

THE CHALLENGER 2018

CENTRAL

ATTRACTING YOUNG GENERATION



This case was prepared by Supawat Likittanawong, Adjunct Professor of Business Administration, BBA International Program, Thammasat Business School, Thammasat University for The Challenger Case Competition 2018. Copyright © 2018 by The Challenger Case Competition, Thammasat University

INTRODUCTION

“Thailand’s retail industry is expected to continue expanding over the next several years, driven by a growing economy, infrastructure investment, stable politics and high farm prices.”

- JARIYA CHIRATHIVAT,
PRESIDENT OF THE THAI RETAILERS
ASSOCIATION

“We don’t just focus on one or the other, online or bricks and mortar. We want people to come to our stores and to shop however they want, so our approach is omnichannel.”

- YUWADEE CHIRATHIVAT,
CENTRAL GROUP

Thailand's rising incomes in recent years have generated optimism among its people and have resulted in an increased consumer spending and greater demand for a wide variety of products and services. The emergence of new retail formats, channels and payment methods have helped increase retail convenience and options for the consumers.

The youth market consisting of Millennials (also commonly known as Gen-Y) and Gen-Z segments are key groups of consumers with combined purchasing value of over 25% of total spending in Thailand. They are a core customer group of consumers that is riding this wave of retail optimism. Central Department Store, as a leader in the Thailand retail market, is looking to explore new and innovative ways to engage and gain a larger share of this growing youth market.

THE CENTRAL GROUP AND CENTRAL DEPARTMENT STORE

Central History

In 1927, 22-years-old Mr. Tiang Chirathivat, traversed the sea from Hainan in Mainland China to settle down in Thailand. He married Ms. Whan and had their first child, Mr. Samrit Chirathivat. The family believed that success would come from honesty and hard work. In those days no one could imagine that the little family would one day turn a new page of Thai merchant history.

The business began as a tiny retail outlet in Thonburi area, Bangkok. From the success of their first tiny shop, they decided to open a new shop house named, "Keng Seng Lee" (baskets for sale) in Bang Khun Thien area, Bangkok, to sell coffee, utensils etc. The room of the shop was also used to provide tailor and barber services.

**"our success grew
out of our
determination to
bring
Thailand into the
modern world. We
are committed to
contributing to its
prosperity and
enhancing the quality
of life"**

Samrit Chirathivat,
Founder of Central Group.



Later that year, the store moved to Charoen Krung Road, at the corner of Captain Bush Lane in Bangkok's Si Phraya district. The single unit shop house sold a large variety of local and international newspapers and magazines and carried the name "Central Trading Store". This was the first chapter of Central Department Store's history.

In the 1950s, the company grew with more and more stores selling different items. It was one of the first few stores in Bangkok that ordered imported goods for sale and was the first to set up merchandising displays.

In 1973, the Chidlom store opened under the new "one stop shopping" concept. Here, customers could come to Central and buy everything they needed under one roof. On 20th December, 2005, King Bhumibol Adulyadej conferred on the company, a Royal Warrant for its services, meaning they could display the royal Garuda emblem.



The company's property development arm, Central Pattana, was founded in 1980, and opened its first shopping center, CentralPlaza Ladprao in Chatuchak District, Bangkok in 1982. Central Group has also in recent years built an online presence with a recent launch of JD.com. Today, the Central Group of companies is a prominent conglomerate holding company in Thailand that has leadership positions in many sectors including Real Estate, Retailing, Hospitality, Merchandizing and Restaurants. Its revenue in 2017 is THB 327,255 million and employs almost 100,000 employees.

Central Group Operational Highlights

2017 Total Sales

THB 327,255 Mb

2017 Assets

THB 437,053 Mb

Store Network

More than 4,996 locations/branches

Net saleable area

Approximately 4,924,315 sq.m.

Employees

Over 94,150 employees

Loyalty Programs

The 1 Card, with over 13.5 million members

The Central Department Store

Central Department Store Group accounts for around 40% of Central Group's revenue. The group runs leading department store brands both in Thailand and overseas with Central Department Store being its core brand¹.

