บริษัท ปตท. น้ำมันและการค้าปลีก จำกัด (มหาชน)

PTT OIL AND RETAIL BUSINESS PUBLIC COMPANY LIMITED

เอกสารแนบ 7

รายงานการวิจัยทางการตลาดแบบอิสระเกี่ยวกับธุรกิจค้าปลีกสินค้าและบริการอื่น ๆ

จัดทำโดย Euromonitor

Retailing in Thailand, Cambodia, the Philippines, Myanmar, Laos and Singapore

A report compiled by Euromonitor International for

PTT Oil and Retail Business Public Company Limited

July 2019

www.euromonitor.com

DISCLAIMER

The information that appears in this Industry Overview has been prepared by Euromonitor International Limited and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor International Limited should not be considered as the opinion of Euromonitor International Limited as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor International Limited and set out in this Industry Overview has not been independently verified by the Group, the Sponsor, the Lead Manager, the Underwriters or any other party involved in the Global Offering and neither they nor Euromonitor International Limited give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

LIST OF CONTENTS

1. RESEARCH BACKGROUND

1.1 RESEARCH OBJECTIVE

PTT Oil and Retail Business Public Company Limited (the '**Client**') is planning for an IPO listing on the Stock Exchange of Thailand (SET) (the '**Stock Exchange**') and requires an independent assessment of the petroleum and forecourt retailing industry in the form of an Industry Overview report.

1.2 SOURCES OF INDUSTRY INFORMATION

This 'Industry Overview' section contains information prepared by Euromonitor International for the purposes of the prospectus. The report was last updated in May 2019 based on data available at the time of publishing.

1.3 RESEARCH METHODOLOGIES

In compiling and preparing the Euromonitor Report, Euromonitor International used the following methodologies to collect multiple sources, validate the data and information collected and cross-check each respondent's information and views against those of others:

- Secondary research, which involved reviewing published sources, including national statistics and official sources such as publications, specialist trade press and associations, company reports (including audited financial statements where available), independent research reports, and data based on Euromonitor International's own research database.
- Primary research involved interviews with a sample of leading industry participants and experts for the latest data and insights into future trends, supplemented by verification and cross-checking of data and research estimates for consistency.
- Projected data was obtained from a historical data analysis plotted against macroeconomic data with reference to specific industry-related drivers.
- Review and cross-checks of all sources and independent analysis to build final estimates including the size, shape, drivers and future trends of the retailing, convenience stores, forecourt retailers, café (inside and outside forecourt) and quick-service restaurants - fast food (inside forecourt) industries in Thailand, the Philippines, Cambodia, Myanmar, Laos and Singapore and prepare the final report.

1.4 FORECASTING BASES AND ASSUMPTIONS

Euromonitor International based the Euromonitor Report on the following assumptions:

- The report was based on data available during April - May 2019. There will be no external shocks, such as financial crises or shortages of raw materials, which affect the demand for and supply of the retailing, convenience stores, forecourt retailers, café (inside and outside forecourt) and quick-service restaurant - fast food (inside forecourt) industries in Thailand, the Philippines, Cambodia, Myanmar, Laos and Singapore;
- The economy is expected to maintain steady growth over the forecast period of 2019-2024 across the six markets covered: Thailand, the Philippines, Cambodia, Myanmar, Laos and Singapore;
- The social, economic, and political environments of Thailand, the Philippines, Cambodia, Myanmar, Laos and Singapore are expected to remain stable during the forecast period;
- Key market drivers such as change in lifestyles, increasing number of urban middle-class are expected to boost the development of retailing and consumer foodservice industries.
- Euromonitor's macroeconomic data and market value of the retailing, convenience stores, forecourt retailers, café (inside and outside forecourt) and quick-service restaurants - fast food (inside forecourt) are in nominal terms (2013-2024).

The research results may be influenced by the accuracy of these assumptions and the choice of these parameters. The market research was completed in May 2019 and all statistics in the Euromonitor Report are based on information available at the time of reporting. Euromonitor's forecast data is derived from an analysis of the historical development of the market, the economic environment and underlying market drivers, and it is cross-checked against established industry data and trade interviews with industry experts.

1.5 DEFINITIONS AND COVERAGE

Geographic Coverage

- Core countries:
  - Thailand
  - Cambodia
  - The Philippines

- Non-core countries:
  - Myanmar
  - Laos
  - Singapore

Industry / Category Definitions

- Retailing: Total retail sales value (aggregate of traditional and modern retail channels or the aggregation of store-based retailing and non-store-based retailing. Retailing excludes the informal retail sector.
- Convenience stores: Chained grocery retail outlets selling a wide range of groceries and fitting several of the following characteristics:
  - Extended operating hours in effect.
  - Located in residential neighbourhoods.
  - Handling two or more of the following product categories: audio-visual goods (for sale or rent), foodservice (prepared takeaway, made-to-order and hot foods), newspapers or magazines, cut flowers or potted plants, greetings cards and automotive accessories. Sales data excludes foodservice sales.
  - Example brands include 7-Eleven and Spar.
  - Note: The number of branches required to be termed chained varies from country to country but is usually 10 or more. If a multinational is operating in the country, then this is included, even if there are fewer than 10 outlets under the brand.
- Forecourt retailers: Grocery retail outlets selling a wide range of groceries from a petrol/gas station forecourt and fitting several of the following characteristics:
  - Extended operating hours in effect.
  - Handling two or more of the following product categories: audio-visual goods (for sale or rent), foodservice (prepared takeaway, made-to-order and hot foods), newspapers or magazines, cut flowers or potted plants, greetings cards and automotive accessories. Sales data excludes petrol/gas and foodservice sales.
  - Example brands include BP Connect and Shell Select.
  - Forecourt retailers is an aggregation of chained forecourt and independent forecourt retailers.
- Café: Outlets classified as cafés will have a wide selection of both food and drinks. The focus is primarily on non-alcoholic beverages; however, a wide variety of food is offered and in some establishments, this could account for a large portion of value. Cafés offer table service and consumers tend to eat-in.
  - Café also includes specialist coffee and tea shops which correspond to “coffee-themed” outlets, focusing primarily on serving coffee as the main item on the menu, with a large variety of different coffee types and coffee-related products. Such drinks are sold on their own or with pastries, biscuits, cakes and sandwiches for consumption either on or off the premises. However these outlets are currently developing a wider range of food items, such as salads and other light snacks. They usually offer take-away and present a modern environment and designer décor. The concept includes both coffee-to-go chains and independent coffee houses. Can include outlets which sell coffee beans, such as Lavazza.

- Quick-service restaurants - limited-service restaurants: Outlets classified under this offer limited menus that are prepared quickly. Customers order, pay and pick up their order from a counter. Outlets tend to specialize in one or two main entrees such as hamburgers, pizza, ice cream, or chicken, but they usually also provide salads, drinks, dessert etc. Food preparation is generally simple and involves one or two steps, allowing for kitchen staffs generally consisting of younger, unskilled workers.
    - Other key characteristics include:
    - A standardised and restricted menu;
    - Food for immediate consumption;
    - Tight individual portion control on all ingredients and on the finished product;
    - Individual packaging of each item;
    - Counter service;
    - A seating area, or close access to a shared seating area, such as in a shopping centre food court
    - For chained fast food, chained and franchised operations which operate under a uniform fascia and corporate identity.
    - Take out is generally present, as is drive-through in some markets

Period Coverage

Market review for this report has been carried out for the period covering 2013-2024, unless otherwise stated. Specifically, the 2013-2018 period will be termed the historical or review period and 2019-2024 will be deemed the forecast period for this entire report.

1.6 ABOUT EUROMONITOR

Established in 1972, Euromonitor International is the world leader in strategic research for both consumer and industrial markets. Comprehensive international coverage and leading-edge innovation make our products essential resources for companies large and small, national and global. With offices around the world and analysts in 80 countries, the company is a leading provider of global market intelligence. Our products and services are held in high regard by the international business community and we have 5,000 active clients, including 90% of the Fortune 500 companies.

2. THAILAND

2.1 MACROECONOMIC ENVIRONMENT IN THAILAND

A strong economy expected to grow further

Thailand was the second-largest economy in the Southeast Asian region in 2018; it was also the eighth-largest economy in Asia with total GDP of THB 16,316.4 billion (USD 505.2 billion). In 2016, 46.3% of its nominal GDP came from The Bangkok Metropolitan Area followed by 17.8% from the Eastern region (including cities like Chon Buri and Rayong). The remaining regions of the North, Northeast and South are less developed and accounted for a combined 26.7% that same year. Economic activity is concentrated in the capital, with Bangkok's port serving as the commercial centre of Thailand for imports and exports. It is also the centre of retail activity, attracting a vast number of tourists yearly. Approximately a third of all banks in Thailand, collectively holding over three-fourths of the deposits within the country, are located in its capital. In addition, the majority of car manufacturing and petrochemical activities take place at the industrial estates and parks close to Bangkok such as Bang Poo, Bang Kra Dee, Lat Krabang and Bang Chan Industrial Estate. Thus, it is anticipated that the nominal GDP remains to be significantly contributed by Bangkok and the metropolitan area over the forecast period.

After a drop in GDP in 2014 due to political unrest between 2013 and 2014, GDP growth picked up again in 2015 and registered a healthy 4.8% CAGR during the period of 2013-2018. The key pillars of economic growth were the manufacturing (focusing on automobiles, electronics and hard discs), and retail and wholesale sectors. The first accounted for 26.9% of the country's GDP and the latter was the second-largest contributor to GDP, accounting for 16.5% of its total in 2018. Improving consumer confidence and growing disposable income positively impacted retail sales. Middle- to higher-income consumers remained the key target for most retailers focused on novel higher-end products. This benefitted internet retailing, specialist stores, and innovative channel formats. An interesting case is the convenience store chain, 7-Eleven, which starts to include an in-store dine-in experience. For example, 7-Eleven branch on Henri Dunant Road comprises of three floors. The first floor is a 24-hour convenience store, while there are dining tables, chairs and restrooms on the second floor and the third floors for customers. The opening time of the second and third floor is 6AM to 10PM. Other specialist stores opening in Thailand include Segafredo Zanetti, a specialist coffee chain, and Bread Today, a bakery shop.

Overall, GDP growth during the review period was further boosted by the government's infrastructure investment – including rail and road infrastructure projects especially in rural areas – and increased consumer expenditure and healthy exports. Tourism was also a growth pillar of the economy and, despite the downturn in 2013 and 2014, the industry quickly picked up in the following years. The Tourism Ministry revealed that Thailand hold a record of 38.3 million tourists in 2018, which increased from 7.5% in 2017. Foreign tourist receipts directly account for about 12.3% of Thailand's GDP. In 2018, the total number of tourists were 38 million and the average daily tourist spending was THB 5,557 (USD 176.4) per person. Overall, the tourism industry generated more than THB 2.0 trillion (USD 63.5 billion) of foreign tourist receipts in 2018. Tourism remains one of the key economic drivers in Thailand, and its continuous growth leads to tourism-related job and business opportunities for the Thais, which will eventually support consumer confidence. The tourism ministry expects the positive trend to continue in 2019. It is expected to have 41.1 million tourists, projecting a total revenue of THB2.2 trillion.

Thailand experienced rising disposable income, strong consumer expenditure, and increasing GDP per capita, which reported a healthy 4.3% CAGR over the review period of 2013 to 2018. The GDP per capita for the Bangkok Metropolitan Area was twice the country's GDP per capita in 2016. In contrary, Northeastern and Northern regions presented the lowest GDP per capita in 2016. Implying the income inequality throughout the country despite robust middle and upper-middle classes with growing spending power.

Table 1 Thailand GDP Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 – 2018
				Thailand Overall				
Nominal GDP	THB, billion	12,915.2	13,230.3	13,747.0	14,533.5	15,450.1	16,316.4	4.8%
	USD, billion	399.9	409.6	425.6	450.0	478.3	505.2	4.8%
Nominal GDP growth	%	4.5	2.4	3.9	5.7	6.3	5.6	
GDP per capita	THB	199,352.0	203,153.3	209,146.3	220,433.2	233,425.8	245,677,4	4.3%
	USD	6,171.9	6,289.6.	6,475.1	6,824.6	7,226.8	7,606.1	4.3%

Source: Office of The National Economic and Social Development Board, National Statistical Office Thailand

A fast-ageing population

Thailand's population is ageing quickly and will be the first developing country by 2030 to become an aged society. The percentage of people who are more than 60 years old accounted for 16.1% of its total population in 2018. The Bangkok Metropolitan Area reported that 18.0% of its citizens were aged more than 60 years old in 2018, higher than the national average. In contrast, the poorer Southern and Northeastern regions, where fertility rates tend to be higher which is in line with lower education levels, registered lower than average percentages of 14.1% and 15.4%, respectively in 2018.

The government is taking a number of measures to improve the current infrastructure in order to meet the needs of an elderly population. Such measures include a tax break for firms hiring them; specifically, companies hiring people aged 60 or older will be allowed to take a double tax deduction on wages paid to elderly employees who earn up to THB 15,000 (USD 441.9) per month. In addition, the government allocated THB 287 billion (USD 8.5 billion) in 2016 for pension-related schemes, and the amount is expected to rise to THB 698 billion (USD 20.6 billion) by 2024.

Table 2 Population of Thailand (2013 – 2018)

000 People	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Total population	64,785.9	65,124.7	65,729.1	65,931.6	66,188.5	66,414.0	0.5%
Urban population	22,136.7	22,297.2	22,544.2	22,618.7	22,696.5	N/A	N/A
Population aged 60 and above	8,734.1	9,110.8	9,455.8	9,802.1	10,225.3	10,666.8	4.1%
Population aged 60 and above, as percentage of total population	13.5%	14.0%	14.4%	14.9%	15.4%	16.1%	3.6%

Source: National Statistical Office Thailand, Department of Provincial Administration

Government measures to boost disposable income prove fruitful

Urban consumers in Thailand enjoyed increasing income during the review period of 2013 to 2018, with disposable income per capita for urban consumers recording a CAGR of 2.7%. Growth accelerated in 2017 and

2018 by 2.9% and 4.3% respectively, following the 2012-2013 slowdown. Social class C[1] grew the fastest amongst all of the social classes, supporting a growing urban middle class. Social classes D and E, however, are expected to remain the most prevalent.

The government has undertaken several measures to help the lower social classes, including introducing a social welfare and cash card, and providing greater access to basic commodities and services. In April 2016, the Ministry of Finance proposed a series of income amendments such as an increase in deductible expenses, more sizeable personal, spousal and children allowances, and changes to thresholds for tax filing obligations amongst others. In addition, minimum wages in Thailand increased to THB 325 (USD 9.6) per day in 2018 from THB 305 (USD 9.0) per day in 2017, reflecting a 6.6% increase. All of these measures are expected to narrow the income gap, increase disposable income and favour consumer spending. Income growth is further supported by the country's economic growth as the population, in general, becomes more educated and have access to more and better job opportunities.

GDP per capita in Thailand will continue its growth into the future with robust economic growth. As education levels rise, the urban population will be able to greatly increase their incomes with better-paying job opportunities. Disposable income per capita for urban residents of Thailand is expected to record greater CAGR in the forecast period of 2019 to 2024.

Table 3 Thailand Disposable Income Per Capita – Urban Residents (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Disposable income per capita – urban residents	THB	134,991.3	137,777.1	138,398.2	143,328.8	147,483.7	153,890.8	2.7%
	USD	4,179.3	4,265.5	4,284.8	4,437.4	4,566.1	4,764.4	2.7%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Consumer expenditure enhanced by retail infrastructure and consumer confidence

Consumer expenditure registered a healthy CAGR of 4.3% over the review period of 2013 to 2018. This was partly supported by augmented borrowing leading to higher household debt levels. Consumer spending was bolstered by increased consumer confidence, government's tax deduction campaign to drive consumer spending and an expansion of the already-established retail trade in big cities and a flourishing economy.

An appreciated Thai baht and affordable pricing for local necessities, as compared to neighbouring countries such as Malaysia and Myanmar, contributed to strong growth of 3.9% CAGR in consumer expenditure on food and non-alcoholic beverages during 2013 – 2018. Expenditure on the latter categories was also facilitated by the expansion and popularity of convenience stores responding to consumers' need for ease of access. A wide range of restaurants open 24/7, spanning a wide variety of cuisines and budgets, in big cities and especially in Bangkok. The incident further benefitted consumer expenditure on food. As of 2018, consumers' spending on food and non-alcoholic drinks was the highest, amongst all product and service categories, accounting for 24.3% of all consumer expenditure. Meanwhile, consumers' spending on hotels and catering came in the second rank, accounting for 17.5%, followed by consumers' spending on miscellaneous goods and services (12.5%) and transport (12.2%).

Consumer expenditure is expected to reach over THB 12 trillion (USD 0.4 trillion) in 2023, as consumer disposable incomes increase. Consumer expenditure on food and non-alcoholic beverages likewise will strengthen and is expected to grow at a CAGR of 5.5% through the forecast period of 2019-2024 to reach THB 3,104 billion in 2024, driven mainly by increasing disposable incomes leading to greater demand for higher-quality daily necessities.

[1] Social Class data refer to the number of individuals whose incomes fall within a specified range of the average gross income of all individuals aged 15+ in that country or region. Social Class A: +200%; Social Class B: between 150% and 200%; Social Class C: between 100% and 150%; Social Class D: between 50% and 100% and Social Class E: less than 50% of the average gross income.

Table 4 Thailand Consumer Expenditure (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Consumer expenditure as a % of GDP	%	58.6	58.2	58.4	57.7	57.0	57.2	N/A
Consumer expenditure	THB million	7,570,632.9	7,704,517.6	8,029,392.1	8,393,119.0	8,809,123.6	9,328,761.0	4.3%
	USD million	234,384.9	238,530.0	248,588.0	259,848.9	272,728.3	288,816.1	4.3%
Consumer expenditure on food and non-alcoholic beverages	THB million	1,871,174.7	1,930,229.4	1,975,954.1	2,048,636.3	2,143,114.3	2,262,581.9	3.9%
	USD million	57,931.1	59,759.4	61,175.0	63,425.3	66,350.3	70,049.0	3.9%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Low inflation thanks to low CPI and a strong Thai baht

Inflation stood at particularly low levels over the review period, thanks to affordable pricing for necessities compared to neighbouring countries. In addition, a strong Thai baht further helped to keep inflation rates down. In line with low inflation, the Bank of Thailand maintained its interest rates at a record of 1.5% between April 2015 and November 2018, and only raised it in December 2018 to 1.75%. The low rates have encouraged consumer and corporate lending. Inflation is expected to increase in the future due to higher oil prices, greater economic growth and higher wages. However, it is expected to remain at low levels and within the target range projected by the Bank of Thailand.

Table 5 Thailand Average Inflation Rate (2013 – 2018)

%	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Average inflation rate	2.2	1.9	-0.9	0.2	0.7	1.1	N/A

Source: Bank of Thailand

FDI inflows not a major economic driver

FDI inflows represented 1.87% of the country's GDP in 2017. This percentage is quite low compared to other countries in the region and shows that FDI is not a major economic driver for Thailand. For example, FDI in Singapore and Cambodia amounted to 19.1% and 12.5% of total GDP, respectively, in 2017. FDI registered a CAGR of -1.8% in Thailand over the review period of 2012-2017 owing to large divestments by multinational companies and sluggish cross-border merger and acquisition sales. Political unrest in 2013-2014 and corruption practices further discouraged foreign investors.

On the other hand, Thailand captured the fifth-highest position within Asia-Pacific in the World Bank's Ease of Doing Business 2019 Report. The country has made big improvements in terms of greater investment freedom for businesses as well as facilitation of the process to start up a company from 27.5 days previously to only 4.5 days. FDI was encouraged by a low tax burden and strong government investment to upgrade the already-developed road infrastructure focusing on rural areas. The government also announced a plan to invest in the information and technology sectors. The latter includes the 2017-2021 Digital Government Plan, which aims to improve e-governance as well as to increase digital activities in the public and private sectors.

Table 6 Thailand Foreign Direct Investment Inflows (2012 – 2017)

	Unit	2012	2013	2014	2015	2016	2017	CAGR 2012-2017
Foreign direct investment inflows	THB million	283,948.8	475,889.0	156,228.3	192,653.2	72,998.2	259,153.7	-1.8%
	USD million	8,365.7	14,020.7	4,602.8	5,676.0	2,150.7	7,635.2	-1.8%

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

2.2 THE RETAILING INDUSTRY IN THAILAND

2.2.1 Market Overview

Store-based retailing still the key retail channel

The retailing industry in Thailand can be examined in terms of store-based retailing and non-store-based retailing. Store-based retailing is the main channel of sales, with a market share of 94.9% of total retail sales in 2018, valued at THB 3,724.2 billion (USD 115.3 billion). Greater growth is seen in non-store-based retailing with a CAGR of 5.4% between 2013 and 2018, compared to a CAGR of 2.8% for store-based retailing in the same period.

Store-based retailing includes grocery retailers, non-grocery specialists, and mixed retailers. Store-based grocery retailers accounted 54.2% of total store-based retail sales in 2018, and include convenience stores, discounters, forecourt retailers, hypermarkets, supermarkets, food/drink/tobacco specialists, independent small grocers, and other formats of grocery retail. Store-based non-grocery specialists accounted for 40.9% of total store-based retail sales in 2018; offers include apparel and footwear, electronics and appliances, health and beauty products, home and garden items, leisure and personal goods, among many other categories of non-grocery goods. Mixed retailers come in formats of department stores, mass merchandisers, variety stores, and warehouse clubs, accounting for only 4.9% of total store-based retail sales in 2018 but recording a CAGR of 5.5% between 2013 and 2018.

Non-store-based retailing includes direct sales, home shopping, internet retailing and vending. Direct selling is the most common format of non-store retail, recording THB 98.7 billion (USD 3.1 billion) of sales, or 49.3% of total non-store-based retail sales, in 2018.

Internet retailing grew significantly, driven by mobile internet retailing

Among the various retailing channels, internet retailing grew the most, registering a high CAGR of 15.9% between 2013 and 2018. Investments to improve technological infrastructure in Thailand under the government’s Thailand 4.0 policy will further increase internet penetration, which already stands at over 80% in 2018. Major improvements in online payment services and last-mile delivery logistics have contributed to the growth in internet retailing. In 2013, internet retailing constituted 25.0% of total non-store-based retail sales at THB 38.4 billion (USD 1.2 billion); by 2018, it accounted for 40.0% of total non-store-based retail sales and had more than doubled its retail sales value from 2013 to reach THB 80.2 billion (USD 2.5 billion).

Forms of internet retailing include mobile internet retailing and internet pure play retailing. Internet pure play retailers saw a CAGR of 3.6% between 2013 and 2018. Mobile internet retailing, driven by increasing mobile phone penetration in Thailand and changing consumer purchase behaviour, grew from just THB 1.5 billion (USD 47.9 million) in 2013 to THB 36.2 billion (USD 1.1 billion) in 2018, registering a CAGR of 89.0% between 2013 and 2018.

Retail landscape remains competitive and fragmented in Thailand

There are a number of key players in the retail landscape, but no particular player dominates the retail scene in Thailand.

Looking at store-based retailing, 7-Eleven, Tesco Extra, Big C, Central Department Store, and Home Pro are the top 5 brands. CP All PCL, which operates 7-Eleven stores in Thailand, has 9,437 outlets as of 2018 but holds just 8.0% of total store-based retail sales. While these brands are all well known, no single brand holds more than 10% of the market share by store-based retail sales. The bulk of the market share by store-based retail sales, standing at 72.7%, is held by multiple brands too small to be listed.

For non-store-based retailing, Amway is the top market shareholder. It is a direct sales company with an established multi-level network of sellers. This is followed by Lazada, which is the leading player for online retailing within Thailand. Others leading players 5 include Mistine, Shopee Mall, and Giffarine.

Even with the strong branding of some of the global or local brands, the retail landscape remains fragmented. As the retailing environment evolves to accommodate newer retail formats such as internet retailing, competition will continue to intensify with more players entering the market.

Retail market performance is historically stable

The retailing industry in Thailand recorded stable performance between 2013 and 2018 with a CAGR of 3.0% in retail sales value, consistent with GDP per capita growth of 4.3% over the same period. The retail market grew 17.3% from THB 3,391,870 million (USD 105,011 million) in 2013 to THB 3,924,446 million (USD 121,500 million) in 2018. In line with the forecast GDP growth, Thailand's retailing industry is expected to maintain its growth potential.

Table 7 Thailand Total Retail Sales (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Total Retail Sales	THB million	3,391,870	3,483,189	3,589,464	3,682,927	3,806,614	3,924,446	3.0%
	USD million	105,011	107,839	111,129	114,022	117,852	121,500	3.0%

Source: Euromonitor Passport - Retailing 2019 Edition

2.2.2 Legislative and Regulatory Policies

Foreign investment policy allows 100% foreign ownership

While the Foreign Business Act (B.E. 2542) lists out key industries where foreign businesses are not permitted to enter, there are regulations pertaining to foreign direct investment in the retailing and wholesale business that allows up to 100% foreign ownership upon obtaining the relevant permissions from the Foreign Business Registrar.

This is favourable to large retailing corporations with more than THB 100 million (USD 2.9 million) worth of registered and paid-up capital to enter and compete in the Thailand market. However, no big foreign player has applied for full ownership thus far, as expertise and knowledge of local operations is critical. This presents an opportunity for local players to form partnerships with international companies.

Small store formats introduced in compliance with land use regulations

Land use in Thailand is regulated under the Building Contract Act (BCA), with restrictions placed on the sizes of buildings used for retailing or wholesale purposes. Large retail stores (of more than 1,000 square meters) must be located at least 15 kilometres from the commercial centres of provinces in Thailand. This restricts the expansion of hypermarkets and seeks to help protect small traditional retail stores operated by independent owners. In compliance with the government regulations, modern retail companies have introduced more small store formats, such as convenience stores and forecourt retailers with store space of less than 300 square meters.

New laws governing retail and wholesale businesses

To regulate retail and wholesale businesses, a modified Retail and Wholesale Business Act was proposed by the National Legislative Assembly (NLA) for cabinet approval in early 2017. The new law establishes clear criteria and requirements for expansion and controls the locations of operation. It also proposes a corporate tax payment scheme based on the number of branches and income generated. Once the draft has been passed into law, it is expected to control the expansion of major store-based grocery retailers such as hypermarkets and supermarkets to protect local small businesses.

2.2.3 Drivers and Constraints

Measures to spur economic growth amid slower GDP growth in the first half of 2019

GDP growth has a direct impact on retail spending by consumers, as a strong economic outlook boosts consumer confidence to spend. The Ministry of Finance in Thailand lowered its 2019 GDP forecast in April to 3.8% from 4.0% in January, due to weaker exports from rising protectionism that dampened trade globally during the past year. The finance ministry would introduce measures worth about 20 billion baht to spur economic growth, which was expected to slow to about 3% in the first quarter from a year earlier. Annual growth in the first half of 2019 is projected at 3%, and to pick up at 4.5-4.6% in the second half, creating a positive impact on the growth of consumer-related sectors such as the retailing and wholesale businesses.

Smartphone penetration drives on-the-go purchases

According to the *Digital 2018 Global Overview* released in early 2017, there are an estimated 51 million internet users in Thailand. In January 2017, the National Statistical Office of Thailand reported that more than 90% of internet users in the country access the internet via smartphones, a much higher rate than any other devices. In comparison, the figure stands at 45.4% for desktops, 20.8% for laptops, and just 10.2% for tablets. In the *2016 Household Survey on the use of Information and Communication Technology* published by the National Statistical Office of Thailand, smartphone penetration is reported to be higher in urban areas such as in Bangkok with 70.2% smartphone penetration rate, and lower in non-urban areas such as the lesser developed North-eastern region with 39.3% smartphone penetration rate. Overall, slightly more than half the population are smartphone users in 2016. Smartphones have increasingly become the main channel of accessing the internet in Thailand, and consumers are spending more time on their smartphones to shop on-the-go. Major retailers are leveraging on this consumer behaviour trend to build mobile apps to capture sales, and to increase their efforts in mobile marketing.

Changes in demographics drives changes in retail formats

A fast-growing middle-class population with strong spending power in Thailand drives demand for higher-quality goods. At the same time, Thailand’s population is relatively young as compared to other Southeast Asian populations and smartphone usage will impact the growth in internet retailing. The social structure has changed, especially in cities where household sizes have become smaller, as has the lifestyle of Thais. As the lifestyles of Thais in urban areas are busy and hectic, more purchases are made on-the-go. With laws regulating locations of hypermarkets or other large retail stores, that limit the opening of more outlets, the market has seen a growth in small retail formats such as convenience stores to meet the daily needs of consumers.

2.2.4 Market Outlook

Retailing market continues to grow

The retailing industry of Thailand is expected to extend its growth into the future periods. Further economic growth is anticipated in Thailand over the forecast period of 2019 to 2024. With GDP growth for second half of 2019 set at approximately 4.5% to 4.6%, the retail sector of Thailand is set to register positive performance over the forecast period. Total retail sales is projected to record a CAGR of 4.6%, growing from THB 4,096,013 million (USD 126,812 million) in 2019 to THB 5,124,246 million (USD 158,645 million) in 2024.

Table 8 Thailand Total Retail Sales (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F - 2024F
Total Retail Sales	THB million	4,096,013	4,278,008	4,471,482	4,680,205	4,894,124	5,124,246	4.6%
	USD million	126,812	132,446	138,436	144,898	151,521	158,645	4.6%

Source: Euromonitor Passport - Retailing 2019 Edition

Retail will evolve to complete the consumer experience

Consumers now have ever more choices from the retailing industry – from the range of products or services, to the brands, to the formats of purchase, resulting in a slowing of same store sales growth. Retailers must now put in more effort to remain competitive and relevant in the market. Central Group, for example, invested THB 350 million (USD 10.3 million) to rejuvenate its department stores with new décor and store layouts to keep consumers in for longer periods of time in an attempt to increase sales. Novelty concepts, such as bringing in new brands and adding new products and services, are essential to add value to the consumer experience. Family Mart's Holiday Inn Silom Store, opened in February 2017, houses a Segafredo Zanetti café and a Bread Today bakery, and offers products beyond packaged goods, including fresh fruit, cooked meals and more. Grocerants were also launched in premium supermarkets, where consumers can select the ingredients in the supermarket and have these prepared by a chef in-house. Consumers will increasingly be able to enjoy a complete experience in retail stores.

Thailand 4.0 pushes retail sector towards digitalization

Investment in development of infrastructure to build a smart city continues to grow. With Thai government leading the move towards Thailand 4.0, digital technologies are increasingly being applied in daily life. The proliferation of smartphone usage in Thailand leads to quicker adoption of mobile technologies as compared to other technologies. The retailing industry in Thailand is no exception, seen in the rapid growth of internet retailing. Currently the growth of internet retailing is driven mainly by sales of non-grocery products for which the customer is not so sensitive about the delivery lead time, such as apparel or household items, led by players like Lazada of Alibaba Group.

Major store-based retailers such as Big C, Tesco Lotus, and Tops, have also made their foray into internet grocery retailing by developing their own mobile apps for consumers to place orders for grocery products in advance.
Central Food Retail Group, for example, offers a click-and-collect option for over 10,000 products and this is rapidly gaining popularity among consumers. There are also third-party grocery ordering and delivery apps such as HonestBee and HappyFresh, where grocery retailers have listed themselves on, for greater market exposure. With improvements in logistics infrastructure as well as secure online payment methods under the Thailand 4.0 policy, online retail of grocery products is also expected to grow.

Retailers need to take note of margins

The competitive retail landscape calls for greater investment and marketing expenditure. As third-party grocery apps have allowed grocery suppliers to enter the fragmented industry by selling directly to the consumer, retailers need to protect their margins and profitability. Suppliers, which previously depended on retailers to distribute their products, can now sell directly to the consumer. Retailers now need to perform delicate balance act of spending to protect market share and pricing that ensures profitability for business sustainability.

2.3 THE CONVENIENCE STORES IN THAILAND

2.3.1 Market Overview

Convenience stores offering more to stay competitive

Traditionally, convenience stores sold goods for daily consumption. With intense competition, convenience stores have expanded their offerings beyond products to provide a full range of services. Many convenience stores now offer services such as bill payment and mobile phone value top-up and houses automated machines such as vending machines and ATMs. Convenience stores are also introducing in house brands or bringing in new brands with innovative campaigns to keep customers returning.

As internet retailing grows rapidly in Thailand, and convenience stores connect online retailing with the offline world. Its round-the-clock operating hours makes it a perfect collection point for consumers who make online purchases.

A consumer shift towards more convenient retail formats

Small retail formats are among the fastest growing in the modern retail landscape. The Thai Retailers Association reported a total of 15,883 small format chained retail stores in 2017. These stores are present in every street and every corner and have become a part of the daily life of Thai people. Consumers have changed their purchase behaviours, choosing to make small purchases more frequently, as and when supplies deplete. Such small retail stores meet the needs of the consumers with their diverse product range and convenient locations. In 2017, more than 90% of urban Thai shoppers visited convenience stores frequently, spending an average of THB 60 (USD 1.8) per visit, at 13 visits per person monthly.

Retailers, too, have an increased preference for expanding via small format retail stores. Opening small stores is quicker and is not subject to many of the land use regulations. The number of convenience stores is expected to increase by 5.3% from 2018 to 2019, while the expansion of hypermarkets has slowed down with the number of hypermarket outlets plateauing at around 300 outlets.

Outlet expansion outpaces sales growth

There are 14,008 convenience store outlets, accounting for 18.9% of total retail sales of grocery retailers in Thailand in 2018.

Between 2013 and 2018, the value sales of convenience stores grew at a CAGR of 4.9% from THB 301.4 billion (USD 9.3 billion) in 2013 to THB 382.4 billion (USD 11.8 billion) in 2018. Correspondingly, the number of outlets grew from 10,201 in 2013 to 14,008 in 2018 at a CAGR of 6.5%, while the selling space grew from 1,351,000 square metres in 2013 to 1,885,000 square metres in 2018, at a CAGR of 6.9%. As the growth in the number of outlets and amount of selling space outpaced the growth in convenience store sales, sales per outlet and sales in THB per square metres registered negative CAGRs.

Table 9 Thailand Convenience Store Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Convenience stores sales	THB million	301,446	316,519	338,042	348,183	368,082	382,361	4.9%
	USD million	9,333	9,799	10,466	10,780	11,396	11,838	4.9%
Number of outlets	-	10,201	10,781	11,496	12,245	13,226	14,008	6.5%
Selling space	square metre, '000	1,351	1,462	1,551	1,656	1,774	1,885	6.9%
Sales per outlet	THB	29,550,652	29,358,918	29,405,167	28,434,716	27,830,213	27,295,867	- 1.6%
	USD	914,881	908,945	910,377	880,332	861,617	845,073	-1.6%
Sales per selling space (square metres)	THB	223,112	216,512	217,895	210,243	207,534	202,833	- 1.9%
	USD	6,907	6,703	6,746	6,509	6,425	6,280	-1.9%
Convenience stores' sales contribution to grocery retailers	%	16.9%	17.2%	17.9%	18.1%	18.6%	18.9%	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

2.3.2 Drivers and Constraints

Urbanization encourages convenience store expansion

The urban population of Thailand stands at nearly 50% of the total population in 2018, which is relatively low compared with nearby countries such as Singapore with a 100% urban population, Malaysia 75%, and Indonesia 55%. Modern retail is still underpenetrated, at around 200 branches per 1 million population, and there remains room for branch expansion to reach more consumers, especially through small retail formats like convenience stores and mini supermarkets, as the population becomes increasingly urbanised. The proportion of urban population has been showing growth from approximately 46% in 2013 to nearly 50% in 2018, and is expected to reach 55% as of 2025.

Convenience stores penetration is relatively higher in urban areas such as Bangkok and Greater Bangkok, as real estate expands vertically. More urban people are living in apartments and high-rise buildings, so small retail format, such as convenience stores, seem to have become the most appropriate form of retail in these crowded and land-scarce locations. due to the lifestyle of the urban population and greater affluence of consumers. In less developed regions such as the North Eastern Thailand, consumers are more price sensitive and are also more familiar with traditional retail formats, choosing to visit traditional grocery retail stores over modern retail stores.

Rising middle-class seek convenience

The middle-class population in Thailand is growing rapidly. With rising affluence, Thai consumers have become more brand conscious and less price-oriented. In Thailand, there is no significant price difference in buying from convenience stores and from hypermarkets or other traditional grocery retail formats, as compared to other countries where consumers generally pay a premium for the same products sold in convenience stores. As a result, Thais are gravitating towards visiting modern convenience stores for their daily grocery needs because of the convenience provided in terms of travelling time, product and service offerings.

Influx of investment strengthen market positions of key players

Due to the high competitiveness of the retail landscape in Thailand, major players in Thailand see the need to expand rapidly to strengthen their market positions. To increase market penetration quickly, companies are investing in physical retail stores. Small retail outlets are seen as a quicker way to increase presence in the market. With the influx of investment in the convenience store sector from key players, the number of convenience stores and supermarkets outlets is forecasted to see the growth of 3.1% and 2.3% respectively between 2019 and 2024. This, as well as other factors, such as changes in consumer lifestyle behaviours and government regulations, encourage the growth of smaller retail formats.

Lack of proper land use planning

Regulations on land use planning were not enforced until recently; it is thus common to see many brands of convenience stores clustered together in high traffic areas, competing for same customers. This invariably leads to low profit margins for the store owner. Prime locations are taken up by key players, which make it difficult for competing brands to operate successfully and profitably in the same space.

Higher costs affect competitiveness in less developed regions

The cost of operation of a modern retail outlet such as a convenience store is higher than that of a traditional trade outlet such as traditional mom & pop stores. Additional costs include management fees payable to global brand owners, marketing expenditure, as well as higher rental costs since convenience stores are often located in prime locations. In exchange, consumers often pay more for the same product purchased from a convenience store as compared to the same purchased from other channels such as traditional retail outlets, or hypermarkets. Even though the price premium of convenience stores is not high in Thailand, this can still affect the convenience store penetration rate in less developed regions of Thailand, where the consumer is more price sensitive as compared to the urban Thai consumer.

Rising labour costs a key concern in expansion

As key retail companies expand the number of convenience stores, the rising labour costs have become a bottleneck. The Thai population has grown in affluence and are becoming more educated, so they seek knowledge-based and skill-based jobs which offer higher salaries. Convenience stores are typically operated 24 hours day, and it has become more difficult to hire employees for the night shift. The shortage in manpower has become a key consideration in planning new outlets.

Convenience store sales grow in importance to grocery retailers

The convenience store segment of grocery retailers is forecasted to register strong performance over the forecast period of 2019 to 2024 with a CAGR of 4.5%. The increase in number of outlets will support the increase in sales for 2019 to 2024, and sales per outlet continues to increase in the forecast period. By the end of the forecast period, total convenience store sales, valued at THB 501,203 million (USD 15.5 billion), is expected to contribute to approximately 20% of total sales of grocery retailers.

Table 10 Thailand Convenience Stores Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Convenience stores sales	THB million	402,253	422,411	442,647	462,779	482,029	501,203	4.5%
	USD million	12,454	13,078	13,704	14,328	14,924	15,517	4.5%
Number of outlets	-	14,753	15,421	16,014	16,506	16,912	17,198	3.1%
Selling space	square metre, '000	1,992	2,087	2,173	2,244	2,303	2,344	3.3%
Sales per outlet	THB	27,265,817	27,391,940	27,641,276	28,037,005	28,502,200	29,142,612	1.3%
	USD	844,143	848,048	855,767	868,019	882,421	902,248	1.3%
Sales per selling space (square metres)	THB	201,964	202,362	203,722	206,248	209,350	213,824	1.1%
	USD	6,253	6,265	6,307	6,385	6,481	6,620	1.1%
Convenience stores' sales contribution to grocery retailers	%	19.2%	19.5%	19.7%	19.8%	19.9%	20.0%	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

2.3.3 Market Outlook

Retailers become more careful in planning outlet expansion

Historically, key retailers focused on strengthening market presence by opening more outlets. The modern retail market is forecasted to continue its growth, though such growth would not be as high as growth recorded historically. Between 2013 and 2018, the average growth of convenience store sales stands at 4.9% annually but same store sales growth sees a trend of slowing down.

In the forecast period, retail companies are anticipated to move towards optimizing sales per outlet and will be more careful in planning the opening of new branches, taking into greater consideration factors such as location and planning new outlets with different retail formats.

New business models will arise

To cope with increasing competition, retailers are looking to create brand loyalty by providing consumers a complete and value-added customer experience. Modern grocery retailers engage with customers by providing dine-in experiences with ingredients sold within the outlet. Convenience stores have fast become an alternative to restaurants and cafes for the consumer to enjoy a meal with an expanded range of hot food and beverages.

The number of convenience store outlets operating in the country grew 37% from 2013 and 2018. Even with this high expansion there remain growth opportunities with new business models. Retailers are creating mutually-beneficial partnerships, such as with service stations to operate convenience stores within service stations. Drivers, especially those travelling long distances, may stop by service stations to refill petrol as well as take a break, often purchasing food and drinks as well. There are more than 25,000 service stations operating across the country, with more than 2,000 of these hosting a convenience store. Convenience store operators may look in this direction to capture more sales in under-served locations.

Opportunities for new players to enter the market

Despite the intense competition, the convenience store sector remains lucrative as consumer demand grows. Players in non-retail industries may see an opportunity to expand their business and enter the grocery retail market by operating small retail formats such as convenience stores in high traffic areas, which require less investment than opening a hypermarket.

2.3.4 Competitive Environment

7-Eleven adopts strategy of aggressive expansion

While there are many convenience store outlets in Thailand, there are only a handful of major brands. 7-Eleven, operated by CP All, remains the leading convenience stores player, capturing the majority of market shares. Player 2 also comes in second in terms of number of outlets, with 1,344 outlets as of 2018. Player 3 maintained third biggest player in terms of market share, and the number of its outlets increased slightly from 1,096 in 2017 to 1,144 in 2018 which indicates sales growth per outlet. Player 4 grew the number of outlets from 275 outlets in 2016 to 455 outlets in 2018; this represents the company’s focus on small retail formats.

