

For internal use only



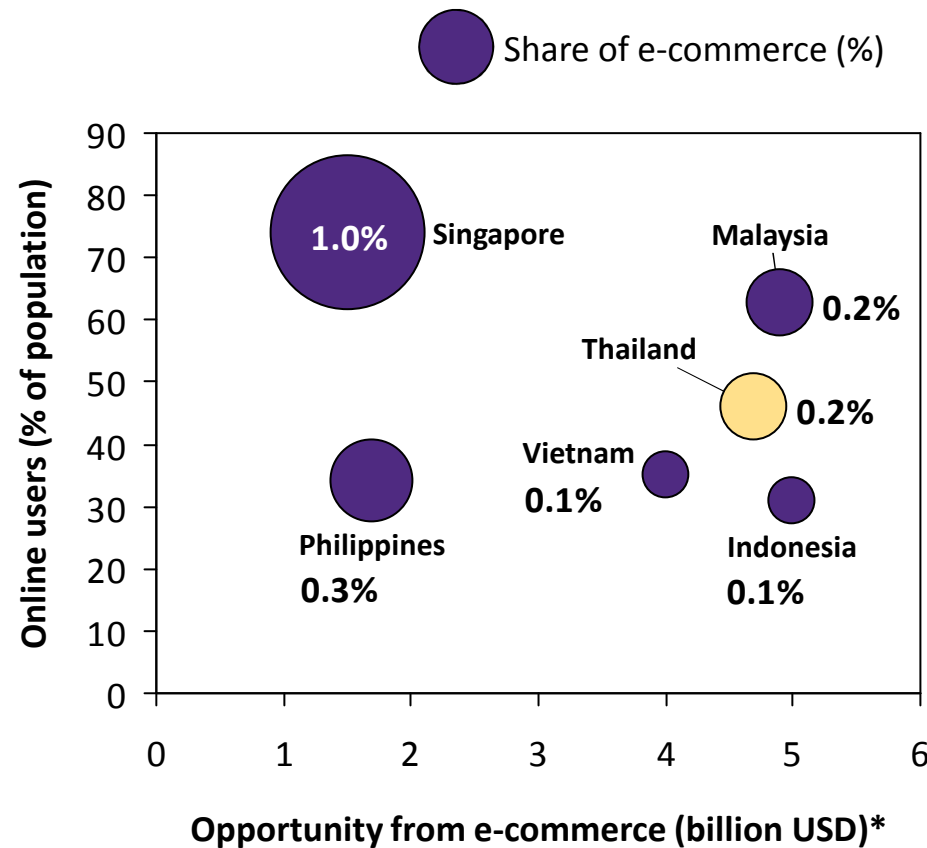
Introduction to e-commerce businesses in Thailand

May 2015

By EIC | Economic Intelligence Center

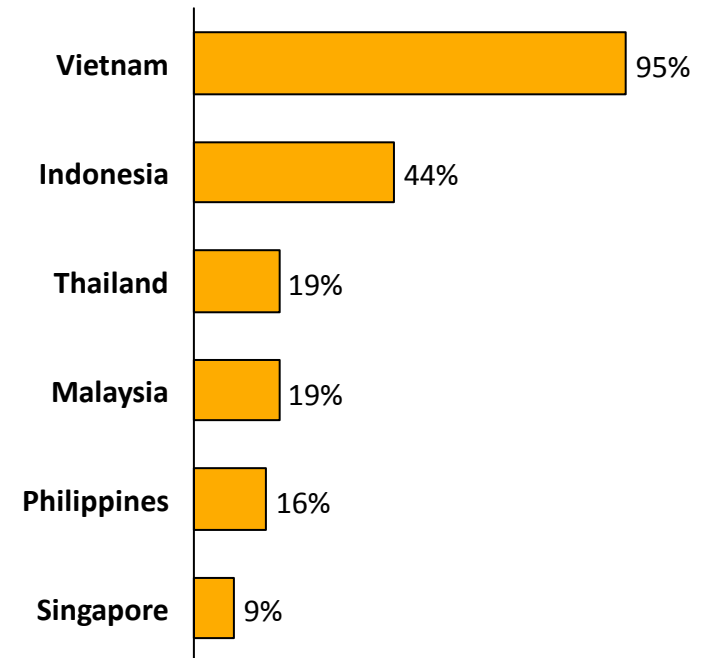
Despite small market size of e-commerce, ASEAN will be one of the world's fastest-growing markets for e-commerce revenues in the next few years

Market opportunity from e-commerce



E-commerce market growth

Unit: % CAGR (2009-2013)



