

# CHANGING RETAIL FOOD SECTOR IN MALAYSIA<sup>1</sup>

Mad Nasir Shamsudin and Jinap Selamat<sup>2</sup>  
Universiti Putra Malaysia

## 1. Introduction

One of the major facets of globalization that is changing the food marketing system, both domestically in Malaysia and internationally in other countries, is the emergence of supermarkets<sup>3</sup> and hypermarkets<sup>4</sup> into the retailing sector. In other words, the retail sector has become more globalized. In Malaysia, the development of these modern retail outlets has seen tremendous growth since the 1990s. The pull factors driving the rise of hypermarkets coupled with the multi-nationalization of supermarket chains include, among others, the relaxation of investment and trade restriction and hence the influx of FDIs to the country, and increase in urbanization and increase of population and thus market density. At the global front, the saturation of and increased competition and profit squeeze in food markets in Europe and North America have forced the hypermarkets companies to expand their territories to the Asia-Pacific region which are enjoying buoyant economic growth. The presence of these supermarkets and hypermarkets brought direct impact onto the local scene affecting traditional market outlets, consumers, suppliers, trade and employment. Traditional markets are losing ground, but are still important outlets for fresh fruits and vegetables.

This paper attempts to elucidate the Malaysia's changing food retail sector. The first part reviews the development of the food retail sector with emphasis on the emergence of supermarkets and hypermarkets. This is followed by the identification of the driving forces that drive the development of these modern retail outlets. This is then followed by the discussion on the impacts of the modern retail sector on traditional retail outlets, agricultural production and food quality. The final part summarizes the implications of these changes on the policy.

## 2. Development of the Food Retail Sector

The food retail sector is made up of wet markets, dry markets, night markets, sundry/provision shops, convenience stores, discount stores, specialty stores, supermarkets, department stores, and hypermarkets. These different channels cater to different segments of the Malaysian population. Traditionally the provision shops made up the large segment of the food retail sector. As time progress and due to various factors such as consumer lifestyle, price disadvantage and limited working capital, the number of these provision shops has been on the decline. Nevertheless, these segments still contribute around 25% of all retail sales in Malaysia.

---

<sup>1</sup> Presented at the PECC Pacific Food System Outlook 2005-06 Annual Meeting, Kun Ming, China, May 11– 13, 2005.

<sup>2</sup> Mad Nasir Shamsudin is professor of agricultural and resource economics and Jinap Selamat is professor of food science and technology, Universiti Putra Malaysia, 43400 UPM Serdang, Selangor, Malaysia. <http://www.upm.edu.my>

<sup>3</sup> A self-service distribution store with sales floor area of 2,000 m<sup>2</sup> to less than 4,500 m<sup>2</sup> retailing a wide variety of mainly consumer goods, comprising a mix of food and non-food products.

<sup>4</sup> A self-service distribution store with sales floor of 5,000 m<sup>2</sup> or more, selling a very wide variety of mainly consumer goods, comprising a mix of food and non-food products, in a range of transaction sizes or quantities and in different forms of packaging.

The total numbers of retail outlet (food/non-food) establishments in Malaysia increased from 126,385 establishments in 1999 to 139,960 in 2003 (Table 1). The retail outlets comprise department stores, supermarkets, hypermarkets, convenience stores, traditional stores such as independent grocers, etc. Food retail outlets made up 75% of the total number of retail outlets in the country, the majority of which were independent grocers.

The structure of the retail sector has changed with the increasing presence of hypermarket, supermarket and direct selling. A survey on shopping habits in 1997 indicated that shoppers at supermarkets increased by 1.5 times, while hypermarket shoppers more than doubled since 1995 (Eight Malaysia Plan, 2001 – 2005). The sales share of the various types of the retail sector is shown in Table 2, which indicates the increased share of supermarkets and the reduction in provision stores and convenience stores from 2000 to 2002.

**Table 1: Number of retail outlets by food and non-food, 1999-2003**

Types	1999	2000	2001	2002	2003
Food	104,150	104,248	103,173	104,023	104,839
Non-food	22,235	24,707	23,865	25,343	35,121
Total	126,385	128,955	127,038	129,366	139,960

Source: Euromonitor and Department of Statistics, Malaysia

**Table 2: Retail Sector Sales Share by Type of Business Entity, 2000 and 2002**

Store Type*	Sales (%)	
	2000	2002
Department stores, supermarket and hypermarkets	20.0 (40.2)***	28 (50.1)
Provision stores, grocery stores and alike	20.5 (41.2)	17 (30.4)
Convenience stores	9.3 (18.6)	11 (19.5)
Household, personal goods and other stores**	50.2	44

Source: Ministry of Domestic Trade & Consumer Affairs

\* Exclude wet market, morning market, night market and other non-permanent retail facilities. They account for a large proportion of food sales.

