

## Social Networks and Industry Competitiveness: The Case of Liliw Footwear Industry

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### ABSTRACT

*One of the effects of trade liberalization is the reduction of tariff rates for the manufacturing sector. Aldaba (2012) found that trade liberalization has increased the likelihood of firms exiting the manufacturing industry. Unless domestic firms face economies of scale, they will not be able to cope to the adverse effects of trade liberalization. The footwear industry is an example. It has been reported that the footwear industry in Marikina, known as the Shoe Capital of the Philippines, and in Binan, Laguna are said to be slowly dying in these areas. This has adversely affected shoe laborers who, because of lack of employment opportunities in their respective localities, have started to move to other places in search of employment. A number of them found employment in Liliw, Laguna. This study explores the conditions that enable the footwear industry to flourish amidst competition at the local, regional, and national levels and to explore the role of social networks in the competitiveness of four selected footwear firms in Liliw. Results showed that Liliw footwear industry was able to compete in the market effectively due to the following factors: the reputation of Liliw as producer of affordable, cheap, and marketable footwear products, increased competition among local footwear producers, enmity of local footwear producers against imported footwear products from China, and the existence of financial and community support arrangements.*

**Keywords:** social networks, industry competitiveness, footwear industry, trade liberalization

### I. INTRODUCTION

With the premise that the General Agreement on Tariff and Trade (GATT) would provide equal treatment on countries in terms of trade, i.e. every member country is committed in lowering its trade restrictions and import tariffs, the Philippines would be able to have greater access in the international market [1]. However, with that premise also, the Philippines is heavily affected.

One of the effects of trade liberalization is the reduction of tariff rates for the manufacturing sector. Reference [2] found that trade liberalization has increased the likelihood of firms exiting the manufacturing industry. Unless domestic firms face economies of scale, they will not be able to cope to the adverse effects of trade liberalization. The footwear industry is an example.

In 2005, the total number of footwear establishments in the Philippines was 1,153 with a total of 16,600 employees. Both figures declined in 2009 with 1,072 footwear establishments and 12,155 employees, or about 7% and 14% decline in the number of establishments and total employees, respectively [3].

It has been reported that the footwear industry in Marikina, known as the Shoe Capital of the Philippines, and in Binan, Laguna is slowly dying. This has adversely affected shoe laborers who, because of lack of

employment opportunities in their respective localities, have started to move to other places in search of employment. A number of them found employment in Liliw, Laguna.

So this study explored the conditions that enabled the footwear industry to flourish amidst competition at the local, regional, and national levels. Specifically, it aimed to describe the profile of the footwear industry in Liliw, Laguna; to analyze the value chain system of four selected footwear firms in Liliw in relation to the perceived competitiveness; and to explore the role of social networks in the competitiveness of four selected footwear firms in Liliw.

### II. MATERIALS AND METHODS

Employing the qualitative type of research, first, the researcher made an observation in the Trade Fair Center along Gat Tayaw Street. Various social interactions of seller to buyer, seller to seller, buyer to buyer, owner to worker, and worker to worker were observed. Then, an interview with an interview guide was conducted during the second visit to gather data among footwear store owners and workers in Liliw, Laguna last August 2012. Four footwear store owners and three footwear workers were interviewed.

### III. RESULTS AND DISCUSSION

#### History of the Footwear Industry

The footwear industry in Liliw, Laguna started in 1931 when Casiano Pisueña became interested in making slippers. The learning process was no walk in the park, so to speak. He started dismantling his own pair and reassembling it from the outside. The first prototype slippers were made of “tistis” from coconut and rubber from tire interiors. He bought more materials from Divisoria and established the Dimasira Footwear which sold products as far as Manila Hilton and Acacia House. The success of the Dimasira Footwear encouraged other Liliweños to enter the footwear industry. Among the well-known footwear entrepreneurs were Mr. Pedro Villanueva and his wife (who established *Emerita's Footwear* in 1934), Dr. Felix Nobleza, and Erena Orbeta who put up the *Excellent Footwear* in the early 1940s. Before the outbreak of the Second World War, Liliw has already established its reputation as a footwear industry that rivaled that of Marikina.

However, the emerging industry was suddenly put to a halt during the Japanese occupation, only to resume in the 1950s. Since then, new materials and products were introduced: 1953 saw the start of shoemaking from slipper-making and the use of lukban as a material; in 1954, *Regal Footwear* hired the first “maestro” or mentor who trained laborers how to assemble slippers and use pulis, an imported material from America.

