

CHAPTER II

BACKGROUND OF FRANCHISE IN THAILAND

To understand franchise system deeply, we should concern the origin and development in the historical approach. This chapter is organized into 2 mainly section. First section provides definition and historical of franchise in Thailand. Second section presents the development and growth rate of franchise in Thailand.

2.1 Historical Background of Franchising

Franchising in various forms has been in existence for some considerable period of time. The ancient use of the term "franchise" dates back to Middle Ages, and originates from the French word meaning "Free From Servitude"¹. In Britain, franchise and liberty are used as synonymous terms and their definition is a royal privilege, or outlet of the king's prerogative, subsisting in the hands of a subject. Being therefore derived from the crown, they must arise from the king's grant; or in some cases, may be held by prescription, which, as has been frequently said, presupposes a grant. The different kinds are various, and almost infinite.²

Franchising is frequently seen as a phenomenon originated in the United States but the real pioneers of modern franchising were almost certainly the British brewers (the franchisor) of the 18th century who created a system of 'tied' house agreements with their publicans (the franchisees) which remain widespread to this day in United Kingdom.³ The relationship can, however be distinguished from modern franchising. This type of agreement is often describes as "first generation" franchising or "supply dealership". By means of its tied houses, a brewery secures distribution for its product with only a minimal involvement in the retail operation.

This kind of business relationship had expanded to the United States of America. The Singer Sewing Machine Company is generally credited as the first franchisor having in 1851 offered "franchises" for \$100(U.S.Dollar). The company inadvertently creates crude, but workable, franchise network to distribute and sell its sewing machine to a skeptical public. The two industries,

¹ Robert Rosenberg and Madelon Bedell, *Profits from Franchising*, New York; McGraw-Hill, page40

² John Hamilton Pratt, *Franchising Law and Practice*, London, Sweet and Maxwell, page1001

³ Peter Stern and John Stanworth, *The Development of Franchising in Britain*, National Westminster Bank Quarterly Review, page39

which played significant role in this period, and still employ franchising as their major means of distribution, are automobile and gasoline. These "franchises" were essentially supplying dealership agreements. General Motors introduced a franchise dealership in 1898 and was followed by the Ford Motor Company, which was in turn followed by various petrol companies. The growth in modern franchising had its roots in the early 1960s when a second type of franchising was developed in the United States of America known as "business format" franchising and less often as "second generation", "turnkey" or "chain style" franchising.

In the United States, automobile dealership, gas stations, convenience stores, clothing stores, hotels, restaurants, tax preparation services, car rentals, and banking are among the many businesses that are frequently operated through the franchise system. The current rapid rate of growth of franchising in the United States and, indeed international, appears set to continue. A number of factors appear to be at play here.

First is the general worldwide decline of the traditional manufacturing industry and its especially well suited to service and people-intensive economic activities, particularly where these require a large number of geographically dispersed outlets serving local markets. A second factor is the growth in popularity of self-employment. Most governments in the Western world are looking towards self-employment and small business as an important source of future jobs. Franchising is able to assist would be small businessman to make the transition from employee to entrepreneur. As franchising becomes increasingly well known and understood, the chance is that it will appeal to a growing number of people.

The concept of a franchise as a royal privilege may be called "public franchise" while franchising in the present day is a "private franchise" since it is the contract license granted by one person (the franchisor) to another (the franchisee). The franchisor is a parent company that has developed some product or service for sale (also including a brand name, an idea, a secret process or a specialized piece of equipment and the goodwill associated with it). The franchisee is a firm^{*} set up to market this product or service exclusively (exclusive dealing) at a price specified by the franchisor (resale price maintenance) in a well-defined geographic area (territorial restriction).

^{*} Firm in standard Neo-Classical Economics is an analytical label for the institution, which transforms input into output. Thus the firm is viewed as an abstract entity which fulfills a mainly technical role. A more sophisticated definition of the firm would take into account its role as a co-ordinating device, which allocates within itself.

The franchisee pays a certain sum of money (initial fee and/or royalties) for the right to market this product.

2.2 The Development of Franchise in Thailand

Basically, developing countries always imitate the path of development from developed countries. Thailand is also included in this rule. The United States of America has had a very close relation to Thailand for some considerable period of time. The significant evidence for the said relationship is the "Treaty of Amity Economic Relations" between the United States and Thailand. Nowadays, Thais are very familiar with the American lifestyle such as wearing jeans and consuming fast food and ice cream. This knowledge has been observed through experience, movies, advertising, and other mass communication. When franchising is popular in America, it is doubtless that this will be widespread to Thailand in the near future according to the globalization of this decade.

The business operation is changing according to the circumstance of economy and society of a particular period. The income level should be counted to be the crucial indicator of an economy's state to determine the consumption behavior, and the social indicator should be the consumer's taste. The development of the fast food business is a good example. During the 1970's, the Thai people's income level was rather low. A few Thais consumed fast food since the price was rather high compared with the income level. Moreover, at that time Thais still did not accept the Western food consumption culture. The empirical evidence was the failure of Kentucky Fried Chicken in 1972 and there was only one Mister Donut shop in 1979.

