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## **Supply Chain Management in Filipino SMEs**

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# Supply chain management in Filipino SMEs

## Abstract

Most literature on supply chain management (SCM) focuses on large organizations with global operations employing high-level information technology. This creates a gap in the knowledge of how SMEs use and practice supply chain management. This paper documents and analyses the SCM model being used by small and medium enterprises (SMEs) in the Philippines. The SCM model is based on the Focus-Localize-Partner framework as applied to the supply chain architecture and the support being used by Philippine SMEs. Main respondents of the study are members of an NGO that helped in the development and growth of SMEs in the Philippines. Interviews and workshop were conducted to document and understand the implementation of SCM among these firms. The author's experience and observation were used in the analysis of the innovation in SCM among Filipino SMEs. Results of the study revealed that Philippine SMEs are carrying out SCM through the in-depth incorporation of accepted business practices among Filipino entrepreneurs.

*Keywords:* Focus-localize-partner model, “sari-sari” store, “maglalako”, kabesilyas, missing middle

## 1.0 Introduction

Supply chain management (SCM) literature has always been focused on large organizations (LOs). Small and medium enterprises (SMEs) are part of the supply chain as suppliers of inbound logistics as well as distributors to final users. They are usually classified as second or third tiered suppliers. Supply chain management is usually tied-up with the use of information technology and adoption of e-commerce (Bowersox, 2007; Li, 2007). Use of highly technical tools like JIT, MRP, and inventory management highlight the implementation of supply chain management. SMEs are less capable in using these technologies in their supply chain network.

Many small and medium enterprises have developed their own supply chain in a context different from the traditional supply chain of LOs presented in literature. Examining the supply chain developed by Philippine SMEs showed different process innovation to cater to the needs and satisfaction of the end consumers. This also results to different product innovation and processes of delivering the goods to the end users. This paper documents the supply chain management framework of Filipino SMEs. It also identifies different process and product innovations that resulted from the marketing perspective of putting the end-customer first.

The research was conducted using interviews and workshop with SMEs who are beneficiaries of an NGO, Foundation for Enterprise Management Innovations, Inc. (FEMI) Data were gathered during the workshop and interviews were validated through actual observations on the conduct of business of SMEs in the rural and urban areas.

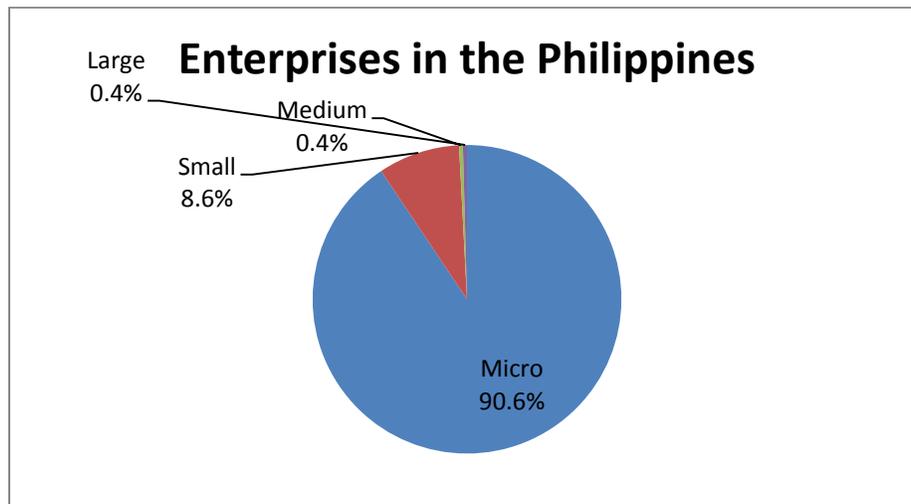
## 2.0 SMEs and entrepreneurs in the Philippines

Business in the Philippines is dominated by micro, small and medium enterprises (MSMEs) totalling to 816,759 establishments as of 2011. MSMEs comprised more than 99.6% of all registered establishments in the Philippines (DTI Statistics, 2012). Ninety percent (90.6%) of business establishment are micro industries, 59% are engaged in wholesale and retail business. Small enterprises account for 8.6% while medium sized establishments account for 0.4%. On the other hand, only 3,496 or 0.4% is classified as large organizations, 43% are in the manufacturing sector.

Table 1

*Philippine business profile for micro, small, medium, and large businesses in 2011 (DTI, 2013)*

Size of the firm	Quantity	%
Micro	743250	90.61%
Small	70222	8.56%
Medium	3287	0.40%
Large	3496	0.43%
Total	820255	100.00%



*Figure 1. Philippine Business Profile (DTI, 2013)*

MSMEs contribute to job generation in the country, generating seventy percent (70%) of total employment in the country. Only 30% of total employment is provided by LOs in the Philippines. SMEs played a major role in employment generation. MSMEs are mostly in the wholesale and retail trade (47%), manufacturing (13.7%), and accommodation and food service (12.9%). Most MSMEs in the manufacturing sector are in the manufacture of food products, grain mill products, custom tailoring and dressmaking, fabricated metal products, beverages, and metal working service activities.

