Why Do Retail Clusters Expand Remarkably in Bangkok?

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1. Introduction

Clustering of economic activities is nothing new, especially in the industrial sense, where production sites were located near resource abundance. Manufacturing concentration or trade guilds were recorded in Europe since the medieval period. Traders or middlemen have done their tasks of buying and selling, based on the best demand projection. They pre-purchased and stocked the goods, while traveling a long way, to serve the target markets. These markets were very much the centers of main cities around the world.

The activity of selling consumer goods and services to ultimate consumers has been termed as '*retailing*' and studied extensively by distinguished academics not so long ago (Berman and Evans, 2004, Duncan and Hollander, 1977, Levy and Weitz, 2004). Retailing can be done in person, mail, telephone, vending machine, or electronic medium (Kotler, 2003). The development of retailing in the West has changed its form from small and simple to large and complex, thus to offer a one-stop-shopping experience to the customer.

Thailand is no exception in its retail development until after the economic crisis in 1997. Many shopping malls and modern retailers have been developed, hence squeezing the proportion of moms and pops stores to be alarmingly decreased. However, a new format of clustered small retailers of the same type has been observed ever since 1998. This type of retail clusters of identical goods and services was quite similar to the original format seen since the formation of Bangkok in 1782.

Retail clusters found in most of the Asian nations have similar characteristics as what recorded in the oldest evidence of Buddhist doctrine, more than 4,000 years ago, in India. In the record, Banaras or Varanasi, a famous commercial city on the banks of the river Ganga was noted to have shops selling the same type of goods on the same streets. This phenomenon is still carried on to this day (Mass Communication Organization of Thailand, 2005) even though newly developed malls providing assorted goods under the same roof exist for consumer choice.

For clarity of the understanding, instead of using the word 'cluster', which only means a collection of certain activities, the author has come up with the term ***retail propinquity*** to denote a mass of retail activities of the same kind. Thus, the term will be used throughout this study for two reasons. First, it means that two or more retailers selling similar goods are located in proximity. Second, these retailers in a cluster have tendency to form friendships or fond relationships through frequent contacts. The latter connotation is derived from '*propinquity effect*' by psychologists, Festinger, et al. (1950). Propinquity effect contends that physical proximity creates fond and romantic relationships between people whom they encounter with more often, and vice versa.

2. The Pilot Study

Retailing is a big business in Thailand. It generated more than half of Thailand's Gross Domestic Products (GDP) before the financial crisis in 1997. However, the share of retail outputs in Thai GDP has dropped to 46.4 percent in 2003 (National Statistical Office, 2004). In monetary terms, the gross retail outputs, from ten International Standard of Industrial Classification codes, as defined by retail definition, have increased from 2.38 trillion Baht in 1997 to 3.02 trillion Baht in 2004. This is an accumulative increase of approximately 27 percent, or an average growth of four percent per annum (National Economic and Social Development Board, 2004). These retail establishments employed about one-third of the Thai workforce and has become the destination income generator for Thai families nowadays.

More than eighty percent of business establishments in Thailand are small firms with less than ten employees. Customarily, most of them do not register their entities with the Ministry of Commerce, due to extra cost of preparing and filing documentation. Besides, small establishments have flexibility in migration into new locations and business types if needed. These small establishments have been generally found in clusters more than the larger establishments.

In order to reveal the problem situation, two periods of retail propinquity survey were performed in Bangkok metropolitan, where approximately ten million people reside. The first propinquity count was performed and recorded by a group of marketing students in 1998. The second one was repeated in the year 2004 by the author. Additionally, ten expert interviews of selected retailers in the counted propinquities were executed to gain insightful causes and effects of the location decision made.

Survey results from both periods have been compared and summarized as in Table 1. The total count of retail propinquities in the year 2004 was 239, as compared to only 96 in 1998. Although twelve groups of products have been extinct during the period, due to legal constraints and changes in consumer behavior. These products are for example, gambling accessories and firecrackers. Still, the 239 clusters of competing retail goods and services in 2004 are more than twice over the 1998 count, half a decade ago.