The increase in income level and heavy traffic in the big city led to the increasing emphasis on the cost of time. Thais gave more weight to the importance of time than in the old days, and wanted less time-consuming activities. As well, the lifestyle of Thais was changing, especially teenager and new generation office worker, such as the increased consumption of hamburgers or pizza instead of rice, donut and ice cream instead of traditional Thai sweets. This changing behavior was the result of many factors such as advertising, which persuade consumers to perceive this food as modern. Another reason was the increasing number of Thais who had been abroad. These people had had experience with fast food in foreign countries, so they easily accepted the brand name they had tasted before.

Increasing number of tourists is also an important factor to the growth of franchise business in Thailand. Tourists are typically familiarized with the international brand. They need something that can guarantee quality standards. The goodwill and information such as the menus, the cleanliness, the atmosphere and the standardization are also attached on these brand names. Fast food restaurants also provide the fast service and convenience, which serve the travelers' needs. There were many more changes during the period from the 1980's to the beginning of the 1990's. First, Thai businessmen, after passing through the learning process of the franchise system from the foreign franchise, started to launch franchising schemes. The first local franchise was Washy Mashy in 1982, followed with Noodle Noodle Garden and Pena House in 1985. Second, there were many new kinds of business employing franchising as a market method such as automatic washing machine service, convenience store, office automation and telecommunication retail shops. The emergencies of these businesses were in accordance with the change in economy and society in each period.

The First Franchisor in Thailand (1972):

The first franchise in Thailand was Kentucky Fried Chicken (KFC) in 1972. There were two outlets on Silom and Sukhumvit roads. The business could not operate successfully since it was not appropriate for Thais' income level and consumer behavior especially taste at that time. After opening for a short period of time, they were closed by the franchisor from the United States because the franchise contract was not taken up legally.

After that, franchising disappeared from Thailand until 1977 when AVIS, the auto rentals franchise, was imported from America. The franchisee had been in operation for five years but had been unsuccessful. The franchisor wanted to transfer the franchise right to other potential franchisees. The franchisor contacted two or three companies including the current franchisee. At that time the present franchisee was operating an auto rental business name Syntax, a franchise from Singapore. But AVIS had already taken over Syntax in Singapore and this made the agreement between two parties easier. The franchisee decided to franchise AVIS instead of Syntax because the market of AVIS is worldwide while Syntax is accepted in Asian region only.

Fast Food in Thailand (1978):

In 1978 the Central Group cooperated with Minor Holdings Group and took the franchise "Mister Donut". Two years later Mister Donut was expanded to four outlets, demonstrating the good potential of the fast food business. The Minor Holding Group decided to franchise "Pizza Hut" and opened the first outlet at Pattaya, the tourist and Holiday City. The company thought that Thais still reject Western style food as a complete meal (differ from donut which can serve as a snack). The appropriate target group of Pizza Hut at that time was foreign tourists. "Dunkin Donut", another donut shop was franchised in 1981 by Royal Industry Supply Company. These franchise pioneers had introduced the Western food consuming culture to Thais and they still the pioneers of fast food business in Thailand until present day.

The fast food business can be regarded to the most outstanding sector because of the high proportion of brand name. Tom's Quick, Black Canyon, Uncle Ray are local brand name, but the rest are foreign. Due to the fact that most fast food is western such as hamburgers, sandwiches, pizza, donut and ice cream, the main proportion of brand name is inevitably. Mostly, the franchisees who import the international brands are large companies or members of a group of companies for example: Pizza Hut and Swensen's distribute by Minor Holding Group, KFC is distributed by Thai KFC, one of Central group company, and CP-KFC Development (Thailand), group company of CP.

Central Group, leader in department store business, gained the economy of scope from operating fast food restaurants. The new concept of the department store or shopping complex is to provide full service to all customers as the concept of "one stop shopping". After shopping consumers may want to have beverages or some snacks or a full meal, fast food restaurants come to serve these needs. Instead of leasing department store's area to others, Central Group operates four fast food franchises themselves, which included Mister Donut, KFC, Burger King and Baskin-Robbins.

Charoen Pokphan Group (CP), a major operator in agro-industry, especially chickens, becomes a joint venture of KFC. Nowadays CP supplies chicken not only to KFC in Thailand but also chicken nuggets (one item on KFC's menu) to Asia region. In addition to the above advantage, CP adapt the know-how of the fast food business from KFC to establish its own brand

name called "Chester's Grilled Chicken", which now change to "Chester's Grill". The company announced to grant a franchise to potential franchisees

Currently Central and CP Group are both operate KFC in Thailand. In 1984, Central Group who had right to operate KFC as the master franchisee in Thailand. Under normal practice, the master franchisee was obliged to expand a certain number of outlets over a specific period, for example 3-5outlets per year. If the growth was not satisfied, the franchisor had right to withdraw the franchise contract or transfer to another person. After operated KFC for four years, Central could not meet expansion's target of Kentucky Fried Chicken International (KFCI) because KFCI felt that slow expansion would deteriorate the reputation and goodwill of their brand name. From the above situation KFCI decided to invest in Thailand in form of a joint venture. In 1989 KFCI firstly contacted Central Group to join this project but laslty KFCI turned to join with CP instead accoding to related product of CP and KFC.

