

CHAPTER 4

CONCLUSION

Chapter 4 is drawing conclusions on the basis of the reviews and analyses in Chapters 2 and 3. Further, Chapter 4 makes suggestions of a strategic and policy nature that independent retailers and Government might consider in the light of the continuing retail modernisation.

4.0 Introduction

For years during the progress of the Study, this researcher has been asking the question of himself whether and, if so, why ‘we’ should care about the independent retail sector, the retail sector not formed and competing on large corporate chains. At the end of this research phase, this researcher is prepared to conclude that we in fact should care, because vibrant small-scale retail activity in local and wider markets contribute to a vibrant society and long-term self-employment opportunities in commerce, a worldview statement that needs to be taken on faith (Hogarty *et al*, 1999). From a more immediately practical perspective, retail is a substantial component of the Malaysian economy in both monetary and employment terms. Equally the positive societal impact of a dynamic retail sector is significant as a driver of the broader economy and co-determinant of future shopping trends.

With these considerations in mind, the Study believes this research to be important, because it systematically brings the small trade in Malaysia into focus at a time when retail modernisation was putting this trade under unprecedented pressure: hypermarkets had arrived by leading international mass-market specialists. In the fast developing socio-economy, the hypermarkets effectively ended the long status quo of the Malaysian fundamental household provisioning and slow supermarket growth, as it were. Extant Malaysian research was focusing on the new modern retail over the retail formats which modern was beginning to dislocate. The main purpose of the Study is to convey an understanding of the transformative changes thrust upon Malaysian mass-retail spaces by the entrance of hypermarkets and the change to the small trade and independent supermarkets - and by extrapolation, over time. Further, the Study contributed a detailed review of the small trade sub-sector history.

The conclusions and suggestions have only been made possible by taking a holistic perspective enabled by the analysis and interpretation of data and previous research reviewed in the foregoing chapters, and a measure of intuition. The conclusions and suggestions are organised by Research Question 1.6.1, how the small trade evolved, and evolved in Malaysia, in a historical perspective, and Research Question 1.6.2, about the retail modernisation and the new dynamic that began in earnest during the 1990s.

4.1 Research Question 1.6.1

By what may, by some retail industry observers, be viewed as a contrarian finding, the ethnic composition of the retail businesses, traditionally dominated by ethnic Chinese traders, was influenced by secular forces unrelated to broadly perceived notions about superior trading ability among ethnic Chinese traders in Malaysia relative to other ethnic groups. The socio-economic antecedents to the traditional retail trade in Malaysia were unique and contributed to understanding the current structural and ethnic composition of the retail sector and possible increase in the proportion of ethnic Malay owned retail businesses in the future, and the directives of the National Development Policy 1990 in support of the latter / Bumiputera participation, a policy focus extending from the New Economic Policy 1970 that the 1990 Policy replaced. For contemplation in the present, relative to Policy, was the question how the growing number of already numerous independent ethnic Malay retailers might participate in the retail growth accompanying the modernisation of the retail.

4.2 Research Question 1.6.2

Perhaps counter intuitively, and, further, contrasting the hypothesis the Minister of Domestic Trade and Consumer Affairs offered in April 2002 that hypermarkets were detrimental to the small trade, the review by the Study suggested the small trade might be more directly impacted by competition from supermarkets than by competition from hypermarkets. Non-Malaysian studies had found competition by hypermarkets to first impact supermarkets, and other large-scale retail stores, with secondary radiation of the combination of increased competition by hypermarkets and supermarkets to the small trade, increasing in intensity with the growth of the large-scale stores, analogous to the spread of rings in the water. The data for Malaysia supported this effect, supermarkets grew from circa 300 in 1990 to circa 800 at the decade's end, by which time there were circa 20 hypermarkets.

From the 1960s and throughout the 1990s, the proportion of large-scale retail outlets increased by both share of aggregate sales and absolute number. Nevertheless, at some point during the 1990s, retail store density began to decline, the category of small food and provisions retail stores declining numerically and for the first time in recent history. Emerging in Malaysia from 1994, hypermarkets became both the catalyst and a symptom of change in the competitive structure of Malaysian mass-market retail. Accompanying hypermarket growth, the historic endogenous trend of growth and increasing density were 'leapfrogged' in the process of retail modernisation in Malaysia. Consumers were going to have to travel longer distances to shop for most-frequently-used-goods, albeit had more choice of goods, and new services, in the large-scale stores - and less personal service.

