

‘Dry Cleaners and Laundry Services’



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Address
Infrastructure, Housing & SME Finance Department,
State Bank of Pakistan
I.I. Chundrigar Road,
Karachi
Ph: 021-32455501, 021-111 -727- 111
FAX: 021-99221139

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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 "Dry-cleaning and Laundry Services" 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 '*Dry-cleaning and Laundry Services*' Segment Research Report provides indicative business and financial characteristics based on the information derived 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 'Dry-cleaning and Laundry Services' 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, Lahore and Islamabad 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. However, the segment remains largely unbanked 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 there is an imminent need to understand the dynamics of this segment in order to 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 "*Dry-cleaning and Laundry Services*" which includes small dry-cleaning and laundry units mostly scattered in the main cities such as Karachi, Lahore, Islamabad and Faisalabad.

Service sector in Pakistan has emerged as a major contributor towards promoting economic growth and recently went through major transformation with share of service sector increasing to 58.1% of the GDP (Economic Survey 2013-14). With more focus being placed on the service sectors, these sectors have the capability to grow to the fullest potential.

The '*Dry Cleaning and Laundry Services*' units are mostly scattered in the urban areas of Pakistan where the demand for their services is increasing. This sector has been greatly ignored but shows great potential for growth. A better support from financial institutions will enhance growth within this sector.

2.1 Limitations of the Study

- 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 give 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 now classified as medium sized 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 crises, 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 'Dry-cleaning and Laundry Services' Industry Overview

Table C: Summary of Industry Overview

Factors	Comments
Demand	With increasing population and women workforce, the need for dry cleaners and laundry services has increased with time, however, the services provided by most of the businesses in this sector leaves most of the demand unfulfilled.
Supply	The number of dry cleaning and laundry services is increasing at a slow pace, which is not enough to fulfill the current demand. As this sector is highly unorganized, most of the services provided are not of required quality
Key players	Mercury Cleaners, Nafees Dry clean, Bright Dry Cleaners, Snow White Dry cleaners, Classic Cleaners, DHA Dry Cleaning Services
Regulatory Body	Ministry of Industries
Future prospects	This sector has great potential to grow in Pakistan in the urban cities, which requires better skilled staff and investment to provide better services and growing number of satisfied customers.

4.1 Demand

Population and lifestyle of people in Pakistan has changed significantly over the years with more people, especially women, entering the workforce. Not only has the spending power increased but also due to hectic lifestyles, less time is available for house chores, which has therefore lead to increasing preference of dry cleaning and laundry services. Rise in women workforce is mostly prevailing in the urban areas of the country which indicates that most of the demand resides in the major cities.



Although the sector provides services round the year, however, it also experiences exceptional demand in winter and wedding seasons. Hence, this sector also carries large potential for profits especially during such seasons as carpets, woolen clothing and sometimes fancy or expensive dresses require specialized services.

The industry however has shown a slow progress and not grown as would have been expected due to poor quality services and lack of organized set up. The businesses in this sector are mostly below average in terms of professional services given, leaving significant unmet demand to cater to. A need for professional unit with competitive team is needed in this sector.

4.2 Supply

The number of dry-cleaning and laundry setups have been increasing over the last few years reflecting continued growth within this sector.

Many people resort to local 'dhobis' who manually wash cloths in dhobi mart. Their services are exceptionally low-priced compared to dry-cleaning and laundry set ups, owing to use of local detergents and soaps which are highly cheap. Also, no usage of washing machine cuts down on the electricity bills, further reducing the cost of services charged. Such businesses are popular and have been established even before the partition of the country, with many dhobis servicing generations of households. Many have grown to setup their own laundry and dry-cleaning units.



Dry-cleaning and laundry units mainly cater to households, the demand for which has increased with increasing working professionals, excluding hotels and hospitals, as they have their own set ups.

However, due to serious energy and power crises, the services of this industry is seriously hampered. Many dry-cleaning and laundry units have reported to have gone back to their traditional ways of manually washing laundry items for continuation of their services and timely delivery.

The current small setups barely meet the standards and requirement of services demanded by the customers. Using technology reduces the dependence on human labor. This sector however is also not a very technology driven sector as there are locally manufactured machines, which are almost similar to imported machinery in terms of quality of cleaning.

