

INDUSTRY OVERVIEW

The Christmas decorations industry in the Philippines possesses several competitive advantages not commonly observed in other supply centers in Asia.

A variety of indigenous plants and natural materials allows manufacturers to use different components in their products. The upshot is highly diverse designs that are not often available in models from other countries. Makers emphasize plant-based fibers such as Manila hemp, sinamay and raffia, and elements obtained from marine life, including capiz shells.

Recycled materials are also heavily utilized, minimizing the volume of waste bound for landfills. Paper, glass, plastic and metal are a few examples of these components.

Because of its status as an official language, the widespread use of English is another key strength enjoyed by the industry. Company owners and managers are highly competent in the language and can explain manufacturing and exporting processes well. Ordinary laborers can also converse in English, albeit with varying degrees of difficulty.

Another competitive advantage is tariff-free shipments to a number of markets. Exports of Christmas decorations from the Philippines enjoy zero-tariff status for customers in the ASEAN and the US.

Many suppliers are capable of accepting small orders, with some as few as 20 pieces. These items can come in assorted designs if requested by clients.

Assistance from govt, trade groups

The industry is supported by trade associations and the government, which work together to help promote the sector and its products to foreign buyers and to protect the interests of individual companies. One of these groups is the Philippine Federation of Furnishings Association, a newly established organization that is

preparing to set up a dedicated manufacturing hub for handicrafts in the country. The supply zone will be based on a model conceptualized in South Korea and is envisioned to offer reduced power, water and rental costs to locators. Development of the production center will be overseen by the PFFA and the Department of Trade and Industry's Board of Investments.

The government also organizes trade shows for the sector, with the Manila Furnishings and Apparel Manufacturers' Exchange being the most prominent one. Manila FAME is a biannual fair managed by the DTI's Center for International Trade Expositions and Missions or CITEM. The administration provides subsidies to exhibitors at the show, particularly small and microenterprises that normally do not have the means to interact with foreign customers on their own.

Aiming to cut public spending on export promotion, the government, through the DTI, proposed last year to terminate the April edition of the Manila FAME and merge both shows into just one exhibit every October. Lobbying from the PFFA, the Christmas Decor Producers and Exporters Association of the Philippines, and the Philippine Exporters Confederation, however,

Supplier summary

Suppliers surveyed	24
Export sales	\$7.4mn
Export ratio	79%
Capacity utilized	45%
Full-time employees	503

Data: All surveyed suppliers

prevented the cancellation. A major consequence in keeping the April show running is lower subsidies to participants.

Many makers belonging to the aforementioned groups regard both editions of Manila FAME as important to their marketing efforts since they coincide with the spring and fall sourcing seasons in Asia. Because of this, the PFFA has urged the government to privatize Manila FAME to ensure the continued existence of its two shows. Authorities have yet to reach a decision on the matter as of this report's publication.

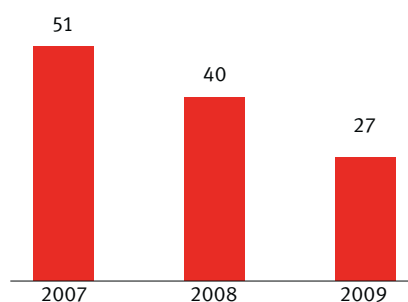
Challenges

Philippine suppliers of Christmas decorations are facing several hurdles that may impede the development of the industry. Most of these challenges are rooted in external factors, over which makers have no direct control.

The strengthening of the peso against the US dollar is a major

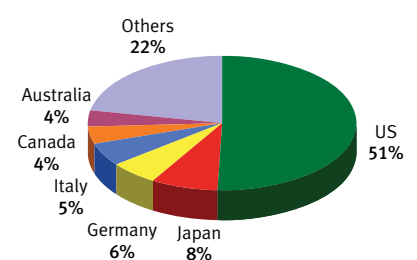
Philippine exports of holiday decorations

Value
\$ million



Sources: National Statistics Office and Bureau of Export Trade Promotion

Leading markets
2009



concern. In 2006 and 2007, various fiscal policies have allowed the peso to appreciate from P53 to P46 per \$1. With the dollar intrinsically dropping in value since then, the trend has continued until the present, which sees the exchange rate moving between P43 and P44. Economists predict the local currency to appreciate further this year to P40 or P41 because of the country's monetary fundamentals and the dollar's weakness.

