

CHAPTER 3 THE STRUCTURE OF SUPPLY DISTRIBUTION IN MALAYSIA

3.1 The Importance Of The Distributive Trade

The study here is limited by the lack of up-to-date data on the Malaysian distributive trade. The last survey conducted by Malaysian Statistics Department on wholesale and retail was in 1993. However this should not take away the importance of the distributive trade in Malaysia. The data as reported in that report is employed here. The importance of distributive trade can be looked at from its contribution to the Malaysian GDP and employment market.

It is estimated in the 2000 Economic Report that the services sector contributed a hefty 54.6% to the GDP in 1999. The wholesale & retail trade, hotel and restaurant was collectively the largest sub-sector within services with a 15.2% contribution to the GDP.

This sub-sector which was badly affected by the economic slowdown in 1997 was expected to turn around in 1999 with the recovery in domestic demand. As shown in Table 1, the distributive sub-sector has been a steady contributor to the GDP, at 12.4% in 1996 to 15.2% in 1999.

Table 1 Contribution of the Distributive Sector to GDP

Final Services	% Share of GDP			
	1999 estimated	1998	1997	1996
Wholesale & retail trade, hotels and restaurants	15.2	15.7	12.3	12.4

Sources: Bank Negara Malaysia Annual Report, 1997, Page 26,
Economic Report, 2000, Page 76

Besides its contribution to GDP, please see Table 2, the distribution trade provided substantial employment, running third behind agriculture and the manufacturing sectors in providing total employment until 1996. Beginning 1996,

the distributive sector displaced the agricultural sector to become the second largest employment sector.

Table 2 Employment By Sector

Employment by sector ('000)	1993	1994	1995	1996	1997
Agriculture, forestry and fishing	1,680	1,585	1,413	1,339	1,274
Mining	36	36	41	43	43
Manufacturing	1,742	1,892	2,052	2,178	2,316
Construction	544	598	667	726	765
Electricity, gas and water	48	61	71	74	76
Wholesale & retail trade, hotels and restaurants	1,292	1,318	1,337	1,375	1,383
Finance, insurance, real estate & business	332	352	379	403	422
Transport, storage and communication	344	366	395	414	433
Government services	864	868	872	877	880
Other services	514	542	688	732	783
Total	7,396	7,618	7,915	8,161	8,375

Source: Bank Negara Malaysia Annual Report, 1997, Page 218

Of those employed in the distributive sector, the survey conducted by the Malaysian Statistics Department, as summarised in Table 3 revealed that a total of 252,843 persons were engaged in the wholesale sector of which an overwhelming 231,880 persons or 92% were employees. The average number of persons engaged per establishment was 11 persons while total salaries & wages paid amounted to RM5.2 billion. Employees in this sector enjoyed the highest remuneration (RM22,200 per employee) compared to that for retail (RM10,700) and catering (RM5,300).

A total of 499,903 workers were engaged by retail establishments, of which 51% or 256,156 persons were employees and 49% or 243,747 persons were unpaid workers. While the total number of workers engaged in retail trade was nearly twice (98%) that in the wholesale sector, total salaries & wages paid by retail establishments were lower (RM2.7 billion compared to RM5.2 billion). Among the factors contributing to this scenario is the larger number of unpaid worker

engaged in retail trade and the lower average number of employees, that is 1.7 persons per establishment.

Table 3 Survey of Wholesale and Retail Trade and Catering, 1993 - Key Indicators

No		Wholesale Trade	%	Retail Trade	%	Catering	%	Total	%
1	Number of establishments	22,940	8.9	154,080	59.7	81,134	31.4	258,154	100
2	Sales value of goods & services (RMmillion)	101,651.30	58.1	66,159.70	37.8	7,108.90	4.1	174,919.90	100
3	Total number of persons engaged	252,843	24.0	499,903	47.4	301,001	28.6	1,053,747	100
	- No of employees	231,880	36.7	256,156	40.5	143,785	22.8	631,821	100
	- No of unpaid workers	20,963	5.0	243,747	57.8	157,216	37.3	421,926	100
4	Compensation of employees (RMmillion)	6,203.70	60.9	3,140.50	30.8	845.2	8.3	10,189.40	100
5	Salaries & wages paid in cash (RMmillion)	5,151.00	59.5	2,742.40	31.6	767.4	8.9	8,660.80	100
6	Number of persons engaged per establishment	11.0	-	3.2	-	3.7	-	-	-
7	Salaries & wages paid in cash per employee (RM)	22,214.00	-	10,706	-	5,337.10	-	-	-

