



## Note by EIC

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### Focus on home improvement stores: High growth, fierce competition

Higher consumer purchasing power and rapid expansion in residential property developments trigger the strong growth potential for home improvement retailers. However, competition is high and rising as big players continue to roll out new stores, especially in upcountry, and to tailor their business models to meet local demand.

Home improvement retailing, which focuses on sales of building materials and interior decorative goods, is growing significantly thanks to higher household purchasing power and a growing consumer preference for modern trade stores. During the past three years, starting before the floods of late 2011, demand for these products has grown steadily. The sector's major players have enjoyed growth in sales by up to 16% each year from 2009 to 2012, far above the average 3% growth rate for non-grocery retail sales in general. One reason is higher incomes both in Bangkok and the provinces. Bangkok's population having middle income and above (over 15,000 Baht per month) has increased from 37% of the total in 2007 to 46% in 2011, while in the outer provinces the share has risen from 14% to 19%. By 2020 the middle-income-and-up share of the national population is expected to grow to 40%, from 20% today. The rise in purchasing power will propel this sector, as seen in well-established trends. During 2007 to 2011, for example, the housing expenditure has increased by 33% per year among consumers in Bangkok and 10% per year in other provinces. Another factor supporting growth is a rising consumer preference for convenience and product varieties, which favors modern trade retailers. And consumers are increasingly adopting a do-it-yourself approach to home improvement, boosting demand.

The other big supporting factor is growth of the real estate sector in Bangkok and other major provinces. Housing projects in these areas have shown obvious growth during the past three years. In 2013, the large developers plan to continue their expansions, especially in major provinces. Sansiri PCL, for example, is planning 60 billion Baht in project investments, 73% of it in Bangkok and 23% in major provinces. Land and Houses PCL plans to invest 43 billion Baht, 80% for Bangkok and 20% elsewhere. The provinces outside Bangkok that have drawn the most attention from developers include Phuket, Chonburi, Hua Hin, Chiang Mai, Khon Kaen and Udon Thani. This will boost demand for home improvement products as well.

Beyond these major provincial areas, other provinces will also generate opportunities for these retailers. Among these are Chanthaburi, Trang, Lopburi, Chachoengsao, Chiang Rai, Samut Songkhram, and Ang Thong. These provinces have few home improvement retailers despite their population density. Moreover, many of the provinces mentioned above also have higher rates of electricity usage per household compared to the national average of 1,600 Kilowatts per hour per user, which reflects higher spending on household and electrical goods. Not

only that, some provinces like Chiang Rai and Chanthaburi are located in the border areas and could attract customers from neighboring countries as well.

### Major players, especially Big-box model, are rapidly adding branches to conquer prime locations.

Possessing the prime location is extremely advantageous because good sites near cities and residential areas are hard to find and rising in price. Building a branch requires approximately 6-9 months of construction, so faster expansion means faster access to consumers nearby, especially in locations without modern trade competition. The 'first mover' advantage is especially significant for companies operating home centers or big-box stores, which have more than 50,000 SKUs. All of these players are competing for locations nationwide. Home Pro plans to expand by at least eight branches, Siam Global House will add 10-12 branches and Thai Watsadu plans 10 new branches. Furthermore, specialty retail stores, like Boonthavorn and Index Living Mall, are also expanding in 2013. Boonthavorn plans two new branches in Chiang Mai and Phuket, while Index Living Mall will add three stores.

### Home improvement chains are now competing to reach consumers in segments where they lack market share.

Purchasers of home improvement products can be split into two types, namely consumers and contractors or developers. Consumer turn to specialty stores when they have specific needs, such as buying tiles at Boonthavorn or furniture at Index Living Mall. However, if they seek convenience, they will go to one store where they can get many products, like Home Center format. However, operators have begun to diversify in response to demands from another segment. One successful model addresses market segmentation, such as the Central Retail group investing in construction materials store in order to expand their customer base into all segments, including contractors, rather than their original model of Homeworks, which focused on retail consumers. Recently, Home Pro, which deploys the big-box format, has planned to target the builder and contractor market by opening a new store format under a brand called Mega Home, which focuses on bricks, cement, sand and other basic construction materials. At the same time, Home Pro will continue to add branches to further penetrate the retail consumer segment.

