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## Liberalization of Retail Sector and the Economic Impact of the Entry of Foreign Hypermarkets on Local Retailers in Klang Valley, Malaysia

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### ABSTRACT

The primary purpose of this research is to investigate the impact of liberalization of retail sector via the presence of foreign hypermarkets in Malaysia on local retailers. Both quantitative and qualitative methods (survey and interviews) were used to collect and analyze the data. A total of 135 questionnaires were completed. The findings from the survey reveal that the entry of foreign hypermarkets in a town often affects the business environment of the local retail businesses. It is found that the newly established foreign hypermarkets tend to acquire much larger market share from the existing local businesses. The survey found that some businesses benefited from the presence of foreign hypermarkets (especially complementary type of retail businesses) while others do not (specifically those retail businesses that are related to groceries).

**Keywords:** Globalization, Retail Multinational, Liberalization, Economic Impact, Malaysia

### INTRODUCTION

In the 1980s, globalization of the world economy was largely confined to manufacturing firms. However since the early 1990s, the services sector has started to internationalize due to tremendous progress made in various aspects such as the development of telecommunications and information technology, the deregulation

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of services industries and also the liberalisation of foreign trade and investments regimes world-wide following the establishment of the World Trade Organization's (WTO) General Agreement on Trade in Services (GATS) in 1995 (Organisation for Economic Cooperation and Development [OECD], 2002).

One of the services sectors that grew impressively was the retail sector whereby the intensified globalization of the retailing industry brought about the emergence of retail multinationals – mostly food and general merchandise operators – such as Wal-Mart, IKEA, Courts Mammoth, Carrefour, Tesco, Ahold, etc in various countries (The McKinsey Quarterly, 2004; Currah and Wrigley, 2004; ATKEARNEY, 2005; Wrigley, Coe and Currah, 2005). Another significant trend in this context is that the early internationalization activities of retail multinationals largely focused on developed countries. However, recently this pattern has changed whereby these international retailers have turned their attention to the developing and emerging markets of East Asia, Latin America and Central and Eastern Europe (Wrigley, 2000; Alexander and Silva, 2002; Wrigley and Currah, 2005).

These trends have been spurred by both push and pull factors. The mature character of the industry in developed countries characterized by high competition and low profitability (market saturation), as well as domestic regulation restricting large store development and low growth in the domestic market, has generally encouraged the expansion of major retailers into the market of developing and emerging markets (Dawson, 2003; Global Production Network [GPN], 2003). Meanwhile, the pull factors are related to growing business opportunities, rapid urbanization, high population growth rates, rising incomes or levels of affluence, westernization of lifestyles, increasing demand for fast food and the relaxation of investment rules and restrictive trade policies in other countries (Dawson, 2003; Reardon, Barret and Berdegue, 2003; Reardon and Berdegue, 2006).

In line with global development, Malaysia's retail environment has also undergone marked changes since mid-1990s. The retail sector in Malaysia initially consisted of a large number of small shops offering a limited variety of goods and services. However, as the economy developed and consumers became more mobile and affluent, the retail sector underwent rapid transformation whereby small traditional shops were later complemented by large department stores and supermarkets offering a wide range of merchandise and services. Moreover, the relatively open Malaysian retail sector and the impressive growth of the economy also attracted the entry of major international retailers such as Makro, Carrefour, Tesco, Giant, Jaya Jusco, IKEA, Courts Mammoth, etc into the country. The increasing presence of foreign retailers has further changed the structure as well as the competition environment of the domestic market (Mad Nasir and Jinap, 2005).

Even though there is a widespread belief that the entry of large-scale foreign retailers would expand, modernise and improve the efficiency of the domestic retail industry, there are concerns about the potential negative impacts on local players such as small retailers, consumers and suppliers due to the competitive

pressures created by these large retailers. Nevertheless, this issue is relatively under-explored in academic circles. Several studies have been undertaken on these issues in various countries in North America, Latin America and emerging Asian countries (e.g. China, Taiwan, South Korea, Thailand and Japan), however, to the best of our knowledge there has not been any study conducted to examine this issue from the Malaysian perspective. Thus, this study is the first step towards filling this void by investigating the impacts of the entry of foreign hypermarket (Tesco, Giant, Makro and Carrefour) on local retailers in the area of Klang Valley, Malaysia. It is hoped that this study would shed some lights on the impact of foreign retailers such as hypermarkets on local retailers and narrow the gap that exists in literature.

