

A STRATEGIC MANAGEMENT PAPER ON THE FILIPINO SEAFARER RECRUITMENT INDUSTRY

ANTONIO HERRERA, MBA

Introduction

ABC Co. Inc. is a recruitment agency that supplies Filipino seafarers to ship owners in different parts of the world. Since its founding in the 1970s, the company has grown to a size of 200 employees and has had experience operating passenger vessels, general cargo, oil tankers, liquid gas carriers, etc. In keeping with its philosophy, ABC has developed in-house training programs and a seafarer family welfare program that keeps its seafarers' performance and motivation at a high level and customers ultimately satisfied.

One of the problems of the company, however, is that it has not had any significant sales growth in the past years. The company has been catering to only two primary clients for the past ten years. Although the company has been receiving consistent income for the years that it has been in existence, the potential for growth has been covered by a cloud of complacency. This study is aimed at identifying the opportunities for growth in the company and formulating plans, making use of the company's strengths, while still striving to reverse its internal weaknesses.

Research and Methodology

The evaluation methods used for this paper include the External Factor Evaluation Matrix (EFE), Internal Factor Evaluation Matrix (IFE), Threats-Opportunities-Weaknesses-Strengths Matrix (TOWS), Competitive Profile Matrix (CPM), Porter's Five Forces of Competition Model, Internal-External Matrix (IE), Grand Strategy Matrix, Strategic Position and Action Evaluation Matrix (SPACE), and the Quantitative Strategic Planning Matrix (QSPM). A Balanced Scorecard was also developed to evaluate between shareholder and customer/operational objectives.

General Philippine Economic Environment

| Major Economic Indicators, Philippines, 2001-2005 | | | | | |
|---|-------|-------|-------|-------|-------|
| Item | 2001 | 2002 | 2003 | 2004 | 2005 |
| GDP growth | 3.0 | 4.4 | 4.5 | 5.0 | 5.0 |
| Gross domestic investment/GDP | 20.6 | 19.3 | 18.7 | 19.5 | 19.5 |
| USD Exchange Rate | 50.99 | 51.60 | 54.20 | 56.04 | 55.09 |
| Inflation rate (consumer price index) | 6.1 | 3.1 | 3.1 | 4.5 | 4.5 |
| Debt service ratio | 15.8 | 16.4 | 16.1 | 19.0 | 18.0 |

Sources: Bangko Sentral ng Pilipinas; Bureau of Treasury; National Statistical Coordination Board; National Statistics Office; staff estimates, 2005

A picture of the Philippines' general economy is important in any strategic formulation. The Philippines is currently experiencing a slow but steady rise in terms of its GNP from the years 2001 to 2005. In terms of the inflation rate, the economy experienced a decrease of 3% from 2001 to 2002, but since then has increased at a slow pace. Although the government has been heralding a promising economic future for the Philippines, it remains to be experienced by individuals and small corporations. Some of the main reasons for this are the upward trend of international oil prices, and the constant weakening of the peso against the dollar (as seen in the general economic factors table). These two factors have made an increasing impact in local prices, whether it is by real pressure from foreign suppliers or by perceived price increases in various industries. Although ABC Co. Inc. along with the other players of the Philippine manning industry are somewhat shielded by their dollar-earning nature from these price fluctuations, a lot of administrative expenses such as office supplies, transportation, and the like, are still obviously purchased in peso. This means that while most of the company's expenses that are directly related to the deployment of the seafarers, a considerable part of its expenses are still affected by this particular economic condition.

Rising OFW Indicators

Since ABC Co. Inc. is primarily a supplier of sea-based, and to a lesser extent, land-based Filipino workers abroad, it would also be important to consider the economic factors that relate foreign employment of Filipinos and how these factors have contributed to opportunities in the manning industry.

For starters, so many Filipinos have been turning to overseas employment for their livelihood over the years. Whether it has been for economic factors, political instability or otherwise, more and more Filipinos have looked to other countries for employment.

| OVERSEAS FILIPINO WORKERS' REMITTANCES | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|
| in thousand US dollars | | | | | | |
| Worker | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| Sea-based | 926,677 | 1,093,349 | 1,199,183 | 1,298,223 | 1,464,930 | 1,669,358 |
| Land-based | 5,123,773 | 4,937,992 | 5,686,973 | 6,280,235 | 7,085,441 | 9,019,647 |
| TOTAL | | | | | | |
| * | 6,050,450 | 6,031,271 | 6,886,156 | 7,578,458 | 8,550,371 | 10,689,005 |

Source: POEA 2005

The continuous increase of Filipinos seeking employment abroad is evidenced by the upward trend of Overseas Filipino Workers' remittances over the past several years. The remittances of Sea-based OFWs increased by a rate of 97.27% from 1999 – 2005. The remittances of Land-based OFWs also increased by 51.63%.¹⁸

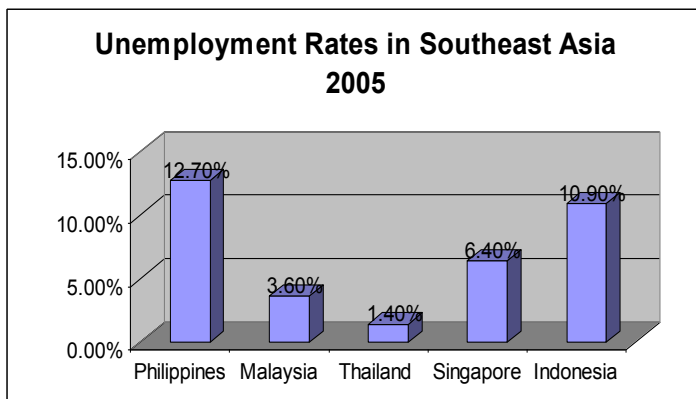
¹⁸ POEA

This not only signifies the fact that going abroad is becoming more attractive to Filipinos, it also shows that Filipino laborers are also becoming more and more attractive to foreign employers. The dramatic increase in remittances of sea-based Filipino workers not only means that more are leaving the country to work in internationally owned ships. It also means that foreign ship owners have been accepting more and more Filipino seafarers for employment. This presents an opportunity for the company to rely on the rising dependability of Filipino seafarers to look for additional clients and broaden their geographical reach in terms of clients, and ultimately boost profits.

