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Global Agricultural Information Network

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Philippines

Retail Foods

Expanding Philippine Food Retail-A Bigger Opportunity for U.S. F and B

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Report Highlights:

New players in the food retail industry and continuous expansion of existing retailers contributed to the dynamic growth of the industry in 2014. Driven by strong economic growth and increased consumer spending, modern grocery retailers showed significant growth over the past five years. The continuous growth of the food retail industry denotes bigger opportunities for more exports of U.S. food and beverage products to the Philippines.

Post:
Manila

General Information:
I. Overview of the Philippine Market

The Philippines is the largest market in Southeast Asia for U.S. consumer-oriented food and beverage (f&b) products and one of the fastest growing markets the world, importing \$ 1.1 billion in U.S. f&b products in 2014.

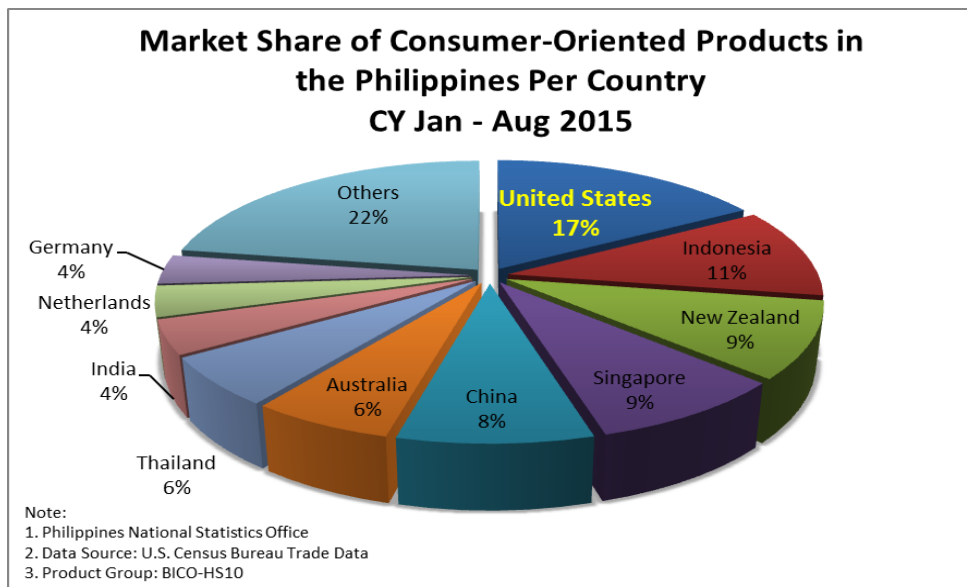
A mature market with increasingly growing demand U.S. consumer-oriented products, the United States remains the Philippines’ largest supplier for food, beverage and ingredient products.

Ranked as the 10th largest export market for U.S. high-value, consumer-oriented products, the Philippines imported \$594 million from January through August 2015. Based on the chart below, the United States remains the largest supplier with seventeen percent (17%) market share, followed by Indonesia (11%), and New Zealand (9%) and China (9%). Total imports of consumer-oriented food grew annually by an average of 15% while imports of U.S. food products increased by an average of 15 to 20 percent annually.

Table 1 – Philippine Market Profile
Population: <ul style="list-style-type: none">• 107 Million (July 2014 est.), annual growth rate of 1.84%• 40% below 20 years old• 52% living in urban areas
Land Area: 298,170 sq.km.
2014 GDP Growth: 6.1%
GDP Per Capita: \$7,000 (2014 est.)
Source: CIA World Fact Book

in
for

Chart 1 – Market Share of Consumer-Oriented Products in the Philippines Per Country



The Philippines has a strong preference for U.S. brands and is always looking for new American products to taste and enjoy. As incomes grow, more American brands are likely to find a market here.

Post expects demand for U.S. consumer-oriented products will continue to grow for following reasons:

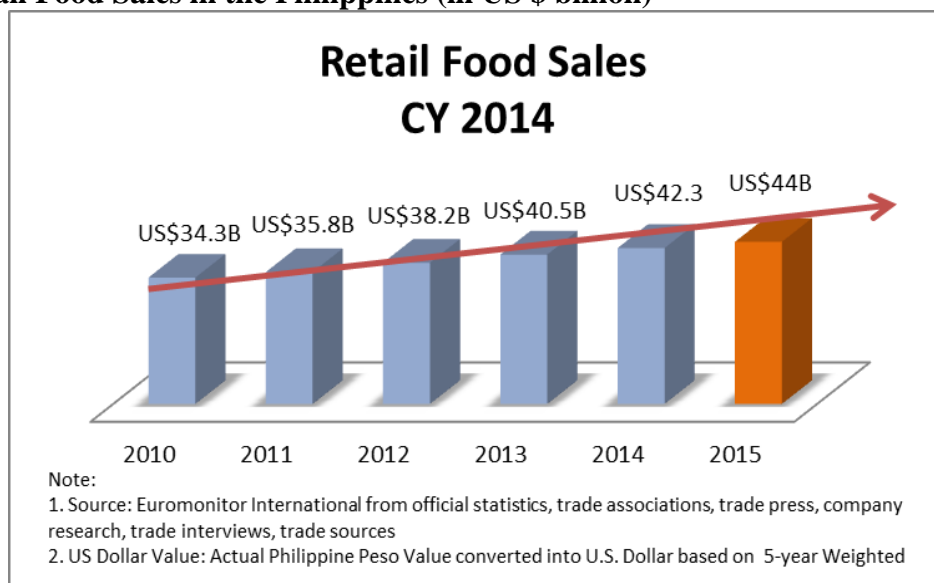
- Increasing urbanization of the local population (almost 107 million)
- Growing upper and middle class (18-20 million)
- Rising number of supermarkets, hypermarkets and convenience stores
- Strong interest in western brands among Philippine consumers
- Growing awareness of the quality and health benefits of U.S. food, beverage and ingredient products

II. Overview of the Philippine Retail Food Market

The retail food sector in the Philippines is well-established and continues to flourish. Consumer expenditure on food and non-alcoholic beverages in the Philippines accounts for 42 percent of the total household consumption expenditure. In 2014 it reached US\$ 96.72 billion which is a seven percent increase from 2013, according to the Philippine Statistics Authority.

