SUSTAINABILITY IN RETAIL INDUSTRY: COMPETITION FACTORS AMONG SMALL RETAILERS AND SUPERMARKETS AGRO-FOOD BUSINESS

Mohd Khairi Ismail, Universiti Kebangsaan Malaysia
Vikniswari Vija Kumaran, Universiti Tunku Abdul Rahman, Malaysia
Syamsulang Sarifuddin, HELP University, Malaysia
Abdullahi Hassan Gorondutse, Nothern University of Malaysia, Malaysia
Nur Adyani Sabarudin, Universiti Kebangsaan Malaysia

ABSTRACT

The development of the retail sector in Malaysia which is associated with an increase in the influx of supermarkets and affects the competitiveness of small retailers nowadays. The price, comfort, quality and safety of products, and the relationship between retailers and customer is beginning to be an issue that is often dealt with when discussing the issue of competition among retailers. Therefore, this study aims to discuss the impact of the involvement of supermarkets in the agro-food supply to small retailers in terms of competitive pricing, convenience, and product quality and customer relations. A total of 163 small retailers around Bangi area had been chosen as respondents for this study. This research used Exploratory Factor Analysis (EFA) technique through analysing the factor to answer the research objectives. In addition, this study would examine, through discussions of previous studies, whether all four competitive factors obtained, namely price, comfort, quality assurance and product safety, and relationships with retailers are the competition factors to the retailer. The study found that there are four factors that influence the competitive small retailers and these factors significantly affect the competition faced by small retailers. The discussion also showed that the quality and safety of products is not a major competitive factor for small retailers. In order to overcome this phenomenon, the implementation of policies and programmes to help retailers should take place. The Business Retail Shop Transformation Programme (TUKAR), implemented in 2011, is seen as a necessary action utilized by retailers through support in the involvement.

Keywords: Competition, Supermarkets, Small Retailers, Exploration Factor Analysis (EFA), TUKAR.

INTRODUCTION

At the early stages, the retail sector in Malaysia has been pioneered by some form of retail businesses. Grocery stores, night market and a mini-supermarket are where the major consumers purchase their daily necessities. Selling the daily needed goods is a factor why the consumers make purchase. This situation can be seen when retail stores such as farmers' markets and wet markets remains the popular retail business until the end of 2000 (Report of the 9th Malaysia Plan, 2006). Retail activities continue to expand and become the subsector contributing to the national economy. Initial landscape of retail sector began with traditional stores, wet markets, and hawker which next moved to a modern retail stores such as supermarkets and hypermarkets (Wel et al., 2012). In 2000, the retail sector has recorded a contribution of RM. 31,081 million to the Gross Domestic Product

(GDP) (the 8th Malaysia Plan, 2001). It is due to the increase in income which influenced the consumer demand. This situation can be seen through the increase in retail businesses such as grocery stores, supermarkets and so on in the period of 2000 and above (Arshad, 2008).

Based on the Business Times, in 2010, growth in the retail sector was 8.4%, which is worth RM77 billion. The increase in supermarkets and hypermarkets was a contributing factor to this situation (Hassan & Rahman, 2012). Changes in conditions such as urbanization, rising incomes, changing lifestyles and consumer perception of product quality led to an increase in supermarkets, especially in urban areas with high population density (Arshad, 2008). In Malaysia, the number of modern retailers started to improve in 2000 through modern retailers both locally and overseas companies (Shamsudin & Good, 2005). Under the National Key Economic Areas (NKEA), large-scale retail companies such as Mydin, Carrefour, Econsave, and Giant encouraged to venture into the retail sector. With over 10% of Malaysia's GDP is contributed by domestic consumption, wholesale and retail NKEA provide the basis for this sector to increase the amount of the Gross National Product (GNP) of the country with RM 156 billion and create 454,190 new jobs by 2020 (Economic Transformation Plan, 2010). The involvement of supermarkets are also likely to help and beneficial to consumers in terms of offering quality food and reasonable prices.