This particular indicator is a two-edged sword. Seeing the fast upward pace of overseas sea-based workers means that, the other competitors have been steadily increasing the fleets of foreign ships that they have been manning over the years. To not keep up with the competitors' pace would mean being left behind in the race for market share. This implies so many other repercussions. First, it strengthens the bargaining power of the current customers since the company's customer base remains stagnant and the business depends on them. Then, it could bring the company out of touch with current market demands such as up-to-date technology, IT solutions, and value-adding services that come much easier to those having a wider variety of customers. Indeed, if the company does not broaden its reach, it could fall into the trap of complacency in servicing their existing customers and lose sight of the expertise that it takes to cater to different types of clients.

High Unemployment in the Philippines

Although some socio-cultural factors are developing that reinforce the upward trend of the OFW remittances, unemployment in the Philippines is one of the main reasons why a lot of Filipinos look for work abroad. Unemployment was increasing from 10.2% in 2002 to 12.7% in 2005. When looking at these figures in relation to its Asian neighbors, the Philippines' unemployment rate is alarmingly high.¹⁹



Source: CIA World Factbook

¹⁹ CIA World Factbook

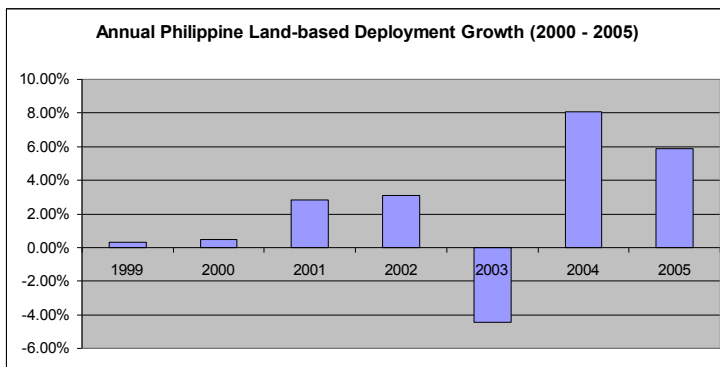
Malaysia posted an unemployment rate of 3.6% in 2005, Thailand 1.4%, and Singapore 6.4%. Among its more developed neighbors, only Indonesia had an unemployment rate in almost the same level at 10.9%.

Certainly, the unemployment rate in the Philippines could be counted as a factor contributing to the attractiveness of foreign employment to Filipino citizens. More Filipinos are looking for opportunities abroad to compensate for the lack of jobs here in the Philippines. In addition, if it takes too long to turn the unemployment situation around, as will be discussed later, it could produce a lingering culture of preference towards employment in other countries.

One external factor that contributes to the increasing demand for seafarers is globalization. The global market, because of the loosening of trade restrictions among countries in the recent years (especially with China), is continuing to need more and more means for the transport of their goods across the seas. This means that the demand for seafarers globally would be in a steady ascent in the coming years.

Rising Need for Land-based Workers in Japan and Other Parts of the World

As will be discussed later in the internal assessment, one of the company's key strengths is that it has recently acquired a license to deploy land-based workers. It is also important, therefore, to take into account the growing demand for land-based workers all over the world.



Source: POEA 2005

The Philippine land-based deployment industry has been experiencing an optimistic trend in the past years after a decline during 2003. This could be attributed to the growing demand for skilled workers (factory, construction, electrical, etc.), which rose by 8% in 2005. The deployment of teachers and civil engineers also climbed by 45.6% and 27% respectively. Overall, the deployment of Filipino land-based workers abroad is clearly on an upswing and is expected to maintain its steady growth in the end. Reasons for this upward trend are perceived to be the following:

1. English proficiency and culture adaptability of Filipinos;
2. increasing acceptance of outsourcing through foreign workers by multi-national companies;
3. small difference in the degree of service at a big price difference of Filipino technical personnel (teachers, IT professionals, engineers);
4. acceptance by the Philippine Government of Filipino workers as a primary mover in the country's economy.; and
5. Aggressive moves by the Philippine Government to market Filipino workers to more and more destinations in the world.

This increase represents an opportunity for land-based agencies to reap profits if the proper marketing is implemented to reach new clients.

| Top Ten Sources of OFW Remittances 2005 in Million USD | | | Top Ten OFW Destinations 2005 by deployment | |
|---|----------------|------|--|----------------|
| 1 | USA | 6424 | 1 | Saudi Arabia |
| 2 | Saudi Arabia | 949 | 2 | Hong Kong |
| 3 | Italy | 430 | 3 | UAE |
| 4 | Japan | 356 | 4 | Taiwan |
| 5 | HongKong | 338 | 5 | Japan |
| 6 | United Kingdom | 300 | 6 | Kuwait |
| 7 | UAE | 257 | 7 | Qatar |
| 8 | Singapore | 240 | 8 | Singapore |
| 9 | Germany | 134 | 9 | Italy |
| 10 | Canada | 117 | 10 | United Kingdom |

Source: POEA 2005

One location of particular interest is Japan, where one of the company's main customers for the sea-based unit, Mitsui OSK Lines, is located. Japan has been one of the most consistent Filipino OFW destinations in the world. According to the 2005 annual report of the POEA, Japan was ranked fourth in the world in terms of OFW remittances, and fifth in the world in terms of number of OFWs deployed. This attests to Japan employing a high number of Filipino workers as well as the high level of monetary gains that the OFWs in Japan are able to bring home.

| Top Ten Destinations of OFW New Hires 2005 | | |
|--|--------------|--------|
| 1 | Saudi Arabia | 65,259 |
| 2 | Japan | 38,803 |
| 3 | Taiwan | 34,369 |
| 4 | UAE | 33,969 |
| 5 | Kuwait | 24,917 |
| 6 | Qatar | 17,671 |
| 7 | Hongkong | 17,633 |
| 8 | Lebanon | 13,210 |
| 9 | Korea | 6,920 |
| 10 | Bahrain | 4,817 |

Source: POEA 2005

Despite Japan’s tightening of immigration policies in recent years, it still hired the 2nd highest total of new OFWs for the year 2005. Looking at the previous reports, it is also notable that Japan ranked 1st in new hires in the two previous years, 2003 and 2004.

