

Unveiling digital transformation in Thailand

The impact to modern customers



Photo source: Pandaily

In this digital era, when everything you needed is delivered within a few clicks or one phone call away, it is unarguable to admit that apart from technological change, we, as a consumer, also change.

Examples stood clear for the digital-age customers¹. Crave for a glass of bubble tea would be soothed with an on-demand motorcycle delivered to your door, instead of driving all the way to the self-serviced longer ques. Similarly, an overseas trip would have originated from lazy afternoon scroll on Instagram photos of those bucket-list influencers and travel bloggers. Something that is completely different from a meticulously previously organized travel agency's service. Modern customers are used to digital and convenience.

And while it is probably the job of companies and business sectors to adapt to such demanding changes, the question lies to 'how' it actually changes.

We all know that customers are changing. But laying strategic direction for the company requires much more than a chasing game of following tech-savvy customers. Business leaders need to understand their customer behavior and select suitable tools – whether it's product, service or operation – to answer their needs. One thing for sure is a simple plug-and-play of new technology to digital era would not work for all. Because, after all, it's already a modern day of digital transformation.

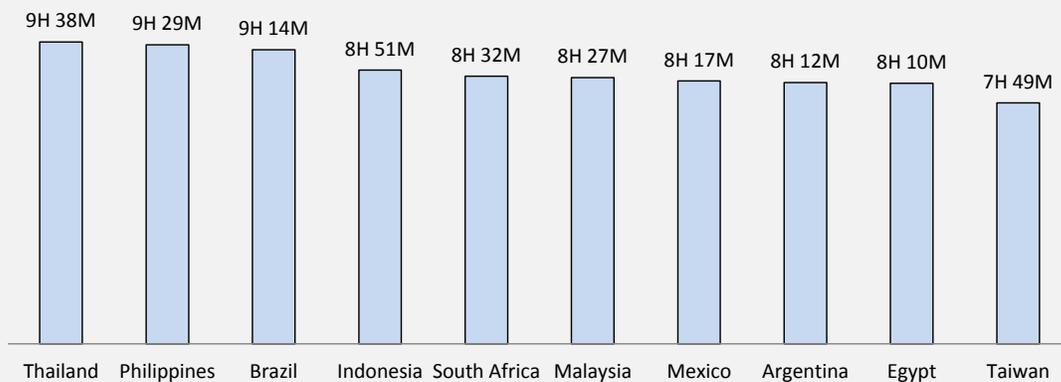
¹ Digital-age customers and modern customers are those who are always on connected. This could be in terms of overall country's internet and smartphone penetration that is higher than 50%, and hours spent on internet are higher than 3 hours per day. Usually these people are younger than 35 years old.

Online or offline? Nah, it's both!

In the past few years, we have seen many big numbers on Thai consumers going digitalized. For instance, Thailand is known to be ranked first for time spent online at 9 hours 38 minutes, above all other countries such as US, UK, China and Indonesia. Besides, Bangkok is ranked first for largest Facebook users in the world at 22 million², and more than 80% of Thai population is connected to the internet³. Our growth rate during 2016-2017 for internet users was almost 30%, a figure that is far exceeding Asian region of 8% during similar time period.

Though everyone knows for sure that digital market would grow and that will have some economic impacts in the future. But what is its business implication on the demand side? Something solid that is more than just changing consumer behavior. Thai consumers are, somehow, not fully digitalized.

Top 10 global ranking for country with longest hours spent on internet



Source: Hootsuite

Looking deeper into e-commerce, it does change the way consumer shop and disrupt the brick-and-mortar retailers. We see tons of social commerce sellers and Facebook ad pop-ups, but online purchasers on consumer products still account for small portion of the total population. At only 17% (11.7 million persons), according to Hootsuite, a figure that has already taken into accounts the high growth of 22 % year-on-year change.⁴ And when we compare online retail sales to the total retail industry, the figure was reported at only 1-3% according to Electronic Transaction Development Agency (ETDA) at around 0.8 trillion baht in 2017. The number shows a large difference to global average of 9% and to the more refined markets like the U.S. at 10%.

² Source: Hootsuite, Jan 2018

³ Source: CIA World Factbook

⁴ Growth was calculated from January 2017 – January 2018 data

Thus, at this stage, it is still unfair to say that all business transactions need to go online. Thai consumers are not highly salient to e-commerce. Consumers still prefer omni-channels. A survey by SCB EIC has emphasized this argument with figures showing almost 70% of Thai still relying on physical stores as their main shopping channel. And half of the figure uses both online and offline channel. This does not limit only to searching online before purchase offline, sometimes it's also vice versa. Purchasing decision is also highly influenced by online reviews.

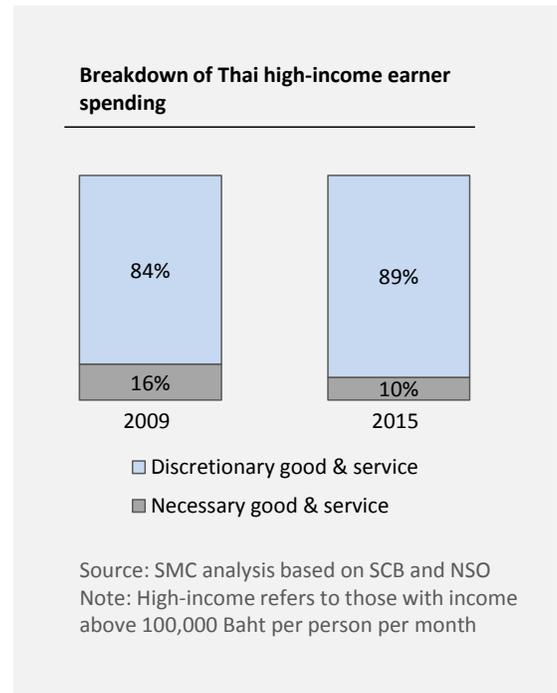
Champaign. Pool villas. More Luxurious Lifestyles

Apart from online commerce consumers that has not yet fully converted, digital consumer spending, especially the younger high-income earner, has also shown an interesting pattern.