\*\* These establishment are not involved in the sale of food products.

\*\*\* Figures in parentheses are normalized based on the first-three categories.

## 2.1 Modern Retail Store

Modern retail stores such as supermarkets and hypermarkets are mainly located in the major urban centers and are continuing to grow in numbers. The foreign-owned supermarkets is dominated by Giant, Tesco, Makro, and Carrefour, while the local-owned is The Store, X-Tra, and Mydin. Tables 3 and 4 show the profile of the supermarkets and their sales share, respectively. The Government has recently introduced new guidelines on the opening of new hypermarkets in an attempt to slow down their rapid growth and to provide some level of protection for small retailers. More Malaysians are shopping at these stores, particularly the affluent middle to upper

income consumers, because these large retail stores offer a wide range of sophisticated food and beverage products. Their products are mainly made up of high quality, branded goods sourced from both local and overseas suppliers. These retailers are increasingly sourcing from local sources to remain price competitive. For example, Tesco sources 95% of the products from local suppliers.

**Table 3: Profile of supermarket, 2004**

Supermarket	Ownership	Ownership Condition by December 31, 2006	Unit
Giant	Foreign: 100% (Giant TMC, Hong Kong)	Local: 30%	Hypermarket: 16 Supermarket: 46
Tesco	Local: 24.1% (Sime-Darby Group) Foreign: 75.9% (British)	Local: 30%	Hypermarket: 14
Makro	Local: 35% Foreign: 65% (Netherlands)		Hypermarket: 8
Carrefour	Foreign: 100% (French)	Local: 49%	Hypermarket: 10
The store	Local: 100%		Supermarket: 7
X-Tra	Local: 100%		Supermarket: 5
Mydin	Local: 100%		Supermarket: 2

Source: Ministry of Domestic Trade and Consumer Affairs

**Table 4: Sales by hypermarkets (RM)**

Hypermarket	2002	2003
Giant	1,421,845,000	1,844,228,000
Makro	705,921,458	756,899,970
Carrefour	810,554,660	870,085,000
Tesco	197,110,187	447,685,242

Note: 1 US\$ = RM 3.80

Source: Ministry of Domestic Trade and Consumer Affairs

## 2.2 Convenience Store

Convenience stores are still a fairly new retail store concept in Malaysia. They have around 11% of the total retail sales. These stores are mainly located in major urban centers and along the North-South Highway to capture busy customers who seek convenience. They concentrate on selling a small range of convenience foods in medium to small sized packaging, usually single serve sizes. Imported products form a small proportion of their product lines. More convenience stores such as petrol station stores have been opening, particularly in major urban center and along the North-South Highway. These store concepts are still at the early stage of introduction and most shoppers do not automatically turn to these stores for their shopping needs. The limited ranges of products offered by these stores also act as a barrier to attracting more customers to these stores. The main convenience store is 7-Eleven although other smaller local convenience stores exist.

## 2.3 Traditional Store

The traditional stores sub-sector is large but highly fragmented. It includes provision shops, grocery shops, wet markets, mini markets and other similar retail outlets, which sell a limited range of food and beverage products on a small scale. They generally sell local products and brands with low to no presence for imported products, depending on the target customers and the location of the store.

The majority of Malaysians continues to shop from traditional stores and still continue to command a significant share of the retail market, as these types of outlets are conveniently located near to their homes or places of work. Most of these retailers continue to source their products from local suppliers to remain price competitive. Traditional stores mainly because new stores are opening in new housing developments and new townships that are appearing in the Klang Valley and along the North-South highway, particularly in the states of Selangor, Negri Sembilan, Melaka, Johor and Penang.

## 2.4 Future Scenario

Supermarkets and hypermarkets will continue to perform strongly over in the future. It is very unlikely that independent grocery stores will be able to bridge the pricing advantage and convenient and comfortable shopping environment that these two types of outlets offer.

Strong economic conditions will ensure that there is a continued increase in demand for niche and value-added products. Sales by food retailers on the whole are expected to achieve a cumulative growth of about 28% over the 2003-2008 periods (Table 5). Sales through hypermarkets are expected to reach a very similar level to that of supermarkets.