Also making the deployment outlook to Japan brighter is the enactment of the recently signed Free-trade Agreement between Japan and the Philippines. The agreement that was signed on 9 September 2006 paves the way for the entry of a limited number of Filipino nurses and caregivers into Japan. Although it is a modest start, the agreement is viewed by some as the start of more employment opportunities for OFWs in Japan. This strengthens the fact that Japan’s acceptance of Filipino workers remains stable and opportunities to deploy to Japan will be present for years to come.

Technological Factors / Phase-Out of Single-Hull Ships by the International Maritime Organization

On November 13, 2002, a 26-year old oil tanker called *Prestige* sank along the coastline of Spain. It was instantly a worldwide ecological issue and sprang forth numerous calls for action by governments, environmental groups, and citizenries. It also has a number of European countries fighting over accountability for the incident.

“The Prestige spilled an estimated 17,000 tonnes (4.5 million gallons) of its 77,000-tonne (20 million gallon) cargo of fuel oil, contaminating hundreds of kilometres of coastline, killing wildlife and forcing a ban on fishing and seafood harvesting that has put tens of thousands of people out of work..”

- CNN.com

In response to this incident, the International Maritime Organization (IMO) made moves to phase out the single-hull design of the *Prestige* in favor of the safer double-hull type of oil tankers. This move would prevent further risk of oil tankers sinking and contaminating global waters and was immediately supported by a lot of countries. Hence, the IMO dictated several deadlines for the phase-out of single-hull oil tankers depending on their categories and ages. Trade by way of these ships would be prohibited after their respective deadlines.

This would mean that a majority of single-hull tanker ship owners in the world would be either scrapping them or selling them to purchase the new technology double-hull ships in line with the different deadlines. It is also important to note that though this IMO directive was addressed for oil-tankers only, that several ship-owners of other kinds of ships (cargo, passenger, VLCCs, etc.) could also be anticipating further directives, and as such, would also purchase double-hulls to replace their other ships as well.

The first deadline for Category 1 tankers (as highlighted in the IMO revised phase-out schedule), was on April 2005. Categories 2 and 3 tankers have their deadlines set at varying times from 2005 to 2010 depending upon their ships' anniversary dates.

Revised phase-out schedule

| Category of oil tanker | Date or year for phase-out |
|---|--|
| <i>Category 1</i> - oil tankers of 20,000 tonnes deadweight and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 tonnes deadweight and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks (commonly known as Pre-MARPOL tankers) | 5 April 2005 for ships delivered on 5 April 1982 or earlier Anniversary date in 2005 for ships delivered after 5 April 1982 |
| <i>Category 2</i> - oil tankers of 20,000 tonnes deadweight and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 tonnes deadweight and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements (MARPOL tankers), and | 5 April 2005 for ships delivered on 5 April 1977 or earlier Anniversary date in 2005 for ships delivered after 5 April 1977 but before 1 January 1978 Anniversary date in 2006 for ships delivered in 1978 and 1979 Anniversary date in 2007 for ships delivered in 1980 and 1981 |
| <i>Category 3</i> - oil tankers of 5,000 tonnes deadweight and above but less than the tonnage specified for Category 1 and 2 tankers | Anniversary date in 2008 for ships delivered in 1982 Anniversary date in 2009 for ships delivered in 1983 Anniversary date in 2010 for ships delivered in 1984 or later |

Source: International Maritime Organization 2005

This technological factor could be viewed both as a threat and as an opportunity for the company. This is for the mere fact that as several ships are sold or scrapped, several manning agreements would also be ending. This would definitely coincide with the ship owners renegotiating contracts that naturally come with buying new ships, such as the manning agreement. As the ship owners dispose of old vessels and acquire new ones, they would surely renegotiate their contracts with their current manning agency for the new vessel. More than any period, this would be when the country could expect ship owners, who are not satisfied with their current manning agencies, to go out and contact other prospective work force suppliers. It would also be the time that ship owners who are satisfied with their current manning agencies would contact new prospective agencies for constructive competition.

The threat and opportunity lies in the thought that many agencies could possibly lose their current clients or gain new clients during this time. It would all depend on the course of action they would take in response to the IMO edict.

Legal / Political Factors²⁰

The POEA “Hard to Enter, Easy to Leave Policy”

The government agency that is most directly related to the industry is the POEA. Over recent years, the POEA has been moving for tighter regulation of the sea-based and land-based agencies and better prevention of incidences of illegal recruitment in the country. This has been the main area where the government and legal factors come to play.

POEA administration’s campaign policy has been “hard to enter, easy to go”. In line with this policy, many measures have been taken to ensure that new license applicants are screened heavily, and that government regulations would be strictly enforced among those agencies that are already licensed and running. From 2004 to 2005, there was a 19% decrease in the number of new licenses issued (from 99 to 77 licenses).

There was also a sharp decline in the number of licenses renewed from 468 in 2004 to only 64 in 2005, representing an 86% drop for the period. Moreover, because of the POEA’s tightening degree of implementation, there was a significant increase in the number of cancelled agency licenses in 2005 compared to that of 2004. From 36 licenses in 2004, 67 licenses were revoked in 2005, representing an 86% increase.

The POEA conducted 863 agency inspections in 2005, discovering 33 violations to existing POEA rules and regulations. This affects the industry in different ways. First, it gives more experienced agencies better footing in industry ground since it is putting up higher barriers for new recruitment agencies to enter. Second, it is also making it imperative for all existing players to tighten their

²⁰ POEA Annual Report 2005

policies in communicating with their applicants, in the representation that their company has to these applicants, in its briefings before departure, and many other facets of their business.

Development Initiatives of POEA for More Foreign Employers to Take in Filipinos

The Philippine Government is very much interested in developing the OFW industry of the country, both sea-based and land-based. President Gloria Macapagal-Arroyo has initiated projects through the POEA and DOLE to continue looking for new foreign clients. One of the successful projects of 2005 was the DOLE Labor Opportunities Program which brought together prospective employers and Filipino recruitment agencies. The event generated a total of 15,462 job orders from the participant agencies.

