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# A Taste of the Future: ASEAN Milk Sweets Distribution in Pangasinan, Philippines

As he turned the page on his calendar to March 2016, Emer Co realized that the company he had founded, Pronto Distributor, was about to celebrate its ninth year in business. It had been a long, fascinating journey.

As he reminisced, his phone rang. One of his Southeast Asian suppliers was on the line. The supplier asked Co if they could meet in a few hours. Co replied that he was available and suggested meeting for dinner. After he hung up the phone, Co became anxious. He wondered why this supplier, UNIFAM, was suddenly asking for a meeting, He had rarely spoken with the supplier over the four years they had been doing business together.

## Pronto Distributor

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### Background

Pronto Distributor was incorporated in 2007, with the objective of distributing quality products while achieving profitability. Emer Co established the company with friends who each had experience in different areas: marketing and brand development, key accounts management, manufacturing, and distribution management.<sup>1</sup>

In 2006, Co and his friends were working for a local manufacturing company when they got the idea for distribution as a way to earn extra income. In 2007, Pronto became more than just an idea as opportunity knocked on the door of these friends. Consumer goods company Rogemson was looking for a

new distributor for the provinces of Pangasinan, La Union and Baguio. Soon what had been an idea became a plan. The plan turned into reality and there was no turning back.<sup>2</sup>

Starting with just three delivery trucks, fewer than 10 employees, a warehouse and an office in April 2007, the company was able to achieve Php 5 million<sup>i</sup> (USD 100,672) in sales each month sales after just 18 months of operation.<sup>3</sup>

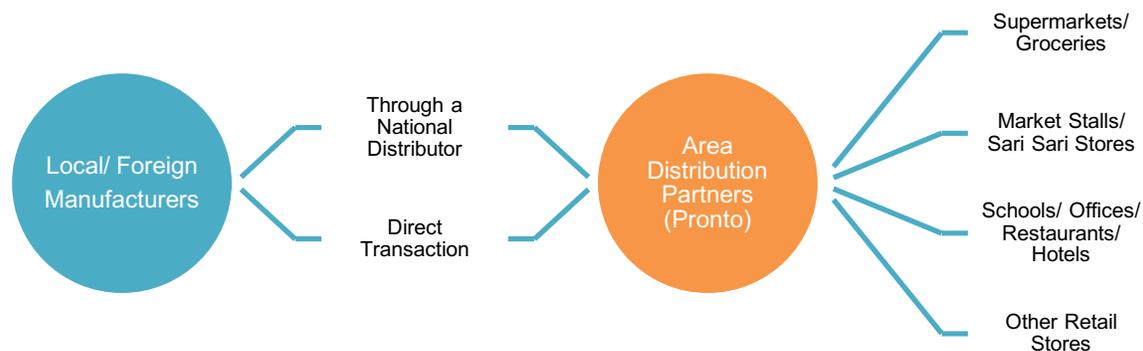
In 2016, Pronto had more than 100 employees, supplied to more than 4,000 stores primarily in the province of Pangasinan along with La Union and Benguet, and was a distribution partner for 12 suppliers handling more than 20 product categories in Food, Beverage, Confectionery, Detergents, Canned Goods and Commodities. It was considered as a medium size enterprise.<sup>4</sup>

### Area Distribution Partners (ADPs)

The business was located in Dagupan City and operated as an Area Distribution Partner (ADP) of manufacturers and national distributors, who were also known as principals. In a supply chain, Pronto, as an ADP, was the entity that ensured that products were available to choose or targeted retail stores. (See Figure 1 for a diagram of Pronto's role and position as a distribution partner.) Pronto worked with local and foreign manufacturers to distribute their products.<sup>5</sup>

Figure 1

Flow of Goods from Supplier to Retailer



Source: Interview with Emer Co, founder, Pronto Distributor, 5 May 2016

ADPs were hired to manage distribution in specific provinces and territories across the country. ADPs earned a distribution discount ranging from 8% to 15% of the total value of the stock purchased from National Distributors and Manufacturers.<sup>6</sup>

ADPs were chosen by principals after a selection process. Thereafter, the ADP signed a contract, detailing the services to be provided and other terms and conditions. A typical ADP had the following responsibilities:

- Study demand of products, design a coverage strategy, and assign appropriate sales operations to cover retailers
- Distribute products to retailers within the assigned geographical territory

<sup>i</sup> The Forex rate of 1 USD=49.7 PHP as of November 19, 2016 has been used in this and all subsequent USD/PHP conversions <http://www.xe.com/currencyconverter/convert/?From=USD&To=PHP>

- Deliver sales orders promptly and accurately
- Provide necessary credit to retailers
- Place orders and maintain a required level of inventory
- Provide and maintain appropriate storage facilities
- Promote brands as deemed necessary.<sup>7</sup>

## Pronto Distributor's Sales Operations

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Pronto's sales operations comprised book salesmen, tricycle salesman, and mosquito salesmen, as described below.<sup>8</sup>

### Booking Salesmen

Typically used for covering supermarkets and groceries, a booking salesman negotiated and took orders from retail outlets and a separate logistics team using trucks to deliver at a later agreed-upon date. Pronto had a fleet of trucks to deliver for the booking salesmen.

