The Transformation of Food Retail in the Philippines

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ABSTRACT

From a small base by the end of the 1990s, modern retail (the chains selling at least some food) in the Philippines grew very rapidly in the 2000s, at thrice the rate of the country's GDP growth. Reaching 13 billion USD of overall sales by 2010, 5.25 billion USD of this amount came from food sales. While much of the policy debate about market development focuses on export markets, we will show that supermarkets in the Philippines already sell twice the value (volume priced at export prices) of food that is exported – and modern retail is growing faster. Modern retail has reached 45 percent of urban food retail – already beyond the share of the middle class in the population, and about 35 percent of the national food market – from a tiny fraction of that figure two decades ago.

Modern food retail is itself rapidly transforming – with a rise of fresh produce sales, industry concentration, format diversification off-mall into formats that permit greater market penetration, and emerging procurement system modernization. While traditional food retail (and even most aspects of modern food retail) in the Philippines track international experience, the lack of major foreign presence even after retail foreign direct investment (FDI) liberalization in 2000 is a puzzle about which we present hypotheses. Given the already large and increasing importance of food retail modernization in the Philippines, this theme should enter the agrifood research mainstream and be the subject of systematic field survey analysis in order to start discerning its impact on consumers, farmers, wholesalers, and processors.

THE TRANSFORMATION OF FOOD RETAIL IN THE PHILIPPINES

Starting from a common traditional food retailing system of small shops, wet markets, and hawkers (as was similarly common in the US, Western Europe, and Japan), a "supermarket revolution" took off in the early to mid-1990s in developing countries (Reardon et al. 2003; Reardon and Timmer 2007). The spread of supermarkets has taken place – and continues to do so – in three waves.

The first wave countries experienced supermarket sector takeoff in the early to mid-1990s. These include much of South America and East Asia outside China and Japan, Northern-Central Europe and the Baltics, and South Africa. These first wave countries saw supermarket diffusion in a single decade that took some five decades to happen in the U.S. and the U.K. The second wave countries include Mexico and much of Southeast Asia, Central America, and Southern-Central Europe. The third wave countries are those where the supermarket revolution did not take off until the late 1990s or early 2000s; these areas include parts of Eastern and Southern Africa, some countries in Central and South America, "transition East Asia" (China and Vietnam), Russia, and India. The modern retail in a subset of the third-wave countries, especially China, Vietnam, Russia, and India, is growing very quickly, often at three to four times the rate of their rapidly growing GDPs per capita.

The transformation of food retail in developing countries is an important development research topic in part because it treats change in roughly a third of the agrifood economy – as value chain research estimates that about a third of the value-added and costs occur in the farm segment of the food supply chain, a third in the processing and wholesale, and a third in the retail segment. This implies that the latter is important to food costs and food security for the large share of the population that is urban (nearly half in the Philippines) and the many rural households that are net buyers (Balisacan 2000). Moreover, retail transformation appears to cause or at least encourage changes in upstream segments (processing, wholesaling, and farming). Such changes may be in sectoral structure, technologies, in institutions, or organization of the food system.

Despite the growing importance of the modern food retail sector in the Philippines for the overall agrifood economy [noted in various self-published consulting reports, working paper bulletins, newspaper and magazine pieces, and conference papers in the grey literature, such as PDFI (1999), Digal and Concepcion (2004), Cabochan (2005), IBM (2007), Nielsen (2008), and Macabasco (2009) and others], there has been only one refereed academic journal article on the subject – that of Digal (2001). This body of grey literature as well as the limited academic work on the subject has posited that modern retail has been growing quickly, with its take-off mainly in the late 1980s and early 1990s. It has also been observed that retail formats have tended to change over time, and that procurement systems appear to be modernizing with greater direct procurement from processors and some emerging relations with specialized wholesalers, concessionaires, and agribusiness companies as suppliers.

Besides the dearth of treatment in the academic research literature, there are several important gaps in information in the existing literature; namely:

1) The journal article by Digal treats only the 1990s. We show in this paper that while modern retail grew quickly from a small base in the 1980s and 1990s,

it was very small by the end of the 1990s compared to what it has become by 2010. Thus, the local academic literature does not capture the recent decade of deep and rapid change.

2) Where it offers quantitative assessments, the literature tends to be based on industry experts' guesses of the size of sales (such as that of fresh produce), or the use of official data that does not allow breakdown by types of formats or product categories of sales and are not easily available for each year. The literature also does not present statistics with cross-year data that show modern retail growth rates, sales by format, distinction of food sales of various categories compared to overall sales, and the gross productivity of retail (in terms of sales per sq meter).
3) Until now, literature in the Philippines presents some company websites and key informant/case studies of procurement system change, but there is as yet no published study about the procurement systems for either processed or fresh foods by a substantial cross section of modern retailers.
4) There is as yet no published survey-based study of farmers, processors, or wholesalers involved in supplying modern retail compared with those that are not.

This paper seeks to make a contribution to the literature on modern retail in the Philippines mainly by presenting new data addressing the first two sets of gaps noted above (growth and composition of modern retail), and briefly reviewing existing case studies and hypothesis-presenting literature on the third and fourth gaps (procurement system change and impacts on upstream actors in the supply chain). We shall address the following sets of issues:

First, and the main issue addressed by the paper, is what does empirical evidence show concerning the following: (a) growth of modern food retail sales including overall "banner sales", that is, food and non-food sales; (b) change in the product composition of sales over food product categories with diversification above and beyond the traditional (for modern retail) category of ambient processed, into frozen and chilled (dairy, meat, fish), beverages, and fresh fruits and vegetables; (c) change away from the traditional base of department stores toward a format diversification into hypermarkets, supermarkets, and convenience stores; (d) spatial diffusion of modern retail away from its initial base mainly in Metro Manila (MM) into other regions (i.e., into other provinces in Luzon, Visayas, Mindanao); and (e) change in gross sales per square meter as a rough proxy for productivity. Note that based on the international literature that we refer to when presenting the results and recent-historical information from the Philippines, each of these five axes represents an axis of modernization of food retail, and an impetus for and step toward further modern retail diffusion.

Second, while we find that the Philippine situation and the modernization of retail in the country shares many characteristics with other developing countries, there are particularities it has in common with relatively few other developing countries that are also experiencing retail transformation. Of interest is the continuing central role of domestic capital in the transformation, while elsewhere retail FDI has played a far larger fomenting role. We explore the issue of the determinants of retail transformation that the country shares with most other developing countries, which ones are unique to the Philippines, and why.

Third, and treated most briefly in the paper due to scant empirical evidence, we review the (mainly gray) literature on the modernization of the Philippines' procurement systems of processed and fresh foods which may have impacts on processors, wholesalers, and farmers – the impacts of which have not yet been published in the Philippines. These points are stated more as hypotheses to guide much-needed empirical research.

Our purpose is to present a substantial new set of empirical findings, in particular on the first set of issues above; and for the other two sets of issues, to assess the state of knowledge and draw implications from these in terms of agrifood economic research gaps and agenda. To this end, we draw on data from three types of secondary sources. The first and main source we use is a proprietary data set from the UK-based PlanetRetail, one of the leading statistical services on retail in the world, providing detailed sales data on the leading modern retailers over the past decade. These data have not been published for the Philippines. The second source is a systematic review of secondary data and literature from government or official sources and academia, and third, statistics and case studies from major consulting services.

The paper proceeds as follows: Section 2 briefly discusses the categories and definitions of traditional and modern retail in the Philippines; Section 3 presents new data on trends in growth and nature of modern retail over the past decade; Section 4 surmises the determinants of the patterns found in Section 3; and Section 5 concludes.

CATEGORIES OF FOOD RETAIL IN THE PHILIPPINES

There are at least three ways of categorizing retailers: informal versus formal, small versus large, and traditional versus modern. We choose the third way because the small individual shops in the traditional sector may be formally registered small grocers, or be informal shops or stalls, or mobile carts or hawkers. Moreover, modern retail may also be small stores such as a chain of convenience stores. Below then we define and justify the set of segments we range under traditional and modern.

The Traditional Retail Segment

The traditional retail system in the Philippines is very similar to what is found in other developing countries or in developed countries "historically" (before the advent of modern retail, hence in the early 20th century). The student of retailing would note nothing unique or specific to the Philippines in terms of its small scale, types, formats, and spatial density; in fact, the description below of the types and characteristics of each one could easily be written for Turkey, Peru, Indonesia, India, or the US, historically. The traditional actors are as follows:

1) The wet market is a set of stalls selling fruits and vegetables, either grouped outside or under one roof, either periodic (called a *talipapa*) or permanent (called a *palengke*). This may be stand-alone or appended to a wholesale market. It may operate daily at fixed hours in urban areas, or weekly on particular days. It can also have fish, meat, or poultry depending on the region, city, or neighborhood. As everywhere in the world, prices in the wet market are not fixed and bargaining is the norm. Shopping is vendor-administered, not self-service.
2) Small shops, called *sari-sari*, are like the "mom and pop" stores in traditional retail systems in other countries. They are typically from tiny to small/

medium scale, single-owner, often run by a husband and wife and perhaps a family member or employee, not self-service, and typically carry either dry goods/foods such as grains (rice and wheat flour), packaged foods, and non-food FMCG (fast-moving consumer goods such as detergents) or wet goods (produce, poultry, or meat).

5) *Sari-sari* stores may deliver to homes, and may offer credit to some of their regular clientele (*suki*), although recent studies in other countries show that small shops in urban areas provide credit only to a few select clients, despite the persistent image that they sell a lot on credit and that this is a persisting advantage for them (Minten et al. 2010). Minten wrote a case on Delhi; there is no recent published test of this hypothesis in the Philippines. The only study we found on this is by Dannhaueser (1977) for Dagupan City, showing even then that only a minority of small shops extended credit to a very few of their customers.

