ASSESSMENT OF PROSPECTS FOR U.S.-BASED FRANCHISES IN THE PHILIPPINES (PHASE I)

U.S. Agency for International Development

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EXECUTIVE SUMMARY

Purpose of the Study

The U.S. Agency for International Development (USAID) has recently developed a world-wide program of loan guarantees available to local entrepreneurs interested in purchasing franchises from U.S. franchisors. The Private Enterprise Support Office (PESO) of USAID/Manila, in cooperation with the Office of Investment at the Bureau for Private Enterprise (PRE/I), would like to move quickly to implement the loan guarantee program in the Philippines, if it can be shown to be both beneficial and practical for the Philippine business community.

The purpose of this study is twofold: to assess the commercial prospects for U.S.-based franchises in the Philippines, and to evaluate the potential demand for the USAID Franchising Guarantee Program in the Philippines. Accordingly, this study was conducted in two phases. Phase I provides an assessment of the commercial prospects for franchising in the Philippines. The report is written for prospective Philippine franchisees and investors, U.S. franchisors, and others considering investing in franchising in the Philippines. Phase II of the study addresses the USAID Franchising Guarantee Program. It is intended to be a guide for implementation and improvement of the loan guarantee program, and is written primarily for program and investment officers within USAID.

The Philippine Setting

Formerly a U.S. protectorate, the Philippines continues to be a major trading partner of the United States. The U.S. serves as the Philippines' largest trading partner, accounting for more than 19% of imports and 37% of exports in 1990. Strategically located off the southeastern coast of the Asia mainland, the Philippines historically has served as an important military base for the Western Allies, and was a focus of American activities in the Second World War, the Korean Conflict, and the Viet Nam War. Recently, the Subic Bay Military Base of the U.S. was returned to Philippine control. Spurred by the resulting loss of income from the base, and the rise of global economic competitiveness generally, the Philippines is actively seeking foreign investment for future economic development.

The central event of recent Philippine history was the 1986 peaceful overthrow of the government of Ferdinand Marcos. National elections in May 1992 witnessed the first peaceful democratic transition in the Philippines in a generation. Newly elected president Fidel Ramos has undertaken a number of important legal and regulatory reforms, including full profit repatriation, lowered tariffs, and reduced business regulation intended to facilitate foreign investments.

The Philippines is a developing economy, with per capita income of only US$ 730. Philippine households are classified into five market categories, with more than 70% of the population belonging to the lowest income brackets, earning less than P8,000 per month (approximately US$ 320). The highest income brackets, classified as "AB," earn more than P30,000 per month (approximately US$ 1,200) and comprise only 7.8% of the population. Expenditures for food account for up to 50% of the average Filipino family's monthly expenditures.

Franchising in the Philippines

U.S.-based franchises have found profitable market niches in this developing market. The first U.S. franchise was established more than 15 years ago, and today 19 U.S. franchises are registered with the Philippine Department of Trade and Industry. Registered companies include industry giants such as McDonald's, Dunkin' Donuts, Goodyear Tires, and 7-11 Convenience Stores. The majority of international franchises operating in the Philippines are in the fast food and restaurant business. Other U.S. franchises operating with different arrangements offer auto repairs, hearing aids, and "trade name" franchises licensing intellectual property.

The typical franchise operates under a master licensing agreement, where a single entrepreneur controls a geographic territory, and in turn licenses other business owners to operate individual franchise locations. Some franchises, including McDonald's, retain a majority of their own outlets and use employees as managers. The trend among U.S. franchisors operating in the Philippines, however, is away from use of employees, and toward reliance upon local entrepreneurs as owner-operators.

Numerous factors contribute to the success of existing franchises in the Philippines. Among the most important is the relationship with the U.S. franchisor. Close support and close supervision, including quality control, are considered vital by existing successful operators. Business franchising is an intensely operations-oriented enterprise, where attention to daily detail is important to long term strategic success. Filipino investors considering U.S. franchises are advised to seek reputable partners with sufficient resources to provide sustained support, and to avoid the temptation to be merely shadow partners. A successful franchise operation is a very "hands-on" business.

Analysis of Franchising Industries in the Philippines

This study analyzed 35 key franchising industries to determine which have the greatest potential for success in the Philippines. The 35 industries were recommended by the PESO Office of USAID/Manila, and were derived from the Franchising Opportunities Handbook published by the U.S. Department of Commerce. (See Appendix A for a complete list of these industries.)

Qualitative Review

A preliminary qualitative review of the 35 industries considered market characteristics such as market size, local competition, technology as a competitive advantage, and Philippine cultural norms and attitudes. Each industry was then ranked as having "excellent," "good," "fair," or "poor" prospects for success.

Four industries were rated as having "excellent" franchising opportunities in the Philippines:

1. Business Aids and Services
2. Food and Beverages
3. Printing
4. Retailing -- Miscellaneous

The following industries were rated as having "good" franchising prospects in markets that are either new or unproven, have excess demand, or face low barriers to entry:

5. Automotive Products and Services
6. Cosmetics and Toiletries
7. Children's Stores, Furniture and Products
8. Equipment Rentals
9. Health Aids and Services
10. Hotels and Motels
11. Laundry Services and Dry Cleaning
12. Maintenance, Cleaning, and Sanitation Services
13. Security Systems
14. Services --Miscellaneous
15. Water Conditioning

These 15 industries formed an initial "target list" of franchise businesses with high potential for success in the Philippines. A summary of the qualitative reviews for each of the 35 industries is provided in Appendix B.

Quantitative data were assembled to determine which of these businesses have the greatest potential for success in the Philippines, and which are most likely to have a beneficial impact on Philippine economic growth. The data compiled can be a valuable source of information for prospective investors and Philippine policy makers. The target list of 15 industries was further analyzed in terms of three potential determinants of success: (1) positive impact on the Philippine economy; (2) preference of local Filipino business owners and; (3) interest of U.S. franchisors.

Economic Impact of Franchising

A review of the Philippine economy was undertaken to determine which industries have the greatest positive impact on employment and overall economic growth arising from the potential development of backward and forward economic linkages. An Input-Output model was developed for this purpose, the results of which are discussed in Chapter IV.

Eight franchising industries are among the leading industries with the greatest positive potential impact on the Philippine economy. These leading industries include food, retail trade, hotels and restaurants, footwear and clothing, beverages, business services, recreation, real estate, and private health services. Growth in any of these industries will foster employment in related sectors of the economy, and will produce relatively larger increases in employment than other industries with fewer backward and forward linkage potential. Thus, additional investment by U.S. franchisors in any of these businesses will have a positive impact on the Philippine economy and employment.

Local Business Interest

Informal interviews with local business owners and entrepreneurs in the Philippines were held to assess their interest in franchising, and their preferences for investment in particular industries. All of the entrepreneurs surveyed were enthusiastic about promoting foreign investments, and were particularly excited about the prospects of finding U.S.-based franchisors as partners. In group discussions, business owners indicated which products and services would be most attractive for them. Products and services that were cited more than once in the survey include:

1st Priority:

Hotels/Motels
Real estate services
Laundry/dry cleaning
(Coin-operated laundromats)
Food/beverages
Auto/trailer rental (trucks)
Entertainment (theaters)
Maintenance/Cleaning services
Water conditioning/water drinking and equipment distribution
Quick printing

2nd Priority:

Security systems
Employment services
Home furnishings
Construction equipment rental/leasing
Air conditioning/refrigeration

Seven of the industries ranked as a first priority by Filipino business owners are included on the target list of franchises with high potential for success in the Philippines (indicated by bold type). Two industries, auto and trailer rentals and entertainment, were deleted from the target list because the potential franchisees indicated an interest in narrow markets (heavy truck rentals and movie theaters) not currently serviced by U.S. franchisors. Water conditioning was also deleted from the target list because U.S. franchisors do not currently offer the technology required to purify drinking water.

Interest of U.S. Franchisors

The potential interest by U.S. franchisors was assessed by reviewing the current applications to the USAID Franchising Guarantee Program. At the time of the study, fourteen American franchisors had been approved for the USAID Franchising Loan Guarantee Facility. These franchisors represent the following industries:

- Auto and Trailer Rentals
- Business Aids and Services
- Employment Services
- Food and Beverages
- Home Furnishings Rental and Repair
- Hotels and Motels
- Maintenance, Cleaning and Sanitation Services
- Recreation/Entertainment/Travel
- Printing

Pending applications and serious inquiries to the USAID program include these additional industries:

- Auto Products/Services
- Children's Stores/Furniture/Products
- Beauty Salons/Supplies
- Educational Products
- Real Estate
- Drug Stores

Each of the above industries was carefully considered by the study team in determining which industries warrant attention by prospective Filipino investors. Two industries, real estate services and hotels and motels, were included in the target list of industries with high prospects for success because high interest shown in the USAID program by U.S. franchisors in these businesses.

Franchising Industries with High Potential for Success

The resulting final target list of franchising industries with high prospects for success includes 14 industries. Where data for the individual industries or business segments were unavailable, the target industries were grouped. These industry groups are:

1. Business Aids and Services
2. Printing
3. Security Services

4. Food and Beverages

5. Retail -- Miscellaneous
   Children's Stores, Furniture and Products

6. Automotive Repair Services

7. Health Aids and Services
8. Cosmetics and Toiletries

9. Home Furnishings, Rental and Repair

10. Hotels and Motels

11. Laundry Services and Dry Cleaning

12. Maintenance, Cleaning and Sanitation

13. Real Estate Services

14. Services -- Miscellaneous

Each of these 14 industries has high potential for success in the Philippines. An in-depth market study for each franchising industry is presented in Chapter V. The study presents information on market size, pricing, major competitors, industry trends, production capacity, employment, and prospects for the future. This section also presents information on products and services not currently offered in the Philippines, barriers to entry, and issues of distribution and availability of resources.

Regulatory and Political Environment

A separate review of the regulatory regime governing franchising in the Philippines was prepared in Chapter VI. This analysis applies broadly to all prospective international franchisors in the Philippines, and may be used as a reference guide for both franchisees and franchisors.

The rules governing franchising in the Philippines currently are under review by the government. The review is intended to establish clear guidelines and procedures for franchisors, and to create an environment that will encourage the entry of foreign franchisors.

Franchise Regulations

All franchises must be registered with the Philippine government, under rules controlling "technology transfer arrangements." Registration is valid for 5 years, and must be updated with any changes to the franchise relationship.

This registration procedure also allows for Philippine government review of royalty payment arrangements. Generally, royalty payments greater than 1 - 2% of gross sales will only be approved upon demonstration of a good cause.

Restrictive business clauses contained within franchise agreements are also reviewed by the government. Any terms in a franchise agreement that attempt to restrict the franchisee after the expiration of the franchise agreement will generally be prohibited. Examples of such terms include prohibiting the continued use of technology after expiration of the franchise agreement, continuing payments of expired royalties, and non-competitive clauses.

General Business Rules

Foreign ownership of land is not permitted under the Philippine constitution. Similar restrictions are placed by statute on foreign control of industries considered "critical" to the Philippine economy, including energy resources, mass media, mining, and professional services such as law, medicine, and accountancy. Importantly for franchisors, retailing is considered a critical industry, and thus foreign persons or corporations may not control more than 49% of the shares.

New companies may easily register to do business in the Philippines, and the government has undertaken reforms to ease both foreign investments and profit repatriation. Foreign companies are permitted full and immediate capital repatriation, including payment of dividends and interest.

Tariff Reforms

Tariff reforms begun in 1990 are intended to promote internationally competitive industries and reduce prices to Philippine consumers. Previously existing tariffs between ASEAN nations (including Indonesia, Malaysia, Singapore, Thailand, the Philippines, and Brunei) will be reduced on a sliding scale over the next 15 years, with targets of 0% - 5% for all tariffs.

Tax Considerations

Both domestic and resident foreign corporations are taxed at the rate of 35% of net taxable income. Profits remitted by a branch to its head office are taxed an additional 15%. Dividends remitted by a subsidiary to a corporate parent are taxed at 35%.

Patents and Trademarks

Trademarks and service marks may be registered in the Philippines, provided they are in actual commercial and service use. The Philippines recognizes reciprocity in protection of trademarks and service marks. Patents are protected in Philippine courts with both civil and criminal statutory penalties. Proprietary rights outside of registered marks are also protected, provided the company seeking protection can establish the existence of goodwill in the Philippines for its product or service.

Economic and Political Outlook

The outlook for the future of the Philippines is positive. Political and economic reform during the past several years have contributed to a cautious optimism among political leaders, business owners, and foreign investors. Economic liberalization reforms under President Ramos have greatly reduced barriers to foreign investment, and improvements have been undertaken in business regulation, tariffs, and foreign exchange controls. Growing political stability is evidenced in the reduced threats from the radical rightist and leftist movements, and in the smooth transition to the Ramos government itself. As a result, a number of foreign firms have each announced plans to invest more than $500 million in Philippine projects. For U.S.-based franchisors, Philippine franchisors, and prospective investors, this positive outlook can set the stage for continued growth and expansion of carefully targeted franchising opportunities.

CHAPTER I

CONCEPTUAL FRAMEWORK

A. BACKGROUND

The U.S. Agency for International Development (USAID) has recently developed a world-wide program of loan guarantees available to local entrepreneurs interested in purchasing franchises from U.S. franchisors. Non-U.S. franchisees in A.I.D.-assisted countries may obtain loan guarantees of up to 50% for loans used to open U.S. franchises. The loans must be obtained from participating private sector banks, and the participating franchisors must be screened by A.I.D. in advance. Guarantees are available to local franchisees and to "master franchisees" or area licensees working with U.S. franchisors. The program is administered by the Office of Investment of the Bureau for Private Enterprise (PRE/I).

The Private Enterprise Support Office (PESO) of USAID/Manila, in cooperation with the Office of Investment at the Bureau for Private Enterprise (PRE/I) would like to move quickly to implement the loan guarantee program in the Philippines, if it can be shown to be both beneficial and practical for the Philippine business community.

PRE/I and PESO together initiated this study of the prospects for U.S. based franchising in the Philippines. The study was conducted by Coopers & Lybrand's International Management Consulting Services Group in Rosslyn, Virginia, in cooperation with its Manila affiliate Carlos J. Valdes & Co.

B. OBJECTIVES OF THE STUDY

The objectives of this study are:

1. To assess the commercial prospects for growth and expansion of U.S.-based franchises in the Philippines, and;

2. To evaluate the potential demand for the USAID Franchising Guarantee Facility by Filipino entrepreneurs wishing to affiliate with U.S. franchises, and to make recommendations for the introduction, marketing, and modification of the facility.

Phase I of the study provides an assessment of the commercial prospects for franchising in the Philippines. The report is written for prospective Filipino franchisees and investors, U.S. franchisors, and others considering investing in the Philippines.

Phase II of the study addresses issues specific to the USAID Franchising Guarantee Program. It is designed primarily for program and investment officers in USAID/Manila and Washington, and is intended to be a guide for implementation and improvement of the loan guarantee program.

C. SCOPE OF WORK AND METHODOLOGY

1. Phase I

a. An overview of the Philippines, its relevant history, economy, and culture, is provided as a background for readers who may be considering investments in the Philippines but are unfamiliar with the country.

b. The Manila-based project team assembled and consolidated data on market characteristics and business conditions of Philippine industries considered relevant to franchising. Thirty-five key industries were selected for analysis because of their prominence in international franchising. These key industries initially were recommended by the PESO Office, USAID/Manila, and were derived from the Franchising Opportunities Handbook published by the U.S. Department of Commerce.

   The 35 industries considered in the study are listed in Appendix A. They include broad industrial categories, such as "retailing," as well as more narrow business segments such as "hair salons." Some industries had to be grouped together to accommodate the availability of economic data.

c. The study team undertook a preliminary evaluation of the market characteristics of the Philippines for each of the 35 franchising industries. The principal market characteristics considered during this preliminary evaluation included: relative market size; existence of local competition; technology as a possible competitive advantage; Filipino cultural norms and attitudes; barriers to entry and exit; developmental aspects; and industry trends. Prospects for the 35 industries in the Philippines were rated as either "excellent," "good," "fair," or "poor."

The 35 industries were also evaluated in terms of their relative position in, and importance to, the Philippine economy. In all, analysis for franchising in the selected list of franchising industries considered the following:

Domestic Market Characteristics

- relative market size based on inter-industry sales and end-user sales;
- industry trends;
- existence in the market of local competitors providing the same product or service, and an assessment of their entrenchment in the industry and possible treatment of new entrants;
- barriers to entry and exit;
- current pricing of products or services and price sensitivity;
- actual and potential profitability;
- production capacity of the industry; and
- cultural norms and attitudes.

Economic, Political, and Regulatory Considerations

- legal and regulatory framework including taxation, trade tariffs and charges and brand protection;
- legislation affecting trade and foreign investment and incentives;
- political situation and outlook; and
- macro-economic scenario and outlook.

d. The study methodology also included interviews with business owners in Cebu and Davao, and with managers of existing Philippine franchises to determine areas of interest for prospective Filipino investors.

e. The results of these first four steps yielded a final "target list" of industries and business sectors deemed to have the greatest opportunities for success in franchising in the Philippines. The target list represents industries with relatively large markets, good profit potential, positive economic impact, and a pool of interested investors.

The study team prepared an in-depth market study for each of the targeted franchising industries. The market studies present information on market size, competition, employment, potential, barriers to entry, industry trends, and other features.

f. A separate review of the regulatory environment governing franchising in the Philippines was prepared. This analysis applies broadly to all prospective international franchisors in the Philippines, and may be used as a reference guide for both franchisees and franchisors.

2. Phase II

a. In Phase II the study team first reviewed the "target list" of industries determined to have the greatest opportunity for success in the Philippines, in an effort to predict possible loan guarantee utilization rates. In evaluating the market opportunities for the target list of industries, the following parameters were considered:

- relative scope of the U.S.-based franchisors in terms of size of operation and number of geographical markets;
- franchising products and services not currently or fully offered in the Philippines;
- success and failure rates for different franchising products and services in the Philippines;
- existence of competitive advantages for U.S.-based franchisors; and
- issues relating to the Philippine distribution system and to the availability of financial and other resources required to invest in a new or existing franchise operations.

b. The potential demand for the USAID Franchising Guarantee Facility was assessed in terms of the following variables:

- the number of "high prospect" franchise industries identified in Phase I of the study;
- the number of U.S. franchisors admitted to the USAID loan guarantee program, and the number of pending applicants, in each of the high prospect industries;
- the number of other major international franchisors in the respective high prospect industries, including current Philippine franchises with expansion plans;
- the number of franchise locations expected from the pool of prospective franchisors; and
- the average cost of each franchise outlet.

c. Recommendations for modification and marketing of the USAID Guarantee Facility took into account the results of the Phase I study, as well as interviews with key managers of Philippine banks, franchising companies, and policy makers.

3. Database Generation

The main source of data used in evaluating the 35 key industries was the EDP file of the National Statistics Office (NSO). Materials published by the NSO, the Department of Trade and Industry/Board of Investments, the Center for Research and Communication, and the U.S. Department of Commerce, also provided valuable data and information.

4. Project Timetable

The bulk of the study was conducted during an 11-week period, beginning July 27, 1992.

The Manila-based study team owes thanks to Coopers & Lybrand's International Group and USAID Manila for providing valuable references on U.S. franchising. The team would also like to thank the many Filipino business owners and entrepreneurs, and representatives of major franchisors and local master licensees who took time for interviews. The Philippine Chamber of Commerce and Industry and the U.S. Commercial Attache also provided valuable input to the study. The Carlos J. Valdes & Co. branches in Cebu City and Davao City deserve acknowledgement for arranging the consultative and validation meetings with community business owners in their respective areas. Special thanks also go to Mr. Jose T. Pardo of the Philippine Chamber of Commerce and Industry, Mr. Joseph L. Price of Dunkin' Donuts, Ms. Maria Gonzalez-Goolsby of the Philippine Banking Corporation, Mr. Gus Maffry, Mr. Jamie P. Hously, and Mr. Jesus Valdes for their valuable comments.

CHAPTER II

CONTEXT OF THE PHILIPPINE MARKET

Formerly a U.S. protectorate, the Philippines proclaimed independence on July 4, 1946 in accordance with the Commonwealth Act passed by the U.S. Congress in 1934. Since that time, the U.S. has served as the Philippines' largest trading partner, accounting for more than 19% of imports and 37% of exports (1990). Japan is the second most important trading partner, with 18% of imports and 20% of exports (1990). Despite the current influx of foreign investments from Japan, Taiwan, South Korea, and other countries, the United States will continue to be the Philippine's major trading partner for the foreseeable future.

This chapter presents background information about the Philippines economic and political setting, including comparative data about the Philippines in relation to other countries in the ASEAN region. Basic information about the Philippines, including population and employment statistics, and data on the physical infrastructure is provided in Appendix G. Information regarding legal and regulatory issues is presented in Chapter VI.

A. THE PHILIPPINE ECONOMY IN COMPARATIVE PERSPECTIVE

1. Overview

The Philippines is a member of the Association of Southeast Asian Nations (ASEAN), a group of middle-income, resource-rich developing countries, including Brunei, Indonesia, Malaysia and Thailand, plus Singapore. The ASEAN and the newly industrialized countries (NICs) of Hong Kong, Korea, and Taiwan form the Asia-Pacific region, which is considered the most dynamic growing market in the world. The region, however, is very diverse in terms of sizes of economies and markets, natural resource endowments, and socio-cultural background.

Table 1 summarizes the basic indicators for selected countries in the region. The Philippines, once an economic leader, now lags behind most of the Asia-Pacific economies. Its real output of US$ 45 billion in 1990 was ahead only of Malaysia and Singapore, two of the smaller countries in the region. On a per capita basis, the Philippine output of US$ 730 was just ahead of Indonesia's US$ 540. The other Asia-Pacific economies had incomes at least double that of the Philippines.

The Philippine economy grew by less than 1% per annum during the 1980's, the lowest average rate in the region. By contrast, Malaysia's annual average growth rate of 5% was better than the average growth in the world. As previously mentioned, the poor Philippine growth record stemmed from socio-political problems and natural calamities that battered its economy during the period.

TABLE 1.
Basic Indicators for Selected Economies

Country	Population (Millions)	Area (000 Sq Km)	GNP, 1990 (US $ Billion)	Per Capita GNP (US $)
Indonesia	178	1,905	102	570
Philippines	62	300	45	730
Thailand	56	513	79	1,420
Malaysia	18	330	42	2,320
Korea, South	43	99	231	5,400
Taiwan	20	36	183	8,970
Singapore	3	1	33	11,160
Hong Kong	6	1	67	11,490
Brunei 1/	0.3	-	5	17,000
United States	250	9,373	5,448	21,790
Japan	124	378	3,141	25,430

Source: World Development Report 1991
1/ Source: ASIAWEEK, September 11, 1992.

2. Labor, Prices, and Wages

The Philippines has a large pool of skilled, educated, English-speaking workers, and of well-trained individuals in professional, supervisory, and managerial levels. Labor in the Philippines is cheap, even by Asian standards. The nominal legislated daily wage rates for those engaged in non-agricultural activities in Metro Manila and in surrounding areas is P96.42. For those hired in the agriculture sector, plantation workers are paid P85.58 per day, and workers outside the plantation system are paid P63.38 per day.

A study conducted by the Political and Economic Risk Consultancy Ltd. of Hong Kong and published in the SGV & Co.'s July 1991 Executive Bulletin, confirms the Philippines' relative low-cost labor position in Asia. In terms of cost, quality and availability of labor, the Philippines was placed ahead of China, Hong Kong, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand and Vietnam. In terms of managerial and technical labor, the Philippines was also ranked among best in the region. (See Tables 2 and 3.)

TABLE 2.
Comparative Annual Gross Wages of Workers in Cities, 1991
(In US Dollars)

City	Department Manager	Secretary	Sales Woman	Textile Worker
Singapore	33,000	11,000	5,100	3,700
Taipei	30,600	14,000	12,500	9,200
Hong Kong	30,500	12,200	9,200	6,900
Kuala Lumpur	22,400	4,600	1,800	2,100
Seoul	18,800	9,000	7,500	7,800
Jakarta	14,100	3,200	1,100	500
Manila	4,600	2,000	1,200	1,500
New York	100,000	27,200	14,600	14,600
Tokyo	62,500	21,900	16,700	14,700

Source: Prices and Earnings Around the Globe, 1991.
Union Bank of Switzerland.

TABLE 3.
The Asian Labor Situation

	Production Labor				Managerial Labor				
	A	B	C	Subtotal	Q	A	C	Subtotal	Total
China	5	1	1	7	10	10	1	21	28
Hong Kong	1	10	8	19	1	10	10	21	40
Indonesia	5	1	1	7	10	10	2	22	29
Japan	1	10	10	21	1	1	10	12	33
Malaysia	3	3	3	9	5	5	5	15	24
Philippines	3	1	2	6	3	1	1	5	11
Singapore	1	10	6	19	1	10	8	19	38
South Korea	1	8	7	16	5	10	9	24	40
Taiwan	1	9	8	18	1	8	9	18	36
Thailand	4	2	1	7	10	10	4	24	31
Vietnam	3	1	1	5	10	5	1	16	21

Note: Q=quality; A=availability; C=cost
1=the best grade possible; 5=an average grade; 10=the worst grade

Source: BusinessWorld, July 27, 1992. Philippines.

As shown in Tables 4 and 5, Manila had the lowest average price of goods and services in 1991 among the key urban centers in the Asia-Pacific region. On the average, the prices in Manila were half the prices of similar goods and services in the cities of Hong Kong and Taipei. For instance, a basket of 39 "typical" food items costs US$ 226 in Manila compared to US$ 414 in Taipei. A US$ 15 dinner in a quality Manila restaurant costs US$ 49 in a restaurant in Taipei. A basket of services (including the needs of the personal care of a woman, hair dressing, dry cleaning, telephone subscription, etc.) cost only US$ 90 in Manila and more than US$ 300 in Taipei.

TABLE 4.
Comparative Price, Wage and Purchasing Power in Cities, 1991
(Basis: Zurich = 100)

City	Price Level	Wage Level	Purchasing Power
Hong Kong	98.7	23.7	37.1
Taipei	90.4	30.1	35.7
Singapore	77.1	17.1	26.6
Jakarta	63.8		
Seoul	58.3	27.6	47.4
Manila	43.4	3.7	9.2
Kuala Lumpur	43.3	9.0	20.6
New York	103.9	68.2	81.8
Tokyo	141.4	63.9	55.6

Sources: Prices and Earnings Around the Globe, 1991.
Union Bank of Switzerland.

TABLE 5.
Comparative Prices of Goods and Services, 1991
(In US Dollars)

City	All Goods & Services	All Food	Restaurant	Services
Taipei	1,417	414	49	330
Singapore	1,125	374	21	150
Hong Kong	1,114	299	21	230
Seoul	1,018	379	19	150
Jakarta	761	213	14	120
Kuala Lumpur	760	239	9	110
Manila	698	226	15	90
New York	1,454	476	30	270
Tokyo	2,008	743	95	410

Source: Prices and Earnings Around the Globe, 1991.
Union Bank of Switzerland.

B. PHILIPPINES MARKET

1. Expenditure Patterns

The National Capital Region (NCR) of Metro Manila is the country's biggest urban center. The region has 1.6 million households in four cities and 13 municipalities. Household expenditures reached P86.6 billion in 1988. These expenditures comprised almost half of the total consumer sales in all urban centers and a fourth of total consumer sales in the country.

As shown in Table 6, food is the biggest cost component of the typical Philippine household budget. Food's share in the urban areas (45.8%) was less than in the rural areas (56.6%). On the other hand, urban consumers allotted a bigger share to house rents (15.6%) than their rural counterparts (6.8%).

The NCR households have a higher propensity to consume. The average household expenditure of P60,355 was twice the national average and three times the rural average. By expenditure groups, the NCR accounted for 45% of house rents, one-third of transport and communication expenditures, and one-fourth of utilities, household operations, personal care, education and recreation (See Table 7).

Cebu and Davao are two emerging urban centers in the South. With 116,000 and 160,000 households respectively, they are among the country's largest and fastest growing cities. In 1988, these cities together purchased P11.2 billion worth of goods and services. While these expenditure were only 3.3% of total consumption expenditures. But together with the surrounding cities and municipalities, Cebu and Davao are growing into sizeable urban markets.

TABLE 6.
Expenditure Patterns of Philippine Markets
Urban, Rural, and Selected Cities, 1988

	Market Type			Urban Centers		
Expenditure Group	All	Urban	Rural	NCR	Cebu	Davao
All Expenditures, P Billion	342.6	188.5	154.1	86.6	5.2	6.0
Avg. Expenditure, Pesos	32,521	47,299	23,529	60,355	47,302	41,972
			Per Cent			
Food	50.7	45.8	56.6	43.0	45.4	50.2
Alcoholic Beverages	1.1	1.0	1.3	0.8	1.3	1.4
Tobacco	2.1	1.7	2.6	1.4	1.4	1.8
Fuel, Light & Water	5.2	5.3	5.1	5.7	5.9	5.0
Transport & Comm.	4.7	5.5	3.6	6.3	6.5	6.5
Household Operations	2.5	2.6	2.3	2.5	2.8	2.4
Personal Care & Effects	3.3	3.4	3.2	3.3	3.5	3.4
Clothing and Footwear	4.2	4.0	4.5	3.4	4.2	5.9
Education	2.9	3.2	2.6	3.1	2.8	3.5
Recreation	0.5	0.5	0.4	0.5	0.8	0.9
Medical Care	1.7	1.7	1.7	1.3	1.3	1.9
Non-Durable Furnishings	0.4	0.3	0.4	0.2	0.4	0.7
Furniture & Equipment	1.8	2.0	1.6	1.4	3.9	2.9
Taxes	1.1	1.5	0.6	1.8	1.5	0.8
House Rents	11.7	15.6	6.8	20.7	12.5	11.1
House Repairs & Maint.	1.1	1.0	1.3	0.6	0.7	0.9
Miscellaneous	5.0	4.9	5.4	4.0	5.1	4.7

Source: NSO Family Income and Expenditure Survey 1988.

