Philippine Journal of Development
Number 51, Volume XXVIII, No. 1, First Semester 2001

An Analysis of the Structure of the Philippine Retail Food Industry

LARRY N. DIGAL*

ABSTRACT

The enactment of the Retail Trade Liberalization Act of 2000 (RA 8762), which liberalizes the Philippine retail trade business, was not based solely on the overall thrust of the government to pursue market-oriented policies. It also stemmed from the observation that the sector lacked competition. Large retailers, particularly supermarkets, continue to displace *sari-sari* stores and are alleged to exercise market power, such as that enjoyed by the food manufacturers. This paper examines the structure of the retail food industry and analyzes the demand and supply factors and government policies affecting the industry. It argues that while there is some evidence supporting allegations of market power in the retailing and manufacturing sectors, it appears insufficient. Thus, there is a need to test these allegations empirically.

INTRODUCTION

The structure of the Philippine retail food industry has undergone a number of changes in recent decades. Large food retailers, particularly supermarkets, continue to grow faster than small food retailers do. The share of the latter in terms of output and employment has decreased abruptly over the past two decades while that of large food retailers grew substantially. Market information systems of supermarkets have improved significantly due to the adoption of point-of-sale technology. Strategic partnerships with large manufacturers have been forged. This

* Assistant Professor, School of Management, University of the Philippines Mindanao.

increasing dominance of large retailers triggers concern about the possibility of market power. For instance, there have been allegations that retailers charge excessive margins. Retailers, however, argue that this is due to high distribution costs and that it is the food manufacturers who control margins and not them. Despite the importance of these issues, however, few studies have addressed them.

This paper examines the dimensions of these issues. It is organized as follows. Section 1 discusses the importance of the retail food industry to the Philippine economy. Section 2 and 3 examine the demand and supply conditions affecting the industry. Section 4 focuses on the general policy and regulatory environment, including the arguments underlying the retail trade liberalization policy. Section 5 surveys the changing structure of the industry. Section 6 concludes the paper.

IMPORTANCE OF THE PHILIPPINE RETAIL FOOD INDUTRY

The retail sector plays an important role in the Philippine economy. In 1997, it contributed US$2.6 billion[1], or 11.10 percent, of the country's gross domestic product (GDP). In the same year, its share in the services sector and trade subsector was approximately 25.43 percent and 72.84 percent, respectively. From 1981 to 1997, the retail sector grew by an average of 5.83 percent per year, higher than the average GDP growth rate of 2.27 percent.

The retail food industry contributes substantially to the total output of the retail trade sector. In 1997, the share of food consumption expenditure was about $11 billion, or some 42 percent of the total gross domestic product (Table 1). On the average, it contributed at least half of the total personal consumption expenditure from 1986 to 1997. Although the growth in the share of food in total expenditures lags behind transportation, clothing, and

[1] Calculated at US$1:P38

Table 1. Personal consumption expenditure share of GDP, 1996-97 (in million US$)

Expenditure group	1996	1997	Percent share to 1996 GDP	Percent share to 1997 GDP
Food	9,396	9,849	42.08	41.98
Beverages	390	406	1.75	1.73
Tobacco	444	451	1.99	1.92
Clothing and footwear	639	654	2.86	2.79
Fuel, light, and water	735	782	3.29	3.33
Household furnishings	486	507	2.18	2.16
Household operations	1,699	1,771	7.61	7.55
Transportation and communication	888	958	3.98	4.08
Miscellaneous	2,475	2,628	11.09	11.20
Total	17,152	18,007	76.82	76.75

Source: National Statistical Coordination Board

footwear, and household furnishings and utilities, its value remains at least four times those of the other industries.

While the sector contributes a large share of the country's total output, it also accounts for a significant share of the total employment. Combined with the wholesale sector, it ranks third in terms of total employment. In January 1998, the wholesale and retail sectors employed 4,235,000 individuals, who comprised 15.29 percent of the total employment that year. Its growth in employment also surpassed the average growth of total employment, faster than the production sectors such as agriculture, mining and quarrying and manufacturing (Table 2). In addition, the food, beverage and tobacco industry contributed 37 percent of total employment in 1995. Then, too, 87 percent of the total employment in the food sector came from small food retailers with less than 10 employees.

The share of the retail trade sector in output and employment is underestimated because of the microenterprises that are not covered by the census and surveys of establishments. These microenterprises constitute the informal sector sometimes referred to as the 'underground economy.' The nationwide Survey of Household-Operated Activities (SHOA) conducted by the National Statistics Office in 1988, which covered the microenterprises[2] excluded in the

[2] Excluded because they have no outward sign such as billboards to identify them. The 1988 survey covered only those with less than five persons and those with no regular paid employees in the case of *sari-sari* stores.

Table 2. Employment by sector, 1997-1998 (in thousands)

Industry	January 1997		January 1998		% Growth
	Number	Percent	Number	Percent	rate
Total	27,335	100.00	27,693	100.00	1.31
Agriculture, fishery, and forestry	11,407	41.73	11,035	39.85	-3.26
Mining and quarrying	128	0.47	115	0.42	-10.16
Manufacturing	2,683	9.82	2,704	9.76	0.78
Electricity, gas, and water	125	0.46	135	0.49	8.00
Construction	1,530	5.60	1,612	5.82	5.36
Wholesale and retail trade	4,050	14.82	4,235	15.29	4.57
Transportation, storage, and communication	1,681	6.15	1,821	6.58	8.33
Financing, insurance, real estate, and business services	697	2.55	665	2.40	-4.59
Community, social and personal services	5,027	18.39	5,367	19.38	6.76
Industry not adequately defined or reported	6	0.02	4	0.01	-33.33

Source: National Statistical Coordination Board

regular survey of establishments, revealed that the household-based retail activities contributed more than those covered by the census of establishments. In 1988, the value-added of these unaccounted enterprises, totaling 835,729, amounted to US$376 million. They comprised 87 percent of the total establishments and 65 percent of the value-added in the retail trade sector.

The above data show that many individuals rely on retailing as their main source of livelihood. A survey of family income and expenditures revealed that about 20 percent, or one out of every five families, received income from either retail or wholesale activities in 1991 (FIES 1991). It is interesting to note that the proportion of families engaged in retail or wholesale activities increased during the economic crisis in 1985 and 1991, when the economy posted negative GDP growth rates, and decreased in 1988 when the economy recovered. This indicates that the retail trade sector might have served as an alternative source of employment for a number of individuals thereby alleviating unemployment. Anecdotal evidence shows that many self-employed and unemployed individuals venture into retailing and set up their own *sari-sari* stores.[3] This is primarily due to the ease of entry into this

[3] *Sari-sari* in Filipino means variety. They are family-owned neighborhood stores selling a variety of food and nonfood items.

type of business, which requires minimum capital and skills. A number of unemployed individuals also sell goods in wet market stalls or join the ranks of sidewalk vendors. Although data on sidewalk vendors are not available, the total number of *sari-sari* stores and market stalls based on the 1994 census of retail outlets was approximately 203,574 (NSO 1995). Moreover, the retail sector is also a major source of employment for part-time workers, particularly students.

It is worth noting that there are more women employed in the retail and wholesale sector than men. In 1994, approximately 66 percent, or 2,362,000 women, were employed in this sector (NSO 1995). Between 1986 and 1994, the sector, on the average, employed two females for every one male. Data show that the most common occupation of women in urban areas is in sales while men are usually employed in the production and transportation sector. In the rural areas, the most common occupation for both men and women is agriculture-based (NSCB 1998).

There are many families in the countryside who depend on retailing as an alternative source of livelihood to augment their income. Farm produce is brought to public markets and sold to wholesalers and retailers, or marketed directly to consumers. Since farm produce is an input to retail food production, the well-being of the agricultural sector depends significantly on the performance of the retail industry.

Finally, notwithstanding its contribution to total output and employment, particularly among women, retailing is also an integral component of Filipinos' culture. It reflects the free enterprise system in action, where individuals are able to sell their goods outside churches, schools, theaters, and even outside large retailers where customer traffic is high, with minimal if any restrictions. It is an industry where micro and small industries abound, constituting the informal channels or 'underground economy.'

In summary, the retail trade sector particularly the retail food industry, plays a significant role in the Philippine economy. Aside from its major contribution to the country's total GDP, it also accounts for a substantial share of total employment. In addition, it provides an alternative source of employment for many self-employed and unemployed individuals including students and women. While contributing significantly to the economy, it is also an integral part of the country's culture. This is probably the reason why the Philippine Constitution describes the sector as a "vital artery" of the country's "economic life" (Villar et al. 1993).

DEMAND CONDITIONS

The purchasing power of Filipino consumers has improved over the last few years. Between 1994 and 1997, family income increased by almost 12 percent per year. Generally, the growth of expenditures during the same period was lower than the growth of income. However, this is not true for consumers in the rural areas (Table 3).

