
Baby's Out of Breath: Challenges of Running a Neighborhood Store

"P500...P650...P380ⁱ..." Baby Chan, owner of Baby's Hardware in Quezon City,ⁱⁱ was busy summing up the daily store sales for the month of August 2016 in the second floor dining room when she heard a familiar voice coming from her bedroom. She quickly rushed to her room to see that her one-year old grandson had awoken from his one-hour sleep and had been crying, so she carried him in her arms and lulled him back to sleep. She went back to the dining room and continued with her calculations.

"P15,000 (USD300)", she thought to herself, "That's it? That was two-week's worth of sales back in 2014! Something is wrong. Did somebody steal money from the store? Were there new competitors within the neighborhood? Was it..." Just then her two-year old grandson, who lived next door, came to her and screamed, "Amaⁱⁱⁱ! Play!" She would have to continue reflecting on her business later tonight. One thing was certain: she had to come up with solutions to stop the declining sales, otherwise her two grandkids will not receive any 'ang pao'^{iv} from her this Christmas.

Company Background

ⁱ P500 (USD10) P 650 (USD13) P380 (USD 7.62) conversions based on 1 USD =49.83 conversion rate on December 13, 2016 <http://www.xe.com/currencyconverter/convert/?From=USD&To=PHP> was used on this and all subsequent conversions.

ⁱⁱ Quezon City is the largest city in Metropolitan Manila, Philippines. For more information, visit www.quezoncity.gov.ph.

ⁱⁱⁱ "Ama" (sometimes written as 'ah-ma') is the Taiwanese Hokkien term for grandmother. This is commonly used by Chinese-Filipinos living in the Philippines.

^{iv} "Ang pao" is the Taiwanese Hokkien term for "red envelope." It is filled with money and is commonly given away as gifts.

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Baby's Hardware^v (the store) was started in 1982 by couple Benny and Baby Chan^{vi} as a micro-sized neighborhood hardware store in Quezon City. It sold construction materials and items for electrical and plumbing needs, catering to individuals and businesses in the store's vicinity. The store's suppliers were referred by the couple's families and friends, as well as the company where Benny had previously worked. The store was open every day, from 8am to 5pm, except during holidays, and Sundays when it was open only until 12 noon. Store sales constituted the primary source of family income.¹

When the first location was hit by fire in 1986, the couple decided to discontinue selling construction materials in its next location a few hundred meters away from the first. Forty-year-old Baby became the store's sole proprietor and only employee, while 44-year-old Benny focused on practicing his legal profession. The couple's children, who were all attending school at the time, helped out in the store during Saturdays and summer break. During this period, the store was only open from Mondays to Saturdays because approximately 75% of sales were contributed by nearby businesses which did not operate on Sundays. Almost 90% of the store's customers were repeat customers consisting of businesses and individuals living/working nearby. The rest of the store's customers were walk-in customers who passed by the store.²

When the opportunity to purchase the building next door arose in 1999, Baby transferred her family residence and store in its current location (see **Exhibit 1** for a picture of the store). The store, located at the first floor, now had 50 square meters of space which was an increase of 14 square meters compared to the previous location. The increased space allowed Baby to showcase store merchandise in bigger display shelves and to place these in areas less prone to theft from the outside. Losses from theft and scams by supposed customers represented approximately 2% of annual sales. This had prompted Baby to install CCTV^{vii} cameras, which captured both the cashier's desk and customers' faces. The increased space and location transfer, however, did not significantly affect the store's sales, costs, loyal customers, or any of its operations. The previous store space, which is one of the three units in the commercial building owned by the couple, had been transformed now into a medical clinic and law office used for the kids' practice of their profession. The other two units were rented out by the couple for a monthly fee of P22,000 (USD 441).³

In 2009, Baby ventured into mobile phone loading business.^{viii} This only lasted for six months because service to customers of regular store merchandise had been adversely affected by the influx of "new" customers due to longer waiting time in line. In addition, the benefit of the loading business was in terms of a commission, which was deductible from the amount of load paid for by Baby. Since cash was not involved, Baby did not see the savings from the load payment as real profit.⁴

During the early 2000's, the store introduced more energy-efficient compact fluorescent lamps to its customers when the trend was regular incandescent bulbs. This fast introduction of new products plus a sales price that was cheaper by at least 25% than large competitors were the reasons commonly cited by customers why they returned to the store for their hardware needs.⁵

^v Disguised name

^{vi} Disguised names

^{vii} CCTV stands for closed-circuit television. A CCTV camera is a security camera.

^{viii} This is also known as the e-load retail business wherein the retailer sells prepaid loads to users of particular telecommunication networks.

