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**What does
world class
mean?**

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“Continuous education and collaboration is needed in order for a supply chain professional to be world class.” From page 14, our series of essays looks at what world class means

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WHAT DOES WORLD CLASS MEAN?

From professionalizing our supply chain practitioners to better planning of our towns and cities, our series of essays looks at what world class means

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We look back at what 2015 has been for us so far, including a tie-up with TESDA and our new Supply Chain Outlook event

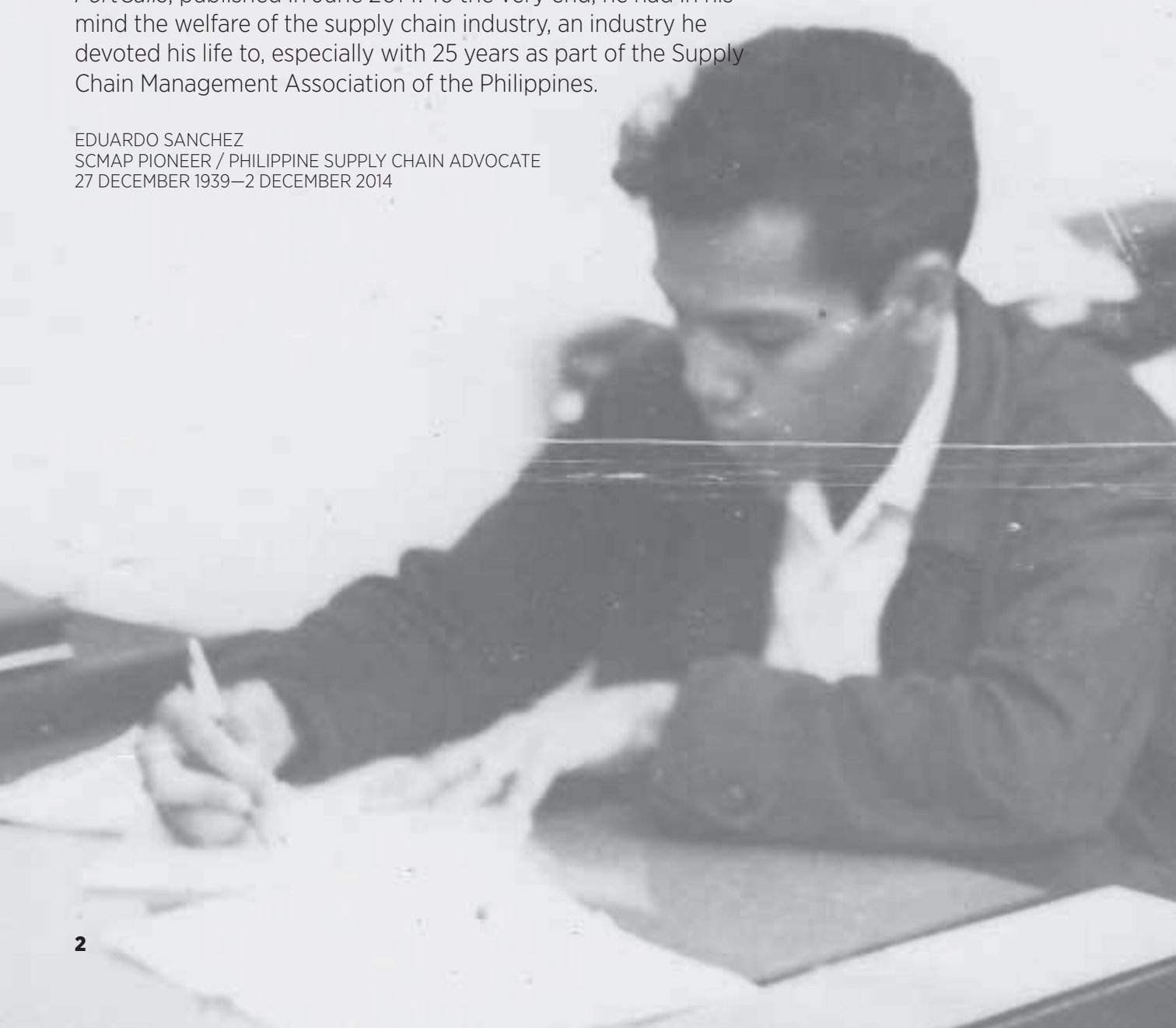
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“As I leave with 25 years of DMAP and SCMAP behind us, a different challenge faces [the organization]. Former NEDA head Cielito Habito has issued a challenge to businesses, which is to enhance the efficiency of their supply chains to seize the opportunities offered by regional and global production networks as ASEAN integraton starts. Firms need to focus on improving supply design and strategic location of various business functions.”

This is the closing paragraph to Ed Sanchez's final column with *PortCalls*, published in June 2014. To the very end, he had in his mind the welfare of the supply chain industry, an industry he devoted his life to, especially with 25 years as part of the Supply Chain Management Association of the Philippines.

EDUARDO SANCHEZ
SCMAP PIONEER / PHILIPPINE SUPPLY CHAIN ADVOCATE
27 DECEMBER 1939—2 DECEMBER 2014



MARK PHILIP COMANDANTE PRESIDENT'S MESSAGE



Becoming world class.

Most organizations and companies would have this battle cry at one time or another. Some would have this as a guiding mindset, while others would find it as an unreachable and elusive desire—a goal that is on the horizon but seems difficult to achieve. However, only a few recognize that becoming world class has become a need to stay ahead. For those who see this muster the courage, fix their eyes on it, and do whatever it takes until the prize is in their hands.

But what is world class all about? Can we even get there?

As SCMAP sets its gaze for 2020 and aspires to be the organization that moves the global competitiveness of the Philippine supply chain industry, I believe it is also important for all of us to look into our own organizations. Since SCMAP is a sum of different components, comprised of its members and representatives, reaching world class status is a collective aspiration and commitment from all of us.

This issue of *Supply Chain Philippines* gathers the thoughts of supply chain professionals in the country across different industries in the attempt to answer this question.

In different opportunities that I have to speak with colleagues, company and government leaders, and even with friends, I have come to realize that all of them agree that, to stay competitive, a world class status should be sought for.

Their definition of how their world class organization should look like varies from one person to another but I notice they share three common elements. One, they have a vision and they set-out a strategy how to get to world class status. Two, they study and implement best practices not only within their industry but across different industries. Three, they put upon themselves a measure to keep on improving their performance.

I also notice that in developing their strategy, they have a company specific strategy for supply chain management and collaboration—which takes into account both upstream and downstream integration. More importantly, this strategy has functional buy-in and is interlaced within the company's business plan. At the heart of their strategy is a strategy for people, strategy for talent and talent management to bring their supply chain to the next level.

The article "The Struggle for World Class Supply Chain Management" says: "The journey to world class status must be planned with the next generation of management in mind." I couldn't agree more. I put further emphasis on the supply chain professional as they are strategically positioned to interface

across the different functions in the organization. They can either propel the organization for growth or hasten its downfall.

In a study by M. Deluca, senior director for supply chain solutions and consulting at UPMC, he puts out the following questions: If your internal supply chain customers and external suppliers were surveyed about the service quality of your organization, would they say internal customers receive quality products from suppliers on time and as desired? Would they indicate your processes are clearly defined and measured by the appropriate metrics? Would finance and audit professionals report the organization provides the proper controls?

