Malaysia Retail Policies and Procedures Balancing Needs and Demands

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Abstract
The research seeks to uncover allegations that hypermarkets were killing small independent shops. This research however discovered there were generally positive relationships between some hypermarkets and some small independent stores. This is because Malaysia retail policy ensures in particular local brand hypermarkets and government managed small stores survive the retail market. In the process of guarding the interest of favourite brand stores the government has marginalised less competitive stores to the extent forcing, in particular foreign brand stores, to exit Malaysia market. Customers generally were not brand-conscious they shop for convenience and price irrespective of store brand.

Introduction
The mega-stores revolution has increased shopping convenience and choices of goods and services for consumers, as well as expanding opportunities for farmers to gain access to a wider spectrum of food markets and raise their incomes (Lim et al. 2003). Some have argued, however, that it has created challenges for small retailers and suppliers who are not prepared to meet the new competition posed by modern stores (Ahmad et al. 2006). The Malaysian government has found itself in a dilemma, and has been forced to play a balancing act; large business investment is essential for economic development, but smaller local businesses are equally important to maintain the socio-economic balance of the country. The government response has been to impose guidelines on foreign hypermarkets to enable local retailers to capture some of the retail market.

The first guidelines, known as ‘Foreign participation in wholesale and retail trade guidelines’, were introduced in 1995 by the Ministry of Domestic Trade Cooperatives and Consumerism (MDTCC). These guidelines, however, were judged to be ineffective in limiting the expansion of hypermarkets. Thus, in April 2002, new guidelines took effect, increasing the minimum capital investment from MYR\(^1\)10 million to MYR50 million and the minimum floor space to 8,000 square meters. These guidelines ensured that operators of foreign mega-stores would be more financially sound. In addition, as of 2002, new foreign hypermarkets are not allowed to be constructed in local authority areas (LAAs) having fewer than 250,000 residents, or within a 3.5 km radius of residential areas and town centres. Of the 51 local authority areas (LAAs) in Malaysia, new foreign hypermarkets can be built in only 25 LAAs, due to the 250,000 population requirement (see Appendix 1). Foreign hypermarket investors are also required to submit a socio-economic impact study of the area proposed for a new hypermarket site.

Dissatisfaction over foreign hypermarkets’ existence continues, and is especially high among small and medium suppliers, who claim their revenues have been cut significantly by foreign mega-stores. In December 2004, the government introduced an addendum to the 2002 guidelines, forcing foreign hypermarkets to reserve at least 30 percent of their shelf space for locally manufactured products (MDTCC 2010). Some foreign store operators see such controls as a disincentive for maintaining a healthy business environment. The case of Carrefour (The Star Online, 2012; The Malaysian Insider 2012) selling its Malaysian branches to AEON is an example of foreign investor intolerance of Malaysian hypermarket regulation.

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1 Current MYR exchange rates (as of 5 August 2013) Malaysia Ringgit stands at USD 1 = MYR 3.1730.
Despite the government’s rigid control over foreign hypermarkets, non-government organisations (NGOs) and sundry association outcry over the death of small retailers at the hands of hypermarkets has not subsided, but has only gained strength. For instance, the President of the Federation of Sundry Goods Merchants Association Mr Lean Hing Chuan claims its membership of small stores has decreased by more than half (50,000 to 20,000 over a period of five years) (PNB 2003). Similarly, Malaysia’s leading consumer advocate, Konsumer Current argued that governmental efforts safeguarding small retailers have been futile, because small retailers are steadily disappearing from the retail subsector (Jacob 2006).

Considering these strongly contested views or issues, this study set out to examine the assertions made against hypermarkets, both foreign and local. The question this research posed is as follows: Are small retailers being pressured to close down by foreign hypermarkets (Tesco and Carrefour or now AEON) and by local hypermarkets (Giant and Mydin), or both? If such pressures are at work in the marketplace, is the government acting to monitor and control the competition?

The literature on the retailing business is comprehensive and complex. This sector comprises two main types of retailers: store and non-store retailers. The focus of this study is on store retailers, the small stores as well as the large stores or hypermarkets. Apart from scale, these stores are different in many ways. Having a grasp of these differences helps identify why customers choose one over the other, how these stores operate, and why they succeed or fail.

Research Framework
There are many reasons why stores operate the way they do; however, such reasons and the assumptions behind them are unacceptable until verified and supported by concrete ideas or theories. Malcolm McNair’s (McNair 1913) theory of the ‘wheel of retailing’, for instance, provides a basic yet relatively comprehensive discussion on the evolution of retailing. The theory describes an evolutionary process consisting of three phases: the entry phase, trade-up phase, and vulnerable phase. The entry phase includes the opening of innovative retail establishments, which initially offer limited products with low prices and minimal services. Due to lack of services and products offered and low market penetration, these stores must operate on low margins. Low margins in turn reduce prices, leading to increased penetration of the market. Over time, competitors imitate and adapt these same characteristics, until later, the marketplace contains many retailers at this level, all sharing the same characteristics. Innovative retailers will progress beyond this level to the trade-up phase, offering expanded services, enhanced facilities, and improved products at higher prices. These stores target middle-income consumers rather than low-income customers or bargain seekers. In short, the trade-up phase is characterised by increases in sales, volume, profitability, and market share due to improvement of stores’ retail mix. Yong Zhen (2013) improved on McNair’s theory by explaining the forces that drive the trade-up phase and expanding the context of the retail sector to include developing countries, whereas McNair’s theory was based exclusively upon the retail environment of the United States and Europe.

