

‘Printing Press’



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This report contains market research and proposed banking products, based on primary research survey results and secondary sources, carried out for SME segment "Printing Press" by Corporate Development Partners (CDP).

The purpose of this research report is to provide segment specific credible information for the commercial banks to facilitate them in designing and delivery of banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner.

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1 Guidelines for using this Research Report

The 'Printing Press' Segment Research Report provides indicative business and financial characteristics based on the information evident from a sample of business owners via primary research survey. It can be used by banks/DFIs as a starting point for development of program based lending products for tapping the underutilized potential for providing financing products to small business owners.

The 'Printing Press' Industry overview is developed by using information obtained from secondary and tertiary sources, including industry associations and data available in public domain.

1.1 Market Assessment

This section contains analysis based on primary findings of survey exercise conducted in main cities of Pakistan, mainly Karachi, Rawalpindi and Lahore among others; the information can form the basis of identifying the characteristics of a typical business entity in the segment.

1.2 Product Suite

Proposed banking product suite provides a number of potential core banking products templates that can be used by Banks/DFIs to design appropriate banking products for gaining access to the particular segment. However, it is highly recommended that product development undergoes the usual general practice and protocols employed by the bank. It is also recommended that the product development and the business line team work together to conduct a quick market research of a small sample in order to validate the results of this study.

1.3 Marketing and Distribution

Marketing and Distribution considerations are indicative and have been based on the assumption that banks will employ their individual marketing and distribution strategy for product development. However, information presented can be utilized by banks for developing certain hypothesis to be validated for developing their marketing and delivery strategies.

2 Introduction & Objectives

According to the latest data cited in SMEDA and Economic Survey Reports 2010-2011, Small and Medium Enterprises (SMEs) account for approximately 40% to GDP contribution of Pakistan and play a major role in spurring economic activity with a contribution amounting to 80% of non-agriculture GDP of Pakistan. The businesses in this segment have used banks for their business needs but most are not satisfied largely owing to the following impediments:

- A different risk profile
- Lack of substantial collateral
- Conservative approach adopted by financial institutions
- Lack of awareness and willingness of banks

SMEs present immense business opportunities for financial institutions from the perspective of increasing book size while generating strong risk adjusted returns, however a better understanding of the dynamics of this segment will enable financial institutions to structure products that meet overall risk management guidelines and facilitate the growth of this SME segment.

In this context, State Bank of Pakistan (SBP) has mandated Corporate Development Partners to conduct a secondary research and a primary survey of ten major SME subsectors of Pakistan to determine banking and financial needs of the sector.

This research report contains findings pertaining to the segment of "*Printing Press*" which includes printing press units mostly scattered in the main cities such as Karachi, Lahore, Islamabad and Faisalabad.

Manufacturing sector in Pakistan has been the major contributor towards promoting economic growth, but lack of research and development and inadequate investments have restrained this sector to reach its growth to the fullest potential.

'*Printing Press*' is mostly located in areas where there are highest concentrations of industrial buyers, which are mostly located in the main cities of the country like Karachi, Islamabad, Lahore, Rawalpindi and Faisalabad, amongst which the highest is in Lahore and Karachi. This sector undergoes high taxation and import duties on imported goods, which is a major issue faced in this sector. A better government policy will further enhance growth within this sector.

2.1 Limitations of the Research

- The sample may not be geographically exhaustive.
- The sampling plan may not suit the requirements of every bank.
- Some of the recommendations are not backed by quantitative primary research but are based on knowledge of the market and best practices.
- Some of the questions in the questionnaire, especially in the financial information section were considered too personal by many business owners; therefore, many of them refused to answer. Hence, the responses in this regard may be evasive and cannot be verified with respect to their accuracy.

2.2 Sampling Plan

The primary research exercise conducted for identifying the financial needs of the SME segment was based on the following sampling methodology.

Table A: Sampling Plan

Particulars	Criteria	Rationale
Size	<ul style="list-style-type: none"> 1,000 detailed one-on-one interviews for 10 sub-sectors 100 SMEs surveyed within each sub sector. 	<ul style="list-style-type: none"> Sample size is sufficient enough to gather relevant qualitative and quantitative information on each sub sector Increase in the sample size will only add marginal value to the overall information collected from the survey exercise <p>Change of Definition of SME by SBP</p> <ul style="list-style-type: none"> Small enterprises are defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 million Medium enterprises are businesses with more than 20 employees and turnover above PKR 75 million and up to PKR 400 million for the purpose of classification and segmentation by banks For the purpose of this research, the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150 million (i.e. two times the sales of Small Enterprises)

Particulars	Criteria	Rationale
Status	<ul style="list-style-type: none"> At least 60% will be informal businesses At least 20% will be formal businesses 	<ul style="list-style-type: none"> Informal businesses would be entities that do not have formal accounting and book keeping system. They do not get their accounts properly audited and are normally not registered under an official trade/regulatory body. A wide majority of businesses operating in Pakistan are informal businesses in terms of their quality of record keeping and accounting information, in the absence of which banks do not offer them any credit based products. A study of informal businesses enables us to gauge the reasons of these proprietors to remain within the informal segment and still compete in the market with formal business enterprises within the same industry segment. Moreover as per revised SME Prudential Regulations, Small businesses are allowed financing up to PKR 15 million without the audited financials. This regulatory change will enable SMEs to qualify for a structured lending product by maintaining the basic system of book keeping and accounting. Formal businesses are those entities that are relatively larger in size and have a proper book keeping system. These are also registered businesses that are operating either under an association of businesses or under a formal regulatory license, with a fair amount of transparency in their accounting and book keeping systems Including the above businesses gives us a fair representation of entities that are eligible for all financial services being offered by banks and their extent of using banks as their main financiers and other service providers or only for holding their business operating accounts Formal businesses have more structured requirements than those who use banks only for products such as fund transfers

Particulars	Criteria	Rationale
Turnover	<ul style="list-style-type: none">▪ At least 50% with turnover less than PKR 75 million▪ At least 20% with turnover more than PKR 75 million	<ul style="list-style-type: none">▪ The corresponding sample mix has been adopted to ensure majority coverage of small businesses in the overall sample size since these would be the primary candidates for programme lending products▪ However, for the purpose of understanding the financial needs of medium sized entities that are close to the threshold point of small and medium, we have covered a minor portion to understand their requirement for structured loan products as well as other financial services generally required by businesses that are relatively mature and larger sized than small enterprises
Employees	<ul style="list-style-type: none">▪ 60% will have less than 20 employees▪ 40% will have more than 20 employees	<ul style="list-style-type: none">▪ SMEs that are not in the manufacturing segment are relatively understaffed owing to the small size of their business and ease of management▪ Moreover, businesses that have more than 20 employees are classified as medium enterprises hence we have covered a substantial portion of such entities as well

Particulars	Criteria	Rationale
Banking history	<ul style="list-style-type: none">▪ At least 70% with banking history▪ At least 10% with no banking history	<ul style="list-style-type: none">▪ As per SBP prudential regulations any business operated by an individual as a proprietor, but meets the classification criteria of the regulations will be termed under SME▪ On account of above a majority of sample in the market are operating their businesses through a bank account (either in the name of the proprietor or in the name of the business)▪ Most of the financial needs and preferences that are objectives of this assignment, have been obtained from the above sample who are using a bank for their businesses operating needs▪ However, a very small portion of the totally unbanked SMEs in the sub-sector is also covered during our survey to understand their reasons for not availing the banking services and fulfilling their needs for financial services through other, more expensive, informal channels

3 Economic Overview

Pakistan's economy has shown resilience despite challenges which include domestic factors such as political instability during the last few years, security situation and international financial crisis, in addition to an unprecedented rise in food and energy prices. As per the Economic Survey of Pakistan (2013-14), after a period of slow growth due to floods and law and order crisis, the economy showed a significant growth in 2013-14 on the back of immense recovery from the industrial sector along with moderate growth in agriculture and service sectors. With industrial sector expanding by 5.84% when compared to last year figure of 1.37%, while the economy grew by 4.14% in FY-2014.

