

LEVERAGING EMERGING MARKETS FOR GROWTH OF WESTERN MNCS AT THE EXAMPLE OF THE FMCG INDUSTRY IN THE PHILIPPINES

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Iro Maria PARCHARIDIS

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Advisor FH Krems: Elena, POROTNIKOVA, MA

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Statutory declaration

I declare in lieu of an oath that I have written this Bachelor paper myself and that I have not used any sources or resources other than stated for its preparation. I further declare that I have clearly indicated all direct and indirect quotations. This Bachelor thesis has both been submitted at the IMC Fachhochschule Krems and the Helsinki Metropolia University of Applied Sciences and has not been handed in elsewhere for examination purposes.

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Abstract

The aim of this thesis was to define the Philippine business environment and consumer behaviour in order to propose adaptive measures Western multinationals operating in the field of fast moving consumer goods can use in order to build brands in emerging markets. The development of the Philippines on an economic, historic and socio-environmental level was examined and external influences on business were analysed. Marketing measures were investigated and applied to the Philippine market in order to identify growth opportunities as well as market dynamics which are different from those in the Western world. The author used the form of written communication with consultants from the Philippines in order to determine the most effective growth opportunities for multinationals. The information collection indicates that targeting customers through social media is the most effective way for MNCs to achieve brand awareness in the Philippines and subsequently to grow in the market. The research findings are limited to the extent of consumer packaged goods in the Philippines. Therefore, the results cannot be directly generalised and applied to other product categories or other emerging markets.

Keywords: Philippines, FMCG, multinationals, consumer goods, BOP, marketing, emerging markets, business development, strategy, brand building

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List of abbreviations

ATL	Above the Line Advertisement
BOP	Bottom of the Pyramid
BPO	Business Process Outsourcing
BRIC	Brazil, Russia, India and China
BTL	Below the Line Advertisement
CPG	Consumer Packaged Goods
EM	Emerging Market
EMMs	Emerging Market Multinationals
FMCG	Fast Moving Consumer Goods
GDP	Gross Domestic Product
IMF	International Monetary Fund
MNCS	Multinational Corporations
OFW	Overseas Filipino Workers
PHP	Philippine Peso
POS	Point of Sale
PR	Public Relations
ROI	Return on Investment
TNC	Transnational Company
TVC	Television Commercial
USD	United States Dollar
WOM	Word of Mouth

1 Introduction

1.1 Growth of emerging markets

One opportunity for multinational corporations in order to achieve high growth is investing in emerging markets. Those markets offer the biggest growth opportunity in the history of capitalism. According to the Economist (2016) 70 percent of the future growth of Western multinationals lies in the least developed nations. Focusing on those markets has been a business development strategy for quite some time. In the past the emphasis for achieving growth has been on the BRIC countries, namely Brazil, Russia, India and China. The reason for this is that those markets are set to deliver half of the worldwide economic growth measured until 2020. (Rapoza, 2011, McKinsey & Company, 2013)

Additionally, in the last years, long term investments in emerging markets have outperformed those in developed nations and the trend is very likely to continue. Companies shift their investment to where they see growth potential. L'Occitane de Provence, a cosmetics and skin care producer from France listed itself on the Hong Kong Stock Exchange in the year 2010. This is an indicator showing that future expenditure is not in the Western world anymore, but in a more dynamic place, in the emerging markets of Asia. (Kennix, 2010)

Consequently, it is also crucial to look further, at the next tier of large emerging countries, namely: Argentina, Colombia, Indonesia, Mexico, Philippines, Poland, South Africa, South Korea, Turkey and Ukraine. These 10 developing nations, which might not have the economic power of the BRICs yet promise about 20 percent of total growth in emerging-market consumer spending altogether until 2020. Agglomerations in those countries have above average consumer spending and are growing at fastest speed because of the increasing expenditure of the new middle class. (Chan, 2014; McKinsey&Company, 2013)

Second tier emerging economies, which might not be valued as a primary investment opportunity can nonetheless benefit business growth immensely if taken seriously and if approached with the right attitude. Consumer spending is rising, not only because of the growing middle class, but also because of the fast pace in which rural areas are developing as a result of population growth. This development is especially important for companies selling consumer packaged goods and electronics, as those products are being bought more frequently when economic growth occurs. (Patterson & Macdonald, 2016)

Therefore, the author chooses to examine one of the 10 emerging markets of the future: The Philippines. The Philippines are among the fastest growing markets in Asia in 2016 with a growth of 6.8 percentage points before China, which stands at a 6.7 percent growth and Vietnam with 6.2 percent. The high level of private consumption, which provides nearly 70 percent of the economy's GDP, is an additional reason the author chooses this particular country in order to examine growth potential in the FMCG industry in emerging economies. Private consumption grew by 6.8 percent in 2016 compared to 6.3 percent in 2015. Forecasts reveal that growth is set to be moderate for 2017 at 6.4 percent, but outlooks for 2018 indicate that the rate will recover and find itself back at 6.8 percent. (Asian Development Bank, 2017; Alegado, 2016; Russo & Smith, 2016)

1.2 Consumer attitude in emerging markets

Many of the needs of consumers in emerging markets may still be unmet. Brand perception and culture are very different in the individual emerging economies as well as the degree of consumer maturity. Therefore, it is essential for businesses to analyse the way brands are viewed by the population and to identify which values are fundamental in those cultures in order to achieve high growth rates. There is a big opportunity for businesses to supply rural areas with products that the local communities need but cannot purchase yet. (Atsmon, Keuntz, & Seong, 2012)

It has often happened that big multinational companies invested in emerging markets and failed to convert customers. The reason for this is that they tried to apply a centralised marketing plan. There was a knowledge gap in their business development strategy. This knowledge gap being to assume that they can take a product that already exists and bring it to a new market without adapting it. Often companies assume products will perform as well in new markets as they did in their home market. This is seldom true. Furthermore, companies have to transform their understanding of scale. From a “the bigger-the better” ideal of centralised distribution to highly distributed scaled-down operations with substantial capabilities. (Atsmon, Keuntz, & Seong, 2012; Eyring, Johnson, & Nair, 2011)

However, there are also examples of companies that have succeeded market entry in emerging economies. Unilever for example has invested in emerging markets from the 80's and has established itself in the market. The global brands of the company are perceived as local brands by emerging market consumers. The least developed nations contribute 55 percent of the company's business today. The CEO of Unilever, Paul Polman has said that by 2020 the business aims to generate 75 percent of its business in developing countries. About 85 percent of growth at Unilever comes from emerging markets and the company is planning to invest heavily in those areas in the future. A big part of the strategy is to stay market leader and use the first in the market advantage. The success of this company can be taken as an example of sustainable growth in emerging markets. (Atsmon, Keuntz, & Seong, 2012; Dalal & Nandy, 2012; Gringrich, 1999)

1.3 The Philippine market and the FMCG industry

The Philippine economy has flourished in 2016 with a year on year growth of 6.8 percent of GDP and continues to be the fastest growing economy among major emerging countries in Asia. The population of the Philippines is growing at rate of 1.5 percent (2017) making it country number 13 worldwide in terms of size with 103.5 million people. The increasing population and therefore also increasing middle class has growing buying power. The two major pillars for fuelled household consumption in the Philippines are cash remittances from oversea Filipinos (OFW)

and revenue generated by Business Process Outsourcing (BPO). Revenue gained by employment in the field of BPO has been rising rapidly and increased at around 17 percent annually since 2009. Furthermore, the people working in this field have evolved to be powerful millennials putting more brands in their shopping baskets compared to the rest of the country. According to the Kantar Worldpanel (2016) the household spending has increased by 4.4 percent from 2014 to 2016 (Balisacan & Hill, 2003; Bersales, 2016; Mapa, Florida, & Yap, 2010; Severin, et al., 2012)

The millennial generation poses a significant opportunity for FMCG producers because this consumer group is set to soon dominate the market. Millennials will have more spending power and therefore digital solutions and e-commerce for foods and personal care will start to play a big role in the FMCG market in Southeast Asia in the near future. Additionally, purchasing digitally is becoming more important for the FMCG industry on a global basis. The reason for this phenomenon is that younger generations put a lot of emphasis on an easy and flexible shopping experience and are known to have less time for shopping and purchasing decisions. This makes shoppers less predictable and more segmented, on one hand, but also more devoted to powerful brands and dedicated to engaging shopping experiences, on the other hand. Multinational producers of consumer goods have the monetary resources to engage with their shoppers and therefore have the possibility to bind those millennial shoppers to their brands. (Barbour-Lacey, 2014; Chan, 2014; Deocareze, 2016; Gross, 2013)

Total economic growth in the Philippines is shown to come from rural areas which are getting better infrastructure and sustainable economic growth. This development is also aided through the new administration under President Duterte, who has stated the economic empowerment of rural regions as one of the key issues he will tackle during his term of office. The rural regions of Visayas and Mindanao have a growth rate of 5.2 percent (2014-2016) which is even higher than the one of Luzon (3.9 percent), which is the main island and the location of the capital, Manila. Those two rural regions (Visayas and Mindanao) are key areas for FMCG products, with especially high growth rates in the product ranges: food at 4.7 percent, beverages at 4.6 percent, personal care at 7.2 percent and household care at 5.9 percent

(2016). As the economy of those areas improves and opens up for more products, a chance for multinational organisations to serve the needs and also desires of the people living there is presented. (Adobo Magazine, 2016; Bersales, 2016)

1.4 Problem statement

The aim of this paper is to determine which cultural as well as county specific developments have shaped the Philippine buying power of today and to define the adaptive measures TNCs have to take in order to benefit from the economic growth potential that lies in the Philippine market. Due to the growing population, the changing market dynamics and consumer needs the potential for above-average growth in this market is especially significant.

The following research questions will be answered through the course of this bachelor paper in order to reach the above outlined aims of this study:

- 1) How has the Philippine consumer market evolved and developed the current local market dynamics?*
- 2) How can Western FMCG players adapt to the needs of the Philippine market?*

1.5 Methodology

The data for the bachelor paper II has been collected through secondary as well as primary methods. The reason the research findings are based on secondary data to a large extend is that this enables the author to provide the reader with sophisticated information about the market dynamics of the Philippines as well as past developments of the market. In order to answer the first research question, the author has performed detailed literature review with a focus on secondary data from the government and other institutions that have been observing economic development at a close level over a long period of time. Additionally, articles published on the topic of emerging market growth and reports, books and studies about the FMCG sector in emerging markets as well as future outlooks on this industry were used for the answering of the first research question.

In order to answer the second research question the author chose to use secondary as well as primary sources. Detailed secondary information collection was undertaken in order to identify useful marketing measures for emerging markets as well as other significant determinants of the Philippine market to which MNCs need to adapt to in order to achieve high sales. Primary data was collected through the information gained in written communication with business consultants operating in the Philippines. A semi-structured format was used in order to achieve an ideal information flow. The communication with the experts James Ranada, JoAnne Tolentino and Teresa Francisco-Flödl provided additional information and helped the author to define the most important measures for market development in the Philippines. In order to prioritise marketing measures for the Philippine market, the findings had to be summarised and analysed. Bringing together the secondary data collection with the findings of the primary research enabled the author to get a better insight on how TNCs can adapt to the Philippine market.

1.6 Structure of the bachelor paper

Following the introduction to this bachelor paper the second chapter elaborates the buying behaviour of the Filipinos and its development. Furthermore, the chapter gives a detailed overview of the historic, economic and socio-cultural developments of the Philippines, which is quite important in order to understand the buying behaviour of the population now and ensuring that the reader understands the demographics of the Philippine economy. This is crucial, due to the fact that population statistics are particularly dynamic in the Southeast Asian region.

