

Philippine Market Blends Eastern Traditions, Western Tastes

by Joy F. Canono

More than 100 years ago, a Filipino nationalist hailed his homeland as the “Pearl of the Orient Seas.” Similarly, many modern-day exporters have discovered that today’s Philippines is a pearl of a market.

In Southeast Asia, it is the No. 1 market for U.S. consumer foods. Globally, it ranks among our top dozen markets for these products. Its imports of U.S. consumer foods top those of many larger, more affluent Asian and European economies.

In the past few years, the Philippines has proven to be not just a good customer, but a resilient one. When the Asian financial crisis engulfed the region, the Philippine economy was severely shaken, and import demand shriveled. But the country weathered the downturn better than many of its neighbors, and it has revived quickly in the aftermath.

The numbers tell the story. In 1997, after climbing 70 percent in two years, U.S. consumer food exports to this market reached a record \$220 million. Most of that gain was wiped out during the height of the crisis the following year, as our food exports plunged by \$80 million. The Philippine peso was sharply devaluated beginning in mid-1997, and the country’s GDP growth slowed to near zero in 1998.

In 1999 and 2000, however, annual GDP growth rebounded, the peso stabilized and trade recovered. Our consumer food exports to the Philippines totaled \$219 million last year—pulling virtually even with the 1997 record and poised for further gains. Our total agricultural exports to this mar-

ket, including bulk and semiprocessed commodities, shattered the old record, topping \$900 million for the first time.

Although other Southeast Asian markets also staged a strong recovery from the steep 1998 decline, they did not match this turnaround performance. For the region as a whole, our food exports last year remained about 10 percent below 1997 levels, as did our total agricultural exports.

Ringin Up Sales From Citrus to Snacks

The Philippine market has welcomed a wide variety of consumer foods, selecting broadly from the U.S. menu. Exports of U.S. snack foods, one of the leading sales categories, totaled close to \$49 million last year, up more than 80 percent since 1995. Popular items include chips and other salty snacks, as well as chocolate candy.

U.S. sales of processed fruits and vegetables amounted to around \$36 million in 2000. Frozen french fries dominated this category, followed by canned fruit, such as

fruit cocktail and peaches. Apples, grapes, citrus and other fresh fruit exports were valued at \$22 million.

Chicken is another strong performer. U.S. exports of poultry meat, mostly frozen leg quarters, increased from almost nothing in 1995 to \$14 million last year. Sales were even higher in 1999, climbing to a record \$21 million, but the large influx prompted the Philippine poultry industry to appeal to the government for import safeguards. To date, no special safeguard has been enacted against poultry imports, but the government monitors imports very closely.

U.S. dairy product exports were valued at \$49 million in 2000. This mainly reflected shipments of U.S. nonfat dry milk and whey powder, but also included limited sales of premium ice cream and processed cheese products.

Among smaller categories, U.S. sales of pet foods to the Philippines reached a record \$5.6 million last year, up more than



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DISTRIBUTOR, IMPORTER
OR AGENT IS PROBABLY
YOUR BEST BET.**



400 percent since 1995. U.S. wine and beer exports also set a record at \$2.6 million, more than twice the level of 1995.

Image and familiarity help explain the popularity of U.S. products with Philippine consumers. In general, U.S. food products are considered to be of higher quality than imports from neighboring Asian countries. American products also enjoy the ring of familiarity—a benefit of the historical, commercial and cultural ties between the two nations.

Of course, it takes more than strong ties to make a good market. It generally takes an expanding economy and growing demand.

The recent financial crisis was preceded by several years of robust economic growth, which brought rising incomes for many. Population increases and accelerating urbanization have given a further jolt to demand, spurring rapid expansion and

modernization of the country's food sector.

In metro areas especially, increasing numbers of dual-income, middle class families and young professionals have swelled the ranks of consumers who are willing and able to pay for what they want. Among the wants of many of today's urban food shoppers are quality, convenience and variety.