The POEA also undertook marketing missions to Taiwan, UAE, Qatar, Bahrain, and Cyprus, proving that the government is serious in its thrust to market the Filipino worker in Asia and all over the world.

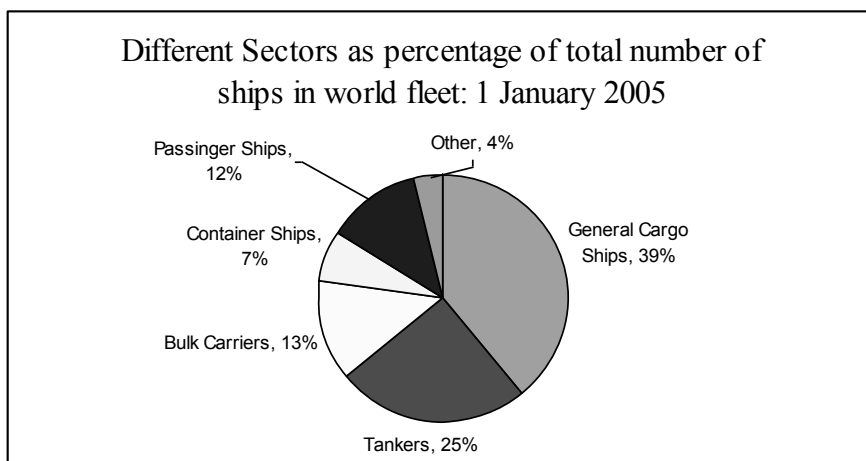
Competitive Forces

Industry Background

The main business of ABC Co. Inc. is to supply sea-based manpower to ship owners or any of their agents around the world. This means that while this study examines ABC as competing with the other manning agencies in the Philippine manning industry, the owners cannot ignore that competitors are present around the world. It should also be emphasized that the global manning industry is directly dependent on the world shipping industry – the transport of goods such as oil, cargo, and passengers by sea – such that one cannot be studied without consideration of the other.

Background on the Global Shipping Industry

The manpower demanded by ships required for seaborne trade would certainly be directly proportional to the amount of trade goods that are to be transported each year. In the same way, the amount of seafarers demanded by the world market would be directly proportional to the number of ships currently comprising the global merchant fleet. As of January 1st 2005, the world trading fleet was made up of 46,222 ships, with a combined tonnage of 597,709,000 gross tonnes.



Source: Lloyd's Register Fairplay January 2005.

| World Shipping Figures 2002-2004 | | | |
|--|------------|------------|------------|
| | 2002 | 2003 | 2004 |
| World Trade Output Growth Rate | 1.9% | 2.6% | 4.1% |
| World Seaborne Trade (goods loaded for the year) | 5.88B Tons | 6.17B Tons | 6.76B Tons |
| World Seaborne trade growth rate | 0.8% | 3.7% | 4.3% |
| World Merchant fleet growth rate | 2.3% | 1.5% | 4.5% |
| Oil Tankers world Growth Rate | 6.6% | 4.1% | 6.1% |
| Dry Bulk Carriers Growth Rate | 1.9% | 2.5% | 4.2% |

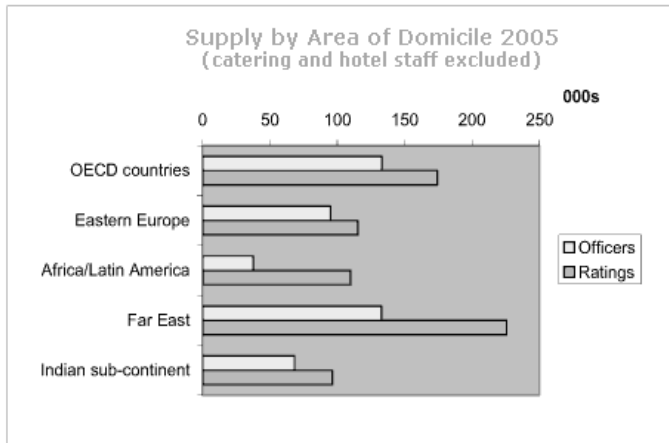
Source: United Nations Council on Trade and Development 2004

Globalization has been an external factor that has affected almost all industries in the world. Shipping, and consequentially manning, are two of the world's industries that are more directly affected by globalization's continuing spread. World trade goods output growth has been increasing from 1.9% in 2002 to 4.1% in 2004. Vigorous trade brought about by globalization has brought about the need for more seaborne trade, and more ships. 2004 has given impressive numbers in terms of trade growth and the growth of the global shipping fleet, especially the oil tankers. One of the reasons for this sharp increase in tankers is the scrambling for the purchase of new double-hulled tankers (as discussed earlier). The next section would give a background about the global manpower industry and how the Filipino seafarers fare in the competition to man these trading ships.

Background on the Global Manning Industry²¹

As of 2005, the population of seafarers worldwide serving on internationally trading merchant ships is estimated at 466,000 officers and 721,000 ratings. Of this number, the Philippines is the leader, providing 20% of the worldwide population. That means that the Philippines supplied around 220,000 seafarers in 2005. The prevailing reasons for international ship owners' preference towards Filipinos is their level of English proficiency, adaptability in changing environments, and non-confrontational nature.

According to the BIMCO ISF (Baltic and International Maritime Council / International Shipping Federation) Manpower update 2005, there was a surplus of 224,000 ratings with respect to demand and a shortage of 16,000 officers in the year 2000. This implies that there is intense competition for the supply of ratings seafarers internationally.



Source: BIMCO/ISF estimates.

Though the Philippines is the leading seafarer supplier in the world, China has been making great strides towards competing for market share with our country. A study in 2002 that appeared in the international publication "Maritime Review" gave a little overview of how Chinese seafarers have been increasing in demand the part several years. In 1998, China had 80,000 seafarers employed in deep sea trade. After being stagnant in the years previous 1998, the figure was expected to swell to 105,000 in 2005 because China's continuing liberalization. The obvious reason for this rise is because of the cheap price of labor that is being paid to Chinese seafarers. The ITF (International Transport Workers Federation) standard rate for an average of 22 seafarers is \$750,000 per annum, the average for Chinese seafarers is \$300,000 per annum. Although the Filipino's wage scale is generally below ITF standards, it is still much higher than the Chinese crew. At a rough estimation of industry standards, the figure would be around \$500,000 per annum at 22 seafarers.