The First Domestic Franchise in Thailand (1982):

First local franchise was established in 1982 named "Washy Mashy", a laundry service. The franchisor graduated from the U.S.A. The franchisor thought that Thais society and economy began to change. The industrial sector was rapidly growing. Labor shifted from agriculture and the service sector to the industrial sector. While the demand for housemaid was increased, the supply was reduced, and shortages were inevitable. The automatic washing machine was deemed to be necessary but the price was too high. Laundry services became an important role for Thais lifestyle.

Restaurant Franchise in Thailand (1985):

A Singapore businessman and the owner of Robinson Department established first local franchise restaurant named Noodle Garden in 1985. At the beginning the business was unsuccessful. In 1987 was taken over by Food System Company and started to grant franchise at that time. Their first frachisee's outlet was located in Hat Yai, Songkla.

In 1986 another local franchise is Isan Classic, traditional Thai food restaurant was formed and granted franchise in1991. According to rapid expansion of company-owned and management problem Isan Classic was terminated in a few years latter.

Convenience Stores (1987):

From 1978 to 1986 major sector of franchise was food business. There was a new phenomenon in 1987: investors interested the franchise of the mini mart and convenience store. Central Mini Mart, Big-7, 7-Eleven, Park and Shop, and AM/PM were introduced in Thailand marketplace respectively. Only Central Mini Mart and Big 7 are domestic. Currently the most effective and well-know convenience store is 7-Eleven, which operated by CP.7-Eleven.

This sector has a tremendously high growth rate in terms of outlet expansion. It increased from one unit in 1987 to 184 units in 1992. There are many factors to support this rapid growth. For example convenience stores open 24 hours a day, and friendly service.

Central Group began a joint venture with Asia Hotel to operate Central mini mart. First outlet was opened nearby Asia Hotel. Central Group hold 51% and Asia hotel hold 49% shareholders. Central had the right to operate the business fully and get the royalties in return, while Asia Hotel got the rent for its area. Central mini mart was a mini supermarket rather than a convenience store because the area was larger, and the products were different: The products were 80% essentials (necessary products for daily life such as rice, food, soap, and toothpaste) and 20% non-essentials (such as snacks and sweets), while products in convenience store will be 20% essentials and 80% non-essentials. In 1991 Central faced standardization's problem. Consequently, Central withdrew franchise contract of unsatisfied franchisees.

Cathay Department Store opened Big-7 in 1988. After they opened ten outlets, one year later they began to grant franchise based in Bangkok area. Big-7 was terminated when CP launched 7-Eleven in Thailand. Moreover, the logo of Big-7 became a serious problem because it was decided similar to 7-Eleven's trademarked.

Another brand that was terminated is Park and Shop. Park and Shop was a joint venture of Hong Kong businessman and Mr.Choat Soponphanich. It was started in 1989 and had two outlets. The main cause of failure came from conflicting of partners and inappropriate location.

During the year 1991 to 1994 there was 135 franchise in Thailand excluding the gas station franchise, in 1995 found that most of new franchises were retailing. Assume that every one-month had 3 new franchise brands, every day had new 2-3 franchise stores and one new franchisee establishes in the market. (Table 2.1)

From the survey of 300-franchise entrepreneur by Media franchise, 54% was satisfied by their franchisors. Average of investment amount is 2-3million Baht that can generate 1-500,000Baht income/per month, 1-30,000 Baht net profit per month. The advantage of franchise is the guideline of franchise system operation manual, and main support from franchisor that new investor can operate their business easier. Bookstore, IT market convenience store and hotel able to generate profit more than 90,000Baht per month depended on outlet location and intensity of both franchisor and franchisee to run franchise business. 7-Eleven is the outstanding example of successful franchise in Thailand. At the end of 1996 they opened 700 stores (330 company owned, 370-franchisee store) generated more than 5,000million Baht.

There is a franchise research operated by Opportunity & Franchise magazine concentrated to both foreign and domestic franchise. The result of research can conclude underneath.

Table 2.1:Expansion Rate of Franchiser and Franchisee store

YEAR	NUMBER OF FRANCHISOR STORE	INCREASING NUMBER	INCREASING PERCENTAGE	NUMBER OF FRANCHISEE STORE	INCREASING NUMBER	INCREASING PERCENTAGE
1994	APPROX.1,000	NA	NA	APPROX.500	NA	NA
1995	1,343	343	34%	1,179	679	68%
1996	2,034	691	51%	1,516	437	37%

Table 2.2: Expansion Rate of Franchise in Thailand from1994 to 1996

YEAR	TOTAL FRANCHISE STORE	INCREASING NUMBER	INCREASING RATE	TOTAL FRANCHISE BRAND	INCREASING NUMBER	INCREASING PERCENTAGE
1994	1,500	NA	NA	74	NA	NA
1995	2,522	1,022	68%	93-103	29	39%
1996	3,550	1,028	41%	138	35	34%

Source: Media Franchise Magazine; Thailand; page 127; 1996

Table: 2.3: Percentage of Franchise Established in each period since 1988-2000

Year of Franchise Established	Percentage
1988-1992	34%
1993-1997	43%
1998- 2000	23%

Table2.4: Percentage of Franchise Granting in each period since 1987-2000

Year of Franchise Distribution	Percentage
1987-1992	11%
1992-1997	67%
1998-2000	22%

According to the above statistic, conclude that the expansion of franchise and franchise granting has had rapid growth during the booming of Thai's economics (1992-1997). Convenience store, Education center Information and Technology (IT) business and Food business have highest rapid growth rate. Since 1998 the expansion of Franchise faces the slow down period due to Nation economic crisis. Some franchise was terminated.

