

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 7/8/2019

GAIN Report Number: 1913

Philippines

Retail Foods

2019 Food Retail Sectoral Report

Approved By:

Ryan Bedford

Prepared By:

Joycelyn Claridades Rubio

Report Highlights:

The Philippine food retail sector continues to grow, providing opportunities for increased exports of U.S. high-value food and beverages. The food retail industry sold a record \$47.4 billion in 2018, and Post forecasts sales in 2019 at nearly \$50 billion. Driven by rising incomes, a growing population, and a strong preference for American brands, the Philippines imported \$1.09 billion of U.S. consumer-oriented products in 2018. Post expects U.S. exports in this sector to grow further in 2019, reaching an all-time high of \$1.2 billion.

Market Fact Sheet: Philippines

With a population of 105.9 million and decreasing farmlands, the Philippines is dependent on food imports. In 2018, Philippine imports of high-value food products from the United States reached \$1.09 billion, making the United States the largest supplier for high-value, consumer-oriented food and beverage products. Post expects this to continue in 2019, with exports forecast to grow 10 percent to \$1.2 billion.

The Philippines continues to be one of the fastest-growing economies in Asia. With a growing middle class and a large, young population, the Philippine economy is rooted in strong consumer demand, boosted by rising incomes and overseas remittances. Per capita gross income and consumer expenditures saw strong gains from 2012 to 2018.

Imports of Consumer-Oriented Products:

The Philippines is the largest market in Southeast Asia and the 10th largest export market in the world for U.S. high-value, consumer-oriented food and beverage (f&b) products, importing a total of \$1.09 billion in 2018.

Food Retail Sector:

The Philippines' traditional food retail "sari-sari" stores (a.k.a. "mom & pop" stores) still dominate the food retail market, accounting for 58 percent. Despite aggressive expansion by modern food retailers, the retail market is far from becoming saturated. Markets in the provinces remain both a challenge and a lucrative opportunity for modern food retailing companies.

SWOT Analysis

<i>Strength</i>	<i>Weakness</i>
The Philippines is a consumption-driven economy with a strong preference for U.S. food, beverage, and ingredient products.	Philippine consumers can be highly price sensitive.
<i>Opportunity</i>	<i>Threat</i>
A steadily growing middle-class means more disposable income spent on high-value products.	U.S. exporters face competition from tariff-free products from countries including New Zealand, China, and Australia.

Quick Facts CY 2018

Imports of U.S. Consumer-Oriented Products US\$1.09 billion

Top 10 U.S. Consumer-Oriented Products Increased Exports by Value

- | | |
|--------------------------|----------------------------|
| 1) Eggs & Products | 6) Fresh Vegetables |
| 2) Meat Products | 7) Tree Nuts |
| 3) Processed Fruit | 8) Poultry Meat & Products |
| 4) Condiments and Sauces | 9) Pork & Pork Products |
| 5) Beef & Beef Products | 10) Prepared Food |

Food Industry by Channels in 2018

Food Exports – Agricultural Total	US\$4.9 Million
Food Imports – Agricultural Total	US\$11.9 Billion
Food Retail Sales	US\$47.4 Billion

Top 5 Food Retailers

- 1) Supervalu Inc. (SM)
- 2) Puregold Price Club
- 3) Robinsons Supermarket
- 4) Rustan Supercenters Inc.
- 5) Metro Supermarket

Top 5 Convenience Stores

- 1) 7-Eleven
- 2) Mercury Drug Corp.
- 3) Ministop
- 4) Alfamart
- 5) All Day Convenience Store

Philippine Market Profile

Population:

- 105.9 Million (July 2018 est.), annual growth rate of 1.55% (2018 est.)
- 12.8 Million living in Manila
- 46.9% living in urban areas
- 19.16% 15-24 years old

