Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

State of Competition in the Wholesale and Retail Sector

Ma. Teresa Dueñas-Caparas

DISCUSSION PAPER SERIES NO. 2005-05

March 2005

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies
3rd Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines
Tel Nos: 8924059 and 8935705; Fax No: 8939589; E-mail: publications@pidsnet.pids.gov.ph
Or visit our website at http://www.pids.gov.ph

STATE OF COMPETITION IN THE WHOLESALE AND RETAIL SECTOR

FINAL DRAFT

Ma. Teresa Dueňas-Caparas

March 2005

Table of Contents

Introduction

List of Tables

List of Annex

ABSTRACT

The study assesses the state of competition in the Philippine wholesale and retail sector, focusing on the distribution of specialized goods and pharmaceutical products. It uses the traditional tools of analysis like concentration ratios and price-cost margins in determining the competitive state of the sector. The study also analyzes the other dimensions in retail competition like price, geographical location, retail product and retail service. Industry data from the National Statistics Office were used in the analysis, aided by a small-scale survey conducted in the Metro Manila area.

The department store and grocery subsector appears to operate in a competitive environment despite the presence of two big dominating firms in the market. No price or quantity leader-follower behavior was observed, as validated by the tools used in the analysis. On the other hand, one firm, whose strategic advantages include economies of scope and space, retail image and consumer loyalty, dominates the distribution of pharmaceutical products. Potential market entrants face these forms of challenges—factors that are not regarded as anti-competitive and are welfare enhancing to the general public.

The need for competition policy is recommended to guard against possible merger of the giant firms in the department store and grocery subsector. Any possible collusion between the big firms could result to a monopolistic outcome.

The study observes that the apparent high price of pharmaceutical products is mainly attributed to the manufacturing process, and not at the distribution of these goods. Hence, it is recommended that a study analyzing the state of competitiveness of manufacturing pharmaceutical products be conducted.

Keywords: competition policy, distribution sector, pharmaceutical products, and dimensions of competition

STATE OF COMPETITION IN THE WHOLESALE AND RETAIL SECTOR

Ma. Teresa S. Dueňas-Caparas♣

Introduction

Trade and investment reforms were the pillars of an export-led industrialization program in the Philippines. The Republic Act (RA) No. 7042, otherwise known as the Foreign Investment Act, became an important piece of legislation as it allowed the entry of foreign investments in key sectors of the economy. It was later on amended through RA No. 8179 which allowed foreign corporations that are 100% foreign-owned, to engage in business as a Filipino national. Various service sectors benefited from the said reforms. In banking, RA 7653 reorganized the Central Bank of the Philippines into the *Bangko Sentral ng Pilipinas*. This was accompanied by the enactment of RA 7721, which liberalized the entry of foreign banks in the country. The public utilities sector, which includes telecommunications, airline, water, energy, shipping and port services, also underwent various policy reforms[1].

A latecomer in the liberalization trend was the wholesale and retail sector, also referred to as the distribution sector. On March 2000, local retailers braced themselves for the possible entry of foreign players in the industry as RA 8762 was signed, thereby liberalizing the Philippine retail industry. The passage of the law ended the 5-year stance of local retailers, headed by its industry association, to uphold the closure of local retail industry from foreign players. The new law effectively repealed RA 1180, also known as the Retail Trade Nationalization Law, which reserved retail trade activities solely for Filipinos.

This study is part of a series of reports analyzing the state of competition in various sectors of the Philippine economy. The principal aim of the research is to assess the competitive state of the distribution sector, and identify competition issues surrounding the industry. However, the study will concentrate on the retail sector, with minor inclusion of the wholesale sector due to data limitations. The relevant period covered in the study is from 1985-2000, while establishment data only cover the years 1988 and 1994. The study is organized as follows; Section 1 provides a brief overview of the retailing sector in the Philippines. It then examines the economics of retailing in Section 2. Section 3 assesses the dimensions of retail competition in the Philippine setting while Section 4 gives the conclusion of the study.

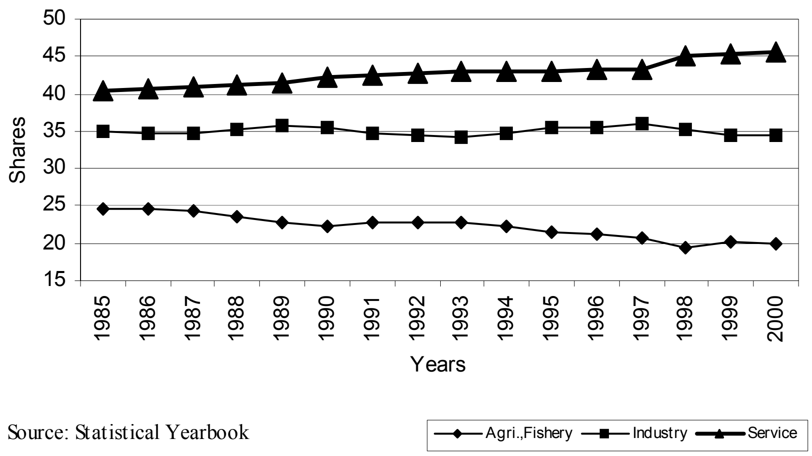
♣ Currently a Supervising Research Specialist at the Philippine Institute for Development Studies. The author wishes to thank the excellent research assistance extended by Ms. Sandra M. Leitner and Ms. Merle G. Galvan, Visiting Researcher and Research Analyst II respectively. The views expressed in this study are solely of the author's and do no represent that of the Institute's. The usual disclaimer applies.

[1] See Competition Study Series published by PIDS.

Section 1. Overview of the Philippine Distribution Sector

The Philippine economy grew at an average rate of 3.5 per cent for the period 1985-2000. Of this, much of the growth was fuelled by the service sector that had an average growth performance of 4.3 per cent for the same period. In terms of the size of the service sector, it has been increasing over time as measured by the share of gross value added to total output. From 40.4 per cent in 1985, it gradually increased to 45.6 per cent in 2000. This growth in size of the service sector is reflective of the changing economic structure and dynamic transition brought about by the liberalization reforms advocated in the 1980s (see Figure 1).

FIGURE 1. SECTORAL OUTPUT SHARE



Source: Statistical Yearbook

The biggest service sector is the wholesale and retail trade subsector, also referred to as the distribution sector. Its share to total *service* output has been consistent at approximately 35 per cent since 1985, while the rest of the service output is evenly distributed by transportation, finance, property, private and government service subsectors. In terms of growth, the finance sector displayed a more dynamic performance averaging 7.1 per cent for the 1985-2000 period. This is followed by the transportation, communication and storage sector with average growth of 5.3 per cent, and the distribution sector with 4.2 per cent average annual growth (see Table 1).

TABLE 1. COMPOSITION OF SERVICE SECTOR

	% Growth					% Share				
Subsector	1986	1990	1995	2000	Average	1985	1990	1995	2000	Average
Transportation, Communication and Storage	4.4	2.1	5.8	10.4	5.3	13.7	13.5	13.7	15.7	14.1
Trade	4.9	4.6	5.6	5.2	4.2	35.9	35.3	35.7	35.1	35.5
Finance	8.1	9.9	7.3	0.9	7.1	7.4	9.8	9.8	10.7	9.4
Ownership of Dwellings & Real Estate	3.3	2.7	3.0	0.0	2.8	13.9	13.2	12.7	11.1	12.7
Private Services	2.6	3.8	4.3	4.8	4.1	17.0	16.2	16.1	16.3	16.4
Government Services	2.9	8.8	3.7	1.4	3.8	12.1	12.0	12.1	11.1	11.8

Source: Statistical Yearbook 2001.

The distribution sector is divided between wholesale and retail trading where the latter is presently bigger in size. Historically, the wholesale trade sector was bigger in size during the 1970s comprising approximately 40-50 per cent of the distribution output. However, its share drastically declined during the 1980s, and retail trade activity picked up significantly. For the 1990-99 period, the share of the retailing sector averaged 74 per cent. The change in the structural composition of the distribution sector reflects the changing business opportunities and practices in the distribution market, heightened by the "supermall" mentality that invaded the consumer market (see Table 2).

TABLE 2. COMPOSITION OF DISTRIBUTION SECTOR

	% Growth				**% Share**			
Subsector	1990	1995	2000	Average	1990	1995	2000	Average
Wholesale	25.4	4.8	1.0	10.4	28.2	26.8	24.3	26.4
Retail	-1.8	5.9	6.6	3.5	71.8	73.2	75.7	73.6

Source: Statistical Yearbook 2001.

1.1 Main Distribution Sectors: Definition and Product

The National Statistics Office (NSO) officially defines wholesale trade as the resale of new and used goods to retailers, while retail trade is defined as the resale of new and used goods for personal and household consumption. In terms of the type of product sold, the distribution sector can be broken down as follows;

Wholesale Trade

- Farm, forest and marine products
- Processed food, beverages and tobacco products
- Dry goods, textiles and wearing apparel
- Construction materials and supplies
- Office and household furniture, furnishings and appliances and ware
- Machinery equipment, including transport equipment
- Mineral, metals and industrial chemicals
- Petroleum and petroleum products
- Wholesale trade not elsewhere classified, i.e., flowers, handicrafts

Retail Trade[2]

- Books, office, school supplies including newspapers and magazines
- Food, beverages and tobacco
- Dry goods, textiles and wearing apparel
- Construction materials and supplies
- Office and household furniture, furnishings and appliances and wares
- Transportation, machinery and equipment, accessories and supplies
- Medical supplies and equipment

[2] Retail establishments exclude restaurants, cafes, hotels, motels and other lodging places.

- ❖ Petroleum and other fuel products
- ❖ Retail trade not elsewhere classified, i.e., toys, jewelry, beauty parlor supplies

The sector classification of wholesale and retail trading is almost the same. The main difference lies in the market it considers its end-user.[3] Similarly, the NSO categorizes establishments as "large" and "small". An establishment is considered large if it employs more than 10 people while a small establishment is one that employs less than 10 people. The industry code classification of the distribution sector is in Annex A.

1.2 Industry Profile[4]

1.2.1 Number of Establishments

The distribution sector consists of a few *large* outlets and numerous *small* enterprises. As of 1997, the industry is composed of 327,644 establishments, 5 per cent more than the previous year's count. This is broken down into 15,237 large establishments and 312,407 small establishments. Of the 327,644 establishments in 1997, 79% are retailers while the rest are wholesalers. The overwhelming number of small retail outlets is characterized by its dependence on the large wholesalers. A typical example would be one's neighborhood *sari-sari* store buying on supermarkets or warehouse clubs. The wholesalers, on the other hand, rely mostly on few supplier-manufacturers in exchange for cash-on-delivery transactions or credit extension for a defined period (see Table 3).

- ❖ Most number of *large retailers* are found in the business of selling goods in specialized stores like drugs and pharmaceuticals (PSIC 5231), textile and clothing (PSIC 5232) and household appliances (5233). Combined number of establishments selling these products reached 6,529 firms in 1997, 549 firms mores than year ago level. A far second retail type of activity is found in non-specialized stores like groceries, supermarkets and department stores. There are only 1,928 large establishments in this type of retail activity.

- ❖ *Large wholesalers* are found mostly in the resale of automotive fuel for motor vehicles and motorcycles. Examples of products include motor spirit, gasoline, petrol and liquefied petroleum gasoline. As of 1997, there were 1,015 establishments involved in this type of activity, compared to only 868 in 1996.

- ❖ The bulk of *small retailers* are concentrated in selling goods in specialized stores, similar to the activity observed for large retailers. There is an overwhelming number of small establishments reaching 117,738 firms in 1997, approximately 8,000 establishments more than in 1996. Small groceries and supermarkets came in as the second most popular retail type of activity, with over 66,000 establishments in the same year.

---

[3] See Intal, P.S. et al " Retail Trade Policy and the Philippine Economy" 1999 for a detailed description/discussion of the distribution sector.

[4] A more historical presentation of data is presented Annex B. For the years 1996 onwards, the new code classification is followed.

TABLE 3. NUMBER OF ESTABLISHMENTS

Sector	Level 1996	Level 1997	Level %Δ	Share to Total 1996	Share to Total 1997	Share to Total %Δ
A. Wholesale	65,824	68,124	3.5	21.1	20.8	-1.5
Sale of motor vehicles	676	711	5.2	0.2	0.2	0.1
Maintenance and repair of motor vehicles	16,670	17,409	4.4	5.3	5.3	-0.6
Sale of motor vehicles parts and accessories	8,272	8,723	5.5	2.7	2.7	0.4
Sale, maintenance and repair of motorcycles	4,744	4,985	5.1	1.5	1.5	0.0
Retail sale of automotive fuel	3,252	3,446	6.0	1.0	1.1	0.8
Fee or contract basis	915	897	-2.0	0.3	0.3	-6.7
Agricultural raw materials and live animals	21,108	21,441	1.6	6.8	6.5	-3.3
Household goods	3,542	3,700	4.5	1.1	1.1	-0.6
Non-agricultural intermediate products	4,818	4,909	1.9	1.5	1.5	-3.0
Machinery, equipment and supplies	1,425	1,478	3.7	0.5	0.5	-1.3
Other wholesaling	402	425	5.7	0.1	0.1	0.6
B. Retail	245,980	259,520	5.5	78.9	79.2	0.4
Non-specialized retail trade in stores	65,889	68,730	4.3	21.1	21.0	-0.7
Food, beverages and tobacco	52,144	53,765	3.1	16.7	16.4	-1.9
Other retail trade of new goods	115,616	124,267	7.5	37.1	37.9	2.3
Second-hand goods	657	703	7.0	0.2	0.2	1.8
Retail trade not in stores	185	188	1.6	0.1	0.1	-3.3
Repair of personal and household goods	11,489	11,867	3.3	3.7	3.6	-1.7
C. Total	311,804	327,644	5.1	100.0	100.0	---

Source: National Statistical Office

- Wholesaling of agricultural raw materials and live animals (PSIC 5121), and food, beverage and tobacco (PSIC 5212) are the preferred preoccupation of *small wholesalers*, with number of firms reaching 20,465 in 1997. The next more popular type of activity among wholesalers is the service of maintaining and repairing motor vehicles. Total establishments in 1997 reached 16,610 firms, a slight 4 per cent increase from the previous year.

- The proliferation of large and small establishments in the business of selling food, clothing, and medicines is not a surprising phenomenon since these products constitute the core of household expenditure of a typical Filipino. Expenditure on these items, as a share of total family expenditure, is approximately 60 per cent.[5]

1.2.2 Revenue/Sales

Total revenue generated by the distribution sector amounted to P1.1 billion in 1997. From 1990 until 1997, revenue has been growing, on annual average, by 12.9 per cent. It was only in 1993 and 1997 where the sector's revenue performance contracted, but otherwise, revenues were growing in double-digit figures. The share of retailing to total revenue is approximately 50 per cent in 1997, where a bigger majority operates on a large-scale basis. Food, beverage and tobacco retailers,

[5] See Section 1.3 for a more detailed description.

together with the textile and garment retailers, are the largest retailing group in terms of revenue generation. Combined sales revenue of these two retailing groups amounted to P354 million in 1997, approximately 60 per cent of all Philippine retail sales (see Table 4).