3) Various mobile small retailers, such as push carts (*kariton*) and hawkers (*maglalako*) who peddle their wares on foot. The push cart would typically have a perishable product, such as fresh produce or dairy products in limited assortment, and deliver to homes or station at a particular point and sell at certain hours. There is sometimes a small cluster of push carts selling different specialties.

4) Medium-sized stand-alone shops or traditional groceries are another element of what we include here in “traditional retail.”

The Modern Retail Segments

The definition of modern retail and transformation of the retail sector

The retail literature does not have hard-and-fast rules as to the definition of modern retail. From common usage in the literature, we assemble the following key characteristics and some of their ambiguities.

First, an early (historically in the literature) dividing line between traditional and modern retail is the use by the latter of “self-service.”

Second, a certain scale of operation characterizes modern retail. In popular discussion of modern retail in developing countries, it is often assumed that a modern retailer is a large store – as in a supermarket or hypermarket; however, from a retail research perspective such as we use, this is not so. Modern retail is composed of larger-than-traditional independent stores e.g., small supermarkets, and chains. While the scale can be in the store (such as hypermarket), it can also be in the chain (and hence the aggregate volume of the enterprise) – thus a chain of small (even very small) stores, where all the stores (of a given format) follow roughly a similar pattern of retailing and procurement, is invariably classified as modern retail.

Third, it is often assumed that a modern retailer has a large assortment. But a modern retailer can either have a broad or narrow selection. For example, a convenience store or a single category store – like 7-11 or the bakery chain of Jollibee’s, has a more narrow selection than a supermarket – while a large supermarket/hypermarket like SM has a wide variety of thousands of types of products.

Fourth, there is often an assumption that modern retailers have “modernized” procurement systems – characterized by buying in bulk, buying direct from producers, and using sophisticated inventory management practices. However, again, the popular assumption is not the necessary criterion for modern retail. Independent supermarkets or chain stores of any outlet scale have procurement systems which figure on a spectrum that goes from one extreme, "traditional procurement systems" (buying from the spot market or a traditional wholesaler off-market, and having delivery made to each store), to the other end, "modern procurement system" (buying directly from processors or farmers, or from specialized/ dedicated wholesalers, under contract, using private standards, and having delivery made to centralized distribution centers or DCs), or some system which falls anywhere in between those extremes (Reardon et al. 2003).

Fifth, is the popular assumption that modern retail has a certain "environment" that differs sharply from traditional retail – that modern stores have air-conditioning, electronic check-out counters, credit card systems, packaging produce, and other such amenities. But again, there is nothing inherent in modern retail about the ambience. For example, formats targeting the lower income segments may adopt a "no frills" ambience – for the appearance or for reality or both – of having lower costs and thus lower prices; they may eschew air conditioning, packaging of produce, and instead stack discount packs and bulk produce on crude shelves.

Sixth, we include somewhat incongruously "cash & carry" stores into our analysis of modern retail. In developing countries in general, and as practiced in the Philippines in particular, these stores are a mix of wholesale (to small retail shops and hotel, restaurants and catering or HORECA clients) and retail to families who want to buy in bulk.

In sum, at odds with popular discussions, a formal retail research perspective on the criteria for modern retail reveals that there are fairly simple and flexible basic criteria – that of a minimum scale either of an independent store or a chain of stores of any scale per outlet, plus self-service. That then leaves for a given modern retail outlet or chain a wide variety of possible practices (from "similar-to-traditional shops" to "cutting-edge modern practices") in retail environment and sourcing, and from small to large in store size, and product assortment. That breadth of definition is useful because of the great variety of forms, shapes, and approaches that modern retail takes in the developed and developing regions in general – and, as we show below, in the Philippines.

Our criteria for modern retail are close to, but are different in some ways from recent mainstream discussion on this theme. For example, IBM (2007) defines the term as stores with self-service, in chains, and owned by corporate entities. They leave out the large independent supermarkets with one or a few stores or several malls in a mall company that has supermarkets within the malls or shopping centers, that can be the "nodes" of development of chains as we have in the Philippines and elsewhere, and in fact constitute an important part of the supermarket chains in the small and medium sized chain association, Philippine Amalgamated Supermarkets Association (PAG-ASA).

At least in theory, the shift from the traditional to the modern retail form is a transformation that increases efficiency in the retail segment via economies of scale and scope; control over supply chain processes in order to reduce waste and do away with the many middlemen found in traditional supply chains; and to have the scale and resources to invest in capital-intensive inventory management technologies.

The evolution of modern retail formats in the Philippines

First, "traditional" modern retail arose in the Philippines in the 1960s-1970s, and mirrors similar types of retail emerging in other developing countries at about the same period. This early foundation had two pillars. On the one hand, mainly commercial families started small chains of small supermarkets. An example is Rustan's Supermarket, founded in 1970. On the other hand, department stores, and then department stores as anchor stores in malls, began to proliferate in the 1980s. The largest of these companies, SM, started as a single shoe store that opened in 1958. Then it transitioned to a chain in the 1960s, added clothing and house and office wares to be a department store in the 1970s, then into a mall with an SM Department Store as anchor in 1985. In the 1990s, a number of other mall companies with department stores as anchors, and also transitioning into having supermarkets as anchors entered the scene – such as Robinson's, Gaisano, and others.

Second, the current configuration of modern retail in the country arose after the financial crisis in the late 1990s and then developed very quickly in the 2000s, as we show below. There was a sudden and extensive proliferation of formats designed to greatly increase and accelerate penetration of the various market segments, from lower income to middle and upper income, from suburbs to dense inner cities, from "destination" shopping to near-residence shopping, and from diverse inventories to focused offerings. Here we list the formats as part of our definition of modern retail, and then in the subsequent section trace their growth with data. The formats and their roll-out are as follows:

1) Small chains of small scale supermarket outlets added stores in established cities and moved to new cities – generally on the same island.
2) Large and medium domestic companies such as SM, Robinson's, Rustan's, Gaisano, and Benison Waltermart built many new malls and developed medium-scale supermarkets and hypermarkets to anchor them, as well as maintaining department stores as anchors. Some of these companies, like SM Investments, became conglomerates with large operations in real estate and banking as well. The mall operations themselves were part of real estate activity as they are essentially an infrastructure/services-augmented land-rental operation; for example, the 40 SM malls have 12,000 retail tenants, all renting.
3) Some of the above medium and large companies have begun rapidly rolling out stand-alone (i.e., not part of malls) small to medium supermarkets and hypermarkets to increase spatial penetration, such as Savemore of SM.
4) Foreign cash & carry chain SHV Makro of the Netherlands, with 7.2 billion USD of banner sales globally, and the warehouse-club chain PriceSmart of the US, with 1.3 billion USD of banner sales, entered the Philippines in the early 2000s after the partial liberalization of FDI. Both were later bought by domestic leaders SM and Puregold respectively. Note that these chains are relatively small; compare them to leading global chains' warehouse and cash & carry format sales: Metro C&C (with 47 billion USD of global sales) and Wal-mart's formats of this type (with 8.8 billion USD of sales).

5) Domestic cash & carry chains include the leading domestic player, Suy Sing Commercial, with four large distribution centers acting as cash & carry outlets.
6) Domestic warehouse/club chains such as Puregold – which arose from a duty-free chain – emerged in the early to mid-2000s. Older and smaller chains like Uniwide compete with them.
7) Foreign convenience stores (chains belonging to large companies) entered – most notably President Chain Store/7-11 (Taiwan-based, with operations in Taiwan, China, Philippines, and Vietnam) and Ministop (the convenience store chain of the giant mainly Asian-region multinational AEON based in Japan).
8) Large foreign drug/personal care store chain AS Watson (Hong Kong) entered in a joint venture with SM. Other non-grocery chains include the Body Shop and foreign nutrition chains like GNC. Large domestic chains like Mercury Drug compete with them. Both sell grocery, including some food.
9) Foreign chains of forecourt stores (usually attached to gas stations) such as Shell and Chevron entered.
10) Bakery chain stores also emerged as a format of Jollibee, the fast food chain.

Third, it is likely that there will be continued development of several formats that will maintain and possibly increase the pace of store penetration into cities and towns, and increasingly into rural areas.

There will probably be more off-mall expansion of small format stores, given similar trends in other Asian countries. At present, the main format is the convenience store, but following developments in other countries in the region, "neighborhood" format stores may develop; these are larger than convenience stores but smaller than supermarkets (IBM, 2007), designed to penetrate dense cities and also rural towns as they do not need large initial customer bases. A similar development of "hard discount stores" will probably occur, like small supermarkets but focused on a narrow range of items with steep discounts, to penetrate poor areas. There may also be small format fruit and vegetable chains such as those developing in China and Indonesia, to compete more forcefully with wet markets.

The trend we identify below in the increase in hypermarkets will likely continue and even increase, as medium-sized hypermarkets have been used as destination or entertainment hubs in various parts of Asia, serving in a sense as mini-malls that are easier to establish where real estate markets are tight.

GROWTH AND CHANGE IN MODERN FOOD RETAIL OVER THE 2000s

Modern food retail has grown and changed in nature quickly over the past decade in the Philippines. We present data on these changes in the following five subsections. The first discusses our database; the second, the growth in "banner sales" (food plus nonfood sales); the third, the growth and change in food sales and their categories, as part of grocery sales; the fourth, sales by format over time; and finally, the spatial and socioeconomic diffusion path of modern retail.

The Database

Tables 1 to 4 are based on proprietary data obtained from the PlanetRetail website at current date (www.planetretail.net) which tracks sales, formats, store numbers, and various business operations of retail companies in a number of countries. PlanetRetail is one of the globally most popular and respected retail data firms. We acquired, selected and processed the raw data. The data in Tables 1a to 4 show banner sales of all products, food and nonfood; grocery sales which include food and fast moving non-food items such as detergents; food, which includes ambient processed products like polished rice, noodles, and so on; frozen products like ice cream; chilled products like milk, meat, and fish; alcoholic and non-alcoholic beverages; and fresh fruits and vegetables. We show data for 1999 to 2010 – the latter being estimated by PlanetRetail from stores and sales information and tends to track well the realized sales.

