

Small Retailers and Entrepreneurs' Perceptions on the Departmental Store Development: A Malaysian Case Study

Azhar Hj. Ahmad*, Sallehuddin Mohd Nor*, Ishak Hj. Abd Rahman*,
Jumaat Abd Moen* and Che Aniza Che Wel*

The presence of bigger retail outlets have brought new business opportunities and moved the retailing industry in Malaysian to greater heights. Since these bigger outlets affect the existing retailers, a study was undertaken to assess the potential impact of the proposed development of a departmental store on existing small business retailers in Bandar Perda, Malaysia. The analysis was based primarily on the perceptions and expressed opinions of the sampled retailers and entrepreneurs in the catchments area of the proposed development of the departmental store. From the analysis, there would be short-term adverse impact on most retail outlets and the degree of the impact would be determined by the type of retail business. The study also raised several recommendations for the existing small retailers to employ in order to stay competitive.

Field of Research: Retailing, Small Business, Entrepreneurship.

1. Introduction

The Malaysian economy is projected to grow by an average of 6% annually. This growth will be supported by domestic demand with strong private investment and consumption with the services sector is expected to sustain its growth momentum at 6.5% per year on average during the Ninth Malaysia Plan (9MP) period. The growth will come from the finance, insurance, real estate and business services as well as the wholesale and retail trade, hotels and restaurants sub-sectors (The Star, March 31, 2006).

Bigger retailers are still popular among Malaysians though the government tried to slow down the growth by introducing new policies (The Star, May 9, 2002). In 2004, the performance of the retail industries is expected to increase by 10%, which is an increase of 2.6% from the previous year (New Straits Time, March 8, 2004). Currently, the retail sector alone is worth some RM57 billion, and this does not cover distributive trade or direct selling. Retailing is now directly employing 700,000 people who constitute about 7% of the total labour force.

* Lecturers, School of Business Management, National University of Malaysia
Azhar Hj. Ahmad, E-mail: azah@ukm.my

There are about 200 to 250 shopping centres in Malaysia taking up about 123 million sq ft. There are about 1,000 outlets of retail trade with foreign partners, based on 20% of total space in all the shopping malls (The Star, August 28, 2006). Shopping complexes not only provide better shopping experience, but also provide entertaining outing with family and friends. In line with the growing popularity of bigger retail outlets, this study attempts to analyse the perceptions of the existing small retailers on the proposed development of departmental stores on the existing small business retailers in Bandar Perda.

2. Literature Review

Retail outlets serve as the contact point between business channel members to the consumers. Retailing refers to the activities involved in selling goods and services directly to final consumers for their personal and non business use (Armstrong & Kotler, 2003). Retail stores come in all shapes and sizes. Boone and Kurtz (2004) define retailers into several categories: form of ownership, shopping effort, services provided and product lines.

In its quest to achieve global competitiveness, Malaysia has developed two strategic plans. The Ninth Malaysian Plan (9MP) is the blueprint for the direction of Malaysia's economic and social development for the period 2006-2010, while the Third Industrial Master Plan (IMP3) maps out Malaysia's industrialization plan for the period 2006 to 2020, in the nation's quest to achieve global competitiveness. Three main sectors - manufacturing, services and agriculture – will receive special attention to further promote the transition to high value-added activities in these areas. During the 9MP, the manufacturing sector is projected to grow at 6.7% per annum. The impetus for growth and investment is expected to come from technology and innovation driven industries. The services sector is expected to grow at 6.5% per annum with growth from the finance, real estate, wholesale and retail trade, hotels and restaurants (Bernama, March 13, 2006). Hence, retailing sector plays a major role in the achieving the objectives of 9MP.

3. Methodology and Research Design

Several methods were utilized to achieve the objectives of the study. First, a descriptive study using survey method was done on the small retailers within the catchments area of Bandar Perda. The retailers were identified through purposive sampling and they included retailers from electrical stores, furniture stores, medicine hall/pharmacy, sundry and convenience stores. A total of 149 small retailers from Bandar Perda participated in the study. Structured questionnaire was specifically designed for the study. The questionnaire was divided into four parts. Part A consists of statements related to the characteristics

of the retail outlets such as types of outlet, floor space area, and operational period. Part B analyses the business trend of the retailers while, Part C seeks the profiles of the retailers. Finally, Part D contains statements on the perceptions of the retailers on the proposed development of the departmental store in the area.

