

THAILAND CHANGING RETAIL FOOD SECTOR: CONSEQUENCES FOR CONSUMERS, PRODUCERS, AND TRADE

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INTRODUCTION

Change in urban consumer way of living is an important factor of rapid development in retail food sector in Thailand. Rapid development before the economic crisis in 1998 resulted in higher per capita income, especially in Bangkok and the large cities. Increasing number of working women resulted in less time on cooking, decreasing frequency in fresh food shopping (once or twice a week), and buying in larger quantity (for the whole week), thus there was a need for car parking and convenient buying. Consumers buy less from traditional retail food sector (fresh food markets and grocery stores) turning to modern retail food sector. Decreasing birth rate and better health and medical care lowered death rate and led to longer life expectancy, a change Thai population structure. Recently there has been increasing teenage population who prefer buying from convenience stores. Working age population also spent less time in cooking buying miscellaneous items on the way home or office from convenience stores.

There are four main types of modern food retailers in Thailand starting from department store with food section for relative high income group, supermarket for convenient food shopping, hypermarket¹ focusing on cheaper price, and convenience store for ready to eat meals and beverages.

DEVELOPMENT OF MODERN RETAIL FOOD SECTOR

Traditionally, Thai household shopped fresh food daily for their cooking, buying from nearby fresh markets² and grocery stores. It was not until 1964 that there was foreign (Japanese) investment in department store, Thai Daimaru. There was food section in Thai Daimaru which attracted high income customers. Since then development of retail food sector in Thailand could be divided into four periods as follows.³

Development of department store during 1964 – 1982. Following Thai Daimaru, Central, the top store in Bangkok, set up the Central Department Store in 1968. At the same time Thai Daimaru moved to a first shopping center⁴ in Bangkok. The successes of these two department stores were followed by other shopping centers. In 1974 Central Department Store opened another branch in Bangkok. Number of department stores increased, main customers were middle income group. In 1979, Thai employees from Thai Daimaru opened a new large department store, Robinson which later became one important department store in Bangkok. In 1981, Thai investors opened

¹ With larger area, as compare to supermarket, of 5,000 sq m or over. About 40% of the merchandises were food items. Other 60% were non-food.

² Usually called “wet market”.

³ Based on TDRI (2002).

⁴ Rajdamrhi Arcade

another department store, The Mall. Economic development and increasing per capita income during 1968 – 1982 were the key factors for the expansion in shopping centers and department stores in Bangkok.

Expansion to Bangkok suburb during 1983 – 1988. Due to increase in per capita income and larger population, real estates developed. Bangkok residential area expanded to the suburb. Young married couples moved to suburban areas. Due to a lack of massive transportation, car became one of the necessary. Usually both husband and wife of these families worked. Their time opportunity costs were considered high. They spent less time on shopping and cooking. They shopped once a week and preferred to buy from convenient places, not the fresh market. Grocery stores did not keep up with such expansion. The new preferences were to buy from a place which buyers could visit once and buy all items, in large quantity to last for the whole week. Personal car was the mean of transportation. Parking place was considered one of the convenient factors. Due to traffic problem, they did not want to go shopping in the city. Department stores expanded their branches in suburban areas to serve these needs. Central branches were opened in Lad Prow, northern Bangkok and Ram Kum Haeng, northeastern Bangkok. Later these branches were opened in Bang Na, eastern Bangkok and Pin-kloaw, southern Bangkok. The Mall also opened five suburban branches; two in northeastern Bangkok, two in southern Bangkok, and one in the western Bangkok. In central Bangkok, more department stores were opened (Excel and Sogo), nevertheless were less successful. These last two department stores were finally out of business.

Over investment in modern retail trade during 1989 – 1996. Two digit growth rate during 1987 – 1989 resulted in expansion of the modern retail trade sector. During the bubble economy real estate price increased. Financial liberalization allowed the inflow of foreign loans. There was an overinvestment in department stores, due to high consumer income plus the investors' speculation on real estates.

In 1987, convenience store was first developed by Big C and Central Minimart but soon were drove off the business by the expansion of 7-Eleven of CP group, am-pm, and FamilyMart which started in 1989 , 1990 and 1992 accordingly. These convenience stores were located near bus stops and gas stations, convenient for dropping in on the way to office or home, and focusing on beverages, refreshment and ready-to-eat food.

In 1988, Makro, the first hypermarket was opened in northwestern Bangkok being joint venture of CP and the Netherlands Group.

To avoid competition from convenience stores and hypermarkets, department stores opened high end shopping center, targeting on high income customers. Examples were Zen at World Trade Center by the Central Group and The Emporium at Sukumvit by The Mall Group. Isetan was opened in World Trade Center in 1992.

In 1992, department stores were opened in large cities other than Bangkok, starting from Central in Chiangmai (1992) in the North, Robinson in Sriracha (1996) in the East, and The Mall in Korat (2000) in the Northeastern.

In 1993 large shopping centers were opened around Bangkok suburbs. Examples were Future Park Rangsit in northern Bangkok, Seacon Square and Seri Center in northeastern Bangkok, and Future Park Bang Kae in southern Bangkok.

In 1994, two more hypermarkets were opened. They were Lotus by CP Group and Big C by Central Group. The emphasis was on lower price, main revenue were from the supermarket.⁵

In 1995, Central and Robinson colluded. CP and The Mall also collaborated. Total market share in retail trade of these groups were around 75%.

In 1996, Carrefour, another hypermarket, was opened by Central Group. Other large Thai retailers attempted to open hypermarket but were not successful and finally turned into department stores.

Taking over by foreign companies during 1997 – 2002. Before 1997, supermarket was usually a unit in department stores. In 1997 Central Group joined Royal Ahold in transforming supermarkets in Central and Robinson Department Stores into individual supermarkets, Tops, starting from 31 branches around Bangkok.⁶

Due to economic crisis, the rapid expansion in modern retail trade, funded by foreign loan, was in trouble. Baht devaluation resulted in debt payment inability. The businesses were sold to foreign investors. Central sold their share in Big C to French Casino Group, in Carrefour to French Carrefour, and in Tops Supermarket to the Netherlands Royal Ahold. CP sold major share in Lotus to British Tesco and in Makro to the Netherlands SHV.

In 2001, total retail trade value was 1,194.1 billion Baht of which 53.2% came from modern retail trade and the other 46.8% from traditional one. The pattern of retail trade switched from mainly traditional trade (74.0% in 1997) toward modern trade. While value of modern trade increased 1.5 folds from 1997 to 2001, traditional trade value decreased 21.2%. Total retail trade increased 24.6% in this period. The increase was from the modern retail trade. Traditional retail trade lost its share of 27.2% to the modern trade. (Table 1 and Figure 1)

⁵ 60% of revenues were from supermarket, 15% from soft line, 13% from home line, and 12% from hard line.

⁶ Before Tops Supermarket, there were several supermarkets around Bangkok, e.g. FoodLand, Jusco and Villa but each have limited number of branches.

