Business Opportunities Study in Thai Bakery Sector

Larive International
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## Profile of Thailand

### Factsheet

<table>
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<th>GDP</th>
<th>$366 billion (2012)</th>
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<tr>
<td>GDP per capita</td>
<td>$5,390 (2012)</td>
</tr>
<tr>
<td>Annual growth</td>
<td>6.5% (2012)</td>
</tr>
<tr>
<td>Major trading partners</td>
<td>Japan, China, US</td>
</tr>
<tr>
<td>Area</td>
<td>513,120 km²</td>
</tr>
<tr>
<td>Population</td>
<td>66.7 mln.</td>
</tr>
<tr>
<td>Official Language</td>
<td>Thai</td>
</tr>
<tr>
<td>Currency</td>
<td>Baht (THB)</td>
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Thailand is an emerging market with strongly growing consumer class.

The country is the second-largest economy in South East Asia, after Indonesia.

Its economy is export-dependent, with exports accounting for more than two-thirds of GDP.
The Thai bakery industry has evolved in the last two decades into a bigger and more developed sector.

From the small-scale bakery operations of the past, the industry now has more than 700 medium-sized and large businesses with nearly 14,000 locations/outlets nationwide.
In 2012 the Thai baked goods market was estimated to be worth nearly 27 billion Baht.

In recent years the market grew on average 10% or more per year. It is expected to do so in the short to medium term.

By product category, the market can be broken down into:
- Bread: 40%
- Pastry: 24%
- Cake: 19%
- Donuts: 11%
- Cookies & biscuits: 5%

### Type of outlet

<table>
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<th>Type of outlet</th>
<th>Players</th>
<th>2012 (Billion Baht)</th>
<th>Market Share</th>
</tr>
</thead>
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<tr>
<td>Retail bakery chains (including donut &amp; coffee chains)</td>
<td>S&amp;P, Yamazaki, Au Bon Pain, BreadTalk, Gateaux House, Mr. Donuts, Dunkin' Donuts, etc.</td>
<td>9.397</td>
<td>35%</td>
</tr>
<tr>
<td>Convenience stores</td>
<td>7-11, Family Mart, 108 Shop</td>
<td>8.920</td>
<td>33%</td>
</tr>
<tr>
<td>Hypermarkets</td>
<td>Big C, Tesco Lotus, Makro</td>
<td>4.300</td>
<td>16%</td>
</tr>
<tr>
<td>Hotels</td>
<td>500 luxury hotels</td>
<td>2.373</td>
<td>9%</td>
</tr>
<tr>
<td>Artisanal &amp; home-based bakers</td>
<td>Several thousands</td>
<td>2.000</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>26.989</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Group estimate of a leading hypermarket, edible oil producer, bakery ingredient supplier and Larive – based on company sales submitted to the Ministry of Commerce.
- Bakery ingredients constituted approximately 10.8 billion Baht in 2012.
- Major ingredients include wheat flour, fat (margarine, shortening and butter), and flour mixes which together accounted for 60% of the total value of ingredients.
- The industry sources milled flour, margarine, shortening and blended butter mainly from local producers; while flour mixes and pure creamery butter are imported.
Demand for bakery machinery and equipment reached a value of about 2 billion Baht in 2012.

This can be broken down into:
- Ovens: 30%
- Dough making and pastry making equipment: 25%
- Packaging equipment: 20%
- Dough dividers and bread slicers: 15%
- Other bakery equipment: 10%

Historically most of these types of equipment originated from European countries.

In recent years, China has emerged as among the leading suppliers. The main advantage of Chinese suppliers is their cheaper products because
1. Wages are lower than in Europe;
2. Equipment imported from China are exempted from tariff because of that country’s bilateral trade agreement with Thailand.

