




FROM BEIJING TO BUDAPEST

Winning Brands, Winning Formats*

2005/2006

4th Edition

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PRICEWATERHOUSECOOPERS 



Malaysia

Malaysia

Malaysia's geography can be divided into two demographic and economic regions: West Malaysia, also referred to as Peninsular Malaysia along the Straits of Malacca, and East Malaysia, which consists of two states on the island of Borneo.

ECONOMIC OVERVIEW

The Malaysian economy has demonstrated strong resilience in the face of external uncertainties. It is expected to remain strong despite the slowing of the global economy in 2005. Economic growth continues to be broad-based with all sectors registering higher output. Growth will continue to be driven by the services and manufacturing sectors and by global economic growth prospects.

GDP and CPI

Malaysia's GDP registered stronger-than-expected growth of 7.1% in 2004, well ahead of the 5.4% growth recorded in 2003.

Malaysia's inflation has remained subdued over the years despite an expansionary fiscal regime and liberal monetary policy aimed at revitalising the economy. The CPI peaked

at 5.3% in 1998 at the height of the Asian financial crisis, before easing back down to 2.8% in 1999 and then narrowing to 1.5% in 2004.

GDP and CPI

	2001	2002	2003	2004
GDP growth (%)	0.3	4.4	5.4	7.1
CPI (%)	1.4	1.8	1.1	1.5

Source: EIU, July 2005

Unemployment

In 2004, unemployment was at 3.5%, or almost full employment. The improved labour market conditions led to a significant decline in the number of retrenched workers and higher demand for labour during the course of the year.



Area ('000 sq km)¹: 329.8
(US 9,600 – EU25 3,981 – World 133,700)

Capital²: Kuala Lumpur
(Number of inhabitants: 4.15 million)

Population (million)³: 25.5
(US 293 – EU25 456 – World 6,376)

GDP (USD billion)³: 117.8
(US 11,735 – EU25 12,723 – World 39,503.5)

GNI per capita (USD)¹: 3,880
(US 37,870 – EU25 22,810 – World 5,110)

Currency: Ringgit (MYR)

Languages: Bahasa Melayu, English, Chinese dialects, Indian dialects

Main religions: Muslim, Buddhist, Taoist, Christian, Hindu

Government type: Constitutional Monarchy

Sources: CIA Factbook; (1) World Bank 2005; (2) City Population; (3) Economist Intelligence Unit 2004 data

Unemployment

	2001	2002	2003	2004
Unemployment rate (%)	3.7	3.5	3.6	3.5

Source: EIU, July 2005

Economic forecasts

GDP is expected to grow 4.8% in 2005, decelerating from 7.1% in 2004 due to the slowdown in the manufacturing sector. The private sector is expected to remain the main engine for Malaysia's growth, with private consumption staying resilient, stemming from income gains, low interest rates and positive consumer sentiment. Private consumption is expected to grow by 8.5% in 2005 and 7.5% in 2006.

Bank Negara Malaysia (BNM), the central bank, expects the Malaysian economy to grow by between 5% and 6% in 2005. All sectors of the economy are expected to enjoy growth, with the manufacturing and services sectors leading the way. The Malaysian Institute of Economic

Research (MIER), an independent research institute, is optimistic that the Malaysian economy will grow at a brisk pace of 5.4% in 2005.

Despite the recovery in household consumption over the last few years, inflation has remained subdued. The impact of rising oil prices on inflation is expected to be limited since the prices of petroleum and petroleum-related products are controlled by the government. Petrol only makes up 5% of total CPI.

Inflation is expected to edge up to an average of 2.5% in 2005, reflecting increases in food prices, higher personal transportation charges and higher taxes on cigarettes and tobacco. Upside risks to inflation will be limited by capacity expansion and continued productivity growth.

Key economic forecasts

	2005	2006	2007
GDP (%)	4.8	5.1	5.1
CPI (%)	2.6	2.1	1.9
Unemployment rate (%)	3.7	3.8	4.2

Source: EIU, July 2005

REGULATORY ENVIRONMENT

Foreign direct investment

Despite global uncertainties and greater competition for foreign direct investment (FDI) in new emerging economies, FDI inflows into Malaysia have stabilised in recent years. In 2004, gross inflows of FDI improved by 7.1%, compared to negative 12.5% in 2003, largely due to improving investor confidence amid strong global growth and a buoyant domestic business environment. Malaysia demonstrated the strongest improvement in investor confidence among all the countries surveyed in A.T.Kearney's FDI Confidence Index for 2004, rising to 15th place in 2004 from 23rd in 2003.