Chapter three gives an overview of the external factors TNCs have to mind when operating in the Philippines. This chapter shows different aspects that need to be noted in the Philippine FMCG sector as well as the economy as a whole through a PESTEL analysis. This element of the paper is also divided in subchapters, which give in depth knowledge about the various peculiarities in order to ensure steady and inclusive growth for brands.

Chapter four deals with the marketing measures that have to be taken into consideration in order to build brands in emerging markets. This is illustrated via the model of the 4As, which is similar to the 4Ps of marketing, but it is adapted for emerging economies. Subsequently the fifth chapter analyses the consumer journey of emerging market customers as well as the importance of Point-of-Sale execution in the Philippines and future trends of this market. Consequently, the last chapter of this paper gives an overview of the overall findings as well as the limitations and recommendations for future research.

2 Historic, economic and socio-cultural development of the Philippines

In order to understand the buying behaviour of the Philippines it is crucial to get an overview of the country demographics and the underlying reasons of country specific dynamics and beliefs. The history and development of the Philippines underwent various influences from the Western world as well as other Asian countries moulding it to a very impressionable and Western oriented society which is rooted in Aboriginal culture and Chinese heritage. It is a country of substantial opposites with the majority of the population made up of various ethnic groups of the Malay Archipelago. Additionally, to indigenous groups there are people from European and American heritage, who came with the colonial rule during the last centuries. Chinese, Indians and Japanese also account of some part of the population as they occupied parts of the country or migrated for business reasons a long time ago. The following chapter will analyse the influence of the different cultures and regimes on the transformation of the Philippines. It will give an overview of how this country established itself from a dependent colony to a fast changing environment where the main driver of economic development is private consumption. (Agcaoili L., 2017; Borlaza & G., 2016; Worldbank (a), 2017)

2.1 Country history

The history of the Philippine population dates back to around 67,000 years ago, when the first people arrived on the island of Luzon with rafts. The tribes who migrated the island came from the mainland and other islands close by. Those groups were later named Negritos. The various tribes living on the island were either hunters or fishers and gathered fruit and vegetables from the forests. With time the tribes grew into bigger communities, almost nations, which were different in belief and culture. The inhabitants of the islands were influenced by many cultures and religions from around the area. Most commonly the Hindu religion and other philosophies from India and Islam from Arabia affected them or they were tributary states allied to China. These small nations traded with the countries now called: China,

India, Japan, Thailand, Vietnam, and Indonesia. (Arcilla (a), 1994, philippine-history.org, 2017)

The Spanish colonisation of the Philippines started with the arrival of Legazpi in 1565 from Mexico. He established a Spanish settlement in Cebu and created the first unified political structure. He gave the Philippines their name after the then ruling King of Spain, Philipp II. Slowly the Spanish colonised most of the islands and the area was ruled by Mexico based Spanish government officials. During the time of the colonisation the Spanish did their best to convert as many inhabitants as possible to Christianity. Today the majority of the population is still Christian. (Arcilla (b), 1994; philippine-history.org, 2017)

The Spanish rule ended in 1886 after the loss of the Spanish in the Spanish-American war. The country then became American territory, which did not happen uncontested. Nevertheless, the United States controlled the Philippines until 1935, when the government passed an act to transition the Philippines to an independent government. The war with Japan delayed the whole process and the independence was officially announced after the second world war in 1946. The American colonial rule determined some of the preferences Filipinos still have today. (philippine-history.org, 2017)

After World War II the country was suffering from inflation and shortages of food and other necessities. The United States became an important partner for the Philippines in the process of reconstruction and have stayed close to the country until recently. A bilateral treaty between the two countries was signed in March 1947. This meant that the United States would continue to provide military aid and training. This did not bring peace to the Philippines as the various presidents in power of the independent regime had different agendas and interests they followed, which left the country in a difficult economic situation. (ibid.)

2.2 Economic development

In the 1960s the Philippines were one of Asia's industrial powerhouses, second only to Japan. The country produced CPGs, assembled parts for automobiles and home appliances and was a model for development. In the 1970s - 1980s the Philippine economy declined while the neighbouring countries grew. The economic gains from previous centuries were lost to corruption and mismanagement during the Marcos regime and the Aquino presidency. The Philippines found themselves in an economic crisis early in the 1970s, which was for the most part the consequence of the irresponsible spending of government funds by the President Marcos. The government was unable to pay its 2.3 billion USD international debt and had to work out a 27.5 million USD credit arrangement with the IMF that involved devaluing the Philippine currency. This was a pattern that repeated itself with increasing frequency in the next decades. (Hays (a), 2015)

A difficult economic situation combined with a fast-growing population has forced more than 10 percent of the inhabitants of the Philippines to seek jobs outside the country. Today Overseas Filipino Workers together with Business Process Outsourcing build the two most important pillars and fastest growing industries Filipinos earn their income from. (Paddock, 2006; Hays (a), 2015)

2.2.1 Overseas Filipino workers

The Philippines are one of the biggest exporter of labour in the world. Alone 2.4 million people left the country in 2015. This means that approximately 6,575 persons leave the country per day. People who migrated from the Philippines and relocated for work are estimated at around 12-15 Million people in 2017. About 70 percent of Filipino workers are legal, the rest is undocumented. Because of their size OFWs have, through their dollar remittances, helped support the Philippine economy and contributed significantly in making the economy resilient from external shocks. In 2016, the OFWs remitted around 26 billion dollars, according to the Philippine Statistica Authority (2016). The people moving abroad from the Philippines are generally better educated than workers from other countries that export workforce. (Afacan, 2015; Philippine Statistics Authority (a), 2016)

The trend started in the 1970s, ebbed in the 1980s and picked up after the Asian economic crisis in the late 1990s. Today, the government continues to state that the phenomenon of OFWs is temporary, but over time the overseas worker has become a pillar of the Philippine economy. The money sent home to family and friends is used for different purposes. Most commonly the money is needed for food and other household products, education, medical expenses, debt payment and sometimes it is even saved. It is additional income for the local community which fuels consumer spending and product demand. Additionally, Filipinos living abroad send home products that cannot be purchase in the Philippines or other products that could be cheaper abroad. This make Filipino consumers very aware of the products on the world market and opinionated about products at hand. Moreover, what is a trend abroad is valued as special in the home country as well. (Paddock, 2006; Whaley, 2013)

2.2.2 Business process outsourcing and IT

One of the most dynamic and fastest growing sectors in the Philippines is the Information Technology - Business Process Outsourcing industry. It is composed of eight subsectors: knowledge process outsourcing, animation, call centres, software development, game development, engineering design, and medical transcription. Having grown at a compound annual growth rate of around 10 percent over the past decade, the IT-BPO sector has become the country's largest source of private employment. The industry is currently holding approximately 1 million employees. If current growth rates continue to perform strong, the IT-BPO industry will overtake Overseas Filipino Worker remittances by the end of 2017 and will become the number one way of earing income for the Filipinos. The positive aspect of this is that this proves that Filipinos do not need to leave their country to provide for their families. (Business Inquirer, 2016; Shameen, 2005)

IT-BPO has also fuelled the growth of other sectors, as the salaries paid out have augmented household consumption and secured the expansion of the property and retail sectors. Since 2004, the Philippines has tripled its global market share of BPO

business, from 4 percent to 12.3 percent in 2014. It is estimated that this could rise to 19 percent by 2020. But the Philippine business process outsourcing industry may suffer economic headwind from the win of Republican presidential bet Donald Trump as the 45th President of the United States, according to economists. (Beshouri, Farrell, & Umezawa, 2005; Business Inquirer, 2016; Cordero, 2016)

2.3 Country demographics

The Republic of the Philippines is an archipelago of 7,107 islands situated in the western Pacific Ocean. The country is located in the region of Asia, with the sub region being Southeast Asia. The area covers 300,000 square kilometres and the population is estimated at over 114 million people in 2017 with the Census-Based Population Projections of 2010 counting 100.98 million people. The density of the population is very different throughout the country. Some parts of the capital, Metro Manila, are 100 times denser than places in the countryside. (Britannica, 2017)

Since the second world war rural depopulation has set in with more people moving from rural areas to bigger cities. In the early 20th century more than four-fifths of the population was rural, but by the beginning of the 21st century that proportion has changed significantly and fell to roughly two-fifths. The reason for the change of location is the poverty in the country. A mass of people is also seeking new opportunities and higher income outside of the country, working as nannies, caretakers and cleaners in the US, Canada and the Middle East. Filipino overseas workers make up an estimate of 11 percent of the GDP by sending home money and products to support the families they left behind. (Philippine Government, 2013)

2.3.1 Population growth

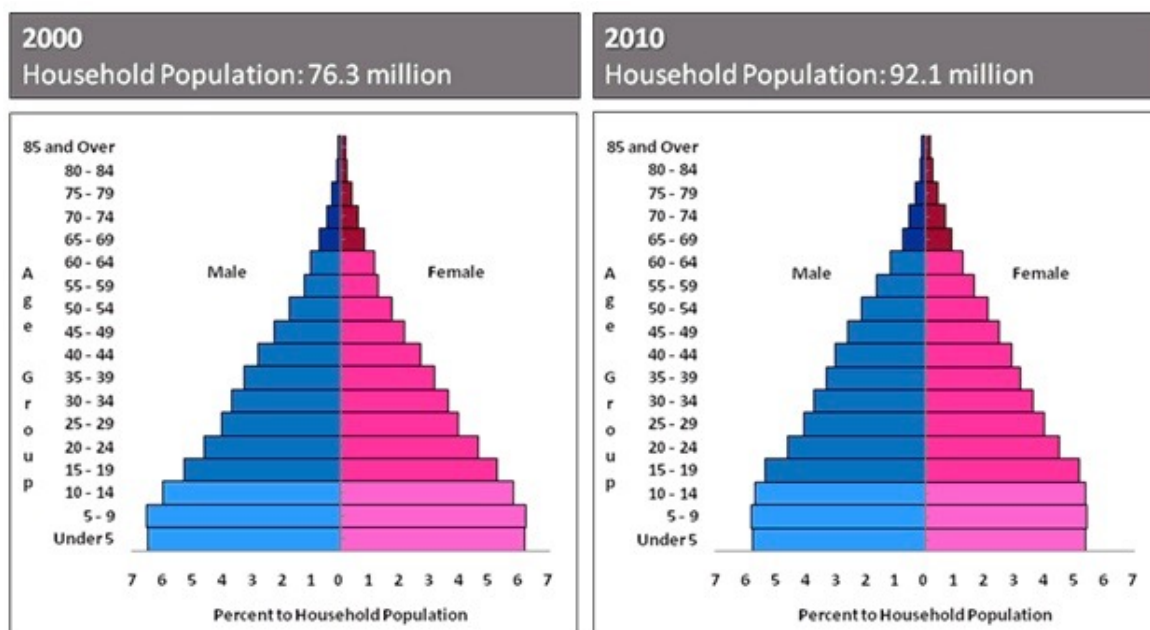
The country's birth rate remains significantly higher than the world average, as well as the mean in Southeast Asia. Efforts from the government, which have been going on since the mid-20th century, in order to slow the overall growth rate, have had only limited success. There are various reasons for that, one fact, which is significant to mention, is that the population is to a very high degree catholic because of the

former Spanish ruling. At least 92 percent of the population is Christian with 82 percent of the total population estimated to be Catholic. This makes the people of the Philippines very dependent on the preaching of their local communities and churches that follow strictly the guidelines from the church in Rome. Condoms are not used and marriage cannot be divorced. (Worldbank (a), 2017)

Another reasons for this very high rate in population growth is that support in caretaking of elderly and disabled people is not being provided by the state. People are still counting on family members to take care of them when they are old or sick. Additional helping hands in the household are always seen as a source of aide and not as an additional mouth to feed and take care of. One can argue that the future does not have the same meaning to Filipinos as it has for people in the western world. Education is not a primary concern as well, rather than wishing to go to university people are happy if they have enough food to feed every member of the family. (Borlaza & G., 2016)