TABLE 7.
Shares of Urban and Rural Markets and Urban Centers by Expenditure Groups, Philippines, 1988

Expenditure Group	Size (Billion Pesos)	Market Type		Urban Centers		
		Urban	Rural	NCR	Cebu	Davao
Total Expenditures	342.6	55.0	45.0	25.3	1.5	1.8
Food	173.6	49.8	50.2	21.5	1.4	1.7
Alcoholic Beverages	3.8	47.9	52.1	18.6	1.7	2.2
Tobacco	7.3	45.3	54.7	16.3	1.0	1.5
Fuel. Light and Water	17.9	56.0	44.0	27.8	1.7	1.7
Transport & Comm.	16.0	65.1	34.9	34.3	2.1	2.1
Household Operations	8.5	58.4	41.6	25.8	1.7	1.7
Personal Care and Effects	11.3	56.1	43.9	25.1	1.6	1.8
Clothing and Footwear	14.5	51.8	48.2	20.5	1.5	2.5
Education	10.0	59.7	40.3	26.7	1.4	2.1
Recreation	1.5	64.8	35.2	29.0	2.6	3.5
Medical Care	5.8	54.4	45.6	19.9	1.1	2.0
Non-Durable Furnishings	1.3	45.9	54.1	15.2	1.6	3.1
Furniture & Equipment	6.2	60.3	39.7	19.9	3.3	2.9
Taxes	3.6	76.1	23.9	42.3	2.1	1.3
House Rents	40.0	73.7	26.3	44.8	1.6	1.2
House Repairs & Maint.	3.9	46.6	53.4	13.8	1.0	1.3
Miscellaneous	17.3	53.2	46.8	19.3	1.6	1.6

Source: NSO Family Income and Expenditure Survey 1988.

2. Economic Classification of Households

The consumer market in the Philippines is widely divided between the "haves" and the "have-nots." The economic classification of households (see Tables 8 and 9) shows that the large majority of Philippine households (over 70%) are in the "D" and "E" market segments. The market segments include unskilled and skilled workers, farm workers, vendors, and the unemployed. The income of these households is barely sufficient to cover basic necessities like food and housing.

TABLE 8.
Economic Classification of Philippine Markets

Class	AB	C	D	E
Occupation of Head	Professional Businessman Large Business Owner Large Farm Owner Senior Executive	Professional Businessman Small Business Owner Small Farm Owner Junior Executive Skilled Worker	Farm-Tenant Unskilled Worker White Collar Worker Foreman Skilled Worker	Farm-Hand Unskilled Blue Collar Worker Vendor Unemployed
Household Monthly Income, 1990	A: over P50,000 B: P30,001 to P50,000	P6,001 to P30,000	P3,001 to P6,000	up to P 3,000
Assets	Television Refrigerator Automobile Telephone Air conditioning	Television Refrigerator Automobile Telephone	Plumbing Electricity Radio Television	Plumbing Electricity
House Structure	Heavy and quality materials. With lawn/garden. Expensive furnishings. Expensive neighborhood.	Light to heavy materials. Adequate furnishings	Light and cheap materials. Scanty furniture	Shanty house Slum district.

Source: Pulse Research Group, Fact Book, 1990.

TABLE 9.
Percentage of Households by Economic Classification, 1990.

AREA	MARKET			
	AB	C	D	E
Philippines	7.8	18.3	52.0	21.9
Urban	3.3	16.5	53.7	26.5
Rural	2.2	0	51.1	46.7
Metro Manila	4.4	21.9	50.4	23.3

Source: Pulse Research Group, Fact Book, 1990.

By contrast, the "AB" and "C" market segments can afford a more comfortable life style. The "C" households, which are found mostly in urban areas, have good housing with adequate furnishings, and their monthly income averages between P6,000 and P30,000 (US$ 220 to US$ 1,101). This segment is made up primarily of small business owners, junior executives, and skilled workers. The "AB" households, comprised of large business owners, professionals and senior executives, have monthly incomes greater than P30,000 (US$ 15,000) comprise 7.8% of the total households in the Philippines.

In 1988, there were some 660,000 "AB" households in the country, as shown in Table 9. They accounted for P76 billion or one-fifth of total expenditures. An "AB" household spent more than P115,000 a year, four times the national average. Their expenditure pattern comes close to that of developed countries. They spent about one-third of household income on food and almost one-fifth of income on rent. (See Table 10).

TABLE 10.
Expenditure Patterns by Economic Class by Expenditure Group, 1988

Expenditure Group	All	AB	C	D	E
		Economic Class			
Total Expenditures, P Billion	342.6	76.0	65.8	152.3	48.4
No. of Households, Million	10.53	0.66	1.11	5.12	3.64
Avg. Expenditure, Pesos	32,521	115,851	59,293	29,720	13,288
		Per Cent			
Food	50.7	35.8	45.8	55.8	64.7
Alcoholic Beverages	1.1	0.8	1.1	1.2	1.3
Tobacco	2.1	1.2	1.8	2.6	2.5
Fuel, Light & Water	5.2	4.7	5.0	5.3	6.3
Transport & Communication	4.7	7.9	4.7	3.6	2.7
Household Operators	2.5	3.2	2.6	2.1	2.3
Personal Care & Effects	3.3	3.3	3.5	3.4	2.8
Clothing & Footwear	4.2	3.9	4.4	4.5	3.8
Education	2.9	4.1	4.0	2.3	1.2
Recreation	0.5	0.8	0.5	0.3	0.2
Medical Care	1.7	1.9	1.8	1.6	1.4
Non-Durable Furnishings	0.4	0.4	0.4	0.4	0.3
Furniture & Equipment	1.8	2.9	2.6	1.5	0.2
Taxes	1.1	3.1	1.0	0.3	0.2
House Rents	11.7	18.2	13.0	9.4	6.6
House Repairs & Maintenance	1.1	1.1	1.3	1.1	0.9
Miscellaneous	5.0	6.7	6.5	4.6	2.6

Source: NSO Family Income and Expenditure Survey 1988.

Class "D" was the biggest market segment with five million or half of all households. This segment accounted for P152 billion or 44% of total expenditures. On average, "D" households spend P29,270 a year. For "D" households, 55.8% of expenditures are for food. Compared to the "AB" households, the "D" households spent considerably less on house rents, transport, education, recreation, and medical care.

Depending on the type of product or service offered, the target market can be the small "AB" and "C" segments or the big "D" and "E" segments. For instance, the "AB" market segment accounted for one-third of the total market for transport and communication, furniture and equipment, house rents, and recreation; and one-fourth for education, medical care, household operations, and miscellaneous expenses. Households in the "D" market segment spend almost one-half of their income on food, beverages, tobacco, non-durable furnishings, clothing, and personal care items (See Table 11.)

TABLE 11.
Market Shares of Economic Classes by Expenditure Groups, 1988

Expenditure Group	Market Size (Billion Pesos)	Economic Class AB	C	D	E
Total Expenditures	342.6	22.2	19.2	44.5	14.1
Food	173.6	15.7	17.4	48.9	18.0
Alcoholic Beverages	3.8	15.8	18.8	48.4	16.6
Tobacco	7.2	12.6	16.3	54.1	16.9
Fuel, Light & Water	17.9	19.9	18.4	45.0	17.1
Transport & Comm.	16.0	37.7	19.4	34.7	8.0
Household Operations	8.5	28.6	20.1	37.8	13.2
Personal Care & Effects	11.3	22.2	20.3	45.4	11.9
Clothing and Footwear	14.5	20.4	19.9	46.8	12.8
Education	10.0	31.3	26.4	35.4	5.6
Recreation	1.5	39.4	21.3	33.5	7.4
Medical Care	5.8	24.9	20.4	41.9	11.6
Non-Durable Furnishings	1.3	23.8	20.6	47.6	10.7
Furniture & Equipment	6.2	35.6	27.6	35.7	1.8
Taxes	3.6	64.6	18.0	14.4	2.5
House Rents	40.0	34.6	21.4	35.9	8.0
House Repairs & Maint.	3.9	21.5	22.0	43.6	11.5
Miscellaneous	17.3	29.4	24.7	40.1	7.1

Source: NSO Family Income and Expenditure Survey 1988.

The ability of franchisors and prospective investors to understand and utilize these market segments will largely determine their success in developing "niche" markets.

C. BANKING & FINANCE

The Philippine financial system operates under a network of 7,641 banking institutions and non-bank financial intermediaries. All financial institutions are under the supervision of the Central Bank of the Philippines. As of March 1991, the banking network is distributed as follows: 1,893 commercial banks; 1,042 rural banks; 634 thrift banks; 128 specialized government banks; and 3,994 non-bank financial institutions.

The leading banks ranked according to size of assets are shown in Table 12 below:

TABLE 12.
Leading Banks in the Philippines, 1992

Private Domestic Banks	2nd Qtr.'92 Rank	Total Assets (000 Pesos)
Allied Banking Corp	10	21,513
Asian Bank	27	3,671
Associated Bank	30	2,629
Bank of Commerce	26	4,486
Bank of the Philippine Islands	2	52,705
China Banking Corp	13	14,749
CityTrust Banking Corp	15	13,014
Equitable Banking Corp	11	20,203
Far East Bank & Trust Co	4	43,895
International Corporate Bank	20	8,817
Metropolitan Bank & Trust Co	3	48,951
Phil Trust Co	22	7,344
Philippine Bank of Comm.	18	9,094
Philippine Banking Corp	23	5,871
Philippine Comml Intl Bank	7	36,481
Pilipinas Bank	28	3,644
Producers Bank of the Philippines	29	3,318
Prudential Bank	14	14,373
Rizal Commercial Banking Corp	9	29,116
Security Bank & Trust Co	16	9,843
Solidbank Corp	12	14,881
Traders Royal Bank	24	5,625
Union Bank of the Philippines	19	8,954
United Coconut Planters Bank	8	29,928
Union Bank	31	2,388
Sub-total		415,493

Foreign Banks		
Bank of America	21	8,574
Citibank N.A.	5	37,611
Hongkong & Shanghai Bank. Corp	17	9,150
Standard Chartered Bank	25	5,246
Sub-total		60,581
Government Banks		
Land Bank of the Philippines	6	36,893
Philippine National Bank	1	94,057
Sub-total		130,950
GRAND TOTAL		607,024

Compared with other ASEAN countries, the Philippines currently has relatively high bank lending rates. These high rates tend to discourage foreign investments and curtail expansion of existing businesses.

TABLE 13.
Comparative ASEAN Bank Lending Rates, August 1992

	Lending Rates (Prime: % per Annum)
Bangkok	13.0
Jakarta	26.0
Kuala Lumpur	9.5
Manila	23.0
Singapore	6.25

Source: ASIAWEEK, September 11, 1992.

The Philippine government has planned a series of reforms to make the financial system more responsive to the short- and long-term requirements of the economy. At the center of this institutional overhaul is the Central Bank, which will be replaced by a Central Monetary Authority. The government also plans to liberalize the banking sector by allowing entry of foreign banks into the country, thus inducing competition.

Major fiscal and monetary reforms have also been introduced, after more than 40 years of foreign exchange controls. The foreign exchange market on trade transactions was liberalized through Central Bank Circular No. 1348. More recently, CB Circular No. 1353 lifted the barriers on non-trade foreign exchange transactions. The latter circular, in effect, unleashed the country's economy from all restrictions and limitations on the sale and purchase, as well as the entry and exit, of foreign exchange. Other important points about the exchange control revisions are:

- Through off-floor foreign exchange trading, the value of the peso will now settle according to market forces.
- Exporters can now retain and use, freely, their export earnings. Previously only 2% retention was allowed and the remaining 98% had to be sold to commercial banks. Also, exporters are now allowed to borrow up to 100% of their letters of credit, compared to the previous ceiling of 70%.
- Importers can now utilize more liberal payment arrangements. Aside from the regular modes of import payments, importers can also finance their imports through documents against payment.

Liberalization of the foreign exchange regime, coupled with other financial sector reforms, will directly impact on the ability of U.S.-based franchisors to conduct profitable operations in the Philippines.

D. POLITICAL/ECONOMIC OUTLOOK

Historically, political stability has been the number one concern of foreign investors contemplating investment in the Philippines. Foreign investment declined during the last unsteady years of the Marcos regime, leading up to his fall in February 1986. Investments surged immediately after the installation of Corazon Aquino as President in 1986. A series of attempted coups, however, decreased investor confidence.

The relatively peaceful election of Fidel Ramos as President of the Philippines, and his commitment to economic and political are from have increased investor confidence on again, business confidence improved dramatically during the first 100 days of the administration of President Ramos. A general consensus is emerging among Philippine business owners, foreign investors, local and international financing institutions, foreign research groups, and diplomats that the Philippines may be at the beginning of a sustained economic upturn.

This sudden improvement in business confidence is attributed to the following factors:

- Peaceful local and national elections in May 1992, the first in more than a generation;
- A serious drive by the Ramos government toward political stability, with peaceful overtures to the leftist, rightist, and Muslim secessionist radical movements;
- Repeal in September 1992 of the notorious Philippine Anti-Subversion Law, and legalization of the Communist Party of the Philippines;
- New investment liberalization laws (R.A. 7042);
- Foreign exchange liberalization laws (C.B. Cir. Nos. 1348 and 1353);
- Import liberalization laws;
- Effective external debt management; and
- Government moves to deregulate central industries such as the oil and banking sectors.

Barring catastrophic calamities, such as the 1988 Mt. Pinatubo eruption, the business optimism now emerging may lead the Philippines to achieve its goal of "Newly Industrialized Country" status by the year 2005 or 2010.

CHAPTER III

OVERVIEW OF THE FRANCHISING INDUSTRY IN THE PHILIPPINES

A. EXISTING FRANCHISES IN THE PHILIPPINES

The first U.S. franchise was established in the Philippines in the middle of the 1970's. There are currently twenty (20) master licensing agreements registered with the Bureau of Patents Trademarks and Technology Transfer (BPTTT) of the Department of Trade and Industry (DTI). These include industry giants such as McDonald's, Dunkin' Donuts, Goodyear Tires and 7-11 Convenience Stores. Shakey's Pizza recently celebrated its 12th anniversary in the Metro Manila area. Of these 20 registered agreements, 19 are between U.S. franchisors and Filipino master licensees. The 20 registered franchises include:

LICENSOR	LICENSEE	PRODUCTS
<u>American:</u>		
McDonald's Corporation	McGeorge Food Ind. Inc.	Hamburgers
Wendy's Int'l Inc.	Wenphil Corporation	Hamburgers
F&B Int'l Inc.	A&W Restaurants Inc.	Hamburgers
Shakey's Int'l Ltd.	Int'l Family Food Serv.	Pizza
Pizza Hut Inc.	Emerald Pizza Inc.	Pizza
Pizza Inc.	CFC Inc.	Pizza
Sbarro Pizza	Carrara Ventures	Pizza
Ben Franks Int'l Inc.	Maradelo Inc.	Hotdogs
Foster's Freeze Int'l	Foster's Freeze	Ice-cream
Mister Donut	Naquepo	Donut
Dunkin' Donuts	Golden Donuts Inc.	Donut
Denny's	Winchell Phil.	Donut
KFC Int'l Holdings Inc.	Foodmine Inc.	Chicken
Pollo Locco	Isla Foods	Chicken
Southland Corporation	Phil Seven Corp	Retailing
Svenson Hair Center	Fine beauty Center	Hair pieces
Hertz Int'l	Executive cars Inc.	Car rental
Avis Rent-a-Car	G&S Transport	Car rental
American Express Int'l	PCI Travel	Travel
<u>Japanese</u> :		
Yoshinaya Co Ltd.	Yoshinaya Phils Inc.	Noodles

As can be seen from the products and services offered, most franchises in the Philippines are in the food business. Wenphil Corporation and Phil Seven Corporation (Wendy's and 7-11) operate their current locations as "company-owned" outlets managed by the master licensee for the Philippines. Plans are now underway to open new outlets using owner-operators as franchisees.

A large percentage of franchise operations continue to be directed towards the Metro Manila market. However, franchises such as McDonald's, Pizza Hut, Dunkin' Donuts, and Shakey's have started to spread out to other prime areas, including Cebu City and Davao City.

B. OTHER FRANCHISE ARRANGEMENTS

There are other U.S. franchisors that are not registered with the BPTTT, but operate through other arrangements. These include Coca-Cola, Eastman Kodak, Goodyear Tires, Orange Julius, Tupperware, Heel Sew Quik, and Miracle Ear. Coca-Cola has a Philippine subsidiary that produces concentrate and a joint-venture with San Miguel Corporation for bottling purposes. Both Eastman Kodak and Goodyear have subsidiaries in the country and market their products through distributors. Tupperware and Miracle Ear have distributorship arrangements as well. Orange Julius and Heel Sew Quik have franchises, but are not yet registered with the BPTTT.

C. ENTERING THE PHILIPPINE MARKET

The typical initial agreement between the U.S. franchisor and the Filipino enterprise is a master licensing agreement. Under a master license arrangement, the local licensee is provided a defined territory (which could include the entire country, or even a larger international region) in which to develop the business.

The master licensee resells small territories to local franchisees, who operate the individual outlets as "hands-on" managers. These local franchisees are entrepreneurs who own and operate their own locations. The master licensee performs on-going services as a supplier, quality control check, and consultant to the individual franchisees. As noted above, Jollibee and Shakey's are examples of franchisors using local franchises extensively.

The master licensee often retains one or more locations to manage itself. In the case of a joint venture arrangement with the U.S. franchisor, the master licensee may retain all the franchise locations as "company-owned" stores. In this case, the local managers are employees rather than owner-operators. McDonald's is an example of a U.S. franchisor retaining a large majority of its own franchises.

The Philippine Constitution restricts retailing to Filipinos or corporations with Filipino ownership of 60% or more. (See also Chapter VI on the legal and regulatory environment.) Naturally, the spouse of a foreigner, if he or she is Filipino, may own and operate a retailing franchise. Otherwise, a foreigner in the retail business must use a Filipino franchise or joint venture partner. For example, a McDonald's franchisee is typically a corporation that is 66 2/3% owned by Filipinos. McDonald's allows the franchisee to assign the franchise to a corporation, provided that the corporation is itself 66 2/3% owned by a Filipino.

Filipinos are very receptive to American products because the Filipino culture is so closely intertwined with the West. Tastes and fashion are very westernized and there is a consistent infusion of American culture through movies and other forms of media. As a consequence, Filipino entrepreneurs have enormous interest in U.S. fast food franchises.

D. SUCCESS AND FAILURE FACTORS

The factors most frequently cited during interviews for this study as key to the success of a U.S. franchise in the Philippines include:

- close support from the U.S. franchisor;
- close supervision by the U.S. franchisor, particularly in quality control;
- limitation of the products or services to those with a definitive comparative advantage, including those with a special American identity offering "American Magic" to customers;
- strong management of the day-to-day franchise operations by the Filipino franchisee or licensee; and
- low cost structure permitting the lowest priced products and services possible.

Most food franchisors such as McDonald's and Dunkin' Donuts are supervised or assisted by a management executive stationed in the Philippines. Several American franchises have failed in the Philippines because of absentee management or lack of close support from the U.S. based partner.

A Dairy Queen franchise and a Taco Bell franchise are two examples of franchise operations that have failed in the Philippines. The Dairy Queen franchise failed because of absentee management. The Taco Bell franchise did not prosper because it was introduced in 1983 when the Philippine economy suffered its most devastating downturn in the nation's history. Also, local demand for Mexican food was not as high as that for American hamburgers.

Today, Filipino tastes are more international. There are Thai, Vietnamese, and Japanese food houses. Fast food restaurants such as Tia Maria, Mango Brutus, and House of Pancakes (which offers tacos and other types of Mexican food), are receiving a warm market response.

One factor for success cited by a resident executive of a food franchise is "sticking to your knitting." When a franchisee offers products outside its current, well known, product lines or lacks a comparative advantage in price, taste, or management expertise, the chances for failure are much greater.

Franchisors with limited international experience may tend to adopt a strategy that is focused on selling products that are agreeable with local culture or tastes in order to secure a larger market share. This strategy, however, has been unsuccessful in some cases. In fact, U.S.-based franchisors in the Philippines have been successful recently precisely because they offer a product or service that is uniquely "American." Clearly, part of the appeal of many U.S.-based retailers is their ability to bring "American Magic" to the Philippines.

The importance of maintaining operational control cannot be overstated. Operational control includes everything from determination of the local suppliers and food mix formulas to routine cleaning of the rest rooms. A successful franchisor leaves no detail to chance. A successful local franchise carries out the business concept "to the letter," and works closely with the franchisor in making local market adjustments and adaptations. In this regard, training is a critical element of success.

Finally, income considerations cannot be overlooked in the Philippines. Even in the case of franchises seeking to appeal to the wealthier "AB" market segments, the ability to price products in a manner which appeals to lower income families is important both for image and profitability. For example, 7-11 Convenience Stores price their commodity staples to be affordable to the "C" and "D" markets, and below. Commodity sales support the basic overhead of the outlet. Convenience items, such as snacks and sodas, are priced both to reflect their target market and to provide added profitability.

CHAPTER IV

REVIEW OF 35 SELECTED FRANCHISING INDUSTRIES: RANKING OF PROSPECTS FOR SUCCESS

A. INTRODUCTION TO THE REVIEW

The study team initially reviewed 35 key franchising industries to determine which have the greatest obvious potential for success in the Philippine market. (A complete list of these industries is provided in Appendix A.) As noted in Chapter I, these industries were selected by the USAID/Manila office from a study of U.S. franchising opportunities prepared by the U.S. Department of Commerce. The purpose of this initial review was to develop a "short list" of industries on which more in-depth market research would be conducted.

This preliminary review of the 35 industries focused primarily on the following market characteristics:

1. Relative Market Size

The total market size is the sum of the total demand by industrial users and the total demand of end-users of the product or service. In general, the larger the market size, the higher the opportunity for franchising success. Obviously, larger markets purchase more goods and services.

Equally important in franchising, however, is the fact that larger markets provide more room for market segmentation and product differentiation. This characteristic permits the industry to be segmented into several market "niches," which allow the introduction of more than one franchise concept. Readers are cautioned, however, that the exact size of these relative market niches is difficult to measure quantitatively without a detailed market study tailored for the specific products and services being offered.

While overall business performance is affected by macroeconomic conditions, each industry has its own particular structure which renders its potential growth unique. Each relative market must be assessed on its own prospects for growth, separate from overall economic conditions.

The relative market size for end-users must be assessed in terms of the various household income classes that use the product or service. For example, the market for a franchise selling swimming pools will have as its market only the upper income class, or the "A" market. The demand for food and beverages, on the other hand, cuts across all income classes, and can be segmented into "A," "B," "C," and "D" markets.

2. Existence of Local Competition

The existence of local competitors that produce the same product as a U.S.-based franchisor with roughly the same degree of quality can be a major barrier to entry. Local competitors may have already established brandname recognition which could provide difficult competition. Established local competitors may include companies that produce quality products, offer a wide selection of products, and have penetrated the Philippine market geographically. Another advantage of local companies is their understanding of the Philippine market in terms of its cultural norms and laws. They may also have established a wide network of local business contacts who can facilitate regulatory compliance, sourcing of supplies, and financing.

Examples of established local companies include drug store outlets, dental centers, insurance, and real estate brokerage firms. With regards to drug outlets, Mercury Drug has established itself with over 200 outlets all over the country. Moreover, smaller drug outlets and pharmacies are ubiquitous throughout the country.

In real estate services, local companies like Fil-Estate, Sta. Lucia Realty, Ayala Land, and Ortigas Developers have firmly established themselves. The construction boom after the assumption of former President Corazon Aquino in 1986 saw the expansion of real estate brokerage firms. Likewise, insurance companies such as Philam Life and Insular Life are highly trusted by the public and have had years of experience.

3. Technology as a Competitive Advantage

A product or service will have greater potential for success in the market in so far as it offers a distinct technological advantage. The same product type may have been in existence locally but in a less "high-tech" form. For certain types of products or services, technology provides a critical competitive advantage over local competitors.

An example can be found in automotive products and services. Local auto repair shops are practically "back-yard" operations. Their services are very specialized, and the length of time to perform the work is relatively slow compared to modern auto repair shops. Optical products and services are another example. While local competitors exist, newer technology in eye care products and in the provision of eye care services could provide a definite advantage to foreign franchisors.

Industries for which specialized technology is not critical will offer no opportunities for U.S. franchisors. Examples include employment services and maid, home cleaning, and party services.

4. Cultural Norms and Attitudes

Certain industries have more or less potential depending on particular cultural characteristics. For example, weather considerations such as the onslaught of typhoons and flooding during the rainy season, the tropical summers and the limited land for private residences make lawn care a less attractive service, even to the "A" market. Baby-sitting, nanny-training and the use of professional cleaning franchises have their Philippine counterpart in the use of domestic live-in help and, thus, have more limited potential in the Philippines.

5. Barriers to Entry and Exit

Entry barriers may be classified as either *policy-induced* or *structural* to the market. Policy-induced barriers are created by government statutes or regulations, and are intended to protect local business. On the other hand, structural barriers within the market are caused by economic or business conditions. Some of the chief policy-induced barriers to entry in the Philippines include:

- Direct Restrictions on Entrants
- Bureaucratic "Red-Tape"
- Credit Subsidies
- Barriers to Exit

Structural market barriers to entry or exit in the Philippines may include:

- Product Differentiation and Brand Loyalty
- Absolute Advantages
- Established Track Record
- High Capital Requirements
- Limited Pricing Schemes
- Competition with Local Substitutes
- Cultural Norms, Values and Biases of Target Markets

Appendix B provides a summary table of barriers to entry by industry type.

6. Developmental Considerations

Franchising arrangements have had a direct developmental impact on the country in terms of economic growth. Franchising has contributed indirectly to increased manufacturing and commercial sales, employment generation, increased incomes, training of middle management, and adoption of new operating methods by local industries. Equally important, franchising has contributed to the development of forward and backward economic linkages among business sectors, thus stimulating the long term growth of the economy. One negative aspect of franchising is the potential impact on foreign exchange balances. Typically, franchises do not export products; instead they tend to import raw materials either directly or through the manufacturer supplying finished products.

Notwithstanding some developmental concerns, the business owners interviewed for this study would like to see more U.S.-based franchises enter the Philippine markets. The aggregate positive aspects on the local economy clearly outweigh any negative impact on foreign exchange. More specifically, franchises that are less consumer-related (e.g. food and retail) and more business and investment-related (e.g. printing and business services) were found to be in high demand.

The Input-Output model presented in section D of this chapter was developed to assess the developmental aspects of various franchising industries.

7. Is There A Need To Franchise?

As noted in the previous list of existing franchises in the Philippines, most are in the fast food and restaurant business. While the success of these franchises can be attributed largely to competent management and unique products, the fact that they offer a service, rather than just a product, has been a crucial factor. Business format franchising also offers a complete business concept and thus has good potential.

In certain industries, however, it is not so much the service, but the product itself, which is badly needed. If the U.S. franchisor has no claims or rights over the equipment, and is merely franchising the service, then importation rather than franchising may be the cheaper business alternative. Unless franchise retailers can demonstrate a strong comparative advantage in price, extra service or product differentiation, local competition and Filipino importers will likely retain significant market share.

B. RATING SCALE

For this preliminary review the study team adopted the following rating scale:

1. Excellent

Local franchisees should find a receptive market of sufficient size to warrant Philippine operations. No unusual difficulties are foreseen in terms of competition, product acceptability, or other unusual barriers to entry. Franchisors will find interested partners who are financially qualified and generally familiar with franchising.

2. Good

Demand for the offered product or service is good. Competition may exist in the form of local providers, or the market may be undeveloped or unproven. Franchisors may need to introduce the business concept to local entrepreneurs.

3. Fair

Demand may exist for the product or service, but the Philippine market is not sufficiently developed. Franchisors will find some barriers to entry such as lack of product acceptability, heavy competition from established local companies, difficulty in obtaining supplies, or tariffs.

4. Poor

Demand is limited due to cultural or other factors or is met by cheaper local substitutes. Technology offers no advantages to the product or services provided. Franchisors may have difficulty in finding interested local partners. Local labor rates, price competition, tariffs or regulations are likely to interfere with introductions of the franchise.

C. RESULTS OF THE RANKING PROCESS

A summary of the rankings of the 35 franchising industries is listed on Pages 31 to 34. A more complete analysis of each industry is included in Appendix C. The description of the products and services offered by each industry was based on information provided by the U.S. Department of Commerce's Franchise Opportunities Handbook.