According to the "*Thailand's Shopping Habits Survey*" report in 2001, the existence of supermarkets had taken over the function of retailers as the major shopping options premise for residents of Bangkok. This condition seemed to be competitive for the small retailers. This is due to the convenience, and the prices that affect the consumers to make a choice where to buy. With factors such as price, comfort, quality and customer relations, competition in the retail industry also increased. However, this causes number of small retailers to decline due to the competition with large-scale retailers, especially in the agro-food business (Arshad & Shamsudin, 2007). Therefore, this study discusses the competition in the retail sector in the perception of small retailers in the agro- food business due to the existence of supermarkets.

LITERATURE REVIEW

Retailing is a business activity that has been practiced long. This activity is extremely broad, involving small to large business entities. Retailing is often associated with the concept of selling goods to end users (Baron et al., 1991). Kotler (2003), states that the retail sales activities of products and services are to the end users which involving the private use and not for business purpose. Ali et al., (2010) noted that the retailers are divided into large retailers and small retailers. Large retailers are retailers that operate on a large scale, including supermarkets, hypermarkets and so on (Reutterer & Teller, 2009). Rather small retailers include 3 types of groups such as hawkers, businesses stalls and small shops. Burt (2000) defines large-scale, modern retailers as the ability of a business offering a variety of products, brands, quality and price at a time. Past research by Chung et al. (2018) has studied the level of competition between hypermarkets and small retailers by assessing the degree of substitution of their products from consumer's view. They found that the products sold are not nearly as substitute, and therefore their markets can be divided between each other.

Research of Minten & Reardon (2010) in the prices of food and retailing in Delhi found that supermarkets could sell food items much cheaper than small retailers as the costs incurred is low. This is due to supermarkets have the advantage in retail turnover, and inventory management technology (Reardon et al., 2003). Fox & Sethuraman (2006) states that small retailers can save costs because of their location which is close to users and low operating expenses. The cost savings are due to the use of flexible logistics and low technology.

Supermarkets and traditional retailers in developing countries also compete in terms of user comfort to get the goods. User comfort refers to the time, place of purchase, and the facilities

provided to make it easier for the user. Reardon & Berdegué (2006) argues that the transaction costs that borne by consumers is the convenience aspect to be considered in making a purchase in a place. Reardon & Berdegué (2006) states that the costs incurred by the user will determine consumer buying decisions and reflects user comfort. Consumers who buy products through traditional retailers tend to make frequent purchases due to the distance factor.

Product quality or product output is an essential feature. Production of quality products can give satisfaction to the consumer after the purchase process. According to Reardon & Berdegué (2006), supermarkets are using the system of private standards in the assessment of goods sold in getting quality products. Burch & Lawrence (2005), the involvement of hypermarkets focus on the quality of goods sold. For an example, in developing countries, the quality of the products tends to be addressed to the satisfaction of the users. Past research has shown that traditional retailers are still able to compete with modern retailers in offering quality products. Small retailers should improve the process of marketing to convince consumers regarding the freshness of the products (Reardon & Berdegué, 2006).

Competition among small retailers and supermarkets included the formation of customer loyalty. The use of The Self-Checkout Systems (SCS) has shown a rising trend in supermarket service delivery, however the impact however the effects of SCS service quality to customer satisfaction and loyalty is still under investigation and to be crucial for supermarkets (Orel & Kara, 2014). Abu (2004) states that personal interaction between the dealer and the customer is able to establish customer loyalty. Customers are more inclined to choose a place that is able to offer services that are easy to interact with (friendly). There are previous studies that examine the issue of customer relations to the issue of loyalty to make a purchase. Lombart and Louis (2012) found that retailers' personality can influence consumer to make purchases and customer loyalty.

METHODOLOGY

This research aims to study the impact of the involvement of supermarkets in the agro-food supply to small retailers. The location of this research is in Bangi, Selangor. Bangi area is the focus of economic activity. In addition, educational activities, industrial and the retail business are the major activities in the area (Directory Bandar Baru Bangi, 1998). The population of this study was small retailers in Bangi who engaged in the retail sale of agro-based food products. This means it only deals with retailers involved in the sale of food. Small retailers are also in the study of hawkers, stall traders and retailers with premise (Md Ali et al., 2004). Since there are no specific reports reported the number of small retailers engaged in agro-food retailing, this study uses the "convenience sampling" method. Based on the sampling method, a total of 163 small retailers have been taken as the respondents to the survey. For data analysis, this study involved a descriptive analysis, factor analysis and test Analysis of Variance (ANOVA) one way.

