Business Opportunities
Study in Thai Bakery Sector
This report is written by Larive (Thailand) Co Ltd in cooperation with, and commissioned by, the Embassy of the Kingdom of the Netherlands in Bangkok.

Sector Report: Bakery Sector in Thailand

Contact addresses:

Embassy of the Kingdom of the Netherlands in Bangkok
15 Soi Tonson, Ploenchit Road
Lumpini, Pathumwan
Bangkok 10330, Thailand
E-mail: BAN-LNV@minbuza.nl
http://thailand.nl/embassy.org/

Larive (Thailand) Co Ltd
Rm 3249, Level 32, Interchange 21 Bldg
399 Sukhumvit Rd, North Klong Toey
Wattana, Bangkok 10110, Thailand
Tel: +662 660 3630
Fax: +662 660 3881

Contact person: Tepin Getuadisorn
E-mail info@larive.co.th
www.larive.com

Larive International BV
Sparrenheuvel 2
3708 JE Zeist, The Netherlands
Tel: +31 30 693 32 21
Fax: +31 30 693 29 08

Contact person: Wouter van Vliet
E-mail: info@larive.nl

Date: June 2013

Disclaimer

This information in this report is provided by the Embassy of the Kingdom of the Netherlands in Bangkok. Every effort is made to provide accurate and complete information. However, we cannot guarantee that there will be no errors. The embassy assumes no legal liability for the accuracy, completeness, or usefulness of any information disclosed herein and does not represent that use of such information would not infringe on privately owned rights.
TABLE OF CONTENTS

Executive Summary ...................................................................................................................... 3
Overview .................................................................................................................................. 6
Market size and growth trends .................................................................................................... 7
Competitive landscape ............................................................................................................... 9
Trade opportunities .................................................................................................................. 10
Investment opportunities ......................................................................................................... 11
Key elements of success for Dutch traders ................................................................................... 12

Chapter 1: Overview of Thai Bakery Industry ................................................................................... 14
Major Components of Thai Bakery Industry ................................................................................. 14
Current Status .......................................................................................................................... 15

Chapter 2: Demand Analysis .......................................................................................................... 21
Market identification ................................................................................................................ 21
Market size estimation .............................................................................................................. 21
Baked goods ............................................................................................................................. 21
  2012 baked goods market by product category ................................................................. 23
  Market size breakdown by type of suppliers/outlets: 2012 ........................................... 24
Bakery ingredients ................................................................................................................. 28
Bakery machinery and equipment ......................................................................................... 30
Business cycle ......................................................................................................................... 34
Product niche .......................................................................................................................... 35

Chapter 3: Competitive environment ........................................................................................... 38
Retail bakery chains ................................................................................................................ 38
  Specialist Bakery Chains .................................................................................................... 39
  Bakery & Restaurant Chains ................................................................................................. 41
  Café Bakery Chains .............................................................................................................. 44
  Donut Chains ......................................................................................................................... 45
  Cake Specialists .................................................................................................................... 47
Industrial bakeries .................................................................................................................. 48
  Bread ..................................................................................................................................... 48
  Other Industrial Baked Goods ............................................................................................... 50
  Frozen Dough ......................................................................................................................... 51
Bakery ingredients .................................................................................................................... 53
  General Suppliers .................................................................................................................... 53
  Specialist Suppliers .............................................................................................................. 56
  Local producers ................................................................................................................... 59
  Importers ............................................................................................................................. 60
Bakery equipment ...................................................................................................................... 67
  Strengths of OEM Brands .................................................................................................... 69
  List of OEM Brands and Type of Bakery Machines by Thai Supplier ...................................... 71

Chapter 4: Regulatory Environment ............................................................................................ 75
  Licensing Requirements for Bakery Ingredients and Baked Goods ......................................... 75
  Import Quotas ....................................................................................................................... 76
  Import Tariff Scheme ............................................................................................................ 76
  Regional Operating Headquarters (ROH) .............................................................................. 77
  Minimum Wage Policy .......................................................................................................... 78
  Other Government Procedures ............................................................................................ 79

Chapter 5: Overview of Dutch Bakery Industry ........................................................................... 80
  Introduction ......................................................................................................................... 80
  Trends in the Dutch market ................................................................................................. 80
  Opportunities and threats ..................................................................................................... 81
  Dutch presence in Thailand ................................................................................................. 82

Chapter 6: Business Opportunity Analysis .................................................................................. 84
  Trade opportunities ............................................................................................................ 84
    Import of raw materials/ingredients ................................................................................... 84
    Import of baking equipment .............................................................................................. 85
    Import of packaging solutions ........................................................................................... 86
    Other opportunities ............................................................................................................ 87
  Investment opportunities .................................................................................................... 87
    Acquisition/Joint venture/Greenfield investment .............................................................. 87
    Retail Bakery Franchising ................................................................................................. 88
    Regional Operating Headquarters ..................................................................................... 89
  Technical cooperation ......................................................................................................... 89
ANNEXES

Annex 1  FDA List of Food Products for Licensing
Annex 2  BOI Incentive Package
Annex 3  Overview of Dutch Bakery Industry
Annex 4  “Why Thailand”
Annex 5  Dutch Subsidy Programmes
Annex 6  List of Relevant Events and Exhibitions
Annex 7  Short Profiles of Key Players
Annex 8  List of Interview Partners
Annex 9  List of References
Executive Summary

1 Overview

The face of the Thai bakery industry today is a far cry from the landscape two decades ago when it was considered much smaller and less developed compared with other markets in the region. Rice and noodles remain staple food for the average Thai household; but bread, pastry or cookies can usually be found in the snack corner in many homes. Business executives and many office workers in Bangkok and other urban areas have a bite of a sandwich or bun or croissant or even donut with their coffee for breakfast – either in a coffee shop or purchased ‘on-the-go.’ On weekends, shopping malls are packed with people of all ages to enjoy the cool atmosphere, the pleasure of shopping, and dining out with family and friends – at a wide selection of restaurants, bakery shops and donut outlets. Not only do they eat on the premises, they usually also buy a bag of baked goods to take home.

From the small-scale bakery operation of the past, the industry now has more than 700 medium-sized and large businesses with nearly 14,000 locations/outlets nationwide including:

- Industrial bakeries
- Retail bakery chains, including local, regional and international
- Café chains
- Other retail concepts, e.g. donut outlets and pizza outlets
- In-store bakeries in supermarkets and hypermarkets
- Bake-off shops in convenience stores
- In-house bake shops in hotels

In addition, several thousands of small bakeries, home-based entrepreneurs and artisanal bakeries do still exist and there is a positive trend towards these upgrading and, in some cases, evolving into higher grade single site café bakery or standalone bakery outlets.

In Europe and Northern America, many business mergers and acquisitions in the bakery sector have transpired over the past decade, in order to achieve economies of scale. In Thailand, only one or two M&A deals have been formed in recent years, e.g., the acquisition of Au Bon Pain and Dunkin’ Donuts franchises in Thailand in 2012 from Navis Capital by Sub Sri Thai PLC (SST) – a public company listed on the Stock Exchange of Thailand with interests in warehousing, logistics and edible oil. Thus the market is still highly-fragmented with no new consolidations seen on the horizon.
2 Market size and growth trends

Baked goods
In 2012 the Thai baked goods market was estimated to be worth nearly 27 billion baht1.

According to leading players the market grew at least 10 percent per year during the past few years and will continue to enjoy annual double digit growth of 10-15 percent in the short to medium term as a result of increasing number of in-store bakery shops and retail outlets.

2012 Market = 27 Billion Baht

Source: Industry & trade interviews; Commerce Ministry

By product category, the market can be broken down into bread, 40 percent; pastry, 24 percent; cake, 19 percent; donuts, 11 percent; and cookies & biscuits, 5 percent.

By type of outlet, retail bakery chains accounted for the highest share at 35 percent, followed by convenience stores, 33 percent; in-store bakeries at hypermarkets, 16 percent; in-house bake shops at hotels, 9 percent; and artisanal & home-based bakers, 7 percent.

<table>
<thead>
<tr>
<th>Type of outlet</th>
<th>Players</th>
<th>2012 (Million Baht)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail bakery chains (including donut &amp; coffee chains)</td>
<td>S&amp;P, Yamazaki, Au Bon Pain, BreadTalk, Gateaux House, Mr. Donuts, Dunkin' Donuts, etc.</td>
<td>9.397</td>
<td>35%</td>
</tr>
<tr>
<td>Convenience stores</td>
<td>7-11, Family Mart, 108 Shop</td>
<td>8.920</td>
<td>33%</td>
</tr>
<tr>
<td>Hypermakets</td>
<td>Big C, Tesco Lotus, Makro</td>
<td>4.300</td>
<td>16%</td>
</tr>
<tr>
<td>Hotels</td>
<td>500 luxury hotels</td>
<td>2.373</td>
<td>9%</td>
</tr>
<tr>
<td>Artisanal &amp; home-based bakers</td>
<td>Several thousands</td>
<td>2.000</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26.989</td>
<td>100%</td>
</tr>
</tbody>
</table>

1 Mid-rate in 2012: 1 EUR = THB39.96
By manufacturer, packaged bread producer President Bakery Public Co., Ltd. commanded the largest share in the 27 billion baht baked goods market in 2012 with an estimated 21.6 percent contribution, followed by CPRAM with 18.9 percent share, and S&P Syndicate Public Co., Ltd. with 10.6 percent share of the market. The other ranked players were the global hypermarket/cash & carry giants Tesco Lotus and Siam Makro, each having 5.6 percent share, and Big C with 4.8 percent. Together, these six players contributed more than two-thirds of baked goods sales in 2012 (about 18 billion baht), while the other retail bakery chains, coffee chains, artisanal bakeries and home-based bakers accounted for the rest, with a value of approximately 9 billion baht.

Baked Goods Sales of Selected Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>2012 Sales (Billion Baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Bakery</td>
<td>5.82</td>
</tr>
<tr>
<td>CPRAM</td>
<td>5.00</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>2.85</td>
</tr>
<tr>
<td>Tesco Lotus</td>
<td>1.50</td>
</tr>
<tr>
<td>Siam Makro</td>
<td>1.50</td>
</tr>
<tr>
<td>Big C</td>
<td>1.30</td>
</tr>
</tbody>
</table>

Bakery ingredients

Bakery ingredients constitute roughly 40 percent of the total baked goods value, or approximately 10.8 billion baht in 2012. Major ingredients include wheat flour, fat (margarine, shortening and butter), and flour mixes which together accounted for 60 percent of the total value of ingredients used during the year. The industry sources milled flour, margarine, shortening and blended butter mainly from local producers; while flour mixes and pure creamery butter are imported.

Bakery equipment

Demand for bakery machinery and equipment reached a value of about 2 billion baht in 2012. This can be broken down into ovens, 30 percent; dough making and pastry making equipment, 25 percent; packaging equipment, 20 percent; dough dividers and bread slicers, 15 percent; and other bakery equipment, 10 percent. Historically most of these types of equipment originate from European countries including Switzerland, Germany, Italy, France and Spain, as well as Japan. In recent years, China has emerged as among the leading suppliers. Also a number of these Chinese companies manufacture under license from European OEM suppliers. The main advantage of Chinese suppliers is their cheaper products because (1) wages are lower than in Europe, and (2) equipment imported from China are exempted from tariff because of that country’s bilateral trade agreement with Thailand. Some supporting equipment (not used in the baking
process) such as commercial refrigerators, cake display cabinets, tables and sinks which are made of stainless steel, are manufactured locally.

3 Competitive landscape

Baked goods
President Bakery Public Co., Ltd. was the market leader in baked goods segment in 2012 contributing nearly 22 percent share. The company possesses key strengths, with its long-standing presence in Thailand, strong distribution network nationwide and a large variety of products across different categories. Its larger scale of production helps the company to obtain economy of scale, whilst its products are standardized in terms of quality compared to independent unpackaged / artisanal bakeries. President Bakery’s product portfolio ranges from sliced bread, burger/hotdog buns, snack bread, snack cakes, cookies and pies. In 2012, the company invested more in new machinery to increase the production capacity of its packaged/industrial bread line.

Second-ranked CPRAM manufactures and distributes frozen food, prepared food, chilled food and bakery products both for the local and international markets. Sales split is about 85 percent domestic and 15 percent export. Current production capacity is 1.8 million pieces of dim sum, 280,000 packs of ready meals and 1.4 million bakery items per day. Bakery items are distributed through modern trade outlets including its sibling company’s 7-Eleven convenience store chain, retail stores in gas stations, hypermarkets and supermarkets. CPRAM’s sales of baked goods reached an estimated 5 billion baht last year or 18.5 percent share of the market.

From a very small family-run operation in 1973, S&P has transformed after four decades into a multi-billion baht bakery and food service business that serves the whole of Thailand and a number of overseas markets including Singapore, Taiwan, China, Switzerland and the U.K. S&P and its subsidiaries operate business related to restaurants, coffee and beverages, bakery, and ready to eat food, and produce various food products under the name S&P. The bakery business accounts for about 50 percent of the company’s domestic revenues. The company’s local operation has enjoyed double-digit growth over the past 5-6 years, with CAGR of 11.4%. Domestic sales in 2012 stood at 5,663 million baht, with sales of baked goods worth 2,850 million baht – making S&P the third largest player in the retail bakery market with nearly 11 percent share.

Bakery ingredients
The biggest supplier of bakery ingredients is Kim Chua Group Co., Ltd. (KCG), with domestic sales worth 4 billion baht in 2012 or about 37 percent of the ingredients market. Perceived by competitors as a mass (low-end) supplier, KCG carries a broad product range, with the bulk of sales derived from blended butter and margarine.

United Flour Mill Plc, the largest producer of milled flour in the country and the biggest supplier to the bakery industry achieved sales estimated at 3.6 billion baht in 2012, of which at least 50 percent came from bakery, for a market share of between 15 to 20 percent in the ingredients segment.
Suppliers of higher-end bakery ingredients include Jagota Brothers, American European Products and Schmidt with combined share of 7.5 percent of total ingredients market in 2012. They carry top of the line couverture chocolates from Belgium & Switzerland; bread mixes and pastry flavorings from Germany; fruit fillings and frozen fruits and puree from Europe and other countries.

There are 20 to 30 more suppliers of various ingredients including product enhancers, yeast, sugar, dairy products, flavors and aroma, baking enzymes, emulsifiers and other baking essentials. They contributed between 35 to 40 percent of the total bakery ingredients market in 2012.

**Bakery equipment**

Three commercial kitchen equipment suppliers that also carry bakery machines and equipment comprise Somerville (Siam) Ltd., Metro H and Res Co., Ltd. and Seven Five Distributor Co., Ltd. They are also the major equipment contractors to the HoReCa sector.

Together they accounted for more than 40 percent share in the 2 billion baht equipment market in 2012: Somerville, 21 percent; Metro H & Res, 17.5 percent; Seven Five Distributor, 2.4 percent. Most of the equipment (ovens, bread slicers, dough sheeters, mixers, etc.) are imported from Europe, U.S.A. and Japan; some from China. Somerville is also a local manufacturer of commercial refrigerators and cake display cabinets made of stainless steel.

Two other identified suppliers that carry a relatively wide range of bakery equipment are: (a) M.K. Unigroup Co., Ltd. with 5 percent share (representing OEMs from Italy, Switzerland, Japan, Taiwan); and (b) Good Distributor Co., Ltd. with 3 percent share (representing OEMs from Sweden, Denmark, U.S.A. and Netherlands - notably Daub and Leventi brands).

These five suppliers contributed less than 50 percent of total market; with the more than 50 percent coming from sales of other smaller suppliers that carry small equipment and baking tools and wares. These products mostly originate from China.

4 **Trade opportunities**

The study identified the following trade opportunities:

- **Import of raw materials/ingredients such as high-grade wheat flour, yeast, food additives, enhancers, improvers, flavors and aroma, cocoa powder/couverture chocolate.** Thailand is self-sufficient for granulated sugar and fat (butter / margarine / shortening); but there are still some imports of these products. For the other bakery ingredients, the country is highly dependent on imports, which creates vast opportunities for foreign-based manufacturers to supply the market.
There is great potential to sell high-grade ingredients to more than 500 hotels which have an increasing trend to produce bakery products to cater for their guests and for distribution to the food service and catering sectors.

- **Import of baking equipment.** Except for some stainless steel cabinets and refrigerating equipment, practically all types of large and small bakery equipment used in the country are imported. Major importers carry a broad range of commercial kitchen & bakery equipment including various types of oven (convection ovens, deck ovens, conveyor pizza ovens, wood-fired ovens), proofers, dough sheeters/cutting/ & make up line, mixers, donut fryers, hot bake shop machinery, and bread slicers/dividers/and rounders.

Despite the emerging presence in Thailand of equipment made in China, the majority of industrial and retail baker chains still prefer large equipment made in Europe – perceived as reliable, durable and highly-efficient. Expansion of in-store bakeries in discount stores and supermarkets presents a promising upward trend in demand for baking equipment. Moreover, the rising trend of bake-off concept in convenience store outlets, e.g., 7-Eleven’s Kudsan Bakery & Coffee, will drive the need for more ovens and baking utensils.

- **Import of hi-tech packaging solutions.** There is a niche demand for imported specialty flexible packaging solutions used for desserts such as moon cakes that need a special oxygen barrier film to keep the product fresh for weeks without adding preservatives to the product.

- **Others.** In addition to imports of products cited above, the bakery sector offers a range of other opportunities, for instance in services (e.g., training, education) and IT solutions. At present there is shortage of skilled manpower in the sector because new graduates prefer managing their own business rather than working in hotels and restaurants. A solution could be training people that have the interest, but lack proper educational background, in bakery schools and training centers outside the academic system.

Seamless interaction of production processes in the bakery industry is crucial – and an IT solution such as integrated automation system for bakery production processes could be the answer. This would cover both software and hardware that would automate the production process – from receipt of raw materials / ingredients to production and packaging to finished product shipment.

### 5 Investment opportunities

Given the growth potential of the Thai bakery sector and Thailand’s increasing position as ‘regional hub,’ Dutch strategic investors should consider entering into equity partnerships with local counterparts through acquisition, joint venture or other structures. The following describes two business ventures that have immediate potential:
- **Premixes blending factory.** The Thai bakery industry mainly imports premixes, cake mixes and other flour mixes from overseas suppliers. This market is worth about one billion baht per year. There is a perceived business opportunity for setting up a blending operation in Thailand to serve not only the domestic market but the whole of ASEAN. Trading between ASEAN countries is highly conducive because of zero tariffs on commodities traded between member nations. The blending factory could also potentially receive tax and other location-based incentives from the government’s Board of Investment (BOI) as this falls under the List of Activities Eligible for BOI Promotion.

- **Retail Bakery Franchising.** The success of retail chains in Thailand’s bakery landscape has been exceptional, from home grown entrepreneurs such as S&P and Coffee Beans by Dao, to regional players such as Thai Yamazaki, BreadTalk and Secret Recipe, and global businesses such as the donut chains. Underlying growth of these players combined was in double digits over the past five years and is expected to continue in the medium term. Thus there are vast opportunities for retail bakery franchising. Important pointers for potential investors include: first and foremost – location; second, smart choice of bakery delights that appeal to local consumers and expat community; and third, ability to find competent and loyal employees.

We expect the Thai market to be receptive for typical Dutch franchise concepts like ‘het Stoepje,’ ‘Bakker Bart’ and others.

- **Regional Operating Headquarters.** With its highly strategic location in Asia, Thailand is in the best position for global companies to set up their Regional Operating Headquarters (ROH). Compared with Singapore and Hong Kong, the cost of doing business in Thailand is still much cheaper. The country offers modern infrastructure and reasonably skilled labor force. In addition, ROH is a government promoted activity which gets attractive tax and non-tax incentive package from the BOI.

6 **Key elements of success for Dutch traders**

- **Education.** The Thai bakery sector is relatively young and buyers tend to be hesitant to change their buying behavior. Suppliers are advised to give high emphasis to education in their marketing mix. For example, ingredient suppliers might consider using test or demo kitchens that would showcase the use of their products in creating a variety of bakery creations.

Fonterra (Brands) Thailand has been successful in promoting its flagship butter products by setting up an ‘Anchor Kitchen,’ and uploading on YouTube actual demonstration of various recipes using the ingredient (e.g., ‘Croissant Factory Demo’ at [http://www.youtube.com/watch?v=Loh5NTOYP3Y](http://www.youtube.com/watch?v=Loh5NTOYP3Y)).
DKSH (Thailand) Ltd., through its Bakery and Confectionery Innovation Centre in Bangkok, develops innovative baked goods creations jointly with various suppliers they represent.

- **Brand awareness.** Corollary to educating potential customers, making the brand known in the market is equally essential. This can be achieved by attending industry and trade events held in Thailand or the region and even at the international stage. For instance, the study has observed that only a few Thai players are familiar with or have heard of Dutch equipment suppliers. Annex 6 provides a list of upcoming events in Thailand and the region.

- **Route-to-market.** The Thai market is fragmented and might require different distribution routes, meaning multiple distribution partners, in many cases. This needs to be carefully addressed before selecting agents or importers.

- **After-sales service.** Adequate after-sales service capabilities (notably for equipment suppliers), nationwide or at least in high growth urban centers, are important to build and maintain market position. The distribution partners should possess such capabilities or, if not, suppliers should develop these capabilities with other partners.
Major Components of Thai Bakery Industry

Bakeries bake bread and create cakes, pastries and other desserts. Large bakeries use automated machines for production while smaller bakeries work with smaller equipment. Confectioneries focus on creativity. The components or basic elements and ingredients of the Thai bakery industry cover the entire parameters of small and large bakeries.

Labor

Labor comprises one of the key components of the bakery industry. Larger plants run mostly through automated production equipment, but workers need to oversee the management, quality and output of the machines. President Bakery PCL, the largest industrial bakery in the country, operates three factories, employs 3,000 office staff and production workers and has 38 distribution centers nationwide, delivering the products to customers by a fleet of more than 1,000 delivery trucks. The company owns such brand names as Farmhouse, Deliya by Farmhouse, Madame Marco and Good Morning Farmhouse. The industry employs more than 50,000 people.

