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ECONOMIC Department

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

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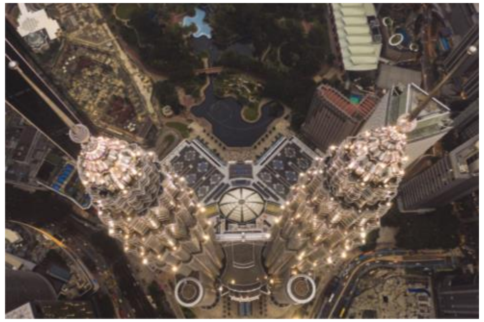
Retail Pulse Check: Resilience Amid Saturation & Shifting Demand

The retail sector remains a cornerstone of Malaysia's domestic economy, contributing significantly to household consumption, employment, and entrepreneurship. From large chain hypermarkets to traditional *kedai runcit*, retail businesses are integral to everyday economic activity and hold a visible footprint across urban and rural communities alike.

Yet, the **landscape is showing signs of strain.** Media reports and anecdotal feedback point to a growing number of traditional retailers — especially small grocers and mom-and-pop stores — struggling to stay afloat**.** Rising operating costs, changing consumer behaviour, and intensifying competition from modern convenience chains and online platforms have created new pressures on brick-and-mortar outlets.



This trend raises important questions:

- Are consumers migrating away from traditional shops to digital and convenience-based formats?
- Is the current environment sustainable for small-format retailers given margin pressures and rental overheads?
- What are the implications for retail creditworthiness and our sectoral lending strategy?

This report aims to **provide a pulse check on Malaysia's retail segment** — covering both modern retail (e.g., Speedmart, 7-Eleven, Mydin, Giant) and traditional retail (e.g., *kedai runcit, pasar mini*) — to support a more informed view of sector dynamics and potential business implications.

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Understanding Malaysia's Retail Landscape: Type, Format, and Share (1)

Broadly, the **Department of Statistics Malaysia (DOSM) classifies retail activity into nine retail groups**, each reflecting distinct business models and customer channels. These groups span physical stores, informal settings, and increasingly, digital platforms. Below is a breakdown of retail types, along with real-world examples and broad sectoral trends:

Retail Type	Description	Example	General trend	% share of retail sales (1Q25)
Retail in Non-Specialised Stores	General merchandise stores selling a mix of products, often groceries and household items	*Speedmart, Mydin Mart, Giant, Kedai Runcit*	Growing moderately, with consolidation among large players	38.5%
Retail Sale in Specialised Stores – Food, Bvg. & Tobacco	Stores focusing on food, beverages, or tobacco products	*KK Mart, FamilyMart (food segment)*	Expanding due to convenience and urban demand	6.4%
Retail Sale in Specialised Stores – ICT Equipment	Stores selling communication gadgets, mobile devices, accessories	*Machines, Switch, Samsung Store*	Steady growth driven by tech upgrades, but competitive	7.8%
Retail Sale in Specialised Stores – Household Equipment	Shops focusing on furniture, electronics, appliances	*Harvey Norman, Courts, Seng Heng*	Cyclical; demand closely tied to housing & income cycles	11.4%
Retail Sale in Specialised Stores – Automotive Fuel	Fuel stations with retail activities	*Petronas Mesra, Shell Select, BHPetrol*	Stable, though impacted by fuel policy and EV adoption	9.2%
Retail Sale in Specialised Stores – Recreation Goods	Stores selling books, stationery, sporting goods, etc.	*Popular Bookstore, Sports Direct*	Declining in footfall, with pressure from e-commerce	4.3%

