R. Korea and Taiwan have become powerful suppliers of stuffed toys, not only because of their relatively low cost and abundant labor but also because of their ability to supply raw materials. In particular, these countries have matured textile industries which have allowed the improvement of plush manufacturing capability. In Japan, there are fabric wholesalers between plush manufacturers and users. Because the wholesalers keep domestic and imported products in stock, users can secure a stable supply. In R. Korea users (stuffed toy manufacturers) have laboratories and conduct research on the required finishes for plush enabling them to place precise orders with plush manufacturers. In contrast, because users in the Philippines have few specialists with expertise in fabrics, plush specified by buyers is purchased from the specified supplier. The use of domestic products by some makers with sufficient expertise in plush would be possible.

The domestic demand for plush in the Philippines is estimated at about 740,000 yards a year. The estimate is based on the total stuffed toy output of 7.19 million pieces by BOI-registered firms in 1990 and the most common product size (20cm in height). The total demand reaches around 2 million yards when demand from manufacturers not registered with BOI is added.

The domestic plush manufacturers currently have a monthly capacity of 45,000 yards (as of November, 1991). Assuming that the break-even point lies at 80 percent of capacity and that there is additional demand from sources other than the stuffed toy industry corresponding to about 35 percent (slippers accounting for 10-20% and other goods for 10-30%) of the total demand, the plush manufacturers need orders for a minimum of around 280,000 yards a year from the domestic stuffed toy industry.

Note: 1. Total annual production (operation rate of 80% assumed):
45,000 yards/months x 12 months x 80 % = 432,000 yards/year
2. Expected demand from stuffed toy industry (assumed at 65% of total annual production):
432,000 yards/year x 65% = 280,000 yard/year

This figure is the equivalent of 14 percent of the total domestic demand of 2 million yards. Thus if the stuffed toy industry began to procure 14 percent of its required plush domestically, this would be linked to the improvement of the domestic plush supply system.

The growth of domestic raw material supply manufacturers is a very important factor for the growth of the stuffed toy industry because it would facilitate manufacturing of counter samples to be presented to buyers and would allow a reduction in the period from order reception to delivery. Currently, however, there exists a vicious cycle — domestic plush makers cannot meet the specifications of stuffed toy manufacturers due to their low level of experience. --> They do not receive large orders because of this inability. --> They cannot accumulate experience due to the lack of large orders.

Plush makers currently export 75 percent of what they produce. China and R. Korea are their main exporting destinations. As well as achieving scale merit through continuing efforts to increase exports, plush makers should supplement this by conducting research on how to respond to the various needs of users. It is also necessary for the stuffed toy industry to establish a system of cooperation for the promotion of plush makers involving research on plush finish and domestic procurement of plush wherever possible. Although talks between the stuffed toy industry and plush manufacturers have begun, they have not yet reached the stage of discussing concrete measures.

3-4 Marketing

(1) Introduction

The firms in Groups A and B stated above (in direct investment or tie-up relationships with overseas buyers or vendors) depend on buyers or vendors for marketing.

The marketing activities of the other firms are almost completely limited to contact with buyers and the reception of orders through them. The firms in Group C have relatively long-term business relationships with buyers, but even they cannot receive sufficient orders to allow full utilization of their productive capacity. Contact with buyers by firms in Group D through G is limited to a spot basis. Originally intended to be independent manufacturers, many of them are specialized in subcontracting because of their inability to make contact with buyers.

With regard to the export marketing activities of the stuffed toy industry, it is difficult for manufacturers to contact export markets directly because they must cope quickly with changes in tastes in the markets as mentioned earlier and distribution channels are also changing. Accordingly, emphasis must be placed on how to increase contact with buyers or vendors and how to raise the percentage of orders received through them. Thus marketing activities should be primarily aimed at:

1) Increasing chances for contact with buyers/vendors,
2) Establishment of an order receiving and production system able to meet the expectations of buyers/vendors.

(2) Market Access

Contact with buyers/vendors is currently fairly passive. Trade fairs are one of the active points of contact on a spot basis. However, several factors make it difficult to attract the attention of buyers from overseas, namely 1) the high participation expenses limit the scope of participants, 2) the participants have difficulty grasping market preferences and display inappropriate exhibits, and 3) Group D firms are dominant among the participants.

Buyers need overseas production bases and thus they are actively endeavoring to find appropriate manufacturers, not only at trade fairs but also on other occasions. In the Philippines, however, efforts to promote the advantages of the country to draw the attention of buyers are insufficient. In addition, there are no established windows for buyers to make contact with manufacturers and this results in lost opportunities for contact.

To promote the Philippines to buyers, active measures are required to dispel the misgivings of buyers regarding the social and political instability in the country. (Refer to 1-2, (5) "Overseas development and interest in purchases abroad of Japanese firms and the Philippines".) Their uneasiness about the possibility of local partners reneging on contracts and suspension of exports and imports due to external factors is so strong that it has become one of the prime motivations for buyers/vendors to look to other countries. The industry's response that the stuffed toy factories did not stop operating during the coup d'état has not reached overseas countries. It is essential that the Philippine side actively communicate with the outside world on such occasions.

Regarding the establishment of windows through which buyers can make contacts, CITEM and BETP are both endeavoring to build data bases on manufacturers. The CITEM data base is an accumulation of lists of participants in trade fairs while the BETP data base includes lists of firms registered with the organization. There is little connection between the two data bases, however. Firms on BETP's lists are categorized as toy manufacturers and thus the classification is sketchy. In addition, the lists do not contain all information regarding production capacity, main markets and year of founding and thus it is inconvenient for stuffed toy buyers to use. Overseas buyers, who have no other individual connections, use diplomatic establishments overseas and BOI as well as CITEM and BETP as their initial windows for contact. Information about which buyers are looking for what is passed to relevant firms through enterprises registered on the data bases or PHILTOY.

With only 22 percent of all stuffed toy firms joining PHILTOY as members, the organization lacks the power to activate the entire industry on the basis of such information.

About 59 percent of stuffed toy manufacturers neither participate in PHILTOY nor are registered with BOI. Supply of information to them is difficult. On the other hand, firms in Groups D through G sometimes lack the ability to cope immediately with a direct contact, resulting in a loss of opportunity.

Despite the efforts the buyers makes to secure production or procurement bases, the chances for contact with them are not fully utilized because:

1) The official windows for contact are insufficient,
2) The industry's system for receiving buyers is insufficient,
3) The receiving systems of individual firms largely depend on the personal ability of owners and have their limits.

(3) Order Reception Capability

Improvement of order reception capability is also necessary for marketing. Unless manufacturers have the capability to meet the expectations of buyers during contacts with them, the buyers will turn to other manufacturers (or countries). With respect to order reception capability, buyers focus their attention on: 1) cost competitiveness, 2) counter sample making ability, 3) quality control ability, and 4) ability to strictly observe delivery schedules. Cost competitiveness will be dealt with later in this report.

1) Sample pattern making ability

Sample pattern making ability is the first opportunity for buyers to appraise manufacturers. In general, buyers provide manufacturers with design concepts and manufacturers make counter samples. Problems with counter sample making in the Philippines include: 1) shortage of designers (or patternmakers), and 2) difficulty in obtaining raw materials for sample making.

The shortage of designers (or patternmakers) is particularly serious among firms in Group D through G. Although owners or their deputies personally possess some knowledge of sample making, they generally lack the experience necessary for appropriate sample making. However, even in advanced stuffed toy making countries such as Japan, R. Korea and Taiwan, there are hardly schools or training institutes to provide guidance on special methods of sample making or pattern making for stuffed toys. In general, sewing machine operators or designers become patternmakers after several years of practical work experience. Normally, it takes about three years for them to become independent patternmakers.

Patternmakers are key personnel who translate design concepts sent from buyers into counter samples. Growth into independent manufacturers of stuffed toys for export is impossible without them. Patternmakers also play an important role in the reduction of costs through rationalization of production processes.

Even if stuffed toy manufacturers in the Philippines have pattern making or sample making capability in-house, they are sometimes unable to make and present counter samples within the period fixed by buyers due to the difficulty in obtaining raw materials in the country. In other words, even if overseas buyers visit the Philippines to find production bases, they sometimes cannot go into commercial negotiations because samples cannot be made while the buyers are in the country. This is because there are no material wholesalers or supporting organizations in the Philippines which stock a wide variety of raw materials and sell them in small lots.

2) Attaining quality

Firms in Groups A, B and C generally possess appropriate quality control ability. It is possible to expect them to manufacture products qualified for export if the proper raw materials are used.

In addition to the quality of raw materials used, the products should meet various quality requirements including: 1) even finishing of products, 2) firm sewing, 3) sufficient fixation of accessories, 4) natural positioning of eyes and noses, 5) absence of sharp-edged objects, and 6) absence of dust or flocks. The appropriate execution of these quality control measures depends on the system of directing and checking individual stages in the production process. Checking is mostly likely done by visual inspection. Firms inexperienced in export markets often lack consciousness of these items which are aimed at maintaining the basic quality of products.

Guidance given by domestic supporting organizations emphasizes sewing, management control, design, etc. and is insufficient for quality control.

3) Strict observance of delivery schedules

The demand for stuffed toys is greatly influenced by changes in consumer preferences. Accordingly, any delay in delivery may not only reduce the value of the products greatly but may sometimes even make them totally unsalable. For this reason, buyers are strict in expecting others to observe the delivery schedule. In the Philippines, the time of delivery fixed in the contract tends to be longer than in other countries. Buyers point out that Philippine manufacturers are not conscious enough of the importance of strictly observing delivery schedules. Such comments are not valid for all firms but care should be taken because such appraisals can become a factor which will convince buyers to avoid the Philippines.

Factors responsible for a longer time for delivery or delayed delivery include the underdevelopment of the domestic raw material industry, the fact that subcontracting firms are not well organized, and insufficient infrastructure.

Firms teaming up with vendors can receive materials from vendors at the stage of beginning production so that there are no delays in delivery due to this reason. But the period from receipt of orders to delivery is still longer than it is in countries where firms are able to purchase raw materials domestically.

Firms producing without any relations with vendors but through direct access to buyers are forced to spend around one month for raw material purchases after the receipt of orders (arrival of L/C). If they want to compete with others, they must reduce the period needed for actual manufacturing. Even though utilization of subcontractors in one way to reduce this period, because of anxiety regarding the ability of subcontractors to be utilized for manufacturing, they sometimes give up accepting orders.

According to a questionnaire survey conducted in the Philippines between June and September, 1991 by the Team, firms which have actually done subcontracting work so far account for 45.7 percent of the responding firms. Although the percentage seems high at first sight, most of the subcontracting is conducted mutually among independently-exporting manufacturers (about 55 percent of the stuffed toy manufacturers) and most small-sized manufacturers are left out in the cold. The main reason for this, as cited by 73.5 percent of the firms surveyed, is that everything can be done within their own factories and that it is not necessary to subcontract. But "a distrust of subcontractors" regarding their ability to strictly observe delivery schedules (14.7 percent) and the poor quality of their products (20.6 percent) also exists.

3-5 Cost Competitiveness

1) Production cost

Between 1987 and 1989, moves began to shift stuffed toy production from R. Korea and Taiwan to China, Thailand and other countries. The biggest factor responsible for the moves toward newly-developing stuffed toy producing nations is cost competitiveness.

A remarkable wage increase has taken place in the Philippines recently in accordance with higher prices. Minimum wages have risen as much as 30 percent in one year between 1990 to 1991.

While the minimum wage in the Philippines was 14 percent lower than that in Malaysia as of January 1991, it was 15 percent higher than that in Thailand and 200 percent higher than that in China. Reflecting this, exports from the Philippines are stagnating while other countries are smoothly expanding the value of their exports. In particular, China has grown into a leading stuffed toy exporting country following R. Korea. Even Malaysia, where labor costs are 14 percent higher than in the Philippines, tops the Philippines in total exports. These facts clarify the degree to which the Philippines, as a host country has failed to capitalize on moves to shift stuffed toy production overseas.

For example, the costs of a medium-grade stuffed toy are estimated as follows:

Estimate of manufacturing costs for stuffed toys

(FOB)

	Unit price per piece (US$)
R. Korea	2.20 - 2.30
China	1.60 - 1.80
Philippines	2.00 - 2 10

Note: Medium-grade products with seated height of 20 cm, lot size of 15,000 pieces.

There is already a huge gap between production costs in the Philippines and China. However there is still significant scope for reduction of production costs in the Philippines. Most important is the increase in operation rates. If operation rates were increased 30 percent, production costs would be reduced 13 percent, bringing them close to those in China.

The smaller the products are in size, the higher the percentage of labor costs in them. The Philippines is at a particular disadvantage in this area. In contrast, the country is believed to have a relative advantage in larger-sized products because the ratio of raw material costs becomes greater (see Fig. III-3-2).

2) Cost of marine transport

The cost of marine transport to the U.S. market is lowest from R. Korea, followed by Taiwan, Thailand, Malaysia, the Philippines and China in that order. Since the cost of marine transport depends on cargo space demand rather than on the distances of transport, nations along busy foreign trade routes or positioned at the relaying points of busy routes have an advantage.

Although geographically closer to the U.S. market, the Philippines has to pay an ocean freight rate which is about 40 percent higher per unit than that paid by Thailand. The ocean freight from Shanghai to Los Angeles costs US$4,412 per 40 feet container, or 25 percent more than that from the Philippines. The Chinese stuffed toy industry more often does business through vendors in Hong Kong or buyers in other developed nations rather than direct transactions between manufacturers and the market. If the route via Hong Kong is used, the marine transport cost is 40 percent cheaper than that from the Philippines.

The situation is almost the same with the Japanese market. The marine freight rate from the Philippines is equal that from Thailand, which is farther away.

Table III-3-1: Philippines/Export of Toys

	Amount (US$, FOB)	Growth Rate (%)
198	8,617,530	
198	5,735,365	-33.40
198	4,471,049	-22.00
198	5,806,905	29.90
198	10,083,560	73.60
198	19,386,467	92.20
199	24,423,098	26.00

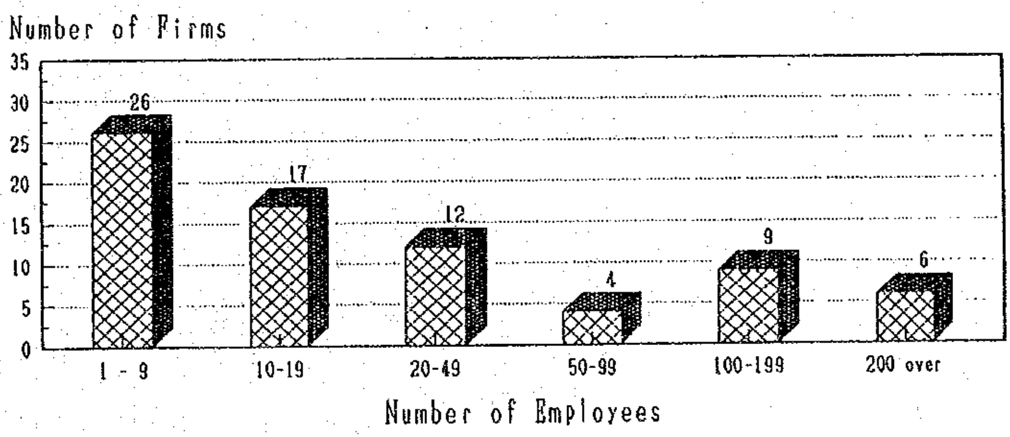
Source: Philippine Export to the World, BETP

Table III-3-2: Philippines/Export of Toys for Children by Major Destinations
by Major Destinations

	1988		1989	
	Amount (US$, FOB)	Share (%)	Amount (US$, FOB)	Share (%)
U.S.A.	3,822,527	58.7	6,625,170	55.8
U.K.	371,821	5.7	2,127,899	17.9
Germany, F.D.R.	247,808	3.8	869,252	7.3
Japan	522,892	8.0	730,329	6.1
Australia	710,279	10.9	233,496	2.0
Total(Incl. Others)	6,506,914	100.0	11,876,322	100.0