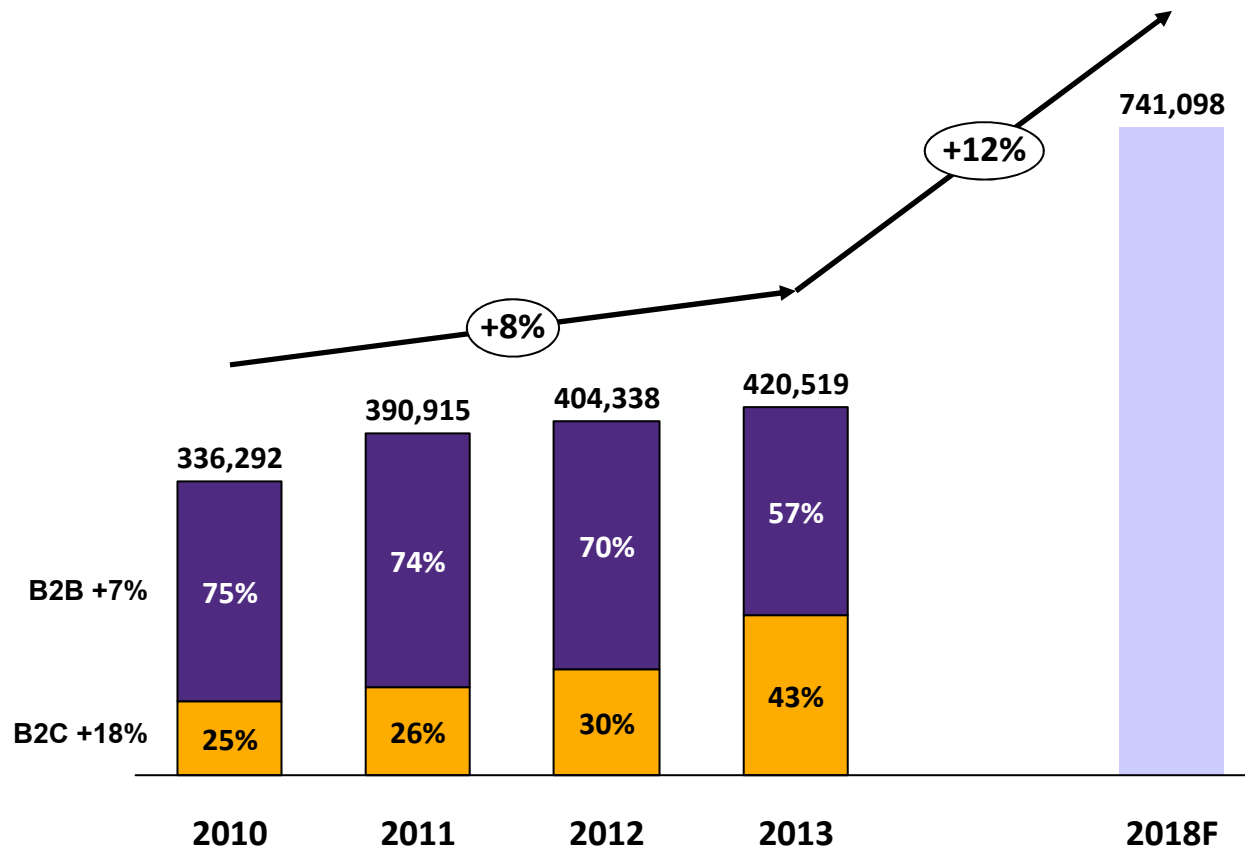
Remark: * opportunity from e-commerce is calculated from the assumption of e-commerce share growing to reach 5% of retail sale (2013 data)

Source: EIC analysis based on data from UBS and Euromonitor

Thailand's e-commerce is projected to grow 12% CAGR reaching 740 billion baht in 2018, especially for business-to-customer (B2C) transaction

Market size of e-commerce business in Thailand

Unit: million baht



Source: EIC analysis based on data from National Statistical Office (NSO)

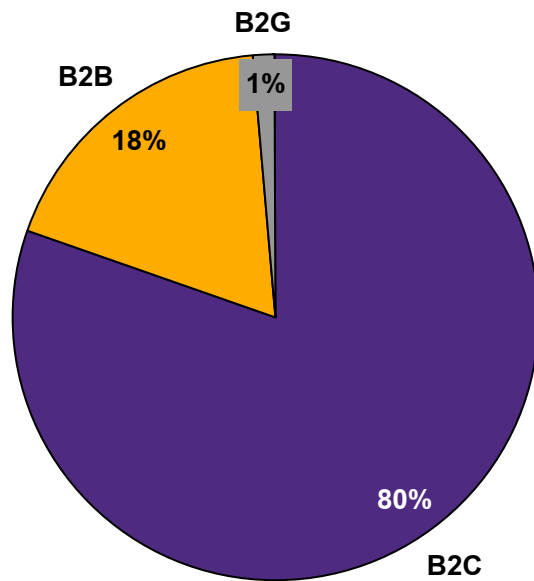


B2C e-commerce entrepreneur in Thailand remains very fragmented and competition is more intense

