Chapter 9

Distributive Trade and Supporting Services
I. INTRODUCTION

9.01 During the review period, the distributive trade subsector contributed moderately to the economy in terms of generating output, employment and investment. The economic slowdown resulted in more cautious consumer spending which adversely affected sales, particularly in wholesale and retail trade. Consequently, enterprises undertook rationalization and adjustments of business activities in line with the changes in market demand.

9.02 In the remaining Plan period, with the anticipated recovery of the economy, the distributive trade subsector is expected to experience positive growth and measures will be undertaken to reanimate consumer demand. Promotional campaigns on local products will be intensified and efforts will continue to be directed towards the provision of products at competitive prices to consumers. Taking cognizance of the important role of strong supporting services in increasing the efficiency of the delivery system in distributive trade, the development of complementary services will be emphasized.

II. PROGRESS, 1996-1998

9.03 During the review period, distributive trade continued to expand but at a slower rate due to the economic downturn. The wholesale and retail trade, hotels and restaurants subsector which grew at 9.3 per cent in 1996 fell to 7.0 per cent in 1997. Further decline in income growth in 1998 adversely affected business activities in the wholesale and retail trade, resulting in a negative growth rate of 2.1 per cent. The slowdown in the number of inbound tourist arrivals also affected the retail business. Consequently, the gross revenue of retail outlets decreased by 30 per cent in 1998 compared with 1997.
Emerging Trends in Distributive Trade

9.04 In line with the policy thrust of modernizing distributive trade, the retail trade subsector is undergoing structural changes. This has resulted in an increase in the number of supermarkets and department stores as well as the emergence of large area retail outlets called hypermarkets. Generally, hypermarkets were located in suburban areas, where real estate prices and operating costs were lower, and in sizeable middle- to upper middle-income residential areas. With the establishment of hypermarkets, small retail outlets such as sundry or provision shops faced stiff competition in terms of lower prices and variety of products.

9.05 In spite of the more competitive retailing environment, a recent survey on shopping habits indicated that the sundry or provision shops remained the most popular shopping outlet for groceries. Wet markets, farmers’ markets and night markets also continued to play an important role in the Malaysian shopping environment, where two out of five shoppers considered themselves regular patrons. A significant change, however, was the rapid increase in the number of shoppers at supermarkets and hypermarkets. Shoppers at supermarkets increased 1.5 times, while hypermarket shoppers more than doubled since 1995. In view of these changes, the Government commissioned a study on the impact of hypermarkets on the distributive trade subsector.

9.06 Franchising offers a means of achieving rapid growth in the establishment of a retail network with reduced risks and relatively low capital investment. Recognizing the global trend of franchising as a fast-track method of doing business, the Government implemented the Franchise Development Programme, particularly to create and develop a larger group of Bumiputera entrepreneurs in retail trade. During the review period, a total of 51 franchisors and 416 franchisees was established in businesses such as food retail outlets, computer supplies, film processing, laundry, car servicing and maintenance, cosmetics, pharmacy, optometry, hotel management as well as industrial, office and residential cleaning.

9.07 As a result of the economic slowdown, franchisors and franchisees faced constraints in terms of lower consumer demand and higher cost of operations, while potential franchisees encountered difficulties in securing loans. In this regard, the Government provided assistance through the establishment of the Franchise Financing Scheme and Small Entrepreneur Financing Fund to
assist franchisees to start their businesses. In addition, franchisors could obtain grant facilities under the Franchise Development Assistance Scheme to undertake product development. The Government, in collaboration with the Malaysian Franchise Association, also organized training courses, seminars and franchise expositions for potential franchisees.

9.08 Since the enforcement of the Direct Selling Act 1993, there was rapid growth in the direct selling industry. As at 31 December 1998, a total of 641 direct selling companies was licensed comprising 267 multi-level marketing companies, 166 single-level companies, 156 mail-order companies and 52 single-level as well as mail-order companies. The number of direct selling agents and distributors throughout the country totalled 2.8 million. The direct selling companies’ turnover in 1998 was estimated at RM4 billion, of which 48.8 per cent of the products sold were imported. In compliance with the Direct Selling Act which aims to protect the interests of consumers, direct selling activities were continuously monitored to prevent unscrupulous trade activities such as the pyramid schemes.

