

MODERN TRADE

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- Modern trade sector in the next 1-3 years is expected to continue to grow due to recovery of the Thai economy, driven by the tourism sector, infrastructure investments, and other government's stimulus measures. Therefore, consumer purchasing power is beginning to rebound. In addition, an easing of household debt and low prices of agricultural products spur domestic spending.
- Businesses plan to grow their customer base by increasing their levels of investment, both in Bangkok and in regional centers. New branches will take a variety of forms and domestic operators will undertake an increasing number of joint ventures, acquisitions and mergers with both Thai and foreign companies, and expansion of virtual online shops to increase proportion of income originating in e-commerce. All these will likely spur rising levels of competition on price, with knock-on effects for costs and profit margins.

Overview

In 2016, the modern trade sector had a combined value of THB2.2 trillion, or 15% of GDP, which puts it in second place after the industrial sector, which accounts for 27.4% of GDP.

In the past, the Thai retail sector was dominated by small, family-run grocers which obtained stock from middlemen and distributors. However, the situation has changed considerably and large-scale operators are less dependent on wholesalers as they now own extensive branch networks and are able to occupy favorable bargaining positions when negotiating with producers and wholesalers¹. In addition, they have managed to adopt a range of innovations, including shop & stock and distribution management systems, distribution centers, and the widespread use of technology deployed to help in a range of tasks, which allow them to gain various marketing advantages.

Over the previous two decades, the modern trade sector has seen rapid expansion, in particular in Bangkok and in those regional centers where the level of urbanization has been high. This is a result of government opening the domestic market to foreign investors and operators^{2/} and supporting the expansion of existing businesses. Goods sold in modern trade outlets are many and varied and cover the range of items required for daily life (see Figure 2) and this ability to meet consumer demand effectively is one factor in explaining how modern traders have been able to usurp the position of traditional grocers, a triumph underlined by the fact that currently, modern traders control 61% of the market in 2014, compared with only 25% in 2001^{3/}.

Figure 1: Domestic Retail Trade Value

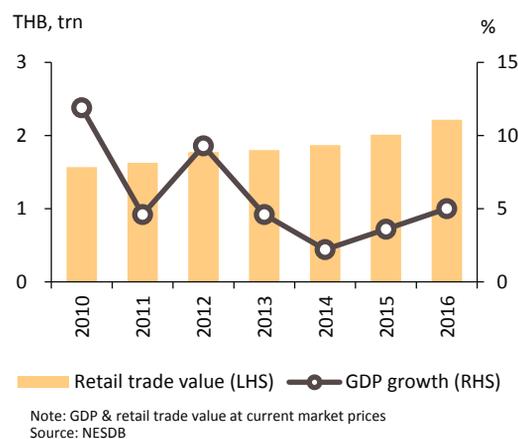
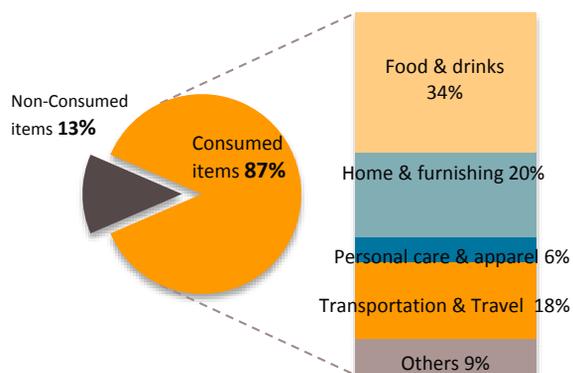


Figure 2: Household Consumption Expense (2015)



1/ Modern traders have significant bargaining powers and can undercut traditional grocers and retailers since they are able to specify terms of trade to their advantage and to collect a variety of charges from suppliers and agents who wish to be stocked by an operator. These include: charges for first orders or for providing a product code; fees to support services or activities such as rent for store space and charges for signage, meeting sales targets, and transportation from distribution centers to branches; charges for promotions and marketing such as those for printing leaflets, and subsidizing giveaways, and discounts, particularly for occasions such as anniversaries, new store openings, renovations and festivals; providing favorable credit terms to retailers, typically 90-120 days; and contracts which allow for unilateral termination of business.

2/ Working in retail and wholesale is a restricted activity, according to the Foreign Business Act B.E. 2542 and as such, non-Thai nationals who wish to make investments of less than THB100 million are required to seek authorization from the Foreign Business Committee. However, those investing more than this limit need only notify the authorities and they will automatically be granted authorization to engage in retail and wholesale trade in Thailand and thus the law provides an opening for non-Thais to enter the sector.

3/ The Standing Committee on Commerce, Industry and Labor, the National Legislative Assembly.

Presently, large-scale modern traders in Thailand include 2-3 multinational companies and 3-5 local operators; they have solid performance from strong revenue generation potential thanks to economies of scale owing to extensive branch coverage, financial strength, and diverse business formats that can respond to the need of consumers well.

The outlets can be categorized into five types^{4/}, each of which has distinct features.