Retail Sector Receptive to Imports

Retail sales of foods and beverages in the Philippines doubled between 1992 and 1996. Although 1997 and 1998 sales showed only marginal gains in peso terms—and small declines in dollar terms—the double-digit annual growth rates of the mid-1990s are expected to resume and may already have.

Total food imports followed a similar pattern, rising by two-thirds between 1994 and 1996 to more than \$2.2 billion and



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then slowing in 1997 and 1998. Estimates for 1999 and 2000 indicate that imports are back on a growth track.

Imports account for around 20 percent of the food in the Philippine retail market. In 1998, the U.S. share of these imports was about 25 percent, followed by China at 19 percent, Australia at 14 percent and Vietnam at 7 percent. In the processed food category, the U.S. share was just over 30 percent, while China claimed the largest share of fresh food imports at about 31 percent.

In Manila and other major urban areas, the retail food sector features a varied mix of outlets, from modern supermarkets, hypermarkets and warehouse stores to smaller grocery stores, convenience stores and gas marts. Traditional open-air markets generally sell fresh local products, but may also display some imported items, such as fresh fruit. Small neighborhood "mom-and-pop" or *sari-sari* stores stock only the basics.

The Western-style supermarkets favored by the urban middle class carry product lines very similar to those found in the United States. Produce and meat sections are being expanded as cold storage management improves, although open-air wet markets still dominate sales of these products.

Larger supermarkets generally offer a broad selection of imported products. Some major outlets devote special aisles to imported foods, and some house brands are supplied by foreign manufacturers and processors. Convenience stores and gas marts carry a limited range of imports, such as snack foods.

In informal interviews, Philippine food retailers reported a growing demand for convenient, easy-to-prepare products, including microwaveable foods. They also saw promising prospects for light foods, healthy foods, organic foods and items low in fat, salt or calories. Prices must be competitive, and products should appeal to local tastes, which include a preference for sweet items and for spicy and barbecue flavors.

Among the challenges facing the food sector are the costs of electricity, among the highest in Asia, and severe traffic congestion in urban areas, especially Manila. Congestion contributes to delays and higher costs in the distribution of goods.

Recent market reforms that allow foreign retailers to operate in the Philippines are expected to bring more competition and efficiency to the food sector. Opportunities for U.S. food exporters are likely to increase with the arrival of foreign food retailers, particularly if some of them are U.S. firms.

S&R Price Membership Shopping (Price Club) opened its first store in the Philippines in May of this year, becoming the first foreign and U.S. retailer to establish operations in the country since the Retail Trade Liberalization Act took effect in 2000. The store, which carries mostly U.S. products, has been drawing huge crowds since opening day. Products are imported directly or sourced from local distributors.

Exporters to the Philippines are generally advised to appoint an exclusive im-



USDA/FAS

U.S. Consumer Food Exports to Philippines Regain Traction, Climbing Out of the Asian Slump