In the period between 2013 and 2018, 7-Eleven adopted a successful strategy of aggressive expansion, opening close to 2,000 new outlets and posted a strong net profit growth. The company has also planned store expansions, renovations, and new project investments at a budgeted capital expenditure of THB 10 billion (USD 0.3 billion) in 2018 to maintain its foothold as the top player.

Player 2’s outlets are the largest, with an average selling space of 180 square meters. A retail format of player 2 is a combination between the formats of supermarkets and convenience stores, a “Super-Convenience-Store”, which explains the relatively bigger size. They come as stand-alone outlets, or are located within community malls, and in some service stations. Player 4 outlets are 160 square meters on average, 7-Eleven outlets are 125 square metres on average, and Player 3 outlets the smallest at 120 square metres.

Table 11 Thailand Market Share Ranking of Convenience Stores in 2018

Ranking	Convenience Store Brand	% Market Share by Revenue	Listing Status
1	7-Eleven	78.1	Public
2	Player 2	8.8	Private
3	Player 3	4.8	Private
4	Player 4	1.7	Public
5	Player 5	1.6	Public

Source: Euromonitor Passport - Retailing 2019 Edition

2.4 THE FORECOURT RETAILERS IN THAILAND

2.4.1 Market Overview

Service stations partner with convenience stores

Service stations usually do not have expertise in the management of grocery retail outlets. To complete the customer experience and capture retail market share, service station companies are partnering with convenience store brands to manage the forecourt retail space.

PTTOR, accounting for 40.6% of the market share in terms of sales volume of gasoline and diesel, is the largest oil retailer in Thailand as of 2018 and has forecourt retail outlets under the 7-Eleven and Jiffy brands. This is a mutually-beneficially partnership, as 7-Eleven expanded its branches in PTTOR's service stations to achieve complete national coverage. Esso is phasing out its own retail brand TigerMart, and replacing them with Tesco Lotus Express, Lawsons, Family Mart, or S Mart. Its key forecourt retail partner is Tesco Lotus Express; in 2018, there are about 608 Esso service stations, and around 263 Tesco Lotus Express forecourt retail outlets in the service stations.

Service stations building business networks beyond oil

Service stations started as a rest stop for drivers as they refill petrol but are increasingly adding a wide range of other services. The most common is tie-ups with convenience store brands to open forecourt retail outlets to meet the needs of consumers. Service station companies are now seeing the need to build a network of oil and non-oil businesses. In 2016, Bangchak signed an exclusive partnership with SPAR, a joint venture between Bangchak Retail and SPAR International from the Netherlands. Bangchak aims to operate 300 SPAR outlets at its service stations by the end of 2020 to support demand from drivers and residents of communities in proximity.

Services included depends on size and location of service station

Forecourt retailers may be classified by size. There are large format service stations located along major roadways – the target segment is often making long rest stops on long drives, thus the forecourt retail space would include a comprehensive range of services, including smaller-sized supermarkets, quick-service restaurants, and cafés. For the standard-sized service station, it would include at least a convenience store stocked with ready-to-eat food and drink items. Finally, there are also small-sized service stations located along secondary roads – the forecourt retail space would offer basic products or services, since there are usually bigger outlets located in close proximity or along main roads.

Forecourt retail sales has potential to grow more

Between 2013 and 2018, forecourt retail sales recorded a CAGR of 6.8%, growing from THB 43,294 million (USD 1,340 million) in 2013 to THB 60,128 million (USD 1,862 million) in 2018. Sales per outlet growth was at a lower rate than the growth of number of outlets and selling space, implying a need for operators to strategize outlet openings. Overall, forecourt retail sales contribute at 3% to grocery retailers in 2018.

Table 12 Thailand Forecourt Retail Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Forecourt retail sales	THB million	43,294	45,459	46,823	49,632	54,331	60,128	6.8%
	USD million	1,340	1,407	1,450	1,537	1,682	1,862	6.8%
Number of outlets	-	2,072	2,217	2,282	2,442	2,657	2,756	5.9%
Selling space	square metre, '000	185.9	200.0	213.5	227.1	237.8	245.3	5.7%
Sales per outlet	THB	20,894,788	20,504,601	20,518,186	20,324,242	20,448,175	21,817,199	0.9%
	USD	646,897	634,817	635,238	629,234	633,070	675,455	0.9%
Sales per selling	THB	232,889	227,294	219,309	218,546	228,473	245,121	1.0%

space (square metres)	USD	7,210	7,037	6,790	6,766	7,073	7,589	1.0%
Forecourt retail sales contribution to grocery retailers	%	2.4%	2.5%	2.5%	2.6%	2.7%	3.0%	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

2.4.2 Drivers and Constraints

Consumer demand convenience

Service stations and forecourt retail outlets are conveniently located, often 'on the way'. Consumer lifestyles are getting busier and consumers want convenience in both products and location for purchase. Forecourt retail outlets are therefore the perfect channel for grocery retailers to reach out to busy consumers who might want to grab a quick dinner or coffee as they refill the petrol of their cars or making a rest stop.

Technology changes the way consumers buy from forecourt retailers

Technology has changed the forecourt retail experience. In Thailand, Shell offers its customers mobile functionality within the forecourt experience by allowing them to order food and beverage via an app for delivery to their car. Shell customers can also make use of the mobile app to pay for fuel from the comfort within their car. Forecourt retailers can also leverage on their location to offer more convenience to local customers by acting as a click-and-collect point, where consumers order goods or food items in advance and picks them up at forecourt retail outlets.

Customized store layouts and localized offerings drive sales

There are a large number of service stations nationwide. Depending on the anticipated needs of the target customers, the forecourt retail store outlets can be customized. Where consumers are expected to stay for a long time, forecourt retail outlets should ensure there is enough seating space. Forecourt retail outlets can also customize product range based on the anticipated demand. For example, forecourt retail outlets located along roads leading to beach towns can stock items such as sunblock or flip flops, while forecourt retail outlets located along roads leading to major airports or seaports can stock souvenir items.

In Thailand, key player PTTOR also revamped its service stations with the concept of "Living Community". With this concept in mind, PTTOR aims to make each service station under the "ptt station" brand a community centre of sorts, by engaging key stakeholders and increasing interaction among the company, partners, and members of the community to create new products and services. This is expected to encourage consumers to spend more time at forecourt retail outlets and hence, drive sales of the forecourt retail outlets.

2.4.3 Market Outlook

Forecourt retail contributes a small share of total sales for grocery retailers

Forecourt retail sales is expected to grow at a CAGR of 9.6% between 2019 and 2024, and reach THB 105,895 million (USD 3,278 million) in 2024. During the forecast period, the number of outlets is expected to increase at a slower pace than the review period, at a CAGR of 2.5%. Sales per outlet and sales per selling space are expected to register growth rates of 7.0% and 7.4% respectively over the forecast period, due to a stronger growth in forecourt retail sales as compared to the increase in number of outlets. Forecourt retail sales continue to contribute less than 5% to the total sales of grocery retailers in 2023, as other formats of grocery retail such as convenience stores are growing at a faster pace.

Table 13 Thailand Forecourt Retail Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Forecourt Retail sales	THB million	66,992	74,227	81,771	89,666	97,703	105,895	9.6%

	USD million	2,074	2,298	2,532	2,776	3,025	3,278	9.6%
Number of outlets	-	2,848	2,934	3,014	3,088	3,156	*3,216*	2.5%
Selling space	000 square metres	252.3	258.8	264.7	270.2	275.2	*280.0*	2.1%
Sales per outlet	THB	23,522,577	25,298,978	27,130,458	29,036,885	30,957,921	32,928,843	7.0%
	USD	728,253	783,250	839,952	898,975	958,450	1,019,469	7.0%
Sales per selling space (square metres)	THB	265,526	286,813	308,920	331,850	355,026	378,823	7.4%
	USD	8,221	8,880	9,564	10,274	10,992	11,728	7.4%
Forecourt retail sales contribution to grocery retailers	%	3.2%	3.4%	3.6%	3.8%	4.0%	4.2%	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

Innovations in technology

With the advance of mobile technologies, forecourt retailers can make use of mobile marketing to attract consumers to specific outlets. Offers and promotions may also be personalised to the individual customer based on their profile and anticipated needs.

Automated machines and robots will also be used to replace human labour to provide standardized services such as order fulfilment and delivery while minimizing errors. Automation and self-service technologies will remove the bottleneck of labour shortage, which allows forecourt retail operators to expand their operations and run round-the-clock operations smoothly.

Leverage on location to complement online business

Many forecourt retail outlets are operated by key grocery retail brands, who have also started to build their online presence. The physical forecourt retail outlets complement the online stores to expose the brand to the market more through different channels. This can be a way to help grocery retailer brands to increase the brand awareness and brand recognition in the market, which can have impacts on the brands building their market share.

Forecourt retail outlets are viewed to be limited to getting sales only from consumers who visit the service station or forecourt retail outlet. However, there is opportunity for forecourt retail operators to leverage on their locations along major roads, and their round-the-clock operating hours, to cooperate with online retailers who have no mortar-and-brick presence. Forecourt retail outlets can provide ancillary services and become a point of collection for consumers who have made purchases online – this can be a new source of revenue stream – and capture additional sales.

2.4.4 Competitive Environment

7-Eleven leads due to partnership with ptt stations

7-Eleven is the leading forecourt retail brand, capturing 69.7% of the market share by sales revenue for forecourt retailers. In 2018, 7-Eleven had opened more than 600 outlets across Thailand. The strong presence of 7-Eleven could be attributed to its partnership with PTTOR, with 2,035 stations across Thailand. PTTOR had acquired the rights to the 7-Eleven franchise from CP All, and this agreement expires in 2023. The other forecourt retail brands currently each hold a much smaller market share.

Table 14 Thailand Market Rankings and Shares of Forecourt Retailers in 2018

Ranking	Forecourt Retailer Brand	% Market Share by Revenue	Listing Status
1	7-Eleven	69.7	Public
2	Player 2	7.4	Private
3	Jiffy	6.5	Private
4	Player 4	3.6	Private
5	Player 5	2.5	Public

Source: Euromonitor Passport - Retailing 2019 Edition

2.5 QUICK-SERVICE RESTAURANTS (QSR) INSIDE FORECOURT IN THAILAND

2.5.1 Market Overview

U.S. brands traditionally dominant

Quick-Service Restaurants (QSR) inside forecourts were traditionally mostly U.S. brands such as McDonald's, KFC, Pizza Hut, A&W, Texas Chicken, and Subway. These quick-service restaurants offered a quick and affordable hot meal to consumers making rest stops at service stations. However, as forecourt retail grew and diversified, service stations are increasingly partnering up with other quick-service food providers such as cafés, bakeries, and convenience stores, to offer consumers more choices. At the same time, major quick-service restaurant brands such as McDonald's and KFC, which have established in Thailand for some time are now looking to expand geographically outside of traditional locations such as the drive-through format. For example, Dunkin' Donuts has recently opened the first drive-through outlet in Thailand at Porto Go in Bang Pa-In district. The outlet location is on a strategic route to Northern Thailand and Porto Go is a famous resting spot for drivers and travellers.

Service Stations expand non-oil business with quick-service restaurants

The oil retail industry is heavily regulated and extremely competitive, and retailers have seen a general downward trend on margins. To maintain profitability, oil retail companies look towards forming strategic partnerships with quick-service restaurant companies to combine as many brands and services under one roof.

McDonald's is one of the top crowd-pulling quick-service restaurant brands, so it is often top on the list of outlets to open in forecourt spaces by oil retail companies. At the same time, quick-service restaurant brands are also looking to leverage on the locations of service stations to expand their network. In 2016, McDonald's planned for 25 new stores, half of which will be Drive-Thru outlets. These outlets are most suitable to be located at service stations, since it is in line with the "grab-and-go" nature of services at service stations.

In April 2017, PTTOR worked with The Commerce Ministry of Thailand to open a low-priced Thai food quick-service restaurant in a ptt station located in Suphanburi province. It was the first step of the planned to open restaurants at ptt stations across Thailand.

Menus cater to local consumer tastes

Many quick-service restaurants originating from the U.S. but have developed new menus to meet local preferences. For example, KFC Thailand introduced rice dishes to meet the preferences of Thai consumers. Similarly, other quick-service restaurant brands have introduced new menu items with local flavours such as Tom Yum.

Convenience stores have also introduced new food items in line with changing consumer preferences. As consumers shift towards healthy eating, convenience stores start to offer healthy and freshly prepared food items. For example, Family Mart introduced a range of Japanese-style healthy sandwiches with premium fresh vegetables and freshly cooked meat. It also introduced breakfast menu for children and healthy meals for those who plan their meals carefully.

Consumers spending more per transaction

In 2013, quick-service restaurants inside forecourt recorded THB 3,114 million (USD 96.4 million) in sales. Quick-service restaurant sales inside forecourt have increased at a CAGR of 13.4% between 2013 and 2018 to THB 5,837 million (USD 180.7 million) by the end of the review period. In the same period, the number of transactions grew at a CAGR of 10.2% from 20.1 million transactions to 32.7 million transactions. The sales per transaction has increased from THB 15jifff4.9 (USD 4.8) in 2013 to THB 178.7 (USD 5.5) in 2018 due to increased prices and a greater demand from consumers.

Table 15 Thailand Quick-Service Restaurants Inside Forecourt Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Quick-service restaurant sales	THB million	3,114	3,356	3,660	4,013	4,615	5,837	13.4%
	USD million	96.4	103.9	113.3	124.3	142.9	180.7	13.4%
Number of transactions	'000	20,107	21,414	22,891	24,540	26,331	32,658	10.2%
Quick-service restaurant sales per transaction	THB	154.9	156.7	159.9	163.5	175.3	178.7	2.9%
	USD	4.8	4.9	4.9	5.1	5.4	5.5	2.9%

Source: Euromonitor estimates from trade interviews and desk research

2.5.2 Drivers and Constraints

Changing consumer lifestyles demand shorter services times

The modern consumer runs short on time and do not want to wait. When making purchases, the consumer demands that the product must be easy to access, and the service must be quick. Quick-service restaurants have efficiency operations that allow for meals to be delivered within minutes of ordering. Cashless payment technologies allow for payment to be made in a matter of seconds. The growth of quick-service restaurants will continue to be driven by consumer demand for grab-and-go services.

The consumers' lifestyle in Thailand, especially in Bangkok and other major cities, are changing. Consumers are busy with their work schedule and have less time to cook at home. Hence, food delivery is a perfect solution for them. Around 85% of the Thai population are using smartphones and ordering food through mobile applications and using delivery services has become increasingly common. Approximately 30% of the sales from chained quick-service restaurants is made through their delivery service. There is an opportunity for quick-service restaurants inside forecourts to offer delivery services from their convenient locations.

Branch expansion by players

Players in the market are now expanding their network by opening more outlets across the country, to further penetrate the market. Each outlet serves as a touch point for the consumer. The more outlets the brand has, the higher the chance to reach potential customers.

A diverse range of outlet formats is also used for reaching different segments of customers. Apart from outlets located within shopping malls, quick-service restaurants also operate as standalone stores, or as Drive-Thru outlets at service stations. More mini-outlets are also being opened at major transportation hubs to lighten the service loads on large branches nearby.

Meanwhile, leading service station operators in Thailand also seek out partnerships with well-known quick-service restaurant brands to set up stores in their service station outlets. This is to drive customer traffic into their stations as well as to create another stream of revenue by renting out part of the service station's area. At the same time, consumers increasingly prefer to drop by service stations in comparison to shopping malls due to shorter time spent in dining with no hassle in finding parking lots.

Expansion of non-oil businesses by oil retailers

Oil retailers are seeking to boost margins and profits by establishing or expanding the non-oil business, since the oil business is subject to frequent price fluctuations and strict regulation. In 2017, Shell announced plans to achieve a 1:1 ratio between its oil and non-oil businesses by 2025; to achieve this, Shell is embarking on partnerships with convenience store brands, quick-service restaurant brands, café brands, and other retail brands. Such business activities will drive the growth of quick-service restaurants inside forecourt.

Improvements in in-store experience and customer service

Quick-service restaurants are not just a place for customers to purchase food. The dine-in experience is an important component of the food service business, as consumers view it as a combination of product, service, and the environment. Comfortable and spacious seating, and brightly lit dining space, offer a comfortable environment to the customer. Quick-service restaurants often have facilities and services that street food vendors or other formats of food retail outlets do not offer, such as free Wi-Fi, air-conditioned dining areas, power-charging points, mobile payment solutions, or even rest rooms for stand-alone outlets as well as those in the service stations. These value-added services attract customers to patronize quick-service restaurants.

Competition from convenience stores inside forecourt

Quick-service restaurants face competition from the convenience stores inside forecourt. Increasingly, to meet with consumer demand, convenience stores are upgrading their ready-to-eat offerings to be comparable in terms of quality with freshly prepared food from restaurants, but at a much more affordable price. For example, major food manufacturer such as Anchor Food Professionals have worked with 7-Eleven to create meals for the 7-Eleven in-house brand of ready-to-eat meals. Convenience stores inside forecourt are also spacious and often have seats for customers to dine-in, directly competing with quick-service restaurants in the same space.

Demand for higher-quality food

One of the common perceptions by the consumer is that quick-service restaurants offer food that is not of high quality or are pre-prepared, and hence not fresh. Consumers also perceive quick-service food meals to be less nutritious than the typical Thai meal. Most retail spaces such as shopping malls have food courts, which have higher food safety standards than street vendors. Players in the quick-service restaurants need to work towards changing consumer mindset, by presenting the consumer on the nutrition of their meals. Quick-service restaurant operators could also convey that food is prepared freshly by making the food preparation part of the service delivery process, as Subway does. Quick-service restaurant brands must continually raise the quality of their offerings and educate consumers.

Healthy eating trends may dampen quick-service food demand

The growth of the quick-service restaurants could potentially be challenged by the growing number of local restaurants, which consumers see as a healthier option. Quick-service food is generally perceived to be unhealthy either due to the ingredients or the preparation process. In order to allow food to be served quickly, the food is often pre-prepared and there have been increasing concerns about preservatives and additives in quick-service food. One of the cooking methods often employed in the preparation of quick-service food is deep-frying. It is perceived as bad for health when food is prepared in such methods and is consumed frequently. Many quick-service food brands have since introduced healthier food selection into their menus, such as salads or fruit cups, but the association of quick-service food with unhealthy food remains.

2.5.3 Market Outlook

Stable growth registered by Quick-Service Restaurants (QSR)

The CAGR of quick-service restaurants sales is forecasted to remain relatively stable at 9.2% between 2019 and 2024. Quick-service restaurant brands continue to improve their product offerings to the consumer and oil retailers market the forecourt space as a community hub. In 2024, the sales value of quick-service restaurants inside forecourt is forecasted to grow to THB 10,403 million (USD 322.1 million). The number of transactions is expected to register CAGR of 7.0% between 2019 and 2024. The sales per transaction will increase at a CAGR of 2.0%, in line with the expected increase price points and inflation. At the same time, consumers can afford to spend more per meal as their disposable incomes is higher. Hence, consumers tend to choose higher-value food options which will support the increase in sales per transaction.

Table 16 Thailand Quick-Service Restaurants Inside Forecourt Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F- 2024F
Quick-service restaurant sales	THB million	6,712	7,383	8,085	8,812	9,588	10,403	9.2%
	USD million	207.8	228.6	250.3	272.8	296.8	322.1	9.2%
Number of transactions	'000	37,067	40,403	43,636	46,690	49,492	51,966	7.0%
Quick-service restaurant sales per transaction	THB	181.1	182.7	185.3	188.7	193.7	200.2	2.0%
	USD	5.6	5.7	5.7	5.8	6.0	6.2	2.0%

Source: Euromonitor estimates from trade interviews and desk research

Opportunities to further expand in forecourt retail space

There are opportunities for well-known, global quick-service restaurants to enter the forecourt retail market in Thailand. KFC operates more than 600 outlets across Thailand and is the largest quick-service restaurant brand in the chicken category. However, fewer than 30 outlets are located in the forecourt retail space of service stations.

Looking at other quick-service restaurant brands, similar to many Southeast Asian countries, the penetration in the forecourt retail space in Thailand is currently low. McDonalds has around 70 forecourt outlets, A&W has around 20, and Burger King has just over 10. There is potential for players to partner with service station brands to open more outlets and expand.

In the region, there has been activity pointing to the trend of more quick-service restaurants opening within service stations. In May 2018, QSR Stores, the franchise owner of KFC and Pizza Hut in Singapore and Malaysia, signed an agreement with Petronas Dagangan to open 50 KFC Drive-Thru outlets at Petronas service stations by 2021. In Singapore, the first quick-service restaurant inside forecourt is a 24-hour McDonald's Drive-Thru within a Shell service station, opened in mid-2017.

Technology for more self-service

Many quick-service restaurants in Thailand are open 24 hours and it may be difficult to find employees to cover the round-the-clock operations, especially with the number of quick-service restaurants in the country. To reduce reliance on manpower, self-service technologies are increasingly being applied. Customers can now place their orders at self-service kiosk, make payment, and collect orders without speaking with any staff. For example, McDonald's is currently trying to include digital services in the process. The company is aiming to install self-ordering kiosks in various outlets. At the same time McDonald's plans to develop a digital payment platform to cover various methods such as PromptPay, QR code and e-wallet.

Currently, around 35% of payment in stores is made by cashless methods, and most of the transactions are still paid in cash. However, improvements in payment technologies will continue to drive the market towards cashless payment methods which are quicker and more secured.

With the advancement of mobile technologies, quick-service restaurants can also elevate the consumer experience by launching mobile apps for the consumer to place their orders or perform a variety of services, since close to 85% of the Thai urban population owns a smartphone. Food delivery services requested through mobile apps is also increasingly popular, with approximately 30% of sales from chained quick-service restaurants made through such apps. For McDonald's Thailand, their home delivery service accounted for 15% of overall sales in 2017, and this is expected to increase to about 20% by 2020.

2.5.4 Competitive Environment

Thailand's QSR Inside Forecourt market is consolidated, with leading player accounting for over 30% of share

The quick-service restaurants inside forecourt business in Thailand is estimated to be worth over THB 5,800 million (USD 180 million), led by Player 1 in 2018 which captured more than a quarter of the overall market share in terms of sales. Player 1's Drive-Thru facilities are a good match with the service station environment. Its strong branding attracts customers to patronize its outlets inside forecourt. The Thai market reveals tremendous opportunities for growth and further expansion of new stores.

Although not ranked within the top five yet, Texas Chicken, or Church's Chicken as it is known in North America, is one of the largest quick-service chicken restaurant brands in the world. The brand identified Asia as a key market in their global expansion plans of doubling the number of outlets globally to 1,000 by 2021. The company has been aggressively opening new outlets. In 2015, Texas Chicken partnered with PTTOR to open the first of the planned 70 Texas Chicken outlets in Thailand. PTTOR continues to open more outlets in shopping malls as well as within its service stations.

Player 3 expected to see further expansion with ThaiBev

Thai Beverage Public Company Limited, or ThaiBev, acquired 252 stores of Player 3 in Thailand and all outlets in the pipeline from Yum Restaurant International (Thailand) for an estimated THB 11.3 billion (USD 0.3 billion). These 252 stores account for approximately 40% of all Player 3 outlets in Thailand. Currently, there are around 600 KFC outlets in Thailand, including the 224 outlets own by Central Group, and 128 outlets own by Restaurants Development Company Limited (RD)'s. All outlets are operated as franchisees under Yum! Brands Inc, the US-based brand owner.

Yum Restaurant International (Thailand) will focus on the management of the Player 3 brand, such as marketing and development of menus in Thailand. With the support from ThaiBev's strong financial capability, the acquisition is expected to help Player 3 to reach the goal of operating 800 stores in Thailand by 2020.

Table 17 Thailand Market Share Rankings of Quick-Service Restaurants Inside Forecourt in 2018

Ranking	QSR Brand	% Market Share by Revenue	Listing Status
1	Player 1	30.3	Private
2	Player 2	28.1	Public
3	Player 3	17.7	Private
4	Player 4	7.2	Private
5	Player 5	1.7	Public

Source: Euromonitor estimates from trade interviews and desk research

2.6 CAFÉ INSIDE FORECOURT IN THAILAND

2.6.1 Market Overview

Imposition of sugar tax partially supports growth of freshly-brewed coffee in café

Consumers' consciousness about sugar and calorie intake has given rise to drinks such as bottled water and juice. The imposition of sugar excise tax on September 2017 by the government raised final unit price on some of the packaged soft drinks with 6g and above sugar content per 100ml. This will further cause the shift in consumption to a healthy choice of drinks including freshly-brewed coffee. This freshly-brewed coffee is expected to see further growth underpinned by accessible price points and outlet locations. Furthermore, coffee is perceived to be healthier than energy drinks within the energy-boosting beverage segment.

Improvements in coffee quality in forecourt

As the lifestyle of the consumer in Thailand becomes increasingly sophisticated, they now demand more choices beyond instant coffee and Kafae Boran (traditional style coffee). Starbucks and the entry of international coffee brands have offered the consumer's variety and quality of coffee selection. Cafés are offering classic coffee and tea by using local or special ingredients to create their own recipe. In 2018, specialist coffee and tea shops reached the highest value growth with 7% sales increase.

Today, the coffee market is worth an estimated THB 170 billion, with over 110 brands in the market. Seeing the opportunity provided by service stations as a sales channel, café including specialist coffee shop brands have ventured into the forecourt retail space to offer customers premium and freshly-prepared coffee. To remain competitive and match consumer demand, café brands owned by service stations have also improved on their product offerings. As a result, the overall standard of coffee sold within forecourt retail spaces has gone up.

Forecourt retail space as one of the new sales channels

Major chained coffee shops have plans to continue to invest in new outlets and expand to new locations; at the same time, service stations are looking to expand their revenues from non-oil businesses. This has given rise to increasing partnerships between service stations and café brands, as café brands identified that the retail space inside forecourt is relatively unpenetrated. In 2018, there are more than 25,000 service stations spread out across Thailand – this presents an immense opportunity for café retailers to leverage on the geographic network in their expansion plan.

Service stations expand non-oil business with cafés

Service stations have seen the potential of forecourt retail and are investing to develop their non-oil revenue streams, to reduce the impacts in business performance from fluctuations in energy and fuel prices. PTG, for instance, announced plans to expand its service stations from 1,884 in 2018 to 2,000 in 2019 with planned investment of THB 3.5 billion. It will focus on expansion in locations that can facilitate non-oil services to customers.

Café Amazon has been in the market for over 15 years and represents an important part of PTTOR's non-oil business, expanding in line with service stations under the "ptt station" brand. In 2018, ESSO announced plans to collaborate with Starbucks to open 50 to 60 new outlets in its service stations. PTG, which owns the PunThai Coffee brand, acquired a stake in Coffee World as part of its non-oil business expansion.

As of the end of 2018 , Bangchak had 1,175 service stations. There are 523 Inthanin and Inthanin Garden premium café outlets across the country. Currently, Inthanin Café brings in around 70% of Bangchak's non-oil retail revenue. In January 2018, Bangchak signed an agreement to give the master franchise license for Inthanin Coffee shops in Cambodia and Laos to RCG Retail Co., Ltd. (Cambodia).

Other oil service station companies are also expanding their inhouse café brands. Shell developed the deli café brand with a *Breathing Space to Recharge* concept, envisioning it to become an international brand in Shell service stations around the world - Shell Thailand wants to emphasise its non-oil business and plans to open 30 new branches annually. Currently, there are 72 outlets as of 2018. PTG operates 215 outlets of Punthai Coffee as of end 2018 and the company plans to add 200 outlets annually.

Phenomenal growth of café inside forecourt

Retailers have only recently realised the opportunity of retail inside forecourt. Not wanting to lose out on the market opportunity, new players have entered the market while existing players are aggressively opening new outlets and expanding their café inside forecourt to seize market share. The number of cafés inside forecourt stands at almost 3,500 in 2018.

Between 2013 and 2018, sales of café inside forecourt grew at a CAGR of 23.6%. The sales have grown about 5 times, from THB 3,900 million (USD 120.7 million) in 2013 to THB 11,230 million (USD 347.7 million) in 2018. Correspondingly, the number of coffee cups sold increased by 2.5 times to reach 234.0 million in 2018.

Table 18 Thailand Café Inside Forecourt Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Café sales	THB million	3,900	4,796	6,152	7,754	9,606	11,230	23.6%
	USD million	120.7	148.5	190.5	240.1	297.4	347.7	23.6%
Number of outlets	-	1,617	2,078	2,517	2,789	3,322	3,483	16.6%
Number of coffee cups sold	million	92.9	111.5	139.8	172.3	208.8	234.0	20.3%

Source: Euromonitor estimates from trade interviews and desk research

2.6.2 Legislative and Regulatory Policies

Holding company of state-owned enterprises to be established

In 2017, a bill was passed by the National Legislative Assembly (NLA) to establish a holding company to own and manage state-owned enterprises. With this law, Thailand will expect to see major reforms in the management and governance of state-owned enterprises.

2.6.3 Drivers and Constraints

Demand for higher-quality coffee but also convenience

Thai consumers are increasingly demanding high-quality coffee but as desired by any modern consumer, access to coffee must be made easy and convenient. D'Oro, a local coffee chain in Thailand, implemented a Drive-Thru facility at one of its outlets; sales made at the Drive-Thru now accounts for 50% of the outlet's total revenues. The demand for convenience and grab-and-go services will drive the growth of café outlets in forecourt retail spaces.

Expansion of non-oil businesses

As oil prices fluctuate, incorporating non-oil business, such as retail or food services, into service stations will boost profit margins. Service station operators such as Shell are increasingly looking to expand their non-oil business and further investment in forecourt retail outlets is expected. The business strategies of service stations will drive the development of cafés inside forecourt.

Convenience store café brands strengthening

The fast expansion of convenience stores and their café brands has brought pressures on specialist café brands inside forecourt. Brands such as 7-Eleven's All Café and Family Mart's Café Arigato, are well-established in the forecourt retail space and enjoy high brand presence and awareness in the market. Increasingly, these brands are known to provide good value in terms of the quality of the coffee and the pricing.

While international brands have the advantage of high brand recognition and have already established their core customer base, the convenience store players are everywhere and enjoys a good reach to the consumers.

Intense competition in the market

Despite the café inside forecourt sector being relatively underpenetrated currently, competition is fierce. New brands and new players are entering the market constantly, while existing brands are on an aggressive expansion strategy to seize or retain market share. The number of dealer-owned, dealer-operated cafés inside forecourt are increasing as some café brands, such as Rabika Coffee and Café Muanchon require a relatively lower start-up fee. There are current around 90 Rabika Coffee outlets inside various service stations. Café Muanchon is a brand under CP All that is also aggressively increasing its presence in the forecourt retail space using the franchising model.

2.6.4 Market Outlook

Phenomenal growth in café inside forecourt continues

Growth in the forecast period will slow down slightly from the growth recorded in the review period but the growth remains phenomenal. Sales of cafés inside forecourt is forecast to register a CAGR of 12.6% from 2019 to 2024, to reach THB 23,965 million in 2024. Players in the industry are expected to aggressively expand the number of outlets by partnering with major service station brands. By 2024, the industry expects to see close to 4,574 cafés inside forecourt while the number of service stations is expected to go up to 30,000 in Thailand.

Table 19 Thailand Café Inside Forecourt Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F- 2024F
Café sales	THB million	13,252	15,372	17,524	19,627	21,786	23,965	12.6%
	USD million	410.3	475.9	542.5	607.6	674.5	741.9	12.6%
Number of outlets	-	3,650	3,821	4,001	4,185	4,377	4,574	4.6%
Number of coffee cups sold	million	270.4	307.4	337.0	370.3	403.4	435.7	10.0%

Source: Euromonitor estimates from trade interviews and desk research

Forecourt café brands now rival famous brands found outside of service stations

Forecourt café brands are increasingly becoming a profitable revenue stream of non-oil business for service stations. To stay competitive, major players in the market are aggressively expanding the number of retail outlets and cafés within its service stations. Players are also looking to elevate the consumer experience with improved décor and seating, offering consumers fully-developed food and beverage menus that rival even those of global café chains or specialist coffee shops. Cafés inside the forecourt retail space are now attracting not only the service station's visitors but also the brands' customers in general.

2.6.5 Competitive Environment

Café Amazon seeks to cement its leading position

Café Amazon is the clear leader in the cafés inside forecourt category. In 2018, Café Amazon recorded THB 13.2 billion (USD 0.4 billion) in sales, of which about 71.3% or THB 9.4 billion (USD 0.3 billion) came from a total of 1,665 inside forecourt outlets.

With these figures, Café Amazon stands far ahead of other domestic café brand in sales within Thailand. Café Amazon is also one of the top chained café brands among café brands outside forecourt, registering sales value just second to Player 2 as of 2018.

Table 20 Thailand Market Rankings of Cafés Inside Forecourt in 2018

Ranking	Café Brand	% Market Share by Revenue	% Market Share by Number of Cups Sold	% Market Share by Number of Outlets	Listing Status
1	Café Amazon	83.6	68.7	47.8	Private
2	Player 2	1.9	1.8	5.2	Private
3	Player 3	1.6	1.8	3.0	Private
4	Player 4	1.5	1.2	2.4	Private
5	Player 5	0.9	0.7	1.6	Private

Source: Euromonitor estimates from trade interviews and desk research

2.7 CAFÉ OUTSIDE FORECOURT IN THAILAND

2.7.1 Market Overview

Coffee culture embedded in everyday life of Thais

Starting with Kafae Boran, literally "traditional coffee", or coffee brewed in traditional style, and instant coffee, the Thailand market has come a long way in the growth of the coffee culture. Thailand's coffee culture has grown significantly across the country in recent years and has become entwined in the various layers of Thai society and everyday life. The coffee culture in Thailand extends beyond drinking a cup of coffee, as the drink itself is at times somewhat irrelevant – rather, the role of the drink as a social lubricant is more critical. Today, the coffee market is worth an estimated THB 170 billion (USD 5.0 billion), with over 110 brands in the market.

Bubble tea, another popular drink in Thailand, was introduced to the market more than ten years ago. Previously popular among children and students, the chewy tapioca balls or "pearls" also provide some texture and injects some fun in consuming the drink – it was sold mainly by local chains using low-cost ingredients. It is now making a comeback with demand from a new generation of consumers, who demand premium bubble tea made with better-quality ingredients, priced from THB 100 (USD 2.9) onwards. Ochaya, from Taiwan, is one of the most popular brands with a reported revenue of THB 148 million (USD 4.6 million) in 2017.

As the competition in the café and beverage market is increasing, cafés and bars are considering how to create a unique selling point to make their business stand out from the abundant competitors. Hence, cafés and bars are creating their own craft drink recipe. In short, cafés are becoming more innovative and offering their own interpretations of classic coffees and teas, using local ingredients and secret family recipes.

For many Thais living in urban areas, the act of getting such beverages has become somewhat habitual. Thai office workers catch up with their colleagues while ordering their take away drinks for takeaway back to the office after lunch. Students work away on school assignments in cafés for hours over a drink and snacks. Freelancers and entrepreneurs soak in modern cafés or global coffee chain outlets with free Wi-Fi, performing various types of work at their open "offices".

Huge out-of-home coffee market

The lifestyle of the urban population in Thailand has changed and with decreasing household sizes, more and more Thais are choosing to eat out instead of cooking at home. As with the consumption of meals outside of home, the consumption of beverages out of home has also increased. Coffee sales from cafés has seen growth from THB 8,542.5 million (USD 251.7 million) in 2012 to THB 10,460.9 million (USD 308.2 million) in 2017, registering a CAGR of 4.1%.

Various retail formats for freshly-prepared coffee in Thailand

Outside of the forecourt retail environment, freshly-prepared coffee is sold in many retail formats across the nation.

In Thailand, freshly prepared coffee is sold through a variety of retail formats, the most common of which is the street side local drink stalls as well as eateries. Coffee may also be purchased from drinks kiosks found at BTS stations or convenience stores. For an elevated experience, consumers may also patronize cafés or specialist coffee shops for their daily cup.

Cafés or specialist coffee shops can be loosely categorized as chain or independent. In 2018, there were 543 chained cafés and 2,512 independent cafés. In contrary, there are 4,484 chained specialist coffee shops and 712 independent specialist coffee shops. Starbucks, one of the first global players to enter the Thai market, is one of the leading operators of chained specialist coffee shops in Thailand but the company has fallen behind Café Amazon. In 2018, Café Amazon registered THB 13,158 million (USD 407.4 million) in sales revenue from its Thai operations, while Starbucks recorded THB 8,355 million (USD 258.7 million). In terms of the number of outlets, Café Amazon is also the leader with 2,449 outlets in 2018, of which 1,665 are co-located within service stations under the "ptt station" brand. Café Amazon sold approximately 225 million cups of coffee in 2018 as a total, including outlets both inside and outside forecourts.

Among chained brands, the ratio of company-owned, company-operated outlets to dealer-owned, dealer-operated outlets is typically 7:3. Starbucks is an exception in the market, owning and operating all 348 branches in Thailand. Café Amazon, the second largest café brand in terms of revenue. The company has 784 outlets outside of forecourt. However, approximately 80% of Café Amazon outlets are dealer-owned, dealer-operated. For Coffee World, the ratio stands at 2:3.

Grocery retailers introducing own coffee brands

With the growing demand for coffee in Thailand, many major grocery retailers are looking to have a slice of the local coffee market. New café brands are being launched by these retailers to target a range of consumer segments.

CP All, the operator of the 7-Eleven brand of convenience stores, operates Arabitia Café which sells coffee and ready-to-eat meals; it even offers a delivery service for busy consumer. Jungle Café is another brand from CP All, targeting the middle-class population and operating on a franchise model. CP Foods, which sells the 5 Star brand of frozen food and ready-to-eat meals, launched the 'Star Coffee' cafés. The cafés target consumers in the rural areas with products at an affordable price, starting from THB 30. Star Coffee outlets can be found in the northern, north-eastern and southern regions of Thailand.

The operator of Tops Supermarket, Central Food Retail, has recently introduced the "Coffee by Tops" brand. This is in addition to its existing premium café brand "Segafredo". Coffee by Tops is available at Tops Supermarkets with dine-in areas and it targets shoppers who visit Tops supermarkets. The price of a beverage at Coffee by Tops starts from just THB 35.

Café market an attractive sector in Thailand

Asia is the world's fastest growing markets for coffee, with Indonesia leading the market with a CAGR of 19.6% in sales revenue between 2011 and 2016. Even though Thailand's market size for coffee is not among the top in Asia, its café sales has grown at a CAGR of 11.3% from 13,816 THB million (USD 427.7 million) in 2013 to THB 23,550 million (USD 729.1 million) in 2018.

There are also more cafés in Thailand, as coffee chains expand with more outlets, and more independent retailers open their own outlets. In 2018, there are more than 4,700 café outlets outside forecourt in Thailand, concentrated in urban areas such as Bangkok. This market remains attractive with huge potential for further growth, since coffee drinking and visiting cafés is becoming an integral part of urban lifestyle in Thailand. Specifically, for coffee, the Thai market has grown in their appetite as the number of coffee cups sold between 2013 and 2018 increased tremendously to 604 million cups or a CAGR of 9.1%.

Table 21 Thailand Café Outside Forecourt Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Café sales	THB million	13,816	17,576	19,439	21,400	23,019	23,550	11.3%
	USD million	427.7	544.1	601.8	662.5	712.7	729.1	11.3%
Number of outlets	-	4,247	4,231	4,140	4,333	4,349	4,768	2.3%
Number of coffee cups sold	million	390.8	478.1	527.5	563.4	590.2	603.9	9.1%

Source: Euromonitor estimates from trade interviews and desk research

2.7.2 Legislative and Regulatory Policies

Tariff quota system for imports raise costs

Coffee beans are categorised as agricultural products. Under the laws of the government, there is an annual quota of 5.25 tonnes of coffee beans imported into Thailand, at a tariff rate of 5% for imports from ASEAN markets. For import quantity outside of this quota, the Thai customs set tariffs as high as 90%. To gain access to beans of good quality from overseas farmers, coffee manufacturers have to bear the higher costs or pass them on to the consumer, driving prices up.

The consumption of coffee beans in Thailand stands at more than 90,000 tonnes of coffee beans annually and is expected to cross the 100,000 tonnes mark in the near future. At average production rates of 25,000 tonnes per annum for the past few years, manufacturers import more than 60,000 tonnes of coffee beans a year. The import quota and high tariffs have brought the cost of beans up, cutting into the margins of coffee manufacturers, and driving consumer prices up.

Price regulation of supply leads to low demand for local beans

To protect the income of local farmers, the Thai government requires coffee manufacturers to buy coffee beans from local farmers at guaranteed prices. Approximately 70% of the coffee bean farmers are in Southern Thailand, and the remaining are scattered in the North-eastern region and Northern region. Some of these coffee bean farmers lack the knowledge to choose high-quality varieties and the plantation knowledge to improve the quality of the crops. With a growing demand for coffee beans and the huge restrictions on importing coffee beans, these coffee farms are also not obliged to improve on the quality of their beans to stay competitive.

For coffee manufacturers, this means that they are paying a price for coffee beans that are not of a quality that matches its price. This has significant impacts on procurement by local coffee manufacturers and the pricing of the end-product sold to the Thai consumer, as local coffee manufacturers may look towards higher-priced but higher-quality beans imported from overseas.

2.7.3 Drivers and Constraints

Increased interest in coffee and demand for premium coffee

20 years ago, the Thai consumer largely had access to 2 types of coffee: traditional Thai coffee “Kafae Boran”, and instant coffee. The ubiquitous Starbucks played a role in kick-starting the Thai consumer’s interest in freshly-prepared coffee, and the market has now been exposed to variety. Now, coffee drinking in Thailand is a social phenomenon that extends beyond drinking coffee, as it has become an indication of an individual’s lifestyle and purchasing power.