TABLE 4. TOTAL REVENUES/SALES

Sector	Level			Share to		
	1996	1997	%Δ	1996	1997	%Δ
A.	476,335,600	537,612,860	22.9	51.3	49.6	-3.3
Sale of motor	83,630,859	82,682,721	-8.3	9.0	7.6	-15.3
Maintenance and repair of motor	6,110,479	7,258,594	2.9	0.7	0.7	1.7
Sale of motor vehicles parts and	23,075,451	29,118,966	22.5	2.5	2.7	8.1
Sale, maintenance and repair of	5,918,281	6,412,794	11.8	0.6	0.6	-7.2
Retail sale of automotive	84,528,679	114,159,689	2.9	9.1	10.5	15.7
Fee or contract	22,343,356	8,326,611	-4.5	2.4	0.8	-68.1
Agricultural raw materials and live	88,319,462	106,308,227	22.0	9.5	9.8	3.1
Household	49,110,718	51,669,453	68.9	5.3	4.8	-9.9
Non-agricultural intermediate	79,643,954	92,616,629	63.2	8.6	8.5	-0.4
Machinery, equipment and	26,251,785	31,632,564	22.1	2.8	2.9	3.2
Other	7,402,576	7,426,612	-9.3	0.8	0.7	-14.1
B. Retail	452,413,563	546,915,170	22.6	48.7	50.4	3.5
Non-specialized retail trade	164,329,291	206,026,738	18.9	17.7	19.0	7.4
Food, beverages and	39,169,911	48,866,137	10.0	4.2	4.5	6.8
Other retail trade of new	245,886,303	288,921,265	27.2	26.5	26.6	0.6
Second-hand	333,896	419,276	23.9	0.0	0.0	7.5
Retail trade not in	145,656	143,888	-8.6	0.0	0.0	-15.4
Repair of personal and household	2,548,506	2,537,866	9.7	0.3	0.2	-14.7
C. Total	928,749,163	1,084,528,03	22.8	100.0	100.0	0.0

Source: National Statistical Office

- Average revenue growth of *large retailers* the period 1991-97 reached 14.6 per cent. Revenue was largely concentrated on the sale of food, beverage and tobacco in non-specialized stores (i.e. groceries and supermarkets) and goods in specialized stores (drugstores, garment and footwear shops). In terms of revenue generated by large retailers, establishments from these two product categories cornered 96 per cent of total retail revenue generated in 1997.

- Revenues generated by *large wholesalers* are more evenly sourced across the type of product compared to large retailers. Top three revenue generators in 1997 are establishments involved in the business of commodity trading and auction (PSIC 505), sale of agricultural raw materials, live animals, food and beverage (PSIC 512) and wholesale of non-agricultural intermediate products like metal ores, lumber and flat glass (PSIC 514). It is also observed that sale of motor vehicles, the top revenue generator in 1996, suffered a drop in sales the following year.

- Among the *small retailers*, the bulk of revenue generated came from the sale of goods in specialized stores. In 1996, sales of drugs, clothing, shoes, books and household merchandise reached P121, 326,478 approximately 62 per cent of total revenue generated by small retailers.

- Revenue performance of *small wholesalers* is noticeable over the 1991-97 period. Sales growth averaged to 11.2 per cent over the 6-year period mainly sourced from the resale of automotive fuel and agricultural products. The share of small wholesalers to total revenue reached 27 per cent in 1997, a slight improvement from the 25 per cent contribution in 1996.

1.2.3 Employment

The sector is also a major source of employment. In 1997, it employed over 1.4 million individuals, distributed across 467,874 large establishments and 969,916 small establishments. This is approximately 10 per cent more than the total employed individuals by the sector in 1996. Total compensation for the employed individuals amounted to over P53 billion in 1997, 21 per cent more than the previous year's compensation level (See Tables 5.1 and 5.2).

TABLE 5.1. EMPLOYMENT

	Level			Share to Total		
Sector	1996	1997	% Δ	1996	1997	%Δ
A. Wholesale	353,258	383,397	8.4	27.1	26.7	-1.7
Sale of motor	16,881	18,130	0.3	1.3	1.3	-2.8
Maintenance and repair of motor	56,371	61,309	1.2	4.3	4.3	-1.5
Sale of motor vehicles parts and	35,465	36,289	7.8	2.7	2.5	-7.4
Sale, maintenance and repair of	10,944	12,742	18.1	0.8	0.9	5.4
Retail sale of automotive	34,572	40,276	9.2	2.7	2.8	5.5
Fee or contract	10,778	9,908	23.1	0.8	0.7	-16.8
Agricultural raw materials and live	91,834	99,765	12.2	7.1	6.9	-1.7
Household	37,796	43,162	10.7	2.9	3.0	3.4
Non-agricultural intermediate	34,335	35,967	0.4	2.6	2.5	-5.2
Machinery, equipment and	20,558	21,858	13.9	1.6	1.5	-3.7
Other	3,724	3,991	5.0	0.3	0.3	-3.0
B. Retail	948,373	1,054,393	7.4	72.9	73.3	0.7
Non-specialized retail trade in	295,344	322,790	6.6	22.7	22.5	-1.1
Food, beverages and	129,508	140,303	5.4	9.9	9.8	-1.9
Other retail trade of new	493,433	558,548	8.6	37.9	38.8	2.5
Second-hand	2,491	2,685	4.9	0.2	0.2	-2.4
Retail trade not in	628	716	1.0	0.0	0.0	3.2
Repair of personal and household	26,969	29,351	4.0	2.1	2.0	-1.5
C. Total	1,301,631	1,437,790	7.7	100.0	100.0	

Source: National Statistical Office

- *Small retailers* employed over 50 per cent of the total employed in the distribution sector in 1997. A big bulk of the employed individuals is involved in the sale of food, beverage, tobacco, drugs, and office supplies.

- *Large retailers* paid a total of P18 billion in compensation to over 289,000 individuals in 1997. Moreover, there was a 20 per cent increase in employed individuals compared to 1996 level.

- *Large wholesalers* had in their payroll over 170,000 individuals, roughly 40 per cent of the total employed by large establishments in 1997. A major source of employment is in the sale of agricultural products and automotive fuel.

- There is a significant increase of employed individuals among *small wholesalers* involved in the sale of agricultural products, food, beverage and tobacco. From 32,724 individuals in 1996, it hired over 67,000 individuals in 1997. This is partly reflective of the strong revenue performance generated by the sector in the same year.

TABLE 5.2. COMPENSATION

	Level			Share to Total		
Sector	1996	1997	%Δ	1996	1997	% Δ
A.	19,374,127	22,895,712	19.9	44.2	43.1	-2.5
Sale of motor	1,335,989	1,676,922	7.9	3.1	3.2	3.5
Maintenance and repair of motor	1,421,096	1,680,709	0.8	3.2	3.2	-2.5
Sale of motor vehicles parts and	1,984,553	2,093,460	8.0	4.5	3.9	-13.0
Sale, maintenance and repair of	255,475	354,977	13.0	0.6	0.7	14.6
Retail sale of automotive	1,428,409	1,807,657	13.0	3.3	3.4	4.4
Fee or contract	1,748,406	1,661,548	7.8	4.0	3.1	-21.6
Agricultural raw materials and live	3,329,918	4,110,539	23.3	7.6	7.7	1.8
Household	3,105,026	3,596,386	47.3	7.1	6.8	-4.5
Non-agricultural intermediate	2,186,233	2,778,450	22.5	5.0	5.2	4.8
Machinery, equipment and	2,197,584	2,711,716	22.3	5.0	5.1	1.8
Other	381,438	423,348	1.7	0.9	0.8	-8.5
B. Retail	24,410,212	30,198,332	22.2	55.8	56.9	2.0
Non-specialized retail trade in stores	7,621,003	9,116,776	13.4	17.4	17.2	-1.3
Food, beverages and	1,404,552	1,758,402	15.2	3.2	3.3	3.2
Other retail trade of new	14,839,688	18,621,486	27.6	33.9	35.1	3.5
Second-hand	38,845	43,911	31.8	0.1	0.1	-6.8
Retail trade not in	18,407	20,442	-19.5	0.0	0.0	-8.4
Repair of personal and household	487,717	637,315	16.5	1.1	1.2	7.8
C. Total	43,784,339	53,094,044	21.2	100.0	100.0	

Source: National Statistical Office

1.2.4 Gross Margin Ratio

Gross margin is officially defined by the NSO as the "difference between the value of goods sold on own account (including commission received on sale on account of others) during the inquiry period and the gross cost of these goods. The gross cost of goods is the value of purchases of goods intended for sale adjusted for stock change of these goods during the inquiry period." As a percentage of gross sales, gross margin is one of the widely used measures of efficiency in retail competition. A lower gross margin is indicative of keener price competition, reflecting a more efficient distribution sector.

The estimated gross margin ratios are presented in Table 6. Several notable observations are made given the wide variation of gross margins across product categories.

- ❖ Subsectors that have gross margins below 15 per cent were supermarkets, groceries, and gasoline stations. A common denominator for these establishments is its heavy reliance on volume turnover.

- ❖ Industries with gross margins over 35 per cent include wholesaling activities that involve perishable items (i.e., fruits and vegetables) and commodities with high value but low traffic movement (i.e., electrical materials and musical instruments).

- ❖ Small establishments tend to have higher gross margins over the large establishments. It is partly indicative of high purchase rate being passed on to the commodity price, but is outweighed by the willingness of customers to pay for the convenience small establishments provide.

TABLE 6. GROSS MARGIN RATIO

	Levels			Share to Total		
Sector	1988	1994	%Δ	1988	1994	% Δ
A. Wholesale	0.20	0.29	46.0	101.7	121.8	19.7
Farm, forest and marine products	0.13	0.21	66.7	65.6	89.7	36.7
Processed food	0.19	0.24	24.7	96.2	98.3	2.2
Dry goods, textiles and wearing apparel	0.24	0.31	29.6	122.6	130.3	6.3
Construction materials and supplies	0.20	0.16	-21.2	103.9	67.2	-35.4
Office and household furn	0.17	0.28	61.5	89.1	117.9	32.4
Machinery and equipment	0.26	0.75	182.5	134.9	312.4	131.6
Minerals, Metals incl. Chemicals	0.23	0.28	23.6	117.5	119.1	1.3
Petroleum and petroleum products	0.13	0.15	19.7	64.6	63.4	-1.9
Wholesale trade N.E.C	0.30	0.33	8.5	155.2	138.1	-11.0
B. Retail	0.19	0.20	2.9	98.0	82.6	-15.7
Books, office and school supplies	0.34	0.31	-9.7	175.3	129.8	-25.9
Food, Beverages and tobacco	0.18	0.20	7.2	93.7	82.4	-12.1
Dry goods and textile	0.24	0.22	-8.2	120.2	90.4	-24.8
Construction materials and supplies	0.21	0.24	10.4	109.6	99.2	-9.4
Office and household furniture	0.22	0.22	0.8	113.2	93.6	-17.4
Transport machinery and equipment	0.20	0.16	-22.8	102.5	64.8	-36.7
Medical supplies and equipment stores	0.15	0.15	2.6	76.9	64.7	-15.9
Petroleum and other fuel products	0.07	0.12	69.3	35.6	49.4	38.9
Retail Trade N.E.C.	0.22	0.23	6.1	111.7	97.2	-13.0
C. Total	0.20	0.24	21.9	100.0	100.0	

Source: National Statistical

1.3 Philippine Retailing: Added Features

1.3.1 Economies of scale in store operations

A primary reason why retailers grow in size is to benefit from economies of scale in operations. This feature is particularly prevalent in the Metropolis with the rise of "superstores". Bigness in size is referred not only to physical space but to product space as well. Widening of product space means the retailers are offering more products, either vertically or horizontally integrated with its core product, to the consumers. Retailers who have increased their average store size include;

- Clothing (Cinderella, Bench)
- Record and CD Retailing (Odyssey)
- Books (National Bookstore)
- Hardware (ACE)
- Groceries / Supermarkets (SM Hypermart)
- Pharmacies (Mercury Drug)

1.3.2 Retailers and centralized distribution

Large retail operators have enabled the use of a more efficient method of distribution. Particularly evident in grocery operation, the role of wholesalers has diminished over time as these large retailers provided the service of bulk selling. This concretized the relationship between large retailers and manufacturers. As a consequence of this relationship, the method of delivery became more efficient. Before, manufacturers or wholesalers made deliveries to multiple retailers with an assortment of products to individual retail outlets. With centralized distribution, manufacturers tend to deliver large amounts of a particular product to the retailers' own centralized warehouse. The set-up has effectively made the retailer internalize the wholesaling and transportation function into its own activities. Thus, it is not surprising if there is a significant increase in the retailers' value added while net margins have not dramatically increased.

The advantages of centralized warehousing include:

- Lower shrinkage
- Reduced stock levels
- Reduced delivery visits per store
- Fewer incidents of stocks running low

1.4 Consumer Profile

1.4.1 Characteristics of Consumer

The economic characteristics of a consumer are important to identify in the analysis of retailing activity. Essentially, retailing activity brings the consumer and the manufacturer together in the goods market. Hence, it is of importance to identify the consumers' economic traits and determine how retailing activities relate to a consumer.

A typical end-consumer possesses the following characteristics:

Small. This refers to the size of the purchases a consumer makes, which is relatively a small portion of his consumers' total expenditure, and of the retailer's total sales.

Immobile. Consumers are often not willing or unable to travel long distances to purchase appropriate products.

Uninformed. Consumers do not have the full information regarding the availability of the products, and its prices. Often, they are unable to observe the quality of the product in advance of the purchase.

The combination of these characteristics essentially explains the existence of retailers.

Consumer purchases tend to be a small proportion of a manufacturer's total sales. This implies that no single consumer would have any bargaining power against powerful manufacturers, but is prone to exploitation by the latter. The retailers play an important role in preventing this exploitation where it can bargain on behalf of the consumers.

Consumers' immobility is resolved by the retailers' function of bringing the products closer to the buyers. The existence of the retailer prevents the consumer from going to the product. Further, this consumer characteristic also explains the importance of geographic location and gave importance to the one-stop shopping concept.

Consumers are not always well informed about the price and quality of a product. This means that the retailers carry an important function of providing information and quality assurance to the buyers. Specifically, price visibility, product range, and reputation/quality assurances are important.

1.4.2 Retail Expenditure by Households

Consumption expenditures by the households increased, on average, by 3 per cent per year during the 1980-2000 period. Using Census data, the number of families in the Philippines increased from 9.8 million in 1988 to 12.8 million in 1994. Average annual expenditure of a family similarly showed an increasing trend—from P30,017 in 1985 to P34,823 in 1994, 16 per cent increase over a 10-year period (see Table 7).

Expenditure on food comprises the bulk of household expenses and accounts for 47.8 per cent of the family's expenditure in 1994. Housing is the next most important expenditure item and eats up 14 per cent of the family's total income. Expenditure behavior across rural and urban areas shows similar patterns. In the urban areas, food, housing and utilities are its main expenditure with share to total expenses amounting to 44.2 per cent, 16.5 per cent and 5.8 per cent respectively. The families living in rural areas similarly exhibit the same expenditure pattern albeit at different proportion to total expenses. Expenditure remains concentrated on food with 54.9 per cent of total income allocated for its purchase, while housing expenses cornered about 9.1 per of total income. An interesting observation is that in the urban areas, transport and communication expenses reached 5.2 per cent of total family expenses while it was only 3.5 per cent in the rural areas. However, families in the rural areas spent more on alcohol, tobacco and clothing compared to families in the urban areas. In 1994, the combined share of alcohol, tobacco and clothing expenditure reached 7.1 per cent in the rural areas, while it was lower for the urban areas at 5.3 per cent (see Table 8).

TABLE 7. HOUSEHOLD PROFILE (1988 Prices)

Year	No. Of Families (00)	Average Income (P)	Average Expenditure (P)
1985	98,473	34,695	30,017
1988	105,339	40,408	32,521
1991	119,754	42,886	34,205
1994	127,549	42,800	34,823

Source: Family Income and Expenditure Survey, 1994

TABLE 8. BREAKDOWN OF FAMILY EXPENDITURE (in percent)

Expenditure Group	Philippine		Urba		Rura	
	198	199	198	199	198	199
Food	51.9	47.8	46.3	44.2	58.8	54.9
Alcoholic	1.1	0.9	0.9	0.8	1.3	1.2
Tobacco	2.3	1.4	1.9	1.2	2.9	1.9
Housing	12.7	14.1	16.1	16.5	8.4	9.1
Fuel, Light & Water	5.5	5.5	5.5	5.8	5.5	5.1
Household Furnishing &	1.9	3.1	2.2	3.1	1.6	3.0
Household Operations	2.4	2.6	2.6	2.7	2.1	2.4
Clothing, Footware & Other	3.6	3.5	3.5	3.3	3.8	4.0
Personal Care & Effects	2.1	3.2	2.3	3.3	1.9	3.2
Medical Care	2.1	2.3	2.2	2.3	2.0	2.1
Transportation and Communication	4.4	4.7	5.6	5.2	3.0	3.5
Recreation	0.4	0.4	0.5	0.5	0.3	0.3
Education	3.5	3.7	3.9	3.9	3.0	3.2
Gifts and Contributions	1.0	1.0	0.9	0.9	1.1	1.0
Taxes	1.0	1.4	1.4	1.7	0.5	0.7
Special	2.2	2.6	2.1	2.4	2.3	2.9
Other	1.8	1.7	2.2	1.9	1.4	1.3

Source: Family Income and Expenditure Survey,

1.5 Technology and Innovation in Retailing

Significant changes have occurred in the distribution sector. Aside from the size and scope of retail outlets, important changes have been introduced that considerably reduced cost of distribution and improved store operation. The utilization of information technology has greatly placed the retailers in an active position that can directly influence what suppliers manufacture. Moreover, new forms of retailing have been introduced that bypass the traditional shop and make use of information technology that facilitates consumers' transactions.