Population growth is being said to have slowed down in the last years and is estimated to be at 1.72% in 2017. Compared to the western world where the growth rate is mostly around 0,5%, this number is still very high. By 2045 the population of the Philippines is estimated to increase to 142 million people. The rate is said to decrease to 0.65 percent in the years 2040-2045. The highest population is going shift to the region of Calabarzon with 20.2 million people living there in 2045, followed by Central Luzon with 14.5 million estimated inhabitants, which is the region with the highest population in 2017. (Borlaza & G., 2016; gov.ph, 2017; Philippine Government, 2016; Worldbank, 2017)

Figure 1 Age-Sex Pyramid of Household Population: Philippines



Source: Philippine Statistics Authority (2012)

Data from the 2010 Census-Based Population Projections displayed in Figure 1 show the 92.1 million households in the Philippines on the right side, an increase of 15.8 million from the 76.3 million households counted in the year 2000, shown on the left side of the figure. The median age of the population lies at 23.4 years, which indicates that half of the population is below this age. Considering the age ratio there are 102 males for 100 females in the Philippines. (Philippine Statistics Authority, 2012)

The overall dependency ratio of the Philippines stands at 61, which indicates that for every 100 working-age population, there were about 61 dependents (54 young dependents and 7 old dependents). This is lower than the dependency ratio in 2000 recorded at 69 (63 young dependents and 6 old dependents). The school-age population (5 to 24 years) comprised 41.8 percent of the 92.1 million household population in 2010. In 2000, the school-age population was 44.1 percent of the 76.3 million household population. Of the population who were of school age, the males made up 51.1 percent, while the females, 48.9 percent. (ibid.)

The voting-age population (people that are 18 years or older) accounted for 60.3 percent of the household population in 2010, almost 5 percent higher than in 2000. In the Philippines, people aged 60 years plus are regarded as senior citizens. They made up 6.8 percent of the 92.1 million household population in 2010, higher than the 6.0 percent recorded in 2000. Among the senior citizens, females (55.8 percent) outnumbered the males by around 10 percent. Furthermore, it was discovered that there is one senior citizen for every five children under 15 years old. (ibid.)

2.3.2 Income and expenditure

The results of the 2015 Family Income and Expenditure Survey (details can be viewed in the Annex 2) show that the family income has risen from 2012, when the last survey on this topic was performed. The Gini coefficient, a measure to identify the disparity of the wealth distribution in a country (0 means perfect equality and 1 means there is 100 percent inequality) stands at 0.4439 in 2015, which is a better outcome compared to 0.4605 in 2012. The average family income in the Philippines in the year 2015 stood at 267 thousand Pesos (1 US Dollar = 50 PHP), in 2012 the average family income was 234 thousand Pesos. The survey which was carried out by the Philippine Statistics Authority and shared in 2016 shows that the expenditure of Filipinos has risen as well. Families spent an average of 215 thousand Pesos in 2015 compared to 193 thousand Pesos in 2012. It has to be noted though, that the expenditure of the Filipinos did not rise according to the increase in income, the change in expenditure is not as high in relation to the income increase. Hence, Filipino families have savings of 52 thousand pesos in a year, on average. (Philippine Statistics Authority, 2015)

The Philippine population spends the highest part of their income, 41.9 percent, on foods and beverages. The poorest part of the population, earning less than 100 thousand pesos per year, shows to spend even more, approximately 60 percent of their income, on foods and beverages. A fact worth noting is that across all income groups the population spends approximately 5 to 8 percent of their income on food consumed outside of their home. This is an indicator showing the importance the fast food and restaurant sector has in the Philippines. (ibid.)

2.3.3 Language

The two official languages of the Philippines are Filipino and English. There are over 143 dialects of the Filipino language and it happens often that people from different regions, that are located far from each other, cannot understand one another. Tagalog is the Filipino language spoken in Metro Manila and therefore the dialect most people understand. The indigenous scripts of the Philippines are no longer used; instead, Filipino languages are written in Latin letters today, also because of the Spanish and American colonial rule. (BBC, 2017)

Through the years another new, mixed dialect has emerged in the Philippines, it is called Taglish. It is a mixture between English and Tagalog and it is used by the middle class and sometimes upper class as it indicated that the persons working language is English but the person can speak Tagalog as well. TV soap operas and advertisement as well as radio shows and magazine articles often use this language as well. (AlSharekh, Ersenkal, Hamza, Omezzine, & Singhvi, 2010; Worldbank (b), 2017)

The majority of young Filipinos is fluent in English and all people living in big cities speak English as well. Furthermore, the rural population can often speak English, because it is not only taught in school but also one of the languages used in TV and newspapers. The current government is also in support of using English as an official language, this goes as far as that the President Mr. Duterte is using English in most of his official speeches. The argumentation for establishing English further in the everyday life of Filipinos is the advantage it gives to the Philippines in terms of ease of doing business with the country. It is far easier to set up production facilities and train workers, if they are capable of the English language, additionally BPO and IT are more and more often outsourced to the Philippines and with a workforce not only trained for the job but also able to understanding the foreign managers, the process is made easier for foreign investors and a lot of money can be saved. The official usage of the English language also benefits the FMCG industry as most products descriptions and disclosures can be kept in English. (AlSharekh, Ersenkal, Hamza, Omezzine, & Singhvi, 2010)

2.4 The media landscape in the Philippines

The media landscape is a crucial instrument in the Philippines in order to opionate people, not only about politics and policies but also about their buying behaviour, their desires and needs. In order to target every possible consumer and customer of consumer packaged goods those products have to be advertised through the media. (Guiogio, 2015)

Francisco-Flödl (2017) notes that the media is a very powerful tool and has a significant importance in attracting audience for commercial interests in the Philippines. The culture of the Filipino population differs from region and heritage with very different interests and viewpoints to be met by the media. Sensational reporting is very common and newspapers, magazines, radio stations and TV networks are often closely connected with large corporations. These enterprises put limits on what gets reported at times. Bribery of media by powerful groups such as politicians is said to be common as well. (BBC, 2017; Guiogio, 2015)

There is no body of law called Media Law in the Philippines. Instead there are certain laws which apply to the mass media as well as to other groups and persons. The press tends to be regulated by extra-legal forces, the power of government over the business enterprises of media owners for example, the power of the advertisers, and the ideological mind-set that unknown to many media practitioners often shapes the response to public issues. Even though there is freedom of speech, tradition and culture still pose as examples and models of behaviour that are followed in media. (Guiogio, 2015; The US Library of Congress, 2002)

2.4.1 Mass media

Philippine mass media is shaped by various factors, most importantly the preferences of the consumers and therefore the attempt of the media industry to cater to those desires. These preferences vary to a large extend. The media industry itself has a profound influence on consumer tastes by producing content which they believe the public wants and which the public then simply has to consume because it is broadcasted. Consumer preferences in the Philippine market are also prone to

foreign influence, mostly by America and Asian neighbouring countries. (Francisco-Flödl 2017, Guiggio, 2015, Randana, 2017; Tolentino, 2017)

Radio has the biggest audience among all mass media, which is around 85 percent of the population. The fact that there are fifty radio stations in Metro Manila alone indicates overcrowding and strong competition for limited advertising. No other metropolitan area in Asia is likely to have this many radio stations. There are around 100 TV channels, the biggest being the ABS-CBN network. Satellite and cable technologies have virtually made universal access to broadcast media possible. For example, ABS-CBN is said to be reaching approximately 90 percent of the population. As the population has a literacy rate of over 94 percent, it is clear why print media is another popular choice for news and entertainment. (Sison, 2001)

In regards of the FMCG industry the number one channel for advertisement is still TV. Unilever Philippines is the largest ad spender, followed by Procter and Gamble, Colgate-Palmolive and Nestle. The sector of personal beauty care is the largest segment that advertises on TV, which is understandable since it is the fastest growing sector of the FMCG industry. (Bayani, 2014, Desiderio, 2014)

2.4.2 Electronic media and the Internet

The Internet in the Philippines is rumoured to be the slowest in the world because of the high investment costs for firms providing the services based on the scattered landscape of over 7000 islands. The Philippines were linked to the internet in March 1994, at this time life without the internet was already impossible for people in the Western world. In 1996, two years after the introduction of the Internet, the Philippines already had an estimated of 40,000 Filipinos using this media outlet. Since then, the internet has become increasingly popular. Things change fast in the Philippines and in 2017 43.5 percent of Filipinos have accessed the Internet. This number is five percentage points higher than the Southeast Asian regional average of 38 percent. (Santos, 2012)

A study from Nielsen (2011) established very interesting facts about the behaviour of Filipinos in terms of internet usage and how it impacts their decision making. The findings reasoned that close to one quarter (24 percent) of Filipino Internet users access the Internet on a daily basis via a smartphone and that additional 56 percent intend to access the Internet via a smartphone in the next 12 months. The study moreover found out that over two thirds (67 percent) of digital consumers in the Philippines had visited social networks. This shows how important social media is for the average Filipino. The Philippines rank second highest in terms of number of people who have ever liked or followed a brand, a company or a celebrity on a social media site. 75 percent of Filipinos did so in the past. This indicates that targeting consumer online is going to be the most efficient way to do so arguably in the present and definitely in the future. (Nielsen, 2011; Santos, 2012)

Furthermore, the study showed that 61 percent of Internet users in the Philippines trust consumer opinions posted online, this number is higher than the number in any other Southeast Asian market and is at seven percentage points above the regional average. Online product reviews and discussion forums are one of the most trusted sources when considering recommendations in purchase decision making. Second only to recommendations from the family and friends of the consumers. Close to two thirds Filipinos that are digital (64 percent) use social media as a resource in purchase decision making. This outcome is an indicator for the direction in which the Filipino consumers move forward to and will be used by multinational companies more frequently in the future. It must be noted that targeting consumers online is happening at a very high degree already. (Nielsen, 2011; Toral, 2004)

3 PESTEL analysis of the Philippines

Operating in emerging markets brings many benefits for MNCs. All of the big producers of CPG generate most of their profit and all of their growth in emerging economies. Nevertheless, there are risks in emerging markets that are perceived as higher compared to the Western world: Political risk, Currency risk and the threat of emerging market multinationals have to be noted when operating in the Philippine market. The author chose to analyse the Philippines through the PESTEL model in order to identify the external determinants a TNC has to adhere to in the Philippines. The word PESTLE is a mnemonic. P stands for Political, E for Economic, S for Social, T for Technological, E for Environmental and L for Legal. This business environment analysis model gives a bird's eye view of the whole environment from various angles. (Trefis Team, Contributor, 2013)

3.1 Political

Multinationals cannot influence political risk and have to take account of the challenges sudden changes in the government might pose to them. The current President, Mr. Rodrigo Duterte has communicated on various occasions that he is not in favour of close bonds with the US and is seeking to better relationships with China. Dutertes administration started in June 2016 and has been overshadowed by his fight against drugs, crime and corruption. He has launched an anti-drug campaign implying that citizens and police should carry out extra-judicial killing of drug suspects. Since he made his announcement more than 7000 people have been killed. Human Rights Watch's investigations show that the local police are falsifying reports in order to make the deaths legitimate, kids as young as 4 years old are being killed in the raids and young teenagers are held in prisons. (Gabuco, 2016)

Those activities by the government in order to strengthen the economy and provide a solution to the drug problem are viewed to harm the business bond of the country with partners from the Western world. It was predicted that foreign investment would lower because of the country risk and political instability and that this would harm

economic growth. Nonetheless such effects cannot be seen and since Duterte administration economic development has risen and the economy is on a stable way of growth. (Gabuco, 2016; Regencis, 2016)