The Philippine Global Entrepreneurship Monitor Report for 2006-2007 has documented the profile of Filipino entrepreneur (Madarang and Habito, 2007). According to the report, 39.4% of Filipinos are engaged in entrepreneurial activities. Majority (52%) of these entrepreneurs are in the early stage of business (3 months to 3 years) with an average capital of P10,000. They are classified as SMEs.

The typical Filipino entrepreneur is male, married 25-44 years old and completed secondary school. They are driven by necessity and more than half are engaged in retail trade. There is very little application of technology and product development. Seventy percent are engaged in businesses that do not generate employment because the entrepreneur assumes all the function of the business. Filipino entrepreneurs served mostly the domestic market. Very few are engaged in export activities.

The present pool of Filipino entrepreneurs is driven by previous work experience (37%), exposure to family business (29%), and education and formal training (17%). Fifty-four percent of entrepreneurial motivation of Filipino entrepreneurs came from their desire to support the financial needs of their family. Only 37% takes advantage of an opportunity. Corruption, inefficient government bureaucracy, and inadequate infrastructure discouraged people to enter into business and consider employment more as a source of livelihood.

Filipino entrepreneurs serve the domestic market. Only 23% of Filipino businesses are engaged in export-oriented activities. There is little product innovation and technology use in businesses of Filipino entrepreneurs.

### **3.0 Supply chain management and SMEs**

Supply chain is the network that the business develops with its suppliers and customers. Suppliers pertain to all external entities that provide the firm resources that are needed in the efficient operations of the business. Suppliers can mean suppliers of raw materials, equipment, human resources, information, equity or credit. Customers cover all firms or entities that participate in moving the goods from the business to the ultimate consumers.

Supply chain management (SCM) is the process by which firms effectively and efficiently uses its resources and capabilities to accomplish activities necessary to the delivery of goods and services to the ultimate customer in order to meet the firm's goals of profitability and sustainability. Hugos (2003) identified five drivers of supply chain. These are production, transportation, inventory, location, and information. Supply chain management aims to deliver goods/service to its customers with the least cost at the right time and with the right quality. Each participant in the supply chain is considered a customer of the preceding entity. The firm is the customer of the supplier and the distributor is the customer of the firm.

Supply chain management has always been a strategic factor in the profitability, growth and sustainability of LOs. Supply chain management in SMEs have not been widely studied (Thakkar, 2008; Calipinar, 2007; APO, 2005). Researches done on SCM as implemented by SMEs, position SMEs as participant in the supply chain of LOs. Definition of SCM in SMEs proposed by Thakkar, et al (2007) covers activities from purchase of raw materials to production of subcomponent/subassembly to delivery to large enterprises. This definition assumes that large organizations are the only customers of SMEs. Supply chain management in SMEs is always seen as a means to engage SMEs in the business of LOs (Calipinar, 2007; Asian Productivity Organization, 2002). However, SMEs in developing countries do not necessarily have LOs as their ultimate customers. They are more often the channels of LOs to deliver the goods to the end-user. The LOs act as the suppliers of the goods and the SMEs their ultimate customers. This shed a different light to the role of supply chain management in the business operations of SMEs.

For the purpose of this study, SCM will be defined the same way LOs defined SCM in their business: *the process where organization adopts the necessary strategies to link all participants in the supply chain using appropriate means and technology to efficiently and effectively deliver the goods/service to the ultimate customers in order to meet the objectives of the organization.* The ultimate customers an SME served can be the LOs it does business with or the end-users of the products/service it sells. SCM in SMEs does not have to be on a global operation. It can also mean linking the networks in domestic market operation with other SMEs. Although the business of SMEs covers a narrower scope and lesser economic value, SMEs adapt supply chain management processes just like the LOs. Strategy formulation, technology and e-commerce support, inventory management, quality customer service, and human resource management are some of tools SMEs use in managing their supply chain.

Several characteristics of SMEs have been summarize by Thakkar et al (2007) that showed the facility for SMEs to adapt SCM. These are: flat structure, ability to innovate, size and flexibility, support of free information technology, low levels of organizational hierarchy, direct involvement of owner as chief operating officer, transparent departmental wall, easy access to demand and supply data, flexibility to adapt to changes in orders, short manufacturing lead time, flexibility to adapt to customers' demands.

#### 4.0 Supply chain management and Philippine SMEs

Business in the Philippines in the Philippines is dominates by SMEs. To reach the domestic market, LOs have no choice but to move the goods using distributors, wholesalers, and retailers. Retailing comes in different forms. This can be in the form of department stores (stand alone or in malls), groceries, kiosks, home shopping, service stations, vending machines, direct selling through agents, “sari-sari” stores and street hawkers or vendors. The need to satisfy the customer needs created a supply chain network among Philippine SMEs that made it inevitable for LOs to adjust their view of supply chain management to be effective in delivering the good to their final customers. Close partnership with SMEs helped LOs to understand better its market. This leads to better profitability and sustainability for both SMEs and LOs.

##### 4.1 SCM model in Philippine SMEs

Supply chain management model of Filipino SMEs was developed using inputs from SMEs who are beneficiaries of FEMI. There were 21 participants that participated in the interviews and workshop conducted last November 2009. This was followed up by another workshop on inventory management held on July 2013. Tables 1 and 2 summarized the profile of owners and business of the SMEs.