Table B: Economic Considerations

Positives	<ul style="list-style-type: none">▪ Heavily populated, (over 180 million people) translating into strong future potential for improvement in work force as well as purchasing power, leading to growth in consumer related segments.▪ Despite many challenges faced by the country, Pakistan has performed better than many developing countries with the GDP growth rate of 4.14% in FY 2014 which is highest in the last three years when compared with GDP growth in FY 2013 and FY 2012 of 3.7% and 3.84% respectively.▪ Rising rates of urbanization – with the UN forecasting the proportion of city dwellers climbing from 34.9% of the population in 2005 to more than 50% by 2035 – should continue to serve as a key driver of economic growth.▪ The industrial sector showed a huge growth of 5.84% compared to previous year of 1.37% which has been a huge boost to the economy as it contributes to 20% of the GDP. It is also a major source of tax revenue.▪ Investment activities are continuing to take place, backed by the fact that public investment has recorded a remarkable growth of 17.12% while last year it had a negative growth of 0.35%.▪ Foreign Direct Investment (FDI) has also shown a remarkable increase from USD 1,277 last year to USD 2,979 in the period July – April 2013-14, an increase by 133%. Major portion of FDI was for oil & gas exploration, electricity & power, financial business and chemicals.▪ Positive trend of remittance over the last 10 years has greatly
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supported the country's balance of payment position.

Challenges

- National saving is showing a decline, with 12.9% of GDP in FY14 while in FY13 it was reported 13.5% of the GDP. Covering the saving-investment gap remains to be a challenge.
- The FY 2013-14 has shown slight improvement in fiscal deficit which reduced by 3.2% compared to previous year. Structural weakness in tax system however still prevails with low tax to GDP ratio while the expenditures continue to exceed the revenues.
- Balance of payments has shown a surplus of USD 1,938 million compared to last year deficit of USD 2,090 million in FY 2013-14. However despite that, the current account balance further showed a deficit of USD 2,162 million in July-April 2013-14 compared to last year in the same period.

4 Printing Press Industry Overview

Table C: Summary of Industry Overview

Factors	Comments
Demand	With rise in the packaging industry, printing industry has also shown subsequent boom as both industries are closely correlated. This sector comes under the major growing industry of Pakistan
Supply	This sector is mostly unorganized and shows a slow growth in the main urban cities of the country. According to Pakistan Press and Publication Regulatory Authority, there are approximately 7,000 printing presses registered in the country
Key players	Feroz sons publishing company, Dawn Publication, Oxford Publications, Nawa-i-Waqt Group of Publications, Century Publications, Herald Press, Ktt printing etc,
Trade Bodies	<ul style="list-style-type: none">• Pakistan Association of Printing and Graphics Arts Industry (PAPGAI)• All Pakistan Small Printing Press Association
Regulatory Body	<ul style="list-style-type: none">• Ministry of Industries• Audit Bureau of Circulation
Recent Development	<i>'Printing Press'</i> industry has proposed to Federal Board of Revenue (FBR) to remove tariff anomaly in the Chapter 48 and 49 of the Pakistan Customs Tariff (PCT) in Budget (2013-14) to keep in check high duty on the import of paper used for books printing and finished products.
Future prospects	<i>'Printing Press'</i> industry has been on a steady growth and is expected to continue in growth in the long run despite the boost in technology and introduction of new reading applications.

4.1 Demand

'Printing Press' sector is usually taken too lightly in terms of its importance and the role it plays in the country's economy. In recent years, Pakistan has emerged as a highly competitive market in the packaging and printing press sector with rising brand marketing as well as increasing print media awareness, in addition to changes in consumer propensity towards convenience, safety, availability & shelf appeal. Despite the digital age, Pakistan has still shown huge reliance in paperback newspapers, magazines and books.



'Printing Press' sector is involved in number of printings carried out for books, newspapers and magazines, financial reports and prospectus, office stationery and visiting cards, packaging material, calendars and diaries, etc. It can therefore be judged that a large number of sectors are dependent on 'Printing Press' industry. With the adoption of packaging by not only big brands but also lower down the supply chain like farmers, the demand for packaging has increased even more.

Major share of customers of 'Printing Press' are institutions including business and educational sector. According to SMEDA, there are about 75% of institutional buyers while only 25% are individual buyers.

4.2 Supply

In today's competitive environment, businesses require appropriate marketing & promotional tools to build product recognition in the market. From brochures to packaging, all are means of effective sales promotion tools and require service of 'Printing Press'. As majority of the customers are institutions, Karachi and Lahore has the biggest concentration of printing presses.

Despite the rising demand, this sector is mostly unorganized, with Karachi being the most organized city in this sector compared to other parts of the country. Most of the raw material used for printing such as bleached board, art paper, etc. are imported. High import duties, in some cases up to 25%, are one of the major problems faced by this sector. Paper is further subject to 17 percent sales tax and a withholding tax of 5 percent¹, which exponentially increases the costs



¹ <http://pakobserver.net/201304/28/detailnews.asp?id=205131>

which pose a more serious problem for the printing industry, as it depends on the same as their most essential raw material.

With high tax and import duties on raw materials, it becomes cheaper to import books with zero tariffs than to print them locally which cripples the local manufacturers to come to par with imported goods.

According to Pakistan Press and Publication Regulatory Authority, there are approximately 7,000 printing presses registered all over the country providing employment to about 125,000 people.

4.3 Key Players

The major key players of '*Printing Press*' sector are Feroz sons publishing company, Dawn Publication, Oxford Publications, Nawa-i-Waqt Group of Publications, Century Publications, Herald Press, and KTT printing etc.

4.4 Trade Bodies

- Pakistan Association of Printing and Graphics Arts Industry (PAPGAI) - was incorporated on December 21st, 1959 and played a leading role for the betterment of the printing and graphic arts industry. PAPGAI has made contributions towards professional training and education in printing and graphic arts
- All Pakistan Small Printing Press Association - is established in Lahore but is not fully functional and so does not cater to the whole industry.

4.5 Recent Developments

Pakistan has the highest rates of custom duties on import of paper and paperboard in the world, whereas, in other developing as well as developed countries, it stands at 0-5 percent rate².

Once tariff is downsized and a liberal trade policy is adopted to facilitate the printing industry of Pakistan, it is likely that a much higher return will be achieved with increase in investment in this sector in future.

4.6 Future Developments

With awareness of the importance of packaging, especially in brand differentiation, expanding businesses needs and academic requirements, etc., the '*Printing Press*' industry has been on a steady growth and will continue to towards advancement in the long run. Even in the newspaper business, despite the introduction of new reading applications, this industry still holds growth promise.

² <http://pakobserver.net/201305/12/detailnews.asp?id=206559>

4.7 Printing Process in Press

A printing press machine is a complex piece of high-precision industrial equipment that is designed to produce printed material at a high rate of speed and low cost per page. There are various printing techniques used depending on the product (books, packaging, business cards, brochures, etc). Following are the different printing processes most popularly carried out:

