FROM BEIJING TO BUDAPEST

Winning Brands, Winning Formats*

2005/2006

4th Edition

*connectedthinking

PRICEWATERHOUSECOOPERS

Thailand

Thailand

ECONOMIC OVERVIEW

GDP and CPI

The Thai economy expanded by 6.1% in 2004, down from 6.9% the previous year. The reduction in growth was mainly due to the impact of drought and bird flu on the agricultural sector, and the slow down in private consumption and investment resulting from the upward pressures of oil prices, especially since May 2004, rising domestic prices in line with cost of production, and increasing interest rates. However, public investment grew strongly.

GDP and CPI

	2001	2002	2003	2004
GDP growth (%)	2.2	5.3	6.9	6.1
CPI (%)	1.6	0.6	1.8	2.8

Source: EIU, August 2005

Unemployment

In 2004 the number of employed workers increased by 3.1%, up from 33.82 million in 2003 to 34.85 million in 2004. Employment in non-agriculture sectors expanded by 5.1%, led by job creation particularly in the construction sector. The unemployment rate remained stable at around 2.2% from 2003 to 2004.

Unemployment

	2001	2002	2003	2004
Unemployment rate (%)	3.3	2.4	2.2	2.1

Source: EIU, August 2005

Economic forecasts

The Thai economy is expected to grow by 3-4% over 2005 with inflation around 4-4.5%. The average unemployment rate is 2.3%. Potential growth is likely to be constrained by a global economic slow down. The high average

Area ('000 sq km)[1]: 513
(US 9,600 – EU25 3,981 – World 133,700)

Capital[2]: Bangkok
(Number of inhabitants: 7.8 million)

Population (million)[3]: 64.5
(US 293 – EU25 456 – World 6,376)

GDP (USD billion)[3]: 163.5
(US 11,735 – EU25 12,723 – World 39,503.5)

GNI per capita (USD)[1]: 2,190
(US 37,870 – EU25 22,810 – World 5,110)

Currency: Thai Baht (THB)

Languages: Thai, English

Main religions: Buddhist (95%), Muslim, Christian

Government type: Constitutional monarchy

Sources: CIA Factbook; (1) World Bank 2005; (2) City Population;
(3) Economist Intelligence Unit 2004 data

price of crude oil and an increase in domestic diesel prices, resulting from the withdrawal of government diesel subsidies, has caused higher transportation and production costs which will adversely affect the Thai economy.

The impact of the tsunami and seasonal drought was less severe than previously thought, with more construction materials and machinery required to restore assets and buildings, and more public expenditure on subsidies and relief provided to the people who were affected by the disaster, as well as foreign-aid assistance. The return from other economic activities should be sufficient to compensate for damages or loss of economic activities, if the restoration, reconstruction and disbursement continue as planned. The impact of the drought was mitigated somewhat by programmes such as the Royal Artificial Rain project, which helped to prevent agricultural production dropping too severely. In addition, there were other stimulus measures such as an increase in the public investment budget and the acceleration of infrastructure investments.

Key economic forecasts

	2005	2006	2007
GDP (%)	3.3	4.7	5.0
CPI (%)	4.4	3.6	2.8
Unemployment rate (%)	2.3	2.5	2.2

Source: EIU, August 2005

REGULATORY ENVIRONMENT

Foreign direct investment

Since March 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, retail and wholesale businesses are restricted businesses in which aliens may not participate unless they obtain a business licence 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 first minimum capital requirement is the greater of THB100 million per five outlets and for addition outlet the capital requirement is THB20 million per outlet . For wholesale businesses, the minimum capital requirement is more onerous at THB100 million per outlet.

FDI

	2001	2002	2003	2004
FDI (THB bn)	151.92	37.10	76.16	41.0
FDI (USD bn)	3.89	0.95	1.95	1.05

Source: EIU, August 2005 (Exchange rate: December 31, 2004)

Property/Real estate regulations

Under the Land Code, a company that is 49% or more owned by aliens cannot own land in Thailand unless granted investment promotion incentives by the Board of Investment.