The following four industries were rated as having "excellent" franchising opportunities in the Philippines:

- Business Aids and Services
- Food and Beverages
- Printing
- Retailing -- Miscellaneous

The following eleven industries were rated as having "good" franchising prospects in markets that are either new or unproven, and that do not face serious barriers to entry:

- Automotive Products and Services
- Cosmetics and Toiletries
- Children's Stores, Furniture and Products
- Equipment Rentals
- Health Aids and Services
- Hotel and Motel
- Laundry Services and Dry Cleaning
- Maintenance, Cleaning, and Sanitation Services
- Security Systems
- Services --Miscellaneous
- Water Conditioning

The balance of the 35 franchising industries were rated as having "fair" or "poor" franchising prospects. These industries have limited markets, face strong price competition, and lack interested local partners. Those industries considered to have the poorest prospects include:

- Clothing and Shoes
- Drug Stores
- Educational Services
- Hearing Aids
- Lawn and Garden Supplies
- Maid and Home Cleaning Services
- Pet Shops and Services
- Swimming Pools
- Vending Machines

SUMMARY OF INDUSTRIES RANKED ACCORDING TO MARKET PROSPECTS

Industry	Cultural Norms & Values	Local Competition	Industry Trends	Barriers to Entry	Other Remarks	Rating
1. Business Aids and Services	Large companies have many business needs, small companies have less need for services	Medium	Growing due to increased investment	Prices and business contacts	Emerging industry	Excellent
2. Food and Beverage	Households like to eat out in fastfood and sit–down restaurants	Very Strong (Jollibee, Specialty restaurant)	Growing due to population increase and urbanization	Competition, prices, product differentiation	Industry is large enough for several players	Excellent
3. Printing	Large companies require high volume and high quality, small companies require fair quality	Medium (small print shops)	Fast growing	Prices, quality	Growing due to entry of businesses requiring new and better technologies	Excellent
4. Retail – Miscellaneous	Convenience shops gaining acceptance	Low (many small shops entered the market first)	Emerging		New industry	Excellent
5. Automotive Products and Services	Cars are cared for, maint–enance is cheaper than replacement	Strong (many micro–enterprises)	Growing	Mostly Japanese cars	Prospects good for tires and additives	Good
6. Cosmetics and Toiletries	Beauty and grooming now popular	Strong (Avon)	Growing	Competition, promotion		Good
7. Children's Stores, Furniture and Products	Parents dress kids up and buy many toys	Medium (Babyland, Giftgate, and Cinderella)	Growing	Competition, prices		Good
8. Equipment Rental	Rent to own now offered, tendency to abuse rented equipment and appliances	Medium (credit cards and installment plans available)	Growing, especially for computers	Surge of smuggled or locally produced items		Good
9. Health Aids and Services	Female adults becoming health and figure conscious	Medium (Slimmers World, Shape Center, Joanne Drew)	Growing	Site and equipment expense, need to establish effectiveness		Good

Industry	Cultural Norms & Values	Local Competition	Industry Trends	Barriers to Entry	Other Remarks	Rating
10. Home Furnishings –	Homeowners fond of redecorating and "sprucing" up the home	Low (home furniture suppliers and interior decorators)	Growing	Prices, quality		Good
11. Laundry and Dry Cleaning	Households use laundry women or live–in help to do laundry, growing acceptance of washing machines	Strong	Emerging, especially within AB market, students and tourists			Good
12. Maintenance and Cleaning	Firms are becoming more cleanliness oriented	Medium		Prices and business contacts	Trend towards contracting	Good
13. Security Systems	Firms prefer guards over electronic equipment	High	Emerging (high technology systems) especially in commercial buildings	Price, capital outlay for electronics, or invest in labor force		Good
14. Services – Miscellaneous	Services in more and more demand	Low	Growing	Prices		Good
15. Water Conditioning	Water in Metro Manila and Cebu City not always potable	Low to Medium	Emerging	Start–up Costs, water purifiers and mineralizers	Best to assist to local water utility to improve water quality	Good
16. Automobile and Trailer Rentals	Most businesses have own fleet	Medium (Avis, Hertz, and Dollar)	Limited to tourists and financial centers	High start–up costs, availability of parts and service		Fair
17. Beauty Salons and Supplies	Personal grooming important	Strong (Ricky Reyes, James Cooper, Jun Encarnacion)	Growing	Name recognition and location		Fair
18. Construction and Remodeling	Households and small businesses make repairs and renovations only as needed, large businesses must repair and remodel often	Strong (local carpenters and contractors)	Growing	Price and accessability		Fair

Industry	Cultural Norms & Values	Local Competition	Industry Trends	Barriers to Entry	Other Remarks	Rating
19. Employment Services	Guarded attitude in light of rampant fraud	Medium	Growing, especially for overseas executives	License requirments of Dept. of Labor		Fair
20. Hotels, Motels, and Inns	Connotation of being "pleasure inns"	Low to Medium	Moderate Growth	High start-up costs for land and buildings		Fair
21. Insurance	Growing acceptance of need	Very Strong	Increasing	Competition, reputation very important	Rampant fraud	Fair
22. Optical Products and Services	Eye care identified with wearing of glasses	Strong (Acevedo and Sarabia Optical)	Growing	Name and location		Fair
23. Real Estate	Strong desire to own home and like to purchase througl reputable brokers	Very Strong (Fil Estate and Asian Pacific)	Increasing due to government housing programs and growing commercial centers	Competition and business contacts		Fair
24. Recreation, Entertainment, and Travel Services	Travel and recreation targeted at AB market	Low to Medium	Seasonal Demand	Government regulations		Fair
25. Tools and Hardware	Hire contractors with own tools	Strong	Never Started			Fair
26. Clothing and Shoes	Growing acceptance of ready-to-wear clothes	Very Strong (local garment manufacturers)	Growing	Competition and prices		Poor
27. Dental Centers	Dental care targeted at AB and C market	Strong (many local dental centers)	Growing	High start-up costs	Low dental care awareness	Poor
28. Drug Stores	Loyalty to established drug store chains	Very Strong (Mercury, Merced, Rose Pharmacy)	Growing	Name and location		Poor
29. Educational Services	Parents believe in early developmental training and schooling for children	Medium	Growing	Competition, limited to Ab and C markets		Poor

Industry	Cultural Norms & Values	Local Competition	Industry Trends	Barriers to Entry	Other Remarks	Rating
30. Hearing Aids	Luxury product, hearing deficiencies often left untreated in elderly	Low	New		Hearing aid education needed to introduce importance of product	Poor
31. Lawn and Garden Supplies	AB market only, limited to resort and golf courses	Low	New Industry	Income, affordability	People will hire gardners	Poor
32. Maid and Home Cleaning Services	Households use live–in help	Medium (several agencies)	Growing, especially when both adults are working	Requires license from Dept. of Labor		Poor
33. Pet Shops and Services	Filipinoes not as fond of pets as Americans, except in AB market	Medium	Limited Growth	Cultural norms, high maintenance costs		Poor
34. Swimming Pools	Limited to AB market, resorts, and sports clubs	Low	Limited Growth	Income, affordability		Poor
35. Vending Machines	Preference for personalized service, Unguarded machines are vandalized	Strong	Limited Growth	Cultural norms, values		Poor

D. QUANTITATIVE ANALYSIS

The study team next assembled data to analyze the 15 franchising industries rated as having "excellent" or "good" prospects for success in the Philippines. The purpose of this quantitative review was to refine the list of targeted industries in order to pinpoint which have the greatest development impact on Philippine economic growth, and which offer relatively greater profit potential to, and opportunities for, investors.

The targeted industries were subjected to three additional stages of analysis:

(1) Econometric Input-Output Analysis
(2) Preference of Local Business Owners
(3) Interest of U.S. Franchises

Each of these three levels of data gathering and analysis were conducted independently. The results were then collated to select the final list of industries with the highest potential for success.

1. Econometric Input-Output (I-O) Analysis

The study team developed an econometric model of inputs and outputs of the Philippine economy as a starting point for the analysis. The purpose of the model was to measure the relative impact of various industries upon the Philippine economy. The study team examined available data for 56 industrial sectors (1988 data) and 486 commodities (1985 data) in the Philippine economy. These data describe the inter-relationships of the inputs to production (raw materials, supplies, labor, other factors of production) and outputs from production (industrial outputs and final products) in the overall Philippine economy. The results of the analysis are shown in the Input-Output tables presented in Appendix E.

Several measures are used to assess the relative impact and importance of different industries in the economy, including:

a. Market Size

Market size comprises both domestic demand and exports, for both industrial and private household (retail) sales. The study focused on domestic demand, or industrial demand plus private consumption. (See Appendix E, Table 1.) The biggest industrial markets in 1988 were food, trade, chemicals, and hotels and restaurants. (See Appendix E, Table 2.) Any franchise exploring opportunities in the Philippines in these industries would find the largest market possible relative to the Philippine economy's size.

The leading industries in terms of household sales (retail consumption) were food and beverages, trade, land transportation, and chemicals (including drugs, toiletries, soaps and detergents). Private personal services, clothing and shoes, and real estate (including rents) are also leading industries in terms of sales to households. (See Appendix E, Table 3.) In 1988, these industries accounted for P354 billion, or 62% of the total sales of all industries to final consumers.

The percentage shares of a given franchising industry's sales reflect the average consumption patterns of Philippine households. The food industry sold P151 billion worth of goods to consumers in 1988. The beverage industry added P17 billion in sales, while hotels and restaurants sold another P12 billion. These combined industries offer all food products and services to consumers. In a developing economy with a growing population and growing household incomes, food and food-related goods and services consume a large share of overall household expenditures.

Food is the primary consumer expense, accounting for almost half of the average Philippine household's budget. Many local industries are involved in the production, processing and distribution of food items. Among these industries are domestic retail trade, and hotel and restaurant businesses, both of which depend heavily upon the food market. (See Appendix E, Table 4.) Food and related industries generally provide a large and attractive market for growth in the Philippine economy.

The twelve largest sales markets in the Philippines are shown in the table on the following page:

The Twelve Largest
Philippine Sales Markets
1988 Data

Rank	Industry
1	Food
2	Chemicals
3	Trade, Retail & Wholesale
4	Clothing & Footwear
5	Land Transportation
6	Hotels & Restaurants
7	Beverages
8	Construction
9	Private Business Services
10	Miscellaneous Manufacturing
11	Publishing & Printing
12	Private Health Services

b. Value-Added

Certain supply characteristics determine the relative importance of industries in the overall economy. For instance, industries need intermediate inputs or raw materials and supplies from other industries. Consequently, industries that produce goods with high local content will produce greater growth in other local industries. Among the industries examined, food, trade, construction, and chemicals had the highest intermediate inputs in 1988. Their importance stems both from the relative sizes and the inherent production characteristics of these industries. The food industry gets its raw materials from agriculture-related sectors. Trade handles many food items. The construction and chemicals industries also receive raw materials from the agriculture and other local manufacturing sectors. (See Appendix E, Table 5 for an overall ranking based on supply factors.)

An equally important supply consideration is the total primary input or "value-added." Total value-added indicates the net contribution of the industry to national economic output. Industries with high value-added potential make a greater contribution to economic growth. These industries include trade, food, and construction. Any additional franchising activity in these industries should be welcomed by policy makers.

Value-added is measured by compensation and profits, two important indicators for both business owners and policy makers. For policy makers, the relative size of compensation indicates the industries' relative contribution to employment generation. On the other hand, business owners and prospective entrepreneurs will want to focus on the relative profitability of the industries.

c. Economic Linkages

Finally, the input-output analysis compares the forward and backward linkages of various industries. Forward linkages refer to customers or consumers of the industry's product; backward linkages reflect the industry's suppliers. The ratios presented refer to the specific industry's linkage performance vis-a-vis the average linkage performance of all industries. Direct and indirect linkages indicate the intensity of industry relationships in the economy. (See Appendix E, Table 6.)

The four industries that showed above-average forward linkages in 1988 were chemicals, trade, food, and hotels and restaurants. Little franchising activity can be expected in these industries from the development of forward linkages because franchises tend to be final sellers of products, e.g., retailers of goods. On the other hand, there were more industries with above-average backward linkages, including publishing and printing, chemicals, clothing, beverage, hotels and restaurants, and land transport. The growth of these sectors will support the growth and development of other industries. For example, expansion of the printing industry will necessarily require more inputs of paper, ink, pulp processing, and chemicals. Policy makers should look to industries with strong backward linkages as important sources of economic growth.

To arrive at overall rankings for the industries, equal weights were given to the different I-O measures. Appendix E, Table 7 summarizes the rankings for all industries, based on the contributions to the market, national output, and development potential. Putting together these criteria in the I-O analysis, it can be seen that the more important industries in terms of their economic development potential are food, chemicals, trade, hotels, and restaurants. These industries can be described as having the following characteristics:

- Bigger consumer markets;
- Bigger industrial markets;
- Larger intermediate inputs;
- Larger value-added and worker compensation; and
- Stronger forward and backward linkages.

The other important industries include land transport, clothing, construction, beverage, and private business services. Policy makers should give special attention to these industries as they consider promotion of franchising as an economic development tool in the Philippines.

2. Preferences of Local Business Owners

As a means of further validating the selection of targeted industries, the study team conducted informal discussions with local business owners in Metro Manila, Metro Cebu, and Davao City. The Coopers & Lybrand consultant led the Cebu trip, and the Senior Market Analyst conducted the Davao meeting. The Cebu meeting was attended by 16 businessmen, including two local bankers, both of whom were familiar with USAID Franchising Guarantee Program. About the same number participated in the Davao gathering, which was co-sponsored by the Davao City Chamber of Commerce.

Each of the business owners was a principal or investor in a local business. Each was selected with the participation of the local Carlos J. Valdes accounting office. While no specific data were collected in the study's informal survey, all participants are believed to be capable of significant investments in new business ventures.

In a random non-scientific survey, the business owners indicated the products and services they would like to target for investment. Products and services that were cited more than once in the survey include:

<u>1st Priority:</u>

Hotels/Motels
Real estate services
Laundry/dry cleaning
(Coin-operated laundromats)
Food/beverages
Auto/trailer rental (trucks)
Entertainment (theaters)
Maintenance/Cleaning services
Water conditioning/water drinking and equipment distribution
Quick printing

<u>2nd Priority:</u>

Security systems
Employment services
Home furnishings
Construction equipment rental/leasing
Air conditioning/ refrigeration

Seven of the nine industries ranked as a first priority by Filipino business owners were included on the final target list for further market study. Two industries, auto and trailer rentals and entertainment, were not included because the potential franchisees indicated an interest in narrow markets (heavy truck rentals and movie theaters) not serviced by U.S. franchisors. Also, data for these narrow market segments were not readily available. Franchisors exploring the Philippines may wish to consider these target industries for their own study, given the existing interest on the part of prospective franchisees.

Other highlights of the discussions included:

- Several of the business owners have been exploring U.S. franchising as a strategy to expand their current operations, or to enter into new ventures. All participants were enthusiastic about foreign investments, and the prospects of having U.S.-based franchisors as potential business partners.

- Industries other than fast food are particularly attractive for future franchise development. Participants felt that fast food and restaurants may be saturated in some markets, and they were excited about the prospects of finding international partners in other ventures.

- Potential investors are very concerned about the impact of tariffs on those service industries which require the sale of foreign-made items, (e.g., sales of mufflers as part of auto servicing).

- Cebu is experiencing a building and growth boom (newspapers refer to the local "Ceboom"). There is an unmet demand for heavy equipment, equipment distributors and servicing, and truck rentals. Overall economic growth in Cebu is predicted to be high for the next several years, both by local business participants and academic economists. Davao City is being eyed as the base of a "growth triangle" connecting Indonesia and Malaysia.

- The Davao City community is enthusiastically awaiting the opening of the first McDonald's and Jollibee outlets in the area. Hope was expressed that other fast food franchises would join this fast-growing city.

- Davao business owners voiced concern that American franchisors would require large amounts of investment capital which would be beyond the means of relatively prosperous local entrepreneurs. A related concern was that strict business format franchising would require the use of imported materials (tables, equipment, construction materials) that could be more cheaply substituted with local supplies.

3. Interest of U.S.-Based Franchisors

The interest of U.S.-based franchisors in international investing was judged by reviewing those companies that have already applied to the USAID Franchising Guarantee Program. A list of franchises that have been approved or that have applied to the USAID Franchising Loan Guarantee Program is included in Appendix F. To date fourteen (14)

American franchisors have been approved for the USAID franchising loan guarantee facility. These franchisors represent the following industries:

- Auto and Trailer Rentals
- Business Aids and Services
- Employment Services
- Food and Beverages
- Home Furnishings Rental and Repair
- Maintenance, Cleaning, and Sanitation Services
- Hotels and Motels
- Recreation/Entertainment/Travel
- Printing

Pending applications and serious inquiries to the USAID program represent these additional industries:

- Auto Products/Services
- Children's Stores/Furniture/Products
- Beauty Salons/Supplies
- Educational Products
- Real Estate
- Drug Stores

Each of the above industries was carefully considered by the study team in determining which industries warrant further attention. Two industrial segments, real estate services and home furnishings, rental and repair, were restored to the targeted list of prospects because of the high interest shown in the USAID program by U.S. franchisors in these businesses.

Two other industries, food and beverages and business aids and services, were examined in greater detail. Food and beverages warrant closer examination because of the predominance of restaurants and fast food in the U.S. franchising industry, and because most of the existing U.S.-based franchises in the Philippines are in this industry segment.

Business related services received special attention because of their added developmental impact and importance to the sustained economic growth of the entrepreneurial sector. "Business-to-business" services have been made the highest priority in the USAID Franchising Guarantee Program. Services such as printing, accounting services, employment agencies, commercial cleaning and similar business support services, create a "business infrastructure." As an example, the printing industry was cited in the econometric model as providing important backward linkages to other industrial users.

The results of the analysis are summarized in Appendix D. This chart indicates the relative rankings for each of the 35 industries in terms of overall market rating, market size, profit ranking, Filipino interest, and USAID program status.

CHAPTER V

ANALYSIS OF FRANCHISING INDUSTRIES WITH HIGH PROSPECTS FOR SUCCESS IN THE PHILIPPINES

In this chapter each of the franchising industries with prospects rated as "excellent" or "good" is analyzed in detail. The analysis presents information on market characteristics, industry trends, competition and prospects for the future. For broader market segments, such as "business services," more detailed information is provided. Information on production capacity, pricing, cultural norms, and profitability is presented only for those industries with the highest prospects for growth. Data showing the number of firms in the industry that rank among the Philippine "Corporate 5,000," are also provided.

In those cases where data for the individual industries or business segments under consideration were not available, the industries were grouped. The resulting target list of franchising industries with high prospects for success thus includes:

1. Business Aids and Services
2. Printing
3. Security Services

4. Food and Beverages

5. Retail -- Miscellaneous
   Children's Stores, Furniture and Products

6. Automotive Repair Services

7. Health Aids and Services
8. Cosmetics and Toiletries

9. Home Furnishings, Rental and Repair

10. Hotels and Motels

11. Laundry Services and Dry Cleaning

12. Maintenance, Cleaning and Sanitation

13. Real Estate Services

14. Services - Miscellaneous

An analysis of each of these industry groups follows.

1. **Business Aids and Services**
2. **Printing**
3. **Security Systems**

Products and Services

This sector includes computerized bookkeeping; payroll and billing systems; integrated communication; mailing and shipping centers; air freight forwarding; packaging and shipping; quick and custom retail sign centers; search and recruitment of personnel for various business and personal services; consultancy to small- and medium-scale business; printing and quick print shops; and security systems and services for commercial use.

Market Size

In 1991, the gross value added of private business aids and services reached P5.8 billion. About half of the industry's revenues came from servicing the retail trade, banking and finance, construction and air transport industries, and the government. Other large subsectors include the chemical, beverage, hotel and copper mining industries.

Business aids and services form a broad category of products and services, and the industry can be divided into many segments. Available data for the Philippines shows the different industry segments and their shares of industry sales as follows:

TABLE 1

BUSINESS AIDS AND SERVICES, 1988
(Value in Million Pesos)

Sector	Number of Firms			Net Sales		
	All	Large	%	All	Large	%
Data Processing & Tabulation	76	43	57	272	253	93
Adjustment & Collection	35	13	37	37	33	90
Duplicating, Addressing, & Photo Svcs	32	90	35	60	18	30
Employment Agencies	826	251	30	957	744	78
Business Mngt & Consulting Svcs	401	111	28	1,430	1,281	90
Detection & Protection	501	336	67	1,697	1,664	98
Other Business Services, NEC	138	76	55	1,555	1,522	98
All Sectors	2,306	840	36	6,008	5,515	92

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

Readers should note that the relative size of industry sectors may have changed in the 1990's as data processing, employment agencies, and duplicating, addressing and photocopying sectors have grown.

Industry Trends

In the local market, private business services have always been associated with big business. Most of the larger service providers are affiliates of big conglomerates or business groups in the country. Thus, when the economy and big businesses declined in recent years, private business services also declined. However, there are also many partnerships and small companies providing private business services. Because they work on a subcontracting or consulting basis, many of their activities could easily have been missed in available reports. Also, private business services contribute considerably to the informal sector, which tends to be missed in available economic data.

Cultural Norms and Attitudes

A number of local companies are owned and managed by prominent Filipino families. Even in big corporations, family members are represented on boards of directors and hold key management positions. Higher levels of education and training enable the younger generation to take a more professional and progressive management orientation. Philippine companies are now bringing in outsiders to hold key corporate positions.

More importantly, the emergence of export-oriented firms and the entry of foreign investors has introduced new perspectives to business and corporate management. Export trade exposes local business to the standards and discipline of international business. Foreign investors also bring in more efficient and advanced technology in all aspects of business activity.

Production Capacity

In 1988, there were 2,306 firms providing private business services of all kinds. There were 826 employment agencies, 501 detection and protection agencies, and 401 business management and consultancy firms. There were only 329 duplicating and photocopying firms although copying stalls and centers abound in almost every university and business area. The general outlook should be positive for new service providers.

TABLE 2

BUSINESS SERVICES
NUMBER OF FIRMS, FIXED ASSETS AND EMPLOYMENT, 1988

Sectors	Firms	Sales P Million	Fixed Assets P Million	Workers
Data Processing & Tabulation	76	272	98	3,857
Adjustment & Collection	35	37	17	453
Duplicating & Photocopying	329	60	25	1,381
Employment Agencies	826	957	366	13,436
Business Mgnt & Consulting	401	1,430	625	5,918
Detection & Protection	501	1,697	473	61,458
Other Business Services	198	1,555	2,403	4,420
All Sectors	2,306	6,008	4,007	90,923

Source: NSO 1988 Census of Establishments

As a measure of production capacity, the reported fixed assets of business service firms totalled P4 billion in 1988. The business management and consultancy firms had the highest total fixed assets. This segment also has the highest average fixed asset value of firms at P1.6 million, followed by data processing at P1.2 million. By contrast, copying shops and employment agencies needed the minimum capital to operate. The average firm asset for copy shops and employment agencies was less than P400,000.

The key asset for all business service providers is the labor force. Private business service employed almost 91,000 workers in 1988. These workers represent a range of training and competencies. The data processing and tabulation, business management and consultancies, and other business services recruit the graduates of computer technology, business, and social sciences.

Local Competition

Large firms with 10 or more employees dominate the business services market. On average, one-third of the number of firms in each sector were big firms with 10 or more workers. These big firms accounted for over 90% of industry sales. In detection and protection services, the big firms virtually control the market. The employment agency sector is also dominated by big firms. (See Table 3.)

This industry, however, has a reputation for attracting many "fly-by-night" operators and illegal recruiters. This problem could provide an opening for a reputable international firm with the resources to show a solid commitment to the Philippines market.

The only sector dominated by small firms is the duplicating and copying sector. Predominance by small firms is due to the very low investment needed to open copying shops. A good reconditioned photocopying machine can be purchased for only P40,000, a very low investment for any new business. Foreign quick-print firms will find opportunities due to their advanced technology, but will also face stiff competition from small competitors.

TABLE 3

BUSINESS AIDS AND SERVICES
NUMBER OF FIRMS AND SALES LEVELS, 1988
(Value in Million Pesos)

	Number of Firms			Net Sales		
Sectors	All	Large	%	All	Large	%
Data Processing & Tabulation	76	43	57	272	253	93
Adjustment & Collection	35	13	37	37	33	90
Duplicating & Photocopying	329	10	3	60	18	30
Employment Agencies	826	251	30	957	744	78
Business Mgnt & Consulting	401	111	28	1,430	1,281	90
Detection & Protection	501	336	67	1,697	1,664	98
Other Business Services	198	76	55	1,555	1,522	98
All Sectors	2,306	840	36	6,008	5,515	92

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

Pricing of Products and Services

Commercial clients are not very sensitive to prices in purchasing business-to-business services, because costs are typically passed through to the final consumers. Duplicating and photocopying services are somewhat more price sensitive because they also serve final (retail) consumers. The prices of plain photocopying services ranged from P0.20 per copy in the university areas and more than P1.20 per copy in financial centers, about the same as U.S. pricing.

Data tabulation and processing companies typically cater to large multinational companies. They also have foreign clients who ship materials to local companies for encoding and processing. This is a result of the country's large pool of computer trained workers who can provide very cheap and efficient data encoding and processing jobs.

The price sensitivity of firms in business management and consulting depends on the client's perceived benefits of the services. The leading multinational consumer-oriented companies, for instance, spend large sums of money on consumer marketing surveys. By contrast, many family-run businesses seldom purchase any outside consulting advice.

Profitability

The list of the Top 5,000 Corporations presents the performance records of the various business service subsectors, in addition to the industry's key players.

Data Processing and Tabulation. This sector placed 20 firms in the Top 5,000 Corporations with revenues totalling P567 million in 1990. A relatively new company, Satztec, moved to the top with P112 million for a 67% growth over the previous year. Satztec provides data encoding and computer programming for local and foreign clients. (See Table 4.)

TABLE 4

DATA PROCESSING AND TABULATION MARKET LEADERS, 1991-92
INCOME AND BALANCE SHEET DATA
(Value in Million Pesos)

Firm	Net Sales	Income	Assets	Liabilities	Equity
Satztec	112	23	80	10	71
Ventures Computer	72	0	46	35	10
Information	39	4	3	7	6
Top 5,000 Corp	567	36	359	194	181

Source: Philippine Business Profiles 1991-92

Printing Services. This sector, which covers the commercial and job printing services, placed 36 firms into the Top 5,000. The group sold ad posters, greeting cards, calendars, maps, labels, and stationery worth over P1.2 billion in 1990. The market leader, Printwell, Inc. earned profits of P238 million. (See Table 5.)

TABLE 5

COMMERCIAL AND JOB PRINTING - MARKET LEADERS, 1991-92
SALES AND BALANCE SHEET DATA

	Net Sales		Income		Assets		Liabilities		Equity	
Firm	P Mil	%	P Mil	%	P Mil	%	P Mil	%	P Mil	%
Printwell Inc	238	18	1.8	18	97	-26	37	-50	59	-3
Rowell 108 Lithography	30	2.6	34	42	43	23	80	19	16	
Oxford Printing	95	25	.8	-19	149	121	67	-43	30	62
Top 5,000 Corp	1,234	27	14.3	-4	859	21	616	22	243	16

Source: Philippine Business Profiles 1991-92

Employment Agencies. Despite the economic slowdown, many employment agencies grew dramatically in 1990. Fifteen employment agencies, led by the National Service Corporation, earned P506 million for a 51% growth over the previous year. (See Table 6.)

Prospective franchisors are cautioned that this robust picture reflects both domestic and international placement. Investors should not confuse domestic employment agencies with those offering overseas placement. Overseas placement is unique to the economies of developing nations, where low cost, well-trained workers can be placed in labor-shortage countries. The more than 3 million Filipinos who work outside the country, in the Middle East and other Asian countries, are a major source of foreign capital earnings. This area offers a potentially lucrative and secure market for employment agencies willing to meet the many regulatory requirements involved in international placements.

Business Management and Consultancies. This sector put 69 firms, the largest number among the sectors, into the Top 5,000 Corporations. Consultancies earned P5.2 billion in revenues and P1.5 billion in profits. The firms, led by A Soriano Corporation, serve primarily the large business groups in Philippine industry. (See Table 7.)

TABLE 6

EMPLOYMENT AGENCIES - MARKET LEADERS IN 1990
SALES AND BALANCE SHEET DATA

Firm	Net Sales P Mil	%	Income P Mil	%	Assets P Mil	%	Liabilities P Mil	%	Equity P Mil	%
National Service	114	56	0	-104	25	53	18	68	7	23
BDP Service	68	39	2	138	13	2	9	-15	5	103
DFP Services	64	99	0	-1,180	9	61	9	59	0	202
Top 5,000 Corp	506	51	24	11	437	93	196	46	241	161

Source: Philippine Business Profiles 1991-92.

TABLE 7

BUSINESS MANAGEMENT & CONSULTANCIES - MARKET LEADERS IN 1990
SALES AND BALANCE SHEET DATA

Firm	Net Sales P Mil	%	Income P Mil	%	Assets P Mil	%	Liabilities P Mil	%	Equity P Mil	%
A Soriano Corp	527	46	291	45	2,788	11	668	-3	2,120	16
Aboitiz & Co	435	-11	90	-25	1,676	34	1,166	24	510	62
TEAM Pacific	428		41		365		150		215	
Top 5,000 Corp	5,264	18	1,536	28	18,764	24	8.760	24	10,004	24

Source: Philippine Business Profiles 1991-92

Detective and Protective Services. This sector had 36 firms in the Top 5,000 Corporations. Revenues totaled P799 million, reflecting growth of 18% over the previous year. Revenues are evenly distributed with the leader being Luzon Integrated Services, which had P78 million in net sales. (See Table 8.)