Beyond Kafae Boran (traditional style coffee,) the Thai consumer is now more knowledgeable about coffee. The Thai market is very dynamic, with a growing middle-class population of increased purchasing power open to new trends in the industry and taste for differentiated premium coffee. In line with the growing sophistication of the consumer, there has also been increased demand for specialty coffee, such as single-origin coffee, organic coffee, and free-trade coffee, among others. For example, Cafédirect, a British premium organic coffee brand, sees a huge opportunity to grow its business and seeks to double its business in Thailand over the next 5 years. More cafés and specialist coffee shops, both chained and independent, are springing up throughout Thailand to leverage on market interest.

Branding a key factor in choice

The Thai consumer is becoming more brand conscious as they perceive a brand is indicative of the product’s quality. The consumer in Thailand is now more willing to pay a premium for well-known or global brands with high brand value and choose brands with positioning that are aligned with their image and lifestyles. Consumers, for example, are willing to pay a premium for coffees labelled as free trade to support sustainability and ethical trading.

Within the coffee-consuming segment, the consumption of branded coffee has seen the highest growth. Besides the quality of the product, branding could be a key differentiating factor in the consumer’s choice.

Urban lifestyle drives out-of-home coffee market

The lifestyle of the urban population in Thailand has changed and with decreasing household sizes, more and more Thais are choosing to eat out instead of cooking at home. As with the consumption of meals outside of home, the consumption of beverages out of home has also increased. Coffee sales from cafés has seen growth and market access to coffee shops stands at approximately 60% on average across the country.

Thai people living in urban areas are also spending more time outside home due to their busy lifestyles, hence increasing out-of-home coffee consumption. Consumers in Thailand visit a café at least 6 times a month on average, while in Bangkok, the figure goes up to 8 times per month.

Competitive Market

For a newly growing market, the Thailand market is considered vibrant with more than 110 coffee brands being marketed and sold in Thailand. Among café and specialist coffee shops, 75% of the sales is from franchised brands, with an equal share of local and overseas brands. International brands include Starbucks, Segafredo Zanetti, Coffee Bean and Tea Leaf, while home-grown brands include Café Amazon, Coffee World, and Black Canyon Coffee.

Many of these players are seeking to expand the number of outlets aggressively to capture greater market share by sales revenue. In 2017, Bangchak Retail planned to open 120 new Inthanin Coffee outlets, targeting 1,000 outlets locally by 2022 and also expanding aggressively overseas. In early 2018, Doi Chaang announced plans of increasing the number of outlets by 5 times to reach 300 outlets by 2022. PunThai Coffee Ltd, which owns the PunThai Coffee café brand, also acquired a stake in Coffee World as part of its expansion plans. In May 2019, Coffee Concepts (JV between Main's and F&N Retail Connection) announced that it has acquired the rights to operate Starbucks in Thailand. The company aims to increase the number of Starbucks Thailand outlets, to gain share within the market.

Pricing is competitive among cafés catering to the same target segment of consumers. For example, Café Amazon is positioned for the mass market and the pricing must support the brand to make it accessible to most of the Thai population - Café Amazon records relatively low average selling prices among the different café brands. True Coffee targets the same segment of consumers, and even though its prices are higher than Café Amazon's, the prices of both brands are competitive with each other's. In line with the quality of the coffee, pricing must be competitive due to the large number of players and constant entrance of new independent retailers. Existing players are embarking on an expansion strategy, either by opening new outlets or introducing new brands to expand their range of products to target different consumer segments. For new players, the highly competitive market reduces the attractiveness of the market.

Reliance on import of coffee beans

Due to a lack of knowledge on growing coffee beans, farmers in Thailand produce and supply only approximately 25,000 tonnes of coffee beans each year. Most of the volume is consumed domestically. With the growing demand for coffee locally, it has forced manufacturers and retailers to rely on imports from overseas. Thailand imports more than 60,000 tonnes of coffee beans a year. However, with high tariffs imposed on coffee beans, manufacturers must either bear the high costs, cutting into their margins, or pass it to the consumer with increase in prices, reducing their competitiveness in the market.

2.7.4 Market Outlook

Market maintains strong growth rates

Sales of cafés outside of the forecourt retail environment is expected to pick up further in the forecast period as the demand for coffee continues to grow, and sales is forecast to register a positive CAGR of 5.8% between 2019 and 2024. By 2024, the value of café sales is forecasted to reach THB 32,185 million (USD 996.4 million).

Players in the market continue to open more outlets, especially in less developed regions. The number of outlets is expected to increase at a CAGR of 8.6% between 2019 and 2024, to reach over 7,800 outlets in 2024. The number of coffee cups sold in Thailand maintains its strong growth rates at a CAGR of 3.3% over the forecast period. More than 700 million cups of coffee are expected to be sold in the year of 2024.

Table 22 Thailand Café Outside Forecourt Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F- 2024F

Café sales	THB million	24,278	25,311	26,575	28,191	29,972	32,185	5.8%
	USD million	751.6	783.6	822.8	872.8	927.9	996.4	5.8%
Number of outlets	-	5,208	5,695	6,200	6,728	7,276	7,856	8.6%
Number of coffee cups sold	million	607.0	617.4	632.7	655.6	681.2	715.2	3.3%

Source: Euromonitor estimates from trade interviews and desk research

Cafés becoming a destination

Coffee as the core product will no longer be the only factor in the consumer's choice in the café to patronize. To stand out from the competition, café operators must now offer much more. Free Wi-Fi and ample seating are a must. Many new independent cafés have themed or stylish décor and offer a comprehensive menu beyond coffee. There are animal cafés focused on interaction with resident pets, such as cat cafés, dog cafés and even owl cafés, as well as hobby cafés such as cafés with dedicated spaces for "art-jamming", where the customer enjoys a cup of coffee while painting.

In Bangkok, the café scene is vibrant and there are new cafés popping up frequently, attracting swarms of the young generation as well as tourists to visit these cafés. Café enthusiast travel to Bangkok specially to patronize the different cafes over the course of their stay and share their experiences on social media. Cafés are fast becoming a destination themselves.

Convenience-driven technology drive sales beyond the physical outlet

The Thai consumer increasingly values convenience and is open to anything that saves precious time in their hectic lifestyles. Applications using convenience-driven technology have become the staple of city living in Thailand and almost every Thai consumer living in major city owns a smartphone.

One segment that has seen tremendous growth is food delivery services. Apps such as Food Panda, LineMan, and Grab Food allow the Thai consumers to order meals, make online payment securely and easily, and have their meals delivered right to their door step. Cafés are jumping on the bandwagon and listing their offerings on such apps, as it allows them to reach out to a wider market.

Consumers who were previously not aware of a café and would otherwise not have visited the physical outlet, can try products from a café listed on such apps. Independent cafés are no longer limited to in-store sales and could ride on the popularity of such apps further and receive marketing exposure, as they are listed alongside global well-known brands.

2.7.5 Competitive Environment

Player 1 the market leader with premium prices

Player 1, by virtue of its early entrance, holds the largest market share by sales revenue for outside forecourt. The market leader is one of the most well-known café brands in the world and is well established in Thailand located in shopping malls, airports, and office buildings. In response to the increasing competition and new entrants, Player 1 seeks to upgrade its offerings beyond the cup of coffee. It has started to offer premium specialty coffee such as cold brew coffee or single-origin premium coffee and expand its range of product offerings to include non-coffee beverages.

Within the last 5 years, the market has seen high competition among players offering coffee priced between THB 40 to THB 50. Café brands previously found in service stations and convenience stores are expanding by opening more standalone outlets. For example, Café Amazon, owned by PTTOR, started as a café brand attached to PTTOR's service stations, but has since opened more than 780 branches outside of the forecourt retail environment. On the whole, Café Amazon's market share has been showing increase as it has been aggressively expanding its operations, accounting for 37.8% café market share in 2018 in terms of revenue. It has recently become Thailand's top café in terms of sales, number of outlets and number of coffee cups sold in 2018 for café inside and outside forecourts combined. For café outside forecourt, Café Amazon comes in a close second in number of coffee cups sold and first in number of outlets in 2018. Globally, Café Amazon is amongst top 10 specialist coffee and tea shop brands in terms of revenue and top 5 in terms of outlet number as of 2018, based on Euromonitor estimates from trade interviews and desk research.

Among the top 5 brands for cafés (including both cafés inside and outside forecourt), a majority of the players including Café Amazon provide coffee at a price range within approximately THB 50-90.

Table 23 Thailand Market Rankings of Cafés Outside Forecourt in 2018

Ranking	Café Brand	% Market Share by Revenue	% Market Share by Number of Coffee Cups Sold	% Market Share by Number of Outlets	Listing Status
1	Player 1	30.2	10.7	7.0	Private
2	Café Amazon	16.0	10.6	16.4	Private
3	Player 3	3.4	1.6	5.3	Private
4	Player 4	2.6	1.1	2.7	Private
5	Player 5	1.8	0.8	2.6	Private

Source: Euromonitor estimates from trade interviews and desk research

Table 24 Thailand Market Rankings of Cafés (Including both Café Inside and Outside Forecourt)

Ranking	Café Brand	% Market Share by Revenue	% Market Share by Number of Coffee Cups Sold	% Market Share by Number of Outlets	Listing Status
1	Café Amazon	37.8	26.9	29.7	Private
2	Player 2	20.5	7.7	4.1	Private
3	Player 3	2.8	1.5	4.1	Private
4	Player 4	1.7	0.8	1.5	Private
5	Player 5	1.5	0.7	1.8	Private

Source: Euromonitor estimates from trade interviews and desk research

3. CAMBODIA

3.1 MACROECONOMIC ENVIRONMENT IN CAMBODIA

Manufacturing and construction contribute to robust GDP growth

Cambodia is a top garment-making hub and the sixth fastest-growing economy in the world over the past two decades. The country's growth was significantly impacted by the global financial crisis given its dependence on the world economy. However, the country's GDP recovered and has shown strong growth in the review period.

Cambodia's nominal GDP reported a CAGR of 9.7% over the review period of 2013-2018 owing to the manufacturing – mainly garments and textiles – and construction sectors. The country's relatively affordable labour force combined with rising wages for Chinese workers have resulted in production moving from China to Cambodia, the majority of which is exported to Europe and the United States. In addition, the construction sector has benefitted from a number of infrastructure, retail and real estate projects in urban centres financed by the government and foreign investment. In 2018, the Cambodian economy grew 7.5% in real GDP terms (10.5% in nominal GDP terms), continuing a trend of stable growth during the review period. Growth was mainly driven by the rapid increase of garment and footwear exports to the US and the EU, according to the World Bank.

Agriculture still employs the vast majority of the workforce and has seen improvements in irrigation and rural infrastructure, which have raised productivity. However, due to the strong trend towards urbanisation, a high percentage of the workforce has moved to the more profitable construction and service sectors in big cities. Meanwhile, tourism has also reported robust growth due to investment in the international airport and an increasing number of direct flights from China, which represented the highest percentage of tourists to Cambodia in 2018. Tourists primarily come from Asia but there have been some arrivals from the West, mainly from Europe.

GDP per capita posted a CAGR of 8.0% over the review period of 2013-2018. Beginning in 2016, Cambodia was classified as a lower-middle-income country, a step up from its previous low-income status, which translated into a strong reduction in the poverty rate. However, a high percentage of the population remains vulnerable. Low literacy rates of around 80%, compared with over 90% literacy rates in other Southeast Asian countries such as Singapore, Malaysia, Vietnam, and Thailand, and unskilled labour represent key constraints to the nation's competitiveness at an international level.

Table 25 Cambodia GDP Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Nominal GDP	KHR, billion	62,219.5	67,740.4	73,422.7	81,241.9	89,604.4	99,014.0	9.7%
	USD, billion	15,382.2	16,747.1	18,151.9	20,085.0	22,152.4	24,478.7	9.7%
Nominal GDP growth	%	9.9	8.9	8.4	10.6	10.3	10.5	N/A
GDP per capita	KHR	4,141,698.9	4,435,943.1	4,731,575.8	5,154,158.0	5,598,385.5	6,094,782.0	8.0%
	USD	1,023.9	1,096.7	1,169.8	1,274.2	1,384.1	1,506.8	8.0%

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

A young population moving to the urban centres

The population of Cambodia is young, with those aged 17 years old or younger accounting for 36.6% of the total population in 2018. Population growth during the review period stood at a CAGR of 1.6%, with the population over age 30 registering the strongest growth. This signals a decline in the fertility rates coupled with better living conditions and health standards. Economic growth has been able to absorb the expanding working-age population, which has increased 3% faster than the growth in the population itself, while unemployment rate remained close to zero percent in 2018.

Although the majority of the population lives in rural areas, economic development in urban centres has attracted a growing number of youth looking for better job prospects in the service and construction sectors. This movement has created an emerging urban class with higher disposable income and spending power. However, economic development has come at the cost of rising income inequality levels amongst urban residents and a vast majority of the rural population on the edge of poverty.

Table 26 Population of Cambodia (2013 – 2018)

000 People	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Total population	15,022.7	15,270.8	15,517.6	15,762.4	16,005.4	16,245.7	1.6%
Urban Population	3,217.1	3,328.9	3,443.1	3,559.5	3,678.0	3,799.6	3.4%

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

Disposable income growth supports residential and commercial development

Disposable income amongst urban residents climbed up to KHR 5,719,829.0 (USD 1,414.1) in 2018 and registered a 2.6% CAGR during 2013-2018, in line with strong residential and commercial development in the urban centres. Given the recent expansion in new construction, urban areas beyond Phnom Penh and Siem Reap have emerged with improved infrastructure, road accessibility and facilities that help accelerate the urbanisation process, developments that will eventually shift the makeup and allocation of the rural and urban populations.

Average income between the rural and urban populations differs greatly. In 2018, the disposable income in the urban area was 2.5 times higher than the rural area. Urban disposable income is expected to continue its growth in the future period, though growth rates may see slight signs of slowing down, while rural disposable income is expected to register faster growth.

There has been some focus on improving rural infrastructure and the living conditions of the rural population with government and foreign aid being supplied to the poorest Cambodians. Going forward, the government laid out a three-year plan (beginning in 2018) intended to maintain economic growth and reduce poverty by 1%-2% annually. The programme recognised 586 development projects, of which 166 were already under implementation. The projects are spread across the economic, social affairs and service sectors, and with about one-quarter of the budget going to infrastructure. While wages in manufacturing – mainly textiles – remain low in order to attract foreign investment, economic development has brought an increase in minimum wages in line with inflation. Specifically, the minimum monthly wage of workers in the textile and footwear industries in Cambodia rose to USD182 from January 2019, an increase of 7% from that in 2018.

Table 27 Cambodia Disposable Income Per Capita – Urban Residents (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Disposable income per capita – urban residents	KHR	5,043,174.4	5,028,899.5	5,305,165.0	5,221,293.8	5,476,867.8	5,719,829.0	2.6%
	USD	1,246.8	1,243.3	1,311.6	1,290.8	1,354.0	1,414.1	2.6%

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

Economic growth and foreign deposits support a growing urban population

Strong economic growth, an increase in disposable income and rising foreign currency deposits stimulated consumer spending, which reported a CAGR of 8.8% over the review period of 2013-2018. Growth in consumer expenditure was almost double that of the disposable income of urban residents, which justified increased consumer borrowing from foreign lenders as well as inflation levels.

Cambodia's young population has generated a new middle class willing to spend more on international brands. Consumerism has overtaken traditional spending patterns, translating into strong demand for consumer goods. Increased consumer expenditure has been further fuelled by strong retail growth, including the opening of new malls in big cities. But it is not only the middle class that was helped by rising disposable income. Cambodia's lower-income population representing roughly 62% of citizens also benefitted from increased wages as well as remittances sent by younger workers in cities.

Cambodians continued to spend the majority of their income on food and non-alcoholic beverages during the review period. Increased demand for international brands and big-ticket items together with increased utility costs negatively affected consumer spending on food and non-alcoholic beverages. On the other hand, the broader range of packaged foods and increased presence of restaurants and cafés in urban centres contributed to a healthy 6.7% CAGR for consumer expenditure on food and non-alcoholic beverages during the review period of 2013 to 2018. As of 2018, consumers' spending on food and non-alcoholic beverages was the highest, amongst all product and service categories, accounting for 42.3% of all consumer expenditure. Meanwhile, consumers' spending on transportations comes in the third rank after housing, accounting for 10%. Expenditure patterns, however, differed greatly between urban and rural consumers, with the latter emphasising spending on necessities.

The increase in consumer expenditure is expected to continue to grow, and CAGR is expected to be at a healthy 8.5% between 2019 and 2024, driven by increasing GDP per capita levels as the country sees increasing trade liberalization and inflows of foreign direct investment. At the same time, growth rates of consumer expenditure on food and non-alcoholic beverages is likely to pick up pace to register a CAGR of 8.3% as the lifestyles of the average Cambodia consumer improves and they start to spend more on basic aspects of their lives.

Table 28 Cambodia Consumer Expenditure in Cambodia (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
% Consumer expenditure of GDP	%	81.5	81.2	81.3	80.6	79.7	78.2	N/A
Consumer expenditure	KHR, million	50,734,768.4	54,993,721.0	59,713,615.1	65,443,091.2	71,417,343.5	77,427,780.1	8.8%
	USD, million	12,542.9	13,595.8	14,762.7	16,179.2	17,656.1	19,142.1	8.8%
Consumer expenditure on food and non-alcoholic beverages (KHR million)	KHR, million	23,687,169.1	24,201,493.9	26,037,175.6	28,001,245.8	30,358,632.0	32,777,058.5	6.7%
	USD, million	5,856.1	5,983.2	6,437.0	6,922.6	7,505.4	8,103.3	6.7%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Higher prices of food and energy and a dollar-based economy

Inflation fluctuated between 1.2% and 3.9% over the review period, and it has been falling gradually since 2017. The higher prices of food and energy were key contributors to rising inflation levels. A high degree of US dollar influence has driven inflation as Cambodia is the region's most dollar-bound economy, making it therefore more vulnerable to dollar fluctuations. In order to promote the local currency, the government forced companies to hold 10% of their loan portfolios in Cambodian riels. Inflation dropped in 2018, as a stable US dollar-riel exchange rate and modest increases in food prices helped to offset inflationary pressures from higher international oil prices.

Table 29 Average Inflation Rate in Cambodia (2013 – 2018)

%	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Average inflation rate	2.9	3.9	1.2	3.0	2.9	2.4	N/A

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

FDI in the textile and apparel sectors is key contributor to economic growth

FDI was a key driver of the country's economic growth, contributing to 12.5% of GDP in 2017 and showing a healthy 7.8% CAGR between 2013 and 2017. China, Japan, the Republic of Korea and the ASEAN nations were the main sources of foreign investment, with China responsible for the highest share. The textile and apparel sectors absorbed the majority of FDI, thanks to the country's young and affordable labour force in conjunction with a liberal economy open to investment.

The textile and apparel industries, however, are reaching maturity, while neighbouring countries such as Myanmar offer more competitive wages. As a result, FDI in textiles and apparel is expected to see slower growth or declines in the forecast period. In response to this, the government aims to diversify Cambodia's manufacturing sector and place greater focus on industries which produce high-value products. In 2018, the country has seen a surge of FDIs into non-garment sectors like assembly and electronic manufacturing. Apart from the above sectors, finance and real estate also witnessed the strong growth of FDI during the review period. Foreign deposits into the financial sector strengthened consumer expenditure, which in turn boosted retail expenditure.

Over the review period, the government made strong efforts to encourage FDI. Examples of such measures include a series of labour laws enacted to create strict labour standards and provide investment incentives such as the exemption, in whole or in part, of customs duties and taxes. In addition, investment facilitation services have been created, including Special Economic Zones (SEZs) intended to provide a one-stop service for investors including everything from registration of investment projects to routine export-import approvals.

The above measures are expected to improve Cambodia's ranking in terms of the global investment index. At the moment, Cambodia ranks 161st out of 180 countries in Transparency International's latest Corruption Perceptions Index in 2018, falling short in terms of rule of law and ease of doing business. Last but not least, in order to decrease the percentage of untrained workers, the government has required foreign investors to provide adequate training to the local labour force.

Table 30 Foreign Direct Investment Inflows of Cambodia (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Foreign direct investment inflows	KHR, million	8,330,280.8	7,483,495.3	7,401,202.5	10,035,677.5	11,262,933.2	N/A	-
	USD, million	2,059.5	1,850.1	1,829.8	2,481.1	2,784.5	N/A	-

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

3.2 THE RETAILING INDUSTRY IN CAMBODIA

3.2.1 Market Overview

Retailing in Cambodia registers rapid growth

Retail trade in Cambodia has evolved rapidly in the review period, driven by both an increase in disposable income and the development of the retailing scene. Cambodia provides a conducive environment for foreign investors by having low limits on the foreign investments, especially with regards to import/export and distribution. This in turns stimulates the entrance of new products and brands and creates a more vibrant retailing market. Besides the traditional retail stores, such as stores and booths at the conventional markets, modern retail channel has blossomed, along with the rapid urbanisation of Cambodia. This is reflected in the growing number of convenience stores, supermarkets and shopping malls in the cities and larger towns. In 2019, the number of retail malls is projected to grow between 10% and 19%, compared to that in 2018.

Foreign investors drawn to the Cambodia market offering strong domestic demand

The increase of disposable incomes of Cambodian consumers as a result of the country's strong economic growth has been a key driver for Cambodia's retailing industry, making it one of the most active markets in Southeast Asia. In the review period, the retailing industry in Cambodia has seen an influx of global brands, supported by middle-class consumers' growing appetite for branded goods and the emergence of new shopping malls in the cities. In recent years, the industry has attracted more foreign investors from China, Japan, the US, South Korea, and other countries including businesses that import into Cambodia and overseas retailers. The growing market is expected to see more investors from neighbouring countries like Malaysia and Thailand in the near future.

Informal retailing dominates retailing industry

The dominant retail channel in Cambodia is the traditional retail channel, which includes traditional formats like wet markets, chab huoy (home-based stores), informal shops and corner stores. Chab huoys source their supplies from large wet markets in Phnom Penh. However, some of the chab huoys which sell clothes source their products directly from other countries such as Thailand.

Consumers of all income groups buy goods from informal retailing, due to its widespread presence and low prices. The major product categories sold through informal retailing include food, beauty & personal care, home care, consumer health, personal accessories, and apparel & footwear. However, there is a growing presence of modern retail channel, such as supermarkets and luxury malls in the large cities. The distribution method in Cambodia typically starts from production facilities (e.g. factories) to shipping intermediaries to distributors in the country, then to wholesalers and finally to the retailers.

Due to relatively under-developed transport infrastructure, most consumers shop locally. In rural areas, consumers generally shop with local retailers due to the lack of modern retail channels. In contrast, urban consumers have access to a wide range of traditional, modern and informal retailers. Although consumers are still more used to shopping with informal retailers and traditional retailers due to their lower prices, there is a growing shift towards modern retailers as incomes rise and there is a change in consumer lifestyle, with more consumers visiting malls as a leisure activity.

Shopping seasons is one of the key characteristics of the retailing industry. There are a number of important shopping seasons during the year, such as the international New Year in January, the Chinese New Year in January/February, the Khmer New Year in April, Pchum Ben (“Ancestors’ Festival”) in September and Bom Om Touk (“Water Festival”) in November. The timing of these festivals often corresponds with a rise in food purchases, while new clothes tend to be popular purchases during the international New Year and the Chinese New Year period. The Khmer New Year is a time of gifting to family members, with gifts ranging from affordable food products to apparel and consumer appliances.

Total retail sales nearly doubled in review period

The retailing industry in Cambodia recorded strong growth between 2013 and 2018 with a CAGR of 10.6% in retail value sales. Total retail sales in 2018 reached KHR 29,750.7 billion (USD 7,355 million), which was more than 1.5 times the size of the retail market in 2013, a reflection of the industry’s strong performance in the review period. Similarly, total retail space has grown in tandem with growing retail expenditure. According to real estate services company CBRE, the retail supply in Phnom Penh nearly tripled between 2013 and 2018 to reach a net leasable area of around 300,000 square metres in 2018. The growth of the retailing industry is consistent with the rapid economic development of Cambodia and an emerging middle class.

Table 31 Cambodia Total Retail Sales Figures (2013-2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Total Retail Sales	KHR million	17,996,702	20,548,090	22,553,531	25,073,434	27,409,997	29,750,660	10.6%
	USD million	4,449	5,080	5,576	6,199	6,776	7,355	10.6%

Source: Euromonitor Passport – Retailing 2019 Edition

3.2.2 Legislative and Regulatory Policies

Cambodia’s investor-focused policies

Cambodia has a generally favourable investment environment. With its low-cost labour force, Cambodia attracts multinationals and foreign investors. The overall investment policy in Cambodia is fairly liberal. Foreign entities are allowed to establish branch offices, representative offices, liability companies and joint ventures. Unlike some of the Southeast Asian economies, Cambodia does not require foreigner investors to have a local joint venture partner in order to set up companies in Cambodia.

To attract foreign investments to Cambodia, the government operates a "qualified investment project" tax exemption scheme for up to nine months and offers some exemptions on import duties. Cambodia has one of the lowest corporate tax rates in the region, with a corporate tax rate of 20%.

Currently, Cambodia has more than 30 Special Economic Zones (SEZs), i.e. areas that have been specially designated by the government in which business and trade regulations differ from those that apply to the rest of the country. Cambodia's Special Economic Zones provide businesses with various fiscal incentives, including income tax, customs, and VAT benefits, in order to enhance the competitiveness and attract investment to Cambodia. According to a report by the Council for the Development of Cambodia, as of late 2013, Cambodia's Special Economic Zones had attracted USD 1.65 billion in total investment from 172 investment projects, most of which were initiated by China, South Korea and Japan.

Trade agreements reduce trade barriers between Cambodia and its trading partners

As a Least Developed Country (LDC), Cambodia benefits from the most favourable regime available under the EU's Generalised Scheme of Preferences (GSP), namely the Everything But Arms (EBA) scheme. The EBA scheme gives Cambodia duty free access to the EU for exports of all products, except arms and ammunition. The EU ranked as the 2nd biggest trade partner of Cambodia. In 2018, the EU imported goods worth EUR 5.4 billion from Cambodia and exported goods worth almost EUR 774 million to Cambodia.

Cambodia is a member of ASEAN and the World Trade Organization (WTO). In 2006, Cambodia signed a Bilateral Trade and Investment Framework Agreement (TIFA) with the US. Cambodia has entered into a number of trade agreements which are intended to remove different tariff lines and expected to promote foreign trade. These include the ASEAN-Korea, ASEAN-China Trade, ASEAN-Japan and ASEAN-Australia-New Zealand trade agreements.

3.2.3 Drivers and Constraints

Young population and a growing middle class drives domestic demand

Cambodia has a young population, which is beneficial for the retailing industry. Many young urban consumers are interested in fashion and beauty trends and new technologies, with smartphones and social media networks being extremely popular for this demographic. Social media has fostered a more image conscious culture among consumers, while the proliferation of smartphones and internet has given consumers ready access to latest fashion trends. These factors have promoted increasing spending on apparel, personal care products and technology products.

In addition to its young demographic, Cambodia also enjoys a growing number of middle income consumers. This group of consumers increasingly aspire for branded products and high quality products, as some consumers are keen to reflect their success and social status in the products they buy. Middle-class consumers in Cambodia are also more willing to spend on premium products and brands, given their greater purchasing power as a result of rising income.

Cambodia's strong economic growth boosts foreign investment in retailing

Cambodia's economy has enjoyed strong growth in the review period. This has not only boosted disposable income and domestic demand, it has also driven greater investments in the retailing industry. Foreign retailers and brand owners are increasingly attracted by the Cambodian market, which offers vast potential for growth. The middle-class is still relatively small, but this also means there is a lot of potential for growth with a large untapped market. Similarly, the share of urban population has risen gradually, in line with the economic development of Cambodia. This offers a large attractive market for foreign investors.

New shopping malls continue to spring up in the cities

During the review period, there was a growing trend of shopping mall visits for shopping and leisure. Many new shopping malls have sprung up in the cities, such as the launch of the USD205 million Aeon Mall in 2014, with 186 tenants housed in 68,000 square metres. The mall houses well-known global brands such as Clarks and Levi's in apparel and footwear specialist retailers and also luxury brands such as Valentino. Aeon opened its second shopping mall in Phnom Penh in 2018 which includes a large format Aeon grocery retail outlet, and ultimately plans to have up to five such malls in Cambodia. In 2016, Phnom Penh saw the launch of the Grand City Mall with Giant supermarket as an anchor tenant. However, the large shopping malls are still concentrated in the major cities such as Phnom Penh.

Foreign retailers erode the market share of domestic retailers

The entry of foreign retailers, especially well-known international brands, has increased competition in a market that is already fragmented and crowded. Foreign brands are popular among urban consumers who tend to be more brand-conscious. As a result, the competition in the retailing industry has intensified and local retailers find it particularly challenging to operate, as it is difficult for them to build up domestic brands. Some have lost market share to international brands which attract younger consumers and more sophisticated urban consumers.

Limited transport infrastructure hinder movement of goods and expansion of retailers

As a developing economy, Cambodia's transport infrastructure remains underdeveloped. For example, roads leading to the rural areas remain mostly unpaved, lacking traffic lights. During the rainy season, roads in both urban and rural areas may deteriorate considerably. In terms of rail transport, Cambodia has only two main railway lines, the 264km Southern Line from Phnom Penh to Sihanoukville, and the 336km Northern Line from Phnom Penh to Poipet, near the Cambodian-Thai border. Both lines are reported to be in very poor condition. This makes it difficult for many retailers to reach out to consumers, particularly as much of the country is covered by jungle and rural road infrastructure is poor. Moreover, there is a shortage of logistics facilities and services which could support movement of goods across the country. This sometimes results in transportation and delivery of goods being delayed. In 2018, Cambodia ranked 98th among 160 economies in the World Bank's Logistics Performance Index (LPI), falling 25 spots from 73th position in 2016. It is also lagging behind Thailand (32nd), Vietnam (39th) and Indonesia (43rd).

Online shopping takeup is slow due to lack of trust in online payments

Although the ownership of smartphones is rising in Cambodia, online shopping has been growing more slowly, because payment apps are struggling to gain mainstream adoption. This is linked to a lack of legislative regulation, concerns about the security of online transactions, absence of a standardised address system and a relatively low level of interest from both consumers and retailers in utilising mobile payment apps. A number of payment apps are available in Cambodia, including those of leading telecommunications players such as Smart's SmartLuy. However, they have not gained sufficient trust with consumers, and retailers also have not put in place the necessary IT infrastructure in order to accept online payments.

3.2.4 Market Outlook

Retailing industry expected to maintain strong growth

The retailing industry in Cambodia is expected to maintain strong growth in the forecast period, benefitting from the anticipated positive performance of the economy, rising disposable incomes and an increasingly aspiring consumer base. With rising income, many consumers will expand their purchases to include non-essential items, and some will trade up to more premium products and retailing channels in pursuits of better quality and brand reputation. Cambodia also has the demographic advantage of having a young population which will have a growing focus on appearance, fashion and consumerism, and this is expected to spur greater consumer expenditure on retailing. In addition, investment in retailing, particularly shopping malls, will continue to register strong growth, supported by the country's positive economic outlook and favourable investment environment. Total retail sales is projected to record a CAGR of 8.3% from 2019 to 2024, reaching a market size of KHR 47,667.9 billion (USD 11,785 million) in 2024.

Table 32 Cambodia Total Retail Sales Figures (2019F-2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-

								2024F
Total Retail Sales	KHR million	32,037,672	34,799,837	37,680,219	40,768,142	44,040,344	47,667,933	8.3%
	USD million	7,921	8,603	9,315	10,079	10,888	11,785	8.3%

Source: Euromonitor Passport – Retailing 2019 Edition

Opportunities for investors to offer logistics solutions to retailers and distributors

The retailing industry in Cambodia is still limited in term of under-developed logistics and distribution network. It is anticipated that distributors and retailers will continue to face barriers in their expansion efforts. In addition, most of the local logistics companies are small in scale and there is a lack of skilled staff with relevant international experience. This limits the ability of local companies to offer higher value-added services such as track-and-trace and inventory management. Therefore, there are opportunities for investors in the logistics and distribution space to develop logistics solutions for retailers keen to enter the Cambodian market or expand their existing market shares.

Informal retailing will continue to dominate, with government making efforts to crack down on counterfeit goods

The dominance of informal retailing in Cambodia's retailing industry is likely to remain a challenge for the retailing industry, as consumers will continue to be attracted by their convenient locations and low prices. The informal retailing sector competes with specialist retailers and modern retailers for all income groups. Moreover, it is quite difficult to curb the circulation of counterfeit goods through informal retailing due to a lack of regulation for the sector.

Nonetheless, the government is proving increasingly proactive in its fight against the sale of counterfeit and smuggled products. In October 2017, the authorities destroyed over 80 tonnes of counterfeit consumer health and beauty and personal care products, while 68 tonnes of beauty and personal care counterfeits were seized from warehouses in May 2017. In addition, consumers are becoming more discerning with regard to counterfeit goods, with a growing focus on quality of products. Hence, many mid- to high-income consumers are trading up from informal retailing to modern retailing.

New shopping centres planned for the forecast period

The emergence of new shopping malls is expected to continue in the forecast period, although it is likely to be concentrated in the larger cities like Phnom Penh and Siem Reap. As urban consumers become more exposed to modern lifestyle, interest in modern retail channels is expected to increase, with more consumers seeing them not just as a place to shop, but also a place for dining out and spending time with families and friends. The penetration of modern retail channels is still relatively low in Cambodia. Hence, there will be opportunities for investors to build new concept businesses such as shopping centres, supermarkets, discount stores, malls and mini marts.

The shopping centre space is particularly active in Phnom Penh. Nearly a dozen new malls, most of which developed by international mall developers, were scheduled to open in Phnom Penh by the end of 2018, and they are expected to double the capital's total clustered retail space. These include the Aeon Mall 2 by Japanese shopping mall developer Aeon Mall Co.,Ltd, with 70,500 square metres of retail space; the Phnom Penh MegaMall by Malaysian retailer Lion Group, with 70,200 square metres of retail space, and Chip Mong 271 Mega Mall by Chip Mong Retail, a subsidiary of Cambodian conglomerate Chip Mong Group. In October 2018, Aeon Mall Co.,Ltd announced the location of its third mall in Cambodia to be in the heart of ING CITY, about 8 kilometres away from Phnom Penh. The mall is expected to open in 2023. There is also a rise in "community malls" in the form of smaller and personable open-air venues. At least four malls had opened in 2018, including Noro Mall with over 10,000 square meters, and Midtown Community Mall with approximately 5,000 square meters.

Apart from Phnom Penh, shopping malls also have presence in Siem Reap and Battambang. In Siem Reap, there are some small malls such as Lucky Mall and Angkor Trade Center and some shopping complexes such as the Heritage Walk (40,000 square metres) which contains about 100 shops such as restaurants, coffee shops and a cinema. In Battambang, there is a four-storey shopping mall called Borey Thmey Mall.

Online shopping is expected to become more popular

With the rapid development of online shopping, multi-channel and omni-channel retailing has been growing in both developing and developed economies, as retailers attempt to reach out to consumers through physical stores as well as the online channel. Cambodia has seen a steady increase in smartphone ownership and internet penetration. With its young population, consumers are expected to embrace online shopping in the near future. For retailers who are keen to leverage this growing trend, it will be important for them to boost their online presence and upgrade their trading system in order to cope with a multi-channel or omni-channel strategy. It is expected that the major players will work to develop higher quality and more user-friendly websites, to enhance further purchase from consumers.

3.3 THE CONVENIENCE STORES IN CAMBODIA

3.3.1 Market Overview

Convenience stores expand in urban areas

The number of convenience stores has grown significantly in Cambodia in the past decade, which corresponds to the development of Cambodia's large cities, including the growing presence of modern retail channels. A decade ago, the presence of convenience stores was limited to the forecourts, and these stores sold a small selection of foods to drivers. Today, convenience stores have expanded their network, reaching various neighbourhoods in the cities and serving a much wider segment of consumers. They sell a wide range of food for daily consumption. Some convenience stores have expanded their offerings beyond food products. For example, they offer services such as bill payment and mobile phone value top-up, and amenities such as vending machines and ATMs. This is in turn boosting the popularity of convenience stores, as the additional services draw consumers to the stores. However, on the whole, convenience stores are still a relatively new format in Cambodia and its presence is largely limited to the cities, whereas in the rural areas, informal kiosks and stalls serve the daily needs of consumers.

Consumers see conveinence stores as a place to relax

The main customer segments for convenience stores in Cambodia are students and young families. These consumers not only see convenience stores as a shopping venue for getting daily essentials, but they also tend to stay longer in the stores to relax compared to the amount of time consumers usually spend in the traditional stores. Therefore, there is a trend of convenience stores offering large retail space and seats to attract consumers.

Convenience store sales triple in review period

There are 78 convenience store outlets in Cambodia in 2018. In comparison with other Southeast Asian countries, Cambodia has a significantly lower number of convenience store outlets – for example, in 2018, Philippines has 3,948 outlets, and Thailand has 14,008 outlets.

In Cambodia, convenience store sales accounts for 0.6% of total retail sales of grocery retailers. Between 2013 and 2018, the value sales of convenience stores grew at a CAGR of 36.8% from KHR 25,101 million (USD 6.2 million) in 2013 to KHR 120,042 million (USD 29.7 million) in 2018. At the same time, the number of outlets grew from 36 in 2013 to 78 in 2018, at a CAGR of 16.7%, while total selling space grew from 3,312 square metres in 2013 to 8,034 square metres in 2018, at a CAGR of 19.4%. Sales per outlet registered a positive CAGR of 17.2%, and this indicates that convenience stores growth has been driven by a combination of outlet expansion and higher sales at the outlets.

Table 33 Cambodia Total Convenience Stores Figures (2013-2018)

		2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Convenience stores sales	KHR million	25,101	31,376	44,201	56,320	74,733	120,042	36.8%
	USD million	6.2	7.8	10.9	13.9	18.5	29.7	36.8%
Number of outlets	-	36	40	49	53	59	78	16.7%
Selling space	Square metres	3,312	3,760	4,655	5,194	5,900	8,034	19.4%
Sales per outlet	KHR million	697	784	902	1,063	1,267	1,539	17.2%
	USD	172,378	193,925	223,014	262,710	313,151	380,478	17.2%
Sales per selling space	KHR	7,578,822	8,344,767	9,495,466	10,843,241	12,666,641	14,941,717	14.5%

		2013	2014	2015	2016	2017	2018	CAGR 2013-2018
(square metres)	USD	1,874	2,063	2,348	2,681	3,132	3,694	14.5%
Convenience stores' sales contribution to grocery retailers	%	0.2%	0.2%	0.3%	0.3%	0.4%	0.6%	N/A

Source: Euromonitor estimates from trade interviews and desk research

3.3.2 Drivers and Constraints

Urbanisation drives demand for convenience

Cambodia has a relatively small urban population, with Phnom Penh being the only major urban area in the country. However, Cambodia also has the fastest-growing urban population. According to the World Bank, Cambodia's urban population grew at a CAGR of 3.4% from 920,000 people to 1.4 million between 2000 and 2010. The migration of people into cities and growth of urban areas have spurred demand for convenience, especially among professionals and office workers who live a busy lifestyle and welcome the accessibility of convenience stores. The greater affluence of urban consumers also supported the growth of convenience stores, as they are less price-sensitive and place more emphasis on quality and convenience factors. Moreover, consumers are also getting more exposure to modern retail formats in the urban areas, such as supermarkets and mini marts, which leads to growing acceptance of convenience stores for daily shopping. This is resulting in convenience stores becoming increasingly visible in urban areas such as Phnom Penh.

Rising middle-class look beyond price in their choice of shopping venues and goods

Cambodia's economic growth and its young population have created a new generation of aspirational middle-class consumers who want to enjoy a higher standard of living. According to a study commissioned by the British Chamber of Commerce, the European Chamber of Commerce and the UK government's department for international trade, income levels are rising across all socio-economic classes, with an estimated 10% of Cambodian households having incomes of more than USD800 a month. These consumers are looking beyond price as the key factor in making a purchase. Instead, they consider other factors like shopping environment, quality of products, freshness of food etc. As a result, middle-class consumers are increasingly shopping at modern convenience stores for their daily grocery needs because of the convenience provided and their product offerings.

International convenience store chains expand in Cambodia

Cambodia's economy is strong and attracts more investment, including those from some of the world's leading brands. US convenience store chain Circle K opened its first outlet in Phnom Penh's Tuol Kork district in February 2018. The store will be operated by Circle K's Cambodian partner TH CSV. In its first year of operation in Cambodia, Circle K had opened over 20 outlets. In the next decade, the company plans to open 300 stores nationwide. According to data from the Ministry of Commerce, in 2017, 100 international brands were franchised to partners in Cambodia. In 2017, Japanese supermarket group Aeon announced plans to open 30 grocery stores in Cambodia to cater to the country's growing middle classes. According to the Nikkei Asia Review, some of the stores will be located in city centres and will resemble convenience stores, with about 150 square metres of floor space.

Competition from both modern supermarkets and traditional retailers

Convenience stores face strong competition in Cambodia. On one hand, it competes with other modern retail channels, such as supermarkets which offer a wider range of products and larger retail space. On the other hand, it faces competition from traditional retail channels with their widespread presence throughout Cambodia, such as makeshift kiosks by the side of the road. These kiosks stock almost every basic household necessity a household would require, which range from condiments to conditioners, groceries to gas. Moreover, consumers can visit these kiosks residents during late hours or public holidays where no other stores are open for businesses. Most of the kiosks charge low prices for their goods, as their owners save on rental costs. Therefore, despite the proliferation of modern mini-markets and convenience stores with extended opening hours across Cambodian cities, the traditional kiosks remain popular among local residents.