Table 2  
*Profile of Respondents*

Gender	
Male	45.50%
Female	54.50%
Civil Status	
Single	0%
Married	100%
Average Age	43.7 years
Number of Children	2.6
Educational Attainment	
Master's Degree	9%
College	75%
Vocational	18%
Elementary	9%

Table 3  
*Business Profile*

Form of business	
Sole proprietorship	96%
Corporation	4%
Nature of Business	
Trading	28%
Manufacturing	64%
Service	8%
Products offered	Processed food Real estate Beauty and health Garments Fruits and vegetables Poultry
Business model used	
Anticipatory	73%
Responsive	55%
Anticipatory and responsive	27%
Average monthly gross sales	P1.167m
Average monthly gross income	P160,000
Average number of suppliers	5.8
Average number of dealers/distributors/subcontractors	39
Initial capital	P78,400
Number of workers	15

The SMEs in this study have been conscious in implementing supply chain management. Majority being college graduate, the supply chain network of their business is very clear to them. Thirty-six percent (36%) have their own retail store or facility to sell their products to the final end-user and employ their own sales force. More than half (64%) move their products through wholesalers and 27.3 % use combination of wholesalers, retailers, an agents.

Philippine SMEs adapt a supply-chain-management model that captures the needs of the customers. Final decision to purchase the goods lies on the ultimate customers. This decision is composed of four major considerations, when, how much, how many, and where to buy. The decision to buy triggers the dynamics of the entire supply chain. Filipino SMEs cater to the domestic Filipino market as their ultimate customers. The sheer number of the domestic market, 90 million (NSO, 2006) population creates a large opportunity base for Filipino SMEs. The population is expected to reach 140 million by 2040. The large population base can sustain the SMEs business and generate for them acceptable profitability level. The needs of this market are met by providing them the goods and services that they need and demand at the right price, time, and place. The business has to go to the place where this market is located and make sure that the ultimate customers have easy access to the product or service. The product has to be affordable and align with the needs of the market. Given this requirement, Filipino SMEs found innovative

ways of aligning smoothly with the supply chain through product design, marketing and distribution of the product.

The SCM model being used by Filipino SMEs is given in Figure 1. Filipino SMEs rely on two types of suppliers for their product, local and foreign suppliers. Foreign suppliers use the services of importers or indentors. Majority of these SMEs do not go directly to the indentors or exporters but through the dealers or retailers who are distributors of the importers. SMEs either manufacture their products or outsource production to sub-contractors to maintain or lower costs. Outsourcing is done on product design activities and production.

SMEs distribute the products to the ultimate customers in different ways. Some use common channels like distributors, wholesalers, and retailers. However, other distribution channels are also used where innovation is very much present. It is common for Filipino SMEs to employ agents to sell the product. These agents are given commission for every sale they make. They are also the ones to collect the payments if ever credit sale is given. Convenience store, or locally termed as “sari-sari” store, is more commonly employed as channel of distribution. Large organizations in the Philippines rely on “sari-sari” store in the distribution of their products to the ultimate customers. These stores can be found everywhere, in rural or urban areas. One food multi-national company estimated that 75% of its total sales are generated at “sari-sari” stores. However, multinational companies like Proctor and Gamble have not fully understood how to sell good through sari-sari stores (Olarde and Chua, 2005). Multinationals considered themselves “Johnnies – come lately” in selling the way sari-sari stores do.

Bringing the goods at your doorstep is literally done by Filipino SMEs using street hawkers/vendors or “*maglalako*”. Vendors usually give credit with payment terms that are affordable to the market. Payment for purchases is usually made by paying equal amount weekly for a period of two months. The easy payment scheme entices the buyer to buy the product. There is a very high rate of collection. Street hawkers use social pressure to ensure collection of receivables.

Supply chain of Filipino SMEs goes beyond the traditional documentation of supply chain in LOs where the chain usually ends at the retailers. The needs of the Filipino ultimate customers are being met with innovative distribution channels not usually present in developed countries dominated by LOs.

Bringing the goods to the ultimate consumers has been dominated by the retail trade in the Philippines. More than 90% of the retail trade is coursed through small stores called sari-sari stores (trade Chakra, 2010). The concept of sari-sari store is being modified in the urban areas through convenience stores. These stores operate 24/7.

Aside from the supplier-distributor aspect of SCM, another variable that plays an important role in the supply chain network of Philippine SMEs is the source of credit. SMEs usually face limited source of capital needed to finance the operation of the business. They cannot access the banks and other financial institutions that require formal documentation of business operations and outlook and collateral as security for loans to be granted. Logistics to move the products like transportation and delivery services are also important elements of the

SMEs supply chain. SMEs also make use of subcontractors to provide goods and services that can be better acquired through outsourcing than manufacturing the product due to economies of scale considerations.