Yong Zhen presents his ideas based on multiple elements, including governmental and cultural factors significant in creating retail change in developing and newly emerging markets, and pull and push factors created by customers, suppliers, retailers, technology, and the economic environment. Customers, suppliers, retailers, technology, and the economic environment work together to cause retail change. In Yong Zhen’s model, customer refers to the consumer who has demand for products and services for personal use. Supplier refers to a firm that provides products and services to retailers. Retailers are firms selling products and services to customers. Technology influences every process of retail business including production, distribution, merchandising and sales, by which it contributes to retail change. The economic system is defined as the competitive environment in which retailers compete.
When a retailer enters a market that operates under a different economic system from its home market, the influence of the economic system must be considered. In a free-market economy, for instance, customer demand is the most dynamic factor and always tends to ‘pull’ retail change, as in the case of Europe and the United States. Conversely, in emerging economies, retailing is often strictly regulated and government plays an important role in retail change. Technology and economic environment may give retailers competitive advantages over other retailers in attracting customers. When a retail change happens, many followers will imitate the pioneer. The nature of the retail industry is for many retailers to compete for the resources supporting the development of competitive advantages. Without the successful development of competitive advantages, without changes in consumer demand, no retail change could happen. After a new demand is met, eventually consumer demand for the innovation tends to diminish, while other new demands emerge. Subsequently, new ‘pull’ forces will emerge.

Yong Zhen hypothesized that demands of customers are diversified. In trying to meet these demands, retailers create new retail formats or processes by using new technologies, which will change the supply chain, especially the methods of merchandising and of delivering goods and services. The retail change then tends to follow two directions, the first being merchandising mix and the second change in retail process. In the former, customer demand for value and convenience drives continued expansion of one-stop shopping, implying the growth of hypermarkets and mega-malls. At the other end, the demand for limited inventory may stimulate the increase of specialty stores with greater variety of products. In the latter, multi-channel stores and new channel stores may merge to meet customer demand for new shopping experiences and convenience.

The hypermarket business is lucrative and very competitive. According to Yong Zhen, these retailers have to be on their toes at all times to ensure survival and sustainability. For instance, big players like Carrefour and Tesco opted to grow larger, to ensure they remain at the forefront of the hypermarket business. Not long after the changes made by Carrefour and Tesco, other retail businesses followed suit. This scenario is in line with McNair’s explanation of the trade-up phase and Yong Zhen’s explanation of how change occurs through push and pull factors created by customers and the environment.

Intensity of change could force retailers to integrate vertically, horizontally or even laterally in their search for ways to reduce risk and uncertainty in the supply chain, as well as obtaining and realising economies of scale and scope (Lindblom 2004). Of late, these integration activities have taken the form of mergers and acquisitions (M&As) and the establishment of long-term partnerships either via joint ventures or what may be regarded as strategic alliances between similar types of retailers (Elmuti and Kathawala 2007). In accord with McNair, the wheel keeps on turning, introducing still more new patterns of retail business.

In the process of change, a chain reaction very frequently takes place. The principal gain that hypermarkets have brought to suppliers is volume. In addition, the demand increases of hypermarkets have in several respects forced suppliers to raise their game, elevating the quality of their output, the variety of what they produce, and the condition in which goods reach the end user. However, as consumer expenditures on food have increased, so has the share of that expenditure attained by hypermarkets (Mitchell 2006). Unless government intervenes to help independent retailers or to force suppliers to behave, the small independent retailers have to buy through hypermarkets (Kaliapan et al. 2009). As mentioned by Yong Zhen, the fate of independent small retailers in emerging economies is more positive compared to those the United States and Europe because government is always present to regulate big business behaviour. Cases of aggressive behaviour by hypermarkets in the United States and Europe cannot be directly applied to emerging economies.
Dwyer (2007) discusses how American citizens have blocked the expansion of hypermarkets, with about half the states in the United States enacting special taxes and other laws to curb chain store proliferation, and that this type of response should be emulated in emerging economies because of the resulting benefit to small independent retailers. Because of the social and political culture, however, citizens in emerging economies are generally voiceless, and their grievances seldom get the attention of politicians. As Yong Zhen observed in the case of China, public opposition is nonexistent or weak. In accord with some studies conducted in India, China and Malaysia, the pattern of mega-store growth and expansion continues undisturbed, because the concept of growth held by citizens and government officials differs with that of more advanced economies.

Indeed, there is no one model that could be used in all countries to describe the change and consequences produced by hypermarkets. Stacy Mitchell (2006) discusses the element of scale as a weapon that kills small independent stores, but it may not be applicable in some countries. Mitchell argues that a community may have more square footage of retail space than the spending power of local consumers can support. Hypermarkets can flood the market with excess retail capacity, and inevitably capsizing the independent small retailers and pressuring suppliers for special deals. The consequences are not only to downsize, displace or close existing businesses altogether, but also to cause job losses among smaller stores and suppliers. The same line of argument was raised by Neumark et al. (Neumark et al. 2007) who found that on average, a Wal-Mart store opening eliminates 180 more retail jobs than it creates. The authors concluded that no matter how well-run or popular small independent stores are, they cannot withstand the sustained attack by hypermarkets. Interestingly, this argument is not valid in certain developing countries or regions. Krafft and Mantrala (2010) and Traill (2006) argue that in India, emergence of hypermarkets means the creation of jobs for the locals and opportunities for suppliers to expand their business. This confirms the contention that despite attack, hypermarkets investments remain strong especially in emerging economies.

In light of the above argument, this research seeks to uncover Malaysia’s policy stance on hypermarkets based on the current allegation that hypermarkets are killing small independent stores. The Federation of Sundry Goods Merchants Association has received many complaints from sundry shops claiming they cannot match hypermarkets on product volume, variety, and prices. As a result, registered sundry stores have decreased by more than half (from 50,000 to 20,000), with large numbers of sundry shops going out of business (PNB 2003).