Table 1 Value of Modern Trade in all Retail Trade (billion Baht)

| Item | 1997 | 1998 | 1999 | 2000 | 2001 | % Change |
|--------------------------|-------|-------|-------|---------|---------|---------------|
| Modern Retail Trade | 249.1 | 225.1 | 284.7 | 405.3 | 635.4 | 155.1 |
| Traditional Retail Trade | 708.9 | 435.7 | 580.6 | 661.3 | 558.7 | (21.2) |
| Total | 958.0 | 660.8 | 865.3 | 1,066.6 | 1,194.1 | 24.6 |
| SHARE | | | | | | Change |
| Modern Retail Trade | 26.0 | 34.1 | 32.9 | 38.0 | 53.2 | 27.2 |
| Traditional Retail Trade | 74.0 | 65.9 | 67.1 | 62.0 | 46.8 | (27.2) |

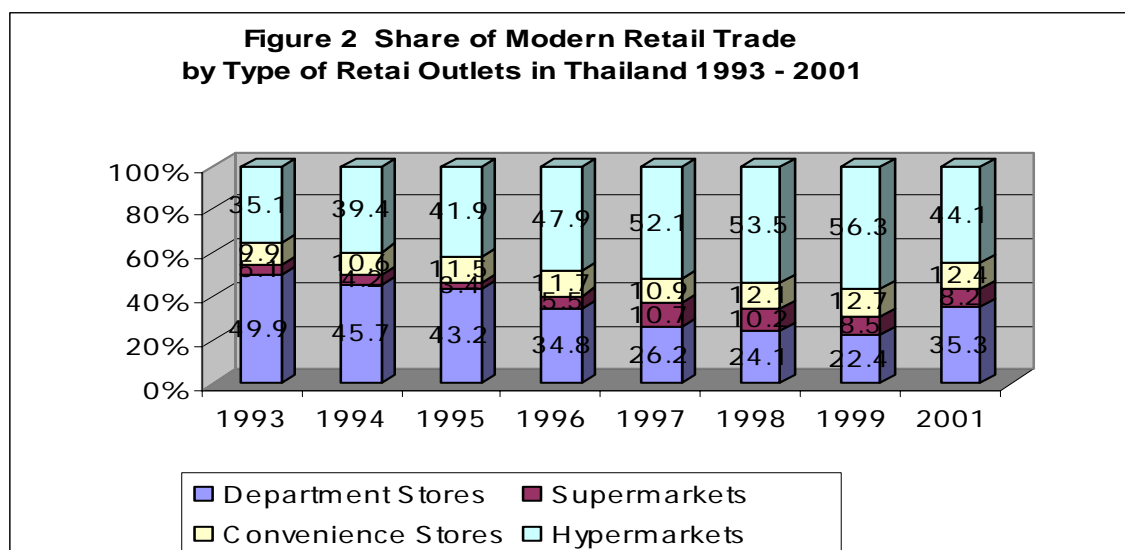
Source: Calculated from TDRI (2002)

Among the four types of modern retail food outlets, currently the largest share was hypermarkets (44.1%), an increase of 9.0% from 1993. Second largest share was department stores (35.3%), a 14.6% decrease from 1993, followed by convenience stores (12.4%, a 2.5% increase from 1993) and supermarkets (8.2%, a 3.1% increase from 1993). Share of department stores dropped during economic crisis and recovered in 2001, while share of hypermarkets increased during the same period and slowed down when department stores picked up in 2001. Supermarket share reached its peak in 1997, after the development of Tops Supermarket. Convenience stores had an increasing trend, reached the peak in 1999, mainly because of the expansion in 7-Eleven, and maintained about that level. (Table 2 and Figure 2)

Table 2 Share of Modern Retail Trade by Type Retail Outlets in Thailand 1993 - 2001 (%)

| Item | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2001 | Change |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Department Stores | 49.9 | 45.7 | 43.2 | 34.8 | 26.2 | 24.1 | 22.4 | 35.3 | -14.6 |
| Supermarkets | 5.1 | 4.2 | 3.4 | 5.5 | 10.7 | 10.2 | 8.5 | 8.2 | 3.1 |
| Convenience Stores | 9.9 | 10.6 | 11.5 | 11.7 | 10.9 | 12.1 | 12.7 | 12.4 | 2.5 |
| Hypermarkets | 35.1 | 39.4 | 41.9 | 47.9 | 52.1 | 53.5 | 56.3 | 44.1 | 9.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |

Source: Calculated from TDRI (2002)



Before economic crisis, major share in modern retail trade sector was Thai investors. In case of hypermarkets, information was available for four main hypermarkets; Tesco-Lotus, Big C, Carrefour and Makro. CP owned 100% of Lotus but after the economic crisis sold 92% to British Tesco. Big C sold 66% to French Casino. After the crisis Central no longer had the share in Carrefour, sold to SSCP Holding while French Carrefour shared 40%. SHV share in Makro increased from 44% before the crisis to 90% after the crisis, CP shared only 10%. For supermarkets; Tops was totally sold to Royal Ahold, Delhaize increased its share in Food Lion (from 45 to 49%) while the Thai investors merged and still hold 51%. It should be noticed that under the new management number of branches increased after the crisis. (Table 3)

Table 3 Shares and Number of Selected Retail Trade Outlet Branches in Thailand 1998 and 2001

| Name | Before economic crisis | | | | After economic crisis | | | | |
|-------------|--|----------------------|----------|------|-------------------------------------|----------------|----------|------|-------|
| | Share | % | Branches | Year | Share | % | Branches | | |
| | | | | | | | 2000 | 2001 | 2003 |
| Tesco-Lotus | CP | 100 | 13 | 1998 | CP Tesco | 8 92 | 24 | 33 | 49 1/ |
| Big C | Jirathiwat Robinson Land and House Others | 33 15 11 42 | 20 | 1999 | Jirathiwat Casino Others | 13 66 21 | 25 | 30 | 41 2/ |
| Carrefour | Central French Carrefour SSCP Holding | 40 40 20 | 7 | 1998 | French Carrefour SSCP Holding | 40 60 | 12 | 14 | 20 3/ |
| Makro | CP SHV Group Others | 32 44 24 | 15 | 1997 | CP SHV Group | 10 90 | 18 | 20 | 29 4/ |
| Tops | Central Royal Ahold | 51 49 | 40 | 1998 | Royal Ahold | 100 | 41 | 43 | 68 5/ |
| Food Lion | The Mall Sahapat Group Delhaize Group | 45 10 45 | 5 | 1998 | Delhaize Group Food Lion | 49 51 | 15 | 22 | na |

Source: TDRI(2002)

Note: 1/<http://www.tescolotus.net/> 2/ <http://www.bigc.co.th/> 3/<http://www.bigc.co.th/>

4/<http://www.makroasia.com/> 5/<http://www.tops.co.th/>

Number of branches by type of modern trade outlet was given in Table 4. For department stores, the oldest one was Central. Nevertheless the one with highest number of branches was Robinson. Nevertheless, these two department stores had colluded in 1995. Recently Sogo was out of business. For supermarkets, Tops had the highest number of branches. For convenience stores, 7-Eleven increased its branches rapidly through the franchise. It became the convenience store most easily found. For hypermarket, Tesco-Lotus had the highest number of branches; closely followed by Big C.

