



الجامعة الإسلامية العالمية ماليزيا  
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA  
بِوَسِيْلَتِي اِسْلَامُ اَنْبَارًا يَجْمَعُ مِلَّةِيْنَا

**CHANGING RETAIL ENVIRONMENT IN MALAYSIA:  
PROSPECTS AND CHALLENGES**

by

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**MBA PROJECT PAPER**

Submitted to  
The Management Center  
International Islamic University Malaysia

In Partial Fulfillment of the Requirements  
for the Degree of  
Master of Business Administration

October 1997

**International Islamic University Malaysia**

Approval

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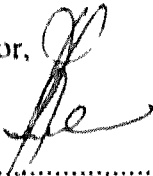
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### **Abstract**

#### **CHANGING RETAIL ENVIRONMENT IN MALAYSIA: PROSPECTS AND CHALLENGES**

As Malaysia progresses towards Vision 2020, many developments and transformations will take place, and in fact, some are already happening. The environmental changes, in turn, are affecting many business and economic activities. For one, the dynamic retail industry is responding positively to the economic development and has experienced tremendous changes. Both traditional and modern retailing systems continue to coexist while the retail market is undergoing a transformation with the emergence of new retail trends and industry players. Furthermore, the new retail environment brings about new prospects and challenges for all parties, in particular the retailers. This paper offers an insight on the Malaysian retail sector, addressing changes and new trends in the industry. The paper concludes with some recommendations on what retailers should expect and respond to manage the retail transformation.

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## ACKNOWLEDGMENTS

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The author wishes to express a sincere appreciation to Professor Dr. Mohammad Saeed for his supervision and assistance in the completion of this project paper. Special thanks to Arfahjulaizah Arifin for her love, understanding and support within the duration of the MBA studies. The author also wishes to thank all parties, including lecturers, all personnel of the Management Center, his superiors and colleagues, for all their support and contribution during MBA program and for the completion of this project paper. Finally, special appreciation and best wishes to all students in the first graduating batch of IIUM-MBA.

## *Chapter 1*

### **1. INTRODUCTION**

The currency crisis in 1997 marks the first blow to Malaysia in its quest towards Vision 2020. While the crisis may only be a temporary setback, it inevitably would affect the country; however, for all Malaysians, the journey has just begun. As Malaysia progresses toward becoming a developed nation, various changes will take place. The transformation into a developed nation requires the government to adjust its economic, business, social and numerous other policies to accommodate and facilitate economic growth. Meanwhile, as part of a rapidly developing nation, Malaysians will also experience tremendous changes in their daily lives.

Amidst these changes, the retail scene in Malaysia in the 1990s has been very dynamic and exciting, and it is expected to be even more dynamic moving into the next millennium. Recently, there has been an influx of foreign retailers into Malaysia, with new retailing systems and structures, and many of them are already household names. Meanwhile, innovative and entrepreneurial local retailers are also emerging in the market. Consequently, the Malaysian retail sector will never be the same. The market is undergoing a transformation from a traditional one to another that is identifiable in developed countries. This



changing retail environment undoubtedly will have great implications on all stakeholders, particularly the retailers and entrepreneurs.

### **1.1 Objective and Methodology of the Paper**

This paper seeks to understand the changes in Malaysia's retail sector and address the resulting prospects and challenges. The paper offers an insight on the Malaysian retail industry by addressing the developments and changes in the industry. This paper may be of use to the following parties:

1. Potential retailers and entrepreneurs who are interested to enter the market.  
The paper gives some understanding of the industry.
2. Existing retailers who requires to be keep abreast with the development in the industry in order to remain relevant and competitive. The paper offers some up-to-date information on the industry.
3. Marketing students who are interested in retail industry. This paper provides additional information as a supplement for their course work.

The paper is based on both primary and secondary data. Sources of primary data include those from the author's interviews and conversations with several professionals and experts in the industry, as well as the author's own experience in the industry. Secondary resources include most recent business and economic books, periodicals, documents and articles. In many cases, the Internet is used as a reliable and timely source.

## 1.2 Concept and Roles of Retail Business

The term **retailing** refers to “the set of business activities that adds value to the products and services sold to the consumers for their personal and family use.”<sup>1</sup> In short, retailing is “the activity of selling goods and services to ultimate consumers.”<sup>2</sup> The four main functions of retailing are providing an assortment of products and services, breaking bulk, holding inventory, and providing services. The broad definitions implicate a wide scope of retailing, involving various activities related to sales of products and services. Service retailing is also a significant part of retail activities. Service retailers include restaurants, banks, photo developers, dental/medical clinics, mechanic workshops, etc. For purpose of discussion, the paper refers to retailing in general.