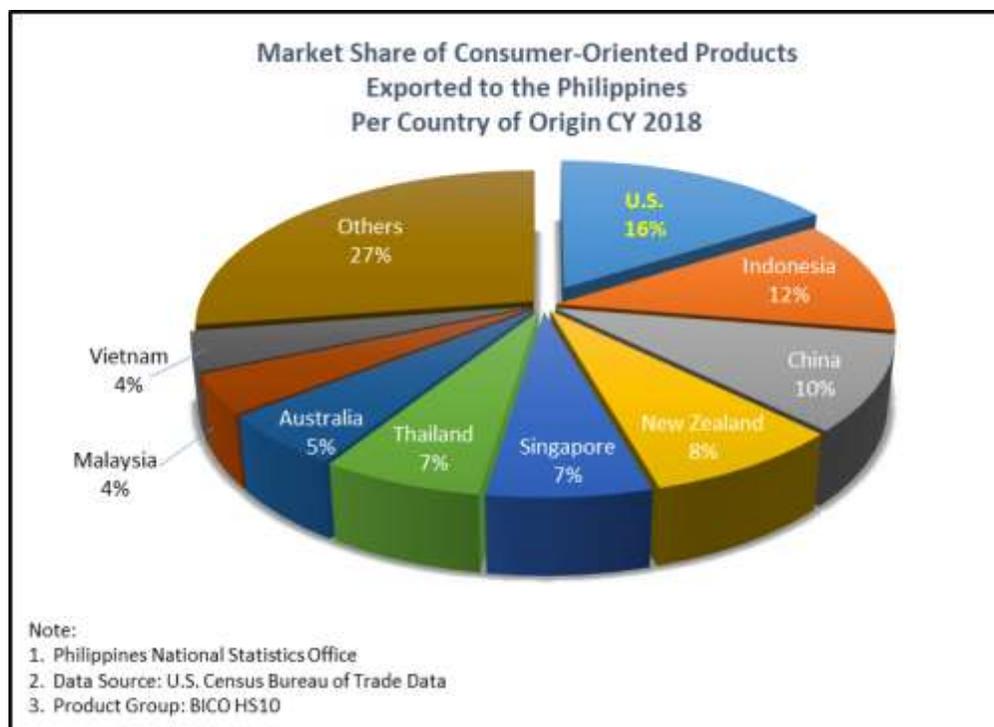
Land Area: 298,170 sq.km.

GDP Growth: 6.7% (2018 est.)

GDP Per Capita: \$9,538 (2019 est.)

Ave. expenditure per household: \$9,703 (2017)

Sources: GATS, GTIS, Company websites, and CIA World Fact Book



I. Market Summary

Modern food retail markets such as supermarkets, hypermarkets, convenience stores, and warehouse clubs have become essential, especially to those living in urban areas, as customers demand convenience and flexibility. Modern markets are expanding in both urban and rural areas, and close to residential and commercial communities. Modern retailers are usually cleaner, more comfortable, spacious, and well maintained. Moreover, supermarkets offer a wider range of choices, including both perishable and non-perishable goods. The traditional wet markets retain an advantage in fresh product, including meat and seafood, and especially fresh fruits and vegetables.

Trends in the Food Retail Market

The rise of modern grocery retailers is starting to impact traditional grocery retailers (sari-sari stores and wet markets). Traditional and modern retailers can co-exist as they largely cater to different consumer needs. Among modern grocery channels, convenience stores serve as the biggest threat to traditional grocery retailers because they are targeting the same locations. Convenience stores have several advantages over traditional grocery retailers, such as a wider assortment of products, air conditioned outlets, and dining stations. However, goods in convenience stores are more expensive than in traditional grocery outlets. Overall, modern grocery retailers still have a long way to go to saturate the market. The number of traditional grocery retailers in urban areas, especially Metro Manila, may slowly decline but this format will remain particularly strong in the provinces and rural areas.

Over the last five years, warehouse clubs have been expanding throughout the country, with their total sales reaching a record \$82 million in 2018. Represented by S&R Membership Shopping and Landers Superstore, these two major warehouse clubs both opened new outlets in 2018. Aside from a wide variety of food available, these stores also offer health and beauty products, home and outdoor items, household appliances, toys and fashion, and pet supplies. Although these stores are similar in format and size, Landers Superstore is deviating from the original warehouse club model as it also sells items in smaller packs, like those found in supermarkets. This makes the store more accessible and affordable to

customers who require packaged food products and for families living in condominiums with limited storage. Both stores sell almost 90 percent U.S.-made and branded products.