Table 3. Urban and rural total income and expenditures at 1988 prices (in million P)

Particular	1988	1991	1994	1997[a]	Percent increase
Total income	425,651	513,574	545,914	735,025	34.64
Urban	240,422	349,947	369,537	506,692	37.12
Rural	185,422	163,627	176,377	228,333	29.46
Total expenditures	342,578	409,616	444,163	594,481	33.84
Urban	188,493	275,639	297,650	401,072	34.75
Rural	154,085	133,975	146,513	193,409	32.01

[a] Preliminary results

Source: 1988, 1991, 1994, and 1997 Family Income and Expenditures Surveys, National Statistics Office

This improvement in purchasing power has led to changes in consumption patterns. While the value of the food, beverage and tobacco subsector increased, its share in the total retail value added declined relative to the other subsectors. In 1975, it accounted for one-third of the total gross value added. Twenty years later, its share decreased to less than 20 percent and was surpassed by the dry goods, textiles and wearing apparel and by transport machinery and equipment industries, which contributed 24 percent and 26 percent, respectively, of the total value-added. This shift in consumption from food to nonfood items is expected as consumer income increases.

Improved purchasing power has also changed the way consumers buy food. The share of food expenditures in total income decreased from 51 percent in 1988 to only 44 percent in 1997. The number of consumers eating at home has also decreased as shown by the declining share of food consumed at home, from 47 percent to 39 percent during the same period (Table 4). As expected, urban consumers spend about twice as much as rural consumers on eating outside their homes. By the end of 1997, only a third of the food expenses of urban consumers were accounted for by food consumed at home.[4]

The number of dual-income families has also expanded which has not only improved purchasing power but has also made shopping more valuable. With higher household incomes, consumers look for convenience in shopping. They want a one-stop shop where they can buy most of the things they need in one trip.

Table 4. Percentage distribution of family expenditure for food, by type of consumption: urban- rural: 1988, 1991, 1994, and 1997, Philippines

Particular	Year	Food	Food consumed at home	Food consumed outside the home	Total expenditure
Philippines	1988	50.7	47.3	3.4	100
	1991	48.5	44.7	3.8	100
	1994	47.8	43.5	4.2	100
	1997[a]	43.9	39.2	4.7	100
Urban	1988	45.8	41.6	4.3	100
	1991	45.0	40.4	4.6	100
	1994	44.2	39.2	5.0	100
	1997[a]	40.0	34.5	5.5	100
Rural	1988	56.6	54.3	2.3	100
	1991	55.7	53.4	2.3	100
	1994	54.9	52.3	2.6	100
	1997[a]	51.9	48.9	2.9	100

[a] Preliminary results

Source: Family Income and Expenditures Surveys, National Statistics Office

[4] This study excludes food service retailers such as fastfood outlets and restaurants.

While many Filipino consumers still shop at wet markets[5] for fresh vegetables and meat, many have shifted to supermarkets because of convenience.[6] In wet markets, processed products and other grocery items such as toiletries are not usually available. Even if they are, the choices are limited. Supermarkets are also cleaner and more comfortable to shop because they have air-conditioning. Unlike wet markets, they are spacious and well maintained. While prices are cheaper in wet markets particularly for vegetables, high-income consumers are willing to pay more for convenience.

Sari-sari stores, on the other hand, sell limited items and do not carry perishable food such as vegetables, fish, fruits, and meat. Supermarkets sell both perishable and nonperishable items such as canned meat and vegetables and nonfood items. They are located in shopping centers or within the mall with department stores, specialty stores, entertainment facilities and other amenities. Although grocery stores[7] carry both perishable and nonperishable items, they cannot offer as much variety as supermarkets due to limited shelf-space.

Moreover, improved purchasing power has made consumers more mobile as many families now own cars. Likewise, there has been a significant improvement in infrastructure facilities and transportation systems, particularly in urban and suburban areas, which have made shopping centers more accessible. Thus, the location advantage of *sari-sari* stores has diminished. Also, due to increased purchasing power, many consumers can now afford to buy their groceries in bulk for weekly consumption. Based on

[5] In the Philippines, they are known as 'palengke,' where both wholesalers and retailers locate.

[6] Based on a survey conducted in 1996 by one of the large food retailers in the Philippines. However, a survey by Labra et al. (1995) in 1993 showed that about 94 percent of the consumers interviewed patronized *sari-sari* stores for food and nonfood items, and only 22 percent patronized supermarkets. This survey, however, did not cover the amount of money spent on these retail outlets.

[7] They are medium-size stores selling a greater variety of food products and at least three times the size of *sari-sari* stores. Convenience stores are similar to *sari-sari* stores and grocery stores, as they are small in size and sell a variety of goods such as food, school supplies and toiletries, although they mainly cater to high-income consumers.

anecdotal evidence, *sari-sari* stores mainly target consumers who buy their groceries on a daily basis and often on credit due to limited cash.

Filipino consumers have also become value-conscious[8], not only due to higher income but also due to higher educational attainments. Moreover, consumerism in the Philippines is gaining some attention. The Department of Trade and Industry, together with consumer groups, is educating consumers on their rights and how to get the best value from their money. Communication facilities have also improved, and because of higher incomes, many Filipinos, even in rural areas, now own television sets. Generally, information from radio and television is now more accessible. This value-consciousness has prompted retailers to improve their services, which ultimately encourage competition (PASI 1995).

These indicators show that due to improved purchasing power and growth of dual-income families, search costs of Filipino consumers have increased and hence there is a high demand for convenience. As a result, they prefer one-stop shopping to minimize time and energy, even if they have to pay more. However, substitute retail outlets such as wet markets and warehouse stores exert limited competitive pressures as supermarkets are able to differentiate their products and services. It is therefore not surprising to see supermarkets displacing small retailers and growing larger in size, or housed in larger malls as consumers seek to lower their search costs.

SUPPLY CONDITIONS

Productivity

As indicated earlier, retail value added has been increasing including that accounted for by food retailers although their share has been declining relative to other retail subsectors. This growth

[8] This includes both price and quality attributes. In retailing, consumers are not only concerned with price but also with the services they get as they purchase products.

can be attributed to both increases in area or retail space due to improvement in productivity and to expanding demand. The total retail floor area of large retailers in Metro Manila, for example, is estimated to have increased by 13 percent per year from 1994 to 1998 (Table 5). Similarly, productivity has improved by an average of 5 percent per year during the same period as indicated by the retail value per square meter of floor area.

Table 5. Retail value-added and net lettable space, Metro Manila, Philippines, 1994-1998

Particular	1994	1995	1996	1997	1998
Value-added (A) (million P)	151,518	170,008	195,179	218,600	244,833
Growth rate (%)		12.2	14.8	12.0	12.0
Net lettable retail space of selected retailers in Metro Manila (B) (in sq. meters)	1,707,860	1,900,233	2,242,841	2,485,841	2,642,904
Growth rate (%)		11.26	18.03	10.83	6.32
Assumed *percent* market share of top retailers to total sales in Metro Manila (C)	77.36	84.5	89.48	89.48	89.48
Net lettable retail space for Metro Manila (B)/(C)=(D) (in sq. meters)	2,207,678	2,248,796	2,506,528	2,778,097	2,953,625
Growth rate (%)		1.86	11.46	10.83	6.32
Value-added per sq. meter of net lettable space (pesos/sq. meter) (A)/(D)	68,632	75,600	77,868	78,687	82,892

Source: Dacanay (1996)

Note: A survey of net lettable space includes only top retailers of Metro Manila as respondents. These retail establishments include fastfood outlets, which are not included in the total retail gross value-added. However, a rough estimate of the total sales of the Metro Manila establishments is just assumed to be the share of the top 5,000 corporations in total retail sales.

However, productivity growth is mainly enjoyed by large retailers. In 1988, sales per worker of large and small retail outlets were recorded at US$3,970 and US$1,590, respectively. Supermarkets' gross value-added per establishment was at least 31 times more than that for market stalls, *sari-sari* stores and grocery stores in 1995 (Table 6). In 1988, the difference was significantly lower than in 1995. While supermarkets grew by 117 percent from US$15.74 per worker in 1988 to US$34.12 per worker in 1995, market stalls and *sari-sari* stores declined by 60 percent from US$2.10 to US$1.10 during the same period (Table 7).

The majority of supermarkets in the Philippines have now installed point of sale (POS) scanner systems. A few have sophisticated systems where the POS is integrated with the inventory management system. A number of value-added networks (VANs) have been established and a standard purchase message format has been adopted to operationalize the electronic data interchange (EDI) (PASI 1995). This is a major breakthrough in retailing as retailers can now automatically purchase from suppliers electronically through the system. Through an effective computerized inventory management system, the lag between purchasing and delivery time is not only greatly reduced but will also minimize inventory cost. Unfortunately, this technology requires large capital outlay and is only feasible for large food retailers who have access to credit. In the Philippines, large retailers have substantial investments in banks. The SM Group, for example, owns Banco de Oro. Clearly, these retailers have a competitive advantage over those who do not have a strong financial network.

