The Changing Landscape of the Philippine Retail Food Industry

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Abstract

The retail industry, growing at a significant rate, has contributed much to the economy of the country as highlighted in its increasing share in the personal consumption expenditure (PCE), gross domestic product (GDP), and employment. This study examines the importance of the retail industry, discussing its pattern of spread, the supply and demand conditions that affect the industry, the change in the procurement system of the retail formats, as well as the actions taken by some stakeholders to address the negative impact of such changes. The major players in the industry that are based locally have resorted to importation, modernization, and expansion to other areas to maintain their position. These activities gave the retailers a competitive edge over the others, even over the foreign retailers. Moreover, initial findings suggest that the changes in the food retail structure influenced the way the supermarkets source their fresh produce from their suppliers. This procurement system determines which actors are included in the structure. Only those suppliers who can respond to the stringent standards set by the supermarkets can continuously serve them.

Keywords: modern retail; Philippines; procurement system; retail trade liberalization; traditional retail

Abbreviations:

BPO – business process outsourcing
DTI – Department of Trade and Industry
ECRP – Efficient Consumer Response Philippines
EDI – electronic data interchange
EIPP – Electronic Invoice Presentment and Payment
FBT – food, beverage, and tobacco
FMCG – fast-moving consumer goods
FSS – Frequent Shoppers Surplus
FFVs – fresh fruits and vegetables
GDP – gross domestic product
GNP – gross national product

GTM – Gulayan ng Timog Mindanao
IPO – initial public offering
LGU – local government unit
MGD – modern grocery distribution
NSCB – National Statistical Coordination Board
NVAT – Nueva Vizcaya Agricultural Terminal
OFW – overseas Filipino workers
PhP – Philippine peso
PCE – product consumption expenditure
POS – point of sale
SARS – severe acute respiratory syndrome
SKUs – stock-keeping units
SMB – small and medium businesses
TROs – temporary restraining orders
USD – United States dollar
VANs – value-added networks
VICSMIN – Vegetable Industry Council of Southern Mindanao
VMI – vendor-managed inventory

Introduction

The Philippine retail food industry went through a number of changes even before retail trade was liberalized. From 1996 to 2000, there was an estimated 18.60% average annual growth in the revenues of the supermarkets (UA&P, n.d.; cited in Digal, 2001). From 2000 onwards, supermarkets continue to proliferate in the country. Other modern retail formats, including the hypermarkets, have also emerged and expanded to other areas.

As these retailers become more dominant in the retail industry, their requirements from their suppliers have become more stringent. This makes it more difficult for small players to meet the modern retail standards. Small-scale farmers, in particular, fail to meet these requirements due to lack of resources.

In several studies, speculations had been made about the possible reasons for the dominance of the supermarkets before the retail trade liberalization. However, only a few studies examining the growth of the country's retail industry and the drivers of such change after the retail trade liberalization are available in the literature. Lesser still are the number of studies on the impact of the determinants of such change to the procurement system, particularly for fresh produce, of the supermarkets.

This paper examines the continuing growth of the modern retail formats as driven by the demand and supply conditions. It also aims to understand the impact of their growth to the upstream level. The study was conducted by reviewing secondary sources of relevant retail data, which were then supplemented with interviews from key informants in traditional retail.

This paper is organized in six sections. The first section highlights the importance of the retail food industry in the country; the second presents the pattern of expansion of modern retail; the third discusses the demand and supply conditions which contribute to the existing condition of the retail industry; the fourth discusses the Retail Trade Liberalization Act since it also plays a major role in the industry; the fifth explores the changes in the procurement system of the modern retail formats and investigates the impact of the procurement system on the suppliers' level, including some of the activities the affected stakeholders engage in as a response to such changes; and, lastly, the sixth presents the conclusion.

Importance of the Philippine Retail Industry

Share of Retail Trade

The share of retail in the trade (75.87%) and services sector (26.36%) shows an increasing trend over the years (Table 1). Between 1987 and 1997, the average annual growth of the retail sector was 5.83%, which was higher than the 2.27% growth rate of the gross domestic product (GDP). The same pattern is observed within the 1997–2007 period, with the average growth of the sector at 7.17% while that of the GDP is at 4.77%.

Moreover, retail output, led by retail food, has increased. The percentage share of food to the personal consumption expenditure (PCE) fluctuates within the range of 41.57% to 43.44%, almost half of the total PCE (Table 1). From 1997 to 2006, the share of food did not increase in proportion to the increase in GDP, but this constitutes the bulk of the PCE. In the same period, the real value of food expenditure has increased from PhP374,276 million to PhP536,489 million, a growth of 43.34% in a span of 9 years. Though ranking only third to transportation/communication (151%) and miscellaneous (52%) categories in terms of growth, the growth rate of food (1997–2006) almost exceeded the growth of total PCE at 46.02%.

Along with the trend in food expenditure, there has been a changing composition of the food and food sales categories in modern retail channels (Table 2). Generally, retail sales have been increasing. The share of food categories have increased from 2002 to 2006, with the highest increase exhibited by Robinsons from 20.8% in 2002 to 29.8% in 2006. The increase in the share of the food category in retail sales for the topmost grocers is also forecasted for 2011.

Table 1. Personal expenditure and consumption, percentage share to GDP

Industry/Industry Group	% share to GDP									
	1997	1998	1999	2000	2001	2002	2003	2004[a]	2005[a]	2006[a]
Food	41.91	43.44	43.04	41.69	42.12	41.71	41.79	41.57	41.70	42.03
Beverages	1.73	1.79	1.79	1.75	1.77	1.75	1.73	1.70	1.61	1.58
Tobacco	1.92	1.96	1.92	1.84	1.84	1.79	1.72	1.66	1.61	1.56
Clothing and footwear	2.78	2.86	2.83	2.75	2.76	2.72	2.68	2.64	2.50	2.40
Fuel, light, and water	3.33	3.54	3.59	3.56	3.63	3.50	3.50	3.38	3.18	3.00
Household furnishings	2.16	2.25	2.27	2.26	2.29	2.30	2.30	2.24	2.13	1.98
Household operations	7.53	7.84	7.76	7.49	7.56	7.41	7.26	7.02	6.89	6.70
Transportation/communication	4.08	4.33	4.34	4.50	4.89	5.32	5.73	6.15	6.71	7.16
Miscellaneous	11.18	11.71	11.61	11.46	11.82	11.91	12.89	11.95	11.95	11.88
Others	23.38	20.28	20.87	22.70	21.32	21.59	20.41	21.70	21.72	21.72
Personal consumption expediture	76.62	79.72	79.13	77.30	78.68	78.41	79.59	78.30	78.28	78.28
% change of GDP from year to year	-	-0.58	3.40	5.97	1.76	4.45	4.93	6.38	4.87	5.45

Note: [a] Data as of May 2007

Source: NSCB (2007)

Table 2. Share of food and nonfood sales to total retail sales

Company	% share to sales											
	2003		2003		2004		2005		2006		2011 forecast	
	Food	Nonfood	Food	Nonfood	Food	Nonfood	Food	Nonfood	Food	Nonfood	Food	Nonfood
Mercury Drug	70.0	30.0	70.0	30.0	70.0	30.0	70.0	30.0	70.0	30.0	70.0	30.0
Robinsons	20.8	79.2	23.9	76.1	24.5	75.5	31.2	68.8	29.8	70.2	32.9	67.1
Rustan's	50.3	49.7	51.1	48.9	52.8	47.2	53.7	45.1	54.9	41.2	58.8	41.2
SHV Makro												
SM Group	30.4	69.6	33.2	66.8	34.1	65.9	35.8	64.2	29.9	70.1	38.9	61.1

Source: Planet Retail (2007)

Table 3. Top 2 sectors with high employment rate (000s)

Sectors	October 1999		October 2000		October 2001 and 2002		October 2003		October 2004		October 2005		October 2006	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture, fishery, and forestry	11,342	39.11	10,401	37.45	No data		11,741	37.21	11,785	37.13	12,171	37.02	12,166	36.66
Wholesale & retail, repair and motor vehicles, motor-cycles & personal household goods	4,619	15.93	4,587	16.51	No data		5,661	17.94	5,788	18.24	6,215	18.91	6,227	18.76

Source: NSO (1997–2008)

Employment of Retail Trade Sector

Aside from contributing a very significant share of the country's total GDP, the wholesale/retail sector also has a high share of the total employment (Table 3). It ranked next to the agriculture, fishery, and forestry sector. Its share in employment increased from 15.13% in October 1997 to 18.76% in October 2006.

