

# Growth of supermarkets and marketing chains in thailand marketing essay



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Retailing has significantly played an important role in Thailand economy since 1981. Retail business both traditional and modern retailing are linkages between producers and consumers. Most of products can be distributed from producers to consumer through many types of retail outlet.

In the last 30 years, agricultural sector had played major role in economic development as major export products and domestic products. Agriculture sector contributed about 20% of Thai Gross Domestic Product (GDP) in 1981, the second largest sector followed by wholesale and retail trade with 18% of GDP. At present, while agriculture had been decreasing its role in GDP due to economic structural changing, wholesale and retail trade has been taking over agriculture sector. In 2008, non agricultural sector accounted 91% of GDP, while agriculture sector accounted only 9% from total value 9, 105 billion baht (market value). In this sector, manufacturing and wholesale and retail trade were major sectors with 40% and 14% respectively.

As increasing its role in Thai economic, wholesale and retail trade sector has stepped up their value from 800 billion baht in 1999 to achieve 1, 100 billion baht in 2009 with approximately 400, 000 stores both wholesale and retail (Department of Internal Trade, Ministry of Commerce, 2008). In Asia, Thailand is one of the fastest growing food retailing. (Shannon, 2009). Figure 4. 1 and table 4. 1. show historical data of GDP contribution.