A notable development has been the changing nature of FDI flows. These flows have become more broad-based with a higher share of new flows shifting towards higher value-added activities in the services and the manufacturing sectors. In 2004, significant inflows were recorded in the financing, insurance, real estate and business services sub-sector as well as the wholesale and retail trade, hotels and restaurants sub-sector.

In the wholesale and retail trade, hotels and restaurant sub-sectors, foreign investments were largely for the set-up and expansion of hypermarkets and new hotels in response to the growing affluence of Malaysians and the rapid growth of the tourism industry.

Malaysia's government continues to focus on attracting FDI and has adopted a pro-business environment policy. Another initiative taken to encourage FDI is the recent further liberalisation in Malaysia's Exchange Control Act. The liberalisation measures will not only foster overseas investments by Malaysians, but also allow foreigners to expand their businesses in Malaysia. Measures include:

- Abolishing restrictions on domestic borrowing by non-resident controlled companies
- Allowing non-residents to hedge committed inflows or outflows of funds
- Further liberalisation on maintenance of foreign currency accounts by residents
- Greater flexibility in allowing residents to borrow in foreign currency

- Allowing residents to hedge committed and anticipatory inflows or outflows of funds
- Increasing the threshold for investments abroad by Malaysian residents and companies

Over the long term, economists expect that Malaysia's central bank's recent move to depeg from the US dollar in favour of a managed float by tying it to a basket of currencies will have a positive impact on Malaysia's FDI outlook. The new currency regime is expected to reduce the risk premium for the Malaysian economy and improve the equity market outlook over the medium term. The stronger ringgit is expected to boost private consumption.

FDI

	2001	2002	2003	2004
FDI (MYR bn)	2.28	12.15	10.63	11.39
FDI (USD bn)	0.6	3.2	2.8	3.0

Source: EIU, July 2005 (Exchange rate: December 31, 2004)

Other regulations

Wholesale and retail regulations

The wholesale and retail sector falls under the supervision of the Ministry of Domestic Trade and Consumer Affairs (MDTCA) through the Committee on Wholesale and Retail Trade. The Committee was set up in 1995 to regulate and supervise the industry, including foreign participation in the sector. Approval from the Committee is needed for foreign companies wanting to set up wholesale or retail operations locally, and for the opening and relocation of branches.

The government has also amended Foreign Investment Committee (FIC) guidelines to provide further flexibility on foreign equity participation in local companies. In the case of acquisitions, foreigners can own up to 70%, as long as the 30% (minimum) Bumiputera (indigenous Malays and other ethnic groups) condition is met.

FIC and MDTCA are generally flexible on the shareholder structure. However, exceptions are examined on a case-by-case basis. Other conditions placed on foreign investment in the industry include:

- Incorporation of their wholesale and retail operations locally

- Minimum capital requirements of MYR1 million for specialty outlets, MYR5 million for supermarkets, MYR10 million for department stores, MYR50 million for hypermarkets and MYR0.5 million for direct selling businesses
- FIC guidelines on the purchase of property by Malaysians and foreign interests

Guidelines for new superstores and hypermarkets

The government has developed a set of guidelines for applications to open new superstores and hypermarkets in Malaysia:

Since April 2002

- Minimum capital requirement has increased from MYR10 million to MYR50 million
- Applications to build outlets should be submitted two years in advance
- New hypermarkets cannot be built within a 3.5 kilometre radius of a housing area or a city centre
- Operations should be free standing, which means hypermarkets must operate in their own buildings and not as part of any other complexes
- A socio-economic impact study has to be conducted by the local authorities in the proposed area before any application is considered (the cost of the study would be borne by the applicants)
- Hypermarket applications will only be considered for locations with a population of 350,000 or higher
- Floor space should not be less than 8,000sq m and a counter must be set up every 1,000sq m
- Applicants should provide a business centre for interested traders with reasonable rentals

Effective April 2004:

- Standardised operating hours for all hypermarkets imposed – 10:00am to 10:00pm on weekdays and 10:00am to midnight or 1:00am on weekends