Table 6. Productivity levels between large and small retail establishments in the Philippines, 1975-1988 (in thousand US$)

Retail outlet	Sales per worker / year				Sales per establishment / year			
	1975	1978	1983	1988	1975	1978	1983	1988
Small retailer (A)	0.38	0.24	2.25	1.60	0.76	0.55	3.26	2.24
Large retailer (B)	4.72	3.67	4.72	3.97	38.36	21.99	127.67	72.96
Ratio (B / A)	12.47	15.06	2.10	2.48	50.68	40.22	39.14	32.60

Source: National Statistics Office, Census of Establishments, 1975, 1978, 1983, and 1988

Table 7. Gross value-added per worker of retail food outlets 1975-1995 (in thousand P)

Retail food outlets	1975	1988	1993	1994	1995
Market stalls and *sari-sari* stores	0.96	92.25	39.43	27.42	36.81
Groceries	6.94	132.56	34.67	34.24	38.00
Supermarkets	387.11	535.04	923.51	1175.54	1159.70

Source: National Statistics Office, Census of Establishments 1975, 1988, 1994, and estimates for 1995

The benefits of adopting this technology go beyond enhancing merchandise planning, control, and market information systems. In the Philippines, large manufacturing companies such as Procter and Gamble are establishing strategic partnerships with retailers via programs such as efficient consumer response.[9] The main goal is to maximize manufacturers' and retailers' profits via better market information. In this program, retailers and manufacturers jointly monitor and analyze sales behavior based on various factors such as advertising, sales promotion, improved customer service, and so on. Manufacturers have the incentive to establish strategic partnerships with retailers because the latter, being closest to the consumer, have the most current market information, especially with a POS system in place. This information is vital to product development, production scheduling, and development of marketing strategies in general.

However, based on the experience of one large retailer in the country, it appears that manufacturers such as Procter and Gamble prioritize retailers with sizeable market share, big potential for growth, and relatively advanced management information systems. This is expected as the value of market information is higher for retailers with substantial market share and bigger potential. Otherwise, insights gained from market analysis would not be as useful if they were based on an insignificant portion of the market. One of the essential elements for strategic partnerships to work is a well-established information system. Procter and Gamble, for example, introduces their program called SPACEMAN (space management) to improve retailers' existing merchandising systems by assisting them to effectively plan, evaluate, and monitor sales and profitability particularly in allocating space to various brands for a certain product category.

RAW MATERIAL SUPPLIERS

Retailers primarily source their vegetables and fruits from atomistic farmers and wholesalers. However, the distribution of goods in the Philippines is costly and inefficient. The Philippines is an archipelago with 7,100 islands that fragments various markets in

[9] Based on the interview conducted by the author with a large food retailer in the Philippines.

the country. Poor infrastructure facilities compound the problems caused by this natural constraint. Farm-to-market roads need major improvement. Modernization and upgrading of the sea and air transport facilities is required to lower the cost of distribution. Particularly for fresh fruits and vegetables, which are highly perishable, these inadequate and inefficient transportation and communication facilities have adversely affected their movement. These products are also given low priority by airfreight carriers, preferring to carry other products such as computer chips and electronic devices. This causes delays, resulting in losses and decreased capability ratings from local and foreign buyers (Lantican et al. 1996). This problem is further compounded by the absence of a grading system, as market information, such as prices of certain varieties and qualities, is not transmitted efficiently to farmers. In the fruits, vegetables, and ornamental industries, one of the major constraints is the lack of uniform grades and standards. The present system is based on subjective judgment of size, quality, and variety rather than on well-defined and objective standards (Lantican et al. 1996, p. 9). These supply conditions limit integration of markets and provide an environment conducive to exercising buying power among wholesalers, food processors and retailers directly buying from primary producers. Mendoza and Rosegrant (1995) found that despite the presence of several corn traders, imperfect market knowledge and inadequate transportation and infrastructure facilities may restrict accessibility of corn farmers to these traders. Thus, the study advocated the improvement of the existing transportation and infrastructure facilities as well as market knowledge by providing relevant, timely, and accurate public market information to enhance market efficiency.

Because of the perishable nature of agricultural products and inadequate infrastructure, farmers are unable to receive higher prices. Their bargaining power is weakened relative to that of traders, which include wholesalers and retailers, who have the resources and better market information. However, this situation is reversed in processed products as retailers source them from large local and multinational firms, which may exert countervailing power against retailers.[10] Meat and dairy products, for instance, are highly differentiated, being dominated by brands of large corporations such as San Miguel Corporation, the largest agribusiness firm in the country. Food manufacturers aggressively promote their branded products through advertising. A number of large food companies are vertically and horizontally integrated. The largest, particularly San Miguel Corporation and Purefoods Corporation, operate their own retail outlets for processed and unprocessed meat products.

Generally, due to inadequate telecommunication and transportation facilities, poor infrastructure, the high cost of power and lack of infrastructure support, particularly in rural areas, trading between buyers and sellers is limited. Because of these inefficiencies in the distribution system, small and medium-size retailers are constrained to purchase their goods from middlemen at higher prices (PASI 1995). On the other hand, a number of large retailers purchase directly from farmers and farmer cooperatives. They may also possess oligopsonistic power as agricultural products are perishable and bulky with high transportation costs. These limit the mobility of products and accessibility to buyers particularly those who are not close to production areas.

POLICY ENVIRONMENT

A number of policies affect the retail trade sector in general and the retail food industry in particular. In this section, some policies and regulatory issues which directly or indirectly affect the structure of the retail food industry are discussed. The development of policy reforms affecting the retail industry is reviewed.

Policies

The past three decades under different government regimes saw a radical change in economic policies—from monopolies, cronyism,

[10] Note, however, that the term "countervailing power" originally used by Galbraith (1952) referred to buying power.

and excessive government intervention under Marcos to more liberalized markets under Aquino and Ramos (Gonzales 1999).

In the 1950s and during the Marcos administration, the Philippines pursued industrial development at the expense of the agricultural sector. The main strategy implemented was industrialization via import substitution. Agricultural policies were designed mainly to support this thrust, while the agricultural sector served as a supplier of foreign exchange, cheap food, and raw materials and capital resources (ILO 1977; David 1989).

Previous studies identified the negative effects of the import-substitution policy, which implemented high tariffs, quantitative restrictions and overvalued exchange rates. In general, government's reliance on regulatory controls, public enterprises, investment incentives, and trade restrictions to promote industrial development resulted in concentration of industries, sheltered domestic markets, and distorted price signals (Patalinghug 1997a). A high degree of concentration in manufacturing developed as firms in highly urbanized areas such as Metro Manila responded to incentives which were also biased against labor intensive firms (Patalinghug 1997b).

However, under the Aquino administration, which started in 1986, the welfare of the agricultural population was given priority. There was minimal government intervention and a number of unfavorable policies were dismantled. Export taxes were removed and government monopolies in grain marketing, sugar, coconut, and fertilizer were abolished. The liberalization of foreign investment laws was also implemented. However, while the commitment exists to implement various policy reforms, the lack of budgetary resources remains a major constraint to implementation. Hence, programs in agricultural research, extension, market infrastructure, irrigation, and others have not been fully implemented (David 1989).

Government expenditures on infrastructure, research, and extension increased in terms of absolute amounts but decreased relative to total government expenditures. While the growth in public expenditure on agricultural research is high, the level and growth rate is low compared to international and even Asian standards (David 1989). Government expenditure in R&D in agriculture and natural resources was only about 0.14 percent of GNP between 1981 and 1992, which is less than the World Bank recommendation of 1 percent of gross value-added for developing countries (Lantican et al. 1996).

The Aquino administration actively pursued efforts to minimize intervention. For instance, the liberalization of the foreign investment law (Foreign Investment Act of 1991) was implemented and moves to privatize and deregulate sea and air transport were started. The Ramos administration, which started in 1992, reinforced government's commitment to minimizing intervention as it pushed for various reforms to promote competition and efficiency. These reforms included the liberalization of the foreign exchange market, airline, banking, and telecommunications, and the implementation of build-operate-transfer schemes to fill the gaps in infrastructure investment. In addition, the air and sea transport industries were further deregulated. Inter-island shipping services in the Philippines were costly primarily due to the monopolistic structure of the shipping industry, which was perpetuated by the government's restriction on market entry and price flexibility (Balisacan 1990). However, despite these various reforms, poor productivity still exists (Patalinghug 1997b).

In line with the government's liberalization programs, duty-free shops proliferated in the Philippines, triggering strong opposition among retailers. Local retailers argued that this spawned unfair competition not only among retailers but also among local manufacturers, since the government subsidized the imported products by allowing them to be sold in the market without tax. Thus, prices were much lower in duty-free shops. Data show that local retailers located in areas where duty-free shops operate have not been able to expand, while duty-free shops increased their sales substantially (PASI 1995).

