Thailand's Food Market Overview

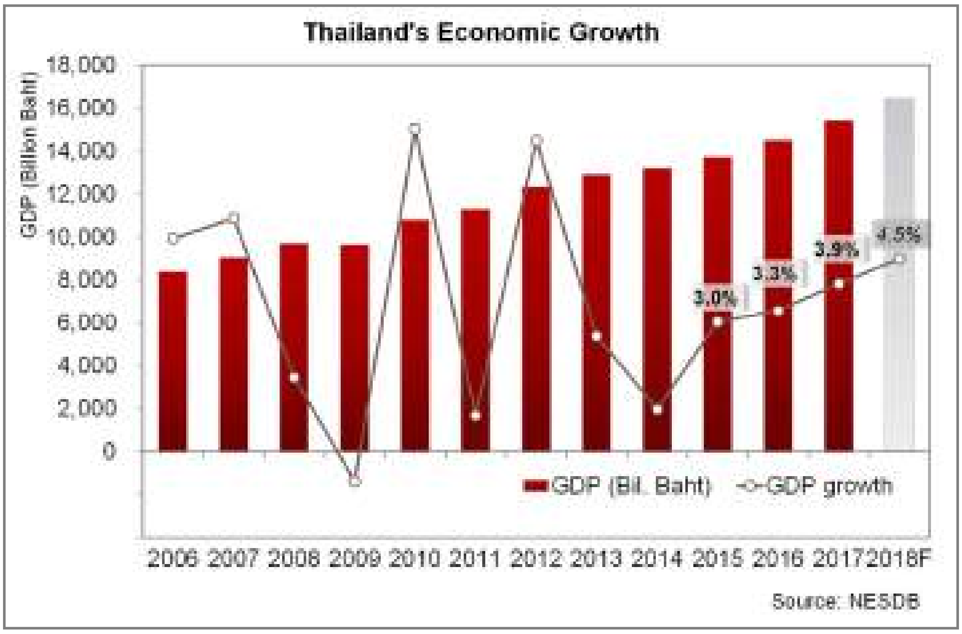
1. Market Size & Market Characteristics

(1) Large Economy and Large Consumer Base

- Thailand's total population is approximately 67.6 million in 2017, ranking 4th in Southeast Asia.
- The labor force (population aged between 15-59) accounts for around 67% of the total population.
- Thailand is the 2nd largest economy in Southeast Asia, after Indonesia, with a GDP of 15,453 billion baht (or approximately 455.3 billion US$) in 2017. It is forecasted to grow 4.2% - 4.7% for the whole of 2018.

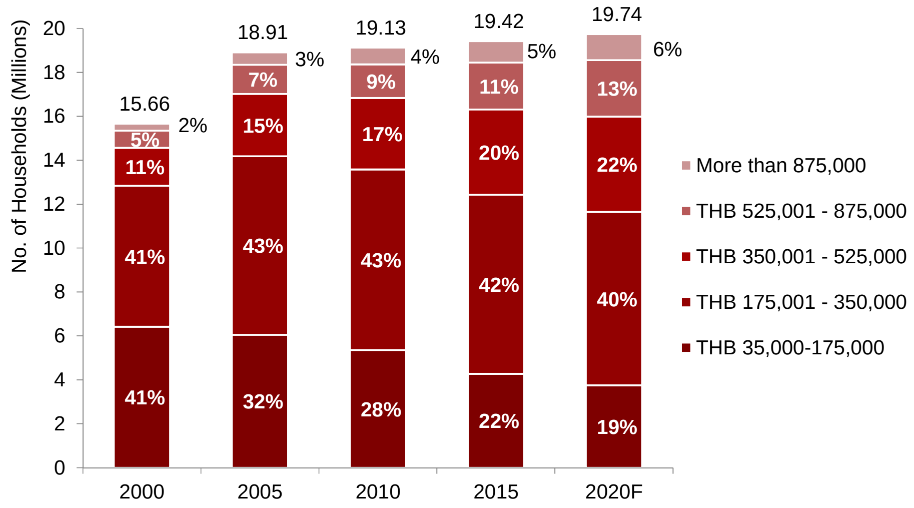
		2017	2018F
GDP	(Billion baht)	15,453	*16,457*
	(Billion USD)	455.3	*522.5*
GDP growth		3.9%	*4.2%-4.7%*
GDP per capita	(Baht/ year)	228,412	*242,622*
	(USD/ year)	6,730	*7,702*
Population	(Million)	67.6	*67.8*
Urban population (2016)		51.5%	-

Source: NESDB, World Bank
Note: F = Forecasted by NESDB in May 2018.



- Thailand is an upper-middle income country, who aims to move up an become a high-income country by the end of 2026.
- The contribution of middle-income households(1) in the country has been increasing from 69% of total households in 2010 to 73% in 2015 and is expected to increase to 75% in 2020.