The second method used to elicit the information is through interview. A brief discussion was done with the officers from the local authorities. The meeting was done to get inputs related to the developments of the cities and to collect maps of the catchment areas. Bandar Perda is a new township under the administration of a local authority, where several development projects are currently underway. One of the major projects is a well known departmental store and this development project is being monitored by a state agency. The business areas around the Bandar Perda consist of commercial properties with various types of retail establishment. Also under construction are a mega mall and a five-star hotel which look set to change the landscape of Bandar Perda. Institutional facilities in this area include library, health clinics, police station and other public amenities such as sport complex, hall, and post office.

4. Discussion of Findings

Population Size and Demographic Characteristics

Bandar Perda is located in the county of Seberang Perai Tengah (SPT). As of 2000, the population of SPT stood at 313,607 and by 2010, the population is forecasted to increase to 390,000. This shows an increase of 3.4% each year. In terms of the ethnic breakdown of SPT, 49% of the population is Malay, 31% is Chinese, and the other 11% is Indian. The other 9% is made up of people from other races. Table 1 shows the population size of SPT.

Table 1: Demographic Profiles of Respondents (N = 149)

<i>Race</i>	<i>%</i>	<i>Ownership of the Outlets</i>	<i>%</i>
Malay	49	Malays	9.1
Chinese	31	Chinese	81.8
Indian	11	Indian	9.1
Others	9		
<i>Types of Business</i>	<i>%</i>	<i>Services Provided</i>	<i>%</i>
Grocery/Sundry shop	16.1	After sales Services	20.1
Food/Restaurant	16.1	Return Good	18.1
Electrical/Appliance	11.4	Phone Order	17.4
Clothes	10.7	Delivery	15.4
Furniture	8.7	Others	28.8
Medicine/Pharmaceutical	4.7		
Others	34.3		

From the study, more responses were gathered from the retailers of sundry and grocery stores. Meanwhile, responses from pharmaceutical/Chinese medicine store were found to be the least with only 5% of these retailers participated in the survey. In terms of the breakdown of outlet ownership according to race, most of the outlets were owned by Chinese. This is typical of the retailing industry in Malaysia where the majority of retail outlets are run by the Chinese. Information regarding the years of establishment of the existing retail outlets is important since it influences the acceptance of the new customers towards the proposed departmental store. Established retailers have their own regular customers that patronize the outlets. The majority of the retailers (74.5%) in Bandar Perda started their business at least 5 years ago, i.e. since 2001. Table 1 also shows the various services provided by the retailers. Services are generally related to the type of retail outlet. For example, delivery service is normally provided by furniture and household shops while returned goods facility is offered by electrical stores.

Business Trend

The analysis is based on the daily sales performance of the outlets for the last 3 years, i.e. from 2003 to 2005 and their expected daily sales in 2006. Information regarding the business trend and daily sales is important in anticipating the performance of the existing retailers amid the competition especially with the future development of the departmental store in the immediate vicinity. As indicated in Figure 1, the general business trend among the existing small retailers in Bandar Perda is stable.

Expected daily sales of 2006 by the small retailers provide a better picture of their future performance. Figure 2 explains the expected daily sales of the sampled outlets. The daily sales categories of "RM4001-RM5000" and "> RM5000" show higher expectation by the sampled retailers in 2006. This indicates a positive outlook and hence encourages the existing small retailers to continue doing business in Bandar Perda.