Machinery

The machines of the baking industry comprise another major component. The heart of any bakery operation is the oven from where baked products such as cakes, biscuits, cookies, wafers, buns, puffs, pizza, pastries, etc. are produced. Other necessary machines and equipment for smaller bakeries include sifters, slicers, molds, freestanding and electric mixers, a variety of refrigerators and cooling equipment, and all types of baking utensils and kitchen tools. Larger bakeries use dough proofing machines, large-scale mixers, machines to roll out or shape dough and huge ovens. President Bakery employs cutting-edge production machinery in all its plants, where the whole production process is computer-controlled. In contrast small bakeries use standalone equipment.

Government regulations

Thailand’s bakery industry must comply with the Food and Drug Administration (FDA), Ministry of Public Health (MoPH) regulations regarding certain food items that are classified into three categories: 1) specific controlled food (e.g., food additives, foods in sealed containers, milk products); 2) prescribed food to have quality or standard (e.g., cream, chocolate, palm oil, fat & oil, butter, cheese, margarine, jam & jelly and semi-processed food); and 3) prescribed food to have label (e.g. bread, flavoring agents, ready-to-eat foods).

Foods in the first category require FDA registration (for both locally-produced and imported products). Legal provisions are related to food standard quality, specifications, packaging, and labeling requirements, as well as other aspects of good manufacturing practices.
Standardized foods in the second category do not require registration but their quality and labeling have to meet the standard requirements as specified in the Notification of the Ministry of Public Health.

Other foods in the third category (foods, raw or cooked, preserved or non-preserved, processed or non-processed), if not listed under category 1 or 2 are considered as general foods and do not require FDA registrations. However, general products are controlled and monitored with regard to hygiene, safety, labeling and advertisement. Foods in this category may be subdivided further into (a) foods that must bear standard labels, and (b) other general foods. Bread falls under category (a).

In addition to the FDA/MoPH regulations, bakery factories are controlled by the Department of Industrial Works, Ministry of Industry (MoI) under the Factory Act of B.E. 2535 (1992). Pursuant to the Act, the MoI issued Ministerial Regulation 1992 defining the classification of various types of factories. Classified under category 01001 are factories engaged in making bread or cake. Factories are further classified by size (based on either machinery horsepower or number of employees) which determines the type of registration procedure and documents with which applicants need to comply.

**Products**

While bread may be the mainstay of the local bakery industry – grabbing about 40 percent of the total retail market value – cakes and pastries have also created considerable consumer awareness. Creativity in the market has flourished as demonstrated by the success of leading cake maker S&P as well as cake specialty houses such as Boat Bakery, Coffee Beans by Dao, Secret Recipe and others. Confectioneries enjoy the process of coming up with new delicacies for consumers to enjoy. Whether it is a new flavor of an already existing product or a completely new dessert creation, producing quality items is a major element in the baking industry.

2 **Current Status**

Before the turn of the 21st century, the Thai bakery industry was largely considered one of the smaller and less developed in South East Asia. But this status has improved significantly in the last 5 to 10 years with demand for daily baked products having grown faster than the overall economy. Rice and noodles remain to be part of the Thai conventional diet, yet bread and other baked goods consumption has slowly but surely become entrenched in the daily life of mostly urban Thais on the go – office employees, executives and students alike.

‘In Bangkok and large cities upcountry, the ‘rice for breakfast tradition’ is gradually being replaced by bread/croissant/sandwiches/etc. especially amongst female office workers. Compared with other countries in Asia (e.g., Japan, Philippines), Thailand is perceived to be lagging behind in bread per capita consumption and there is certainly a room for growth.’

–Dech Sangsrijan

Thai Bakery Association President
These developments have also bolstered the rapid growth in demand for imported bakery ingredients from relatively small volumes a decade ago.

Thailand’s baked goods market was estimated to have a retail value of nearly 27 billion baht in 2012. According to leading players the market has grown at least 10 percent per year during the past few years and will continue to enjoy annual double digit growth in the short to medium term as a result of increasing number of in-store bakery shops and retail outlets.

**Various bakery formats**
The industry landscape today looks very different from the small-scale bakery operation of the past, and, in the cities and key urban areas, medium-size and large businesses dominate the scene. These businesses include:

- **Industrial bakeries**, e.g. President Bakery, C.P. Retail and Marketing (CPRAM) and S.T. Industry, with nationwide distribution channels. President Bakery and C.P. RAM have been aggressively expanding their range of products for a number of years now. There are less than 10 industrial bakeries with annual turnover of more than 500 million baht.

- **Retail bakery chains**, e.g. S&P Bakery, Yamazaki, Au Bon Pain and BreadTalk, which serve a wide range of daily baked products. The offering also includes a basic range of sandwiches. Some industry experts also call them ‘specialist bakeries.’ There are 15-20 retail bakery chains in Thailand today with a combined number of around 1,400 outlets.

- **Café chains**, e.g. Starbucks, Coffee World and True Café which are mostly located inside shopping malls and office buildings. A significant number of Starbucks outlets are also found on high streets in Bangkok and other cities. Other coffee chains are found in gas stations nationwide, e.g., Café Amazon, Inthanin, Caffe D’Oro. Some 10 café chains have a combined number of around 1,200 outlets all over the country.

- **Other retail concepts**, e.g. donut outlets (Dunkin’ Donuts, Mr. Donuts, Krispy Kreme) and pizza outlets (Pizza Hut, The Pizza). There are around 550 donuts outlets in Thailand today, which are part of chain operators.

- **Supermarket and hypermarket in-store bakeries**, e.g. as in Tesco Lotus, Big C and Siam Makro. Combined number of large-format outlets is more than 500. In addition, another 1,400 smaller store formats of Tesco Lotus such as Lotus Express and Talad are scattered around the kingdom.

- **Bake-off shops in convenience stores**, e.g. Kudsan Bakery operated by 7-Eleven. There are 196 Kudsan outlets nationwide. In addition there are more than 7,500 convenience store outlets that also sell packaged bread and pastry products (which includes >6,500 7-Eleven and more than 1,000 outlets of other convenience store chains such as Family Mart and Lawson 108).
Hotel bake shops, e.g., J.W. Marriott, The Oriental, Dusit Thani, Landmark and practically all luxury hotels nationwide numbering around 500; another 200 hotels serve freshly baked goods at breakfast.

Several thousands of small bakeries and home-based (artisanal) entrepreneurs do still exist and there is a positive trend towards these upgrading and, in some cases, evolving into higher grade single site café bakery or standalone bakery outlets.

**Bakery ingredients**

Thailand can supply most ingredients used in the sector. But there are items that are mainly imported and those that are mainly sourced locally.

- Bakery ingredients that tend to be imported: pre-mix flour, chocolate, fillings & toppings, frozen fruit, puree, yeast, baking enzymes and product improvers/enhancers.

- Ingredients likely to be sourced locally: sugar, regular milled flour, margarine and fat.

The industry purchases its ingredients from bakery ingredient suppliers, some of whom carry other imported food products. Imported bakery ingredients compete with locally milled flour, edible oil products, some types of cheeses and recombined butter.

There are many bakery ingredients importers in Thailand and a few wheat flour manufacturers. Some of the major suppliers are:

- Kim Chua Group, importer and manufacturer of food and bakery ingredients
- Schmidt, importer of bakery ingredients
- American-European Products, importer of bakery ingredients
- Jagota, importer of food (75%) and bakery ingredients (25%)
- Gourmet One, importer of food and bakery ingredients
- United Flour Mill, milled wheat flour

Main countries of origin of imported products include France, Switzerland (chocolates), Germany, Italy, U.S., China, Indonesia and Philippines (fillings & toppings). Verify this statement from the import stats. Thailand imports cheeses from Australia, the Netherlands and New Zealand; while there are some imports of bread and cake mixes, fillings and toppings from Zeelandia, a Dutch ingredients manufacturer with a factory in Indonesia. Some baking enzymes are also supplied by Dutch manufacturer DSM and other global suppliers such as Novozymes (Denmark) and AB Enzymes (Germany).
Bakery equipment

Thailand largely imports bakery equipment such as ovens, dough making machines, pastry making machines, proofers, conveyors, mixers, bread slicers, etc. Countries of origin are Taiwan, China, France, U.S., Italy, Germany and other European countries. Dutch bakery equipment has very small, almost invisible, presence in the market. Only commercial refrigerators, display cabinets, tables and sinks are produced locally.

There are about 20 commercial kitchen equipment suppliers (mostly importers) that also carry bakery machinery and equipment product lines. Others are small suppliers that distribute a limited range of products and mostly small equipment and bakery utensils (e.g., cake pans, cookie sheets, beaters, hand mixers, small ovens, etc.)

Somerville (Siam), Metro H and Res, Seven Five Distributor and M.K. Unigroup are leading commercial kitchen equipment contractors and suppliers mainly to the HoReCa sector. Procurement of kitchen and baking equipment in hotels and big restaurants normally is conducted through bidding with rigid supplier criteria including price, technical expertise, superior customer service (including after-sales and maintenance), installation services and reputable product offering. Suppliers that do not have in-house expertise hire professionals such as pastry chefs and engineers to demonstrate the usage of machine and equipment to walk-in customers in showrooms or during industry events such as the Coffee, Bakery and Franchising exhibition.

Support services

Baking schools. There are a few baking and culinary schools in Bangkok that offer professional courses.

- UFM Baking & Cooking school was established to produce skilled personnel in the field of cooking & baking. UFM School conducts various baking courses from fundamental to professional supported by the most up-to-date equipment and facilities. Instructors are graduates of food science and home economics with additional training from recognized local and overseas institutions.

- Opened in 2007, Le Cordon Bleu Dusit Culinary School is a joint venture between Le Cordon Bleu International and Dusit International - one of Thailand's leading Hotel brands. The school is a modern state-of-the-art facility offering all the standard Le Cordon Bleu programs as well as a Professional Thai Cuisine program unique to Le Cordon Bleu Dusit. All classes are taught in English and the school accepts both Thai and international students from all over the world. The school started off mainly with professional courses, but now, more short courses are taught such as a basic chocolate workshop (one day), macaroons (one day) and chocolate cakes (four day).

- School of The Oriental Hotel Apprenticeship Program (OHAP) was set up to develop the skills of hotel personnel in the rank and file and lower middle management categories. The OHAP provides practical training within the standard of the Mandarin Oriental, Bangkok which has been voted as the ‘best hotel in the world’ for many years. Majority of instructors are highly qualified
Mandarin Oriental Hotel’s staff; the rest are specialists invited from various institutions. Courses available include Front Office, Housekeeping and Food & Beverage. Under F&B includes International Cuisine, Traditional Thai Cooking, Bakery & Pastry, Bartending and Restaurant Operations.

Many others located mostly in Bangkok, offer short courses – some 3 hours, some 3-5 day programs, and others week-long programs – to the general public and individuals who are interested in learning the fundamentals of making bread, cakes and pastries. Examples of these schools are as follows:

– Imperial Bakery and Food Culinary School (IBAF) was set up by the Kim Chua Group/Imperial Group, the makers of Imperial cookies and Allowrie butter – after being in the bakery business for 50 years. A basic dessert course is from one day to five days and includes muffin recipes (for the day-course) or nice recipes for cakes (for the three-day course).

– The International Cooking and Baking School has been established since 1978. Classes are small with no more than 10 students to ensure equal attention. Courses focus on both the theory and the practice so that students can further adapt these skills after the class is over. Each course takes about 3 hours, with the student learning one baked good ‘masterpiece’ e.g., white chocolate cake, black forest cake, almond meringue cake, sun marble bread, mango mousse cake, etc.

– Macaroon Pastry Training Center was opened in Bangkok in 2004 by a French pastry chef who has accumulated 30 years experience in the business around Asia. Courses are based on short two to three days program.

Bakery/product innovation centers. In mature markets such as Europe, U.S.A, and Japan bakery product innovations are constantly experimented and developed not only by in-house research and development (R&D) teams but also by independent innovation centers which collaborate with clients in jointly developing new bakery creations all the time. In Thailand, large bakery companies normally have in-house R&D capability to develop new products that cater to local tastes of consumers. But smaller bakeries do not have the financial capacity to do this. Two global companies, Nestle and DKSH, are known to have the technical expertise to provide consulting services to partners and other customers in the bakery and confectionery business.

– Nestlé’s R&D center in Thailand provides assistance to customers in developing new formulations or menus. The company has worked with some leading bakeries in creating new products that use its chocolate powder as a bakery ingredient.

– Realizing the vast opportunities for serving unmet demand, DKSH commissioned a state-of-the-art innovation center in mid-2011 to introduce new concepts and ingredients to the confectionery and bakery industry in Thailand. The main focus of the center revolves around strengthening the company’s application expertise, developing cutting-edge business ideas, and formulating concepts that create better opportunities for its suppliers and customers. The innovation center is fitted with
an electric oven for baking with precise heat, a proofing cabinet for automatic temperature and humidity control for bread applications, an ice cream maker for blending, and a mixer and kneader for blending diverse bakery applications. (Two years down the road, however, the center seems not to have made an impact as initially expected. Very few seem to be aware of the presence of DKSH confectionery and bakery innovation center.)

Packaging. Packaging machinery is normally included in the production line of industrial bakeries. Some even import their plastic wrapping bags (e.g., President Bakery – clip lock plastic bags for sliced bread, and S&P – vacuum packaging for moon cakes) because they claim that they could not find local suppliers that can meet their rigid packaging requirements. For the rest, shrink wrap is the popular method of packaging as more private label customers prefer this kind of packaging. Display boxes are the most used for shrink wrap application in the bakery industry because consumers get a clear view of the product in this kind of wrapping. Manual shrink wrap machines are commonly used in low to moderate volume production lines by smaller bakeries. In general, the industry does not use third party suppliers of plastic packaging, as it is more cost-efficient to operate its own packaging equipment than outsourcing.
This demand analysis section aims to provide an understanding of how much consumer demand for baked goods and bakery ingredients, as well as commercial demand for bakery equipment exist in the Thai market. The analysis contains a review of the basic components of the Thai bakery industry which are:

- Market identification
- Market size estimation, market shares, growth trends
- Business cycle
- Product niche
- Growth potential (discussed under each section below)
- Competition (discussed in a separate chapter)

The analysis is aimed at helping companies determine if they can successfully enter the Thai bakery market and generate enough profits to advance their business operations. The market size estimates are not precise but indicative of the current market situation.

A. Market identification

Baked goods are consumed by practically all Thai consumers of all ages, but are predominantly popular among the working population in urban areas such as Bangkok and vicinities and major cities.

Bakery ingredients are used by all types of bakeries; but higher grade ingredients (e.g., imported butter, cocoa powder, chocolates) are used by hotels and specialist bakeries; while thousands of smaller bakeries that dot the country mainly use edible oil and fats, and locally milled flour. Top-end customers such as President Bakery, manufacturer of Farmhouse bread products and Thai Airways Catering use first-class quality imported wheat flour (e.g., from Dossche Mills), although the bread maker also buys from domestic wheat flour suppliers.

Industrial bakeries use automated bakery machinery; while artisanal bakeries use smaller bakery equipment.

B. Market size estimation

1. Baked goods

The estimated retail value of baked goods consumed in 2012 was worth around THB 26,989 million.²

²Mid-rate in 2012: 1 EUR = THB39.96
This estimate was based on a consensus of analyses from a number of players in the industry including a leading modern trade player, an edible oil producer and an importer of bakery ingredients and relevant industry and market information from both primary and secondary sources.

**Estimation methodology:** Top-down approach was used in the estimation of the market which calculated the estimated sales of various players in the industry generated during the year 2012 based on official sales data submitted to the government’s Ministry of Commerce as well as results of interviews with key players. For companies that are engaged in other business activities in addition to baked goods retailing, we made adjustments on the proportion of baked goods sales compared to total turnover of the company.

**Scope:** Modern trade outlets (hypermarts, supermarkets, convenience stores), retail bakery chains, hotels, artisanal producers and cottage industry players who bake from home. Donut chains, while strictly not ‘bakeries’ because their end-products are fried rather than baked, were included in the estimation in view of their huge presence in the market and usage of similar bakery ingredients in the production process.

**Exclusions:** Bakery sales of café chains (except for Au Bon Pain which makes their own baked goods) were excluded because virtually all of these outlets do not engage in the production of bakery items sold in their stores, but mainly buy from third party suppliers including artisanal bakers and hotel bakeries. Industrial producers such as President Bakery, S.T. Industry and CPRAM supply mostly to modern trade at wholesale prices (thus their sales were already included in the estimates).

**Overall growth trends**

Thailand’s bakery sector is poised to grow on average about 15 percent per year for the next 3 to 5 years, much faster than Euromonitor’s 6 percent and nearer Nielsen’s 10-12 percent. This prediction is based on the field survey of about 40 industry experts, major players and other informed sources in the industry. We also investigated the underlying growth trend in each company based on their 3-5 years’ financial reports submitted to the Ministry of Commerce.

A former executive at a specialty ingredients supplier has also predicted that “the market will expand 15-18% per year during the next 3-5 years. Growth will be driven by increasing consumer demand for bread (buns, sandwiches, etc.) and other bakery products (pastry, etc.), because of the fast lifestyle of urbanites not only in Bangkok but this phenomenon is also observed in cities outside Bangkok.”
The table below presents CAGR of total annual sales of selected companies during the reference years cited.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales CAGR</th>
<th>Financial Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krispy Kreme</td>
<td>256.0%</td>
<td>2010-2011</td>
</tr>
<tr>
<td>Secret Recipe</td>
<td>34.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>BreadTalk</td>
<td>32.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>Bonjour</td>
<td>21.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>7-Eleven (CP ALL PLC)</td>
<td>18.9%</td>
<td>2009-2012</td>
</tr>
<tr>
<td>Mr. Donut</td>
<td>15.4%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>Dunkin’ Donuts</td>
<td>15.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>Siam Makro PLC</td>
<td>13.6%</td>
<td>2009-2012</td>
</tr>
<tr>
<td>Daddy Dough</td>
<td>12.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>Mr. Bun</td>
<td>10.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>Tesco Lotus</td>
<td>9.9%</td>
<td>2008-2012</td>
</tr>
<tr>
<td>Au Bon Pain</td>
<td>9.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>Little Home Bakery</td>
<td>7.0%</td>
<td>2009-2011</td>
</tr>
<tr>
<td>Thai Yamazaki</td>
<td>6.0%</td>
<td>2009-2011</td>
</tr>
</tbody>
</table>

*Note: CAGR = Compound Annual Growth Rate
Source: Department of Business Development, Ministry of Commerce; Stock Exchange of Thailand*

1.1 **2012 baked goods market by product category**

Baked goods consist of all types of bread, cakes, pastries and other baked products including cookies and biscuits. Donuts, while not ‘baked’ are also included in the estimation because they constitute a significant portion of flour-based desserts consumed in the market. The product focus is also more on freshly-baked goods, rather than the long shelf-life packaged goodies such as wafers, biscuits and crisp bread. Most imported items fall into this category – which have been excluded.
Bread remains the mainstay in the bakery industry; however, its market dominance has been challenged by other bakery products including pastries and especially donuts that have enjoyed rapid growth in recent years and expected to continue expanding in coming years.

“LFL (Like-for-Like) sales for us this year (2013) will be generally flat for bread and cakes; donuts will increase at least 15% year-on-year due to huge demand from our regular customers. We continue to expand our donut product range each year to meet this demand.”

– Buying Manager

Fresh Food (Bakery), Ek-Chai Distribution Co., Ltd (Tesco Lotus)

1.2 Market size breakdown by type of suppliers/outlets: 2012

The study covered modern trade and institutional market segments, but did not include traditional trade (i.e., Mom & Pop stores) which typically carries packaged/long-shelf baked products that are generally considered inferior quality than freshly-based goods. Also the once big influence of these corner stores on Thai consumers’ buying behavior has been diluted over the years as a result of stiff competition coming from convenience stores which provide just that – greater convenient and more satisfying buying experience.
### 1.2.1 Retail bakery chains

In 2012 retail sales of the more than 15 bakery chains were estimated to have reached around 9.4 billion baht or 35 percent of the total market.

This segment comprises local, regional and international bakery chains that compete in their sub-segments:

- specialist bakeries such as Yamazaki, BreadTalk, Gateaux House
- bakery & restaurants such as S&P, Little Home, Coffee Bean by Dao
- donuts shops such as Mr. Donuts, Dunkin' Donuts, Krispy Kreme and Daddy Dough
- cake specialists such as Boat’s Bakery

In the café & bakery chains, only Au Bon Pain has been included in the estimation because the company has its own bakery factory, unlike Starbucks and other coffee chains (Coffee World, True Coffee, Amazon, Ninety-Four, etc.) that source their baked goods from outside suppliers - mainly from artisanal bakers.

**Growth trend**

The retail bakery chain segment is expanding at 15-20 percent per year.

“We expect this segment to grow at least 15% in 2013, driven by urban market demand especially in Bangkok and surrounding areas.”

Mr. Vitoon Sila-on
Senior Vice President, S&P Syndicate PCL
“I think it will grow about 20-30% this year because of the fast-paced urban life of consumers in cities such as Bangkok and Chiang Mai. They do not have much time to sit down for breakfast and take a sandwich or bun or croissant to go.”

Ms. Pomsawan Karanpattaraniti
Marketing and Cost Controller, Little Home Bakery Co., Ltd.

1.2.2  Convenience stores (CVS)
With daily bakery sales averaging between 2,500 – 3,500 baht, the more than 8,000 convenience store outlets nationwide accounted for the second biggest market share of 33% or 8.9 billion baht in 2012.

CP All, franchise holder of the largest nationwide convenience store network in Thailand with a total of 6,773 Seven-11 outlets as of Q3 2012, introduced Kudsan Bakery & Coffee in 2010. Kudsan serves freshly baked bakery and brewed coffee 24/7 in 196 corporate-owned outlets in Greater Bangkok and major cities. The remaining 6,500+ 7-11 outlets sell packaged bread, cakes and pastries. CP ALL plans to open new 7-11 outlets in 2013 to reach 7,000 by the end of the year.

Other CVS chains such as Family Mart (of Japanese origin) and 108 Shops (owned by Saha Group) offer packaged bakery items such as bread and pastries.