4.3 Key Players

The major key players of Dry Cleaning and Laundry Services sector are Mercury Cleaners, Nafees Dry clean, Bright Dry Cleaners, Snow White Dry cleaners, Classic Cleaners, DHA Dry Cleaning Services

4.4 Future Developments

This sector has great potential to grow in Pakistan in the urban cities which requires motivated and dedicated staff, providing professional and timely services, which is the key driver for growth in this sector. This sector however is also highly dependent on steady power supply, the absence of which is one of the most crucial problems in the country.

4.5 Dry Cleaning and Laundry Process

The cloths are mostly sorted by their stain, color or the sensitivity of the material. Following is the process (

Figure 4.5-a) adopted:

Tagging: Items are tagged to facilitate in identification of cloths and their quick delivery to customers after dry cleaning laundry service.

Pre-wash treatment: In case of tough stain, the fabric undergoes pre-wash treatment, which requires the use of certain chemicals for easy removal of tough stains.

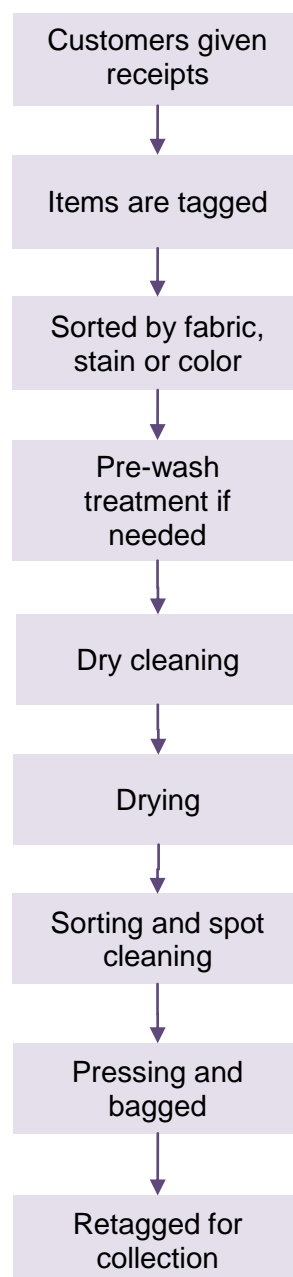
Dry Cleaning/Laundry: Unlike laundry, the dry cleaning process requires the use of solvent instead of water.

Drying: High temperature is used to evaporate the solvent or water.

Sorting and spot cleaning: The items are then sorted and in case of any loss of buttons or any other mending required, they are stitched back accordingly. If any stains are still remaining they are spot cleaned.

Pressing and bagged: The cloths are then pressed and hanged in plastic bags for collection which are retagged to make it easy for identification.

Figure 4.5-a: Dry-cleaning and Laundry Process



4.6 Success and Survival of the Businesses in this Sector

From the survey interviews(*Figure 4.6-a*), majority of the of the business owners felt that good relations with the suppliers (57%) and timely delivery of the finished goods (50%) were the major success factors for the businesses in this sector.

In order to survive as an SME (*Figure 4.6-b*), 73% of the business owners believe that experience was the most essential element, followed by education by 45% of the business owners. 2% of the business owners in the survey however, also felt that due to strong supplier customer relations their SME businesses managed to survive.

Figure 4.6-a: Indicators of Business Success

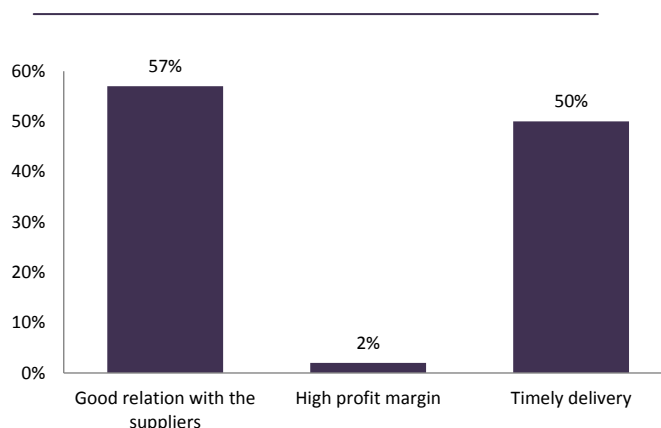
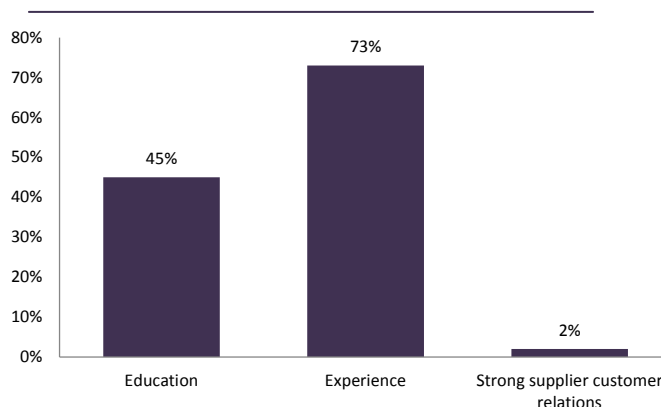