In summary, the protection given to large food-processing firms, particularly those producing highly advertised branded food products (especially under the Marcos administration), reinforces their market power and weakens the bargaining power of food retailers and farmers. Abenoja and Lapid (1991) argued that government incentives, such as those offered by the Board of Investments on duty-free importation and the capability of foreign investors catering to the local market to advertise and to offer lower prices, erect barriers to entry and exit, thereby increasing domestic concentration. On the other hand, the bargaining power of farmers relative to traders (including wholesalers, retailers, and manufacturers) is weak because they are unorganized and marketing support facilities are inadequate. While the government has been aggressively implementing institutional development such as organization of farmer cooperatives, the infrastructure facilities have yet to be improved significantly to achieve genuine marketing reform in rural areas.[11]

Regulatory issues

A number of government regulations affect the retail trade sector. These regulations have been implemented primarily to prevent unfair trade practices. For example, Republic Act 7581 (The Price Act of 1991) protects consumers from price manipulation such as hoarding, profiteering, and cartels. Republic Act 7394, or the Consumer Act of the Philippines, penalizes certain acts such as deceptive, unfair and unconscionable sales practices in both goods and credit transactions.

The Department of Trade Industry (DTI) is tasked to implement these regulations under its comprehensive consumer protection program. DTI has spearheaded a number of activities to educate

[11] The Department of Trade and Industry, for example, launched a very aggressive investment and trade promotion campaign in all regions of the country. Funds for technical assistance programs such as training and product development, investment fora, and trade missions were allocated to various regional projects to accelerate investment and trade development in these areas. However, a number of these projects did not succeed because the basic infrastructure facilities were not in place in most regions, discouraging investments into these areas (DTI 1992).

consumers and promote consumer vigilance to address various consumer issues. For example, due to cheating among sellers in wet markets who deliberately tamper their weighing scales to gain money, DTI does not only randomly check weighing scales and penalize violators but also encourages and educates consumers to take their own initiatives through an information campaign via posters and seminars.

Rules and procedures for the approval of mergers and consolidations are outlined in the Philippine Corporation Code (1980). However, this is not a regulatory issue as far as the Securities and Exchange Commission (SEC) is concerned (Patalinghug 1997a). The fines for nonsubmission of corporate financial reports are negligible compared to the value of keeping confidential data from public scrutiny. While the SEC does not have the legal mandate to challenge a merger unless it can prove that it is detrimental to the public interest, it appears that the SEC itself maintains that efficiency gains of mergers compensate for competitive risks (Patalinghug 1997a). Hence, in general, "existing competition laws in the Philippines are inadequate and ineffective because the imposable fines are negligible, they are mostly penal in nature which requires a quantum of evidence to prosecute, there is a lack of jurisprudence on competition law, and there is no central agency to oversee the implementation of competition law in the Philippines" (Patalinghug 1997a, p. 8).

Finally, while there appear to be minimal regulations in terms of entry to public wet markets or in operating a small family store, the retail industry is open only to Filipino investors. However, as discussed below, there is a move to open the sector to foreign investors.

Retail trade liberalization

Since 1954, the retail trade sector has been exclusive to Filipino investors. However, in line with the government's thrust to liberalize industries, a bill was proposed in 1993 to open the industry to foreign investors in order to increase competition and improve efficiency.

In October 1996, President Fidel Ramos signed an executive order advocating full liberalization of the Philippine retail trade sector. It was finally signed by President Joseph Estrada in March 2000 for implementation.

Aside from the government's liberalization thrust, one factor that led to the amendment to RA 1180, or the Retail Trade Nationalization Act, and the opening up of the retail sector to foreign investors was the dominance of large food retailers, which raises concern about the possibility of market power. It is said that the delay in the implementation of the law liberalizing the industry was partly due to the 'growing business clout of retailers,' who strongly opposed the implementation of the policy without sufficient time or transition period 'to allow the government and the Filipino retailers to solve the problems confronting the retail industry and enhance their competitiveness and even out the playing field.' (PASI 1995; Patalinghug 1996).

Clearly, the Retail Trade Liberalization Act of 2000, or RA 8762, brings to the fore a number of issues that are worth examining. The arguments and counterarguments relating to this law are summarized in Table 8.

The technical study conducted by Andersen Consulting and Associates in 1993 concluded that liberalization was beneficial in the long run, since it would lead to net gains in efficiency as a result of higher tax revenues and consumer surplus. Others contended that competition should be encouraged, as this would not only promote efficiency but would also provide a wider array of products available to consumers, improve the quality of local products, promote exports, and enhance service efficiency of Filipino retailers (Andersen Consulting, Inc. et al. 1993). However, local retailers argued that liberalization will have adverse effects on the Philippine economy.

Amid these arguments and public hearings before the liberalization of retail trade was enacted into law, a number of issues or questions have remained unanswered, as the existing arguments require sufficient empirical evidence. One is whether retailers do

Table 8. Retail trade liberalization debate

Retail trade liberalization	
Arguments[a]	Counterarguments[b]
• enhances competition in the domestic market as this will force domestic retailers to improve their products and level of services thereby improving their competitiveness and efficiency in the world market and ultimately benefitting consumers	• level of competition is already intense lowering their margins to unprecedented levels
• improves level of services through the inflow of foreign capital and provides opportunities for local retailers to tap resources of foreign retailers via partnership leading to expansion and increase in efficiency	• local retailers who have limited access to capital will be at a disadvantage
• lower prices due to increased competition and wider access of cheaper and quality goods and services	• current high prices are due to high distribution costs and not excessive margins
• promote technology transfer	• transfer of technology is unlikely since technologies refined to their operations is proprietary and will not be available to retailers
• enhances tourism and export markets as large foreign retailers will be encouraged to sell Philippine products to their outlets in other parts of the world	• tourism may benefit only from the entry of giant retailers if their prices are lower than those in Hong Kong and Singapore. Foreign retailers' main concern is to promote their own products and will carry local products only when demand exists and their price and quality are competitive.
• increases tax collection as sales from formal retail channels expand as supported by evidence from other countries which liberalized their retail trade sectors	• by promoting sales in the formal channels, the share of small outlets will continue to decrease as retailers in the formal channels increase their share of the market. Instead, it is recommended to improve tax collection among small and micro retailers in the informal channels to broaden the tax base and increase collection.
• Improves wages as foreign retailers offer higher pay than local retailers	• expected only for expatriates and a number of local managers as argued by local retailers. Foreign retailers are not labor intensive which may lead to labor displacement and eventually offset any wage improvements.

[a]As outlined in House Bill 77, authored by Congress Representative Manuel Villar.
[b]As indicated in the position paper by Philippine Association of Supermarkets (PASI) in 1995.

exercise market power. Local retailers argue that it is the food manufacturers who possess market power as they operate in highly concentrated industries. Another unresolved issue is the impact of liberalization on employment, as the local retail sector is labor-intensive relative to its foreign counterparts. While there exists an array of issues, including equitable distribution of income, it is clear that, based on efficiency criterion, liberalization would benefit the economy in the long run. However, the timing and conditions of liberalization policy are critical, as local retailers say that the current situation of the industry does not provide a level playing field that will enable them to compete with foreign retailers (PASI 1995).

CHANGING STRUCTURE OF THE PHILIPPINE RETAIL FOOD INDUSTRY

The demand and supply conditions and the policy environment shape the market structure of the retail industry. Improved purchasing power, increasing productivity due to better technology, and various policies affecting demand and supply conditions influence the market structure and the nature of competition.

Distribution of retail outlets

The distribution of retail outlets in the Philippines is largely influenced by the size of the market, which is affected by both the purchasing power and the number of consumers. The Census of retail outlets in 1994 reported a total of 210,301 retail outlets. *Sari-sari* stores accounted for 80 percent of the total establishments, followed by market stalls with 17 percent. At the time only 496 supermarkets were operating in the entire country, making up less than 1 percent of the total number of outlets. About 35.7 percent of these supermarkets are located in the National Capital Region, or NCR (Table 9). Being the most densely populated and progressive area in the country, the NCR is where most supermarkets are concentrated and where demand is high. But while the NCR has the largest number of supermarkets in the country, it also accounts for the largest number of *sari-sari* stores. It is necessary, however, to

Table 9. Census of retail outlets, by type and region in the Philippines, 1994

Store Type	NCR*	Percent share	Luzon	Percent share	Visayas	Percent share	Mindanao	Percent Share	Total	Percent share
Supermarkets	177	0.5	134	0.1	81	0.3	104	0.3	496	0.2
Grocery stores	430	1.3	995	0.9	284	0.9	577	1.5	2,289	1.1
Sari-sari stores	29,076	85.0	86,706	81.2	22,909	72.8	28,877	76.1	167,807	79.8
Market stalls	3,249	9.5	17,542	16.4	7,397	23.5	7,530	19.9	35,767	17.0
Drug stores	1,048	3.1	957	0.9	658	2.1	625	1.6	3,294	1.6
Others	209	0.6	393	0.4	127	0.4	213	0.6	943	0.4
Total	34,189	100.0	106,727	100.0	31,456	100.0	37,926	100.0	210,598	100.0

*Composed of eight cities and nine municipalities.
Source: National Statistics Office.

exclude the effect of market size or population by deriving the number of retail outlets per 10,000 individuals before any comparison can be made (Table 10).