## **Figure 4. 1: Contribution of major sector in Gross Domestic Products**

### **Table 4. 1: Contribution of major sectors in Gross Domestic Product**

**Year**

**GDP 1 ( billion baht)**

**Contribution to GDP**

**Growth Rate**

Agriculture

Manufacturing

Wholesale and retail trade

Transport & communication

others

Total GDP

Agriculture

Manufacturing

Wholesale and retail trade

Transport & communication

others

Agriculture

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Manufacturing

Wholesale and retail trade

Transport & communication

others

1981

194. 0

224. 3

177. 9

60. 2

311. 3

967. 7

20. 0%

23. 2%

18. 4%

6. 2%

32. 2%

—

—

—

—

—

1985

227.3

268.1

197.4

85.9

412.4

1,191.3

19.1%

22.5%

16.6%

7.2%

34.6%

4.5%

-1.4%

4.4%

6.7%

32.5%

1991

282.7

604.3

362.6

157.6

704.5

2,111.9

13.4%

28.6%

17.2%

7.5%

33.4%

7.3%

11.7%

7.3%

7.4%

70.8%

1992

296.3

672.6

378.7

172.8

762.2

2,282.6

13.0%

29.5%

16.6%

7.6%

33.4%

4.8%

11.3%

4.4%

9.6%

8.2%

1993

289.1

747.9

408.5

191.4

834.0

2,470.9

11.7%

30.3%

16.5%

7.7%

33.8%

-2.4%



11.2%

7.9%

10.8%

9.4%

1994

303.4

819.1

446.7

213.3

910.5

2,693.0

11.3%

30.4%

16.6%

7.9%

33.8%

4.9%

9.5%

9.4%

11.4%

9.2%

1995

276.6

958.4

516.6

239.2

951.0

2,941.7

9.4%

32.6%

17.6%

8.1%

32.3%

-8.8%

17.0%

15.6%

12.2%

4.4%

1996

288.8

1,021.4

526.6

267.3

1,011.2

3,115.3

9.3%

32.8%

16.9%

8.6%

32.5%

4.4%

6.6%

1.9%

11.7%

6.3%

1997

286.8

1,036.2

510.6

279.9

959.1

3,072.6

9.3%

33.7%

16.6%

9.1%

31.2%

-0.7%

1. 4%

-3. 0%

4. 7%

-5. 2%

1998

282. 6

923. 6

443. 1

254. 5

845. 9

2, 749. 7

10. 3%

33. 6%

16. 1%

9. 3%

30. 8%

-1. 5%

-10.9%

-13.2%

-9.1%

-11.8%

1999

289.2

1,033.4

458.3

270.1

821.0

2,872.0

10.1%

36.0%

16.0%

9.4%

28.6%

2.3%

11.9%

3.4%

6.2%

-3.0%

2000

309.9

1,096.2

474.8

290.4

837.1

3,008.4

10.3%

36.4%

15.8%

9.7%

27.8%

7.2%

6.1%

3.6%

7.5%

2.0%

2001

320.0

1,111.5

469.6

310.1

862.5

3,073.6

10.4%

36.2%

15.3%

10.1%

28.1%

3.2%



1. 4%

-1. 1%

6. 8%

3. 0%

2002

322. 2

1, 190. 8

479. 7

331. 2

913. 2

3, 237. 0

10. 0%

36. 8%

14. 8%

10. 2%

28. 2%

0. 7%

7.1%

2.2%

6.8%

5.9%

2003

363.0

1,318.3

493.7

340.6

952.5

3,468.2

10.5%

38.0%

14.2%

9.8%

27.5%

12.7%

10.7%

2.9%

2.9%

4.3%

2004

354.4

1,426.3

517.3

366.3

1,023.8

3,688.2

9.6%

38.7%

14.0%

9.9%

27.8%

-2.4%

8.2%

4.8%

7.5%

7.5%

2005

347.9

1,499.9

541.9

383.9

1,084.4

3,858.0

9.0%

38.9%

14.0%

10.0%

28.1%

-1.8%

5. 2%

4. 8%

4. 8%

5. 9%

2006

364. 0

1, 589. 2

565. 9

407. 9

1, 132. 7

4, 059. 6

9. 0%

39. 1%

13. 9%

10. 0%

27. 9%

4. 6%

6.0%

4.4%

6.2%

4.5%

2007

370.5

1,687.4

592.1

431.9

1,177.7

4,259.6

8.7%

39.6%

13.9%

10.1%

27.6%

1.8%

6.2%

4.6%

5.9%

4.0%

2008

389.1

1,753.5

603.2

430.2

1,194.0

4,370.1

8.9%

40.1%

13.8%

9.8%

27.3%

5.0%

3. 9%

1. 9%

-0. 4%

1. 4%

Note: 1 GDP at constant price (year 1988)

Source: Office of the National and Economic Development Board, Thailand

## 4. 2 Type of Retail outlet

Retail outlet can be classified in various aspects. Food and Non Food outlets are classified base on kind of product sold. Outlet format and managerial style are also used to classify as Traditional and Modern outlet. Type of retail outlets can be classified as figure 4. 2

### **Retail Sector**

Traditional Trade

Modern Trade

Fresh Market

Mom and Pop Shop

Hypermarket

(Tesco Lotus, Big C)

Supermarket

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(Tops, Villa)

Cash and Carry

(Makro)

Category Killer

(Power Buy, HomePro)

Department store

(Central, The Mall)

Convenience store

(7-Eleven, 108shop)

Specialty store

(Boots, Watson)

Booth, Kiosk, Stall

Periodic Market

Remark: name in blanket is example of store.

Source: Adapt from Kitiveshpokawat, P. (2008) , Wongsakul, T. ( 2004) and Chirathiwat , S. (1998)

## **Figure 4. 2: Structure of Thailand Retailing**

Retail sector of Thailand can be classified into 2 major categories; Traditional trade and Modern Trade.

4. 2. 1. Traditional trade comprises of several features and has been long with Thai society. As showed in figure 4. 2, it can be classified in to 4 major formats.

4. 2. 1. 1 Mom and Pop shop are traditional features of Thai grocery store. They operated at lower operational costs, no professional managers are hired. Most lack access to credit from financial institutions. (Wiboonpongs et al, 2004)

4. 2. 1. 2 Fresh Market is generally an open food market. Some of the common names include “ Cultural Markets” and “ traditional markets”. Fresh markets mainly sell fresh vegetable, fruit, flower meat and other grocery products.

4. 2. 1. 3 Periodic Market or flea market has many retail vendors offering a range of products at discount prices in plain surroundings. It is rooted in the centuries-old tradition of street selling-shoppers touch and haggle over the prices of items.

