


Philippines

FAMILY F\$RTUNES



“The entrepreneurial spirit is an important driver of the Philippines economy embodied in the nation’s family-run businesses.”

Family *Fortunes*

The importance of the family is paramount in the Philippines, something that is also reflected in the structure of many companies.

Still riding high on last year's 7.3% annual GDP growth, its best performance in more than three decades, the Philippines' economy is expected to grow between 5.3% and 6.5% for 2008.

And driving much of that growth are the Philippines' family run-businesses. Say 'family-run' to most people in the West and they'll likely think small. But in the Philippines, many of the biggest players are family-run: Ayala Corp; Banco de Oro; Fortune Tobacco; Jolibee; Yuchengco Group; Global Asiatique, and many others are all family concerns.

The founders of these family businesses are fascinating. Many of them started out at the bottom, working their way up to the top the hard way. In some cases, the stories of these companies are intricately tied up with the

Philippines' history.

Andres Soriano, who built the San Miguel empire, is a text-book example. He joined the company in 1918 as a clerk in the accounting department, rising to control the company. When he died in the 1960s, his son, Andres, took over as president.

The San Miguel story has also involved another of the Philippines' leading families, the Zobel-Ayals, related to the Sorianos through the

As a management unit, the family provides loyalty, flexibility, speedy decisions, and low overheads.

line of Pedro Pablo Roxas, a joint-founder of the company.

After the two families went their separate ways, Eduardo Cojuangco bought a controlling stake, and is now chairman and CEO. The president and COO is Ramon Ang.

Flexible, speedy, and lower-overheads

As the basic unit of management the family often provides loyalty, flexibility, speedy decision-making, and low overheads. Centralized family control minimizes company bureaucracy and paperwork. Key information is related verbally and retained in the heads of the senior managers rather than in the tremendous flood of paperwork typical in Western businesses. Money is borrowed from family members or friends on trust.



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Transactions of great size are often dealt with by common understanding and a note jotted in a diary.

Family members fill most of the top management positions, while other strategic posts are usually reserved for close relatives and for those who have worked for the family for long periods of time.

Typically, one generation of family leadership passes on control to the next. Such is the case with Jaime Zobel de Ayala, the patriarch of Ayala Corp., the Philippines' oldest conglomerate, who retired in 2006 and turned over his business operations to his two sons.

The company is diversified: business interests include real estate and hotels (Ayala Land Inc.), financial services (Bank of the Philippine Islands), telecommunications (Globe Telecom Inc.), water infrastructure (Manila Water Co. Inc.), electronics and information technology (Integrated Microelectronics Inc. and Azalea Technology Investments Inc.) and automotive (Honda Cars Makati Inc. and Isuzu Automotive Dealership Inc.).

Efficient management chains mean that many family companies have never had to downsize to stay competitive, as they never upsized in the first place. Due diligence has traditionally been a conversation among trusted friends and relatives rather than an endless series of reports, and meetings with lawyers, accountants and investment bankers.

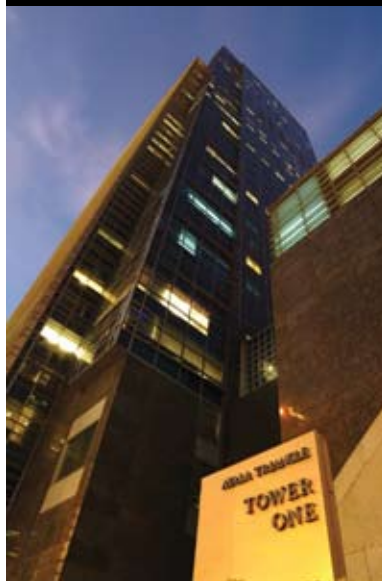
The head of a Philippines company entrusts key activities and positions to family members: sons, sons-in-law, nephews, brothers, uncles, and occasionally daughters. Within the family, confidence in his judgment borders on the absolute. The combination of owner and manager avoids the

"agency" problems that Western business face in getting managers to promote the interests of the owners.