3.3.3 Market Outlook

Convenience store sales grow

The convenience store segment is projected to register strong performance over the forecast period of 2019 – 2024. Convenience store sales is expected to register a CAGR of 22.0% to reach of market size of KHR 580,974 million (USD 143.6 million) in 2024, nearly 3 times of that in 2019. The number of outlets is expected to grow at a relatively slower, but nonetheless impressive pace of 8.4% per annum. By 2024, it is projected that the number of stores will grow to reach 169 stores. This indicates that convenience store growth will be driven by both store network expansion and higher sales per outlet. By the end of the forecast period, total convenience store sales are expected to contribute more than 2.0% of total sales of grocery retailers.

Table 34 Cambodia Convenience Stores Figures (2019F-2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Convenience stores sales	KHR million	214,775	281,535	362,985	444,422	513,325	580,974	22.0%
	USD million	53.1	69.6	89.7	109.9	126.9	143.6	22.0%
Number of outlets	-	113	125	141	154	162	169	8.4%
Selling space	Square metres	11,865	13,375	15,510	17,248	18,630	19,880	10.9%
Sales per outlet	KHR million	1,901	2,252	2,574	2,886	3,169	3,440	12.6%
	USD	469,891	556,821	636,446	713,456	783,374	850,394	12.6%
Sales per selling space (square metres)	KHR	18,101,534	21,049,377	23,403,272	25,766,584	27,553,665	29,224,187	10.1%
	USD	4,475	5,204	5,786	6,370	6,812	7,225	10.1%
Convenience stores' sales contribution to grocery retailers	%	1.1%	1.3%	1.5%	1.8%	1.9%	2.1%	N/A

Source: Euromonitor estimates from trade interviews and desk research

Convenience stores will be driven by population and economic growth

The convenience store sector will be growing because Cambodia will continue to experience both an increase in population and positive economic growth. The number of customers is expected to increase every year. Middle class consumers, who are the main customers of consumers, are willing to pay more for the convenience and modern shopping environment such as gaining access to WiFi, air conditioning, and also the broad selection of both domestic and imported brands. The growing number of middle class consumers, as a result of Cambodia's economic growth, will be the key driver of convenience stores in the future.

Convenience stores offer a wide range of products and servies

Convenience stores appear more innovative than traditional retailers, in the sense that they continuously adapt their products and services to the changing needs of young, middle-class consumers. For example, some convenience stores provide internet and seats for customers to relax in the stores. Food products are packed nearly and clearly labelled with expiry date, country of origin and ingredients, and organic products are also gradually introduced in some outlets. This inspires more trust in consumers who are increasingly more concerned about safety and freshness of products. Convenience stores are usually perceived to have a clean, modern look, which makes customers trust the quality of the products more.

Convenience stores face strong competition from other grocery retailers

One of the main challenges for convenience store operators is the high level of competition with grocery retailing. The convenience store format has to compete with other modern retailing formats, such as forecourt retailers, big supermarkets and malls. In addition, they also compete with traditional markets and stalls which tend to offer more affordable prices.

However, convenience stores have opportunities for future growth by gaining more customers in urban areas, where consumers have higher income and they are willing to pay more for convenience. Many middle class consumers are changing their way of shopping by visiting the convenient stores close to their house for the convenience, and such a shift is expected to continue in the forecast period.

3.3.4 Competitive Environment

Convenience store segment expects to see more foreign players

The convenience store segment is fragmented, with the top three domestic players accounting for 32.5% of the market share. The leading convenience stores has over 15 outlets in Phnom Penh and Player 2 with about 10 outlets. Player 4 and Player 5 have a few outlets in Phnom Penh.

The convenience store segment is expected to attract more foreign investments, thanks to Cambodia's large untapped market and positive outlook. Circle K, an American multinational convenience store chain entered the Cambodian market in 2018 and planned to set up 300 stores across the country with the budget investment of USD20 million in the next ten years. By the end of March 2019, Circle K has opened 21 outlets in Cambodia.

There are other foreign brands planning to enter Cambodia in future years, such as convenience store operators CPAll and Jiffy, both from Thailand. CPALL, which owns 7-Eleven convenience stores chains, is taking steps to open more convenience stores in Cambodia, Laos and Myanmar, as part of its global expansion plan. The bidding process for franchise licenses was under progress in Cambodia and Laos as of September 2018. On the other hand, Jiffy plans to open more convenience stores in Cambodia in collaboration with PTTCL. As a result, the segment is expected to become more fragmented in the forecast period.

Table 35 Cambodia Market Rankings and Shares of Convenience Stores in 2018

Ranking	Convenience Store Brand	% Market Shares by Revenue	Listing Status
1	Player 1	17.1	Private
2	Player 2	11.0	Private
3	Player 3	4.4	Private
4	Player 4	1.2	Private
5	Player 5	1.0	Private

Source: Euromonitor estimates from trade interviews and desk research

3.4 THE FORECOURT RETAILERS IN CAMBODIA

3.4.1 Market Overview

Forecourt retailers attract consumers with their convenient locations

Forecourt retailers have been present in Cambodia for many years. The number of forecourt retailers continued to increase in the review period. Currently, there are retailers at most of the forecourts in Cambodia. Customers who visit the forecourt to fill petrol can easily shop or relax in the forecourt shops, because forecourt retailers provide ready-to-eat food, coffee and drinks, and seats for customers. It also attracts people who travel on the

street to stop by, because forecourts are usually located on the main street and the corners where foot traffic is high.
Forecourt retailers are bigger than convenience stores in Cambodia in terms of value sales as of 2018, because this type of retailer entered to Cambodia before convenience stores. Forecourt retailers usually attract more customers than convenience stores, because of their locations in the main street. Moreover, it has the added advantage of having a large space for customers to park. Due to their large space, many forecourts around Cambodia have been expanding their business by adding cafés and quick-service restaurants inside forecourt.

Service stations seek to grow revenues through retail business

Cambodia is no exception to the trend of service stations expanding into non-oil business, which is happening in other Southeast Asian countries like Thailand and the Philippines. Led by major international players such as PTTOR, service stations are increasingly adding a wide range of services, such as food and drinks sold through forecourt retailers and cafés. The most common business model is tie-ups with convenience store operators to open forecourt retail outlets, so that drivers not only stop to refill petrol, but they can also purchase snacks, food and drinks. In 2016, PTTOR announced an investment budget for its oil sector, including the non-oil retail business, for the period of 2016-2020 of THB 24 billion. Of the total budget, THB 4 billion will be dedicated to ASEAN growth, including the expansion of its non-oil retail businesses. It plans to open an additional 70 service stations in Cambodia by 2020, which will provide room for growth for more forecourt retailers.

Forecourt retailers' size vary by locations

Forecourt retailers in Cambodia vary in size depending on their locations. Forecourt retailers located on the main road tend to be larger and attract more customers, as they provide more products, parking space, and space for customers to shop and relax, typically consisting both retail and foodservice outlets. Smaller forecourt retailers are usually located on the secondary roads where there is less traffic.

Forecourt retailers register strong growth through outlet expansion

Forecourt retailers sales registered a CAGR of 20.2% between 2013 and 2018, growing from KHR 85,142 million (USD 21.0 million) in 2013 to KHR 213,244 million (USD 52.7 million) in 2018. The number of outlets also registered significant growth with a CAGR of 16.9% in the same period. Correspondingly sales per outlet saw a CAGR of 2.8% in the same period. This indicates that the growth in forecourt retailers is largely driven by outlet growth. Forecourt retail sales account for 1.1% of the total sales of grocery retailers in 2018.

Table 36 Cambodia Forecourt Retailers Figures (2013-2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Forecourt retailers sales	KHR million	85,142	112,896	138,372	168,473	198,873	213,244	20.2
	USD million	21.0	27.9	34.2	41.7	49.2	52.7	20.2
Number of outlets	-	54	64	88	102	115	118	16.9
Selling space	Square metres	2,808	3,456	5,280	6,426	7,475	7,670	22.3
Sales per outlet	KHR Million	1,576.7	1,764.0	1,572.4	1,651.7	1,729.3	1,807.1	2.8
	USD	389,798.5	436,106.2	388,737.7	408,341.3	427,533.3	446,772.3	2.8
Sales per selling space (square metres)	KHR	30,321,073	32,666,777	26,206,755	26,217,455	26,605,070	27,802,298	-1.7%
	USD	7,496.1	8,076.0	6,479.0	6,481.6	6,577.4	6,873.4	-1.7%
Forecourt retailers sales contribution to grocery	%	0.7%	0.8%	0.9%	1.0%	1.1%	1.1%	N/A

retailers

Source: Euromonitor estimates from trade interviews and desk research

3.4.2 Drivers and Constraints

Middle class consumers are the main driver of forecourt retailers

The expansion of the middle-class in the major cities such as Phnom Penh is one of the main drivers for forecourt retailers. The business owners are able to attract many customers to forecourt retailers despite the higher price, as middle class consumers are less price sensitive, and they are willing to pay higher prices for the convenience.

Consumers choose forecourt retailers for better quality products and convenience

Due to the expansion of forecourt retailers in the review period, awareness of the forecourt retailing format has grown. There is also greater focus on the quality of products among urban consumers, as consumers become more sophisticated. The products sold at forecourt retailers are often more expensive than those at traditional retailers, but they are perceived to have a better quality because they are well packed and food products are stored properly in cold temperature. Shopping at forecourt retailers is also more straightforward due to fixed prices; hence consumers do not need to spend time haggling over prices.

Forecourt retailers provide additional services to attract customers

To attract more customers, some forecourt retailers such as Star mart and Bonjour Mart have added cafés to their outlets to attract more customers, such as Coffee Plus and Bonjour Cafe. More and more PTTCL service stations have started to add separate cafés as well as quick-service restaurants inside forecourt, such as Pure Grill Pork, Café Amazon, and Black Canyon Coffee.

Demand for convenience drives forecourt retailers

Demand for convenience has been a driver for forecourt retailers. Forecourt shops are usually located in public spaces where there are a lot of people passing by. They not only attract consumers who stop by to fill the gasoline, but also those on the street who are looking to do some shopping quickly.

Strong competition with convenience stores which offer similar products and services

Competition remains one of the key constraints for forecourt retailers. The grocery retailing industry is highly competitive, with a variety of retailing formats which cater to different consumer needs. For example, supermarkets serve consumers who are looking to buy a wide range of food and household goods; while convenience stores cater to consumers who need to do quick shopping or top up their food supplies. Forecourt retailers mainly compete with convenience stores, as both formats offer a similar but limited range of products and services and appeal to consumers on the convenience factor.

Locations play an imporant factor in the popularity of forecourt retailers

Location is an important factor for forecourt retailers. In order to secure premium locations, forecourt retailers usually have to pay higher rents, resulting in high operating costs. Retailers which are located in less popular locations or have smaller retail space will not be able to attract as many customers as those located at convenient locations and having large space in store. For new entrants, the difficulty in finding good location could be a barrier to entry.

Store size constrain forecourt retailers

Forecourt retailers are limited by the size of their stores, and do not have as many products as supermarkets. Customers who shop at forecourt retailers typically buy a few items. If they want to buy many products, such as their weekly grocery shopping, they would still prefer to shop at the supermarket as it offers a wider range of products. As a result, it is relatively difficult for a forecourt retailer to scale up individual stores, and their model of expansion is usually based on store network expansion.

3.4.3 Market Outlook

Forecourt retailers are expected to register slower growth

Forecourt retailer sales is forecasted grow by CAGR of 14.6% from 2019 to 2024, which will be slower than review period growth, due to competition from other retailing formats. Between 2019 and 2024, the number of forecourt retail outlets will grow at a CAGR of 10.6% while selling space will increase at a CAGR of 12.2%, indicating that retailers will focus more on opening larger outlet. Forecourt retailers sales is projected to grow at a faster rate than the growth of number of outlets as investment is required to open new outlets and there are a limited number of locations for new outlets. As a result, forecourt retailers are expected to grow at a slower rate in the forecast period. By the end of the forecast period, forecourt retailers will account for 1.7% of grocery retail sales.

Table 37 Cambodia Total Forecourt Retailers Figures (2019F-2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Forecourt retailers sales	KHR million	242,913	297,959	356,423	379,805	433,332	479,471	14.6%
	USD million	60.1	73.7	88.1	93.9	107.1	118.5	14.6%
Number of outlets	-	129	152	175	180	199	214	10.6%
Selling space	Square metres	8,514	10,184	11,900	12,420	13,930	15,172	12.2%
Sales per outlet	KHR million	1,883	1,960	2,037	2,110	2,178	2,244	3.6%
	USD	465,537	484,624	503,524	521,651	538,344	554,686	3.6%
Sales per selling space (square metres)	KHR	28,531,055	29,257,532	29,951,538	30,580,086	31,107,811	31,601,759	2.1%
	USD	7,053.6	7,233.2	7,404.8	7,560.2	7,690.6	7,812.7	2.1%
Forecourt retailers sales contribution to grocery retailers	%	1.2%	1.4%	1.5%	1.5%	1.6%	1.7%	N/A

Source: Euromonitor estimates from trade interviews and desk research

Forecourt retailers growth driven by expanding population and rising income

Forecourt retailers is expected to register positive growth in the forecast period. Cambodia’s population and the number of middle-class consumers is increasing every year along with the strong economic growth. This means the target market for forecourt retailers will continue to grow in the forecast period, and more consumers are expected to shop at forecourt retailers. In addition, the expansion of urban cities will provide more space for forecourt retailers’ expansion, as well as drive greater consumer demand, as urban consumers living a busy lifestyle will be attracted to forecourt retailers for their convenient locations and ease of shopping.

On the supply side, the transformation of service stations from pure oil business to a wider portfolio of businesses including retail offerings will provide opportunities for the growth of forecourt retail outlets. Conglomerates like PTTOR are planning to increase the number of service stations in Cambodia, as well as to open more retail outlets in its service stations through collaboration with convenience store and café operators. As a result, it is anticipated that forecourt retailers will become a more common presence across Cambodia and they will entice drivers to make more purchases.

Product vareity and additional services could be the innovation focus of forecourt retailers

Forecourt retailers which have a relatively large size, provide a wider variety of products (many choices of snack, ready-to-eat food, cake, and coffee), or offer seating for consumers to relax will attract more customers. Thus, forecourt retailers should consider adding more products to their shops and renovating the store layout to provide a more comfortable shopping environment will be able to attract more customers. Internet access is another attraction for customers, especially young people.

Forecourt retailers compete with convenience stores and traditional retailers

The likely challenge of forecourt retailers is competition. The forecourt retailing format competes with convenience stores and supermarkets. With the anticipated entrance of foreign convenience store chains, convenience stores are expected to become more common in Cambodia, and compete with forecourt retailers on similar strengths, i.e. convenience and modern store design. In terms of competition with supermarkets, forecourt retailers do not sell as many products as supermarkets. Most consumers prefer to shop at supermarkets for larger shopping orders.

Despite the challenge, forecourt retailers still have the opportunity to grow in the future, thanks to their unique positioning of targeting consumers who visit forecourts to fill the gasoline, travellers and students who want a relaxing place to shop.

3.4.4 Competitive Environment

Forecourt retailers dominated by large players

The industry for forecourt retailers in Cambodia is fairly consolidated. The top five players accounted for over 50% of the total market share. There are other smaller service stations in Cambodia and those retailers that bought franchise from the leading players, but they would not be able to compete with these leading players, as the latter operate through major service station operators and have a much larger number of stores.

Player 1 has 75 service stations and 30 forecourt shops. Player 3 operates 24 service stations, which includes 17 forecourt retail outlets, and multiple cafes within the service station.

Jiffy from Thailand has collaborated with PTTCL, operating to open 35 Jiffy Marts in PTTCL service stations as of 2018. PTTCL has announced plans to increase the number of service stations across Cambodia to 90 by 2019, as well as to open more retail outlets in its service stations, which will include forecourt retailers, cafés and restaurants.

As Cambodia continues to develop its economy, vehicle ownership is expected to rise, leading to an increase in the number of service stations and forecourt retailers. There are opportunities for new entrants to take up retail space at the new service stations. The barriers to entry is not very high, as the costs of settling up a forecourt shop is relatively low given the smaller store size compared to supermarkets. Therefore, the industry is expected to become more fragmented in the forecast period.

Table 38 Cambodia Market Rankings and Shares of Forecourt Retailers in 2018

Ranking	Forecourt Retailer Brand	% Market Shares by Revenue	Listing Status
1	Player 1	17.5	Private
2	Player 2	16.0	Private
3	Player 3	9.4	Private
4	Jiffy	5.1	Private
5	Player 5	3.4	Private

Source: Euromonitor estimates from trade interviews and desk research

3.5 QUICK-SERVICE RESTAURANTS (QSR) INSIDE FORECOURT IN CAMBODIA

3.5.1 Market Overview

International brands are the main players in Quick-Service Retaurants (QSR)

Quick-service restaurants started to grow in Cambodia in the last decade. Most of them are franchises of international quick-service chains. In 2005, Pizza Company, a Thai brand, entered the Cambodian market. It has been successful, having reached 16 branches recently. KFC and Swensen arrived in Cambodia in 2008, followed by Dairy Queen, Burger King, Domino's Pizza, Krispy Kreme, Carl's Jr and Cold Stone Creamery. The number of quick-service restaurants has kept growing both in and outside forecourt, although the number of quick-service restaurants outside the forecourt is greater than that in the forecourts. Quick-service restaurants have become more competitive in recent years, with the entrants of regional brands such as Lotteria, Pepper Lunch, Yoshinoya and Bonchon.The number of customers who come to quick-service restaurants has also increased year by year, due to rising income and growing popularity of quick-service food.

Increasing number of Quick-Service Restaurants (QSR) inside forecourt

The number of quick-service restaurants inside forecourt has been increasing. Burger King, Tour Les Jours, Pure Grill Pork, Mike Burger House, and Lucky Burger are among the most active players in expanding their branches inside forecourt. These three key players are more likely to expand their branches inside forecourt, as they already have a relatively large number of outlets and will be looking for new locations to expand to. It is also expected that some other well-known QSRs such as McDonald's and Carl's Jr. would enter the Cambodian market in the near future.

Quck-service restaurants inside forecourt tend to be smaller than those outside

Although most of the quick-service restaurants are franchise of international brands, it is common for Cambodia-based quick-service restaurants to modify the menu to cater to local preferences, such as adding rice, ramen and tofu to the menu. This has been observed in both quick-service restaurants located inside forecourts and those outside forecourts. The main difference between the two types of quick-service restaurants is their size. Quick-service restaurants located in forecourts tend to be smaller than the ones outside forecourts. The size of the forecourt where a quick-service restaurant is located is also a factor in determining the size of the restaurant.

Locations are important for both types of quick-service restaurants. The restaurants which are located in premium locations, e.g. main street where there is a lot of traffic, or those located in shopping centres, will be able to attract more customers than those located in less popular locations.

Quick-Service Restaurants (QSR) inside forecourt register strong growth in sales and transaction volume

Quick-service restaurants inside forecourt sales grew at a CAGR of 16.0% during the review period to reach KHR 42,622 million (USD 10.5 million) in 2018. The number of transaction grew at a slightly slower CAGR of 14.6%. This indicates that quick-service restaurants inside forecourt is driven by both an increase in transaction volumes, as well as larger amount per transaction. These can be attributed to more outlets being opened with service stations expanding into non-oil business, more consumers visiting quick-service restaurants inside forecourt, and higher spending amount per transaction as a result of rising incomes.

Table 39 Cambodia Quick-Service Restaurants Inside Forecourt Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Quick-service restaurants sales	KHR million	20,326	24,142	28,786	32,422	36,357	42,622	16.0%
	USD million	5.0	6.0	7.1	8.0	9.0	10.5	16.0%
Number of transactions	-	693,236	801,381	964,061	1,070,440	1,196,766	1,370,297	14.6%

Source: Euromonitor estimates from trade interviews and desk research

3.5.2 Drivers and Constraints

Increasing penetration of Western culture drives Quick-Service Restaurants

With the rise in internet access and the increasing presence of modern retailing, consumers have had many more opportunities than that in the past to get exposed to Western culture, including Western food. As a result, there is a growing number of middle-class consumers who are keen to try out Western food, including quick-service food. Dining out in quick-service restaurants is also seen as a lifestyle choice, as consumers can hang out with friends or simply relax in the clean and modern environment of quick-service restaurants. As a result, quick-service food restaurants have gained popularity among middle class consumers in the review period.

This trend has benefitted quick-service restaurants inside forecourt, as consumers are quick to warm to new restaurants inside forecourt, since they already have strong interest in Western quick-service food.

Quick-Service Restaurants inside forecourts offer convenience to drivers and travellers

For the quick-service restaurants inside forecourt, they offer convenience for customers who stop by to fill the gasoline. Quick-service food is quick to prepare and can be packed easily for takeaway. For consumers who travel and need to pack some food to eat along the way, quick-service food offers a convenient and affordable option.

Compared to the restaurants located on high street or in the shopping centres, quick-service restaurants in the forecourts offer the added convenience of a large parking space. Moreover, forecourts are usually located at the corner. Hence, it is easy for customer to stop by and get food.

Quick-Service Restaurants inside forecourt compete with players outside forecourts on menu and price

Competition is one of the key constraints for quick-service restaurants inside forecourt, because there is not much brand loyalty for quick-service food. Consumers are easily attracted by new brands as they get to try out new cuisines. Therefore, quick-service restaurants have to continually offer promotions and keep their menus fresh to attract customers. If a quick-service restaurant does not update its menu or offer new items, it could easily lose customers to competitors.

Advertising and promotions are important, because they help to spread words about new restaurants and new menus, while promotions help to draw customers who would go to whichever restaurants offering discounts. While it is common for quick-service restaurants to offer promotions, it would have an impact on profit margins.

Ability to hire and retain skilled staff is important for maintain high quality service

One of the constraints is to have sufficient skilled and efficient staff, which are critical for providing a high level of customer service and quality of the food. For example, if it takes too long to pack for customers, they may prefer a restaurant with better service. The availability of skilled kitchen staff ensures food is prepared to reflect the original flavours of the brand. However, the turnover of staff is relatively high in the industry, as with the wider consumer foodservice industry, making it a challenge for quick-service restaurants to maintain a consistently high level of service.

3.5.3 Market Outlook

Quick-Service Restaurants inside forecourt picks up pace of growth

Quick-service restaurants inside forecourt sales is projected to grow at a CAGR of 24.0% from 2019 to 2024. In terms of the number of transactions, it is forecasted to grow at a CAGR 13.3% in the same period, implying that sales per transaction is forecasted to increase. In 2024, quick-service restaurants inside forecourt will record close to 2.9 million transactions, bringing in KHR 151,143 million (USD 37.4 million) worth of sales.

The growth of quick-service restaurants inside forecourt is anticipated to be faster in the forecast period compared to that in the review period. This is because the trend of service stations expanding into non-oil business, such as collaborating with consumer foodservice outlets, is expected to continue, giving the number of quick-service outlets inside forecourt a significant boost in the forecast period. Sales will be further bolstered by rising incomes, demand for convenience and growing acceptance of quick-service food.

Table 40 Cambodia Quick-Service Restaurants Inside Forecourt Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Quick-service restaurants sales	KHR million	51,573	62,919	77,390	95,964	119,955	151,143	24.0%
	USD million	12.8	15.6	19.1	23.7	29.7	37.4	24.0%
Number of transactions	-	1,562,138	1,777,713	2,019,482	2,286,054	2,583,241	2,913,896	13.3%

Source: Euromonitor estimates from trade interviews and desk research

Quick-service food culture will continue to grow in Cambodia

It is expected quick-service restaurants will continue to increase in Cambodia as there will be more customers who enjoy eating quick-service food, driven by an emerging middle class and a youthful urban population hungry for a taste of Western culture. Moreover, the industry is expected to become more diverse with more international brands such as those from Japan and Thailand coming Cambodia in the near future, to take advantage of a growing market. At the same time, service stations are seeking to expand into non-oil business by opening retail outlets in service stations. Quick-service restaurants are expected to seize these opportunities by collaborating with service station operators to open more outlets inside forecourt.

Menu innovation is key for Quick-Service Resturants

In terms of innovation outlook, menu innovation is important for quick-service restaurants. New menus and dishes keep customers excited about a brand. Quick-service restaurants inside forecourt should also consider adapting to local consumers' palate, for example, by adding Asian ingredients and offering Asian cuisines, because Western food is still new for most Cambodian consumers, and local cuisines will help to bring consumers who are used to traditional dishes to the restaurants.

Lack of brand loyalty and growing number of outlets increase competition

The main challenge for quick-service players inside forecourt is competition. Service station operators are expected to collaborate with a wide range of consumer foodservice operators, such as quick-service restaurants and Asian food chains, to offer consumers a more varied selection of cuisines. This competition will intensify as service station operators expand their service stations and introduce more food outlets.

At the same time, consumers have little brand loyalty when it comes to quick-service food, and many just want to try out new dishes and new flavours or whichever that is offering promotions. Therefore, quick-service players inside forecourt have to constantly innovate to keep engaging drivers who stop by the service stations.

3.5.4 Competitive Environment

Relatively small number of Quick-Service Restauants (QSR) inside forecourt

The quick-service restaurants industry in Cambodia is fragmented. As quick-service restaurant brands have only entered Cambodia in recent years, the number of players has continued to grow every year. However, most of them have not yet entered the segment inside forecourt. As a result, the number of players in the space of quick-service restaurants inside forecourt is relatively small. Currently, the top five players were responsible for 88.4% of the market share for the segment.

Player 1 opened its first quick-service restaurant in Cambodia in 2013, but it has quickly gained significant market shares in quick-service restaurants both inside and outside forecourt. Within the quick-service restaurants inside forecourt segment, Player 1 tops the charts with 25.5% of the total market share in 2018. In Thailand, Player 1 has partnered with various service stations, including those of PTTOR, Shell, Bangchak, and Caltex, as part of its expansion strategy. The quick-service restaurant chain is expected to adopt a similar strategy for Cambodia.

The quick-service restaurants inside forecourt in Cambodia is expected to be more fragmented because there are many brands in the market. However, most of the them have not yet entered the segment inside forecourt. This is expected to change in the forecast period, as service stations seek consumer foodservice players to partner and offer non-oil services at the service stations.

Table 41 Cambodia Market Rankings and Shares of Quick-Service Restaurants Inside Forecourt in 2018

Ranking	QSR Brand	% Market Shares by Revenue	Listing Status
1	Player 1	25.5	Private
2	Player 2	24.4	Private
3	Player 3	17.8	Private
4	Player 4	16.0	Private
5	Player 5	4.7	Private

Source: Euromonitor estimates from trade interviews and desk research

3.6 CAFÉ INSIDE FORECOURT IN CAMBODIA

3.6.1 Market Overview

Development of coffee culture in Cambodia

Café inside forecourt has been increasing over the years, as coffee culture started to develop in Cambodia and many café brands have entered Cambodian market. Although growth is more prominent in cafés outside forecourt due to their extensive presence, cafés inside forecourt have also seen a growing trend. For café inside forecourts, there is a variety of business models. Some cafés cooperate with the service stations and some are owned by the service station itself.

In the past, coffee shops are usually associated with old people who enjoy a cup of coffee at the traditional café shops located at the owner' house. Nowadays, many young consumers, especially college students and young working adults, have picked up the coffee culture, although they are more likely to be seen at modern cafés. Some of these consumers visit café at forecourt because it is convenient for them to park at the large parking space. Travellers who pass by or customers of the service station can easily get a coffee at the café inside forecourt. Cafés selling bubble tea, such as Chatime, have also appeared inside forecourts, as they are popular among younger consumers.

Cafés become popularity place for young consumers to work and socialise

The growth of cafés inside forecourts is partly due to the popularity of the business model, as business owners tend to follow each other once they notice a typical business model works. Consumers have also picked up on the trend of hanging out in modern cafés. A few years ago, when the internet was not widely accessed by many people, consumers especially college students would go to a café so that they could use the internet there, while enjoying a cup of coffee. Nowadays, a café has become a place where people meet up and relax. Students and white-collar workers can bring their work a café and make use of the internet there. Some people meet their friends to socialise or even have business meetings at a café. The number of café at forecourts has increase. In the last few years, the number of Café Amazon inside forecourts has increased to 55 as of 2018. Caltex and Total service stations also own some cafés, such as Café Plus, Da Cofee, Café Bonjour and Florence cafés.

Cafés inside forecourt experience phenomenal growth

Between 2013 and 2018, sales of café inside forecourt grew at a CAGR of 98.5%, from KHR 3,574 million (USD 0.9 million) in 2013 to KHR 110,189 million (USD 27.2 million) in 2018. Similarly, the number of coffee cups sold increased from 503,727 cups in 2013 by over 25 times to reach 13 million cups in 2018, or equivalent to a CAGR of 91.7% over the same period.

One of the reasons for the phenomenal growth is because the segment started from a very small base, where cafés inside forecourt were a rare presence. By 2018, the number of outlets has tripled from that in 2013 to reach 172 outlets. Moreover, there has been rapid growth in the number of coffee cups sold per outlet, which indicates that cafés inside forecourt have become more popular with consumers, and it is becoming increasingly common for drivers to stop by cafés inside forecourt to get coffee when they refuel or take a rest break.

Table 42 Cambodia Cafés Inside Forecourt Figures (2013-2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Café sales	KHR million	3,574	5,330	13,282	30,722	102,434	110,189	98.5%
	USD million	0.9	1.3	3.3	7.6	25.3	27.2	98.5%
Number of outlets	-	60	63	77	95	162	172	23.4%
Number of coffee cups sold	-	503,727	668,799	1,491,112	3,276,517	10,572,195	13,036,012	91.7%

Source: Euromonitor estimates from trade interviews and desk research

3.6.2 Legislative and Regulatory Policies

Cafés industry is not tightly regulated

The laws and regulations which apply to cafés outside forecourt are also applicable to cafés inside forecourt. The government does not have strict regulations for cafés inside forecourt, other than the requirement for registered companies to pay tax. Specifically, companies which are properly registered businesses have to pay 35% in import duties and 10% VAT when they import raw materials and equipment for the cafés. Those that have not registered may avoid paying tax and some of them would operate as informal businesses, such as advertising their products via Facebook so they do not need to pay any tax.

3.6.3 Drivers and Constraints

Convenience is a key selling point for cafés inside forecourts

Cafés inside forecourt attract consumers who value convenience. Most forecourts are located on the main road so it is easy for people to notice or to buy a coffee there. Moreover, most forecourts have a large parking space which is easy for customers to park, especially drivers who just want to get a drink or coffee for takeaway. People who stop at the service station to fill the gasoline are attracted to the cafés when they see a café or a new restaurant there; and if they like it, they would come back again. As an example, PTTOR has increased the number of cafés inside forecourt significantly and this turned out to be a success. Currently most forecourts have a mart which includes a café or just a café alone, because the convenience factor appeals to consumers successfully.

Strong competition from other consumer foodservice establishments

There are many cafés inside or outside forecourt. Competition is very strong, as cafés inside forecourt are not the only place where consumers can get coffee. It is also common for consumers to get coffee from convenience stores and quick-service restaurants. Therefore, in order for a café to compete with other consumer foodservice outlets inside forecourt, it must differentiate itself from the other players, for example, in terms of the quality of coffee, in-store decors or the quality of service.

The popularity of cafés inside forecourt is constrained by location of the forecourt

The location of forecourts may boost the popularity of a café inside forecourt. Forecourts are usually located in public spaces where there are a lot of people passing by. They not only attract consumers who stop by to fill the gasoline, but also those on the street who are looking to get a coffee quickly. Conversely, forecourts located in less popular locations may be a constraint for café located inside these forecourts, as the customers of the cafés inside these forecourts will be limited to drivers stopping to fill petrol.

3.6.4 Market Outlook

Cafés inside forecourt continue to register strong growth

Growth of cafés inside forecourt will slow down from the growth recorded in the review period, but the growth will remain strong. Café sales is forecast to register a CAGR of 7.4% from KHR 118,563 million (USD 29.3 million) in 2019 to reach KHR 169,564 million (USD 41.9 million) in 2024. Players in the industry will continue to expand aggressively by partnering with major service station operators. By 2024, the industry expects to see close to 246 cafés inside forecourt, up from 183 outlets in 2019, reflecting a CAGR growth of 6.1% from 2019-2024.

Table 43 Cambodia Cafés Inside Forecourt Figures (2019F - 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Café sales	KHR million	118,563	127,562	137,129	147,277	158,028	169,564	7.4%
	USD million	29.3	31.5	33.9	36.4	39.1	41.9	7.4%
Number of outlets	-	183	194	206	219	232	246	6.1%
Number of coffee cups sold	-	15,903,934	19,084,721	22,519,971	26,123,166	29,780,410	33,354,059	16.0%

Source: Euromonitor estimates from trade interviews and desk research

Positive outlook for cafés inside forecourt

Café inside forecourt is expected to register positive growth in the forecast period, thanks to the continued growth of the coffee culture in Cambodia. The number of café visitors is expected to increase, with rising income and increasing adoption of a modern lifestyle. Cafés inside forecourt are convenient for both drivers who stop by to fill petrol and passer-by's who just want to get a cup of coffee. Some consumers would choose cafés inside forecourt over cafés outside forecourt, because the latter can appear crowded sometimes.

Modern concepts, products and designs are key to attracting the target customers of cafés

Middle class Cambodian consumers are attracted by modern concepts, products and designs, because they enjoy higher quality products, and view their choice of products and services as a reflection of their sophisticated taste. These consumers are also quite discerning when it comes to the taste of coffee, as they have gained exposure to various consumer foodservice outlets. It is important for cafés inside forecourt to focus on creating an environment that reflects a modern design, while maintaining a high level of customer service and great taste of coffee in order to attract customers.

3.6.5 Competitive Environment

Fragmented industry led by Café Amazon

Currently Café Amazon is a leading player of the café inside forecourt segment, accounting for 51% of the market share. Café Amazon has gained a dominant market position, by competing on very reasonable prices, which are cheaper than some brand cafés. Nonetheless, the industry of cafés inside forecourt is considered fragmented, because there are other cafés at different service stations, which are competing in the market.

New entrants are expected to enter the market of café inside forecourt because Café Amazon has done well so far and it will inspire other to try the same business model. In addition, many mini-marts at the forecourt already sell coffee as part of their service offerings. There is a likelihood that these players may expand their offerings into cafés.

Table 44 Cambodia Market Rankings and Shares of Cafés Inside Forecourt in 2018

Ranking	Café Brand	% Market Shares by Revenue	% Market Shares by Total Number of Cups Sold	Listing Status
1	Café Amazon	52.0	51.0	Private
2	Player 2	2.1	1.1	Private
3	Player 3	1.5	1.0	Private
4	Player 4	1.4	0.6	Private
5	Player 5	0.7	0.3	Private

Source: Euromonitor estimates from trade interviews and desk research

3.7 CAFÉ OUTSIDE FORECOURT IN CAMBODIA

3.7.1 Market Overview

Growth of coffee culture in Cambodia propels moderns cafés to popularity

The concept of modern cafés is relatively new to Cambodia. Up till recent times, it was the traditional coffee shops that were popular among consumers, particularly the older people. Most of the traditional coffee shops are family-owned cafés which operate from the owners' houses. In terms of product offerings, traditional coffee shops usually sell Vietnamese coffee. In addition, they also provide breakfast and lunch. Hence, these establishments are not just viewed as a coffee shop, but also a place for dining out. Traditional coffee shops are also seen as a gathering place for the community. Some of the coffee shops even screen movies to attract customers.

Besides the traditional coffee shops and cart cafés on the street, Cambodia has many modern cafés run by local people and international brands which mainly target younger consumers. Since 2010s, Cambodia's coffee scene has witnessed an influx of international brands such as the UK's Costa and US giant Starbucks.

At the same time, coffee culture is flourishing in Cambodia, with more and more people taking up coffee drinking and becoming knowledgeable with Western coffee and regional coffee. When modern concept coffee (e.g. espresso, cappuccino and latte) entered Cambodia, foreigners were the main target groups. However, as of now, middle-class consumers aged below 35 are the main customers of modern cafés. For these consumers, visiting cafés is more than just the coffee; it is also a lifestyle, by which they socialise with friends over coffee and enjoy the ambience of the cafés. Students are increasingly becoming one of the key customer segments for cafés, as they prefer to go to cafés for a tasty cup of coffee, a good WiFi connection and an air-conditioned place to hang out or study. Some café owners have gone the extra mile to make their outlets more student-friendly by offering a collection of books which customers can read while having a cup of coffee.

One of the areas that differentiate Cambodian consumers from foreigners is that local consumers generally do not like strong coffee very much. Cambodian consumers are just getting to know Western coffee flavours, such as cappuccino or latte. However, consumers are keen to try a variety of flavours, which have helped to boost the sales of foreign coffee flavours.

Bubble tea is also a popular beverage, which is usually sold at the small cafés. Bubble tea tends to attract mostly young consumers, whereas coffee is popular among all age groups of customers. Chatime, a chained retailer selling bubble tea, is a leading player for bubble tea. Due to the popularity of bubble tea, a flurry of international players have entered the Cambodia market, including other Taiwanese bubble tea chains, Dakasi and Koi Café, which compete head on with Chatime.

Modern cafés compete on taste, as well as customer serivce and ambience

Cafés have been growing in Cambodia due to rising income and a growing middle class. Consumers are more willing to spend on discretionary products, such as coffee. Also, an increasing number of outlets also supported the penetration to an increasing number of consumers. Drinking coffee is also seen as a middle-class lifestyle choice, with modern cafés offering consumers the space to relax and socialise with friends. Although competition has intensified in the industry with the entrance of many brands, the market still has a lot of potential for growth as the base of consumers for cafés is still expanding, thanks to Cambodia's youthful and growing population. Moreover, new entrants have increased the variety of product offerings in the market, catering to consumers with different palates and preferences, and also made cafés more accessible to a wider group of consumers.

The key selling points of modern cafés are not only about the taste of the coffee. Customer service, the decorations and ambience of the cafés are also important decision factors. Consumers are generally attracted to cafés offering a clean and modern environment. Middle and high income consumers tend to prefer international brands such as Starbucks, as international brands have a good reputation and they are often associated with a level of high social status and prestige.

Tradition coffee shops and modern cafés co-exist in Cambodia's café scene

There are two main types of cafés in Cambodia, the traditional coffee shops (including small family-owned carts) and modern cafés. In general, traditional coffee shops offer cheap coffee, but they are less competitive when it comes to hygiene level, amenities (e.g. internet access) and interior decorations. For around USD1, customers can have a potent mix of brewed coffee and sweetened condensed milk over ice. Many of the traditional coffee shops serve espresso-based beverages and food. On the other hand, the prices of coffee are usually more expensive in modern cafés taking into account their premium locations and higher operating costs; however, modern cafés compete with traditional coffee shops on trendy interior decorations, a large variety of Western coffee and the setting for consumers to relax and socialise. Many consumers, especially students and professionals, visit cafés to do their work; hence they would prefer a modern environment complete with amenities like internet and air conditioning.

In addition to coffee, modern cafés also offer a variety of beverages and snacks, such as tea, fruit juice, bread, cakes, and some Western food such as salad or Spaghetti. The menus vary from one café to another.

Cafés outside forecourt record strong growth

Cafés outside forecourt has experienced rapid growth in the review period, thanks to the growing coffee culture in Cambodia and consumer' desire to experience Western culture and lifestyle. Between 2013 and 2018, cafés outside forecourt sales grew at a CAGR of 45.7% to reach KHR 382,753 million (USD 94.6 million) in 2018. The number of café outlets outside forecourt saw a CAGR of 32.2%, to 550 outlets in 2018. This can be attributed to the expansion of chained cafés as well as the emergence of independent cafés in the large cities. The number of coffee cups sold has grown at a faster pace than the growth in outlets, which suggests that cafés are experiencing organic growth by attracting more customers, while outlet expansion also contributed to sales growth.

Table 45 **Cambodia Cafés Outisde Forecourt Figures (2013-2018)**

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Café sales	KHR million	58,369	78,829	133,623	193,206	360,202	382,753	45.7%
	USD million	14.4	19.5	33.0	47.8	89.1	94.6	45.7%
Number of outlets	-	136	165	248	319	485	550	32.2%
Number of coffee cups	-	7,673,445	9,976,856	16,239,824	23,613,878	42,352,035	53,353,253	47.4%

sold

Source: Euromonitor estimates from trade interviews and desk research

3.7.2 Legislative and Regulatory Policies

There are no specific regulations for cafés outside forecourts

There are no specific regulatory regime governing cafés/specialist coffee shops outside forecourt. The regulations that apply to cafés/specialist coffee shops inside forecourt are also applicable to cafés outside forecourt.

3.7.3 Drivers and Constraints

Cambodia's economic growth boosts the middle class population and demand for coffee

As the customer group for modern cafés outside forecourt is mainly made up of middle and high income consumers, the growth of cafés outside forecourt is mainly driven by the increasing popularity of modern cafés in the cities, which is linked to the growth of the middle class in Cambodia. The Cambodia economy has seen year-on-year GDP growth consistently above 7%. This has propelled many consumers into the middle and high income brackets. The increase of the middle income population has resulted in their ability to enjoy higher standards of living, such as buying discretionary goods and taking up a modern lifestyle, which includes visiting modern cafés.

Consumers visit cafés to socialise and experience the Western lifestyle

Coffee culture has developed rapidly in Cambodia in the review period, thanks to an increasingly sophisticated consumer base. For many consumers, drinking coffee is both a habit and an experience, as shown by those who visit cafés to work or hang out with friends. Cafés are seeing a remarkable growth in the number of younger local consumers, compared to the early days when most customers are expats. People still see modern cafés as a place to hang out and use the internet, but increasingly they are also visiting for a whole new experience, such as having a good cup of coffee and a sense of community.