Shares and sale values of modern retail trade during 1997 – 2000 were given in Table 5. Department stores had a decreasing share. Central and The Mall were the two main

stores, followed by Robinson. Supermarket share fluctuated and tended to decrease recently. Main supermarket was Tops. Convenience stores share had been increasing, mainly due to the expansion of 7-Eleven which had the most shares. Hypermarkets had the largest share in retail trade (57.1% in 2000). Large hypermarkets were Makro, followed by Tesco-Lotus, Big C, and Carrefour. Makro share tended to decrease while those of Tesco-Lotus and Big C had been increasing.

Table 4 Number of Selected Modern Retail Trade Branches, 1995 – 2001

| Item | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---------------------------|------|------|------|-------|-------|-------|-------|
| DEPARTMENT STORES | | | | | | | |
| Central (1956) | 13 | 15 | 16 | 15 | 14 | 13 | 13 |
| The Mall (1981) | 7 | 7 | 7 | 8 | 8 | 8 | 8 |
| Robinson (1979) | 14 | 17 | 19 | 19 | 19 | 19 | 18 |
| Sogo (1986) | 1 | 1 | 1 | 2 | 2 | 2 | 2 |
| SUPERMARKETS | | | | | | | |
| Tops (1996) | 0 | 11 | 27 | 40 | 40 | 41 | 43 |
| Jusco (1985) | 6 | 8 | 8 | 10 | 10 | 10 | 10 |
| FoodLand (1972) | 7 | 7 | 7 | 7 | 7 | 8 | 8 |
| Food Lion (1997) | 0 | 0 | 1 | 5 | 13 | 15 | 22 |
| CONVENIENCE STORES | | | | | | | |
| 7 -Eleven (1989) | na | 715 | 880 | 1,100 | 1,200 | 1,501 | 1,701 |
| Family Mart (1993) | na | 15 | 40 | 73 | 93 | 100 | 160 |
| am-pm (1991) | na | 190 | 260 | 300 | 330 | 330 | 256 |
| HYPERMARKETS | | | | | | | |
| Makro (1988) | 10 | 14 | 15 | 16 | 17 | 18 | 20 |
| Tesco-Lotus (1994) | 2 | 5 | 12 | 14 | 17 | 24 | 33 |
| Big C (1991) | 6 | 11 | 19 | 20 | 20 | 23 | 30 |
| Carrefour (1995) | 1 | 2 | 6 | 7 | 8 | 11 | 14 |

Source: TDRI (2002)

Note: The numbers in the bracket in the first column are the starting years.

Table 5 Sales and Shares of Selected Modern Retail Trade, 1997 - 2000

| Item | 1997 | | 1998 | | 1999 | | 2000 | |
|---------------------------|-----------------------|--------------|-----------------------|--------------|-----------------------|--------------|-----------------------|--------------|
| | Sales (mill. Baht) | Share (%) | Sales (mill. Baht) | Share (%) | Sales (mill. Baht) | Share (%) | Sales (mill. Baht) | Share (%) |
| DEPARTMENT STORES | 34,759 | 26.4 | 28,803 | 21.3 | 31,153 | 19.3 | 34,634 | 18.4 |
| Central | 12,002 | 9.1 | 11,088 | 8.2 | 12,540 | 7.8 | 14,101 | 7.5 |
| The Mall | 11,339 | 8.6 | 10,281 | 7.6 | 11,264 | 7.0 | 12,831 | 6.8 |
| Robinson | 8,820 | 6.7 | 6,246 | 4.6 | 6,501 | 4.0 | 6,999 | 3.7 |
| Sogo | 849 | 0.6 | 724 | 0.5 | 520 | 0.3 | 448 | 0.2 |
| Imperial | 1,663 | 1.3 | 356 | 0.3 | 212 | 0.1 | 192 | 0.1 |
| Tang Hua Seng | 86 | 0.1 | 108 | 0.1 | 116 | 0.1 | 63 | 0.0 |
| SUPERMARKET | 17,263 | 13.1 | 17,639 | 13.0 | 27,124 | 16.8 | 19,190 | 10.2 |
| Tops | 10,789 | 8.2 | 11,190 | 8.3 | 11,033 | 6.8 | 10,960 | 5.8 |
| Jusco | 3,879 | 3.0 | 3,278 | 2.4 | 4,219 | 2.6 | 4,281 | 2.3 |
| Food Land | 2,514 | 1.9 | 2,747 | 2.0 | 2,751 | 1.7 | 2,680 | 1.4 |
| Food Lion | 81 | 0.1 | 424 | 0.3 | 9,121 | 5.6 | 1,269 | 0.7 |
| CONVENIENCE STORES | 11,828 | 9.0 | 13,653 | 10.1 | 17,246 | 10.7 | 26,964 | 14.3 |
| 7 -Eleven | 10,770 | 8.2 | 12,838 | 9.5 | 16,521 | 10.2 | 26,045 | 13.8 |
| Family Mart | 337 | 0.3 | 513 | 0.4 | 725 | 0.4 | 919 | 0.5 |
| Am-Pm | 721 | 0.5 | 302 | 0.2 | - | 0.0 | - | 0.0 |
| HYPERMARKETS | 67,597 | 51.4 | 75,295 | 55.6 | 86,248 | 53.3 | 107,746 | 57.1 |
| Makro | 32,094 | 24.4 | 30,776 | 22.7 | 34,493 | 21.3 | 37,808 | 20.1 |
| Tesco-Lotus | 12,934 | 9.8 | 17,172 | 12.7 | 20,924 | 12.9 | 33,441 | 17.7 |
| Big C | 17,665 | 13.4 | 20,612 | 15.2 | 22,464 | 13.9 | 25,591 | 13.6 |
| Carrefour | 4,904 | 3.7 | 6,735 | 5.0 | 8,367 | 5.2 | 10,906 | 5.8 |
| TOTAL | 131,447 | 100.0 | 135,390 | 100.0 | 161,771 | 100.0 | 188,534 | 100.0 |

Source: Calculated from TDRI (2002)

Table 6 showed gross profits of retailers, wholesalers and suppliers. Among retailers, department stores had the highest gross profits, 23.75% at high level and 16.21% at a low one, an average of 17.95%. Convenience stores had the next highest gross profits, an average of 16.59%, not much different from department stores, with a narrower range of 15.53 – 17.86%, due to limited range of commodities. Large supermarket had a gross profit of 14.23% on the average, also with limited range (13.09 – 14.78%). These three types of retailers had a higher gross margin than the traditional grocery stores (12%, with a wider range of 10.00 – 20.00%). Hypermarkets on the other hand had the lowest gross profit of 7.93%, with a limited range of less than two percent. Small supermarkets also had a low gross profit (9.54%), but with a wide range of 2.82 – 13.19%. Compare to wholesalers, the gross profit of wholesalers was only 3.50%. Suppliers in Thailand could be divided into two main groups, Thai and joint-venture; with gross profits of 21.00 and 41.36% accordingly.