- In early 2013, Saha Group announced a joint venture with Japan’s Lawson convenience store chain to operate Lawson 108 Shops. To date there are four Lawson 108 stores offering sushi and bakery products. The objective is to gradually convert some 260 of the 600 108 Shops to Lawson 108 Shops.

- Family Mart, another Japanese CVS chain, has 800 outlets all over Thailand and plans to increase the total to 1,000 by the end of 2013.

Growth trend
The convenience stores segment is expected to grow at 15% per year for the medium term. Growth will come from increasing consumer demand per outlet and the fact that more and more neighborhood stores open each month in every village or town across the country.

1.2.3  Hypermarkets
The third largest bakery retail segment includes international hypermarket and discount chains Big C and Tesco Lotus, and cash & carry wholesaler Makro. Together they had an estimated share of 16% of total baked goods market in 2012 with THB 4.3 billion sales during the year. In-store bakery formats offer a variety of products including freshly baked breads, cakes, pastries, donuts and cookies, and packaged sliced bread supplied by industrial bakeries.
**Growth trend**

This segment has experienced between 12 to 15 percent growth during the past five years, despite dips in the GDP growth and the great flooding in 2011. Players are optimistic that in general, their business will expand at about the same rate as in the previous years. For in-store bakery, there is a mixed feeling regarding expansion. Siam Makro, the operator of Makro cash & carry stores is very positive about the prospect of increased sales of its baked goods which have become popular among its loyal customers. Tesco Lotus meanwhile could only predict the expansion of its donut product line, which has grown annually between 10-15 percent during the past few years. It expects the same trend for donuts this year.

**Modern trade: CVS + Hypermarkets**

Thus baked goods sales in modern trade outlets (hypermarkets, cash & carry, CVS) reached 13.2 billion baht in 2012. This estimate is quite close to that of Nielsen’s, an international market research company which valued this market segment at around 12 billion baht in the same year.  
(Source: Tesco Lotus interview, with Lotus claiming to have 12-15% share)

1.2.4 Hotels

There are around 500 hotels in Thailand that operate in-house bake shop selling a range of bakery items; while another 200 hotels serve freshly baked goods at breakfast but do not have a bake shop. Demand for bakery products in the hotel segment is estimated to be worth nearly 2.4 billion baht in 2012, accounting for nearly nine percent of the total market.

**Growth trend**

Bakery shops in luxury hotels have also enjoyed brisk sales and growth is expected to be at around 12 percent per year. Some of the bake shops also deliver baked goods to other customers. For example, the bakery unit at Anantara Bangkok Riverside Resort and Spa is considered the largest hotel operator that caters for other clients in the food service industry.

1.2.5 Artisanal bakers/Small bakeries/Home-based bakers

This group numbering thousands scattered throughout the country, sold an estimated 2 billion baht of baked goods or about seven percent of the total baked goods market in 2012.

The estimate was based on the oil and fat sold to bakery ingredients retailers from whom small bakers normally purchase their baking supplies. According to one large edible oil producer, total oil and fat sold to the bakery ingredients retailers in 2012 was worth THB200 million. Fat normally accounts for 20 percent of cost of the finished product; while sales margin is typically 50 percent.  
(Calculation: 200 MB fat / 20% = 1000 MB; factoring in 50% sales margin = 2,000 MB retail sales value for this segment)

**Growth trend**
This segment is forecast to grow by about 10 percent this year as the average Thai consumers start to appreciate the taste of freshly-baked goods that have become quite accessible from home makers and artisanal bakers alike.

2 Bakery ingredients

There is a wide range of bakery ingredients used in the industry which can be grouped as follows:

As industrial and artisanal bakers alike produce more innovative products for discriminating consumers, new ingredients are added to the long-list. Bakeries collaborate with creative companies (usually foreign) in developing and creating new products based on infusion of innovation, technology and creativity. Players know too well that new, innovative ingredients could enrich their success within the competitive bakery industry.

Bakery companies source their ingredients both from local and overseas suppliers. There are products that are mainly sourced locally such as milled wheat flour, sugar, oil and fat, and eggs; while the rest are imported including pre-mix flour, product enhancers, toppings and fillings, etc.

Because of the wide range of products covered, none among industry insiders and informed sources could provide a decent estimate of the retail value of this segment in Thailand.
Thus our market size estimation of bakery ingredients was based on analyzing a number of industry parameters from several sources: a) a leading food service (FS) & retail bakery operator; b) value chain analysis of white bread; c) Custom Department’s trade statistics; and (d) bakery ingredients importers/suppliers.

**Step 1:** Comparative Value Chain Analysis of a Retail Bakery Operation and White Bread

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Retail Bakery (Bread &amp; Pastry)</th>
<th>White Bread</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ingredients</strong></td>
<td>30-35%</td>
<td>Wheat Flour = 38%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other raw material = 8%</td>
</tr>
<tr>
<td><strong>Packaging</strong></td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Labor</strong></td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Selling &amp; administration</strong></td>
<td>10%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Rental</strong></td>
<td>15%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Margin</strong></td>
<td>25-30%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Sources: Leading FS operator and industrial bakery manufacturer

**Step 2:** From the above table – although sketchy as coming from only two operators, the estimated value in percent of ingredients ranges between 30-35 percent (for bread & pastry product of a retail bakery operation) to as high as 46 percent (for an industrial bread production). A ‘middle’ ratio is used – about 40 percent, to roughly calculate the value of ingredients out of the total retail value of baked goods (which was earlier estimated at 27 billion baht in 2012).

Thus, the bakery ingredients market in 2012 was about THB 10.8 billion.

**Step 3:** Breaking the segment into product sub-segments was a challenging task. From discussions with several ingredients suppliers, an average estimate of the proportion of each ingredient to the total retail value of baked good market was arrived at. These ratios were adjusted in relation to market information obtained from other industry sources.

A breakdown by value and market share is shown in the following table.

<table>
<thead>
<tr>
<th>Ingredient</th>
<th>2012 Value in MB</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat flour</td>
<td>3,239</td>
<td>30%</td>
</tr>
<tr>
<td>Margarine/shortening</td>
<td>1,295</td>
<td>12%</td>
</tr>
<tr>
<td>Flour mixes</td>
<td>1,080</td>
<td>10%</td>
</tr>
<tr>
<td>Butter</td>
<td>864</td>
<td>8%</td>
</tr>
<tr>
<td>Sugar</td>
<td>756</td>
<td>7%</td>
</tr>
<tr>
<td>Cocoa powder/chocolate</td>
<td>864</td>
<td>8%</td>
</tr>
<tr>
<td>Milk powder</td>
<td>648</td>
<td>6%</td>
</tr>
<tr>
<td>Product enhancers*</td>
<td>540</td>
<td>5%</td>
</tr>
<tr>
<td>Ingredient</td>
<td>Value (THB)</td>
<td>Percentage</td>
</tr>
<tr>
<td>------------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>Yeast</td>
<td>432</td>
<td>4%</td>
</tr>
<tr>
<td>Others**</td>
<td>1,080</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>10,796</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Product enhancers include bread improvers, emulsifiers, stabilizers, baking enzymes, etc.

**Others include fruit toppings, nuts, flavors, aroma & essences, eggs, etc.

Illustrated below are examples of market size estimation for the two largest ingredients: wheat flour and shortening & margarine.

**Shortening and margarine**
Shortening and margarine are used mainly in making pastries, which constitutes 20 percent of the value of the finished product. The estimated value for margarine was also compared with imports and local production to further check the validity of the estimate. As it turned out, the 2012 estimate of 1,295 million baht came very close to the combined import in CIF value (137 million baht) and locally-produced shortening and margarine during the same year (approximately 1,200 million baht). About 96% of total margarine imports came from Singapore, Indonesia, Australia and Japan – countries which Thailand has bilateral free trade agreements, and where Thai imports of margarine from these countries are exempt from import tariff.

**Wheat flour and yeast**
The value of wheat flour consumed in the bakery industry in 2012 was estimated at THB 3,239 million, accounting for 30 percent of the value of total bakery ingredients.

Wheat flour used in this sector is principally supplied by local flour mills; while small amounts are also imported. The estimated demand split between local and imported is about 80%:20% by value and 85%:15% by volume.

In bread making, about 2 to 5 kg of yeast is used for every 100 kg of wheat flour. By value, the ratio of wheat flour to yeast is approximately 87%:13% - which translates to about 420 million baht worth of yeast used in 2012. The estimated value of yeast shown in the table is 432 million baht (close to the 420 million baht figure).

**Growth trend**
Growth in demand for bakery ingredients should normally follow the same trend as the finished products. Thus the segment is expected to grow in double digits during the next few years.

### 3 Bakery machinery and equipment

This segment includes a wide array of bakery machinery and equipment such as oven, proofer, dough making machine, pastry making machine, packing equipment, mixer and a whole range of smaller equipment such as dough divider, dough sheeter, dough molder, bread slicer, donut fryer, waffle machine and other baker’s wares.
According to Somerville, one of the four leading commercial kitchen and bakery equipment suppliers, the country’s bakery equipment market was valued two billion baht in 2012.

Somerville also provided a rough breakdown of the machinery market by product category based on the company’s own observations of the market during the past few years.

**Bakery machinery & equipment market by category, 2012**

<table>
<thead>
<tr>
<th>Category</th>
<th>%</th>
<th>MB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ovens</td>
<td>30</td>
<td>600</td>
</tr>
<tr>
<td>Dough making and pastry making equipment</td>
<td>25</td>
<td>500</td>
</tr>
<tr>
<td>Packaging equipment</td>
<td>20</td>
<td>400</td>
</tr>
<tr>
<td>Dough dividers, bread slicers</td>
<td>15</td>
<td>300</td>
</tr>
<tr>
<td>Other bakery equipment</td>
<td>10</td>
<td>200</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Source: Somerville Siam based on previous years’ market observations.

As expected, ovens and dough making machinery commanded the biggest slice of commercial purchases in 2012. Together they accounted for about 55 percent or 1,100 million baht of the total bakery equipment market.

There appears to be an emerging trend of shifting demand for dough making machines from baked goods manufacturers to frozen dough makers. According to Tesco Lotus, Thailand’s largest hypermarket chain with 102 large formats plus 1,400 smaller formats, they have been buying a portion of their demand for pastry dough from independent suppliers in the recent past and in 2013 will completely outsource frozen dough. This means Tesco Lotus will no longer be adding any dough making equipment from this year onwards. The company has a budget of three million baht per hypermarket store for outfitting bakery equipment and space. Normally the kitchen consists of ovens, at least two mixers (one for bread, one for cake), provers, sheeters, dough dividers and other smaller baking utensils.

Cash & carry operator Siam Makro, with a total of 59 branches nationwide, buys various types of equipment from local importers. The range of equipment installed in the bakery section of each Makro branch includes, among others: barcode printing machine, plastic bag seal machine, bread slicers, convection oven, deck oven, proofer, dough sheeters, various sizes of digital weighing machines, dough divider, dough kneader, conventional mixing machine (egg beater), spiral mixing machines, chillers, freezers. Other large equipment includes donut fryer and steamer. Small equipments and baking utensils include various types and sizes baking trays, tray carts, non-stick baking molds, etc. Most of the large and small equipment used by Siam Makro are now made in China – with European product specifications.

Because of the durability of large machines and equipment lasting 10-15 years or more, replacement demand is quite low. For instance, tunnel ovens installed in the Chiang Mai factory of leading retail bakery chain S&P have been installed for more
than 15 years now but they are still functioning well with proper maintenance. The company uses Japanese and European equipment suppliers. Specifically they use Japanese brand equipment for baking cakes, moon cakes and cookies.

“We are satisfied with our current equipment suppliers because of the reliability of the equipment and they deliver good after-sales services. But we are open to new suppliers. Quality and price are important.”
— Vitoon Sila-on
Senior Vice President, S&P Syndicate PCL

Central Restaurants Group Co., Ltd. (CRG) uses Belshaw brand of bakery and frying equipment from the U.S. because its franchise contract with Mr. Donut requires all major equipment to be purchased from U.S. suppliers. These include dough mixers and donut fryers, among others. CRG has also purchased ovens for other retail bakery business from the U.S. The company is a leading food service operator and a franchise holder in Thailand of bakery/confectionery brands Mr. Donuts, Auntie Anne and Beard Papa’s; fast food and restaurant outlets KFC, Pepper Lunch, Chabuton, Ryu Shabu-Shabu, Yoshinoya and Ootoya; an ice-cream parlor Cream Stone Creamery; and its in-house restaurant chain, The Terrace. Like S&P, CRG would consider other baking equipment suppliers (outside of the biding contract with Mr. Donuts) including those from the Netherlands; however, the company management is apparently not familiar with the quality of Dutch bakery machines.

“Last year I attended an international food trade event in Munich, but did not see or meet with any Dutch company engaged in the bakery industry. The Dutch suppliers should attend such events, even here in Thailand where we have the annual Thailand Bakery and Ice Cream Fair.”
— Kanop Sriavut
Purchasing Department Manager, Central Restaurant Group Co., Ltd.

Thai imports of bakery equipment in 2012
Practically all essential equipment and machinery used by bakers of all types and sizes are imported. Only such related equipment as commercial refrigerators, cake display cabinets, and tables and sinks made of stainless steel, are produced locally.

From the import statistics compiled by the Customs Department, Thailand imported the following major types of bakery and related equipment in 2012:

<table>
<thead>
<tr>
<th>Type of equipment</th>
<th>C.I.F Value (Million Baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakery ovens</td>
<td>317</td>
</tr>
<tr>
<td>Other bakery machinery</td>
<td>477</td>
</tr>
<tr>
<td>Machinery for the manufacture of confectionery, cocoa or chocolate</td>
<td>257</td>
</tr>
</tbody>
</table>

Other bakery machinery includes dough making machine, pastry making machine, mixers, etc. Smaller baking utensils are lumped together in other product
categories and cannot be segregated. The same is true for packing equipment (e.g., shrink wrapping machinery) used in the bakery industry; thus import value cannot be determined.

For ovens and other large bakery equipment, the retail value in 2012 was estimated at around 1,141 MB – after adjusting for relevant taxes and tariffs of up to 20%, and 20% margins. This amount is quite comparable to Somerville’s estimate of 1,100 MB for the same equipment categories.

**Countries of origin of imported equipment**

Many years ago, practically all machines and equipment used by industrial bakers and hotels in Thailand came from Europe – Italy, Germany, Denmark, Switzerland, Sweden, France and Spain; as well as the U.S. European and U.S. brand manufacturers are reputable for durable and reliable equipment and customers were willing to pay for the higher-priced products realizing their long-term serviceability.

Now hotels remain to be loyal customers of European-made equipment; but more and more end-users such as hypermarkets and smaller bakeries have switched to sourcing from China. Larger customers order machines from Chinese companies to design the equipment according to European specifications; while bakeries with smaller budgets settle for cheaper equipment designed by Chinese and Taiwanese manufacturers.

“In the past, all equipment that we use was from Europe. Today, we source machinery & equipment with European specifications from China.”

*Paritut Siwadit*  
*Associate Director Bakery Development, Siam Makro PCL*

Japan was the leading supplier of bakery ovens and other bakery equipment in 2012; followed by China, Denmark and Italy for ovens, and Germany, China, Switzerland and Italy for other types of bakery machines.

**Imports from the Netherlands**

During 2010-2012, Thailand imported a total of 32 units of bakery equipment from the Netherlands with a total C.I.F. value of THB59.74 million or landed cost of THB71.69 million. Imported equipment from the Netherlands carries a 20% ad valorem tax.
<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>Units</th>
<th>2010 CIF Value (Baht)</th>
<th>Units</th>
<th>2011 CIF Value (Baht)</th>
<th>Units</th>
<th>2012 CIF Value (Baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8417.2000.000</td>
<td>Ovens</td>
<td>1</td>
<td>1,200</td>
<td>1</td>
<td>93,425</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8438.1010.001</td>
<td>Bakery machinery</td>
<td>4</td>
<td>4,583,424</td>
<td>5</td>
<td>26,645,647</td>
<td>8</td>
<td>6,314,241</td>
</tr>
<tr>
<td>8438.2010.000</td>
<td>Machinery for confectionery, cocoa or chocolate manufacturing (electrically operated)</td>
<td>6</td>
<td>5,740,139</td>
<td>1</td>
<td>111,014</td>
<td>6</td>
<td>16,257,575</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td><strong>11</strong></td>
<td><strong>10,324,763</strong></td>
<td><strong>7</strong></td>
<td><strong>26,850,086</strong></td>
<td><strong>14</strong></td>
<td><strong>22,571,816</strong></td>
</tr>
</tbody>
</table>

Source: Customs Department

CIF value of equipment and machinery per unit which were imported from the Netherlands varied from a low 1,200 baht (for oven) and 5.33 million baht for a (large) bakery machine. The machinery for making cocoa/chocolate that was imported in 2012 was priced, on average, 2.7 million baht per unit (CIF).

**Growth trend**

The domestic market is growing at least 10 percent per year due to new bakery stores and outlets opening each year. But growth in this segment is driven not only by local demand, but also by regional demand. For example, the hospitality industry in Myanmar is booming and Thailand is in a very strategic location to service the industry needs at all angles. Two leading equipment suppliers Metro H and Res and Somerville already export some of their products and services to neighboring countries; this trend is expected to continue in the coming years.

**C. Business cycle**

The Thai bakery sector is still growing, and despite concerns of reaching plateau stage – the break-even level of the market, where the supply of goods meets current market demand, it has become evident that the market is still expanding and yet even at a rapid pace. Industry insiders forecast that for the next few years, the industry will further expand between 10 to 20 percent year-on-year, with sales in retail bakery chains and convenience stores driving this growth.

This implies that there is still ample room for new players to enter the vibrant market. Indeed newcomers have to evaluate a two- or three-dimensional matrix, rather than one-dimensional, when deciding which segment, product or service they would like to enter and compete.

- For instance, some hypermarkets have observed a flat or declining growth in their sales of bread and pastries, but demand for donuts is outpacing growth of their entire food offerings.

- Meanwhile, specialist bakeries are experiencing brisk sales of cakes and pastries more than donuts.
At the same time, donut specialists are all reporting explosive growth quarter by quarter, year by year.

"Thanks to the unwavering support of our customers, Mister Donut manages to retain a lion’s share of 60% in this market worth 2.5 to 3 Billion Baht a year. Over the fourth quarter of 2012 alone, our sales surged by 30%. And this was followed by another robust 25% sales growth in the first quarter of this year."

- Sucheep Tamacheepjareon
  General Manager, Mister Donut Brand, Central Restaurants Group Co., Ltd.

Dunkin’ Donuts, main rival of Mr. Donuts in Thailand, also posted 15 percent CAGR over the past 5 years.

Target customers for donuts in Thailand are mainly high school and university students as well as entry-level employees between 15 to 25 years whose lifestyles are modern, fun-filled, sociable, and open to new trends.

- Depending on a player’s line of business, the company may decide to join the fray of donuts franchising or get involved in supplying ‘innovative’ ingredients to current players. Taking Mr. Donuts’ case again, the Japanese franchise operator Duskin Company which covers Asia including Thailand, has recently announced that it would substantially change its donut recipes – the first major change since 1971 when the chain debuted in Japan. Duskin said it will alter the recipe for dough and will use oil it has originally developed to make its donuts tastier. New products started selling in Japan on April 26, 2013 without changing their prices. Duskin is expected to extend the recipe change shortly to its franchisees in Thailand. This could be a golden opportunity for an ingredient supplier to work with Central Restaurants Group.

D. Product niche

In relation to market size assessment and business cycle that have already been discussed, companies should develop bakery products that meet a specific niche in the market. Products must be differentiated from others in the market so they meet a specific need of consumer demand, creating higher demand for their product.

For instance, industrial bread producer President Bakery offers new products each year and conducts tests in sample markets to determine which of their potential product styles is most preferred by consumers. Also the company aims to develop its bakery products so that competitors cannot easily duplicate their product – although this has become very challenging for President Bakery because being the market leader, its products are being ‘copied’ left and right, with some changes in minor ingredients or proportions of sugar or milk or shortening.

Product positioning is very much related to creating a market niche. Mr. Donuts and Dunkin’ Donuts sold at affordable prices both appeal to the younger generation that have modest purchasing power. On the other hand, higher-end products of Krispy Kreme are more pricey and targeted for more affluent consumers.
Wholegrain bread, rye bread, multi-grain bread and similar bread products that are advertised to have higher nutrient value than white bread, appeal to health-conscious consumers, especially women.
This section presents an analysis of the existing competition in the various segments of the Thai bakery industry including the number of players and their market shares (where obtainable).

The landscape of Thailand’s bakery industry seems to be a contradiction of marketing theory. Since there is a country-wide proliferation of bakery outlets of all sizes, one would expect that the market is nearing its saturation level and maturity where fewer profits are achieved and companies will begin to lose money. But the exact opposite is true. Despite the seemingly overcrowded space, evident especially in Bangkok and its vicinities, and in urban areas, there is an observed burgeoning demand of Thai consumers for bread or a sandwich at breakfast or a piece of cake or savory during coffee break. Henceforth the market continues to embrace new players particularly the ones who can offer innovative and novel bakery products at affordable prices and sold at convenient locations.

Overall packaged bread producer President Bakery Public Co., Ltd. commanded the largest share in the 27 billion baht baked goods market in 2012 with 21.6 percent contribution (THB5.82 billion sales from baked goods for domestic market). Coming a close second is CP Retailing & Marketing (CPRAM) which is the manufacturing arm of CP All, franchise operator of 7-Eleven convenience stores, with approximately THB5 billion sales of baked goods or 18.9 percent share. The third biggest manufacturer, S&P Syndicate Public Co., Ltd. which specializes in cakes more than bread, had 10.6 percent share of the market. The other ranked players were the global hypermarket/cash & carry giants Siam Makro and Tesco Lotus, each having 5.6 percent share, and Big C with 4.8 percent. Together, these six players contributed more than two-thirds of baked goods sales in 2012, while the other retail bakery chains, coffee chains, artisanal bakeries and home-based bakers accounted for the rest, with a value of approximately 9 billion baht.