Figure 4.6-b: Key means of survival as an SME



Source: Survey Findings

5 Market Assessment

5.1 Market & Demographic Profile

At present, the retail sales segment in Pakistan is relatively organized. Most businesses in this segment are family owned with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Limited access to intellectual, human and financial resources
- 2) Limited avenues for funding sources
- 3) No structured Government Initiative and policies for the sector
- 4) No official Quality certification and testing facilities available

The '*Dry-cleaning and Laundry Services*' sector is mostly dispersed across the urban areas of the country where the demand for such services are high due to busy work life and increasing trends.

Raw materials are easily accessible in the local market and at an affordable price. Despite that, the quality of service provided is low. Technology is easily available locally but for better quality imported technology is also used in terms of laundry machines. Energy crisis is also a major problem faced by this sector, which leads to decline in timely servicing the customers.

5.1.1 Market Sizing and Lending Potential

As mentioned earlier the businesses in this sector are scattered in the main cities. The following table (**Table D**) shows the locations that have been covered in the survey as many units in this sector are not registered and so difficult to assess their cluster.

Table D: Cluster Locations for 'Dry-Cleaning and Laundry Services'	
Area	No. of establishments
Islamabad	20%
Lahore	25%
Karachi	30%
Faisalabad	15%
Multan	10%



Source: Corporate Development Partners



5.1.2 Segment Demographics

The segment is widely spread out across regions in the country with highest concentration in the main cities like Karachi, Lahore and Islamabad, while rest are spread all over the country. Demographic information is obtained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan. 31% of the businesses covered in the survey catered to Karachi while 24% have their customers in Lahore (**Figure 5.1-b**).

The businesses in this sector have mostly been in operation since the past few years. As can be seen (**Figure 5.1-a**), 24% of the businesses have been operating for 1 to 3 years while only 14% have been in operation for more than 10 years.

Figure 5.1-a: Number of years in operation

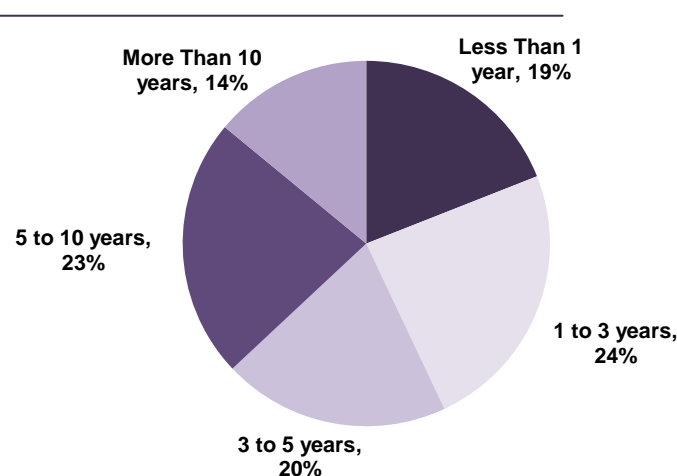
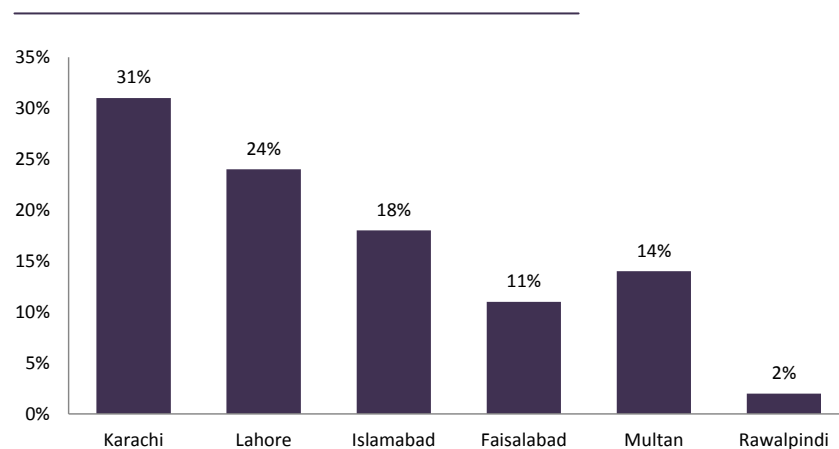


