

CARD, INC.
UPSCALE RESEARCH ON
MINI-VARIETY (SARI-SARI) STORE PROJECT
FINAL REPORT

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CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD), INC.
UPSCALE RESEARCH ON MINI-VARIETY (SARI-SARI) STORES

I. BACKGROUNDER

CARD, Inc. launched the “Hapinoy” Project in partnership with Microventures, Inc. on December 2006. This project focuses on the sari-sari store business with an aim to establish the biggest sari-sari store chain in the Philippines. Currently, there are seven lead stores and one thousand small stores that have signed up as retailers in the “Hapinoy” pilot areas in the CALABARZON¹. Owners of these sari-sari stores are combination of CARD and non-CARD members.

Based on the demand survey conducted by CARD on October 9-20, 2006, about 12% of CARD clients are engaging in the sari-sari store business and majority of these clients show high repayment rate. CARD sees the potential to provide its clients with an opportunity to increase their income through this project. CARD feels that if these clients are grouped together and an effective and efficient distribution system is set up, their incomes could be significantly improved and other types of businesses could be set up such trucking, franchising, marketing, info-sharing, lending, and many others. It could also become an effective vehicle to market CARD clients’ manufactured products thereby encouraging more active participation from CARD clients in this business. If the project proves to be successful, the 12% figure may also eventually jump up.

While the sari-sari store as a business has very positive features such as low capitalization and minimal management skills or capacity requirements, flexible working hours, business that is readily replicable, and an appropriate vehicle to promote local products, it also has its foes such as minimal margin, lack of appeal to big manufacturers or distributors due to lack of inventory management system and low volume of transactions, too much competition, and unregulated business (especially the small ones).

¹ CALABARZON is comprised of Cavite, Laguna, Batangas, Rizal, and Quezon provinces

To better understand how these issues, a research activity on the strength, potential and viability of the sari-sari store was launched in October 2007. Specific objectives of this research project include: (Please see Annex A for details.)

- to know the market players in the sari-sari store business
- to know the scale, profitability, and trend (peak/lean seasons) of the sari-sari store business
- to know existing terms and rates given to the sari-sari store owners by the manufacturers
- to explore the perceive needs (technical/financial) of the sari-sari store operators to efficiently run their business

Considering that the literature on sari-sari stores is limited, CARD planned on conducting a survey of sari-sari store operators to gather first hand information. The pilot areas² of “Hapinoy” project were excluded in the project in order to get raw data from clients that do not have any information about “Hapinoy” yet and to have a basis for expansion plans. Areas selected were Maragondon and General Mariano Alvarez (GMA) in Cavite, and Tanay and Cainta in Rizal. About a thousand randomly selected sari-sari store operators from the most and the least densely populated areas were selected and interviewed. (Please see Annex B for details.)

II. SURVEY RESULTS

Membership in CARD - Of the nine hundred ninety seven (997) respondents, only 47 respondents (5%) are current members of CARD and only 2 respondents (nil) have family members who are CARD members as well. No CARD member was interviewed in Maragondon because CARD has no branch there yet.

Store Management Practices - About 76% of the respondents have business permit. While the local government requires that all businesses get business permit, some store operators (24%) opt not to get a permit because of the cost which ranges from P 500 to

² Include Calamba, Nagcarlan, and San Pablo in Laguna; Sto. Tomas and Malvar in Batangas; Candelaria and Pagbilao in Quezon

P 3,000 depending on the size of the business. The local government offices are lenient with the store owners largely due to the smallness of the stores (income from fees may not be much to cover the effort/administrative costs of issuing the permit to these stores) and would rather prefer to focus on stores worth Twenty Thousand Pesos (P 20,000.00) or more.

The business permit is issued with a business name registered at the Department of Trade and Industry (DTI). Of the 76% who have business permits, only 64% use signage. The others opt not to use signage because they are not required by the government and/or due to cost of building a signage. In some cases, same name as in the business permit is used as store signage. However, in most cases, owners choose a shorter (easy to remember) and more “catchy” term as a marketing and promotion strategy.

Majority of the respondents operate their businesses for about 14-16 hours a day. Stores are usually open early in the early morning (between 5:00 am to 7:00 am) and close in the evening (between 9:00 pm to 10:00 pm). This coincides with the Filipino family’s daily routine – preparation for school and work, and after work or leisure. The store is normally manned by the owner (76%) which is usually the mother or women in the family. Being a small store, only a few of the respondents (1%) are able to get help and being a family business, in most cases, helpers are also family members.

Store Size, Location, and Volume - About 58% of the respondents consider their stores as “small”, about 40% consider their stores as “medium-sized”, and only 2% consider their stores as “large”. These are based on store operators’ own perception of how much is the estimated value of their stocks and saleable items.

About 96% of the stores visited are less than 20 sqm. in area and more than half of these are in the range of 6-10 sqm. The sari-sari store, by nature is small-scaled. It is a home-based business and is literally called such because it is normally attached to the house or a part of the house converted into a store (e.g terrace, extension rooms, living rooms, front yard, and ground floors of the house). Converting such spaces to an income

generating activity is found to be one great way to augment family income. In some cases, a store is operated distant from the house, however sari-sari stores within the family's home premises is still the norm. Most of the stores are found to be situated near the schools and community "barangay" halls. These are places where a lot of people go and activities are happening the whole day. This is ideal place for sari-sari store which depend largely on the frequency of transactions for its income.

There are about 26% of the stores which are less than one year old and about 14% which are over ten years old. The higher number of new stores is because sari-sari store is one business that could be easily set up (capital, skills, and legal requirements being very minimal) or closed down if the owner felt like it, and then start again (sometimes as a new store). What is interesting to note is the 14% that are more than 10 years old and yet are still in the "small store" category. While some of the store operators want to expand their business, most of the store operators want their business to stay as it is because they no longer have as much financial obligations (already old, children are through with school or are already working or have families of their own) as before; they don't see opportunity with so many competitors in the area; and don't see the value with the problems they are experiencing with sales and collection, as well as the trade offs they have to make vis a vis their family needs (flexibility in working hours and amount of resources to invest which could otherwise be used for the family).

