

Perceptions of Small Retailers and Entrepreneur on the Departmental Store Development: Case Study in Bandar Bukit Tinggi Klang, Malaysia

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ABSTRACT

The presence of bigger retail outlets have brought new business opportunities and moved the retailing industry and Malaysian economy to greater heights. Since these bigger outlets affects the existing retailers, a study was undertaken to assess the potential impact of the proposed development of departmental stores on existing small business retailers in Bandar Bukit Tinggi, Selangor .The assessment was based primarily on the perceptions and expressed opinions of the sampled retailers in the catchments area of the proposed development of the departmental stores. The objectives of the study were to: 1) elaborate on the characteristics of the retailers in the catchments area and 2) assess the perceptions of the small retailers regarding their performance, future outlook, and actions needed amid the 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 is 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.

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 Malaysian 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 RM57bil, 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. There are about 200 to 250 shopping centres 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 Bukit Tinggi .

Retailing and the Ninth Malaysia Plan

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.

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 & retail trade, hotels and restaurants (Bernama, March 13, 2006). Hence, retailing sector plays a major role in the achieving the objectives of 9MP.

Background Details

Bandar Bukit Tinggi which is situated in Blok Perancangan 6 (Pendamaran) under the administration of Majlis Perbandaran Kelang, Selangor One of the major projects is a well known departmental store.. Bandar Bukit Tinggi has many educational facilities ranging from pre-school, primary and secondary schools. Institutional facilities include library, health clinics, police station and other public amenities such as sport complex, hall and post office. The area also comprises several shop lots with various types of retail businesses such as restaurants, sundry shops, office supplies, car accessories, and workshops. As indicated in Draf Laporan Rancangan Majlis Perbandaran Kelang, there is a proposed LRT station near the vicinity. This modern public transport facility which is scheduled to be constructed soon will make Bandar Bukit Tinggi an important business area in Kelang.

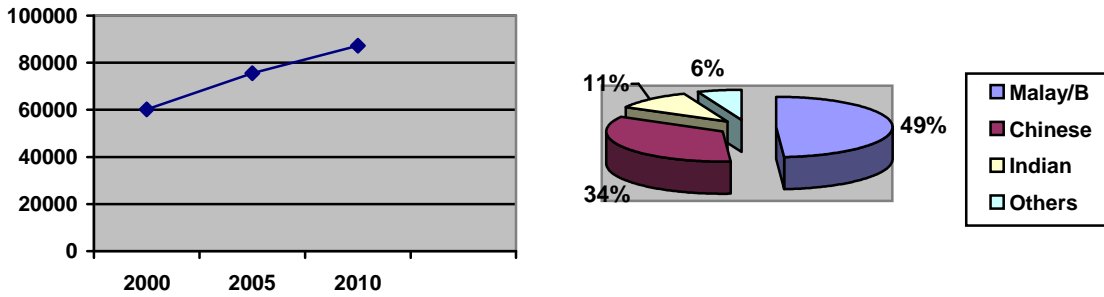
Presence of Supporting Trade Businesses

In Bandar Bukit Tinggi, the proposed departmental store would be in direct competition with several foreign hypermarket and departmental stores already operating in the catchments area. Tesco is located one kilometer from the proposed site and Giant is conducting its business in Persiaran Bukit Tinggi, which is about 1.5 kilometer within the catchments area of the proposed site. Meanwhile, Econsave supermarket is located 3 kilometer away in Bandar Botanic. Additional retailing competition will come from the existing small retailers.

Population Size

Bandar Bukit Tinggi is part of Blok Perancangan 6 in Pendamaran in the state of Selangor. As of 2002, the population of BP6 stood at 60,191 and by 2010, the population is forecasted to increase to 87,277. This shows an increase of 4.5% each year. In terms of the ethnic breakdown of Pendamaran, 49% of the population is Malay, 34% is Chinese, and the other 11% is Indian. The other 6% is made up of people from other races. Figure 1 shows the ethnic breakdown of the population in 2002.