RESULTS

Business Profile

Table 1 shows the business characteristics of the respondents in this study. Majority of the respondents were small shop dealers (67.5%), followed by hawkers (17.8%) and business outlets (14.7%). Only 58.3 percent of the respondents rent their premises while 40.5 percent have their own premises. Half of the respondent's own premises that less than 1000 square feet and the remaining have larger than those size. Analysis shows that most respondents are involved in groceries (47.2%) and food (44.2%) businesses. 65 percent of respondents have ventured into small retailers for more than 5 years and many of their loyal customers comprise nearby residents, the rest are employees (17.2%) and students (18.4%). Most respondents earn business income more than RM. 5000

whereas only 32.5 percent earn less than that value. However, respondents did not hire a large number of workers where 62.6 percent hired less than 2 workers to help them manage their businesses. The location of the respondents' premises shows that only 44.8 percent are less than 2 km from supermarkets while 55.2 percent are more than 3 km. 49.1 percent of respondents stated supermarkets as their main competitor besides local shops and merchants' stalls. Analysis also shows that 84 percent respondents agreed that supermarkets have given competition to their businesses.

Table 1 THE BUSINESS PROFILE					
Aspect		**Percentage (%)**	**Aspect**		**Percentage (%)**
Type of retailer	Hawker	17.8	**Monthly income (RM)**	RM 5000 downward	32.5
	Business outlets	14.7		RM 5001-RM10000	40.5
	Small shop	67.5		RM 10001-RM 15000	17.2
Premise	Own	40.5		RM 15001-RM 20000	7.4
	Lease	58.3		RM 20000 and above	2.5
	Others	1.2	**Number of employees**	Less than 2 people	62.6
Size of business premise	Less than 1000 square feet	50.9		3-4 people	25.2
	1000-2000 square feet	36.8		5-6 people	11.0
	Over 2000 square feet	12.3		7-8 people	0.6
Type of business	Groceries	47.2		More than 9 people	0.6
	Food	44.2	**Distance premise from supermarkets**	Less than 2 km	44.8
	Agricultural products	7.4		3-4 km	14.1
	Others	1.2		5-6 km	17.2
Number of years in business	5 years and downward	65.0		7-8 km	12.9
	6-10 years	25.8		More than 9 km	11.0
	11-15 years	8.0	**Main competition**	Supermarkets	49.1
	16-20 years	0.6		Local shop	31.3
	21 years and above	0.6		Merchants stall	11.0
Regular customer	Employee	17.2		No competitor	8.6
	Student	18.4	**A supermarket give competition**	Yes	84.0
	Nearby residents	64.4		No	16.0

Competition Factors among Retailers

Table 2 shows the results of factor analysis. Factor 1 with the Eigenvalue of 2.983 includes three items where the percentage variance of 24.9%. Alpha Cronbach`s value of this factor is 0.794. This factor refers to the relationship between retailers and customers. These factors are the main factors affecting the relationship between retailers and customers with a mean value of 4.46. Factor 2 with the Eigenvalue of 1.631 includes 4 items such as supermarkets offer low prices, supermarkets offer a price promotion, small retailers selling prices according to the market and the price of the fresh goods in supermarkets which are reasonable. Alpha Cronbach`s value for this factor is 0.655. These factors are referred to as price. This factor is the second factor that is mainly affecting the retailers. The mean factor for this factor is 4.09. Factor 3 has three items with the Eigenvalue of 1.606. Value of the variance percent of this factor is 13.4%. Alpha Cronbach`s value

is 0.599. This factor refers to the quality and safety of the products. This factor is less important factor that affecting competition of retailers with the mean of 3.95. The fourth factor refers to the comfort of its customers. This factor has the Eigenvalue of 1.134 with the percentage variance of 9.45%. The third factor is the factor that affects competition to retailers most with a mean value of 4.00.