In 2014, retail sales attributed to traditional markets (i.e. wet markets, sari-sari/mom & pop stores) fell to 61.5%, a 1.5% decrease from 2013 while the market share of hypermarkets, supermarkets and convenience stores increased to 38.5%. The rapid increase in food and beverage sales of about 20 percent in a 10-year span led retail food industry operators to increase their consumer base and geographic reach by expanding further into urban areas and key provincial cities. This expansion will hasten the decline in market share for traditional wet markets, particularly for packaged goods.

Chart 2 – Retail Food Sales in the Philippines (in US \$ billion)



The Philippines' robust economic performance in 2014 has boosted the performance of the local retail food market. Population growth, rising middle income earners, increasing number of dual-income

families, higher disposable incomes, and fast changing lifestyle and higher awareness of food quality and safety has contributed to the continuing growth of the food retail sector. Modern retail markets such as supermarkets, hypermarkets and convenience stores (including 'minimarts) have become more essential especially to those living in Metro Manila and other large cities as customers demand more convenience and flexibility. These modern markets have gone up both in urban and rural areas, close to residential and commercial communities. This is because modern retail markets are usually cleaner, more comfortable, spacious and well-maintained. Moreover, supermarkets offer a wider range of choices for the consumers, including both perishable and non-perishable goods. Wet markets retain an advantage in fresh product, including meat and seafood, but especially fresh fruit and vegetables.

Table 2 – Sales by Channels in the Philippines (in US \$ million)*

Outlet/ Channel	2010	2011	2012	2013	2014	Growth (13 vs 14)	% Share
Supermarkets	6,347	6,805	7,653	8,181	8,718	6%	20.6%
Hypermarkets	1,313	1,501	1,798	2,340	2,623	12%	6.2%
Convenience stores	297	329	386	476	625	31%	1.5%
Other Specialty Retailers (inc. food/drink/tobacco specialist)	3,345	3,465	3,681	4,009	4,297	7%	10.2%
'Mom & Pop'	22,976	23,668	24,803	25,525	26,024	2%	61.5%
Total	34,277	35,767	38,321	40,533	42,287	4%	100%

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

*Note: US Dollar Value converted from Actual Philippine Peso Amount based on the 5-Year Annual Weighted Average Interbank Rates of the Banko Sentral ng Pilipinas

Table 3 – Type of Channels by Definition

Type	Definition
Supermarket	A selling area of between 400 square meters and 2,500 square meters, at least 70% of which is devoted to food and everyday commodities. Mostly located inside shopping malls, department stores or within a commercial complex.
Hyper Markets/ Warehouse Stores	A hybrid of a department store and supermarket with a sales area of at least 2,500 square meters, 35% of which is allocated for non-food products. Non-food items offered include: furniture, appliances, clothes, etc.
'Mini-marts' (new category)	A new retail format in-between the convenience store and the supermarket. It is a type of neighborhood grocery store that offers basic goods, fresh meat, poultry and vegetables as well as food-to-go products.
Convenience stores (including	A store with sales area of 150- 300 square meters and operates for longer hours (usually on a 24 hr. basis) that serve for impulse purchases. Mostly found in a condominium building, beside gasoline stations, near intersections or corner

gas marts)	streets or near a BPO office. Offers ready-to-eat meals and have limited line of f&b and non-food/household items.
"Mom & Pop"/Sari-Sari Stores	Small neighborhood stores owned and managed by a household in the community, selling a variety of essential items such as rice, cooking oil, sugar, etc. Much smaller than convenience stores, they are usually built within or beside operator/owner's own house.
Wet Markets	Usually sell "fresh" meat, fish, vegetables, fruits and other domestically-produced items. Mostly local products but offer some imported items, especially fresh fruits.

A. Modern Retailers

Passage of the retail trade liberalization law in the early 2000 caused local supermarket chains to undergo several changes to modernize, expand, consolidate, stream-line operations, and broaden their of imported brands, often via direct importation. The legislation, which allows foreign retailers to operate independently in the



line

Philippines, has fostered growth in large-scale modern stores that offer a wider range of imported foods and purchase directly, eliminating the 20-40 percent mark-up charged by importers/distributors.

Supermarkets share the second biggest sales next to mom & pop stores. Although supermarkets did not grow as fast as hypermarkets in 2014, at 6% in retail value sales in 2014, their increase in number of outlets contributed to this growth, but overall slower than other formats such as convenience stores and hypermarkets. While geographic and outlet expansion may benefit supermarkets, the convenience offered may benefit other retail channels even more.

