

Retailing Internationalization: Blending into local society

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Abstract:

This study aims to investigate the recent situation of retailing business in Thailand where growth of discounted superstores, or so-called “modern trade” i.e., Tesco-Lotus, Big-C, Carrefour and Makro is remarkable. However, on the other hand, such rapid expansion created a dispute between local retailers and these modern trades, as well as the negative publicity against the superstores especially the market leader, Tesco-Lotus. The case studies of successful retailers who could survive the change in the industry were conducted to investigate whether there is an indirect spillover effect from discount superstore’s practice to these retailers. We found that though the local retailers could not directly match the practice of discount superstore, those who could predict the changes to consumer behavior and the industry structure could adjust their companies to keep the status quo or even grow. However, the modern trade also learned that the aggressive expansion to gain the economies of scale could, on the other hand, create a negative publicity to the other members of the distribution channel as well as the public as a whole. Blending into local society might be as easy as being a friendly rival to the others in the industry, local rivals in particular.

Introduction:

The internationalization of services has been progressed from business services, e.g., consulting services to personal service, e.g., health care and retailing. Emergence of economic blocs, increased number of signed free trade agreement as well as the attempt to liberalize service sector there are more proactive reasons for large-scale retailers to expand their business across borders. Though most of the early literatures in this area shown failure cases, later literatures focused on how to internationalize successfully and how they learned from their early experiences, e.g., the capability to implant the successful template at home into the new soils (Burt, et al. 2005), appropriate mode of entry, (Anonymous, 2008), how to utilize the “step-by-step incremental approach” in entering a new market (Palmer, 2005), etc. It seems, thus, our knowledge on retailing internationalization is based on the point of view of the MNEs from home countries, especially from Western Europe nations. Little is known about the contribution or the affect of these large-scale retailers to the local community in the host countries.

In general, contribution of MNEs to the local community is transferring of technology, e.g., management practice, in addition to job creations. However, there were cases that MNEs were criticized for the slow process of localization. (Itami, 1991) Furthermore, rapid expansion of MNEs from one specific nation could raise issue on nationalism that happened to Japanese MNEs in South East Asia in the

¹ The study is a part of the research project the author conducted for the National Economic and Social Advisory Council, the Committee of Industrial and Commercial Affairs which the author would like to express her thankfulness for the permission to publish some field work data.

1960's (Pongpajit and Baker, 1996). In retailing internationalization, there is another issue—the negative publicity regarding the confrontation, controversial, and conflict with other members in the distribution structures, e.g., retailers, suppliers, and investors (Palmer, 2005; Lord et al., 1989; Wrigley, 2000).

Grocery is the simplest form of retailing with low entry barrier e.g., capital, technology, and so forth. Dealership is a more complex form of retailing with higher capital, higher management technology, and higher level of services. On the other hand, the new business model large-scale supercenters offered could put thousands of stand-alone groceries and dealers in disadvantages. Especially, when the success of these retailers based basically on the economies of scale, being market leader is important factor. “Everyday Low Price”, “Loss Leader Pricing”, number of total branches, and so forth are being used to gain the scale benefit. Thus, such practice leads to disputes and questions whether it supports the healthy competition, the supplier welfare, and consumer welfare in the long run. (Bloom & Perry, 2001; Odagiri & Riethmuller, 2000; Kumar, 2005).

In some Asian countries with developed economies and institutional infrastructure (e.g., legislation and enforcement system) like Japan and Korea, the problem did not seem to be serious. Sophisticated domestic demands are non-tariff barrier to internationalization of services to some extent. For example, Wal-Mart Korea failed and had to withdraw partly because local customers' reluctance to sacrifice the prestigious as valued customers that they enjoyed when they shopped at department stores for low cost benefit gained from shopping in an undecorated one flat floor.² Consumers in Japan did not enhanced large shopping mall partly because of the higher storage cost (Flath, 1988).

However, in less developed economies like Thailand where imported goods and services carried symbolic function of modernity, shopping in this new type of retailer, also known as modern trade, could render them hedonic benefit in addition to merely running errands. The local consumers, especially teenagers and people aged under forty, welcome modern trade in almost every new branch they opened. Local people revealed a degree of association with modern trade as they long for the opening of new branch in their area. It is a replication of “Mc-Donald” case of “fast-food” turning a place to “show-off”.

The popularity of modern trade should not be a problem unless the city-zoning measure could work properly. If benefit large-scale discount superstore offered could be trade-off by the more driving miles if the location is set to be out of city center. However, in many cities, the superstore could be opened in the business center. In addition to loss leader pricing tactic used, this fuel the protest against expansion of large-scale discount superstore into smaller provinces and districts where economies are small, and local retailers need time to adjust themselves to the new competitive environments.

As the dispute is going on and government is looking for a measure to find a solution, there are retailers in some areas that survive all these disadvantages posted by their foreign rivals and even grow steadily year by year, especially in the upcountry where local values are relatively well preserved. Thus, this study aims to investigate the recent situation of retailing in upcountry Thailand to investigate whether this is an indirect spillover effect of the incoming of discount superstores by answering the following questions. First, what is the key success of local retailers who

² Choe Sang-Hun (2006), “Wal-Mart Selling Stores and Leaving South Korea”, *The New York Times*, 26 May 2006; Kelly Olsen (2006), “Wal-Mart Pulls out of South Korea, Sells 16 Stores”, *USA Today*, 22 May 2006.

could survive the changing environments brought by large-scale retailers from overseas. Is there any lesson they learned and adapted from superstore's practice? Second, what is the contribution that large-scale retailers to the local community, regarding competition and knowledge transferred. Third, what could be a best practice for large-scale retailer to blend into local community with market share and share of hearts.

