

CHAPTER 4

PHILIPPINE FURNITURE MARKET

4.1 General Information

4.1.1 Introduction

Foreigners commonly see the Philippines as the most westernized of Asian countries and in many ways, it is. But there is also a rich underlay of Malay culture beneath the patina of Spanish and American heritage. National cultural life is a happy marriage of many influences, as the indigenous Malay culture is assimilated and adapted to different strains in a practice typical of Malay temperament. An upsurge of Philippine nationalism stimulated a desire to preserve the ancient heritage without restricting its openness to foreign artistic influence.

The Philippines is an archipelago of 7,107 islands. It stretches from the south of China to the northern tip of Borneo. The country has over a hundred ethnic groups and a mixture of foreign influences which have molded a unique Filipino culture.

The Philippines is the third largest English-speaking country in the world. The country is divided into three geographical areas: Luzon, Visayas, and Mindanao. It has [17 regions, 81 provinces, 136 cities, 1,494 municipalities, and 41,995 barangays](#). (Barangay - The smallest political unit into which cities and municipalities in the Philippines are divided. It is the basic unit of the Philippine political system. It consists of less than 1,000 inhabitants residing within the territorial limit of a city or municipality and administered by a set of elective officials, headed by a barangay chairman or *punong barangay*) (source: Official website on Philippine Culture and Information, *General Profile of the Philippines*, <http://www.ops.gov.ph/philinfo/phinfo.htm>, October 30, 2008).

4.1.2 Geography

The Philippine archipelago is geographically located between latitude (approximately) 4°23'N and 21°25'N and longitude (approximately) 112°E and 127°E. It is composed of 7,107 islands, with a land area of 299,764 sq kilometers. Its length measures 1,850 kilometers, starting from the point near the southern tip of Taiwan and ending close to northern Borneo. Its breadth is about 965 kilometers. The Philippine coastline adds up to 17,500 km. Three prominent bodies of water surround the archipelago: the Pacific Ocean on the east, the South China Sea on the west and north, and the Celebes Sea on the south. This position accounts for much of the variations in geographic, climatic and vegetation conditions in the country.

Figure 4.1 - Philippine Map



Source: The Official Website of The Republic of the Philippines, *The Philippine Map*, <http://www.gov.ph/aboutphil/philmaph.asp> December 12, 2008

The topography of the bigger islands - particularly Luzon and Mindanao - is characterized by alluvial plains, narrow valleys, rolling hills and high mountains. The highest mountains are found in Mindanao and Luzon, with the

altitudes varying from 1,790 to 3,144 meters. Most of the smaller islands are mountainous in the interior, surrounded by narrow strips of discontinuous flat lowlands which constitute the coastal rims. The shorelines of both large and small islands are irregular.

The Philippines' fertile land accounts for the more than 900 species of orchids representing 100 genera that have been found. The sampaguita is the national flower. Among the country's fauna are some endangered species like the Philippine Eagle, the tarsier, and the mouse deer.

Metro Manila is strategically located in the middle of Luzon, on the eastern coast of Manila Bay and at the mouth of the Pasig River, sprawled over an area of 626 sq.km. Manila sits in the middle of a swampy deltaic plain formed by accumulated sedimentary deposits from the Pasig River and other streams.

The city is between the bay to the west, the highlands to the east, and Laguna de Bay to the southeast. Most of its densely populated areas are found along the Pasig River running across the metropolis dividing it into two sections - the north and the south.

4.1.3 Culture and Arts

The major cultural agencies of government are the [Cultural Center of the Philippines](#), the [National Historical Institute](#), the National Museum, The [National Library](#), the Records Management and Archives Office, and the [Commission on the Filipino Language](#). The Heads of these cultural agencies are all ex-officio members of the NCCA Board and all except the Commission on the Filipino Language are together under the [National Commission on Culture and Arts](#).

4.1.4 Climate

The Philippines has a tropical climate with relatively abundant rainfall and gentle winds. There are three pronounced seasons: the wet or rainy season from June to October, the cool, dry season from November to February, and the hot, dry season from March to May.

Temperature in Manila ranges from 21°C to 32°C with a 27°C average. The coolest month is January and the warmest is May. Both temperature and humidity levels reach the maximum in April and May, but these are generally good months for aquasports and mountain trekking. Some of the most colorful festivals are held during these months.

4.1.5 Language

Two official languages is Filipino and English. Filipino, which is based on Tagalog, is the national language. English is also widely used and is the medium of instruction in higher education. Eight (8) major dialects spoken by majority of the Filipinos: Tagalog, Cebuano, Ilocano, Hiligaynon or Ilonggo, Bicolano, Waray, Pampango, and Pangasinense.

Filipino is that native language which is used nationally as the language of communication among ethnic groups. Like any living language, Filipino is in a process of development through loans from Philippine languages and non-native languages for various situations, among speakers of different social backgrounds, and for topics for conversation and scholarly discourse. There are about 76 to 78 major language groups, with more than 500 dialects.

4.1.6 Religion

Historically, the Filipinos have embraced two of the great religions of the world - Islam and Christianity. Islam was introduced during the 14th century shortly after the expansion of Arab commercial ventures in Southeast Asia. Today, it is limited to the southern region of the country.

Table 4.1 - Philippine Religion

RELIGION	%
Roman Catholics	80.9%
Moslem	5%
Evangelical	2.8%
Iglesia ni Kristo	2.3%
Aglipayan	2%
Other	1.8%
Unspecified	0.6%
None	0.1%

Source: The World Fact Book
<https://www.cia.gov/library/publications/the-world-factbook/geos/rp.html>; December 12, 2008).

Christianity was introduced as early as the 16th century with the coming of Ferdinand Magellan in 1521. Protestantism was introduced by the first Presbyterian and Methodist missionaries who arrived with the American soldiers in 1899.

Two Filipino independent churches were organized at the turn of the century and are prominent today. These are the Aglipay (Philippine Independent Church) and the Iglesia Ni Kristo (Church of Christ) founded in 1902 and 1914, respectively. Recently, the Aglipay signed a covenant with the Anglican Church. The Iglesia ni Kristo has expanded its membership considerably. Its churches, with their unique towering architecture are landmarks in almost all important towns, provincial capitals and major cities.

4.1.7 Government

The new [Philippine Constitution](#) was ratified in early 1987, signaling the country's return to democracy. The government is as follow:

1. Executive Branch

Chief of state: [President Gloria MACAPAGAL-ARROYO](#) (since 30 June 2004) and [Vice-President Noli de Castro](#) (since 30 June 2004); note - the president is both the chief of state and head of government.

Cabinet: appointed by the President with the consent of the [Commission of Appointments](#)' elections: president and vice-president elected on separate tickets by popular vote for six-year terms; election last held 16 May 2004 (next elections to be held

2. Legislative Branch

Bicameral Congress or *Kongreso* consists of the [Senate or Senado](#) (24 seats: one-half elected every three years; members elected by popular vote to serve six-year terms) and the [House of Representatives or Kapulungan Ng Mga Kinatawan](#) (214 seats: members elected by popular vote to serve three-year terms. Additional members may be appointed by the President but the Constitution prohibits the House of Representatives from having more than 250 members) Elections: Senate - last held 16 May 2004 (next elections to be held on May 2010); House of Representatives - elections last held 16 May 2004 (next elections to be held on May 2010) .

3. Judicial Branch

[Supreme Court](#) (justices are appointed by the president on the recommendation of the Judicial and Bar Council and serve until 70 years of age).

4.1.8 Economy

Due to the combined effect of the Asian financial crisis and poor weather conditions, GDP growth in 1998 fell to about -0.5% from 5% in 1997, but recovered to about 3% in 1999 and 3.6% in 2000. Upon assuming office, President Arroyo and her Economic Team put in place an economic plan to ensure that the economy is on track for equitable development and sustainable growth

Table 4.2 - Philippine Economic Indicator

Population	
Total Population (May 2000)	76.5 M
Population Projection (2007)	88.7 M
Average Annual Family Income (2003)	Php 147,888
Underemployment Rate (October 2006)	20.4%
Unemployment Rate (October 2006)	7.3%
Selected Macroeconomic Statistics	
Gross National Product (Growth Rate) (2005)	5.7%
Gross Domestic Product (Growth Rate) (2005)	5.1%
Inflation Rate (December 2006)	4.3%
Selected Domestic Interest Rates (%)	
Treasury Bill Rates (All Maturities) (January 2006)	4.91%
Bank Average Lending Rates (December 2005)	10.79%
Average Exchange Rate 1US\$:1Peso (January 2006)	52.617
Trade Statistics	
Exports (November 2006)	\$ 4,022B
Imports (October 2006)	\$ 4,679B
Balance of Trade (October 2006)	\$ -481M

Source: Philippine Embassy – The Hague, Economic Indicators of The Philippine, <http://philembassy.nl/default.asp?iId=KHMFI>, December 12, 2008

World crisis at the end of 2008 and has significant impact to Philippine economy. But the government has quick response to minimize the impact by having this policy below (source: The Official Website of The Republic Of The Philippines, *Let us join hands versus global crisis*, <http://www.gov.ph/news/?i=23536>, December 22, 2008)

1. The establishment of stand-by fund by the Department of Labor and Employment (DOLE) and Overseas Workers Welfare Administration (OWWA) for displaced seafarers and land-based overseas Filipino workers (OFWs).
2. The implementation of training programs, training interventions specifically targeted for workers displaced as a result of the global financial crisis at the community level.
3. Reduction on the cost of doing business by providing fuel subsidy to firms operating in the export processing zones, lowering the costs of business licenses and permits and standardization of the city business registration and permit process in Metro Manila.
4. Having the government financial institutions provide loan facilities such as working capital to creditworthy firms.
5. Stimulate domestic production and product demand and consumption by addressing smuggling.
6. Study the possibility of imposing a moratorium on wages and other economic benefits for a limited period.
7. Mainstream and expand training partnerships between government and private companies.
8. Sharing of information between the government and industries on industry employment, number of companies affected, number of workers affected either through retrenchment or flexible work arrangements, and other related information in order to come up with an accurate and reliable picture of the actual impact of the global financial crisis on employment and business and allow both government and industry to develop appropriate responses and interventions.

Even though there is no valid data available yet to show how bad is the impact of world crisis to the Philippines, the quick responses above show the government's focus to handle the crisis. Economy maybe will go slower in 2009 than years before, but Philippines still have big demand for furniture because

every body needs furniture. Usually when crisis happen, consumer will not stop buying furniture, only shifted the preference from expensive products to cheaper products.

