

The Philippines: Welcoming a New Era



Showing Resiliency to the Economic Shocks Worldwide, the Philippines is positioning itself to capitalize on the next upturn in the economic cycle.



HON. PETER B. FAVILA,
SECRETARY OF TRADE
AND INDUSTRY

The Philippines is a country that has consistently shown resiliency in its economy. While its growth in GDP and FDI inflows may not have been as high compared to its ASEAN counterparts in recent years, when the credit crisis began to show its teeth in Asia, the Philippines was not caught off guard.

Learning from experience of past crises, notably the 1997 Asian financial crisis, the Philippine Central Bank, or Bangko Sentral ng Pilipinas (BSP) implemented prudent banking regulation and pursued fiscal policies

that would give it a cushion for any future shocks. At present, the banking sector is strong with all major banks posting growth, while consolidation continues. Inflation is at a 12-year low, allowing the BSP to continue implementing accommodative monetary policies reducing interest rates.

Much to the surprise of many international financial institutions and credit rating agencies, remittances from overseas Filipino workers (OFWs), who represent 10% of the country's 90 million citizens and send home \$17 billion annually, continue to grow, albeit at slightly lower levels. In a climate where developed countries worldwide continue to send visiting workers home, it is clear that the quality of Filipino labor is high.

More recently, for the first time in 12 years, citing the country's resiliency to the economic crisis, Moody's upgraded its rating of Philippine bonds, bringing them one notch closer to investment grade. Standard & Poor's and Fitch had already made similar upgrades.

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The administration of President Gloria Macapagal Arroyo, while often criticized by political opponents, deserves credit for her initiatives aimed at ensuring economic stability and growth as well as her efforts to promote the country's image abroad. Since her election, she has overseen 36 quarters of consistently positive growth in GDP.

Aiming to pump up the economy and alleviate poverty, the Arroyo administration is investing heavily in further developing infrastructure, primarily in the countryside. While the infrastructure in the various business districts in Manila and Cebu is of world class and ICT development continues at a rapid pace, much more needs to be done in rural areas with regard to transportation, logistics, and energy.

Looking more closely at the relatively low levels of FDI, Ambassador Donald Dee, chairman emeritus of the Philippine Chamber of Commerce and Industry, and special envoy for trade negotiations, argues that a bit of context is needed. "People have a negative impression that we were not able to get a big chunk of it," he acknowledges. However, Dee points out that most FDI in the region was typically focused what he calls "migrating industries" such as consumer goods, textiles, and electronics, which consistently go to the lowest bidder in terms of labor cost. Considering the cheaper workforces in nearby countries, notably China, it is unrealistic to see the Philippines becoming increasingly competitive in these sectors. Instead, he argues that the Philippines should focus more on value added sectors, notably services export.

The Arroyo Administration and its Investment Promotion Strategies

Despite the continued challenges in the global economy, the Philippines' economic managers believe that the country's high value for investment will continue to ensure that foreign investment finds its way into the Philippines' high-growth, high-potential industry sectors.

The Department of Trade and Industry (DTI), headed by Secretary Peter B. Favila, wears several hats as the coordinating agency for all government activities related to trade, industry, and investments. The DTI is the key promotional machinery that furthers investment in the Philippines and strengthens trade and export, as well as the regulatory body that ensures fair competition.

"Emerging economies around the world are seeing a decline in foreign investment because the currencies of the countries that are traditionally the sources of investment have

become soft," says Secretary Favila. "So they need more of their currency to invest here and get an equivalent valuation in pesos. Having said that, the Philippines has been able to maintain a healthy level of investments because of our efforts to identify opportunities in niche industries in which we have an advantage, for instance the information technology and business process outsourcing (BPO) sectors. These are examples of some of the sunrise industries in our country that are quickly becoming major growth drivers.