Other regulations

Corporate income tax

Company residence is determined by the place of incorporation. A company incorporated under the laws of Thailand is a resident company. Place of management and control is not statutorily defined. Thailand taxes its residents on a worldwide income basis. Tax rate is normally 30% of net profit.

VAT

Value-added tax (VAT) is a non-cumulative broad-based consumption tax levied on the supply of goods or provision of services in Thailand by VAT operators. VAT is calculated on the total price of the goods delivered or services provided. A provision of services is deemed to have been made in Thailand if the service is performed in Thailand regardless of where the service is used, or if the service is performed abroad but is used in Thailand. In principle, the input VAT on purchases of goods or services related to a registered VAT operator’s business may be credited against output VAT.

The current rate is 7% (this rate will revert to 10% on 1 October 2007 unless the period of imposition of the lower rate is extended further).

Competition law

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 and 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.

Store openings

The Building Control Act B.E. 2522 imposes zoning regulations aimed at controlling hypermarket expansion. A Notification dated 22 March 2004 prohibits construction of hypermarkets in inner city areas and restricts new stores in the suburbs. All stores spanning more than 300sq m 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 assessment must be studied and approved by the Ministry of Natural Resources and Environment.

Importation regulation

Importation of goods is subject to customs duties. Customs duties are imposed under the Customs Act and the Customs Tariff Decree and collected on both imports and selected exports. Classification of imports is based on the Harmonized Commodity Description and Coding System (the Harmonized System). This system covers approximately two thousand items.

Duties are levied on either a specific or an ad valorem basis, whichever is the highest, and duties range between 0% and 100%. Exemptions from import duties are available on particular items as prescribed in the Customs Tariff Decree.

The primary basis for the customs value is transaction value, i.e., the price actually paid or payable for the goods when sold for export. This is subject to adjustments for certain elements which are considered to form a part of the value for customs purposes, but are not yet included in the selling price. The elements requiring adjustment are royalties and licence fees, which are related to the goods and paid as a condition of sale, proceeds from subsequent resale in the importing country, value of goods or services supplied by the buyer, etc. If the declared price is evidently low or is unlikely to be the true value of such goods, the Director General of the Customs Department is empowered to fix the customs price of the said goods.

However, a retail business would naturally consist of importation of fast moving consumer goods. The proliferation of free trade arrangements Thailand has entered into with other countries would enable competitive sourcing from various trading partners at a zero tariff rate. This is provided that the imported goods meet the specific rules of origin spelt out in the agreements. In addition, free trade arrangements could allow smoother and faster customs clearance through agreed channels such as the Customs Green Lane.

DEMOGRAPHICS AND CONSUMER BEHAVIOUR

Population

Thailand's population is relatively homogeneous. More than 85% speak a dialect of Thai and share a common culture. Thailand's total population has increased from 64 million in 2003 to 64.5 million in 2004.

Population evolution

By 2012 Thailand's population is predicted to reach 69 million, an increase of about one million a year, a rate of increase of 1.2% per year.

Population

	2001	2002	2003	2004
Population (m)	62.9	63.5	64.0	64.5

Source: EIU, August 2005

Population by age group

Age profile

% of total population	1998	2003	2008 (f)
0 – 14 years	25.4	24.3	23.0
15 – 64 years	68.7	68.7	68.9
Over 65 years	5.9	7.0	8.1

Source: EIU, July 2004

Urbanisation of the population

Urban/Rural split

% of total population	1998	2003	2008 (f)
Urban	21.0	22.8	24.0
Rural	79.0	77.2	76.0

Source: EIU, July 2004

Income/Buying power

In general, monthly income per household increases every year. The table below indicates that average monthly household income has increased 4.4% over the past two years except in greater Bangkok, which has seen a decrease of -2.1%. Household income in the north and central regions increased by almost 10%. Total monthly expenditure in the Kingdom increased at 5.4%.

