



Asia-Pacific  
Economic Cooperation

## MEI HAO – ENTREPRENEUR

Stephanie “Mei” Hao fidgeted in her seat as she waited for her name to be called. It had been almost twenty years since she last did this. After 18 months of studying, Mei was about to graduate from the Master in Entrepreneurship program of the Asian Institute of Management. A successful entrepreneur in the field of garments trading and manufacturing, Mei’s graduation from the ME program was but another feather on her cap. But more importantly, her learnings from the program had given her new directions and new opportunities for growth.

### A young entrepreneur in the making

Mei’s fascination for entrepreneurship and business started at a very early age. “While most of the kids my age were playing with dolls and dollhouses, I was interested in playing with a toy cash register that my mom gave me,” Mei recalled. “When we played, I usually played the role of the store owner and I collected paper money for toy merchandise,” she added.

As the years passed, she became less and less interested in playing with toys and more and more fascinated with making real money. At the age of seven, Mei and her sister Mylene decided to sell candies and sweets to the neighborhood children to earn money during the summer months. Because it was summer, they did not receive the usual allowances from their parents. They pooled their savings to create an initial fund for buying their merchandise. They scoured the Divisoria<sup>1</sup> market for the cheapest possible source of candies and sweets and sold these at a profit to the neighborhood kids. At this stage of the business, Mei realized that the kids were not buying enough candies. “I had to devise a way to make my customers stay and buy

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<sup>1</sup> Divisoria is considered the largest wholesale market located in the heart of Manila, Philippines where major wholesalers and traders converge to sell various goods ranging from agricultural produce, textiles and garments, plasticware, office ware, small appliances, toys and almost anything else. Divisoria is a haven for bargain hunters, small traders and retailers since it is one of the cheapest sources of supply of products to sell or raw materials to process or manufacture into other finished goods.

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more of our goods,” Mei thought. Creativity delivered the answer. Getting more money from their savings, Mei bought some comic books from the local bookstore and rented them out to the neighborhood kids on the condition that they should be read in their “store.” With this scheme, Mei and her sister obtained an additional source of income as well as sold more of their goods as the children stayed longer in the store. Old comic books were sold as second hand after they were read. For this seven-year old, business was booming. This business went on for several summers.

By the time she reached college, Mei was set on putting up her own business. “Becoming an employee was no longer an option for me,” she recalled. Mei attended St. Scholastica’s College, one of the more popular exclusive girl schools in Manila. During her college days, Mei started out a small trading business selling trinkets, stationeries and various collectibles. She was able to source these items at a very low cost from various suppliers in Divisoria and Binondo. Even at a hefty profit margin, her products were still 20% to 30% cheaper than those being sold in the malls. Her customers were her classmates, most of whom came from affluent families of Manila. Mei realized the potential of her products but she, by herself, was not selling enough to generate reasonable profits. She started tapping some of her classmates to sell her products for her. She invited the most popular girls to become her sales agents on commission basis. By her fourth year in high school, what started out as a small trading outfit became an elaborate and complicated multi-level marketing system, complete with rewards and bonuses for outstanding sales agents. What was once a one-woman show had expanded to a sales organization of more than 10 sales agents. From simple products such as trinkets and stationeries, Mei expanded her product line to include T-shirts, fashion accessories and even tickets to concerts and shows. But of all the goods and merchandises that she handled, it was garments that really tickled her fancy. During the Christmas season of her fourth year in college, she leased a stall in a bazaar. The money she made during the event further fueled her passion for garments trading. Gaining experience from her college enterprise and her success in the bazaars, Mei was ready to go into business after graduation.

### **Entrepreneurship Beyond College: Starting Small**

Fresh out of college, Mei immediately found the perfect opportunity to start her own business. A friend asked her to become a partner in a small retail garments trading business in the heart of the country’s premiere center for trading – Divisoria. Mei was enthusiastic about the prospects of the business. However, while she wanted to start a business on her own, she did not have enough capital at that point.

At the onset, Mei had to do pretty much everything. She sold the garments and mingled with customers. She oversaw the management of stocks and the acquisition and movement of inventory. She negotiated with suppliers and haggled for the best price and the best payment terms possible. Most importantly, she oversaw the books and managed the finances of the firm.

Competition was intense and cut-throat in the area and Mei realized that she needed to eke out a balance between being competitively priced and having reasonable margins to ensure the viability of the business. Despite this, through her charisma in dealing and negotiating with both customers and suppliers and her keen business acumen, Mei was able to generate healthy profits for the business.

