



25<sup>th</sup>



# PRODUCTIVITY REPORT 2017/2018



MPC



# 2

## PRODUCTIVITY PERFORMANCE OF PRIORITY SUBSECTORS

This part reviews the productivity performance of the 9 priority subsectors, as identified by the MPB through the establishment of Productivity Nexus. A detailed look at each priority subsector; their respective classifications and productivity performance, the value chains, ecosystems, and challenges are also featured.

# RETAIL AND FOOD & BEVERAGE (F&B) SUBSECTOR

## At a Glance

### CLASSIFICATION



### PERFORMANCE

	2016		2017	
	SERVICES	RETAIL AND F&B	SERVICES	RETAIL AND F&B
Added Value (RM Million)	 602,261 (5.7%)	 95,170 (7.3%)	 639,568 (6.2%)	 103,776 (9.0%)
Employment (Million)	 8.661 (1.5%)	 2.612 (2.3%)	 8.758 (1.1%)	 2.675 (2.4%)
Labour Productivity (RM)	 69,534 (4.2%)	 36,437 (4.9%)	 73,030 (5.0%)	 38,797 (6.5%)

: 1 Million

Note : Values in brackets represent growth  
Source : Department of Statistics, Malaysia

## OVERVIEW AND PERFORMANCE OF THE RETAIL AND FOOD & BEVERAGE (F&B)

The retail industry in Malaysia has experienced rapid transformation and expansion in recent decades due to consumers' changing lifestyles and increased disposable income. Traditionally, the retail business in Malaysia has been dominated by small 'mom-and-pop' grocery stores. Its development into a modern and sophisticated retail environment has been helped along by the emergence of foreign retailer participation, with the establishment of large department stores such as AEON, Isetan, and Sogo, and the emergence of hypermarkets such as AEON Big, Econsave, Giant, Mydin, NSK, and Tesco.

The Malaysia F&B industry has also seen significant development over the past few decades. International quick service restaurant (QSR) brands have established themselves here. These include companies such as McDonald's, Subway, Nando's, and Yum! Brands (the owner of KFC and Pizza Hut, amongst others). Franchisors including Kenny Rogers and Sushi King also have made their presence felt. The industry has also seen a marked improvement in its service quality.

The retail and F&B subsectors were the main drivers of the services sector's added value growth contributing 16.2% in 2017. It is anticipated to continually experience an increase in its contribution.

The subsector performance improved significantly in 2017, charting a growth of 9.0% to RM103.8 billion, compared with RM95.1 billion in 2016. The subsector employed a total of 2.7 million workers in 2017, which was 30.5% of the services sector's total workforce.

The retail and F&B subsector registered productivity growth of 6.5% which amounts to RM38,797 in 2017, compared with 4.9% in 2016. The Malaysian Government has introduced various initiatives to assist Malaysian entrepreneurs in their efforts to penetrate online trade. Amongst the initiatives was the development of Malaysia's e-Commerce industry, which includes the establishment of the world's first Digital Free Trade Zone (DFTZ), in collaboration with Alibaba. This has supported the subsector to significantly improve its productivity performance.