TABLE 8

DETECTIVE AND PROTECTIVE SERVICES - MARKET LEADERS IN 1990 SALES AND BALANCE SHEET DATA

Firm	Net Sales P Mil	%	Income P Mil	%	Assets P Mil	%	Liabilities P Mil	%	Equity P Mil	%
Luzon Integrated	78	7	2.1	-.15	22	0	18	15	3	-46
A Prime Security	58	20	1.1	100	9	-25	6	-39	3	68
Phil Scout Vets.	50	47	-3.5	35	15	55	30	39	-15	27
Top 5,000 Corp	799	18	8.9	31	243	27	208	17	35	168

Source: Philippine Business Profiles 1991-92.

Prospects

The business aids and services industry faces a bright outlook due to expected improvements in the economy. The prospects, however, vary somewhat for different subsectors. For prospective franchisors, success will depend on combining franchise technology, management resources, and the skilled resources of the local labor markets.

Local and foreign firms have been utilizing Philippine resources for their data encoding and computer programming requirements. Also, local skilled workers and managers have been in demand for overseas assignments. Employment agencies contract local workers for assignments in neighboring countries including Taiwan, Australia, and Japan.

The printing, duplicating, addressing and photocopying subsectors catalyze business activities, especially those that need fast transmission of information and goods. Franchises are expected to provide innovations that will raise local support services to the standards of international business. Foreign investors expect high quality support services. The small and medium-scale local firms will also benefit from support services at affordable rates.

"One-stop-shopping" business support services (such as fax machines, photocopying services, computer services, couriers, shipping, and mail services) will cater to small- and medium-scale firms that wish to defer investment in this type of equipment.

The business management and consulting industry has improved recently due to the influx of foreign investors into the country. This trend will continue as manufacturing operations shift from the NICs and Japan to the Philippines. The country has cheaper land and more skilled labor as compared to the Asian NICs or Japan. Also, these countries have recently lost their GSP tariff privileges.

4. Food and Beverages

Products and Services

This sector includes, donuts; ice cream; yogurt; candy; popcorn; beverages; pancakes and waffles; pretzels; restaurants, drive-ins, and carry-out; fast food; and grocery and specialty stores.

Market Size

In 1991, Filipinos spent P480 billion for food, representing more than half of total household expenses for the year. This translates into an average expenditure of P7,740 per capita. The Family Income and Expenditures Survey (1988) indicated that total food and beverage purchases were evenly split between the urban and the rural markets. The National Capital Region (NCR) accounted for one-fifth of the total market, while Cebu and Davao represented less than 2% each.

Restaurants and other eateries accounted for slightly over 6% of Filipino food expenses. In the urban areas, especially among the "AB" market segment, the share was higher at 9%. In the NCR, the share of food expenditures outside the home has climbed up to more than 12%.

Hamburger outlets are the most popular fast food restaurants. Pizza parlors and other specialty outlets together comprise second place. Interestingly, spaghetti is the most preferred order (even in hamburger and sandwich shops), followed by chicken, cheeseburgers and hamburgers.

Industry Trends

In the last five years, food consumption sustained an average annual growth rate of 3.7%, lower than the average growth of total household expenditures. By contrast, hotel and restaurants suffered an average decline of 4.0% a year since 1988; but this decline reflects the drop in tourist arrivals and related hotel occupancy. However, during the same period the leading fast food restaurants registered double-digit growth rates.

Many fast food outlet owners now see the NCR market as nearing saturation. These operators are looking at alternative strategies to expansion in Manila. Some are expanding the range of products they serve. Instead of serving just sandwiches, they also offer spaghetti, chicken, breakfast items, and complete lunch meals. Some are expanding their services, and now deliver to homes and offices. Others offer lower prices and discount promotions to attract customers. Finally, the larger fast food chains are opening branches in the emerging urban centers in Cebu, Cagayan de Oro, Davao, and in the smaller surrounding towns and suburbs of the NCR.

Cultural Norms and Attitudes

One of every two Filipinos eats out of the home at least once a week. There are many occasions for eating out; the most popular is the "family treat." Advertising by the leading fast food chains portrays families eating together as traditional, but they are eating outside the home, at a restaurant. During weekends the fast food chains are filled with families. Among the most popular outlets are those that have play sections for children. In recent years, the leading fast food chains have promoted packages for children's birthday celebrations and similar parties.

The other tradition targeted by fast food marketing is the "treat" for a friend or officemate. Such occasions are not as regular as the "family treat," but the target group has a large number of students and office workers. Workers in the urban centers account for sharply increased restaurant sales toward the end of the week, especially on pay day.

Most of the bigger fast food franchises cater to the "AB" and "C" market segments. This is a result more of affordability than any cultural preference. Among the lower economic classes, eating out is only for very special occasions, and takes only about 1% of the family's total annual budget. On the other hand, eating outside the home by members of the "AB" market segments occurs frequently, and takes almost 10% of the total family budget. Industry experts indicate that once the purchase decision is made (on price), all consumers seem to use the same criteria in choosing a fast food outlet: the quality of food, location or accessibility, and cleanliness.

Production Capacity

In 1988, there were almost 39,000 restaurants and eateries serving Filipinos outside of their homes. These include large and popular fast food chains like Jollibee, McDonald's, Pizza Hut, and Shakey's. The market leader, Jollibee, has put up more than one hundred branches since 1978. The hamburger franchise, McDonald's, established 46 stores nationwide. The Shakey's pizza franchise has 65 outlets, while Dunkin' Donuts has more than 140 outlets. (See Table 1.)

TABLE 1

NUMBER, SALES AND ASSETS OF RESTAURANTS AND EATERIES
(Value in Million Pesos)

	Top 5,000 Corporations		Annual
	1988	1990	Growth, %
Number	84	100	9.1
Sales	2,774	4,968	33.8
Assets	956	1,998	44.6

Source: Top 5,000 Corporations of the Philippines, 1989, 1991

Individual outlets of these large fast food chains can serve as many as 250 customers per hour. The facilities are big enough to sit 100 - 200 people at a time. Industry growth in the last decade came from the aggressive expansion of these larger fast food outlet.

By contrast, many cafes and *carinderias* (kitchenettes) of self-employed proprietors can accommodate only 10 - 20 people at a time. Therefore, during heavy lunch periods, these eateries serve food in plastic bags to be carried outside the restaurant.

The total assets of the restaurant and eatery industry may be used to estimate approximate production capacity. In 1988, 84 restaurants and eateries made it to the Top 5,000 Corporations of the Philippines. These market leaders had total assets of P1.0 billion, and sales of P2.8 billion. By 1990, the in the Top 5,000 Corporations grew to 100, total assets doubled to P2.0 billion, and sales reached P5.0 billion. The 45% annual growth rate of total assets enabled the industry leaders to increase sales by 34% per annum. This aggressive expansion in production capacity was highlighted by Jollibee's threefold growth in total assets.

The likely beneficiaries of further growth in the restaurant and fast food business are the industry workers. Dominated by small cafes and *carinderias*, this sector employed more than 200,000 workers and paid P1.8 billion in compensation and benefits. (See Table 2.)

TABLE 2

EMPLOYMENT AND WAGES IN THE RESTAURANTS FAST FOOD INDUSTRY, 1988
(Value in Million Pesos)

Sector	Number of Firms	Number of Workers	P
Restaurants & Cafes	30,280	157,795	1,377
Refreshment Stands & Kiosks	6,214	24,970	169
Others	2,449	18,764	224
All Sectors	38,943	201,529	1,770

Source: NSO 1988 Census of Establishments

The larger restaurants and fast food chains (with more than 10 employees) play a major role in the industry. In 1988, there were about 3,500 large restaurants, representing 9% of the total number of eateries. These larger establishments accounted for P7.4 billion, or more than half of industry sales (see Table 3). Still, the industry presents a very competitive environment. Despite the number of very big players, no one company dominates the market.

TABLE 3

THE RESTAURANTS - FAST FOOD BUSINESS, 1988
(Value in Million Pesos)

	Number of Firms			Net Sales		
Sectors	All	Large	%	All	Large	%
Restaurants & Cafes	30,280	2,479	8	10,594	5,948	56
Refreshment Stands, Kiosks	6,214	245	4	1,406	567	41
Others	2,449	806	33	1,180	835	71
All Sectors	38,943	3,530	9	13,180	7,359	56

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

In 1990, 100 restaurants and fast food chains made the list of Top 5,000 Corporations of the Philippines. Their total sales grew by 32% to P5.0 billion. (See Table 4.) The list included many U.S. food firms with a strong presence in the local market: Arby's, Dunkin' Donuts, McDonald's, Mister Donut, Orange Julius, Pizza Hut, Pollo Loco, Sbarro, Shakey's, Wendy's, and the 7-11 Stores (which also sell carry-out fast food and beverages). These U.S. franchises are facing strong competition from the local chains: Angelino's Italian Food, Aristocrat, Chowking, Cindy's, Greenwhich Pizza, Jollibee, Max Chicken, and Savory Chicken.

The local franchise, Jollibee, is the market leader with over 100 branches nationwide. (See Table 4.) The chain was able to expand faster compared to foreign franchises because of fewer company restrictions on site selection, shorter training periods for franchisees, more menu items suited to local tastes, and lower required capital and pre-operating investments. With the patronage of students and the "D" and "E" market segments, Jollibee sales grew by 38% to P1.2 billion in 1990, or twice that of its nearest rival. McDonald's retained that second position with sales of P606 million, followed by Wendy's and Golden Pizza.

TABLE 4

FAST FOOD - MARKET LEADERS IN 1990
(Levels and Growth Rates)

	Net Sales		Income		Assets		Liabilities		Equity	
	P-Mil	%	P-Mil	%	P-Mil	%	P-Mil	%	P Mil	%
Jollibee	1,207	38	69.6	16	759	77	549	90	210	50
McGeorge	606	16	1.2	-52	113	62	108	71	6	-18
Wenphil	215	29	4.2	26	66	40	43	53	23	22
Golden Pizza	189	29	9.8	13	78	24	47	26	31	21
Top 5,000 Corp	5,030	32	121.6	6	2,019	48	1,400	59	619	28

Source: Philippine Business Profiles 1991-92.

Pricing of Products and Services

With the increasing number of food outlets and services in the NCR, fast food chains are now competing to keep market shares. To increase sales, they are offering price cuts and discount promotions to customers. For instance, Pizza Hut has the "buy two for the price of one pizza" promotion, compared to its regular P 56 - 105 order. Its "Tuesday

Madness" promotion allows customers to eat as many pizza slices as they can for only P 55. McDonald's "Catch 23" promotion offers food items and a soft drink for only P23. And, Kentucky Fried Chicken offers a "value pack" of chicken, plus salad and roll for P31. In many cases, there are additional discounts for bigger orders.

These promotions induce customers to come in groups, (e.g. families and friends), and to place larger orders. Also, the promotions have reduced prices to levels that are affordable by more people. This has allowed fast food chains to reach more market segments.

Profitability

In 1990, the reported profits of the industry leaders reached P122 million. However, this is just over 2% of reported sales. Strong price competition in a slow growing market has eroded the profitability of fast food and restaurant chains. While sales rose by 32%, profits increased by just 6%. The market leaders retained a big share of total profits, indicating even greater pressure on smaller competitors. (See Table 5.)

TABLE 5

VALUE-ADDED & COMPENSATION SHARES IN THE RESTAURANT AND FAST FOOD INDUSTRY, 1988
(Value in Million Pesos)

	All Firms			Large Firms		
Sector	Sales	Value-Added,%	Compensation,%	Sales	Value-Added,%	Compensation,%
Restaurants & Cafes	10,594	30	13	5,948	30	16
Refreshment & Ice Cream Stands, Kiosks	1,406	30	12	576	29	13
Others	1,180	41	19	835	44	21
All Sectors	13,180	31	14	7,359	32	17

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

Entry and Exit Barriers

Fast food chains have profit margins of 1 - 10%, while the Chinese and Japanese restaurants attain margins of 30 - 40%. Among fast food, the meat-based products like chicken and hamburger have lower margins than the cereal-based products. Meat inputs for hamburgers comprise 40 - 60% of the price while the cereal inputs for donuts, noodles, and pizzas are only 30%. Hence, many fast food chains try to make profits on volume rather than on price. The promotions are meant to encourage higher volumes of purchases.

For small operators like *carinderias*, there are minimal entry and exit barriers. The crucial hurdle is serving enough patrons early enough after opening to sustain the operation. In urban areas, small and medium firms can sustain a profitable operation.

For large fast food chains, more challenging barriers exist. New entrants must first identify a niche in the local market and work to project an image that can break the brand loyalty for incumbents. Also, new entrants must establish the sophisticated management and logistics support to operate several local operations.

Two formidable barriers to entry are: marketing and operations. New entrants must have sufficient capital to afford expensive operations while their marketing strategy has time to develop. The high cost of operations may overwhelm even a carefully planned and well executed franchising concept if start-up capital is not sufficient.

No significant barriers to exit exist for the restaurant industry; as noted earlier, several American fast food franchises have withdrawn from the Philippine market during the past decade.

Prospects

The Philippine food market is expected to grow due to an increasing population, younger demographics, and accelerated urbanization. Through backward economic linkages, the growth of restaurants and eateries will open more business opportunities in the agriculture and food manufacturing sectors. Since these sectors are dominated by fragmented small firms, more employment will be generated.

The Philippine annual food intake is still low compared to those of developed countries. The Filipino consumes 3-4 kilos of chicken or beef per year, compared to at least 36 kilos for an American. Filipinos annually consume 3.5 kilos of milk, compared to an American's 125 kilos; Filipinos annually consume 16 liters of soft drinks, compared to an American's 75 liters. As incomes increase and the overall Philippine standard of living increases, the food industry will profit. Restaurant and fast food outlet patronage can be expected to rise accordingly, providing a growing market.

The rising urban centers, (e.g. Metro Cebu and Metro Davao), offer alternatives to Metro Manila, where competition is strong. The market leaders have targeted their expansion plans to these newer urban centers. New entrants into the Philippine restaurant market should seriously consider operations outside the NCR.

Carinderias continue to serve cheaper "*lutong-bahay*" (home-cooked) food to middle class employees in urban centers. However, fast food leaders have introduced Filipino food to their menus and have offered price promotions to reach a wider market segment. This will cut into the market share of the *carinderias*, especially as fast food meals become more affordable. Carry-out counters and deliveries are likewise growing. To the extent that new entrants can compete with these low priced alternatives, they will find that Filipino tastes will accommodate new products.

At the same time, processed food manufacturers have begun to provide convenience and quick meal packs. These products target the young professionals and middle income families in urban centers. As in any major metropolitan area, fast food vendors will find a wide range of competing products.

The success factors that prospective U.S. franchisors need to consider include:

- **Presence in local market:** Current U.S. franchises in the market will have better chances of success through expansion instead of the introduction of new concepts. Existing franchises need only add outlets in the local market. Their brand names and track record will be very helpful in penetrating new areas. More importantly, they have the established set of supply and management resources to effectively run local operations. By contrast, newcomers will require at least two years to establish needed support facilities. At the same time, they will have to face competition both from the entrenched U.S.-based firms and from increasingly aggressive local food chains.

- **Market niche:** Franchises establishing outlets outside the NCR, and into the suburbs of Manila and provinces, will face much less competition.

- **Low capital investments:** The fragmented nature of the "AB" and upper "C" market segments, may require lower capital investments as compared to the NCR. Otherwise, the franchise must have very strong financial and market positions. A McDonald's franchise would cost P15 - P20 million because the franchise needs its own equipment. By contrast, Dunkin' Donuts establishes one bakery with several outlets costing only P500,000 - P1,500,000.

- **International network:** A network of master licenses ensures that the franchises keep up with the quality standards on food and services.

- **Local support:** New franchises will need about two years to develop the linkages to sources of materials and services for local operations. A large pool of trained manpower is available to new and expanding franchises.

Competition

The examples presented below are illustrative of the types of investments undertaken by three major food franchises in the hamburger, donut, and pizza businesses.

a. McDonald's Corporation

Golden Arches Development Corporation is McDonald's Philippine joint venture realty and holding company. McDonald's/U.S. retains a 40% equity while a Filipino, Mr. George Yang, holds the remaining 60% equity. McGeorge Food Industries, which is owned by Mr. Yang, is the major franchisee. McGeorge holds the franchise to 80% of the 46 stores nationwide, while the remaining 20% are held by other franchisees including the Limketkai Group, McPhillips and the Borromeo Groups. The first local outlet was established in October 1981.

Initially, a McDonald's franchise can cost anywhere from P11-P18 million. Operating costs range from P500,000 to P1.5 million for the first month of operations. Golden Arches offers the following arrangements for franchisees:

- A "conventional" franchise: The franchisee invests in the equipment, seating, and signage only. Golden Arches invests in the real estate, building, and leasehold improvements, and it receives both royalty payments and rent.

- A "development" franchise: The franchisee invests in real estate, building, leasehold improvements, seating, signage, and equipment. The franchisee pays only a royalty to Golden Arches.

- A "joint venture": This unites the applicant and Golden Arches to form a separate company, with the company in effect becoming the franchisee. Golden Arches takes a majority position of at least 51% of the shares of stock. Income is shared based on the relative equity contributions of each partner.

In each case, the franchisee is required to contribute 5% of gross sales for corporate and national advertising. The franchise contract lasts normally for twenty (20) years. Store outlets are supplied by Genosi, a subsidiary of McGeorge Food Industries.

McDonald's is currently undertaking an expansion program, particularly in areas outside of Metro Manila. McGeorge Food Industries has recently formed the Davao City Food Industries (DCFI) to spearhead its thrust in Davao. A 49% stake of DCFI will be held by local investors, the Yang brothers.

McDonald's major competitor is Jollibee, a Philippine company. Started in 1978 as an ice cream parlor known as the Cubao Ice Cream House, Jollibee has transformed itself into the market leader of hamburger franchises, with a total of 107 outlets. Only 17 of these outlets are company-owned, indicating that Jollibee has used the franchise system to a greater extent than McDonald's. Jollibee has increased its market share and profitability by venturing earlier and more aggressively than McDonald's into the provinces. Its next target cities include Naga, Cebu, Iloilo, and Cavite.

b. Dunkin' Donuts

Dunkin' Donuts Philippine licensee is Golden Donuts Inc. Its corporate mission is "to provide valued customers unique, high-quality products, reasonably-priced and promptly-served, by cheerful employees in well-lighted outlets".

The capital requirement for a provincial franchise is roughly P7 million. There is a 45-day training period and the "140-dozens" test where the new franchisee must sell 140 dozen donuts in an 8-hour shift, to prove the viability of the local market.

Golden Donuts' expansion program also focuses on provincial franchisees. It has announced that it will open at least twenty-five (25) new outlets in 1992, bringing the total number of outlets to 170. The provincial targets include Bacolod, Cabanatuan, Baguio, and La Union. At present, Dunkin' Donuts has eight (8) outlets in Cebu and six (6) in Davao and Cagayan.

Dunkin' Donuts is currently penetrating the lunch market with its new product "Dunkin' Bunwich."

c. Shakey's

The local licensee holder is International Family Food Services (IFFS). There are currently 65 outlets nationwide, with 59 owned by individual franchisees and only six owned by IFFS.

Golden Pizza Inc. (GPI) is the largest franchise holder, with 18 outlets throughout Metro Manila, including Makati, Quezon City, Manila, Mandaluyong, and San Juan. According to its marketing manager, Shakey's will gain further ground because "the burger market is approaching some sort of a plateau." (In the United States, for example, McDonald's has added pizza to its menu.)

To broaden and strengthen its foothold in the industry, GPI-operated Shakey's outlets introduced the "Pizza Cash on Delivery" (COD) program in the beginning of September, 1991. This is a follow-up move to its "Pizza Now Pay Later" scheme which introduced the use of credit cards in the fast food business. Under the Pizza COD scheme, customers can have their food delivered and charged to their Citibank Mastercard. Any food order below P1,000 need not undergo credit approval, and there is no interest charges, except on payments made by installment.

5. Retail -- Miscellaneous
Children's Stores, Furniture, and Products

Products and Services

This sector includes gifts; flowers; toys; children's furniture; movies and video rentals; art supplies; computer hardware and software; book centers; hobby shops; and other retail shops.

Market Size

The retail trade sector posted a gross value-added of P103 billion in 1991. In 1988 the gross value-added for miscellaneous retail goods and services was estimated at P3.7 billion, out of sales of P22 billion.

The components and shares of miscellaneous retail goods and services in the Philippines are as follows:

Books & School Supplies	25.7%
Toys, Gifts & Novelties	4.9
Beauty Parlor Supplies	2.0
Flowers	1.7
Handicrafts	2.6
Feeds & Fertilizers	38.0
Others	25.1
Total Misc. Retail	100.0%

The following analysis excludes feeds and fertilizers which are not serviced by U.S. franchising industries.

Industry Trends

The broad category of miscellaneous retail goods covers most of the emerging retail industries in the Philippine market. Local retailers and manufacturers of retail products have shown fast growth in recent years.

On the manufacturing side, the Philippines is an international center of low-cost production for retail goods. The production of many miscellaneous goods like toys, gifts, novelties, and handicrafts has grown by 6.5% per annum, or almost twice the growth rate of total manufacturers. However, domestic production is geared more for the export markets which command higher profit margins. On the other hand, books and school supplies, and beauty parlor supplies are directed towards the domestic market.

Among Philippine retailers, the target groups are the "AB" and upper "C" market segments. For instance, well-to-do families tend to buy their children educational supplies, as well as toys and gifts that have educational uses. The "D" and "E" market segments cannot afford these luxuries. They buy only materials that are essential to their children's schooling.

Similarly, the "AB" and "C" market segments purchase handicrafts, housewares, and flowers to decorate their homes. The "D" and "E" market segments cannot afford these items.

Cultural Norms and Attitudes

Filipinos have no aversion to foreign products and American goods are welcome. The Philippine retail market is as Western in taste and culture as any Asian nation.

Production Capacity

In 1988, there were 14,886 firms categorized as providing "other" retail goods. There were 2,625 firms retailing toys, gifts, and novelties. School and office supply retailers numbered 2,434 firms. The industry had fixed assets worth P1.3 billion and employed 56,609 workers. Many of these workers were in flower shops, and school and office supply shops.

TABLE 1

RETAIL -- MISCELLANEOUS
NUMBER OF FIRMS, FIXED ASSETS AND EMPLOYMENT

Sector	Number of Firms	Fixed Assets (P in Millions)	Workers
School & Office Supplies	2,434	326	11,859
Toys, Gifts & Novelties	2,625	139	8,742
Beauty Parlors & Supplies	444	17	1,501
Flower Shops	857	50	15,348
Handicrafts	1,766	50	5,550
Feeds & Fertilizers	3,515	522	13,196
Others	3,245	261	12,390
All Sectors	14,886	1,365	56,609

Source: NSO Census of Establishments

Local Competition

Competition in the miscellaneous retail goods industry is very localized, because the industry offers so many different products. Among manufacturers, many of the products made in the Philippines are targeted for exports to developed countries. The domestic market constitutes more of a residual market for surplus production.

There were 543 large firms in the industry, representing just 4% of the total number of firms. However, these few big firms accounted for the majority of sales in the industry. Beauty parlors and school and office supplies tend to be more concentrated sectors than the rest. (See Table 2.)

TABLE 2

OTHER RETAIL PRODUCTS AND SERVICES, 1988
(Value in Million Pesos)

	Number of Firms			Net Sales		
Subsectors	All	Large	%	All	Large	%
School & Office Supplies	2,434	277	9	2,741	2,230	81
Toys, Gifts & Novelties	2,625	32	1	522	95	18
Beauty Parlor Supplies	444	18	4	214	160	75
Other Retail Stores	9,383	296	3	7,197	3,501	49
All Sectors	14,886	573	4	10,674	5,986	56

Large firms defined as having more than 10 employees
Source: NSO 1988 Census of Establishments.

Pricing of Products and Services

Toys, gifts and novelties, flowers, and handicrafts are generally not price sensitive. However, the markets are very segmented. There are very expensive retail outlets for "AB" and "C" market segments for products that are either imported or have export quality. Also, there are retail outlets in sparsely populated markets that sell similar items at much lower prices.

Profitability

There were close to 15,000 miscellaneous retail stores in the Philippines in 1988. Most of them were small stores and shops offering books, office supplies, toys, gifts and a variety of other items. The large firms with more than 10 employees comprised less than 10% of the total number of retail stores. The few that offer school, office, and beauty parlor supplies accounted for approximately three-fourth of total industry sales. The toys, gifts, novelties and other retail stores were dominated by small single proprietorships, partnerships, and family businesses.

Book Stores. The National Book Store (NBS) owned by the Alfredo Ramos family is the country's biggest bookstore chain. It has earned the title "The Total Book Store" for selling a range of books, school and office supplies, greeting cards, toys, and gifts. With an outlet at most of the shopping malls in Metro Manila, NBS made P1 billion in sales and earned P31 million in profits in 1990.

NBS competitors include Alemars, Gibson, and Bookmark. All leading bookstore chains have specialized sections for school textbooks and supplies, technical supplies, fiction and non-fiction novels, reference and trade books, periodicals, greeting cards, toys and gifts in their stores. Some of these bookstores have contractual tie-ins with publishing firms, allowing them to make cheap reprints of popular books and novels. Recently, bookstores have set up book and video libraries where customers can review the books before making purchases.

The peak seasons for Philippine bookstores are the opening of school (July), Christmas and other holiday seasons. During slow months, bookstores offer promotions and cut prices by as much as 50%.

Grolier International is a distributor of encyclopedias. Its market is limited to educational institutions (e.g. schools and public libraries) and families in the "AB" market segments. Recently, Grolier has expanded its market by selling a children's version of encyclopedias. Families are beginning to spend more money on the educational needs of their children. Grolier uses direct selling and provides relatively high commissions to its agents.

Gift Shops. The leading retailer Gift Gate caters to the "AB" market segment. The gift shop continually receives exclusive distributor licenses from internationally known brands such as Betty Boops, Kero Kero Pee, Geneva Cruz, and Sanrio. The Gift Gate owners have diversified into Tokyo Tokyo, a Japanese fast food center for the "AB" and "C" market segments.

Florists. Well-known Philippine florists include Bechaves, Esperanza's, Rustan's, flower shops in the five-star hotels. Popular flower varieties include roses, vandas, and orchids. As in the U.S., the peak seasons are Christmas and Valentine's Day. Unlike the U.S., many florists grow their own flowers. The major sources of flowers are Bagiuo, Laguna, Bacolod, and Davao. In Luzon, flower traders have arrangements with bus lines for the regular delivery of fresh flowers. Florists cater primarily to hotels, malls, and the "AB" market.

Computer and Video Shops. Computers, video cassettes, and laser discs have become popular among the families in the "AB" and "C" market segments. For families and groups, video tapes are cheaper and more convenient than movie theater shows. Home computers have also been popular because of their educational and recreational uses. Many students find word processing and other software programs helpful in their school work. Computer games are very popular in the Philippines.

Many video shops open up in commercial centers and expensive neighborhoods. Major shopping complexes have areas for computer shops. Greenhills Shopping Complex and SM Mega Mall have been transformed into centers for videos, computers and other "high tech" products appealing to the "AB" market segment.

Copyright violations in the local video and computer retail industry is a major problem in the Philippines. Despite the presence of the Videogram Regulatory Board (VRB), video shops continue to offer unauthorized copies of foreign films. Some films even carry Chinese, Japanese, or European subtitles.

TABLE 3

THE LEADERS IN OTHER RETAIL PRODUCTS AND SERVICES, 1990
(Value in Million Pesos)

	Sales	Growth Rate, %	Net Income	Growth Rate, %	Total Assets	Growth Rate, %	Total Liabs	Growth Rate, %	Stkrs Equity	Growth Rate, %
National	1,054	14	30.7	29	622	10	362	7	149	26
Grolier	201	21	26.6	128	289	29	73	9	217	38
Gift Gate	143	35	22.0	5	33	14	19	8	14	19
Top 5,000	2,201	18	80.1	26	1,480	16	783	11	583	29
Diamond	142	-30	1.3	216	80	-22	59	-28	21	4
Ben Kingley	25	32	-1.0	-376	26	100	32	76	-6	20
JC Lucas	20	92	0.4	205	8	75	5	38	3	294
Top 5,000	187	-19	0.7	-26	113	-5	96	-8	17	11
Topmost	73	8	1.5	44	12	-1	5	-25	7	29
Ram Bros.	52	50	0.2	140	31	45	29	48	2	16
Exclusive Islands	35	22	0.1	7	11	13	10	14	1	10
Top 5,000	175	17	1.5	9	58	21	48	22	10	19
North Negros Mktng	819	-15	6.2	66	141	-54	122	-58	19	100
Westland	655	-9	0.7	-33	18	4	14	0	4	23
Gillamac's	218	101	2.9	10	248	33	218	28	30	85
Top 5,000	4,003	6	30.3	11	2,017	7	1,503	-5	339	6

Source: Philippine Business Profiles 1991-92.

Prospects

Similar examples may be found in retail items such as clothing, shoes, cosmetics, toiletries, furniture and home furnishings, optical products, and tools and hardware. These items can be imported by any retailer to meet the local demand. Unless franchise retailers in these markets can demonstrate a strong comparative advantage in price, extra service or product differentiation, local competition and Filipino importers will likely retain significant market share.