Table2.5: Number of Franchise Outlet per Franchise Brand name

Number of Franchise Outlet	Percentage
01 - 30 Outlets	45%
31 - 60 Outlets	10%
61 - 90 Outlets	10%
More than 91 Outlets	35%

Table 2.6: Gender of the franchisee owner

Gender	Percentage
Female	70.20%
Male	29.80%

Table 2.7: The Education Background of Franchisee

Level of Education	Percentage
Below Undergraduate	17.00%
Undergraduate	61.00%
Master Degree	22.00%

Table 2.8: Post-Occupation of franchisee

Post-Occupation of franchisee	Percentage
Merchant	45.00%
Employee	5.00%
No occupation	5.00%
Government Official	4.00%
Others	3.00%

Table 2.9: Ratio of Franchise store's location

Location	Percentage
Bangkok Metropolitan	56.50%
Suburb Area	43.50%

Table 2.10: Term of franchise contract

Term of Franchise Contract	Percentage
5 Years	22%
More Than 5 Years	45%
Forever	23%
No Comment	10%

Due to the research, female has higher percentage to operate her business by joining franchise system especially in education center business line. Most of franchisee has education background in undergraduate level and their post-occupation is merchant. Bangkok

Metropolitan still popular area to invest and open franchise outlet about 56.5% while suburb area has 43.5%. But some franchises propose to grant franchise into suburban than Bangkok area because high potential areas in Bangkok are almost reserved by the well-known brand name. At the same time, high competition of Bangkok's market involved not only high cost but also high risk for the new comer too. Refers to the related literature about the expansion of Department Store stated that high percentages of franchise businesses are located in Department Store according to the new concept of new era department store as one-stop shopping. The literature offers the analysis of the competition behavior of Department Stores in Bangkok Metropolitan area by Kanithar Pisitkasem.

Kanithar had studied the trend of department store in Bangkok that would be summarized that according to the change and development of store business, we can see that the location of department stores has also changed. The movements of department store locations come from many reasons for example:

(a) The growth of Bangkok: The city is growing rapidly and continuously. One of its largest problems is the horrendous traffic. Communication between the center and suburbs of Bangkok has to spend more time in transit. Department stores, therefore, expand to meet demand of consumer in the suburbs. The direction of location expanding depends on the new main streets, which is always found in many sections of Bangkok Metropolitan areas.

(b) Change of Residential Area, Work Place, and Business Center

Residential area, working places, and business centers are all related and cannot be separated. People, who look for houses, first of all, they think of the distance to commute between their home and the working place. Businesses centers, market and store, should be in between their work places and residential area. At the entrance of residential area or the nearby vicinity there are usually commercial officers or grocery stores for customers from residential area. For the bigger sizes of residential area, there are supermarkets and superstores until the area is more crowded, then the department stores are established like Ramkamharn, Bangkok district which are used to be big residential area and become out skirt

business center. Out skirt areas will become developed and department stores will be nearer to residential areas than business centers i.e. Bangna-Trad Rd.. Sri Nakarin.

Table 2.11: The reason of Franchise expansion into Suburban

Reason Description	Percentage
Require Local investor to support/ generate franchisor's expansion	28%
Increase the expansion rate	24%
Distribute product/ service to suburb	20%
Market Leader	12%
Income from the franchisor fee	10%
Others ie.increase market share	6%

To expand franchise outlet in suburb, franchisor intends to grant franchise right to local investor because of several reasons (Table2.8). One main reason, the franchisor concerns that local franchisee with the consumer behavior of local people than franchisor.

Table 2.12: Potential Area of franchise's expansion

Province	Percentage
Chiang Mai	17.90%
Hat Yai (Songkla)	15.30%
Khon Kan	10.20%
Cholburi / Phukit	7.60%
Nakornrachasima/ Nakorn Pathom/ Rayong	5.10%
Udon Thani	2.50%

Chiang Mai and Hat Yai gain high percentage means these locations have potential and ability to operate franchise business. Major considering factor is that the number of its population and the number of tourist. Some franchisors' does not consider only population factor only but also the efficiency of local franchisee. The efficiency of franchisee may consist of financial background, education background, and intention to operate the business.

Table 2.13: Franchisor's Support

Franchisor's Support	Percentage
Initial Training	16.30%
Transportation	14.20%
Marketing Support	12.20%
Financial and Human Resource Support	6.20%
Others	2.30%

To open a franchise out let franchisee may obtain support from their franchisor but the percentage of support may vary by characteristics of each business line i.e. Retailing may require more training support than other lines, the franchisee in suburb may require support to the transportation system.

Table 2.14: Operation Manual Support

Operation Manual	Percentage
Have operation manual	89.00%
Do not have operation manual	11.00%

Basically operation manual is an important condition that franchisor respond to support their franchisee. The research shows that some franchisor do not have operation manual to their franchisee. We can assume that the franchisors that do not support operation manual could be domestic franchise because in foreign country operation manual is a crucial part of whole package that states in franchise law.