### **4. 2. 1. 4 Kiosk/ Stall**

4. 2. 2. Modern Trade comprises of 7 categories. Characteristic of each modern retail format are varied among countries. Characteristic of Thailand modern retail outlet can be describe as table 4. 2.

4. 2. 2. 1 Department store is a large retail unit with an extensive assortment (width and depth) of goods and service that is organized into separate departments for purposes of buying, promotion, customer service, and control. It has the greatest selection of any general merchandise retailer often serves as the anchor store in a shopping center or district, has strong credit card penetration, and is usually part of a chain.

4. 2. 2. 2 Hypermarket or Superstore is a retail self-service establishment offering a broad range of food and non-food products, with car parking facilities and with a range of floor space depending on country such as Belgium, Denmark, Spain, France, Greece, Italy, Luxembourg, Netherlands, Portugal 2, 500 square meters or more; Germany 1, 500 square meters to 5, 000 square meters and Ireland, United Kingdom 2, 323 square meters or more. These superstores have a much reduced non-food section compared with continental hypermarkets. (Euro stat, 1993, " Retailing in the European Single Market", Office for Official Publications of the European Communities, Luxembourg.)

4. 2. 2. 3 Cash and Carry or Wholesale club is a bare-bones type of retailer. Merchandise is generally displayed on open pallets, with boxes cut open for display. Customers must buy memberships in order to shop in a Wholesale club. Makro is only one wholesale club or cash and carry store in Thailand. (Sternquist, 2007.)

4. 2. 2. 4 Supermarket is a departmentalized food store with a wide range of food and related products; sales of general merchandise are rather limited. (Berman, 2001). At the beginning of 1990 century, the supermarket became

the dominant type of retail food outlet. Stressing low prices and self-service. (Morgenstein et al, 1992).

4. 2. 2. 5 Convenience store is usually a food-oriented retailer that is well located, is open long hours and carries a moderate number of items. This type of retailer is small, has average to above-average prices, and average atmosphere and customer service. (Berman et al, 2001) 7-Eleven is the largest food-based convenience store chains in Thailand.

4. 2. 2. 6 Category Killer is an especially large store. There is an enormous selection in its product category, and it features relatively low prices. There is an enlarged trading area with customers drawn from greater geographic location. Crown books and Home Depot are

## **Table 4. 2: Comparison of retail type characteristic**

### **Type of retail**

#### **Department store**

#### **Hypermarket**

#### **Cash and Carry**

#### **Supermarket**

#### **Specialty store**

#### **Category Killer**

#### **Convenience Store**

### **Product type**

Non food product and luxury goods

Food and Non Food

Food and non food

Focus on Fresh food and grocery products

Health, Beauty and accessories (HBA) and drugs

Depend on category of store i. e. sportswear, home product , electric appliance

Ready to Eat, Drink, Food, Grocery and Books

## **Store Chain**

Central, The Mall, Zen, The Emporium, Robinson

Tesco Lotus, Big C, Carrefour, Tesco Lotus Value, Mini Big C

Makro

Tops, Home Fresh Mart, Villa, Food Land

Boots, Watson

Power Buy, Super Sport, Home Pro, Home Work

BoonTavorn

7-11, 108 shop, Family Mart, Tesco Lotus Express, CP Fresh Mart

## **Price**

Average to above-average

Competitive

Low

Competitive

Competitive to above-average

Competitive

Average to above-average

## **Target Customers**

High-Medium

High-Low

High-Low

High-medium

Medium

High-Medium

Medium-Low

## **Target**

### **Location**

Central Business District (CBD)

Community area (Urban and Rural)

Community area (Urban and Rural)

CBD and Community

Department store, Shopping complex

Shopping complex, stand alone

Community

### **Salable area (Esq.)**

Variety

3, 500-15, 000

4, 000-12, 000

800-1, 500

variety

1, 000-6, 000

30-300

### **No. of store (2008)**

39

205

41

293

n. a

n. a

6, 272 Source: Adapt from Thailand Research Development Institute (2002)

examples of category killer stores. For Thailand, Homework, Home Pro and Boontavorn are examples of category killer stores for home improvement products. Some countries call this type of store as “ Big Box Store”.