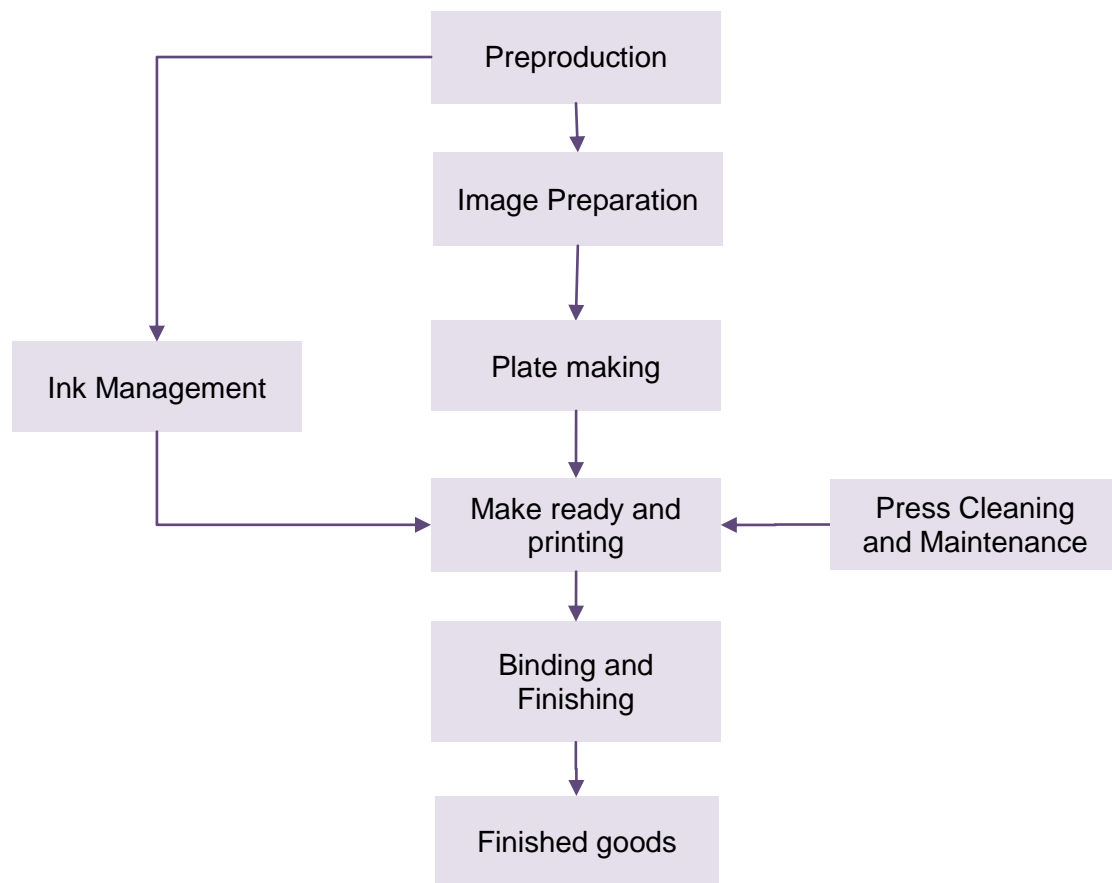
Offset Lithography: In modern presses, the image is transferred from the printing plate to a rubber blanket and then to the paper. When the printing plate is exposed, an ink receptive coating is activated at the image area. On the press, the plate is dampened, first by water rollers, then by ink rollers. Ink adheres to the image area and water to the non-image area. As the cylinders rotate, the image is transferred to the blanket. Paper passes between the blanket cylinder and the image is transferred to the paper.

Letterpress: Letterpress is often used for fine art prints, books and posters. Letterpress is also used for imprinting business cards and forms. In the process, the image area is actually raised above the rest of the plate, so the image makes a physical impression on the paper. Modern letterpress uses a photo-etching technique to remove the non-image area from the plate.

Flexo: Modern flexography, often called flexo, is a versatile process that uses photo-etched plates. The non-image areas on these plates are etched away, leaving only the printing surface that carries the ink directly to the substrate. This technology is suited for any job that can be supplied in a roll form and therefore these materials can also include box boards, foils, plastics, newsprint and more.

Screen Printing: Screen printing is the most versatile form of print reproduction. Modern high-speed technology allows for volume production where brilliant, accurate colors, and close tolerance are necessary. Ink is expressed through a stretched fabric mesh by a squeegee blade to reproduce the original image onto the substrate below. Screen printing is not limited to press size or the same of any substrate. A variety of materials such as paper, plastic, metal, fabric and glass can be screen printed.

Figure 4.7-a: 'Printing Press' Process



4.8 Success and Survival of the Businesses in this Sector

From the survey interviews (**Figure 4.8-a**), 55% of the business owners felt that good relations with the suppliers and 85% felt that timely delivery of the finished goods was the major success factor for businesses in this sector as this ensured consistent supply of raw material and therefore, no loss of orders.

In order to survive as an SME (**Figure 4.8-b**), 77% of the business owners believe that experience was the most essential element followed by 60% of the business owners who considered education as the most important element for survival. While 13% of the business owners also felt that due to strong supplier customer relations their SME businesses managed to survive.

Figure 4.8-a: Indicators of Business Success

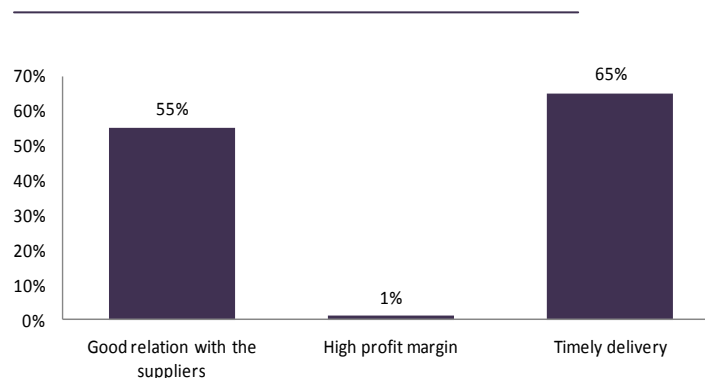
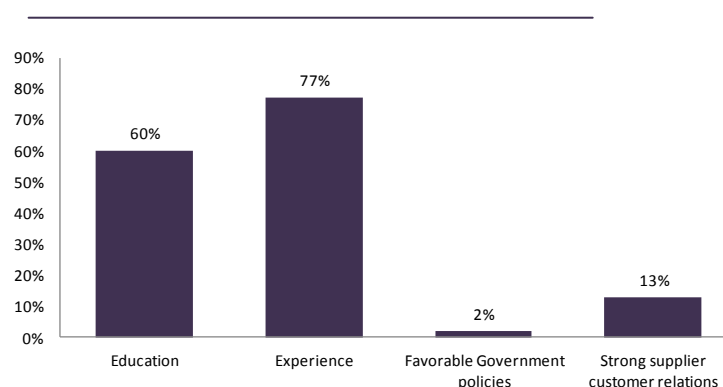


Figure 4.8-b: Key means of survival as an SME



Source: Survey Findings

5 Market Assessment

5.1 Market & Demographic Profile

At present, the retail sales segment in Pakistan is relatively organized. Most businesses are family owned or individual set ups. Underlying issues inherent to the segment include:

- 1) Limited avenues for funding sources
- 2) Lack of innovation and research within the sector
- 3) No structured Government initiative and policies for the sector
- 4) Lack of organized infrastructure

The '*Printing Press*' sector is mostly dispersed across the urban areas of the country where the demand for such services is high, amongst the presence of institutional buyers. Therefore the biggest cluster is established in Karachi and Lahore. This sector however is much unorganized and so a clear number of established printing presses are unknown.

Major raw material, which is paper, is imported at high tariff which raises the cost of production immensely. Raw materials are ordered on ad hoc basis which is feasible due to easy availability, however, despite that some inventory is stored for urgent orders or incase suppliers are not in close vicinity. All the machinery for '*Printing Press*' imported. Energy crisis is also a major problem faced by this sector which leads to decline in production.

5.1.1 Market Sizing and Lending Potential

As mentioned before, the businesses in this sector are unorganized and the availability of data for number of establishments' is not known. The principle centers of publishing are Lahore, Karachi, and Rawalpindi. Lahore is renowned for its numerous publishing houses and has been the hub of the industry from the pre-independence era. The following table (*Table D*) shows a rough estimate of the clusters.

<i>Table D: Cluster Locations for 'Printing Press'</i>	
Area	No. of establishments
Lahore	2,590
Karachi	2,100
Rawalpindi	700
Hyderabad	350
Multan	350
Faisalabad	350
Peshawar	350
Sialkot	210



Source: Trade Associations and Industry Sources

5.1.2 Segment Demographics

Majority of the businesses (44%) have been operating for more than 10 years while 27% of the businesses have been established since 5-10 years (**Figure 5.1-a**).

The segment is widely spread out across metropolitan cities of the country, as mentioned before, with highest concentration in the main cities like Karachi, Lahore and Rawalpindi. Demographic information is obtained through primary research conducted using a selected sample of businesses in major cities of Pakistan. 39% of the businesses covered in the survey (**Figure 5.1-b**), service Karachi while 25% reach Lahore. 19% have also managed to cater the whole of Punjab.