4.1.9 Population

The 2007 Census reports a total population of 88.57 million people compared to 76.50 million in 2000 and 68.62 million in 1995

Table 4.3 - Philippine Population

Total Population	
Census Year	Population
1995	68.62 M
2000	76.5 M
2007	88.57

Source : Philippine Commission on Population, *Philippine Population*, http://www.popcom.gov.ph/press_releases/popstat/index.html ; December 12, 008

For Annual Population Growth Rates (APGR), 2007 Census reveals 2.04% annual PGR from 2000-2007; while the projected figure is 2.05% APGR for the period 2000-2005. This projection is based on the 2000-based Census projections prepared by NSO. APGR of 2.04% (2000-2007) indicates a decelerating momentum from 2005-2007.

Table 4.4 - Annual Population Growth Rate

Source	Annual PGR
<i>POPCEN</i> 1990-2000 1995-2000	2000 2.34 2.36
<i>POPCEN</i> 2000-2007	2007 2.04
Projections (medium assumption)	
2000-2005	2.05
2005-2010	1.95
2010-2015	1.82

Source : Philippine Commission on Population, *Philippine Population*, http://www.popcom.gov.ph/press_releases/popstat/index.html, December 12, 008

4.1.10 Education

Philippine education is patterned after the American system, with English as the medium of instruction. Schools are classified into public (government) or private (non-government).

The general pattern of formal education follows four stages: Pre-primary level (nursery and kindergarten) offered in most private schools; six years of primary education, followed by four years of secondary education. College education usually takes four, sometimes five and in some cases as in medical and law schools, as long as eight years. Graduate schooling is an additional two or more years.

Classes in Philippine schools start in June and end in March. Colleges and universities follow the semester calendar from June-October and November-March. There are a number of foreign schools with study programs similar to those of the mother country.

4.2 Philippine Furniture Market

4.2.1 Background

Tracing back to the Philippine furniture history, it was through the Galleon Trade when the furniture crafts were first introduced to the Philippines. The colonial merchants in the 16th century were the ones who discovered the possibilities of creating good furniture products using the Philippine hardwoods. Since wood is abundant during that time, cabinetmakers were brought in from Spain. Since then, the furniture skill was passed on to Filipino craftsmen, who learned from these cabinetmakers. During the same era, the Spanish friars built churches all over the archipelago. This broadened the design skill of these Filipino craftsmen. They learned not only the art of masonry but also of intricate carvings and adornments on doors and other church furnishings (Source: De La Salle University, *Philippine Furniture Industry: Adjustment for The RP-US Agreements*, <http://www.dlsu.edu.ph/research/centers/cberd/pdf/papers/2008/WorkingPaper-2008-07-RPUSFTA-Abad.pdf>, December 12, 2008).

During the 18th century, European domestic furniture was brought to the Philippine. As a result, new regional styles of furniture making emerged in the Philippines. From replicating to redesigning, the furniture industry prospered as the craftsmen built furniture to suit the local tastes and lifestyles.

By the time the Americans settled in the country during the early 1900's, values such as casualness, comfort, and practicality gave influence to the locals and had also an impact on the furniture industry. Due to this, the rattan furniture industry flourished and gave rise to the partnership between Mahitabel, Philippines and McGuire, U.S.A. With continuous production improvement and product development, the furniture makers were soon able to export complete furniture pieces that attracted the attention of the international market. The value-added chain was completed by the late 1980s when the companies started undertaking their own product development and design, manufacturing, assembly and final finishing.

The history of the industry is reflective of a rich craft heritage, eclectic influences, variety of locally available materials, and native artisans with excellent

design flair and deft hands. These are the same reasons for the industry's subsequent growth and the wide acceptability of its products.

The Philippines now ranks as one of the world's best producers of fine furniture – from the traditional to the casual contemporary to the highly experimental. The furniture industry manufactures affordable products of exquisite craftsmanship that is the successful result of modern technology combined with human creativity and love of beauty. From its prime position as the major source of creatively designed wicker and rattan furniture, the industry has successfully diversified into wood, metal, stone, bamboo, leather and mixed media furniture collections. Wrought iron and aluminum are principally used for metal furniture. Other inputs include fittings and finishing materials (source: Philexports, *Furniture Pearl State Of The Sector Reports on Philippine Furniture 2005*, <http://www.philexport.ph/furnitures.html>, December 12, 2008).

The industry utilizes wood, rattan, bamboo and other materials such as buri, metal, stone/marble and plastic, which are creatively and finely handcrafted into various products including: leg items for chairs, tables, beds, settees case goods such as cabinets, desks, chests of drawers, kitchen storage units, combinations for building/home fittings, shelves and ornaments. Furniture exports are divided into the following sub-groups: rattan, wood, bamboo, furniture parts, metal, plastic, other materials and furnishings.

Based on a research conducted by the Chamber of Furniture Industries of the Philippines (CFIP) in 2005, the Department of Trade and Industry (DTI) estimates there are about 15,000 local furniture manufacturers comprising the furniture sector. According to the PhilExport as of 2004, the furniture industry is made up of 15,000 establishments with 481,500 direct workers and 300,000 others indirectly employed as subcontractors. Majority is dominated by small and medium-sized firms that are commonly composed of single proprietors and family corporations, thus 99% of the industry employs less than 30 workers.

Local market represents only 20% of the industry's volume, the rest is exported to the US and Europe. External demand for high-end low volume furniture is great, but domestic demand is hardly noticeable. Colonial mentality is

probably the biggest hindrance. Filipinos feel that foreign made products are better than locally produced ones. To pay a high price for domestically produced furniture is out of the question for certain markets in the Philippines.

An estimated 15,000 companies comprise the local furniture industry. The sector employs a total of about 481,500 direct workers and 300,000 subcontractors based on DTI estimates. Only 2% are considered large ventures; the remaining 98% are micro, small and medium-size firms. Of the 15,000 registered furniture companies in the Philippines, majority are locally owned. Single proprietorship firms or family corporations are common. Although some manufacturers have foreign equity, The Board of Investments lists about 23 companies as being partly owned by American, British, German, Australian, Japanese, Belgian, Malaysian, South Korean, French, Spanish and Taiwanese investors (source: Philexports, *Furniture Pearl State Of The Sector Reports on Philippine Furniture 2005*, <http://www.philexport.ph/furnitures.html>, December 12, 2008).

International competition is the biggest problem faced by the furniture industry. It is the inability of the local producers to match the price and quality standards of these countries in the mid-priced and high volume market which has led to the continued downswing in our furniture exports. For the past decade, the Philippines had been producing mixed media type of furniture. Slowly, Vietnam and Thailand have been entering into this media type of furniture, which is becoming a threat to the country's industry (Source: De La Salle University, *Philippine Furniture Industry: Adjustment for The RP-US Agreements*, <http://www.dlsu.edu.ph/research/centers/cberd/pdf/papers/2008/WorkingPaper-2008-07-RPUSFTA-Abad.pdf>, December 12, 2008)

4.2.2 Philippine Furniture Import

As shown in the table below, Philippine import more than US\$ 71 million of furniture in 2006. Writers believes the actual data will be at least 40% higher since most of Philippine furniture importer use under value invoice to avoid tax.

Table 4.5 - Merchandise Imports from All Countries by Major Product Grouping
 FOB Value in US Dollars, January - December 2006 /2005

Group	2006		2005		Difference	% Change
	Value		Value			
FURNITURE	71,560,756	.14	56,905,190	.12	14,655,566	25.75
Bamboo Furniture	37,698	.00	16,880	.00	20,818	23.33
Buri Furniture	0	.00	81	.00	-81	100.00
Furnishings	2,921,351	.01	2,507,499	.01	413,852	16.50
Metal Furniture	10,101,453	.02	7,175,315	.02	2,926,138	40.78
Parts Of Furniture	28,581,330	.06	23,306,612	.05	5,274,718	22.63
Plastic Furniture	1,138,426	.00	789,271	.00	349,155	44.24
Rattan Furniture	21,539	.00	501,986	.00	-480,447	-95.71
Stone Furniture	29,352	.00	18,959	.00	10,393	54.82
Wood Furniture	22,606,192	.04	18,471,942	.04	4,134,250	22.38
Furniture Of Other Materials	6,123,415	.01	4,116,645	.01	2,006,770	48.75

Primary Source of Data: National Statistics Office (NSO)

Processed by: Bureau of Export Trade Promotion (BETP)

Source: <http://tradelinephil.dti.gov.ph/betp/statmimp3.sumprod> ; December 14, 2008

4.2.3 Import Value Comparison

Since the biggest competitors for PT. CSF are coming from Malaysia, Thailand and China, the writer want to compare the furniture import value from the four country including Indonesia. But since there is no formal data available for that purpose, the writer use total import value comparison as shown in the table below:

Table 4.6 - Import Value form Indonesia, Malaysia Thailand and China

Origin	2006 Imports (US\$Million)	% Growth 2005/2006
Total Imports from Indonesia	986.58	-1.62
Total Imports from Malaysia	2,102.13	18.15
Total Imports from Thailand	2,075.48	31.98
Total Imports from China	3,647.35	22.7

Source: BETP-Tradeline, <http://tradelinephil.dti.gov.ph/betp/indonesia1> ; December 14, 2008

From data shown on the table above, China has the largest import value for Philippine and Indonesia has the smallest import value for Philippine. Import from Indonesia is far left behind compare to other Asian countries such as Malaysia, China and Thailand.

4.3 Existing buyers

Since 2000, Olympic has exported to Philippine through some buyers as shown in the table below.

Table 4.7 - Sales Performance For Philippine Area (in UD\$ FOB, 2004 – 2008)

No	BUYER	2004	2005	2006	2007	2008
1	Moddii	288,120	254,904	197,071	138,111	81,004
2	Moon House/Esa Trading	132,790	100,854	122,277	80,502	
3	Ta Shin/Infinite Quality	59,203	113,848	75,317	289,950	198,810
4	SM Mart/Sprinter			42,281	94,458	
	TOTAL	480,114	469,606	436,946	603,021	279,814

Source: Company Internal Data, 2008

As shown in the table above, the sales decreasing significantly form year 2006 to 2008. There is an increasing in 2007 but that because there is one new big buyer who buy only once and never repeat order because actually they have different market segment with Olympic. Based on the writer's analysis and company internal data, these existing importers have more capability to buy Olympic products. Olympic products represent only 5 – 7% of their total Import from abroad. There are three main reasons for these as follow:

1. The Price

Olympic has higher price than similar products from other supplier. In Indonesia market, Olympic is for Middle to Low market, but in Philippine it's for Middle to up market since the price is higher 10-15% to the similar product on the average. PT. CSF must sacrifices some margin on some selected items with high competition such as on wardrobes and baby lockers, to get deeper penetrate to the market and get additional margin from other items.