## The Philippine Garments Industry

The Philippine garments industry was the country's second largest exports, second only to electronics. As of 1999, the country had a 1.36% share of the global market for garments, amounting to roughly US\$2.8 billion. The country's garments industry experienced its golden years during the 70s and 80s when, facing practically no competition from other countries in the region, it experienced a growth of 30% annually. However, since the start of the 90s, the industry stagnated, experiencing hardly any growth at all. In 1999, garments exports rose by a mere 0.63% from the previous year's level.

**Table 1. Percent Share of Garments to Total Philippine Exports: 1996-2000**

Year	Total Exports (Php)	Garments (Php)	% Share	% Growth
1996	20.543	2.754	13.4	(1.47)
1997	25.228	2.899	11.4	4.9
1998	29.496	2.770	9.2	(4.12)
1999	35.033	2.767	7.9	(0.13)
2000	38.078	3.084	8.1	11.45

Source: Department of Trade and Industry, Garment and Textiles Export Board (GTEB)

According to the GTEB, there were 1,326 active manufacturers, 237 traders and some 1,240 subcontractors in the garments industry in 2002. However, it was dominated by a few large companies, primarily undertaking manufacturing for exports.

**Table 2. Leading Philippine Garment Manufacturing Firms: 2002**

Company	2002 Revenues (in million Php)
Crismina Garments, Inc.	1,812
Leader Garments	1,691
Tristate Industrial Corp	1,299
Capital Garments Corp	1,096
Novelty Philippines Inc.	1,078
Triumph International Phils., Inc	1,048
Jenny's Garments, Inc	1,048
A-Grade Garments Mfg. Corp	972

Source: Philippine Top 5,000 Corporations, Securities and Exchange Commission

## Market Segment

The Philippine garments industry could be segmented into the branded or unbranded (generic) ready-to-wear apparel.

### ***Branded***

The branded ready-to-wear segment was composed mainly of products catering to the middle-to-high end consumer markets. This included the imported brands (Ralph Lauren, Mark's and Spencer, Giordano, Levi's, etc.) and the local brands (Bench, Penshoppe, Kamiseta, etc.). They encompassed traditional (basic jeans, t-shirts, and blouses) to trendy and faddish designs. They were typically

available in stand-alone boutiques and designated sections in department stores. From the manufacturer's warehouse facility, these goods were delivered directly to the outlets. Branded RTWs were typically more expensive and were usually supported by an extensive marketing campaign. Most branded RTW manufacturers resorted to using celebrity endorsers or professional models for their marketing campaign. Branded RTW were anywhere from twice to ten times more expensive than unbranded RTW.

### ***Unbranded RTW***

Unbranded RTW also encompassed the spectrum of basic to trendy designs, with more emphasis on basics. They catered to the middle to low-income brackets and were typically available in department stores, rural groceries and market places. These products employed practically no marketing campaign and relied purely on price and volume. Depending on the volume, these goods were delivered straight to department stores or sold at wholesale shops where these were bought by retailers for distribution to the consumers. The most popular area in the country for wholesale of garments was Juan Luna St. in downtown Manila and Divisoria. Many retailers, even those from out-of-town (provincial areas of the Philippines) congregated periodically in these locations to purchase their goods.

### **Key Success Factors in the Philippine Garments Industry**

To succeed in the Philippine garments industry, it was imperative to penetrate the export market. The garments markets in the United States and Europe were on an uptrend and opportunities for increased exports to these countries were present. Moreover, exporting to these countries would allow the possibility for higher prices. Unfortunately, stiff competition from other low-cost garments producers such as China was to be expected.

Whether selling in the local or export market, and whether playing in the branded or unbranded segments, it was also important for manufacturers to keep their costs low, while keeping quality acceptable. The major cost items in the garments industry were mainly textile and labor. The cost for quality textiles had to be kept low by seeking the textile supplier with the lowest possible prices in the world. Similarly, labor costs had to be kept low, thus relocating to other countries with lower labor costs had to be done, if necessary, to maintain competitiveness.

Maintaining the best distribution system suitable to the market segment was also a key factor to be successful in the industry. Those playing the branded game had to be able to sell their product where their market was. On the other hand, for those in the unbranded game, maintaining a good distribution system, particularly by locating in places where the retailers typically converge, was key to survival.

