



# Philippines: Retailing Industry

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## Summary

Filipino consumers give priority to basic needs and value for money and support establishments that offer the most for the least expensive. The market expects grocery retailers to perform better than non-grocery retailers as consumers buy more food over clothing, electronics, or mobile phones, affirming their priorities.

The years 2007-2008 were good years for Retailing, as players continued to build and operate more store outlets and expanding outside the metropolis. Wider areas of retailing equal a wider range of consumers, bringing in more revenues.

Despite the limited disposable income level of Filipinos, many retail channels performed well. Consumers' economic constraints are forcing retailers to discover new trends, offering value for money and encouraging customers to make sensible and necessary purchases.

The market sees a modest growth forecast as consumers continue to tighten their budgets. Retailers would have to provide value pricing and frequent discounts. The growing number of shopping malls and intensifying competition will see retailing developments, which should spur consumer spending over the forecast period.

## Market Demand

The Philippine retail industry is one of the biggest contributors in the country's revenues, making it a major sector of the economy. The industry employs a significant 18% of the country's labor force.

The opportunities in the retail sector are immense. In good and bad times, retailers enjoy continuous patronage, demonstrating the resilience of retail establishments. Air-conditioned malls and retail outlets in this tropical country lure people, including those who only pass time in the malls and have no intention to buy. The malls provide comfortable, cool spaces and wide choices that induce shopping even in economic crisis.

A sign of the industry's and its patrons' flexibility are adjustments in purchasing practices. Filipino consumers buy more-expensive-than-average products in good times and affordable but quality products under not-so-good economic positions.

Filipinos have become such mall habitués creating more opportunities for many retail businesses in clothing; jewelry and accessories; shoes and bags; electronic gadgets and appliances, and many other popular consumer products.

## Market Data

Local retailing is dominated by the department store and mall giants – SM Malls, Department Stores; Supermarkets and Hypermarts; Ayala Malls; Robinson's Malls, Department Stores, and Hypermarts; Landmark Department Stores and Supermarkets; and Rustan's Department Stores and Supermarkets and Rustan's Shopwise Hypermarts. Mercury Drug Corporation and National Bookstore are also important players because they dominate their fields. Mercury Drug controls about 50% of the drug retail market; National Bookstore is the undisputed market leader in book retailing with 103 branches all over the country.

Stocks in department stores and supermarkets are a mix of local products and imported goods. Latest available official data on these products and on market shares of the players are not available.

## Best Prospects

Products and services that offer the best potential for U.S. sales include franchises of popular U.S. restaurant chains (IHOP; In n' Out Burger; Denny's; etc.) as well as branded clothing, accessories, shoes, and bags, such as American Eagle; Abercrombie; Ann Taylor; J. Crew; Tommy Hilfiger; Coach; Under Armour; etc.

Outlets of The Limited Brands, Inc., which owns The Limited, Victoria's Secret, Bath & Body Works, The White Barn Candle Co., Aura Science and Henri Bendel are also sought-after brands that Filipino consumers have been looking forward to seeing in this market.

Philippine food retailing is rapidly modernizing and expanding. Supermarket chains are attracting customers by opening large-scale, modern stores, displacing older, traditional small-scale retail chains and corner stores. While focused primarily on urban markets in Metro Manila and Cebu, in recent years, chains have expanded into smaller regional markets, including Bacolod, Cagayan de Oro, and Davao.

Drug retailing is also among the most profitable businesses in the country with eighty-five percent of pharmaceutical products are sold through drug stores.

There are commercial centers where retail establishments may be found. Ayala Land's Makati Commercial Center is among the more prominent commercial centers. Within it may be found Greenbelts 1 to 5; Glorietta 1 to 4; Rustan's Department Store; Marks & Spencer; Zara; Debenhams; and numerous other specialty shops. Other developments are Bonifacio Global City, which is also managed by Ayala and where flagship stores of popular brands may be found; Ortigas Center, which is a financial district like Makati; Alabang Town Center; Filinvest Center/Madriral Business Park; Araneta Center-Cubao; Eastwood City; the Manila Bay Area; and several others in development stages.