Types of Food Retailers in the Philippines

Type	Definition
Supermarket	A selling area of between 400 square meters and 2,500 square meters, at least 70% of which is devoted to food and everyday goods. Mostly located inside shopping malls, department stores, or within a commercial complex.
Hyper Markets	A hybrid of a department store and supermarket, with a sales area of at least 2,500 square meters, 35% of which is allocated to non-food products. Non-food items offered include furniture, appliances, and clothes.
Convenience stores (including gas marts)	A store with a sales area of 150-300 square meters that operates for longer hours (usually on a 24 hr. basis) and serves for impulse purchases. Mostly found in condominium buildings, beside gasoline stations, near intersections or corner streets, or near a call center. Offers ready-to-eat meals and has a limited line of f&b and non-food/household items.
Warehouse Clubs	A large out-of-town store that sells goods in bulk at discounted prices to business and private customers who must first become club members.
Sari-Sari Stores (Mom and Pop)	Small neighborhood stores owned and managed by a household in the community, selling a variety of essential items such as rice, cooking oil, sugar, etc. Much smaller than convenience stores, they are usually built within or beside the operator/owner's own house.
Wet Markets	Usually sell "fresh" meat, fish, vegetables, fruits, and other domestically produced items. Mostly local products but offer some imported items, especially fresh fruits.

Trends in Services Offered by Food Retailers

Modern grocery retailers in 2018 continued to improve their smaller formats to keep up with changing consumer behavior demands of busy consumers. Some supermarkets offer food-to-go counters and salad bars, while others integrate a pharmacy inside their store, making it a one-stop shop. Some convenience stores have incorporated fast-food services where customers can enjoy eating freshly prepared food in the store's dine-in area.

Online grocery retailing is getting more popular in the Philippines. In 2018, this sector saw not only grocery retailers starting to launch their own e-commerce, but also third party marketplaces such as Lazada and Shopee introducing a dedicated platform for online grocery sales. Efficient service, speedy delivery, and a wide assortment of products will be necessary for the continued growth of online grocery retailing over the coming years.

Consumer Taste and Preferences

There are many factors driving the steady growth of the Philippine food retail sector, including the robust overall economy, population growth, rising incomes, increasing numbers of dual-income families, fast-changing lifestyles, higher awareness of food quality and safety, and the growing sophistication of the market.

Growing demand for gourmet and healthy foods, frozen foodstuff, ready-to-cook food, processed grocery items, and other food ingredients for home meal replacement are trending among Philippine consumers. As a country with a strong preference for U.S. brands, Post expects greater opportunities in the

Philippines for U.S. high-value, consumer-oriented products in the coming years. With the growing sophistication of the market brought by rising incomes, more U.S. products and brands will be marketable.

Advantages (Sector Strengths)	Challenges
The Philippines is a mature and growing market for U.S. food, beverage and ingredient products with export sales of \$1.09 billion in 2018 and forecast to grow to \$1.2 billion in 2019.	Stiff competition with other countries including New Zealand, China, and Australia.
Filipinos have a strong preference for U.S. food, beverage, and ingredients products.	U.S. products are not always price-competitive compared to other countries, especially from ASEAN.
Philippine consumers perceive U.S. brands to be safe and of high quality.	Delivery/availability of products requires large inventories.
Proliferation of malls encourages further expansion of food retail establishments, leading to more demand of imported food items.	Food retailers demand high slotting fees and year-round marketing support, placing a big burden on new-to-market exporters.
Opening of modern retail markets provides customers with more options for local and imported products.	Local markets prefer smaller retail packs due to affordability.
Modern retail markets are expanding, providing more Philippine consumers with access to new imported products.	Availability of most imported products are concentrated only in Metro Manila and major key cities.
Growing middle class means more disposable income spent on high-value products.	Value-for-money remains the most significant influence of Filipino's purchase decisions.
Demand for healthy and gourmet food is increasing.	Gourmet and healthy foods are more expensive.
Fast pace of modern living leads to stronger demand for convenience foods.	Food and beverage products at convenience stores are sold at a premium price, 10-20% higher than those sold in the supermarkets