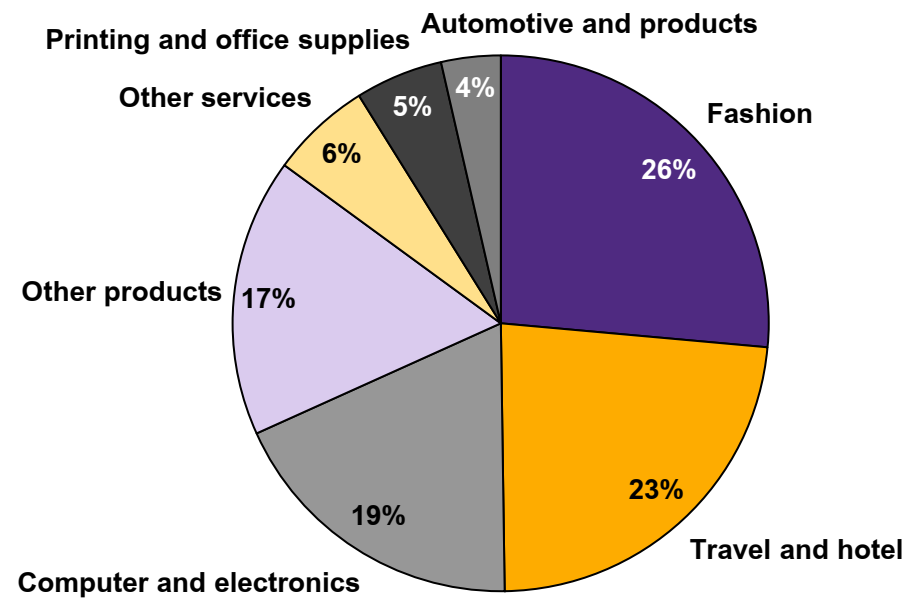
Type of e-commerce by transaction and product

Unit: %

By type of transactions



By type of products



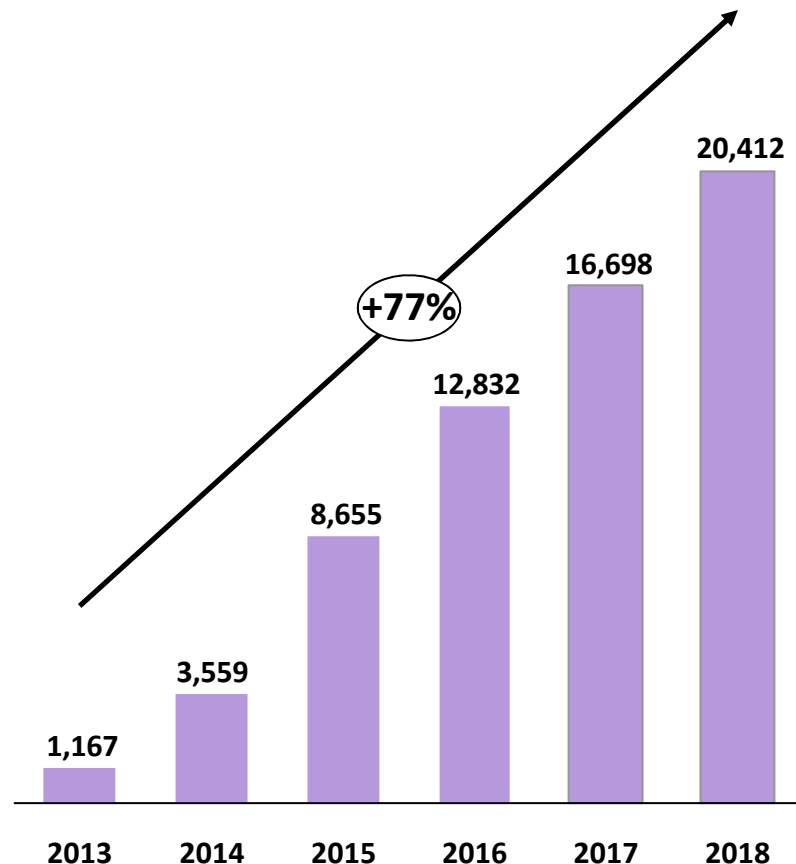
Source: EIC analysis based on data from NSO



Social and mobile commerce are platforms of e-commerce to focus on in Thailand with potential promising growth of 70% through 2018

Market size of mobile-commerce

Unit: million baht



- 93%** of web users visiting social network sites
- 50%** of mobile users use social media
- 4** hours per day usage of social media
- #1** Most Instagrammed location in the world
- 10%** of social media users shop online
- 46%** Mobile subscription using data services

Source: EIC analysis based on data from National Statistical Office (NSO)

