The Changing Map of the Philippine Retail Food Sector

The Impact on Trade and the Structure of Agriculture: The Policy Response

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South East Asia

- Home to 529 million people or 8.53% world population
- Accounts for 45% of the World's Agricultural production and 30% of agricultural inputs
- Emerging trading partner
  - 2nd largest export destination of EU
  - 2nd largest export market of Australia (1st Japan)
  - 3rd largest and fastest growing market of US

Potentials:

Has the potential to integrate into one big market

Endowed with rich natural resources, offers a variety of products

Agriculture Restructuring in SEA

- Increased economic integration
- Higher income & higher cost economies
  Moving towards regional approach to food and agricultural self sufficiency by relocating their lower value agricultural production to lower cost economies of CLVM

➢ **Malaysia -** **reviving rubber in CLVM**
investing heavily in palm oil facilities (Thailand, Indonesia)

➢ **Thailand -** **main participant in the development of aquaculture and forestry industries in CLVM**

Trends in South East Asia

Market Access

Trade barriers of different forms exist (Tariffs,non tariffs)

- tariffs & tariff escalation discourages most ASEAN SMEs go into agro processing/value adding ventures
- SPS doubled in 5yrs,220-468 (difficulty in complying) US, Australia restricts entry of products: stringent sanitary and phyto sanitary(SPS) measures

Market Structure

- New and well equipped players in the market
- New marketing systems: products are sourced direct (ASEAN smallholders finds it difficult to compete)

Supermarkets' Diffussion Pattern

Global		SEA
• From large cities to small poor countries	✓	Malaysia, Thailand, Philippines, Vietnam
• From capital cities to rural towns	✓	Capital cities to regional urban centers
• From upper/middle to working class	✓	high end consumers to middle to low Ex. Philippines - AYALA - *Market! Market!* and *Metropoint* - Big R

Supply Side in SEA

Expanding role of private sector and agribusiness / FDI

- Government encouraging more and more participation

- Development from simple to sophisticated processing widens range of products for export and domestic markets (tropical fruits,veggies,dairy,seafood,wheatbased products)
- A significant proportion now serves domestic market, as well as growing amount for export

Large scale conglomerates/ agribusiness (local & foreign)

- ➢ driving force behind much of the modernization & restructuring within agricultural sectors
- ➢ expected to intensify further agricultural production food processing, marketing, and distribution

Country	Regulation
Philippines	**Trade Liberalization Act of 26 March 2000** approved entry of foreigners & given 2 year investment window to own 100% of retail ventures - Price Smart: S&R Price - SM: Watson, Makro Small foreign investors gradually entered the country
Thailand	Foreign Business Act (FBA) 2000 superceded Alien Business Law (ADL) of 1977 where aliens not allowed to do business without BOI capital requirement certificate 50% or more of shares owned by alien and cannot own land.
Vietnam	Laws not always clear with legislative restrictions Dual price system for nationals and foreigners

DRIVERS

Demand Side

	Philippines	Thailand	Vietnam
Population	81 M young population (strong buying group) More women in labor force	63 M relatively youthful (less purchasing power)	82 M youthful but gradually aging
Real Income	- Emergence of middle class - Double salaried HH - US$6 B yearly remittances of Overseas workers	Improving farm income Recovering tourism 10-11M tourists/yr	Growing tourism industry -33.1% (safe tourist destination) Hotel occupancy is 80-90%

Retailer Structure

Philippines	Thailand	Vietnam
Retail traditionally dominated by wet markets, grocery, & sari-sari stores. Then department store chain thru ShoeMart. Fastfood channels (Jollibee,McDonalds, KFC)	Historically dominated by markets and small family owned convenience stores. Mid 1990's modern retail In 1996, traditional outlets declined significantly	Store development mostly under national and local government control Plan to build supermarkets and trading centers by 2005 to 2010
Retail sales, 2003 (US$ million)	Retail sales, 2003 (US$ million)	Retail sales, 2003 (US$ million)
Total 35,674	Total 47,883	Total 17,758
Food 22,876	Food 28,806	Food 12,550