- 1) Department stores** are the largest retail units which retail higher quality goods, both domestically produced and imported and sell at higher price points than goods in discount stores. Department stores are usually found in city centers, their design works to highlight visual appeal and they are typically staffed with assistants who help to advise and assist shoppers. Central and Robinson are major operators in this mold.
- 2) Discount stores/hypermarkets/supercenters** are large-scale retailers which sell primarily to lower- and mid-level consumers. Outlets may be found in both city centers and on the edges of urban areas and the stock range typically emphasizes value and low price. These types of outlets operate distribution centers. In this group, Big C, and Tesco Lotus are the main players.
- 3) Supermarkets** focus on the distribution of foods (e.g. meats, fruit and vegetables, and readymade) and household consumer goods. Businesses may either operate free-standing retail units (e.g. Foodland) or be found in department stores (e.g. Tops Supermarket and Home Fresh Mart).
- 4) Convenience stores** are small retail units which are rising in popularity, taking market share from older style retailers. Consumers prefer modern outlets which carry a wide range of stock and which are conveniently located in or near communities. 7-Eleven and FamilyMart are notable examples of this type of store.
- 5) Specialty stores** are found in large communities and retail higher quality and higher priced goods, including the retailer's own brands. Boots, Watsons, and Supersports are examples here.

In addition, modern trade has developed new formats such as category killer and single-price stores. Also, they expand their branches to other provinces and penetrate into communities, tambon, and villages. Retail outlets have become a center of communities. Modern trade; therefore, has continued to increase among intensifying competition.

Figure 3: Store Format of Modern Trade

	Department Store	Discount Store / Hypermarket / Super Center	Supermarket	Convenience Store	Specialty Store
Product categories	various: fashionable, high quality / guarantee	consumer goods, basic quality	consumer goods, fresh foods	consumer goods, prepared foods, small size	personal care products, own brand
Target consumer	middle-upper	lower-middle / grocery	middle-upper	those favoring convenience	middle-upper
Supplier	domestic, foreign, brand name	domestic	domestic	domestic	domestic, foreign
Stock inventory	60-90 days	30-45 days	10-15 days	15-20 days	30 days and 7 months for import stuff
Pricing	more expensive than others	low price / wholesale price	mixed pricing	higher than discount store and supermarket	similar level to department store
Key Player	Central, The Mall, Robinson	Tesco Lotus, Big C	Tops, Home Fresh Mart, Foodland	7-Eleven, Family Mart	Watson, Boots, Supersports

Source: BOT, compiled by Krungsri Research

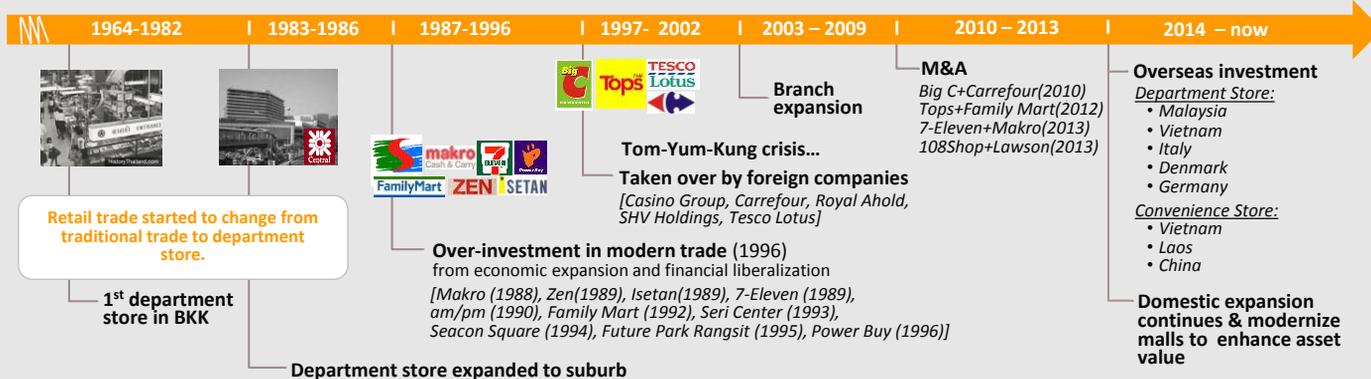
^{4/} Cash and Carry stores are regarded as wholesalers and were not discussed here.

Development of retail business in Thailand

The first modern trade in Thailand is department store that was developed from a family store. The retail formats have been developed following the economic and social changes with a rapid increase in demand for products. Consequently, the retail business has gradually expanded. Investment in a department store in the past was spent around THB1-50 million. It was an original model of modern trade, especially Central and Daimaru focusing on luxury products and starting to embark a supermarket in the department store. However, in the past, only few number of department stores were opened and captured high-end customers or medium-to high-income earners in Bangkok. As a result, the impacts on the retail sector was not as much as a current one. Presently, retail business has been developed to shopping malls which consist of department store and retail space for rent and expand to the suburb and the upcountry with increasing investment size.