Proportion of Household Income Segment by Annual Income

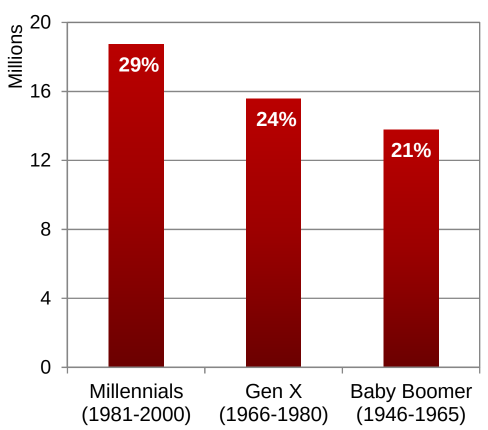


Source: The Economist Intelligence Unit (2016) (as cited in Deloitte's Thailand Consumer Survey Report)

(2) The Largest Consumer Group is Millennials with a Growing Contribution from the Aging Population

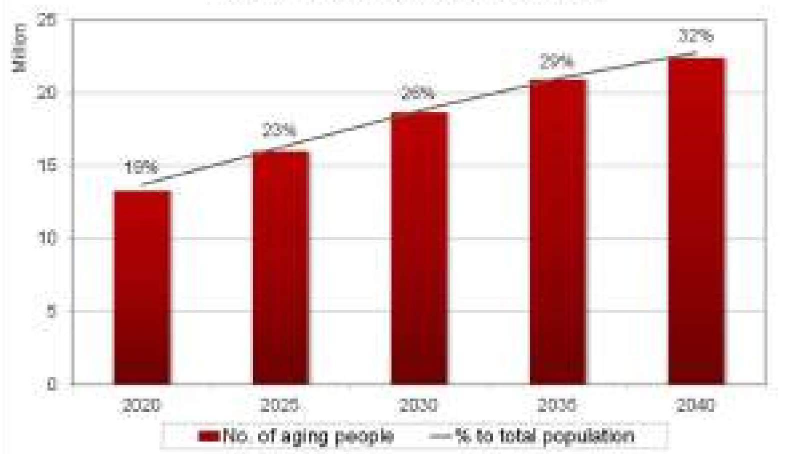
- The median population age of Thailand is 37 years old (2017), whereas it is around 47 years old in Japan.
- Millennials (or Gen Y) is the largest consumer group in Thailand, which will have a large influence on retail and food service market trends. This generation is tech-savvy, information-driven, social, selective and financially literate.[2]
- The aging population is rising. It is estimated to account for around 19% of the total population in 2020 and 32% in 2040.

Population by Major Generations



Source: Compiled from DOPA

Thailand's Aging Population Forecast

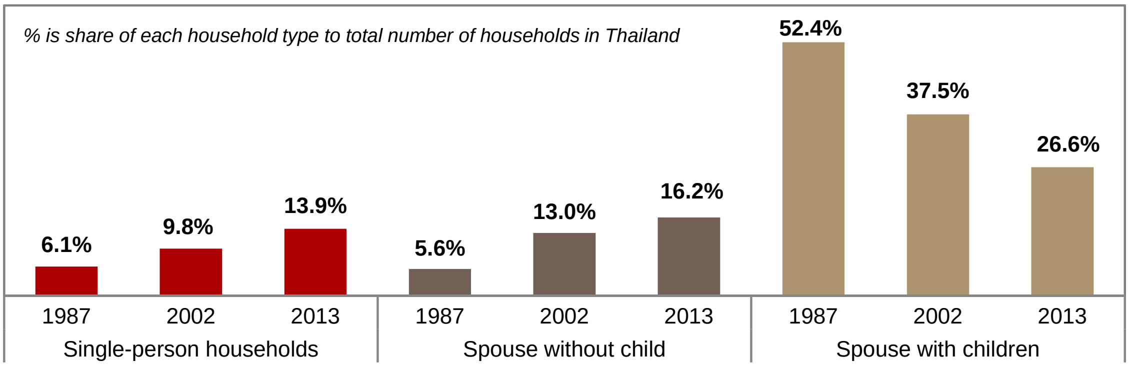


Source: Population Division, United Nations (UN)

(3) A Trend Towards Smaller Household Sizes

- There has been a trend towards smaller household sizes in Thailand. According to the NSO survey, the average number of persons per household reduced from 3.8 in 2000 to 3.16 in 2017.
- The number of households has been increasing with the increase in portion of nuclear families[(3)] and one-person households.