Table 10. Retail outlets per 10,000 persons, by type and area, 1994

Store type	NCR	Luzon	Visayas	Mindanao	Total
Supermarkets	0.19	0.05	0.06	0.07	0.07
Grocery stores	0.47	0.35	0.21	0.36	0.34
Sari-sari stores	31.45	30.79	16.54	18.22	25.01
Market stalls	3.51	6.23	5.34	4.75	5.33
Drug stores	1.13	0.34	0.48	0.39	0.49
Others	0.23	0.14	0.09	0.13	0.14
Total	36.98	37.90	22.72	23.93	31.38

Source: National Statistics Office

Comparing the number of outlets per 10,000 residents, it appears that the NCR has the highest density of supermarkets, drugstores, and *sari-sari* stores. Except for *sari-sari* stores, the predominance of the first two types of outlets may be attributed to the affluence of the region relative to the other parts of the country. However, characterizing the region as being affluent based solely on average income needs further clarification. While the NCR has the highest average income in the entire country, it has also the highest incidence of urban poor and unemployment reflecting a disparity in income distribution. Based on a 1995 survey, of the 14 regions in the country, it ranks third in terms of the lowest percentage of workers who were paid the minimum wage rate (BLES 1995). Likewise, it had the highest unemployment rate between 1981 and 1996, averaging between 10 and 14 percent. As of March 1998, it was the only region in the country with a double-digit unemployment rate at 15 percent, or 617,000 individuals (BLES 1998). Given these additional data, it is possible that the large number of *sari-sari* stores operating in the region may be due to the substantial portion of low-income earners in the region. Anecdotal evidence shows that there are many *sari-sari* stores offering credit to customers, particularly their neighbors. They are popular among low-income earners, particularly individuals who do not have a permanent or regular job. Moreover, a number of residents in the area are daily wage earners who cannot afford to buy food for a week's consumption and hence prefer to buy food from their neighbor's *sari-sari* stores. Finally, as discussed earlier, it is possible that those who are unemployed resorted to retailing by setting up their own *sari-sari* stores or stalls in wet markets. Data show that more families engage in retailing or wholesaling in urban areas than in rural areas (NSO 1991). On the average, about 25 percent of the families in urban areas derive their income from trade compared to 16 percent in rural areas. The proportion of their income derived from trade, on the other hand, averaged 11.5 percent for urban areas and 7.1 percent for rural areas (NSO 1991).

Displacement of small retailers

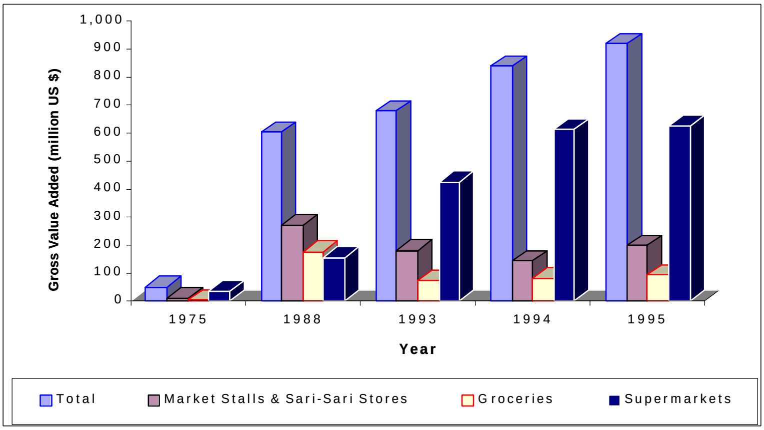
The structure of the retail food industry appears to be dominated by large food retailers such as supermarkets. While the number of supermarkets is only less than one percent of the total retail food outlets, their share in terms of gross value-added is the largest. In 1995, they accounted for 68.2 percent of the total value-added of the food, beverage, and tobacco industry, compared to the combined share of market stalls, *sari-sari* stores, and grocery stores with only 31.8 percent. Similarly, the distribution of employment in the industry by type of retail outlet has also changed substantially.

Output

While market stalls and *sari-sari* stores increased their output contribution by 2.14 percent from 1975 to 1995, supermarkets expanded on average by 46.30 percent. On the other hand, the growth of dry goods, textile, and wearing apparel industry can be attributed to the substantial growth in the contribution of department stores as well as other outlets such as footwear and sporting goods outlets. The rapid expansion in the development of shopping centers and malls in the Philippines reinforced the growth of these outlets. While *sari-sari* stores and market stalls decreased significantly in number between 1988 and 1994, the average was pulled up due to its rapid growth between 1975 and 1988.

The growth of small and large food retailers appears to move in opposite directions, indicating possible competition between the two types of retailers (Figure 1). This is contrary to the notion that large food retailers such as supermarkets cater to a different segment of the market and do not compete with small food retailers such as *sari-sari* stores and market stalls in wet markets. Alternatively, the competition may be on the input side—large retailers drive up labor and other costs, or offer more attractive employment, driving out higher unit costs for sellers.

Figure 1. Gross value-added in food, beverage, and tobacco industry, by retail outlet, 1975-95



Source: National Statistics Office

The competition between supermarkets and small food retailers can be seen further in the share of these outlets in consumer expenditures. The supermarkets' share in consumer expenditures grew from 37.3 percent in 1989 to 57.4 percent in 1994 (Table 11). On the other hand, the share of *sari-sari* stores in food expenditures, declined from 17.3 percent in 1989 to only 10.7 percent in 1994. Likewise, the share of market stalls decreased from 22.1 percent to 10.8 percent during the same period. But while the share of *sari-sari* stores in consumer food expenditures decreased by 38 percent, their share in nonfood expenditures increased by 5.5 percent.

Table 11. Percent share in national consumer personal expenditure, by outlet type (food and nonfood categories), 1989-94

Type of outlets	Food		Nonfood		Total	
	1989	1994	1989	1994	1989	1994
Supermarkets	39.3	60.7	35.1	48.1	37.3	57.4
Grocery stores	20.0	17.1	19.7	14.3	19.9	16.4
Sari-sari stores	17.3	10.7	16.2	17.1	16.8	12.4
Market stalls	22.1	10.8	20.7	15.4	21.4	11.9
Drugstores	1.2	0.2	4.7	3.1	2.9	1.0
Others*	0.0	0.5	3.6	2.0	1.7	0.07

*Includes department stores
Source: Dealer Pulse Research

The dominance of large food retailers is even more evident when one considers the data for Greater Manila Area. Table 12 shows that supermarkets in this area, while accounting for only 5.2 percent of the total retail establishments, controlled 79 percent of the total food market. Smaller outlets such as grocery stores, *sari-sari* stores, and market stalls decreased their shares by 3.1 percent from 25.5 percent in 1989 to 22.4 percent in 1994.

Table 12. Percent share in Greater Manila Area consumers' personal expenditure, by outlet type (food and nonfood categories), 1989-1994

Type of outlets	Food		Nonfood		Total	
	1989	1994	1989	1994	1989	1994
Supermarkets	75.2	78.9	73.1	76.0	73.1	76.0
Grocery stores	12.0	10.8	11.5	10.4	11.5	10.4
Sari-sari stores	5.5	4.9	6.9	6.5	6.9	6.5
Market stalls	6.8	4.6	7.1	5.5	7.1	5.5
Drugstores	0.1	0.1	0.7	0.7	0.6	0.7
Others*	0.4	0.6	0.8	1.0	0.8	1.0

*Includes department stores
Source: Dealer Pulse Research

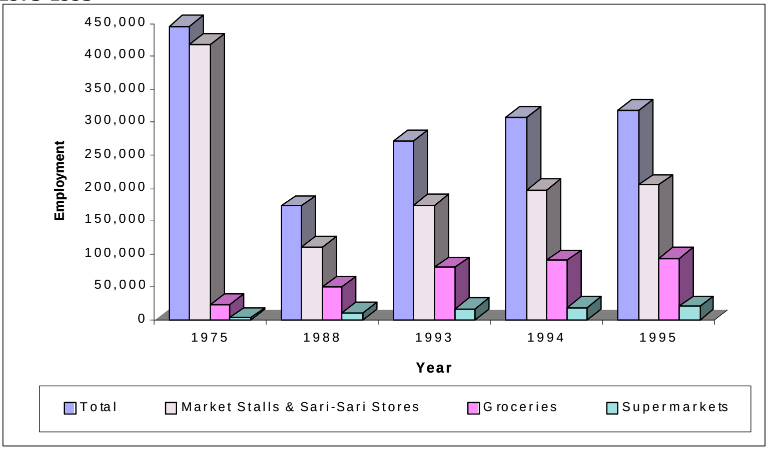
Employment

The changes in the distribution of gross valued-added across retail outlets resulted in a corresponding change in the distribution of employment. In 1975, the food, beverage, and tobacco industry accounted for 71 percent of the total employed, but decreased sharply to 36.22 percent by the end of 1995. While the total employment in the food, beverage, and tobacco sector decreased substantially, its share remained the largest at the end of 1995. The dry goods, textile, and wearing apparel sector, on the other hand, doubled its share in employment. Similarly, construction materials and transport machinery and equipment sectors also increased significantly by more than 10 percent on the average from 1975 to 1995.

