A Gap in the Food Retail Modernisation in Malaysia

Hans Peter Holst
Faculty of Business and Accounting
University of Malaya
Malaysia

ABSTRACT

One food retail concept is missing among the food retail offerings in Malaysia in 2011: the hard discount grocer, a chain store format. At 300 - 1,000 square metres floor area, a typical hard discount food store in Europe offers a limited assortment of 600 - 2,000, typically own brands / labels. This is a fraction of both space and assortment as compared to the typical hypermarket and supermarket in Malaysia. Nevertheless, the hard discount concept has been achieving above average food retail industry growth in Europe and USA in the past ten years. Being the antithesis to the hypermarket, the hard discount concept has become a voracious competitor to supermarkets and small neighbourhood shops. The hard discount stores locate in residential and densely populated neighbourhoods, potentially serving local community needs for proximity shopping. According to ACNielsen (2007), hard discount's price across categories is lower by 30 - 40 per cent on average; the quality of the own brands is typically good. Food shoppers in Malaysia, being among the most price conscious shoppers in Asia (ACNielsen, 2002) might - or might not - be attracted by the hard discount offer were the concept to appear in Malaysia in the future. However, retail on < 2,000 square metres floor space is currently reserved for Malaysian retailers by regulation. Therefore, hard discount food retail needs reinventing in Malaysia by Malaysians - or consumers and local communities will be deprived of the experience. The regulation bars Foreign Direct Investment and, effectively, the entry of foreign, experienced chains into the hard discount food segment. This essay contributes a philosophical discussion of the absence of hard discount grocery in the retail modernisation of Malaysia and makes comparisons with mature food discount markets Denmark and Germany. The discussion is based on synthesis of secondary data, observations by the researcher, and interviews. The essay will be suggesting that a future successful hard discount food launch in Malaysia could potentially change food- and some non-food retail in Malaysia and perhaps as dramatically as the hypermarket did beginning in the mid 1990s.

Key words: food retail; hard discount; Malaysia; competition; regulation

1.0 INTRODUCTION

Retail modernisation in Malaysia has been rapid. From the beginning, the mid 1990s, the spatial change favoured large-scale, with nuances, e.g. small non-food shops and stalls in large malls. For food retail, the modernisation meant lower store density. In the meantime, Malaysia's population and the urban ratio had grown significantly,

Spatial Retail Change in Malaysia

	1993 Census Nos.	2001 Census Nos.	2009 Census Nos.	1993 → 2009 Percent
Non-specialised food retail				
Provision and sundry shops	55,869	44,990	48,976	(12.3)
Mini-markets	1,535	3,632	5,272	243.5
Supermarkets	349	588	1,044	199.1
Malls incorporating supermarket or hypermarket	80	205	724	805.0
Specialised food retail				
Shops including stalls	37,467	30.845	30,592	(18.3)
Non-specialised non-food retail				
Department stores	43	302	872	1,927.9
Specialised non-food retail				
Shops including stalls	41.059	64,411	92,543	125.4
Population, approximate	20 million	24 million	27 million	35.0
Urban population, approximate	51 percent	62 percent	72 percent	37.3

Source: Survey of Wholesale and Retail Trades and Catering 1993; Census of the Distributive Trades 2001; Census of the Distributive Trades 2009

The change had not included introduction of the hard discount food concept to Malaysia. Retail modernisation in Malaysia has so far been hypermarket, supermarket and shopping mall oriented, by gravity. On May 4th, 2009 the Government news agency, Bernama, informed that 78 hypermarkets were in operation in Peninsular Malaysia between hypermarket chains Carrefour, Tesco and Giant, and 107 hypermarket licenses in all had been issued between these three non-Malaysian chains. Hypermarkets by Malaysians could be counted on two hands at the time. On the contrary, supermarkets and shopping malls were typically by Malaysians. The change to large scale, spatially and organisationally, in Peninsular Malaysia had been spectacular since the first hypermarkets opened for business in 1994 / 1995 (Holst, 2010).

Hard discount grocery retailing was first launched in Germany circa half a century ago, by Aldi[1], and gradually spread to fifteen other countries in Europe and to USA and most recently to Australia, all by Aldi first.

Financial analyst John Heinbockel[2] of Goldman Sachs is quoted in Supermarket News (2008), “The most promising small-box concept is an old one but an underdeveloped on in the U.S. - the hard discounter…Aldi is probably growing too slowly..” In the same year, Time magazine, the American edition[3], carried an article, “Aldi: A grocer for the Recession”. In 2009, Harvard

1

2 Elected the No. 1 analyst by Forbes among the Best Earnings Estimators in Food and Staples Retailing in America. http://www.forbes.com/lists/2005/26/KN7P.shtml

3 Article by Steven Gray, Chicago. Time, October 28, 2008.

Business Review[4] carried an article, "Aldi is the four-letter word that strikes fear in the hearts of brand managers across Europe…huge traditional retailers such as Carrefour…have been forced to launch or acquire their own hard discount formats over the past decade to stop haemorrhaging market share to Aldi and Lidl…Brand executives at major consumer packaged goods companies have mostly been caught off guard by the hard discounters' success." Own brands typically account for at least half of the hard discounters' offerings, for Aldi much higher. "Because these private labels are typically priced at 50 percent below manufacturers' brands, their success has been disastrous for both traditional supermarkets and brand manufacturers." And in 2010, "Hard discount' grocers, which offer a highly limited selection of foods dominated by their own private label brands, are far outstripping the rest of the supermarket business" (in USA)[5].