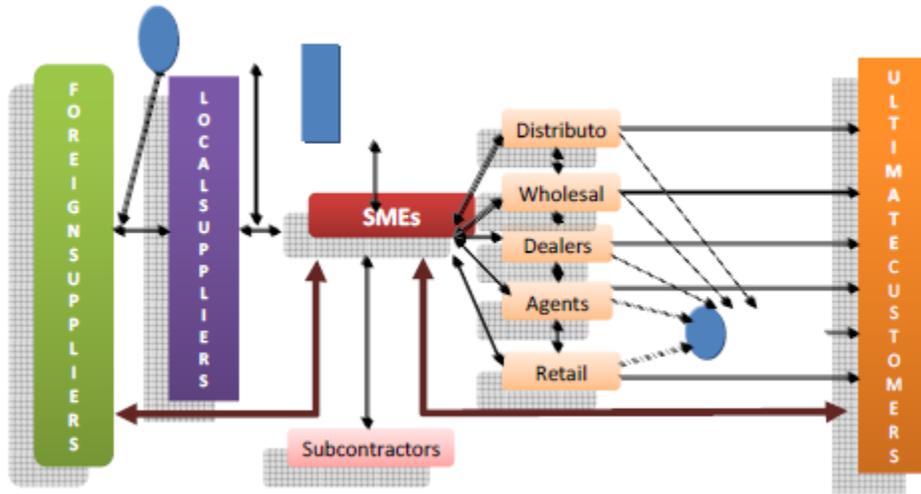
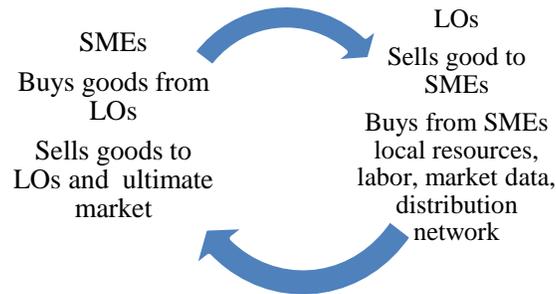


Figure 2. Supply chain of Filipino SMEs

#### 4.2 Focus-localize-partner model

Supply chain management in Philippine SMEs captures the Focus-Localize-Partner (FLP) Model developed by the World Business Council for Sustainable Development (WBCSD). It is premised on creating wealth through poverty reduction through partnership of the LOs with the poor sector. Philippine SMEs cater to the poor sector in the domestic market. They get their supply of raw materials or goods for sale from LOs or more commonly known as multinationals. The main movers of goods produced and marketed by the LOs is the retail industry in the Philippines, 90% of which are sari-sari stores. Large organizations have seen the need to partner with SMEs in order to capture the market they have not considered in the past. The SMEs provide the LOs the information on how this market can be better served. Business engagement with the SMEs and LOs is shown in Figure 3. Figure 3 shows the SMEs and LOs engagement as business partners both as customers and as suppliers in the supply chain.



*Figure 3. SMEs and LOs SCM partnership*

The FLP Model aims to create business partnership between the SMEs and large enterprises. In the context of SCM, The FLP model is used as the framework to sustain the supply chain network between SMEs and LOs. The model is shown in Figure 4.

Focus refers to knowing the core competencies of the firm. Both SMEs and LOs must be able to identify this to be able to optimize the partnership. SMEs have direct link to the ultimate consumers while LOs have the technical and production capability to deliver the goods. Partnership between SMEs and LOs should be based on developing strategies that are based on market forces. It should also consider value added to the community or the benefits the community will be able to enjoy. In the SCM implementation, this can mean better access to goods and services at an affordable price given the low income of the market being served by the SMEs and LOs. Large enterprises should begin to create focus groups that aim to satisfy the need of the market for accessibility and affordability of goods and services.

Localize refers to knowing the local market being served. This can mean market intelligence, manufacturing capabilities, and distribution channels. Knowing the needs of the community goes beyond market research traditionally being done by LOs. SMEs can better provide information that can help LOs better understand the market.

Large organizations and SMEs should create partnership among other sectors like the government, other SMEs operating within the business environment, non-government organizations, universities, and other businesses that are part of the supply chain to attain sustainability. This can lead to a better understanding of the market, their needs and aspirations. The partners should also help in getting political and community support. Partners should be involved from the very beginning to define the interest among partners.

Supply chain management to effectively serve the needs of SMEs and LOs should be seen as a model that focus-localize and partner. The experience of LOs in the Philippines in actively collaborating with SMEs in the retail trade has created a more sustainable business through innovative product design called “sachet” that made product sellable even times of recession. Accessibility and affordability of products are outputs of Philippine SMEs and LOs FLP model application.

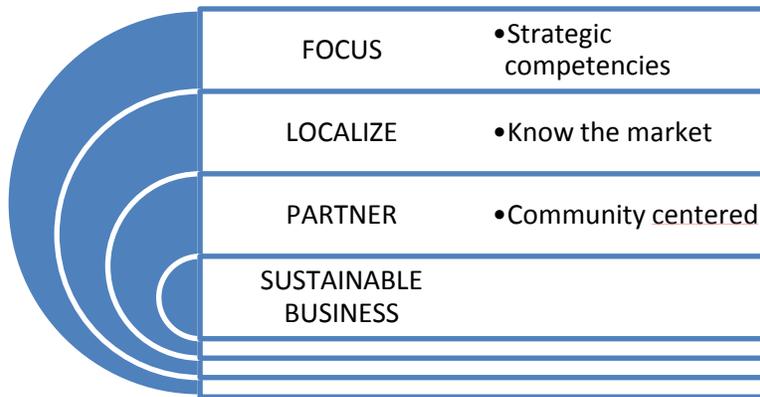


Figure 4. Focus-localize-partner (FLP) model

### 4.3 SCM models of selected Philippine SMEs

The following section presents two case studies documenting the supply chain management model of SMEs engaged in the production of house furnishing, decorations, bath, and specialty soap. The two case studies feature the importance of networks, access to capital, and capacity building activities in the enterprise’s supply chain management to ensure the growth and sustainability of the business.