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<sup>1</sup>Michael Levy and Barton A. Weitz, *Retailing Management*, 2<sup>nd</sup> ed. (Chicago: Irwin, 1995), 9.

<sup>2</sup>J. Barry Mason, Morris L. Mayer and Judy B. Wilkinson, *Modern Retailing: Theory and Practice*, 6th ed. (Boston: Irwin, 1993), 7.

## 2. RETAILING ACTIVITIES IN MALAYSIA

After undergoing numerous changes over the years, the Malaysian retail industry can be described as rich with diversity, with both traditional and modern retailing systems coexist. Although modern retailing has rapidly gained popularity, both systems have significant contributions and roles in the Malaysian market. This chapter will look at the two systems by studying their influences, structures, and characteristics. The following **Figure 1** illustrates the developments in retail industry with three major different eras: traditional, modern, and cyber. Cyber retailing era is relatively new and small but deserves a mention.

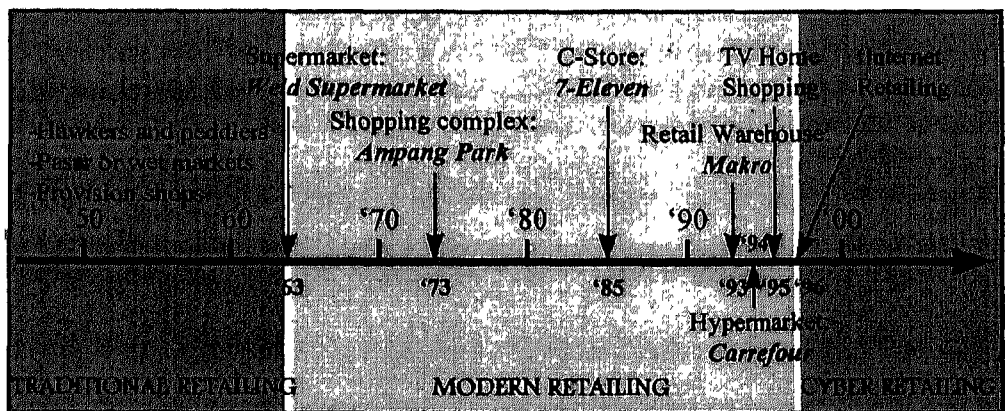


Figure 1. Development in Malaysian Retail System

## 2.1 Traditional Retailing

**Traditional retailing** refers to general retail activities that have been in the country prior to emergence of modern retailing systems. Traditional retailing is closely associated with the centuries old practice in the country. Retail activities in Malaysia began as early as when people learned to trade since they could not be self-sufficient. People traded for their daily needs and requirements that they themselves could not make. During the Malacca Sultanate in the 1400s, trade activities flourished. Throughout the years, retailing activities evolved and took on various shapes and sizes. Today, these retail structures and systems coexist although some have become more prominent than others.

The traditional business activities in Malaysia can be associated closely with its multiethnic background. The multiracial composition of Malaysia provides for the varieties in the Malaysian way of life, including in the retail sector. Although the Chinese community in Malaysia has been closely related to and has influenced business activities, it must be noted that other communities—the Malays, the Indians, and others—have contributed to the retail development in Malaysia as well. The Chinese immigrants brought with them a marketing system similar to that found in China; similarly, the Indian immigrants from India. Additionally, colonialism brought in Western influences. All these influences have enriched the local Malay system,

making up the multifaceted retail system. Today, these influences remain prominent, and the combination of these multiethnic systems makes up the unique characteristics of the Malaysian retail system.

Although the three main ethnic groups are involved similar retail activities, each of them has shown prominence or stronger presence in certain sectors. The Chinese retailers have strong representation in the provision shop sector, and the Indians are strong in the textile and clothing sectors. Meanwhile, the Malay retailers are more active in the handicraft and agricultural product sectors. In food retailing, the presence of all ethnic groups is equally strong because of the mixed market needs for ethnic flavors.

### 2.1.1 Main Characteristics of Traditional Retailing

Traditional retailing operations in Malaysia are best described as small and informal. They are normally family-operated business and not uncommonly one-man operations. In short, “mom and pop” operation best describes them. Additional help to manage the business normally comes from family members, e.g. children and relatives. Some retailers hire helping hands when the operations grow bigger. Retailers are normally producers themselves; thus, the operations are mostly vertically integrated. In the early days, the goods were mostly daily household needs, e.g. food and clothing. Product variety and assortment for each retailer are limited since most retailers concentrate in one

product group. As their businesses progress, retailers widen their product offering.

