Foreign investment in the philippines marketing essay

After researching the background of the Philippines economically, politically and socially, our company believes that it is ready to venture our business into the Philippines. What kind of business sector should the company look into that is not only suitable for the local but also profitable to the corporation? In year 2012, Philippines' population has reached 103, 775, 002 and the increasing numbers of population has made the country the 12th largest population in the world today (Central Intelligence Agency, 2012). Due to the increasing population, it has opened up opportunity for foreign companies such as ours to create business investments in the Philippines. There are numbers of industry that our corporation can look into when thinking of doing business in the Philippines, for example the hotel industry.

Philippines is well known for their beautiful beaches islands and attractive tourist destination thus tourism is one of the main economy in the Philippines. The spokesperson of Philippines' Tourism, Abigail Valte, states that tourism has contributed US$12. 83billion for the country and it has not only helps the economics of citizens of Philippines but it also contributes to their improved standard of living (Eturbonews, 2012).

Besides the hotel industry, it is recommended that our company looks at stepping into the food and beverage industry. This is because eating good food has become one of the Filipinos' habits. An average person will consume three heavy meals in a day but an average Pinoy can actually eat about 7 to 8 heavy meals which consists of the normal breakfast, snacks, lunch and dinner and additional of three meals which are merienda, pica-pica, pulutan. (Matthew Sutherland, 2010). Not only that, their love of food is proven when 0. 8 out of 1 of their advertisements talks about food whether you are in a bus or cab, and advertisements on television channels also will include food (Panda B, 2011).

Lastly, venturing into the fashion retail industry in the Philippines can be another option. Retailing has been one of the major contributors in job offering to the locals as well as one of the reasons behind of the success of the Philippines economy. According to The Philippine Retailers Association, retailing has contributed 15 percent of their gross national product (The Philippine Retailers Association, 2012). Other than that, Americans and the Spanish have exposed Filipinos to Western culture since the colonization. In addition, pinoys always wanted to look for new gadgets and clothes that are in the current market. Moreover, because of globalization and the use of the Internet, famous clothing brands such as Zara is successful within the Philippines.

Retail Clothing Industry

Our company should also consider venturing into the retail fashion and clothing industry in the Philippines. Retail clothing or apparel refers to the sales of products such as menswear, women’s wear, and children’s clothes to consumers usually from a physical store in an area.

The retail industry has seen tremendous growth over the past several years in the Philippines. According to the Philippine Retailers Association (2012), the retail industry contributes about 15% to the total gross national product (GNP) of Philippines. Furthermore, the retail sector creates employment for approximately 5. 25 million people, equivalent to 18% of the labor force in the Philippines. Retail industry constitutes 33% to the Philippine service sector (Philippine Retailers Association, 2012). Therefore, it is possible for our company to benefit from the retail sector in the Philippines. The growth potential in the retail sector for our company is relatively positive.

In 2010, Business Monitor International (BMI) reported in the Q111 BMI Philippines Retail Report that retail sales were forecasted to grow from PHP1. 40 trillion (US$31. 42 billion) in 2011 to PHP1. 65 trillion (US$37. 06 billion) by 2014 (Business Monitor International, 2010). This is due to consumer spending and the increasing level of income. Furthermore, an increase in dual-income families and young professionals can also potentially enhance retail sales.

In recent years, in order to attract foreign investment and maintain global competitiveness, the Philippine government has also opened up its retail sector to foreign companies. In 2000, this is done through the Republic Act 8762, which is also known as the Retail Trade Liberalization Act. Section 2 of the Retail Trade Liberalization Act states that “ it is the policy of the State to promote consumer welfare in attracting promoting and welcoming productive investment that will bring down price for the Filipino consumer, create more jobs, promote tourism, assist small manufacturers, stimulate economic growth and enable Philippine goods and services to become globally competitive through the liberalization of the retail trade sector. Pursuant to this policy, the Philippine retail industry is hereby liberalized to encourage Filipino and competitive retail trade sector in the interest of empower the Filipino consumer through lower prices, higher quality goods, better services and wider choices” (Republic Act 8762, 2000). This gives our company the opportunity to benefit from the incentives provided by this trade liberalization act when we venture into the clothing and fashion stores in the Philippines.

As fashion and clothing lines generally targeted towards the young adult demographic, Philippine’s growing younger population play an important role in retail consumption. Based on UN data, Filipinos between the ages of 20 to 44 has been forecasted to increase to about 39% by 2015, 63% of the population will be economically active in 2015 and 70% of the population will be located in urban areas (Business Monitor International, 2010).

