

Analysis of the Gifts, Toys, and Housewares Industry of Cebu, Central Philippines: A Value Chain Approach

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Abstract. This article examines the gifts, toys, and housewares (GTH) industry of Cebu, Central Philippines, using the value chain approach, which is an effective way of evaluating the interaction among players in the industry. The study employed semi-structured interviews and focused group discussions involving key industry stakeholders. Results of the study are consistent with findings from earlier works, indicating the status of SMEs in the Cebu GTH value chain, which does not differ much from the corresponding value chain for the Philippines. Results of the study also show the major areas of concern at various stages in the chain, such as raw material sourcing, logistics, availability of skilled labor, storage facilities, product testing services, marketing, and product promotion, among others. In spite of the issues confronting the industry, it remains a significant sector. However, programs to support such concerns as product development and technology innovation appear to be in order.

Keywords: industry network; gifts, toys, and housewares; Philippines; value chain

Introduction

In the Philippines, the gifts, toys, and housewares (GTH) industry is an established sector. Houseware production, in particular, is one of the oldest industries in the country (Pearl2 Project 2006). Product lines in this sector vary widely and include baskets, wickerwork, ceramics, shellcraft, candles, artificial flowers, stoneware, plasticware, metalware, and glassware. Over the years, the GTH industry has evolved its product offerings, increasingly turning out finer and more sophisticated designs with innovative use of materials for mid-range to high-end customers.

Houseware producers can be found in various locations in the country including the National Capital Region (NCR) and the surrounding

provinces of Rizal, Laguna, Cavite, and Quezon; as well as Albay in the Bicol region; Bacolod, Iloilo, and Aklan in Western Visayas; Cebu, Bohol, and Negros in Central Visayas; and Cagayan de Oro in Northern Mindanao (Pearl2 Project 2006).

Woodcrafts, home furnishings, giftwares, and holiday decors were among the top merchandise exports during the early 2000s, with an average growth rate of 4.7% for the period 2003–2004 (Avila 2005). The latter part of the decade, however, started to show a declining trend in the performance of these products. From 2005 to 2007, houseware and holiday decor exports averaged US\$130 million per year in contrast to an average of only US\$92 million for the period 2008–2013 (Table 1).

The major export destinations for housewares and decors have been the United States and Japan, accounting for about 74.3% of total exports for the sector in 2013 (Table 2). Modest growth in these markets have also been observed over the period 2009–2013, in contrast to the negative growth rates for the rest of the top 10 export destinations, except for Turkey, which registered an impressive increase of over 50% for the same period.

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TABLE 1 Philippine Houseware and Decor Exports, 2005–2013 (in US\$ millions)

Products	2005	2006	2007	2008	2009	2010	2011	2012	2013
Housewares	101.3	90.3	96.2	78.3	58.8	63.8	64.9	58.9	63.0
Decors	34.3	32.5	34.3	32.8	27.3	29.9	33.3	24.2	16.9
Total	135.6	122.8	130.5	111.1	86.1	93.7	98.2	83.1	79.9

NOTE ITC calculations based on UN COMTRADE statistics as of August 2014

Among the major competitors of the Philippine GTH sector are China, Vietnam, and Indonesia (Cebu-GTH 2010). In 2008, China supplied approximately 68.7% of the European Union demand for wickerwork and shellcraft; Vietnam and Indonesia accounted for 13.8% and 6.9%, respectively. The Philippine share was limited to 2.05% (Table 3). A more recent study by Zhang (2014) showed that China and India are currently the major producers of handicraft products. Zhang likewise predicted that their position would be further strengthened with the help of e-commerce.

China, Vietnam, and Indonesia have higher levels of productivity and lower labor cost and thus could price their products lower than Philippine manufacturers and exporters (Cebu-GTH 2010). There are two possible reasons for the sector’s weakness in pricing products. First, Philippine exporters use similar or shared materials, equipment, and manpower in manufacturing broad ranges of product lines, thus making it difficult to determine the actual cost of the item. This may be a direct result of the inadequacy of knowledge in cost accounting among small manufacturers and the inability to hire professional cost accountants. Second, manufacturers bring their designs to subcontractors for duplication, counter-sampling, and production, without a target price (Cebu-GTH 2010; Pearl2 Project 2006).