The remaining of this paper is constructed as follows: First is the background of distribution channel structure in Thailand before and after the presence of superstores with background of law and regulation regarding retailing business. Second is the method of the study and the result. Third is discussion and conclusion.

Distribution Channel Structure in Thailand

This section consists of three topics—the distribution channel structure before the presence of modern trade, general view of modern trade and changes of the distribution channel structure that followed, and the law and regulations regarding retailing business. The term modern trade was coined by Thai media to include supercenter, superstores, hypermarket, convenience stores, specialty stores that operate with the replicate template developed in western countries, e.g., intensive use of information technology for logistics, and modern management with professional and salaried managers. On the other hand, local trade is the term used to mention local groceries, retailers, and specialty stores which normally are small in size and managed by a sole proprietor if not a family business form of management.

Distribution Channel Structure before the Presence of Modern Trade

Back into the early 1950's, Thailand launched the first Economic Plan to gear the country into industrialized one. The government invited and welcomed foreign direct investment especially those who could contribute to the manufacturing sectors. Joint venture was the common mode of entry. The foreign capital focused on manufacturing, local capital focused on distributing their products, as local distributors were keener in the market behavior and structure (Pongpajit & Baker, 1996).

As the infrastructure like roads and railways were still under development, a detailed network of small and smaller distributors were scattered around the countries. Specialty goods like automobile, electric appliances and so forth sold their product through nominated dealers. Necessity goods like rice, cooking oils, soap, shampoo, canned foods and the like were normally distributed through a simple network of wholesalers and retailers which were generally operated by Chinese-Thais ethnic group who live in business areas in every province. Thus, the terms used to call members in the distribution channel structure are from Chinese words.

That is, they called the manufacturer or importer of goods 'Qong Xi' or the company. Then, the first distributor from manufacturer/importer of goods is called a 'Yi Pua—literally means second layer of the distributor'. Then, a Sa Pua—the third layer retailer that buy from these Yi Puas. Yi Puas basically are located in distribution centers in Bangkok, e.g., Sampeng area. Yi Puas from up-countries buy from Yi Puas in Bangkok to re-distribute to Sa Puas, the third layer retailers, in their provinces. Yi Puas in the up-countries usually have its store in central business area of the province, e.g., the morning fresh market, which is also the near-to-center of the municipal areas. Sa Puas in the up-countries usually open their stores in big districts or sub-districts. Yi Puas not only distribute as wholesaler, but also as retailers with sales of wholesaler in higher proportion.

In further rural villages, there are a so-called ‘wagon-sales’—retail merchant who drives a one-ton pick-up loaded with necessities both food and non-food items to resale to villagers in remote areas who cannot afford to come to the city often enough to run their errands.

In the cities, retailers usually give credit to its regular buyers, i.e., record the sales when purchased and collect the money at the end of the month when pay-roll checks are due. This way Yi Puas and Sa Puas are a part of the community that trust is gradually built.

On the other hand, department store served the hi-end market with imported goods. Well-known department stores in the 1960’s were Daimaru³ (by Japanese department store) and Central⁴ (owned by Chirathivat family). Department store offered one innovation in retailing business that is the price of every item is fixed. Consumers do not need to bargain like when buying at the market or other retail stores.

The Formation of Modern Trade

Buying food items at the morning market, and running errands from grocery nearby was common until the late 1980’s when new format of retailing was introduced into the country. Charoen Pokphand Co., Ltd.⁵, the holding agricultural company diversified into retailing business both in convenience and cash-and-carry wholesaler in 1988 by licensing and joint venture respectively. That is, the license from Southland Corporation, U.S.A., and joint venture with SHV Group, the Netherland. The company establishing C.P. Convenience Store Co., Ltd. (later on renamed to be C.P. Seven Eleven Plc.⁶), and Siam Makro Plc and opened the first branch of 7-Eleven at Patpong⁷, and the first branch of Makro at Ladprao, Bangkok, one year later.

In 1993, Central Group established a subsidiary—Central Superstore Co., Ltd. and open the first outlet of Big-C superstore at Chaengwattana, Bangkok in 1994.⁸ Followed by Carrefour, a hypermarket from France in 1996 with the first outlet in Sukhapiban 3, Bangkok. Charoen Pokphand filled the gap of its retailing business line by forming a joint venture with Tesco., Plc. to run a hypermarket under the trademark of Tesco-Lotus.

Generally, superstore/hypermarket offered a one-stop shopping benefit. They operate a store-in-store format. That is, the consumers could find national branded restaurants, world famous fast-foods outlets, entertainment corners (DVD, VCD, video game zones and karaoke box), mobile phone counter services, optical clinics,

³ The name of the first Japanese department store in Bangkok that opened its store in December 1964 but was closed permanently in October 2000. (source: <http://www.gotomanager.com/news/details.aspx?id=467> downloaded 7 May 2008) However, the first batch of management trainees in Daimaru contributed to the development of department stores in rural areas like department store in Nakorn Ratchsima (interview by author, March 2008).

⁴ Owned by Chirathivat family that is still active in retailing business in addition to other service business such as hotel, hypermarket, and so forth.

⁵ Charoen Pokaphand Co. Ltd., started their business as a seed-wholesaler and expanded their businesses into producers of meats and processed foods before expanded further into retailing business, telecommunication business and real-estate business. The company name is known by local Thais as C.P. group.