For over six decades, the Central Department Store has been synonymous with excellence in luxury shopping and is widely acknowledged as Thailand's most trusted and recognized retail brand. Central is a longtime favorite among affluent Thai shoppers, as well as discerning tourists and expatriates.

With its twenty one branches nationwide, Central is by far the country's largest department store chain. Central Department Store's local and international reputation is the result of an unwavering commitment to maintaining an expansive merchandise selection, exciting visual presentation, a modern yet welcoming ambience, and unparalleled customer services.

Central Department Store is not just well positioned as an industry leader to capture the growth in the retail market; it is also backed by the power of the Central Group of companies. Central Department store is able to leverage on the business

For a complete list of brands please visit <http://www.centralgroup.com/group-business/central-department-store-group/>

units under the group that are leaders in their own categories covering hotels (Centara), electronics (Power Buy), sports (Supersports), office supplies and stationary (Office Mate and B2S), home improvements and decorative products (Homeworks, Thaiwatsadu), supermarkets (Tops, Central Food Hall), convenience stores (Family Mart) among others.

Business Units in Central Group



Central Department Store leads the Thai retail industry in innovation, and has garnered considerable international peer recognition, with numerous coveted awards. With the constantly changing retail environment, Central Department Store continues to look for new and innovative ways to better serve its customers and stay ahead of the competitors.

MODERN TRADE AND DEPARTMENT STORE OVERVIEW

In 2017, the modern trade sector had a combined value of nearly THB2.5 trillion, or approximately 15% of GDP, which puts it in second place after the industrial sector, which accounts for almost 28% of GDP.

Over the past two decades, the modern trade sector has expanded at a rapid pace particularly in Bangkok and regional centers where the pace of urbanization has accelerated. This is a result of the government opening the domestic market to foreign investors and operators, and supporting the expansion of existing businesses. Goods sold in modern trade outlets are vast and cover the range of items required for daily life. This ability to meet consumer demand effectively is one factor in explaining why modern traders have been able to usurp the position of traditional grocers. Currently, modern traders control over 60% of the market, compared with only 25% in 2001.

Presently, large-scale modern traders in Thailand include 2-3 multinational companies and 3-5 local operators; they have solid performance from strong revenue generating potential thanks to economies of scale, owing to extensive branch coverage, financial strength, and diverse business formats that can respond to the needs of consumers well. Modern trade can be classified under different formats (eg. Department stores, Hypermarkets, Convenience stores and Specialty stores etc.) with each format having its own unique proposition. Of these formats, the largest retail unit is Department stores.

Store Format of Modern Trade

	Department Store	Discount Store / Hypermarket / Super Center	Supermarket	Convenience Store	Specialty Store
Product Categories	Various: fashionable, high quality / guarantee	Consumer goods, basic quality	Consumer goods, fresh foods	Consumer goods, prepared foods, small size	Personal care products, own brand
Target Consumer	Middle-upper	Lower-middle / grocery	Middle-upper	Those favoring convenience	Middle-upper
Supplier	Domestic, foreign, brand name	Domestic	Domestic	Domestic	Domestic, foreign
Stock Inventory	60-90 days	30-45 days	10-15 days	15-20 days	30 days and 7 months for import stuff
Key Player	Central, The Mall, Robinson	Tesco Lotus, Big C	Tops, Home Fresh Mart, Foodland	7-Eleven, Family Mart	Watson, Boots, Supersports

Source: BOT, compiled by Krungsri Research

Department stores² are the largest retail units which retail higher quality goods, both domestically produced and imported. Department stores are usually found in city centers, with their design works to highlight visual appeal. They are also typically staffed with assistants who help to advise and assist shoppers. Central and Robinson are major operators in this mold.

Flows of new investment in Thai department stores have been consistent for many years. 2012 and 2013 were booming years for the outside provinces. This led to increased activity in land purchases and house building, which in turn opened opportunities for investors in large modern trade businesses and prompted a number of department stores to expand operations in regional centers and in tourism provinces.