II. Road Map for Market Entry

A. Entry Strategy

1. Supermarkets, Hypermarkets, and Warehouse Stores

U.S. exporters who wish to supply food products to local retailers may prefer to have an exclusive importer/distributor or work with a trading firm to enter the market, instead of establishing a local office in the Philippines. These importers or trading firms usually have their own distributors and sometimes act as distributors themselves. This strategy eliminates the inconvenience of having to register a local company and hire personnel. Importers/distributors are also typically well versed on local customs and import paperwork issues, freeing the exporter from having to deal with these issues. Large retail stores usually have many suppliers, which may include local manufacturing companies or their distributors, trading firms, or importer/distributors. There are, however, retailers who directly import some products themselves, although sourcing from importers/distributors is the most common and preferred practice in the industry. These retailers normally have a central receiving, warehousing, and distribution center.

2. Convenience Stores

Convenience stores in the Philippines are usually a chain of stores operated by one parent company. Exporters who would like to supply to convenience stores are advised to appoint an importer/distributor.

Importers/distributors who distribute to big retail stores also distribute to convenience stores or gas marts. However, products for distribution in convenience stores and gas marts are basic necessities to consumers; otherwise, fast turnover of the product is not guaranteed. Distributors must contact the head offices of the convenience stores and offer to be a supplier. They may be distributors of importers/distributors or distributors of large manufacturing firms.

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

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

Similar to the “mom and pop stores,” wet markets are challenging for exporters because most imported products available in wet markets only include fresh fruits such as apples, table grapes, and oranges that are sourced from local wholesalers and distributors. Limited varieties of imported canned fruits and vegetables are occasionally available, as during Christmas and Chinese New Year. Retailers in wet markets occupy stalls that average to 4-6 square meters. Wet markets are not expected to become a significant retailer of imported food beyond fresh fruits and vegetables. Traditionally, wet markets are the main source of fresh produce and meat.

B. Contact FAS Manila

Market entry to the Philippines requires substantial work on the part of the U.S. exporter. For detailed information regarding standards and regulations for importing food and agricultural products into the Philippines, please refer to the reports entitled “**Philippines: Food and Agricultural Import Regulations and Standards – Narrative**” and “**Philippines: Exporter Guide**” which can be found through the FAS homepage at www.fas.usda.gov, under “Data and Analysis” (<https://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>).

Contact the USDA Foreign Agricultural Service (FAS) Office in Manila for clarification on specific questions. FAS Manila contact information is provided at the end of this report.

Once U.S. companies have acquired the necessary background information, they may consider attending or visiting one of the Philippines’ major local trade shows. These shows serve as a springboard into the market, helping U.S. companies meet and establish new trade contacts and at the same time gauge Philippine consumer product interests. Although the Philippines has small shows compared with other Southeast Asian countries, Post strongly suggests that an aspiring supplier consider attending the following shows:

Food & Drink Related Trade Shows in the Philippines

Trade Show	Description	Location
International Food Expo May 22-24, 2020 http://www.ifexphilippines.com/en/	Ethnic and specialty food, natural, organic, and healthy food products	Manila
Manila Foods and Beverage Expo June 10-14, 2020 http://www.worldbex.com	Trade and consumer show for food, beverage, ingredient products	Manila
World Food Expo August 7-10, 2019 http://www.wofex.com/	Trade and consumer show for food, beverage, and food processing equipment	Manila

Food and Drinks Asia September 5-8, 2019 http://www.foodanddrinksasia.com.ph	Specialty food, delicatessen, confectionery, beverages, beers, wines & spirits	Manila
Asia Food Expo September 11-14, 2019 http://www.afex.com.ph/	Food processing, packaging and handling machinery, equipment and technology	Manila

U.S. exporters can also contact their respective U.S. State Regional Trade Groups (SRTG), Commodity Cooperator Group, and state Department of Agriculture to obtain additional support.

