

Appropriate Competitive Strategies for the Sustainable Growth of Malaysian Departmental Stores in Domestic and International Markets

Ng Wei Chyun*, Tan Lin Lah, James CL Nga

Centre for Post-Graduate Studies, City University, Malaysia

*Corresponding author: N.G Wei Chyun
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Abstract

Original Research Article

Malaysian departmental stores face intense competition in domestic and international markets due to trade liberalization and the rapid growth of electronic markets with more customers relying on online purchases. This paper examines the challenges that they faced and recommends competitive strategies to survive the competition. **Methodology:** Using a two phased approaches, the first stage was exploratory with data collected from a literature review and personal interviews. The second stage was descriptive and a web survey with 80 participants who were fully familiar with the strategies directions, management and the operations of department stores. The qualitative data was analyzed through content analysis with descriptive statistical techniques for the quantitative data. **Results:** Malaysian department stores are challenged by market situation and the resulting intense competition among the players, and the rapid expansion of online purchases. They have to adopt new business models to address the challenges and to offer quality services for customer loyalty. **Conclusion/- and Recommendations:** The findings revealed that Malaysian department stores have to adopt appropriate marketing and product strategies that cater to customer needs. They have to emphasize on service quality and creative marketing. They should also benefit from new technologies including the social media to effectively engage with customers. They also have to offer new products, better services and new shopping environment for achieving long term growth and sustainability.

Keywords: Marketing, Service quality, Competitive Strategies, e-Commerce, Customer needs.

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INTRODUCTION

The business performance of the retailing industry is sensitive to external economic developments as they impact on household incomes and purchasing power [1]. The revenue sales of Malaysian department stores dropped by 11.9% between April and June 2015 due to reduced oil and commodity prices, a weak Ringgit and the Goods and Services Tax (GST) [2]. Trade liberalization has facilitated the entry of foreign firms [3] and the number of supermarkets and shopping centers increased to 346 in 2013[4]. Malaysian department stores are now challenged by intense competition. They are also challenged by the increased number of customers using mobile platforms for making purchases. Consequently, Malaysia department stores have to formulate appropriate strategies for business growth in both domestic and international markets, and this is the focus of this paper which is structured as follows.

Section 2 reviews the literature on i) emerging trends in the global retailing industry; ii) the transformation of the Malaysian retailing industry; iii)

addressing competitive pressures; iv) online shopping; v) the internationalization of Malaysian department stores; and vi) pertinent prior research. Section 3 outlines the research methodology, Section 4 presents and discusses the salient findings while the final Section 5 draws conclusions and offers recommendations.

LITERATURE REVIEW

Trends in the Global Retailing Industry

The retail industry can be defined as “the final step in the distribution process in which retailers are organized to sell merchandise in small quantities to the public” [5]. The combination of global, economic and population growth in the emerging markets has accelerated the pace of globalization of retailing. Countries like Malaysia, Thailand and Indonesia relaxed the regulations regarding mergers, acquisitions and joint ventures and these facilitated the entry of foreign-owned retailers [6]. Such retailers, especially supermarkets, are large and their increasing presence in developing countries modernizes the retail structure [7]. Several aspects of retailing are changing including product assortment, store format, and branding [8].

The global retail market environment faces several challenges which fall into five broad categories. These are external economic factors, customer based challenges, industry based challenges, legal and regulatory based challenges, and e-commerce [8]. The sharp declines in oil prices since 2014 benefited consumers in the oil importing countries as there were increases in real incomes and consumer purchasing power. However, the oil exporting nations, suffered from significant revenue shortfalls and the spillover effects reduced spending power [9].

Customers are an important force for any retail store as its survival is dependent on customer purchases of goods and services. A significant challenge is customer retention because of the changing purchase behavior of customers, stemming from demographic forces such as age, ethnic group and social classes [10]. Customer retention is necessary as it is difficult to acquire new customers in a highly competitive market [11]. Firms can survive business down turns by relying on loyal and existing customers. A company can rely on retained customers and thereby predict future sales [12]. Retained customers are also less price sensitive and more inclined to pay premium prices [13, 14].

The rapid growth of internet penetration has resulted in the rapid expansion of online shopping since customers can examine, with a click of a mouse, a large number of easily obtainable alternatives and make their purchases without leaving their home [15]. Mobile platforms are increasingly influencing consumer decisions on how, where and when to buy [16]. Many customers still shop in the physical store but then make their purchase on-line [17]. In view of the advantages of online shopping, it has become a major threat to the survival of the traditional retail stores and department stores.