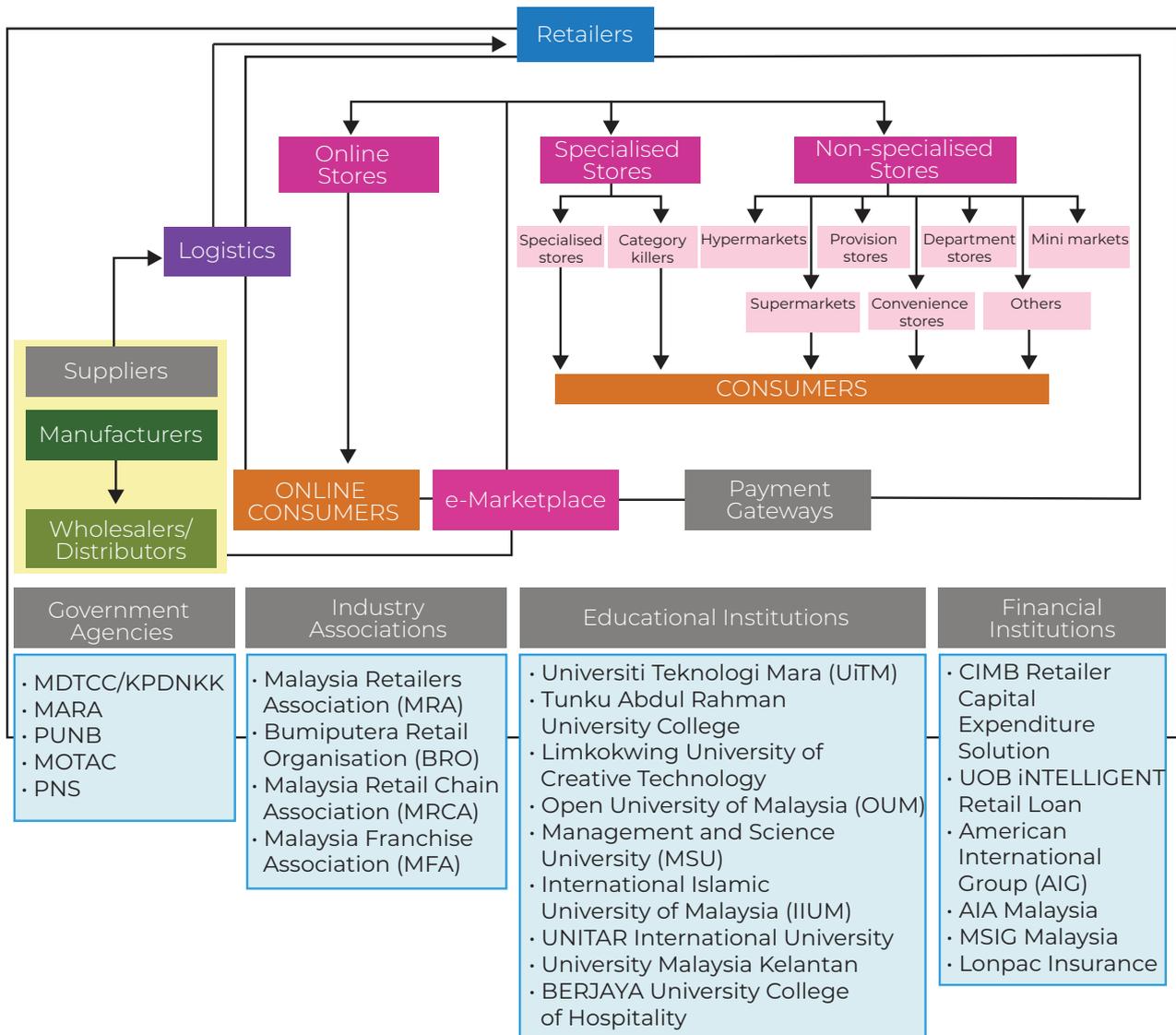
## SUPPLY NETWORK

### The Retail Supply Network

As the retail industry embraces the digital era, it sees a seismic shift from a traditional value chain into a digital supply network. The retail supply network, which forms the framework for adding value to the retail value chain (Figure 2.1), is causing changes in retail formats by blurring the relationship between sectors and focusing more on consumer on-demand fulfilment. The incorporation of the value chain and the digital medium is intended to provide an enhanced consumer experience. The primary role of this framework is to create better prospective opportunities and enhance retailer's competitive advantages.

The retail supply network allows the whole system of entities to connect either directly or indirectly, in an interlinked and interdependent fashion, to serve the consumers. The retail supply network is a tool for retailers and other stakeholders to have visibility of the overall movement of materials or information from the beginning till the end, enabling them to realise the benefits of working together, while ensuring the best possible value is provided to the end users.