A good example of this is real estate developer Global Asiatique, whose president and board chairman Delfin Lee says he literally grew up in business, sweeping floors and carrying goods at the



*Above: the Lee family at a recent presentation.
Below: the headquarters of the Ayala Group*



family lumberyard as a child. There, he would discuss business ideas with the other workers and owners of neighboring shops in Manila. As he grew older, his business sense developed, and he began trading in a range of goods. After going into real estate in the early 1990s, he has now brought his three children

into the business.

Key positions in family enterprises have traditionally been entrusted to male relations, but there are some notable exceptions.

For example, Teresita Sy-Coson started working in one of her family's Shoe Mart stores near her home in Manila when she was 13. Today, she's among Fortune's 50 most-powerful businesswomen.

Shoe Mart has since evolved into SM Group, a large retail and property-development concern with \$2.4 billion in annual revenue. It operates shopping malls, supermarkets and banks.

Founder Henry Sy, now in his 80s, is still the top executive. But all of his children work for the company: Ms. Sy-Coson, for her part, currently heads up the banking side as vice chairman of SM Investments Corp., which includes Banco de Oro and China Banking Corp. Her only sister works on the property development side of SM Group as a managing director of hotel projects and director of property development. And each of the four brothers is active in running the group's businesses. Eventually, one of the Sy brothers will likely take over the patriarch's role and run the whole group.

The company now is hiring more professional managers from outside the family circle—a common step for many closely held businesses that pass to the third generation.

The family business has proved itself resilient and adaptable over the years, and will continue to drive the Philippines' fast-changing economy in the future. And at the heart of its success are the common core values of hard work, conscientiousness, loyalty to superiors, and trust among family and friends. ●

Globe Asiatique: *Keeping it Real*

The success of this family-run company is based on a commitment to the highest standards of construction.

Real estate and housing developments are a dime a dozen, but for the majority of people in the Philippines, comfortable, well-built homes often cost a dime too many. Consequently, most people have little choice but to lower their standards.

In 1994, Globe Asiatique Realty Holdings Corporation set out to change things by building attractive, affordable communities for lower and middle-income families. But for Delfin S. Lee, president and chairman of the board, it meant more than just entering a new market; it was an opportunity to make a tangible contribution to society.

"Growing up, we didn't have much, but being raised in a good environment showed me that it plays an important part in molding a person," he says.

"I realized that we could do more than just provide decent housing. We could actually create communities that inspire and cultivate productivity, and make people proud to live in them."

This was his vision... his dream for Globe Asiatique.

True to his word, Mr. Lee's first venture in San Mateo, Rizal, showed that lower income groups could

"The OFW market is big, and an important part of a pent-up demand for low-cost housing. That is our focus."

—Delfin Lee



*Top: Delfin S. Lee, Regina Paz Lopez and Divine Lee at recent presentation.
Below: Delfin S. Lee and daughter Divine*

experience living in an up-graded environment. Its success guided the concepts of the developments that followed, which grew in size, scope, and amenities to include the recent Xevera scheme in Pampanga: a benchmark project offering a complete package of residential, commercial, and public establishments in a pedestrian-based community.

Mr. Lee says it's not enough to provide recreational facilities and a plush ambience. "People who belong to the working class also need time to be with their families, so we also built everything they need such as government offices, a transport terminal, and even a school, within walking distance," he explains.

But the conveniences are not without conditions. "I've always believed that discipline and a sense of responsibility beings at home.

So it's imperative that they respect their neighbors and their surroundings," he stresses.

It may be an unusual approach for a business magnate, but it is essential to the fulfillment of a vision that extends far beyond those of his counterparts: building the foundations of the nation. And Globe Asiatique's excellent living conditions have already brought about positive changes in the attitudes and outlook of the families living in the company's homes.

As Divine Lee, daughter and vice-president for marketing, points out, the company's success is based on keeping in touch with reality. "I remember asking my father how we judge quality when we build a house. He said: "If we can live in it, then we can sell it to the buyer. If you cannot see yourself living in a house, then there is no use selling it."

Delfin Lee continues: "When people move into our houses, suddenly the way they carry themselves is different. You see it in their faces, in their smiles, that they're proud to belong, and that they are intent on preserving the beauty around them."