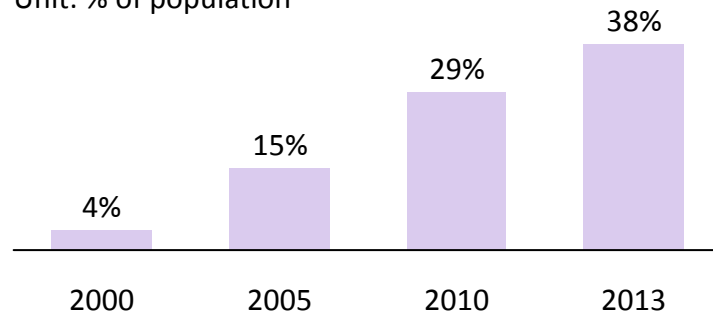


Fast growing internet and rising mobile devices penetration are key drivers

Fast growing internet penetration

Penetration of internet usage

Unit: % of population



Rising mobile device application

Penetration of mobile phone

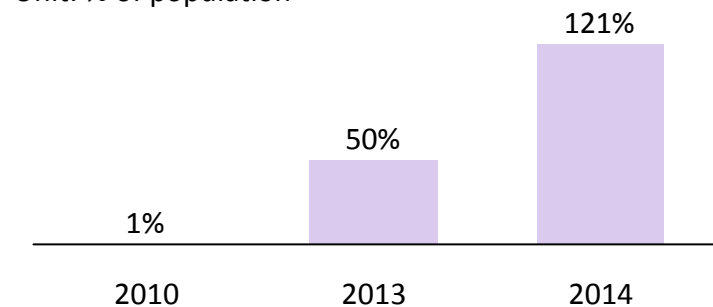
Unit: % of population



Improvement of internet infrastructure

3G & 4G phone subscriber penetration

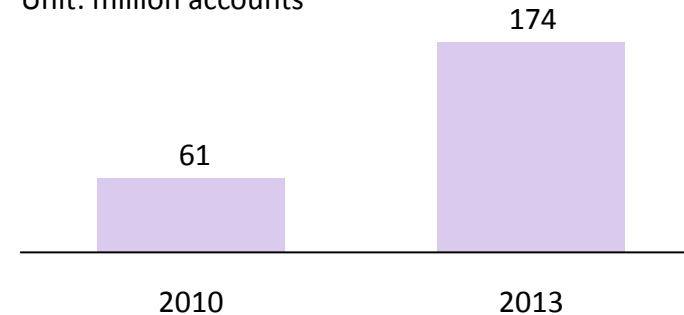
Unit: % of population



Development of payment method

E-money subscriber