The grocery industry in Malaysia is spared this potential upheaval for as long as hard discount grocery remains out of bounds to FDI and there is not a full fledged alternative launched by Malaysians. In the meantime, the absence of hard discount initiatives in Malaysia would be of comfort to hypermarket and supermarket operators alike, to small grocery shops in urban areas, and possibly a loss to Malaysian consumers.

With predominantly supercenters / hypermarkets / superstores, Wal-Mart, Carrefour and Tesco are global number one, two and four respectively. Schwartz Group, parent of hard discounter Lidl is number five, Aldi number nine, and Dansk Supermarked Group, parent of hard discounter Netto, is number 78. Further, Carrefour and Tesco, both are present in Malaysia with hypermarkets, have in the last decade branched into hard discount grocery retail in France (by the Dia chain) and USA (by the Fresh & Easy chain) respectively, but are barred by Malaysia regulation from rolling out their concepts in Malaysia.

2.0 THE GROCERY HARD DISCOUNTER PHENOMENON

The aim of the hard discount retailer is to supply customers with basic goods / daily necessities at the lowest possible prices, while maintaining high-quality standards (Sachon, 2010). This is achieved through four fundamental policies:

- Limited assortment of products.
- Increasing the percentage of private labels offered at low prices.
- Establishing and maintaining a high quality/price ratio, i.e., high quality at low prices.
- Efficient operations.

According to Sachon, offering a limited assortment of products is the most crucial pillar of the hard-discount model. It enables retailers to provide a high volume of basic goods and helps to streamline efficient operations. It involves limiting the range of product categories and stock keeping units within each category. The large purchasing volumes are a result of a focus on everyday products - and the large number of stores, a large number of stores being a prerequisite for acquiring competitive logistics. Hard discounters use private-label products for two main reasons. First, they involve lower costs, allowing for lower price points. Second, they give hard discounters more leverage with their supply base, as they can exchange one supplier for another more easily. The discounter owns the label, not the manufacturer.

[4] Steenkamp, J-B. E. M and Kumar, *Don't Be Undersold*! N. Harvard Business Review, December 2009.
[5] "Cut-price retailers take the limelight", by Jonathan Birchall, in Financial Times, November 23, 2010.

Creating private labels allows the retailer to reduce, perhaps eliminate, the use of middlemen[6], have more suppliers to choose from, and implement quality controls to its requirements.

The quality and "value for money" aspects become crucial, given the two key drawbacks of private-label products, that is, any blame or liability for quality problems is shifted from the manufacturer to the retailer itself and consumers have more difficulty identifying with or recognizing a private label brand than they do national and international brands.

Hard discounters put great emphasis on the good quality of their standard private-label products. Suppliers must pass rigorous quality controls and meet tight objectives. Hard discounters can quickly substitute or change their supplier according to the quality and service provided, allowing the retailers to maintain a high level of competition or rivalry between suppliers.

Hard discounters pay attention to detail in all aspects of operations management. Sachon gives the example of Aldi's checkout counters, which are short and have no buffer zone at the end to load shopping bags. This encourages customers to transfer their purchases to their shopping carts and head straight out the door after paying.

According to Sachon, the hard-discount model is a prime example of strategic coherence: There is a perfect fit between business strategy, operations strategy and day-to-day operations, and all the elements reinforce each other. It is also an example of how different business strategies can be successful in the same industry: Aldi uses the hard-discount model, Wal-Mart uses the full-line assortment model, and 7-Eleven uses the convenience-store model. All are very successful, while operating in the same sector.

Completion in progress.

References

ACNielsen (2007) *The Hard Discounter Report, an overview of Aldi and Lidl in Europe*, in Consumer Insight Europe, June 2007

ACNielsen (2002) *2002 Shopper Trends Asia Special*
http://asiapacific.acnielsen.com.au/newsletter_story.asp?newsID=9&storyID=15

Holst, H. P. (2010) *Traditional Traders and Hypermarket Growth in Malaysia*. Unpublished PhD thesis. Faculty of Accountancy and Business, University of Malaya, Kuala Lumpur.

Sachon, M. (2010) Hard Discount Retailers: The Secrets of Their Success. Paper. IESE Business School, University of Navarra, Barcelona.

Supermarket News (2008) *Hard discounters may win small-box sweepstakes*, Orgel, D. (ed.).
http://supermarketnews.com/viewpoints/hard_discounters_may_0908/

[6] Disintermediation