



# THRIVING DISTRIBUTIVE TRADE

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## I. INTRODUCTION

9.01 The Eighth Plan period proved to be challenging for the Malaysian distributive trade sector. Despite the economic slowdown in the early years of the Plan period, the sector recorded positive growth largely attributed to the increase in private consumption arising from higher disposable incomes and growth in consumption credit. Increased urbanisation, changing demographic patterns and growing affluence of the populace also contributed to the continued expansion and emergence of new developments in the modes of distribution. Increased efforts were undertaken to strengthen the appropriate policy and legal framework in order to provide for an efficient and dynamic domestic trade sector.

9.02 During the Ninth Plan period, sustained economic growth, higher incomes as well as new entrepreneurial opportunities will provide the impetus for a more thriving distributive trade sector. Population size, urbanisation, evolving lifestyles and consumption patterns are expected to increasingly impact upon the next wave of structural changes in domestic wholesale and retail activities. As distributive trade generates a multitude of investment and employment opportunities across many sectors, it will provide for more extensive inter- and intra-sectoral linkages. Alongside new developments, traditional and smaller businesses will be encouraged to upgrade and adopt modern business practices, in order to expedite their integration into the changing distributive trade systems. Measures will continue to be undertaken to ensure that the sector grows in an efficient and competitive manner in line with the principles of fair trade and competition.

## II. PROGRESS, 2001-2005

9.03 The distributive trade sector, comprising wholesale and retail trade, expanded at an average annual rate of 4.3 per cent despite the slowdown in the economy and weak external environment during the first half of the Plan

period. By the end of 2005, the contribution of the distributive trade sector to gross domestic product (GDP) increased from RM26.8 billion in 2000 to RM33.1 billion. Employment in the sector grew at an average rate of 3.7 per cent per annum from 1.1 million jobs in 2000 to 1.3 million jobs in 2005. The expansion of the distributive trade sector was contributed, among others, by the supportive fiscal and monetary policies of the Government.

### **Developments in Distributive Trade**

9.04 The distributive trade sector recorded an average annual growth rate of 5.2 per cent in total sales from RM159.6 billion in 2000 to RM205.6 billion in 2005. The wholesale establishments contributed to the bulk of the total sales turnover at 70.2 per cent in 2005. The rise in tourist arrivals also boosted distributive trade as tourist shopping expenditure increased at an average rate of 13.3 per cent per annum from RM4.0 billion in 2000 to RM7.4 billion in 2005.

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9.05 The vibrancy of the distributive trade, among others, was reflected by the changing structure of the sector as evident by the increasing number of shopping complexes, hypermarkets, department stores, supermarkets and specialty stores as well as the introduction of new retail concepts. In response to evolving retail and marketing concepts, arising largely from changes in demographics, lifestyles and the competitive environment, shopping, leisure, entertainment and cultural activities are being increasingly integrated under one roof and/or at strategic locations. The significant increase in domestic as well as foreign tourist shopper traffic also raised the demand for retail space. The number of shopping complexes increased from 392 in 2000 to 550 in 2005, as shown in *Table 9-1*. The number of shop units, being an integral feature of most housing developments as well as new and established townships, expanded at an average annual rate of 4.2 per cent.

9.06 The increasing presence of hypermarkets, particularly in the cities and bigger towns, reflected the changing lifestyle of shoppers and preference for the convenience, comfort, product variety and long opening hours offered by these largely one-stop shopping establishments. The emergence of hypermarkets, with integrated wholesale and retail functions, spawned off new activities and services. Hypermarkets contributed to increased inter- and intra-sectoral linkages as well as introduced more comprehensive and innovative supply chain management, incorporating international networks, outsourcing and branding, thus creating more avenues for local retailers to develop and modernise their businesses.