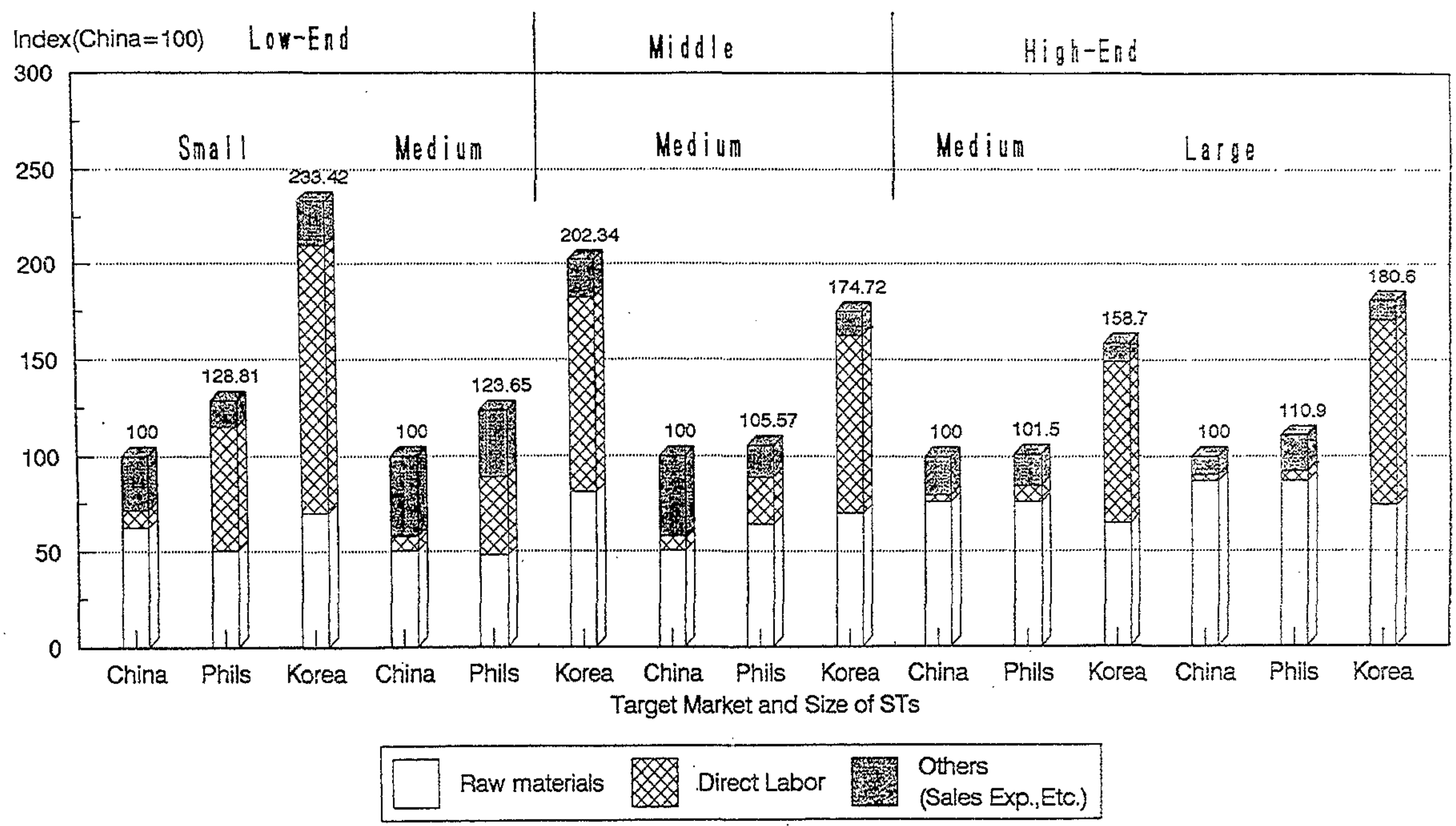
Source: 89 Foreign Trade Statistics of the Philippines

Figure III-3-1: Philippines/Distribution of Firms by the No. of Employees



Note: Total number of available data: 74 firms
Source: Based on the questionnaire survey conducted by the Study Team

Figure III-3-2: Production Cost of Stuffed Toys in China, R. Korea, Philippines



Source: JICA Study Team Estimate.

4. Development Policies and Programs for Stuffed Toy Industry

Starting in the 1970s, commercial (i.e., corporate) production of stuffed toys began with the help of technology from U.S. buyers and Korean manufacturers. However, government policy gave priority to the garment industry within the stuffed toy related industries, and there were no measures specifically targeting stuffed toys. Imports of raw materials were allowed only by garment manufacturers, leaving stuffed toy makers without access to foreign materials. Even garment manufacturers, who supplied raw materials to the stuffed toy industry, were hindered by high import duties and found themselves unable to import the materials they needed. Furthermore, when manufacturers tried to import foreign stuffed toys for the purpose of product research, they met with long procedural delays due to unclear classification criteria for stuffed toys, which were so vague that even customs supervisors were unable to provide accurate classifications.

Against this backdrop and with the realization that there were limits to what individual firms could accomplish on their own, interested firms in 1975 established the Philippine Toy Manufacturers Association with the aim of bolstering industry unity and improving bargaining power with respect to the government.

In response to an inquiry from the BOI concerning the establishment of the organization for toy manufacturers, a total of 19 firms (including four manufacturers who were members of the original Philippine Toy Manufacturers Association, 10 toy-related exporters, and five subcontractors) grouped together to establish PHILTOY (The Philippine Toy and Novelty Manufacturers Association, Inc.) in 1986.

4-1 Development Policies for Stuffed Toy Industry

There are no development policies specifically targeting the stuffed toy industry; applicable policies for export-oriented industries and small businesses are utilized when possible.

4-2 Past and Present Development Programs for Stuffed Toy Industry

(1) The Long-Term Development Program for the Toy Industry

PHILTOY analyzed toy industry concepts and problem areas and in 1987 submitted to the government the Long-Term Development Program for the Toy Industry.

This program proposed two development strategies: a basic strategy, assuming no substantial changes in government assistance for the toy industry; and an "enhanced" strategy, based on the premise of expanded government aid.

1) Basic Strategy

The basic strategy is based on the existing management environment for the company, and assumes PHILTOY as the main implementing body. The main measures in this strategy are described below (only those related to the stuffed toy industry are listed here).

a) Improvement of handicraft technologies

In order to improve productivity and efficiency, a specialized training program must be built up around a private sector body. In line with this aim, the following training programs will be implemented at NMYC using PHILTOY staff as instructors:

Level A: Basic skills training
Level B: Skills upgrading
Level C: Development of supervisory skills
Level D: Trainer's program

b) Promotion of R&D of product design for world market trends

PDDCP (Product Development and Design Center of the Philippines) is currently responsible for R&D in the field of product design. The following measures should be considered as means of improving the efficiency of Center functions and increasing motivation.

1. A privately-led body to provide assistance in related fields for toy design R&D at the Design Center.

2. Efforts to improve the quality of staff engaged in toy design at the Design Center.

c) Creation of an export-oriented marketing organization

One of the factors inhibiting exports of Philippine toys is the lack of marketing. In particular, the Philippine industry must be more aggressive in its marketing efforts if it is to compete with the NIEs and lessen the uncertainty of exports. In line with this aim, a marketing organization composed of toy industry representatives should be established under the guidance of PHILTOY. The main functions of the new organization will be as follows:

1. Efficient procurement of raw materials
2. Marketing assistance
3. Monitoring functions
   Production capacity and production level at manufacturers will be monitored, and this information will be provided to such firms as consigners who are looking for consignees and subcontractors.
4. Implementation of a campaign to promote a better understanding of the Philippines
   Manufacturers in the toy industry must be very sensitive to lead time, therefore, it is important to convince foreign partners that the Philippine toy industry can be trusted in business.

2) Enhanced Strategy

This is an expansion of the basic strategy, and it will require the government to change and modify existing policies appropriately. The main measures are listed below, and all should be undertaken from the twin perspectives of the government and the private sector (only those measures related to the stuffed toy industry are listed here).

a) Formation of an export-oriented marketing organization

This organization is to be established as part of PHILTOY with the cooperation of financing agencies. Its main functions and aims are the same as those for the marketing organization described above, but under the enhanced strategy it is based on the premise of active involvement by the government.

b) Improvement of export toy quality

1. Minimization of duties on imported raw materials

The import duties on main raw materials, raw materials which are not produced locally, and raw materials which are produced locally but are not of adequate quality (fabrics, plush, plastic eyes/noses/buttons, synthetic resins, etc.) should be reduced to 10%.

2. Improvement of handicraft technologies

Emphasis should be given to the enhancement of PHILTOY and government programs and to the adoption of vocational training in public and private high school curricula. At vocational schools, efforts should be made to improve education in the areas of embroidery, high-speed sewing machine operation, patternmaking, cutting, and toy design.

3. Enhancement of toy design R&D at the Design Center (PDDCP)

R&D activities at the Design Center should be made tax-deductible, providing an environment in which the Center can make the most of its R&D activities.

4. Early introduction of standard inspections and quality control

The industrial standards required by leading export markets should be introduced through PHILTOY. In order to promote the adoption of these standards, PHILTOY should:

- Work to improve awareness among toy exporters of the existence and importance of toy safety standards; and
- Adopt a "Seal of Good Quality" system and establish a standard inspection system using factory quality control classification under which products meeting certain standards can carry this seal.

5. Adoption of a piece-rate wage system

The government should consider legalizing and adopting a piece-rate wage system based on negotiations with the private sector and taking into consideration minimum wages in the regions.

c) Others

Outlined below are also proposed in the program.

1. Creation of an export/import bank

2. Improvement of access to low-cost, long-term financing

3. Adoption of a dollar-based reserve system for foreign exchange export earnings

4. Simplification of export/import procedures

5. Prevention of smuggling

6. Reevaluation of the energy price structure

7. Simplification of BOI registration procedures

8. Improvement of the investment environment

    - Resolution of labor-management disputes

    - Return of political stability

9. Establishment of bonded warehouses for processing on assignment

(2) Progress of the Long-Term Development Program for the Toy Industry

Total costs required for implementation of the various projects proposed in this program are estimated to total P20 million. Since access to long-term loans at favorable interest rates has yet to be found, for the time being necessary funds will probably have to be procured through a financing agency or through international aid organizations. The program was also submitted to NEDA, whose response was that "Although we recognize the importance of marketing activities, more emphasis should be given to product development." Progress on the main proposals is shown below.

1) Establishment of an export-oriented marketing organization

Of all the projects proposed in the Long-Term Development Program for the Toy Industry, this one has the greatest priority. PHILTOY believes that the results of this project will have a determining influence on the future growth and direction of the Philippine toy industry.

The BOI and PHILTOY hired the Asian Institute of Management to conduct a feasibility study, and the results were released in March 1989. The study proposed that the project be broken down into the following three phases for implementation:

<1st Phase>

- Establishment of a sales office and showroom in the Philippines
- Preparation of catalogs using videos and printed materials
- Active participation in CITEM activities

<2nd phase>

- Establishment of a sales office in a leading U.S. market

This will be an experimental sales office to determine the validity of the project concept.

<3rd phase>

- Expansion of U.S. sales through the sales office
- Establishment of similar offices in other regions (e.g., Australia or the EC)

Based on these results, PHILTOY is now considering possible locations for the U.S. sales office.

2) Improvement of quality and the adoption of quality and safety standards

In 1988 the BPS established two Philippine National Standards for toys: *Safety Requirements for Children's Toys: Part I -- Constructional Requirements, Part II -- Toxicological Requirements, Part III -- Flammability Requirements*, and *Packaging and Labelling Safety Requirements for Toys*.

These standards were adopted after a one-year transition period. Currently, producers of products not meeting these standards are subject to legal action, but in general the toy industry which includes many "outsider" firms not belonging to PHILTOY has been negative in its reaction. Another reason for the ineffectiveness of the standards is the lack of testing and inspection facilities at BPS itself.

3) Joint training program by NMYC and PHILTOY

In 1989 PHILTOY was formally accredited as a training facility by NMYC, and the two organizations reached an agreement whereby NMYC students undergoing on-the-job training at specified toy factories of PHILTOY members will have half of their tuition paid by NMYC.

4) Adoption of a piece-rate wage system

Industry associations related to the toys, gifts, furniture and houseware category have submitted to the government a request for early adoption of a piece-rate wage system.

5) Improvement of export credit conditions, changes in financial policy

The DTI provides loans to small and medium-sized businesses through the PITC. During the period from July 1988 to August 1989, 47 firms were given loans totaling P13.186 million.

6) Special Foreign Currency Deposit Account (SFCDA) for exporters

Exporters certified by the Central Bank or registered with BOI/EPZA are allowed to have SFCDAs. As of December 1991, up to 40% of export value has been able to be deposited in the accounts in the appropriate foreign currency. Money deposited in these accounts can be used to pay agency fees, freight charges, etc. at the discretion of the firms.

7) Reduction of import duties on main raw materials

The government has already agreed to reduce these duties (refer II, chapter 3, (1), 3)). In addition, the toy and textile industries, which were at odds over the issue of duties on textile imports, reached a compromise in July 1990 whereby the textile industry would provide sample textiles to the toy industry at minimal prices regardless of the order volume.

4-3 Government and Industry Organizations

Government organizations involved in the development of the stuffed toy industry include DTI/BOI which deals with the formulation and implementation of industrial policy, NMYC which deals with manpower training, and CITEM dealing with trade promotion. PHILTOY is the major industry group involved in the development of the industry. The following is an examination of the major organizations and bodies.

(1) Industry Organizations

1) PHILTOY

PHILTOY (The Philippine Toy and Novelty Manufacturers Association) is an organization which represents toy firms including stuffed toy firms. The organization was reorganized November 27, 1986 to take the place of PTMA (Philippine Toy Manufacturers Association: estd. June 2, 1975), its predecessor. Below is an overview of PHILTOY.

a) Purposes

1. Promotion of the toy and novelty industries.

2. Supply of the latest information on trends and other matters relating to production and marketing.
3. Encouragement of the exchange of technical information and marketing ideas between members.
4. Encouragement of the incorporation of Philippine culture and craft into product designs.
5. Giving of assistance in product safety measures.
6. Participation and cooperation in government instigated activities for the development of the toy and novelty industries.
7. Promotion of ethical conduct and adherence to laws among members.

b) Content of services

1. The organization aims to improve the technology and management know-how of member firms through the activities listed below.
2. Supplying information on production trends in the major countries through seminars and workshops.
3. Lobbying related government organizations to provide technological and financial support needed for expansion of operations and the procurement of driving capital.
4. Promoting skills development through seminars and workshops implemented in cooperation with NMYC.
5. Gathering and distributing information on demand trends in overseas markets, consumers tastes, and trade policies and regulations in trading partner countries.
6. Researching methods for better procurement of necessary materials.

c) Structure

1. 1 President
2. 2 Vice Presidents (internal, external)
3. 1 Treasurer
4. 1 Corporation Secretary
5. 2 Directors

<Committee>

1. Government Affairs Committee
2. Membership Committee
3. Income Generating Committee
4. Subcontracting Development Committee
5. Trade Fairs Mission Committee
6. Public Relations Committee
7. Labor Committee
8. Financing Committee
9. Suppliers' & Services Committee
10. Newsletters Committee

d) Membership (as of July, 1990)

1. Regular Members (makers): 27 firms

(breakdown)	stuffed toys, textile toys	15
	plastic toys	4
	wooden toys	5
	others	3

2. Associate Members (traders, exporters, and designers): 16 firms; of these 8 firms deal in stuffed toys

e) Main activities targeted in 1991

1. Expansion of member firms.
2. Introduction of system of finance packages for member firms.
3. Active participation in trade fairs and exhibitions held in the Philippines and overseas.
4. Introduction of suppliers of raw materials to member firms.
5. Effective utilization of bonded warehouse facilities.

2) PCHI (*The Philippine Chamber of Handicraft Industries Inc.*)

a) Purpose

PCHI was established in 1967 as a non-profit organization for the promotion of the handicraft industry. The organization offers services in the following 4 fields to makers, exporters, traders and suppliers in this industry.

1. Common Marketing Program
2. Skills Development Program
3. Raw Material Procurement Program
4. Lending Assistance Program

b) Content of services

1. Creation of base for organized activities in business and local community.
2. Arrangement of smooth communication with other industry or government organizations.
3. Establishment of reliable trade relations between members of the handicraft industry.
4. Expansion of export support network.
5. Support for raw materials procurement.
6. Protection of the rights and interests of members and the handicraft industry as a whole.
7. Encouragement of participation in trade fairs and exhibitions held overseas and in the Philippines.
8. Support in cooperation with the government and government organizations for the general realization of profits in the handicraft industry.

The above are realized through the following activities.