On the other hand, fortunately for Malaysian consumers, the foreign hypermarket entrants were world class and experienced mass-market retail corporations. From a government policy perspective, these new entrants became drivers of retail modernisation, and productivity increase, in the Malaysian economy, facilitated by the corporations' superior experience, capital resources, strategies, and supply chain and other technology. The nature of the foreign hypermarket entrants was important, as lesser competitors might have left more room for Malaysian retail entrepreneurs to respond and grow. By regulation, the Government limited the foreign entrants to typically seek the scale and growth they needed in the store segment > 3,000 square meter. On the surface, the supermarket sector <3,000 square meter was reserved for initiatives by Malaysians. This might turn out to be of Tantalus¹-like benefit to Malaysian retail entrepreneurs as the retail modernisation progresses, unless the entrepreneurs are able to proceed by chain stores, corporate and voluntary, and large 'supermarket' chains by Malaysians emerge, e.g. The Store; 99'Speedmart. Non-Malaysian studies showed modernisation gradually transformed the retail scenario to one of chain stores.

The unique growth rates achieved in the Malaysian economy in combination with the prevailing demographic fundamentals created a powerful cocktail to attract

¹ A Greek myth. Tantalus was condemned to stand in a pool of water beneath a fruit tree. Whenever he bent down to drink, the water receded, and when he reached to pluck fruit from the tree, the branches grew beyond his reach. Thus, he is always tempted, but unable to satisfy this temptation. The word "tantalize" originates from this fate.

investment and thereby fuel changes in the retail sector during the 1990s onward. These developments contributed to the absorption of increased retail offer capacity created by new hypermarkets, supermarkets and specialised non-food outlets - aided by the rapid growth of shopping malls.

From the perspective of the small trade and independent supermarkets, the economic phenomenon in Malaysia may have concealed, or postponed, commercial and competitive impacts of the rapid growth, and retail capacity increases, by the large-scale shopping venues. Foreign and domestic retail corporations, and mall developers, positioned themselves rapidly to obtain both favourable locations and increased scale for businesses. It was therefore possible that the capacity increase was not entirely demanded, and possibly reflected a race for scale and sites, as was the case in UK during the 1980s and 1990s.

In itself, the sophistication of the foreign mass-market entrants highlighted the need for competition policy tailored to address retail concentration at the local market level under potentially emerging oligopolistic or monopolistic conditions. As at the conclusion of the Study, such a Malaysian policy was still lacking, its promulgation mentioned on a number of occasions since being heralded in the Eighth Malaysia Plan 2001 - 2005.

The Study observed the small trade and independent supermarkets were typically not members of any buying and marketing alliance, or voluntary groups, and therefore typically did not enjoy access to scale economies in areas key to counteracting the advantages of hypermarkets and growth of supermarket chains. Vice versa, there were no buying and marketing groups available in Malaysia to participation by independent retailers, leaving the latter to resupply individually at the wholesale distributors and the cash-and-carry outlets, e.g. Tesco Extra. Ironically, anecdotal evidence suggested independents sometimes resupplied from hypermarket special offers / sales. Non-Malaysian studies associated membership in buying and marketing groups with an increased survival rate for independent retailers. Membership, and formation and reformation, of voluntary buying and marketing groups were prevalent in some developed economies. Members of these groups obtained access to scale advantages not otherwise available to non-members.

With the exception of the deep discount food and provisions / grocery format by mini-supermarkets on a large corporate chain, in all other respects Malaysia hosted the

modern mass-market retail characteristics, some well developed, e.g. hypermarkets, department stores, shopping malls, some in their infancy, e.g. 24-hour convenience stores, other than petrol station kiosks; internet retailing, especially grocery.