Sales Trends and Seasonality - Comparing the volume of their sales, a large portion, 35%, of the respondents have sales less than P500 and 73% less than P1,000 during weekdays. These figures reduce to 27% for less than P500 and 62% for less than P1,000, during the weekends. This means there is a little bit higher activity during the weekends across sari-sari stores.

In terms of seasonality of the sales within a calendar year, December is favored with 59% of the respondents experiencing high sales, the reason being the holiday season (akin to spending season and people having lots of money from salary, bonuses, Christmas gifts, extra sales/income, and possibly new jobs/projects). Average sales is in the range of P 500 to P1,500, a figure much higher than the ordinary days.

The lean period is in the month of August (36%), consistent with the local saying that it is the month of difficulty (“tag-hirap” or “ina-Agosto”). Reason for such low sales include money being tight because: (1) classes have just started and money were used to pay for the children’s education; (2) it is already the rainy season and people tend to stay at home (less activity outside of homes); and/or (3) people go on vacation somewhere else (not in their homes/communities). Average sales is noted at less than P500 for more than half (53%) of the respondents.

Customers per day for the stores range from 6 to more than 50, where majority is within the 16 to 25 people per day. Considering that the volume of transaction (being a small retail store) is low, the income on a per transaction basis is assumed to be low as well. Income can only be improved with the increased frequency of transactions. However, most stores (61%) are selling on credit at a 70:30 cash to credit ratio and about 94% are doing it at the same price as cash basis. This affects the already limited cash flow of the sari-sari stores. In addition, most of those who sell on credit experience difficulties in collections, which further aggravate their cash flows. Very few store operators (only 10%) mentioned having no problem with selling goods on credit. Yet despite the problem in collecting, interestingly, store operators still want to sell on credit. Some feel it is their social obligation to help people in need, some say it is part of the local culture, and some others say, it is a way to get along/avoid potential problems with the local community.

Product & Brand Ranking - The top ten products sold by the store operators in terms of frequency of transactions looking at overall responses include shampoo, detergent, coffee, cigarette, canned goods, soft-drinks, noodles, sugar, liquor and soy sauce. All these products are consistently found in the list of top ten products in all locations except for liquor in GMA which is outnumbered by toothpaste and soy sauce in Tanay which is outnumbered by Rice. For purposes of simplifying the analysis of relative significance of the top ten products in the market, the brands with significant number of responses are identified along with the supplier-company for each of the brands as follows:

PRODUCT	BRAND	COMPANY (SUPPLIER)
1. Shampoo	Sunsilk	Unilever
	Palmolive	Colgate-Palmolive
2. Detergent	Surf	Unilever
	Champion	Peerless Products Mfg. Corp.
	Speed	Wellmade Mfg. Corp.
	Tide	Proctor and Gamble
3. Coffee	Nescafe	Nestle
	Kopiko	PT Bika Eka Semesta
	SanMig	San Miguel Super Coffee Mix Corp.
	Great Taste	Universal Robina Corp.
4. Cigarette	Marlboro	Philip Morris Mfg. Inc.
	Fortune	Fortune Tobacco
	Hope	Fortune Tobacco
5. Canned Goods	Ligo	ATC Mfg. Corp./ Liberty Gold Fruit Corp.
	Young's Town	Maunlad Canning Corp.
	Mega	Ayala Seafoods Corp.
6. Soft-drinks	RC	Royal Crown Bottling Co.
	Pop Cola	Coca-Cola Company/ San Miguel Corp.
	Coke	Coca-Cola Company/ San Miguel Corp.
	Magnolia	San Miguel Corp.
7. Noodles	Lucky Me	Monde Nissin Corp.
	Payless	Universal Robina Corp.
	Ho-Mi	Uni-President
8. Sugar	Victoria	Sweet Star Commercial
	Others	<i>repacked by volume</i>
9. Liquor	Emperador	Emperador Distillers Inc.
	Ginebra	San Miguel Corp.
	Red Horse	San Miguel Corp.
10. Soy Sauce	Datu Puti	Southeast Asia Foods Inc
	Silver Swan	Silver Swan Mfg. Co.

In each of the product categories, consumers' preferences as to size and packaging are identified. Most saleable are the small containers (sachets and smallest bottles or packs), consistent with the nature of activities of the retail stores. (Please see Annex C for more details.)

1. **Shampoo** – Shampoo tops the list in the overall product ranking with an average of 85% of the responses from four locations. It is top in all locations except for Cainta where there is a tie between shampoo and detergent. Of the shampoos, Sunsilk tops the brand list and Palmolive, second, in all four locations. The most frequently

purchased size is the 12 ml sachet. Even with the unclassified responses³ in GMA, the 12 ml is still the preferred size. Similarly, Palmolive in 12 ml sachet is the preferred size in all locations, except probably for GMA if the significant unclassified responses are added to the 10 ml size.

2. **Laundry Soaps/Detergents** – Laundry soaps and detergents come in second in the overall product ranking with an average of 74% responses from all four locations. Client preferences for brands of laundry soaps or detergents are found to be significantly varied. Surf tops the list in GMA and Cainta, Champion in Maragondon and brand name “Tops” in Tanay. Champion is second choice in GMA, Speed in Maragondon, Tide in Cainta, and Surf in Tanay. However, considering the number of responses, Surf (28%) and Champion (25%) make it to the top two brands. Interestingly, despite the differences in brand choices, the most popular is the same regular-sized detergent bar.
3. **Coffee** – Coffee comes in third in the overall product ranking with an average of 70% responses from all four locations. Nescafe is the only significant response in all locations and the preference is in 2 grams sachet except for Maragondon where consumers prefer the 25 grams.
4. **Cigarette** – Cigarette comes in fourth in overall product ranking with an average of 67% responses from all four locations. Marlboro tops the brand list in both Tanay and Cainta while Fortune comes second in Tanay and Hope for Cainta. On the other hand, Fortune tops the list with Marlboro second, in GMA and Maragondon. Considering number of responses, Marlboro tops the list with preference seen in regular (red) packs and Fortune second, with preference seen in 20’s pack for GMA and regular packs for the other locations. This ranking could however be changed by the significant number of unclassified responses in these brands.
5. **Canned Goods** – Canned goods come in fifth in the overall product ranking with an average of 65% responses from all four locations. “Sardines” tops the list of the