Monthly average income, expenditure and savings per household

Monthly average (THB m)	2002	2004	2002-2004 (%)
Income	13,418	14,617	8.9
Expenditure	10,908	12,115	11.1
Savings	2,510	2,502	-0.3

Source: Thailand's National Statistical Office

Consumer behaviour

Average household spending patterns

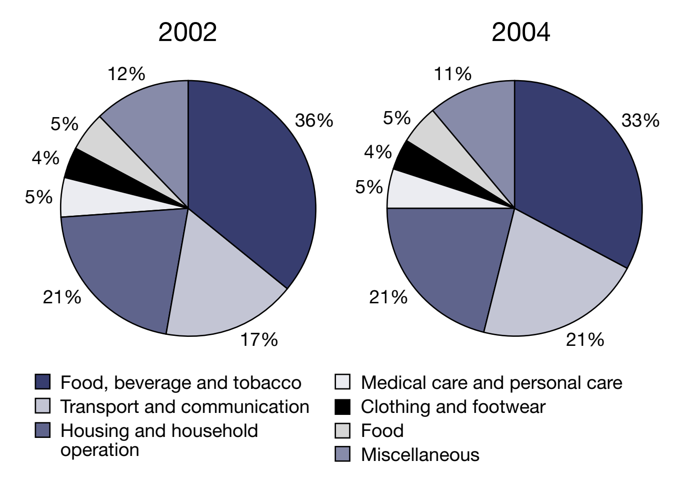
The breakdown of household spending between 2002 and 2004 shows no significant change except in the cost of transportation, which increased from 17% to 21%.

Breakdown of monthly household spending in 2002 and 2004

Category	2002	%	2004	%
Total	10,908	100.00	12,115	100.00
Food, beverage and tobacco	3,938	36.10	4,022	33.19
Transportation and communication	1,886	17.29	2,551	21.05
Housing and household operation	2,254	20.66	2,507	20.69
Medical care and personal care	561	5.14	578	4.77
Clothing and footwear	403	3.69	436	3.59
Other consumption goods	576	5.28	654	5.39
Miscellaneous	1,289	11.81	1,367	11.28

Source: Thailand's National Statistical Office

Composition of household expenditure, 2002 vs. 2004



Source: Thailand's National Statistical Office

RETAIL & CONSUMER SECTOR PERFORMANCE

Major consumer goods players

Key consumer goods companies

Company name	Category	2003 sales (THB m)	2004 sales (THB m)	2003-04 growth (%)
Beer Thai (1991)	Beverage processor	37,235	N/A	N/A
Diethelm & Co	Imported consumer products	33,610	N/A	N/A
Wattanapat Trading	Beverage processor	27,244	1,515	-94.4
Charoen Pokphand Foods	Food processor	25,696	27,906	8.6
Nestle Food Thailand	Dairies	10,225	N/A	N/A
Boon Rawd Trading	Beverage processor	23,962	31,144	29.9
Unilever Thai Trading	Non-food processor	23,336	25,743	10.3
Bangkok Produce Merchandising	Food processor	20,266	N/A	N/A
Perpoon Liquor	Beverage processor	17,087	N/A	N/A
Thai Nam Thip	Beverage processor	15,897	16,038	0.8
The Serm Suk	Beverage processor	15,000	14,934	-0.4
Osotspa	Food processor	12,823	13,777	7.4

Source: Board of Investment, www.bol.co.th

Major retail players

In 2004, retailers continued their expansion via new stores and through the renovation, upgrading and modernisation of existing stores to improve the overall consumer shopping experience. Investment in retail space was made across all segments of the modern retail sector. There was growth in the now dominant hypermarket sector, as operators built new stores where they had existing permits, and the department store and specialty (health and beauty, electrical goods, office products, etc.) store sectors. Investment in 2004 continued to be heavy outside Bangkok and it is clear that, in the short term, most investment activity will be concentrated in the provincial areas where modern retail penetration to date has been lower than in Bangkok, but where disposable income is lower.