Table 7 showed a comparison for fresh and preserved food prices in modern and traditional retail trades; on the average, where there were more than one hypermarkets and where there was only one hypermarket. Base of these indices was the lowest price in each category. It was cheaper to buy fresh food from traditional retail outlets, mainly fresh markets. On the contrary, preserved food price was lower in modern retail outlets.

| Item | High | Low | Average |
|-----------------------|-------------|------------|----------------|
| RETAILERS | | | |
| Department stores 1/ | 23.75 | 16.21 | 17.95 |
| Large supermarkets 2/ | 14.78 | 13.09 | 14.23 |
| Small supermarkets 3/ | 13.19 | 2.82 | 9.54 |
| Convenience stores 4/ | 17.86 | 15.53 | 16.59 |
| Hypermarkets 5/ | 8.92 | 7.38 | 7.93 |
| Groceries | 20.00 | 10.00 | 12.00 |
| WHOLESALERS | 5.00 | 2.00 | 3.50 |
| SUPPLIERS | | | |
| Thai | 25.10 | 18.40 | 21.00 |
| Joint venture | 44.31 | 36.98 | 42.36 |

Source : TDRI (2002)

Note: 1/Central, Robinson, The Mall

2/Tops, Jusco, Food Land, Food Lion

3/Tang Hua Seng

4/7-Eleven, Family Mart

5/Tesco-Lotus, BigC, Carrefour, Makro

Table 7 Retail Food Price Indices, 2002

| Item | Fresh | Preserved |
|--|--------------|------------------|
| AVERAGE | | |
| Modern Trade | 117.2 | 108.0 |
| Traditional Trade | 106.5 | 120.8 |
| WHERE THERE WERE MORE THAN ONE HYPERMARKETS | | |
| Modern Trade | 115.4 | 108.4 |
| Traditional Trade | 105.5 | 121.3 |
| WHERE THERE WAS ONLY ONE HYPERMARKET | | |
| Modern Trade | 120.7 | 107.4 |
| Traditional Trade | 108.8 | 119.7 |

Source: TDRI (2002)

For fresh food, prices were lower where there were more than one hypermarkets in nearby area, reflecting competition among modern trade as well as between modern and retail trade. For preserved food prices were lower in case of just only one market in the area. The competition was more between modern and retail trade.

CONSUMER ISSUES

Before 1980s a large proportion of Thai population was infants (0 - 4 years old). This led to the highest proportion of working age group (20 – 40 years old), with high purchasing power recently. Their preference on modern retail trade was one of important factors for development in modern retail food sector.

Working age consumers preferred to live in the suburban Bangkok, due to lower housing cost. Nevertheless family car became a requirement due to inadequate mass transportation. Increasing number of cars led to traffic problems and lack of parking

space. Department stores reacted by opening branches in suburban Bangkok, targeting this customer group.

Married women continued to work after their marriages. Family size was smaller, becoming single family. Working husbands and wives took care of their family shopping. Limited time resulted in buying once a week at a large quantity. Modern trade sector, department stores and supermarkets, responded in opening branches in suburban Bangkok and provided ample parking places.

The economic crisis and lower disposable income led to development in hypermarket as an alternative for lower prices.

Consumers spent about one-fifth of their food expenses either on dining out or buying ready to cook food for home meals, with an increasing tendency through the years. Limited time and convenient service made available by modern retail food sector accommodated these preferences. Preferences on buying from modern food sectors were varieties with better services at relatively lower prices. Location (closer to home) and parking space were considered important factors.

Increasing number of modern retailers and competition among them as well as with the traditional retailers resulted in increasing choices for consumers and lower prices, thus increasing consumer surplus, a gain to the consumers.

FOREIGN AND DOMESTIC INVESTMENT

Foreign direct investment (FDI) in all trade sectors was 39.6 billion baht in 2001, 23.6% of the total. Data was not available for specific retail food sector. Among the four hypermarkets (Makro, Carrefour, Tesco – Lotus, and Big C), FDI increased from 5.7 billion baht in 1995 to 11.6 in 1997, selling the business to foreign companies. After which the FDI was 1.7 billion baht in 1998 during the economic crisis and picked up to 6.5 billion baht in 1999 due to business expansion. FDI in these four hypermarkets decreased to around one billion baht in 2000.

In 2001 hypermarket branches increased. At an employment of 350 – 400 employees per branch, the employment increased 7,700 – 8,800 persons. For convenient stores; at an estimation of 250 branches increase in 2002 at 6 employees per branch, employment increased by 1,500 persons. Beside there were small shops in modern retail trade units, with an employment of around 4,000 persons. There was also export section in some hypermarkets with an employment of around 4,000 persons.

Nevertheless expansion in modern retail outlets drove a number of traditional retail outlets off the business. Not less than 15,000 employees lost their job.

It was difficult to identify whether the expansion in modern retail trade have the adverse impact on employment through closing traditional trade outlets. Nevertheless the employment in modern food trade acquired more skilled labor than the traditional one.

IMPACTS ON TRADITIONAL AND SMALL RETAIL OUTLETS

Data on existing small retail outlets were not available. Nevertheless it was estimated that there were not less than 200,000 small retail outlets in Thailand.⁷ During the expansion of hypermarkets and convenience stores more than one fourth of traditional retail outlets closed down. Nevertheless the reasons of closing down were various including the economic crisis and the loss to modern retail trade outlets.

According to the survey by AC Nielsen, number of grocery stores in 1999 was 295,000 then reduced to 291,370 in 2001 and further to 247,664 in 2002.

Thailand Development Research Institute (TDRI) conducted survey on traditional retail outlets in 2002 and reported that within one kilometer around a hypermarket, 36% of traditional retail outlets closed while there were 21% newly opened, thus the net decrease was 15%. On the average number of traditional retail outlets decreased 7.6% annually while the sale value of the existing one decreased by 8% per year, most of them were grocery stores. Consumers preferred buying processed food from hypermarkets and turned to buy beverages, snack and refreshment from convenience stores.

Competition from modern retail outlets made it necessary, for traditional ones, to improve their efficiency including management, customer satisfaction, and prices. It was difficult for grocery stores to compete with hypermarkets. Economy of scale was the problem. More likely competitor was the convenience stores. Hypermarkets had an advantage in house brand while technology was the problem for grocery stores.

IMPACTS ON DOMESTIC AGRICULTURE

Modern retail food sector still relied on wholesalers/suppliers from fresh market for fresh food. Due to demand in relatively large volume and numerous small scale farmers, role of suppliers had been increasing in obtaining adequate supplies at the right quality for modern large scale retail food outlets. Hypermarkets usually set up distributing centers (DCs) which also performed quality control and additional processing for their outlets.

Food quality was the key for modern retail food sector. They had to compete with fresh market for the freshness. Thai customers had a preference for freshness, buying from fresh market. Modern food retailers could compete in conveniences. Food safety and convenience were the keys for promotion.