**Table 5: Forecast Food Retailer Sales by Outlet Type, 2003-2008 (RM million, constant 2003 prices)**

Outlet Type	2003	2004	2005	2006	2007	2008
Supermarkets	6,432	6,900	7,365	7,700	8,100	8,570
Independent Grocery Stores	5,774	5,300	5,100	4,900	4,800	4,700
Hypermarkets	5,589	6,000	6,500	7,100	7,650	8,300
Convenience Stores	866	1,200	1,250	1,680	1,900	2,300
Food Specialists						
- Bakers	223	225	232	245	265	280
- Other Food Specialists	213	215	218	235	255	290
TOTAL	19,097	19,840	20,665	21,860	22,970	24,440

Source: Euromonitor

## 3. Driving Forces for the Changing Retail Food Sector

Drivers for change, in no order or precedence, include:

- a. Income growth
- b. Consumer tastes and changing behaviour

- c. International and globalization influences
- d. Urbanization
- e. Food safety concern
- f. Advances in infrastructure and technology

#### **a. Income growth**

Supermarket chains are rapidly growing to meet the needs of more affluent consumers. With rising affluence and education levels, consumers' shopping and eating lifestyles have changed drastically over the years. Malaysian, especially in urban areas, prefer to shop in modern retail outlets, which offer them one-stop shopping options. However, traditional stores such as provision and grocery shops, which are conveniently located in residential and workplaces are still popular.

#### **b. Consumer tastes and changing behaviour**

Malaysia's consumer lifestyle has been evolving and changing due to in part of rising income and education level. High profile international retailers and the global mass media have also played a hand in shaping consumer-buying behavior. Foreign owned hypermarkets are fast gaining popularity in Malaysia, attracting customers with their "one – stop" and "all under one roof" concepts. Since then, foreign retailers have been expanding rapidly in Malaysia.

Malaysian consumers, particularly those in the 20-40 age group, who can afford and are willing to pay for the price of convenience, have a preference for semi-prepared foods and/or takeaway meal. Malaysia is becoming urbanized. This has contributed to the development of a country's modern retail sector.

#### **c. International and globalization Influences**

Malaysia's population is relatively young where 35% of the population is below the age of 15, 61% are in the working age category while 3.7% are above 65. The median age of the population at 22 years reflects a continuing young population. Young population tends to be adventurous in food habit. This group is increasingly exposed to global and western influences and will be a driving force within Malaysia for higher value products, including food.

#### **d. Urbanization**

Increase in urbanization and population has increased the market density (thus increase in economies of scale of processing and retail units and decrease in transaction costs). There was an increase of 3.13 million people in the urban areas in 1991-2000.

#### **e. Food Safety Concern**

Together with improvement in education level and increase in income, Malaysian is more aware of nutritional issues, and shifts in shopping habits towards healthy eating.

#### **f. Infrastructure and Advances in Technology**

The good infrastructure together with advances in technology in Malaysia has made the rapid rise of supermarkets in Malaysia possible. Besides, nearly 90% of the household in Malaysia have refrigerators, and the number of homes with microwaves ovens around 15-20% and growing.

#### **4. Impacts on Traditional Outlets**

Independent grocers such as provision shops and mini-markets gradually closed. Many would attribute this to the emergence of modern retailing with supermarkets and hypermarkets. In 2003, retailers with an annual turnover of at least RM1.25 million accounted for the largest share of total retail sales in Malaysia. This was not the case before 2000, when retailers with less than RM1.25 million in retail turnover, collectively, accounted for slightly more than 50% of total retail sales. The largest retailers, however, have continued to grow almost unabated, in part at the expense of the smallest retailers (with retail turnover of less than RM250,000) but also, as they helped to grow the overall total level of retail sales. Local retailers, in response to foreign competition, have tried to maintain their respective traditional customer bases, although with mixed success, as evidenced by the decline in the total retail sales of retailers with a turnover of less than RM250,000 especially (Table 6).