### Retailers can differentiate by developing new and better services and loyalty programs.

Relevant services include design, installation and repairs/renovation. Repair and renovation services are significant because independent workers and contractors are increasingly hard to find. Some operators are developing more on-site home services to attract consumers, such as monitoring, cleaning and replacing products as well as painting and renovations. Even though this income is not a main part of total revenue generated by the retailers, it is a selling point that can attract new customers and develop loyalty through customer satisfaction. Another strategy that should not be overlooked is a good loyalty program. Because purchases of home improvement products are not as frequent as for other consumer goods, a loyalty program or membership card can help attract customers to return to the same store.

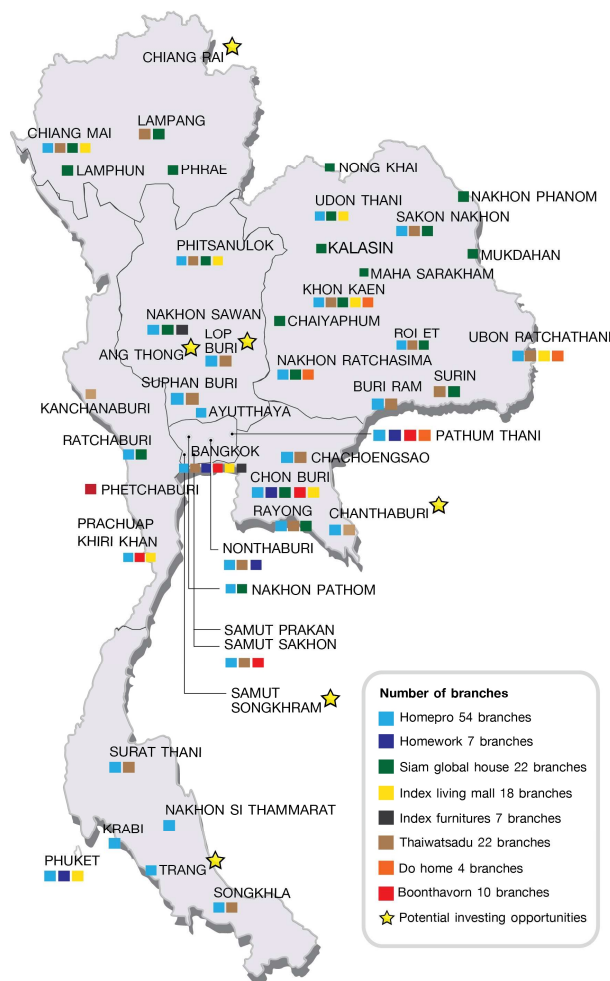
### Implication

- Companies that add or expand branches should be flexible in terms of store size and product selection to match demand in each area and should manage stocks effectively. Large home improvement stores can target customers from both within and beyond the site province. For instance, Do Home's Nakhon Ratchasima branch is over 70 Rai in size and can handle customers from both its own province and nearby provinces like Surin, Buriram, Chaiyaphum and Khon Kaen. However, if

the province is small with low population and the site does not offer good access to nearby provinces or busy roads, the branch should be smaller, with less variety and lower stock. Product selection affects stocking and shelf life. Even though home improvement goods tend to have long shelf lives, stocking them does incur costs. So inventory management technology and experience is needed to select appropriate products and accurately predict turnover, which will help guide orders and reduce costs.

Local and independent retail operators, especially in outer provinces, can still grow but will have to adapt themselves toward the modern trade system to keep up with changing consumer behavior. One local retailer that has successfully upgraded is Do Home. Despite having only four branches, they have higher sales per branch than any of their competitors. Do Home has also seen growth of over 23% per year in the last five years, because the operator understands local consumers and is already in good locations to reach them. Nowadays, more consumers are turning to modern trade stores. If local stores do not improve their image and product offerings, they will not be able to compete with large companies that can expand quickly. These independent retailers might be forced out of business.