The total output and employment statistics of the retail sector, however, is understated since some of the microenterprises were excluded from the annual survey of establishments. In the Asia Pacific Retail and Shopper Trends 2004 report of ACNielsen, the *sari-sari* stores lead the retail sector, capturing 60% share of the fast-moving consumer goods (FMCG) in 2003. The share of traditional trade in retail through *sari-sari* stores has an average annual growth rate of 1.5% from 2001. As of 2003, there were 552,873 *sari-sari* stores in the Philippines, a 13% increase from the previous year (Capistrano, 2005).

The number of individuals employed in the wholesale/retail sector indicates that a significant portion of the population depends on retailing as their main source of income. Many jobless and underemployed individuals have ventured into the retail trade sector since this requires minimum capital and skills. In fact, high underemployment rate in the country led to the start of the informal sector and its increasing share in the labor force (NAPC, 2002). Many part-time workers, including some students, also engage in retail activities. Different statistics show that 50% to 90% of the workers in the country belong to this sector (Tolentino et al., 2001). The activities that these workers engage in are usually not legally restricted. Since these are not registered, these escape the notice of formal authorities.

Also, many families in the rural areas depend on retailing for additional income. Their produce in the farm is sold directly to the consumers or indirectly through the wholesalers and retailers in the public markets. Since the produce is traded in the retail sector, the economic sustenance of the individuals residing in rural areas is highly dependent on the retail industry. Retailing also shows the prevalence of free enterprise system of the Filipinos. This signifies a part of the Filipino culture wherein individuals are allowed to sell goods outside establishments or in areas where the number of potential consumers is high. Moreover, at increased remittances, households of overseas Filipino workers (OFWs) tend to engage in entrepreneurial activities (Yang, 2005; cited in Tabuga, 2007).

This sector wherein micro- and small industries thrive comprises the informal sector of the "underground economy." This sector contributed 30% of the total gross national product (GNP) in 1993 (NAPC, 2002). From the estimates of the National Statistical Coordination Board (NSCB), approximately 45% of the country's GDP was contributed by the informal sector from 1987 to 1993 (Canlas, 2002; cited in NAPC, 2002).

Pattern of Spread of Modern Retail

The definitions of modern retail channels vary for retailers and its suppliers. Retailers such as Robinsons classify supermarket size depending on the number of point-of-sale (POS) counters or cashiers. This classification is also used by researchers in conducting retail audits. Some retailers also consider the supplier's classification of the supermarkets based on their orders. Rustan's/Shopwise, meanwhile, classifies its retail channels depending on the assortment of merchandise. A hypermarket has 10,000 to 15,000 stock-keeping units (SKUs) while the supermarket only has 5,000. In Planet Retail, however, the modern retail channels are classified as hypermarkets and superstores, cash and carries and wholesale clubs, convenience and forecourt stores, and supermarkets and neighborhood stores. The same classification is used for all countries.

The different modern retail formats also grow at varying rates. Of all the modern retail formats, the hypermarkets and superstores have the highest sales average growth rate from 1999 to 2007 at 28.2%. This could imply that larger stores are more efficient, but these should be examined further. Supermarkets and neighborhood stores have the lowest growth rate at 11.9%. The cash and carries and wholesale clubs grow at 20.5% while the convenience and forecourt stores grow at 12.2% (Planet Retail, 2008). The growth in the convenience and forecourt stores could be attributed to the increasing customers' need for convenience and quick service with superior quality relative to neighborhood stores.

Another interesting trend in the industry is the establishment of mall branches in the other areas of Luzon, as well as in the Visayas and Mindanao. Considering only the expansion of SM and Robinsons malls from 1985 to 2008, the average number of malls per year has increased (Table 4). Within the 1985–1990 period, an average of 0.4 mall has opened per year. This increased to 0.8 and 2 within the 1991–1995 and 1996–2000 periods, respectively. After retail was liberalized, its growth more than doubled. The average number of malls opened annually was 4.4 within the 2001–2005 period. There is a decline though from 2006 to 2008; however, there are a number of malls which opened in 2008 that are not included in the figure.

Table 4. Number of new branches of Robinsons and SM malls

Particular	1980-1990	1991-1995	1996-2000	2001-05	2006-2008
No. of malls	4	4	8	24	9
Ave. per year	0.4	0.8	1.6	4.8	3

Sources: Robinsons Land Corporation (2008); SM Prime Holdings (2008)

Moreover, Robinsons and SM malls opened their branches only within Metro Manila (Table 5). It was only in 1993 when they expanded to the Visayas. During that year, 2 branches were opened by SM. Robinsons started only its venture in Visayas in 1997, and it was only in 2002 when these 2 malls opened their branches in Mindanao.

Foreign presence is felt only through joint ventures and franchises. In fact, some major retailers have dominated the market (Table 6). From 1999 to 2005, the market share of the top 5 grocers has increased from 26.7% to 34.5%. Among the top 5 grocers, however, only SM's share has consistently increased. It has captured the share of other grocers belonging to the top 5 and, at the same time, gained additional share from the other grocers.

Though SM has a low annual growth rate in its number of stores, it has expanded and maximized some of its existing stores; annual growth rate of the number of stores is the lowest at 5.04% while it has the highest annual growth rate in sales area at 113.42% (Table 7). Though the expansion in the number

Table 5. Number of branches of Robinsons and SM malls per major location

Location	1985-90	1991-95	1996-2000	2001-05	2006-08	Total
Metro Manila	3	2	3	5	3	16
Luzon	-	-	4	12	5	21
Visayas	-	2	3	2	1	8
Mindanao	-	-	-	3	-	3
Total	3	4	10	22	9	48

Sources: Robinsons Land Corporation (2008); SM Prime Holdings (2008)

Table 6. Market share (%) of top 5 grocers

Company	1999	2000	2001	2002	2003	2004	2005
Mercury Drug	-	11.1	10.5	9.9	9.8	9.3	9.0
Robinson	4.8	4.0	4.5	5.4	6.0	5.7	5.7
Rustan's	5.6	5.1	4.8	4.7	4.4	4.5	4.6
SHV Group	5.6	5.2	5.0	3.4	3.1	3.4	3.4
SM Group	7.9	8.7	9.5	9.6	10.3	11.3	11.9
Uniwide	2.8	-	0.0	-	-	-	-
Total	26.7	34.2	34.2	33.1	33.5	34.2	34.5

Source: Planet Retail (2007)

Table 7. Annual growth rate (%) of consistent top 5 grocers, 2000 to 2005

Top 5 grocers	Sales area	No. of stores	Grocery retail banner sales
Mercury Drug	5.49	5.49	4.07
Robinsons	15.54	11.25	10.93
Rustan's	10.27	6.80	5.52
SHV Makro	11.25	9.58	0.24
SM Group	4.64	10.63	10.54
All 5 grocers	8.24	9.35	7.25

Source: Planet Retail (2007)

of stores is relatively minimal, it ranks second to the annual growth rate of grocery retail banner sales at 18.58%.