Figure 2.1: Retail Supply Network

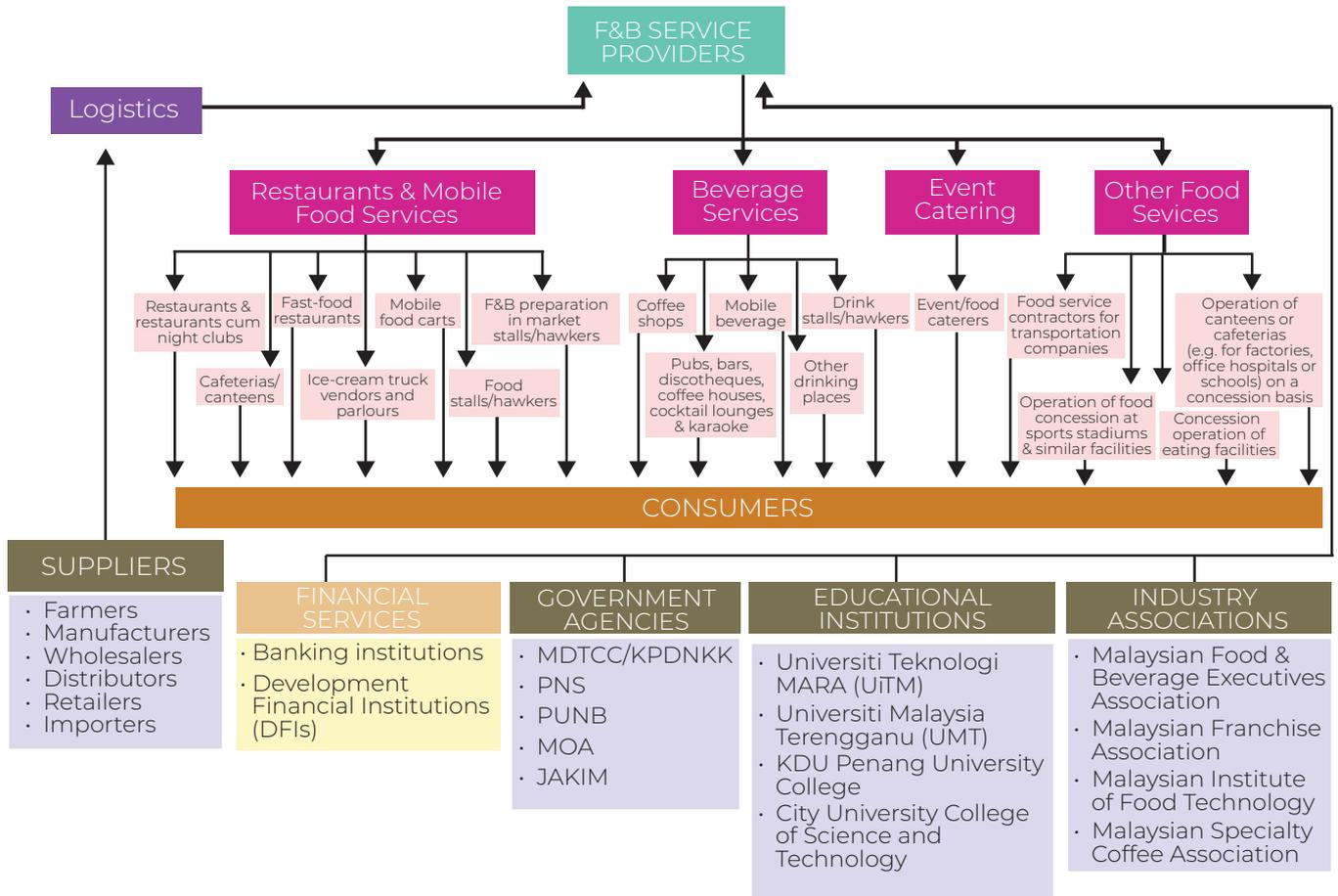


### The F&B Supply Network

The growing number of marketing channels, such as food television shows and the influence of social media, has contributed considerably towards the F&B market. The F&B sector is made up of multiple horizontal and vertical relationships. The dynamic nature of these relationships plays an important role in innovating F&B service operations, which involves a multitude of activities in the supply network. Engaging consumers and enabling innovations in the supply network is critical to ensure that services delivered are of the highest quality. All establishments are required to work together and in sync to serve consumers; be it restaurants, mobile food vendors, beverage caterers, event caterers, or other food service providers.

F&B services can be broadly defined as the process of preparing and presenting food and beverage to consumers. These services encompass businesses delivering food and beverage to their consumers at certain locations (on-premises) such as hotels and restaurants, or to the premises of the consumers (off-premises or outdoor catering). The F&B supply network, which forms the framework for adding value to the services (Figure 2.2), is meant to operate cohesively and in synergy with supply network players. A clear view of the entire supply network is needed, to assess the supply chain impact for service efficiency and effectiveness, which leads to the increase of productivity performance.

Figure 2.2: The F&B Supply Network



**CHALLENGES AHEAD**

The retail and F&B industry players are faced with issues related to workforce, technology, regulation, enterprise mindset and consumer behavior.

It is the hope of business enterprises that awareness of these challenges can help them nip issues in the bud and move on to a more promising future.