**Table 6: Retail Sales by Size of Business, 1999-2003 (RM million)**

<b>Business Size</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Below RM 250,000	12,758	12,183	11,695	11,700	12,200
RM 250,000 to less than RM 1,250,000	13,042	13,224	13,227	13,382	13,550
RM1,250,000 and above	23,167	26,497	29,403	31,475	32,850

Source: 1999-2002 Official sources (Department of Statistics, Malaysia, Quarterly Survey of Wholesale and Retail Trades, 2003 Euromonitor estimates)

Competition among the retailers, especially hypermarkets, is intense with large international retailers like carrefour, Tesco, Makro and Giant frequently engaging in price wars to establish their presence as major players in the market. The pressure is mounting for local retailers to maintain competitive prices and carry a good variety of products in order to keep up with the international players.

Malaysia thus attempts to slowdown the rapid expansion of large international food retailers, with measures aimed at protecting smaller local traders. In 2003, the government announced a five-year freeze on issuance of licenses for new hypermarkets in Klang Valley (Kuala Lumpur area), Penang and Johor Bahru to control the growth of hypermarkets. These are major retail growth areas and are believed to be already crowded with too many players. Hypermarkets are also no longer allowed to operate in towns with less than 350,000 people.

Other measures include that foreign companies that want to set up wholesale/retail operations in Malaysia or open and relocate their branches have to apply for approval from the Ministry of Domestic Trade and Consumer Affairs, which supervises the wholesale and retail sectors. The

Foreign Investment Committee (FIC) only allows foreign investors to purchase shop offices higher than two floors and commercial/office space (not more than 20% of the total units in each project) if the purchase is made through a locally incorporated company. By end of 2003, retailers were notified by the Ministry of Domestic Trade and Consumer Affairs that foreign participation has to be diluted to 51% from 70%.

According to the 2002 guidelines by the Ministry of Domestic Trade and Consumer Affairs, all new multinational hypermarkets must be freestanding operations, which mean that a store must be operated in its own building and not part of a complex. Likewise, the sales area must be less than 8,000 sq m with a sales check-out counter for every 1,000 sq m of retail space. All new hypermarkets are also required to provide business centers for interested traders at “reasonable” rentals.

## **5. Impact on Agricultural Producers**

The differences between the hypermarkets marketing channel compares to the traditional one are as follows: (i) under the traditional system, the farmers produce has to go through a number of intermediaries before it reaches the consumers. Whereas in the case of marketing through the hypermarket, the farmers could either sell their produce direct to or through the processors who then sell it to the hypermarkets, hence shortening the distribution channel; (ii) under the traditional channel, the price is generally discovered through “personal negotiation” while the sale to the hypermarkets are normally formalized in the form of contract; hence price is determined by the hyper-retailer who then passes it down to the producer; (iii) the transactions between the supplier and the hypermarkets are normally done under contractual terms; and (iv) producers or suppliers are subjected to rigorous quality standards as specified in the contracts.

There is no empirical study that has been carried to evaluate the economic impacts of such arrangement on the producer as well as on the marketing system in Malaysia. The preliminary observation on this development suggests that invasion of MNCs into the food retailing sector has redefined the supply chain management. It provides a new market outlet for the producers and a new retail outlet to the consumers. The producers or suppliers benefit from the contractual arrangement in the form of secured market. While the consumer benefits in terms of quality and lower price agricultural produce.

As mentioned earlier, the development of the hypermarkets shortens the distribution channels for farm produce. The supermarket chains however tend to prefer to work with large processing companies because of the following factors: (i) hypermarkets prefer to sell recognized brands; (ii) there are lower transactions costs in dealing with large processors rather than many small ones; (iii) the supermarket chain normally charges high shelf-space fees and long payment periods compared to other types of buyers; which favor larger firms with lower unit costs; (iv) large processors can consistently supply with a homogenous product to a whole national or sub-regional chain. This reduces inventory and logistics costs for the supermarket chain; and (v) large processors and supermarkets negotiate, formulate, and implement together certification systems and standards. This development favors the large farmers and processors, hence marginalizing the small farmers.

Supermarket chains appear to want to save on transaction costs and to make sure of consistent quality and safety by making contracts with large farmers. They also fulfill their procurement needs from collection centers and wholesale markets where small farmers sell their produce.

There is an increase in contract between farmers and supermarkets and between processors and the latter. Some studies show the weaknesses of the contract from the point of view of the livelihood of the poor. That is, the contracts with supermarkets tend to specify very stringent quality, cost and timing requirement, but late payments after delivery of the product to the supermarket. In other words, under such a situation, small farmers are being marginalized.

