Pearl2
Accelerating Enterprise Development

STATE OF THE SECTOR REPORT

COSTUME JEWELRY

October 1, 2003
Pearl2 Project

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Pearl2 is a five year initiative (2002 – 2007) with the stated purpose of supporting the development of small and medium enterprises (throughout the Philippines) that create meaningful jobs for both men and women through the strengthening of Business Support Organizations (BSO) and Investment Promotion Groups (IPG).

The Field Office of the Pearl 2 Project is located at:

Suite 2103, Antel 2000 Corporate Center
121 Valero St., Salcedo Village
Makati City, Metro Manila
Philippines

Phone	+ 63 2 715 5912
Fax	+ 63 2 884 1544
E-mail	info@pearl2.net
Website	www.pearl2.net

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Innovation and Science Council of BC
4720 Kingsway
Suite 1048 Metro Tower II
Burnaby, B.C.
Canada
V5H 4N2
Telephone + 1 604 438 2752
www.iscbc.org

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Project Team
Mr. Arun Abraham, Project Director
Mr. John Manzanas, Senior Programme Officer and Editor
Dr. Rizalito Gregorio, Advisor, Value Chain Analysis
Ms. Ana Jover, Advisor, Costume Jewlery
Ms. Ma. Teresita Agoncillo, Advisor, Costume Jewelry
Ms. Cherie Carlos, Technical Editor

Front Cover Design – pITstop, Legaspi Village, Makati City, Philippines

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INTRODUCTION

The Pearl2 Project, working with the Department of Trade and Industry, has identified the costume jewelry industry as one of the areas for program assistance under the Project's Sectoral Enhancement component. Costume jewelry production is export-oriented and has the potential for employment generation. The industry also provides a high value-added content to its products, since a very large proportion of materials used are sourced locally. The following study was undertaken to determine the needs of the sector and the possible areas for assistance by the Pearl2 Project. In addition, the study also generated information on the firms in the industry, which can serve at a later time as baseline data for assessing the impact of assistance.

Methodology

Two consultants engaged by the Pearl2 Project designed and conducted a survey of costume jewelry manufacturers, most of whom were members of the Fashion Accessories Manufacturers and Exporters Association (FAME) based in Cebu province. Additional data were gathered from existing studies and reports of both government and private entities, such as the Department of Trade and Industry (DTI) and the National Statistics Office (NSO), as well as from interviews with key personalities in the industry.

Data obtained were tabulated and encoded. Then, using a value chain model to analyze industry activities devised by Dr. Michael Porter of the Harvard Business School, Pearl2 Project was able to arrive at specific issues, problem areas and other concerns of the industry. The findings were comprehensive, ranging from the sourcing of raw materials through processing and up to after-sales service. All findings were then organized according to the industry's value chain components, on the basis of which the needs of the sector were assessed and specific areas of intervention identified. (See Annex 1 for a short background on the use of the value chain analysis.)

Limitations

The study is limited to members of FAME, who are mainly concentrated in Cebu. A total of 31 companies responded to the questionnaire, representing 39% of the registered manufacturers/exporters and subcontractors, which number 79. FAME also has five associate members, made up of freight forwarding companies, suppliers of chemicals, packaging, etc., which were not included in the sampling.

The study has only limited information on support industries such as processors or suppliers of the semi-processed natural materials. This group is difficult to identify, since they mostly belong to the informal sector of the business, and are scattered around the Visayas islands. However, their link to the production of costume jewelry was evaluated and analyzed through information provided by the exporters/ manufacturers.

The value chain analysis used in this study is a consolidation of findings from different firms. It does not cover any financial or cost information from the firms, since these are quite difficult to obtain and to reconcile in an industry-level evaluation. There was also not enough time or resources for this effort. The value chain analysis used here is limited to the primary and support activities of the producers and does not consider the value chain of external entities such as suppliers or buyers.

Acknowledgements

The Pearl2 Project acknowledges the assistance and support provided by the following persons for this report: Ms. Ma. Teresita Jocson-Agoncillo and Ms. Ana Jover for undertaking the research and drafting of the State of the Sector Report on Costume Jewelry; Mr. Joel Rodriguez of the Philippine International Trading Corp., brand manager for wearables, and Ms. Maricor de Guzman of the Bureau of Export Trade Promotions, product manger for costume jewelry, for their support in the research of this study; Ms. Josefina Capistrano, President of FAME, and Ms. Miriam Bacalso, Executive Director of FAME, as well as the other officers and members of FAME for their cooperation in providing data for the report.

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Executive Summary

Fashion accessories comprise one of the industries under the wearables sector. The markets for fashion accessories range from low- to high-end. The industry is export-oriented and relies heavily on indigenous raw materials. Most producers are small in size and rely heavily on a network of subcontractors during the production process. The products of the sector are seasonal in nature and can easily change based on fashion trends. At present, there is a concentration of costume jewelry manufacturers in Cebu province, the focus of this report. The producers covered in this study all export their products, with a small percentage also supplying the needs of the domestic market.

There is a large world market for costume jewelry. In 2001, this was estimated to be about US$ 2.17 billion, with the United States as the largest market and China as the world's largest supplier and strongest competitor of the Philippines. In 2002, Philippine exports totaled about US$ 36.96 million, mostly to the U.S. Export growth has generally been good during the last few years.

The costume jewelry industry in Cebu is relatively young, with most firms established only in the last fifteen years. Most are small-scale in operations and set up as corporate entities. Product lines cover a wide range from low-priced to high-end items. Due to the seasonality of the market, most producers are engaged in other manufactures such as houseware, when demand for fashion jewelry is low. Direct employment is not significant because of the widespread use of subcontractors. Among the firms surveyed for this report, there were more female than male workers. Manual means of production is usually still the norm among producers, although some are beginning to use semi-automated processes. Most firms in the industry rely on their own resources for funding their operations, as well as for any R & D work.

The main issues that costume jewelry manufacturers currently face concern raw materials and quality of work done by their sub-contractors. Problems of finding reliable sources of materials and components at reasonable prices are prevalent. Subcontractors also lack facilities, skills and a proper work ethic, which affect the quality of their output and their reliability as well.

The producers themselves need better management systems to improve the monitoring and handling of their production process. Marketing is also a priority area for development among Cebu-based manufacturers. Given the seasonal nature of their products, access to timely market information is vital in determining current trends and emerging markets. Both a good information system and the skills for evaluating trends are needed. Continuous research and development work on both materials and products are also required to sustain market interest. The use of up-to-date information and communications technologies would help the industry in both markets and production.

The association of Cebu-based costume jewelry producers, the Fashion Accessories Manufacturers and Exporters Association (FAME), Foundation Inc., is the lead business-support organization for this sector and serves as the focal point for assistance to the industry.

The group operates a Costume Jewelry Center, which houses equipment and facilities that members can use.

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Overview

Product Scope

The Philippine costume jewelry industry covers the production of fashion accessories used for personal adornment and to complement or coordinate with clothing. Necklaces, bracelets and cuff links are some common products. Fashion jewelry items are normally seasonal in fashion, have a short product life cycle and are mass-produced. The industry utilizes mainly local materials and resources, although some components are imported. Among the materials used are metals, synthetic gem stones, plastics and textiles. (For more details about the products covered in this sector, please see Annex 2, which shows the product classification by the Harmonized System and the Philippine Standard Commodity Classification.)

Industry Background

The fashion accessories sector in the Philippines is based primarily in Cebu province, where it has been in existence for about 40 years. It started as a shellcraft industry, since Cebu had an abundant supply of shells in the 1960s. Fashion accessories were part of the various products that the

Cebuanos made from shells. But it was only in the mid-seventies when shell-based novelties and accessories made a significant breakthrough in the international market. Sources said that it was around this time when the *puka* shell necklace started as a trend. The necklace became such a fad that manufacturers and exporters could no longer keep up with demand and had to use other kinds of shells that more or less resembled the *puka* shell. It was then that the *heishi* necklaces, made from white clam shells, were introduced. As the market became saturated with simple stringed shells, it demanded more exciting products. So, in the early 1980s, manufacturers and exporters started to develop new designs, making use of other indigenous materials like wood, horn, coconut shell, and other fibers like *raffia*, *buri* and *pandan*. From necklaces and bracelets, major players in the industry also started to expand their product lines to include bags, hair accessories, earrings, rings, brooches, etc.