Some laborers also tried to put up their own shoe business. Salvador Monteiro, equipped with knowledge and skills acquired from working in Slipper Rite Footwear, established *Badong's Footwear* in 1962. *Badong* remains to be one of the oldest surviving shoe stores in Liliw.

In 1965, *Gat Tayaw* became the Trade Fair Center with ten (10) stores as initial participants. As time went by, more businesses began to set-up their stalls. At present, *Gat Tayaw* remains to be the footwear center of Liliw, lined with over fifty (50) stores.

The footwear industry generally caters to the domestic market. People from neighboring towns and from different parts of the country regularly visit Liliw to check out and buy footwear either for personal or retail purposes. Most footwear businesses engage in direct selling while some welcome subcontracting and re-sellers or agents.

Liliw is known for its “home-made” style of slippers and shoes [4]. It is known to be the *Tsinelas* (Slipper) Capital of the Philippines, rivalling Marikina as the

leading footwear industry in the country. The town is also known for its durable and affordable footwear.

In terms of prices, most businesses offer the same range of prices for both imported and locally-manufactured footwear. The price for slippers ranges from Php60 to Php80 per pair, or can be bought at Php100 for three pairs. Women’s sandals can be bought for Php250 and above, depending on the materials used and the overall design. Four store owners were interviewed for this study. Two of them, Edna’s and MaRuth, are classified as small-scale enterprises while the other two, Kyrah’s and Ate Weng’s are classified as micro-scale enterprises. This section presents the interview results and discussions using the value chain analysis.

A simple value chain map used by [5] was followed in this study (Figure 1). This was to provide a broad and simple description of the different activities of the footwear industry which will allow researchers to explore the industry’s primary areas of competitiveness.

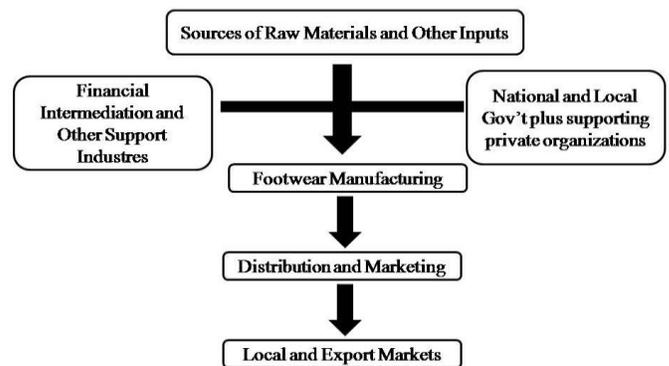


Fig.1. Value Chain Map [5]

This study made some minor changes in the use of this value chain map. The discussion focuses on the sources of raw materials and other shoe implements, the production, distribution, and marketing of footwear products, the existence of institutional support arrangements, and sources of capital.

#### Sources of Raw Materials and Other Inputs

There are five (5) footwear supply stores in Liliw. Three of which are located along *Gat Tayaw*. Edna’s also sells materials for shoe and slipper making. Most of the raw materials come from Biñan and the Quezon province. Meanwhile, one respondent, Kyrah, uses imported textiles from Japan. The owner said that the materials are sent by his mother-in-law who is based in Japan.

### Production/Footwear Manufacturing

Liliw, being the *Tsinelas* Capital of the Philippines, is known not only for its home-made slippers, but also for its other footwear products like sandals, leather shoes and espadrilles. The production flow of these products varies from one owner to another depending on the size and demand of their current and prospective customers.

Tanchuco (N.D.) identified several types of workers employed by the footwear industry: the *padronista* who creates shoe patterns and designs, the *sukatero* who is responsible for cutting sections from leather sheets, the *mag-aareglo* who is involved in the preparation of the upper section of shoes, the *cuturera* who sew decorative patterns with the use of large needles on shoes, the *sapatero* who uses a wooden mold to join uppers with sole and heel and the *alamodista* who stitches the soles of shoes to their upper portions using a machine.

Based from the interviews conducted, small-scale enterprises such as Edna's and MaRuth usually employ all the aforementioned types of workers, with at least one worker specializing in each of the specified job description. This permits small-scale shoe producers to increase their productive capacities (compared to hiring one worker who will be doing all the routines). However, in the case of the micro-scale enterprises like Kyra's and Ate Weng's, subcontracting labor appears to be the rule of thumb. In this particular arrangement, laborers are hired to produce a specified range (and quantity) of shoe products. This section presents subcontracting as a mode of footwear production, and the issues and concerns that are faced by owner-respondents.