<table>
<thead>
<tr>
<th>Company</th>
<th>2012 Sales (Billion Baht)(^3)</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Bakery</td>
<td>5.82</td>
<td>21.6%</td>
</tr>
<tr>
<td>CPRAM</td>
<td>5.00</td>
<td>18.5%</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>2.85</td>
<td>10.6%</td>
</tr>
<tr>
<td>Siam Makro</td>
<td>1.50</td>
<td>5.6%</td>
</tr>
<tr>
<td>Tesco Lotus</td>
<td>1.50</td>
<td>5.6%</td>
</tr>
<tr>
<td>Big C</td>
<td>1.30</td>
<td>4.8%</td>
</tr>
<tr>
<td>Others</td>
<td>9.02</td>
<td>33.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26.99</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Annual reports, interviews, news reports and Larive estimates

---

\(^3\)Mid-rate in 2012: 1 EUR = THB39.96
Thais are known to be willing to try and taste new and innovative products. When Malaysian specialist bakery Rotiboy first introduced its popular sweet coffee buns in 2006 in Thailand on a tiny street shop on Silom Road – the heart of Bangkok’s business district – long queues of enthusiastic Bangkokians lined up the crowded sidewalk and patiently waited up to one hour just to have a taste of the nice smelling freshly-baked buns. The Rotiboy fever soon died down but the popularity of the product continued with a number of small bakers trying to duplicate the buns. The Rotiboy Thai franchise ‘Mr. Bun’ was established and registered in 2007. Today it has 64 outlets all over the country – mostly located in hypermarkets and shopping malls – with a turnover of 150 million baht per year.

A similar situation happened in 2010 when the U.S. doughnut chain operator Krispy Kreme opened its first outlet at Siam Paragon, the premier shopping complex located in the world famous Bangkok’s Ratchapasong shopping district. For years, sweet tooth Thai consumers have enjoyed the wide variety of donut flavors and concoctions made by two other U.S. franchisers Mr. Donuts and Dunkin’ Donuts. But here came a novel brand offering a completely ‘enticing’ array of goods. ‘They are pleasing to the eye, they must taste really good!’ – was a common thought among Bangkok consumers. On the first day of launching, hundreds of people of all ages were seen lining up the length of Rama I Road hours before the mall even opened its doors. This went on for weeks that stretched for months. Krispy Kreme was a success! With a price nearly double that of its closes rivals, a Krispy Kreme donut is a premium product; but those who have deep pockets do not mind to shell out more so that they can ‘eat and tell.’ Today the franchise holder operates seven Krispy Kreme outlets strategically located in high people traffic areas including the two international airports at Suvarnabhumi and Don Mueang.
1.1 Specialist Bakery Chains

This group consists of Yamazaki, BreadTalk, Gateaux House, Saint Etoile by Yamazaki, Bonjour, Mr. Bun and a few smaller operators.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Brands</th>
<th>Number of Outlets</th>
<th>Product Range</th>
<th>2012 Estimated Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thai Yamazaki Co., Ltd.</td>
<td>Yamazaki</td>
<td>50</td>
<td>Breads (baguette, soft, etc.), cakes, pastries, cookies, éclairs, donuts,</td>
<td>916 MB</td>
</tr>
<tr>
<td></td>
<td>Saint Etoile by Yamazaki</td>
<td>19</td>
<td>sandwiches, Japanese sweets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sun Royal</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chez Recamier</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gateaux House Co., Ltd.</td>
<td>Gateaux House</td>
<td>43</td>
<td>Breads &amp; buns (sweet and savory, pizza bread, sandwich bread, French bread)</td>
<td>329 MB</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cakes, pastries and pies</td>
<td></td>
</tr>
<tr>
<td>BreadTalk (Thailand) Co., Ltd.</td>
<td>BreadTalk</td>
<td>18 BreadTalk outlets</td>
<td>Breads (savory, sweet) and cakes</td>
<td>144 MB</td>
</tr>
<tr>
<td></td>
<td>Food Republic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ToastBox</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Din Tai Fung</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonjour Co., Ltd.</td>
<td>Bonjour</td>
<td>&gt;20</td>
<td>Breads (French, others)</td>
<td>150 MB</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cakes and pastries</td>
<td></td>
</tr>
<tr>
<td>Bun Co., Ltd.</td>
<td>Mr. Bun</td>
<td>64</td>
<td>Bun selection, croissants, pretzels, bread sticks</td>
<td>150 MB</td>
</tr>
</tbody>
</table>

Source: Company websites, Ministry of Commerce, Interviews

1.1.1 Thai Yamazaki Co., Ltd.

Commanding the largest market share in this group, Yamazaki is owned and managed by Thai Yamazaki Co., Ltd. which is a joint venture between Thai investors and Japanese company Yamazaki Baking Co., Ltd. Thai Yamazaki was established in 1984 – making it the pioneer of specialist bakery formats in Thailand. It operates two plants and runs 50 Yamazaki outlets in Greater Bangkok and urban centers in the provinces. In addition the company also operates nearly 20 Saint Etoile by Yamazaki bakery outlets in Bangkok and one in Pattaya City, 3 Sun Royal (soon to be converted to Saint Etoile by Yamazaki) and 4 Chez Recamier outlets in Bangkok.

Yamazaki is positioned more for Thai consumers with their taste for sugar galore, whereas Saint Etoile targets a broader orientation including the expat community. The Saint Etoile shops tend to have a better selection of non-sweet regular breads, sliced and whole loafs (along with all the pastry selections), whereas the Yamazaki shops seem to be heavier on the sweets and pastries and lighter on their selections of regular breads. For instance, the Saint Etoile shop in the basement of Siam Paragon seems to always have a good selection of their regular breads. Because of the brand positioning, Saint Etoile’ bread and pastry selection also costs more than Yamazaki.

Aside from opening new Yamazaki shops in strategic locations, Thai Yamazaki is seen to be upgrading existing Yamazaki shops to the more upscale Saint Etoile format – perceived to build the ‘premium’ image for the company among discerning customers.
The company posted modest growth during the five-year period 2007-2011 with a CAGR of 6 percent. Sales in 2011 reached 874 million baht and in 2012 were estimated at a little more than 900 million baht. For 2013, Thai Yamazaki is forecasting a slightly higher sales growth of 7-8 percent, driven mainly by increased number of new outlets.

1.1.2 BreadTalk (Thailand) Co., Ltd.
BreadTalk entered Thailand in 2004 with its first shop after it was founded in Singapore in 2000 and was listed on the Singapore Exchange in 2003. Bread Talk (Thailand) Co., Ltd. is registered under ‘restaurant, canteen and drink’ category instead of bakery because some retail shops also have seating capacity for customers who enjoy eating their breads and cakes with fruit beverages.

Today there are 18 BreadTalk outlets in Greater Bangkok and the number keeps on growing. The BreadTalk Group also operates Food Republic food court, ToastBox coffee and toast chain, and Din Tai Fung meat dumpling chain in Bangkok.

While annual turnover is still small compared with Yamazaki, BreadTalk has managed to demonstrate exponential growth from only 36 million baht in 2007 to 111 million baht in 2011 or more than 30 percent CAGR. With this expansion, the company could be considered one of the success stories in the Thai retail bakery.

Its foothold in the Thai territory is further strengthened by having Thailand’s Minor International (MINT) – a leading restaurant operator – as a shareholder in the Singaporean parent company. In April this year, MINT upped its stake in BreadTalk Pte to 8.9 percent. Analysts in the Singaporean bourse do not anticipate a takeover of BreadTalk by MINT and view the stake acquisition as a strategic move by MINT to enlarge its portfolio.

1.1.3 Gateaux House Co., Ltd.
Established in 1987, Gateaux House Co., Ltd. has been operating a retail bakery chain for almost 27 years. Gateaux House has many branches throughout Thailand. It is a bakery that serves a selection of over 100 items such as breads, cakes, cookies, cupcakes, pies, other desserts and baked goods as well as hot and iced beverages. The shop use quality raw materials for its goodies and without any preservatives. One of its flagship creations are its chocolate buns - chocolate cream filled buns coated with pure chocolate.

Gateaux House operates 43 retail shops in Bangkok and vicinities, and in Chiang Mai. The company also provides catering services.

In recent past, the company showed sluggish expansion with nearly flat growth over the past five to six years. It reported sales of 310 million baht in 2011, up by only two percent over the 2007 level of 304 million baht, and average yearly growth of less than 0.5 percent.
1.1.4 Bonjour Co., Ltd.
Founded by a Thai and a foreign entrepreneur, Bonjour Co., Ltd. started its retail bakery business in Thailand in 2004. Branches are located mostly in Bangkok and vicinities, with one outlet in Pattaya City in the eastern region. It offers a broad selection of cakes, pastries, donuts, cookies and sandwiches. The company has enjoyed solid growth over the years with sales jumping by nearly 80 percent from 70 million baht in 2008 to 125 million baht in 2011 or a 20 percent average growth per year.

1.2 Bakery & Restaurant Chains

This group comprises S&P, Little Home Bakery, Secret Recipe and Coffee Beans by Dao – among the more prominent players. There could be others that operate two or three restaurants which also sell baked goods, but sales are considered insignificant in comparison with the bigger chains.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Brands</th>
<th>Number of Outlets</th>
<th>Product Range</th>
<th>2011 Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little Home Bakery Co., Ltd.</td>
<td>Little Home</td>
<td>Bakery/restaurant: 5 Bakery line: Breads, pastries, cakes, cookies Food line: Thai cuisine Bakery (large): 13 Bakery booth: 22</td>
<td>Total 146 MB Bakery 58 MB</td>
<td></td>
</tr>
<tr>
<td>Dao Coffee Beans Co., Ltd</td>
<td>Coffee Beans by Dao</td>
<td>6 (all in Bangkok) Bakery line: Cakes and pies Food line: Thai specialty dishes; Western dishes; East-West fusion dishes</td>
<td>Total 210 MB Bakery 100 MB+</td>
<td></td>
</tr>
<tr>
<td>Secret Recipe (Thailand) Co., Ltd.</td>
<td>Secret Recipe</td>
<td>30 in Bangkok and vicinities, Chiang Mai, Hua Hin and Pattaya Cakes (cream cake, cheesecake, health cake) Brownies &amp; pies Soups &amp; beverages</td>
<td>79 MB</td>
<td></td>
</tr>
</tbody>
</table>

*Note: The Company operates 211 BlueCup coffee shops in S&P restaurants and bakery shops
N/A = Not Available
Source: Company websites, Ministry of Commerce, Interviews

Except for Secret Recipe which is a Malaysian franchise, the other three players are homegrown businesses. Little Home Bakery is the oldest player in this segment, having started its bakery business 47 years ago in 1966. S&P started as a small ice cream parlor in 1973, and established its bakery factory in 1984. Coffee Beans and Dao opened its first outlet on Ekamai Road, Bangkok in the heart of Sukhumvit commercial district. The three Thai companies started out as a bakery business operation which later diversified into the restaurant business.

While each company has its own unique business model which targets different customer segments, they also compete head-on in some respect.
1.2.1 S&P Syndicate Public Co., Ltd.
From a very small family-run operation in 1973, S&P has transformed into a multi-billion baht bakery and food service business that serves the whole of Thailand and a number of overseas markets including Singapore, Taiwan, China, Switzerland and the U.K. The company positions each store-type differently to better serve different groups of customers. S&P restaurants and bakeries store focuses on mass market, while other specialty restaurant brands target niche and ‘more unique’ customers. S&P and its subsidiaries operate business related to restaurants, coffee and beverages, bakery, and ready to eat food, and produce various food products under the name S&P. The bakery business accounts for about 50 percent of the company’s domestic revenues. The company’s local operation has enjoyed double-digit growth over the past 5-6 years, with CAGR of 11.4%. Domestic sales in 2012 stood at 5,663 million baht, with sales of baked goods worth 2,850 million baht – making S&P the largest player in this retail category.

1.2.2 Little Home Bakery Co., Ltd.
Little Home Bakery is managed and controlled by a Thai family. Its bakery products known for their classic taste (e.g., butter cakes baked with real butter) gained popularity among the older generation elites and were a household word several decades ago. Over the years the company diversified into restaurant business serving mostly Thai specialty dishes. But the expanded operation did not propel the company to high growth levels, although the business had been profitable. The decadent, almost shabby, look of the company’s flagship bakery and restaurant outlet in its headquarters near Chinatown is proof that Little Home has not kept pace with the modern times. Its retail outlets inside shopping malls and supermarkets are not impeccable either. While food and baked goods may be tasty and delicious, the lack of dining ambience has perhaps contributed largely to its current state of affairs. Sales of Little Home Bakery posted annual growth of 6 percent during the 2007-2011 period – much slower than its bigger rival.

S&P’s nearly 3 billion baht income from bakery sales in 2012 dwarfs that of Little Home Bakery which had estimated sales of less than 100 million baht in the same year, making S&Ps bakery business 30 times as large as that of Little Home. This mammoth gap between ‘David and Goliath’ is narrowed somewhat by looking at the average sales per outlet per year: S&P, 9.5 million baht; Little Home, 1.6 million baht. Thus on sales per store basis, S&P is only six times larger than its smaller rival. Yet this remains a significant difference which underlies the fact that S&P has managed to attract more customers. Aside from offering a wide array of baked goods, S&P bakery outlets look modern and welcoming to customers.

1.2.3 Dao Coffee Beans Co., Ltd.
Coffee Beans by Dao, owned by Dao Coffee Beans Co., Ltd., is a misnomer as its menu pays no special mention to coffee items. Indeed it is positioned in a different league altogether, targeting the well-heeled clients more than the ordinary. A family-run business, Coffee Beans by Dao is a full-fledged restaurant serving authentic Thai and Western dishes, while the bakery section is mainly cakes. Best known for its delicious cake creations including its flagship carrot cake and cheesecakes, the restaurant - with its tasty décor - is the ‘in trend’ place to have lunch or dine out with friends. With only six outlets in Bangkok, Coffee Beans by Dao is not in a hurry to expand as it strives to serve a wider selection of appetizing desserts and innovative dishes to its loyal customers.
Judging from the always ‘packed’ place and long queues of customers waiting to be seated and served in every outlet in town, one would come up with only one conclusion that the business is humming. The company reported a turnover of 210 million baht in 2011, clearly a bigger business than Little Home Bakery. Income derived from its bakery unit is estimated to be at least 50% of total earnings.

1.2.4 Secret Recipe (Thailand) Co., Ltd.
Secret Recipe entered Thailand in 2004, and after nine years now boasts of 30 branches in the country – mostly located in Bangkok and peripheries. In the true spirit of its parent company in Malaysia, Secret Recipe Thailand offers a friendly and personalized full-service dining experience to customers. Despite the cramped atmosphere in most shopping mall locations, Secret Recipe has managed to create a contemporary interior concept. With moderate, quite affordable pricing, the bakery & restaurant chain attracts a wide spectrum of customers from families, office workers, businessmen and women as well as students. The cake specialties are available in big servings which make them look more value for money compared with its competitors. Generating sales of 78 million baht in 2011, Secret Recipe had eclipsed Little Home Bakery – both in terms of total income and average income per outlet.
1.3 Café Bakery Chains

In this group, only Au Bon Pain is known to run a production facility for its bagels, breads and pastries that are freshly baked every day and distributed to its branches nationwide. Most other café bakery chains including Starbucks outsource their supply of fresh bakery products including cakes, pastries, cookies and sandwiches.

<table>
<thead>
<tr>
<th>Name</th>
<th>Brands</th>
<th>Number of Outlets</th>
<th>Bakery Product Range</th>
<th>2011 Sales (Million Baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABP Café (Thailand) Co., Ltd.</td>
<td>Au Bon Pain</td>
<td>48</td>
<td>Bakery: bagels, croissants, brownies, muffins, cookies, other pastry specialties</td>
<td>Total 487 Bakery 240</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sandwiches Soups &amp; salads Beverage</td>
<td>2012 estimate Total 536 Bakery 268</td>
</tr>
<tr>
<td>Starbucks Coffee (Thailand) Co., Ltd.</td>
<td>Starbucks</td>
<td>136</td>
<td>Croissant, sandwiches, muffins, cookies, cakes</td>
<td>2011 Total: 2,089 2012 Total: 2,618 Bakery N/A</td>
</tr>
<tr>
<td>GFA Corporation (Thailand) Co., Ltd.</td>
<td>Coffee World</td>
<td>80</td>
<td>Waffles Sandwich wraps</td>
<td>Total 204 Bakery N/A</td>
</tr>
<tr>
<td>True Corp</td>
<td>True Café</td>
<td>56</td>
<td>Bread &amp; sandwiches, cakes, pastries</td>
<td>N/A</td>
</tr>
<tr>
<td>PTT PCL</td>
<td>Café Amazon</td>
<td>&gt;500</td>
<td>Cakes and pastries</td>
<td>N/A</td>
</tr>
<tr>
<td>Black Canyon (Thailand) Co., Ltd.</td>
<td>Black Canyon Coffee</td>
<td>210</td>
<td>Cakes and pastries</td>
<td>Total 876 Bakery N/A</td>
</tr>
<tr>
<td>Golden Cream Co., Ltd.</td>
<td>Caffe’ D’ Oro</td>
<td>&gt;70</td>
<td>Cakes and pastries</td>
<td>198</td>
</tr>
<tr>
<td>Ultimate Beverage Products Co., Ltd.</td>
<td>94 Coffee</td>
<td>38</td>
<td>Cakes and pastries</td>
<td>94</td>
</tr>
<tr>
<td>Central Food Retail Co., Ltd.</td>
<td>Segafredo Zanetti Espresso</td>
<td>11</td>
<td>Cakes</td>
<td>N/A</td>
</tr>
<tr>
<td>McThai Co., Ltd.</td>
<td>McCafé</td>
<td>57</td>
<td>Cakes and pastries</td>
<td>Total 4,104 Bakery N/A</td>
</tr>
</tbody>
</table>

Note: N/A = Not Available Source: Company websites, Internet search

Over the past 15 years, Au Bon Pain has become a familiar brand that can be seen on the main streets of Bangkok, prime office buildings, large department stores and even in hospitals.

ABP Café (Thailand) Co., Ltd. is the largest franchise operator outside the U.S. The U.S. bakery café chain was first introduced in the country in 1997 by Royal ABP Thailand. Since then, ownership of the franchise has changed hands twice. In April 2006, Royal ABP Thailand became ABP Cafe Thailand, jointly owned by the Narula family and Navis Capital. Five years later in November 2011, the company was bought out by Sub Sri Thai (SST), a warehouse service provider and the producer of Tip brand edible oil. To ensure uninterrupted operation, SST had retained the then existing management team of Au Bon Pain.

ABP first took its roots in office locations within the central business district targeting Thai and foreign consumers, a critical factor in the chain’s success. Then it expanded to other high growth areas such as shopping malls and major hospitals. Today the chain has 48 outlets, of which 43 are located in Bangkok and 5 in Pattaya and Phuket.
Products offered differ slightly from those in the U.S. in order to adapt to local taste and preferences. These include a wide selection of bagels, croissants, bread and pastries. With a clear motto – “Always fresh, always something new, with nutrition in mind” – Au Bon Pain Thailand has made it a point to launch new menu items every six weeks. Total earnings have grown on average 9 percent per year since 2007.

Competition among other international coffee chains such as Starbucks and Coffee World, and local coffee chains such as True Coffee and Café Amazon is fierce, yet everyone has survived the battle so far – showing that there is still unmet demand that needs to be filled. Au Bon Pain is seen not be competing directly with these other café chains because it is first and foremost a bakery restaurant rather than a coffee shop; whereas the majority of its rivals are pushing their coffee and beverage products upfront, with bakery taking a backseat.

Nonetheless, some players have also adopted a restaurant format. Black Canyon while known for its coffee has also a bustling restaurant business; but it has a small selection of bakery items. Starbucks has begun to expand its bakery and savory offerings which are being outsourced from contract suppliers.

1.4 Donut Chains

Thais were initiated to Western-style donuts in 1978 when the first Mr. Donut shop opened in Bangkok. Next came another U.S. donut franchise operator Dunkin’ Donuts in 1981. More than three decades later since that first Mr. Donut store, more than 500 donut outlets crowd the urban space of Bangkok and cities across the country. For decades, the two American giants competed fiercely for market share, with both claiming pole position.

Tapping the huge demand in the donut crazy nation, Krispy Kreme became the third U.S donut franchise operator to join its big brothers in 2010.

Before Krispy Kreme came into the picture, two local players Do Dee Dough and Daddy Dough started their own donut chains. In addition, there are numerous independent Thai shops that proliferate in supermarkets and shopping malls.

Being the pioneer in Thailand, Mister Donut has been a leader in the Thai donut market since 1978. It is known for its concept "Donut for Fun." Operated by franchise holder Central Restaurants Group, Mister Donut has 280 branches across Thailand with more opening yearly. They include stand-alone stores as well as outlets at shopping malls and supermarkets. To gain and maintain market share, Mister Donut has launched price-cutting strategy with a bit smaller portion of its donuts and sold at cheaper prices than Dunkin’ Donuts. The strategy is working as Mister Donut has continued to command the biggest share of the ever growing market. But the presence of Krispy Kreme and Daddy Dough has eaten away some shares from both Mr. Donut and Dunkin’ Donuts. In the past couple of years two more donut chains have entered the fray: Do Dee Dough and Bapple, but sales information cannot be obtained independently as they have not
submitted financial statements to the government’s Ministry of Commerce. Therefore market share analysis has been based on only the four bigger players.

In 2011, the ‘branded’ donut market was estimated at around 2.6 billion baht, with the following market shares: Mr. Donut 50%, Dunkin’ Donut 34.3%, Krispy Kreme 10.7% and Daddy Dough 4.3%. In the previous year, Mr. Donut claimed to have 60% share of the 2 billion baht market. In a period of 12 months, its market share declined by 10% stemming from increased competition coming from new players, and the fact the company grew much slower (8.3%) than the overall market (30%).