Robust economic growth, especially during 1987-1989 on the back of financial liberalization attracted Thai and foreign players to invest in various types of modern trade such as wholesale stores (Makro in 1989), convenience stores (FamilyMart in 1987, 7-Eleven in 1989, and AM-PM in 1990), hypermarkets (Big C in 1993), and supermarkets and large shopping malls around outskirts of Bangkok (Future Park Bangkae in 1993, Future Park Rangsit and Seacon Square in 1994). Moreover, large-scale operators have set up joint ventures to save costs; for example, Central Group partnering with Robinson.

However, during the 1997 economic crisis, many Thai retailers face foreign-dominated debt and liquidity squeeze. The government changed regulations by amending law on foreign ownership of land, and allowed foreigners to hold more than 50% shares in some Thai businesses. Consequently, foreign investors could acquire or become major shareholders in several retail businesses. The structure of domestic retail business has thus been changed and several retail businesses were owned by foreigners, especially discount stores such as Tesco Lotus (98% British), Big C Supercenter (63% French) and Makro (90% Dutch). After the Thai economy recovered, some Thai operators bought other retail stores or shares from other foreign investors (e.g. CP Group acquired Makro), or merge with other retail businesses to reduce costs (e.g. Big C acquired Carrefour). In addition, Thai operators seek more opportunity from overseas investment, sell franchises to expand branches to overseas, acquire or merge with foreign businesses in other countries. Therefore, the retail business have grown rapidly .



Source: Compiled by Krungsri Research

▲ Situation

Modern trade has shown a tendency to move in line with consumer confidence. Data from the Thai Retailers Association show that, prior to the outbreak of political conflict in 2014, modern trade grew at a rate which was in excess of that of the economy in general, particularly modern trade such as, hypermarkets, supermarkets and convenience stores. These stores have thus taken an increasingly large share of income and play an increasing influential role in the market as they have displaced older, more traditional outlets. However, given the Thai economic slowdown from 2013, domestic political conflicts, rising levels of household debt, weak economic fundamental due to falling prices for agricultural crops, all of which conspired sluggish domestic spending, evidenced by retail sales index and further decline in consumer confidence (Figure 4). **Although the government attempted to stimulate consumer spending, modern trade has seen a softening of growth rates, at only 3.8% per year during 2013-2016, a sharp decline from the 9.5% seen in the period 2010-2012.** In any case, large operators still managed to maintain their margins and continued to add new outlets (Figure 5 and 6).

The opening of retail space has sped up during 2013-2015, particularly in department store, shopping and community malls, which have benefited from continuing investment in both the capital and in regional centers across the country. This has led to increased retailer competition. **However, new investment in large-scale modern trade slowed in 2016.** But investment in Bangkok and the outskirts still rose slightly by 0.13 million sq.m. Particularly in Bangkok, total retail space were 7.5 million sq.m^{5/}. However, in the upcountry, investments made by large-scale retailers outside Bangkok focus on provinces which are larger and more densely populated, which have ready access to public utilities and which may also be in areas of economic and trade centers or attracting significant numbers of tourists, such as Chiang Mai, Phuket, Udon Thani, Khon Kaen, and Nakhon Ratchasima.

The situation for individual types of modern trader

Department Stores

- **Flows of new investment in Thai department stores has been consistent for many years.**
 - ◀ 2012 and 2013 were boom years for the provinces and this led to increased activity in land purchases and house building, which in turn opened opportunities for investors in large modern trade businesses and prompted a number of department stores to expand operations in regional centers and in tourism provinces.
 - ◀ However, following a slowing of regional economies (partly due to falling prices for agricultural goods since 2H13), investors turned their attention back to Bangkok Metropolitan Region (BMR). Investments were mostly made in large department stores, shopping malls and community malls.
- **Competition between department stores emphasizes the unique points of each and each business has its own operating model.**
 - ◀ **Central Group** has the largest number of branches and the greatest floor space. To help segment the market, Central Group has invested in building a range of different brands which from lower- to higher-end are Robinson, Central, Zen, and Central Embassy. It has also invested in the Robinson and Central brands in upcountry.

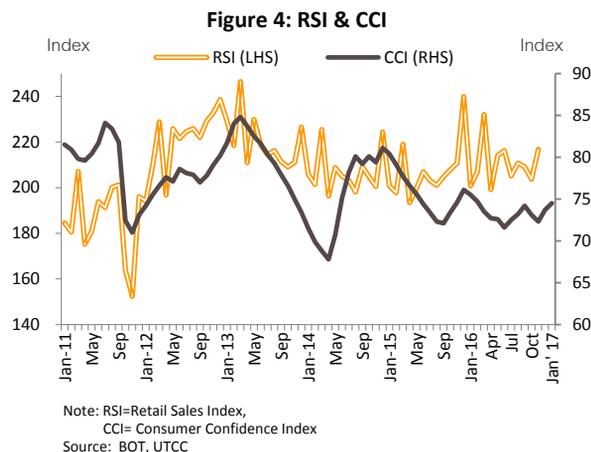


Figure 5: Sales Growth & Margins of Listed Retailers

	Sales Growth (%YoY)			Net Profit Margin (%)		
	2014	2015	2016	2014	2015	2016
Makro	10.0	9.6	10.9	3.5	3.5	3.2
Big C	3.1	-1.8	-10.3	6.0	5.8	5.9
Robinson	-1.7	5.4	3.5	9.0	9.3	11.5
7-Eleven	31.4	9.5	10.9	2.9	3.5	3.9
HomePro	19.9	9.5	8.4	6.9	6.7	7.3
Total Avg.	18.8	7.4	7.1	4.1	4.3	4.5

