SHARIL AMIN ABDUL RAHIM/FocusM

F&B operators have seen a marginal drop in sales since the implementation of GST

Tough times far from over for retailers

Slowdown in consumer spending from end of last year expected to continue as the cost of living continues to rise

by Behonce Beh

THE implementation of the Goods and Services Tax (GST) cannot be cited as the sole reason for sluggish consumer spending, says Malaysia Retail Chain Association (MRCA) president Datuk Liaw Choon Liang.

Speaking to ***FocusM,*** he likens the current market slowdown as "being in the wrong place at the wrong time".

"Lately, there have been many issues such as the weak ringgit, increase in fuel prices and the 1Malaysia Development Bhd (1MDB) scandal which drove market sentiments down, and eroded consumer's confidence to spend."

Liaw's statement does not come as a surprise as figures from the industry reflect the slowdown. Malaysia Retailers Association (MRA) recently revised downwards its projected retail sales growth rate for this year from 4.9% to 4%.

In a report, the association says the industry's greatest challenge for the year is consumer spending. "Consumers have been holding back on spending since the end of last year due to the GST. Further increases in the cost of living in the near future will worsen it.

"Higher transportation costs as well as increased retail prices due to the weak ringgit and higher cost of doing business are expected in the second half of this year," it adds.

How retailers are coping

Such statements should not be taken lightly. Figures from the Finance Ministry show wholesale and retail trade contribute close to RM120 bil of the nation's gross domestic product (GDP) last year.

SME Corp statistics reveal 60% of SMEs in the services sector are from the wholesale and retail trade, and accommodation, and 7.4% from the restaurant sub-sector.

That said, the slowdown in consumer spending can negatively impact the growth of the SME value chain.

Liaw says the past three months have been "a challenging time" for retailers. MRCA members in the food and beverage (F&B) business are seeing little change in their sales, though some reported a 10% decrease in business during the past quarter.

The 280-strong association counts some of the top retail brands in Malaysia as its members.

Some members in the non-discretionary segments such as fashion, furniture and electrical appliances, were said to be hit by a slump in sales of up to 20% during the past three months.

"There was a lot of panic buying pre-GST. Though some of the retailers saw encouraging sales in the first quarter, retailers selling high-value items were badly hit and saw a slowdown in sales during the second quarter," says Liaw.

Among the worst-hit are those in the luxury trade, including watch retailers who have seen a 30% decrease in business since the rollout of the GST on April 1.

Unlike larger retailers with deeper pockets, Liaw fears smaller retailers may not make it through this difficult period owing to slow sales. Issues with cash flow for those with an average of 10 outlets are bound to crop up soon enough, he adds.

"How are you going to pay for your overheads without having a strong cash reserve? Building such a reserve should have been done long ago."

The cost of operating a retail business is high as it is unable to run away from two fixed costs – rental and wages.

Higher overheads

"It is not possible to move to a new location or lay off staff just because you suddenly cannot afford them," adds Liaw, who is also the CEO of Focus Point Holdings Bhd, an eyewear and vision-care retail chain.

Adding insult to injury for retailers is the recent increase in fuel prices where the price of RON 95 petrol went up by 10 sen a litre to RM2.15 in July. As overheads grow for those heavily reliant on logistics, the odds of operating a profitable business suddenly become longer.

Retailers are said to be in a situation where they are forced to ask their suppliers and landlords for flexible terms to get through this period.

"We foresee the third quarter of this year to be bleak owing to the weakening ringgit. Many retailers are importers and for Focus Point, we import all our products which are traded in the US dollar or euro.

"We have slowed down our purchases as compared to the same period last year and believe many others are doing the same."

One of the many ways retailers tried to combat the effects of GST was to stock up heavily on goods to avoid the tax. Unfortunately, overstocking had a negative outcome for some who were said to be having difficulties moving the goods and recouping their cost.

"If you purchase beyond your usual volume and find it hard to sell, it is going to affect your cashflow. Let's say you have a 60-day credit term, you now have to make payment and probably at a higher price owing to the weak ringgit," explains Liaw.

Unable to pay rent on time

He says it generally takes two to four months before imported goods are sold. "Some assume they are able to save on paying less tax by stocking up before GST but that to us is not a right practice."

Liaw encourages those finding it hard to sell their goods to "offer big sales to recover your capital".

On rental payments, he has received feedback from shopping mall owners on retailers who find it difficult to pay rent on time. Liaw urges retailers to voice their predicament to their respective landlords to rally for minimal increase in rent when the time comes to renew their contracts.

Liaw urges retailers to be "aggressive in doing promotions" in order to convince customers to spend their cash during this slow period.

F&B retailers, for example, may not necessarily offer cash rebates or discounts on the total bill but can introduce promotion packages or offer free desserts to entice diners.