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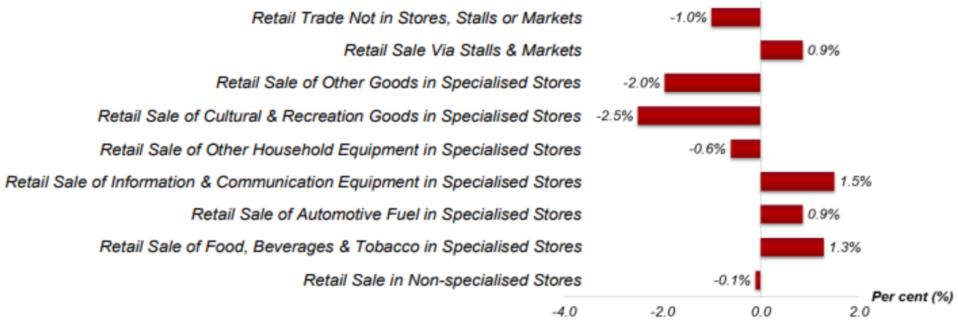
Understanding Malaysia’s Retail Landscape: Type, Format, and Share (2)

Retail Type	Description	Example		General trend	% share of retail sales
Retail Sale of Other Goods in Specialised Stores	Florists, jewellery, optical shops, second-hand goods	HABIB The Gift of Happiness; FOCUS POINT	*Habib Jewels, Focus Point*	Highly fragmented and niche-driven	**21.2%**
Retail via Stalls & Markets	Informal or semi-permanent vendors in physical community markets		*Pasar malam, pasar tani, roadside stalls*	Remains relevant in rural/peri-urban areas, but limited scalability	**0.3%**
Retail Not in Stores, Stalls, or Markets (Online/Remote)	Online and remote sales including e-commerce and phone orders	Laz; TikTok Shop; Shopee	*Shopee, Lazada, TikTok Shop, WhatsApp selling*	Rapid growth, increasingly mainstream across all age groups	**1.0%**

Annual Growth Rate for Volume Index of retail Trade by Group, April (%yoy)

Monthly Growth Rate for Volume Index of retail Trade by Group, April (%mom)



Source: DOSM

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Segmenting the Landscape: Modern Formats vs Traditional Roots

While Malaysia's retail sector is statistically grouped by type of outlet, a functional and risk-based segmentation is more meaningfully **drawn between modern and traditional retail**. This division highlights differences in business models, scalability, financial resilience, and vulnerability to structural shifts such as digitalisation and cost shocks.

Modern Retail: Organised, Scalable, and Digitalising

Modern retail refers to chain or franchise operations with **standardised formats, formal supply chains, and multiple outlets**, supported by better credit access, bulk procurement, and digital systems for inventory and payments.

- Prominent examples include 99 Speedmart, 7-Eleven, Family Mart, MyNews, Mydin, Lotus.

These businesses are:

- **Capital-intensive at entry**, but benefit from scale economies;
- **Resilient in urban areas**, with diversified customer bases and stronger logistics;
- **Increasingly digital**, adopting loyalty programs, e-wallets, and even e-commerce hybrids.

Traditional Retail: Fragmented, Hyperlocal, and Struggling to Modernise

Traditional retail consists of small, family-run outlets like *kedai runcit, warungs*, and *pasar mini* that are highly localised, rely on regular customers, and operate mostly in cash with minimal systems.

- Prominent examples include *kedai runcit* in residential neighbourhoods, *pasar malam* and *pasar tani* vendors, mini markets in rural townships.

While offering community convenience and low entry barriers, traditional retailers face mounting structural challenges:

- **Low pricing power** and thin margins;
- **Limited digital adoption** and weak access to formal credit;
- **Sensitivity to input cost hikes**, such as fuel, rental, and wholesale price shifts.

Summary: A Dual-Speed Sector

	Modern Retail	Traditional Retail
Business Model	Structured, scalable	Informal, owner-operator
Technology Use	High (e-wallets, POS, CRM, analytics)	Low (cash-based, manual inventory)
Creditworthi-ness	Bankable with audited financials	Often undocumented or cashflow-based
Consumer Target	Urban, convenience-seeking, mobile-first	Local, price-sensitive, community-based
Resilience to Cost Shocks	Moderate (spread over scale)	Low (direct margin compression)

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Structural Challenges in Retail: Digital Gains, Operational Pains

Key Trends & Structural Shifts in Malaysia's Retail Sector

Malaysia's retail sector is experiencing a quiet but powerful realignment — one where topline growth masks deeper disruption. As cost structures shift, consumers evolve, and digital platforms redefine shopping norms, cracks are beginning to show — particularly among smaller, undifferentiated players.