Hypermarkets continued with double-digit growth for value sales in 2014. The 12% increase in value sales was pushed by more than 10% growth in outlet count, with hypermarkets increasing in locations nationwide. An advantage of hypermarkets continued to be its location and standalone format, removing the need for consumers to visit shopping centers for their needs

Filipino consumers increasingly prefer to purchase groceries from modern retail outlets, which provide a convenient format for one-stop shopping. This preference has led to the growth of supermarket and hypermarket.

Below is the summary profile of major retail grocery outlets:

- Super Value Inc. or SM Supermarket, the food retail arm of SM Investments, is the dominant player in the food retail industry in the Philippines. Having established its first store in 1985, SM

Supermarket operates 39 branches across the Philippines. SM Supermarkets are primarily located inside SM Malls.

SaveMore Market is a chain of neighborhood grocery stores under the SM Food Retail Group (other food retail formats under SM are SM Supermarket and SM Hypermarket). SaveMore stores are located outside an [SM mall](#) in either stand-alone outlets or as an anchor tenant of a commercial center/commercial building or non-SM mall.

SM Hypermarket is a superstore combining a supermarket and a department store, offering more than 150,000 brands of merchandise or SKUs with the aim to allow customers to satisfy all their routine shopping needs in one trip. SM Hypermarket is usually located within a mall and has 43 branches nationwide.

- Rustan Supercenters Inc. (RSI) is the retail arm of Rustan Commercial Corporation, the premier chain of upscale department stores, operating in the Philippines for almost 50 years. RSI is a pioneer in modern grocery retailing and is the operator of Rustan's Supermarkets, the Shopwise chain of hypermarkets and Wellcome convenience stores. Rustan Supercenters Inc. is now a member of the Dairy Farm International Group -- a multinational company that brought Mannings, Giant, Jason's Guardian, Ikea, Cold Storage, and many more retail superstores to the world. At present, Rustan's Supermarket is continuously expanding with 22 branches nationwide.
- Puregold Price Club Inc. (PPCI) is a chain of supermarkets that was established in 1998 when the one-stop shopping philosophy was an emerging idea. PPCI has three store formats: Puregold Price Club (a hypermarket), Puregold Jr. (a neighborhood store), and Puregold Extra (discounter supermarket). Ranked as number two in food retail, Puregold Price Club Inc. has grown into a giant retail chain with more than 225 stores nationwide. Puregold Price Club Inc. also owns S&R Membership Shopping which used to be PriceSmart- the first U.S.-based chain to enter the Philippines in 2001 after the passage of the 2000 Philippine Retail Trade Liberalization Law. S&R Membership Shopping opened in 2006 and now has 10 stores nationwide.

- Robinsons Supermarket, the second largest supermarket chains in the Philippines, is a subsidiary of Robinsons Retail Holdings Inc. Established in 1985, Robinson Supermarket now has 106 branches all over the country. It opened its modern grocery store in late 2014 called Robinsons Selections. It offers wider assortment of gourmet and imported products.

Robinsons Selections (an upscale supermarket Robinsons Supermarket Corp.) provides a convenient and practical one-stop hub for



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essentials (i.e. grocery, salad bar, to-go food, health and beauty, and pharmacy) in all its three branches in Manila. Aside from the good ambiance, wide presence of imported items, Robinsons Selections offers free Wi-Fi inside the store.

Robinsons Easymart is a chain of neighborhood grocery stores under the Robinsons Supermarket Corp. located near or within residential communities.

- Metro (Gaisano), formerly White Gold Department Store with supermarket business was a family-owned business way back in 1949 in Cebu. Incorporated and established in 1981, the first Metro department store and supermarket outlet opened in 1982. Through the years, Metro (both a department store and supermarket) expanded from Cebu to Manila and other nearby provinces in the region of Visayas and Mindanao, now with 16 branches nationwide.
- Walter Mart Supermarket signed a joint venture with SM Investment Corp. in 2013 and is the only member supermarket of International Grocers Alliance (IGA) in the Philippines. It is located in strategic places scattered all over Luzon (Metro Manila, Laguna, Cavite, and Pampanga). It is one of the youngest and fastest growing supermarket chains with 26 branches nationwide.
- Super8 Grocery Warehouse is a subsidiary of Super8 Retail Systems, Inc. that operates a chain of big grocery warehouses all over Manila, and parts of Central, Northern and Southern Luzon. Known for its wide range of grocery products for wholesale, Super8 Grocery Warehouse is a member of the Suy Sing Commercial Corporation, a diversified conglomerate, and the Philippine's leading wholesale distribution company.
- Cherry Fooderama was recently acquired by SM Investments Corp. Owned by the Ong family and considered as one of the pioneers in the grocery business, Cherry Fooderama has been in the retail business since the early 1950's. Despite the acquisition, Cherry Foodarama will retain its name for its 3 stores.
- Merkado Supermarket, a joint venture between Ayala Land Inc. and Puregold Price Club Inc., opened its first branch in Quezon City in July 2015. Merkado Supermarket caters to the middle income segment, and offers a wide range of fresh and grocery items, local and imported goods, and product lines from its own bakery and rotisserie.

Convenience stores continue to expand due least to the bullish Business Process Outsourcing (BPO – call centers) sector and the increasing number of outlets opening in condominiums and areas outside Manila. These stores expand to cover the business centers and BPO hubs and operate on a 24-hour basis, making them an ideal place for midnight shifters to grab food to eat during



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break time.

Aside from well-stocked shelves of packaged food, beverages, and other basic household necessities, convenience stores also offer other services such as bill payment and mobile phone reloading transactions. Convenience Stores and Gas Marts which are mainly location-oriented are thus able to sell products at a premium in exchange for convenience.