### Tricycle Salesmen

Using a motorcycle with a side car, a tricycle salesman brought along with him the products and covered an assigned territory (usually a highly populated barangay). He usually took orders and delivered to retail outlets simultaneously. Pronto had more than 10 tricycle fleets. Procurement of additional ones would take a while due to customization of these vehicles.

### Mosquito Salesmen

Using a motorcycle with a specially designed compartment, a mosquito salesman usually covered small areas to secure new accounts (sales development). Since the compartment capacity was limited, sales was not the primary objective for this operation; rather, the purpose was to seed or introduce products. Pronto did not have the motorcycles for this operation because there had been no need for it in recent years, but procurement was inexpensive and easy.

## Pronto's Supplier: UNIFAM

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UNIFAM Philippines was one of Pronto's Southeast Asia based suppliers, formed as a joint venture between distributing company Global Noble International Corporation (GNIC) and UNIFAM-Indonesia. The latter was an Indonesian-based confectionery company whose Unican products, particularly Milkita Lollipops and Candies, were currently the market leaders in their respective categories. The two companies had worked as principal and distributor since 2007, and they formed the joint venture in 2014 to concentrate solely on distributing the Unican / Milkita product line starting September 2014.<sup>9</sup>

In turn, Pronto and UNIFAM Philippines had been partners since 2010 and had a distributorship agreement to cover for the whole province of Pangasinan.

When Emer met with the representative from UNIFAM for dinner following the representative's call, the representative asked him: "Emer, are you happy with our business and where we are right now? "Do you have plans moving forward?" This puzzled Co. He had to pause and think about how to best answer these questions.

## Regional Economic Performance

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### ASEAN Economic Community

Co felt nostalgic as he recalled the time when he was still starting the business, first with one local supplier and now with 27, distributing products both from local and foreign sources. As he went through his numbers, it hit him that his business benefitted from the Association of Southeast Asian Nations (ASEAN) Free Trade Agreement<sup>ii</sup>, since his business from Southeast Asia made up about 22% of his business.

Source of Goods	Share of Sales
China	1%
ASEAN	22%
Philippines	77%

Source: Interview with Emer Co, founder, Pronto Distributor, 5 May 2016

The center of global economic activity was shifting toward Asia. Within Asia, it was gravitating toward the two giant economies of the People's Republic of China and India. Their emergence as economic superpowers suggested that "economic size" bestowed significant advantage in accelerating growth and fostering development.<sup>10</sup>

The Association of Southeast Asian Nations was in the process of creating a single market and production base, called the ASEAN Economic Community, which would allow the free flow of goods, services, investments, and skilled labor, and the freer movement of capital across the region. This was envisioned to be in place by 31 December 2015.<sup>11</sup>

If the ASEAN were one economy, it would be seventh largest in the world, with a combined gross domestic product of \$2.4 trillion in 2013. It could be fourth largest by 2050 if growth trends continued.<sup>12</sup>

With over 600 million people, ASEAN's potential market was larger than the European Union or North America. Next to the People's Republic of China and India, ASEAN has the world's third largest labor force that remains relatively young.<sup>13</sup>

The ASEAN Economic Community was founded on four basic initiatives: creating a single market and production base; increasing competitiveness; promoting equitable economic development; and further integrating ASEAN with the global economy.<sup>14</sup>

### Province of Pangasinan

Pronto was located in Pangasinan, the west central area of the island of Luzon in the Philippines. The province had a population of just under 3 million in 2015 and was the third most populous province in the Philippines as well as the richest province in Ilocos Region of the Philippines, with export earnings of roughly \$5.5 million.<sup>15</sup>

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ii As of November 21, 2016, the 10 member states were: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. [<http://asean.org/asean/asean-member-states/>]

## The Philippine Confectionery Market

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### Overview

The Philippines economy had a growing middle class population with rising disposable income and a high proportion of young consumers, which drove the demand for the purchase of impulse products such as confectionery. While sugar confectionery was the largest category, gum recorded the fastest growth rate in the Philippines confectionery market in 2015.<sup>16</sup>