Extant institutional change, or cycle, theoretical concepts of economics and marketing did not appear to model the retail change in Malaysia and vice versa, e.g. the Wheel and Accordion concepts. To the Study, these concepts did not appear to conceptually anticipate hypermarket-style institutions as an instrument of the leading international mass-market retail chains, and the abrupt opening up of a domestic market to foreign direct competition. The former chains appeared capable of internalising ‘institutional’ change with additional implications for the Malaysian government, Malaysian owned retail, and the consumers. If ownership, control, of a leading chain were to change, the corporation as manifested by its intellectual and technological base, the ‘machine’, would carry on. If one leading corporation, e.g. Carrefour, sold a national business, e.g. Malaysia, to another leading chain, e.g. Tesco, the ‘machine’ would carry on, and be, perhaps, improved. Vice versa, a sale of such a part of the business, e.g. Malaysia, to a Malaysian owned chain, or a financial investor, would typically decouple the business from its intellectual and technological base and threaten future growth. This was how the Study perceived of Carrefour, International Dairy Farm, and Tesco, at this point in time.

The completed research contributed two elements to a proposition which could provide near-term shelter for the small trade and independent supermarkets in Malaysia:

- 1) Retail trade-based self-employment in a modernising economy should be encouraged and assisted, although not necessarily protected by exclusion or obstruction of retailers organised differently;
- 2) Family run retail should not simply become, or be ‘abandoned’ to become, prey to potentially irresistible competition from hypermarket and supermarket chains, which may form when local market concentrations exceed transparent norms specified by the Government in fair trading regulations. Such a situation may even be more likely when competition policy is not fully developed and articulated, or fails to keep up with commercial and market developments.

The claim can be made that small trade, as a category, grew during the 1990s, concurrently with the growth of large-scale such as hypermarkets, supermarkets, and department stores / shopping malls. Nevertheless, analysis revealed that underlying the absolute increase, the number of food provisions stores, non-specialised and specialised, declined. This decline importantly outweighed the increase in specialised non-food outlets. Perhaps ironically, the increase in non-food outlets can be associated with the rapidly growing number of large-scale retail venues, including hypermarkets, in which independent specialised traders were typically tenants. This development in the change of venue notwithstanding, independent specialised traders did not improve their fundamental competitiveness vis-à-vis their large-scale corporate counterparts in the mass-market, the chain stores.

The 1993 and 2002 Retail Censuses captured shopping malls as departmental stores. As a group, including hypermarkets, these large-scale structures increased fourfold, by numbers, during the 1990s, to circa 500 in 2001. Their continuing growth can visibly be observed around Malaysia. The latter structures typically hosted many individual specialised retail outlets, ranging from independent shops to carts and chain stores, and either a supermarket or a superstore, and, occasionally, a hypermarket, and typically a departmental store. 1990s growth of large-scale retail venues was therefore to a limited degree associated with hypermarket growth and chiefly associated, numerically, with specialised outlet or specialised trade agglomeration. This agglomeration did not have or make room for, or attract, non-specialised family run provisions trade. The latter were typically embedded in local communities, along with their fellow specialised food traders in public markets, while outside of these community-based venues, specialised traders had migrated to the wider community of the modern large-scale venues.

This trend stood in stark contrast to the historic fragmentation in outlets and venues in Malaysia. The apparent trend reversal and consolidation and concentration implied the imposition of a number of future second-order effects on consumers. Examples include:

- 1) Protecting the shopping needs of consumers who are unable to shop at a hypermarket or a supermarket, for example those less independent such as the aged and infirm. These demographics will increase in Malaysia in the future as presented in national statistics;

- 2) Consumers restricted by the means of transportation available, such as those on lower incomes, or those unable to independently drive;
- 3) Consumers who, out of preference, do not wish to be limited to shopping for groceries at hypermarkets and supermarkets. This category could include consumers to whom it is important to preserve the local community and its social and commercial vibrancy lest the community begins to fade away; and
- 4) ‘Food security’, in an abstract sense, may also be a consideration, as increasing consolidation by retail corporations relies on extending logistically complicated supply chains, often global, and without community level links. This factor has become increasingly important in some developed economies including America, Denmark, UK and, of course, France where agricultural policy is tightly intertwined.