Local brands incorporate Cambodian heritage in their menu and store design

While international brands such as Costa and Starbucks are most widely known among consumers of cafés outside forecourt, independent specialist cafés and cafés specialising in regional coffee are also growing in Cambodia, injecting variety into the industry and catering to more sophisticated consumers. Urban consumers are starting to appreciate quality, freshness, and the art of coffee making. Their knowledge of coffee has also grown and consumers are no longer just visiting Western chained cafés, such as Starbucks and Costa. Instead, they are showing an active interest in local and regional coffee culture. This has manifested itself in the country's first Cambodian-owned-and-operated specialty coffee chain, Brown Coffee and Bakery. A visit to one of their branches has become a status symbol for many Cambodians, who eagerly post pictures of their drink on social media.

Strong competition makes it difficult for players to retain customers

Competition is strong in the industry, with international brands and independent cafés fighting for the attention of urban consumers, and competing with traditional coffee shops and coffee carts at the same time. It may be difficult for existing players to keep their customers, as consumers are open minded about experimenting with new cafés and new flavours. This means cafés need to have their unique positioning and competitive strengths in order to compete with the continuous influx of new entrants.

It is important for the businesses to provide excellent customer services, high quality products with good taste, select the convenient location with nice decoration, atmosphere and strong branding, and maintain an effective management of customer relation. Some cafés failed quickly because they failed to do market research or feasibility studies

High operating costs squeeze operators' margins

High operating costs for cafés outside forecourts is a constraint for industry players. As most modern cafés are located in city centres or shopping malls, rental costs tend to be much higher than that for traditional coffee shops. Meanwhile, players must invest in both human resources and machinery, such as experienced branch manager and baristas, and high-quality coffee machines, in order to attract an increasingly sophisticated consumer base.

Unstable political situation is a potential deterrant for foreign investors

The changing political situation in Cambodia is a constraint for cafés outside forecourts. According to international organisation Human Rights Watch, the civil and political rights environment in Cambodia markedly deteriorated in 2017 as the government arrested the leader of Cambodia's political opposition, dissolved the main opposition party and banned over 100 members from political activity. The practice of corruptions is still widespread, which raises the cost of business. Concerns about political risks may have deterred some foreign investors from opening new cafés in Cambodia.

3.7.4 Market Outlook

Market maintains strong growth rates

Café sales outside forecourt is expected to maintain strong growth in the forecast period, as the coffee culture continues to penetrate into the Cambodian society. Hence, café sales outside forecourt is forecast to register CAGR of 6.0% between 2019 and 2024. By 2024, the value of café sales outside forecourt is forecast to reach KHR 544.5 billion (USD 134.6 million). Outlet expansion will be a key contributor to growth, as the forecast growth for the number of coffee cups sold will mirror that for the number of outlets. The number of outlets is expected to increase from 616 outlets in 2019 to 947 outlets in 2024, or equivalent to a CAGR of 9.0% over the same period.

Table 46 Cambodia Cafés Outisde Forecourt Figures (2019F-2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2018F-2022F
Café sales	KHR million	406,867	432,093	458,450	485,957	514,629	544,477	6.0%
	USD million	100.6	106.8	113.3	120.1	127.2	134.6	6.0%
Number of outlets	-	616	684	752	820	885	947	9.0%
Number of coffee cups sold	-	66,691,567	82,697,543	101,717,977	124,095,933	150,156,078	180,187,294	22.0%

Source: Euromonitor estimates from trade interviews and desk research

Rising income and demand for high quality coffee will drive cafés outside forecourts

Cafés outside forecourts will continue to register strong growth in the forecast period, because there is a high demand for high-quality coffee. The number of people who enjoy drinking coffee has been increasing every year, and this trend is expected to continue. It will be supported by rising income and growing awareness of the coffee culture. Cafés outside forecourt has been growing much faster than cafés inside forecourt because the former usually have a larger space and more seats for customers, and have more widespread presence as their locations are not restricted by that of the forecourts.

Café operators must adapt to changing consumer preferences and international trends

The Cambodia economy is expected to maintain high growth, which will support the expansion of the middle class. This group of consumers are willing to try new tastes and the modern environment. They also like Western design and brands that make them feel connected to Western culture and international trends. Thus, it is important for cafés outside forecourts to consider these factors, especially their menus and branding, in order to attract consumers that are constantly looking for something new.

Future challenges include strong competition and political risks, while Cambodia's young population provides opportunities for a diverse café scene

Competition in the industry is expected to grow stronger in the forecast period. For café operators, there is a risk of not being able to maintain the originality in their coffee or to keep with new trends in the industry, due to the constant influx of new entrants and evolving consumer preferences. Profit margins may be squeezed, as operators have to keep prices competitive and offer promotions to attract customers.
Another likely challenge is the relatively unstable political situation in Cambodia. The national election on 29th July 2018 passed peacefully and there have been no recent public protests or demonstrations. However, political rallies and disputes are still possible and have the potential to trigger violence, which would have an impact on the business environment for cafés outside forecourts.

Cambodia's young population and its growing middle class offer opportunities for cafés to expand their network and cater to an increasingly more discerning market. While international brands can adopt the strategy of outlet expansion thanks to their abundant financial resources, independent local cafés will do better to focus on creating a unique brand and style, such as blending a modern style with traces of Cambodia's own heritage. This may be manifested in the form of including local ingredients, such as palm sugar and Kampot pepper, in one's product offering, and incorporating Cambodian element in the store design.

3.7.5 Competitive Environment

Fragmented industry led by chained cafés

The market for cafés outside forecourts is relatively fragmented and evolving. The market is fiercely competitive, with new entrants continuously entering the market and existing players opening new outlets; however, strong competition has also forced some players out of the market. Thai café operators such as Café Amazon, Coffee Today and True Coffee have entered the Cambodia market in the past 5 years. Café Amazon (biggest player) plans to increase another 20 outlets by 2019. Costa Coffee, a US brand, entered the market in 2012 and expanded to seven outlets; however, it was reduced to three outlets in 2017, same as True coffee, which reduced its branches from 4 to 1 as of 2018.

Currently, there are leading chained players of both international and local origins, like Café Amazon, Brown Café, Starbucks, Tube Café, KOI and Pink Bubble Tea, as well as small independent cafés run by local entrepreneurs. The top five players, which are all chained cafés, accounted for 35.9% of market share in 2018, leaving room for a large number of smaller players. Chained players have the advantage of having well-known brands, economy of scale from a large store network and more resources to invest in advertising and store upgrade. On the other hand, independent players play on the strength of offering unique tastes and experiences.

Players have developed their own strategies and their own focus to attract and retain more customers. Tube Café focused on providing services as fast as possible, whereas Café Amazon focused on outlet expansion and competing on prices to attract young consumers. Café Amazon focused on outlet expansion and attracting young consumers, by providing a wide array of products catered to young customers. As of 2018, Café Amazon has approximately 110 outlets in Cambodia and 55 outlets are located outside the service station. The total number of cups sold in 2018 was approximately 8 million cups outside forecourts. On average, approximately 400 cups were sold per outlet per day in 2018. Café Amazon's flagship outlet has co-working space, meeting rooms and library in the store apart from its main offerings. Brown, a local chained café operator, differentiated with its Khmer-style design and the use of local ingredients.

It is anticipated that there will be more entrants to the market either local or international brands, because drinking coffee in Cambodia has become a culture and there will be more customers in the future. Moreover, consumers enjoy having a variety of flavours and styles to choose from. Local brands and international brands have different target groups, which means the café industry will remain fragmented.

Table 47 Cambodia Market Rankings and Shares of Cafés Outside Forecourt in 2018

Ranking	Café Brand	% Market Shares by Revenue	% Market Shares by Total Number of Cups Sold	Listing Status
1	Café Amazon	18.0	15.0	Private

2	Player 2	14.9	8.2	Private
3	Player 3	10.0	9.1	Private
4	Player 4	7.8	2.1	Private
5	Player 5	6.1	1.5	Private

Source: Euromonitor estimates from trade interviews and desk research

4. THE PHILIPPINES

4.1 MACROECONOMIC ENVIRONMENT IN THE PHILIPPINES

A fast-growing economy focused on services and exports

The GDP and GDP per capita in the Philippines recorded robust 8.6% and 6.9% CAGRs, respectively, over the review period of 2013-2018. The key contributors to the country's GDP were the services and manufacturing sectors accounting for 60.0% and 19.1% of GDP, respectively, in 2018. GDP growth was further boosted by investment in infrastructure and strong levels of remittance inflows. In fact, the country ranked fourth globally for the amount of remittance inflows in 2018 due to its large emigrant population.

During the review period, the government invested heavily in infrastructure and is expected to continue doing so in the future. In May 2017, the government announced the Three-year Rolling Infrastructure Program (TRIP) 2018-2020, under which it plans to invest PHP 157 billion (USD 3.1 billion) towards 1,313 region-specific (in the five regions with the highest poverty rates) infrastructure projects.

The services sector reported continuous growth due to its large BPO industry that attracts foreign investment and contributed to the creation of jobs. Exports were favoured by a weak local currency and recovery in global demand. The semiconductors and electronics sectors accounted for the majority of exports mainly to Japan, the United States and China. The Philippines supplies 10% of the world's semiconductor needs. Electronic products, including semiconductors, accounted for close to two-fifths of the country's exports in 2018. In terms of manufacturing, the country's top manufacturers were food and beverage makers, accounting for about 50.9% of total manufacturing production in 2018

Table 48 The Philippines GDP Figures (2013 – 2018)

	Units	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Nominal GDP	PHP billion	11,538.4	12,634.2	13,322.0	14,479.9	15,806.4	17,426.2	8.6%
	USD million	218,945.2	239,737.9	252,790.2	274,761.8	299,930.9	330,668.3	8.6%
Nominal GDP growth	%	N/A	9.5	5.4	8.7	9.2	10.2	N/A
GDP per capita	PHP	117,163.8	126,212.9	130,972.4	140,146.3	150,654.3	163,607.9	6.9%
	USD	2,223.2	2,394.9	2,485.2	2,659.3	2,858.7	3,104.5	6.9%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

A young population undergoing strong urbanisation

Over the review period, the country reported a slowdown in population growth due to declining fertility rates. However, fertility rates remained high at 2.9 children per female in 2018, one of the highest rates worldwide. In comparison, fertility rates of other Southeast Asian countries stood mostly below 2.0, with Singapore at 1.2, Thailand at 1.5 and Vietnam at 1.9. Consequently, the country has one of the youngest populations in the region, with a median age of 24.7 years in 2018, compared with Singapore's at 43.3 years, and Vietnam's at 31.7. The relatively young workforce further boosted economic growth of the country moving forward.

The country is undergoing strong urbanisation and it is estimated that by 2030, the urban population will overtake the rural population. The creation of a middle class with higher disposable income in urban centres is supporting retail expenditure. Meanwhile, a large proportion of the population – an average of 9% in 2017 – migrated abroad, making the Philippines the second-largest labour-exporting country in the world after Mexico, with the majority of these workers being female.

Table 49 Population of the Philippines (2013 – 2018)

000 People	2013	2014	2015	2016	2017	2018	CAGR 2013 – 2018
Total population	98,481.0	100,102.2	101,716.4	103,320.2	104,918.1	106,512.1	1.6%
Urban population	47,191.6	48,763.0	50,317.6	51,857.2	53,381.2	54,891.3	3.1%

Source: The World Bank

Growth of disposable income supported by young urban residents

The disposable income of urban residents grew by a healthy 5.8% CAGR during the review period of 2013-2018. Income growth was fuelled by a growing economy, strong remittance inflows from abroad and an increase in wages. Specifically, in 2017 the government signed the TRAIN (Tax Reform for Acceleration and Inclusion) Law, which reduced the income tax rates of paid employees, resulting in a net increase in salaries. The resulting higher disposable incomes, which increased their purchasing power, and positive effects were felt by most foodservice players. As the TRAIN law also comes with additional taxes, and due to other macroeconomic factors, inflation rose towards the end of 2018, pushing inflation to an all-time high. This had several outcomes; for instance, consumers became wary about spending, especially on basic goods. However, spending on dining out was less affected, according to trade sources. Dining out is one of the last expenses Filipinos forego, as it is considered a way to unwind and bond with friends and family, which is established in the Filipino culture.

Despite strong income inequality, there is a growing middle class with increasing disposable income living in the big cities. Social class C, an income bracket corresponding to the middle class, registered the strongest growth during the review period. Filipinos aged 30-34 enjoyed the highest gross income. Total gross income was most concentrated in the 15-29 age group, which is in line with a young population. Social class E, however, will remain the most prevalent in the country. This translates into high poverty levels that are, however, decreasing.

Income distribution between the urban and rural areas remains highly unequal. The rise in disposable income per capita of urban residents in the Philippines is expected to speed up further in the future as the size of the middle-class population expands, with much of the newfound wealth concentrated in top cities such as Metropolitan Manila and Metropolitan Cebu.

Table 50 Disposable Income Per Capita – Urban Residents in the Philippines (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Disposable income per capita – urban residents	PHP	109,489.9	115,206.2	120,153.2	127,000.2	134,502.5	144,815.1	5.8%
	USD	2,077.6	2,186.1	2,279.9	2,409.9	2,552,2	2,747.9	5.8%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Consumer confidence and salary growth encourage consumer expenditure

A growing urban middle class composed of young individuals is expected to support consumer market expansion. Consumer expenditure represented 73.0% of GDP in 2018 and witnessed a healthy 8.8% CAGR over the review period of 2013-2018. It was enhanced by increased consumer confidence due to greater political stability and salary growth.

Consumer expenditure on food and non-alcoholic beverages saw an 8.5% CAGR during 2013-2018 as Filipinos spent more than half of their expenditure on essentials. Food expenditure was further supported by an expanding retail infrastructure of cafés and restaurants in big cities such as Metro Manila and Metro Cebu. As of 2018, consumers' spending on food and non-alcoholic beverages was the highest amongst all categories, accounting for 42.0% of all consumer expenditure. Meanwhile, consumers' spending on transport comes in the fourth rank after housing, accounting for 11.5% in 2018.

While local shops and wet markets remain popular, demand for convenience stores and small-format supermarkets are growing in urban centres as time-constrained consumers seek out convenience. Hectic lifestyles are forcing consumers to eat out more often. In addition, big cities saw an emergence of game cafés and food parks offering a wide variety of foods from independent vendors as well as food courts in malls with a more creative selection of food stations.

Consumer expenditure is expected to pick up further to register a CAGR of 9.7% between 2019 to 2024 due to the increasing population and rising disposable income levels. Consumer expenditure on food and non-alcoholic beverages will likewise see a faster growth at a CAGR of 9.4%. It should be noted, though, that while disposable incomes and discretionary spending are expected to increase across all social classes, the spending patterns vary significantly: consumers in the lower social classes will continue to spend mostly on necessities and this will fuel demand for food and non-alcoholic beverages, while consumers in the top income groups such as social class A will enjoy the largest rise in capacity to spend, but will channel more of such spending towards a wide range of products and services such as luxury goods, new cars, and travel.

Table 51 Consumer Expenditure in the Philippines (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Consumer expenditure to GDP	%	72.2	71.6	72.8	72.8	72.8	73.0	N/A
Consumer expenditure	PHP million	8,335,049.9	9,042,936.1	9,697,996.1	10,548,597.3	11,502,588.6	12,726,897.8	8.8%
	USD million	158,160.3	171,592.7	184,022.7	200,163.1	218,265.4	241,497.1	8.8%
Consumer expenditure on food and non-alcoholic beverages	PHP million	3,547,961.3	3,819,454.0	4,085,228.0	4,446,283.3	4,847,543.3	5,341,828.6	8.5%
	USD million	67,323.7	72,475.4	77,518.6	84,369.7	91,983.7	101,363.0	8.5%

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

Inflationary pressure is intensifying

Following low inflation levels in 2015 and 2016 and inflation rate of 2.9% in 2017, inflation grew to 5.2% in 2018. This was due to a weakening currency, higher taxes and increases in oil pricing and imported goods. The country depends on imports to cover its energy needs, which leaves it vulnerable to the recovering global oil prices.

In addition, the Philippines' weak agricultural industry makes it the biggest importer of rice as well as other basic food categories. An increase in the global CPI of these items had a negative effect on inflation. Specifically, year on year, the prices of food and non-alcoholic beverages increased by 8.5% towards the end of 2017, which was the highest food inflation since 2009.

In 2016, BSP reduced its interest rate from 4% to 3% in line with the low inflation rates of 2015 and 2016. This triggered more lending and borrowing activities, resulting in increased money supply that further pushed up inflation rates.

Table 52 Average Inflation Rate in the Philippines (2013 – 2018)

%	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Average inflation rate	2.6	3.6	0.7	1.3	2.9	5.2	N/A

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

FDI saw robust growth but remains low

FDI witnessed a robust CAGR of 35.9% over the review period of 2013-2018 and accounted for 3% of total GDP in 2017. A young demographic, a booming economy and a stable economic environment have made the country appealing to foreign inflows.

In order to attract foreigners, the government promised to undertake a series of measures favouring investment. In May 2016, the government implemented the Comprehensive Automotive Resurgence Strategy (CARS) under which automotive companies manufacturing 200,000 units of the same model annually will receive a USD 1,000 government subsidy per vehicle. In addition, in November 2017, it announced plans to recognise 300 new economic zones in 2018. The government also promised to cut the corporate income tax rate from 30%, the current rate, to 25% starting in 2020. And lastly, it announced a Three-year Rolling Infrastructure Plan (2018 – 2020) focusing on the five regions with the highest poverty rates. These measures together are expected to counterbalance restrictions on foreign ownership in some sectors and high tax burdens relative to neighbouring countries.

Table 53 Foreign Direct Investment Inflows in the Philippines (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Foreign direct investment inflows	PHP million	95,152.4	234,636.1	202,344.4	328,420.5	480,072.2	N/A	N/A
	USD million	1,887.8	4,655.0	4,014.4	6,515.6	9,524.3	N/A	N/A

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

4.2 THE RETAILING INDUSTRY IN PHILIPPINES

4.2.1 Market Overview

Store-based retail still preferred by consumers

Favourable economic factors and demographic factors support the growth of a robust retailing industry in the Philippines. In 2013, the retailing industry recorded PHP 3,284,025 million (USD 62,315 million) of sales; by 2018, sales had grown 30.4% from 2013 to PHP 4,281,356 (USD 81,240 million). This translates into a CAGR of 5.4% over the period of 2013-2018. Store-based retail accounted for 96.8% of the total retail sales recorded in 2018.

Malls continue to be the main shopping destinations. Malls offer a one-stop experience to consumers, fulfilling their shopping, dining and entertainment needs. Non-store-based retailing in the Philippines is still small compared to store-based retailing, but registered high CAGR of 11.8% between 2013 and 2018.
There is also a trend of online retailers setting up pop-up stores in malls to increase their physical presence, since the Philippine consumer still feels more confident with purchasing what they can see and feel. The physical retail space remains important to capture sales from the Philippine market.

Bricks-and-mortar Retailing Evolving Through Omnichannel Strategies

The Philippine retailing industry is undergoing business model disruption, particularly the inevitable integration of digital platforms. Given Filipinos' love of shopping malls, bricks-and-mortar stores will remain very relevant but will need to evolve. Adopting an omnichannel strategy, with a particular presence in the digital space while enhancing the in-store experience, will be a must for retailers to remain competitive in the marketplace. The Philippine retail industry will not go down the purely e-commerce route as both a physical and digital presence will be crucial to sustaining consumer interest.

Retailers in the Philippines are ready to embrace an omnichannel strategy, using e-commerce to complement their existing business model. The leading retail company in the country, SM Retail, has launched a click and collect service, which allows consumers to order goods online but still aims to drive traffic in-store through collection. Omnichannel retailing is also seen as helpful to certain categories, such as electronics and appliances. Filipinos are accustomed to inspecting and testing appliances and electronics before making a purchase. The need for a physical store to offer this will still be there but an online presence for purchases and easy delivery will also be convenient for shoppers, especially as they like to compare prices and read reviews. Grocery retailers have also started moving into the online grocery space, providing their customers with an additional and convenient purchasing option. Even convenience stores like 7-Eleven are embracing e-commerce.

The e-commerce giants Shopee and Lazada will help more retailers to adopt this strategy as the two players look to boost their number of merchants and brands. Retailers will take advantage of this opportunity to be present online without having to create their own platforms.

Lifestyle Branding Generates Renewed Interest

Retailers in the Philippines are adapting to the changing needs of local shoppers, for example by trying to make visits to physical stores more of an experience. Several retailers have started renovating their physical stores and opening flagship branches. Bench is leading the way in lifestyle branding. It has opened a larger flagship store to highlight a higher-end image and brand. SM Appliance has also started renovating its stores to incorporate different elements, such as designated areas to provide design inspiration to shoppers. Daiso Japan variety stores, meanwhile, are highlighting Japanese culture, while the direct seller Amway has launched its first Experience Centre, aimed at improving the shopping experience. Such experiential elements have also been extended to social media marketing strategies. Several players in the home and garden channel are heavily utilising Instagram, taking advantage of its popularity to show inspiring photos of home interior designs.

Modern retailers entering the traditional retail space

Retail channels in the Philippines consist of traditional retail formats and modern retail formats. Increasingly, the lines are blurred, as traditional retailers procure from modern retailers. Modern retailers, in a bid to win market share, are also targeting the traditional retailers to expand quickly and reach more consumers.

Modern retail formats are organized, and examples include supermarkets, hypermarkets, departmental stores, warehouse retailers as well as convenience stores. Traditional retail formats, on the other hand, are ‘un-organized’ and includes sari-sari stores, neighbourhood stores and small-scale grocers. In particular, sari-sari stores are found everywhere in the Philippines: there may be 2 to 3 sari-sari stores in one street. Sari-sari stores are popular as it is easy to find one, the prices are low, and they sell by piece instead of in volume, which caters to the single consumer.

To keep prices low without having to commit to a large volume of inventory, sari-sari retailers may procure goods from modern trade channels, such as discount retailers or warehouse retailers, as prices are lower when purchase is made in small bulk volumes. Puregold, a major consumer goods trading company, launched a program to support sari-sari retailers. Under its Tindahan ni Aling Puring program, sari-sari retailers can fill up their stores with inventory with just PHP 5,000 (USD 99.2) in capital, as compared to a typical convenience store requiring at least PHP 20,000 (USD 396.8). With this, Puregold is able to quickly expand the number of stores in its network in the Philippines.

Informal retailing

According to the Philippine Association of Stores and Carinderia Owners, there are an estimated 1.3 million neighbourhood or sari-sari stores in the Philippines. As the majority of these operate within a household, the owners do not see the need to declare or register their business with the tax authorities, thus making them informal retail outlets. Sari-sari stores that operate in commercial areas are usually registered and so qualify as formal traditional grocery retailers.

Sari-sari stores are still some of the most visited retail outlets by Filipinos as they are widely available in residential areas nationwide. However, outlet growth remains flat as a result of the increasing popularity of modern and formal retailing, which is being led by the expansion of convenience stores.

Informal retailing is also prevalent on social media platforms such as Facebook, with individuals seeing their social networks as potential customers. These are usually considered customer-to-customer or C2C businesses. The products sold range from simple baked goods to pre-owned clothes and accessories or gadgets and electronics. According to the DTI’s e-commerce office, there are around 20,000 of these illegitimate vendors on the internet, not just social media. Due to the absence of official documentation and registration, these businesses fall under informal retailing.

Major retail players in a state of change

In the past years, the retailing industry in the Philippines has seen many changes as key players review their portfolio based on their strategy to maximise efficiency. There has been consolidation in the market as part of their business rationalization process, as major retailers snap up mid-sized to small retail companies to expand market share.

Robinsons Malls owned by Robinsons Land under the JG Summit conglomerate owns 46 shopping malls. Separately, Robinsons Retail Holdings has been obtaining ownership of numerous minor retail firms including Southstar Drug, which has 350 stores, Generics Pharmacy, De Oro Pacific Home Plus Depot and Chic Centre. Robinsons Retail has a network of 1,619 stores not including the 1,954 stores of the Generic's Pharmacy. Robinsons Retail has a diverse strategy on expansion having supermarkets, department stores, do it yourself stores, convenience stores, drug stores, fashion and beauty shops, and specialty stores which include Daiso, Toys 'R' Us, Robinsons Appliances, and Costa Coffee shops.

Puregold runs stores in various retail formats and owns more than 200 big and medium sized stores nationwide. Its hypermarkets carry the Puregold Price Club brand and offer a variety of food and non-food products catering to both retail customers and resellers. Puregold Junior is its supermarket format. It also has Puregold Extra as the discounter segment and S&R Membership shopping. In a recent move, it gave up on the convenience store format, selling out its stake in Japanese convenience store chain Lawson.

Finally, there have also been other market movements. In 2005, Makro, a Dutch retailer, partnered with SM and Ayala to set up a chain of wholesale membership stores but ceased operations in 2012. In 2012, WalterMart, a 20-year-old chain of community malls was co-opted by SM. In 2015, SM Supermalls acquired the 63-year-old Cherry Foodarama grocery chain.

Retailing industry an important influence of the local economy

Total retail sales in the Philippines grew 30.4% from PHP 3,284,025 million (USD 62,315 million) in 2013 to PHP 4,281,356 million (USD 81,240 million) in 2018. The increase in retail sales of PHP 997,331 million (USD 18,925 million) also represents a CAGR of 5.4% between 2013 and 2018, driven in part by GDP growth. The tangible effects of these positive factors have made the retailing industry an important influence of the economy: the Philippine Retailers Association predicted that the retail sector would account for nearly one-quarter of the country's GDP by 2018.

Table 54 The Philippines Total Retail Sales (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Total Retail Sales	PHP million	3,284,025	3,466,287	3,621,947	3,805,926	4,037,918	4,281,356	5.4%
	USD million	62,315	65,774	68,728	72,219	76,621	81,240	5.4%

Source: Euromonitor Passport - Retailing 2019 Edition

4.2.2 Legislative and Regulatory Policies

Consumer welfare and foreign investment encouraged in Retail Trade Liberalization Act

The retailing industry in the Philippines is regulated by the Retail Trade Liberalization Act of 2000, which seeks to promote consumer welfare and to stimulate growth in the industry. Under the regulations of the Act, a foreigner or a company with foreign equity can engage in the retail business in the Philippines with minimum paid-up capital of USD 2.5 million. To the retailer, this meant increased competition from foreign players and new entrants. To the Filipino consumer, this meant possibly lower prices, higher quality goods, and wider range of choices. The laws were meant to liberalize the retailing industry to enhance its efficiency and competitiveness.

TRAIN law likely to affect retail sales

The Tax Reform for Acceleration and Inclusion (TRAIN) Act took effect on January 2018 and the various changes made to the different taxes in the Philippines have an impact on the performance of the retailing industry. With the revised tax structure under TRAIN Act, personal income tax is reduced for a majority of taxpayers, which means higher disposable incomes. Expenditure on normal goods is likely to correspondingly increase.

The government seeks to regulate consumption of certain categories of products via taxes under the TRAIN Act. New taxes were imposed on sugar-sweetened beverages, at PHP 6 per litre of drinks with sugar and artificial sweeteners, and PHP 12 per litre of drinks sweetened with high fructose corn syrup. Sin taxes on cigarettes and alcohol were increased. With increased taxes, and hence prices, the government hopes to discourage consumption of such “undesired” goods.

Further liberalization is expected in the retailing industry

The government has announced plans affecting the amount of capital required for foreign investment and foreign ownership of businesses. If implemented, which will support the retail market to be further liberalized with the entrance of foreign players.

In October 2017, the Philippines government announced plans to lower the minimum required amount of capital for foreign investors to USD 200,000. This represents a significant reduction of 92% from the current minimum paid-up capital of USD 2.5 million, among the highest in Asia, under the Retail Trade Liberalization Act of 2000.

At the Arangkada Philippines Forum 2017, Socioeconomic Planning Secretary Ernesto Pernia announced that the Philippines would allow more investment areas with full foreign ownership. In certain sectors, the government is also looking to raise foreign ownership permitted to 100%. Currently, under the Retail Trade Liberalization Act of 2000, full foreign ownership is permitted only if the paid-up capital exceeds USD 7.5 million. Retail and trade are in the list of areas being looked into.

4.2.3 Drivers and Constraints

Strong economic growth

The Philippines is currently classified as a lower-middle income country. The National Economic and Development Authority (NEDA) reported high growth numbers of the country’s gross national income and predicts that the Philippines is on track to becoming an upper-middle income country by 2019. The GDP growth of the Philippines has also been strong and sustained as an emerging market. Based on statistics from the International Monetary Fund, Philippines was the third fastest growing economy in Asia in 2017, behind China and Vietnam, and the third largest economy in ASEAN. These key indicators reflect directly consumer incomes.

In addition, the disposable income for a majority of the population is expected to increase with the TRAIN Act coming into place. Sustained economic growth, rising GDP per capita, and increased disposable incomes, will continue to boost consumer confidence to spend.

An emerging middle-class population

According to World Bank, the population size of the Philippines stands at 106.51 million in 2018. The relatively young population has been seeing a surge in middle class households as GDP per capita rises. The middle-class population is less price-sensitive and more conscious of quality and brand, which means higher value spending.

The middle-class population spend long hours at work in urban areas, and increasing demand products and services that are convenient, even if it costs a premium, such as ready-to-eat food and other off-the-shelf products and services.

Availability of easy credit

Retail companies can get loans easily, as banks offer credit with loose terms and offer financing of up to 60% of the capital. With this, the barriers to entry in the retailing industry are lower and could mean retail companies can expand easily. This could potentially result in increased competition for existing players as there will be many new entrants to the market, but this also leads to a more robust and dynamic retailing industry in the Philippines.

At the same time, the low interest rates encourage spending by the consumers. However, the use of credit is dependent on the culture, and the Philippine culture does not encourage the use of credit for daily expenses, thus the propensity to spend because of the availability of credit is moderate.

4.2.4 Market Outlook

Good prospects for the retailing industry

The retailing industry of the Philippines is forecasted to grow further to PHP 4,663,937 million (USD 88,500 million) in 2019. Between 2019 and 2024, it is forecasted to further expand 49.1% to a value of PHP 6,953,656 million (USD 131,948 million). The total retail sales value is expected to grow at a CAGR of 8.3% between 2019 and 2024.

Table 55 The Philippines Total Retail Sales (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F- 2024F
Total Retail Sales	PHP million	4,663,937	5,093,831	5,539,529	5,990,712	6,461,621	6,953,656	8.3%
	USD million	88,500	96,657	105,114	113,676	122,611	131,948	8.3%

Source: Euromonitor Passport – Retailing 2019 Edition

Modern retailers move into suburban areas

Grocery retail accounts for the bulk of the store-based retail in the Philippines. In 2018, grocery retail accounted for 60.7% of store-based retail sales. Most of the modern grocery retailers are located in Metropolitan Manila, while local retailers dominate other cities and suburban areas. Despite the aggressive expansion in recent years, modern grocery retailers are still only present in around 32% of the grocery retail in the Philippine market in 2018, which represents a huge opportunity for retailers looking to tap into under-served markets outside of the cities.

Increasingly, major retailers are opening outlets outside of Metropolitan Manila, in Metropolitan Cebu and Metropolitan Davao, as well as other smaller suburban areas. Close to 80% of SM Retail’s store openings were outside Metropolitan Manila in 2016. 7-Eleven, the country’s largest convenience store chain, is also aiming to penetrate new territories outside Metro Manila, as it sets to open 124 new outlets in Luzon outside Metropolitan Manila, and 150 more outlets in Metropolitan Cebu and Metropolitan Davao. Newcomer Alfamart started its business operations in suburban towns south of Metropolitan Manila, as the city is crowded and saturated.

Retailers are increasingly expanding into under-served areas, as the population in these regions gains greater purchasing power.

Development of e-commerce and other related technologies

E-commerce continues to grow as internet penetration grows in the Philippines. Internet retailing registered a CAGR 27.3% between 2013 and 2018 and is forecasted to register the highest growth rates among non-store-based retail channels between 2018 and 2023.

Cash is the primary method of payment in the Philippines, as most of the population remains unbanked. The emergence of mobile technologies and online payment methods will drive e-commerce as it becomes more secure and easier for consumers to make purchases online. AI technologies and robotics are also increasingly applied to improve warehouse logistics and delivery, hence improving shipping speed and customer service. These new technologies are expected to drive consumer confidence in online purchase.

Players Focus on Building Brands

Concerns about the authenticity of products have risen as e-commerce has become more popular. With thousands of sellers, verifying the authenticity of each seller's products is a challenge. Both Lazada and Shopee have thus focused on attracting as many official stores and brands as possible. To do this, Lazada launched LazMall to help showcase authentic and original branded products, guaranteeing that if a customer receives a non-authentic product it will compensate them with double the amount spent. In April 2018, Shopee also launched a dedicated in-app space called Shopee Mall, which showcases official brands and Shopee's top sellers. In addition, Shopee provides several benefits when purchasing from Shopee Mall, such as 7-day returns. It also guarantees that if a product is not 100% genuine, it will also refund a customer's money and provide free shipping within a minimum spend. According to Shopee, a dedicated space for brands and top sellers caters for those consumers who are looking for a premium shopping experience. Shopee also holds "Super Brand Day" events which showcase the exclusive sales of its partner brands.

E-commerce Part of Retailers' Omnichannel Strategies

More and more retailers in the Philippines are integrating e-commerce into their business models. They are either setting up their own platforms, with this being the case with most homeshopping and direct selling retailers, or partnering established e-commerce websites like Lazada and Shopee. Lazada and Shopee are also aggressively partnering official brands to beef up their seller portfolio. In 2018, e-commerce still accounted for a very small share of retailers' overall sales, with online retailing in the Philippines continuing to lag behind most of its neighbours. Retailers will, however, continue to focus on e-commerce as they seek to remain relevant. However, in the Philippines, store-based retailing will remain the dominant channel as Filipinos enjoy shopping with a personal touch. Retailers will thus choose an omnichannel approach over pure online retailing, with online sales also helping to drive traffic to physical stores via the click-and-collect model.

Nevertheless, the channel offers growth potential not only in Metro Manila but also other key cities. In fact, according to Zalora, 60% of its sales derive from outside Metro Manila, primarily because the apparel people want is not available in the provinces and ordering online is more convenient than travelling to the city. However, as internet retailing grows, there will be a need to review regulations which protect the consumer. This is not yet a pressing concern but the growing internet marketplace could be an avenue for cybercrime and so government institutions such as the Department of Trade and Industry and National Bureau of Investigation's Cybercrime Division will start to consider new rules and regulations.

Consumer mindset and receptiveness

The average consumer in the Philippines is still cautious about online purchase, especially for grocery items, and prefers to buy from physical stores where they can see the quality of the products they are purchasing. Online retailers, to elevate concerns from the consumer, are currently making use of pop-up store spaces to promote their brands and build consumer confidence in their products.

In suburban areas, the consumer may perceive modern retailers to be more expensive and "cold" in their service. The Philippine culture also means that consumers tend to gravitate towards familiar sellers, with whom they have build relationships with, for daily purchases. For non-grocery items, the consumer may choose to purchase from independently operated small retail outlets rather than chain stores. For grocery items, the consumer may choose to patronize the local sari-sari store instead of a modern supermarket or a convenience store.

For retailers entering the modern trade market or e-commerce, it is necessary to consider marketing efforts to build consumer confidence, reach consumers through multiple channels, and invest ample resources to win the hearts of the Philippine customer.

4.3 CONVENIENCE STORES IN THE PHILIPPINES

4.3.1 Market Overview

Convenience stores offer a wide range of products and services

Convenience stores in the Philippines are concentrated in cities and serve mainly the urban resident. The urban lifestyle is busy and hectic, and consumers are increasing turning to convenience stores for purchase of everyday grocery items and for a variety of services. The operating hours and locations of convenience stores have increased the urban consumer's reliance on this modern retail format.

Convenience stores cater to not just 'on-the go' customers but also consumers living in nearby areas who might not have time or see the need to grocery-shop at supermarkets or hypermarkets. Convenience stores now stock a wide range of products, including frozen food items, household items, and even fresh food products like fruits and vegetables. Becoming a one-stop shop, convenience stores also offer a variety of services such as cash withdrawal, bill payment, credit top-up, postage, or parcel collection.

Players localize offerings based on location and consumer trends

Depending on their location, convenience stores may stock different items or brands of items based on demand from target consumers. Convenience stores located in residential areas may stock more products of local brands, simple household items, and ready-to-eat meals; convenience stores located in areas with a high concentration of tourists may stock items like tourist SIM cards, maps, local guidebooks, and choose to stock products of globally-recognized brands; while convenience stores located close to schools or universities may stock more snack items or stationary products.

International players are also localizing product offerings to connect with consumers in the Philippines. Lawson, a convenience store brand from Japan, gives a local touch to its convenience stores with its Karinderia Station. The Karinderia Station is unique to the Philippines and mimics the local neighbourhood Karinderia stall offering a variety of dishes with rice. As consumers become more demanding, players are also sourcing from new suppliers to elevate their product offerings: Lawson partnered with Gourmet Farms, a gourmet grocer known for its sustainable sourcing, to offer high-quality grocery items.

Consumers visit convenience store for meals

With the urban population having hectic lifestyles, convenience stores have become the answer for their meals. Hot meals and beverages are driving growth, making convenience stores an emerging competitor to foodservice providers.

In convenience stores, one can definitely drink and consume simple snacks such as bakery items, which can constitute a simple meal for the busy Philippine consumer. As convenience stores are operated round-the-clock, they also offer ready-to-eat meals. Ministop pioneered ready-to-eat meals in convenience stores in the Philippines, and it continues to expand its offerings of ready-to-eat meals.

Tapping on the trend of consumers purchasing ready-to-eat meals, convenience stores have also started to upgrade their culinary offerings with hot food stations. Ministop is equipping every store with an in-store kitchen facility, while Lawson operates Karinderia Stations. Lawson' Karinderia Stations offer familiar local dishes and unlimited rice refills when consumers dine in-store, attracting young professionals and students who want to have a quick and cheap meal in a comfortable environment.

As compared to Karinderias, which are local eateries offering a variety of dishes at cheap prices, food from convenience stores are subject to relatively high food safety standards. Convenience stores also provide a good environment for dining, with seats and air-conditioning which can be a respite from the humid weather in the Philippines. The low prices provide good value-for-money to the consumer, which explains the increased popularity of consumers having meals at convenience stores.

Convenience stores a growing channel

Between 2013 and 2018, convenience store sales registered a CAGR of 20.9% in the Philippines. The number of outlets similarly registered a CAGR of 20.6%, as the number of outlets increased by 255% from 1,548 in 2013 to 3,948 in 2018. As of 2018, convenience store sales constitute around 2.4% of the total sales for grocery retailers. This share is expected to increase as the population patronize convenience stores increasingly.

At the same time, the sales per outlet and per selling space have decreased slightly over the years. This could be attributed to retailers tending to open stores close to competing brands' in key high-traffic locations, which cannibalizes sales in those areas.

Table 56 The Philippines Convenience Stores Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Convenience stores sales	PHP million	23,227.1	29,638.5	34,178.8	43,191.0	49,559.8	60,042.6	20.9%
	USD million	441	562	649	820	940	1,139	20.9%
Number of outlets	-	1,548	1,971	2,458	2,949	3,321	3,948	20.6%
Selling space	000 square metres	168.2	210.5	262.5	360.6	409.1	483.6	23.5%
Sales per outlet	PHP	15,004,587	15,037,291	13,905,126	14,645,982	14,923,156	15,208,359	0.3%
	USD	284,717	285,338	263,854	277,912	283,172	288,584	0.3%
Sales per selling space (square metres)	PHP	138,092	140,800	130,205	119,775	121,143	124,158	- 2.1%
	USD	2,620	2,672	2,471	2,273	2,299	2,356	- 2.1%
Convenience stores' sales contribution to grocery retailers	%	1.2%	1.4%	1.6%	1.9%	2.1%	2.4%	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

Convenience Stores Will Continue To Be the Fastest Growing Grocery Channel

Convenience stores will continue to post strong growth over the forecast period. On-going urbanisation and the emergence of new business districts will continue to create demand for 24-hour retail services. The channel will also benefit from the ideas of new owners and the expansion of certain players, as well as a consumer shift towards more frequent shopping, albeit with smaller basket sizes. The challenge now for convenience stores is to overtake traditional grocery retailers, particularly sari-sari stores, which still dominate the retail industry in the Philippines.

Like other retail channels, convenience stores will also be affected by economic uncertainty, particularly rising inflation. This has the potential to limit the growth of convenience stores as this format charges a price premium of around 5-15% in return for greater convenience and accessibility. As such, convenience store operators will need to remain cautious with their pricing.

4.3.2 Drivers and Constraints

Changing lifestyles and consumer demand

The Philippines has a relatively young population, and a huge proportion of young professionals living in single-person households. These young professionals often have high disposable incomes and are willing to pay a premium for convenience. At convenience stores, they are able to purchase daily necessities as and when they need them, enjoy hot meals at any time of the day, and perform a variety of services. Convenience stores serve the needs of this growing segment well.

In Metropolitan Manila, traffic jams are common, and people often spend hours waiting in jams. To avoid being stuck in jams, consumers are increasingly turning to convenience stores nearby to make purchases of everyday necessities, rather than travelling to hypermarkets or supermarkets to shop for groceries. The increase in condominium developments and townhouses in cities has also brought about changes in consumer purchase behaviour. With convenience stores or minimarts located within the condominium complexes, consumers are getting used to purchasing from modern small format retailers.

Rise of e-commerce

Convenience stores can leverage on their network of stores and locations in prime areas to add value to consumers. While e-commerce is on the rise in the Philippines, logistics and delivery continue to remain a key challenge. The ubiquity and locations of convenience stores make them the perfect collection point for online purchases.

7-Eleven is leading the venture into logistics by capitalizing on its warehousing capabilities and on its huge network of stores located nationwide in the Philippines. Beyond providing in-store experiences, convenience stores can tap on opportunities from e-commerce as a bridge between the virtual world and the real world.