## Key Suppliers

Foreign retail outlets are acquired licenses or joint venture businesses of local investors such as SM Investments' ACE Hardware (US) and Watson's Drug Store (Hong Kong); Rustan Group of Companies' GAP (US); Banana Republic (US); Marks & Spencer (UK); Debenhams (UK); Zara (Spain); Ferragamo (Italy); Nine West (UK); G.H. Bass (US); Dexter (US); Armani Exchange (Italy); Lacoste (France); Kenneth Cole (US); Prada (Italy); Charriol (France); Marlboro (Italy); Todd's; Burberry; etc., JVS Asia's The Body Shop; Marithe, Francois + Girbaud; and EMphosis, the Chan family's CMG/Celine Mix Group (Hong Kong), and many others.

More popular foreign retail outlets with mass appeal are franchises of foreign food brands such as McDonald's; Wendy's; Krispy Kreme; Dunkin Donuts; Mister Donut; KFC; Domino's; Pizza Hut. Non-food outlets include Rapide; Sir Speedy; Kodak, etc.

There are no available official data on market shares of the players, but SM is the dominant player in the medium and low-end category. SM Malls and stores may be found in major cities throughout the Philippines. SM stocks are local and imported (SM shoes are now mostly made in China).

There are challenges in keeping a loyal customer base. Retailers need to know and respond immediately to customers' needs and wants. SM is able to offer clients quality products at affordable prices.

Rustan's is the best in high-end retail, owning majority of the license of the aforementioned high-end brands. Even Rustan's competitors admit its (Rustan's) savvy in bringing in sought-after brands and negotiating with top suppliers and well-known European and U.S. fashion houses. Rustan's has buying offices in the US, Europe and Hong Kong.

Filipino investors seek partnerships with foreign suppliers through many ways -- a distributorship agreement, a franchising contract, or a licensing or joint venture agreement. Trade is usually financed via commercial loans or the entry of co-investors.

Since most retail outlets have multiple brands located in major cities throughout the Philippines, there is no need to work through independent distributor networks. For supplies, retailers obtain stocks directly from manufacturers (local and foreign) or through importer-distributors. For the latter, the goods are either on 60-day consignment or through a concessionaire. A concessionaire takes up space in a department store or a mall and pays the lease of its space plus a certain percentage of its sales to the department store or mall.

In fashion retail, U.S. trends prevail, as Filipino consumers are exposed to the Hollywood culture via movies, TV shows, and magazines. Many Filipinos also have family/relatives in the U.S. who regularly send food and clothes as gifts, which has helped shape the Filipino consumers' taste to favor U.S. made products.

In food retailing, the Philippine Franchise Association reports that more than 40% of all franchises are foreign, of which 70% are US in origin. Next to local food establishments, US food franchises are most popular and well-regarded.

All types of retailing involve marketing and promotion. About three years ago, supermarket chains started printing flyers announcing their sale and special promotions with pictures and prices of their commodities. Most of them also have on-line marketing and some online shopping.

## **Prospective Buyers**

The retail market is huge with a population of about 90 million buying both basic and luxury goods. Various shops offer products targeted to different social classes of society. The market for high-end products, estimated at less than 10% of total population, is concentrated in Metro Manila, although some of these products may be found in specialty shops in Metro Cebu, a second largest metropolis outside the greater Manila area. The total population of Metro Manila is about 12 million, while Metro Cebu is about 8 million.

With the economy bracing for rough times ahead, retailers are adjusting their sales forecasts and flexing their marketing acumen to deal with the impact.

More women are joining the workforce to supplement their family incomes. These are women who manage their households apart from their office work. They usually make the buying decisions for many of the household's purchases -- food, nutritional supplements, clothing, leisure activities, etc. It is not surprising that most retail promotion and product endorsements are addressed to homemakers and working women, especially for products that would pamper them.