Convenience stores led the growth of modern grocery retailers as the fastest growing channel in sales terms in 2014 at 31%. This was driven by both the expansion of existing players such as 7-Eleven and Ministop, as well as the various foreign brands entering the country through partnerships with established retail companies such as SM Retail Inc.

Below is the summary profile of key convenience stores:

- Seven-Eleven is the country's biggest convenience store chain in the Philippines with more than 1,500 stores nationwide. Acquired by Philippine Seven Corporation in 1982 and established in 1998, 7-Eleven is the first franchisor in convenience retailing. Aside from grocery /food retailing, 7-Eleven also offers telecom, bills payment and banking kiosk services.
- Ministop Philippines is a subsidiary of Robinsons Retail Holdings, Inc. that operates as a grocery and fast food diner combined. Established in 2000, Ministop now has more than 500 stores in Metro Manila and nearby provinces in Luzon and continuous to increase through franchising.
- FamilyMart was launched in the Philippines in 2013 in partnership with the Ayala and Rustan's Group. Currently with more than 60 stores in Metro Manila, FamilyMart aims to increase its presence by opening more through franchising.
- Lawson, a convenience store giant in Japan, was launched in the Philippines last June 2015 through a joint venture by Puregold Price Club Inc. with Lawson Asia Pacific Inc. Lawson targets to roll out 500 branches in five years.
- Alfamart, an Indonesian-based convenience store operator is expanding its business to the Philippines through a joint venture with SM Investment Corp. It opened its first three stores in the Philippines last year and now has 78 branches. Unlike the usual convenience stores that offer basic goods, Alfamart offers fresh meat, poultry and vegetables as well as food-to-go products.



- Mercury Drug Corporation is the leading chain of drugstores in the Philippines established in 1945, which eventually evolved into a combination of drugstore and convenience store. Now with more than 1,100 branches nationwide, Mercury Drug serves as a one-stop shop for customers who want to buy medicines and convenience food at the same time. Mercury Drug stores are commonly seen near hospitals, commercial buildings or inside malls.

Table 4 - Key Food Retailers in the Philippines (as of November 2015)

Store Name / Company	No. of Outlets	Locations	Sources
Supermarket:			
Robinsons Supermarket	106	Nationwide	Agents Importers
Robinsons Selections*	3	Manila	Agents Importers
SM Supermarket	40	Nationwide	Importers
Cherry Fooderama	3	Manila	Importers
Rustan's Supermarket	22	Nationwide	Exporters Agents Importers
Shop Wise (by Rustan's)	13	Metro Manila, Laguna and Cebu	Exporters Importers
South Supermarket	10	Metro Manila and Luzon	Importers
CVC Supermarket Inc.	7	Central Luzon and Metro Manila	Importers
WalterMart	26	Metro Manila and Luzon	Agents Importers
Puregold Extra	28	Nationwide	Exporters Importers
Merkado (by Puregold and Ayala)*	1	Manila	Exporters Importers
Metro Supermarket (by Gaisano)	16	Nationwide	Exporters Importers
Landmark	2	Metro Manila	Importers
Makati Supermart (Unimart and Cash n' Carry)	3	Manila	Importers
Neighborhood Supermarket:			
Pure Gold Jr.	53	Nationwide	Exporters Importers
SM Save More (by SM Supermarket)	89	Nationwide	Importers

Wellcome Supermarket (by Rustan's)	13	Manila	Exporters Agents Importers
Robinsons Easymart*	12	Central Luzon and Manila	Agents Importers
Hypermarket/ Warehouse:			
Puregold Price Club	109	Nationwide	Exporters Agents Importers
SM Hypermarket	43	Nationwide	Importers
Super8 Grocery Warehouse	26	Metro Manila and Luzon	Importers
S&R Membership Shopping	9	Nationwide	Exporters Agents Importers
Metro Hypermarket	12	Nationwide	Exporters Importers
Convenience Stores:			
Phil. Seven Corp (7-Eleven)	1,528	Nationwide	Importers
Mercury Drug Corporation	1,000+	Nationwide	Importers
Mini Stop (by Robinsons)	500	Metro Manila and Luzon	Importers
Alfamart (by SM)*	78	Metro Manila and Cavite	Importers
Family Mart (by Rustan's)	60+	Metro Manila	Exporters Agents Importers
San Miguel Food Avenue (by San Miguel Foods Inc.)	50+	Nationwide	Importers
Mightee Mart	22	Metro Manila	Importers
Lawson (by Puregold)*	3	Metro Manila	Exporters Agents Importers

* Note: New players in the industry

B. Traditional Retailers

In the Philippines, “sari-sari” stores (a.k.a. “mom pop” stores) still dominate the retail market. “Sari-sari” which means “variety”, indicates the wide variety of basic food and grocery products are essential to the household. Sari-sari stores are



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usually constructed as an extension of the owners' house. The absence of chained supermarkets and convenience stores in some provincial areas highlights the importance of mom & pop stores which are the primary source of packaged food products, home care, and beauty and personal care. Their dominance in rural areas is due to geographical convenience, intimate customer service and payment flexibility that allows short-term credit to regular neighborhood patrons.

Mom & pop stores are important in serving the needs of lower and middle-income consumers. With a huge proportion of buyers who are still living on or below the minimum wage, mom & pop stores are the most convenient for customers with seasonal or daily income to buy in small quantities and purchase on credit.



In 2014, sales of sari-sari stores are estimated to reach more than \$26 billion, accounting for 61.5 percent of total food retailers in the country.

