

Analysis of Issues, Challenges, Opportunities & Costs, and Transformation arising from Movement Restriction measures in the Retail Sector

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Background

In the recent coronavirus pandemic, Malaysia's retail industry has contracted by 18.8% in Jan-March 2020 – its biggest-ever quarterly contraction since 1998.¹ Sales in January 2020 contracted by 13.8% due to slow sales during Chinese New Year and a drop in China arrivals. The impact deepened in February, with sales dipping by 20.1% as COVID-19 began to intensify and Malaysia saw fewer tourist arrivals. Shopping malls accounted for losses of RM2 billion².

By March, the fear of the pandemic had begun to affect consumer spending followed by the MCO, effective since March 18, which caused non-essential retailers to clock in zero sales causing sales to plunge by 28.9%.

The retail industry is overall expected to suffer a decline in sales by 5.5 per cent, from a 4.6 per cent growth projection in December 2019. In 2019, the annual growth rate for the retail industry was a positive 3.7 per cent, while Malaysia's retail growth in April 2020 is expected to plunge by 60.7 per cent compared to a year ago.³

As traditional retail involves the physical opening of a space or business premise (also known as brick and mortar type shops), and the need for visitors to physically enter to make transactions, restricted movements worldwide has caused a lot of disruptions. Now with the wide implementation of social distancing, the shifts in demands among sectors is very obvious, eg from physical to online, from regular purchases to health related products and so on.

¹ The Edge Markets, "Retail industry growth contracted by 18.8% in Jan-March 2020 during COVID-19 pandemic and MCO" 14 April 2020.

² The Star: Malls face RM2bil losses. 31 March 2020

³ NST: Bad year for the retail industry with prolong MCO By Kathy B. - April 28, 2020. Link: <https://www.nst.com.my/property/2020/04/588150/bad-year-retail-industry-prolong-mco>

According to Retail Group Malaysia managing director Tan Hai Hsin, retailers who have been dependent on foreign tourists will not be able to recover this year and many are expected to close down. These retailers include those operating in major shopping districts such as the KLCC area, Bukit Bintang and Chinatown. Tourists made up 30% of the shopper demographics at the Pavilion Kuala Lumpur in Jalan Bukit Bintang before the enforcement of the MCO.⁴

Restrictions

Due to quarantine or movement restrictions, physical shops were ordered to close and people were not allowed to be outside except for essential needs. This caused a drastic drop, almost to zero in many cases, in revenue. In Malaysia, the Movement Control Order (MCO) began on 18 March 2020 and was partially lifted on 4 May 2020. Data from SOCSO indicated some 8,620 or 57% of the EIS claimants between January and March this year were employees who earned RM3,000 and below.

The manufacturing industry recorded the biggest casualty with 25% of LOE reports, followed by wholesale and **retail at 19%**.⁵

In March 2020 alone, the US reported massive losses of jobs.

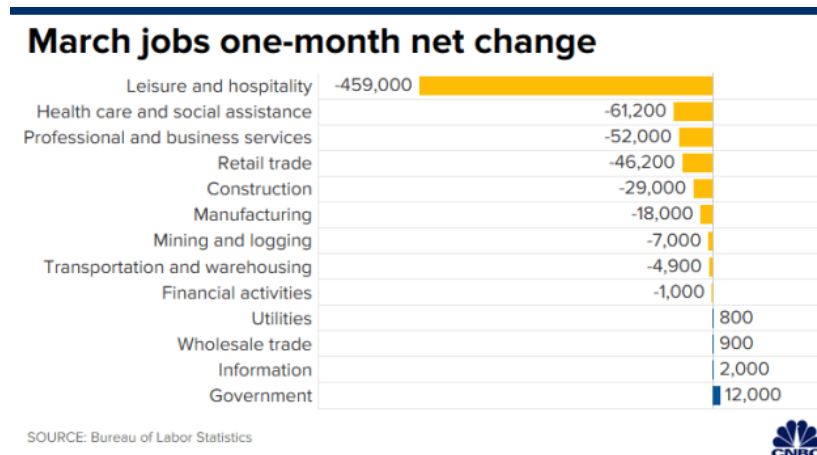


Figure 1: Numbers of job losses by sector in the US⁶

⁴ EdgeProp, "Covid-19: Some retailers 'likely to fold'" 18 May 2020.