At the core of these questions is the emphasis that there must be a substantial effort to increase the level of efficiency in supply chain management as the strong foundation of competitiveness.

Another literature by Solving Efeso identifies four pillars that belong to world class supply chain management: a world class supply chain; lean flow; distribution network and transport; and suppliers integration. They further emphasized KPI focus, optimization of supply chain flows, and continuous constraints attack—all these with the aim to workflow and time minimization, inventory reduction, removal of constraints and reduction of variability.

These concepts apply across the different levels of supply chain man-

PRESIDENT'S MESSAGE

agement from strategic planning, to tactical planning, to execution.

What is clear today is that the demand to bring the supply chain to the next generation is becoming more crucial than ever. Leaders are now looking at the supply chain as a competitive advantage and to do so would require commitment and resources to be invested on infrastructure, technology, people, and people development.

From company-level to industry-level and economy-wide competitiveness, experts here and abroad point towards good governance and the state of infrastructure as binding constraints of Philippine progress. These significantly affect the supply chain process. On one hand, the cost of transport and logistics increases because of the bad quality of roads, ports, and airports. On the other hand, national and local policies directly and indirectly limit or disturb the supply chain process (e.g. lack of national transport policy, truck ban, etc.). Thus, it is important that, collectively, the private sector must engage the policymakers regularly in a constructive dialogue in order to demand reforms that will facilitate a fair, competitive, and efficient transport and logistics environment.

On January this year, the board of directors convened for a strategic meeting and worked on the programs for the coming years. We revisited the mission of the organization, identified our customers and stakeholders, looked into local and global trends, and set our goals for 2015 to 2020. We all agreed that together, and through SCMAP, we will bring the Philippine supply chain industry to world class level and through this do our share in nation building. "SCMAP: Go World Class!" was born.

This theme will be continuously anchored on three pillars:

- Advocate policy reforms that will strengthen and improve supply chain management by building a network of partners that will further the cause of SCMAP and increase its democratic voice.

"Leaders are now looking at the supply chain as a competitive advantage and to do so would require commitment and resources to be invested."

- Communicate supply chain trends, ideas, best practices, concerns, challenges, and innovations to its stakeholders.

- Educate supply chain professionals and stakeholders to make them globally competitive.

With this, we designed the programs and key priorities of the organization as follows:

- It will be an organization that represents the Philippine supply chain industry and will provide a venue for discussion and cooperation among its vast number of members.

As part of this goal, we put it upon ourselves to bring the membership base to 1,000 members strong by 2020. The Visayas and Mindanao chapters will play a crucial role.

- It will be a center of SCM education that further advances the competencies of the supply chain professional.

- It will be an organization that serves as a warehouse of industry trends and world class supply chain systems and standards.

This year, further strengthening our network and strategic technical competency, we forged a partnership with Research, Education, and Institutional Development (REID) Foundation, as we establish SCMAP's Center for SCM Research and Policy. One output is the paper of Dr. Enrico Basilio discussing the Philippine cabotage principle. Other output and activities of the Center relate to SCMAP assistance in other research initiatives by different institutions currently going on.

We also work hand in hand with Technical Education and Skills Development Authority (TESDA) in a competency benchmarking study with Australia, China, Indonesia, Vietnam

and the Philippines. This joint effort aims to understand how our professional standards compare to our neighbors and consequently, develop programs to ensure the development of the Philippine supply chain professional is aligned with global requirements. You will experience most of this in the studies, forums, and panel discussions the organization is sponsoring.

Even the design of Supply Chain Mornings and General Membership Meetings will follow this mindset. Mornings now focus on technical development, while the GMMs focus on high level discussions on industry update, professional development, and strategic discussions.

Moreover, during our first Vismin Supply Chain Conference, we will launch our joint collaboration with Fountainhead Technologies as one of our technology partners. One of our projects will be the SCMAP supply chain professional portal, a directory for supply chain professionals in the country.

- It will be a critical force in nation building through a proactive and concrete voice in key policy reforms needed for global competitiveness of Philippine SCM.

With our partners we build a collective voice to influence policy makers in developing reforms to keep on improving the Philippine supply chain landscape. For example, we actively participate in discussions with government on addressing recent port congestion; understanding the impact of the truck ban; dialogues with MARINA, DTI, INTHA, CTAP, and Aduana Business Club to discuss the impact fuel prices; and many more.

Finally, allow me to further invite you to bring more people to join our cause. Bring them to SCMAP and share the chance to contribute to nation building.

Together, we will further advance competitiveness of the supply chain landscape of our country.

Together, SCMAP will be world class!

HENRIK BATALLONES CHAIN REACTION



The very last time I saw Ed Sanchez—“Sir Ed,” as I always called him—was during the election of the SCMAP board last November. He didn’t stay long; he said his hellos, but left early to rest. He usually oversaw the voting, but the task was left, this time, to Norman Adriano, our secretary general.

A month later, Sir Ed passed away, after a six-month battle with cancer. I was elected as a member of the board, and I watched with interest as his colleagues and friends paid tribute to him during our Christmas fellowship.

I have not known Sir Ed for very long. My involvement with the organization began a little over two years ago, and only in recent months have I had a grasp of how he led what was then the Distribution Management Association of the Philippines into its position as the premiere supply chain management organization in the country. These stories of how he fought against unjust transport rate hikes, and later his work towards the development of the country’s supply chain industry—I’m still hearing some of them to this day. His tall legacy continues to inform our decisions and moves in SCMAP.

We honed in on one key message during our planning session last January. We have to go world class, especially in the age of an increasingly connected global economy. We have to be able to compete with the world’s best, and aim not just towards our traditional customers in our home lands, but also potential customers outside

our borders. We in the supply chain profession, as literally the movers and shakers of this economy, hold a critical role in making this possible.

Whatever your personal opinion may be, you have to admit the Philippine situation has been encouraging. There’s increased confidence both among businesses and consumers alike. But significant roadblocks remain. Our infrastructure is not well equipped to handle this influx. As we’ve seen in Manila’s ports last year, government policies are not always geared towards encouraging growth and competitiveness. While there are moves to ensure we are able to bring our economic growth further, there’s a feeling that it wouldn’t do much, especially with ASEAN economic integration—and all the challenges and opportunities that come with it—looming.

There’s definitely more room to allow us to become world class, and in this issue of *Supply Chain Philippines*, we look into just what “world class” exactly means, and how we can get there. Our essays on the subject will not just be through the lens of a supply chain professional, however: being world class, of course, encompasses so many things and entails so many interpreta-

tions, and its effects ultimately don’t just affect the way we work, but the way we live.

Going world class is an effort everyone is set to undertake, and we’ll also look into this elsewhere in the magazine. We’ll be tackling the planned revisions in Philippine shipping policy, and hopefully shine a light on its impact towards shipping and our industries in general. We also highlight some small innovations that might improve on our existing supply chain processes.

Finally, you may have noticed some more changes to the magazine. We continue gearing *Supply Chain Philippines* towards being an indispensable part of every supply chain professional’s tool kit, with a focus on well-researched and informed articles. While the page size is smaller and we will only be publishing two issues a year from here on, we will continue serving the community through the introduction of *Supply Chain Philippines On Time*, a fortnightly email sent to SCMAP corporate representatives. We’re also working on relaunching the SCMAP website to make it a center of industry knowledge and information.