#### 4.3.1 Arts and Decors

ABC<sup>1</sup> Furniture is a manufacturer of home decors and furniture located in Pampanga. The business started in 2000, with meager investment of the owner. He started as designer, all around carpenter and merchandiser from a furniture shop in Pampanga. It was there where he learned his hands-on basis, the ins and outs of the furniture and décor business. From two regular customers, he was able to turn around the business and establish a good track record in the manufacturing of house decors, cabinets, and dividers and among other home interior accessories. The business caters to retailers and wholesalers of house furniture and décor that sells their merchandise on direct selling/house to house method. Territorial coverage of products is in Pampanga, Bulacan and Laguna. The company maintains three big distributors (1 in Manila and 2 in Pampanga). Sales are made on cash 30% and on credit 70%, terms are from 30 to 120 days covered by post-dated checks.

ABC Furniture is supplying three major establishments. It is supplying home décor products to a merchandizing firm with estimated monthly average sales of P500,000.00. This networking transaction started 5 years ago and it is still on going at present with satisfactory experiences between the two. ABC is also supplying another store in Pampanga selling various home décor products with average monthly sales P100,000.00. Their dealings started 5 years ago and it is still on going with satisfactory

<sup>1</sup> Names of SME has been disguised to preserve confidentiality of information.

experiences. Tinio's is also the supplying another merchandizer of various home interiors and wall decors for about 3 years.

ABC's products and good business practice enabled the business to grow. Tinio's Furniture catered to the low-income market in the provinces in central and northern Luzon and Cebu. The business sells its product through retailers and wholesalers called *kabesilyas*. *Kabesilyas* make use of retailers called *canvassers* to sell the product on direct selling mode by retailing house to house. The canvassers sell the product on credit terms usually 150 days on credit payable on a bimonthly instalment basis. The canvasser also acts as collector. The *kabesilyas* use an informal credit investigation system in order to approve the credit sales. A down payment equivalent to the first instalment is given to the canvassers as commission. If credit sales are disapproved, the down payment is returned and the canvassers will not get any commission. The company has three big distributors, one in Manila and two in Pampanga. Cash sales amount to thirty percent of total sales while 70% are on credit. Credit terms are 30-120 days covered by post-dated check.

In 2006, ABC Furniture availed a loan from an NGO called FEMI, catering to financing needs of growing SMEs P200,000. This loan amount is used to augment capital requirements to meet its increasing sales. The loan enabled the business to increase its production to meet demand for the products. This increase ABC's income and expand its operations. The business availed of a loan yearly of P200,000 to P300,000. Total loan amounted to P1.7 million for the past six years. The business has increased its sales from P8.4 million in 2006 to P27.06 million in 2009. Net income before tax was P467,000 for the year 2006 and increased to P3.92 million in 2009. Number of employees increased from 18 to 23 in the past six years with salaries that range from P4,000 to P24,000 a month.

Success of ABC Furniture is attributed by the owners to the following: (1) the quality of the product that they have maintained to deliver to the market; (2) operations and marketing strategy that they have developed to keep their customers and grow their customer base; (3) access to loan from FEMI that provided the needed capital to meet the demands of the market; (4) conservative way of handling their finances; and (5) hard work and hands-on management of the business. ABC does not borrow funds unless there is a definite business project to invest in. Large portion of the profits are retained to expand and grow the business. The documentation requirements of commercial banks and the difficulty to access loan discourage the couple from trying to borrow from formal financial institutions.

The growth of the business can be traced to an innovative way of distributing the product to the end customers and the use of credit with payment terms synchronized with the cashflow of the customers. Another factor that contributed to the success of the business is the quality of the product and the good network of ABC with its suppliers both in Pampanga and in Manila. The improvement in sales and income allowed ABC to improve its production plant and equipment. It also improved the quality of life of ABC family. ABC has made a significant contribution in the community where it operates.

Jobs are generated not only for the direct hire of Tinio's Furniture, but, also for its suppliers and distributors. Fourteen new jobs were created and 100 distributors were added to sell Tinio's products.