Table 1: Retail Cluster Composition and Growth in Greater Bangkok Areas

Retail Cluster Size	Product/Service Categories (1998)	Product/Service Categories (2004)	% Growth
25 stores or less	38	147	+287%
26-49 stores	34	39	+15%
Over 50 stores	24	53	+121%
Total	**96**	**239**	**+149%**

Source: The author

Looking into its detailed growth, the large and small sizes of retail propinquity are the fastest growing groups, especially the ones with less than twenty-five member stores in them (287%). Meanwhile, the clusters with 26-49 stores in them only grew by fifteen percent. This polarized growth phenomenon seems to correspond with the polarization principle of retail development observed in Europe and the U.S.

There were twenty-nine new products and services groups found favoring the clustered location in this period. They range from small CD and computer software shops to traditional massage places, to wedding studios, to even large superstores. In terms of total stores counted, there were altogether 12,318 stores in retail propinquities in 2004, as compared to 4,667 in 1998.

The result of expert interviews also indicated that retail propinquity helped generate success better than other types of location, despite higher rent. However, when asked about exact incremental sales and profitability, there seemed to be certain secrecy around. Moreover, all of the interviewees admitted that they did not base their location decision on any modern locational theories, except for their own intuition and Feng-Shui beliefs. Therefore, the main research question of this initial phase is to find out, from the existing literature and pilot study, the possible determinants for remarkable retail propinquity expansion, here in Bangkok during the last decade.

3. Understanding the Problem Issue from Literature

Two groups of academic literature were explored, supply side and demand side. The supply side theories are those attempts to explain why and how retail formats change through time. Contrarily, the demand-side theories are the concepts looking in from a consumer perspective in choosing a store location to shop. Each will be briefly explained in the following texts.

3.1 Supply Side: Location Theories

Many geographers and economists have tried extensively to explain why economic activities were concentrated or spread out when cities were congested. It began as early as in the 1800s with 'Bid Rent Theory' (von Thünen, 1826) that described the priority of land use. Then, several location theories developed along the line. They were 'Principle of Minimum Differentiation' (Hotelling, 1929), 'Retail Gravitational Theory' (Reilly, 1931), 'Central Place Theory' (Christaller, 1933), 'Theory of Cumulative Attraction' (Nelson, 1958), and Geographical Information System Theory (Huff, 1964).

Among the aforementioned, the most prominent theory by Hotelling has helped explain specialization of economic activities via external scale of economy. His principle explained the agglomeration of similar retail firms: ice cream vendors, (with identical costs and customers), who arranged to cluster together in the center of a beach, instead of spreading out equally at each quarter of a kilometer. Hotelling's Law of Minimum Differentiation states that a *given number of stores dealing in the same merchandise would do more business if they were located adjacent or in proximity to each other than if they were widely scattered*.

Another theory, suggested by an American retail location scholar, Nelson (1958), was the theory of cumulative attraction or cumulative generation. It detailed that depth penetration (individual store sales increase) would be improved, as well as the size of the trade area, when stores selling similar goods were located in the same area. Generally, he recommended applying this law for *convenience goods* like groceries and for stores dealing in *standard brand* articles. In addition, he suggested that the lower the generative power of the individual establishment, the more important a cluster position it became.

3.2 Supply Side: Retail Development Theories

Many descriptive theories were developed in the West to explain retail development and relationships among retailers in the past. Among them, three sets of explanation are found to be explainable to the phenomenon in question in Bangkok:

conflict theory, cyclical theory, and retail ecological theory. These theories help us to understand and predict the development of retailing in Thailand to some extent.