Owner Profile

Baby, a Chinese-Filipino^{ix} who studied commerce at Far Eastern University, was the seventh of eight children. Her family's business was a hardware store and three of her siblings also went this route. She had been married for more than 40 years to Benny, a Chinese-Filipino who studied law at Lyceum of the Philippines and passed the bar examination. Benny's family's business was also a hardware store. Now semi-retired, Benny had limited his professional practice to consultancy work at the law office where he partnered with his son. Benny and Baby had four children: Barry^x, Bernard, Bunny, and Babes. Barry was a lawyer, was married to a physician, and had a two-year-old boy. Bernard was a physician and was single. Bunny was a physician, married to a businessman, and had a one-year-old boy. Babes was an accountant and was single. The professional fees and rental fees from the adjacent commercial building were the primary sources of family income.⁶

Industry Overview and Competitors' Profile

The Philippine Statistics Authority reported that 95,850⁷ out of the total 219,184⁸ establishments were engaged in wholesale and retail trade in the Philippines in 2012. The total number of establishments was 57.3% higher compared to the number recorded in the 2006 census survey report.⁹ Total income generated by the wholesale and retail trade sector in 2012 amounted to P3.8 trillion, while total expenses were P3.6 trillion.¹⁰

Baby's Hardware was a hardware store under the wholesale and retail trade sector. A hardware store was defined as a specialized retail outlet of tools and supplies used in ordinary maintenance.¹¹ As a neighborhood hardware store, the store's main competitors were businesses selling similar hardware items within its vicinity. Within the store's five-kilometer radius were large home depots (Wilcon Builder's Depot, CW Home Depot), and big-name shopping centers (Landers Superstore, S&R, Puregold, Walter Mart Malls). A brief profile of each follows:

Wilcon Builder's Depot started out as Wilcon Builder's Supply in 1977 and sold local and imported building and finishing materials.¹² It "revolutionized the construction-supply industry as it committed itself to providing convenient shopping and excellent services such as air-conditioned shops, ample parking spaces, coffee shops, delivery services, interior design consultation, recreation corner for children, tile-cutting services, and product installations and repairs."¹³ As of 2016, Wilcon had a total of 37 branches all over the Philippines. Its product lines include appliances, automotives, building materials, doors and moldings, electrical, furniture, hardware, home interior, house wares, outdoor living, paints and sundries, plumbing, sanitary wares, tiles, and tools.¹⁴ The branch near Baby's Hardware opened in the 1990's.

CW Home Depot had introduced in 2003 "the first store-within-store retail concept wherein everything needed to build and renovate a home is all under one roof."¹⁵ It had eight branches around Metro Manila and the branch near Baby's store was opened in 2009. It had four main divisions, namely: home builders or its D-I-Y section, home interior, home appliance, and specialty stores.¹⁶ Its product lines included appliances, architectural hardware, bath, building materials, electrical, garden and automotive, home interior, kitchen, lightings and fans, paints and chemicals, plumbing, sanitary, tools and equipment, walls and flooring, wood, and wood alternatives.¹⁷

^{ix} 'Chinese-Filipino' is a Filipino of Chinese descent. The couple's ancestry can be traced from Fujian province, hence they speak Taiwanese Hokkien.

^x Disguised names

Landers Superstore was a membership superstore in the Philippines that sold local and imported goods, which included basic grocery items, electronics, apparel, and items for the home.¹⁸ It had two branches and its first branch, which was near Baby's Hardware, opened in 2016.

S&R also offered basic grocery items, electronics, apparel, and items for the home and was modeled after the warehouse membership shopping chains in the United States.¹⁹ In 2016, it had nine branches nationwide. The branch near Baby's Hardware opened in 2006.

Puregold opened its first branch in 1998 as a one-stop shopping convenience selling groceries, apparel, household accessories, and furniture.²⁰ In 2016, it was the number 1 retailer in the hypermarket format, and had more than 225 stores nationwide, with more than 1,500 suppliers and trade partners and 30,000 employees, and over 400,000 square meters of building and rental space.²¹ The branch near Baby's Hardware opened in 2013.

Walter Mart Malls is the "first community shopping center format in Southern Luzon."²² Its business units, aided by established partners, comprised a supermarket, appliance center, furniture shop, and electronics store.²³ It had 25 branches in Northern Luzon, Southern Luzon, and Metro Manila. The branch near Baby's Hardware opened in 2008.

Over the years, small neighborhood hardware stores similar to Baby's Hardware came and went. In the late 1990's, for example, the next-door neighbor of Baby sold hardware items at a higher sales price, which forced it to close shop barely one year after it had opened.²⁴ In 2016, there were no neighborhood hardware stores within the Baby's Hardware vicinity.