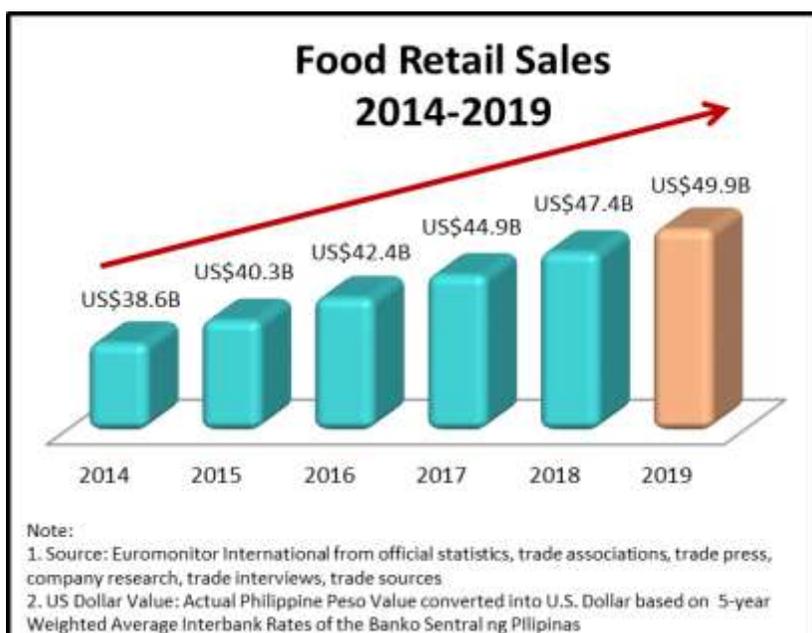
State Regional Trade Groups (SRTG) are non-profit trade development organizations that help U.S. food producers and processors to enter overseas markets. They are funded by USDA/FAS and private industry. They carry out promotional activities to increase exports of U.S. high-value food and agricultural products. For more information, contact the SRTG responsible for your state:

<https://www.fas.usda.gov/state-regional-trade-groups>

C. Market Structure

The Philippines' food retail market in 2018 was valued at \$47.4 billion, and is forecast to reach nearly \$50 billion in 2019. Filipino households spend more than half of their budget on essentials including food. Purchases of food and non-alcoholic beverages comprised almost 40 percent of total household expenditures in 2018.

Most modern grocery retailers are located in Metro Manila and key cities where most of middle-income earners reside. There are over 10,000 modern food retailers in the Philippines.



Key Food Retailers in the Philippines (as of September 2018)

Store Name / Company	No. of Outlets	Locations	Website
Supervalu Inc. (SM) (Hypermarkets, Supermarkets & Convenience stores)	645	Nationwide	https://smmarkets.ph
Puregold (Warehouse, Hypermarkets, Supermarkets, & Convenience/Neighborhood stores)	289	Nationwide	https://www.puregold.com.ph

Robinsons Supermarket (Supermarket, Express and Convenience stores)	500+	Nationwide	www.robinsonssupermarket.com.ph
Rustans Supermarket* (Supermarket, Express and Neighborhood stores)	75	Nationwide	https://rustansfresh.com
S&R Membership Shopping	17	Nationwide	http://www.snrshopping.com/
Landers Superstore	5	Manila & Cebu	https://www.landars.ph/
Phil. Seven Corp (7-Eleven)	2,573	Nationwide	www.7-eleven.com.ph

* Note: Now under Robinsons Retail

Three supermarket chains dominate the Philippines' food retailing, but only account for 20 percent of total sales, with much of the rest comprising traditional food retailers. Supervalu (SM) is the market leader, followed by PureGold and Robinsons. Other Supermarket chains include Metro Retail, Super8, WalterMart, AllDay Supermarket, and the warehouse clubs S&R Membership Shopping and Landers Superstore.

Robinsons Takes Over Rustan's Supercenters:

Robinsons Retail's portfolio is set to expand following a deal with Dairy Farm International, which has a 100 percent stake in Rustan's Supercenters in the Philippines. Robinsons, which operates more than 500 supermarkets and convenience stores combined, will gain a further 75 stores once it completes its acquisition of Rustan's Supercenters. Rustan's Supercenters operates supermarkets under different brands and a hypermarket under the Shopwise brand. This deal is also likely to strengthen Dairy Farm's presence in the Philippines as the retailer sees the country's grocery retailing channel as ripe for investment. Robinsons Retail, on the other hand, agreed to the partnership in the aim of becoming the nation's leading food retailer.