Unit: million accounts

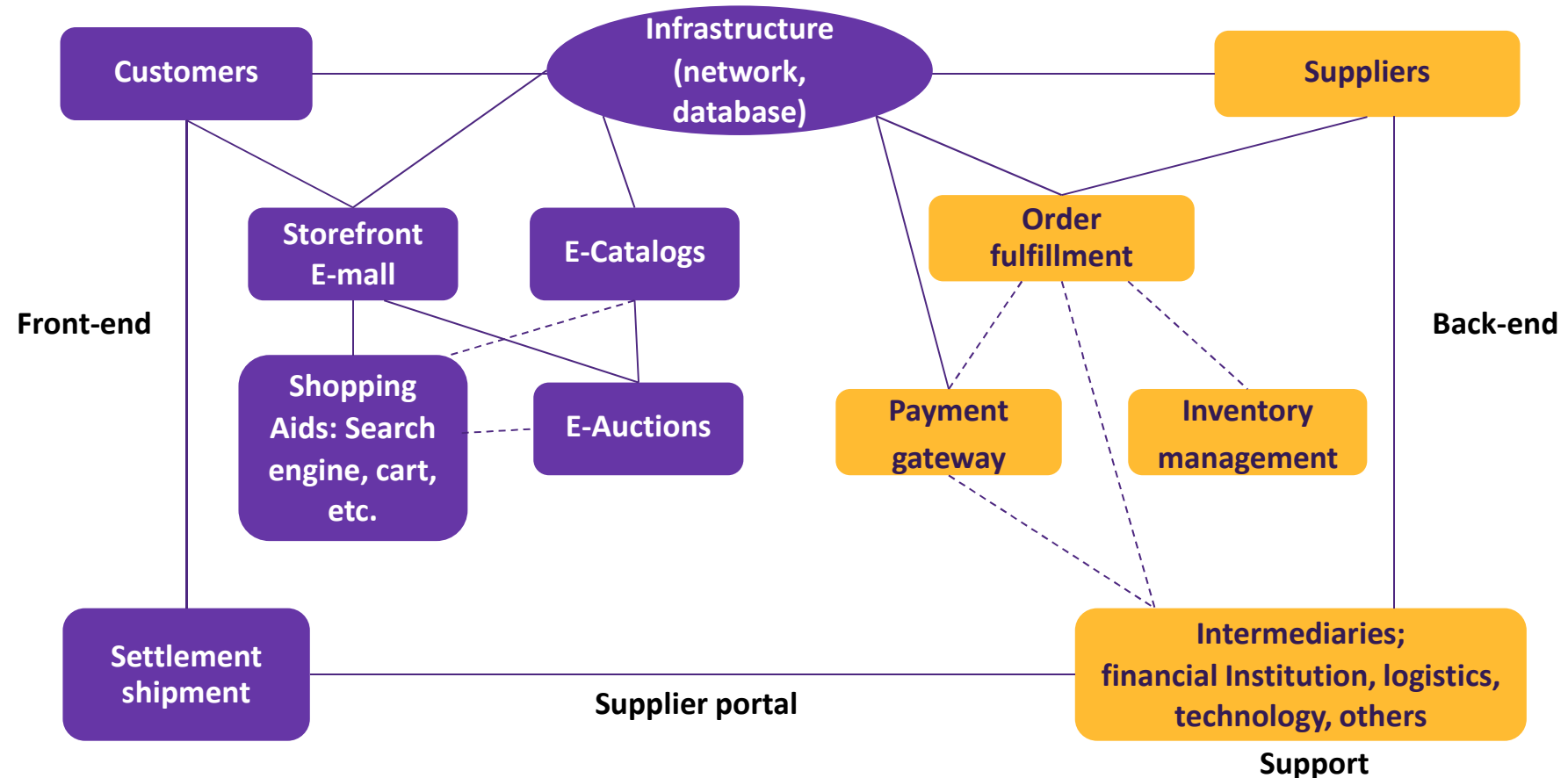


Source: EIC analysis based on data from NSO



A successful e-commerce business needs not only user friendly storefront and shopping aids but also efficient back-end arrangement for order fulfillment

Essential elements of an e-commerce business

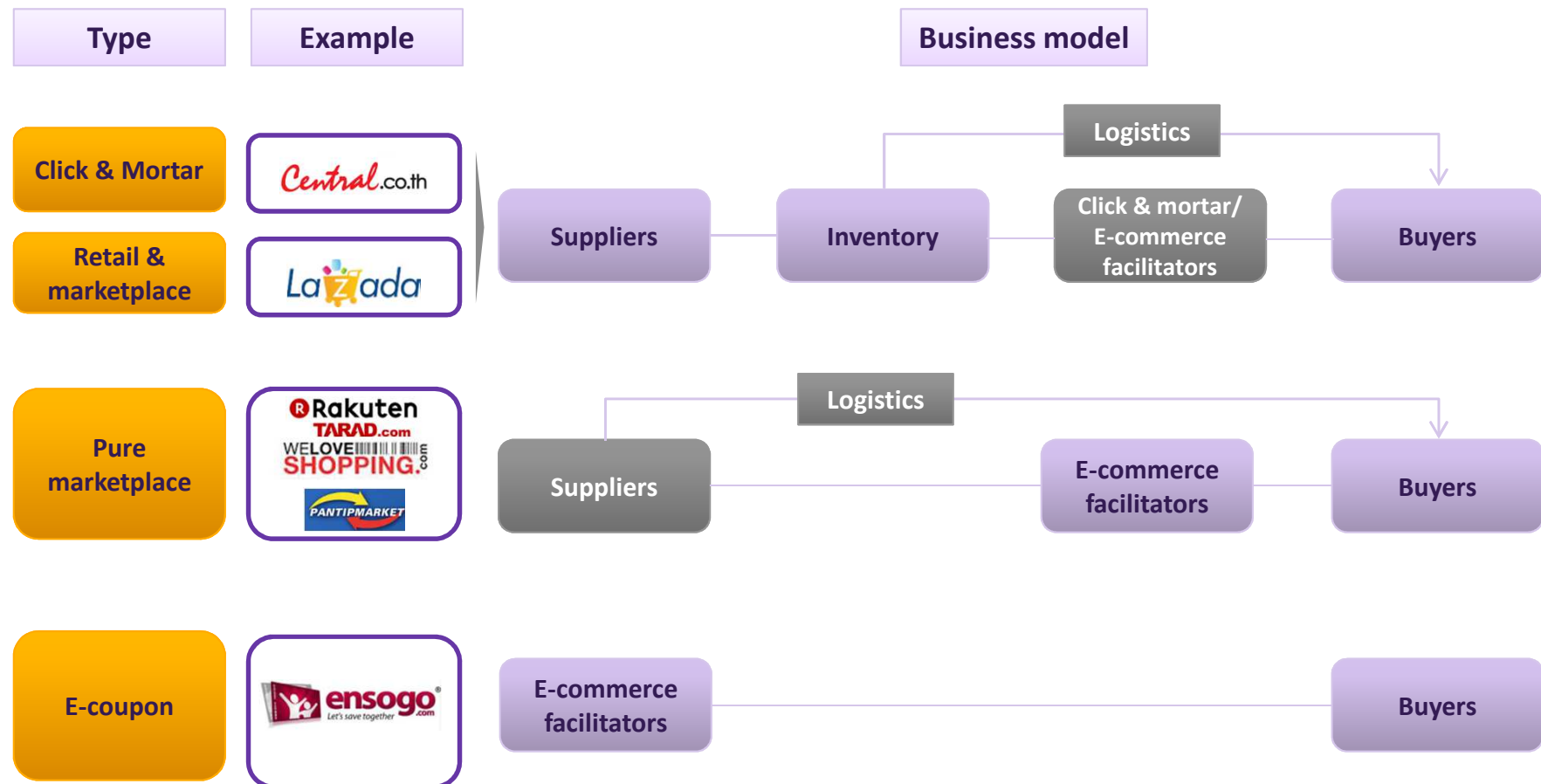


Source: EIC analysis based on data from tarad.com



At least four models of e-commerce business are observed, although their operational difference is ambiguous and a company employs many models