Over the past decade, Baby's Hardware had observed and had been experiencing the following Philippine retailing trends: (1) significant sector growth brought about by improvement in the country's economy; (2) domination of grocery retailers in the country's retail landscape; and (3) acquisition of a number of small and single-proprietor businesses by major retailers.²⁵ In particular, Baby noted that the entry of large competitors could be attributed to major developments done to a major thoroughfare in Metro Manila passing from north to south. Baby's Hardware was located along this main road.

The Family Meeting

Later that night, Baby called her children to arrange a family meeting over Sunday lunch. When Sunday came and the entire family was together, Baby called her four kids into her bedroom and started the following conversation:²⁶

Baby: I invited you here today because I need to talk to you about business. The store's sales have been declining for the past years. My latest comparative financial statements showed annual sales of P400,000^{xi} (USD 8,026) in 2014 and P350,000 (USD 7,023) in 2015. Then when I added sales from January to August 2016, it totaled P200,000 (USD 4,013). There are only four months left in this year and it bothers me that I will not be able to meet my target sales.

Barry: Why is the store sales amount declining?

Bunny: Is it because of the babies? Are they the reason why you don't have time anymore to take care of the store?

^{xi} For simpler computations, all monetary amounts have been rounded-off.

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Baby: No, of course not! Let us not involve my grandchildren here. I think it's because of the competition. We had little to no competition before; but now, look around us. A lot of newer and bigger establishments have sprung up during the past decade.

Bernard: Ma^{xii}, I also think that when your loyal business customers transferred to a different location, you lost a huge percentage of your regular sales. That probably explained the sales decline in 2015. Let's also not forget that the construction project in the nearby market had already ended. That also contributed to a lot of sales in 2014 and 2015.

Baby: Good point, Bernard. So do we also consider the lost contact with some sales agents as a factor for the decrease in sales? For the past few months now, I have not been visited by my sales agents, so I have not been introduced to any new products.

Barry: Why have your sales agents not visited you? Do you know the reason?

Baby: I was told I was unavailable when they previously visited...they have not returned since.

Babes: What amount of sales in 2016 were you targeting, Ma?

Baby: Initially, I'm targeting at least a 15% increase from 2015 sales. However, with the data that I have, I am okay with having at least the same amount of sales as I had in 2015.

Babes: If the same trends will show for the remaining months, then my best guess is that you will have around P300,000 (USD 6,019) total sales in 2016.

Baby: I doubt that is possible. My experience is that December contributes only 75% of average monthly sales.

Bunny: Why, is it because of the Christmas season?

Baby: Probably, but it's really because there are more holidays and therefore more days when the store is closed. That is also true for the month of February because you start with a fewer number of days. Seasonality-wise, I have observed that the months of May-June -- which coincide with enrollment season -- and rainy months August-September have consistently been lean months.

Barry: But because of climate change, we now have stormy weather any month of the year, not necessarily just in August-September. That might be a possible reason for declining sales.

Baby: I see your point. So, now that we have established the possible causes for declining sales. Can you help me?

Barry: What do you have in mind, Ma?

Baby: I am thinking of adding or dropping a product line to keep up with the competition. I only know that total expense amount for 2015 was P250,000 (USD 5,016). Annual electricity and water costs have been steady at P100,000 (USD 2,007) and P10,000 (USD 200), respectively. I have asked Babes to do a financial report sorted according to product line. Babes, what have you found out?

Babes: I have classified the store's product line into three, which are: plumbing, electrical, and miscellaneous. In Table 1, you can see the sales mix percentage and gross profit percentage per product line based on 2015 data. Not included in the calculation of the gross profit rate are the operating expenses,

^{xii} 'Ma' is short for 'Mama' which is the term of endearment for mothers used by Chinese-Filipinos.

namely electricity, water, and percentage tax expense.^{xiii} The tax is equivalent to 3% of gross sales. Based on my professional evaluation, the projected 2016 data may be based on 2015 data. A review of historical data showed that there was a corresponding 10% decrease in plumbing sales and a 20% decrease in electrical sales if there were no available miscellaneous items.²⁷ Data also showed that adding more miscellaneous items in the inventory would bring about a 5% increase in plumbing sales and a 10% increase in electrical sales.²⁸ Plumbing and electrical sales did not exhibit any relationship. In addition, the costs of electricity and water are not affected by any decision to add or drop a product line.

