MODERNISING MALAYSIA'S SHOPPING EXPERIENCE

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For the past seven years, the wholesale and retail industry has revolutionised Malaysia's consumer experience through initiatives spearheaded by the private sector. Coupled with the exploration of new retail concepts such as e-commerce, the sector has been liberalised, increasing the level of competition and choice for customers. Wholesale and retail has risen to become a main contributor to our overall GDP, recording a GDP contribution of RM205.2 billion in 2017, a 10.14% increase from 2016's RM186.3 billion.

Our constant efforts in modernising, globalising and revolutionising this sector have resulted in an increase in consumer confidence to 94 percentage points according to Nielsen's Global Consumer Confidence Report, an increase from 2016's 84 percentage points.

An even bigger mark of success is that Malaysia's rank in the AT Kearney Global Retail Development Index (GRDI) is at its highest in the past 10 years. Retaining its place in third position from 2016 and second only to consumer mammoths India and China, we have risen to be a worthy contender despite being in a hotbed of retail activity, among Singapore, Indonesia, Thailand and Hong Kong.

The success is accredited to the tenacity and resilience of the sector. The continuous reviewal of existing projects ensures that our strategy remains relevant, and can reinvigorate Malaysia's wholesale and retail. To succeed, we saw the injection of new players into the Makan Bazaar, Big Box Boulevards, Virtual Malls and Wellness Resorts to maintain a globally competitive sector.

Moving forward, extra focus will be given to the e-Commerce industry to fulfil domestic and international consumption demand. This has already resulted in the launch of BizTrust, a business certification awarded to online business entities, in June 2017 in line with the National E-Commerce Strategic Roadmap.

In light of the upcoming emphasis on the e-Commerce sector, and the overall progress of the wholesale and retail sector; I call upon all Malaysian traders to continue contributing and gaining from this upwards trajectory.

INNOVATING LARGE-FORMAT STORES

The development of large-format stores was identified as a focus area under this NKEA to expand retailers' scale and capabilities. This, in turn, was targeted to encourage private investment, increase competitiveness of the stores, provide more choices for consumers and create employment opportunities. Significantly, as at 2016 the sector employs 1.7 million people, an increase of 13% as compared to 1.5 million in 2010.

To date, this has resulted in the establishment of 44 hypermarkets and 56 superstores, facilitating investments including RM1.27 billion from Abu Dhabi's Lulu Group which aims to set up 10 hypermarkets across Malaysia by 2020. In 2017, Tesco launched two superstores in Batu Pahat, Johor and Bertam, Pulau Pinang. Additionally, Giant opened another superstore in Tunjong, Kelantan. AEON opened another hypermarket in Bandar Dato' Onn, Johor in September 2017.

Consumer confidence has increased in 2017, as compared to 2016.

In tandem with a shift in consumer trends, hypermarket and superstore operators have moved towards a new strategy of opening small-format stores in 2017. Malaysian consumers have demonstrated a preference for smaller-sized convenient stores, situated in locations closer to their neighbourhoods. In response to this, the Ministry of Domestic Trade and Consumer Affairs (KPDNKK) is liberalising the sector by reviewing and approving foreign-owned stores which are 2,000 square metres in size, as opposed to enforcing the conventional requirement of a 3,000-square metre minimum for retail hotspots such as Klang Valley, Ipoh, Johor Bahru and Penang.

> *"As at 2016, the wholesale and retail sector has employed 1.7 million individuals, an increase of 13% as compared to 1.5 million in 2011."*

Development of the sector is also planned with balanced growth in mind. Hence, to ensure a level playing field in the small-format industry while facilitating knowledge transfer, KPDNKK has enforced specific local shareholding thresholds for small-format stores. Following this trend, Giant has launched its subsidiary, G Ekspres. Currently, there are eight G Ekspres outlets in the Klang Valley. Giant has also received approval from KPDNKK to open 500 small-format outlets. Meanwhile, Tesco has also introduced Tesco Xpress, and there are currently nine outlets: two in Penang, four in Selangor and three in Kuala Lumpur. These activities, in addition to facilitation from KPDNKK, ensure continued investment in the sector, with the operators committed to retaining their large-format stores while investing in smaller stores.