## RESEARCH FRAMEWORK

The presence of large-scale foreign retailers has a significant economic and social impact on local retailers; especially on traditional small businesses such as ‘mom-and-pop’ stores (Dawson, 2003; Harris, 2006; Suryadarma *et al.*, 2007). There are positive and negative impacts on local retailers. However, studies on this specific issue have provided evidence that the impact on local retailers is mostly negative (e.g. Farhangmehr *et al.*, 2001; Da Rocha and Dib, 2002; Tonsoboon, 2003; Hitoshi, 2003; Sang, 2003; Seong, 2003; Wang, 2003; Bianchi and Mena, 2004). These studies, however, did not provide any standard quantification of the impact on the local retailer as most of these studies employed a qualitative approach in describing the phenomenon. Most of these studies focused on the changes in the retail sales of existing small retailers. They compare the retail sales before and after the establishment of large-scale retail outlets to measure the extent of the impact of these large retailers on small retailers.

Generally, much of the opposition to large-scale foreign retailers is rooted in the dislocating effects on competing ‘mom-and-pop’ retail stores or small local retailers (Renkow, 2005). The ability of these large-scale retailers to offer a wide range of goods and services at much lower prices under-one-roof exerts a profound effect on nearby local retail businesses. In this context, small local businesses will be either forced out of the business or forced to downsize as their consumer base declines when a new large-scale retailer opens its operations in a domestic town (Renkow, 2005; Jia, 2005; Irwin and Clark, 2006). Thailand has been cited as one of the countries in which the expansion of international retailers has caused dislocating effects on traditional retail businesses. It is claimed that the number of local retailers has declined by 2 to 3 per cent per annum during the period of 1997 – 2001 (Tosonboon, 2003).

The extent of the effects on local retail establishments depends on various factors such as the type of business conducted by the local retailers, the proximity of the existing business and the new entrant, the size and competitiveness of local

businesses and also whether existing businesses take the initiative to improve their business practices. There is widespread belief that different types of retail businesses will be affected differently by the presence of large-scale retail outlets (Stone, 1988, 1995 and 1997; Peterson and McGee, 2000; Brennan and Lundsten, 2000; Artz and Stone 2006). Small retail businesses that sell different products from the large-scale retailers will be positively affected; meanwhile, small retail businesses that sell similar products (especially those selling groceries) to the foreign retailers tend to suffer more losses due to their lack of competitiveness.

The same applies to the proximity of existing businesses and the new entrant (large-scale retailers). Those retail businesses that are situated nearer to the new entrant are likely to be affected more than those businesses that are located further away from the new entrant (Peterson and McGee, 2000). Some scholars even suggested that retail businesses that are located in the same town as large-scale retail outlets (host town) will experience significant growth in the retail sales compared to retail businesses in non-host towns (McGee and Gresham, 1995; Artz, 1999; Davidson and Rummel, 2000; Artz and McConnon, 2001). This is due to the positive externalities or spill-over effects to the neighbouring retail businesses when consumers shop for other goods that are not available in the large retail outlets at the surrounding local retail stores (Zhu, Singh and Dukes, 2005). This phenomenon is said to have increased the retail sales in the non-competing businesses while in the competing businesses there will be a decline in sales, the number of customers, profit and employees (Farhangmehr *et al.*, 2001). Even though most studies have focused on the negative effects of international retailers on domestic retail businesses, there are positive effects as well. The positive impact of large-scale foreign retailers on local retailers is largely in the form of the introduction of new retail channels or modern outlets, the introduction of new marketing and merchandising methods, improved information management methods, and larger investment in the modernization of the sector as a whole (Dawson, 2003). Despite some positive effects, it is generally contended that the increasing presence of international retailers in the host countries may have a depressing effect on the well-being of small local retail businesses in which the negative impact generally outweighs the positive effects mentioned above.

## LITERATURE REVIEW

The best known research on Wal-Mart impacts was pioneered by Stone (1988, 1995, 1997 and 1999). Thereafter a number of studies was conducted on the similar issue by a number of scholars namely; Peterson and McGee 2000; Seiders and Tigert 2000; Davidson and Rummel 2000; Artz and McConnon 2001; Farhangmehr, Marques and Silva 2001; Da Rocha and Dib 2002; Tosonboon 2003, Bianchi and Mena 2004; Usitalo 2004. Generally most of these studies used the same

methodology with slight variation in the scope of analysis. Nevertheless, the main theme was to examine the impact of the expansion of large retailers such as Wal-Mart, Target, K-Mart, etc. on surrounding retail establishments. The results seemed to be consistent in most studies which suggest that there is a link between the entry of large retailers and the deterioration of the local businesses.