Trend of Nuclear Family in Thailand



Source: NSO (as cited in UNFPA)

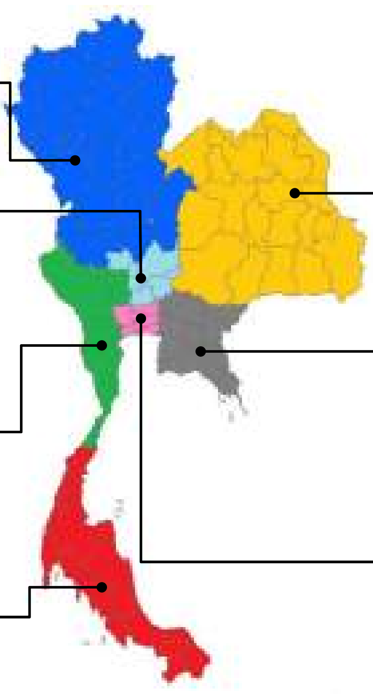
(4) Geographic

Northern		
GDP(2016)	1,133	THB Bil.
Population(2016)	11.4	Million
Household income (2017)	19,083	Baht/month
Main sectors	Agriculture, tourism	

Central		
GDP(2016)	812	THB Bil.
Population(2016)	3.1	Million
Household income (2017)	27,422	Baht/month
Main sectors	Electronics, automobile	

Western		
GDP(2016)	518	THB Bil.
Population(2016)	3.6	Million
Household income (2017)	25,943	Baht/month
Main sectors	Agriculture, tourism	

Southern		
GDP(2016)	1,322	THB Bil.
Population(2016)	9.2	Million
Household income (2017)	26,902	Baht/month
Main sectors	Fishery, rubber, palm oil, tourism	



Northeastern		
GDP(2016)	1,423	THB Bil.
Population(2016)	18.7	Million
Household income (2017)	20,298	Baht/month
Main sectors	Agriculture & food manufacturing	

Eastern		
GDP(2016)	2,593	THB Bil.
Population(2016)	5.6	Million
Household income (2017)	26,767	Baht/month
Main sectors	Petrochemical, logistics, automobile, tourism	

Bangkok & its Vicinity		
GDP(2016)	6,732	THB Bil.
Population(2016)	15.8	Million
Household income (2017)	40,445	Baht/month
Main sectors	Financial & business/ trading center, tourism	

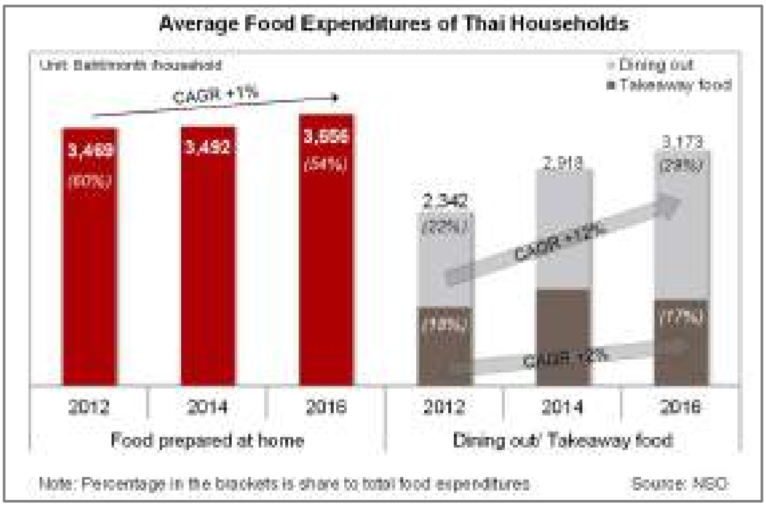
- BKK & its vicinity is the largest region in terms of economic size, which contributed around 46% to the country's GDP in 2016. The population in BKK & its vicinity accounts for 23% of the country's population.

- Bangkok is not only a capital city but also the center of financial and business activities, as well as tourism. The economic development, transport system, living and consumption lifestyle in Bangkok is far beyond that of other regions.
- The eastern region is the 2nd largest region with the share of 18% of the country's GDP. The region is the country's key logistics area and the production base of the major manufacturing products, namely automobiles and petrochemicals.
- The biggest region by population is the Northeast, which accounts for 28% of total population. However, they are concentrated in rural areas, in which most of the population engage in the agricultural sector. Nakhon Ratchasima, which is the gateway to the Northeast, is the most prosperous province in the region.