Table 2.15: Qualification of Franchisee

Qualification of Franchisee	Percentage
Accept and follow the franchise contract	22.60%
Financial Background	22.60%
Franchisee manage the outlet by himself	19.60%
Have their own location	12.80%
Good understanding about franchising	9.60%
Used to work in related franchise business	6.40%
Others	6.40%

The franchisor requires the prospect that intends to follow the franchise contract and having good financial background to run the business smoothly. Another important factor is that the franchisee should operate the business themselves.

Table 2.16: Initial Investment Budget for new franchisee

Initial Investment Amount	Year 1999	Ranging	Year 1998	Ranging
Lower 100,000 Baht	4%	6	4%	6
100,001 - 500,000 Baht	10%	3	4%	6
500,001 - 1million Baht	5%	4	10%	3
1 - 3 million Baht	22%	1	45%	1
3 - 6 million Baht	14%	2	24%	2
6 - 9 million Baht	3%	7	8%	4
Above 9 million Baht	5%	4	7%	5

From the year 1998-1999 have similar ranging of investment amount. Average to open a franchise outlet is about 1-3million Baht. And the satisfaction of franchisee to franchisor is shown in the table underneath:

Table 2.17: Satisfaction of Franchisee to Franchisor

Description	Percentage 1999	Percentage 1998
Satisfied	47%	54%
Unsatisfied	44%	35%
Satisfied in some aspect and unsatisfied in some aspect	5%	10%
No comment	4%	NA

From the year 1998 to 1999 the satisfaction rate of franchisee to franchisor decrease from 54% to 47%. We assume that the decreasing rate may caused by the failure of franchisee to operate their outlet. As we discuss above, the franchise system is the guideline

and format to operate the business but it is not guarantee the success. Successful business consists of several factors, the same brand name and same system one may success but others may not. The success and failure factors of franchise are shown underneath

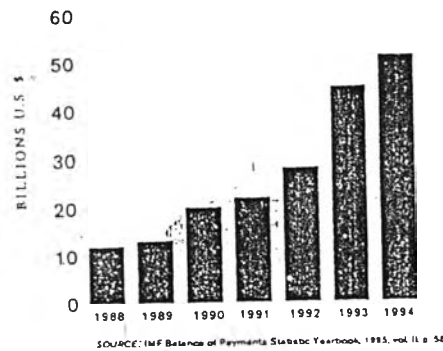
Table 2.18: Success and Failure Factor of Franchise

Success Factor	Failure Factor
1. Demand for product exists in the market	1. Economics Crisis
2. Franchisor has effective market research	2. Franchisor lack of franchise experience
3. Product's standardization	3. Under standard Product
4. Continuous relationship of Franchisor	4. Over expected cash receipt
5. Systematically financial management	5. Financial problem of franchisor
6. Good outlet's location	6. High competition in the market
7. Well known Brand Name	7. Unknown Brand Name
8. Good Marketing Research and HRD.	8. Ineffective Marketing

2.3 Information of Fast Food Business in Thailand

Asian economic growth has led to a dramatic increase in economic integration. Foreign direct investment and distributed production network of Multinational Corporation's play an increasing important role in Asian economies. Most Asian countries are reception to FDI because it allows them to acquire the technology and capital necessary for rapid growth. As the United States Government states in Redressing the Balance Transformation and Implications magazine that "Foreign direct investment and distributed production networks of multinational corporations are the best way to ensure U.S. access to Asian economies and increase U.S. exports." refer to (Figure 2.1)

Figure 2.1: Foreign direct investment of the United States in Asia



Nowadays the United States become the biggest country of origin of fast food business in Thailand. The American fast food has expanded rapidly over the past decade in Southeast Asia. Currently, there are nearly 116 outlets of Pizza Hut in Thailand and 703 outlets in Asia region (Table 5.1). What does this mean? Western restaurant officials say it is a very important step up the socio-economic ladder for the local people. They say Western fast food fare is more than just dinner or lunch: It's a concept that people are beginning to embrace.

That concept may be powered by the fact that there's no time to cook and commute. Bangkok's rapid development and traffic jams have helped to popularize fast food. Every shopping mall seems to have a Kentucky Fried Chicken (K.F.C), Dunkin' Donuts, Pizza Hut or McDonald's. The list goes on -- including just about every Western fast food company in the world. In Thailand, the fast food industry is a billion-dollar-a year, and it's growing at rate of 30 percent a year. Kentucky Fried Chicken (K.F.C) has highest market share for several years one main reason is the highest expansion of their outlets--200 outlets nationwide.

Due to the research of Jolibee (Table 5.1) shows that many international brands have penetrated into Asia region with high expansion rate both in developing countries such as Japan, Korea, and developed such as Thailand and Indonesia. Four of six countries in Asia have higher proportion of international outlets than local outlets.

In some countries although the outlets of each local brand is higher than international brand, finally the proportion of total local outlets remain lower than total international outlet because of higher international entrepreneur in the marketplace. For example, Japanese fast food named MOS BURGER has more outlets than most of western brand names in Japan marketplace --except Mc.Donald's--and YOSHINOYA another local brand who supplies traditional Japanese food in modern style has higher outlets than Pizza Hut (1:0.35), but the

total outlets of all Japanese local brand (3,046 outlets) is still lower than total brands of international brand (4,837 outlets) because higher amount of international entrepreneur in the market, the proportion of International Brand and Japanese Brand is 8: 3.