Federal Agricultural Marketing Authority (FAMA) is entrusted to develop Small and Medium Enterprises (SME) food products to be marketed in the supermarkets. There is no official statistics to indicate the backward linkages of the supermarkets and hypermarkets to the local food production and SME food products. However, personal interviews with FAMA and the Ministry of Domestic Trade and Consumer Affairs (MDT&CA) indicate that these modern retailers are increasingly sourcing from local sources to remain price competitive. For example, Tesco and carrefour source 95% of the fresh products (fruits and vegetables) from local suppliers. Giant obtains its supplies directly from farmers, FAMA, and through contracted farms and wholesalers.

## **6. Impacts of Food Quality**

Grading is a crucial strategy to the super market chains due to the stiff competition between them. The two major factors that drive the importance of grades are the following: (i) firms need to differentiate their products and identify niches, grading and specification are critical to that of product differentiation; and (ii) firms need to communicate product quality and safety to consumers or intermediate input purchasers, and certification and labeling schemes were crucial to the communication of the implementation of quality and safety.

Private standard have become increasingly important as tools of chain coordination, as meta – management system to implement process standards such as HACCP and quality process standard such as ISO standard, at each level of the chain. This is to be done to cut cost and thus be competitive in a liberalized market, and assure quality and safety.

Generally, the Malaysian agricultural producers are not known to be very quality-oriented with their produce, partly because of poor market signals and lack of market incentives for high quality produce, with the exception of the export-destined produce. However, the growths of hyper retailers, which offer high quality, graded, and branded produce, which is preferred by consumers, force the small farmers to replicate this marketing-oriented strategy. The same applies to produce that are destined for export markets as delivering quality and safety in food to customers in the world markets is a tall order. Large international retailers and supermarket chains insist that fruits and vegetables, meat and other products be quality endorsed. In terms of branding, the characteristics required include: conformity to a recognized standard by objective assessment, independent certification, statutory and international recognition and so on. Examples of product branding attributes include: conforming to CODEX HACCCP guidelines for safety, residue status, origin, place to manufacture, packing, amount of nominated substances, product specifications, ecological considerations and health perceptions. With these strict requirements, the local producers and intermediaries are forced to comply.

## **7. Consumers' Preferences, Perception and Opinion of Modern Retail Food Outlets**

A total of 300 respondents were interviewed to obtain consumers' preferences, perception and opinion of modern food retail outlets such as supermarkets and hypermarkets. Although the

number of respondents is small, nevertheless, it provides some insight on the consumers preferences, perception and opinion.

### a. Preference of food retail outlets

The results indicate that most of the respondents like to purchase food in supermarket (48%). This is followed by purchase food products in hypermarket (29.3%), traditional stores like example grocery and wet market (21%), and from convenient stores (1.7%). Their preferences of the place of purchase are closely related to the respondents' residential areas. Most of the respondents who stay in urban and sub-urban areas prefer supermarket and hypermarket. For respondents who stay in rural area prefer traditional stores due to the proximity and convenience.

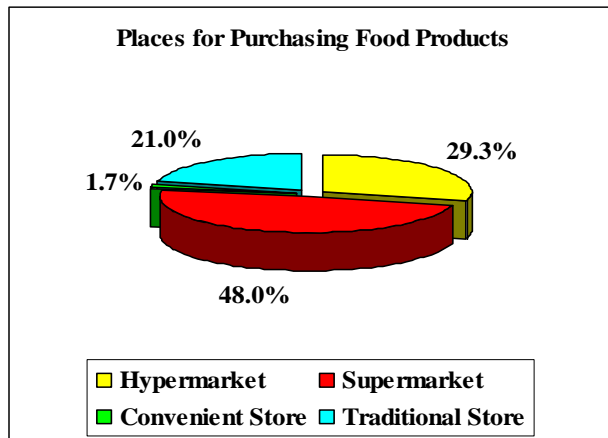


Figure 1: Preference of Food Outlets

### b. Preferences of outlets in purchasing fresh produce

The respondents were ask on their preferences of retail outlets in purchasing fresh food products such as fruits, vegetables, meats and seafood. Most of the respondents prefer supermarket (41.4%), followed by hypermarket (28.7%) and traditional store (28.7%). A small proportion (1.2%) prefers to purchase fresh food products in convenient store. The reasons given are that hypermarket, supermarket and traditional market provide various kinds of fresh food and always available.