Figure 1: Population of Pendamaran



Source: Majlis Perbandaran Kelang
Kajian Rancangan Tempatan Kelang 2002-2015

METHODOLOGY

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 Bukit Tinggi. 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 121 retailers from Bandar Bukit Tinggi 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 local authorities, from Majlis Perbandaran Kelang (MPK). The meeting was done to get inputs related to the developments of the cities and to collect maps of the catchment areas.

ANALYSIS

Types of business

From the analysis, more responses were gathered from the retailers of sundry and grocery stores in Bandar Bukit Tinggi. Meanwhile, pharmaceutical/Chinese medicine store was found to be the least with only 4.7% (Bandar Bukit Tinggi) of these retailers participated in the survey. Table 1 lists the types of sampled retail outlets in the study.

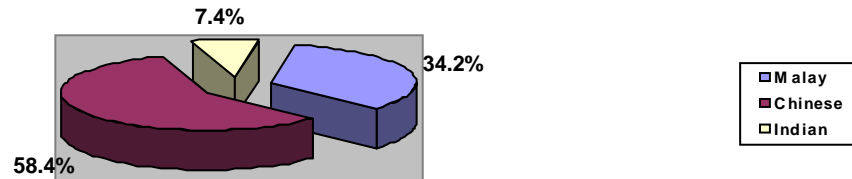
Table 1: Types of Retail Outlets

Retail Outlet	Bandar Bukit Tinggi (n = 121)	
	Frequency	%
Grocery/Sundry shop	21	17.4
Food / Restaurant	21	17.4
Electrical/appliance	12	9.9
Clothes	12	9.9
Furniture	9	7.4
Medicine/Pharmaceutical	6	5.0
Others	40	32.0

Ownership of the outlets

From the study, most of the retailers sampled were Chinese. This is typical of the retailing industry in Malaysia where the majority of retail outlets are run by the Chinese. The figures 2 show the breakdown of ownership of the outlets according to race.

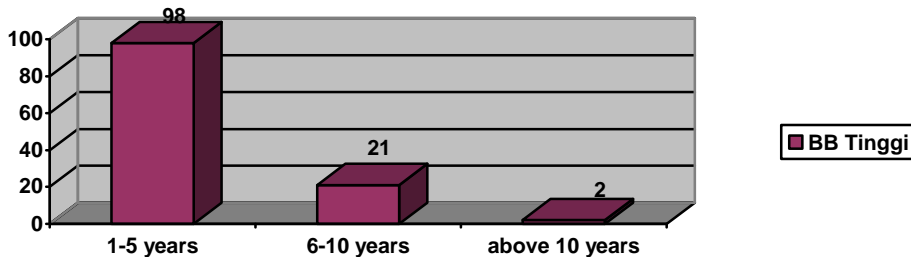
Figure 2: Ownership of Outlets According to Race
Bandar Bukit Tinggi



Shops Establishment

The 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 (80.9%) in Bandar Bukit Tinggi started their business at least 5 years ago, i.e. since 2001.

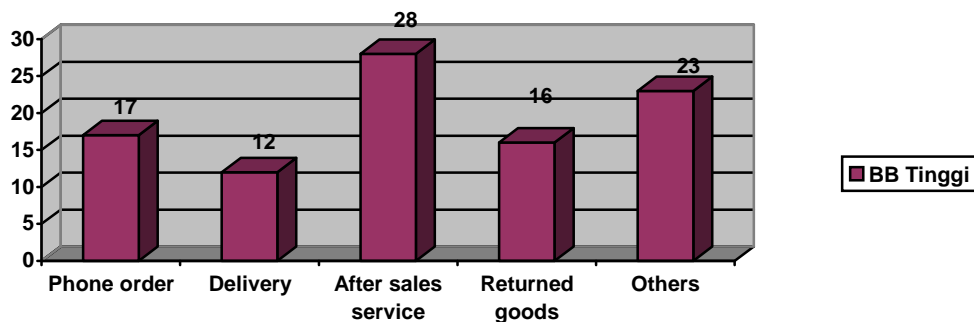
Figure 3: Year of Establishment



Service Provided

Services is 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. From Figure 4, more retailers from Bandar Bukit Tinggi (24%) offered after sales service to their customers compared with other services.