Source: Compiled by Krungsri Research

Figure 6: No. of Outlets by Retailer

	2013	2014	2015	2016E	
				Outlets	Share (%)
Department stores *	59	66	72	77	0.4
Discount stores	340	384	443	482	2.6
Supermarkets	383	395	429	449	2.4
Convenience stores	12,627	13,359	14,380	15,325	82.8
Others	1,470	1,685	1,919	2,171	11.7
Total	14,820	15,823	17,171	18,504	100.0

Note: only the key operators, namely, Central Department Store, Robison, and the Mall.
Source: Companies' data, compiled by Krungsri Research

◀ **The Mall Group** has concentrated its efforts at the more exclusive end of the market, with investments in large, distinctive operations in central locations in Bangkok, such as Emporium, EmQuartier and Siam Paragon. Its recent opening of The Mall upcountry shows a move into tourist areas and signals an attempt to capture the foreign market.

◀ **Other groups.** Many other players exist in this area, with a significant number of Thai investors who operate in other sectors making investments in department stores. These investments typically take the form of developments in prime areas in Bangkok which are directed at middle- to upper-level consumers. Examples of these investors include Siam Piwat (Siam Discovery and Siam Center), Seacon Development (Seacon Square and Seacon Bangkae), Siam Retail Development (Fashion Island and Terminal 21), MBK Group (MBK Center and Paradise Park), Japanese JV (Tokyu and Isetan), Gaysorn Property (Gaysorn Plaza), Siam Future (Mega Bangna and Esplanade), TCC Group (Asiatique and Gateway Ekamai) and currently under construction Icon Siam, which is part of the joint ventures between the CP Group and Siam Piwat

● **In 2016, there were 77 department stores operating in Thailand** from 72 in 2015. These figures are for major operators, i.e. Central Department Store Group and the Mall Group only. (Figure 7)

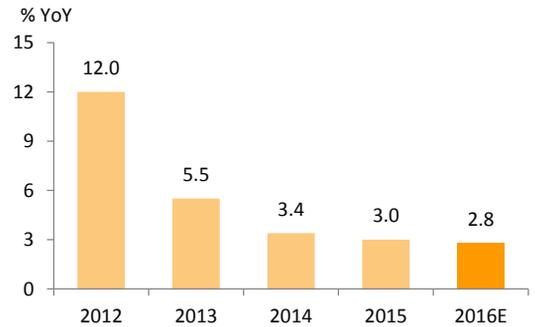
● **The sales growth of department stores in 2016 was only 2.8%** (Figure 8). This is the lowest recorded level, lower even than that seen during 2013-2014, a period which saw extended street protests in the heart of Bangkok and which culminated in a coup. This has naturally put pressure on profit margins as income has fallen but fixed and variable costs remain high and several leading operators have increasingly turned for investment opportunities to markets overseas. This is due to their high potential in the case of ASEAN markets and for their low investment costs in the case of Europe.

Figure 7: Department Store Outlets in Thailand

Retailers	Outlets				
	2012	2013	2014	2015	2016p
Central Group	15	17	19	21	22
The Mall Group	8	8	8	8	10
Robinson	30	34	39	43	45
Total	53	59	66	72	77

Source: Compiled by Krungsri Research

Figure 8: Sales Growth of Department Store



Source: Thai Retailer Association, estimated by Krungsri Research

Figure 9: Discount Store Outlets in Thailand

Retailers	Outlets				
	2012	2013	2014	2015	2016p
Tesco Lotus	146	157	183	188	196
Big C	113	119	123	125	134
Makro	57	64	77	91	107
Top Superstore & Superkoom		25	38	39	45
Total	316	365	421	443	482

Source: Compiled by Krungsri Research

Discount stores/hypermarkets/supercenters

● **Investing in discount stores has been restricted by City and Town Planning Act**, together with additional regulations introduced in 2013 to strengthen the control. This made it difficult to open outlets within communities^{6/} and so investors have had to adjust their investment strategies for long-term growth.

◀ **Investments in BMR** will focus on branches with a smaller footprint and will expand the outlets in alternative store formats. For example, Tesco Lotus is increasingly investing in its Lotus Express and Talad Lotus outlets to increase its penetration of lower-end markets and Big C is opening Mini Big C stores to expand its potential market.

◀ **Another route for expansion is the opening of upcountry stores**, especially in larger regional centers which are seeing urban growth and in areas which are well served by communications networks and so which function as gateways to new geographical markets.