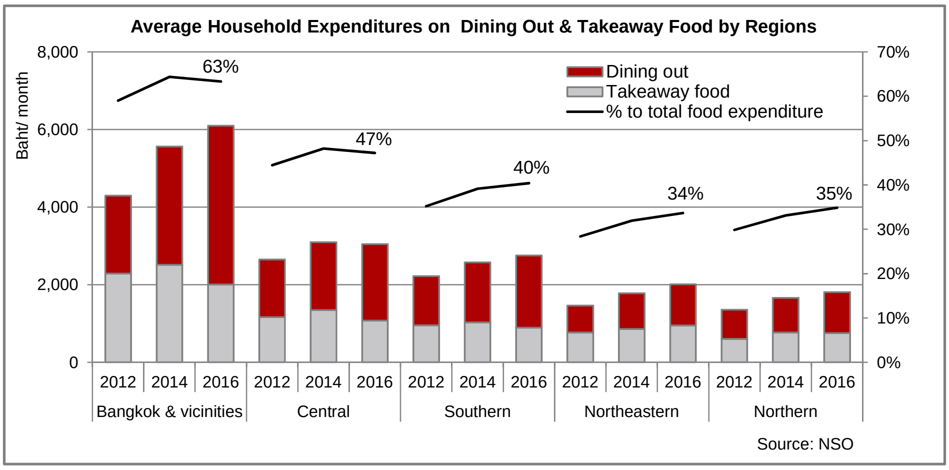
(5) Key Food Consumption Trends in Thailand

(5-1) A Trend Towards Dining Out

- The expenditure on preparing food at home remains the major food expenditure of Thai households. However, dining out behavior has become a famous trend with a CAGR of 12% between 2012-2016.



- Bangkok & its vicinity have the highest contribution and the most remarkable growth of dining out expenditure, followed by the central region. This is because urban families and working adults have more limited time to cook/ prepare meals at home. The longer working hours and rising incomes have encouraged consumers to eat out more often.



(5-2) The Health-Conscious Lifestyle

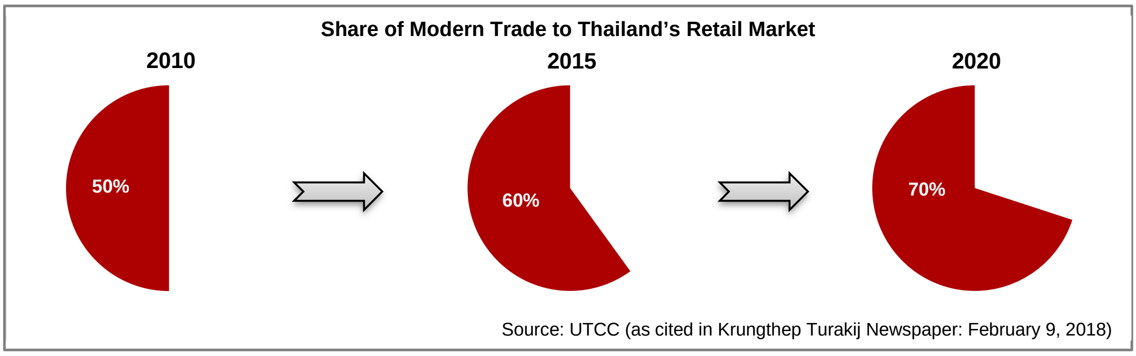
- Thai consumers have been increasing looking for more healthy foods and snacks, such as foods with added nutrients/organic ingredients, reduced calories, as well as lower sugar/ salt/ fat content. However, the healthy food market in Thailand still very small and limited only to urban areas.

(5-3) The Urban Population is not very Price-Sensitive

- Due to the high-income level and a wide variety of products available in urban areas, the urban population is typically not very price sensitive. According to Deloitte's consumer survey in Bangkok and Chiang Mai, the top three product attribute preferences when purchasing packaged foods are taste, safety, and trust. Price came in at number 4.

(5-4) Modern Trade Plays an Increasing Role

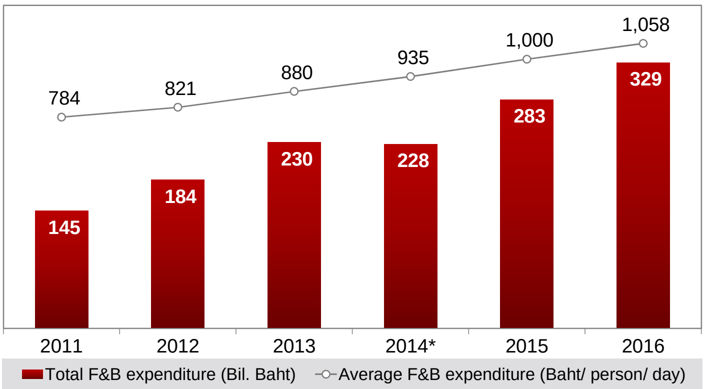
- The growing middle-income class, urbanization, and remarkable growth of modern retail outlets have been influencing changes in consumer lifestyle. Modern trade has become the main consumer's purchasing channel, especially in urban areas.
- According to the UTCC's estimation, the share of modern trade to Thailand's retail market has increased from 50% in 2010 to 60% in 2015 and will reach 70% in 2020.