**Research Methodology**

The focus of this paper is on hypermarkets and small independent stores. Hypermarket is defined as ‘a standalone self-service distribution store with sales floor area of 5,000 square meters or more selling a wide variety of mainly consumer goods, comprising a mix of food and non-food products, a range of transaction sizes or quantities and in different forms of packaging’ (MDTCC 2010). Small independent stores are non-chain stores and shops located within the vicinity of a hypermarket such as general stores, specialty stores, bakeries, etc. The geographical focus of this research is Malaysia, and under investigation are small independent stores located within a 3.5km radius of a hypermarket. Only four major hypermarkets are targeted: two foreign-owned hypermarkets, Tesco and Carrefour, and two Malaysian brand hypermarkets, Giant and Mydin. Brief background information on these stores appears below.

Tesco (Malaysia) is one of the largest British food retailers in Malaysia in terms of sales. It operates Tesco and Tesco Extra stores for the mass market. Tesco carries locally sourced products as well as a sizeable proportion of imported products, especially from the United Kingdom (Tesco 2012).

Carrefour (Malaysia) is a French hypermarket that carries a wide variety of local products as well as some imported products, especially from Europe. On October 31, 2012, Carrefour announced that it had finalised the sale of its Malaysian operations to Japanese retail giant AEON as part of Carrefour’s
strategy of reallocating its resources to other mature and emerging markets. Carrefour has been renamed AEON BIG (Carrefour 2013).

Giant is a Malaysian brand owned by Giant Capital Holdings (GCH). It was founded in 1944 by the Teng family in Kuala Lumpur and today is the largest supermarket-hypermarket chain in Malaysia (Giant 2012).

Mydin is owned by Mydin Mohamed Holdings Berhad, a Malaysia-based company. Mydin started in 1957 as a small shop selling toys and general merchandise. As of May 2012, the company operated 94 outlets nationwide, which include seven hypermarkets, 18 emporiums, three bazaars, 52 mini-marts (called MyMydin), nine convenience stores (called MyMart), and six franchise outlets operating as Mydin Mart (Mydin 2013).

Four tasks were undertaken to answer the primary research question regarding Malaysia’s policy stance on hypermarkets and response to the current allegation that hypermarkets are putting small stores out of business. The first is an examination of foreign hypermarkets’ adherence to the Ministry of Domestic Trade, Cooperatives and Consumerism (MDTCC) guidelines. At the same time, we measured the distances between local hypermarkets and foreign and local hypermarkets. The objective of this observation is to measure the level of competitiveness among large stores and the consequences on smaller stores in the area covered by the MDTCC Guidelines on Foreign Participation in the Distributive Trade Services (MDTCC 2010).

The second task was obtaining customers’ perceptions on hypermarkets and small independent stores. The third task involved gathering information from small independent stores located within a 3.5km radius of a hypermarket. The fourth task involved surveying suppliers and relevant government offices, namely MDTCC, selected local authorities, Federation of Sundry Goods Merchants Association, Retail Trade Associations, and Chambers of Commerce seeking answers on their views of the present confrontation between hypermarkets and small independent stores.

Field Study
The area chosen for this study is vast, and the hypermarkets and small independent stores being studied are sparsely distributed. A pilot study was carried out to identify possible deficiencies delay the study scheduled. In some Local Authority Areas (LAAs), the study found multiple hypermarkets of the same brand; in such cases, only one of the same named hypermarkets was chosen for in-depth study. In addition, there were cases of closed or relocated hypermarkets. The study also found newly constructed hypermarkets that were not yet included on the official MDTCC list. At the end of the pilot survey, 103 hypermarkets were itemised for in-depth study, as listed in Appendix 2.

Hypermarket Survey
As of December 2012, there were 141 hypermarkets distributed throughout Malaysia, with concentrations in major cities and densely populated areas, namely Selangor, Federal Territory of Kuala Lumpur, and Johor Bharu. For purposes of this research, the locations of hypermarkets are arranged by region according to Local Authority Area. There are five regions: The northern region consists of the states of Kedah, Perlis, Perak and Penang; the southern region consists of the states of Melaka, Negeri Sembilan and Johor; the east-coast region consists of Kelantan, Terengganu, and Pahang; the central region consists of the Federal Territories of Kuala Lumpur and Putra Jaya and Selangor; and the eastern region includes Sabah and Sarawak, See Figure 1. The pilot study reduced the number of hypermarkets to 103, after taking into consideration duplication of same brand hypermarket in one area. Information collected from hypermarkets included store size, distance from residential areas and the town centre, hours open for business, and the outlets/small stores inside the hypermarket premises.
Small Store Survey
Small stores are non-chain stores and sundry stores generally sell groceries and other goods directly to customers in small quantities, such as specialty stores, bakeries, etc. In the context of Malaysia, small stores are common features in every village and residential district. The objective of the small stores survey is to examine the possible causes of small stores losing or gaining customers due to the existence of hypermarkets in the vicinity. The survey was undertaken with no predetermined sample size because there were no ready statistics available. The assignment was conducted on an ongoing basis, by stopping at stores within 3.5km vicinity of a hypermarket. Apart from completion of an observational checklist on the shop’s location and structure, the survey utilized questionnaires on opinions regarding hypermarkets to collect information.

Customer Survey
Customers were selected through systematic sampling, a method that is more simple and less likely to result in selection errors. The survey selected one customer randomly to begin, and subsequently every twentieth customer thereafter. The survey comprised 20 questionnaire forms for each hypermarket area, and 600 answered questionnaires in total. Even with only 20 questionnaires to an area, the data collected was more than sufficient because the answers given were generally the same.

Supplier Survey
Supplier here refers to a business offering goods that are purchased by independent stores to stock their shops. Among these are wholesalers and agricultural farmers’ agents (FAMAs).