It should be noted that the Study and its framework, utilising a holistic approach, does not profess a preference for one organisation format over another when local community food retail service could be at stake, e.g. independents or chains. Such questions are for communities and policymakers to answer. Independents are not excluded from forming voluntary chains when conditions require it, albeit may not be able to or wish to do so.

While consumers are able to vote on individual retail outlets with their feet and custom and regularly do so, the Study thought an equation combining the accessibility of food retail outlets and food security must take into account the nature of small-scale retailing as a personalised, individual commercial and financial undertaking on the part of an independent: her/his rational exit or entry in a community retail market cannot be expected to be logically coordinated with the community’s shopping needs, whereas a small store by a large chain can.

‘Modern’ spatial options for independent retail activity have become chiefly associated with shopping mall and hypermarket managerial discretion about the occupancy of rental retail spaces, with Government policy and vision about the nature of economic development and retailing, with State and local authorities’ similar policy and vision, and the latter’s implementation of large-scale development proposals for new retail venues and new townships. In the course of its research, the Study did not become aware of an overarching articulated vision for the structural and spatial nature of urban

retailing, beyond what past developments implied, and beyond the Objectives of Ministerial Guidelines 2004 and 2010 for the foreign retailers in Malaysia, which were to “ensure an orderly and fair development of the industry, while ensuring growth of local businesses; encourage the modernization and increase the efficiency of the industry and its continued contribution to the growth of the economy; and increase Bumiputera participation in the economic sector, in line with the National Development Policy”.

Further, the Study’s focus on food provisions retail had not left this researcher blind to the important loss of retail outlets in rural areas during the 1990s, a period when the population in rural areas remained largely unchanged. This loss of outlets could not be associated with hypermarket growth.

4.2.1 Suggestions of a strategic nature

The Study’s suggestions are on three levels: the independents, federal, and state-local. The suggestions are based on analysis of secondary data of Malaysia and developed economies, extant studies on retail modernisation in Malaysia and other developing economies, and developed economies, and researcher intuition augmented by the study process, circa 10 years, with interruptions, in Malaysia and on extensive international travels absorbing about traditional and modern mass-market retail.

The numbering of the suggestions does not suggest they are in any order of priority.

4.2.1.1 The independents

Malaysian independents should seek to band together in buying and marketing groups in order to obtain better prices and conditions from suppliers of goods and services. This would not mean automatically abandoning existing supplier relationships, and one or more wholesalers would possibly become ‘incorporated’ in the buying groups as ‘sponsors’. A voluntary group would, however, mean centrally negotiated prices and terms, a set of rules that group retail members and suppliers must adhere to, and centrally planned marketing instruments, techniques, and strategies. A secondary effect of such an organisation could therefore also be improved inventory management. It should be noted that a substantial alliance initiative on the part of independents might contribute to further wholesaler consolidation following the consolidation during the 1990s and therefore contribute difficulties for some non-

members, who might then elect to become members.

The cost of launching and starting up a buying group might outweigh immediately identifiable, tangible savings for independents in the short term as compared with independents continuing existing supply arrangements. Nevertheless, previous studies in developed economies suggested both non-specialised and specialised independents obtained scale benefits from retailer controlled buying and marketing organisation and that helped them survive in the competition with the corporate chain stores.

The Study identified two important socio-economic aspects associated with the independents:

- 1) Independents as self-employed and independent businessmen and women employing others in service jobs, a growth concept Government policy already supports; and
- 2) Food security: the physical accessibility to food shopping in the local community for the aged, infirm, consumers without adequate transportation, and consumers who do not wish to be limited to shopping at a supermarket or hypermarket. Underserved, potentially food shopping deprived communities, urban and rural, can emerge in the future, unlike the past when the growing number of food retail stores, chiefly by the small trade, protected against this, to a degree.

Outside Malaysia, actual cases of underserved communities suggested the problem was at least partially solved by independent retail traders interacting and working in consort with the community. Therefore the potential problem of communities becoming underserved by food retail services, absolutely and qualitatively, seems worthy of consideration for a strategic long term national development plan.

It is therefore apparent that independent retailers are an important participant in the local economy and community.