³ Responses such as sachets, twin packs, and “no data” cannot be classified in specific category

- canned goods in all locations and Ligo tops the brand list of sardines. Young's Town Sardines comes in second in GMA, Cainta and Tanay while Mega Sardines comes in second in Maragondon. Consumers prefer the sardine products in 155 gram package.
6. **Softdrinks** – Softdrinks come in sixth in the overall product ranking with an average of 63% responses from all four locations. RC tops the list in all locations with Pop Cola coming in second in GMA and Tanay, Coke in Maragondon, and Magnolia in Cainta. Considering the number of responses, RC and Coke make it to the top brands. The 240 ml is the most preferred size for RC while 237 ml is the most preferred size for Coke.
 7. **Noodles** – Noodles come in seventh in the overall product ranking with an average of 55% responses from all four locations. Lucky Me is the only brand with significant number of responses and makes up 97% of the total responses. Consumers' preference is seen in the 55 gram package in all locations.
 8. **Sugar** – Sugar comes in eighth in the overall product ranking with an average of 47% responses from all four locations. The survey indicated a preference for Victoria brand of refined white sugar with about 199 responses across all locations. However, equally popular is the non-branded sugar with about 171 responses. Consumers prefer the 250 grams pack for both branded and non-branded sugar. It should be noted however that when consumers buy sugar from a sari-sari store, there is really no preference towards a particular brand. Consumers often buy what is available in the store.
 9. **Liquor** – Liquor comes in ninth in the overall product ranking with an average of 37% responses from all four locations. Emperador tops the brand list in all locations except for Maragondon where the preference is Ginebra. Red Horse comes in second on the brand list for all locations except Tanay where Ginebra is the second preferred brand. For Emperador, consumers prefer the 700 ml bottle while for Red Horse, consumers prefer the one liter bottle. (Please see Annex C for more details.)

10. **Soy Sauce** – Soy sauce comes in tenth in the overall product ranking with an average of 32% responses from all four locations. Datu Puti is the only brand with significant number of responses and makes up 96% of the total responses. Consumers' preference is seen in 180 ml pack in Maragondon and GMA, in 70 ml pack in Cainta and in 60 ml pack in Tanay.

Unilever is the supplier of the top two brands of the most saleable products - shampoo (Sunsilk) and laundry soap/detergent (Surf). Nestle, Monde Nissin Corporation, ATC Manufacturing Corporation, Sweet Star Commercial, and Southeast Asia Foods Incorporated, have found their niche and enjoy no significant competition in the coffee (Nescafe), noodle (Lucky Me), canned goods (Ligo Sardines), white sugar (Victoria), and soy sauce (Datu Puti) markets, respectively. San Miguel Corporation is competing with the Royal Crown Bottling Corporation (RC) with different products (Pop Cola, Coke and Magnolia) in the softdrinks market and competing with the Emperador Distillers Incorporated with Ginebra and Red Horse products in the liquor market. On the other hand, Fortune Tobacco is competing with Philip Morris with its products Fortune and Hope.

Restocking/Purchasing Patterns - Depending on the type of products, volume of sales previous and expected, and available resources (money), store operators determine the volume of next purchase (by dozens; pieces; cuts; bottles; cases; boxes; or weight - kilograms) and frequency of re-stocking (once a month; every two weeks; every other day; once/twice/thrice/four/five times a week; daily; and whenever the goods run out) plus the manner by which the products are purchased (delivered or picked up), and where it is purchased (grocery stores, public market, super market, and sales agents).

Some manufacturing companies offer deals like consignments, free deliveries, discounts, promotional items and/or freebies which are normally tied with the volume of purchases especially during the promotion period (e.g. introduction of new product lines, entering into new markets, opening new branches or outlets, introducing new management structure, etc.). Such incentives also influence the behavior of the store operators in their purchases.

Business Needs Assessment - Most of the respondents dream of expanding their store businesses (deduced from responses like increased in inventory, becoming a grocery store, increased funding, increased customers, bigger store, own store space, profit from the business, expand to other types of businesses, become a wholesaler, etc.). Most (60%) of the respondents feel that they will need financial assistance in order to expand their business, in the range of P10,000 to 20,000, either in the form of credit (68%), or grants (19%), or others (13%). Most acceptable term of payment on loans for them is on a weekly or daily basis.

On the technical support, only two store operators expressed need for non-financial services – one for the training on technical aspect of the store management business and one for effective marketing of products/goods. They are willing to pay for these services up to a maximum of P300, one time pay only. (Please see Annex D for the summary of responses to questionnaire.)

ANALYSIS AND RECOMMENDATIONS

CARD, Inc. has about 12% of its clients engaging in the sari-sari store business and these clients are found to be good borrowers. To help these clients improve further their businesses and incomes, CARD is exploring potential of establishing the biggest sari-sari store chain in the Philippines. It is hoped that such a project will bring about new or other businesses to CARD and its clients. In view of limited information about the sari-sari store activities, research was conducted a little bit on the retail industry (as sari-sari store is one, although in a much smaller scale) in the international markets as well as locally (in the Philippines). Understanding these markets is hoped to aid in assessing sari-sari stores and other related businesses' potential for CARD and its clients.

The Retail Industry (International) - Retail is the second-largest industry in the United States both in number of establishments and number of employees. The U.S. retail industry generates \$3.8 trillion in retail sales annually (\$4.2 trillion if food service sales are included), approximately \$11,993 per capita. The retail sector is also one of the largest worldwide.