Soon, a chic and modern 38-story condominium called GA Sky Suites will take middle-class lifestyles to a new level. But for now, Delfin Lee's social consciousness is enough to show the world that whether is building a small house or building the country's moral fiber, anything can be achieved by keeping one's feet firmly on the ground.

"It's just a matter of starting somewhere," says Mr. Lee. "To be honest, if other companies started doing what we do, I would be very happy, because then I would have done my share and made my contribution to society." ●



SAN MIGUEL CORPORATION Southeast Asia's Largest Food and Beverage Company



(From left) San Miguel Beer, Purefoods Tender Juicy Hotdog, Magnolia Fresh Milk.

Banking on its successful track record of producing well-loved food and beverage brands, San Miguel Corporation is looking to take its business to the next level.

After taking the helm of the Philippines' largest food and beverage company in 1998, its Chairman and CEO Eduardo M. Cojuangco, Jr. and President and COO Ramon S. Ang wasted no time implementing a growth strategy. San Miguel has taken on several twists and turns that have seen the 118-year old company embark on an ambitious regionalization program—which at one time, included ownership of some of Australia's largest food and beverage businesses.

Established in 1890 as a single-product brewery, the company's flagship product San Miguel Beer is still preferred by nine out of ten Filipino drinkers a century later. But the company has never been limited by its origins, successfully expanding its reach well beyond the beer industry.

Open the fridge in any Philippine household and chances are you'll be reaching for a San Miguel product. Today, San Miguel is a highly diversified food and beverage company with over 100 facilities in the Philippines, Southeast Asia and China. It has an extensive product portfolio that includes beer, hard liquor, juices, poultry, animal feeds, basic and processed meats, dairy, coffee, flour, snack foods, condiments, and packaging products. The company has generated strong consumer loyalty through brands that are among the most formidable in the Philippine food and beverage business.

Ang says the company's diversity reflects the success story of San Miguel Beer. "In the 1970s, business was simpler: you had one product and that was it. We started with only one beer. The key now is to ensure that you have a range of good products that you can distribute very well, and that you are efficient in your operations so you can offer

affordable products and different varieties."

The company's long-term strategy is based on strengthening its core businesses, while pursuing new avenues of growth. Over the last decade, it has significantly expanded its participation in its core business of food, beverage and packaging through regional acquisitions and integration.

That's why San Miguel carved out its crown jewel, the domestic beer operations. Successfully listed on the Philippine stock market in May 2008, San Miguel's newest subsidiary, San Miguel Brewery, Inc., bucked the trend of weak equity

“Our goals stay the same, but our priorities as an organization change to reflect the new opportunities and challenges we see before us.”

markets, gaining over 6% in price on the day of its stock market debut. Plans to list both the company's food and packaging businesses in 2009 are well underway, giving what Ang says is “a renewed focus to the individual businesses and to its parent, a flexibility to grow.” “Our goals stay the same, but our priorities as an organization change to reflect the new opportunities and challenges we see before us. We believe diversification into new businesses is crucial to the future of our organization and vitally important to our ability to deliver value to our stockholders,” says Ang.

While to date, the company has yet to acquire new businesses, Ang says he is on the lookout for assets and projects that meet San Miguel's disciplined acquisition and investment criteria. “We are looking for opportunities to get into more businesses, because the food business today only gives the company an average of 7% to 8% return on equity. To fast track our growth and deliver the kind of value that our shareholders expect and demand from us, we need to look to high-growth

categories. Other fields of business, power, utilities and new sectors are giving at least double-digit returns. These are the kind of businesses that will allow us to zoom on to the next level of growth.”

Ang believes the cornerstone for Philippine growth is tourism. “For every 1 million tourist arrivals, our economy grows by \$1 billion. If we can bring in 17 million to 18 million more tourists, it would grow by \$18 billion. This would do a lot for the local economy,” he says, adding that the Philippines has barely begun to fulfill its investment potential and offers serious advantages over its neighbors.

In a decade that has seen a reshaping and refining of the very nature of its businesses, the next chapter in San Miguel's storied history is already being written. ■



Ramon S. Ang, SMC president and COO is the driving force behind San Miguel's growth strategy.