Firms in the Industry

At present, the Department of Trade and Industry estimates that there are some 2,000 firms in the industry, of which about 100 are manufacturers and exporters. The figure could be higher, as this does not include the raw material gatherers or suppliers whose number is estimated at around 5,000. There is no conclusive data on this as most of them operate informally.

The industry covers a range of firms involving exporters, assemblers, manufacturers, and other related suppliers. Among these firms, exporters play a major role in marketing, design, and product development. They are the ones that deal directly with the buyers. They also have manufacturing and assembly operations workshops of their own, but on a limited scale.

Manufacturers are often referred to as sub-contractors. Generally, they specialize in the processing of raw materials. Approximately 50% of production activities are contracted out to these firms by the exporters and are therefore considered as an important supply chain of the industry. Since the market for the Philippine Costume Jewelry is seasonal (strong only on Spring Summer lines), the range of work given to them is affected by the fluctuations of the market demand. The actual figure for this group is uncertain but based on the Industry Analysis of the Fashion Industry (2001) done by Ms Joyce Yang, the estimated production is between 1,000 to 2,000 units at one time. As further stated in the study, many of these manufacturing units belong to the low-income groups and have low educational attainment. They lack sufficient funds for capital investment and operations. They usually rely on the exporters for financing or resort to informal lending sources. Their production tools and equipment are basic and rely mostly on manual labor.

Assemblers put together the parts supplied by the manufacturers into finished or semi-finished products. The workers are mostly housewives. According to Ms Yang's study, the assemblers are brought together by a coordinator who takes care of getting orders from exporters, distributes them to the assembly units, then collects and delivers the finished products for delivery to the exporters, afterwards collecting payment and distributing them to assemblers. Such a coordinator gets paid as a commission agent.

Firms involved in costume jewelry production are organized into two major groups:

- Fashion Accessories Manufacturers and Exporters Association (FAME), Foundation Inc., and
- Association of Accessories Manufacturers Association of the Philippines (AAMEP)

Of these two groups, the Cebu FAME is the leading business support organization identified for costume jewelry under the Sectoral Enhancement component of Pearl2. (Please see Annex 3 for a brief background on Cebu FAME.)

Market Segments

The market for costume jewelry can be divided into three segments, namely, high-end, medium-range and low-end. Products for the upper end of the market are made from relatively expensive materials and have designs similar to fine jewelry. It is dominated by fashion designers, labeled and priced in accordance with the designer's image. The medium-range segment features items using moderately-priced materials and with trendy designs. These can be worn on formal or casual occasions. For the low end of the market, products are made from inexpensive materials, have very short life cycles and are easily influenced by short-lived fads. These are normally worn on casual occasions.

A rough estimate based on interviews with buyers during the past shows organized by the Center for International Trade Expositions and Missions (CITEM), an export agency under the Department of Trade and Industry, reveals the following price structure of the different market segments:

- High-end retail prices ranging from US$75 – US$250
- Medium-range retail prices ranging from US$10 – US$75
- Low-end retail prices below US$10

In the past few years, costume jewelry has become easily available in the international markets. The proliferation of international shows, cross-mixing of product offers (meaning gifts, toys, houseware, fashion accessories, etc. are featured in one show), electronic marketing, home direct sales are driving factors that increase demand. However, this could also lead to an oversupply of the low- to mid-priced items, to which most Philippine costume jewelry belong.

World Market

World demand for costume jewelry products is estimated to be US$2.17 billion in 2001. Almost a third or 32.61% of this total is accounted for by the United States, which remains the single biggest market for imitation jewelry. Other major markets include Hong Kong, France, Germany, Japan and the United Kingdom. The table below gives the leading markets as of 2001.

Table 1
Major Importers of Costume Jewelry, 2001
1998 to 2001

Country	Import Value	% Share
United States	707,462	32.61
Hong Kong	173,598	8.00
France	162,741	7.50
Germany	156,650	7.22
Japan	152,049	7.01
United Kingdom	151,600	6.99
Others	665,385	30.67
Total	2,169,485	100.00

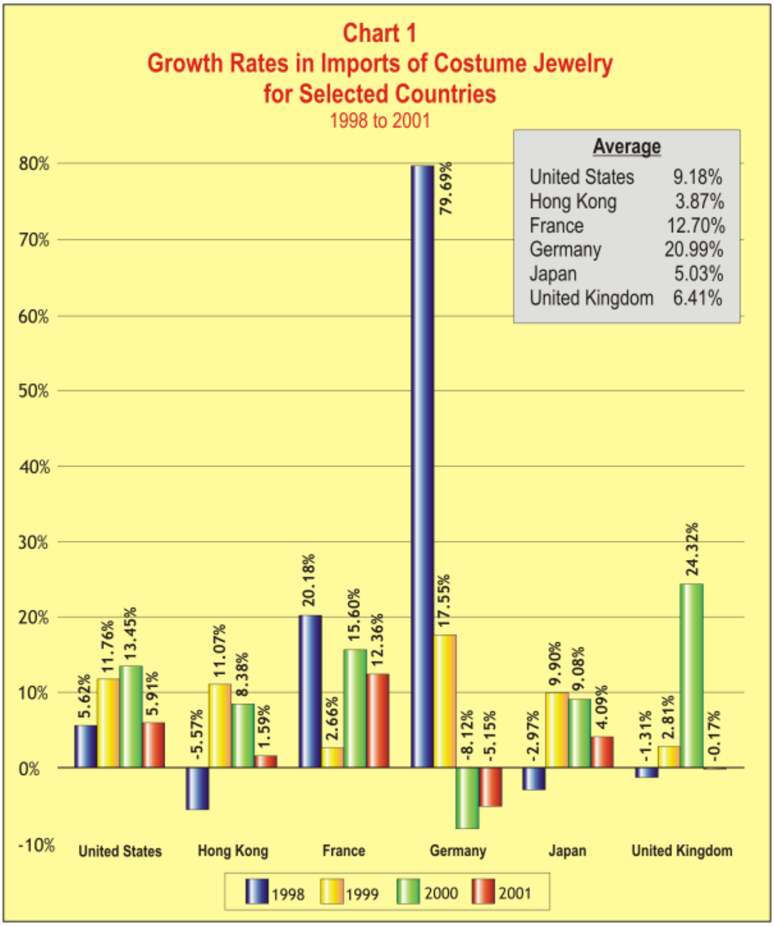
Source of basic data: International Trade Centre, UNCTAD/WTO

The world market for costume jewelry is steadily expanding. From the period 1997 to 2001, the market grew continuously at a yearly average rate of around 7.21%, as shown by the following table:

Table 2 World Imports of Costume Jewelry, 1997 to 2001 (FOB value in US$ '000)		
Year	Import Value	Growth Rate (%)
1997	1,643,621	–
1998	1,722,434	4.80
1999	1,887,969	9.61
2000	2,072,696	9.78
2001	2,169,485	4.67
Average Annual Growth		7.21

Source of basic data: International Trade Centre, UNCTAD/WTO

Among the major importers, Germany and France had the highest growth rates, averaging about 20.99% and 12.70% respectively during the period. Germany, in particular, experienced a significantly large increase in imports during the year 1998. The US market increased at an average of 9.18% during the same period. The chart on the next page shows the growth patterns of the major importing countries.



(Annex 4 provides more details on the world imports of costume jewelry by major importing countries.)