6. Automotive Repair Services

Products and Services

This sector includes quick "while-you-wait" lube and oil changes; tune-ups and repairs; automotive interior reconditioning; rust-proofing; and car washing.

Market

The revenues of automotive repair shops reached P1.6 billion in 1988. This industry is represented primarily by motor repair businesses.

Going into the 1990's, there are more than 500,000 registered private cars in the country. These private autos belong to families in the "A" and "B" market segments and to firms that market consumer products using sales fleets.

Players

In 1988, there were about 11,400 automotive repair shops in the Philippines. Half of these offer motor repair services, while the rest provide vulcanizing and tire repairs, and battery and electrical repairs. Most auto repair shops are small backyard operations, many of which double as retailers of automotive parts and accessories. There were just over 600 auto repair firms employing more than ten workers. These large auto shops earned P730 million or almost half of the sales of the auto repair subsector. (See Table 1.)

In 1990, ten motor repair shops were listed among the largest 5,000 Philippine Corporations. These firms made slightly less than P1 billion in sales. The top two firms, World Cars Inc. and Metro Motors Service Center Inc., had combined sales of P737 million. (See Table 2.)

TABLE 1

AUTOMOTIVE REPAIR SERVICES, 1988.
(Value in Million Pesos)

Sector	Number of Firms			Net Sales		
	All	Large	%	All	Large	%
Motor Repair	6,352	535	8	1,280	651	51
Body Repair	906	59	7	146	69	47
Batteries & Electrical	1,204	11	1	55	2.9	5
Vulcanizing & Tire	2,503	10	0	149	5.6	4
All Sectors	11,380	615	5	1,646	728	44

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

TABLE 2

THE LEADERS IN AUTOMOTIVE REPAIR SERVICES, 1990
(Value in Million Pesos)

	Sales	Growth Rate, %	Net Income	Growth Rate, %	Total Assets	Growth Rate, %	Total Liabs	Growth Rate, %	Stkhldrs Equity	Growth Rate, %
World Cars Inc.	39	5,988	0.7	1,009	40	604	34	4,164		15
Metro Motors Service Center Inc	338		0.5							
Masterbuilt Indtrs Inc	71	-43	-1.2	1,263	21	-64	21	-64	-92	
Top 5,000 Corp Car Repair Shops	968	317	2.1	-26	118	6	98	2	20	34

Top 5,000 Listed 10 Car Repair Shops for 1990.
Philippine Business Profiles 1991-92.

Employment

This sector employed approximately 38,109 workers in 1988. Most of the workers were in the motor repair subsector. Also, most workers were in the small backyard operations. Just 22% of the total employment, or 8,351 workers, were employed by the large firms. (See Table 3.)

TABLE 3

AUTOMOTIVE REPAIR AND SERVICE BUSINESS EMPLOYMENT, 1988

Industry	All Firms	Large Firms	Share %
Motor Repair	26,270	7,244	28
Motor Body Repair	3,091	911	29
Batteries & Electrical Repair	2,664	91	3
Vulcanizing & Tire Repair	5,209	105	2
All Sectors	38,109	8,351	22

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

The automotive repair business is labor-intensive. Backyard operators employ low-skilled workers, minimal tools and improvised equipment to provide services. Minor repairs can take hours to finish. Workers are likely to be paid much less than the minimum wage. Compensation comprises 15 - 22% of sales. (See Table 4.)

The large auto shops, together with large oil stations, also combine retail auto parts sales and repair services. They offer complete car check-up, quick minor repairs, and advanced equipment. Because these large firms employ trained auto mechanics and skilled assistants, compensation rises reaches 30% of sales.

TABLE 4

VALUE-ADDED & COMPENSATION SHARES IN THE AUTOMOTIVE REPAIR SERVICE INDUSTRY, 1988
(Value in Million Pesos)

	All Firms			Large Firms		
Sector	Sales	Value-Added, %	Compensation, %	Sales	Value Added, %	Compensation, %
Motor Repair Shops	1,280	43	23	651	39	24
Motor Vehicle Body Repair	146	45	22	69	51	28
Batteries & Electrical Repair	55	47	18	2.9	53	30
Vulcanizing & Tire Repair	149	46	15	5.6	38	25
All Sectors	1,646	44	22	728	40	24

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

Prospects

Auto sales, including parts and services, are a good lagging indicator of general business trends. Like the U.S., as the economy improves, auto sales will rise accordingly. The general outlook for this industry should improve as the economy improves with continued government reforms.

The cultural norm for the Philippines is that cars are taken care of and maintained through repairs, overhauls, and body work. Competent auto services are actively sought by the Philippine market. In this regard, automotive repair and body repair shops should find relatively good prospects. The Filipino consumer does not place a premium on instant service or quick turn-around; franchisors competing only on quick service may find no real comparative advantage.

The franchisor in the automotive repair and services industry will cater to the market segment in the "AB" markets. Even for this market, prices are relatively low due to competition from the informal micro enterprises. Opportunities exist for franchisors offering integrated, sophisticated services but with competitive prices.

7. Health Aids and Services
8. Cosmetics and Toiletries

Products and Services

This sector includes the distribution of hearing aids, eye-glasses, and other healthcare products; cosmetics and toiletries (including hair care products); physicians services; clinics; dental care centers; weight-loss centers; eye-care services; hair care salons and barber shops; and woman's beauty parlors.

Market

Filipino families spend less than 2% of their household budget on medical and other health care services. In 1988, medical care expenses totaled P6 billion. Filipinos rarely visit hospitals and health centers. Filipinos will first visit the government health centers.

Filipino families spend 4% of household income on personal care and effects, which include soaps, cosmetics, and beauty services. In 1988, personal care expenditures reached P11 billion.

Players

There were 6,156 retailers of medicine and other healthcare products in 1988. Most of the retailers were drug stores. Seven percent of the firms were large and accounted for three fourths of the total retail sales. (See Table 1.)

In 1988, there were 13,440 organizations providing health care services. The industry was comprised of many small family-owned medical and dental clinics and laboratories. In 1988, there were 665 hospitals, all of which were large establishments. Hospitals accounted for P3 billion or 60% of industry revenues.

There were 13,617 beauty and barber shops in 1988. Most of these were beauty parlors. The industry is comprised primarily of micro enterprises employing fewer than ten persons. In 1988, the 208 large shops accounted for only 11% of industry sales. This may leave room for a well-organized international chain, but price competition from these small shops will be strong.

In 1990, however, there were more than two dozen hospitals and clinics listed in the Top 5,000 Corporations of the Philippines. These firms earned P1.6 billion in revenues but only P50 million profits. The big three hospitals, Medical Doctor, Professional Services and Manila Medical, already accounted for P720 million, or almost half of the total revenues.

TABLE 1

THE BEAUTY AND HEALTH-CARE INDUSTRY, 1988
(Value in Million Pesos)

	Number of Firms			Net Sales		
Sector	All	Large	%	All	Large	%
Drug Stores	6,156	442	7	7,055	5,379	76
Medical, Surgical & Dental Supplies	233	27	12	234	150	64
Optical Goods & Services	145	11	8	47	22	48
All Sectors	6,534	480	7	7,336	5,552	76
Hospitals & Sanitaria	665	528	79	3.060	2,991	98
Medical Clinics & Labs	7,542	245	3	1,526	572	37
Dental Clinics & Labs	4,761	23	0	311	13	4
Other Health Services	71	6	8	37	27	74
All Sectors	13,440	805	6	4,989	3,606	72
Barber Shops	2,298	93	4	81	23	28
Beauty Parlors	11,319	115	1	669	59	9
All Sectors	13,617	208	2	750	81	11

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

TABLE 2

THE LEADERS IN 1990, BEAUTY AND HEALTH CARE INDUSTRY
(Value in Million Pesos)

	Sales	Growth Rate,%	Net Income	Growth Rate,%	Total Assets	Growth Rate,%	Total Liabs	Growth Rate,%	Stkhldrs Equity	Growth Rate,%
Medical Doctors	477	31	5	11	1,012	288	225	8	786	1,870
Professional Svcs	128	28	6	84	250	23	491	1,888	200	12
Manila Medical	116	21	3	146	157	8	110	15	47	24
Top 5,000 Corp Health-Care Products & Services	1,596	34	50	92	2,021	101	1,127	123	1,342	170

Source: Philippine Business Profiles 1991-92.

Employment

The beauty and health care industry is very labor-intensive. The sale of drugs, medical supplies, and equipment employed 28,337 workers in 1988. Most of these workers were in the retail drug business. (See Table 3.)

Hospitals and medical clinics had 66,195 employees in 1988. Most of these were nurses and attendants in large medical centers. Barber shops and beauty salons employed another 29,878 workers.

The shares of value-added and compensation to total retail sales of drugs and medical supplies were only 11% and 9% respectively. These figures indicate the high cost of goods sold by drugs stores and medical suppliers. Hospitals, medical and dental clinics showed higher value-added (44%) and compensation (22%) compared to drug stores and medical suppliers. (See Table 4.)

TABLE 3

EMPLOYMENT IN THE BEAUTY & HEALTH-CARE INDUSTRY, 1988

Industry	All Firms	Large Firms	Share %
Drug Stores	26,634	7,255	27
Medical,Surgical & Dental Supplies	1,275	496	39
Optical goods & Services	428	157	37
All Sectors	28,337	7,908	28
Hospitals & Sanitaria	34,221	33,059	97
Medical Clinics & Labs	22,634	5,317	23
Dental Clinics & Labs	7,906	274	3
Other Medical Services	288	120	42
All Sectors	66,195	38,811	59
Barber Shops	4,975	1,001	20
Beauty Parlors	24,903	1,110	4
All Sectors	29,878	2,111	7

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

TABLE 4

BEAUTY & HEALTH-CARE INDUSTRY
VALUE-ADDED & COMPENSATION SHARES, 1988
(Value in Million Pesos)

	All Firms			Large Firms		
Sector	Sales	Value-Added, %	Compen-sation, %	Sales	Value-Added, %	Compen-sation, %
Drug Stores	7,055	11	6	5,379	9	6
Medical, Surgical, Dental Supplies	234	24	12	150	21	11
Other Medical Supplies	47	23	11	22	27	18
All Sectors	7,336	11	7	5,552	9	6
Hospitals & Sanitaria	3,060	40	28	2,991	40	29
Medial Clinics & Labs	1,526	49	13	572	57	18
Dental Clinics & Labs	311	51	9	13	38	38
Other Medical Services	37	27	14	27	26	15
All Sectors	4,989	44	22	3,606	43	27
Barber Shops	81	56	22	23	43	39
Beauty Parlors	669	56	22	59	51	32
All Sectors	750	56	22	81	49	34

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

Prospects

Prospective franchises face a limited market for health aids and services. Filipino families are generally poor, with about half living below the poverty level. In 1988, the average family spent only P548 on medical care. When ill, only one-fifth of Filipinos visit private hospitals and clinics, one-fourth visited the government health centers, and the rest rely on self-medication.

One specialty franchisor, Miracle Ear, has successfully penetrated the hearing aid market niche, and is well established in the Philippines. Drug stores and dental centers will face stiff competition for the limited disposable income spent on Philippine health care.

For hair salons and beauty parlors, price competition will be a significant deterrent to market entry. The target population will only be the "AB" market segment and will be concentrated in the NCR and major cities.

Recently, specialty weight loss health clinics and salons have been on the rise. The more popular salons are Slimmers World and Jcane Drew. Both offer various approaches to weight control.

9. Home Furnishings

Products and Services

This sector includes furniture and appliance sales; furniture restoration and stripping; carpet cleaning; wall cleaning; window covers and draperies; and beds, mattresses and sleep products.

Market

The home furnishings industry could be divided into the following subsectors:

- furniture, fixtures and decorations;
- household appliances;
- home furnishings; and
- floor coverings, rugs, carpets and linoleum.

The industry is comprised of small local companies that provide furniture refinishing and upholstery, making use of local and imported cloth, leather and synthetic materials. Wallpaper is not as widely used by Philippine households as it is in the U.S. Specialized shops also sell bedding and mattresses.

The home furnishings industry in the Philippines recorded sales of almost P10 billion in 1988, with the household appliance sector making up P8 billion of that total. Furniture sales constituted P921 million, and rug and carpet sales were P928 million.

The market for household appliances cuts across the "AB," "C," "D," and even the "E" markets. Naturally, greater expenditures are made by the upper income brackets.

By comparison, the market for carpets and rugs is concentrated in the "AB" income class. The product is relatively expensive and is, therefore, considered a luxury, and is associated with a high cost of cleaning and maintenance.

Middle class ("C" and "D" market) households purchase relatively economical home furnishings.

Players

About 11,000 firms are engaged in the industry. Two-thousand firms offer home furnishings, and about the same number are in home appliance retailing. Only 1 - 4% of the firms engaged in furniture, fixtures, furnishings, and rugs and carpets are large. However, these larger companies account for 14 - 16% of the total subsector's net sales. In appliance sales, only 15% of the firms have more than 10 employees. However, these companies account for 73% of total sales.

Market leaders for household appliance sales are Automatic Industries and Abenson. The leaders in carpet sales are Bell Carpets and Tai-ping. In furniture, well known names are Ceramco International and World Seasons Furniture. Cityblinds is a well known brand in window shades, while Champion, Frabells and FransAsia are well known as wallpaper distributors.

TABLE 1

FURNITURE AND HOME FURNISHINGS, 1988
(Value in Million Pesos)

Sectors	Number of Firms			Net Sales		
	All	Large	%	All	Large	%
Furniture & Fixtures	1,889	88	3	921	426	46
Appliances	1,961	289	15	6,094	4,450	73
Home Furnishings						
Carpets, Rugs						
Others						
All Sectors	11,039	535	5	9,686	5,653	58

Source: NSO 1988 Census of Establishments

TABLE 2

THE MARKET LEADERS IN THE HOME FURNISHING BUSINESS, 1988
(Value in Million Pesos)

Firm	Net Sales P Mil	%	Income P Mil	%	Assets P Mil	%	Liabilities P Mil	%	Equity P Mil	%
Masagana Telemart	187	34	0.6	70	99	27	73		4.7	
Carvian Industrial	142	-16	0.4	-43	72	-22	67	-24	4.7	8
Bell Carpets	40	-2	0.1	43	25	-14	13	-25	12	1
Top 5,000 Corp	425	7	1.5	-5	212	-1	94	-51	19.2	42
Cerameco Int'l	1.426	37	34	39	282	14	187	3	95	42
World Seasons	1,137	31	13	53	142	91	108	100	33	67
Josol Home Decor	1,068	33	3	-43	364	58	340	63	24	13
Top 5,000 Corp	5,812	32	87	30	1,897	33	1,480	35	437	25
Automatic Appl.	878	27	16.2	204	164	0	178	-8	56	26
ETB Industries	310	39	0.4	-20	49		42		7	
Wilin Sales Inc.	98	54	1.0	67	80	59	75	63	5	15
Top 5,000 Corp	1,377	29	19.9	88	399	30	310	30	89	32

Source: Philippine Business Profiles 1991-92.

Employment

The industry as a whole employed more than 40,000 people in 1988, with large firms accounting for about one-fourth of the total employment. Household appliances accounted for about one-third of the total employment, and more than one-half of the employment by larger companies.

TABLE 3

EMPLOYMENT IN THE HOME FURNISHING BUSINESS, 1988

Sector	All Firms	Large Firms	Share %
Furniture & Fixtures	7,809	977	13
Household Appliances	15,624	6,917	44
Home Furnishings	892	67	8
Carpets, Rugs, Etc.	10,270	924	9
Others	11,201	2,295	20
All Sectors	45,796	11,180	24

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

TABLE 4

VALUE-ADDED & COMPENSATION SHARES IN HOME FURNISHINGS, 1988 (Value in Million Pesos)

	All Firms			Large Firms		
	Sales	Value-Added, %	Compensation, %	Sales	Value Added, %	Compensation, %
Furniture & Fixtures	921	17	7	426	15	5
Household Appliances	6,094	12	6	4,450	10	5
Home Furnishings	171	14	7	24	14	6
Carpets, Rugs, Etc.	928	14	4	180	9	7
Others	1,572	18	7	573	16	10
All Sectors	9,688	14	6	5,653	11	6

Large fi. ns defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments.

Profitability

Most of the major players in the home furnishings and related markets registered moderate growth and profits in recent years. Appliance stores appeared slightly ahead of the other subsectors in the industry, primarily because they cater to a larger market and have greater overall sales. Recently, a downturn in demand for household appliances has resulted from higher interest rates for household credit. Local appliance manufacturers are now collaborating with retail outlet chains for advertising promotions.

Prospects

Culturally, Filipino households are interested in continually improving their homes and living standards. However, demand for home furnishings, furniture, and fixtures is heavily dependent upon disposable household income. The current economic downtown will have a dampening effect upon immediate demand. With generally increasing incomes expected from government reforms, demand for furnishings and furniture will rise, and the industry will face moderately good prospects for future growth. Demand for appliances will be steady, because it is less dependent upon upper income markets, and because the Filipino population is projected to continue growth at rates above Western country averages.

10. Hotels and Motels

Products and Services

This sector includes economy hotels, motels, and inns.

Market

Hotels, motels, and inns cater to tourists and traveling business people. The Philippines lags behind many Asian countries in terms of hotel facilities. The country is aimi g for one million foreign tourists this year. By comparison, Hong Kong, Malaysia, Thailand, and Singapore had an average of five million visitors in 1991.

However, the private sector is responding positively to the new administration's focus on tourism development. Hong Kong Shangri-La International recently opened a 440 room deluxe hotel in Manila. With two other hotels due to be completed in 1993, the Philippines will become a major segment in the Shangri-La portfolio. Two other deluxe hotels and 10 economy and standard class hotels will begin construction during the latter part of 1992.

TABLE 1

HOTELS AND MOTELS, 1988
(Value in Million Pesos)

	Firms			Net Sales		
Subsectors	All	Large	%	All	Large	%
Hotels & Motels	1,151	447	39	5,659	5,556	98
Dormitories	524	36	7	74	37	50
Pension Houses	84	19	23	45	29	65
Others	135	5	4	15	1	9
All Sectors	1,894	507	27	5,793	5,623	97

Large firms defined as having more than 10 employees
Source: NSO 1988 Census of Establishments.

Players

The Manila Peninsula led the hotel and motel industry, with revenues of P575 million in 1990. The Enjay, Inc. and Philippine Hoteliers took the next two places among hotels in the Top 5,000 corporations in the Philippines.

In 1990 hotels and motels reported an average 10% return on sales. The average could be higher as many hotels and motels omitted some revenues. Deluxe hotels reported occupancy rates of between 50 to 80%. Apartels (long-term apartment-hotels) normally reach 80 to 100 % occupancy rates while motels had occupancy rates as high as 300%. Very few owners, however, reported such high levels of occupancy.

TABLE 2

THE LEADERS IN HOTELS AND MOTELS, 1990
(Value in Million Pesos)

	Sales	Growth Rate, %	Net Income	Growth Rate, %	Total Assets	Growth Rate, %	Total Liabs	Growth Rate, %	Stkrs Equity	Growth Rate, %
Manila Peninsula	575	9	91	4	607	6	92	-17	515	12
Enjay, Inc.	521	52	162	1,542	142	40	122	46	20	12
Philippine Hoteliers	408	24			520	570	94	-1	426	11
Top 5,000 Corp	4,211	16	601	63	5,957	42	1,900	-43	4,054	35

Source: Philippine Business Profiles 1991-92.

Employment

The industry employed about 34,854 workers in 1988. More than four-fifths of these employees were in the large hotels and motels. On the average, compensation accounted for 23% of the total sales of the industry. However, in the dormitories and pension houses, compensation is up slightly, to about 25% of the total sales.

TABLE 3

EMPLOYMENT IN HOTELS & MOTELS, 1988

Industry	All Firms	Large Firms	Share %
All Sectors	34,854	29,127	84
Motels & Hotels	31,733	28,201	89
Dormitories	1,988	573	29
Pension Houses	625	301	48
Others	508	52	10

Large firms defined as having more than 10 employees
Source: NSO 1988 Census of Establishments

TABLE 4

HOTELS AND MOTELS
VALUE-ADDED & COMPENSATION SHARES, 1988
(Value in Million Pesos)

	All Firms			Large Firms		
	Sales	Value-Added, %	Compen-sation, %	Sales	Value Added, %	Compen-sation, %
Hotels & Motels	5,659	47	23	5,556	47	23
Dormitories	74	52	22	37	47	27
Pension Houses	45	45	19	29	37	20
Others	15	63	17	1	50	36
All Sectors	5,793	47	23	5,623	47	23

Source: NSO 1988 Census of Establishments

Prospects

The Philippine hotel and motel industry has a gap in the market for lower priced, business oriented, facilities. In this respect, franchising could be attractive because of its ability to take advantage of niche markets. "Apartels" (long term apartment-hotels) and economy hotels are recommended because of their relatively lower investment capital requirements vis-a-vis large first class hotels, economical prices, and higher occupancy figures. By contrast, numerous deluxe hotels offer accommodations at prices that are affordable only to business people traveling for large corporations and affluent tourist travelers. With occupancy rates running as low as 50%, there is little profitable room for additional entrants into the deluxe market.

A strategy recommended by industry experts is to lease an existing facility for a minimum of 20 years, and to operate it efficiently and economically. The best investors historically have been airline companies, large travel agencies, tour operators and complex developers. Investors from the travel-related businesses are likely to provide the needed marketing efforts. For instance, travel operators, covering the Asia-Pacific region can include selected Philippine scenic spots in their economy tour packages.

Generally, prospects for profitable hotel operations will be very dependent upon overall economic growth.

TABLE 2

THE LEADERS IN 1990 LAUNDRY SERVICES AND CLEANING
(Value in Thousand Pesos)

	Sales	Growth Rate,%	Net Income	Growth Rate,%	Total Assets	Growth Rate,%	Total Liabs	Growth Rate,%	Stkhldrs Equity	Growth Rate,%
Hong Seng Int'l	23,612	10302	69	-132	10,698	5,791	4,907			
Easygrow Ind.	13,561	-256	7,945	7,451	494					
FL Steam Laundry	11,810	66	317	94	4,443	10	3,313	6	1,130	24
Top 5,000 Corp Laundry Services & Cleaning	48,983	567	130	-355	23,086	473	16,555	431	6,531	615

Source: Philippine Business Profiles 1991-92.

Employment

The industry employed approximately 2,260 workers in 1988. About 80% of the workers were employed by large firms. (See Table 3.) There are, however, a large number of individuals who work as household *labanderas* (wash women). The laundry and dry cleaning industry uses inexpensive Philippine labor.

TABLE 3

EMPLOYMENT IN THE LAUNDRY SERVICES AND CLEANING, 1988

Industry	All Firms	Large Firms	Share %
Laundry Services & Cleaning	2,260	1,858	82

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

TABLE 4

VALUE-ADDED & COMPENSATION SHARES IN LAUNDRY SERVICES & CLEANING, 1988
(Value in Million Pesos)

	All Firms			Large Firms		
Sector	Sales	Value-Added, %	Compen-sation, %	Sales	Value Added, %	Compen-sation, %
Laundry Services & Cleaning	233	43	29	210	41	30

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

Prospects

Moderate to good prospects exist for cleaning franchises depending on the location chosen. Attitudes towards machine-operated laundry services are changing and there is a growing acceptance of washing machines. The principal target market includes singles and professionals who belong to the middle-income class and who have no household help, and students who live by themselves. The price should be comparable to employing the services of a laundrywoman. Competition will come from the current trend to use home/personal washing machines. A viable operation could be one located in a university area.

Large firms, utilize semi- and fully-automatic washing machines for laundry services and cleaning. Workers are employed to operate the machines and do other manual tasks.

12. Maintenance, Cleaning, and Sanitation Services

Products and Services

This sector includes grease control for restaurants and food services; infection control; cleaning of ceilings, floors, sewers, drains, air ducts, exhausts and industrial ovens; window washing; and janitorial services.

Market

Metro Manila and Cebu business owners have indicated increased interest in commercial and industrial cleaning services, including waste collection, a perennial problem of Philippine urban centers.

In 1988 the industry had sales of P363 million, about two-thirds of which went to janitorial and maintenance services for commercial offices. (See Table 1.)

Players

There were 229 maintenance and cleaning firms identified in 1988. About half of these catered to commercial office building offices. Large firms dominate the industry, earning an 88% share of total industry revenues.

TABLE 1

MAINTENANCE & CLEANING SERVICES, 1988
(Value in Million Pesos)

	Number of Firms			Net Sales		
Subsectors	All	Large	%	All	Large	%
All Subsectors	229	102	45	363	321	88
Waste Collection & Disposal	34	10	29	29	22	77
Pest Control, Non-Agricultural	78	25	32	78	69	89
Office Cleaning, Including Windows	114	64	56	237	209	88
Others	3	3	100	20	20	100

Large firms defined as having more than 10 employees
Source: NSO 1988 Census of Establishments.

TABLE 2

THE LEADERS IN MAINTENANCE AND CLEANING SERVICES, 1988
(Value in Million Pesos)

	Sales	Growth Rate,%	Net Income	Growth Rate,%	Total Assets	Growth Rate,%	Total Liabs	Growth Rate,%	Stkrs Equity	Growth Rate,%
Maintenance & Cleaning	343	35	12.5	-4	199	57	108	48	91	68
Servicio Filipino Inc	34	51	0.5	-1	21	35	14	59	8	7
Equitable Genl Svcs	31	36	0.5	67	3	40	2	74	1	4
City Service Corp	29	64	0.0	70	15	-1	15	-1	(0)	5

Source: Philippine Business Profiles 1991-92.

Employment

The industry employed almost 8,800 workers in 1988. About 90% of the workers were employed by large firms. Approximately 7,200 workers were employed in maintenance and janitorial services of commercial and industrial buildings. (See Table 3.)

The maintenance and cleaning industry utilizes cheap labor. There are no large or sophisticated capital equipment needs, except possibly by some waste disposal and pest control firms. Janitorial and maintenance services are basically labor-intensive. Compensation of employees accounts for 62% of a firm's revenues. (See Table 4.)

TABLE 3

EMPLOYMENT IN MAINTENANCE & CLEANING SERVICES, 1988

Industry	All Firms	Large Firms	Share %
All Sectors	8,793	7,885	90
Waste Collection & Disposal	313	195	62
Pest Control, Non-Agricultural	977	759	78
Office Cleaning, Including Windows	7,184	6,610	92
Others	321	321	100

Large firms defined as having more than 10 employees
Source: NSO 1988 Census of Establishments

TABLE 4

VALUE-ADDED & COMPENSATION SHARES IN MAINTENANCE & CLEANING SERVICES, 1988
(Value in Million Pesos)

Sector	All Firms Sales	Value-Added,%	Compen-sation,%	Large Firms Sales	Value-Added,%	Compen-sation,%
All Sectors	363	69	51	321	71	54
Waste Collection	29	54	20	22	53	20
Pests Control	78	53	30	69	53	30
Office Cleaning	237	76	62	209	80	65
Others	20	64	56	20	64	56

Source: NSO 1988 Census of Establishments

Prospects

This industry faces bright prospects. The rise of condominiums, together with the new designs for recently constructed commercial office buildings, may necessitate new approaches in maintenance and cleaning. Many of the programmed industrial estates require strict environmental and sanitation standards. Many foreign industrial companies opening operations in the Philippines have higher corporate standards of cleanliness and sanitation both for their equipment and in work areas.

13. Real Estate Services

Products and Services

This sector includes real estate brokerage services and, residential and commercial services.

Market

The construction boom saw the rise of the real estate industry. Established real estate companies include Fil-Estate and Sta. Lucia. There are numerous industry associations, which include as members real estate agents, developers, and architects. Given the state of the industry, there is no clear competitive edge for U.S.-based franchisors.

Players

There were 748 companies involved in real estate activities in 1988, more than one third of which are large companies with more than ten employees.

TABLE 1

THE REAL ESTATE SERVICES BUSINESS, 1988
(Value in Million Pesos)

Sector	Number of Firms			Net Sales		
	All	Large	%	All	Large	%
Real Estate Companies	355	133	37	5,482	3,629	66
Other Real Estate Activities	393	96	24	1,312	1,219	93
All Sectors	748	229	31	6,794	4,847	71

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

TABLE 2

THE LEADERS IN REAL ESTATE SERVICES, 1988
(Value in Million Pesos)

	Sales	Growth Rate,%	Net Income	Growth Rate,%	Total Assets	Growth Rate,%	Total Liabs	Growth Rate,%	Stkhldrs Equity	Growth Rate,%
Servicio Filipino	34	51	0.5	-1	21	35	14	59	8	7
Ayala Land Inc	1,991	17	725	-1	4,725	51	2,146	84	2,578	32
Ayala Corp	1,445	5	1,292	4	6,530	36	711	191	5,818	28
Philippine Realty	770	268	133	151	1,348	6	665	-13	683	36
Top 5,000 Corp Real Estate Services	16,413	36	5,285	26	57,845	32	26,672	12	31,630	42

Source: Philippine Business Profiles 1991-92.

Employment

The real estate business employed approximately 9,389 workers in 1988. Most of these were employees of the larger firms. While there are many real estate brokers and agents, the majority of them are affiliated with big firms.

Real estate services are relatively high-value added activities. About 56% of total industry sales is value-added. Compensation of employees, however, comprised only 7% of total sales.