Table 1

Sales mix percentage and gross profit percentage per product line²⁹

Product Line	Sales mix percentage	Average gross profit percentage based on sales
Plumbing	30%	60%
Electrical	50%	80%
Miscellaneous (Tools, Paints, and Accessories)	20%	25%

Baby: This is stressing me a lot. Let us have our lunch first. For the information of all, I am ready to retire. Is there anybody willing to take over the hardware store?

Many Choices

While everyone was busy eating dessert and chatting away, Baby reflected on what had transpired during the family meeting half an hour ago. She was happy that her kids had grown up to be successful, as she had hoped them to be. However, none of them wanted to take over her hardware store, so what should she do with her business? Should she continue with the business as is, hoping that the declining sales was a trend that would go away soon? Should she add more to her current product line or drop one of her existing product lines to increase sales? Should she venture into a different business and permanently shut down her hardware store operations? But what kind of business would it be when her only work experience is with the hardware store? Benny mentioned a few weeks ago that somebody was interested to rent out the store space for a P25,000 (USD 502) monthly fee. Should she just rent out the space and permanently shut down her store operations? Would it be better if she gave the store space to her kids, since they might have more use for the space than her? Bernard and Bunny had discussed with her the possibility of having laboratory testing as part of their clinic's services. Laboratory testing was expected to generate additional monthly revenues of P30,000 (USD 602) with a 30% profit margin and P500,000 (USD 10,033) investment for the testing equipment.

^{xiii} Percentage tax is a business tax imposed on persons or entities/transactions who sell or lease goods, properties or services in the course of trade or business and are exempt from value-added tax (VAT) under Section 109 (w) of the National Internal Revenue Code, as amended, whose gross annual sales and/or receipts do not exceed P1,919,500 and who are not VAT-registered (<http://www.bir.gov.ph/index.php/tax-information/percentage-tax.html>).

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At her current age, Baby was starting to feel tired and weak. She knew that her final decision on her business's dilemma should not just be about financial gain but should also consider her health and overall well-being. Just as she was about to finish her coffee-flavored ice cream, Barry and his wife stood up and happily announced, "We're pregnant!" Everyone was excited for the couple but Baby was worried; she knew she had to make the decision now before she becomes preoccupied with the arrival of her third grandchild.

Exhibit 1

Baby's Hardware



Photo taken by author, December 2016

Endnotes:

¹Interview with Baby Rabo, October 1, 2016.

²Ibid.

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

⁷ Philippine Statistics Authority. "2012 Census of Philippine business and industry – wholesale and retail trade; repair of motor vehicles and motorcycles for all establishments: final results". December 29, 2014. Accessed November 1, 2016. < <https://psa.gov.ph/content/2012-census-philippine-business-and-industry-wholesale-and-retail-trade-repair-motor-0>>.

⁸ Philippine Statistics Authority. "2012 Census of Philippine business and industry – economy wide for all establishments: final results". April 8, 2015. Accessed November 1, 2016. < <https://psa.gov.ph/content/2012-census-philippine-business-and-industry-economy-wide-all-establishments-final-results>>.

⁹ Ibid.

¹⁰ Philippine Statistics Authority. "2012 Census of Philippine business and industry – wholesale and retail trade; repair of motor vehicles and motorcycles for all establishments: final results". December 29, 2014. Accessed November 1, 2016. < <https://psa.gov.ph/content/2012-census-philippine-business-and-industry-wholesale-and-retail-trade-repair-motor-0>>.

¹¹ Phorio Standards. "Hardware store". Accessed November 1, 2016. <<https://standards.phorio.com/?t=definition&code=2618116666>>.

¹² Wilcon Depot. "About Us". Accessed November 1, 2016.

< <http://www.wilcon.com.ph/content/category/2-about-us>>.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ CW Home Depot. "About CW Home Depot". Accessed November 1, 2016. <[cwhomedepot.com](http://www.cwhomedepot.com)>.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Landers Superstore. "Who are we?". Accessed November 1, 2016. < <http://landers.ph/about.html>>.

¹⁹ S&R Membership (Official). "About". Accessed November 1, 2016.

<https://www.facebook.com/snrmembershipshopping/about/?ref=page_internal>

²⁰ Puregold. "History". Accessed November 1, 2016.

<<http://www.puregold.webtogo.com.ph/company.do?id=7690>>.

²¹ Ibid.

²² Walter Mart. "About Walter Mart". Accessed November 1, 2016. <http://www.waltermart.com.ph/about_us>.

²³ Ibid.

²⁴ Interview with Baby Rabo, October 1, 2016.

²⁵ Euromonitor International. "Country report: retailing in the Philippines". January 2016. Accessed November 1, 2016. < <http://www.euromonitor.com/retailing-in-the-philippines/report>>.

²⁶ Interview with Baby Rabo, October 1, 2016.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.