Analysis
This research seeks to establish Malaysia’s policy stance on the regulation of hypermarkets in view of allegation that hypermarkets are killing small independent stores. Should the allegation be true, what actions is the government taking to monitor and rectify the unfair competition? Conversely, if these claims of unfairness are unjustified, what are the reasons for drawing that conclusion?
Answers to the above questions were obtained from analysis of three datasets. The first involves measuring - according to the MDTCC’s 2010 guidelines—distance from hypermarkets to residential areas and town centres. Per the guidelines, hypermarkets are not permitted within a 3.5km radius of residential areas and town centres, and establishment of hypermarkets is not allowed in LAAs with fewer than 250,000 population. Answers obtained from this investigation indicate weakness or strength in enforcement of regulations limiting the expansion of hypermarkets in a particular LAA. The second source of data is a survey revealing customers’ shopping preferences and the rationale for their choices. The third data source is interviews with proprietors of small stores seeking their opinions on the effect hypermarkets may have on their business. Analysis begins with discussions on hypermarkets’ adherence to MDTCC rules.

**Hypermarket Compliance with MDTCC Guidelines**

The Ministry of Domestic Trade, Cooperatives and Consumerism’s (MDTCC) Guidelines on Foreign Participation in the Distributive Trade Services in Malaysia is a regulatory instrument to ensure that foreign hypermarkets do not monopolise the retail market. Worth noting here is the fact that local hypermarkets (Giant and Mydin), although having equally large retail space, are not controlled by the guidelines. For comparative purposes, and to check for possible damage that they may have caused small independent retailers, they are included in the distance measurements as well.

Of the 103 hypermarkets surveyed, all were close to residential areas, and 32 hypermarkets were close to (about 50 to 200 meters) residential boundary fences (see Figure 2). However, it is necessary to note that some of these hypermarkets were built before the rules regarding distance were enforced. In addition, the reverse has also happened, with new housing developments being built after the opening of some hypermarkets. As of the time of this study (2011–2012), all foreign hypermarkets are noncompliant with the MDTCC guidelines in terms of distance to residential area. In fact, the level of noncompliance is blatant; for example, seven Carrefour stores (28 percent of Carrefour’s total) and 13 Tesco stores (38 percent of Tesco’s total) are located within 50–200 meters of a residential area. Of course, local hypermarkets are not left out of the chase for market space; 11 (27.7 percent) Giant and one (out of four surveyed) Mydin stores stand within about 50–200 meters of residential housing.

![Figure 2 Incompliance Hypermarket Distance to MDTCC Guideline](Source Author’s field survey, 2012)

The pattern of noncompliance with the other distance guideline is equally bad; 40 percent of hypermarkets are located less than 3.5km from city centres; of this total, 41 percent are Tesco stores.
and 36 percent are Carrefour stores. As always, foreign hypermarkets are not without local competition; Giant stores are also located at similar distances.

The third measure of compliance is hypermarkets built in LAAs with populations of fewer than 250,000 residents. Hypermarkets are located in LAAs with populations under 250,000 in the following regions: in the central region, two Carrefour stores; in the southern region, two Tesco, one Carrefour and three Giant; and in the northern region, two Tesco and two Giant stores.

The guidelines are intended to influence and control behaviour and to induce hypermarkets to act in accordance with government-prescribed rules. However, noncompliance is rampant, implying that the guidelines are ineffective. This noncompliance has many causes. In the case of this study, noncompliance may arise from ambiguity in the law, lack of clarity and conflicting policy standards, or failure to communicate policies to those affected by them. For example, in some cases there are two hypermarkets, one foreign and one local, competing in the same vicinity. However, the foreign store is restricted by rules and regulations, while the local store is free to perform as it pleases. How can stores survive in such a competitive environment? One answer may be that the brand that is less profitable or in greater danger of failure has no choice but to violate in an effort to survive. In sum, noncompliance may stem from structural defects in the guidelines and their administration.

The burden of securing compliance with policy or guidelines should rest primarily with administrative agencies, in this case MDTCC\textsuperscript{2}. The broad purpose of an enforcement agency is to secure compliance with policy; however, this may not be possible when the agency itself is uncertain of its mandated role. For instance, this research finds that MDTCC is unable to explain why foreign hypermarkets are not complying with its rules, which implies that there is an unwritten policy agenda to close one eye to noncompliance for the sake of economic development. The conclusion is somewhat confirmed by Mohd Zain Mohd Dom, the Secretary General of MDTCC, who has said: “It is difficult to put a marker on the number of hypermarkets and superstores based on the size of population alone [or distance to the centre]. A rich population may need more hypermarkets” (Vasantha 2010). Statements with the same connotation have been made by Ismail Sabri Yaakob, the then Minister of Domestic Trade, Co-operatives and Consumerism, who has said that hypermarkets, irrespective of local or foreign ownership, should be given highest agenda status because they are considered essential components for national economic development (MDTCC 2010).

This statement in a way gives a mandate to both local and foreign hypermarkets to expand wherever there is demand. Therefore, it is not surprising to find foreign hypermarket locations in small towns with fewer than 100,000 people, such as Kampar and Teluk Intan in Perak. Finding hypermarkets in the city and urban centres, where they compete for retail customers with small chain stores, is also common. Does this imply that Malaysian hypermarket guidelines are merely a façade to satisfy local retailers? In addition, which local retailers are the MDTCC guidelines intended to protect?\textsuperscript{3} Could it be the small independent retailers, or the operators of chain stores like Giant and Mydin?