Last year SCMAP celebrated its 25th birthday, and we vowed to continue working to further the Philippine supply chain industry through the next twenty-five years and beyond. I hope this magazine does its part. It may be a tall order, but it’s definitely not an impossible task. I believe Sir Ed would be proud.

The cabotage principle, public service, and the co-loading policy

Dr. Enrico Basilio looks into how proposed measures that could impact the shipping industry can improve the competitiveness of Philippine industries

In his July 2013 State of the Nation Address (SONA), President Aquino declared: “I would also like to propose to Congress several laws that will help us sustain and improve on the reforms we have established. Let us amend the Cabotage Law in order to foster greater competition and to lower the cost of transportation for our agricultural sector and other industries...”

For decades now, the business sector, especially those from Mindanao, has been clamoring for the lifting of the cabotage in order to promote competition in domestic shipping. The call stems from the desire to improve service efficiency and reduce the cost of sea transport in the country. In their view, effective competition (with emphasis on the word “effective”) can be achieved by allowing foreign shipping lines to operate domestically and compete with domestic shipping lines.

There are pros and cons to lifting cabotage: [?]

• **Pro:** Foreign shipping lines, if allowed to operate domestically, will provide the needed (a) service and (b) competition to local shipping lines. This competition is expected to result in transport cost reduction.

• **Pro:** Foreign shipping lines to adopt “consortium shipping” (co-loading of cargoes).

• **Con:** Allowing foreign shipping lines to operate domestically will lead to the demise of the domestic shipping

industry.

• **Con:** Unlevel playing field. (a) Foreign shipping lines are subject to the 3% CCT (Common Carriers Tax) while the domestic shipping companies pay corporate income taxes and VAT. (b) Domestic shipping lines source their fuel domestically while international shipping lines may source cheaper fuel abroad. (c) Domestic shipping lines are mandated by MARINA to drydock their ships every 24 months.

• **Con:** National emergencies and security.

There are three measures that have been proposed to address the cabotage issue:

• Amend the Constitution and other related laws to take out the foreign equity restriction (40% limit) in public utilities.

• Amend the Public Service Act to redefine the what constitutes public utility or service.

• Legislate a co-loading policy to allow the co-loading of foreign cargoes for domestic transshipment.

AMENDING THE PHILIPPINE CONSTITUTION AND OTHER RELATED LAWS

Strictly speaking, “cabotage” is not a law but a principle that is embedded in certain provisions of the Philippine Consti-

1: The pros and cons are sourced from various industry papers and position papers, as well as the author’s interviews with key industry experts.



tution as well as laws such as the Tariff and Customs Code of the Philippines (TCCP), Domestic Shipping Act, and the Foreign Investment Act (Negative List A). Emphasis added by the author:

- **1987 Philippine Constitution, Article XII, Section 11.** “No franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least sixty per centum of whose capital is owned by such citizens; nor shall such franchise, certificate, or authorization be exclusive in character or for a longer period than fifty years. Neither shall any such franchise or right be granted except under the condition that it shall be subject to amendment, alteration, or repeal by the Congress when the common good so requires. The State shall encourage equity participation in public utilities by the general public. *The participation of foreign investors in the governing body of any public utility enterprise shall be limited to their proportionate share in its capital, and all the executive and managing officers of such corporation or association must be citizens of the Philippines.*”

- **RA 1937 (Tariff and Customs Code of the Philippines), Section 810 (Privileges Conferred by Certificate of Philippine Registry).** “A certificate of Philippine registry confers upon the vessel the right to engage, consistently with law, in the Philippine coastwise trade and entitles it to the protection of the authorities and the flag of the Philippines in all ports and on the high seas, and at the same time secures to it the same privileges and subjects it to the same disabilities as, under the laws of the Philippines, pertain to foreign-built vessels transferred abroad to citizens of the Philippines.”

- **RA 1937, Section 901 (Ports Open to Coastwise Trade).** “All ports and places in the Philippines shall be open to vessels lawfully engaged in coastwise trade, subject to the provisions of law applicable in particular cases.”

- **RA 1937, Section 902 (Vessels Eligible to Coastwise Trade).** “The right to engage in the Philippine coastwise trade is limited to vessels carrying a certificate of Philippine registry.”

- **RA 1937, Section 905 (Transportation of Passengers and Articles Between Philippine Ports).** “Passengers shall not be received at one Philippine port or any other port by a vessel not licensed for the coastwise trade, except upon a special permission granted by the Collector (Customs Commissioner); and subject to the same qualification, articles earmarked at a domestic port shall not be transported to any other port in the Philippines, either directly or by way of a voyage, in any other vessel than one licensed for the coastwise trade.”

- **RA 9295 (Domestic Shipping Act of 2004, Chapter III), Section 5 (Authority to Operate):** [1] “No franchise, certificate or any other form authorization for the carriage of cargo or passenger, or both in the domestic trade, shall be

granted except of domestic ship owners or operators.”

- **RA 9295, Section 6 (Foreign Vessels Engaged in Trade and Commerce in the Philippines' Territorial Waters):** “No foreign vessel shall be allowed to transport passengers or cargo between ports or place within the Philippine territorial waters, except upon the grant Special Permit by the MARINA when no domestic vessels is available or suitable to provide the needed shipping service and public interest warrants the same.”

- **Foreign Investment Act (RA 7042, RA 8179 and EO 362—Negative List A).** Restricts foreign equity to a maximum of 40% in areas of economic activities reserved for Filipinos by mandate of the Constitution and specific laws (RA 1937 and RA 9295).

Under the provisions of the Constitution and existing shipping-related laws, the shipment of domestic cargoes from one domestic port (e.g., Davao) to another (e.g., Manila) should be carried only by domestic shipping lines (emphasis on the word “domestic”). Foreign ships (100% foreign equity) are allowed to call in designated Philippine international ports (e.g., MICT and South Harbor at the Port of Manila, Cebu International Port, Subic Freeport, Sasa Port in Davao City, etc.) or other ports (provided they are issued special permit by relevant authorities) to load and unload foreign cargoes but not domestic cargoes (and passengers). On the other hand, the domestic transshipment of foreign cargoes by domestic shipping lines is allowed and welcomed. This is not violative of the Cabotage principle.

Can foreign shipping lines operate domestically? Yes, if they partner (through joint ventures) with domestic shipping operators provided their equity shall not exceed 40% (e.g., MCC). However, if the intention is to lift the cabotage in order to allow foreign shipping (100% equity) to operate domestically, then there is a need to amend Section 11 of Article XII of the Constitution.

There have been moves in Congress to amend the economic provisions of the Constitution, including the provision on public utility. Assuming the initiative proves to be successful, we may have either of the two possibilities:

- Full lifting of the cabotage
- Partial lifting if Congress passes a law that still limits foreign participation in public utilities: (a) Higher than 40% foreign equity limit but not 100%; (b) Declare specific domestic routes where foreign shipping lines can operate; (c) Allow a certain number of foreign shipping lines to operate domestically (akin to the Foreign Banking Liberalization Act which allowed ten foreign banks to operate locally).

The question is: Will the Constitution be amended? Without amending the Constitution, what else can be done to relax the cabotage? One is to amend the Public Service Act. Another is to legislate a Co-Loading Policy.

