

## **Philippines: Modern Retail Trade and Policy Implications**

*By Carlos v: Cabochan*

### **The Prior Years**

Until the end of the nineties, the Philippine retail trade remained an area limited to Filipinos. At the start of the following decade, the Retail Trade Liberalization Act of 2000 was signed into law. Prior to the passage of this law, some sectors of the local retail trade together with a broad coalition of non-government organizations argued that this will put local retailers and small and medium enterprises in a disadvantageous position in terms of resources. The opposition to the measure though not successful was effective in delaying the signing of the proposed bill into law. This enabled local retailers to consolidate their position and strengthen competitiveness.

Today, only a limited number of multinational retailers have entered the local market. In many instances, this was in partnership with local retailers or businessmen. Some of these multinational retailers are Makro, Price Smart; and Mini-Stop. We cannot make any conclusion as to why this has been the case since the retail trade liberalization law allows one hundred percent ownership of retail establishments by foreign retailers. Perhaps, this has more to do with knowledge of the local market. In informal discussions among local retailers, it is believed that the major multinational retailers have not ventured into the Philippine market due to the country's lagging economic performance compared to its more progressive ASEAN neighbors.

The major local retailers have continued to expand their operations nationwide. These are the SM group of the Sy family, the Big Rand and Robinson's group of the Gokongwei family, and the Gaisano group from Southern Philippines. While retail trade consolidation in the Philippines has not reached the levels of concentration in the more developed countries, there is evidence that the same is taking place. Today, over twenty percent of sales of fast moving consumer goods is controlled by the top five major retailers.

At the start of the decade, local retailers were invited by the United States Department of Agriculture to participate in a retail study tour. This has served as catalyst for many local retailers to adopt retail trade practices from the more developed countries and this is primarily from the United States. Filipino managers and owners were exposed to retail management practices in the U.S. mainly in the areas of fresh food management, retail formats, information technology, supply chain management, and retail operations management practices. This had a positive effect on the way retailing has been practiced and continues to be practiced in the country.

## **Drivers of Modern Retail Trade Practices**

### **Simultaneous Rising and Stagnating Incomes**

Income levels of Filipinos have exhibited a dual pattern. There is a segment that continues to experience improvement in income levels while remaining stagnant and declining for the rest of the population. These patterns have created opportunities for modern retail trade outlets.

Supermarkets, hypermarkets, and convenience stores have continued to expand in areas that have shown improvements and these are in both emerging and expanding urban centers. Areas with stagnating and declining incomes primarily in rural areas continue to be served by the traditional outlets such as wet markets, groceries, and mom and pop stores. These traditional outlets however are now the target clients warehouse stores operating as distribution centers and wholesalers with delivery services.

### **Increasing Urban Population**

Income opportunities have been concentrated in urban centers. This phenomenon has led to the migration of the rural population to urban centers. Income opportunities in the countryside primarily from agriculture remain limited. Income generated has not been adequate to meet food, housing, clothing, medicine, and money for schooling requirements. The situation has become more difficult given the higher rate of population growth in the countryside. The annual population growth rate of the Philippines has remained over 2.30% over the last decade.

### **Demand for Food Variety**

The upscale income level population in the country now exhibits a demand for healthier and safe food. They have been more demanding in terms of food safety and labels showing nutritional values and expiration dates have become important in food selection. They have also become more cosmopolitan and sales of imported food products is in the uptrend. This is also supported by the variety of restaurants operating in the country offering Chinese, Japanese, Indian, Brazilian cuisine aside from the typical western food offerings.

A factor that contributes to the rise in demand for food variety is the big population of Filipino overseas workers who have exposed their families to food preferences in their host countries. They may be in the country waiting for their next work engagement or they may be those who have returned from their work abroad and have opted to put up small businesses as an alternative source of income.

### **Consumer Price and Value Equation for Fresh Foods**

Sales of fresh foods in modern trade outlets continue to increase. Aside from preference for a one-stop shopping trip, many consumers now realize the importance of food safety. They prefer a clean shopping environment -refrigerated fresh food offerings, well - maintained equipment, and well-trained crew to provide service even better than what

can be experienced in the traditional wet markets. At the same time, price disparities have narrowed particularly with meat and poultry products. In many modern trade outlets with fresh food offerings, prices are even lower. The price and value equation now tilts in favor of modern trade outlets.

It is important to note that food expenditure of the majority of Filipino families continues to account for over fifty percent of total personal consumption expenditure.

### Supply Availability and Supply Chain Management

With the expansion of modern trade outlets, trading requirements have become more stringent. Supply availability, product quality, competitive prices, promotional activities and other modern trade creations such as listing fees are now required from suppliers. The larger local manufacturers and multinational companies are able to meet the requirements of supermarkets, hypermarkets, and convenience stores. These are particularly in areas known as an arena for fast moving consumer goods.

For fresh products however, the relationship can be different. Modern trade outlets are not able to impose the same demands on suppliers. Given the limited number of qualified suppliers, trade outlets must be more accommodating. There is one phenomenon though that needs to be appreciated - modern trade outlets generally deal with consolidators, wholesalers, and other big fresh food suppliers directly engaged in agriculture and food production.

### Information Technology

Information technology has been key to the fast expansion of the major chains operating in the country. These chains have achieved scales that make investment in information technology cost effective. For many of the small and medium sized modern trade outlets, the investment can be prohibitive. There is a need for what we can identify as an appropriate technology that will be reasonably priced relative to store income generation. This will enable more and more outlets to take advantage of the benefits of information technology.