- For food products, modern retail accounts for approximately 70% of Thailand's total food retail sales, as consumers have transitioned from wet markets and traditional grocery stores to hypermarkets and supermarkets, according to USDA.
- Moreover, Deloitte's consumer survey shows that most of the urban population (75-80%) prefer purchasing packaged foods from modern retail outlets, especially from convenience stores and hypermarkets.

(5-5) Increasing Contribution of Foreign Tourists in Thailand's Food Market

- Foreign tourists have played an increasingly important role in the economy in recent years with the number of tourist arrivals exceeding 30 million people since 2016. The food and beverage expenditure has grown considerably at a CAGR of 18% from 2011-2016.

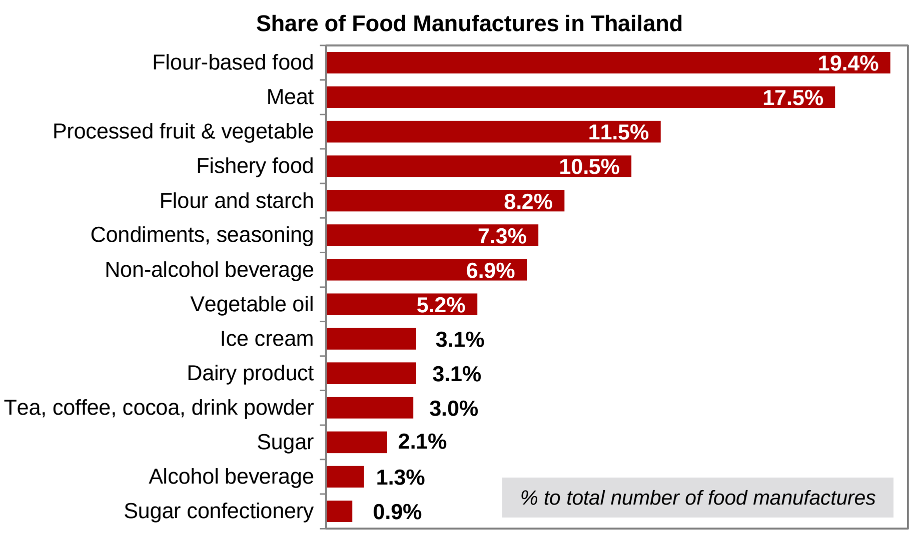


Source: Compiled from Ministry of Tourism and Sports
Note: * The re-definition of the data in 2014 has an impact on the tourist numbers and their spending figures.

- The growing food expenditure of foreign tourists has contributed to modern food retail market as well as the restaurant market in Bangkok and major tourist destinations, such as Phuket, Krabi, and Chiang Mai.

2. Food Manufacturing in Thailand

- Thailand is one of the world's leading food producers and exporters with the total food export valued at around one trillion baht in 2017.
- According to the National Food Institute (NFI), there are around 7,000 food manufacturing companies in Thailand.
- Most are small-to-medium size and predominantly serve the domestic market. However, there are many medium-to-large food processors that produce higher-value products for both the domestic and export markets.



Source: National Food Institute (as of 2014)

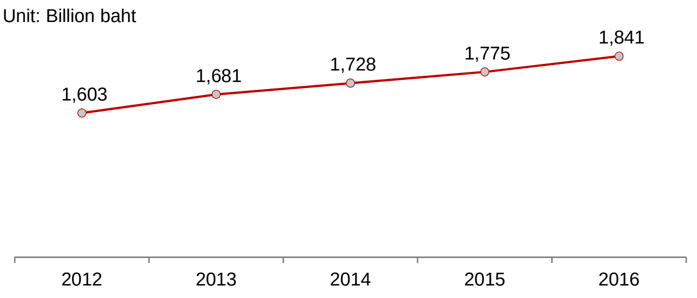
- The domestic market accounts for 59% of total processed food manufacturing, according to an industrial survey by the OIE[(4)].

- Many foreign food manufacturers have been investing in Thailand to take advantage of the abundant raw materials, low costs, and strategic locations.
- The large and fragmented food manufacturing sector in Thailand offers a huge opportunity for imported food products, i.e. fresh food as raw materials, food additives, and so on.

3. Thailand's Food Retail Market

- Food retail market in Thailand valued around 1,800 billion baht in 2016. The market has expanded at around 3-5% per year.

Food Retail Sales in Thailand



Note: (1) The retail value in the chart cover only store-based retail, not include direct selling, home shopping, internet retailing, and mobile internet retailing.
(2) The value is converted from US$.