<table>
<thead>
<tr>
<th>Brand</th>
<th>2011 Sales (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Donuts</td>
<td>1.320</td>
</tr>
<tr>
<td>Dunkin’ Donuts</td>
<td>893</td>
</tr>
<tr>
<td>Krispy Kreme</td>
<td>279</td>
</tr>
<tr>
<td>Daddy Dough</td>
<td>113</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.605</strong></td>
</tr>
</tbody>
</table>

*Source: Interviews, Internet search, Ministry of Commerce*

**Product positioning of various brands**

**Mister Donut** is the most popular and largest donut chain in Thailand with 280 outlets. They are everywhere, with everything from large stores to small kiosks and are popular due to their cheap price and great taste. At Mister Donut, one can buy a donut for as little as 12 baht (40 cents), which is less than half the price of many other chains. A new Mr. Donut image that was initially launched in 2011 creates ‘Fun, Active, Smart and Modern’ feeling – also very much appealing to younger customers especially children.

**Dunkin’ Donuts** is second only in popularity with more than 200 shops around Thailand and more appearing every month. Dunkin Donuts started a campaign two years ago called 'Coffee and Donuts', which tried to show customers they have delicious coffee-based drinks too.

**Daddy Dough** is a completely unique Thai brand. Started about four years ago by then 24 year old Peter Thaveepolcharoen, he uses the donut recipe his father developed 25 years ago when he ran a donut shop in the United States. Daddy Dough is famous in Thailand for its more than 40 different flavors of donuts, including chocolate, cinnamon, chocolate, spinach and sesame, and for its lower prices than the top American brand donuts in Bangkok.

**Krispy Kreme** is a leading U.S. branded specialty retailer and wholesaler of premium quality sweet treats and complementary products including its signature Original Glazed donut. In Thailand, Krispy Kreme is retailed in a string of outlets by franchise holder KDN Co., Ltd. The products are positioned as premium quality, thus command higher prices which Thais are willing to pay.
Do Dee Dough is another Thai donut chain owned by famous Thai singer, Tik Shiro. With donuts that are supposed to be low-sugar, and with the added novelty of being in the shape of a ‘D’, Do Dee Dough has opened franchises in the Bangkok suburbs instead of at the usual upscale malls. Do Dee Dough donuts come in many different flavors and are extremely popular with Thais, who love that Do Dee Dough is a Thai company.

Bapple is brand new in Thailand. It is a Malaysian donut company (Big Apple Donuts and Coffee) that prides itself on lower calorie donuts. There are 12 Bapple stores in Bangkok and other neighboring provinces.

<table>
<thead>
<tr>
<th>Name</th>
<th>Brands</th>
<th>Number of Outlets</th>
<th>Product Range</th>
<th>2011 Sales (Million Baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Restaurant Group PCL</td>
<td>Mr. Donut, Auntie Anne*, Beard Papa’s**</td>
<td>280 105 18</td>
<td>Donuts in 19 different flavors and shapes including 2 Japanese-inspired desserts</td>
<td>Total: 6,196 Donut: 1,320</td>
</tr>
<tr>
<td>Golden Donuts Co., Ltd.</td>
<td>Dunkin’ Donut</td>
<td>201</td>
<td>Premium donuts (19 flavors) Classic donuts (14 flavors) Munchkins Choco Wacko</td>
<td>893</td>
</tr>
<tr>
<td>KDN Co., Ltd.</td>
<td>Krispy Kreme</td>
<td>7</td>
<td>Donuts (classic and specialty) in 21 flavors</td>
<td>279</td>
</tr>
<tr>
<td>Daddy Dough International Co., Ltd.</td>
<td>Daddy Dough</td>
<td>30</td>
<td>&gt;50 flavors including green tea, coffee, nut, jam, jellies, various chocolates, all berries, etc.</td>
<td>113</td>
</tr>
<tr>
<td>Big Apple &amp; Donuts</td>
<td>Bapple</td>
<td>12</td>
<td>Low calorie donuts</td>
<td>N/A</td>
</tr>
<tr>
<td>Do Dee Doughnut Co., Ltd.</td>
<td>Do Dee Dough</td>
<td>Not available</td>
<td>Low sugar donuts</td>
<td>N/A; registered only in 2012</td>
</tr>
</tbody>
</table>

*Auntie Anne serves pretzels and savory bakery products; **Beard Papa’s serves éclairs
N/A = Not Available
Source: Company websites, Ministry of Commerce, Internet search, interviews

1.5 Cake Specialists

There is only one company which can be classified as a cake specialty chain because baking creative cakes is their primary business. This is Boat’s Bakery and Restaurant Co., Ltd.

For over 30 years, Boat’s Bakery has become well known for their 3D cakes, with customers choosing from a wide selection of designs from sport themed cakes such as a basketball court or a swimming pool cake, to animal themed cakes such as the zoo, circus or sea animals. Perhaps the biggest Boat’s Bakery fans are children who delight in an amusement park themed cake complete with roller coasters and merry-go-rounds. Boat Bakery also has 3D cakes for all major holidays such as Valentine’s, New Year’s and Christmas, or customers can order a custom made cake to perfectly suit any occasion. Despite its phenomenal success, Boat’s Bakery is still a family run business producing not only 3D cakes, but the finest quality homemade baked goods such as pies, puff pastries and breads.
Boat’s Bakery has four branches in Greater Bangkok, including its headquarters in Nontaburi province.

2. **INDUSTRIAL BAKERIES**

2.1 **Bread**

The bread market in Thailand was valued at around 10.9 billion baht in 2012 (refer to demand analysis section). Suppliers include industrial bakeries that produce packaged bread for delivery to various outlets, artisanal that includes in-store bakeries and home-based (cottage industry) bakers, private label and others.

With its highly popular Farmhouse brand, SET-listed **President Bakery PCL** is the undisputed leader in the bread market segment gaining 42 percent share in 2012. A distant second is C&W Interfoods Co., Ltd. with 4.3 percent, S&P Syndicate 2.6 percent and S.T. Bakery, 1.6 percent. **S&P** has not really focused on its bread products because the company does not target the mass market and only depends on its own S&P bakery outlets for points of distribution.

The two other small players **C&W Interfoods** and **S.T Bakery** are packaged bread producers like President Bakery. But unlike their bigger rival who employs a highly efficient nationwide distribution system, they do not have their own distribution channel. They sell their products through wholesaling to small shops and modern trade.

S.T Bakery, maker of ‘Twist’ brand sliced bread has a production facility in Nontaburi, which is part of the Greater Bangkok Metropolitan Area. The company has reported declining sales in the past couple of years which could be attributed to being squeezed out by President Bakery particularly in 7-11 convenience stores. President Bakery distributes products through CP All Plc which operates the more than 6,700 7-11 stores throughout the country. In 2012, President Bakery generated 30% of total income from 7-11 stores, a huge chunk of its total earnings.
C&W Interfoods operates a factory in Ayutthaya province (which is about 75 km away from Bangkok). Product offerings include sliced bread under its own brand ‘A-Plus’ as well as house brands for renowned supermarkets and hypermarkets. The company also makes frozen dough.

Because of its well-oiled distribution machinery and popular products, President Bakery is expected to continue its supremacy in the packaged bread market for many years to come. Farmhouse has become a household name and has always been the number one choice among branded bakery products. The company is also the leader in introducing new products to customers while competitors are just followers.
### Other Industrial Baked Goods

This product segment includes manufacturers such as UFM Centre Co., Ltd., CP Retailing and Marketing Co., Ltd. (CPRAM), Sun Merry Co., Ltd., President Bakery PCL, Imperial General Foods Industry Co., Ltd. and several other smaller companies.

<table>
<thead>
<tr>
<th>Company</th>
<th>Products</th>
<th>Bakery Brands</th>
<th>2011 Sales (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CPRAM</strong></td>
<td>Dimsum, ready meals, bakery products</td>
<td>Bakerich, Miss Mary, Le Pan</td>
<td>7,928</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Local/export sales split: 85%: 15%</td>
<td>N/A (estimated to be at least 50% of total sales)</td>
</tr>
<tr>
<td><strong>President Bakery</strong></td>
<td>Bread, Cakes &amp; confectionery</td>
<td>Farmhouse Deliya by Farmhouse Madame Marco Morning Farmhouse</td>
<td>5,562</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Snack cakes/confectionery 807 Cakes 139</td>
<td></td>
</tr>
<tr>
<td><strong>UFM Centre</strong></td>
<td>Bread &amp; sandwiches</td>
<td>UFM</td>
<td>1,094</td>
</tr>
<tr>
<td></td>
<td>Buns</td>
<td></td>
<td>875</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Puffs, pies, pastries (Danish)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cakes and cookies</td>
<td></td>
</tr>
<tr>
<td><strong>Imperial General Foods Industry</strong></td>
<td>Butter cookies, wafers, biscuits, cupcakes</td>
<td>Imperial</td>
<td>864</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Butter, jam, jelly, dried fruits</td>
<td></td>
</tr>
<tr>
<td><strong>Sun Merry</strong></td>
<td>Bread, cakes, pastries and cookies</td>
<td>Sun Merry, Merry Ann</td>
<td>364</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>364</td>
</tr>
</tbody>
</table>

N/A = Not Available
Source: Company websites, Internet search, Ministry of Commerce, Interviews.

In this bakery market segment, CPRAM is the largest player. In second spot is President Bakery while UFM Centre’s UFM Bakery House is a close third.

#### 2.2.1 CP Retailing and Marketing Co., Ltd.

Established in 1988, CPRAM is an affiliated company of Charoen Pokphand Group. The company manufactures and distributes frozen food, prepared food, chilled food and bakery products both for the local and international markets. Sales split is about 85 percent domestic and 15 percent export.

Current production capacity is 1.8 million pieces of dim sum, 280,000 packs of ready meals and 1.4 million bakery items per day. Bakery items are distributed through modern trade outlets including its sister company’s 7-11 convenience store chain, retail stores in gas stations, hypermarkets and supermarkets.

- Its flagship brand Bakerich carries several hundred kinds of freshly baked cakes, bread and cookies.
- Miss Mary brand of special baked products are targeted for a niche market. Products include fresh cake with different toppings, soft cake and soft roll.
Le Pan brand products are aimed at the mass market. Priced and positioned lower than Bakerich, Le Pan products include soft pan bread, butter bread, roll bun, cup cakes and various types of sandwiches.

2.2.2 President Bakery PCL
Aside from packaged bread, President Bakery also makes packaged snack cakes and confectionery that are distributed through wholesaling, while freshly-baked cakes are sold in supermarkets. These products account for 16-17 percent of the company’s total earnings annually. (Packaged bread accounts for 75-80 percent). Together with its bread products, President Bakery commands the largest sales in value of the 2012 baked goods market, with approximately 22 percent share.

2.2.3 UFM Centre Co., Ltd.
UFM Centre (UFMC) is a subsidiary of United Flour Mill (UFM), Thailand’s oldest and largest flour mill. UFMC is one of UFM’s marketing arms in distributing wheat flour and premixes to the food service industry, wholesalers, retailers, hotels and bakery shops. In addition UFMC is engaged in running other businesses including UFM Bakery, Imperial Baking & Cooking School and UFM Noodle House. UFM Bakery is a large retail bakery equipped with modern machinery lines. Besides freshly baked breads, cakes, pies, cookies and pastries, the UFM Bakery also serves sandwiches and other snacks, hot and cold beverages, and ice cream. These products are also delivered to other outlets in Bangkok.

2.2.4 Sun Merry Co., Ltd.
Sun Merry is a manufacturer of baked goods such as breads, pastries, cakes and cookies under the brands of Sun Merry and Merry Ann. Distribution channel partners are the big players in modern trade: Tesco Lotus, Big C, Tops, 7-Eleven, Family Mart, Maxvalu and Makro. The company also serves the airlines industry.

2.2.5 Imperial General Foods Industry Co., Ltd.
Imperial General Foods Industry is a manufacturer and exporter of confectionery products, specializing in butter cookies, wafers, biscuits, cup cakes and a range of dairy products. The company is an affiliate of the Kim Chua Group, one of the country’s leading bakery ingredient suppliers. It derives 20 percent of its revenues from export sales to countries in the Asia Pacific region and Oceania. Aside from producing under its own Imperial brand, the company is also an OEM and private label manufacturer.

2.3 Frozen Dough
The entire traditional bread or pastry baking process – from dough making to putting the dough in the oven – used to take place onsite (at the bakery or bake shop). Now this is gradually being replaced by par baking and bake-off concept. The raw dough is baked normally, but halted at about 80 percent of the normal cooking time, when it is rapidly cooled and frozen. And the par baking process happens off site in suppliers’ premises. Customers such as in-store bake shops in hypermarkets, retail bakery chains and even convenience stores outsource par baking to frozen dough manufacturers. Tesco Lotus has been using outside suppliers for a portion of their dough needs in recent years. In
2013, the largest discount store chain in Thailand will completely outsource their dough supply – which will cut short the baking process and eliminate the need for dough making machinery. Also par baked products are easier to handle and do not need highly-skilled bakers to create the finished baked product.

When the final bread product is desired, a par baked loaf or dough is "finished off" by baking it at normal temperatures for an additional 10 to 15 minutes at the bake shop. The final bread is often indistinguishable from freshly baked bread.

The study identified some frozen dough manufacturers/suppliers as shown in table below.

<table>
<thead>
<tr>
<th>Company</th>
<th>Products</th>
<th>2011 Total Sales (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C&amp;W Interfoods Co., Ltd.</td>
<td>Packaged sliced bread; frozen dough</td>
<td>470</td>
</tr>
<tr>
<td>American European Products Co., Ltd.</td>
<td>Variety of bakery ingredients</td>
<td>369</td>
</tr>
<tr>
<td>Wandee Group Bakery Co., Ltd.</td>
<td>Baked goods; frozen dough (Supplier to Tesco Lotus)</td>
<td>169</td>
</tr>
<tr>
<td>Strategic Catering Co., Ltd.</td>
<td>Baked goods; frozen dough (Supplier to Tesco Lotus)</td>
<td>75</td>
</tr>
<tr>
<td>Aileng Industries Co., Ltd.</td>
<td>Bakery ingredients, baked goods, frozen dough (Supplier to Tesco Lotus)</td>
<td>40</td>
</tr>
<tr>
<td>Folies Co., Ltd.</td>
<td>Frozen bakery and cake products under specification such as ready-to-prove, ready-to-bake or par baked</td>
<td>57</td>
</tr>
<tr>
<td>Kim Chua Group Co., Ltd.</td>
<td>Bakery ingredients, baked goods, frozen dough</td>
<td>4,000</td>
</tr>
<tr>
<td>Jagota Brothers Trading Co., Ltd.</td>
<td>Bakery ingredients, frozen bakery</td>
<td>1,269</td>
</tr>
</tbody>
</table>

Note: Frozen dough/frozen bakery represent only a portion of each company’s sales
Source: Company websites, Internet search, Ministry of Commerce, Interviews
3. BAKERY INGREDIENTS

Suppliers and competitors in Thailand’s bakery ingredient segment can be classified into two major groups: a) general suppliers that carry a broad portfolio of food products including bakery ingredients, and b) specialist suppliers that offer one or two or several ingredients used in the bakery industry (e.g., wheat flour, butter, shortening, baking enzymes/food additives, etc.), and usually also serve other industries such as food service, confectionery, noodle, etc.

3.1 General Suppliers

This group of suppliers includes, among others, Kim Chua Group, Schmidt, Jagota and American European Products. Together they reported combined earnings of 5.78 billion baht in 2011, of which about 75 percent is estimated to come from sales of bakery ingredients.

3.1.1 Kim Chua Group Co., Ltd.
Kim Chua Group (KCG) positions itself as a complete solutions provider for the bakery industry. With estimated sales of more than 4 billion baht in 2012, the company is considered the largest among existing bakery ingredients suppliers. Established in 1958, the 55-year old company is also the oldest.

KCG’s product portfolio seems to be the most diverse as the company also distributes bakery equipment and Sunquick fruit juice concentrate. KCG also runs the Imperial Bakery and Food Culinary School. Today Kim Chua Group is one of the largest importers of cheese, dairy products, confectionery, and bakery ingredients from Europe, Australia and U.S.A. The company, through its subsidiaries, also locally manufactures butter, margarine, cookies and other baked goods. It is also the exclusive manufacturer of Sunquick fruit juice concentrate distributed nationwide. Another subsidiary, Imperial Bakery Equipment Co., Ltd., is a distributor of bakery equipment and bakers’ wares imported from Taiwan.

While competitors perceive KCG as an importer of lower grade products, the company’s business model has proven to be a success. KCG posted robust sales growths over the past four years, from 2.7 billion baht in 2008 to 4 billion baht in 2011, averaging 13 percent per annum – this despite the economic slowdown in 2008-2009 as a result of the global economic recession. To its credit, KCG’s partners include among others highly reputable multinational OEMs including FrieslandCampina, Emmi International, Kerry Group, Arla Foods, Delba Backbetrieb and Lactails International.

3.1.2 American European Products Co., Ltd.
American European Products (AEP) is an importer and distributor of premium food ingredients and products for pastry mainly from Europe and other parts of the world. Established 21 years ago in 1992, the company has built up an impressive clientele base that includes luxury hotels, leading international restaurants, bakery and pastry shops, retail supermarkets and the artisanal pastry industry in Thailand. AEP’s wide range of products include bakery & pastry ingredients (nut-based specialties such as pralinés, nut powders, trendy French Macaroon mixes), dairy products, frozen fruits & puree,
chocolate products for pastry, baking flour, fruits in light syrup, dried fruits and nuts, etc. The company also distributes pastry-related accessories such as molds, baking paper, chocolate decoration, etc. mostly from France. AEP has enjoyed double digit growth during 2008-2011 with sales increasing from 227 million baht in 2008 to 369 million baht in 2011 or a CAGR of 17.5 percent – faster than KCG’s although AEP is only less than one-tenth the size of the leader in this segment.

3.1.3 Schmidt Co., Ltd.
Schmidt is a Thai family-owned company was founded in 1960 by a German entrepreneur. The company is an importer and distributor of ingredients and utensils for pastry, bakery and confectionery representing some of the finest brands in this segment. The company is also a producer of semi-finished products. Bakery ingredients cover a wide range of flour and premixes, bread improvers, cake mixes, chocolate couverture, jams and gels, creams & mousses, aromas & essences, pastes and fillings. OEM partners are mostly from European countries including France, Netherlands, Germany, Italy and Switzerland, as well as from the U.S.A. Schmidt positions the company as a high-grade supplier of bakery ingredients. Customers comprise confectioners, hotels and restaurants, caterers, artisanal and industrial bakeries. While the company’s sales in 2011 (144 million baht) expanded by 12.5 percent over 2010, the underlying CAGR over the past four years was only six percent – much slower compared with its bigger competitors Kim Chua Group and American European Products.

3.1.4 Jagota Brothers Trading Co., Ltd.
Established in 1998, Jagota Brothers Trading is one of the leading suppliers of innovative food solutions to the food service industry. The company is owned and operated by young and dynamic entrepreneurs who have steered the company to phenomenal growth in both sales and profitability especially during the past five years with sales more than doubling from 638 million baht in 2008 to 1.5 billion baht in 2012. Net profits also increased 11-fold during the same period – reinforcing Jagota’s highly successful business. The company’s product line includes premium meats and seafood, European gourmet, dairy products, snack products, Japanese foods, frozen pasta, bakery ingredients & pastries and frozen bakery. Bakery products account for about 25 percent of the company’s business or about 375 million baht in 2012. OEM brand partners include CSM Germany (Dutch parent company) for bread ingredients, Hiestand for frozen bakery (Switzerland), DLA Naturals for fruit fillings (Philippines), and Callebaut chocolate (Belgium). Clients include all luxury hotels in Bangkok, Samui and Phuket, specialist bakeries (Yamazaki, Au Bon Pain, S&P) and chain restaurants.
<table>
<thead>
<tr>
<th>Company</th>
<th>OEM Brands / Partners</th>
<th>Products</th>
<th>2011 Sales (MB)</th>
<th>Bakery Ingredients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kim Chua Group</td>
<td>Molfino Hermanos&lt;br&gt;Goodman Fielder&lt;br&gt;Gourmet Cheese&lt;br&gt;National Foods&lt;br&gt;Algist Bruggeman&lt;br&gt;S.A Corman&lt;br&gt;Shineroad&lt;br&gt;Dragsbaek&lt;br&gt;Margarinefabrik&lt;br&gt;Arla Foods&lt;br&gt;Seriously&lt;br&gt;Jean Perrin&lt;br&gt;Lactails International&lt;br&gt;Meggle&lt;br&gt;Friesland Campina&lt;br&gt;Cheese Specialties&lt;br&gt;Delba Backbetrieb</td>
<td>Butter &amp; spreads&lt;br&gt;Margarine &amp; Shortening&lt;br&gt;Filling &amp; jam&lt;br&gt;Cheese&lt;br&gt;Cream/whipping cream&lt;br&gt;Chocolate&lt;br&gt;Flour &amp; premix&lt;br&gt;Frozen dough&lt;br&gt;Gelatin&lt;br&gt;Yeast&lt;br&gt;Improver</td>
<td>2011: 4,000</td>
<td>3,800</td>
</tr>
<tr>
<td>American European Products</td>
<td>Puratos - PatisFrance&lt;br&gt;Elvis Sas&lt;br&gt;Ponthier&lt;br&gt;Grands Moulins de Paris&lt;br&gt;D’Arbo&lt;br&gt;Various suppliers mostly from France</td>
<td>Food Items&lt;br&gt;Nut-based specialties&lt;br&gt;Dairy products&lt;br&gt;Frozen fruits and puree&lt;br&gt;Chocolate products&lt;br&gt;Flour&lt;br&gt;Fruits in light syrup; fruit jam&lt;br&gt;Non-Food Items&lt;br&gt;Pastry related accessories such as molds, silicone baking paper, chocolate decoration, etc.</td>
<td>369</td>
<td>300</td>
</tr>
<tr>
<td>Jagota</td>
<td>CSM Ulmer Spaz&lt;br&gt;Hiestand&lt;br&gt;DLA&lt;br&gt;Callebaut&lt;br&gt;Tatua Dairy Products</td>
<td>Bread mixes&lt;br&gt;Muffin mix concentrate&lt;br&gt;Pastry margarine&lt;br&gt;Butter gipfels/croissants&lt;br&gt;Sweet pastry Danish&lt;br&gt;Fruit pie fillings&lt;br&gt;Glazes for hot &amp; cold applications&lt;br&gt;Couverture chocolate (dark, milk, white)&lt;br&gt;Whipping cream</td>
<td>2011: 1,269&lt;br&gt;2012: 1,510</td>
<td>2011: 300&lt;br&gt;2012: 375</td>
</tr>
</tbody>
</table>

*Continued*
### 3.2 Specialist Suppliers

Specialist suppliers cover the following:
- Wheat flour manufacturers
- Shortening/butter importers and manufacturers
- Food enhancers/improvers, baking enzymes, food additives, flavors

#### 3.2.1 Wheat flour manufacturers and importers

Wheat flour is the main ingredient in bread and other baked goods. The Thai bakery industry sources its wheat flour demand mainly from local millers that import the raw materials from the Australia, U.S., India, Ukraine and Canada. There are also imports of wheat flour mainly sourced from Asian countries, with Vietnam, Turkey, China and Japan the four leading exporters to Thailand in 2012 representing 57 percent of the country’s wheat flour imports during the year.