2. The Design

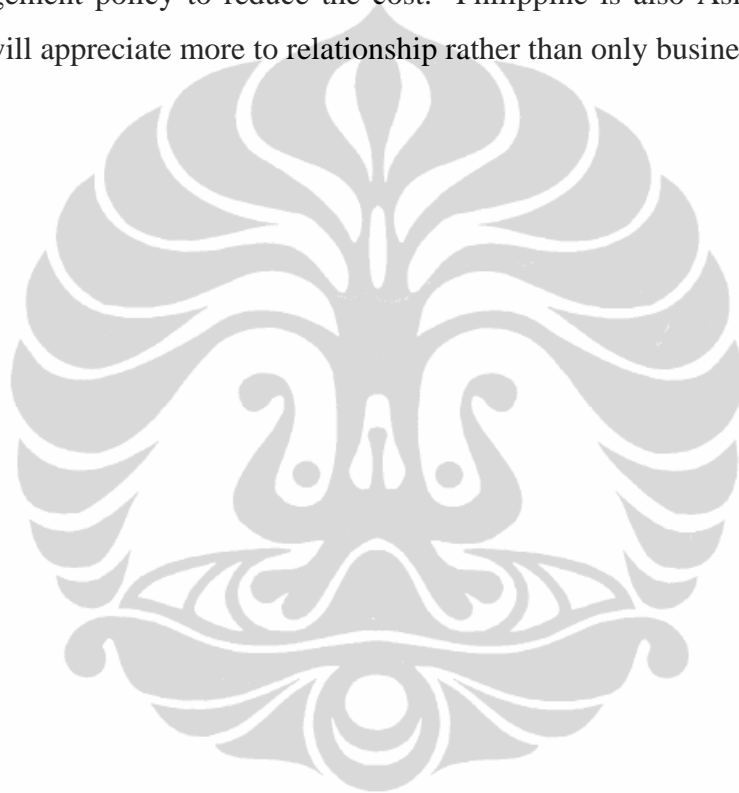
Olympic design is favorable in Indonesian market, but Philippine taste is different and Olympic has not yet adjust the design or made some special design for Philippine market. Example:

- a. Fast moving foil color in Indonesia and Middle east market is beech and cherry rabbit, in Philippine it's wenge color
- b. Favorite design for wardrobe's door is Framed shape in Local market, but Plain shape for Philippine market
- c. Double Bed Size in Indonesia market is 160 cm x 200 cm, but for Philippines, it's 165 x 190 cm.

PT. CSF should develop new items or customized some regular items to follow the Philippine preferences on design, colors and sizes. So, PT. CSF products will become more acceptable for Philippine furniture market.

3. The Marketing and Sales Activity

Other supplier from Malaysia, China, Thailand and even from Indonesia is more frequent to visit importer in Philippine, at least once a month. And even some of them have one special person to stay in Manila so they can keep in touch with the importers aggressively. Olympic does always communicate with those importers, but only via phone or email or chat, and only visit them twice a year, this due happen because the PT. CSF management policy to reduce the cost. Philippine is also Asian country who will appreciate more to relationship rather than only business.



CHAPTER 5

ANALYSIS AND DISCUSSION

5.1 SWOT Analysis

5.1.1 External Analysis

In Export activities, world condition become the external situation that has significant impact to the business, specially the local and the export destination condition. This part will discuss the main point of external situation that have good impact to PT. CSF or known as opportunity, and also the bad impact that known as threat for PT. CSF.

5.1.1.1 Politic

Indonesia will have an election on April 2009, many people afraid of the negative impact of this event like it did before to the national security and economy. But this four years of quite good market and good national security situation in the era of President Susilo Bambang Yudhoyoo and Jusuf Kalla as the Vice President, make business people not worry too much of the national security and politic facing ahead.

Also in Philippine, the presidency of President Gloria Macapagal Aroyo and Noli de Castro as Vice president since 30 June 2004 has brought a good market condition and good national security. Yes there are small conflicts in Mindanao, but that is very far from Manila and very small area also like Aceh before in Indonesia that will not affect too much to the national security and politics.

5.1.1.2 Economy

World crisis in late 2008 and still facing ahead in 2009 has brought big challenges to the industry. Many companies collapses and there are significant unemployment growth in 2009 in both country. Indonesia has significant impact

form declining export growth especially to American and Europe. Philippine also has significant impact since many of Philippine workers in America and Europe get fired because of the crisis, while the main export of Philippine is not goods export, but professional workers.

This situation makes unfavorable condition for the local market. Local demand for furniture is decreasing significantly, stock pile up either in the PT CSF warehouse or local retailers. There are many furniture manufacturers in Indonesia, and they are all facing almost the same problem. This result a more saturated market and increase competition while the market demand for furniture is decreasing significantly.

5.1.1.2.1 Man Power

5.1.1.2.1.1 Labor Code

The laws on labor standards and employment relations are consolidated in the Labor Code of the Philippines (source: Department of Labor and Employment, Republic of The Philippines, The Labor Code of The Philippines, <http://www.dole.gov.ph/laborcode/>, October 12, 2008). The salient points of employment conditions and employee benefits under the Philippine labor laws are as follows:

1. Hours of Work

Eight (8) hours per day or 48 hours per week. Rest periods of short duration during work hours shall be counted as hours worked.

2. Work Day

A day is the 24-hour period which commences from the time the employee regularly starts to work.

3. Minimum Wage (Manufacturing Sector)

The minimum wage rate for agricultural and non-agricultural workers in every region, are determined by the Regional Tripartite Wages Productivity Board.

4. Fringe Benefits

This refers to goods, services, or other benefits furnished by an employer in cash or kind, in addition to basic salaries; to managerial or supervisory employees such as but not limited to the following:

1. Housing
2. Expense Account
3. Vehicle of Any Kind
4. Household personnel, such as maid, driver and others
5. Interest on loans at less than market rate to the extent of the difference between the market rate and actual rate granted
6. Membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;
7. Holiday and vacation expenses
8. Educational assistance to the employee or his dependents; and
9. Life or health insurance and other non-life insurance premiums or similar amounts in excess of what the law allows

5. Overtime (OT) Remuneration

Overtime premium is allocated for work exceeding the maximum prescribed period. Every employee who is entitled to premium pay is likewise entitled to the benefit of overtime pay.

5.1.1.2.1.2 Minimum Wages

As mentioned above, the minimum wage is determined by Regional Tripartite Wages Productivity Board. So, each province can be difference. Here in table below we can see the daily minimum wages of the Manila region. There

will be significant differences between agricultural and non-agricultural sector since its required different skills.

Table 5.1 - Daily Minimum Wages (In pesos)

INDUSTRY/SECTOR	Basic Wage After COLA Integration	Basic Wage Increase	New Minimum Wage Rates
Non-Agriculture	350.00	12.00	362.00
Agriculture (Plantation & Non-Plantation)	313.00	12.00	325.00
Private Hospitals with bed capacity of 100 or less	313.00	12.00	325.00
Retail/Service Establishments Employing 15 workers or less	313.00	12.00	325.00
Manufacturing Establishments Regularly employing less than (10) workers	313.00	12.00	325.00

Source: National Wages and Productivity Commission Department of Labor and Employment
http://www.nwpc.dole.gov.ph/pages/ncr/cmwr_table.html, October 22, 2008

Table 5.2 - Comparative Wages of Asian Countries

Country/City	Daily	Monthly	Exchange Rate
	In US\$	In US\$	Per US\$1*
Vietnam/Ho Chi Min	1.39 - 1.70	41.60 - 50.97	17,068.00
Indonesia/Jakarta	1.98 - 3.69	59.35 - 110.67	9,216.59
China/Beijing	3.64 - 4.13	109.21-123.77	6.8676
Thailand/Bangkok	4.24 - 5.66	127.21- 169.90	33.725
Philippines/Metro Manila	2.86 - 8.39	85.69 - 251.80	45.5131
Malaysia/Kuala Lumpur	7.46 -15.99	223.91 -479.58	3.2737

Source: Department of Labor and Employment, National Wages and Productivity Commission, Comparative Wages in Selected Countries
http://www.nwpc.dole.gov.ph/pages/statistics/stat_comparative.html, October 22, 2008

In the table above, we can see that Philippine minimum wages are almost twice than Indonesian, but still below Malaysian. Since they also do not have the

natural resources competitive advantages compare to Asian country, Philippine become nice target to for furniture export from other Asian countries.

5.1.1.2.1.3 Computation of Wages

According to Philippine Bureau of Working Conditions Department of Labor and Employment (source: http://www.bwc.dole.gov.ph/faq.asp#com_wage, October 22, 2008), we can calculate wages as follow:

1. Computing overtime
 - a. On Ordinary days: Number of hours in excess of 8 hours (125% x hourly rate)
 - b. On a Rest Day, Special Day or Regular Holiday: Number of hours in excess of 8 hours (130% x hourly rate)
2. Computing pay for work done on:
 - a. A Special Day (130% x basic pay)
 - b. A Special Day, which is also a scheduled Rest Day (150% x basic pay)
 - c. A Regular Holiday (200% x basic pay)
 - d. A Regular Holiday, which is also a scheduled Rest Day (260% x basic pay)
3. Computing Night Shift Premium where Night Shift is a Regular Work:
 - a. On Ordinary Day (110% x basic hourly rate)
 - b. On a Rest Day, Special Day, Regular Holiday (110% of regular hourly rate for Rest Day, Special Day, Regular Holiday)
4. Computing Overtime on Night Shift:
 - a. On Ordinary Day (110% x overtime hourly rate)
 - b. On Rest Day, Special Day or Regular Holiday (110% x overtime hourly rate for Rest Days, Special Days, Regular Holidays)

5. Computing 13th Month Pay; Total basic salary earned for the year exclusive of overtime, holiday, and night shift differential pay divided by 12 = 13th month pay.
6. Night-Shift Differential Pay; Night-shift employees must be paid a differential of not less than 10% of the regular wage for each hour of work performed between 10:00 p.m. and 6:00 a.m.
7. Service Incentive Leave: Every employee who has rendered at least one year of service is entitled to a yearly service incentive of five days with pay.
8. Meal and Rest Periods; One-hour time-off for regular meals.

5.1.1.2.1.4 Mandatory Employment Contribution

Other than Basic Wages, Companies also have obligation for the employees as follow:

1. 13th Month Pay.

By law, companies are required to give its employees a 13th pay equivalent to one (1) month salary (source: Philippine Bureau of Working Conditions Department of Labor and Employment (source: http://www.bwc.dole.gov.ph/faq.asp#com_wage, October 22, 2008)

2. Social Security System (SSS) Contributions.

As Mandated by law, both employer and employees are to contribute for the social security benefits of the employees in accordance with the new schedule provided by SSS (Source: Social Security System; http://www.sss.gov.ph/docs/new_contri_sched.pdf; October 22, 2008)

3. Contribution to Home Development and Mutual Fund (HDMF).

Companies/employers are also required to contribute at least P100.00 per month to HDMF for employee benefits. Companies/employers remit this

contribution plus that of the employees which will be deducted from their payroll, in accordance with the periodic remittance schedule provided by HDMF (Source: Philippine Health Insurance Corporation; <http://www.philhealth.gov.ph/contribution.htm>, October 22, 2008).