Source: USDA

- The growing urban population has been offering modern retailers opportunities for expansion, which will also drive modern retail sales of food products. In the meantime, the competition is intense due various food products entering the market.
- Local and international brands as well as their distributors have been continuously introducing new products, new flavors, and new packages (size and design) to increase their market share. Meanwhile retailers have also been offering their own privately labelled products to achieve higher margins.
- In the major cities, i.e. Bangkok, modern food retail accounts for around 70% of total food retail sales as consumers have transitioned from wet markets and mom & pop shops to hypermarkets, supermarkets, and convenience stores.
- For the past 3 years, supermarkets showed the strongest growth in the modern retail sector.
- The food retail market in Bangkok is very far different from other areas in the country. Bangkok is a very competitive market for imported food products with a wide range available on shelves. Meanwhile, it is very limited in other provinces as those markets have low purchasing power and so are still very price sensitive.

Growth of Modern Grocery Retail Sales

Retail format	AAGR (2015-17)
Hypermarket	1.8-2.0%
Supermarket	7.0-8.5%
Convenience store	2.8-3.0%

Source: Thai Retailers Association (as cited in various public news)

- The modern retailers have strong power in choosing products for their shelves. For new product entries, the retailers' stringently review the products and their suppliers. After the products have been placed on the shelves, the sales performance is accessed every 3-6 months depending on the retailer's policy.
- Several fees, including listing fees, distribution fees, promotional fees, retail margin, and so on, are charged differently depending on the negotiating power of the retailers.

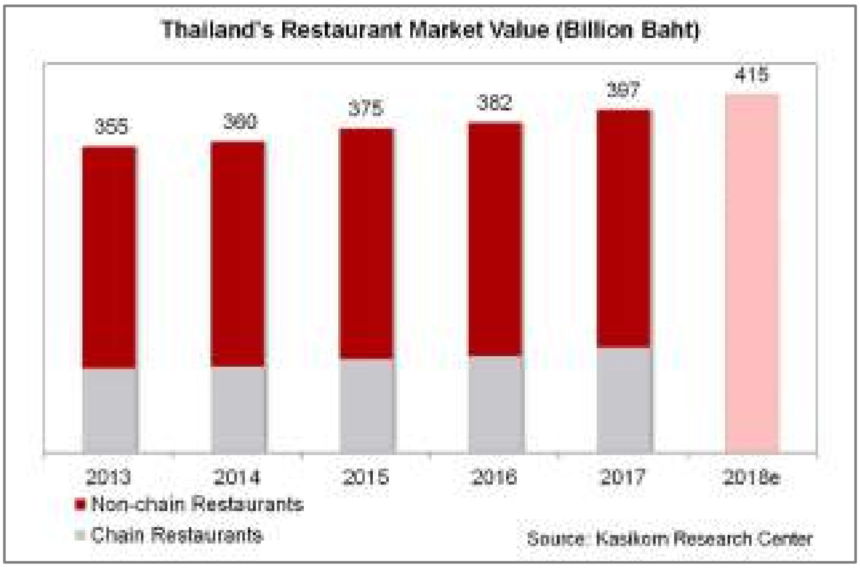
Modern Grocery Retail Formats

	Hypermarkets	Supermarkets	Convenience stores
Key Characteristics/ Movements	▪ Concentrate on products that are well-known and manufactured locally ▪ Price is the key element of the competitive strategy. ▪ The operators tend to penetrate second-tier provinces with smaller-sized stores to avoid town planning and building control regulations.	▪ Cater to higher income consumers with premium imported product offerings ▪ Mainly located in Bangkok ▪ Enjoyed strong growth over the past 1-2 years	▪ 24-hour operations provide convenience to shop for necessities during the day and after work ▪ The pervasive adoption of a hurried lifestyle has also created ample room for growth.
Target Groups	▪ Low-mid income group ▪ Pop & mom shops ▪ Small food service operators	▪ Mid-upper income group ▪ Expatriates/ tourists	▪ Young adults with busy lifestyles in urban areas ▪ Students
Major Players			
No. of Stores* (2017p)	450	570	14,000
Share to Retail Sales**	18.4%	12.1%	17%

Note: (*) An approximate number of modern grocery retail chains
(**) only for retail sales of FMCG