TABLE 3

EMPLOYMENT IN REAL ESTATE SERVICES, 1988

Industry	All Firms	Large Firms	Share %
Real Estate Companies	5,873	4,950	84
Other Real Estate Activities	3,516	2,453	70
All Sectors	9,389	7,403	79

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

TABLE 4

VALUE-ADDED & COMPENSATION SHARES IN REAL ESTATE SERVICES, 1988
(Value in Million Pesos)

	All Firms			Large Firms		
Sector	Sales	Value-Added, %	Compen-sation, %	Sales	Value-Added, %	Compen-sation, %
Real Estate Companies	5,482	56	6	3,629	47	8
Other Real Estate Activities	1,312	56	11	1,219	57	10
All Sectors	6,794	56	7	4,847	49	9

Large firms defined as having 10 or more workers.
Source: NSO 1988 Census of Establishments

Prospects

The market prospects should be good considering the growth of industrial estates and the emergence of new urban centers. Progressive realty companies have contributed significantly to the development of large commercial centers in Metro Manila. Because of competition, they are now seeking niches in other urban centers like Cagayan de Oro, Cebu, and Davao. Real estate development generally in these areas has been growing very fast.

However, prospective U.S.-based franchisors will find a very competitive local market. The local market has kept pace with new trends and technologies. There are numerous industry associations for real estate agents, developers, and architects. Local and international conferences on real estate development are held regularly. Many of the present industrial projects are joint ventures of local companies with large, foreign partners. The existence of local competition could be a significant deterrent to the development of international franchising in the real estate industry.

14. Services -- Miscellaneous

Products and Services

This sector includes typesetting and graphics services; corrosion control; underground vessel and pipe repair; engraved glassware; hair replacement; and "while-you-wait" shoe and clothing repairs.

Market

In 1988, industry revenues reached P636 million. More than half of these revenues came from the repairs of household appliances, like TVs and radios. (See Table 1.)

TABLE 1

OTHER REPAIR SERVICES, 1988
(Value in Million Pesos)

	Number of Firms			Net Sales		
Subsectors	All	Large	%	All	Large	%
All Subsectors	6,634	167	3	636	301	47
Footwear & Leather Repairs	972	5	1	44	7	17
Other Household Appliances	1,476	68	5	230	107	47
Television & Radios	2,293	43	2	173	93	54
Other Electrical Repairs	387	21	5	64	39	61
Other Repair Services	553	19	3	55	28	51

Large firms defined as having more than 10 employees
Source: NSO 1988 Census of Establishments.

Players

There were 6,634 repair service firms in 1988, most of which were informal micro enterprises (e.g. single proprietors and partners that work from their homes or operate small shops at curbs, markets and commercial centers). Large firms numbered 167, a minimal 3% of the total number of firms. Subsidiaries or affiliates of big appliance manufacturers, (e.g. National, Panasonic, and Sony) provide after-sale services to customers. Some large home appliance dealers and watch and jewelry stores have repair sections to meet the needs of customers. Large firms received almost half of the revenues of the industry.

Because of the small- to medium-scale operations of repair services, only a few firms entered the Top 5,000 Corporations of the Philippines. These were the Manila Component Services, St. Bernard Services, and the Seiko Service Center.

The large firms that entered the Top 5,000 Corporations made P163 million in revenues and P18 million in profits. While industry gross sales and income grew, the market leaders suffered declines in sales and profit. (See Table 2.)

Mr. Quickie has dominated the instant shoe repair market since it began. Before Mr. Quickie, shoe repairs were provided by small shoemakers. Mr. Quickie stalls are conveniently located in big markets and commercial centers. Besides quick service and affordable prices, Mr. Quickie provides its customers with a choice on replacement materials.

TABLE 2

LEADERS IN REPAIR SERVICES, 1990
(Value in Million Pesos)

Firm	Sales	Growth Rate,%	Net Income	Growth Rate,%	Total Assets	Growth Rate,%	Total Liabs	Growth Rate,%	Stkrs Equity	Growth Rate,%
Manila Components	54	-9	0.4	-16	26	29	20	36	6	7
St. Bernard Services	24	-5	0.5	130	7	19	4	2	3	15
Seiko Service Center	22	-10	-0.2	-231	6	-12	5	-13	2	-10
Top 5,000 Corp	163	18	1.8	-13	100	40	77	47	23	19

Source: Philippine Business Profiles 1991-92.

Employment

The industry employed 15,964 workers in 1988. Most were relatives and students working as apprentices to earn additional income. Compensation accounted for about one-fifth of the firms' total sales. (See Tables 3 and 4.)

About one-fifth of the total number of workers were in the large firms. These large firms employed more skilled workers and technicians. They gave workers more stable jobs and better wages and benefits. In the large firms, worker compensation ranged from one-fourth to one-third of the firms' total sales.

TABLE 3

EMPLOYMENT IN OTHER REPAIR SERVICES, 1988

Industry	All Firms	Large Firms	Share %
Footwear & Leather Repair	1,999	81	4
Other Household Appliances	4,533	1,280	28
Television and Radios	4,925	738	15
Other Electrical Repair	1,405	489	35
Other Repair Services	1,359	261	19
All Sectors	15,964	3,014	19

Large firms defined as having more than 10 employees
Source: NSO 1988 Census of Establishments

TABLE 4

VALUE ADDED & COMPENSATION SHARED IN OTHER REPAIR SERVICES, 1988
(Value in Million Pesos)

	All Firms			Large Firms		
Sector	Sales	Value-Added, %	Compensation, %	Sales	Value-Added, %	Compensation, %
Footwear & Leather Repairs	44	52	21	7	65	37
Other Household Appliances	230	39	23	107	33	28
Television & Radios	173	51	22	93	44	28
Other Electrical Repairs	64	51	30	39	49	33
Other Repair Services	55	50	22	28	53	28
All Sectors	636	46	22	301	42	28

Source: NSO 1988 Census of Establishments

Prospects

Home appliances and personal "gadgets" have become more technologically advanced. The last decade saw the growth of color TVs, stereo components, radio cassettes, and gas ranges. Laser disc players and VCRs, computers, microwave ovens, and washing machines have become popular in recent years. There may be a need to train new technicians to handle these technologically advanced products.

Manufacturers and dealers have authorized repair shops. These have become essential after-sale services. Many products have guarantee periods during which customers receive free servicing, including repairs and replacements for selected spare parts.

Consumers, especially those of expensive home appliances and electronic equipment, are wary of the small repair shops. Moreover, given new technologies, consumers are only confident in having repairs done by authorized personnel.

There is considerable potential for the development of another shoe repair chain in the market. The start-up investment is relatively small. Aside from shoe repair, bag repair, and key duplication services may be offered.

Clothing repairs and alterations are easily and cheaply done by the tailoring and dress shops. These shops abound in the urban cities.

Engraved glass overlay caters to the "AB" market segments. Recently, an American franchise entered this market.

CHAPTER VI

REVIEW OF REGULATORY REGIME GOVERNING INTRODUCTION OR EXPANSION OF U.S.- BASED FRANCHISES

The rules governing franchising in the Philippines are basically designed to protect the rights of local franchisees. This policy is intended to balance the fact that typical franchise agreements are drafted and controlled by franchisors to protect the rights of the franchisor companies.

Philippine policies are also formulated so that franchising agreements will contribute to the overall economic development of the country. This growth comes through the spread of new technologies, stimulation of local industries and suppliers, generation of employment, and promotion of exports.

A. FRANCHISE REGULATIONS

The rules governing franchising are currently under review by the Philippine government. The experiences of other countries are being examined to develop appropriate policies and rules on the conduct of franchising in the Philippines.

Although there is an Administrative Order governing the conduct of franchising agreements, the current rules leave room for differing interpretations. Furthermore, Philippine law lacks clear definitions that distinguish franchising from other kinds of arrangements such as licensing and distributorship agreements. These agreements are generally lumped together under the regulations governing "technology transfers." This vague approach frequently leads to royalty payment disputes, because royalty fee payments are permitted only under franchising agreements.

The regulatory review now underway aims to establish clearer guidelines and procedures, and to create an environment that encourages the entry of foreign franchisors. The revised rules will likely follow the government's general policy of reducing regulations and promoting foreign investments.

1. Required Registration of Franchise Agreements

The rules governing franchising come under the rules governing "technology transfer arrangements" (TTA). A technology transfer arrangement is a contract or agreement entered into between domestic companies and foreign companies or foreign-owned companies "involving the transfer of systematic knowledge for the manufacture of a product, for the application of a process or for the rendering of a service." Transfers covered under these rules also include the assignment or licensing of any form of industrial property rights.

All new international franchise agreements (Technology Transfer Agreements) must be registered with the Bureau of Patents, Trademarks and Technology Transfer. Generally, approval will be granted within 30 days for a proper application. Using a model contract as a guide, approval may be obtained in as little as two working days. Any contract for franchising should follow these general guidelines:

- Avoid restrictive business clauses expressly prohibited by statue (see section 5 below).
- Ensure that royalty payments are within industry norms. Exceptions requiring higher royalties should be fully justified in writing.
- Include a section detailing warranties to the franchisee, and provide for arbitration in the event of disputes.

2. Technology Transfer Registry

The Technology Transfer Registry (the "Registry" or "TTR") within the Bureau of Patents, Trademarks, and Technology Transfer of the Department of Trade and Industry has been mandated to formulate policies regarding technology transfers. The registry evaluates, registers and monitors TTA's, and provides advisory services and information on TTA's and sources of new technology for Philippine companies. (Executive Order No. 133, and Sec. 79-B of the revised Administrative Code.)

Curiously, the Registry does not have police powers to impose fines and penalties or to take legal action against contracting parties which do not register their agreements with the government as required. However, parties which do register late with the Registry can be penalized. Fines are also imposed for failure to file or late filing of required Annual Progress Reports.

3. Registration Procedure

All new international franchise agreements (Technology Transfer Agreements) must be registered with the Registry. Registration is valid only for five years, with some minor exceptions. Amendments involving even minor changes, such as addition of new products, changes in technology suppliers or technology recipients, and change of corporate names must also be registered.

Automatic renewal is permitted only for arrangements that do not involve a royalty payment, which would rarely be the case for franchise arrangements. A valid registration period of more than five years is allowed, provided the royalty payment applies only to the sale of the product generated over a five-year period, or if there is no royalty fee.

4. Royalty Payment Restrictions

In general, there are no statutory requirements set for royalty payment rates. Royalty payments are agreed upon by the two contracting parties. The TTR can, however, deny approval for the agreement if the royalty rates are considered unreasonable, even if the two contracting parties have freely agreed to the rates.

The TTR uses several criteria to assess whether royalty rates are "reasonable." First, the Registry coordinates with countries that are members of the World Intellectual Property Organization (WIPO) and the United Nations (UN) to compare the royalty rates between the Philippines and other nations. There have been instances where U.S. franchisors sought a royalty rate from a Filipino franchisee that was considerably higher than the royalty rate granted to another franchisee from another, more economically developed, nation. Secondly, the Registry evaluates the rates in relation to the agreement's value to the recipient and to the local economy, with particular emphasis on technology considerations. The criteria considered during this evaluation include:

a. scope, complexity, and pioneering nature of the technology;

b. importance of the technology to the recipient's overall economic activity;

c. degree of mastery of the technology provided to the technology supplier;

d. stage of the licensed product in the product life cycle;

e. use of indigenous raw materials and energy savings to the Philippines;

f. level of priority of the licensed activity;

g. employment generation;

h. spill-over of technology to local industries, and;

i. previous royalties approved for the industry under which the licensed product is classified.

Royalty rates approved for licensing in manufacturing have been 1 - 3% of net sales. Royalty rates approved for franchising have been 1 - 2% of gross sales, according to officials of the TTR. There have been instances where a royalty rate of more than 3% on licensing agreements was approved because of undeniable contributions to Philippine technological and industrial development.

While royalty rates are not set by statute, there are legal rules on royalty payments. Minimum royalty fees are not allowed unless proven to be much less than the royalty payments due on historical sales of the industry. A bonus royalty of 2% of net foreign exchange may be allowed if the franchisor commits to support an export development program.

The royalty for the license to use trademarks may not exceed 1% of net sales of the licensed product.

5. Restrictive Business Clauses

Certain restrictive business clauses are prohibited from being included in technology transfer agreements. The government's policy is to ensure fairness and equity in the arrangements, and to encourage absorption and transfer of new technologies to the country over the long-run. Restrictive business clauses principally concern post-expiry restrictions on the use of know-how, confidentiality obligations, and liability of the parties to the agreement.

The following clauses are prohibited from inclusion in technology transfer agreements:

a. those which restrict the export of products manufactured by the technology recipient;

b. those which restrict the use of technology supplied after expiry of the arrangement;

c. those which restrict the manufacture of similar products after the expiry of the agreement;

d. those which require payments for patents and other industrial property rights after expiry of the agreement;

e. those which require that improvements made by the technology recipient (the franchisee) must be patented in the name of the technology supplier (the franchisor);

f. those which require that the technology recipient (the franchisee) not be allowed to contest the validity of any of the patents of the technology supplier (the franchisor);

g. those which restrict the technology recipient (the franchisee) in a non-exclusive TTA from obtaining patented or unpatented technology from other technology suppliers (i.e., other franchisors);

h. those which require the technology recipient (the franchisee) to purchase a fixed percentage of its raw materials, components, and equipment exclusively from the technology supplier (franchisor), unless it can be proven that (i) the selling price is based on international market prices, and (ii) such requirement is necessary to maintain quality standards;

i. those which limit the scope of production and pricing;

j. those which restrict any activities of the technology recipient (franchisee) that are designed to absorb and adapt the transferred technology to local conditions;

k. those which restrict the recipient (franchisee) from adapting the technology to local conditions;

l. those which require the recipient (franchisee) to employ personnel designated by the technology supplier, except to ensure an efficient transfer of the technology;

m. those which require the recipient (franchisee) to grant exclusive sales or representation rights to the technology supplier;

n. those which require the recipient (franchisee) to keep confidential information received beyond five years after the termination or expiry of the contract;

o. those which exempt the technology supplier (franchisor) from liability for non-fulfillment of responsibilities or which limit the supplier's liability with regard to third party suits arising from the use of the product or technology. In this connection, a provision stating that a licensee shall indemnify and hold the licensor harmless from any damage growing out of the operations of said business is disallowed. In the event of infringement by the franchisee of a third party's intellectual property rights, the franchisor shall be completely liable for all damages.

6. Requisite Provisions

Certain provisions govern technology transfer under Philippine law. One important requirement is that the laws of the Philippines must govern the interpretation of the agreement. In the event of litigation, the venue must be courts where the recipient has its principal office (for most franchisees this will be the Philippines).

The franchisor must warrant that it is not aware of any other party's valid patent or other rights that might be infringed upon by the use of the technology provided in the franchise. The franchisee must be held harmless by the franchisor against any such knowing infringement.

Another important provision requires that Philippine withholding taxes on all payments relating to the technology transfer arrangement be borne by the supplier. All tax payments must be paid at the prevailing exchange rate at the time of remittance.

Other requisite provisions include a five-year validity period for the registration of the agreement, a guaranty of the transferred know-how and other technical information, and a warranty that the transferred technology is suitable for the manufacture of the product or the rendering of the franchised service.

Continued access to improvements in the franchisor's techniques and processes must be provided for. In the event the arrangement provides for arbitration, the arbitration law of the Philippines or the arbitration rules of the United Nations or the International Chamber of Commerce must apply, and, again the venue must be the Philippines.

B. GENERAL BUSINESS RULES

The Foreign Investments Act of 1991 (FIA) and the general liberalization of the foreign exchange markets have greatly opened the Philippine economy to foreign participation. In recent years these improvements have made possible additional sources of business financing. Still, important limitations do apply to international franchise agreements, and to foreign investors in general.

1. Business Ownership

Foreign ownership of land (real estate) is not permitted under the Philippine Constitution. Long-term real estate leases are permitted, and 99-year leases are a standard convention of doing business. Foreign persons and corporations are permitted to own buildings and improvements.

Since the enactment of the FIA in 1991, 100% foreign equity participation is allowed in all business undertakings except those critical industries identified in transitory Negative Lists. Businesses excluded from foreign control include energy resources, mass media, mining, and professional services such as law, medicine and accountancy.

Significantly for franchisors, retailing is also considered a critical industry prohibited from foreign control. Negative Lists "A" and "C", which are also published by the FIA, identify other industries which might also be of interest to U.S. franchisors, but regulatory limitations exist.

Under List "A," no foreign equity is permitted for mass media (Sec 11 of the Philippines Constitution), retail trade (RA 1180), or professional services such as engineering, medicine, law, or accountancy (Sec 14 of the Philippines Constitution).

A 25% limitation is imposed on foreign equity for private recruitment agencies for either local or overseas employment (Art 2 of the Labor Code), and a 30% foreign equity limitation is imposed on advertising agencies (Sec 1, Constitution). Various foreign equity limits are also placed on construction contracts (PD 1594, RA 5183, RA 6957, CA 541).

List "B" restricts foreign equity ownership to a maximum of 40% for selected business activities including:

- Import and wholesale businesses that are not linked with the production or manufacture of goods and services, and that require special licenses. This includes travel agencies, tourist lodging services, convention organizers, and conference planners.

- Life and non-life (casualty) insurance businesses.

- Enterprises, owned in the majority by a foreign licensor and/or its affiliates, involving the assembly, processing, or manufacture of goods for the domestic market that are produced by a Philippine national (60% Filipino) as of the date of effect of RA 704 under a technology, know how, brand name license from such licensor during the term of the license agreement.

The transitory Negative Lists will be replaced at the end of the transitory period 3 years by the First Regular Negative List to be formulated by the National Economic and Development Authority (NEDA).

2. New Company Registration

In keeping with the government's policy of liberalization, procedural requirements for foreign companies were greatly simplified by the Foreign Investments Act of 1991. The registration of a new investment with the Board of Investments (BOI) is no longer mandatory, and is required only for investors wishing to utilize special BOI incentives.

Foreign investors in corporations can now file directly with the Securities and Exchange Commission (SEC). Single proprietorships need only register with the Bureau of Trade Regulation and Consumer Protection (BTRC). While registration of new companies previously took nearly a month, it now reportedly takes only a few days.

To ease profit and capital repatriation, a foreign equity investment that is registered with the SEC is also deemed registered with the Central Bank (CB), and is automatically granted profit repatriation and remittance privileges.

A "One-Stop Action Center" located at the BOI Building has been established to enable prospective investors to find out all they need to know about investing in the Philippines, and to accept applications for doing business in the country.

3. Currency Convertibility and Profit Repatriation

Payment terms for royalty fees typically will be stipulated in the franchise agreement. The foreign exchange is remitted at the exchange rate prevailing at the time of remittance, less a required 10% withholding tax imposed on U.S. franchisors.

Foreign exchange regulations of receipts and disbursements arising from trade and non-trade were liberalized by the Central Bank in 1992 (CB Circular 135, published 25 August 1992). Foreign exchange can now be freely sold and purchased outside the banking system. However, in order that foreign loans and investments can be properly serviced, the proceeds of such loans and investments must be sold to Authorized Agent Banks (AAB) for local currency. The AAB can now sell foreign exchange without prior CB approval for payment on foreign exchange transactions that include:

a. transfers of emigrant's assets;

b. remittance of salaries of temporary residents;

c. technology fees and payments for copyrights;

d. royalty fees and payments for copyrights;

e. retainer fees due foreign professionals;

f. reinsurance premia and payment for losses; and

g. lease payments.

Foreign investments are entitled to full and immediate capital repatriation privileges, including dividend and interest remittance. AAB's are authorized to sell and remit the equivalent foreign exchange representing sales proceeds, dividends or interest.

C. TARIFF REFORMS OF 1991

The Tariff Reform that started in 1990 is part of a trade package adopted by the Philippine government to promote internationally competitive industries and to provide quality goods at lower prices to consumers. The Tariff adjustments were incorporated in an earlier Executive Order issued by President Aquino in July 1990. Its implementation, however, was suspended because of allegations by a number of local industries that changes in tariffs were too drastic and would cause serious dislocations in domestic industries.

The Tariff Commission was subsequently directed to conduct a new set of public hearings to allow all parties to air their views on the proposed changes. Joint hearings were held by the Tariff Commission with the Philippine Congress, concerned agencies, and different industry groups.

During the hearings and the consultations, the Philippine government explained that the principal objective of the Tariff Reform Program is to rationalize the current structure by reducing the overall level of protection and the break-up of tariff protection within and across industries. More importantly, the government reiterated its policy of de-emphasizing the role of tariffs in industrial and trade promotion. Henceforth, with the exception of infant industries which will be protected for a limited period, less reliance will be placed on tariffs, both as a source of revenue and, as an industrial incentive.

The end-result of these efforts was Executive Order 470 (E.O. 470) which incorporates both a phase-in period and transition tariff rates that will give local industries time (1991-95) to make necessary adjustments and innovations. This new package of tariff adjustments took effect on August 24, 1991. As such, all imports coming from other countries, including ASEAN, are covered by the Present Tariff Code as embodied in E.O 470.

D. COMMON EFFECTIVE PREFERENTIAL TARIFF

During their 4th Summit meeting held in Singapore, the ASEAN nations (comprised of Indonesia, Malaysia, Singapore, Brunei, Thailand and the Philippines) agreed to transform the region into a free trade zone by the year 2008. To facilitate the transition, ASEAN leaders signed the Agreement on Common Effective Preferential Tariff (CEPT).

The signing of this agreement, which charts the future direction of intra-ASEAN economic cooperation, will have far-reaching implications on many of ASEAN's economic undertakings over the next fifteen (15) years. The agreement will not only widen and deepen intra-ASEAN trade and industrial integration and harmonization but, with the pressure of freer trade will also promote greater competition among ASEAN product sectors.

The CEPT scheme is the main mechanism for establishing free trade in the ASEAN region, and is scheduled for implementation by January 1993. Under the CEPT, the tariff rates for ASEAN countries will be reduced as follows:

1. Existing tariffs above 20% - will be reduced to 20% by the 8th year, meaning the year 2000. Rates will be subsequently brought down to 0-5% by the 15th year, meaning 2007.

2. Existing tariff rates of 20% and below, will be reduced to 0-5% within 15 years

Two or more member countries may enter into arrangements to accelerate tariff reductions to 0-5% for products with existing tariff rates of 20% or below.

It should be noted that through E.O. 470, the Philippines has started reducing the tariff rates by 1992 (second year of implementation). If by 1996, the effective tariff rates still exceed 20%, the residual tariff rate above 20% will be reduced according to the following formula:

Period 1996-2000

$$\text{Tariff Reduction Per Year} = \frac{\text{(Residual Rate above 20\% - 20\%)}}{\text{5 years}}$$

E. TAX CONSIDERATIONS

1. Corporate Income Tax

Domestic corporations and resident foreign corporations are taxed alike at the rate of 35% on their net taxable income as corporations. Foreign corporations include branches and subsidiaries. A branch is taxed on income arising from Philippine sources only, whereas a subsidiary is taxable on its income worldwide. Nonetheless, the effects of international double taxation can be mitigated through foreign tax credits.

In addition to the corporate income tax, the profits remitted by a branch to its head office are taxed additionally at 15%. On the other hand, the net earnings after tax, remitted as dividends by a subsidiary to its parent are taxed at 35%. Dividends received by a domestic or resident foreign corporation from another domestic corporation liable for the payment of any internal revenue tax are not subject to tax.

2. Percentage Tax

Operators of motels, hotels and similar establishments, caterers, franchise holders, and agents of foreign insurance companies are subject to a percentage tax under the Internal Revenue Code.

3. Local Taxes

The 1991 Local Government Code also grants taxation powers to local government units. For example, provinces may impose a tax on the business of printing or publishing at a rate not exceeding 0.5% of the annual gross receipts. Municipalities may impose a graduated fixed tax based on annual gross sales of the preceding calendar year.

4. Property Tax

Owners of land, buildings, and machinery are required to pay real property taxes. The rates are based on assessed value and cannot exceed 1% of the assessed value of the properties in the provinces and municipalities, and 2% of the assessed value of the property in Metro Manila and in other cities. For commercial lands, the assessment level is generally 50% of the fair market value. The assessment levels for improvements range from 30% - 80% of the fair market value. A uniform annual tax of 1% of the assessed value of real property is levied in addition to the regular (basic) real property tax.

5. Other Tax Incentives

New enterprises that register with the Board of Investments to engage in the preferred areas listed in the Investment Priorities Plan (IPP) are entitled to income tax holidays for a period ranging from 4 years (for non-pioneer preferred areas) to 6 years (for pioneer preferred areas). These new enterprises can also benefit from tax and duty free importation of capital. A 100% foreign-owned enterprise may apply for incentives under the IPP provided it engages in a pioneer project or exports at least 70% of its production. Hotels and resorts, except those established in Metro Manila, are considered pioneer industries under the 1992 IPP and may, therefore, take advantage of BOI tax incentives.

F. PATENT AND TRADEMARK PROTECTION

Republic Acts 165 (Patent Law, as amended) and 166 (Trademark Law) are the pertinent laws protecting patents and trademarks. A patentee whose rights have been infringed may bring a civil suit in the proper court of law to recover damages sustained by reason of the infringement and to secure an injunction. In case of repeated infringement, the infringer may be subject to criminal penalties.

Trademark Law Section 2 states that trademarks and service marks owned by persons, corporations or associations domiciled in the Philippines and in any foreign country may be registered provided these marks are in actual commercial and service use for a period not less than two (2) months in the country before the time the application for registration is filed, and provided that the country of which the applicant for registration is a citizen grants, by law, substantially similar privileges to the citizens of the Philippines.

Any person entitled to the exclusive use of a registered mark or trade name may recover damages in a civil action suit from any person who infringes his/her rights. A claimant may also be granted an injunction. In addition to civil liabilities, the guilty party may also be criminally prosecuted under the provisions of Articles 188/189 of the Revised Penal Code, and may be subjected to a penalty consisting of imprisonment or fine.

The Philippines protects proprietary rights. Chapter Six of RA 166 states that a person who has identified in the mind of the public the goods he/she manufactures or deals in his/her business from those of others, whether or not a mark or trade name is employed, has a propriety right in the goodwill of said products, business or services so identified. Said products or services are protected in the same manner as other propriety rights such that any person who employs an element of deception or any other means contrary to good faith by which he passes off the goods produced by him or in which he deals, or his business or services for those of the one having established the goodwill, or who commits any acts calculated to produce said results, shall be guilty of unfair competition, can be held liable under Article 26 of Civil Code and can therefore be subject to injunction. Furthermore, he may be criminally liable under the Revised Penal Code and punished by fine or imprisonment.

APPENDIX A

APPENDIX A

SELECTED INTERNATIONAL FRANCHISING INDUSTRIES

The 35 key segments of the international franchise industry considered in the study include:

1. Automotive Products and Services
2. Auto and Trailer Rentals
3. Business Aids and Services
4. Beauty Salons and Supplies
5. Clothing and Shoes
6. Construction and Remodeling Materials and Services
7. Cosmetics and Toiletries
8. Children's Stores, Furniture and Products
9. Dental Centers
10. Drug Stores
11. Educational Services
12. Employment Services
13. Equipment Rentals
14. Food and Beverages
15. Health Aids and Services
16. Hearing Aids
17. Home Furnishings - Rental and Repair
18. Insurance
19. Laundry Services and Dry Cleaning
20. Lawn and Garden Supplies
21. Maid and Home Cleaning Services
22. Maintenance, Cleaning, and Sanitation Services
23. Hotels, Motels, and Inns
24. Optical Products and Services
25. Pet Shops and Services
26. Printing
27. Real Estate Services
28. Recreation, Entertainment, and Travel
29. Retailing - Miscellaneous
30. Security Systems
31. Services - Miscellaneous
32. Swimming Pools
33. Tools and Hardware
34. Vending Machines
35. Water Conditioning

APPENDIX B

APPENDIX B

SUMMARY TABLE FOR BARRIERS TO ENTRY

INDUSTRY	TYPE OF BARRIER	DESCRIPTION OF THE BARRIERS
1. Auto, Trailer Rentals	Structural & Policy	High capital requirements Trade/Industrial Policy (Land Vehicles are products under Trade Control) Credit Incentive Policy (Land vehicles and spare parts are not eligible for financing)
2. Automotive Products and Services	Structural & Policy	Automobile market is dominated by Japanese and Korean brands as dictated by Car Manufacturing Program
3. Beauty Salons and Supplies	Structural	Establishing track record as well as patronage
4. Business Aids and Services	Structural	Establishing track record and business relations
5. Children Stores/Furniture Products	Structural	Coping with competition and being able to use adept pricing scheme
6. Clothing/Shoes	Structural	Using cost effective manufacturing methods to keep costs low. Coping with competition and being able to use adept pricing scheme
7. Construction Remodeling Materials and Services	Structural	Coping with competition from local substitutes (carpenters & contractors) offering very low prices for services
8. Cosmetics and Toiletries	Structural	Product differentiation, brand loyalty, pricing scheme and marketing promotion
9. Dental Centers	Structural	Coping with competition from local substitutes (dentists) offering very low prices for services
10. Drug Stores	Structural	Reaction of well-entrenched incumbents who control the distribution market
11. Employment Services	Policy	Direct restriction on entrants and bureaucratic requirement (Department of Labor and Employment)
12. Equipment Rentals	Structural	Competition with local substitutes (financing/credit card companies). Rampant entry of smuggled appliances and computers
13. Food and Beverages	Structural	Product differentiation and brand loyalty, advantages of the incumbents, pricing scheme

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14. Health Aids and Services	Structural & Policy	High capital requirements, track record of the incumbent, government requirement (Department of Health)
15. Home Furnishings, Rental & Repair	Structural	Competition with local substitutes (interior decoration stores) in terms of pricing scheme and quality/range of products offered
16. Insurance	Structural & Policy	Establishing a track record Bureaucratic requirements (Insurance Commission)
17. Laundry, Dry Cleaning	Structural	Quality of service/use of modern equipment and method, pricing scheme
18. Maid services, Home Cleaning, Party Services	Structural	Cultural norms, values, biases - prefer using live-in helper
19. Maintenance, Cleaning, Sanitation Services	Structural	Quality of service/use of modern equipment and method, pricing scheme
20. Motels and Hotels	Structural	High investment costs
21. Optical Products and Services	Structural	Cultural norms, values, biases - optical care equated to use of eyeglasses and contact lenses
22. Miscellaneous - Services	Structural	Quality of service/use of modern equipment and method, pricing scheme
23. Printing	Structural	Predatory/limit pricing quality/comprehensiveness of services offered
24. Real Estate	Structural & Policy	Strong competition with well entrenched local companies, bureaucratic requirement (Housing and Land Use Regulatory Board)
25. Miscellaneous - Retailing	Structural	Range/quality of products carried/offered
26. Security Systems	Structural & Policy	Establishing track record, high investment cost bureaucratic requirements (Philippine National Police)
27. Tools, Hardware	Structural	Competition with local substitutes (local carpenters using their own tools whose labor cost is low).