⁵ The Star: Job losses surged in March, but all is not lost, 03 Apr 2020 Link:

<https://www.thestar.com.my/news/nation/2020/04/03/job-losses-surged-in-march-but-all-is-not-lost>

⁶ CNBC, Here are the industries suffering the biggest job losses in an initial look at coronavirus impact

Published 3 Apr 2020. Link: <https://www.cnbc.com/2020/04/03/this-chart-shows-which-industries-saw-big-job-losses-in-march-2020.html>

The above figure shows the retail trade showing a reduction of 46,200 in the workforce. The author stated that the report by the Bureau of Labour Statistics in the US fails to capture the full damage from the coronavirus so far, due to the fact that the department used it as its reference period the week ended March 12, which came just as states began their shutdowns. It is projected that the April jobs report will show deeper and more widespread industry losses.

Meanwhile, according to a survey in the UK⁷, which was carried out between 27 March and 15 April:

- 67% of retailers said the Covid-19 outbreak was having a significant negative impact on their sales.
- 39% of retailers reported a total shutdown of UK activity due to the outbreak.
- 44% of retailers reported furloughing staff, while 8% reported permanent staff layoffs.
- 96% of retailers reported cashflow difficulties, with 40% facing difficulties meeting tax liabilities. A further 31% of retailers also faced constraints on the availability of external finance.

TRENDS: THE SHIFT TO ONLINE RETAIL

MOVEMENT CONTROL ORDER ACCELERATES SWITCH TO ONLINE

DURING MOVEMENT CONTROL ORDER

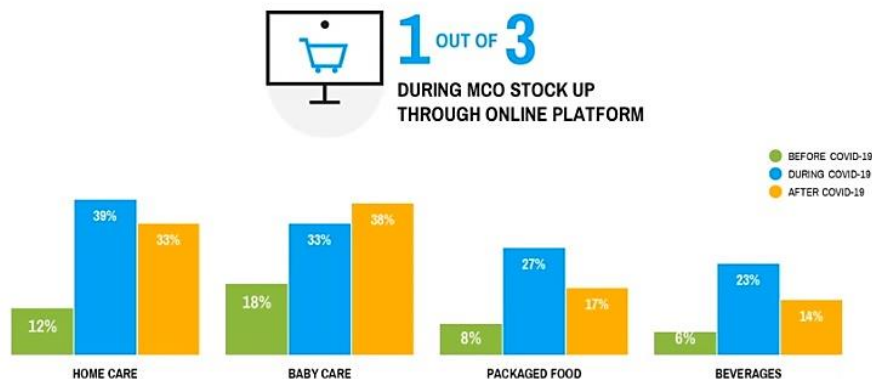


Figure 2 Categories of purchases. Sources from Nielsen Malaysia

⁷ The Guardian: UK retail suffering from collapse in consumer spending, says CBI; Two-thirds of firms say Covid-19 lockdown hit sales in worst month since financial crisis 28 April 2020

Unexpected Boom for Health Retail

Retail involving the sale of health-related or virus-eradicating related products and services has increased several-fold due to the sudden demand. Observations show that many shops that were not usually selling such items were suddenly offering things like hand sanitizers, surgical face masks, and other related products.

Products from well-known companies who specialize in disinfecting or antibacterial products such as Antabax and Dettol were not only constantly sold out, they were also put on long waiting lists, purchase limits, and were resold by third parties at several times the original cost. This is especially prevalent on e-commerce websites such as Lazada as people were either more afraid to go out or due to MCO when many shops were not physically accessible.

Meanwhile in the US, a report⁸ stated that the sales of health related consumer packaged goods (CPG) increased by high margins. Sales of aerosol disinfectants, for example, were up 19%, while air cleaners and purifier sales were up nearly 3% in the week ended 22 Feb 2020. Longer term, it is expected to see similar ripple sales in hand and body lotion—simply because an increased focus on hand washing and disinfecting will have a negative effect on skin.