1.5.1 Information technology

A major technological development in retailing activity is the usage of bar coding and electronic scanning of products. A number of benefits, mainly through improved efficiency of operation, await the retailer upon the installation of these electronic devices in their stores. Some of these are;

- Quicker check-out time and reduced queuing
- Improved information on stocking
- Improved information on sales which allows for more efficient allocation of labor force
- Better financial control through improved sales information
- Supply-chain trading is paperless and automatic
- Better information regarding new product development

1.5.2 New forms of retailing

The traditional and still very popular form of retailing is one where the consumer/shopper travels to the retailer to purchase the products. However, advances in technology partly shaped the nature of retailing itself. Viable alternatives nowadays include mail order, teleshopping, and electronic retailing through the Internet.

The current size of these new forms of retailing is difficult to determine due to lack of recorded data and its diversity. However, it can be observed that alternative forms of retailing are practiced in the financial services, and purchases of books (AMAZON.COM) and novelty items (TV Homeshopping Guide). It is still indeterminate how these new forms of retailing compete with the more traditional retailers. What is viable though is that any significant growth in these alternative retailing will have a considerable effect on the structure of the retail market. It remains a question though whether or not these new forms of retailing will flourish in the near future.

Section 2. Economics of Retailing: A Framework for Competition Analysis[6]

There are three distinguishing factors that set the distribution, particularly the retailing sector, different from the other areas of the economy. These are;

- The *economic characteristics* of the end-consumers are that they tend to be relatively small, immobile and uninformed.

- The *dimensions of retailing* gives rise to the importance of geographical location, product range, and retailer services and image.

- The *form of vertical restraints* is less traditional and is now instigated by the retailer through specific agreements or contracts with the manufacturer.[7]

These significant differences mean competition problems are *likely to exist* in retailing since markets tend to work imperfectly due to (1) asymmetries in bargaining power (consumers are small; (2) high transaction costs (consumers are immobile), and (3) asymmetries in information (consumers are uninformed). These characteristics are not exclusive to the retailing sector. Its importance comes in the degree of difference that sets it apart from the other sectors of the economy.

If and when these factors contribute to the failure of the retail sector to work perfectly, then competition policy should be designed to "correct" the market failures that emanate from these factors.

2.1 Consumers' Profile: What do they want?

A consumer wants to purchase the highest quality product at the least cost. A basic economic concept that forms the foundation of this simple fact is the utility maximizing function that is subject to the individual's budget constraint. An individual would always want to consume goods that will give him the highest level of satisfaction but is constrained by his purchasing capabilities. A facilitating agent that assists the consumer achieve this objective is the retailer.

Retailing is essentially the final stage of the value chain: from the production point of the manufacturer to the transaction point of the end-consumer. The characteristics of the end consumer are important to identify in assessing the retailing sector, and accounts for the main difference between retailing and the other areas of the economy. All these factors give rise to the existence of a retailer whose primary function is to;

1. Prevent the manufacturers from exploiting the consumers and act as the bargaining agent on behalf of the consumers.

2. Bridge the manufacturers and consumers, and

3. Provide the necessary information and quality assurances the consumers need.

---

[6] This section is drawn heavily from the report "Competition in Retailing" prepared for the Office of Fair Trading by London Economics in 1997.

[7] The issues on vertical restraints will not be discussed in this paper.

The consumer also faces various kinds of cost, on top of the simple purchase price. These costs, if significantly reduced by the retailer, will attract the consumer and decide to carry out his transactions with that particular retailer.

1) Pure shopping / shoe leather costs: These costs are basically the time and effort spent in making the purchases. Even if the consumers know what and where to buy, the simple shopping trip is already considered a cost. The shopping cost implies the following;

    a) Geographical location plays an important part when consumers do not want to travel far distances. Retailers tend to be localized, explaining the existence of local convenience stores that can charge higher prices relative to its larger and lower-priced rival. Additionally, increasing car ownership improves mobility, causing geographical markets to widen as well.

    b) Retailers tend to cluster, or provide a one-stop shopping service so consumers can buy several products in the same place. This implication is drawn from the observation that consumers dislike travelling to several locations just to make a purchase. Moreover, the growing importance of one-stop shopping (larger retailers) results in increased concentration in certain retail markets, thereby giving rise to possible competition issues.

    c) These shopping costs also encourage home shopping either through the television or catalogues.

2) Search Costs: This particular cost arises simply because the consumer does not know in advance what he wants to purchase, or where the product is available at what price. Hence, the customers become attracted to a particular location if it offers a wide array of products. The existence of this cost explains why shops selling similar products often cluster (for example clothes shops), effectively reducing search costs. It also explains why some retailers offer a very wide range of similar products (sometimes called category killers).

3) Information on quality: Consumers are often uncertain about the quality of a particular product before purchase. Also, it is not considered a worthwhile task to overcome asymmetric information problems by improving one's information because the incremental benefits are limited. As a consequence, the consumers are willing to pay a premium for quality assurances especially in the form of reputation for quality (brand name/image) and other forms of point-of-sale service.

Search and shopping costs influence the consumer to choose and maintain his "favorite" retailer, and create a general reluctance to switch from their regular retailers (also referred to as *switching cost*) even if there are better retailers around. The reason is that the consumer may not find it worthwhile to investigate the possibility of better retailers existing as long as his regular retailer's service does not falter. The prevalence of these costs in a shopping exercise also explains the importance of impulse buying. Decision on what to buy often depends on what the shopper happens to see.

2.2 Retailers' Profile: What do they do?

The retailers' function can be classified into three main categories:

- Managing relationship with the manufacturer;

- Managing logistics such as distribution and stock control; and

- Developing and sustaining customer relationship.

These functions vary from one retailing category to another. For example, it is essential in grocery retailing to develop superior management of logistics in order to organize efficiently and effectively the supply and distribution of over 1,000 product lines. On the other hand, it becomes more important in beer retailing (to pubs) to develop and sustain customer relationship. The value added which these retailers provide in order to carry out these functions are reflected in the profits they receive.

2.2.1 Relationship with Manufacturers

In a classic market economy, the relationship between the consumer and the manufacturer is manifested in the exchange of goods and services for money. A customer assesses the available products and purchases the best product at the best price. The relationship between the consumer and the retailer resembles to that of the manufacturer and consumer in a standard market economy. However, the relationship between the retailer and manufacturer is not as simple, and involves the former in some aspects of the supply chain while the latter wants to influence the way their products are handled by the retailer.

Retailers have developed a firm specific system of gathering consumer information over time. This information can facilitate supply chain management, creating a tendency for the retailer to get involved in the supply chain. Some of the reasons are as follows:

a) Retailers want to get the assurance that the products that are delivered to their shops are of desirable quality. This can be done through quality control inspection. A more efficient way would be to ensure that the production process in itself is properly designed so as to minimize the production of inferior products. This kind of retailer involvement is referred to as quality management.

b) Retailers need to ensure that the products consumers want are available all the time.

c) Retailers want to reduce the costs incurred when products are stocked in their warehouses. In recent years, the just-in-time distribution and quick-response system has become very important in retailing. With these systems, the retailer can improve the distribution of short-shelf life products, and can cope with the changing consumer preferences.

d) Retailers may want to maintain a reputation of exclusivity, hence a need to ensure that the manufacturer will not supply to other retailers.

If retailers tend to get involved in the supply chain management, the manufacturers also have reasons to exert particular control over some aspects of retailing. In particular, the manufacturers are concerned that:

- Their products are retailed appropriately. A crucial factor in sale is the product's physical position within the store. Preferred locations are near the front of the store, on the ground floor of a mall, or simply on shelves that are just below eye-level. Another important factor is the area of shelf space allotted to a product. These factors could significantly increase sales. Retailers are very much aware of the positive impact of an effective physical product positioning in their sales. Hence, they tend to place products in the best positions (normally products that are likely impulse purchase), and reserves the less effective selling place for everyday necessities.

- Allocation of shelf space is particularly controversial with the introduction of own-brand goods. Retailers make a higher margin on their own-brand goods, thus promoting them by giving the products more (and better) shelf space.[8]

- The staffs of the retailers are properly trained. In some instances, the manufacturers employ the retail staff to ensure effective promotion of their products. Generally however, manufacturer are not directly involved in staff training, but can exert some influence by refusing to supply to retailers who have sub-standard retail service.

- The retailers carry out the right level and type of promotion. Effective promotion and advertising of the products often relies on the appropriate coordination between the manufacturer and supplier. When manufacturers shoulder the financial costs of media advertising, they expect retailers to carry out concurrent promotion within their stores like window-placement of said product or large in-store display.[9]

2.2.2 Logistics

The efficient movement and storage of finished inventory from the suppliers down to the customers is of primary importance, and in fact, the main function of the retailer. The logistic activity is developed and modified by the retailer as it is deemed necessary for this product range. For example, grocery retailing would involve an efficient distribution and stock control because of its nature—fast turn over and highly perishable products. However, stock control and distribution is not as important in slow turn over areas like furniture or book retailing.

A number of changes have occurred concerning retailing logistics. The increase in shop space has allowed retailers to practice economies of scale, the use of electronic tagging has cautioned the possibility of theft, and the use of credit cards has changed cashing-up procedures reducing the need to monitor employee fraud. However, two major logistic changes has had significant impact in retailing—first, computerization and second, centralized distribution.

---

[8] An example of this in Philippine retailing is SM grocery which appropriates ideal store space for its own-brand SM Bonus products.

[9] A typical example in the Philippine setting is the free taste promotion held inside the stores for new food products.

The impact of technological change was evident in retailing in the form of scanning equipment in retail stores. The electronic point-of-sale (POS) mechanism has improved ordering system and support management decision-making. Data gathered from the POS provide the retailer a wide array of information that ranges from product profitability to consumer preferences. Thus, computerization has improved the speed and efficiency of distribution.

Centralized distribution is the latest mode of delivery and stock operation by a retailer. Manufacturers deliver the goods to the retailers' own or controlled warehouse, effectively internalizing stock up cost. Practiced mainly in grocery retailing, centralized distribution reduces the need for storage space retail outlets, reduces wastage, and reduces the likelihood of products going out of stock.

2.2.3 Relationship with Consumers

What the consumers need, and how they get it, are some of the questions that guide the retailer in providing the service. Effectively, the retailer shapes his service and image in the manner that responds to consumer needs. This is because consumer places value on the retail experience, and not just on the product he purchases. While price is an important decision factor, the shopping experience in itself could significantly affect purchasing behavior. Some individuals may prefer a particular geographic location, or put a high value in stores with large product portfolios, or simply go for stores that provide the best retail service (like fast movement in the queue, properly ventilated stores, and credit card acceptance even for small purchases). It is very rare that shoppers would visit a retailer on a purely lowest price service. For this reason, retail competition not just takes place on the pricing aspect, but also on non-price dimension.

Non-price dimension, from the consumer's viewpoint, can come in the form of;

- Convenience
- Product range/ selection
- Quality
- Cleanliness of retail outlet
- Friendly staff
- Convenient operating hours
- Store design and atmosphere

Retailer image and advertising are the other factors that affect consumer relationship. In most cases, the image is built through the products the outlet carries, the store design, and quality of retailer service. Too many "budget" product lines can reduce the overall image of the retailer. On the other hand, advertising plays a crucial role in strengthening retail image. A store that is properly situated in a shopping center it its most effective form of advertisement. There are also retail outlets that have strong images with minimal advertising.[10]

[10] Examples of these are Marks and Spencer and The Body Shop originally based in United Kingdom.

2.3 Dimensions of Competition

Retailers compete by attempting to gain a competitive edge over their rivals. This can be manifested in four ways:

- ❖ <u>In terms of price</u>. The retailer can achieve price reduction through cost efficiency and economies of scale and scope. Further, exerting bargaining power with the manufacturer to drive down cost, price discrimination and product bundling can create the perception of low prices.

- ❖ <u>In terms of geographical location</u>. This can be achieved by locating the retail outlets in the most convenient areas. This is often a matter of being first in the area, or having first pick of potential locations.

- ❖ <u>In terms of product selection</u>. A retailer can improve its competitive advantage if he is able to stock the best range of products at reasonable prices to his customers. This can be done through (1) a good understanding of the its consumer needs, (2) operating large outlets that can facilitate wide product stocking, and (3) strategies aimed at obtaining exclusive products either through an extensive use of own-brand products or vertical relationship with manufacturers.

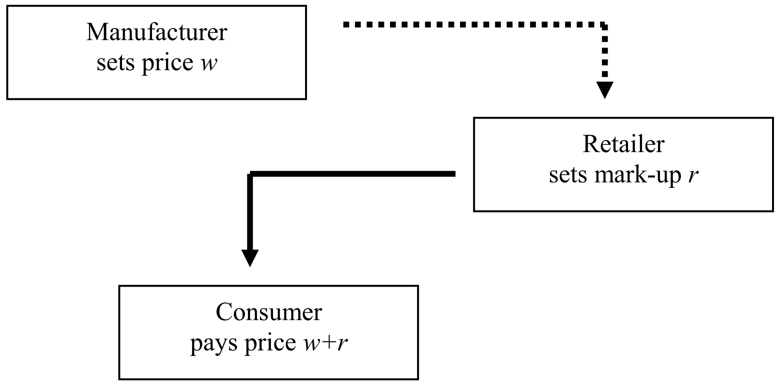
- ❖ <u>In terms of high retail service provision</u>. Service is generally costly and its use is determined by the nature of competition in the market, either price or non-price, and the products being retailed (fast moving or slow but high value goods). For example, a high level of retail service is necessary for cosmetics or cars, while attendant services are not as important in grocery retailing.

There is always the possibility that the success of one retailer may be imitated. Be it in pricing or product selection, the competitive strategies available to a retailer involve a complex process where a competitive dimension may be utilized in isolation or in combination with the other dimensions.

2.3.1 Pricing

The difference between the consumer's price (also referred to as the final price) and the retailer's wholesale price (price of obtaining the goods from the manufacturers) is *the gross margin* the latter receive to offset the costs they incur in carrying out the functions of distributing the product to the customers. In some retailing activities, the gross margin can be very high —generally for activities with low turnover but requires large stock or product maintenance like in jewelry and fashion retailing. On other retail markets, the gross margin may be low but volume turnover is fast like in grocery retailing.

FIGURE 2. RETAILER'S PRICING STRUCTURE



Generally, a customer does not observe nor care about the retailer's implicit price. What he is concerned about is the final price, where the retailer's service is already imputed. Thus when he compares prices of the same products across different retailers, he can only conclude that the price difference is due to different retailer margins and nothing on the manufacturer-retailer relationship.

Price is a key variable in retail competition where the challenge among retailers lie in lowering cost and achieving the highest level of efficiency as possible. Retailers can reduce their costs through the following channels;

- Obtain the lowest possible price from the manufacturers. Large retailers are more likely to achieve this feat over the small retailers since they are in a better position to exercise bargaining power with the manufacturers with their bulk orders and better access to consumers.

- Store and shelf space management. Efficiency can be achieved with appropriate management of logistics and capitalize on impulse buying.

However, there are some pricing aspects that can exist in retailing.

- *Differential pricing*. Price discrimination may be relatively easy to practice since resale between consumers is unlikely to occur. This can be implemented through an elaborate design of retail choices such as end-of-season sale and credit deals.

- *Variable mark-ups*. Retailers tend to sell in bundles of products and stock large product range to capture the consumers' preference of going to a single multi-product retailer for his shopping needs. Given this, the retailer will prefer to set higher mark-ups for products with low demand elasticities rather than charging a common percentage mark-up on all products.

- *Loss leading*. Retailers may set prices of *some* products lower than usual to gain the reputation of offering low prices on *most* goods, and inducing the consumers to evaluate price comparison across retailers on the basis of the "lower price" reputation.[11]

[11] Loss leading may, or may not be, predatory in terms of driving other retailers out of the market.