Million \$

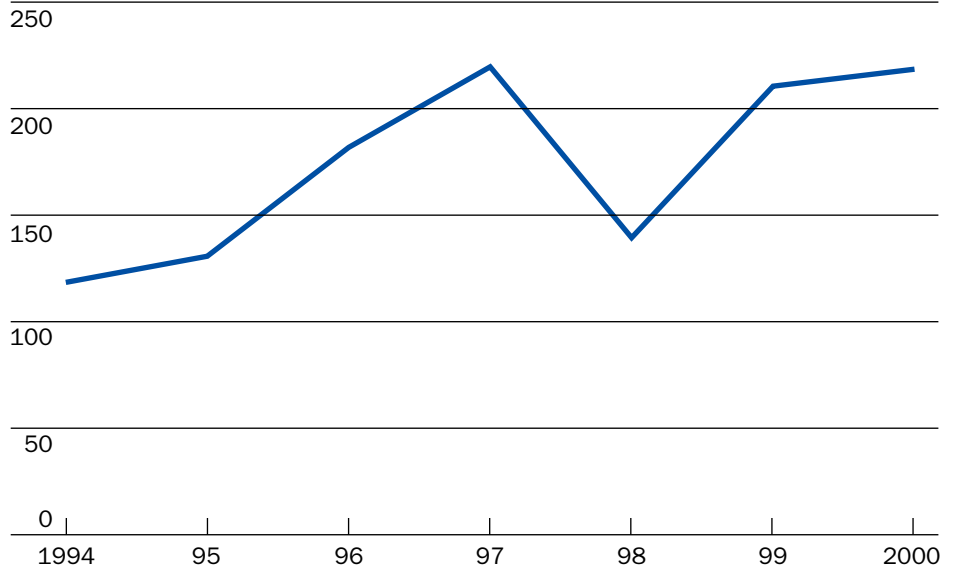


IMAGE AND FAMILIARITY HELP EXPLAIN THE POPULARITY OF U.S. PRODUCTS WITH PHILIPPINE CONSUMERS.

Where East and West Meet and Mingle

With Taiwan to the north, Indonesia to the south and Vietnam to the west, the Philippines may seem like just another remote, high-risk market thousands of miles and many time zones removed from U.S. suppliers. But location isn't everything.

This is an East Asian country with strong historical, cultural and linguistic ties to the West—and a favorable disposition toward U.S. products and trends.

The ties are, in large part, a legacy of nearly a half-century of past U.S. rule and continued close relations. Spain ceded the Philippines to the United States in 1898 at the close of the Spanish-American War.

Following World War II and liberation from Japanese occupation, the U.S.-administered Philippine Islands became the independent Republic of the Philippines on July 4, 1946. Governmental and educational institutions were closely modeled after those in the United States.

This democracy of around 80 million people is about the size of Italy—but spread over an archipelago consisting of more than 7,000 islands, many uninhabited.

Although travel to more remote areas can be challenging, the Philippines is one of the easiest countries in Asia to navigate in terms of language. If you don't speak any of the 87 local languages and dialects, try English.

Pilipino is the national language, but English is the second official language. Virtually everyone in business and government speaks English, as do many millions more. By some estimates, the Philippines contains the third largest group of English-speaking people in the world, after the United States and United Kingdom. And the country boasts one of the highest literacy rates in East Asia.

The new government headed by President Gloria Macapagal Arroyo has pledged to continue the economic reform process begun by her predecessors. So far, the Philippine business sector has reacted positively. According to many analysts, the true test will be how successful the government is in upgrading infrastructure, attracting foreign investment, further liberalizing trade and stimulating broad-based economic growth.

Manila, the capital, is also the industrial, financial and transportation center. About 90

percent of imports pass through the Port of Manila, and most national importers and distributors are headquartered in Manila. Davao, on Mindanao, is the second largest city, and Cebu City, the third largest, is the prime trading center in the southern part of the archipelago.

Most of the commercial and industrial development has occurred in cities and immediate suburbs, such as Makati City in metro Manila. Rural areas rely mostly on farming, forestry, fishing and mining. Remittances to families from relatives living and working abroad contribute significantly to income and to demand for imported goods in many smaller towns and villages.

Agricultural trade between the United States and the Philippines goes both ways. U.S. imports of consumer foods from the Philippines reached a record \$212 million in 2000, roughly equal to U.S. exports of these products to the Philippines. Fresh and processed fruits and vegetables accounted for more than 70 percent of these imports.

porter/distributor or engage the services of a local trading firm. Although a few larger retailers import some products directly, most use local importers/distributors. Importers/distributors who supply the large retail food outlets also distribute to convenience stores and gas marts through the parent companies operating these chains.

One basic step requiring the help of a local importer or agent is product registration. All imported food products must be registered with the Philippine Bureau of Food and Drugs, and only Philippine entities can register products. Some Philippine importers maintain an office or buying agent in the United States and may serve both retail and food service outlets in the Philippines.