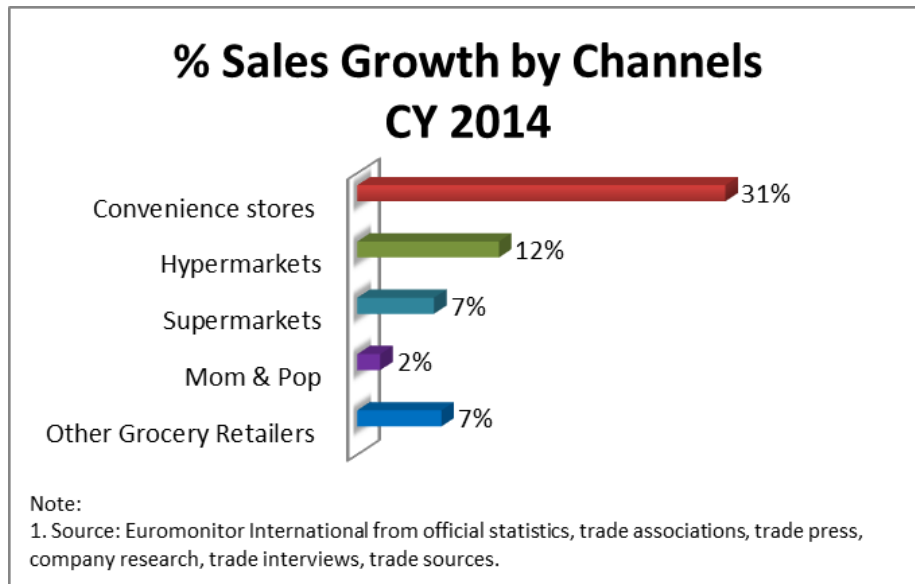
Another type of a traditional food retailer is the wet market. Wet markets are located in every town or municipality. Items offered in wet markets are grains, fresh produce such as meat, fish, chicken, fruits and vegetables which are comparatively lower in price than those in supermarkets or groceries.

While many Filipino consumers still shop at wet markets for fresh vegetables and meat, many are shifting to supermarkets because of convenience, cleanliness and food safety factors.

C. Other Retailers

Other retailers include shops which specialize in selling drinks and tobacco. These specialty retailers are very few and often cater to upscale patrons. Low-priced and mid-priced drinks and tobacco are often sold in sari-sari stores, supermarkets and hypermarkets.

Chart 3 – Percentage Growth of Sales per Channel



With entrants of new supermarkets and convenience stores and increasing number of outlets, the food retail industry in the Philippines is expected to increase by five to ten percent in 2015 according to the Philippine Association of Supermarkets, Inc.

Trends in Distribution Channels

Importer/distributors are in direct contact with big supermarkets, hyper-marts and wholesale clubs. Smaller stores, such as "mom and pop" or sari-sari stores are handled by agents or middle men. It may also be noted that there are big distributors which employ sub-distributors particularly for the rural areas or provinces. While this practice reduces the distributor's mark-up, it increases their sales volume.

Although infrastructure has improved, there is a long way to go for improvement. Traffic in urban areas, particularly in Metro Manila increases distribution cost. Communication between supplier and retailer has also improved. Major retail supermarket chains have already computerized their operations from front to back-end operations.

Trends in Services Offered by Food Retailers

Retailers are now responding to the demands of increasingly busy consumers. Some supermarkets offer food-to-go counters and salad bars, while other supermarkets integrate a pharmacy inside their store, making it a one-stop shop for busy customers.

Some convenience stores have incorporated fast-food services where customers can enjoy the convenience of eating freshly prepared fast food in the store's dine-in area. This was introduced by Robinson's Retail Group when they opened Mini-Stop. Now, 7-Eleven, Family Mart, and Lawson provide dine-in facilities as part of their fast-food services.

Online retailing of grocery products continues to emerge in the Philippines where the impact is expected to continue to be minimal. Despite the convenience offered along with increasingly busy lifestyles, limits remain on internet access and on delivery capabilities. Grocery retailers are expected to continue

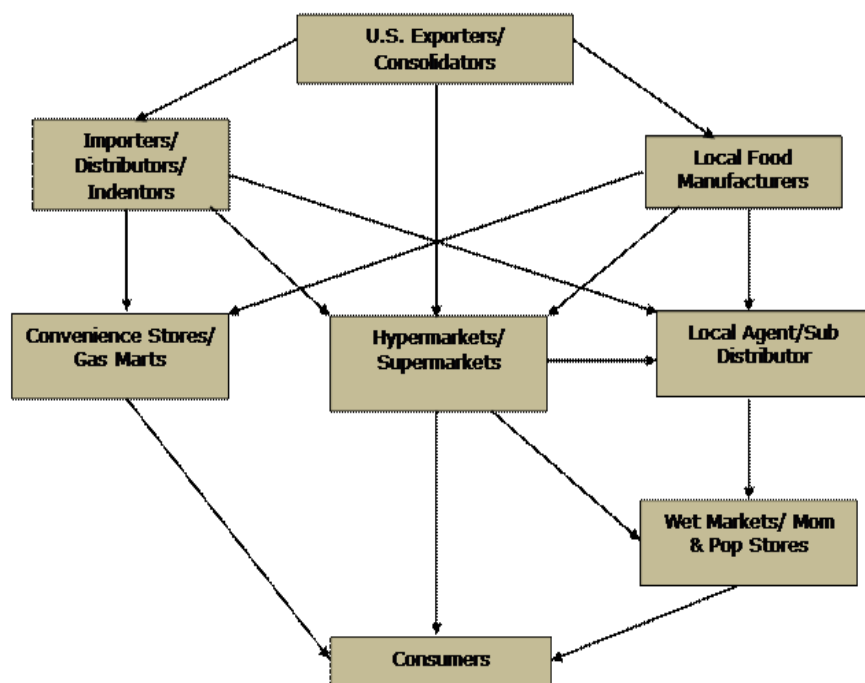
using the internet mainly for information on outlets and promotions, and not as a main avenue for the purchase of grocery items. Store-based grocery retailing is expected to continue to dominate and be the preferred means of purchase.