TABLE 9-1  
SELECTED PERFORMANCE INDICATORS, 2000-2005

Indicator	2000	2005	Average Annual Growth Rate (%) 2001-2005
Shopping Complexes	392	550	7.0
Shop Units ('000)	242	297	4.2
Hypermarkets	22	81	29.8
Foreign	16	68	33.6
Local	6	13	16.7
Franchisors	90	204	17.8
Franchisees	2,159	2,584	3.7
Direct Selling Licences	712	569	-4.4
e-Commerce (RM billion)	11.1*	36.7	81.8**
Business to Business	7.7*	29.3	95.1**
Business to Consumer	3.4*	7.4	47.5**

Source: Ministry of Domestic Trade and Consumer Affairs, Ministry of Entrepreneur and Cooperative Development and International Data Corporation

Notes: \* Year 2003

\*\*Growth 2004-2005

9.07 To leverage on the extensive networks of foreign hypermarkets, measures were initiated to create more business opportunities for smaller domestic producers and suppliers. In this regard, specific programmes were implemented by agencies such as the Federal Agricultural Marketing Authority (FAMA) and the Federal Land Development Authority (FELDA) as well as co-operatives in collaboration with hypermarkets to market agricultural produce, handicrafts and products of small and medium enterprises (SMEs). Other initiatives included the promotion and marketing of local products overseas, through globally-linked hypermarkets with a view to increase market share and expand exports.

9.08 Another popular mode of retail business, especially for agricultural products, was the market or *pasar* set-ups, namely, *pasar basah*, *pasar malam* and *pasar tani*. These traditional markets continued to enjoy sizeable catchment of the local population, providing self-employment and income-earning opportunities for small traders and budding entrepreneurs.

## *Franchising*

9.09 Increased emphasis was given to the promotion of the franchise industry, as it presented viable opportunities for entrepreneurs to participate in structured and well-established businesses with relatively lower risks and a greater probability of success. The brand name, standard operational procedures, systematic training and support from the franchisors were among the critical factors that contributed to widespread franchised businesses, especially in the food, cosmetics and consumer goods segments. While the franchise industry nurtured many new and existing businesses for homegrown products and services, there remained vast untapped opportunities. During the Plan period, the number of franchisors increased from 90 in 2000 to 204 in 2005, of which 49 were Bumiputera.

9.10 To enhance coordination in the management of franchise development as well as increase participation, particularly of Bumiputera entrepreneurs, *Perbadanan Nasional Berhad* (PNS) was given the mandate in June 2004 to be the sole agency implementing the Franchise Development Programme (FDP). Among the activities implemented under the FDP were product development, franchise investment and financing schemes, education and training, promotion and marketing as well as research and development to develop homegrown franchise systems.

## *Direct Selling*

9.11 Direct selling activities continued to register an increase in sales turnover from RM4.5 billion in 2000 to RM5.3 billion in 2005. There was a significant decline in the number of licences from 712 in 2000 to 385 in 2001, due to the stringent status verification exercise as well as action taken against operators of get-rich-quick schemes. The expansion of the industry from 2002 onwards was largely due to enforcement measures undertaken to promote an orderly development of direct selling as well as the confidence accorded by the Direct Sales (Schemes and Conduct) Regulation 2001 to prevent unethical trade practices. To further expand business opportunities, local direct sales companies also ventured abroad into markets such as Brunei Darussalam, Indonesia, Thailand and the Middle East, exporting herbal and craft products, cosmetics, food products and footwear.

## **e-Commerce**

9.12 The sale of goods and services over the Internet or e-commerce, grew significantly at an average annual rate of 81.8 per cent from RM11.1 billion in 2003 to RM36.7 billion in 2005. This was mainly attributed to the rise in electronic transactions in the business to business (B2B) market from RM7.7 billion to RM29.3 billion, in tandem with the increased acceptance of Internet

commerce. During the same period, the business to consumer (B2C) e-commerce spending registered an increase from RM3.4 billion to RM7.4 billion, as more companies and businesses offered their services direct to consumers through online transactions.

### **Bumiputera Participation**

9.13 During the Plan period, measures undertaken to increase the participation of Bumiputera entrepreneurs in distributive trade focused on a number of aspects, namely, business development, financing, entrepreneurial training, marketing and promotion as well as providing assistance to acquire business premises at strategic locations. The *Perbadanan Usahawan Nasional Berhad* (PUNB) expanded the *Projek Usahawan Bumiputera Dalam Bidang Peruncitan* (PROSPER) to build a pool of viable Bumiputera SMEs in the retail sector.