The set of companies in Tables 1-4 have all been followed by PlanetRetail for the Philippines, with the following ranking of banner sales in 2010; PlanetRetail estimates this for the full year from the first quarter information compared to the year before: (1) SM Investments, (2) Puregold, (3) Robinson's, (4) Rustan's, (5) Mercury Drug, (6) AS Watson, (7) Benison (Waltermart), (8) President Chain (7-11), (9) SHV Makro, (10) Jollibee Bakeries, (11) Uniwide warehouse chain, (12) Pricesmart club/warehouse chain, (13) a set of "forecourt" chains (PTT, Chevron, Total, Shell), as well as a nutrition chain (GNC).

The above 13 represent the largest chains, in particular with Luzon as their central location. The data shown for them are, however, an under-estimate of modern food retail in the Philippines. Several sets of retailers are missing from the above.

The first missing set are the chains and independents in the Philippine Amalgamated Supermarket Association, Inc. (PAGASA), formed in 1986. PAGASA notes that its member chains tend to be small ones, and focus on the B, C, and D consumer segments or the lower middle and poorer groups. The association has 53 member companies which collectively own 148 outlets, 20 warehouses, 1 hypermarket, 11 supermarkets in malls, 35 supermarkets in commercial complexes, 63 stand-alone supermarkets, 19 convenience stores, and one wholesaler.

The second missing set are the chains and independents in the Philippines Association of Supermarkets, Inc. (PASI), formed in 1969. PASI has 40 member companies with 555 small and medium supermarket outlets, of which 68 are within Metro Manila (MM), 463 outside MM but in Luzon, 20 are in the Visayas, and 4 are in Mindanao (Macabasco 2009, citing PASI data). Of the outlets, 184 are not included either in the PlanetRetail list (which shares President Chain/Philippine Seven and Waltermart with the PASI list) or the mall list below (where Metro Gaisano is included).

The third missing set of chains or stores not followed by PlanetRetail include a number of the supermarket chains or independents that operate as "department store-cum-supermarket anchor or supermarket anchor" in malls. The great majority of malls have as an anchor a department store with a food floor and/or supermarket or hypermarket that sells food. We assembled a list of 103; we assume there is one supermarket per mall, hence 103 supermarkets. Our second list includes only mall companies, of which there are 41; we make the conservative assumption that there are two supermarkets per mall company, thus 82 supermarkets. Hence for the mall company list, we have a total of 185 small/medium supermarkets. Note that the figures above do not include those that are already listed in our tables (hence covered in the PlanetRetail list which includes SM, Robinson's, and Waltermart).

From the above three sets, we derive what we think is a conservative estimate of 517 modern retail company outlets selling food that are not covered by PlanetRetail. Most of the outlets in malls and on the PASI and PAGASA lists are of the size of supermarkets on average. From PlanetRetail we derive the sales in 2010 of a typical supermarket of Robinson's, a fairly small supermarket with 1,500 sq meters of sales space and 6.3 million USD per year of sales. Based on this, 517 (retail outlets) times 6.3 million (annual sales) is 3,257 million USD. From Table 1 we note that the total banner sales of the 13 companies followed by PlanetRetail in 2010 is 9,663 million USD. Summing 3,257 million and 9,663 million, we get a total of 12,920 million USD. So PlanetRetail data need to be adjusted upward by 33 percent (a conservative estimate that misses stand-alone independents and smaller chains not part of the three sets above) to get the "correct" number – PlanetRetail's total plus our estimate of the missing. We return to these aggregate figures below when discussing Table 1.

Moreover, note that Tables 1-4 also show the data from chains that started and stopped (such as Makro and Pricesmart) that are followed by PlanetRetail, and then their sales after being acquired by other companies. Moreover, for a given company, we present data only from the sub-chains that sell some or mostly groceries. We likewise excluded non-retail operations such as real estate or fast food chains.

Growth of Modern Retail in the Philippines in the 2000s

Table 1a shows the government's National Statistics Office (NSO 2005) data for formal sector firms; it does not include informal sector *sari-sari* stores or stalls in *palengke*. The table compares retail firms with 20 employees or more (large scale), versus those with less than 20 (small scale). Note that these data cannot be used to estimate the share of large-scale retail vis-a-vis total retail because of the large amount of informal sector retail. Interestingly, the NSO data and our estimates are close. Using the adjustment factor of 33 percent to the PlanetRetail data, and noting that its modern retail figure for banner sales is 3,786 million USD in 2005, we get 5,035 million USD – below the NSO's 5,251 figure by only 4 percent. It is reassuring that the aggregate of the data set that we used for the detailed composition discussion checks closely against the broad census-based official figures.

Table 1b shows the levels of sales and growth of modern retail in the Philippines. The rows show the company (but not the brands, which are the names of the sub-chains with particular formats, such as 7-11 or SM Supermarkets), and the nationality of the capital (and whether or not it is in a joint venture with a foreign or Philippine company).

The columns show, for 1999 to 2010 (with the latter an estimate by PlanetRetail), the banner sales (food plus nonfood). The sales figures are in millions of USD in nominal terms; under those levels are percentages, which depict year-on-year growth relative to the year before; the latter rates are presented in simple average in the last column. The salient results are as follows:

First, modern retail sales grew very quickly in the Philippines over the 2000s. The average year-on-year increase was 26 percent – compared with the average year-on-year growth of the GDP of the Philippines of roughly 9 percent from 1999-2008, both in current prices. Seen another way, GDP increased 2.12-fold for the period indicated, while modern retail banner sales for these firms increased 7.1-fold. This suggests that modern retail gained share, displacing traditional retail over the decade. These modern retail growth rates are similar to other "second wave" countries in the Southeast

Table 1a. Total revenue and number of formal sector retail firms (2001, 2003, 2005)

Industry Description	2001				2003				2005			
	Total Revenue (million USD)		No. of firms		Total Revenue (million USD)		No. of firms		Total Revenue (million USD)		No. of firms	
	ATE of 20 or more	ATE of 20 or less	ATE of 20 or more	ATE of less than 20	ATE of 20 or more	ATE of less than 20	ATE of 20 or more	ATE of less than 20	ATE of 20 or more	ATE of less than 20	ATE of 20 or more	ATE of less than 20
Non-specialized stores retail trade in stores (a)	3,373	1,620	668	76,378	4,094	1,960	637	76,262	5,067	1,745	934	68,147
Retail sale of food, beverages & tobacco in specialized stores (b)	152	818	112	50,617	122	753	95	50,751	184	1,041	158	52,388
(a)+(b)	3,525	2,437	780	26,995	4,217	2,713	732	127,013	5,251	2,786	1,092	120,535

ATE - Average Total Employment; ATE of 20 or more - big players; ATE of less than 20 - small players
1 USD = PhP 47.53 (exchange rate as of 11 June 2009)
Source: NSO (2005)

Table 1b. Growth of modern retail in the Philippines (1999-2009), in millions of USD

Company, main brand, and nationality of capital	2010 Estim.	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	Ave. Ann. Grth
1.SM Investments (Phil.), JVs with Hong Kong (AS Watson) since 2002 and Netherlands (Makro) chain since 2007	4307 (28%)	3377 (21%)	2784 (15%)	2412 (39%)	1739 (22%)	1423 (15%)	1239 (16%)	1068 (19%)	901 (24%)	724 (19%)	608 (25%)	486	20%
2. Puregold (Phil.), warehouse/retail/wholesale	1187 (64%)	724 (36%)	532 (65%)	323 (91%)	169 (76%)	96 (32%)	73						61%
3. Robinson's (Phil.), JV with Japanese chain (Ministop) a division of Aeon chain since 2000	1537 (24%)	1238 (10%)	1126 (19%)	950 (18%)	807 (21%)	669 (31%)	511 (2%)	499 (21%)	414 (39%)	297 (10%)	255 (-5%)	269	17%
4. Rustan's (Phil.)	845 (13%)	748 (2%)	731 (12%)	651 (33%)	489 (23%)	399 (20%)	334 (6%)	315 (2%)	308 (10%)	281			13%
5. Mercury Drug (Phil.)	678 (16%)	584 (12%)	522 (37%)	381 (15%)	331 (12%)	295 (7%)	276 (2%)	272 (8%)	253 (10%)	231 (0%)	233		13%
6. AS Watson (Hong Kong) 60/40 JV with AS Watson and SM	388 (10%)	353 (7%)	330 (10%)	299 (14%)	263 (11%)	236 (53%)	154 (22%)	126 (24%)	102 (na)				19%
7. Benison (Waltermart)	224 (16%)	193 (-4%)	202 (10%)	183 (26%)	145 (39%)	104 (42%)	73 (na)						21%
8. President Chain (7-11) (Taiwan via Malaysian subsidiary), majority in Oct 2000	183 (24%)	148 (6%)	140 (17%)	120 (25%)	96 (12%)	86 (10%)	78 (24%)	63 (2%)	62 (2%)	61 (-16)	71		11%
9. SHV Makro (C&C) (Netherlands via Asian subsidiary), 2008-2010 owned/operated by SM				151 (-40%)	253 (-7%)	272 (27%)	214 (14%)	188 (-3%)	193 (0%)	192 (-5%)	203		0
10. Jollibee Bakery (Phil.), retail	141 (107%)	68 (3%)	66 (10%)	60 (25%)	48 (23%)	39 (290%)	10 (10%)	9 (100%)	5 (100%)	9 (100%)	5		57%
11. Uniwide Warehouse stores (Phil.)	118 (4%)	114 (-7%)	122 (4%)	117 (-3%)	121 (-16%)	144 (-3%)	149 (1%)	147 (7%)	137 (31%)	105 (1%)	104 (-33%)	156	0
12. Pricesmart (US)							72 (0%)	72 (85%)	39 (254%)	11			113%
13. PTT, Chevron, GNC, Total, Shell grocery forecourts (Philippine, US, US, French, and Dutch/UK))	55 (22%)	45 (10%)	41 (17%)	35 (30%)	27 (17%)	23 (15%)	20 (5%)	19 (6%)	18 (-5%)	19 (-5%)	20 (-5%)	21	10%
Total banner sales in current prices in billions of USD	9.663 (40%)	7.592 (15%)	6.596 (16%)	5.682 (27%)	4.488 (19%)	3.786 (18%)	3.203 (15%)	2.778 (14%)	2.432 (26%)	1.930 (29%)	1.499 (61%)	0.932	**26%**
GDP in current prices in billions of USD			167 (16%)	144 (22%)	118 (19%)	98.8 (14%)	86.9 (9%)	79.6 (4%)	76.8 (7%)	71.2 (-6%)	75.9 (0%)	76.2	**9%**

NOTE: Sales are only by formats that sell some grocery; banner sales are all food and non-food sales. Figures in parentheses refer to year-on-year growth.
Sources: Authors' calculations from raw data from PlanetRetail. GDP from World Bank (2010).