Sales of health-related CPG items are on the rise amid COVID-19 concerns

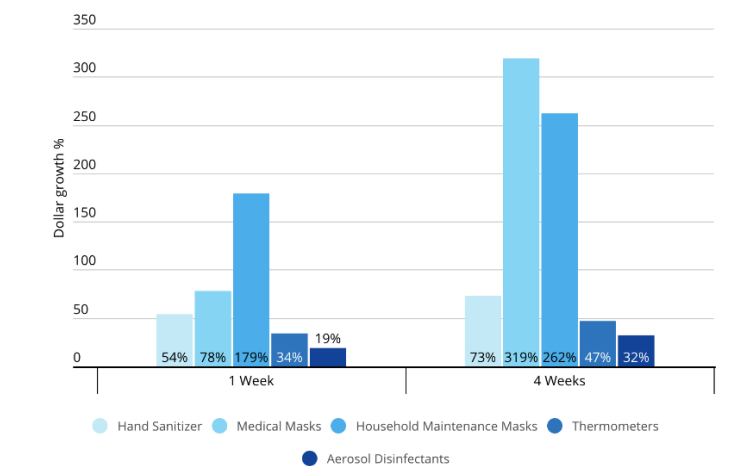


Figure 3: Total U.S. All Outlets Combined (xAOC), periods ended 22Feb 2020 versus same periods a year-ago. Sourced from Nielsen Retail Measurement Services

⁸ Nielsen Investigation: “Pandemic Pantries” Pressure Supply Chain Amid Covid-19 Fears CPG, FMCG & RETAIL 2 March 2020. Link: <https://www.nielsen.com/us/en/insights/article/2020/nielsen-investigation-pandemic-pantries-pressure-supply-chain-amidst-covid-19-fears/>

Food Retail

Food retailers and grocery store workers also have seen a surge in demand as people in confinement buy food and other necessities, often stocking for long periods of isolation.

DRY GROCERIES ARE A PRIORITY DURING MCO

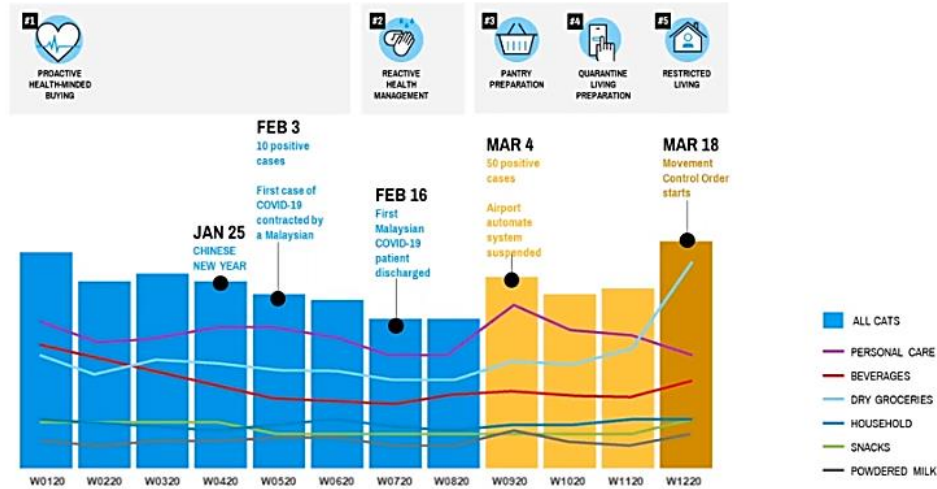


Figure 4: Purchasing trends in Malaysia during MCO. Source: Nielsen Malaysia

Figure 6 shows that consumer’s priorities shifted to dry groceries as they can be kept longer for quarantine periods.

CONCERNS FROM THE RETAIL COMMUNITY

Covid-19 Act

A coalition of Malaysian business associations called⁹ for an urgent enactment of a Covid-19 Act.

The group of more than 10 associations said the Act should be put in place as a temporary measure until December to avoid legal disputes over contractual obligations in the post-Movement Control Order (MCO) period. They said the Covid-19 Bill is crucial because more than 40 per cent of businesses in the retail and services sectors will not survive the financial impact brought about by losses and the high stakes involved in rental, salaries and other contractual commitments.

⁹ NST ; Government urged to table Covid-19 bill to save retail, services and manufacturing sectors
By Kalbana Perimbanayagam - April 29, 2020

The bill, when enacted will protect these sectors against collapse, they said. The coalition urged the Malaysian government to emulate similar enactments of Covid 19 Acts in Singapore and the United Kingdom.

The coalition comprises entities such as the Asean Retail-Chains & Franchise Federation (ARFF), Branding Association of Malaysia (BAM), Bumiputra Retailers Organisation (BRO), Federation of Malaysian Fashion, Textile and Apparel (FMFTA), Malaysia Budget Hotel Association (Mybha), Malaysia Digital Chamber of Commerce (MDCC), Malaysia Hair Dressing Association (MHA), Malaysia Retail Association (MRA), Malaysia Retail Chain Association (MRCA), Persatuan Usahawan Maju Malaysia (PUMM) and SME Association of Malaysia (SME Malaysia).

