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EL-JOY Garments: Dressing Up or Dressing Down?

After a day, the newly hired sewer approached Gloria Malayan. “I want to quit. I can’t sit the whole day doing the same thing with low pay.”

This was not new for Gloria, the owner of the San Pedro 2, Malvar, Batangas, Philippines-based subcontractor EL-JOY Garments. She had become used to it over her 16 years in business. Applicants mostly came from the Bicolⁱ region and the Visayasⁱⁱ and were referred to her by relatives. Hiring was through trial and trust. When their sewing was good, the applicants were hired right away. When they got bored or the design became too complicated, however, they resigned right away.

On top of this, Gloria was occupied with other matters. She was thinking about the competition. As she looked out on her warehouse with its 160 sewing machines, fifty sewers, and stacks of bulk materials she remembered how it all started in 2000 with just a few rented sewing machines and five employees. Back then, she was the only garment subcontractor in San Pedro 2, Malvar, Batangas. Now there were five. She inspected what was supposed to be a finished product. “Tsk, Tsk, Tsk, Reject! More work but more loss,” she said.

Reflecting on all of this, she brought herself to face the question that shadowed her recently: “Should I continue or should I close up shop?”

i Bicol is designated as Bicol Region V comprising of six provinces.

ii Visayas is a collection of small and big islands in the central Philippines, composed of 16 provinces.

Macroenvironment

The garment industry in the Philippines encompassed all clothing items. The industry flourished in the 1960s-1980s through the Embroidery Act (RA 3137), Basic Industries Act (RA 3127), Investment Incentives Act (RA 5186), and Multifibre Arrangement (MFA).¹ RA 3137² provided garment firms with privileges for duty-free importation of textiles. RA 5186³ offered incentives for using local raw materials, while the MFA helped the garment industry to become more export oriented. As a consequence, in the 1980s, the garment industry had become the second largest exporter, next to electronics; it was also the second largest contributor to the Philippine economy.⁴

However, the garment industry shrunk after the MFA's phaseout in 2004.⁵ This happened due to a lack of research and development and support from the government. The industry was also plagued with other problems: dependence on imported raw materials, a lack of financing, and a lack of modern machinery. These issues had led the garment industry to become a service industry focused mainly on assembly operations.⁶ This meant that in the garment supply chain, there were small factories and home workers in charge of sewing clothes. These businesses were mostly subcontractors that were never engaged in the design and development of new clothing lines. Nevertheless, when the business achieved a balanced sewing line, they could reduce labor requirements, increase production efficiency, and reduce production cycle time.⁷

Subcontractors themselves resorted to subcontracting to avoid legal responsibilities and obligations to workers from the informal sector.⁸ Subcontractors in the 1980s numbered around 2,000, but only 400 were part of the Garment Subcontractors Association of the Philippines (GARSAP) in 1988.⁹ With the decline of the garment industry, GARSAP no longer existed in 2016.

From the Lens of the Micro: EL-JOY Garments

History

EL-JOY Garments was one of the 15 garment subcontractors in Malvar, a second class municipality in Batangas. There were five garment subcontractors in San Pedro 2 including EL-JOY, five also in Santiago, two in Luta Sur, one in San Pioquinto, one in Poblacion, and another in San Isidro.¹⁰

EL-JOY was coined as a combination of the names of Gloria's daughters — El Grace and Princess Joy. Gloria started the business in 2000 with five employees, mostly relatives. She used her husband's monthly salary to pay the weekly salaries of her sewers. (Romeo [Gloria's husband] worked as a quality assurance supervisor at JAG.)ⁱⁱⁱ When her husband's salary did not cover these costs, she had to borrow money from Indian National, a lending community, at a very high interest rate. Not a graduate of business school, Gloria managed the garment business by intuition. Since its establishment, the company had no regular flow of operations, records of production, waste reduction policy, or mission statement. Like many MSMEs, Gloria's accounting was rudimentary, using only notebooks, a ledger, official receipt, and billing invoice. Sewers had individual notebooks to record their output, which they submitted each week for the computation of their salaries. Using the ledger, Gloria kept track of expenses and salaries. The official receipt and billing invoice were proof that the business was registered with the Bureau of

iii Founded in 1976, JAG was a formidable force in the clothing industry. It was a sister brand of Tribal, Vondutch, Candies, and the U.S. Polo Assn.