² A **department store** is a retail establishment offering a wide range of consumer goods in different product categories known as "departments". Today, departments often include the following: clothing, furniture, home appliances, toys, cosmetics, houseware, gardening, toiletries, sporting goods, do it yourself, paint, and hardware. Additionally, other lines of products such as food, books, jewelry, electronics, stationery, photographic equipment, baby products, and products for pets are sometimes included. Some stores are one of many within a larger retail chain, while others are independent retailers.

Competition between department stores emphasizes the unique points of each player. Central Group has the largest number of branches and the greatest floor space. To help segment the market, Central Group has invested in building a range of different brands that cater to different customer segments. For example, Robinson is one of the group's department store brand that has been offering product differentiations with value-for-money quality at affordable prices.

Robinson

**Thailand's largest department store brand
with 34 branches nationwide**



Many other players also compete in this space, with a significant number of Thai investors who operate in other sectors making investments in department stores. These investments typically take the form of developments in prime areas in Bangkok that are directed at middle- to upper-level consumers. Examples of these investors include The Mall Group that has concentrated its efforts in the upper mass/premium end of the market. Other players include Siam Piwat (Siam Discovery and Siam Center), Seacon Development (Seacon Square and Seacon Bangkhae), Siam Retail Development (Fashion Island and Terminal 21), MBK Group (MBK Center and Paradise Park), Japanese JV (Tokyu and Isetan), Gaysorn Property (Gaysorn Plaza), Siam Future (Mega Bangna and Esplanade), TCC Group (Asiatique and Gateway Ekamai) and currently under construction, Icon Siam, which is part of the joint venture between the CP Group and Siam Piwat.

The sales growth of department stores in 2016 was 2.8%, however in the next 1-3 years, retail business is likely to grow further at 4-6% following the economic growth and recovering household spending. Outlook of each store format is detailed in the figure below with Department stores expected to see sales growth at 3-5% per year from 2.8% in 2016. Expansion, opening or renovation of department stores will accelerate due to 1) positive signals seen in the strength of the tourism sector, which is forecasted to grow by 8- 10% per year over the next three years; and 2) expansion is expected to help meet demand in second-tier cities and in border zones which are well linked to neighboring countries. Nevertheless, competition remains strong and local players must innovate to attract and generate value from the modern consumers.

Retail Business Growth by Type of Business (%)

	2013	2014	2015	2016	2017
Department Stores	5.5	3.4	3.0	2.8	3.0-5.0
Discount Stores	3.5	2.6	1.8	2.0	2.0-4.0
Supermarkets	8.0	6.5	8.5	9.0	8.0-10.0
Convenience Stores	10.0	4.0	2.8	3.0	3.5-4.5
Specialty Stores	8.5	2.7	2.7	2.7	3.0-4.0
Modern Retail Sales Growth	6.3	3.2	2.8	3.0	4.0-6.0