### Forecast

The confectionery market in the Philippines was forecast to register moderate growth during 2013-2018, providing limited opportunities for manufacturers to innovate and introduce new products in the market. Although gum was the fastest growing category, the overall market was driven by the sugar confectionery and chocolate categories.<sup>17</sup>

Hypermarkets & supermarkets were the preferred distribution channel for confectionery products, with demand driven product innovation and imported brands.<sup>18</sup>

### Trends

The Filipino confectionery market was mature. However, factors such as a large young population and impulse purchases after a hectic day kept the demand for confectionery products growing, albeit at a moderate pace. With a rise in awareness, health emerged as a major trend in the country, and confectionery manufacturers responded by introducing healthy and functional varieties.

### Milkita Milk Candy and Lollipops

Milkita candy and lollipops, made with fresh real milk, were marketed as the original milkshake candy. With one-third less sugar than other leading candy brands, Milkita's calcium-rich Milkshake Candy and Lollipops were touted as a healthier alternative to more sugary candies. The candies combined milk with familiar flavors like chocolate and strawberries as well as South East Asian flavors like banana and melon.<sup>19</sup>

## Which Way to Grow?

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Since Pronto's supplier, UNIFAM, had already initiated talks to ask for more growth and how to drive sales, Co knew he needed to be proactive and should propose a plan for how Pronto could achieve more sales.

Following the confectionery market trends, Pronto had ensured that Milkita was available in all major supermarkets and groceries in Pangasinan. The bulk of its sales for the past years had been greatly driven by these channels.

As he thought about how to build sales volume, Co realized that the confectionery segment was highly impulsive, and that he could expand beyond supermarkets and grocery stores to other channels. Specifically, he wanted to ensure that Milkita would be available where its main target markets — teens and young adults -- were. Therefore, the very strong channels where these target markets could be captured were in schools and universities.

Looking at the data, Emer saw that Pronto was actually covering very few of the total potential 1,185 elementary schools in the province. So, this market was where Emer and Pronto could focus efforts

for the rest of the year. In addition, the K-12<sup>iii</sup> program of the Philippine Department of Education added two more years to the basic education program in the country, thus adding more students concentrating in each school, whether it was a Public or a Private school.

With the school year in the Philippines starting every June and ending every March. Emer had less than two months to prepare for a course of action to cover more schools to improve on the current performance of his Milkita Business.

Emer would need to determine how he would prioritize the expansion given the sheer number of schools to cover. In addition, what kind of sales operation should the company use to cover these schools? Should he use the booking salesmen or should he use the mosquito operations using or tricycles? What additional costs would be involved in the operations? What particular products should he introduce to these prospective customers? At what volume could he achieve break-even on a daily basis for each operation? Emer had many decisions he needed to make as he prepared to present his plan to UNIFAM.