Source: M+M Planet Retail

MARKET TRENDS

Philippines	Thailand	Vietnam
• bullish retail sector • big players crowding out small players • Entertainment based retailer,malls • Young people strong buying group • Fondness of flea market so malls introduced “surplus area” • Purchasing behavior - small packs - buy imported items/ substitute brands - wait for sales	• Government launched focused programs to stimulate domestic demand/sluggish econ • SMEs will continue losing market share - business failures among such operators will continue	• Domestic consumption increased by 8.5% •17.7% of retail sector controlled by state • growth rate of agri-cultural economy • purchasing power of rural population • Urban areas enjoy benefits •Infrastructure create new supermarkets • purchasing power of urban group but not translating to same level of spending)

Entry Procedure for Supermarkets

Philippines

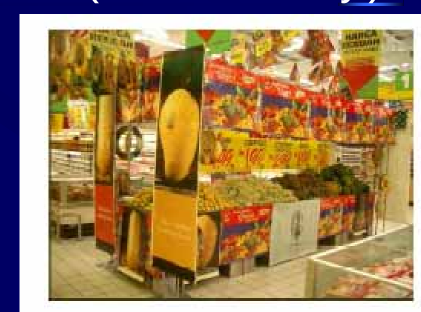
- Appoint exclusive importer/distributor
- Engage services of trading firm (may act as distributors)
  - eliminate inconvenience of registration as local company
  - no personnel hiring
  - no customs and importation inconveniences
- Register with Philippine Bureau of Food and Drug (exclusive to Filipino entities)

Thailand

- Supplier approach the store headquarter
- Submit product sample and match with store's specifications (including traceability of products)
- Offer price/price bargaining
- Contract signing

Vietnam

- Certification from local authority
- Sign contract on long term basis but trading terms are renewed
- Invoice from farmers are needed and these are provided by the gov't
- The shelves for fresh produce are labeled on where the vegetables are grown. (traceability)



Country Experiences

	Philippines	Thailand	Vietnam
Entry Requirements	Bond/business permit by small producers	Fees/cost of promotion	- Invoice - Certification
Container/ Equipment	-Refrigerated vans		-stainless containers at their own cost
Quality	-Specifications after match - Spot check	-Specifications match -farm visits	- 2 months farm visits
Market Info System	-Info from public market & supermarkets in Manila and 44 trading stations in the provinces manually or thru fax, SSB radio,phone	-Price info based on survey of both farm gate & prices paid by consumers carried out regularly by designated farmers & dealers	-Info from buyers & processors