4. Contribution to National Health Insurance Program (NHIP).

As mandated by Republic Act 7835 on Medicare Program which is administered by the Philippine Health Insurance Corporation (Philhealth), both employers and employees are to contribute for the medical insurance/benefits of the employees in accordance with the schedule provided by Philhealth (Source: Philippine Health Insurance Corporation <http://www.philhealth.gov.ph/contribution.htm>; October 22, 2008).

5.1.1.2.2 Transportation

For export furniture purpose, PT. CSF have to calculate the Ocean Freight rate to send the products to Philippine. This table below shows the recent rate for the ocean freight:

Table 5.3 - Freight Rates of Ocean going Vessels (per 40" Containers, 2008)

Route	Distance (n.m.)	Freight (US\$)*	Rate/n.m.
Manila – Kaoshiong	547	300.00	0.55
Manila – Hongkong	633	250.00	0.39
Manila – Singapore	1,308	350.00	0.27
Singapore – Manila	1,308	350.00	0.27
Manila – Bangkok	1,485	600.00	0.40
Manila – Jakarta	1,308	650.00	0.41
Jakarta – Manila	1,308	650.00	0.41

Source : Philippine Shippers' Bureau
**Excludes Terminal Handling Fee of P 4,280.00 and Documentation Fee of US\$ 30.00*

5.1.1.2.3 Electricity

Non-industrial customers are establishments wherein the main economic activity is agriculture, construction, trading, transportation operation and

administration, communication services, storage and warehousing, waterworks and supply, financial services, real estate, restaurant and hotel services, and other community, social, and personal services.

The Electricity rate for non-industrial customer in Philippine is as we can see in table below:

Table 5.4 - Electricity rates per Kwh

Non-Industrial Small

Distribution Charge (per kw)		141.87
Supply Charge (per customer)		655.33
Metering Charges (per customer)		
Energy		
Fixed Amount	317.74	

Non-Industrial Medium to Very Large

Distribution Charge (per kw)		
Secondary		119.40
Below 13.2 kv		112.94
13.8/13.2 kv		123.27
34.5 kv		124.62
115 kv		122.76
Supply Charge (per customer)		655.33
Metering Charges (per customer)		
Energy		
Fixed Amount	317.74	
Power Factor Adj		
6% surcharge for every percentage point lower than 85%		
3% discount for every percentage point higher than 85%		

Source: Manila Electric Company

(<http://www.meralco.com.ph/Corporate/rates/nonindustrial.htm>, October 22, 2008)

5.1.1.2.4 Water

The privatization has not only paved the way for the upgrading and rehabilitation of the city's water network, it has also actually made the price of water cheaper. Presently, Maynilad charges its customers an average of P32.63 per cubic meter inclusive of Value Added Tax (VAT) for unsewered services. Broken down, it consists of the Basic Charge which is P22.47 per cubic meter of water plus a P1.00 Current Exchange Rate Adjustment and an Environmental Charge of P2.65 which is 10% of the Basic, CERA, and FCDA.

Maynilad as the official water service company in Philippine, started implementing the Foreign Currency Differential Adjustment (FCDA) last January 1, 2002. Those with sewer services are charged P47.46 on the average because of the Sewer Charge of P14.83 per cubic meter, which is 50% of the Basic, CERA and FCDA. A fixed Maintenance Service Charge (MSC)) is also levied per connection depending on the meter size, the amount of which ranges from P1.50 to P50. (Source: Maynilad Water Services, Inc. <http://www.mayniladwater.com.ph>; October 22, 2008)

5.1.1.2.5 Telecommunication, Internet and Mail

Telecommunication, internet and mail in Philippine has almost the same tariff and condition with Indonesia. There are some provider for mobile phone in Philippine, but to compare with Indonesia rate, the writer use the official rate from official telephone company as below:

Table 5.5 - Telecommunication Rates

Residential				
- Installation				P 1,999.00
- Subscriber Investment Plan				P 1,000.00
- Monthly Rates*				P 605.26
Business				
- Installation				P 3,500.00
- Subscriber Investment Plan				P 2,000.00
- Monthly Rates*				P 1,260.46
International Calls			PLDT Rates	
- ASEAN / Hongkong / Japan / Macao / South Korea				
1st. Minute				US \$0.40
Succeeding minutes				US \$0.40
- Australia / New Zealand				
1st. Minute				US \$0.40
Succeeding minutes				US \$0.40
- USA / Canada				
1st. Minute				US \$0.40
Succeeding minutes				US \$0.40
- France / Germany / Italy / Spain / U.K.				
1st. Minute				US \$0.40
Succeeding minutes				US \$0.40
- China & India				
1st. Minute				US \$0.40
Succeeding minutes				US \$0.40
- Kuwait / UAE / Bahrain / Saudi Arabia				
1st. Minute				US \$0.40
Succeeding minutes				US \$0.40
Cellular Mobile Phone System				
	Local		Abroad	
	Text	Call	Text	Call
Globe	P1.00	P6.50 same network and P7.50 other network or landline	P15.00	\$.40/min.
Smart	1.00	P6.50 same network and P7.50 other network or landline	P15.00	.40/min
Sun Cellular	1.00	Unlimited calls to same network	P9.00	.30/min
Fax Charges			Local	Abroad
			.40/copy	.80/copy
256 KB Frame relay w/ local loop (Mla. To W. Europe)			US\$ 22 to 27,000/mo.	
INTERNET SERVICE FEES				
Installation Fee (Email Account)			Free to P 800.00	
Installation Fee (Web Account)			P 500.00	
Subscription Rates (Varies depending on the type of plans – monthly, quarterly, semi-annual & annual- & number of hours to be used by the company)			P253 to 100,000+	

Source: Philippine Long Distance Telephone Company (PLDT)
(<http://www.pldt.com.ph>; October 22, 2008)

Table 5.6 - Mailing Rates

MAILING RATES	
International	
Airmail Letters (20 g. - 2000 g)	P 20 – 2,314.00
Aerogram and Postcards	P 13.00/pc. to all countries via airmail
Printed Matter (20 g -1,000 g.) (add'l. 500g or less)	P 17.00 - 1,109.00 P 284.00 - 555.00
Domestic	
<i>(Domestic Rates as of January 1, 2006)</i>	
Ordinary Mail (first 20 grams to 2k)	P 7.00 - 113.00 (Intra) P 9.00 - 135.00 (Inter/Airmail)
Priority Mail (first 20 grams to 2k)	P 13.00 - P 124.00 (Intra) P 18.00 - P 146.00 (Inter)
Express (first 20 grams to 2k)	P 25.00 - 136.00(Intra) P 35.00 - 169.00 (Inter)
Registered (first 20 grams to 2k)	P 17.00 - 123.00 (Intra) P 21.00 - 145.00 (Inter/Airmail)
3rd Class & C.O.D. (first 20 grams and 2k)	P 5.00 - 90.00 (Intra) P 6.00 - 101.00 (Inter)

Source: [Philippine Postal Corporation, http://www.philpost.gov.ph/customer_guide.php?vlink=mailrates](http://www.philpost.gov.ph/customer_guide.php?vlink=mailrates), Dec 12, 2008

5.1.1.2.6 Public Transport

In Philippine, gasoline is quite expensive since they don't have the resources. They have to imported it and sell according to the world gasoline price. Even personal cars cannot run seven days a week, it has to have one day off that cannot go to a public place. So, that's why in Philippine, public transport is the idol for transportation. As a result, even the gasoline price is higher than Indonesia, the public transport rate are almost the same as shown in the table below:

Table 5.7 - Public Transport

Jeepneys. <i>The most common and inexpensive mode of transportation in the Philippines. These are not generally used by foreigners.</i>	P 7.50 (first 3 kilometers) P.50 for successive km.
Buses. <i>Buses are classified into non-aircon and airconditioned.</i>	P8.00 (non-aircon buses) + P1.50 for every successive km P10.00 (airconditioned) + P1.00 for every successive km
Taxis. <i>Almost all taxis are airconditioned.</i>	Flagdown for the first 500 meters is P 30.00 and an additional P2.50 for every 250 meters thereafter
Tricycles. <i>These are motorcycles / bicycles with a sidecar attached for short trips on the side streets. (depends on the locality)</i>	P 15.00 (for special trips)
Light Rail Transit(LRT) & Metro Rail Transit(MRT). <i>These are overhead railway system that currently runs in Metro Manila.</i>	P 12.00 to P15.00
Air Transport (Domestic Flights –One way Fare per Person)	P 1,000.00 to P3,500.00
* Subject to increase based on fuel prices	

Source: The Official Website of The Republic of the Philippines

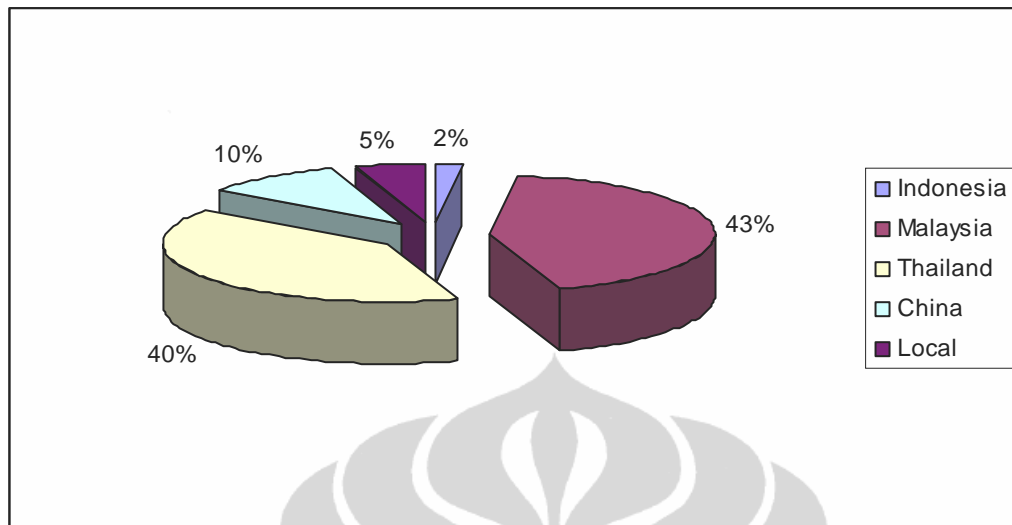
(http://www.gov.ph/faqs/business_livingcost.asp)

5.1.1.2.7 Competitors

As discussed in chapter 4, the main competitor for PT. CSF is not coming from local Philippine company, bus mostly from Malaysia, Thailand and China. This due happen because Philippine are lack of material furniture resources and they are focus on sending Filipino workers abroad as they main export, not export on goods.