Effective 1 January 2004 to 31 December 2009:

- Five-year freeze on the development and construction of any new hypermarkets in Petaling Jaya, Kuala Lumpur, Shah Alam, Johor Bahru and Penang

Effective 1 December 2004:

- Restrict foreign involvement in certain retail formats, i.e., mini-market (less than 400sq m), supermarket (between 400 and 2,000sq m), provision shop/general vendor, 24-hour convenience store, medical hall, petrol kiosk with or without convenience store, permanent wet market and permanent pavement store
- A socio-economic impact study has to be conducted before the opening of hypermarkets, department stores, specialty stores and superstores (previously, an impact study had to be done only for hypermarkets and department stores openings)
- Each outlet has to sell at least 30% of goods or products manufactured by Bumiputera small- and medium-sized industries (SMIs)
- At least 30% of the shelf space in the premises must be allocated for products manufactured or supplied by Bumiputeras
- The opening of superstores, defined as a self-service distribution store with a sales floor area between 2,000 and 4,500sq m, will have to go through similar stringent requirements as required for a hypermarket opening
- Superstores applications will only be considered for locations with a population of 250,000 or higher

DEMOGRAPHICS AND CONSUMER BEHAVIOUR

Population

Population evolution

In 2004, Malaysia's total population stood at 25.5 million with a population density of 78 persons per square kilometre (sq km). The nation's capital, Kuala Lumpur, has a population of around 1.5 million and a much higher density of 6,173 persons per sq km.

Population

	2001	2002	2003	2004
Population (m)	24.0	24.5	25.0	25.5

Source: EIU, July 2005

Population by age group

The average age of the Malaysian population is young at 25.8 years old and average life expectancy stands at over 70 years.

Age profile

% of total population	1998	2003	2008 (f)
0 – 14 years	35.6	33.7	31.8
15 – 64 years	60.4	61.9	63.3
Over 65 years	3.9	4.4	4.9

Source: EIU, August 2004

Urbanisation of the population

Although East Malaysia makes up 60% of Malaysia's landmass, it only accounts for 20% of the country's population, with a total of 5.1 million inhabitants in 2004.

Over the past 11 years, Malaysia's population has been growing at a steady rate of 2.1% per annum. The country is experiencing an increase in rural to urban migration.

Urban/Rural split

% of total population	1998	2003	2008 (f)
Urban	55.9	59.4	62.9
Rural	44.1	40.6	37.1

Source: EIU, August 2004

Income/Buying power

Malaysia is classified as an upper-middle income country and considered as one of the most developed of the developing countries. The proportion of middle-income households, defined as those earning between MYR1,200 and MYR3,499 per month, has increased from 47.7% in 1999 to 47.9% in 2002. Mean monthly gross income per household increased from MYR2,472 in 1999 to MYR3,011 in 2002, denoting an average monthly income growth of 6.8% per annum.

Malaysia has continued to experience steady progress in the standard of living and, with it, its purchasing power (per capita income exceeds MYR14,600 or USD3,840). On average, households living in urban areas spent 1.5 times more than households living in rural areas. Average consumer spending stands at MYR1,943 per month in the urban areas and MYR1,270 per month in the rural areas.

The buoyant growth of private consumption registering 11.1% year-on-year in 2004, underpinned by improved consumer confidence reflects growing incomes of consumers. The propensity to consume is likely to be further enhanced by firm commodities prices, higher export profits, low interest rates and a stable job market. At the same time, rural incomes are likely to be higher due to the large multiplier impact induced by higher commodity prices.

As for consumer savings, according to ACNielsen, Malaysia is among the top-three countries in Asia Pacific for consumers with the highest penchant to save money. In Malaysia, the top-two priorities for the usage of spare cash are for savings or deposits (58%) and paying off credit card debts or loans (45%).