"Foreign companies tell us that they like to operate in the Philippines because our workers are proficient in English, they are diligent, and have a positive attitude," he continues. "This is especially true for the U.S. because we understand how their system and culture works. It is very easy for American companies to do business here. There are more natural elements

for attracting them here. These are the factors that will ensure that we continue to remain a top choice for foreign investors." Secretary Favila said that these investments will in turn ensure that the Philippines maintains the positive level of economic growth that was seen in the first half of the year despite the ongoing global recession.

BPO represents one of the Philippines' great-



AMBASSADOR DONALD DEE,
CHAIRMAN EMERITUS OF
THE PHILIPPINE CHAMBER OF
COMMERCE

est success stories in terms of attracting investment. Working in close collaboration with the DTI, and leaders in the BPO and important related sectors, notably telecoms and real estate, the Business Process Association of the Philippines (BPAP) has been a key player in helping the sector grow. Revenues reached \$6.1 billion last year, and are poised to grow this year by another 25%. A private sector non-profit, headed by CEO Oscar Sanez, BPAP easily connects the necessary links between investors looking to set up shop in the Philippines, the appropriate government agencies, particularly the DTI, as well as inter-industry partners they will need to get operations rolling smoothly and quickly.

Sanez acknowledges that in terms of numbers, investments in BPO may seem low. "It is true that we are not big contributors in terms of FDI," he explains. "We only need computers and leased property in order to have a call center company." However, he is quick to point out that the money brought in by the country's BPO companies amounts to 100% export

revenue contribution. "When we say \$6.1 billion in revenue, all of that is true export revenue. It is not like manufacturing where you have to net out the value of the imported material or semi-processed product from the value of the export, which leaves you with a very small net value added," Sanez adds. Hence, while BPO may not be bringing FDI numbers to the levels of the

Energizing Philippine Development

Many of today's changes across the Philippine energy landscape are the result of the 2001 Electric Power Industry Reform Act (EPIRA) that is now making great strides in privatizing the state's energy assets and bringing competition to the market.

Under EPIRA, the state power generator, National Power Corporation has been actively privatizing its assets via the state's energy holding company, known as the Power Sector Assets and Liabilities Management Corporation (PSALM).

With the majority of its assets now sold and owned by the private sector and PSALM, National Power is now at a major turning point. National Power is now focusing on off-grid operations and electrifying the far-flung provinces, which due to low economic development, have not yet been incorporated onto the main grids. Managed by the Small Power Utilities Group, or SPUG, these projects aim to pump prime local economic development.

Despite the challenges of bringing affordable electricity to these small markets, National Power now develops hybrid solutions that combine conventional electricity generation methods with renewable ones, such as wind and solar. Furthermore, because these small markets might

limit opportunities for investment, National Power is ready and willing to work with private investors via public-private partnerships. Looking forward, the opportunities for private sector investment in these off-grid projects, as well as the assets offered by PSALM, certainly look promising.



Philippines' neighbors, the great benefits to the economy are undeniable. As Sanec also notes, "The impact in terms of job creation is 3 to 1. For every job we create, there are three other types of employment we create in a different industry."

Beyond IT and BPO, Secretary Favila also points to opportunities in infrastructure, tourism, medical tourism, and mining, among others, in this vast archipelago made up of thousands of islands. They represent significant investment opportunities and are bringing capital into the country.

While still in its fledging stages of growth, Philippine tourism has nearly doubled in the past five years, making it a \$5 billion dollar industry. With physical treasures scattered across the archipelago, the products are already there and the value of service is world class. What remains is to continue the expansion of improved roads and airports to bring even greater access to more tourists. With further infrastructural development and increased planning from

both the public and private sector, the future looks promising.

While more remains to be done to further enhance the Philippines' competitiveness, Secretary Favila says that the Government is today much more efficient as a result of the economic reforms that were instituted to cut red tape and enhance the

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—SEC. PETER B. FAVILA

efficiency of the investment and business approval processes. These measures, which include setting up of one-stop shops,

streamlining of Business Permits and Licensing Systems (BPLS) in Local Government Units (LGUs), and implementation of an online single business application form through the Philippine Business Registry (PBR), paired with the overall stability of the country and its economy, have helped make the country one of the most attractive destinations for investment in the region, he said.