Determinants of the Modern Retail Spread

The demand and supply conditions contribute to the increase in the number of modern retail formats.

Demand Conditions

Purchasing Power of Filipinos

The purchasing power of Filipinos increased by an average of 5.23% per year from 1991 to 2000 (Table 8). The annual growth rate of expenditures (5.67%) was higher than the income growth. The same case is observed in both urban and rural sectors. The rural sector has a remarkable growth in spending. Its expenditure growth rate is 2% higher than its income growth relative to the urban sector at only 1%. While the expenditure growth rate is higher in the rural than in the urban area, the reverse is true in the population growth rate. Urban population increased at an annual average of 4% to 5% from 1980 to 2005 while the growth in the rural area was only 0.5%. Further increase in urban population leads to a higher value of consumption.

Dual Pattern of Income Levels and Increasing Overseas Filipino Worker (OFW) Remittances Led to Higher Purchasing Power of Filipinos

Income levels of Filipinos demonstrate a dual pattern which contributes to the improvement of purchasing power. This increases the opportunity cost of working women and the demand for one-stop shopping; hence, this creates an opportunity for modern retail trade outlets.

Table 8. Urban and rural income and expenditures at 1994 prices (in million pesos)

Particular	1991	1994	1997	2000	% increase
Income					
Urban	669,081	718,010	963,488	1,008,048	50.66
Rural	312,846	342,700	437,202	436,103	39.40
Total	981,927	1,060,710	1,400,690	1,444,151	47.07
Expenditure					
Urban	527,008	578,334	762,452	810,434	53.78
Rural	256,157	284,675	369,501	372,660	45.48
Total	783,165	863,009	1,131,953	1,183,094	51.07

Source: NSO (1997–2008)

The contribution of the overseas workers' remittances in significantly increasing the purchasing power of Filipinos cannot be denied. In fact, the number of deployed overseas workers increased from 615,019 in 1991 to 1,062,567 in 2006 at an average growth rate of 4.85% per year (NSCB, 2007). As a result, the amount of remittances increased to an annual average growth rate of 64.77% (BSP, 2008). A study shows that the remittances constitute 80% of the beneficiary households' family income. These households are found to utilize considerable amount on food and education (ADB, 2003; cited in Tabuga, 2007). Remittances also induce the families to allocate budget on durables. Increase in durable ownership influences the frequency of the households' food shopping. In fact, these households spend less on food eaten outside the home (Tabuga, 2007). Increasing share for nonstaple diets has also become apparent. Data gathered from 1990 to 2000 showed the changes in consumption for goods. Meat consumption is growing faster than other food categories such as fish (Figure 1). This could be attributed to the exposure of some families by their OFW relatives to a variety of food (Cabochan, 2005).

Effects of Higher Purchasing Power of Filipinos

This positive growth in purchasing power has also resulted to changed consumption patterns. As evident in other parts of Asia, increased income leads to smaller budget allocation to food (Gulati et al., 2006). The share of food, beverage, and tobacco (FBT) to the personal consumption expenditure decreased while their peso values increased. Also, food share is substantially higher in rural areas than in urban areas. These incidences are consistent with Engel's Law which states that the increase in the proportion of expenditure on food is less than the increase in income. More money is spent on nonfood items

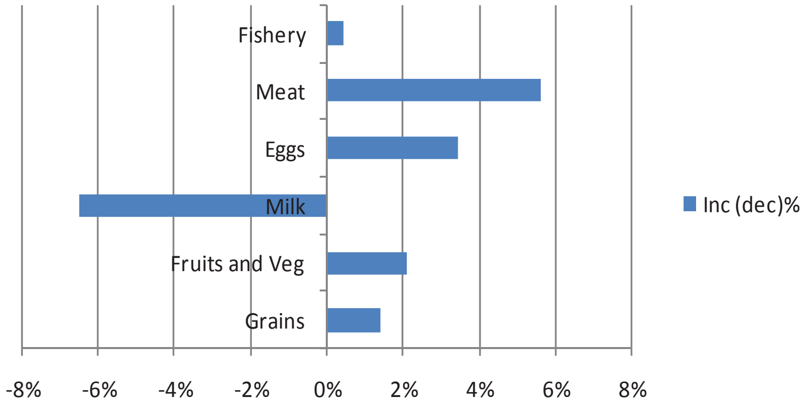

Figure 1. Growth in production of grains and high-value agricultural commodities in the Philippines, 1990–2000

as income increases. There has been a consistent decline in the share of food expenditures from 50.7% in 1988 to merely 43.7% in 2000 (Table 9). It is also important to mention that the decision on whether to eat at home or not is also affected by the increase in purchasing power. From 1988 to 2000, while the food consumed at home decreased, food consumed outside increased.

Improved purchasing power has also made the Filipinos more health- and value-conscious. Food safety crisis encountered by the country led to the demand for food in modern retail and large processors for food (Gulati and Reardon, 2007). Several food safety crises such as severe acute respiratory syndrome (SARS) and other food-borne illnesses also led the urban consumers to be more conscious with food safety (Gulati et al., 2006). Since consumers have learned to consider not only the price but also the value provided by the products, retailers are now heedful in providing high-quality food, which conforms to the taste of the consumers, as well as speed and efficiency of service in a clean environment (Palma, 2005; cited in Catelo, n.d.). This group of consumers prefer a clean environment with well-maintained equipment and a trained crew to attend to them (Cabochan, 2005). Also, they have been more demanding of food safety and labels which show nutritional values and expiration dates (Cabochan, 2005). These demands, however, are not due only to higher income but also to higher educational attainment. Currently, programs and movements to address issues in food safety are driven by the government. There are a number of consumer advocacy groups though, but they do not have enough members to constitute a larger customer base to succeed in their movements (Malayang III, 2002).

Moreover, consumerism is increasingly being practiced. Along with some consumer groups, the Department of Trade and Industry (DTI) is giving

Table 9. Percentage of distribution of family expenditure for food, by type of consumption: urban and rural; 1988–2000, Philippines

Particular	Year	Food	Food consumed at home	Food consumed outside the home
Philippine	1988	50.7	47.3	3.4
	1991	48.5	44.7	3.8
	1994	47.7	43.5	4.2
	1997	44.2	39.5	4.7
	2000	43.7	38.7	5.0
Urban	1988	45.9	41.6	4.3
	1991	45.0	40.4	4.6
	1994	44.2	39.2	5.0
	1997	40.3	34.7	5.6
	2000	39.9	34.3	5.6
Rural	1988	56.6	54.3	2.3
	1991	55.7	53.4	2.3
	1994	54.9	52.3	2.6
	1997	52.2	49.2	3.0
	2000	51.8	48.3	3.5

Source: NSO (1988; 1991; 1994; 1997; 2000)

information about the rights of the consumers and tips on how to maximize the value of their money (PASI, 1995; cited in Digal, 2001). Influence through television, which has 80% penetration nationwide, has also brought changes in the behavior of consumers (ACNielsen, 2001). Filipinos have rated an average of 4.57 on a scale of 1 (low) to 5 (high) in "good value for money" when they were asked about the factors in deciding where to do their grocery shopping and scored 3.57 in "better selection of higher-quality brands and products." The survey revealed that "good value for money" means promotions and regular price discounts for 82.9% of the Filipino respondents. It also means reputation for being cheaper than competitors (90%), promises of the store to have everyday low prices (71%), and offer of private labels that are cheaper (67%) according to the respondents (ACNielsen, 2008).