Stone (1988) undertook first study to address Wal-Mart's impact on local small merchants in 17 rural Iowa towns. Using census data, he concludes that per capita sales increased faster in towns with Wal-Mart stores than in the average towns across the State. It also reported that the retail sales in Iowa towns within 20-mile radius declined by nearly 10 per cent after five years. The author also stressed that the impact of Wal-Mart was more ominous for Iowa's smallest town whereby newly opened Wal-Mart stores drained as much as \$200,000 a year from towns under 1000 people. It is also argued that certain type of retail outlets tend to suffer severe market share losses such as clothing, drug, jewellery, auto-part and hardware stores. This finding is supported by another similar study conducted by Stone *et al.* (1999) on the changes in the sales of existing businesses in local trade areas in Mississippi. The results of this study show strong evidence that the gains for Wal-Mart supercenters were matched by corresponding losses for existing businesses in the trade area.

In slightly different perspective, Artz (1999) analyzed the short-term and long-term impacts of Wal-Mart on the retail market structure in Maine. The finding suggest that there are significant changes in retail market structure in the Wal-Mart host towns as well as surrounding communities in Maine. It is argued that some businesses benefited from the presence of Wal-Mart while other businesses do not gain substantial benefit. The study revealed that Wal-Mart host towns experienced greatly increased rates of growth in their general merchandise sector after Wal-Mart arrived. Meanwhile, the retail centres of surrounding communities were also impacted by Wal-Mart, whereby the general merchandise sector in this area declined or grew at a slower rate than did the general merchandise sector in Wal-Mart host towns in Maine.

A similar study was conducted by Peterson and McGee (2000). They surveyed small retailers in several towns in Midwestern US communities three years after Wal-Mart's arrival in order to identify how they responded to the entry. It is found that almost 52 per cent of the small retailers reported that their business was affected negatively with the arrival of Wal-Mart. Meanwhile, 48 per cent indicated that the impact was either neutral or positive. In terms of the degree of Wal-Mart's impact on incumbent retailers (stores sales), 30 per cent of the respondents reported that sales dropped more than 10 percent, while 14 per cent of respondents claimed that their sales increased up to 10 per cent.

On the other hand, Seiders and Tigert (2000) examined the impact of the entry of supercenter (Meijer, Wal-Mart, Kmart and Target) on traditional food retailer in four markets (Victoria, Texas; Gainesville, Georgia; Columbus, Ohio;

Omaha, Nebraska) and found that the supercenter had captured 15 to 20 per cent of the retail food business in three of the four markets studied. This study also explored the changes in consumer preference structures (store choice attributes), consumers' willingness to make tradeoffs in choosing new formats that entered the markets, and the ability of the new formats to win on key store attributes. It is found that the supercenters did change consumer preference structures for about 20 per cent of the households. It is argued that consumers primarily chose traditional supermarkets for convenience, quality, and service, and chose supercenters for lower price and assortment, including both food and non-food one-stop shopping.

Davidson and Rummel (2000) provided additional evidence that the arrival of Wal-Mart store disrupts the retailing patterns in the domestic markets. The findings suggest that Wal-Mart host towns and Wal-Mart neighbouring towns (within 15 miles) reacted differently to the emergence of a Wal-Mart. It is claimed that Wal-Mart host towns experienced significant increases in nearly all categories of retail trade after Wal-Mart presence in the town for four years, while Wal-Mart neighbouring towns experienced a decline of only a marginal increases in retail trade during the same time period. It is argued that the overall increase in all retail sales categories experienced by Wal-Mart host towns is at the expense of some local retailers/merchants.

The above discussion largely focused on the impact of Wal-Mart. Farhangmehr *et al.* (2001) took the first initiative to examine the impact of different retail format than Wal-Mart, which is hypermarket, on consumers and local retailers in Braga, Portugal. Generally the findings are consistent with the studies presented above. The study reveals that most local retailers perceived that the hypermarkets have affected them negatively. Meanwhile, consumers generally prefer hypermarket due to its convenience and lower prices. Recently, Tosonboon (2003) described the impact of world class distributors on the retail industry in Thailand especially on the distribution system which consists of three main parties namely; consumers, distributors and suppliers/producers. According to Tosonboon, the arrival of world class distributors such as Big C, Lotus (Tesco), Carrefour and Makro has led to closure of department stores and half of local supermarkets. Only the larger and stronger firms were able to survive. It is claimed that between the year 2000 and 2001 about half of the department stores in Thailand closed.

Generally most studies on this issue have focused on evaluating the impact of the entry of large format retailers on local retail businesses. Some studies extend the scope of the issue by looking at the issue of competitive strategies and suggested some strategies that could be used by small local retailers to effectively withstand the fierce competition created by large format retailers (e.g. Da Rocha and Dib 2002; Bianchi and Mena 2004; Uusitalo 2004). For instance, Da Rocha and Dib (2002) examined the entry of Wal-Mart into Brazil and the subsequent competitive moves by local retailers' as a foreign entrant challenged the established rules in the industry during the pre-entry and entry phases.