- *Restriction on price*. Manufacturers sometimes provide a Recommended Retail Price (RRP) or Suggested Retail Price (SRP) in some retail markets, particularly in grocery retailing. The use of RRPs/SRPs may be regarded in two ways; one, it can act as a collusive agent for retailers since it provides a focal point where they can coordinate. In contrast, it can act as a protective measure for consumers against usurious pricing of some retailers.

- *"Never knowingly undersold" provision*. Some retailers offer a lenient return policy provision to consumers who might find the same product elsewhere at a lower price. For some, an outright "money back" guarantee is extended, while a variant of this policy is to "refund the difference" in prices. This may be an effective method in competing against prices but it can also facilitate collusion since there is no incentive for the retailer to undercut prices to gain market share if the price reduction will be met anyway.

2.3.2 Geographical Location

The importance of geographical location is most evident for transport-based markets like gasoline stations. But the significance of location also means that the local market power can be very high and the inability to find an attractive location can act as an entry barrier in the retailing business. Generally though, the shopping/search cost of a consumer highlights the value of geographical location;

- When consumers are unsure of their specific purchases, they can be attracted by retailers who are clustering together, thereby reducing its time to search.

- When consumers value convenience and are not so particular about a product (undifferentiated consumer goods), retailers can geographically position their stores close to the peoples' work place or home of residence.

- When consumers go for bulk buying or large shopping, shops that are accessible by car are much preferred.

2.3.3 Product Selection

The market positioning (also referred to as product space) of a retailer in terms of quality, type, and range of product he sells is an important factor in carrying out the function of a "gatekeeper". This means that when the consumers do not have the time or the ability to inspect all the available products from the various manufacturers, the retailers essentially do the job on the consumers' behalf. From here, the consumer then chooses which retailer provides him the widest array of products that satisfies his demand.

The retailer will decide how he will position himself in the market;

1. Should it be a retail outlet that carries an extensive vertical range of products with high and low quality goods?

2. Should it be a retail outlet that carries a limited number of products but offers a wide horizontal range of these products?

3. Should it be a retail outlet that serves only a segment of the market thereby creating a market niche?

The retailer's decision on the location of product space will depend on a number of factors;

1. Business stealing. When a retailer moves closer to its rival, he will think that it can improve its market share by attracting the customers from its rival.[12]

2. Entry deterrence. When an incumbent retailer uses product space as an entry deterrent by leaving no profitable niche unfulfilled, it makes it very difficult for prospective players to enter the retailing business.

3. Consumer's preference for wide product portfolio. Retailers tend to capture the consumers' extensive product preference by stocking up a wide product portfolio—substitutes and complements of consumer products.

A variant in product selection analysis is the existence of own-brand products, which significantly affects a retailer's decision regarding the range of products he will offer. Some retailers only sell its own brand, while others stock only branded goods.[13] Most retailers lie somewhere in between—stock a number of powerful brands while at the same time providing a number of its own brand.[14] The retailer's decision to carry its own brand may be based on its intention to provide a cheaper alternative to the branded products, or to compete head on with the brand leader in terms of image, price and quality. However, the success of the own-brand strategy will be partly determined by the image of the retailer itself.[15]

2.3.4 Level and Quality of Retailer Service

One important decision variable in retailing is the range and quality of product to put in the market. The other equally important aspect is *how to present* these products to the consumers. The physical characteristics of the product, added with the quantity of these products and the form of retail service to provide, make up the decision spectrum of a retailer.

Retail service can take various forms. These include:

- Shop ambience. This is composed of factors that make the shopping experience more than a necessity for the consumer. Clean, efficient and well-designed retail environment are just some of the things a consumer considers when going on a shopping trip. Other

[12] This also results in clustering.

[13] In the U.K., MARKS AND SPENCER is an example of a retail outlet that sells only its own brand, while TOWER RECORDS is an example of a retail outlet that sells only branded goods. In the Philippines, BENCH is an example for the former, while ODYSSEY is an example for the latter.

[14] In the Philippines, CINDERELLA is an example of this type of retail outlet.

[15] The image of the retailer is shaped by the products it sell, and its advertising strategy.

measures include computerized scanning, friendly attendants and well-functioning shopping carts improves retail service.

- Point-of-sale service. This is very important in retailing activities with direct consumer contact like in cosmetic retailing and pharmacy. Efficient and effective sales attendants (or pharmacists) significantly improve retail service and generate consumer trust and confidence to the retail outlet.

- After-sales service. This form of retail service is applicable to a limited number of retailing activities like in motor cars and "catalogue" retailers.[16] In most cases, the manufacturer provides the after-sales service. The retailer may improve its retail service by acting as the facilitator between the manufacturer and customer.[17]

- Product Promotion. In-store promotions also improve retail service by providing the consumer information about certain products. In some cases, the amount of shelf space provided for a certain product carries information on how the retailer values this particular product/brand over the others.

- Retailer image/reputation. The retailer's image and reputation becomes a crucial factor for the consumer when the quality of a certain product is not reading observable. For example, Rustan's Department Store and Grocery send strong signals to consumers in terms of quality and price of the products it carry. In other cases though, the reputation of the manufacturer is totally dispensed and the retailer becomes the brand that certifies quality (for example, OUR TRIBE for shoe retailing).

These retailing service may affect competition in many ways. One possible problem is free riding on retail service where a consumer may obtain the retail service from one outlet, but purchase the item in another store. An example would be to solicit the opinion of a pharmacist at a leading drug store regarding a medicine for a particular illness. Once given, the customer then transfers to another drugstore and purchases the medicine "advised" by the pharmacist. When free-riding problems are prominent, it may affect the level and quality of retail service provision.

2.4 Barriers to Entry

Consumers in retailing are immobile, uninformed, and has small purchases relative to retailers' revenues—these suggests that retail markets tend to work imperfectly and gives rise to competition problems. The detrimental effects of these likely problems will depend on the size of the entry barriers in retail markets. If entry is easy, the incumbents will have a limited potential to exploit market imperfections, thereby ensuring competitive market practices to the consumers. The assessment of entry barriers in retailing is also of importance when potential merger issues are concerned where the ability to exploit market share significantly increases with the merged retailer.

Entry barriers can be classified between absolute and strategic advantages. *Absolute advantages* are defined as "advantages that cannot be easily replicated by entrants, and are not

[16] Catalogue retailers offer a refund policy to customers who are not satisfied with the purchased products. Example of this is TUPPERWARE.

[17] This facilitating function is sometimes done by SM Appliance.

readily tradable".[18] These are costs borne by the prospective entrant and not by the incumbents. Examples of these are legal and regulatory restrictions, and exclusive or superior access by the incumbent firm on necessary inputs like location and advertising. In contrast*, strategic (or first mover) advantages* are advantages enjoyed by the incumbent arising from its uncommon business practices, which sets its uniquely different from the market. Some of these are advertising and economies of scale operations.

2.4.1 Absolute Advantages (regulatory barriers)

Absolute advantages can be divided in to four categories, namely (1) quality and safety regulations, (2) regulations on retail types allowed to enter, (3) regulations on number of retailers, and (4) access to retail sites. These are basically rules and regulations that make it favorable for the incumbents and costly for the prospective entrants. Generally, legal and regulatory barriers are the most important absolute advantages in retailing due to the information problems faced by the consumers. Quality and safely regulations are fairly easy to observe but difficult to unilaterally enforce and monitor. Regulations on retail types allowed to enter are generally meant to protect consumers where the removal of such regulations can result to misuse and detrimental consequences. An example would be a regulation on selling contact lens solution where only retail outlets with opticians are allowed to sell the product. Without these regulations, consumer misuse could lead to damages thus lens solution should only be dispensed in retail outlets that provide consumer information on its usage. Regulations on the number of retailers are generally not enforced since this is a very visible and observable limitation that can be interpreted as absolute entry barrier. This type of regulation is more prominent in the transportation service where the number of vehicle lines plying a particular route is limited by law and reinforced by the transport association group. Access to retail sites is similarly not strongly imposed as this outright identifies entrepreneurs that may be closely related to the agency responsible for granting business permits.

2.4.2 Strategic Advantages

Economies of scope is considered a barrier to entry in retailing when investments are considered as sunk cost, or costs that are not recoupable. Sunk costs act as an incentive for the incumbents to compete and maintain sales resulting to entry deterrent for others. One example of economies of scope acting as an entry barrier is *floor space*. A larger floor space allows the retailer to stock a wide and deep product range creating a strategic advantage over the others. The importance of floor space is also magnified with the emergence of one-stop shopping scheme. Another example of a strategic advantage acting as entry barrier is the economies of scope in *distribution*. It becomes important in some retailing activities to have a strong control over the distribution network that requires fast and efficient delivery.[19] Hence, there may be significant sunk costs in establishing a distribution system but once set-up, it can supply extra goods at minimal incremental costs. Economies of scope due to *store network* is another factor that may be considered as a strategic advantage creating a barrier to entry. Some consumers prefer to buy from retail chains where expectations are already set and likely met. Chain stores have strong retailer image that is a by-product of standardized retail environment and service provided by a particular shop.

---

[18] Definition given by the Office of Fair Trading, 1997.

[19] Fresh food retailing and newspaper distribution are some examples.

The degree and magnitude to which these economies of scope act as entry barrier largely depends on which costs are considered sunk. If a large floor space may be regarded as recoverable, in the sense that it can be re-sold, then this will not act as an entry barrier in retailing. If retail properly and stock can be sold relatively easy, or transferred to other products, then these strategic advantages will not create an entry deterrent force to other prospective retailers.

The other forms of strategic advantage in retailing which can act as entry barriers are (1) advertising, (2) goodwill and loyalty, and (3) product proliferation and retailer differentiation.

Retailer image is one important factor in attracting customers. This can be promoted through the straightforward advertising scheme, or in other less-costly ways like product range and prices, store design and atmosphere, and the quality of service. Strong retailer image could deter some entry more easily than others. With economies of scale in advertising, small-scale entry may be difficult and could only be achieved successfully by large entrants armed with sufficient capital to carry out advertising campaigns. For example, strong advertising campaign initiated by *BENCH* made it one of the favorite retailers for clothes carrying an image of quality and good fashion.

Goodwill and consumer loyalty is also considered as barriers to entry in retailing. Given two identical retailers, consumers tend to be "locked-in" to their favorite retailer out of loyalty, and that large psychic cost are associated with switching to another retailer. For pioneering retailers, switching costs can provide a strong competitive advantage to lure the consumers away from their favorite retailer. To do this, the prospective retailer must not only match the price offer of the consumer's current retailer, but must also compensate the consumers for switching. This creates an additional sunk cost of entry, and acts as a barrier to enter the market.

Product proliferation involves increasing the portfolio of products offered for sale so retailers offering a subset of these products cannot compete in the market. With economies of scope, product proliferation may not be costly for incumbents and may act as effective barriers to entry. A traditional way of practicing product proliferation is the possibility of filling up the retail space so there will be insufficient room for a rival retailer to enter.

2.4.3 Capital requirement as *entry impediment*

Entry impediments are factors that delay the process of entering the market without increasing the cost of entry, or creating an asymmetry between the incumbents and entrants. These are not entry barriers but are significant factors that may influence the amount of time the incumbents may exercise market power before entry.

Capital requirements may be regarded as an important factor in slowing entry of prospective retailers given that large incumbent retailer can raise capital relatively easy.[20] Apart from financial capital, other business requirements that pose as entry impediments are licensing, certification or product registration requirement. This involves little cost but take significant amount of time to fulfill.

[20] The relevance of capital market imperfections is not assessed in retail market.

Section 3. Competition Assessment: The Philippine Case

The framework outlined in Section 2 will be used in assessing the state of competition in the Philippine retailing sector. The various dimensions of retail competition will be outlined, and two sets of issues will be distinguished, namely market structure and pricing issues[21]. Important factors necessary to understand market structure includes the measurement of market structure, the threat of potential competition, and the nature of competition across markets. In contrast, issues like excessive pricing, price discrimination and loss leading are the factors examined in analyzing various pricing issues. A small-scale survey across retail establishments in Metro Manila was conducted to facilitate the analysis on the pricing issues.[22]

A starting point in assessing the market structure in the retail sector, and the market power of retailers, is to examine the number of retailers and their market shares. In most simple models of competition, prices fall, and profit margins get tighter as the total number of players (and total sales) increases. Similarly, the nature of competition varies as the number of players changes. While some retailers will try to attract customers via lower prices, others will try to provide better retailer service and wider product selection. Hence, geographical location and product selection becomes significant factors affecting competition in retailing.

In understanding the structure of the market, the form of market power can be examined by using the concentration ratio as an indicator of market power. A high concentration ratio is partly indicative of a few firms dictating the market. This implies lesser room is left for the remaining players to compete and would simply follow the behavior of the market leader.[23] Another indicator that is often used as a measure of market power is profitability, or the price-cost margin. Generally, a lower margin implies wider degree of competition among players. However, this must be used with caution since it is possible that some retailers with market power may opt to function inefficiently rather than efficiently to deter entrants (an example would be loss leading which results to lower profits). On the other hand, high profits may simply be due to superior efficiency or market positioning, rather than market power. Another way to assess market power is to analyze the cost structure and capacity of the competing retailers. A retailer with lower costs will have a greater degree of flexibility to compete in terms of prices compared to those with higher costs. Thus, if there are economies of scale so that large retailers have lower costs than small retailers, prices tend to be lower if there are two large retailers compared to a market with one large retailer and many small retailers.[24] After assessing market structure, the other dimensions of competition will be discussed namely geographical location, retailer service and product selection.

Three subsectors within the retailing sector will be analyzed in detail using the framework outlined above—the food, beverage and tobacco (PSIC 621), dry goods and textile (PSIC 623) and medical supplies (PSIC 627). The first two subsectors will be treated as one big sector due to the change in consumer behavior that intertwined the functions (and definitions) of the two sectors. The choice of these subsectors was based on its contribution to the entire economy, its relative size and relevance to consumer behavior.

---

[21] These issues are in line with the framework outlined in Section 2.

[22] The author wishes to thank the assistance extended by Ms. Jennifer de Castro and Mr. Jose Maria Ruiz, Research Analysts II at PIDS, in carrying out the survey across Metro Manila.

[23] Four-firm concentration ratio is calculated by summing the sales of the top four firms in the industry and dividing it by the total industry sales. Basic data were obtained from the Top 10,000 Corporations publication.

[24] Analysis of cost structure will not be included due to data constraint.

One difficulty encountered is the change in the industry classification. In 1994, the NSO reclassified the subsectors and adopted the international industry classification code. As a result, some subsectors were created while others were moved from one major product category to another. For example, the department store subsector was classified as PSIC 62301 under the sector category "dry goods, textile and wearing apparel". With the new classification, it is PSIC 52190 under the sector category "non-specialized retail trade in stores". This major sector also includes sari-sari, grocery and supermarkets--subsectors that were previously classified under food and beverage retailing.

3.1 From Sari-sari stores to Super Malls: A Marriage of Markets

Retailing has become a barometer of the consumers' changing tastes, lifestyle and purchasing power. Innovations in marketing and promotions have changed the buying habits of most Filipinos where approximately half of an average Filipino's income is spent on food. Incidentally, this is spent on department stores, supermarkets, groceries, and specialty shops.

Due to marketing innovation and cultural transition, there was a shift in the structural concept of retailing. The significance of "being big" became the primary driving idea that was embraced by many retailers. In the supermarket, there was a shift from the conventional four-wall structure to a warehouse type of building. In the department stores, food and beverages occupied shelf space, which were previously not found in many establishments. Similarly, drugstores also expanded its product space by venturing into food and beverage products. Bigness was not confined to physical space but to product space and service as well.

The concept of "one-stop-shopping" was introduced and resulted in the development of several mega-malls and shopping complexes in and outside Metro Manila.[25] Giant shopping malls like Shoe Mart (SM) emerged, paving the way for other companies to set up malls even in residential areas.[26] A major implication of these malls is that it effectively put under one roof the functions of a supermarket and a department store. In most cases, the malls have a resident (or in-house) department store and supermarket surrounded by small and specialized retail outlets[27].