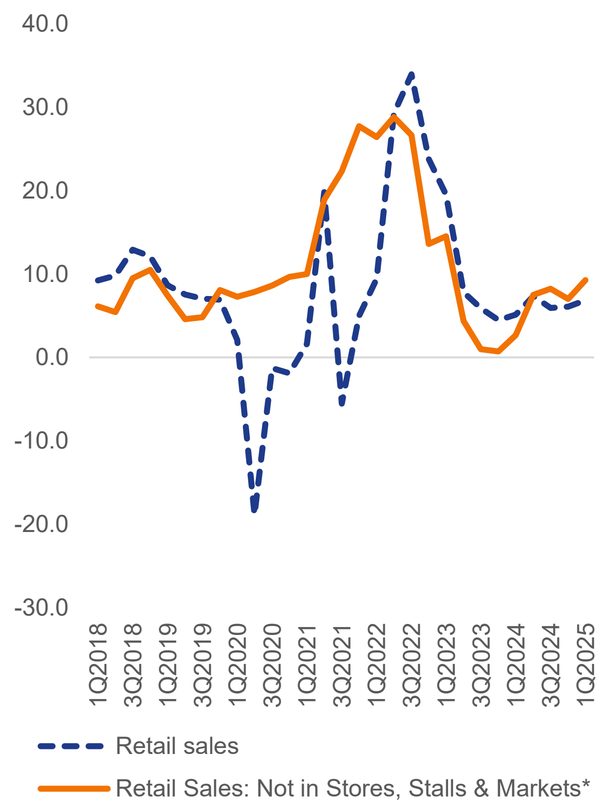
Digital Migration: From Trolley to Tap

- Digital retail has surged in the post-pandemic period, disrupting traditional formats such as kedai runcit and pasar mini. As of 1Q2025, **12.5% of retail sales in Malaysia were conducted through non-store channels, up from less than 10% before the pandemic**. Platforms like Shopee, Lazada, and TikTok Shop have become dominant for everyday purchases, offering competitive discounts, cashback incentives, and rapid delivery. In response, some traditional traders have begun to adapt by turning to TikTok live selling and managing pre-orders via WhatsApp. Still, this transition remains uneven. With digital-savvy urban consumers prioritising convenience, speed, and price transparency, small physical retailers are increasingly being bypassed — a structural trend that shows no signs of reversing.

Cost Pressures: A Silent Margin Killer

- Small, family-run retailers are under significant pressure from rising operational costs—such as wages, utilities, and wholesale prices—yet lack the scale to absorb these shocks. Meanwhile, wholesalers and suppliers have begun demanding upfront payments or shortening credit cycles, placing additional strain on retailers with limited cash reserves. Indeed, a May 2025 Experian report flagged widening payment gaps in the wholesale sector, noting that SMEs are paying suppliers about 10 days later than corporates—a clear sign of **liquidity stress and tighter trade-credit terms.** For small outlets already operating on razor-thin margins, these financially and operationally heavy conditions threaten sustainability.

Retail sales growth (%yoy)



*Proxy for online purchase

Source: CEIC, DOSM

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Structural Challenges in Retail: Demand Shifts and Format Fatigue

Consumer Shifts: Price, Convenience, and Experience

- Malaysia's retail consumers have become **increasingly digital, price-sensitive, and convenience-driven**—all of which are reshaping the market. A Rakuten Insight survey found that 77% of Malaysian respondents shop for groceries online, with 72% doing so at least weekly. This underscores a lasting shift since the pandemic toward prioritising free shipping (76%), discount vouchers (68%), and platform ease-of-use (58%) during online shopping. These preferences align with broader payment trends: **64% of all e-money transactions in Malaysia are now via e-wallets, growing 25% YoY**. Cash-only retailers are increasingly disadvantaged as digital payment becomes standard, especially among younger consumers. Additionally, the rise of **GrabMart and PandaMart has reduced impulse trips to *kedai runcit***, particularly for essential goods like eggs, milk, and snacks — with delivery speed and digital convenience emerging as key decision drivers.

