Industry Updates

For the period December 3-14, 2007

KPMG Philippines weekly Information, Communications and Electronics news summary

This publication is a summary of publicly reported information, the accuracy of which has not been verified by KPMG.

P1 Billion set aside for 2008 e-government projects
THE GOVERNMENT has set aside P1 billion for e-government projects next year under the eGovernment Fund. The fund was created to provide an alternative funding source for “mission-critical, high-impact and cross-agency” Information & Communications Technology (ICT) projects.

Commission on Information and Communications Technology (CICT) Chairman Ray Anthony Roxas-Chua III said in a recent interview that his office continues to solicit proposals from government agencies. Under the implementing rules and regulations, CICT is mandated to promote macroeconomic and sector-specific policies that adhere to the principles of competition, standardization, liberalization and empowerment including data protection, information and infrastructure security and other principles in the Constitution.

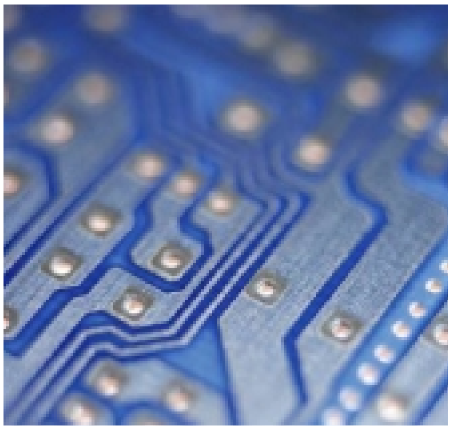
integrating framework and oversees the identification and prioritization of all e-government systems and applications as provided for in the Government Information Systems Plan (GISP).

CICT is working on the e-Government Portal Project, a joint effort spearheaded by the National Computer Center (NCC) and Data Center Inc. (DCI) in cooperation with the latter’s software partner Fujitsu Philippines, Inc. The vision is to make the government more accessible and citizen-centric by establishing a portal which shall serve as a “single door” Web-based gateway for providing convenient access to government services and information.

“Right now, each department has its own Web site. For someone not familiar to each government structure, the services portal will put the services altogether in one place. “The other portion of that is the payment gateway, which will allow citizens to transact with the government. Our expected launch is January 2008,” Mr. Roxas-Chua said. When operational, the e-Payment Gateway will accept payment through the following channels: debit instructions via the Internet, credit card via the Internet, and mobile wallet via mobile phones.

iSchools
CICT will allot P400 million for its iSchools project. Schools will be

Information, Communications and Electronics



In the news

provided with computers, network- related peripherals, Internet connections as well as relevant educator training in the use of ICT in the education process. “iSchools is meant to bridge the digital divide and develop human capital. This year, we are targeted to establish 320 schools,” Mr. Roxas-Chua said.

In its Web site, the National Computer Center (NCC) said project outcomes must contribute to the attainment of the plan/ targets consistent with the Medium-Term Philippine Development Plan, GISP and/or CICT Strategic Roadmap to secure funding from eGovernment Fund. Under the technical evaluation criteria, the project should contribute to good governance, enhance service delivery, and promote social benefits.

Source: Inquirer . by Ruby Anne Rubio . December 15, 2007

RP Ranks 23rd in adoption of electronic payment systems, says Visa, Inc. study

The study titled *Government ePayments Adoption Ranking* graded 43 global markets as far as providing key government payment services on electronic platforms is concerned. The Philippines ranked 23rd with a score of 51.2 out of 100. Canada topped the list, followed by the United Kingdom, and Germany and the US tying for third place.

Analysts tested 16 online transactions, including tax payments and refunds, automotive costs, social welfare benefits, registration of business and government procurement. The study also tried to capture all types of electronic payments, whether they are made through Internet-connected computers, mobile phones or personal digital assistants. Visa tapped The Economist Intelligence Unit Ltd. to undertake the study in order to help Visa’s client pool of financial institutions to identify new electronic payment alternatives.

