CHAPTER 4

PRODUCTIVITY TRENDS ANALYSIS OF DISTRIBUTIVE TRADES

4.1. Labour Productivity

The distributive trades sector which was severely affected by the economic slowdown starting 1998 had slowly turned around in year 2000 with the high back up in domestic demand. Reflecting the better performance of the sector, the Labour productivity measured by Sales per Employee of the distributive trades sector has increased by 10 percent in 2004 compared to 2000. During the period 1999 – 2004, the sector experienced an increased trend of 6.86 percent annually and within the sub-sector, retail trades sector showed better performance in term of labour productivity.

The major contributors to Sales per Employee growth was Government policy to promote Malaysia as center of shopping in Asia. Efforts done to increase sales in this sector are the promotion of Buy Malaysian Campaign\(^3\) with a made-in-Malaysia logo and three times a year nationwide Mega Sales during 1999-2004 period. The objective of the campaign was to reduce imports and to facilitate the recognition of Malaysian products.

\(^3\) The campaign was launched nationwide in 1998 through the combined efforts of the Government, industries and media
This will be a platform to boost manufacturers and agricultural producers as the market share of locally produced goods expanded, which increased the need for local distribution of inputs and final goods. In addition, there was an increasing effort upon which large retailers took the initiative to produce and sell their own brand names\(^4\).

<table>
<thead>
<tr>
<th>Year (e)</th>
<th>Sales (US$ Billion)</th>
<th>Growth (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>12.2</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>9.8</td>
<td>-20.0</td>
</tr>
<tr>
<td>1999</td>
<td>10.5</td>
<td>7.4</td>
</tr>
<tr>
<td>2000</td>
<td>11.6</td>
<td>10.4</td>
</tr>
<tr>
<td>2001</td>
<td>11.7</td>
<td>1.7</td>
</tr>
<tr>
<td>2002 (e)</td>
<td>12.4</td>
<td>5.5</td>
</tr>
<tr>
<td>2003 (f)</td>
<td>13.4</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: Retail Group Malaysia

The figure excluding wet-market, morning market, night market and other non-permanent wholesale and retail trade facilities.

\(e\) - estimate

\(f\) - forecast

1 US$ = 3.80 RM

As for the labour market condition in this sector, despite the increased growth of wholesale and retail outlets during the period under review, there is no

\(^4\)Efforts were made to encourage the development of the nation’s own brand names. Some of the notable Malaysian brand names included Don apparel, Royal Selangor pewter and *Anakku* baby products.
major change to the total number of employees. It lingered around 1.2 million throughout, almost 85 percent were full time employees (wholesale employment increased by 3.0 percent and retail trade employment by 2.5 percent annually). The negative growth in year 2000 (table 10) is a continuous weakening of a labour market condition as industries undertook measures to counter the impact of the global economic slowdown.

**Table 11: Employment in Distributive Trade**

<table>
<thead>
<tr>
<th></th>
<th>Total (million)</th>
<th>Growth (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>1.21</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>1.15</td>
<td>-4.9</td>
</tr>
<tr>
<td>2001</td>
<td>1.17</td>
<td>1.7</td>
</tr>
<tr>
<td>2002</td>
<td>1.18</td>
<td>0.9</td>
</tr>
<tr>
<td>2003</td>
<td>1.18</td>
<td>0</td>
</tr>
<tr>
<td>2004e</td>
<td>1.20</td>
<td>1.7</td>
</tr>
</tbody>
</table>

*Source: Department of Statistics
e: Estimate

4.1.1 Factors affecting Productivity Trends in Distributive Trade.

Seeing that in other sectors, a main catalyst for growth in distributive trade was the strong growth in information and communication technology (ICT) that began in the end 1980s. The expansion in computers and networks usage made possible a number of innovations that transformed the distributive trade
sector. These developments, in turn, establish the stage for a new business climate in the industry that attributed increased competition and scale of operations.