3.2 Economic

As mentioned in point 3.1 the current political system in the Philippines might be viewed as risky by external parties because of the controversial administration of President Rodrigo Duterte. Nevertheless, the economy has been growing steadily under his leadership and investment from abroad has risen. The expansion of the economy is largely fuelled by foreign investment which indicates how sustainable the development of the region is. The US, Japan and China are the biggest external investors and tension between those great powers as well as changes in legislation in those countries could harm the economy of the Philippines in the future. The current President of the United States, Donald Trump, has made statements in the past, which indicate that he wants to lower foreign investment through protectionist policies. This could harm the Philippine economy; such measures have not yet officially been declared though. (BBC, 2017; Khan, 2017)

Household consumption is one of the most important factors of the economic growth and has been rising steadily in the last years. When comparing the expenditure of the last quarter of 2016 which had a growth of 6.3 percent to the 6.5 percent growth of the previous year, it seems like household consumption has slowed down a little. Nevertheless, the robust growth of the Philippine economy as well as falling unemployment and growing overseas remittances raise consumer confidence which translated into higher consumer spending. (BBC, 2017; Philippine Statistics Authority, 2016)

3.3 Social

In order for MNCs to achieve highest possible growth in emerging markets they have to take a closer look at the environment they operate in. The behaviour of society is one of the factors that are continuously changing and adapting. For Filipinos socialising is very important and it does not only happen at work and at home, social

media is a key element for people in the Philippines in order to communicate with friends and family. (Chatterjee, Küpper, Mariager, Moore, & Reis, 2010; Prahalad & Hart, 2002)

Ranada (2017) even goes so far as to say that social media is the biggest opportunity for growth of multinationals in the Philippines. He indicates that this channel is crucial in order to build a sustainable relationship with customers through engagement with the online audience. It is also a great way to leverage the brands visibility and customer engagement while saving costs compared to mass media advertisement. Particularly interconnection of products and brands with influencers and testimonials through social media can attract more brand awareness. (Diaz, Madni, & Poh, 2012; Saradina, 2015)

The face of consumers is also changing rapidly in the Philippines. The middle class is growing undeniably and young millennials suddenly possess buying power. Additionally, people are becoming older and therefore stay in the workforce longer which gives older generations purchasing power and desires which need to be fulfilled by multinationals if they seek to attract those people as customers. Products have to be tailored around the various needs of the people who are taking purchasing decisions. In order to convert older generations to buy specific FMCG products the products in question have to fulfil specific requirements. The same goes for the young generation of consumers. (Francisco-Flödl, 2017, McKinsey&Company, 2013; The Consumer Goods Forum, 2013)

Ageing consumers have special preferences when it comes to foods as well as personal care. Attracting them to new products can be more of a challenge than converting young millennials. Market research and consumer panels can give information about the preferences of the ageing population. Research has shown that their concerns involve packaging and shop navigation. They wish for product information to be bigger and shops to be easier to manoeuvre. Additionally, they do want to be respected but they do not want to be treated as old or elderly. Another fact which is important for MNCs operating in CPG is that older consumers tend to go

shopping more often as they consider it as a free time and leisure activity. It has also been proven that old people in emerging markets tend to prefer the cheaper option when shopping. Considering those factors can be an additional advantage for retailers as well as FMCG producers. (Khanna, 2016; The Consumer Goods Forum, 2013)

Targeting of young millennial consumer is a major component of MNCs strategies. Their tastes are diversified, but their buying power and their willingness to spend money on FMCG goods is unendingly huge. Social media is the easiest way into the shopping baskets of those consumers. Additionally, brand value has become more important for them. The new generation of consumers is authenticity and quality oriented and wants brands to be give them a real benefit. Only then they are willing to spend additional money on products. Ranada (2017) calls this behaviour value for money, meaning that consumers in the Philippines are become more willing to spend money on more expensive products if they get additional value from them. Value then of course always depends on the person in question, for some it is a bigger format of a product, or buying two for one, for others it can be a more premium FMCG brand. Francisco-Flödl (2017) says product differentiation is important for the market to meet the diversified needs and budgets of consumers. (Dessart & Veloutsou, 2015; Chatterjee, Küpper, Mariager, Moore, & Reis, 2010; Schawel, 2015)

3.4 Technological

The impact of technological advancement on the FMCG industry in the Philippines is rather positive. Information technology is one of the reasons the Philippine economy is growing. Many companies, mostly from the United States have outsourced business processes and IT to the Philippines. As mentioned in subchapter 2.2.2 this is a source for jobs and therefore brings economic growth. (Shameen, 2005)

Another technological aspect that could benefit the FMCG industry in the Philippines is automation of logistics and supply chain management. Because of the geographic

location of the Philippines, constituting of 7140 islands, supplying rural areas with products is very difficult for companies. Tolention (2017) mentions that it is one of the biggest challenges of the FMCG industry in the Philippines. Supplying Cebu, the second biggest city of the Philippines, locally from Manila is as expensive as importing products from developed neighboring countries such as Japan. Technological advancement in terms of automation of product supply for rural areas is to happen in the future and could bring huge cost advancement in supply chain management for producers of FMCG in the Philippines. (Nielsen, 2011; Santos, 2012)

3.5 Environmental

As the economic world order is changing and shifting from a Western domination to a multi-polar world which is characterised by multiple centres of economic power. One of the most remarkable changes is the rise of emerging market multinationals, while the influence of multinational companies from developed countries is declining. This poses a big challenge for Western MNCs as their market share is attacked. (Chao, Samiee, & Sai-Chung Yip, 2003; Grosse, 2016)

Conventional multinationals are the product of the Western world formed during the early stage of worldwide integration, while EMMs emerged in a later stage of globalisation. This phenomenon also brings up the question of whether the existing theories of international competitive strategy and marketing, which are mostly based on the experience of big Western FMCG multinationals can be applied to analyse EMMs. Western oriented marketing practice will have to rethink how to compete with EMM businesses that do not follow their set of rules. (Fan, 2008; Grosse, 2016)

EMMs often produce the same kind of products and have the same groupS of customers but they are nevertheless different in their characteristics and behaviours. Coming from a different environment each EMM has its own unique characteristics with a differentiated set of strengths and weaknesses. It would be a serious mistake to underestimate or stereotype them as low cost copycats. Many of them produce cheaper goods, but there is also a growing number of EMMs who has a combination of cost advantage strength in R&D and innovative marketing that makes them a

competitor worth taking serious. (Fan, 2008; Roll, 2006; Trefis Team, Contributor, 2013)

3.6 Legal

Laws in terms of product ingredients and advertisement for products are a lot looser in the Philippines and in emerging markets in general. The market is regulated by a variety of systems including self-regulations, co-regulations, statutory regulations and bans on extreme forms of marketing, but the extend is significantly lower than in the West. This is exploited by FMCG producers in order to lure people into buying products in ways that are forbidden in the Western world. Even though companies know that their behaviour is wrong, as laws in the West have been adapted over time in order to protect consumers, they often use best practice examples from the past and adapt them for emerging markets in order to generate more sales. An example for the exploitation of difference in regulations can be seen in the way alcohol is advertised. (Hastings & Angus, 2011; Polonsky, Carlson, & Frey, 2003)

Alcohol consumption is a rising health, social and economic concern in the Philippines. Companies do not act responsible when advertising alcohol in emerging markets. Even though there are partial restrictions on broadcast, print media and billboard advertising in the Philippines research findings show that alcohol marketing uses references to youth culture, power and sexual success which are forbidden in the Western world. The language, the visuals and content of alcohol advertisement show that corporate social responsibility policies of multinational producers operating in these markets are open to question. (Farrel & Gordon, 2012; Hastings & Angus, 2011)

This indicates that legal steps should be taken by the government to inforce a better screening of marketing measures concerning the whole FMCG sector in the Philippines as consumers might get exploited. Sustainable growth is a vital aspect for a company to operate smoothly. In order to meet the market needs in the Philippines CPG companies need to consider the health and social impacts of their actions when marketing their products unfairly. (World Health Organization, 2011)

4 The 4-A model of marketing: brand building in emerging economies

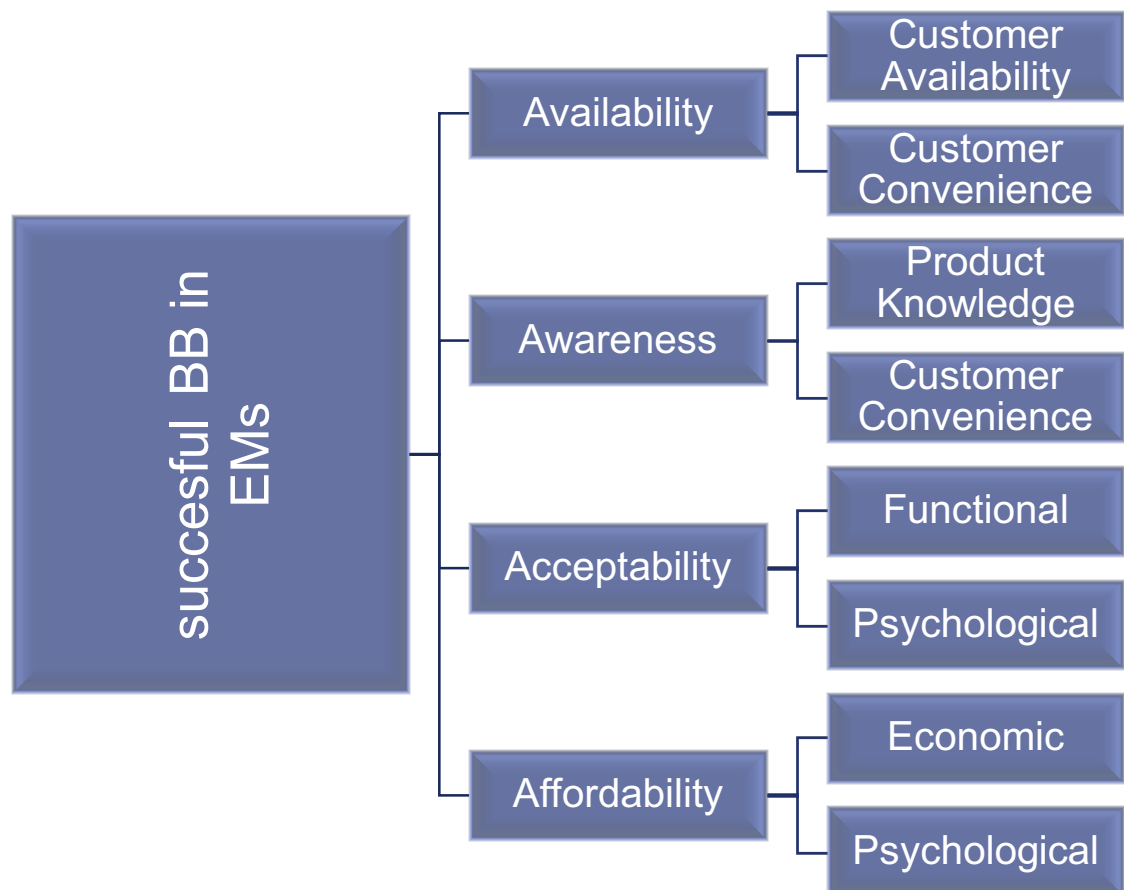
The market for products and services delivered to the poor people of the world is extensive. The number of consumers at the very bottom of the economic pyramid amounts to more than 4 billion people. These consumers do not have a lot of money to spend, they have a per capita income of less than \$1,500 per year. FMCG multinationals have established a strategy for serving the needs of those people and to do so in a profitable way. Tolention (2017) states that serving the Philippines is one of the biggest opportunities for FMCG companies because of the broad mass of potential customers. But the approach of delivering branded products to consumers with little income is more diverse and challenging than doing so in the developed world. People have to be targeted differently compared to the West and brand awareness still has to be acquired in rural areas. (Atsmon, Keuntz, & Seong, 2012; Eyring, Johnson, & Nair, 2011)