3.1.1 Market Structure

Majority of the Filipino retailers is into the business of food, beverage and tobacco. Between the years 1988 and 1994, there was an increase in the number of groceries and supermarkets of approximately 11 and 69 per cent respectively. This observation partly suggests that food and beverage retailing is regarded to be an attractive business and establishes the growing importance of supermarkets and department stores over time. Calculations on price cost margin (PCM) partly confirms this observation where price-cost margin for grocery retailing fell from 21 per cent in 1988 to 12 per cent in 1994. The fall in PCM is indicative of the lower profit margins due to increases in number of players. The contribution of the large establishments mainly fuelled the activities in this subsector (see Table 9).

---

[25] Patalinghug et al (1994).

[26] A mall is technically defined as an establishment that shelters several smaller establishments.

[27] Definition of terms is found in Annex B.

TABLE 9. SECTORAL STATISTICS OF SPECIALIZED ESTABLISHMENTS (ALL)

Description	No. of Establishments			PCM-Ratio		
	1988	1994	% Δ	1988	1994	% Δ
Sari-Sari	22,864	24,705	8.1	0.21	0.31	49.2
Groceries	13,838	15,412	11.4	0.21	0.12	-43.4
Supermarket	224	379	69.2	0.12	0.11	-2.7
Department	2,489	1,619	-35.0	0.20	0.23	11.4

Author's Calculations.
Source of Basic Data: NSO.

Large retailers operate at tight margins and price sensitive markets. Profits in the sector are realized from large volumes and fast turnover. This intensifies the competition in acquiring and maintaining the market share, and nurturing a customer base. In contrast, small retailers are mostly able to sell their wares at higher margins. They usually capitalize on its accessibility thereby making it convenient to the buyer (see Table 10).

TABLE 10. BREAKDOWN OF PRICE-COST MARGIN

Description	1988	1994	%aΔ
Supermarkets			
Large	0.12	0.11	-4.21
Small	0.22	0.22	-1.88
Groceries			
Large	0.15	0.05	-65.23
Small	0.25	0.23	-7.41
Department Store			
Large	0.20	0.22	11.57
Small	0.22	0.29	29.08

Author's Calculations.
Source of Basic Data: NSO.

3.1.2 Market Players

In 1998 and 1999, Makro, Robinson's Supermarket and Tropical Hut were the three leading supermarkets in the industry (see Table 11). Combined gross revenues reached P13.0 M, 16% higher compared to the previous level of P11.2 M. Total revenue for 61 firms included in the Top 10,000 Corporations publication increased from P24.3M in 1998 to P30.4M in 1999. Concentration for the industry slightly declined from 10.3% in 1998 to 9.4% in 1999. It is interesting to note that the three leading industry players have different concept of marketing. Makro sports a warehouse type of retailing. Although classified as a retailer, its main clientele are individuals owning a retail establishment. Because of this, Makro is not as accessible to the general public and is limited to those with retail businesses. On the other hand, Robinson's Supermarket is part of the mega mall concept housed by Robinson's Corporation while Tropical Hut is the classic supermarket concept and does not offer other frills available in the mega mall concept. All three corporations have more than one outlet.

TABLE 11. LEADING RETAIL ESTABLISHMENTS

Description	Revenues		
	1998 (000)	1999 (000)	% Δ
A. Supermarkets			
Pilipinas Makro	6,482,000	7,787,685	20.14
Robinson's	2,755,490	3,268,974	18.63
Others	15,038,729	19,391,586	28.94
Total	24,276,219	30,448,245	25.42
B. Department Stores			
Shoe Mart, Incorporated	13,226,000	10,764,596	-18.61
Rustan Commercial Group Corporation	7,686,000	8,306,885	8.08
Others	42,174,000	14,736,977	-65.06
Total	63,086,000	33,808,458	-46.41

Source: Top 10,000 Coroprations

For the department store sector, Shoe Mart (SM) and Rustan's are practically household names, thus it is not surprising that they are the two leading players in the industry. The two corporations managed to eat up 41.3% of the market share in 1998, but this declined to 36.5% in 1999. The 5-percentage point decline in market share of the top two corporations suggests presence of competition from the other industry players. As it is, there were 10 additional department stores in 1999 that made in the Top 7,000 Corporations. Gross revenues for the 60 firms in 1999 amounted to P52.2M, 16.4% higher compared to the previous year's level. Concentration ratio also declined from 10.5% in 1998 to 8.4% in 1999.

A new trend in retailing emerged with the birth of the one-stop shopping concept. Shopping centers became venues for meetings, dining, and entertainment, and malling has become a favorite past time to most Filipinos. This led to the development of mixed-use facilities where shopping malls act as destination centers. This concept was welcomed by big corporations by venturing into property development but kept retailing as its business. The "malling culture" was initially espoused by the SM Group with the rise of the SM City along EDSA in 1985. Considered to be a big risk then, SM top man Henry Sy constructed a "giant box" at the heart of Quezon City with the purpose of drawing out the residents from their houses to spend. The main slogan of SM "*we've got it all for you*" proved to be right when consumers found themselves in a place which caters almost all their shopping needs ranging from food products to shoes and clothes. This business venture, when proved profitable, was duplicated by other big firms. For example, Ever-Gotesco Corporation acquired approximately 400,000 square meters of residential land in Fairview and developed it into a mall. Prior to this, the corporation already owned department centers in Manila and Calookan. In Manila, Divisoria is a known bargain-hunter's haven where commodity prices are at its lowest at the expense of uncomfortable shopping. However, Orion Properties saw a business opportunity and built a modern shopping mall in what used to be the old site of Philippine National Railways.

Places outside Metro Manila were not spared from the shopping mall mentality. In Cavite, supermarket giant Uniwide Group built the "Uniwide Sales Coastal City" in the early 1990s with the Uniwide Commercial Complex as the hub in a 100,000 square meter space. Similarly, the rest of the Philippine archipelago embraced the "mall mentality". The booming stature of Cebu during the mid 1990s attracted shopping center builders wanting to capitalize on the Cebuanos' improved income.

Ayala Corporation built a 90,000 square meter Ayala Center right at the heart of Cebu Business Park. At the same time, it also forged a joint venture with Cebu's shopping center tycoon—the Gaisano's. However, as formidable as these companies are, other homegrown malls also emerged in Negros (Lopue's Department Store), Pangasinan (Magic Mall), Nueva Ecija (NE Pacific Mall), Bicol (Pacific Mall), and General Santos City (Koronadal Commercial Center).

In the 21st century, names like SM, Robinson's and Ayala dominate the retail industry. Their presence has shaped not just competition in the retailing business, but has significantly affected consumer behavior and lifestyle with the services they provide.

3.1.3 Dimensions of Competition

A small-scale survey was conducted using Metro Manila area to analyze the dimensions of competition. The study recognizes that a ten-year gap between the statistics used (1994) and the survey results (2004) may give rise to information discrepancies. However, the aim of the survey is to establish the frame of analysis in using the dimensions of competition. No attempt will be made to reconcile the statistics data with the survey results.[28] A sample of the survey is in Annex C.

Price. Competition among supermarkets and department stores appears to be enforced in the metropolis. Most supermarkets and department stores charge approximately the same price for the various products surveyed. When prices vary across the same commodity, the difference appears to be insignificant[29]. Some firms practice bundling (3 for the price of 1) to attract a wider consumer base.

Geographical Location. The area along Shaw Boulevard and EDSA became a haven for shopping malls, consequently jacking up the land prices in the area. SM Megamall offers the widest array of goods and services due to its huge floor space while its neighbor Shangrila Plaza relies more on the heavy expenditure of the AB crowd. Across the highway is Starmall (formerly Manuela) which initially catered to the CD crowd but is now sporting a new image after Rustan's bailed it out of its financial burden. The operation of the Metro Rail Transit (MRT) gives SM Megamall and Shangrila transport advantage over Robinsons' Galleria. Another shopping cluster is found in the Makati City area with SM, Landmark and Ayala as its core retail establishments. A crowd drawer for this cluster is its proximity to the financial district where employees of various businesses can just walk to unwind after a day's work.

The malling concept was regarded as an opportunity, rather than a limitation, by many small specialty shops. By setting up operations inside the malls, the small specialty retailers can profit by riding on the popularity and reputation of the mall. However, steep rental charges pose a significant entry barrier to these retailers. Thus, big mall operators tend to set competitive rental prices to attract and keep the specialty shop that would cater to its market clientele. As can be observed now, there are "resident" specialty shops associated with SM, Robinson's, and Ayala.

Retailer Service. Competition among department stores and supermarkets are also evident in the way they conduct their business to gain market share and goes beyond the price factor. Non-price factors have become important agents in surviving the retail industry, like acceptance of

[28] As of this writing, the 1998 Survey of Establishment data is still being finalized.

[29] A price difference of 2-5% was considered insignificant based on author's estimate.

different modes of payment, return policies, variety of goods offered and customer service. Some business practices observed that heightened competition are;

(a) holding of regular bargain sales especially during paydays
(b) offering of discounts
(c) reduction in margins
(d) expansion of target market
(e) upgrading of store designs, and
(f) increasing emphasis on product quality.

Most of the malls have ample parking space and reasonable parking rates. They are also accessible to public transportation that effectively improves accessibility to its client base. Inside the mall, the retail establishments accept various forms of payment and use the computerized point of sale (POS) system. Employed attendants are also cordial, and the general appearance of most stores magnifies space that eases human traffic and visual merchandising is at its best with product and prices visible to the potential customer.

3.1.4 Barriers to Entry

Regulatory Framework as Absolute Advantage. The Retail Trade Nationalization Law, otherwise known as RA 1180, was the cornerstone in nationalizing retail trade activity. It regulated the retail business and prevented foreign participation. The support of the bill came from the consensus view that since time in memorial, foreigners (mainly Chinese) rule over Filipinos in this type of business activity. In the 1930s, Filipinos usually control only 30 per cent of the retail trade pie and the rest were controlled by Chinese, American, and Japanese businessmen. But under RA 1180, only Filipino citizens and Philippine corporations, at least 60% owned by Filipinos can engage in the retail business, either directly or indirectly. However, foreigners circumvented the law by applying for naturalization or using dummy corporations.

The passage of the Retail Trade Liberalization Act of 2000 ended the 45-year old foreign equity ban on Philippine retail operations. But since it was passed, only one corporation has actually operated in spite the numerous foreign corporations that expressed its desire to operate in the country. While it is true that the country had a peace and order crisis in the year the bill was passed, the key conditions in the bill itself could turn-off prospective investors.

The following conditions were set as guideline for the Retail Trade Act:

- The Philippine rules a US$7.5 million capitalization requirement for 100% equity, considered to be the highest in Asia. Singapore and Hong Kong have no minimum capital requirement while Thailand sets it at US$250,000. Potential foreign investors might regard this minimum capitalization too high considering the low purchasing power of the Filipinos.

- Another condition that might turn off investors is the inability of foreign players to own land. As land ownership by non-Filipinos is still not allowed, foreign players have no other means of setting up operations except through leasing, joint venture arrangements or acquisition of local company. The latter two arrangements seem to be the most effective since the leasing arrangement from locals subject the foreigners to exorbitant rates.

- ❖ The third condition that might hinder retailing operations by foreigners is the requirement to offer 30% equity to the public by the eighth year for retail firms with less than 80% equity. A major criticism to this condition is that no firm, either local or foreign, would enjoy being forced to render public its shares. Public offering is a means to increase funds for corporate purposes. It cannot be dictated by anyone except the managers of the firm itself. Further, the life span of the retailing operations is not guaranteed—it may close shop before it reaches it eighth year, just like what happened to JC Penny when it operated in the Philippines a few years ago.

- ❖ The last critical condition is the 30 per cent local content requirement in the inventory. Foreign retailers must carry in their inventory at least 30 per cent Philippine-made products. Again, this poses a limitation to the retailing style and strategy of the foreign company.

The stringent conditions set by the Retail Trade Act could turn-off potential foreign investors. Thus, it remains to be seen whether or not the Act will serve its purpose. A copy of the Retail Trade Act is found in Annex D.

The Retail Trade Liberalization Act of 2000 came in a timely fashion where most retail sectors of ASEAN nations are already open. Prior to the passage of the law, only the retail sectors of the Philippines and Indonesia remained close to foreigners. However, foreign stores were able to enter the market through franchises, exclusive distributorships, and /or joint venture arrangements.[30]

Among the neighboring nations, Singapore and Thailand have welcomed foreigners with ownership limited to 49%.

China, on the other hand, imposed 4 condition in the entry of foreign firms, namely;

1. Limited foreign entry through joint ventures that should be net exporters.
2. Majority share of the joint venture should be owned by the Chinese counterpart.
3. Partnership limited to 30 years.
4. New entrants must be major firms from strong countries and must possess global reputation, advanced management and experience in retail trade.

South Korea imposed restrictions on foreign ownership, which include limitations on the size and number of stores, as well as high import tariffs.

Malaysia allows foreign ownership of up to 30% share, with emphasis on high technology and high value added industries. The Malaysian government has preference for foreign corporations that are export-oriented.

One major study assessed the likely impact of opening the Philippine retail trade sector to foreign investment using a static model of demand and supply (Patalinghug 1995). Another study made use of an endogenous growth model to capture the likely contribution of technological change and capital accumulation over a long period of time (FEF, 1999). Both studies, theoretical in nature, resulted in the positive net effect of opening up retail trade. The studies recognized the possibility of unemployment in the short run, as foreign firms rely on technology for efficiency making it less labor intensive. However, the loss in employment is offset via the lower commodity prices and wider selection of consumer goods, thereby producing a net consumer gain. Intal (1995) also

[30] Asia Property Focus, March 2000. A publication of FPD Savills.

indicated in his study that the entry of foreign players will most likely be in the retailing of subsector "food, beverage, and tobacco". Table 12 provides a list of potential foreign players.

TABLE 12. POTENTIAL MARKET ENTRANTS

Foreign Retailer	Local Retailers: joint venture or acquire	Nature of Business
Wal-mart (USA)	Ever Gotesco	Mall operator
JC Penny (USA)	Mercury Drug	Drugstore chain
Pricesmart (USA)	Shoemart Inc	SM Department Stores
Carrefour (France)	Purchase Uniwide and/or with Rustan's	Department Store
A-Hold (Europe)	Supervalue Inc	SM Supermarkets
The Boots Co.	Landmark	Department Store
Waitrose Supermarket (UK)		
Wellcome (HK)		

Source: CLSA Global Emerging Markets, March 2000.

Another piece of legislation was passed which limited the domestic borrowings of foreign corporations. House Bill 260 or the Filipino Capital for Filipinos Act of 1992, sought to minimize the foreign corporations' utilization of domestic funds that would otherwise be used by local entrepreneurs. Specifically, it limited the peso loan of foreign firms holding operations in the Philippines, to only 10% of its equity. Exceptions to this Act were foreign banks and foreign-owned non-bank financial intermediaries with quasi-banking functions.

The Consumer Act of the Philippines, or RA 7394, signed by President Aquino in 1992 aims to protect the consumer and promote general welfare. It also established standards of conduct for business and industry. The objectives of RA 7394 are as follows;

- Protection against hazards to health and safety.
- Protection against deceptive, unfair, and unconscionable sales acts and practices.
- Provision of information and education to facilitate sound choice and the proper exercise of rights of the consumer.
- Involvement of consumer representatives in the formulation of social and economic policies.

"Being first" as strategic Advantage. The risk taken by SM Group in 1985 paid off as it now enjoys the luxury of being the major player in the retail industry. Its various retail-marketing strategies are considered trendsetters, which challenges its competitors. For example, the mall houses both the department store and the supermarket but both outlets carry similar products. In the supermarket, it specializes on food and beverage products but it also sells clothes, shoes and home appliances on a limited product variety—items one would normally find in the department store. On a similar fashion, the department store would specialize on clothing and footwear products but would also sell food and beverage items on a limited variety. By making the same products available to both retail outlets, it reaches a wider customer base. This strategy is not seen in other mall-department store-supermarket establishments and poses as an entry barrier to potential entrants.

The SM group was also very successful in planting a malling mentality among Filipinos. It capitalized on quality goods with reasonable prices, a combination that appealed to most consumers. It also expanded its retail service with the building of the mall which houses several retail outlets catering to a wider income bracket. As such, it is not surprising that SM now sows its investment and has become a household name. The culture association SM has built is another advantage it enjoys over its rivals and poses as a barrier to entry for potential entrants.