Figure 5.1-a: Number of years in operation

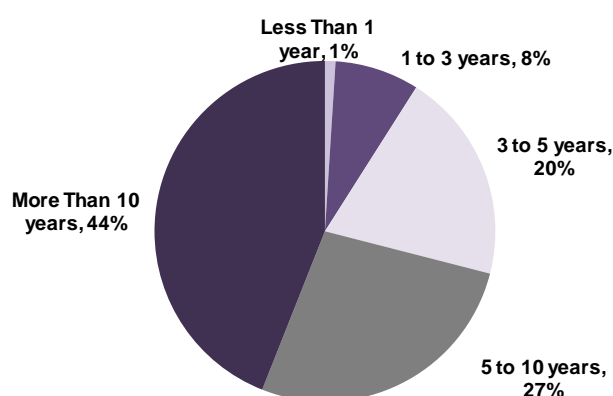
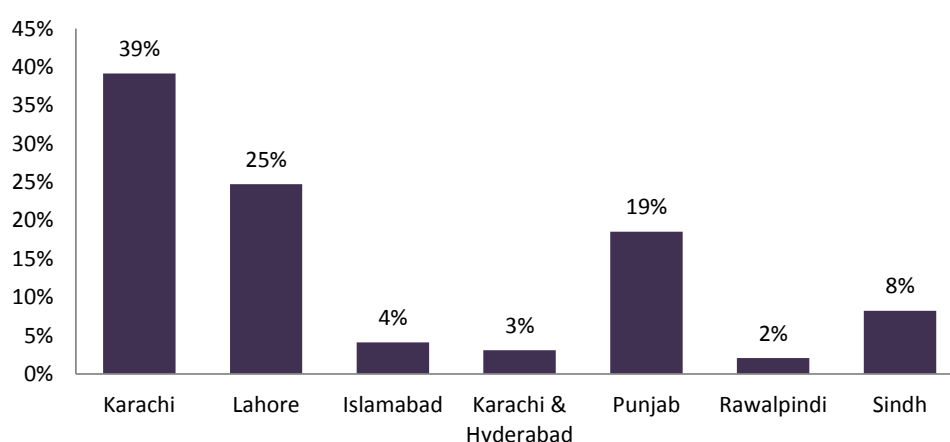


Figure 5.1-b: Customers' presence within the country



Source: Survey Findings

5.2 Owner Profile

The business owners in more than half of the businesses consist mainly of people in the age group of 31-40 years (72%), with about 17% of the owners being between the ages of 41-50 years (**Figure 5.2-b**), having been in the business for reasonable number of years with sound knowledge of the industry. 63% of the business owners have completed their bachelor/college with only 1% not having had any education (**Figure 5.2-a**). About 70% of the businesses have large set ups with 10-20 employees (**Figure 5.2-c**). Predominantly businesses are individual/proprietorship (85%) which are family run businesses operating from rented premises (**Figure 5.2-d**).

Figure 5.2-a: Education level of business owners

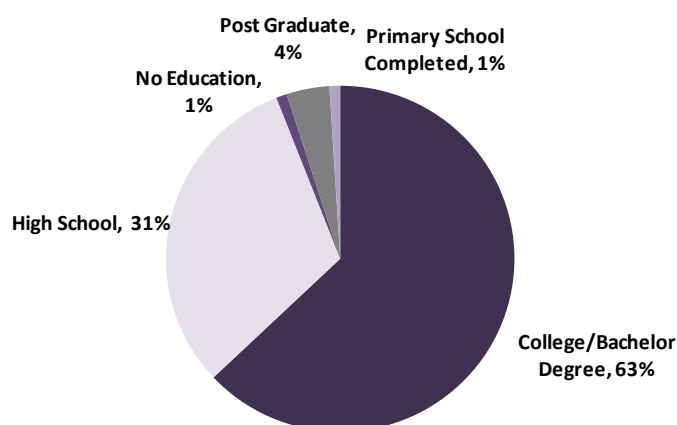


Figure 5.2-b: Age group of business owners

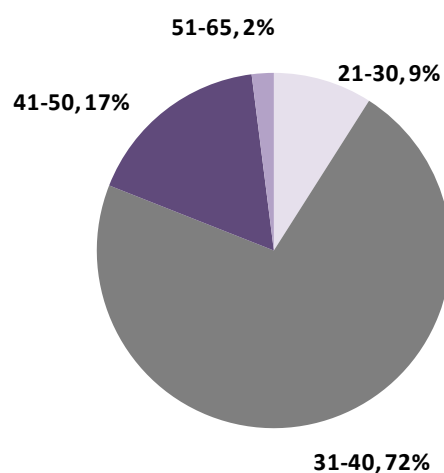


Figure 5.2-c: Number of employees under business owners

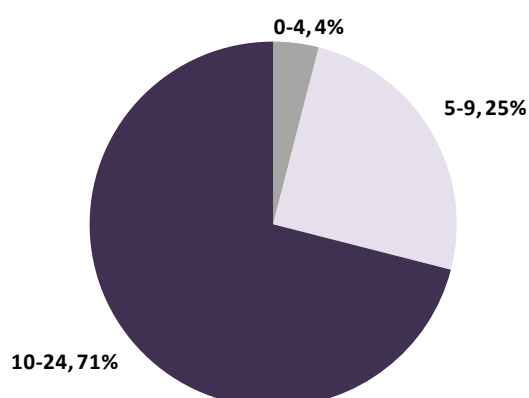
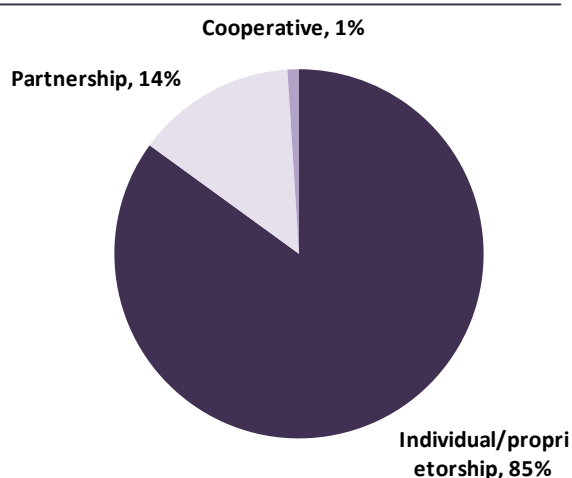


Figure 5.2-d: Ownership type



Source: Survey Findings

5.3 Business Linkages

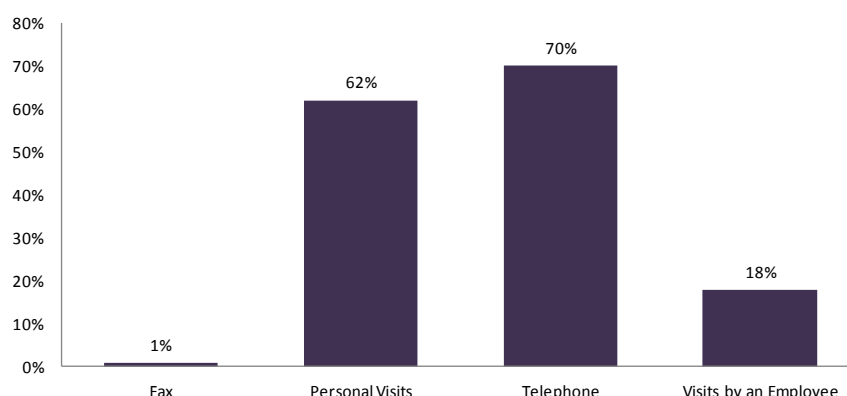
Businesses in the segment are connected to various institutions, which are directly or indirectly affected by the business operations, primary stakeholders and their interests are enlisted in the following table (**Table E**):

Table E: Stake Holders and Their Interests

'Printing Press' Sector	
Stakeholder	Interest
Owners	Growth, government initiatives and access to finance
Suppliers	Better terms, lower risk of payment defaults and timely delivery
Customers	Product quality, reasonable pricing and timely delivery
Financial Institutions	Lending products and increase in deposits
Government	Economic growth, employment and favorable regulations for import of raw material

Businesses employ various mediums as means of communication with its customers (**Figure 5.3-a**) however, personal visits by customers and telephone are widely utilized. In some cases there are direct client visits also, as suggested by 18% of the businesses interviewed. This business is very competitive with majority of businesses having more than ten competitors and servicing about 51-100 customers per month, while some also servicing more than 100 customers monthly.