The marketing measures MNCs have to adapt to in order to perform well in emerging countries can be shown through the approach of the 4As – namely availability, affordability, acceptability and awareness. This model can be compared to the Marketing Mix but it is adapted to rural market needs, it is also perceived to be more customer oriented. In this subchapter the author will go into detail and examine the four dimensions of the marketing functions in order to define what is essential for a winning strategy of multinationals in emerging economies. (Anderson & Billou, 2007)

The 4A model, which can be seen in Figure 2, was developed by two marketing professors Sheth Jagdish, from Emory University, and Dr. Rajendra Sisodia, working at Bentley University. The professors stated that their model was inspired by a marketing framework the beverage multinational Coca-Cola had been successfully using for many years before. The framework shows the various characteristics that have to be fulfilled. In order to be successful in an emerging market four aspects of the market have to be analysed and the marketing plan has to be adapted to them. Those are: availability, awareness, acceptability and affordability. In order to ensure

that a brand is available it has not only to be available for customers but also convenient to access. In order to achieve awareness by potential buyers they first have to know about the products, this has to happen in a convenient way, meaning that the information is directly provided to them and they do not need to search for information. Consumers further have to accept the products in question, which happens if they value them as functional and they can accept them in a psychological way. Last but not least, the products have to be affordable for the population, this does not only mean that they have to be economically capable of buying the products, but also that they see a psychological benefit in buying a specific CPG. (Jagdish & Rajendta, 2012)

Figure 2: The 4A's of Marketing



Source: Jagdish & Rajendta (2012)

4.1 Availability

In order to sell to the prospective customers, manufacturers of fast moving consumer goods have to make sure that the products will be available for purchase to as many people as possible and with ease. Companies achieve this by targeting all distribution channels of the area of activity. In least developed economies, like the Philippines, distribution channels vary a lot from those in the western world. The point of sale for CPG does not only involve big supermarket and drugstore chains, fast food restaurants and hotels, there is also a focus small Sari-Sari stores. Those family owned businesses are especially important because they are small convenience stores, that can be found in every neighbourhood often on every street. Those marketplaces are particularly relevant because this is the primary way to reach consumers in rural regions which are far from cities and supermarkets. One Sari-Sari store serves as the main source of food supply for around 20 households in the Philippines. Therefore, this type of outlet remains an important retail channel contributing 36 per cent of fast-moving consumer goods peso sales. (Anderson & Billou, 2007; Jagdish & Rajendta, 2012; Ranada, 2017)

In some locations the industry has found a way to sell on an even smaller level. There are one person businesses, this means that there are people employed by CPG multinationals that are selling on the streets or in their homes. Those salespeople report back to agents, they are mostly selling only one product category, but sometimes they even represent whole brands or distributors. Students, housewives or other community member can become resellers. (Anderson & Billou, 2007)

The owners of small Sari-Sari shops and other people generating sales are trained by the responsible managers of big multinational corporations in order to market the product efficiently. Key selling points as well as product attributes are explained. Furthermore, commissions and mark-up structures are clarified in order to motivate the people in charge of sales. This does not only benefit the producer in terms of availability of products but also in terms of acceptability and awareness, because the sales people understand the products better that they sell. It is proven that a person selling products will rather recommend a product he or she understands. (ibid.)

4.2 Affordability

Multinational FMCG producers have specifically developed low-priced micro-packs for daily necessities such as shampoo, soaps, deodorant, detergent and foods. These products often come in so called “sachets” because this way the cost for packaging can be reduced in order to meet the needs of low purchase price of consumers. It is also a way for consumers to try out new products, which they did not have any need for in the past. The majority of such items are sold in small Sari-Sari stores, but they can also be found in supermarkets and drugstores. (Anderson & Billou, 2007; Jagdlich & Rajendta, 2012; Tolentino, 2017)

Sari-Sari stores survive on high turnover from low value transactions as their customers are people with little income and therefore little money to spend on FMCG products. Customer surveys revealed that low-income Filipinos make an average of four to five trips a week to their neighbourhood Sari-Sari store. Additionally, it has to be noted that salary is often earned per two weeks/per week and in some cases even every day. Therefore, Filipinos do not have the monetary funds to invest in products which last a long time, they only cover their needs for today. Being able to afford small luxuries as well as necessities on a tight budget makes CPG very popular and Filipinos are eager to try out new and exciting products as they are a very fun loving community. Price is especially important when entering a new market or launching a new product. (Anderson & Billou, 2007; Francisco-Flödl, 2017; Ranada, 2017)

4.3 Awareness

In order to sell products to people, the potential customers first have to be aware of the products available on the market. The two dimensions of awareness are product knowledge and brand awareness. The basic idea of targeting the awareness of the clientele is that most potential customers will not buy products unless they have a positive perception of the brand and enough information regarding the product in question. In developing nations targeting people with advertisement and with information is different than in the rest of the world. In the western hemisphere products have been available for a long time now and are seen as necessities one cannot

live without. In those very well saturated markets purchasing process has been automated, marketers try to disrupt consumers from their habituated model of shopping and try to pursue them to try new products, which are different in flavour or colour, but have the same use. In the Philippines, most notably in rural areas, where FMCG products are rather new to the market, people are also targeted to try new products. The difference is that those people might never have used such products before, they do not yet see the need for liquid soap for example or for hand cream. Awareness for those products has to be achieved on a different level of their perception. (Eyring, Johnson, & Nair, 2011; Jagdish & Rajendta, 2012)

As previously mentioned the population in the Philippines has very contrasted lives. This makes customer needs disparate and the achievement of awareness diversified. The truth is people with a poor background need to be targeted differently than people with higher income. In some parts of the country accessibility to conventional advertising media is difficult, but there is the “first in the market” opportunity in those places. Therefore, reaching prospective clients through branding is crucial to build up a sustainable market share, but it can be challenging as well. Rural households often do not have access to television, which is one of the key communication medium in this specific industry. (Anderson & Billou, 2007; Francisco-Flödl, 2017; Ranada, 2017)

To overcome those constraints companies like P&G, Unilever, Nestle and Colgate try to target consumers Through-the-line. This term refers to a 360-degree advertising strategy where campaigns are developed with the vision of brand building as well as conversions of customers. This term emerged through the giant FMCG producer Procter & Gamble, who is said to have started the expressions Above-the-line and Below-the-line to signify the difference between mass media targeting and marketing to individuals. The company had also started to employ different creative agencies for marketing ATL and BTL. (Baker, 2003)

Above-the-line marketing activities compound of a variety of mass media measures in order to reach potential customers and create brand awareness. Companies often

use billboards as well as TVC and radio spots to attract attention and build strong brand awareness. Below-the-line marketing involves measure to reach individual potential customers and not a mass of people at one. The marketing measures can be more individualised. Newsletters are a way to target BTL, direct mail, PR and sales promotions. BTL is a lot cheaper and often used when new products are launched or the company is expanding to a new market. It is a great way to interact with potential customers and bring them closer to the brand. (Al Badi, 2015; Anderson & Billou, 2007; Winterberry Group, 2002)

Digital marketing can be both ATL and BTL depending on the kind of targeting that is being done. If there is a banner on a website and the same banner is visible for everyone, this means that the marketing is ATL. If the advertisement is personalised it is below the line. For example, if products from an online shop keep following you on various sites. This type of advertising is cookie based. Users get the communication based on their needs, the things perceived by the cookies as wants or their previous online choices. This strategy has a better ROI and is considered better by the consumer. (Winterberry Group, 2002)

4.3.1 Above-the-line

Companies like P&G, Unilever and Nestle invest heavily in ATL advertisement in emerging markets. They set up billboards along roads, not only in urban areas but also in rural communities. Point-of-sale marketing materials are tailored specifically for Sari-Sari stores - the key meeting point of product and customer. In the Philippines CPG companies also developed advertisements suitable for attachment to Jeepneys (the most common form of public transport to commute from one place to another in the Philippines) and three-wheeled taxis, also called Tricycle. Tricycles can be found everywhere, even in the most rural areas where there are no cars. Through ATL advertisement these companies make sure that the brand awareness of their products can be distributed more or less equally all over the country and maximum profit can be generated. (Anderson & Billou, 2007; Winterberry Group, 2006)

4.3.2 Below-the-line

Often the most powerful tool for building awareness comes from micro-entrepreneurs, owners of Sari Sari stores for example. Those people market the products to their friends and family and members of their local communities, they are promoters of the MNCs. Unilever has tailored its marketing activities to build brand awareness with the help of the local community members in emerging markets. The company makes use of street performances, for example singers, dancers and actors in order for them to promote products such as soap and toothpaste. They recruit local performers in areas which the company wants to target. The selling points are changed in the scripts of the various characters and adapted for different dialects, education levels, and religions. Following such a marketing strategy with a series of performances the company saw the awareness of products promoted such as Breeze, a low cost 2-in-1 soap, increase from 22 percent to 30 percent market share. (Anderson & Billou, 2007; Swati & Kapoor, 2014)

4.4 Acceptability

Other than just making profit MNCs selling FMCG products to the low income part of the population also benefits the everyday life of the people the industry serves. Many of the people buying those products benefited from access to products and services tailored to their needs, often at a lower cost than in the past. It makes washing clothes easier for a mother of a family of 10 to 15 people. This makes it crucial for businesses to always aim for customers to understand the usage and benefit in their products as well as giving incentives for purchase. (Anderson & Billou, 2007, Jadish, Sinha, & Shah, 2016)

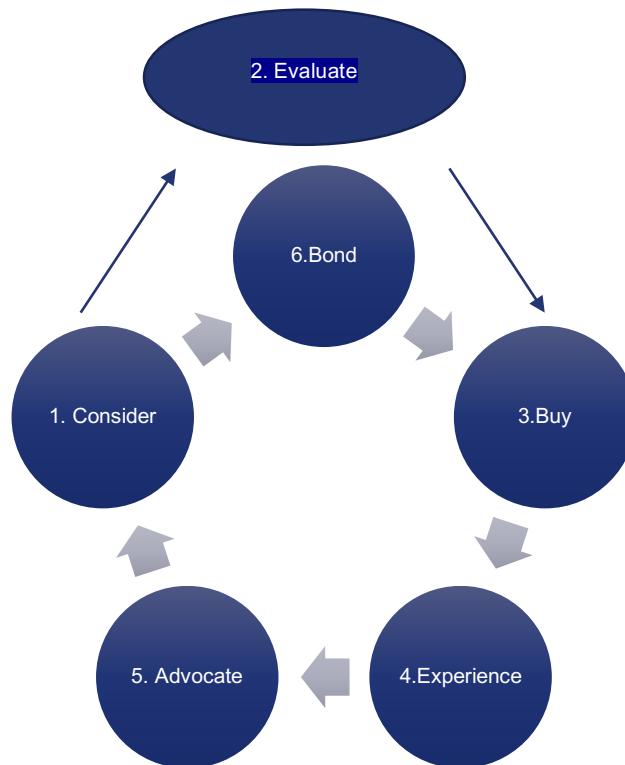
A tool often used by businesses operating in this area is to use local traditions and beliefs for their benefit. Oftentimes cultural habits are exploited for product development. Ingredients such as milk or herbs that are used locally for hygiene are put into soaps and shampoos in order for them to attract local customers. In one case a big multinational company used milk and saffron for a whitening cream, two ingredients women in the area are used to drink in order to whiten their skin. Using those key ingredients was a major selling point and the soap became a huge

success. From this and various other examples it can be derived that the products sold in emerging economies can come from the Western world but they have to not only be adapted to local needs but also to local desires in order for them to be accepted by the local community. (ibid.)