⁶ Plc. is abbreviation of public company limited.

⁷ One of Bangkok tourist spot, especially for night life.

⁸ Later on in 1999, Groupe Casino invested in this superstore and hold the stake of approximately 63%.

pharmacies, cosmetic counters, computer repair shop and so forth (Tesco-Lotus Official Page, 2008).

These supercenters also launched new formats of smaller size hypermarket or supermarket, and convenience store in the early 2000's. For example, Big-C with average retail space of 10,000 square meters launched Compact Store with average retail space of 5,000 -6,000 square meters.⁹ Tesco-Lotus launched convenience store format under the name of Lotus Express.¹⁰ The service area is also reduced to 150-360 square meters with approximately 2,000 SKUs. (Aek-Chai Distribution, 2008).

Table 1: Branches and Year Established of Modern Trade in Thailand (April 2008)

	Year Established	Hypermarket	Convenience Store	Compact- size Hypermart *	Cash-and- Carry
Tesco-Lotus	1998	70	189	54	-
Carrefour	1996	27	-	-	-
Big-C	1993	47	-	5	-
Makro	1988	-	-	-	41
Seven- Eleven**	1988	-	4,227	-	-

Source: Compiled by author from the companies' official websites

Note: * Include Lotus Market and Lotus Value formats for Tesco Lotus, and Compact for Big-C

** The figure shown is the data as of October 2007

Table 2 below illustrate number of branches, sales, and the proportion to sales and branches in Asia as well as the consolidate sales and number of branches of one of the big four--Tesco.

Table 2: Tesco Operations in Asia

Country	Year Entered	No. of stores*	Total Service Area (sq.m.)*	Turnover (£ Million)**	Average Turnover per Store (£ Million)
China	2004	47	392,422	552	11.74
Japan	2003	109	29,078	287	2.63
Malaysia	2002	19	174,750	247	13.00
South Korea	1999	81	473,340	2,557	31.57
Thailand	1998	370	698,166	1,326	3.58
Turkey	2003	30	102,936	256	8.53

Source: Broker pack 2006-2007. URL: www.tescocorporate.com

⁹URL: www.bigc.co.th

¹⁰ Charoen Pokphand (C.P.) withdraw stake from Tesco-Lotus operation in Thailand in 2002 with remaining stake of less than 1 % in Ak-chai distribution, the joint venture of C.P. and Tesco. Thus, Tesco could launch Lotus Express to compete with 7-Eleven of C.P. Group.

Note: Number of stores and total service area are figures as of 27 February 2007 while the turnover reported are those of 31 December 2005

Table 3 illustrates operations of Makro Asia, a privately owned company and a 100% subsidiary of SHV group, in Asia including number of stores opened and year established of each operation. One can notice that Thailand has been the first outlet in Asia for Tesco Plc., and SHV group with the highest number of branches comparing to other operations in same region.

Table 3 Makro Operations in Asia (2003-2006)

Country	Year Established	Number of Branches			
		2003	2004	2005	2006
Thailand	1989	23	29	29	29
Indonesia	1992	13	15	18	19
Philippines	1996	11	12	14	15
China	1996	4	5	4	5
Pakistan	2006	-	-	-	1
Total		51	61	65	69

Source: compiled by author from URL: www.makroasia.com

Thus, in 2007, Thailand's distribution structure includes different types of members ranging from hypermarket/superstore (both retail and wholesale), specialty stores, and convenience stores, to stand-alone small traditional local retailers competing for a market with annual value of 1,000,000 million Baht¹¹ (Department of Internal Trade, 2008). The term modern trade and local trade are first used to distinguish the two general formats of retailing.

Among modern trade, it could be subdivided into five sub-groups. First is superstore/hypermarket. There are three key players in this sub-group—Tesco-Lotus, Big-C, and Carrefour. Second is Cash-and-Carry sub-group with Makro as a key player in this sub-group. Third is supermarket with Tops Supermarket, Foodland and Villa Market. The later two supermarkets focus on imported foods with target customers of hi-end Thai or expatriates in specific business/residence areas. Fourth is convenience store with 7-Eleven and Family Mart as key players. This convenience focuses on foods items, i.e., ready meals and drinks. Last is department store with Central and The Mall as key players.¹²

Each group aims for different target markets. However, the expansion of supercentre/hypermarket as well as the introduction of new formats made the boundary blurred. Supercenter/hypermarket that operated the store-in-store concept could invite the counter attacks from local retailers, e.g., groceries, dealers, and other stand alone retailers. The more SKUs the supercentres/hypermarkets handle, the more number of local retailers rivals. For example, there are goldsmith, bookstores, electronic appliances, and food corners in Tesco-Lotus. The stand-alone goldsmith, bookstore, electronic appliances and restaurant would regard Tesco-Lotus as their rival. Thus, the discussion below will focus on supercenter/hypermarket format, i.e., Tesco-Lotus, Big-C, and Carrefour and Cash-and-Carry wholesaler, Makro.

¹¹ Exchange Rate as of 14 May 2008 is averagely 50.4 baht per 1 Euro.

¹² Summarize from annual report to the Stock Exchange of Thailand by Siam Makro PLC. (2007)

Changes in distribution structures after the entry of large-scale retailers

After Makro entered the country as the first cash-and-carry type of wholesaler and after the other type of retail discount stores were launched, there have been changes in distribution structure of the countries that tremendously affects Yi Puas. First is the change in consumer behavior. Second is the change in manufacturing policy. Last is the change in Sa Puas' acquiring behaviors. Consumers who used to run an errand at the store near home and buy at the amount in need, then, learn to buy at big lot at the average frequency of once a week for the cheaper prices (Olgivy & Mather, 2005). Clean and air-conditioned shopping areas fit with the hot and humid tropical rain forest weather that Thai people used to.