The pricing structure in the traditional system is different from the modern system such that although prices are set, they are not fixed. Retailers normally set prices higher in the expectation of bargaining with some allowance for profits when the prices are reduced. In the Malaysian society, bargaining or “tawar-menawar” can be considered a business ritual, especially at traditional non-food retail outlets. Consumers negotiate for price. As such, business transactions are not merely business interactions; they are also social interactions.

### 2.1.2 Hawkers and Peddlers

The retail system of hawkers and peddlers is an institution in Malaysia’s retail industry. The centuries old system has maintained its popularity until today despite emergence of other retail systems. These mobile and itinerant retailers have played considerable social and economic roles in the Malaysian society, providing widespread distributions. They provide access to goods and services even to those communities that are remotely distanced from business and commercial centers. The hawkers operate individually or collectively. Until today, hawkers and itinerant peddlers offer the easiest way to obtain fresh foodstuff and other products at normally cheaper prices due to their lower overheads.

### 2.1.3 Pasar or Wet Market

The term *pasar* by definition refers to a market formed by a congregation of hawkers, peddlers, and salespersons in open-air designated areas. *Pasar* takes on various looks and sizes. They are also known as “wet market” due to their wet condition. This retail structure has been an integral part of Malaysian retail sector for a long time. Its development has been given little attention, but *pasar* remains as a competitive alternative to other retail outlets until today.

The structure of a *pasar* is rather loose. Its makeshift setup allows locational flexibility. This flexibility attracts merchandisers of all sorts; eventually, this results in wide product offering. A consumer can find most household items at reasonably lower prices than at other retail outlets. Even in urban areas, *pasar* activities have continued in residential districts. *Pasar* has sustained its popularity due to consumer's perception that it offers wide variety of products at low prices. The prices are normally lower because most sellers are producers themselves and overheads are typically low. Today, most *pasars* are housed in dedicated buildings because of concerns over cleanliness and hygienic factors.

While wet markets are daily business operations, there are other types of *pasars* which are held periodically, e.g. weekly and biweekly. These markets take on their names from their unique characteristics, e.g. *pasar malam* (night market) and *pasar tani* (selling agricultural products). *Pasar malam*, which is

normally held weekly, remains as a popular source for consumers for their weekly groceries.

#### 2.1.4 Provision Shop

A more structured traditional retail system is seen in the operations of provision shops. These provision shops are sometimes known as “mamak shop” (owners are of Indian descent) and “apek shop” (owners are of Chinese descent). Provision shops are typically family-run and handed down from one generation to another. Most provision shops are located in residential areas, and they normally draw their customers from the neighborhood. Merchandise are mostly daily household items. Business transactions are done in fairly traditional and informal ways. Most times, regular patronage will be complemented with credit facilities. The provision shop operators are now facing a problem with succession, which has arisen from disinterest among new generations who prefer employment elsewhere with better incomes and working conditions.

In the rural areas and less developed parts of the country, traditional retailing systems are still widely present and accepted. They maintain their integral contribution and role in the communities. In contrast, in urban areas, these traditional systems are facing threats from modern retailing systems. Despite the threats, it is expected that these traditional systems will not disappear altogether since their roles will be redefined to support the new systems and



structures. This phenomenon is not specific to Malaysia. The existence of different retail structures confirms the proposition that the heterogeneity within developing countries often leads to a fragmented retailing structure.<sup>3</sup>

## 2.2 Modern Retailing

Most modern retailing systems are said to have originated from the United States. In Malaysia, modern retailing era began in the early 1960s. Since then, new retail structures started to emerge in the market and gain acceptance by the Malaysian consumers.

### 2.2.1 Supermarkets and Department Stores

The emergence of modern retailing system in Malaysia was marked by the opening of the first purpose built supermarket, Weld Supermarket, in Kuala Lumpur in 1963. The supermarket concept is considered one of the most interesting marketing innovations that has changed retailing environment in developing countries.<sup>4</sup> In Malaysia, initially supermarket customers were mostly Europeans and other expatriates, and local customers from the upper

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<sup>3</sup>Joanna Kinsey, *Marketing in Developing Countries* (London: Macmillan Education, 1988), 285.