(Retailing triumphs and blunders, Ronald D. Michman, Alan James Greco)

4. 2. 2. 7 Specialty store concentrates on selling one goods or service line, such as apparel and accessories, toys, furniture, or muffler repair. In contrast to a mass marketing approach, specialty stores usually carry a narrow, but deep, assortment in their chosen category and tailor the strategy to selective market segments. (Berman et al, 2001). Boots and Watson are example in this categories for specialize in personal care product line.

### **4. 3. Evolution and development of Thailand retailing sectors**

The traditional Thai retail stores take the form of a shop-house and are a family business. (Feeny et al, 1996). While the first major step in the modernization of Thai retailing emerged over 40 years ago. According to TDRI (2002), the evolution of retailing sector of Thailand was divided into four distinct stages. At present, the evolution could be updated to five stages as following.



## **Stage 1: Incubation of Department store (1956-1982)**

After, Central department store opened its first store, Wang Burapa branch in 1956. Then the first entry of a foreign department store, Japanese retail group Daimaru opened " Thai Daimaru" on Rajdamri road in 1964. In this period, 2nd branch of Central department store was established on Silom road in 1968. The third department store, Robinson, opened its first branch at Victory Monument in 1979. Followed by The Mall department store opened on Rajdamri road in 1981. Moreover, there was many small and medium size of Thai department store opened in this period such as Pata, Cathey, Merry King, Banglampoo. These department stores targeted to capture middle to lower income customers.

Key factors of development of department stores were successful in economic development since 1957 and rapidly increased of urban per capita income. In addition, new facilities and services provided in the stores such as escalator and fixed price offering also attract huge customers.

Currently, all of mentioned department stores were terminated and closed.

## **Stage 2: Expansion of department stores to vicinities (1983-1989)**

Starting around mid of 1970s, Bangkok population had immigrated to vicinities area. Lack of public transportation service linkage, at that time, drove people to own their cars. In a consequence, department store expanded to vicinities area to serve these people. The first department store in shopping mall, Central Lard Prao, was established in northern Bangkok area in 1983. This mall created trend of shopping center which combined a

department store, restaurants, and shops in one shopping center. In addition, The Mall also expanded its second branch to Ramkamhaeng road, eastern Bangkok area same year. After that, The Mall had continuously expanded their vicinities branches such as Ramkamhaeng 2nd branch ( 1986) and Ta Phra branch in southwestern Bangkok (1989). Nowadays, these department store have operate to serve customers in Bangkok suburb area.

### **Stage 3: Rising of new retail category and over investment (1989-1996)**

Two digit growth rate during 1987-1989 and financial liberalization had resulted in enormous expansion of Thai retail business. In this period, the first convenience store, Central Minimart, had been originated by Central group. Followed by 7-Eleven, Japanese convenience store franchise held by Charoen Pokpand (CP) group in 1989, AM-PM in the next year and Family Mart in 1991. These convenience stores were located in community and crowded area such as bus stop. Aggressive expansion of 7-Eleven and AM-PM resulted in terminate of Central minimart. Cash and Carry was another new retail format initiated in 1988. Makro was the first cash and carry, joint venture of CP group and SHV Holdings N. V. of the Netherlands. Department store expanded their business to capture high-end customers for avoid high competition with other new format. Consequently, Zen at World Trade Center by the Central group and The Emporium on Sukumvit road by the Mall group were opened in 1992.

Furthermore, the first store of hypermarket, specialty store and shopping mall had been launched in this period. The CP group and Central group launched their first hypermarket, “ Lotus” and “ Big C” respectively.

#### **Stage 4: Taking over by multinational hypermarkets (1997-2003)**

Financial crisis in 1997 had enormous impact on Thai retail business. Bubble of economic and devaluation of Baht resulted in ability of debt payment. This year was starting point of multinational retail chain creeping into Thailand.

The CP group was the first Thai retail business that sold its “ Lotus” hypermarket to Tesco, leading hypermarket of United Kingdom. Big C by the Central group was sold to Casino group from France. Changing during this period has drastically impact on Thai retail structure and stakeholders. The pattern of retail trade switched from traditional trade to modern trade.