Figure 5.3-a: Communication with customers

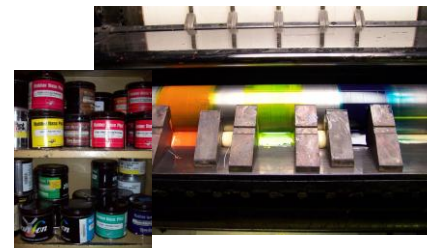


Source: Survey Findings

Major raw material for 'Printing Press' sector includes (**Table F**):

Table F: 'Printing Press'

Ink
Paper
Paper board



39% of the businesses depend upon many suppliers to meet their raw material needs (**Figure 5.3-c**), with 20% relying on the same suppliers, which depicts easy availability of raw material when required for these businesses. 37% of the businesses however are not consistent with their suppliers to meet their raw material needs while 4% of the businesses need new suppliers due to inconsistent quality of raw material. Overall, availability of raw material poses some challenges for SMEs in this sector with 83% depending on two to five suppliers (**Figure 5.3-b**).

Raw materials like different papers are imported. While some businesses also require imported ink for quality output. These raw materials are mostly bought when needed but small percentage of it is also stored in stock.

Figure 5.3-b: Number of Suppliers

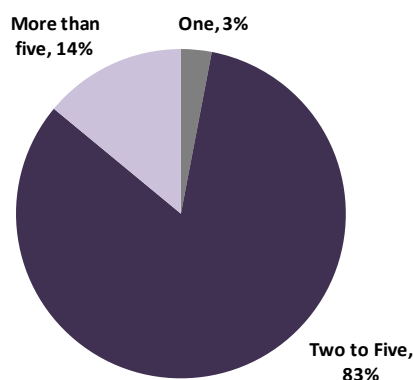
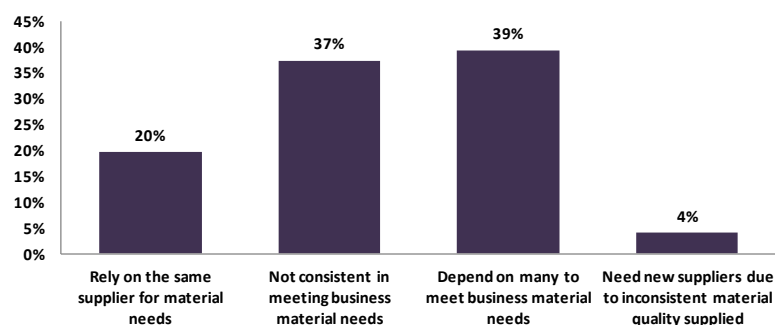


Figure 5.3-c: Supplier Relationship



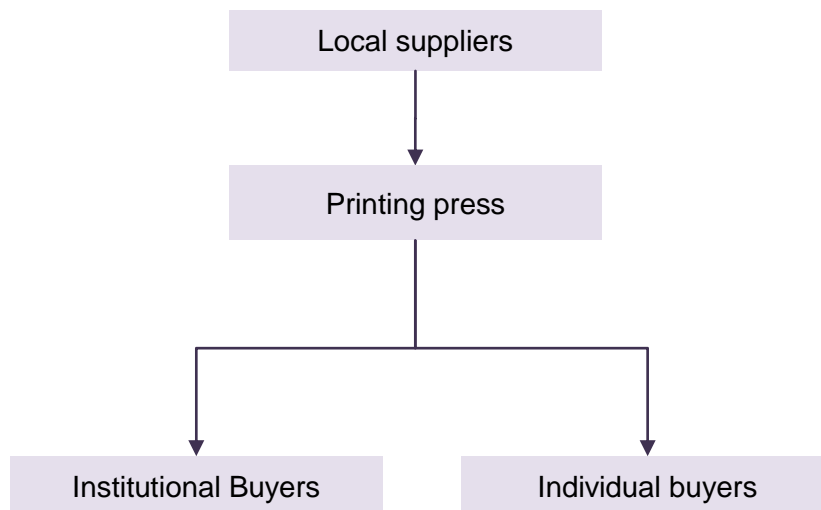
Source: Survey Findings

5.4 Business Cycle

This sector is not seasonal because orders are placed throughout the year. The businesses, however, do witness improvement in their sales during agricultural seasons, as more packaging orders are placed for the crops before being sold out in the market.

The sector is severely affected by the energy crisis prevailing in the country and is considered as one of the issues which hinders printing process greatly.

Figure 5.4-a: Business Model



5.4.1 Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in 'Printing Press' sector operate by processing finished goods in form of books, brochures, company cards, newspapers etc. with many industries, especially in the business sector, dependant on it.

The repayment periods provided by the suppliers is mostly around two weeks (**Figure 5.4-b**). 32% of the businesses claimed of not providing any credit to their customers, while 68% do not provide credit for more than one month (**Figure 5.4-c**).

This depicts that the businesses in this sector may not have much working capital issues as repayment terms offered by suppliers are consistent with the repayment period given to the customers.

Figure 5.4-b: Repayment Terms from Suppliers

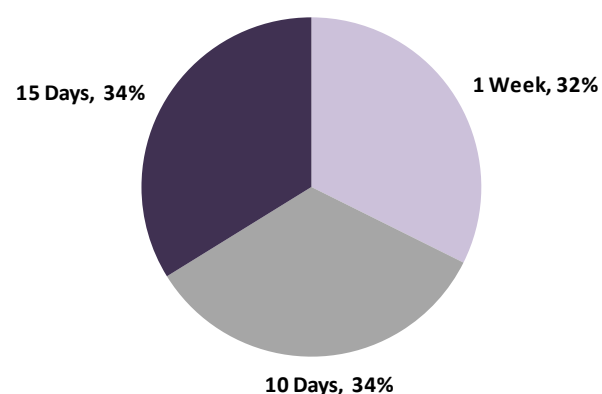
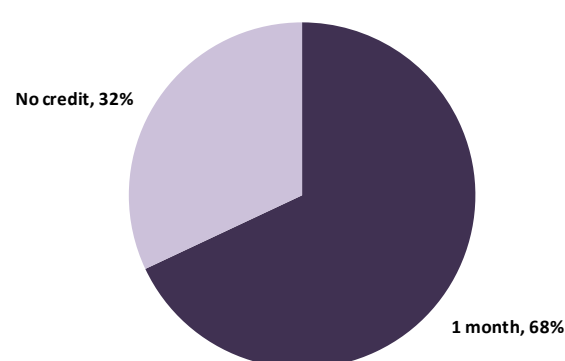


Figure 5.4-c: Repayment Terms to Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

All the businesses in this segment claim to prepare Financial Statements, however only 39% of the business owners stated that they have their Financial Statements audited.

More than half of the business owners keep track of accounts themselves, while the rest keep accountants to overlook their accounts. Many however, do not issue printed sales invoice to their customers with some of the businesses not receiving sales invoice from their suppliers either. This may suggest that proper accounting record may be missing in many of the businesses in this sector.

As per research findings, more than half of the business owners in the sector were not willing to disclose their financial data with regards to their financial position. A rough estimate was given by the business owners regarding business assets employed, annual revenue, income and expenses.

Business owners' reluctance for sharing financial information presents an issue for calculation of segment's accurate benchmark financial ratios. The following table provides key financial ratios of this sector which have been calculated on the average value of the financial range provided to us by the businesses covered in the survey. These ratios are an estimate at best and cannot be utilized to assess the performance of the businesses prevailing throughout this sector.

Table G: Sector Financials Snapshot

Financial Information	PKR
Business Assets	23,620,000
Total Revenue	93,000,000
Annual Expense	80,000,000
Total Income	13,200,000
Key Financial Ratios	
Profit Margin	14%
Operating Expenses/ Revenue	86%
Asset turnover	3.94 times
ROA	56%

Conclusively, low capital is required when compared to the business's revenues generation capability. Return on asset is reasonably high; however, higher expenses pertain to the import of raw material.