The Philippines also has a thriving fashion industry and the citizens are fashion conscious, especially in the metropolitan areas such as Manila and other major cities. Every season, the Philippine Fashion Week is hosted to display designs from top brands around the world and local Philippine designers as well. In order for this firm to venture into the fashion business in the Philippines, the firm would need a platform in which to create exposure for the product and the Philippine Fashion Week can be an ideal place to start building brand recognition for our firm. Moreover, our company can also take advantage of the local talent pool and hire Filipino design experts with superior knowledge of the fashion industry in the Philippines.

Entry Mode

There are several ways that our company can enter the retail clothing industry in the Philippines. There are many ways to sell and distribute clothing in this today’s world. Some retailers market and sell their clothes and products online, shipping directly to the consumer. Others open a physical boutique or retail outlet in locations such as shopping malls, flea markets, and so on.

We suggest the company to look into establishing its own clothing brand or committing to a joint venture by procuring a stake in an existing brand of clothing in the Philippines. These two methods of entering the retail market have its own benefits and drawbacks to our company.

Our company can look into building its own brand by producing and selling its own garments in retail outlets in the Philippines. As a foreign brand, the Philippines is an ideal market to establish the company’s foothold as a retail clothing brand because Filipinos are receptive to foreign clothing brands such as Zara, Topshop and Gap. The younger urban Philippine citizens often purchase foreign brands; therefore, our company should look into setting up its new branch in a major city such as Manila before expanding the business to other parts of the country. Furthermore, our company can also set up an online platform in order to reach customers in the broader Philippine region as well. Setting up an entire new clothing brand can be challenging for our company as well as costly. However, our company should look into reducing production costs by manufacturing within the Philippines to reduce cost of transporting or lower manufacturing costs by outsourcing the production to a country with cheaper labor. The United States Department of Labor (2011) found that the hourly compensation costs in manufacturing in 2010 in the Philippines is $1. 90, which is the lowest among all the countries compared in its study including Mexico, Taiwan and Brazil and others.

On the other hand, our company can look into creating a joint venture with a local brand or a local designer. The Philippines has many talented local fashion designers that may not have the resources to manufacture and sell their clothing. Our company can provide the funds necessary for these designers to create a clothing line to sell to consumers. In this sense, our company saves cost in conducting market research, hiring new personnel to observe the industry trends and hiring designers to come up with new clothing because the designers are equipped with the knowledge of the fashion industry in the Philippines and are better versed in the fashion industry. This option is less risky than Greenfield venture because the company has limited liability should the venture fail. The company will only have fewer losses from the capital provided to the designer as compared to capital losses from creating an entire new brand from scratch.

Food and Beverage Industry

There are a few business sectors that our company could consider venturing in the Philippines. One of it is the Food & Beverage (F&B) industry. F&B is an industry that specializes in the making of, conceptualization, and delivery of foods. The biggest sector in F&B employees are in restaurants and bars, which includes hotels, resorts, and casinos.

Based on statistics by the Department of Primary Industries (DPI) in Victoria (2009), Philippines is one of the world's youngest population and fastest growing populations, which is 96 million and 65% of its people below 30 years of age. The difference between the rich and poor is large with 30% of them living below the poverty line. This wide gulf results in very contrasting food consumptions trends in the Philippines. In general, locally produced products are consumed and low-medium priced imported products are consumed by traditional markets whereas medium-high priced imported products are mainly found in five star hotel restaurants and foreign owned supermarkets in major urban centres such as Manila.

The majority of food consumed by the Filipinos are mainly manufactured by local companies such as San Miguel and RFM Corporation, which produces all major food sectors, such as processed meat products, processed fruit and vegetables products, dairy products and snacks. These manufactured food plus with fresh meat, fruits and vegetables are the typical food for the low-middle class Filipino's, who are the dominant consumer in the Philippines. However, middle-high income earners are demanding for non-traditional and imported foods that are ' ready-to-eat' and in turn for a modernization in the food-retailing sector. This is a good opportunity for our company to venture in the Philippines by exporting our local goods to meet their demands.

According to a company that organizes trade expositions (2012), this year itself the foods and beverages industry is expected to grow around 5% to 10%, stimulated by the demand of healthier foods and beverages. As said by Mildred Caballero (2012), president of Tradecon, " Right now, there is more focus on health food and health-related products. Now, when people buy food, they look for health benefits. That is the strength of the industry right now," in an interview at the fifth annual Philippines International Food and Beverage Expo. Other factors that influence and shape the country's demand for food and beverage products are the Filipino's food-oriented culture that stresses on frequent snacking, the youth oriented food market (35% of the population is below 15 years old), the increasing workforce participation by women and dual income households, which results in greater demand for convenience food that is easy to prepare, and also the western influence on the food and beverage market.