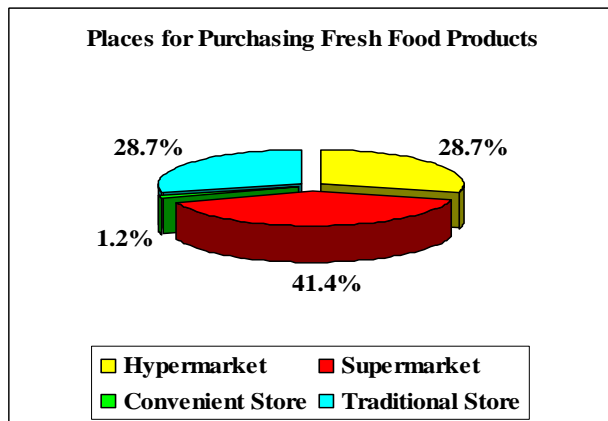


Figure 2: Places for Purchasing Fresh Food Products

### c. Preferences of outlets in purchasing processed food

As shown in Figure 3, for processed food products, the majority of the respondents prefer went to supermarket (47.3%) and followed by hypermarket (28.5%). Some of them purchased processed food products in traditional store (12.8%) and convenient store (11.4%). Most of them prefer go to supermarket and hypermarket because of their variety of choices.

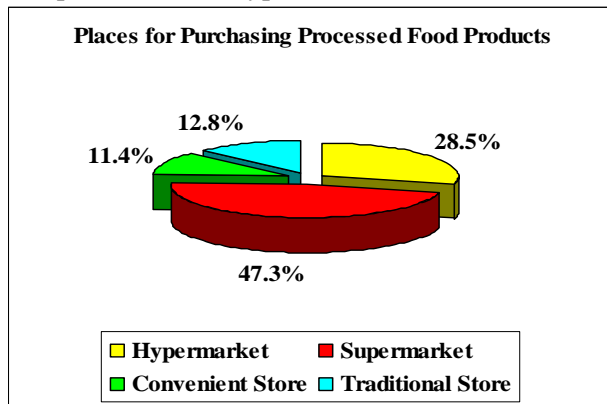


Figure 3: Places for Purchasing Processed Food Products

### d. Preferences of outlets in purchasing healthy food products

In the survey, 49.2% of the respondents purchased the healthy food products in supermarket and 44.2% of them to hypermarket (Figure 4). Most of the respondents feel safe when purchasing healthy food like food/dietary supplement and organic food in supermarket and hypermarket because there have nutritionists or promoters to help the customers determining their needs and explaining the side effects of the products. This will greatly reduce the possibility of buying certain healthy food products mismatch customer's health condition. On the other hand, the expert advices of the nutritionists normally are not available in traditional store and convenient store.

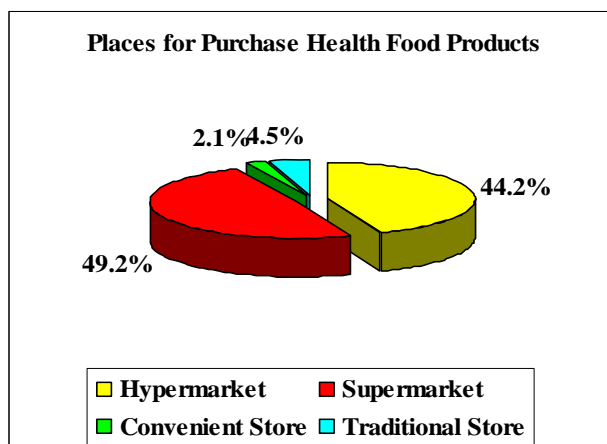


Figure 4: Places for Purchase Health Food Products

**e. Preferences of outlets in purchasing local/traditional food products**

For the purchase of local/traditional food products, 62.3% of the respondents prefers traditional store and followed by supermarket (24.3%) and hypermarket (13.3%). Some of the traditional stores provide various kinds of local and traditional food products that are not available in hypermarket and supermarket, which is made by owner.

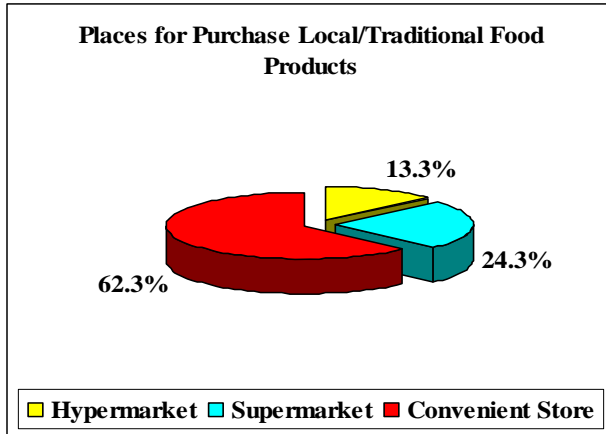


Figure 5: Places for Purchase Local/Traditional Food Products

**f. Perception on product quality**

Most of the respondents were strongly agreed (41.7%) and agreed (45.0%) that modern retail outlets provide good quality food products (Table 7).