Income per capita (% of growth)

	Income (per capita)
2001-02 growth (%)	6.4
2002-03 growth (%)	8.1
2003-04 growth (%)	11.5

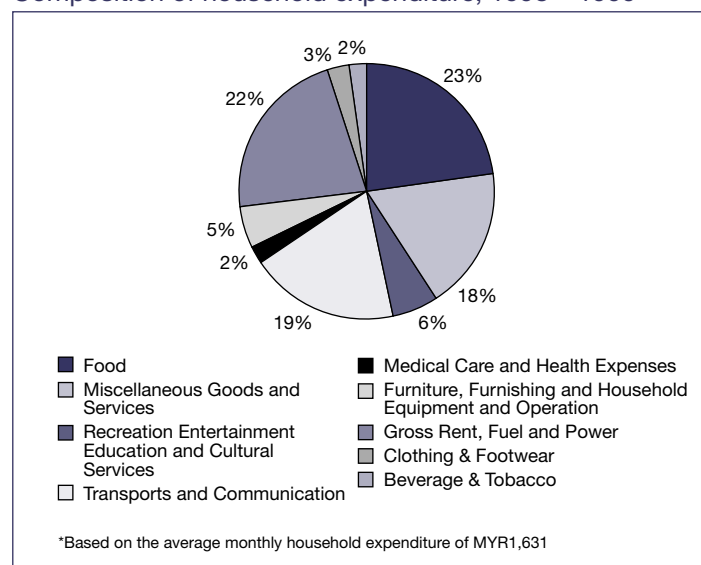
Source: Malaysia's Central Bank Annual Report

Consumer behaviour

Average household spending patterns

Malaysians spend a high percentage of their household income on food, groceries and personal care items, ranking third out of the ten major economies in the Asia-Pacific region (excl. Japan). According to ACNielsen, Malaysians on average spent MYR505 per month on food and groceries, with just under half of that on fresh food like meat, fruits and vegetables.

Composition of household expenditure, 1998 – 1999*



Source: Malaysia Household Expenditure Survey Report 1998/99, Department of Statistics, Malaysia

Lifestyles/Shopping habits

Malaysia's consumer lifestyle has been evolving and changing due, in part, to rising affluence and education levels. High-profile international retailers and the global mass media have also played a hand in shaping consumer-buying behaviour. Malaysians are becoming more affluent, sophisticated and cosmopolitan. They have moved on from the simple need for sustenance to key leisure themes like health, beauty, lifestyle and fitness.

Malaysians also have an open demand for foreign brands. It is easy to find products marketed by Procter & Gamble, Unilever and Nestlé on the retail scene. Preference is not only limited to consumer goods, but also to durable goods, such as electrical and electronics aside from motor vehicles.

Since the emergence of foreign-owned hypermarkets, Malaysians who live in urban areas have become accustomed to shopping for groceries at hypermarkets and supermarkets. Meanwhile rural people continue to purchase from traditional grocers, convenience stores and mini-marts.

As far as eating out is concerned, Malaysia is one of the few countries in the world where a family can afford to eat out almost every day of the week. Depending on budget, the choice can range from posh hotels and chic sidewalk cafés to fast-food joints and hawker stalls. The variety of

international and local cuisines available in almost all major commercial centres has influenced consumers' desires, tastes and preferences.

Malaysians also have a strong shopping fetish, especially during the weekends and on public holidays. However, the consumers comes in three categories: those whose purchasing power is high enough to go on periodic shopping sprees, people who shop for necessities, and bargain hunters.

High- and middle-income households spend most of their money at hypermarkets, followed by supermarkets and traditional grocery stores. The high-income group has household income of more than MYR3,500 per month.

Brand/Price sensitivity

Malaysian consumers are becoming more knowledgeable and discerning, and are not easily influenced by advertisements and promotions. They are price-conscious, but at the same time desire brand quality. With the growing affluence and changing lifestyle, consumers are becoming more demanding, not only of the quality of goods but also the services they receive. According to ACNielsen, strong brands influenced almost 90% of consumers' purchase decisions. Strong brands were also found to retain at least 75% of their customers' loyalty.