This research finds that the MDTCC guidelines could not be designed to benefit local small independent stores, since local chain stores exert strong domination over all urban centres. For

\begin{footnote}{From 6 January 2010 on, all proposals for foreign involvement in distributive trade must obtain the approval of MDTCC. These include: acquisition of interest; mergers and/or takeovers by foreign parties; opening of new branches, outlets, or chain stores; relocation of branches, outlets, or chain stores; expansion of existing branches, outlets, or chain stores; buying out or taking over outlets of other operators; and the purchase and sale of properties to operate distributive trade activities prior to obtaining the approval or licence from local authorities and other agencies to operate distributive trade enterprises. This guideline seeks to: a) ensure orderly and fair development of the industry, while ensuring the growth of local businesses; b) encourage the modernisation and increase the efficiency of the industry and its continued contribution to the growth of the economy; and c) increase Bumiputera participation in the economic sector, in line with the National Development Policy.}

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example, consider an urban centre in Selangor called USJ1. The development of hypermarket and shopping complexes in this area is growing beyond the scope dictated by logical planning ethic. There are Mydin and Giant hypermarkets (both markets with trading space of about 7,432 square meters) located within 100 meters of each other; next to the two hypermarkets is Da Men centre, spanning approximately 8.98 hectares, with even more shops and a shopping mall. Meanwhile, just a stone’s throw away (0.38km) there is a Summit shopping complex consisting of many chain stores, including a Giant supermarket. About 2.3km away, there is the Subang Parade shopping center, with additional chain stores operating inside it, (see Table 2).

Table 2 Compliance – Distance to Residential Areas and Town Centre

<table>
<thead>
<tr>
<th>Stores</th>
<th>50-200m</th>
<th>500-900m</th>
<th>1-3.5km</th>
<th>1-3.5km</th>
<th>&gt;3.5km</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrefour</td>
<td>7 (28.0)</td>
<td>4 (16.0)</td>
<td>14 (56.0)</td>
<td>9 (36.0)</td>
<td>16 (64.0)</td>
</tr>
<tr>
<td>Tesco</td>
<td>13 (38.0)</td>
<td>9 (27.0)</td>
<td>12 (35.0)</td>
<td>14 (41.0)</td>
<td>20 (61.0)</td>
</tr>
<tr>
<td>Giant</td>
<td>11 (28.0)</td>
<td>16 (40.0)</td>
<td>13 (32.0)</td>
<td>16 (40.0)</td>
<td>24 (60.0)</td>
</tr>
<tr>
<td>Mydin</td>
<td>1 (25.0)</td>
<td>1 (25.0)</td>
<td>2 (50.0)</td>
<td>2 (50.0)</td>
<td>2 (50.0)</td>
</tr>
<tr>
<td>Total</td>
<td>32 (31.1)</td>
<td>30 (29.1)</td>
<td>41 (40.0)</td>
<td>41 (40.0)</td>
<td>62 (60.0)</td>
</tr>
</tbody>
</table>

Source: Author’s field survey, 2012.

Besides locational “freedom”, the big local corporations, like Giant and Mydin, have another advantage, the ability to operate small distribution outlets\(^4\). Mydin, for instance, although it operates fewer (11) hypermarkets than Tesco (47 hypermarkets) and Carrefour (26 hypermarkets), it also has small distribution outlets in the form of emporiums (18), bazaars (3), mini-marts (52 total, operating as MyMydin), convenience stores (nine total, operating as MyMart) and six franchise outlets (operating as Mydin Mart). A similar pattern is found at Giant Malaysia corporation; in addition to 50 Giant hypermarkets, it operates 46 supermarkets and 32 superstores.

Here the most logical conclusion is that the purpose of the MDTCC guidelines is largely to safeguard the interests of the large local established retailers. The small independent retailers, as discussed in the following paragraphs, have insignificant relationship to the MDTCC guidelines per se; instead, they are assisted by different policy agendas.

**Small Stores**

Small stores in this discussion are defined as non-chain stores such as sundry stores, and they generally sell groceries and other daily goods directly to customers in small quantities, including specialty stores, bakeries, etc. Franchise stores such as 7/11, KK mini-mart, etc., are not considered small stores in this research. Stores that are located outside the 3.5 kilometer radius of a hypermarket are also outside the scope of this research.

In total, 521 small stores were surveyed and 81 percent of these independent stores are located within 1 km of a hypermarket; more than 40 percent are grocery stores (see Tables 3).

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\(^4\)One of foreign hypermarkets’ operating conditions is to operate stores on the outskirts of major towns on standalone basis, offering only basic amenities.
Table 3 Small Stores, by Type of Structure

<table>
<thead>
<tr>
<th>Types</th>
<th>Number of Stores</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>211</td>
<td>40.5</td>
</tr>
<tr>
<td>Clothing</td>
<td>41</td>
<td>7.9</td>
</tr>
<tr>
<td>Accessories</td>
<td>17</td>
<td>3.3</td>
</tr>
<tr>
<td>Stationery</td>
<td>35</td>
<td>6.7</td>
</tr>
<tr>
<td>Sport shops</td>
<td>10</td>
<td>1.9</td>
</tr>
<tr>
<td>Electrical</td>
<td>31</td>
<td>6.0</td>
</tr>
<tr>
<td>Souvenirs</td>
<td>7</td>
<td>1.3</td>
</tr>
<tr>
<td>Hardware</td>
<td>38</td>
<td>7.3</td>
</tr>
<tr>
<td>Interior decorations</td>
<td>28</td>
<td>5.4</td>
</tr>
<tr>
<td>Ready made foods</td>
<td>28</td>
<td>5.4</td>
</tr>
<tr>
<td>Computer parts and services</td>
<td>33</td>
<td>6.3</td>
</tr>
<tr>
<td>General services</td>
<td>10</td>
<td>1.9</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>12</td>
<td>2.3</td>
</tr>
<tr>
<td>Workshops</td>
<td>15</td>
<td>2.9</td>
</tr>
<tr>
<td>Mixed</td>
<td>5</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>521</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source Author’s field survey, 2012.

Structurally, about 80 percent of these stores are in the form of row or terrace shops, located adjacent to (i.e., less than 1km from) a hypermarket, near shops or office buildings, near many chain stores like 7/11 or Mymart, near chain restaurants like Kopitiam, KFC, and McDonalds, and near banks. Standalone wooden shops, all selling groceries, are located more than 3.5km from a hypermarket (see Table 4).