1. Monthly meetings
2. Workshops
3. Offering guidelines and consultation services for marketing activities.
4. Making available libraries and reference data.
5. Publications of circulars and bulletins
6. Organization of social gatherings and trade meetings.
7. Organization of marketing conferences.
8. Awarding prizes to members achieving excellent results.

c) Structure

Refer figure III-4-1.

d) Membership

There are 280 member firms and organizations from 11 industries in the organization. There are 9 member organizations representing industries such as the woodcraft, furniture and fashion accessories industries. PHILTOY is the organization representing the toy industry in PCHI.

e) Other

Of the four fields outlined in a) above, activities relating to training and finance are as follows.

i) Skills Development Program

PCHI provides subsidies for employees of member firms taking NYMC training courses (Basic Skill Course, Skill Upgrading Course, Trainer Training Course) and 30 employees from each firm are able to receive training free of charge.

ii) Lending Assistance Program

The are two financing packages for member firms, one using TLRC funds and the other using DBP funds. The packages are offered to firms satisfying the following conditions.

1. Firms who attend over 60 percent of meetings, including general , regular and special meetings.
2. Firms with no annual fees outstanding.
3. Firms who fulfill their obligations as members.
4. Firms who endorse the cause and purpose of PCHI

Between March and July 1991 the packages were granted to 46 firms.

Finance is supplied either 1) directly to member firms, or 2) through industry organizations to member firms. In the latter case, financing goes to any firms endorsed by the member industrial group: the final recipient need not be a member of the PCHI. However, strict standards are required, and even should a single member of an industrial group fail to fulfill its contract, funds from PCHI to that industry organization cease.

(2) Government organizations, etc.

1) TLRC (Technology and Livelihood Resource Center)

TLRC is an organization which aims at securing and expanding methods of making a living through the commercialization of appropriate technology. A range of activities are conducted through its three offices, LEAPO (Livelihood External Assistance Program Office), TIDD (Technology Information and Dissemination Department), and TVISD (Technological Ventures and Information Systems Department).

TLRC has concluded a policy agreement with DTI and PHITOY for the scale expansion of the stuffed toy industry through the activities listed below. This was concluded under the government's National Economic Recovery Program, designed to lift lifestyle bases.

1. The augmentation and systemization of a subcontracting network.
2. The supply of information on overseas trade and markets to domestic toy makers.
3. The review of regulations, official procedures and incentives which affect trends in the toy industry.
4. Encouragement of appropriate support by government organizations.

Regarding the subcontracting network, workshops were held in cooperation with PHILTOY in order to bring about the spread of marketing techniques and stuffed toy manufacturing technology. One of the aims of the workshops was to provide members of the stuffed toy industry with an understanding of the types of technology and management prevalent in the global market.

The Business Technology Training Department, the training arm of TIDD, also holds a variety of programs from time to time. The following courses pertaining to stuffed toys are offered.

1. How to manufacture stuffed toys (30 hours total)
Content: how to begin a stuffed toy business in your own home, the required labor and space, obtaining materials, essential points for production and export, actual stuffed toy making (7 types).
2. How to make novelty dolls (I,II) (both 15 hours total)
3. How to make up a garment subcontracting business (15 hours total)
4. How to make country motif Christmas Decors (15 hours total)
5. How to make quilted products (Basic, Advanced) (both 15 hours total)
6. How to operate and repair industrial sewing machines (15 hours total)
7. Hand quilting (15 hours total)

2) CITEM (Center for International Trade Expositions and Missions, Inc.)

CITEM is an export promotion organization which 1) plans and conducts various government activities and programs relating to export promotion, and 2) participates in activities intended to lift the image of Philippine products. Its activities target export promotion items (garments, fashion accessories, footwear, leather, furniture, gifts, toys, houseware and fresh and processed foods) and are as follows.

1. Trade fair sponsoring
2. Organization, dispatch and acceptance of trade missions
3. Supply of consultation services and merchandising support
4. Publicity activities for Philippine products.
5. Arranging and providing access to related facilities (exhibitions, trade fairs, grounds, etc.)

The organization has participated in the Nueremberg International Toy Fair continuously since 1983. In participating in that trade fair, member firms receive permanent aid from Germany's international aid organization GTZ (Deutsche- Gesellshaft fuer Technische Zusammenarbeit), as well as receiving advice on the three points 1) finishing, 2) design, and 3) marketing as part of the Integrated Promotional Programme operated on E.C. funds. Also, by participating in the Frankfurt Trade Fair, Philippine products receive checks and comments by German consultants.

The organization dispatched a toy selling mission at the time of the Paris Toy Show, and in 1988 a toy and novelty mission was sent to the 1988 Tokyo toy show, receiving assistance from ASEAN CENTER in Tokyo.

3) BETP (Bureau of Export Trade Promotion)

BETP is a DTI affiliated trade promotion organization which compiles and supplies overseas information, particularly to small and medium sized firms or those even smaller. Information on markets and systems gathered by commercial attachés posted overseas are compiled and processed by BETP's Documentation Center and are available for general perusal in its reference room. Information on toys is also distributed to PHILTOY and its associated firms. Its facilities also includes a Market Opportunity

Center where Philippine products are exhibited for foreign buyers. A "match-making service" is also run here.

There is a registration system for member firms. Registered firms are listed in a directory published by the organization, BETP Registry of Philippine Exporters (44 firms were listed in the registry in 1990).

BETP has submitted to NEDA three proposals in line with the 10 year development plan for the toy industry concerning 1) Enterprise Development (Product Adaptation), 2) Trade Fair Participation and 3) Market Research. The proposals are undergoing screening at NEDA at present. However, whether or not these will be implemented seems very likely to come down to a matter of funds.

Many of its functions currently overlap with those performed by CITEM. An investigation is currently being conducted in order to overcome this. Studies are being conducted into the possibility of assigning the formulation of export policy to BETP and actual export promotion activities to CITEM. However, as this will be affected by the outcome of the proposal to unify the DTI and the Department for Tourism, this cannot be clarified at this point.

4) PDDCP (Product Development and Design Center of the Philippines)

PDDCP has responsibility for the development and improvement of design in order to strengthen the competitiveness and quality of Philippine products. It offers the following services as a DTI affiliated organization.

a) Advice on product and packaging design

The organization responds to requests for advice from makers as to the most appropriate products and packaging to makers when new products are developed or existing products altered to respond to changes in the market.

b) Collection and supply of information on design

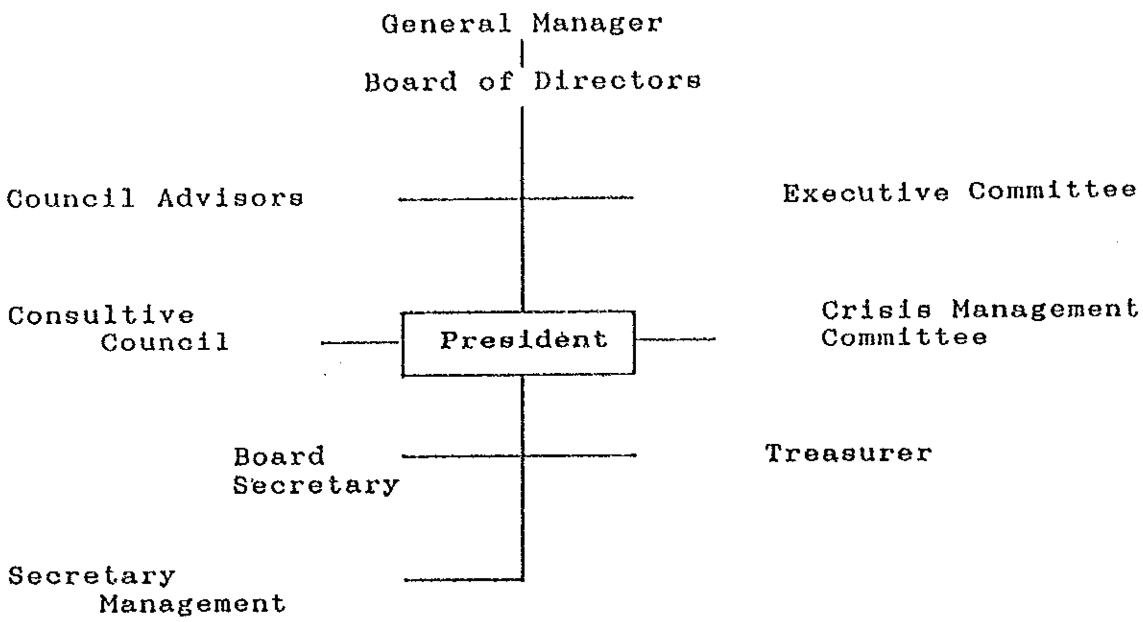
The organization makes design catalogs, products of outstanding design and a continually updated data bank of design information available to stuffed toy firms and designers. It also holds periodic exhibitions of design, technologies, materials, processing methods, and industrial art relating to products and packaging with the object of spreading knowledge of design among industry members.

PDDCP sends designers with between four to six years' designing experience to study in countries where design is advanced. It also invites experts from a range of different countries to the Philippines with aid from JICA, UNIDO, and GTZ.

Toys are not designed by specialist toy designers but by two or three designers specializing in gift, toy and houseware design. As the major makers whose production is export oriented are supplied designs by buyers, most of the requests made to PDDCP are from small and medium-sized makers wishing to target the domestic market. Both PDDCP and the particular firm are deemed to have title to the design, when a completely new design is offered or when improvements are made on the firm's original design.

There is also a forum for the discussion of toy design with PHILTOY. A long-term aim of PDDCP for export designs is to develop a Philippine Collection in some form or other, instead of remaining tied to trends in partner countries.

Figure III-4-1: Organization Chart of PCHI



5. Framework of Development Programs for Stuffed Toy Industry and Recommendation on Implementation

5-1 Framework of Development Programs

(1) Establishment of Targets of Development Programs

1) Introduction

In fixing targets for development programs it is necessary to 1) gain a grasp of trends in the stuffed toy market and the way the stuffed toy industry is responding to this, and 2) to consider the advantages and disadvantages of the Philippine stuffed toy industry and how the advantages may be most effectively utilized and aligned with the market and with international trends.

2) General Characteristics of the Stuffed Toy Industry

Before attempting to grasp the characteristics of the Philippine stuffed toy industry and trends in the market, the intrinsic characteristics of the stuffed toy industry as a whole will be examined (refer 1-1).

1. Demand for stuffed toys is greatly influenced by changes in consumer tastes, and what characters are popular at any particular time. Products which do not follow these trends are ignored by consumers. It is thus essential for stuffed toy makers to be sensitive to these changes and to be able to respond accordingly. Furthermore, sales channels for stuffed toys are changing. For this to be possible, a system of researching market trends and making the appropriate responses is necessary. As market analysis and planning is the function of buyers, distribution would be impossible without them.

2. When overseas orders for stuffed toys are made, vendors often play an important role. Vendors choose appropriate makers, organize the necessary materials and supervise production for buyers. When buyers place orders directly and perform these functions on their own, vendors are not necessary. However, vendors are employed to conduct production, cost and quality control when the buyers do not have access to adequate information on local manufactures or when they are unfamiliar with manufacturers' style of management.

3. The stuffed toy manufacturing process is extremely labor intensive and their is little scope fo reducing labor with the introduction of machinery. The proportion of labor costs in total production cost is large in low-priced products. As products enter higher price brackets this proportion becomes lower. Furthermore, the smaller the item the higher the proportion of labor costs in total cost. As size increases this proportion drops. In other words, as items become bigger and more expensive, the influence of labor costs on price competitiveness becomes comparatively smaller.

3) Characteristics of the Stuffed Toy Market and Industry Trends

The largest stuffed toy market in the world is the U.S. and the largest in Asia is Japan. However, the volume of direct exports from the Philippines to Japan is currently very small. In Japan, markets for low-priced articles and high-grade products are expanding. The increase in demand for low-priced products is particularly remarkable. (Refer 1-1 and 1-2)

Stuffed toy production in Japan, the U.S. and western Europe, which are consumption areas, is declining and buyers and vendors are looking for countries where costs are lower and are shifting orders to manufacturers overseas. R. Korea and Taiwan had previously been regarded as low-cost countries but the Philippines and Thailand later replaced them. Today, China is attracting the most attention and some buyers believe that Vietnam has the potential to become an important production base in the future. At the same time, other buyers place emphasis on non-price competitiveness. They attach importance to a manufacturer's ability to understand the features and design of characters specified by buyers, whether the manufacturer has enough experience to realize these requirements in each product as well as the firm's quality control capabilities and ability to easily and accurately understand subtleties in buyers' verbal directions. These have become particularly important elements for buyers of medium and high-grade products.

4) Advantages and Disadvantages of the Philippine Stuffed Toy Industry

Amid these general circumstances and against the background of such market and industry trends, what are the advantages and disadvantages of the Philippine stuffed toy industry? As has been stated early, the Philippines has drawn the attention of buyers and vendors due to its low labor costs. Production bases began being transferred to the Philippines in the latter half of the 1980s. However, competitiveness based solely upon labor costs is already being lost. Buyers and vendors who conducted production of low-priced products in the Philippines have already moved their production bases out of the Philippines and into China. It is now the non-price competitiveness of Philippine stuffed toy manufacturers which is able to attract buyers. In consumer countries such as Japan and the U.S., the makers, which were able to stay in business after price competitiveness was lost following increased labor costs, were those of small number of makers with planning capabilities. Their planning capability, a form of non-price competitiveness, allowed them to remain in the market and the fall in price competitiveness was overcome by shifting their production bases overseas. A similar pattern is visible in R. Korea. Not being in a consumption area, R. Korean makers were able to remain in the market by utilizing their production arrangement and raw material supply capabilities, which could not be matched by other countries.

As the Philippines has almost no domestic market, the industry must continue as an export production base. Under these circumstances, reliance will continue to be placed on buyers for the supply of designs and the Philippine industry will maintain non-price competitiveness through 1) production technology and quality control levels adequate for buyers, and 2) the ability of workers to speak English, which makes giving directions on the factory floor simpler. There are cases of buyers having gone to Thailand and Indonesia only to find that giving accurate directions was too difficult, closing their offices and returning to the Philippines. Furthermore, because of the Philippines' exposure to U.S. culture in the past and present similarities between the two cultures as can be seen in television programs, it is easy for Filipinos to understand U.S. character fashions. This can be said to give the Philippines an edge in counter-design.

5) Establishment of Development Targets

Under the current system of minimum wages being applied to firms, it has already become difficult for the Philippine stuffed toy industry to maintain price competitiveness in the low-priced product market. Thus the existence of the Philippine stuffed toy industry is currently based on non-price competitiveness and fundamental goals in the future should be based on the establishment of status in the medium and high-grade product markets.

However, this non-price competitiveness is possessed only by firms which have teamed up with overseas capital and a small number of local firms of middle standing. The remaining majority of firms lack ability in pattern making, quality control and other areas necessary for manufacturing medium and high-grade products. Unless efforts are made to nurture such firms, the size of the Philippine stuffed toy industry will inevitably shrink. One result of this would be a reduction in the infrastructural facilities required by the stuffed toy industry and this disadvantage would outweigh the Philippine industry's advantage in non-price competitiveness. That is why nurturing of the majority of local firms should be considered in parallel with the fundamental goals stated above. Where these firms can currently compete is in the low-priced product market.

(2) Basic Perspective on Development Strategies

Local firms of middle standing essentially possess non-price competitiveness sufficient for advances into the medium and high-grade product markets. However, this non-price competitiveness is diminished a great deal by the lack of price competitiveness in the current level of production costs. Difficulty in local purchases of raw materials and the social tolerance of illegal copying also offset the non-price competitiveness. As countries with low labor costs currently producing low-priced items are likely to begin production of goods of higher quality in the future, efforts to bolster price competitiveness must be the first priority, even in the medium and high-class product markets. Price competitiveness may be bolstered by lifting the currently low operation rate. Expansion of orders from markets which have delivery times different from those of current customers would improve the operation rate and bolster price competitiveness (refer chapter 3, 3-5).

On the other hand, active efforts to make known the industry's ability to manufacture medium and high-grade products are required to establish a position in the medium and high-grade product markets, and thus exploitation of new buyers is absolutely necessary.