### **Strengthening Linkages with Other Sectors**

9.14 During the Plan period, the development in transport and communications, agriculture, manufacturing and tourism sectors strengthened linkages with the distributive trade sector, contributing to enhanced activities along supply chains and widening the size and scope of sales and distribution. The increase in direct local sourcing of products through contract manufacturing and farming contributed to the reduction in supply and demand imbalances as well as generated higher levels of production and distribution of goods and services. The promotion of tourism further boosted developments in retail activities, especially in providing the wide range of products, emphasising quality, fashion and branding. Linkages with the agriculture sector were strengthened, among others, with the partial implementation of the National Food Terminal (TEMAN) project, which comprised a chain of marketing and distribution facilities ranging from production to distribution and marketing.

### **Promoting Healthy Competition**

9.15 To ensure a more orderly and efficient development of the distributive trade sector, especially in the context of an increasingly globalised and liberalised environment, a Fair Trade Practices Policy was adopted during the Plan period. The regulatory and institutional framework, still in the early stages of formulation, will provide a more conducive environment for healthy competition and one that will contribute towards preventing anti-competitive behaviour and practices as well as abuse of market power.

9.16 The laws and regulations pertaining to intellectual property rights (IPR) were revised to be in conformity with the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement in order to protect interests of producers

as well as encourage innovation and technology transfer. The Intellectual Property Corporation of Malaysia (MyIPO) was established in 2003 to improve the IPR registration, management and protection systems as well as enhance public awareness on the importance of ownership and commercial significance of intellectual property. MyIPO focused on capacity building as there was a shortage of skilled personnel such as patent examiners, intellectual property lawyers and technology evaluators to facilitate IPR development and build a database for public reference and search.

9.17 With regard to copyrights, various measures were undertaken including the formation of the Special Anti-Piracy Task Force to combat piracy and amendments made to the Copyright Act 1987 for more effective enforcement. A Special Task Force Committee to Eradicate Counterfeit Goods was also set up to ensure appropriate protection for owners of trademarks. The Companies Commission of Malaysia was established to consolidate the tasks and responsibilities of the Registrar of Businesses and the Registrar of Companies as well as ensure the orderly development of the corporate and business sector.

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### **Consumer Education and Protection**

9.18 In view of the rise in the sophistication of trade fraud and infringements as well as inflow of unsafe products, increased attention was given to consumer education and protection. The National Consumer Policy was launched in 2002 to empower consumers to be more aware of their rights and interests as well as promote consumerism. A number of structured consumer education and awareness programmes were undertaken at the school and community levels. The Tribunal for Consumer Claims Malaysia continued to provide consumers an alternative avenue to exercise their rights and make claims against suppliers of defective goods and unsatisfactory services.

## **III. PROSPECTS, 2006-2010**

9.19 During the Ninth Plan period, the distributive trade sector is expected to grow at an average rate of 6.8 per cent per annum taking into account the prospects for economic growth, employment and disposable incomes as well as complementarity with other sectors of the economy. Given the social change, urbanisation and the evolving lifestyles of the population, the distributive trade sector will continue to undergo structural changes that will impact upon its future development, especially the traditional forms of businesses. The structural changes are expected to take various forms ranging from the integration and consolidation of businesses to reap economies of scale, extension of linkages along and up the value chain, to the promotion of new concepts in wholesale and retailing activities.

9.20 Recognising the need to have more orderly development and monitoring of the domestic distributive trade sector, efforts will be undertaken to improve the regulatory framework and guidelines. Strategic collaborations and partnerships as well as business networking will be encouraged to make increased inroads in global markets. As consumption and behavioural patterns change, the distributive trade sector will need to vigorously innovate as well as adopt new and improved retailing strategies and concepts to meet changing expectations of consumers. Notwithstanding the impending changes, increased efforts will be undertaken to ensure a more balanced development between the large-scale wholesale and retail activities and the traditional small businesses. The regulation and zone requirements for large-scale establishments will continue to be enforced.