Table 4 Small Store Distance to Hypermarket

<table>
<thead>
<tr>
<th>Store distance to hypermarket</th>
<th>Small stores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>&lt;1km</td>
<td>421</td>
</tr>
<tr>
<td>1-2km</td>
<td>27</td>
</tr>
<tr>
<td>3-3.5</td>
<td>51</td>
</tr>
<tr>
<td>&gt;3.5km</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>521</td>
</tr>
</tbody>
</table>

Source Author’s field survey, 2012.

Stores registered under sole proprietorship dominate (40 percent), followed by private limited companies and partnerships. Unregistered companies run by individuals make up a very small part of the total (3 percent). Generally, workers per shop average between one and four. In terms of sales, the majority garner profits of between USD3,300\(^5\) and USD11,300 monthly (or between USD38,760 and USD145,360 annually). Enterprises in this range of earnings are classified as small enterprises (2005) in total, there are about 548,267 enterprises of this scale, comprising 99.2 percent of the Small Medium Enterprises subsector.\(^6\)

Representation of small enterprises in the national development agenda implies there are incentives allocated for this subsector to continue growing. According to Small and Medium Industries

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\(^{5}\) Exchange rate was 1 Ringgit Malaysia (MYR) equivalent to USD 0.320 as of April 2013.

\(^{6}\) Ibid
Corporation (SMIDEC), small business ventures could get access to financing via direct government funds and initiatives. These funds (as of 2006, the total was USD22 billion) are managed by several agencies and are available in the form of soft loans, grants, equity financing, and venture capital. The latest innovation to help small independent retailers is promoted under the Small Retailer Transformation Programme or TUKAR for short (MDTCC 2011). The objective of TUKAR is to facilitate the modernisation of traditional sundry stores nationwide, thereby addressing the need of independent small retailers to remain competitive in the retail environment. In light of this grand agenda, this study probed the extent of benefits gain by small retailers and, most importantly, the outlook for small independent retailers in comparison to hypermarkets.

Small Stores’ Perceptions of Hypermarkets
The first question asked to the owners of small stores was their perceptions of hypermarkets. According to their feedback, hypermarkets ranked second (39 percent) to other shops (52 percent) as a perceived threat (see Figure 3). Here ‘other shops’ refers to other sundry stores and smaller chain stores. The small retailers’ view is supported by facts demonstrating that there are overwhelmingly large numbers of small chain stores in town. In addition to privately managed chain stores, there are also increasing numbers of TUKAR stores and Kedai Rakyat 1 Malaysia shops.

TUKAR stores are an innovation created under the Small Retailer Transformation Programme agenda. In the TUKAR concept, three hypermarkets, Mydin, Tesco, and Carrefour, are appointed to provide advisory services on modernisation, redesigning of store layouts, and training in the preparation of planograms (diagrams or models that indicate the placement of retail products on shelves in order to maximize sales). In the Kedai Rakyat 1 Malaysia (sundry shop for all Malaysians) concept, Mydin Corporation is appointed as the primary supplier of goods to these stores and as consultant in matters relating to operation. The objectives of this initiative are three-fold. The first is to ensure that low-income people are able to purchase good-quality basic foods at reasonable prices; the second is to promote and sustain the growth of small store suppliers; and the third is to give traditional stores the opportunity to work in collaboration with and even duplicate the success story of Mydin.

Sixty-five percent of small store respondents see the direct involvement of government—as in the form of TUKAR or Kedai Rakyat 1 Malaysia—as unnecessary, mediocre, or redundant. According to these respondents, a programme such as TUKAR is not only too rudimentary, but also demotes them to a kind of dependency, which inevitably will stunt their level of innovation and creativity. This attitude is in support of Yong Zhen’s (2013) concept that the history of retail development is the history of

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7 TUKAR means The Small Retailer Transformation Programme was introduced in January 2011 to facilitate the modernisation of 500 traditional sundry stores nationwide. This initiative addressed the need for small retailers to remain competitive in a retail environment increasingly dominated by hypermarkets and superstores. The implementation of this project is expected to contribute RM5.56 billion (USD1.83 billion) to GNI and create 51,540 new jobs by 2020.
exploring new ways to meet consumer demand. Retailers have to learn to find their own competitive edge by experimenting with different responses to diversified and ever-changing consumer needs.

The above sentence accurately captures the view of almost 60 percent of small store entrepreneurs, who see hypermarkets as competitors rather than killers. This majority said that small store failures are the fault of the government, not hypermarkets. They argued that the government—instead of interfering in how they run their businesses—should implement ways to improve their business infrastructure, such as constructing more reasonably priced business space at strategic and competitive locations, increasing their access to small business loans, and reducing bureaucratic red tape. Apparently, statements by SMIDEC to the effect that small retailers in Malaysia enjoy ample opportunity and access to funding and programmes are incongruent to the situation on the ground. There are several studies supporting this point. A study by Abdullah and Abdul Manan (2010) found that only selected small retailers gain assistance to government incentives. These authors concluded that, despite numerous programs and intense publicity, the government has failed to translate its objectives into effective action. Similarly, the accessibility and adequacy of most of the support facilities provided at the level of individual businesses are limited and fragmented. Similar points were emphasized by INPUMA researchers at a meeting of researchers and research institutes under ASEAN+3 in the Republic of Korea in 2009 (Ministry of Strategy and Finance 2009).

On the other hand, there are many small store entrepreneurs (39 percent) who dislike hypermarkets and disagree with policies that promote hypermarkets. Seven traditional store proprietors in Seberang Jaya (in Penang – northern region) claimed they had to close their shops when Tesco and Carrefour came to town. Three similar cases were mentioned in Kuala Terengganu (in Terengganu – east-coast region), where shops were closed after Giant and Mydin hypermarkets opened there. Several pre-WWII stores in Batu Pahat (Johor – Southern region) [clock store and accessories, grocery store, and a souvenir store] claimed Carrefour stores are stealing their customers.