MRCA president, Datuk Seri Garry Chua said it was the first time in history that various Malaysian business associations banded together to appeal for help for 30,000 businesses. He said the effort will ultimately help to save three million jobs in the country.

He stressed that it is of paramount importance for a Covid-19 Bill/Act, similar to the Singapore Covid-19 (Temporary Measures) Act to be put in place to protect business owners from legal suits when they are unable to fulfill their contractual obligations or sustain their businesses post-MCO, and that the act is necessary to enable businesses to receive temporary relief as many business owners will be unable to fulfil their contractual obligations leading to disputes and legal actions against one another.

He said businesses in the retail, manufacturing and service sectors have contractual commitments; and a temporary act could avoid unnecessary trouble for everyone if the act is spelt out correctly.

Such legislation will prevent certain legal actions to be taken between counter parties and their guarantors, if the inability of that counter party to perform such contracts is related to the Covid-19 pandemic, and that the bill should also extend to the supply of construction materials, performance of private corporate bonds, performance of provision of goods and services for events, performance of goods and services related to tourism, performance of private hire purchase related to factoring service providers and repossession of goods used for the purpose of trade and business.

Meanwhile, MRA president James Loke said the legislation was important to combat the adverse effects of the Covid-19 pandemic on the nation's businesses. He said the act would protect the present job market.

The retail and franchise industries and related businesses are facing unprecedented uncertainties due to the ongoing MCO. It has brought big losses to businesses and workers are being laid off. Many retailers operating at shopping malls and rented premises are already feeling financial pressure as they have to still pay their workers' salaries, utilities and rental, despite not having any business.

The act should detail out clauses for rental, other expenses and allow for sharing of financial burden between owners and tenants of shopping malls, shop lots, offices and factories, as well as (have details on) reductions in rental.

Loke said the current terms and conditions which sets a 200-employee per company limit to claim wage subsidy should be removed by the Social Security Organisation (SOCSO) because all employees, regardless of what sector they work in pay Employment Insurance System (EIS).

He said private sector employers must be given the rights to manage their respective workforces and reign in wage reduction, as the employers see fit. Ultimately, it is the employers who are in charge of the employee wage welfare.

Loke said in the next six to 12 months, businesses will be affected by adverse market conditions and they will not be able to guarantee employment and full wage.

Call for focus on Guidance

Putrajaya has been urged to provide more guidance¹⁰ and less enforcement as businesses begin to resume operations from today under the conditional movement control order.

Malaysian Employers Federation executive director Datuk Samsuddin Bardan said many businesses may still face hitches when they resume operations and need government guidance as they have not gone through such a situation before.

¹⁰ FMT: Bosses plead for more guidance, less enforcement, Minderjeet Kaur, 4 May 2020 Link: <https://www.freemalaysiatoday.com/category/nation/2020/05/04/bosses-plead-for-more-guidance-less-enforcement/>

He was quoted saying the enforcers are not thinking about the survival of employer and employees, but are more interested in enforcing the law to make sure others follow, as seen during roadblocks.

Malaysia Retail Chain Association president Datuk Seri Garry Chua said retailers were still in discussion on the new ways to run their businesses. Retailers will instruct their staff to remind customers about practicing social distancing and the need to wear face masks while in the shop as they want to curb the transmission as much as we can because a second wave will be too costly.

Former deputy health minister Dr Lee Boon Chye has also proposed that the government provide an advisory role instead of levying penalties on breaches of any procedures. He suggested that 50,000 new nursing, pharmacy and radiography graduates be trained to be compliance officers at factories, shopping centers, food outlets, factories, parks and community areas to monitor activities and advise people to carry out social distancing and to keep their hands clean.

He said the cost of hiring 50,000 compliance officers would come to about RM2.4 billion a year, but would provide great benefits in return, by ensuring that people followed the rules.

Malaysian Psychological Association past president Goh Chee Leong said the new norms will evoke stress among workers, triggering different responses.

Public Confidence in Shopping Malls

Heads of several major retail brands have begun holding discussions on how to return to business at shopping malls when restrictions on business activities are relaxed from 4th May 2020.¹¹

Sunway Malls chief operating officer Kevin Tan agreed that malls and retailers needed to comply with procedures, and that prevention was better than a cure, saying that the biggest challenge for malls and retailers would be to draw customers back to shopping centers.

Tan said: "It's important to market malls as a very safe place. We do this to comfort and assure the people that it's safe to come to the mall, as ever before." Confidence in health and safety standards at malls and retail shops would help draw customers.