The biggest decline in employment among retail outlets came from market stalls and *sari-sari* stores. In 1975, these stores accounted for 66.59 percent of the total employment, but at the end of 1995, their employment share plummeted to 23.58 percent (Figure 2). On the other hand, groceries and supermarket outlets expanded at least threefold during this period. Outlets in other sectors such as department stores also increased rapidly.

While other industries have surpassed the growth of the food, beverage, and tobacco industry over the past two decades, this industry continues to contribute substantially to the total output and employment. However, the major source of growth in the food industry came from large retailers, which outpaced the growth of small retailers such as *sari-sari* stores and market stalls. These trends are expected to continue in the future. Supermarket revenues are projected to grow by 18.6 percent per year between 1996 and 2000 (Table 13). Given these trends, it is important to analyze the nature of competition as supermarkets continue to dominate the retail food industry. This may lead to the possibility of market power and hence may result in inefficiency in the system.

Figure 2. Employment in food, beverage, and tobacco industry, by retail outlet, 1975-1995



Source: National Statistics Office

Concentration

In 1992, 529 retail outlets belonging to the top 5,000 corporations in the Philippines achieved a total sales of US$2.6 billion. This reflects an increase of 20.4 percent over the previous year's level of US$2.1 billion. Between 1989 and 1992, gross sales of retail firms included in the top 5,000 corporations increased at a compounded annual rate of 17.3 percent. Specifically, among the large supermarkets selling food, beverages and tobacco, the Uniwide group topped the list in 1992 with aggregate gross sales of US$115 million. Super Value Inc. (US$68 million) and Tropical Hut Foodmart (US$35 million) ranked second and third, respectively. Uniwide has six warehouse-type stores and three department stores, all of which are located in Metro Manila (Patalinghug 1996). As these retailers continue to dominate the industry, a number have grown into some of the largest domestic companies that have diversified into property development (malls), banking, hotels and office condominiums, and transportation business (Patalinghug 1996).

Table 13. Revenue growth rates of selected retail outlets in real terms, 1996-2000

Year	Household appliance stores	Bookstores	Department stores	Drugstores	Groceries	Supermarkets	Hardware stores	Total retail demand	Total retail supply
1996	10.91	5.37	13.31	7.68	12.81	20.00	12.77	5.57	7.05
1997	14.90	8.26	11.94	7.70	10.17	17.71	11.41	4.05	7.01
1998	11.46	5.68	12.27	7.69	9.23	20.52	12.67	4.42	6.97
1999	14.16	5.38	12.56	7.72	8.45	17.56	12.47	5.38	6.92
2000	14.27	5.12	12.83	7.79	7.81	17.17	12.57	5.52	6.88
Average	13.14	5.96	12.58	7.72	9.69	18.60	12.38	5.00	7.00

Source: Estimates (Industrial Economics, University of Asia and the Pacific)

Despite the data showing the dominance of large food retailers, supermarket owners argue that the industry already faces stiff competition, particularly among supermarkets. In fact, some large retailers practice loss-leader pricing to maintain market shares. They also offer discounts, regular bargain sales, reduction in margins, expansion of target markets (including lower income groups), bigger store space, and good product quality (Patalinghug 1996).

As indicated in the data presented, supermarkets appear to dominate the retail food industry. It is interesting therefore to further validate these data as supermarket owners argue that the industry is already highly competitive. One way to do this is to look at the share of the top firms in the industry to total output, as reflected in concentration ratios. Data on concentration ratios show that the retail food industry is not concentrated even for supermarkets in Metro Manila. In fact, the four-firm concentration ratio is only 1.08 percent, which implies that the top four supermarkets accounted for roughly one percent of the total sales (Table 14). Concentration ratios of *sari-sari* stores and groceries are expected to be low as they are relatively small in size and their population is quite large. Retail outlets in grains, meat, fish and fruits are likewise small, as these are the commodities mostly sold in wet markets and their size and number are similar to those of *sari-sari* stores.

The use of these concentration ratios as an indicator of the degree of competition, however, should be treated with caution.[12] The figures reported in Table 14 are aggregated for the whole country and the National Capital Region. These figures, however, will differ substantially if disaggregated at a city, municipality or district level. Large food retail chains have branches located in a city or district, particularly in Metro Manila. It should be noted that the National Statistics Office treats branches as separate firms in its surveys. Thus, it is expected that concentration ratios in the retail sector, even in the supermarkets subsector will be low relative to the manufacturing sector. For example, Uniwide Sales Warehouse Club, the largest supermarket chain in the country, has branches strategically located in various cities and districts in Metro Manila. Of the 20 supermarkets that made it to the top 1,000 corporations in 1996, eight belonged to the Uniwide Supermarket Chain (Table 15).

Generally, data on concentration ratio appear to substantiate the argument of retailers that the industry is fairly competitive. While

---

[12] Limitations of concentration ratios based on theoretical arguments are discussed in Scherer (1980).

Table 14. Concentration ratios (in percentage) of selected retail trade industries for establishments with average total employment of 10 and above, 1994

PSIC*	Industry description	Philippines Top 3 firms	Philippines Top 4 firms	National Capital Region Top 3 firms	National Capital Region Top 4 firms
62211	Groceries	0.75510	0.79813	0.82623	0.83535
62212	Supermarkets	0.67651	0.86136	0.84011	1.08755
62213	*Sari-sari* stores	0.01572	0.01862	0.00651	0.00702
62214	Rice, corn, & other cereals, & beans & pulses retailing	0.05781	0.06341	0.03228	0.03401
62215	Meat & poultry products retailing	0.05246	0.06095	0.05446	0.05954
62216	Fish & other seafood (fresh & dried) retailing	0.02166	0.02291	-	-
62217	Fruits & beverage retailing	0.00924	0.00968	0.00552	0.00557
62218	Bakery products retailing	0.05337	0.06753	0.07304	0.09243
62219	Food & bev. retailing n.e.c.	0.02574	0.03094	0.03343	0.04051

Note: Concentration ratio was computed as the percentage of **total revenue** of the top three or four firms to the industry's **total revenue**.
Source: 1994 Census of Establishments, National Statistics Office

this indicator is not sufficient to describe the degree of competition, it is also important to consider one of their claim that it is not the retailers controlling the margins but the food manufacturers.

Unlike the retailing sector, the food manufacturing sector is highly concentrated. At the five-digit Philippine Standard for Industrial Classification (PSIC), 11 of the 53 industries have four-firm concentration ratio of 100 percent. Of the 11 industries, five are dairy products. Canning and processing vegetables and vegetable juices, smoking of fish and other marine products, cassava flour milling, manufacturing grain mill products, manufacturing chocolates and sugar confectionery products, and wine manufacturing all have 100 percent four-firm concentration ratios. All of these firms, except one, are located in the NCR. Eleven industries have four-firm concentration ratios of at least 90 percent. Thus, almost half of the 53 sectors are extremely concentrated, with ratios of at least 90 percent. As mentioned earlier, San Miguel Corporation and Purefoods Corporation, the two largest agribusiness firms in the poultry and meat processing, curing, preserving and canning industries, are planning to merge. These two industries have four-firm concentration ratios of 63.91 percent and 78.54 percent, respectively. Apparently, these ratios are expected to increase once the merger takes place.