BUILDING UP SMALL- AND MEDIUM-SIZED RETAILERS

The Small Retailer Transformation Programme (TUKAR) and Automotive Workshop Modernisation (ATOM) initiatives were formulated to help smaller retailers modernise and move their businesses up the value chain by helping them improve their profitability. This is being achieved by enhancing their human capital and expertise through training, providing new equipment, improving product displays through new marketing strategies and introducing better inventory tracking systems.

To date, 2,367 shops have been transformed under the TUKAR programme, with participants recording an increase in revenue of at least 40%* after 12 months. Under ATOM, 864 shops all over Malaysia have been transformed, resulting in 80% of participants reporting at least a 40%* increase in revenue.

In 2017, the focus of the programmes shifted to enhancing and sustaining the performance of existing TUKAR and ATOM participants who performed well throughout the first phase of the programme, a period spanning between ATOM and TUKAR's launch in 2011 to 2016.

In the second phase of the TUKAR and ATOM programmes, which were launched in 2017, 28 and 21 existing TUKAR and ATOM participants respectively qualified for loans to further expand their businesses. Qualified participants are required to show high potential for growth based on their sales records and the locations of their establishments, possess a good record in the CTOS and CCRIS databases and have no arrears. Most importantly, to ensure their continued success, the potential participants need to show commitment to expand their business.

The programmes are self-sustaining due to the nature of the funding system utilised. The loan operates on a revolving basis, whereby the loans repaid in the first phase will then go towards funding expansion projects in phase two.

> ***"Under ATOM, 864 shops all over Malaysia have been transformed, resulting in 80% of participants reporting at least a 40% increase in revenue."***

To ensure the viability of TUKAR and ATOM and to help participants manage their finances, KPDNKK and Bank Rakyat have continuously engaged with participants through various programmes to offer financial guidance and advice. To further facilitate this, KPDNKK through the Credit Counselling and Debt Management Agency (Agensi Kaunseling Pengurusan Kredit – AKPK) held two Open Days in 2017 to conduct financial management sessions, where participants were given advice on restructuring or rescheduling of repayment of their loans under Bank Rakyat. Furthermore, during Open Days, participants were also given professional advice on stock keeping and budgeting, among others, by industry professionals such as Tesco, the Malaysia Automotive Institute and AKPK.

As a follow up measure, the Delivery Management Office and AKPK have also gone to the ground to monitor the well-being and progress of the participants.

The TUKAR programme has helped to modernise business practices of small retailers.

* Based on the TUKAR and ATOM Programme Impact Study conducted in 2013. A new study will be conducted in 2018.

The ideal local economic environment creates a great platform for Tesco to expand their business.

Empowering our Retailers

UK grocery and general merchandise retailer Tesco marked its 15th anniversary in Malaysia in 2017 and now operates 57 outlets nationwide. "To our UK parent company, expanding to Malaysia seemed like the right step," says Azliza Baizura Azmel, the Corporate Services Director of Tesco Malaysia, noting that the company had seen a need to grow its presence in Asia. Malaysia's politically stable environment, growing pool of skilled workers, its status as a growing nation and an accommodating policy framework and legal system made the country a good platform for Tesco to expand into the region.

From the opening of its first outlet in Puchong in 2002, Tesco's continued growth in Malaysia has also been supported by facilitative policies and the Government's efforts to increase the ease of doing business the country. Additionally, over the years, the Malaysian Government has enforced competition and data protection laws to ensure a level playing field in the retail sector, thus attracting more foreign companies.

Tesco has also collaborated with the Ministry of Health to ensure that goods sold by the retailer are MeSTI compliant. "Compliance to MeSTI ensures that our products meet certain standards and level of quality," says Azliza.

> ***"KPDNKK's recent decision to allow foreign-owned stores to expand with smaller premises have allowed Tesco to penetrate the lucrative small-format sector."***

The company also finds that the Ministry of Domestic Trade, Cooperatives and Consumerism (KPDNKK) is supportive of its needs. "At the end of the day, it's always about the conversations we have with KPDNKK; who have always been attentive to our concerns," says Darshan Singh, the Head of Government Relations and Corporate Services for Tesco, Malaysia.