¹¹ FMT: Retail bosses look at how malls can cope by Nicholas Chung -May 3, 2020

Benjamin Yong, director of the Padini clothing and fashion chain, said informing customers about safety protocols and enforcing the protocols would also help improve customer confidence and boost sales, particularly with the Aidilfitri season looming.

E-COMMERCE

Consumer Rights and Current Legislation (Online)

The Electronic Commerce Act 2006 and the Electronic Government Activities Act 2007 give legal recognition and to facilitate all forms of electronic dealings. The Personal Data Protection Act 2010 is also enacted to protect consumers' personal data, and this is important as large amount of personal data are transferred through e-commerce transactions. In terms of consumer protection, the Consumer Protection Act 1999 has also put in the relevant safeguards to consumers' rights and interests when it comes to e-commerce.¹²

From 1998, more Malaysian business portals were developed and setting up online business became popular. To protect online shoppers, the Ministry amended the Consumer Protection Act in 2007, to include electronic trading.

However, the act did not impose strict rules and regulations on operators of online businesses. This resulted in some unscrupulous operators taking advantage of the situation and tricking some consumers who shopped online. The 2012 amendment to the Regulation imposes certain requirements on online business operators in order to provide better protection to online consumers.

If an online business operator fails to comply with the] 2012 Regulations, then you are deemed to have committed an offence. If you provide false or misleading information, you also commit an offence.

The punishment and penalty that will be imposed are:

1. Fine of up to RM50,000 or imprisonment up to three years or both

If you commit the offence again, you will be fined up to RM100,000 or imprisonment up to five years or both.

If a company commits this offence, then the penalties are higher and are as follows:

¹² GLT Law, "What You Should Know When You Are On Online Shopping Sites"

2. Fine of up to RM100,000

For subsequent offence, the company will be a fine of up to RM200,000

If after the conviction, you continue to commit the offence, then in addition to the above penalties, you or the company will be fined an additional RM1,000 (US\$312) for each day for which the offence continues.

It must be noted that under the law, once customers have agreed to the fine prints or terms and conditions by the seller or seller platform, they cannot subsequently turn around and say they did not read the fine prints or did not understand the clauses.

That being said, if customers feel that the terms and conditions are substantially or procedurally unfair, they can challenge the terms and conditions on the basis that such terms are unfair under the Consumer Protection Act 1999.

In the event if despite calling the sites but the sites still fail to offer a replacement or refund, customers may consider taking legal action against them.

Aggrieved customers may file a claim with the Consumer Claim Tribunal, which provides an alternative forum for customers to file claims in a simple, inexpensive and speedy manner.

A customer may file a claim with the Tribunal in respect of any claims not more than RM25,000 within 3 years of the dispute except for certain matters such as claims arising from personal injury or death; claims for the recovery of land, disputes concerning a Will, trade secret or other intellectual property, etc.

A customer may file a complaint with the Tribunal claiming for any loss suffered arising from, amongst others:

- false or misleading conduct, representation or unfair practice;
- the safety or quality of goods or services;
- the goods or services not complying with the description/advertisement or fit with a particular purpose; and/or
- services are not being given with reasonable care and skill, not fit for a particular purpose, or not completed within a reasonable time.

Issues

Although the above regulations appear enough to protect consumers, it was reported that the E-Commerce (online shopping) sector recorded the highest number of complaints with a total of 10,615 complaints in 2018.¹³ According to the National Consumer Complaints Centre (NCCC), many online shoppers were unhappy due to the inability to obtain their refunds from merchants or the refund process took too long.

Based on the complaints received, many consumers asked for a refund because the goods they received were damaged, they waited too long and did not receive the product within the guaranteed date specified by the seller.

Also in 2018, the NCCC urged the government to step in to impose greater oversight of the online retail industry in Malaysia.

This, it said, was because of the numerous complaints received after the Singles' Day Sale, also known as 11.11 sale. NCCC, a division under the Federation of Malaysia Consumers Associations, received more than 100 complaints on the sales festival which falls on November 11 every year.

The largest number of complaints involved refund issues after an unsuccessful purchase. Many of them paid, received notification from the bank that their money had been deducted but the product that they paid for was then cancelled by the vendor. This money was then refunded into their e-wallet, having never given an option whether to receive the refunds via bank account or e-wallet.

Besides setting guidelines, NCCC's senior manager for legal and policy matters Shabana Naseer suggested that the government should push for greater oversight of online purchases and for online merchants to improve their systems and customer service responses, such as non-user friendly hotlines.