Retail trade accounts for about 12.4 percent of all business establishments in the United States. Single-store businesses account for over 95 percent of all U.S. retailers, but generate less than 50 percent of all retail store sales. Gross margin typically runs between 31 and 33 percent of sales for the industry but varies widely by segment. The retail industry accounts for about 11.6 percent of U.S. employment.⁴

In India, on the other hand, the retail industry is the largest industry with an employment of around 8% and contributing to over 10% of the country's GDP. It is expected to rise by 25% yearly, being driven by strong income growth, changing lifestyles, and favorable demographic patterns. It is expected that by 2016 modern retail industry in India will be worth US\$ 175- 200 billion, with revenue expected in 2007 to amount US\$ 320 billion and increasing at a rate of 5% yearly. A further increase of 7-8% is expected with the growth in consumerism in urban areas, rising incomes, and a steep rise in rural consumption.⁵

The Indian retail market, which is the fifth largest retail destination globally and being one with the largest number of retail outlets (12 million) in the world according to industry estimates, is estimated to grow from US\$ 330 billion in 2007 to US\$ 427 billion by 2010 and US\$ 637 billion by 2015. Of the 12 million, nearly 5 million sell food and related products. However, organized retail accounts for only 4 per cent of the total market, offering huge growth potential in this segment.⁶

The Asia Pacific Region shows steady growth with now 44% share in global retailing value sales. China remains the fastest changing market, with Malaysia and Korea coming in next. Leading countries for hypermarket development include Taiwan, Thailand, Korea and Urban China. Leading countries in the Pacific for supermarkets include Hongkong and Singapore. On the other hand, Japan is the leading country for the convenience store with about 40,000 shops from over 80,000 shops located across the Asia Pacific Region. For traditional trade, Thailand is the next fastest growing market to China. Another country showing good performance is Sri Lanka.⁷

⁴ http://retailindustry.about.com/od/abouttheretailindustry/p/retail_industry.htm

⁵ <http://business.mapsofindia.com/india-retail-industry/>

⁶ <http://www.india-now.org/industry/retail.aspx>

⁷ http://www2.acnielsen.com/news/20040701_ap.shtml

The Philippine Retail Industry

The retail sector in the Philippines employs 5.25 million people and accounts for about 15 percent of the country's gross national product (GNP). The Philippine retail industry employs a significant 18 percent of the country's labor force or roughly two of every 10 workers are retail employees. And this figure does not include yet the underground economy (micro-enterprises). A Filipino entrepreneur said that "The Philippine retail industry is growing faster than our economy. We are a country of shoppers and shopkeepers. Unlike other countries where department stores are considered sunset industries, we believe department stores, malls and shops will continue to be very important here in the Philippines."⁸

While the Philippine economy was less buoyant in 2003, the retail industry experienced strong growth for small packed sizes such as sachets. This trend helped the traditional trade gain share particularly in the poorer areas. .⁹

The Retail Market Players

The retail industry encompasses a wide range of sellers from the sari-sari stores, sidewalk vendors, wet and dry markets to the groceries, supermarkets, hyper-marts, warehouse and discount clubs. It also has a wide range of suppliers, wholesalers, distributors, and manufacturers. The retail food industry alone has about 1,541 seller companies registered in the Philippines; while the electronics, computers, and mobile phones has 1,031; the fashion, clothing, and accessories has 311; and the hardware stores has 101. There are about 153 shopping centers and malls identified in the country and about 4,960 supermarkets, groceries, and convenience stores. The number of suppliers for food and food stuff is estimated at 1,541; for clothing wholesale and manufacturing, at 609; and for real estate agents, at 1443.¹⁰ Currently, c-stores number is estimated at only a little over 600 with main concentration in Metro Manila and in other parts of Luzon.¹¹ On the other hand, according

⁸ Wilson Lee Flores for Star (<http://www.newsflash.org/2004/02/si/si001955.htm>)

⁹ http://www2.acnielsen.com/news/20040701_ap.shtml

¹⁰ <http://www.philippinecompanies.com/>

¹¹ <http://atn-riac.agr.ca/asean/e3476.htm>

to AC Nielsen, there are about 824 supermarkets nationwide in 2004 and about 552,873 sari-sari stores in 2003, the latter showing a growth of 13% from 2002.¹²

a. Shopping Centers and Malls – Shopping centers and malls provide a wide and deep range of products and services to consumers to choose from. Malls, Hypermarts, and Supermarkets found in Manila area only include Abenson, Ayala Center, CVC Supermarket, Festival SuperMall, Pilipinas Makro, Inc., Robinsons Mall, Rustan's Supermarket Shangri-La Plaza, SM (ShoeMart) Supermarket, and Uniwide Sales Group of Companies, Gateway, Farmer's Plaza, Alimall Plaza, Fair Fairmart, Glorietta Greenbelt, Alabang Town Center, Market Market, Trinoma, Land Mark, Park Square, Metro Point, Pavilion Mall, Megacenter, Eastwood Cyberpark & Citywalk, Ever Gotesco, Gaisano Malls, Avenue Square, EDSA Central, Jeepney Central, Shaw Blvd. MRT Station Mall, Greenhills Shopping Center, Isetann, Powerplant Mall, Santa Lucia East Grand Mall, Shangri-La Plaza, St. Francis Square, The Podium, Star Group of Malls, Tutuban Center, Manila City Plaza, and Raon Electronic Strip.¹³ Some of these shopping centers and malls are also operating outside of Metro Manila and in the provinces. Similarly, there are many smaller stores that are not listed here that also operate in Manila as well as in other provinces.

b. Convenience Stores (C-Stores) - Along the scale of retailers is the modern version of sari-sari stores known as convenience stores. Convenience stores, also called as c-stores, mix the characteristics of the traditional sari-sari stores with a wider line-up of products in a supermarket-like atmosphere that is well lit, air-conditioned and strategically located. They are usually open 24 hours a day, 7 days a week. Another unique feature is its promotion of self-service especially on the fast-food items. Key players in the convenience stores include 7-Eleven (Philippine Seven Corp.); Mini Stop (Robinsons); Bingo! (Jollimart); Mercury Drug; HBC (Hortaleza); 10*Q (Tropical Hut); Select (Shell); Star Mart (Caltex); Treats (Petron), Seaoils Palamig and Total Petroleum La Boutique.¹⁴

¹² <http://www.itmatters.com.ph/features.php?id=010705b>

¹³ <http://www.chanrobles.com/philippineshoppingmallsandsupermarkets.htm>

¹⁴ <http://atn-riac.agr.ca/asean/e3476.htm>

- c. **Traditional Sari-Sari Stores**¹⁵¹⁶ - The word “sari-sari” in the Philippine language means “of various kinds”. The sari-sari store therefore is a store that offers items of various kinds.