9.21 With the anticipated restructuring, competitiveness and modernisation of the distributive trade sector, the strategic thrusts for the Ninth Plan will be as follows:

- ❑ *enhancing the regulatory framework to promote the development of distributive trade;*
- ❑ *strengthening the modes of distribution to enhance efficiency, productivity and competitiveness;*
- ❑ *accelerating the growth of e-commerce to support modernisation and expansion of the sector;*
- ❑ *increasing the scope and scale of Bumiputera participation to benefit from the growth of the sector; and*
- ❑ *enhancing consumer awareness and education.*

### **Enhancing Regulatory Framework**

9.22 During the Ninth Plan period, to enhance sustained growth in the distributive trade sector, efforts will be intensified to create a more conducive environment for healthy competition and fair trade practices, especially within the context of increasing competition and globalisation. Among others, a Fair Trade Practices Law (FTPL), premised on the Fair Trade Practices Policy, will be formulated and implemented in stages. In terms of institutional support, a Fair Trade Practices Office, a Fair Trade Practices Commission and a Fair Trade Practices Appeal Tribunal will be established in phases. A Malaysian Competition Network will also be formed to provide a platform for deliberations among relevant public and private sector agencies in the formulation of strategies under the FTPL.

## **Strengthening Distributive Trade**

9.23 The distributive trade sector offers many untapped opportunities for new and diverse investments, especially to meet changing demands of a growing population with rising standards of living and growing affluence. During the Ninth Plan, it is expected that more domestic and foreign establishments will increasingly introduce new types of wholesale and retailing concepts. These structural changes are likely to be through more planned location of retailing outlets which are strategically integrated with a varied range of adjoining activities such as leisure, entertainment, recreation and shopping. Such changes represent new opportunities and sources of growth in the distributive trade sector.

9.24 Efforts will be undertaken to strengthen the capacity and capability of local retailers and wholesalers to respond to changes in the general tastes and preferences of consumers. Greater efforts will be given to nurturing homegrown retail chains and brands. Amongst others, a comprehensive database will be established to monitor and evaluate the trends and pending structural changes in the distributive trade sector as well as assess the effectiveness of programmes and projects implemented. This will also enable more accurate information for policy formulation purposes as well as identifying and studying new approaches that are more conducive in the local context before adopting them.

9.25 As part of efforts to inject dynamism into the distributive trade sector, emphasis will be placed on identifying and developing innovative modes of distribution as well as enhancing, in particular, the efficiency of the supply chains. Measures will be undertaken to enhance participation in the domestic and global supply chains with focus on brand development, benchmarking against similar brands, quality improvement, packaging and competitive pricing as well as promotion in multiple markets. With rising competitive pressures, increasing emphasis will be placed on promoting strategic alliances between suppliers and buyers, including foreign hypermarkets, to expand international collaboration and global market presence. Training programmes on the management of modern businesses, especially for SMEs, will be intensified to enable them to undertake and implement new approaches in wholesale and retail activities.

9.26 An important technological innovation that is anticipated to contribute to the better supply chain management will be the gradual deployment of radio frequency identification (RFID) tagging, which allows for improved tracking of merchandise lifecycles and certifying product authenticity. RFID applications can cover a wide array of activities throughout manufacturing and distribution processes which would provide detailed information to improve quality, timeliness, efficiency and delivery as well as reduce overall costs.

9.27 *Direct Selling.* The Direct Sales Act 1993 will be reviewed to address the changing needs of the industry and enhance the regulatory mechanisms. Direct selling companies will be encouraged to develop and promote their products through continuous quality improvements, innovative packaging, branding and increasing exports. Towards this end, training programmes for direct sales participants will be reinforced to increase marketing, communications and management skills as well as instil good business ethics. A total of 100 new Bumiputera direct selling companies is targeted for development under the Ninth Plan. In addition, local direct selling companies will be encouraged to expand their operations overseas, especially in the Asia Pacific region.