Retail sales

Total retail sales growth

	2002	2003	2004
Total sales (THB bn)	233.5	259.8	263.4
Total sales (EUR bn)	4.67	5.19	5.26

Source: Financial statement 2004

Breakdown by number of stores

Number of stores	Hyper-markets	Super-markets	Discount stores	Convenience stores
2004	149	97	42	3,376
2003	134	119	39	2,849

Source: Financial statement 2004

Key food retailers

Ranking	Group name	Store brands	Retail formats	Number of stores 2004	2003 net sales (THB bn)	2004 net sales (THB bn)	2003-2004 growth (%)
1	Seven Eleven	7-Eleven	Convenience store	2,861	57.8	73.7	27.6
2	Ek-Chai Distribution System	Tesco Lotus	Supermarket and hypermarket	60	64.7	72.7	12.4
3	Big C Super Center	Big C	Supermarket and hypermarket	40	42.3	47.4	12.1
4	Siam Makro	Makro	Cash and carry	29	39.2	43.5	10.9
5	Central Pattana	Central	Department store	14	16.9*	18.7*	10.7
6	Cencar	Carrefour	Hypermarket	20	18.7 (EUR383 m)	20.6 (EUR421 m)	10.2
7	The Mall	The Mall	Department store	10	15.1*	15.6*	2.6
8	Central Food Retail	Tops	Supermarket	80	13.1	N/A	N/A

Sources: Companies' annual reports

Key specialty stores

Retail formats	Group name	Store brands	Number of stores	2003 net sales (THB bn)	2004 Sales
Electrical appliances	Central Retail Corporation	Power Buy	61	7.4	N/A
Sports	Central Retail Corporation	Super Sports	41	2.2	N/A
Bookstore	Central Retail Corporation	B2S	90	1.7	2.2
Household appliances	Home Product Center	HomePro	19	6.8	N/A
Office appliances	Central Retail Corporation	Office depot	13	N/A	3.3
Office appliances	Siam Makro	Makro Office Centre	17	1.1	1.2
Cosmetics & health	Boots	Boots	64	1.4	1.7
Cosmetics & health	Central Watson	Watson's	100	N/A	N/A

Sources: Companies' annual reports

Food retail channels

Hypermarkets

Key hypermarkets

Store brands	Ownership	Number of stores	2003 net sales (THB bn)	2004 net sales (THB bn)	2003-04 Growth (%)
Tesco Lotus	Tesco, UK	60	64.7	72.7	12.36
Big C	Casino, France	40	42.3	47.4	12.05
Carrefour	Carrefour, France	20	18.7	20.62	10.26

Source: Companies' financial statements 2004

Tesco Lotus

Tesco Lotus was established in 1998 when Tesco UK purchased the Lotus chain from the Charoen Pokphand Group. Tesco Lotus has developed three smaller alternatives to its giant flagship superstores, being Tesco Lotus Express (mini supermarkets at ExxonMobil gas stations), Tesco Supermarkets and Tesco Value stores in small towns.

The company has continuously committed to the expansion of its "Supersave" house brand and expects this product line to become increasingly popular with Thai shoppers. In 2005, the company launched a four-store trial programme to test customer response to a new shop format. Stores will vary between 700 and 1,500sq m in size of sales area and carry a range of 6,000-9,000 fresh food, dry grocery and daily household items.

The company also plans to open more 24-hour Tesco Lotus Express outlets in Bangkok neighbourhoods this year. Apart from offering daily necessities and consumer goods, Tesco Lotus Express outlets will be set up in conjunction with other retail traffic generators, such as the Tsutaya video rental chain, as well as drug stores, newsagents and mobile phone vendors.

Big C

Owned by French retailer Casino Group since 1997, Big C has launched own-brand products under the name Leader Price, by which the company enhances its capabilities in price competition. The products under the Leader Price brand are produced by qualified Thai manufacturers. In terms of the product itself, the quality is close to the leading brand names but can be sold at prices 15-20% cheaper.

The 2005 Big C business plan is focused on opening new outlets to ensure nationwide coverage. Moreover, new technology is being applied as a management tool for generating efficiencies in terms of business costs and maximising returns for shareholders. For example, the chain is looking at auctions through electronic channels or online sales.