RETAIL & CONSUMER SECTOR PERFORMANCE

Major consumer goods players

Key consumer goods players

Ranking	Company name	Core business	Net sales 2003 (USD m)	Net sales 2004 (USD m)	2003-2004 growth (%)
1	OYL Industries Bhd	Manufacture and sale of household electrical products	1,185	1,306	10.2
2	British American Tobacco (Malaysia) Bhd	Manufacture, import and sale of tobacco and luxury consumer products	842	859	2.0
3	Nestlé (Malaysia) Bhd	Production, distribution and export of local F&B products and distribution of imported F&B products	699	763	9.2
4	Fraser & Neave Holdings Bhd	Manufacture and retail soft drinks, dairy products and glass containers	424	455	7.3
5	KFC Holdings (Malaysia) Bhd	Operates fast food restaurant chain, integrated poultry processing and retail operations	284	349	22.9
6	Carlsberg Brewery Malaysia Bhd	Manufacture and distribution of beer, stout and non-alcoholic beverages	231	259	12.4
7	Guinness Anchor Bhd	Manufacture and distribution of stout and beer	191	233	22.2

Ranking	Company name	Core business	Net sales 2003 (USD m)	Net sales 2004 (USD m)	2003-2004 growth (%)
8	Unilever (Malaysia) Holdings Sdn Bhd	Production of edible fats, fats and other household products	156	161	3.2
9	Leong Hup Holdings Bhd	Poultry processing and retailing	132	145	10.4
10	Dutch Lady Milk Industries Bhd	Dairy processing	98	111	12.8

Source: Companies' annual reports

Major retail players

Retail sales

According to Retail Group Malaysia, retail sales growth is expected to be slower at 7% in 2005 after staging a strong 8% growth in 2004, the highest growth in four years. The 2005 forecast was revised downwards from an earlier projection of 8% to better reflect the current economic trends, including uncertainty in the external environment. The better-than-expected growth in 2004 accounted for MYR51.7 billion in sales. Strong retail performance was observed in the department stores and fashion and accessories categories.

The table below gives an indication of retail sales growth over the past five years, covering food and non-food sales, but excluding wet market, morning market, night market and other non-permanent retail facilities.

Total retail sales growth

	2001	2002	2003	2004	2005 (f)
Total sales (USD bn)	11.7	12.1	12.6	13.6	14.5
Growth rate (%)	1.7	3.0	3.6	7.9	6.5

Source: Retail Group Malaysia

Key retail players

Rank	Group name	Ownership	Retail formats	Store brands	Number of stores in 2004	2004 Net sales (USD m)
1	Dairy Farm Giant Retail	Dairy Farm International, Hong Kong	Hypermarkets (15), supermarket (46), pharmacies (161)	Giant, Cold Storage, Guardian	222	647
2	Jaya Jusco	AEON Co. (M) Bhd; AEON Group, Japan	Superstore chain, shopping centre operation	Jusco Selection	11	401
3	The Store Corporation	The Store Corporation Bhd	Department stores-cum-supermarkets (37), hypermarkets (4)	The Store	41	306
4	Carrefour	Magnificent Diagraph, France	Hypermarket	Carrefour	8	263
5	Makro Cash & Carry Distribution	SHV, The Netherlands	Wholesale retailer	Aro, Q-Biz, Savepak	8	204
6	Courts Mammoth	Courts Plc, UK	Retailer of furniture and electrical goods	No own brand	80	153

Rank	Group name	Ownership	Retail formats	Store brands	Number of stores in 2004	2004 Net sales (USD m)
7	Tesco	70:30 JV between Tesco, UK and Sime Darby Bhd, Malaysia	Hypermarket	Tesco	6	151
8	Parkson Retail Group	Parkson Corporation, retailing arm of Lion Diversified	Department store (31), Supermarkets (8)	Parkson, Xtra	39	109
9	Suiwah Corporation	Suiwah Corp	Supermarkets and department stores	Lai Lai, Sunshine	7	92
10	Metrojaya	Metrojaya Bhd	Department store (4), Specialty stores (60), hypermarket (1)	Metrojaya, East India Company, Somerset Bay, Living Quarters, Reject Shops, La Senza Girl	65	78
11	Jerasia Capital	Jerasia Capital Bhd	Fashion garments and accessories boutiques (13 international brand, 1 local brand) and in-house outlets	Franchise: MNG, Naf Naf and Calvin Klein Own brand: Charlie, Ladylike, Lois, Milani	14	67
12	Padini	Padini Holdings Bhd	Retail garments, shoes and accessories boutiques and in-house outlets	Padini, Padini Authentics, P&Co, PDI, Seed, Vincci, Miki Kids, Rope	170	55
13	Ngiu Kee Corporation	TKN Enterprise	Supermarkets and department stores	Pure Joy Laura, Sabrina, Mikoko	12	45

Source: Companies' annual reports

Food retail channels

Hypermarkets, supermarkets and department stores

Major retail outlets have seen tremendous growth since the 1980s. There are around 400 such outlets in Malaysia. Big players include Dairy Farm Giant Retail, Jaya Jusco, Makro, Parkson, Carrefour and Tesco.