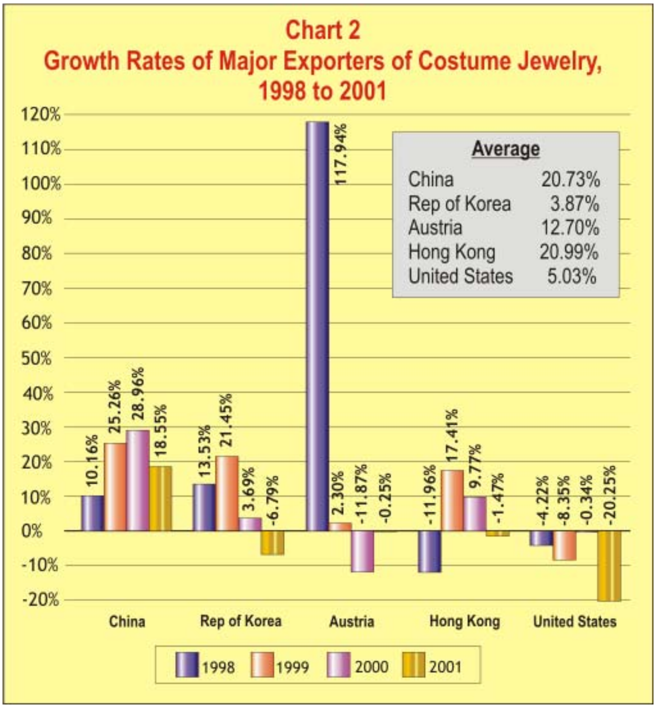
The largest global supplier of imitation jewelry is China. For the year 2001, China exported about US$861.28 million worth of costume jewelry, representing almost 40% of the total market. No other country came close to this figure. The second ranked exporter, the Republic of Korea, only had a 12.35% share of the world market or about US$267.83 million.

Table 3
Major Exporters of Costume Jewelry, 2001
(FOB value in US$ '000)

Country	Export Value	% Share
China	861,278	39.79
Republic of Korea	267,834	12.35
Austria	137,247	6.33
Hong Kong	114,448	5.28
United States	100,494	4.63
Others	688,184	31.72
Total	2,169,485	100.00

Source of basic data: International Trade Centre, UNCTAD/WTO

Among the exporting countries, China and Austria experienced the largest increases in sales to the world market for the period 1997 to 2001. China averaged a growth of 20.73% yearly during this period while Austria had the highest growth rate, averaging 27.03 percent annually. The following chart shows statistics for various countries.



(Annex 5 provides more details on the major exporting countries of costume jewelry from 1997 to 2001.)

Exports of Costume Jewelry

Philippine export of costume jewelry was estimated to be US$36.96 million in 2002. Over a five year period from 1998 to 2002, the annual export growth rate was 28.68%. Except for a decline in 2001, exports of costume jewelry showed an increasing trend during the last five years. One factor for such growth may be the recent high demand for jewelry made from shells. The table on the next page shows the export figures for the years 1998 to 2002.

Table 4
Philippine Exports of Costume Jewelry, 1998 to 2002
(FOB value in US$ '000)

Year	Export Value	Growth Rate (%)
1998	16,331	–
1999	30,159	86.67
2000	30,181	0.07
2001	25,281	(16.24)
2002	36,966	46.22
Average Annual Growth		28.68

Source of basic data: National Statistics Office, DTI-BETP

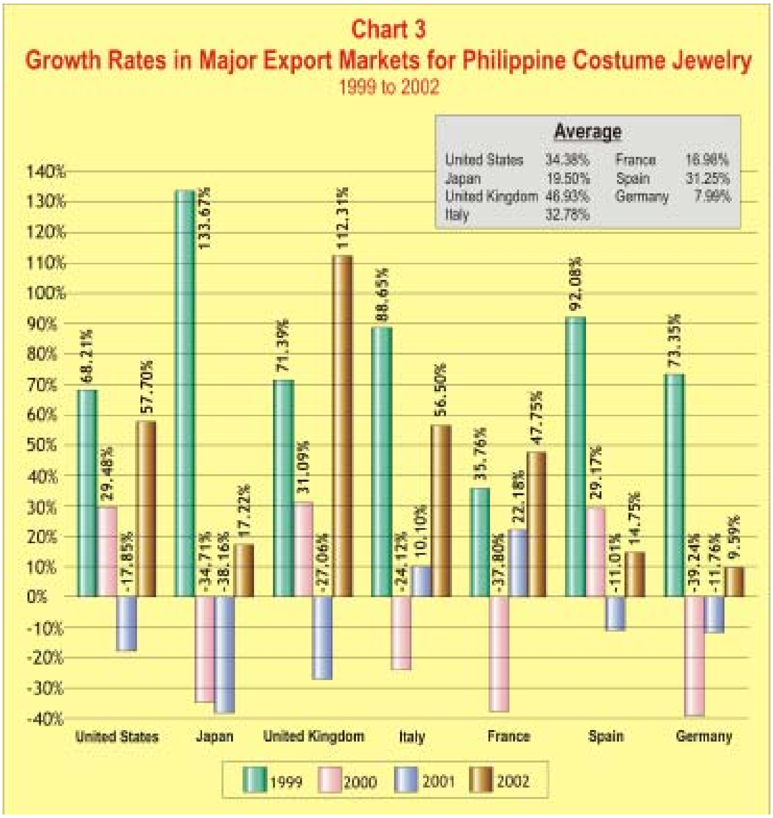
The United States remains the single largest market for locally made costume jewelry. In 2002, Philippine exports to the U.S. totaled US$12.82 million representing about 34.68% of the total sales abroad of the sector. Other important markets are Japan and Europe. The table on the next page shows exports of costume jewelry to major destinations.

Table 5
Major Markets of
Philippine Costume Jewelry Exports, 2002
(FOB value in US$ '000)

Country	Export Value	% Share
United States	12,819	34.68
Japan	3,326	9.00
United Kingdom	2,451	6.63
Italy	2,370	6.41
France	2,081	5.63
Spain	1,998	5.41
Germany	1,989	5.38
Others	9,932	26.87
Total	36,966	100.00

Source of basic data: DTI-BETP

The U.S market for Philippine costume jewelry increased by an average of 34.38% annually from 1998 to 2002. Among the key markets abroad, only exports to the United Kingdom showed a higher average growth, amounting to 46.93% yearly during the same period. Growth in exports to the other major countries ranged from per about 8% to 33% per year. The chart on the next page shows the growth rates for key markets abroad for the industry for the period 1999 to 2002.



(Annex 6 shows the export figures for the above countries during the period 1998 to 2002.)

The Philippine government has provided some support to the sector, primarily through the Jewelry Act or R.A. 8502. This law provides various incentives to jewelry enterprises under certain conditions. (Please see Annex 7 for a summary of the incentives under R.A. 8502.)

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PROFILE OF THE CEBU COSTUME JEWELRY SECTOR

The Pearl2 project conducted a survey of members of the Cebu Fashion Accessories Manufacturers and Exporters Foundation (Cebu FAME) to gauge the situation within the sector. Out of about 71 members of Cebu FAME (excluding associate members), 31 companies responded to the survey questionnaire. This represents about 39% of total members. The following section contains the significant findings from the survey.

Key Findings from the Survey

<u>Date of establishment</u>

Among the companies surveyed, only 2 or around 13% have been in the business for about 28 years. The majority (80%) have been operational between 5 to 15 years. Some (13%) are less than 5 years in the business. This shows that the sector is still relatively young compared with other consumer manufacturers groups like gifts, houseware, and furniture. Almost all of them started exporting either on the same year that the business was established or a year later. One company took 10 years before venturing into the export market.

Company Size

Most firms or 71% of the respondents are small to medium in size with total assets ranging from Php 5 million to Php 100 million. Small-scale companies comprise 42% of the total, while medium-sized firms account for 29%. About 26% are considered micro in size while there was one company that reported total assets of over Php 100 million.

Company Setup

A large majority of the respondents (71%) are set up as corporations. About 26% are sole proprietorships and there is one firm established as a partnership. This trend shows that many of the major players in the sector are set up as corporations rather than run by an individual. It may also indicate that the majority of them may have prepared for a larger scale operation, anticipating the opportunities for expansion.

Product Lines

The majority of the companies (74%) included in the sampling have more than 50% of their production allotted for costume jewelry. About 48% of them are producing from 90% to 100% costume jewelry. Other items included in their range of products are hair accessories, fashion bags and belts, although these account for less than 20% of their product lines.

Due to the seasonality of the products and the short life cycles involved, some firms are also producing other items besides costume jewelry. About 38% of the respondents also make such products as houseware, novelties, toys, industrial tiles and footwear. Their production of these commodities expands whenever the demand for costume jewelry slows down.

A large majority of costume jewelry firms or 93% have products which are geared towards young adults (from 19 to 39 years old). About 63% also target mature adults while 53% also aim their products for teenagers.