Asian region such as Thailand, Indonesia, and Malaysia, but slower than the third wave countries such as China.

Second, there is evidence of some pro-cyclicality of modern retail growth, with spikes in growth after recovery from the Asian economic crisis in the late 1990s and again after the financial crisis of 2008-09. This is corroborated in the trade press concerning sales and growth expectations of the retailers. However, while that holds for the whole group of chains, the leading companies such as SM and Puregold had banner sales growing much quicker than both the GDP and the lesser rivals, even during the recessions. This suggests they were gaining market share both from modern rivals and the traditional retailers.

Third, there was a strong U-shaped pattern in trends in concentration over the decade. In 2000, the C3 or the share of the top 3 companies was 73 percent (very concentrated); this dipped to 58 percent by 2005 as growth in the market and liberalization of investment rules brought in other players. However, by 2010 the sector had reconcentrated to a C3 of 75 percent – essentially at European and Latin American levels of retail concentration. This concentration is most likely to be somewhat less at a national level as some of the firms among those not followed by PlanetRetail were growing quickly, mainly off-Luzon.

This trend of reconcentration appears to be due to the two foreign firms Makro and Pricesmart rising in the first half of the decade and then being acquired by SM and Puregold respectively. Add to this the very fast growth by the three leaders – with Robinson's food formats' sales growing from just 255 million in 2000 to a projected 1.54 billion by 2010 (6-fold); those of Puregold from a mere 73 million in 2004 to a stunning 1.19 billion by 2010 (16-fold); and SM's from 608 million in 2000 to an estimated 4.3 billion USD in 2010 (7-fold). In contrast, the lower-ranked firms like Uniwide barely grew in sales over the decade.

Fourth, compared to some third wave countries, the share of pure cash & carry wholesale chains is relatively low. This may be due to several factors. A number of the chains such as Puregold are in warehouse format and serve both retail and consumer clients. Several firms that are named cash & carry also sell retail. Finally, there are large wholesale players with multiple distribution centers that act as a chain of modern cash & carry (exemplified by Suy Sing Commercial, www.suysing.com, the leading grocery distribution company that arose from the main wholesale market, Divisoria).

Fifth, there are no major global chains (Carrefour, Wal-mart, Tesco, Metro, etc.) among the top four. In the next section we present hypotheses to explain this. This phenomenon is strikingly unlike similar retail contexts elsewhere in Asia, such as three of the top four in Malaysia, two of the top four in Taiwan, Thailand, and Indonesia, and one of the top four in South Korea. However, during the 2000s a number of foreign retailers of groceries did enter the Philippines, solo or in joint venture (JV) with national firms[1]. Aside from 7-11, one could say that the foreign chains that entered and stayed as JVs with large local players (AS Watson, Ministop, Makro), or came and then were acquired fully (Pricesmart) are either regional (not global) multinationals or second-tier global chains. Other countries in which

[1] Notable are Hong Kong's AS Watson in JV with SM; Japan's Ministop as a JV format of Robinson's; Taiwan's President Chain (7-11); Netherlands' SHV Makro (later bought by SM) and U.S.'s Pricesmart (later bought by Puregold), as well as foreign forecourt chains Chevron (US), Total (France), Shell (Dutch-English), PTT (Thai)) and nutrition chains (GNC of the US).

Table 2. Grocery share of banner sales and food share of grocery sales of modern retail in the Philippines (1999-2009), in millions of USD

Company, classification of items sold	2010 Estimate	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
1. SM a) Grocery* [share of banner sales]	2399 [56%]	1800 [53%]	1501	1168	791	619 [44%]	524	437	349	296	248 [41%]	198
b) Ambient (non-chilled processed food)	665 (31%)	492 (31%)				150 (27%)					54 (21%)	
c) Chilled and frozen	410 (19%)	302 (19%)				94 (17%)					32 (14%)	
d) Beverages (alcoholic and non-alcoholic)	248 (12%)	181 (11%)				56 (10%)					20 (9%)	
e) Fruits and vegetables	207 (10%)	154 (10%)				47 (8.5%)					16 (7%)	
f) Share of food in grocery (USD)	72% [1727]	71%				62.5%					51% [172]	
2. Puregold a) Grocery* [share of banner sales]	672 [57%]	410 [57%]	301	183	96	55 [57%]	41					
b) Ambient (non-chilled processed food)	239 (40%)	146 (40%)				15 (41%)						
c) Chilled and frozen	97 (16%)	59 (16%)				6 (16%)						
d) Beverages (alcoholic and non-alcoholic)	75 (13%)	46 (13%)				5 (14%)						
e) Fruits and vegetables	56 (9%)	34 (9%)				3.4 (9%)						
f) Share of food in grocery [USD]	78% [525]	78%				80%						
3. Robinson's a) Grocery [share of banner sales]	761 [50%]	595 [48%]	514	413	346	292 [44%]	195	187	144	97	84 [33%]	88
b) Ambient (non-chilled processed food)	182 (26%)	141 (25%)				67 (25%)					17 (22%)	
c) Chilled and frozen	141 (20%)	108 (20%)				50 (19%)					12 (16%)	
d) Beverages (alcoholic and non-alcoholic)	90 (13%)	68 (12%)				29 (11%)					4 (5%)	
e) Fruits and vegetables	66 (9%)	51 (9%)				25 (9%)					7 (9%)	
f) Share of food in grocery [USD]	65% [571]	65%				64%					52%	
4. Rustan's a) Grocery [share of banner sales]	486 [58%]	426 [57%]	412	365	295	236 [59%]	195	184	177	158 [56%]		
b) Ambient	138 (32%)	120 (31%)				65 (30%)				42 (28%)		
c) Chilled and frozen	99 (23%)	87 (23%)				49 (23%)				35 (24%)		

* Grocery includes fruits and vegetables, chilled and frozen foods, ambient products (processed foods in packages stored at ambient temperature), alcoholic and non-alcoholic drinks, tobacco, pet care, household care, and health and beauty care products.

Table 2. Grocery share of banner sales and food share of grocery sales... *(continued)*

Company, classification of items sold	2010 Estimate	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
d) Beverages (alcoholic and non-alcoholic)	44 (10%)	38 (10%)				20 (9%)				12 (8%)		
e) Fruits and vegetables	58 (13%)	51 (13%)				30 (14%)				22 (15%)		
f) Share of food in grocery [USD]	78% [379]	77%				76%				75%		
5. Mercury Drug												
a) Grocery [share of banner sales]	207 [31%]	178 [31%]	159	116	101	90 [31%]	85	83	77	70	71 [31%]	--
b) Ambient (non-chilled processed food)	34 (16%)	29 (16%)				15 (17%)					12 (17%)	
c) Chilled and frozen	47 (23%)	40 (23%)				8 (9%)					7 (8%)	
d) Beverages (alcoholic and non-alcoholic)	17 (8%)	14 (8%)				7 (9%)					6 (8%)	
e) Fruits and vegetables	6 (3%)	6 (3%)				0					0	
f) Share of food in grocery [USD]	50% [104]	50%				35%					33%	
6. AS Watson												
a) Grocery [share of banner sales]	271 [70%]	246 [70%]	230	209	183	164 [70%]	107	88	71 [70%]			
b) Ambient (non-chilled processed food)	23 (9%)	21 (9%)				14 (9%)			6 (9%)			
c) Chilled and frozen	0	0										
d) Beverages (alcoholic and non-alcoholic)	13 (5%)	12 (5%)				8 (5%)			4 (5%)			
e) Fruits and vegetables	0	0							0			
f) Share of food in grocery [USD]	14% [38]	14%				14%			14%			
7. Benison/Waltermart												
a) Grocery [share of banner sales]	167 [75%]	144 [75%]	151	136	108	77 [74%]	54					
b) Ambient (non-chilled processed food)	51 (33%)	44 (31%)				24 (34%)						
c) Chilled and frozen	34 (22%)	31 (22%)				16 (23%)						
d) Beverages (alcoholic and non-alcoholic)	20 (13%)	17 (13%)				9 (13%)						
e) Fruits and vegetables	18 (12%)	15 (12%)				8 (13%)						
f) Share of food in grocery [USD]	80% [134]	79%				83%						

Table 2. Grocery share of banner sales and food share of grocery sales... *(continued)*