AMENDING THE PUBLIC SERVICE ACT

Recall that Section 11 pertains to “public utility”. What then

CABOTAGE IN THE ASEAN

In the ASEAN, Brunei, Singapore, Cambodia, and Lao PDR have no cabotage. However, majority of the member states (Philippines, Indonesia, Malaysia, Myanmar, Thailand, and Viet Nam) have cabotage restrictions.

The experience of Indonesia is a rather interesting case. In the early 1990s, the Indonesian government lifted its cabotage to boost trade. In 2008, with the passage of the new maritime law, cabotage was restored. However, the sea transport of oil and gas was exempted from the cabotage restriction. Recent pronouncements by the Indonesian government point to further relaxation of the cabotage.

Under the ASEAN Framework Agreement on Services (AFAS), there is a move to increase foreign ownership in the services sector (including maritime) to 70% by 2015. This is also in line with the goal of ASEAN to create an ASEAN Single Shipping Market (ASSM) in support of the ASEAN Economic Community (AEC).



is public utility or service? The definition of what constitutes public service is found in Section 13 (b) of the Public Service Act (CA 146, as amended by RA 2677 s. 1960). Emphasis added by the author:

The term ‘public service’ includes every person that now or hereafter may own, operate, manage, or control in the Philippines, for hire or compensation, with general or limited clientele, whether permanent, occasional or accidental, and done for general business purposes, any common carrier, railroad, street railway, traction railway, sub-way motor vehicle, either for freight or passenger, or both with or without fixed route and whatever may be its classification, freight or carrier service of any class, express service, steamboat, or steamship line, pontines, ferries, and water craft, engaged in the transportation of passengers or freight or both, shipyard, marine railway, marine repair shop, wharf or dock, ice plant, ice-refrigeration plant, canal, irrigation system, gas electric light, heat and power, water supply and power, petroleum, sewerage system, wire or wireless communications system, wire or wireless broadcasting stations and other similar public services: *Provided, however*, That a person engaged in agriculture, not otherwise a public service, who owns a motor vehicle and uses it personally and/or enters into a special contract whereby said motor vehicle is offered for hire or compensation to a third party or third engaged in agriculture, not itself or themselves a public service, for operation by the latter for a limited time and for a specific purpose directly connected with the cultivation of his or their farm, the transportation, processing, and marketing of agricultural products of such third party or third parties shall not be considered as operating a public service for the purposes of this Act.

From this definition, we can see the “broader” application of the cabotage principle (or restriction to put it negatively)

to include such industries as energy, water, telecommunications, and even ice plants! In the case of the energy sector, the EPIRA Law divided the market into 3 distinct segments—generation, transmission, and distribution—and declared generation not being a public utility. As a result, 100% foreign equity is already allowed in generation and only transmission and distribution are subjected to the nationality provision. In 2003, the Supreme Court ruled that shipyards are not public utilities (G.R. No. 124293). On the other hand, there are court rulings that declare the operation of ports, airports, and light rails as public utilities.

At present, there is an initiative to craft a competition policy that will, among other things, (re)define public utility or service. But this is a tricky exercise. To take out transport services (land, air, sea) from the definition may prove to be difficult.

LEGISLATING A CO-LOADING POLICY

A parallel strategy to the Competition Policy currently being pursued is the crafting of a Co-Loading Policy. This option only requires an amendment of Section 1009 of the Tariff and Customs Code of the Philippines (TCCP).

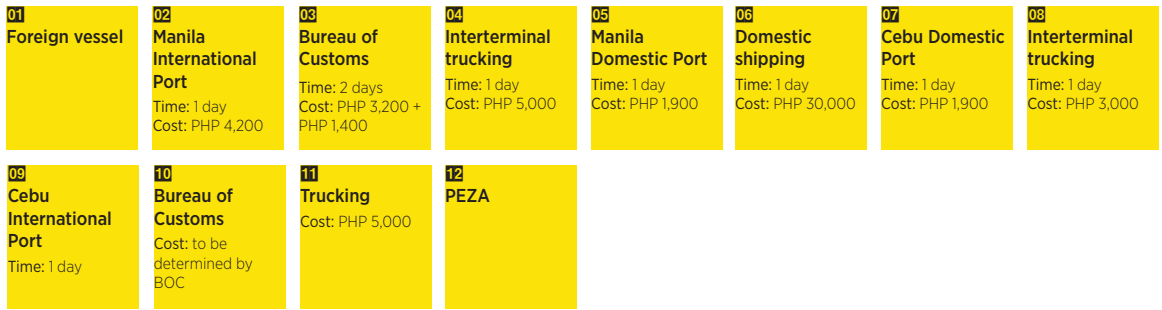
As early as February 2002, this author wrote an industry paper published in the *UA&P Industry Monitor* entitled “The Future of the Cabotage Law: Heading for Open Waters?” that advocated for the liberal interpretation of the cabotage principle. The “open water” advocacy calls for increased competition in the domestic transshipment of foreign cargoes through foreign consortium shipping. “Consortium shipping” by foreign shipping lines, however, is not allowed under Section 1009 of TCCP which mandates the “same vessel” to domestically transship the foreign cargo from one port to another port within the country.

1: Sections 901, 902 and 905 of the Tariff and Customs Code of the Philippines were once again repeated in Chapter III, Sections 5 and 6 of the Domestic Shipping Act of 2004.

HOW CO-LOADING LEADS TO COST AND TIME REDUCTION

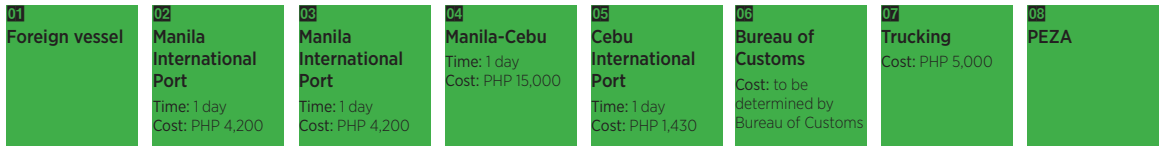
Current practice

Nine days
PHP 55,000/TEU



With co-loading policy

Four days
PHP 29,800/TEU



These figures are based on interviews with foreign shipping lines.

To illustrate, let us assume that the foreign cargoes (imports) being carried by a Foreign Vessel A (FV-A) are destined for Manila and Davao. Once FV-A docks in Manila, the cargoes bound for Manila are unloaded from the ship. Then FV-A proceeds to Davao to transport the foreign cargoes destined for Davao. Can FV-A elect not to proceed to Davao? The answer is “yes”. FV-A can simply have the domestic transshipment of its foreign cargoes bound for Davao handled by a domestic shipping line.

What if another Foreign Vessel B (FV-B) is going to Davao? Can FV-A co-load its cargoes to FV-B? The answer is “no” because under TCCP Section 1009, the foreign cargo must be carried by the “same” vessel. To allow co-loading of foreign cargoes by different foreign shipping lines, Section 1009 of the TCCP must be amended. See proposed amendment below:

• **Existing section:** “Passengers or articles arriving from abroad upon a foreign vessel may be carried by the same vessel through any port of entry to the port of destination in the Philippines; and passengers departing from the Philippines or articles intended for export may be carried in a foreign vessel through a Philippine port.”