After making their debut in the 1990s, foreign-owned hypermarkets are fast gaining popularity in Malaysia, attracting customers with their one-stop and all-under-one-roof concepts. Since their arrival, foreign retailers have been expanding rapidly. As at 31 December 2004, there were 36 foreign-owned hypermarket outlets in Malaysia.

With tighter regulations on hypermarket expansion, leading hypermarkets are focusing on other markets, such as the east coast of Peninsular Malaysia and East Malaysia (Sabah and Sarawak), for new store openings.

Announced store expansion plans in 2005 and 2006 by retailers include:

- Tesco's plans to open its ninth outlet in Kajang by end of the year with another three outlets in 2006. End of July 2005, Tesco took over four Xtra supermarket outlets previously operated by the Parkson Retail Groups and renamed the stores Tesco Express. It is also planning to open between fifteen and twenty outlets nationwide within the next five years.

- Magnificent Diagraph's (100% owned by Carrefour) ninth outlet at Fortune Square, Kepong, is due to open by end-2005. It plans to open another six hypermarkets in Peninsular Malaysia in 2006.
- Dairy Farm Giant Retail has opened two more new hypermarkets in the first half of the year. It plans to open another hypermarket in Penang at the end of the year. It has over 200 outlets in Malaysia, where it operates Giant (hypermarkets), Cold Storage (supermarkets) and Guardian (pharmacies). Giant has also acquired four Xtra supermarket outlets previously operated by the Parkson Retail Group in early July 2005.
- Makro plans to open seven more stores over the next three years. The wholesaler is also working with the Malaysian government to assist small- and medium-sized enterprises. Makro has remodelled and re-launched two of its biggest stores in Shah Alam and Cheras to make shopping easier and more convenient for customers. It will continue to apply this remodelling concept to the other six Makro stores in Malaysia later this year.
- Jaya Jusco has one outlet scheduled to open in September 2005 at Seremban, Negeri Sembilan, and another three outlets in 2006. Jaya Jusco will continue to concentrate on supermarket-cum-department outlet openings in the west coast of Peninsular Malaysia until 2009.
- Malaysia's largest and oldest supermarket-cum-department chain, The Store Group, comprises The Store Supermarkets & Department Store and Pacific Hypermarkets & Department Store. The Store Group has opened six supermarkets around the country and its fifth hypermarket in the first half of 2005. On 10 May 2005, The Store had completed its acquisition of Milimewa Superstore, which presently operates 17 supermarket-cum-department store outlets in Sabah. With the 17 new outlets, the total number of The Store outlets increased to 64. In August 2005, The Store announced that it is bidding for the takeover of Courts Mammoth Bhd from its parent, UK's Courts plc which has gone under administration. Courts Mammoth has 80 stores in Malaysia.
- East Malaysia's largest and oldest retail chain, Ngiu Kee Corporation, plans to open five hypermarkets in 2005 and 2006. The company has a total of thirteen brands and twelve stores.
- A store targeted at the lower income group, Mydin Wholesale Emporium, is entering into the hypermarket business with the largest hypermarket in the country (46,450sq m) in USJ1, Subang Jaya, Selangor. This will be the third wholly Malaysian-owned hypermarket after Pacific Hypermarket and Xtra Hypermarket. Mydin currently has 15 wholesale emporium outlets around the country.

Malaysian shoppers are increasing their store visits across various retail channels with hypermarket and supermarkets pocketing the biggest share of consumers' money, especially those from the higher income group. Shoppers who most frequented traditional outlets were mostly from the lower income group.

Convenience stores and petrol station stores

Convenience stores and petrol station stores are no longer a new store concept in Malaysia. The shopping pattern of Malaysians is shifting further towards convenience stores and petrol marts as revealed by a recent nationwide study. The study showed that 70% of urban Malaysians aged between 15 and 50 visit convenience stores or petrol marts on a regular basis. The study also showed that increasing competition has resulted in a need for convenience stores to be more professional in delivering their services with a wider range of better quality ready-to-eat snacks and hot-and-chilled beverages. The improved services have driven average spending per visit to above MYR6.