Table 2
FACTOR ANALYSIS

Construct	Factor			
	1	2	3	4
Retailer relations with customers	0.835			
A supermarket prioritize customer feedback	0.823			
A supermarket have a variety of strategies and strengthen customer relationships	0.794			
A supermarket offer low prices		0.810		
A supermarket offer price promotion		0.691		
Small retailers selling prices according to the market		0.658		
The price of fresh goods in the supermarket price		0.579		
Retailers practicing good storage system to ensure product safety			0.773	
Small retailers use product certification			0.737	
Stock supplies fresh produce small retailers always enough			0.671	
Size small retail outlets allows users to search for items				0.793
User comfort for products according to the current volume of purchases by small retailers				0.758
Eigenvalue	2.983	1.631	1.606	1.134
Percent variance	24.858	13.595	13.387	9.452
Cumulative variance	24.858	38.453	51.840	61.292
Cronbach alpha	0.794	0.655	0.599	0.434
Factor mean	4.46	4.09	3.95	4.00

Significant of Competitive Factor

To answer the research objectives, researchers are using one-way Analysis of Variance (ANOVA) to determine whether the factors obtained from factor analysis method significant to the competitiveness of small retailers. In addition, these tests are trying to prove that all factors significant or influences the competition. Based on Table 3, all the factors are significant to small retailers' competition effects of the involvement of supermarkets in retail activities in Bangi, Selangor. Value less than 0.05 was significant (Sig<0.5) showed that all factors are individually significant and competitive factors in this study. Thus, the factor of price, quality and safety, comfort and contact with customers is a significant factor to the competition among retailers.

Table 3
ONE-WAY ANALYSIS OF VARIANCE (ANOVA)

		Degree of freedom (df)	Mean square	F value	Sig.
Factor Analysis A3	between groups	2	1.902	1.135	**0.032**
	in the group	160	0.795		
	Total	**162**			
Factor Analysis A2	between groups	2	1.303	4.110	**0.006**
	in the group	160	0.736		

	Total	162				
Factor Analysis A1	between groups	2	1.338	5.540	**0.040**	
	in the group	160	0.610			
	Total	**162**				
Factor Analysis A4	between groups	2	1.140	2.149	**0.010**	
	in the group	160	0.935			
	Total	**162**				

DISCUSSION

According to a study conducted, found that the involvement of supermarkets in the retail sector in terms of competitive give impact on small retailers. Retailers seem to face of pressure from the competition. The advantages of operating on a large scale make supermarkets able to control the market and thus give competitive impact to retailers. Policy implications and recommendations in helping small retailers need to be implemented to tackle this problem.

Retailer Transformation Programme, which is also known as TUKAR Program, aimed at helping small retailers to be modern and competitive. It includes upgrading at least 10 percent of 50,000 retailers are estimated currently doing business. Small retailers are faced with a number of businesses and demographic which affect their income. For an example in Johor, market studies conducted by Md. Ali et al. (2009) showed that some small retailers are threatened with closure caused by modern retailers (e.g. large-format operator) who carry on business in their area. Modernization of small retailers can increase sales by up to 30 percent, as shown in a pilot project carried out in two local shops. The increase in sales was the result from attracting more customers shopping in stores that have been renovated and provides a more comfortable environment, modern, bright and clean, similar to larger format stores.

Besides, small retailers also know their customers and tend to develop a rapport with them as small retailers have full responsibility for operating their stores. These efforts will contribute to customer loyalty and increases word-of-mouth promotion of the business. Thus, small retailer's owner need to transform their attitudes and mentality as they were driven by the image of a consumer's benefits which consumers seek out from the overall shopping experience. In addition, social responsibility need to be applied by small retailers through financial and non-financial contributions in order to maintain reputation as well as obtain social benefits from the involvement of social responsibility within the local community. Hence, it will contribute to market sustainability, and thus achieve economic prosperity.

