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Career Guide: Wholesale and Retail Trade Policy Brief (WRT)

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POLICY BRIEF

CAREER GUIDES FOR SELECTED INDUSTRIES

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CAREER GUIDE: WHOSALE AND RETAIL TRADE POLICY BRIEF (WRT)

INTRODUCTION

The WRT industry is a leading employer in the Philippines, with an annual average of 18-19% of total Philippine employment from 2006-2010. It contributed an average of 16.85% annually to the country's GDP, 2006-2009. The wholesale subsector's share was an average of 3.98% annually, while the retail subsector's was an average of 12.87% annually. WRT is poised to continuously support the country's bid to sustain economic growth and be a dominant force in the labor market.

Castillo and Cabuay's paper (2012) focused on labor market conditions.

Hence:

- The WRT sector is comprised of establishments engaged in: 1) Division 50; Sale; Maintenance & Repair of Motor Vehicles; Retail of Automotive Fuel, including resale of new and used goods to businesses; agents in buying merchandise for, or selling merchandise to individuals or companies: activities of wholesale merchants, jobbers, industrial distributors, exporters, importers, co-operative buying associations, merchandise merchants and agents and assemblers, buyers and co-operative associations engaged in the marketing of farm products”1 2) Division 51, Wholesale and Commission Trade (Exception Motor Vehicles and Motorcycles), “including the resale (sale without transformation) of new and used goods; acting as agents or brokers”1 and

3) Division 52, Retail Trade, (Exception Motor Vehicles and Motorcycles, Repair of Personal and Household Goods, “including the resale of new and used goods (sale without transformation)”1; MCA Limited (2002) distinguished wholesale from retail trade in terms of the market they serve. The subsectors are similar “in the sense that they only sell or resell goods, without transforming them” (MCA Limited, 2002, p. 7);

- Sector performance reveals, the industry “steadily grew at the average rates of 4.38%, 5.89% and 4.15% in 1996-2000, 2001-2005 and 2006-2009, respectively, with the exception of 2006-2009. The sector's average rates of expansion were consistently higher than the country's GDP. The share of the retail sub-sector to the Philippines' GDP and GNP ranged from

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11%-13% and 10% -11%, respectively, from 1996 to 2009 versus the wholesale sub-sector's 4% contribution to GDP and GNP during the same 14 years”;

- “The WRT industry is one of the Philippines’ largest employers. In 2010, the NSO’s Philippine Statistical Yearbook reported a 3.72% increase in WRT employment level. Since total Philippine employment rose by less than 3%, the WRT’s share to total Philippine employment for the year rose from 19.45% in 2009 to 19.73% in 2010”;

- “The 2009 Annual Survey of Philippine Business and Industry revealed that more than 50% of the WRT industry establishments that employed twenty or more workers are located in the National Capital Region. Regions IVA and VII were second and third popular destinations of WRT firms. These regions had the highest shares in the total number of WRT employees.

- The WRT industry employs workers with varying skills. Critical determinants of success and career advancement in the sector are education, work experience and personal qualities, “presence of mind and comprehension skills; ability to answer questions, as well as the knack to sell products”. These are summarized into the three “Ps: personal appearance, public relation skills and patience”

- “According to the NSO database, the average daily pay in the WRT industry grew by an average of 4.84% annually, 2006-2010. The WRT’s average daily pay

was below the compensation received by employees in all industries ;

- “Workers in WRT industry, particularly permanent employees, are entitled to leave and welfare benefits. Such supplement their income and allow workers to cope with emergencies like hospitalization and natural disasters”

INDUSTRY OUTLOOK

Castillo and Cabuay (2012) analyzed the data pertaining to the sector’s growth potential:

- First two quarter growth in 2012 continues due “to an increase in orders and new projects leading to higher volume of production, expansion of business, new product lines, increased government spending, seasonal uptick in demand during summer, enrolment and harvest seasons” (BSP, 2012a). The performance of the WRT industry, may not be at par with the overall Philippine economy’s “due to rainy seasons, high electricity costs and stiff domestic competition” (BSP, 2012a) ;

- “Households in regions surrounding NCR continue to prioritize food and other basic needs over consumer durables, house & lot and vehicles. NCR households on the other hand, buy more consumer durables and vehicles in the first quarter, expecting demand for such big-ticket items to increase in the coming quarters”;

- Government investment in telecommunications, information and communication technology infrastructure

is expected to benefit the WRT industry businesses by “speed[ing] up the production and inventory management processes of businesses, thus, facilitating growth” (Tullao, Fernandez, Serrano and Cabuay, 2012); and

- Innovative business practices such as “the emergence of warehouse clubs, bar coding, and electronic databases, contribute to productivity, efficiency, and lower costs for WRT enterprises and their clients.”.

JOB PROSPECTS

Capacity building in the retail trade sub-sector is expected to influence job prospect and raise compensation, particularly in entry-level positions.