Ownership of Facilities

There is a very small difference in percentage between those owning and those renting their production facilities. Almost half of the respondents own the land and the factory where they have their operations and offices.

Employment

Survey respondents report about 1,696 personnel as direct employees. Of this number, 60% are in production, 27% in administrative positions, 10% in marketing work and the remaining 3% in other positions. By gender, most employees (54%) are female and only about 46% are male. Women are predominant in sales work, where they comprise 80% of the work force. Women seem to be perceived as relating better with the products and communicate same in negotiating with buyers. There are also more women (67%) in administrative work. It is only in production that men (54%) outnumber the women.

The number of employees varies, depending on the range of activities done in-house by the company. Some firms have very streamlined operations with direct employment of only 7 persons. Others have as many as 327 direct workers.

Subcontractors

The respondent firms reported a total of 1,220 subcontractors whom they use in production operations. These subcontractors employ an additional 10,168 workers among themselves. Most firms have between 20 to 50 subcontractors working for them at any one time. One company even had 400 subcontractors. It should be noted, though, that there are only few subcontractors who have exclusive working arrangements with assemblers or exporters. Most accept jobs from 2 or more firms at any given time. Thus, the answers given by the respondents may contain multiple entries for the same subcontractor.

Sources of Raw Materials

The sector is heavily dependent on local raw materials. About 80% of respondents procure their materials from the domestic market. Raw (natural) materials come from within Cebu, Manila or neighboring provinces like Samar, Leyte, Bohol, and Panay Islands. The raw materials are processed into components by either the sub contractors or the exporters.

Metal components like bindings, snaps, connectors, plastic beads that are mostly imported, are sourced through agents or wholesalers. Only those with bigger volume requirements can afford to source directly from abroad.

Mode of Production

Most firms still employ manual operations in their production. However, about 60% of the companies surveyed indicated that they use some semi-automated machines in some of their processes. A large proportion of firms (80%) also stated that they plan to invest in machinery and equipment for their operations.

Capacity Utilization

A little more than half (56%) of respondents stated that their capacity utilization is full. The rest say their capacity is underutilized. However, given the nature of the business, the market can be erratic and affect the level of operations at any point in time. Even then, about 29% of companies stated that they plan to expand their factories.

Research and Development

Most product concept and design work are done in-house. About 74% of firms in the survey indicated they do their own research and development work. The remaining 26% of respondents utilize external sources for R&D. Regardless of where they source their R&D, the majority or 68% of companies get design direction from their buyers.

Market Coverage

All survey respondents are currently exporting their products. Only about 25% are also selling in the domestic market. Of those firms selling to the local market, most or 60% sell through traders. Others have their own stores, while some are supplying boutiques, specialty stores or department stores. Although only a relatively small proportion of respondents undertake domestic market sales, the number of firms doing so has increased from 7 in 2001 to 9 in 2002.

Export markets

There are two major destinations for costume jewelry exports among the firms surveyed. Around 86% sell to the United States and 82% also sell to European countries including Italy, Spain, Germany, the United Kingdom and Greece. Asia ranks third as an export region, with 61% of respondents saying they sell to the region, with Japan as the biggest market in Asia. Other important markets include Australia, the Middle East and Canada.

Most foreign buyers are obtained by participating in international trade fairs. These include the Manila FAME International, the Hong Kong Trade Fair, MACEF in Italy and the Birmingham International Trade Show in the United Kingdom. About 90% of the respondent exporters target buyers with medium-priced products, meaning items in the price range from US$10 to US$75 per piece retail. However, exporters seem to have varied understanding of the characteristics in the different market segments abroad. This is quite evident in the relatively wide range of FOB prices indicated for the same target segment in a market.

Competitors

China is seen as the single biggest competitor in the international market by survey respondents. All firms who answered the query on competition cited China as the primary threat. Other noteworthy competitors include Indonesia, India, Hong Kong, Thailand, Vietnam and the Republic of Korea. Basically, these countries are major producers of low-priced items, which are the major point of sale if one is serving the low-segment market.

Concerns

A large proportion of respondents or 74% have generally indicated price as the major issue. Design factors were also cited as another major concern by about 30% of the respondents. Some 13% stated that packaging was a problematic area for their operations.

Sales

Only a few — 9 out of 31 firms — responded to queries on domestic sales level for the year 2002. From the data provided by these respondents, local sales seemed to be low. About two thirds of the producers had domestic sales of less than Php 1 million. The rest indicated sales proceeds of between Php 1 million and Php 2 million.

All respondents indicated their export sales levels. For 2002, most firms earned export receipts in the range of US$100,000 to US$500,000. About 26% had exports of US$100,000 to

US$300,000, while 22% earned from US$300,000 to US$500,000. Only a few (13%) exported products worth more than US$1.5 million. Some 10% sold from US$1million to US$1.5 million, while 6% had export earnings of between US$50,000 and US$100,000. The rest of the firms exported less than US$50,000 worth of costume jewelry and related products.

Financing

Production of orders are generally financed by the individual companies (74%), while around 10% sometimes borrow money from banks to partially finance their requirements. The rest borrow money from other sources. There is a similar trend in terms of the funding expansion of facilities. About 72% of respondents indicated that they use their own funds for such purposes. Some 24% said they would also borrow from banks.

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Value Chain Analysis

Structure of the Costume Jewelry Sector

The costume jewelry sector is characterized as a local resource utilizing industry wherein majority of the companies are small businesses. They have limited financial resources to invest in machines, tools, and equipment to upgrade production facilities and increase production efficiency. Most of the companies still use basic tools, mostly hand tools, to produce the merchandise. The volatility of the market for costume jewelry also discourages firms from expanding significantly. Keeping their operation small enables them to respond to the ever-changing needs and characteristics of the market.

The performance of the Costume Jewelry is dictated by international fashion trends. Concepts and designs could suddenly change. Given this background, the industry has survived by making use of subcontractors. Around 50% of production operations may be sourced out to third parties. In this way, there is less risk of resources getting tied up unproductively when the market slows down. Companies also work on specific traditional markets as a competitive strategy.

Process Flow in the Industry

The process structure of costume jewelry production starts with design concepts, which are interpreted in at least 3 product ranges such as earrings, neckwear and bracelets. The prototype is made and the costing of the product follows (export quotations are normally in FOB US$ prices). During this period, possible sub contractors and component suppliers are selected.

On the average, material inputs of Philippine costume jewelry consist of about 80% natural components like wood, shells, fiber, etc. Some products are in fact made from 100% natural materials. The main reason for this is the limited availability of components like metal, plastic, synthetic stones in the country.

In the international market, the Philippines has been identified as a major producer of spring/summer lines. Promotional activities are focused on international trade shows for spring/summer lines. The selling missions are also timed for the buying season of these products.

Fashion accessories have short life span; therefore, production and delivery of orders should be done within 30 to 45 days upon signing of Purchase Order (PO). After this, meetings with sub contractor/s start where production schedule and terms of payment are discussed. Product components made of natural materials are sourced either by sub contractors or by the exporters/manufacturers. Quality check of semi-processed components is done by the exporter. If this task is assigned to the sub contractor, a sample is first approved by the exporter, which should be the basis of the sub contractor for sourcing the materials.

Product components of metal or synthetic materials are generally sourced outside by the exporter/manufacturer. Some companies purchase cast metals and have it finished/ plated at the Costume Jewelry Center or other companies that offer the same kind of service.

Packaging and labeling, depending on buyer requirements, are done by the exporter. Goods are normally shipped by sea freight, unless a buyer requests air shipment. Payments are normally through letters of credit or telegraphic transfer. (For more information on the types of buyers and channels of distribution in the industry, please see Annex 8.)

The Costume Jewelry Value Chain Diagram

On the next page is the value chain diagram for the costume jewelry industry. This diagram portrays the sector as a whole, based on research materials on the industry and from interviews with several companies.