**Retail and F&B Subsector Challenges**

<p><b>Mindset</b> </p> <ul style="list-style-type: none"> <li>Lack of awareness on available government initiatives. Many small retail and F&amp;B enterprises are not affiliated to any associations. This poses difficulty for them to be aware of governments' initiatives</li> <li>Spending on innovation, technology and talent development is perceived as cost rather than investment by many retailers and F&amp;B operators.</li> <li>Productivity often not seen by enterprise as a priority. Retail and F&amp;B players are unable to relate the importance of productivity to their daily business operations</li> <li>Limited use of productivity and operational efficiency tools to monitor business process operations</li> </ul>	<p><b>Regulations</b> </p> <p>Currently, the minimum wage in East Malaysia is RM920 and RM1000 for West Malaysia. Though the law is supposedly helpful for the public, some enterprises felt that it is somewhat unfair to the people. This is because the minimum wage is standardised to the whole West Malaysia and East Malaysia. The cost of living on the other hand, varies throughout states. Some workers that earn a certain amount in the city may find it harder to survive compared to someone in rural areas</p>	<p><b>Workforce</b> </p> <ul style="list-style-type: none"> <li>Difficult to retain the workers due to unstructured career path with long promotion time and low average pay</li> <li>Retail and F&amp;B subsector is perceived as 'unglamorous' with long working hours, shift work and tough work</li> </ul> <p><b>Technology</b> </p> <ul style="list-style-type: none"> <li>Low adoption of technology prevalent across Retail and F&amp;B subsector</li> <li>Slow adoption of e-Commerce</li> <li>Unable to adapt to new technologies due to lack of funding</li> </ul>	<p><b>Consumer Behavior</b> </p> <ul style="list-style-type: none"> <li>Consumer tends to be more particular on their spending habit and focus more on basic necessities instead of luxury items.</li> <li>Consumer continue to look out for value-for-money goods and services.</li> <li>Rising cost of living continued to weaken Malaysian purchasing power</li> </ul>
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## SEAMLESS RETAIL PAYS OFF FOR SENHENG