Key growth drivers for the Malaysian retail industry include the gradual liberalisation of the market, declining domestic production, increasing reliance on food imports and increasing tourist inflows. The food service sectors are also expected to register strong growth alongside the rising demand for convenient, healthy and international cuisine.

E-commerce

According to the Malaysian Communication & Multimedia Commission, the number of internet users in Malaysia reached 9.9 million as of end-2004 and 13.2 million at the end of first quarter 2005, representing almost 39% of the nation's total population in 2004. Internet shopping has gained popularity from 24% of internet users as a percentage of the Malaysian population in 2002 to 28% in 2003. At least one-third of internet users have purchased items online and the bulk of this spending went to consumer goods such as books, CDs, clothing and flowers (45%); computing products (18%); and travel products (7%).

M&A activity

M&A activity since 2003

Year	Target name	Acquirer	Seller	Industry sector	Deal value (USD m)
2004	Unza Holdings Pte Ltd	Consortium	Cosway Corporation	Personal care	22.64
2004	United Malayan Flour 1996 Sdn Bhd	Padiberas Nasional	Tradewinds Corporation	Food – Flour/Grain	6.58
2004	Toys R Us Malaysia	Toys R Us Singapore Pte	Metrojaya	Toys	2.3
2004	DNP Clothing	DNP Holdings	Wing Tai Holdings	Apparel manufacturer	0.27
2004	Yoshinoya Food Systems Malaysia	DNP Holdings	Wing Tai Holdings	Retail – Restaurant	0.13
2003	FFM Bhd	PPB Group	FFM minority shareholders	Food – Flour/Grain	208.08
2003	Parkson Retail Group	Lion Diversified Holdings	Amsteel Corporation	Retail	131.37
2003	Unza Holdings Bhd	Durrington Group	Unza Holdings minority shareholders	Personal care	101.63
2003	KFC Holdings (Malaysia)	Private investor	Government of Singapore Investment Corp	Restaurant	19.46
2003	Tops Retail	Dairy Farm International	Royal Ahold NV	Retail – Supermarket	N/A
2003	Aktif Lifestyle Stores	Lion Diversified Holdings	Aktif Lifestyle Corporation	Retail – Department store	**

Source: Companies' annual reports

Note **: Deal value was MYR1 and transfer of assets and liabilities

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

Challenges

Intense competition

The Malaysian retail scene is gearing up for intense competition with more new players and expansion plans undertaken by foreign players. Some retailers have managed to address the competition by focusing on locations (e.g., suburban residential areas) and targeting certain segments (middle-income groups).

With the freeze on foreign hypermarket expansion in the medium term for Klang Valley, Penang and Johor, foreign players are expected to turn to the major east coast towns of Peninsula Malaysia, such as Kuantan, Kuala Terengganu and Kota Bharu. Nonetheless, with the minimum population requirement of 350,000 persons, only Ipoh and Kuching qualify for new hypermarket openings.

As consumers become more cautious with their spending, retailers have had to become extremely price-competitive. The ongoing price war among major retailers continues to have an adverse effect on small retailers, who may not be able to compete at lower prices. However, the intense competition posed by foreign players will provide additional impetus for local retailers to leverage on retail technology to better understand consumer purchasing behaviour, streamline operational procedures and to enhance efficiency.

Opportunities

Development of mega malls

Shopping malls are constantly being upgraded to cater to the increasingly fast-paced and cosmopolitan lifestyle of Malaysian consumers. Among the shopping malls recently completed in Klang Valley are The Curve, Avenue K, Centrepoint Bandar Utama Phase 2, Ceneleisure Damansara, Bangsar Village and Plaza Damas. Other new shopping malls sprouting up in 2005 include Galaxy Ampang, KL Sentral and Shah Alam City Centre. Among the others expected to be completed in the Klang Valley within the next few years are The Pavilion Kuala Lumpur, Plaza Rakyat integrated commercial hubs, Capital Square, Three Two Square, Vision City, Rhythm Avenue and NAS Pavilion. Furthermore, the top two largest malls in Malaysia, namely Mid-Valley Megamall and Sunway Pyramid are developing large-scale expansion plans.