Table 5 - Advantages & Challenges of the Retail Food Sector

Advantages (Sector Strengths)	Challenges
The Philippines is a mature and growing market for U.S. food, beverage and ingredient products with export sales of \$ 1.1 billion in 2014.	Stiff competition with other countries including New Zealand, China and Australia
Filipinos have strong preference on U.S. food, beverage and ingredients products.	U.S. products are not always price-competitive as compared to imports from other countries especially those products from ASEAN countries.
Philippine consumers perceive U.S. brands to be safe and of high quality.	Delivery/Availability of products requires large inventories
Proliferation of malls encourages further expansion of food retail establishments leading to more demand of imported food items	Food retail markets demand high slotting fees per SKU of products and year-round marketing support which place a big burden for the new-to-market U.S. exporter.
Opening of modern retail markets provides customers with more alternatives of local and imported products	Local markets prefer smaller retail packs due to affordability
Modern retail markets are expanding allowing more Philippine consumers to have access to new imported products.	Availability of most imported products are concentrated in Metro Manila and major key cities only.
Growing middle class means more disposable income spent on high-value products	Value-for-money remains the most significant influence of Filipino’s purchase decisions.
Demand for healthy and gourmet foods is increasing.	Gourmet and healthy foods are more expensive.
Fast pace of modern living leads to more demand of convenience foods	Food and beverage products at convenience stores are sold at a premium price, 10-20% higher than those sold in the supermarkets

III. Road Map for Market Entry

A. Market Structure



B. Entry Strategy

1. Supermarkets, Hypermarkets and Warehouse Stores

U.S. exporters who wish to supply food products to local food retailers may prefer to have an exclusive importer/distributor or engage the services of a trading firm in order to enter the market instead of putting up a local company in the Philippines. These importers or trading firms usually have their own distributors and sometimes act as distributors themselves. This strategy will eliminate the inconvenience of having to register a local company and hire personnel which could be expensive in the long run. Importer/Distributors are also typically well-versed on local customs and import paperwork issues, freeing the exporter from having to deal with these.

Large retail stores usually have many suppliers which include local manufacturing companies or their distributors, trading firms or importer/distributors. There are, however, retailers who direct import some products themselves, although sourcing from importers/distributors is the most common and preferred practice in the industry. These retailers normally have a central receiving, warehousing and distribution center.

2. Convenience Stores

Convenience stores in the Philippines are usually a chain of stores operated by one parent company. Exporters who would like to supply to convenience stores are advised to appoint an importer/distributor. Importers/distributors who distribute to big retail stores also distribute to convenience stores or gas marts. However, products for distribution in convenience stores and gas marts are basic necessities to consumers; otherwise, fast turnover of the product is not guaranteed.

Distributors must contact the head offices of the convenience stores and offer to be a supplier. These

distributors may be distributors of Importers/Distributors or distributors of big manufacturing firms.

3. Traditional Retail Markets (i.e. Mom & Pop" and Wet Markets)

Exporters have difficulty entering the “Mom & Pop” stores since these markets mainly concentrate on selling small packaged food items and essential household items on low margins. “Mom & Pop” stores usually source their products from Supermarkets, Hypermarkets or Warehouse Stores. Distributors of local food manufacturers also supply to “Mom and Pop” stores.

Similar with the “Mom and Pop stores”, penetrating the wet market would be challenging for exporters since most imported products available in wet markets only include fresh fruits such as apples, table grapes and oranges that are sourced from local wholesalers and distributors. Limited varieties of imported canned fruits and vegetables are occasionally available, like during Christmas and Chinese New Year. It is to be noted that retailers in wet markets occupy stalls that average to 4-6 square meters. Wet market retailers are not expected to become a significant retailer of imported food products, other than for fresh fruits and vegetables. Traditionally, wet markets are the main source of fresh produce and meat purchases.

C. Regulatory Systems and Import Requirements

For detailed information regarding standards and regulations for importing food and agricultural products into the Philippines, please refer to the report entitled “**Philippines: Food and Agricultural Import Regulations and Standards – Narrative**” also available on-line through the FAS homepage at www.fas.usda.gov .

D. Exporter Business Tips

- Filipino businessmen value trust and personal relations. U.S. exporters are encouraged to maintain close contact with their Philippine importers. Regular market visits are favored by Philippine importers and regarded as a show of support.
- Some Philippine importers maintain buying offices in the United States and consolidate their shipments through third-party consolidators on the West Coast.
- Exclusive distributorship agreements are preferred by Philippine importers. U.S. exporters can work with one or several importers provided the market coverage of each importer is properly identified.
- Only a few retail supermarkets have the capacity to import directly.
- Philippine food regulations and standards generally follow the U.S. Food and Drug Administration. All food products must be registered with the Philippine Food and Drug Administration. Imported products may be registered only by a Filipino entity (importers).

Products from the United States do not require special labeling and may be sold in the Philippines in the same commercial packaging.