Sari-sari store is a one stop shop, although in a much lower scale – limited in terms of breadth and depth of inventory. It is called a retail (“tingi”) shop or a convenience shop, in that it normally provides single use package of goods and responding quickly to demands of the consumers. This unique feature of the sari-sari stores allows the consumers to purchase goods that they want, at the amount they need, when they need it, and within their budget. This is especially helpful for poor people who need to be really conscious on how they spend their limited budget. As such, it is not a place for bulk purchasing.

Sari-sari stores appear to have been around forever, but their existence has been traced back prior to the arrival of the Spaniards in the 1500's. It is a Philippine phenomenon that has provided a means of livelihood for many families. It is an important economic and social location in a Filipino community. It is present in almost all neighborhoods, sometimes even in every street or corner. A neighborhood will not be complete without a sari-sari store.

Inside the store, commodities are displayed in a large screen-covered or metal barred window in front of the shop. Candies, snacks, canned goods, shampoos, and cigarettes

15 <http://www.statcounter.com/>

16 http://en.wikipedia.org/wiki/Sari-sari_store



are often displayed while cooking oil, rice, salt and sugar are often stored in sacks or cans. A small window is present where the customer's requested commodity is given or payment is made. A cigarette lighter tied to the window can also be found. Benches and sometimes tables are also provided in front of the sari-sari store. A shade is placed above it which is also used to cover the large window when the store closes.¹⁷

The Economic Value - The sari-sari store allows members of the community easy access to basic commodities at low costs. In the Philippines, following the concept of “*tingi*”, a customer can buy 'units' of the product rather than whole package. For example, one can buy a stick of cigarette rather than a whole pack. This is convenient for those who cannot buy the whole package or do not need much of it. The sari-sari store saves the customer extra transportation costs, especially those in rural areas, since some towns can be very far from the nearest market or grocery. The store also serves as a secondary or even primary source of income for shopkeepers. The owners can buy commodities in bulk in groceries then sell them in the store at a mark-up price.

The Social Value – The sari-sari store is considered to be more than just a store. It offers a place where people can meet, do activities, and share latest information – be it news or gossips (“chismis”). It is a place frequented by men to spend time drinking or socializing, for women to discuss the latest local news, for youths to hang out and for children to rest in the afternoon after playing.¹⁸ It is very useful as landmarks as well. For shopkeepers, it allows them to earn income and yet able to attend to the household and

¹⁷ http://en.wikipedia.org/wiki/Sari-sari_store

¹⁸ <http://www.statcounter.com/>

family needs such as cooking, looking after the children, washing clothes, and many others.

Most of the sari-sari stores are privately owned shops and are operated inside the shopkeeper's house. It is typically attached to or a part of the owner's home, or freestanding. It is sometimes barred at the front, and open seven days a week and is extremely important in the rural areas. A sari-sari store though is found both in urban and rural settings. *Even some high-end condominium units have small variety stores operating privately without the knowledge (and oftentimes, consent) of building owners.*¹⁹

Neighborhood corner stores, variety stores or sari-sari stores are tiny in operation compared to supermarkets, highly informal but well-patronized especially in rural areas (due to payment flexibility, geographical convenience and intimate customer service). It is normally a *primary or secondary source of living*. Wet and dry markets (government run farmers market), on the other hand are constructed and maintained by the municipality, a traditional meeting place of buyers and sellers, distribution points of producers & market agents and normally low maintenance but with substandard facilities. Normally, there is one in each community.²⁰

- d. Support Structures** - Support structures to the retail industry include the Federation of Asian Retailers Association (FARA), a regional retail aggrupation composed of recognized national associations in each member country and the local influential business organizations like the Philippine Retailers Association (PRA), Philippine Chamber of Commerce and Industry (PCCI) and the Employers Confederation of the Philippines (ECOP), which provide the local retailers unlimited benefits of being connected to the globalized world of business and retailing.

The PRA empowers and guides its 187 members to attain global competitiveness and make the retail industry a significant contributor and driving force of Philippine economic development. They are in the forefront of major issues and concerns that impact the retail sector – stimulating discussions and official actions on many issues such

¹⁹ http://www.manilastandardtoday.com/?page=myMoney01_april20_2006

²⁰ <http://www.pecc.org/food/papers/2005-2006/Philippines/ppecc-catelo-presentation.pdf>

as but not limited to garbage fee, shortening of working hours plan, coin shortage, standardization of garment and shoe sizes, sidewalk vending, expanded operation of duty free shops, music copyright issue, contractualization issue, price tag law, liberalization of the retail trade, advocacy, and networking. PRA's is represented in the Oversight Committee on Duty Free, the Retailers Council of the Philippines, Philippine Article Numbering Council (PANC), Council to Combat Counterfeiting and Piracy of Patents, Copyrights and Trademarks (COMPACT), among others.

Other services include access to industry information, publications, seminars and conferences, and programs for professional development. Their major activities include search for outstanding retailers, launching of the Philippine Shopping Festival and the Grand Fiesta, in coordination with the Department of Tourism (DOT), issuance of the balikbayan cards, launching of the Visit Island Philippines and Tourism Volunteer Program.