Internal Revenue, an agency mandated by law to assess and collect all internal revenue taxes, fees, and charges.¹¹

EL-JOY was one of the 20 subcontracting firms of Fil-Pacific Apparel Corporation, which had an in-house daily production capacity of 2,000 garment pieces. Subcontractors like EL-JOY contributed about 130,000 pieces per month. Fil-Pacific Apparel Corporation was the leading Philippine manufacturer and retailer of JAG clothing lines.¹²

Capital

EL-JOY started with eight sewing machines rented for Php 250 (USD 5.34)^{iv} each per month.¹³ In 2008, JAG rented 160 machines to EL-JOY (see **Exhibit 1**). These included bar tacking machines, pocket sewing machines, button hole sewing machines, and edging machines. Moreover, Gloria purchased two new sewing machines in 2013.¹⁴

Exhibit 1

Sewing Machines Provided by JAG



Source: The author of the case.

For its part, EL-JOY built a warehouse for the machines near Gloria's house. This building was constructed in installments. It was a simple two-story building with windows, no partition, or cabinet for bulk delivery (see **Exhibit 2**). Moreover, the warehouse was not properly ventilated. Sewers had to bring their own electric fans.¹⁵

iv The conversion rate was 1 USD = Php 46.79 as of 24 May 2016. Bangko Sentral ng Philipinas Treasury Department. <www.bsp.gov.ph/statistics/sdds/exchrte.htm>.

Exhibit 2

Supplies of Cut Materials at the Warehouse



Source: The author of the case.

EL-JOY through the Years

As a subcontractor, EL-JOY assembled, ironed, washed, and packed JAG shirts and shorts for delivery at malls for local consumption. Assembly included preparation of tabs,^v four- to five- thread count,^{vi} design, and attaching the placket,^{vii} neck rib,^{viii} bias,^{ix} yoke,^x pocket, hemfold,^{xi} and label. Ironing was required to flatten the surface for a perfect fit. Washing was done for stain removal only. The final stage was attaching the label and tag and packing the items.¹⁶

When Romeo resigned from JAG in 2015, he had a severance of Php 431,000 (USD 9,211), which the couple used toward constructing a second building for Php 2 million (USD 42,744). They had to take out loans to finance the rest. So, she and Romeo borrowed Php 380,000 (USD 8,121) from a relative. They took out a second loan, worth Php 560,000 (USD 11,968), from Asia Link Credit Corporation on April 30, 2015. For a year, only the 5% monthly interest was paid on the first loan, while the second loan had a Php 60,000 (USD 1,282) processing fee and was payable within 36 months for Php 25,356 (USD 541.91) monthly.¹⁷

In 2016, EL-JOY employed 50 sewers, mostly males. The oldest was a 62-year-old female while the youngest was a 22-year-old male. Employees submitted their notebooks every Thursday morning for their weekly salary. Only her relatives contributed to Social Security, an agency mandated to collect contributions for the meaningful social protection for members. The employer shouldered Php130 (USD 2.77) while the employee had Php110 (USD 2.35) deducted from his or her salary for the monthly

^v Accent or arrow sewn in the sleeve or shoulder.

^{vi} Stitching using a four- to five-thread sewing machine.

^{vii} Collar of polo shirt or t-shirt.

^{viii} Neck band sewn in shirt.

^{ix} Clothing cut diagonally for a different stretch and malleability.

^x Shaped pattern piece fitting around the neck.

^{xi} Edge of a piece of clothing folded narrowly and sewn to create a clean edge.

contribution. Although they did not make Social Security contributions, migrant sewers were provided with free housing.¹⁸

Challenges Encountered

With five garment subcontractors operating in San Pedro 2 under Fil-Pacific Apparel Corporation, Gloria faced significant competition. With a limited supply of materials, workers had less production output — thus, less income. When the design became complicated, many sewers stopped and looked for other jobs. As a consequence, sometimes quality standards were not met (the output was different from the original design) and these pieces had to undergo repair. This meant loss for Gloria since she had to pay sewers twice — once for the first piece and again for the repairs.¹⁹

There was no support (financial or technical) coming from the national or local government for the improvement of subcontractors like EL-JOY. Moreover, locals did not like to be sewers because the job was monotonous and did not pay well. Only five of Gloria's fifty employees were locals; the rest were migrants from Bicol and Visayas.²⁰

The Dilemma

One day, a month after Gloria's initial reckoning with the state of her business, a load of cut materials arrived. A sample design was made. Soon several sewers approached Gloria:

"We would like to resign, effective today. We cannot follow the design; it's too difficult for us."

They would come back once the design was simple again. Gloria was used to this kind of exodus; she had come to expect it whenever a complicated design was delivered.

Looking at her ledger, Gloria knew about the decrease in income for sewers over the past couple of years. The business also had higher expenses for taxes, electricity, and water. Added to her concerns were a number of problems with competition, minimal delivery of cut materials, and a lack of technical and financial assistance from either the local or national government. She still had to pay the principal on her two loans.

As Gloria looked at the challenges before her, thoughts of venturing into another business took hold of her mind.

Endnotes

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