- U.S. exporters are advised to require payment of goods via letter of credit, especially for initial transactions. Credit terms may be extended to the importer after conducting a thorough background and credit investigation, and after payment habits have been established.
- There are no distribution hubs. It is key to identify importers that can distribute to the three major cities (Manila, Cebu and Davao). Most importers distribute while some appoint distributors.
- General Pricing Structure From Landed Cost (CIF + Duties & Taxes)
 - Add 30 percent to arrive at the wholesale price for food service customers
 - Add 20-40 percent to arrive at the price for retail supermarkets
 - Supermarkets add a 6-15 percent mark-up to arrive at the price sold to end-consumers
- Credit Terms
 - For retail, products are mostly on a consignment basis. Importers collect payment after 30 days. For products purchased on an outright basis, retailers demand 60-90 days credit terms from importers.
 - The foodservice industry, hotels and restaurants request for 30-60 days credit.
 - The food manufacturing industry requests 30 days credit.
- Retailers demand high slotting fees (about \$120 per stock keeping unit or SKU) + year-round marketing support (\$1,000-\$2,000 per annum). U.S. exporters should, as much as possible, support marketing and promotional efforts.
- Filipino consumers generally prefer smaller packaging sizes.
- Due to insufficient cold chain infrastructure in the Philippines, products should be packed to withstand extreme heat and humidity.
- The high cost of inter-island shipping makes imported products more expensive in areas outside Manila.
- The release of imported goods from Philippine Customs sometimes poses a challenge.

IV. Retail Food Sector Best F&B Prospects

Domestically produced items account for about 80 percent of the total food supply with the balance being imported. According to interviewed retailers, an advantage of local food products is their availability. They have encountered problems with imported items in terms of delivery schedules, stock availability and pricing. However, they are still very optimistic with regards to the competitiveness of imported products. Some imported items even cost less than locally-produced ones. U.S. products are

very popular and have great appeal to Philippine consumers. They are perceived to be of better quality compared to imports from other Asian countries.

U.S. remains as the top supplier of high-value consumer-oriented products in 2014 where 12 out of 21 high-value products reached the highest export levels last year. These products include: dairy, poultry, beef & beef products, tree nuts, processed vegetables, snack foods, prepared food, condiments and sauces, fresh fruit, chocolate and cocoa products, and egg & egg products.

Continued growth on exports of U.S. f&b products to the Philippines shows that sales from 2009 have doubled in 2012, thus achieving the White House National Export Initiative (NEI) two years in advance. More importantly, those record-setting products comprise 85 percent of sales

Table 6 – U.S. Consumer Oriented F&B Exports to the Philippines

U.S. Food & Beverage Exports to the Philippines							
CY 2009-2014							
(in Millions of Dollars)							
	Calendar Years (Jan-Dec)						% Change 2009-2012
	2009	2010	2011	2012	2013	2014	
Food & Beverage Total	428.2	621.0	772.6	866.2	999.2	1110.8*	159
Beef & Beef Products	21.6	29.2	38.0	44.9	54.5	59.5*	175
Pork & Pork Products	76.5	103.4	92.9	88.2	112.3	103.7	36
Poultry Meat & Prods. (ex. eggs)	24.0	43.4	55.1	73.2	89.2	93.0*	288
Meat Products NESOI	4.5	4.8	5.3	5.6	9.5	9.4	109
Egg & Products	1.6	0.8	2.1	2.2	2.2	2.3*	44
Dairy Products	78.1	185.5	280.5	317.5	364.0	422.9*	441
Fresh Fruit	32.8	31.3	41.9	50.9	60.6	62.5*	91
Processed Fruit	8.0	9.0	9.9	12.0	13.3	13.0	63
Fresh Vegetables	1.6	4.4	5.9*	3.4	5.4	5.6	250
Processed Vegetables	26.4	42.6	43.8	48.1	57.5	68.4*	159
Fruit & Vegetable Juices	6.7	7.8	7.9	8.3	9.6	11.6	73
Tree Nuts	2.7	4.5	4.9	5.5	5.0	7.1*	163
Chocolate & Cocoa Products	24.8	25.5	31.5	34.8	40.0	40.8*	65
Snack Foods NESOI	23.7	26.2	34.0	38.2	43.7	51.3*	116
Breakfast Cereals	0.7	1.0	1.1*	0.6	0.6	1.0	43
Condiments & Sauces	10.3	10.2	13.6	14.2	17.3	20.5*	99
Prepared Food	38.4	38.1	43.5	58.5	69.3	88.6*	131
Wine & Beer	7.4	8.1	8.1	8.0	9.5*	9.0	22
Non-Alcoholic Bev. (ex. juices)	6.0	18.3*	14.7	13.2	15.6	13.6	127
Dog & Cat Food	12.7	15.0	19.1	22.4	25.7	26.1*	106
Other Consumer Oriented	0.3	0.3	0.5	0.6	0.5	0.8*	167

Notes:

- * Denote highest export levels since at least CY 1970
- Source: U.S. Customs as reported in U.S. Department of Agriculture Global Agricultural Trade System
- Product Group: BICO-HS10

According to U.S. Customs statistics, the top five f&b product categories by value in 2014 were dairy products, meat & poultry products, prepared food, processed vegetables and fresh fruit. The top five f&b products that led the growth in 2014 are breakfast cereals, tree nuts, prepared food, fruit & vegetable juices and processed vegetables.