<sup>4</sup>Khalifa Othman, "Patterns of Supermarket Use in Malaysia," *Retailing Environments in Developing Countries*, edited by Allan M. Findlay, Ronan Paddison, and John A. Dawson (London: Rutledge, 1990), 205.

income groups. Supermarkets were considered expensive outlets that catered only for the higher income group.

Today, the supermarket industry is exploding all over Southeast Asia, fueled by the increasing affluence of the 1.7 billion people whose 14 countries make up the fastest growing region in the world.<sup>5</sup> Similar phenomenon is happening in Malaysia. The supermarkets are gaining larger acceptance with increased income and standards of living, especially in the urban areas. In addition, shoppers are showing their preference for the comfort and convenience of modern supermarkets.<sup>6</sup>

When first introduced, most supermarkets operated on a stand-alone basis, i.e. in their own separate buildings concentrated in major towns. Today, new supermarkets are mushrooming in large housing development areas. Big supermarket retailers like Jaya Jusco, Hankyu Jaya, Yaohan, and Cold Storage are anchor tenants in many shopping complexes. At the same time, new retail companies are emerging in the local market. For instance, NTUC Fairprice Cooperative, the largest supermarket chain in Singapore, has planned to open 25 outlets in Malaysia within a five-year period ending 1998.

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<sup>5</sup>“Special Report: Asia Supermarket ‘94,” *Asian Retailer* (Kuala Lumpur), Dec 1993/Jan 1994, 82.

<sup>6</sup>*Ibid.*

Supermarkets are direct competitors to the wet markets where consumers traditionally have purchased their groceries. Supermarkets are becoming a more attractive alternative due to their wide product offerings, longer operating hours, better atmosphere and presentation despite their slightly higher prices. The success of supermarkets is an indication that Malaysian consumers are acceptable to premium items and convenience despite having to pay more.

Wet markets and provision shops have to reposition themselves as modern convenience stores to survive. The advent of supermarket brought about a reactive change in the traditional provision shop business. To become more competitive with the supermarkets, many provision shop owners have converted their business to mini-markets, which offer better product range, atmosphere, and merchandising.

### 2.2.2. Planned Shopping Centers

Planned shopping centers represent the largest and fastest portion of retail space development today since the first shopping complex, Ampang Park, opened in Kuala Lumpur in 1973. A shopping center is “a planned retail development comprising multiple shops under one ownership, managed and marketed as a unit. It usually contains one or more anchor stores.”<sup>7</sup> In the early

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<sup>7</sup>Raine & Horne International Zaki + Partners Sdn Bhd, *Trends of Shopping Centre Developments in Greater Klang Valley Towards 2005* (Kuala Lumpur, 1995), 2.

days of shopping complexes, anchor tenants were mostly Japanese retailers such as Jaya Jusco, Yaohan, Isetan, and Hankyu Jaya. Recently, the emergence of local retailers is apparent in the likes of Metrojaya, Mun Loong and Parkson Grand occupying major complexes as anchor tenants.

Responding to the retail market growth, the construction industry has in the last decade put up more shopping centers than it ever had. The rapid economic growth has created retail opportunities, resulting in the establishment of retail centers all over the country. In Klang Valley alone, the current supply of retail space of approximately 14 million square feet will expand to 20 million square feet by end of 1997. If all planned projects are carried out, the total retail space will double to 40 million by the year 2000.<sup>8</sup>

While city areas are still welcoming new shopping center projects, future trends will see many developers moving to suburban areas, especially within large housing developments or new townships. Escalating land prices in city areas are the main reasons for the move. Additionally, the worsening traffic condition in city area are making in-city complexes less attractive. Today, consumers prefer to shop close to their residence. Increasingly, most developers are locating shopping centers in the suburbs to provide for easier accessibility to take advantage of the large and affluent population residing

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<sup>8</sup>Steve Foley, "Putting the Mall into Malaysia," *Retail World Asia* (Kuala Lumpur), June 1995.

there.<sup>9</sup> Among the suburbs in the Klang Valley with large shopping centers are Subang Jaya, Ampang, Bandar Utama, Cheras, and Selayang. In addition, with a booming tourism industry and ever increasing Asian economic spending power, new and exuberant shopping malls are making their presence felt with new concepts that provide a whole new shopping experience.

The initial stage of shopping complex development was concentrated in the Klang Valley. However, in the 1990s the target market for shopping complexes has expanded elsewhere in the nation. For instance, the Lion Group has a line of shopping centers across the country, i.e. Subang Parade (in Subang Jaya), Mahkota Parade (in Malacca), Klang Parade, Seremban Parade, Ipoh Parade, and Mutiara Parade (in Penang).

