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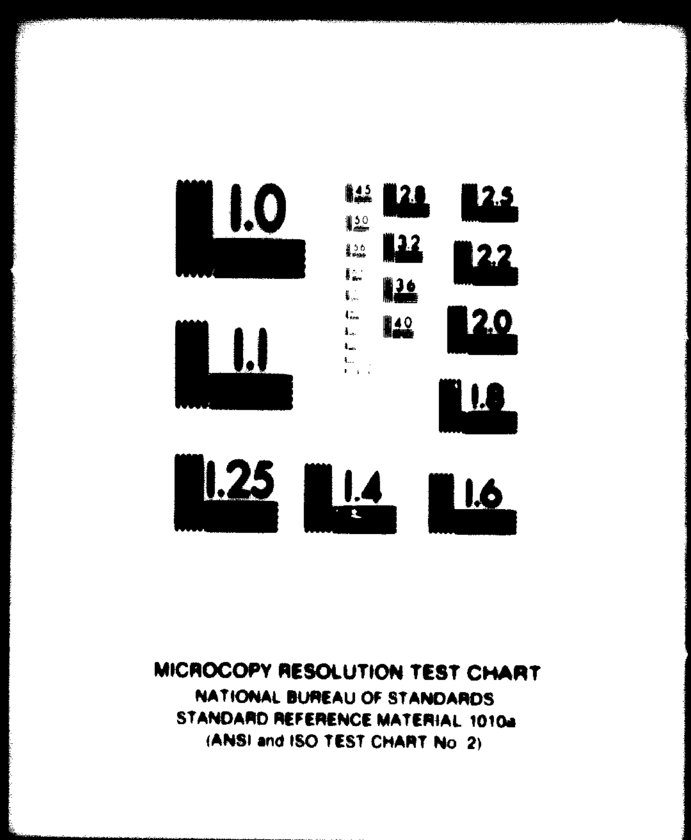
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PROJECT PHI-141-D (SIS)

3372

Final report on a study of product adaptation requirements for selected Philippine export products in the E.E.C. and the U.K.

D. MOORE

MANILA (December 1971)

This report has not been cleared with UNIDO, which does not therefore necessarily share the views expressed.

Not includes here (still being typed)

Also not included: Manual on how to do business in Europe (being typed in Philippines)

CONTENTS

Appendices

1. <u>CONCLUSIONS AND RECOMMENDATIONS</u>

Specific product changes have been discussed with the exporters participating in this exercise. The conclusions and recommendations below draw attention to necessary action required by both the public and private sector to continue the work started by the exercise. Recommendations for further technical assistance are also given.

It must be recognized that these recommendations indicate only what the writer considers to be <u>minimum</u> action. It needs little imagination to expand these recommendations into a very comprehensive export strategy.

<u>PUBLIC SECTOR</u>

1. Product adaptation is a continuous process of change in response to market requirements. An exercise like the current assignment can only signpost the way, and in very general terms. Exporters can be helped by continuous feed back from overseas of <u>market</u> information, and by management <u>support</u> services in the Philippines. This assignment has indicated that while such a mechanism exists in theory, there is evidence that the real needs of exporters have been only

imperfectly recognized and that thus institutional support is not particularly problem-oriented.

2. Exporters complain that "market opportunities" supplied by overseas commercial attaches do not reach them, or arrive too late. More relevant to the present assignment, however, is that the market information is supplied in very general terms, and seldom indicates product adaptation measures required to make products more saleable. This problem is exarcerbated by the fact that there is very little "feed back" <u>from</u> the exporter <u>to</u> the commercial attaché. In addition, commercial attachés are insufficiently briefed about Philippine manufacturers' export <u>potential</u> (a problem which will only be partly overcome by the excellent BOI Exports Directory, just published).

3. Management support services provided through the consultancy section of the BOI's Institute of Export Development do not always seem to stem from identified problems of exporters, while their seminars [illegible] level of knowledge in those attending which almost certainly does not exist. Thus this type of "support"service tends to be

theoretical rather than practical and problem-oriented. For example, a common "product change" required is to reduce the export price of a product. It is not however, sufficient to give seminars on marginal cost pricing to businessmen who are not experienced enough to make the necessary judgments concerning what are truly fixed and variable items in their expense budgets - even if these are in fact itemised in sufficient detail, which is seldom the case.

Insofar as they concern the public sector, therefore, the writer's recommendations are as follows: -

(i) Commercial attachés overseas must be thoroughly briefed on the capacity and capability of Philippine exporters. They cannot carry out their promotional and informational responsibilities without this knowledge which could perhaps be based on the questionnaires attached as an appendix to this report.

(ii) Before feeding back "market opportunities" to the Philippines, commercial attachés should visit the importer concerned, together with his comprehensive briefing on Philippine exportable products, and check whether any product or price changes may be necessary. These visits could also serve as a check on the viability of the importer and his real degree of interest. Thus commercial attachés could meet the common and often unsubstantiated charge that they supply inappropriate opportunities from unimportant importers.

(iii) Exporters who supply comprehensive information to commercial attachés should be informed by DCI of any changes in names and addresses, to ensure that correspondence reaches the right person. Letters addressed to "The Commercial Attaché" may go unopened if the officer is on leave or the post temporarily unfilled for any other reason.

(iv) Quick supply of information from the field is vital to product adaptation, and it is recommended that a mechanism is created to ensure this can be done, either through DCI or another "central" clearing house. Commercial attachés could perhaps be given discretion to feed back information direct to particular exporters if they feel this is warranted, with copies of action taken to DCI. In this connection, reasonable allowance should be made to commercial attachés for cables, telex and other urgent communications.

(v) It is recommended that properly screened export opportunities and product adaptation information reaches exporters from one "central" source, and not several, as at present. Otherwise confusion is inevitable as well as costly and unnecessary duplication of funds and resources. The writer is not prepared to prejudge where this central clearing house should be located; there are advantages and drawbacks about using TCI or DCI (to name only two official bodies carrying out dissemination functions at present - there are several others).

(vi) The TCI has a heavy responsibility for helping to ensure that product adaptation changes of any kind are implemented by Philippine exporters, specifically

- in training courses given by the Institute of Export Development, the relationship between fob, cif, duty-paid cif and retail prices must be clearly explained in very basic terms. Many "exporters" are not aware how uncompetitive their products can become after incurring high distribution costs in the target market.

- a similar "basic" approach should be adopted in explaining export procedures - seminars appear to assume much too high a level of sophistication in those attending - who may not be motivated by anything more than a desire to acquire a certificate of attendance.
- consultancy services should concentrate on "in-plant" advice, and should be geared to specific cases. As an example, advice on "marginal cost-pricing" is potentially disastrous unless the nature of the particular business is properly understood. This can mean sitting down with accountants and managers in the plant concerned and examining with them the possible response of each expense item to volume changes in their particular case. More generally, there appears to be little awareness among the export community of the relationship between export success and overall business efficiency, and BOI consultants must get involved at plant level in production, stock and quality control problems, production planning and development, labour productivity, value analysis machine loading, purchasing policy and in fact all the "decision-making areas" which eventually result at the end of

the pipe-line, a good quality, [illegible] priced, competitive export product.

- if these in-depth services cannot be provided by DOI, they could perhaps draw up a register of approved consultants who can carry out such work, and if possible consider subsidising it.
- similarly, the DOI's industry/product "specialists" must also be ready to offer in-plant advice on product changes (design, specification, tooling, production, value analysis, etc.) and associated costing. Again, private consultants might be recommended if DOI cannot personally perform these tasks.
- In as much as commercial attachés should be expected to keep in close and continuing contact with potential importers, the DOI should perform the same function vis-a-vis exporters, and should help to ensure that product adaptation changes and market opportunities are implemented appropriately in the Philippines. This presupposes the closest possible liaison between DFA and DOI which, for a variety of reasons, does not exist in as perfect form as it should.

Unless the DOI can offer a problem-oriented export support services, its Institute of Export Development, which at present enjoys a considerable reputation among exporters, begin to lose its credibility.

(vii) The gaps indicated in the Philippines export promotion policy, strategy and institutional support by this assignment underline the urgent need to implement U.N. Special Fund project PHI-39 without further delay.

PRIVATE SECTOR

1. Exporters do not appear to realise
   - the importance of quick response to genuine export inquiries
   - the need to hold prices reasonably firm
   - the importance of "penetration" or marginal pricing for new export markets (particularly Europe)
   - the desire of most importers to have cif quotations (because that is what duty is paid on)
   - the relationship between fob and eventual retail prices
   - the need to implicate their whole business, and not just the export marketing department in producing a competitive and acceptable product.
2. Exporters too readily blame commercial attachés for avoidable faults. Exporters could help overseas staff do their job more effectively by briefing them fully on their products, capacity and capability, by informing them of the development of business with particular importers, and by ensuring that inquiries to commercial attachés are sent to the right person at the right address (by checking with

DCI for [illegible])

3. Correspondence [illegible] agents is not a substitute for [illegible] visits, for a variety of reasons. Neither is init[illegible] contact of the kind established in this assignment any substitute for close personal attention by Philippine suppliers to importer needs.

4. In some industries, much closer cooperation is required by different companies in bringing about a general increase in business. There is little sense in promulgating competition in overseas markets if the result is depressed prices (and possibly lower quality products) for all. Handicraft "industries" are particularly susceptible to this result, and a greater degree of voluntary coordination and restraint will be necessary in promotional efforts.

In other industries, more control is needed over the price of raw material [illegible]. Clothing is an example where complaints are heard about frequent price changes of fabrics and threads from domestic supplier[illegible] If clothing imports are not to suffer, the whole textile industry must try to integrate its activities more closely.