Among the regions of the Philippines, Central Visayas is most prominent when it comes to GTH exports. A study by Zosa (2004) showed that while exports of Central Visayas accounted for only 9% of the country’s exports in 2002, the region was a major source of GTH exports, accounting for 67% of the total GTH exports of the Philippines. The province of Cebu, in particular, is known for its large and diversified export-oriented sector that produces GTH, fashion accessories, and furniture

for the global market (Helvoirt 2009).

In Cebu, there are over 300 GTH establishments, of which close to a hundred are members of the Cebu Gifts, Toys, and Houseware (Cebu-GTH) Foundation, Inc. Most of these manufacturers are small and medium scale, but they are major contributors to exports and are, therefore, a major source of foreign exchange, serving the markets in the United States, Europe, Japan, China, and other parts of Asia. The sector also contributes substantially to employment generation, and many people and stakeholders rely on it as their source of livelihood (Cebu-GTH 2010; Zosa 2004; Helvoirt 2009).

Industry players noted a substantial decline in exports in recent years, which they attribute mainly to the better performance of competitors in terms of pricing and the recession that has affected major client countries. Many players started shifting their attention to the local market, including hotel chains, rich locals, and bazaars. During the peak years, buyers called the exporters; during the recession period, exporters experienced for the first time the need to call their foreign buyers. Most of the companies significantly cut down their labor force. Others had to completely stop operation. But the industry continues to be hopeful. By 2015, Cebu GTH exporters are getting increasing orders from the overseas market, indicating high rate of recovery. The national government is also supporting the industry by investing PhP36 million for the establishment of a shared service facility, which is expected to provide high-tech packaging services for GTH exporters to improve their product presentation, to complement the positive movement of export orders from the sector (Dagooc 2014).

A SWOT analysis undertaken by the Cebu GTH under the sponsorship of PhilExport and the Centre for the Promotion of Imports

TABLE 2 Philippine Houseware and Décor Exports by Country, 2009–2013 (in US\$ millions)

Country	2009	2010	2011	2012	2013	Average annual growth (%)
United States	43.7	53.3	57.5	50.2	47.2	2.7
Japan	11.2	10.2	9.9	9.5	12.2	5.2
United Kingdom	3.2	2.6	2.6	2.6	1.6	-14.3
Canada	2.1	1.6	1.9	1.5	1.7	-3.2
Germany	2.6	2.4	2.4	1.5	1.6	-9.6
Australia	1.7	1.8	1.8	1.7	1.6	-1.4
Italy	3.7	3.3	3.1	1.6	1.5	-17.9
France	1.4	2.1	2.0	1.0	0.9	-3.7
Turkey	0.4	1.0	1.7	1.8	1.4	50.9
Belgium	1.0	0.9	0.7	0.6	0.7	-7.7
Others	15.1	14.5	14.6	11.1	9.5	-10.4
Total	86.1	93.7	98.2	83.1	79.9	86.1

NOTE ITC calculations based on UN COMTRADE statistics as of August 2014

TABLE 3 European Union Wickerwork and Shellcraft Imports from Partner Countries, 2007–2008

Partner country	Import value (in € millions)		Import quantity (in million kg)	
	2007	2008	2007	2008
China	291.0	275.2	115.9	102.2
Vietnam	66.4	55.4	24.6	19.8
Indonesia	35.9	27.6	11.9	9.3
Philippines	11.2	8.2	4.0	2.6
Madagascar	4.9	4.6	1.6	1.6
Morocco	3.2	2.3	1.0	0.7
Thailand	2.3	1.9	0.4	0.5
Myanmar	2.0	1.6	0.5	0.3
India	2.6	1.5	0.7	0.4
Bangladesh	1.5	1.5	0.6	0.6
World estimate	441.2	400.4	178.9	151.2

SOURCE Cebu-GTH (2010)

from developing countries (CBI Netherlands) generated several conclusions with respect to the Philippine GTH sector, most prominent of which are the following: (1) the lack of national branding, (2) the opportunities open to the sector in the European Union if only players in the sector would prioritize international accreditation, (3) the need to invest in market research and product development, (4) the need for the sector to adopt a value chain management approach, (5) the need to upgrade production processes, (6) the need to improve the compensation package for

creative professionals, and (7) the importance of recognizing opportunities and threats as drivers for improvement (Cebu-GTH 2010).