Some supporting equipment (not used in the baking process) such as commercial refrigerators, cake display cabinets, tables and sinks, are manufactured locally.
## Competitive landscape
### Main players in Thai market

<table>
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<tr>
<th>Baked Goods</th>
<th>Bakery Ingredients</th>
<th>Bakery Equipment</th>
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Trade opportunities
For Dutch companies in Thai bakery sector

• **Import of raw materials/ingredients.** Import of ingredients such as high-grade wheat flour, yeast, food additives, enhancers, improvers, flavors and aroma, cocoa powder/couverture chocolate.

• **Import of baking equipment.** Except for some stainless steel cabinets and refrigerating equipment, practically all types of large and small bakery equipment used in the country are imported.

• **Import of hi-tech packaging solutions.** There is a niche demand for imported specialty flexible packaging solutions.

• **Others.** The bakery sector offers a range of other opportunities, for instance in services (e.g., training, education) and IT solutions.
• **Premixes blending factory.** The Thai bakery industry mainly imports premixes, cake mixes and other flour mixes from overseas suppliers. This market is worth about one billion baht per year. There is a perceived business opportunity for setting up a blending operation in Thailand to serve not only the domestic market but the whole of ASEAN.

• **Retail Bakery Franchising.** There are vast opportunities for retail bakery franchising. Important pointers for potential investors include: first and foremost – location; second, smart choice of bakery delights that appeal to local consumers and expat community; and third, ability to find competent and loyal employees. We expect the Thai market to be receptive for typical Dutch franchise concepts like ‘het Stoepje,’ ‘Bakker Bart’ and others.

• **Regional Operating Headquarters.** With its highly strategic location in Asia, Thailand is in the best position for global companies to set up their Regional Operating Headquarters (ROH). The country offers modern infrastructure and reasonably skilled labor force. In addition, ROH is a government promoted activity which gets attractive tax and non-tax incentive package from the Board of Investment.
Key elements of success
For Dutch companies in Thai bakery sector

- **Education.** The Thai bakery sector is relatively young and buyers tend to be hesitant to change their buying behavior. Suppliers are advised to give high emphasis to education in their marketing mix.

- **Brand awareness.** Corollary to educating potential customers, making the brand known in the market is equally essential. This can be achieved by attending industry and trade events held in Thailand or the region and even at the international stage.

- **Route-to-market.** The Thai market is fragmented and might require different distribution routes, meaning multiple distribution partners, in many cases.

- **After-sales service.** Adequate after-sales service capabilities (notably for equipment suppliers), nationwide or at least in high growth urban centers, are important to build and maintain market position.
Market entry and doing business in Thailand

Obstacles
◊ Need for local contacts, network is key
◊ Low degree of market transparency
◊ Language barrier
◊ Differences in business culture: cooperation with local parties often required
◊ Bureaucratic difficulties

Larive Thailand
◊ 20+ years experience
◊ Local office and network
◊ Thai speaking employees
◊ Sector experience and contacts
About Larive
Your partner in emerging markets

Larive

◊ Established in 1975
◊ Headquarters in Zeist, the Netherlands
◊ Over 30 local (partner) offices in Central & Eastern Europe, Turkey, Asia and Eastern Africa
◊ Emerging markets business development advisor to leading Western multinationals and specialized SME
◊ Over 250 local market entry and growth specialists within Larive Group

Areas of service

◊ Business intelligence
◊ Market entry & growth strategy
◊ Partner search & selection
◊ Mergers & acquisitions
◊ Growth financing
◊ Post investment services
Local presence is key

Central & Eastern Europe
- Bosnia
- Bulgaria
- Croatia
- Czech Republic
- Georgia
- Kazakhstan
- Poland
- Romania
- Russia
- Serbia
- Slovakia
- Slovenia
- Turkey
- Ukraine

Africa
- Kenya
- Uganda

Asia
- Bangladesh
- Cambodia
- China
- India
- Indonesia
- Korea
- Malaysia
- Philippines
- Singapore
- Taiwan
- Thailand
- Vietnam
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