Given the current growth of large-scale outlets and competition, and increasing consumer mobility in both urban and rural Malaysia, independents would seem to have every reason to collectively address the lack of retail buying and marketing groups.

Further, the cooperative retail model, with modifications, involving both independents and customers participation in the benefits and risks, as ‘owners’, should be considered, e.g. the cooperative retail models of the Scandinavian countries Denmark, Finland, Norway, and Sweden; UK.

The Study’s analysis of, and familiarity with, the deep discount food provisions format suggested to the Study the declining density of food retail stores in residential communities in Malaysia might also represent an opportunity, or structural option, for Malaysian retail entrepreneurs, assuming Malaysian consumers would not disengage from shopping for groceries locally. The deep discount format, small-scale provisions stores on large-scale organisation, had grown important market shares in some developed economies among much larger grocery chain stores and was located / sited in residential communities much like the traditional shops in Malaysia. It might therefore have both commercial and social merit to take the existing, traditional, mini-market concept a step further and services-wise, if it were possible to create an efficient logistics network specialised on small, frequent deliveries of wet and dry goods to multiple similar shops of independents, or of a corporate chain, in residential areas in urban conurbations, e.g. there were signs emerging of such a provisions strategy, even if anecdotal, at 99’Speedmart, a relatively new chain of mini marts in Klang Valley. Naturally, the gravity and large-scale, efficient organisation to go with this is difficult, and costly, to replicate. This, or a, hybrid concept to fill an apparently growing gap in local community grocery provisioning could potentially turn some of the competitive pressure toward the supermarkets and hypermarkets and possibly counter food retail store scarcity that could be detrimental to local communities in the longer term.

4.2.1.2 Recommendation for Federal level

- 1) A policy statement specifically incorporating ‘provisions retail’ in existing policy and programmes encouraging and supporting self-employment and independent business and entrepreneurship among Malaysians. The current encouragement of, for example, self-employment by participation in direct, and multi-level, marketing and by becoming a franchisee or / and a franchisor, or carrying out ‘warehouse’ sales, limited the potential scope of the initiatives.
- 2) A policy for immediate commencement of renovation of existing public

wet/dry markets, first in the leading economic growth towns, into modern building structures and technological share-systems for small traders, preferably by the building of new market halls next to the existing structures so as to avoid temporary business stoppage and trader and customer desertion. By the latter method, the redundant market structures may be turned into parking facilities for the new market halls and the other service outlets in the local community.

- 3) A policy plan regarding food security at the local level, focusing on local communities with challenging physical access to food shopping, and addressing potential future deprivation of local community access to food shopping venues.
- 4) The swift introduction of a competition policy regarding ownership concentration and fair trade, applicable at both the national and local market levels and specifically designed for the retail trade and its suppliers. The adoption and adaption of, for example, regimes implemented in UK or Denmark would be preferable to an extended period of uncertainty for Malaysia.
- 5) The introduction of a web-based statistical 'Yearbook' statistically covering the retail trade structurally and economically by State and urban and rural areas.
- 6) A policy encouraging the formation of voluntary buying and marketing groups among independent retailers, combined with an associated support programme that, while short of direct government involvement has the ability to provide competent advice and assistance on the day-to-day running of any groups established under the programme, perhaps by encouraging one or more buying groups overseas to extend themselves to Malaysia.
- 7) A policy encouraging state and local administrations to recognise potential concerns inherent in local grocery market concentration, when large building structures are constructed for retail trade purposes. The policy should include provisions to allow and encourage the residents of local communities to become involved in the approval process for shopping

malls, hypermarkets, superstores, and supermarkets and be mandating application transparency and lessee disclosures by retail developers. A balance must ensure developments cannot be unnecessarily delayed by 'nuisance' objections without adequate grounds. At the close of this study, Ministerial Guidelines 2010, for the first time, included the requirement of an early indicative study to be carried out incorporating the views of local traders and residents.