### Liliw Footwear Industry and Subcontracting

Both small-scale and medium to large scale footwear store owners are generally engaged in subcontracting. Like the top three reasons above why most firms subcontract also applies among interviewed store owners. For one, Ate Weng a small scale footwear store owner and also a shoe maker said that during peak seasons or when there is an apparent surge in the demand for shoe products, it may be necessary to enter into contract agreements with other shoemakers (labor subcontracting) to meet the additional demand. The subcontract between Ate Weng and another shoe maker is informal, not guided by papers and contracts but only by verbal agreements. The owner (Ate Weng) however retains full control, as she provides the design and determines the desired quantity to be produced. Her customers usually are *agents*- customers who buy in

bulk (wholesale) and sell the products in other areas (retail).

One owner-respondent, Kuya Emman, unlike his father, he chose not to engage in subcontracting (and was very much against outsourcing). He in fact used the term *outright* to refer to the lost right of a shoemaker to claim ownership of the designs of end products. As a form of resistance to outsourcing, he personally branded (private labelling) his products so that re-sellers would know that the footwear is made in Liliw. He engages in direct selling instead where customers who came from other places buy footwear products in bulk.

### Distribution and Marketing

One way of improving competitiveness in the market is to expand the product line [6]. In this regard, larger stores such as Edna's and MaRuth are in an advantageous position. Both stores offer a variety of footwear, from slippers to dress shoes, to sandals. MaRuth is planning to expand her product range by manufacturing boots, something that is new in the industry of Liliw. This will make her gain competitive advantage against other stores in Liliw as she provides a novel item in their collection. Meanwhile, smaller stores such as Kyrah gains competitive advantage by using imported materials from Japan and by labelling their products as "100% *Gawang Liliw*" (100% Liliw-Made).

Most products do not have labels. Edna's engages in private labelling but most of its products carry the brand name of the subcontractor. One of the respondents said that he prefers labelling his own products so that customers will know that his products are made from Liliw. In a way, he is reassuring his customers that the products they bought are durable and of quality.

Another marketing strategy is to adjust prices. According to one respondent, there is no standard price followed. She sets her price based on the prevailing price imposed by other stores. Most businesses employ almost the same prices, with only ten pesos difference at most. Price differences are observed across product type, i.e. slippers have lower price compared to dress shoes, considering the cost of production.

The mode of payment for most respondents is cash. One respondent does not want to accept checks or credit. As one respondent argues, post-dated checks are problematic because it incurs more liability than profit.

In terms of distribution, all respondents are engaged in direct selling. Some customers usually buy in bulk, purchasing what is available in the store. Some opt to pre-order. In Liliw, the main promotion strategy is

putting up a Trade Fair Center along Gat Tayaw St. Smaller stores such as *Kyrah* would advertise their products by placing a placard that says “100% *Gawang Liliw*”. Such advertisement would imply that his products are of quality and are durable. The reputation of Liliw itself has become a promotional tool. Aside from the annual *Tsinelas* festival, the municipal government does not have other programs to promote and invigorate the footwear industry. With the age of the Internet however, none of them sell their products online. They do not also engage in other advertising activities such as radio and print advertisement. In essence, they do not spend much time in promotional activities. However, these promotional activities may actually improve competitiveness not only in the community level but also in the regional, national, and even in the international level.

In terms of distribution, the four firms generally cater to the domestic market. Most of their customers come to Liliw to buy their products, i.e. they do not incur transportation costs. For *Edna's*, the subcontractors come to Liliw to get the finished products.

### Institutional Support

In the case of Liliw, the Department of Trade and Industry (DTI) remains as the main umbrella organization in assisting small medium enterprises (SMEs). However, DTI remains largely visible on large enterprises like

*Edna's* and *MaRuth's*. *Edna's*, for example, has been offered to export its products abroad, with the assistance of DTI. But the offer was declined because of the risks associated with not meeting the quota or demand of the market abroad. In the local level, the municipal government has enacted initiatives to promote the local footwear industry (for example, the institutionalization of the *Tsinelas* festival). There is also an existing organization of footwear owners. However, according to most owner-respondents, they do not actively participate in its activities and choose not to be members because the potential benefits are not clear and more importantly; they do not have enough time to attend regular meetings.