5.6 Financial Information

Primary survey findings reflect the Revenue, Expenses, Income and Capital Expenditure under the selected sample for the sector.

Survey findings demonstrate 71% of businesses are operating with total assets between PKR10-50 million (**Figure 5.6-a**), while remaining operate with assets less than PKR 10 million. Total assets comprise of plant and machinery, land and building, inventory and receivables. Liabilities constitute of trade payables, and for few businesses, borrowing for plant & machinery.

Business related assets constitute of machinery required for printing which is almost always imported. 51% of the business owners in the '*Printing P ress*' sectors did not incur any capital expenditure in the pa st five years (**Figure 5.6-b**).

Figure 5.6-a: Business Assets

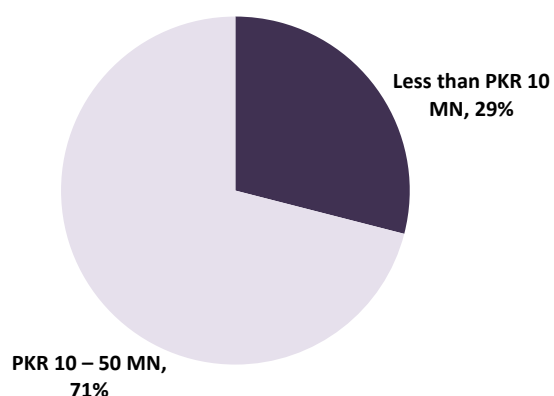
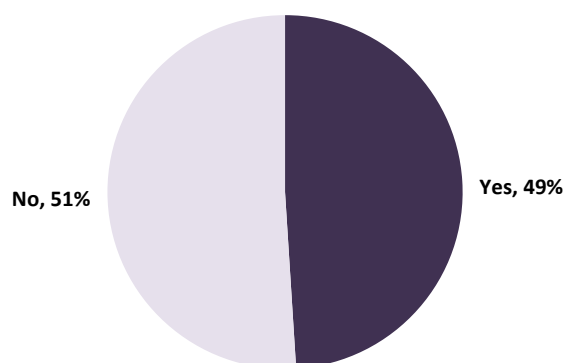


Figure 5.6-b: Capital Expenditure



Source: Survey Findings

Annual average revenue is predominantly between PKR 10-50 million and more than PKR 100 million throughout the sector, with percentages being 50% and 43% respectively (**Figure 5.6-c**). Expenses primarily represent material and employee cost, premises rent and interest expenses against borrowings. The expenses are between PKR 10-50 million for almost half of the businesses (51%) while 38% have more than PKR 100 million (**Figure 5.6-d**).

Figure 5.6-c: Total Revenue

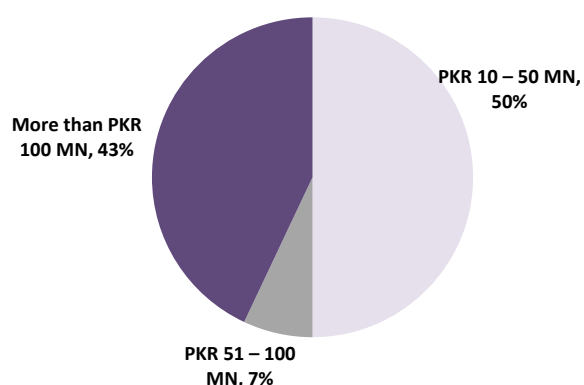
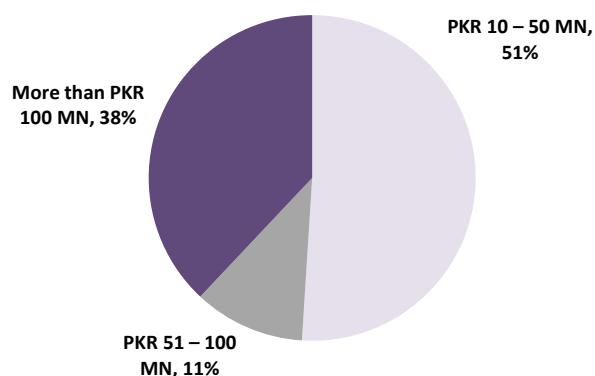


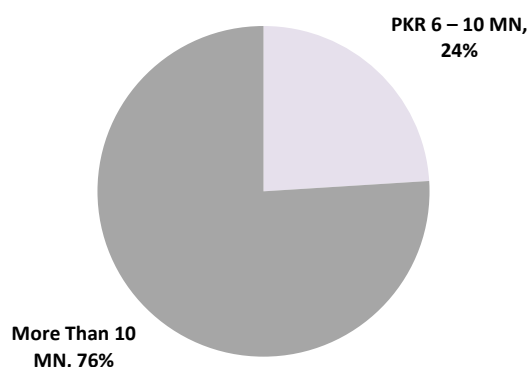
Figure 5.6-d: Annual Expense



Source: Survey Findings

All businesses display healthy earnings. 76% of the business owners earn more than PKR 10 million (**Figure 5.6-e**) while 24% claim to earn between PKR 6 - 10 million average incomes for the last three years.

Figure 5.6-e: Total Income



Source: Survey Findings

5.7 Indicative Business Requirements

The following table lists the business equipment required by businesses in 'Printing Press' sector. The values provided below are susceptible to volatility in market prices. In addition, individual business owners will have distinctive requirements as per their business needs. The table below is neither comprehensive nor specific and provides only an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment. Many of these machines can be bought second hand which reduces the price greatly.

Table H: Indicative Equipment Requirement	Cost PKR (per unit)
Web Machines	15,000,000 – 20,000,000
Sheet FAD Machines	25,000,000
Printing Press Machine	5,000,000
Single colored Printing Press Machine	500,000 – 900,000
Four Color Printing Press Machine	500,000 – 2,000,000
Printing Down Frame	250,000
Plate Processor	350,000
Paper Cutting Machines (Pollard)	1,000,000
Paper Folding Machines	1,000,000
Pin Machines	150,000
Miscellaneous Items (Color HP Printer, Premium Computers, etc.)	1,000,000



5.8 Financial Need Analysis

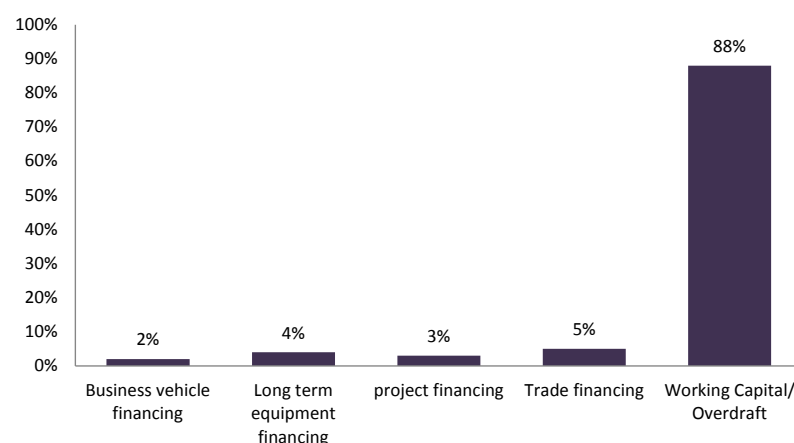
More than half of the business owners are in charge of the business funds themselves. These funds are mainly required for working capital/overdraft in 88% of the businesses surveyed (**Figure 5.8-a**) with half of the businesses requiring working capital finance for finished goods. 20% of the businesses require finance of letter of credit (LC) to import raw material.

Amongst the business assets, machinery and equipment and furniture and fittings was required by the business owners, with percentages resting at 84% and 37% respectively.

In this sector, 44% of the businesses showed reliance on banks as a source to fund their business needs. 33% of the businesses, however, borrow from their family/friends, while 27% use their own savings to fulfill their business funding needs. Working capital financing in this segment can assist them in meeting their raw material requirement.