Figure 5.1-b: Customers' presence within the country



Source: Survey Findings

5.2 Owners Profile

The business owners in almost half of the businesses (55%) consist mainly of people in the age group of 31-40 years, while 33% of the business owners are between the ages of 21-30 years (**Figure 5.2-b**). This indicated that the business owners may not be very experienced. Strong focus on education is not considered as a major contributing factor by business owners and therefore majority have either completed primary school or high school as their highest level of education (**Figure 5.2-a**).

Predominantly businesses are run by families with 89% of them run as sole proprietors, operating from rented place (**Figure 5.2-d**). The businesses in this sector vary in terms of size, i.e. the number of employees working in a setup. According to our survey statistics, majority (36%) had 10-24 number of staff working (**Figure 5.2-c**).

Figure 5.2-a: Education level of business owners

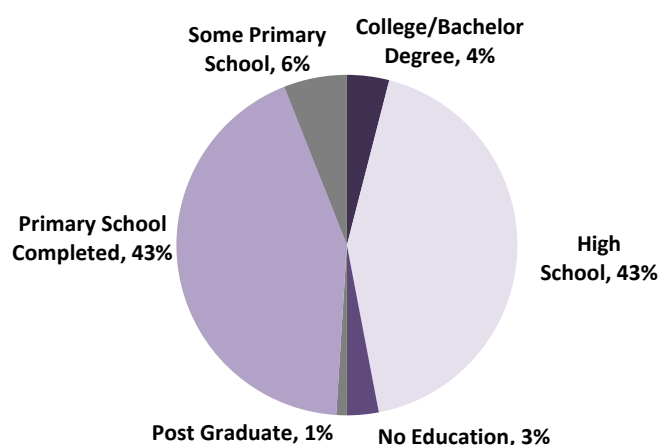


Figure 5.2-b: Age Group of Business owners

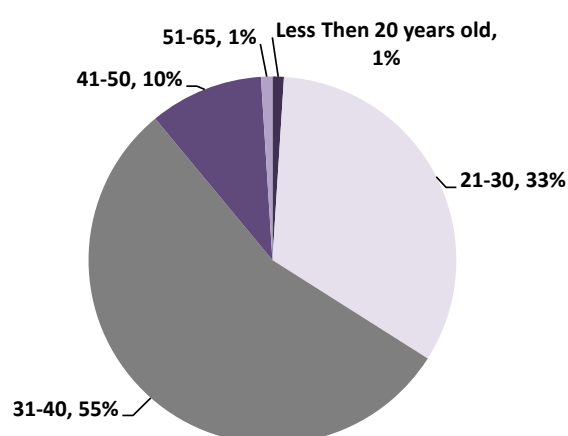


Figure 5.2-c: Number of employees under business owners

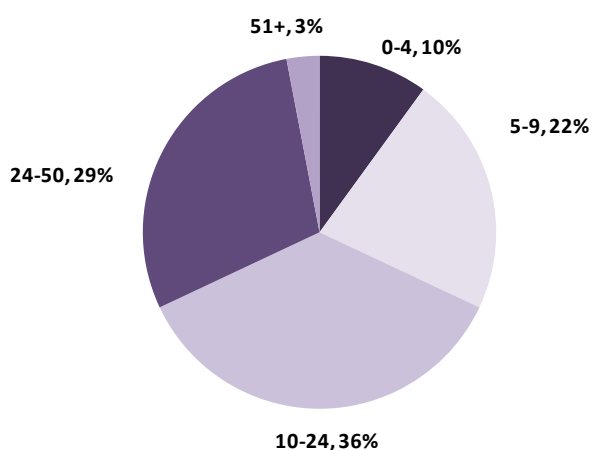
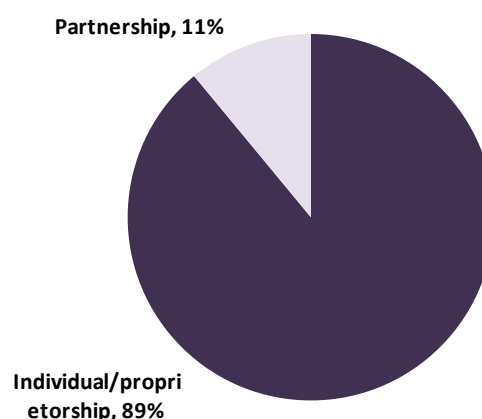