In Thailand, during the year 1990-1996 fast food business had rapid growth rate, 30-40%, the market value was 8,000 – 9,000 million Baht. Main product in fast food business can be divided into four major segments that contained Fried Chicken 40%, Pizza 25%, Hamburger 20% and Donut 15% (Figure 5.2). In each segment has its market leader as K.F.C, Pizza Hut, Mc.Donald's and Dunkin' Donut respectively.

During the economics' crisis in Thailand and Asia region in 1997, market growth rate was declined to 10-15% and lower than 5% in 1998 (Table 5.2). The outlets expansions are mostly done by market leader in each segment i.e. Pizza Hut, Swensen's, K.F.C, and Mc.Donald's. Some SME, who cannot suffer a loss and afford increasing cost according to weakness of Baht value, have to terminate their business i.e. Domino Pizza, Shakey Pizza (Table 5.3).

Last 13 years Mc.Donald's who have never been terminated their outlet since the economics crisis in 1996 they have to shut down ineffective outlets at Lotus Superstore Pattaya. Other brand such as Burger King shut down two kiosks at The Mall Bang Kae and Central Pinklao, Chester's Grill wind up many suburb location i.e. Udon-Thani, Nakorn Ratchasema. These situations reflect the problem of bubble outlet expansion in Thailand.

According to the research of Thamsetta Business Newspaper (Table 5.3), there are several reasons lead to failure in fast food business in Thailand marketplace. This study will analyze some entrepreneurs to find out their reason, which will advantage to the new investor who interested in fast food business.

The Thantipattpong who imported Carl's Jr. from U.S.A, imply that their market strategy intended to avoid direct competition with market leader in hamburger segment as Mc.Donald's and Burger King. First outlet was located in Vanij 2 Building on New Petchaburi Rd., second outlet was opened in Piriya Pool Building on Phanolyothin Rd., after that they launched a first kiosk at Seacon Square, a few months later launched another kiosk at Lotus Superstore Ramall. Since the opening, the sales volume could not reach target income which, effect directly to their capital flow-in and lead to financial problem. The owner decided to terminate Carl's Jr. (Thailand) after introduced into marketplace only 6-7 months.

Table 2.19: The International Fast Food outlets in Asia region

BRAND	H.K.	Indonesia	Japan	Korea	Philippine	Thailand	TOTAL
A & W		36	20		14	15	85
BURGER KING			51	78	22	21	172
CAFÉ' DE CORAI	109						109
CHIRIMENTEI			184				184
CHOWKING					159		159
CHRUNCH F.C.		56			28		84
DOMINO PIZZA	15		204	103	25	TERMINATED	347
FAIRWOOD	90						90
HARDEE	22			22			44
JOLIBEE	3	5			364		372
KENNY ROGER		1			26		27
K. F.C.	30	149	1,030	148	80	200	1,637
LOTTERIA			621	446			1,067
MAX F.C.					47		47
MAXIM	52						52
Mc.Donald's	158	65	3,073	158	206	70	3,730
MOS BURGER			1,551				1,551
PIZZA HUT	60	52	244	150	81	116	703
POPEYES		6		170		TERMINATED	176
SHARKEY PIZZA					118	TERMINATED	118
SUBWAY		6	121	12	8	TERMINATED	147
TROPICAL HUT					208		208
WENDY		28	89		45		162
YOSHINOYA	6		690			3	699
NARAI PIZZERIA						23	23
LOCAL BRAND	282	61	3,046	468	806	23	4,686
INTER'L BRAND	263	343	4,837	823	625	425	7,316

 = LOCAL BRAND

 = INTERNATIONAL BRAND

Source: Propotion of Local and International Fast Food in Asia Region; Researched by Jolibee; Indonesia;

Table 2.20: Growth Rate of Fast Food Business in Thailand during 1990-1998

YEAR	GROWTH RATE
1990 - 1995	30% - 40%
1996	20% - 30 %
1997	10% - 15%
1998	2% - 3%

Source: Siam Thurakitt Business Newspaper; Bangkok; 12-15 August 1999

Table 2.21: List of Terminated Fast Food Restaurant during 1996-1998

Brand Name	Operator	Expansion Plan	Maximum Outlet	Existing Outlet
Shakey Pizza	Shakey (Thailand)	4 outlets / year	10+ outlets	Terminated in1996
Toys Fish & Chips	Toys Fish and Chips	3-4 outlets / year	1 outlet	Terminated in1997
Jack-in-the-box	Pal Holding	--	1 outlet	Terminated in1997
Carl's Jr.	Phoraphat Development	4 outlets / year	4 outlets	Terminated in1997
Pizza Of X	Cyber Amusement	20 outlets / year	2 outlets	Terminated in1997
Uncle Ray	Uncle Ray	--	6 outlets	Terminated in1997
Pizza Mall	Pizza Mall	--	6 outlets	Terminated in1997
SUBWAY	--	--	4 outlets	Terminated in1998
Wendy's	Wendy (Thai)	4 outlets / year	4 outlets	Terminated in1998
Domino Pizza	Monterey Group	4-5 outlets / year	2 outlets	Terminated in1998

Source: Tharnsettakij Business Newspaper; page18; 19-22 July 1998

Figure 2.2: Major Market segment of Fast Food Business in Thailand during 1990-1996