In this paper, I examine and evaluate the GTH industry of the province of Cebu in Central Visayas, Philippines, and determine ways to explore and develop the full potential of this sector. To carry this out, I adopted the value chain approach, identifying the key industry players and assessing their individual roles and functions. Specifically, I aim to determine the strengths and weaknesses of the GTH sector of Cebu,

identify opportunities and threats confronting the industry, and recommend courses of action towards making the sector more competitive.

Methods

To gather data, I utilized semi-structured face-to-face interviews and focus group meetings held during the first quarter of 2010. In this exploratory study, I used expert sampling to select my respondents with the assistance of the regional office of the Department of Trade and Industry, Central Visayas (DTI-7). I had a total of 13 respondents, which are as follows: two chief trade and industry development specialists from DTI-Cebu provincial office; two industry development specialists from DTI-7; the regional director of the Department of Science and Technology (DOST), Region 7; a technical specialist from DOST-7; the executive director of Cebu Gifts, Toys & Houseware Foundation, Inc. (Cebu-GTH); 5 representatives from GTH industries in the area; and a faculty member of the University of San Carlos-Main Campus.

Based on information I gathered from the interviews and focus group meetings, as well as from secondary sources such as reports and similar documents, I mapped the GTH industry value chain, identified the chain actors, and examined their specific profiles and roles. Introduced by Porter (1985), the value chain describes the full range of activities that are required to bring a product or service from conception, through the different phases of production, distribution to consumers, and final disposal after use. As suggested by earlier works on value chain and value chain analysis, the disaggregation of the whole business process into specific groups of activities and subactivities is important in assessing the competitive advantage of the industry.

Results and Discussion

Value Chain of the GTH Industry in Cebu

In Cebu, just like in the Philippines in general, the structure of the GTH value chain features

numerous micro, small and medium-sized enterprises. The supply side of the chain is characterized by heavy reliance on subcontractors for much of the production activities. Production work is basically manual, using simple machines and tools. Most of the raw materials used are sourced locally from gatherers and suppliers with few imported components. Few exporters have their own brands. Some companies go directly to retailers, while most sell to importers and distributors who move the products down the chain to retailers and finally to end-users (Figure 1).

Cebu GTH Industry Value Chain Players

Producers and exporters. Producers/exporters serve as lead actors in the GTH value chain, with the larger producers/exporters sometimes acting as production agents, identifying smaller producers as potential suppliers of finished and semi-finished items. Producers/exporters generate and deliver the main product and therefore create the greatest value among the chain players.

Subcontractors. Subcontracting is common among GTH firms in Cebu. Work may be outsourced in all major stages of operations: preproduction, production, and finishing. Subcontractors are largely situated within the province and are provided various forms of support by the producer/exporter, such as credit/financing, equipment/tools, product development, and skills training. To complement the Cebu-based GTH industry, Bohol- and Negros Oriental-based firms are mostly acting as subcontractors or suppliers of semi-finished products to Cebu GTH companies.

Raw materials suppliers and traders. The main materials used in the manufacture of GTH products include capiz and other seashells, coconut shells, wood, horn, resin, metal, various types of chemical, mirrors, banana bark, twigs, rattan, raffia and other fibers. These are predominantly local materials that GTH producers procure in the open market, usually from traders and sometimes from local gatherers.