Based on the study, the Philippines was ahead of its wealthier fellow ASEAN (Association of Southeast Asian Nations) members — Malaysia at no. 24 and Thailand at no. 29. The Philippines also beat the United Arab Emirates and India, which ranked 31st and 33rd, respectively. “The study shows that while a large majority of governments have made great progress in their ability to accept payments electronically, an opportunity still exists for more governments to develop systems for distributing payments to citizens and business,” said Laura James, editor and economic analyst of The Economist Intelligence Unit.

The Philippines can learn from Southeast Asian peers like Hong Kong, Singapore and Taiwan, who ranked 9th, 10th and 11th, respectively, which have integrated online services and electronic payments in their economic strategies, the study said. It also cited Turkey, China and Brazil which, despite their limited infrastructure, have managed to adopt effective electronic payment systems. Turkey was ranked 18th, while China and Brazil landed on the 19th and 22nd spots, respectively. Laggards were Ukraine, Nigeria and Indonesia at 41st, 42nd, and 43rd, respectively.

The study also said markets should work on weak areas such as requiring ID, driver’s license, company registration, health benefit reimbursement and other documents where owners of new firms are still required to submit a variety of paper documents, usually in person and in a long series of procedures. A recent World Bank report said the country’s ranking in terms of ease of doing business had slipped by three notches to 133rd from 130th last year, citing the slow pace of reforms in the area of business regulation. The report surveyed 178 economies. In the 2005 report, the Philippines landed on the 121st spot. It noted that registering a business in the Philippines requires 15 procedures that take up 15 to 58 days to process.

Source: Inquirer . by Gerard S. dela Pena .December 11, 2007

Business incubation centers planned

Key government and business leaders are putting up new industrial zones in Metro Manila to serve as “trial ground” for would-be investors in the information technology (IT) industry, the country’s largest business group said.

Philippine Chamber of Commerce and Industry (PCCI) President Samie Lim said the IT economic zones would require "billions of investments" but declined to elaborate. He said funding for the project will have to come from both the public and private sectors. "These incubation centers will have to be university-based. It's a whole industrial zone. We will bring in foreign nationals...the best and brightest from all over the world and give them free office space, common facilities and services including incentives," he said in a recent interview.

Technology-based firms will be allowed to stay in incubation centers for six months to a year until they establish themselves, Mr. Lim said. "This will be like a trial/training ground for them to see if they can do business here and will require strong public-private sector partnership," he added. Proposals to create technology business incubation centers nationwide were floated during an innovation summit last month. Industry leaders had said incubation centers are expected to harness the potentials of IT firms. The DoST and PEZA are expected to present a memorandum of understanding to Malacañang supporting the creation of the center.

The government and the private sector last month said the Philippines was aiming to become Asia's innovation hub to compete with major industry players worldwide as it launched an 18-page document summarizing the country's National Innovation Strategy.

Source: Inquirer . by Bernadette S. Sto. Domingo .December 3, 2007

Fixed-line seen driving service bundling among telcos

For Asia-Pacific telecom carriers, the line remains clear between fixed-line and mobile services, according to one industry analyst. Full "quad-play" bundling (of fixed-line and mobile) will be slow to take off in the region, according to Ovum. In the long run, though, Ovum predicts bundling would be in favor of fixed-line or fixed services. The industry analyst noted that fixed services like voice, broadband and video content are typically a household purchase. In contrast, mobile services are typically a personal purchase and are most effectively marketed as a separate service.

"We see little to suggest that this will change," said David Kennedy, Ovum's research director. On the carrier side, he noted that fixed and mobile businesses are still managed separately by many operators in the region. Migration to more "customer-focused" structures is slower than in other advanced markets like Europe. "This is associated with the relatively low level of bundling compared to Europe", added Kennedy.

Apart from the split between fixed and mobile marketing, Ovum also sees differences between advanced economies and emerging economies in the region. "In advanced Asia-Pacific markets, the most common strategic driver for offering service bundles is concern about customer retention," said Kennedy. Fixed operator strategy is to retain voice customers, and "upsell" broadband and content to them. Fixed-to-mobile substitution (FMS) is more common among incumbent telcos in advanced markets.

In contrast, in emerging markets, both broadband and content remains immature but fast-growing, and bundling has not yet become important. "True quad-play remains relatively unpopular in the region and we expect this to remain the case for some time," said Kennedy. In contrast to Europe, fixed telephony rather than broadband is often the central product of bundled offers by telecommunications operators, especially incumbents. Bundled offers are often "stacks" with voice at the bottom, a broadband option on top and a TV offer on top of broadband.