	INBOUND LOGISTICS	OPERATIONS	OUTBOUND LOGISTICS	MARKETING & SALES	SERVICES
FIRM INFRASTRUCTURE	General Management: Planning, Financing, Accounting, Labor, Quality, Buyer and Government Affairs				
HUMAN RESOURCE MANAGEMENT	Training-processing (cutting, drying, dyeing, etc) of natural materials into components	Recruitment of workers Training on human development & business ethics Common service facility	Training of workers - quality inspection	Recruitment Training on sales	Training for customer services
TECHNOLOGY DEVELOPMENT	Info.systems devt. to include -Supplier information -Procure, inventory of materials -Accounting System -Inspection & sorting of components	Component Preparation Common Service Facility Testing Procedures / Quality Control/Waste Management Clustering of Subcontractors Information Systems	Information systems development Monitoring of shipment, invoices, & documentation of order	Market / Product Research Information systems development - Buyers data	Repair/Assessment of damaged product
PROCUREMENT	Transportation service Computer Updated data on reliable suppliers of components made of natural, metals & syn. materials	Transportation service Computer	Computer Transportation services	Trade fair organizer Courier services Computer Transportation/Hotel Services	Information systems to assess complaint/product inspection
MAIN ACTIVITIES	Inbound handling of materials Sourcing of materials & parts Inspection Pick-up/Delivery of materials Inventory of materials	Processing & finishing of semi-processed components Monitoring of production Preparation of work sheets & materials Delivery and pick up of materials Quality control/inspection Assembly Reworking Packing of products	Inspection of finished goods Export/Delivery documentation Delivery to domestic & foreign Buyers representative Scheduling of shipment to foreign buyers	Advertising Promotional Activities Sales Personnel Pricing	Acceptance of returned items that may have been damaged during transit Return of payments of damaged items

MARGIN

MARGIN

The Costume Jewelry Value Chain Diagram

Key Findings from the Value Chain Analysis

The value chain analysis of the sector yielded numerous findings pertaining to the inbound logistics of the chain. These indicate issues with the raw materials and components used by the industry in their production. Producers have difficulties regarding the quality of the supplies they obtain and the output provided by their subcontractors. In their operations, there are concerns with research and develpment of new products and the proper management of the production cycle. The sector has access to the facilities of the Costume Jewelry Center, but an appropriate program for its utilization needs to be developed. Another key finding from the costume jewelry value chain is the need for better market intelligence on the industry to help producers develop market focus. This will determine the nature of promotional and market development programs for the sector.

More details on the value chain of the sector are presented in the following table. This table provides the findings together with the concerns about these issues and some recommended measures to address them.

Costume Jewelry Value Chain Table

INBOUND LOGISTICS		
FINDINGS	**CONCERNS**	**RECOMMENDATIONS**
HUMAN RESOURCES DEVELOPMENT		
The quality inspection in sourcing raw materials from gatherers and traders are done without any systematic sampling procedures. This could mean higher incidence of rejects when the materials are converted into components.	The Sector may need to further reduce wastage of raw materials when these are converted into components.	The gatherers/traders should be given proper guidance, through training, on the quality and standards of natural materials that are acceptable for costume jewelry.
TECHNOLOGY DEVELOPMENT		
Generally, recording of data on suppliers, procurement and inventory of materials are done manually which can be a tedious process and time consuming, considering the variety of materials and the number of suppliers that are being dealt with in the operations of the firms. Presently, only processing of payroll, accounting and communications requirements are computerized.	With the variety of components required in the production of costume jewelry and the fast turn around delivery time required by buyers, a more efficient system, in all areas of operations, is needed.	There is a need to develop, upgrade and install an integrated online information systems software for faster and more efficient sourcing and delivery of goods.

INBOUND LOGISTICS		
FINDINGS	**CONCERNS**	**RECOMMENDATIONS**
TECHNOLOGY DEVELOPMENT		
The nature of the industry is such that it is necessary that producers introduce new materials in their products. It is then important that producers have access to such new raw materials. As of now, there are no updated references on sources of materials and supplies that would help in the sector's product development. There is also a lack of knowledge on sources of support manpower which can be used to complement the firms' production requirements.	There is a need to develop and establish a system that would help the sector have easier access to supplies and suppliers from within the Philippines and abroad.	To be able to come up with a reliable set of reference materials on materials/supplies and sources, the following activities may need to be done: ▪ Establishment and installation of an e-map of subcontractors and suppliers which can be referred to when information on materials supply and production manpower (sub contractors) are needed by exporters. ▪ A data base of all materials used by exporters can be set up to establish standards for materials and for easier monitoring of raw material needs. ▪ The use of an appropriate computer software could be very helpful in addressing these concerns.
The present process of quality inspection is done visually and manually which may not be very effective after some time especially when the volume of articles inspected reach several thousands of pieces.	To help ensure quality and reduce incidence of rejects, a set of acceptable quality standards have to be established prior to conversion of raw materials into components.	Aside from exporters specifying the exact standards to their processors, the sub contractors should also be trained to conduct quality test on the materials prior to its conversion and also after processing of materials. This is important especially when materials have been processed with chemicals. Test on possible skin allergy, material reaction to changes in temperature, color fasting, etc. have to be done by the sub contractor.

INBOUND LOGISTICS		
FINDINGS	**CONCERNS**	**RECOMMENDATIONS**
PROCUREMENT		
There is no problem in the availability of transportation services in the pick up and delivery of materials.	No concern at the moment	None at the moment
The present system commonly used by the industry is manual. The physical inventory of materials using index cards is adequate at the moment since many of the companies do not really keep big inventories in their warehouses.	No concern at the moment	None at the moment
There are available computers in the companies which can be uploaded with programs for use in monitoring the whole process of operations, from procurement to delivery.	Software programs are quite expensive and there are members of the industry who may not be able to afford it.	▪ The sector may need to look into the possibility of co sharing the cost of the development of the on-line integrated system that would cover the whole process of operations from procurement, production, marketing to shipping. ▪ The sector may need to find sources of subsidy to partially cover some of the developmental cost of the software

OPERATIONS		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
HUMAN RESOURCES DEVELOPMENT		
The Costume Jewelry Center, a common service facility for metal casting, electroplating and other production services, was set up through the joint efforts of the Department of Trade and Industry and the Department of Science and Technology to service the requirements of the sector. They also offer ancillary services in marketing, training, research and improving sub contractor services. The Center is a major link in the development of the sector and is managed by the FAME Foundation, an association of costume jewelry manufacturers and exporters.	The services of the Center seem to be too spread out at the moment without much focus.	The Center may need to review its priorities in order to attune their services to the present requirements of the sector. It is also recommended that the Center hire a Consultant for a certain period of time to assist them in drawing up programs and in setting up systems on how to run a common service facility effectively.
The Center offers training programs and seminars on Personnel Development and Business Ethics to professionalize the players in the industry.	As the sector employs a lot of sub contracting activities, there is a need to intensify education of subcontractors on the business ethics of handling design concepts especially those owned by the exporters. This would hopefully reduce incidence on design copying and issues in similarity of products.	It is recommended that Value Orientation on responsible practices and ethics shall be integrated in all the training programs to be implemented by the Center to preserve integrity of designs supplied to sub contractors.
The current system of recruitment of piece workers is adequate.	No concern at the moment	None at the moment

OPERATIONS		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
HUMAN RESOURCES DEVELOPMENT		
The market has become more competitive, in terms of price. Manufacturers need to continuously update their skills in then most cost efficient means of production.	The fees for training programs are quite expensive which deter a majority of the sub contractors from attending.	As the market becomes more demanding in terms of price, design and quality, the Costume Jewelry Center should offer more training programs that would help the industry upgrade the present skills of the labor force and help attain the highest level of productivity. The basic training courses may include proper drying, cutting, etc. to reduce production time and wastage of materials. The subcontractors, who play a major part (at least 50% of production of jewelry are done through subcontracting) in the manufacturing of costume jewelry, should be given considerable training for production efficiency that would help improve quality and value of product they work on. To encourage them to attend trainings the following measures are recommended: ▪ The subcontractors may be offered subsidized rates to reduce their cost for attending training. ▪ The sector may consider accreditation of sub contractors to encourage them to upgrade their technical knowledge and skills.