The company will be further expanding its presence in Malaysia following KPDNKK's recent decision to allow foreign-owned large-format stores to open smaller premises, which will allow Tesco to penetrate the lucrative small-format sector. This is in line with current retail trends, where consumers prefer to shop in smaller stores located near their homes. In 2017 Tesco launched its chain of new generation stores which focus on time saving, increased value for money and the incorporation of technology such as self-checkout counters.

> ***"Malaysia's solid talent pool aids with ease of business in Malaysia for Tesco."***

The company is also keen to leverage Malaysia's talent pool for its staffing needs. "We're always looking to diversify our talent pool. We look at Malaysians first to reduce our dependency on foreign workers," says Azliza. In a collaboration with the Ministry of Education, the company trained and upskilled young talents who are keen on working after completing secondary school to improve their employability. Further adding value to Malaysia's economy, Tesco works alongside homeless shelters such as Anjung Singgah in Kuala Lumpur to provide jobs to the homeless and other marginalised members of society, such as people with disabilities and retirees.

Moving forward, Tesco will utilise technology to further enhance its services and expand its footprint in Malaysia. To remain current in this day and age, Azliza emphasises on the importance of having both a virtual and physical presence. In line with this, Tesco now offers real-time delivery through e-commerce platforms such as LAZADA and Happy Fresh in addition to its own delivery service. This also follows thriving growth in Malaysia's e-commerce, which the Government is increasingly seeking to drive inclusive economic activities and income-generating opportunities.

Additionally, Tesco uses social media sites such as Facebook to carry out fluid interaction with its consumers, allowing the chain to share information and receive feedback; ensuring services which are in tandem with their stores in Europe and the US.

Azliza Baizura Azmel, Corporate Services Director, Tesco Malaysia.

The Zen5es Wellness Report is expected to attract 60,00 commuters travelling between Johor Bahru and Singapore daily.

PREPARING FOR THE FUTURE OF RETAIL

The establishment of wellness resorts is aimed to revolutionise the wholesale and retail sector to attract higher value consumers and tourist spending through game-changing lifestyle concepts. To this end, the Zen5es Wellness Resort in Iskandar Johor is currently under construction and, upon completion, will create a new landmark in the Southern corridor of Iskandar Malaysia. It is projected to contribute RM718 million to the sector's overall GNI, attract RM1 billion in investments and create 4,300 career opportunities for Malaysians from all levels of skill and expertise. The resort is also expected to create a ripple effect among locals and international healthcare travellers alike through the promotion of healthcare awareness.

Due to its location at Malaysia's Southern gateway, the resort is well-positioned to attract the 60,000 commuters travelling between Johor Bahru and Singapore daily. Moreover, the resort will also be located adjacent to the future Bukit Chagar Rapid Transit System (RTS), hence easing mobility for future clients.

The integrated development will have 53,000 square feet of lettable retail area which is divided into three major blocks. The first block contains 729 units of family housing, while the second block will be made up of 987 apartment suites available for purchase under lifetime lease. The third block will consist of a private 529-bed hospital, of which 322 beds are reserved specifically for elderly care and confinement care. The residential units will be available for sale from 2021, following the completion of the resort in the same year.

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Completing this massive development is not without its challenges, as the current soft market sentiment leads to difficulties in obtaining financial support for construction. Nevertheless, the persistent effort to seek alternative financial resources has ameliorated the risk of delays.

A Wellness Resort City Like No Other

Malaysia is an ageing nation. The number of senior citizens is expected to double to 5.8 million or 15.3% of the population by 2030. Sensing a ripe opportunity, innovative property development company Leadmont Group is venturing into the wellness resort industry to cater to the growing need for quality healthcare and medical services.

"Zen5es Wellness Resort is a one-stop integrated wellness resort city," said Brendan Soh, Sales and Marketing Manager of Leadmont Group, "Located a mere 5-minutes' drive away from the rapidly-growing Iskandar City, Zen5es Wellness Resort will leverage on Malaysia's superb reputation as a cost-effective healthcare and medical destination and as a retirement haven."

Positive signals all around

With its close proximity to Singapore and Indonesia, connections to major existing and future transportation hubs, and favourable currency exchange rate, the wellness resort is expected to draw significant interest from Malaysians, the expat community and regional and international medical tourists. In 2016, the medical tourism industry in Malaysia exceeded RM1 billion in revenue from one million healthcare travellers. Sherene Ali, CEO of Malaysia Health Travel Council expects RM4 billion in revenue by 2020.