²¹ BIMCO ISF Manpower Update 2005

Background on the Philippine Sea-based Manning Industry

²²The Philippine Sea-based Manning industry is composed of 723 registered manning agencies all over the country. The current market leader is Magsaysay Maritime Corporation. ABC is in the upper half of the industry in terms of deployment along with a high concentration of its players. The number of Filipino seafarers deployed as recorded by the POEA experienced an annual growth rate of 4.60% from 2000-2005.

Marketing Mechanisms

Since the manning industry does not rely on conventional marketing vehicles such as television and print advertising, it is important to discuss the mechanisms available for players in the manning industry to hunt and close deals with ship-owning companies abroad.

One of the reasons why Magsaysay Maritime Co. is the leader in the industry is that they have been a shipping company before entering into the manning industry. As such, they have had the privilege of being in the network of shipping companies worldwide, being in contact with the clients while many of the other players started from scratch.

Today the unified efforts of shipping companies to forward their causes and profitability gives rise to several shipping federations all over the world who meet regularly in what are called shipping conferences. The largest of these groups are called the International Maritime Organization and the International Shipping Federation. In these conferences, several representatives from shipping companies all over the world gather in one venue, giving delegate manning agents a chance to market their services. The attendance fees for these types of conferences, though a bit onerous would compensate for the collection of prospective clients in one venue as opposed to visiting their offices one by one. The conferences that seem to be diamonds in the rough are those of smaller shipping organizations, some national or some just instituted by a group of few shipping companies that have the same agenda. It is in these conferences that the delegation is a bit smaller and a more personal approach could be made to the individual prospects.

The more risky and costly form of marketing for the manning industry is when companies contact the shipping companies from national business directories or ship registries and arrange visits with the goal of closing a deal to man their fleet of ships. This kind of marketing is risky because it depends on whether the random shipping companies are looking for new manning agents or not. So much of it depends upon timing and coincidence that the company could fund several trips and still not be able to net a manning agreement.

²² www.poea.gov.ph

Competitive Profile / Critical Success Factors

It cannot be overemphasized that the main factors that affect success in this industry have to do with the size and bargaining power of the ship owner clients, and the international character of the industry. Because of these considerations, the familiarity of manning agencies with conducting business in the global setting is hoisted into the forefront of critical success factors ahead of conventional ones such as price and efficiency of service.

The following are the critical success factors that are essential in measuring competitiveness in the manning industry:

1. Global Marketing Initiative
2. International Corporate Image
3. Pricing
4. Seafarer Performance / Efficiency
5. Office Staff / Processing Efficiency

Global Marketing Initiative

As the industry caters to large, corporate, foreign clients all over the world, conventional means of marketing such as television and radio advertising, print media and the like are not applicable to this kind of industry. The first customers that a manning agency will get to start with will most likely come from international networks (probably a foreign acquaintance or common friend). To be able to achieve growth after the first client, however, an agency would have to aggressively pursue marketing efforts in other countries.

There are numerous ways of going about this, with varying effectiveness. Some manning agencies choose the random approach, procuring shipping directories from different ship intensive countries such as Greece and Japan, and individually contact them with the interests of making personal visits in the hope of closing a deal. This method, though less costly than others, relies much on luck and coincidence to be successful.

The more prevalent practice in the manning industry is to send marketing delegates to attend international shipping conferences around the world. These conferences are attended by many representatives from different ship owning companies, offering a large concentration of prospective clients in one location.

Having access and taking advantage of these marketing channels would be one of the big keys to surviving and growing in the manning industry. Having more clients effectively gives each agency more adaptability through experience with different ship owners and would add to their international exposure and image.

International Corporate Image

When ship-owning corporations are seeking for a manning agent, they usually get information from one of three sources. First, they would skim through the manning agents they already have contact with, namely the agents that have reached them via the marketing channels mentioned above. Second, they would be asking their colleagues from their own industry about their experiences with their own manning agents and recommendations according to which agents their friends in the industry know of. And lastly, if they have a nationality in mind that they would like to inquire about, they ask the government agency that is related to foreign employment and shipping in that particular country (in the Philippines, these would be the POEA and the MARINA respectively).

Of these three sources, access to global marketing channels helps with the first. International corporate image brings the manning agent closer to the second and third sources (exposure to industry players and government agencies).

Attaining that level of international corporate image wherein random ship owners contact your agency is difficult and would require taking care of relationships and networks. When attained however, it gives a great competitive advantage, providing the possibility of new clients even with less marketing efforts.

Pricing

In general, players in the Filipino manning industry already enjoy a price advantage over western competitors such as European seafarers, while at a disadvantage with some Asian competitors such as China and India (as mentioned in the competitive forces section).

The weight of price competitiveness between Filipino manning agencies, therefore, is a little lower than others. Ship owner clients, in favor of the price difference between Western and Asian seafarers, give a little more breathing room when Filipino agencies are concerned. Pricing is still, included in the first negotiations between clients and manning agents, before the ship owners get their first opportunity to gauge the seafarer performance and office performance of each manning agent. It is, therefore, placed before the rest in terms of weight.

Seafarer Performance / Efficiency

When initial contact has been made and the manning agreement has been done, maintaining the client would largely depend on the product itself, which is the performance of the seafarers. High performance means the imperative of minimizing problems onboard and any possibility of labor disputes between the seafarer and the owners.

Accidents and delays to ships always prove costly. Collisions between ships result in multi-billion dollar suits, while any sort of delay in port or at sea would

mean thousands of dollars in opportunity and maintenance costs for the ship-owners. Because of this, it is very important to note that one small human error from any seafarer could cost many monetary losses. Liabilities from these kinds of errors as well as the chance of losing the client make sailor efficiency all the more important.

In addition to this, seafarer performance could easily build-up or pull down any agency’s international corporate image, since players in the shipping industry are easily connected to each other.