Carrefour

Carrefour began operating 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.

The introduction of the hard discount store – a combination supermarket and convenience store – will open a new marketing channel for Carrefour, which over the past nine years has concentrated on only large-size discount stores. The company has received approval from its French parent to expand more aggressively, particularly in the provinces.

In 2005, Carrefour also plans to invest THB2.5-3 billion to open four new hypermarkets. Due to legal restrictions resulting from retail laws and the parent company's desire for the local operation to concentrate on expanding in Bangkok, Carrefour is putting more resources into remodelling existing stores.

Cash and carry

Key cash and carry operator

Company name	Number of stores	Ownership	2003 net sales (THB bn)	2004 net sales (THB bn)	2003-04 growth (%)
Siam Makro	29	Makro SHV, The Netherlands	39.2	43.5	11

Source: Company financial statement 2004

Siam Makro started trading in Thailand in 1989 as a joint venture between Makro SHV and the Charoen Pokphand Group, the country's largest agribusiness conglomerate.

Siam Makro distinguishes itself from other hypermarket players by focusing on small- and medium-sized businesses that make bulk purchases. These businesses include small retailers, hotels, restaurants, caterers, professional and service sectors and institutions. Siam Makro's core product range is food (fresh and dry) and complementary products.

In 2005, the company continued focusing on the development of own-brand ranges. Siam Makro also plans to further develop logistic functions and increase the use of cross-docking.

Supermarkets

2004 saw rationalisation in the competitive supermarket sector, which is mainly concentrated in Bangkok, where higher levels of consumer income and a more sophisticated customer base better support this retail format.

In 2004, Central Retail Corporation Ltd re-acquired 100% of its Tops supermarket business following Ahold's divestment of its 50% interest as part of an overall strategy to strengthen its financial position by reducing debts. The Tops brand has strong recognition in the eyes of the Thai consumer, and growth from this chain is expected.

Food Lion, the second major supermarket operator in Bangkok, controlled by Belgian's Delhaize group, withdrew from the market through piecemeal disposal in 2004, reflecting the challenging trading conditions in the supermarket sector in the face of continued strong competition from the discount/hypermarket stores.

Key supermarkets

Company name	Number of stores	2003 net sales (THB bn)	2004 net sales (THB bn)	2003-04 growth (%)
Tops	80	13.1	N/A	N/A
Foodland	9	2.7	N/A	N/A
Villa Market	8	1.3	1.5	15.3
Jusco	10	1.2	3.0	150

Source: Board of Investment, www.bol.co.th

Tops

Tops Supermarket, owned by the Central Group of Companies, is the leader in this sub-sector. Tops Supermarket outlets are mostly attached to Central Department Stores and Robinson Department Stores.

Foodland

Foodland is Thailand's oldest supermarket chain. Currently, it has nine outlets, seven of which are in Bangkok. The company plans to continue opening new outlets in the face of intensifying competition from foreign hypermarkets and Tops supermarket chain. Foodland is well received by consumers because of its wider variety in terms of food, quality and prices.

Foodland also has its own factory producing house brands of bakery goods and sausages. It also plans to produce ready-to-eat meals and distribute them at its outlets.

Villa Market

Villa Market, managed by Villa Market JP Limited, provides all household essentials as well as local and imported groceries, fresh fruits, vegetables, meat, poultry, fish, liquor, electrical, school and office supplies, local and imported magazines and a mini pharmacy. Targeting the premium market segment, most of its shops are located in affluent areas.

Convenience stores

The convenience store sector has continued to focus on food and beverage sales in 2004, with 7-Eleven announcing an increased percentage of these sales and a corresponding increase in sales areas to support future growth. The second-largest operator in this sector, Family Mart, also added additional stores in 2003/04. The traditional "mom-and-pop" stores continued to face challenging conditions in 2004 despite the government's introduction in 2003 of the state-owned Allied Retail Trade (ART), established to help grocery stores and small enterprises compete more effectively by harnessing their buying power on a collective basis.