9.28 *Franchising.* During the Plan period, franchise development programmes will be further strengthened to provide for more effective franchisor-franchisee matching, product development and training. To enable more entrepreneurs to participate, increased emphasis will be given to identifying and promoting franchises that require a relatively lower capital base. PNS will devise new approaches to promote local franchise product development. Moreover, existing financing schemes will also be reviewed and procedures simplified to improve access to funding. In addition, co-operatives will be encouraged to leverage on their extensive networks and large membership base to develop franchises. An integrated database on franchising will be established to provide for better planning, monitoring and collaboration among domestic and foreign franchise entrepreneurs. The more successful homegrown franchisors will be encouraged to expand overseas and seize opportunities presented by regional and multilateral arrangements such as the ASEAN Free Trade Areas (AFTA) and Free Trade Agreements (FTAs).

9.29 *Strengthening SMEs in Distributive Trade.* As more than 85 per cent of SMEs in the country are involved in distributive trade activities, further efforts will be undertaken to promote the development of supporting infrastructure such as provision of business premises and related services and strengthening managerial and technical skills. The Government will continue to collaborate with the industry to formulate effective measures targeted to enhance inter-firm linkages and market access, including the utilisation of information and communications technology to raise productivity and efficiency levels along and up the supply chain. Given the rapid expansion of the large-scale wholesale and retail enterprises, the smaller businesses will be accorded greater attention. SMEs in particular will be given assistance to provide a wider range of innovative products and services as well as enhance their capacity to operate in strategically located up-market shopping complexes and popular tourist destinations. They will also be encouraged to increase domestic market share and venture into the export market. Traditional businesses will be encouraged to capitalise on their specialised market knowledge to serve niche markets and offer personalised

services. Access to information and market intelligence will be improved to facilitate changes in the merchandise mix in response to changing consumer trends.

9.30 For smaller traditional enterprises, the Government will increase efforts to establish more shopping arcades, petty trade centres, food courts as well as *pasar tani* and *pasar malam* in strategic locations. Emphasis will also be placed on improving access of petty traders to supporting facilities so as to assist them in enhancing and developing their businesses and promoting self-employment.

9.31 *Intellectual Property Rights.* Measures will continue to be undertaken during the Plan period to ensure a well regulated and efficient IPR management and protection system, in order to support distributive trade in terms of product innovation and branding. MyIPO will expedite the registration process of trademarks and patents to protect the interests of local and foreign companies to fully reap the potential benefits. Towards this end, the capacity and expertise of MyIPO will be further expanded and strengthened. Greater emphasis will be accorded to increase awareness on IPR, its importance as a source of wealth and intellectual capital as well as the commercial benefits of IPR protection.

9.32 To inculcate ethical business practices, eradicate trade malpractices and protect consumer interests, the enforcement agencies will continue to be strengthened in terms of expansion in personnel and improvements in operational skills. Increased focus will be on the prevention of counterfeit and copyright infringement offences. The capacity for intelligence gathering, surveillance, investigation and prosecution will also be upgraded to meet the increasing challenges encountered in enforcement activities.

### **Accelerating the Use of e-Commerce**

9.33 During the Ninth Plan period, the value of e-commerce transactions is expected to grow at an average annual rate of 27 per cent to reach RM155 billion in 2010. To strengthen the legal framework and further increase public confidence in e-commerce transactions as well as reduce online fraud, the Electronic Transaction Bill, Electronic Government Activities Bill and the Personal Data Protection Bill, will be enacted. The private sector will need to assume a major role in expediting the growth of e-commerce. In line with this objective, initiatives to be spearheaded by wholesalers and retailers will include redefining the value chain and restructuring the internal functions and processes in order to effectively participate in and benefit from e-commerce. To improve the process of information transfer and virtual transactions among trading parties, businesses will be encouraged to adopt global standards in item identification, data capture methods and messaging.

## Increasing Bumiputera Participation

9.34 The PROSPER programme will be expanded to nurture 1,250 new entrepreneurs. In this regard, PUNB will collaborate with key domestic and global players to expand existing operations as well as develop new chains of retail outlets including concept shops, mini-markets, supermarkets and specialty shops. The scope and coverage of PROSPER will be widened to include wholesale businesses. This will provide an additional avenue to assist Bumiputera small traders and contractors to source their supplies more efficiently. Increasing emphasis will need to be placed on extending existing linkages along the supply chain, reaping economies of scale, augmenting efficiency, emphasising market intelligence and quality as well as upgrading professional, supervisory and financial management skills.

