

## CHAPTER 5 DEVELOPMENTS IN THE DISTRIBUTION TRADE

### 5.1 Emerging Trends In Distribution Trade

Recent developments in the Malaysian grocery business are of relevance to this study in view of their impact to the distribution system. These developments which are summarised as follows have brought on intense competition among retail operators as they fight for a bigger share of the same customer base. There is also mounting pressure among trading partners i.e. between the retailer and the supplier as the former is perpetually on a quest for cheaper prices and other concessions from the latter in an effort to cover as much costs as possible so as to turn in profits.

Operating efficiencies within the supply chain to benefit both the trading partners thus become extremely important to the long-term survival of the grocery industry.

#### *Proliferation of Trade Formats*

There has been a proliferation of retail formats in Malaysia over the last 5 years. Among the formats are huge hypermarkets such as Carrefour & Giant, warehouse clubs such as Makro and Bookers, chain stores such as Tops and The Store, pharmaceutical chains or drugstores such as Guardian and Watson's, which are mostly of foreign ownership. The traditional provision and sundry shops, mini-markets and medical halls co-exist with these new formats in an extremely competitive market.

While official data is unavailable from any of the government agencies, an analogy of the above market development can be observed from results of retail audits conducted on the grocery trade. The following AcNielsen Retail Census Report prepared in 1999 reinforces the above findings.

Table 7 Total Self Service Stores & % Share Of Trade, Selected Countries

<b>Countries</b>	<b>Total Grocery Stores</b>	<b>Self Service Stores as a % of Total Grocery Stores</b>	<b>% Share of Trade</b>	<b>% Change in Traditional Store No. (1998 vs 1997)</b>
Malaysia	32,000	3	47	Not available
Singapore	3,300	30	76	-3
HongKong	3,700	31	83	-5
Thailand	299,000	1.1	34	Not available

Source: AcNielsen Retail Census Report (1999)

As tabulated in Table 7, traditional stores still dominate throughout Asia but as markets develop, the percentage of self service stores (i.e. non-traditional stores such as supermarkets, hypermarkets etc) increases as reflected by the falling percentage change in the number of traditional stores. The picture is very different when comparing turnover, even in the least developed markets these self-service stores carry a significant share of grocery trade. For example, although the number of self service stores in Malaysia is a mere 3% out of the total 32,000 grocery stores, this segment of the market has significant market share at 47% share of trade. According to the same report, supermarkets are the dominant self-service store format. Please see Table 8.

Table 8 Total Supermarket Stores & % Share Of Trade, Selected Countries

<b>Countries</b>	<b>Supermarket Store No.</b>	<b>% Share of Trade</b>
Malaysia	364	43
Singapore	163	69
HongKong	635	70
Thailand	452	37

Source: AcNielsen Retail Census Report (1999)

In part, the changing demographics of Malaysian consumers and their growing affluence have brought on the above proliferation. With more women carry a dual role of being a mother and worker, time and convenience become critical factors

affecting her shopping habits. Stores that remain open 12 hours a day with a wide assortment of grocery items appeal strongly to her needs. Malaysians studying or travelling abroad who have been exposed to such formats further encourage the introduction of similar retail concepts to meet the demand of the Malaysian market.

*Multi-National Invasion*

Retailing is fast becoming a global business. The number and importance of multi-national retailers has increased dramatically over the last 5 years and their rivalry is intense. These multi-national retailers have significant presence in all Asian countries with the exceptions of Japan and the Philippines. In Thailand, multi-nationals own the top 5 retail chains. Five chains now have operations in 5 or more Asian countries. Please see Table 9.

Table 9            Multi-National Retailers, Selected Countries

Countries	Carrefour	Dairy Farm	Watson	Makro	Ahold (Tops)
Malaysia	X	X	X	X	X
Thailand	X		X	X	X
Singapore	X	X	X		X
China	X	X	X	X	X
Taiwan	X		X	X	
Indonesia	X	X		X	X
India		X			
HongKong	X	X	X		
New Zealand		X			
Korea	X				
Australia		X			
Philippines				X	

Source:            AcNielsen Retail Census Report (1999)

Many factors are driving the growth of global retailing. These multi-nationals may be facing limited growth in the home market due perhaps to market saturation or planned restrictions. They are cash rich and consider global business as a part of

their strategic direction. Their entry into the Asian countries was encouraged by the relaxation of investment restrictions (with the exception of Philippines) and prior to the economic downturn, Asian was seen as an extremely attractive market with strong potential for growth.

*Trade Consolidation*

The grocery trade is both complicated and competitive. The trade for some years has been in the midst of a wave of consolidation and diversification. Mass market retailer such as Tops has acquired the local chain of Parkson supermarket stores to form an overnight retail chain of more than 40 outlets. The likes of Giant have diversified into other retail formats with a chain of supermarkets and hypermarkets.

With consolidation within the industry, the larger firms are more likely to report rapid growth and the smaller firms more likely to report stable or declining growth. Trade concentration is already high in a number of Asian countries namely Hong Kong and Singapore. Please see Table 10 on the following page.

Table 10      % Share Of Trade For Top 5 Chains, Selected Countries

	Malaysia	Singapore	Hong Kong	Thailand
% Share of Grocery trade for Top 5 Chains	20	52	74	32

Source:      AcNielsen Retail Census Report (1999)

With so many retailers competing for the same consumers, the market understandably becomes extremely competitive. The retail market is characterised by extreme competition for customer's attention, from wide assortment of goods and services at discounted prices to customer's

conveniences such as free parking, video rental, banking services and introduction of in-store technology e.g. checkout scanning.

In addition, retailers invest heavily on print and other media advertising, promotional activities such as frequent sales, midnight sales and loss leader pricing programmes in a frenzied bid for customers. Many retailers make as little as 1 to 2% net profit margin and thus become heavily dependent on top line contribution i.e. sales to maintain a positive bottom line.

To retain and grow their customer base, some retailers hope to steal market share by offering their own private brands at competitive prices as alternatives to national brands. Retailers whose customer base is large enough to absorb container load purchases are parallel importing similar goods at competitive prices from outside the country instead of procuring just locally.

The large multinational retailers see the benefit of operating their own warehouse centre for the purpose of supporting the above activities and more importantly, applying logistic or physical distribution management to develop a competitive edge in the industry and to closely resemble their operations in the home markets.