The existence of hypermarkets in the aforementioned areas did have a direct impact on some shops; however, unlike cases reported in other countries (Mitchell 2006; Goetz and Swaminathan 2006) the emergence of hypermarkets there did not damage the town and its population. For example, the Mitchell study found that the establishment of large retailers invariably displaced sales of existing businesses. The Goetz and Swaminathan study highlighted a possible increase in poverty when hypermarkets are left to dominate a town’s retail environment. In line with the work of Yong Zhen, change introduced by emergence of hypermarkets differs by area and country. In the case of Seberang Jaya, traffic diversion caused by growth and business relocation was partially responsible for some store closures. LAA planning included Tesco and Carrefour as a consulting entity to help boost the new centre. Indeed, the new centre improved the Seberang Perai (in Penang – northern region) business landscape and increased shopping convenience for residents. Similar reasons applied to the closure of stores along the highway in Batu Pahat, Johor.

The issues faced by Kuala Terengganu entrepreneurs, however, were dissimilar to those in Seberang Perai. Kuala Terengganu is a dreary city, due to the state of its social and cultural discourse, and the volume of shoppers has always been small except during the holiday season when the city is visited by tourists from nearby states. The opening of Giant and Mydin stores has further lowered the profits of small traditional stores; retailers with weak capital reserves and poorly skilled management were hurt the most.

In some cases, other factors contributed to closures of traditional stores. As Kanbur (2003) nicely stated, ‘One form or another of displacement is often part of the development footprint. Technological change displaces workers in traditional activities. Dams displace families from their homes and villages. Interaction with the outside world displaces, or at least threatens to displace, long established cultures’ (p. 21).
Customers’ Shopping Preferences
There is a saying that without customers, you have no business being in business. Business exists because there are demands from customers. This section discusses customers’ shopping preferences between hypermarkets and small stores, and the rationale for their choices.

Stories of citizens’ opposition to emergence of hypermarkets in a neighborhood or city are plentiful. In the case of the United States, Dwyer (2007) discusses the power of a community to bring about enactment of new taxes and laws curbing the proliferation of chain stores. In this case and others in the United States, the impact of concerted citizen action stopped the expansion of large chain stores. However, in India, (Purohit and Kaur 2009) a country whose people have a relatively strong voice a different scenario is unfolding. The Indian people voice no objections to the growth of hypermarkets, instead enjoying the expanded services offered by large modern stores. These two situations are relevant to Yong Zhen’s (2013) hypothesis regarding the role of a nation’s culture and socio-economic environment. In India, hypermarekts are considered catalysts of growth, providing an excellent positive multiplier effect; i.e., the economic effect is multiplied every time there is an injection of new demand into the economy. Each injection of extra income leads to more spending, which creates more income, and so on. Patterns of Malaysian consumer support for hypermarkets are mixed, however. There are cases when residents block the construction of new hypermarkets, (Chan 2008) but there are also cases in which the community is overjoyed with the opening of a new hypermarket in their neighborhood. According to this study, the latter point is more often the case; customers do not dislike hypermarkets, nor do they bypass the independent small stores. About 75 percent of respondents say they do not mind having hypermarket nearby, or even right next to their homes (see Table 5). This will allow them to shop with less travelling distance (see Figure 4). Among all hypermarkets, the one that customers visit most often is Giant (because their representation in the market is the highest), followed by Tesco, Mydin, and Carrefour.

| Table 5 Customers’ desire for a hypermarket close to home |
|---------------------------------|-----------------|-----------------|
| Want hypermarket near home | Frequency | % of respondents |
| Indifference | 50 | 8.3 |
| Want near home | 450 | 74.9 |
| No, it increase congestion | 60 | 3.7 |
| No, it increase spending | 17 | 2.8 |
| No, has small store nearby | 17 | 2.8 |
| No answer | 6 | 1.0 |
| Total | 600 | 100.0 |

Source Author’s field survey, 2012.

| Figure 4 Trip by distance to hypermarket |

Source: Author’s field survey (2012).
Apart from distance, customers also look for variety and price. In terms of variety, with the exception of Mydin, all hypermarkets under study offer almost identical variety and choice of goods. Mydin is the exception because its inventory is limited to halal goods. In areas with majority Muslim populations (as in the cases of Kuala Terengganu, Kota Bharu in the east-coast region and, to some extent, USJ Subang Jaya in the central region), customers will opt for Mydin, even though the competitors’ hypermarkets offer higher-quality and lower-priced goods.

The choice to shop at smaller stores is also based on convenience, price, and selection. Many customers admit that small stores offer a limited choice of goods, and the prices are relatively high. When shopping for small numbers of items, however, they may prefer small stores, in order to save time travelling, parking and queuing. About 500 respondents (more than 80 percent) reported shopping at smaller stores regularly (more than one time per week) for grocery and household items compared to once a month at hypermarkets (see Figure 5). On average,

![Figure 5 Frequency Shopping at Hypermarket-Store](source: Author's field survey, 2012)

customers spend about 10 to 20 percent of their salary on grocery and household goods, which implies that hypermarkets receive a larger share of customers’ salaries due to volume purchases. Small independent stores, however, are not worse off, considering they receive regular visitation by their customers, which makes the cumulative volume comparable.

Customers’ shopping patterns are related to whether small store entrepreneurs have positive opinions regarding location of hypermarkets near their stores. Many small store entrepreneurs, especially those that sell complementary goods, view locating near a hypermarket as an advantage, because of the traffic and volume a hypermarket is able to attract. In some cases, small stores selling complementary goods, such as fresh grocery items, fresh fish, and fruits, will thrive by locating near a hypermarket because customers notice their higher quality (freshness) and variety that hypermarkets find difficult to offer.