Voice still drives a lot of customer decision-making, though this may change in the future as cheap VoIP becomes standard and the consumer focus shifts toward broadband and content. Overall, bundling is less common and intense in Asia-Pacific than it is in Europe, due to lower competitive pressure from resale and cable-based rivals. Regulatory restrictions on bundling are still important, especially in some advanced markets," said Kennedy.

Source: Inquirer . Reported by Lawrence Casiraya . December 16, 2007

NTT DoCoMo raises stake in Philippines' PLDT to 19.22 pct

MANILA (Thomson Financial) - Japanese mobile phone operator NTT DoCoMo said Tuesday it has raised its direct and indirect stake in Philippine Long Distance Telephone Co (PLDT) to 19.22 percent as of Nov 28 from 18.67 percent a month earlier.

The increase in its stake brings its total holdings in PLDT closer to the 21 percent limit agreed upon by the two companies. DoCoMo told Manila's stock exchange that it bought last month a total of 1.08 million PLDT shares and American depositary receipts traded in New York.

PLDT, the country's biggest company, is controlled by Hong Kong-listed First Pacific Co Ltd, which has a 29 percent stake. DoCoMo and its affiliate NTT Communications Corp have an existing agreement with First Pacific that it will not acquire more than 21 percent of the common shares in PLDT.
Source: AFX International Focus . December 4, 2007 (Factiva)

PLDT pushes reorganization

The Philippine Long Distance Telephone Company (PLDT) is reorganizing its corporate structure into segments to further strengthen its wireless, fixed, broadband, Business Process Outsourcing (BPO) and media/content businesses. As Group President and CEO, Napoleon L. Nazareno is overseeing the reorganization. He will remain as President and CEO of Smart Communications, Inc. but will devote more time and energy managing the comprehensive changes in the Group's Fixed Line business. Former President and Founder of Smart, Orlando B. Vea, is taking the position of chief Wireless Adviser to support Nazareno.

Effective January 1, 2008, all of PLDT's revenue generation and customer relationship initiatives will be consolidated under the Customer Sales and Marketing Group. The new group, to be headed by Ernesto R. Alberto (currently head of PLDT's Corporate Business Group), will service three key customer areas residential, corporate and Small and Medium Enterprises (SMEs). PLDT is creating a second Group, Customer Service Assurance Group, headed by Rolando G. Peña (currently Head of Network Services at Smart) to oversee all customer fulfillment services including customer service and network engineering.

PLDT will also organize a separate Business Transformation Office to be headed by Victorico P. Vargas (currently Head of our Human Resources Group). This group will oversee the overall change-management initiatives, including the smooth implementation of ongoing initiatives, especially the Next Generation Network (NGN) rollout. Current Head of Network Services, George N. Lim and current Head of Retail Business Group, Menardo G. Jimenez, Jr. will assist Vargas in this initiative.
Source: Manila Bulletin . by Emmie V. Abadilla . December 4, 2007

RP not only focused on low-end services, says BPAP

Contrary to claims that outsourcing in the Philippines is largely positioned at low-end voice services; the country is likewise strong in other areas, according to the head of local industry group Business Process Association of the Philippines (BPAP). The marketing head of Outsourcing Malaysia downplayed competition from the Philippines, saying Malaysia is aiming for high-end outsourcing work rather than low-end voice services. Asked to comment on this statement, Oscar Sanez, BPAP's chief executive, noted that the local BPO industry is likewise strong in segments other than voice services.

"The key strength of the Philippines has been that we are able to offer high-quality services in all key sectors, from the well-known contact center services to high-value financial services, engineering design, animation and gaming and software development." Referring to attrition rates, he added the industry has not been focusing on "labor arbitrage" anymore and the main pitch to investors has been "high quality, large pool of diversified talent that is very sustainable."

Not many countries can claim to have not only size of talent pool but also depth of quality, he said, a fact that was acknowledged by Outsourcing Malaysia's Bobby Varanasi. Sanez said: "We have highly qualified engineers that are now doing international network operating centers in Manila, experienced architects doing design process and building management models, and financial experts doing equity analysis and research and more."