• **Proposed amendment:** “Passengers or articles arriving from abroad upon a foreign vessel may be carried by the same or another foreign vessel through any port of entry to the port of destination in the Philippines; and passengers departing from the Philippines or articles intended for export may be carried by the same or another foreign vessel through a Philippine port.”

What are the economic benefits of having a Co-Loading Policy? At present, it takes nine days to domestically transship foreign cargo at a cost of PHP 55,600 per TEU (Twenty Equivalent Unit or twenty-foot container) from Manila to Cebu. This is because the foreign cargo (container) unloaded at the foreign terminal in Manila (e.g., MICT or South Har-

bor) will have to be trucked to North Harbor (domestic port in Manila) for loading unto the domestic ship. Upon reaching Cebu, the domestic ship will also dock at the domestic terminal. Again, the foreign cargo will have to be trucked to the foreign port terminal where it will undergo customs processing/clearance.

With the proposed co-loading policy, the domestic transshipment time will be reduced to only four days (56% reduction in time) and the cost to only PHP 29,830/TEU (46% reduction in cost). The reduction in cost and time will come from the eliminated trucking expenses, customs-related expenses during transit of TEU from foreign terminal to domestic terminal, and high domestic shipping cost. (See diagram at the top of this page.)

The Senate approved on third reading the bill on Co-Loading filed by Senator Bam Aquino (SB No. 2486, “An Act Exempting the carriage of container vans from the provisions of Section 1009 of PD 1464, otherwise known as the Tariff and Customs Code of the Philippines”) which lays down the policy on co-loading of foreign containers for domestic transshipment in the Philippines. The House Committees on Ways and Means, Trade, Transport are the process of consolidating the various bills on cabotage and co-loading. The economic benefits of this proposed legislative measure, however, is limited to the export-import sector since the focus is confined on foreign cargoes.

It is hoped that Congress will be able to pass the Co-Loading Law in time for the State of the Nation Address (SONA) of President Aquino in July 2015. •

Dr. Enrico Basilio is currently the Chief of Party of the USAID Advancing Philippine Competitiveness Project (USAID-COMPETE) and a lecturer at the University of Asia and the Pacific’s Strategic Business Economics Program. He was formerly chairman of the Transport Committee of the Philippine Chamber of Commerce and Industry, co-chairman of the Transport Logistics Networking Committee of the Export Development Council, and co-chairman of the Infrastructure Working Group of the National Competitiveness Council.

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These supply chain ‘tweaks’ are smarter and more sustainable

Henrik Batallones highlights new ideas from around the world—small things that could make your supply chain operation a little bit more efficient

One supply chain operation is a massive undertaking. There are a lot of resources and expenses involved—raw materials, production tools, transportation, marketing—and the wider the footprint, the operation grows more monstrous and complicated. All this means a bigger probability of wastage at every point of the chain, and this also has wide-ranging impacts: your efficiency takes a hit, your product’s quality takes a hit, and the environment takes a hit, too.

But new technologies and techniques have led to processes that could, in theory, mitigate some of these impacts. Sure, your supply chain may still be monstrous and complicated, but you can be rest assured that some inefficiencies have been ironed out—and it might be good for your costs, too. Here, we highlight two of these new innovations, and while they sound simple enough, we think they would do wonders to any supply chain operation.

TRANSFIX: SMARTER TRUCK BOOKING

We begin with an automated truck booking system that calls itself “Uber for trucks”—a bit of a tall order, considering the popular (if not controversial) commuter service’s convenience and class. But this service, called Transfix, could make transporting cargo more efficient, impacting not just trip time for trucks, but for commuters as well.

Founded by Drew McElroy in 2013, Transfix is essentially a logistics company, but at its heart is an automated truck booking system that shortens truck booking time for brokers. Say, I want to deliver a shipment from my production facility in Laguna to a distribution center in Legazpi, Albay. I enter the shipment to the Transfix system, and it scans the vicinity of my factory for any trucks that can take my delivery on. It then sends a truck that matches my need, based on past performance, mileage and waiting time, among other factors.



From there, I can monitor my shipments’ progress through the service’s website and app. The system can detect whether a truck’s fallen behind schedule and take action. When the shipment is dropped off, I get a photo showing proof of delivery, and I pay the driver.

The system means I spend less time booking trucks to make my deliveries, and the trucks I get don’t spend a lot of time doing nothing. To use the earlier example, my trucks don’t have to make a journey from, say, Meycauayan in Bulacan to my Laguna facility, saving me money. My carbon footprint shrinks a bit too, thanks to shorter trips. It also ensures the safety of truck drivers—less “empty” driving, so to speak, means less fatigue—and with shorter, more to-the-point trips, it could lessen vehicle congestion in major urban areas, improving traffic flow.

However, as with most technologies, Transfix could be quite disruptive, especially if you put something like it in the Philippine setting. Most likely companies have long-term contracts with truckers, or operate a fleet of their own. But an automated booking system would increase efficiencies and, possibly, decrease costs, once we could really tinker with it to suit our needs, as well as the Philippine situation. Trans-

RePack comes in different sizes, and it's not just for small items; its creators have adapted the system to furniture packaging



fix has some major clients in the United States, notably the bookstore chain Barnes & Noble, so it perhaps isn't that far until something similar comes up on our side of the world.

REPACK: RETURNABLE SHOPPING BAGS

This next idea is much more simpler, but tackles a pretty big by-product of retail operations: packaging. And all that gets thrown away. Now, another startup, RePack, aims to solve that problem by offering packaging that you can return to the retailer, reducing trash and making the online shopping experience a little more enjoyable.

The project was hatched by industrial designers Petri Piirainen and Juha Mäkelä, and sustainability expert Jonne Hellgren, all from Finland. Designed for use by online retailers, RePack bags are made of polypropylene, a durable and wholly recyclable type of plastic, commonly used in plastic containers and small parts. Simply designed (the bags' early prototypes weren't returned because they were too attractive, the inventors claimed), the trick here is not in the material, but in the ease of returning the package to the retailer.

Say, I want to buy a new shirt at an online store. If it has the option to send my purchase through RePack, I can do so

by paying an additional deposit. Once I get my purchase, I just flatten the RePack, return it to the retailer via mail, and get my deposit back, plus a voucher for any online store that uses the system.

At present, RePack is used by several major Finnish stores, which sell to customers across the European Union through their online operations. And it's not just garments and other small items; the founders have since applied their invention to furniture packaging, replacing cardboard and styrofoam padding with a retooled RePack system that reduces trash to virtually zero.

While it is still limited to EU retailers, RePack could be an interesting addition to the arsenal of the increasing number of online retailers in the Philippines. It is an easy way to reduce trash caused by discarded packaging material, and since the bags are reusable, there is less cost on the end of the business. Also, the experience of mailing back the packaging—actively knowing that you're doing your part in saving the environment—makes shopping just a bit more special, and it's the sort of thing that appeals to younger shoppers. The caveat, of course, is a good mailing system, but we'll get to that soon, I hope... •



What does world class mean?

What makes world class? How do we get there? In a series of essays, we try to make sense of what world class really is



Efforts are underway to introduce standards to every link in the supply chain profession, like in this workshop organized by TESDA and SCMAP for warehouse personnel certification

The DNA of a world class supply chain professional



Dario Arive Jr. is logistics supervisor for the flour division of Universal Robina Corporation, and director-in-charge of SCMAP's academe committee.