The Transformation of the Malaysian Retailing Industry

The Malaysian retail industry has developed from traditional sundry shops, to supermarkets and to hypermarkets [18]. The first supermarket was established in 1963 by the Singaporean supermarket chain Cold Storage [3]. It was followed by Japanese Jusco (now known as AEON) in 1984. There were less than 20 foreign owned supermarkets in 1990. Market liberalization as well as increased household incomes and rapid urbanization encouraged several leading foreign players to expand their business operations to Malaysia [19].

A lead player is Dairy Farm, a pan-Asian retailer which operates three chains. These are Giant, which had 78 hypermarkets and 72 supermarkets at the end of 2013, Cold Storage with 17 outlets and Marcator with 2 outlets. Tesco which is based in United Kingdom had 46 stores and AEON had 57 stores following its

purchase of the hypermarkets and supermarkets owned by the French firm, Carrefour in 2012. British retailers like Marks and Spencer, Debenhams and more recently H & M have also established a retail presence in Malaysia [20].

The hypermarket retailing concept is transforming the Malaysian retailing industry [18]. Makro was the first hypermarket that was introduced in Malaysia in 1993 [21] followed by Carrefour in 1994 [3]. By 2002, there were 23 hypermarkets and all of them were owned by foreign corporations [3]. Considering hypermarket growth to be a threat to traditional traders, the Ministry for Domestic Trade and Consumer Affairs, imposed a five-year ban on the construction of hypermarkets in Klang Valley, Johor and Penang in 2002. It also extended the license approval time from four months to two years. Despite these restraints, the number of shopping centres and hypermarkets grew to 78 by May 2009 [3], to 346 in 2013 [4] and reached 889 in 2014 [22]. A recent study found that 89% of Malaysian customers prefer to visit hypermarkets to purchase the basic household necessities due to the ambience of the hypermarket, air conditioning, music and food and beverage area [4]. Furthermore, the majority of Malaysians have a high tendency to shop at a modern retail facility as part of their modern lifestyle. In 2013, grocery retailing in Malaysia outgrew non-grocery retailing [22].

A rich population may need more supermarkets [23]. There are therefore hypermarkets within small towns with high incomes, such as Kampar and Teluk Intan in Perak. Hypermarkets also focus on urban areas because of high population densities and high incomes. For this reason, in 2013, almost two thirds of the 346 hypermarkets were in the Central Region, which includes Kuala Lumpur and Selangor as it had the highest average household monthly incomes [4].

Addressing the Competitive Pressures

Hypermarkets and department stores are challenged by the issues of survival and sustainability due to the large number of new entrants as well as changing consumer demands [22]. There is intense competition due to the increasing numbers of shopping malls, hypermarkets, supermarkets and department stores [25]. The competition is most intense in Kuala Lumpur as it has the highest number of shopping centres, and this requires them to adopt appropriate strategies for achieving competitive advantage [24].

A favoured strategy is loyalty schemes to prevent customers from defecting and switching them to rival firms [24]. Loyalty is about an emotional connection between a customer and a company. A loyal customer proactively promotes a company and spreads positive words-of-mouth (WOM) [26]. The loyalty of a customer emerges from quality, price, physical facilities

or satisfaction customer feelings and perceptions about the enterprise [27]. Gifts and incentives like coupons, free items and accumulation of reward points influence customers' loyalty [28].

Department stores and hypermarkets are also emphasizing on location since a well located and well managed mall can weather business storms. Location influences customer decisions on the choice of shopping malls [29, 30]. Accessibility influences the choice of location and this is often measured by the ease with which customers and other users can move in and out of the shopping centre. Accessibility also influences shopping decisions [31] as it offers customers the convenience of overcoming the barrier of distance in terms of time and space. Shopping malls which are located near good public transport systems attract customers.

Online Shopping

E-commerce which is expanding rapidly has turned traditional business models into new paradigms which are customer driven and value based [32]. E-commerce, the fastest growing form of commerce [16] has generated new electronic markets. Increasingly more customers are relying more on the internet for purchases which is now an essential marketing tool for business and consumers [33].

Malaysia has a high and growing internet penetration rate. Young Malaysians comprising largely of Generation Y tend to be early adopters of new technologies [34]. They are IT savvy and prefer online shopping. It is forecasted that e-commerce sales could increase by up to 25% per annum in the coming years, with Malaysia's online retail segment sales reaching \$10bn-15bn in sales over the long term [35]. Another emerging trend is the establishment of virtual malls similar to the hypermarket virtual malls. E-commerce platforms such as Telekom Malaysia's business-to-business, mybizpoint have already made the basic infrastructure and bandwidth available for the implementation of the proposed virtual mall.

The rapid growth of e-commerce, which is increasingly becoming the preferred mode of purchases, is dampening the business performance of departmental stores [36]. Since e-commerce and online shopping are substitute product strength, departmental stores have to adopt innovation approaches to merge the offline and online shopping experiences. These could use the app and revamp websites which could function as an E-store for consumers [37].