OPERATIONS		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
TECHNOLOGY DEVELOPMENT		
Presently, majority of the sub contractors use hand tools in the fabrication of component parts. The sector needs to retool or upgrade their existing production facilities to improve processing of components.	The sector, especially sub contractors, do not have enough finances to retool or upgrade their existing tools and equipment.	There is a need for financial assistance for sub contractors and exporters who wants to upgrade their facilities.
The sector seems to be lacking a proper system to manage waste materials.	There is a need to comply with environmental policies to protect the health of the workers and the environment in general.	Installation of proper facilities and implementation of waste management systems are recommended to safeguard the health of workers and surrounding areas.
The work sheets for monitoring production activities are mostly done manually.	There is a need to improve the present monitoring system especially with the many subcontractors employed by the exporters in manufacturing their products.	The system for monitoring production activities may be included in the development of the software for the integrated on-line information systems.
The preparation of semi processed materials for assembly by sub contractors needs to undergo a better system for quality inspection prior to distribution to the sub contractors.	There is a need to reduce rejects or reworking of finished products.	A 100% inspection of components prior to delivery to sub contractors should be instituted. Sorting and quality check of components may take time but this would reduce rejects or reworking of finished products.

OPERATIONS		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
TECHNOLOGY DEVELOPMENT		
Monitoring and quality check of production activities done by the subcontractors vary. Examples include: • Some companies have Quality Inspectors who go around the different sites several times while production is ongoing • Other firms monitor production through telephone and does the quality check at least twice during the production period, once in the middle of production schedule and another after the goods are ready for delivery to the exporter's office. • Others, once control sample is approved, do quality inspection when goods are delivered to their factory.	There is a need to improve the monitoring of sub contracting activities which includes movement in production, material consumption, and inventory of materials	The development of a system for monitoring activities by the sub contractors may be included in the integrated online Information Systems that would cover preparation of work sheets and materials and monitoring of production done by sub contractors. This way it would be easier for the owners to check on the movements both in production and material consumption To cut down time on pick up and delivery of products from the sub contractors, 100% actual inspection of finished or semi assembled goods should be done at the workshops of the sub contractors prior to delivery to exporters A technical consultant is recommended for engagement to draw up the quality assurance program and conduct the training in coordination with the Costume Jewelry Center.
There is a lack of continuous research and development on the different applications and treatment of natural materials for possible use in product development.	The sector needs constant upgrading of techniques in finishing of raw materials.	The Costume Jewelry Center should continuously undertake research and development on processing, finishing and application of natural materials. This will maintain the competitive edge of the industry.
There is no problem on the availability of transportation services for monitoring activities of the sub contractors.	No concern at the moment	None at the moment

OUTBOUND LOGISTICS		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
HUMAN RESOURCE MANAGEMENT		
The workers are familiar with the requirements in processing documents for exports. They are also aware of the different certifications needed for exporting products of natural materials.	No major concern at the moment	None at the moment
The products are packed based on buyer's specifications.	Not a major concern at the moment	None at the moment
TECHNOLOGY DEVELOPMENT		
The present system in processing documents for export can still be improved.	To reduce paper work from shipment to collection, documentation procedures need to be streamlined.	An appropriate system for processing of export documents can be developed and incorporated in the development of an integrated on-line information system.
PROCUREMENT		
Transportation Services for delivery of products to sea port or airport, buying agents or consolidators is not a problem.	No concern at the moment	None at the moment

MARKETING		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
HUMAN RESOURCE MANAGEMENT		
The Costume Jewelry Center provides administrative support in the promotional activities of the member companies which facilitates easier coordination with trade fair organizers.	No concern at the moment	None at the moment
There seems to be insufficient capabilities in analyzing market intelligence reports that could possibly affect the trade of costume jewelry.	There is a need for more aggressive marketing activities, other than participation in international trade fairs and selling missions, to sustain market gains and facilitate entry to new markets.	The sector needs to learn how to analyze market/merchandise data for possible trade opportunities. The market intelligence skills of the sector need to be developed. The research competency of the Center staff should be built up so that supply, product and market research can be done to facilitate market linkages. Hiring of a Marketing Consultant with extensive experience and knowledge of the international market for costume jewelry is recommended. The Consultant shall undertake market research and draw up marketing strategies for the sector.
Some players in the sector do not seem very familiar with the different market segments and its idiosyncrasies which is quite obvious at the range of the products that they carry and its corresponding prices	There is a need to properly identify the market segment/s that the firms in the sector want to serve	Firms should undertake a proper identification of the market segments that are appropriate for their products and production capabilities, so that they can come up with appropriate marketing strategies to expand market share. The Marketing Consultant who will handle market research is recommended to also train the sector on market segmentation.

MARKETING		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
HUMAN RESOURCE MANAGEMENT		
New recruits lack negotiating skills with buyers.	There is a need to train the new recruits assigned to handle sales to make them more confident in dealing with foreign buyers.	Training of sales personnel on Export Merchandiser's Course is recommended.
TECHNOLOGY DEVELOPMENT		
The library of the Costume Jewelry Center has information materials on market and merchandise like market surveys done or published by the different foreign agencies.	There is a need to expedite dissemination of important information like new market studies, developing trends in the market or any fashion related materials among members of the sector.	For easier access of the sector to information materials pertaining to the fashion industry, the Center has to upload such materials in their website for reference by their members.
The Center is assisting the sector in buyer-seller matching	No concern at the moment	None at the moment
The Center maintains facilities for a Common Display Area (mini showroom for the sector) but the products on display are not regularly changed.	Samples exhibited at the Common Display area look "old" and are not representative of what they are capable of producing	The sector needs to evaluate and decide on the importance of a Common Display as a promotional tool. If such is the case, then the products on display need to be changed regularly.
The Center is maintaining a website for the sector where buyers can log on to get basic information on the manufacturers.	None at the moment	None at the moment

MARKETING		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
TECHNOLOGY DEVELOPMENT		
The sector needs printed promotional collateral to promote the industry in general and the companies in particular.	The sector finds it expensive to constantly print brochures every time there are new products developed.	It is recommended that an institutional brochure be printed for the sector containing basic information on the industry and the member companies. They may opt to insert photos of products for visual impact. With this concept, the sector does not have to constantly reprint the material. They can just change the photos every time there is a need for it.
The sector may consider making serious steps towards brand merchandising.	The sector needs to assess its members' readiness for brand merchandising.	At this time, some members of the sector seem to have the necessary capabilities to go into brand merchandising. However, the decision should be well thought of as this requires a more focused kind of marketing strategy. Brand merchandising may be able to bring the Philippine products a notch higher in the world market. A strategic workshop on Brand Merchandising is recommended so that the sector can have a better appreciation of the market requirements for branded products.

SERVICES		
FINDINGS	**CONCERNS**	**RECOMMENDATION**
HUMAN RESOURCE DEVELOPMENT		
The existing core of sales personnel for the sector seems to be able to handle complaints from customers.	No concern at the moment	None at the moment
PROCUREMENT		
If a buyer complains that there are damaged items in the shipment, the exporter either asks for assistance from the shipping company used or sometimes hires the services of an agent to assess the validity of the issue on hand.	No concern at the moment	None at the moment

6

Needs Assessment of the Sector

Based on the value chain analysis of the costume jewelry sector in Cebu, some issues and needs were identified. These are as follows:

Inbound Logistics

- The sector needs a wide variety of components to produce designs using mix media materials.
- Metal and synthetic components are mostly imported, sourced from local traders. The manufacturers, especially the small-scale companies, largely depend on whatever is in stock or available in the market, which may be meager sometimes.
- There is a lack of reference materials on jewelry components, containing brief descriptions and contact information on suppliers.
- The level of quality inspection for incoming materials and components need to be made more systematic.
- A system for better management of inventory, procurement and suppliers' records, needs to be instituted.

- Updated references on new materials and suppliers is required to facilitate new product development.

Operations

- Subcontractors have limited financial resources but need to invest in machines, tools, and equipment to upgrade production.
- A review of the priorities of the Costume Jewelry Center may be needed to attune their services to the present requirements of members.
- Subcontractors need to upgrade skills and techniques in finishing to add value to the components that they produce for the exporters.
- Subcontactors need to improve their work values and business ethics to increase their reliability.
- Training fees of programs offered by either government of private institutions need to be reduced to allow more workers from both firms and subcontractors to avail of the services.
- There is a need to have an updated and expanded list of subcontractors and their services for reference by exporters.
- Continuous research and development on new finishing techniques and application of natural materials are needed to give a "fresh or different look" to natural materials.