The day to day life of a supply chain executive is full of challenges: from freight cost management, fleet management, negotiating last minute orders, reviewing network structures for emerging new markets, to interacting with various departments within and across the firm. For a supply chain executive to stay relevant, he needs to be updated and equipped with various cross-functional skills. This is the very reason why supply chain managers choose to pursue further studies, as found in the study of Hoberg, Aliche, Flothmann, and Lundin (2014). They found that supply chain executives pursue higher education as compared to other professionals in industries such as automotive, manufacturing, and FMCG.

There are various reasons for the high educational standards in SCM. One reason is that in many companies, SCM is a highly visible endeavor with strategic priority. Supply chain professionals are responsible for managing the material flows from multiple international production plants through numerous 3PL-managed distribution centers to thousands of customer locations around the

globe, coordinating an inter-cultural team of experts from all functions. To do this job, SCM needs nothing less than the best talent—and that best talent most frequently pursued university education including masterals and PhDs (Hoberg et. al, 2014). But in the early days, on-the-job training was the most important source of knowledge and skills to fulfill the majority of daily tasks. As SCM evolves and the skills required for supply chain professionals increase, learning-by-doing was no longer sufficient. This need for the best talent in handling supply chain positions has been fueled by the rapid evolution of the SCM profession since the end of the 20th century. “Today’s supply chain managers need analytical and mathematical skills that were shaped at a university to cope with challenging tasks such as real-time decision-making in production planning, reviewing SKU profitability, or re-designing a supply chain process for end-to-end visibility,” the study said. “Presenting the analysis results to peers and communicating the implications to top management requires another set of skills. Higher levels of education are often associated with providing this broad portfolio of skills.”

A director of corporate partnerships at the University of Tennessee, Dr. Paul Dittmann, also stated that ten years ago, supply chain professionals were logistics-oriented, and their skill sets comprised of technical proficiency in discrete areas such as knowledge of shipping routes, familiarity with warehousing equipment and distribution-center locations and footprints, and a solid grasp of freight rates and fuel costs. He added that although supply chain professionals still need to be experts at managing supply chain functions such as transportation, warehousing, inventory management, and



production planning, the supply chain process also goes well beyond functional expertise covering end-to-end within the firm and even outside the firm, including the relationships with suppliers and customers on a global basis.

Thus, competencies of supply chain professionals should include global orientation, systems thinking, inspiring and influential leadership, technical savvy, and superior business skills (Dittmann, 2012). In order to stay relevant, supply chain professionals need to have—at a minimum—an understanding of business continuity basics and the organization's business continuity approach and strategies (Kildow, 2011). Industries are also evolving which renders existing supply chain designs obsolete and which challenges supply chain professionals to always be ready to generate alternative solutions as the structures evolve (Yucesan, 2007). Hence, for supply chain professionals to stay relevant, they must possess both an expertise in the field of supply chain as well as other leadership skills necessary to effect change.

Another key to staying relevant is collaboration among supply chain professionals. But unfortunately, the study of Talavera (2008) showed that the adoption of supply chain collaboration in the Philippines is still at a very low level. The researcher found that there was no observed significant differences in the supply chain collaboration index between industries, even in industries where some form of collaboration was expected to exist. The researcher also added that the Philippine experience is not surprising as previous researchers also found similar problems in the industries of various countries such as Hong Kong, India and other European countries. The researcher also highlighted the need for SCM

practitioners and proponents to help educate manufacturing and service companies about the value and the implications of supply chain collaboration (Talavera, 2008).

As mentioned above, continuous education and collaboration is needed in order for a supply chain professional to be world class. This is also the very reason of SCMAP's engagement in various endeavors that aim to continuously enhance supply chain professionals in the Philippines. SCMAP started by developing programs and tapping high-caliber supply chain executives to conduct Supply Chain Mornings. As in the past, SCMAP will continue to collaborate with top universities to create higher education opportunities for supply chain executives. As the industry partner of TESDA, SCMAP is also involved in creating training regulations for various supply chain positions which is also in line with SCMAP's involvement in the APEC Transport and Logistics Project as spearheaded by the Transport and Logistics Industry Skills Council of the Department of Industry of the Australian Government. Finally, SCMAP is also aspiring to be the Center for Training and Development to foster world class supply chain professionals. •

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Taipei's heavy traffic problem was solved by the creation of an intensive mass rail transit system—and it also brought development to suburbs outside the capital

Freedom of movement is freedom of choice



Henrik Batallones is marketing executive for SSI Schaefer's Philippine office, the marketing committee chair of SCMAP, and the editor-in-chief of *Supply Chain Philippines*.

The question: “how do you solve a problem like Metro Manila’s traffic?” The generally accepted answer: “build more roads.” New roads will ease congestion in existing ones, leading to faster travel times. Right?

Well, yes. And no. Yes, we do need new infrastructure, and better ones. No, we should not be limited to roads along. Building new roads (and widening existing ones) are just band-aid measures that fail to recognize the intricacy of the situation.

Let’s take civilian travel. We have to encourage them to get off the roads, by making it easier to travel from their homes to their schools and offices. Ensure buses and jeepneys are reliable and safe. Expand the reach of our public transport systems, serving not just major urban centers but also the suburbs.

Now, to transporting goods. We have to ensure that there are as few roadblocks from our factories and ports to our

markets and stores. Apart from decongesting the roads, a clear route for trucks to pass through must be provided. Streamline processes so shipments can quickly leave the ports rather than stay stuck in them.

Solving our traffic woes with infrastructure should not emphasize one mode of travel over another. We have to give everyone multiple options, allowing them to determine the best way for them to go from point A to point B. As it stands now, we spend more time sitting idle in traffic rather than spending time with loved ones or being productive (and, hopefully, profitable), and that means a lot of opportunities lost to being stuck. A multi-faceted infrastructure plan would guarantee freedom of movement, giving us the ability to go to where we want to, or have to, be in the least possible time.

And it’s not just freedom of movement, but freedom of choice too. I know, this sounds lofty, but imagine being liberated from the constraints of traffic. It would be easier for me, a boy from Cavite, to travel to, say, Quezon City. Maybe try the restaurants at Maginhawa Street without having to wait two hours to get there (and get back). And no, this is not a slight on the restaurant scene in Alabang and Aguirre... but I digress.

This freedom of choice runs deeper, though. Imagine having easy access to more products than ever, no longer constrained by delayed deliveries and low-quality products. Imagine not having to live far from your workplace, eliminating the need to wake up at five in the morning for a two-hour



commute. Imagine a country where jobs are not just centered on the urban and industrial districts, where business owners choose where to put up factories on the basis of proximity to raw materials and labor rather than accessibility to major roads—because that last question has been dealt with to the point of it being a minor concern.

A multi-faceted infrastructure plan would guarantee freedom of movement, and freedom of choice. This plan would take into account not just current traffic, but also future traffic; it will not just involve moving people around faster, but encouraging growth in what would otherwise be underdeveloped districts, bringing jobs and (hopefully) prosperity to more people.

Better infrastructure would be a catalyst for economic development. It would encourage businesses to expand. It would allow them to get their products to a wider market, and maybe tap some underserved ones too. It would, of course, create jobs, empowering citizens to not just be consumers but be producers as well. Could be the shot in the arm our agriculture sector needs. Could enable the electronics sector to become more competitive. There is a lot at stake.