Company, classification of items sold	2010 Estimate	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
8. President Chain (7-11)												
a) Grocery [share of banner sales]	145 [79%]	118 [80%]	111	96	77	69 [80%]	62	50	49	48	56 [79%]	
b) Ambient (non-chilled processed food)	11 (10%)	9 (10%)				5 (10%)					4 (10%)	
c) Chilled and frozen	12 (10%)	10 (12%)				6 (12%)					5 (12%)	
d) Beverages (alcoholic and non-alcoholic)	44 (41%)	36 (41%)				21 (42%)					17 (41%)	
e) Fruits and vegetables	1 (1%)	0.7 (1%)				0.4 (1%)					0.4 (1%)	
f) Share of food in grocery [USD]	62% [90]	64%				65%					64%	
9. Makro (cash & carry)												
a) Grocery [share of banner sales]				108 [72%]	181	195 [72%]	153	134	138	137	145 [71%]	
b) Ambient (non-chilled processed food)				38 (36%)		68 (36%)					51 (36%)	
c) Chilled and frozen				20 (19%)		36 (19%)					27 (19%)	
d) Beverages (alcoholic and non-alcoholic)				11 (10%)		19 (10%)					14 (10%)	
e) Fruits and vegetables				15 (14%)		26 (14%)					20 (14%)	
f) Share of food in grocery [USD]				79%		79%					79%	
10. Jollibee Bakery-retail												
a) Grocery [share of banner sales] (food)	141 [100%]	68	66	60	48	39	10	9	5	9	5	
11. Uniwide warehouse												
a) Grocery [share of banner sales]	67 [57%]	64 [56%]	69	66	69	82 [57%]	84	83	78	60	59 [57%]	91
b) Ambient (non-chilled processed food)	24 (40%)	23 (40%)				29 (40%)					21 (40%)	
c) Chilled and frozen	10/60 (17%)	10 (17%)				12 (17%)					9 (17%)	
d) Beverages (alcoholic and non-alcoholic)	8 (13%)	7 (13%)				9 (13%)					7 (13%)	
e) Fruits and vegetables	6 (10%)	6 (10%)				7 (10%)					5 (10%)	
f) Share of food in grocery [USD]	80% [54]	80%				80%					80%	

Table 2. Grocery share of banner sales and food share of grocery sales... *(continued)*

Company, classification of items sold	2010 Estimate	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
12. Pricesmart												
a) Grocery [share of banner sales]							41 [57%]	41	22	6 [55%]		
b) Ambient (non-chilled processed food)							15 (42%)					
c) Chilled and frozen							6 (17%)					
d) Beverages (alcoholic and non-alcoholic)							5 (14%)					
e) Fruits and vegetables							3 (8%)					
f) Share of food in grocery [USD]							81%					
13. 5 Forecourt chains												
Grocery [share of banner sales] (food)	43 [78%]	37 [82%]	34	28	23	18 [85%]	17	15	15	14	12 [62%)	13
Simple ave share of grocery in banner sales, selected years	65%					64%					59%	
Simple ave share of food/grocery in millions of USD	71% [3805]					71% [1274]					66% [500]	
Simple ave share of ambient in grocery, selected years	26%					28%					25%	
Simple ave share of fruits and vegetable in grocery (for chains carrying them)	10%					10%					10%	
Fruits and vegetables sold in millions of USD	418					148.4					70.4	

NOTES: Sales are only by formats that sell some grocery; food does not include tobacco
Figures enclosed in [brackets] indicate share of banner sales
Figures enclosed in (parentheses) indicate share of grocery sales
Source: Authors' calculations from raw data from PlanetRetail

domestic retail has maintained the great majority of modern retail include India (where retail FDI has not yet been liberalized), South Korea (after the rise to near hegemony of large domestic firms that became multinationals), and Chile (in an earlier stage when major local players had dominated real estate locations, pushed out, prevented, or bought out multinationals before these large domestic firms were later acquired by multinationals).

Product Category Composition of Food Sales by Modern Retail

Table 2 shows the shares of grocery sales in total banner sales, the share of food in groceries, and the shares in food of its component categories: ambient, which are non-chilled processed food such as noodles, rice, potato chips, and so on; chilled and frozen foods such as dairy, meats, fish, and so on; alcoholic and non-alcoholic beverages; and fresh fruits and vegetables. Tobacco, a minor share of grocery, is excluded. Grocery less food is composed of nonfood FMCG (fast-moving consumer goods) such as detergents, soap, and beauty items. Several salient points hold some surprises.

First, the share of grocery in banner sales rose from 59 percent to 65 percent over the decade and thus the share of non-grocery fell; these are mainly nonfood durables and semi-durables like clothing, kitchen appliances, etc. This slow general shift masks the fast change in the two front-runners, SM and Robinson's; grocery went from 41 percent to 56 percent over the decade in SM, and from 33 percent to 50 percent in Robinson's. This increase both reflects the rising role of food formats in these leading companies and the decline in importance of their department store formats, discussed further below. This can be seen as part of the general process of modernization of food retail in the Philippines – where food retail moves out of being a mere "floor" in a department store (around the world a typical "early stage" of modern food retailing), into supermarkets, hypermarkets, and convenience stores. At the same time, non-food single branded stores like Marks & Spencer or the Gap arise and eat into non-food share. Moreover, the shift in relative importance of grocery that follows the usual (international) product market penetration stages of modern retail – from nonfood, to ambient processed products, to chilled/frozen, to fresh produce – has been occurring in the Philippines.

Second, the food share in grocery rose on simple average from 66 percent to 71 percent. But again, this slow rise in the simple (over chains) average masks rapid change among the top chains: SM's leapt from 51 percent to 72 percent, Robinson's from 52 percent to 65 percent, and a major new player (Puregold) emerged suddenly with 78 percent of its grocery sales from food. This spelled a spectacular jump in the importance of modern retail in the Philippine food sector – from 500 million USD in 1999 to 3.8 billion USD in 2010. Recalling our rough and conservative estimate that the PlanetRetail coverage may neglect some 33 percent of food-selling modern retail, we can reasonably add 33 percent to the above estimate, to come to 5.05 billion USD of food sales by modern retail in 2010.

Note that modern retail food sales are double the Philippine agrifood exports – and thus can be said to have double the impact on the agrifood sector[2]. Yet the issue of agrifood exports far dominates over modern food retail in public policy debate on food sector

[2] Philippine exporters sold 2.64 billion USD for the top 20 agrifood products per FAOSTAT for 2007.

development. We hope that stakeholders and concerned policymakers will take note of the above figures so that this gross imbalance may be redressed.

It is challenging to go from our estimate of 5.25 billion USD of modern food sales in the urban market (as that is where the modern retailers operate) directly to a calculation of the share of modern urban food retail. The problem is that we do not have statistics on the sales by informal sector retailers, and thus do not know the total size of the pie. Two rough methods can be used to resolve the issue.

On the one hand, we can use household expenditure survey data to construct the denominator, and then use the estimate of food sales by modern retail as the numerator. NSO (2005) shows total urban household expenditure on food and nonfood items to be 810 billion PhP, which we convert approximately to 16.2 billion USD. We then take the share for food consumed at home (38.6 percent) from the 2000 Family Income and Expenditure Survey by NSO, and derive an urban food retail market of 6.26 billion USD for the same year. We then double that to 12.5 billion USD as an approximation of the food market at the end of the decade; the GDP slightly more than doubled in nominal terms, but typically the food share would decline as per Engel's Law. Dividing into that the modern retail food sales of 5.25 billion USD, we get a rough share of 42 percent. Interestingly, we see next that this is close to the figure from urban consumer surveys by Nielsen Company.

On the other hand, we can consult consumer surveys of buying habits from modern retail. We know of only one large-sample survey of this type done in urban areas, which is by Nielsen (2008). Nielsen reports that by 2007, the share of modern retail in grocery retail in Asia (excluding Japan) was 52 percent, up from a mere 35 percent in 1999. The data is disaggregated by North Asia (at 48 percent in 1999 and 73 percent in 2007) and Southeast Asia (at 34 percent in 1999 and 46 percent by 2007). For the Philippines, the figure is 45 percent in 2007 versus 43 percent in 2005, close to the 42 percent we calculated above. Note that the urban food market is, in volume, roughly 70 percent of the total food market in 2000 – the rest being the rural market. Hence, the share of modern food retail in the overall national market would be around 35 percent, and is growing much faster than GDP.

Third, another indicator of food retail modernization is the relatively low share of ambient processed food in total grocery at 26 percent, (similar over the decade), and its share in total food at 26 percent/71 percent, or 37 percent. Historically, as well as recently in developing countries, the earliest category penetration of modern retail has been in ambient products – those that can be stored, whose costs can be driven down by economies of scale of storage and distribution, and on the basis of which modern retail usually gains its first competitive advantage over traditional retail. An example of this is in Hong Kong in the 1970s-1980s, when supermarkets vanquished rice shops (Ho 2005). As this share was already fairly low at the start of the decade, it appears that the gains in "non-ambient" foods had occurred already in the 1990s when modern retail was in rapid early establishment.

One of the "diversification" categories (away from the traditional ambient category) is the chilled and frozen product category such as meat, dairy, frozen prepared meals, and the like. Over the decade, SM experienced a rise in the share of chilled and frozen products from 14 percent to 19 percent; and Robinson's, from 16 percent to 20 percent. This appears to be driven by: (1) a rise in households with refrigerators, (2) rising incomes, (3) the rise of large food manufacturers such as San Miguel, and (4) investment in cold shelves in the outlets and cold/cool chain in the distribution centers and truck fleets.

Fourth, at once surprising in the Philippines but expected from international trends, Philippine modern retailers' marketing of fresh produce has increased quickly in the 2000s. In simple averages over companies, the table shows that fresh produce is 10 percent; this share is similar to the typical 10-15 percent of supermarket sales that one sees internationally – and it is also near the 11 percent share of fruits and vegetables in food from the NSO household survey of 2000.

Again, the aggregate average which remained steady at 10 percent over the decade masks the leap from 7 percent to 10 percent of SM's grocery sales coming from fresh produce. Overall, modern retail's fresh produce sales leapt from 70 million USD in 1999 to 418 million USD in 2010.