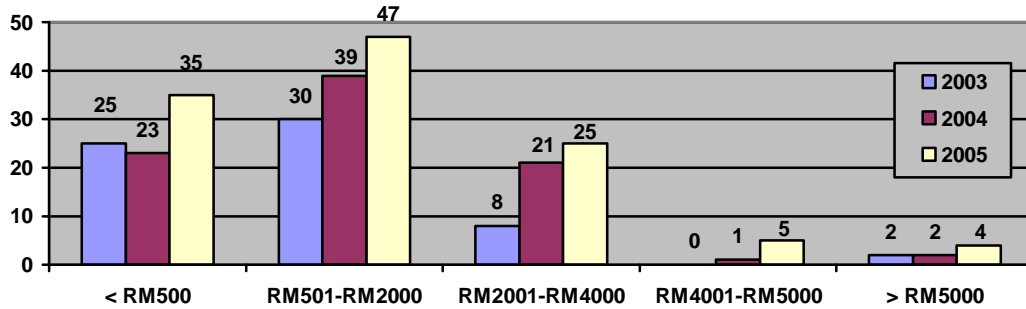
Figure 4: Types of Services Provided



Business Trend

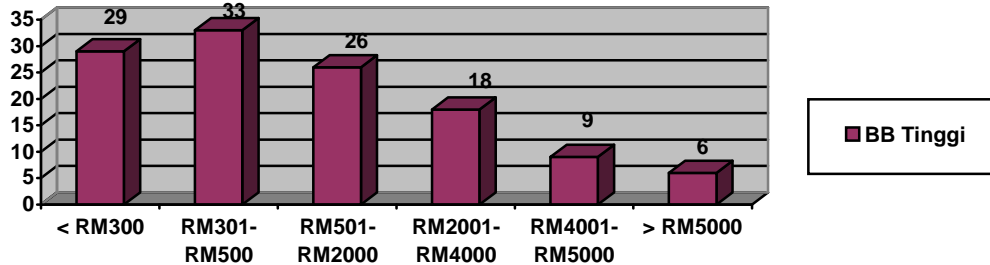
The analysis is based on the daily sales performance of the outlets for the last 3 years, i.e. from 2003 to 2005 and their expected daily sales in 2006. Information regarding the business trend and daily sales is important in analyzing the performance of the existing retailers amid the competition especially with the future development of the departmental store in the immediate vicinity. As indicated in Figure 6, the general business trend among the existing small retailers in Bandar Bukit Tinggi is stable

Figure 5: Daily Sales in 2003, 2004 and 2005 (Bandar Bukit Tinggi)



The business performances of the existing retailers were the same in the last three years. The daily sales among the five categories (ranging from < RM500 to > RM5000) are quite similar from 2003 to 2005. Expected daily sales of 2006 by the small retailers provide a better picture of their future performance. Figure 8 explains the expected daily sales of the sampled outlets. The “RM4001-RM5000” and “> RM5000” daily sales categories show higher expectation by the sampled retailers in 2006. This shows a positive outlook and hence encourages the existing small retailers to continue doing business in Bandar Bukit Tinggi.

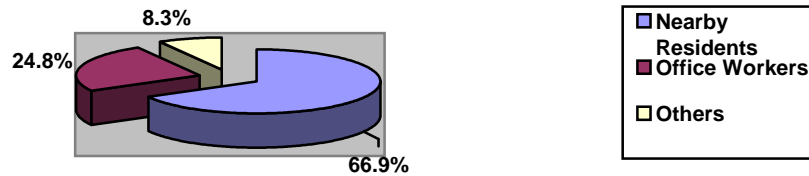
Figure 7: Expected Daily Sales in 2006



Main Customers

Figure 9 shows the main customers of the retail outlets for both cities. For Bandar Bukit Tinggi, their main customers naturally came from the people living in the nearby residential areas (66.9%). About 24.8% of the customers came from the offices and factories located in the area and another 8.3% of the customers came from other area.