Moreover, “ private label or house brands” was introduced by hypermarket. House brands tend to offer low prices products for customers due to its low marketing cost.

#### **Stage 5: Transformation of store format (2004- present)**

As rapid growth of modern retail store particular on hypermarkets, many government policies and actions had been applied to protect local and traditional retailer, wholesaler and supplier. Town planning regulations were used to control expansion of multinational hypermarkets such as only 300 sq. m. salable area store can be opened within municipality area. These resulted in store format transformation of hypermarket to convenience store. Therefore, Tesco Lotus and Big C transformed its hypermarket store, over 8,000 sq. m., to under 300 sq. m. convenience store named Tesco Lotus

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Express and Mini Big C. Moreover, big hypermarkets transformed their formats to suit with target customer and try to close their customers. Shanon (2008) noted that with the objective of opening as close to shoppers as possible, CP group opened CP Fresh Mart which offer fresh meats, in addition to fresh and frozen food.

Rapid growth of food retail chain showed in figure 4. 3 and table 4. 3. In November 2008, there were 205 hypermarkets, 293 supermarkets and 6, 272 convenience stores. Tesco Lotus is the largest chain in Thailand with total 538 stores. Hypermarket in Thailand was sharply growth in last 10 years with 400% growth. Among supermarket type, Tops supermarket is the largest supermarket with total 159 stores capturing every class of customers.

### **Figure 4. 3a: Number of modern retail store by type of store, year 1997-2008**

Source: Applied from AC Nielsen, November 2008

### **Figure 4. 3b: Number of convenience stores, year 2002-2008**

Source: Applied from AC Nielsen, November 2008

**Table 4. 3: Number of Food Retailing Store in Thailand, as of November 2008****Retail Category****Year****1997****1998****1999****2000****2001****2002****2003****2004****2005****2006****2007****2008****Hypermarket****7****41****46****58****77**

**91**

**107**

**120**

**135**

**145**

**173**

**205**

Big C

19

20

20

23

29

33

36

40

45

49

54

66

Carrefour

6

7

9

11

15

17

19

20

23

24

27

30

Tesco Lotus

12

14

17

24

33

41

52

60

67

72

92

109



## **Cash and Carry**

**15**

**16**

**17**

**19**

**20**

**21**

**23**

**29**

**29**

**29**

**41**

**41**

Makro

15

16

17

19

20

21

23

29

29

29

41

41

## **Supermarket**

**46**

**50**

**61**

**67**

**78**

**95**

**96**

**84**

**110**

**126**

**143**

**190**

Tops

38

38

41

41

44

49

47

71

85

89

93

94

Food Lion

2

5

13

18

26

34

36

—

—

—

—

—

Foodland

—

—

—

—

—

—

—

—

—

—

—

11

Home Fresh Mart

6

7

7

8

8

8

8

8

9

9

9

9

Jusco

—

—

—

—

—

—

—

—

—

—

—

8

### Leader Price

—

—

—

—

—

4

4

4

5

5

2

1

Tesco lotus Supermarket

—

—

—

—

—

—

1

1

11

23

39

53

Villa

—

—

—

—

—

—

—

—

—

—

—

14



## **Convenience Store**

—

—

—

—

—

**2, 788**

**3, 012**

**3, 433**

**4, 124**

**5, 288**

**5, 807**

**6, 272**

7-Eleven

2, 009

2, 354

2, 739

3, 348

3, 798

4, 321

4, 688

am/pm

97

—

—

—

—

—

—

Family mart

—

—

—

—

599

504

551

Jiffy (Conoco)

138

141

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143

145

147

146

146

Mini Big C

—

—

—

—

1

2

7

PETRONAS (Suria)

94

95

95

100

98

98

101

Select (Shell)

108

113

119

113

111

111

107

Star mart (Caltex)

205

173

185

187

181

185

185

Tesco lotus Express

8

11

46

130

245

330

376

Tiger mart (Esso)

