Exporter Guide

THAILAND FOOD & BEVERAGE

Market Profile
June 2011

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1 MARKET STRUCTURE

1.1 Market Overview

Domestic Production

Thailand has a rapidly growing food processing sector and is the only net food exporter in Asia, earning it the nickname "kitchen of the world". Thanks to its rich agricultural resources and government incentives, which have encouraged diversification into more value-add products, Thailand has become one of the world's largest producers and exporters of processed foods. Fifty percent of production is sold outside of the country.[i] Its food and beverage processing industry is made up of over 10,000 companies[ii] and the Thai Ministry of Industry estimates the production of processed food to be more than 28 million tons annually. More than 80 percent of the raw materials used are sourced locally.[iii]

Thailand is the leading producer and exporter of rice, canned and frozen seafood, processed chicken, processed shrimp and canned pineapple.[ii] Other key food and beverage products include cassava, sugar, maize, fruit and vegetables, sauces and curries.

Thailand's food exports were valued at US$24.38 billion in 2010, and are expected to rise to US$27.65 billion in 2011. Main export markets include the United States, Japan, Association of South East Asian Nations (ASEAN) and the European Union (EU).[iii] Thailand also has a well developed brewing industry.[iv]

Retail

Total retail sales for the food and beverage sector in Thailand were estimated to be US$13 billion in 2009.[i]

The average Thai consumer spends US$150 per month on retail products, 49 percent of which is spent on fresh foods.[i]

Competition in the food retail market is intense and modern retailers (hypermarkets, supermarkets and convenience stores) account for around 70 percent of total retail sales.[i]

In 2010, there were estimated to be:[iv]

- 430 supermarkets (Central Food Retail, Leader Price)
- 360 hypermarkets (Casino, Tesco, Makro)
- 8,100 convenience stores (7-Eleven, FamilyMart, Tesco Lotus Express)

Hypermarkets account for around half of retail sales and are dominated by a small number of multinational players. Most hypermarkets and supermarkets also offer additional services, such as fast food outlets, kiosks and bookstores rather than being stand-alone stores. Convenience stores account for around 15 percent of retail sales.[i] Wet markets are still popular in rural areas where people prefer more traditional diets and tend to be price sensitive.

The Thai government is looking to protect traditional and smaller operators from large-scale foreign retailers. A new bill has been proposed, that would require retailers to seek approval from provincial authorities before setting up stores. However, this bill is still pending approval. The convenience sector is expected to benefit if the bill is approved, given that their smaller sized stores are likely to create less opposition from traditional retailers.[vi]

Hotel Restaurant and Institutions (HRI)

Thailand's HRI food service sector is made up of around 150,000 outlets, including 100,000 restaurants and more than 5,000 hotels and resorts. The sector is reliant on tourism and around 30 percent of the food and beverage products used are imported. Thai Airways also uses 30-40 percent imported food for their in-flight catering service.

In addition to a wide variety of independently owned restaurants, a number of chain restaurants have been set up in Bangkok and other major tourist sites in Thailand. Sidewalk restaurants are slowly being replaced by food centres and food courts. Western-style food outlets, fast-food operations and coffee shops are also expanding.[i]

1.2 Market Drivers

Urban dwelling Thais, who make up 33 percent of the population, are moving away from traditional open-air wet markets to modern retail stores.[i] This growing urbanisation, along with rising disposable incomes and a trend towards reduced time for food preparation at home is increasing demand for pre-packaged and convenience foods.[iv] Furthermore, overseas studies, international travel and the internet have led to an increasingly westernised younger population, who are open to new food tastes and are increasing the demand for imported food products.[i]

There is also a growing interest in healthy foods, in line with global shifts towards health consciousness. Bottled water, juices and energy drinks are becoming increasingly popular, as consumers seek to lower their intake of 'unhealthy' carbonated beverages. There is also a trend towards healthier snack options, such as low-fat, low-sodium or whole-grain products.[iv]

Concerns around food safety and hygiene remain prevalent in the Asia-Pacific region and food origin is an important consideration among Thai consumers, particularly in the middle and high income groups. This has led to a growing demand for pre-packaged foods, which are often perceived as safer than fresh produce due to its adherence to strict quality standards. Demand for bottled water has also increased as a result of hygiene and pollution concerns. Food safety concerns also mean that consumers are more willing to pay higher prices for the assurance of quality.[iv]

1.3 Market Potential

Thailand has recovered well from the global economic crisis, aided by the government's stimulus packages, which aim to boost domestic consumption. In January 2011, the government also increased the minimum wage by an average of 6.7 percent, boosting workers' purchasing power.[v]

Food consumption is forecast to increase 36 percent to US$50.86 billion by 2015, driven by the increasing spread of mass grocery retail, which is making higher priced goods available to a wider consumer base. Retailers are continuing to expand, as well as making improvements to in-store product ranges and offering a wider range of higher-value items.[iv]

Thai tourist arrivals are also expected to experience strong growth in 2011, which will help boost food and beverage sales particularly in the high-end market.[iv]

1.4 Import Trends

Thailand is a net food and drink exporter, however food and beverage import growth is expected to outpace export growth over the next five years due to a growing demand for imported products.[iv]

Demand for raw materials for the food processing industry is rising. In 2010, Thailand imported approximately US$1.4 billion of food ingredients, a 35 percent increase from the previous year. Imports tend to be of high-value ingredients and further processed products as domestic producers still dominate in the supply of low-value, high-volume raw and semi-processed products.[i]

In the retail space, increasing disposable incomes, changing diets and tastes of Thai consumers has led to a growing demand for imported food and beverages.