Growing Appetite for Food Service

Opportunities for export sales can also be found in the expanding food service or hotel, restaurant and institutional (HRI) sector. The HRI sector is responding to many of the same changes in the Philippine economy and social structure as the retail food sector—and exhibiting many of the same trends.

The Philippine government's National Statistics Office counted more than 800 hotels, motels and lodging places, and around 6,600 restaurants, cafés and other eating places in 1998. Revenue growth in the sector has averaged about 20 percent a year, and new openings are adding to the number of hotels and restaurants each year.

An estimated 85 percent of hotel book-

ings are foreign tourists and expatriates, while 15 percent are locals. The majority of the country's visitors come from elsewhere in Asia, so tourism suffered a setback in 1998 at the height of the Asian financial crisis. Before the crisis, the number of tourists coming to the Philippines was increasing about 8 percent a year, and rates are apparently recovering.

Customers of fine dining restaurants include a mix of wealthier Filipinos, tourists and expatriates, while fast food eateries cater to a much broader customer base. The Philippines remains an attractive market for international food franchises, most of them set up by American chains. These include McDonald's, Pizza Hut, Shakey's, TGIF, Tony Roma's, California Pizza Kitchen,

Food Service Sector Presents Trendy Scene

Exporters who know how to ride a trend may spot an opportunity or two in some of the following trends sweeping the Philippine food service sector:

- Bars, bistros, cafés and coffee houses are sprouting all over metro areas as popular hangouts for young urban professionals.
- The proliferation of shopping malls in major cities is bringing a wider range of food establishments within easy reach of consumers.
- Menu offerings show a growing preference for bold and flavorful foods, colorful presentations, bigger portions and health foods.
- The all-you-can-eat buffet is increasingly popular among consumers, who are often seeking good value and variety at reasonable prices.
- For fast foods, consumers are looking for reduced-price offerings, value meals and premiums such as toys.

Domino's, Burger King, KFC, Dunkin' Donuts and a number of others.

For fast foods, price strongly influences demand, and consumers are often looking for reduced-price offers, value meals and special premiums. Parent companies of U.S.-franchise operations may require certain U.S. food ingredients to ensure consistency in quality and reliability of supply.

The aggressive expansion of fast food chains has been accompanied by growth of the more upscale, full-service Western-style restaurants and specialty outlets, generating opportunities for a wider range of U.S. food products. Restaurants often see imported foods as revenue-boosters, allowing them to attract more diners by offering greater choice.

In fine dining restaurants especially, managers have found that diners are willing to pay more for what they regard as the higher quality and better value of imported foods.

Growth in the Philippine HRI sector is expected to continue along with changing lifestyles, increasing incomes, greater urbanization and more working women. With both spouses working, less time is available to prepare meals, and dual-income families have more disposable income to spend on meals away from home. The trends evident in Manila are also occurring in other urban centers, including Cebu and Davao City in the southern part of the country.

Availability is also encouraging more away-from-home eating. Shopping malls, often with food kiosks, are popping up all around urban areas. Prepared meals and snacks are increasingly available on a 24-