As a result, manufacturers have significantly increased prices of Christmas decorations to avoid large losses. Most makers base their pricing on a rate of P45 per \$1, although some degree of flexibility is employed depending on the current and expected short-term performance of the peso. Quotes are considerably adjusted only when the exchange rate exceeds the range predicted by the Central Bank.

To cope, trade associations lobby the Central Bank to slow the appreciation of the peso through usual monetary control mechanisms.

Another challenge confronting the industry is design imitation, which is usually done by China makers. Many Philippine suppliers point out that it is common for their new products to become available in their foreign competitors' print and online catalogs weeks or even days after their local release. This problem, in addition to China manufacturers' ability to offer low prices and large volumes, is one of the key reasons for the Philippines' weakened foothold internationally during the economic slowdown.

Lingering effects of the financial slump are also a cause for concern among makers. Due to external pressures and flagging sales, some companies became overextended, causing them to close down or reorganize for lower taxes or greater tax exemptions. Most of those that restructured were previously registered as corporations and are now operating as sole proprietorships.

Many manufacturers that survived

the crisis have resorted to significant levels of subcontracting and are investing almost nothing in expansion and equipment upgrades.

Exports

The National Statistics Office does not classify Christmas decorations as a distinct export segment, categorizing it under the broader holiday decorations line. Shipments of the latter from the Philippines to overseas markets account for a small amount of total global output. According to the UN Comtrade database, the country's share in 2009 was 0.7 percent, down from 0.8 percent the previous year.

Exports of holiday decorations in 2009 reached \$27.2 million, a 32 percent decline compared with the previous year. In fact, the downward trend significantly affected the industry during the second half of the last decade as shipments from 2006 to 2009 shrunk by an average of 24 percent. This was mainly brought about by the global economic crisis, which resulted in wide-ranging budgetary cuts for most buyers in major markets, and the growing popularity of low-priced models from China.

Although the sector registered dismal performance in recent years, suppliers generally do not view this development as a big problem. From

1997 to 2009, the industry's export dependence fell steadily from 35 percent to 26 percent, indicating reliable and consistent domestic demand. This allows manufacturers to deflect volatility in foreign markets, a capability that became apparent during the economic downturn.

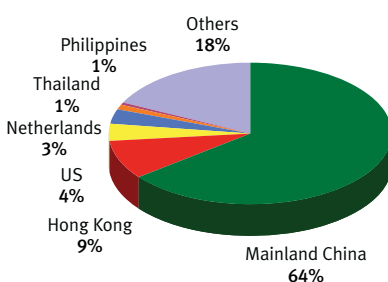
Owing to large volume purchases, the US is the industry's single-largest destination, taking up 51 percent of overseas sales in 2009. Many suppliers are of the view that any surge in overall export revenue will be dependent on a boost in shipments from the country. This becomes especially evident when considering that of the top five foreign destinations, only the US mirrored the general downward movement experienced by the sector from 2006 to 2009.

The EU is the second-largest market, accounting for 24 percent of turnover. Demand from the area as a whole has also been steadily declining in recent years. Revenue from some individual countries, however, increased over the same period. These include Germany, Italy, Belgium, the Netherlands and Portugal.

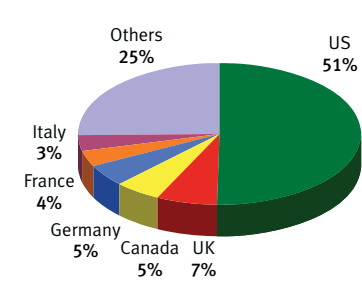
Japan is another growing market and currently the third-biggest destination. It took up 5 percent of total exports in 2006 and has since improved to 8 percent, as per latest figures.