**Table 7: Provide good quality food**

<i>Response</i>	<i>Frequency</i>	<i>Percent</i>
<b>Strongly agree</b>	125	41.7
<b>Agree</b>	135	45.0
<b>Neutral</b>	40	13.3
<b>Total</b>	300	100.0

**g. Perception on Product Prices**

Most of the respondents agreed (31%) and strongly agreed (56.7%) that food products provided by modern retail stores are cheaper than convenient and traditional store (Table 8). Modern retail store such as hypermarket and supermarket purchase the bulk food products from manufacturers, so they will get the cheapest prices from the manufacturers.

**Table 8: Food with reasonable prices**

<i>Response</i>	<i>Frequency</i>	<i>Percent</i>
<b>Strongly agree</b>	93	31.0
<b>Agree</b>	170	56.7
<b>Neutral</b>	30	10.0
<b>Disagree</b>	7	2.3
<b>Total</b>	300	100.0

#### **h. Opinion by Customers about modern retail outlets**

There are about 46.7% and 30.3% of the respondents were agreed and strongly agreed with more customers prefer purchase food products in modern retail store than convenient and traditional store. It is because the modern retail store flexible in operating working hours and there also provide variety cheaper food products. Beside that, modern retail store like Carrefour, also provide food court and mini playground for their customer for relaxing. Only 4.7% of the respondents been disagreed. From interview survey, they feel that there are crowd with peoples and parking is limited.

**Table 9: More customers prefer to purchase food products in modern retail store**

<i>Response</i>	<i>Frequency</i>	<i>Percent</i>
<b>Strongly agree</b>	91	30.3
<b>Agree</b>	140	46.7
<b>Neutral</b>	55	18.3
<b>Disagree</b>	14	4.7
<b>Total</b>	300	100.0

#### **i. Opinion on future Expansion**

Most of the respondents were in the opinion that modern retail outlets have the potential to expand in Malaysia.

**Table 10: Opinion on Future Expansion of Modern Retail Outlets**

<i>Response</i>	<i>Frequency</i>	<i>Percent</i>
<b>Strongly agree</b>	78	26.0
<b>Agree</b>	139	46.3
<b>Neutral</b>	64	21.3
<b>Disagree</b>	19	6.3
<b>Total</b>	300	100.0

### **8. Policy Implications: Responding to Change**

In summary, the food retail industry will see the following:

- **Consolidation in the Retail Sector**

Many of the domestic retailers are facing stiff competitions form the large foreign players. The local food retail is therefore likely to see more mergers and acquisitions.

- **Domination of Supermarkets and Hypermarkets**

Over the next few years, leading hypermarkets such as Giant, Carrefour and Tesco will continue to dominate and open up more stores throughout Malaysia. Hypermarkets are increasing their

popularity amongst consumers with their wide range of low-priced merchandise and modern retail formats. In the longer term, the leading players are likely to extend their reach to all parts of Malaysia in view of its stable infrastructure and transportation system. Although the traditional markets such as wet markets, night markets, retail and wholesale markets are still functioning, the effect of this transnationalization of retail functions are slowly but surely encroaching their domain. This issue certainly requires a thorough investigation on its implications to minimize inequitable distribution of profits of such mega businesses.

Thus new strategies were and have to be formulated to: (i) strengthened linkages between local producers of fresh and processed food products and modern retailers, (ii) minimize the negative impacts on traditional food retail outlets; and (iii) enhance food trade.

### **Some possible initiatives are:**

#### **a. Strengthening Linkages between Producers and Retailers**

The forging of strong linkages between the supermarkets and the agricultural and food manufacturing sectors has to be made an important strategy. Direct sourcing of food products through contract farming and contract manufacturing has to be encouraged to contribute towards a more cost-effective distribution link, and facilitate feedback of information on the changing consumer preferences to the producers. To achieve this end, support services such as transport, storage, communication and financial services need to be strengthened to facilitate closer linkages.