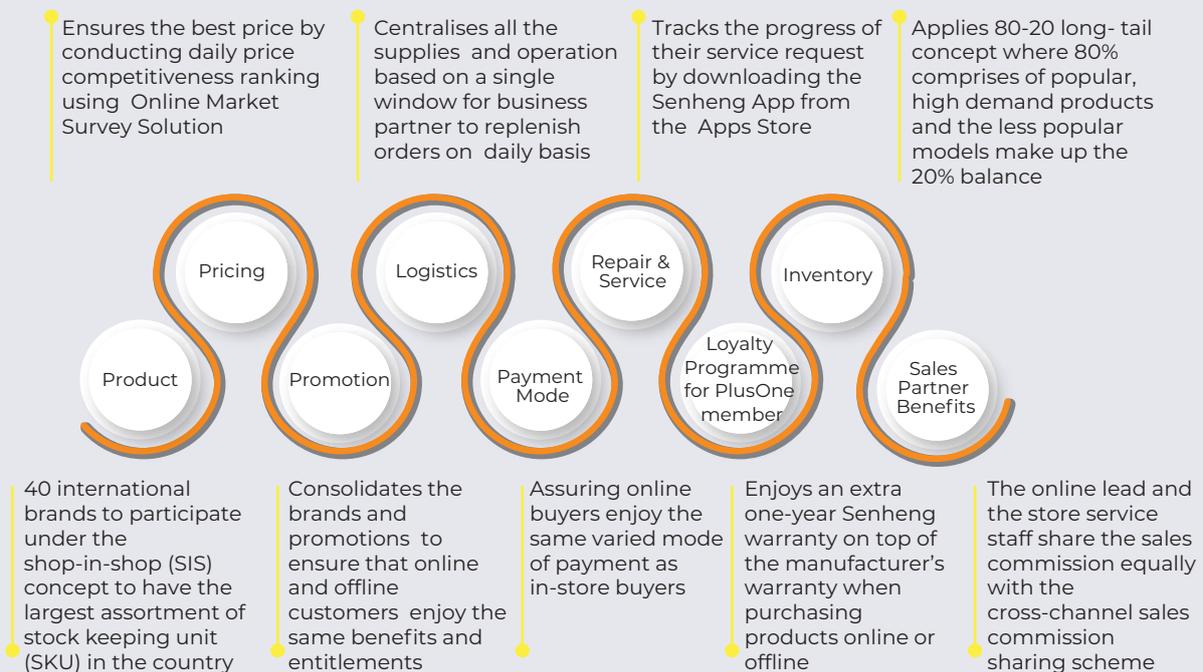
Established in 1989, Senheng Electric (KL) Sdn. Bhd. (Senheng) is a leading Malaysian consumer electronics chain store with 121 outlets nationwide. However, 2014 to 2016 saw business declining by about 6% to 7% annually as customer traffic migrated from bricks-and-mortar to online. Senheng found out that with the introduction of new technologies, digital stores and the increasing ubiquity of smartphones has led to a change in the retail business and consumer expectations.

*“We are seeing an online-to-offline (O2O) revolution that changes the way people shop. Consumers expect a seamless shopping experience across various channels that can be accessed whenever and however they choose. Retailers that do not meet these expectations will lose traffic,” - Lim Kim Heng, Managing Director (MD), Senheng Electric (KL) Sdn. Bhd.*

As a retail business, continuous improvement in efficiency, adapting to ever-changing market situations and where industry players must innovate rapidly in tandem with the speed of changes in the market, Senheng launched its seamless business model called ‘SEAMLESS 2.0’ on its 28th anniversary in 2017. ‘SEAMLESS 2.0’ streamlined Senheng’s 121 retail stores nationwide with an effective online channel to offer more value-added O2O shopping experience.

With an investment of RM5 million, Senheng’s SEAMLESS 2.0 platform uses big data analytics to develop personalised strategies to better target customers, thus improving sales and overall satisfaction. There are 9 elements involved in order to implement the seamless retail concept.