3.2.1 Conflict Theories

The school of conflict theorists, McCammon (1963), Dawson (1979), and Markin and Duncan (1981), believed that inter-institutional conflict was the drive of retail change, which was the very essence of institutional evolution. It indeed began with economic philosophers, Schumpeter (1947) and Galbraith (1956), who agreed that the capitalist system has been characterized by continual innovations, driven by conflicts and scarcity. From seven stages, Gross (1964), Fink, Baek, and Taddeo (1971), and Stern (1977) made it simpler by summarizing them into the *'four-stage process'* of chain reactions, arising from conflict of business interests. The model starts with action-reaction sequence for undifferentiated organizations: shock, defensive retreat, acknowledgment, and adaptation.

The four-stage process contends that when an institutional innovation appears, the components of the retail system are likely to suffer. Consequently, it enters the *shock* phase, but only when the crisis is perceived. This period is characterized by a refusal to recognize the extent of the threat and to try to explain it away. The newcomer is regarded as either a temporary phenomenon or inferior to the existing system. In the second phase, *'defensive retreat'* sees the start of the reaction to the challenger. Pressures may be brought to bear on its suppliers and attempts to discredit, control, and generally obstruct the innovator are commonplace.

Phase three: *acknowledgement* starts when the threatened group realizes that the offender is likely to remain and becomes aware of the need for positive counter-measures. The final adaptive era represents the *resolution* of the conflict when a new power balance is created in the system. This, in turn, may initiate a crisis for another component of the system, but not necessarily the original threat.

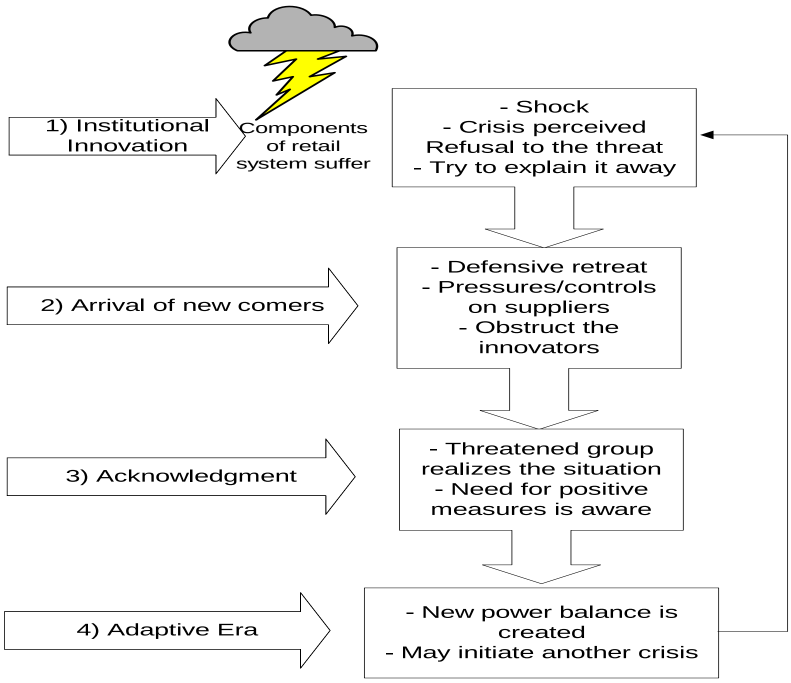
As witnessed in the U.S., after the Second World War, the similar defensive response from independents to chains like Wal-Mart was recorded. Eventually, the need for positive counter-measures was recognized and voluntary groups, co-operative purchasing schemes, additional customer service, and improved merchandise assortments were some of the competitive methods employed by traditional format. The supermarket was yet another response by independents to the chain-store threat. On this occasion, however, the chains were forced to react. So, they did so in the same manner as the independents responded to them; rejection, attempts to slow down the supermarkets' success, experiment with the concept and, finally widespread adoption of the new approach. This is so true with the small store format invented to avoid the zoning legislation by Tesco-Lotus. Thus, another competition in the convenience store segment was created. Therefore, the conflict started to change hands.