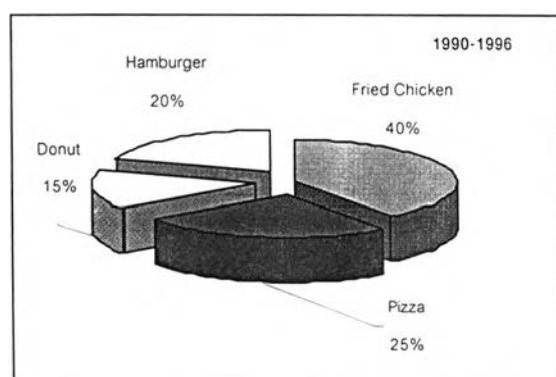
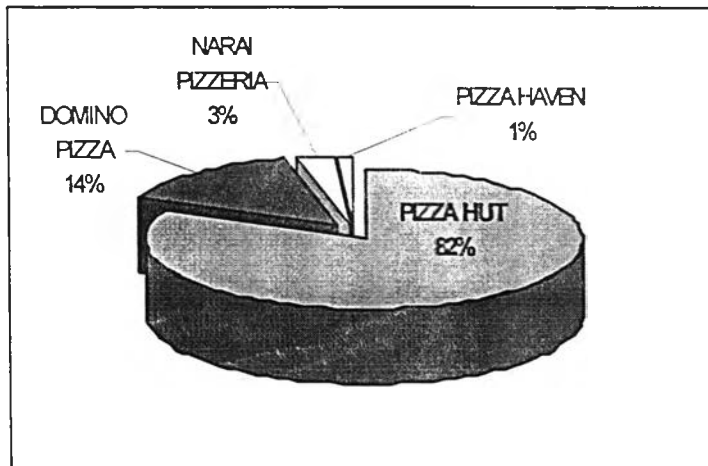


Table 2.22: Brand Share of Pizza in Thailand Market Place

PRODUCTS BRAND	Q4/1998	Q1/1999
PIZZA HUT	82%	91%
DOMINO PIZZA	14%	0%
NARAI PIZZERIA	3%	8%
PIZZA HAVEN	1%	1%

Quarter 4 of 1998



Quarter 1 of 1999

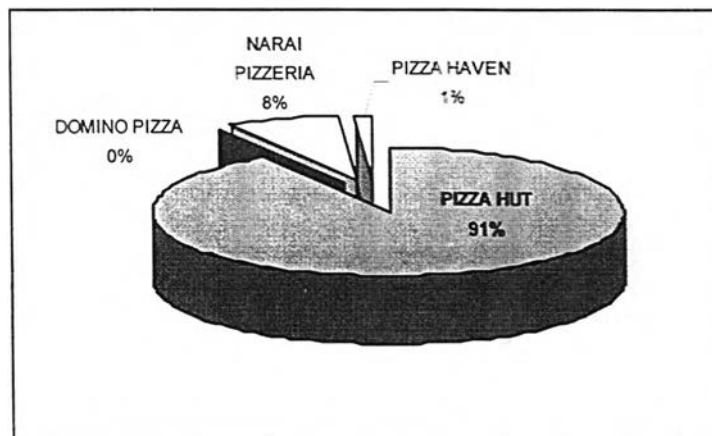
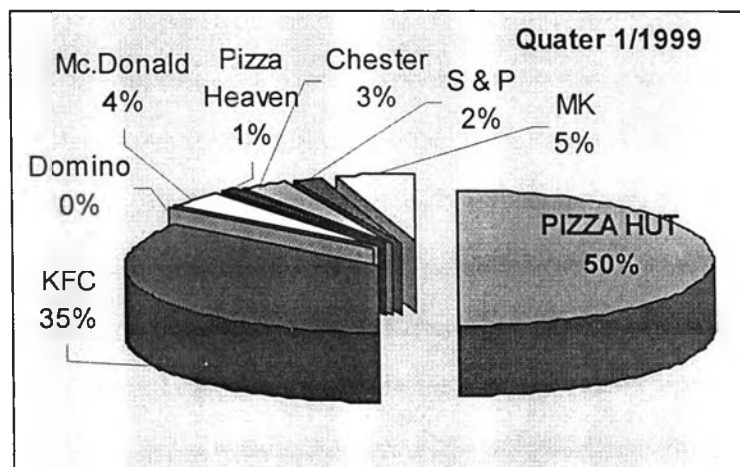
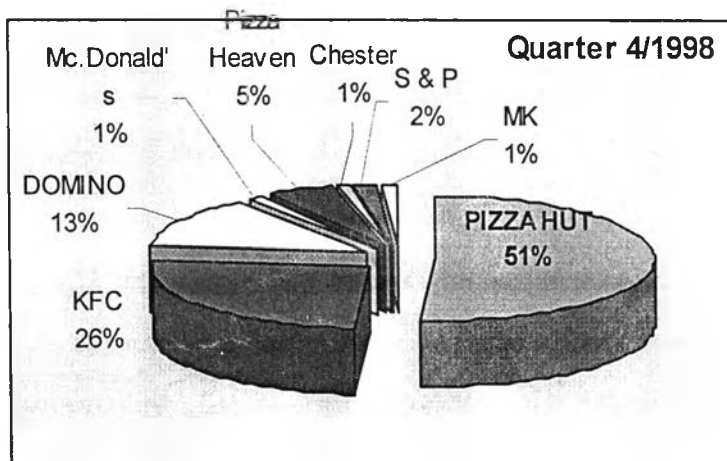