A similar study was conducted by Bianchi and Mena (2004) focusing on the actions taken by Chilean retailers to defend themselves effectively against the attempts of foreign retailers to operate in their market. Chilean retailers have consistently and fiercely defended their local market from competitors and this strong competition has hindered the internationalization attempts of large multinational retailers, which have not performed well in Chile. The finding is supported by a study conducted by Uusitalo (2004) on the entry of hard-discount chain Lidl in Finland market.

In sum, even though there are not many comprehensive studies on the issue of impact of large retailers on local retailers, there is clear evidence that the entry and expansion of large foreign retailers will ultimately exert impacts on the existing small businesses. Whether the impact of this large foreign retailer on local retailers is positive or negative, it depends on various aspects as discussed in the above literature such as the type of local retail businesses, the proximity of existing business and the new entrant, the size and competitiveness of local retail businesses and whether the local business are willing to take competitive measures to withstand the strong competition from new entrant.

## **RESEARCH METHODS**

Given the objectives of the present research, data requirement and the availability of time and resources, this study used a cross-sectional survey research, whereby the data is gathered at one point of time. Meanwhile, the research instruments that were used are a combination of a self-administered questionnaire and interviews. The following sections describe in detail the research process. Moreover, for the purpose of this study, three towns on the outskirts of Klang Valley were selected as research locations to conduct the survey namely: Batu Caves, Wangsa Maju and Puchong.

### **Data Collection Method**

To gain an in-depth understanding of the impact of foreign hypermarkets on existing local retailers, a survey was conducted in the selected research locations. Data was collected using a self-administered survey questionnaire (with both close-ended and open-ended questions) and an interview. The questionnaire was distributed at the retail premises of the respondent establishments and directed to the owner or manager of the retail outlets. However, in cases where the shop owner was not available, the most senior employee in terms of working experience was asked to fill in the questionnaire as the representative of the owner/manager. Interviews were also conducted after the respondents finished filling in the questionnaire to get further clarification.

## Questionnaire Design

The questionnaire largely focused on three general areas. First, the questionnaire solicited data concerning general information on the business operation of the retailers. The next section focused on the questions of whether the retailers were negatively affected by the presence of hypermarkets, the nature and extent of the impact, and also how their performance in terms of the number of customers, sales volume, net profit and the number of employees was affected. The impact on these specific dimensions of retailers' businesses was measured using labels 'increased', 'decreased' and 'unchanged'.

The third area addressed their opinion on the establishment of hypermarkets which is measured using a three-point Likert scale, with 1 corresponding to "agree", 2 "not agree" and 3 "not sure". Meanwhile, the last section of the questionnaire solicited descriptive information about the respondents' demographic background, type of business, type of business ownership, retail space ownership, sales revenues per month, number of employees, store location and age or years in operation.

## Sampling Procedure

For this particular survey, a stratified simple random sampling was used to select the appropriate sample. Firstly, the retail businesses in the selected research locations were divided into two major groups from the lists of retail businesses that were obtained from ground inspection. The retail businesses is divided between those businesses that will be directly affected by the presence of hypermarkets and those businesses that are unlikely to be affected by the presence of hypermarkets (refer Table 1). The types of retail businesses that will go into these two groups were decided based on

**Table 1** Distribution of Retail Businesses in the Selected Research Locations

	Giant, Baru Caves	Carrefour, Wangsa Maju	Tesco, Puchong
Total number of retail businesses <sup>a</sup>	650	504	540
Total number of retail businesses in the circular study area <sup>b</sup>	365	210	290
Types of retail businesses			
Directly affected	133	94	95
Unaffected	232	116	195
Selected sample	50	35	50
Response rate	37.4%	37.2%	52.6%

**Note:** a = Figures obtained from Selayang Municipal Council, Subang Jaya Municipal Council and Kuala Lumpur City Hall

b = Obtained from ground inspection conducted by researcher and enumerators



previous studies. Certain types of businesses such as hardware stores, automobile dealers, car services, clinics, finance companies, tuition centres, banks, beauty centres, laundry services, consultancy agencies, specialty stores, industrial goods stores and chemical-based product stores which is not in direct competition with large scale retailers were not included in the survey and were lumped together as retail businesses that will not be affected directly by hypermarkets.

Meanwhile, the second group represents the types of retail businesses that will be affected directly by the presence of hypermarkets. Generally there is evidence that retail business that is selling similar products as hypermarkets will be affected most by the presence of the large scale retailers. Thus, all types of retail businesses that distribute goods to final consumers (general merchandiser) and that sell similar goods as hypermarkets were included in this group. This includes mini markets, provisions shops, bakery, restaurants, footwear outlets, apparel and clothing stores, bookstore, stationary, electrical appliances stores and telecommunications outlets.