Improved purchasing power also led to increased number of private transportation vehicles. These vehicles and the infrastructure facilities improvements make shopping centers easier to access. Also, there has been an increase in ownership of durables from 1999 to 2004. The number of refrigerators has increased by 13% (ACNielsen, 2007). The consumers are then more able to buy goods, fresh produce in particular, by bulk from retailers located in farther areas than the mom-and-pop stores. In addition, improved condition is observed in infrastructure facilities and transportation systems in urban and suburban areas that increase access to shopping malls. The availability of credit card facilities in modern retail also improves the purchasing power of the consumers. With the existence of durables and credit card facilities, the consumers are now more informed and can afford to buy perishable goods in bulk for storage.

Malling

Malling has become a part of the Filipino culture. With the air-conditioned facilities and a wide array of product and service offerings, the malls have become popular places for leisure, religious activities, and entertainment. In Metro Manila where parks are scarce, the malls are the alternative destination for most families. A study conducted by CLSA Asia-Pacific Market on 1,000 middle-class families in Cebu, Davao, Baguio, Metro Manila, and Lucena shows that 90% of the families spend an average of PhP1,200 to watch movies in the malls (Lato, 2008).

The growing younger population (under 15 years of age) has greatly contributed to the changes in consumer preferences and has perpetuated the malling culture. In 2006, 35% of the population was within the age bracket of 0 to 14 years (CIA, 2006; cited in World Association of Newpapers, 2007).

Likewise, the increase in business process outsourcing (BPO) workers within the age range of 22 to 30 years led to higher patronage for malling activities. These workers, whose offices are located near the malls, tend to purchase goods and avail of the services found in the supermarkets within the malls (Groover, 2006). It has been observed that as the seats of the call center industry increased from 10,000 in 2002 to 40,000 in 2005, there has been a growth in modern convenience stores, particularly 7-Eleven, Mini-Stop, Shell Select, and Caltex Star Mart (Singian, 2005). Westernization of lifestyle among these younger people has also encouraged the growth of these modern retails (Shepherd, 2005).

Malling, coupled with the increasing purchasing power of the Filipinos, has been a contributing factor to the establishment of modern retail channels inside malls. Frequency of people's visits to the malls ensures the sustainability of these channels.

Modern Retail Formats versus Traditional Market

Though *sari-sari* stores offer limited items, mainly nonperishable items, these have been patronized by poor Filipinos. It is common to see smaller repacked items in the *sari-sari* stores and wet markets with price that ranges from PhP1 to PhP5. Though these stores offer items with inconsistent and at times higher markups, these are preferred by the D and E market segments for convenience and affordability since these are in sachets or are repacked in smaller containers. These can also be purchased through credit. This is prevalent in the poorer rural areas. In fact, the traditional retailing which comprises the mom-and-pop stores and wet markets accounts for 65% of all the retail outlets in the Philippines (DFAT, 2002). There are several reasons these consumers would want to buy from these outlets. Price is of primary importance to a large portion of the respondents. In fact, 42% buy the mini versions of the goods because these are cheaper and more affordable while 32% buy repacked items, locally coined as *tingi*, for the same reasons. According to 39% and 29% of the respondents, the mini versions and *tingi* items, respectively, address their budget constraints. In addition, 32% and 46% of the individuals say these are convenient for them because these are available in the neigborhood stores. This saves time since consumers do not need to go to stores located in farther areas (Olarte et al, 2005).

There are also other considerations in choosing the *sari-sari* store over the other market channels, including increased transportation costs, informal credit line, and personal touch (Capistrano, 2005).

While wet markets are also patronized by most Filipinos for fresh produce, many of them have shifted to supermarkets for convenience. High-income consumers are willing to spend more for convenience. *Sari-sari* stores sell limited variety of goods and usually do not sell highly perishable goods such as vegetables, fish, fruits, and meat. Supermarkets, however, carry these items and at a greater variety than the grocery stores, with a cleaner and more comfortable place to shop. A significant portion of vegetables is sold through supermarkets. In Metro Manila alone, 15% of the share of vegetables is sold in supermarkets. This is, however, higher than the national percentage (Digal et al., 2004).

Moreover, these retail formats are located within the mall which offers one-stop shopping convenience. Also, supermarkets are strategically located near population centers, and this is an advantage considering that 57% of the shoppers use public transport to shop (ACNielsen, 2007). In addition, to capture a significant portion of the market for fresh vegetables, the concessionaires in Robinsons Mall have offered prices that are lower than those of the wet markets. Most of the individuals who have shifted to modern retail comprise the increasing middle-class income which is spending around USD21B. This is estimated to be 42% of the modern retail sales (ACNielsen, 2006; cited in ACNielsen, 2007). The popularity of malls where supermarkets are located largely contributes to this figure. In fact, 52% of the urban shoppers spent most of their money on supermarkets (ACNielsen, 2007). This is reflected in the significant share of modern distribution to retail sales. From 2003 to 2007, there was a slight increase in the share of modern grocery distribution (MGD) to retail sales from 23.39% to 24.45% (Planet Retail, 2008). The annual spending per capita on grocery amounted to USD207 last 2006, which accounts to 28% share of the total consumer spending (IBM, 2007).

Supermarkets, hypermarkets, and convenience stores have continued their expansion in various areas in response to the consumers' need for convenience (Cabochan, 2005). There has been a growing share of nuclear families and one-person households in the Philippines, which contributes to increased demand for convenience. These modern outlets consider the shoe leather costs, the time and effort used in buying food, and search costs (Shepherd, 2005). These retail channels also address the demand of the consumers for food variety in a clean environment.

Most retailers respond to the search of consumers for promotions and regular price discounts by offering loyalty cards wherein the accumulated points for purchases are converted to discounts and promotions. Rustan's Supermarkets have the Frequent Shoppers Surplus (FSS) while SM offers the SM Advantage Card. The local retailers in other regions are also utilizing this concept. They have been successful in lowering the prices of goods except those of the FFVs (fresh fruits and vegetables) since sourcing of these goods are more complicated.

Private labels, however, are regarded as brands for individuals who are on tight budget and cannot afford to choose the best brands. Only 25% of the Filipino respondents disagree that "generally, the brands seem to have very cheap looking packaging which puts them off buying them" (ACNielsen, 2005). Some of the private labels offered by retailers are SM's SM Bonus, Robinsons' Supersavers, Makro's Aro, and Rustan's Sure Buy (Planet Retail, 2008). SM started with only 100 brands in 1980. The number increased to 1,500 brands at the end of 2003, 30% of which is food (Digal et al., 2004).

Supply Conditions

Real Estate for Retail

A positive growth is observed in the retail building as the top developers in the country are continuing to expand (CBRE, 2007). This is in response to the growing consumer base of the malls. Three big commercial developers, SM Prime Holdings Inc., Robinsons Land, and Ayala Land are planning to expand malls and construct new ones in major cities and municipalities. SM Prime Holdings Inc. has allotted PhP35B for construction of 35 to 40 new malls and expansion of existing ones in a period of 5 years. Trinoma of Ayala Land was launched last year (Cushman & Wakefield Research, 2007). SM started with a box-type mall wherein the shoppers are offered a one-stop shopping experience. Ayala Land has further innovated by differentiation through its designs and nonretail offerings. Greenbelt in Makati, for example, houses a museum and a chapel with a lagoon and a park.