As for the remaining majority of local firms, it is necessary for the time being to take measures to give them price competitiveness in the low-priced product market. For instance, while making efforts to utilize subcontracting firms for the reduction of labor costs, manufacturers should also make efforts to improve operation rates by: 1) subcontracting for other stuffed toy makers; 2) accepting orders for handicrafts or other sundry articles; and 3) subcontracting for the clothing industry. However, such actions alone will not bring about improvement of the corporate quality of stuffed toy firms. Nurturing of pattern makers and study of quality control manuals are also necessary to receive orders from the medium and high-grade product markets.

Throughout the process of development, it is necessary for the entire industry to collaborate on the improvement of corporate quality. Above all, the following points are important:

1. Positive acceptance of orders for low-priced products is required for the improvement of operation rates. For this purpose, the conventional estimation method of accumulating profits and costs on each order should be changed to an estimation based on expected annual costs and expected volume of sales so that attention is shifted to reducing costs through the improvement of the operation rate.

2. Restraints on copying should be further strengthened and sales channels in the domestic market should be opened so that domestic sales should be one of the means of improving operation rates.

3. Advertising and publicity activities should be done jointly to promote the Philippines to overseas markets as a production base for medium and high-grade products.

4. It should be understood that nurturing of domestic plush makers would lead to the strengthening of the non-price competitiveness of the stuffed toy industry and that the industries should collaborate for this purpose.

5. It should be understood that the strengthening of small firms would lead to improvement of the infrastructure of the stuffed toy industry and contribute to the overall enhancement of nonprice competitiveness. Everyone should agree that large and medium-sized firms should nurture small ones.

The possibility of local raw material purchases is one of the most important conditions for selecting a production base from the viewpoints of buyers and vendors. The Philippines has only one plush manufacturer with the present capacity or future potential to produce articles qualified for export. However,protecting and nurturing one firm may distort the corporate quality of the industry. It would be more appropriate to provide the firm with encouragement measures as an exporting firm under free competition and for the user industries to understand the significance of nurturing the firm and collaborate with it. While waiting for the growth of the local plush industry, it would be necessary to consider complementary measures for raw material purchases.

To achieve the unity in the industry which will be required for these activities, it is essential that the membership of PHILTOY be expanded.

(3) Recommendation on Development Programs

As stated above, the implementation of programs in the following areas is necessary for the overall development of the stuffed toy industry:

1. Program for strengthening order receiving activities
   a. Improvement of contact windows for buyers
   b. Activities for the promotion of the industry focused on the medium and high-grade product markets
   c. Strengthening of order receiving activities, including those for low-priced products, in markets where shipment seasons are different from those of the current main markets

2. Program for improvement of corporate quality of medium and small stuffed toy firms
   a. Nurturning of designers and patternmakers
   b. Promotion of quality control
   c. Dissemination of business practise on trade
   d. Establishment of stuffed toy subcontracting network

3. Joint industrial activity programs for the improvement of the business environment
   a. Campaign for suppressing copies
   b. Joint purchasing and inventory scheme for raw materials
   c. Improvement of methods of estimation of costs
   d. Cooperation with domestic plush manufacturers
   e. Compilation of industrial statistics
   f. Assistance to members of industrial organization in loan procedures

5-2 Recommendation on Implementation of Development Programs

(1) Introduction

In the stuffed toy subsector, a partial development program is already underway under the 10-year plan, but much of what is being done is insufficient. It is extremely important how faithfully this plan is implemented.

First of all, in its implementation, the focus should not be on just the individual plans. A sufficient grasp should be obtained of the role which the individual plans should play in the overall plans and the plans must be implemented with proper linkage.

Next, it is necessary to set up a system of responsibility over the implementation. It is necessary to establish a system in advance enabling various preparatory processes, coordinating processes, etc. to go smoothly. Positive action by the responsible organizations is also essential in terms of efficient action in raising the necessary funds.

Below, mention will be made of the interrelationship between project functions and recommendations will be made of how to achieve comprehensive effectiveness in the implementation of the plans. Further, recommendations will be made on the sequence and timing of implementation of the projects. Also, recommendations will be made on how to set up an implementing system (Fig. III-5-1).

(2) Development Stages of Stuffed Toy Industry and Necessity for Implementation of Programs in Accordance With Stages

The following two stages of development of the stuffed toy industry are envisioned in the promotion and development plans:

1. The first stage is the stage where it is basically necessary to solidify the foundation for proceeding to the second stage of development using the current capabilities of the subsector. In consolidating for the second stage, it is necessary to 1) strengthen the international competitiveness of existing medium and large sized companies through expanding their markets and raising their rates of operation and 2) raise the level of the small and cottage sized manufacturers to bring some of them up to the level of medium sized companies so as to increase the size of the subsector as a whole and, at the same time, to create a group of subcontractors which can make exportable products.

2. In the second stage of development, it is considered necessary to try to establish the Philippines as a world center for production of medium and high grade stuffed toys through this expansion of its markets and manufacturing base.

Whether or not the Philippine stuffed toy industry will be able to follow this course will depend on how soon the Philippines secures a global position through the implementation of a comprehensive development plan.

The Philippine stuffed toy industry, however, is already losing its international superiority in terms of labor costs. In order to achieve development in the stuffed toy industry as a whole, as opposed to simply those firms possessing special capabilities, it is important that the whole subsector be given the ability to handle higher grade products. Looking at the development of products throughout the world at present, it is questionable whether the Philippines would be able to gain any substantial edge in manufacturing technology for high grade products. It might be possible for a certain number of existing stuffed toy companies to maintain a position for themselves in the future, without having to compete with countries with lower labor costs, through the enhancement of the abilities for planning and the manufacture of high quality products. In this case, however, one could not expect development to the second stage and there is a danger that only a handful of companies, i.e., those with planning abilities and the capability of making high quality products, could survive as stuffed toy manufacturers or other toy or craft makers. Moreover, it is conceivable that competing countries will eventually lose their advantage in terms of labor costs to other countries and be faced with the necessity of moving into production of medium and high grade stuffed toys. Thus it would be difficult to increase the size of the stuffed toy subsector as a whole, as envisioned in the promotion and development plan, unless prompt efforts are made to increase orders in the medium and high grade products markets and the Philippines' position as a production base established. For this reason it is important to begin such efforts before competing countries develop the required capabilities.

(3) Necessity of Achieving Comprehensive Effect by Efficient Implementation of Related Programs

1) Interrelationship in Marketing Activities

The themes which must be taken up by the Philippine stuffed toy industry in export marketing are 1) the increase of orders from the medium and high grade product markets and 2) the opening up of markets with different delivery schedules. In line with these objectives, as marketing projects with such goals, "joint industry marketing activities for entering the medium and high grade product markets" and "activities for promoting orders from markets with different delivery schedules" are recommended. These projects are ones which the industry must work on jointly. At the center of this are activities for promoting business in high potential markets. In regard to this, one cannot necessarily expect buyers to immediately respond. In many cases, when these projects are implemented, it will be a matter of timing if buyers feel a need to start business with new production centers. Therefore, it is possible that there will be a response to the project implementing end and it is also possible that there will be contacts from other markets through completely different channels. Suitable channels for handling inquiries from abroad must be specified and suitable action taken as, for example, in a project for "clarification of contact windows for buyers".

2) Interrelationship in Each Project for Improving Standing of Individual Companies through Design, Manufacturing Technology, Management Control, etc.

Support in these areas will be provided through 1) projects focusing on medium sized or large-sized companies and 2) projects focusing on local small-sized independent companies and companies currently engaged in subcontracting work.

The former companies basically already have the capabilities to export and require only assistance in export marketing activities (mentioned earlier) and assistance in improving the environment of the industry as a whole in the following respects:

1. A "copy suppression campaign" to enable development of the domestic market and positive domestic exhibition of products
2. Implementation of a "joint material purchasing" scheme for smoothing the fabrication of counter samples
3. Revision of the methods of calculation of estimated costs and acquisition of methods of estimating prices in accordance with the improved operating rates
4. Cooperation with domestic plush manufacturers in establishment of system for domestic supply of raw materials

All of these are basically themes which the industry should pursue on its own, but it would be desirable that a system of public support be established to assist these activities of the industry. Note that to establish the Philippines as a future base for production, it is necessary to strengthen the foundation of production of the industry as a whole through "expansion of the subcontractor network". Public assistance will be necessary in forming this network from the perspectives of promoting small and medium-sized business and the regional dispersion of industry.

Next, turning to support for local small-sized independent companies and subcontractors, these companies still lack both the money and manpower to train designers and acquire manufacturing technology on their own, so a public support system is considered necessary. Toward this end, 1) assistance should be provided in improving their ability to make counter samples by a project for "training designers/patterners" and a "joint purchasing and inventory scheme for materials required for making samples", 2) a place should be provided for learning methods of quality control of products and parts and safety standards required in export markets through the project for "promotion of suitable quality control", and 3) a system should be set up for teaching the rules of business which must be followed in dealing with export markets and export companies through a project for "seminars for improvement of export business practices". Further, subcontractors qualified for dealing with the export companies thus formed should be organized into a network through a project for "forming a network of stuffed toy subcontractors". Contacts from stuffed toy companies desiring subcontractors should be facilitated, and support should be given to maintaining the quality of the network of organized subcontractors.

(4) Recommendation on Implementation Schedule and Priorities

1) Introduction

Below, "short-term plans" refer to plans for which it is desirable to quickly start or start preparations for. "Projects for which it is desirable to start preparations for" means those for which it is assumed that further study of the necessity, feasibility, and cost will be made in the process of preparation. "Medium and long-term plans" mean plans for which no need for immediate start or start of preparations for is currently recognized, but which are recommended to be started along with the development of the stuffed toy industry.

Note that in addition to these, separate study is required on the establishment of a new system of loan guarantees and system of development loans for small and medium sized businesses.

2) Short-term projects

a) Projects for which immediate implementation is recommended

1. Promotion of orders from markets with different delivery schedules
2. Industry-level activities for securing orders in medium and high grade product markets
3. Clarification of contact windows for buyers
4. Campaign for suppressing copies
5. Cooperation with domestic plush manufacturers
6. Improvement of methods of estimation of costs
7. Compilation of industrial statistics
8. Assistance to members of industrial organization in loan procedures

b) Projects for which immediate commencement of preparation is recommended

1. Joint purchasing and inventory scheme for raw materials
2. Training of designers/patterners
3. Promotion of quality control
4. Seminar on trade business practices

3) Medium and long-term projects

Expansion of subcontractor network

4) Priority projects

The projects mentioned above are all ones which it is believed could play important roles in accordance with the relevant stage of development of the stuffed toy industry. If only a limited number of projects can be implemented due to problems in funding and the implementing structure, however, it is recommended that projects be restricted to the following three, which require quick public support in the development strategy, and that the way be prepared for industrial development.

1. Promotion of orders from markets with different delivery schedules: This would help improve operating rates and cut unit production costs and thereby would strengthen competitiveness in costs, a key element in the expansion of orders in the medium and high grade product markets.

2. Industry-level activities for securing orders in the medium and high grade product markets: The success of such activities would determine the future development of the stuffed toy industry. In this sense, this would be the most important project.

3. Clarification of contact windows for buyers: This project would be necessary to make efficient use of the results of the marketing activities, especially important for the development of the stuffed toy industry.

(5) Recommendation on Implementing System

There are many steps to be taken in implementation. Further, the individual projects are mutually linked and are sometimes planned assuming the implementation of other projects. Therefore, in implementing the plans, it is essential that an implementing system be established with suitable control and coordinating functions. Suitable organizations in this system must perform the respective functions in line with the overall implementing plan. The following two organizations are recommended as implementing authorities with overall functions of promotion and coordination:

1. General Secretariat: This would maintain a grasp over the state of progress in the individual projects, convene and coordinate related organizations as needed, and make corrections to projects. Desirably this would be formed based on the DTI/BOI and PHILTOY.

2. Advisory Committee: This would provide recommendations and assistance in activities of the above secretariat. It would be based around PHILTOY and would be comprised of representatives of the BOI, BSMBD, BPS, BETP, CITEM, DTI Planning Group, DTI Regional Group, PDDCP, etc. The representatives would endeavor to have their own organizations act in accordance with the matters agreed upon in the committee.

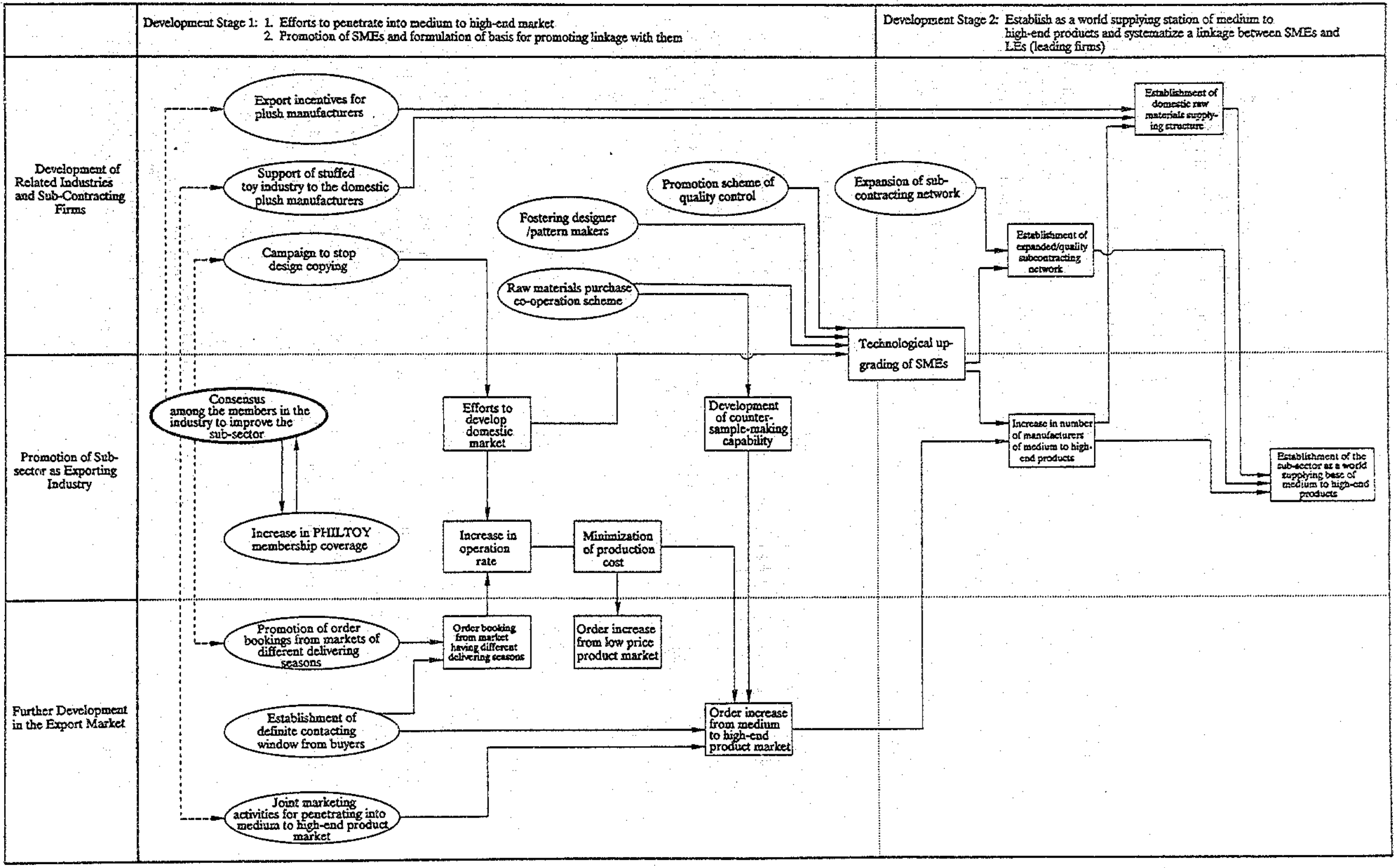
Note that among the short term projects, the following projects could be implemented through just partial improvement of existing activities or would require only a little more in additional funding. All should desirably be immediately acted on by the industry itself or through coordination of related organizations under the industry's leadership:

1. Promotion of orders from markets with different delivery schedules
2. Industry-level activities for securing orders in medium and high grade product markets
3. Clarification of contact windows for buyers
4. Campaign for suppressing copies

5. *Cooperation with domestic plush manufacturers*
6. Improvement of methods of estimation of costs
7. Compilation of industrial statistics
8. Assistance to members of industrial organization in loan procedures

The implementing structure for the individual plans are discussed in Chapter 6.