Consumer preference for traditional retail formats

Convenience stores face intense competition in the market. While the young urban consumer is turning towards convenience stores, 92.1% of the total grocery sales are from supermarkets and hypermarkets. Consumers still visit supermarkets and hypermarkets to make purchases of fresh food items or when buying grocery items in volume.

Among small format retailers, sari-sari stores are traditional retailers that the consumer in the Philippines is very familiar with. Modern retailers, such as convenience stores, are faced with scepticism from the older generation of consumers, who view modern retailers to be more expensive and less flexible as compared to sari-sari retailers who often sell in smaller quantities and provide credit to regular customers. Sari-sari stores, operated independently, are also ubiquitous and may be found on every street and corner.

Network expansion the way to keep margins

Convenience store brands rely heavily on logistics and hence invest heavily on strategically located distribution centres. Profitable operations for convenience stores stem from operating large number of branches to achieve economies of scale. Key players in the industry are adopting an expansion strategy to lower the per-store costs of operation. More outlets are being opened, not just in Metropolitan Manila but also in growth areas, such as provinces outside. As the number of outlets increase, sales is being spread out among a greater number of stores in a particular area, especially areas with high foot traffic, hence lowering sales per store.

Lawson opened in the Philippines in 2015 and suffered losses because the brand did not open many new outlets upon market entry. To stay competitive, convenience stores can no longer charge high premiums as before. Factoring the cost of operation of physical stores, margins for the retailers are getting thinner.

4.3.3 Market Outlook

Convenience store sales growth rates will slow down to moderate rates

The growth of convenience stores is expected to extend into the future period, with sales forecasted to grow from PHP 75,066.8 million (USD 1,424 million) in 2019 to PHP 160,337 million (USD 3,042 million) in 2024 at a CAGR of 16.4%, which represents a significant slow-down as compared to CAGR of 20.9% recorded during the review period of 2013 to 2018. As retailers expand their operations by opening more stores outside of Metropolitan Manila in under-served markets the sales per outlet is expected to register positive growth rates, and convenience stores are expected to contribute a greater share to the total sales of grocery retailers.

Table 57 The Philippines Convenience Stores Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Convenience stores sales	PHP million	75,066.8	93,358.3	114,045.9	131,952.3	147,083.6	160,337	16.4%
	USD million	1,424	1,772	2,164	2,504	2,791	3,042	16.4%

Number of outlets	-	4,701	5,555	6,472	7,443	8,459	9,498	15.1%
Selling space	000 square metres	572.6	672.9	780.0	892.9	1,010.5	1,130	14.6%
Sales per outlet	PHP	15,968,262	16,806,175	17,621,431	17,728,376	17,387,824	16,881,863	1.1%
	USD	303,003	318,903	334,373	336,402	329,940	320,339	1.1%
Sales per selling space (square metres)	PHP	131,098	138,740	146,213	147,779	145,555	141,868	1.6%
	USD	2,488	2,633	2,774	2,804	2,762	2,692	1.6%
Convenience stores' sales contribution to grocery retailers	%	2.8%	3.2%	3.7%	4.0%	4.1%	4.2%	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

Geographical spread of new convenience store outlets

As Metropolitan Manila becomes increasingly crowded and saturated with retail stores, players are starting to plan expansion outside of Metropolitan Manila.

Outside of Metropolitan Manila, rental costs are lower and there is relatively less competition. Consumers in Metropolitan Manila are well-served with a high density of retail stores in various formats. Outside of Metropolitan Manila, convenience stores are not as commonly found. Key grocery retailers are tapping on opportunities outside of Metropolitan Manila as it is less competitive and are expected to space out outlets geographically to cover a good spread of areas in the Philippines.

Immense potential of the convenience store market

Even with such high growth rates in sales recorded between 2013 and 2018, there remains room for growth of the convenience store market. A single convenience store in the Philippines serves more than 40,000 Filipinos, while that in other countries in the ASEAN region such as Indonesia, Malaysia, and Thailand serve between 4,000 to 9,000 people. In more developed countries, the ratio is approximate 1,500 people to each store.

The market of convenience stores in the Philippines remains one of the most unsaturated in Asia, yet consumer trends are pointing to a growth in demand for modern small retail formats such as convenience stores.

4.3.4 Competitive Environment

7-Eleven is the leading player with a strong foothold

Philippines Seven Corp. pioneered the modern-day convenience store retail segment with its first store opened in 1984, holding its ground as number one since. In 2018, Player 1 operated 2,539 stores, an 106.1% increase from 1,232 stores in 2014. With its aggressive expansion, it has a strong foothold in the convenience store segment.

Beyond retail, Player 1 is expanding its business areas by venturing into logistics, inspired by the Walmart model in the U.S. Capitalising on its existing store network nationwide, Player 1 stores now serve as collection points for consumers and businesses to pick-up their deliveries. In the Philippines, one of the key pain points for online retailers is the logistics due to the underdeveloped infrastructure in the country. With this move, Player 1 sets to offer an efficient logistical network supporting last-mile delivery, with its 11 warehouses and more than 2,000 physical stores located nationwide.

Player 1 is focusing on digital aspects such as digital payment systems and e-commerce. According to Player 1, it noticed that its money services, which include the CLiQQ app, GCash, PayMaya, Alipay and Coins.ph, are driving commission income. CLiQQ app has the potential to extend financial services even to far reaching communities through 7-Eleven's extensive network. Moreover, most of the Player 1 stores in Greater Manila now offer free Wi-Fi to further attract more customers. Player 1 invested PHP 50 million in the first half of 2018 in enhancing its digital services, enabling it to offer greater convenience to its customers. Player 1 has started to reinvent its CliQQ pay, a mobile wallet which stores reward points which can be used to pay for items purchased and CLiQQ shop, an e-commerce venture where products bought online are available for collection in Player 1 outlets. Player 1 has witnessed a positive response to this as it has become one of the most downloaded mobile applications and has contributed to the chain's growth.

Table 58 The Philippines Market Share Rankings of Convenience Stores in 2018

Ranking	Convenience Store Brand	% Market Shares by Revenue	Listing Status
1	Player 1	72.4	Public
2	Player 2	11.3	Public
3	Player 3	10.1	Public
4	Player 4	2.6	Public
5	Player 5	1.8	Private

Source: Euromonitor Passport - Retailing 2019 Edition

Player 3 a new but strong contender

As the convenience stores market has high potential and is lucrative, foreigner brands have been introduced to the market in recent years. Player 3 was launched to the Philippines market in 2014, while Lawson, a convenience store brand from Japan, entered the market in 2015.

While Lawson seems to serve a niche market with its focus on food offerings and enjoys stable growth, Player 3 has seen incredible growth. In just 4 years, Player 3 has established itself as one of the key players. The brand, a joint venture between SM Retail and Indonesia-based PT Sumber Alfaria Trijaya, enjoyed its initial success in Indonesia, and expanded overseas to open more than 400 outlets in the Philippines. Player 3 continues to grow its presence, opening more stores in Philippines.

Market expects to see further changes

Player 5 was put for auction in 2017 just 4 years after its entry and was bought over by the owner of Phoenix Petroleum, an independent petroleum retailer, from Philippine FamilyMart CVS Inc. (PFM), the official franchisee of the Player 5 brand in the Philippines. The new exclusive area franchise for Player 5 was granted to PFM, under the management of Phoenix Petroleum.

At the same time, Robinsons Retail increased its stake in Player 2 to take advantage of the convenience store format growth. Player 1 also has plans to build a distribution center in Mindoro, southwest of the Philippines to support growth of more branches in the area.

The industry is expected to see further changes as businesses change hands and the market moves towards further consolidation.

4.4 FORECOURT RETAILERS IN THE PHILIPPINES

4.4.1 Market Overview

Forecourt retailing still in its infancy stage but poised for growth

Oil firms are starting to venture into non-fuel-related businesses to stay more relevant in the changing consumer environment. They are also taking advantage of the growing demand for convenience in dining, as their scattered networks are already in the best position to address this need.

In 2018, there were over 7,000 service stations in the Philippines and a majority of them still do not have any retail outlets in the forecourts. With the expansion in forecourt retail sales, petrol retailers are looking to expand their non-oil business revenues with forecourt retail outlets. Pilipinas Shell seeks to grow the revenue contribution of non-fuel business sales.

3 key formats of service stations

The Department of Energy in the Philippines categorizes forecourt retail outlets into three main categories based on the number of pump islands.

Fuel stations located along major highways are the first category of forecourt retail outlets with 5 or more pump stations, considered to be large format service stations. The average spending at these large format service stations and their forecourt retail outlets is the highest since most of the travellers passing at these stations are travelling along the highways. They will spend more on fuel and take long breaks at the forecourt retail outlets hence spending more per transaction. The next category of service stations has 3 or 4 pump islands, with least 3 or 4 dispensing pumps installed. These are the standard-sized service stations, found along main roads. The final category is the smallest service station format usually located along secondary roads, which has 1 - 2 pump islands and at least 1-2 dispensing pumps per island installed.

7-Eleven a preferred partner for service station companies

Most gasoline companies or stations in the Philippines, especially those classified as mid-sized or large, operate convenience stores in the forecourts. 7-Eleven has embarked on an aggressive expansion plan to enter the forecourt retail space, with several partnerships with different service station brands.

Seeing 7-Eleven's expertise and experience in convenience store retail operations, petrol retail brands also see 7-Eleven as a preferred partner. Caltex signed a partnership with 7-Eleven to replace its in-house brand of convenience store, Star Mart. There are now more than 100 Caltex service stations with 7-Eleven convenience stores. 7-Eleven operates 67 outlets at Chevron service stations in 2017, and 8 at Total Gas service stations. Caltex ended 2018 with 600 stations and made non-fuel tie ups such as offering Happy Plus points earned, which are redeemable in Jollibee, Chowking and other Jollibee group of quick-service restaurant chains, when customers refuel at Caltex service stations.

Strong forecourt sales but growth in number of outlets relatively slow

Forecourt retailers sales registered a CAGR of 12.3% between 2013 and 2018, growing from PHP 2,251 million (USD 43 million) in 2013 to PHP 4,027 million (USD 76 million) in 2018. However, the number of outlets remained relatively flat with a CAGR of 0.8% in the same period. Correspondingly sales per outlet saw a CAGR of 11.4%. Forecourt retail sales account for just 0.2% of the total sales of grocery retailers and there is room for grocery retailers to grow this segment as sales per outlet has been registering strong growth rates in the review period.

Table 59 The Philippines Forecourt Retail Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Forecourt Retail sales	PHP million	2,251	2,458	3,009	3,124	3,543	4,027	12.3%
	USD million	43	47	57	59	67	76	12.3%
Number of outlets	-	492	506	549	446	486	512	0.8%
Selling space	000 square metres	49.2	50.4	54.3	43.8	45.5	47.9	-0.5%
Sales per outlet	PHP	4,575,203	4,857,510	5,480,510	7,004,933	7,290,535	7,865,039	11.4%
	USD	86,816	92,173	103,994	132,921	138,340	149,242	11.4%
Sales per selling space (square metres)	PHP	45,752	48,768	55,411	71,329	77,873	84,069	12.9%
	USD	868	925	1,051	1,353	1,478	1,595	12.9%

Forecourt retail sales contribution to grocery retailers	%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

4.4.2 Drivers and Constraints

Increase in the number of convenience stores inside forecourts

The increasing number of partnerships between petrol service stations and convenience store retailers contribute to the growth of forecourt retail. In 2009, Chevron Philippines Incorporated, (CPI) signed a memorandum of agreement with Philippine Seven Corporation (PSC) as a locator inside Caltex gasoline stations. This partnership accounts for more than 70% of 7-Eleven convenience store retail outlets inside forecourt. 7-Eleven is a co-locator of other key service station brands such as Total, PTT, Phoenix, Unioil, Seaoil, Flying V, and Petron. As 7-Eleven expands the number of convenience store outlets aggressively, this will drive retail sales inside forecourt.

Competitiveness of petrol service brands

With the increase in the gasoline prices, customers are more price-conscious, looking out for price discounts and promotions for petrol retailers. Service stations now offer rewards for a specific amount of gasoline spent. As the primary purpose of the Philippines consumer visiting a service station remains to refill petrol and making purchases from the retail outlets is secondary, the performance of forecourt retail outlet hinges on the marketing efforts of the service station to attract customers in the competitive landscape. According to the Department of Energy, the number of petrol service stations grew from 6,264 gas stations in 2015 to 8,630 in 2018, a growth of 37.8%, due to the growth of the number of smaller brands and independent players.

Increased focus on growing non-fuel business

To mitigate the impacts of fuel price fluctuations, service station companies are looking to grow their non-fuel businesses. One of the top choices is the expansion of the retail business inside forecourt. As the top three players wrestle for market share in the fuel business, they are increasing looking at other areas to expand their business. Leveraging on its number of locations, Petron has revived its convenience store brand Treats and ready-to-eat food segment San Mig Food Ave. Pilipinas Shell is increasing the number of its “Deli2go” serving pastries and coffee, and Shell Select stores. By year-end 2018, Pilipinas Shell has 1,084 stores, growing by 5% from 1,034 in 2017. In 2019, Shell aims to grow its network by 5% to 6% or 50 to 70 more stores.

Decision to include retail outlets in forecourts on dealers

Most of the gasoline stations in the Philippines, especially the smaller formats, have ample space in the forecourts but have no additional service offerings, such as convenience store outlets or quick-service restaurants outlets. These stores are bare, and often unattractive with limited service offerings. Operators must revitalize existing service stations to entice motorists to refill petrol and make purchase from their stores. However, a key constraint is that for dealer-operated service stations, the decision to invest and revamp the service station lies on the dealer.

4.4.3 Market Outlook

Sales forecasted to outpace outlets expansion

Forecourt retail sales is forecasted grow at a CAGR of 12.8% from PHP 4,771 million (USD 91 million) in 2019 to PHP 8,729 million (USD 166 million) in 2024. Forecourt retail sales is projected to grow at a faster rate than the growth of number of outlets as investment is required to open new outlets. Average expenditure is expected to increase. Between 2019 and 2024, the number of forecourt retail outlets and selling space are both projected to grow at a CAGR of 3.7%, indicating that retailers are focusing more on opening same-sized outlet. Sales per outlet is projected to grow at a CAGR of 8.8% in the forecast period.

Table 60 The Philippines Forecourt Retail Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Forecourt Retail sales	PHP million	4,771	5,604	6,574	7,393	8,082	8,729	12.8%
	USD million	91	106	125	140	153	166	12.8%
Number of outlets	-	542	571	602	624	639	652	3.7%
Selling space	000 square metres	50.7	53.4	56.3	58.3	59.6	61	3.7%
Sales per outlet	PHP	8,802,952	9,814,011	10,919,601	11,848,077	12,647,261	13,397,557	8.8%
	USD	167,039	186,224	207,203	224,821	239,986	254,223	8.8%
Sales per selling space	PHP	94,107	104,940	116,760	126,813	135,597	143,898	8.9%
	USD	1,786	1,991	2,216	2,406	2,573	2,731	8.9%
Forecourt Retail sales contribution to grocery retailers	%	0.18%	0.19%	0.21%	0.22%	0.23%	N/A	N/A

Source: Euromonitor Passport - Retailing 2019 Edition

Stiff competition as players look to enhance retail operations

As gasoline station focus on improving their convenience store retail operations through partnerships with specialist grocery retailers, competition will become more intense. However, there remains a huge opportunity for more convenience stores to be opened since only a small percentage of service stations operate their own retail outlets inside forecourt.

To retain market share, service stations must also enhance their product offerings and implement a stronger marketing campaign to reach out to a larger market of consumers. Service stations may also enhance rewards programmes to improve brand loyalty among price-sensitive motorists. Caltex, for example, partnered with Robinsons and Jollibee for their rewards programme. Shell has the Pepeng pasada and Shell Citi Visa for its customers to earn rebates and enjoy other promotions.

Similarly, Petron continues to expand its non-fuel businesses with the addition of various food kiosks and restaurants and other service establishments at some of its stations. By the end of 2018, there were approximately 2,400 Petron gas stations. In May 2019, Petron unveiled plans to invest more than USD1 billion to expand its retail network an optimise its refineries in the Philippines and Malaysia. This includes USD 400 million in capital expenditure for its retail network expansion, to bring the number of Petron services stations in the Philippines and Malaysia from 3,000 in 2018 to 6,000 by 2022.

4.4.4 Competitive Environment

2 key players account for bulk of market share

Player 1 also leads the forecourt retail space in many other countries in Southeast Asia. Player 2 has an estimated market share being less than half of that of Player 1. The forecourt retail landscape is highly concentrated with the top two players accounting for the bulk of the market share. In terms of the number of service stations, Player 4 has been expanding and is inching closer to that of Player 3, the next bigger player.

As service stations focus on improving their convenience store retail operations through partnerships with grocery retailers, competition will only intensify. However, there remains a huge opportunity for more convenience stores to be opened since only a small percentage of service stations operate their own retail outlets inside forecourt. To retain market share, service stations must also enhance their product offerings and implement a stronger marketing campaign to reach out to a larger market of consumers. Service stations may also enhance rewards programmes to improve brand loyalty among price-sensitive motorists.

Table 61 The Philippines Market Share Rankings of Forecourt Retailers in 2018

Ranking	Forecourt Retailer Brand	% Market Shares by Revenue	Listing Status
1	Player 1	49.2	Public
2	Player 2	23.0	Private
3	Player 3	8.8	Public
4	Player 4	8.2	Private
5	Player 5	3.5	Private

Source: Euromonitor Passport - Retailing 2019 Edition

4.5 QUICK-SERVICE RESTAURANTS (QSR) INSIDE FORECOURT IN THE PHILIPPINES

4.5.1 Market Overview

Quick-Service Restaurants mainly in large format stations

To enhance the consumer experience, service stations are adding a variety of service offerings at the forecourt retail space, including convenience stores, quick-service restaurants, cafés. More international brands of quick-service restaurants, such as McDonald's and KFC, are entering the forecourt retail space.

The plan has been to open more quick-service restaurants, mainly large service stations with more than 5 pump stations. These service stations can serve the needs of larger vehicles travelling long distances along major highways, and thus see a higher demand from the drivers who might need to have meals at the service stations, which also serve as rest stops.

Variety of quick-service brands inside forecourt

Within the biggest service stations, there are as many as 15 quick-service chains in different categories, including chicken (such as KFC and Jollibee), burger (such as McDonald's), pizza (such Pizza Hut), Chinese food (such as ChowKing), bakery goods (such as Red Ribbon and Goldilocks), coffee (such as Starbucks), seafood (such as Above Sea Level), and Filipino food. Sometimes, directly competing brands, such as Jollibee and McDonalds, are even housed in the same gas stations. Service station companies have various agreements with different quick-service restaurant brands to give the consumer more choice.

Quick-service sales grew faster than number of transactions

Quick-service restaurants sales grew from PHP 4,017 million (USD 76.2 million) in 2013 to PHP 6,721 million (USD 127.5 million) in 2018 at a CAGR of 10.8%, while the number of transactions grew at a CAGR of 7.1%. A single transaction usually consists of complete meals and ala carte purchase of individual food products. Complete meals are those meals coupled with drinks and desserts. Pit-stop in-between travels usually requires heavy meals.

Table 62 The Philippines Quick-service Restaurant Sales Inside Forecourt Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Quick-service restaurants sales	PHP million	4,017	4,447	4,923	5,450	6,033	6,721	10.8%
	USD million	76.2	84.4	93.4	103.4	114.5	127.5	10.8%

Number of transactions	'000	23,800	25,537	27,402	29,402	31,548	33,476	7.1%

Source: Euromonitor estimates from trade interviews and desk research

4.5.2 Drivers and Constraints

Fuel retailer increasing partnerships with top Quick-Service Restaurant brands

With increased fuel prices, service stations have been re-investing in the business by opening more service stations across the Philippines. At the same time, these companies are looking to increase revenues from the non-fuel business by adding more retail outlets in the forecourt.

As consumers have many available choices, service stations are partnering with top quick-service restaurant brands that may attract consumers to stop at the service station to have a meal and perform other required services. A variety of brands in different quick-service food categories are being selected and opened within service stations to lure different consumers to dine, refill gas, and shop at the stations. Quick-service restaurant choices have been expanded beyond top brands such as McDonald's, Pizza Hut, Jollibee and Starbucks, to include local brands serving desserts, bakery goods, seafood, or local delicacies.

Quick-Service Restaurants not a priority for service stations

In general, smaller-sized service stations would prioritize opening a grocery retail outlet, such as convenience stores. This is because convenience stores stock a variety of goods, as well as ready-to-eat meals and beverages that can fulfil most of the needs of the consumer. Convenience stores also offer a variety of services such as cash withdrawal, ATM services, value top-ups.

Convenience stores add much more value in terms of the guest experience and forecourt retail sales. Given the same space, service stations would prioritize opening a convenience store over a quick-service restaurant, which serves only one purpose of providing food services. With the same floor space, convenience stores can meet various needs of the consumer, including having a meal, making payment, posting goods, purchasing snacks or other items, while quick-service restaurants can only fill the stomach of the consumer. There are few service stations big enough to accommodate quick-service restaurants in addition to convenience stores, so service stations need to make a choice.

4.5.3 Market Outlook

Quick-Service Restaurant sales will continue to grow

The affordability of quick-service restaurants in the country will continue to provide satisfaction for budget conscious travellers. While quick-service restaurants brands intended for the mass market, service stations also have premium offerings from restaurants inside forecourt areas. Quick-service restaurant sales is projected to grow at a CAGR of 12.1% from 2019 to 2024. In terms of the number of transactions, it is forecasted to grow at a CAGR 7.2% in the same period, implying that sales per transaction is forecasted to increase. In 2024, quick-service restaurants is projected to record more than 50.3 million transactions, bringing in PHP 13,301 million (USD 252.4 million) worth of sales.

Table 63 The Philippines Quick-Service Restaurant Sales Inside Forecourt Figures (2019F - 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Quick-service restaurant sales	PHP million	7,514	8,408	9,417	10,556	11,844	13,301	12.1%
	USD million	142.6	159.5	178.7	200.3	224.7	252.4	12.1%
Number of transactions	'000	35,585	37,898	40,438	43,228	46,556	50,281	7.2%

Source: Euromonitor estimates from trade interviews and desk research

Competing local restaurants easily accessible

The Filipinos consume a huge volume of quick-service food products annually. However, there are many offerings from different providers. Many times, the Filipino consumer may patronize an independently operated quick-service restaurant that serves local food. These outlets are located along major highways and are easily accessible. Thus, while the Filipino consumer may make purchases at grocery retail outlets inside forecourt, they may not patronize quick-service restaurants inside forecourt to have their meals. The challenge hence is for the brand to attract the consumer in a variety of ways such as discounts or promotions.

4.5.4 Competitive Environment

Top 3 players account for half of the market value

Player 1, a local brand operating more than 750 outlets in the country, is the largest quick-service restaurant chain in the Philippines. Similarly, within the quick-service restaurants inside forecourt segment, Player 1 also tops the charts with 34.9% of the total market share in 2018. Player 2 holds a market share that is less than half of Player 1's.
The top three brands hold approximately more than half of the total market share. Industry concentration is high with the top five brands holding 69.9% of the market share in 2018 and 3 out of the top 5 players are local brand names. With the Filipino consumer's love for fried chicken, fried chicken can be found in the menus of each of these top five players. These top five brands will continue to thrive inside forecourt as service stations often prioritize opening outlets of these well-known brands to attract customers.

Table 64 The Philippines Market Share Rankings Quick-service Restaurants (QSR) Inside Forecourt in 2018

Ranking	QSR Brand	% Market Shares by Revenue	Listing Status
1	Player 1	34.9	Public
2	Player 2	13.7	Private
3	Player 3	8.7	Public
4	Player 4	7.2	Private
5	Player 5	5.4	Public

Source: Euromonitor estimates from trade interviews and desk research

4.6 CAFÉ INSIDE FORECOURT IN PHILIPPINES

4.6.1 Market Overview

Cafés inside forecourt targeted at travellers

The Filipinos are habitual coffee drinkers, both at home and out-of-home. Approximately 90% of the coffee consumed by consumers in the Philippines is instant coffee, and Philippines is the world's largest importer of soluble coffee products. Prior to the recent development of retail inside forecourt, the service station provided limited services. Should there be a convenience store located within the service station, drivers, especially those driving long distances, would stop for a quick coffee, usually instant, to take a break. The coffee also helps them stay alert while driving.

Increasingly, popular chained coffee shops such as Starbucks are opening outlets inside forecourt, and these are often located inside forecourts of service stations located along major expressways, targeting the upper middle class who travels often. While public transportation vehicles such as buses pass through expressways, they do not usually stop for refuelling at these service stations. Rather, it is the private cars and vehicles used for field trips who usually stop for a refuel, restroom break, or a meal break. Service stations located along major highways in the provinces connected to the expressways are seeing the growth of cafés and quick-service restaurants inside forecourts, since there are no malls or F&B outlets in the vicinity

Cafés inside forecourt mostly company-owned for quality control

Many cafés inside forecourt are outlets of international chained specialty coffee shops, and company-owned under a master franchise or licensing agreement. Starbucks is licensed to Rustan Coffee Corporation, while The Table Group holds the master franchise of Coffee Bean and Tea Leaf brand in the Philippines. Café France outlets within forecourt are all company-owned, though there are 3 deader-owned outlets. Seattle's Best Coffee is operated by the master franchise Coffee Masters Inc.

The brands have adopted this model of operation to retain control in monitoring quality and consistency in product and service across outlets. As cafés expand in the inside forecourt landscape, the international brands see the importance of operating outlets as company-owned so that the main company holds the power to make key decisions relating to operations and centralize marketing efforts to promote the brands.

Slow growth in café outlet expansion

Between 2013 and 2018, café inside forecourt sales grew from PHP 441 million (USD 8.4 million) in 2013 to PHP 562 million (USD 10.7 million) in 2018, at a CAGR of 5.0%. Similarly, the number of coffee cups sold registered a CAGR of 5.9%, with 3 million cups sold in 2018. However, the number of outlets has remained relatively stagnant at just over 60 outlets in the Philippines, signifying an increase in demand for coffee consumption inside forecourt.

Table 65 The Philippines Café Inside Forecourt Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Café sales	PHP million	441	466	489	512	537	562	5.0%
	USD million	8.4	8.8	9.3	9.7	10.2	10.7	5.0%
Number of outlets	-	53	54	55	56	58	61	2.6%
Number of coffee cups sold	million	2.4	2.5	2.7	2.8	3.0	3.2	5.9%

Source: Euromonitor estimates from trade interviews and desk research

4.6.2 Legislative and Regulatory Policies

Government plans to support farmers to export coffee

Under the Philippine Coffee Industry Road Map (PCIR) drawn up by the government for 2017 to 2022, the government plans to support local coffee farms to increase their production aggressively to achieve a self-sufficiency ratio (SSR) of over 160%. This means that by 2022, the Philippines market would have coffee surplus, sufficient to supply to its domestic market, as well as export to overseas markets. With this, it is expected that the cost of coffee will be lowered as compared to importing from overseas markets, and this could potentially give rise to new opportunities in the market.

4.6.3 Drivers and Constraints

Expansion strategy by café brands

The café market in general is competitive and key players are looking to consolidate and cement their market position by expanding. The inside forecourt segment is one of the more attractive channels, since the service station has a captive audience. Café brands are increasing seeking partnerships with service station companies to expand their network and footprint according to the network of the service station partner, and this will drive the growth of the number of outlets of cafés inside forecourt.

Competition from alternative products

Most of the service stations have grocery retail outlets such as convenience stores. At these convenience store outlets, the consumer is able to purchase ready-to-eat meals and drinks, such as canned coffee. Canned coffee or bottled coffee cost less but may be of the same quality as freshly prepared coffee from cafés inside forecourt. For example, Starbucks' bottled Frappuccino costs less than PHP 50 (USD 1.0), as compared to a drink purchased in-store, which would cost at least PHP 110 (USD 2.2).

For the majority of the price-conscious Filipino consumer, they are used to the taste of instant coffee and are familiar with it. They may choose the cheaper option of canned coffee, and this may hinder sales growth of cafés inside forecourt.

4.6.4 Market Outlook

Slight increase in growth rates of the market

In the forecast period of 2019 to 2024, café inside forecourt sales is expected to register a CAGR of 5.3%, picking up from the review period of 2013 to 2018. In 2024, café inside forecourt sales is expected to grow to PHP 764 million (USD 14.5 million) from PHP 590 million (USD 11.2 million) in 2019. Correspondingly, the number of coffee cups sold will increase to close to 5 million cups in 2024. The number of outlets will remain relatively stable, with the expected addition of 2 outlets per year.

Table 66 The Philippines Café Inside Forecourt Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Café sales	PHP million	590	620	653	687	724	764	5.3%
	USD million	11.2	11.8	12.4	13.0	13.7	14.5	5.3%
Number of outlets	-	63	65	67	69	71	73	3.0%
Number of coffee cups sold	million	3.4	3.7	4.0	4.4	4.6	4.9	7.4%

Source: Euromonitor estimates from trade interviews and desk research

Starbucks announces price increase

In Oct 2018, Starbucks Philippines announced that all beverages would see an increase in prices by 3% to 9% in all of their outlets, including inside forecourt, island wide. Product price ranges from PHP 110 (USD 2.2) to PHP 200 (USD 4.0) currently, depending on the type and size of the drink. The move comes amid the high inflation rates in the Philippines, and the rising costs of other goods consumed in the operations.

A statement from Starbucks explained that they periodically evaluate pricing to balance running costs while providing maximum value to consumers with fair pricing. With the price increase, the market may see some shift in consumption of other brands.

Third wave coffee and opportunity to introduce local specialist coffee shop brands

As the market moves towards third wave coffee, where the status of coffee is elevated to an artisan food product, existing players are upgrading their product offerings. Starbucks and Coffee Bean & Tea Leaf, for example, have started to offer nitro-brew and cold-brew coffee drinks, which are considered artisan methods of coffee brewing that brings out flavours better.

Currently, the brands of cafés inside forecourt are considered mainstream brands. These brands are chained outlets and offer mainly the same menu across its outlets. As the consumer becomes more willing to pay for artisan and premium coffee, there is an opportunity to widen available brands of cafés inside forecourts, or even invite independent specialist coffee shops and local brands to set up shop at service stations.

4.6.5 Competitive Environment

Player 1 remains the market leader for café inside forecourt

Player 1 is market leader among cafes inside forecourt retailers. The number of coffee cups sold by Player 1 in 2018 is more than 10 times of Player 2, the next biggest player for the café inside forecourt category. Player 1 is considered premium in the Philippines market in general but captures a wide range of consumers, from the regular customer who buys at least a cup of Player 1 beverage daily, to the customer who visits Player 1's outlets for an occasional treat. There are over 10 licenced Player 1 outlets in the Philippines.

Player 2 is similarly priced at a premium. It comes in second on the charts. As compared with Player 1 which has more outlets in large service stations along main highways, Player 2 has significantly less outlets inside forecourt. Its brand is also not as popular as the Player 1 brand.

Table 67 The Philippines Market Share Rankings of Café inside Forecourt in 2018

Ranking	Café Brand	% Market Shares by Revenue	% Market Shares by Total Number of Cups Sold	Listing Status
1	Player 1	61.1	56.9	Private
2	Player 2	5.4	4.7	Private
3	Player 3	4.2	14.9	Private
4	Player 4	2.8	3.3	Private
5	Player 5	2.6	3.6	Private

Source: Euromonitor estimates from trade interviews and desk research

4.7 CAFÉ OUTSIDE FORECOURT IN PHILIPPINES

4.7.1 Market Overview

Coffee a lifestyle beverage in the Philippines

Coffee is an all-day beverage in the Philippines: the Filipino does not limit consumption to any specific time of the day. Breakfast is not complete without a cup of coffee, often paired with pan de sal, a local bread, or fried rice by the locals. Coffee is also consumed after lunch or dinner as an alternative to desserts. The coffee-drinking habit of the Filipino consumer in his youth starts early, when one need to stay awake to study or complete assignments. Coffee has become a lifestyle beverage among the Filipinos, as seen by the popularity of independent coffee houses in the country. Business meetings are conducted over a cup of coffee. Afternoons are spent in coffee houses drinking coffee with friends. Thus, cafés and coffee houses have become a familiar space away from home and also serve as a working space.

Long before the bubble tea craze, the Philippine has Zagu, a shake with tapioca pearls that was launched in early 2000s. In 2011, bubble tea became popular in the country with the introduction of the Gong-Cha brand from Taiwan. The bubble tea craze continues in Metropolitan Manila with popular brands such as Coco Fresh Tea & Juice, Macao Imperial Tea, Gong Cha, TenRen's Tea, Happy Lemon, and Chatime; and in the provinces with independent brands.

New players launch in Metropolitan Manila as Starbucks expands beyond

Beyond Metropolitan Manila, café brands are now increasing its presence in other key growth areas in the Philippines. The number of local independent cafés continues to grow not only in Metropolitan Manila but also in provinces. These cafés are often located in less crowded areas and provide a better environment for consumers to enjoy their coffee, at more affordable prices. These coffee houses will support the growing coffee culture.

Starbucks was launched in 1997 in the Philippines and has continued its sustained its' market leadership in the specialty coffee segment. Beyond Metropolitan Manila, the brand is now increasing its presence in other key growth areas in the Philippines. It opened three outlets located within shopping malls and one stand-alone outlet in Metropolitan Davao; Starbucks is looking at adding one more stand-alone outlet after the success of its first stand-alone outlet, and are looking to open stores in non-mall based stores.

McDonald's seeks new growth opportunities in the specialty coffee segment by opening its first stand-alone McCafé outlet in Makati city in Metropolitan Manila in 2017. Notable new entrants include Tim Hortons, a Canadian quick-service restaurant brand, which opened its first store in Makati.

Local operators of specialist coffee shops holds license and master franchise

Most of the international chain specialist coffee shops are company-owned under a master franchise or licensing agreement. Rustan Coffee Corporation operates Starbucks under a licensing agreement, which states that all stores will be company-owned. Table Group holds the master franchise of Coffee Bean and Tea Leaf (CBTL) in the Philippines. Both brands, with 100% company-owned outlets, are able to better monitor and manage the quality of the outlets as they embark on ambitious expansion plans.

Coffee Masters Inc., owns the master franchise for the Seattle's Best Coffee brand. Independent specialty coffee shops are also popular in the country. Bo's Coffee offers franchising agreements to individuals who wish to run a small business under the Bo's Coffee brand.

Cafes outside forecourt continue to flourish

The Filipino consumers are habitually heavy drinkers of coffee. As out-of-home consumption gains popularity, the number of café outlets saw a CAGR of 0.8%, to 8,703 outlets in 2018. Correspondingly, café sales registered a CAGR of 6.7% between 2013 and 2018, growing from PHP 38,786 million (USD 736.0 million) in 2013 to PHP 53,517 million (USD 1,015.5 million) in 2018. The number of coffee cups sold exceeded 260 million cups in 2018.

Table 68 The Philippines Café Outside Forecourt Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Café sales	PHP million	38,786	40,909	43,472	46,614	49,788	53,517	6.7%
	USD million	736.0	776.3	824.9	884.5	944.7	1,015.5	6.7%
Number of outlets	-	8,364	8,384	8,414	8,487	8,574	8,703	0.8%
Number of coffee cups sold	million	241.4	244.4	247.7	252.4	257.15	266.6	2.0%

Source: Euromonitor estimates from trade interviews and desk research

4.7.2 Legislative and Regulatory Policies

TRAIN laws discourage sugar consumption

There are no direct legislative and regulatory policies on the operation of cafés in the Philippines.

Under the TRAIN Act, sin taxes are imposed on sugar to discourage the consumption of sugar. Consumers may be encouraged to turn to beverages with less sugar, as sugar prices rise and correspondingly, the prices of beverages with high sugar content. Coffee, being a widely consumed beverage, was exempted from the new tax structure. This could further drive the consumption of coffee in the Philippines.

4.7.3 Drivers and Constraints

The Government Helps the Coffee Industry To Meet the Growing Demand

The government recognises the opportunity to increase the local production of coffee beans, as demand is dynamic. Local coffee producers are therefore receiving increasing support from the government and from local and international coffee shop chains. Local coffee shops highlight local production, with more consumers conscious of the origin of products and keen to help local farmers. According to the Department of Agriculture, Philippine coffee beans can compete with imported coffee, given the right tools and advanced education on coffee production. Figaro and Bo's Coffee are local brands that are already at the forefront of sourcing local coffee beans. Local brands attribute their growing success to younger consumers, as they share these products and their experiences on social media – thus, spreading awareness. Some international specialist coffee and tea shops also recognise the potential in promoting locally-produced coffee. Seattle's Best Coffee has launched an initiative called Café Comuninad to support local farmers.

Local brands with novel concepts grow

The number of local independent cafés continues to grow not only in Metropolitan Manila but also in more urbanized provinces. These cafés are often located in less crowded areas and provide a better environment for consumers to enjoy their coffee, at more affordable prices. These coffee houses will support the growing coffee culture.

Increased consumer awareness and knowledge

Coffee beans were categorized as a commodity, and consumption of instant coffee was most common. However, in recent years, successful marketing strategies by major chained specialist coffee shops have raised consumer awareness not only in the quality of coffee, but also about its specific origin, type and flavour profiles. Consumers now have a growing demand for freshly prepared coffee and premium coffee beans.

Consumers are increasingly willing to pay for premium coffee beans based on origins or certified coffee, such as those labelled fair trade. This will shift demand from soluble coffee products such as instant coffee, to fresh coffee products.

Availability of good quality coffee supply locally

Philippines produces coffee beans of high-quality by global standards. As the consumer becomes more sophisticated and knowledgeable, they are starting to look beyond the taste of the coffee to. Consumers now want to know the origin of the coffee and have assurance that the coffee consumed was produced and sourced in sustainable ways.

Young entrepreneurs from coffee producing areas in the Philippines are leading the movement to put Philippines-produced beans on the global arena, by creating their own brands to promote local coffee. Other than selling these coffee products in their own cafés, they may also distribute to other independently run coffee shops and cafés in the key cities of Manila. This has led to changes in the local supply chain as specialty coffee shops and coffee roasters start purchasing coffee directly from local farmers, and this has impacts on costs and pricing to the consumer.

4.7.4 Market Outlook

Café outside forecourt sales will continue to grow

In the forecast period between 2019 and 2024, café sales is expected to continue its growth at a CAGR of 9.4%, growing to PHP 93,963 million (USD 1,783.0) in 2024. The growth in number of outlets will pick up its pace to a CAGR of 1.7%, as will the number of coffee cups sold. In 2024, there will be over 330 million cups of coffee sold in the Philippines. All these indicators point to strong growth of the market in the forecast period.

Table 69 The Philippines Café Outside Forecourt Figures (2019F – 2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Café sales	PHP million	59,958	66,766	73,502	80,300	87,283	93,963	9.4%
	USD million	1,137.7	1,266.9	1,394.7	1,523.7	1,656.2	1,783.0	9.4%
Number of outlets	-	8,842	8,992	9,151	9,309	9,465	9,631	1.7%

Number of coffee cups sold	million	276.3	286.6	297.5	308.7	320.2	332.3	3.8%

Source: Euromonitor estimates from trade interviews and desk research

Strengthening of local sourcing and procurement

Currently, over 90% of the coffee consumed in the Philippines is instant coffee, making Philippines is one of the top importers of soluble coffee products globally. Global demand for premium roasted coffee has opened doors for beans farmed in the Philippines to be exported. The climate of Philippines allows high-quality beans to be farmed locally. The beans available are the popular Robusta, Arabica, Excels, and Liberica varieties. As the market becomes aware of the opportunities existing locally, there will be changes in the supply chain. Sourcing from overseas distributors will drop, as cafés start sourcing from local farmers directly.

Third wave coffee gaining traction

As independent specialist coffee shops spring up throughout the country, there is a demand for quality fresh coffee. The third wave of coffee is a movement, led mainly by independent coffee roasters, to produce high-quality coffee, and to educate the consumer market to perceive coffee as an artisanal food item rather than a cheap commodity.

Even though there has been a demand for better quality coffee, the majority of the population is still used to the tastes of instant coffee. There has been willingness to pay premiums for artisan coffee drinks by consumers who can afford to, though the extent and potential size of this market is still unclear.

4.7.5 Competitive Environment

Player 1 the leader of Café outside forecourt

Player 1 was one of the first international café brands to enter the Philippines market, and now has over 360 licensed outlets in the Philippines With its long time in the market, it is clearly no surprise that it is the market leader holding close to a third of the market share. Its market share is nearly 10 times of the second largest player. In general, the rest of the market is highly fragmented, with independent local brands fulfilling the coffee demand from the Filipino consumer market.

Table 70 The Philippines Market Rankings and Shares of Cafés Outside Forecourt for 2018

Ranking	Café Brand	% Market Shares by Revenue	% Market Shares by Total Number of Cups Sold	Listing Status
1	Player 1	22.2	23.4	Private
2	Player 2	2.3	2.3	Private
3	Player 3	2.1	1.6	Private
4	Player 4	2.0	0.5	Private
5	Player 5	1.4	1.5	Private

Source: Euromonitor estimates from trade interviews and desk research

5. MYANMAR

5.1 MACROECONOMIC ENVIRONMENT IN MYANMAR

An impoverished country with strong growth potential

Myanmar, one of the region's most impoverished countries, recorded one of the strongest GDP growth rates for the review period of 2013-2018 at 11.5% CAGR. Since 2011, when the democratisation and liberalisation of the economy first began, the country has witnessed strong economic development. Both its industrial and service sectors have registered robust growth. Key industries include agricultural processing, natural gas and wood products amongst others. The government and military control a high percentage of the industrial sector. The service sector, which is interconnected with information technology mainly in urban centres. The services sector has been greatly strengthened by the ongoing urbanisation. The country also saw an increase in exports, with gas accounting for the majority of exports mainly to Thailand.