5. A common problem is high shipping costs. Cooperative effort by the export community could present a common front to the Conference, and may help to economize on freight costs and speed deliveries.

Without waiting for government action, therefore there is much that the private sector can do to improve its competitiveness. In particular, it should be more clearly recognized that the advantages given by export incentives act will not be earned without considerable effort on their own part. Government can only assist and advise - their help cannot substitute for a real effort by businessmen.

Thus the writer recommends the following action by private companies:

(i) Genuine inquiries must be followed by quick, courteous, appropriate response, with copies of any correspondence to commercial attachés if local follow up work is required.

(ii) Frequent changes in price are irritating to importers and should be avoided.

(iii) Prospective exporters must examine their costing procedures very closely to assess the possibility of price reduction if they are to hope to penetrate new markets and achieve volume sales. In particular, they should recognize that what they consider to be a "competitive" export price in fob terms will be between 3½ to 5 times this price by the time it reaches the final European customer.

(iv) Price quotations, if required in cif terms, must be so supplied, and it has been ascertained there is no local problem in the Philippines in quoting on a cif basis.

(v) Business efficiency is a necessary pre-condition to export success, not the other way around. Before taking a decision to commit capacity to export, managements must ensure that all aspects of business (financial, purchasing, production sales, etc.) are operating at maximum productivity. Having then taken the decision to commit capacity to export, they should stick to this decision, and not fall into the trap of using such resources to supply a temporary upsurge in home demand. It is far easier to retain house business in the face of temporary problems than to sustain exports!

(vi) If they want support and help from commercial attachés, exporters must brief them fully on their products, prices, capacity and capabilities, at least providing the basic type of information supplied to us in this assignment (see Appendix)
They must also ensure their communications get to the right person in the commercial section

(vii) Serious commitment to an export market implies acquiring a perfect knowledge of that market, in terms of product requirements and market conditions. There is only one sure way to know these, and that is to visit the market. Exporters intending to supply Europe should take particular note of this, as products acceptable to Philippine customers and in traditional export markets (e.g. U.S.A.) are seldom suitable for Europe.

(viii) Industry-wide action is required to

- voluntarily control prices and quality of exported products
- ensure the supply and competitiveness of essential inputs
- contain and check the apparently inevitable rise in shipping costs - perhaps by the formation of a "Shippers Council" which can present a common front against the Conference.

TECHNICAL ASSISTANCE

1. For purely "product adaptation" purposes, this type of assignment can achieve only a limited impact due to its ephemeral nature. Proper product development and costing requires concentrat[illegible] over a long period, and this type of technical assistance is better provided by product specialists armed with market knowledge.

The writer therefore recommends that technical assistance of this type envisage further follow up by product specialists recruited if possible from the target market area. In his opinion, such specialists would be extremely useful in helping the <u>clothing</u> and <u>footwear</u> industries to develop and adapt their products to market requirements.

2. However, such work requires lengthy in-plant advice, and in view of the depth required could probably only be given to a few selected companies, thus opening a possible charge of discrimination from companies not so "favoured". Careful preparatory work must therefore be done by the government, in consultation with the private sector, to ensure that such assistance has maximum impact.

3. An alternative to "in-plant advice" could be travel fellowships for selected private sector businessmen, but this is in the writer's opinion an imperfect substitute, because of the [illegible] for involvement of personnel from <u>all</u> aspects of the business in product adaptation work. The experts recruited must also get closely involved in the practical plant problems associated with product development.

3. In the field of general export promotion policy and strategy, the urgent need for rapid implementation of Special Fund project PHI-3? became very clear from this assignment. At present institutional support for increasing exports is one-sided and incomplete, the only apparent coherent and regular support being through the export incentives legislation. Many specific problems have been identified from t... assignment which could help to point up the work of this project, and it is long overdue. These problems have been discussed with DOI and UNDP, and the writer will be happy to discuss them further with the International Trade Centre, DOI and other involved bodies. They are not however strictly within the terms of reference of the present assignment.

C. <u>TERMS OF REFERENCE</u>

The original terms of reference for this assignment are embodied in the request from the Government of the Philippines to UNIDO dated 1[illegible] January 1970 for the services of a market analyst to carry out the following duties:

1. assist, in cooperation with experts on the project, in the identification and promotion of viable manufacturing industries capable of exporting to the European Economic Community (EEC) countries through price cost analysis of specific Philippine products which might be introduced into the EEC market;
2. visit during a three-month period the six member countries of the EEC in order to review Common Market imports, and identify those products suitable for the export-oriented industries of the Philippines;
3. list prices and quality requirements and identify prospective importers; determine all costs applied to EEC imports including tariffs, brokerage fees, distribution costs and, in particular, shipping costs, and formulate suggestions for their eventual reduction;
4. compare information (sic) during a six-month period spent in the Philippines, the countries' export potential with the information collected during his investigation in the Common Market;
5. prepare a list of products, with the required prices and quality against present cost and quality;

6. recommend adaptation in quality and cost;
7. revise present export incentives and formulate recommendations;
8. select promising export-oriented industries for inclusion in the Board of Investment's Industrial Promotion Plan;
9. prepare [illegible] EEC Trade Manual covering all relevant information for use of Philippine exporters in the Common Market, such as customs and trade tariffs, lists of importers and dealers, import regulations, etc.

These duties were based on an original request dating from [illegible] April 196[illegible], and at the time the request was formulated envisaged a nine month tour of duty of which three months would be spent in the Philippines.

In a letter to Mr. [illegible]. Harding, (attention Mr. William R. Jones) dated February 1[illegible]th 1971, however, Mr. Mario G. [illegible], Director of the Exports Department of the Board of Investments (the expert's counterpart institution) stated that

> "We would now prefer a more practical oriented marketing programme . . . We are therefore attaching a copy of our revised program which in general calls for a two-month orientation stay in the Philippines to be followed by a five-month promotional and research activity in the EEC countries, and culminated by a two-month stay in the Philippines for purposes of finalizing a working document on how to effectively export in Europe, and meeting with domestic exporters".

The "revised program" referred to above was set out as follows:

I. <u>Objective</u>

Effective promotion of selected exportable manufactured products in EEC and EFTA countries, through

1) actual promotion of the exportable products, and

2) development of a comprehensive and integrated program covering the institutional, organizational, technical and personnel requirements for a successful marketing of Philippine products.

The program is in three (3) phases totaling a period of nine (9) months.

Phase I (two months duration) is basically a period of initial spadework in the Philippines, which is necessary in order to be able to formulate a work program for the second and third phases.

Phase II (five months duration) is a promotional and research involvement of the marketing consultant in Europe.

Phase III (two months duration) is a period of the finalizing the export guidelines, and of disseminating and explaining the guidelines to domestic exporters.

<u>PHASE I (2 months)</u>

1) Familiarization with Philippine institutional set ups on:

a) Export Trade & Industry

b) Export Mechanism

c) Export incentives both technical and financial

d) Investment policy as regards export industries

2) Collection of information about Philippine products

a) Product Selection

b) Analysis of Supply

c) Production Costing

d) Local Consumption/Demand

e) Forecasts

PHASE II (5 months)

1. Collection of information about EEC and EFTA trade on products selected.

a) Biggest Importers/Sources

b) Biggest Exporters/Destinations

c) Growth Indices

2. Basic papers on the EEC and EFTA

a) Macro-Economics Data

b) Analysis of supply structure in these regions of the selected products (production, imports, exports agreements, consumption, growth indices)

c) Analysis of demand structure in these regions of the selected products (sector's consuming products, growth forecasts)

d) Information on prices (commercial, retail, mark ups, etc.)

e) Information on market access conditions (customs, internal taxes and charges, non-tariff restrictions, trade agreements, channels of distribution, trade policy)

f) List of useful addresses (importers, agents, dealers, professional associations, etc.)

3. Actual promotion of selected products

a) Contacting federations of importers

b) Setting up preliminary arrangements for meetings between Philippine exporters and groups of European importers

c) Disseminating information of products exportable

PHASE III ([illegible] months)

1) Preparation of a directory of Philippine exports

2) Preparation of brochures on "Doing Business in Europe" or "How to Export to Europe".

3) Preparation of study on a systematic way of attracting investors from the EEC/EFTA

4) Inquiry into the possibility of International Cooperative Trade between the Philippines and EEC/EFTA countries.

5) Meetings with Philippine exporters.

A further possible programme was suggested by Mr. A. Hone of the International Trade Centre to Mr. Alinea in a letter dated February 20th. He proposed a <u>four-month</u> programme as follows:

MODIFIED PROGRAMME

FOR UNDP MARKETING CONSULTANT

I. A. **Objectives**

Effective promotion of selected new and manufactured exports to E.E.C. and E.F.T.A. markets.

1) Promotion of selected products
2) Assistance to COI in preparation of country studies
3) Follow-up with Filipino exporters

Location	Timing	
Philippines	Phase I	1 month
	Preparation	14/4/71 - 14/5/71
E.E.C. and E.F.T.A.	Phase II	[illegible] months
Countries	Promotion	1/[illegible]/71 - 1/11/71
Philippines	Phase III	1 month
	Follow-up	1/11/71 - [illegible]

II. **Implementation**

Phase I April 14th - May 14th

1) Selection of Products
2) Contacting quality exporters
3) Arranging for sample shipments
4) Briefing COI staff on preparation of country studies to be based on literature and documentation to be pouched from Europe by the consultant

Phase II

1) Purchase and transmission of statistics, trade press and other essential marketing information to COI
2) Provision of price, quality, and delivery conditions

3) Provision of tariff quota and other non-tariff barriers information.

4) Promotion of selected products to European buyers and importers
(It is estimated that 75% of the consultant's time will be devoted to 4).