Table 2.23: Brand Share of Delivery Market

BRAND	Q4/1998	Q1/1999
PIZZA HUT	51%	50%
KFC	26%	35%
DOMINO	13%	0%
Mc.Donald's	1%	4%
Pizza Heaven	5%	1%
Chester	1%	3%
S & P	2%	2%
MK	1%	5%



Wendy's an American fast food was first introduced in Thailand in 1993. Within a year they expanded 4 outlets, a very rapid growth for new boomer. In 1995 the fifth outlet was opened at Ambassador Hotel on Sukhumvit Rd., then a store at Siam Square was rented to open a Wendy's outlet. At that time, Wendy's was known as a new boom brand. The booming period was not last long, first Wendy's outlet at the Mall Tar-Phra was shut down, the end of 1998 terminated the remained outlets.

Another American franchise is SUBWAY, which had a very interesting offer to their franchisee. No master franchise was appointed, the prospect could contact directly to the franchisor who opened first outlet in Thailand on Sukhumvit Rd, then expanded to The Mall3—Ramkamhaeng and grant to a British businessman to open Subway at Central Pinklao. In 1997-1998 Subway faced the economics crisis and financial problem they had to adjust the marketing strategy, reduce extravagant cost and terminate the inefficient outlets. Due to high competition in fast food business, Subway was no longer survived.

Mrs.Chanvipha Limphanont, Marketing Manager of Mc-Thai Co.,Ltd., stated that consumer behavior to fast food have been changed. They decrease fast food consumption volume and turn to consume at food court instead—food center—in department store, according to lower price per consumption per head and more variety. Currently, competitor of fast food is not only direct competitors who operate the same product line but also indirect competitors as food court in department store. Consumers think that fast food has higher price, less nutrition to their children and themselves. All above reasons motivate fast food entrepreneurs to work harder to improve product quality and maintain their market share. Moreover operators have to control cost effectively for their survival during economics crisis i.e. reduce some imported raw material, develop human resources to operate effectively, and cooperate with their group company to purchase raw material in bulky amount involve higher bargain power with suppliers.

Price war is an effective weapon that all market leader use during market slows down. This strategy aimed to increase sales volume and motivate consumer behavior. But it also effect to SMEs (Small and Medium-sized Enterprises) because some SMEs have less financial supported and lower purchasing power to bargain supplier than market leader that lead to termination of SME fast food in Thailand. Refers to the analysis of the competition

behavior of Department Store in Bangkok Metropolitan area by Kanithar Pisitkasem states that, Both price and non-price competition will continue to occur, but the latter will likely dominant, chain store will become core popular because of what they offer customers Economies of scope are seems as being more skilled having higher bargaining powers, more market channels, and a lower average cost of buying products and advertising.

Table 2.24: Aided TV advertising Awareness of Quick Service Restaurant

BRAND	QUATER4/1998	QUARTER 1/1999
KFC	91	91
Pizza Hut	83	82
Mc.Donald's	85	25
Chester's Grill	31	28
Domino's Pizza	15	20
Narai Pizzeria	12	17
Burger King	16	26
Dunkin' Donut	63	61
Swensen's	51	42
Mister Donut	38	36
Dairy Queen	22	9
Base : All Sample	662	530



SMEs (Small and Medium-sized Enterprises) entrepreneur should adjust marketing strategy and management policies that are main point to re-cover the business. Solution for SMEs can be described as follows: SME should select the profitable and well known Menu. Create brand differentiate which differ from competitor especially market leader. Emphasize on Marketing activities which able to encourage sales volume. Minimize the operation cost and terminate inefficient department and/or outlets. And find out trade alliance who able to support each other. I.e.cooperate in sales promotion, purchasing raw material in bulky amount to increase bargaining power with supplier.

Table 2.25: Summarize fast food event since 1997 to current situation

YEAR 1997	YEAR 1998-2000
<ul style="list-style-type: none"> ➤ Declining growth rate from 30-40% per year(in1996) to 10 -15% per year ➤ Economics crisis lead to market slow down ➤ Consumption per head reduce from 130Baht per head to 60-70Baht per head ➤ Purchasing Power decrease for 25% ➤ Increasing cost especially raw material for 30% ➤ Increasing competitors both direct as foreign franchise brand, and Indirect competitors as food court in shpping mall. ➤ Minimize the size of inefficient outlet 	<ul style="list-style-type: none"> ➤ Declining growth rate from 10-15% per year(in 1997) to 2-3% per year. ➤ Entrepreneur launched more campaign to attract customer. Nowadays customer do purchase on promotion period only. ➤ Reduce the outlet expansion in all brand ➤ Carefully to invest and spend capital than usual. ➤ Minimize the size of outlet and terminate Inefficient outlet to reduce operation cost.

All above information assume that international franchise or local franchise could not guarantee success to any franchisee. One brand may succeed in a market but may not succeed in other. On the other hand, failure in a market can not say that it will always fail. Success and failure are not depended on the system only but also the ability of entrepreneur who run those systems.