PRA has tie ups also with the academe to deliver retail management courses, among them with the De La Salle University-College of St. Benilde (six modules designed for owners and managers of the retail outlets), the University of Asia and the Pacific, and the Asian Institute of Management. It is also working with the Pamantasan ng Makati, and the Lyceum of the Philippines in the conduct of baccalaureate courses in retail management.²¹

Internationally and locally, the retail industry seems to be a lucrative industry in that it contributes substantially to the growth of economy of the country and generates significant number of employment for the people. According to the Asia Pacific Retail and Shopper Trends report in 2004, traditional trade through the sari-sari store has 60% share of the fast moving consumer goods (FMCG) trade in the Philippines while the supermarkets share of trade is only at 38%.²² In 2006, despite hovering pessimism, the Philippine trade survived with a sales growth of about +8% on Retail Fast Moving Consumer Goods (FMCGs).²³ Though the growth in this traditional trade is seen only in the Philippines and Thailand,

²¹ <http://www.philretailers.com/index.php?page=parent&pageID=8&parentID=8>

²² <http://www.itmatters.com.ph/features.php?id=010705b>

²³ <http://www.pana.com.ph/pana-news-2.php>

there are over 11 million outlets across the Asia Pacific which will remain firmly in place for a long time. As AC Nielsen²⁴ describes the sari-sari stores... truly the **“King of Retail”**.²⁵

The Success Factors

Demand drivers for c-stores include spending patterns, population, expanding number of working women with modified lifestyles, fast paced lifestyles among the working people in the urban areas, and round the clock convenience that c-stores provide to customers for emergency shopping trips at any time of the day. Location is also a very important factor for success. C-stores usually locate in areas with high foot traffic. Thus, players have started to invade office buildings, malls, as well as the LRT and MRT stations.

Store layout also matters as the overall look and "feel" of the outlets affect customer count. Pricing and marketing strategies are also important tools because players also have to compete and keep-up with the prices of goods sold in other c-stores, markets, supermarkets and groceries. Industry sources say value meals or 'combo' meals are now a must for any c-store as customers have been observed to be more attracted to purchase these especially with the declining peso purchasing power. Further promotion of the c-store concept is another key consideration.²⁶

Success factors mentioned by the PRA awardees include having first and foremost, a vision and integrity, then good value for the product (product quality and affordability), innovation, market niche (uniqueness), presence (strategic location – malls instead of stores, retail store chains, and effective marketing strategies (e.g. popular artists as endorsers).²⁷

The Challenges

While many of the respondents are interested in expanding their businesses, many are also quite content with their current business – they do not wish to become a bigger business because they feel they have already completed their mission (education for the children) and

²⁴ The Nielsen Company is a global information and media company with leading market positions in marketing information (ACNielsen), media information (Nielsen Media Research), online intelligence (NetRatings and BuzzMetrics), mobile measurement, trade shows and business publications (Billboard, The Hollywood Reporter, Adweek). The privately held company is active in more than 100 countries, with headquarters in Haarlem, the Netherlands, and New York, USA.

²⁵ <http://www.itmatters.com.ph/features.php?id=010705b>

²⁶ <http://atn-riac.agr.ca/asean/e3476.htm>

²⁷ <http://www.philretailers.com/index.php?page=parent&pageID=8&parentID=8>

sari-sari store business has become more of a hobby than a business. As such, they no longer have the vision, the drive to be more competitive in the market, and acquire (new) business skills. This is the harder part to address. As PRA awardees say, first and foremost – a Vision.

Externally, PRA members cited the following challenges in the retail industry which will definitely impact the sari-sari stores as they continue to innovate and expand.

CHALLENGES	LOCAL MARKETS	INTERNATIONAL MARKETS
Taxation – level playing field	The current practice does not cover the underground economy (“tiangges”); Unfair practice - Government allows restaurants to charge operating expenses for taxes but not for retailers; Excessive tax mapping for retailers.	Limitations in tourism and foreign investments
Government bureaucracy	Difficulties and delays in getting permits for retailers. The government is seen as harassing, not encouraging investors.	Applicable as well
Supply	Weak local supply and distribution systems.	Applicable as well
Patronage	Need to improve patronage or buying and selling Filipino-made products.	
Costs	High energy costs especially in malls, supermarkets, and stores.	
Peso Value	Stability – local retailers prefer to export to get better deal for their products; local sellers prefer to import and sell locally because it has become cheaper than sourcing locally.	Stability
Property rights	Piracy and smuggling.	Piracy and smuggling.
Security risk	Political instability, job security concerns, etc.	

THE PROSPECTS FOR SARI-SARI STORE BUSINESS

The key global trends in the industry include need for convenience, health and safety concerns, changing demographics and blossoming of metro-sexual man.²⁸ Other factors that influence the buying behavior of the consumers include high population growth which is currently skewed to the younger age bracket, overall economic growth of the country, high

²⁸ <http://www.pana.com.ph/pana-news-2.php>

remittances from abroad, growing number of dual income families, exposure to information, technology, communication and media, fast paced life especially among working people in the urban areas, use of advanced technology such as credit card facilities, food quality and safety consciousness, and going to the malls as a leisure activity.²⁹ Other such key growth opportunities include the increasing importance of Luzon and the growth of sari-sari stores.³⁰

Just by sheer number, the sari-sari stores have become the primary driver for fast moving consumer good products, worthy of the title “**King of Retail**”, with majority of the consumers coming from lower income class (D & E). While the global trends are expected to continue and the traditional trade sector is expected to grow, with just a small pie, the competition among the retailers is expected to heat up, not only among modern supermarkets competing against each other, but also with the sari-sari stores.³¹

Marketers have adopted ways to meet consumers’ changing needs through adoption of affordability strategy (e.g. selling in small packs) and innovation (new launches related to affordability). AC Nielsen report³² sees continued development of multiple store formats, with the number of hypermarkets, convenience stores and personal care stores increasing significantly in most markets. These different formats will achieve customer acceptance by meeting varying shoppers’ needs, from low priced one-stop shopping to simple convenience. As such, the modern store formats will fast replace traditional stores in the region, including the Philippines.

Sari-sari stores face rationalization unless they carry more product lines (as opposed to only about 50 types) to attract more customers. Similarly, local producers need improvements in product lines, sourcing and procurement; pricing; and public policy to promote the upgrading of traditional outlets, making them more competitive with modern stores. It is critical for the operators to also find its market niche; use advanced or more efficient information technology, infrastructure, distribution systems, and support services that bridge equal opportunities.

²⁹ <http://www.pecc.org/food/papers/2005-2006/Philippines/ppecc-catelo-presentation.pdf>

³⁰ <http://www.pana.com.ph/pana-news-2.php>

³¹ <http://www.itmatters.com.ph/features.php?id=010705b>

³² http://www2.acnielsen.com/news/20040701_ap.shtml

C-stores, without a doubt, are here to stay. However, a must for c-stores is to have an **efficient distribution and logistics system** considering its significant effect to its pricing and marketing strategies. Sari-sari stores face the same problem.