Although the rapid growth of retail space indicates favorable business potentials, there is a tendency of oversupply. Some industry experts predict, at the current construction rates, the industry may face a glut by end of the century. For retailers, such development would give them wider selection for locations of their outlets. Nevertheless, they must be more selective and must consider the market potentials in each of their possible outlets. The growing number of shopping centers will inevitably increase the competition among them.

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<sup>9</sup>“Gearing Toward Urbanization,” *Shopping World Asia* (Kuala Lumpur), June/July/Aug. 1997, 30.

A significant contribution of shopping complexes is that it provides new opportunities for local entrepreneurs to venture new businesses at more strategic locations. The growth of shopping complexes has spurred tremendous growth of independent retailers.

### 2.2.3 Convenience Stores

The concept of convenience stores (also known as C-stores) reached Malaysia in the mid-1980s. The biggest chain of the convenience store in the local market is the US-based 7-Eleven outlets operated by the franchisee, the Antah Group. The first outlet was introduced in 1985. The network celebrated its 10th year in Malaysia in 1995 and currently has approximately 135 outlets with average annual sales revenue of RM1.6 million. The second largest chain of C-stores is Hop-In which is owned and operated by Parkson group. Other local brands emerged in the past year, e.g. Bilo with 4 outlets and Mini Stop with 6 outlets. While traditionally C-stores operate on a stand alone basis, their development is most noticeable with their incorporation at petrol stations (this will be discussed in Chapter 4).

### 2.2.4 Non-store Retailing

Non-store retailing in Malaysia are mostly associated with direct selling or direct marketing companies such as Avon, Amway, Shaklee, and Tupperware. The growth of these companies depend on the number of their members who

play duo-roles, i.e. as distributors and customers. Some local companies like Cosway of Berjaya Group have started similar operations.

### 2.3 Traditional vs. Modern Retailing

The following **Table 1** illustrates the differences between traditional and modern retailing systems.

	<b>Traditional Retailing</b>	<b>Modern Retailing</b>
<b>Influences</b>	Malay, Chinese, and Indian community.	Western countries; by global retailers.
<b>Product</b>	Daily household and basic needs.	Daily household and basic needs, and luxury items.
<b>Pricing</b>	Prices are negotiable. Prices are typically lower due to lower overheads and lower markups since retailers are producers themselves.	Prices are fixed. Discounts are given during sales promotions and campaigns. Higher overhead costs.
<b>Promotion</b>	Words of mouth; relationship building.	Professional advertising; sales promotions.
<b>Place</b>	Mostly in residential areas. Independent locations. Typically small size.	Commercial areas and planned residential developments. Larger retail outlets.

**Table 1. Comparison between Traditional and Modern Retailing**

The presence of modern retailing in Malaysia will continuously influence the destiny of traditional retailing. However, despite the growing popularity of modern retailing, traditional retailing outfits maintain their importance in the community today and for a long time to come. What will be seen is that they will slowly adjust to current market needs. In some parts of the nation, they will continue to thrive. Both systems will continue to coexist because their differences complement each other to fill the diverse consumer needs.

#### 2.4 Food Hawkers: Living Up to the Change of Time

In 1997, there was an uproar against food hawkers in the Capital City after a comment made by the Prime Minister Datuk Sri Dr. Mahathir Mohamad. During a foreign dignitary's visit to Malaysia, the premiere blasted at some irresponsible city folks for littering in the city. While the hawkers are not totally responsible for the problem, they have been under fire since then for their partial contribution to the problem. Hawkers are now under pressure to adapt to the tremendous changes in the Capital City.

The prepared-food business is probably the most profitable business with high success rates in the Capital City. The business thrives in the city areas mainly due to the increased urban population that resulted from increased workforce. With increased number of families with two working parents and increased number of working singles, the convenience of eating out is preferred to the time spent on home-cooked meals. With the large variety of food outlets and food offerings, the citizens of the Capital City can choose to suit their tastes. Among the food sellers, hawkers offer the most varieties of foods at relatively less expensive prices.

Recently, the Dewan Bandaraya Kuala Lumpur (i.e. KL City Hall) estimated a total of more than 53,000 hawkers currently operating in the city area and KL suburbs. The number includes all mobile prepared-food sellers as well as food-stall operators. Since the number was based on operating permits issued, the