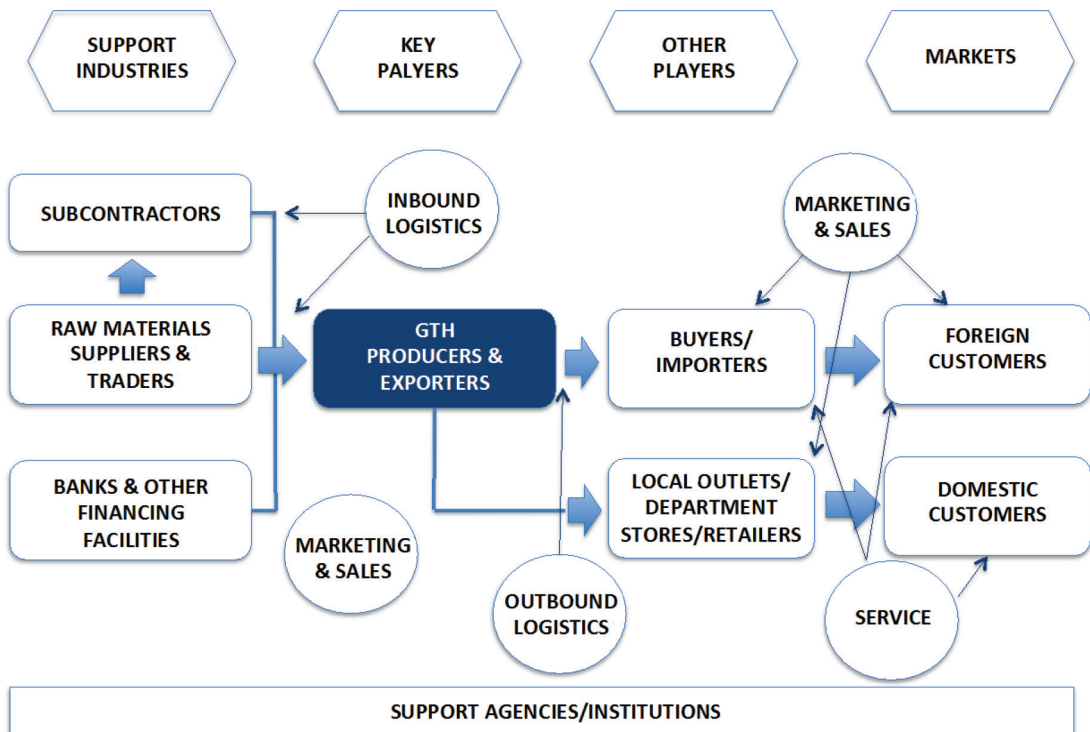


FIGURE 1 The Value Chain of the Gifts, Toys, and Housewares Industry of Cebu, Philippines

There appears to be no large materials suppliers in Cebu or in Central Visayas. Collective buying among producers is also not a common practice.

Buyers/importers. Selling in the export market is usually done through wholesale buyers and importers. The Center for International Trade Expositions and Missions (CITEM) plays a key role in linking Cebu GTH producers with foreign buyers/importers through trade fairs and exhibitions. A large number of these producers participate in the Manila Furnishing Apparel Manufacturing Exchange (FAME), organized by CITEM a few times a year. The biggest importers/buyers of Cebu GTH products are the United States, Japan, and the United Kingdom.

Retailers. Cebu GTH producers tap the domestic market to complement the currently unstable export market. Local demand comes from department store chains, such as SM (Kultura), Ayala stores (both in Cebu and Manila), tourist-oriented establishments such as hotels and

resorts, and real estate developers. Selling in the domestic market may also be direct to end-users.

Banks and brokerage firms. Most GTH producers in Cebu rely on their own funds to operate their businesses. Occasionally, funds are obtained from banks, specifically for working capital requirements, preshipment/postshipment financing, fixed asset acquisition, expansion, export packing credit, and letters of credit. Producers/exporters also obtain support from the Philippine Export-Import Credit Agency (PhilExim) for working capital/guarantee, fixed asset acquisition, and trade show financing.