Phase III

1) Follow-up with Filipino exporters providing samples to the programme.

2) Advising the BOI on market opportunities

3) Preparation of short handbook: - "Doing Business with E.E.C. and E.F.T.A."

This somewhat confused situation was further complicated when it became clear that the writer of this report could not be available for more than 6 months, although it was agreed in Vienna during initial briefing in June 1971 that the assignment could in fact be completed in 6 months, concentrating on "product adaptation" work and minimizing sales promotion aspects. (While at a "re-briefing" meeting in Vienna in November 1971, it was suggested that the only valid terms of reference were the original ones of April 1969).

UNIDO are at pains to disclaim any substantive competence in export promotion, which falls within the field of technical assistance provided by the UNCTAD/GATT International Trade Centre, and requested that any purely promotional work should be secondary to the main purpose of the assignment.

The expert attempted to resolve the real purpose and terms of reference of the project again on arrival in Manila in June 1971 in consultation with the Board of Investments, as a result of which he drew up his initial report entitled "Introductory Report and Proposed Work Programme" (30 June 1971)

This was submitted to UNIDO for comment, but none has been forthcoming. The programme was agreed by BOI, and has formed the basis of the expert's work. This report and the accompanying manual are however largely based on the "Revised Program" of 16th February 1971, but reduced to 6 months rather than [illegible] months duration. The main differences between the expert's present assignment and the "revised program" are:

- Except for UK, EFTA countries have been excluded from investigation.
- The time table has been as outlined in the writer's preliminary report.
- Stress has been on meeting importers and collecting information for selected exporters on product changes rather than general information on economic data, tariffs, etc., which are readily obtainable through commercial attachés.
- The publication of a Philippine Exports Directory by the BOI and the UNIDO study on sub-contract work made these aspects of the work redundant, and they have been dropped.
- Where relevant published information already exists and is available at the BOI (e.g., ITC market surveys and other documents) such information is not reproduced in this report or the accompanying manual, although it is referred to where appropriate in footnotes.

In particular, however, while asked to give comments and advice on the content and structure of a comprehensive U.N.D.P. 5 year Special Fund project (PHI-3?), the expert has withheld comments on any institutional aspects of export promotion in this report. Such an attempt would be presumptuous without a very detailed study of the existing institutions, a depth review of export problems, and the development of workable solutions. In the writer's view, this cannot be accomplished in six months. Thus the writer has specifically refrained from commenting on such factors as

"revise present export incentives and formulate recommendations" (original terms of reference item 7)

"select promising export-oriented industries for inclusion in the Board of Investment's Industrial Promotion Plan (ditto, item 8)

"development of comprehensive and integrated program covering the institutional, organizational, technical and personnel requirements for successful marketing of Philippine products" (revised programme I (2))

"preparation of study on a systematic way of attracting investors from EEC/EFTA " (revised programme III (3))

"inquiry into the possibility of international co-operative trade between the Philippines and EEC/EFTA countries (ditto III (4))

The thrust of the present assignment is therefore seen by the writer to give practical advice to exporters of particular products on specific and identified [redacted] product problems associated with selling in the EEC and the UK. He feels this aim has been accomplished and useful work done.

3. INTRODUCTION

This assignment has now been completed in accordance broadly with the writer's original report [1], although with some small modifications as indicated in the current report. The provisional programme was followed with only insignificant changes, and these are not described in this report, although a complete list of contacts made is given as Appendix 1.

During the whole assignment, the expert was accompanied and greatly assisted by a BOI officer, Mr. Antonio C. Toledo, who has now acquired considerable practical experience in both export promotion and product adaptation. After initial training, he conducted several visits by himself, although the majority of visits to prospective customers were made jointly by Mr. Toledo and the writer. He has also contributed the sections on footwear and wigs in this report.

Grateful acknowledgments are made to the support given by the Chairman and staff of the Board of Investments, more particularly by the Director of the Exports Department, Mr. Mario G. Alinea, and Mr. P. Merecdo and his able colleagues of the BOI's Institute of Export Development. Their help was invaluable in the first and third phases of the assignment, and they have also ensured that information from the market quickly reached exporters in the Philippines.

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(1) "Introductory Report and Proposed Work Programme" (Manila 30 June 1971)

Thanks are also extended to Commercial Attachés and their staff at Philippine Embassies in Europe, who despite daunting difficulties and limited financial and information resources, gave of their best in arranging appointments with appropriate importers. It is to be hoped that the close co-ordination and co-operation thus shown between the two main government institutions in export promotion work (DOI and DCI) can be maintained for the benefit of the Philippine export sector and therefore to the economy as a whole.

Products Studied

Specific products introduced to buyers in the UK and EEC were:

Plywood and blockboard, including pre-finished
Facing veneers
Men's underwear and pajamas
Children's and babies' clothing
Canvas and rubber sports footwear
Synthetic fibre wigs
Rum
Cigars
Handicraft items: handwoven fabrics
abaca place and floor mats
shellcraft (placemats, flower arrangements, decorative items, etc)
monkey pod wooden wares (salad bowls, spoons, forks, etc. including shell-inlaid products)
inlaid wooden trays
Electronic components (memory cores and silicon planar transistors)
Marble blocks, slabs tiles and ash trays

Commercial attachés have also been supplied with samples of timber furniture components with instructions to contact large furniture manufacturers who may wish to sub-contract the making of such parts to the Philippines. Time limitations precluded direct contact with such manufacturers.

Markets visited

The markets visited were the U.K., and all EEC countries except Luxembourg. The timetable was in accordance with the provisional programme as set out in the writer's earlier report[1], with the minor modification that a further week was spent in W. Germany at the expense of a second week in Italy.

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(1) "Introductory Report and Proposed Work Programme", (Manila 30 June 1971)

4. METHOD

The method used to the assignment was as follows:

Stage 1

Following general identification of products to be investigated with TOI, group discussions were held with interested exporters. At these discussions, it was made clear that the assignment would only benefit those exporters who were seriously interested in the European market, who were prepared to allocate capacity specifically to that market (and would not simply treat it as an outlet to be used only when other markets proved difficult), who had developed a satisfactory degree of quality control, who were prepared immediately to respond to genuine inquiries, and who were prepared to adapt their product in any way (physical, packaging, pricing) where market exigencies warranted such changes and if they could be implemented economically. Further, the companies who were interested in such product adaptation, sales promotion methods were asked to ship samples at their own expense to Europe to be presented to European buyers for critical comment (see attached copy letter as Appendix 2 to interested exporters).

Exporters who could satisfy these requirements and were still interested were further required to complete very full questionnaires to their company, its products (see Appendix 3) and its plant, and to supply further details if required, particularly detailed price lists. It was indicated that unless such details could be provided, products could be dropped from the assignment.

Following these group discussions, individual plant visits were made by the expert and his counterpart to every exporter expressing interest.

This initial screening was therefore very exhaustive. It was considered necessary to be so, to ensure that interest and capability were really genuine, and that therefore effort overseas was not wasted. To introduce products to overseas buyers, arouse their interest and then find unenthusiastic or nil response from the supplier is not only discouraging, it achieves more harm than good in that it damages the reputation of the whole of the Philippine export sector as a source of supply.

In addition, of course, overseas work is more effective to the extent that the investigators have a thorough knowledge of the product and the export organisation.

During this stage [illegible] individual plant visits were made (sometimes more than once) in addition to group discussions, and more or less full details and samples were eventually received in Europe from [illegible] exporters.

Stage 2

Stage 2 concentrated on identifying, visiting and presenting samples to major importers and users of the selected products. Some basic statistical and tariff information was also collected at the ITC, but this was not basically connected with market research.

It had been hoped that the ITC could set up a visiting programme in Europe, but this did not prove possible, and heavy reliance had to be placed on Philippine overseas commercial staff to provide office facilities and set up appointments. This inevitably resulted in a slow start-up in field visiting, which was further aggravated in the UK by delays in customs clearance of samples from Heathrow Airport. (There are other apparent problems faced by DCI staff overseas which are commented on elsewhere, both because they are relevant to work such as this, and because they are highly relevant to the UNDP Special Fund project on export promotion, shortly to start up in the Philippines).

Buyers were asked to comment critically on samples shown, and also to indicate their interest if the samples needed no product adaptation to immediate interest. Information requiring immediate action by exporters (particularly genuine purchase inquiries) was immediately transmitted to the Philippines, either direct to the individual exporter or through the DCI. In some cases, samples were obtained from interested buyers in Europe where they felt Philippine producers could make the different styles required. These were also sent back direct to the Philippines with requests for appropriate action.

"Questionnaires" were also completed in respect of importers, but usually by the interviewer after the meeting for obvious reasons. An example is attached as (Appendix 2). This questionnaire is largely self-explanatory, but we were particularly interested in the viability of the potential buyer, the seriousness of his interest, his views on product changes, and the factors which influenced <u>his</u> decision to buy. The last could be matched against <u>exporters</u> views on the same factors, and guidance thereby given on any necessary change in marketing methods which could make their products more acceptable. A supply of such questionnaires was also left with commercial attachés to enable them to formalise future reports on prospective importers.

In each country, commercial attachés/analysts accompanied the expert/counterpart on some visits, and were briefed on all visits made before departure. They were also left with samples, specifications and prices to continue any promotional work initiated by the country survey, and will maintain contact with interested importers to ensure the exercise is a continuing one, and not just a once-for-all effort.

Stage 3

On return to the Philippines, after a brief verbal report to BOI, individual meetings were immediately held with participating exporters to acquaint them of the results, and to indicate necessary product changes. (These meetings will be followed by continuous contact by BOI staff to ensure that the necessary action is procured).