Table 15. Gross revenues and net income of supermarkets belonging to the top 1000 corporations in the Philippines

Supermarket	Rank 1996	Rank 1995	Gross revenue (000) 1996	Gross revenue (000) 1995	Growth Rate	Net income (000)* 1996	Net income (000)* 1995	Growth Rate
Supervalue, Inc.	90	63	4,579,268	4,300,861	6.47	50,373	31,039	62.29
South Supermarket	172	173	2,302,786	2,035,817	13.11	23,514	24,847	-5.36
Pilipinas Makro, Inc.	199	-	2,164,734	-	-	44,800	-	
Tropical Hut Food Market	257	196	1,730,709	1,781,151	-2.83	24,601	26,910	-8.58
Uniwide Sales Warehouse Club Marcos Highwauy, Inc.	290	293	1,507,603	1,237,563	21.82	6,296	4,424	42.31
Uniwide Sales Warehouse Club Edsa Central, Inc.	309	302	1,412,508	1,210,890	16.65	6,311	4,361	44.71
Uniwide Sales Warehouse Club Sucat, Inc.	322	299	1,338,365	1,222,441	9.48	5,649	3,648	54.85
Maximillian Corp.	325	465	1,321,486	790,131	67.25	4,807	4,305	11.66
Uniwide Sales Kalookan	343	334	1,260,244	1,109,835	13.55	8,274	5,134	61.16
Uniwide Sales Warehouse Novaliches, Inc.	346	369	1,256,433	1,013,676	23.95	7,014	5,141	36.43
Value Plus, Inc.	366	312	1,180,057	1,187,796	-0.65	15,252	13,433	13.54
Uniwide Sales Warehouse Club Inc., Quezon City	398	406	1,066,704	939,989	13.48	6,019	4,043	48.87
Uniwide Sales Warehouse Club Inc., Baclaran	434	411	984,348	924,311	6.50	1,539	4,852	-68.28
Cebu Storehouse Unlimited,	441	724	969,732	500,846	93.62	-172	2,222	-107.74
LCC (Liberty Commercial Center), Inc.	676	663	613,247	553,613	10.77	633	1,701	-62.79
Glorimart Trading , Inc.	795	853	512,249	406,408	26.04	-23	-1,070	-97.85
Gaisano Dadiangas, Inc.	823	833	487,785	417,063	16.96	25,155	7,235	247.68
Demagus Trading Corp.	879	874	442,538	392,371	12.79	13,208	11,666	13.22
Waltermart Dasmarinas, Inc.	902	4,074	429,264	46,275	827.64	2,588	62	4074.19
Davao Central Warehouse Club, Inc.	999	982	382,568	333,270	14.79	587	422	39.10

*After tax

Source: *Businessworld,* 1997

A comparison of concentration ratios between 1978 and 1994 among 18 manufacturing industries revealed an increase in average concentration from 63 percent in 1978 to 72 percent in 1994. A dramatic increase in concentration is seen in manufacturing grain mill products and wine. Likewise, concentration in animal feeds production and flour manufacturing has substantially decreased. Although concentration in meat processing decreased by 21 percent, it remains fairly concentrated at 78 percent. The dairy industry, on the other hand, remained highly concentrated (Table 16). These

Table 16. Concentration ratios (in percentage) of food manufacturing industries for establishments with average total employment of 10 and above (top four firms), 1978 and 1994

PSIC	Industry description	1978	1994	Percent growth Rate
31113	Dressing and packing of poultry, including rabbit	-	63.91	-
31114	Meat processing, curing, preserving, and canning	100.00	78.54	-21.46
31121	Processing of fluid (fresh) milk and cream	99.95	100.00	0.05
31122	Mfr of powdered milk & condensed or evaporated milk	99.95	100.00	0.05
31139	Mfr of dairy products, except milk, n.e.c.	78.83	100.00	26.86
31159	Processing, preserving, & canning of fish, crustacean	49.44	41.61	-15.84
31160	Production of crude coconut oil, including cake & meal	45.60	53.83	18.05
31180	Rice and corn milling	17.09	24.67	44.35
31190	Flour milling except cassava	71.69	48.03	-33.00
31219	Mfr of grain mill prods, n.e.c.	19.37	100.00	416.26
31231	Sugarcane milling (centrifugal and refined sugar)	28.97	32.07	10.70
31249	Mfr of chocolate & sugar confectionery prods., n.e.c.	54.52	100.00	83.42
31250	Mfr of desiccated coconut	45.23	67.48	49.19
31270	Coffee roasting and processing	96.87	98.73	1.92
31281	Production of prepared feeds for animals & fowls	63.62	35.18	-44.70
31299	Manufacturing of food products, n.e.c.	55.50	78.61	41.64
31329	Wine manufacturing, n.e.c.	46.81	100.00	113.63
31330	Malt liquors and malt	100.00	71.30	-28.70
Average		63.17	71.91	38.97

Notes:
1. 1994 concentration ratio for manufacturing was computed as the percentage of total value of products sold of the top four firms to the industry's value of products sold. Data were sourced from the 1994 Census of Establishment, National Statistics Office.
2. 1978 data appeared in Patalinghug (1983). Data were sourced from the National Census and Statistics Office, 1978 Census of Establishments (Manila 1980), preliminary report and unpublished data.

concentration ratios, however, should be treated with caution as they have some limitations, as discussed earlier.

While the manufacturing sector appears to be concentrated, the wholesaling sector is much less concentrated, similar to the retail sector. This is particularly true for the food industry where most players are involved in both wholesale and retail activities. The majority of traders in wet markets are wholesalers and retailers in fruits, vegetables, fish, and meat. Grocery stores and supermarkets are wholesalers of nonperishable items such as canned meat, snack foods and beverages (Table 17). Thus, like the retail trade sector, the number of establishments is large, resulting in insignificant concentration ratios.

Table 17. Concentration ratios (in percentage) of selected wholesale trade industries for establishments with average total employment of 10 and above, 1994

PSIC	Industry description	Philippines Top 3 firms	Philippines Top 4 firms	NCR Top 3 firms	NCR Top 4 firms
61101	Palay, corn (unmilled) & other grains wholesale	0.1157	0.1400	0.0641	0.0652
61102	Abaca & other fibers, except syn. fibers wholesale	0.0402	0.0494	-	-
61103	Coconut & coconut byproducts wholesale	0.2676	0.3120	-	-
61104	Fruits, nuts (exc. coconut) & vegetables wholesale	0.0951	0.1005	0.0409	0.0420
61105	Tobacco leaf dealing	0.0640	0.0691	-	-
61106	Forest products dealing	0.0268	0.0271	-	-
61107	Livestock & poultry & unproc. animal prods. dealing	0.0812	0.0909	0.0053	0.0059
61108	Fish & other seafood wholesaling	0.0380	0.0491	0.0256	0.0281
61109	Farm, forest & marine prods wholesaling, n.e.c.	0.0384	0.0435	-	-
61201	Processed food wholesale	0.7325	0.8530	1.0025	1.1674
61202	Beverage wholesale	1.3049	1.4444	1.2015	1.3531
61203	Tobacco products wholesale	0.0617	0.0636	-	-

Note: Concentration ratio was computed as the percentage of total revenue of the top three or four firms in the industry's total revenue.
Source: 1994 Census of Establishments, National Statistics Office

Strategic partnerships and vertical integration

While countervailing power may exist between retailers and food manufacturers, strategic partnerships are also pursued as an alternative. As discussed earlier, some large manufacturers have established strategic partnerships with retailers. While in the past strategic partnerships may have been forged in various forms such as promotion tie-ups, newer strategic partnerships have emerged with the development of information technology and the adoption of this technology in Philippine retailing.[13]

The potential for retailers, particularly the larger ones, to establish strategic partnerships with large food manufacturers has implications in terms of the balance of power in the marketing system. Large retailers with better market information are able to increase their bargaining power relative to wholesalers and farmers. Large food manufacturers, on the other hand, particularly those who have the resources to establish strategic partnerships with retailers, are able to enhance their competitiveness by tapping the rich market information sourced by retailers through their POS system. The small ones, however, are left out.

While vertical strategic partnership is the trend in developed countries, this may not be well entrenched in developing countries such as the Philippines. One of the reasons why such partnerships are difficult to implement is the level of trust required between retailers and manufacturers. Market information gathered from retailers may be divulged to other retailers in the industry and vice versa, even with a written agreement to do otherwise. In any case, small- and medium-size suppliers may have less bargaining power relative to large manufacturers, not having the resources to establish strategic partnerships with them. Further, strategic partnerships reinforce the dominance of large retailers in the input and output markets.

[13] "Strategic partnership" has become a popular term in programs such as Efficient Consumer Response and Total Quality Management, and is largely information technology-based, particularly in the context of retailing.

While retailers have ventured into vertical integration in developed countries, very few have done so in the Philippines. One obvious reason is the risk involved in this type of venture due to poor infrastructure facilities. Retailers who have engaged in vertical integration invested only in unprocessed products such as vegetables and fruits. Anecdotal evidence indicates that some retailers engaged in backward integration in processed food have been successful in the initial stage of the project but eventually failed.[14] While there are a number of reasons for this failure, the fierce competition from established food processing firms appears to be a key factor. For example, venturing into chicken production where products are branded, diminished retailers' bargaining power, because suppliers of other brands of chicken may not give them the best terms compared to other retailers who do not have their own brands. This is due to the fact that while a retailer-supplier relationship is considered to be a partnership at the retail level, retailers and suppliers compete at the production or processing level.[15]

Generally, the advantage of large retailers in terms of market information and access to credit and the potential to establish strategic partnerships with large food manufacturers and to vertically integrate concern consumers and producers about the possibility of market power. Retailers may exercise buying power in the fresh produce category as they are sourced mostly from atomistic farmers and wholesalers who are constrained by the nature of the product and other marketing problems, particularly poor infrastructure facilities. However, food processors may exercise market power as they produce highly differentiated products and operate in concentrated markets. Thus, countervailing power may exist in this product category.