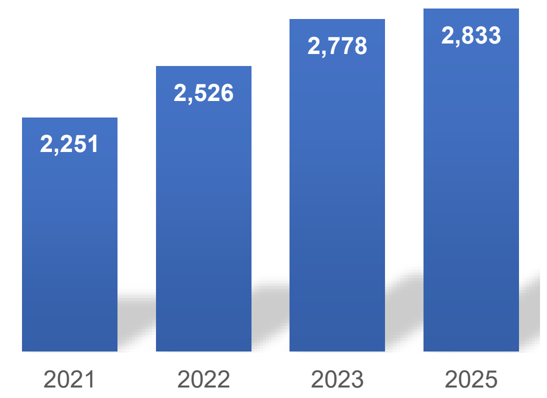
Market Saturation & Format Fatigue

- Urban retail corridors are experiencing clear signs of **format saturation, particularly with the rapid expansion of mini-market chains**. In densely populated areas like Klang Valley and Johor Bahru, it is common to find multiple outlets of 99 Speedmart or KK Mart within a one-kilometre radius, creating intense competition and limiting opportunities for new entrants. Public disclosures show 99 Speedmart adding hundreds of stores annually, while 7-Eleven Malaysia opened 94 stores in FY2024 alone. This aggressive rollout, while boosting brand presence, is also contributing to **store cannibalisation and limited market headroom**. At the same time, commercial property listings have noted a rise in vacant retail units, especially those previously occupied by small-format grocers. Without strategic location planning, capital backing, or format innovation, newer retailers — particularly those who entered the market during the post-pandemic rebound — risk short lifespans in an increasingly saturated retail landscape.

Malaysia's Online Purchases by Categories

Source: Vodus - Consumer Sentiment Study 2024

Speedmart Store Growth (no. of stores)



Source: Various news

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2025 Retail Outlook: Resilient, But Not for All

Malaysia's retail sector is expected to remain on a **positive but uneven recovery path** in the second half of 2025, shaped by structural transformations rather than cyclical forces. While headline indicators may remain steady, the underlying divergence between **modern and traditional retail** will likely widen further.

Demand Normalisation, But Uneven Recovery

- Retail Group Malaysia (RGM) projects **retail sales to grow by 4.3% in 2025**, slightly higher than its previous forecast of 4.0%, underpinned by festive spending, resilient domestic tourism, and continued wage growth.
- However, this headline figure masks deepening divergence across formats. **Chain-based mini markets, hybrid convenience stores, and online-first platforms are expected to gain further market share**, while smaller, non-digitised retailers may continue to face challenges in sustaining foot traffic and profit margins.
- Adding to this shift is the **rise of Buy Now, Pay Later (BNPL) options** on platforms like Shopee, which act as short-term credit tools and further shift consumer spending online, disadvantaging cash-based traditional shops.

Structural Pressures to Persist

- Cost-side pressures remain a central concern for the retail sector. The **minimum wage was raised to RM1,700/month** in February 2025, with full enforcement across all employers by August 2025 — a move that disproportionately affects labour-intensive, small-format retailers. Additionally, the **base electricity tariff will also rise** in July 2025, further increasing operational costs for commercial outlets, especially those in air-conditioned premises.
- At the same time, consumers are increasingly prioritising price transparency, digital payment convenience, and delivery flexibility — preferences that naturally **favour larger players or those adopting hybrid, tech-integrated retail models.**

Limited Room for New Entrants in Saturated Segments

- In urban centres, retail format saturation — especially among mini markets — is expected to **limit upside for new entrants, unless they offer clear differentiation** or anchor demand (e.g., near schools, factories, or transit hubs).
- Conversely, retailers that target niche communities, bundle value-added services, or serve underserved suburban townships may still find viable paths to growth.