129

125

106

101

103

103

101

Tops Daily

—

—

—

—

5

7

10

Source: AC Nielsen, November 2008

## **4. 4. Criteria and regulation related to modern retailer expansion**

### **4. 4. 1 Expansion Criteria**

Since more than 90% of retail sales are made at stores, the selection of a store location is one of the most significant strategy decisions a typical retailer makes. (Berman et al, 2001). In history, location of retail and service activity was described by “ Christaller’s central place theory” (Lee and McCracken, 1980). At present, all of location theory has been applied for realistic environments. Thailand retail chain had applied the analysis of retail site, trade area and location strategy technique from foreign retail chain who taking over Thai retail business such as Tesco, Carrefour and Casino. The process of site acquisition, location and market analysis of those chains are

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different in detail, but overall processes are similar. The figure 4. 4 shows overall process of modern retail chain's decision process for opening each store.

Land Owner

Broker

Real Estate/ Property section

Analysis Section

Preliminary survey

Financial/Investment Analysis

Market Survey

Property Acquisition

Market and financial Analysis

Decision Making

(Board Approval)

Locate store

1st Submit

Approve

Skip

Reject

2nd Submit

Approve

Skip

Reject

Review

## **Figure 4. 4: Store location analysis process**

(source: from interview)

### Stage I: Property Acquisition

Most of modern retail formulates their expansion strategy for a period.

Normally, criteria for priority the strategy location are demographic data (population, household), income and expenditure and competition situation.

Real Estate or Property section of each chain will seek for the location followed the expansion strategy. Broker, who is intermediary between land owner and retail chain, usually involves in this stage. The broker can be both brokerage firm and individual person. They will supply lands according to expansion strategy of each chain. Occasionally, sites are directly offered by land owner.

### Stage II: Site Analysis



Then, strategic site with its description such as size, shape, location will be passed to Analysis section. For introductory of analysis, preliminary survey will be conducted for a few days to get initial decision from executives. If the site is potential, it will be passed to Market Survey for in-depth analysis.

Following are key areas of analysis in market survey.

Site analysis is focus on site description (type of location, size, current usage, frontage, shape), amenities (such as competitor, hotel , hospital, education institute, fresh market), accessibility (transportation facility, road, future infrastructure)

Isochrones driving analysis

Isochrones is equal drive time catchments which show everywhere that can be reached within specified time from a specified point or points. Isochrones is one method for defining catchment area based on drawing a line surrounding area at a given driving time from the target location. Within Isochrones area, market potential, market size, available hypermarket size, direct and indirect competitors within catchment area are analyzed. Figure 4. 5 shows example of accessibility isochrones travel time in different time.

#### **Figure 4. 5: Example of accessibility isochrones travel time**

(Source: GIS Bureau , [www.mds-mottmac.com](http://www.mds-mottmac.com) accessed on 2 September 2009)

Competitor analysis

Based on Isochrones driving time, competitor analysis will be analyzed in each catchment area. Competitors will be clarified in each type such as hypermarket, supermarket, department store, fresh market. Strength and weakness of each competitor are considered with their information such as turnover, salable area and type of customer. The objective of this analysis is to assess competition situation and competitiveness of site.

### SWOT Analysis

SWOT analysis is used to analyze overall factors of site. Strengths (S) and Weaknesses (W) are internal factors. Opportunities (O) and Threats(T) are external factors.

### Trading area or Catchment area Analysis

Trading area is a geographical area containing the customers of a particular firm or group of firm for specific goods or service. Evaluation of trading areas in terms of demographic and socioeconomic characteristics of target customers is beneficial for retailer such in turnover forecasting and promotional activity planning. Trading area can be classified in 3 parts, primary, secondary and third or fringe. The primary trading area is the area closest to the store and accounts 50-80% of a store's customer. The secondary trading area is located outside the primary area and account and additional 15-25% of store's customer. The third or fringe trading area includes all the remaining customers and some out shoppers, who are willing to travel greater distances. In this stage, analysis section will outline trade area and explain characteristic of trade area. Interviewing customer within

trade area is used to validate conclusion. Then turnover is estimated by calculation of household and/or populatio