Opening of 24-hour Hypermarkets:

Metro Retail is planning to build more 24-hour hypermarkets over the coming years following the success of its first 24-hour outlet in Tagaytay, a tourist destination and one of the nearest getaway locations from Metro Manila. Hence, tourists visit the store at all times of the day for both basic foods and general merchandise. Metro Retail also operates a 24-hour Super Metro store at Resorts World Manila (a hotel located connected to Manila's international airport) which caters to passengers who want to purchase goods before or after their flight. Metro Retail is set to open another 24-hour hypermarket in Cebu, which is a major tourist destination.

Increasing Number of Smaller Supermarkets in the Neighborhood:

As convenience stores proved to be successful in recent years, supermarket chains began exploring smaller supermarket formats. Alfamart of SM Group continues to open almost 100 stores every year in the Philippines. With 400 stores to-date, Filipinos consider Alfamart as a mix between a convenience store, sari-sari store, and a supermarket. The company is posting double-digit same-store sales growth, which has encouraged it to pursue aggressive expansion in other parts of the country. Consumers seem to welcome the idea of a mini-supermarket within their neighborhood, where they can buy grocery products like frozen meat, vegetables, and even infant formula. This sets Alfamart apart from other traditional convenience stores.

III. Competition

The United States is the largest supplier at sixteen percent (16%) market share, followed by Indonesia (11%), China and New Zealand (9%), Thailand and Singapore (7%), and Australia (5%). Total imports of consumer-oriented food grew annually by an average of 10-15% over the last five years.

While domestically produced items account for about 80 percent of the total food supply with the balance being imported, food retailers remain very optimistic concerning the competitiveness of imported products. Although most imported items cost more than locally produced ones, U.S. products still remain very popular and have great appeal to Philippine consumers. U.S. products are perceived to have superior quality compared to imports from other countries.

IV. Best Product Prospects

Trends in Imports from the United States of Consumer-Oriented Foods

Product Category	Growth 2014-2018	Value of U.S. Exports to the Philippines 2018 (in USD)
Consumer Oriented Total	-2%	1,090.8
Dairy Products	-70%	248.0**
Pork & Pork Products	11%	116.2
Poultry Meat & Prods. (ex. eggs)	16%	116.2*
Prepared Food	15%	104.7*
Beef & Beef Products	32%	87.0*
Processed Vegetables	15%	82.8*
Snack Foods NESOI	13%	59.1
Fresh Fruit	-23%	51.1
Chocolate & Cocoa Products	16%	48.5*
Condiments & Sauces	46%	37.6*
Dog & Cat Food	28%	36.1*
Processed Fruit	44%	23.3*
Non-Alcoholic Bev. (ex. juices)	23%	17.8
Meat Products NESOI	41%	16.1*
Wine & Beer	37%	14.2*
Fruit & Vegetable Juices	6%	12.3
Tree Nuts	24%	9.4*
Fresh Vegetables	10%	6.2
Eggs & Products	62%	6.1*
Breakfast Cereals	65%	2.9
Other Consumer Oriented	18%	1.0

Source: BICO Report/U.S. Bureau of the Census Trade Data

*Denotes Highest Export Levels Since at Least CY1970.

** Although dairy product imports have declined 70 percent, they have shifted from skim milk powder to higher value products such as yoghurt, cheese, and ice cream.

Products in the market with good sales potential

- Processed products: health food, mainstream grocery, snack foods etc.
- Dried and Processed Fruit: cranberries, raisins, prunes, wild berries
- Nuts: Almonds, peanuts, pecans, pistachios, walnuts
- Fish and Seafood: cod, pollack, salmon, scallops and other fish products
- Fresh Fruit and Vegetables: apples, grapefruit, pears, potatoes, table grapes
- Meat: special cuts of beef and pork products.
- Dairy: gourmet cheese products, yoghurt, ice cream
- Drinks: craft beer, spirits, wine
- Food Ingredients

V. Further Information & Assistance

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

U.S. Department of Agriculture

Foreign Agricultural Service
Embassy of the United States of America
1201 Roxas Boulevard
Manila, Philippines
Trunk Line: (632) 301-2000
Email: AgManila@fas.usda.gov

FAS Manila publishes other market and commodity reports available through the Global Agricultural Information Network (GAIN) at <https://www.fas.usda.gov/data/search>.