In many ways, this model could be adopted to explain the conflicts between modern trader expansion and the traditional store (Cho-huay) hostile attitude toward the former, ever since the economic crisis in 1997. During this time, the change in Thai grocery retailing was hastened by the rise of international chain stores. The initial reaction of local stores to this threat was to emphasize their own superiority. But subsequently, attempts were made to attract the attention of suppliers, the media, and the government to the unfair competitive practices of the chains. Anti-chain store legislation was called for and carried out, though against fair trade sentiment. Many Thai governments have been unsuccessful in coming up with strong measures to help Cho-huays. As a result, small grocers who cannot adapt to changes are dying out. The proportion of Cho-huays to modern traders in the recent decade has swapped from 60:40 to 40:60, and expected to be 30:70 by the end of 2007 (Punthawee, 2006).

An easy illustration of how the four-stage process of action-reaction helps to explain the retail institutional adaptation in Thailand, is designed by the author, and shown in Figure 1 below.

Figure 1

The Four-Stage Process of Chain Reactions



Source: The author

3.2.2 Environmental Theory

An environmental view states that retail formats emerge, develop, mature, and decline in direct response to environmental circumstances (Bartels, 1981, Hall, et al., 1961, Mayfield, 1949, Moyer, 1962, Nystrom, 1930, Pasdermadjian, 1954, Rogers, 1983, Rosenbloom and Schiffman, 1981, Shaffer, 1973). Such environmental factors are economic, social, demographic, cultural, legal, and technological conditions of the marketplace. Institutional innovations, however, will only occur or prove successful, when operational conditions are favorable and only those techniques that possess the ability to adapt to alterations in their trading environment are likely to survive and prosper in the longer term. Hostile conditions, on the other hand, are viewed as the cause of deterioration and eventual downfall of existing concentrations of commercial facilities.

Dreesman (1968), Gist (1971), and Davidson, Sweeny, and Stampfl (1983) interestingly compared the retail evolution with ecological science. The *'adjustment theory'*, for example, contends that retail institutions that have best adapted to current environmental conditions are the ones most likely to survive. In other words, only the fittest retail species survive through Darwinian's *'natural selection'* process. Moreover, Markin and Duncan (1981) have assigned terminologies to several types of relationships in retail in analogy with ecological expressions. For instance, *'parasitic relationships'* is used when one institution depends on another for survival; *'commensalisms'*, where different retail species share the same environment; and *'symbiosis'*, where institutions benefit from their mutual dependency.

This type of models helped explain the maturation and survival of retail formats, and predict the trends of retail transformation to some extent, but not all. Nevertheless, environmental factors do not simply determine the introduction and acceptance of innovative retail institutions from one country to another, due to cultural differences.

3.2.3 Cyclical Theories

The core of cyclical theory is that retail evolution occurs in an oscillatory manner of earlier trends. The three most important conceptual contributions are the 'wheel of retailing', the 'retail life cycle', and the 'polarization principle'. Brief outlines for each concept are presented below:

3.2.3.1 The Wheel of Retailing

The first and still most prominent theory, which was not only well cited but also criticized upon, even after his death in 1987 at the age of ninety one, is the "Wheel of Retailing" by Malcolm P. McNair (1958). According to the Wheel of Retailing perspective, new types of retailers usually enter the market as low-status, low-margin, and low-price operators. Gradually, they acquire more establishments and facilities that are elaborate, with both increased investments and higher operating costs. Finally, they mature as high-cost, high-price merchants, vulnerable to newer types who, in turn, go through the same pattern.