Figure 1: Daily Sales in 2003, 2004 and 2005

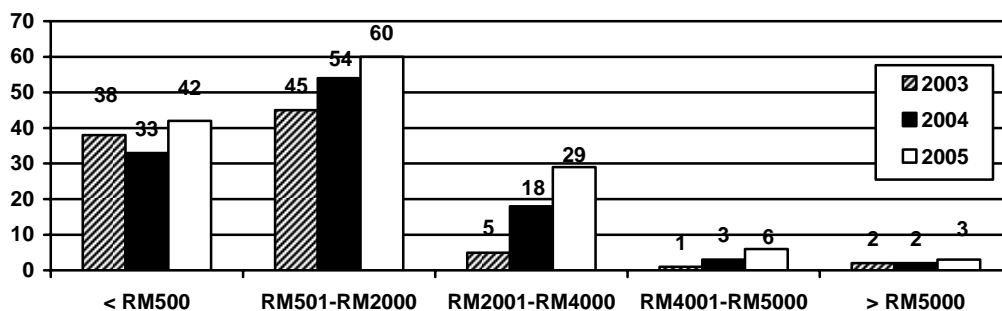
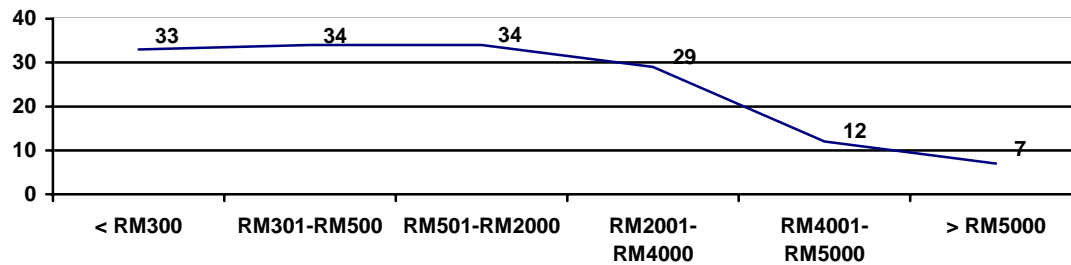


Figure 2: Expected Daily Sales in 2006

Perceptions of Small Retailers on the Departmental Store Development

Retailers were interviewed to get their opinions regarding the proposed development of a departmental store in their area. The perceptions of the respondents were analysed based on a 5-point Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree).

i. Problems of operating outlets

The sampled retailers were initially asked the difficulties that they encountered when setting up the stores. Table 2 shows the ranking of the main problems faced by the retailers when operating their retail outlet. The retailers claimed that competition would be their biggest threat in operating their business.

Table 2: Problems of Operating Business Outlet

Problems	Rank
Competition	1
Changes in customers' needs	2
Capital	3
Not strategic location	4
Workers	5
Supplies	6
Space	7

ii. Impact of departmental store

The perceptions of the sampled retailers and entrepreneurs on the proposed development of a departmental store were derived from a survey conducted in the catchments area. Seventeen statements were used to measure their perceptions ranging from the impact of the departmental store on the existing retailers and future efforts undertaken by the retailers to sustain and improve their business. The overall responses from the retailers are shown in Table 3.

Table 3: Perceptions on Departmental Store

Statement	Strongly disagree %	Disagree %	Neutral %	Agree %	Strongly agree %
Departmental store offers more varieties	1.3	0.7	5.8	66.4	26.2
Departmental store has cheaper priced products	0.8	16.8	20.1	51.2	9.4
Departmental store's customers are different than other outlets	0	14.1	10.1	57.7	18.1
Departmental store would be my main competitor	2	10.7	8.1	65.8	13.4
Departmental store would bring more customers in the area	0.7	19.5	10.1	51.7	18.1
Departmental store's main competitor is hypermarket	3.4	9.4	12.1	61.7	13.4
Smaller outlets have problems because of too many big retailers	2.7	8.1	6.1	62.4	20.1
Departmental store would cause traffic problems in the area	2.7	10.7	6.7	53.0	20.1
Average expenditure of my customer would decrease	6.0	27.5	18.1	40.9	7.4
My customers would increase with the presence of departmental store	2.7	27.5	18.1	40.9	7.4
My outlet has different attraction than departmental store	1.3	9.4	12.1	60.4	16.8
My regular customers would still be here	0.7	10.7	13.4	57.0	18.1
Departmental store does not affect my sales	3.4	26.8	11.4	46.3	12.1
Presence of departmental store makes me work harder	0	11.4	16.8	53.0	18.8
Smaller retailers have own strategy to attract customers	0	2.7	9.4	59.1	28.9
Oppose the development of departmental store in the area	3.4	25.5	20.8	34.2	16.1
Location of departmental store should be far away from residential areas	3.4	34.2	16.1	35.6	10.7