Expansion of the large retailers in the country has been possible because of the relatively low cost for space occupancy. In comparison with other countries in the Asia-Pacific, the rental rates in the country are among the lowest. In Makati Central Business District, the monthly rental rate per square meter is USD26 as of the first quarter of 2007. A lower monthly rental rate is charged in the Ortigas Central Business District, at USD21. Next to the Philippines with low rental rates are India (Mumbai) and Thailand (Bangkok) at USD45 and USD73, respectively. The increase of rental rate in the country is also one of the lowest in the region at an average of 1.55% in prime areas. Big retailers are concentrated in central business districts, though there are some that are located near subdivision areas (Cushman & Wakefield Research, 2007).

Productivity

With the aggressive expansion of real estate for retail industry and the increasing patronage of the Filipinos for malls, it is not surprising that the productivity of the top 5 grocers has been declining over the years (Table 10). Some of them appeared to be recovering, such as Robinsons from 2003–2004 and 2004–2005, showing productivity growth rates of 1.91% and 0.40%, respectively. The same can be said for SM from 2001–2002 and 2002–2003 year-on-year growth rates. The pattern showing a downward trend or a U-shaped curve is common in the Philippine retailing industry. It shows a limit to expansion due to diseconomies of scale (PDFI, 1999). Expansion to other areas, particularly in the provinces, can push the average cost upwards due to expensive logistic costs. To be competitive, these grocers should be able to reasonably lower their prices. By making use of the best available technology, they could also lower their transaction costs.

There have been significant changes in the trade sector to address the concerns raised earlier. Technology has been used to considerably reduce the operational costs. The use of information technology has a great influence on what the suppliers manufacture. The retailers are maximizing the use of technology to tailor its products and services to varying consumers' preferences. Increasing number of consumers has demanded superior-quality products, more variety, packaged with more services but offered at the lowest possible price, and delivered at the least time possible. Sophisticated information management of data has been used to address this (IBM, 2007). In fact, most of the supermarkets in the Philippines have installed point-of-sale (POS) scanner systems. A few of them integrated the system with their inventory management system to ensure availability of products on the shelves. Value-added networks (VANs) have been set up along with the framework and infrastructure for the usage of electronic data interchange (EDI). Through an integrated computer system, the lead time for delivering a product and the inventory costs are reduced. This technology requires a large capital investment. Only those large retailers who have access to credit, however, can avail of this sophisticated technology, such as the SM

Table 10. Trend of productivity for top 5 grocers

Company	Retail banner sales in USD per square meters						
	1999	2000	2001	2002	2003	2004	2005
Mercury Drug	-	6306.3	5617.9	5614.8	5557.8	5526.7	5745.1
Robinsons	2201.3	2025.7	1871.9	1963.1	1909.8	1946.3	1954.1
Rustan's	2541.8	2297.6	2143.6	2129.3	2135.1	2155.0	2094.7
SHV Makro	6380.0	4685.7	4112.5	3076.0	2620.3	2911.9	2470.2
SM Group	2842.7	2678.4	2363.4	2532.9	2624.9	2744.1	2653.7
Uniwide	1501.4	-	-	-	-	-	-

Table 10. Cont.

Company	Year-on-year growth rate						Growth rate (period)		Annual growth rate
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	1999–2005	2000–2005	
Mercury Drug	-	-0.1092	-0.0005	-0.0102	-0.0056	0.0395	-	-0.0890	-0.0178
Robinsons	-0.0798	-0.0759	0.0487	-0.0272	0.0191	0.0040	-0.0354	-	-0.0059
Rustan's	-0.0961	-0.0670	-0.0067	0.0027	0.0093	-0.0280	-0.0883	-	-0.0147
SHV Makro	-0.2656	-0.1223	-0.2520	-0.1482	0.1113	-0.1517	-0.4728	-	-0.0788
SM Group	-0.0578	-0.1176	0.0717	0.0363	0.0454	-0.0329	-0.0092	-	-0.0015
Uniwide	-	-	-	-	-	-	-		-

Source: Planet Retail (2007)

Group, which owns Banco de Oro. The small and medium businesses (SMBs) in retail, however, are starting to invest in basic retail IT infrastructure. In fact, the SMBs in Asia (India, South Korea, Indonesia, Philippines, and Vietnam) are spending USD11.6B on information technology (AMI-Partners, 2007).

One of the major advantages in installing an integrated computer system in retail is guaranteed on-shelf availability. On-shelf availability is crucial in modern trade channels since non-availability of food results to a 5% retail value loss, double than the nonfood category. The food category exhibits a level of loyalty among consumers. Majority of the consumers opt to buy the food items elsewhere in case of non-availability instead of purchasing substitute products (ECR, 2005).

An example initiative to address stock-out problems was piloted by Grocent (Grocer's Central Alliance) and Unilever. Grocent is an alliance of 56 local supermarkets members with a centralized distribution center which distributes more than 3,000 SKUs from over 25 suppliers; Unilever is one of its suppliers. A project labeled as vendor-managed inventory (VMI) was implemented, and a study of out-of stock items was conducted. VMI is an e-collaboration between the buyer and seller wherein the systems of both parties process information for their mutual benefit with minimal human involvement. The result of the study was assessed, and some measures were implemented to address the issues arising from the study. As a result, shelf-availability increased from 85% to 90% (Albert et al., 2005). A partnership between a medium-sized retailer and a supplier was also made possible through Efficient Consumer Response Philippines (ECRP). La Nueva Supermarket forged partnership with Johnson & Johnson to replace its traditional ordering system with a computer-based ordering (ECRP, 2000a). Large manufacturers such as Procter & Gamble, however, are very selective in choosing its partners in this kind of technology since the related costs are high. Moreover, the market share of the retailer considered should be significant to obtain relevant information for market analysis. As a result, the smaller retailers have been excluded.

Collaboration between the sellers and buyers has been continuously promoted by the ECRP. ECRP is composed of members from manufacturers, retailers, wholesalers, distributors, and service providers. The usage of the integrated computer system is only one of the issues discussed and improved by this organization. Aside from the physical activities, it also aims to advance the soft facilities, such as those used to facilitate payment. An information technology to facilitate information and funds flow has been developed by Union Bank to address the need of buyers and sellers for efficient disbursement and collection through its EIPP (Electronic Invoice Presentment and Payment). Through EIPP, accounts receivable and invoicing system are made available online (ECRP, 2000b). The buyers can access only their records from the database of the seller. As of 2000, the users of this technology are Procter &

Gamble and Coca-Cola Bottlers Philippines Inc. Several advantages are enjoyed by both the retailers and buyers as enumerated by ECRP (2000b):

a. advantages on the sellers' part
   - a.1 more efficient credit risk management
   - a.2 reduced cost of collection
   - a.3 cut down in accounts receivable cycle
   - a.4 lowered expense related to process reworks

b. advantages on the buyers' part
   - b.1 timely, correct, and updated invoice/ billing statements
   - b.2 efficient management of accounts payables
   - b.3 reduced paper handling
   - b.4 closer relationship with supplier

A survey done on consumer business companies in Asia shows that the companies engaged in collaborative commerce have experienced a lot of benefits. Aside from cost reduction due to lower inventories and asset costs, revenue increased by 25%, the product/service delivery time by 19%, and competitive advantage was created at approximately 12% (ECRP, 2002).