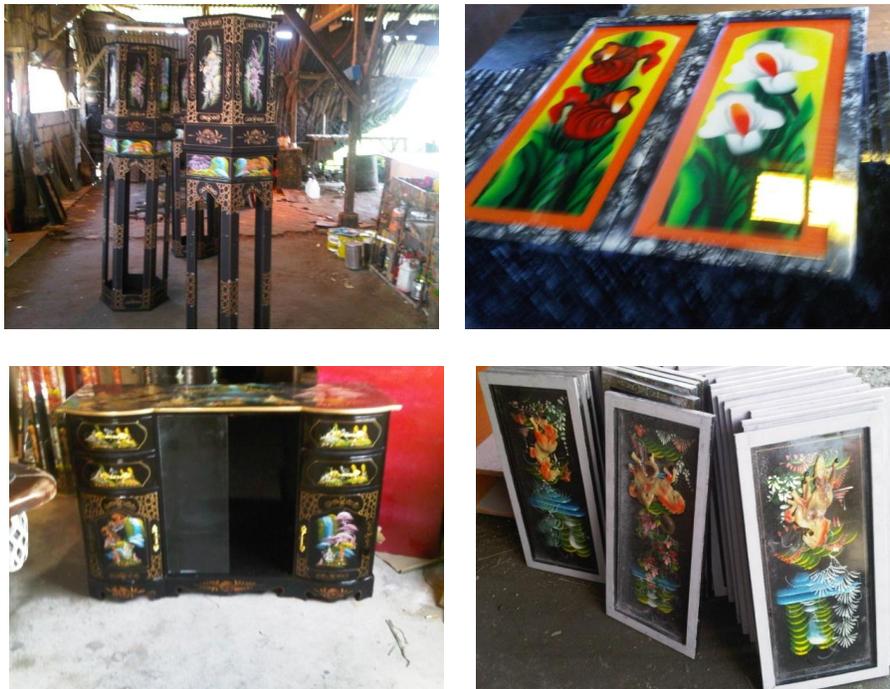


Figure 5. ABC Furniture's products

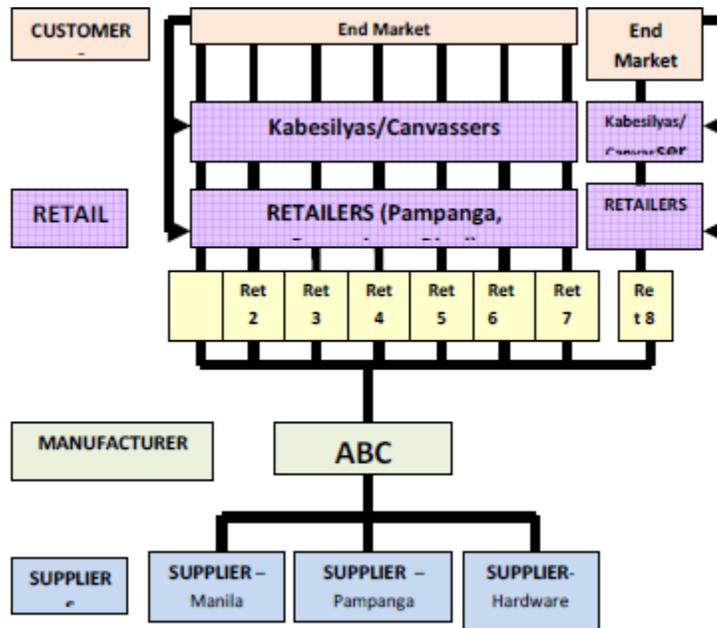


Figure 6. Supply chain of ABC Furniture

#### 4.3.2 Soap Manufacturing

JCF Soap Manufacturing JCF started as JIMAR Cosmetics Manufacturing in 1996. The name was later changed to JCF Soap Manufacturing. The business started with the manufacture and sale of perfume, detergent soap, and bleaching chemicals. To date, the company concentrates on the production and sale of papaya whitening soap. The owner started as a sales agent of cosmetics and beauty care products. Her knowledge of the product, the market, and networks of suppliers and manufacturers inspire her to put up her own business engaged in the manufacture and sales of beauty products. Her network with a chemist friend enabled her to develop beauty products like perfume, soap, and bleaching chemicals. She was able to seize the opportunity to cater to the demands of the Filipino market on skin whitening products. To further enhance her knowledge and skills in product development, she attended training programs being given by TLRC on soap manufacturing. Equipped with technical knowledge on soap manufacturing, she concentrated on the sale and production of papaya soap.

The company carries the brand name “*Dagta*” papaya soap and “Brilliant” for detergent. The company eventually phased out the production of detergent and concentrated on papaya soap. The business operates on an 8-hour shift with eight employees. Production includes soap manufacturing which included raw materials preparation, mixing, forming, and packaging.

JCF expanded the business through a loan of P100,000 with FEMI. The business registered an annual sale of P1.68 million with a profit margin before tax of 46.04% or P773,486. As of 2009, annual sales amounted to P2.99 million with a 48% profit margin before tax or P1.44 million. Number of employees remained at 8 over the last four years. Today, the business has 3 distributors, 23 dealers and 3 suppliers. Today, JCF is in the process of expanding its supply chain through more distributorship and stores to reach the final consumers. It is also preparing documentation procedures to avail of loans from formal financing institutions like commercial banks thereby expanding its network of credit suppliers.