iii. Opinions on departmental store

The majority of retailers supported the idea that the presence of departmental store is good for the customers and the local business. This is shown when 92.6% of the retailers were either strongly agree or agree with the statement "Departmental store offers more varieties". In addition, 61.1% of the retailers agreed that the goods sold in a departmental store are much cheaper. In addition, the majority of the sampled retailers agreed and strongly agreed that "Departmental store would bring more customers in the area". Only 20.2% of them thought otherwise. The retailers also identified certain characteristics of a departmental store. In terms of customers, about 75.8% retailers agreed and strongly agreed that "Departmental store's customers are different than other outlets". Regarding competition, the majority of the sampled retailers thought that the main competitor of a departmental store is the hypermarket.

iv. Problems created by departmental store

Obviously, the presence of the departmental store would affect the business performance of the smaller retail outlets. The study also finds out the potential problems that the retailers would encounter when the departmental store operates in their area. First, the majority of the retailers thought that competition would be much stiffer with the presence of a departmental store. About 82.5% of the retailers were either strongly agree or agree with the statement "Smaller outlets have problems because of too many big retailers". Only 10.8% of them thought that they could cope with the new competition. Second, they realized that their customers would tend to spend less at smaller retail outlets. As shown in Table 3, 48.3% of the retailers were either strongly agree or agree with the statement "Average expenditure of my customer would decrease". Third, the presence of the departmental store would also create traffic woes in Bandar Perda. This is evidence when 79.8% of the retailers strongly agreed or agreed with the statement "Departmental store would cause traffic problems in the area".

v. Suggestions on future development of departmental store

The retailers were asked on issues related to the setting up of a departmental store. Basically, some retailers reported that they were against the proposed development of the departmental store since the presence of the departmental store would affect their business. This is shown when 50.3% of the retailers were either strongly agree or agree with the statement "Oppose development of departmental store in their area". In terms of location, more retailers suggested that the department store should not be close to the residential areas. As indicated from the study, 46.3% of the retailers were either strongly agree or agree with the statement "Location of the departmental store should be far away from residential areas". Meanwhile, 37.6% of them had no problem of building a departmental store near the residential areas.

vi. Efforts taken amid competition from departmental store

The retailers were asked the actions that they would take in anticipating the development of a departmental store in their area. The retailers realized that customers would be more tempted to visit the departmental store than smaller outlets. Hence, the study showed mixed results, i.e. 51.7% of the sampled retailers either agreed or strongly agreed with the statement “My customers would increase with the presence of departmental store” while another 45.6% of them disagreed. However, the small retailers believed that they could still compete because small retail outlets are “different attraction than departmental store” and have “their own regular customers”. Therefore, smaller outlets are capable of doing business amid the competition from the bigger players. This is shown when 58.4% of the retailers were either strongly agree or agree with the statement “Departmental store does not affect my sales”.

Hence, the sampled retailers need to work extra hard. As indicated in the findings, most of the retailers were either strongly agree or agree with the statement “Presence of departmental store makes me work harder”. In addition, they need to take proper actions in order to attract the customers to their outlets. This is shown when 88.0% of the retailers were either strongly agreed or agreed with the statement “Smaller retailers have own strategy to attract customers”. Among the efforts suggested by the existing retailers to improve their business performance include:

- Promote store aggressively
- Conduct frequent sales promotion
- Provide after sales service
- Accept payment via credit cards

5. Conclusions

Impact on Retail Trade in the Area

The findings from the study indicate that the existing retail outlets in Bandar Perda would be affected by the development of departmental store. The responses from the sampled retailers indicated that the impact would be felt at least in the short term especially the beginning six months of the opening of the departmental store.