Office Performance / Efficiency

Office performance works hand-in-hand with seafarer performance in being the two key determinants of effective service in the industry. Office functions of the manning industry include the following:

- Building an efficient database / pool of qualified seafarers for deployment;
- receiving and working on manpower orders from the client ;
- processing seafarer documentation;
- PDOS (pre-departure orientation seminar);
- travel arrangements from the Philippines to the ship’s next convenient port;
- coordination with the ship owner’s port agent; and
- dispatching of seafarers on date of departure

Client frustration over seafarer problems onboard the ship are almost equal to any frustration they may encounter due to delayed deployment, missed flights, incomplete documents and poorly briefed sea crew. The difference between office performance and sailor performance would be that faulty seafarer performance entails greater liabilities or costs.

External Factor Evaluation Matrix (EFE)

| | KEY EXTERNAL FACTORS | Force | Weight | Rating | Weighted Score |
|---|---|----------------|---------------|---------------|-----------------------|
| | Opportunities | | | | |
| 1 | High Unemployment Rate | Economic | 0.05 | 2 | 0.10 |
| 2 | Culture of Migration / Foreign Employment | Socio-cultural | 0.05 | 2 | 0.10 |
| 3 | Rising need in foreign countries for land-based workers | Economic | 0.20 | 1 | 0.20 |
| 4 | Globalization / Steady growth of global fleet | Economic | 0.05 | 2 | 0.10 |
| 5 | Phase-out of single hull ships | Technological | 0.13 | 1 | 0.13 |

| | Threats | | | | |
|---|---------------------------------------|-------------|------|---|------|
| 1 | Competitive rise of Chinese seafarers | Competitive | 0.10 | 3 | 0.30 |
| 2 | Stricter implementation of POEA | Political | 0.08 | 4 | 0.32 |
| 3 | Appreciating peso value | Economic | 0.05 | 2 | 0.10 |
| 4 | Inflation | Economic | 0.12 | 2 | 0.24 |
| 5 | Worldwide surplus of seafarers | Economic | 0.17 | 1 | 0.17 |
| | Total EFE Score | | 1.00 | | 1.76 |

Internal Assessment

Management

Well- Experienced Management

Being one of the pioneers in the Philippine Manning Industry, ABC has had the privilege of being manned by very competent managers. The years of experience that the company has had, gives ABC managers the advantage of having been through several irregular circumstances that contribute to their adaptability to change. These instances include management of ships through transferred ownership, disaster management of sunken ships, and handling cases such as jumpship or onboard conflicts. This gives managers the edge of being dynamic enough to handle various situations without many problems.

Good Standing with POEA

Furthermore, the company's efficiency in the industry has translated into a good relationship with the POEA. Its constant high level of deployment and other unique achievements have been cited by the POEA in numerous occasions:

1. received Top Performer Award (Citation for deployment) 1994, 1996, and 1998;
2. received Award for Excellence (Consistent Top Performer) in 2002 and 2005;
3. received POEA citation for being one of the pioneers in the manning industry; and
4. received POEA citation twice for exemplary concern for seafarer welfare.

Management System / Low Employee Empowerment

The company's management system could be characterized as being vertical or traditional. While the middle and lower ranks have their own everyday routines and designations, top management exercises a high level of supervision and most of the decisions still have to be run through them before proceeding. In certain

aspects, this kind of management is still appropriate. This is because the allowance for error in the manning industry is very small. A small delay in documentation or communication with the client or the seafarer could result in many losses for the clients. Moreover, since individual clients control a large chunk of the company's profitability, it is only fitting that mistakes be kept at a minimum and constant monitoring is one way of ensuring this.

As a result, employee empowerment has been difficult to attain. Micromanagement has been made a practice by some of the managers and bureaucracy has hindered employee's individual contributions. Such a high value is given to not committing a mistake that the middle and rank-and-file employees go to meetings expecting a defense rather than a forum to voice their ideas to improve the company. Employees pay more attention to their individual work rather than the bigger picture because of the vertical system. In addition, the decisions that need to be run through top management causes the turnover of work to be slower than what it is desired to be.

In trying times where initiatives in marketing and cost cutting are quickly becoming imperatives, the company needs to make initiatives to empower their employees. This would entail giving them more freedom to do their jobs, but setting measurable quotas in minimizing errors and such. This would give the employees more confidence in their jobs, allowing the ideas to flow and taking a little pressure off top management.

Human Resource Development / Lack of Initiative to Develop Employees

As aggressive as the company has been in developing training programs for the benefit of its seafarers, it has not been as active in looking for ways to cater to the self-improvement needs of its employees. As the everyday work for employees in a manning agency can be considered mechanical and as ongoing pressure to minimize errors are constantly called for in the different departments, the company has not made an initiative to equip their employees with the proper training for them to have an attitude towards excellence. New employees are usually just set off into their new jobs with the development of a high standard of work dependent on the way the managers will be able to mentor them. Although the company does boast a line-up of extremely competent and well-experienced management, development through personnel training would still be able to raise the bar and more formally introduce the measurable standards by which the company wants to operate.

Marketing

Product

ABC is committed to supplying the most responsible and dynamic seafarers in the Philippines. The company has had years of experience handling different kinds of ships including general cargo, dry cargo, bulk carriers, oil tankers, liquid gas tankers, and passenger vessels. ABC's continuous seafarer training is not only to maintain the high level of performance of its seafarers, it is also geared

towards making all crew from ABC fit to be deployed for duty in any kind of ship in the world. When ship-owner clients ask about the availability of a crew for a particular kind of ship, the goal is to be immediately able to pull out from the pool with no need for additional time.

Limited Customer Base

ABC currently caters to two primary clients:

1. DEF Co. (Greece)
2. GHI Co. (Japan)

Because of the limited number of clients that the company has catered to for many years, the references that these clients are able to make for ABC is likewise limited. Word of mouth and networks from the shipping industry are some of the best springboards for growth in the manning industry and in this respect; ABC has not been able to cash in.

Absence of a Marketing Plan

Currently, the company does not have a clear cut marketing policy, nor does it have a designated position for marketing in its organizational structures. As marketing in the manning industry relies largely on international networks and word of mouth from ship owners, ABC has concentrated on operations and has not had efforts to hunt for new clients abroad.

This dependence on external forces in gaining new clients has been one of the reasons for the slow growth of the company through the years. New clients arriving in the company during the late 1990s up to the present have been minimal and merely through coincidence. Walk-in clients in the manning industry are extremely low in incidence.