More shopping complexes

As per the Association for Shopping Complex and High Rise Management, Malaysians can expect 30% more shopping mall complexes nationwide in the next five years. Currently, there are 200 shopping centers in the country with a gross built-up area of 104.5 mln sq ft worth RM38 billion.

By 2010, this figure is expected to rise to 260 centers with a gross built-up area of 140mln sq ft worth RM55 billion.

Health foods, convenience foods and halal foods

Lifestyle changes have led to an increase in the demand for convenience foods and health foods. The demand for health foods, minimally processed fresh foods and organic foods is expected to increase. Malaysia is moving towards organic farming. Besides organic products, health foods include low calorie, fibre and nutrient-enriched products, fruits juices and herbal products. Value-added palm-oil-based specialty products to cater to demand from health conscious and vegetarian consumers are also targeted for further development in Malaysia. There is also an increasing trend towards convenience foods with Asian recipes in the chilled and frozen form including pre-cooked products. Food with halal certification (food suitable for Muslim consumption) is also better accepted as the majority of the population is Muslim.

Emerging trends

Privileged facing of local products

As part of the effort to promote locally made products, the government has imposed a quota on goods displayed on supermarket shelves to ensure reasonable shelf space is given to Malaysian manufacturers.

Leisure themes

Lifestyle retailing has also changing the country's shopping landscape. Key leisure themes like health and beauty, and lifestyle and fitness is gaining much attention from consumers. New concepts like an indoor tropical forest complete with the water feature in Sunway Pyramid and flea markets are gaining popularity with shoppers.

Franchise business

The visibility of food and beverages (F&B) franchises in Malaysia has become so prominent that it has created a perception that equates franchise businesses exclusively to F&B franchise. However, there are many other possibilities for local franchising industry besides F&B. High potential sectors included education and training, services such as healthcare, printing and plumbing, technology, retail and motor vehicles. Among some of the more notable local franchises are San Francisco Coffee, Bonia, Edaran Otomobil Nasional (EON) (motor vehicles distributor), Royal Selangor, Marrybrown Fried Chicken, The Chicken Rice Shop and Sugar Bun. EON is the largest locally developed franchise, with more than 250 outlets.

Around 40% of franchises operating in Malaysia are franchises adopted from overseas and 70% of these are acquired from the US. Over the past five years, the industry recorded an annual increase of 10% in the number of outlets.

Continued dominance of multinational operators

With increasing globalisation, local retailers find themselves competing with large foreign players by targeting niche markets. The rapid expansion of foreign-owned hypermarkets like Giant, Carrefour, Tesco, Ikea and Courts Mammoth may see the retail landscape dominated by three or four large players by the end of this decade.

Besides hypermarket, department store and supermarket operators, furniture, electrical and electronics retailers are also expected to enjoy good sales in 2005 with the completion of more housing projects throughout the country.

Domestic and tourism growth to buoy retail sector

In view of the young customer base in Malaysia with half (44.5%) of the total population aged between 10 and 34 and the average age at 25.8 years, the demand for lifestyle products is very high. Over the past two years, some local retailers have been offering interest-free instalment plans for expensive purchases. This will encourage consumer spending, thus boosting retail sales.

Retailers will also benefit from strong growth in the tourism sector, which has seen the arrival of foreign tourists grow by 4.6% as compared to the same period last year. Tourist arrivals grew by 48.5% in 2004 as compared to 2003. Furthermore, the government has allocated more funds to advertising and promoting, with efforts like the recent aggressive promotional campaigns in niche markets such as West Asia aimed at making Malaysia a preferred shopping destination. Favourable exchange rates (ringgit versus other currencies) have also made Malaysia a more attractive country for tourists to shop.

Shoppingtainment

Malaysian shopping malls have become not only shopping havens but also entertainment hubs with mini-cinemas, ice-skating rinks, bowling alleys, indoor theme parks, 3-D theatres etc. The five most popular shopping malls in the Klang Valley (Mid-Valley Megamall, Suria KLCC, Sungei Wang Plaza, Sunway Pyramid and 1-Utama), all have inbuilt entertainment elements. These shopping malls capture the meaning of the latest buzzword "shoppingtainment". The continued development of massive shopping centres and malls will mean that the major retail chains are likely to continue to operate under one roof, rather than take on separate high-street sites.