9.09 Another common feature during the review period was the proliferation of warehouse sales. This was with the aim of increasing sales, particularly for clothing, footwear and household furnishings. Such sales were popular among consumers as the prices were lower than in retail outlets.

**Ensuring Adequate Supply of Essential Goods**

9.10 During the review period, the depreciation of the ringgit exerted price pressures, particularly on food items and other essential goods. As part of the Government’s effort to curb inflation, the Price Information Centres increased their coverage of goods monitored from 97 to 233 items, to enable consumers to compare prices and make rational purchases. In addition, a total of 1,304 shops was recognized as *Fair Price Shops*. The Government accorded priority in ensuring an adequate supply of essential goods at reasonable prices through the close monitoring by the Task Force on Essential Goods and the Special Panel on Building Materials. In addition, the number of inspections by enforcement officers was increased to ensure correct price tagging of goods and prevent hoarding of essential goods. In this regard, *Ops Sedar* and *Ops Budget* were launched throughout the nation and about 498,000 trading premises were inspected in 1998.
Consumer Education

9.11 The Government continued the programme of consumer education to instil and increase awareness of consumers’ rights and responsibilities as well as the role of consumers in containing inflation. During the review period, 52 seminars and 188 lectures were conducted with the cooperation of the State and District Consumer Affairs Councils. The Government also published 16 categories of information brochures covering topics such as shopping tips, consumerism, home-economics, credit loan, inflation and price comparisons of products as well as distributed posters to disseminate information to consumers.

Financial Accessibility

9.12 In spite of the tight liquidity situation beginning mid-1997, outstanding loans to the wholesale and retail trade, hotels and restaurant subsector from the banking system increased from RM21,430 million at the end of 1995 to RM35,170 million in 1998. Small traders continued to get access to financial facilities from the Credit Guarantee Corporation (CGC) and commercial banks. The CGC continued to provide assistance through its schemes, namely the Principal Guarantee Scheme (PGS), Loan Fund for Hawkers and Petty Traders (LFHPT), and the Association Special Loan Scheme (ASLS). During the review period, approved loans for wholesale and retail trade under the PGS amounted to RM4,070 million or 76 per cent of total loans approved for commercial business. Loans approved under the LFHPT and ASLS totalled RM68.6 million and RM3.8 million, respectively. With the establishment of the Small Entrepreneur Fund on 27 May 1998, the LFHPT and ASLS were abolished.

Bumiputera Participation

9.13 During the review period, various government agencies, including MARA, Bank Pembangunan Malaysia Berhad, UDA Holdings Sdn. Bhd. (UHSB), Perbadanan Nasional Berhad (PNS), and State Economic Development Corporations (SEDCs), continued to implement programmes to promote Bumiputera participation in the wholesale and retail trade. Assistance was granted in various forms such as credit facilities, business premises, technical and advisory services as well as training and entrepreneurial development. In this regard, MARA continued to provide loans for the wholesale and retail trade, amounting to RM28.7 million which benefited 1,736 Bumiputera entrepreneurs. Under the Franchise Financing Scheme, a total of RM6.8 million was provided to 29
franchisees while PNS in its effort to increase Bumiputera participation in the franchise industry, provided funds totalling RM20 million to 31 entrepreneurs.

9.14 The implementation of the programme to provide business premises was slow to take-off mainly due to the difficulties in land procurement for the projects. During the review period, MARA developed shop lots and bazaars, whereby 12 projects were completed, 25 still under construction, 21 in the pre-construction stage and 8 in the planning stage. In addition, MARA built a total of 4,063 units of business space. In view of the delay and difficulty of obtaining land in attractive locations, a new approach was introduced to purchase newly completed business premises in strategic locations instead of constructing new ones. In addition, UHSB also played a prominent role in providing opportunities for Bumiputera entrepreneurs in the retail sector through the development of 11 shopping complexes located in Ipoh, Johor Bahru, Kuala Lumpur and Seremban.