Manufacturers also pay more attention to modern trade as they can expect stable large order in the long run that many company set up a specific sales force for transactions with modern trade.¹³ Special discount rate could be offered to modern trade as a quantity discount but the local trade could not enjoy such a privilege.

Sa Puas also enjoyed the lower prices modern trade offered, especially when the loss-leader tactic is used. Though, the quantity is limited per one purchase, some Sa Puas or jobbers are willing to repeatedly buy the small lot until the required quantity is filled.¹⁴

In sum, the presence of modern trade affects the sales and business opportunities of Yi Puas and Sa Puas. They have to adjust their business model to invest or to divest from the industry. Table 4 illustrates the ratio of sales of local trade by modern trade which show the decreasing proportion of sales by local trade.

Table 4 Sales and Ratio by Local Trade and Modern Trade (2001-2007, selected year)

	Unit: Million Baht		
	2001	2005	2007
Local Trade	275,000	530,000	680,000
Modern Trade	412,000	370,000	320,000
Ratio of Local to Modern Trade	60/40	40/60	30/70

Source: Department of Internal Trade, Ministry of Commerce

In addition, the increasing rate of number of modern trade branches in all formats is more than 100% in from 2001 to 2005 as table 5 shows.

Table 5. The Number of Modern Trade Branches during 2001-2007 (selected year)

	2001	2005	2007
No. of Modern Trade Branches	1,821	3,709	5,408
Increasing rate (%)		103.68	45.81

Source: Calculated by author from data by the Department of Internal Trade, Ministry of Commerce

¹³Anonymous (2001) "Key Account Marketing: Position emerged from modern trade", *Marketeer*, URL: www.marketeer.co.th/inside_detail.php?inside_id=762 downloaded 14 April 2008

¹⁴Prachachart Turakij, 19-22 June 2005

From table below, we can notice that convenience store, specialty stores and small format of hypermarket expand rapidly in 2007.

Table 6. Breakdown of Modern Trade Expansion in 2007 and Planned Expansion in 2008
Unit: Branch(es)

	2007	2008
Convenience Store		
7-Eleven	658	n/a
Specialty Store		
Watson-Powerbuy	370	n/a
Hypermarket/Supercenter		
Lotus Express	98	52
Lotus Market	8	8
Lotus Value	4	6
Lotus Hypermarket	2	6
Makro	11	n/a
Carrfour	3	n/a
Big-C	0	13

Source: Prachachart Turakij (business newspaper), vol. 31 no. 3977, 21 February 2008

Geographically, modern trades establish their branches in Bangkok and metropolitan first and then expand to big cities in the provinces, especially in tourist spots and business cities, e.g., Pattaya, Phuket, Hadyai, Chiang Mai, and Chiang Rai. Among others, Tesco-Lotus and Big-C are rather aggressive in expanding to the North and North-east regions. Carrefour focuses the operations in Bangkok than in the provinces as table 7 illustrates.

Table 7: Number of Modern Trade Branches in Bangkok and in Provinces

	Total Branches	In Bangkok	In Provinces	Branch in Provinces by Region*			
				North	North- East	Central	South
Tesco-Lotus	314	125	189	24	20	131	14
Big-C	53	24	29	8	13	8	6
Carrefour	27	19	8	1	0	3	3
Makro	41	8	33	6	10	10	7

Source: Compiled and calculated by author from the companies' official websites

Note: * Thailand is geographically subdivided into four regions—North, Northeast, Central and South—with different main economic activities, ethnic groups and local culture as well as dialects.

Laws and regulation regarding large-scale retailers

Though presently there is no a specific law and regulation governing large-scale discount retailers, there are existing laws and regulation that could be applied to set an appropriate atmosphere to support fair competition. First is the Product and Service Price Act B.E. 2542 which stated that any company must not purposely price

their goods or services too low or too high or cause the fluctuation in prices of any goods or services.¹⁵ Second is the Commercial Competition Act B.E. 2542. This Act stated that a company that has a power over the market is prohibited from setting or maintaining the price that cause any unfairness. The company must not prohibit its distributors limit their service, production, procurement and re-selling. Merger that leads to monopoly is prohibited. In addition, any enterprise could not incorporate with other enterprise or enterprises to monopolize, to reduce or limit the competition. Third is the Consumer Protection Act B.E. 2522 which prohibit the company to communicate the message that could make consumers misunderstood the information about price, service fee, quantity, quality standard, or any other essence of goods and services under the clause of advertisement practice. The Act also stated that the enterprise must control, maintain and must not sell the goods that could be dangerous to buyers' health or not safe for consumption under the clause of goods that could be harmful to consumers. In addition to this Act, there are similar regulations stated under other Act, e.g., Foods Act B.E. 2522, Medicine Act B.E. 2510, and Public Health Act B.E. 2535.

