

UPSCALING A MIGRANT'S ENTERPRISE THROUGH ACCESS TO CREDIT

Kenneth and Annabelle Carredo / Nuat Thai Massage and Spa

by Alvin P Ang

Kenneth and Annabelle Carredo are behind Nuat Thai Massage and Spa, perhaps the country's largest chain of massage spa parlors today.

Nuat Thai's beginning is also a classic case of contestable markets in microeconomics. The idea is established business can be challenged and put into a competitive state. From a microentrepreneur's perspective, contesting stable competitors is an unusual approach considering that it requires more than resources to upend an established competitor.



This strategy is more commonly observed in industries reflecting economies of scale such as airlines, power, telecommunications, transportation and the like. Cases in point are the telecommunication and airline industries challenge by the Gokongwei group, leading to reforms and consolidation in the industries particularly the market leaders. What is striking, however, is that these challenges were precipitated by an improvement in the policy environment - allowing for more competition.

This was not the case of Nuat Thai. No regulatory changes, no government intervention, no government direct funding support, no political mileage spent - this is simply an entrepreneurial mindset that is willing to face the risks and challenges to succeed.

ECONOMIC SACRIFICES THROUGH OVERSEAS WORK

The Carredos are a different breed of professionals. In the 1990s, they are working in comfortable supervisory positions (as an Engineer and an Accountant, respectively) for respectable companies in Cebu City. However, the observable difference between the level of income and the cost of living prevented them to save enough to build their dream house on a property that they already owned.

The situation has forced them to temporarily rent an apartment together with their children. This simple dream of having their own house tickled their entrepreneurial mind. An unfortunate incident of flooding in their rented house practically destroyed all their possessions. The situation forced them to move to a smaller and cramped place that was unhealthy for their small children.

The situation pushed Kenneth to seek employment abroad. He felt bad about the weak health of their small children suffering from asthma and similar illnesses due to the small place that they were staying. He then sought his sister who was working as a Logistics Manager at Peggy's Food in Thailand (a subsidiary of the Jack and Jill Brand owned by the Gokongweis). He was an assistant to

the General Manager at Peggy's Food. Annabelle, meanwhile, remained in Cebu City as an accountant.

It was very clear in the mind of the couple that their purpose of having Kenneth seek employment abroad was to save enough to build their dream home without significant borrowing. Kenneth was in Thailand from 1996 to 1999.

To save enough money for their house construction, the couple implemented an unusual fundraising strategy: Kenneth never sent money back home during the whole period of his employment in Thailand. He also did not return to the Philippines despite his twice-a-year free return tickets privilege. Instead, his wife Annabelle came to Thailand using his tickets.

During her stay in Thailand, Annabelle used Kenneth's savings to buy pieces of jewelry and Thai goods which she all brought back and sold in the Philippines. This strategy worked well since the Thai baht then (at the height of the 1997 Asian financial crisis) was lower in value than the Philippine peso.

Kenneth's monthly salary of 35 000 THB was much less in Philippine peso during his employment period. Sending them to the Philippines would have made the amount smaller. However, by purchasing goods and reselling these in the Philippines, the couple made enough profit that allowed them to have their house built.

The sacrifice. Like many Filipinos spouses affected by overseas labor migration, the Carredos endured not only physical separation but made some financial sacrifices. Annabelle and the children were forced to tighten their belts and live on the mother's salary because Kenneth was not sending money home. This enormous sacrifice paid off because both were focused on their dream to construct their own house.

Subsequently, the General Manager of Peggy's Food offered a better salary and relocation of his family to Thailand to end the sacrifice that the family is doing. However, Kenneth decided against it and instead returned to Cebu City - returning without a job but armed with enough resources to finish their house. After constructing their house, the couple realized that with real estate to their name, they will be able to borrow money to capitalize a business.

THE FIRST BUSINESS VENTURE

Without a job but with a house that they owned, Kenneth and Annabelle thought about starting a business venture. Since Kenneth is unemployed, he focused on what he knew well: computer training. Before he left for Thailand, he was a supervisor at a local computer school.

With a loan from a local cooperative, the Visayas Cooperative Central Fund Federation or VCF (now the Philippine Cooperative Central Fund Federation, PCF) he started a computer training center and a lease to own computer program for private schools. He offered to partner with private schools supplying them computers and teaching their computer classes and splitting the revenue with the school owners. This was an opportunity open because not many private schools owned computers to hold computer classes at that time.