APPENDIX C

APPENDIX C

PHILIPPINE MARKET CHARACTERISTICS FOR 35 SELECTED FRANCHISING INDUSTRIES

As a basis of reference for this preliminary evaluation, the description of the products and services offered by the industry has been summarized from the U.S. Department of Commerce's Franchise Opportunities Handbook.

1. Automotive Products and Services

Products. Automotive services include "quick" lube and oil changes, tune-ups, repairs, interior reconditioning, rust-proofing, cleaning, paint and tire sealants, and retail sales of automotive parts and accessories.

Market Characteristics. The marketplace is dominated by micro-enterprise operations. Prices are low but they usually offer only body repair and tune-ups. Oil and lube changes, in addition to other services, are offered by gasoline stations. The franchisor would target the "AB" market segment. Potential opportunities exist for franchisors offering integrated, sophisticated services with prices comparable to local competitors. Existing U.S.-based companies and franchisors include Firestone, Goodyear, Ziebart, and Tuff-Kote. Rather than replacing a car, Filipinos tend to invest money in repairs, overhauls, and body work. Thus a high demand exists for quality service and repair centers.

Most cars in the Philippines are Japanese or Korean. Toyota Philippines, PAMCOR (Mitsubishi) and Nissan Philippines dominate the market of new cars and spare parts.

Rating. Good prospects.

2. Auto and Trailers Rentals

Products. Auto and trailer rentals.

Market Characteristics. Current franchisors in this market include Hertz, Avis, Budget, and Dollar. This industry caters to tourists who wish to travel between major metro areas by car. Filipinos do not use automobiles for cross-country travel. Only Filipinos in the "AB" market segment vacation far from home. However, the "AB" segment usually have their own source of transportation. Large groups will hire buses for longer trips. A contraction of the market could occur due to the closure of United States military bases.

Rating. Fair prospects.

3. **Business Aids and Services**

Product. Computerized services from bookkeeping and filing to the preparation of payroll, payroll taxes, accounts receivable, accounts payable, credit reports and, month-end report generation. Also, integrated services such as shipping, freight forwarding, mail, and communication services. There are also one-day custom retail sign centers.

Market Characteristics. Smaller companies are most likely to utilize the computerized business services offered by a franchisor (large companies posses in-house accounting departments). Demand is increasing for service centers that offer typing services, computers, instant cards, signs, international and domestic fax, and photocopying. Local delivery companies such LBC and JRS Express deliver to remote areas and are trusted more than the postal services for package handling. A franchisor will be successful if the prices of the service is competitive with the cost to a company to perform the service in-house. Another group requiring business services are foreign investors and business people.

Increasing foreign and local investment planned for the Philippines will provide opportunities for potential franchisees.

Rating. Excellent prospects.

4. **Beauty Salons**

Product. Beauty salons.

Market Characteristics. Beauty salons are numerous in the Philippines. Hairstylists and hairdressers are knowledgeable of the latest hair trends and actually attract more male customers than barber shops. Established beauty salons include James Cooper, Revere, Le Cut, Ricky Reyes, and Jun Encarnacion. Beauty parlors have become social centers where housewives treat hairstylists and manicurists as their advisers. Filipinos visit hair salons before special occasions such as weddings, birthdays, baptisms, graduations, and the Christmas holidays. The cost of high of franchising would force the price of the franchisees' services to be higher than those of local salons. Thus the target market must be the "AB" segment.

Rating. Fair prospects.

5. **Clothing and Shoes**

Product. Sale of clothing and shoes, or rental of formal wear and wedding attire service.

Market Characteristics. Filipinos are conscious of fashion trends. Local boutiques and specialized dress shops have in-house fashion designers and seamstresses. At this time there is no service or product a franchisor could provide that is not already available domestically.

Rating. Poor prospects.

6. **Construction and Remodeling**

Product. Maintenance and repair services such as the refinishing of kitchen and bathroom fixtures, leak detection for pools, spas, and fountains, cleaning services for commercial buildings, water-proofing, radon-testing, wood care and maintenance, and razing concrete walks, drives, and patios.

Market Characteristics. Construction and remodelling is limited to the "AB" market. This market may be highly profitable given its specialized and highly-technological nature. If the services offered are needed by industrial and commercial businesses, prospects are very good considering the influx of foreign investments particularly in the CALABARZON area. In addition the expected economy growth, forecasted at 5-6%, will provide opportunities in construction and remodelling.

Rating. Fair prospects.

7. **Cosmetics and Toiletries**

Product. Cosmetic and beauty service and products through a store dedicated to make-up, styling, skin care and carrying brand name cosmetic lines.

Market Characteristics. A market for imported brand name cosmetics exists given the demand for imported cosmetics. Already most hair care products are imported. Prices are therefore high, and the market is restricted to the "AB" market. Consumers will frequent a skin care center using sophisticated technology over "local" skin care clinics. Franchisors should consider combining a skin care salon with a beauty parlor.

Rating. Good prospects.

8. **Children's Stores, Furniture, and Products**

Product. Children's stores offering toys, clothes, safety equipment, and juvenile furniture.

Market Characteristics. The Philippines has a large population of children due to average population growth rate of 2.5% a year. A few specialized children's shops exist, for example Babyland, Gift Gate, and Cinderella. Established department stores, like Shoemart, Landmark, and Rustan's sell products for children.

Rating. Good prospects.

9. **Dental Centers**

Product. Dental services.

Market Characteristics. Filipino dentists are highly-skilled and have access to the latest dental technology. Philippine dental colleges produce a large number of graduates. The majority of dentists cannot afford to purchase well-equipped clinics. Many graduates enter into partnerships to acquire needed equipment to start a clinic. No competitive advantage for franchising appears to exist.

Rating. Poor prospects

10. **Drug Stores**

Product. Drug Stores offering drugs and other health-related products.

Market Characteristics. Local drug stores such as Mercury, Merced, Metro Drug, and Rose Pharmacy are popular and well trusted by the public, and pose a majoı barrier to entry for foreign competition. The market leader, Mercury Drugstore, has an established business relationship with UNILAB, one of the leading Philippine drug manufacturers. The U.S.-based franchisor would appear to have no competitive advantage over these local drug chains.

Rating. Poor prospects.

11. **Educational Services**

Product. Services in child development, birth preparation, language studies, computer-training, child-care facilities, phonetics, study skills, and physical fitness programs for children.

Market Characteristics. Several local companies offer child development services using Filipino personnel. John Robert Powers, PROSEC, STI, and AMA Computers are the most well known. Universities and technical and vocational schools offer vocational and computer training. Child-birth preparation techniques (i.e., Lamaze) are still not as popular as in the U.S. Furthermore, in urban areas, pregnant women increasing rely on anesthesia. Child-care is a large market with high demand, but only if the service is affordable to the middle-income families. Little comparative advantage appears to exist for a franchisee offering fitness or dance programs, since aerobics and dance may be learned through the use of local trainers or recorded tapes.

Rating. Poor prospects.

12. **Employment Services**

Product. The recruitment and search for management, clerical, and temporary personnel, domestic and nanny placement, and full-time temporary help.

Market Characteristics. Currently, many large companies have an in-house personnel department for recruitment. Several employment agencies have established themselves in management recruitment services, including John Clements, SGV, and Joaquin Cunanan Executive Search. A proliferation of agencies engaged in recruiting for overseas employment exists.

Numerous unqualified "fly-by-night" operations have begun tarnishing this industry. Employment agencies recruiting domestic help are becoming distrusted. Hired domestic help often lack training and have negative attitudes about their personal situations. There may be room in the market for some well qualified, financially sound, franchised competition. Domestic help is paid P600 - P800 per month. A bill pending in Congress proposes to raise the minimum to P1,000 per month.

Rating. Fair prospects.

13. Equipment Rentals

Product. The rental of computers, televisions, appliances, furniture, and lawn and garden equipment.

Market Characteristics. Appliance rental companies (the market leader is Rentacolor) cater to tourists and foreign residents. Computer rentals (IBM compatible personal computers) is a growing market, with a growing demand from students familiar with computer software (wordprocessing, spreadsheet, relational databases and graphics applications). Through the use of credit cards and installment plans, most rental products are within the reach of middle class households.

Rating. Good prospects.

14. Food and Beverages

Product. Fast food restaurants

Market Characteristics. Filipinos love Western food and often dine outside the home on weekends and paydays. Currently most U. S.-based franchisors are in the fast food industry. Among the most popular franchisors are McDonald's, Wendy's, Dunkin' Donuts, Pizza Hut, Shakey's, Arby's, Mister Donut, and El Pollo Loco. While competition is intense, the market is large enough to allow several new niches. More importantly, few outlets have opened outside metro Manila. The market is due to increases in the population and increases in income.

Rating. Excellent prospects.

15. Health Aids and Services

Product. Outpatient physical therapy, dance and fitness programs, weight control.

Market Characteristics. Because medical care is relatively expensive for the majority of the Philippine population, the target market for private services must the "AB" market. Specialized companies are having some success in narrow market niches. Currently, stiff competition exists among weight loss clinics. The franchisee must locate in an urban area to be successful. Fitness clubs are also very popular (Slim World, Joanne Drew, Shape Center, etc.) particularly among figure-conscious females in Metro Manila. Good prospects exist in other key cities, such as Mindanao and Visayas. Franchise success will be very sensitive to location.

Rating. Good prospects.

16. Hearing Aids

Product. Hearing aid devices.

Market Characteristics. Miracle-Ear franchises are well established. The target market is the "AB" market segment. Correcting hearing deficiencies is not normally practiced in rural areas.

Rating. Poor prospects.

17. Home Furnishings, Rental and Repair

Product. Furniture sales, decorating services, furniture-stripping and restoration, carpet cleaning, wall coverings, window coverings, and sleep products (ie. beds and mattresses).

Market Characteristics. The target market for carpets is the upper "AB" class because the high price of carpets and carpet maintenance. Popular carpet brands include Tai-Ping, Bell Carpets, and Joman Carpets. Some households have wood floors, while lower income houses have linoleum or cement floors. Vinyl tile is used in offices or commercial establishment. The market for the "C" market and below is very poor.

Furniture and upholstery refurbishing is done by many small companies. Wall coverings are not as widely used as in the U.S. Local market leaders include Champion and Frabella. For window coverings, most household use curtains. The market leader for blinds is Cityblind. The market for decorating services is only in the upper "A" market, due to cost considerations. Some commercial market may be available.

Specialized shops sell mattresses and bedding principally to the "A" market. Filipinos are skilled craftsmen, especially those from Laguna, Rizal, and Pampanga provinces, and domestically produce high quality furniture.

Rating. Fair prospects.

18. Insurance

Product. An independent insurance agency with extensive training, advertising, and assistance.

Market Characteristics. Several insurance companies offer all forms of insurance plans for education, life, and health. Established companies include Insular Life and Philam Life.

Rating. Fair prospects.

19. **Laundry Services and Dry Cleaning**

Product. Coin-operated/self-serve or drop-off laundry services and dry cleaning stores.

Market Characteristics. Growing sales of washing machines signals a shift in attitudes about washing machines. The target market includes singles, professionals who belong to the middle-income class and who have no household help, and students who live alone. The price must be comparable to employing the services of a laundrywoman. Competition will come from the current trend to use home washing machines. Location could be important to success; a potentially good location would be near a university.

The quality of service provided by many dry cleaning shops is notably inferior. Dry cleaning shops which provide better quality service are only found in or near hotels. Customers will come from the "AB" domestic market, and from tourists who desire higher quality service. The industry is very sensitive to location selection.

Rating. Good prospects.

20. **Lawn and Garden Supplies**

Product. Products and services related to lawn care (including fertilizer and weed, insect, and disease control).

Market Characteristics. Filipino "AB" households customarily hire domestic help or a gardener to tend to the gardens. Due to the high cost of residential land in urban areas, lawns and gardens tend to be small. Lawns and gardens are maintained by class "AB" market. However, the main market for garden supplies would be those in agri-business. This is a growing industry. However, Filipino companies produce sufficient quality products needed by the agri-business sector. No competitive advantage appears to exist for franchising.

Rating. Poor prospects.

21. **Maid and Home Cleaning Services**

Product. Home-cleaning services.

Market Characteristics. In-staying (live-in) domestic help perform household chores in the Philippines. Live-in relatives also do household chores. Low wage rates for unskilled workers allow even the lowest paid workers to afford full time maids for their own homes.

Rating. Poor prospects.

22. Maintenance, Cleaning, and Sanitation Services

Products. Grease control for restaurants and food services, ceiling cleaning, infection control, sewer and drain cleaning, air duct cleaning, exhaust dirt cleaning, industrial oven cleaning, window washing, and other janitorial services.

Market Characteristics. Several local companies provide cleaning and janitorial services to large companies. Duraclean International, an American franchise, has been in Manila for more than 35 years. Growing urbanization has created a commercial demand in office buildings. Good prospects exist in industrial cleaning, and franchisees will have a competitive advantage over low skilled labor by using modern technology.

Rating. Good prospects.

23. Hotels, Motels, and Inns

Product. Motels, Hotels, and Inns.

Market Characteristics. Almost all first class hotels are owned or operated by international hotel groups, including current U.S.-owned companies (not using the franchise method). An increase in tourism and industry may leave an opening for a business hotel chain with a competitive advantage in services and cleanliness. On the other hand, most small motels are locally owned and are used as "pleasure" inns. The domestic market for motels is not large; Filipinos do not usually travel across the country as Americans tend to do. No clear competitive advantage exists for the franchising of a smaller motel or inn.

Rating. Good prospects for business related hotels.

24. Optical Products and Services

Product. Eyeglasses, contact lenses and related items, including exams and other services.

Market Characteristics. Optical shops are found everywhere in the country. The more modern shops carry a wide selection of eyeglasses and use modern equipment. There are on-site facilities for one-hour type services. The established stores include ACEVEDO and SARABIA. However, the introduction of new technology in this industry could create a market for U.S.-based franchisors. Potential success is dependent upon location selection.

Rating. Fair prospects.

25. **Pet Shops and Services**

Product. Pets, supplies, and accessories. Professional in-home pet care service. Self-service pet wash.

Market Characteristics. The market niche for pet shops and service is primarily the "A" market customer who can afford the luxury of owning exotic and imported pets. In general, Filipinos are not as fond of pets as Americans or Europeans.

Rating. Poor prospects.

26. **Printing**

Products. High quality laser typesetting and offset printing. Full service quick printing centers. Other services may include computerized thermographic printing and 4-color printing.

Market Characteristics. The Philippine publishing industry has grown 7-11% in 1987-1990, much faster than the economy growing at 6-7%. A U.S.-based franchisor has access to technology which allows for fast, multi-colored printing. Technology is a competitive edge.

Rating. Excellent prospects.

27. **Real Estate**

Product. Real estate brokerage services.

Market Characteristics. The construction boom of the late 1980's saw the rise of the real estate industry. Established real estate companies include Ayala Land, Ortigas Development, Araneta Group of Companies, Fil-Estate, and Sta. Lucia. There are numerous associations which includes real estate agents, developers, architects as members. Given the state of competition in the industry, there is no competitive edge that can be provided through franchising that could not be developed locally.

Rating. Fair prospects.

28. Recreation, Entertainment, and Travel Services

Product. Full-service travel agencies. Indoor recreation and gymnasium facilities.

Market Characteristics. Many travel agencies are established in the Philippines. Noted travel agencies included Baron Travel Corporation, Thomas Cook Travel Agency, and American Express Travel Service. Golf courses and sports clubs (featuring indoor and outdoor sports) cater to the "AB" market.

Rating. Fair prospects.

29. Retailing - Miscellaneous

Product. Operation of retail stores such as: computer sales and services, florists, art supplies, bath accessories, dolls and dollhouses, new and used books, gifts, storage and moving boxes, cellular car phones, gourmet kitchen stores, personalized children's books, photographic equipment, photo-processing, party supplies and balloons, greeting cards, wedding supplies and services, and discount markets.

Market Characteristics. Filipino demand for unique retail products and services is evidenced by the success of retail outlets such as Gift Gate which offer name brand products like Ziggy, Walt Disney, The Simpson's, Swatch watches, etc. The young Philippines population shop at these retail stores often. Shopping at department stores is a common form of recreation.

This category is very broad and success will be dependent upon the relative size of the market niche and specific product chosen for introduction to the Philippines.

Rating. Excellent prospects.

30. Security Systems

Product. Sale, installation, maintenance, and monitoring of security systems. Equipment can include automatic burglar, fire and smoke alarms, closed-circuit television systems, identity verification systems and audio-intrusion detection alarm systems.

Market Characteristics. Defining a market niche is possible given the increase in high-rise offices and condominiums in Metro Manila. However, Filipino culture has not yet adapted to security systems. Almost every business establishment and residential condominium is in the market for 24-hour security with guards or surveillance equipment. Most houses are watched by the domestic help or the extended family.

Rating. Good prospects for commercial and industrial clients.

31. **Services - Miscellaneous**

Product. Other wholesale and services include hair replacement systems, instant shoe repair, tailoring, computerized systems for embroidery, monogramming, and etching.

Market Characteristics. Successful products possess a technological innovation or other element that gives the provider a competitive edge. The computerization of embroidery, monogramming and etching is a growing niche in the Philippine retail market. Instant shoe repair outlets such as Mr. Quickie are very successful. There appears to be room for additional competitors in this market.

Success in this broad category will depend upon the size of the relative market as determined by the products and market niche targeted by the franchisees.

Rating. Good prospects.

32. **Swimming Pools**

Product. Swimming pool maintenance.

Market Characteristics. The target market is limited to country clubs, sports clubs, and resorts.

Rating. Poor prospects.

33. **Tools and Hardware**

Product. Distribution of tools. Equipment and tool rental to the homeowner, independent contractor, and industrial contractor.

Market Characteristics. Small local hardware stores are common, but they do not carry sophisticated tools or equipment. Households usually do not perform their own carpentry work. Private individuals contract with a carpenter who is expected to bring his own tools. Many manuals and books exist on carpentry.

Rating. Fair prospects.

34. **Vending**

Product. Vending machines for beverages, light snacks, and hot food.

Market Characteristics. Vending machines were introduced in 1970's to provide customers with accessible beverages, light snacks and hot food, and were seen at the time as a novelty. However, traditional *carinderias* (kitchenettes) and fast food centers near commercial and public buildings have eroded the market share once held by vending machines. Filipinos have become accustomed to personalized service. Vending machines are also susceptible to vandalism, especially in unguarded areas.

Rating. Poor prospects.

35. **Water Conditioning**

Product. Sale, lease, or rent of water treatment equipment to residential and commercial customers.

Market Characteristics. High demand exists in Metro Manila and Cebu City where the population has major concerns about the purity of water and possibility of contracting water-borne diseases. Urban households are frequently advised to boil their water. Popular bottled brands include Spring Water and Elan.

Rating. Good prospects.

APPENDIX D

APPENDIX D

OVERVIEW OF 35 FRANCHISING INDUSTRIES PROSPECTS FOR SUCCESS IN THE PHILIPPINES

No.	Franchising Industry	Market Rating	Market Size Ranking (1)	Profit Ranking	Filipino Investor Interest	USAID Program Status	Philippine Target List
1	Food & Beverages	Excellent	1	1	First	Apprv'd	Yes
2	Clothing/Shoes	Poor	5				
3	Cosmetics	Good					Yes (4)
4	Printing	Excellent	12		First	Apprv'd	Yes (3)
5	Educational	Poor	8	5		Pending	
6	Drug Stores	Poor				Pending	
7	Dental Centers	Poor					
8	Hearing Aids	Poor					
9	Health Aids	Good					Yes (2)
10	Optical Products	Fair					
11	Tools/Hardware	Fair					
12	Equipment Rentals	Good					
13	Home Furnishings	Good	11	10		Apprv'd	Yes
14	Children's	Good				Pending	Yes (4)
15	Business Services	Excellent	7	13		Apprv'd	Yes
16	Insurance	Fair	10	9			
17	Real Estate	Fair	6	12	First	Pending	Yes
18	Construction	Fair	3	7	Second		
19	Security Systems	Good			Second		Yes (3)
20	Swimming Pools	Poor					
21	Water Conditioning	Good	13	6	First		

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No.	Franchising Industry	Market Rating	Market Size Ranking	Profit Ranking	Filipino Investor Interest	USAID Program Status	Philippine Target List
----	-----------------	---------	-------	------- -	------- -	------	----------
22	Pet Shops	Poor					
23	Lawn/Garden	Poor					
24	Recreation/Travel	Fair	9	11	First	Apprv'd	
25	Automotive	Good				Pending	Yes
26	Auto/Trailer Rentals	Fair			First	Apprv'd	
27	Employment Services	Fair			Second	Apprv'd	
28	Laundry/ Dry cleaning	Good			First		Yes
29	Maid Services/ Cleaning	Poor					
30	Maintenance	Good			First	Apprv'd	Yes
31	Beauty Salons	Fair				Pending	Yes (2)
32	Hotels/Motels	Fair	4	3	First	Apprv'd	Yes
33	Vending Machines	Poor					
34	Retail -- Misc.	Excellent	2	2			Yes
35	Services -- Misc.	Good			Second		Yes

Note 1: Market and profitability data were available only for the following industrial sectors:

Food & Beverages	Clothing/Shoes	Printing
Educational	Home Furnishings	Business Aids/Services
Insurance	Real Estate	Construction/Remodeling
Water Conditioning	Motels/Hotels	Other Retail
Other Wholesale	Recreation/Entertainment/Travel	

Note 2: Health Services and Cosmetics and Toiletries are combined into one category for the Philippine target list.

Note 3: Printing and Security Services are included with Business Aids and Services.

Note 4: Children's Stores, Furniture and Products are included in Retail -- Miscellaneous.

APPENDIX E

APPENDIX E

INPUT-OUTPUT TABLES

Table 1.
Ranking of Economic Sectors: Market Size

DESCRIPTION	TID	PCE	E	M	TO(X)
Food Manufactures	59,744	151,329	16,061	(10,700)	220,858
Trade	53,838	73,891	32,592	0	162,600
Chemicals & Chemical products	42,761	19,745	4,764	(24,001)	44,586
Hotels & Restaurant	17,065	11,637	17,507	(14,723)	31,487
Clothing & Footwear	9,547	15,049	4,631	(3,319)	25,919
Beverage Industries	8,445	17,110	31	(337)	25,282
Land Transport	8,026	23,377	9,975	(2,671)	40,985
Private Business	6,562	1,413	7,504	(1,057)	14,421
Printing & Pub.	6,282	558	52	(966)	6,073
Construction	5,236	799	2,167	(409)	80,977
Miscellaneous Manufacturers	4,136	7,330	2,708	(13,037)	7,513
Insurance	4,130	4,040	1,484	(531)	9,124
Real Estate	3,875	14,908	3,007	(60)	21,730
Recreation	2,758	4,208	5,821	(2,715)	10,072
Storage & Services, Incidental to transportation	1,163	2,137	3,769	0	7,559
Water	1,104	1,374	0	0	2,478
Other Services	1,093	1,921	1,203	(3)	4,214
Furniture & Fixtures	940	1,051	3,280	(24)	6,387
Private health	924	10,758	381	0	12,103
Personal Services	800	15,910	5,254	0	21,964
Private Education	415	9,885	127	0	10,427

Source: NSO 1988 Input-Output Tables

Legend:	Ranking Criteria
TID:	Total Intermediate Demand
PCE:	Private Consumption Expenditure
E:	Exports
M:	Imports
TO(X):	Total Output

Table 2.
Leading Industries in Industrial Sales, 1988
(P in Millions)

Industry	Total Sales	Market Share, %
Food Manufactures	59,744	8.8
Trade	53,838	7.9
Chemical Products	42,761	6.3
Hotels & Restaurants	17,065	2.5
Clothing & Footwear	9,547	1.4
Beverage	8,445	1.2
Land Transport	8,026	1.2
Private Business Services	6,562	1.0
Publishing & Printing	6,282	0.9
Construction	5,236	0.8
All Industries	682,536	100.0

Table 3.
Leading Industries in Philippine Household Sales, 1988

Industry	Total, P Million	Share, %
Food Manufactures	151,329	26.5
Trade	73,891	12.9
Land Transport	23,377	4.1
Chemical Products	19,745	3.5
Beverage	17,110	3.0
Personal Services	15,910	2.8
Clothing & Footwear	15,049	2.6
Real Estate	14,908	2.6
Hotels & Restaurants	11,637	2.0
Private Health	10,758	1.9
All Industries	571,682	100.0

Table 4.
Leading Buyers of Industrial Goods and Services

Industry	Total, P Million	Share, %	Share, %
Food Manufactures	145,670	21.3	62.3
Trade	40,746	6.0	26.4
Construction	40,009	5.9	48.3
Chemical Products	27,869	4.1	64.4
Land Transport	21,116	3.1	52.4
Clothing & Footwear	15,279	2.2	57.9
Beverage	14,391	2.1	59.4
Private Health	8,126	1.2	53.0
Misc. Manufactures	4,728	0.7	56.4
Publishing & Printing	4,256	0.6	62.4
All Industries	802,519	100.0	46.0

Table 5.
Ranking of Economic Sectors: Supply Factors

DESCRIPTION	TII	CE	OVA	TPI
Trade	40,746	26,971	16,061	(10,700)
Food Manufacturers	145,670	9,769	32,592	0
Construction	40,009	18,137	4,764	(24,001)
Land Transport	21,116	5,682	17,507	(14,723)
Private Personal Services	3,559	3,383	4,631	(3,319)
Chemical & Chem. Products	27,869	4,409	31	(337)
Hotels & Restaurants	17,247	2,239	9,975	(2,671)
Clothings & Footwear	15,279	6,004	7,504	(1,057)
Beverage Industries	14,391	2,061	52	(966)
Real Estate	2,876	1,576	2,167	(409)
Private Recreational Services	3,540	1,509	2,708	(13,037)
Private Business Services	3,986	3,858	1,484	(531)
Private Health	8,126	2,099	3,007	(60)
Private Education	3,268	5,204	5,821	(2,715)
Insurance	1,893	1,230	3,769	0
Storage & Services, Incidental to Transport	3,615	1,670	0	0
Miscellaneous Manufacturers	4,728	997	1,203	(3)
Furniture & Fixtures	3,469	921	3,280	(24)
Publishing & Printing	4,256	1,193	381	0
Water	894	598	5,254	0
Other Private Services	3,111	1,075	127	0

Source: NSO 1988 Input-Output Tables

Legend:	Ranking Criteria
TII:	Total Intermediate Inputs
CE:	Compensation of Employees
OVA:	Other Value Added, Profits
TPI:	Total Primary Inputs

Table 6.
Ranking of Economic Sectors: Economic Linkage

DESCRIPTION	FL	BL
Chemical & Chemical Products	3.18	1.19
Trade	2.87	0.77
Food Manufacturers	2.18	0.99
Hotel & Restaurants	1.27	1.07
Clothing & Footwear	0.95	1.17
Private Business Services	0.85	0.88
Land Transport	0.83	1.07
Beverage Industries	0.80	1.15
Miscellaneous Manufacturers	0.76	1.08
Publishing & Printing	0.70	1.29
Private Recreational Services	0.67	0.77
Insurance	0.67	0.77
Real Estate	0.64	0.75
Construction	0.59	1.09
Other Private Services	0.57	1.13
Furniture & Fixtures	0.56	1.12
Water	0.56	0.82
Storage & Services, Incidental to Transport	0.55	0.92
Private Health	0.54	1.03
Private Personal Services	0.52	0.71
Private Education	0.52	0.85