To get good supply in large volume was one of the problems for modern retail food outlets. Due to small scale farm production, suppliers' role was still important in fresh food. There was a potential for modern retail food sector to develop contract farming, on the attempt to control quality and procurements. Nevertheless, modern food retailers' reluctance was the cost of adopting this system. Provided that they could

⁷ Estimations were varied, including 170,000 small retail outlets (Bangkok Post, 22 December 1999), 200,000 grocery stores (Tharnsetthagij, 28 April – 1 May, 2002), 200,000 traditional retail outlets (Business Thailand, Nov.2001), 260,000 retail outlets (Bangkok Post, 4 March 2002), 200,000 - 250,000 small retail outlets (Daug Bia, June,2002),

charge a higher price for better quality, there was a possibility in adopting contract farming for better procurement. Nevertheless consumers might not be willing to pay more. Fresh markets with freshness and lower price were still their alternatives.

IMPACTS ON TRADE

The expansion of hypermarkets not only had impact on traditional food retailers but also wholesalers. Large wholesalers usually bought from the producers, thus were not much impacted by hypermarkets. Large wholesalers focused on low price and customer relation. Customers of small and medium wholesalers could check for cheaper prices from hypermarket, thus bought less from small and medium wholesalers. Thus the adverse impact was more for small and medium wholesalers.

Retail food market was still a competitive market. Share of hypermarkets was around 39% while share of modern trade was around 40% of total retail trade value. Within modern trade there were competitions. Examples were the hypermarkets with four large retailers, convenience stores, and low price supermarkets. Department stores had to use different strategies, focusing on high end customers.

Dried/processed food suppliers could be divided into the large ones and the small ones. Brand name and loyalty still had a role for the large suppliers in this market while the small ones had a limited bargaining power.

There were numerous suppliers in fresh food market. A hypermarket could have a large number of suppliers for fresh food. For examples, one hypermarket had 10 fruit suppliers, not less than ten meat suppliers. The number of seafood suppliers was more numerous. Quality control was one of the keys. Some hypermarkets had to perform their own supplier selection in order to obtain the required quality produces.

In spite of their gaining the larger share in retail food markets, hypermarkets still could not charge high profit. There were competitions among hypermarkets as well as with the traditional retail food outlets. It seemed that hypermarkets were more efficient and drove a number of grocery stores, which could not improve their efficiency, out of the market. Nevertheless there was still competition with fresh markets. Thai consumers preferred freshness, an advantage of the fresh markets. Some fresh markets had been improved, mostly in term of cleanliness and convenience, in order to compete with the modern retail outlets. Competition in freshness was the constraint for hypermarkets.

While could not charge high margin from their sales, hypermarket bought cheaper from suppliers and request collaboration from their suppliers on market promotion, mainly the cheaper selling prices. Hypermarkets had the advantages in economy of scale thus lower cost, more varieties for their customers, and better information technology, House brand was developed, resulting in greater margin and cheaper selling price. Suppliers lost their margin selling to hypermarkets. Nevertheless their revenue could be compensated by larger sale volume.

CONCLUSION

Rapid growth in modern retail food outlets in Thai economy increased its share from around 5% in late 1980s to more than 40% recently, a significant impact on wholesalers as well as retailers. The economic crisis in late 1990s increased FDI in modern retail food sector.

Decrease in number of grocery stores could be explained by the economic crisis, loss to more efficient modern retail food outlets, and changes in customers' life style. Development of hypermarkets had an adverse impact on wholesaling. Hypermarkets and convenience stores preferred buying directly from producers and suppliers, skipped wholesalers to reduce their costs. Some grocery stores turned to buy from hypermarkets. Together with the decrease in number of grocery stores, wholesalers decreased. Suppliers were also impacted, through the lower profitability selling to hypermarkets due to the low price policies.

Consumers gained from development of modern retail food sector, buying cheaper from hypermarkets at a better services. Retail trade efficiency was improved. Impact on employment was not clear due to decrease in traditional retail outlets. Nevertheless skilled labors were employed in modern retail food sector. Another adverse impact could be traffic problems around the area where modern retail outlets were concentrated.

Recommendation on development of retail food sectors are as follows.

1. Government intervention in market structure. Due to different business size, modern retail trade outlets had the advantage on economy of scale, thus lower cost and lower selling prices. Access to investment fund was considered better for modern sector, especially FDI. There should be support on the traditional retailers in competing with the modern one. The intervention could be as follows.
 - a. Allowance on increasing number of competitors in modern retailing such that market can be competitive.
 - b. Regulation on unfair trade practice, protection on monopolizing by the large corporate.
 - c. Monitoring on collusion pricing, predatory pricing, price discrimination, loss leading, and private brand in order to limit the monopolizing by large firms.
 - d. Monitoring on mergers between large modern retailers to maintain an acceptable market share.
2. Development and support on small and medium retailers in order to enhance management capacity. Examples are as follows
 - a. Training on modern retail trade management.
 - b. Promotion on small and medium retailer organization to compete with the large ones.
 - c. Government support on software and access to information system.
 - d. Promotion for supply chain management among small and medium retailers.

- e. Development on law and regulation on franchise and private brand in protection on franchisees and small producers.
3. Regulation on large modern retailers including
 - a. Permission on new branch opening to accommodate reasonable expansion in term of customers, land use, and traffic.
 - b. Regulation on merchandise transportation.
 - c. Control on using loss leading price strategy to eliminate competitors.
4. Protection on consumer community such that the opening of large modern retail trade be acceptable in that community, considering the need and adverse impact on local community. Weak community organization may be problem, thus government intervention may be required.
5. Consumer protection for fair quality standard and food safety.

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THAILAND CHANGING RETAIL FOOD SECTOR: CONSEQUENCES FOR CONSUMERS, PRODUCERS, AND TRADE

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OUTLINE

- Introduction
- Development of modern retail food sector
- Consumer issues
- Foreign and domestic investment
- Impacts on traditional and small retail outlets
- Impacts on domestic agriculture
- Impacts on trade
- Recommendation