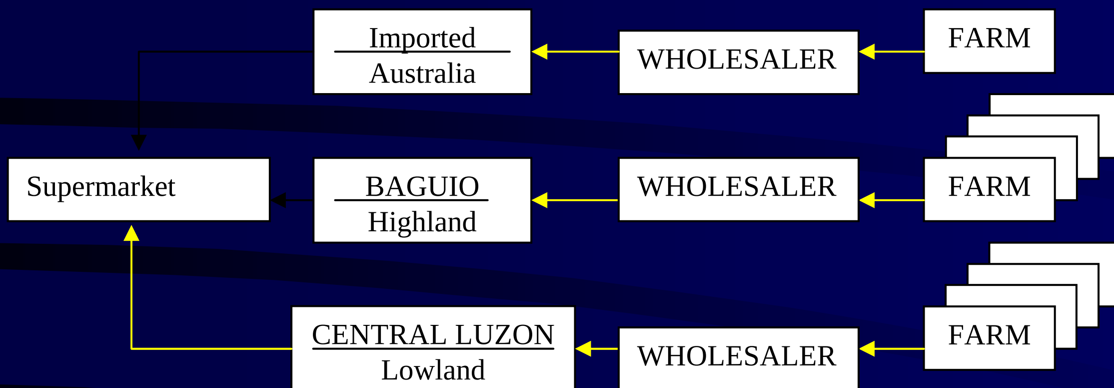
Market Characteristics and Trends

Case of the Philippines

Supermarket Driven Vegetable Supply Chains

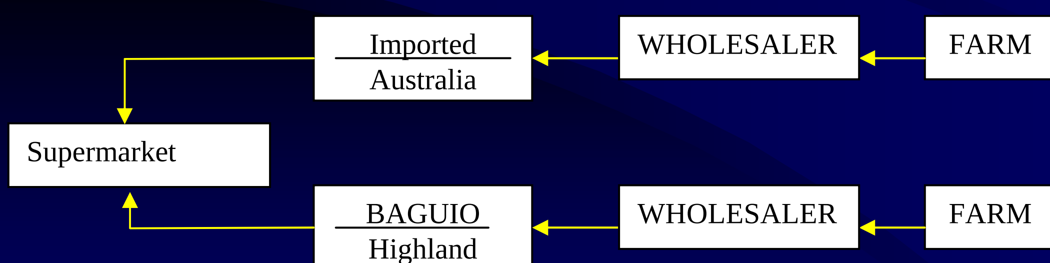
Scheme

1. S &R Stores (2 stores)



- One supplier one store
- Spot check farms monthly
- Weekly order placement on daily volume requirements
- 15-90 days payment (Average 30 days)

2. Shopwise (3 stores)



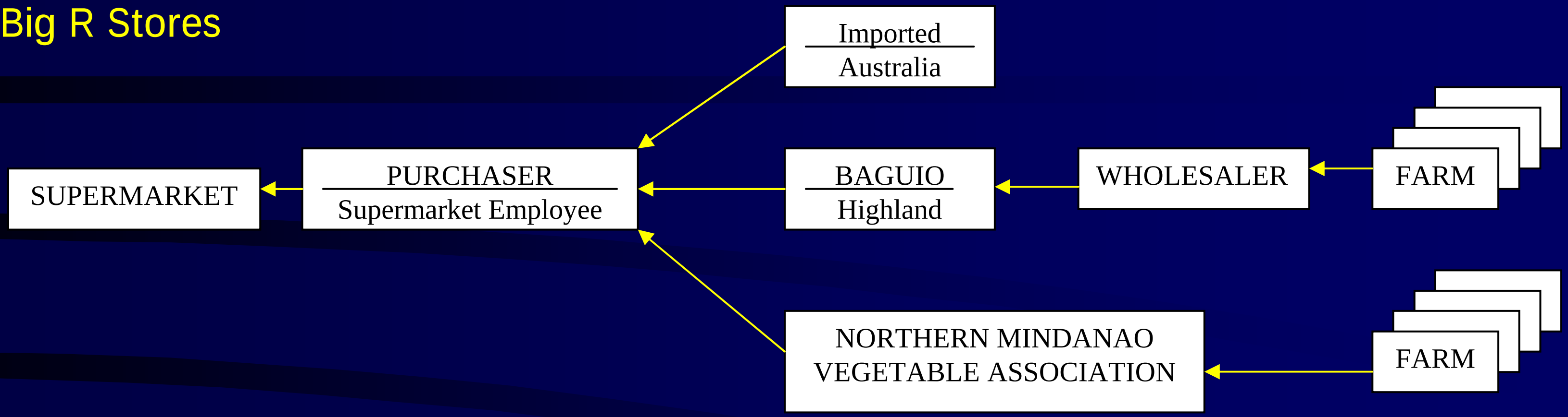
- Multi-supplier
- 90 days payment scheme

Market Characteristics And Trends

Case of the Philippines

Supermarket Driven Vegetable Supply Chains

3. Big R Stores



Positioning: quality at wet market prices or even lower

Fresh produce section opens at 7am

Market Characteristics and Trends

- Five major groups comprised the retail market in the region:
  Hypermarkets, Cash and Carry, supermarket/groceries, convenience store/gas marts, “Mom & Pop”/sari-sari stores
- Increasing health and food safety consciousness is positively aiding the growth of modern retailers in SEA (Philippines)
- The influence pattern is two ways,
  modern retailing raised level of standard of grocery services
  wet markets popularity made modern retailers approximate wet market attributes
- In modern retailing, price is the name of the game, there is pressure to source cheaper but quality/fresher goods to lower costs

Domestic players are joining forces to be able to meet competition (associations, strategic alliances)

- The levels of retail development vary by level of technology and regulatory policies in place in terms
  - product range (processed commodity) more in Thailand
  - well planned development pattern (Vietnam)