"The President is really careful about the kinds of investors we would like to attract. We want people who believe in our country, in our people, and in the way things are done here. In many ways, we are comparable to certain developed countries by way of investment opportunities and their processes, but more needs to be done and we are focused on moving forward with the Government's economic reform agenda to pave the way for long-term, sustainable economic growth to benefit both the people of the Philippines and the foreign investors who choose to invest in our country," he says. ●

M. Lhuillier: A Family Business of the Future

In 1950, the French jewelry and luxury goods merchant Henry Lhuillier saw an opportunity to grow his business and diversify into money lending with fine jewelry and watches as collateral. Three generations later, the M. Lhuillier name is now a nationally recognized brand.

Beginning in the late 1980s Michel Lhuillier's two sons, Charles and Michael, continued to expand the business. With two jewelry stores and 50 money lending locations established by 1990, the two brothers continued to grow the business, opening 60 to 80 branches per year. By 2005, the company had nearly 800 financial services branches operating across the Philippines.

While maintaining their foothold in money lending and the jewelry store business, the Lhuillier brothers began looking for ways to diversify into remittances in order to

maximize their countrywide network. M. Lhuillier went into partnership with Western Union in 1998 and within three years became the largest non-bank agent in the country. However, this partnership only took advantage of the international component of the remittance business. Seeing great internal demand for money transfer, the Lhuillier brothers established their own service, ML Kwarto Padala, for those seeking to send money within the country.

Ultimately, the M. Lhuillier brand

became stronger locally than that of its global partner, Western Union. "They wanted an exclusive partnership and after two and a half years of negotiation, we decided that we wanted to go out and build the M. Lhuillier brand," explains Charles Lhuillier, now Executive Vice President of the company. "Currently, we now have over 70 international and local partners and 1,200 company owned locations all under our own brand," he adds.

Beyond financial services and jewelry, the M. Lhuillier family continues to further diversify operations into food and restaurants and potentially even tourism. "Our land holdings are all primarily in Cebu, Philippines, and we have very prime city and beach-front properties. We are currently evaluating the future prospects for resort development and tourism facilities in the island," Charles Lhuillier explains. ●



SM Investments Corporation: A Strategy of Organic Growth, Diversification, and Synergy

Few people outside the Philippines are probably aware that the “SM” in SM Investments Corporation stands for Shoe Mart, a small shop that sold imported American footwear in 1950s Manila. Fifty years later, the company has transformed to one of the Philippines’ largest conglomerates.

Expanding from its one single location in 1950, SM now represents the country’s largest mall and retail merchandising brand, covering 4.2 million square meters of gross floor area nationwide.

“In the Philippines, we are adding about three new malls a year, in addition to expanding our existing malls. We tend to grow organically. Our first mall was just 120,000 square meters when it



TERESITA SY-COSON,
SMIC VICE CHAIRPERSON

opened, and has grown to become the country’s largest mall with 425,000 square meters,” explains Hans Sy, President of SM Prime Holdings, SM’s mall and retailing subsidiary.

As SM aims to further diversify, the vision is not merely finding growth areas, but also identifying synergy. SM has been capitalizing on the vast amounts of land it controls for its mall and retail space and is aggressively expanding into property development, aiming at

the fast growing middle market for residential space as well as the constantly growing demand for office space, driven in large part by the BPO sector.

Beyond bricks and mortar, SM also diversified into banking when it took

over Banco de Oro in 1997, and turned it into the country’s largest in terms of assets. SM also owns a 20% stake in China Bank, which ranks among the Philippines’ most profitable.

This trend continues. “As a whole, all the group’s core businesses continue to jive well with one another,” explains Teresita Sy-Coson, SMIC vice chairperson. “We are looking forward to the prospect of our hotel and entertainment sector, which will serve the flourishing tourism sector. We think we have a lot of potential in tourism given our countless natural attractions and our friendly and skilled people.”