Compare this latter figure first with the overall urban produce retail market: using the estimate of the urban food market as 12.5 billion USD in 2010, and the 11 percent share in produce (NSO 2005), the produce market is roughly 1.375 billion USD. The share of modern retail in it is 30 percent – some 12 percent below the share in overall food of 42 percent, but that gap is typical internationally.

Moreover, compare the 412 million USD with the exports of fresh fruits from the Philippines in 2007 (for the top items: bananas, 856 million USD; pineapples, 148 million USD; and mangoes, mangosteens, and guavas, 35 million USD altogether). Exports of fresh produce are more than twice as important at present as the produce sales of the modern retail market in the Philippines, but the latter is growing fast. Moreover, the fresh produce sold by supermarkets includes a broad range of products, many of which are grown by small and medium farmers. On the other hand, the exports, mainly bananas and pineapples, tend to come from medium and large growers. Hence the supermarket-market may have more impact on small and medium farmers over time than might the export market, assuming present patterns continue.

The significance of this development should be seen in context. The most "non-traditional" product in modern retail is fresh produce. Historically (in the 20th century in the US and Western Europe), fresh produce retail was consistently the last product category to be penetrated by modern retail. In the US, it took 40 years after the advent of supermarkets in the 1920s for fresh produce to be a significant item or for them to be even sold in supermarkets. This was simply because people (in the US) traditionally bought fresh produce from tiny produce shops, wet markets, and street hawkers and pushcarts. This same "lagged" penetration of fresh produce has been experienced in developing countries, but with a rapid rise in the 2000s.

Format diversification and sales gross yield trends in modern food retail

Table 3 shows the shares of various formats in modern retail sales in the Philippines covering the period 1999-2010, in millions of USD. Given the widely differing core formats of the various companies, we discuss them in groups. The department store-cum-supermarket food-sales floor is, in the Philippines, the traditional start-up format of modern retail – as it was in many countries. Similarly, the rise of other formats separate from the department store base tended to go first into supermarkets and then into the larger hypermarkets and warehouses, and then into the smaller formats

Table 3. Shares of various formats in modern retail banner sales in the Philippines (1999-2009), in percent sales over total

Company, classification of items sold	2010 Estimate	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
1.SM												
a) Hypermarket-warehouse	22%					8%					0%	0
b) Supermarket	42%					37%					33%	
c) Convenience store												
2.Puregold												
a) Hypermarket-warehouse	100%	100%				100%						
b) Supermarket												
c) Convenience store												
3.Robinson's												
a) Hypermarket-warehouse	(9%)	(9%)				(11%)					(9%)	
b) Supermarket	(22%)	(21%)				(18%)					(14%)	
c) Convenience store	(13%)	(12%)				(8%)					0%	
4.Rustan's												
a) Hypermarket-warehouse	(39%)	(37%)				(27%)				37 (12%)		
b) Supermarket	(19%)	(19%)				(20%)				(24%)		
c) Convenience store/NS	(9%)	(9%)				(11%)				(12%)		
5.Mercury Drug												
a) Hypermarket-warehouse	0											
b) Supermarket	0											
c) Convenience store	0											
6. AS Watson												
a) Hypermarket-warehouse	0	0										
b) Supermarket	0	0										
c) Convenience store/drugstore	100%											
7. Benison/Waltermart												
a) Hypermarket-warehouse	100%											
b) Supermarket	0											
c) Convenience store	0											
8. President (7-11)												
a) Hypermarket-warehouse	0											
b) Supermarket	0											
c) Convenience store	100%											

Table 3. Shares of various formats in modern retail banner sales in the Philippines.... *(continued)*

Company, classification of items sold	2010 Estimate	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
9) Makro												
a) Hypermarket-warehouse				100%[a]								
b) Supermarket												
c) Convenience store												
10. Jollibee Bakery-retail												
a) Bakeries	100%											
11. Uniwide warehouse												
a) Hypermarket-warehouse	100%[b]											
b) Supermarket												
c) Convenience store												
12. Pricesmart												
a) Hypermarket-warehouse							100%[b]					
b) Supermarket												
c) Convenience store												
13. 5 forecourt chains	100%											

Note: Sales are only by formats that sell some grocery
Legend: [a]C&C; [b]Warehouse
Source: Authors' calculations from raw data from PlanetRetail.

such as convenience and neighborhood stores. That shift is an indicator of modernization, and a second phase, of modern retail itself.

To understand the context of format differentiation, note some of the different formats of leading chains, with an example from SM. The hypermarket of SM (Super SM) in 2010 has on average 10,833 sq meters of sales area and 39 million USD in annual sales; the supermarket format (SM Supermarket), covering 5,616 sq meters, generated 30 million USD in sales (compared to 28 million USD in 2008). Note however that the sizes of the formats are self-defined by the chains; a Waltermart "hypermarket" has 14 million USD sales a year, only about half the sales from what SM calls a supermarket. There are several salient points in the table.

First, there has been a "bifurcation" in format development that one has seen in other countries.

On the one hand, there has been a marked growth in hypermarkets and warehouse stores. The share of SM sales in hypermarkets went from none to 22 percent by decade's end; Puregold and Waltermart uses only this format, as Makro did and still do, along with Uniwide and Pricesmart; Rustan's moved it from 12 percent to 39 percent of its sales over the decade. This format is attractive partly because, in the words of SM's food retail director, it is a "destination shopping" point, where shoppers (consumers or retailers) incur the transaction costs to get to it and want to find a wide variety of products in a one-stop shop.

On the other hand, there has been rapid development of convenience stores, both as overall companies such as President (7-11), and as proliferating forecourt stores in gasoline stations. This is a typical trend in both developing and developed countries as modern retail seeks to tap the convenience market, to penetrate dense urban spaces and supplant corner mom & pop stores, and to grow with spreading highways.

Second, for the three leaders with department stores that also sell some food, the department store share of the total has declined rapidly as the other formats rose: for SM over the decade, 67 percent to 34 percent; Robinson's, 77 percent to 44 percent; and Rustan's, 72 percent to 67 percent.

Third, shown only partly in Table 2 is the trend of modern retail growing outside of shopping centers or malls. This was shown in the case of convenience stores above. The same case was also true for supermarkets. An example is the Savemore format of SM. These are somewhat smaller than their regular supermarkets, and are located outside malls or shopping centers. The format started in 1999, and had only grown to 10 stores by 2008, but then jumped to 26 by the end of 2009; 18 more are slated for 2010 alone. The company announced that this is explicitly designed to penetrate dense urban areas, capture the market near residences, locate near dense streams of street traffic, and near wet markets. Fresh meats and produce are emphasized (PlanetRetail.net, accessed 15 May 2010; The Philippine Star 2008). We expect this trend to continue and accelerate – and with it, a renewed impetus for modern retail diffusion.

While the trend for modern retail to spread beyond malls and shopping centers continues, it is worth reflecting on why malls or commercial centers have played a prominent role so far in modern retail diffusion in the Philippines – as they did in the US in the 1950s-60s. We surmise several reasons. Malls provide the functions of clustering of stores and services and hence economies of agglomeration, diversity for customers, and shared expenses for services and infrastructure. They have parking areas, entertainment areas and other amenities, and so have become leisure centers that are protected from heat and cold, congestion, and crime and parking problems.

It has been common both in Asia and in other regions for shopping center development or management companies to either have their own "brand" department store, or be in partnership with one, and use that as an anchor in the mall. By this path, many malls came to have department stores-cum-supermarkets, such as SM, Robinson's, Rustan's, and Gaisano malls in the Philippines, but that phenomenon is repeated in many developing countries especially in the 1970s-90s. Powerful investment companies such as the ones mentioned and similar others combined their real estate acquisition and management with mall unit rentals and the development of their own anchor chains, starting with department stores and later extending to other formats.

The typical trend that we now see in the Philippines, and which occurred internationally, is the development of those formats "off-mall" as stand-alones, where they then began to compete with the rising modern retail chains that did not start as mall anchors. Typically, as is now occurring in first wave developing countries and historically in developed countries, the mall-based supermarkets eventually became minor players and the main modern food retail took place in stand-alone stores – which could penetrate far more densely the neighborhoods and city centers. It appears that the current trend that one sees, for example in SM with its continued development of stand-alone supermarkets and hypermarkets (at rates higher than development of mall-based supermarkets) will be the dominant trend in the Philippines in the next decade.

Table 4 shows sales in millions of USD per thousand sq meters of sales space for 2000, 2005, 2009, and 2010. This cannot be interpreted as total factor productivity because it is not net of costs, but rather provides a rough indication of performance. Excluding drugstores from the simple average as they have much higher gross sales per sq meter as expected, we find that sales per sq meter at first declined by 7 percent from 2000 to 2005, and then shot up by 35 percent from 2005 to 2010. This may have been because in the first half of the decade, sales strategies that were tried were less adapted to the context; weaker retailers (which were later bought out) were still operating; or competition patterns were spatially such that there was some redundancy; or some combination of these reasons. A reversal of several of them, such as change in strategies and possibly a decrease in competition in given areas (due to acquisitions) may be responsible for the rise of sales per sq meter. Comparing across companies, it is striking how divergent the figures were in 2000 and even in 2005 and how convergent they have become by 2010. This suggests that competition may be inducing imitation and diffusion of practices that smooth out variation in performance over most surviving chains, with a few exceptions.