9.15 The development and upgrading of Bumiputera entrepreneurial skills in retailing were undertaken by the Government through various programmes. In this regard, during the review period, a total of 350 courses was conducted benefiting 14,160 participants. The training courses focused on aspects related to preparation of business plans, financial management, accounting, stock management, business ethics and productivity improvements.

Buy Malaysian Campaign

9.16 To encourage consumers to purchase Malaysian products, the Buy Malaysian Campaign was launched nationwide in 1998. The campaign represented the combined effort of the Government, industries and media. As part of the efforts to reduce the import bill of the country and strengthen links with the manufacturing and agriculture sectors, retailers were urged to offer a wider range of locally-made and locally-grown products at reasonable prices. In the display of products, retailers also highlighted Made-in-Malaysia products by labelling these products on the shelves. To further facilitate the identification of these products, the Government introduced a Made-in-Malaysia logo.

Supporting Services and Infrastructure

9.17 During the review period, improvements in supporting services and infrastructure contributed towards a better delivery system in distributive trade. This included the expansion and upgrading of the country’s infrastructure such
as road network, rail, sea and air transport and telecommunications links. Significant improvement in transport services also contributed to fast and efficient logistics. The increased utilization of information technology (IT) and modern management technologies also facilitated the modernization of services in distributive trade.

9.18 With regard to the marketing of agricultural produce, the supporting services provided by agencies such as Federal Agricultural Marketing Authority (FAMA), Lembaga Pertubuhan Peladang, Persatuan Nelayan and Padi Beras Nasional Berhad (BERNAS) assisted the small- and medium-sized operators in terms of better price, promotion and delivery. In addition, technical and advisory services were provided to improve the grading and packaging of products.

III. PROSPECTS, 1999-2000

9.19 The level of consumer disposable income is a key factor influencing the activities of distributive trade. With the slowdown of the economy, consumers will be more cautious in an environment of uncertain employment prospects and declining real incomes. Thus, a lower rate of growth is expected for the wholesale and retail trade subsector. The revised growth target is 2.7 per cent per annum for the remaining Plan period.

9.20 Taking into account of the need to stimulate domestic demand in order to facilitate recovery of the economy, it is critical to improve consumer sentiments and increase the efficiency of the distribution channels of goods and services. In this context, the focus in the development of distributive trade is as follows:

- instituting a favourable legislative framework;
- facilitating development of new retail modes;
- providing opportunities for self-employment;
- forging links with the manufacturing and agriculture sectors;
- developing strong supporting services; and
- encouraging the use of electronic commerce (e-commerce).
Legislative Framework

9.21 In order to provide for a more orderly development of distributive trade, it is essential to continuously review existing legislations and formulate new laws to accord greater protection to consumers. In this respect, the Government will be amending a number of legislations such as the Price Control Act 1946 and the Direct Selling Act 1993 to better safeguard consumer interests. In addition, to further encourage the development of new products and provide for intellectual property rights, the Trade Marks Act 1976, the Patents Act 1983 and the Copyright Act 1987 will be amended. Discussions on the proposed amendments will be held with the Federation of Malaysian Consumer Associations (FOMCA) and the National Consumer Council.

9.22 The Government is also formulating the Consumer Protection Bill which includes the establishment of the National Consumer Advisory Council, and the Tribunal for Consumer Claims, with the objective of providing for the protection of consumers. A Trade Practices law which aims to further promote fair and healthy competition and prohibit restrictive business practices such as collusive tendering, market allocation or quota, refusal to supply, cartel price fixing and transfer pricing is being studied to ensure its suitability to the nation’s needs and requirements.

Development of New Retail Modes

9.23 Direct selling based on its one-to-one contact with customers and lower operating costs, is growing in popularity as a marketing tool to increase the market share of a particular brand of product or service. It also increases customization, giving manufacturers the information needed to target products for specific clusters of consumers as well as individuals. The Government will continue to encourage direct selling of more local products in order to save on foreign exchange. At the same time, the Government will continue to ensure that consumer rights are protected, particularly with regard to the quality and safety of products sold.