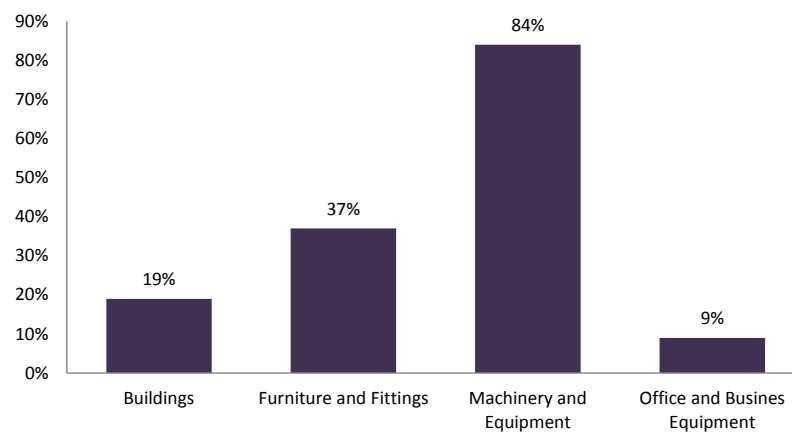
Amongst fixed asset requirement, 84% of the businesses require financing for machinery and equipment while 37% require for furniture and fittings (**Figure 5.8-b**).

Figure 5.8-a: Business Funding Needs



Source: Survey Findings

Figure 5.8-b: Fixed Assets Financing Requirements



Source: Survey Findings

5.9 Usage of Banking Products

Very few owners are aware of SME segment specific efforts made by the Government of Pakistan; however businesses in this sector have shown interest in potential loan products while some of them have already availed it from banks. Those who could not avail financing cited informal business set up as possible reason.

More than half of the business owners listed the key driver in choosing a certain bank being personal / family bank, provide low interest rates on loans and offer better loan tenure. Many owners proposed product feature they wished to be offered by the bank, such as easy loan installments, payment transfer through internet, more financial support and safe transfer of international funds.

Other services such as cash management and money transfer facility are used by the businesses with percentages resting at 97% and 48% respectively. However only 1% of the businesses have shown to use payroll services by the banks.

56% of the respondents do not use any insurance products; 31% of the businesses have legal expense insurance while remaining few percentages have insurance on vehicle (8%) and office equipments (3%). None of the business owners are interested in availing any insurance product from the banks as they prefer to avail such products directly from insurance companies.

The sector consist of just 16% of the businesses who avail advisory services; however, none of them have claimed to pay for it. Majority of them avail advisory services from family, friends and relatives with all of the business owners being satisfied with their current source of advisory services. None of the business owners are willingly to pay for such services if provided by the banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	71%
Term Deposits	38%
Loan Products	41%

5.10 Segment Risk Considerations

This sector is still in its growth phase in Pakistan and therefore, is embedded with many risks. Some of the major risks are discussed below.

Businesses in the segment are largely individual proprietors, having this business as their only source of income. More than half of the businesses in this sector listed default on their credit repayments to banks against loans as their biggest risk to the business, followed by inflation, which further raises the cost of raw material already expensive as its imported with high import duties. The percentages of businesses suggesting the main risks to their businesses being credit and inflation risks rest at 61% and 37% respectively. Limited availability of raw material is also considered as one of the primary risk by 17% of the business owners.

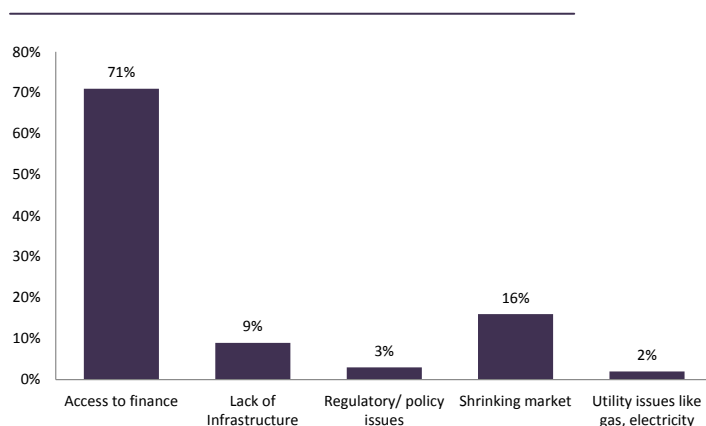
94% of the businesses address these risks through more capital investment (**Figure 5.10-b**). Majority of the businesses operate from rented premises, incurring monthly fixed expenses.

All businesses in this sector claim to prepare Financial Statements while less than half of the businesses have them audited. 65% of the businesses do not print invoices for their customers while 29% of the businesses do not receive invoices from their suppliers. This may pose serious miscalculation in accounts and mismanagement in terms of cash movements.

Few businesses are not consistent with their suppliers in meeting their material needs while only 4% need new suppliers for better quality of raw material. Imported raw material are available in the local market but are of higher price for which better bargaining power and good long term relationship proves advantageous in order to benefit from bulk discounts.

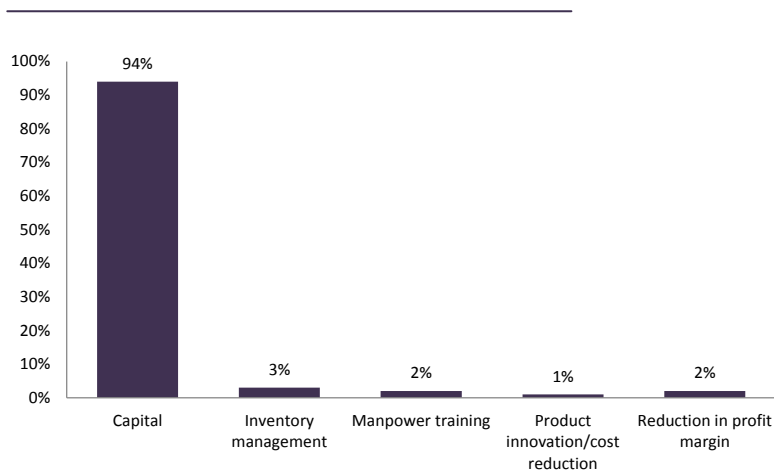
A large proportion of SMEs in the segment do not use any insurance products. One of the major hindrance to business expansion is lack of access to finance (**Figure 5.10-a**) which presents ample room for banks to target these businesses.

**Figure 5.10-a: Business Expansion
Restraints**



Source: Survey Findings

Figure 5.10-b: How Business Risk is addressed



Source: Survey Findings

Following are the strengths and weaknesses inherent in this sector:

Strengths

- High capacity for increase in production
- High demand in urban areas
- Low initial capital

Weaknesses

- Lack of educated staff
- Low professionalism
- Unorganized sector
- Low access to finance
- Imported raw material and machinery

Further, the risks inherent to the segment include:

- Uneven cash flows
- Inconsistent supply of raw material
- Unaudited financial statements of many businesses
- No proper book keeping

Possible Mitigating Factors:

- Lending only to those businesses which have been operating for more than three years
- Proposing products to businesses with a verifiable banking history of more than two years
- Review of accounts and register of invoices

6 Proposed Banking Product Suite

6.1 Product Features

Based on our primary and secondary research we propose the following for social and economic growth of '*Printing Press*' sector:

Asset Products:

- Working capital/overdraft Finance Facility
- 'Printing Press' machinery leasing
- Industrial Power Generator Leasing
- Raw Material Import Finance

Liability Products:

- Business Bank Account

Other products

- Banc assurance
- Branchless Banking (Mobile)
- Utility Bill Payment

Table I: Working Capital/Overdraft Finance Facility/Revolving Credit	
Particular	Details
Initial deposit	Minimum initial deposit of PKR 10,000
Tenure	3 years with no requirement of Annual Cleanup for principle amount. However, regular payment of markup is must for renewal of limit.
Loan Limit	<ul style="list-style-type: none"> • Minimum Limit - PKR 5,000,000 • Maximum Limit - PKR 25,000,000 • Minimum and maximum loan limits are reviewed annually <p>Total loan limit offered will not exceed an average six months of usage determined over a period of the last three years</p> <p><i>(Maximum limit is set based on 50% mark-up of average revenue estimated for this sector)</i></p>
Documentation	One time documentation (as required by banks) for a period of three years
Repayments & Withdrawals	<ul style="list-style-type: none"> • Flexible repayment conditions: lump sum payment on the due date or partial repayments • Multiple withdrawals are allowed during the tenure of loan
Cleanup	Borrower is liable to clear the entire loan amount, both principal and markup, once in a year on a date indicated by the borrower & mutually agreed by the bank
Markup	As per prevailing KIBOR and spread
Markup charges	Mark up will be charged only on the amount utilized by the borrower
Renewal	Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and satisfactory credit history
Penalty	No early repayment penalty may be imposed on the borrower (subject to banks discretion)
Insurance	Mandatory insurance as per SBP guidelines.
Security	Raw material stock. Mortgage of business premises for those who operate from owned premises.