The Internet is also being used by the retailers to give their consumers quick service and convenience. The pioneer retailer in e-commerce is Rustan's Supermarket through its website. The consumer is not charged for delivery if the purchases amount to a minimum of PhP1,000 and the location is within the 5-km radius. The products offered online include fresh food and a number of nonfood items. Payment, however, is done through phone. SM Supermarkets also offer this kind of service as long as the purchases amount to PhP1,000 or more and only for selected items (Planet Retail, 2008). Usage of Internet for purchasing, however, is not yet popular in the country. Only a few retailers are observed to offer this kind of service.

The Retail Trade Liberalization Act (RA 8762)

There are a number of reasons, as speculated by the different players in the retail sector, for the continuing absence of foreign retailers in the country. Though the large retailers have been very successful in the developed countries over small retailers, they will not be able to show the same positive performance in the Philippines because of the poor infrastructure facilities of the country and its archipelagic nature. There are also other economic factors that prevent the displacement of these small retailers, such as the high unemployment and underemployment rates in comparison with the developed countries. Moreover, entry cost to retailing is low. These are primarily the reasons the informal retail sector is large in the country. Also, there is a low level of private transportation, lack of inventory storage, and low purchasing power among the Filipinos. All of these factors prevent the maximum use of the Filipinos of the economies of scale brought about by the large foreign retailers (PDFI, 1999).

In fact, only a few multinational retailers are present since the liberalization of retail trade. In most instances, establishment of retailing activities in the country is in partnership with local businessmen (Cabochan, 2005). Ministop is one of these establishments. The convenience store chain is operated by a local company, Robinsons Convenience Stores Inc. (Planet Retail, 2008).

Other foreign investors have withdrawn after starting their operation in the country. One of these is PriceSmart, which originated from the United States and was the first to open upon the liberalization of trade in May 2000; however, PriceSmart withdrew from the Philippine market after 5 years. Its initial plan was to open 10 stores by 2005. The company, however, sold its shares to its local partner, E-Class Corporation, last August 2005. PriceSmart's CEO Robert Price said, "During the past few years, our management team has worked very hard to reach profitability in the PriceSmart Philippines operation. Unfortunately, we have not been successful. It is our hope that local Philippine ownership will provide a better opportunity for success, thereby benefiting our employees and members" (Planet Retail, 2008). PriceSmart was acquired by Puregold Price Club Inc. Puregold has an existing number of 16 hypermarkets in Metro Manila and nearby provinces and 2 duty-free stores in Clark and Subic (GAIN, 2006). Foreign equity for Makro was also withdrawn as of 2007, which was acquired by SM.

Some of the conditions of RA 8762 which are considered as restrictive by some investors could be the reasons for the absence of foreign retailers in the Philippine market. Though foreign equity ban on the Philippine retail industry was dissolved, foreign land ownership is still not allowed, as stipulated in the the 1987 Constitution (Manuzon, 2001). Foreign retailers who are interested in investing in the country look for local partners with land equity or access. Alliances with the domestic entities are preferred since these local actors are familiar with the Filipinos' preferences. These local organizations are informed about the local domestic conditions. Such tie-ups include SM and Watsons and McDonald's and McGeorge (Manuzon, 2002). The capital requirement is also the highest in Asia. A minimum paid-up capital of USD7.5M is required for a 100% foreign ownership of a retail establishment. There is no minimum capital requirement in Singapore and Hong Kong while capitalization in Thailand is 10 times lower than that of the Philippines. The required initial public offering (IPO) is not attractive to the foreign entities (Manuzon, 2001). Retail establishments included in categories B (with USD2.5M but less than USD7.5M paid-up capital) and C (with USD2.5M paid-up capital or more) with more than 80% equity are required to offer a minimum of 30% of equity to the public (RA 8762). No firm would want to offer its shares unless it needs fund resources since this reduces management control. Moreover, there is a required 30% local content requirement in the retailer inventory for categories

B and C (Manuzon, 2001). This might have adverse effects on the strategy of the foreign retailer.

There are also other items in RA 8762 which might also affect the decision of the foreign retailers to invest in the country. A minimum of USD2.5M capitalization is required to obtain a maximum of 60% equity in the retail sector. This is very high compared to the minimum requirement of Thailand. Foreign retailers (category D) specializing in high-end or luxury products, though, are allowed to own 100% of the company if they satisfy the minimum requirement of USD250,000 capitalization. A registered foreign retailer may open branches. Additional capital, however, is required for opening another branch at a minimum of USD830,000 every branch.

The Department of Trade and Industry reiterates, however, that the stringent prerequisites serve as safeguards/safety nets to protect the local retailers (DTI, 2008). Aside from the very high capitalization, these prerequisites also include very high qualification for the retailer's parent corporation and limited modes of retailing. The foreign retailer's parent corporation must have a minimum net worth of USD200M for categories B and C and USD50M for category D. The retailer must also have at least 5 retailing branches/franchises or 1 existing store with a minimum capitalization of USD25M. The other qualifications are the 5-year track record in retailing of the foreign investor and the stated reciprocity of rights with the country where the retailer was incorporated. Other modes of retailing are prohibited, which include retail activities outside the accredited store, mobile stores, employment of sales representatives, door-to-door selling, restaurants, and *sari-sari* stores and other comparable retailing activities.

Apart from the reasons cited, there are other factors which might not appeal to the foreign retailers. Though there are a number of laws which are intended to prohibit or regulate monopolies and unfair competition, these laws are not strictly enforced. In fact, of the few cases that reached the Supreme Court, not one has been indicted despite the existence of the basic law on the matter, article 186 of the Revised Penal Code, for more than 69 years (Catindig, 2001).

Alleged corruption is also an impediment in the liberalized sector. The result of the survey done by the Gallup Organization last April 2002 to the American Chamber of Commerce members has shown that 92% were dissatisfied or extremely dissatisfied with the level of corruption in the country. The USAID-funded survey of the domestic and foreign-invested entities indicates the pervasiveness of corruption. Seventy-three percent of these members had extensive or moderate personal knowledge of the public sector corruption on matters pertaining to their business; 45% of these respondents believe the enterprises need to bribe to win public contracts.

Another aspect that is found to be unattractive in the retail sector is the absence of an effective anti-shoplifting law. High cost of security is incurred since errant shoppers are apprehended only after they get out of the store premises.

Retailers are also required to give discounts to seniors in food items including "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" (Cabochan, 2005).

Moreover, when RA 8762 was enacted, the local retailers engage in several activities which made it harder for the foreign retailers to enter. To meet the competition from foreign stores especially upon the entry of Makro and PriceSmart, the local supermarket chains began to modernize, expand to provincial cities, and offer a wide line of imported brands through importation (Singian, 2005). In addition, most large retailers have built joint business venture with the foreign retailers to deal with the anticipated entry of the foreign retailers (DFAT, 2002). China has gained increasing market share in the Philippines, particularly in the fresh fruit sector. Its fresh fruits are known to be cheaper and of higher quality. These have aggressively competed with the Washington apples and California table grapes (Singian, 2005). China is the largest global producer of FFVs, producing 50% of the world's vegetables and 16% of the fruits. Though China exports only 1% of its vegetable production, the export rate is growing at 10% annually. In addition, only 2% of the China's fruits were exported in 2003 (Stichele et al., 2006). Some supermarkets, due to limited storage, transact with distributors of imported produce. Some of them transact with these distributors because the latter have exclusive distributorship rights (Manila Bulletin, 2005).

Inadequacy of efficient distribution system, however, restrains some establishments in pursuing further expansion in other areas (Singian, 2005). Nonetheless, the expansion of the local retailers has improved the distribution infrastructure. This is expected to increase FFV importation as it appeals to the importers since they lack a nationwide distribution network.

