group. Tesco Lotus has developed three smaller alternatives to its giant flagship superstores, being Tesco Express - mini supermarkets at ExxonMobil service stations, Tesco Supermarkets and Tesco Value stores in small towns. Tesco Lotus currently has 48 hypermarkets, 9 Express stores, 8 Value stores and 1 supermarket. In 2004 the company plans to continue with its large-scale expansion program and will open stores in various formats, mainly upcountry.

Big C

Big C commenced trading in Thailand in 1993 under the control of the Central Retail Corporation (CRC). However, after the financial crisis in 1997, French retailer Casino Group bought up the majority of shares.

Since its core customers are price sensitive, Big C has launched own-brand stores under the name "Leader Price". These stores sell in-house brands at prices 15-20% lower than general brands. There are currently four Leader Price stores in Bangkok.

Big C also plans to move to smaller stores closer to communities to lower opposition and generate faster investment returns. In 2004, Big C opened its first Big C "Compact" store with a total sales space of 6,000 square meters. It plans to open another two new stores upcountry during the year.

Carrefour

Carrefour commenced business in Thailand in 1996. The group has received special investment privileges relating to land ownership. To maintain these privileges Carrefour was initially restricted to the Bangkok area. Carrefour also has plans to expand upcountry in 2004 and intends to open four new stores.

Siam Makro

Siam Makro commenced trading in Thailand in 1989 as a joint venture between Makro SHV and the Charoen Pokphand Group, the country's largest agribusiness conglomerate. The company became listed in 1994.

Siam Makro is distinguishable from other hypermarket companies in that it is primarily a wholesaler, which targets small and medium size businesses that make bulk purchases. These businesses include small retailers, hotels, restaurants, caterers, the professional and service sectors and institutions. Siam Makro's core product range is in food, fresh and dry, and complementary products that its customers use in their own businesses on a day-to-day basis. Moreover, Siam Makro has moved to take on the wet markets by improving the fresh food sections and reducing non-food selling. So far, three stores located in Bangkok have had their fresh food sections expanded. The company plans to remodel all the remaining stores in 2004 and 2005. Siam Makro currently has 26 stores. In respect to zoning legislation, Siam Makro has successfully won building and construction permits for a number of locations outside Bangkok, which are scheduled to open in 2004.

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Supermarkets

Company name	Number of stores	Ownership	2003 Sales (THB billion, incl. VAT)	2002 Sales (THB billion, incl. VAT)	2002-2003 Growth (%)
Tops	48	CRC	13.1	13.1	-
Jusco	9	Aeon Group, Japan	4.1	4.1	-
Food Lion	36	Delhaize Group, Belgium	N/A	2.1	N/A

Sources: Ministry of Commerce and companies' annual reports

Operators are predicting continued growth and new store openings; they continue to be threatened by hypermarkets, which offer similar products, generally at lower prices. Successful outlets tend to be located in other shopping venues, such as department stores, with stand-alone outlets being viable only when located in communities with less than 50,000 people within a three-kilometer radius – areas the hypermarkets would find unprofitable. Recently, supermarkets have been forced to shift their focus to niche markets.

Tops

In 2004, Central Retail Corporation Ltd (“CRC”), the retail arm of the Central Group bought back a 50% stake in Tops Supermarket from the Dutch firm Ahold. As a result, CRC now owns 100% of Top Supermarket. The Dutch company has divested all its Asian business operations as part of its overall strategy to strengthen its financial position by reducing debts.

The presence of the Tops supermarket brand in Thailand will continue over the next 25 years despite the withdrawal of the Dutch company, the brand owner. Tops has strong brand value associated with quality, reliability and value for money in the eyes of Thai consumers. The company operates three distinct supermarket formats: Tops Marketplace targeting upper class people, Tops Supermarket focusing on a mass market and Tops City Market. The “City Market” concept was introduced in 2002 to counter the impact of discount stores. The concept involves finding new niches by combining a restaurant, convenience store and supermarket under one roof. In order to capture

the office worker market, these stores are located in central business districts. At present there are 36 Tops Supermarkets, 10 Tops Marketplaces and one Tops City Markets. Top also distributes products to 300 convenience stores throughout the country. It currently employs about 6,000 people.