Despite the current economic crisis, Mrs. Coson finds reasons for optimism. “While we are sensitive to any change in economic environment, we believe that the best opportunities arise during times of crisis,” she explains. Considering that SMIC’s most recent bond issue in the spring of this year was nearly three times oversubscribed, it appears that investors agree. ●



Every single day, SM touches the lives of millions of people who can go and buy nearly everything they need at SM stores, spend time in SM malls with family and friends, transact with its banks, live in style in SM residences, hotels and resorts, and work in comfort and convenience at one of SM’s office buildings. Indeed, over the last five decades, SM has created a world all its own, one that breathes life and growth into empty spaces, builds thriving communities where there once was none, and cares for people and places with its warm smiles, friendly faces and its heart to serve.

United Laboratories: Commitment to Quality and Affordability — A Partner of Choice

From a small drugstore established in 1945 by its Founder, Mr. Jose Y. Campos, United Laboratories, Inc. (UNILAB) has progressed to become the country's leading pharmaceutical and health-care company for the past 50 years. Unilab pioneered the value proposition of accessible and affordable quality health care. Growing typically at double digit annual growth rates, it has more than a 20% market share in an industry dominated by the world's biggest multinationals.

Through its 12 marketing divisions, Unilab develops, manufactures, and markets more than 300 prescription, over-the-counter, and personal-care products. These cover major categories including cardiovascular, anti-infectives, endo-metabolic, gastro-intestinal, nephrology, oncology, vitamins, pain, cough/colds, skin care, pediatric, and women's health.

The wide array of products reaches consumers through Unilab's extensive na-

tionwide distribution system. Over the years, Unilab's accessible and affordable quality products have built a strong equity which has resulted in broad acceptance in the prescription and over-the-counter segments.

In terms of manufacturing capability, Unilab operates Amherst, a new, state-of-the-art plant (24,000 sqm floor area), which is EU-GMP certified. A second plant specializing in liquid products (16,000 sqm floor area) will be completed by mid-2010.

Unilab has successfully adopted "coopetition" as a business strategy involving selective partnerships with MNCs. "Coopetition" recognizes areas of cooperation even with competitors. This strategy is borne out of pragmatism where synergy, complementation, and economies of scale make good business sense.



CLINTON CAMPOS HESS,
PRESIDENT AND CEO OF UNILAB

Quality and continuous improvement are integral to Unilab's operations. These enable the company to fulfill its promise of "Trusted Quality Healthcare." In 2008, Unilab became the first recipient of the Philippine Quality Award (PQA), the highest award on quality in the country. PQA is patterned after The Malcolm Baldrige

Quality Award in the U.S.

Mr. Clinton Campos Hess, President and CEO articulates a key Unilab thrust. "We are actively seeking strategic business partnering to further bolster our growth and expansion initiatives in the ASEAN region. We are encouraged to aggressively pursue these objectives given our experience, track record, and capabilities in the pharmaceutical and health-care industries." ●

Unilab Group

- Over \$800 million in sales
- Operates in 10 Asian countries
- 12 manufacturing facilities in China, Philippines, Indonesia, Vietnam and Thailand
- Markets over 300 brands
- Over 6,000 employees with more than 2,600 marketing field personnel
- Covers more than 40,000 physicians in all therapeutic segments
- Outstanding reputation in building enduring business relationships



Trusted Quality Healthcare

66 United Street, Mandaluyong City - Metro Manila, Philippines
Telephone: (632) 858-1000 - www.unilab.com.ph

We bring nourishment
as we grow fruits.
We nurture relationships
as we grow brands.
We build communities
as we grow beyond borders.



Del Monte Pacific Ltd.
Dedication to Growth and Excellence.