In 2006, PhilExim released PhP5 million to Cebu-GTH Foundation Inc., and the amount was subsequently loaned out by the foundation mainly to subcontractors who, unlike exporters, have a hard time getting credit from banks. The interest rate applied is higher than what commercial banks charge, but substantially lower than the interest charged by users, who are the usual source of funds for subcontractors.

Support agencies and institutions. The two government agencies actively involved in the Cebu GTH sector are the Department of Trade and Industry (DTI) and the Department of Science and Technology (DOST). On the regional and provincial levels, DTI is closely working with the Cebu-GTH Foundation. Under the sponsorship of the German Technical Cooperation (GTZ), Small and Medium Enterprises Development for Sustainable Employment Program (SMEDSEP) plans have been prepared, which aim to “contribute to the efforts of the Philippine Government to improve the competitiveness of the country” and envisions the development and replication of sustainable models for improving the local business climate (especially for SMEs) in the Visayas.”

DOST’s Small Enterprise Technology Upgrading Program (SETUP), on the other hand, has provided significant support to priority sectors in Central Visayas, among which is the gifts, holiday decors, and housewares sector. From 2009 to 2013, the GTH sector received the highest core fund investment amounting to more than PhP11 million, which accounts for 31.84% of total funds, compared to funds given to industries such as food processing (23.76%), metals and engineering (21.03%), and furniture (16.09%).

SWOT Analysis

SWOT analysis of the Cebu GTH value chain was conducted, the results of which are summarized in Figure 2.

TABLE 4 SWOT Analysis of the Gifts, Toys, and Housewares Value Chain of Cebu, Philippines

Strengths	Weaknesses
<ul style="list-style-type: none"> Innate Filipino artistry and creativity in design Presence of a strong industry association 	<p>Inbound logistics:</p> <ul style="list-style-type: none"> Manual inbound processes Lack of skills, tools, storage, and R&D facilities among raw material suppliers and subcontractors Unsustainable raw materials sourcing Rising cost of raw materials <p>Operations:</p> <ul style="list-style-type: none"> Irregular and inadequate supply of skilled manpower Inadequate technical skills in design and packaging Manual materials handling, production processes and quality control activities Limited product testing facilities Reactive and irregular maintenance of equipment <p>Outbound Logistics:</p> <ul style="list-style-type: none"> Manual outbound processes <p>Marketing and Sales:</p> <ul style="list-style-type: none"> Inadequate knowledge in marketing and marketing strategies Inadequate knowledge in new product development Limited use of ICT and the Internet <p>Customer service:</p> <ul style="list-style-type: none"> Inadequate customer service capabilities
Opportunities	Threats
<ul style="list-style-type: none"> National Government support Support from regional government agencies Availability of ICT and the Internet Collective buying option for manufacturers 	<ul style="list-style-type: none"> Intense competition from other countries Vulnerability to price changes

Strengths. The Cebu GTH value chain draws its strength mainly from two factors: the artistry and creativity in design among the sector's craftsmen, and the presence of a strong industry association/foundation, of which a large number of Cebu GTH enterprises are members.

1. In spite of the challenges faced by the industry, Cebu GTH producers continue to create beautiful products using indigenous materials. The scarcity of resources has not prevented talented local craftsmen from producing new and unique designs that attract both foreign and local buyers.
2. The Cebu-GTH Foundation is considered by stakeholders as the leader of the GTH cluster in the province. The foundation is spearheading the development and implementation of the sector's export marketing plan (SEMP). It has created a committee from its board of trustees to oversee action plan execution and established the SEMP management core group or cluster management team who will implement the programs as planned.

Weaknesses. The weaknesses of the Cebu GTH value chain are numerous and are presented below in terms of the primary activities of firms and industries.

1. Inbound logistics

- Producers, suppliers, and subcontractors usually employ manual means of monitoring, receiving and managing raw materials and components inventory. Unfortunately, reliance on manual processes at the inbound stage is inefficient, takes longer than computerized methods, and prone to human error. Since workers often lack skills in the proper handling of raw materials, unnecessary wastage and rejects are frequent, leading to higher materials cost. Inbound workers also lack knowledge and skills in quality assurance for checking raw materials and supplies, causing problems in subsequent stages on the value chain. In addition, materials

handling practices often do not follow sound environmental principles.