Spatial and Socioeconomic Paths of Diffusion of Modern Retail

Spatial diffusion

The diffusion path of modern retail over provinces and islands in the Philippines essentially mirrors international experience. Reardon and Timmer (2007) note that modern retailers tend to spread in waves over areas – countries in a region, zones in a country, and over socioeconomic group market segments – first in the largest and/or richest market, and

Table 4. Modern retail in the Philippines: banner sales/sales area (1999-2010) in millions of USD/thousands sq meters

Company, classification of items sold	2010 Estimate	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
1. SM	3.63					3.6					3.6	
2. Puregold	3.47	3.35				1.81						
3. Robinson's	3.5	3.0				2.22					2.03	
4. Rustan's	3.41	3.03				2.09				2.02		
5. Mercury Drug	7.7	7.03				5.3					5.7	
6. AS Watson	7.5	6.9				6.2			6.8			
7. Benison (Waltermart)	4.7	4.6				3.85						
8. President Chain (7-11)	3.66	3.29				3.19					4.44	
9. SHV Makro (Cash & Carry)				1.24		2.31					2.9	
10. Jollibee Bakery-retail	na											
11. Uniwide Warehouse	2.0	1.9				1.8					1.04	
Simple average of all	4.4					3.24					3.29	
Simple average excluding Mercury Drug & AS Watson	3.51					2.61					2.8	

Sales are only by formats that sell some grocery.
Source: Authors' calculations from raw data from PlanetRetail.

Table 5: Pattern of spread of SM and Robinson Malls in the Philippines, 1980s to 2009

	Metro Manila	Other Luzon provinces	Visayas' three main islands	Mindanao	Total
1980s	SM = 1				1
1990s	Robinson's = 2 SM = 4	Robinson's = 1 SM = 1	Robinson's = 1		9
2000s	Robinson's = 4 SM = 10	Robinson's = 11 SM = 15	Robinson's = 5 SM = 3	Robinson's = 3 SM = 2	53
Total					63

Source: SM Prime Holdings (2009); http://www.philippinecountry.com/philippine_malls/major.html#plaza%20fair

then into smaller and/or poorer ones. Retail chains often use the procurement system or supply base of the initial base area to supply the stores in the next area or market. That is why supermarkets are found well beyond the middle class and the large cities, selling to the food markets of the poor.

Roughly 65 percent of the population and at least 75 percent of the retail market in the Philippines (despite its being an archipelago with some 7,000 islands) are in three focal points – the island of Luzon, the three main islands of the Visayas region, and the island of Mindanao (PDFI 1999). Within these areas, sharp concentrations of population and markets exist, such as those in Metro Manila and the provinces around it, in and around Cebu, in and around Davao, and so on.

However, given that these three areas are separated by sea and due to the attendant relatively high transportation costs, chains find it easier to spread over areas on a given large island. A large chain may often do this, after opening initial positions in each of the main islands. The Luzon-based companies SM and Robinson's have spread pan-Philippines (over the three areas); Gaisano has spread over Mindanao and the Visayas main islands; and Rustan's has spread extensively over Metro Manila but has a small presence in the Visayas, and none in Mindanao. Other firms tend to have limited local presence in a particular island. As the large chains move to new provinces and islands, some of them will likely acquire or buy out local chains.

The leading companies have followed the "typical" pattern one finds internationally. Table 5 illustrates this by showing the 63 mall openings of SM and Robinson's from the 1980s to the present. There was but 1 opening in the 1980s, 9 in the 1990s (from 1990 to 1997, stopping abruptly with the financial crisis, and then resuming in 2000), and 53 in the 2000s. The initial openings were in Metro Manila, then simultaneously spreading to other provinces in Luzon, and gradually to the islands of the Visayas region. The last step has been the openings of both chains in Mindanao, ingressing into the moderate to densely occupied areas dominated by the regional chains.

Socioeconomic diffusion

For the market penetration of the various socioeconomic strata, there are two parallel trends. The first, starting roughly in the 1970s, is the continuity of the set of smaller and local chains or independent modern retailers who catered to the gamut of income classes in their areas, but with an emphasis on the B, C, and D consumers. These chains are typified by the members of PAGASA. The second is the evolution of the larger chains that tended to start with As and Bs, and moving into the Cs in the second half of the 2000s. Part of this socioeconomic shift is simply a correlate of the spatial shift noted above. The emphasis on the As and Bs continues to a large extent for Robinson's and Rustan's. On the other hand, SM is taking a tack that explicitly focuses on moving into the market of the C's; this is supported by cost-cutting measures on the procurement side discussed below, and by the rolling out of the Savemore format emphasizing price discounts.

DETERMINANTS OF RETAIL TRANSFORMATION IN THE PHILIPPINES IN INTERNATIONAL CONTEXT

Reardon et al. (2003) lay out several determinants of the take-off of modern retail in developing countries roughly in the early 1990s:

1) Demand-side factors such as urbanization, rise in incomes, and improvements in transportation and proliferation of vehicles and refrigerators; these reasons were necessary but not sufficient as they already existed before the grand take-off;
2) An important supply side reason in many countries was the deregulation of commerce and retail foreign direct investment (FDI) in particular; this led to a large influx of FDIs and competitive domestic investments; however, FDI has not been the driver in all countries – e.g., in India, Russia, China, and Chile, domestic investments have been the main drivers;
3) Procurement system modernization by modern retailers that led to falling costs and eventually prices which allowed them to gain market share from traditional retailers – first in processed foods and staples, and eventually in fresh produce.

Below we use the Philippines as an example of the applicability of these determinants.

Demand-side Factors

First, there has been rapid urbanization. The urban share of the population was 39 percent in 1980, 48 percent in 1990, 52 percent in 1995, 57 percent in 2000, and projected to be 73 percent (the northern Asia rate) by 2020 (US Department of Commerce 2001). Because urban incomes were and are higher and grew faster than rural incomes, the share of the urban food economy in the overall food market is already, we estimate, about 75 percent by 2010.

Second, incomes have grown rapidly in the 2000s, at a real GDP compound growth rate of 5.1 percent over 2000 to 2008, similar to the 5.2-5.5 in Indonesia, Malaysia, and Thailand, other second wave countries in the retail diffusion grid, as per PlanetRetail data.

Third, female participation in the labor force (working outside the home) increased; for women aged 24-54, the share went from 51.5 percent in 1980 to 59 percent by the end of the 1990s (Lim 2002).

Fourth, migration from the Philippines, and the effect of remittances and return of workers, may also play a role. The importance of migration from the Philippines, with some 8.2 million Filipinos working abroad and their remittances of about 17 billion USD or 13 percent of GDP in 2007 (Ruiz 2008) are well known. However, there have been no empirical studies of whether migration has some effect on the rise of supermarkets in the Philippines (or in other countries with heavy migration such as Mexico, China, or India) – such as via the cultural effects of staying in countries with food systems dominated by supermarkets (as Cabochan 2005 posits). However, modern retailers have "voted with their pesos" concerning the idea of the link between migration and shopping at modern retail. For example, SM has set up 11 "Global Pinoy Centers" in their malls – giving special discounts to Overseas Filipino Workers (OFWs), with a remittance center, and facilities for voice and video contact with migrants/ OFWs for families.

Finally, in other countries, the increase in vehicle ownership is associated with more mobility and thus with better access to supermarkets. However, it appears that the rapid increase in public transport may be a more important determinant in the Philippines.

Passenger cars and motorcycles grew from about 10 to 23 per 1,000 population from 1980 to 2000; however, this number was still well below Thailand and Indonesia (Nagai et al. 2003). IBM (2007) shows results from a Nielsen survey of how shoppers commute to shop. Fifty-seven (57) percent of Filipinos use public transport – compared to only 3 percent in India, 19 percent in Indonesia, and 2 percent in Taiwan. Car use in the Philippines is 10 percent. As reflected in the figures cited, the relative importance of public transportation in urban Philippines is greater compared to similar countries in the same general category of income – and it increased extremely quickly over the past two decades. About 78 percent of total daily person trips rely on buses, jeepneys, taxis, and tricycles run as public transport.

In Metro Manila alone, public transport vehicles tripled between 1980 and 2001 or double the rate of city's population increase. Public motorcycles for the same period rose from 4,801 to 51,768; cars from 1,461 to 27,322; utility vehicles (jeepneys, company buses) from 27,202 to 28,250; public utility buses from 3,578 to 8,232; or a total of 37,042 to 115,572 for the said period (www.klima.com.ph 2010). Many bus and jeepney lines have stops at the malls and shopping centers, which facilitates this shopping. These patterns occurred in other cities as well. Moreover, the recent completion of LRT and MRT (railway transport) lines contributes substantially to bringing people to the malls; some of their major stations are close to the shopping centers.

This means that in the Philippines, modern retail growth can be relatively independent of vehicle ownership growth. This might (as a hypothesis) be a reason for the disproportionate persistence of malls in the country relative to other countries where they tended to have a greater share in earlier stages. It appears that routes of public transportation move along major urban arteries, along which malls are strategically positioned.

Supply-side Factors - Investment and Procurement

Why are there no global food retailers operating in the Philippines?

No leading global chain has entered the Philippines , although many have shown interest. From 2002 to 2007, Wal-mart, Carrefour, Metro, Tesco, Casino, and others expressed interest, and some of them sent missions to explore concrete options, but none entered[3]. Yet all of them made public statements about how attractive the Philippines is for modern retail investment, and how much potential there is.

Moreover, some of the internal discussion in the Philippines about why the foreign chains have not come en masse features various hypotheses about the contexts that are supposed to have "scared off" foreign chains. We critique those hypotheses as follows.

The first hypothesis presented in the debate is that "traditional retail is important in the Philippines and too ingrained to overcome, and that scares off foreign chains." We already noted that the traditional retail found in the Philippines is the same as those in all the other countries where there have been a supermarket revolution – starting with the US and Western Europe and then into today's developing regions. The foreign chains have already met the same challenge of initial conditions in other countries in the region and elsewhere. Moreover, the massive rise of modern retail in the Philippines undermines this hypothesis.

Second is the claim that "transaction costs are high in the Philippines because it is an archipelago with 7,000 islands; corruption costs are also high – and all of that scares off foreign chains." Transaction costs are indeed relatively high because of the need for ocean shipment between the three areas (Luzon, Visayas, and Mindanao), and internal roads in many areas are poor (Lidasan and Castro 2009). However, the largest two islands have fairly dense infrastructure and are comparable to other countries where foreign retailers have invested heavily – Luzon's population of 46 million in 2007 is close to that of South Korea; Mindanao's 22 million is close to that of Malaysia.