The Johor State Government is supportive, as demonstrated by Menteri Besar YAB Dato' Mohamed Khaled Nordin's expressed intention for Iskandar Malaysia to follow into South Korea's footsteps and emerge as the leading medical tourism destination in ASEAN. Brendan and his team work with multiple government agencies such as the Ministry of Domestic Trade, Co-operatives and Consumerism (KPDNKK), Malaysian Investment Development Authority (MIDA) and the Ministry of Finance (MOF) and receives advice, guidance and – if all goes well – tax incentives.

Understanding the needs of medical tourists

Leading the visionary, first-of-its-kind project is Mimi Asche, Chief Operating Officer of Leadmont Group's Health and Wellness Division. "Zen5es Wellness Resort will feature three blocks in the same compound, with amenities such as cafes, retail shops and supermarkets at the ground level. The first block will offer integrated multi-generational residences suitable for families while the second block is the 'apartments for life' catering to retirees seeking a safe, secure environment that fosters community and companionship. It will also offer a high-care nursing home and confinement care centre. The third block is a specialist private hospital," she explained, "What makes us different is our holistic approach. The whole compound is designed to accommodate not just senior citizens, but also medical tourists of any age. We call this the 'intergenerational approach'."

Passionate about senior care, Mimi develops Zen5es Wellness Resort's model of care following best practices from other senior care facilities worldwide. "The Zen5es Wellness Resort will take the best approach possible, and incorporate localisation twists into the mix."

Introducing Malaysians to a whole new specialisation

The project will require a significant number of skilled human resources and will provide ample job opportunities. "Malaysia has the right talent and skillsets. However, we do not have enough (in the country)," said Mimi, referencing the high number of skilled Malaysians who have migrated overseas, "To supplement this and to provide an international feel, we will also recruit talent from ASEAN countries, especially in the medical and hospitality sector. At the same time, we hope that Malaysians with specialisation in senior care will be encouraged by this project and return to pursue their passion in their home country."

Upon completion of the flagship project in Iskandar Malaysia, the company plans to replicate and offer cost-efficient alternatives all over Malaysia, in cities such as Penang, Sabah, Kota Kinabalu, Ipoh and Melaka. "We found from our research that Malaysians have low expectations for senior care, which is very sad. I want us to improve the way we look after the elderly," said Mimi passionately, "That's what drives me."

Preparing Small Business Owners for Modern Consumers

Intan Shahirah Ramli, Senior Assistant Director in the Delivery Management Office Division within the Ministry of Domestic Trade, Cooperatives and Consumerism (MDTCC) has been involved in the Wholesale & Retail National Key Economic Area (NKEA) since July 2013. Under her purview are two projects: the Small Retailer Transformation Programme (TUKAR) and the Automotive Workshop Modernisation (ATOM).

Targeting traditional sundry shops and local automotive workshops respectively, both programmes aim to increase the competitiveness of small businesses in Malaysia, which can no longer sustain in the open market without catering to rapidly changing, technology-centric consumer demands. TUKAR and ATOM programmes are designed to drive growth and accelerate business modernisation.

Results and Transformation Efforts

"Since the implementation of both programmes, as of December 2017, 2,367 traditional sundry shop owners have participated in TUKAR and 864 local automotive workshop owners have participated in ATOM," said Intan Shahirah. "Based on our 2013 Impact Studies, four out of five participants have increased their shops' sales as direct results of the programmes. About a quarter of successful participants have managed to increase their sales by 80% and more."

Under the TUKAR and ATOM programmes, local retailers undergo two types of transformations: physical and mental. "Physical transformations are material transformations such as the shop's outlook, usage of point-of-sale system at the cashier counter to record daily sales, usage of chiller and freezer to reduce loss from damage of fresh items like fish and vegetables, usage of computerised machines to identify vehicle problems and many others," explained Intan Shahirah, "While mental transformation is our effort in changing the way retailers manage their business from the traditional way to a more organised manner."

Incorporating corporate social responsibility initiatives in the programmes, MDTCC received positive cooperation from the private sector. Local and foreign hypermarket owners and main players of automotive workshop services shared their expertise to participants in a variety of areas, including standard operation procedures, shop management and customer handling, stocks and inventory management and more.