Source: NSO 1988 Input-Output Tables

Legend: Ranking Criteria

FL: Forward Linkage
BL: Backward linkage

Table 7.
Ranking of Economic Sectors

DESCRIPTION	TID	PCE	E	M	TO(X)	TII	CE	OVA	TPI	FL	BL	ALL	RANK
Food Manufactures	1	1	3	4	1	1	3	2	2	3	12	63	1
Chemicals & Prod.	3	4	8	1	4	4	7	7	6	1	2	100	2
Trade	2	2	1	16	2	2	1	1	1	2	18	111	3
Hotels and Restaurants	4	9	2	2	6	6	10	5	7	4	10	155	4
Land Transport	7	3	4	7	5	5	5	6	4	7	9	159	5
Clothing & Footwear	5	7	9	5	7	7	4	11	8	5	3	182	6
Construction	10	20	14	11	3	3	2	3	3	14	7	228	7
Beverage Industries	6	5	20	12	8	8	12	16	9	8	4	280	8
Private Business Services	8	17	5	8	11	12	8	13	12	6	14	293	9
Private Recreational Services	14	13	6	6	14	15	15	8	11	11	17	331	10
Private Personal Services	20	6	7	17	9	14	9	4	5	20	21	337	11
Miscellaneous Manufacturers	11	12	13	3	17	10	19	14	17	9	8	338	12
Real Estate	13	8	12	13	10	19	14	9	10	13	20	350	13
Private Health	19	10	17	20	12	9	11	10	13	19	11	379	14
Insurance	12	14	15	10	15	20	16	12	15	12	19	393	15
Publishing & Printing	9	21	19	9	19	11	17	19	19	10	1	406	16
Storage & Services, Incidental to Transportation	15	15	10	18	16	13	13	15	16	18	13	416	17
Furniture & Fixtures	18	19	11	14	18	16	20	17	18	16	6	440	18
Private Education	21	11	18	19	13	17	6	21	14	21	15	447	19
Other Private Services	17	16	16	15	20	18	18	20	21	15	5	460	20
Water	16	18	21	21	21	21	21	18	20	17	16	548	21

Source: NSO 1988 Input-Output Tables

Legend: Ranking Criteria

TID: Total Intermediate Demand
PCE: Private Consumption Expenditure
E: Exports
M: Imports
TO(X): Total Output
TII: Total Intermediate Inputs
CE: Compensation of Employees
OVA: Other Value Added, Profits
TPI: Total Primary Inputs
FL: Forward Linkage
BL: Backward Linkage
ALL: Sum of All Ranks
RANK: Overall Ranking of the Industry Sector

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APPENDIX F

APPENDIX F

U. S. FRANCHISE APPLICANTS TO USAID FRANCHISING LOAN GUARANTEE PROGRAM

Sorted by Application Status
As of 10/2/92

Approved Facilities	15
Under Final Review	4
Under Review - Partial Application Received	5
Applications sent to franchisors but not completed	39
Rejected	8
Total	71

Sorted by Product/Services Offered by Franchise

Automobile Services/Supplies	4
Business & Office Services/Supplies	4
Convenience Stores	2
Employment Placement/Services	3
Iairstyling Salon	3
Iealth Aids/Services	2
Maintenance & Repair (leak detection, cleaning)	8
'ast Food	15
:ospitality	5
ıformation Technology	3
easing	1
Iiscellaneous	8
uick print/copying services	7
eal Estate	2
ravel agency franchise	1
ınknown/Undefined	3
Total	71

Iumber of general inquiries: Over 120

- 14'

List of Franchisors Interested in A.I.D.'s Franchise Guarantee Facility
As of 10/2/92

No.	Class	Company	Product/Services	Status/Notes
APPROVED FACILITIES (A)				
1	A	AlphaGraphics 3760 North Commerce Drive Tucson, Arizona 85705 Attn: Michael Amies (602) 293-9200	Quick-print/photocopying	Active Facility $3.0 million Mexico/Eastern Europe South America
2	A	American Fastsigns, Inc. 4951 Airport Parkway, Suite 530 Dallas, Texas 75248 Attn: Carmen Cohen or Mary Ryan (214) 702-0000	Quick printing/graphics	Eligibility approved. Mexico, Central and South America
3	A	MicroAge International 2308 South 55th Street Tempe, AZ 85282-1824 Attn: Duane Hall (602) 968-3168	Information technology	Eligibility approved. Eastern Europe
4	A	Kwik-Kopy Corporation One Kwik-Kopy Lane Cypress, Texas 77429 Attn: Edward J. Fay (713) 373-3535	Quick print/photocopying	Eligibility approved. Mexico, worldwide
5	A	Remedy Temporary Services 32122 Camino Capistrano San Juan Capistrano, CA 92675 Attn: William Krysick (714) 661-1211	Employment placement/services	Eligibility approved. Eastern Europe
6	A	Travel Network, Ltd. 560 Sylvan Avenue Englewood Cliffs, NJ 07632 Attn: Stephanie Abrams (201) 567-8500	Travel agency franchise	Eligibility approved. Working on inquiries from Africa and Caribbean
7	A	Comprehensive Bus. Services 1925 Palomar Oaks Way, Suite 105 Carlsbad, CA 92008 Attn: Robert Anderson (619) 431-2156	Business & office services/supplies	Eligibility approved. Working on Mexico, Costa Rica, Panama, Guatemala and Honduras.

8	A	Duraclean International, Inc. 2151 Waukegan Road Deerfield, Illinois 60015 Attn: Irl Marshall (708) 945-2000	Maintenance & repair	Eligibility approved. Attended Mexican franchise meeting. Mexico, Cameroon Costa Rica and Pac. Rim.
9	A	Choice Hotels International, Inc. 10750 Columbia Pike Silver Spring, MD 20901 Attn: Carlos Saralegui	Hospitality	Eligibility approved. Working on Costa Rica and South America
10	A	Sir Speedy, Inc. 23131 Verdugo Drive P.O. Box 30740 Laguna Hills, CA 92654-0740 Attn: Kenneth Ross (714) 472-0330	Quick print/photocopying	Eligibility approved. Working on Bolivia, Mexico Columbia, Eastern Europe.
11	A	Decorating Den 7910 Woodmont Avenue Bethesda, MD 20814-3058 Attn: Michael A. Riddiough (301) 652-6393	Maintenance & repair	Eligibility approved. Thailand, Asia.
12	A	Xerox Corporation/Rank Xerox 800 Long Ridge Road Stamford, CT 06904 Attn: Howard D. Katzen (203) 968-3246	Quick print/reprographics	Eligibility approved. Eastern Europe
13	A	Wendy's International, Inc. P.O. Box 256 4288 West Dublin Granville Road Dublin, Ohio 43017 Attn: Walter Fuehrer (614) 764-3100	Fast food - hamburgers	Eligibility approved. Philippines, worldwide.
4	A	The Gymboree Corporation 577 Airport Blvd. Suite 400 Burlingame, CA 94010 Attn: Bob Campbell (415) 579-0600	Misc--play equipment. Custom designed for children	Eligibility approved.

No.	Class	Company	Product/Services	Status/Notes
FINAL REVIEW (R) - COMPLETE APPLICATION RECEIVED				
1	R	Mailboxes, Etc. USA 5555 Oberlin Drive San Diego, CA 92121 Attn: Liz Mattila Tel. 619-455-8959	Business & office services/supplies	Assigned to J. Wolfe
2	R	I Can't Believe It's Yogurt 5005 LBJ Freeway, Suite 700 Dallas, Texas 75244 Attn: Peter Holt Tel. 214-450-9400	Fast food - yogurt products	Assigned to J. Hannula
3	R	Barbers Hairstyling 300 Industrial Blvd., N.E. Minneapolis, MN 55413 Attn: John W. Francis Tel. 612-331-8500	Hairstyling salon	Assigned to J. Hannula
4	R	Arby's, Inc. Attn: Greg Vojnovic P. O. Box 414177 Miami Beach, FL 33141 Tel. 305-866-1904	Fast food - hamburgers	Assigned to J. Wolfe

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No.	Class	Company	Product/Services	Status/Notes
UNDER REVIEW - PARTIAL APPLICATIONS RECEIVED (P)				
1	P	Grease Monkey/Sibley Int'l 2001 M Street, NW Suite 4000 Washington, DC 20036	Automobile services/supplies	Assigned to J. Hannula No longer working on Grease Monkey project.
2	P	Jani-King Franchising, Inc. Jani-King International, Inc. 4950 Keller Springs Rd/Ste. 190 Dallas, TX 75248	Maint. & repair (commercial) largest comm. cleaning company with 2,600 franchises worldwide	Assigned to J. Hannula
3	P	PIP Printing 27001 Agoura Road Agoura Hills, CA 91301	Quick print/photocopying	No int'l until summer '92.
4	P	Snelling Personnel Services 4000 South Tamiami Trail Sarasota, FL 34231 Attn: Edwin Pritzer (813) 922-9616	Employment placement/services	New EVP in charge of franchising. Will call when interested. App. sent - not received.
5	P	The Bagel Connection 1408 Whalley Ave. New Haven, CT 06515 Attn: Gary Lengel, CEO Tel. 203-387-0595	Fast food - bagels	Not interested at this time.

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No.	Class	Company	Product/Services	Status/Notes
CLASS 3 - APPLICATION SENT - NOT RETURNED				
1	U	Mrs. Powell's, Inc. Suite 106 500 Franklin Village Drive Franklin, MA 02038	Fast food - bakery goods	Start-up operation.
2	U	WSC Group, Inc. - Franchise Div. COMPUTER TIME ™ Rentals 15625 Preston Road, Suite 1025 Dallas, TX 75248	Information technology	No franchises yet
3	U	Area Lux, Inc. 1592 Northwest 159th St. Miami, FL 33169	Unknown	App. sent 1/8/92
4	U	Baskin-Robbins International Co. International Headquarters 31 Baskin-Robbins Place Glendale, CA 91201	Fast Food - ice cream	
5	U	Callanetics Franchise Corporation 1600 Stout Street Suite 555 Denver, CO 80202	Health Aids/Services	
6	U	Ceiling Doctor, Inc. 5151 Beltline Road, Suite 950 Dallas, Texas 75240	Maintenance & repair	Faxed request 1/30/92
7	U	Country Hospitality Carlson Parkway P.O. Box 59159 Minneapolis, Minn. 55459	Hospitality	
8	U	Cover-All North America 3111 Camino Del Rio N. San Diego, CA 92129	Maintenance & repair	
9	U	ERA Real Estate 4900 College Blvd. Overland Park, Kansas 66211	Real Estate	
10	U	Fantastic Sams - Int'l Division 2151 Arm Crescent East Halifax, Novia Scotia B3C38 Canada	Hairstyling Salon	

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11	U	Freshens Yogurt 2849 Paces Ferry Road Suite 750 Atlanta, GA 30339	Fast food - yogurt products	App. sent 1/8/92
12	U	Hospitality International 1152 Spring Street, Suite A Atlanta, Georgia 30309	Hospitality	
13	U	Ice Cream Churn 147 Charter Oak Ave. Hartford, Connecticut 06106	Fast food - ice cream	
14	U	Material Handling Corporation 720 Southwest 4th Court Dania, FL 33004	Misc. - materials handling	App. sent 1/24/92
15	U	McDonald's Corp. McDonald's Plaza Oak Brook, Illinois 60521 Attn: Bill Wells Tel. 708-575-3422	Fast food - hamburgers	
16	U	Medicine Shop International 1100 Linbergh Blvd. St. Louis, MO 63132	Health Aids/Services	
17	U	Midas International Corporation 225 N. Michigan, Suite 1100 Chicago, IL 60601	Automobile services/supplies	
18	U	Minuteman Press International 1640 New Highway Farmingdale, NY 11735 Attn: Edward B. (Woody) Ryder IV Vice President (516) 249-1370	Quick print/photocopying	
19	U	Pizza Inn, Inc. 5050 Quorum, Suite 500 Dallas, Texas 75240	Fast food - pizza	App. sent 1/6/92
20	U	Priority Management 108th Ave., Suite 1740 Attn: Vicky Stickwood Bellevue, WA 98004	Employment/placement services	App. sent 2/10/92
21	U	Speedy Oil Change Int'l. 6660 Riverside Drive Suite 101 Metairie, LA 70003-3271	Automobile services/supplies	

22	U	Software Enterprises, Inc. Attn: Anne V. Chelius 1 Dolphin's Rise Lloyd Harbor, NY 11743	Unknown	App. sent 1/23/92
23	U	TCBY International 1100 TCBY Tower 425 W. Capital Avenue Little Rock, Arkansas 72201 Attn: Scott Cooper (501) 688-8229	Fast food - yogurt products	
24	U	Timmerman Leasing, Inc. 1200 Mendelssohn Avenue Minneapolis, MN 55427	Leasing/general equipment	
25	U	Valmont Irrigation Systems Attn: Ormand Hilderbrand Valley, Neb. 68064	Misc - Agricultural equipment	App. sent 1/9/92
26	U	White Castle System, Inc. P.O. Box 1498 Columbus, Ohio 43216	Fast food - hamburgers	
27	U	FutureKids c/o Franchise Business International 852 20th Street, Suite 2 Santa Monica, CA 90403	Education	App. sent 2/18/92
28	U	Blockbuster Video International Attn: Mr. Lonnie Williams 901 East Las Olas Blvd. Ft. Lauderdale, FL 33301	Misc. - entertainment	
29	U	PostalAnnex Attn: Daniel W. Crotta 9050 Friars Rd., Suite 400 San Diego, CA 92108	Business & office services	App. sent 2/11/92
30	U	Fantastic Sam's Attn: Lemuel Butler 6640 Luck Blvd., Suite 104A San Diego, CA 92121	Hairstyling Salons	App. sent 9/21/92
31	U	Pizza Hut Attn: Randy Barnes, Pres. Pizza Hut Int'l P.O. Box 428 Wichita, KS 67201	Fast food - pizza	App. sent 8/17/92

32	U	AM/PM International Inc. Attn: Andrew Cominsky 1055 West 7th St. P.O. Box 2570 Los Angeles, CA 90051-0570	Convenience stores	App. sent 8/17/92
33	U	First Colony Funding Attn: Brian O'Toole 135 Cambridge Road Burlington, MA 01803	Unknown	App. sent 8/17/92
34	U	Sparkle Wash Attn: Bill Johnson 26851 Richmond Road Bedford, OH 44146	Automobile services/supplies	App. sent 9/2/92
35	U	Meridian Resort Development Attn: John Phelps 70 London Street, Suite 210 Reno, NV 89502	Hospitality	App. sent 9/1/92
36	U	McDonald's/Bank of America Attn: Ken Boyd 201 S. Biscayne Blvd., 28th Floor Miami, FL 33131	Fast food - hamburgers	App. sent 8/11/92
37	U	Continental Grain Company(KFC) Attn: Jim Klatsky 277 Park Avenue New York, NY 10172	Fast food - chicken	App. sent 8/20/92
38	U	State of New Hampshire Dept. of resources & Economic Development Attn: Daniel Hussey 172 Pembroke Road Concord, NH 03301	Unknown	App. sent 8/26/92
39	U	Leros Associates Inc. Attn: Lonie Leros 104 Myrtle Street Haworth, NJ 07641	Misc. - limousine service	App. sent 9/22/92

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APPENDIX G

APPENDIX G

THE PHILIPPINE SETTING

This appendix presents background information about the Philippines and about the Philippine economy.

Formerly a U.S. protectorate, the Philippines proclaimed independence on July 4, 1946 in accordance with the Commonwealth Act passed by the U.S. Congress in 1934. Since that time, the U.S. has served as the Philippine's largest trading partner, accounting for more than 19% of imports and 37% of exports (1990). Japan is the second most important trading partner, with 18% of imports and 20% of exports (1990). Despite the current influx of foreign investments from Japan, Taiwan, South Korea, and other countries, the United States will continue to be the Philippine's major trading partner for the foreseeable future.

A. PHYSICAL SETTING

The Philippines, situated off the southeastern cost of the Asia mainland along the Pacific Rim, has a total land area of 300,000 square kilometers. As one of the largest archipelagos in the world, with 7,100 islands and islets, and a coastline of 18,411 kilometers, the country is rich in marine resources and is an attraction for tourists. The country's three major islands are:

	Size (Sq. Km.)
Luzon	141,394
Visayas	56,606
Mindanao	102,000

Administratively, the country is divided into 15 regions, which are further subdivided into provinces, cities, and municipalities, and *barangays* or (local communities).

Two distinct seasons prevail, the dry season from November to April and the wet season from May to October. Average rainfall is 2,030 millimeters. Temperature ranges from 24 to 31 degrees centigrade. Humidity varies from 70% to 85% depending on time of the year.

B. THE PEOPLE

The Philippine population in 1992 is estimated at 62.7 million. The annual population growth rate is 2.3%. The Philippines has a young population, with a median age of 19.7 years. The average size of a household in the Philippines is 5 persons. Available statistics (1988) indicate that the birth and death rates per 1,000 population was 26.7 and 5.5, respectively.

Population growth and migration to the urban centers have contributed to serious crowding problems. Population density in the Philippines rose to 209 persons per sq. km. in 1992, from 202 in 1990. In 1980, 37.3% of the population lived in urban centers; today the figure is over 42%. From the viewpoint of investors, the population size and density in the following selected Philippine cities may suggest alternative locations to Metro Manila. (See Table 1 on the following page.)

Philippine culture is a mix of diverse ethnic and cultural influences including Malay, Spanish, American, Chinese, Islamic and Hindu. The Philippines is a consumer-oriented economy, with Westernized tastes and consumption habits. Its markets are thus responsive to advertising and Western-style promotional efforts.

National literacy is over 93%. Filipino is the national language, although there are over 80 other dialects. English is the second medium of communication and is spoken by persons of all ages in many places -- schools, business and government. Christianity is the predominant religion, with Roman Catholics constituting more than 80% of the population.

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TABLE 1.
Populations and Population Densities

City	City Provincial Location	Population (In 000)	Population Density
Quezon	Metro Manila	1,667	10,030
Manila	Metro Manila	1,599	41,749
Davao	Davao del Sur	850	384
Caloocan	Metro Manila	761	13,638
Cebu	Cebu	610	2,172
Zamboanga	Zamboanga del Sur	442	312
Pasay	Metro Manila	367	26,403
Bacolod	Negros Occidental	364	2,332
Cagayan de Oro	Misamis Oriental	340	824
Iloilo	Iloilo	310	5,536
General Santos	South Cotabato	250	591
Angeles	Pampanga	237	3,930
Butuan	Agusan del Norte	228	433
Iligan	Lanao del Norte	227	311
Olongapo	Zambales	193	1,868
Batangas	Batangas	185	654
Baguio	Mt. Province	183	3,742
Mandaue	Cebu	180	1,385
Cabanatuan	Nueva Ecija	173	15,898
San Pablo	Laguna	161	752
Lipa	Batangas	160	764
Lucena	Quezon	151	2,204
Lapu-Lapu	Cebu	146	2,513
Tacloban	Leyte	138	1,368
Other Cities with Relatively Low Population but High Density:			
Cavite	Cavite	92	7,797
Dumaguete	Negros Oriental	80	1,434
Laoag	Ilocos Norte	84	781
Cotabato	Maguindanao	127	722
Legaspi	Albay	121	787
Naga	Camarines Sur	115	1,484
San Carlos	Pangasinan	124	745
Tagbilaran	Bohol	56	1,848

C. LABOR AND EMPLOYMENT

A major strength of the country and one of its most favorable production factors is the large pool of skilled, educated, English-speaking workers. Equally important is the large number of well trained individuals in the professional, supervisory, and managerial levels.

In 1991, the economically active population of adults 15 years old and over was 37.9 million. (See Table 2.) However, only 64.5% of the available workers were estimated to have attempted to enter the labor force. The unemployment rate in 1991 was reported at 10%, while the estimate for 1992 ranges between 8-9%.

TABLE 2.
Household Population 15 Years Old and Over by Employment Status, Philippines, 1990

Projected Household Population 15 Years Old and Over (000)	39,999
Labor Force Participating Rate	64.5%
Employment Rate	91.9%
Unemployment Rate	8.1%
	100.0

Source: 1991 Philippine Statistical Yearbook.
National Statistical Coordination Board, Philippines.

The Philippines is still an agricultural economy, with 45% of the working population still earning a living from farming activities. While agriculture remains the single largest provider of jobs, agriculture contributes only 23% of the gross national product (1991). The linkages between agriculture and other sectors of the Philippine economy still need to be explored. Other employment sources include: community, social, and personal services (19%); wholesale and retail trade (14%); manufacturing (10%); transportation, storage, and communication (5%), and; construction (4%). (See Table 2-A and Table 2-B.)

TABLE 2-A.
Employed Persons by Major Industry Group, Philippines, 1990

Industry Group	Number (000)	%
Agriculture, Fishery & Forestry	10,185	45.2
Mining & Quarrying	133	0.6
Manufacturing	2,188	9.7
Electricity, Gas & Water	91	0.4
Construction	974	4.3
Wholesale & Retail Trade	3,145	14.0
Transportation	1,137	5.0
Financing, Insurance, Real Estate & Business Services	444	2.0
Community, Social Services	4,220	18.7
Others, n.e.c.	15	0.1
	22,532	100.0

Source: 1991 Philippine Statistical Yearbook. National Statistical Coordination Board, Philippines.

Of the 22.32 million Filipinos who are gainfully employed, 63% are located in rural or agricultural areas, while 37% live in urban centers. More housewives and women of working age are actively seeking employment (participation in the labor force by women is now 36%). However, men continue to earn the majority of a family's income.

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TABLE 2-B.
Employed Persons by Major Occupation Group, Philippines, 1990

Occupation Group	Number (In 000)	%
Professional, Technical & Related Workers	1,401	6.2
Administrative, Executive & Managerial Work	264	1.2
Clerical Workers	981	4.4
Sales Workers	3,025	13.4
Service Workers	2,084	9.3
Agricultural, Animal Husbandry, & Forestry Workers; Fishermen & Hunters	10,037	44.5
Production & Related Workers, Transport Equipment Operators & Laborers	4,634	20.6
Others, n.e.c.	99	0.4
	22,532	100.0

Source: 1991 Philippine Statistical Yearbook.
National Statistical Coordination Board.

Labor in the Philippines is cheap, even by Asian standards. The nominal legislated daily wage rates for those engaged in non-agricultural activities in Metro Manila and in surrounding areas is P96.42. For those hired in the agriculture sector, plantation workers are paid P85.58 per day, and workers outside the plantation system are paid P63.38 per day.

A study conducted by the Political and Economic Risk Consultancy Ltd. of Hong Kong and published in the SGV & Co.'s July 1991 Executive Bulletin, confirms the Philippines' relative low-cost labor position in Asia. In terms of cost, quality, and availability of labor, the Philippines was placed ahead of China, Hong Kong, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, and Vietnam. In terms of managerial and technical labor, the Philippines was also ranked among best in the region. (See Table 3.)

TABLE 3.
The Asian Labor Situation

	Production Labor				Managerial Labor				
	A	B	C	Subtotal	Q	A	C	Subtotal	Total
China	5	1	1	7	10	10	1	21	28
Hong Kong	1	10	8	19	1	10	10	21	40
Indonesia	5	1	1	7	10	10	2	22	29
Japan	1	10	10	21	1	1	10	12	33
Malaysia	3	3	3	9	5	5	5	15	24
Philippines	3	1	2	6	3	1	1	5	11
Singapore	1	10	6	19	1	10	8	19	38
South Korea	1	8	7	16	5	10	9	24	40
Taiwan	1	9	8	18	1	8	9	18	36
Thailand	4	2	1	7	10	10	4	24	31
Vietnam	3	1	1	5	10	5	1	16	21

Note: Q=quality; A=availability; C=cost
1=the best grade possible; 5=an average grade; 10=the worst grade

Source: BusinessWorld, July 27, 1992. Philippines.

Peaceful labor-management relations have prevailed during the past few years. The continuing improvement in labor-management relations has been attributed to the high level of maturity gradually reached by both employers and workers. Voluntary arbitration has become a more acceptable alternative for management leaders and labor alike. (See Table 4 on the following page.)

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TABLE 4.
Labor Disruptions
Philippines, 1985-92.

Year	Number of Strike/Lockout Notices Filed	Number of Actual Strikes Materializing
1985	1,175	371
1986	1,613	581
1987	1,715	436
1988	1,428	267
1989	1,518	197
1990	1,562	183
1991	957	132
1992 1/	863	103

1/ January to August

Source: 1991 Philippine Statistical Yearbook.
National Statistical Coordination Board, Philippines.

D. INFRASTRUCTURE

The Philippines government launched a massive infrastructure program in the early 1970s to provide greater mobility to and from the urban and rural areas. This program benefitted not only the transport and communications sectors, but also the agricultural, trade, and industrial sectors. In recent years, the government has also encouraged private sector participation in financing, construction, operation, and maintenance of infrastructure projects through "Build-Operate-Transfer" schemes. Despite these efforts, the Philippines ranks last among Asian countries in terms of infrastructure investment, as is shown in Table 5 below.

TABLE 5.
Expenditures in Infrastructure Projects (US $ billion).

Hong Kong	25
Singapore	15
Malaysia	16
Thailand	19
Indonesia	59
Philippines	3
Taiwan	300
South Korea	22

Source: BusinessWorld, September 8, 1992.

The relatively poor state of infrastructure will require massive investment to support future economic growth. Ports, roads, railways, and airports need upgrading, as do electric generating capacity, water, and communications facilities. Continued growth of the economy will be dependent upon the development of a supporting infrastructure.

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1. Transportation Infrastructure

Summarized below are selected statistics on basic Philippine infrastructure.

Table 6.
Selected Infrastructure Statistics

Highways: (1990)

	Length (Km.)
National roads	2,543
Local roads	136,288
Total	138,831

Railways: (1990)

	Length (Km.)
Main Line South (Manila to Legaspi, Albay)	474
Main Line North (Manila to San Fernando, La Union)	266
Total	740

In 1990, the Philippine National Railways (PNR) served 928,000 passengers and transported 49,000 tons of cargoes.

Aviation: (1990)

Number of Airports

National	86
Private	87
Total	173

Source: 1991 Philippine Statistical Yearbook.
National Statistical Coordination Board, Philippines.

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The Philippines has two operational international airports. The Ninoy Aquino International Airport (NAIA), the largest and busiest, is located in Metro Manila and services Luzon Island. The Mactan Airport in Cebu services the Visayan and Mindanao regions via connecting flights. A third international airport, the Laoag International Airport, is temporarily inoperational because of a political issue connected with the late former President Ferdinand E. Marcos. A feasibility study has been completed for the development of a fourth international facility, the Zamboanga International Airport (ZIA). The NAIA services 32 international carriers. The Philippine Airlines (PAL) is the country's flag carrier.

2. Ports and Shipping

The seaport network is composed of:

Port of entry	29
Sub-port of entry	57
Municipal port	92
Private port	221
Total	399

In 1990, 163 vessels servicing domestic trade and another 96,000 handling international trade, entered and were cleared by the various major ports.

3. Power Generation

The Philippines satisfies its power needs via the following sources:

Installed Generating Capacity
(In megawatts)

Hydro	2,153
Coal	525
Geothermal	888
Oil/Diesel	3,136
Non-conventional	167

Current electric power generation capacity cannot cope with demand, and many Philippine power facilities are far older than their useful life. The energy supply has been growing at an annual average rate (1986-90) of only 5%. The power supply is projected to expand to the year 2000 at an average growth rate of 6%, behind the estimated 7.7% average growth in power consumption. The power shortage has the potential to hamper severely expected increases in industrial activity.

Oil exploration is ongoing in several areas in the Philippines. However, the country is still very much dependent on foreign supplies. Thus, local power supply and prices to consumers are subject to international oil price and foreign exchange fluctuations.

The comparative power rates among Asian countries are shown below:

TABLE 6-A.
Average Power Rates Charged by Asian Utilities, December 1991

Country	Utility	Residential (In pesos)	Commercial	Industrial	All
Retailers:					
Hong Kong	CLPCO	2.14	2.06	1.77	1.96
Indonesia	PULN	1.71	2.91	1.61	1.83
Japan	JEPIC	5.16	-	-	4.02
Korea	KEPCO	2.72	2.66	1.44	1.85
Malaysia	TNB	2.05	2.18	1.37	1.71
Philippines	MERALCO	2.32	2.38	2.20	2.28
Singapore	PUB	2.19	1.93	1.68	1.86
Taiwan	TAIPOWER	2.25	2.82	2.04	2.15
Thailand	MEA	1.50	1.80	1.92	1.93
Wholesalers:					
Philippines	NPC	-	-	-	1.41
Thailand	EGAT	-	-		1.32

The Philippine government is addressing the power shortage through a series of initiatives that include: rehabilitation of old power plants; implementation of fast-track power ventures; and development of additional baseload projects. Eight power projects have been approved for build-operate-transfer (BOT) construction. The World Bank has expressed interest in lending US$ 110 million to develop transmission lines for fast-track power projects, and for the rehabilitation of the Bataan thermal power plants. Furthermore, the World Bank has commissioned a study to assess the need to upgrade the country's 10-year energy development program, including the setting of guidelines for the proposed deregulation of the oil industry and the privatization of some government energy facilities. (Philippine Daily Inquirer, October 1, 1992.)

4. Communications

According to 1990 statistics, the Philippine telecommunications network had the following composition:

	Number
Telephone:	
Lines capacity	688,311
Total connections	888,964
Exchange	340
Telegraph stations	1,539
Telex	65
Radio telephone	78
Licensed radio stations (all type of station)	53,725

Telephone density is only 1.5 telephones per 100 population, far below Western standards. There are 560 broadcast stations and 43 television stations. Of the total licensed radio stations, 2,543 are government-owned and 51,182 private-owned.