Source: Survey of Wholesale & Retail Trade and Catering, 1993,
Department of Statistics, Malaysia, Page 15

The findings in this chapter are generally consistent with those as reported in the paper on "Structure of Retail Trade in West Malaysia" by Sieh Lee Mei Ling in 1974, although their magnitude have somewhat grown several times over since then.

That study, based also on statistics published by the Malaysian Statistics Department from a survey conducted in 1966, indicated that the West Malaysia distributive sector (wholesale plus retail trades) was the second largest sector, constituting 15% to 16% of the peninsula's gross domestic product since 1960. In

1999, the wholesale & retail trade, hotel and restaurant for the whole of Malaysia was the largest sub-sector within services with a 15.2% contribution to the GDP (data with exact breakdown into West and East Malaysia is not available).

In terms of employment, the retail sub-sector was estimated to have engaged around 240,000 persons in 1967, which made up nearly 9% of the West Malaysian labour force. In 1993, the total wholesale & retail trade for Malaysia engaged a total of 752,746 persons, which made up 10% of the overall labour force.

In 1966, there were 59,737 retail establishments in West Malaysia with sales transactions of RM 2.2 billion for the year. Comparatively in 1993, there were a total of 154,080 retail establishments in Malaysia with sales totalling RM66.2 billion. In 1966, each establishment contributed RM36,000 in sales as compared to RM430,000 in 1997. It can be seen that the wholesale and retail trade has grown by leaps and bound since 1966.

3.2 Past And Present Profile Of The Distributive Trade In Malaysia

The "Wholesale and Retail Trade and Catering" survey in 1993 revealed that there were a total of 258,154 wholesale, retail and catering establishments. Please see Table 3 above. In terms of the number of establishments, the predominant sector was retailing with 154,080 establishments (59.7%) while another 81,134 establishments or 31.4% were in the catering sector and the remaining 22,940 establishments or 8.9% in the wholesale sector. In terms of total sales value (RM174.9 billion), however, wholesaling accounted for the bulk of total sales at RM101.7 billion or 58.1% compared to retailing at RM 66.2 billion or 37.8% and catering at RM 7.1 billion or 4.1%.

Among the wholesalers, please see Table 4, specialised stores dealing in industrial, agricultural & business equipment & materials accounted for the

largest share, that is 37.3% of the total sales value. Specialised stores dealing in household & personal goods; motor trading & motor accessories; and food, drinks and tobacco accounted for 19.0%, 15.3% and 13.8% respectively of the total sales value. Non - specialised wholesale stores, however, accounted for the remaining 14.6% (RM 14.9 billion) of the total sales value of the sector.

Table 4 Wholesale Trade, 1993

Type of business	No. of establishments	Sales Value (RM'000)	% of Total
Specialised stores:			
In industrial, agricultural & business equipment & materials	8,913	37,952,235	37.3
Household & personal goods	4,877	19,333,163	19.0
Motor trading & motor accessories	2,305	15,501,787	15.3
Food, drinks & tobacco	4,341	13,980,706	13.8
Non-specialised stores	2,504	14,883,363	14.6
Total	22,940	101,651,254	100.0

Source: Survey of Wholesale & Retail Trade and Catering, 1993,
Department of Statistics, Malaysia, Pages 80-89

Table 5 Retail Trade, 1993

Type of business	No. of establishments	Sales Value (RM '000)	% of Total
Specialised stores:			
Motor trading & motor accessories	10,195	22,642,500	34.2
Household & personal goods	41,059	20,203,893	30.5
Industrial, agricultural & business equipment & materials	3,423	3,373,834	5.1
Food, drinks & tobacco	37,467	3,232,929	4.9
Non-specialised stores	61,936	16,706,501	25.3
Total	154,080	66,159,657	100.0

Source: Survey of Wholesale & Retail Trade and Catering, 1993,
Department of Statistics, Malaysia, Pages 132-138

As for the retail sector, please see Table 5, specialised stores dealing in motor trading & motor accessories accounted for 34.2% of the total sales value of the retail trade. Specialised stores dealing in household & personal goods; industrial, agricultural and business equipment and materials; and food, drinks, & tobacco accounted for 30.5%, 5.1% and 4.9% respectively of the total sales value. Non-specialised retail trade accounted for the remaining 25.3% of the sales value. Provision shops was the most dominant type of business in the non-specialised retail sector, accounting for 90.2% of total establishments, 47.3% of sales value.