The Malaysian government does not have a policy in place to deal with potential food retail store scarcity, the possibility of which may increase under the current trends in the mass-market retail, combined with the aging of the Malaysian population. The small trade was historically the typical, if not the only, choice available to Malaysian communities. This was a role embraced by the small trade, which provided a consistent and reliable retail service, even if, from the consumer's perspective, choice was somewhat limited. Service innovations such as internet sale and home delivery open the potential of providing quasi-localised service levels, albeit invariably result in additional cost for the consumer, and do not otherwise involve the local community in labour provision or other areas.

The Eighth Malaysia Plan (2001-2005) introduced consumer needs as a specific consideration within the government's retail sector policy equation. If the needs of consumers come first, as well they should, independent retailers, as a category, should only be singled out for 'protection' within policy initiatives seeking to strengthen the independents' resolve and skills and facilitate acquisition of both, and by inclusion in support programmes, financial and otherwise. By this tenor for all independent retailers in Malaysia, there would seem to be little risk of skewing competition to a degree that society becomes worse off. At the same time, at the public policy level, consideration should be given to two opposing, socio-economic forces relative to consumers: 1) short term consumer needs in the nature of immediate selection and lowest prices and 2) long term consumer needs in terms of service, local community economy and ongoing competition. Taken together, the two forces invoke opportunity costs for consumers and consumer welfare considerations and similar costs for government, and are therefore complex to arbitrate, albeit governments in developed economies have begun to consider and research this complexity, e.g. America; Denmark; UK.

4.2.1.3 Recommendations for State-Local levels

- 1) The renovation of permanent public markets into modern building structures and technological share-systems for traders, preferably by the building of a new market hall next to the existing structure so as to avoid temporary business stoppage and trader and customer desertion. By the latter method, the redundant market property may be turned into parking facilities for the new market hall and the other service outlets in the community.
- 2) Independent, professional evaluation of the environmental and commercial impact studies submitted to the Local Planning Authority with the developer proposals for the establishment of large-scale retail structures under the Town and Country Planning Act 1976 as amended, the Planning Permission Application Declaration Paper. For an assessment of potential local market retail grocery concentration, the approval process should ensure the ultimate users of >3,000 square meters retail spaces are identified.
- 3) When the Planning Permission Application has been vetted and approved, in principle, by the Local Authority, the details of the project should be published and circulated to the affected community and inputs invited and registered for the final approval process.

4.3 Recommendations for future research

Extant Malaysian research appeared to be focusing on phenomena associated with the chain stores and was myopic on the retail by independents.

The Study proposes the following future research²:

- 1) Research on why there are no buying- and / or marketing groups among independent retailers and what could make such groups come about in Malaysia.

² By 'research' is meant university, business school and college research, including levels of certificate, MBA and Ph.D, government sponsored research by universities, think-tanks, specialist consultants and research by vocational institutes and institutions.

- 2) Research on Malaysian consumer attitudes about longevity of the small provisions trade located in the shophouses and permanent public markets in urban areas.
- 3) Research on the development and renovation of permanent public markets in developed economies since 1990.
- 4) Research on the economic and social roles of the Malaysian shopping mall, and shopping mall development, for hosting independent retailers.
- 5) Research on food provisions adequacy at the level of the local community.

4.4 Limitations of the study

Research is typically limited by constraints on the researcher and selections the researcher made. This research is no exception.

From the outset the Study focused on the retailers, and retailing, as a sub-sector in the Malaysian economy. At the close of the research, the Study became curious about a non-retail, or indirect retail, element that looked like playing a significant role in the nature and dynamic of the retail modernisation in Malaysia: shopping mall development by real estate developers and real estate investment trusts, REITs. The Hypermarket was 'imported' with foreign capital and technology ownership attached. The mall concept was free and Malaysian controlled. It was unclear how the mall form of agglomeration, non-retail, yet retail dependent, grew in Malaysia and was associated with retail modernisation, and was contributing to economic growth, beyond that of the real estate and construction sectors, and long-term benefits for Malaysian society. The Study considered it a limitation that time and other resources restraints did not allow for an analysis of the shopping mall development in Malaysia. Even if, on the surface, the institution of shopping malls in Malaysia appeared to be outside the scope of the Study, but for their typically containing a supermarket, or superstore, the virtual non-occurrence of small-scale, non-specialised provisions retail in shopping malls suggested confirmation of these small stores' attachment to local communities.