Source: Thai Retailers Association, forecast by Krungsri Research

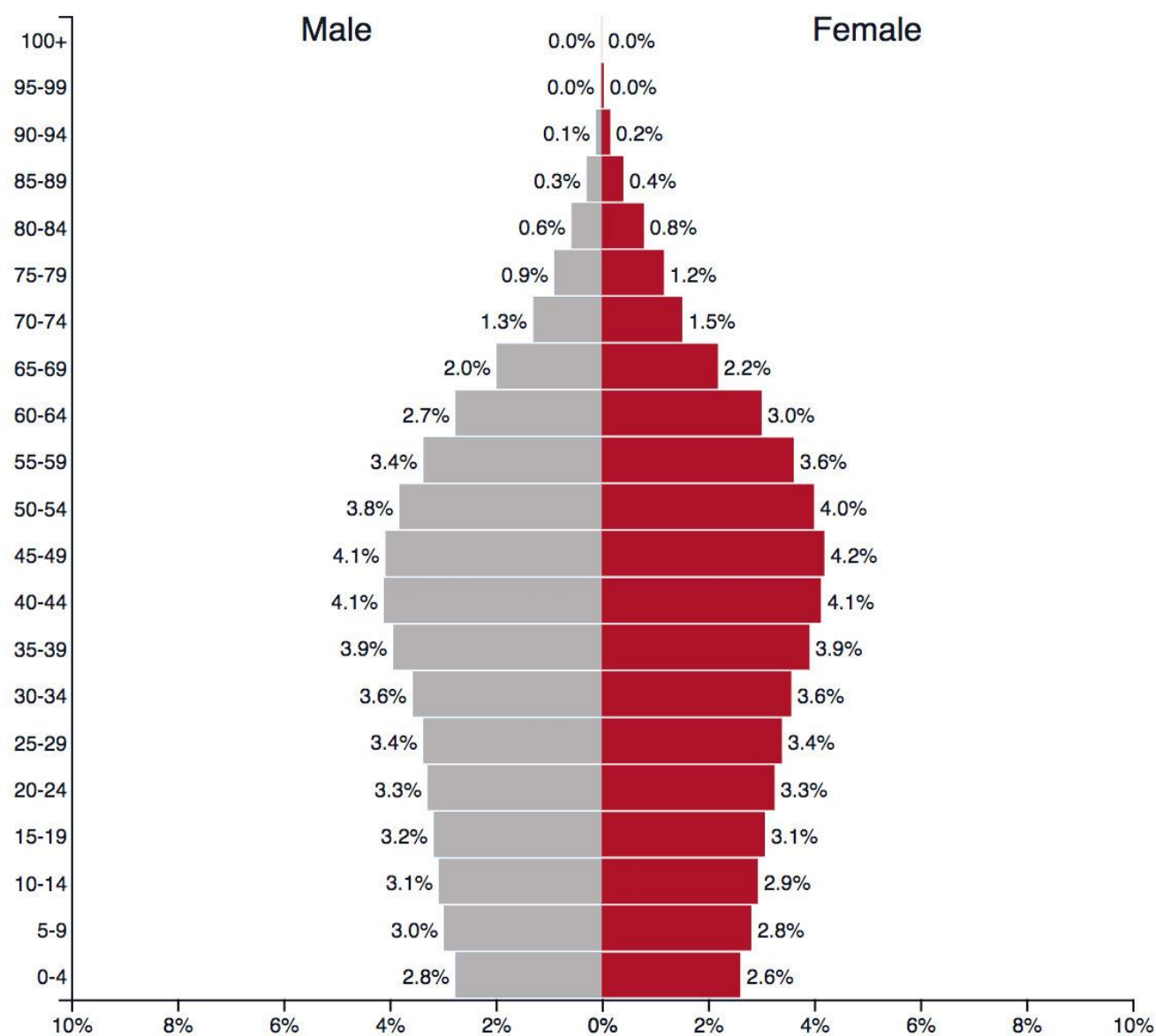
CAPTURING THE MODERN CONSUMERS

The modern consumers or the youth segment can be broadly defined as consumers between the **ages of 18 - 35**. They are a core group of consumers who are tech-savvy with high access to information and have high spending power.

This youth segment continues to hold a significant share of buying power and influence towards business and corporate culture. This segment makes up almost a quarter of the Thai population and will likely account for 30-40% of all consumers by 2020. According to a research by SCB Economic Intelligence Center (SCB EIC), Thailand's youth segment has substantial income despite being young, and they are at the stage of life where they spend most of their earnings. The sheer size of this group means that they now contribute approximately THB 5 trillion (USD 170 billion) or 25% of the nation's annual income in 2016 which is nearly the same as Gen X (28%) who have worked for 20 years longer on average. On a per-capita basis, the youth segment's average monthly income of THB 30,000 (USD 1,000) already compares to that of the two generations before them, which is THB 35,000 for Gen X and THB 32,000 for Baby Boomers.

Thailand ▼
2017

Population: 68,297,546



This high income translates into high spending because the youth segment is still in the chapters of their lives associated with having high propensity to spend. It is estimated that their level of spending is about 80% of their income, whereas the two preceding generations spend just 65-70% of their income.