5 Consumer decision journey in EMs

The traditional way of viewing consumer decision making is that potential customers start with a number of potential brands in consideration, before narrowing down their choices to a buying action. But research has shown that consumer behaviour should be seen as less of a linear process and more of a winding course of action with multiple feedback loops. Atsmon, Keuntz, & Seong (2012) who did research on this topic call this practice the consumer decision journey.

As shown on the next page in Figure 3, the evaluation loop is added to the process of the consumer decision journey in order for the customer to decide for a final purchase. Considering, evaluating and buying are the core characteristics of this model, experience, advocate and bond come as after purchase steps. Nevertheless, those steps are crucial as they do happen before a new purchase is considered and evaluated and therefore play an important role in repeat purchasing and are essential for building a bond to a brand. Advocacy plays an important role as well, the reason for this being that recommendations for products from friends and family hold an important role in evaluating a product. (ibid.)

Figure 3 Consumer Decision Journey

Source: Atsmon, Keuntz, & Seong (2012)

There are four areas that are particularly important when talking about the decision making journey, illustrated in Figure 3. The first stage is the phase of initial consideration, here a consumer first decides to buy a product and is willing to consider a variety of brands in mind. This stage is followed by active evaluation; this is when the consumer researches potential purchases, but he or she still has to decide between them. Closure is when the consumer selects a brand, it happens at the moment of purchase. Then there is post purchase, this is the last stage and it reflects the consumer experience concerning the product selected. Those stages are as relevant for emerging markets as they are anywhere else in the world. In the Western world markets, technology is delivering the possibility of expanding customer engagement at each phase of the consumer decision making journey. In developing nations there are some very important differences in the characteristics of emerging market consumers. Those consumers generally have a lower level of experience with brands and products compared to their developed-market counterparts. (Atsmon, Keuntz, & Seong, 2012; Gringrich, 1999)

Word-of-mouth promotion has a bigger importance in emerging markets as it seems to play a disproportionate higher role in the decision making process of consumers there. Brand consideration also has a deeper significance in emerging markets. This part of the decision process appears to have an outsized impact on purchasing decision. Companies need to also put a priority on what happens when products reach the point of sale. The in-store phase of decision making tends to be longer and more important in emerging markets than in the Western world. (ibid.)

These three principles: brand consideration, Word-of-mouth and retail execution will be analysed in the subchapter below. The decision to invest large sums of money has to be taken and local employees have to be trained according to the principles explained below. Western multinationals have to operate in a fundamentally different way in order to translate their know-how into a new business model in emerging markets. This way of work is different from what headquarters might regard as normal. If executed properly rewards are higher than they could be in the West. (ibid.)

5.1.1 Brand consideration

Emerging-market consumers have a tendency to consider smaller sets of brands compared to consumers in the developed world. They are also less likely to switch to a brand that was not in the initial set of brands they considered. In order to include a brand into this initial set of choices, consumers must be aware of the brand first. Achieving visibility can happen through different ways, advertisement is the channel used in most situation and it is an essential first step for companies in order for their brands to be considered. The ways to achieve awareness has been the subject of the previous chapter of this paper. (Atsmon, Keuntz, & Seong, 2012; Francisco-Flödl, 2017; Gringrich, 1999)

In order for a brand or product to be considered there has to be a geographic focus. Higher reach of brand awareness can be attained through local outlets. This strategy can give rural population the sense that brands are valuable and of high quality. Inexperienced consumers are very status-conscious and tend to prefer brands they

perceive as market leaders. Nevertheless, spending heavily on advertisement alone is not sufficient in order to ensure consideration. Companies also need to reach these consumers with messages that have been tailored to suit local market preferences and concerns. Measures have to be taken in order to insure that the context of product information is adequate for the cultural dimension in which the companies are operating. If trust is achieved the brand is accepted by the local population and they consider the brand in their purchasing process. Western multinationals need to test their brand communication before applying a strategy to an emerging market, even those messages that have delivered high impact in sales and brand awareness in developed markets. (ibid.)

5.1.2 Word-of-mouth

The buying decision of consumers in the least developed parts of the world are heavily influenced by recommendations received from friends and family. Word-of-mouth recommendation plays an important role in the decision making of emerging-market customers, more important than for consumers in the West. An important explanation for the importance of this tool is that emerging markets are a place where a lot of consumers are still inexperienced in purchasing FMCG products. The absence of confidence from consumers shapes the brand choices for the initial set that will be evaluated. The set is also influenced by the post purchase experience of the inner circle of consumers, along with their loyalty to a brand. The phenomenon of word-of-mouth in emerging markets is hard to believe, it can raise market shares in rural regions solely consumers generally live close to friends and family and are more likely to be influenced by their purchasing habits. This means that companies are more likely to reach a higher return on investment if they pursue a strategy of geographic focus rather than if they spread marketing resources around thinly by targeting big cities in the whole country. (Atsmon, Keuntz, & Seong, 2012, Eyring, Johnson, & Nair, 2011; Ranada, 2017)

Additionally, online word-of-mouth is growing rapidly in emerging markets. In Asian countries, like the Philippines, the impact of online WOM has special importance. As mentioned in point 2.3.2 Filipinos are very receptive for opinions posted online,

61 percent trust in them. 75 percent of the population has liked a brand or a famous person online. They also trust deeply in online product reviews and group forums when considering a brand. 75 percent of consumers that are online use social media as a medium to take a decision. Evidence shows that engagement with brands and the community of a consumers are closely connected, they even sustain each other. Online brand community engagement enhances consumer brand communication. This shows that the importance of online WOM is growing and has to be considered next to discussions in the offline world. Brands need to target this channels as well in order to achieve brand recognition and acceptance resulting in purchases. (Desart & Veloutsou, 2015; Eyring, Johnson, & Nair, 2011; Ranada, 2017; Swati & Kapoor, 2014)

5.1.3 Point of sale execution

In store is an important part of the purchasing process and has a special place in the consumer decision journey in emerging markets. People tend to take more time at the point of sale in emerging markets compared to developed countries. Consumers often visit various outlets for multiple times in order to collect the information they need to decide for a product. Therefore, it is more important to influence consumers at the POS in emerging economies. Their brand awareness can be shaped directly at the moment of purchase and they are more open for advertising material and product information can be provided in store. This finding has been reinforced by research which reveals that the in store experience is an important factor in finalising purchasing decisions in emerging markets. In the perception of EM consumer in store measure help them to determine FMCG brand preferences. It is hard for FMCG producers to know what exactly goes through the minds of consumers and what draws them to specific products subconsciously. (Atsmon, Keuntz, & Seong, 2012; Diaz, Madni, & Poh, 2012)

Packaging, promotions and merchandising can help companies gain market share. Nevertheless, it is important to invest smartly and target specific stores and areas. Companies have to develop tailored systems in collaboration with distributors in order to manage their retail marketing execution. After prioritising outlets companies

have to use heavy control models in stores with high potential as well as supervisors, mystery shoppers and IT systems to ensure that the in store performance is visible enough to succeed in reaching consumer. (Diaz, Madni, & Poh, 2012)

6 Conclusion

6.1 Summary of findings

The research aims defined by the author about the development of consumer needs and market dynamics in the Philippines have been answered extensively throughout this paper. The author believes that a lot of growth potential for TNCs lies in the Philippine area. The lower income class of the population will continue to transform into the new middle class and this will lead to an increase in consumer spending. Companies that use Word-of-Mouth efficiently, emphasize on POS execution, and get their brands into the perception of potential customers are more likely to capture the loyalty of emerging-market consumers.

Achieving awareness and acceptance from the Filipino population is most likely to happen through digital marketing and social media activities as they trust strongly in online recommendations. Nevertheless, the first and most important communication channel in order to convert consumers is Word-of-Moth promotion from friends and family. Advertisement in conventional media is also crucial as it can support brand image and foster brand awareness in rural areas. TV ads as well as radio advertisement and billboards are a way to show the leadership position of a brand. This in turn ensures that the rural population notices the dominance of specific brands in the market, which is a key selling point for them.

In order to achieve the highest possible sales of FMCG products not only awareness and acceptance have to be harnessed, there are 2 additional factors that have to be considered: availability and affordability. Those factors are challenging for FMCG producers as business models adapted from Western markets have to be questioned and revised. There are also additional challenges posed in distribution and adaptation of products. Reaching all essential outlets and producing CPG products that meet the prerequisites of rural consumers is not easy. New packaging and ingredients that meet the traditions of the local population are often a key to selling in the Philippines and other emerging markets.

Efficient in store execution can give MNCs additional advertising space and can benefit them in terms of consumer conversion when adequate information is provided. Filipinos as well as other emerging market consumers tend to spend more time at the Point-of-Sale. In store is also increasingly important as there is a growth in ageing population with purchasing power. This group of people tends to spend a lot of time in store, therefore POS material and the creation of a splendid in store experience can help gain customers of this consumer group.

It may be concluded that the Philippines pose high growth potential for FMCG producers. The economic growth, which is a result from a shift of investment from the West into the Asian area gives the people of the Philippines purchasing power. Nevertheless, high investment costs have to be made and new business models have to be created in order to use the potential of the region and transform it into sustainable growth for FMCG multinationals.

6.2 Limitations of the research

The research concluded is a snapshot of growth potential for MNCs at the moment of the literature review and the conduction of written communication with the experts. Emerging markets are dynamic and sudden changes can arise, therefore one limitation of this paper is the fact that in short time country risk can change the opportunities for multinationals in the Philippines.

As this paper is based on demographics of the Philippine population the findings are not applicable to all emerging markets but are rather solely valuable considering the Philippines. Nevertheless, all principles as well as marketing measures collected in this paper are applicable to emerging markets. The extend of the impact of those measures might vary and adaptation might look different depending the market applied to.

Suggestions for further research

As the Philippine population spends increasing time online the author believes mobile, direct selling could gain importance in the Philippine market. As blogs, social media and online recommendations have developed to be fundamentally important for consumers in order to get information and inspiration for purchasing FMCG products in the Philippines, the author believes that mobile selling could give MNCs an option to leverage extensive growth. The increasing number of people owning mobile phones, compared to laptops or computers also shows that app based selling could gain significant relevance. Therefore, the author suggests market research to be conducted in order for TNCs to determine the potential for direct sale of FMCG products via mobile phones.

As Philippine consumers are very aware of market trends in other Asian countries and the US, the author suggests extensive investigation of tastes and preferences from the millennial generation, which has growing purchasing power in the Philippines. Western multinationals need to keep up to date about trends which might influence consumers in the Philippines. Finding out which additional products from the West or Asian countries work in the Philippine market is important and doing so fast is going to give producers a first in the market advantage. In order to investigate such growth options the author suggest for CPG companies to test trending products from neighbouring countries on a small scale in the Philippine market.

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Annex 1 Written communication with the experts

Guideline

Interview Questions:

1. What are the biggest opportunities for FMCG in the Philippine Market and why?
2. What are the biggest challenges for FMCG in the Philippine Market and why?
3. Is product differentiation important for the Philippine market or is market penetration sufficient in order to compete?
4. What are the most common buying habits in the Philippine FMCG market?
5. How fast is the buying behavior changing?
6. How much do international products need to be adapted for the Philippine market?

Written communication with James Ranada

Good day Iro!

Hope all is well.

This is James Ranada.

Here are my answers to your FMCG inquiries:

For your reference, I had worked for around 12 years in sales and marketing positions in the industries of Manufacturing, convenience store retail, and casual dining restaurants. FMCG is an exciting and dynamic topic that has progressed a lot through the years.

Q:

What are the biggest opportunities for FMCG in the Philippine Market and why?