The development of the Universal Product Codes (UPCs), or bar codes, provided a means of automatically identifying products and cataloguing relevant information about them. This made it possible for distributors to mechanize the movement of goods through their distribution network, which treasured in terms of speed, accuracy, effectiveness and efficiency, and leading to reduced unit costs.

In addition, The emergence of Electronic Data Interchange (EDI) standards enabling the transfer of information between independent information systems absolutely quick and automatic transmission of business data along the supply chain possible and allowed wholesaler-distributors to take full advantage of the benefits of automation.

4.2. Competitiveness

Upon recuperation from the 1997 financial slowdown, distributive trade witnessed a slow development of competitiveness in year 1999. However it showed a better performance trends towards year 2004 even though there was

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a health crisis in year 2003. This was reflected by the annually growth in the sales value per labour cost and labour cost per employee which recorded 2.34 percent and 7.51 percent respectively. Hence, the unit labour cost continues to decline by 0.012 percent during the same period which make the sector more competitive in the market.

The inspiring situation was an impact from the implemented government policy such as remuneration and education attainment, significant improvement and promotion efforts to enhance productivity (particularly training and retraining) and quality as well as competitiveness. In view of the importance of skill training in producing more productive workers, skill in retailing were undertaken by the government through various programmes. In this regard, government agencies such as MARA collaborated with the private sector to conduct practical training in super-markets and hypermarkets

In addition to increase the efficiency and effectiveness of training programmes, apprenticeship training was provided to 3,557 participants under the Entrepreneur Training Programme to increase their level of competence with emphasis on practical training. Efforts also have been made to increase the opportunities for workers to be retrained through the greater utilization of the Human Resource Development Fund (HRDF).

Currently, several large firms in this industry have formal management training programs that train college graduates for management positions, and the
number of these programs will probably grow. There is also a growing number of industrial distribution programs at universities, providing students with both business and technical training. Increasing use of the Internet and other electronic means of communication, as well as changing sales techniques, are placing increasing demands on

- Increased training budget
- Increased the salary to overcome workers turnover

4.3. **Capital Productivity and Capital Intensity**

From the finding, capital productivity of distributive trade sector noted an increased trend during the period 1999 – 2004 by 6.9 percent annually. For the same period, capital intensity recorded a growth of 3.07 percent annually. A high growth was recorded during 2003-2004 by 5.5 percent after a negative growth in 1999-2001. Overall, the indicators showed that the distributive trade sector utilizes more capital and is moving toward capital intensive.

Structural changes in distributive channels are pressuring wholesalers and retailers to reconsider and readjust their strategies for maintaining a competitive edge, including reorienting their services and product mix. Historically, wholesalers and retailers were known for the products and brands they carried and the basic services they provided.
This competitive edge, however, has been blunted by a similarity of quality among brands and insufficiency of basic services (e.g., in-stock inventory, small order handling, credit terms, and product training for both employees and customers). In response to these changes, wholesalers and retailers are adopting an aggressive strategies to improve and expand value-added services (such as relabeling, repackaging, next-day delivery, and applying bar codes) and utilizing available technologies to improve productivity, reliability and service quality.

4.4 Efficiency

Distributive trade sector efficiency which represented by performance of margin per employee and return on assets noted a growth of 7.55 percent annually during the period 1999 – 2004. The high growth was recorded during the period 2000 – 2001 by 38.9 percent, before a negative growth of 1.29 percent and 4.18 percent for the consecutive years after. This situation was reflected from the increased expenses in term of labour turnover and unskilled workers. However for the year of 2004, a positive growth of 4.8 percent was recorded through the contribution factors for growth which are:

- attract loyal customers base through use of ‘customer loyalty cards’.
- establishing a brand or identity, in an effort to attract a loyal and increasing customer base
- expansion in induction training

- computerized systems such as cash registers connected to computers, known as point-of-sale terminals, allow organizations to maintain instant access to current sales and inventory records. This information are used to produce sales reports that reflect customer buying habits. The ability to quickly know which products or combination of products are selling well provides powerful data that buyers and supply managers can use to increase sales and reduce costs.