Thailand's major food imports are frozen fish, dairy products and soybeans. The largest food and beverage exporters to Thailand are the United States, China, Brazil, South Korea and Australia. New Zealand is the major supplier of dairy products. In 2010, New Zealand's food and beverage exports to Thailand were NZ$445 million.[vi]

1.5 Key Players in the Market

Tesco Lotus is the market leader in Thailand's hypermarket sector with 97 stores. However, Casino Guichard-Perrachon's (operating under its subsidiary Big C) has now gained comparable size (88 stores) following its acquisition of Carrefour's Thailand stores in November 2010. This has effectively made the market a duopoly and suppliers' margins are expected to come under pressure as a result of this increased buying power. Big C is positioned in the economy segment of the market, while Carrefour was targeted at higher-end segments. While all stores will now operate under the Big C brand, it is expected that the different product positioning will be retained. The Netherlands' Siam Makro is also a major player in the hypermarket sector with 44 stores. Central Food Retail Company is the largest supermarket chain in Thailand.[iv]

In the convenience store sector, CP All's 7-Eleven chain is the leading player. Thailand has the third largest 7-Eleven network after Japan and the United States and with 5,270 stores; it accounts for over half of all convenience stores in Thailand.[i] Other key players are FamilyMart (through its subsidiary Siam FamilyMart) which has 565 stores and Tesco Lotus Express, with 265 stores. Siam FamilyMart announced expansion plans in 2010, with 440 new stores to be opened in Thailand over the next five years.[iv]

Key players in the food processing industry include Charoen Pokphand (CP) Group (meat, fish, ready meals), Thai Union Group (fish), Asian Seafoods (frozen seafood), Thai President Foods (noodles), Pakfood Public Co (fish), Unilever Thailand (processed foods), Paturm Rice Mill & Granary (rice), Surapon Foods Public Co Ltd (frozen foods, fish), Dole Thailand (canned pineapple), F&N Dairies Thailand (dairy).[vii]

The alcoholic beverages sector is lead by Thai Beverage (ThaiBev), which is the leader in the brewery sector. Other key players are Singha Corporation and Asia Pacific Breweries. The soft drinks market is dominated by carbonated beverages, with Coca-Cola and PepsiCo accounting for 90 percent of sales.[vi]

1.6 Regulatory

Information provided in this section is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor.

Duties and tariffs

Under the Closer Economic Partnership Agreement between New Zealand and Thailand, more than half of New Zealand's exports to Thailand have duty free access. The remaining barriers will be phased out in stages, with the last tariffs and quotas to be removed in 2025. However, a special agricultural safeguard (SSG) is applied to some products exported to Thailand. Details of the tariff rates and the reduction schedule is available on the New Zealand Ministry of Foreign Affairs website (Annex 1.1) www.mfat.govt.nz/Trade-and-Economic-Relations/0--Trade-archive/0--Trade-agreements/Thailand/0-cep-index.php

New Zealand also has a free trade agreement with the ASEAN countries including Thailand. Tariffs for New Zealand products entering Thailand can be found on the tariff finder at www.asean.fta.govt.nz. The tariff rates may be more favourable than under the Closer Economic Partnership Agreement so it is worth comparing both agreements.

Licensing and registration requirements

Under the Food Act of B.E. 2522 (1979), all businesses producing or importing food for sale must be licensed by the Food and Drug Administration (FDA).

The Food Act classifies food into four main categories as follows:

- Specifically-controlled foods: registration is required for food in this category. Legal provisions are established regarding standard quality, specifications, packaging and labeling requirements as well as other aspects of good manufacturing practice.
- Standardised food: food in this category does not require registration but must meet quality standards as specified in the regulations.
- Food required to carry standardised labels: food in this category is considered to have a lower risk of hazard to consumer's health than those listed under categories one and two. It does not have to follow specific quality standards but must carry standardised labels that provide consumer information.
- General foods: consists of food not listed in the above three categories. Although registration is not required, general food products are controlled and monitored on hygiene, safety, labeling and advertising.

The Thai Food and Drug Administration website provides details of the relevant laws and regulations and importation process: www.fda.moph.go.th/eng/index.stm.