Figure III-5-1: Development Stages of Stuffed Toy Industry and Expected Effects of Development Projects



6. Development Programs for Stuffed Toy Industry

The relationship between development issues and proposed projects for dealing with those issues are shown in table III-6-1. Proposals concerning the content, necessary requirements, and implementation of individual projects are set out in table III-6-2.

6-1 Program for Strengthening Order Receiving Activities

The operation rate of the Philippine stuffed toy industry is estimated to be low, especially at the beginning of every year. This has caused cost increases, resulting in a decline in cost competitiveness. Cheap labor costs used to be one of the advantages of Philippine industries. However, Philippine labor costs are no longer an advantage when compared with new comer countries such as China. Thus, without further efforts to obtain new orders, the operation rate will continue to decrease to result in further increases in production costs.

The key strategy to cope with such unfavorable situation is an increased penetration into the medium and high-end products market, where competitive labor costs are not the key factor.

However, even in the medium and high-end market, buyers are quite conscious of cost factors in addition to quality, and the present Philippine cost level is not necessarily attractive to potential buyers of these middle and high-end products.

Taking account of these factors, this program is 1) to reinforce Philippine capability to produce middle and high-end products to potential buyers, and 2) to promote order booking from the market with different delivery seasons from those of traditional markets to reduce production costs by an increase in operation rates. At the same time, it intends to provide potential buyers with easy access routes to Philippine manufacturers so as to take full effect of the above efforts.

(1) Clarification of Contact Windows for Buyers

1) Outline of project

a) Outline

BETP and CITEM currently aim to establish the collection of overseas information and dispatch of domestic information overseas through public organizations, as well as a system of answering overseas enquiries through embassies and consuls. However the coordination of functions of these two organizations is not yet clear. Although it is proper that emphasis be placed on these functions, if only one body is contacted only incomplete information will be given, and suitable introductions will not be arranged. The sales promotion activities of the industry can not be said to be adequately effective. Both organizations must have an awareness of the other's functions and establish a system whereby appropriate organizations can be introduced to answer enquiries made domestically or from overseas. This should include 1) strengthening of a system to deal with enquiries, 2) clarification of contact points for buyers, and 3) establishment of a system for the supply of information.

The system should consist of government affiliated organizations likely to be approached by buyers such as CITEM, BETP and BOI and the industry organization, PHILTOY. There are also many firms who do not have stable contacts or who would like to export but do not know how to go about starting. In order to aid firms who do not have the funds or the personnel to enter export markets independently, a system like this is needed to clarify access points from which potential overseas partners can be found.

b) Requirements of project

1.Establish a coordination committee among the relevant government agencies/organizations including the industrial association, create a definite liaison system for buyers attaching it to one of these, and take joint responsibility in operating the liaison offices. Further, come to an agreement among agencies about cooperation by assigning responsibilities to the respective agencies/organizations.

2.A coordination committee should design the system so that respective agencies/organizations are able to adequately handle inquiries they receive, in addition to the systems for the liaison office to handle inquiries received directly. These should include the followings:

i) All the agencies/organizations of CITEM, BETP, BOI, and PHILTOY should have handling office for their respective inquiries, and the creation of the office and its function be made known to all the staff of the agency/organization to prevent inquiries being left unhandled.

ii) Each agency/organization should know about the inquiry handle offices of other agencies/organization so as to be able to transfer inquiries to the appropriate agencies/organization.

iii) All the agencies/organization should reach an agreement on a definite allotment of responsibilities among them, and this should be made known to their staff in their inquiry handling guidelines.

iv) Each agency/organization should handle incoming inquiries according to its allotted responsibility, and transfer inquiries to other and appropriate agencies/organizations if these are not relevant for its responsibility.

3.To make sure that all inquiries are handled adequately by the said agency/organization, relevant organization/agency and private sector entities must be informed of the creation of the definite liaison service; The relevant organizations/agencies and private sector entities include,

i) Buyers, their associations, vendors, etc.

ii) Philippine government offices abroad

iii) Buyers having approached as a result of joint marketing activities of the industry association

4.The system to provide buyers with information on manufacturers should be as follows:

i) Include data on local manufacturers registered at BOI and BETP, participants of CITEM fair, PHILTOY members, upon their agreement, and those who will apply to the system

ii) Information should include not only the name and contact address/telephone number, but also their capability, performance in the past and their plans on tie-ups with foreign partners.

2) Reference matters in implementation of project

This project should not remain a "subsidy project". Instead, operations should be based partly on payment from beneficiaries of the project. It should be operated by a registration fee for registered firms on a manufacturer data base.

On this basis, the registration fee of PHILTOY members be reduced or exempted, since;

i) PHILTOY must play a leading role in formulating and updating the data base on manufacturers.
ii) Such preferential treatment encourages manufacturers to join PHILTOY, which is expected to play a key role in sub-sector development, and an increase in coverage rate of PHILTOY membership among the sub-sector is essential from this view point.

3) Recommendations on implementation

1.Promotion of project: 1) Planning of the project should be promoted by the private sector, which is PHILTOY in the case of stuffed toy sub-sector. However, since the same type of project is applicable to other sub-sectors, needing an increased opportunity of access to export markets, the CITEM is recommended to coordinate the cooperation among the government agencies and industrial associations, with full initiatives from PHILTOY.

2) Immediate implementation is recommended.

2.Operation of project: It is recommended to attach the liaison office to CITEM with establishment of coordination committee by BETP, CITEM, BOI, and PHILTOY.

(Note: The current functions assigned to CITEM do not cover the functions recommended above. However, operation by the CITEM is recommended because of the following; 1) BETP is to be restructured to limit its function to handle policy planning on trade promotion, so actual operations of other trade related functions will be transferred to other organizations. 2) CITEM is currently in charge of trade fairs and trade missions. However, these are not sufficient for effective international trade promotion. It is recommended to develop CITEM to play a more aggressive role in international trade promotion, for example, to become an organization like former JETRO <Japan External Trade Organization>.)

(2) Industry Level Activities for Securing Orders in Medium and High-grade Product Markets

1) Outline of project

a) Outline

Although a fair number of stuffed toy manufacturing firms can satisfy the technological requirements for entry into medium and high-end toy markets overseas, an inadequate volume of orders are received due to the low appeal of the industry to overseas markets. The sales promotions activities at an individual firm level will not necessarily generate appeal for their middle and high-end markets, because of the promotion using their products alone. The aim of this project is not to give assistance to individual firms for sales promotion, but to appeal the order receiving capacity of the industry as a whole through joint activities of the industry. The following activities should be conducted toward this end.

1. Calling for excellent toys from companies and selecting only those able to appeal to medium and high-end toy markets as samples.

2. Preparation of catalogs and materials introducing the industry to boost its appeal.

3. Providing advertising opportunities to the industry and appealing to buyers whereby using the above samples, catalogs, and industry introduction materials, etc.

Positive approaches would include, in the case of Japan, for example, approaching the Japan Toy Association, regional chambers of commerce and industry, and JETRO offices in the various regions by asking them to place literature in the reading rooms or libraries of those organizations as well as establishing industry booths at trade fairs. Efforts must be made to use every possible opportunity to catch the attention of potential partners.

b) Requirements of project

1.In selecting appropriate products, cooperation of buyers who are stationed in the Philippines, or have established their buying offices in the Philippines, will be indispensable.

2.To show the capability of Philippine manufacturers, exposure of their originally designed products to potential buyers is essential. In this connection, certain protective measures against illegal copying of original designs are necessary.

3.To focus on the interest of potential buyers appropriately, implementation of the project to create and operate a definite liaison service for buyers is a pre-requisite.

2) Reference matters in implementation of project

1.When buyers search for potential manufacturers abroad to produce their products, they approach certain information sources. These information sources are not limited to trade service organizations in the public sector. In most cases, buyers will contact with manufacturers, who have experience of manufacturing abroad, trading houses, vendors, or plush suppliers, etc. Manufacturers with manufacturing bases abroad who are seeking better alternative markets, will also approach. Thus, joint efforts, to disseminate Philippine's capability should not be limited to government related organizations, or trade fairs, etc. The above types of firms already doing businesses in the Philippines will play a significant role in the dissemination of information among potential buyers abroad.

2.In addition to participation to fairs jointly under PHILTOY's booth, joint activities, which would be effective for the promotion of export sales, include:

i) Requests to government offices of the Philippines abroad to assist in activities to introduce fairs to potential buyers

ii) Joint advertisement in magazines and news papers specializing in toys in the market concerned by the fairs.

iii) Establishment of a handling system for inquiries from buyers (the implementation of the project to establish a contact window for buyers is essential in this context).

However, the viability of these joint activities must be evaluated in advance in view of effectiveness.

3) Recommendations on implementation

1.Promotion of project: 1) PHILTOY with support from CITEM, 2) Immediate start is recommended for detailed planning of the project, coordination work among the relevant government agencies/organizations, and also among the PHILTOY members in setting up an organizational framework.

2.Operation of project: CITEM with assistance on secretariat activities of CITEM by BETP and PHILTOY

(3) Promotion of Orders from Markets with Different Delivery Schedules

1) Outline of project

a) Outline

The major markets for Stuffed toys made in the Philippines are the U.S., Europe and Australia. The three peak demand periods for each of these regions are Christmas, St. Valentines day and Easter. The shipment seasons for each market derived from order receiving time and transportation period are almost the same. This means that under the current order receiving system the peak production times for the three markets are also the same. The manufacturers who presently suffer a shortage of orders could increase annual orders as well as operate all year round to disperse peak seasons if they could successfully enter new markets with different shipment seasons.

There are two types of markets with shipment season patterns different to those of the present markets. The first is markets where although demand peaks are the same as the present markets, because of the difference in time taken to deliver products or a difference in the time orders are made, peak production and shipment times are different. The Christmas market in Japan, which does not import many stuffed toys directly from the Philippines, is one of such markets. Japanese buyers tend to procure goods from producer countries closer to Christmas day than is the case for other countries. Thus if the Philippines are able to supply the Japanese Christmas market directly, peak production and shipment times for the Japan market would occur after that of other countries.

The other types of market are markets other than the traditional Christmas, St. Valentines day and Easter markets. These may include new "filler" markets such as the school and university graduation/entrance period in Japan and festive seasons such as the Chinese New Year for Chinese communities.

In order to break into markets with shipment seasons different to those of present markets, information gathering and marketing activities in these potential markets must be conducted with the following in mind.

1. It is important to be well versed not only in market trends in particular countries, but also in the distribution system, and ordering and purchasing patterns of buyers.
2. Particular seasons and occasions may be capitalized on as potential demand periods.
3. In establishing price estimates, costs arising solely out of the placement of additional orders are to be borne by the buyer. Orders for low priced goods should also be catered for.

b) Requirements of project

The creation and operation of a project of clarified contact windows for buyers is a prerequisite to focusing the interest of potential buyers appropriately, and implementation of the project.

2) Reference matters in implementation of project

1.Activities involved are similar to those for of "Industry level activities for securing orders in medium and high-grade product market", but the activities should be definitely directed to potential target buyers of delivery seasons different from ordinary buyers for Philippine manufacturers. The following are the key factors to be taken into consideration in organizing these activities:

i) Publicity activities on existence of surplus manufacturing capacity in certain seasons
ii) Adoption of estimation methods which allow for recovery of increases in variable and fixed costs resulting from additional orders.

2.The monthly distribution of unloading seasons of imports in Japan and export shipping seasons in the Philippines are shown in Figure III-6-1 and III-6-2 respectively.

Japan's major importing seasons (discharged cargo basis) are between March and April for the new academic year and "Golden Week" in May, and between October and November, when imports peak, for the year-end (Christmas) and New Year markets. Shipments out of the Philippines increase month by month from January to December, when they peak. Thus the peak season for both demand in the Japanese market and shipments from the Philippines is between October and December. The March-April period is a shipments period unique to Japan.

3.Refer to chapter 3, 3-5 on production cost reductions to be expected with improvements in the operation rate.

3) Recommendations on implementation

1.Promotion of project: 1) PHILTOY with support from CITEM, 2) Immediate start is recommended for detailed planning of the project, coordination work among relevant government agencies/organizations, and also among the PHILTOY members to set up the organizational framework

2.Operation of project: CITEM with assistance from PHILTOY on secretariat activities of CITEM.

6-2 Program for Improvement of Corporate Quality of Medium and Small Stuffed Toy Firms

This program is to upgrade the technological and management performance of stuffed toy MCSMEs (Micro Cottage, Small and Medium Enterprises) and promote their involvement in export businesses either directly as export contractors, or indirectly as sub-contractors. The upgrading of MCSMEs as sub-contractors will also contribute to strengthening of the industry's capability to respond to increased orders from export markets.

The program consists of three components:

1.Upgrading of counter sample making capabilities through 1) fostering of designers/pattern makers and 2) joint stock operations on materials needed for making samples (for details of this project, see "Program for Joint Industrial Activities for the Improvement of the Business Environment").

2.Improvement of the technological and management performance of MCSMEs by providing them with opportunities to learn about the needs of exports market through seminars and workshops on 1) quality control and safety standard requirements, and 2) export trade business practices.

3.Improvement of the MCSMEs' market access through the following two systems for contact with or approach by buyers, main contractors and MCSMEs;

-Formulation of a sub-contractor network for the stuffed toy industry

-Creation of a clarified contact window for buyers and potential exports manufacturers (for detail of this project, see "Program for strengthening order receiving activities")

(1) Nuturing Designers/Pattern Makers

1) Outline of project

a) Outline

A serious problem encountered by MCSMEs in the Philippine stuffed toy industry is the lack of design and pattern making capability. A quick response to buyers' inquiries in making a quality countersample is essential to obtain job orders. Designers and pattern makers are generally trained in their respective firms through OJT (on the job training) in the case of medium/large scale stuffed toy firms. However, in the case of MCSMEs, even owners, who are responsible for conducting the OJT to their employees, do not have sufficient experience in design and pattern making, nor is there any appropriate organization to provide a transfer of design and pattern making technology. This project is to facilitate those firms in providing with opportunities to train their design/pattern making staff to cope with these problems.

The training of designers/pattern makers should not be limited to basic training alone. Rather, emphasis should be put in training on a high quality and effective design/pattern making. Therefore, the project must include consultancy services for the design/pattern making as a followup function.

Training of designer/patternmakers is required only at the initial stage of sub-sector development. Once the MCSMEs are heavily involved in the business, they will be able to foster successors themselves through OJT.

b) Details

This project must focus on the following points:

1.Continual implementation of workshops to train potential designers/pattern-makers until a sufficient number of designers/pattern-makers can be ensured.

2.Assignment of a stuffed toy specific designer in PDDCP, to be in charge not only of design development and supply, but also of coordination work for fostering stuffed toy designers/pattern-makers and improving the design development capability in the Philippines.

c) Requirements of project

1.Training of potential designers/pattern makers should not be limited to the area of basic training. Followup training is required from time to time in the course of pattern making work. Consultancy services should include those on 1) design trend, 2) quality design/pattern making method, and 3) cost effective pattern making, etc. Therefore, the training facility needs to provide consultancy services on designing and pattern making simultaneously.

2.The PDDCP staff assigned to stuffed toy specific division must have sufficient experience in the designing and patternmaking of stuffed toys. The PDDCP assigns a designer on stuffed toys concurrently with gifts, furniture, and housewares at present. The concurrent assignment of projected staff in other industries may be acceptable in view of limited demand for design development work in the stuffed toy industry. Nevertheless, a sufficient experience in designing and patternmaking of stuffed toys is a necessary condition for the designer in charge. Advance training of the staff abroad is recommended, if necessary.

2) Reference matters in implementation of project

1.Expected function of stuffed-toy-specific division of PDDCP should include,

i) Development and supply of original design to manufacturers/exporters
ii) Assistance of manufacturers in pattern making
iii) Coordination work in preparing training courses and follow-up assistance
iv) Design information gathering, analysis of trends and dissemination of market information in view of design trends, patternmaking technology, and material development

2.Basic data for estimating demand for designer training are as follows (though quality and target participants need to be taken into account when making an actual estimation):

i)Number of firms requiring qualified designers/patternmarkers; 76
ii)Number of designers/patternmakers required per firm; 104
(Group D firms: 2 people x 28 firms = 56 people)
(Group F firms: 1 person x 48 firms = 48 people)

3)Recommendations on implementation

1.Promotion of project: PDDCP with request and support by PHILTOY

2.Operation of project: PDDCP with support by PHILTOY. TLRC or NMYC could be another agency to provide this kind of training course. However, their objectives of training will be confined to basic patternmaking techniques, if available. The training discussed here requires development of design and patternmaking capabilities matched to export markets. The ability to supply information on design trends to trainees is essential, and PDDCP is deemed the most appropriate agency to handle this matter.