Implications on Trade and Agriculture

Increasing competition : horizontal and vertical

- small processors face increasing competition with large suppliers who advertise
  supermarket consumers for processed products are brand conscious
- retailers have higher bargaining power with small suppliers (processed) as supermarkets are the only major outlets
- consolidators may exercise buying power over small suppliers (fresh)

Concentration of suppliers for economies of scope and higher efficiency to compete

- Emergence of large consolidators for fresh produce,
- dominant suppliers in processed
- supermarkets are also exporters

squeezing margins at various levels in the chain particularly for small upstream agents

- increasing vertical and horizontal competition squeeze margins
- large consolidators(fresh produce) presence weakens bargaining power of farmers
- foreign hypermarkets into wholesaling indicative of barriers to entry or market saturation in the retail sector

Implications on Trade And Agriculture

- Supermarkets cost efficient operations are marginalizing traditional suppliers
  Organized procurement system enable them
  to drive down cost, lower prices
  relying less and less on brokers directly to production sites (Big R,Philippines, TESCO in Chiang Mai)
- Small producers are best able to bargain if they are organized
- There are various non meeting points between small producers and supermarkets

product	quality, volume, variety, regularity
price	inclusions/ communication
pay	cash vs. 60-90 day term, consignment



Implications on Trade and Agriculture

- Organized procurement system of supermarkets enable them to drive down cost and lower prices
- Traceability - address quality concerns; has potential in ensuring smallholders role in retail chain (locational premium (Dalat potatoes, Vietnam, Baguio veggies)
- There is value in niche marketing
- Supermarkets are relying less and less on brokers and are going directly to production sites (Big R case in the Philippines, TESCO in Chiang Mai)
- Product packages
  - small packages are in because of affordability reasons
  - set packages are in for convenience (soup packages, sauces and mixes)

Issues and Concerns (Philippines)

- **policies that support linkage must prioritize supply issues (lowering cost, consolidation,quality improvement)**

➢ Supply Chain Enhancement

infrastructure (including ports/shipping, wholesale markets)

Research and Development - Science and Technology

support/extension services

financing

➢ Tariff on inputs (sugar, packaging materials, agri chemicals)

- Development and building capacities of SMEs

- Institutions and Governance

Program Implementation(AFMA,Comprehensive Agrarian Reform)

Political will

Issues and Concerns: National Level

- Development of new forms or modes of “linking” small producers to markets counteracts buyer driven chains, enhance market access
- There is value on niche marketing, (identification/promotion)
- Formulation of policies that will level the playing field not to drive a wedge between producer and retail prices
- Protection of small farmers through a uniform national grading system with which farmers are familiar (Japan)
- Decentralization of Information services Farmers need information more on markets where they sell their goods than national data, they need prices at local markets.

Issues and Concerns: National Level

Corporate Social Responsibility and Regulation

- Social pressure works
  - -being part of the community (local suppliers, employees)
  - - paying local tax (advantage for promotion)

- Protecting local retailing business thru regulation
  - - Limit expansion of foreign joint ventures
    - a. Set price floor
    - b. Limit service hours
  - - Regulating foreign trade
    - a. Will all the more increase economic rent of existing large retailers
    - b. Could be passed on to consumers/suppliers

National Level

- Turn constraint into an opportunity by looking at supermarket as a means to widen market base at continuing levels
- Identification of most viable organizational modality that will best provide market access to farmers
- Broker in small producers participation into the process
  - they cannot do it alone
  - they need time and support to adjust to supermarket needs
- Identify Institution that will monitor contracts and protects smallholders rights
- SMEs are at the forefront of trade and agriculture, how best to empower SMEs
- Harnessing corporate social responsibility to enhance smallholder participation

Issues and Concerns: Regional

- Move for certification and harmonization of standards
- Address Food Safety Concerns
- Move for regional monitoring of trade and agriculture
- Review of Impacts of trade agreements on regional sub-regional country developments
- Enhanced Regional Integration
- Enhanced Market Research (profiling market,etc)
- Address unfair trade practices and gaps on quality, safety, payment

Issues and Concerns: Global

- Country outlets used as conduit to supply F&V of their outlets in other countries, some are direct importers)

- Will Development of an International Code of Ethics work?

FOOD FOR THOUGHT

Is there a need to monitor corporate concentration , given that much of the agrifood trade, processing & retailing is in the hands of few corporations ?