Labelling requirements

Labels for food products that are sold directly to customers must be in Thai and are required to have the following information:

- name of the food
- registration number
- name and address of manufacturer
- net content of the food in metric system
- a list of the main ingredients as a percentage of the total, in descending order.
- any additives used (e.g. preservatives, flavours, sweeteners)
- manufacturing and expiry dates
- health and nutritional claims, if any

Producers and importers of infant formula are required to display the following statements on the label[viii]:

- the best food for infants is maternal milk owing to its full nutritional content
- modified milk for infants should be recommended by physician, nurse or nutritionist
- incorrect preparation or mixture will be hazardous to infants

Quotas

Under the Closer Economic Partnership Agreement between New Zealand and Thailand, quotas will be phased out in stages and completely removed in 2025.

1.7 Sustainability

The minimisation of packaging waste is a key issue for Thailand, with packaging accounting for 31 percent of all waste. The Thailand Institute of Packaging Management for Sustainble Environment (TIPMSE) was established in 2005 by the Federation of Thai Industries and a group of consumer product manufacturers. It encourages environmentally friendly packaging, recycling and better waste management systems.[ix]

Thailand also has a national integrated waste management plan which focuses on sustainable consumption of natural resources and control of waste generation. There is a take back scheme for end of life products, waste exchange programmes and a green purchasing network.[x]

2 MARKET ENTRY AND DEVELOPMENT

2.1 Market Entry Strategies

Exporters should find a good local distributor. It is important to listen to the distributor and customers and to be flexible in marketing, packaging and other activities. Exporters should also conduct strong marketing and promotion programmes, including product sampling and offer potential importers a range of products and options for consolidation if needed. Be patient and prepared to support the distributor in registering and clearing products with the Thai authorities.

Exporters should conduct market research in advance of entry and be aggressive in approaching and visiting potential distributors. Most importers and distributors, hotel and retail buyers use the internet to proactively search and find out product information. It is therefore worthwhile investing in a good website, which includes information relevant to potential buyers in Thailand and other overseas markets.

2.2 Points of Differentiation

To compete effectively, New Zealand companies need to be able to demonstrate a key point of differentiation. One point of differentiation is New Zealand's innovative and high quality food and internationally recognised food safety standards. Consumers are demanding food that is safe, healthy and convenient. They want assurances that the food they eat is free from contamination and harmful residues and are looking for innovative foods with added health benefits. In addition, as life gets busier, they are demanding food that is quick and easy to prepare.

New Zealand companies should concentrate on higher value products and focus primarily on affluent consumers in order to avoid price competition. However, the key points of differentiation must be clearly demonstrated and communicated to consumers through intensive and ongoing marketing and educational campaigns.

2.3 Long Term Strategic Issues for Exporters to Consider

Ongoing promotion and consumer and trade education is necessary for building a successful long term presence in the market. While the high quality of New Zealand's food and beverage products is well-known to Thai consumers, Thais are generally still unaware of the range of New Zealand food and beverage products available.

2.4 Distribution Channels

The traditional distribution channels, where products are sold either to an importer and / or distributor before being delivered to the retail or food service chains, are starting to change. However, during the initial stage of market penetration when the import volumes are small, it is typical for the retail chains, hotels and restaurants to use importers or a consolidator to source and import products.

2.5 Pricing

Exporters need to work with the distributor to find the right price point, not just an introductory price. Be prepared to sacrifice margin in order to increase volume. Keep in mind that you are competing on product quality and price in a global marketplace with many strong competitors.

3 MARKET RESOURCES AND CONTACTS

ASSOCIATIONS	
ORGANISATION	**WEBLINK**
Food and Drug Administration	www.fda.moph.go.th
Thai Food Processors Association	www.thaifood.org
Thai Packaging Association	www.thaipack.or.th
Board of Investment	www.boi.or.th
Thai Industrial Standards Institute	www.tisi.go.th
Thailand Customs	www.customs.go.th/Customs-Eng/indexEng.jsp
TRADE EVENTS	**LOCATION**
Food Processing and Packaging Asia	Phuket (September 2011)
International Food and Hospitality Show	Bangkok (September 2011)
OTHER NZTE PUBLICATIONS	
REPORT	**WEBLINK**
Thailand Country Brief	www.nzte.govt.nz

Disclaimer:

[i] USDA Gain Report (January 2011), *Thailand Exporter Guide*
[ii] Thailand Board of Investment (2011), *Industry Focus*, March Issue
[iii] Thailand Board of Investment (2008), *Thailand of Investment: Food Industry*
[iv] Business Monitor International (Q2, 2011), *Thailand Food and Drink Report*
[v] Thailand Business News (December 2010), *Thailand raises minimum wage*
[vi] World Trade Atlas and TradeMap
[vii] US Commercial Service (December 2009), *Thai Food Processing Industry*
[viii] USDA (January 2011), *Food and Agriculture Import Regulations and Standards*
[ix] Thailand Institute of Packaging Management for Sustainable Environment, www.tipmse.or.th
[x] Thailand Environmental Institute. *Efforts of Local Companies in Thailand to Green Their Purchasing,* www.city.sendai.jp/kankyou/kanri/icgps-e/pdf/3-2.pdf