### THE 9 ELEMENTS



### THE IMPACT OF THE SEAMLESS 2.0

**Current**

Average  
16 %  
increase in turnover

**Future**

To go totally  
seamless and paperless  
by mid-2018

Source : bond.mpc.gov.my

## HEADQUARTERS

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### Malaysia Productivity Corporation

Lorong Produktiviti, Jalan Sultan  
46200 Petaling Jaya  
Selangor Darul Ehsan, Malaysia  
Tel: 603-7955 7266/7955 7050/7955 7085  
Fax: 603-7957 8068/7955 1824/7958 1697  
Website: [www.mpc.gov.my](http://www.mpc.gov.my)  
Email: [marketing@mpc.gov.my](mailto:marketing@mpc.gov.my)

## MPC REGIONAL OFFICES

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### Malaysia Productivity Corporation (Petaling Jaya Office)

A-06-01, Level 6, Block A, PJ 8,  
No. 23, Jalan Barat Section 8,  
46050 Petaling Jaya,  
Selangor, Malaysia  
Tel: 603-7960 0173/7960 0176/7960 0178/7960 0191  
Fax: 603-7960 0211  
Email: [marketing@mpc.gov.my](mailto:marketing@mpc.gov.my)

### Malaysia Productivity Corporation (Northern Region Office)

Locked Bag 206, Jalan Tun Hamdan Sheikh Tahir  
13200 Kepala Batas,  
Pulau Pinang, Malaysia  
Tel: 604-575 4709  
Fax: 604-575 4410  
Email: [nro@mpc.gov.my](mailto:nro@mpc.gov.my)

### Malaysia Productivity Corporation (Southern Region Office)

No. 8, Jalan Padi Mahsuri,  
Bandar Baru UDA  
81200 Johor Bahru,  
Johor, Malaysia  
Tel: 607-237 7422/237 7644  
Fax: 607-238 0798  
Email: [sro@mpc.gov.my](mailto:sro@mpc.gov.my)

### Malaysia Productivity Corporation (East Coast Region Office)

Level 7, Wisma TNB, Jln. Gambut  
25000 Kuantan,  
Pahang, Malaysia  
Tel: 609-513 1788/513 1789  
Fax: 609-513 8903  
Email: [mpcwpt@mpc.gov.my](mailto:mpcwpt@mpc.gov.my)

### Malaysia Productivity Corporation (Kelantan Office)

Level 3, Wisma PERKESO,  
Jalan Kota Darulnaim  
15538 Kota Bharu,  
Kelantan, Malaysia  
Tel: 609-741 6260/741 6262  
Fax: 609-741 6263  
Email: [mpckel@mpc.gov.my](mailto:mpckel@mpc.gov.my)

### Malaysia Productivity Corporation (Terengganu Office)

No. 23-03 KT Business Centre,  
Jalan Sultan Mohamad  
Padang Hiliran,  
21100 Kuala Terengganu,  
Terengganu, Malaysia  
Tel: 609-622 8215  
Fax: 609-631 6010  
Email: [mpctr@mpc.gov.my](mailto:mpctr@mpc.gov.my)

### Malaysia Productivity Corporation (Sabah Region Office)

Level 2, MAA Tower,  
No. 6, Lorong Api-Api 1  
88000 Kota Kinabalu,  
Sabah, Malaysia  
Tel: 6088-233 245/456/498  
Fax: 6088-242 815  
Email: [mpcwsb@mpc.gov.my](mailto:mpcwsb@mpc.gov.my)

### Malaysia Productivity Corporation (Sarawak Region Office)

Lot 894, Lorong Demak Laut 3A  
Demak Laut Industrial Park  
93050 Kuching,  
Sarawak, Malaysia  
Tel: 6082-439959/960  
Fax: 6082-439969  
Email: [sko@mpc.gov.my](mailto:sko@mpc.gov.my)



Malaysia Productivity Corporation (MPC)  
Lorong Produktiviti, Off Jalan Sultan  
46200 Petaling Jaya,  
Selangor Darul Ehsan, Malaysia  
☎ + (603) – 7955 7266  
☎ + (603) – 7957 8068  
🌐 [www.mpc.gov.my](http://www.mpc.gov.my)