Despite the exhaustive screening referred to under Stage 1, response by some participating exporters has undoubtedly been disappointing, and some harm may have been done by such inappropriate response as sending price quotations to interested importers which were higher than those given to the expert before departure, by unwillingness to quote cif prices, by claims of "other commitments" (inexcusable in a genuine exporter) and by sheer failure to respond to very genuine and substantial inquiries. This "gap" between intention and action stresses the need for constant persuasion and cajoling by government institutions, including the BOI.

After discussion with exporters, it has become very clear that few of them know about such basic procedures as export pricing, shipping and payment terms, while there is little appreciation that fob prices bear little relation to eventual retail prices. Some of the recommendations made in the report arise because perhaps too much knowledge is presumed to have been already acquired by exporters making use of consultancy services and seminars offered by the [illegible] or other institutions. There is also virtually no appreciation by prospective exporters that all-round business efficiency of the highest possible standard is a pre-condition to successful exporting rather than following automatically from it.

The present report concentrates on necessary product changes indicated by buyers visited during the European survey. Many buyers expressed immediate interest in contacting relevant exporters without requiring any product changes whatever. These opportunities have been transferred to interested exporters, and are not discussed further in this report.

In addition, inquiries were made about sources of supply of some Philippine products not included in the present survey. These inquiries were also passed back quickly to the Philippines, and are also not referred to again in this report.

5. SPECIFIC MARKETS AND PRODUCTS: PROSPECTS AND NECESSARY CHANGES

Introduction

In several cases, changes are needed for all countries investigated, but generally this section deals, product by product, with general market prospects and necessary product changes on a country by country basis. No attempt was made to do a thorough market survey as this is outside UNIDO's field of competence, but an indication of import market size, where available from published sources, is provided in Appendix 5 (Appendix 6 gives current and proposed import tariffs in the European markets studied).

5.1 PLYWOOD

Two companies participated in this project, namely Sta. Clara Lumber Co. and Findlay Miller (Island Woods). The first wanted information and markets on standard luan plywood and blockboard; the second on prefinished plywood and standard blockboard.

There are adequate market surveys available which describe the market size, distribution channels and types required in great detail, and this report makes no attempt to duplicate this information[1]. So far as general sales prospects are concerned, these are good for standard plywood and blockboard in nearly every European market investigated, but poor for pre-finished plywood in its present form.

Where actual opportunities to conclude business were unearthed, these were dispatched immediately to exporters during the survey, and are not reproduced here.

The remainder of this section deals in brief note form with necessary product/price/distribution adaptations which are felt to be necessary

(a) to satisfy the requirements of all the markets studied

(b) to satisfy requirements of particular markets

(a) All markets (U.K. and E.E.C.)

Common to all markets, and all products in this group were the following:

(1) Published by the International Trade Centre, available at the Institute of Export Development, Board of Investments.

- prices must be quoted c.i.f. or c.a.f., not f.o.b. This is critical. It is also helpful to quote prices in the currency of the market concerned, and not in US dollars. This is particularly true of France.
- even in the U.K., prices are increasingly quoted in sq. or cu. metres, and the practice is universal in the Common Market. Quotations in "thousands of sq. feet" demand laborious and time-consuming conversions by Europeans, and can be avoided by suppliers quoting correctly.
- regularity and reliability of shipments are critical factors mentioned by nearly every customer in this product group. Long quoted delivery dates are acceptable provided shipment is reliable.
- suppliers of both pre-finished and standard plywood <u>must</u> provide products in acceptable thicknesses. Fractions of inches are acceptable in the U.K., but even in this country - and certainly throughout the Common Market, thicknesses are quoted in mm. 4,5,6,9,12,15,18 or 19,22 and 25 mm thicknesses are standard and <u>all</u> should be offered. In blockboard, the most common thicknesses are 16, 22 and 25 mm., but 12 and 16 mm should also be offered. Thicknesses such as 3.6 mm and 5.5 mm., given by both Sta. Clara and Island Woods, are unknown in Europe and produced ribald comment.

- Philippine grading standards, quoted without explanation, are also largely meaningless to European buyers. There were no unfavorable comments on the quality of samples supplied by either company, but any quotations sent to European customers must describe the specifications of materials in full, including an indication of the adhesive used.
- Every importing country in Europe claims its quality requirement standards are higher than any other country. This is largely wishful thinking but there does appear to be a general opinion consensus that European quality standards are generally higher than in the United States. In this connection the ITC survey on the UK market should be consulted (1). UK standards, which are high, are similar to those on the Continent and are certainly acceptable there.
- In the case of pre-finished plywood, the designs and groove configurations are not generally suitable for European taste except at the "economy" end of the market. There is much more common consensus about the "right" design throughout the markets investigated than each one would like to think and companies like I.M. should not be misled into believing importers' statements that "what sells in France will not sell in Germany". Common recommendations in all countries visited were:

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(1) The Market for Veneer and Plywood in the United Kingdom, Geneva January 1971

- a more colourful range of finishes should be offered, preferably after a study of what is made available on the market from Japan and Korea. Current preferences appear to veer towards brighter colours
- groove configuration should be a narrow, shallow V or channel shape, and in light or natural, not dark colours. (In this respect European requirements are quite different from U.S. needs). The groove configurations and colours of the samples supplied by Island Woods are largely unsaleable in Europe except at the cheap end of the market or as job lots.

- Also in pre-finished plywood, there is a need to offer parcels of smaller quantities of panels to importers or agents. This applies throughout Europe, and the reason is simple: unlike the United States, each individual European market is a very much smaller market unit, and even sole importers having exclusivity for an entire country do not want to be committed to large quantities of a "semi-fashionable" product. Consignments of 500 panels, rather than the minimum of 2,000 panels requested by Island Woods, are regarded as more realistic even by large importers, and consideration should also be given to smaller "unit" parcels. (Some Japanese and Belgian suppliers provide packets of 6 identical panels) This is to satisfy requirements of importers who do not want to break bulk before distributing parcels to merchants and users.

(b) Adaptation to specific market requirements.

(i) United Kingdom.

There is a particularly buoyant demand for blockboard at present. This is due to a shortage of local production of blockboard and substitutes such as particle board, and the growing reluctance of Malaysian and other sources to supply blockboard separately from plywood. Plywood is itself in moderate demand, and there may be better prospects for prefinished plywood in this market than elsewhere in Europe. The UK has always been the largest single European market for plywood, and the GSP concessions to be implemented in January 1972, while small in terms of quota size, will tend to reduce Malaysia's competitiveness (at present equal to a 10% price advantage) as Commonwealth Preference disappears on the quota allowance.

While a small percentage of business will always be done "direct", it is estimated that 80% of import trade in plywood is through the chain agent - importer - merchant/user. It is not normal for a supplier to be represented by more than one agent, and while Philippine suppliers could "experiment" for a limited period, they are strongly recommended to adhere to the traditional pattern and eventually to make exclusive arrangements with one agent. This then guards against unnecessary and wasteful competition, and protects both buyer and seller. The agents also finance importers and distributors (working capital is always notoriously short in the building materials industry), and will arrange prompt payment to the supplier by irrevocable l.c. The generaly accepted agent's commission is 4% on the cif value. Formal agency "agreements" are rare; they are on the basis of trust which if broken could be disastrous for the supplier.

There are little basic differences required to Philippine plywood presented other than those which apply to the entire European market (see above). Some companies have requested smaller parcel sizes than those offered by Philippine exporters, but this will have no significant effect on offtake.

There is however said to be a substantial demand for 3.2 mm. plywood for doors, with a relatively smaller demand for 3 and 4 mm. thicknesses. Dimensions must be offered as follows: -

ins	
78 x 30	(usually with ¼ " overlap all round)
78 x 32	
80 x 32	
96 x 48	
84 x 48	
72 x 48	

Prices must however be very competitive, quoted cif at approximately £17 to £18 per 1,000 sq. ft. ($42 to $45), compared with quoted Sta. Clara prices for $55.75 per

1,000 sq. ft. for (3.6 mm.) C' grade interior plywood. The writer doubts whether the market for any one dimension is large enough to make this type of proposition economic.

(ii) <u>European Common Market: General</u>

Demand for imported plywood in EEC countries is less buoyant than in the UK, due to the availability of much greater local production capacity. In addition, Philippine exporters are at a disadvantage compared with ex-French territories (particularly in West Africa) by virtue of discriminatory tariffs against non-EEC members or associates[1]. Price offers must be particularly keen, reinforced by the problem of overcoming resistance to a relatively new source of supply of an unfamiliar species in sizes which are not in standard use on the Continent (as they are in the UK). Despite these drawbacks, interest is lively in the Philippines as a source of supply, principally of standard plywood (less so for blockboard and prefinished panels), and particularly in West Germany and Holland. French importers and agents are also interested in details on additional supply sources.

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(1) The common external tariff is currently 13.2% (13% in 1972 under the Kennedy Round), and GSP quotas are considered to be so low as to be insignificant.

In standard plywood, there is reluctance to stock both exterior and interior grade plywood, and the price differentials between these two types are now so narrow as to discourage merchants from the complications of stocking two types. In this connection the price differential between interior and exterior grades quoted by Sta. Clara is too wide, and indeed they might well consider offering only exterior grade on the European Continent.

Plywood is imported in the 'standard' Philippine dimensions of 8' x 4' and the writer doubts whether market prospects would materially improve by attempting to supply a range of other dimensions, although the metric size of 250 x 153 cm.[1] would be more acceptable - this is the most popular throughout the EEC. The width (153 cm.) appears to be almost standardised in all countries, although panel lengths can vary enormously. Some French mills are said to specialise entirely in a cut-to-size service against which it would be senseless to try and compete.