JCF attributes the growth and sustainability of the business to the financial resources provided by FEMI during its growth period. Better profitability level and funds management are attributed to the training and seminar workshop on cash and working capital management; kaizen and supply chain management; marketing seminar; and seminar on legal management. JCF was also able to increase the company’s asset base through the acquisition of a new vehicle through a bank loan and acquisition of additional property that is used as factory and outlet store of her products.

The business sells its products through distributors. It also manufactures soap for AZEE Natural Herbal Soap, RCC Amazing Touch, Angel Soap, Healpro Company, First Power Company, and Aura Herbal Soap. These distributors sell the soap to various store outlets. Fifty percent of its total sales are its subcontracting arrangements with AZEE with the soap being sold using AZEE’s brand name. The papaya soap carries the brand name “*Dagta*”. The company sources its raw materials and supplies from three suppliers

on a 30-day credit term. It sells its products on cash basis and credit terms of 30-45 days. The company does not enter into direct distribution of its products in supermarkets due to the high cost being charged for consigning the product and a long payment term of 120 days. *Dagta* soap is sold nationwide through distributors. It is available in Luzon, Iloilo, Cebu, Leyte, Masbate, and some parts of Mindanao. It has ten major distributors all over the country.

The company carries a wide assortment of papaya soap addressing different needs for skin care. The products are as follows:

- Dagta Papaya Herbal Skin Whitening Soap – pure organic soap made from fresh papaya fruit, coconut oil and minerals. It nourishes the skin and prevents skin blemishes and allergies.
- Rich Katas ng Papaya Skin Bleaching Herbal Soap – skin bleaching herbal soap with coconut oil. It can be used as a bath soap to whiten the skin.
- Dagta Oatmeal with Milk Soap – contains milk and oatmeal with glycerine and mineral oil that nourishes the skin and prevents white and black heads.
- Dagta Akapulko-Guava Herbal Soap – anti-bacterial soap for skin diseases such as “*an-an*”, athlete’s foot or “*alipunga*”, eczema and other skin allergies. It can also be used as feminine hygiene soap.
- Dagta Tawas-Papaya Herbal Skin Whitening soap – prevents body odor, skin blemishes and allergies.
- Dagta Kalamansi with Tawas Deodorizer Herbal Soap – protect the body from excessive sweating, perspiration, and body odor.
- Dagta Squalene Plus Papaya Soap – anti-aging soap that contains deep-sea shark liver oil, fresh papaya fruit, coconut oil, and minerals.
- Hair Grower with Aloe Vera Herbal Soap – contains aloe vera extract that prevents hair loss
- Dagta Skin Whitening Glutathione Soap with Alpha-T Acids, Vit C, and Sheep Placenta Extracts – skin whitening, anti-aging and anti-oxidant soap

The success of JCF Manufacturing is attributed by Josie to the ability to recognize the opportunity on papaya soap, conservative fund management, and good quality product. The company is planning to market the product more aggressively. The company has put up its own website through Facebook account to cater to a wider global market. The company through the help of FEMI has engaged a consultant to help expand its market and introduce its brand as “*Dagta*”. Marketing strategies are being developed to increase the market. One of this is the establishment of JCF’s website, [www.dagta.tk](http://www.dagta.tk)

Another way of delivering the goods to the ultimate customers is the using street hawkers or peddlers more commonly known as “*maglalako*”. They can be found in rural and urban areas making goods very accessible to the market. The *maglalako* peddles goods from fruits and vegetables to garments, household and kitchen utensils. They offer goods on cash and credit. Some SMEs interviewed in this study use the *maglalako* in delivering the goods to the consumers. There is a good repayment rate on credit sales due

mainly to the regularity of visit of the peddlers to sell and collect and the social pressures imposed by the neighbourhood where credit sales dominate.

The *maglalako* is usually used by SMEs as agents in their supply chain. The SMEs would like to expand its market but putting up new retail outlet requires more capital. Thus, peddling the goods to different location makes SMEs to have a wider market reach.