Entry Mode

As consumers in the Philippines are becoming more health conscious, our company could export our local products and increase the range of their organic products. Although countries like United States and New Zealand are the top exporters of packaged foods to the Philippines, there is still opportunity for our company to provide them with healthier packaged food products such as seafood-based, vegetarian, all natural and organic products. It is also expected that more Filipinos are moving to urban areas due to better job opportunities and demand for easy meal preparation packaged food products will definitely increase. Apart from their traditional Filipino dishes being the majority meal solution, there are still opportunities for our local cuisine as the market slowly evolves to globalization. Despite that, we will have to consider factors like affordability due to limited disposable income of most households.

Hotels and Accommodation

The other business that is suitable in the Philippines is the hotel and resort business. As we know that, the hotel industry is related to the tourism industry in one country. Anticipating the tourism industry in the country can bring the answer whether to enter the market of hotel industry in that country is a valid decision.

The tourism industry of Philippines had kept on building up as visitor arrivals from January to September 2012 had reached an amount of 3, 149, 985 for a 9. 08% topping over last year's arrivals of 2, 887, 715 for the same time of the year. Most markets throughout the mentioned period had showed increasing growth rates.

Korea continued as the Philippines's top tourist market with 752, 918 arrivals, for 23. 90% of the total visitor volume, and displaying an expansion of 9. 61%. Korea is followed by the U. S. A., which made up 485, 484 or 15. 41% of the total visitor arrivals. This market increase 4. 01% from the 466, 767 visitors registered for the same time last year. In the meantime, Japan supplied 311, 008 arrivals for 9. 87% share to total visitor volume, increasing the percentage up by 8. 52% from 2011. China positioned at the fourth place with 6. 25% share of the total visitor volume or total visitor arrivals of 196, 926. This market registered total visitor arrivals of 171, 981 versus its double-digit expansion of 14. 50% a year ago. Taiwan is positioned at fifth with 171, 420 arrivals for a 5. 44% share of the total visitor volume. This market expanded by 25. 39% from 136, 713 arrivals registered last year, therefore, setting the uppermost growth rate amongst the top five markets.

After examining the tourism aspect of the Philippines, we also took the business environment of Philippines into consideration. With the lifting of restrictions on the foreign investment law, 100% foreign equity may be approved in all sectors of investment apart from those held in reserve for Filipinos by consent of the Philippine Constitution and existing laws. A foreign corporation has to initially acquire the essential licenses or registrations from the proper government organization. For corporations or partnerships, the required incorporation documents from the Securities and Exchange Commission must be attained.

The government of Philippines appreciates the critical role of private sector investments and, thus, pledges to constantly improve the business environment. Foreign investments are inspired to fulfill capital gaps, assist in provide employment, enhance production, and supply a base for the overall growth of the economy. Investment laws and regulations have therefore been loosened to ease the entry of foreign investments.

Entry Mode

There are a few form of entry that can be considered in entering the hotel industry in Philippines. The form of entry that is deemed suitable is through merger and acquisition. Mergers and acquisitions (M & A) is a common term used to signify the combining of companies. A merger is the merging of two companies to create a new company, whereas an acquisition is the acquirement of a company by another where no new company is established. (Investopedia, 2012) We have chosen this form of entry with valid reasons. Due to the established market in Philippines, it is appropriate to use this form of entry to enter the market. Using M&A also provides a certain advantage that is to minimize the time needed to start the business which includes building a hotel or resort from scratches. The effort of gathering human resources to manage the business is also nullified to the minimum since the basic labor force has already existed and the company only needs to delegate the management sector of the business. Since the hotel industry is a high capital and high risk business, we avoid using the Greenfield form of entry for the risk it imposes.

Currency and the International Monetary Policy

The currency in Philippines is Peso or officially “ piso”. The currency code or an international abbreviation for Peso is PHP and the symbol of it would be “ P” (a line or a double line in the middle of the capital P). The currency rankings show that the most popular Philippines Peso exchange rate is the PHP to USD rate. Peso is divided into 100 centavos (officially centimo). Currently in November 2012, the U. S. dollar is worth about 41 pesos and the Euro about 52 pesos. Current are coins of 1, 5, 10, and 25 centavos and 1 and 5 pesos, and bank notes of 5, 10, 20, 50, 100, 200, 500 and 1000 pesos. Five and ten peso note is no longer printed, but still legal tender. In 1997, all old Philippine currency was replaced by new banknotes and coins. Notes from before 1997 cannot be used anymore. In December 2010, a new series of banknotes was announced. The old notes will remain valid for at least three more years. New coins have been announced for 2012. The Security Plant Complex of the Bangko Sentral ng Pilipinas is where the coins and banknotes are made.