Perhaps it is the result from being too spoiled by on-demand services, every question could be answered in a second with Google. Thais, especially high income earners⁵, are more demanding. And that's why businesses such as LINE MAN food delivery has grown substantially to over 1 million users per month and almost 500% sales growth in just 2 years. The startup has fairly successful at capturing urban population who are highly connected to the internet.

In economics, we would call the consumer spending pattern as a shift towards discretionary goods and services, i.e. the less necessities spending. A Thai consumer as surveyed by SCB has shown that this is true. 80% of the survey respondents, particularly new generations and high-income earners spent more time outside home than in the past 5 years. These are usually on restaurants, shopping, domestic travels, theatres and concerts.

And in fact, if their income were to rise by 20%, over 70% of the survey respondents would spend on traveling⁶. With this figure, it is rather self-explained of why Instagram and other social media channels had huge influences on the consumers' travel plans. Forbes has also denoted that over one-third of those under 30s would prioritize 'Instagrammability'⁷ of their bucket list for their next holiday destination.



⁵ High income earner in this article is defined as those with individual income higher than 100,000 baht per month

⁶ Figure is analyzed from the survey of over 5,700 respondents, equally distributed among geography, gender, age, income group, education and occupation.

⁷ The term usually refers to object, person, venue, or any visual kind that are photogenic and could raise awareness and interest from the crowd in social media.

In short, Thai consumers today are more willing to spend on outside activities and on-demand than in the past. They are willing to spend more on not just goods or services, but also experiences, i.e. travel and entertainment. With the expected steady rise in income, they now spend more and pay a premium for new experiences.

Business Implications

A clear shift towards digital with an ambiguous online consumer behavior could impose a challenge to the business, at least in the short to medium run. Should the company start an online presence that could cannibalize sales and require investment costs? How could their businesses stand out from the dynamic crowd that is fast-paced and yet transparent as being successful in traditional channel could mean so little to the virtual world? And how could their businesses overcome this digital challenge?

Most companies that fail to understand the true consumer behavior and just follow the trends are trying hard to build their online presence. But one important strategy, besides understanding their market, is to use multi-channel to reach and listen to customers. Instead of have their online and offline channel cannibalize each other, omni-channel shopping experience, with shops, apps, social media and traditional ads could all be carefully synced to offer integrated customer experience and engagement. And this type of strategy has already implemented in many global players, such as Starbucks on how they integrate online reward system to your in-store purchase, or Apply and Oasis brands who use tablets as a cash register and up-to-date product information. If there's something appears out-of-stock, the staff can just instantly place online order for you.

In the case of Thailand, we could see that department stores are competing hard to promote their 'retailtainment' concept, the convergence of shopping and entertainment. Central Group, a major retail player in Thailand is exactly embracing this omni-channel path. With plans to renovating Central World to be a major showcase of experiences and focusing on driving more sales through their JD.com partnership, as well as their collaboration with Kerry Express to deliver goods. This way, they do not only offer products to consumers, but also new experiences that can't be offered online alone. Department stores are becoming more of a destination, where you can spend time catching up with friend, repositioned as a memorable tourist attraction, or even a weekend kid-friendly workshop for families.

Besides omni-channel presence, business nowadays has to go beyond building brand loyalty. To stay in the game in the long term, they should focus on customer engagement. To capture the new market opportunity, companies should also further develop their products, services, as well as channels to meet more sophisticated consumer demands. Personalization will be one of the key strategies to capture the modern consumer, with an example on specialty store like Sephora that captures specific consumer segment with product selection catering to specific needs. Or perhaps it is the offering of customer new experience like Cereal Killer Café, a UK-based cereal-only specialty restaurant, which their commitment towards single theme could help their margin in charging the price as high as 13 times to normal cereal box. Besides physical personalization, in other industry like banking also found a white space in

integrating big data collected from digitalization, and AI technology to offer customized financial planning to customers, for instance, robo-advisors. Business should look for how could they capitalize technology and digitalization to their products and services.

In the end, companies will have to truly understand their market landscape; who their customers are and how they are behaving, as well as knowing the stages of their competitors' digital transformation. Because digital and technology should be perceived as a potential tool to better capture market opportunity and minimizing threat. A careful consideration of what are their competitive advantages are and how they could leverage such digitalization to their businesses will be a key to success. Ultimately, innovations are promising to definitely completely transform consumer behaviors from the past.



About the author

Ms Panyapat Papangkorn is currently a consultant at Sasin Management Consulting. She has an in-depth knowledge in corporate strategy and strategic implementation with an expertise in resource-based view approach.

Ms Panyapat holds an MSc in Economics and Strategy for Business, with distinction, from Imperial College London, UK and a Bachelor Degree in Business Administration (Accounting Major), with the first-class honors, from Thammasat University.