Besides the growing number of working women, there are also a great number of young people gaining purchasing power. News reports an estimated 10.7 million unemployed Filipinos but has also highlighted a still growing employment opportunity in Business Process Outsourcing (BPO). The BPO industry has provided employment to thousands of young people who join the workforce and gain financial independence. With purchasing power and constant exposure to the internet and foreign cultures, these young Filipinos almost naturally acquire western influence, which usually translates into a preference for buying imported, branded goods, usually American.

Majority of Filipino consumers consider price as primary consideration but would sometimes buy a pricey item for special occasions, as gifts for other people or as reward for themselves. There are many outlets that offer the kind of commodity they might be looking for.

## **Market Entry Strategies**

Retail outlet stocks come from local as well as foreign suppliers.

Local manufacturers may have their own distribution system or work with distribution companies to get their stocks to the outlets. The goods are transported to nearby provinces through trucks, or loaded onto ships for distribution to outlying provinces.

Foreign stocks are imported directly by the stores or by distributors who supply to multiple outlets. Although never classified as a developed country, the array of products available in retail shops in the Philippines range from high to low-end, catering to multiple social classes. Retail outlets need only to adjust price tags to keep attracting and keeping their customer base during hard times, such as the expected onslaught of 2009-2010. Retailers need to know and respond immediately to what consumers want and be able to offer value-for-money products.

The country has hundreds of Mom and Pop stores called 'Sari-Sari' (mix-mix), which supply the smallest neighborhoods with their daily needs, from rice, sugar, or bread, to cooking oil, candles, broomsticks, and paracetamols. Retailing 'sari-sari'-style gave birth to the so-called sachet (small packet) sizes of instant coffee, shampoo, detergent, soy sauce, and a host of other products. Now, sachet sizes of toothpaste and Vitamin E cream may also be bought from large supermarkets and hypermarkets.

With this marketing adjustment, Filipino consumers are still able to afford the products that they usually buy/use, and suppliers continue to make some revenues on an otherwise limited market.

Importer-distributors advise their principals and foreign suppliers to make similar adjustment in packaging to make their products more affordable to a wider market.

### **Market Access Issues & Obstacles**

The Retail Trade Liberalization Act (RA 8762) signed in March 2000 aimed to liberalize the retail trade industry and to encourage wider competition in the interest of lower prices, high quality goods, better services, and wider choices for Filipino consumers.

Although foreign groups have explored investing in the country, their perception is that the law is still restrictive with foreign land ownership still not allowed and with capitalization requirement considered the highest in Asia.

### **Trade Events**

The U.S. Commercial Service in Manila supports and promotes the following show to contacts in the retail industry that are looking for new products:

International Franchise Expo  
March 20-22, 2009  
Washington Convention Center  
Washington, D.C.

Website: <http://www.ifeinfo.com/>

(Products/Sectors covered: automotive products and services, clothing and shoes, computers/electronics, drugstores, tutorial services, cosmetics/salons, maid and personal services, etc.)

International Home & Housewares Show  
March 22-24, 2009  
McCormick Place, Chicago, IL

Website: <http://www.housewares.org/show/info/>

(Products/Sectors covered: cook and bakeware, cleaning and hardware, decorative accessories, tabletop and kitchen accessories, floor and carpet care, household and kitchen electrics, home and personal healthcare, cleaning, home and space organization, clothing care, specialty and gourmet products, food preparation utensils, outdoor living products, appliances)

## References & Key Contacts

Philippine Retailers Association  
Web Site: [www.philretailers.com](http://www.philretailers.com)

Philippine Franchise Association  
Website: [www.pfa.org.ph](http://www.pfa.org.ph)

Department of Trade & Industry  
Website: [www.dti.gov.ph](http://www.dti.gov.ph)

The Landmark Corporation  
Website: [www.landmark.com.ph](http://www.landmark.com.ph)

SM Investments  
Website: [www.sminvestments.com](http://www.sminvestments.com)

Business World  
Website: [www.bworldonline.com](http://www.bworldonline.com)

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