Liberalization Jumpstarts Philippine Retail Food Sector

23268

By Ramona C. Singian

While imports represent only a quarter of the $18 billion that 83 million Filipinos spend each year on food, the U.S. share of this import market is almost 29 percent. In 2001, this translated to $832 million worth of U.S. agricultural product sales.

Liberalization Opens Door

The growth spurt of agricultural imports and improvement in Philippine food retailing can largely be attributed to passage of the 2000 retail trade liberalization law, which allows foreign retailers to operate independently. Large modern stores now offer a variety of imported foods and can purchase directly, eliminating a 20- to 40-percent markup charged by importers and distributors.

Though the Philippine economy has been affected by the 1997-98 global economic crisis and the devaluation of its peso, demand for U.S. imports is expected to expand due to continued growth and efficiency gains in the retail food sector, an improving economy and a strong interest in Western brands.

Besides being able to bypass distributors, local supermarket chains are modernizing, expanding and broadening their imported brands. The two largest local chains—Rustans and Shoemart, with 38 stores between them—are adding new outlets each year.

To keep up with the giants, smaller traditional retailers are staying competitive by combining their purchasing power and importing directly.

However, while direct importation is on the rise, middlemen importers and distributors continue to handle most of the retail food imports in the Philippines. Many major retailers have limited warehouse space, and long-time importers often carry popular branded products under exclusive distributorship agreements.

Domestic Production Waning

In 2000, the total output value of the Philippine food processing sector declined for the first time in a decade. While there is a good supply of skilled workers, domestic processors face other challenges—an erratic supply of domestic inputs that can force domestic prices higher than world market prices, outdated facilities and expensive electricity.

Consequently, Philippine food manufacturers and processors are relying increasingly on imported food ingredients and packaging materials.

U.S. Brands Preferred

Bound by 20th century cultural and economic ties with the United States, today's Filipinos have inherited a lingering

Top Imports

Popular imported food items for the Philippines include:

- Candy, chocolates, cookies, biscuits, pancake mixes and frozen dough products
- Canned foods such as mushrooms, fruit cocktail, corn, Vienna sausages, pork luncheon meat and corned beef
- Cheeses
- Chestnuts
- Fresh fruits such as apples, mandarin oranges, grapes and lychees
- Fresh vegetables such as iceberg and romaine lettuces, broccoli, cauliflower and celery
- Frozen sliced, french-fry and hash-brown potatoes
- Frozen poultry, pork, pork bellies and boneless beef
- Frozen squid and mackerel
- Oatmeal and other cereals
- Snacks such as chips
- Soups

taste for established and new U.S. products.

As incomes grow, so do purchases of U.S. brands. Supermarkets regularly feature U.S. products to attract customers, whose expenditures on food increased 25 percent from 1997 to 2000.

Several distinct product trends have surfaced in the last couple of years:

- The "fresh" concept, whereby stores feature rows of fresh produce and other products, has enabled major supermarket chains to elevate grocery shopping standards.
- Neighborhood convenience stores are now adding fast-food services with dine-in areas.
- Promotional sales coincide with paydays and holidays. Wholesale clubs are using mailers to promote new products.
- The proliferation of credit and debit cards has benefited food retail sales.

Entry Strategies

The best entry approach for U.S. exporters is to secure the services of an exclusive importer/distributor or trading firm to handle the details of Philippine customs and distribution.

Larger Stores Carry More Imports

Retail Outlet	Description
Super center/Hypermarket/ Warehouse store/Wholesale club	Products usually arranged in a warehouse setting, offering "one-stop" shopping.
Supermarket/Grocery store	Mostly inside shopping malls, department stores or within a commercial complex. Store size varies.
Convenience store/ Gas mart/Kiosk	Longer operating hours and often co-located with gasoline stations near intersections. Limited food line, usually with fast-food services.
Mom-'n'-pop/*Sari-sari* store	Owned by community member, selling a variety of essential food items.
Wet market	Usually sells "fresh" items--meats, fish, vegetables and fruits. Only fresh fruits are sometimes imported.

New exporters should focus on opportunities with the bigger chains that own super centers, hypermarkets, supermarkets and convenience stores. The traditional wet markets and mom-'n'-pop (*sari-sari*) stores, located in neighborhoods, sell essential household items, with fresh fruits their only imports.

Large urban, retail chain stores usually have many suppliers, and import directly if a product has enough sales volume. These stores have imported product sections and tend to be "one-stop" shopping centers.

Convenience stores and gas marts, also usually run by chains, tend to supply basic necessities with fast turnover. Imported items include snacks, chocolates and convenience foods like noodles. The parent chain may import some items directly.

With several brands of prepared foods already on the market, there is a move toward more convenience items. Dual-income families with busy schedules are looking for time-savers, including microwaveable foods.

Increased demand for organic foods and healthy light, low-fat, low-salt and low-cal items also seems to be a coming trend in the market. ■

60230

The author is an agricultural marketing specialist with the FAS Office of Agricultural Affairs at the U.S. Embassy in Manila, Philippines. Tel.: (011-63-2) 887-1135; Fax: (011-63-2) 877-1268; E-mail: usda@globe.com.ph.

For details, see FAS Report RP2012. To find it on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.