Growth was further driven by private spending. Myanmar's retail market grew strongly to account for 15% of GDP in 2018, with an estimated value of USD 10 to 12 billion. There were approximately 250,000 retail outlets in the country, with grocery, convenience, fabric, pharmacy and fashion accounting for 45% of total retail stores. Myanmar imports the majority of its consumer goods from neighbouring countries such as Malaysia, Thailand, China, Singapore and India. There has been growing penetration by international brands, especially those in the luxury retail segment such as Coach, Tumi, Pandora, and Swarovski, in the recent years.

GDP per capita registered a healthy 10.5% CAGR during 2013-2018 amounting to MMK 1,856,279 (USD 1,298.7) in 2018. In 2015, the World Bank reclassified Myanmar as a lower-middle-income country, climbing up from its previous low-income threshold. The increase in GDP per capita was linked to the increased urbanisation of the country which has led to a growing number of middle class. This resulted in an income gap between the urban class, which accounts for one-third of the population, and the rural residents, which accounts for the vast majority.

Table 71 Myanmar GDP Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Nominal GDP	MMK billion	58,012	65,262	72,714	79,760	90,451	99,971	11.5%
	USD million	40,587.4	45,660.0	50,873.9	55,803.6	63,283.4	69,944.2	11.5%
Nominal GDP growth	%	13.2	12.5	11.4	9.7	13.4	10.5	N/A
GDP per capita	MMK	1,127,573	1,256,869	1,387,574	1,508,174	1,694,770	1,856,279	10.5%
	USD	788.9	879.4	970.8	1,055.2	1,185.7	1,298.7	10.5%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

A young population relocating in search of better job prospects

As of 2018, the country has a young population. People aged 65 years or older represent 5.9% of the total population. While those aged 17 or under, amounting to 32.5%. The 18 – 29 age bracket accounted for 20.4%, implying the country's young labour force. Agriculture employed around 50% of the workforce, while 69.4% of the population lived in rural areas in 2018. However, Burmese youth have moved to urban centres in light of better job prospects in the industrial and service sectors. The industrial sector employs around 12% of the workforce.

Population growth over the review period of 2013 – 2018 was moderate at 0.9% CAGR as the average rate of children per household has fallen in line with declining fertility rates and higher literacy and education levels. The average number of children per household is expected to decline further, reaching 1.2 children by 2020 – a ratio similar to that of developed countries.

Table 72 Population of Myanmar (2013 – 2018)

000 People	2013	2014	2015	2016	2017	2018	CAGR 2013 – 2018
Total population	51,448.2	51,924.2	52,403.7	52,885.2	53,370.6	53,855.7	0.9%
Urban population	15,155.1	15,395.5	15,646.7	15,908.9	16,183.0	16,468.5	1.7%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

A growing middle class living in urban areas

Rising employment opportunities together with a growing economy were responsible for a robust 11.2% CAGR in terms of the disposable income of urban residents over the review period of 2013-2018. The percentage of the population that falls into the middle class and lives in urban areas registered a healthy growth during the same review period. The middle class population accounted for one-third of the total population in 2018 and it is expected to increase in the future.

The increase in disposable income in urban areas coupled with the expansion of retail outlets is expected to significantly boost consumer spending. However, income disparity between urban and rural areas remains strong. The residents in the capital of Yangon have 65% more disposable income than those who live in the rural areas.

Disposable income per capita of urban residents in Myanmar is expected to register stable and robust growth rates as the economy of Myanmar continues to undergo reform and expand. The middle class and affluent population are concentrated mainly in the urban areas of Myanmar. It is estimated to nearly double to account for about 15% of the population by 2020 under the condition that the country's economic reformation continues on the current trajectory.

Table 73 Myanmar Disposable Income Per Capita – Urban Residents (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Disposable income per capita – urban residents	MMK	820,165	929,685	1,048,535	1,141,450	1,249,756	1,396,497	11.2%
	USD	573.8	650.4	733.6	798.6	874.4	977.0	11.2%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Growth in consumer spending boosted by retail expansion

Increasing disposable income and the rise of a growing middle class have shored up consumer expenditure, which reported a healthy 14.0% CAGR between 2013 and 2018, growing from MMK 33,334,651 million (USD 23,322.4 million) in 2013 to MMK 64,155,397 million (USD 44,885.9 million) in 2018. This was driven by the growth of consumer expenditure of urban residents, which recorded a CAGR of 14.4% during 2013-2018. Yangon's retail market underwent rapid change over the review period, with the estimated addition of more than 87,000 square metres of retail space in 2018 – a 28% increase over 2017. Despite the market being dominated by local brands, international brands had entered the market and were met with rising demand.

Consumer expenditure on food and non-alcoholic beverages reported a robust 12.9% CAGR between 2013 and 2018 and accounted for 56.1% of consumer spending in 2018. Consumers favoured purchases of more expensive food items focusing on taste and quality rather than only price. The increased presence of local and international cafés and restaurants, supported by a growing 'eating out' culture in urban centres had benefited the growth in consumer expenditure on food and non-alcoholic beverages.

In the forecast period of 2019 to 2014, consumer expenditure is expected to continue to rise with the newly-affluent consumer's growing appetite for quality goods from both local and international brands. Consumers are also spending on a wide range of products and services including travel. Lifestyle changes resulting in consumers eating out and visiting cafes more often will further push up consumer expenditure on food and non-alcoholic beverages, and it is expected to continue to reach MMK 65,321,750 in 2023.

Table 74 Consumer Expenditure in Myanmar (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Consumer expenditure to GDP	%	57.5	59.5	61.9	62.9	62.1	64.2	N/A
Consumer expenditure	MMK million	33,334,651	38,832,854	45,032,287	50,180,628	56,164,413	64,155,397	14.0%
	USD million	23,322.4	27,169.1	31,506.5	35,108.5	39,295.0	44,885.9	14.0%
Consumer expenditure on food and non-alcoholic beverages	MMK million	19,581,338	22,505,896	25,774,190	28,392,464	31,629,043	35,992,961	12.9%
	USD million	13,699.9	15,746.1	18,032.7	19,864.6	22,129.0	25,182.2	12.9%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Budget deficit responsible for inflationary pressure

Inflation stood at high levels over the review period as it was directly influenced by the budget deficit. In fact, total public spending exceeded budget projections, resulting in a public deficit of about 5% of the country's GDP. For the 2018-2019 fiscal year, the government's budget deficit reached the highest over the last seven years, with a deficit of MMK4,903 billion. As the country could not cover its deficit using increased taxation, the government printed new money, resulting in inflationary growth.

Natural disaster-related shocks over the review period of 2013-2018 which has increased the CPI for basic food crops, resulting in further inflationary pressure. The depreciation of the Myanmar kyat since 2015 has led to higher prices of imported goods. In addition, the country's dependence on oil imports – approximately 70%-80% of total oil – in order to cover its power needs. The recovery of oil prices is expected to further drive up inflation in the future.

Table 75 Average Inflation Rate in Myanmar (2013 – 2018)

%	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Average inflation rate	5.5	5.0	9.4	7.0	4.6	6.9	N/A

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

FDI boosted by economic growth and government support

Following the democratisation and liberalisation of the economy in 2011 continue during the review period of 2013 – 2018. FDI saw a robust 69.7% CAGR between 2012 and 2017. Specifically, the Foreign Investment Law of November 2012 eased investment and opened up retail and wholesale lending and leasing activities for financial institutions. In line with the growing economy, the government also offered favourable terms in some specific areas such as profit repatriation and tax holidays to further attract foreign investors.

In October 2018, the government's Myanmar Investment Commission (MIC) launched a major investment promotion plan which aims to attract more than USD 200 billion of foreign investments over the next 20 years. According to the new investment promotion plan, the government will establish simplified, fast and clear investment processes and ensure fair treatment of local and foreign investors. The government's plan to improve the investment environment is expected to generate further future FDI.

Most FDI comes from Asian nations such as Singapore, China, Hong Kong, South Korea, Japan and Thailand. Singapore and China were the biggest contributors of foreign inflows, accounting for around 60% in 2018. The United Kingdom and the Netherlands were the two countries from the European Union with the highest FDI rates. FDI mainly goes to manufacturing, accounted for 31% in 2018, as well as real estate, transport and communications. Investment in the manufacturing sector has increased strongly, due to Chinese and other companies, especially in the apparel industry. These companies are setting up businesses in Myanmar to take an advantage of relatively low labour costs.

Table 76 Foreign Direct Investment Inflows of Myanmar (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Foreign direct investment inflows	MMK million	546,171	932,485	3,332,393	3,702,841	5,876,282	N/A	N/A
	USD million	382.1	652.4	2,331.5	2,590.7	4,111.3	N/A	N/A

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

5.2 THE RETAILING INDUSTRY IN MYANMAR

5.2.1 Market Overview

Modern retailing grows rapidly in Myanmar

Myanmar's retailing industry experienced strong growth within the last five years, with a total retail value sale registering a CAGR of 11.5%. Modern retailing has expanded considerably with local retailers, such as City Mart, Marketplace, Ocean, and increasing its presence in existing cities as well as expanding into regional capitals through opening of new branches. In addition, convenience store chains, such as Grab n Go, City Express and 1 Stop Mart, which were not in existence before 2012 have emerged, although international convenience store chains have not yet entered Myanmar. Today, Grab n Go, a major local player in chained convenience stores, has over 100 outlets in Yangon. New retail concepts, such as variety stores (e.g. Miniso, MGOU, Daiso) and forecourt retailers have also appeared within the period. Many forecourt retailers are operated and owned by chained convenience store operators.

In May 2018, Myanmar's Ministry of Commerce (MoC) issued Directive 25/2018, allowing 100% foreign owned companies, as well as joint venture companies established between Myanmar companies and foreign companies, to conduct retail or wholesale businesses in Myanmar. This is expected to introduce greater competition among retailers, as foreign investors will find it easier to enter the Myanmar market.

Urban consumers turn to modern grocery retailers for grocery shopping

More consumers are shopping at modern grocery retailers, particularly city-dwelling young consumers who are less tied to traditional shopping habits. These consumers often live a busy lifestyle. Hence, they are looking for retailing formats that offer longer opening hours and a large variety of products in the same location. They are attracted to greater assortment of modern, aspirational products available in formats such as supermarkets, as well as the more comfortable and clean shopping environment in a modern retail store.

Economic reforms opened up Myanmar to international retailers and investors

Historically, modern retail establishments only emerged in Myanmar during the early 1990s. Before that, the country's retailing sector was entirely dominated by state-owned enterprises such as government operated stores selling household products, small-to-medium sized neighbourhood stores and the wet markets. The modern retail channel continued to grow gradually between 1990s and the early 2010s, but its growth stepped up a gear following Myanmar's economic reforms and liberalisation policies in the early 2010s. International food and beverage brands came to the country to set up local manufacturing and bottling facilities and sell products at cheaper prices than before. Combined with the increase of middle-class families as a result of Myanmar's economic growth, these developments encouraged more consumption and led to double-digit growth in the retailing sector.

Retailing is still dominated by traditional retailers

The retailing industry in Myanmar is dominated by small-to-medium sized family-owned traditional retailers which accounted for the bulk of the country's retailing sector. Nevertheless, modern retail channels are developing in the cities where the middle class population is growing and consumers visit supermarkets/hypermarkets and shopping malls as recreational activities instead of a necessary chore. Currently, modern retailers in Myanmar are mostly operated by local companies, but the retail landscape is expected to change in the near future after the government of Myanmar has allowed 100% foreign-owned companies to operate in the country's retail and wholesale sector.

Internet retailing emerges in Myanmar

E-commerce has also started to take off. Many online-only sellers, particularly those selling beauty and cosmetics, apparel, footwear and groceries, operate through the social media platform Facebook as their main store-front and deliver directly to customers' homes. SHOP.com.mm, the local arm of Chinese e-commerce company Alibaba Group, sold over USD 90,000 worth of goods in the first hour of its first online sale on November 11th 2018. According to representatives of the company, over 1,500 orders were placed in the first hour. Most purchases being made through mobile phones. Its shopping app was accessed by over 150,000 users. In addition to SHOP.com.mm, there is a growing number of other online shopping websites running in Myanmar.

Informal retailing is also moving to the online platform. Not many consumers have bank accounts or financial cards, which precludes shopping online from overseas vendors. This has presented opportunities for entrepreneurs to sell via social media. A growing number of entrepreneurs are bringing goods into the country from other countries and selling these informally via Facebook. The most popular products sold informally online are fashion brands, such as Fitflop sandals.

Retailing Industry registers strong growth

Myanmar was closed to the rest of the world for around 60 years until 2012. The economic reforms such as liberalisation policies and the removal of sanctions by the international community started to open up the country to the world. Myanmar's GDP increased significantly due to foreign direct investments in the country's manufacturing and services sectors leading to increased disposable incomes for local consumers. The growing middle class in urban cities became exposed to international culture and trends, aided by explosive growth of internet penetration. Consumers are eager to catch up with the rest of the world and they are interested to try out new FMCG brands. Consumer confidence has been on the rise, and the retail sector has experienced as much as 11.5% CAGR in the 2013-2018 period. Nonetheless, Myanmar's retailing industry has not yet reached its full potential, as the middle class is still growing. Additionally, modern retailing is largely limited in the cities. Hence, the industry has a very positive outlook in the next three to five years.

Table 77 Myanmar Total Retail Sales (2013-2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Total Retail Sales	MMK million	11,168,940	11,528,563	13,993,124	15,205,784	16,978,377	19,205,933	11.5%
	USD million	7,814.3	8,065.9	9,790.2	10,638.6	11,878.8	13,437.3	11.5%

Source: Euromonitor Passport - Retailing 2019 Edition

5.2.2 Legislative and Regulatory Policies

Government allows 100% foreign-owned companies to conduct retail businesses in Myanmar

In May 2018, the Ministry of Commerce issued a directive, allowing 100% foreign-owned companies and joint ventures between local and domestic investors to conduct retail and wholesale businesses in Myanmar. The new measure allows retail and wholesale trading of all types of commodities (except those prohibited by law) which are domestically manufactured or imported from abroad. Domestic companies, foreign firms and joint ventures are all permitted to operate.

The minimum capital requirements for 100% foreign-owned firms to operate in the retail and wholesale industries are USD 3 million and USD 5 million respectively. For joint ventures where the local investor has at least 20% equity ratio, the minimum capital necessary for retail and wholesale are USD 700,000 and USD 2 million respectively.

Retail and wholesale trade can be conducted in any townships in all states and regions, based on relevant regulations. However, foreign businesses and joint ventures are not allowed to operate mini-markets, convenience stores and any retail distribution where the floor area is smaller than 929 sqm or 10,000 sqft.

The Ministry of Commerce has also issued standard operating procedures for retail and wholesale business registrations as well as a list of products allowable for trade. The list contains 24 products and items, such as consumer goods, which include clothes, watches and cosmetics; foodstuff, which includes agricultural, fishery, animal and instant products, beverages and locally-produced liquor; household and kitchen items; drugs and medical equipment as well as vehicles and vehicle parts.

Favourable policy for foreign investors will increase competition in retailing

Local retailers expect increased competition from foreign players after new regulation permits foreign owned firms to operate in the country's retail sector. There is currently one Japanese supermarket AEON which is in joint venture agreement with local supermarket chain Orange. In the future, 100% foreign-owned supermarkets/hypermarkets, especially those coming from ASEAN economies, are expected to enter the retailing industry in urban cities such as Yangon and Mandalay. Wholesalers and retailers from Japan, Thailand and South Korea have already met with the Ministry of Commerce to discuss investments in Myanmar's retail sector.

Government grants permission to new delivery service provider

The rise of internet retailing in Myanmar has been supported by the increasing availability of express delivery services, which allow consumers to receive goods ordered online. A growing number of delivery service providers are taking an interest in the Myanmar postal and delivery space. In June 2018, the Myanmar government granted permission to seven new registered express delivery players to carry out operations in the country. They include RG Express Services Co, Myanmar Zarla Distribution Co, First Courier Service Co, Hercules Logistics Co and UMG Logistics Co, which will provide domestic delivery services.

5.2.3 Drivers and Constraints

Myanmar's youthful population creates storng domestic demand

Myanmar is currently experiencing a youth bulge where 30.0% of the population are 13-29 years old, followed by 21.8% are 30–44 years old. These age groups present not just a young and aspiring workforce, but also a large untapped consumer market for companies to target. Urbanisation also contributes to the growth of the consumer base for retailing, as consumers in the cities have greater access to modern retailing formats. Across all age groups, 43.7% cited employment or search for employment as the key reason for moving between states/regions to urban areas.

Currently, only 24% of the Myanmar population earns more USD120 per month, as the bulk of the population (>60%) continues to be employed in the agricultural sector. However, this share is expected to increase to 48% by 2022, driven by rising employment opportunities in the services and manufacturing sectors. The younger generation of consumers, characterised as "voracious consumers" and having higher affinity for foreign brands and products, are expected to drive consumer spending going forward. There is also a slow but steady transformation of consumers' shopping habits and decision making, as shown by a shift towards modern retailing in the urban areas. Local modern retail operators such as City Mart, Capital and Gamone Pwint, have increased presence of 24-hour convenience stores, whereas supermarkets and hypermarkets branches have expanded into smaller cities like Pathein, Taunggyi and Mawlamyine.

Urban consumers become more confident about buying imported brands

Local consumers are brand loyal and price sensitive. Nevertheless, there is a growing middle-class population in urban cities who are aspirational consumers and willing to spend their disposable income on premium imported products. Economic growth and rising disposable incomes have enabled growing numbers of consumers in Myanmar to look beyond necessities and purchase products which enhance their lifestyles or appearances. Besides raising their discretionary spending, consumers are also buying more premium imported brands, especially those from the Western continent, Japan and South Korea. However, in regional towns and rural villages, consumer spending power cannot match those in urban cities. Therefore, there is more demand towards locally-produced cheaper alternatives or affordable imported products from neighbouring countries such as Thailand, China and Malaysia.

Young urban consumers are buying more products from online channels and visit modern trade establishments such as shopping malls as a recreational activity. Meanwhile, young working adults who do not have time to go to traditional markets. The busiest hours are in the early mornings like 7am-9am or in the late evenings opt to go to modern trade retailers which have extended opening hours. Convenience store chains such as Grab n' Go, One Stop Mart and City Express also provide quick and affordable shopping for these young working adults, as well as additional conveniences and services like hot breakfast or microwaveable food which can be heated up in the stores.

Increasing digital connectivity

Consumers buying through internet, such as Facebook selling pages, are increasing in Myanmar. Many online retailers have a Facebook Business Page, where non-grocery items such as fashion, beauty and cosmetics products and consumer electronics products are commonly sold since of internet shopping, rural consumers are able to purchase the same products as urban consumers.

Internet access plays an important role in the development of internet retailing. According to a new report released by media company We Are Social in 2018, Myanmar has 18 million internet users, which represent 26% of its population. Most of the internet retailing is happening through mobile phones. Myanmar's mobile phone usage rate increased to over 110.4% in May 2018, according to Xinhua quoting the Ministry of Transport and Communications. It was increased by 22% while there was only 86.2% of mobile phone usage rate in 2016. Meanwhile, the number of mobile subscribers in the country reached over 56.8 million in fiscal year 2017-2018, increasing by over 500,000 subscribers, while there were 56.3 million mobile subscribers in fiscal year 2016-2017.

Distribution challenges

Distribution,especially cold-storage distribution, is one of the key challenges in Myanmar's retailing industry. Due to frequent electricity outages, fresh produce in Myanmar are often kept at room temperature and because of the under-supply of cold-chain logistics providers, the transportation and storage of imported fresh produce and perishable food products such as dairy remains a key challenge for modern trade retailers.

Infrastructure remains under-developed in Myanmar. According to the Asian Development Bank, transport infrastructure is in need of USD 45-60 billion of investment over the next 15 years. At present, only 20% of Myanmar's road network comprises of paved roads. International cargo traffic has grown annually at above 10% and the increasing liberalisation of foreign direct investment will further increase traffic at the ports. There is a risk that the domestic transport network is unable to cope with the increasing volume of imported goods.

There is also growing demand to develop transportation network in rural areas since 70% of Myanmar's population live in rural areas. Due to lack of transport network to rural areas, some products may not reach all corners of the country, resulting in a shortage of stock, especially for towns and villages situated on mountainous regions. Sometimes, consumers have to wait a long time for the goods to reach these areas. The waiting time would increase if there are weather-related challenges such as floods. For locally-produced fresh produce such as meat and vegetables, they are sourced locally and sold at nearby traditional markets, without the need for long-distance transportation. Therefore, imported fresh produce have little market outside the major cities.

Counterfeit goods are still prevalent due to weak government control

Counterfeit goods and illegal trade are among the biggest challenges for retailing companies operating in Myanmar. Counterfeit goods are pervasive in Myanmar because there have not been many efforts by the government to control illegal trade so far. Businesses lose sales to counterfeit goods, because consumers are either not aware that they are buying counterfeit products, or they have chosen counterfeit products due to their lower prices. Even large multinationals can be significantly impacted by the prevalence counterfeit goods. Four intellectual property rights bills have been drafted, though the laws are not expected to be effective until 2020.

Rual consumers have not adopted modern lifestyle

Myanmar consumers are price sensitive and brand loyal. Therefore, it is a challenge for imported international brands which are premium-priced and have exclusive availabilities to capture the national market. There is also a considerable urban-rural divide in Myanmar, in the form of large differences in consumer behaviours across rural and urban consumer segments. This means many rural consumers have not yet adopted a modern lifestyle and their purchases are limited to basic necessities.
In Myanmar, some 70% of the population lives in rural areas with a high concentration (38%) of the population in three central Myanmar-majority regions of Yangon, Mandalay and Ayeyawaddy. Due to unreliable electricity supply in rural areas, modern retailers with cold storage would need to invest heavily in power generation to run their outlets. Moreover, consumers in these areas do not have a habit of eating frozen meat and vegetables. There are also differences in sanitary practices. The rural population uses just basic soap bars and hair shampoos whereas urban consumers have adopted a large variety of sanitary products, such as shower gel, facial foams and conditioners etc. It will take considerable time for rural consumers to shift to a modern lifestyle or start purchasing international brands due to different consumer behaviours compared to their urban counterparts.

5.2.4 Market Outlook

Retailing industry maintains strong growth

Thanks to Myanmar's rapid economic development and huge market potential, foreign brands are rapidly entering the Myanmar market. The retail sector is expected to grow at a CAGR of 10.4% in the forecast period to reach a market size of MMK 35,517,830 million (USD 24,850 million) in 2024. Myanmar does not currently have a large manufacturing sector for consumer goods and imports majority of its consumer goods from neighbouring countries such as Malaysia, Thailand, China, Singapore and India. The country's middle class consumers have a growing appetite for premium brands from Europe and the United States, which provides significant opportunities for international brands in Myanmar's retailing industry.

Table 78 Myanmar Total Retail Sales (2019F-2024F)

		2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Total Retail Sales	MMK million	21,640,495	24,045,870	26,656,244	29,481,788	32,468,158	35,517,830	10.4%
	USD million	15,141	16,824	18,650	20,627	22,716	24,850	10.4%

Source: Euromonitor Passport - Retailing 2019 Edition

Modern retailing will continue to gain momentum, led by supermarkets

Modern retailing growth momentum is set to continue in the country's biggest city Yangon with new retail projects which are expected to complete soon. Meanwhile, other regional capitals will start to embrace modern retailing concept with the establishment of modern retail outlets in these cities. There were literally no modern convenience stores, variety stores or forecourt retailers before 2012. All of these have appeared within the last five years and they are expected to see continued growth.

Among the new modern retailing outlets that are emerging in regional capital cities, supermarkets will be the key driver for modern grocery retailing. Particularly as this channel is expected to be an important focus of foreign investment following the introduction of the liberalisation policy in 2018. Furthermore, increasing focus on health and wellness will motivate consumers to turn from traditional grocery retailers to supermarkets, as the latter emphasise the freshness of its fruits, vegetables, meat and seafood and offer a wide range of health-positioned products.

Social media platforms enable small retailers to sell online

Internet retailers of all sizes have also established a growing presence in Myanmar. Many of these are small independent businesses operating out of the owners' homes and selling through social media. The rise of social media platforms and apps like Instagram Stories, Facebook Live, and messenger apps in Myanmar has fundamentally changed how retailers interact with consumers online. The country's leading brick-and-mortar retailer City Mart has expanded into the online space by launching its internet retailing platform www.citymall.com.mm. This will allow the retailer to compete with the online-only platform www.shop.com.mm owned by Chinese e-commerce giant Alibaba.

Acceptance of online payment will increase

Digital payments are still in the early stages in Myanmar and most of the e-commerce retailers in the country offer cash on delivery payment method. However, according to Visa, contactless payments have made significant progress in Myanmar, with one in every five face-to-face Visa transactions 20% being contactless, compared to just 2% in 2017. This indicates that Myanmar is making progress towards a cashless society, and acceptance of online payment methods is expected to rise in the forecast period, as consumers become more comfortable with cashless transactions.

Myanmar continues to be ranked low for ease of doing business

Challenges associated with future retail market development are mainly related to general business challenges in Myanmar. Despite some economic reforms, the ease of doing business in Myanmar has changed little in the past three years. For the Ease of Doing Business index 2018 developed by the World Bank, Myanmar fell one place compared to 2017, ranking 171st of the 190 economies. In the Start a Business category, Myanmar was ranked 155th, putting it above Cambodia and Laos, which were ranked 183rd and 164th. However, Myanmar’s ranking falls significantly when it comes to Registering Property, Enforcing Contracts and Getting Electricity, where it performs the worst among neighbouring countries. In 2018, Transparency International ranked Myanmar 132th out of 180 countries on corruption perception, putting it ahead of Cambodia (161th) and on par with Laos (132th), but behind Vietnam (117th).

On the other hand, Myanmar’s youthful population and a growing appetite for aspirational and premium brands provide ample opportunities for future retail market development both in the physical and online retail channels.

5.2.5 Competitive Environment

Fragmented retailing industry expects to see more new entants

The retailing industry is moving towards further fragmentation as existing and new retailers compete fiercely with one another, and there are no plans for collaborations. Since Myanmar embarked on economic reforms in 2012, many international non-grocery brands and retailers have appeared in the cities. Recently, 1 Stop Mart is a notable new entrant to the country’s convenience store sector.

Convenience stores are a growing channel in Myanmar, especially in the bigger cities like Yangon and Mandalay. There are no international convenience store chains in Myanmar yet. The channel is currently dominated by local convenience stores chains such as ABC, Grab n' Go, City Express and 1 Stop Mart. Forecourt retailers have increased their presence over the past three years. Currently, not all of the fuel stations in Yangon have forecourt retailers. Many of these forecourt stores are owned by the same companies operating convenience store chains. Forecourt retailers located on major highways are expected to perform well, as there is less competition from other modern retail formats in rural and semi-urban areas. In urban areas, forecourt retailers have to compete with convenience stores as well as supermarket branches.

Joint ventures in the retailing industry facilicate distribution

Premium Distribution is one of Myanmar’s largest importers and distributors of premium grocery brands from European countries, the US, South Korea and Japan etc. It is backed by City Mart Holdings Co., Ltd. In July 2018, Premium Distribution and financial advisor Trust Venture Partners formed a joint venture to acquire the business of hydroponic plant grower Provide Advanced Technology (PAT), which grows organic salad and vegetables. PAT currently partners with City Mart for retail distribution of its salads under the brand name UniVege. The product range comprises of various salad combinations including Japanese/Korean/Greek or Today’s Best Mix.

Starting from 2018, City Mart has started procuring additional produce directly from growers outside the Yangon area through Premium Sojitz Logistics, a temperature-controlled supply chain venture between Japanese logistics firm Sojitz and Premium Distribution. Refrigerated trucks supplied by Premium Sojitz Logistics Co have already started transporting strawberries daily from Pyin Oo Lwin in Mandalay Region, Upper Myanmar at temperatures that never exceed 8 degree Celsius to high-end supermarkets such as Marketplace in Yangon. The joint venture is also planning to export locally-grown strawberries to Thailand via air transport starting from 2019.

In 2017, Metro Wholesale & Food Specialist Company announced a joint venture partnership with the Singapore-listed Yoma Strategic Holdings Ltd to develop a one stop food distribution platform in Myanmar. According to the agreement, Metro will take an 85% stake in the newly established joint venture called Metro Wholesale Myanmar Ltd., with the remaining 15% shares owned by Yoma Strategic Holdings. Metro's efficient one stop wholesale distribution platform will provide distribution solution for a market which at current is fragmented, with retailers often having to source their products through a complex mix of local retail and wholesale distributors as well as importers.

Table 79 Myanmar Market Rankings and Shares of Retailers in 2018

Ranking	Retailer Brand	% Market Shares by Revenue	Listing Status
1	Player 1	0.7	Private
2	Player 2	0.3	Private
3	Player 3	0.3	Private
4	Player 4	0.1	Private
5	Player 5	0.1	Private

Source: Euromonitor Passport - Retailing 2019 Edition

6. LAOS

6.1 MACROECONOMIC ENVIRONMENT IN LAOS

Robust GDP growth supported by the service sector and consumer spending

Laos reported robust 10.2% and 8.7% CAGRs in terms of GDP and GDP per capita, respectively, over the review period of 2013-2018. Natural resources including mining and hydropower were key growth drivers. The review period witnessed a number of new mining and power projects, including the building of two big and 11 smaller hydropower plants. Production in mining remained focused on copper, gold and silver. For 2018, GDP growth remained strong, with the construction of infrastructure, export of electricity, and service sector being the main growth drivers.

The service sector accounted for 41.7% of GDP in 2018 as the country gradually turned from a production-based to service-based economy. This included services in financial and insurance activities and wholesale and retail trade, amongst others. Consumer expenditure was the key contributor to growth in the services sector. Specifically, continuing urbanisation during 2013-2018 resulted in the creation of a middle class with growing spending power located in the capital and main cities.

The rapid urbanisation further boosted the construction of commercial and residential real estate in big cities. Modern retailing, including a number of newly opened shopping malls, was most developed in Vientiane and began to emerge in other major cities. Sectoral growth was further encouraged by the ongoing construction of the Laos-China railway, the first high-speed rail line linking the country to China.

Agriculture employed around one third of the workforce, but had a relatively minor contribution to the country's GDP (15.9% of GDP in 2018). Less than 5% of the land is suitable for agriculture, with rice accounting for the majority of production. Diversification towards more commercial crops including coffee, banana, rubber and beans contributed to 2%-3% yearly growth over the review period of 2013-2018. In addition, manufacturing employed 9.1% of the workforce and accounted for 7.3% of GDP in 2018. Manufacturing was traditionally concentrated in garments but also grew and diversified to include equipment parts.

Table 80 Laos GDP Figures (2013 - 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Nominal GDP	LAK billion	93,867.6	106,797.3	117,251.6	129,279.1	140,749.1	152,610.5	10.2%
	USD million	11,165.0	12,702.9	13,946.4	15,377.0	16,741.3	18,152.1	10.2%
Nominal GDP growth	%	15.0	13.8	9.8	10.3	8.9	8.4	N/A
GDP per capita	LAK	14,453,176.5	16,239,477.5	17,594,777.9	19,128,654.7	20,522,746.5	21,923,016.1	8.7%
	USD	1,719.1	1,931.6	2,092.8	2,275.2	2,441.1	2,607.6	8.7%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

A young population undergoing urbanisation

Laos has a young population with 38.6% of its citizens in 2018 aged 17 or less and only 4.1% aged 65 or older. Improvement in living standards and education resulted in a significant drop in fertility rates resulting in a 1.4% CAGR in population growth over the review period of 2013-2018. The population aged 30 and older showed the strongest growth to the detriment of the younger population.

Although the country has been undergoing strong urbanisation, the majority of its population remains rural. Two-thirds of the population is occupied in the labour-intensive agricultural sector that only accounts for a minor fraction of the country's GDP. In order to decrease the labour shortage in the non-agricultural sectors, the government has encouraged workers to relocate to city centres and leave the rural areas. Specifically, the government boosted the industrial and service sectors in order to generate employment opportunities for local people. In addition, it recruited 5,000 officials in the public sector in 2017 and a further 3,000 in 2018.

Table 81 Population of Laos (2013 – 2018)

000 People	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Total population	6,494.6	6,576.4	6,664.0	6,758.4	6,858.2	6,961.2	1.4%
Urban population	2,069.9	2,136.5	2,206.3	2,280.0	2,357.0	2,436.7	3.3%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Disposable income grows in line with population move to more profitable sectors

Disposable income per capita for urban residents reported a healthy 4.5% CAGR over the review period of 2013-2018. The years 2013 and 2014 registered the strongest growth of 8.3% and 8.4%, respectively, due to an increase in civil servants' wages of more than 30% in both years. This increase had a negative impact on the country's deficit, but significantly encouraged consumer expenditure.

In addition, average wages in the industrial and service sectors, which occupied a growing percentage of the urban population, were higher than those in the agricultural sector. This further propelled an increase in disposable income and the growth of an urban middle class. Urban consumers attracted to shopping as a leisure activity boosted demand for both traditional retailers (accounting for the majority of sales) and international players that saw increased penetration during the review period of 2013 - 2018.

Disposable income per capita of urban residents in Laos is forecasted to continue its growth as GDP per capita is expected to rise more rapidly in the urban areas than the rural area with the growth of the industrial and service sectors, especially in tourism where the government has been relaxing visa requirements to encourage inbound tourism.

Table 82 Laos Disposable Income Per Capita – Urban Residents (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Disposable income per capita – urban residents	LAK	15,247,785.5	16,527,862.3	17,330,973.2	17,145,440.8	18,026,765.3	19,043,949.2	4.5%
	USD	1,813.6	1,965.9	2,061.4	2,039.4	2,144.2	2,265.2	4.5%

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

A booming economy and rising incomes benefit consumer expenditure

Consumer expenditure grew by a robust 7.9% CAGR during the review period of 2013-2018, with the years 2013 and 2014 recording the strongest growth of 10.3% and 11.8%, respectively. The growth was supported by an expanding middle class with increasing spending power located in Vientiane and other big cities.

Food and non-alcoholic beverages accounted for the majority of consumer spending, accounting for 50.0% of all consumer expenditure. Laotians have gradually changed their consumer behaviour and started complementing their traditional rice-based diet with more fish, meat, vegetables, cereals and bread. As these items have a higher CPI than rice, this benefited value growth of consumer expenditure on food.

In addition, there has been growing demand for packaged food which has encouraged the expansion of modern retailers in Vientiane and large cities such as Savannakhet, Luang Prabang and Pakse. The capital has witnessed the appearance of a number of new commercial areas, shopping malls and supermarkets. In addition, a newly emerging 'eating out culture' in big cities together with a growing supply of restaurants and cafés further boosted food and drinks expenditure.

Consumer expenditure in Laos is expected to continue its growth trend at a CAGR of 10.1% over the forecast period of 2019 to 2024, as the expanding economy and rising incomes continue to drive consumer confidence to spend. In particular, consumer expenditure on food and non-alcoholic beverages is expected to register a CAGR of 10.1% over the forecast period, boosted by the strengthening "eating out" culture and as more international F&B brands enter the Laos market.

Table 83 Consumer Expenditure in Laos (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Consumer expenditure to GDP	%	74.4	73.2	73.0	67.4	66.9	67.0	N/A
Consumer expenditure	LAK million	69,883,533.4	78,127,613.6	85,636,512.5	87,072,447.5	94,130,029.8	102,236,381.7	7.9%
	USD million	8,312.2	9,292.8	10,186.0	10,356.8	11,196.2	12,160.4	7.9%
Consumer expenditure on food and non-alcoholic beverages	LAK million	35,017,088.1	39,102,217.6	42,820,728.2	43,491,139.7	47,036,892.9	51,138,065.6	7.9%
	USD million	4,165.1	4,651.0	5,093.3	5,173.0	5,594.8	6,082.6	7.9%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Low inflation due to low CPI and oil prices

The inflation rate fell in 2015 and has remained low in the following years, mainly due to a low CPI that registered an average annual change of less than 1% as well as low oil prices. However, the rising price of fuel has driven up inflation in recent months, with inflation rate reaching 2.0% in 2018. The depreciation of the Lao kip against Thai baht and US dollar has pushed up the price of imported goods, especially from Thailand – the source of half of all imported goods. Therefore, despite low inflation, the general public perceived that the price of goods and cost of living were rising.

Table 84 Average Inflation Rate in Laos (2013 – 2018)

%	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Average inflation rate	6.4	4.1	1.3	1.6	0.8	2.0	N/A

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Electricity generation, mining and construction absorb the majority of Asian FDI inflows

FDI inflows mainly come from China, Thailand and Vietnam. Electricity generation including the construction of power plants and mining have been the key recipients of foreign inflows. In addition, a number of large retail and infrastructure projects in big cities as well as the Lao-China Rail Project, which has been heavily financed by foreign investment, have absorbed a high percentage of foreign funds. In the review period, international investors are beginning to use Laos as a production base to reach the broader Mekong region, including southern China, or as a way to diversify from existing production bases in Thailand or Vietnam. New Special Economic Zones in Vientiane and Savannakhet have attracted major manufacturers from Europe, North America, and Japan.

The accession of the country to the World Trade Organization in 2013 led to a more stable, transparent and predictable business environment which – together with the country's trade liberation driven by commitments within the AFTA (ASEAN Free Trade Area) – further attracted foreign investment. These positive steps counterbalanced the country's low ranking in the global index evaluating starting a business in a country.

Table 85 Foreign Direct Investment Inflows of Laos (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018

Foreign direct investment inflows	LAK million	3,343,118.6	5,799,528.3	9,096,146.3	8,108,165.6	6,704,996.6	N/A	-
	USD million	397.6	689.8	1,081.9	964.4	797.5	N/A	-

Source: Euromonitor - Passport Economies and Consumers 2019 Edition

6.2 THE RETAILING INDUSTRY IN LAOS

6.2.1 Market Overview

Traditional retailing still dominates retailing industry in Laos

The retailing industry in Laos is diverse with different formats of traditional trade or general trade and modern trade. Traditional retailing still dominates the retailing industry; however, the rise of modern retailing has slowly taken some market shares from traditional retailing. The government's labelling requirements, introduced since 2016, have made many small and illegal parallel imports lose out, since all the products coming to Laos have to be labelled in Lao language. While such a regulation is not yet effectively enforced across Laos, it will continue to impact informal retailing and traditional retailing, as consumers become more conscious of issues related to product safety and will be looking for information such as ingredients and country of origin in the product labels.

Modern retailing is most developed in Vientiane while beginning to emerge in other major cities. Many in towns and cities also generally shop locally and will only travel out of their local area to shop when buying non-grocery items. There is however growing interest in shopping as a leisure activity in major cities. Those living in Vientiane have increasing access to shopping malls, with a number of significant launches towards the end of the review period.

Shopping malls emerge in Vientiane

Shopping malls are growing in Vientiane. Vientiane Center was launched in March 2015, with this being jointly developed by Chinese company Yunnan Construction and domestic player Krittaphong Group. This is a four-storey site and offers global brands such as adidas and Nike, including luxury options such as Gucci, Shiseido, Dior and Longines. November 2015 also saw ITECC Mall launch in Vientiane, with this covering nine storeys. This mall includes a supermarket, duty free outlet, jewelry and watch specialist retailers, apparel and footwear specialist retailers, electronics and appliance specialist retailers and sports goods stores, alongside a fitness centre, consumer foodservice, convention halls and entertainment venues. It offers parking for 3,000 cars, while also benefiting from the launch of the ITECC Ocean Park theme park in 2016. August 2016 also saw the launch of the Vientiane New World project including an open Lao-style shopping centre with 100 shops. Beyond Vientiane, there is however limited presence for shopping malls.

Imports from China and Thailand offer consumers more choices

There is a large Chinese community in Vientiane, with many operating in areas such as grocery retailers, restaurants, IT and banks. There is also growing Chinese trade with Laos, which helps bring in affordable Chinese imports and make them available to a large number of consumers. Chinese products are popular in Laos given many consumers' low disposable income levels and general preference for inexpensive products. As Chinese investments in Laos continue to rise, the range of retailing products and prices will become more diverse in Laos and this will in turn drive more retail sales. Thailand is also influential for the retailing industry in Laos. Many non-grocery goods are imported from Thailand, thus increasing the range of products available in Laos.

Retailers operate more effectively by adopting IT solutions

IT systems have changed the business model of the retail business in Laos to a large extent. Only 10 years ago, sales transactions were still recorded with paper and pen. Nowadays, most of the sales took place via electronic devices. SAP and CRM systems have been adopted in many retail businesses, and such systems not only help retail businesses operate more effectively, but also provide data which help businesses generate insight on sales and customers, and develop effective sale strategies such as penetration, coverage and increasing customer loyalty.

Informal retailing remains strong in Laos

Informal retailing has a strong presence in Laos, as many small vendors are motivated to operate informal retailing in order to avoid taxation and time-consuming bureaucracy. Complex business registration procedures deter many from operating in the formal economy, as does a lack of transparency in taxation. Many tax payments are determined case-by-case via negotiation, which also creates the risk that bribes will be required in order to obtain preferential terms. The majority of retailers in Laos operate on a very small scale and would be unable to afford to operate if they paid for legal registration or taxation, while the strength of the informal economy in the country means that informal vendors face little social censure.

Informal retailing is particularly strong in apparel and footwear, packaged food, beauty and personal care and food and beverages but is present across all areas of fast-moving consumer goods. Low-income consumers are most reliant on informal retailing and mid- to high-income consumers are increasingly using modern retailers. However, all income groups use informal retailing, particularly when buying fresh produce.

Retailing industry driven by the growth of mid-income consumers segment

Total retail sales in Laos grew strongly at a CAGR of 10.1% from LAK 7,998.1 billion (USD 951 million) in 2013 to LAK 12,929.2 billion (USD 1,538 million) in 2018. Laos' economy growth and urbanisation have fuelled retailing growth. Shopping habits have evolved in urban Laos, driven by higher incomes and increasing exposure to Western culture. Mid- and high-income shoppers are becoming more aspirational and attracted to branded products. Consumers have also developed more knowledge and interest in foreign brands, through growing contact with the outside world, whether online, via expatriates or foreign tourists or due to Laotians' own foreign travel. On the other hand, the growth of the retailing industry has been hindered to some extent by the popularity of informal retailing, especially among low-income consumers.