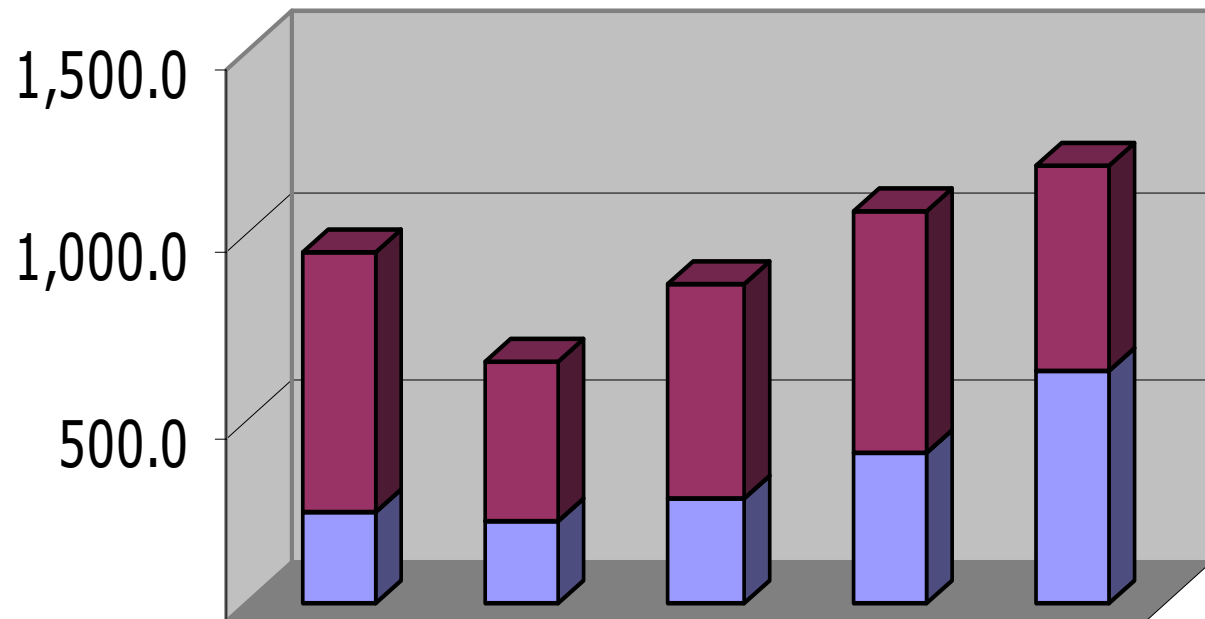
INTRODUCTION

- Development of modern retail food outlets
 - Urban lifestyle
 - Increase in per capita income
 - Change in population structure
- Four types of modern retail food outlets
 - Department stores
 - Supermarkets
 - Hypermarkets
 - Convenient stores

DEVELOPMENT OF MODERN RETAIL FOOD SECTOR

- Four periods
 - Department stores (1964 – 1982)
 - Expansion to suburban Bangkok (1983 -1988)
 - Over investment (1989 – 1996)
 - Taking over by foreigners (1997 – 2002)

Figure 1 Value of Modern and Traditional Retail Trade, Thailand 1997 - 2001 (bill.Baht)



| | 1997 | 1998 | 1999 | 2000 | 2001 |
|----------------------------|-------|-------|-------|-------|-------|
| ■ Traditional Retail Trade | 708.9 | 435.7 | 580.6 | 661.3 | 558.7 |
| ■ Modern Retail Trade | 249.1 | 225.1 | 284.7 | 405.3 | 635.4 |

Table 1 Value of Modern Trade in all Retail Trade (bill. Baht)

| Item | 1997 | 1998 | 1999 | 2000 | 2001 | % Change |
|--------------------------|-------------|-------------|-------------|-------------|-------------|---------------------|
| Modern Retail Trade | 249.1 | 225.1 | 284.7 | 405.3 | 635.4 | 155.1 |
| Traditional Retail Trade | 708.9 | 435.7 | 580.6 | 661.3 | 558.7 | (21.2) |
| Total | 958.0 | 660.8 | 865.3 | 1,066.6 | 1,194.1 | 24.6 |
| SHARE | | | | | | Change |
| Modern Retail Trade | 26.0 | 34.1 | 32.9 | 38.0 | 53.2 | 27.2 |
| Traditional Retail Trade | 74.0 | 65.9 | 67.1 | 62.0 | 46.8 | (27.2) |

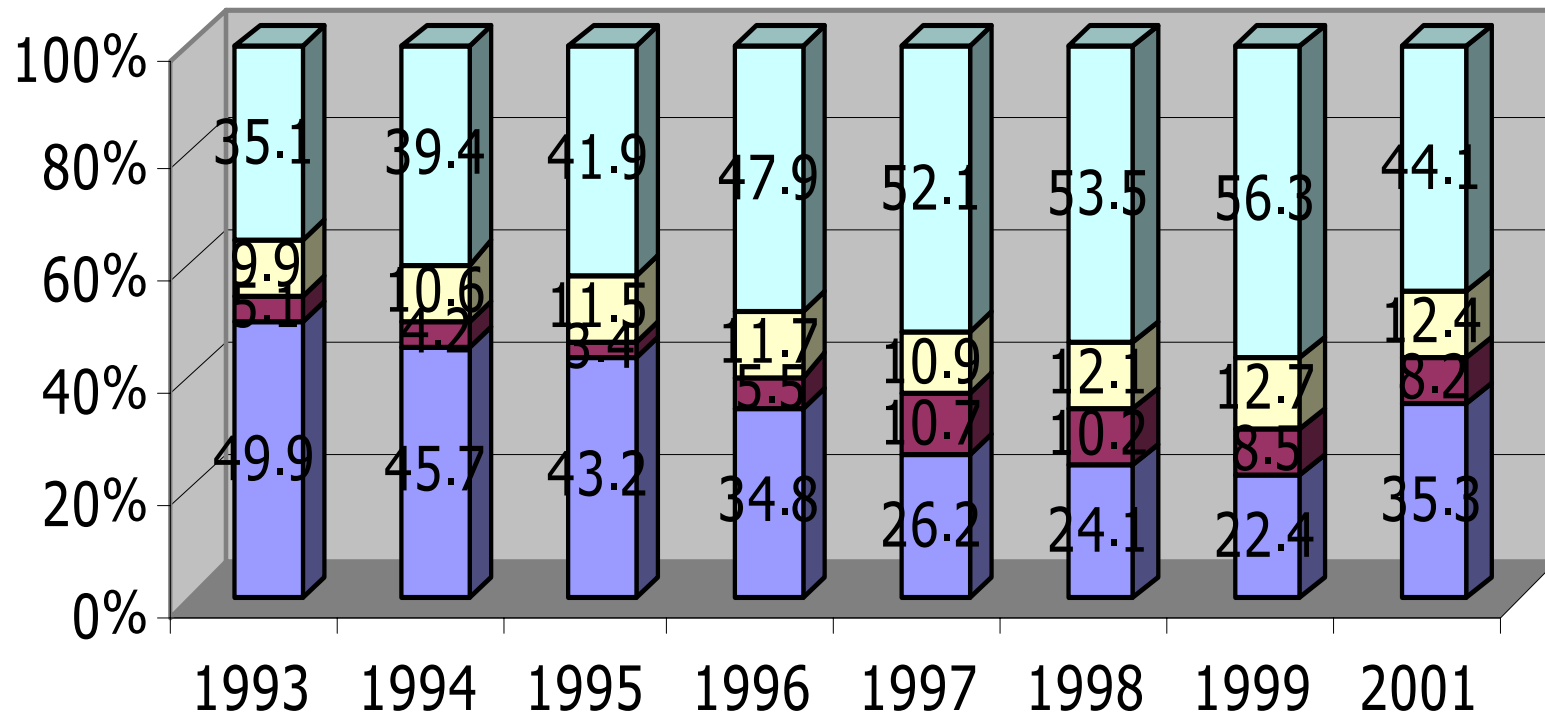
Source: Calculated from TDRI (2002)

Table 2 Share of Modern Retail Trade by type of Trade, Thailand 1993 - 2001 (%)

| Item | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2001 | Change |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| Department Stores | 49.9 | 45.7 | 43.2 | 34.8 | 26.2 | 24.1 | 22.4 | 35.3 | -14.6 |
| Supermarkets | 5.1 | 4.2 | 3.4 | 5.5 | 10.7 | 10.2 | 8.5 | 8.2 | 3.1 |
| Convenience Stores | 9.9 | 10.6 | 11.5 | 11.7 | 10.9 | 12.1 | 12.7 | 12.4 | 2.5 |
| Hypermarkets | 35.1 | 39.4 | 41.9 | 47.9 | 52.1 | 53.5 | 56.3 | 44.1 | 9.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |

Source: Calculated from TDRI (2002)

**Figure 2 Share of Modern Retail Trade
by type of Trade, Thailand 1993 - 2001**



Department Stores
 Supermarkets
 Convenience Stores
 Hypermarkets

| Name | 1997/8/9 | | | | 2001 - 2003 | | | | |
|-------------|------------------|-----|----------|------|------------------|-----|----------|------|-------|
| | Share | % | Branches | Year | Share | % | Branches | | |
| | | | | | | | 2000 | 2001 | 2003 |
| Tesco-Lotus | CP | 100 | | | CP | 8 | | | |
| | | | 13 | 1998 | Tesco | 92 | 24 | 33 | 49 1/ |
| Big C | Jirathiwat | 33 | | | Jirathiwat | 13 | | | |
| | Robinson | 15 | | | Casino | 66 | | | |
| | Land and House | 11 | | | | | | | |
| | Others | 42 | 20 | 1999 | Others | 21 | 25 | 30 | 41 2/ |
| Carrefour | Central | 40 | | | | | | | |
| | French Carrefour | 40 | | | French Carrefour | 40 | | | |
| | SSCP Holding | 20 | 7 | 1998 | SSCP Holding | 60 | 12 | 14 | 20 3/ |
| Makro | CP | 32 | | | CP | 10 | | | |
| | SHV Group | 44 | | | SHV Group | 90 | | | |
| | Others | 24 | 15 | 1997 | | | 18 | 20 | 29 4/ |
| Tops | Central | 51 | | | | | | | |
| | Royal Ahold | 49 | 40 | 1998 | Royal Ahold | 100 | 41 | 43 | 68 5/ |
| Food Lion | The Mall | 45 | | | | | | | |
| | Sahapat Group | 10 | | | | | | | |
| | Delhaize Group | 45 | | | Delhaize Group | 49 | | | |
| | | | 5 | 1998 | Food Lion | 51 | 15 | 22 | na |

| Table 4 Number of Selected Modern Retail Trade Branches, 1995 – 2001 | | | | | | | |
|--|------|------|------|-------|-------|-------|-------|
| Item | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| DEPARTMENT STORES | | | | | | | |
| Central (1956) | 13 | 15 | 16 | 15 | 14 | 13 | 13 |
| The Mall (1981) | 7 | 7 | 7 | 8 | 8 | 8 | 8 |
| Robinson (1979) | 14 | 17 | 19 | 19 | 19 | 19 | 18 |
| Sogo (1986) | 1 | 1 | 1 | 2 | 2 | 2 | 2 |
| SUPERMARKETS | | | | | | | |
| Tops (1996) | 0 | 11 | 27 | 40 | 40 | 41 | 43 |
| Jusco (1985) | 6 | 8 | 8 | 10 | 10 | 10 | 10 |
| Food Land (1972) | 7 | 7 | 7 | 7 | 7 | 8 | 8 |
| Food Lion (1997) | 0 | 0 | 1 | 5 | 13 | 15 | 22 |
| CONVENIENCE STORES | | | | | | | |
| 7 -Eleven (1989) | na | 715 | 880 | 1,100 | 1,200 | 1,501 | 1,701 |
| Family Mart (1993) | na | 15 | 40 | 73 | 93 | 100 | 160 |
| am-pm (1991) | na | 190 | 260 | 300 | 330 | 330 | 256 |
| HYPERMARKETS | | | | | | | |
| Makro (1988) | 10 | 14 | 15 | 16 | 17 | 18 | 20 |
| Tesco-Lotus (1994) | 2 | 5 | 12 | 14 | 17 | 24 | 33 |
| Big C (1991) | 6 | 11 | 19 | 20 | 20 | 23 | 30 |
| Carrefour (1995) | 1 | 2 | 6 | 7 | 8 | 11 | 14 |

Table 5 Sales and Shares of Selected Modern Retail Trade, 1997 - 2000

| Item | 1997 | | 1998 | | 1999 | | 2000 | |
|---------------------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Sales | Share | Sales | Share | Sales | Share | Sales | Share |
| | (mill.Baht) | (%) | (mill.Baht) | (%) | (mill.Baht) | (%) | (mill.Baht) | (%) |
| DEPARTMENT STORES | 34,759 | 26.4 | 28,803 | 21.3 | 31,153 | 19.3 | 34,634 | 18.4 |
| Central | 12,002 | 9.1 | 11,088 | 8.2 | 12,540 | 7.8 | 14,101 | 7.5 |
| The Mall | 11,339 | 8.6 | 10,281 | 7.6 | 11,264 | 7.0 | 12,831 | 6.8 |
| Robinson | 8,820 | 6.7 | 6,246 | 4.6 | 6,501 | 4.0 | 6,999 | 3.7 |
| Sogo | 849 | 0.6 | 724 | 0.5 | 520 | 0.3 | 448 | 0.2 |
| Imperial | 1,663 | 1.3 | 356 | 0.3 | 212 | 0.1 | 192 | 0.1 |
| Tang Hua Seng | 86 | 0.1 | 108 | 0.1 | 116 | 0.1 | 63 | 0.0 |
| SUPERMARKET | 17,263 | 13.1 | 17,639 | 13.0 | 27,124 | 16.8 | 19,190 | 10.2 |
| Tops | 10,789 | 8.2 | 11,190 | 8.3 | 11,033 | 6.8 | 10,960 | 5.8 |
| Jusco | 3,879 | 3.0 | 3,278 | 2.4 | 4,219 | 2.6 | 4,281 | 2.3 |
| Food Land | 2,514 | 1.9 | 2,747 | 2.0 | 2,751 | 1.7 | 2,680 | 1.4 |
| Food Lion | 81 | 0.1 | 424 | 0.3 | 9,121 | 5.6 | 1,269 | 0.7 |
| CONVENIENCE STORES | 11,828 | 9.0 | 13,653 | 10.1 | 17,246 | 10.7 | 26,964 | 14.3 |
| 7 -Eleven | 10,770 | 8.2 | 12,838 | 9.5 | 16,521 | 10.2 | 26,045 | 13.8 |
| Family Mart | 337 | 0.3 | 513 | 0.4 | 725 | 0.4 | 919 | 0.5 |
| Am-Pm | 721 | 0.5 | 302 | 0.2 | - | 0.0 | - | 0.0 |
| HYPERMARKETS | 67,597 | 51.4 | 75,295 | 55.6 | 86,248 | 53.3 | 107,746 | 57.1 |
| Makro | 32,094 | 24.4 | 30,776 | 22.7 | 34,493 | 21.3 | 37,808 | 20.1 |
| Tesco-Lotus | 12,934 | 9.8 | 17,172 | 12.7 | 20,924 | 12.9 | 33,441 | 17.7 |
| Big C | 17,665 | 13.4 | 20,612 | 15.2 | 22,464 | 13.9 | 25,591 | 13.6 |
| Carrefour | 4,904 | 3.7 | 6,735 | 5.0 | 8,367 | 5.2 | 10,906 | 5.8 |
| TOTAL | 131,447 | 100.0 | 135,390 | 100.0 | 161,771 | 100.0 | 188,534 | 100.0 |