After the stratification process, the sample for the survey was selected randomly from the list of retail businesses that would be affected directly by the hypermarkets. Since the main objective of the survey is to examine the impact of foreign hypermarkets on local retail businesses, only those retail businesses that were operating at least one year prior to the opening of foreign hypermarket were included in the survey. This is because only these groups of retailers could provide accurate views on the impact of hypermarkets as they could assess their business performance before and after the presence of hypermarkets in terms of profit, number of customers and sales revenue. Even though a total of 322 retail businesses from the selected research locations were included in the survey, we only managed to get 50 responses in Batu Caves and Puchong and 35 in Wangsa Maju (refer Table 2). Overall, this represents 42 per cent of response rate from the circular study area at Giant, Batu Caves, Tesco, Puchong and Carrefour, Wangsa Maju.

## **Questionnaire Administration**

A total of 135 retailers were asked to complete the questionnaire in the three research locations for the purpose of this study. Before undertaking the real survey, a pilot survey was conducted by distributing the questionnaire to ten local retailers at Batu Caves to test the appropriateness of the designed questionnaire. In light of the feedback received from this exercise, the questionnaire was revised and edited before undertaking the actual survey. The main field survey took place from 1 July to 30 September 2006. Survey respondents were asked a series of questions regarding profile of their business such as their general business operation, the impact of the hypermarket on various dimensions of their business and perceptions about the presence of hypermarkets. Interviews were conducted on the same day after the respondents have completed filling in the questionnaire.

**Table 2 Distributions of Retail Businesses that were Included as Sample in the Retailers Survey**

	Giant, Baru Caves	Carrefour, Wangsa Maju	Tesco, Puchong			
Total number of retail businesses in the circular study area	365	210	290			
Unaffected Group	232	116	195			
Affected Group	133	94	95			
Types of retail businesses in the affected group	Sampling Frame	Sample	Sampling Frame	Sample	Sampling Frame	Sample
Provision shops & minimarket	27	22	28	26	30	28
Restaurant & bakery	50	15	16	5	33	10
Clothing/apparel	12	2	7	0	5	4
Footwear	5	2	6	0	4	2
Telecommunications	8	2	10	1	11	2
Bookstore and stationary	6	3	5	2	6	2
Electrical & household appliances	25	4	22	1	6	2
Total	133	50	94	35	95	50

## Data Analysis

Data from the questionnaires was analyzed using SPSS for Windows version 11.5. A total of 135 cases were included in the data analysis as not any questionnaires were rejected. Various descriptive statistics was computed including frequencies, means, median, modes and standard deviations and cross tabulation. Descriptive statistics were computed as the main objective of this study is to describe the impact and not to test any relationships.

## FINDINGS AND DISCUSSION

### Domestic Retailers' Characteristics

This section provides background information on the local retail establishments/firms that participated in the survey (refer Table 3). A total of 135 retail businesses participated in the survey. The majority of the respondents or the more represented

**Table 3 Characteristic of Domestic Retail Businesses in the Sample**

No	Description	Range	Frequency	Percentage (N=135)
1	Gender	Male	102	75.6
		Female	33	24.4
2	Age	Less than 25	4	3.0
		26 – 35	31	23.0
		36 – 45	48	35.6
		46 – 55	52	38.5
3	Ethnic Background	Malay	78	57.8
		Chinese	22	16.3
		Indian	35	25.9
		Others	0	0
4	Type of Business	Provision shops and minimarket	76	56.3
		Restaurant and bakery	30	22.2
		Clothing/apparel	6	4.4
		Footwear	4	3.0
		Telecommunications	5	3.7
		Bookstore and stationary Electrical and household appliances	7	5.2
5	Type of Business Ownership	Family business	125	92.6
		Partnership	10	7.4
6	Ownership of Retail Space	Owns	39	28.9
		Leases	96	71.1
7	Annual Sales	Less than RM 100, 000	27	20.0
		RM 100, 001 – RM 250, 000	41	30.4
		RM 250, 001 – RM 500, 000	47	34.8
		RM 500, 001 – RM 750, 000	18	13.3
		More than RM 750, 001	2	1.5
8	Employees	0 – 1	37	27.4
		2 – 5	68	50.4
		6 – 10	20	14.8
		More than 10	10	7.4
9	Status of Employee	Full Time	123	91.1
		Part Time	12	18.9
10	Years in Business	1 – 3 years	12	8.9
		4 – 6 years	35	25.9
		7 – 9 years	23	17.0
		10 – 12 years	24	17.8
		13 – 15 years	9	6.7
		16 – 18 years	9	6.7
		19 – 21 years	3	2.2
More than 22 years	20	14.8		

type of retail business is the provision shops and minimarkets, which comprised of 56.3 per cent from the total respondents. The large number of respondents was collected from this type of retail business as it is widely believed that these type of businesses are the most likely to be affected by the presence of large scale retailers such as foreign hypermarkets. This was followed by those in food business such as restaurants and bakery, which represents 25.9 per cent of the total respondents. The rest of retail businesses in the sample which was not greatly represented are the specialized stores, namely clothing/apparel stores, footwear stores, electrical and household appliances and bookstores.