"From a retailer's point of view, spending on advertising and promotions alone to drive sales is not enough. We have to convince customers what they purchase is of value."

Smaller retailers and independent business owners with a few outlets fear the worst is far from over. Not all of them share a rosy outlook for the months ahead.

The owner of a home furnishing and craft store in Shah Alam tells ***FocusM*** her business has been on a downward trend for the past eight months. "We are barely able to cover the cost of doing business. If this continues, I am tempted to close down the business and move on to other things."

Tourists offer some hope

The owner, who wishes to remain anonymous, says the Hari Raya festive season also failed to drive her business as customers are cautious in their spending. "I believe things will only deteriorate from this point forward," she says.

"Over the past few months, some of my customers have lost their jobs and have been careful with their expenses."

The light at the end of the tunnel for retailers could be the 1Malaysia Mega Sale Carnival which began on June 27 and runs till the end of August.

The current summer holiday season in the West is expected to bring some respite to retailers with the arrival of tourists from Europe and the Middle East. FocusM

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>
> – Liaw

Liaw says aggressive A&P is needed to keep shoppers excited in a tepid market

JONATHAN LOI/FocusM

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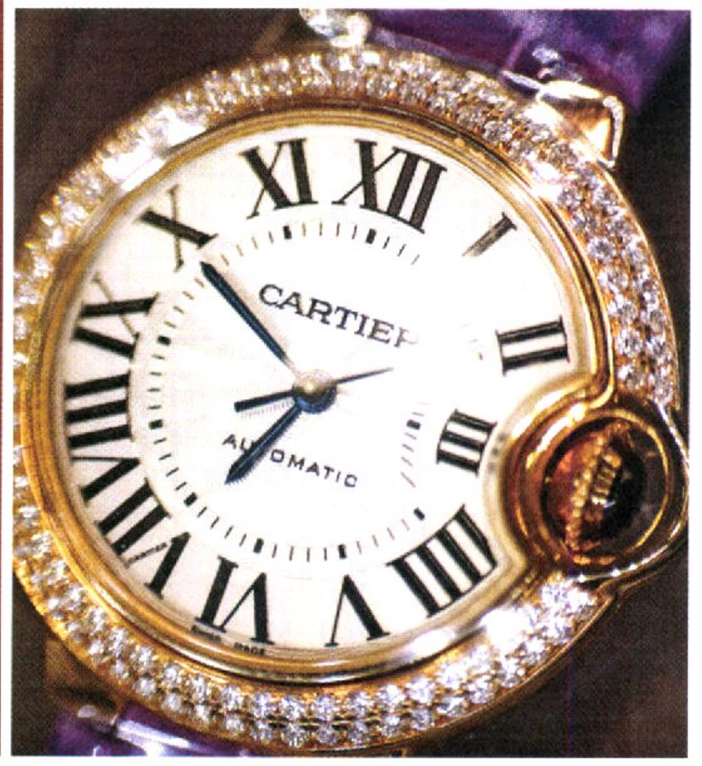

Retailers in the watch business are said to have suffered a 30% decline in sales in the second quarter

Are shoppers really broke?

CONSUMER sentiments in general remain fairly pessimistic but this may not be a reflection of shoppers' lack of funds.

The slowdown in consumer spending should not be linked to low wages as a report by the government shows that Malaysians enjoy higher income compared to previous years.

According to the Department of Statistics, the average monthly household income has increased from RM5,000 in 2012 to RM6,141 last year, a rise of 10.3% per year.

The report reveals the mean monthly household income in urban areas rose 8.7% annually from RM5,742 to RM6,833 from 2012 to last year. On the other hand, the mean monthly household income in rural areas increased 10.9% yearly from RM3,080 to RM3,831 in the same period.

Market intelligence firm *Euromonitor* pegs Malaysians' annual disposable income to grow to US$204.17 bil (RM776.21 bil) next year from US$191.14 bil last year.

Based on these statistics, everything should be hunky-dory. Malaysians may be earning more but the reality is that this has been negated by the rising prices of goods and essential items such as fuel, poultry and vegetables.

This means that the people have to earn more money just to maintain their existing lifestyle. However, not all are fortunate enough to enjoy a decent pay rise so they are forced to cut back on non-essential spending and look for cheaper options.

April-June 2015 sales forecast for retail sector

Retail sub-sector	Growth rate (%)
Overall (weighted)	-3.0
Department store-cum-supermarket	3.7
Department store	-14.9
Supermarket and hypermarket	-0.1
Fashion and fashion accessories	-2.1
Furniture, electrical & electronics	7.1
Other specialty retail stores	-12.6

Source: *MRA/Retail Group Malaysia*

Prices of essential items such as fuel, poultry and vegetables have risen over the past few months