Table 6 below shows that the average size of retail establishments in Malaysia is small when compared to wholesale trade. The number of retail establishments within the output group of below RM100,000 is 88% of the total as compared to 39% for wholesale trade. In addition, only 32% of the total retail trade achieved output of RM1,000,000 and above with total sales contribution of RM20.8 million as compared to a corresponding 66% of the total wholesale trade with total sales of RM67.0 million, a hefty three times that of the retail trade.

Table 6 Sales and Size By Output Size Group, 1993

Output Size Group (RM)	Wholesale Trade				Retail Trade			
	Nb of establishments	% of total	Sales value of goods & services	% of total	Nb of establishments	% of total	Sales value of goods & services	% of total
Below 100,000	8,871	39	3,979,846	4	135,670	88	16,167,266	24
100,000 - < 200,000	4,488	20	5,754,302	6	9,912	6	10,719,233	16
200,000 - < 500,000	4,945	22	13,189,737	13	5,836	4	12,264,622	19
500,000 - < 1,000,000	2,243	10	11,762,247	12	1,440	1	6,250,371	9
1,000,000 - < 5,000,000	1,878	8	23,048,901	23	1,072	1	12,536,342	19
5,000,000 - < 10,000,000	252	1	7,879,140	8	66	0	1,667,918	3
10,000,000 and above	263	1	36,037,081	36	85	0	6,553,885	10
Total	22,940	100	101,651,254	100	154,080	100	66,159,657	100

Source: Survey of Wholesale & Retail Trade and Catering, 1993,
Department of Statistics, Malaysia, Pages 92 and 140

3.3 Comparison Of Malaysian Distribution System With Those In Developed Countries

As a channel for distribution of grocery items, wholesalers in Malaysia play a more significant role than their counterparts in the US. This is because manufacturers in Malaysia employ wholesalers as their distributors to handle delivery of goods to a widespread area. In addition, most retailers in Malaysia do not operate their own grocery warehouses and therefore depend largely on wholesalers to break bulk and deliver goods in the quantities that the customers need. As the domestic market is huge in the US, thereby according economy of scale, most manufacturers operate their own logistic distribution network to push their products to the retail outlets unlike the manufacturers in Malaysia who rely on the distributors and wholesalers to break bulk and deal with retailers. In addition, most of the large retailers in the US have their own warehouses that handle receiving and storage of goods and subsequent deliveries to outlets.

Over the last 5 years, the entry of large chain store retailers such as Tops and Jusco have brought significant changes to the Malaysian scenario. Being large operators, these retailers operate their own warehouse centres to benefit from large-scale volume purchase through dealing direct with manufacturers and removing operating inefficiencies by cutting out the middlemen such as wholesalers in the supply chain. According to a senior trade manager in a leading fast moving consumer goods company, approximately 15 large retailers constitute 50% of their present business, whereas 5 years ago, wholesalers and distributors (without the retailers) contributed approximately 85% of that business. Shifting retail formats have directly impacted the grocery distribution landscape and moving it closer to those operated as in the US, especially with the proliferation of multinational retailers who bring operating practices from back home to the local market.

In Malaysia, wholesalers carry a selected line of usually non - competitive products, which they supply to all retailers whereas the American wholesaler targets distribution of complete product line or wide assortment of articles to a selected groups of stores. In addition to product specialisation, the fragmentation of the Malaysian retail and wholesale market are caused by factors such as geographical specialisation, expensive commercial space and demand for frequent purchases of small quantities among consumers and retailers.