Box 1. Post script on the Retail Trade Act:
Has it Paid Off?

Since the passage of the Act in 2000, only one major foreign retail store set up operations in the Philippines—S&R (also known as PriceSmart). Below is an excerpt of the company's press release.

> *PriceSmart, headquartered in San Diego, is a volume-driven merchandise and services provider, delivering quality, value and low prices to the rapidly emerging consumer class in Latin America, the Caribbean and Asia.*
>
> *As the first foreign retailer to operate in the Philippines under a recently enacted trade liberalization law, S&R Price's experience is seen as a bellwether of what other potential foreign investors may expect in the Philippines.*
>
> *In addition to the opening today, three other warehouses are in pre-construction or under construction in the Philippines. Openings are scheduled in the fall of 2001, spring of 2002 and fall of 2002.*
>
> *The Company's growth continues with the opening, in two weeks, of its third warehouse in Guatemala City. PriceSmart now operates 20 membership-shopping warehouses in the Central American and Caribbean region: Panama (4), Costa Rica (3), Dominican Republic (3), El Salvador (2), Guatemala (2), Honduras (2), Aruba (1), Philippines (1), Trinidad & Tobago (1), and U.S. Virgin Islands (1).*
>
> *PriceSmart also licenses five warehouses in China and one warehouse in Saipan, Micronesia. As of the end of April 2001 PriceSmart membership accounts in the Central American and Caribbean region total approximately 458,000 representing approximately 869,000 shoppers.*

Source: www.pricesmart.com.ph

3.2 Cheaper Drugs for All?

Approximately 2.3% of total family expenditure is spent on medical care which includes hospitalization, surgery, physician visits, and medicines.[31] Compared to other countries, the Philippines is below average in terms of health care spending. One reason for this is the high cost of purchasing medicines in the country. In a survey conducted by Department of Health and Department of Trade and Industry, results showed that the cost of treatment in the country is grossly more expensive compared to other Asian nations.

The survey covered 22 samples that were both available in the Philippines and India[32]. The medicines range from treatment for common ailments like headaches and diarrhea, to more complex illnesses like tuberculosis, pneumonia and hypertension. Medicines from India remain to be the cheapest in Asia. With drug prices at its lowest, the cost of treatment becomes very reasonable. Table 13 shows the comparative retail prices and cost of treatment between the Philippines and India[33].

The most glaring cost of treatment is for diabetic patients. A month-long Humulin insulin shot taken daily by the patient would cost P24,195 in the Philippines compared to only P12,280 in India. Other drugs that has notable price differences include 250-mg Ponstan sold at P10.45 in the Philippines compared to P1.32 in India; A Maalox tablet in the Philippines would sell at P5.85 but only P0.37 in India.

From the DOH survey, it becomes evident that medicines in the country are expensive. What accounts for the high cost? This section will provide an overall picture of the pharmaceutical industry and will attempt to address the issues surrounding the distribution of pharmaceutical products in the Philippines.

TABLE 13. COMPARATIVE RETAIL PRICES AND COST OF TREATMENT

Brand/ Generic	Ailments	Retail price		Dosage	Period	Net no. of units	Cost of entire	
		Phils	India				Phils	India
Ventolin (salbutamol)	Asthma	294.73	79.06	6-8 inhalations/ day	1 month	240	70,735.20	18,974.40
Augmentin (co-amoxiclav)	Infections	62.75	28.05	3x/day	5 days	15	941.25	420.75
Ponstan (mefenamic acid)	Pain	10.45	1.32	3x/day	3 days	9	94.05	11.88
Adalat (nifedipene)	Hypertension	20.00	1.15	3x/day	1 month	90	1,800.00	103.50
Betaloc (metoprolol)	Hypertension	7.75	1.55	4 tabs/day	1 month	120	930.00	186.00

Source: DOH, as of July 2000

---

[31] Based on the statistics published by PHAP.

[32] India is known to be a good manufacturer of pharmaceutical products.

[33] Prices were based on the 2001 survey conducted by the Department of Health.

3.2.1 Market Structure

The industry has 8,145 players as of 1995 using Census data. Majority of the establishments are small and only 444 are considered large. Despite the low number of large drug retailers, its revenue in 1995 amounted to P15.5 billion compared to only P3.9 billion generated by small drug firms. Total revenues partly dipped by 2.4%, from P19.9 billion in1994 to P19.5 billion in 1995. The industry also employed a total of 35,452 employees in 1995, 20% higher compared to the previous year's level. Of this, 76% were working for the small firms with total compensation reaching P457m in 1995. In terms of profitability, small drugstores appear to enjoy a higher gross margin over large drug outlets (see Table 14).

TABLE 14. SECTORAL ECONOMIC INDICATORS FOR PHARMACIES

	1988	1994	% Δ
A. No. of Establishments			
Large	442	446	0.90
Small	5,714	7,007	22.63
B. Revenues			
Large	5,378,870	14,460,685	168.84
Small	1,675,965	5,476,805	226.79
C. No of Employees			
Large	7,255	7,894	8.81
Small	19,379	21,779	12.38
D. Compensation			
Large	301,075	848,223	181.73
Small	111,865	399,962	257.54
E. Gross Margin Ratio			
Large	0.11	0.10	-16.12
Small	0.23	0.26	11.33

Gross margin ratio is calculated by the author.
Source of basic data: NSO.

Medicines end-up in the consumers' hand via a 3-4-stage channel of distribution. Starting from the drug manufacturer, it is passed on to a "distributor" which handles a variety of branded medicines. From the distributor, it is passed on to a "wholesaler". If the wholesaler has a drugstore outlet, the channel stops here. Otherwise, it is passed on to a retailer or a small drugstore outlet.

Approximately 79 per cent of the goods sold are through drugstores, 12.6 per cent through hospitals and the rest from other entities. Retail sales from drugstores constitute 61 per cent of the total sales while wholesalers eat up 18 per cent of the share. From the sales in hospitals, 8.9 per cent are from private hospitals while 3.7 per cent are sold in government hospitals.

The "tall" distribution set-up could post unnecessary burden to consumers via higher prices. Thus, it becomes necessary to determine the gross margins or mark-up imposed by retail outlets from the distributors.

3.2.2 Market Players

The low gross margins suggest the industry is operating on a competitive level. Cross checking the estimates with the concentration ratio shows a contradiction—the sector appears to be highly concentrated with over 60% of the revenues accounted by the industry leader, Mercury Drug Corporation (MDC). Corporate data from the Top 7,000 Corporations was used to generate the concentration ratio. Gross revenues of the top 27 drugstores increased by 17.5% for the period 1998-99. MDC consistently remains the leader in the industry with market share slightly dipping from 88% in 1998 to 84% in 1999 (see Table 15).

TABLE 15. CONCENTRATION RATIOS

Corporation	Revenues 1998 (000)	1999 (000)	% Δ	Share to Total 1998	1999
Mercury Drug Corp.	22,868,788	25,683,468	12.31	0.88	0.84
Rose Pharmacy, Inc.	1,141,519	1,140,723	-0.07	0.04	0.04
Others	1,982,405	3,712,854	87.29	0.08	0.12
Total	25,992,712	30,537,045	17.48	1.00	1.00
4-Firm Concentration	0.96	0.91	-4.92		

Source: Top 10,000 Coroprations

Theoretically, an industry with a dominant firm facing firms of unequal sizes may be considered an asymmetric oligopoly. The dominant firm faces a number of small competitors referred to as competitive fringe. In cases like this, the dominant firm enjoys some advantages over the fringes like lower prices and better service.

In practice, MDC fully enjoys this situation. It has established a credible reputation that strengthens customer loyalty, and in some cases, charges lower prices (as observed in the survey) and carries a wider variety of branded products. The company is also a major wholesaler, which allows it to enjoy privileged deals from distributors. Common deals given by distributors to other drugstores are "8+1,9+1, and 10+1". This means that for every 10 boxes purchased, 1 box is given free.

3.2.3 Dimensions of Competition

Price. A survey was conducted to observe price differences of 20 leading drugs available in drugstores. The result shows that of the 20 drugs surveyed, 8 were priced lower in the leading drugstore and only 1 item was more expensive compared to the next leading drugstore. Seven drugs were priced similarly in both drugstores and price information on 4 drugs was invalidated. In terms of mark-up, the leading drugstore adds a mark-up from a low of 5.4% to a high of 67.7%. Similarly, the other drugstore has a mark-up that ranged between 4.2% to 63.9%. In both cases, the high mark-up was observed in only one product. Average mark-up of the largest drugstore stood at 13.9%, slightly lower than the average mark-up of the other drugstore which was registered at 14.1% (see Table 16).

Geographical Location. The industry leader is strategically located in the residential and commercial areas. Its imposing façade, aided by the signature company logo, creates a reputation of quality and updated stock of pharmaceutical products.

TABLE 16. PRICE COMPETITION OF VARIOUS BRANDS

Drug		Mercury	Merced	Dif
Amoxicillin, 500 mg (anti-infection)				
	Amusa	9.50	n.a.	
	Astra Amox	8.00	n.a.	
	Eleomox	12.60	n.a.	
	Generic (P 6.00)			
Paracetamol, 500 mg (fever)				
	Medicol A	1.45	1.43	0.02
	Parace	1.00	n.a.	
	Tempra Forte	2.15	2.40	(0.25)
	Winadol	2.05	2.18	(0.13)
	Generic (P0.90)			
Mefenamic Acid, 500 mg (pain killer)				
	Dolfenal	15.00	15.00	-
	Gardan	11.55	11.90	(0.35)
	Pharex	4.90	n.a.	
	Ponstan	18.50	18.50	-
	Generic (P3.00)			
Carbosisteine, 500mg (cough)				
	Allrolin	n.a.	n.a.	
	Carbosol	n.a.	n.a.	
	Loviscol	12.35	12.35	-
	Generic (P4.50)			

As of July 2001.
Figures in parenthesis reflect lower prices of Mercury over Merced.

<u>Retail Service</u>. The leading company enforces a strict regulation on cleanliness and knowledgeable counter attendants in keeping with its company philosophy that medical products should be treated with utmost care and hygiene. The pharmacists, often times acting as pseudo doctors, provide the customers information on a range of medicines with varying prices. The leading company is also very strict in complying with the rules and regulations set by the DOH in dispensing drugs without prescription and the 20 per cent discount on senior citizens.

3.2.4 (Regulatory) Barriers to Entry

There are two important legislation that affected the drugstore industry. The first is the passage of the Generics Act in 1988. It has five objectives;

i. To promote, encourage and require the use of generic terminology in the importation, manufacture, distribution, marketing, advertising and promotion of prescription and dispensing drug.

ii. To Ensure the adequate supply of drugs with generic names at the lowest possible cost and endeavor to make them available for free to indigent patients.

iii. To encourage the extensive use of drugs with generic names through a rational system of procurement and distribution,

iv. To emphasize the scientific basis for the use of drugs, in order that health professionals may become more aware and cognizant of their therapeutic effectiveness.

v. To promote drug safety by minimizing duplication in medications and/or use of drugs with potentially adverse drug interactions.

Retail drug establishments are mandated by law to provide a listing of generic products and its prices. Indeed, price differences between generic products and its branded counterparts are very glaring. One observation made was that identifying the generic drug and its branded counterpart was not as simple as expected. In most cases, it turned out that most branded drugs have extra compound in its substance that makes it entirely different from its generic counterpart. An example is Alaxan and Advil, popular medicines that relieve pain with its generic counterpart called Ibuprofen. A closer examination at the two drugs reveals that Alaxan is a combination of ibuprofen and paracetamol, whereas Advil is entirely ibuprofen. Although Alaxan and Advil are grouped in the same category, the slight chemical difference gives rise to product differentiation hence accounts for the price differential.

Another legislation that affected the industry is the passage of the Senior Citizen's Act in February 1995, also referred as R.A. 7876. The Act shall provide an adequate social service and instructs the State to adopt an integrated and comprehensive approach towards health development giving priority to elderly.[34] In practice, this law is translated to providing 20% discount on drugs purchased by a senior citizen. In doing so, the firm providing the discount shall enjoy exemption from the payment of customs duties, taxes and tariffs on the importation of equipment and supplies used actually, directly and exclusively by the firm.[35]

To date, many small drug outlets do not enforce the provisions of RA7876, claiming that their tight margins would wipe away their profits and incur losses. Only big corporations like MDC practice the provisions of the law, thereby capturing the senior citizen market.

The issue of high drug prices is not yet resolved even with the passage of the Generics Act and the Senior Citizen's Act. The asymmetric oligopoly structure of the industry suggests that the cost of distributing the drugs may be at its lowest. What would be crucial is to determine the cost structure in ***manufacturing*** the drug, aside from ***distributing*** it.

A survey conducted by the Pharmaceutical Association of the Philippines (PHAP) identified the cost components of goods manufactured and sold. A manufacturer's costs consists of four major components namely, general management cost, selling cost, corporate taxes and net profit. Among the four components, cost of goods accounts for nearly half of total cost, followed by operating and selling expenses. Table 17 provides the breakdown of the cost structure based on the PHAP survey.

[34] Elder is referred to any person who is at least 60 years of age.

[35] Section 8 of RA 7876.

TABLE 17. COST BREAKDOWN

Cost of goods manufactured and sold			48.88
Operating and selling expenses		5.28	40.51
General management cost			
Selling cost		15.63	
Salaries and benefits of marketing personnel	8.59		
Travel and Motorization	2.87		
Other selling cost	4.17		
Advertising and Promotion		11.68	
Literature and Documentation	0.87		
Samples	4.06		
Sceintific seminars	1.52		
Ads (over the counter)	1.21		
Entertainment and representation	1.04		
Others	2.98		
R & D (Clinical trials)		0.54	
Royalties		0.58	
Interest and Bank charges		1.61	
Others		5.19	
Corporate Tax			3.41
Net Profit			7.2
Total			100

Source: PHAP, survey conducted in March 2000.

The existing government regulation is not substantial in lowering drug prices. This paved the way for parallel importation. Parallel importation is where the government imports cheaper drugs of the same kind and brand from neighboring countries, in particular India. However, it was not strictly parallel importation since the imported products were off-patent, meaning, the patent period has lapsed. Once a drug is patented, it enjoys a 20-year monopoly on price.

The first shipment of off-patent drugs took place last 2000 participated by 7 government hospitals. Table 18 shows the price differential of the off-patent drugs from India. Saving from the off patent drugs ranges from a low of 22% to a high of 382%. A second shipment occurred in January 2001 participated by 30 hospitals. Since it is still on its trial stage, the off-patent drugs will only yet be available to private retail outlets. However, once it is fully operational, this might just be the action needed to reduce the high price of drugs in the market.

TABLE 18. COMPARATIVE DRUG PRICES

Generic (Brand name)	Price of branded counterparts sold in private drug outlets (a)	Price of parallel Drug imports sold in 30 DOH Hospitals (b)	Price Difference (a-b) = c	% savings (c/b) = d
Salbutamol (Ventolin) 100 mcg/dose	294.75	197.60	97.15	49.16
Beclomethasone (Becloforte) 250 mcg inhaler	831.00	532.50	298.50	56.06
Atenolol (Tenormin) 50 mg tablet	17.75	9.05	8.70	96.13
Cotrimoxazole (Bactrim) 800 mg SMZ + 160 mg TMP tablet	24.10	5.10	19.00	372.55
Cotrimoxazole (Bactrim) 400 mg SMZ + 80 mg TMP tablet	13.50	2.80	10.70	382.14
Glibenclamide (Daonil) 5 mg tablet	7.75	3.10	4.65	150.00
Nifedipine (Adalt Retard) 20 mg capsule	34.15	5.75	28.40	493.91
Cotrimoxazole (Septrin) 200 mg SMZ + 40 mg TMP/ 5 ml susp. 50 ml bot	82.68	67.60	15.08	22.31

Source: DOH

Section 4. Summary and Conclusion

The study analyzed the state of competition in the Philippine distribution sector, focusing mainly on the retail trade sector. Two probing questions were asked that acted as guiding post in achieving the research objective;

(1) *Is the distribution sector operating in a competitive environment? And*

(2) *What are the competition issues (if any) surrounding the distribution sector?*

Conventionally, price-cost margin and concentration ratios are the main indicators used in assessing the competitive state an industry. Added to this, an evaluation of entry barriers is necessary to determine the depth of the barrier, and the difficulty (or ease) of potential players in entering the market. The traditional tools of analysis were used in this research. However, competition analysis is extended by identifying four dimensions of competition that appears to be uncommon in the other sectors of the economy. These are price, geographical location, retail service and retail product. Similarly, analysis on entry barriers is not limited to regulatory issues but encompasses strategic advantages. These are factors or circumstances surrounding the incumbent industry player(s) that gives it operational advantages over the potential entrants.