In addition, City Planning Act B.E. 2518 was enacted to set up the usage of land according to type of business as well as Building Control Act B.E. 2522 that prohibits construction, renovation, moving or change in the usage of specific types of building in specific areas. The latter also control parking areas, u-turn areas, in-coming and out-going lanes into and out of a building. It states as well the characteristics and area sizes of each type of construction (The Office of The Council of State 2007)

In upcountry provinces, city-zoning is under the supervision of Sub-District Councils. As a part of decentralization of administration power, Sub-District Councils have been set nation-wide under the Sub-District Council Sub-District Administration Organization Act B.E. 2537 (revised B.E. 2546). The members of the council are directly elected by villagers with registered households in villages under that sub-district. The councils run their own budget partly from the government and partly from taxes collected from sub-districts. The council has to promote economy, social and cultural activities in the sub-district, which also include City-Zoning Law.¹⁶

The Case Studies: Method and Result

Rapid expansion of modern trade, especially supercenters/hypermarkets, into up-country provinces put Yi Puas and Sa Puas in difficult situations as the decreasing sales by local trades in Table 4 shows. However, there are some grocery retailers—Yi Puas—that survive and grow under this changing environment. Yongsanguan (Ubonrajathani), Tangngiisoon (Udornthani), Lengseng (Sakonnakorn), Taweekij (Burirum), Sahataweekij (Chiangrai) are examples. Only Sahataweekij is located in Chiangrai, the northern region. The other four are located in north-eastern region. There are also cases that the chambers of commerce in the province are successful in enforcing city-zoning law as well as to launch the promotion campaign to counter attack modern trade practice of loss leader pricing. When the controversy started, the government by the Ministry of Commerce launched a network project to pool the order, I.T. system as well as management education and training, but failed. Hence, our study would pick up three cases from with different key of success to illustrate how they could survive and what is their situation in the near future.

¹⁵ B.E. is the abbreviation of Bhuddist Era which starts 543 B.C. Thus, B.E. 2542 equals to A.D. 1999.

¹⁶ From official website of the Sub-District Administration Organization. URL: www.tambol.com

Method

The issue of changing distribution channel structure in the country as well as balance of power between the members is sensitive in term that too many influential stakeholders involved. To date questionnaire surveys were launched by research institutes, trade associations, and advertising agencies. However, the quantitative data shown in these surveys give only a brief overview of the consumer behavior, consumer perceptions, and the fall of the stand-alone retailers. As the issue is complex, we design our survey to gain detailed data by using techniques such as group interviews, in-depth interviews, and field work observations.

Local retailers in Northern Thailand, i.e., Prae, Nan and Chiang Rai were chosen as they represented the successful retailers who can stand the competition with modern trades, and develop their own business model to survive and grow. Three groups interview were made with representatives of the local Chambers of Commerce and/or Economics and Social Council committee. One group interview was conducted with five respondents representing local retailers in Prae. Four in-depth interviews and store observations were carried in Nan and Chiang Rai.

As an exploratory research, four group-interviews (two were made with the chamber of commerce and the other two were made with representative of Yi Puas and Sa Puas) were conducted at Chaiyapoom and Khonkaen, north-eastern provinces that are suffering from entry of modern trade.

Group interview averagely lasts three hours and in-depth interview lasts approximately one and a half hours. Interview contents were recorded and transcribed for contents analysis. The average years in business of respondent retailers are 40 years and have been in retailing business for two generations. Most of the owners hold Bachelor degree.

The general information about gross regional and provincial product as well as per capita income is as Table 8 illustrated below.

Table 8: Gross Regional And Provincial Product at Current Market Prices by Region and Province: 2006

<i>Region/ Provinces</i>	Gross Regional And Provincial Product (GRP and GPP) (Million Baht)	Per capita (Baht)	Per capita GPP Rankings	
			Of the Region	Of the Country*
<i>North**</i>				
Prae	20,057	47,444	11	52
Nan	18,847	40,296	15	57
Chiang Rai	50,093	38,332	16	59
<i>Northeast**</i>				
Khon Kaen	107,906	65,558	1	39
Chaiyaphum	36,317	32,875	8	65

Source: The Office of the National Economic and Social Development Board

Note: * There are 76 provinces in Thailand, ** 17 provinces in North region, and ***19 provinces in Northeast region.

Table 8 shows that Nan is the smallest economies among five sample provinces chosen. However, Chaiyaphum have the lowest per capital in the country ranking. Chiang Rai has bigger economies comparing to the other two provinces of the same region because it is known as tourist spot as well as potential across-border trade with Laos, China and Myanma. Nevertheless, the per capita income is the lowest because it is also known as the habitats of hill-tribe ethnic groups. In short, the municipal business volume of Chiang Rai is higher. The same is true for Khon Kaen that is one of the transportation hubs to other provinces in northeast region with various regional government offices in the province.

Table 9 explains the average household size, average income per household, and details of household expenditure. It shows that comparing to Chiang Rai, Chaiyaphum have higher average monthly income but spend averagely less than households in Chiang Rai.

Table 9: Average Monthly Income and Expenditure per Household by Province: 2004
Unit: Baht

Region/ Provinces	Percentage of Households	Average House- hold Size	Average Monthly Income per Household		Per capita Monthly Current Income	Average Month Expenditure per Household		Per capita Monthly Cons. Exp.
			Total Income	Total Current Income		Total Exp.	Consump- tion Exp.	
<i>North</i>	<i>100</i>	<i>3.16</i>	<i>10,884.52</i>	<i>10,690.48</i>	<i>3,377.05</i>	<i>9,360.68</i>	<i>8,231.68</i>	<i>2,600.33</i>
Prae	4.69	3.17	11,333.35	10,981.90	3,460.89	9,479.98	7,867.27	2,479.33
Nan	3.98	3.04	10,750.81	10,453.63	3,428.98	10,478.69	9,145.77	2,999.98
Chiang Rai	10.18	3.05	8,920.50	8,869.84	2,904.31	8,428.44	7,560.62	2,475.62
<i>Northeast</i>	<i>100</i>	<i>3.68</i>	<i>10,139.35</i>	<i>9,933.17</i>	<i>2,698.03</i>	<i>8,483.98</i>	<i>7,634.34</i>	<i>2,073.62</i>
Khon Kaen	8.64	3.47	13,087.72	12,734.36	3,668.40	10,642.17	9,454.01	2,723.43
Chaiyaphum	5.48	3.63	9,161.35	8,980.93	2,473.14	7,579.11	6,454.99	1,777.55

Source: Report of the 2004 Household Socio-Economic Survey,
National Statistical Office, Ministry of Information and Communication
Technology.