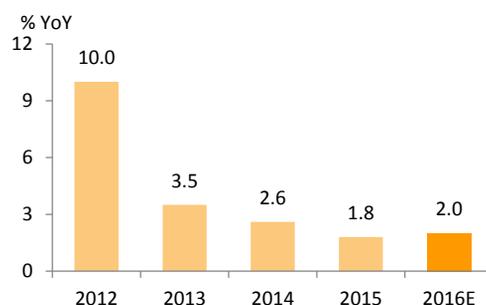
6/ Regulations on the establishment of commercial buildings (retail and wholesale) are, for instance, 1) those with a store floor space of less than 300 sq.m. may be located in the area which is permitted and specified in the comprehensive city plan; 2) those with a store floor space of between 300-1,000 sq.m. should face a public road with at least four lanes or over 20 meters wide, and with a front road setback of at least 50 meters from public roads; 3) those with a store floor space over 1,000 sq.m must be located outside the area specified in the urban comprehensive plan, face public road or over 40 meters wide, and a front road setback of over 75 meters from public roads.

- **During the past 2-3 years, competition in these businesses were rather stiff** and there were market pressures as a result of several factors, including weak purchasing power over the last years, especially in upcountry. Operators have to put efforts to fight and maintain market share, for example, Big C intensified rivalry with Tesco Lotus, having planned investments running to THB6-7 billion for branch expansion in 2016. Since the mid- to low-level customers served by these stores exhibit high price sensitivity (or more technically, high price elasticity of demand), its leads to competition on price, with marketing strategies revolving around discounting and price cutting.
- **Discount stores have shown low levels of growth in income**, a result not only of the factors described above and increasing competition from other store formats, namely convenience stores and supermarkets, through which food and household goods are distributed, and specialty stores, which stock non-food items. **In 2016, discount stores were estimated to have expanded by only 2.0%**, a fall from the 10% rate of expansion seen in 2012 and 2.6% average during 2013-2015 (Figure 10).

Supermarkets

- **Investment in supermarkets has been continuous and ongoing** both by the larger players, i.e. Tops (part of Central), Home Fresh Mart (part of The Mall), Talad Lotus and Big C Market, and by the mid-range operators Foodland, MaxValu, and Villa Market, which have been opening new branches, although almost exclusively in Bangkok and its surroundings or in major regional centers such as Chonburi, Chiang Mai and Phuket, attracted by consumers with higher purchasing power and who are typically middle class, with a strong tendency to shop in modern trade outlets. Only Talad Lotus has pursued an extensive policy of investment in more provincial areas, with the result that in this area, it is now the market leader in terms of both the number of outlets and total retail floor space occupied.
- **In 2016, there were 448 supermarkets in the country**, up from 424 in 2015. Tops opened the largest number of new branches, increasing its portfolio with 10 additional stores (Figure 11).
- **The general picture for supermarkets is one of strong growth as compared to other store types**, as they managed to create an impression of being modern and of offering a selection of high quality, fresh items. Moreover, attracting middle- and upper-level customers and meeting their consumer demands requires reassurances of food safety. Marketing in this territory allows retailers to regain some power in setting prices and this has allowed these businesses to maintain solid rates of expansion; **in 2016, supermarkets were approximated to have expanded at a rate of 9.0%**, comparable to the rates recorded in the past (Figure 12).

Figure 10: Sales Growth of Discount Store



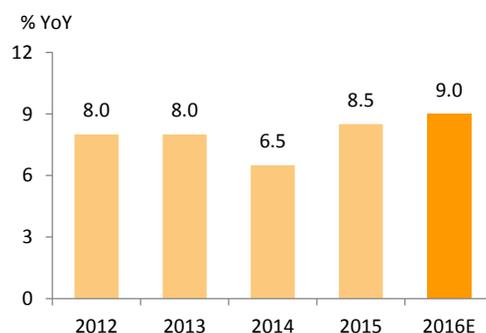
Source: Thai Retailer Association, estimated by Krungsri Research

Figure 11: Supermarket Outlets in Thailand

Retailers	Outlets				
	2012	2013	2014	2015	2016p
Tops	95	93	85	85	95
HFM, Gourmet Market	13	17	17	18	20
Foodland	13	14	16	18	19
MaxValu	14	17	20	23	24
Villa Market	25	30	33	33	34
Big C Market/Junior	18	30	37	55	59
Lotus-Talad	165	182	187	192	197
Total	343	383	395	424	448