The seriousness of the impact on the existing retail is dependent on the types of retail establishments. Some retailers selling kitchen items and house hold goods might face a longer term impact from the development of the departmental store due to the similar nature of product offerings with departmental store and consumer buying habits and preference pertaining to the products. Clothing shop would also be affected due to the fact that their product offerings overlap with

those of the departmental store and the possibility of the departmental store offering lower price for these products. Electrical and convenience stores appear to be the least affected by the proposed departmental store. This is because their specialty products are quite different from those typically offered by the departmental store. Moreover, these types of outlets are important to consumers in terms of convenient and emergency purchases (New Strait Times, Sept 2, 2003).

Interestingly, the existing retailers in general believe that the proposed departmental store would have a positive impact on the local economy and business in the area. Consequently, this situation would improve the business activities of the sampled retail outlets. The retailers would work harder to take advantage of the extra customers brought by the departmental store to the area. As such, the existing retail outlets are still relevant today. In fact, the former Minister of Domestic Trade and Consumers Affairs, Tan Sri Muhyidin Mohd Yassin, had called upon the small retailers to participate in the supermarket and hypermarket activities (Harian Metro, 11 July, 2003).

The increased competition would call for more effective and efficient management of these retail outlets. The inefficient ones might have to cease operations or merge into bigger entities. The trend is happening in other parts of the country and it is going to happen in Bandar Perda as well.

Impact on Bumiputera Retailers

Bumiputera (Malay and indigenous ethnic groups) participation in the retailing industry has been acknowledged to be low. Based on the information from the survey, Bumiputera retailers are very much under-represented in the retail trade sector. Since their number is small, the impact of proposed departmental store on Bumiputera retailers would be minimal.

However, the proposed departmental store can contribute positively toward the Bumiputera's representation in the retail sector in the area. As required by the government, development of bigger retail unit needs to provide business opportunities for the Bumiputera. According to the Director of Development in the Prime Minister Department, the government policy is to increase the involvement of Bumiputera in distributive trading (Convention of Bumiputera in Distributive Trading Sector at PWTC, 19-20 September, 2000). Therefore, the contribution comes in a number of ways such as:

1. encourage to actively seek qualified and potential Bumiputera retailers to act as suppliers to the departmental store and getting small-scale Bumiputera entrepreneurs to supply speciality items such as kueh, kerepek, and traditional medicine to the departmental store,

2. invite Bumiputera entrepreneurs to sell their products at sales areas and kiosks provided by the departmental store.

The government also plans to increase the participation of Bumiputera in the retailing industry under 9MP. As mentioned by Datuk Mohamad Khalid Nordin, the Minister of Entrepreneur and Cooperative Development, the “One District One Industry” program is designed to encourage the participation of Bumiputera products in the market (Bernama, 23 March, 2006).

References

- Armstrong, Gary & Kotler, P. 2003. Marketing: An Introduction. Prentice Hall, Singapore.
- Beri Peluang Pada Bumiputera. (2003, July 11). *Harian Metro*, p. 14.
- Boone, Louis E. & Kurtz, D. 2004. Contemporary Marketing. Thomson South-Western, Singapore.
- Government of Malaysia. 2006. *Ninth Malaysia Plan 2006-2010*. Percetakan Nasional, Kuala Lumpur.
- Malaysia Introduces Measures To Heed International Hypermarket Onslaught. (2002, May 9). *The Star*, p. 34.
- Sundry Shop Not Badly Affected By Hypermarkets. (2003, September 2). *New Straits Time*, p. 12.
- Retail Sales Expected To Rise By 10% This Year. (2004, March 8). *New Straits Times*, p. 22.
- More Marketing of Bumiputera Products Under 9MP. (2006, March 23). *Bernama*.
- Malaysian Economy to Grow 6% Annually Under 9MP. (2006, March 31). *The Star*, p. 21.
- Concern over Proposed Guidelines. (2006, August 28). *The Star*, p. 34.