Figure 1: Branches of home improvement stores in provinces with high potential



Source: EIC analysis

Figure 2: Strategies and performance figures among big-box retailers

Home Center (Big Box Model)				Key financial performance*			
Brand	Products (SKUs)	Segmentation	Competitive Strategies	Gross profit margin: (%)	Inventory days:	CAGR sales (5-year average)	Revenue Ratio
<b>HomePro</b>	>60,000	90% - Retail customers	<ul style="list-style-type: none"> <li>One stop shopping Centre with full-length services – Design, install and repair and maintenance</li> <li>Loyalty program with member and credit card</li> <li>Tab into segment focusing on contractors under 'Mega home' Brand (To be opened during Q4-2013)</li> </ul>	26	62	15	76% Bathroom & Sanitary ware 16% Bedding & Decorative goods 1% Project sales 7% Others
<b>DoHome</b>	Approximate 200,000	Focus on both retail and contractors	<ul style="list-style-type: none"> <li>Huge selling space of 100,000-200,000 SQ.M.</li> <li>Focus on value for money, quality and varieties of products</li> <li>One stop shopping Centre with full-length services – Design, install and repair and maintenance</li> <li>Good relationship with local suppliers</li> <li>Loyalty program with member card</li> </ul>	9	97	23	N/A
<b>Siam Global House</b>	88,000	73% Retail Customers 13% - Small distributors 12% Contractors	<ul style="list-style-type: none"> <li>Focus on consumer's preferences by displaying the products in the convenience layout</li> <li>Provide delivery, installment service and drive through services</li> </ul>	16	139	40	35% Construction material 63% Furniture 2% Other revenue
<b>HomeWorks</b>	Approximate 60,000	10% Contractors 80% Retail Customers 5% Developers 5% Others	<ul style="list-style-type: none"> <li>Focus in urban area market with high purchasing power</li> <li>Tailor the branch format to suit local needs</li> </ul>	CRC Power Retail			
<b>Thai Watsadu</b>	Approximate 100,000	45% Contractors 40% Retail Customers 10% Developers 5% Others	<ul style="list-style-type: none"> <li>Provide delivery, installment service and drive through services</li> <li>70% construction materials and tools</li> <li>Focus on value for money and varieties</li> <li>Loyalty program with member card</li> </ul>	16	110	23	N/A

Source: EIC analysis based on data from company reports and media

Figure 3: Strategies and performance figures among specialty retailers

Specialty Store				Key financial performance*			
Brand	Products (SKUs)	Segmentation	Competitive Strategies	Gross profit margin: (%)	Inventory days:	CAGR sales (5-year average):	Revenue Ratio
<b>Home Mart</b>	Approximate 10,000	2 segments: <ul style="list-style-type: none"> <li>Home mart max: focus on retail customers</li> <li>Home mart builder: focus on contractors</li> </ul>	<ul style="list-style-type: none"> <li>Focus on full-length building material products</li> <li>Small stores size helps fasten the branch expansion</li> <li>Total Home Solutions with design services as well as consulting services relating to building material and house problems</li> <li>Use Home Mart as a distribution channel for SCG products</li> </ul>	3	N/A	3	N/A
<b>Boonthavorn</b>	N/A	<ul style="list-style-type: none"> <li>50% - Retail customers</li> <li>50% - Contractors and architectures</li> </ul>	<ul style="list-style-type: none"> <li>Specialized in product lines such as tiles, bathroom and sanitary wares as well as house decorative goods</li> <li>Loyalty program with member card</li> </ul>	21	58	8	50% Tiles 20% bathroom and sanitary wares 15% Kitchen wares 15% DIY (Do It Yourself)
<b>Index Living Mall</b>	Approximate 10,000	<ul style="list-style-type: none"> <li>Winner: focus on middle income group</li> <li>Trend Design: imported furniture to focus on upper middle income group</li> </ul>	<ul style="list-style-type: none"> <li>Specialized in furniture and house decorative goods</li> <li>Products cover many segments which are different in styles and prices e.g. Winner price is lower than Index price around 20-30% and focuses on provincial customers</li> <li>Tailor the branch size according to the location e.g. thru 5,000-6,000 SQ.M. for small provinces (Normal size = 10,000 SQ.M.)</li> <li>Mass production, therefore, gain economy of scale</li> <li>Loyalty program with member card</li> </ul>	37	111	6	60% Retail sales 30% Export 10% Others

Source: EIC analysis based on data from company reports and media

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