Operations

ABC was one of the first manning agencies in the Philippines to be ISO certified. Because of this, quality procedures are monitored regularly and a Quality Assurance Representative is present to organize management review meetings and internal audits in order to keep the standards of the company's procedures at a high level.

License to Deploy Land-based Workers

One of the new recent projects of the company that has gained it an opportunity for profits is the incorporation of a land-based recruitment agency. To start with, ABC went into a joint venture with an independent management group that had clients in Japan in need of land-based workers from the Philippines. The initial agreement was for ABC to fund a land-based corporation and for the management group to make use of the license under supervision of the company.

The group would pay ABC a fee for making use of the license and the agreement would hold until the group is already able to fund its own license.

This started in the year 2003, and the agreement ended in 2005 when the management group decided to go independent. This left the company with a land-based license without any clients to start with. This gives ABC an advantage over other manning agents in that it has opened a window to diversify into another industry with opportunities to generate more profits for itself.

The operations department is subdivided into fleets. These fleets are determined by manageable sizes and are sorted by client. Each fleet has its own manager, who directly communicates with the client's representatives for their assigned ships, and a fleet assistant, who is in charge of gathering and compiling all documentation requirements for crew in that particular fleet. Each fleet also has its own corresponding accounting staff in the accounting department that sees to the disbursements of wages and communicating with the clients regarding billing.

There are two centralized sub-departments of the Operations Department, namely the Dispatching and Recording Department. Dispatching is in charge of accompanying boarding seafarers to the airport for smooth facilitation. Recording, archives all copies of crew documents for all fleets in case a need for these documents arises.

Welfare Program for Seafarers

As the company was founded by a former ship captain, there has been from the start an attitude of care towards the seafarers of ABC. One of the first unique programs of the company has been its welfare program for the benefit of the families of the seafarers it deploys. Having control over the release of all the seafarers' salaries and wages from the ship-owner clients, ABC has ventured into granting cash advances to the seafarer beneficiaries. Their families are welcome to go to the office when there is a need. They are then interviewed by company representatives, and when the reason for cash advances are satisfactory, are given cash to be deducted from the seafarers' salary account with minimal interest.

In addition to this, the company has also been active in disaster coordination, always contacting seafarers' families who live in the location of a recent disaster (storms, earthquakes, volcanic eruptions, etc. ABC has found that one of the biggest factors that contribute to the motivation of seafarers onboard is the knowledge of their families' safety and well-being. These welfare measures take motivation to a higher level and consequently help performance and loyalty rise as well.

Internal Factor Evaluation Matrix

| KEY INTERNAL FACTORS | | Function | Weight | Rating | Weighted Score |
|------------------------|---|------------|--------|--------|----------------|
| Strengths | | | | | |
| 1 | Well-experienced Management | Management | 0.15 | 4 | 0.60 |
| 2 | License to deploy land-based workers | Operations | 0.15 | 4 | 0.60 |
| 3 | Good Standing with POEA | Management | 0.05 | 4 | 0.20 |
| 4 | Welfare Program for Seafarers | Operations | 0.07 | 3 | 0.21 |
| 5 | In-house training for Seafarers | Management | 0.07 | 4 | 0.28 |
| Weaknesses | | | | | |
| 1 | Limited Customer Base | Marketing | 0.08 | 1 | 0.08 |
| 2 | Low Employee Empowerment | Management | 0.08 | 1 | 0.08 |
| 3 | No Marketing Plan | Marketing | 0.20 | 1 | 0.20 |
| 4 | Poor Collection Efficiency | Finance | 0.10 | 2 | 0.20 |
| 5 | Lack of Human Resource Initiative for Employees | Management | 0.05 | 2 | 0.10 |
| Total IFE Score | | | 1.00 | | 2.55 |

Strategy Formulation

TOWS Analysis

| | STRENGTHS – S | WEAKNESSES- W |
|---|---|--|
| TOWS ANALYSIS | <ol style="list-style-type: none"> Well-experienced Management License to deploy Land based Good Standing with POEA Welfare program for Seafarers Seafarer In-house Training | <ol style="list-style-type: none"> Highly Vertical Management Low Employee Empowerment No Marketing Plan Poor Collection Efficiency Lack of H.R. Initiative |
| OPPORTUNITIES - O | SO STRATEGIES | WO STRATEGIES |
| <ol style="list-style-type: none"> High Unemployment Rate Culture of Migration Rising Need for Land based Steady Rise of Global Fleet Phase-out of Single-hull Ships | <ol style="list-style-type: none"> Develop a new seafarer training program for double-hull operation (O5, S5) Build Marketing Efforts for Land based Deployment (O2, O3, S2) | <ol style="list-style-type: none"> Build Marketing Plan for Current and potential Customers (O4, O5, W3, W4) Promote people from the ranks to form a designated marketing team in company (O3, O4, O5, W1, W2, W3) |

| THREATS -T | ST STRATEGIES | WT STRATEGIES |
|---|---|--|
| 1. Rise of Chinese Seafarers 2. Strict Implementation POEA Reg 3. Appreciating Value of Peso 4. Inflation 5. Worldwide Surplus of Seafarers | 1. Implement Stricter Policies in dealing with applicant seafarers (T2, S1, S3) | 1. Strengthen Employee Cost-Consciousness through seminars (T4, W4, W5) |

| TOWS MATRIX STRATEGIES | | | |
|-------------------------------|-----------------------|-----------------------|------------------------|
| Concentric Diversification | Market Development | Market Penetration | Product Development |

Proposed Strategy

In consideration of the company's strengths and weaknesses, as well as the opportunities and threats present in the current environment, the most appropriate strategy would be concentric diversification into the land-based recruitment industry. The company, however, should not take for granted the opportunities present for the sea-based unit, where secondary strategies of market penetration and market development should be pursued.

Concentric Diversification (Land-based Industry)

In order for the company to get its land-based unit up and running, it just needs a place to start. Its good standing with the POEA and well-experienced management give it the capacity to maximize the benefits of its land-based license should the first client start asking for workers. In addition, the company's high degree of liquidity makes it ready to finance an aggressive land-based marketing campaign that would provide the clients that it needs to start.