- Constant product innovation and development of new items are required to maintain the interest of the fast-changing tastes of the consumers.
- Fast turnaround time (production and delivery of orders) and appropriate pricing are needed to gain the trust of buyers.
- Prices of components made of natural materials must be stabilized. Suppliers tend to increase the prices— by as high as 100%— whenever demand goes up.
- Firms should comply with environmental policies and improve waste management.
- There is need for a system to monitor the work process flow, including subcontractor activities, material consumption and inventory.

Outbound Logistics

- Shipping and related documentation procedures need to be streamlined.
- A better system for coordinating shipping with inventory and other functions need to be explored.

Marketing and Sales

- The potentials of the domestic market for some firms must be explored.
- A systematic approach to gathering market intelligence

as well as improving the skills to analyze market related information must be developed.

- Reference materials on the market should be expanded and updated.
- A review of present market development activities must be made in order to explore other market entry channels other than trade fair participation.
- Participants in trade fairs and selling missions must prioritize and rationalize their promotional activities.
- Brochures and promotional materials on the basic services of the sector and its capabilities, which buyers may use as reference when sourcing for products, should be produced.
- The country's image in the international market must be upgraded. There seems to be a pre-conceived notion that products coming from a developing country are cheap.
- Firms need to communicate constantly with buyers and get as much directions from them in terms of trends and market requirements.

Services

- No concerns at this time.

7

Proposed Areas for Intervention

Based on the needs of the industry, certain measures and activities are recommended. Given below is a summary of these recommendations.

1. Reassessment of the function and services of the Costume Jewelry Center so that its activities are more focused.

As has been observed, industry members seemed to have different opinions on the main activities of the Center. Some want the Center to become a moneymaking common service facility focusing on the production of metal components in commercial quantities. Others want the Center to concentrate on developmental activities, according to the mandate that created it, viz., as a common service facility to support the research and development efforts of the sector.

Given these views, the following activities should be considered as priorities for the Center's services to the industry:

- Research and development on processing, finishing and application of natural materials that are still competitive in the industry.

- Skills training in production technology to assist manufacturers in making products in a cost-effective way and attain the highest level of productivity in order to solve pricing problems. It should be noted that price is an important factor in the buyer's purchasing decision
- Training in:
  - ✓ Forecasting trends
  - ✓ Pricing and costing
  - ✓ General management, including strategic planning and goal setting, to enable companies to measure performance against set targets.
  - ✓ Production systems management

Since almost 50% of production activities are done by subcontractors, it is recommended that they be offered affordable training programs on production efficiency and technology, materials manipulation, business ethics, etc.

2. Hiring of a management consultant with a strong technical background.

The equipment at the Center are not put to full use. Therefore, it is recommended that a technical consultant be hired to assess, make recommendations and assist FAME, DOST and DTI in formulating rules for a common service facility that will function effectively to meet the needs and requirements of the sector. This consultant can also undertake a production process study of industry operations to pinpoint areas of improvement.

3. Utilize Information Technology in Market Intelligence.

With the very fast changing demands of the market, information on trends or anything fashion related should be made available to the industry at the soonest/fastest possible way. Information technology and facilities can be used extensively in data gathering, storage and processing. A suitable database can be established for the industry on market and related concerns.

4. Develop E-Mapping for Materials.

Electronic mapping can be considered in discovering sources for possible materials that could be converted into jewelry. Such mapping would give information on where the materials are available and may include other factors such as prices, suppliers, grading of components, etc. This activity can be jointly undertaken with other agencies such as the Department of Trade and Industry, Department of Science and Technology and possibly the local government units.

5. Bulk Buying of Materials.

Bulk buying of raw materials is an ideal setup for an industry where the volume requirements of one company may not be big enough and cost effective for direct importation. The existing functions of the Costume Jewelry Center and FAME may not be ideal for the logistical and financial requirements of this activity. Therefore, it is best operated by a separate group.

6. Strengthening of Product Development Skills.

In their desire to create more demand for Philippine jewelry, members of the FAME with some design expertise have formed a group called Fashion Fusion. Its main objective is to help individual companies create new designs that would attract more buyers into sourcing from the Philippines. They have held workshops on trends analysis and design. To help sustain the efforts of the group, it is recommended that the mechanics for sustaining this activity be put in place and incorporated as part of the regular activities of FAME. Once Fashion Fusion is formally organized into a mini product clinic group, it could conceivably replace expensive foreign consultants. The activities should also be endorsed to such government agencies as CITEM, PDDCP and BETP for their possible support.

7. Establishment of Information Systems.

To meet market demand for shorter lead times, producers' operations should be streamlined. The use of Integrated Operating Systems software is highly recommended for the fashion accessories. Apart from speeding manufacture, it will also reduce time and effort in monitoring subcontracting activities. Initially, the software can encompass common information requirements of the fashion accessories sector from product development to shipment of orders. The software can be made available to industry players who are willing to invest in it.

8. Setting up an Environmental Management System.

Since the competitive advantage of the costume jewelry industry is in its use of materials that are natural and indigenous, it is imperative that the industry develop responsibility and conscientiousness in its use of these materials. Replenishment by tree planting could be one of the measures to be undertaken by the sector. Wastewater treatment facilities could be installed by companies that do metal processing. An integrated system for managing responsibly the effects of the industry should be explored.

9. Design Consultant

Hiring consultants who specialize in product development, including design and upgrading of manufacturing techniques, should be considered. This engagement should consider not only product designs that are acceptable in the international market but also production processes that allow for more competitive costing.

10.Define Target Markets

As fashion trends become more diverse, the market also becomes more fragmented. It is therefore imperative for exporters to define the market segment they want to serve so they can position their merchandise and negotiate for better prices. They should determine if the requirements of these market segments fit their own design and production capabilities. A marketing consultant with extensive experience and knowledge in the international market for costume jewelry, should be considered. The consultant should also undertake market research and draw up marketing strategies for the sector.

11. Trade Promotion Activities

With the high cost of product sourcing coupled with security concerns, buyers are now becoming more selective of the international trade fairs that they attend. Exporters should therefore consider going to countries they have not looked into so far, but where they believe their products will have a good market.

Greece and South American markets, which are not traditional markets for Philippine Costume Jewelry, have registered high rates of growth from 1997 to 2001. So, desk research on their market requirements and merchandise preferences should be done to explore potentials for Philippine products. Spain and Hawaii have also been identified as growing markets for Philippine costume jewelry.

12. Production of an Institutional Brochure

The industry should consider investing in brochures with information on the costume jewelry sector, its services and the general membership. As a promotional tool for the entire sector, it would be cost-effective and allow smaller members to reach out to larger potential markets.

ANNEXES

Annex 1
Value Chain Analysis as Used in the Sectoral Enhancement Component of Pearl2

The Value Chain Concept

Value chain analysis is a method for identifying and understanding the various activities of an organization that provide value to its products or services and the linkages among such activities. It is used to determine which aspects of a firm's operation can be enhanced, where to reduce costs, optimize resource use, or even reconfigure the entire chain of operations for better performance. The end result of this effort is increased product or service value, lower costs of operation or both.

A value chain covers of two sets of activities. The first refers to the primary activities of a firm and consists of inbound logistics, operations, outbound logistics, marketing & sales and service. These are the activities that organizations engage in to produce a product or service. The second set covers support activities that indirectly contribute to the firm's operations. These include organization infrastructure, human resource management, technology development and procurement.

All these activities are linked together and work in a process which can be structured into a value chain diagram. A firm's value chain can also be linked with external chains such as those of its suppliers or buyers.

Value Chain Analysis in Sectoral Enhancement

An adaptation of the generic value chain described in Michael Porter's book, "Competitive Advantage", was used to analyze the structure and performance of industries or sectors covered in Sectoral Enhancement. Originally, the value chain was designed for company-level evaluation. In the Pearl2 project, however, it was used to develop a framework for understanding how a particular industry operates with the objective of determining the needs of that sector. On the basis of such needs assessments, it is possible to identify areas where appropriate assistance can be provided.