The result

We found three different patterns of so called “counter attack” to the expansion of supercenters/hypermarkets. First is the effective enforcement of City-Zoning Law by the cooperation of Chamber of Commerce and the Sub-District Council. Second is the effective cooperation between retailers and local Chamber of Commerce on the campaign to “buy local”. Last is the visionary Yi Pua who preempted the effect of the expansion of supercenters/hypermarkets by creating a business network with Sa Puas. Each pattern will be described in turn.

Nan is successful as they can reinforce the City-Zoning Law with the large scale retailers. The central district of Nan (also known as municipal area), that the

business traffics flow, approximately last 11 kilometers.¹⁷ When the City-Zoning Law which specifies that the retailers with service areas of 1,000 square meters and larger cannot be located within the radius of 15 kilometers of the municipal area, is enforced, large scale retailers like Tesco-Lotus hypermarket and Big-C supercenter have to open their branches outside municipal area. This helps buying times for local retailers to adjust themselves for the better services, more SKUs, and more services. Manager of one department store we observed revealed that their location is more advantageous. We also found that this department store, like other department stores in Northeastern region, learned to manage and run department stores from the ex-employees of Daimaru (Head of Chamber of Commerce, interview by author). Thus, the modern management has already transferred to entrepreneurs in this region. He had also visited Tesco-Lotus's distribution center at Wangnoi, Ayuthaya, and has to admit that local retailers and department stores like his could not match with the large-scale logistics system the modern trade possess.

In Prae, Chamber of Commerce together with retailers in municipal areas hosted a promotion campaign every week that retailers offered their product at 10 to 20 % discount. The campaign has been successful that the Chamber of Commerce of Prae has got the Best Chamber of Commerce for three executive years. There is one department store that could survive or even grow after the presence of Makro and Tesco-Lotus hypermarket. This department store offers a one-stop shopping benefit with department store, shopping plaza (shop in shop concept), and a cinema within one building. Besides, they wholesale to Sa Puas. They revealed that their wholesaling department was initially affected by the opening of modern trades. However, after a while, consumers come back to their stores for the reason that there are more assortments than the modern trades could offer. Currently, the sales of wholesaling department even grow at increasing rate. From observations, these Yi Puas and Sa Puas have been revising the retailers mix for more pleasant shopping atmosphere. Investment in new show room, demonstrated items, shelf arrangement, light and sound arrangement, and so forth were actively made. In addition regular promotion campaigns are adjusted to fit with consumers needs.

However, retailers in both Nan and Prae agree that these measures are not sustainable ones. City-Zoning Law has to be reviewed and revised every three years. They are afraid that there could be lobbying by modern trade via the members of Sub-District Council when the time for revision comes. Special promotion campaign also could not last long as the discounts given are the costs that each local retailer has to bare.

Interestingly, retailers in both provinces raised the problems of loss-leader pricing as a part of consumer welfare problems. That is the promise for low price but could not supply to consumer when arrive. The reason was the stock ran out. The purpose of loss-leader pricing is to stimulate consumers to come and shop the low-price items so that the store could gain profit from other items the shoppers buy. However, in this case consumers have the impression that this is a lie. The other cases are after sales service and goods return. Local retailers (Yi Puas) found the cases that Sa Puas returned the goods that bought from modern trade to them by insisting that buying from that Yi Pua, and the other case that a consumer bought electric

¹⁷ Generally, there is a Muang District in every province. Muang, literally means city, is the center of business and administration. Government agencies, best schools, best cinema, biggest hotels, biggest shopping centers are usually located in the municipal area of Muang District. The other district surrounded Muang District. Thus, life style of Muang District inhabitants rather resembles those of Bangkok.

appliances from modern trade and could not get an after-sale guarantee. Consumers did not realize that they have to sacrifice some after-sales services for lower prices. In addition to the fact that the literacy rate of people in North and Northeastern areas are comparatively low, the selling of low-price goods with complex conditions could be the case. Thus, in turn, could have negative impression of buying from modern trade.

In Chiang Rai, only one wholesale-retailer reported that their business has been growing these years and expected to grow at 6 % in 2009. The owner was inspired when he visited the first branch of Makro in Bangkok. He envisioned that consumer behavior would change from running small errand at the shop nearby to being willing to queue at large shopping mall. Thus, he came back and started renovate his store and stock management practice. He first introduced I.T system to help control the inventory. In order to be more cost-effective and to increase bargaining power against the manufacturers, he joined other retailers in north eastern area-- Yongsanguan, Tangngiisoon, and Taweekij—to order in bulk from manufacturer.¹⁸ He has reinforced the relationship with Sa Pua in other districts implementing proactive approach to valued Sa Pua. He is successful in building a Sa-Pua network of one hundred. However, he admitted that most of Sa-Puas with whom he contacted understand well the importance of renovating the store and management, however feel unable to do so due to the insufficiency of capital in most cases.¹⁹

In addition, he emphasizes on the trust between his sales force and Sa Pua. Intensive training programs are set, including moral lessons, so that he could be sure that his sales forces are knowledgeable, reliable, and emphatic. Knowledge transfer is also gradually done from Yi Pua to Sa Pua via regular visit to the stores. The interview respondents revealed that he put attempts to persuade Sa Pua in the network and the potential Sa Pua to revise their retailer mix, e.g., store atmosphere, product assortments, and so forth.