**Locally milled wheat flour**

There are 11 flour milling factories in Thailand with a daily production capacity of between 4,000 to 5,000 metric tons. According to United Flour Mill, the oldest and largest flour miller in Thailand, the top six flour millers are:

- United Flour Mill Public Co., Ltd.
- Laemthong Corporation Group
- Bangkok Flour Mill Co., Ltd.
- TS Flour Mill Public Co., Ltd.
- Nisshin STC Flour Milling Co., Ltd.
- King Milling Co., Ltd.
Together they account for about three-fourths of the country’s total wheat flour production. Capacity utilization rates in each flour mill are running between 60 and 95 percent (UFM).

Locally milled wheat flour is used in many industries including bakery, instant noodles, coating systems and other cooking purposes.

Sales of UFM in 2012 reached an estimated 3.6 billion baht, of which at least 50 percent was derived from the bakery industry. The company supplied more than 55 percent of wheat flour consumption in this sector (with a total value of about 3,239 million baht in 2012).

**Imported wheat flour**

About 20 percent of Thailand’s demand for wheat flour has to be imported because existing production volumes do not yet fully meet these requirements. In 2012, leading exporting countries to Thailand were Vietnam and Turkey accounting for 40% of the total imports (both in volume and value), while another six countries contributed 45%.

There is demand also for higher grades of wheat flour from industrial and retail chain bakeries. For instance, Belgian manufacturer Dossche Mills is known to supply its high quality wheat flour to President Bakery and Thai Airways Catering. The flour is used in various bakery applications such as bread, pastries and cream fillings. In 2012 Thailand imported some 386 tons of wheat flour from Belgium worth 6.3 million baht (CIF value). This volume accounted for 0.16 percent of the country’s total wheat flour imports last year – thus still insignificant. Import volume from Germany, Italy, France and U.K. accounted for 0.4 percent of the total – also very small compared with the top exporters.

**3.2.2 Suppliers of special dough blends**

**Griffith Laboratories** Limited is a family owned global company that develops and manufactures customized food ingredient systems. Their products include seasoning blends, dry mixes, coating systems, dough blends, crumbs, flavors, sauces and food bases. They collaborate with food companies, across all segments of the food industry, to incorporate these ingredient systems creating delicious food.

The company has a production facility in Samutprakarn province, Thailand. Griffith Laboratories’ dough systems improve texture, performance and flavor of the finished products including pizza doughs, pancake mixes, biscuit mixes and many more applications. In Thailand the company earns 800 million baht per year from its food ingredient systems.

**3.2.3 Oil and fat suppliers**

Baked goods use a lot of fat to produce, but amounts vary by product, e.g. bread uses about 10%, cake 20% and pastry 40% of total quantities of ingredients. Thus this baking ingredient is the second most important next to wheat flour.

Fats used include shortening, margarine and butter – depending on baked product and desired quality. For example butter croissants are much, much more delicious than the ones using margarine or shortening, don’t they?
Thailand has several producers of butter, margarine and shortening; while there is also a considerably significant volume of imported butter from New Zealand, Denmark, France, Australia and Belgium, and imported margarine from Singapore, Indonesia, Australia and Japan.

Leading suppliers are:
- Kim Chua Group Co., Ltd./ United Dairy Foods Co., Ltd.
- Fonterra Brands (Thailand) Ltd.
- Thai Dairy Industry Co., Ltd.
- Lam Soon (Thailand) Public Co., Ltd.
- King Bio-Product Co., Ltd.
<table>
<thead>
<tr>
<th>Name of Supplier</th>
<th>Products</th>
<th>OEM Brands</th>
<th>2011 Domestic Sales (Million Baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kim Chua Group*</td>
<td>Butter</td>
<td>Allowrie, Buttergold, UDF, President</td>
<td>Total: 3,600 Butter &amp; margarine: 2,100</td>
</tr>
<tr>
<td></td>
<td>Liquid butter</td>
<td>Corman</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mango</td>
<td>Allowrie, Corman</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Butter blend</td>
<td>Dairygold</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Margarine</td>
<td>Imperial</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Butter oil</td>
<td>Oldenburger</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lactic butter</td>
<td>Meadow Lea</td>
<td></td>
</tr>
<tr>
<td>Fonterra</td>
<td>Butter</td>
<td>Anchor</td>
<td>Total: 2,337 Butter: N/A</td>
</tr>
<tr>
<td>Thai Dairy Industry</td>
<td>Butter</td>
<td>Orchid</td>
<td>Total: 3,087 Butter: N/A</td>
</tr>
<tr>
<td>King Bio-Product</td>
<td>Margarine &amp; shortening</td>
<td>Crown, Pigeon, Yacht, Horse, and KH</td>
<td>50</td>
</tr>
<tr>
<td>The Thai Dairy Industry</td>
<td>Butter</td>
<td>Orchid</td>
<td>2011 Total: 3,087 2011 Butter: N/A</td>
</tr>
</tbody>
</table>

*Kim Chua Group distributes products of subsidiary company United Dairy Foods, local manufacturer of Allowrie and UDF brands.
Source: Company websites, Internet search, Ministry of Commerce, Interviews

Local producers

**Lam Soon (Thailand) Public Co., Ltd.** was established in September 1974 by the Lam Soon Group, expanding its palm oil business beyond Singapore and Malaysia. It became a public company and started trading on the Securities Exchange of Thailand in 1996. Currently, the Company manufactures a wide range of extracted and refined products including palm vegetable oils, margarine, shortening and specialty vegetable fats. It operates a crushing mill with capacity of 45 tons per hour at Trang province, and a palm oil refinery in Bangpoo Industrial Estate whose production capacity at 1,000 tons per day or 365,000 tons per year.

According to Lam Soon, the estimated capacity utilization of margarine and shortening producers in Thailand is below 50 percent. There are 4-5 major players in this business with Lam Soon ranked number one in the retail bakery channel. Other known local producers in this category are Morakot Industries, Patum Vegetable Oil and King Bio-Product.

**King Bio-Product Co., Ltd.** was established in 2007 to produce shortening and margarine for bakery products. The company is a member of the King Huat Group which consists of flour milling companies, starch factory, sack/bag factory, a distribution arm and a marine terminal. King Huat Group caters mainly for the bakery industry. A relatively newcomer in the business, King Bio-Product has not fully realized its full market potential, with annual output of between 30-40 percent of maximum capacity. Income
derived from selling margarine and shortening was 50 million baht in 2011, five-fold of sales in 2010.

Morakot Industries Public Co., Ltd. and Patum Vegetable Oil Co., Ltd. are major edible oil producers in Thailand. They also produce margarine and shortening as by-products of the oil refining process. They serve the following industries: bakery, instant noodles, dairy, and snacks.

United Dairy Foods Co., Ltd. (UDF) was established by Kim Chua Group to produce Allowrie butter in Thailand under technical cooperation with then PDS Australia (now Fonterra). UDF eventually expanded its product line to a greater diversity of food and dairy products including margarine, jam, jelly, pasteurized milk, flour mixes, maraschino cherries, syrup and honey. UDF reported 1,878 million baht sales in 2011, of which butter and margarine generated more than 50% of this amount.

The Thai Dairy Industry Co., Ltd. (TDI) is a leading manufacturer of sweetened condensed milk, evaporated milk and other milk products under ‘Mali’ brand; and butter under ‘Orchid’ brand. TDI was formed in 1962 by a group of Thai and Malaysian entrepreneurs and the Australian Dairy Produce Board with the objective of using local raw materials in producing dairy products to lessen the country’s dependence on imports. TDI’s flagship products are sweetened condensed milk and evaporated milk, which together generate the bulk of the company’s income. Butter constitutes only a small portion of total income. During the period 2008-2010, TDI posted an almost flat growth in yearly sales of 3.94 billion baht, 3.96 billion baht and 3.97 billion baht, respectively. In 2011, annual earnings dipped year-on-year to 3.1 billion baht – attributed mainly to the great flooding in most parts of the Central region including Bangkok which seriously hampered the distribution activities of the company.

Importers
KCG and Fonterra are the leading importers of butter (and cheese) catered for the food service and bakery industries.

KCG’ estimated income derived from selling butter and margarine is about 55 percent of total domestic sales per year or reached 2,000 million baht in 2011. This also includes butter and margarine for retail consumption.

Fonterra Brands (Thailand) Ltd. is an importer and distributor of cheese, butter and dairy products made in New Zealand. In Thailand it carries Anchor, Chesdale, Anlene, Mainland and Perfect Italiano brands. Clients include food service industry and industrial bakeries including in-store bakeries in hypermarkets and discount stores.
3.2.4 Food enhancers, bread improvers, yeast, baking enzymes, emulsifiers, flavors and food additives

There are more than 20 suppliers of these types of bakery ingredients in Thailand – making this is a fragmented segment. None of these suppliers carry the whole range: some offer food enhancers/bread improvers and yeast; a few suppliers offer baking enzymes, emulsifiers and flavors; and other suppliers offer flavors together with fragrances and other food additives. Also a number of these suppliers also offer chemicals used in the pharmaceutical sector and other industrial sectors.

Some of the prominent players have regional/global reach through parent companies; others are highly reputable homegrown companies that have been successful in running other business units. These include:

- DKSH (Thailand) Ltd.
- Puratos (Thailand) Co., Ltd.
- DPO (Thailand) Ltd.
- Berli Jucker Specialties Co., Ltd.

Some of the other local suppliers include:

- Siamex Co., Ltd.
- Vicchi Enterprises Co., Ltd.
- Winner Group Enterprise Public Co., Ltd.
- Rama Production Co., Ltd.
- Nutrition SC Co., Ltd.
- Maxway Co., Ltd.
- AMP International Co., Ltd.
- Food Ingredient Technology Co., Ltd.
<table>
<thead>
<tr>
<th>Name of Supplier</th>
<th>OEM Brands</th>
<th>Relevant Products</th>
<th>2011 Sales (Million Baht)</th>
</tr>
</thead>
</table>
| DKSH (Thailand)        | Not available                                   | Enzymes, emulsifiers and stabilizers, preservatives and processing aids, glazes, bakery fillings, and sweeteners, flavors | 2011: 81,130  
                          |                                                 | 2012: 106,590                                                        |
| Puratos (Thailand)     | Puratos                                         | Bread improvers; Improvers for frozen bakery products; Flavors & sourdough; Specialty bread mixes Enzymes; Emulsifiers; Yeast | 202                       |
| DPO (Thailand)         | Beneo (Orafti, Palatin, Remy), DSM Food Specialties, Frutarom Hexagon Nutrition, Lecico, Palsgaard | Bakery, confectionery, dairy, drinks, fats & oils, flour fortification             | 169                       |
| Berli Jucker Specialties | DSM Food Specialties  
                          | Firmenich  
<pre><code>                      | Cocoa Dutch  | Enzymes Emulsifiers Preservatives Flavors &amp; coloring agents Gelatin Cocoa powder | 323                       |
</code></pre>
<p>| Siamex                 | Lesaffre, Martin Braun, Agrano, Woodland Sunny, Fuji Oil, Kelston, Colatta Demarle | Baker’s yeast &amp; improvers Pastry ingredients Kitchen &amp; baking tools                | 260                       |
| Winner Group Enterprise | Pakmaya                                         | Baker’s yeast, bread improver, instant dried yeast Cake wheat flour Emulsifier Cocoa powder | 1,290                     |
| Rama Production        | Solec™ Litesse®                                 | Emulsifier Bakery product improver Inactive yeast                                  | 683                       |
| Nutrition SC           | Not available                                   | Emulsifier Flavoring agent Coloring agent Cocoa powder Pectin &amp; gelatin           | 467                       |
| Vicchi Enterprises     | Instafern Fibrisol Frutarom Australian Dairy Goods | Instant dry yeast Flavors Preservatives Milk powder &amp; derivatives Emulsifiers &amp; leavening phosphates | 529                       |</p>
<table>
<thead>
<tr>
<th>Name of Supplier</th>
<th>OEM Brands</th>
<th>Relevant Products</th>
<th>2011 Sales (Million Baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maxway</td>
<td>Viscotex BAK</td>
<td>Food additives: emulsifiers, stabilizers, preservatives, flavors</td>
<td>430</td>
</tr>
<tr>
<td>Food Ingredient Technology</td>
<td>DMV, Purac, Kievit, Fusco Eastsign, Cacao Paramount</td>
<td>Enzymes Flavors &amp; extracts, Natural preservatives, Baking premix base, Cocoa powder</td>
<td>297</td>
</tr>
<tr>
<td>AMP International</td>
<td>Bio Springer, Reka Nutrition</td>
<td>Inactive dry yeast, Food flavors</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Company websites, Internet search, Ministry of Commerce, Interviews

Market shares of each supplier for relevant products in this segment cannot be determined in view of the broad range of products that each company handles. Thus the discussion is focused more on each company’s activities and range of products and OEM brands represented.

**DKSH (Thailand) Ltd.** is a multi-billion baht operation which provides a complete range of market expansion services covering sourcing, research and analysis, marketing, distribution, sales, logistics, manufacturing and after-sales services for a diversified range of products. Parent company DKSH is headquartered in Zurich, Switzerland. Their operations in Thailand are categorized under the following four distinct and highly specialized Business Units: Consumer Goods, Healthcare, Performance Materials, and Technology. They achieved annual sales of THB 106,589.8 million in 2012 for a phenomenal 31% year on year growth. The company employs over 10,800 specialists at 221 locations across the country.

Under its Performance Materials Business Unit – Food & Beverages Industry, DKSH (Thailand) offers specialty confectionery and bakery ingredients including flavors and colors, enzymes, emulsifiers and stabilizers, preservatives, bakery fillings, sweeteners, etc.

**Puratos (Thailand) Co., Ltd.** is part of the global group Puratos with headquarters in Belgium. In Thailand, Puratos operates a factory manufacturing innovative ingredients and solutions for bakers, patissiers and chocolatiers. Puratos runs a vertically-integrated plant which manufactures its own emulsifiers, enzymes, sourdoughs and yeast extracts for making bread and bakery product improvers and mixes. The company also distributes these ingredients to end-using customers in the bakery industry. These include bread improvers, modular ingredient solutions, bread flours and sourdoughs, active bakery components, bakery mixes, margarines and specialty fats, **enzymes and emulsifiers**, etc. Puratos also offers patisserie product range, e.g., cake mixes, cream mixes, cream fillings, flavoring preparations and many others. In Thailand the company also makes chocolates and chocolate and nut-based fillings for all applications in bakery. The Thai operation generated sales of THB 202 million in 2011.
DPO (Thailand) Ltd. is the local operation of DPO International Sdn Bhd headquartered in Kuala Lumpur, Malaysia. DPO runs three business units: consumer products, food service and food ingredients. In food ingredients, the company’s strength lies in the applications of baby food, bakery, confectionery, dairy, drinks, fats & oils, flour fortification, etc. DPO holds sole distributorship licensing from some of the reputable international food ingredient manufacturers including Beneo (Orafti, Palatinit, Remy), DSM Food Specialties, Frutarom, Hexagon Nutrition, Lecico and Palsgaard among others. In 2011, the local company realized total sales of 169 million baht.

Berli Jucker Specialties Ltd. or BJC Specialties is a fully integrated part of the Berli Jucker Group of Companies which has accumulated more than 125 years of experience in trading, manufacturing and services industries in Thailand and the Asian region. BJC Specialties services the entire bakery industry, from the local baker to the major industrialist, providing a full range of quality ingredients. Founded in 1971, BJC Specialties earlier focused on basic chemicals; over the years, the business portfolio has expanded and now covers a whole range of raw materials that cover the whole spectrum including food and non-food. Products offered under the bakery ingredients segment include among others enzymes, preservatives, flavors, gelatin, emulsifiers, and cocoa powder. The company’s turnover in 2011 was THB 323 million, of which bakery ingredients constituted only a small portion. BJC Specialties represents Dutch global brand DMV Food Specialties’ baking enzymes in Thailand, in addition to other international brands such as Emerald Kalama Chemicals, Tate & Lyle Group, Firmenich, and Cocoa Dutch (also from the Netherlands).

The rest of the local suppliers are fully-owned Thai companies can be grouped in two major business categories:

(1) primarily engaged in the manufacture, importation and distribution of basic chemicals; and

(2) wholesale and retail of food ingredients and miscellaneous products.

Companies classified under the first category include Rama Production, Nutrition SC, Maxway and Food Ingredient Technology.

Rama Production Co., Ltd. represents world class manufacturers of food and pharmaceutical ingredients and additives from Europe, US and Asia. The company has also established innovation center providing technical support to customers. Some of the imported bakery ingredients include yeast for bakery products, inactive whole cell yeast for dough conditioner and softener, emulsifiers, and artificial and natural sweeteners. Total sales in 2011: THB 683 million.

Nutrition SC Co., Ltd. is chiefly an importer of food additives and ingredients. For bakery applications, products carried include emulsifiers, flavoring agents, gelling agent, coloring agents. Total sales in 2011: THB 467 million.

Maxway Co., Ltd. is an importer and distributor of a comprehensive range of chemicals used in the healthcare and consumable industries. The broad range of products is sourced from leading producers in the U.S.A., Europe and Asia. Relevant food additives
for the bakery sector include stabilizers, emulsifiers, preservatives, and various flavorings (fruit, savory, milk, cream and cheese). Total sales in 2011: THB 430 million

**Food Ingredient Technology Co., Ltd.** has more than a decade experience in the food ingredients business, having developed strong relationships with its global partners that include, among others, DMV Food Ingredients, Purac, Kievit, Fuso, Eastsign and Cacao Paramount. Range of ingredients for bakery include: whipping agents, stabilizer, malt flour, cocoa power, enzymes (for steam bun, biscuit/wafer/cracker), sweet flavors and natural extracts, and natural colorants. Total sales in 2011: THB 297 million

The second group consists of Winner Group Enterprise, Vicchi Enterprises, Siamex and AMP International.

**Winner Group Enterprise Public Co., Ltd.** has been in the retail business for 30 years selling a wide range of food ingredients mainly for the bakery and food service industries. Some of the bakery ingredients include baking powder, preservatives, bread improver, wheat flour, sweetener, icing sugar, cocoa powder, instant dried yeast, baker’s yeast, emulsifier, and many others. Winner Group’s suppliers include Pakmaya (Turkey), Prima Group and Masson Group. Total sales in 2011: THB 1,290 million

**Vicchi Enterprises Co., Ltd.** is a relatively newcomer in the food ingredients business being established in 2004; however the company is powered by highly-experienced team that has worked in the food industry business for more than three decades. The company carries food ingredients under three industry applications: dairy, confectionery, and bakery. Under bakery, product offerings include flavors, milk powder & derivatives, preservatives, starch, yeast, protein and product improvers. OEM partners include Instafern, Fibrisol, Frutarom and Australian Dairy Goods. Total sales in 2011: THB 529 million

**Siamex Co., Ltd.** is a distributor of yeast and bakery ingredients to all segments of the baking industry in Thailand. These include baker’s yeast, improvers and pastry ingredients. OEM partners include Lesaffre, Martin Braun, Agrano, Woodland Sunny, Fuji Oil, Kelston, Colatta, and Demarle. Total sales in 2011: THB 260 million

**AMP International Co., Ltd.** is an importer and authorized distributor of products for the food industry, having worked with overseas manufacturers and partners in Europe, U.S.A. and Asia. The company also distributes some equipment and tools. Food additives and ingredients include yeast extracts, dried food yeasts and food flavors. Total sales in 2011: THB 48 million
3.2.5 Cheese and cream
A number of leading suppliers of cheese and cream in the industry are:

- **KCG** represents the following OEM brands for cheese: Allowrie, Arla, Coon, Emmi, Frico, Galbani, Garcia Barquero, Imperial, MG, Oldenburger, President, Saputo, Seriously, Viking.

OEM partners for cream and whipping cream are Arla, Shineroad, Oldenburger and President.

- **Fonterra Brands** carries the following brands for cheese: Chesdale and Anchor (cream cheese, mozzarella cheese, Colby Cheddar, processed cheddar). It also offers Anchor whipping cream and culinary cream.

- **Schmidt** offers non-dairy cream from Denmark (Uniwhip brand).

- **Jagota Brothers** offers Tatua brand whipping cream from New Zealand.

3.2.6 Couverture chocolate
The following major suppliers of bakery ingredients also carry high quality couverture chocolates:

- **Kim Chua Group** has a broad range of couverture chocolate and white chocolate products for the bakery industry from Aalst brand in Singapore.

- **Schmidt** offers high quality chocolate couverture and compounds and has the following OEM partners from Europe and Asia:
  - Callebaut (Belgium)
  - Carma (Switzerland)
  - Master Martini (Italy)
  - Ulmer (Germany)
  - Wander (Switzerland)
  - Sicao (Singapore)

- **American European Products** offers chocolate products for pastry from Cacao Barry, France.

- **Jagota Brothers** also distributes Callebaut couverture chocolates.
4. BAKERY EQUIPMENT

Earlier in the report, it was observed that virtually all types of bakery machines and equipment used in Thailand have to be imported because the country does not have the capability and expertise to manufacture these products. Some supporting equipment made of stainless steel, e.g., commercial refrigerators and display cabinets, are made locally.