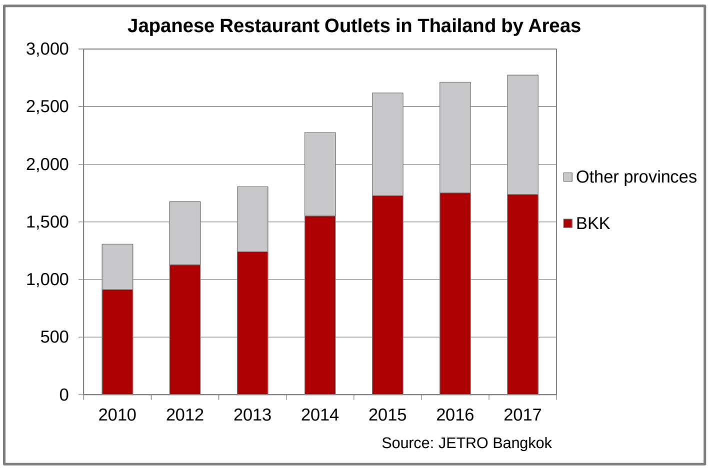
4. Thailand's Food Service Market

- The food service market in Thailand has expanded continuously in line with the growth of international tourist arrivals, the increasing popularity of food deliveries, catering businesses, and the dining out trend.
- According to Kasikorn Research Center, Thailand's restaurant market grows at around 3-5% per year.
- Chain restaurants account for around 30% of Thailand's restaurant market.



Japanese Restaurants in Thailand

- Japanese food holds the largest share in the international full-service restaurant market in Thailand. Thailand is considered as Japan's largest export destination of food in ASEAN and the sixth largest in the world.
- According to JETRO Bangkok, the demand for Japanese food remains strong in Thailand with an import value of almost 33 billion Yen from Japan in 2016.
- Japanese restaurants are mostly located in Bangkok, which accounts for 63% of total number of Japanese restaurants nationwide, according to JETRO.
- Over the last few years, the growth of Japanese restaurants is mainly due to the expansion of chain restaurants, which are the anchor tenants of department stores. Meanwhile, non-chain Japanese restaurants are concentrated in the central business area and Japanese expatriates' residential areas, i.e. mid-Sukhumvit, Silom, and Sathorn.

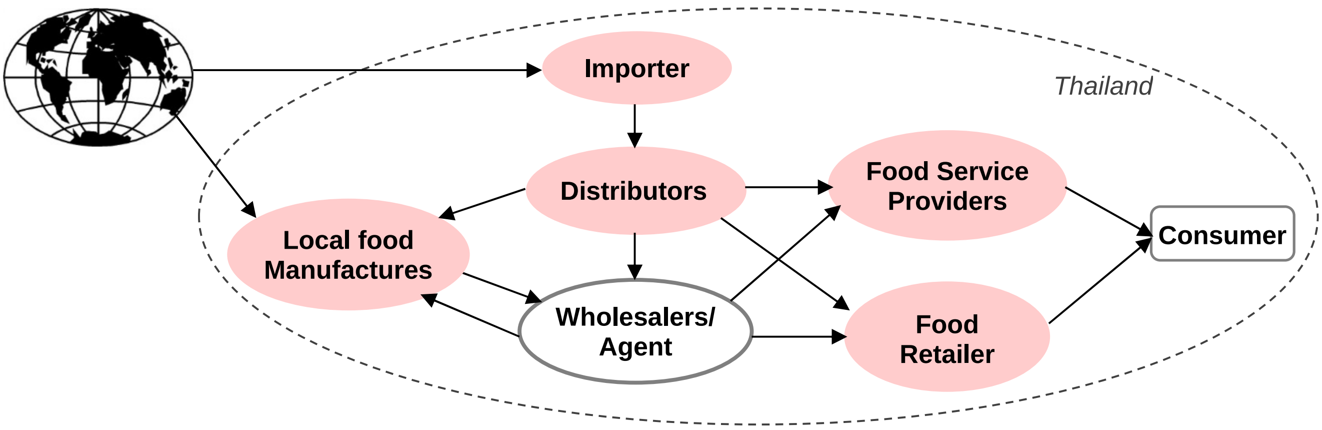


Major Japanese Restaurant Chains in Thailand

Operators	Brands	No. of Branches	As of
Oishi Group Plc.		240	Sep 2017
MK Restaurant Plc.		192	Dec 2017
Central Restaurant Group		136	Dec 2017
Fuji Restaurant Group		122	Sep 2017
Hachiban Ramen		109	Aug 2017
Zen Group		86	Aug 2017

5. Food Distribution in Thailand

(1) General Distribution Chain of Imported Food Products in Thailand



Note: In many cases, import and distribution services are provided within the same company.

To **<u>Local Food Manufacturers</u>:**

There are two main channels for exporters who are exporting food ingredients to Thailand.

- Food ingredients are imported by importers who have their own distribution networks and distribute directly to manufacturers.
- Large food processors import directly from the country of origin.

Note: *a) Most food processors import food ingredients through importers to avoid having to maintain large stocks.*
b) Most imported food ingredients are marketed and distributed by exclusive or authorized distributors.

To **<u>Food Retailers/ Food Service Providers</u>:**

Distribution normally starts from the importers, then distributors, before being sent to the retailers/ food service providers.