- Materials suppliers and subcontractors, including gatherers, lack the appropriate tools and storage facilities, contributing to materials wastage, work delays, and variations in quality. Because companies lack systematic processes for proper management of incoming materials, more time and resources are spent on inbound activities. This is aggravated by the inadequacy of facilities for materials processing and research. The lack of R&D facilities limits product innovation and resolution of problems with raw materials. The lack of processing facilities, on the hand, affects the production efficiency of suppliers/subcontractors, further contributing to longer delivery lead times.
- There is lack of information on sources of raw materials, location, and capabilities of qualified subcontractors. Firms spend considerable time searching and identifying raw materials suppliers and subcontractors, thus lowering productivity and increasing the production cost.
- GTH producers need to look for more affordable sources of raw materials, supplies, and components, particularly imported items used in finishing work. The rising cost of materials and supplies account for the higher production costs and makes it difficult for firms to shift to high-end markets.

2. Operations

- To cut down on costs and to address the issue of seasonality, GTH producers and subcontractors often hire employees on a contractual and/or part-time basis. This leads to lack of continuity in operations. Extensive use of contractual and part-time workers requires continuous training of new personnel who spend more time on the learning curve. Workers also lack updated technical skills, further limiting mechanization of production processes and lowering productivity.

There are conflicting opinions among producers in the value chain with respect to labor availability. Some players say that labor supply is not readily accessible in the region and that manpower sometimes needs to be sourced from nearby provinces, such as Bacolod. There are others, however, who say that there is adequate supply of labor in the region. A possible explanation is the fact that the nature of work in the industry varies widely—inlaying, grinding, polishing, cutting, painting, weaving, stringing, carpentry, resin making, among others. Some of these activities require skilled manpower, while others require only semi-skilled hands. In certain instances, even unskilled labor is acceptable, where the hiree is assumed to be trainable and can learn fast on the job.

- While some Filipino designers are internationally known, company-hired designers have limited exposure to changing product trends and may require upgrading of capabilities to innovate based on market needs and the firm's existing manufacturing competencies. Industry designers need to expand their product portfolio. Related to this is the lack of updated skills in packaging.
- Operations of GTH manufacturers in Cebu are mostly manual (approximately 70%–90%). There are some semi-mechanized activities (10%–30%). Materials handling and quality control activities are mainly manual and visual, with no set industry standards. Consequently, product quality variations are common, resulting in large amounts of time spent on reworking products. Awareness of international standards and those required by buyers is still limited or not fully appreciated by some firms and their workers. Compliance with international standards may become increasingly necessary as more and more buyers demand adherence to said standards. Competing in the medium to high-end markets would require such compliance.
- Product testing facilities are still limited or inaccessible to some firms. Targeting high-end markets requires quality assurance for products, and QA requirements may not be satisfied by firms without such testing facilities. The rate of modern technology adoption in the industry is still low.
- Maintenance of tools and equipment are usually reactive and irregular. This frequently leads to unexpected breakdowns, shorter equipment life, and suboptimal usage. Companies have found locally fabricated tools and machines to be much more affordable but often of inferior quality compared to branded or imported ones. Unfortunately, producers, especially the smaller ones, often do not have access to enough information on tools and equipment suppliers and technical services for use and maintenance of such equipment. This limits the choices of firms and may result in inappropriate purchases. Firms are likewise limited in terms of packaging technology and may not be able to realize the potential of packaging for enhancing the visual quality of their products.

3. Outbound logistics

- Workers doing outbound work do not have much knowledge of automated systems or use of logistics software. This prevents firms from increasing worker productivity in this area and possibly improving shipping lead times. Adoption of systems that integrate all outbound operations and links these with other business processes is limited among GTH companies. Some companies that can actually afford to computerize their outbound systems but have not yet done so are missing out on opportunities to be more efficient and cut shipping lead times.