- a. **Product Pricing and Quality** - The study conducted by AC Nielsen in mid-2007 covering 47 markets in Europe, Asia Pacific, the Americas, and the Middle East and involving more than 26,000 internet users showed that 85% of the respondents picking “**getting good value for the money**” as the major factor for the choice of store. In addition, Asian consumers put very high value on “**freshness**”.³³ Thus, pricing and product/service quality become very critical for the sari-sari stores. Package meals (value meals, combo meals, meals with toys, discounted meals at certain periods, etc.) are very common in the fast food chains. On the other hand, personal touch and credit terms are common features of the sari-sari stores.

Price is a function of cost of materials and delivery, plus a profit margin to be able to sustain and expand operations. In order to reduce price for products sold at the sari-sari store, the store operator should think about cheaper source of goods, more efficient delivery and management system, and best way to dispose of the goods quickly to maintain store image of “fresh inventories”. Quality on the other hand is more a function of time. Thus, the quicker the goods are sold, the better for the store operator. Strategies that can be adopted by the store operator to address both issues of pricing and quality include the following:

- **Cash Basis Operation** – Considering that the sari-sari store business by nature has limited capitalization, it is therefore advised to operate it on cash basis and avoid selling on credit. Once the capital is tied up, the operator will have difficulties replenishing the store. Survey responses show most store operators have experienced difficulties in collection. It is thus a waste of money, of time, and high potential for dispute in the community. Thus, it is best avoided. On the other hand, despite the difficulties most of the store operators still provide the “loan” facility simply because they feel for the customer. This personal touch which is a distinct feature of the sari-sari store business. If this cannot be avoided, store operators should at least put a

³³ <http://nz.acnielsen.com/news/StoreChoicePackaging.shtml>

premium for the amount of time that the capital will be tied or what is sufficient to cover the opportunity cost.

- **Proper Business Money Management** – For store operators or for any business, it is important to take note of the transactions (simple bookkeeping will do) and separate the business funds from the household funds. Because the nature of store business is frequent sales transactions, it is important to update records on at least daily basis. Bookkeeping helps the operator keep track of the “ins” (sales) and “outs” of the funds (expenses, payments on loans, store bills, etc.). It also helps determine if the business is running well (e.g. profitable) and worth pursuing.
- **Proper Inventory Management** – Proper inventory management is also critical. Soiled goods eat up the capital of the store. Sari-sari stores, being low capital structures by nature, cannot afford soilage. Thus, the store operator should be well aware of the expiration dates of the products being sold. This is to protect the business from losses as well as protect the consumers and consequently the image of the store. Non-moving products also eat up store space and limits the usefulness of the store capital. It is important for the operators to be aware of what products are on “high demand” and what are not. Faster turn over of the products mean more income for the store.
- **Planning the Purchases** – For small stores with limited space and capital, planning on purchasing necessary goods at one time will save the operator some transportation or delivery cost, or may even earn the operator some discounts or freebies. This is a little bit tricky as sources of goods vary as well as the demands for certain types of goods. For operators who have “extra cash”, they can afford to buy goods even if the previous inventory has not been used up or nearly used up. For small operators on the other hand, who do not have sufficient capital, they may have to prioritize which of the products will be sold quicker so that the money can be used immediately for the other goods not yet purchased. Operators should also be aware of the prices (cut downs and hikes) at the sources and perform cost benefit analysis. Cheaper sources build reputation in the community thus it may not be difficult to find such stores/sources.

- **Bulk Buying** – Pooling of funds and purchasing goods together is way to reduce cost. Suppliers provide discounts on sales and/or freebies, if the volume being purchased is large enough. In addition, some suppliers provide free delivery at minimum volume required. Discounts could be shared by the store operators pooling their money or the freebies. Free deliveries, on the other hand, help reduce the purchase cost thus operators can reduce the selling price. This bulk buying set up however may pose problem for sari-sari stores which are very small and with very minimal or no spare capital at all. In addition, this also works best for stores that are located closely to each other.
- **Strengthening Relationships with Local Suppliers and Customers** – Some suppliers offer consignment set ups depending on the goods (mostly long life) being sold. Such a set up is good for the operator as they don't have to shell out money upfront. And such a set up is made available to operator only if the suppliers feel confident with the operator. Thus it is important to maintain good image in the community and the trust of the suppliers. The operators normally get commissions when goods are sold, either in the form of cash or goods. In other cases, even if the volume of the purchase does not meet the minimum required, some suppliers make concessions to the operators just because the relationship with the store operator is good and the suppliers believe the operator can dispose of the goods in no time. Thus, it is important to maintain good image and relationships with both customers and suppliers.
- **Getting Loans for Capital** – Borrowing to increase store capital has also long been a practice for many store operators. The proceeds of the funds are used to stock up on inventories either through direct purchase or through bulk buying. Some lenders require collateral and inventory of goods is sometimes used as collaterals. The loan is paid after some agreed period, the store operator borrows again, and the cycle continues. It is important that the store operators wanting to borrow to have the discipline to pay back the amount borrowed plus the interest so that the track record of being “good payor” is built and access to financial services not only from this lender opens up. Once credibility is broken, it will be difficult for the operator to build it back. Similarly, if the store operator is selling goods on credit, the operator should require the same discipline from the customers.

- **Savings Mobilization** – “Savings” is the cheapest source of funds for the business. While many will argue that the small store operators do not have excess funds to be able to save, time and again, it has been proven that they are able to save however minimal the amount is or in other forms such as goods, appliances³⁴.
- b. **Customer Satisfaction** – A distinct feature of the sari-sari store is its personal touch on the service it provides. Not only is this a place for business but a place for socialization as well. Store operators who socialize well with their customers develop stronger ties as are evident in the “suki” or patron system. Even if the store prices its goods a little bit higher than the others, the customers do not mind because they get satisfaction from the “extra” service. Such services include providing quality products, making goods they need available when the customers need it, delivering goods sold, sharing of stories (or gossips), extended operating hours (early morning to late at night), providing place to keep the customers’ things temporarily, having a bench to sit on, having roof on top of the head so that its not so hot especially in the middle of the day, glasses for beverages, a television, and many more.
 - c. **Marketing** - The store’s overall layout (“look” and “feel”) influences the behavior the consumers. The cleaner and better looking the store is, the more attractive it is for the customers. Better looking stores reflects the “freshness” or the product quality that the customers are looking for. Cleanliness also covers proper arrangement and segregation of inventories (e.g. those that are made of chemicals like detergents, soaps, gasoline, etc. are displayed away from the food stuff). It helps market a store if there is a name on it (store name). The more striking the color of the signage, the bigger the letters, the more attractive the graphics and the more catchy the name is, the easier it is for the store to be remembered by the customers and the quicker it becomes a buzzword. Recall increases the chance of sale.