In case of Chiang Rai, there is no strong link between Chamber of Commerce and the local trade. Chamber of Commerce focuses more on international trade at the border with China, Laos and Myanmar as the Greater Makong Subregion (GMS) project is moving fast to link China and countries in Indo-China peninsular. The Chamber president looks at the retailing business as a minor contribution to the province economies. He also viewed that there is no problem between modern trade and local trade in Chiang Rai. He added that training courses were given by Big-C to Sa Pua free of charge, and the motivation of Big-C to do so was to increase buyers' base (Head of Chamber of Commerce, interview by author).

Comparing to Chaiyapoom and Khonkaen in northeastern region, local trade in these two provinces failed to forecast the situation after modern trade set in, thus there is no city-zoning enforcement, rare cooperation between Chamber of Commerce

¹⁸ Manufacturers basically host an annual trip to reward top-sales dealers. These retailers got acquaintance via these trips. All these stores have opened for more than forty years.

¹⁹ From a supplement interview with the Head of Loan Section of a commercial bank in Chiang Rai, we found that there is no retailers apply for loan to renovate their stores. There are some who apply for loan to increase their stock. The respondent also reveals that after the re-structuring of the bank, local branch lost authorities in approving loan application. Only head office in Bangkok holds the authority to do so. In short, commercial bank becomes more centralized including the loaning policy, e.g., which industries to promote. Retailing is one of the 'dog' industries (by the terms of Boston Consulting Group Investment Matrix) by the report of Chamber of Commerce University Research Center. Thus, applying loan to renovate or set up a new branch of local retailer is rather difficult (retailers in Prae, interview by author).

and local trade or even among local trades.²⁰ They have attempted to adopt modern management practice, e.g., computer-aids accounting and stock managing program, but admitted that the competition is too fierce and too fast for them to catch up with. Small economies, decreasing population, high rate of immigration are raised as factors that loosen the sense of community ties. Yi Puas in Khonkaen added that the only tools they can use for survival is the alcoholic items that still insist to distribute their products through dealership system. Alcoholic items would draw Sa Puas to dealer stores to buy other items to save the acquiring costs. If brewery companies decided to sell to modern trade too, local trade would have little room to survive.

Regarding spillover from modern trade, Sa Puas in Chaiyapoom revealed that she had renovated her store since she visited a modern trade outlet in Bangkok in late 1980's and it helped increase the sales for 30 to 40 %. However, when the modern trade came to her provinces the sales decreased to 50 %. Interesting remarks from Yi Puas in Khon Kaen was that they learned the loss-leader pricing from modern trade. If they would open a new branch in sub-district, they would use loss-leader pricing tactic until other Sa-Puas withdraw (Head of Chamber of Commerce, interview by author). This remark expresses their impression against modern trade practice on marketing communication program.

Discussion

We found in the case studies that there are three main problems that impede local trade from being able to stand the competition with supercenters/hypermarkets. One is the problem of successor. Like most of the small and medium sized businesses mostly run by Chinese-Thai merchants, when the children grow up and get high education, they enter the labor market in the bigger cities if not Bangkok preferring working as salaried managers to taking over the family business. In all three cases, the successors are those who grew up with family business, aged in their thirties, and well educated. Some even hold Ph.D. degrees. Other holds degree from overseas university.

Second is the problem of customer loyalty. Modern trade carries symbolic function of modernity. Trickle down theory works in this case. Shopping at modern trade does not fulfill only the need to acquire the goods in necessity, but also to fill the need of hedonic spending of time. Consumers do not value the personal relationship but short-term price factor. They do not realize that the price modern trade set does not include guarantee, or buy-back. Chamber of Commerce in Prae has temporarily overcome this problem by promoting the strong tie of local community.

Third there is lack of knowledge in modern management and the use of information technology. Many retailers could not afford if not found it not economical to set up computer system to control the stock and accounting system. Though, the government has launched a project for pooling acquiring system but it did not work for small retailers who do not know each other well enough to co-operate.²¹ Chiangrai

²⁰ Retailers in these two provinces have been joined the protesting rally in their provinces and in Bangkok to complain and request for government measure to control to expansion of modern trade so that healthy competition could be preserved. Protests against the expansion of modern trade especially Tesco-Lotus, were set in many provinces. That is partly, because the expansion of Tesco-Lotus is more aggressive comparing to other modern trade (see Table 6.), and partly because such provinces cannot set up the city zoning law in time before the expansion.

²¹ Government has established Allied Retail Trade Co., Ltd in 1999 to pool the acquiring system so that small local groceries could have higher bargaining power to manufacturers as well as to renovate the store to resemble those of convenience stores. However, it could not gain cooperation from commercial bank to approve loan for retailers. URL: www.business-thai.co.th. Downloaded 14 April 2008.

model illustrated the importance to fight with different logic from “every-day-low-price” concept. Efficiency by introduction of information technology, effectiveness, and alliance building could be the lessons for other local retailers.