But Thai youth spending is higher not only because of their life stage. One reason is because, even as teenagers and young workers, Thai youths are more affluent than previous generations thanks to the support from their affluent Baby Boomer parents.



The youth segment has their own expectations and habits that differ from their older counterparts. For example, they view restaurants as more than mere places where they can satisfy their hunger. They grew up in a world where the restaurant industry is crowded and their options are limitless. They value brands that can offer unique experiences and products. Good experience alone is not sufficient to attract and retain them.

With the advancement in technology and connectivity, these youths have very little to no patience. If something is too slow or doesn't work as intended, they'll move on.

Youth listens to brands and look for channels that cater to their needs and wants, whether those are knowledge or entertainment. The youth segment is practical and don't fall for the fancy stuff. They value good products and experience and want to be engaged in ways they find most comfortable and rewarding.

Businesses that want to get out in front of the trends and succeed in the next decade and beyond need to consider the youth segment. To earn their attention and eventually their loyalty, businesses must understand their needs, wants and values, then adjust their offerings to cater to their needs.

CHALLENGE FROM ONLINE?

With the strong growth in online retailing, many would think that physical retail would be impacted. However, in reality online retail accounts for approximately 2 percent of total retail value in Thailand. Therefore physical retail isn't actually dead, but boring retail is. By January 2019, over 90 percent of all retail will still be done in physical stores.

New classes of retailers are emerging. There are retailers who started online and are moving to physical brick-and-mortar, while others are merging “bricks and clicks.” Retailers are seeking to understand their share of consumer spending, and how their consumers search, shop and buy in order to devise new retail models. Whether that means having a show room or only having a strong presence in e-commerce, retailers are reinventing how they do business. Physical retailers that are doing well offer customer experience that meets or exceeds customer expectations. Insights from more developed markets predict that consumers will visit physical stores as long as there are new and interesting reasons to go. Leading retailers take advantage of their physical spaces to maximize experience per square foot and the real-life interactions customers have there. In summary, customers will shop where they enjoy their experience, and this could be on a single channel or a combination of channels.

“A lot of our customers buy something online but pick up from a store, for instance, or we communicate with them via chat services and they tell us what they want and they can pick it up at the shop or we can send it to them.”

***- YUWADEE CHIRATHIVAT,
CENTRAL GROUP***

As retailers enter 2018, they are already seeing that if customers are going to visit a store, it needs to be about more than just the transaction. Retailers need to offer something you can't get online. They need to offer an experience.

New technologies have put customers in the driver's seat. The fast pace developments in applications (Apps) is enabling consumers toward a reality in which everything happens in real time. The natural outcome is that people want that instant gratification. This has had a deep impact on customer expectation. In a Salesforce.com report, 64 percent of consumers said they expect companies to respond to and interact with them in real time. The need for speed will only increase as technology enables and advances. The point of engagement and the point of transaction are converging, meaning retailers that can offer immediacy, instant gratification, personalization, authenticity and accessibility, will win.

THE DEPARTMENT STORE OF THE NEXT DECADE

The department store experience and formats of today has not significantly deviated from that of a few decades ago. Despite the innovation in services and merchandize display, the way goods and services are sold has not fundamentally changed. With the youth segment today that is significantly different from that of their predecessors, as well as the new technology and innovation in services, to keep up with their needs, Central Department Store is looking for ways to attract young generation to come to department stores.



Case Task

To capture the growth in the youth segment, the management at Central Department Store understands that creating the right experience for their customers is key. **Central Department Store is looking for new ways to attract the young generation to come to the department stores.**

Your recommendation should be practical, implementable and relevant in the next 5 years. You may cover the following topics but not limited to: Store concept, merchandising / brands / products, marketing, new services etc.

You are free to leverage on (but not limited to) any of the available resources within Central Group.

Please note that the assigned case task is for Central Department Store and NOT the entire shopping plaza. As such, your recommendations should focus on Central Department Store.

The management at Central Department Store is looking forward to seeing your recommendations that will cater to the needs of the youth segment.



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