Source: Compiled by Krungsri Research

Figure 12: Sales Growth of Supermarket



Source: Thai Retailer Association, estimated by Krungsri Research

Convenience Stores

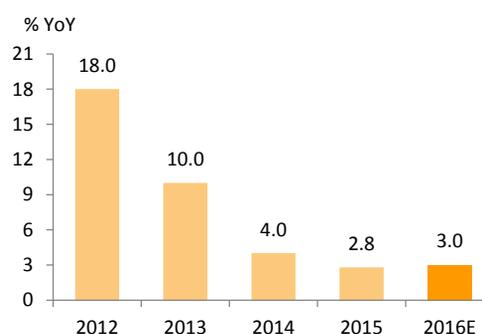
- **Convenience stores have shown the highest rates of growth in investment of all modern trade store formats and have also taken the greatest market share from traditional retailers.** 7-Eleven (part of the CP Group), large-scale player, has benefited from continuous investment and expansion including branch expansion in PTT's petro stations such that the chain can achieve complete national coverage. In addition to 7-Eleven, new entrants have also appeared in the market:
 - ◀ Thai operators from other retail businesses (such as Lotus Express, Mini Big C and Tops Daily) who engage in stand-alone shops and outlets in petrol stations in order to support demand from travelers and people in communities such as Lotus Express with Esso and Mini Big C with Bangchak; and
 - ◀ Foreign businesses including 1) Lawson, from Japan, which is engaging in joint ventures with Sahapat, a major Thai manufacturer of consumer goods and in 2012. Lawson took over Sahapat's chain '108 Shop'; and 2) Aeon, another Japanese venture, has joined with MaxValu Tanjai, to distribute ready-made meals and distinguishes itself from the competition by offering imported Japanese items around a fifth of its total range.
- **Competition in the convenience store market is reasonably high but there is a very clear market leader, namely 7-Eleven**, which runs 9,500 outlets across the country (some of which are franchises). Marketing strategies take a variety of forms, including competition on discounts and price but also on the range of goods and services available, which includes selling CDs, magazines, bakery items and medicines, being able to pay bills at branches, ticket fares, ticket airfares, and credit cards. Market leaders here enjoy advantages from being able to negotiate with suppliers from a position of strength, thus lowering costs.
- **In 2016, Thailand was home to 15,325 convenience stores** nationwide, up from 14,292 in 2015 or by 7.2%. The latest expansion include all brands, led by 7-eleven opened 773 branches (8.9%), FamilyMart 50 (4.6%) and Lawson 108 52 (11.7%) (Figure 13).
- Despite all of the above, growth rates have slowed since 2013. Data from the Thai Retailers Association showed that for 2011-2013, growth averaged 13.3%, for 2014-2015 it was 3.4%. **For 2016, Krungsri Research estimated that the rate of growth was only 3.0%** (Figure 14).

Figure 13: Convenience Store Outlets in Thailand

Retailers	Outlets				
	2012	2013	2014	2015	2016p
7-Eleven	6,822	7,429	8,127	8,727	9,500
Lawson 108	600	540	531	446	498
Family Mart	764	1,048	1,060	1,080	1,130
Lotus Express	1,071	1,305	1,421	1,471	1,477
Mini Big C	126	278	316	391	473
Tops Daily	119	15	24	51	75
MaxValu Tanjai	32	40	47	48	53
Others	2,347	2,341	2,037	2,078	2,119
Total	11,881	12,996	13,563	14,292	15,325

Source: Compiled by Krungsri Research

Figure 14: Sales Growth of Convenience Store



Source: Thai Retailer Association, estimated by Krungsri Research

Industry Outlook

The modern trade sector is expected to see improving prospects over the next three years (2017-2019) as the Thai economy recovers (Krungsri Research estimates that annual growth will be in the range of 3-4% from average of 2.4% during 2013-2016), driven by investment, consumer spending, and tourism. Moreover, benefits will also accrue to the economy from government infrastructure development in areas such as transport, airport expansion, and special economic zones in border regions, and from government measures to stimulate the economy. Retailers will gain generally from both increasing purchasing power as the rate of urbanization continues to increase and a vibrant and growing tourism sector. When these are added to the efforts of the private sector to develop Thailand as a regional shopping hub^{7/}, the advantages modern trade businesses gain from their extensive national networks, and increasing consumer demand for modern shopping environments, the near future looks much brighter for the sector than the experience of the recent past might indicate. Indeed, **forecasts for the next three years are for average annual growth of 4-6% (Figure 15).**

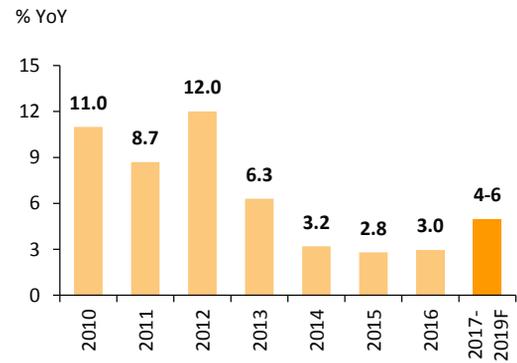
That said, the overall outlook for the sector is also for increasing competition. This competition will be with 1) businesses operating stores of a similar type; 2) businesses of a different type but targeting the same customer base; and 3) new players who will see opportunities to seize more market share, especially for foreign brands and entrepreneurs who will also wish to tap into spending by foreign visitors in Bangkok and other tourist areas by opening and/or expanding retail outlets and to exploit the long-term potential of the economy for growth. In addition to this, **the rapid expansion of online shopping** is expected to take market share from competitors despite a small proportion. E-commerce market in Thailand is anticipated to expand at 22% per year

until 2020^{8/} as consumers become more comfortable with online shopping and large-scale foreign investors engage in e-commerce business in Thailand. To counter this danger and to maintain market share, businesses in the modern trade sector thus need to implement strategies including pricing and cost-cutting policies to increase their competitiveness. Given that operators are also investing in developments of their e-commerce businesses alongside the retail outlets, they will likely face falling margins. A response to this will be to expand coverage in major urban zones to capitalize on the rising purchasing power of consumers in these areas to maintain revenue and long-term growth.