[14] Based on observation by a manager of a large food retail firm.
[15] Based on observation by a manager of a large food retail firm.

CONCLUSION

The retail industry is undoubtedly an important sector in the Philippine economy, contributing about 11 percent of the total GDP in 1997 and absorbing 15 percent of the total employment in the economy, which is approximately 4.2 million people. These figures, however, appear underestimated because the majority of microenterprises in the Philippines such as street vendors and peddlers are not covered by the Census of Establishments.

The retail sector is not only important but also controversial, as there are allegations that they exercise market power. These allegations, however, are not without any basis. As the data reveal, supermarkets' share of consumer expenditures has been expanding rapidly, increasing by 54 percent from 1989 to 1994 compared to the traditional or smaller retail outlets whose corresponding shares decreased. In Metro Manila, the increase in shares is just over 4 percent, but large retailers, which account for only 5.2 percent of total establishments, control 79 percent of the total retail market. This implies that the share of supermarkets outside Metro Manila is expanding, which is not surprising as these regions are becoming more urbanized. The gross value-added of supermarkets between 1975 and 1995 outpaced the growth of smaller retail outlets by at least threefold. Supermarkets are projected to grow further by 18.6 percent from 1996 to 2000, the fastest rate among retail outlets.

This rapid expansion of large retailers is expected. Filipino consumers continue to improve their purchasing power and have limited time for shopping due to an increase in dual-income families. Thus, they demand the one-stop-shopping services offered by large retailers. These firms have increased their productivity due to adoption of modern technology such as POS and EDI, and have begun establishing strategic partnerships with large manufacturers. Additionally, the inadequacy of infrastructure facilities in the rural areas limits the number of traders who may exercise buying power over farmers. Similarly, the government has also restricted entry of foreign retailers. These demand and supply conditions as well as government policy have shaped the existing structure of the retail industry, with large retailers displacing small traditional retail outlets.

While some evidence points to the dominance of retailers, they argue that the manufacturers are the ones exercising market power as they operate in highly concentrated markets. On average, the top four firms in the food manufacturing sector accounted for 63 percent of total revenues in 1978 and about 72 percent in 1994, representing an increase of 14 percent.

While there is some evidence supporting these allegations of market power in the retailing and manufacturing sectors, it appears insufficient. High sales growth rates and concentration ratios, are inadequate to conclude that there is market power. Yet there are sophisticated methods testing for market power.[16] Alternatively, even among many firms, one cannot rule out the possibility of collusion. Thus, there is a need for an alternative approach to testing these allegations empirically.

Despite the need to determine whether retailers or manufacturers exercise market power, no studies have been conducted so far to address this issue. While there are many constraints to effectively tackle certain questions, it is essential to conduct research into this area to preclude net welfare loss, assuming market power really exists. While costs may be lower in noncompetitive markets, the allocation of rents is distorted, biased as it is toward producers rather than consumers, and may not be politically acceptable, particularly for a country like the Philippines that aspires to achieve growth with equity.

Finally, it is important to examine this issue not only because market power leads to a net welfare loss and distorts resource allocation, but also to shed light on the nature of competition in

[16] Concentration ratios generally fall under the Structure-Conduct-Performance (SCP) Approach, which had been criticized for lack of microeconomic theory. An alternative approach is the New Empirical Industrial Organization Approach (NEIO) which includes models such as conjectural variation based on microeconomic theory (Digal and Ahmadi-Esfahani 2000).

market channels for various agricultural products. Market imperfections in any stage of a vertical marketing system have important implications for the effectiveness of liberalization policies, as correct price signals are not transmitted down the marketing chain.

REFERENCES

Abenoja, R. and D. Lapid. 1991. Barriers to Entry, Market Concentration and Wages in the Philippine Manufacturing Sector, 1987. *The Philippine Review of Economics and Business* 28(2):191-217.

Andersen Consulting Inc., Philippine Development Foundation and Legacy Group. 1993. Policy Research and Advocacy Project: Assessment of the Impact of Opening the Retail Trade Sector to Foreign Investment. Manila: Philippine Exporters Confederation, Inc. and Private Investment and Trade Opportunities (Philippines).

Alexander, C. 1999. The Philippines is Set to Liberalize Retail Trade. In *Foreign Agricultural Service GAIN Report*. Washington, D.C.: United States Department of Agriculture.

Balisacan, A. M. 1990. An Analysis of the Philippine Inter-island Shipping Industry. *Journal of Agricultural Economics and Development* 20:75-93.

BLES (Bureau of Labor Employment Service). 1995. Employment Factsheet. Manila, Philippines: Department of Labor and Employment.

———. 1998. Employment Factsheet. Manila, Philippines: Department of Labor and Employment.

Businessworld. 1997. Top 5000 Firms in the Philippines. Manila, Philippines.

Dacanay, J. 1996. Recipe for a Retail Shop. *Staff Memos* (23):1-5.

David, C. 1989. Philippines: Price Policy in Transition. In *Food Price Policy in Asia: A Comparative Study*, edited by T. Sicular. Ithaca, New York: Cornell University Press.

Digal, L. and F. Ahmadi-Esfahani. 2000. Market Power Analysis in the Retail Food Industry: A Survey. Paper submitted to the *Australian Journal of Agricultural and Resource Economics.*

DTI (Department of Trade and Industry). 1992. Trade and Industry Development Plan, Region XI.

———. 1992. Small and Medium Industrial Technology Transfer Program, Planning and Institutional Development Division, Davao City.

Galbraith, J. K. 1952. *American Capitalism: The Concept of Countervailing Power*. Boston: Houghton-Mifflin.

Gonzales, S. O. 1999. Remember the Truth: Marcoses are back - FVR. *Philippine Daily Inquirer.* (http://www1.inquirer.net/issues/feb99/feb23/news/news__2htm).

ILO (International Labor Organisation). 1977. *Sharing in Development: A Programme of Employment,Equity, and Growth for the Philippines*. Geneva: ILO.

Labra, L. B., A.S. Gueco, C.C. Nolasco, P.M. Villanueva, F.G. Cabanes, J.L. Salvador, M.J.T. Tan, G.B. Macion, A.O. Tiotuyco, M.L.A. Wycoco, C.H. Gacias, E.I. Ama and R.C. Tayag. 1995. Philippine Housewives Shopping Habits Study. Manila: Pulse Research.

Lantican, F.A., K.E. Licardo, L.R. Cabebe, E.E. Dumayas and D.S. Harder. 1996. Commercial Crops Subsector: Fruits, Vegetables and Ornamentals, Congressional Commission on Agricultural Modernization and Agricultural Policy Research and Advocacy Assistance Program. Draft report. University of the Philippines Los Baños.

Mendoza, M. and M. Rosegrant. 1995. *Pricing Behavior in Philippine Corn Markets: Implications for Market Efficiency*. Washington, D.C.: International Food Policy Research Institute.

NEDA (National Economic Development Authority). 1998. Philippine Economic Indicators Online. (http://localweb.neda.gov.ph/~ioneda/).

NSCB (National Statistical Coordination Board). 1998. Factsheet on Men and Women (http://users.info.com.ph/~nscbrscs/wmfact.htm).

NSO (National Statistics Office). 1988. Family Income and Expenditure Survey. Manila: National Statistics Office.

———. 1991. Family Income and Expenditure Survey. Manila: National Statistics Office.

———. 1994. Family Income and Expenditure Survey. Manila: National Statistics Office.

———. 1997. Family Income and Expenditure Survey. Manila: National Statistics Office.

———. 1975. Census of Establishments. Manila: NSCB.

———. 1988. Census of Establishments. Manila: NSCB.

———. 1994. Census of Establishments. Manila: NSCB.

———.1995. Concentration Ratio Data Based on Census of Establishments, Manila.

PASI (Philippine Association of Supermarkets Inc.) 1995. Position Paper: Retail Trade Liberalization, Philippine Association of Supermarkets, Inc., Manila, Philippines: PASI.

Patalinghug, E. 1983. Market Concentration in the Philippine Food, Home Appliance and Textile Industries. Quezon City, Philippines: University of the Philippines, College of Business Administration.

———. 1996. The Retail Trade Industry: Structure, Issues and Public Policy. Quezon City, Philippines: University of the Philippines, College of Business Administration.

———. 1997a. Competition Policy, Technology Policy and Philippine Industrial Competitiveness. Quezon City, Philippines: University of the Philippines, College of Business Administration.

———. 1997b. Current Conditions and Future Prospects of Competition Policy in the Philippines. Bangkok: Tariff Commission.

Scherer, F. 1980. *Industrial Market Structure and Economic Performance.* Chicago: Rand McNally College Publishing Company.

Umali, D. 1990. Rice Marketing and Prices Under Philippine Government Rice Stabilisation. *Journal of Agricultural Economics and Development* 20:1-43.

Villar, J., M. Teves, Romero, R. Golez, A. Bagatsing, and E. Gullas. 1993. House Bill No. 77. Quezon City, Philippines: House of Representatives.