The research focuses on the two major subsectors of the distribution sector namely (a) the supermarket and department stores and (b) the drugstores.

For the supermarket and department store subsector, profitability and concentration ratios suggest that the market is contestable, i.e., there is room for potential players to enter the industry. No regulatory barriers are existing, and the entry of foreign players, either through joint venture arrangement or direct investment, is possible and a welcome move. Admittedly, the dominance of two big local players (SM and Robinsons' Department Store) qualifies them as duopolists. However, the behavior of both firms appears to follow the Betrandt model of simultaneous price setting behavior. The outcome of this model is that in a market dominated by two big firms, they end up behaving in a perfectly competitive manner. As far as price or quantity setting is concerned, no apparent leader-follower behavior was observed. The indicators calculated similarly do not show any signs of collusive behavior. In sum, it appears that the market for supermarket and department stores behaves in a competitive environment.

Using price, geographical location, retail service and product as additional tools of analysis, no market failures caused by information asymmetries were observed. Price information were posted, advantages caused by geographical location were negated due to clustering, and competition in terms of efficient retail service and wide retail product were similarly practiced by the industry players.

In spite the apparent competitive environment in the industry, there still remains a need for competition policy which will come in two forms; first, as a safeguard against the possibility of merger and acquisition and second, as a measure to protect and increase consumer welfare in case market failure occurs. The possible merger of the two big local players will significantly increase the concentration of the industry, and will pose a threat that it will function as a monopolist. Hence, such corporate moves must be disallowed. Presently, prices of products offered by the retail establishments are almost at par, and any differences could be attributed to variation in retail service. For the competition policy to act as a means to improve consumer welfare, it is stressed that a major source of market imperfection in retailing is asymmetric information—consumers do not know the prices and quality of goods available in a retail establishment. If consumers are aware of these information, search cost will be minimized thereby improving consumer welfare. Presently, the availability of product leaflets and flyers aid in reducing information asymmetry between the retailer and consumer.

In the business of retailing pharmaceutical products, the growing presence of the industry leader Mercury Drug Corporation makes it an uncontestable market primarily because of the strategic advantages it acquired over the years of operation. A primary requirement in the operation of pharmaceutical distribution is the presence of a licensed pharmacist. Technically, this is considered a regulatory barrier since it hinders potential entrants, without a licensed pharmacist, to operate. However, this regulation is served to protect consumer interest. This is an example of a regulatory barrier that need not be considered anti-competitive. An example where pharmaceutical products are dispensed without a pharmacist is in the neighborhood *sari-sari* store. In this case, most of the pharmaceutical products available for resale are remedies for common ailments like paracetamol (Biogesic) and ibuprofen (Alaxan). Dispensation of antibiotics is not allowed, and should be strictly monitored.

The strategic advantages enjoyed by Mercury Drug are economies of scale and scope, goodwill and loyalty of consumers, untainted retailer image of updated products and hygiene, and effective and efficient network with the suppliers. Thus, a potential market player is faced with all these challenges if it decides to go into the business of retailing pharmaceutical products.

The apparent high prices of pharmaceutical products in the Philippines, compared to other Asian countries, is partly attributed to its 2-3-tier distribution process. However, a major factor that significantly affects drug prices is in the manufacturing process. Thus, government involvement seems more significant in the manufacturing aspect, rather than in the distribution process. Increases in the supply of drugs through parallel importation could decrease prices but this move is subject to legislative action.

Competition issues that surround the distribution sector are mainly strategic in nature, and not structural. This means that the main challenge faced by most retailers is how to make the products get to the consumer—this is essentially retail service. Lower prices remain to be an important source of increasing consumer base, but improvements in the delivery of retail service, either through improved distribution system or proximity to consumer, can significantly shape the form of retail competition in the industry.

References

Annual Survey of Establishments (1998):'Wholesale and Retail Trade: Repair of Motor Vehicles, Motorcycles and Personal and Household Goods', Volume VII

Asia Property Focus (2000):'Philippine Retail Sector Overview'

Mazzarotto, Nicola (2001):'Competition Policy Towards Retailers: Size, Seller Market Power and Buyer Power', Centre for Competition and Regulation Working Paper 01-4

Mercado-Aldaba, Rafaelita A. (2000):'The State of Competition in the Philippine Manufacturing Industry', Philippine APEC Study Center Network Discussion Paper No. 2000-13

Office of Fair Trading (1997);'Competition in Retailing', Research Paper 13

Patalinghug, Epictetus. E, Alonzo Ruperto P.,Lim, Juan T., and Ponciano S. Intal (1994):'Assessment of the Impact of Opening the Retail Trade Sector to Foreign Investment', Philexport

Policy and Development Foundation (1999):'Retail Trade Policy and the Philippine Economy'

Pro Competition Pro-Consumer: The Economics of Retail Trade Liberalization', Foundation for Economic Freedom, Inc. , 2000

'Promoting the Competitiveness of Philippine Industries through Competition Policy, Foundation for Economic Freedom, Inc., Economic Policy Agenda Series No. 5

Raff, Daniel M. (2003):'The Wholesale and Retail Trade in the United States', The Wharton School University of Pennsylvania , Reginald H. Jones Center Working Paper WP 2003-07

Shopping Guide (2004):'Giant Malls Redefine Shopping Lifestyle', Lifestyle Section of the Philippine Star, October 1, 2004

The World Bank (1997):'Competition Policy in a Global Economy', Global Forum for Competition and Trade Policy Conference, The World Bank, Washington, D.C.

The World Bank (1998):'Competition Policy and Economic Reform', The World Bank, Washington, D.C.

Top 7000 Corporations (1994):'Top Firms Join the Gross Race', Philippine Business Profiles & Perspectives, Inc. and Center for Research and Communication

ANNEX

Annex A. Industry Classification (New and Old)

1994	PSIC RECLASSIFICATION
501	Sale of motor vehicles
502	Maintenance and repair of motor vehicles
503	Sale of motor vehicles parts and accessories
504	Sale, maintenance and repair of motorcycles and related parts and accessories
505	Retail sale of automotive fuel
511	Wholesale on a fee or contract basis
512	Wholesale of agricultural raw materials, live animals, food, beverages and tobacco
513	Wholesale of household goods
514	Wholesale of non-agricultural intermediate products, waste and scrap
515	Wholesale of machinery, equipment and supplies
519	Other wholesaling
521	Non-specialized retail trade in stores
522	Retail sale of good, beverages and tobacco in specialized stores
523	Other retail trade of new goods in specialized stores
524	Retail sale of second-hand goods in stores
525	Retail trade not in stores
526	Repair of personal and household goods
1988	PSIC CLASSIFICATION
611	Farm, Forest and Marine products, wholesaling
612	Processed foor, beverage and tobacco, wholesaling
613	Dry goods, textile and wearing apparel, wholesaling
614	Construction materials and supply, wholesaling
615	Office and household furnishings, appliances, wholesaling
616	Machinery and transport equipment, wholesaling
617	Minerals, metals and industrial chemicals except petro products
618	Petroleum and petro products, wholesaling
619	Wholesale trade, NEC
621	Book, office and school supplies, incl. Newpaper, retailing
622	Food, beverage and tobacoo retailing
623	Dry goods, textile and wearing apparel, retailing
624	Construction materials and supply, retailing
625	Office and household furnishings, appliances, retailing
626	Transport Machinery and equipment, retailing
627	Medical supplies and equipment store
628	Petroleum and petro products, retailing
629	Retail trade, NEC

Source: NSO

Annex B. Definition of Terms

A ***department store*** is a large store that sells various kinds of goods in separate departments under one management. In its strictest form, a department store is a type of retail shop that covers more than 1,300 square meters of floor area. Most department stores have stationed sales clerk who wait and service walk-in customers.

A ***bazaar*** is a smaller version of department store that has approximately 300-1,000 square meters of floor space.

A ***supermarket*** is a large store with floor space ranging from 1,000 to 5,000 square meters. On the other hand, a ***grocery*** is a smaller supermarket selling almost similar items as that of a supermarket and has about 200-900 square meters of selling space. Supermarkets differ from grocery mainly in the volume of sales.

A summary of general concepts on retail establishments is presented below.

TYPE	DEFINITION	PRODUCT	AREA (SQ M)	EXAMPLE
Department Store	A large shop divided into department selling various kinds of goods	Food/non-food	1,300 and above	SM Department Stores
Bazaar/Variety Store	A mini-department store selling lesser variety of goods	Non-food	300-1,100	Joymart
Specialty Shop	A department in a department store specializing in one product	Food/non-food	150-1,000	National Bookstore
Boutique	A small shop selling fashionable clothes and other items on limited supply	Non-food	30-150	Sari-sari/ Celine
Supermarkets	A large self-service store retailing food and household supplies	Food/non-food	1,000-5,000	Unimart
Grocery Store	A smaller supermarket	Food/Non-food	200-900	7-Eleven
Sari-sari store	A neighborhood store owned and managed by a household	Food		
Drug store	A shop specializing in pharmaceutical products	Non-food	50-200	Mercury Drug

Source: Industry Study, Center for Research and Communications.

Annex C. Survey Form

Dimensions of Competition between Retailers

Grocery Retailing: ________________

(Name of Grocery)

Location: ________________

Objective of the Survey: To gather price and non-price information relevant in the analysis of retail competition in the Philippines. Prices of basic food and non-food commodities will be gathered, and a comparison will be made across different establishments to assess for price discrimination and/or predatory pricing. It is important to gather the prices of the SAME products (same brand, weight, volume, etc) to ensure uniformity of information.

Scope: The retail establishments covered in the survey are grocery, department mall, and drugstores. The survey is divided into two parts; one part consists of a pricewatch of basic commodity items. The second part surveys the quality of retail service provided by the establishment though an enumeration of key issues pertaining to the dimensions of retailing.

Limitations: The survey is conducted in a small scale level in terms of products, service and geographical location due to time and financial constraints.

Note to the Surveyor: All questions are answerable by YES or NO. Please make critical comments or observations, if there are, at the end of each section.

1. Price Level

1.1. Are prices visible, i.e., price tags are properly in place?

1.2. Is there a poster/marker that shows "Suggested Retail Price (SRP)"?

1.2.1. If yes, is the final price the same as the SRP?

Note: check for corned beef, dishwashing soap, and the like for SRP products.

1.3. Is there a significant price difference across related products?

Note: "significant" means approximately 10-15%.

1.4. Is the practice of discounting evident in the market, like price cutting or hidden price cuts like three for one?

1.5. Are there one or two clear market leaders in basic product goods?

Critical observations (if any):

2. Geographical Location

2.1. Are there neighboring grocery/ies in the area (issue of clustering)?

2.2. Are the retail sites located within walking distance from the house/office or within a driving distance?

2.3. If the retail establishment is accessible on foot, is it also accessible to public transport like bus, jeeps, taxi?

2.4. Do consumers tend to drive to reach the retail site, giving importance to parking spaces?

2.4.1. If yes, how big are the parking spaces?

2.4.2. What are the parking rates?

Critical observations (if any):

3. Product selection

3.1. Does the establishment carry more than 3 brands per product category?

3.2. Does the retailer have its "own-brand" product?

3.3. Do retailers tend to cluster or spread out product space?

3.4. Do retailers engage in bundling, i.e., 3 for the price of 1?

Critical observations (if any):

4. Retailer service (advertising and promotion)

4.1. Is the cashier using point of sales service (POS)?

4.2. Does the establishment carry products available via mail-order scheme?

4.3. Is there a bagger attendant at the counters?

Note: Approximate ratio of counter/bagger: ________

4.4. Is the establishment an exclusive carrier of some products?

4.4.1. If yes, what kind of products?

Name of Surveyor: _______________________

Date of Survey: ______________________

Annex D. Retail Trade Act 2000

RULES AND REGULATIONS IMPLEMENTING REPUBLIC ACT NO. 8762, AN ACT LIBERALIZING THE RETAIL TRADE BUSINESS, REPEALING REPUBLIC ACT NO. 1180, AS AMENDED

Pursuant to the provisions of Section 11 of Republic Act No. 8762, the following rules and regulations are hereby promulgated.

RULE I. DEFINITION OF TERMS

Section 1. For purposes of this Rules and Regulations –

a. "Retail Trade" shall mean any act, occupation or calling of habitually selling direct to the general public merchandise, commodities or goods for consumption. (Section 3, par. 1)

b. "High-end or Luxury Goods" shall refer to goods which are not necessary for life maintenance and whose demand is generated in large part by the higher income groups. Luxury goods shall include, but are not limited to, products such as: jewelry, branded or designer clothing and footwear, wearing apparel, leisure and sporting goods, electronics and other personal effects. (Section 3, par. 2)

c. "Investment" shall mean assets, tangible or intangible including but not limited to buildings, leasehold rights, furniture, equipment and inventory. (Section 5, Category C)

d. "Foreign Retailer" shall mean a non-Filipino citizen, if a natural person, or if a juridical person, a duly formed and organized corporation, partnership, association or entity that is not wholly-owned by Filipinos, engaged in retail trade. (Section 8)

e. "Foreign Investor" shall mean a non-Filipino citizen, if a natural person, or if a juridical person, a duly formed and organized corporation, partnership, association or entity that is not wholly-owned by Filipinos, whether or not engaged in retail trade. (Section 6)

f. "Natural-born Filipino citizen" are those who are citizens of the Philippines from birth without having to perform any act to acquire or perfect their citizenship. Those who elect Philippine citizenship in accordance with Article IV, paragraph 3 of the 1987 Constitution shall be deemed natural-born citizens. (Article IV, Section 3 of the 1987 Constitution, Section 4 of RA 8762)

g. "Consumption" shall mean the utilization of economic goods in the satisfaction of want resulting in immediate destruction, gradual decay or deterioration or transformation into other goods. (Section 3, par. 1)

h. "Manufacturer" refers to a person who alters raw material or manufactured or partially manufactured products, or combines the same in order to produce finished products for the purpose of being sold or distributed to others. (Section 3, pars. 1a, 1d)

i. "Processor" refers to a person who converts raw materials into marketable form by special treatment or a series of action that changes the nature or state of the product, like slaughtering, milling, pasteurization, drying, or dessicating, quick freezing and the like.

Mere packing, packaging, sorting or classifying does not make a person a processor. (Section 3, par. 1a)

j. "Farmer or Agriculturist" refers to an individual personally engaged in dairy farming, fish farming, aquaculture, poultry or livestock raising, and his principal income is derived from any one or more of the foregoing operations. (Section 3, par. 1b)

k. "Capital" shall mean the working capital for sole proprietorships and partnerships, while for corporations, it shall be the paid-up capital. (Section 3, par. c)

l. "Paid-Up Capital" shall mean the total investment in a business that has been paid-in in a corporation or partnership or invested in a single proprietorship, which may be in cash or in property. It shall also refer to inward remittance or assigned capital in the case of foreign corporations.

m. "Retail Store" shall mean the company that owns the retail store and/or the physical location, such as a shop, where goods are sold on a retail basis. It includes the administrative offices, warehouse, preparation facility or storage facility of such goods, regardless of whether or not it is adjacent to such outlet. (Section 5, Category C, Section 6)

   In cases where the administrative office, warehouse, preparation facility or storage facility services several stores, the capital for such administrative office, warehouse preparation or storage facility to be included in the investment requirement for one store shall be pro-rated to the number of stores being serviced.

n. "Locally Manufactured Goods" shall mean goods produced in the Philippines. (Section 3, par. 1d, Section 9)

o. "Branch Office" shall mean an office of a foreign company that carries out the business activities of such head office and derives income from the host country. (Section 8, par. b)

p. "Franchise" shall mean a business relationship wherein, for a consideration, the franchisor grants to the franchisee a licensed right, subject to agreed-upon requirements and restrictions, to conduct business utilizing the trade and/or service marks of the franchisor, and also provides to the franchisee, advice and assistance in organizing, merchandising, and managing the business conducted pursuant to the license. This type of agreement may include a licensing agreement or any similar arrangement. (Section 8, par. b)

q. "Net Worth" shall mean total equity of a business; total assets less total liabilities. (Section 8, par. a)

r. "Track record" - shall include the track record of the applicant-foreign retailer, its predecessors, or its principal stockholders, affiliates and subsidiaries. (Section 8, par. c)

s. "Reciprocity Rights" shall denote the relation between two states when each of them, by their respective laws or by treaty, gives the citizens or nationals of the other certain privileges, as in the undertaking of retail trade activities, on condition that its own citizens or nationals shall enjoy similar privileges in the latter state.