Key convenience stores

Company name	Number of stores	2003 sales (THB bn)	2004 sales (THB bn)	2003-04 growth %
7-Eleven	2,861	57.8	73.7	27.6
Family Mart	515	3.2	N/A	N/A

Source: 7-Eleven Annual report 2004

7-Eleven

CP Seven Eleven Public Co., Ltd. is the flagship company in marketing and distributing products of Charoen Pokphand Group. 7-Eleven, the dominant player in the convenience store sector in Thailand, added more stores in 2004 to exceed 2,500 on a country wide basis. This included the continued roll out of its gas station expansion programme in conjunction with PTT, the state-controlled oil company.

In 2005, CP Seven Eleven Plc plans to expand its businesses through 450 7-Eleven outlets nationwide, and through 150 Book Smile outlets. The company has earmarked THB400 million towards upgrading its supply chain and wants to expand into the TV home-shopping segment, where products such as electrical appliances could be sold through infomercials. It also plans future expansion of its Yuri bakery shop concept.

Family Mart

Siam Family Mart Co, a Japanese convenience store chain, expects to have 1,000 outlets in operation within the next two years and has set a long-term plan to open 2,000-3,000 shops. Siam Family Mart will open at least 200 Family Mart outlets by the end of this year, bringing the total number of stores to 715.

Apart from opening new outlets, Family Mart has set up its own supply chain management unit to distribute products to its outlets nationwide and so doesn't have to rely on a local logistics company.

Non-food retail channels

Specialty stores

Increasing in popularity within the Thailand retail sector, category killers are another type of retail business that emphasise specific category groups. The major players in this sector are:

Boots

The healthcare and cosmetics chain has a unique selling point with a professional pharmaceutical advisor in every shop. Half of the products sold are Boots' own brand. The chain plans to have 100 outlets in Thailand by the end of 2005.

Watson's

In 2004, Watson's opened 100 new outlets and plans to open a further 50 by the end of 2005. The company will invest THB300 million in these new stores and on renovating existing outlets. The investment in Thailand is second only in size to Watson's investment in China. The company will have two styles of outlet in Thailand – standard style shops and prestige shops, which will be located primarily in the premium shopping and residential areas of Bangkok.

Department stores

The department store segment is dominated by two major players, Central and The Mall, owned by the Central Retail Corporation Limited (CRC) and The Mall Group Company Limited, respectively. Although continuing to face competition from the discount and hypermarket stores, the different shopping environments, promotional campaigns and marketing activities of the department stores continue to ensure they retain a strong customer base, and both operators saw sales growth in 2004. The Central Retail Corporation has also been active in the development of specialty retail businesses, for example health and beauty, office products and electrical goods.

Both these major department store groups are involved in the significant new luxury retail developments being constructed at present in central downtown Bangkok, one result of which should be to make the Rama 1/Ploenchit area of Bangkok a comparable retail experience to Singapore's Orchard Road. Significant retail developments have also been made in 2004 outside Bangkok, particularly in Phuket, with the objective of targeting the significant consumer spending potential in the provinces. These developments are likely to be adversely impacted in the short term by the December 2004 tsunami and the resulting impact on Thailand's tourism industry.

Key department stores

Group name	Store brands	Number of stores	2003 sales (THB bn, incl. VAT)	2004 sales (THB bn)	2003-04 growth (%)
Central Pattana	Central	14	16.9	18.7	10.7
The Mall	The Mall	10	15.1	15.5	2.6
Robinson	Robinson	18	4.6	7.8	68

Source: Board of Investment, www.bol.co.th

Central Department Stores

Central Retail Corporation Limited (CRC), a subsidiary of the Central Group, solely owns the nation's largest department store chain, Central Department Stores. Most Central Department Stores capture medium- to high-end customers.

CRC is very active in category killers such as Power Buy, Super Sports, B2S, Office Depot, Homework and Marks & Spencer's.

In 2005, Central Group plans to spend more than double what it spent last year on capital improvements and new projects such as new investment in its real-estate holdings through Central Development Co Ltd. Most of these funds will be spent on completing the Central World Plaza Hotel in time for its opening in 2006, and on completing Central World Plaza Shopping Center and Central Baan Silom – a new shopping centre featuring up-market shops and restaurants.