**Contract Farming** – linking producers with hypermarkets – a contract farming program was developed by FAMA since 2001 to developed alternatives markets for small farmers especially in fresh fruits and vegetables and guarantee consistent supply to supermarkets. The program is directly supervised by FAMA and farmers were guided on the types of products and the time to produce. FAMA assists in organizing direct supply to supermarkets, and is directly involved in price and terms-of-delivery negotiations. The important preconditions for successful delivery to supermarkets are, among others, consistent quality at predetermined product specifications, pricing mechanism, and good agricultural practices. However, being a new approach, contract farming is still subject to a series of issues. These include meeting high quality standards, stringent delivery schedules and procedures, high entry and account-management fees, and long credit periods.

**Accreditation Program** – In order to penetrate the modern retail outlets, the Malaysian government has introduced an accreditation program. It covers 12 areas of inspection to meet the required standards of EUREPGAP and entitles qualified farmers to use the “Malaysia Best” logo for their produce. To enhance the confidence of the supermarkets, their representatives are welcome to join the accreditation team on their regular inspections.

#### **b. Minimizing the Impacts on Traditional Outlets**

**New Guidelines and Fair Trade Law** - As mentioned earlier, with increasing globalization, there will be an increase in the number of giant foreign food retailers setting up supermarkets and hypermarkets. With the trend towards mergers and acquisitions, there is a need to safeguard against anti-competitive behavior. In this regard, a fair trade law and policy need to be formulated and adopted to foster healthy competition to reap the benefits of market efficiency.

**Innovative Ideas** - Although Malaysia is still dominated by small traditional convenience and neighborhood stores, the stable political and economic situation has encouraged local and international retailers to introduce western-style convenience stores, supermarkets, department stores, hypermarkets and warehouse clubs. In order to stay competitive, all the retailers have no choice but to be innovative to keep up.

### **c. Fostering Food Trade**

**Distribution and Warehousing Hub** – In the quest to increase value added, efforts are being made to promote Malaysia as a regional distribution and warehousing hub. Efficient facilitation measures are being undertaken to accelerate this regional hub. This will enable the processing and trading of goods for a much wider markets, thus accruing the benefits from economies of scale. Steps are also being taken to position the country as an international center for halal food to cater for the global market. Towards this end, measures are undertaken to leverage on the country's credibility in producing halal food.

**Forming Strategic Alliance** – The existence of hypermarkets or modern retail outlets provides an avenue for producers, especially small and medium enterprises in processed food products, to market their products overseas. In this regard, the hypermarkets are encouraged to establish working relationships with local processed food producers to source locally produced goods to be marketed worldwide through the chain of outlets operated by the hypermarkets. In addition, as has been done by Giants, the hypermarkets is required to provide space for local retail business at their premises to develop local retailers as well as increase the sale of local products.

### **References**

- FAMA (2002) *Pelan Pembangunan Pemasaran Produk Keluaran Industri Kecil dan Sederhana (Marketing Development Plan for Small and Medium Industry Products)*, Kuala Lumpur.
- FAMA (2004) *Report on the FAO/AFMA/FAMA Regional Workshop on the Growth of Supermarkets as Retailers of Fresh Produce*, Kuala Lumpur.
- Lim, Y.M., B. Nurwati and A. Ghafar (2003) *Retail Activity in Malaysia: From Shophouse to Hypermarket*. Paper presented at the Pacific Rim Real Estate Society 9<sup>th</sup> Annual Conference, Brisbane, Australia.
- Malaysia (2001) *The Third Outline Perspective Plan 2001-2010*. Kuala Lumpur: Government Printers.
- Malaysia (2003) *Mid-term Review of the Eight Malaysia Plan 2001-2005*. Kuala Lumpur: Government Printers.
- Ministry of Domestic Trade and Consumer Affairs (2004) *Guidelines on Foreign Participation in the Distributive Trade Services in Malaysia*. [www.kpdn.gov.my](http://www.kpdn.gov.my)
- Ministry of Domestic Trade and Consumer Affairs, *Unpublish Reports*.
- Shahwahid, H.O., J. Bojei and R. Saleh (2003) *Impact Studies for Development of TESCO Hypermarket in Ipoh*, UPM Consultancy Report.
- USDA Foreign Agricultural Services (2003) *Malaysia Retail Food Sector Report 2003*, GAIN Report Number: MY3044.