He added: "If I were Malaysia, I'd do exactly what the people in Outsourcing Malaysia are doing. They don't have any advantage in scale and cost so it is right for them to focus on a few niches that they can do well and promote them." A recent report by industry analyst XMG pits Malaysia and the Philippines as close competitors, with revenue estimates this year of $3.6 billion and $4.1 billion, respectively, although the Philippines is expected to grow faster. Sanez, meanwhile, stressed that the global outsourcing market provides many opportunities for many countries, citing smaller countries in Eastern Europe, Latin America and Southeast Asia.
Source: Inquirer . Reported by Lawrence Casiraya . December 16, 2007

Intel brings new technology to local film industry

In efforts to revolutionize local and video film industry, Intel Technology Philippines, Inc. and Machinimasia, a non-profit organization introduced a new technique utilizing game components into video or film making.

The new technique dubbed as "Machinima" produces an animated content in a real-time virtual three-dimensional (3D) environment said Cillian Lyons, producer and trainer in Machinimasia, the non-profit partner of Intel. Mr. Lyons told *BusinessWorld* that Machinima is the perfect fit for the country's budding digital film and video industry. "It's very cost effective compared with traditional and digital film making."

Since it uses game components like characters, graphics, background and music, it eliminates talent fees and other production related costs. "In the past, digital animation was largely limited to companies, who could handle the compute-intensive work loads required to create animated films," said Intel country manager Ricardo F. Banaag.

Source: BusinessWorld IT Matters . December 15, 2007

Music Copyright Solutions: Philippine Entertain Co Deal

LONDON (Dow Jones)—Music Copyright Solutions (MCS) announced Tuesday the signing of an exclusive worldwide music publishing administration agreement with Bellhaus Entertainment, an entertainment company based in the Philippines.

MCS' Hong Kong based subsidiary, MCS Asia, will license and collect royalty income on the master, video and publishing copyrights of Amber Davis' debut album throughout the world (ex-Philippines), the company said.

Source: Thomson Financial . December 4, 2007

Top Retailer: Henry Sy, Sr. Advertising and retail: January-to-September media spend highlights

In today's media-crazy world, advertising a product or a service is essential. It boosts retail sales by prodding more consumers to patronize those products and services being advertised. According to the latest Nielsen Media Research report, total media spending from advertisers for the period January to September reached P110.443 billion, a 4% increase compared to last year's P106.397 billion.

Television received the biggest budget from advertisers with P85.810 billion in advertisements, 5% higher than last year's. Advertisers spent P17.161 billion in radio advertisements, a 5% decline from the same period last year while the print medium posted a 12% growth in advertisement at P7.472 billion. Top advertising spenders during the period were companies in personal care; food companies, pharmaceuticals; beverages; telecom; home care; liquor; and retail.

For the period January to September, top categories were hair shampoos and rinses products with P13.217 billion in advertisements, 14% higher than last year's; government agencies and utilities with P8.209 billion; communication and telecommunication with P8.097 billion, a 15% decline from last year's; skin care with P6.316 billion in advertisement, an increase of 28% from last year; detergents and laundry preparations with P4.430 billion, a 2% decline from last year; cough and cold remedies with P4.153 billion, an increase of 14%; vitamins and tonics with P3.907 billion, 19% higher than last year's; powder milk with P3.639 billion, an increase of 6% from the same period last year; proprietary drugs with P3.565 billion in advertisement; and dentifrices, mouthwash and toothbrush with P3.093 billion in ad spend.

The top ten advertisers based on expenditure for the period were Unilever Philippines with P12.972 billion in advertisements, an increase of 27% from last year; Proctor and Gamble Philippines with P9.137 billion in ad spend ,1% higher than last year; United Laboratories with P6.316 billion, 27% higher than last year: Colgate-Palmolive Philippines with P5.155 billion, a growth of 1% from last year; Nestle Philippines with P4.856 billion, an 8% decline from the same period last year; Globe Telecom with P1.885 billion, 24% higher than last year; Johnson and Johnson Philippines with P1.718 billion, 25% higher than last year; Smart Communications with P1.660 billion, a 15% decline from last year; Wyeth Philippines with P1.463 billion, 5% higher than last year; and Mead Johnson Philippines with P1.216 billion, an increase of 25% from the same period last year.