Operational model of each type of e-commerce business



Source: EIC analysis



E-commerce players are characterized by the model of product transfer, ordering process, and logistic operations

Type	Characteristic	Revenue	Cost	Payment
Click & Mortar	<ul style="list-style-type: none"> ➤ Customers can shop either on retailers' websites or a physical store. ➤ Sharing the same database of products across all channels allows retailers to track their customers across all channels to gain a better CRM 	<ul style="list-style-type: none"> ➤ Sales revenue ➤ Advertising revenue 	<ul style="list-style-type: none"> ➤ Inventory and logistic costs ➤ Advertising cost ➤ Other administrative cost 	<ul style="list-style-type: none"> ➤ Cash on delivery ➤ Mobile EDC ➤ Credit card ➤ Bill payment, Bank transfer
Retail & marketplace	<ul style="list-style-type: none"> ➤ A company can either provide its own products or act as a market place operator by providing the suppliers with a platform to place products/services 	<ul style="list-style-type: none"> ➤ Sales revenue ➤ Commission revenue ➤ Transaction fee revenue (fixed or percentage of sales) ➤ Advertising revenue 	<ul style="list-style-type: none"> ➤ Inventory and logistic costs ➤ Advertising cost ➤ Other administrative cost 	<ul style="list-style-type: none"> ➤ Cash on delivery ➤ Paypal ➤ Credit card
Pure marketplace	<ul style="list-style-type: none"> ➤ A type of e-commerce site where products/service s are provided by multiple suppliers. Transactions are operated by the marketplace facilitators and then delivered and fulfilled by the participating suppliers 	<ul style="list-style-type: none"> ➤ Commission revenue ➤ Transaction fee revenue (fixed or percentage of sales) ➤ Advertising revenue 	<ul style="list-style-type: none"> ➤ Advertising cost ➤ Administrative cost 	<ul style="list-style-type: none"> ➤ Credit/debit card ➤ Paypal ➤ PaysBuy ➤ Bill payment, Bank transfer ➤ Counter services
E-coupon	<ul style="list-style-type: none"> ➤ A type of e-commerce marketplace that connects merchants to consumers by offering goods and services at a discount. Each day, a web deal will provide e-coupon 	<ul style="list-style-type: none"> ➤ Affiliate revenue 	<ul style="list-style-type: none"> ➤ Administrative cost 	<ul style="list-style-type: none"> ➤ Credit/debit card ➤ Counter services ➤ Bill payment, Bank transfer

Source: EIC analysis

Despite lower operating costs, most of e-market place retailers face challenges from the ability to control over the details of transaction

Type	Pro	Cons
Click & Mortar	<ul style="list-style-type: none"> ➤ Full control over the details of any given transaction such as prices, product quality, stock management, and logistics ➤ The integration of store-based and online channels enables firms to capitalize on potential synergies, i.e. logistics, operations, marketing, and customers . ➤ Synergy benefits will result in cost saving in a number of areas such as labor, inventory, marketing and distribution 	<ul style="list-style-type: none"> ➤ E-commerce channel may cannibalize sales from physical channel ➤ Need to manage both front end and back end transaction ➤ Traditional firms may lack competencies needed to achieve synergy from click & mortar channel
Retail & marketplace	<ul style="list-style-type: none"> ➤ Full control over the details of any given transaction such as prices, product quality, stock management, and logistics ➤ Not only revenue from sales, e-commerce facilitator can make a percentage off of every transaction ➤ Allows for a much bigger scale of suppliers and has the opportunity to scale up considerably 	<ul style="list-style-type: none"> ➤ Has inventory costs and logistic costs ➤ Need to manage both front end and back end transaction
Pure marketplace	<ul style="list-style-type: none"> ➤ Reduce overhead cost ➤ No inventory or logistic costs ➤ Allows for a much bigger scale of suppliers and has the opportunity to scale up considerably 	<ul style="list-style-type: none"> ➤ Less control over the details of any transaction such as logistics, inventory, product quality ➤ No control over product pricing
E-coupon	<ul style="list-style-type: none"> ➤ Reduce overhead cost ➤ No inventory or logistic costs ➤ No concern on reliability of delivery services 	<ul style="list-style-type: none"> ➤ Less control over product or service quality ➤ No control over product pricing

Source: EIC analysis

An e-marketplace has been transformed to different concepts of platform for retailers of all sizes to do business through e-commerce

Classified Ads

- ❖ A web facilitator operate the online platform for C2C transactions similar to the classified advertising section of newspaper or going to an auction



Deal sites/Flash sales

- ❖ A website offers a single product for sale for a period of 24-36 hours. Potential customers register as members of the deal-a-day websites and receive online offers and invitations by email or social networks



Tender/Auction

- ❖ Sellers place their products for bidding on the marketplace website
- ❖ A company will facilitate online platforms such as communication, advertising and payment



Subscription

- ❖ Buyers signing up for multiple subscriptions services each month and get samples as part of their subscriptions