In general, it is observed that 75.6 percent of the retail businesses in the sample is owned and operated by male retailers while only 24.4 per cent is owned by female retailers. Within this, 78 per cent of the retailers are Malay, followed by Indian (35 per cent) and Chinese (22 per cent) retailers. It must be noted that this does not reflect the actual composition of the retailers in the population because it depends on the willingness of the retailers to participate in the survey. Most of the retail establishments in the sample were in business from four to nine years (25.9 per cent) and ten to twelve years (24 per cent). Majority of these retailers (92.6 per cent) were operating family business with leased retail space (71.1 per cent). Over half of these businesses have annual sales greater than RM 250, 001 but less than RM 500, 000. Only 13.3 per cent of the businesses reported annual sales greater than RM 500, 000. Most retail businesses in the sample tend to be small as they use very few numbers of employees. Almost 77.8 per cent of the retail businesses employ fewer than six workers and 14. 8 per cent employ from six to ten workers. The number of workers employed generally varies according to type of retail businesses.

### **The Impact of Hypermarket on Local Retailers' Businesses**

Cross tabulation was conducted between type of retail businesses and whether these businesses were negatively affected by the presence of foreign hypermarkets. Based on Table 4, most of the retailers (64.4 percent) have reported that their business was affected by the presence of hypermarkets in their business area while remaining 35.6 per cent reported that they were not affected by the presence of hypermarkets. Within the different type of retail businesses in the sample, provision shops and minimarkets are the most affected kind of stores which accounted for 42.2 per cent. This is followed by restaurant and bakery (10.4 per cent), clothing/apparel (3.0 per cent), telecommunications (2.2 per cent), bookstores and stationary (3.7 per cent) and electrical/household appliances (1.5 per cent).

The next question deals with the extent of effect of hypermarket on retailers and also on specific dimensions of retailers businesses (such as number of customers, sales volume, net profit and number of employees). Cross tabulation was conducted between type of retail businesses and the extent of effect (which is

**Table 4 Cross tabulation between types of business and whether they are affected by foreign hypermarket**

Type of retail businesses		Negatively Affected by Hypermarket		Total	
		Yes	No		
Provision shops and minimarket	Count	57	19	<b>76</b>	
	%	42.2	14.1	<b>56.3</b>	
Restaurant and bakery	Count	11	19	<b>30</b>	
	%	8.1	14.1	<b>22.2</b>	
Apparel	Count	4	2	<b>6</b>	
	%	3.0	1.5	<b>4.4</b>	
Footwear	Count	0	4	<b>4</b>	
	%	0	3.0	<b>3.0</b>	
Telecommunications	Count	5	0	<b>5</b>	
	%	3.7	0	<b>3.7</b>	
Bookstore and stationary	Count	7	0	<b>7</b>	
	%	5.2	0	<b>5.2</b>	
Electrical and household appliances	Count	3	4	<b>7</b>	
	%	2.2	3.0	<b>5.2</b>	
<b>Total</b>		<b>Count</b>	<b>87</b>	<b>48</b>	<b>135</b>
		<b>%</b>	<b>64.4</b>	<b>35.6</b>	<b>100.0</b>

measured by ‘very competitive’, ‘moderately competitive’ and ‘marginally competitive’). Even though 64.4 per cent of the retailers in the sample claimed that they were largely affected by the presence of hypermarkets, in terms of the extent of the effect, the responses were generally mixed (refer Table 5). Thirty seven percent of the retailers responded that the extent of the impact of hypermarkets on their business is moderate, while 32 per cent of the retailers claimed that effect was very intense or competitive. The remaining 30.4 per cent of the retailers claimed that the effect was very little or marginal.