Investment will continue in the modern trader sector in both Thailand and overseas.

- **Investments in Thailand** will come from groups operating shopping malls and department stores. Several will schedule to be opened during 2017-2020 (Figure 16). Investments in small retail outlets are likely to grow at a slower rate. New stores will be opened in BMR following the lines of new mass transit routes and in upcountry in locations with real estate projects by large-scale developers or the special economic zones.

Figure 15: Retail Business Growth



Source: Thai Retailers Association, forecast by Krungsri Research

Figure 16: Opening Plans of Department Stores & Shopping Centers

	2017	2018	2019	2020
BKK	Show DC (Show Destination Center)	Gateway Bangsue		EmSphere
	Icon Siam			Bangkok Mall
Provinces	Central Plaza (Nakhonratchasima, Mahachai, Phuket)	Klang Station; Korat	DaRa Harbor; Choburi	
		Terminal 21; Pattaya		
	BluPearl; Phuket			

Source: Compiled by Krungsri Research

7/ Thai Shopping Centers Association

8/ DHL eCommerce (part of Deutsche Post Group, a global logistics company)

- **Investments overseas will increase.** The level of outward Thai investments in 2016 have more than doubled the level registered in 2012. They included those going to other ASEAN nations to provide increasing opportunities to enter new territories and to benefit from new and opening markets which, given their size, increasing purchasing power, rising middle class, and tourism growth in ASEAN, have significant opportunities for modern trade operators (Figure 17 and Figure 18). Thai retailers will gradually expand more investments to retail business in neighboring countries. After 2016, Thailand's private sector has invested more than USD1 billion in Vietnam.

However, risk factors that may put negative impacts on modern trade should be monitored. For example, the Thai economic recovery may differ from expectations and **possible future tax hikes (particularly, the value-added tax: VAT)** will lift product and service prices. Therefore, consumer spending could be dampened. In addition, **using online store service is likely to rise at an accelerating pace** in line with lifestyle of customers who utilize advance technology to apply in businesses, such as direct debit payment, e-wallet, logistic system, which help respond consumers' demand. Therefore, frequency of online shopping and online services is expected to increase and this poses risks to small retail outlets and threaten their survival in the long term.

Figure 17: Retail Sales Volume Growth (%)

	2016	2017	2018
Vietnam	7.8	6.0	6.5
Philippines	5.4	5.4	5.5
Indonesia	5.4	5.0	5.0
Thailand	3.6	3.4	4.3
Malaysia	4.6	4.6	4.8
Singapore	2.9	2.4	2.9

Source: EIU

Figure 18: TDI by Business Sector

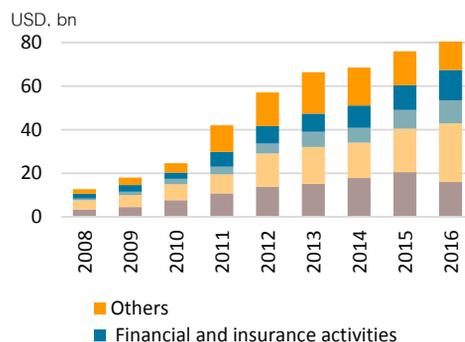
Note: TDI = Thai direct investment abroad
Source: BOT