The theory has focused on house-brand grocery products in America when the concept was first introduced in the 1950s by Hawes and Crittenden (1979). He called it the “wheel of branding” and explained that the retailers placed their own-brands at low cost, lower quality, bland packaging, and at prices well below equivalent manufacturers’ brands. Through time, own brands were traded up, until by the late 1970s, they were virtually indistinguishable in terms of quality, packaging, and price from national brand competitors. This created an opportunity for the successful and widespread introduction of cut-price ranges of generic goods, which were likely to go through the same upgrading process.

Hollander (1996), however, argued that this perspective describes only common failure pattern in industrialized, expanding economies. Conversely, it could not explain the development pattern of institutions in the U.S. such as convenience stores, planned shopping centers, and super-specialized stores, as well as supermarkets, in most developing countries. Many academics still honor the theory as the only one borne in the marketing discipline, rather than borrowing concepts from economics, psychology, or sociology (Sheth, et al., 1988).

3.2.3.2 The Retail Life Cycle

The concept of retail life cycle is similar to the product life cycle idea (McCammon, 1975, Oxenfeldt and Kelly, 1968). It stated that an original form of retailers started with hawkers, walkers, peddlers, and family-owned stores. Then, retail institutions evolved through stages of birth, growth, maturity, decline, and eventually withdrawal from retail arena. Hunt (1976), however, argued that the theory had major flaw in the sense that it failed to take into account managerial ability as a determinant of retail growth. In spite of this, retail scholars have observed and noted that the cycle period, from start to an end, for each retail format has become shorter as time goes by.

It is most common that the international retailers would use this type of comparison as a basis for entry strategy into a new foreign market. For instance, Dawson (1985) equated the level of retail development in Japan at the time as equivalent to what happened in Europe back in the 1960s, or about twenty five years backward. *The author also heard a similar comparison from an American office superstore pioneer that Thailand is approximately thirty years behind the U.S. in retail development perspectives.*

3.2.3.3 The Polarization Principle

The Polarization Theory contends that small and large retail firms relate to each other in a way that small firms cluster in nearby areas, while pushing the large firms to be geographically dispersed, if without control from local government. Described by Schary (1968), Kirby (1970), and Dreesman (1985), the polarization principle well documented the trend towards fewer but larger retail institutions, which were counterbalanced by a reawakening of the small shop sector. The former is an outgrowth of the self-service format and a search for economies of scale, while the latter is a consequence of the tendency for large retail establishments. Indeed, the very basis of the polarization principle is the tendency for large retail establishments to be geographically dispersed, thereby creating suitable conditions in the space for small conveniently situated outlets.

The relationships between large and small institutions, however, depend and counterbalance upon extensive catchment's areas, to be geographically dispersed. An example of this principle is the rapid development of hypermarket style operations and the modern convenience store in America, Japan, and Western Europe during 1985. Offering a wide range, but limited assortment of fast moving merchandise, and situated in easily accessible locations, convenience stores provide essential emergency for one-stop shoppers and cater for those unwilling or unable to go to the larger, bulk order orientated, outlets. *Small shops, according to the polarization theory, complement rather than compete with the larger ones.*

3.3 Demand Side: Consumer Shopping Behavior

Retailers have long understood that the best location for a store is where customers have easy accessibility and acquaintance. Tauber (1995) suggested that consumer behavior consisted of three noticeable activities: shopping, buying, and consuming. Determinants or motives of consuming and shopping are grouped into either personal, or social. Personal shopping motives are cited as role-playing, recreation, self-gratification, learning about new trends, physical activity, and sensory stimulation. Social shopping motives are social experiences outside the home, communication with others, peer group attraction, status and authority, and pleasure of bargaining. Retailers and developers use the insights to design the shopping places and arrange the stores to attract more customers accordingly. In fact, the customers' point of views when choosing shopping locations is the powerful determinant dictating location decisions from the supply side of location selectors.