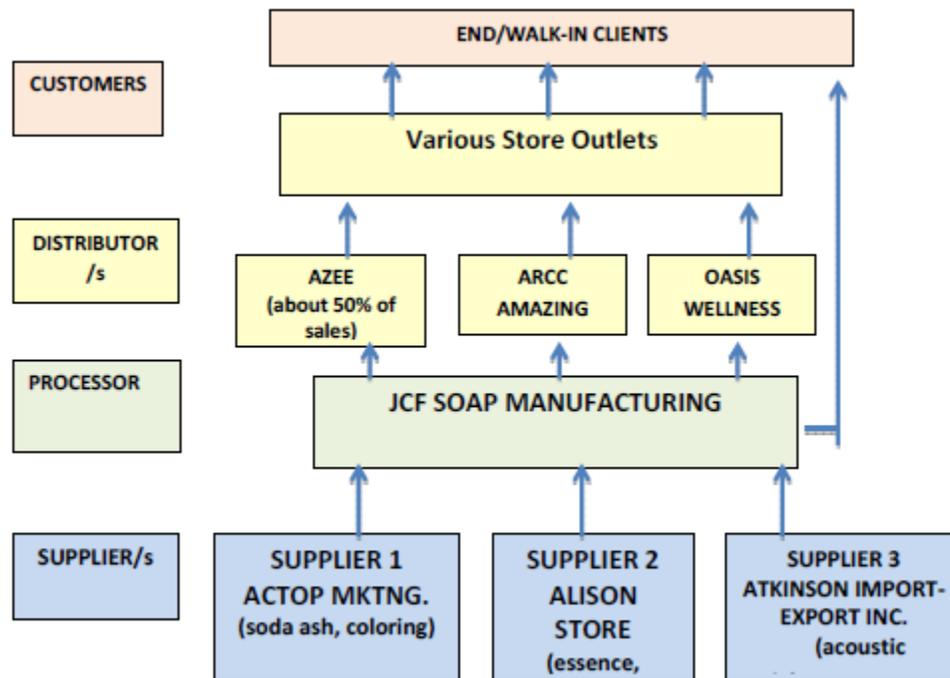


Figure 7. Supply chain of JCF Manufacturing

## 5.0 Lessons learned

Small and medium enterprises follow a very simple supply chain management system. The system of these SMEs is characterized by partnership and informal networks with suppliers of resources (raw materials supply, equipment credit, and labor). The SCM success of the two mentioned cases shows the effectiveness of its business model hinged on partnership. Partnership comes in the form of good relationships with suppliers or raw materials and credit, work systems and employees, retailers and dealers. Another factor is the sensitivity of the enterprise to address the need of its clients and facility on how the supply chain networks grow. The SMEs also recognize the need to partner with larger organizations to bring their product to the market.

Another noteworthy way of ensuring success in the SME business is the adaption of a supply chain system through street peddling as shown in the experience of ABC Furniture.

Market expansion in rural areas where products that are commonly picked up or delivered to end users are now brought to the doorsteps of consumers through the *maglalako* system of the use of “*kabesilyas*” in the case of ABC Furniture. This is an innovative way of adapting the Focus-Localize-Partner Model of the SME supply chain. The understanding of how products can easily get to the end-users and the capability of the end-users to pay for the product are well integrated in the supply chain model of ABC Furniture. Localization in the model refers to the adaptation of payment schemes that are appropriate to the consumers. ABC Furniture employs ‘*kabesilyas*’ or collectors that have a thorough understanding of the psychology of the market in terms of how customers can be encouraged to buy furniture and how they can also be encouraged to pay on time. The installment payment scheme works in the rural areas in that customers have a way to pressure each other to pay on time or else their reputation in the neighborhood will be negatively affected. The two cases also showed how credit providers for small and medium enterprises could contribute much to the sustainability of the business. Credit suppliers provide the resources to expand the business. As for the two SMEs, credit from commercial banks and formal funding agencies cannot easily be accessed due to documentation requirements. The existence of an NGO that give credit to growing SMEs facilitates access to debt capital, which is not normally available to growing SMEs.

## **6.0 Future directions of SCM in the Philippines**

Supply chain management in Philippine SMEs and LOs have to be looked at from a different perspective. Although scholarly works have focused research on the success of SCM in LOs, SCM should also be seen in the context of economic level and culture of a place. The Philippines offers a unique retail trade structure through the retailing system and provision of credit to final end users. Both are innovations used by SMEs to generate sales in order to earn. Both do not require large capital investments. Inventory turnover and return on investments tend to be high due to the proximity of the business to the market. The smallness of the business creates a system that does not suffer overstock or stock outs of inventory making SCM in Philippine SMEs efficient and effective.

Given the important role of Filipino SMEs in the Philippine economy as movers of goods to the final consumer, it is important to understand the implementation of SCM of Filipino SMEs. The limited exposure of Filipino SMEs to large LOs does not prohibit them from using the concept of supply chain management. Filipino SMEs are very sensitive to the needs of the market it serves. They have devised innovative way of moving the goods in a timely, efficient and affordable price to the end-users making the LOs rethink of their product design and marketing strategy. A SCM formally evolve in Filipino SMEs, LOs should begin to study and understand how they will fit their SCM to the operations of SMEs to sustain their presence and profitability in the Philippines. This is a worthwhile endeavour for a market nearing 100 million people.

Following research questions can be furthered looked at to determine how supply chain management can benefit Filipino SMEs and engage them in a profitable partnership with LOs. Following research questions should be tackled:

- a. What are the attributes and features of Filipino SMEs supply chain?

- b. How do Filipino SMEs align their supply chain with LOs or how should LOs align their SCM with Filipino SMEs?
- c. Does SMEs alignment with LOs contribute to their profitability and growth?
- d. Do alliances with other SMEs help in their product development or innovation leading to increase market share and growth?
- e. Can SMEs pool their resources to build large aggregate through integration among themselves (cooperative, incorporation, etc.) or with LOs to address better business challenges?

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Velasco had served as a consultant for different institutions, such as the Foundation for Enterprise Management and Innovation, NIKE Corporation, Johnson and Johnson, Inc. , Texas Instrument, Unilever Philippines, Intel Philippines, and Pilipinas Shell Corporation. She is also involved in different professional organizations, occupying leadership positions in the South East Asia Ergonomics Society (President) and the National Research Council of the Philippines (Division Committee Chair). She is a member of the Philippine Academy of Management of Management, the Asia Academy of Management, and the Research Council of the Philippines.



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