Within the type of retail businesses in the sample, provision shops and minimarkets seemed to face a very stiff competition, as 23 per cent of them claimed that they cannot compete with the hypermarkets because hypermarkets are literally very competitive due to their ability to provide wide range of products at much lower prices. Some of the provision shops and minimarket said that their business was severely affected by the presence of hypermarkets in their business area which is reflected in the fall of sales and number of customers to almost 50 per cent. Some shop owners who previously had two or three shop lots, had to close down one of their shops as they could not compete with the hypermarkets. For instance at Batu Caves, it was reported that three minimarkets were closed down within

**Table 5 Cross Tabulation between Type of Retail Businesses and the Extent of Effects**

Type of retail businesses		The extent of effect			Total
		Very competitive	Moderately competitive	Marginally competitive	
Provision shops and minimarket	Count	31	27	18	<b>76</b>
	%	23.0	20.0	13.3	<b>56.3</b>
Restaurant and bakery	Count	6	11	13	<b>30</b>
	%	4.4	8.1	9.6	<b>22.2</b>
Apparel	Count	2	3	1	<b>6</b>
	%	1.5	2.2	0.7	<b>4.4</b>
Footwear	Count	0	1	3	<b>4</b>
	%	0	0.7	2.2	<b>5</b>
Telecommunications	Count	0	4	1	<b>5</b>
	%	0	3.0	0.7	<b>3.7</b>
Bookstore and stationary	Count	4	2	1	<b>7</b>
	%	3.0	1.5	0.7	<b>5.2</b>
Electrical and household appliances	Count	1	2	4	<b>7</b>
	%	0.7	1.5	3.0	<b>5.2</b>
<b>Total</b>	<b>Count</b>	<b>44</b>	<b>50</b>	<b>41</b>	<b>135</b>
	<b>%</b>	<b>32.6</b>	<b>37.0</b>	<b>30.4</b>	<b>100.0</b>

few months after the establishments of Giant Hypermarket. There are also some retailers in groceries business who claimed that the effect of hypermarket on their business was short term effect, in which they only felt the pressure for the first three months after the opening of the hypermarkets. After the three months, they said that their business performance was back to normal pace.

To gauge the hypermarket's effect on specific dimension of their business such as sales volume, number of customers, profit and number of employees, respondents were asked about the performance of these dimensions after the establishments of hypermarkets. Most of the respondents reported that either it has decreased or not changed. Less than 5 percent of the retailers in the sample claimed that their business was affected positively with the presence of hypermarkets which is reflected in terms of increase in number of customers, sales volume, profit as well as employees. More than 50 per cent of the retailers claimed that number of customer; sales volume and profit did not change much with the presence of hypermarkets, while about 40 per cent reported that it has decreased. Based on Table 6 it is observed that the reductions in the number of employees are substantial (85.9 per cent). Collectively, while a small group of retailers appears to

**Table 6 Impact of Hypermarkets on Specific Dimensions of Retailers Businesses**

	Increased (%)	Has not changed (%)	Decreased (%)	Total (%)
Number of Customers	4.4	53.3	42.2	100.0
Sales volume	2.2	56.3	41.5	100.0
Net Profit	3.0	59.3	37.8	100.0
Number of employees	1.5	12.6	85.9	100.0

have benefited from the establishment of hypermarkets, but majority of the retailers in the sample reported negative impact especially those in groceries business.

### Retailers' Perceptions on the Presence of Hypermarkets

It is surprising that majority (58.5 per cent) of the respondents in the sample agreed with the establishments of hypermarkets in their business area compared to 40 per cent of them who do not agree with the idea of establishing hypermarket in their area (refer Table 7). While remaining 1.5 per cent was not sure on the effect of the

**Table 7 Perceptions on the Presence of Hypermarket based on Type of Retail Business**

Type of business	Opinion on the presence of hypermarkets			Total
	Agree	Not Agree	Not Sure	
Provision shops and mini market	34 (25.2%)	40 (29.6%)	2 (1.5%)	76
Restaurant and bakery	24 (17.8%)	6 (4.4%)	0	30
Clothing/Apparel	3 (2.2%)	3 (2.2%)	0	6
Footwear	4 (3.0%)	0	0	4
Telecommunications	5 (3.7%)	0	0	5
Bookstore and stationary	3 (2.2%)	4 (3.0%)	0	7
Electrical and household appliances	6 (4.4%)	1 (0.7%)	0	7
Total	79 (58.5 %)	54 (40.0%)	2 (1.5%)	135 (100)

hypermarkets on their business, thus they were unable to give an exact view on this question. It is also observed that there are no clear cut answers on the opinion of retailers in the presence of the hypermarkets. Even though the majority of the respondents agreed (58.5 per cent) with the establishments of foreign hypermarkets in the neighbourhood, it is found that these responses largely comes from retailers who are involved in retail businesses other than groceries such as restaurant and bakery, clothing and apparel, footwear, telecommunications, bookstore and stationary and electrical appliances. These retailers comprise of 33 per cent of the total respondents who agreed with the presence of hypermarkets in the neighbourhood, while the remaining 25.2 per cent of this responses correspond to retailers who are involve in groceries such as provision shops and minimarkets.