Although, a consumer purchase is a response to a problem (Tauber, 1995). It may take a form of rational, irrational, or impulse perspective depending on the product the customer wants to buy, the cost of the product, and other situational environments that influence the decision (Olshavsky and Granbois, 1989). Routine response behavior is often found when a consumer buys low-cost, frequent-use, and familiar branded products that require low consumer involvement and little time given to purchase. On the other hand, a customer needs to do *extensive problem solving* when the purchase decision involves more expensive, infrequent-use, or unfamiliar class/branded goods that need high consumer involvement, and extensive thought, search, and time given to purchase. The rest of product categories, other than these two extremes, requires limited problem solving from a consumer's decision process (Kakkar and Lutz, 1981).

Moreover, there are several types of consumers. *Veteran shoppers* enjoy browsing a mall just for fun, or because they like to be up-to-date on what is happening in the marketplace. They are engaging in the ongoing information search (Alba and Hutchinson, 1988). *Variety seeking shoppers* desire to choose new alternatives over the more familiar ones. They can switch from their favorite products to less pleasurable items, even before they become satiated or tired of their favorite products. Research supports the idea that consumers are willing to trade enjoyment for variety because the unpredictability itself is rewarding (Bloch, et al., 1986).

Some researchers confirmed that lower-income shoppers, who have more to lose by making a bad purchase, actually searched less prior to buying than did more affluent people (Ratner, et al., 1999). However, some consumers visited only one or two stores and rarely sought out unbiased information sources prior to making a purchase decision, especially when little time was available to do so (Cobb and Hoyer, 1985). The tendency to avoid an external information search was less prevalent when consumers considered the purchase of symbolic items, such as clothing.

The fact that agglomeration is socially beneficial to cost reduction in traveling and consumers' price comparisons is, thus, a very good point to design a one-stop-shopping place. Indeed, consumers' efforts to reduce uncertainty through information search, have attracted considerable attention from spatial economists (Beatty and Smith, 1987). Uncertainty reduction through comparison shopping behavior has been under empirical investigation for many years by imposing the constraint that consumers visited two stores before making a purchase, (Lippman and McCall, 1979). These studies showed how multi-outlet clusters of similar firms emerged and that profits were much greater in agglomerated than in isolated locations.

The increase in competition that resulted from spatial proximity was more than offset by the additional demand that agglomeration generated. The propensity to agglomerate, however, was heavily influenced by the variability of consumer demand. In other words, retailers of goods with highly variable demand (i.e. antiques, etc.) were very likely to cluster together, whereas sellers of merchandise of predictable and less uncertain demand (i.e. grocery stores) were more likely to be driven apart (Brown, 1987, Nelson, 1958).

4. Implication

Generally, retail evolution and transformation in Thailand cannot be justified by a singular theory cited. Instead, several theories could be used to explain the questioned issue, either in combination or individually, at each point of time and occurrence. Economic agglomeration theory extends the big picture of land use and utility function of location decision in general. The four-stage-process, from conflict theoretical paradigm, does generate a clearer view of conflicting behavior between local retailers and international chains, after the big economic crisis in 1997.

Currently, we should be at the middle of the third stage, *acknowledgment*. It is not easy to predict how long it would take us to go through the final stage of adaptive era. It should be noted that the ability to adapt (of those with more resources) is naturally higher than the scarce ones. On the other hand, policy makers cannot do as much in terms of legislative barriers against foreign chain expansion, due to the globalization force.

However, with the local force from small retailers, the government had to do something. For instance, multinational retailers will face restrictions that are more stringent over their expansion plans, under the new law that has yet to be approved. Other measures may include guidelines that would limit the level of sales and stock volumes of companies wishing to expand in certain areas (where the protest is strong, i.e. Northeastern region).