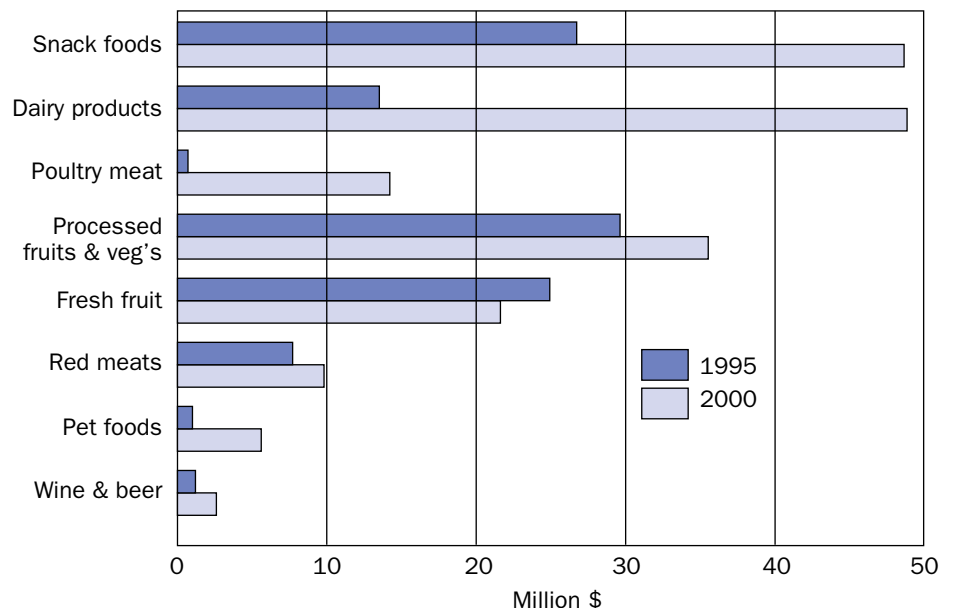
hour basis and in various strategic locations, including convenience stores, grocery stores and bus terminals.

New-to-market exporters looking for sales in the Philippine HRI sector should consider the same advice offered to those interested in the retail food sector. An experienced distributor, importer or agent to handle local distribution is probably your best bet. Experience should generally include dealing with big hotels and food service companies. Exclusive distributor arrangements are preferred.

Importers/distributors are also important sources of food supplies for Philippine hospitals, schools, office cafeterias, passenger ships, caterers and concessionaires for theme parks, golf courses and special events. Hospitals, for example, often go to importers for fruit juices.

Within the HRI sector, 5 to 15 percent of food requirements are imported, and

Most Major Categories of U.S. Consumer Food Exports Show Sharp Gains Since 1995



Tips on Travel and Etiquette

So you're ahead of the game. You've already done all the research, made initial contacts and maybe even scored a few sales in the Philippines. Now you're ready to invest some personal face time in an effort to build a larger or steadier relationship.

Here are a few basic travel and meeting tips for the first-time visitor:

Pack light. For a man, a light two-piece suit is fine, but for business or social functions you'll always be properly dressed in a barong tagalog—a lightweight, long-sleeved shirt native to the Philippines. For women, light suits and dresses are recommended.

Don't watch your watch. Many Filipinos tend to be indirect and like to deal face to face in a warm, pleasant, unhurried atmosphere. A meeting begins by sharing pleasantries and establishing personal rapport; negotiations follow. Discussions

should always end cheerfully, regardless of the outcome. A pleasant meeting today might yield a sale next month or next year.

Be aware of personal security. As always in travel, use common sense. Some areas of the Philippines, including southern and western Mindanao, are considered unsafe for travel because of incidents of terrorism and kidnappings. Charges against former Philippine President Joseph Estrada provoked large and occasionally violent demonstrations in Manila earlier this year. Check the U.S. State Department web site for the latest travel advisories (http://travel.state.gov/travel_warnings.html#p).

Look for additional tips. One excellent source is the *Country Commercial Guide*. You'll find the guide to the Philippines and many other markets on the web (<http://www.usatrade.gov/website/ccg.nsf>).



most imports are sourced from importers/distributors. Fast food outlets, especially the franchise operations, directly import some of their requirements or source them from parent companies abroad.

Interviews with hotel and restaurant representatives identified several food categories where the potential is promising but U.S. products are not present in significant quantities. These include fresh vegetables, especially lettuce and broccoli; a greater variety of fresh fruits; California wines; frozen seafood; and cheese.

All in all, economic gains in the Philippines have created a growing urban middle class that is seeking greater diversity in food choices. The country's retail and food service sectors have responded by opening up markets for foods and beverages and bringing these products within easy reach of more Filipinos.

The result has been steady growth in grocery and restaurant sales and probably the brightest market in Southeast Asia for a broad range of U.S. consumer food exports. Given the favorable view of U.S. foods and renewed growth in the Philippine economy, this pearl of a market hasn't lost its luster. ■

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