Forth is the cooperation with national branded makers/restaurants. Should the local trade choose to replicate the modern trade shop-in-shop style, they have difficulties in negotiating with branded makers/restaurants to establish outlets in local trade’s place. This lessens the availability benefit to consumers. Regular promotions have been done to draw the mass to the store. However, government agencies, e.g., tax offices tend to cooperate with modern trade as they believe modern trade could draw more visitors than local trade which in reality might not be the case, in Nan.²²

We also found that among the three models the sustainable one might be the Chiang Rai model where the wholesale/retailer reinforces Sa Pua network to increase their sales. However, one necessary condition is that the large scale retailer’s expansion into smaller district should be kept at bay at the large district. Retailers in Prae said they cannot afford to survive the incoming of more modern trade because the economies in their province are too small if two or more retailer giants are in.

In sum, the reasons for decreasing sales by local trade could be a natural one like lack of successor and could also be an institutional one like changes in customers behavior trickle by modern trade presence as well as the inability to enforce the city-zoning law. In case that there are attempt to keep their business going, there are also difficulties from getting loan approval from commercial banks, and the increasing competitor from credit card section of commercial bank.²³

The lesson learned

The aggressive expansion of modern trade, namely hypermarket to the rural areas, especially in the provinces with small economies is more likely to trickle a protests and negative publicity.²⁴ The attempt to locate the new branches near to the city is the point in question for the public. Pressure from changes in business environments that render threats to local trade might also increase the hostility towards modern trade, the market leader in particular.

Modern trade with clear position like Makro gets less resistance from the public. Its Cash-and-Carry position is strengthened when it launched the campaign of “Makro—the true friend of Sa Pua”. Makro emphasized its position of cash-and-carry wholesalers in 2001, thus the ratio of end users dropped from 34 % in 2000 to 10-14 % one year later.²⁵ In addition, Makro reinforces its position by penetrating into business-to-business market for example, hotels, restaurants and catering services (Siam Makro, 2007). Makro, then, emphasize that their customers are business market

²² At the time of our observation at Tesco-Lotus in Nan, we found Tax Office counter to serve people who would like to fill in tax form or to pay their disposable income tax. The deadline of tax remittance was March, 31.

²³ For example, a commercial bank credit card offered card holder to buy electric appliances directly from credit card company with 0 % interest for 12 months. (Retailers in Prae, interview by author.) Supplement observation at Tesco-Lotus Chiangrai supported the statement that credit card company cooperates with supercenter/hypermarket for low interest loan for purchase made at supercenter/hypermarket.

²⁴ Tesco-Lotus sued two Thai journalists for libel in April 2008, as the journalists criticized the company for aggressive expansion at the expense of small retailers. URL:www.gurdian.co.uk The Guardian, 18 April 2008. downloaded 13 May 2008. Numerous critics against Tesco-Lotus could be seen in media both online and in paper versions.

²⁵ URL:www.himeng.co.th securities analysis of Makro PLC. as of 21 May 2004, downloaded 12 May 2008.

not consumer market, thus, is not a direct rivals to Yi-Puas. On the contrary, Tesco-Lotus's aggressive expansion into both hypermarket and convenience store formats could invite rivals from all around, not only from local trade but also from other modern trade members. As an attempt to reduce the resistance from the public, at least from Sa Puas, Tesco-Lotus recently launched a campaign to help small and medium enterprises by offering free courses of grocery management free of charge. As the program is still under way, the assessment of the program success is not available.

The Triangle of Harmony

As the distribution system is a social system in addition to economic system, the members' power should be balanced so that the system could run smoothly. Though the rapid expansion of modern trade could gain them a superior economic performance, it could, on the other hand, earn them negative publicity from channel members as well as public as a whole. Retailing is one of the value chain activities that is very near to market/consumers, thus, is sensitive in term of social affairs. Lesson from Wal-Mart and the destruction of the cities it entered could make people rethink about having modern trade in their communities and its effects in the long run. One of the rationales Yi Puas give to the government to stand against modern trade is the demise of small enterprises while the government is promoting small and medium enterprises. They are afraid that if the stand alone Yi Puas and Sa Puas are driven out of the industry, consumers will loose the bargaining power in the end. The retail revitalization in small town is topic for researchers in applied geography which investigate the links between the existence of small and numerous retailers and the vitalization of the cities, especially those with small economies (for example, Thomas & Bromley, 2003). This could be noticed from changes in manufacturer policy regarding transaction with local trade, especially Thai manufacturers to support local trade in higher degrees.²⁶ Thus, modern trade could take this social aspect into consideration. The corporate social responsibility might be as easy as being a friendly rival to the local retailers. In short, modern trade should also set the tasks to fulfill the triangle of harmony between modern trade, local retailers and consumers. That is because local retailers could turn to be their customers, and help retaining the consumers in the local areas for a healthy and constructive competition.

Conclusion:

Literatures in international business especially the internationalization of retailing business focuses basically on how to be successful in overseas operations. In short, a lesson learned from experiences to improve their new entry, e.g. mode of entry, consumer behavior, and so forth. The case study of Thailand could lend one more lesson—the necessity to be successful both economically and socially. Aggressive expansion could be harmful to the corporate reputation as a good corporate citizen. When nationalism is still a sensitive issue in some developing countries, how to blend smoothly into the local community might be a topic for large-scale multi national retailers in addition to how to win the market share and gain the economies of scale as the original business model aimed for.

Limitation:

This study did not interview manufacturers and consumers directly but used data from observations. In addition, the scope of the study was limited to retailers in

²⁶ Chamber of Commerce of Prae (Interview by author)

north Thailand. An extension study would give more thorough view of retailing internationalization in Thailand.

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