While plywood can be exported and sold successfully in 8' x 4' dimensions, the same is not true of blockboard, the general rule being the bigger the better. Unless a standard size of 350 x 153 cm. (appx. 138 x 60 ins) can be developed, there will be only a very limited

(1) Equivalent to appx. 98 x 60 ins.

sale at prices which must be at rock bottom to persuade European buyers to take smaller sizes. Dimension of up to 550 x 205 cm. (appx 15½ x 5 ft.) are also in demand, as yet for special purposes, although several importers noted a general tendency towards ever increasing dimensions in this material.

(iii) France

The principal changes specific to France required are as follows:

- they require quotations to be in cif, per cm. or sq. metre, in French Francs, landed French ports (Bordeaux, Nantes, Marseilles, Le Havre). Fob $ quotations in non-metric measurements will probably be ignored.
- correspondence should be in French
- prefinished plywood dimensions, if supplied in ft. and ins., should be 4' x 10' (for the most popular size), but should ideally be available in a range of other sizes. If supplied only in 4' x 8' dimension, the market is likely to be minute.
  - prefinished plywood is preferred in thicknesses between 4.5 mm and 6 mm. There is however little interest in the prefinished plywood presented from the Philippines in its present form. As indicated

in the general comments on page , the colours are largely inappropriate to market conditions and groove configurations and colour are unacceptable.

- all plywood to have anti-parasite treatment
- there is great reluctance to issue letters of credit, and cash against documents is the preferred form of payment. (It should be noted that French distribution methods are much less formalised than in the UK, and there is considerable direct importation by large merchants, who are possibly under-financed compared with British agents, due to traditionally large debtor accounts with the building industry).

(iv) West Germany

The market is organised in a similar way to the UK, and Philippine suppliers are recommended to appoint and support one agent to handle their business in the Federal Republic.

As in France, however, customers are reluctant to open l/cs, and would prefer to pay against receipt of documents. They would also like more size variety in standard plywood panels offered (76 ins., 78 ins., and 80 ins., as well as 96 ins., x 48 ins.).

Other specific changes required by German importers/agents are:

- packaging of standard plywood should ideally consist of 25-30 sheets per bundle, individually packed in 4 parcels per crate (called a "unit").
- some importers require plywood dimensions of 250 x 170 cm. or 250 cm. x 1[illegible] cm., while Singapore and Taiwan have started supplying panels of 250 x 125 cm. Statements that 8' x 4' panels are "unsaleable" should however be treated with the greatest reserve.
- as in France, there is little demand for Philippine pre-finished plywood in its present colours and groove specifications. Panels should be available in dimensions given above, but current thicknesses are acceptable. Small orders are the norm.

(v) <u>Holland</u>

The trade is as tightly organised as in the UK, and suppliers are recommended to c[illegible] a similar distribution policy. Agent conventionally charge 3% on cif or 4% on fob prices, but cif prices are preferred. Principal differences required from general European requirements are

- since 75% of pre-finished panels are sold through the do-it-yourself (retail) trade, even samller parcels are becoming necessary. Belgian suppliers offer 6 panels per pack.

- it is estimated that 70% of the Dutch market for prefinished panels is accounted for by 4 ft. x 9 ft. and 4 ft. x 10 ft. panels, due to prevailing floor/ceiling heights. The most common thickness is 4 mm. Due to intensive competition for a relatively small market, there is little prospect of substantial market penetration unless these dimensions can be supplied - but, as in other European countries, colours and groove shape need to be adapted to local tastes.
- while 4' x 8' is acceptable, the chances of a higher market penetration would increase if 4' x 9'; 5' x 8'; 5' x 9' and 5' x 10' could be made available.
- there is hardly any market for imported blockboard except from neighbouring Belgium.

(vi) Belgium and Italy

No specific product changes other than those common to Europe were identified in these relatively unimportant importing countries.

5.2 VENEERS

One participating company wished to obtain product information on sliced veneers. This has now become academic, since the company in question has since indicated all his production is required for his own plywood output. Generally, however

- there is little interest in sliced veneers. Very little could be deduced by potential buyers from the samples supplied, but in any case the bulk of facing veneers will only be purchased at source of supply after inspection of local stock.
- European plywood manufacturers (and some importers) are interested in new supply sources of peeled veneers or other core stock, but there appears to be a current lack of capacity in the Philippines for this product.

Market surveys are available on this product group[1], and can be consulted by interested suppliers.

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(1) ITC surveys on plywood and veneer, previously quoted.

5.3 RATTAN FURNITURE

Introduction

Successive reports on rattan furniture carried out in Europe suggest a small and restricted import market, dominated by highly competitive cheap cane, wicker and similar pieces from Hong Kong, Holland, Spain and East Europe. This is true to the extent that the potential for rattan has in the writer's opinion hardly been tapped. It is doubtful whether the whole European import market(1) exceeds around $1 mill. annually, although there are no reliable figures. This is almost certainly due to the fact that the "wicker" image is still identified with cheap, non-durable furniture either for grandma to sit in and dream of a bygone age, or relegated to the garden in the infrequent and short-lived fine weather. In Heals, arguably the "s[illegible]" finishings store in London, the few pieces of rattan furniture in stock are displayed in the "kitchen and garden" section in the basement.

The key to success in exporting rattan furniture is originality in design at the supply end allied with imaginative presentation at the demand end. The combined aim of both exporter and importer should be to project a "quality" image of durable, imaginative, modern-looking furniture suitable for living room and bedroom use in modern homes and for equipping hotels, restaurants, etc. through the contract furnishing trade.

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(1) EEC and UK

A further critical key to success in Europe is to quote prices which are acceptable there, and not the very much more inflated prices these products can command in the United States.

Four producers of rattan furniture participated in the survey:

Calif-Asia

Mehitabel

AB Interiors

Miefur Enterprises

The last was advised by the writer not to participate until his quality control methods (almost non-existent) were improved. However photographs and prices were sent, and the prices quoted by this company are quite unacceptably high, even on an fob basis.

AB Interiors produce a limited range of high quality rattan furniture which has not yet been exported, although reaction to the designs was generaly favourable. Mehitabel, a large factory in Cebu, are largely confined by agreement to distributing through an American company with good European connections, and only a limited "non-exclusive" range of designs could be presented. Calif-Asia's designs, which are excellent, produced favourable comment, although many distributors blanched at their quoted prices, which to the European buyer sounded more suited to U.S. customers than Europeans.

All Philippine participants attempt with success to promote a "non-garden, non-kitchen image". This is in the writer's opinion the correct marketing policy, but because such ideas are relatively new to European buyers, it was very difficult indeed to get any consensus, even in one country, between different buyers on what constituted the "right" design for his market. There is also little consensus on which quoted prices are competitive; the best that can be said is that some seem to be and some do not. Whatever useful comment can be made in this confusing but potentially optimistic situation is given below:

(a) General

- It is indispensable to quote prices cif, or caf. To reply to genuine enquiries as one Philippine supplier consistently did, with the statement that "the policy of shipping companies is that freight charges are payable at the port of destination" is quite valueless. Even if it is true and valid (which is questionable) a cif estimate can still be given. Unless he knows the cif price, an importer cannot compute the duty and therefore has no idea of his outlay when placing an order
- Prices must be geared to European standards, which in some cases means the goods must reach the shops at one-quarter the retail price in the United States. In this connection there are very wide differentials between Philippine suppliers.
- Materials must be bound, not nailed, or if nails are unavoidable for any reason they should be high-quality brass or copper tacks and not iron nails. Materials must also be treated against parasitical attack.

- Unupholstered designs are favoured (although some European dealers do find it difficult to get cushions made up locally: this applies particularly to the UK).
- In order to reduce freight costs, ways must be found of supplying more furniture "knocked down" for ease of packing. This is admittedly difficult with such a product, but is possible already with some items (screens, headboards, etc) and some Philippine producers are also offering other basic "interchangeable" components such as curved bases to occasional tables having different top designs. An alternative is to seek importers who can supplement rattan furniture orders with "space fillers" such as handicraft items, abaca floor coverings etc. At present, due to the high volume/value ratio, the cif price can be as much as 50% higher than the fob price, or (duty paid ex cif value) effectively 65% higher. This could nearly wipe out the differential between relatively low labour-cost imported items and those made (admittedly on a limited scale) in Europe.

(b) U.K.

The styles at present in fashion in the UK are reflected in the catalogue of Qualicane, which accounts for about 50%

of UK imports of this type of furniture. This catalogue is available at BOI for inspection together with trade and recommended retail prices. The trade prices are appx 50% higher than cif prices, representing the importers mark-up.

A general comment was that pieces or suites retailing at more than £200 are difficult to sell except in very limited quantities. This means an fob price of certainly not more than £40 ($100) is the maximum acceptable for rattan suites (non-upholstered) in the British market.

While chairs with metal legs feature in the Qualicane catalogue, they are becoming less popular; there is a discernible trend towards "rattan throughout". Table tops in glass rather than veneered plywood are more acceptable. Dimensions (as in the Qualicane catalogue) are in inches, and should always be given.

(c) France, Belgium, Italy

There is markedly less interest in these countries than in Holland, Germany and the U.K. There are a number of local small-scale cane furniture manufacturers, producing mainly cheap lines, and the 'image' of cane furniture in these markets is still very traditional - although it is widely used. Cheapness more than design originality, will be the critical factor determining success or failure in those markets. A (pessimistic) market survey on the French market is available at the SGI.