The government recognizes this, thankfully. Many infrastructure projects have either been sketched out or gone under construction, some through the PPP program. The Tarlac-Pangasinan-La Union Expressway (TPLEX) has cut travel time from Metro Manila to northern Luzon, opening new economic opportunities for the region. The Laguind-

ingan Airport in Misamis Oriental has further opened northern Mindanao up for business, and also led to businesses expanding to the road between it and Cagayan de Oro. The government has also commissioned multiple studies and plans aiming to not just decongest Manila but also further economic growth.

But this is a long process. The lack of emphasis on planning, especially in the Philippines' major cities, has led to a mish-mash of schemes and projects that only consider the legacy of whoever's in charge, at the expense of the people who should benefit from it. As it stands, there is a lot to be done in Manila, as well as in other cities (ask Cebu, ask Baguio), and it takes the cooperation of many parties, a plan that takes present and future needs to account—for one, there's talk of "peak car", of a shift away from vehicles for transport—a lot of political will. And, of course, the budget for it.

In order to be world class, we must be prepared for what the world throws at us. We have to be able to respond to these opportunities effectively, and be able to make the most of it. While we have made some inroads, we still have a long way to go, and I believe focusing in better infrastructure—planned better, built better, used better—will give us a head start. It may take multiple administrations, but getting this right should lead to the Philippines finally realizing its full potential, rather than finding itself stuck in yet another traffic jam. •



A benchmarking process would make it easier for supply chain professionals to measure their performance, not just relative to their past records, but also to how their peers fare

Benchmarking towards a world class supply chain



Max Yap was, until his retirement this year, senior manager for logistics at Oriental & Motolite Marketing Corporation. He is currently head of SCMAP's membership committee.

Achieving a world class supply chain is now a norm for all supply chain operations, most especially in the ASEAN region. The pending ASEAN economic integration this year poses a greater challenge, for us to achieve world class status in our supply chain operations. Excellence in logistics is now a focal point in achieving cost-effective and quality-driven customer service.

What does it take to be a world class supply chain? This is the most challenging question every supply chain professional has to face, whether from top executives to major fora. How do we gauge the performance of our supply chain? Basi-

cally, any performance must be measured so we can manage it, but the metrics must have bases, such as benchmarks.

These metrics must be limited to those that add value, and also those that track the company's performance. Benchmarking leads to comparison of your company's supply chain performance with other companies in similar industries, as well as the best in the world. The value of supply chain metrics depends on the objectives of the business and the support it provides to its overall strategy.

It is important that we define the critical metrics that a supply chain operation must achieve in order to support the goals and objectives of the company.

Some metrics to consider: service levels; delivery fill rates; delivery costs; DIFOT (delivery, in full, on time); demand forecast accuracy; supplier performance; supply variability; lead time towards replenishment; IRA; the cost of manufacturing goods; inventory cost; and inventory days of supply.

Once we have developed these supply chain metrics, we can effectively benchmark, sure, and manage our performance, and work towards achieving the vision of a truly world class supply chain. •



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AROUND SCMAP

- 1: The 2015 SCMAP board is sworn in
- 2: SCMAP's Dario Arive Jr. and Norman Adriano with officials from TESDA and the Australian government
- 3: This year's SCMAP bowling champions, the Smart Blue Team
- 4: INHTA's Teddy Gervacio and CTAP's Bert Suansing at SCMAP's April GMM



New event kicks off SCMAP's 2015

SCMAP began the new year with a new event. Supply Chain Outlook, held on February 6 at the EDSA Shangri-La Manila, saw decision makers and industry leaders put forward their views of what the coming year holds.

Speakers included Dr. Victor Abola of the University of Asia and the Pacific, who gave his economic outlook; Usec. Ma. Catalina Cabral of the Department of Public Works and Highways on government's upcoming infrastructure projects; and Nic Lim of JG Summit Holdings on the supply chain professional's essential skills.

The event also saw the induction of the 2015 SCMAP board of directors. Mark Philip Comandante (DURBI) leads the board, alongside Cora Curay (XVC), vice president; Max Yap (Oriental Motolite), secretary; Manny Onrejas (Fast Logistics), treasurer; German Martizano (Unilever), auditor; Dario Arive Jr. (URC Flour), Henrik Batallones (SSI Schaefer), Nestor Felicio (Unilab), Arnel Gamboa (Benby Enterprises) and George Yumul (ABM Global), directors.

Finally, SCMAP and REID Foundation signed a memorandum of cooperation formalizing the partnership between the two groups.

TESDA warehouse certification eyed

The Technical Education and Skills Development Authority and SCMAP organized the Training Regulations Validation Workshop, held on February 17-18 at the TESDA Women's Center.

Attended by twenty warehouse supervisors and managers, the workshop was set to improve the training regulations set by the Warehouse Services National Certificate II program, which TESDA and SCMAP are collaborating on. The end goal is to professionalize warehouse operations with the introduction of a nationally recognized certification program.

SCMAP joins TIP logistics forum

SCMAP president Mark Philip Comandante spoke at the 14th Logistics and Supply Chain Management Students Forum. Organized by the Logistics and Supply Management Association, it was held at the Technological Institute of the Philippines' Quezon City campus on February 17. He spoke about the impact of marketing on the entire supply chain.

Cebu chapter elects new board

LF Logistics' Gilbert Cabatana has been named president of SCMAP's Cebu chapter, after elections were held during its first General Membership Meeting of the year last February 20 at the Sarrosa International Suites.

Randy Cabuncal (Julie's Franchise Corp.) was named vice president; Mae Masnayan (Integrated Commissary), secretary; Arnold Jumalon (Boeing Material Handling), treasurer; Alfie Amontos (ABM Global Solutions), auditor; and Roberto Cabaero (Transfluent Management), PRO.

Also among the directors are Junn Roland Comeros (URC), Crisanto Elmer Dolina (Adsia Logistics), Celso Gamosa (Charter Ping-An) and Maria Lizza Vicaldo (Lafarge).

Gordon Alan Joseph of the Cebu Business Club graced the GMM, speaking about what is in store for Cebu and the rest of Central Visayas in the years to come.



SCMAP hosts AU government reps

SCMAP hosted members of the Australian government as they visited the Philippines as part of the APEC Transport and Logistics Project, an effort to streamline competencies in logistics in the region.

Amanda Thomas and Paul Walsh, part of Australia's Department of Industry, met with SCMAP Secretary General Norman Adriano, director Dario Arive Jr., TESDA director Luz Amponin and deputy director Irene Isaac last April 15. They also visited one of the plants of Universal Robina Corporation.

Smart dominates SCMAP bowl fest

Players from Smart Communications dominated in the third SCMAP Bowling Tournament, held last April 22 at the SM Megamall Bowling Center.

The Smart Blue Team was named overall champions this year, with the AsiaCargo Maroon Team coming in second and the Smart Orange Team in third. Several players from Smart also won individual honors.

Ten teams from seven companies, totalling 79 players, took part.

Transport groups talk costs in GMM

Major figures in transport and shipping took part in SCMAP's second General Membership Meeting to discuss the high cost of transport despite the end of the congestion of Manila's ports.