Tops reported 2003 sales of THB13.1 billion and has set a target to increase this by 100% within five years. The food sector is expected to be a key driver.

Food Lion

Food Lion is operated by the Belgium-based Delhaize Group, which has taken over CP Group’s Sunny Supermarket chain.

Food Lion plans to reposition itself by opening its first up market store and moving away from the lower-income bracket. The company is also going to upgrade at least three more neighborhood supermarkets to its new Paradise-store concept this year. The Paradise-store, a high-end store, offers a greater variety of fresh-food products, has better hygiene and safety standards and provides good service with well-trained staff. Other areas are also being improved, including a bigger seafood section with live fish and shrimp, as well as an expanded produce department with organic fruit and vegetables, and a new bakery and pastry section.

Housewives are the core target customers. In addition, the company wants to serve more middleclass families and teenagers. Currently, Food Lion operates 36 supermarkets in Thailand.

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Siam Jusco

Siam-Jusco, an operator of Jusco supermarkets and a member of the Japanese Aeon group, entered Thailand 17 years ago. In 2004, Siam-Jusco announced plans to focus on the supermarket concept by cutting down on kiosks, shopping plazas and the non-food divisions. The Rachadaphisek branch is currently renovating to

align to the new concept. The company plans to open two new branches in 2004 by moving to the new concept and increasing the number of marketing and advertising activities. Jusco is now focusing on three strategies, varieties of products, food freshness, prices and services.

Convenience stores

Company name	Number of stores	Country of origin	Division	2002 Sales (THB billion, incl. VAT)	2003 Sales (THB billion, incl. VAT)	2002-2003 Growth (%)
7-Eleven	2,512	USA	C.P. Seven Eleven	30.2	40.2	33
Family Mart	337	Japan	Siam Family Mart	2.4	N/A	N/A

Sources: Ministry of Commerce and companies' annual reports

Major convenience store chains have offered small family-run shops a chance to join their networks by lowering franchise fees as an incentive.

7-Eleven

7-Eleven is operated by C.P. Seven-Eleven Public Company Limited with share capital of THB2,250 million. There are three types of 7-Eleven stores, Corporate Stores (68%), Franchise Stores (27%), and

Sub Area License Stores (5%). 7-Eleven plans to increase its store base to 320 stores this year. The company has 2,500-3,000 products, which can be categorized into food and beverage and non-food products, representing 47% and 53% of sales respectively.

This year, 7-Eleven plans to position its stores as convenience food stores by expanding the proportion of food and beverage products.

Department stores

Company name	Number of stores	2003 Sales (THB billion, incl. VAT)	2002 Sales (THB billion, incl. VAT)	2002- 2003 Growth (%)
Central	13	16.9	16.1	5.0
The Mall	8	15.5	14.7	5.4
Robinson	18	4.64	4.62	0.4

Sources: Companies' annual reports and data

The department store segment is the only area still controlled by majority Thai-owned retailers. The sector is currently dominated by three major players: Central and Robinson (both owned by the Central Retail Corporation) and The Mall Group.

In the early 1990's department stores dominated the

modern retail sector. However, with the entry of large foreign hypermarkets, selling many similar products but at lower prices, their market share has fallen significantly. The trend started after the financial crisis in 1997 and is expected to intensify over the next two to three years due to the convenience and price advantages offered by hypermarkets. However, with

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different shopping environments, promotional campaigns and marketing activities, department stores are expected to survive and stage a strong comeback.

Two gigantic luxury retail projects, Siam Paragon and Central World Plaza, are under development, to capture the increase in consumer spending. Siam Paragon is a joint venture between the Mall Group and Bangkok International Continental Hotels whilst Central World Plaza is owned by the Central Group. Estimated to represent an investment of approximately THB10 billion each, these two projects should make the Rama I and Ploenchit areas Bangkok's equivalent to Singapore's Orchard Road.