4. Marketing and sales

- Most company owners and marketing officers lack the skills to develop a suitable

marketing strategy and the corresponding programs. This limits the ability of firms to respond to competitors. Updated market information on the sector is limited, irregularly available, or lacks sufficient details. This prevents companies from making sound marketing decisions that can improve their market share, particularly in the export market.

- The industry lacks a cohesive marketing strategy and long-term marketing program. This prevents the Cebu GTH sector from competing effectively with other countries. Marketing efforts of individual producers/exporters are not coordinated. They also have not thoroughly explored or exploited the domestic market, making them miss the opportunity to establish a stable base of local buyers, which could help support the industry as it faces volatile export levels. In addition, failure to address local demand opens the opportunity for foreign producers to penetrate the domestic market.
- Few producers in the sector have formulated new product development strategies to remain competitive in the export market. Artistry and creativity is not enough considering the many sources of new ideas worldwide. In addition, knowledge of intellectual property rights and laws is almost nonexistent among players in the value chain.
- The use of information and communication technologies (ICT) and the Internet by players in the Cebu GTH value chain especially to support marketing operations has been limited. Companies are likely to miss the chance to save marketing costs and expand their market reach by not being able to take advantage of the benefits of ICT. There is limited information on key events and opportunities for market development outside the traditional export markets. Producers/exporters have to spend substantial amounts of time and funds just to check out nontraditional markets on their own. Regular updating

of marketing materials, for instance, are necessary but costly, making it difficult for smaller firms to effectively promote their products.

5. Customer service

- Company personnel lack the capability to properly attend to customer complaints and handle product returns and rejects. Especially in the case of smaller firms, it is usually the owner who handles such issues. This adds more work for the owner, increasing the risk of unsatisfactory handling of customer complaints by workers or settling complaints at higher cost. There is usually no systematic means of documenting customer complaints, returns, and feedback. As a result, firms are finding it difficult to study the causes of complaints and returns over time. Few firms have proactive and systematic programs for getting customer feedback. Thus, companies tend to be reactive and, in most cases, unprepared to properly address customer concerns when they arise.

Opportunities. Several opportunities are open to the Cebu GTH industry that could allow it to compete more effectively in the foreign market. Most prominent among these are the continuing support of the national government, support from regional government agencies, availability of ICT and the Internet, and the option to procure materials and components collectively.

1. As previously mentioned, the government is investing Php36 million for a shared service facility, specifically to improve packaging services for the GTH sector. The use of high-tech packaging equipment is expected to improve product presentation and thus improve the attractiveness of local products.
2. The plans under the GTZ-sponsored SMEDSEP identified 13 revenue streams or priority industries, among which is the homestyle (furniture, gifts, decors, and housewares) industry. DTI has also been

advocating, encouraging, and assisting groups or industries to form clusters under its One Town, One Product (OTOP) program. This program “supports micro, small, and medium enterprises (MSMEs) to manufacture, offer, and market distinctive products or services through the use of indigenous raw materials and local skills and talents.”

3. DOST’s SETUP interventions have benefitted the GTH sector of Central Visayas considerably. More active participation from members of the Cebu GTH value chain, particularly producers and subcontractors, could provide the needed advancement in manufacturing technology that would allow the sector to be more competitive.
4. The GTH industry of Cebu can benefit significantly from the advantages offered by ICT and the Internet, especially in terms of promoting local products in the foreign market. Proper use of these technologies is likely to lower marketing and sales expenses and provide players in the chain access to more and updated information about markets, materials suppliers, and the latest trends in GTH designs.
5. The option of collective buying (which is not common in Cebu) is something that GTH producers, especially the smaller ones, should explore. Individually procuring materials in the open market can be costly and may not guarantee the best quality materials. Bulk purchasing by groups of producers and subcontractors would give such groups more bargaining power.

Threats. The biggest threat facing the Cebu GTH industry is competition from countries such as China, Vietnam, and Indonesia. As indicated in the earlier sections of this paper, these closest competitors enjoy lower labor costs and higher levels of productivity. If these concerns are not addressed by our local industry, we may further lose market share not only to these countries, but to other emerging competitors as well.