   Notwithstanding the law allowing one hundred percent foreign ownership of retail activities subject to the capitalization requirements, a foreign retailer shall only be allowed to own up to the extent of the foreign ownership allowed for retailing in its home country." (Section 8, par. d)

t. A former natural born Filipino citizen is deemed "residing in the Philippines" if he physically stays in the country for at least one hundred eighty (180) days within a given year. (Section 4)

Section 2. Sales Not Considered As Retail. - The following sales are not considered as retail:

a. Sales of a manufacturer, processor, laborer, or worker of products manufactured, processed or produced by him to the general public whose capital does not exceed One hundred thousand pesos (100,000.00);

b. Sales by a farmer or agriculturist selling the products of his farm, regardless of capital;

c. Sales arising from restaurant operations by a hotel owner or inn-keeper irrespective of the amount of capital, provided, that the restaurant is incidental to the hotel business

d. Sales through a single outlet owned by a manufacturer of products manufactured, processed or assembled in the Philippines, irrespective of capitalization;

e. Sales to industrial and commercial users or consumers who use the products bought by them to render service to the general public and/or produce or manufacture of goods which are in turn sold by them; or (Senate Deliberations)

f. Sales to the government and/or its agencies and government-owned and controlled corporations. (Section 3, Senate Deliberations)

RULE II. RIGHTS OF FORMER NATURAL BORN FILIPINOS TO ENGAGE IN RETAIL TRADE (Section 4)

Section 1. Rights of Former Natural born Filipinos. - Any natural born Filipino citizen who has lost his Philippine citizenship and who has legal capacity to enter into a contract under Philippine laws may be allowed to engage in retail trade, provided that he resides in the Philippines.

Section 2. Documentary Evidences. - Any person who meets the requirements provided for under the preceding paragraph shall be considered as a Filipino citizen for purposes of this Act, upon showing any of the following documents:

1. Copy of birth certificate (I) certified by the local civil registrar or the National Statistics Office; or (ii) for those born abroad, certificate of birth from the appropriate government agency of the country where the birth is recorded showing the father or mother to be a Filipino at the time of birth or if the citizenship of the parents is not indicated, additional proof that the parent/s is a Filipino citizen or has not lost his/her Filipino citizenship at the time of the applicant's birth; or (iii) those born before 17 January 1973 of Filipino mothers must additionally submit all of the following: certified true copies of his/her sworn statement of election of Filipino citizenship, oath of allegiance from the civil registrar where the documents were filed and/or forwarded, and identification certificate issued by the Bureau of Immigration;

2. In case of loss and/or destruction of the record of birth or non-registration of birth, a (I) Certificate of non-availability of birth certificate on account of loss and/or destruction of birth record from the local civil registrar and/or appropriate government agency if birth was registered abroad; or (ii) copy of birth certificate of mother or father certified by the local civil registrar or the NSO; and (iii) affidavit of two (2) disinterested persons attesting to their personal knowledge that at the time of the applicant's birth, the child was born of a Filipino mother or father.

   Any document executed or issued abroad must be authenticated by the Philippine Embassy/Consulate having jurisdiction over the place of execution or issuance of the document.

RULE III. CAPITALIZATION AND EQUITY REQUIREMENTS (Section 5)

Section 1. Foreign Equity Participation. - Foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the Securities and Exchange Commission (SEC), or in case of foreign-owned single proprietorships, with the Department of Trade and Industry (DTI), engage or invest in the retail trade business, subject to the following categories.

Category A - Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than Two million five hundred thousand US dollars (US$2,500,000.00) shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens.

Category B - Enterprises with a minimum paid-up capital of the equivalent in Philippines Pesos of Two million five hundred thousand US dollars (US$2,500,000.00) but less than Seven million five hundred thousand US dollars (US$7,500,000.00) may be wholly owned by foreigners except for the first two (2) years after the effectivity of this Act wherein foreign participation shall be limited to not more than sixty percent (60%) of total equity.

Category C - Enterprises with a paid-up capital of the equivalent in Philippine Pesos of Seven million five hundred thousand US dollars (US$7,500,000.00) or more may be wholly owned by foreigners.

Category D - Enterprises specializing in high-end or luxury products with a paid-up capital of the equivalent I Philippine Pesos of Two hundred fifty thousand US dollars (US$250,000.00) per store may be wholly owned by foreigners.

Section 2. Branches/Stores. Opening of branches/stores by the registered foreign retailer shall be allowed, provided that the investments for each branch/store established by registered foreign retailers falling under Categories B and C must be no less than the equivalent in Philippine Pesos of Eight hundred thirty thousand US dollars (US$830,000.00).

RULE IV. PREQUALIFICATION OF FOREIGN RETAILERS (Section 8)

Section 1. Prequalification Requirements. - Before a foreign retailer is allowed to engage in the retail trade business or invest in an existing retail store in the Philippines, it must possess all of the following qualifications:

a. A minimum of Two hundred million US dollars (US$200,000,000.00) net worth in its parent corporation for Categories B and C, and Fifty million US dollars (US$50,000,000.00) net worth in its parent corporation for Category D;

b. Five (5) retailing branches or franchises in operation anywhere around the world unless such retailer has at least one (1) store capitalized at a minimum of Twenty-five million US dollars (US$25,000,000.00):

c. Five (5)-year track record in retailing; and
For purposes of determining compliance with the above requirements, the net worth, track record and existence of branches and franchises of the parent company, its branches and subsidiaries and of its affiliate companies, as well as their predecessors, which substantially owns, controls or administers the operations of the applicant shall be considered.

d. Only nationals from, or juridical entities formed or incorporated in countries which allow the entry of Filipino retailers shall be allowed to engage in retail trade in the Philippines.

Section 2. Application for Pre-Qualification. - A request for pre-qualification by the aforementioned foreign retailer must be submitted to the Board of Investments before filing a formal application to engage in the retail business or invest in an existing retail store. Said request for pre-qualification must be accompanied by the following documents:

a. Latest Annual Financial Statement showing the net worth of the applicant;

b. Certification by a responsible officer of the applicant-foreign retailer duly authenticated by the Philippine Embassy/Consulate stating that:

    i. it has been engaged in retailing for the past five years; and
    ii. has at least five (5) retailing branches anywhere in the world, or at least one branch is capitalized at a minimum of Twenty-five million US dollars (US$25,000,000.00);

c. Copies of franchise or licensing agreements between the applicant and its franchisee/licensee if the applicant fails to meet the preceding requirement of at least five (5) retailing branches; and

d. Certification by the proper official of the home state of the applicant-foreign retailer to the effect that the laws of such state allows or permits reciprocal rights to Philippine citizens and enterprises together with the extent of participation allowed.

Section 3. Enterprises composed of Two (2) or More Stockholders/Partners. - If a single retailing corporation/partnership to be formed and organized under Philippine laws will be owned by several foreign retailers and foreign investors, an application for all of the stockholders/partners for pre-qualification must be filed with the BOI. The foreign retailer-stockholder/partner with the highest equity in said company should satisfy the conditions mentioned under Rule IV, Sections 1 & 2.

However, In cases where all or two or more of the foreign stockholders/partners have equal shares, the prequalification condition shall be deemed complied with if the stockholders/partners owning or controlling at least majority of the stocks or interests meet the aforementioned conditions.

Section 4. Issuance of Certificate of Compliance with Prequalification. - The Board of Investments (BOI), shall issue, within twenty (20) working days from submission of all necessary documents, after evaluation and verification, a Certification that the foreign retailer meets the qualifications prescribed by the law.

Section 5. List of Qualified Foreign Retailers. - The DTI through the Board of Investments (BOI) shall keep a record of foreign retailers who have been pre-qualified to establish retail stores in the Philippines. It shall ensure that the parent retail trading company of the foreign investor complies with the qualifications on capitalization and track record.

RULE V. INVESTMENTS IN EXISTING RETAIL STORES (Section 6)

Section 1. Foreign Investments in Existing Stores. - Any foreign investor, whether or not it is presently engaged in retail trade, may be allowed to invest in existing retail stores, publicly listed or not, subject to the paid up capitalization amounts expressed in net worth, investment per store and equity requirements under Rule III hereof.
Section 2. Pre-qualification Requirements. - In addition to the foregoing, foreign investors which are also retailers that will invest in existing retail stores are required to be pre-qualified before they may actually buy shares thereto.

RULE VI. HIGH-END OR LUXURY GOODS (Section 3, paragraph 2)

Section 1. List of Retailers selling High-End or Luxury Goods. - An annual list of foreign retailers selling high-end or luxury goods shall be formulated and regularly updated by the Inter-Agency Committee on Tariff and Related Matters of the National Economic Development Authority (NEDA) Board, in coordination with the relevant organizations and the private sector concerned. (Section 8, second to the last paragraph)

Section 2. Annual Report to Congress. - The Inter-Agency Committee on Tariff and Related Matters of the National Economic Development Authority (NEDA) Board shall annually report to Congress the list of foreign retailers selling high-end or luxury goods. (Section 8, last paragraph)

RULE VII. APPLICATION FOR REGISTRATION (Section 5)

Section 1. Filing of Application.
Applications for registration together with supporting documents, shall be filed with the Securities and Exchange Commission (SEC) in the case of domestic corporations or partnerships that are owned wholly or partially by foreign retailers, or the DTI through its Regional and Provincial Offices, in the case of single proprietorships.

All applications shall be subject to the payment of the prescribed filing fees.

Section 2. Certificate of Compliance with Pre-qualification Requirements. - No corporation/partnership/association or sole proprietorship owned wholly or partially by foreign retailers may be allowed to register without securing the necessary certificate of compliance with the prequalification conditions from the Board of Investments.

Section 3. Issuance of Certificate of Incorporation/Business Name. - Upon submission of all the required documents, the Securities and Exchange Commission (SEC), in cases of corporations/partnerships/association and the Department of Trade & Industry, through its Regional or Provincial Offices in cases of sole proprietorships, shall issue the Certificate of Incorporation and the Business Name, respectively, granting legal personality to the applicant-retailer.
In addition, the foreign retailers shall secure all necessary permits and licenses from the concerned government agencies.

Section 4. BSP Registration of Inward Remittance. - Prior to operations, foreign retail stores and foreign investors shall register their investments with the Bangko Sentral ng Pilipinas (BSP) to ensure that the inward remittance of the required capital investment is fully documented.
The BSP shall issue the Bangko Sentral Registration Certificate (BSRC) upon submission of a bank certification of remittance of foreign exchange converted and sold to pesos through the authorized agent bank and compliance with such other BSP rules for such registration. (Section 5, pars. 2, 3)

Section 5. Establishment of Branches. - All registered foreign retailers that will establish additional branches shall be required to file an application with the DTI, supported by documents showing proof of compliance with the US$830,000 investment requirement per branch, and the Certificate of Incorporation/DTI Certificate issued to the retailer.

Section 6. Reporting Requirements. - Every registered foreign retail enterprise shall submit annually to the Department of Trade and Industry (DTI) the following reports:

a. A general information sheet in the prescribed form showing, among others, the accredited stores of the enterprise and the status of operations of the entity;

b. An audited financial statement and income tax return;

c. Certification by a responsible officer of the company showing the maintenance of the required minimum capital unless the foreign investor has notified the SEC and the DTI of its intention to repatriate its capital and cease operations in the Philippines;

RULE VIII. PROHIBITED ACTIVITIES OF QUALIFIED FOREIGN RETAILERS (Section 10)

Section 1. Accredited Stores. - Qualified foreign retailers shall not be allowed to engage in certain retailing activities outside their accredited stores through the use of mobile or rolling stores or carts, the use of sales representatives, door-to-door selling, restaurants and sari-sari stores and such other similar retailing activities.

Section 2. List of Prohibited Activities. - A detailed list of these prohibited activities shall be formulated by the DTI.

RULE IX. COMPLIANCE REQUIREMENTS

Section 1. Maintenance of Prescribed Minimum Capital. The foreign investor shall be required to maintain in the Philippines the full amount of the prescribed minimum capital, unless the foreign investor has notified the SEC and the DTI of its intention to repatriate its capital and cease operations in the Philippines.

The SEC shall establish mechanisms to monitor the actual use in Philippine operation of the inwardly remitted minimum capital requirement.

Failure to maintain the full amount of the prescribed minimum capital prior to notification of the SEC and the DTI, shall subject the foreign investor to penalties or restrictions on any future trading activities/business in the Philippines.
(Section 5, last 3 paragraphs)

Section 2. Public Offering of Shares of Stock. - All registered retail enterprises under Categories B and C in which foreign ownership exceeds eighty percent (80%) of equity shall offer a minimum of thirty percent (30%) of their equity to the public through any stock exchange in the Philippines within eight (8) years from their start of operations. (Section 7)

Affected registered retailers shall then be required to list their shares at any stock exchange duly formed and organized under Philippine laws.

Compliance with this requirement shall be supervised and monitored by the SEC.

Section 3. - Promotion of Locally Manufactured Products. - For ten (10) years after the effectivity of this Act, at any given time, at least thirty percent (30%) of the aggregate cost of the stock inventory situated in the Philippines of foreign retailers falling under Categories B and C and ten percent (10%) for Category D shall be made in the Philippines. (Section 9)
All registered foreign retailers shall be required to maintain books of accounts showing the inventory situated in the Philippines and its origin at all times and these books may be examined at any time, by the duly authorized representative of the Department of Trade and Industry.

Furthermore, these registered foreign retailers shall be required to submit quarterly statements under oath certifying the ratio of their local and imported inventory.

Section 4. Visitorial Powers. - In the public interest and/or for the enforcement of any applicable law, rules and regulations, the DTI/BOI, SEC or any government office having jurisdiction on the matter may, through any of its duly authorized representatives, conduct necessary examination of records, inventory and books of accounts of the registered foreign retail enterprise in the Philippines, make pertinent inquiries from its officials and take such action as may be necessary for the proper exercise of its authority.

Section 5. Implementing Agency. - The monitoring and regulation of foreign sole proprietorships, partnerships, associations, or corporations allowed to engage in retail trade shall be the responsibility of the DTI. This shall include resolution of conflicts, through mediation. (Section 11)

Section 6. Withdrawal/Closure of Retail Establishments. - Applications for withdrawal or closure of retail establishments shall be filed with the Securities and Exchange Commission for corporations/partnerships/associations or the DTI, through its Regional or Provincial Offices with respect to sole proprietorships.

The DTI shall be notified by the concerned agency of actions taken on requests for withdrawal or closure of foreign retail establishments. (Section 5, last paragraph)

Section 7. Penalties. - Any person who shall be found guilty of violation of any provision of this Act, or its implementing rules and regulations, or other terms and conditions of its registration, shall be punished by imprisonment of not less than six (6) years and one (1) day but not more that eight (8) years, and a fine of not less than One million pesos (P1,000,000.00) but not more than Twenty million pesos (P20,000,000.00).

In the case of associations, partnerships or corporations, the penalty shall be imposed upon its partners, president, directors, manager and other officers responsible for the violation. If the offender is not a citizen of the Philippines, he shall be deported immediately after service of sentence. If the Filipino offender is a public officer of employee, he shall, in addition to the penalty prescribed herein, suffer dismissal and permanent disqualification from public office. (Section 12)

RULE X. REPEALING AND EFFECTIVITY CLAUSES

Section 1. All other rules and regulations or parts thereof, inconsistent with the foregoing rules and regulations are repealed, amended or modified accordingly.

Section 2. These Rules shall take effect fifteen (15) days upon publication in two (2) newspapers of general circulation.

APPROVED
DTI
SEC
NEDA
BSP