Del Monte Pacific Ltd.: Dedication to Growth and Excellence

When Filipino industrialist Joselito “Butch” Campos, Jr. took over the reins of Singapore-listed Del Monte Pacific Ltd. (DMPL) in late 2005, the global pineapple industry was anything but crisp and golden. Campos, then CEO of NutriAsia, the Philippines’ market leader in condiments, had a business waiting to bloom, with a promising \$200+ million in annual turnover.

“Together with our group chief operating officer Luis Alejandro, with whom I worked closely in NutriAsia, we reviewed our options and embarked on new strategies,” says Campos, now the group’s CEO. A seasoned management team saw tremendous opportunities around a new global trend—the thirst for high-value healthy and delicious food. Leveraging on Del Monte’s 100-year heritage, the team hammered out a platform of health and wellness to create new products and gain access to more markets worldwide.

Even as the global economic crisis loomed over Asia, Del Monte Pacific was ripe for success. In the Philippines, where the group operates the world’s largest pineapple plantation and fully integrated processing plant, capacities were expanded to deliver almost 700,000 metric tons of fruit, nearly 30% higher than five years ago. New technologies and innovations were introduced, and the core products—processed pineapple fruit slices and juice, culinary sauces and pasta, and fruit beverage—all have achieved market leadership in their respective categories.

Driven by a vision “to be one of the fastest growing global branded food and beverage companies,” Butch Campos and his team steered the company through a sterling turnaround in just 10 quarters — moving sales revenues from lackluster to astounding brilliance. In 2008, turnover

grew strongly by 32% to US\$381.5 million, from just US\$222.4 million in 2005. Profitability doubled behind volume growth, cost-containment and higher productivity.

Growing The Business and Our Brands

By all measures, Del Monte Pacific has grown beyond its decades-old borders. “Del Monte Pacific is no longer just a pineapple supplier,” board chairman Rolando Gapud stresses. “We have transformed ourselves into a consumer branded company—growing our brands regionally and later globally.”

While its flagship subsidiary, Del Monte Philippines, Inc. is descended from Del Monte Corporation in the U.S., Del Monte Pacific was incorporated only in 1998 after a series of ownership changes. These changes led to other Del Monte entities no longer affiliated but holding their own brand rights (Del Monte International of Europe, Del Monte Asia, and Del Monte Foods U.S.A.). DMPL retained the Del Monte trademark for processed products in the Philippines and the Indian sub-continent.

Positioning itself in key markets was the group’s first big step towards global leadership. In 2007, the group entered India, acquiring significant shares in FieldFresh Foods Private Ltd., a leading marketer of fresh fruits and vegetables. One of India’s leading conglomerates, Bharti Enterprises, and EL Rothschild Ltd. became its key partners in marketing products under the Del Monte and FieldFresh brands. In the same year, the group acquired from Del Monte Foods the trademark rights to the S&W brand in



FROM LEFT TO RIGHT: ROLANDO GAPUD, CHAIRMAN; JOSELITO “BUTCH” CAMPOS JR., CHIEF EXECUTIVE OFFICER; LUIS ALEJANDRO, GROUP CHIEF OPERATING OFFICER

Asia, the Middle East, Africa, and Europe.

Growing Our People and the Community

The group’s corporate values — passion for winning, teamwork, customer focus, integrity and trust, respect for the individual, and commitment to society and the environment — set the highest standards of corporate behavior in relationships among its employees, business partners, and the community. Close to 5,000 employees across Asia work as a team to deliver world-class performance.

Through the Del Monte Foundation, families in areas where the group operates learn skills needed for employment, small business start-up, and efficient home management. Environment conservation programs are undertaken in partnership with host communities.

Like Growing an Orchard

Butch Campos shares an important lesson learned from his late father Jose Yao Campos, founder of Asian pharmaceutical giant United Laboratories, Inc.: “My father once told me, ‘Nothing comes easy.’ Growing a business is much like growing an orchard. You need to sow good seed and nurture it before you can harvest good fruit.” Looking back at the milestones achieved in just three years, it’s certain Del Monte Pacific will grow into what it wants to be, and fast. ●