Figure 8: Main Customers of Retail Outlets
Bandar Bukit Tinggi



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. Retailers from both cities claimed that competition would be their biggest threat in operating their business.

Table 2: Problems of Operating Outlet

Problems	BB Tinggi
	1
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 on the proposed development of a departmental store were derived from a survey conducted in the catchments area. Seventeen statements were used to measure the retailers' 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

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 84.3% (92.6%) of the retailers were either strongly agree or agree with the statement "Departmental store offers more varieties". In addition, 58.6% (61.1%) of the retailers agreed that the goods sold in a departmental store are much cheaper. The presence of departmental store would also attract more customers to come to Bandar Bukit Tinggi. In addition, the majority of the sampled retailers agreed and strongly agreed that "Departmental store would bring more customers in the area". Only 17.4% (20.2%) of them thought otherwise. The retailers from both cities also identified certain characteristics of a departmental store. In terms of customers, about 68.4% (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.

Table 3: Perceptions of Retailers on Departmental Store

Statement	Strongly disagree %	Disagree %	Neutral %	Agree %	Strongly agree %
Departmental store offers more varieties	0	9.9	5.8	66.9	17.4
Departmental store has cheaper priced products	0.8	26.4	14.0	51.2	7.4
Departmental store’s customers are different than other outlets	0	18.2	12.4	63.6	5.8
Departmental store would be my main competitor	0.8	8.3	15.7	66.9	8.3
Departmental store would bring more customers in the area	0	17.4	12.4	58.7	11.6
Departmental store’s main competitor is hypermarket	2.5	4.1	14.0	68.6	10.7
Smaller outlets have problems because of too many big retailers	0	7.4	8.3	71.9	12.4
Departmental store would cause traffic problems in the area	1.7	14.9	19.8	49.8	14.9
Average expenditure of my customer would decrease	2.5	27.0	24.0	40.8	5.8
My customers would increase with the presence of departmental store	0	35.5	24.0	31.4	9.1
My outlet has different attraction than departmental store	0	4.1	14.9	67.8	13.2
My regular customers would still be here	0	14.9	18.2	55.4	11.6
Departmental store does not affect my sales	1.7	25.6	15.7	49.6	7.4
Presence of departmental store makes me work harder	0	15.7	14.9	50.4	19.0
Smaller retailers have own strategy to attract customers	0	1.7	9.1	64.5	24.8
Oppose the development of departmental store in the area	0	26.7	20.4	41.3	11.6
Location of departmental store should be far away from residential areas	0	23.1	31.4	36.4	9.1

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 is operating in their area. First, the majority of the retailers thought that competition would be much stiffer with the presence of a departmental store. About 84.3% of the retailers were either strongly agree or agree with the statement “Smaller outlets have problems because of too many big retailers”. Only 7.4% 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, 46.6% 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 Bukit Tinggi. This is evidence when 64.7% of the retailers were strongly agree or agree 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 52.9% of the retailers were either strongly agree or agree with the statement “Oppose development of departmental store in their area”. Another 26.7% of them would just ignore the situation and try their best to compete.

In terms of location, more retailers suggested that the department store should not be close to the residential areas. As indicated from the study, 45.5% 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, 23.1% 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. 40.5% of the sampled retailers either agreed or strongly agreed with the statement “My customers would increase with the presence of departmental store” while another 35.5% of them disagreed

However, the small retailers believed that they could still compete because small retail outlets are “different attraction than departmental store” have “their own regular customers”. Therefore, smaller outlets are capable of doing business amid the competition from the bigger players. This is shown when 57.0% 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 89.3% 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

CONCLUSIONS

Impact on Retail Trade

The findings from the study indicate that the existing retail outlets in Bandar Bukit Tinggi 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 offering 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 Bukit Tinggi as well.

Impact on Bumiputera Retailers

Bumiputera 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 in both cities. 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 Bandar Bukit Tinggi 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. encouraging to actively seek qualified and potential Bumiputera retailers to act as suppliers to the departmental store, getting small-scale Bumiputera entrepreneurs to supply speciality items such as kueh, kerepek, and traditional medicine to the departmental store,
2. inviting 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).

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