Figure 19: Summary of Key Players in Retail Market in Thailand

Group	Key Property	Store Format	Outlet	Group	Key Property	Store Format	Outlet
Central Group				Siam Piwat			
	Central	Department Store, Shopping Center	30		Siam Discovery	Shopping Mall	1
	Robinson	Department Store	45		Siam Center	Shopping Mall	1
	Zen	Department Store	1	MBK			
	B2S	Category Killer	96		MBK Center	Shopping Mall	1
	HomeWorks	Category Killer	4		Paradise Park	Shopping Mall	1
	OfficeMate	Category Killer	64		The Nine	Community Mall	1
	Power Buy	Category Killer	96	Siam Future Development			
	Thai Wassadu	Category Killer	42		Mega Bangna	Shopping Mall	1
	Supersports	Category Killer	70		The Market Place	Hypermarket	8
	Watsons	Specialty Store	380		Esplanade	Shopping Mall	1
	Tops Supermarket	Supermarket	95		Siam Future Center	Hypermarket	2
	Tops Daily	Convenience Store	75		La Villa	Community Mall	1
	FamilyMart	Convenience Store	1,130		J Avenue	Community Mall	1
CP Group					Power Center	Hypermarket	3
	7-eleven	Convenience Store	9,500		Nawamin City Avenue	Community Mall	1
	CP Freshmart	Convenience Store	610		Avenue Ratchayothin	Community Mall	1
	Makro	Cash & Carry	107		The Avenue Changwattana	Community Mall	1
Ek-Chai Distribution System					Pattaya Avenue	Community Mall	1
	Tesco Lotus	Hypermarket	196		Piyarom Place	Community Mall	1
	Lotus Express	Convenience Store	1,477	Land & House			
	Talad Lotus	Supermarket	197		HomePro	Category Killer	76
TCC Group				Seacon Development			
	Asiatique	Shopping Mall	1		Seacon Square	Shopping Mall	1
	Gateway Ekamai	Shopping Mall	1		Seacon Bangkai	Shopping Mall	1
	Digital Gateway	Shopping Mall	1	Siam Retail Development			
	Big C/Big C extra	Hypermarket	134		Fashion Island	Shopping Mall	1
	Big C Market	Supermarket	59		Terminal 21	Shopping Mall	1
	Mini BigC	Convenience Store	473		Life Center	Shopping Mall	1
					The Promenade	Shopping Mall	1
The Mall Group				Japanese JV			
	The Mall	Department Store	10		Tokyu	Department Store	2
	Siam Paragon	Shopping Mall	1		Isetan	Department Store	1
	Em District	Shopping Mall	2	Other Groups			
	Gourmet Market	Supermarket	5		K-Village	Community Mall	1
	BeTrend	Category Killer	9		Gaysorn	Shopping Mall	1
	Home Fresh Mart	Supermarket	7		Icon Siam (2017)	Shopping Mall	1
Saha Pathanapibul					Foodland	Supermarket	19
	Lawson 108	Convenience Store	498				
	(include 108 Shop)						

Source: Compiled by Krungsri Research

▲ **Krungsri Research's view:** In the next 1-3 years, retail business is likely to grow further at 4-6% per year (Figure 18) following the economic growth and recovering household spending. Outlook of each store format are detailed below:

Department stores are expected to see sales growth at 3-5% per year from 2.8% in 2016. Expansion or opening or renovation of department store will accelerate due to 1) positive signals seen in the strength of the tourism sector, which is forecast to grow by 8-10% per year over the next three years; and 2) expansion is expected to help meet demand in second-tier cities and in border zones which are well linked to neighboring countries. Nevertheless, competition remains strong and puts pressure on local operators. Large-scale operators will face higher operating costs that will dampen profit of business.

Discount stores/ supercenters/ hypermarkets are expected to see rising income by 2-4% per year from 2% in 2016. Competition is stiff and often occurs on price. In addition, they also compete with other retail outlets and new foreign players who plan to penetrate in this market. However, this business is expected to brighten due to a monopoly that has few retailers and diverse customer base.

Supermarkets are anticipated to see continuous growth of 8-10% per year from 9% in 2016 as a consequence of the supermarket format and their strengths in selling fresh products, as well as the advantages which come from their size and the presence of branches in large communities. Therefore, supermarkets have the potential to replace traditional markets and to answer the needs of particular consumer groups well. But operating costs for some of these operations are fairly high because of their 24-hour services, which incur overheads such as overtime pay. In addition, the pressures of maintaining fresh produce also impose cost pressures. These will all work to restrain profits.

Convenience stores and minimarts: overall sales are expected to grow moderately by 3.5-4.5% per year from 3% in 2016.

They will expand by opening new branches covering wide areas in community, residential accommodation which are adjacent to mass transit routes, new opening of department stores and the ease customers experience in shopping at these outlets and the close proximity of branches. In addition, competition will intensify particularly when competing businesses open in close proximity to one another and other competitors such as supermarket is opened in the form of mini supermarket. This will narrow the geographical scope of the areas reached by marketing for each branch with the result that income per branch will fall below previous levels. Stand-alone stores will be particularly vulnerable.

Specialty store is expected to see new types of shops, especially in the beauty and health segment which are likely to grow thanks to the health conscious trend. **Total sales are anticipated to increase by 3-4% per year**, due partly to the increasing number of outlets. In 2016, specialty store's space is around 41,000 sq.m. from total new retail space of 130,000 sq.m.^{9/} in BMR.

Figure 20: Retail Business Growth by Type of Business (%)

	2013	2014	2015	2016e	2017-19F
Department Stores	5.5	3.4	3.0	2.8	3.0-5.0
Discount Stores	3.5	2.6	1.8	2.0	2.0-4.0
Supermarkets	8.0	6.5	8.5	9.0	8.0-10.0
Convenience Stores	10.0	4.0	2.8	3.0	3.5-4.5
Specialty Stores	8.5	2.7	2.7	2.7	3.0-4.0
Modern Retail Sales Growth	6.3	3.2	2.8	3.0	4.0-6.0

Source: Thai Retailers Association, forecast by Krungsri Research

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