(d) West Germany

While some department store groups have discontinued stocking rattan furniture "because the fashion is over", the better-class groups are extremely keen on Philippine designs. There is a trend away from individual pieces and towards sets. The catalogue and trade prices of a leading distributor has been obtained, is indicative of current German tastes, and can be consulted at the SGI. As in the UK, prices must be lower than in the USA for similar models. While the differences are usually exaggerated (one German importer claimed a model retailing at DM 168 (£50) in Germany sold at $300-400 in the U.S.A.) the differences are no doubt substantial, and it is worth studying the trade price lists of A.E. Preeland.

(e) Holland

There is a considerable manufacture (and export) of cheap cane furniture in Holland, but catering almost exclusively for the cheaper end of the market and with a very limited range of designs. A very large distributor with upholstery facilities is anxious to import Philippine designs, but has commented unfavourably on the very big price differential between (e.g.) AF Interiors and Calif-Asia for closely similar pieces. Do the apparently high prices of the latter possibly reflect their success in the North American market, where acceptable prices are much higher than Europe?

5.4 GARMENTS

The assignment included clothing as a product group mainly because when the short list was being developed, it was understood that the Philippines would benefit greatly from the European offers under the Generalized System of Preferences (GSP). This proved a false hope. The EEC concessions apply only to signatories of the Long Term Agreement regarding International Trade in Cotton Textiles (LTA). The LTA has been extended to cover all textile goods and clothing from any fabric material (with unimportant exceptions), and while Hong Kong has been excluded from EEC concession on textile products, other less developed countries who are members of the LTA are clearly at an advantage (i.e., Colombia, India, Jamaica, Korea, Mexico, Pakistan, Portugal, Turkey, UAR). Unless Philippines agrees to abide by the rules of the LTA, the GSP concessions by the EEC are in fact discriminatory against Philippine garment exports rather than beneficial. The common external tariff in garments, even after the Kennedy Round, averages about 15% on the cif price, which is thus a very considerable barrier. UK has already indicated it will exclude textiles from her GSP offers, and Commonwealth Preference constitutes another discriminatory tariff barrier in this potential market.

The comments below must therefore be seen in the context of a need to price very competitively in this market area.

The assignment concentrated mainly on men's underwear (jockey shorts and undershirts) and to a much more limited extent on children's outerwear due to non-receipt of vital product information by the writer and his counterpart. In other cases (e.g., mens pyjamas), samples arrived too late to be presented in all the countries visited. Apparent product changes/adaptation required (where necessary) are given below

(a) All products

- should be quoted cif, preferably in the currency of the country of destination
- should be labelled in the language of the country concerned: this applies to unit packs, washing instructions, fabric descriptions, etc.
- should conform to size conventions in the particular country (although this is not legally obligatory[1], it is nevertheless advisable). In particular, European size descriptions, differ from British/American descriptions, although tables of equivalents are easily obtainable in the Philippines.

It is encouraging to note that none of the products presented attracted unfavourable comment on quality and workmanship, although the samples carried may of course have been untypical, and it is critical that there are no relaxations of quality standards in this highly competitive market.

Exporters should also monitor OECD activities to safeguard the consumer (through the Paris commercial attaché). A sub-committee is at present considering the abolition of nylon as a clothing fabric due to its

(1) See attached copy of OECD report on conventional sizes, as Appendix

flammability. Polyamides are likely to be substituted within 5 years. Advance information of this type is indispensable to planning for success.

(b) Children's clothing

The major specific product change required is design. This applies to all European markets investigated. There is little that can be said of direct relevance to specific detailed changes in an assignment of this type, because fashion and design changes are continuous; to advise on specific changes in response to short-term fashion elements could be misleading and may even be dangerous.

Generally

- children's clothing is becoming as "fashionable" in Europe as adult clothing. A common comment in London, Paris and Cologne was that children now dress in the same way as their parents "only in smaller sizes".
- U.S. fashions, styles and designs are not suitable, generally speaking, to European tastes. Philippine export garments are usually supplied to American designs. Hence their samples should not be presented, in their present form in Europe.

- While importers and distributors in different European countries stressed the "individuality" of the country concerned in its fashions and styles, for the mass market these differentials are narrowing. This is hardly surprising in view of the rapid increase in trade between EEC members, but even British tastes, for long regarded as outmoded and unsuitable, are getting closer to Continental styles in children's clothes. This makes it easier to cater for a larger market provided the "European" style is right.

Product changes are clearly required, but must be continuous in the sense of design/style change. Exporters must therefore ensure a constant feed-back of information from Europe, but this information must be provided by experts in the trade. To rely on a few samples which may be untypical is fatal. Exporters should subscribe to fashion magazines, and to the fashion books which appear at least half-yearly, or better still, attempt to supply customers who will provide their own designs, or who will perhaps sub-contract part of their manufacture to a "branch factory" in the Philippines.

(c) Men's underwear

No drastic changes are required, although a general recommendation is that a number of **colours** should be made available in addition to white. (those currently in fashion have been made known to Philippine supplier concerned). Some customers disliked certain configurations, but there is no general consensus; the only generally discernible trend is away from the "airtex" type of underwear.

Comments on design, specification and quality for the undergarments supplied to us were largely favourable; although one large German department store chain felt they were suitable only for special sales the writer felt this to be a purchasing technique to get lower prices, and is disinclined to treat it seriously. One sample piece supplied was badly finished, and this is of course a serious matter if repeated, but again, having visited the factory concerned, and in view of the very large number of perfect samples supplied by this company, the writer feels this to be very exceptional.

Sizes are however important. The descriptions used by the supplier concerned are acceptable in most markets, but care must be taken to ensure that "medium" means the same in different countries - and this is rarely the case (see Appendix)

Many potential buyers were however very surprised at the wide differential between the unit prices quoted for pants and undershirts. This is presumably explained by the differing material contents in products coming from a source where material is a much higher proportion of the final cost of sales than in Europe (where wage costs are higher). A narrower differential would help to secure a higher market penetration, and would not be difficult to calculate.

(d) Pyjamas

Where they were able to be shown, the quality of pyjamas suits supplied by Riverside Mills Corporation attracted favourable comment - although prices are not known from this supplier. RMC has also been provided by a large Durch importer with samples of additional (and perhaps more appropriate) designs on which he would welcome quotations.

5.6 RUBBER & CANVAS SPORTS FOOTWEAR

Introduction

Two firms participated in this scheme, namely, Rubber World (Philippines) Inc. and Marcelo Rubber. Basketball shoes, tennis shoes and other sports shoes were included in the portfolio. Marcelo also provided samples of baby rubber sandals and adult PVC - rubber sandals to investigate the need for any product changes in Europe.

A number of market surveys are available which describe market size, market indicators, trends in production and imports, distribution patterns and trade mechanism in sufficient detail for rubber-canvas sports footwear. No attempt, therefore, will be made in this report to duplicate such surveys.

No interest was shown in baby rubber sandals by any importer interviewed. They were simply unfashionable.

In France, however one large shoe importer expressed interest in p.v.c. moulded sandals, and asked for price quotations.

Requirements

a) General

- prices must be quoted CIF, preferably in the currency of the importing country, although US quotations are acceptable.
- sizes must conform to the particular country's size conventions. Size descriptions in Europe differs from American and British descriptions

- supply must be <u>reliable</u> and <u>regular</u>

b) <u>U.K.</u>

[illegible]otto & Thomps would like to consider importing Yachtin shoes, in the following price ranges:

10's - [illegible]'s	- 34	new pence/pair	
[illegible]'s - 5's	- 36	- do -	
[illegible]'s - 3's	- [illegible]	- do -	
[illegible]'s - 1[illegible]'s	- [illegible]1	- do -	

- A sample of these shoes was obtained, and has been passed to interested exporters. It is imperative that the <u>sole configuration</u> is copied strictly. Yachtsmen are very exacting in their requirements.
- The importer would also like to consider training shoes, similar to a sample provided. i.e., a thin-soled rubber shoe without toe caps, and colorful uppers with stripes.
- For the high cut basketbal shoes, Philippine exporters can be competitive if they can land a pair in U.K. at 5[illegible] pence, or for low cut tennis shoes at 53 pence.

A. Darth - would like to import plimsole shoes from the Philippines aside from the type of sports footwear presented. Black uppers are however not popular in the UK.

Edward Adler Agencies - provided samples of training shoes, with requests for the Philippines to copy, as did Freeman (Texplant) - a large mail order house. Training shoes is an expanding market in U.K.

(c) West Germany

Rommy Schuhimport

- prefers to have basketball & tennis shoes in thinner soles.
- black uppers are unacceptable in the German market.

Goos Berning & Co.

- Basketball shoes should be supplied in a full range of German sizes and always in white. The sole can be of much thinner construction to reduce price, which is absolutely critical.
- Quality of Philippine samples may be too high for the German market.

Kaufhaus Kortum K.G.

- Thinner soles are preferable and uppers should be in white. Basketball shoes are purchased at DM 3.00/pair delivered Bochum and sold for DM 6.90/pair. Tennis shoes are sold at about DM 4.85.

Horten AG

- can buy basketball shoes from Hong Kong at HK$ 54/doz. CIF.

(d) France

Sauton S.A.

- Philippine made shoes are probably of too high a quality for the French market. The soles are too thick. These factors are attributed to be the reasons for higher prices. Prefers to import the cheap type shoes.

Atlex S.A.

- Would like to have plimsoles made in the Philippines. Annual offtake approximately 500,000 pairs.
- Basketball and tennis shoes must be made more attractive with colored trimmings and stitched perhaps on the uppers.
- The toe must not be sharp. It must be somewhat rounded. Marcelo's product has a relatively sharp toe.

(e) Netherlands

Frank Liberty indicated that the popular colors were blue (accounts for 80% of sales) and black (accounts for 20%).

v. Valk Schoenmagazijnen

- Rubber World configuration must be changed. A shallower sole configuration may be acceptable. Uppers should be made more attractive. The arch support must be labelled to make it distinct from the inner part of the shoe.