PT. CSF surveys in 2008 shows that most of Philippine panel furniture coming from Malaysia and Thailand, the rest is coming form China, Local production and Indonesia, but most of them are not using and developing brand, they just sell the products according to the buyer's request or what's available in their stocks. Even China product well known as cheap products, in Philippine they are not too saleable compare to Thailand and Malaysian products, since the quality is to low and the design not suitable with Philippine market. Below is the company data of market share in Philippine market.

Figure 5.1 - Market share of Panel Furniture in Philippine



Source: Company internal data, 2008

In chapter 4, it's mentioned that the total furniture Philippine import for 2006 is worth more than \$71 million. But since most of the Philippine importers use Undervalued Invoice to avoid tax, PT. CSF Assume that the real import value is greater than that. Usually Philippine importers use only 60% of the real value for the Invoice. So, if there are 60% of Philippine furniture importer use 40% undervalue, it means the real import value will near to \$100 million. This value is assumed by PT. CSF as the real Philippine furniture import value in 2007, and 40% of the total imports are panel furniture, the rest are for metal furniture, office chairs, sofa, solid wood furniture, etc.

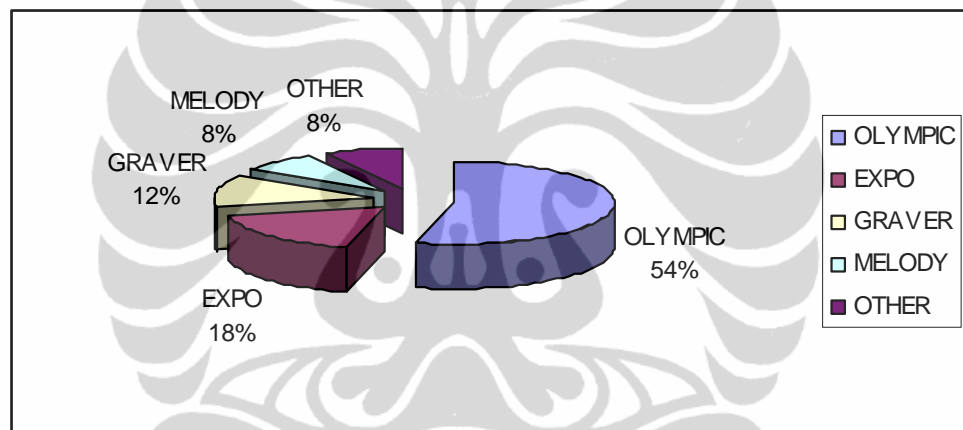
So, it was assumed that total Philippine panel furniture import is worth \$40 million, and the Indonesian furniture export to Philippine is only representing 2% of the total panel furniture import, or \$800,000. PT. CSF export value in 2006 is worth \$436,946, it means PT. CSF represent 54% ($\$436,946 / \$800,000$) of Indonesian panel furniture export to Philippine, or represent only 1% ($\$436,96 / \$40,000,000$) of the total Philippine panel furniture import.

As summary, the calculation is as follow:

Total Furniture Import (official data)	\$71 million
Total Furniture Import assumed by PT. CSF	\$100 million
Panel Furniture Import (40% x \$100 million)	\$40 million
Market share PT. CSF (\$436,96 / \$40 million)	1.1%

The other Indonesian panel furniture companies who also export to Philippine are Expo, Graver, Melody and other furniture with no brand.

Figure 5.2 – Market Share of Indonesian Panel Furniture Export To Philippine



Source : Company Internal Data, 2008.

For Indonesian Company who export furniture to Philippine, PT. CSF is the biggest one, but nothing compare to other furniture company from Thailand, Malaysia and China. In the table above, we can see there is four main player for panel furniture exporter to Philippine from Indonesia, but there are many furniture company coming from Thailand, Malaysia and China as we can see below:

Table 5.8 Top Thailand Furniture Exporter To Philippine

1	Acmen International Co Ltd
2	AIM Production Co Ltd
3	Apex Unitrade Co Ltd
4	ARP International Co Ltd
5	Asalon Co Ltd
6	ASE Co Ltd
7	Astral Co Ltd
8	Bangkok Interfurn Co Ltd
9	Bangpakong Wood Co Ltd
10	Bed And Bench Company Ltd
11	Chair Maker Co Ltd
12	CI Inter Corporation Co Ltd
13	Decor Center Furniture Co Ltd
14	Deesawat Industries Co Ltd
15	Denchai Parquet Factory Co Ltd
16	East Coast Industry Co Ltd
17	Eastern Heritage Ltd Part
18	Ergo Design & Manufacturing Co Ltd
19	HP Furniture MFG Co Ltd
20	Idea Decoration Co Ltd

Source : Company Internal Data, 2008.

Table 5.9 Top Malaysian Furniture Exporter To Philippine

1	Abitex Designs (M) Sdn Bhd
2	Akura Furniture (M) Sdn Bhd
3	Amigatech Sdn Bhd
4	APT Dragon Sdn Bhd
5	18. Arena Design
6	ATP Design Sdn Bhd
7	Banhong Furniture Industries Sdn Bhd
8	C.K. Furniture Manufacturing Sdn Bhd
9	Chan Furniture (M) Sdn Bhd
10	Decotrend Industries (M) Sdn Bhd
11	DST Industries Sdn Bhd
12	Elite Quality Sdn Bhd
13	Ension Industries Sdn Bhd
14	Ergo Design Sdn. Bhd.
15	Federal Furniture (M) Sdn Bhd
16	Golden Hope Furniture Sdn Bhd
17	Grand Victory Furniture Sdn. Bhd.
18	Home Expo Sdn Bhd
19	Hotline Furniture Bhd
20	Intergo Furniture (M) Sdn. Bhd.

Source : Company Internal Data, 2008.

Table 5.10 Top China Furniture Exporter To Philippine

1	Foshan Ooee Furniture Co.,LTD
2	Elegance Group Company Limited
3	Fu&Long Furniture Industrial Ltd.
4	weibao-furniture
5	Fuzhou Woodlong Woodwork Co., Ltd.
6	china guang dong top furniture Factory
7	GTE Group LTD
8	Shanghai DPF Trading Co.,Ltd
9	Foshan Yige Co
10	Chengdu Co. LTD

Source : Company Internal Data, 2008.

Table 5.11 Top Indonesian Furniture Exporter To Philippine

1	PT. Cahaya Sakti Furintraco
2	PT. Gatra Mapan
3	PT. Expo Furniture
4	PT. Rackindo Putera
5	PT. Rimbawood Arsi Lestari

So, Thailand and Malaysian furniture company are more aggressive to expand their market in Philippine since their number are far bigger than Indonesian, and also the sales volume. PT. CSF as the main leader in Indonesian panel furniture feel challenged to enter the market. Even Malaysia is nearer to Philippine than Indonesia so they transportation cost would be cheaper, here in Indonesia PT. CSF also has competitive advantage in labor cost.

5.1.1.2.8 Existing Buyers

1. Infinite

Infinite established since 1975 by Mr. Ko and he is still active in the business. This is a very well managed traditional furniture trading company. They are supplying mainly to Modern Retail outlets and some selected Traditional Retail Outlets. On average, they give 120 days Term of Payment to their retailers.

Table 5.12 - Infinite Review

Description	Well organized big distributor, Used to get cheap price from Japan's rejected products
Import Source	Thailand, Malaysia, China, and Indonesia (Olympic, Expo)
Market	TRO and MRO Market
Brand From Olympic Group	Solid
Key Person	Gina (Purchasing Manager)
Warehouse Capacity	± 2,000 m2
Estimated Sales Volume	US \$ 100,000 per month
Average Sales	US \$ 17,260 per month
Expected Sales	US \$ 25,000 per month
Notes	Not aggressive, but willing to cooperate. Focus on High Margin, Good Service

Source: Company Internal Data, 2008

2. Moonhouse

This furniture trading company has establish since 1965 and has very good reputation in furniture industry both from the retailers side and supplier side. Now days, Moonhouse is operated by Mr. Ramon, the first son of the founder, and focuses on supplying to Traditional Retail Outlets. On average, they give 150 days Term of Payment to their retailers.

Table 5.13 - Moonhouse Review

Description	Common Big Distributor, Low Margin High Volume
Import Source	Thailand, Malaysia, China & Indonesia
Market	TRO only, > 100 customer, across island
Brand From Olympic Group	Olympic
Key Person	Myrna (Warehouse & Order)
Warehouse Capacity	± 4,000 m2
Estimated Sales Volume	US \$ 300,000 per month
Average Sales	US \$ 7,840 per month
Expected Sales	US \$ 10,000 per month
Notes	There's 7.5% agent fee barrier

Source: Company Internal Data, 2008

3. Modii

Modii established since 1985 by Mr. Jason Chua and focus on Modern Retail outlet. He open some store is some malls and also supply to hypermarkets furniture outlets. On average, they give 150 days Term of Payment to their retailers.

Table 5.14 - Modii Review

Description	Is a group of 7-8 Upper Class Segment Retail Chain, mainly in Mall Market
Import Source	Thailand, Malaysia & Indonesia (Olympic)
Market	MRO and TRO, Mainly in Manila area
Brand From Olympic Group	Olympic
Key Person	Represented By Jason as Group Representative, assisted by Robert (Sales Supervisor)
Warehouse Capacity	± 2,000 m ²
Estimated Sales Volume	US \$ 100,000 per month
Average Sales	US \$ 17,260 per month
Expected Sales	US \$ 25,000 per month
Notes	Not aggressive, but willing to cooperate. Focus on High Margin, Good Service, Low Volume

Source: Company Internal Data, 2008

5.1.1.3 Social

The Filipino is basically of Malay people with a sprinkling of Chinese, American, Spanish and Arab from a long history of Western colonial rule, interspersed with the visits of merchants and traders, evolved a people of a unique blend of east and west, both in appearance and culture. Filipinos are probably one of the few, English-proficient Oriental people today. Filipino is the official national language, with English considered as the country's second language.

The Filipinos are divided geographically and culturally into regions, and each regional group is recognizable by distinct traits and dialects - the sturdy and frugal Ilocanos of the north, the industrious Tagalogs of the central plains, the

carefree Visayans from the central islands and the colorful tribesmen and religious Moslems of Mindanao. Tribal communities can be found scattered across the archipelago. The Philippines has more than 111 dialects spoken, owing to the subdivisions of these basic regional and cultural groups.

The country is marked by a true blend of cultures; truly in the Philippines, East meets West. The background of the people is Indonesian and Malay. There are Chinese and Spanish elements as well. The history of American rule and contact with merchants and traders culminated in a unique blend of East and West, both in the appearance and culture of the people of the Filipinos, or people of the Philippines.