In 2009, the Bangko Sentral ng Pilipinas announced that has launched a massive redesign for current banknotes and coins to further enhance security features and improve durability. Sources from Bangko Sentral ng Pilipinas, the members of the numismatic committee include Bangko Sentral Deputy Governor Diwa Guinigundo and Dr. Ambeth Ocampo Chairman of the National Historical Institute. The new banknote designs feature famous Filipinos and iconic natural wonders. Philippine national symbols will be depicted on coins. The BSP started releasing the initial batch of new banknotes in December 2010 while new coins will be introduced beginning

2012. Current banknotes will remain legal tender for at least three years exactly in December 2013.

Table below is the current exchange rates taken last updated on Tuesday, 6 November 16: 00

Currency

Code

Rate

Rate

pesos / foreign currency

foreign currency / peso

US dollar

USD

41. 251

0. 024242

Euro

EUR

52. 801

0. 018939

Japanese yen

JPY

0. 51463

1. 9431

Australian dollar

AUD

43. 057

0. 023225

Brasilian real

BRL

20. 282

0. 049304

Bulgarian lev

BGN

26. 997

0. 037041

Canadian dollar

CAD

41. 504

0. 024094

Chinese yuan renminbi

CNY

6. 5865

0. 15183

Croatian kuna

HRK

7. 0098

0. 14266

Czech koruna

CZK

2. 0866

0. 47925

Danish krone

DKK

7. 0777

0. 14129

Hong Kong dollar

HKD

5. 3225

0. 18788

Hungarian forint

HUF

0. 18737

5. 3370

Indian rupee

INR

0. 75780

1. 3196

Indonesian rupiah

IDR

0. 0042883

233. 20

Israeli New Shekel

ILS

10. 588

0. 094443

Latvian lats

LVL

75. 831

0. 013187

Lithuanian litas

LTL

15. 292

0. 065393

Malaysian ringgit

MYR

13. 463

0. 074277

Mexican peso

MXN

3. 1699

0. 31546

New Romanian leu

RON

11. 684

0. 085586

New Turkish lira

TRY

23. 218

0. 043069

New Zealand dollar

NZD

34. 173

0. 029263

Norwegian krone

NOK

7. 2113

0. 13867

Polish zloty

PLN

12. 813

0. 078048

Pound sterling

GBP

65. 923

0. 015169

Russian rouble

RUB

1. 3100

0. 76335

Singapore dollar

SGD

33. 715

0. 029660

South African rand

ZAR

4. 7359

0. 21115

South Korean won

KRW

0. 037819

26. 442

Swedish krona

SEK

6. 1596

0. 16235

Swiss franc

CHF

43. 728

0. 022869

Thai baht

THB

1. 3410

0. 74569

The Philippines has used the floating exchange rate system for many years. As a result, it was not one of the Asian Tigers that thrived under fixed exchange rates. When the tiger economies moved to the floating exchange rate system, their economies collapsed in what is was called the Asian Financial Crisis in 1997.

In recent years, the Philippines have moved away from a strict application of the floating exchange rate system (Central Bank's description of policy). Philippine banks are allowed to purchase foreign currency for their own accounts, following the Central Bank's guidelines. These guidelines require depository banks to maintain 100% cover for their foreign currency liabilities (except for US dollar denominated repurchase agreements with the Central Bank- Section 73). In addition, the Central Bank admits that it intervenes in the market to stabilize the currency and ensure the competitiveness of Philippine products.

From the official foreign reserves, the Philippines now build up official foreign reserves and since 2003 has had current account surpluses. Its foreign investments have increased from the equivalent of 2. 6 months imports in 1995 to the equivalent of more than 9 months imports in 2009. It appears to be stabilizing the exchange rate and raising its foreign reserves. This movement away from the strict application of Friedman's floating exchange rate system is injecting new money into the Philippine economy, thereby stimulating economic growth, which reached 8% in real terms in 2007. At the same time, it is improving the external balance of payments position of its economy.

In addition, it is contributing to the economic growth of the Philippines. The graph below shows the growth imports and exports in the Philippines. The global financial crisis has reduced exports in 2008 and 2009 and reduced imports in 2009.

http://www. buoyanteconomies. com/Philip1. gif

Exports and Imports in current dollar terms (source Central Bank of the Philippines)

Even so, further reform to monetary policy of the Philippines could see that economy grow more rapidly to utilize the existing high level of unemployed resources while maintaining balance of payments stability.