There are about 20 importers of bakery machines and equipment in Thailand today. The market study found only one dedicated bakery equipment supplier – M.K. Unigroup Corporation Co., Ltd. The rest are distributors of a broad range of commercial kitchen equipment which includes bakery equipment. Other bakers’ wares are supplied by numerous dealers and agents scattered across the country.

The study identified five key suppliers that import the equipment directly from countries of origin. These include the following:

- Somerville Siam Ltd.
- Metro H and Res Co., Ltd.
- M.K. Unigroup Corporation Co., Ltd.
- Goodwill Distributor Co., Ltd.
- Seven Five Distributor Co., Ltd.

**Estimated Market Shares in 2012**

<table>
<thead>
<tr>
<th>Company</th>
<th>2012 Sales (M Baht)</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somerville</td>
<td>420</td>
<td>21.0%</td>
</tr>
<tr>
<td>Metro H &amp; Res</td>
<td>350</td>
<td>17.5%</td>
</tr>
<tr>
<td>M.K. Unigroup</td>
<td>250</td>
<td>12.5%</td>
</tr>
<tr>
<td>Goodwill</td>
<td>60</td>
<td>3.0%</td>
</tr>
<tr>
<td>Seven Five</td>
<td>47</td>
<td>2.4%</td>
</tr>
<tr>
<td>Others</td>
<td>873</td>
<td>43.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,000</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Source: Company websites, Ministry of Commerce, Interviews*

Other suppliers that carry a few product types are Sinmag Equipment, Hummel, Ramita, Imperial Bakery Equipment and others.

4.1 Somerville (Siam) Ltd.

Somerville is the largest supplier of both local and imported commercial kitchen equipment to Thailand’s food service and bakery industry. Established in 1967, the company has become the leading producer of commercial kitchen equipment, offering custom design, manufacture, installation and after-sales service to the regional food
service industry. Thailand being the hub of regional operations, the company has also set up branches in Hong Kong & China, the Philippines, Malaysia and Singapore. Over the years the company has built up a strong portfolio of customers throughout the Asian region with recent projects including hotel and catering facilities at Suvarnabhumi International Airport, factories, shopping centers, department stores, hotels and restaurants, and a comprehensive range of catering and kitchen facilities for commercial applications. Somerville has achieved ISO 9001-2008 certification for its range of stainless steel tables, cabinets, sinks and shelves. The company’s equipment is divided into 3 main product lines: the hot cooking equipment (where bakery equipment line is included), the cold room systems and refrigeration equipment and stainless steel fabricated kitchen equipment. The company is an importer of about 40 brands of bakery machine and equipment from the U.S.A. (e.g., Belshaw, Rollmatic, Vulcan, Wolf, Hobart, etc.), France (e.g., Caplain, Bongard, Pavailler), Italy (e.g., Zanolli, Italan, Effedue, etc.), Germany (e.g., Eberhardt, Wachtel) and other European countries such as Spain, Denmark and Sweden. Somerville also carries some brands from Hong Kong (Kolb) and China (Bear). The company claimed that its Thai operation earned 700 million baht in 2012 of which about 60 percent was derived from bakery equipment line (or 21 percent share of total bakery equipment market in the same year).

4.2 Metro H & Res Co., Ltd.
The second largest importer and distributor is Metro H & Res which has been engaged in food service business for nearly 20 years. Their wide range of services includes consultation, design, supply, and after sales service for commercial kitchens. Their main clients include hotels, restaurants, coffee shops, fast food outlets, bakery, superstores, hospitals, clubs and industrial canteens. The company is now the exclusive distributor of many major brands that include: Hobart, Vulcan, Electrolux, Therma, Rational, Rieber, Bongard, etc. It is also one of the only two major suppliers found to be importing Dutch-made bakery equipment – Daub brand. Daub is a producer of bread slicer, divider, rounder and other types of equipment.

Sales of Metro H & Res in 2012 reached 350 million baht – quite close to Somerville’s – for 17.5 percent share.

4.3 MK Unigroup Corporation Ltd.
MK Unigroup is a dedicated importer and local supplier of bakery lines of equipment. Established in 1988, it grew from a small company to become one of the leaders in bakery machinery industry. The company offers a wide range of equipments serving small and medium-sized bakery shops as well as industrial bakeries for both freshly-baked and frozen products. MK Unigroup is the official agent and dealer in Thailand of the following brands: Rondo (Switzerland), Smeg (Italy), Sottoriva (Italy), Technomac (Italy), Lian Huat (Malaysia), Baker Kingdom (Taiwan) and Daiei (Japan). The company boasts of serving big clients including Thai Airways catering; hypermarkets Tesco Lotus, Big C, Makro; Mr. Donut; A-Plus; UFM Centre; S&P; CP Retailing & Marketing; and many others. MK Unigroup reported an income of 200 million baht in 2011 and 250 million baht in 2012 – with a market share of 12.5 percent – making the company the third largest bakery equipment supplier in the country.

4.4 Seven Five Distributor Co. Ltd.
Seven Five Distributor has more than 25 years experience in Thailand’s commercial food service equipment. The company is one of Thailand’s leading food service equipment and parts importers, servicing a network of over 500 dealers and 25,000 customers all over Thailand and neighboring countries. Overall their products include equipments for cooking, food holding, food preparation, beverage, refrigeration, kitchenware and also built-in stainless steel kitchens. They service a wide array of customers including: dealers, global chains, supermarkets, fast food outlets, restaurants, bakeries, pubs & bars, warehouse retailers, department stores and hotels. However, despite the breadth and depth of the scope of products and services, yearly turnover is only between 200 and 300 million baht. Of this, bakery equipment accounts for only about 15 percent.

4.5 Goodwill Distributor Co., Ltd.
Goodwill Distributor is an importer, dealer and distributor of various kinds of bakery, kitchen, beverage, meat processing and packing machinery. It also imports CCTV system. Clients include small and large bakeries, supermarkets, hypermarkets, industrial bakeries and pizzerias, restaurants and large kitchens throughout the country. The company’s range of bakery equipment include pizza ovens, baking lines, donut systems, mixers, pastry & bread dough making machines, commercial ovens and many others. Goodwill represents in Thailand the following OEM brands: Sveba-Dahlen, Glimek AB, Bear, Belshaw, Fritsch, JAC, Middleby Marshall, Bakers Pride, Blodgett and Edhard.

The company is also an importer and dealer of two Dutch brands Daub (already mentioned under Metro H and Res) and Leventi, manufacturers of cooking and baking systems including commercial ovens.

**Strengths of OEM Brands**

**Germany.** Brands such as Electrolux, Winterhalter are known for their cutting edge technology, making their machinery and equipment durable --- ‘last a lifetime.’

**Switzerland.** Brands such as Rational, etc. have extensive experience in the industry and thus very reliable.

**Italy.** Brands such as Zanolli, etc. produce excellent cooking and bakery equipment to complement their famous cuisine.

**U.S.A.** Brands such as Roll Matic, Kitchen Aid, etc. have accumulated extensive experience in this industry dating many decades ago. Thus their range of equipments is highly reliable and dependable.

**China.** Brands made in China – but with European design and patent – are reasonably priced retaining the fine qualities of the European OEM brands.

**Netherlands.** OEM brands from the Netherlands are not well-known. Companies that have entered the market by way of importers include Rademaker, Leventi, Daub and Capway. There could be more Dutch companies but the field survey did not identify any others.
<table>
<thead>
<tr>
<th>Company</th>
<th>OEM Brands</th>
<th>Types of Machines &amp; Equipment</th>
<th>Country of Origin</th>
<th>2011 Sales (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro H and Res</td>
<td>Bongard</td>
<td>Specialist in bakery equipment</td>
<td>France</td>
<td>Total 300</td>
</tr>
<tr>
<td></td>
<td>Daub</td>
<td>Bread slicer, divider, rounder</td>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Salva</td>
<td>Bakery &amp; confectionery equipment</td>
<td>Spain</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sanden Intercool</td>
<td>Refrigerator, freezer, display case</td>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vac-Star</td>
<td>Vacuum packing machine</td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Zanollì</td>
<td>Pizza oven</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rollmatic</td>
<td>Bakery &amp; pastry equipment</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Beech Oven</td>
<td>Wood fired ovens</td>
<td>Australia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kitchen Aid</td>
<td>Stand mixer</td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rondo Doge</td>
<td>Dough sheeter, cutting &amp; make-up line</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somerville</td>
<td>Somerville</td>
<td>Stainless steel tables, cabinets, sinks, shelves</td>
<td>Thailand</td>
<td>Total 2012: 700</td>
</tr>
<tr>
<td>Belshaw</td>
<td></td>
<td>Donut fryer</td>
<td>U.S.A.</td>
<td>Bakery equipment: 420 MB</td>
</tr>
<tr>
<td>Kolb</td>
<td></td>
<td>Donut fryer, bread slicer, baking oven, planetary mixer</td>
<td>Hong Kong</td>
<td></td>
</tr>
<tr>
<td>JAC</td>
<td></td>
<td>Bread slicer</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Jiade</td>
<td></td>
<td>Bread slicer, dough sheeter</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Moffat</td>
<td></td>
<td>Bread slicer, convection oven</td>
<td>Australia</td>
<td></td>
</tr>
<tr>
<td>Rollmatic</td>
<td></td>
<td>Bread slicer</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Salva</td>
<td></td>
<td>Bread slicer, dough sheeter, kneader, mixer, baking oven, electric oven, proofer</td>
<td>Spain</td>
<td></td>
</tr>
<tr>
<td>Captain</td>
<td></td>
<td>Dough divider, dough sheeter, kneader, mixer, baking oven, rotary oven, planetary mixer, proofer, moulder</td>
<td>France</td>
<td></td>
</tr>
<tr>
<td>Paramount</td>
<td></td>
<td>Dough divider, kneader, mixer, baking oven</td>
<td>Australia</td>
<td></td>
</tr>
<tr>
<td>Bongard</td>
<td></td>
<td>Dough divider, kneader, mixer</td>
<td>France</td>
<td></td>
</tr>
<tr>
<td>Eberhardt</td>
<td></td>
<td>Dough divider</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Erika</td>
<td></td>
<td>Dough divider</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Pavailler</td>
<td></td>
<td>Dough divider, dough sheeter, kneader, mixer, baking oven, rotary oven</td>
<td>France</td>
<td></td>
</tr>
<tr>
<td>Powerline</td>
<td></td>
<td>Dough sheeter</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Doyon</td>
<td></td>
<td>Dough sheeter, kneader, mixer</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Electrolux</td>
<td></td>
<td>Dough sheeter</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>Friul</td>
<td></td>
<td>Dough sheeter</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>Rondo</td>
<td></td>
<td>Kneader, mixer</td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td>Effedue</td>
<td></td>
<td>Kneader, mixer</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>Italpan</td>
<td></td>
<td>Kneader, mixer</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>Sammmic</td>
<td></td>
<td>Baking oven, rotary oven</td>
<td>Spain</td>
<td></td>
</tr>
<tr>
<td>Wachtel</td>
<td></td>
<td>Convection oven</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Alto-Shaam</td>
<td></td>
<td>Convection oven, conveyor pizza oven</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Bakers Pride</td>
<td></td>
<td>Convection oven</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Eloma</td>
<td></td>
<td>Convection oven</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Garland</td>
<td></td>
<td>Convection oven</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Vulcan</td>
<td></td>
<td>Convection oven</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Wolf</td>
<td></td>
<td>Conveyor pizza oven, planetary mixer</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Hobart</td>
<td></td>
<td>Conveyor pizza oven</td>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Star</td>
<td></td>
<td>Electric oven</td>
<td>U.S.A.</td>
<td></td>
</tr>
</tbody>
</table>

**Continued**
<table>
<thead>
<tr>
<th>Company</th>
<th>OEM Brands</th>
<th>Types of Machines &amp; Equipment</th>
<th>Country of Origin</th>
<th>2011 Sales (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somerville</td>
<td>MBM, Revent, Zanollì, Bear, Bakbar, FEW, PaneM</td>
<td>Rotary oven, Planetary mixer, Proofer, Proofer, Proofer, Proofer</td>
<td>France, Sweden, Italy, Denmark, Australia, U.S.A., France</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2011 Sales</td>
</tr>
<tr>
<td>Seven Five</td>
<td>LK</td>
<td>Dough sheeter, planetary mixer, Spiral mixer, bread slicer, proofer, Dough mixer, Dough divider, Deck oven, Planetary mixer</td>
<td>China, Switzerland, U.S.A., England, Australia, France, Italy, China</td>
<td>Total 280 Bakery equipment: 47</td>
</tr>
<tr>
<td>Distributor</td>
<td></td>
<td>Dough sheeter, planetary mixer, Spiral mixer, bread slicer, proofer, Dough mixer, Dough divider, Deck oven, Planetary mixer</td>
<td></td>
<td>2011 Sales</td>
</tr>
<tr>
<td>M.K. Unigroup</td>
<td>Rondo, Smeg, Sottoriva, Technomac, Baker Kingdom, Lian Huat, Daiei</td>
<td>Laminate dough sheeting machine, Convection oven, Hot-bake shop machinery, Spiral mixer, Biscuit baking equipment, Revolving tray oven, dough moulder, Samosa, gyoza machine</td>
<td>Switzerland, Italy, Italy, Italy, Taiwan, Malaysia, Japan</td>
<td>Total 200 Bakery Equipment: 100</td>
</tr>
<tr>
<td>Good Distributor</td>
<td>Sveba-Dahlen, Glimek, Bear, Belshaw, Daub, Leventi, JAC, Middleby, Marshall, Bakers Pride, Blodgett, Edhard</td>
<td>Different types of ovens, Mixers, dough dividers, dough presses, bread slicers, Cooking and baking systems (ovens, etc.), Bread slicers, Cooking equipment, Gas and electric ovens, Commercial ovens, Filler units, cake decorators, accessories</td>
<td>Sweden, Denmark, U.S.A., Netherlands</td>
<td>Total 132 Bakery Equipment: 60</td>
</tr>
</tbody>
</table>

Source: Company websites, Interviews, Ministry of Commerce
The following tables provide a summary listing of various brands and countries of origin for each equipment category.

### Oven (convection oven, deck oven, conveyor oven, rotary oven, pizza oven)

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Beech Oven, Roband</td>
</tr>
<tr>
<td>China</td>
<td>NTS</td>
</tr>
<tr>
<td>England</td>
<td>Lincat</td>
</tr>
<tr>
<td>France</td>
<td>Roller Grill</td>
</tr>
<tr>
<td>Germany</td>
<td>Wachtel, Eloma, Garland</td>
</tr>
<tr>
<td>Italy</td>
<td>Zanolli, Electrolux, Friul, Effedue, Italpan, Smeg, Zanolli</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Leventi</td>
</tr>
<tr>
<td>Spain</td>
<td>Sammic</td>
</tr>
<tr>
<td>Sweden</td>
<td>Sveba-Dahlen</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Rondo Doge</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Baker Kingdom</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>Doyon, Alto-Shaam, Bakers Pride</td>
</tr>
</tbody>
</table>

### Proofer

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Bakbar</td>
</tr>
<tr>
<td>Denmark</td>
<td>Bear</td>
</tr>
<tr>
<td>France</td>
<td>MBM, PaneM</td>
</tr>
<tr>
<td>Italy</td>
<td>Zanolli</td>
</tr>
<tr>
<td>Sweden</td>
<td>Revent</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>FEW</td>
</tr>
</tbody>
</table>

### Bread slicer, divider, rounder

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Moffat</td>
</tr>
<tr>
<td>China</td>
<td>Jiade, LK</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Daub</td>
</tr>
<tr>
<td>Spain</td>
<td>Salva</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>JAC, Rollmatic</td>
</tr>
</tbody>
</table>

### Mixer (stand mixer, planetary mixer)

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Bear</td>
</tr>
<tr>
<td>France</td>
<td>Pavailler</td>
</tr>
<tr>
<td>Italy</td>
<td>Sottoriva</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>Kitchen Aid, Vulcan, Powerline</td>
</tr>
</tbody>
</table>
### Dough sheeter, cutting & make-up line

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Paramount</td>
</tr>
<tr>
<td>France</td>
<td>Caplain, Bongard</td>
</tr>
<tr>
<td>Germany</td>
<td>Eberhardt</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Rondo Doge</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>Erika</td>
</tr>
</tbody>
</table>

### Donut fryer

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>Kolb</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>Belshaw</td>
</tr>
</tbody>
</table>

### Bakery & confectionery equipment

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>Salva</td>
</tr>
<tr>
<td>Italy</td>
<td>Rollmatic</td>
</tr>
</tbody>
</table>

### Hot-bake shop machinery

<table>
<thead>
<tr>
<th>Country</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>Sottoriva</td>
</tr>
</tbody>
</table>
This section describes the current regulatory environment in Thailand for new businesses especially for Dutch companies that are considering market entry. This includes relevant government policies, import tariff scheme and legal aspects in setting up a local operation.

Government policies can limit or prevent new competitors from entering the Thai bakery industry through licensing requirements, limits on access to raw materials, pollution standards, product testing regulations and other issues. In the same manner, the government can also attract new players to come and be part of the dynamic industry by giving incentives for investors and entrepreneurs.

**Licensing Requirements for Bakery Ingredients and Baked Goods**

The Thai Food and Drug Administration (FDA) of the Ministry of Public Health is responsible for regulating food control activities such as issuance of manufacturing license and importation license to manufacturer and importer, respectively; registration of *controlled food products* before marketing; approval of food additives to be used in foods, labeling and advertising approvals.

1. **Manufacturing License.** Plant lay-out is to be submitted for approval and plant inspection by food inspector is required before and manufacturing license is issued. This license is to be renewed every three years.

2. **Importation License.** A license is required in order to import food into Thailand. A licensed importer may import various kinds of food providing that they are approved by the Thai FDA. The designated storage or warehouse has to be inspected and approved by the Thai FDA before a license is issued. An importation license is to be renewed every three years as well.

3. **Product Registration.** If a food product, either manufactured or imported, is categorized as Specific-Controlled Food, it must be registered. Analysis of the product as well as details of the process and ingredients, are required for the registration process and the standard of these food products have to meet the standard specified in the Ministerial Notification.

4. **Labeling Approval.** Some product such as dietary supplement are required to bear labels containing Thai language and subjected to be approved by Thai FDA prior to sell in the market. For food products, in general, labeling must follow the Notifications of the Ministry of Public Health No.194 (B.E.2544/2001).

5. **Advertising Approval.** Any form of advertisement for food through any media is subjected to be approved by Thai FDA. False or deceptive advertisement on quality or benefit of food is prohibited.

*Annex 1 lists food products into three main categories which determine the registration or licensing requirements for each product. The three food categories are:
1. Specially controlled foods. Registrations are required for foods in this category. Legal provisions are related to food standard quality, specifications, packaging, and labeling requirements, as well as other aspects of good manufacturing practices.

2. Relevant food items: Milk products, food additives, foods in sealed containers

3. Standardized Foods. Standard foods do not require registration but their quality and labeling have to meet the standard requirements as specified in the Notification of the Ministry of Public Health.

4. Relevant food items: Cream, chocolate, palm oil, butter oil, fat & oil, butter, cheese, margarine, jam/jelly/marmalade in sealed containers, semi-processed food

5. Other Foods. Foods, raw or cooked, preserved or non-preserved, processed or non-processed, if not listed under category 1 or 2 (see the list in Annex 1) will be considered as general foods. Although registrations are not required, general food products are controlled and monitored with regard to hygiene, safety, labeling and advertisement. Foods in this category may be subdivided into (a) foods that must bear standard labels and (b) other general foods.

Relevant food items: Bread, flavoring agents, processed gelatin and jelly desserts, ready-to-cook foods, and ready-to-eat foods.

**Import Quotas**
Under the WTO Agreement (agricultural products), the Thai government has imposed quota on two food items that are relevant to the bakery industry. These are sugar and dried skim milk.

For the year 2013, the import quota for sugar is 13,760 metric tons; and 61,840.36 metric tons for dried skim milk.

**Import Tariff Scheme**

**Wheat & wheat flour**
The tariff rate on imported wheat has been zero since September 2007. Meanwhile, the applied tariff on wheat flour is 5 percent or 0.5 baht/kg (whichever is higher), except within AFTA countries (Brunei, Indonesia, Malaysia, Philippines, and Singapore) and ASEAN-Australia-New Zealand, which has been duty free since January 2010. Wheat flour imports from Vietnam will be duty free in 2015.
Other bakery ingredients
Below is a list of ad valorem rate on various bakery ingredients imported under WTO:

- Baker’s yeast  40%
- Margarine       30%
- Butter          30%
- Cocoa powder    27%
- Chocolate slabs, blocks or bars 40%

Source: Customs Department

Bakery equipment
Import tariffs range from zero to 20 percent, depending on the country of origin. Thailand’s machinery imports from bilateral trading partners Japan, China, Australia, New Zealand, South Korea, India and members of the ASEAN are tariff exempt; whilst machinery and equipment coming from U.S. and WTO countries have a 20 percent import tariff.

Regional Operating Headquarters (ROH)
Thailand has a high chance to become the centre for regional operating headquarters (ROH) of international corporations thanks to the forthcoming ASEAN Economic Community and the country’s strategic location in Southeast Asia.

Thailand’s advantages lie on its networks of modern infrastructures, quality skilled labor, easy access to raw materials and attractive tax incentives, which represent a cost-effective investment for any companies seeking to cut expenses and remain competitive at the same time.

The Board of Investment is fully supportive of international companies settling down in Thailand to be the hub of their regional activities, and is offering an attractive tax incentive package that will present significant cost savings. As of 2012, there were 90 ROHs that had already been established in Thailand. Refer to Annex 2 for details of criteria, conditions and incentive package.

Other than regional operating headquarters, the Board of Investment is also promoting the following related activities with tax and non-tax incentives, depending on the nature of businesses.

- International procurement offices, involving sourcing, quality control, and packaging
- International distribution centers
- Trade and investment support offices
- Distribution centers
- Research and development.
**Minimum Wage Policy**

The Thai government’s 300 Baht minimum daily wage policy that took effect on 1 April 2013 has created a lot of ruckus from the whole spectrum of the business community.