9.35 Bumiputera professionals will also be encouraged to participate in profession-based retail outlets such as clinics, pharmacies and optical shops. PNS, as the focal agency for franchising, is expected to develop more than 50 new local franchise products and services as well as acquire selected franchises from abroad designated for Bumiputera participation and ownership. In addition, efforts will be undertaken to enhance the role of co-operatives in the development of the distributive trade sector. In this regard, co-operatives will be encouraged to widen their scope of operations and promote local products, more extensively through strategic collaboration with established marketeers.

9.36 During the Plan period, more focused training programmes, especially with regard to the management of modern retail and wholesale businesses, will be provided to enable Bumiputera entrepreneurs to face emerging challenges arising from increasing competition. Existing courses will be improved and new ones introduced at relevant educational institutions and government agencies such as *Majlis Amanah Rakyat (MARA)* and *Institut Keusahawanan Negara (INSKEN)*. Efforts will be intensified to assist Bumiputera entrepreneurs to move up the value chain and market high-end retail products requiring innovativeness, creativity and talent. Among others, the arts and crafts industries will be further modernised and upgraded to include research and design activities in order to create new demand and expand into domestic and overseas markets.

## Enhancing Consumer Awareness and Education

9.37 To enhance consumer awareness and protection, consumer education programmes will be expanded to a larger segment of consumers including school children through campaigns and workshops. Business ethics education in schools and institutions of higher education will also be promoted to inculcate good ethics and responsibilities in doing business. In addition, the Smart Partnership programme will be intensified to enhance the role of non-government

organisations and voluntary groups in educating the general public on consumer-related matters. The conferment of awards such as Best Consumer Organisation, Best Consumer Club and *Tokoh Pengguna* will be continued to accord due recognition to partners in consumer education and protection. The Consumer Protection Act 1999 will be reviewed to enhance consumer welfare. The scope will be extended to cover areas such as e-commerce, health and risk assessment of products and services including genetically modified organisms. The revised law will ensure adequate provisions for consumer complaints and recourse to be settled expeditiously at a reasonable cost.

#### IV. INSTITUTIONAL SUPPORT AND ALLOCATION

9.38 The overall development of the distributive trade sector will continue to be spearheaded by the Ministry of Domestic Trade and Consumer Affairs. The Ministry of Entrepreneur and Cooperative Development will be the lead agency to increase Bumiputera participation in the sector as well as cooperate with PNS to promote the expansion of the franchise industry. INSKEN will provide various courses to entrepreneurs, especially Bumiputera, in the development and management of modern retail and wholesale businesses.

9.39 The Ninth Plan development allocation for the distributive trade sector is as shown in *Table 9-2*. It is mainly to complement private sector efforts in the provision of business premises, financing for the development of new and existing retail enterprises, as well as training and consultancy services.

TABLE 9-2  
**DEVELOPMENT EXPENDITURE AND ALLOCATION  
FOR DISTRIBUTIVE TRADE, 2001-2010**  
(RM million)

<i>Programme</i>	<i>8MP Expenditure</i>	<i>9MP Allocation</i>
Funds for Distributive Trade	300.0	450.0
Business Premises	408.0	1,372.4
Modernisation of Trade Services	44.1	27.0
Training and Consultancy	46.4	116.0
<b>Total</b>	<b>798.5</b>	<b>1,965.4</b>

Source: Economic Planning Unit

## V. CONCLUSION

9.40 During the Eighth Plan period, the growth of the distributive trade sector was supported by efforts to stimulate domestic demand and the expansion of new distribution modes. In the Ninth Plan period, the strategy to develop a thriving distributive trade sector will be to focus on progressive modernisation, adoption of innovative approaches as well as increasing overall efficiency and productivity, especially in the context of more competitive globalised environment. While existing regulations will be strengthened, a comprehensive fair trade policy and legal framework will be formulated to provide a more conducive environment for market competition, promote the entry and participation of small enterprises as well as encourage good business practices and enhance consumer welfare.