The reason given by the retailers favouring the location of hypermarkets in close proximity to residential area/business area is that, with the establishment of the hypermarkets more people or customers from surrounding residential area as well from nearby town will be attracted to the area. Moreover, it is claim that when these people come for shopping at particular hypermarkets they will also drop by to surrounding retail shops especially those shops that are related to food services like restaurant and bakery. Another reason why non-groceries businesses agreed to the establishment of the foreign hypermarket is because these retail businesses were doing entirely different business or specialized in business that do not compete directly with the hypermarkets for customers. Thus these retailers were not severely affected by the presence of foreign hypermarkets in their business area. These results seemed to be in line with a study by Stone (1997) which found that businesses that sell goods or services other than Wal-Mart, tend to experience higher sales because of the spill-over effect of the additional people attracted to town by Wal-Mart, and that businesses that sell goods similar to Wal-Mart tend to experience some reduction in sales after Wal-Mart opens.

Meanwhile, within the 40 per cent of the respondents who do not agree with the presence of foreign hypermarkets in the business area, it is found that the majority of responses comes from provision shops and minimarkets operators which represent 29.6 per cent of the total respondents who do not agree with the presence of foreign hypermarkets. Remaining 11 per cent of the responses is contributed by non-groceries retailers (such as restaurant and bakery, clothing and apparel, footwear, telecommunications, bookstore and stationary and electrical appliance. Even though there is no significant differences between those respondents who agreed with the presence of foreign hypermarkets and those who do not agree, it is generally found that retail businesses which engage in similar business as foreign hypermarket (such as provision shops and minimarkets) are affected most by the presence of foreign hypermarket, and these group of retailers also are the one who do not agree with the establishment of foreign hypermarket in their neighbourhood.

Generally, it is found that existing local retailers had mixed feelings about the presence of hypermarkets. Their reasons were generally a combination of those



stated above. Those who disagree generally felt that hypermarkets contributed to the closing of several groceries shops mainly provision shops and minimarkets and created an intense competition among the local retailers as there are significant differences between hypermarkets and local retailer in terms of store attributes, products offered and prices. Most of the retailers believed that their business was affected which is clearly reflected in the reduction of sales, number of customers and net profits. Meanwhile those retailers who agree to certain extent on the presence of hypermarkets generally are those who are doing complementary business (which is not related to hypermarkets). These retailers agreed with the establishment of hypermarkets in their business area because they claimed that it offers jobs for local people and attracts customers from outside to the town, offers wide range of services and products at much lower and reasonable prices to the consumers.

### **CONCLUDING REMARKS**

The findings from the survey reveal that the entry of foreign hypermarkets in a town often affects the business environment for many existing local retailers since the newly established hypermarkets, in most of the cases, take market share from the existing businesses. The survey found that some businesses benefited from the presence of foreign hypermarkets (especially complementary type of retail businesses) while others do not (specifically those retail businesses that are related to groceries). The responses of retailers in selected hypermarket host towns provided evidence of its impact on local retail businesses especially on provision shops and minimarkets.

Many smaller local provision shops unable to compete with large foreign hypermarkets have been forced to close down, however there is no statistical data available to proof this claim. In this regards, majority of provision shop and minimarkets owners have expressed their dissatisfaction on the presence of large-scale foreign hypermarkets in their business area. They claimed that there are already too many hypermarkets at the moment and asserted that the government should stop giving approval on opening new foreign hypermarkets especially near residential areas. Even though some of them have made significant changes in their businesses in response to changes in retail market structure brought about by the foreign hypermarkets, it was not known whether the changes made in the business practice has lead to improvement in sales, profit or number of customers. Nevertheless it is argued that the changes made in the business practices were not sufficient to increase their competitiveness in the marketplace. This is because there are significant differences between local retailers and foreign hypermarkets in terms of size, economies of scale, product assortments, prices and customer services.

In line with these developments, Government and policymakers have an important role to play to ensure that the increasing expansion of foreign

hypermarkets or retailers, in general, does not harm our local businesses. In this context, the government must take appropriate policy measures to manage the changes that are taking place in the domestic retail market. Government and local municipal councils should be actively involved in the market to monitor the developments that are taking place in the domestic retail industry and should try to get feedback from local retail businesses from time to time before allowing the establishment of foreign-owned retail businesses. It is suggested that there must be a shift in government role from the current regulatory role to more of a supervisory role to ensure that the market continues to grow fairly based on market forces, but at the same time under the supervision of government agencies. The Government should also continuously educate the public about the economic impact of commercial development policy and also adopt policies that are more consistent with the values and concerns of the local retailers and consumers in a particular business area or town.

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