Table J: 'Printing Press' Machinery Leasing	
Particular	Details
Down Payment	Minimum down payment of 20%
Salient Features	<ul style="list-style-type: none"> • Equipment & machinery leasing will be provided for expansion capital only to businesses who have been operating for 3 or more years • A list of pre-approved equipment and machinery manufacturers will be developed based on information received from trade association and market reputation • Credit facility will be offered directly through pre-approved equipment and machinery vendors
Tenure	3 - 5 years
Loan Limit	<ul style="list-style-type: none"> • Minimum Limit - PKR 5,000,000 • Maximum Limit - PKR 50,000,000
Documentation	<ul style="list-style-type: none"> • One time documentation required for a period of three years • Financial Statements
Repayments & Withdrawals	Repayments will be based upon preset Equal Monthly Installments
Markup	As per prevailing KIBOR and spread
Penalty	As per existing bank policies and cost of charges
Insurance	Mandatory insurance as per SBP guidelines
Security/Collateral	5% of invoice as security deposit and hypothecation of leased assets. Provision of collateral as per satisfaction of the bank

Table K: Industrial Power Generator Leasing	
Particular	Details
Down Payment	Minimum down payment of 20%
Salient Features	<ul style="list-style-type: none"> • Loan amount will be directly transferred to suppliers' accounts against invoices • Credit facility will be offered directly through pre-approved generator suppliers
Tenure	3-5 years
Documentation	<ul style="list-style-type: none"> • Business Financial Statements • Proof of business operation for last three years
Loan Limit	<ul style="list-style-type: none"> • Minimum Limit - PKR 500,000 • Maximum Limit - PKR 10,000,000
Repayments & Withdrawals	Repayments will be based upon present Equal Monthly Installments
Markup	As per prevailing KIBOR and spread
Insurance	Mandatory Insurance facility as per SBP guidelines
Penalty	As per existing bank policies and cost of charges

Table L: Raw Material Import Finance	
Particular	Details
Initial deposit	15% of the goods to be imported.
Tenure	Depends on the contract terms of LC which may be renewal.
Documentation	Contract with exporter, Pro Forma Invoice, Bill Lading, financial statements, company legal registration documents, credit history etc.
Additional Documents	<ul style="list-style-type: none"> • Certificate of quality • Weight certificate • Pre-shipment inspection certificate • Packing list • Insurance certificate
Markup	As per prevailing KIBOR and spread
Penalty	As per existing bank policies and cost of charges
Insurance	Mandatory insurance as per SBP guidelines
Security	As per requirement and satisfaction of the bank

Table M: SME Business Bank Account	
Particular	Details
Account Type	Non- remunerative Current Account
Documentation	CNIC/smart NIC, completion of KYC requirements as per SBP Regulations
Facilities	<ul style="list-style-type: none"> • Cheque Book • Upgraded ATM facilities • Business Visa Debit Card • Phone Banking • Mobile Banking • Internet Banking • Monthly account statement

Table N: Other Products	
Particular	Details
Banc assurance	Banc assurance products such as Business Premises Insurance, Personal Injury Insurance, Equipment and Vehicle insurance can be proposed by banks through its channels offering reasonable rates and servicing through banking channels such as direct debit
Branchless Banking (Mobile)	Mobile banking services for instance balance check, bill payment and funds transfer
Utility Bill Payment	Service for easy payment of electricity, gas, telephone and cell phone bills

6.2 Eligibility Criteria for Asset Products

Table O: Asset Products Criteria

Indicators	Description
Borrower Eligibility Analysis	During assessment of customers, take into account the total indebtedness of the potential borrower, his disposable income and ensure that the total financing to customer does not exceed the prescribed limits as laid down in approved policies of bank. Borrower should be in business of ' <i>Printing Press</i> ' for the past three years and hold a valid CNIC/smart NIC.
Business Analysis	To assess the Borrower's position, verification of their revenues can be verified by the bank. Business premises ownership documents should be verified against name of the owner.
Credit worthiness	Credit worthiness of the borrower may be ascertained by collecting information from e-CIB or other credit information bureaus.
Financial parameters	To assess average expenses, income generated and repayment capacity of the borrower.
Adherence to Lending Standards	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities.
Banking History	Verifiable banking history of more than one year with active accounts
Business Operations	Business should be in operation for more than three years. If the business is involved in exporting their finished goods then they should be involved in export business for the last 3 years.
Trade body membership	Business should be a member of the sector's trade body.

7 Distribution and Communication Considerations

SMEs in 'Printing Press' are spread out mostly in the urban cities, as there is high concentration of institutional buyers; therefore they can be reached and targeted in major clusters to promote banking products of 'Printing Press' segment in the urban cities.

7.1 Marketing Objectives of Banks

Marketing objectives for building and promoting the brand image of SME Products for 'Printing Press' are as follows:

The banks may:

- Create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of 'Printing Press' owners to avail banks' lending/financial products
- Increase direct interaction of Relationship Managers with 'Printing Press' owners to promote more direct and close interaction with the business owners and to assist small businesses in navigating difficult economic and business conditions
- Provide sponsorships for trade fair and exhibitions which link the promotion of bank's brand image with SME businesses product exposure locally and worldwide

7.2 Promotional Activities by Banks

To create awareness of SME specific products in the target market, the banks may aggressively advertise their banking products through various promotional programs and events:

- Workshops will be conducted in collaboration with Pakistan Association of Printing and Graphics Arts and All Pakistan Small Printing Press Association to provide more interaction to business owners with trade associations to enhance communication between them regarding industry specific issues.
- Organize promotional events in cluster locations or near businesses to build strong image of the bank among the target audiences

Banks can service these SMEs through the following proposed channels: *(Please note that this list is not exhaustive):*

- Direct Sales Agents
- Tele Sales
- Trade association backed seminars
- Branches in cluster locations
- Identify opportunities for expansion through market sources
- Involvement in trade fairs and exhibitions

7.3 Distribution Strategy for Banks

As primary means of customer service and sales interaction, distribution channels play a central role in the customer relationship, which further improves growth. Banks' challenge is to improve and integrate their multiple distribution channels to provide them better service and foster better customer relationships. Top priority should be attracting and retaining customers within and across these channels.

To reach maximum percentage of target market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of '*Printing Press*' sector through its products on national basis particularly major cities where large number of 'Printing Press' units are located.

Banks may adopt following conventional channels for distribution:

- **Branches:** Establishment of lending branches in 'Printing Press' cluster regions with a potential to attract large number of customers.
- **Direct Sales Agent:** This activity may be outsourced and a trained marketing team should periodically visit identified areas within the cities, to educate potential customers and create awareness of the products and services being offered under SME Products Suite.
- **F2F interactions:** A deeper level of interaction may provide an integrated customer focus, by relationship managers involved in face to face interaction, which will become critical in helping better communication for product awareness and in addressing hesitations faced by the business owners.

Following Technology based alternate delivery channels can also be adopted for distribution

- **Internet Banking:** With technology up gradation mobile phones have become sophisticated and capable of handling advanced applications and services, so banking via mobile phones appeal to consumers on multiple fronts.
- **Short Message Service (SMS):** Marketing team can send out mass messages in Urdu or English to '*Printing Press*' segment for advertising bank's products