Central department stores

Central department stores, the nation's largest department store chain, is solely owned by Central Retail Corporation Limited ("CRC"), a subsidiary of the Central Group.

CRC is very active in specialty retailing as well as franchises such as Power Buy, Super Sports, B2S, Office Depot, Homework and Marks & Spencer's. At the same time, the group is developing strategic alliances with global retail leaders. At present, CRC operates 182 retail stores of different brands.

Company name	Number of stores
Central Department Stores	13
Power Buy	55
Super Sports	44
B2S	45
Marks & Spencer's	10
Homework	6
Office Depot	9
Total	182

Source: Companies' data

Robinson

Robinson was severely affected by the financial crisis of 1997 and was forced to suspend debt repayments in 1998 and enter into restructuring. The company has recently carried out major renovations in most of its branches, adding new magnets such as IT and educational zones, theme parks and new shopping spaces geared at teenagers.

The Mall Group

The Mall Group, the second largest Thai-owned retail firm, is linking up with amusement park operator "Dream World". The strategy is to position the Mall well under the "Mega retail and entertainment complex" concept and differentiate itself from the discount stores and Central Group.

E-commerce

The National Electronics and Computer Technology Centre has recently estimated that there will be approximately six million Internet users by the end of 2003 (substantially concentrated in Bangkok), up from 4.8 million in 2002.

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

CHALLENGES

Allied retail trade

In an attempt to help traditional retailers adapt to the new competitive environment, the Chamber of Commerce and the Commerce Ministry have worked together to promote a government-run logistics and distribution company called Allied Retail Trade Co (ART), or Ruam Kha Pleek Kemkaeng. The idea behind the scheme is to pool the purchasing power of smaller retailers to help them in negotiating prices, achieving economies of scale and competing more effectively with larger stores. ART began supplying products to grocery stores in mid-December 2002, but the scheme has not developed as hoped. While over 40,000 retailers are members of ART, only 1,000 members actively did business through ART last year, turning a monthly volume of only THB5,000 each. The company has not been as successful as planned due to an inability to obtain bank financing. However, ART has been able to get financial support from SME Bank, one of its shareholders. ART's revenues are expected to reach at least THB7,500 million by 2006. However, it remains to be seen whether it achieves its stated objectives.

The Wholesale and Retail Association of Thailand was also set up to help small and medium sized wholesalers. It orders big product lots to reduce costs for members.

Challenges and strategies to increase market penetration

Retail outlets are adopting a number of different strategies to increase market penetration. In addition to aggressive price discounting, these include 24-hour opening and a move to new retail formats, as exemplified by Tesco Lotus' strategy of opening smaller stores. There is also increased focus on special-event and customer relationship marketing.

A number of retail mega-projects are also under development and substantial amounts have been spent on refurbishment of existing outlets.

At present the outlook is uncertain. However, the retail industry remains optimistic, with sales growth in certain sectors predicted to be as high as 25%.

OPPORTUNITIES

Healthy concerns

As Thai consumers become more health conscious, healthy or organic fresh fruit and vegetables and other wholesome products are perceived as a new opportunity for the retail market.

EMERGING TRENDS

Efficient consumer response

There is an increasing awareness of the benefits that can be derived from implementing advanced ECR strategies locally. ECR is a new initiative that focuses on improving the efficiency of every member of the whole supply chain process, to satisfy consumer needs better, faster and cheaper. The ECR program involves co-ordination of activities among all participants in the supply chain. However, a major concern at implementation level seems to be a lack of trust among small & medium sized enterprises (SMEs), retailers and suppliers. Solving this issue will involve educating all industry participants about the significant benefits of information sharing.

Customer relationship management

Tops is introducing an electronic CRM (Customer Relationship Management) membership card known as Spot Rewards, the first of its kind in Thailand and Asia. The technology can record each consumer's individual shopping history in a database, enabling the company to provide targeted discounts and other offers each time the customer inserts the magnetic card at an in-store terminal. The technology helps the company to develop strategies for different groups of consumers with different desires, instead of using the same strategies for all.