Accelerating Mindset Changes

The experienced civil servant notes the biggest challenges in implementing the TUKAR and ATOM programmes are challenges related to mental transformation – how to transform local retailers' mindset to stay consistent after their businesses were modernised. "The majority of local retailers (in the programmes) have not received any formal education in managing a shop," said Intan Shahirah, "They have been running the business either using their own logic, or following routines passed down by first- or second-generation family members who ran the business before them."

To overcome these challenges, consistent effort is required from both the retailers and the Ministry. On MDTCC's end, shop visits and monitoring are conducted periodically. There are also free Ministry-conducted refresher courses that shop owners can attend to refresh their skills and knowledge. The courses also enable participants to meet other participants to exchange ideas and experiences. The responses received from these efforts were positive, with some participants grouping together and initiating bulk buying to enjoy better margins for their businesses.

The demands of the market changes and develops rapidly with the growth of current technology. For example, bigger retailers operating in Malaysia such as Tesco have seen success by riding on the rapid e-commerce adoption in Malaysia, which enables them to expand their market instead of depending on foot traffic. In the future, the wholesale and retail sector will face increased competition from cross-border retail e-commerce platforms offering items with cheaper prices. "As such, (Malaysian) businesses need to make full use of innovative solutions and pivot into value-added services in order to stay ahead, failing which it could be rendered obsolete when competitors catch up," concluded Intan Shahirah.

MOVING FORWARD

As a key economic sector which has grown in size over the past seven years, the wholesale and retail sector has achieved great strides in contributing to Malaysia's GNI, investments and job creation. The sector achieved its 2020 GNI target of RM156 billion ahead of schedule in 2015 and as at 2017, contributed RM201.9 billion to GNI. It is now one of the country's fastest growing sectors, with its rate of expansion outpacing GDP growth since 2011.

In addition to ongoing initiatives, the steady growth of this sector has been contributed from projects which have been completed or where the private sector has taken their rightful reins. This includes the establishment of the virtual amaxMALL which attracted more 646 retailers to utilise the platform.

To ensure diverse consumer offerings, the NKEA also facilitated the establishment of Big Box Boulevards (BBB), large-scale integrated outlets which house large-scale retailers in a single location. The outlets are homes to hypermarkets, furniture superstores, digital product malls and sporting-goods stores. The Government targeted for one Big Box Boulevard to be operational by 2014. Currently, existing players BBB include Oasis Damansara by Sime Darby Brunsfield; the Kuala Lumpur Logistics Centre; and Nilai 3 by Hatia Properties.

Other projects which the private sectors are now leading include the Makan Bazaar initiative which combines hawker stalls, quick-service restaurants, cafés, bars and fine dining restaurants under one roof in strategic locations nationwide. Three Makan Bazaars have since been opened, with another one in the development stage. The three operational Makan Bazaars are located in Oasis Square in Ara Damansara, Medini Mall in Nusajaya, Johor and KLCC. Another project, transforming KLIA2 into a retail hub, has also been completed in 2014, with retail space of over than 350,000 square feet of which 118 lots have been allocated for retail offerings, 81 lots for food and beverages (F&B) and 26 lots for services. The target of developing 55,000 square metres of additional retail space in KLIA2 by 2020 has also been achieved ahead of target.

Online platforms will become an increasingly valuable tool for retailers to reach a wider consumer base, although a brick-and-mortar presence is seen to remain vital to the business. Hence, retailers around Malaysia should consider having both physical and online channels for greater sales and distribution.

To this effect, efforts to expand Malaysia's e-commerce and online retail sectors have been supported by the launch of BizTrust, a safety certification launched in June 2017 to bolster consumer confidence in dealing with online business entities. BizTrust can be obtained by online businesses, including those on social media via the Companies Commission of Malaysia to certify that an entity has complied with the characteristics of the established trust principles and criteria, such as business registration, online security and data protection. The certification will enable Malaysian online business entities to capitalise on the rapidly growing e-commerce industry, in line with global trends as well as the country's focus to develop the digital economy through the Digital Free Trade Zone (DFTZ).

Moving forward, it is hoped that the developed projects will continue to thrive and spur continued progression for the wholesale and retail industry.