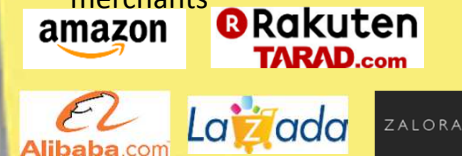
Group buying

- ❖ Same concept as deal sites, but a minimum number of buyers need to sign up for the same offer to get the deal
- ❖ Many group-buying sites negotiate deals with local merchants and promising to deliver a higher foot count in exchange for better prices



Hybrid format

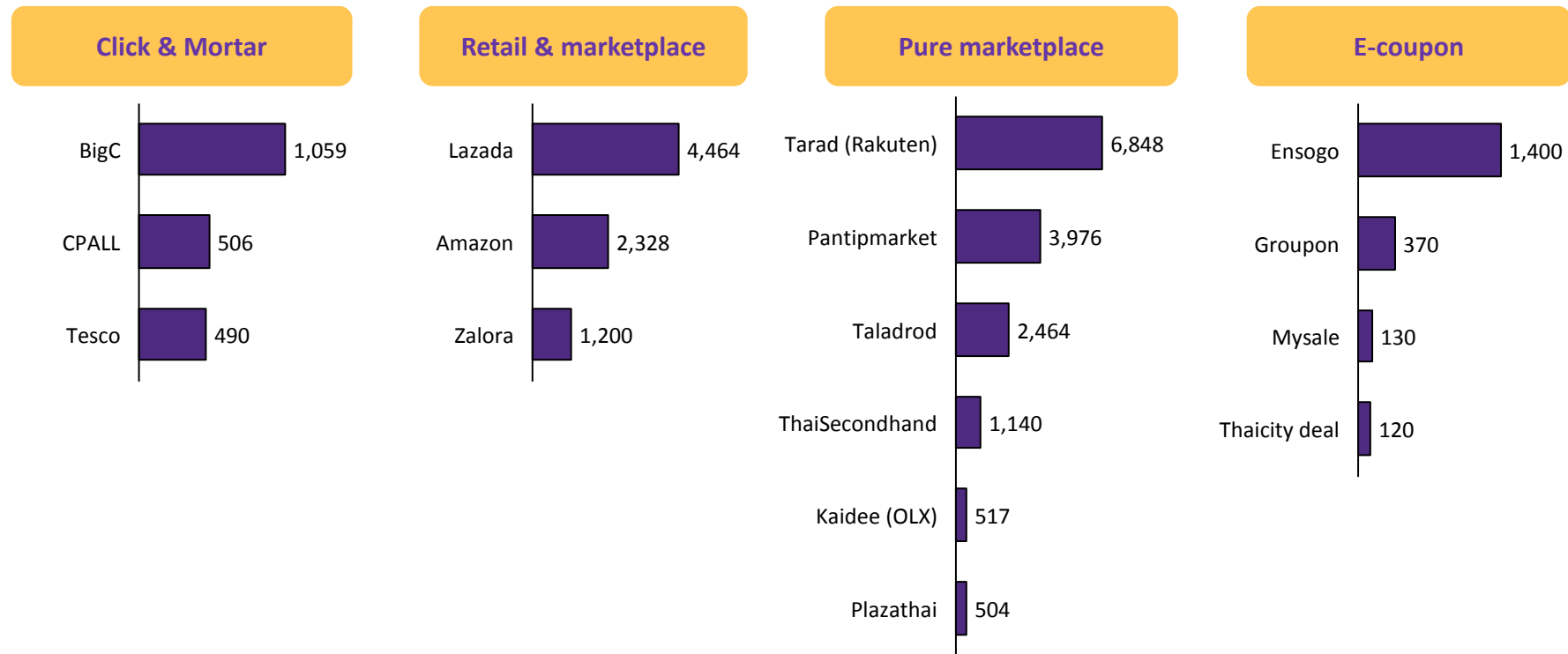
- ❖ Combination of pure e-commerce and marketplaces
- ❖ Selling products and providing a space for merchants



Although store-based retailers have brand advantage, their online channels are still unable to compete with marketplace retailers in terms of traffic view

Monthly traffic of key players in Thailand by business model

Unit: '000



Source: EIC analysis based on data from UBS



Different business models of e-commerce are provided with variety of how to compete in the market




Competing strategy of each business model

Business model	Example	Price	Quality	Selection	Value add	Service
Click & Mortar		✓	✓	✓	✓	✓
Retail & market places		✓	✓	✓		✓
Pure market places				✓		✓
E-coupon		✓		✓	✓	✓

Source: EIC analysis based on data from UBS

Despite high traffic view and sale volume, e-market place retailers still have low profitability