### Financial Support

In terms of financial support, there are two primary sources of capital: loans from relatives and personal savings. The owner of *Edna's*, for example, had used her savings while working as a sales lady to put up her business. *MaRuth's* initial capital was estimated to be around Php15,000. Meanwhile, the owners of *Kyrah's* and *Ate Weng's* chose to avail loans from friends and relatives. The owner of *Ate Weng's*, for example, was able to obtain the necessary capital from her sister who availed of loans from a bank. The owners of *Kyrah* borrowed money from their money to put up their shoe business.

Table 1  
Perceived Level of Competitiveness among the Footwear Store Owners

Particulars	Small-scale footwear owners		Micro-scale footwear owners	
	Ma. Ruth	Edna's	Kyrah's	Ate Weng's
<b>Production</b>				
a) Sources of raw materials	Binan and Quezon	Divisoria and Sta. Cruz	Textile - Japan and other materials within Liliw	Liliw
b) Labor	Laborers from Binan and Marikina	Laborers from, Liliw, Binan and Marikina	Liliw	Liliw
<b>Marketing</b>				
1) Product and Price				
a) Slippers	3 for 100 to 150	3 for 100 to 150	3 for 100 to 150	3 for 100 to 150
b) Shoes	250 – 450	250 - 500	250 - 700 (customized)	N/A
c) Espadrilles	250 -380	250 -380	250 -380	N/A
2) Place	outside Gat Tayaw street	Along Gat Tayaw street	Along Gat Tayaw street	Along Gat Tayaw street
3) Promotion	Liliw Tsinelas Festival	Liliw Tsinelas Festival	Liliw Tsinelas Festival	Liliw Tsinelas Festival
<b>Financial Support</b>	Own Capital	Own Capital	Loan from relatives	Loan from relatives
<b>Institutional Support</b>	Cooperative President, DOLE, Liliw LGU	DTI, Liliw LGU	Liliw LGU	Liliw LGU

### Competition

Competition among small-scale shoe producers is, at present, fairly moderate. Competition between cooperative and non-cooperative shoe producers tends to be modest and non-restrictive. Competition between small-scale and large-scale shoe producers is intense and proactive. Because large-scale shoe producers have direct access to the shoe market, they can easily sink prices, forcing small-scale producers to drop the prices of their products as well.

### Role of Social Networks

There are social arrangements that allow the local footwear industry to thrive both within and outside the town.

## IV. CONCLUSIONS AND RECOMMENDATIONS

Although the main products of Liliw are slippers, the industry also supplies sandals, leather shoes, and espadrilles, catering to a variety of market segments, usually men, women and children. This allows the local footwear to compete effectively in the market. Furthermore, the Liliw's ability to compete effectively in the market is also due to the following factors: the reputation of Liliw as producer of affordable, cheap, and marketable footwear products, increased competition among local footwear producers [which allow the industry to regenerate itself by short-term capitalization], enmity of local footwear producers against imported footwear products from China, and the existence of financial and community support arrangements.

Although there is an apparent absence of institutional sources of capital, local producers are able to raise capital by availing loans from relatives and friends. This creates an effectual social network for capitalizing inputs and for reinforcing the need to reproduce the local footwear industry in the area. As a consequence, local footwear producers exhibit extreme enmity toward the importation of Chinese-made footwear.

Although competition among local producers is quite intense, the community provides the necessary structural and labor arrangements to ensure long-term viability of Liliw-made footwear. Laborers are free to set-up their own shoe stalls or even household-based production centres. Owners are free to enter into contract agreements with corporate clienteles [this includes subcontracting]. And finally, stall owners exhibit considerable level of

cooperation and trust when interacting with local footwear producers. This generally reduces the cost of transactions and increases the value of margins. In other words, there are social arrangements that allow the local footwear industry to thrive even outside the town.

To sustain Liliw Footwear Industry, social arrangements must be protected. The local government of Liliw has to enact policies to sustain the footwear industry by providing loan assistance for product innovation, providing training to improve the quality and innovate product lines, intensifying the celebration of *Tsinelas* Festival reaching other boundaries, helping storeowners go selling on line, providing incentives and recognition to producers with highest sales contribution and for buyers, as well, banning Chinese footwear products to be sold within Liliw, and protecting workers through safe and health-hazard free workplace.

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