**The Reality on the Ground**

Regarding whether hypermarkets are killing small independent stores, the evidence shows that there are generally positive relationships between hypermarkets and small independent stores. Factors such as geographical location, socio-economic elements, and socio-political considerations that are currently at work in Malaysia influence both customers’ and entrepreneurs’ behaviours.

Malaysia practices a mixed economic system that combines elements of capitalism and socialism, thus offering a combination of private economic freedom and centralized economic planning and government regulation. In this economic system, FDI or foreign investors play an important role in ensuring that government development plans meet their targets. Government therefore has continuously provided for and safeguarded the interests of foreign businesses to ensure that they
remain active in Malaysia. As an example, to some extent government is willing to overlook certain violations by foreign companies, such as allowable distances from hypermarkets to residential areas and town centres. However, the government always takes back more than it gives, as in the case of ‘directing’ hypermarkets to ‘tutor’ small retailers on the art of retailing. In accord with Yong Zhen’s description of China’s command economy, the government initiates change in the retail industry by dictating regulations and policies that force retailers not only to chase profit and competition but also to help develop other retail formats like smaller chain stores and convenience stores. The Malaysian version of the China policy is called TUKAR and Kedai Rakyat 1 Malaysia.

The saying that without customers, you have no business being in business is totally correct. Small independent stores remain popular because there is still strong customer demand for them. Considering that only about 60 percent of the country is urbanised, and a large percentage of the country’s population still practices rural or semi-rural lifestyles, many Malaysians prefer frequenting shops where they have personal relationships, and know the owner by name, the owner’s family, cashiers, etc.

By not being ultramodern and fully developed, Malaysia offers certain advantages to hypermarket investors. The glamourous appearance of hypermarkets is appreciated by many residents; in fact, some (although people from advanced countries may find this ironic) do not mind living with the hustle and bustle of hypermarket traffic. This is because they value the positive externalities produced by hypermarkets—such as lighted streets, better road systems, better security, and increased real estate prices—more highly than the negative impact of traffic and noise. The most remarkable example of this is in the new towns of Air Keroh, Melaka (southern region), and Nusajaya, Johor (new township in the southern region). These two towns were built in relatively isolated areas in the two states. Several years after completion, they looked like ghost towns, with sparse and scattered populations and empty shop lots. The government urged Mydin to build stores in these areas, and the resulting growth, especially in Air Keroh, spilled over to nearby villages, filling empty shopping lots and vacant lands with new development and bustling economic activity.

This research has found that customers and small store entrepreneurs are relatively vocal in ensuring their interests are met. Conversely, the voices of hypermarkets are not nearly as strong. Given the proliferation of hypermarkets, this should not be the case. There are currently 141 hypermarkets in Malaysia, and they operate in all LAAs, except for Perlis (located in the northern region). Of the 141 hypermarkets, 68 (48 percent) are local brands, and this number is increasing.

One key question that remains unanswered is: What is the optimal ratio of foreign to local hypermarkets for Malaysia? In accordance with the present MDTCC guidelines, foreign hypermarkets are expected to distribute local goods and also must be involved in government-designed, corporate social responsibility activities. In fact, apart from the inventory of goods they carry, it is difficult to differentiate local and foreign brand hypermarkets. It could be said that foreign hypermarkets have been localised. Perhaps, having been treated the same, foreign hypermarkets see no logic to following regulations when breaking them is so forgivable. Nevertheless, one hypermarket, Carrefour, preferred to sell off its Malaysian operations rather than play the ‘game’. Notwithstanding this fact, the entry of new foreign hypermarkets will continue, because the hypermarket business in Malaysia remains very lucrative. By the same token, as long as foreign hypermarkets are not given the same level playing field as local brands, the exit of foreign hypermarkets will continue as well.

**Conclusion**

The evolution of the retail industry in Malaysia is similar to that of advanced and newly emerging economies. The pattern of mega-retailer growth followed the same pattern identified by McNair, starting small (as in the case of Mydin, which began as a mom and pop store), and incrementally expanding into department stores, superstores, and hyperstores. Evolution and demand for higher-
quality goods were made possible by steady economic growth that pushes income and the standard of living to higher levels.

Undoubtedly, the demand for hypermarkets is growing and is expected to expand rapidly in years to come. This is line with the government objectives of establishing 61 hypermarkets (i.e., stores of 5,000 square meters and larger), 163 superstores (stores of 3,000 to 5,000 square meters) and 356 supermarkets within department stores (stores of 2,000 to 3,000 square meters) by 2020. The benefits of small independent stores are also highlighted in the national economic planning programme. In addition, under TUKAR, 5,000 stores are expected to be modernised by 2020.

The business of managing hypermarkets rests with a central agency (MDTCC); however, governmental planning of hypermarkets falls under the local authorities and the states. Once a hypermarket has obtained a licence to operate the business, monitoring compliance with the rules is left up to the local authorities. Two issues arise from this administrative arrangement. First, certain rules are blatantly ignored when survival becomes the driving force of business. The situation worsens when local hypermarkets are free to locate new stores anywhere, even next door to an existing hypermarket. Second, there is the issue of competition between local and foreign brands. Ironically, instead of mega-retailers killing independent small stores, hypermarkets are attacking each other and trying to drive each other out of business.

This research also finds that foreign mega-retailers are trying to comply with existing regulations whenever possible. Successful foreign mega-retailers like Tesco and local mega-retailers like Mydin have adopted the accepted way to do business in Malaysia. For instance, Tesco realised that they have to provide sections for local foods and drinks and traditional clothing, and offer standalone stalls inside shopping malls (a vast majority of which are operated by independent retailers) because it is the accepted Malaysian way.

The characteristics of hypermarkets in Malaysia are unique, because they have to fit in with the nation’s political and socio-economic systems. So far, these systemic demands have not discouraged local or foreign brands from investing in hypermarket business. Rather, the growth of hypermarkets is continuing to be the most important contributor to the retail subsector, which is the fourth-largest component of the nation’s Gross National Income.

References