In Malaysia, other than in the cities, small stores dominate the secondary areas, whereas in the US, large stores generally dominate the retail sector. Retail stores in Malaysia range from 2,000 to 24,000 sq. ft. whereas in the US, stores are generally larger, ranging from 4,000 to 50,000 sq. ft. These larger stores with their higher stocks turnover accord wholesalers economy of scale although they service only a selected number of retailers unlike their counterparts in Malaysia.

3.4 Inefficiencies In The Present Distribution System

For a long time now, the Malaysian logistic distribution system is made up of numerous intermediaries. The manufacturer's outbound logistic is made up of a warehouse, wholesalers, distributors and/or transporter before finally reaching the retailer's central warehouse or even direct to selling outlets. While today, some manufacturers are working on direct delivery to the retailer's central store, mostly at the latter's insistence, these manufacturers continue to employ numerous wholesalers and distributors (non-retail) to service delivery of goods to the rest of the other retailers scattered throughout the Peninsular and East Malaysia. Besides the geographical spread of trade customers, these distributors are engaged, due in part to the need to break bulk when dealing with the other smaller retailers. This arrangement from long ago has forged a very relational-based approach to the Malaysian grocery distribution as most manufacturers rely on the distributors (non-retail) to handle the outward delivery of their goods. This

practice continues to be in place even as of today although changes are slowly taking place as in the case when larger retailers such as Tops and Jusco operate their own warehouses or distribution centres.

These large retailers insist on direct dealing with manufacturers on centralised delivery to their warehouse so that the middle layer, namely wholesalers and distributors (non-retail) can be cut out and the savings therefrom pass on to the retailer. Besides financial gain from removal of the middlemen and bulk buying by the retailer, there are other advantages such as less paperwork in working with single purchase order and delivery invoice instead of many when delivered to individual outlets which will enable timely payments to suppliers. At the same time, retailers can reduce excessive backroom stocks at the selling outlet by drawing down instead from a central warehouse.

In Malaysia, sales teams are employed to sell grocery items to retailers. This method provides service to retailers in terms of information about products & enables negotiation on prices and the setting up of promotions. Such a sales force may be directly employed by the manufacturers or through the appointed wholesaler. It is estimated that almost half of the consumer goods sales to retailers pass through wholesalers in Malaysia.

To facilitate deeper understanding of inefficiencies in the distribution channel, we first examine the order fulfilment process between manufacturers and their wholesale and retail customers. As employed in this study, the order fulfilment process refers to all logistical and distribution functions beginning with the placement of an order by a retailer (subsequent to price negotiation) and concludes when the order is delivered by the vendor to the retailer central warehouse or stores.

Retailers interviewed indicated that the merchandising buyer is the key contact responsible for new product orders and promotional orders while re-orders or

regular orders are made either by the individual outlets or a centralised warehouse buyer if the retailer operates a central warehouse. These buyers are supported administratively by buying clerks who raise the necessary purchase orders. The buyer has to formally authorise the purchase order before it can be released to the vendor who may be the manufacturer, a wholesaler or an appointed distributor. The replenishment process involves an assessment of balance stocks, an estimate of the likely sales volume and re-order lead time and an element of safety stocks. The above estimation on re-order quantity is usually less than precise as retailers lack reliable data to make good decision. For example, sales projection may be inaccurate due to poor scanned sales data and inaccurate stocktaking. Most retailers have less than optimal management information system as it faces a situation of 'garbage in garbage out' with inaccurate data input. A buyer usually falls back on his/her experience and 'gut' feel in establishing re-order quantities sometimes leading to inappropriate replenishment. As a consequence, there is either a temporary stock-out situation or over-stocking.

The present practice of buying has also led to further inefficiencies within the grocery distribution system. "Trade deal" selling or buying and "forward" buying are common business practices among trading partners within the Malaysian grocery industry. In "deal" transaction, there is a base price listed for an item of which trade deals are attached (such as a carton free for every 5 cartons ordered). The higher the purchase volume, the better is the trade deal and the cheaper is the nett price prompting customers to buy "forward" beyond their immediate needs. This would suggest that the Malaysian grocery industry is a "push system", where inventory is continually pushed into the supply chain by suppliers' deals, which in turn lead to forward buying by customer. This rather inefficient business practice may have added layers of unnecessary costs into the supply chain in the form of excess stock holding, cost of storage, stock shrinkage and so forth.