The design of the toe of Marcelo products is too sharp but the sole configuration is acceptable.

Hesco - also indicated Dutch importer's preference for cheaper type shoes with thinner soles.

Blue uppers should be provided in addition to black and white.

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5.4 WIGS

At present the growth in the wig market in Europe is slackening, and at the same time competitive pressures are resulting in a relative increase in imports of cheap wigs. Importers blame suppliers for "spoiling" the market. Importers claim that during the boom a few years ago, wig factories sprouted in almost all parts of Southeast Asia with disproportionately large capacities. In order to utilize capacities many suppliers lowered their prices and also the quality of their wigs.

The picture, however, is not completely gloomy; importers expect the market to improve.

U.K.

The styles presented are now unfashionable. Workmanship in some styles is good but in others it is bad. The stitching of the hair on the forehead portion should be from below in order to cover the edge of the foundation.

Philippine prices are considered to be too expensive. The samples were compared with similar [illegible] styles and prices of Philippine wigs were 10 to 20% more.

West Germany, Italy, France

Importers in Europe felt that Philippine manufacturers must experiment with fibers other than Kanekalon, particularly Dynel, a fiber alternative to Kanekalon which appears to have greater price stability.

The quality of Philippine wigs in general was considered to be "good but not outstanding". There are defects in some models. The edges on the forehead portion of the wigs could be seen if the fibers are combed backwards. Hair fiber should be sewn from below.

This portion must be handmade if possible.

There is a trend towards lighter weight foundations, which Philippine suppliers must follow.

The styles of the samples presented are already unfashionable in Europe, and as a general rule, fashions tend to change fairly significantly about twice a year.

5.7 RUM

Both 5-year dark and light rum were introduced to a cross-section of importors and distributors in Europe. Taste is subjective anyway, and no prospective buyer could immediately comment conclusively on this aspect of product suitability.

However, interest in bottled Philippine rum is almost non-existent. Distributors are essentially interested in bulk supplies which they can bottle (and in some cases blend) and distribute under their own label. Bottled rum is too expensive to import due to relatively high freight costs, and the market for Philippine as against the more prestigious Jamaican rum is almost non-existent.

Wooden barrels and stainless steel drums have both been mentioned as suitable containers, and in general the larger the container the better (because this reduces unit freight costs). The 200 litre steel containers which a local distillery has indicated could be used would be suitable, but some distributors/bottlers want quotations in 10,000 litre lots.

Germany, Holland and the UK are the major markets, but Philippine suppliers meet a formidable price barrier. Jamaican rum enters the UK and Germany duty free. In the case of Germany, where specific price quotations are available for 10,000 litre lots, this means that 80° proof Philippine rum would have to land at DM 35.32 (approximately $20) per hectolitre to compete with Jamaican rum landing at DM 65.32 per hectolitre. The normal duty on rum imposed in W. Germany is DM 0.373 per hectolitre per degree proof (i.e., 373 x 80=DM30.00).

CIF price quotations are essential in all countries. Price is the most important (and sometimes the only) factor influencing purchasing, especially from an unknown source of supply without the traditional "image" of Jamaican rum.

5.1 CIGARS

Two Philippine cigar manufacturers were represented on this project, but the work done had to be carried out tactfully and was somewhat restrictive to avoid offending existing agents in Europe.

Generally, the Philippine cigars presented are regarded as of good quality and well made. By comparison with other supply sources, the general impression is that they can be compared with Brazilian, although Cuban cigars are still thought to be the best in the world. (This is not always the most important marketing factor: in Holland Philippine cigars would be preferred because they are nearer to Dutch taste preferences than Cuban).

Generally also, there is a trend towards smaller cigars and "cigarillos", particularly in those countries where high duty and excise rates make smoking very expensive (e.g., UK). It is felt however that it would be a mistake for Philippine suppliers to move with this tide: the small "cheap" cigar market is dominated by British, American, Dutch and multinational companies who can pump massive promotional funds into sales campaigns which tend to squeeze out the less powerfully-supported imported brands.

Our research concentrated on UK, Holland and Belgium. Despite several attempts, we were unable to contact the appointed German distributor of our Philippine participants and reluctantly decided it would therefore be unwise to contact others. In Italy, the market is dominated by the Monopoly, and the same is true of France, in which country the Monopoly was visited with almost predictable results. They are to reduce rather than expand their range of cigars, and already include two Manila brands, which they consider is enough.

In Britain, the principal product changes required are: -

- the provision of lighter (by weight) cigars to try and reduce the effects of the heavy import and excise duties, applied on weight and not value. (A 15-20% fob price reduction by Philippine suppliers was said to have no effect on demand).
- boxes should be more attractively designed, and in particular labelling is outdated and "Victorian". Philippine suppliers could perhaps learn from their more successful competitors, particularly the Dutch. Few cigar retailers are actively interested in "pushing" specific brands, and attractive, appropriate presentation is an important factor influencing sales.
- while the market for small cigars, whiffs and panatell s is largely flooded, there is a small and growing market for cigarillos; Swiss competition could secure the lion's share of this market unless Philippine cigar manufacturers act fast.

In Belgium, the only "adaptation" required is a plea for greater price uniformity among different Philippine suppliers. Market conditions are among the best in Europe; import and excise duties are relatively low and all sizes and types of cigars can be sold. But the largest importer was bemused by the fact that the same type of cigar could in price from [illegible] to $100 per thousand from different Philippine sources.

In Holland, there is considerable interest among manufacturers who wish to specialise and narrow their own production to smaller cigars, where Dutch brands are very competitive. A market exists for imported larger cigars to supplement manufacturer's ranges. No product change is required, although individual "duty paid" wrappers would have to be supplied by the customer, as the excise tax is levied per cigar, and not per box.

5.2 HANDICRAFT ITEMS

Introduction and General Comments

The value of this type of assignment as a means of introducing product adaptation changes to the fragmented and multi-product handicrafts "industry" is questionable. Generally, handicraft items were included in the portfolio as "promotional" rather than "adaptable" items. The danger of slavishly copying suggestions for change from European buyers is that the very originality which distinguishes Philippine handicraft item from another country's product will disappear.

The key to successfully maintaining and increasing handicraft item sales is continuous product development and market research. Most of these items have a finite market cycle, and the "fashion" for wooden salad bowls may develop, grow and disappear in favour of something else within a fairly short period. (For example, the market for capiz shell windchimes, which have been very popular in certain European countries for the past few years, is now considered to be saturated by giftwear buyers).

Fancy goods buyers are always looking for something new. An Amsterdam buyer expressed something typical when he said he was "looking for something small which the natives use every day" - and he did not mean cigarettes. He wanted, for example, sources of supply of unusual musical instruments.

There is also a danger, unless new products are developed, of too many suppliers competing against each other on a cut-throat price basis for a fairly static market. Importers are unworried about this because their unit profits increase, but the result is that nobody really gains very much, and there is an added risk that suppliers allow their quality standards to fall as they face ever-increasing price competition. Unless the trade can be very closely controlled at the supply end, this unfortunate outcome appears inevitable.

Some of these new products are bound to be unsuitable for some markets; thus inlaid shell monkey pod bowls are disliked in France, although buyers in UK and W. Germany are prepared to experiment with them. Capiz shell place mats and flower arrangments, for which there is an excellent market in the USA, appear to be virtually unsaleable in Europe ("not our taste") - although there was much interest in other capiz shell products which we were not asked to present, such as egg spoons.

Unsuitability for the market is a risk that may have to be taken, but the risk can be minimised by careful test marketing with a limited number of samples by selected importers. In this connection, display at trade fairs intended for trade buyers only could be a very useful way of trying out new ideas without running the risk of premature display of unsuitable designs to the general public. For such "experimental" work, exhibitions such as the Mount Royal Giftwear Display in London in Autumn (so called because it is held at the hotel of that name) is preferable, for example, to the large, prestigious Frankfurter Internationale Messe. Exhibiting at fairs like these should be reserved for products which have been carefully market-tested and researched; then orders can confidently be expected.

Specific product adaptation suggestions

(i) Inlaid wooden trays (Eximport)

- designs may have to be modified to suit European tastes (more "geometrical" designs are in fashion rather than bird-shapes), although there was very high praise for the quality of these items.
- at the fob prices quoted, the trays are quite unsaleable on the European market. An fob price of $5.75 per tray seems incredible to the writer, but is equivalent to about $20 per tray retail in Europe. Few customers exist who will buy _any_ tray in _any_ European country for the retail equivalent of around $5, and even at this price the market would be very small. Unless the price can be reduced considerably, the exporter would be advised to try other markets - possibly the United States.

(ii) Capiz shell placemats

These products (and similar tableware like ashtrays and place trays) are not considered suitable for European tastes, and their prices are thought to be ludicrously high by most giftwear buyers.

It has indeed been suggested that the prices indicate these products are more appropriate as vanatory items, and exporters may consider using jewellery importers to place such products in jeweller's shops as dressing table items in wealthy homes (possibly made up into sets which could include, for example, capiz-shell backed hair and nail brushes).

(iii) Abaca place mats and floor coverings

(iv) Monkey wood bowls, tikki forks and spoons, etc.

No product changes are necessary in these items. Tastes differ even between individual importers in the same town, and the only useful comment that can be made is to attempt to control wasteful competition, including great selectivity in appointing agents. As wide a range of designs, shapes and dimensions as possible should be provided.

(v) Monkey-pod spice and wine racks

These products will sell only on price. The (small) European market is flooded with products significantly cheaper than those provided by a Philippine manufacturer, who will have to reduce his fob prices by some 50% to stand any chance of placing his products on this market.