- 1) Marketing Campaign for Japan could start immediately
 - One of the company's 2 primary clients is located in Japan.
 - It has come upon several business connections in Japan over the years.
 - Japan was ranked #2 in the 2005 POEA annual report in terms of new OFW hires (38,803), despite Japan's implementation of strict immigration policies last year.
 - Japan ranked #5 in the top ten Destinations of Filipino OFWs 2005
- 2) Studying market prospects to other Asian countries

Market Penetration and Market Development

While the company starts marketing into the land-based industry, it should not ignore the opportunity presented by the deadlines enforced by the International Maritime Organization (IMO) to phase out single-hull oil tankers. Since a lot of oil shipping companies would be selling or scrapping their ships in favor of the new technology double-hull ships, a renegotiation period arrives in which these companies would be signing new manning contracts, either with their existing agents or with other agents. This gives an opening for manning agents to present themselves to companies with existing ties with other agents and probably pull out with new ships.

- 1) Market to Japanese Shipping Companies.
 - Make connection either through networks or directly from Lloyd's Fairplay Shipping Directory.
- 2) Market to Other Shipping Companies from other countries.
 - Market through Networks or through Shipping Conferences worldwide.

Market Segmentation

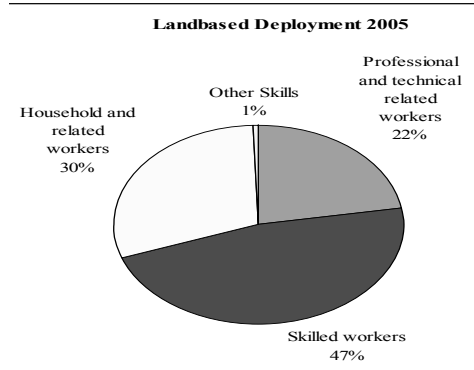
Main Unit (Sea-based)

The industry could be generally classified according to the types of ships serviced as mentioned in the previous section (passenger ships, cargo ships, oil tankers). Expertise in one category of ships could differentiate a company, but only to a small extent. The types of ships where agencies are able to be differentiated are oil tankers and passenger ships. Other than these two types of ships, supply of seafarers are generally considered similar and a lesser degree of expertise or differentiation could be seen by customers.

ABC's fleet of manned ships is currently comprised of 70% Oil Tankers and 30% General Cargo Ships.

It is recommended that the company, though having had a lot of experience manning several different kinds of vessels, prioritize on searching for Oil Tanker companies to increase their fleet size while still marketing to the other players that are encountered in the shipping conferences and directory marketing trips.

Land-based Unit (Concentric Diversification)



As depicted in the graph above, the highest percentage of land-based OFW new hires deployed last year were under the category of skilled workers (46.93%). These include factory and construction workers, dressmakers, building caretakers and electrical workers. The next two categories, which include household workers, and professional and technical workers, are close together at 29.93% and 22.29% respectively.

In terms of salary, professional and technical workers net a much higher salary, followed by skilled workers, and then household workers. Because revenues in the land-based recruitment industry are received as a percentage of each deployed workers salary, the highest amount of revenue that a recruitment agency can get *per worker deployed* would come from the deployment of professional and technical workers.

| Philippine Land-based Deployment New Hires 2005 | | |
|--|---------------|---------------------------|
| Occupational Group | 2005 | % Contribution |
| A. Professional and Technical Related Workers | 63,941 | 22.49% |
| Teachers | 789 | |
| Nursing Personnel | 674 | |
| Civil Engineers | 625 | |
| MedTech | 524 | |
| Mechanical Engineers | 452 | |
| Draughtsmen | 442 | |
| Dental Assistants | 344 | |
| Aviation Related Workers | 211 | |
| Other Professional Workers | 59,880 | |
| | | |

| | | |
|---|----------------|----------------|
| B. Skilled Workers | 133,420 | 46.93% |
| Construction Workers | 30,078 | |
| Factory Workers | 39,477 | |
| Building Caretakers | 12,607 | |
| Sewers and Embroiderers | 4,452 | |
| Wiremen Electrical | 2,991 | |
| Tailors and Dressmakers | 2,906 | |
| Other Skilled Workers | 40,909 | |
| C. Household and Related Workers | 85,088 | 29.93% |
| D. Other Skills | 1,836 | 0.65% |
| Total New Hires | 284,285 | 100.00% |

Upon closer examination of the number of newly hired workers deployed for the year, the researchers find implications in that the higher yielding workers (professional and technical) have a much lower number of workers deployed for each occupational category (teachers, nursing personnel, etc.), with each category not reaching 1,000 new hires for the year. Under the categories of skilled workers and household workers, on the other hand, the number of newly hired workers deployed per subcategory is much higher because of the less specialized job descriptions. This gives a number of implications about how the land-based market is segmented and how land-based agencies are to proceed in the industry:

- Agencies that specialize in deploying certain subcategories of professional and technical workers such as nurses would have a higher yield per worker deployed, but would have a hard time reaching a high level of deployment since the annual deployment for these types of workers only reach the hundreds for the whole Philippines.
- Agencies that focus on skilled workers and household workers would have an easier time reaching a higher level of deployment, with a marginally lower yield per worker.
- This implies that although agencies' first customers would require one particular kind of worker, it would be advisable for land-based agencies to have a pool of several different categories of workers in order to cater to a wider range of clients and be more successful in the industry.
- It is also important to note that while skilled workers and household related workers are both less specialized than the technical categories, one big difference is that household workers are more susceptible to exploitation. The researchers notice this as more and more features on print and on Television narrate the plight of Filipino domestic helpers abroad.

With these in mind, it is recommended that the company gather a large pool of technical, professional and skilled workers, marketing for clients to deploy both categories of workers. These two categories of workers could help the company's profitability in two different ways. Pooling and marketing for skilled workers would present the company with opportunities for larger and more stable deployment,

though giving less return per worker deployed. This would help the company establish a stable cash flow that would defray its expenses. Marketing for technical and professional workers, on the other hand, would give the company less deployment, but a much higher return per worker deployed. This would help the company's chances for growth because of its higher profitability, and in the end, could be the cash-generating segment for overall profits.

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