(2) Promotion of Quality Control

1) Outline of project

a) Outline

Adequate quality control is highly important for stuffed toy manufacturing, especially of medium and high-end market oriented stuffed toys, since these stuffed toys are required to express exactly the intended feature and/or touch of characters and animals. Some manufacturers, who produce medium and high-end products, are inclined to quit engaging sub-contractors, and expand their in-house production lines to maintain their targeted product quality. This ensures their quality, but might cause cost increases if orders are insufficient to operate the factory at a high operation rate. The production capacity, when the received order exceeds the capacity will lose flexibility in responding quickly to the order increase. Fostering MCSMEs, in this context, for them to undertake appropriate quality control is essential to form a basis for the further development of the sub-sector.

In addition to the above, clearance of safety standards set by export market countries is a minimum requirement for stuffed toy exporters, since most of these standards are enforced on a mandatory basis to protect children from harm. The EC is now launching new safety standards to which all the exporters and manufacturers must comply. Ignorance of such safety standards could result in a serious loss caused by rejection of cargo at the port of discharge. Most leading manufacturers in the Philippines have given great attention to this point; for instance, in selecting plush using adequate dyestuffs, paints, etc., and detecting metals and other harmful materials contained in their products. MCSMEs also need to be familiar with such standards to prevent unexpected loss from rejection.

b) Details

Seminars/workshops on practical quality control to meet the needs of export markets, and on safety standards of major prospective export markets.

c) Requirements of project

1.It is necessary to promote quality control accepted by export markets. Lecturers are recommended who have enough experience to understand the needs of export markets, including buyers, exporters, and foreign consultants.

2.The most effective way to transfer quality control know-how is to show many comparison samples of passed products and rejected products. Lectures on quality control method alone will not be sufficient for the purpose of this project.

3.Since the course is not a basic course it should be operated by payments from beneficiaries. Government assistance for the venue and lecturers pay is recommended in view of export industry promotion aspects of the courses.

2) Reference matters in implementation of project

1.Seminars are recommended to include, but not be limited to, the following points;

i) Basic concepts and methods of quality control
ii) Quality control required by export markets; comparison of passed products vs. rejected products
iii) Safety standards of major export markets
iv) Points to be checked to manufacture acceptable products

2.Basic data for estimate demand for participants are as follows, though details and lecturers of seminars need to be taken into account when making an actual estimation:

i)Number of firms which require information on quality control and export market needs on quality; 104*)
ii)Number of quality control supervisor per firm; 1

Note: *) A-C group firms already have QC supervisors, and the transfer of their knowledges to firms in other groups is targeted through the participation of these supervisors.

3) Recommendations on implementation

1.Promotion of project: PTTC in cooperation with PHILTOY and BPS

2.Operation of project: PTTC in cooperation with PHILTOY and BPS. Actual operations will be handled by the PTTC, while PHILTOY will contribute to publicize the seminars to members and other manufacturers, and at the same time, assist PTTC in planning the seminar details in view of demands for such seminars, and BPS will support by advising on curriculum planning, and assist in inviting lecturers, etc.

(3) Seminars on Improvement of Export Trade Business Practices

1) Outline of project

a) Outline

Export business practices of Philippine firms are not highly rated by buyers, engaged in export business with Philippine exporters. This is especially true in the case of small and medium firms. Basically, there is not yet sufficient understanding on business rules to be complied with. Problems include delay in delivery, discrepancies between counter samples shown at the time of contract and articles, insufficient communication when encountering difficulties to fulfill contracted terms, etc. Some problems may have arisen because of factors outside of their control. Nevertheless, the firms need to do better in avoiding possible losses. Even if most exporters do business appropriately, failure to comply with above rules by a limited number of exporters has damaged the reputation of Philippine export businesses. This program aims to promote a thorough understanding of export business practices especially among MCSMEs which intend to engage in export business either directly or indirectly through sub-contracting, and improve the reputation of Philippine firms in the export market.

b) Details

Periodical seminars and workshops to managers and responsible staff, on export business practices, may include, but not be limited to, the following:

1.Basic points of export business practice and rules to be complied with by exporters

2.Case studies of damage to the reputation of exporters, and possible countermeasures

-Delay in delivery
-Discrepancy between counter sample shown at the time of contract and articles
-Costing and discount practices
-Design copying
-Force majeure

3.Access to potential buyers

c) Requirements of project

Lecturers of the seminars and workshops need to have sufficient experience in export trade with Philippine stuffed toy exporters. These include buyers, vendors and foreign consultants, etc.

2) Referemce matters in implementation of project

1.Since the course is not a basic course it should be operated by payment from beneficiaries. Government assistance for the venue and lecturers is recommended in view of export industry promotion aspects of the projects.

2.Basic data for an estimate of demand for participants are as follows (though contents and lecturers of seminars need to be taken into account when making the actual estimation):

i) Number of firms which need information on export business practices; 104
ii) Number of staff in charge of export trade practices per firm; 1

3) Recommendations on implementation

1.Promotion of project: PTTC in cooperation with PHILTOY
2.Operation of project: PTTC in cooperation with PHILTOY

(4) Stuffed Toy Subcontractor Network Formulation Project

1) Outline of project

a) Outline

In order to develop a stuffed toy subcontractor network, its integration into subcontractor network of the garment industry is recommended. By this way, the number of firms able to do subcontract work for the stuffed toy industry would increase, and so stable order booking can be expected by subcontractors as they would be able to work for the garment industry if orders from the stuffed toy firms declined.

Most subcontractors in the stuffed industry started their work in the garment industry. They moved to the stuffed toy industry using the same sewing machines, with little additional training.

Although TLRC, DTI, and PHILTOY are currently trying to formulate a stuffed toy subcontractor network, in line with the government's National Economic Recovery Program, the network does not perform adequately at present.

The garment industry developed its subcontractor network under SUBCONEX. This program aims to attach the stuffed toy industry subcontractor network to SUBCONEX, while providing registered subcontractors in the stuffed toy division with periodical information on industrial trends and technology.

b) Details of project

Main activities are as follows.

1.Establishment of a stuffed toy subcontractor network as one division of SUBCONEX, the garment industry subcontractor network.

2.Registration of firms expecting subcontracted work in the stuffed toy industry to SUBCONEX, including the firms now registered to the garments industry
3.Provision of basic training to firms newly registered to stuffed toy division
4.Periodic supply of information on industrial trends and technology to the registered stuffed toy subcontractors.

c) Requirements of project

Provision not only of basic training, but also of the various programs aiming at upgrading subcontractors is a prerequisite for successful operation of the network under the development strategy to penetrate into middle and high-end market. Implementation of projects under the program for improvement of corporate quality of medium and small stuffed toy firms is necessary in this context.

2) Recommendations on implementation

1.Promotion of project: BSMBD with support from PHILTOY
2.Operation of project: SUBCONEX with support from PHILTOY

6-3 Program for Joint Industrial Activities for the Improvement of Business Environment

This is a program to be undertaken by the industrial association themselves for further improvement of their business environment. However, assistance from the government is also effective in most cases as indicated under the respective project statements. The actions recommended in this program cover the following areas:

1.Joint activities to improve the business environment; 1) deterring design copying, 2) support on development of local plush suppliers
2.Joint operations; joint stock operation of materials for counter-sample making
3.Technical/managerial guidance activities for members; 1) loan application assistance, 2) rationalization of costing
4.Research activities; compilation of industry statistics

(1) Campaign for Suppressing Copies

1) Outline of Project

a) Outline

Illegal design copying which occurs in the Philippines has not only damaged the image of the industry through frequent distribution of copied products, but has also hindered original design development in the country and impeded the introduction of excellent foreign designs into the country.

This project aims to promote the activities to increase a consciousness of the need to deter from illegal design copying. Laws prohibiting copying are not usually so effective in deterring copying as expected due to the technical difficulty of registering designs and the time needed for litigation. This project puts emphasis on a campaign to improve consciousness on the need to curb copying, instead of pursuing legal provision development.

b) Details

It is recommended to include the following activities in the campaign;

1.Formation of a conference to discuss measures for prevention of design copying comprising as many exporters, manufacturers, and subcontractors as possible. A minimal fee may be charged from members which would fund television advertisements and posters to introduce the association and appeal to people in deterring from illegal design copying. Membership cards given to the member firms are to be displayed at their factories and retail outlets as evidence of their concern over copying.

2.Encouraging industrial association members to avoid sub-contracting with non-members of the conference.

3.Campaigns for the prevention of illicit copying should be carried out whenever such problems arise, and include discussions of the issue in conference and industrial association publications.

c) Requirements of project

The most important point in this campaign is not to win cases, but to publicize the illegality of design copying as much as possible. The campaign will be more effective if it is carried out together with as many other industrial associations related to designing as possible.

2) Reference matters in implementation of project

The stuffed toy manufacturers and distributors in Japan often request cooperation with custom bureaus on the disclosure of illegally copied products before these are shipped into Japan. They send a circular notice on the copied products to custom bureaus at ports where the copied products are expected to be shipped in, if copied their products are found in the market.

3) Recommendations on government assistance

1.Participation in the conference
2.Campaign through various government publications
3.Cooperation with customs bureaus in disclosing illegally copied products at export shipment upon request from the industry

(2) Joint Purchasing and Inventory Scheme for Raw Materials

1) Outline of project:

a) Outline

The stuffed toy sub-sector in the Philippines relies mainly on imports for supply of its materials. There is no established local supply channel of materials. In the case of processing on assignment, all the required materials are provided by buyers or vendors. Quick response to the inquires from buyers in providing counter samples, is essential to obtain job orders; but most Philippine stuffed toy manufacturers have difficulty in making quick response due to lack of materials for counter-sample making. This program is to operate material purchase/stock jointly by manufacturers to improve the availability of materials especially for this purpose.

b) Details of the project

1.Establishment of a fund for operation collected from participants
2.Joint purchase/stock of materials
-Study of prospective materials to be handled
-Operation with minimal profit
3.Purchase/stock of materials for counter sample making
The possible supply sources of materials may be;
-Donation from members of small portion of surplus materials left after their manufacturing
-Donation from local/foreign plush suppliers
-Donation from buyers/vendors

-Purchase using the profit obtained from joint purchase operations

c) Requirements of project

Feasibility study including a study of the following points is indispensable for successful operation:

1.Demand for materials by kind and type, and seasonal change of the demand
2.Possible cost saving through the operation
3.Possible loss caused by long term stock, dead stock, and in distribution etc.
4.Estimated operation costs

2) Reference matters in implementation of project

1.PCHI has operated a similar scheme, although they only handle local materials. The operation proved unsuccessful to date, and they intend to make further study to improve operations. Their experience will be useful for promotion of this project.

2.Materials to be handled should be imported, and be of the following nature;

a.Size of purchase lot by individual firms is small, but type of materials are fairly standardized in terms of the users (stuffed toy manufacturers). These include plastic eyes and nose, etc.
b.Integrated purchase size of the material by all the participants is large enough to be more profitable than individual purchase. These include acrylic and polyester fiber for stuffing.

3.If the likelihood of realizing joints projects is judged to be low, it is necessary to further study ways of improving inventories and increasing the efficiency of procurement by making requests to existing wholesalers and giving them status as PHILTOY-specified shops.

3) Recommendations on government assistance

Application of import tax credit for the materials handled.

(3) Improvement of Methods of Estimation of Costs

1) Outline of project

a) Outline

By the cost estimation method commonly employed in the Philippines, they calculates costs independently order by order, and further, a certain percent of cost is put on top of the cost as the profit margin regardless of the operation situation of the plant concerned. This practice has been one of the causes of decline in their cost competitiveness. The following would improve this situation.

1.Change in costing; the fixed costs and profit margin should be calculated on the basis of a certain planned operation rate of the plant, instead of the total cost being calculated on the basis of operation assuming the existing orders alone (Table III-6-3).

2.Change in sales policy and plant operation policy; long term management stability can be attained by an increase in operation rate of the capacity, through reasonably small profits but quick returns.

b) Details

Periodical seminars on costing

(4) Cooperation Extended to Domestic Plush Manufacturer(s)

1) Outline of project

a) Outline

This is a campaign project directed to local stuffed toy manufacturers to increase an awareness among firms of the importance of the growth of the domestic plush industry in strengthening both the price and non-price competitiveness of the industry, and to encourage them to use locally produced plush wherever possible.

It would be possible to promote the use of domestically produced plush through such measures as import restrictions of plush and application of tariff barriers on plush, etc. This would, however, result in a disadvantage on cost competitiveness and quality of Philippine stuffed toy industry. Basically, the local plush industry should be promoted as an export industry, in light of the small scale of the domestic market for plush. Then, the stuffed industry, as a result, would benefit from their operations. However, development of the plush industry as an export industry would require support from domestic demand. It is necessary, therefore, for the stuffed toy industry to appeal to member firms to cooperate by procuring plush domestically wherever it is acceptable from a commercial view point.

b) Details

In addition to the appeal to members on the above basis, the following actions could be encouraged.

1.Active proposal by stuffed toy manufacturers for buyers to allow them to use local plush for their production

2.Seminars for stuffed toy manufacturers on the characteristics and use of plush, considering the fact that lack of their sufficient knowledge on plush has lost orders for domestic plush manufacturers, leading to the reliance only on imported materials.

c) Requirements of project

Cooperation should be on a voluntary basis, and the government should not coerce the private sector to cooperate with the plush industry.

2)Recommendations on government assistance

Provision of pioneer status for plush manufacturer(s) and other incentives as an export oriented industry

(5) Compilation of Industry Statistics

1) Outline

Lack of adequate statistics on the sub-sector has caused difficulties in planning an appropriate development strategy on the basis of the actual situation.

Since no government agency has taken responsibility to compile industrial statistics especially by sub-sector, it is recommended that the industrial association takes action on this. The statistics will be also useful for introducing the industry to potential buyers.

The statistics to be compiled are recommended to include the following for each type of product:

1.Production (value, volume)
2.Import/export of products (value, volume)
3.Import of materials used for manufacturing (value, volume)
4.Number of manufacturers, employment, sales

In this connection, it is recommended to set up a reporting system that covers non-members as well as members. If it is difficult to include non-members, statistics should be supplemented periodically, for example biennially, by ad hoc sampling surveys, etc.

It is recommended to utilize the data available from government agencies at the same time.

(6) Assistance to Members of Industrial Organization in Loan Procedures

1) Outline of project

DBP and TLRC have a loan facility available for members of PCHI, of which PHILTOY is a member. However, application for the loan from PHILTOY member has been minimal so far. One of the reasons for the few applications is the procedure which applicants have to go through. This project recommends that PHILTOY assists its members in processing the loan application to encourage them to use the loan facility.

PHILTOY can obtain a small processing fee from the applicants based on cost sharing among beneficiaries. The fee may be used as a fund for PHILTOY activities.

2) Recommendations on government assistance

Seminars on application procedures for those who will be in charge at industrial associations of assisting the loan application.