In fact, it took local independents, or Cho-huays, in Chinese terms, which have undergone a painful experience in the last decade – to bring about attention and changes. Retail environmental theory can be used as an analogy to salute those who survived as the fittest ones through adaptation or even mutation into other form. The move towards propinquity indeed reflects a natural instinct of ***gregariousness***, where one feels comfortable to stay close to the same species. It could also be viewed as a simple warfare strategy that resembles *'united we stand; divided we fall*', according to the ancient Greek fabulist, Aesop (620–560 BC). Instinctively, these small retailers have no brand strengths to fight with the global retail chains. Therefore, they have moved to create a sizeable space of merchandise assortments, to attract variety shoppers to come to them. In addition, the success of Pantip Plaza has been an indicator for their location proven choice, so far.

As far as literature exploration on consumer shopping behavior is concerned, the ultimate implication is for retail marketers to understand their target markets better. The macro or micro location of a retail entity, if done in isolation of government decree, is critical to the success of the store. Understanding consumer shopping behavior and product or service perceptual values to them do help a retailer or a retail developer to arrange the destination-shopping place for them. Panthip Plaza is a good example of a destination place, prepared by developers, for variety-seeking shoppers in computer related goods and services. On the other hand, Soi Thonglor (Sukhumvit 55 Road) has become a destination-shopping propinquity for bridal shops, without any planned attempts from investing groups.

Specific contribution to the question of 'why retail propinquity expands remarkably' can be generated closely by the '*law of minimum differentiation for stability in competition'* (Hotelling 1929), and the '*cumulative attraction theory'*

(Nelson, 1958). The clustering of similar goods, or so-called *retail propinquity*, that enlarged the market size as well as individual profits, worked a century ago in Europe, and until several decades ago, back in America, still works well here in Thailand today. However, in terms of profitability, phase two of this sizeable research has been planned and five retail types are selected to validate Nelson's hypothesis.

In summary, the expansion of retail propinquity in Bangkok could be an outcome of many things, based on the interviews of selected retailers and literature assessment. They are, for example, the natural adaptation for economic survival, following where profits are (word-of-mouth), close to others alike (gregarious behavior), sharing costs and information, and creation of cumulative point of shopping attraction. In the next stage, a model of retail location decision will be developed based on psychological traits of retailers and other expected outcome of the selected site. Then, the model will be compared between propinquity and freestanding location, as well as among five selected groups of retailers.

5. Conclusion

We have always learned something from the past. Exploring into an issue in an emerging market like Thailand is always worthwhile to see how others in a more developed landscape have done it. The substantial growth of retail propinquity that ranges from almost 300 percent in small-size clusters, to over 120 percent in large-size groups, has finally been answered from the cited literature. If one chooses to have a conclusion remark on this particular phenomenon, it could be a rebirth of the survival retail format known to humanity since the original time of trade. Mainly, it happened in response to the threat imposed by retail globalization, during and after the financial crisis in 1997 that took place here.

Actually, retail clustering of the same kind has existed in Thailand ever since the formation of Bangkok, 226 years ago. Gold ornaments, fabrics, guns, religious equipments, and funeral caskets are some of the original propinquities that still carry on today. Most others have diminished as the city enlarged from a few square kilometers around the Grand Palace, to over 1,600 square kilometers today. However, the return of retail propinquity has been improved in its format, to be vertically as well as horizontally expanded. The main reason is the growth in population size, thus resulting in costly land and properties. The Thai population has grown to approximately 65 million today, as compared to only eight million persons recorded by the Ministry of Interior, in 1911.

This cycle of growth for Thai retail propinquity will continue to grow for several more years, until available space has run out. Eventually, the scarcity of physical space will force retailers to use the Internet and world-wide-web as a means to grow in the minds of consumers, the same way as retail propinquity concept has grown on physical planes. How long the cycles of retail propinquity will last, before it changes into other forms, is yet to be predicted. Understanding the emerging paradigm will help many, including consumers, to choose a proper response mechanism.

With heightened competition and constant changes in retail characteristics and consumer buying behaviors, local retailers still have to learn a great deal from modern retail technologies and retail mix strategies, and adapt their value offerings to multiple niches of consumers in a mega city like Bangkok in the years to come.

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