Table 7 – Top Ranking Products in 2014 and Top Prospects in 2015

TOP 5 PRODUCTS by VALUE in 2014 (in Millions of Dollars)			TOP 5 PRODUCTS by GROWTH in 2014 (in Millions of Dollars)				
				2013	2014	% Growth	
#1	Dairy Products	422.9	#1	Breakfast Cereals	0.6	1.0	66.7
#2	Meat & Poultry Products	265.6	#2	Tree Nuts	5.0	7.1	42.0
#3	Prepared Food	88.6	#3	Prepared Food	69.3	88.6	27.8
#4	Processed Vegetables	68.4	#4	Fruit & Vegetable Juices	9.6	11.6	20.8
#5	Fresh Fruit	62.5	#5	Processed Vegetables	57.5	68.4	19.0

Source: U.S. Customs as reported in U.S. Department of Agriculture Global Agricultural Trade System

"BEST" PROSPECTS for 2015	
Healthy, Natural & Organic Products	Instant or "Convenience" Foods
Gourmet Products	Breakfast Cereals
Beef	Other Dairy Products
Lamb	Preserved Fruits & Pie Fillings
Deli Meats and Cheeses	IQF Fruits & Vegetables
Snack Foods, Dips and Spreads	Fruit & Vegetable Juices
Dried Fruits & Vegetables	Fresh Vegetables
Tree Nuts	Frozen Potatoes (new cuts)
Wine & Craft Beer	Dehydrated Potatoes

Top Prospects: Fast Facts & Trends

Healthy, Natural & Organic Products

Although U.S. Customs does not track these products as a separate category, retail stores have been increasing shelf-space to accommodate the growing number of new-to-market healthy, natural & organic products because of the rise in disposable income, and the strong consumer trend towards health, wellness and beauty.

Gourmet Products

Most retailers maintain a gourmet section including products such as meats, seafood, fruits & vegetables, specialty cheeses, sauces & condiments, herbs & spices, wines, craft beers and other beverages, dried fruits & nuts, specialty biscuits, snack foods, and chocolate & confectionery. There are several independent operators of gourmet shops within high-end neighborhoods.

Instant or "Convenience" Foods

Because of the country's bullish business process outsourcing (BPO) industry that operates around the clock and the rise in the number of women joining the workforce, traders report strong demand in products that can be classified as "convenient" including snack foods, meal-replacements and ready-to-drink beverages. The Philippines is the 8th largest market in the world and the largest market in Southeast Asia for U.S. snack foods, consisting mainly of corn chips, chocolates, potato chips, sweet biscuits, popcorn and confectionery.

“Double” Products

In addition to being consumed directly, many U.S. f&b products (e.g. dairy, meat, poultry, dried fruits and tree nuts) are being used by the Philippines’ booming food processing industry.

Dairy Products

The Philippines is the 4th largest export market in the world for U.S. dairy products. Exports more than quintupled since 2009 and achieved record sales in 2014. The largest U.S. dairy product export to the Philippines is non-fat dry milk (NFDM). Consumers and the Philippine food processing industry are the major purchasers of NFDM. The Philippines is a key market in Southeast Asia for standard and gourmet U.S. cheese products. Traders are optimistic about the growing market potential of gourmet cheese products due to the booming Philippine economy. Standard cheeses dominate total sales, but gourmet cheeses are gaining popularity and command very high prices (e.g \$20-30/lb).

The U.S. is the second largest over-all dairy supplier to the Philippines, following New Zealand. While New Zealand and Australia enjoy tariff advantages of 1-7 percent on milk powder, cheese, whey and buttermilk as a result of the ASEAN-Australia-New Zealand Free Trade Agreement, currency fluctuations play a significant role in the competitiveness of U.S. products.

Red Meats

U.S. beef exports have been robust as U.S. prime rib and other high-value cuts have become standard menu offerings. The growth is expected to continue as incomes rise, and the number of finer dining options proliferate throughout the country. Strong growth in exports of high-value pork cuts and prepared/preserved pork products to supermarkets, hotels and restaurants are expected to continue.

Poultry Meat

The Philippines remains the largest market in Southeast Asia for U.S. poultry. While a growing market for nearly all categories, the trade estimates mechanically deboned meat (MDM) for use in the food processing industry comprise 75 percent of U.S. poultry exports in 2014.

Prepared Food

Traders report growth in sales of baking ingredients such as cocoa products, pre-mixes, jams and jellies, and flavorings due to the proliferation of small bakeshops that sell premium-quality artisanal baked goods.

Processed Vegetables

The Philippines is the 7th largest export market in the world for U.S. frozen potatoes. There are excellent opportunities for multiple products in this category.

Fresh Fruits

The Philippines is the 5th largest export market in the world and the largest market in Southeast Asia for California table grapes, and a key market for other U.S. fresh fruits such as apples, oranges, lemons, pears and cherries. There is a growing demand for melons, pears, berries and stone fruits.

Fresh Vegetables

The Philippines formally opened its market to U.S. fresh celery, lettuce, and cruciferous vegetables (e.g. broccoli and cauliflower). As the only country with official access to the entire Philippine market for these temperate climate vegetables (which are in limited supply domestically), U.S. exporters are poised to take advantage of opportunities in the booming Philippine food service and retail sectors.

Further, the Philippines allowed the importation of U.S. fresh table stock potatoes for consumption. In the past, U.S. fresh potatoes entering the Philippine market were restricted to chipping and processing purposes.

V. Further Information & Assistance

FAS Manila is ready to help exporters of U.S. food and beverage products achieve their objectives in the Philippines. For further information or assistance please contact:

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