It was also important to maintain a good product mix, to serve as diverse a market as possible. Traditionally, basic items such as socks, underwear, and t-shirts had very low margins as most distributors were selling these items. Trendy items, on the other hand, had higher room for margin as they were not being sold everywhere. However, the key was identifying a design that the consumers would like.

## **A woman in a man's game**

Soon, Mei decided to move up and move out. Seeing an opportunity to set up a wholesale shop in another part of Divisoria, she immediately grabbed it and established Penpen Shirts, Inc. a wholesale division dealing primarily with basic ready-to-wear items. Her store was located right in the middle of busy Juan Luna St., which was then fast becoming the wholesale mecca for ready-to-wear apparel in the country.

The immediate reaction of her neighbors was that of surprise and smug arrogance. Having been in the garments trading business for over twenty years, the other older entrepreneurs did not give much chance for survival in the man's game, garments wholesaling, to this upstart business, with a young, fresh out-of-college entrepreneur at its helm.

Initially, the competitors attempted to cut her out of the business. Prices were lowered and margins shrank to unprofitable levels. The primary items being sold at that time were undershirts, underwear and socks. Margins on these items went to as low as Php 0.25 per dozen as stores strived to gain market share in the highly competitive environment. "I will not survive if this continues," Mei mused. "I have to find a way to change the game," she added.

## **Changing the Game Through Feminine Touch**

As competitors reduced prices, Penpen Marketing sought other means of surviving in the business. It was during this period that she saw the opportunity to change the game. Trusting her instincts, she gambled on a design of women's blouses that she felt would appeal to her market. She noted that most buyers who visited her store in Divisoria were women who were also looking for new designs that they could re-sell in their respective retail outlets. The blouses she displayed at her store were designed and manufactured by a local manufacturer of garments. Sensing an opportunity at hand, Mei offered a hefty volume order in exchange for exclusivity of selected designs for her store.

As soon as the product was made available to her customers at the store, she knew that her strategy had paid off. The blouse was immediately sold out and its design became sought after by retailers from all over the country. Having obtained exclusivity, Penpen was the only store in the whole Divisoria selling the design and it capitalized on this by placing generous margins on the product. Soon, other manufacturers copied the design and it eventually became a basic item for most of the stores in the Divisoria. By then, Penpen and Mei were on their way to finding new designs. This was Mei's first taste of the premium-priced trendy apparel game.

Taking off from the success of her initial sojourn into the trendy apparel game, Mei continued to scout for new designs and styles that she could sell. From a purely cost and volume game, Penpen entered a whole new ballgame involving the identification of trends and the production of acceptable designs. However, it became more difficult to secure exclusivity of designs as manufacturers demanded higher volume commitments in exchange for exclusivity. Moreover, the new ballgame she

entered required a stricter quality control, unlike in the mass production game where quality was not too much of an issue.

Penpen continued its operations of selling wholesale basic items. Understanding that their products have been commoditized, the company looked for ways of reducing production costs. As a trading company, Penpen bought its goods in bulk from a manufacturer then sold these to their customers on wholesale volume.

Mei's constant negotiations with her manufacturers gave her the opportunity to learn the manufacturing game. She realized that her company could maintain exclusivity of the design, control the quality of her trendy apparel and reduce costs of her basic items if she did the manufacturing herself. Having her own manufacturing arm could solve these problems. Thus, Universal Landmark Manufacturing, Inc. was born.

### **Backward Integration to Maintain Competitiveness**

Universal Landmark Manufacturing, Inc. was established in 1985 as Penpen's manufacturing arm primarily for its trendy designs; a manufacturing of basic designs was secondary. The initial factory was located in San Juan St., Pasay City with a total complement of 30 sewing machines operating in one shift. In a matter of five years, Universal Landmark expanded to a total of four factories located in various parts of Metro Manila with a gross production capacity of 5,000 pieces of various clothing articles per day.

The creation of the manufacturing arm solved the two major concerns of exclusivity of design and quality control. Moreover, it provided the opportunity to manufacture basic designs at a lower cost, thus enabling Penpen to sell them at a lower price. This made the company more competitive in the wholesale business.

Raw materials remained a critical factor just like labor. These two accounted for a combined 70 percent of the cost of production of a typical t-shirt. Mei continuously searched for cheap sources of raw materials with the quality that was suitable for her requirements. As she negotiated with more and more suppliers of textiles, she began to understand the textile business.