The writer believes Indonesian people is also basically of Malay people with a sprinkling of Chinese and Arab. So, for the people looks and culture, both countries have almost the same. Around five hundreds Tagalog words are the same with bahasa. When Indonesian coming to Philippine, Filipino wouldn't think Indonesian as foreigner, and also the same thing happen when Filipino comes to Indonesia. So, businessman from Indonesia will get easier to adapt with the Philippine social and culture life since basically the people is almost the same.

5.1.1.4 Technology

There are many new technologies for furniture manufacturing machinery, this new technologies can increase the quality and productivity for furniture industries. But most of these new technologies dedicated for American and European furniture standards. As an example, there are many new technologies for honeycomb material, but for Asian and Middle East market, honeycomb materials are not well known.

Furniture Industry for full particle board is like a sugar industry, it can use the machine made in 1980's and still running well. This also happens in many Indonesian furniture manufacturers, many of the machine is already old but they still can run well. The most importance of this machine actually is not based on

the technology, but on maintenance to keep the machine run well and keep accurate.

5.1.1.5 Environment

Global warming has become global issues today. It has effect on world attention for illegal logging in third country in the world which still has the green forest to support the green world. The Indonesian government put more concern to stop the illegal logging in Kalimantan. But for furniture industry, it's means to reduce the world wood supply, and as the result, the particle board supply is very rare on October to November 2008 and make the price increase by almost 50% along with the gasoline price increase.

But the world crisis in late 2008, makes the world demand for furniture decreasing. As the result, there are over supply of particle board materials, and make the price decrease to the original price before the price increase in October 2008.

5.1.1.6 Law

5.1.1.6.1 Law in General

Basically, there's no law problem for PT. CSF to market the product in Philippine. Not like European or American countries who demand high standard of product using a lot of certificate and lab test, Philippine's are more open to Indonesian product. European and American demand at least E-1 grade for the particle board material standard, but Philippine allowed E-2 grade of particle board, the same PT. CSF use for local or Middle East market.

Since Philippine and Indonesia both in the ASEAN Region, there is no need Visa for business travel if it less than 21 days. This is quite helpful for PT. CSF for maintain low level of business travel cost.

5.1.1.6.2 Cost of Getting Started

There's also the cost of getting started for registration and administration as we can see in the table below:

Table 5.15 - Cost of Getting Started

REGISTRATION FEES	
PHILIPPINES SECURITIES AND EXCHANGE COMMISSION (SEC)	
Registration of Corporations & Partnerships	Main Fees to be Paid (in Pesos)
<i>Stock Corporations</i>	
Filing Fee	1/5 of 1% of the Authorized Capital Stock or the subscription price of the subscribed capital stock whichever is higher but not less than P1,000.00
Legal Research Fee (LRF)	1% of the Filing Fee but not less than P10.00
By-laws (fixed)	500.00
<i>Non-Stock Corporations</i>	
Filing Fee of Articles of Incorporation	500.00
By-laws	500.00
<i>Partnership</i>	
Articles of Partnership	1/5 of 1% of the partnership's capital but not less than P1,000.00
Legal Research Fee	1% of the Filing Fee but not less than P10.00
BOARD OF INVESTMENTS	
Registration for incentives availment under EO 226	Main Fees to be Paid (In Pesos)
Filing Fees for Application for Registration (under Book 1):	
Project Costs not exceeding P 4 million	1,500.00
Project Costs exceeding P 4 million but not over P 20 million	3,000.00
Project Costs exceeding P 20 million but not over P 50 million	4,500.00
Project Costs exceeding 50 million	6,000.00
Fee for Certificate of Registration	1/10 of 1% of project cost but not less than P3,000.00 and not to exceed P 15,000.00
*/ Subject to increase	
DEPARTMENT OF TRADE AND INDUSTRY (DTI)	
Business Name Registration (Bureau of Trade Regulation and consumer Protection -- BTRCP)	Main Fees to be Paid (In Pesos)
Application Fee	315.00 to 515.00
Single Proprietorship	300.00
Partnership/Corporation	500.00
Documentary stamp	15.00

Sole Proprietorship under FIA	5,800.00
Business Name Registration Fee	300.00
Filing Fee	500.00
FIA Registration Fee	5,000.00
CLARK DEVELOPMENT CORPORATION (CDC)	
1. Registration of Enterprises	
Project Cost not exceeding P 4 million	P 2,000.00
Certificate of Registration & Tax Exemptions	P 2,000.00
Permit to Operate (Annually)	P 1,000.00
Temporary Permit to Operate	P 500.00
2. Processing and issuance of Environmental Compliance Certificate (ECC)	P 300.00
3. Construction	In accordance with the National Building Code by CDC
<i>Note: Regular fees including Clark Special Economic Zone Locations Association shall also be charged to cover expenses for security, road lighting, garbage collection, etc.</i>	

PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)	
I. APPLICATION	
1. Registration of Ecozone Enterprises	
a. Application for New Project (non-pioneer)	P 3,600.00
b. Application for New Project (pioneer)	P 6,000.00
c. application for any Amendments in Registration	P 1,200.00
d. Application for Conversion from Non-Pioneer to Pioneer	P 2,400.00
e. Application for Expansion for Production Capacity	P 2,400.00
2. Registration Fees	
a. Registration for New Projects	P 6,000.00
b. Registration for Expansion of Project - New Project	P 3,600.00
c. Telecom Services and Other Utilities	P 6,000.00 + 10% of monthly gross revenues from operations
d. All other Services Enterprise	P 3,600.00
II. PROCESSING FEES	
Availment of Incentives	
a. Endorsement of 5% Gross Income Tax and of Income Tax Holiday	P 1,200.00
b. Extension of ITH Entitlement Period	P 1,200.00
III. CERTIFICATION / TRUE COPIES	
1. Certificate of Registration	P 120.00
2. Filing approval of application	P 120.00
3. Other Documents	P 120.00

Source: The Official Website of The Republic of the Philippines, Cost of getting started, http://www.gov.ph/faqs/business_gettingstarted.asp, October 12, 2008.

To make it simple, foreign company usually use some local lawyer service to manage this registration and administration. And based on other company experience in year 2004, the cost to open a representatives office would not exceed \$500 including the local lawyer service it self.

5.1.1.6.3 Tax Rate

The country's taxation system is governed by the Tax Reform Act 1997, passed into law on December 11, 1997 and became effective on 01 January 1998. The law was aimed at the expanding the country's tax base and maintaining the healthy fiscal standing of the government.

Table 5.16 - Tax Rate

Corporate Income Tax Rates		
	Domestic/Resident Foreign Corporation	Non-resident Foreign Corporation
Taxable income not subject to special tax rates	35%	35%
Interest from deposits and yield from deposit substitutes/trust funds and royalties	20%	35%
Interest on foreign loans	N/A	20%
Interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system	7.5%	N/A
Dividends from domestic corporations	0	15% / 35%
Gains on sales of shares of stock not traded in the Stock Exchange	5% / 10%	5% / 10%

NOTES:

The rates of tax applicable for corporations entitled to special tax privileges are set out below:

1. The corporate tax rate was increased from 32% to 35% with effect from 1 July 2005 but will be reduced to 30% effective 1 January 2009.
2. The rate is reduced to 7.5% for interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system.
3. The rate of 15% applies if the host country exempts the dividend from tax or permits a 20% or greater credit for underlying corporation tax paid by the company paying the dividend.
4. The 5% rate applies to the first P100,000 of gains annually, with the 10% rate applying to the excess. Stocks of shares in listed companies are subject to a 0.5% tax on the sale proceeds.

ENTITY	RATES	TAX BASE
Proprietary educational institutions and non-profit hospitals	10%	Taxable income
Certain enterprises registered with the Philippine Economic Zone Authority	5%	Gross income
Non-resident owner or lessor of aircraft, machinery and other equipment	7.5%	Gross Philippine rentals, lease, charter fees
Non-resident owners of vessels chartered by Philippine nationals and approved by the Maritime Industry Authority	4.5%	Gross Philippine rentals, lease, charter fees
Non-resident cinematographic film owners, lessors or distributors	25%	Gross Philippine source income
Foreign international carriers (air and sea)	2.5%	Gross Philippine billings
Offshore banking units (OBUs) and foreign currency deposit units (FCDUs) authorized by the Bangko Sentral ng Pilipinas	10%	Income from foreign currency transactions with residents
Regional operating headquarters	10%	Taxable income

Income Tax Rates as Passive Income of Domestic/Resident Corporation	
Dividends received from domestic corporations	Not subject to tax
Interest on any currency bank deposit and yield or other monetary benefit from deposit substitutes and from trust fund and similar arrangements	20% of final tax
Interest from foreign currency deposits with foreign currency deposit units (FCDUs)	7 1/2% of final tax
gains from sale or exchange of shares of stock not listed and traded in the local stock exchange	5% capital gains tax (CGT) on net gains not exceeding P 100,00 and 10% on the excess.
Gains from sale or exchange of land or buildings not actually used in business and treated as capital issue	6% CGT on gross selling price or fair market value, whichever is higher
Royalties	20% final tax

New Taxes for Corporation Under the Tax Reform Act of 1997
Minimum Corporate Income Tax (MCIT) - A 2% MCIT on gross income on an annual basis is imposed on corporations whose regular corporate income tax liability is less than the MCIT beginning the fourth taxable year following the year they commenced business operation. Any excess of the MCIT over the normal tax shall be carried forward and credited against the normal tax for the three (3) immediately succeeding taxable years.
Fringe Benefits Tax - Fringe benefits granted to supervisory and managerial employees are subject to 32% tax on the grossed-up monetary value of the fringe benefit. Fringe benefits given by OBUs regional operating headquarters of multinational companies, petroleum contractors and subcontractors to qualified alien employees and in certain cases, to Filipino employees, are taxed at 15% of the grossed-up monetary value of the fringed benefit.

Improperly Accumulated Earnings Tax - a 10% tax is imposed on the improperly accumulated earnings of a corporation, except in the case of publicly held corporations, banks, and other non-bank financial intermediaries and insurance companies. When a corporation allows its earnings or profits to accumulate beyond its reasonable needs, it shall be assumed that the purpose is to avoid tax on stockholders, unless proven to the contrary.

Individual Taxation	
Non-resident aliens not engage in trade and business flat income tax rate	25%
Resident citizens/aliens (gainfully employed) Graduated income tax rates	0%-35%
Who Shall File:	
1. An individual whose gross compensation income does not exceed his total personal and additional exemptions;	
2. An individual whose compensation derived from one year employer does not exceed P60,000 and the income tax on which has been correctly withheld;	
3. An individual whose income has been subjected to final withholding tax (alien employee as well as Filipino employee occupying the same position as that of the alien employee of regional or area headquarters and regional operating headquarters of multinational companies, petroleum service contractors and sub-contractors, and offshore banking units, non-resident alien not engaged in trade or business), and	
4. An individual who is exempt from income tax.	
Married individuals shall file single return for the taxable year to include the income of both spouses, separately computing their individual income tax based on their respective taxable income. Where it is impracticable for the spouses to file one return, each spouse may file a separate return.	