Another important concern is the sector’s vulnerability to fluctuating prices of raw materials, supplies, and components. This is aggravated by the fact that the Cebu GTH industry does not have a structured system of procurement.

Conclusions and Recommendations

In summary, many of the issues in the GTH value chain concern the early part of the chain, particularly the inbound logistics. Lack of skills, quality control standards, tools, and facilities among material gathers, traders, and suppliers are widespread, leading to high levels of material wastage, rejects, large variations in quality, and practices harmful to the environment. R&D projects on raw materials are limited and research results are not widely disseminated.

Despite heavy competition from neighboring countries, offshoring, and economies of scale, the GTH sector of Cebu continues to play a significant role in the local economy. The prevalence of SMEs in this industry is advantageous since successful integration of SMEs in value chains of major industries means more business opportunities for small firms, as well as employment generation. However, the increased opportunities also pose major challenges for SMEs, particularly those in the GTH sector, in terms of management, finance, and ability to upgrade operations. Operating in a highly competitive market requires firms to be more innovative.

Consistent with earlier findings of Abecassis-Moedas (2006) for the housewares industry, the GTH sector of Cebu is buyer-driven which means that value is captured (profits are sourced) from design, marketing, and services. Buyer-driven chains are common in labor-intensive, consumer goods industries where large retailers, merchandisers and trading companies play a central role in establishing production networks usually in developing (exporting) countries. Design is within the domain of the producer/manufacturer, while marketing and services fall within the purview of buyers, traders and merchandisers. In a buyer-driven value chain, retailers, merchandisers, and traders are bound to capture the most value from transactions. However, a strategy of integrating design and retail may be approached in at least one of two ways: (1) manufacturers, producers, and exporters could undertake marketing and services; or (2) retailers, merchandisers, and traders could undertake design. Either way,

product innovation is key and must be reflected in a new product design process. The expected result is an improved information chain with a more effective interfacing of sales feedback and design data (Abecassis-Moedas 2006).

Along with product innovation is the need to create awareness about intellectual property laws among Cebu GTH firms. While keeping abreast of trends in design and monitoring changing demands and tastes of the market, players in the industry, particularly those engaged in design, should know how to protect their creations and at the same time respect the creations of others. In this, the government plays a critical role. The government should have programs to raise the level of awareness about intellectual property rights and help develop systems for valuing and managing intellectual property. The government should also put in place facilities to enable the filing of patents by SMEs. In general, the government should create a regulatory framework that encourages, not restricts or constrains, new product development.

Technology innovation, on the other hand, should be in two areas: (1) process technology and (2) information technology. Facing increasing competition, especially in the global market, and with it strong pressure to bring down prices, GTH producers need to ensure not only that their products are attractive, but also that their production processes are efficient and sustainable. This does not simply mean upgrading production methods and facilities, but also adopting the green approach beginning with raw materials collection/procurement to processing,

production, and transportation, right up to the market. Waste recovery and management should also be a major concern. Again, the government plays a central role as existing policies and programs could be enhanced and new ones formulated and implemented by line agencies in order to directly provide technical and financial assistance to SMEs. DOST and DTI already have some good programs in place.

Likewise, e-commerce plays a significant role in product distribution. ICT has enabled many activities to be carried out independent of location. ICT and the Internet allow global payments and facilitate exchange of information on good and services. Issues associated with geographic boundaries are minimized with capabilities made possible by ICT. Firms, no matter how small, should therefore be able to develop the appropriate ICT skills among the workforce. The role of government in this instance is the provision of the enabling environment, through laws and regulations, policies and initiatives, to allow the nationwide upgrading of Internet connectivity and telecommunications facilities.

This study shows that the Cebu GTH industry is essentially a network of firms delivering products to the market. While one witnesses the internal competition inherent within the network, the firms in the industry would soon realize that they should eventually move towards an environment in which they would no longer compete with each other but will act as members of the same network of firms that would compete against other network of firms from other regions or countries.

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