

NEWS CLIPPING

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7-Eleven endures lower consumer confidence

CEO Gary Brown believes convenience store market leader can weather trying times unscathed

THE retail sector is under pressure to perform with consumers tightening their belts amid the gloomy economic outlook and weakening job market.

In the past month, many retailers posted weaker financial results due to sluggish consumer spending. However, the largest convenience store chain, 7-Eleven Malaysia Holdings Bhd, is unfazed.

Against a backdrop of less-than-rosy prospect, its CEO Gary Brown believes the chain can weather the trying times unscathed.

"The retail market is not growing much and has been soft the past year. But we are doing better than our peers because the concept of convenience store is getting (popular with) consumers," Brown tells *FocusM*.

The company's revenue for the quarter ended Dec 31 rose 4.8% or RM23.9 mil to RM523.8 mil from RM499.7 mil in the previous corresponding period. It was driven by new stores, improved merchandise mix and promotional activities.

However, bottom line and profit margin were lower, primarily due to store expansion and higher minimum wage last year. Net profit shrank 31.69% year-on-year to RM9.52 mil.

Since July 1, the minimum wage in Peninsular Malaysia increased to RM1,000 from RM900, and to RM920 from RM800 in Sabah and Sarawak.

For FY16, 7-Eleven Malaysia posted a net profit of RM52.17 mil against RM55.8 mil previously on the back of RM2.1 bil sales. Profitability was also eroded by higher selling and distribution expenses.

"As we have seen from spending behaviours, the economy is quite tough for most Malaysians. With inflation and the recent fuel hike, Malaysians' disposable incomes are very tight," Brown says, adding that the situation was aggravated by declining purchasing power.

Consumer purchasing power is tied to the consumer price index. As a rule of thumb, if incomes rise at the same rate as inflation, consumers can maintain their

current standard of living and vice versa. By the same token, if inflation rises faster than income, their standard of living will decline as they will find their incomes inadequate to counteract rising prices.

Cautiously optimistic
"But I (am) cautiously optimistic of the future. I believe the overall political and economic environment will be smoother and better than it was 12 months ago. This will help restore consumer confidence because if consumers are confident they will spend more. They will not hunker down and tighten their purse strings," he says.

A survey by the Malaysian Institute of Economic Research (MIER) shows the consumer sentiment index dropped to 69.3 points in the fourth quarter. The last time the index was above 100 points was in the second quarter of 2014.

MIER says worries over rising prices are most apparent among middle- and high-income households in the urban and central regions. Quarter-on-quarter, consumers have shelved major purchase decisions to buy big ticket items like property, cars, televisions and refrigerators.

However, for 7-Eleven, it is more like business as usual. Unlike hypermarket



Brown says the convenience store chain is doing better than its peers

7-ELEVEN MALAYSIA HOLDINGS BHD

KEY BOARD MEMBERS AND MANAGEMENT
Tan Sri Abdul Hamid Embong (Chairman), Gary Brown (CEO), Wisahammedin Hassan (Deputy CEO)

MAJOR SHAREHOLDERS	
Gerjaya Retail Bhd	48.40%
Gerjaya Investment Management LLP	5.20%
Fractal Resources, Inc	5.40%

MARKET CAP (March 5)	RM1.64b
SHARE PRICE (March 5)	RM1.48
52-WEEK HIGH (Oct 13, 2016)	RM1.57
52-WEEK LOW (July 26, 2016)	RM1.32

FINANCIAL RESULTS (FY16 ended Dec 31)	
REVENUE	RM52.13
NET PROFIT	RM9.52 (7m)

activities and loyalty programmes to keep consumers excited and reward them.

Brown welcomes competition from new players like FamilyMart. "We are not surprised by the growth of FamilyMart locally. We welcome it. I think the biggest challenge is not so much about competing with others but getting customers to adapt to the idea of eating, shopping and running errands like paying utility bills at convenience stores.

"We (market players) need to get consumers to relate those services to convenience stores. Then we can strategise the next step to woo consumers, if consumers get used to this idea, we will definitely benefit."

FamilyMart, a Japanese convenience store chain operated by QI Resources Bhd, has made its presence felt when it opened four stores in the Klang Valley since late last year.

Expanding payment services

To encourage repeat visits by customers, 7-Eleven Malaysia has also expanded its services.

"On top of mobile credit reloads, we have added Touch 'n Go reloads and utility bill payment services. We will continue to increase our payment services by partnering with e-commerce merchants, whereby consumers can shop online and make payments on the 7-Eleven's payment platform," Brown says.

He adds that the payment services are popular, especially among those who do not have credit cards or access to online banking. Moreover, the services are available round the clock at all 2,122 stores nationwide.

Merchants collaborating with 7-Eleven Malaysia to facilitate e-payments include Lazada, AkaLaku (online instalment shopping mall) and redBus (online bus ticket booking platform).

"What buyers need to do is provide us their transaction numbers, then we will generate their pin codes. They are required to key in their pin codes on the e-commerce sites and merchants will arrange for delivery."

He stresses that the extensive payment services are not solely about top line and bottom line. They also assist consumers to make payments at stores and provide them opportunities to grab something on the go, he says.

The basic strategy for 7-Eleven Malaysia this year is about "more customers, more frequent visits and higher average spend per visit". Its expansion plan is to invest RM85 mil to RM90 mil to open 200 new stores this fiscal year.



Brown welcomes competition from new players like FamilyMart



Bottom line and profit margin were lower primarily due to store expansion and higher minimum wage last year

operators and apparel providers, its business model and merchandise mix are more resilient despite the challenging outlook.

"We are certainly less impacted (unlike) hypermarkets and supermarkets. But nevertheless we were affected by the level of overall confidence in the market.

"Even for convenience stores, there is an element of discretionary spending. For instance, we dismiss the idea of buying a cup of coffee in a convenience store after some thought on whether we can afford or need it," says Brown.

Truly convenient

He says there is a need to change consumer perception towards convenience stores to be "truly convenient".

"We used to receive comments that items sold in 7-Eleven (stores) in Malaysia are unlike in Thailand. That was because convenience stores here were more like mini marts, but we are catching up fast.

"We serve good coffee for as low as RM2 per cup at over 1,600 outlets, frozen and ready-to-heat meals at 1,300 outlets, fresh and ready-to-eat food like *bento* and *omigiri* (Japanese rice balls) at over 200 outlets," Brown says, adding that the focus will be on food and beverages given their exponential growth.

Last year, 7-Eleven Malaysia launched 560 new products, various promotional