CONCLUSION

In conclusion, the increase in the number of supermarkets has created competition to small retailers. Failure in the facing the pressure due to the competition and simultaneously reducing the number of small retailers. This situation should be given attention by those responsible so that it does not adversely affect small retailers and the retail sector in general. Therefore, it is necessary efforts and measures are required to overcome this phenomenon.

REFERENCES

Abu, N.K. (2004). Service quality dimensions: A study on various sizes of grocery retailers-A conceptual paper. *Journal of Proceeding of IBBC2004*, 633-642.

Ali, H., Abdul. R.H., & Ahmad S. (2010). Factors influencing the performance entity success Melayu: A case study. *Prosiding Perkem V*, 2, 141-151.

Arshad, F.M., & Shamsudin M.N. (2007). Food marketing in Malaysia: Transformational issues and policy implications. *Economic and Technology Management Review*, 2, 45-62.

Arshad, F. (2008). Peluang perniagaan dalam sistem pemasaran agro-makanan baru. *Dicapai pada Oktober*, *daripada FAMA*.

Baron, S., Davies, B.J. & windley, D. (1991). Macmillan dictionary of retailing. Macmillan.

Burch, D. & Lawrence, G. (2005). Supermarket own brands, supply chains and the transformation of the agri-food system. *International Journal of Sociology of Agriculture and Food*, *13*(1), 1-18.

Burt, S. (2000). The strategic role of retail brands in British grocery retailing. *European Journal of Marketing*, *34* (8), 875-890.

Chung, H.S., Hwang, S. & Kim, M. (2018). Price competition between big and small supermarkets: Evidence from Seoul. *Applied Economics Letters*, *25*(6), 429-433.

Direktori, B.B.B. (1998). *New town residents association*.

Fox, E.J., & Sethuraman, R. (2006). *Retail competition*. In Retailing in the 21st Century (193-208). Springer Berlin Heidelberg.

Hassan, H., & Rahman, M.S. (2012). Transformation of hypermarket retailing industry in Malaysia. In Innovation Management and Technology Research (ICIMTR). *2012 International Conference on* (513-516). IEEE.

Malaysia (2001). *False Malasian design, 2001-2005*. Kuala Lumpur. Pencetakan   Nasional Malaysia Bhd.

Malaysia. (2006). *The ninth Malasian plan, 2006-2010*. Kuala Lumpur. Pencetakan Nasional Malaysia Bhd.

Md Ali, A., Bakar, A., Md Som, H., & Muktar, S.N. (2004). Kesan kewujudan hypermarket ke atas peniaga melayu di johor. *Universiti Teknologi Malaysia (UTM)*.

Minten, B., Reardon, T., & Sutradhar, R. (2010). Food prices and modern retail: The case of Delhi. *World Development*, *38*(12), 1775-1787.

Kotler. P. (2003). *Marketing management,* (7th ed). Upper Saddle River: Pearson Education, Inc.

Lombart, C., & Louis, D. (2012). Consumer satisfaction and loyalty: Two main consequences of retailer personality. *Journal of Retailing and Consumer Services*, *19*(6), 644-652.

Orel, F.D., & Kara, A. (2014). Supermarket self-checkout service quality, customer satisfaction, and loyalty: Empirical evidence from an emerging market. *Journal of Retailing and Consumer Services*, *21*(2), 118-129.

Reardon, T., Timmer, C.P., Barrett, C.B., & Berdegué, J. (2003). The rise of supermarkets in Africa, Asia and Latin America. *American Journal of Agricultural Economics, 85*(5), 1140- 1146.

Reardon, T., & Berdegue, J. (2006). *The retail-led transformation of agrifood systems   and   its   implications   for development policies*. The World Bank.

Reutterer, T., & Teller, C. (2009). Store format choice and shopping trip types. *International Journal of Retail & Distribution Management*, *37*(8), 695-710.

Shamsudin, M.N., Selamat, J. (2005). *Changing retail food sector in Malaysia*. PECC Pacific Food System Outlook 2005-06 Annual Meeting. Kun Ming, China.

Wel, C.A.C., Hussin, S.R., Omar, N.A., & Nor, S.M. (2012). Important determinant of consumers' retail selection decision in Malaysia. *World Review of Business Research*, *2*(2).