We have already seen that SM has started its investments inter-island (as a recent step, but now steadily), as have Gaisano and others. Foreign chains would face no differential higher cost than local players. Moreover, foreign chains have faced inter-island costs in Indonesia, across-mountain costs in many countries, and vast distance shipping in Russia and China. These costs do slow down expansion but have not deterred investment elsewhere. The same goes for the costs of corruption. Philippines ranks among the highest in the world as per www.worldaudit.org/corruption/, but Russia, Vietnam, and Indonesia rank close, and each of these three are major retail FDI destinations.

Third, it is posited that "incomes are low and thus not attractive to foreign chains." We have already noted the following: that incomes are growing as quickly in the Philippines as they are in other FDI destination countries in the region; that there is a substantial middle class; and that the urban food economy constitutes some 75 percent of the overall food economy, and thus is a substantial target. Moreover, even without much FDI, modern retail in the Philippines has already adapted (using standard international approaches, nothing specific or indigenous to the Philippines) to consumer needs beyond the middle class. Modern retailers in the country have already started to penetrate the food markets of the urban poor, similar to what its counterparts have done in many first and second wave countries. To see this, compare the share of food retail of modern retailers (45 percent) with the share of the middle class in the Philippine

[3] For example, Metro considered the possibility in 2001 (PlanetRetail 2001, September 28) and then actively explored the possibility (PlanetRetail 2007, September 12) – but it did not enter. Wal-mart (as well as the Casino chain of France) was reported to have had discussions with the Department of Trade and Industry in 2001 (PlanetRetail 2002, January 2) when the retail trade law was being liberalized, and then actively explored entry in March 2002; it was supposedly waiting for the expiration of the foreign ownership clause under the retail trade law at the end of that month to firm up its plans – but it did not enter (PlanetRetail 2002, 5 March).

population estimated at 25 percent (Senauer and Goetz 2003).

In contrast to the points above, we present what we think are reasons driving the lack of investment in the Philippines by the large foreign chains: (1) FDI liberalization that is only partial, (2) perception that conditions on JVs are disadvantageous, and (3) difficulty of access to real estate. We lack the data to rigorously assess these points, but present key information and structural conditions to tentatively support our arguments.

First, retail FDI liberalization has been only partial, with significant constraints remaining. For a half century there was a socio-political movement in the Philippines in favor of requiring that a retail company has Philippine citizenship. This was aimed against foreigners, in particular Chinese retailers, and then against colonial control of business. It culminated in the Retail Trade Nationalization Law of 1954 (PDFI 1999). Starting in the mid-1980s, there were a series of liberalizations of the Philippine economy. By the mid-1990s, political pressure had built up to include retail in that liberalization. An intense 5-year debate ensued.

The upshot was that the 1954 law was repealed in 2000 with the passage of the Retail Trade Liberalization Act. Some of the important clauses of the act include: (1) Foreign firms with equity destined for the Philippines less than 2.5 million USD could not enter; (2) foreign firms with between 2.5 and 7.5 million USD could only own up to 60 percent for the first two years of the implementation of the new act, and then could own wholly afterwards; (3) firms with more than 7.5 million USD equity could own wholly, if any given store costs more than 830,000 USD to establish; (4) for at least 10 years, firms had to source at least 30 percent of their inventory from Philippine makers; (5) firms in the top categories have to have parent companies with equity of 200 million USD or more.

Aside from the act, the Constitution of 1987 also stated that foreign firms could not own land, but could only lease up to 75 years; firms that are of 60 percent Filipino ownership or more can own land – so that joint ventures can do so (Catindig 2001; Aldaba 2005). These provisions were intended to: (1) Cushion the impact of the act on large and medium players, (2) keep out small foreign firms that would penetrate into traditional strongholds of small retailers such as small towns and dense poor urban areas, (3) support local manufactures. The act stopped short of imposing various provisions one sees in retail regulations in other countries, such as limiting opening hours, or zoning so that large retailers cannot go into dense areas where many small retailers operate.

A debate ensued after the passage of the 2000 act wherein positions were taken that the provisions for minimum equity, local content, and no land ownership (except in JVs where they were limited to 40 percent) would be "deal killers" for interested foreign chains (Manuzon 2002). We concur only with the point on land ownership restriction, but not with the one on equity – that it is a serious limitation to foreign chains. These provisions of the act were actually meant to keep out what are generally considered in international retail as "tiny firms"; in fact it is difficult to identify any retail chain investing in Asia that is not larger many times over the minimum requirements noted above.

Second, foreign chains perceive the conditions of JVs to be disadvantageous. Moreover, there appear to be linkages between the real estate and retail markets that make it difficult for foreign retailers to access retail locations. We obtained unique and confidential information to support these hypotheses, at least with one key informant (who preferred to remain anonymous) – albeit an important one from a large foreign retail chain that had made a careful study of the Philippine market for potential entry. By the nature of the issue, any sample size to assess our hypothesis would be tiny – a few firms that lead global retail. But their points resound with many comments made by other key informants in our field research.

The global retailer informant noted the following: (1) 6-7 main business families dominate both retail and real estate, and they have cross-shares across the service industry and production/supply sector; (2) the retail margins on the surface appear low but are covered by rebates from suppliers and sales of real estate at high prices; (3) it is very difficult to get access to land for rent or purchase except via tie-ups with the main retail/business families who are at the same time the dominant real estate firms.

The above explanation of the real estate access constraint, combined with our points critiquing the other possible explanations of context constraints and equity requirements, appear sufficient to explain why there has not been a significant entry of large foreign firms, and probably there will not be in the medium term. That has not, however, constrained the Philippines from experiencing a very rapid modern retail transformation.

Procurement system modernization

There is very little published research found on the key subject of procurement system modernization among modern retailers in the Philippines – or the impacts of system change on suppliers either among the processing firms or farmers. The few studies that exist are grey literature of self-published reports but there are no academic articles on the issue; this represents a major gap in published research. The available information is of several types and makes several points, which can serve as hypotheses for future survey-based analyses.

First, it appears from webpages of the leading chains and the reports that cite them, that the leading food retailers in the Philippines are using modern technologies for inventory and sales management such as the well-known efficient consumer response (ECR) techniques (ECRP 2005), centralized distribution centers, and direct purchase from large suppliers such as San Miguel or Universal Robina.

Second, the distribution interface of processors/food manufacturers and retailers – modern or traditional, but apparently more among modern retailers – appears to have modernized. Traditional in the Philippines, and common to many countries, is the system whereby processed or semi-processed foods move from small to medium manufacturers, slaughter-houses, mills, and so on, to wholesale markets or terminal markets, where they are de-bulked and distributed to retailers by stockists on regular delivery routes (Dannhaeuser 1977). Over time in the Philippines, as in other developing countries, the latter system has waned, driven by several factors, the main one being the concentration of the food processing sector.

While the modern retail sector took off in the Philippines mainly in the 1990s, the food processing sector had by that time already been not only growing, but concentrating rapidly. Concentration of processing that precedes that of retail is common in developing countries. Hence, in the 1990s, national and later multinational regional giants grew rapidly, with the rise of San Miguel or Universal Robina Corporation, for example, adding to a pre-existing base of canned fruit enterprises such as Dole.

These large firms set up their own agent networks and eventually large distribution centers from which they distributed first to traditional retailers such as *sari-sari* stores and then to modern retailers as the latter rose. It appears, from our key informant interviews and the webpages of the processors and modern retailers, that the interface is more direct and developed between the large processors and retailers – such as the distribution center of San Miguel delivering large volumes of diverse products direct to the distribution centers of SM, Robinson's, Rustan's, and so on. This trend – and the bulk buying advantages it confers on modern retailers – aligns with the international trend (Reardon and Timmer 2007).

Third, the few existing publications that treat modern retail's procurement of fresh foods, fruits and vegetables in particular, tend to show the emergence of some procurement modernization in the mid-2000s. For example, Digal and Concepcion (2004) note that some of the leading chains began using specialized or dedicated wholesalers and concessionaires, rather than the retailers themselves buying from the wholesale markets. There is some evidence from Mindanao that this shortened supply chain increases vegetable quality (Concepcion et al. 2006).

Again, to our knowledge there have not been any academic journal publications of systematic survey-based studies of supermarkets' relations with produce farmers, their fresh produce procurement practices, or their effects on traditional retailers, consumers, or prices. These are important gaps in research that merit urgently addressing.

CONCLUSIONS

From a small base by the end of the 1990s, modern retail (chains selling at least some food) grew very rapidly in the 2000s at thrice the rate of GDP growth, reaching 13 billion USD of overall sales by 2010, of which 5.25 billion is food sales. While much of the policy debate about market development focuses on export markets, we have shown that supermarkets in the Philippines already sell twice the value of the food that is exported, and modern retail is growing faster.

From a tiny fraction of this figure two decades ago, modern retail has reached 45 percent of urban food retail, already beyond the share of the middle class in the population, and about 35 percent of the national food market. Modern food retail is itself rapidly transforming with a rise of fresh produce sales, industry concentration, format diversification off-mall into formats that permit greater market penetration, and emerging procurement system modernization. While traditional food retail, and even most aspects of modern food retail in the Philippines track international experience, the lack of major foreign presence even after retail FDI liberalization in 2000 is a puzzle about which we presented hypotheses – specifically related to access of retail space by foreign retailers being an important constraint.

Given the already large and increasing importance of modernization of food retail in the Philippines, this theme should enter the mainstream of agrifood research and be the subject of systematic field survey analysis in order to start discerning its impact on consumers, farmers, wholesalers, and processors. It is too soon, based alone on the existing publications on the subject, to identify specific policy measures needed to equip suppliers to take advantage of a trend that appears to be on track to be the dominant demand-side force in the Philippine food economy within a decade. Field-based empirical research using representative farm and processor surveys is thus urgently needed to inform the emerging debate.

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