Global share of holiday decorations

Leading exporters



Leading importers



2009 statistics
Source: UN Comtrade

Industry composition

There are 144 Christmas decoration makers registered with CITEM. Independent research for this report revealed 19 more companies that are not affiliated with the agency. All CITEM supplier-members are able to export their products, with the majority doing so directly. A few are involved only in trading.

Microenterprises comprise the bulk of manufacturers, accounting for 46 percent of all makers. They have up to five full-time and as many as 60 temporary employees. Workshops are normally operated under a dispersed production model since most stages are subcontracted. Central areas are primarily utilized for finishing and packing, and cover an area of less than 100sqm. Annual exports are below \$70,000.

Small enterprises represent 32 percent of the supplier base. Five to 25 employees typically compose the permanent staff. There are between 60 and 200 part-time workers. Factories measure 500 to 2,000sqm, with the majority covering about 1,000sqm. Overseas revenue ranges from \$70,000 to \$350,000.

About 20 percent of manufacturers are midsize. They have 25 to 150 full-time employees and 200 to 300 subcontracted workers. Production facilities cover an area of up to 3,000sqm. Sales to foreign markets are between \$350,000 and \$2.5 million.

Large suppliers account for 2 percent of all companies. They have more than 150 permanent and 300 contractual workers. Factories are at least 3,000sqm. Export turnover exceeds \$2.5 million.

The primary sourcing center for Christmas decorations in the Philippines is Metro Manila, which is composed of the capital Manila, 15 surrounding cities and a municipality. This urban agglomeration, officially known as the National Capital Region, provides easy access to product

development resources and designers. Other practical benefits include proximity to trade show venues, bazaars and offices of shipping companies. Important governmental agencies such as the DTI, CITEM and Bureau of Customs are also located in the region.

Within Metro Manila, most suppliers are located in Quezon City. Some have head offices and factories in the cities of Manila, Parañaque, Taguig and Pasay. These places have an inherently significant labor pool because they are densely populated.

Makers outside the NCR are mainly set up in provinces bordering it. These include Bulacan, Cavite, Laguna and Rizal. From Manila, reaching factories in these places takes anywhere from 45 minutes to two hours. Rizal and Laguna are major contributors to the industry, especially with their reputation as centers of various forms

of art, including painting, carving and weaving.

The location does not affect manufacturing techniques and product quality. It plays a factor in pricing, however, since rural suppliers have slightly better access to raw materials. Makers in Metro Manila purchase components from local markets, while those based in the provinces are often able to subcontract gathering of leaves seeds, shells and other components. This capability shelters the latter from added expenses coming from consolidated material traders.

The main disadvantage for provincial suppliers is that any competitive edge they may have in terms of pricing is practically eliminated when transportation costs are factored in. This is especially true for companies that are at least three hours away from the port of Manila.

Selected major buyers

Suppliers	Customers
Alriver	Coin Group (Italy), Mark Roberts (US)
Decoro	Coin Group (Italy)
Galleria	Myers (Australia), Portico (Spain)
Geuel	Coin Group, El Corte Ingles (Spain)
Greenflex	Mindart, Inc. (Japan), Jumeirah (UAE)
Kriks	Nick Duysen (Germany), Coldwater Creek (US)
Le Font	El Corte Ingles (Spain); Horchow, Pottery Barn (US)
Lea Design	Hobby Lobby, HomeGoods, Marshalls, Pier 1 (US)
Liman	Crate and Barrel (US), Globus (Russia)
Margton	QVC, Pierre Deux (US); El Corte Ingles (Spain)
Marianka	Paperchase (UK)
Marlena Dekor	Target, Myers (Australia); Pier 1 (US)
North Wing	Hobby Lobby, RAZ Imports, Dennis East (US)
Philippine Treasures	Crate and Barrel, Pier 1, Plow and Hearth (US)
Sarilinlikha	Marmaxx (US)
Saint Jude	TJX Group, Hobby Lobby (US); Derby (Panama)