9.24 Franchising will continue to be promoted with the view to increasing the participation of Malaysians, particularly Bumiputera entrepreneurs in retail trade. The Franchise Act passed in 1998, will facilitate an orderly and systematic development and healthy growth of the franchise industry in Malaysia. The Act not only requires the registration of all businesses to be franchised, but
also details out the obligations of franchisor and franchisees. It also provides for the establishment of a Franchise Advisory Board to advise on matters relating to franchises and the due administration and enforcement of laws. With the implementation of the Act, more large corporations will be encouraged to participate in franchising, thus promoting its growth. In this regard, Malaysian enterprises should take advantage of opportunities in franchising local products and services as well as targeting for the export market.

9.25 Measures to support and enhance the franchise business will continue to be implemented for the promotion of home-grown franchises in new areas, particularly in the service sector. In this regard, a comprehensive review will be undertaken on the structure and operations of village shops with a view to upgrading these shops based on the franchise concept. Other measures include establishing a database of franchises, providing training and consultancy and intensifying the development of business premises by the relevant government agencies at affordable prices to Bumiputera entrepreneurs. In addition, the SEDCs, PNS and Perbadanan Usahawan Nasional Berhad will complement Government efforts in increasing the number of Bumiputera entrepreneurs in the retail sector through franchising.

9.26 An emerging feature among retailers with many outlets is the selling of products under the retailers’ own brand names. Generally, such products are of good quality and priced significantly lower than equivalent products of other known brands. A retail business which enjoys a good reputation for quality products and services can take the opportunity to expand into new products and services under its own brand name, both in the domestic and export markets.

9.27 The establishment of factory outlets where branded goods are sold directly from factories at special prices, provides a new dimension to modern shopping in Malaysia. This will further promote tourism and enhance the country’s image as a shopping paradise. Such factory outlets will also provide another channel to market locally manufactured products which are of export quality.

Opportunities for Self-Employment

9.28 Small enterprises in the distributive trade sector such as petty trading and hawking, offer good opportunities for people who are keen on self-employment as well as provide alternatives to those who were retrenched and
whose businesses were affected by the downturn. Adequate financing will continue to be provided at reasonable cost to start up small enterprises. For this purpose, another RM50 million is made available under the Small Entrepreneur Fund managed by CGC while an allocation of RM150 million under Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) will also be provided.

Increasing Links with the Manufacturing and Agriculture Sectors

9.29 The expansion of distributive trade with linkages to other sectors of the economy, particularly to the manufacturing and agriculture sectors, will contribute towards the recovery of the economy. In this regard, the sale of local goods at wholesale and retail outlets will continue to be actively promoted through advertising campaigns as well as attractive packaging and presentation of products. The direct sourcing of products from manufacturers and suppliers of fresh produce through contract farming will further encourage greater local production. Direct sales of agriculture products such as fresh vegetables, fruits and fish in pasar tani will be expanded to include direct sales at strategic locations such as government office complexes. This approach will also facilitate feedback from wholesalers and retailers to producers on changes in consumer demand, particularly for environment-friendly products, thus enabling timely adjustments in the methods of production.

Development of Supporting Services

9.30 With the changing structure of distributive trade, the concomitant development of supporting services such as distribution channels, marketing network and transport services will be emphasized. The adjustments to be made will require a thorough and comprehensive examination of the present services, particularly with regard to efficiency and competitiveness. In this regard, a major policy thrust will be to strengthen the supporting services while at the same time protect consumer interests from excessive rise in prices. The focus will be on improving the capacity, quality and competitiveness of supporting services.

9.31 The direct marketing of agricultural produce, particularly with large marketing outlets such as hypermarkets is expected to increase during the remaining Plan period. Besides the promotion of strong linkages between agricultural production and consumer demand, the direct marketing approach will also reduce wastage and increase value added through improved packaging
and grading activities at the farm level. Efficiency gains under such marketing arrangements will result in stable prices, thereby reducing inflation.