A:

Online targeting/marketing

This is the most significant one. Whether it be toothpaste or softdrinks, big brands like Colgate or Coke already hire social media managers and social media agencies just to focus on this. If the brand is to push sales, it has to stay relevant by having a presence in social media. TV commercials or radio ads create awareness. But social media creates engagement.

In the past several years, FMCG marketing budgets have had a huge allocation increase to online marketing. FMCG packaging and collaterals must include their Instagram or Facebook page addresses. Its actually better for the brand managers since online media spending is way cheaper and easier to track its effectiveness then traditional media.

Convenience for this fast paced lifestyle

You may have experienced it first-hand but traffic has gotten extremely bad in the Philippines around 2-3 years back. People have less time to do what they need to do. Thus, FMCG, even retailers, are working hard to provide products or services to keep up. Smaller pack sizes of shampoo or even oatmeal, on-premise ice cream bars, Mentos in small, durable containers that can fit in your pocket, microwaveable rice meals in easy to carry pouches, are but a few of them.

One habit that has developed due to this traffic is that people now stay 1-2 hours after their office work ends just to let the traffic pass first. So they end up eating in restos, hanging out in the malls, or buy more snacks or beverages then stay in their office. Related to this, there has been a uptrend of working away from your office. People would stay at home or hang out in a cafe and just work remotely. People would rather spend their 2-3 hrs a day stuck in traffic to get more work done in some place nearer. Thus, convenient stores have become even more relevant and are providing more dine-in sitting space for people to hang out. The unique sari-sari stores also now offer more items (FMCG provide specific products just for the sari-sari stores)

Healthy Lifestyle

People want to live longer and have a better quality of life. Del Monte was huge when it launched it's Fit n Right RTD brand. Universal Robina made it big with their C2 Flavored tea line. Pepsi had double digit growth in their non-carbonated lines like Gatorade and Tropicana. Coke had to expand as well with their Zero and Minute Maid lines. People want a healthier, Better for You alternative.

On a related note, there has been a growth in healthy product stores like Fruit magic, Frutas, even US based Jamba Juice in Manila who offer real fruit smoothies and juices to cater to this big opportunity.

Value for money vs low price

Years ago, people bought what was the cheapest. But now, people want VALUE for money. Example, When I was in 7-Eleven, I was in charge of the Slurpee frozen beverage brand. There was a double digit decline year on year for the smallest 12 oz cup size. The growth was in the 16 oz. or 22 oz. sizes. People shifted from the 12 oz. which was the cheapest but also the smallest. Now they are willing pay more to get a bigger size that really quenches their thirst.

The sachet market is still there but people are now more aware and more knowledgeable (thanks to social media and google hehe). This is why Pepsi did really good sales when they launched a discounted pair of their their big 2 Liter sizes. They pushed value for money, they showed the consumer that you could get so much more value, more product in the big sizes.

Q: What are the biggest challenges for FMCG in the Philippine Market and why?

A:

Limited Spending Power

More than 60% of the Philippine demographic is SEC D and E who are the minimum wage earners. In terms of product, many FMCG brands have segmented sub brands to cater to this class. I used to work for CDO Foodsphere who makes canned goods and processed meats. They have their CDO brand of corned beef that caters to the lower income classes. Then they have Highlands Corned Beef which is a more expensive premium line. It's a challenge as it pushes the manufacturers to balance value for money, quality, at an affordable price. Then they have to ensure the brand equity is maintained, thus, having multiple brand that cater to a specific income level class.

Moreover, the price war that follows is a battle that the FMCG competition face all

the time. Making your product great but at an affordable price that is better or even cheaper than competition.

On a side note, this is why FMCG are pushing more premium lines and cater to the ABC demographics to compensate their loss of margins from the low end products. Th year on year growth is in the stronger middle class.

I said above that Online media is a good opportunity but FMCG companies will still need to spend millions of pesos in traditional media just to reach the majority of pinoy who are in the provinces and far flung areas in the Philippines. Its a challenge for FMCGs to spend a lot of resources to create awareness in places where there are no roads or no electricity.

Lack of Infrastructure

The huge traffic problem is a result of this deficient infrastructure. A report said that we lose 1-2 billion pesos in resources a day just due to traffic. This translates to the delivery and logistics of getting the FMCG to the stores is getting more expensive each day. Thus, it's a challenge to offer a good price that makes the customer happy and keep the company's bottom line healthy.

The road and utilities infrastructure is also undeveloped. There are kids in the provinces who have to walk 5 km just to get to school every day because there is no road to get to their house by vehicle. These same kids are in homes that do not have electricity so they have to use a candle to study at night. Imagine how costly it is to make FMCG available to this demographic (which is half of the population).

On a related note, the internet speed and reach is still not as good. it was only last month that the government reported that they plan a national broadband project to make internet better and reach more people. But this will be done in 6-10 years from now. In the meantime, This affects online selling industry like Zalora for example.

SEGMENTS:

Q:

Is Product Differentiation important in the Philippine market or is market penetration sufficient?

A:

Both. The product strategy has to be both. When you launch, an introductory low price is good for high trial. But as time goes by, you need to differentiate yourself one way or the other. Gone are the days of just low price or just differentiation. People have learned and are smarter now. I stress value for money. The brand has to be a balance of perceived great value for the price they are paying for.

But take note, this balance has different levels depending on the category. San Miguel beer is the dominant brand with a long time culture and emotional heritage value attached to it. Many competitors have tried to just offer lower prices but to no avail. Compare this to the Bleach category where Zonrox is the dominant brand, but maybe people can easily switch since the components/ingredients are the same and will still kill bacteria. So again, it will be highly dependent on the category of that specific FMCG

How much growth potential do you see in the market and which product segments?

In our hot tropical country, packed beverages is king

*Health and wellness products - 8
non-carbonated packed beverages
flavored water is a big category right now*

*Energy Drinks - 5
convenient and keeps them going*

Q: What are the most common buying habits in the Philippine FMCG market?

A:

Sachet or "Tingi tingi" marketing

In general, the product is cheaper per oz in bigger packaging. But our low income class just do not have the cash to buy it. So the smaller sizes will just have to do. The tingi tingi style is similar. Example in the wet markets, they put cooking oil into smaller sachets. The vendor buys a 5 gallon cooking oil then repacks it by putting 10 ml oil into tiny plastic bags.

Promotions: Instant gratification better than raffle

There has been a growing trend where customers would rather avail of instant prize promotions like Buy 1 Get 1, discounts, premium item/gift with purchase. They don't like raffles due to the low chances of winning. People actually calculate their chances of winning that grand prize and are not amused. Example: Wow, I just pay P20 more and I have a chance to win the car in that raffle! But wait, this store has 2 thousand branches and have around 300 customers per store per day. So my chances are really really looowwww. No thanks

Q:

How fast is the buying behavior changing?

A:

Maybe around a 6 (1-10). People have developed habits along the years. And with the sari-sari store which are very many and very traditional. Things are changing but it takes time. The internet and social media are helping to speed that up though.

Q:

How much do international products need to be adapted for the Philippine Market?

A:

Depends on the business objective, category and the positioning.

The Philippine market has a fondness for foreign brands. But the market who can afford it is less than half of the population. So the company may expect low volume. Then the category will dictate competition and the general pricing. Can the company survive on low volume and low margins? They need to ensure their OPEX is just right to keep it going with these conditions.

You must do research to find out the category and retail landscape of their products. Introducing a new premium chocolate bar is way different than bringing in a new shampoo brand. It really, truly depends.

I hope I helped a bit.

Thanks Iro!

Regards,

James

Written communication with JoAnne Tolentino

(1) Biggest opportunities:

- big population = big market plus working age population is fairly high meaning more number of people are earning and hence contributing to the consumer demand
- economic growth due to increasing OFW remittances and growth in the IT-Business Process Outsourcing industry results to increasing FMCG spending because of higher purchasing power
- as the IT-BPO industry spreads thru the provinces/other regions (not just limited to Metro Manila, Cebu and Davao), which will be complemented by the increase in the number of convenience stores/hypermarkets/supermarkets/etc nationwide, this will lead to positive development in the FMCG market

(2) Challenges:

- regulatory restrictions under Philippine laws that limit foreign ownership in some industries like in retail trade:

Retail Trade Enterprises

100% foreign ownership is allowed for Philippine retail trade enterprises: (a) with paid-up capital of USD 2,500,000.00 or more provided that investments for establishing a store is not less than USD 830,000.00; or (b) specializing in high end or luxury products, provided that the paid-up capital per store is not less than USD 250,000.00 (Sec. 5 of R.A. 9762). No foreign equity is allowed in Retail Trade Enterprises with less than the above mentioned capital.

- archipelagic challenge = problem with logistics/supply issues. It is cheaper to ship a container to Taiwan from Manila than it is to Cebu. More expenses in transporting supply means higher prices and Filipinos are price sensitive.
- unbalanced income distribution amongst individuals across economic classes and demography: companies need to address this issue by designing their products to cater to the targeted local segments. For example, if target are the "C & D" market,

they have to package their products "small" to keep prices low thus there are products like Coke Sakto, shampoo sachets, etc.

(3) Product differentiation:

It depends on target market. For "A" market, its product differentiation (organic vs non-organic, gluten free, etc). But for "D & E" market, its price. For "B & C", maybe a balance of both.

(4) buying habits and (5) buying behavior:

The Philippines have the biggest and youngest families in Asia and also the fifth largest population in Asia. This makes the needs of the population and buying habits diverse.

Sachet marketing is very strong and Filipinos also want to get good value for their money. Convenience, quality and price are the criteria when buying products. They are aware of their purchases and loyalty of brands is still going strong.

(6) to better serve the Philippine market, FMCG companies need to understand the needs, consumer maturity and product affordability in the local market. They have to adapt and customize the product especially if they want to penetrate the majority of consumers which are the C to D market.

Written communication with Teresa Francisco-Flödl

1. *What are the biggest opportunities for FMCG in the Philippine Market and why?*

(e.g.: growing middle class, product awareness through online targeting, low prices)

I believe FMCG have big opportunities in the Philippines due to a combination of various reasons. Huge population (which means big consumer market), the rich are big spenders, the middle class is growing while economy is getting better, the big income contribution of the OFW's and the healthy number of young working class. In this market, FMCG just need to make sure that through advertising, television, billboards and social media; that their product is visible to the consumers, Filipinos responds/reacts from advertisements; products are easily available in stores; and products should be available in small volume packaging which makes the price affordable to middle and lower income class as well.

2. *What are the biggest challenges for FMCG in the Philippine Market and why?*

(e.g.: new entrants in the market, competitive prices, advert activities, social concerns)

The challenge for FMCG in the Philippine market is the stiff competition. Since the Philippines is a huge market it follows that it is an attractive market. Companies should invest a lot in advertising, make sure their prices are competitive. Filipino consumers are price sensitive.

3. *Is product differentiation (distinguishing a product from others) important for the Philippine market or is market penetration (lower price) sufficient in order to compete?*

I would say a balance of both (emphasizing the difference of a product from the rest and low price) is necessary in order to compete.

4. *What are the most common buying habits in the Philippine FMCG market?(e.g.: promotional purchases, needs-for today buying, bundle-purchases)*

For the high income class, product buying is in bulk wherein consumers also look at promotional items and items on sale. For the lower income class, buying is for short period of time and/or the needs on a daily basis. This is the reason why companies should think of small packaged products. For the middle class, it is a combination of both.

5. *How fast is the buying behavior changing?*

Buying behavior varies depending on what particular product. Filipinos can also establish loyalty to specific brands. I would say that the change is slow, but fueled by social media.

6. *How much do international products need to be adapted for the Philippine market?*

There is not much need for foreign products to adapt to Philippine market. Filipino consumers are adaptable, sometimes they even have this attitude of leaning to foreign products/brand with the mindset that if it is imported it must be good.