Prior to its implementation, the minimum daily wage ranged from 159 Baht in Phayao (Northern region) to 215 Baht in Bangkok and 221 Baht in Phuket.

Among major concerns include:

- An increase in production costs without any increase in production output;
- A shortage of skilled labor; and,
- Multinational companies with large labor forces are likely to consider investing in neighboring countries with more competitive cost structures.

In response the Department of Skill Development under the Ministry of Labor, has announced additional training for new and non-skilled labor. However, the wage increase is also an opportunity for companies in Thailand to further automate manufacturing processes.

For employees, the government, and labor unions, the hope is that in a time of economic growth (5% predicted for 2013) and low unemployment (0.6% at the end of 2012), increased income for workers will boost consumption and force productivity gains and innovation. This will then drive a more balanced, modernized, and competitive economy and help Thailand avoid the much-dreaded middle-income trap. Indeed, one of the commonly stated goals of the new minimum wage is that it will push Thai workers to raise their own skill levels in preparation for increased labor competition with the opening of the ASEAN Economic Community on 1 January 2016.

Advocates of the policy also anticipate that the modernization of Thai businesses and increases in productivity will lead to a reduction in the level of geographical disparity in Thailand, with fewer workers forced to move to Bangkok for higher wages.

There are fears on the part of some employers that increased labor costs (the new minimum wage applies to every employee in Thailand, regardless of age, sex, industry, or nationality) will affect already struggling SMEs and could lead to employee layoffs or even force some SMEs out of business. This could, in turn, negatively impact employment, increase unskilled workers’ vulnerability, raise the cost of living, and worsen poverty in the country. Many employers fear that Thailand’s international and regional competitiveness will be negatively affected by increased labor costs, which could trigger Thai businesses to employ greater numbers of informal labor.

Migrant workers from Thailand’s neighbors, particularly Cambodia, where the daily minimum wage is barely US$2.03 and Myanmar where the daily minimum wage is 58 cents, are expected to come in even greater numbers, attracted by higher wages. In fact, some Cambodian factory owners are complaining that they are now facing a labor shortage as locals move to Thailand for better wages.
To obviate experiencing anticipated problems, a number of Thai companies have started moving their investments to Myanmar and Cambodia – for the same reason as cited above. To add insult to injury, a number of new investors that were eyeing expansion in Asia had bypassed Thailand altogether and opted to set up operations in Laos and Cambodia.

**Other Government Procedures**

Current approval process for foreign employees normally takes about three to six months which is considered too long by international food service operators. The industry is clamoring for speedier and shorter approval of foreign workers by the government.

They also would like to include in job contracts a non-competition clause which prohibits a person from working for another firm in the same industry within a year after resignation. When employees leave the company, they take with them ‘guarded recipes’ of the bakery or restaurant.

The local staff shortage in the food industry can be attributed to university graduates’ changing attitudes as they prefer to run their own businesses rather than working for others.
Overview of Dutch Bakery Industry

Introduction
The Dutch bakery industry includes industrial bakeries, artisan bakeries, confectionery and bread and pastry shops. The number of bakeries has declined the last decades. In 1960 the Netherlands counted more than 10,000 companies active in the bakery industry, by now only 2,200 are left. This trend is still ongoing; however the average size of the companies is actually increasing. Scale is important; therefore the industry encounters various mergers and acquisitions.

Companies active in the Dutch bakery industry provide a wide range of products to bakers, catering outlets, supermarkets and consumers. These include ingredients for bakeries, final products and bake off products to supermarkets. The Dutch bakery industry is visualized in the chain below.

Trends in the Dutch market
In 2011 Dutch consumers spent more than € 5.1 billion (including taxes) on bread and pastry, nearly as much as in 2010. Bread products accounted for the majority of these expenses (see expenditures). Supermarkets had the largest market share (63%) followed by bread and pastry shop (28%).

The Dutch bakery industry shows the following trends:
1. Rising commodities prices: In recent years the costs of commodities are rising. As a result of shortage in the world market, procurement costs are increasing
and producers cannot totally pass on this increment in the selling price. This leads to smaller margins in the production chain and parties are therefore forced to work more efficiently.

2. **Economies of scale:** As mentioned earlier there is a trend of scaling and merging and acquisitions ongoing in the bakery industry, which is visible worldwide. Partially to work more efficient and to downgrade operational costs. In the last decade most of the merging and acquisitions in the bakery industry took place in Europe (755) and Northern-America and Canada (326) (Bakkerswereld, 2012).

Since 2006 there is a relative higher number of cross border merging and acquisitions deals than before. It is expected that in the coming years there will be a vast increase in merging and acquisitions from within the Asia-Pacific region. This increase will be partly focused on acquisitions in developed economies.

3. **Internationalization:** In segments where ‘time to market’ is less crucial there is a trend visible where big buyers decide to buy international. Eventually this might lead to more cross-border deals (see trend merging and acquisitions).

4. **Regulations:** Higher levels of quality, more laws and regulations, certifications and audits lead to necessary investments. For small-scale companies these costs and investments can have a substantial influence on the company results.

5. **Demand for luxury products:** There is a growing demand for luxury and convenience products in the Dutch markets. Pre-baked, packed and ready-to-eat products are getting more popular.

6. **Healthy and safe products:** There is a growing awareness for products which focus on healthy living. Examples are products with less salt (& fat), gluten free products and products focusing on a special diet.

7. **Changing pattern in consumption:** Consumers tend to eat more out of home than they used to do a few years ago.

**Opportunities and threats**

As a result of the above-mentioned trends, companies are confronted with a changing competitive landscape.

**Opportunities**

- Diet products, using less salt, sugar free products and bread with added vitamins
- Responsible produced, biological and authentic products
- Out of home products
- New products and diversification of the product range
- Growth expected in the bake-off subsector
Threats
- Scaling is getting more important: ‘eat or get eaten’
- The traditional clientele is getting older
- The diversification in bread and pastry products at supermarkets has influence on the market share of the artisan bakery

Dutch presence in Thailand
The overall presence of Dutch bakery-related companies in Thailand is limited with only a few players having entered or supplied Dutch bakery products. At present we have identified two Dutch companies that have established their operations locally and a few companies that have local presence with their main operations still in the Netherlands.

Most of those companies are known for supplying products, mainly ingredients and equipment, and have set up local offices for distribution purposes.

One of the most notable companies that supplies equipment is Rademaker BV, a premier manufacturer of bakery equipment from the Netherlands. Their local agency representation in Thailand functions as a distributor and sales office. Besides their agency in Thailand they also have regional presence with sales offices and agencies in Singapore, Malaysia, Indonesia, Taiwan, Australia and Vietnam.

Another notable company that supplies ingredients is Koninklijke Zeelandia Group BV, which through its subsidiaries, engages in the development, production, sale, and distribution of baking ingredients for the bread and confectionery markets. Although they do not have local presence, PT Zeelandia Indonesia distributes their products to several countries, among others: Singapore, Malaysia, Vietnam, The Philippines and Thailand.

Then there is Koninklijke FrieslandCampina BV that supplies consumer products such as dairy-based beverages, infant & toddler nutrition, cheese and desserts in many European countries, Asia and Africa. Their products are also supplied to professional customers, including cream and butter products to bakeries and catering companies. They are active in Thailand but have yet to expand their operations here outside of their core-business - dairy.

Steenisma (Thailand) Co., Ltd., is a manufacturer of preserved/candied fruits based in Chiang Mai. The factory in Thailand only produces raw materials for the parent company Steensma B.V. located in the Leeuwarden, Netherlands. Promoted by the Board of Investment, Steensma (Thailand) mainly produces fermented papaya and calabash. These products are suitable for the food industry, including bakery. At present, Steensma (Thailand) exports 100% of their products to the Netherlands.

Siam Makro PLC is engaged in a cash and carry wholesaling/retailing of dry goods as well as fresh items with 61 stores nationwide. It also operates an in-store bakery shop in all branches. Their in-store bakery is a ‘side’ business with only 1.3 percent of their total sales. However it sees an average growth of 20 percent each year, owing to
increase in consumption of bread, cakes and pastries mainly by Thai customers. Established in 1988 as a Dutch chain of warehouse clubs, the majority of Dutch-owned stocks was acquired by CP All Plc in April 2013, and is now majority Thai-owned.

Nonetheless the company retains the inherent characteristics of a successful Dutch business operation and will continue to be known as such for years to come.

Overall the presence of Dutch companies active mainly in the bakery industry is still relatively insignificant. However there certainly is potential for the above-mentioned companies to expand further into Thailand. The main reason for this is the observed growth, expansion and interest of existing companies active in bakery-related segment. A company worth mentioning to support this is DKSH (Thailand) Ltd, the leading Market Expansion Services Group with a focus on Asia that has recently commissioned a state-of-the-art innovation center to introduce new concepts and ingredients to the confectionery and bakery industry in Thailand.

Refer to Annex 3 for a more detailed discussion on this chapter.
Business Opportunity Analysis

The Thai bakery sector presents several business opportunities which could be grouped as follows:

- Trade opportunities;
- Investment opportunities; and,
- Technical cooperation opportunities.

1 Trade opportunities

1.1 Import of raw materials/ingredients

Thailand is self-sufficient for granulated sugar and fat (butter/margarine/shortening); but there are still some imports of these products. For the other bakery ingredients, the country is highly dependent on imports, which creates vast opportunities for foreign-based manufacturers to supply the market.

There is great potential to sell high-grade ingredients to hotels. For instance, Anantara Bakery of the hotel chain uses only high quality ingredients imported from Europe and the U.S. for making breads, cakes and pastries for distribution to the food service and catering sectors. Luxury hotels with in-house bake shop number about 500 in Thailand; and they make freshly baked bread and bakery products daily for serving guests, retail sale and / or delivery to outside customers.

To be acceptable to bakers, ‘new’ ingredients, or new brand of ingredients needs to undergo a lengthy process of product testing. Normally the ingredient needs to be tested at the client’s R&D lab where all product quality tests and analyses are conducted. The process may take months and even a year but the end-result can be rewarding. The brand (supplier) will be a trusted partner forever. While product quality is the number one criterion in selecting a new supplier or brand, price is also a key factor in the final evaluation. Thus the new product will have to pass the product quality standards and also be competitive with other brands available in the market.

Wheat and wheat flour

While the bakery sector mainly uses locally-milled flour, the basic raw material which is wheat, is all imported. At present, wheat exports into Thailand originate mostly from the U.S., Australia, and Canada which have been the country’s long-term trading partners for wheat. Opportunities for other countries to export wheat into the country are low.

On the other hand, Thailand still has to import wheat flour because existing production volumes do not fully meet local demand. Some 200,000 to 250,000 tons of wheat flour are imported each year worth 3 to 3.5 billion baht. In the bakery sector, medium to high-grade types of wheat flour are imported from the U.K. U.S.A., Russian Federation and Europe (e.g., Belgium, Germany, France, Italy, Ukraine). Leading industrial bakeries, hotels and catering companies look for high quality wheat flour used in various applications such as bread, pastries, and cream fillings. This is clearly an opportunity for wheat flour producers overseas.
Yeast
Thailand has a few producers of yeast and yeast extracts used in food, pharmaceutical and animal feed industries; but the volume and quality for bakery applications do not meet the industry’s requirements. Therefore the country imports most of its requirements for baker’s yeast and inactive dried yeast used in bread making and other bakery preparations. Each year the country imports yeast products worth 400 million baht per year. There is a mix of suppliers from Asia (Vietnam, China, Japan) and the West (U.S., Belgium, France, Germany, Italy, the Netherlands, etc.). Some OEM brands which have local presence are Bruggeman, Puratos, Pakmaya, Instafern, Bio Springer, AB Mauri, Lesaffre, Agrano, etc.

Food additives, enhancers, improvers, flavors and aroma
This group of bakery ingredients is virtually all imported for lack of local production capability. Annual demand for these highly-specialized and functional products in the bakery industry is worth around 500 to 600 million baht. Some of the global OEM brands or companies that supply the market include: IREKS, Puratos, Solec, Litesse, Fibrisol, Viscotex BAK, DSM Food Specialties, Firmenich.

Cocoa powder/Couverture chocolate
Demand for cocoa powder and couverture chocolate in blocks (white, milk, dark) is worth around 800 to 900 million baht per year. There are two or three cocoa powder blenders in Thailand which mainly supply to the food service industry; but couverture chocolate is imported entirely.

- For cocoa powder, top five exporters to Thailand in 2012 were Indonesia, Malaysia, Singapore, France and Netherlands with a combined value of 1,048 million baht accounting for 97 percent of total imports. Import from the Netherlands was valued at 40 million baht.
- For chocolate and other food preparations containing cocoa, top exporters in 2012 were China, Malaysia, Indonesia, Italy, Belgium, Switzerland, U.S. and Japan accounting for 76 percent of total imports worth 3.8 billion baht. Import from the Netherlands was worth 61 million baht accounting for less than 2 percent.

Some of cocoa powder/chocolate suppliers to Thailand include Colatta (chocolate compounds), Cocoa Dutch (cocoa powder), Callebaut (couverture chocolate), Carma, Master Martini, Wander, Ulmer, Sicao, Aalst, Cacao Barry, etc.

1.2 Import of baking equipment
Except for some stainless steel cabinets and refrigerating equipment, practically all types of large and small bakery equipment used in the country are imported. Major importers carry a broad range of commercial kitchen & bakery equipment including various types of oven (convection ovens, deck ovens, conveyor pizza ovens, wood-fired ovens), proofers, dough sheeters/cutting/ & make up line, mixers, donut fryers, hot bake shop machinery, and bread slicers/dividers/and rounders.
For bakery oven and other types of bakery machinery, Thailand’s import during 2010-2012 increased from THB398 million in 2010 to THB795 million in 2012 for a yearly growth of 41 percent; in terms of unit, the number decreased from 5,378 to 3,430 units implying that the average unit price of bakery equipment increased during the three-year period. This could mean that larger equipment was imported in 2012 compared to 2010 or 2011.

Among OEM suppliers of bakery equipment in Thailand include Wachtel, Eloma and Garland (Germany); Rondo Doge (Switzerland); Zanolli, Electrolux, Smeg (Italy); Leventi (Netherlands); Sveba-Dahlen (Sweden); NTS (China); Daub (Netherlands); and many brands from Australia, Spain, England and France.

Despite the emerging presence in Thailand of equipment made in China, the majority of industrial and retail baker chains still prefer equipment made in Europe – perceived as reliable, durable and highly-efficient. Expansion of in-store bakeries in discount stores and supermarkets presents a promising upward trend in demand for baking equipment. Moreover, the rising trend of bake-off concept in convenience store outlets, e.g., 7-Eleven’s Kudsan Bakery & Coffee, will drive the need for more ovens and baking utensils.

“With a suitable partner / supplier who already has the experience and clientele base in the bakery and food service industries, foreign OEMs can thrive in this environment. It would be a good start to approach Metro H and Res or Somerville.”

Dech Sangsrijan
President, Thai Bakery Association

1.3 Import of packaging solutions

There is a niche demand for imported specialty flexible packaging solutions used for desserts such as moon cakes. For instance, S&P Syndicate, the leading bakery & restaurant chain imports all of its plastic packaging for moon cakes from Japan – as there is no local supplier that can produce according to the company’s rigid specifications: flexible packaging that maintains freshness of moon cake for a number of weeks.

Other packaging materials that tend to be imported include clip lock and bread bags (by President Bakery); for other baked goods such as snack bread, the company sources locally from its trusted suppliers such as Dai-Ichi Packaging.
1.4 Other opportunities
Aside from the abovementioned product categories, the bakery sector offers a range of other opportunities, for instance in services (e.g., training, education) and IT solutions. The sector experiences shortage of skilled manpower because new graduates prefer managing their own business rather than working in hotels and restaurants to gain experience. A solution could be training people that have the interest, but lack proper educational background, in bakery schools and training centers outside the academic system.

Seamless interaction of production processes in the bakery industry is crucial – and an IT solution such as integrated automation system for bakery production processes could be the answer. This would cover both software and hardware that would automate the production process – from receipt of raw materials / ingredients to production and packaging to finished product shipment. Large-scale industrial bakeries are known to already employ automated systems for the production process; but a fully integrated system that delivers maximum quality at reduced cost may still be lacking in most factories. Other IT solutions suitable for small and medium-sized businesses also have good prospects in the bakery sector.

2. Investment opportunities
Investment in the Thai bakery sector can take several forms:

- Acquisitions/ Joint venture/Greenfield investment
- Franchising
- Regional Operating Headquarters
- Technical Cooperation

For investors who are looking for business expansion in Southeast Asia, Thailand is at a vantage position. The country enjoys a strategic location and serves as a gateway into the heart of Asia – home to what is today the largest growing economic market.

Political stability has increased and Thailand’s economic momentum has strongly improved after severe external shocks. However, future political and commercial risks will largely depend on domestic political developments and global economic climate as Thailand’s economy remains primarily export-driven. Annex 4 provides a brief discussion of ‘why Thailand’ could be the best choice for investment.

2.1 Acquisition/Joint venture/Greenfield investment
Given the growth potential of the Thai bakery sector and Thailand’s increasing position as ‘regional hub,’ Dutch strategic investors should consider entering into equity partnerships with local counterparts through acquisition, joint venture or other structures.

One immediate opportunity is setting up a local blending facility for premixes and other flour mixes. The Thai bakery industry mainly imports premixes, cake mixes and other flour mixes from overseas suppliers. This market is worth about one billion baht per year. The blending factory can serve not only the domestic market but the whole of
ASEAN. Trading between ASEAN countries is highly conducive because of zero tariffs on commodities traded between member nations.

The blending operation could also apply for promotional incentives from the government’s Board of Investment (BOI) as this falls under the List of Activities Eligible for BOI Promotion, in particular, Section 1: Agriculture and Agricultural Products, subsection 1.11 manufacture or preservation of food or food ingredients, using modern technology (except drinking water and ice cream).

Depending on the production technology and technical specifications of the finished products, the flour blending operation may be classified under either of the following sub-sections:

1.11.3 Manufacture or preservation of food made from rice or cereal; or
1.11.6 Manufacture of food ingredients.

These activities are further classified as ‘priority’ activities by the BOI – which gives the following incentive package to promoted companies:

1. Exemption of import duty on machinery, regardless of zone (location);
2. Eight-year corporate income tax exemption, regardless of zone (location);
3. Other relevant location-based incentives.

2.2 Retail Bakery Franchising

The success of retail chains in Thailand’s bakery landscape cannot be overemphasized. From homegrown entrepreneurs (e.g., S&P, Coffee Beans by Dao, Little Home Bakery) to regional players (e.g., BreadTalk, Secret Recipe) and global investors (e.g., Au Bon Pain, Mr. Donut, Dunkin’ Donuts), avid consumers could not seem to have enough of them – always excited to try new sweet and savory creations, anytime, anywhere. The business is worth more than 9 billion baht per year and still growing. In fact, retail bakery chains are the fastest growing segment in Thailand’s bakery sector today.

Krispy Kreme, the donut franchise from the U.S., is the most recent franchise operator that entered Thailand’s bakery industry in 2010. Sales in 2011 registered more than three-fold increase over the initial year of operation; whereas net profit grew more than four times. At present Krispy Kreme has seven stores in Bangkok, and has plans to open more branches each year – in line with the parent company's global strategy to nearly double the number of international stores from 460 to 900 by the year 2017.

Why is this strategy working?

“You give credit to the brand. Where we go people are lined up to be there. It’s amazing. You wouldn’t think Thailand would even be aware of it, but for many weeks there was always a line at that shop. When you look at the potential in places like China and India, it’s pretty enormous. It’s kind of exciting to see that even though it’s the biggest part of who we are, it’s nowhere near a mature stage. There are years and years of growth out there for us.”

Jim Morgan
CEO, Krispy Kreme Doughnut Corp.
Thus there are opportunities galore for retail franchising. But as in any kind of business, for every opportunity there comes risk. Some pointers in a successful retail operation include:

- First and foremost, the key is location, location, location! A retail franchise is driven by solid, consistent traffic. Chosen locations or territories should support a retail franchise. Some competition is fine, but not too much.

- Second aspect is smart choice of bakery delights. It is great to be creative and innovative, but Thais generally would not like the taste of licorice in their bread or pastry! A survey of consumer tastes and preferences would be useful.

- Another important aspect is the employment factor. There is a need to hire, train and retrain – as well as lay-off employees that underperform. Human resources are a big part of operating retail franchise concept, and becomes even more as the franchise expands to operate multiple locations. Finding and keeping quality and loyal employees can be a challenge – especially in cosmopolitan Bangkok where the younger set, while eager to learn, can be also swayed easily by the ‘greener pasture at the other side of the fence.’

We expect the Thai market to be receptive for typical Dutch franchise concepts like ‘het Stoepje,’ ‘Bakker Bart’ and others.

2.3 Regional Operating Headquarters

Dubbed the gateway to Asia, Thailand is in the best position for global companies to set up their Regional Operating Headquarters (ROH). Compared with Singapore and Hong Kong, the cost of doing business in Thailand is still much cheaper; besides the kingdom offers equally modern, if not more advanced, infrastructure and reasonably skilled labor force. Moreover, the Board of Investment offers attractive tax incentive package to promoted ROH.

For example, MNCs such as DSM Food Specialties could consider relocating their ROH to Thailand.

2.4 Technical cooperation

The Netherlands is one of the world’s largest agricultural exporters and this is an area with opportunities for closer co-operation with Thailand because the country is strongly dependent on food exports and can take advantage of Dutch expertise and technical cooperation. Food processing, packaging, food control and logistics are all important areas for possible future cooperation. This could well be extended to the bakery industry which is constantly looking for innovative and creative products to attract a huge customer base.

For these kinds of cooperation, the Dutch government provides subsidies to both Dutch company and its local (Thai) partner. Annex 5 provides brief description of various subsidy programmes provided by the Dutch government, e.g., Partners for International Business, Matchmaking Facility, Private Sector Investment Program (PSI), Fund for Dutch Enterprises (FOM) and others.