Table III-6-1: Objectives and Development Programs for the Stuffed Toy Industry

Promotion Objectives	Effective Measures	Development Projects: Creation of a definite contact window for buyers	Joint marketing activities for penetrating into medium to high-end product market	Promotion of order booking from markets with different shipment seasons	Fostering designers/ pattern makers	Project to adequate quality control	Seminars on improvement of export trade business practice	Stuffed toy subcontractor network formulation project	Campaign for deterring from illegal design copying	Scheme for joint purchase/stock operation of raw materials	Improvement of cost estimation method for bidding	Cooperation extended to domestic plush manufacturers to improve local plush supply capability	Compilation of industry statistics	Assistance for members in processing loan application
	Schedule	A **	B **	B **	B	B	A	B	B	B	A	B	B	B
(1) Strengthening the international cost competitiveness of medium to large firms 1. Strengthening the cost competitiveness	1. Improvement of capacity utilization ratio by increasing order booking	×		×							×			
	2. Strengthening the subcontractors				×	×	×	×						
2. Strengthening marketing capability	1. Sales promotion for potential market	×	×									×		
	2. Appropriate correspondence to buyer's inquiry	×												
(2) Strengthening the sub-sector by upgrading MCSMEs	1. Upgrading of designing capability				×					×		×		
	2. Promotion of export business					×	×				×			
	3. Strengthening the subcontractors				×	×	×	×						
(3) Improvement of conditions of the sub-sector	1. Improvement of raw materials supplying system									×		×		
	2. Promotion of export business.					×	×		×		×			
	3. Repletion of financial system													×
	4. Understanding of actual figure of the industry/make appropriate plan												×	

Notes: "Schedule" symbols:
A = Should be implemented immediately
B = Preparation should be begun immediately
C = Medium to long-term project
** = Key projects

Table III-6-2: Outline of Development Programs for Stuffed Toy Industry (1)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
I. Program for Strengthening the Activities to Increase in Order Booking				
Improvement of contact windows for buyers	For improvement of answering inquiries from both domestic and abroad: - To clarify the job allocation among the relevant government agencies/organizations. - To create a definite liaison system for buyers. - To establish a system providing buyers with information on manufacturers.	1. Establishment of a coordination committee. 2. Clarification of job allocation among the relevant government agencies/organizations.	1. Promotion of project: CITEM under the initiative of PHILTOY. 2. Operation of project: The liaison office should be attached to CITEM. A coordination committee by BETP, CITEM, BOI, and PHILTOY should be established. 3. Time of implementation: Better to implement immediately.	
Activities for the promotion of the industry focused on the medium and high-grade product market	Selection of the products able to appeal for middle and high-end markets, and joint marketing activities. 1. To make catalogues and materials introducing the industry. 2. To seek cooperation of public/private organizations both domestic and overseas. 3. To participate in trade fairs, etc.	1. Cooperation from both domestic/overseas buyers in selecting products. 2. Taking certain protective measures against illegal copying of original designs. 3. Creating a definite liaison service for buyers.	1. Promotion of project: PHILTOY with full support from CITEM. 2. Operation of project: CITEM with PHILTOY and BETP in setting up an organizational framework. 3. Time of implementation: Detailed planning and coordination work is recommended to be started immediately.	

Table III-6-2: Outline of Development Programs for Stuffed Toy Industry (2)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
I. Program for Strengthening the Activities to Increase in Order Booking (continued)				
Strengthening of order receiving activities, including those for low-priced products, in markets where shipment seasons are different from those of the current main markets	Contribution to increasing capacity utilization ratio of factories by means of strengthening joint sales activities of order bookings from markets with different shipment seasons. Although the activity here is almost similar to the "Activities for the promotion of the industry focused on the medium and high-grade product market", above, details of this program is as below. 1. Be well versed not only in market trends in particular countries, but also in the distribution system, ordering and purchasing patterns of the buyers. 2. Particular seasons and occasions may be capitalized on as potential demand periods. 3. In establishing price and estimates, costs arising solely out of the placement of additional orders are to be borne by the buyer. Orders for low priced goods should also be created for.	Creation and operation of a clearly defined liaison service for potential buyers.	1. Promotion of project: PHILTOY with full support from CITEM. 2. Operation of project: CITEM with PHILTOY members in setting up an organizational framework. 3. Time of implementation: Detailed planning and coordination work is recommended to be started immediately.	

Table III-6-2: Outline of Development Programs for Stuffed Toy Industry (3)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
II. Program to Improve the Technological/Management Performance of Stuffed Toy MCSMEs				
Nurturing of designers and pattern-makers	Foster designer/pattern-makers to promote counter sample making capabilities of MCSMEs. 1. Continual implementation of workshops to train potential designers/pattern-makers by the time a sufficient number of them can be ensured. 2. Assignment of a stuffed toy specific designer in PDDCP who is in charge of development work for new design as well as training for foster potential designer/pattern-makers.	1. Implements not only for basic training but also continuous consulting services after the training. 2. Assign a staff who has sufficient experience in the stuffed toy field.	1. Promotion of project: PDDCP with request and support by PHILTOY. 2. Operation of project: PDDCP with full support from PHILTOY. 3. Time of implementation: Immediate preparation will be recommended.	
Promotion of quality control	Seminars/workshops on practical quality control to meet the needs of export markets, and on safety standards of major prospective export markets.	1. Invite lecturers who have enough experience to understand the needs of export markets. 2. Practice by using comparison samples of passed products and rejected products. 3. Operate seminars by payments from beneficiaries.	1. Promotion of the project: PTTC in cooperation with PHILTOY and BPS. 2. Operation of the project: PTTC in cooperation with PHILTOY and BPS. 3. Time of implementation: Immediate preparation will be recommended.	
Dissemination of business practice on trade	Promote sufficient understanding on business rules to be complied with to maintain reliability from buyers in the market. Open periodical seminars and workshops on the following schemes: 1. Basic points of export business practice and rules to be compiled with by exporters. 2. Case studies of damage of the reputation and possible counter measures. 3. Access to potential buyers.	Lecturers of the seminars and workshops must have sufficient experience in export trade with Philippine stuffed toy exporters.	1. Promotion of the project: PTTC in cooperation with PHILTOY. 2. Operation of the project: PTTC in cooperation with PHILTOY. 3. Time of implementation: Immediate preparation will be recommended.	

Table III-6-2: Outline of Development Programs for Stuffed Toy Industry (4)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
II. Program to Improve the Technological/Management Performance of Stuffed Toy MCSMEs (continued)				
Stuffed toy subcontractor network formulation project	Expand the stuffed toy industry by means of developing a subcontractor network. To satisfy the scheme: 1. Establishment of a stuffed toy subcontractor network as one division of "SUBCONEX". 2. Registration to the division of firms expecting subcontracted work with stuffed toy industry, including the firms registered to the garments industry. 3. Provision of basic training to firms newly registered to stuffed toy division. 4. periodic supply of information on industrial trends and technology to the registered stuffed toy subcontractors.	Provision not only of basic training, but also of the various programs aiming at upgrading subcontractors. Implement projects under the Program to Improve the Technological/Management Performance of Stuffed Toy MCSMEs.	1. Promotion of project: BSMBD with support from PHILTOY. 2. Operation of the project: SUBCONEX with support from PHILTOY. 3. Time of implementation: Better to consolidate the network by promoting subcontracting firms under the network.	
III. Joint Industrial Activity Program for the Further Improvement of Business Environment				
Campaign for deterring from illegal design copying	Call for peoples' consciousness on necessity to deter from illegal design copying through campaign. 1. Formation of a conference to discuss about the measures for prevention of design copying. 2. Encouraging industrial association members to avoid subcontracting with non-members of the conference. 3. Campaign on illegality of design copying when copying has happened.	1. Campaign is not to win the case, but publicize illegality of design copying is essential. The campaign will be more effective if it is carried out together with as many other industrial associations related to designing as possible. 2. Participation of governmental sectors to the conference as well as cooperation through campaign on various government publications.	1. Promotion of the project: PHILTOY 2. Operation of the project: Conference for design copying prevention. 3. Time of implementation: Better to implement immediately.	

Table III-6-2: Outline of Development Programs for Stuffed Toy Industry (5)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
III. Joint Industrial Activity Program for the Further Improvement of Business Environment (continued)				
Scheme for Joint Purchase/Stock Operation of Materials	So as to respond swiftly to inquires from buyers with providing counter sample, joint purchase/stock operation of raw materials is necessary. To enable the project, following activities are recommended to be implemented. 1. Establishment of fund for operation collected from participants. 2. Joint purchase/stock of raw materials. 3. Purchase/stock of raw materials for counter sample making.	Implementation of feasibility study in detail.	1. Promotion of the project: PHILTOY 2. Operation of the project: Utilize fund prepared for the Project. 3. Time of implementation: Immediate preparation will be recommended.	
Improvement of Cost Estimation Method for Bidding	In order to cope with order booking from markets with different shipment seasons, it is necessary to apply costing which is based on the utilization of "production cost reduction by increase in operation rate of capacity" from order-by-order cost calculation method.		1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately.	
Cooperation extended to domestic plush manufacturers to improve local plush supply capability	Improve current raw materials supply condition by promoting local plush manufacturing industry. To accomplish the scheme, request the following cooperation to stuffed toy firms. 1. Active proposal for buyers to allow to use local plush. 2. Seminars for stuffed toy manufacturers on sufficient technical knowledge of plush.	The cooperation should be on voluntary basis, and should not be the government led cooperation.	1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately.	

Table III-6-2: Outline of Development Programs for Stuffed Toy Industry (6)

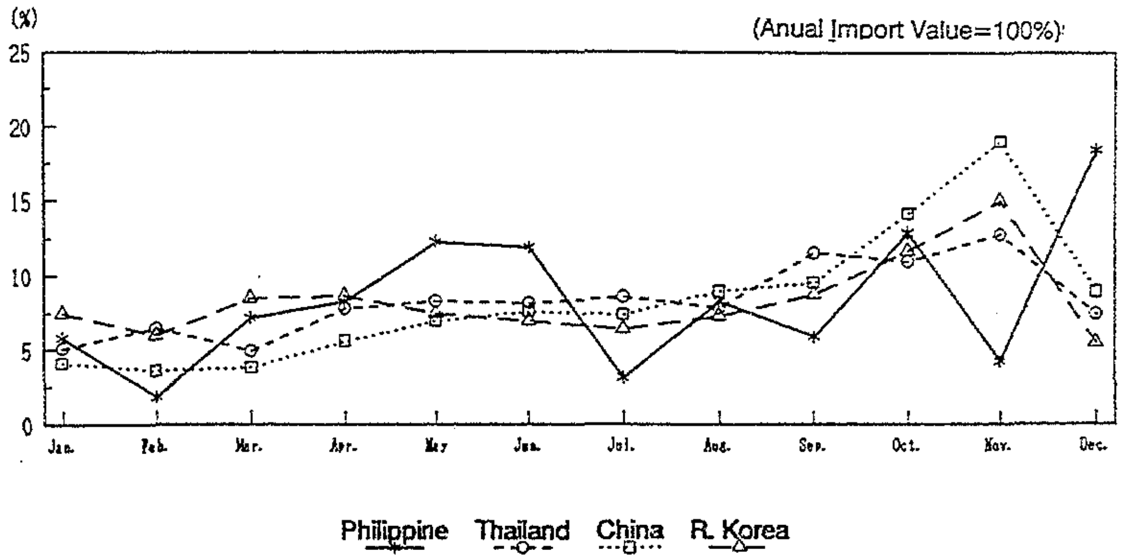
Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
III. Joint Industrial Activity Program for the Further Improvement of Business Environment (continued)				
Compilation of industry statistics	Compile industry statistics on stuffed toy sub-sector.	Utilize the data available from governmental agencies.	1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately.	
Assistance for members in processing loan application	Assist PHILTOY members to apply loan facility provided by DBP and TLRC. PHILTOY can obtain small amount of processing fee as the fund for PHILTOY's activities.	Seminars on application procedures for those who will be in charge at industrial associations of assisting the loan application.	1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately.	

Table III-6-3: Expected Reduction of Production Cost
by Increase of Operation Rate

	Production Costs at:			
	Present Operational Condition		Increase of Operation Rate by	
		(% of total)	30%	50%
Variable Costs	100.0	(45.0)	100.0	100.0
Fixed Costs	100.0	(55.0)	76.9	66.7
Total	100.0	(100.0)	87.3	81.7

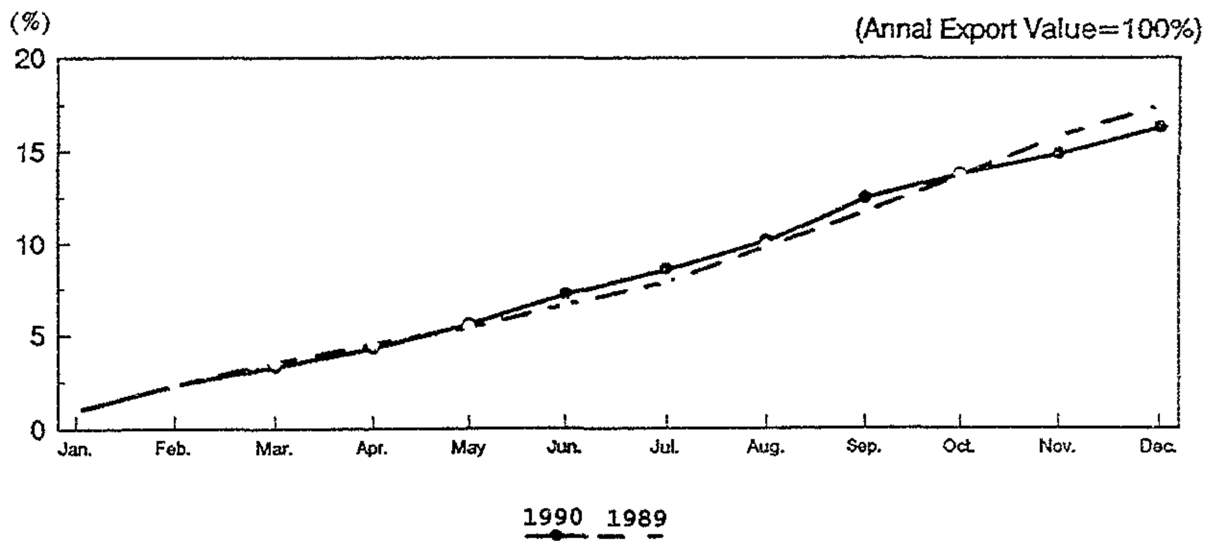
Note: 1. Present Cost Level = 100
2. Assumptions:
- Present Operation Rate; 60%
- Product; Middle Class Products

Figure III-6-1: Japan/Monthly Pattern of Stuffed Toy Import (Ave., '89/90)



Source:Japan Exports and Imports, Japan Tariff Association

Figure III-6-2: Philippines/Monthly Pattern of Infant Toys and Dolls Export



Source:Foreign Trade Statistics of the Philippines

ANNEX III-1. Result of The Questionnaire Survey for Japanese Stuffed Toy Related Firms on Investment Overseas and Trade

I. Target and Methodology of the Survey

One hundred and twenty stuffed toys related firms in the toy industry were selected as a target firm for mailing, of which forty responded. Within the 40 firms, 20 were manufacturers, 15 manufacturers wholesalers, 5 wholesalers and the rest 11 firms were importers. By the handling item, 34 firms handle mainly stuffed toys, 25 fancy goods, 17 character goods, 17 dolls and 15 handle plastic toys (duplicated answer allowed). The study was conducted during June to August, 1991.

II. Result of the Survey

(1) Scale of Firms

Composition of 40 responded firms are; 37 corporation companies and 3 limited (liability) companies. Nine of them are 10 million yen to less than 50 million yen by scale of capital, 8 of them are 100 million yen to less than 500 million yen, 7 of them are less than 5 million yen and thus, over three forth of the responded firms are less than 500 million yen in the scale of capital. There are two firms whose capital is 10 billion yen or more.

Twelve firms hold 11 to 30 employee accounted for 30% of the total responded firms. The rest are; 11 firms hold 31 to 100 employees, 6 firms hold 101 to 300 and 301 to 1,000 employees respectively; 97.5% of the 40 firms hold less than 1,000 employees.

In view of annual sales, 12 firms, 30% of the total firms, have the sales of over 1 million yen to 3 billion yen, followed by 7 firms (over 3 billion yen to 10 billion yen) and another seven firms (over 300 million yen to one billion yen). For more than 90% of the firms, annual sales does not exceed 30 billion yen. There are four firms whose annual sales being over 100 billion yen.

As for the share of import or overseas production to the annual total sales amount, 3 firms exceed 81%, 5 firms being 61 to 80%, 5 firms being 41 to 60%, 6 firms being 21 to 40% and 16 firms being 20% and below. Many of firms are handling imported goods and products manufactured overseas.

(2) Managerial Difficulties

The most serious managerial problems shown in the replies are; a) planning and development (13 firms), b) shortage of labor force (7 firms), c) production cost (6 firms), d) working capital (5 firms), e) marketing (2 firms). Following to these problems, sales network, technologies, training of workers are pointed as the second, and lack of raw materials as the third serious problem respectively.

Both increase of production cost and lack of labor force are seen across the various sub-sectors reflecting current situation of Japanese economy. Though Japanese stuffed toy manufacturers develop new products without a break in "big multi-product production by minimum lot", the answer; "planning and developing" prioritized as the first serious problem, shows crucial competition of market expansion by introducing new items.