### Policy Regime

Retailing in the Philippines is becoming a more regulated business particularly those in the modern trade sector. There are both national and local government regulations that need to be satisfied. In a number of cases, the requirements can be the same such as on tax compliance and investigation and environmental clearances. Likewise, there is no effective anti-shoplifting law that can make apprehension easier. Presently, apprehension of shoppers with concealed items is only allowed after the shopper has moved out of the store premises. This has increased the cost of security for retail establishments.

As of this month, the debate goes on with the proposed Expanded Senior Citizen Discount Law. Retailers will be required to give discounts for purchases of food items such as canned fish, processed and powdered milk, canned pork, processed and canned corned beef, noodles, vinegar, fish sauce, soy sauce, flour and non-food items such as batteries and detergents. The proposed law effectively requires retail establishments to shoulder the discounts.

Presently, not as many multinational retailers have entered the local market. In local business circles, there is a perception that entry has not been initiated because of uncertainties in the economic performance of the country. Local business can only speculate and that issue is best answered by the foreign multinationals.

### **The Future of the Modern Retail Trade**

In the next five to ten years, the following are expected to take place in the country:

1. Faster Expansion of Major Players and Market Consolidation - The major players will move to become national chains from their position today as regional players. As this takes place, the share of business of the traditional wet markets and groceries will decline as consumers shift their buying to the modern retail trade outlets.
2. Entry of the Major Multinational Chains - The major multinational retail chains will eventually enter the Philippine market either through a joint venture arrangement or as a one hundred percent owned operation. The cost of entry is reduced by the logistical presence of these players in neighboring countries. This will be a major threat to local players and will further hasten market consolidation.
3. Rise in Demand for Skilled Modern Trade Outlet Workers - With the growing competitiveness in the market and the eventual takeover of succeeding family generations from founders, modern retail trade practices become key to success. This will lead to the rise of professional supermarket managers and workers. Today, available formal training programs remain limited and there is a short supply of qualified retail management associates
4. Paradigm Shift in Retail Business Practices - Efficient Consumer Response programs to bring down the cost of doing business and improve competitiveness will become critical requirements. Management organizations will realize that in order to survive, change in practices must be instituted. Only the open minded organizations will embrace change in time while most of the other players will continue to cling to old practices. This will enable the major local chains to further consolidate their positions.

5. Internationalization of Food Preferences - The Philippines has a large population of overseas workers. There are over a million on the official list but the number is much more. After a period of time working outside the country, they return home with a taste for their host country food offerings. The number of overseas workers continue to rise every year and the successful retailer must be able to anticipate and service their requirements together with those of their families.

6. Population Growth Will Continue to Drive Demand - The Philippine population continues to grow at over two percentage points every year for the last decade. The population is projected to reach 94 million in 2010 and 103 million in 2015 from 85 million today. This will lead to the rise of population centers outside the expanding urban areas. With population growth comes increasing demand for food. the country will continue to be an attractive market to both local and foreign players in terms of food sales.

### **Policy Implications**

The changes now taking place in the food retail business and its impact on food and agriculture can be left alone to follow its natural course. This however will lead to the inevitable rise of major modern trade outlet players with substantial market control. At the same time, only the well equipped suppliers such as the large local manufacturers, multinational companies, and major importers and wholesalers will develop the capability to meet the higher demands for quality and competitive pricing. The small and medium enterprises will have less opportunities for market entry and growth. It will be worse for the individual farmers and fishermen. If this is an acceptable arrangement, then there is no need for policy intervention.

As the modern retail trade is now structured, certain needs will arise and may require government involvement since the investments required can be more than what private enterprises may be willing to invest.

There are gaps in the supply chain particularly in the cold supply chain. The cost can be prohibitive as it may involve improvements in infrastructures and transport systems. These may be roads, bridges, availability of reasonably priced power and equipment, and inter-island shipping. Certain investments require minimum efficient scales and to wait for efficient scales to emerge may lead to lost opportunities for improvement in incomes of those who may benefit the most.

Likewise, modern trade outlets prefer seamless trading. It will not be productive for these outlets to deal with individual food producers such as farmers and fishermen or with small and medium food processors outside major trading centers. There is a need for consolidators or wholesalers who can aggregate demand and supply modern trade outlets. Together with this, there are requirements relating to packaging and quality standards. The issue is how can consolidators and wholesalers be encouraged to get into this type of operation if there are any in existence.

While power has been devolved to local governments in the Philippines, there must be clear guidelines on business regulation. Duplication of requirements need to be addressed so that the cost of engaging in business will not put pressure on prices to go up.

Perhaps, it can be stated that policies can be formulated based on desired objectives. From a private sector perspective, the difficulties are appreciated and the solutions have been formulated. It remains a matter of timing and particularly when the investment climate has become encouraging.

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Carlos V. Cabochan is the Managing Director of CVC Supermarkets in the island of Luzon in the Philippines. CVC Supermarkets operate seven stores -three in Metro Manila, one in the Southern Tagalog Region, and three in Central Luzon. Presently, he is the President of the Philippine Association of Supermarkets, Inc. with nationwide membership. He is also a Lecturer at the Leadership and Strategy Department of the John Gokongwei School of Management, Ateneo de Manila University.