By the late 90's, the textile industry experienced a decline due to a depressed global economy. Margins shrunk and competition in the industry intensified. Moreover, outsourcing to other cheaper production bases became imperative. Mei had to shut down three out of her four manufacturing bases and relocated these to other countries. Currently, through various forms of alliances and strategic partnerships, Mei has established six manufacturing bases in China, five more in Thailand and two in Korea. Cutting costs became imperative to survival and Mei's creativity for searching avenues for cost cutting were again challenged.

By this time she has gotten herself familiar with the textile market. She calculated that by producing her own textile, she could further increase her margins and make her more competitive in the industry. Thus began the planning stages for further backward integration into textile manufacturing. Soon Mei's third company, the third component in controlling the garments industry value chain, was established.

Without her knowing it, her conglomerate was slowly growing.

Masterknit Inc. was officially incorporated on May 19, 1992. It was primarily engaged in the manufacture and wholesale of knitted fabrics. It mainly catered to the textile requirements of Universal Landmark although it also supplied other garments manufacturers. However, as a matter of strategy, Mei wanted each and every company to become self-sustaining and not reliant on its affiliate companies. Masterknit increased its manufacturing capacity and started aggressively selling textiles to other garments manufacturers. Soon, it was serving some of the major local brands in the Philippines.

However, in 1997, the Asian financial crisis occurred and sales of the major garments manufacturers plummeted. Exports and domestic sales of garments declined. Demand for textile was inadvertently affected. Masterknit experienced an overstock of textile inventory and faced tremendous warehousing and storage expense.

### **Forward Integration into the Branded Game: Quadro**

In early 1994, Mei experimented with her own brand of casual wear. It was supposed to be a showcase for the quality, durability and affordability of Masterknit's textile products. She was, however, hesitant to pursue the development of her branded wear, understanding that it required tremendous effort and resources.

Having dealt with the major local brands as a supplier of textiles, Mei started to understand the game. Her trading arm had also expanded and penetrated the major department stores, thus providing her enough contacts should she want to establish her own boutique. Faced with an overstock of various kinds of textile, Mei had to find ways and means to make her inventory move. It was during this time that she decided to take the plunge and make a strong move into the branded game.

Quadro became not only a showcase for Masterknit's textiles, it also became a showcase for the design capability of Mei's conglomerate. Designs of Quadro ranged from basic casual wear to trendy designs. It was made available in all popular department stores in Metro Manila and other key cities nationwide through concessionaires or outright sales outlets. Today, Quadro has become a major competitor in the tee-shirt and casual wear segment catering to the middle-income market segment. Quadro has consistently been listed as one of the top ten brands in terms of saleability in such department stores as Shoe Mart, Robinsons, Ever, and The Landmark. Quadro opened its first stand-alone boutique in the Metropolis Mall in Alabang, a bustling residential and commercial area south of Manila. More stand-alone boutiques were being planned.

With the success in developing the Quadro brand, Masterknit started to expand the product line of Quadro. From ready-to-wear goods, Quadro eventually started to sell hand towels, bags and various toiletries such as colognes and hand sanitizers.

## **Controlling the Growing Business**

With the establishment of Masterknit and Quadro, Mei has established a foothold into all major parts of the value-chain of the garments industry. Each company in each segment of the value-chain was self-sustaining aside from providing key inputs into its affiliates. As her business grew, the need to establish control became more apparent. In all segments of the value-chain, cost and quality were critical.

The need for checking and monitoring each business took its toll on Mei's schedule. She decided to establish a company that would monitor and audit each of her businesses. It was during this time that she formed Business Integrated Consultants Inc (BICI).

Initially established as an internal accounting department for her various businesses, BICI eventually became a profit-center on its own. BICI has become a professional consulting group providing bookkeeping, auditing, tax and corporate planning and related consultancy services. Specifically, the services provided by the company included: business process outsourcing for accounting and payroll, financial advisory for budgeting and the preparation of financial forecasts and projections, enterprise risk services for operations and systems review as well as internal audit, due diligence review, and tax and corporate services including tax audit and tax compliance review, tax advisory and planning, and other tax-related services. BICI's list of clients for its various professional services was noted to be growing continuously.

## **New Challenges, New Opportunities**

Her learning experiences from the ME program inspired Mei to get back to her business and implement strategies with new-found vigor and excitement. Among her plans was a possible repositioning of Quadro, some ideas for streamlining and cost-cutting her processes and new business opportunities to expand her business portfolio. Her excitement to graduate from this program was only exceeded by her eagerness to get back to her business.