### Exhibit 1

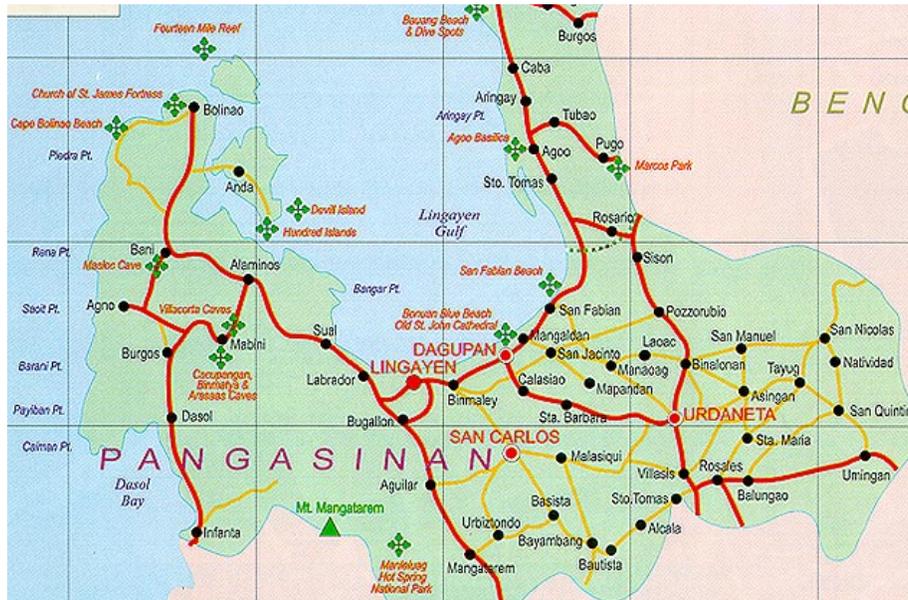
#### Summary of Pro's and Con's

Sales Operations	Pros	Cons
Booking	<ol style="list-style-type: none"> <li>1. More quality Sales Calls</li> <li>2. Can be co-loaded with other products</li> </ol>	<ol style="list-style-type: none"> <li>1. Delivery Lead Time</li> <li>2. Manpower and costs involved in Delivery of Products</li> </ol>
Tricycle	<ol style="list-style-type: none"> <li>1. Can scour and reach the remote barangays/ villages</li> <li>2. Delivery of products is simultaneous with the sales call</li> <li>3. In-vehicle stock inventory</li> <li>4. Limited manpower needed since no delivery team required</li> </ol>	<ol style="list-style-type: none"> <li>1. Distant destinations can take time to reach</li> <li>2. Since vehicle is modified it is subject to constant repairs and maintenance</li> </ol>
Mosquito	<ol style="list-style-type: none"> <li>1. Can reach the farthest barangays due to mobility</li> <li>2. Limited manpower needed since no delivery team required</li> </ol>	<ol style="list-style-type: none"> <li>1. Limited stock inventory due to the size of the compartment</li> </ol>

iii The K to 12 Program covers 13 years of basic education with the following key stages: Kindergarten to Grade 3, Grades 4 to 6, Grades 7 to 10 (Junior High School), and Grades 11 and 12 (Senior High School)

**Exhibit 2**

Map of the Province of Pangasinan



Source: AsiaTravel. Map of the Province of Pangasinan. Retrieved November 5, 2016, from <http://www.asiatravel.com/philippines/pangasinanmap.html>

**Exhibit 3**

Pronto's Truck Fleet for Delivery of Booking Sales



Source: Author's Photo, May 2016

**Figure 4**

Pronto's Tricycle Fleet



Source: Author's Photo, May 2016

**Exhibit 5**

Milkita Products



Source: Author's Photo, May 2016

**Exhibit 6**

Milkita Warehouse Storage



Source: Author's Photo, May 2016

**Exhibit 7**

**Milkita Price List**

Product	SKU	Case		LP VAT-In		SRP
SKU	Size	Pack	PC	CS	PC	
<b>United Family Philippines</b>						
<b>Milkita Milk Lollipop</b>						
Assorted Bag	Bag	20	15	960.00	48.00	51.00
Assorted Jar	Jar	6	50	960.00	160.00	170.00
Assorted Pack	Pack	6	50	900.00	150.00	157.50
Assorted Jar	Jar	6	80	1,512.00	252.00	264.00
Assorted Hanger	Hanger	4	30	468.00	117.00	123.00
Chocolate Lolipop Bag	Bag	12	10	396.00	33.00	35.00
Strawberry Lolipop Bag	Bag	12	10	396.00	33.00	35.00
Melon Lolipop Bag	Bag	12	10	396.00	33.00	35.00
<b>Milkita Milk Candy</b>						
Original Bag	Bag	20	30	408.00	20.40	21.30
Melon Bag	Bag	20	30	408.00	20.40	21.30
Chocolate Bag	Bag	20	30	408.00	20.40	21.30
Strawberry Bag	Bag	20	30	408.00	20.40	21.30
Assorted Bag	Bag	8	125	660.00	82.50	86.25
Assorted Jar	Jar	6	200	852.00	142.00	150.00
Original Hanger	Hanger	20	30	408.00	20.40	21.30
Melon Hanger	Hanger	20	30	408.00	20.40	21.30
Chocolate Hanger	Hanger	20	30	408.00	20.40	21.30
Strawberry Hanger	Hanger	20	30	408.00	20.40	21.30
Assorted Hanger	Hanger	20	30	408.00	20.40	21.30

Source: Pronto Distributor. Product Price List. Dagupan City, Pangasinan, Philippines. Retrieved November 7, 2016

**Exhibit 8**

**Manpower and Costs per Operations**

Sales Operations	Manpower Required	Costs
Booking	1 Salesman 1 Delivery Truck Driver 1-2 Delivery Helpers	Salary and Benefits Meal Allowances Incentives Transportation Allowance Fuel Costs Repairs and Maintenance Insurance
Tricycle	1 Salesman	Salary and Benefits Meal Allowances Incentives Fuel Costs Repairs and Maintenance Insurance
Mosquito	1 Salesman	Salary and Benefits Meal Allowances Incentives Fuel Costs Repairs and Maintenance Insurance

Source: Interview with Emer Co, founder, Pronto Distributor, 5 May 2016.