(vi) Marble ash-trays

These are considered inexpensive, attractive but "ordinary". Rough hewn shapes are in fashion in Europe currently.

(vii) Handwoven fabrics

The samples supplied are at least 100% too expensive for the very limited European market. There is much praise for the quality and workmanship of the fabrics, and the designs are also attractive, but home dress-making and sewing is rare in Europe anyway, and shoppers find the prices breath-taking. There is no "industrial" market.

5.10 ELECTRONICS

Two products were presented to potential buyers and contractors in Europe:

- ferrite memory cores for digital computers
- silicon planar transistors

Only one Philippine company participated; they already make memory cores for some U.S. computer manufacturers, and transistors for a large German electrical group.

"Product adaptation" is perhaps not strictly relevant in electronics[1], so much as new product development to minimise the effects of rapid product obsolescence. Nevertheless, the same basic human technical skills can be adapted readily to other products. (An interesting example of this is the employment of hand embroidery workers in Portugal by a British electronics group to thread wires in memory cores).

This flexibility in similar human skills has already been put to use by the Philippine participant in this assignment. A German company, for example, had no demand for memory cores but provided a sample of a toroidal transformer coil which involves much hand-winding of small-dimension electrical wires. Such a coil has now been produced in prototype form by the company concerned.

In this industry above all, however, very rapid market feed back, and constant contact with potential customers, is critical, and Philippine

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(1) There were no unfavourable comments on either price or specification of the Philippine components specified.

commercial attachés, who have now been briefed on this product-market area, have been asked to maintain this contact. This is nevertheless no substitute for market visits by the Philippine supplier concerned - intricate and highly specialised t[illegible]cal details must be discussed directly between supplier and customer.

Several factors reinforce the pressing need to look for new product development opportunities in this market:

- Ferrite memory cores are being displaced by [illegible]istorised memories in the next "generation" of computers by all main suppliers. [illegible] possible exception will be in process control computers but [illegible]ented scale, and geared to much more speci[illegible] problems, than "straight" data processing computers.
- there is currently considerable surplus cap[illegible] in simple transistor manufacture in Europe, reinforced by considerable uncertainty in the electronics industry, both in the domestic and industrial fields.
- most of the large European companies who may consider sub-contract or branch factory operations overseas have already developed satisfactory arrangements, and are unlikely to 'switch' sources of existing components made to their own [illegible]. They are more likely to consider new supply sources for new components.

Meanwhile, the policy of the Philippine participant - to obtain materials and specifications for use by particular customers - is clearly correct, but may demand closer contact with the market.

5.11 MARBLE

In the sense of product adaptation, there is little that can be usefully said about marble slabs, blocks and tiles. There were favourable comments about the colour and quality of Philippine marble, dimensions and thicknesses are generally acceptable, but the present prices do not appear to be generally competitive against Italian, Portuguese and other European suppliers. This has nothing to do with duties (none of the European markets visited impose import duties on marble) but is probably mainly a function of high shipping costs. The fob prices quoted by the major Philippine supplier are about equal to cif prices in Europe. Some current merchanted prices in the UK, provided in confidence, follow this section.

Delivery is a further problem. For building contracts, the quick supply of components at the right time in an industry which is using critical path analysis almost as a standard practice and is notoriously under-financed, very quick and prompt delivery of materials (particularly expensive ones) is absolutely critical. Italian suppliers are clearly in a very favourable position, and 3-4 weeks delivery is common.

In the short term also, construction activity in Europe is likely to suffer from predicted cut-backs in capital expenditure - and more expensive materials like marble could suffer more than proportionately.

Clearly the problems are formidable. What can be done by Philippine marble exporters to penetrate this market?

(a) Shipping costs must be examined as a matter of urgency. At the time of the investigation, rates for shipping marble overseas were not known, but perhaps it is possible to classify the material as ballast to reduce the rate to the minimum.

(b) Editorial material should be placed in architect's journals in Europe. The material is commonly specified by them, and while quantity surveyors could curb their expensive tastes, nevertheless they are not relatively price - conscious and an attractive design could sway their choice.

(c) While little can be done to alter the <u>product</u> (nor is this necessary) much <u>larger</u> sample pieces are commonly presented in Europe than those given us for display there.

(d) Some merchants in Germany and France are prepared to buy re-exported marble from <u>Italian</u> suppliers, who in turn are relatively large marble importers to supplement their own ranges. This may be considered irrational but nevertheless valid; overseas customers cannot be bothered to "split" ordering and will prefer to order from one source only. The Philippine commercial attaché in Rome has been briefed to maintain contact with Italian producers and importers in the Pietra Santa area of Tuscany where most of them are located.

(e) There are some prospects for marble **tiles** in Holland, where a large general importer expressed considerable interest. Standard dimensions are:

20 x 20 cm.	¾ in. thickness
30 x 30 "	
[illegible] x [illegible] "	

Prices should be quoted in cif terms per sq. metre, but the fob prices supplied by the Philippine participant sounded reasonable. Since this was the only qualification to a generally pessimistic picture in Europe, prompt action is indicated. The importer concerned felt that the market in Holland could be large, and he has international connections.

(f) Production and local transportation costs in the Philippines must of course be minimised to offset the possibly high transport costs to a relatively remote market.

PRICE LIST FEBRUARY, 1971

(Subject to alteration without notice)

MARBLES

Rough sawn random slabs 3/4" thick - add 25% for each 1/4" extra thickness

	N.P.[1]	S.D.[1]
Almiscado	65	13/-
Arni Alto	70	14/-
Arni Fantastico	70	14/-
Aurisina	58	11/6
Aurisina Fiorito	55	11/-
Arabescato	68	13/6
Bardiglio Fiorito	55	11/-
Bianco del Mare	55	11/-
Black & Gold	125	25/-
Blue Crystal	63	12/6
Belgian Black	71	14/3
Belgian Fossil	49	9/9
Belgian Fossil 3/8"	30	6/-
Beige Portuguese	55	11/-
Beige Portuguese Golden	68	13/6
Beige French	58	11/6
Botticino	65	13/-
Brecha Pernice	68	13/6
Byzantine Red	70	14/-
Breche Violette	63	12/6
Calacatta d'Abbia	63	12/6
Calacatta Gold Vein	68	13/6
Calacatta Perla	60	12/-
Calacatta G.V. Extra	113	22/6
Calacatta Vagli	90	18/-
Capriva	60	12/-
Cipollino 200	55	11/-
Cipollino Greek	80	16/-
Dove Pescina	55	11/-
Dove Capella	68	13/6
Dove Fleury	55	11/-
Eschaillon	70	14/-
Fleur de Peche Type	70	14/-
Fleur de Peche Grigio	60	12/-
Genefeffa	63	12/6
Gonari Green	75	15/-

	N.P.	S.D.
Onyx Algerian	200	40/-
Onyx Cedar	100	20/-
Onyx Mexican	250	50/-
Onyx Persian	275	55/-
Onyx Turkish	275	55/-
Paonazzetto	68	13/6
Pentholikon	75	15/-
Perlato Royale	50	10/-
Perlato Sicilia	74	14/10
Piastraccia	70	14/-
Repen Zola	75	15/-
Rosa Portas	64	12/9
Rose Aurora	64	12/9
Rose Brignoles	63	12/7
Rosa Corallo	60	12/-
Rose Crystal	69	13/9
Rose Liseron	60	12/-
Rose Phocean	70	14/-
Rosso Levanto	78	15/6
Santa Marina	70	14/-
Santellena	60	12/-
San Stefano	50	10/-
Serpeggiante	70	14/-
Serpentino	80	16/-
Spanish Brocatelle	80	16/-
Siena Pale	93	18/6
Silver Grey Siena	75	15/-
Silver Grey	65	13/-
Statuary	73	14/7
Statuary Vein	65	13/-
Swedish Green Dark	95	19/-
Sicilian (see separate list)		
Travertine Cream	40	8/-
Travertine Imperial	43	8/6
Travertine Ribbon Oak	40	8/-

(1) NP = new pence (100 NP = appx £1; $2.40)
(2) S.D. = shillings/pence equivalent

	M.P.	[illegible]		M.P.	S.D.
Gris Argento	[illegible]	[illegible]/-	Travertino Zebrato	4[illegible]	[illegible]/-
Gris Bouchette	[illegible]	[illegible]/-	Travertino Tuscan	[illegible]	[illegible]/-
Imperial Grey	[illegible]	1[illegible]/-	Travertino Unicieto . . .	5[illegible]	10/-
Jaune Roquille	[illegible]	1[illegible]/-	Verde Antique Grecian . .	[illegible]	17/-
Lido Classic	[illegible]	1[illegible]	Verde Froye	[illegible]	1[illegible]/-
Lunel Fulano	[illegible]	1[illegible]/-	Verde Frayo Antique . . .	7[illegible]	15/[illegible]
Mandorlato	5[illegible]	11/-	Verde Issogne	[illegible]	1[illegible]/-
Rosso [illegible]	[illegible]	[illegible]	Verde Issorie Dark . . .	[illegible]	1[illegible]/6
Nabrosina	5[illegible]	11/[illegible]	Verde Issorie Light . . .	110	[illegible]/-
Nabrosina Galleria . .	55	11/-	Verde Imperial	[illegible]	1[illegible]/[illegible]
Nero Marquina	55	11/-	Verde Gressoney	[illegible]	1[illegible]/[illegible]
Noir Vein	60	1[illegible]/-	Verde Nodo	[illegible]	1[illegible]/-
Noir St. Laurent . . .	55	11/-	Verde Tinos	75	15/-
Olympic Striato . . .	55	11/-	White Crystal (Sivec) . .	7[illegible]	15/6

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