On the other hand, good looking stores also has its own connotation – high priced – because customers think that the image building and marketing costs a fortune and to recoup that cost, the price of goods need to be increased as well, which is in most cases, are true. Thus, when developing and implementing the marketing strategy, the store

³⁴ Experience of microfinance program clients all over the world.

operator should be conscious of the relative impact of such a strategy to the pricing of the product – will the customers still feel it is worth the price?

OPPORTUNITIES FOR CARD CLIENTS

- a. **The “Hapinoy” Project**³⁵ – The term “Hapinoy” came from combined words of “Happy”, and “Pinoy” which is a colloquial term for a person of Philippine citizenship (Filipino). Thus when these words are put together, it means a happy Filipino. The “Hapinoy” Store, on the other hand, is the Philippines’ first and largest Sari-Sari Store Chain. It is a massive, unified group of Sari-Sari Stores, owned and run by disciplined microfinance borrowers and trained with standardized operating systems.

The “Hapinoy” Store is a project initiated and run by Micro-Ventures which is a social business enterprise established based off Prof. Muhammad Yunus’ next big idea of true convergence of social and business sectors. It is also a network of microfinance institutions, manufacturers/corporations, distributors, retailers, social development organizations, local government units, the media, the academe/schools, and end-consumers.



³⁵ www.hapinoy.com

The project aims at reaching 10,000 clients in the first quarter of 2008 and eventually reaching 100,000 by 2009. The project provides necessary support mechanisms such as financial, institutional building, training, access to supplies and marketing support.

Microventure initiated the Hapinoy project to empower sari-sari stores by linking them directly to partner product manufacturers, through capacity-building and through the community support generated by the network. A lead store serves as a mini-depot of wholesale goods where sari-sari storeowners often buy items before selling them as retail in their areas. The existing lead and sari-sari stores will be refurbished with the branded look of the Hapinoy store. Free ad space also comes with the new look, for values-formation posters.

Under the project, members of an existing microfinance institution with excellent credit history, like CARD, can apply for a “Hapinoy” package. After the loans are granted, Microventure will then train the operators on money management, especially because most of small entrepreneurs lack the proper expertise in terms of getting back their investments. The training will also suggest to ways of evolving their stores to other income-generating businesses like an internet café. Each “Hapinoy” store will be directly linked to partner manufacturers like Unilever, Nestle, and Oishi, among others, as well as telecom giant Smart Communications to provide the lead stores with goods and services at “better discounts.” The project aims to increase the profit of the sari-sari store and at the same time serve as a channel for the manufacturer to reach more people in the market, thus, a win-win situation for both store operators and suppliers.³⁶

CARD has about 12% of its clients engaging in sari-sari store business. They exhibit very good payment records on their loans thus are worthy to be provided access to the Hapinoy Project. CARD being a co-founder of the Microventures provides a distinct advantage in properly identifying good clients for Microventures from its client base thus supporting the goals and vision of both institutions.

- b. **Makro and Unilever Partnership Project** – Sari-sari store owners normally have no formal training in running small businesses. Understanding this, Makro, one of the

³⁶ <http://www.gmanews.tv/story/60556/Hapinoy-project-A-sari-sari-stores-makeover>

biggest wholesalers in the Philippines, thought of providing structured courses that are targeted and relevant to store owners. The Makronomics, a course that helps the participants improve their business management skills in a way that is simple and relevant, use informative modules and workshops. Makronomics provides tips and information on basic stock control and pricing philosophies and strategies, day-to-day operations and pricing, retail communication mix, and basic merchandising display. Coupled with this, Makro and Unilever, one of the leading manufacturing companies, have joined together in selling low-cost quality goods to the store owners. A number of people have already expanded their businesses, some of their client sari-sari stores have already grown into full-fledged groceries.³⁷

The Makronomics responds to one of the challenges cited for c-stores and sari-sari stores – inventory/logistics systems. While the Hapinoy Project also provides training on business management and access to products from manufacturing companies like Nestle and Oishi, additional source such as Makro will of course be good for CARD and its client store operators.

- c. **Makro Partnership** - Makro will also be a good partner for CARD and CARD clients who produce their own products as it has its own distribution system and they can market these products on a nationwide scale. CARD may also encourage Makro to join the “Hapinoy” Store Project to expand the support provided by the corporate sector, expand services to target clientele, and for CARD/Microventure to take advantage of Makro’s expertise as well.
- d. **Partnerships with Multinational/Manufacturing Corporations** - There are a number of multinational corporations and big manufacturing corporations who enter into partnership with grassroots organizations and local financial/social institutions as part of their Corporate Social Responsibility (CSR) or their business strategy, which could be tapped adopting the same concept of linkage as that of “Hapinoy” Store project. Such will be beneficial in building the network base of the CARD clients

³⁷ Dinna Chan <http://www.philretailers.com/>

especially those who are keen on improving their niche (specific product or service) and are dreaming big – e.g. getting national in coverage or doing import/export activities.

- e. **Especially Designed Financial Product for “Hapinoy” Store Clients** – As the potential of the project for expansion and becoming national in terms coverage is high, designing special product that will best suit the “Hapinoy” clients will be a good idea. Such product may include pay for service for other needs that maybe identified that are not covered by the current “Hapinoy” Store Project. Such needs maybe, but not limited to, advance courses on money and business management, cost of renovations/expansion of their stores, bigger amounts of working capital, and so on.