Other big media spenders for the period were the Office of the President, Philippine Charity Sweepstakes, San Miguel Brewing Group, Universal Robina Corporation, Coca-Cola Bottlers Philippines, Petron Corporation, Tanduay Distillers, Monde Nissin Corporation, PAGCOR and Jollibee Foods Corporation.
Source: BusinessWorld . Reported by Bernice Marie V. Berida . December 17, 2007

Ad firm Ace Saatchi wins Mall of Asia

Building on the momentum of their recent assignments from the SM Investments Group - Agency of Record (AOR) for the entire SM Food Retail Group as well as for their Hamilo Coast residential and leisure estate, SM Investments has now named Ace Saatchi & Saatchi in the Philippines as AOR for the Mall of Asia Complex. This is the crown jewel in the SM Investments portfolio.

The Mall of Asia Complex comprises a prime 60-hectare reclaimed bayfront site along the shores of Manila Bay and is designed to become the new urban business, retail and leisure heart of the 12-million population Metro Manila region. It is also designed strategically to reposition Metro Manila as a major investment, business and tourist destination in Southeast Asia.

Centered around the Mall of Asia - designed by Miami-based Architectonica and according to Forbes Magazine 2006, the world's third largest mall in terms of leasable space - the Mall of Asia Complex also includes the SMX Convention Center, the Philippines' newest and largest convention and exhibition complex and amongst the largest of its kind in Southeast Asia.

The complex already houses the world's largest IMAX screen and Southeast Asia's newest science and discovery center. In addition, the Mall of Asia Complex includes the One E-Com center, the first high-tech business complex to be located on the Manila bayfront. Scheduled for groundbreaking during the first part of 2008 are the SM Arena, a world-class indoor doomed arena as well as Manila's first luxury Regent and four-star Raddisson Hotels. A six-tower condominium project is also planned.

The Mall of Asia Complex is a prestige win for Ace Saatchi & Saatchi and underscores the agency's ability to understand and build a strategic relationship with one of Southeast Asia's largest and fastest growing business groups.
Source: BusinessWorld . December 10, 2007

Prospective tourism investors welcomed

The ongoing Philippine Investment Forum Series at the Philippine International Convention Center (PICC) will give prospective investors access to the many lucrative business opportunities in tourismrelated enterprises and how they should go about it, Secretary Joseph Ace Durano of the Department of Tourism DoT) said yesterday.

The forum covers various topics for discussion by experts, including Tourism Standards Director Ma. Victoria Jasmin, Board of Investments (BOI) Project Evaluation Director Rudy B. Cana, Information and Research Director Gigi Virata, Subic Bay Metropolitan Area (SBMA) Senior Deputy Administrator Hermenegildo Atienza III, Philippine Retirement Authority (PRA) President Edgar Aglipay, international business advisor Eric Soriano, and Ang Ping and Associates President Wilma Crisostomo.

Among the topics are Philippine tourism's gold rush, investment opportunities, business process outsourcing, business opportunities at Subic, how to operate in the Philippines, the real estate market, medical tourism, the Philippines as a paradise for second-home buyers, and the profitability of the Philippine investment market.

The forum is part of the 1st Asian Real Estate Expo and Conference (AIREEC), which runs up to Dec. 10 at the PICC. AIREEC's foreign and local delegates were welcomed by the DoT last night at a glittering dinner reception that showcased the country's unique celebration of Christmas. The Philippine Pavilion showcases the various property exhibits of some of the country's leading real estate companies, including SM Investments, Megaworld, SBMA, Poro Point, PRA, BOI, Philippine Export Zone Authority, and the DoT.
Source: Manila Bulletin . December 17, 2007

Feedback

Please contact Gillian de Guzman (+632 885 7000 ext. 282 or gddeguzman@kmpg.com.ph) or Chickie Locsin (+632 885 7000 ext: 383 or elocsin@kpmg.com.ph) to discuss your views/suggestions.