Other retailers also offered private labels and diversified their business activities. Increased market share of SM could be due to private label offering and its diversification. To date, SM has more than 1,500 private labels, 30% of which constitutes the food products. Availability of private labels lowers the price offer to customers relative to competition. In fact, the private label is priced 32% lower than the manufacturer brand. This has a great potential since the share of private label in the country is less than 0.5% (ACNielsen, 2005).

Moreover, the SM Group has the most diversified offerings. Under SM Investment Corporation, it handles retailing, mall development, and 2 banks, Banco de Oro and China Bank; hence, various resources are available for use. This is an edge over the others in its expansion. In fact, this retailer has more resources in its expansion to other markets which include the lower income class. Last 2005, the company has acquired SM Supermarkets and SM Hypermarkets. Efficiency is seen to increase since the buying power of the company has been strengthened. Companies which purchase at a higher volume get a better deal from the suppliers. Partnerships can be strengthened further with the suppliers through more innovative approaches to continuously improve the efficiency of both parties.

Change in the Procurement System of the Modern Retail Formats

Greater concentration of the top 5 grocers implies that only a few retailers are dominating the industry. This has been intensified through the measures implemented by the grocers. There are retailers who are selective in their expansion strategy. They might opt for renovation or even expansion of their existing areas instead of aggressively penetrating other areas. Retailers have also increasingly offered private label to offer competitive prices. There are also retailers which benefit from their diversified business portfolio. This diversification gives them an edge over their competitors since they can easily access resources for their operations. Moreover, they have also realized the importance of forging a long-term relationship with other actors in the retailing sector, such as other retailers, wholesalers, traders, distributors, service providers, and both small- and large-scale producers.

There has been an increase in the share of supermarkets in the vegetable industry. Individuals from urban areas have increasingly patronized vegetables from supermarkets. To respond to this trend, one supermarket in Metro Manila increased the shelves for vegetables from 2- to 12-foot-long counters in November 2001 to 3- to 12-foot-long counters in July 2004 (Concepcion et al., 2006). This is also evident in 3 of the top grocers, i.e., Robinsons, Rustan's, and SM Group (Table 4). Generally, the share of food categories to total sales has been increasing. Forecast shows that this share will increase substantially in 2011 (Planet Retail, 2008).

The retailers have seen the need to improve the quality of their vegetable products. To be able to provide these good quality products to the consumers, they have demanded that their suppliers provide them with products of such quality. To ensure that they are consistent with the quality of their offerings, they have become more responsive to the initiatives of ECRP. The number of ECRP's members has increased over the years. The retailers get to continuously coordinate not only with other retailer but also with the manufacturers, traders, wholesalers, and service providers. This coordination is aimed to provide a comprehensive assistance to the members in order to maintain the efficiency of the whole supply chain. ECRP has also crafted standards that are aligned with the regional standards, in the absence of public standards.

Findings from a survey done by SGV show that more companies are starting to see the relevance of a shortened supply chain from inbound logistics to manufacturing and then to the outbound logistics. In the inbound logistics alone, 72% of the suppliers of the surveyed companies are complying with the companies' quality program standards. Fifty-one percent of these vendors use their own quality system standards while 26% are certified by ISO 9000 systems or other third-party quality assessors. Moreover, 75% of the companies put greater weight on the assessment of the quality of the raw materials and intermediate goods compared to the other materials (SGV, 2001).

Standards imposed by the retailers have presented the small producers with a great challenge (Boselie et al., 2003; cited in Concepcion et al., 2006). Most of the large retailers have increasingly sourced their goods from large commercial buyers. Along with this, long-term relationship partnerships have become crucial in meeting the nonprice demands since effective communication is necessary (Concepcion et al., 2006).

Procurement Activities

Several changes in procurement activities have been observed in response to the need for improved quality produce and lower costs. As described in Stichele et al. (2006), these are as follows:

1. A shift from the use of spot markets to the use of preferred suppliers

Supermarkets have shifted from spot markets to preferred suppliers. To be competitive in the retail industry, they have dealt with few suppliers to minimize transaction costs (Digal et al., 2004). These suppliers are given the assurance that all the needed fruits and vegetables will be purchased from them (Concepcion et al., 2006).

Gomez Farms, one of the big market specialists, supplies almost all the large supermarket chains in the country. It is the preferred supplier by these supermarkets. The supermarkets get to benefit from this arrangement since the supplier delivers the required volume and quality at the scheduled time. This farm has an advantage over the other competitors since it gets to source from its own farm and from other sources such as vegetable consolidators, domestic suppliers, and importers (Concepcion et al., 2006).

2. A shift from the general wholesalers to specialized or dedicated wholesalers

There has been a shift to specialized or dedicated wholesalers since these are more proactive in terms of quality, safety, volume, and consistency parameters relative to the traditional wholesalers. These new wholesalers also shift from purchasing at wholesale markets or list of suppliers to contracting production. The aim of this change is to meet the grades or standards set by the retailers (Shepherd, 2005).

The supermarket suppliers make sure that they provide all the fresh produce requirements of the supermarket chains. These requirements may include any combination of vegetables which are minimally processed, packaged, and labeled. The brand of these products appears in each price code (Concepcion et al., 2006).

3. A shift from decentralized procurement to nationwide or regional centralized procurement

Procurement has become centralized in many supermakets to reduce coordination costs, generate economies of scale, and have a greater control over the quality and freshness of FFVs (Shepherd, 2005). An example is that of Makro, which practices regional buying for other stores in the country.

4. A shift to private standards on food quality and food safety

Higher standards are set by the supermarkets on their suppliers for FFVs to ensure the quality of the produce in the shelves. To make sure that requirements are met, it is vital that long-term relationships are established with the suppliers and trust is built among the concerned players. Trust is necessary since the prices in the commodity markets are highly volatile and sizes of the players vary. This is also important since there are no laws that cover supermarket-supplier relations. In some transactions, however, there are formal contracts which include the negotiated price, volume agreement, and payment term per cropping cycle. There are instances wherein contracts are not fixed (Digal et al., 2004).

Effects of the Change in Procurement System to the Upstream Level

The traditional players in the wholesale and retail sectors were the most affected in the changing procurement system of the modern retailers. Some suppliers of the traditional market defected and opted to deliver the goods to the modern retailers, which offered relatively higher prices. Higher buying prices were offered since the selling prices at the level of large retailers are significantly higher. In Metro Manila, for example, last January 2008, the price of cabbage in supermarkets/groceries was higher by 248% to 318% relative to the wholesale selling price. The price of mango in the modern retail, on the other hand, is higher by 90% to 91% than that of the traditional market. The players in the traditional market have low levels of flexibility since there have been minimal changes in the way they procure their items. When a significant portion of the suppliers was lost in their account, along with the rising trend of the consumer patronage for modern retail formats, many of them were displaced. The ratio of wholesale to trade has declined from 26.40% in 1997 to 24.13% in 2006 (Table 11). The same can be gleaned from the ratio of wholesale to services.