The panel, which was held on April 16 at the Manila North Harbor Passenger Terminal, included Teddy Gervacio of Integrated North Harbor Truckers Association, Bert Suansing of the Confederation of Truckers Association of the Philippines, Rona Gatdula of the Philippine Liner Shipping Association, Sarah Lope of the Department of Trade and Industry, Christian Lozano of International Container Terminal Services Inc., and Richard Barclay and Henry Vilora of Manila North Harbour Port Inc.

In the panel discussion, the PLSA agreed to meet with stakeholders to determine the threshold of bunker surcharge adjustment, while revealing that they can't reveal their current formulation due to legal constraints.

While admitting that it would be difficult to lower their rates for drivers and helpers, INHTA agreed to meet with SCMAP for review and alignment of their trucking cost model. Similar meetings with other transport groups were also planned.

BOD changes as Max Yap retires

Max Yap, secretary of SCMAP's national chapter, has left the board after his retirement from his post at Oriental & Motolite Marketing Corporation. However, he stays on as chair of the membership committee, a post he held since last year.

With this, SCMAP welcomes Ryan Joya to the board. He is currently the supply chain manager of Kimberly Clark Philippines.

And coming up next...

Two **General Membership Meetings** are set on June 16 and August 20 ... **Supply Chain Mornings** continues on the same dates ... the **SCMAP CEO/CSCO Forum** happens on September 3 at the EDSA Shangri-La ... finally, our flagship event, the **SCMAP Supply Chain Conference**, happens on September 17-18, also at the EDSA Shangri-La.

More details will be revealed in the coming weeks, through our website, Facebook page and the *Supply Chain Philippines On Time* newsletter, which all SCMAP company representatives receive.

Advertise with *Supply Chain Philippines* and reach supply chain movers and shakers! Our magazine is distributed to SCMAP members—which include the country’s top manufacturers, retailers and service providers—across the country. *Supply Chain Philippines* is a platform for you to promote your products and services to the biggest players in the country’s supply chain industry.

Our ad rates are as follows:

Outside back cover: PHP 15,000

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Deadline for all submissions for our next issue, which will be out in September, is on 28 August.

Ad rates are subject to change without prior notice. To get updated rates, and to become an advertiser, please email the SCMAP Secretariat through secretariat@scmap.org.

Be a contributor: We’d love to hear your ideas on what should be on the magazine! Whether it’s a piece on improving supply chain practices, or a spotlight on technologies that could change the way we work, we’d love to hear about it.

Email secretariat@scmap.org with the subject line “SCP Contributor” and give us a synopsis of your article idea. Writers who get published will get freebies and perks.



We are a community that moves the global competitiveness of the Philippine supply chain industry.

The Supply Chain Management Association of the Philippines is the premiere supply chain organization in the country. Founded in 1989 as the Distribution Management Association of the Philippines (DMAP), SCMAP is now composed of 100 member companies committed to improving their supply chain processes and professionalizing their supply chain practitioners.

SCMAP’s members are spread across three chapters: the national chapter, based in Manila, and two regional chapters based in Cebu and Cagayan de Oro, respectively.

The organization is led by a ten-member Board of Directors, elected annually by the general membership every November. The Board later elects, among its members, the officers. The Board works alongside the Secretary General, who oversees the Secretariat and represents SCMAP in events and activities.

SCMAP’s three pillars help position the country’s supply chain industry towards competitiveness and nation building.

Advocate: SCMAP works with government agencies, industry groups and other parties to push for policy reforms that strength and improve supply chain processes. SCMAP has advocated for efficient port operations, fair transport costs, development of RORO routes and the promotion of Clark as a secondary gateway to Greater Manila.

Communicate: Through regular events, fora and publications such as *Supply Chain Philippines*, SCMAP updates its memberships on trends, innovations, challenges and practices affecting the supply chain industry.

Educate: In collaboration with different academic organizations and government agencies, SCMAP organizes workshops and programs that make supply chain practitioners more competitive and gear them towards nation building.

Being an SCMAP member brings a wide range of benefits.

SCMAP members have greatly benefited from the organization’s efforts in promoting its advocacies. It has helped effectively reduce, contain and postpone increases in logistics costs, and prevent disadvantageous regulations and impositions such as a total truck ban in major expressways and unfair deregulation provisions.

Through their SCMAP membership, companies also get opportunities for exchange of information and developments through various programs and activities. They also get opportunities for training, and representation in formulation of government policies through participation in surveys, benchmarking projects and the like. Members also gain an avenue for networking with their peers within and outside the supply chain industry.

Membership is open for both companies and individuals. For information, email the SCMAP Secretariat through secretariat@scmap.org.

Are we capable of coping
with the challenges posed by
ASEAN integration?

How will the Internet's more
prominent presence impact
supply chain effectiveness?

What roles will the Philippines
play in an increasingly
connected global economy?

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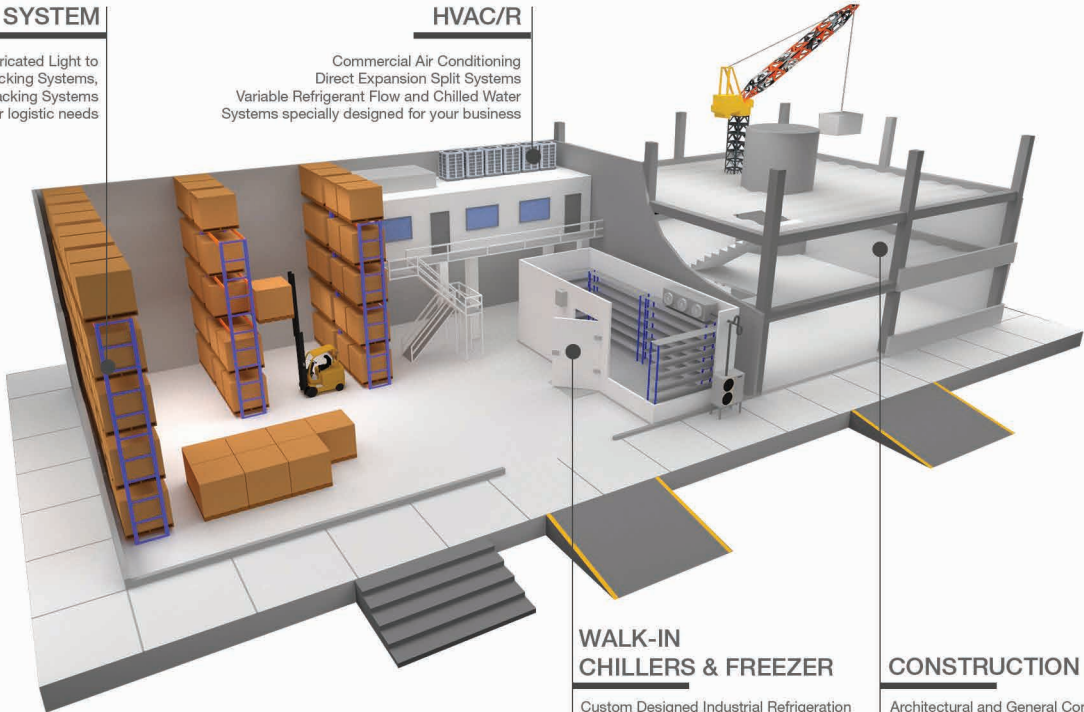
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