**Exhibit 9**

**Roundtrip Fuel Consumption in Liters**

Town	Roundtrip	Truck	Tricycle/ Motorcycle
Alcala	95.70	11.6	6.4
Basista	64.00	7.8	4.3
Bayambang	79.30	9.6	5.3
Binmaley	33.10	4.0	2.2
Bonuan	37.70	4.6	2.5
Calasiao	15.20	1.8	1.0
Dagupan	10.60	1.3	0.7
Malasiqui	50.10	6.1	3.3
Manaoag	54.00	6.5	3.6
Mangaldan	36.10	4.4	2.4
Mapandan	45.20	5.5	3.0
Maticmatic	42.50	5.2	2.8
San Carlos	43.40	5.3	2.9
San Fabian	64.20	7.8	4.3
San Jacinto	44.90	5.4	3.0
Santa Barbara	32.50	3.9	2.2
Agno	168.00	20.4	11.2
Aguilar	85.10	10.3	5.7
Alaminos City	116.00	14.1	7.7
Anda	190.00	23.0	12.7
Bani	145.00	17.6	9.7
Bolinao	184.00	22.3	12.3
Bugallon	68.00	8.2	4.5
Burgos	161.00	19.5	10.7
Dasol	174.00	21.1	11.6
Infanta	213.00	25.8	14.2
Labrador	63.60	7.7	4.2
Mabini	136.00	16.5	9.1
Mangatarem	100.00	12.1	6.7
Sual	89.50	10.8	6.0
Urbiztondo	74.50	9.0	5.0
Asingan	92.90	11.3	6.2
Balungao	114.00	13.8	7.6
Binalonan	83.60	10.1	5.6
Natividad	136.00	16.5	9.1
Pozorrubio	69.10	8.4	4.6
Rosales	100.90	12.2	6.7
San Manuel	100.10	12.1	6.7

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Town	Roundtrip	Truck	Tricycle/ Motorcycle
San Nicolas	130.00	15.8	8.7
San Quintin	136.00	16.5	9.1
Santa Maria	104.20	12.6	6.9
Tayug	118.00	14.3	7.9
Umingan	141.00	17.1	9.4
Urdaneta	69.20	8.4	4.6
Villasis	87.10	10.6	5.8

Source: Interview with Emer Co, founder, Pronto Distributor, 5 May 2016

**Exhibit 10**

**Enrollment Data Public Elementary Schools in Pangasinan SY 2015- 2016**

Town	Number of Elementary Schools	Enrolled Students
Pangasinan	1,185	441,793
Agno	18	4,412
Aguilar	17	7,038
Alcala	16	6,177
Anda	21	6,431
Asingan	19	7,402
Balungao	18	3,789
Bani	29	7,639
Basista	10	5,587
Bautista	11	5,034
Bayambang	49	18,926
Binalonan	22	7,405
Binmaley	29	12,141
Bolinao	34	13,992
Bugallon	28	11,533
Burgos	15	2,621
Calasiao	27	12,968
City Of Alaminos	37	14,142
City Of Urdaneta	45	20,002
Dagupan City	34	23,409
Dasol	17	4,536
Infanta	15	4,262
Labrador	9	3,348
Laoac	14	4,254
Lingayen (Capital)	32	16,070
Mabini	18	3,828
Malasiqui	54	20,989
Manaoag	17	9,426
Mangaldan	25	15,108
Mangatarem	47	11,941
Mapandan	12	5,208
Natividad	18	3,550
Pozzorubio	27	9,788
Rosales	29	8,705
San Carlos City	58	30,297
San Fabian	29	12,045
San Jacinto	16	6,172
San Manuel	23	6,703
San Quintin	16	5,236
Santa Barbara	26	11,750
Santa Maria	17	4,771
Santo Tomas	4	2,028
Sison	27	6,638
Sual	19	5,624
Tayug	17	5,751
Umingan	44	10,038
Urbiztondo	22	8,954
Villasis	22	9,048

Source: Department of Education - Philippines. December 2015 Retrieved from <http://www.deped.gov.ph/datasets>

## Endnotes

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- 1 Excerpt from Pronto Distributor's Profile
- 2 Excerpt from Pronto Distributor's Profile
- 3 Excerpt from Pronto Distributor's Profile
- 4 Excerpt from Pronto Distributor's Profile
- 5 Interview with Emer Co, founder, Pronto Distributor, 5 May 2016.
- 6 Interview with Emer Co, founder, Pronto Distributor, 5 May 2016.
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