(3) Outgoing Investment

Thirty three of 40 firms (total of 67 cases) have already established their production bases somewhere in Asian countries. Almost 70% of the cases (46 of 67 cases) employ processing on assignment. The main reasons for their advancement are; countermeasures for labor cost increase, export to Japan and acquire of labor force.

When it comes to stuffed toys manufacturing, 21 firms have their production bases in Asia. Eight firms are located in China, 7 in R. Korea, 3 in Hong Kong, one each in Taiwan and Indonesia but so far no one has their production base in the Philippines.

Destination and type of business are shown in Table A III-1-1.

As for 6 firms which have no production base in Asian countries, only one firm plans to have a business transaction in China or Philippine under processing on assignment basis. The reason for nominating the Philippines as a production base is derived from "having many a acquaintances" in the country, and feasibility study has not commenced yet.

(4) Foreign Trade

Three quarters (30 of 40 firms) of responded firms have experiences of importing stuffed toys made in Asian countries. The most of cases (27 firms) are motivated by its cheap price. On the contrary, product development capability such as sophisticated technology and design are suggested by only 3 firms and one firm respectively. Also, one firm suggested high quality raw materials and four firms a delivery period.

Types of business transactions are; 1) Processing on Assignment by detail specification (57.9% of the total firms replied), 2) Processing on Assignment by supplying raw materials and parts (26.3%), 3) Import of original products (13.2%), 4) Import of parts (2.6%). About one quarter of firms supply raw materials and parts on processing on assignment basis, which means that many firms are not satisfied with local raw materials and parts.

Evaluation on the imported stuffed toys by country of origin is shown in Table A III-1-2.

Comments on the business transactions with Philippine firms are as follows.

1) Seems to be lacking peace and order.

2) Due to the substantial increase of minimum wages by the general strike in late 1990, cost rise and diminishment of export capability derived from inflation are concerned. The cost inflation generates the same situation observed in R. Korea, thus, for us, overseas counterpart, making trade with the Philippines being unfavorable.

3) Former business experience with the Philippines was not so favorable in terms of quality, price, delivery that we had to change counterpart to R. Korea, China or Taiwan.

Of eight firms who have had no transactions with Asian countries, one firm is reviewing importation of raw materials (including parts), and another two examining processing on assignment. Some firms are ready to review the possibility of the import of raw materials and finished products as well as the processing on assignment upon condition that their foreign counterpart can meet the requirement of color and design suitable for Japan market (in the case of parts and finished products import), or they can meet the technical requirement to manufacture (in the case of processing on assignment).

(5) Evaluations of the Philippines

Although many firms are fascinated by low labor cost in the Philippines, firms which have not had any business transactions with the country pointed out several reasons for that.

1) Political instability causes big business risks.

2) Public peace is not maintained.

3) Less sales promotion from the Philippine side. If any, it seems people in the Philippines do not understand Japanese market well.

4) Stuffed toy industry in the Philippines does not approach Japan market aggressively.

5) We have some idea of exporting on the basis of processing on assignment in the Philippines, but can not find suitable counterparts in the country.

6) Problems in quality and delivery.

7) Originality of Philippine people are not impressed since planning and management of most of firms are handled by the Chinese merchants.

8) Production schedule and delivery is not assured because of political instability.

9) Quality reliability is low.

10) Philippine original products are not so much attractive.

11) Quality and design are not suitable for Japan market.

Although these reasons include such many difficulties which are not solved in a short time as political instability or unstable public peace, many reasons such as study on the property and taste of Japan market, aggressive approach to Japan market, development of original products and so on are not so difficult to be commenced. It is highly recommended to take immediate and practical measures especially for point above indicated by 3).

Table AIII-1-1: Destination and Purpose of Doing Business with Overseas Countries

	China	R.Korea	Thailand	Singapore	Taiwan	Hong Kong	Phils.	Indonesia	Total
(Type of Business)									
Direct Investment									
Wholly Owned	0	0	2	1	1	2	0	0	6
Joint Venture	2	1	1	0	1	1	0	0	6
Technical Collaboration	3	2	1	0	0	2	0	0	8
Processing on Assignment	16	13	3	0	8	4	1	1	46
Others	0	0	0	0	1	0	0	0	1
Total	21	16	7	1	11	9	1	1	67
(Of which, stuffed toys business)	(8)	(7)	(1)	(0)	(1)	(3)	(0)	(1)	(21)
(Purpose)									
Countermeasures for Yen Appreciation	5	3	2	1	2	5	0	0	18
Assure Labor Force	11	4	4	1	3	2	1	0	26
Assure Cheap Labor Farce	14	8	4	0	4	4	1	1	36
Assure Raw Materials	0	0	1	0	0	0	0	0	1
Penetrate Local Market	1	0	1	0	0	1	0	0	3
Export to Japan	7	6	5	1	4	5	1	0	29
Export to Other Countries	4	3	3	1	3	5	1	0	20
Others	2	2	0	0	2	0	0	0	6

Table AIII-1-2: Evaluations on Stuffed Toys by Country of Origin

	Poor	Not Satisfied	Acceptable	Good	Excellent
(Thailand)					
Quality	–	–	2	–	1
Price	–	–	2	1	–
Delivery	–	–	3	–	–
(Philippine)					
Quality	–	–	–	–	1
Price	–	–	–	–	1
Delivery	–	–	–	–	1
(China)					
Quality	1	5	6	2	3
Price	–	1	2	6	8
Delivery	5	3	5	2	2
(R.Korea)					
Quality	1	4	9	3	3
Price	3	6	8	3	–
Delivery	1	6	8	3	2
(Malaysia)					
Quality	–	–	1	–	–
Price	–	–	1	–	–
Delivery	–	–	1	–	–
(Taiwan)					
Quality	–	–	–	2	–
Price	–	1	–	1	–
Delivery	–	1	–	2	–
(Hong Kong)					
Quality	–	–	–	2	–
Price	–	1	–	1	–
Delivery	–	1	–	2	–

Note: Above figure shows the responded numbers

Annex III-2. Result on the Industrial Sub-sector Development Study for Stuffed Toys in the Philippipnes

Introduction

The survey focused on manufacturers of stuffed toys in Metro Manila and other areas outside Metro Manila like Laguna-Region IV. A total of 70 sample respondents are to be covered in the survey. Respondents were drawn from BOI and DTI registered firms and as well as from PHILTOY members and other related industry associations.

The survey was conducted during June to September 1991.

Outputs of this survey include a presentation of the descriptive and statistical analysis of the survey results covering the basic functional operations of the respondent firms. Included also, are activities related to subcontracting practices in the industry and issues concerning government assistance programs.

1. Company Profile

1) Year of establishment (Table AIII-2-1-1)

   Most of the enterprises surveyed (68.57%) are young firms, having been started in the last six years. Of these young firms, more than half has been founded during the period 1987-88. The older firms (31.44%) have been established before 1986.

2) Organizational structure (see Table AIII-2-1-2)

   Sole proprietorships (57.14%) dominate the respondent group, followed closely by corporations (40.00%)

3) Capitalization structure (see Tables AIII-2-1-3 and AIII-2-1-4)

4) Source of capital (see Table AIII-2-1-5)

5) Number of employees and type of employment (see Table AIII-2-1-6)

6) Employment size (see Table AIII-2-1-7)

7) Number of employees by division (see Table AIII-2-1-8)

8) Total sales (see Table AIII-2-1-9)

2. Raw Materials

1) Sources of raw materials (Table AIII-2-2-1)

The survey shows that stuffing material is the raw material most frequently supplied locally (as indicated by 65.71% of the respondents). Most of the other raw materials are also locally supplied, but much less frequently.

2) Supply of raw materials by buyers (Table AIII-2-2-2)

There are less firms being supplied with raw materials by buyers (24.29%) than those that do their own raw material sourcing (75.71%).

3) Procurement problems (Table AIII-2-2-3)

The most commonly-cited problem encountered in procuring raw materials has to do with lack of financing. Other problems significantly mentioned are lack of dealers, delivery and high minimum order (in that order).

4) Process dealing (see Table AIII-2-2-4)

5) Interest in process dealing (Table AIII-2-2-5)

There is a good deal of willingness among the stuffed toy manufacturers to engage in process dealing activities.

3. Manufacturing and Technology Aspects

1) Manufacturing problems (Table AIII-2-3-1)

Design problems rank highest among the difficulties encountered by the respondent-firms in their manufacturing operations. This is followed by problems related to sewing, cutting and assembly.

2) Causes of manufacturing problems (Table AIII-2-3-2)

Manufacturing problems are caused mainly by lack of skilled labor. Most of "other causes" cited appear to be related to design problems.

3) Quality control methods (Table AIII-2-3-3)

All the respondent-firms use visual inspection as a method for controlling the quality of products. Methods, replied imply that the firms control quality only through ocular inspection, unaided by tools or equipment.

4) Factors for upgrading product/company (Table AIII-2-3-4)

Generally speaking, the respondent-firms most urgently require design improvement and technical training in order to upgrade both their product and company. Other significant factor cited as necessary is "market information".

4. Marketing Aspects

1) Sales distribution by country of destination (Table AIII-2-4-1)

Majority or 78.00% of those who responded to this question sells largely to the local market, suggesting a still prevalent domestic-market orientation among stuffed toy manufacturers in the country.

For those selling to export markets, the biggest foreign buyer is the United States.

2) Sales promotion activities (see Table AIII-2-4-2)

3) Distribution channels in the foreign market (see Table AIII-2-4-3)

5. Financial Aspects

1) Sources of financing (Table AIII-2-5-1)

Most of the firms surveyed use their own money for capital formation (74.29%). A significant number (25.71%) borrows from commercial banks. A few (14.29%) obtain funds from relatives and friends while 8.57% financed from government non-banking financial institutions.

2) Urgent financial problems (see Table AIII-2-5-2)

6. Subcontracting Activities

1) Subcontracting out among firms (see Table AIII-2-6-1)

2) Subcontracting in among firms (see Table AIII-2-6-2)

Table AIII-2-1-1

PROFILE OF FIRMS BY YEAR OF ESTABLISHMENT

YEAR	NUMBER of FIRMS	%
Before 1980	7	10.00
1980	1	1.43
1981	3	4.29
1982	2	2.86
1983	2	2.86
1984	4	5.71
1985	3	4.29
1986	7	10.00
1987	13	18.57
1988	15	21.43
1989	8	11.43
1990	5	7.14
1991	0	0.00
TOTAL	70	100.00

Table AIII-2-1-2

ORGANIZATIONAL STRUCTURE OF FIRMS

TYPE OF ORGANIZATION	NUMBER of FIRMS	%
Sole Proprietorship	40	57.14
Partnership	0	0.00
Corporation	28	40.00
Cooperative	2	2.86
TOTAL	70	100.00

Table AIII-2-1-3

CAPITALIZATION STRUCTURE OF SINGLE PROPRIETORSHIP

(n=40)

TOTAL ASSETS (In Pesos)	NUMBER OF FIRMS	%*
Less Than 100,000	15	37.50
100,000 - 499,999	12	30.00
500,000 - 999,999	4	10.00
1.0 M - 3,999,999	3	7.50
4.0 M And Over	0	0.00
No Response	6	15.00
TOTAL	40	100.00

Table AIII-2-1-4

CAPITALIZATION STRUCTURE OF CORPORATIONS

AMOUNT (In Pesos)	PAID-UP CAPITAL NUMBER OF FIRMS (n)	PAID-UP CAPITAL % (n=30)	AUTHORIZED CAPITAL NUMBER OF FIRMS (n)	AUTHORIZED CAPITAL % (n=30)
Less Than 1.0M	7	23.33	1	3.33
1M - 1,999,999	7	23.33	2	6.67
2M - 3,999,999	6	20.00	4	13.33
4M - 5,999,999	0	0.00	8	26.67
6M - 7,999,999	1	3.33	0	0.00
8M - 19,999,999	1	3.33	2	6.67
20M And Over	1	3.33	2	6.67
	23	76.67	19	63.33
No Response	7	23.33	11	36.67
TOTAL	30 *	100.00	30 *	100.00

* Includes two (2) cooperatives with Paid-Up Capital of P 250,000 and P 259,030.

Table AIII-2-1-5

PROFILE OF FIRMS BY SOURCE OF CAPITAL

(n=70)

SOURCE OF CAPITAL	NUMBER OF FIRMS	%
Local	61	87.14
Foreign	2	2.86
Joint Venture	7	10.00
TOTAL	70	100.00

Table AIII-2-1-6

PROFILE OF FIRMS BY NUMBER OF EMPLOYEES & TYPE OF EMPLOYMENT

TYPE OF EMPLOYMENT	NUMBER OF EMPLOYEES	%
Contractual	5,233	57.15
Permanent	3,923	42.85
TOTAL	9,156	100.00

Table AIII-2-1-7

PROFILE OF FIRMS BY TOTAL EMPLOYMENT SIZE

(n=70)

NUMBER OF EMPLOYEES	NUMBER OF FIRMS	%
Less Than 10	8	11.43
10 - 49	33	47.14
50 - 99	7	10.00
100 - 199	11	15.71
200 And Over	11	15.71
TOTAL	70	100.00

Table AIII-2-1-8

NUMBER OF EMPLOYEES BY DIVISION

	NUMBER OF EMPLOYEES	%
Production		
Permanent	3,406	37.29
Contractual	5,149	56.38
Sales	158	1.73
Design	86	0.94
Administration	334	3.66
Others	0	
TOTAL*	9,133	100.00

* *Exclusive of employees performing multiple functions.*

Table AIII-2-1-9

PROFILE OF FIRMS BY TOTAL SALES 1990

(n=70)

SALES VOLUME (In Pesos)	NUMBER OF FIRMS	%
20,000 - 499,999	29	41.43
500,000 - 999,999	7	10.00
1,000,000 - 4,999,999	11	15.71
5,000,000 - 9,999,999	7	10.00
10,000,000 - 24,999,999	3	4.29
25,000,000 - 50,000,000	3	4.29
	60	85.71
No Response	6	8.57
Temporarily Stopped Operations in 1990	4	5.71
TOTAL	70	100.00

Table AIII-2-2-1

FREQUENCY COUNT ON SOURCES OF RAW MATERIALS

(n=70)

	LOCALLY MADE		LOCALLY PURCHASED BUT IMPORTED		DIRECT IMPORTATION	
	NO.	%	NO.	%	NO.	%
Acrylic Boa	23	32.86	24	34.29	7	10.00
Hi-Pile	19	27.14	21	30.00	10	14.29
Plush	28	40.00	33	47.14	16	22.86
Lace	33	47.14	35	50.00	13	18.57
Plastic Eyes	23	32.86	35	50.00	15	21.43
Stuffing Materials	46	65.71	24	34.29	11	15.71
Artificial Leather	19	27.14	15	21.43	7	10.00
Others	29 *	41.43	20 **	28.57	7 ***	10.00

** Other Locally Made Raw Materials include: ribbons, tetoron cloth, muslin cloth, cotton, felt, buttons, glue, PVC, fiber fill, flannel and polyester*

*** Other Raw Materials Purchased Locally But Imported Include: cloth, muslin cloth, ribbons, plastic resin, cartons/boxes, cotton, fiber fill*

**** Other Raw Materials Directly Imported include: cotton, plastic resin, carton/boxes, pellets, pastel, yarn, PVC, vonnel, cords, felt*

Table AIII-2-2-2

NUMBER OF FIRMS SUPPLIED WITH RAW MATERIALS BY BUYERS

(n=70)

	NUMBER OF FIRMS	%
Firms Not Supplied with Raw Materials	53	75.71
Firms Supplied with Raw Materials	17	24.29
TOTAL	70	100.00

Table AIII-2-2-3

PROBLEMS ENCOUNTERED IN RAW MATERIALS PROCUREMENT

PROBLEMS	RANK
Financial	1
Lack of Dealers	2
Delivery	3
High Minimum Order Quantity	4
Inventory Storage	5

Table AIII-2-2-4

PERCENTAGE OF FIRMS ENGAGED IN PROCESS DEALING BY FOREIGN PARTNER, LOCAL PARTNER

(n=23)

	NUMBER OF FIRMS	%
With a Foreign Firm	14	60.87
With a Local Firm	9	39.13
With Both Foreign and Local Firms	0	0.00
TOTAL	23	100.00

Table AIII-2-2-5

NUMBER OF FIRMS INTERESTED IN PROCESS DEALING

(n=70)

	NUMBER OF FIRMS	%
Firms Interested in Process Dealing	50	71.43
Firms Not Interested in Process Dealing	20	28.57
TOTAL	70	100.00