The effect on the traditional wholesale and retail sector is felt through the changes in volume and sale of FFVs in a span of 10 years from 1997 to 2006. The small producers which supply these markets were also greatly affected. Among these changes include the decline in the volume of FFVs sold in the markets mentioned. Generally, the traditional wholesale and retail sector lacks the necessary features to be able to compete with the modern retail. There have been attempts by some government-owned markets such as the Sta. Ana Market in Metro Manila and the Pasay Public Mall in Pasay City to compete with modern retail through renovation of the building (Sta. Ana) and better services (Pasay). Sta. Ana Market fails in its aim to increase the patronage of the individuals within the community largely because of the presence of supermarkets nearby, such as SSG Supermarket and Puregold, that were able to offer FFVs at low prices. One personnel in the market shared that even if he is working for the said market, he purchases FFVs from Puregold. Prices in supermarkets are significantly cheaper than those found in the public market. Most of the consumers who go to Sta. Ana Market belong to the elite class who can absorb the higher prices. They prefer the said market because they find the low volume of crowd convenient for them. Moreover, the residents opt to buy from hawkers since they can buy the goods from them at lower prices.

The situation in the traditional wholesale market is further aggravated when several traders in the major markets engage in unfair practices such as involvement in collusion or cartel (Manila Bulletin, 2006). To partially address this issue, assistance was given to the players who are most likely to be displaced through the program known as *Barangay Bagsakan* (formerly known as Barangay Food Terminal). This project is basically a depot based in a *barangay* which complements the *talipapa* in selling commodities to low-income groups. It hopes to enhance transport efficiency and innovative market linkages. The components of the *Barangay Bagsakan* project include direct market linkages, cold storage facility, satellite retail system, and food packaging and processing. The DA and the local government unit (LGU) play vital roles in this project. The former takes charge of the provision of technical assistance prior to and during the

Table 11. Ratio of wholesale sector to GDP, trade, and services

Particular	Ratio (%)									
	1997	1998	1999	2000	2001	2002	2003	2004[a]	2005[a]	2006[a]
Wholesale/ GDP	4.00	4.00	4.00	3.81	4.14	4.17	4.16	4.16	4.18	4.08
Wholesale/ trade	26.40	25.60	25.25	24.26	25.36	25.22	24.91	24.91	24.85	24.13
Wholesale/ services	9.22	8.85	8.80	8.52	9.02	9.03	8.92	8.80	8.68	8.38

operation of the *bagsakan*. It also links the suppliers/producers to the *bagsakan*. Moreover, it provides cold storage facility and plastic crates. The LGU, on the other hand, provides a space, building, and operating capital. It also assigns an operator (DA, 2008). As of May 2008, there are 77 of these *bagsakan* in the Philippines; 33 of which are in Metro Manila and the remaining 44 in the other regions. A comprehensive assessment of its impact on the entire traditional market, however, is yet to be conducted. There is no conclusive evidence which points to its role in the improvement of the traditional market.

Another government initiative is to assist and encourage the players in the traditional market to improve the efficiency and physical facilities of their markets is to give Model awards with monetary equivalent to both public and private markets ("Model markets," 2005). The award was given on the basis of the following criteria: low average price for selected commodities (50%), adherence to consumer laws (25%), and physical regulations and hygiene, water supply, and ventilation (25%) (DA, 2005).

Since statistics show that the average farm size (from 3.6 ha in 1971 to 2.2 ha in 2002) in the Philippines is getting smaller, the small-scale farmers are adversely affected by the procurement system change. Modern retailer formats prefer large-scale suppliers. But these large-scale suppliers are relatively few, so they have to consider the inclusion of these farmers through transactions with cooperatives or associations. Initiatives were taken by some private growers in setting up clusters under the supervision of an association. One such association is NorminVeggies in Northern Mindanao. In the cluster, there is sharing of technology and market information among the members of the cluster. This enables farmers to gain access to stable markets. Those farmers who are willing to commit consistency of supply and quality goods and investment on specific assets are able to participate in the supply chain. Because of the retailers' stringent requirements, many farmers have been displaced, especially the financially incapable. In this issue, assistance is needed from the government and non-government organizations (NGOs) particularly in capability building through financial assistance. The more capable private growers can also give assistance by providing technical know-how. To ensure the consistency of volume, these growers plant for buffer stocks since the small-scale growers are still starting up their operations in accordance with the required practices (Digal et al., 2006).

The Vegetable Industry Council of Southern Mindanao (VICSMIN) was also formed in Southern Mindanao. It was not able to market products since it lacks legal authority to do so, given that it was registered as a non-stock, non-profit organization (Concepcion et al., 2006). It set up the Gulayan ng Timog Mindanao (GTM) to handle such function. GTM is composed of LGUs, private growers, and institutions who regularly meet once a month. It planned to duplicate the schedule of production adopted by NorminVeggies. To date, their initiative has not met success.

In Region II, NVAT (Nueva Vizcaya Agricultural Terminal) was registered last 2001. It serves as a conduit not only for agricultural products but also for non-agricultural items. It has delivered substantial volume of agricultural produce, 2,492 tonnes, from their members to Manila a month: (1) Divisoria, 1590 t; (2) Balintawak, 540 t; (3) Taguig, 90 t; (4) Valenzuela, 72 t; (5) Uniwide, 20 t; and (6) Commonwealth, 180 t (DA, 2008).

Through NVAT and NorminCorp, small growers can participate in the supply chain. NorminCorp has more stringent qualification for membership. It requires that the members must be amenable to a production schedule, which is a very novel concept to most farmers. Those who were not willing to commit to a certain volume of production at a certain time are excluded from the association. They are, however, allowed to sell their produce at its designated *bagsakan* (NVCC). But some of the benefits can only be availed through membership, such as consistent access to market, usage of facilities, and technical assistance (Concepcion et al., 2006). Those excluded farmers, either by choice or lack of financial sources, sell their produce at spot markets. As a result, they supply their farm produce to middlemen who charge exorbitant fees. They remain as price takers while the wholesaler and retailers, who have better information, benefit from this arrangement.

Conclusions

The retail industry has substantially contributed to the economy of the country. From 1997 to 2006, the sector's contribution to GDP has increased from 11.15% to 12.84%. Local modern retail channels have flourished in the country. Filipinos' purchasing power has increased at an annual average of 5.23% from 1991 to 2000. Purchasing power has also improved through the remittances of the overseas Filipino workers. As a result, there was a change in the consumption patterns of Filipinos. Likewise, increased awareness in product safety and quality, having a younger generation, increase of durable ownership, and proliferation of credit facilities further led to the expansion of the modern retail channels. These channels have also invested heavily in sophisticated technology and have forged partnerships with all the other players in the industry. Also, physical and financial limitations prevent the small producers from participating in the market.

The government's liberalization of the industry was expected to promote competitive behavior among the players and to improve the efficiency of the sector. While some foreign retailers have entered the market in the past, they have since withdrawn after a short period of operation in the country. Some large foreign retailers have expressed their interest in investing in the country, but to date, they have not made any action. The possible reasons for the absence of these foreign retailers have been examined. The continuing dominance of local retailers implies that they might have maximized their resources, including their diversified business interests, to create strong barriers of entry. In fact, from 1999 to 2005, the market share of the top 5 grocers increased from 26.7% to 34.5%, with SM leading the group. However, the restrictions present in RA 8762 are suspected to be the reasons for non-participation of the foreign retailers in the country. It was also speculated that the established retailers were able to safeguard their dominance through modernization, expansion, and broad line of products via importation. These supply and demand conditions, along with the government intervention, influence the structure and conduct of the firms in the market.

The modern retailers have forged business relations with cooperatives involving small-scale farmers since they dominate the agricultural sector. However, those who are not members of cooperatives were largely displaced. In order to help these marginalized farmers, the government pursued initiatives like the construction of *baranggay bagsakan* stations to promote traditional markets as "model markets." This could only partly address the concerns faced by these farmers. It is important that the government cushions the impact of the procurement system change to the farmers through appropriate policies.

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