Figure 5.2-d: Ownership type



Source: Survey Findings

5.3 Business Linkages

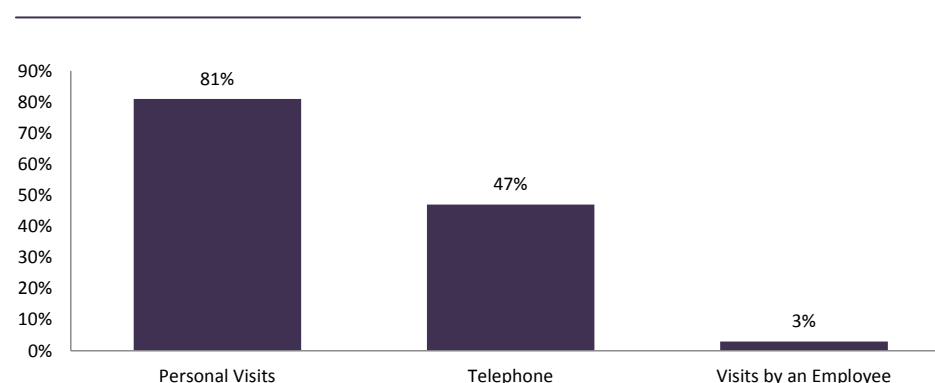
Businesses in the segment are connected to various institutions, which are directly or indirectly affected by the business operations, primary stakeholders and their interests are enlisted in the following table (**Table E**):

Table E: Stake Holders and Their Interests

Dry-cleaning and Laundry Services	
Stakeholder	Interest
Owners	Growth, government initiative and access to finance
Suppliers	Better terms and lower risk of payment defaults
Customers	Service quality, reasonable pricing and timely delivery
Financial Institutions	Lending products and increase in deposits
Government	Economic growth and employment

Businesses employ various means of communication with its customers (**Figure 5.3-a**) however, since most of the customers are in nearby households; personal visits by customers (81%) and telephone (47%) are widely utilized. In some cases, the customers may send their items through their servants as suggested by 3% of the businesses interviewed.

Figure 5.3-a: Communication with customers



Source: Survey Findings

Major raw materials for 'Dry-Cleaning and Laundry Services' sector includes (**Table F**):

Table F: 'Dry-Cleaning and Laundry Services' Raw Material

Washing Detergents
Soda
Bleach
Hydrogen
Perc Ion
Tar pine oil

The raw material needs of this sector are very basic, as mentioned above. Half of the businesses (50%) depend on the same suppliers for years to meet their raw material needs, which indicates that consistent supplies are available with good long term relationship, which may also indicate better pricing deals (**Figure 5.3-c**). 24% of the businesses, however, are not consistent in buying from the same suppliers to meet their raw material needs, while some 12% of the businesses need new suppliers due to inconsistent quality of raw material. This indicates that some risk of raw material supplies does however prevail in this sector.

Material needs are met locally by buying from the same location or same city from local dealers or wholesalers. 66% of the business owners depend on two to five suppliers (**Figure 5.3-b**). These raw materials are stored in stock which are managed accordingly.