- “Demand for WRT workers across occupations is expected to steadily increase in the short-medium term due to: 1) overall actual growth of the industry; 2) increasing channels of trade; and 3) capacity of big players. Access of consumers to WRT service through the increasing number of outlets, branches and factories of existing players and new entrants as well as the new modes of buying and selling should also give employment in the WRT sector a consistent boost. The 5-6% national income growth in 2012 also bodes well for an industry that is responsible for delivering the most basic needs of consumers”;

- “TESDA and BLES reported that ‘one in every five vacancies [in January 2009 – June 2010] was hard-to-fill’ (TESDA, 2011). Within major occupations in

the industry and services sectors, WRT-sector hard-to-fill vacancies included: sales/ marketing managers, technical and commercial sales representatives, buyers, machine operators, and motor vehicle. TESDA claimed that hard-to-fill vacancies can be attributed to shortage of skilled workforce. TESDA's conclusion imply that the difficulties encountered by employers in finding "the specific skills or specializations that match the qualifications or competencies required by the job' may be addressed through stronger linkages between education and training institutions and the industry.

INDUSTRY CHALLENGES AND ISSUES

Capacity building was one of the most important concerns raised by the participants of the validation workshop. Industry stakeholders, particularly high-end ones, claim that the WRT industry is the "employer of last resort"¹. The need to professionalize the industry through education is a critical issue that must be addressed in order to ensure "competitiveness of the local industry given a dynamic global business environment".

Recommendations during the validation workshop: 1) designing and offering a college retail management degree program that help potential industry professionals to acquire essential "specialized retail skills like store operations, supply chain management, brand management, visual merchandising, etc." 2) offer associate degrees that focus on the acquisition of the skills and knowledge required by the industry; and 3) "designing

local certification programs recognized abroad".

Another important aspect of industry growth and development is investment. The liberalization of the retail industry in 2000 (RA8762) allowed foreign investor participation in the retail sector either through partnerships with domestic entrepreneurs or 100% ownership. In 1996, the local retailers accounted for 79% of the total investments in the subsector (MCA Limited, 2002). Two years after the implementation of RA8762, MCA Limited reported that "investments by foreign retailers are too few to make an impact on the local retail sector". Almost a decade after the implementation Romo, Digal and Reardon (2009) claimed that global chains like Walmart, Tesco and Carrefour expressed interest in entering the Philippines. Debates in various fora ensued on why foreign retailers have not responded immediately to the liberalization of a perceived lucrative market. The recurring arguments include: 1) high cost of doing business in the Philippines; 2) low purchasing power; and 3) limitation in the retail trade liberalization law (Romo, Digal and Reardon, 2009).

POLICY IMPLICATIONS

Average wages in the WRT industry, per NSO data, are lower, compared to the average wages for the other industries. Industry participants are optimistic regarding the future of compensations, particularly in the high-end, retail subsector. During the Validation Workshop held on 22 August 2012, stakeholders affirmed that "the increasing participation of global brands in the domestic economy" not only

raise the demand for workers but also push up wages. Improvements in competency and productivity of laborers are critical for these developments to materialize.

An issue needing to be addressed is who bears the cost of training/skills acquisition¹. Currently, specialized training is conducted by WRT firms when applicants are hired. The individual shoulders the cost of training should the proposed certification, associate or college degree programs be offered. The government may share the cost of certification programs by offering the specialized retail subsector courses through the Technical Education and Skills Development Authority (TESDA) or incorporating them in the additional two years that the Department of Education is implementing in the basic education cycle. This contributes to the achievement of the Department of Education's goal of producing job ready high school graduates.

Mutual recognition of training/skills requires the cooperation of transnational retail companies. Agreements across countries will officially allow the hiring of foreign nationals and skills accreditation.

Another concern is the high cost of conducting business in in the Philippines. Reduction of costs through provision of efficient transportation and telecommunications infrastructure will enhance competitiveness.

Another matter deserving attention is the implementation of macroeconomic policies that hasten economic growth.

The Philippines is an attractive market for WRT. It is the 12th most populated country

in the world. (<http://exploredia.com/most-populated-countries-in-the-world-2011/>). A personal consumption expenditure share to gross domestic product pegged at 77% - 80% annually, gives it the potential for drawing local and foreign investments in the industry. When this growth reduces the gap between lower and upper income classes, it triggers the expansion of the

middle class, leading to higher income and spending capacity. Although RA 8762 allows partial and/or full participation of foreign retailers, Philippine laws continue to impose constraints. They are required to show substantial equity to own establishments. (http://www.lawphil.net/statutes/repacts/ra2000/ra_8762_2000.html). The 1987

Constitution prevents foreign ownership of land in the Philippines. Romo, Digal and Reardon (2009) argue that restrictions deter participation of foreign retailers. These issues must be addressed to ensure continued growth and development of the WRT industry.

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