Table 86 Laos Total Retail Sales (2013-2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Total Retail Sales	LAK million	7,998,101	9,334,129	10,260,150	11,025,924	11,896,203	12,929,249	10.1%
	USD million	951	1,110	1,220	1,311	1,415	1,538	10.1%

Source: Euromonitor Passport – Retailing 2019 Edition

6.2.2 Legislative and Regulatory Policies

Government tightens restrictions on foreign investments in retailing

The Lao government fully liberalised the retail sector in 2015, allowing foreign retailers to enter the country. However, it increased restrictions later in the year. From October 2015, foreign direct investment was prohibited in retail outlets costing less than LAK 8 billion, in order to ensure that small-scale businesses remain under control of Lao nationals. 100% foreign ownership is permitted in shopping malls costing LAK 160 billion or more, while up to 70% foreign ownership is allowed for retail developments costing LAK 80-159.9 billion and 51% in those costing LA 8-79.9 billion. This legislation also required shopping malls to secure a site of at least 50,001 square metres in order to ensure sufficient parking space, while hypermarkets must secure a space measuring 20,001-50,000 square metres. Developers are also required to begin construction within two years of gaining a governmental concession, while concession holders may not sell concessions on to a third party without gaining government approval.

Special Economic Zones offer incentives to investors

The government has also created Special Economic Zones (SEZs) in Vientiane, Savannakhet, and Champasak provinces, among others. SEZs offer a range of incentives and tax holidays to investors depending on the industry. International investors have been attracted by the relative abundance of inexpensive electricity, the low cost of labour, Laos' centralised location in the Greater Mekong Sub-Region, and improving transportation infrastructure connectivity.

Few government initiatives to prevent informal retailing

There were few government initiatives to prevent informal retailing during the review period. Restrictions are mainly limited to border controls, although corruption can result in bribes easing the way of illegal imports or counterfeits. Commercial law is still developing in the country, with little understanding of property rights.

Product labelling requirements

The Department of Internal Trade, Ministry of Industry and Commerce introduced Ordinance 2501/MoIC DDT concerning product labelling in the Lao Language, which the Ministry of Industry and Commerce on December 16th 2015. The Ordinance entered into force this year on January 8th 2016. Under the Ordinance, product labels must comply with Article 19 of the Law on Consumer Protection, which requires information on product labels regarding the type of goods; trademark registered by the manufacturer and the trademark used in trade by the importer in Laos; location of manufacture, the importer's trading address in Laos, and the country of origin of the manufacturer; and price, amount, quality, weight and net weight, components and component percentage, directions for use, warnings, date of manufacture, and the expiration date.

6.2.3 Drivers and Constraints

Middle and high income consumers aspire branded and premium goods

Laos is seeing strong economic growth, driven by foreign direct investments and rising private consumption. As a result, the mid-income group is expanding and accounted for around 30% of the Lao population at the end of 2018, leaving a small high-income group. Mid-income consumers remain price-sensitive but are beginning to spend more in retailing as incomes continue to rise. Some mid-income consumers are increasingly aspirational in their purchasing patterns, although most remain focused on buying essentials. As incomes rise, many are initially focused on improving their homes and acquiring cars or motorbikes, rather than dramatically increasing retail spending.

The relatively small high-income group is made up of consumers who are interested in aspirational purchases and brands. However, these consumers often prefer to travel to Thailand for shopping, where the range of brands and products available is much wider. The opening of shopping malls in Vientiane has encouraged more high-income consumers to shop in Laos.

Large population and a growing base of aspiration and technology savvy young consumers boost retail spending

The Laotian population remains very young, with a median age of just 23 years old at the end of the review period. Mid- to high-income teenagers and young adults are increasingly interested in fashion and are often influenced by Thai and Vietnamese fashion trends. These consumers are also increasingly interested in social media and in the internet in general, thus driving growth in internet retailing from a low sales base.

Lower import tariffs and greater ease of doing business benefits retailing indistry

The lower tariff or duty tax resulting from Laos being a member of WTO since 2013 has made the costs of imported goods lower. This allows retailers selling imported products to compete more easily with parallel imports from Thailand. In addition, the Lao government has made it easier for Lao businesses to thrive. According to industry feedback, the process of setting up retail is not as complicated it was in the past.

Poor road infrastructure restrict consumers' access to products

Road infrastructure tends to be poorly maintained in Laos. Most rural roads are unpaved and thus at risk from flooding. Most rural consumers thus mainly rely on home-grown produce, informal retailers and the village store within traditional grocery retailers, while tending to stock up on weekly or monthly visits to the nearest town or city. Distribution beyond large cities such as Vientiane, Luang Prabang and Savannakhet is difficult, although roads between large cities are seeing growing investment.

Many urban roads are also poor, with heavy traffic congestion being a growing issue with Laos' urbanisation. Difficulty in crossing cities results in many urban consumers opting to shop locally when possible. This is particularly true of those without private transport.

Under-developed postal infrastructure makes delivery of products purchased online difficult

The postal infrastructure is relatively under-developed in Laos. For example, many buildings are unnumbered and address systems may vary even within the same city. Only five cities in Laos have street names, which makes home delivery beyond these cities very challenging. Consumers ordering products online have to go through extra steps, such as obtaining a PO box at their local post office, to ensure more reliable deliveries. Alternatively, consumers have the option of using delivery service providers like DHL which offer door-to-door delivery and more reliable services, but at higher prices.

High rental costs and shortage of US dollars in the Laos market are general challenges for the retailing industry

The costs of operating a retailing business have risen in the review period. For example, high rental costs make it very expensive for retailers to operate in high-traffic areas. Secondly, retailers also reported a shortage of US dollars in the Lao market, which makes it challenging for retailers with international partners since almost all of the retail products are from overseas.

Low income level constrain consumer spending for the majority of consumers

Laos remains a poor country, although incomes are rising rapidly. The World Bank classifies Laos as a lower-mid-income economy, although close to 61% lived below the international poverty line of USD 2 per day in 2016. Extreme poverty is diminishing rapidly as incomes rise, however, with the share of those living below the international poverty line of USD 1 per day dropping by three percentage points over 2011-2016 to below 28% share. The majority of consumers remain very cost-conscious and thus keep spending to a minimum.

Urbanisation is rapidly increasing as Laos sees a shift from an agrarian to services-oriented economy. Consumers are increasingly mobile and willing to move in search of better economic prospects. The share of the urban population continued to rise over 2013-2018, reaching 35.0%. However, the rural population remains in the majority, while much of the country is covered by thick forests and mountains. This makes rural distribution very difficult, with retailing development focused on major cities. Urban consumers are driving sales growth across retailing, while mid- to high-income urbanites have growing interest in internet retailing.

Laos shopping centres face comptition from shopping centres in Thailand and traditional markets

Although imported goods from Thailand are popular in Laos, many consumers still cross the border into Thailand in order to shop at famous department stores in the country. Consumers also have the perception that goods and products sold at shopping centres in Laos are expensive. Hence, they prefer to shop at traditional markets such as Morning Market and San Jiang Market. Morning Market has been open for many years and offers a wide range of products including clothes, shoes, bags, jewellery, stationery, books and Lao handicraft.

6.2.4 Market Outlook

Overall positive outlook for retailing industry, but low-income level is likely to restrict growth

The retailing industry in Laos is projected to grow at a CAGR of 6.2% to reach a market size of LAK18,891.6 billion (USD 2,247 million) by 2024. Retailing will benefit from ongoing economic growth in the forecast period, enabling many consumers to spend more on discretionary products. Urbanisation will also benefit sales, especially as urban mid-income consumers become increasingly aspirational in their purchasing decisions. The internet and social media will also have a growing influence on consumers, with many becoming more interested in branded goods and fashion trends, which will encourage higher consumer spending. Pharmacies and beauty specialist retailers are expected to perform well, due to growing focus on health and wellness, while apparel and footwear specialist retailers will also enjoy strong sales, due to consumers developing greater interest and higher spending power to buy branded apparel products.

However, forecast period growth will be slower than the review period. Key constraints include the large proportion of rural population and entrenched consumer habits. Despite urbanisation, the majority of the population will continue to live in rural areas where access to modern retailing is minimal. As Laos remains a poor country, most consumers will still prefer informal retailing, which offers lower prices. Consumers will also continue to prioritise essential purchases. On the other hand, as Laos continues to urbanise and more consumers move out of poverty, the retailing industry will see rising spending in the modern retail channel, which will attract most mid- to high-income consumers.

Table 87 Laos Total Retail Sales (2019F-2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Total Retail Sales	LAK million	13,981,284	15,122,895	16,188,039	17,177,886	18,069,752	18,891,614	6.2%
	USD million	1,663	1,799	1,925	2,043	2,149	2,247	6.2%

Source: Euromonitor Passport – Retailing 2019 Edition

Modern retailing will grow in tandem with Laos' increasing modernisation

Laos is changing very rapidly, with rapid urbanisation and economic growth likely to continue. Consumers will also increasingly become connected to the outside world via the internet, as smartphones continue to see widening ownership and connectivity improves further. There will thus be a growing mid-income group interested in global fashion trends, with these consumers likely to become increasingly aspirational in their attitudes and interested in leading brands.

Significant potential for internet retailing

A growing number of consumers are going online in Laos, with the ownership of smartphones soaring and 4G networks expanding at the end of the review period. Young mid- to high-income consumers are also increasingly interested in social media, with Facebook and WhatsApp particularly being popular. These trends offer opportunities and threats for formal retailing. The rise of informal retailing online will place greater competitive pressure on formal retailing players, with consumers paying cash-on-delivery for orders placed via platforms such as Facebook. However, some retailing players are capitalising on social media as a new marketing channel, with Kplaza in electronics and appliance specialist retailers for example operating a frequently-updated Facebook page and gaining almost 12,000 likes by December 2018.

E-commerce platforms like Taobao and Tmall in China and wholesalers modelling after Costco in the US and Makro in Thailand may be coming to Laos and will have significant positive influence on the development of modern retailing. However, the regulatory framework for the internet retailing channel has not yet been established in Laos, which may deter investment from retailers and also result in a lack of consumer protection.

Strong traditional culture and consumers' focus on costs will be key constraints for retailing

Laos is also expected to retain its traditional culture, with the role of the extended family and Buddhism likely to remain strong in most consumers' lives. The country will remain predominantly rural, while retailing is likely to see the bulk of its development in urban areas. While incomes will rise, the majority will continue to be impacted by low income levels and keep spending to a minimum. These factors will continue to constrain sales growth for retailing, particularly as informal retailing will remain widely available, socially acceptable and considerably more affordable.

7. SINGAPORE

7.1 MACROECONOMIC ENVIRONMENT IN SINGAPORE

A strong economy driven by services and manufacturing

Singapore is a premier financial and wealth management centre globally and one of the richest countries worldwide. It was ranked among one of the richest countries in the world by GDP per capita and recorded a GDP of SGD 487,087.5 million (USD 347,919.6 million) in 2018.

Singapore's economy grew by a healthy 5.0% CAGR over the review period of 2013-2018. There was a decrease in growth between 2014-2016 due to a volatile global economic situation which led to a slowdown in global demand and influenced exports from Singapore and especially those going to China. However, the economy recovered to register 6.3% in 2017 and subsequently maintained healthy growth of 4.8% in 2018. The upturn was due to the positive contribution of the services and manufacturing sectors, key pillars of the Singaporean economy, which accounted for 70.4% and 21.4% of GDP, respectively, in 2018. The manufacturing sector's strong performance –7.2% in 2018 – was attributed to the electronics, transport engineering and biomedical manufacturing clusters. The services sector grew 3.0% in 2018, mainly supported by the finance & insurance, business services and wholesale & retail trade sectors.

The economy also benefitted from high productivity level and a high quality workforce. In 2019, Singapore retained the second position on INSEAD's annual Global Talent Competitiveness Index, which measures a country's competitiveness based on the quality of talent that it can produce, attract and retain. The government's investments towards automation have led to a productivity-driven growth model requiring a smaller labour force. Advanced manufacturing processes and a high degree of digitalisation make manufacturing the major contributor to Singapore's overall productivity levels.

Table 88 Singapore GDP Figures (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Nominal GDP	SGD million	381,843.1	396,916.7	421,046.3	437,339.1	464,928.3	487,087.5	5.0%
	USD million	272,745.1	283,511.9	300,747.4	312,385.1	332,091.6	347,919.6	5.0%
Nominal GDP growth	%	4.8	3.9	6.1	3.9	6.3	4.8	N/A
GDP per capita	SGD	70,722.0	72,566.0	76,070.0	77,995.0	82,841.0	86,383.0	4.1%
	USD	50,515.7	51,832.9	54,335.7	55,710.7	59,172.1	61,702.1	4.1%

Source: Singapore Department of Statistics

An ageing population expected to change the economic landscape

Singapore is one of the most congested countries worldwide with a property development system that is dominated by apartments. Its population density has a negative effect on real estate pricing but is particularly lucrative for businesses.

Total population growth amounted to 0.9% CAGR during the review period of 2013-2018. The younger age brackets registered low growth or decline, while the older population grew solidly. Specifically, the population aged 65-79 grew by a 6.9% CAGR during 2013-2018 and the population aged 80 and older grew by an equally strong 6.3% CAGR during the same period.

Falling birth rates have resulted in a decline in the labour force and represent one of the main reasons that the government favours a productivity-driven growth model. On the other hand, a growing number of affluent older consumers are expected to influence the consumer landscape and spur demand for age-specific health and medical products and services. Nearly all of the population is considered urban, due to the small size of the city-state and its highly urbanised nature.

Table 89 Population of Singapore (2013 – 2018)

000 People	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Total population	5,399.2	5,469.7	5,535.0	5,607.3	5,612.3	5,638.7	0.9%
Urban population	5,399.2	5,469.7	5,535.0	5,607.3	5,612.3	5,661.0	1.0%

Source: Singapore Department of Statistics

Wage increases and foreign manpower-tightening policies fuel disposable income

During the review period of 2013-2018, disposable income per capita reported a 2.7% CAGR to reach an average of SGD 41,831.2 (USD 29,879.4) in 2018. Growth in disposable income was driven by higher wages and the Singaporean government's handouts such as the Pioneer Generation Package which was created in August 2014. Its aim was to support the ageing population by giving extra subsidies to senior citizens in relation to health insurance.

The government's foreign manpower-tightening policies in conjunction with a productivity-driven economy helped narrow the income gap and further contributed to an increase in disposable income. Nevertheless, Singapore faces income inequality due to the influx of low-skilled labour versus a rise of high-paid jobs in the financial and technology sectors.

Disposable income per capita in Singapore will continue to grow between 2019 and 2024, driven by increasing wages as the labour market shrinks. The wide income gap between low-skilled labour from neighbouring countries and highly-paid jobs in technology and financial sectors will start to narrow with support from the government

Table 90 Disposable Income Per Capita – Urban Residents in Singapore (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Disposable income per capita – urban residents	SGD	36,625.2	37,821.2	39,316.9	39,079.4	41,108.9	41,831.2	2.7%
	USD	26,160.9	27,015.2	28,083.5	27,913.9	29,363.5	29,879.4	2.7%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Online sales and a focus on quality responsible for expenditure growth

With some of the highest average incomes and rates of consumer expenditure in Asia-Pacific, Singaporeans enjoy one of the strongest levels of discretionary spending power in the region. Consumer expenditure accounted for 34.4% of GDP in 2018 and grew by 3.5% CAGR over the review period of 2013-2018.. Consumer expenditure has seen a shift from traditional retail formats to online sales, resulting in strong sales of the latter and declining rentals of retail space due to decreased demand. Consumer expenditure was further boosted by a growing number of affluent older consumers who have changed the retail landscape. This also supported strong growth in demand for health goods and medical services relevant to an older audience.

Consumers' willingness to spend on quality and rising interest in home cooking in line with a growing assortment of higher-quality products from supermarkets favoured the growth of consumer expenditure on food and non-alcoholic beverages. A growing number of health-conscious consumers are willing to spend more on better-quality and healthier products. Retailers responding to this trend introduced the 'Healthier Choice' symbols that appear on a wide range of packaged food products on supermarket shelves. Food expenditure is further encouraged by online grocery retailers that, despite accounting for a minority share of sales, have registered strong growth – 136% value CAGR of food and drink internet retailing during 2011-2016.

In the forecast period 2019 to 2024, disposable income will continue to rise in Singapore. However, discretionary spending is expected to remain relatively stable due to higher housing costs, and consumer expenditure is expected to register a CAGR of 4.6%. Essential spending constitutes just 27% of consumer expenditure in Singapore due to the high disposable incomes. Consumer expenditure on food and non-alcoholic beverages will see a CAGR of 4.4% during that period, driven by a general increasing in spending across all categories.

Table 91 Consumer Expenditure in Singapore (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Consumer expenditure of GDP	%	36.8	36.7	36.0	35.8	35.0	34.4	N/A
Consumer expenditure	SGD	140,662.9	145,753.5	151,674.1	156,557.5	162,841.7	167,463.8	3.5%
	USD	100,473.5	104,109.6	108,338.6	111,826.8	116,315.5	119,617.0	3.5%
Consumer expenditure on food and non-alcoholic beverages	SGD million	10,159.0	10,365.6	10,627.4	10,777.4	11,187.2	11,490.2	2.5%
	USD million	6,940.0	7,316.7	7,453.8	7,636.1	7,702.0	7,967.1	2.8%

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

Mild inflation owing to higher pricing of imported goods

As Singapore's economy is dependent on imports of goods, its inflation and currency fluctuations are also dictated by changes in pricing in global goods. Over the review period, Singapore's economy recorded mild inflation owing to increased oil prices, utility costs and higher pricing within imported food categories. In addition, the government allowed the Singaporean dollar to slightly appreciate in order to mitigate the higher pricing of imported goods.

Table 92 Average Inflation Rate of Singapore (2013 – 2018)

%	2013	2014	2015	2016	2017	2018	CAGR 2013 - 2018
Average inflation rate	1.7	1.9	0.5	0.9	1.5	1.7	N/A

Source: Monetary Authority of Singapore

FDI intensity is high and expected to grow further

Singapore is the third-largest recipient of FDI inflows in Asia-Pacific, garnering SGD 85,625.5 million in 2017. Foreign investment is an important economic driver and represented 19% of the nation's GDP in 2017. Its open economy and a constructive regulatory environment that facilitates starting businesses are further enhanced by tax breaks appealing to foreign investors. Singapore is ranked amongst the five easiest nations to do business globally.

FDI inflows registered a healthy 4.5% CAGR between 2013 and 2017. FDI was further strengthened by capital inflows on transport infrastructure in order to build a high-speed rail link between Singapore and Kuala Lumpur in Malaysia.

On the other hand, the government's restrictive measures towards foreign labour inflows will increase labour costs for foreign investors. However, this should be counterbalanced by the country's focus on increased automation which will further favour the already high productivity rates.

Table 93 Foreign Direct Investment Inflows of Singapore (2013 – 2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013-2018
Foreign direct	SGD million	71,891	93,096	86,264	107,006	85,625.5	N/A	-

investment inflows	USD million	51,351.0	66,497.2	61,617.4	76,433.0	61,161.1	N/A	-

Source: Euromonitor Passport - Economies and Consumers 2019 Edition

7.2 THE RETAILING INDUSTRY IN SINGAPORE

7.2.1 Market Overview

Modern and traditional retailing formats thrive alongside each other in Singapore

Singapore has established itself as one of the most popular shopping destinations for tourists in the Southeast Asia region. Its vibrant retailing scene benefits from a base of high income, sophisticated consumers, and offers a large variety of retail formats, including suburban malls, heartland malls, specialist retail outlets selling international and luxury brands, supermarkets, convenience stores, neighbourhood shops and wet markets.

Retail malls are popular shopping destinations for tourists as well as locals, as Singaporeans enjoy shopping in air-conditioned environment. Most store-based retailers are located within shopping malls. Only a handful of brands, most of them internationally renowned brands such as Apple and luxury fashion labels, open independent flagship boutiques, primarily along Orchard Road.

Orchard Road is home to some of Singapore's most popular shopping centres, such as ION Orchard, Ngee Ann City and Paragon, as well as high-end specialist retail outlets. The development of Marina Bay has attracted many luxury outlets to the area. Singapore's largest shopping mall, Vivo City, is located in the Marina Bay area. In addition, The Shoppes, a luxurious and upmarket shopping centre at Marina Bay Sands, cater to high-income consumers and tourists.

In addition to the high-end shopping centres located in central locations, suburban malls are an important part of the retailing industry. These are malls located in suburban neighbourhoods, and they offer a wide range of retail outlets, dining options and amenities, which appeal to heartland consumers and families. Singapore also has a large number of modern grocery retailers, such as supermarkets, hypermarkets, convenience stores and forecourt retailers, which cater to consumers' daily shopping needs.

Despite the ubiquitous presence of modern retail outlets, traditional retail formats continue to play an important role in Singapore's retailing industry, catering to the heartland population and elderly consumers. Among the well-known traditional retailing formats in Singapore are the many independent small retailers located in suburban neighbourhoods; night markets where vendors set up booths to sell street food, cheap or second-hand apparel, and household products; and wet markets where vendors sell fresh vegetables and meat.

Singapore's technology savvy consumers drive the popularity of internet retailing

Internet retailing has developed rapidly in Singapore. Singaporeans are avid online shoppers, due to the high level of internet penetration and a technology-savvy consumer base in Singapore. One of the attractions of internet retailing for consumers is access to more affordable goods. For example, young consumers are getting increasingly familiar with buying lower –priced Chinese goods from China-based internet retailing platforms, such as Taobao. Convenience is another incentive for online shopping, as consumers can shop in the comfort of their homes and have the goods delivered. As a result, online grocery services are picking-up fast, with NTUC FairPrice's "FairPrice On" and RedMart leading the way with their expanding product areas and improving delivery service.

Blogshops, a form of informal retailing, have emerged as a new channel for buying fashion and lifestyle products, especially among female consumers. Blogshops are online fashion stores that use blogs to sell their goods, the majority of which are apparel and footwear products, with some selling lifestyle and household goods. Such is the success of blogshops that some have become popular e-commerce platforms in Singapore, such as Love Bonito, and some have even expanded into physical retailing as well.

As internet retailing becomes more popular in Singapore, consumers have started to demand better customer service from brands, such as ability to buy goods online and having the items delivered. Hence, developing an omnichannel retailing experience for customers has become a focus of many retailers in recent years. Physical retailers have slowly begun to realize the importance of omnichannel retailing in order to help them compete with online retailers. While many retailers are ramping up their online presence, they have also been revamping their offline facilities in line with an omnichannel retailing strategy, such as providing click-and-collect services. For most physical retailers, physical stores continue to provide the customer service and "human touch" for consumers to associate with the brand, while the online platforms would cater to consumers' new shopping habits, e.g. being able to browse products and make purchases anytime and anywhere.

Consumers are increasingly comfortable with cross-border online shopping

As internet retailing gains popularity in Singapore, consumers have become more sophisticated in their online shopping behaviours, with more consumers buying products through international e-commerce sites. In addition to high internet and smartphone penetration, Singaporeans enjoy high disposable incomes which allow them to splurge on branded products sold through international websites. Moreover, the exemption from import duties and the Goods and Services Tax (GST) for purchases below SGD400 and favourable exchange rate have created additional incentives to purchase foreign goods. On top of all of these, Singapore's excellent logistics infrastructure provides consumers with the assurance of receiving shipped products. Singapore's cross-border e-commerce rate is significantly higher than that in countries like Japan, Malaysia and South Korea.

New business models associated with internet retailing emerge in Singapore

As part of the development of the internet retailing scene in Singapore, new business models have emerged in Singapore. A number of start-ups have adopted the cashback scheme, which has become a popular shopping reward model among Singaporean consumers. Shopback is one of the most prominent players among companies offering cashback, and it offers cashback on e-commerce purchases from over 500 merchants in Singapore. Cashback business models work almost exclusively with e-commerce platforms, with little to no partnerships with brick and mortar stores.

Click and collect services is gradually gaining acceptance among Singaporean shoppers, with some companies offering such services for their own products purchased online. Some convenience stores offer locker services, in partnership with several delivery companies. Consumers who purchase products online have the option to pick up their products to an eligible convenient store, and the benefit is that they can pick up whenever convenient. Start-ups are seen to get a slice of the market for delivery and collection services. For example, Park N Parcel allows neighbours to act as parcel collection points on behalf of shoppers.

Heartland malls become popular shopping destinations

In the physical retailing space, suburban malls, also known as "heartland malls", have grown in popularity in Singapore. Traditionally, shopping centres in the suburbs tend to be strata-titled malls, and are usually filled with independent establishments. In recent years, heartland malls have become popular in suburban neighbourhoods. These malls have attracted a large variety of retail and dining options, including grocery shopping outlets and specialist retailers selling international brands like Uniqlo, Kinokuniya and Sephora. Heartland malls are popular among Singaporeans, because of the conveniences they offer. Consumers are able to meet all their shopping needs in a heartland mall without making a trip to town. In addition, with the additional amenities they offer like restaurants, food courts, libraries and bank outlets, consumers are increasingly choosing to "hang out" in heartland malls for leisure as well as shopping.

Wide range of price tiers among retailers

There is a wide range of price-tiers among retailers, targeting different income segments. For example, for supermarkets, Sheng Siong target low to middle income consumers; NTUC Fairprice is perceived to be popular among middle income consumers; NTUC finest, Marketplace and Jasons tend to be more popular among middle to high-income consumers.

Conglomerates like Dairy Farm Holdings have a portfolio of grocery retailing formats, ranging from hypermarkets (e.g. Giant) to convenience stores (e.g. 7-Eleven) and supermarkets (e.g. Cold storage). Conglomerates have a strong presence in Singapore due to high costs of rent in Singapore that requires high cash flow to sustain the business.

Retailing registered slow growth for the past three years

The retailing industry in Singapore registered slow growth in the review period, with a CAGR of 1.1% between 2013 and 2018. In 2018, the retailing industry has a market size of SGD 34,533.6 million. Retail sales registered moderate growth in 2013 and 2014 due to a more buoyant macroeconomic environment and positive consumer sentiment. However, the retailing industry grew marginally in 2015, followed by slight declines in 2016 and

2017. This can be attributed to a combination of macroeconomic factors and business factors. One of factors is rising rents and labour costs which contributed to the thinning margins of retailers in recent years. Moreover, the Singapore economy has performed weakly in 2015 and 2016, impacted by the uncertain global economy and the slowdown in China. In 2018, the retailing industry remained sluggish with mixed performance across sub-industries. The medical goods & toiletries, furniture & household equipment and food retailers industries reported higher sales than the previous year, while several industries including computer & telecommunications equipment, apparel & footwear, supermarkets & hypermarkets and department stores experienced declines, according to data from the Department of Statistics.

Consumer foodservice remains strong, despite the more challenging operating environment faced by retailers in recent years. This is because dining out is widely recognised as a national hobby. It is common for Singaporeans to queue up for the popular stalls in a local food centre (known as "hawker centre") or travel across the island to try out some well-known dining outlets. Meanwhile, independent cafes have flourished in Singapore, as Singaporeans (especially millennials) are experience seekers and visiting a specialist independent café has become a form of experience to them.

Table 94 Singapore Total Retail Sales (2013-2018)

	Unit	2013	2014	2015	2016	2017	2018	CAGR 2013- 2018
Total Retail Sales	SGD million	32,672	34,042	34,177	33,967	33,715	34,534	1.1%
	USD million	23,337	24,315	24,412	24,262	24,082	24,667	1.1%

Source: Euromonitor Passport – Retailing 2019 Edition

7.2.2 Legislative and Regulatory Policies

Relevant regulatory regime governing the retailing industry

The main regulatory body for the retailing industry in Singapore is the Ministry of Trade and Industry. Retailers in Singapore are required to adhere to all laws and regulations relating to the sale of goods. In addition, they must not engage in any unfair practices as set out in the second schedule of the Consumer Protection (Fair Trading) Act.

Retailing businesses must comply with the Competition Act as set out by the Competition Commission of Singapore. The Act aims to protect businesses and consumers from anti-competitive practices of private entities that would be detrimental to the business environment. Under the Competition Act (Chapter 50B), businesses should not engage in anti-competitive business practices, including anti-competitive agreements, decisions and practices; abuse of a dominant position; and mergers and acquisitions that substantially lessen competition.

The Singapore Retailers Association has developed the Good Retail Practices and Standards Scheme. Participation in the scheme is voluntary. Retailers who adopt and adhere to SRA's Code of Practice may display the "Good Retail Practices and Standards" logo within their stores. The scheme covers areas like itemised receipts, refund/returns policy, pricing and anti-touting.

Government aims to promote e-commerce

In 2017, the Singapore government unveiled intentions to bolster e-commerce receipts to 10% by year 2020, up from 3% of total retail receipts in 2017. This will be led via the Retail Industry Transformation Map. The Retail Industry Transformation Map was launched in September 2016 to build the retail industry to comprise a mix of omni-channel retailers and local brand owners with global footprints. This sees the government assisting local retailers to build digital capabilities and enable access to e-marketplaces.

As part of the SMEs Go Digital initiative launched in 2017, SPRING provides support to SMEs to strengthen their digital marketing efforts in collaborations with partners such as Google. Under Enterprise Singapore, the government offers a shared e-commerce platform to enable SMEs to pool their resources for more efficient operations. The platform, designed to get SMEs into the online marketplace, offers support such as integrated warehouse functions, inventory management solutions and order-fulfilment capabilities, and it is estimated to increase efficiency by up to 45%. Meanwhile, organisations such as IE Singapore also help companies leverage e-commerce in garnering growth opportunities in overseas markets.

Other initiatives in private sector are also providing support to local SMEs. The 99% SME movement is a national initiative led by Singtel, DBS, and Mediacorp. Initiated in 2015, the effort makes e-commerce accessible to more companies through the set-up of an e-marketplace and offering training opportunities.

The Singapore government also unveiled plans to boost AI capabilities through the establishment of a new national programme called AI.SG in 2017. This will see the National Research Foundation (NRF) invest up to SGD150 million over five years in AI.SG.

New GST on imported services will apply to overseas-based suppliers

Under Budget 2018, the government announced that a new GST on imported services will apply to overseas suppliers without an establishment in Singapore. The new GST will digital business-to-business (B2B) services such as marketing, accounting, IT and management services, as well as business-to-consumer (B2C) services such as video and music streaming, apps, listing fees on electronic marketplaces, software and online subscription fees. E-commerce for goods less than SGD 400 will not be affected, for now. The new policy will affect internet retailers offering imported services but does not affect internet retailers selling goods to Singaporean consumers.

7.2.3 Drivers and Constraints

Development of new shopping malls boost retail sales

The development of new shopping malls has been a growth driver for the retailing industry in the review period, as consumers are attracted by the novelty of new shopping malls, and the conveniences offered by heartland malls. New shopping malls also provide the space for retail brands to expand their store network in land-scarce Singapore. For example, the development of The Shoppes mall in Marina Bay has attracted many luxury outlets to the area. Suburban malls, on the other hand, offer a large variety of retail and dining options, ranging from specialist outlets for international brands to budget stores, supermarkets, libraries, bank branches, hair salons, and sometimes even gyms and cinemas. Visits to suburban malls has become a regular leisure activity for many Singaporeans and this in turn consumer spending at the malls.

Consumer foodservice operations partner with online delivery platforms to reach more consumers

Along with the rise of online shopping, many retailers have started offering delivery or collection services, making it even more convenient for consumers to order products online. In the consumer foodservice space, on-demand delivery services have gained traction rapidly in recently years, as shown by the strong growth of online food platforms like Foodpanda, Deliveroo and UberEATS. As of the beginning of 2018, Foodpanda and Deliveroo were the industry leaders, with deliveries from 3,800 restaurants and 3,500 respectively. Since November 2018, Foodpanda has started offering pickup feature on its app, allowing customers to place their orders on the app for pickup. A study commissioned by Deliveroo and released in March 2019 found that 69% of consumers in Singapore order from food delivery apps at least once a month. The study also found that 53% of consumers started using food delivery apps more frequently in the last two years.

Food delivery platforms help consumer foodservice operators reach out to more customers and increase their brand visibility. Within the past year, food and beverage brands that have started partnering with food delivery platforms include Crystal Jade Kitchen, Aloha Poke and Ben & Jerry's.

Personalised promotions help retailers increase sales

Supermarkets like NTUC have been investing in beacon technology placed at physical storefronts, which enables them to push personalised promotions to consumers based on their online shopping behaviour and previous purchase history. Using data analytics, retailers are analysing the online basket mix and online basket size of consumers, marrying the data with the aisle that consumers are browsing items at the physical store front and pushing consumers personalised promotions to upsell and/or cross-sell items to them. This way, retailers are not only able to provide personalised promotions to consumers, they are also able to keep consumers engaged with more effective targeted promotions as opposed to mass promotions done in the past. Despite the rise in e-commerce, consumers are still particularly keen on browsing products in-store especially for fresh produce. Hence, in leveraging on technology, retailers are able to provide a holistic consumer experience and drive sales.

High operating costs and competitive retailing industry

Singapore's retail sector has been subdued since Q4 2011 when retail rents reached a peak. Over the years, higher operating costs and a more competitive retail landscape have contributed to the thinning margins of retailers. This has led to several international retailers, including GAP, Banana Republic, New Look, Lowrys Farm and Carrefour exiting the Singapore market. The retailing industry went through a particularly challenging time around 2016, due to a significant slowdown in the local and regional economy which weighed down retail expenditure, stiff competition from e-commerce and an expensive labour market. The country saw 5.4 million square feet of vacant space in the malls, the highest in the past decade, according to data for Q3 2016 from the Urban Redevelopment Authority of Singapore.

Internet retailing a threat to brick-and-mortar retailers

Technology savvy Singaporean consumers, with their eager adoption of online shopping and use of technologies, have developed new consumer habits which are proving detrimental to brick-and-mortar retailers. With a fast pace of life in Singapore, consumers are attracted by the convenience of online shopping. This includes saving time from visiting the stores and having the goods delivered to consumers' homes. The younger generation of consumers particularly enjoy the satisfaction of shopping (being able to make a purchase anytime, anywhere with a few clicks), and they tend to be more internet-savvy and thus they are comfortable about making purchases online. The switch to online shopping has eroded the market share of physical retail stores.

Another example of consumers' new habits is "showrooming", whereby customers visit retail stores to try out products, before going online to find the retailer that offer the cheapest price. The increasing use of smartphones has helped to fuel this trend, as consumers can make price comparisons instantaneously, and decide which platform to shop on.

Manpower shortage results in higher operating costs

Manpower shortage has been a problem for the retailing industry. Many consumer foodservice outlets and online food delivery companies have cited manpower shortage as a challenge. In general, it is difficult for retailers to hire or retain staff, because average salary for the industry is low and the level of turnover is high. Most Singaporeans prefer office-based jobs to working in retail shops and food establishments. The problem of manpower shortage is made worse by Singapore's tight labour market. The inflow of foreign workers, an important source of manpower for the retailing industry, has slowed down in recent years, as the government aims to reduce the economy's reliance on foreign manpower and encourage businesses to be more productive.

The retailing industry is expected to turn to technologies to overcome the manpower constraint. Recent innovations include the use of robots in a retail store to provide information to customers, the implementation of touch screens in the stores, and the adoption of radio frequency identification tags which would allow cashiers to scan items much faster and in bulk. The consumer foodservice industry is also adopting automation to increase efficiency. In March 2019, food delivery platform Deliveroo launched its largest dine-in space at Alice@Mediapolis, which features 10 kitchens and a 40-seater space, offering customers a fully automated ordering experience. Customers first place their orders at the self-serve kiosks onsite. Once the food is ready, customers will receive a notification on a digital status board to pick up their food from one of 12 digital cubbies.

7.2.4 Market Outlook

Retailing industry continues to register slow growth due to pressure to keep prices low

Retailing is projected to maintain slow growth in the forecast period. The retailing industry remains highly competitive, and retailers will be forced to keep prices low in order to attract customers and compete with online retailers. In the short term, high operating costs remain a key challenge for retailers, but growth is expected to pick up due to the recovery of the economy. As a result, the retailing industry is expected to register faster growth in the forecast period, compared to the more sluggish performance over the review period. Between 2019 and 2024, the retailing industry is forecast to grow at a CAGR of 3.4% to reach SGD 42,233 million (USD 30,166 million).

Table 95 Singapore Total Retail Sales (2019F-2024F)

	Unit	2019F	2020F	2021F	2022F	2023F	2024F	CAGR 2019F-2024F
Total Retail Sales	SGD million	35,686	36,875	38,048	39,332	40,772	42,233	3.4%
	USD million	25,490	26,339	27,177	28,095	29,123	30,166	3.4%

Source: Euromonitor Passport – Retailing 2019 Edition

Adoption of mobile payments will further boost internet retailing

Improvements in mobile technology and payment security have made Singaporeans more confident about making mobile purchases. This is expected to boost internet retailing, as consumers can make purchases anytime anywhere. The implication for retailers is that it will be increasingly crucial to have a mobile-friendly website, and also facilitate transactions via a brand's mobile application.

Vending machines expected to achieve significant growth with more products being made available

Products and services that offer convenience to consumers are well-received in Singapore due to the fast pace of life in Singapore. The latest trend leveraging convenience is the use of vending machines as a bridging sales channel between e-commerce and physical stores. From a customer's point of view, these round-the-clock services are conveniently placed in or near student campuses, accommodations, corporate areas and hotel lobbies for time-strapped customers who want on-the-go items.

Although the most common products sold through vending machines are packaged drinks and snacks, vending machines in Singapore are increasingly stocking non-food products like books, newspapers, electronics and provision items for busy families to grab on-the-go without having to queue-up in convenience stores. With rising health consciousness among Singaporeans, vending machines are selling healthcare products like multivitamins and hair tonic. Vending machine sales are expected to grow significantly over the coming years as they offer a more compact and cost- effective solution to retailers, while providing a more unique, attractive and convenient option to consumers.

Retailers leverage technologies to achieve greater efficiency and better customer service

Retailers in Singapore have embraced technology solutions in different aspects of their operations to achieve greater efficiency and cost savings, as well as to provide better customer service. This is manifested in increased digital transformation at the back-end (e.g. supply chain and operations) and front-end (e.g. adoption of customer facing technologies like self checkout counters, mobile payment options, online ordering platform).

Convenient stores such as Cheers have installed an automated payment and money exchange machine which helps increases transparency and traceability of cash and goods exchange at the store front. Additionally, this also helps to increase efficiency by alleviating the workload of front service staff to be less transactional and focused on the consumer needs, where time taken by the front service staff in processing payments could be used to engage with consumers.

There are strong government incentives for retailers to adopt digital solutions and innovation. This is largely to help retailers cope with the decrease in foreign workers in Singapore, which has traditionally filled the gap for front line service staff in Singapore.

Increasing focus on experiential elements of in-store retailing

Sophisticated Singaporean consumers are increasingly demanding superior shopping experiences. In order to meet these expectations, retailers across different areas have been revamping their store layouts to be more upbeat and fun, providing value-added services through in-store staff expertise, quick service, and personalised attention, offering in-store interactive workshops, and incorporating virtual and augmented reality elements for enhanced customer experience. This focus on experimental experience is expected to grow in the forecast period with the advance of technologies and higher consumer expectations. This also means physical stores will remain relevant and will be able to compete effectively with online shopping channels by offering consumers a personal touch and innovative shopping experiences.

High operating costs is a key challenge

High operating costs will remain a challenge, particularly for retailers that operate physical outlets. The retailing industry is highly competitive. With the entrance of online retailers and the increasing use of internet by consumers to make a purchase decision (e.g. comparing prices or researching on products online), the competition will continue to intensify for retailers, pushing down profit margin as retailers have to compete with an growing selection of online retailers that offer more competitive prices.

The rise of online retailing brings opportunities as well as challenges. Most consumers still prefer to see the products themselves before making a purchase. Hence, retailers which are working on developing an omni-channel strategy are expected to have more success in drawing consumers to their stores, while providing an online platform for consumers to find out more about the products or order products. The adoption of technologies, such as personalised promotions derived from the use of data analytics, are expected to drive sales by offering consumers more effective targeted promotions.

7.2.5 Competitive Environment

Fragmented industry sees large players gaining market shares through acquisition

The industry is highly fragmented with many retailers in various retailing formats. The rise of internet retailing has expanded the competitive environment with many internet retailers gaining access to the Singapore market. With the rise in e-commerce, new players such as Redmart are expected to disrupt the traditional retail scene, which would lead to further fragmentation of the industry.

On the other hand, there is an increased consolidation of retailers across segments, that are complementary to one another in nature. Such acquisitions are usually led by conglomerates with large capital and appetite to acquire companies and expand their portfolio of retailers. Recently, NTUC Enterprise Co-operative Limited announced its acquisition of local foodservices provider Kopitiam Investment Pte Ltd.

In an effort to remain competitive in an ever changing landscape, conglomerate backing Dairy Farm Holdings (which includes retailers such as Cold Storage and 7-Eleven), Jardines Matheson Holdings Limited, launched an Innovate Jardines program in 2016 where the company explores incubating start-ups with innovative ideas and launching internal innovation hackathon campaigns. With the rise of start-ups disrupting the retailing industry, conglomerates that traditionally enjoyed a strong market positioning and market share of the industry are looking towards acquiring smaller competitors and even start-ups in order to remain competitive and retain their market share.

Table 96 Singapore Market Rankings and Shares of Retailers in 2018

Ranking	Retailer Brand	% Market Shares by Revenue	Listing Status
1	Player 1	3.4	Private
2	Player 2	3.1	Public
3	Player 3	2.7	Private
4	Player 4	2.2	Private
5	Player 5	2.1	Private

Source: Euromonitor Passport – Retailing 2019 Edition