The couple also understood that this strategy has a limited window owing to the probability that schools will finally be able to learn and afford computers, and that the value of the computers will depreciate over time.

They also took advantage of Kenneth's membership with the Overseas Workers Welfare Administration (OWWA) and borrowed capital through OWWA's Livelihood Development Program for OFWs (LDPO). VCF⁴⁹ was among the retailers of the LDPO (a joint program of OWWA and the old National Livelihood Support Fund), and the repayment rate was at 2.5 percent monthly. In addition, the Carredos borrowed additional capital from VCF itself to add up to the loan from OWWA.

The Carredos benefited from the good returns from the schools and earned. Their training school is accredited with TESDA (Technical Education and Skills Development Authority) and the Civil Service Commission and is therefore able to train LGUs and DepEd (Department of Education) teachers and staff. Their business expanded to 12 tie ups with different schools around the Visayas. They also help other people by providing free trainings to poor out of school youths. Eventually they expanded into internet cafes in selected areas in Eastern Visayas.

THE FORAY INTO MASSAGE

With the success the Carredos had gained in the computer training business, the couple searched for expansion opportunities with other schools. As it was stressful to run their own business, they occasionally had massage. Their experience on massage was not satisfactory and this did not interest them.



However, Kenneth observed a man who came out visibly relaxed from massage parlor near their school enticed them to try massage again. The couple tried the service and it became addictive to both of them. As they continued going to the massage parlor, they observed that waiting times are becoming longer and they were not accorded equal treatment by the owner (compared to the foreign guests of the spa). He computed that 15 customers could not be served in a day.

That was the window of "business opportunity" for the couple. The Carredos decided to challenge their massage parlor of choice with the objective of initially serving the excess 15 customers. They opened a new massage center near the place of their now "competitor" massage parlor. Eventually, 80, correcting the observed service mistakes of the other parlor, they were able to attract more people and provide better service.

This first parlor of the Carredos came to be known as Nuat Thai. Nuat Thai's *better service* attracted more patrons, enticing the couple to think about expanding their business and opening new branches. The couple partnered with Kenneth's sister in Thailand to invest in the expansion. However, one of the observed problems of the parlor was the lack of trained masseuse. Thus, to ensure steady supply

of trained masseuse, Kenneth went back to Thailand to study massage and develop a program to train people for their business.

In the course of expanding, the Carredos again got loans from the LDPO that the current PCF retails to would-be migrant entrepreneurs. PCF officials and loan officers remarked that the Carredos are the most successful example of a migrant entrepreneur cum borrower of PCF.

From what started as a frustration over a bad service by a parlor they previously patronized, Nuat Thai is expanding through franchising. The couple, as of this writing, owns three Nuat Thai outlets: in Cebu City (Talamban district), Tagbilaran City in Bohol, and in General Santos City. Nuat Thai has also 77 franchisees across the country, mostly owned by former Nuat Thai clients. The Carredos think they can reach 100 outlets (including theirs) in mid 2012.

In fact, in the new loan program of OWWA for returning migrant workers - the 2 billion PHP OFW Reintegration Fund (that is being handed out by the Development Bank of the Philippines and Land Bank of the Philippines) - the Carredos were among the first availed (they got a million peso loan).

BUSINESS SUCCESS AS LEVERAGE TO CREDIT

Considering that Nuat Thai only started in 2006, its exponential success is outstanding. Indeed, the Carredo's have shown that established business regardless of size and market can be contested. Their experience also points to the reality that business needs competition to be better. Better business is born by good plans and intentions, or even by another's bad service.

The business sense of the Carredos is based on their understanding of success as not a one day event. They see business as a system requiring sacrifice, teamwork, accounting, honesty and quick service. Perhaps add lifestyle to that because these entrepreneurs also dress and live simply: their physical appearances can easily deceive people that they are simply ordinary looking Filipinos. The couple also tries to shy away from joining groups of entrepreneurs who like to show off their entrepreneurial successes and lavish lifestyles.

The Carredos also borrowed wisely and used these funds to finance their expansions, despite what they consider as *high interest rates* in PCF). The experience of Kenneth and Annabelle Carredo is inspiring and practical. They never deny their difficulties and the problems they faced. Ultimately, their secret is that they are focused on what they want to do.

Source: BUSINESS BLISS FROM HARDWORK ABROAD – Business Models to Link Overseas Filipinos' Resources to Micro, Small and Medium Enterprises (MSMEs): A Case Study and Policy Research. Published by DTI GIZ Private Sector Promotion (SMEDSEP) Program, September 2012