Food Retailers

- For modern retailers, food products are mostly delivered directly to the retailers' central/ regional distribution warehouses.
- For the traditional retail channel, local wholesalers/ regional agents also play an important role in the transportation of the products between the distributors and retailers.

Food Services

- For chain restaurants, distributors deliver food products to the central kitchen.
- For non-chain restaurants, food products are delivered directly to the restaurants by the distributors, who mostly also act as the importers.
- A few small restaurants buy the cooking ingredients from wholesalers and hypermarkets located nearby.

(2) Food Distributors

- Distributors are the most important partners for food manufacturers/ food exporters due to several reasons.

- Local distributors are familiar with the market conditions and regulatory environment. Distributors can use their market knowledge (market characteristics, demand, trends, etc.) to find potential markets for the products.
- Local distributors minimize the need for exporters to establish direct contact with multiple retail chains and restaurants.
- Local distributors help minimize logistics & operational costs.

- Choosing the right distributor is one of the key success factors for food manufacturers and exporters entering the Thai market.
- Food distributors in Thailand consist of large companies, *who are multinational companies with strong reputations or those who may have their own factories and/ or own retail channels*, and a number of independent SME distributors, offering a wide range of products to fulfill the demands in some certain/ niche markets.

	Large/ Conglomerates	SMEs
General Characteristics	▪ Wide extensive distribution networks ▪ Strong reputations ▪ Focus on mass market ▪ Strong and long relationships with customers (sale channels) ▪ Handle a large variety of products across different categories ▪ Some have their own/ JV with manufactures to produce their own brands ▪ Some have their own retail outlets	▪ Limited capacities and sales networks due to their capital limitations ▪ Handle a smaller product portfolio ▪ Focus on new/ unique products to avoid competing with strong brands ▪ Several medium-sized distributors also have good relationships with retailers.
Advantages	▪ More opportunities for business expansion may be offered through JV manufacturer ▪ Broader sales channels and privileges may be offered through their own retail outlets ▪ Have broad-based knowledge of the market environment	▪ Due to the small number of products handled, efficient service offerings can be expected from distributors with less competition with each other ▪ More opening /welcoming of new products ▪ In-depth knowledge about specific markets regarding the products that they handle
Disadvantages	▪ New entrants may face difficulties when obtaining distribution services from large distributor as they are selective in the recruitment of new products. ▪ The large product portfolio may cause in inefficient service offerings to existing products.	▪ Limited sales volume due to the limited sales networks of the distributor; i.e. distribute only in Bangkok or/and major cities

- In addition to the business size of the distributor, the service offerings of the distributor should also be taken into consideration. Some distributors provide one-stop services for distributing the product in Thailand, which covers every step starting from FDA registration, import clearance, marketing plan & activities, to deliver the products to customers. However, there are several distributors who offer limited distribution services. Also, several distributors employ their large sales networks to provide only stocking and transportation services.

6. Key Consideration Factors for Entering the Thai Market

The above article only provides general knowledge about the key elements in Thailand's food market. Therefore, in order to market the products effectively and successfully, there are a number of factors that food exporters/ manufacturers should consider in order to make the right investment decision.

Related Laws & Regulations	✓ Import regulations, import taxes & duties, custom procedures, etc. ✓ Regulations regarding food product control, food manufacturing ✓ Related government agencies, their roles & responsibilities	**To assess the relevant costs & problems to prepare prevention measures**
Market Insight	✓ Local consumer preferences or concerns regarding packaging, taste, pricing, promotions and so on ✓ Size & growth of the product category ✓ Competitive landscape in the category, i.e. strength of major brands & their key strategies	**To find the right target markets/segments that match your products**
Distribution Chains & Sales Channels	✓ In-depth information of major food importers/ distributors, i.e. their service offerings and costs, their marketing strategies, their capabilities & sales networks ✓ Estimated size, distribution, and cost of each sales channel, i.e. logistics costs, marketing costs, etc.	**To choose the right partner who matches the positioning of the product and the company's marketing strategy**
Business Format	✓ Assess the advantages / disadvantages of different formats of business activities that would be possible for investment i.e. only exportation of the product, outsourcing for manufacturing in Thailand, establishing own factory, finding JV partners, etc.	**To consider the most suitable business format of market entry and reinforce the company's goals**

Note:
(1) The middle-income household is defined as a household with incomes of between THB175,000 and THB875,000 per year (Source: Deloitte's Thailand Consumer Survey Report)
(2) Results from the 2014 Consumer survey conducted by SCB Economic Intelligence Center
(3) Spouses without children
(4) The industrial survey conducted by the Office of Industrial Economics (OIE) covering a number of food manufactures in Thailand, ranging from chilled/ frozen foods, canned foods, edible oils, dairy products, beverages, sugar, seasoning, flour, and flour-based foods (i.e. bakery products, instant noodles).