Tax Table for individuals earning purely compensation income and individuals engaged in business and practice of profession			
If Taxable Income is:	Tax Due is:	If Taxable Income is:	Tax Due is:
Not over P10,000	5%		
Over P10,000 but not over P30,000	P500+10% of the excess over P10,000	Over P140,000 but not over P250,000	P22,500+25% of the excess over P140,000
Over P30,000 but not over P70,000	P2,500+15% of the excess over P30,000	Over P250,000 but not over P500,000	P50,000+30% of the excess over P250,000
Over P70,000 but not over P140,000	P8,500+20% of the excess over P70,000	Over 500,000	P125,000+34% of the excess over P500,000

Note: Effective January 1, 1999, the maximum rate shall be thirty-three percent (33%) and thirty-two percent 32% on January 1, 2000.

Note: When the tax due exceeds P2,000.00, the taxpayer may elect to pay in two equal installments, the first installment to be paid at the time the return is filed and the second installment on or before July 15 of the same year at the Authorized Agent Bank (AAB) within the jurisdiction of the Revenue District Office (RDO) where the taxpayer is registered.

Value Added Tax (VAT)
Sale of goods, other properties, and services in the Philippines, as well as importation of goods to the Philippines, are subject to the 12% VAT. VAT is imposed on the gross selling price (in case of sale of goods) and gross receipts (in case of sale of services).
Stock Transaction Tax
1/2 of 1% of gross selling price is imposed on the sale, barter, exchange or other disposition of shares through the facilities of stock exchange.

Source: Philippine Board of Investments, *Cost of getting started*,

http://www.boi.gov.ph/portal/page?_pageid=113,43683,113_43696:113_53355&_dad=portal&_schema=PORTAL, October 22, 2008)

From the table above, it seems Philippine Tax is bigger than Indonesia's. Philippine, Company Tax is 35% and Value Added Tax is 12%, in Indonesia, Company Tax is 30% and Value Added Tax is 10% (source: Company Internal Data).

If a foreign company wants to expand the market in Philippine without building a new company, to avoid the risk of big cost of getting started and big tax policy, they can open a representative office as the easier and cheaper alternative strategy. A Representative office is foreign corporation organized and existing under foreign laws. It does not derive income from the host country and is fully subsidized by its head office. It deals directly with clients of the parent company as it undertakes such activities as information dissemination, acts as a communication center and to promote company products, as well as quality control of products for export. To open a Representative Office, is required to have an initial minimum inward remittance in the amount of US\$30,000.00 to cover its operating expenses and must be registered with SEC (source: : Philippine Board of Investments, *Cost of getting started*, http://www.boi.gov.ph/portal/page?_pageid=113,43683,113_43696:113_53355&_dad=portal&_schema=PORTAL, October 22, 2008)

5.1.2 Internal Analysis

5.1.2.1 Production Capacity

For a whole, Olympic group can produce 500 to 600 containers per month both for local and export market. It's all produced in PT. CSF as the main factory plus another 10 factory in different area as business units. But for PT. CSF only, since it's trying to focus for export only, the monthly production capacity is as we can see below:

Table 5.17 - Monthly Production Capacity (In container 40" unit)

Factory	Membrane	Plain	Total
Kaum Sari Factory	60	150	210
KBS Factory	40		40
TOTAL	100	150	250

Source: Company internal data, 2008.

This production capacity is very big for Indonesian furniture manufacturer, and based on the company data, it still the biggest among Indonesian panel furniture manufacturers, while the average production capacity of other furniture manufacturer is below 150 containers per month. For membrane products, PT. CSF already uses its all capacity for export. But for plain products, it use only 20% of the capacity for export, the rest capacity goes for local market. That is why PT. CSF want to expand the market is to use all the capacity for export. So, there is still 80% production capacity of plain product or 120 containers per month that actually still available for export, if there is an increasing in export sales. So, the management of PT. CSF do not have to worry to add the production capacity if they want to expand the market in Philippine.

5.1.2.2 Human Resources

To support the target outputs, in 2008, PT. CSF employed more than 2100 employee in 2008. For realizing business challenge facing ahead, in 2009 PT. CSF plan to increase the labor productivity by reducing labor number as shown in the table below:

Table 5.18 - Human Resource Allocation 2008 and 2009 Plan

NO	PLANT	TAHUN 2008			TAHUN 2009		
		DIRECT LABOUR	INDIRECT LABOUR	TOTAL	339 M (MEM 8,85 M ;PROFILE ;4,9 M& LOKAL 7,77M)		
					DIRECT LABOUR	INDIRECT LABOUR	TOTAL REQ MANPOWER
1	PANEL PRODUCTION	774	18	792	801	14	815
2	WRAPPING & MEMBRANE	397	9	406	261	5	266
3	SPECIAL LINE	298	8	306	75		75
4	KBS	205	36	241	250	37	287
5	DEPT. SUPPORT	-			24	148	172
	QA	24	23	47	24	23	
	PPIC		37	37		37	
	ENG		59	59		34	
	WAREHOUSE		52	52		50	
	OPERATION		4	4		4	
	SUB TOTAL	1698	246	1944	1435	204	1615
6	TOTAL NON OPERATION		165	165		156	156
	- DIREKSI		6	6		7	7
	- MI		12	12		12	12
	- PROCUREMENT		9	9		8	8
	- F & A		27	27		25	25
	- HRM & GA		106	106		99	99
	- IT		5	5		5	5
	TOTAL CSF	1698	411	2109	1435	360	1771

Source: Company Internal Data, 2008

As shown in the table above, the significant labor number decrease is happen in wrapping and membrane department, where in 2008 PT. CSF realize that this department does not have efficient labor hours. And also in support department, the labor number will decrease since the company try to socialize job enrichment and job enlargement for each levels.

Since basically PT. CSF is manufacturing company, they are lack of capable human resources to go abroad to do sales and marketing activities. But

PT. CSF is one of the Olympic Group company who also have PT. CASMI as local trading companies. With years of experience in local furniture market, PT. CASMI have many experienced professional in furniture trading, and some of the are fluent in English and well educated. PT. CSF can easily ask to PT. CASMI through the holding company (Olympic Group) if they need additional professional to go abroad.

5.1.2.3 Marketing Strategy

Since 2006, PT. CSF use one single agent in Dubai for Middle East and Africa market (New Al Dheid Furniture (NAD) owned by an Arabian Mr. Naseer and it represent almost 90% of the PT. CSF export volume), many of Middle East and African buyers that was had good relationship with PT. CSF, have to buy from NAD in Dubai since the agreement signed.

At first, this strategy seems so smooth and brings a lot benefit for PT. CSF. There's no need to handle many buyers from Africa and Middle East, it means to reduce time and energy to manage the administration and selling activity for many buyer to become only one buyer. The sales volume increases significantly from 2006 to early 2008.

In the middle 2008, PT. CSF realize the risk of depending the 90% of export volume to one buyer, they realized the urgent needs of expanding the market. So, PT. CSF tried to find new ways to expand the market, especially outside the Middle East and African market.

5.1.3 Strategy Analysis

Based on External and Internal analysis above, the Opportunities and Threats for PT. CSF in expanding market in Philippine and the Strength and Weakness faced by PT. CSF are:

1. Opportunity
 - a. There is big market in Philippine worth \$40 million per year

- b. The competition is quite heavy but not heavy as in Indonesia
- c. There are hundreds of Philippine furniture importer that not reached yet by PT. CSF
- d. Most of the existing buyers of PT. CSF are located in Metro Manila, there is chance to expand the market to other city and other provinces directly.
- e. There are no strong furniture brands in Philippine. Most of the consumers or even retailers only know the country's source of the furniture.
- f. The cost to open a Representative Office is not too significant for business

2. Threat

- a. Competitor from Malaysia and Thailand, and Indonesia it self try to get more penetrated to Philippine panel furniture and makes the panel furniture market get saturated.
- b. The oil price goes up significantly and make the freight cost increase. It will make Malaysian products get cheaper since the distance between Indonesia to Philippine is farther than Malaysia to Philippine.
- c. The global warming issues become hotter and make harder to get wood from Indonesian forest. It will make particle board price as the main material become more expensive.
- d. The average Term of Payment of Philippine Importers give to the furniture retailers is 120 to 150 days. It will be too risky and costly for foreign company to sell the products directly to furniture retailers.

3. Strength

- a. Olympic Brand is well known in Indonesian market and many of the Philippine furniture retailers know the Olympic products and trusted the quality, that's why many of the retailers and consumers assume that Olympic is for middle to up market segment even though in Indonesia it self Olympic is for middle to low market segment.
- b. Production capacity is big and ready to support PT. CSF to expand the Philippine market.
- c. PT. CSF has realized the urgent needs of expanding the market

4. Weakness

- a. PT. CSF only have three main buyer in Philippine, and they are all located in Metro Manila, not spread in difference provinces.
- b. There are no buyers who give full support to PT. CSF, they just buy the product because it's cheap or good quality and design, not because they have to.
- c. PT. CSF only visited Philippine market and buyers for one or twice a year, for three to four days. That is not enough to build strong business relationship to those buyers and would not be able to have deeply knowledge of the Philippine panel furniture market and its demands.

By considering the SWOT factors above, there are some strategies that PT. CSF can build based on the SWOT analysis as shown in the table below:

Table 5.19 - SWOT Matrix

<p style="text-align: center;">Internal Analysis</p> <p style="text-align: center;">External Analysis</p>	<p><u>Strength</u></p> <ol style="list-style-type: none"> 1. High Quality perceived brand and assumed for middle to up segment 2. Big Production Capacity 3. Management realized the urgent of expanding the market 	<p><u>Weakness</u></p> <ol style="list-style-type: none"> 1. PT. CSF only have three main buyers 2. PT. CSF do not have full commitment of the buyers 3. Lack of market visit and relationship with buyers 4. Many of PT. CSF products cannot cope with Philippine taste
	<p><u>Opportunity</u></p> <ol style="list-style-type: none"> 1. Big market worth \$40 million per year 2. The competition is lighter than in Indonesian market 3. There are hundreds of furniture importers not entered yet 4. There are big market outside existing buyer's location 5. There are no strong local furniture brands 6. The cost to open a Representative office is not significant 	<p><u>S-O Strategy</u></p> <ol style="list-style-type: none"> 1. Open a Representative Office in Manila with all Philippine coverage area. 2. Build Olympic brand by aggressive promotion by ads or exhibitions 3. Find and approach new buyers outside Metro Manila
<p><u>Threat</u></p> <ol style="list-style-type: none"> 1. Competitor from Malaysia, Thailand and Indonesia it self 2. Material price increase significantly 3. long Term of Payment for the retailers will be very risky 	<p><u>S-T Strategy</u></p> <ol style="list-style-type: none"> 1. Avoid long term of payment by selling only to big importers, not directly to retailers 2. Focus on cost efficiency in production 3. Make long term agreement with the particle board suppliers 	<p><u>W-T Strategy</u></p> <ol style="list-style-type: none"> 1. Make exclusivity agreement with some buyers 2. Patent right for fast moving items design

5.1.3.1 Strength – Opportunities (S-O) Evaluation

There is a big panel furniture market in Philippine, but it was seems so hard to penetrate deeper for PT. CSF. By open a representative office, PT. CSF will have more ability to access the market. Simple representative office is suitable for PT. CSF in Philippine. Just send one capable person from PT. CSF

and recruit one or two experienced local salesman and one for administration. This way is commonly used by other Indonesian company in Philippine such as Kopiko.