Other complaints received include purchases not being reflected on websites despite money having been deducted from bank accounts, delays in refunds, non-delivery, money trapped in e-wallet, and sudden increases in the price of goods.

¹³ Bernama, "Consumers lost RM360m due to faulty products, poor services" 3 Oct 2019

Shabana revealed that complaints the NCCC had received regarding e-commerce showed a sudden spike from 7,371 complaints in 2016 to 10,160 in 2017.¹⁴

LOGISTICS IN MALAYSIA

With the demand for e-commerce increasing, dependency on delivery and logistics matter. The Logistics Performance Index 2018 released by the World Bank suggests that there are still gaps in Malaysia's logistics industry, with customs clearance, tracking and tracing, and timeliness among the aspects that need to be looked into.

According to Zerin Properties managing director and CEO Previndran Singhe, the purchase of essential items on local e-commerce platforms has been noticeable recently. E-commerce platforms such as Shopee and Lazada, online stores of supermarkets and hypermarket chains as well as food delivery services such as Foodpanda and GrabFood have reported significant surges in shopping and request traffic. Online stores of supermarket/hypermarket chains and grocery delivery services saw the largest jump in sequential traffic, with a growth of 450% to 600%.

While all this is well and good, the deal-breaker would be **an inefficient supply chain**, the e-commerce platforms in Malaysia have been inundated with orders since the MCO started but that, in turn, has put huge pressure on critical supply chains that e-commerce depends on¹⁵. Fortunately, the government was quick to include e-commerce as an essential service and allowed the companies to continue operating.

Supply chain

A key component of e-commerce is a good supply chain. The importance of having both the hardware and software to make it work should not be underestimated.

For logistics and warehouse players, it is worthwhile to recognise the market trend and undertake improvements for future strategic benefits, subject to their business orientation. For instance, the last-mile delivery service providers may want to consider locating their facility closer to the city centre to enhance timeliness, or a warehouse operator could consider adopting a more efficient system of storage and distribution to reduce expenditure on space use.

¹⁴ FOMCA, "Have better oversight of e-commerce, government urged" 15 Nov 2018

¹⁵ Area Management Sdn Bhd executive chairman Datuk Stewart LaBrooy.

In the medium to longer term, the current situation may accelerate the use of automation and robotics in operations. This includes, but is not limited to, the use of automated storage systems, self-picking shelves and automated conveying equipment. Decentralisation of logistics players into smaller satellite distribution hubs with highly automated buildings that are taller but smaller in terms of building footprint will help support local distribution channels.”

The increase in demand for perishable goods and pharmaceutical items will lead to a new business opportunity in cold-chain logistics. There are limited environment-controlled warehouses in the market — which cost three times more to build and operate than a normal warehouse — and these facilities are expected to see demand coming from the online pharmaceutical and grocery sectors.

POLICY RECOMMENDATIONS

The retail sector, while affected, will not diminish as it is only changing its shape and form as we know it today. While most businesses are ever willing to comply with standards, some of the pressing issues that need to be addressed are;

- Cost of implementing SOPs like extra staff to enforce social distancing on shoppers
- Dealing with the lower amounts of customers who may not yet have confidence to shop physically
- Breaking even after suffering losses during the MCO period
- Policy and legal action to protect the businesses

It is recommended that retailers look into the possibility of venturing on online platforms or at least offering delivery services for the new in-demand products as it is shown that people still do spend their money, just not in the same way neither on the same items as before the pandemic.

Online platforms and delivery options will reduce the burden of enforcing social distancing due to the limiting of customers in a physical shop. Hence the government, instead of just focusing on physical SOPs for businesses, should hold a nationwide exercise to assist and guide smaller retailers to venture into an online platform.

Monetary assistance will be necessary for the smaller retailers to keep afloat as they adjust to the new norms which are going to incur costs on the business.

E-Commerce

The government needs to also look into strengthening regulations and practices for protecting consumers online in addition to the current legislation. While people have the freedom to choose to purchase from any shop they like, the government should start a local-business endorsement campaign. This will also help to boost the local economy rather than having Malaysians purchase more goods directly from overseas. It should also have frequent checks on e-commerce websites to ensure that they comply with best practices.

Logistics

While many businesses are closing down, there will be a demand for logistic hubs with the increase of e-commerce. The government should allocate appropriate funding and support to put these hubs where they are needed, especially for cold-chain logistics for food and pharmaceutical products.

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