Financial performance of each business model

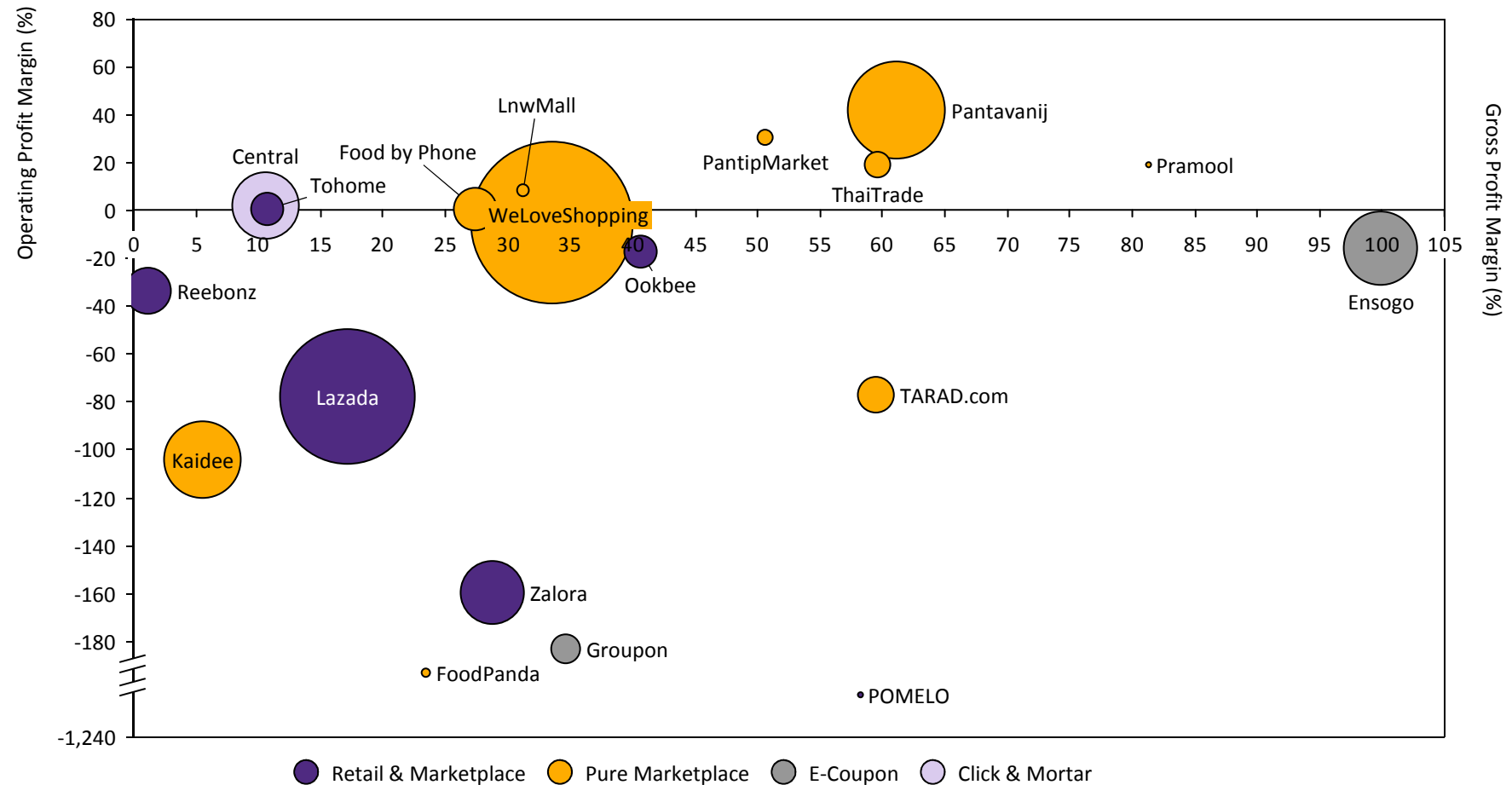
Business model	Example	Bounce rate* (%)	Sale Volume (mill baht)	Gross profit margin (%)	Operating profit margin (%)	SG&A/Sale (x time)
Click & Mortar		44.1	168	10.7	1.7	0.08
Retail & market places		77.2	659	17.2	-78.5	1.0
Pure market places		56.0	932	33.6	-5.54	0.4
E-coupon		29.4	195	100.0	-15.9	1.2

* It represents the percentage of visitors who enter the site and leave the site rather than continue viewing other pages within the same site

Source: EIC analysis based on data from UBS

Most of e-commerce companies still have negative operating margin

OPM Vs. GPM of Thai's e-commerce companies



Source: EIC analysis

Disclaimer

The information contained in this report has been obtained from sources believed to be reliable. However, neither we nor any of our respective affiliates, employees or representatives make any representation or warranty, express or implied, as to the accuracy or completeness of any of the information contained in this report, and we and our respective affiliates, employees or representatives expressly disclaim any and all liability relating to or resulting from the use of this report or such information by the recipient or other persons in whatever manner.

Any opinions presented herein represent our subjective views and our current estimates and judgments based on various assumptions that may be subject to change without notice, and may not prove to be correct.

This report is for the recipient's information only. It does not represent or constitute any advice, offer, recommendation, or solicitation by us and should not be relied upon as such. We, or any of our associates, may also have an interest in the companies mentioned herein.