Actually, there are another ways to expand the market in Philippine such as Private Label or License. But PT. CSF policy is not allowed Export Department to sell any product with Private Labels except to Europe or Japan Area can only be by no brand. This due happen because PT. CSF vision to build Olympic name as well known furniture brand in the world, and as a first step, PT. CSF already got Primaniyarta Award from Presiden Republik Indonesia for Indonesian Company who build global brand.

PT. CSF vision for Philippine market in the future is to have own branches like here in Indonesia, where every branches do marketing and sales activity and so the stock and distribution. So, that's why a representative office is a favorable alternative for PT. CSF because it will be easier to develop a branch starting from a representatives office rather than using the other way a starter.

There are many imported furniture in Philippine, but none of them have strong brand. This due happen because most of the furniture businessman in Philippine think only selling, not marketing. There were few importer tries to build brand but they stopped because the short time result is zero. This is normal because we know that marketing need great effort, cost and time.

Ligna and Olympic is very well know furniture brand in Indonesia. One of the reasons is because they are the first furniture company in Indonesia who are doing aggressive advertising in national television. For long term, PT. CSF can do the same say for Philippine market, but since the cost would be very high, PT. CSF can start by doing aggressive exhibition is many malls in Philippine and make some local radio ads. This way is very efficient and have significant result in Indonesia, but in Philippine this way in not familiar for furniture market. So, PT. CSF can be the first to try in Philippine aggressively and got the benefit from being the first.

5.1.3.2 Strength – Threat (S-T) Evaluation

A representative office is not allowed to do any business transaction to the local buyers or any other parties. All the transaction must be made by PT. CSF in Indonesia itself, a representative office only doing its function as a connector for PT. CSF to other parties in Philippine. So, a representative office is to handle the marketing and selling activities in Philippine, but when it comes to transaction, it must through PT. CSF in Indonesia. The payment terms of PT. CSF use for Philippine buyers are Transfer before Shipment or using Letter of Credit (LC). So, it is not allowed for the representative office to sell to small retailer by using Term of Payment.

Malaysia has distance competitive advantage compare to Indonesia for export to Philippine. Shorter distance means cheaper freight cost. But Indonesia has also competitive advantage compare to Malaysia, it's the cheaper labor cost. Making production more efficient will reduce the cost and make PT. CSF products more competitive.

Particle board price is not always stable, many times it follow oil price, and many time it's hard to get n the market. So, there a lot of uncertainty also in particle board price and supply. To reduce this uncertainty, it will be wiser for PT. CSF to make some contract with the particle board supplier with constant price and guaranteed supply.

5.1.3.3 Weakness - Opportunities (W-O) Evaluation

The purpose of business is to earn profit. The most common way to boost the sales is by using sales contract between PT. CSF with each of the buyers. Additional sales growth 20% to 40% is reasonable target for this sales contract, of course PT. CSF should put an interesting additional discount and or additional incentive in the buyers succeed to reach the targeted sales. Attractive incentive can be cash money, goods, vacation or other services.

By open a representative office, PT. CSF will have many opportunities to visit the buyers frequently. In Asian culture, personal relationship sometime is

more important than just a business relationship. By visiting frequently, not only to give more service and assistant to solve some problems, this way can build a close personal relationship between PT. CSF ambassador with the buyers. Close relationship also will open communication widely. PT. CSF will get more inputs from buyers what product should sell and how. This way is far more efficient than to do market survey alone to find this information.

By open representative office, PT. CSF also will have a lot of time to visit new market in all potential provinces in Philippine. PT. CSF can meet some retailers and whole seller to persuade them to buy PT. CSF products through existing buyers, or if they demand big quantity and willing to pay according to PT. CSF requirement, they can buy directly and become new buyers.

5.1.3.4 Weakness - Threat (W-T) Evaluation

Buyers are freely to buy products from any suppliers from any countries, there is no agreement preventing them to do that. If PT. CSF can make exclusive agreement for some buyers, it will force the buyers to buy panel furniture product only from PT. CSF, but they will demand more for compensation such as area exclusivity, items, or brand exclusivity.

Basically, all panel furniture is easy to make. New designs can be easily copied and available in the market. That's why a lot of furniture manufacturer don't want to invest their money on brand or promotion of new items, because developing new design means cost, but the result can be easily copied by other. So, to patent right is become important for PT. CSF to protect fast moving items from being copied by competitors.

5.2 NPV and Other Investment Analysis

5.2.1 Net Present Value

As discussed in chapter 2, to calculate NPV we need to calculate the required rate of return first.

$$R_e = R_F + \beta \times (R_M - R_F)$$

Where:

R_e = Cost of Equity

R_F = Risk – Free Rate

β = The company beta

$R_M - R_F$ = Market Risk Premium

Source: S.A. Ross, R.W. Westerfield, J. Jaffe, & B.D. Jordan, *Modern Financial Management*, 2008, p. 162

Risk Free Rate (R_F) based on interest rate of SBI is 10.23% (source: Bank Indonesia, Suku Bunga Sertifikat Bank Indonesia, <http://www.bi.go.id/web/id/Moneter/Suku+Bunga/Suku+Bunga+SBI/>, January 19, 2009). Based on Country Default Spreads and Risk Premiums data, the Market Risk Premium for Philippine is 14.75% (source: New York University, Leonard N. Stern School of Business, Country Default Spreads and Risk Premiums, http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html, January 19, 2009). Since PT. CSF is not public listed company, in this business plan we use β from other similar furniture company from China, where $\beta = 0.33$ (source: Yahoo Finance, Stanley Furniture Co. Inc. <http://sg.finance.yahoo.com/q/ks?s=STLY>, January 19, 2009). Then, the discount rate can be calculated as follows:

$$R_e = 10.23 \% + (14.75 \% \times 0.33) = 15.0975\%$$

So, the discount rate is 14.48 %. To calculate NPV, we must calculate the projected income statement and projected cash flow (see Appendix 2 for the cost budget).

PT. CSF use The Jury Technique to forecast sales in Philippine using Representative office. Three experts in Export Department of PT. CSF are gathered to discuss the sales forecast in Philippine after long discussion. The youngest of them has experience in furniture industry more than six years while the senior has experience more than 12 years, and all the expert members know and already visit the Philippine market. The sales forecast result is as we can see in the table below:

Table 5.20 - Projected Income Statement (in US \$)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Sales		800,000	960,000	1,152,000	1,382,400	1,658,880
COGS		<u>(640,000)</u>	<u>(768,000)</u>	<u>(921,600)</u>	<u>(1,105,920)</u>	<u>(1,327,104)</u>
GM Value	-	160,000	192,000	230,400	276,480	331,776
Initial Investment	(34,650)					
Operational Cost	-	(88,230)	(65,868)	(72,455)	(79,700)	(79,700)
Marketing Cost	-	(69,600)	(43,200)	(51,840)	(62,208)	(74,650)
Sales Program	-	(24,000)	(66,660)	(73,326)	(80,659)	(88,724)
Depreciation	=	<u>(930)</u>	<u>(930)</u>	<u>(930)</u>	<u>(930)</u>	<u>(930)</u>
EBIT	(34,650)	(22,760)	15,342	31,849	52,983	87,772
Tax (30%)	=	<u>6,828</u>	<u>(4,603)</u>	<u>(9,555)</u>	<u>(15,895)</u>	<u>(26,331)</u>
EAT	(34,650)	(15,932)	10,739	22,294	37,088	61,440

Table 5.21 - Projected Cash Flow (in US \$)

EAT	(34,650)	(15,932)	10,739	22,294	37,088	61,440
Depreciation	<u>0</u>	<u>930</u>	<u>930</u>	<u>930</u>	<u>930</u>	<u>930</u>
Cash Flow	(34,650)	(15,002)	11,669	23,224	38,018	62,370

Table 5.22 - Net Present Value (in US \$)

T	Year	Cash Flow	PV Calculation	PV
0	2008	(34,650)	(34,650) / 1.150975 ⁰	(34,650)
1	2009	(15,002)	(15,002) / 1.150975 ¹	(13,034)
2	2010	11,669	11,669 / 1.150975 ²	8,809
3	2011	23,224	23,224 / 1.150975 ³	15,232
4	2012	38,018	38,018 / 1.150975 ⁴	21,663
5	2013	62,370	62,370 / 1.150975 ⁵	30,878
Total NPV				28,898

Based on the Net Present Value Rule as discussed in chapter 2, if the NPV > 0, the company should accept the project. Since the NPV for this project is greater than 0, PT. CSF should take the investment.

5.2.2 Internal Required Rate of Return

The IRR of an investment is the required return that results in zero NPV when it used as the discount rate. The IRR is calculated by trial and error as shown below:

Table 5.23 - Interest Rate of Return

Discount Rate	NPV
15.10%	28,898
25.00%	8,717
30.00%	1,395
31.08%	0

The IRR of the project is 31.08%. Based on the IRR rule discussed in chapter 2, PT. CSF should take this project since the IRR exceed the required return which is 15.0975%.

5.2.3 Payback Period

The payback period calculation is as shown below:

Table 5.24 - Payback Period (in US \$)

T	Year	Projected Cash Flow	Cummulative Cash Flow
0	2008	(34,650)	(34,650)
1	2009	(15,002)	(49,652)
2	2010	11,669	(37,983)
3	2011	23,224	(14,758)
4	2012	38,018	23,260
5	2013	62,370	85,630

$$\begin{aligned}
 \text{Payback Period} &= \text{Year before full recovery} + \left(\frac{\text{uncovered cost at start of year}}{\text{Cash flow during the year}} \right) \\
 &= 3 + (14,758 / 38,018) \\
 &= 3.39
 \end{aligned}$$

So, the payback period for this project is 3.39 years. To accept or reject project based on pay back period, it depends on the company's maximum desired payback period. Based on the company internal data, the maximum desired payback period is 5 years. So, since the pay back period of this project is less than 5 years, PT. CSF should accept this project.