The Mall Group

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

The Mall Department Stores capture middle- to high-class shoppers. The Mall Department Store Company Limited. also owns the Emporium Department Store and the Siam Paragon Shopping Mall (under construction, due to open late 2005), both of which capture high-end local customers and international tourists.

Robinson

Robinson was severely affected by the financial crisis of 1997 and was forced to suspend debt repayments in 1998 and enter into restructuring. Robinson Department stores are aimed at lower-income shoppers.

Robinson has developed a new store image and now offers new product assortments, particularly imported products from Asian countries, to differentiate it from other stores. Currently, Robinson carries about 30 imported brands of home products and apparel, and ornaments from India, South Korea, Hong Kong and China.

In 2005 the company will spend money to renovate two existing stores. It will also continue developing its "Every Fashion" concept, offering a variety of lifestyle fashion products under both private brands and imported labels exclusive to Robinson.

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

Challenges

Logistics management

Logistics management has become important in the retail business as a means by which retailers are able to improve efficiency in stock control and, as a consequence, improve their cash flow.

Own brand credit cards

Own-brand credit cards are available throughout the retail sector and used as a tool to induce purchasing behaviour in consumers.

Modernised local retailing

The Thai retail market remains dynamic with potential for further growth. However, in terms of expansion and future opportunities, the retail trade may become more competitive, particularly on a price basis. This is due in part to the Commerce Ministry's commitment to help local retailers improve their position instead of legislating against foreign-brand retailers already well-established in the Thai market. Under plans implemented to date, a state-owned firm called Allied Retail Trade Co (ART) was set up in 2002 with a THB300 million budget to help modernise local stores. The project included the building of prototype ART shops, programmes to help reduce the logistics costs of small, independent shop owners by acting as their goods procurement centre and the inclusion of 18 One Tambon One Project (OTOP) outlets. The OTOP scheme seeks to promote the export and local sale of handicrafts and foods produced in Thailand's rural communities.

Since its inception, the ART plan has met with scepticism in some quarters. However, the Ministry of Commerce is optimistic the plan can succeed and is pressing ahead with it. Currently numbering 20 flagship stores, 14,000 member retail shops and the 18 OTOP outlets, ART expects revenue to grow from a mere THB53 million last year to THB135 million this year. The organisation's plans for 2006 are altogether more ambitious, with the Ministry and ART's management stating that a further 60 flagship shops will be opened, bringing the total number to 80. These will be complemented by 20,000 member retail shops and 80 OTOP stores. The expansion is expected to drive annual revenues to THB700 million, THB200 million coming from flagship stores, THB400 million from member retail shops and THB100 million from the OTOP scheme outlets.

In addition, having been squeezed in terms of price by many players in the modern retail sector, for the past couple of years a number of the top-selling international brands have been directly courting the traditional "mom-and-pop" stores by offering them branded goods at discounted rates that allow the retailer to leverage a greater margin on the product. However, to date there has been no quantitative data published to measure the impact of this initiative.

Opportunities

Tax measures introduced at the end of the 2004 were aimed at supporting the social sector and people with low-to-middle income to reduce tax burdens and increase people's purchasing power. Approved by the cabinet in October 2004, the measure raised net income exempted from personal income tax from the first THB80,000 to the first THB100,000. This is a new strategy for developing the country with the aim of helping taxpayers by raising the ceiling on income tax exemption. The move will likely boost consumer spending.

Emerging trends

Direct sourcing

Direct sourcing has increased via auctions as retailers look to get cheaper prices with suitable quality. Some retailers have dealt through middle companies to find suppliers. Those products are sold as their own brands to create brand awareness to consumers.

Customer service

Customer service has become a more visible component of the retail business with stores offering incentive and loyalty programmes to improve the retention of customers.

Increased purchasing power

There is more disposable income in the pockets of Thai consumers and therefore more opportunity for retailers.