Table 6 Gross Profit of Retailers, Wholesalers and Suppliers (%)

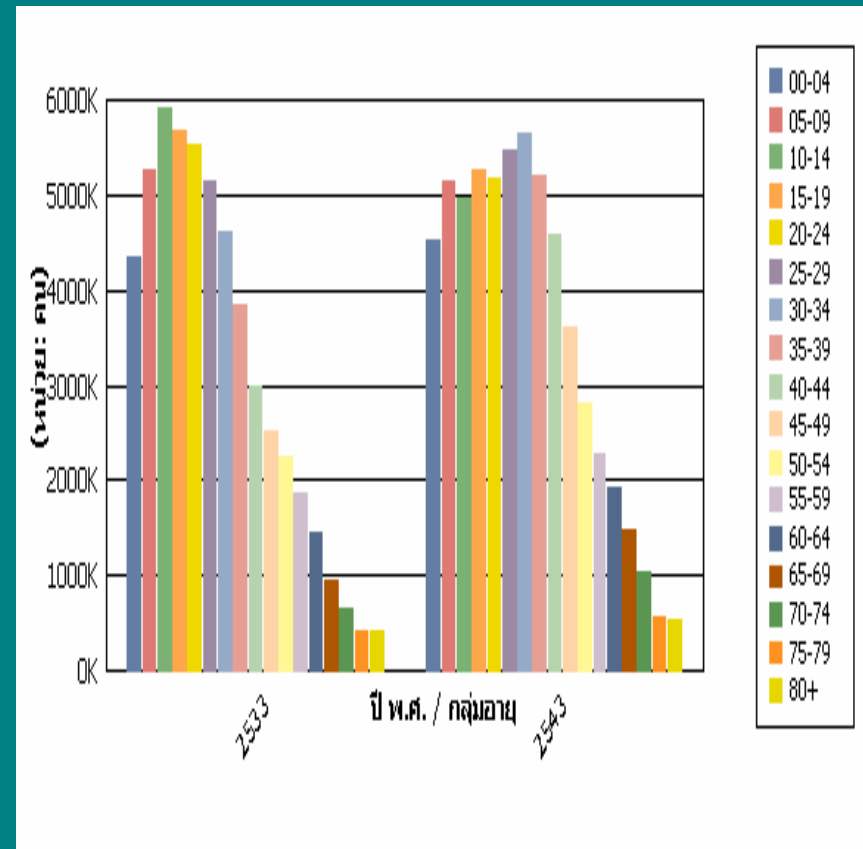
| Item | High | Low | Average |
|----------------------|-------------|------------|----------------|
| RETAILERS | | | |
| Department store 1/ | 23.75 | 16.21 | 17.95 |
| Large supermarket 2/ | 14.78 | 13.09 | 14.23 |
| Small supermarket 3/ | 13.19 | 2.82 | 9.54 |
| Convenience store 4/ | 17.86 | 15.53 | 16.59 |
| Hypermarket 5/ | 8.92 | 7.38 | 7.93 |
| Grocery | 20.00 | 10.00 | 12.00 |
| WHOLESALEERS | 5.00 | 2.00 | 3.50 |
| SUPPLIERS | | | |
| Thai | 25.10 | 18.40 | 21.00 |
| Joint venture | 44.31 | 36.98 | 42.36 |

Table 7 Retail Food Price Indices, 2002

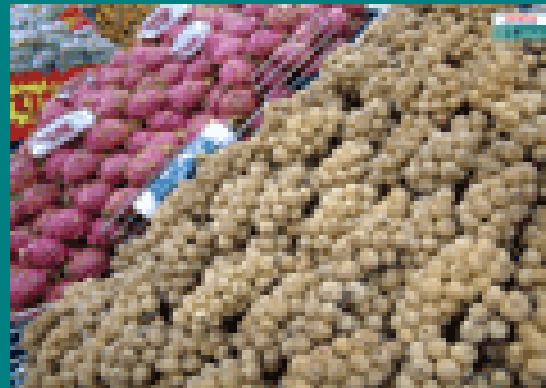
| Item | Fresh | Preserved |
|---|--------------|------------------|
| AVERAGE | | |
| Modern Trade | 117.2 | 108.0 |
| Traditional Trade | 106.5 | 120.8 |
| WHERE THERE WERE MORE THAN ONE HYPERMARKET | | |
| Modern Trade | 115.4 | 108.4 |
| Traditional Trade | 105.5 | 121.3 |
| WHERE THERE WAS ONLY ONE HYPERMARKET | | |
| Modern Trade | 120.7 | 107.4 |
| Traditional Trade | 108.8 | 119.7 |

CONSUMER ISSUES

- Large proportion of working and teenage population in 2000s
- Life style
- Single family
- Convenience
- Relatively lower price
- Car parking
- Hypermarket preference
- Ready to cook food for home meals



Source: National Social and Economic Development Board



FOREIGN AND DOMESTIC INVESTMENT

- Four main hypermarkets
 - 5.7 bill.฿ in 1995
 - 11.6 bill.฿ in 1997
 - 1.7 bill.฿ in 1998
 - 6.5 bill.฿ in 1999
 - Recently around 1 bill.฿
- Employment
 - 15,000 decrease in traditional retail trade
 - 14,700 increase in modern retail trade

IMPACTS ON TRADITIONAL AND SMALL RETAIL OUTLETS

- At least 50,000 traditional retail outlets, 25% of total were closed.
- Consumer preference in buying processed food from hypermarket and refreshment and quick meals from convenience stores.
- Improvement in efficiency and services.
- Brand name
- Technology
- Economy of scale

IMPACTS ON DOMESTIC AGRICULTURE

- Fresh food suppliers
- Supply chain management
- Distribution centres --- quality control
- Contract farming

IMPACTS ON TRADE

- Adverse impact on small wholesalers
- Less profit for large wholesalers
- Large share of hypermarkets, but still competitive especially for fresh food
- Less traditional grocery stores
- Improvement in fresh markets

RECOMMENDATION

- Government intervention
 - Regulation on unfair trade practices
 - Monitoring on collusion pricing, predatory pricing, price discrimination, loss leading, and unfair house brand
 - Monitoring on mergers between large modern retailers
 - Allow increasing number of competitors

RECOMMENDATION (cont.)

- Support on small and medium retailers
 - Training on modern retail trade management
 - Promotion on small and medium retailers organization
 - Support on software and access to information system
 - Promotion on supply chain management among small and medium retailers
 - Law and regulation on franchise and private brand

RECOMMENDATION (cont.)

- Regulation on large modern retailers
 - Taken land use and traffic problem into account for rational branch opening
 - Regulation on merchandise transportation
 - Control on loss leading price strategy
- Regulation on adverse impact on local communities
- Consumer protection on quality and food safety