9.32 As part of the effort to improve the distributive system, a study will be undertaken on the market structure of food products. The study will identify the distribution channels and marketing network of the food products sector and examine its influence on the state of efficiency, competitiveness and inflationary pressure within the present market structure. A study will also be undertaken on the viability of the agency system in distributive trade.

9.33 In addition to meeting the increasing demands of distributive trade, the supporting services are important to the manufacturing sector in line with the Manufacturing ++ strategy. These activities will help promote product development and differentiation as well as marketing, thus building new competencies in the economy.

9.34 Another important link is the transport services, whereby more efficient services will contribute to a faster delivery system and cost competitiveness. Improvements in transport services, including haulage and freight forwarding, will be important to spur the growth of distributional activities in the country as well as for exports. Air cargo and cold room facilities will be further developed to support the transport of goods such as agricultural produce, flowers and computer chips. The Government is considering the establishment of a Smart Free Trade Zone at KL International Airport (KLIA) to further enhance services provided at the airport. The Smart Free Trade Zone is expected to attract investments from various sectors related to IT, services, trading and manufacturing.

9.35 Port-related services will continue to play an important role in the distribution of goods, given that 90 per cent of the nation’s international trade is sea-borne. Towards this end, continuous efforts will be made to further improve the efficiency and effectiveness of the nation’s ports such as the expansion of berthing facilities, provision of state-of-the-art facilities, simplification of procedures relating to clearance of cargo, and training of human resources to improve cargo clearance time. Efforts will also be intensified to promote Port Klang as a regional load and transhipment centre. The Port Klang Authority and operators will intensify promotional activities to encourage world mainline operators and feeder operators to use the port. To further enhance the distributive sector, a national feeder company will be established.
to enhance cargo feeding from the region. With the effective implementation of this strategy, Port Klang is envisaged to become a major distribution centre.

**Encouraging the Use of E-Commerce**

9.36 In an increasingly global market driven by rapid technological changes, businesses will need to leverage these technologies to develop new competitive advantages. To stay competitive, companies will need to reach out to their business partners, shorten their supplier-customer value chain, adopt new technologies to increase productivity and reduce costs, and disseminate information quickly. In this regard, efforts will be taken to facilitate the re-engineering of existing business processes as well as create new business opportunities for Malaysian companies.

9.37 The increasing application of IT in store management, logistics and the distribution channels will modernize the operations of wholesale and retail stores towards higher levels of efficiency and productivity. At the same time, enforcement procedures to monitor wholesale and retail activities will need to be adjusted to suit the new methods of operation. The use of e-commerce will also continue to change the way consumers do their shopping. The order and purchase of goods through electronic means will revolutionize the way distributive trade is conducted. These modes of shopping including cyber malls and mail order are expected to be increasingly available in the future.

9.38 The intensified use of Electronic Data Interchange (EDI) will expedite movement of goods and increase efficiency at the ports. Efforts will be taken to integrate EDI into the Internet so as to further improve trade facilitation. At the enterprise level, this will enable the integration of the whole value-chain of supplies procurement to production and selling, thus reducing costs and time taken to reach the customer.

9.39 The establishment of the National E-Commerce Committee to promote and coordinate the development of e-commerce is expected to further facilitate the wider use of e-commerce. Measures will be taken to ensure the adequacy of affordable and reliable basic infrastructure to facilitate and support the development of e-commerce in Malaysia. Innovative pilot projects will also be implemented as catalysts to the development of e-commerce applications. The on-going study on e-commerce will provide the framework for a more strategic and coordinated approach towards its development.
IV. ALLOCATION

9.40 The revised Plan allocation for distributive trade is RM638.7 million, as shown in Table 9-1. The funds are provided to support the purchase of business premises in strategic locations, loan fund for hawkers and petty traders, modernization of administrative services as well as training and consultancy services.

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V. CONCLUSION

9.41 In response to the economic crisis, enterprises in the distributive trade subsector re-strategized and implemented cost-cutting measures in order to survive the economic downturn. Increasing efforts will be made to promote and develop strong supporting services. To ensure that consumers benefit from the subsector in terms of price, range and quality of products and services, the strategic thrust in the remaining Plan period is to upgrade and modernize the distribution systems.