Basically, work on the sectors included designing the value chain diagram, developing a table describing the main components of the value chain and analyzing the flow of the chain to identify issues, problems and recommended courses of action. Such an assessment brought out the needs of the sector and allowed closer evaluation of them. The value chain analysis focused primarily on producers who are members of the Business Support Organization (BSO) identified for the sector. The analyses are not by any means comprehensive and do not involve any cost estimates for the chain or a comparison of the industry value chain with similar structures in other countries or regions. No references were made to external value chains. Time and resource constraints did not permit such additional work.

Annex 2
Classification of Costume Jewelry Products by Harmonized System and Philippine Standard Commodity Classification

HS	PSCC	Description
7018.10.00	665.93-01	Glass beads, imitation-pearls, precious/semi-precious stones and similar glassware
7117.11.90	897.21-01	Cuff-links and studs, of base metal, whether or not plated with precious metal
7117.19.90	897.21-02	Tie clips, of base metal, whether or not plated with precious metal
7117.19.90	897.21-09	Imitation jewelry, of base metal, whether or not plated with precious metal (n.e.s)
7117.11.10	897.21-11	Parts, n.e.s., of sub-item 897.21-01
7117.19.10	897.21-19	Parts, n.e.s, of sub-items 897.21-02 and 897.21-09
7117.90.90	897.29.01	Cuff links and studs, of other non-precious materials
7117.90.90	897.29-09	Imitation jewelry, of other non-precious materials, n.e.s.
7117.90.10	897.29-11	Parts, n.e.s., of sub-items 897.29-01 and 897.29-09
9606.21.00	899.83-03	Buttons, of plastics, not covered with textile material
9606.22.00	899.83-04	Buttons, of base metal, not covered with textile material
9606.29.00	899.83-05	Buttons of shells
9606.29.00	899.83-09	Buttons of other materials
9606.30.00	899.84-02	Button blanks & other parts of buttons
9615.11.00	899.89-01	Combs, hair slides & the like, of hard rubber/plastics
9615.19.00	899.89-04	Combs, hair-slides & the like, of other materials
9615.19.00	899-89-09	Combs, hair-slides & other materials

Source: Department of Trade and Industry

Annex 3
Brief Background on the Fashion Accessories Manufacturers and Exporters Association (FAME), Foundation Inc.

Cebu FAME Incorporated was established in 1987 with an initial membership of 15 exporters. Since then, membership has increased to 70 and the organization has been converted into a Foundation. The membership represents a majority of the costume jewelry exporters in the country.

The Cebu FAME Foundation holds office at the Costume Jewelry Center, a facility established with the support of the Export Development Council, the Department of Trade and Industry and the Department of Science & Technology. The organization provides information to its members, as well as organizes training activities such as seminars and workshops. It also promotes and markets the products of its members by participating in international trade fairs and organizing selling missions.

The Cebu FAME Foundation has for its vision helping members to achieve international recognition as world-class exporters and manufacturers. It also endeavors to develop design capability and promote the image of Filipino artistry.

The mission statement of the Cebu FAME Foundation

- To uplift the costume jewelry and fashion accessories industry of the Philippines.
- To have strong representation with various individuals and institutions to support our industry development projects.
- To promote and upgrade the standards of manufacturing in order to produce quality products that meet market demands.
- To provide our members access to the global market.

Annex 4
World Imports of Costume Jewelry, 1997 to 2001
(in US$ '000)

Year	Country	1997	1998	1999	2000	2001
1	United States	498,815	526,842	588,778	667,960	707,462
2	Hong Kong	150,332	141,959	157,670	170,878	173,598
3	France	101,547	122,041	125,293	144,833	162,741
4	Germany	85,097	152,907	179,742	165,150	156,650
5	Japan	125,566	121,842	133,910	146,070	152,049
6	United Kingdom	120,393	118,813	122,149	151,858	151,600
7	Italy	43,744	47,868	50,995	62,692	74,333
8	Canada	54,055	56,155	65,778	66,058	65,947
9	Austria	47,700	54,698	50,887	55,849	63,161
10	Spain	34,199	37,260	59,606	52,872	61,834
11	Switz. Leichtenstein	58,762	57,951	52,771	51,243	54,034
12	Mexico	26,712	27,285	23,721	31,155	42,097
13	Netherlands	33,244	31,211	35,355	40,896	35,451
14	Belgium	0	0	27,943	31,024	34,363
15	Australia	29,324	26,207	28,682	40,428	31,457
16	Rep of Korea	26,711	15,169	20,702	27,807	26,633
17	China	16,700	14,183	21,027	22,621	25,171
18	Saudi Arabia	0	23,877	21,248	22,144	19,417
19	Norway	15,492	13,958	14,441	16,151	17,907
20	Singapore	23,437	12,201	16,573	16,574	15,233
	Others	151,791	120,007	90,698	88,433	98,347
	Total	1,643,621	1,722,434	1,887,969	2,072,696	2,169,485

Source: International Trade Centre, UNCTAD/WTO

Annex 5
World Exports of Costume Jewelry, 1997 to 2001
(in US$ '000)

Year	Country	1997	1998	1999	2000	2001
1	China	408,270	449,738	563,339	726,507	861,278
2	Rep of Korea	200,985	228,177	277,127	287,342	267,834
3	Australia	70,032	152,627	156,130	137,593	137,247
4	Hong Kong	102,363	90,119	105,813	116,156	114,448
5	United States	144,036	137,962	126,439	126,006	100,494
6	France	80,726	69,744	77,079	85,576	90,387
7	Thailand	63,500	66,771	66,598	73,586	87,056
8	Italy	60,651	65,207	66,103	63,154	69,510
9	Germany	72,085	66,376	63,368	61,903	65,923
10	India	39,170	47,890	58,695	79,952	60,342
11	Taiwan	109,312	92,384	75,131	66,969	56,939
12	United Kingdom	53,387	46,215	45,097	43,499	42,395
13	Spain	35,856	40,432	32,699	28,185	25,732
14	Mexico	24,424	25,281	15,620	16,975	24,213
15	Czech Rep	16,274	22,628	23,204	26,224	22,751
16	Philippines	12,938	13,188	22,407	22,840	20,353
17	Switz. Liecht	9,778	11,209	13,386	15,647	17,579
18	Ireland	37,067	29,560	26,177	16,007	16,067
19	Netherlands	18,040	16,219	30,262	14,844	11,940
20	Canada	19,511	14,176	13,537	13,979	11,450
	Others	65,216	36,531	29,758	49,752	65,547
	Total	1,643,621	1,722,434	1,887,969	2,072,696	2,169,485

Source: International Trade Centre, UNCTAD/WTO

Annex 6
Philippine Exports of Costume Jewelry, 1998 to 2002, by Major Country of Destination
(in US$ '000)

Country	1998	1999	2000	2001	2002
United States	4,543.54	7,642.53	9,895.26	8,128.49	12,818.69
Japan	3,007.97	7,028.73	4,589.39	2,837.87	3,326.47
United Kingdom	704.46	1,207.39	1,582.74	1,154.38	2,450.81
Italy	960.71	1,812.36	1,375.24	1,514.09	2,369.54
France	1,364.88	1,853.00	1,152.63	1,408.34	2,080.89
Spain	788.76	1,515.07	1,956.94	1,741.41	1,998.29
Germany	1,953.05	3,385.54	2,057.01	1,815.16	1,989.32
Others	3,007.56	5,714.45	7,571.97	6,680.99	9,931.73
Total	16,330.91	30,159.06	30,181.19	25,280.72	36,965.74

Source: Department of Trade and Industry

Note: Figures may not add up due to rounding.

Annex 7
Summary of Incentives Provided Under the Jewelry Act (R.A. 8502)

Under R.A. 8502, the following incentives are given to jewelry firms:

1. 0% duty on imported raw materials and capital equipment
2. Exemption from excise tax
3. Entitlement to a deduction from taxable income equivalent to 50% of expenses incurred in training, subject to the following conditions:
   3.1 Training must be approved by the Technical Education and Skills Development Authority (TESDA) for post secondary non-degree programs and/or
   3.2 Commission on higher Education (CHED) for degree programs
4. Entitlement to gold and silver sales by the *Bangko Sentral ng Pilipinas* with minimal charges
5. Inclusion of locally manufactured jewelry products in the government's tourist duty free shops

Annex 8
Channel of Distribution for Costume Jewelry