Annex 2 Analysis

Expert	Job title
James Randa	Consultant who previously worked for around 12 years in sales and marketing positions in the industries of Manufacturing, convenience store retail, and casual dining restaurants
JoAnne Tolentino	Marketing manager at Commercial Section, Austrian Embassy Philippines, previous work experience at the Asian Development Bank and the Philippine Government
Teresa Francisco-Flödl	Foods & Beverages Manager Commercial Section, Austrian Embassy Philippines

Category 1: What are the biggest opportunities for FMCG in the Philippine Market and why?

	Paraphrase	Generalization	Reduction
E1	Online / Social-media creates engagement; FMCG marketing budgets have had a huge allocation increase to online marketing	Target consumers online and through social media	Overall: Social media to engage consumers, mass media to build brands Additionally: - Meet the demand of current trends in the marketplace
E1	Fast paced lifestyle; Healthier lifestyle, need for easy to carry meals for workforce , energy drinks are a current trend	Adapt products to current local needs	- Bigger sized and bundling as well as small sizes for BOP consumers, who buy for needs of today
E1	People want value for money now, do not only choose the cheapest option like in the past	Bigger product sizes equals better value	- Economic growth in rural areas brings new customers for FMCG
E2	High working age population meaning more number of people are earning and hence contributing to the consumer demand	Big consumer demand	

E2	IT-BPO industry spreads thru the provinces/other regions (not just limited to Metro Manila, Cebu and Davao), which will be complemented by the increase in the number of convenience stores/hypermarkets/supermarkets/etc nationwide, this will lead to positive development in the FMCG market in rural areas.	Demand in rural areas	
E3	Huge population (which means big consumer market), the rich are big spenders, the middle class is growing while economy is getting better, the big income contribution of the OFW's and the healthy number of young working class.	Demand is high for consumer products	
E3	In this market, FMCG just need to make sure that through advertising, television, billboards and social media; that their product is visible to the consumers, Filipinos responds/reacts from advertisements; products are easily available in stores; and products should be available in small volume packaging which makes the price affordable to middle and lower income class as well.	Advertisement is the most efficient way to target consumers in the Philippines	

Category 2: Q: What are the biggest challenges for FMCG in the Philippine Market and why?

	Paraphrase	Generalization	Reduction
E1	More than 60% of the Philippine demographic is SEC D and E who are the minimum wage earners.	Limited spending power	Overall: Biggest part of the population has limited spending power Additionally: -Lack of infrastructure -Diversified needs of population
E1	Premium lines for the richer part of the population	Online focus on re-purchase	
E1	Half of the population does not have electricity so they have to use a candle to study at night. Imagine how costly it is to make FMCG available to this demographic.	Lack of Infrastructure	
E2	Archipelagic challenge = logistics/supply issues. It is cheaper to ship a container to Taiwan from Manila than it is to Cebu. More expenses in transporting supply means higher prices and Filipinos are price sensitive.	Serving the rural population is expensive	
E2	Unbalanced income distribution amongst individuals: companies need to address this by designing their products to cater to the targeted local segments. If target are the "C & D" market, they have to package their products "small" to keep prices low thus there are products like Coke Sakto, shampoo sachets, etc.	Local needs differ to a high extend	
E3	The challenge for FMCG in the Philippine market is the stiff competition. Since the Philippines is a huge market it follows that it is an attractive market. Companies should invest a lot in advertising, make sure their prices are competitive. Filipino consumers are price sensitive.	High FMCG competition	

Category 3: Is Product Differentiation important in the Philippine market or is market penetration sufficient?

	Paraphrase	Generalization	Reduction
E1	Market entry & low price, always differentiate, except that there is no need for market leader to do so. When you launch, an introductory low price is good for high trial. But as time goes by, you need to differentiate yourself one way or the other.	Yes both, but degree depends to category	Overall: Value for Money Additionally: - The product strategy has to be both, price penetration and differentiation. - Market entry strategy with price penetration works best
E2	It depends on target market. For "A" market, its product differentiation (organic vs non-organic, gluten free, etc). But for "D & E" market, its price. For "B & C", maybe a balance of both.	Hire e-commerce experts	- Gone are the days of just low price or just differentiation. People have learned and are smarter now.
E3	I would say a balance of both (emphasizing the difference of a product from the rest and low price) is necessary in order to compete.	Connect industries like fashion & beauty	

Category 4: Q: What are the most common buying habits in the Philippine FMCG market?

	Paraphrase	Generalization	Reduction
E1	In general, the product is cheaper per oz in bigger packaging. But our low income class just do not have the cash to buy it. So the smaller sizes will just have to do. The tingi tingi style is similar. Example in the wet markets, they put cooking oil into smaller sachets. The vendor buys a 5 gallon cooking oil then repacks it by putting 10 ml oil into tiny plastic bags.	Sachet or Tigi Tigi Marketing	Overall: Packaging sizes and product adaptation to population income Additional: - Sachet Marketing is still important for rural/low income areas/people
E1	There has been a growing trend where customers would rather avail of instant prize promotions like Buy 1 Get 1, discounts, premium item/gift with purchase. They don't like raffles due to the low chances of winning. People actually calculate their chances of winning that grand prize and are not amused.	Promotions: Instant gratification better than raffle	
E2	Nowadays people of all ages shop online	No generational barriers anymore	
E3	For the high income class, product buying is in bulk wherein consumers also look at promotional items and items on sale. For the lower income class, buying is for short period of time and/or the needs on a daily basis. This is the reason why companies should think of small packaged products. For the middle class, it is a combination of both	Bulk for high income; Small packages for lower income class	

Category 5: How fast is the buying behavior changing?

	Paraphrase	Generalization	Reduction
E1	People have developed habits along the years. And with the sari-sari store which are very many and very traditional. Things are changing but it takes time. The internet and social media are helping to speed that up though.	- Population has developed buying habits	Overall: Buying behaviour is changing, but not so fast. Digitalization is aiding the shift in consumer preferences.
E2	Loyalty is still alive and well, with 89 percent saying that they would buy the brands they regularly use, even if confronted with a promotional offer from a competitive brand. This shows that they have defined ways to shop and those habits don't change that fast.	- Loyal to brands	
E3	Not so fast, buying behavior is learned, so it does stay but adapts slowly over time.	-Learned buying behaviour	

Category 6: How much do international products need to be adapted for the Philippine Market?

	Paraphrase	Generalization	Reduction
E1	The Philippine market has a fondness for foreign brands. But the market who can afford it is less than half of the population. So the company may expect low volume. Then the category will dictate competition and the general pricing. Can the company survive on low volume and low margins? They need to ensure their OPEX is just right to keep it going with these conditions.	It really, truly depends	Overall: Filipinos are fond of foreign brands Additional: -adaptation to rural population
E2	To better serve the Philippine market, FMCG companies need to understand the needs, consumer maturity and product affordability in the local market. They have to adapt and customize the product especially if they want to penetrate the majority of consumers which are the C to D market.	Need to meet the needs of BOP consumers	
E1	Not really a lot, the Philippine population has an international mindset and likes foreign products.	Foreign brands are a plus	

Further Sources

Family Income and Expenditure in 2015

TABLE 1 Number of Families, Total and Average Annual Family Income and Expenditure by Region: 2015

Region	Number of Families (in thousands)	Income		Expenditure	
		Total (in millions)	Average (in thousands)	Total (in millions)	Average (in thousands)
Philippines	22,730	6,068,162	267	4,882,860	215
National Capital Region	3,019	1,282,823	425	1,053,215	349
Cordillera Administrative Region	402	113,531	282	84,004	209
I - Ilocos Region	1,170	278,515	238	212,525	182
II - Cagayan Valley	816	193,589	237	132,063	162
III - Central Luzon	2,507	750,054	299	600,095	239
IVA - CALABARZON	3,251	1,013,942	312	875,400	269
IVB - MIMAROPA	697	154,612	222	111,907	161
V - Bicol Region	1,262	236,476	187	202,469	160
VI - Western Visayas	1,699	384,039	226	299,808	176
VII - Central Visayas	1,672	399,734	239	323,434	193
VIII - Eastern Visayas	976	191,720	197	151,994	156
IX - Zamboanga Peninsula	824	156,872	190	118,758	144
X - Northern Mindanao	1,029	227,998	221	166,005	161
XI - Davao Region	1,156	285,560	247	219,680	190
XII - SOCCSKSARGEN	1,055	198,438	188	170,863	162
XIII - Caraga	579	114,745	198	92,243	159
Autonomous Region in Muslim Mindanao	616	85,514	139	68,397	111

Note: Details may not add up to total due to rounding.

Source: Philippine Statistics Authority, 2015 Family Income and Expenditure Survey Final Results

Major Expenditure Group by Income Class in 2015

Region Major Expenditure Group	All Income Classes	Income Class				
		Under 40,000	40,000 - 59,999	60,000 - 99,999	100,000 - 249,999	250,000 and over
Philippines	4,882,860	12,376	47,947	262,096	1,500,018	3,060,424
Total family expenditure (in millions)						
Percent to the total expenditure	100.0	100.0	100.0	100.0	100.0	100.0
Food expenditures	41.9	60.8	59.9	58.8	51.6	35.3
Food consumed at home	33.7	55.2	54.8	53.2	43.8	26.7
Bread and Cereals	11.7	24.5	25.2	23.8	16.9	7.8
Meat	5.4	3.7	4.1	4.7	5.9	5.2
Fish and Seafood	5.0	9.5	8.6	8.4	6.7	3.8
Milk Cheese and Eggs	2.8	2.3	2.6	2.8	3.0	2.7
Oils and Fats	0.6	1.0	1.0	1.0	0.8	0.5
Fruit	1.2	2.1	1.9	1.7	1.4	1.1
Vegetables	2.3	5.6	5.0	4.3	3.2	1.7
Sugar, Jam, Honey, Chocolate and Confectionery	0.9	1.6	1.5	1.5	1.1	0.6
Food Products Not Elsewhere Classified	1.0	1.7	1.7	1.7	1.3	0.8
Coffee Tea and Cocoa	1.5	2.5	2.3	2.2	2.0	1.2
Mineral Water, Softdrinks, Fruit and Vegetable Juices	1.3	0.9	1.0	1.1	1.4	1.2
Food regularly consumed outside the home	8.2	5.5	5.1	5.6	7.8	8.6
Alcoholic Beverages	0.5	0.9	0.9	0.8	0.7	0.4
Tobacco	1.1	2.0	1.9	2.0	1.7	0.8
Other Vegetable-Based Products	0.0	0.1	0.1	0.0	0.0	0.0
Clothing and Footwear	2.4	1.8	2.0	2.2	2.2	2.6
Furnishings and Routine Household Maintenance	2.5	2.2	2.2	2.1	1.9	2.8
Health	3.7	1.9	2.2	2.3	2.8	4.3
House Rent/Rental Value	12.2	11.3	10.7	9.6	10.7	13.2
Water Electricity Gas and Other Fuels	7.9	9.1	8.3	7.6	7.9	7.9
Transport	6.2	3.1	3.2	3.9	5.3	6.9
Communication	2.2	0.3	0.6	0.8	1.4	2.8
Recreation and Culture	0.8	0.2	0.5	0.5	0.6	0.9
Education	3.8	0.3	0.7	1.4	2.5	4.6
Accommodation Services	0.2	0.0	0.1	0.1	0.2	0.3
Miscellaneous Goods and Services	6.3	3.9	4.4	4.7	5.4	7.0
Durable Furniture and Equipment	2.5	0.3	0.5	0.8	1.5	3.2
Special Family Occasion	2.5	0.8	1.1	1.6	2.1	2.9
Other Expenditure	3.1	0.7	0.7	0.9	1.3	4.2