The Internationalization of Malaysian Department Stores

The globalization of markets and the movement of capital flows have resulted in an increasingly complex landscape [38, 39] which creates opportunities for retailing firms to venture into global

markets for remaining competitive [40, 41]. The modes for internationalization are direct acquisitions, franchising, joint ventures [42, 43], organic growth and in-store concessions [43].

Due to the oversupply in the Malaysian retail market resulting from trade liberalization, Malaysian departmental stores are venturing into overseas markets to improve their financial performance [44]. The Malaysian Government is actively encouraging the departmental stores and hypermarkets to venture into international markets. Some like the Parksons Group already have a significant presence in China and in Vietnam. The establishment of the 1Malaysia Mall concept in China and Vietnam should lead to greater cross border investments by Malaysian retail chains and hypermarkets [37].

Pertinent Prior Research

The literature review identified pertinent prior research, which found that Malaysian departmental stores are now confronted by external and domestic challenges stemming from market liberalization [45], new market entrants [46], high operating costs, changing customer behavior and depreciating ringgit which have led to higher import costs and in parallel higher retail prices [47]. Consequently, several departmental stores are now incurring losses.

Other pertinent studies were conducted on the importance of the retail industry for the Malaysian economy [49]. Malaysian customer's perceptions towards online shopping [36]. The spillover effects of foreign hypermarkets on domestic suppliers in Malaysia [50]. More recent research was conducted on (i) spillover effects of foreign hypermarkets adoption e-marketing in the Malaysian retail sector [20], (ii) customers' perceptions of the marketing mix and the effect on Malaysian hypermarkets' brand loyalty [51] and customer satisfaction as an antecedent of customer loyalty in Malaysian retail marketing [52]. However, there was limited prior research on the challenges faced by Malaysian department stores and the appropriate strategies that they should adopt for expanding their customer base and revenues for long term sustainability.

RESEARCH METHODOLOGY

A two stage approach was adopted. The first, exploratory and qualitative, provided useful insights on the research issues. Data was collected through the literature review and personal interviews involving 8 knowledgeable participants. The second, descriptive and quantitative permitted the testing of the three research propositions based on the research issues. Data was collected through a web survey with 80 participants and analyzed through descriptive statistics, in order to extend the research findings [53].

SALIENT FINDINGS

This subsection highlights the salient findings that emerged from the reviewed literature, the personal interviews and the web survey.

Industry competition

The literature revealed that due to the large number of foreign and domestic players, the Malaysian retail industry faces intensive competitive pressures. Foreign owned firms with modernised store formats are increasing their market share of the retail business at the expense of Malaysian owned firms, who also challenged by increased online purchases. The interview participants concurred that Malaysian department stores face competitive pressures which required them to adopt differentiation strategies to differentiate products displays the shopping experience, the entertainment provided and the store concept as well as to provide online shopping to cater to all segments of customers. The web survey participants emphasized the needs for Malaysian department stores to internationalize their operations for diversifying their revenue streams to achieve long term growth and sustainability. However, this required appropriate innovation strategies for offering new products, better services and a new shopping environment.

Improving Service Quality

Retail stores belong to the service industry, and this requires them to offer high quality goods and services that meet customer's expectations. The literature indicated a strong correlation between quality and customer satisfaction. High service quality is also an important determinant to address the competition. The interview participants highlighted the importance of providing higher quality service to meet customer needs. Good quality service is also important for differentiating the firm from rival retailers. The findings from the web survey revealed that Malaysian department stores have to improve service quality to overcome the intense competition, and therefore staffs have to be trained to cater to the varying needs of customers from diverse backgrounds.

Developing Customer Loyalty

The literature highlighted that customers' loyalty increases with satisfaction levels. Customer loyalty could lead to customer retention, securing new customers, increased revenues and creating future purchase intentions among customers. Loyal customers can offer suggestions to improve service to meet customer intentions. Therefore, a successful customer loyalty strategy is important for department stores to retain their customers in a highly competitive environment. Loyalty programs are therefore important and this requires creative marketing and strengthening customer relationship management.

CONCLUSION AND RECOMMENDATIONS

This paper examined the challenges emerging from the competitive pressures faced by Malaysian department stores, and the importance of the appropriate strategies for sustainable business growth. The findings revealed that the entry of key international players has transformed the Malaysian retail marketing landscape. E-commerce and online shopping have becoming the preferred mode for purchases, and this is impacting upon the business performance of department stores.

The challenging situation requires them to emphasize on loyalty programs for customer retention in order to benefit from life time income streams. This has to be supported by customer relationship management to know their customers better, understand their preferences and to offer personalized services. Since the Malaysian retail market has become a mature market with a large number of players, they have to internationalize their operations to diversify their incomes streams. However, they have to adopt the best strategy options for successful internationalization.

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