Figure 5.3-b: Number of Suppliers

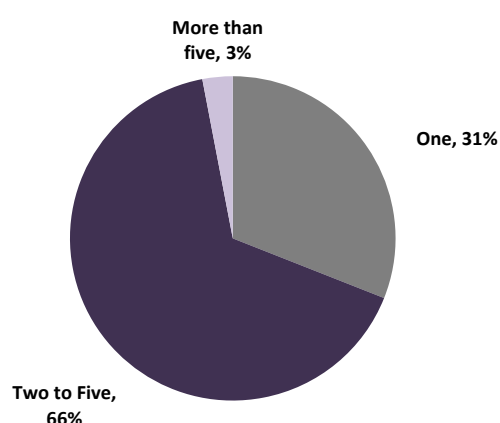
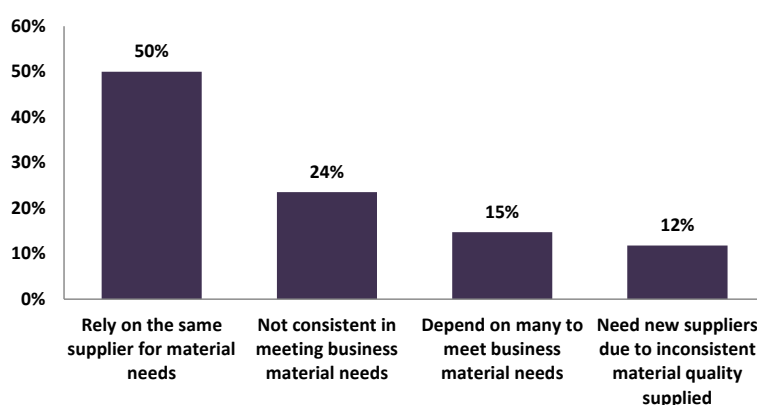


Figure 5.3-c: Supplier Relationship



Source: Survey Findings

5.4 Business Cycle

This sector is seasonal to some extent with demand reaching its peak during wedding seasons, where special care is needed when washing formal cloths, and during the start and end of the winter season when heavy cloths like jackets, delicate shawls and woolen cloths need washing before and after being stored away. Some of the businesses however also feel that during summers their businesses become more engaged as more people require frequent washing of their clothing items.

The businesses in this sector are not too severely affected by the energy crises prevailing in the country, especially the laundry services where handwashing is mostly carried out. Nevertheless, it is considered as one of the issue which hinders process to some extent where the use of machine and iron pressing is required.

Figure 5.4-a: Business Model



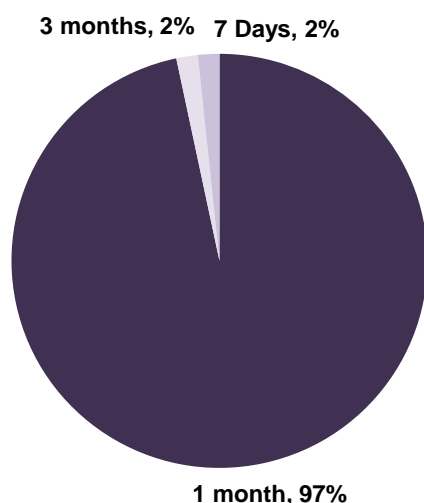
5.4.1 Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. The segment works mainly on cash basis with suppliers of '*Dry-cleaning and Laundry Services*' sector and therefore, instant payments are made with no hold ups.

All the businesses receive payments by cash from which 40% of the businesses do not provide any credit to their customers, while the remaining businesses do, as almost all of the businesses have regular customers. The repayment period provided to their regular customers is one month by most of the businesses in the survey (97%) as many customers have their daily laundry to be serviced and so prefer monthly payments (**Figure 5.4-b**). The payments by the customers are mostly paid on time except for very few instances where customers take three months to pay back.

This may pose some working capital issues for the businesses as the repayment terms to suppliers are inconsistent with the repayment period given to customers.

Figure 5.4-b: Repayment Terms for customers



Source: Survey Findings

5.5 Financial Assessment and Profile

All the businesses in this segment prepare Financial Statements, however, only 39% of the business owners stated that they have their Financial Statements audited. The nature of Financial Statements is basic entries of their revenue and expenses incurred.

Majority of the business owners/managers keep track of accounts themselves, while very few of the businesses keep secretary to overlook their accounts. Therefore, owners have a better idea of their expenses and overdue payments. However, more than half of the businesses in this sector claim not to print their sales tax invoices which suggest lack of organized account/ book keeping of their cash movements.

From primary research and interviews conducted in the surveys, it has been identified that retailer margins are variable which in recent years have been rising, with a great number relying on higher sales volume for earning better profit.

As per research findings, none of the business owners in the sector were willing to disclose their financial data with regards to capital invested. 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 (**Table G**) 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	22,960,000
Total Revenue	64,000,000
Annual Expense	53,000,000
Net Income	10,020,000
Key Financial Ratios	
Profit Margin	15%
Operating Expenses/ Revenue	82%
Asset turnover	2.78 times
ROA	43%

Conclusively, it can be said that low capital is required to run a successful business as the return on asset (43%) is reasonably high. The businesses in this sector also show a reasonable profit margin (15%).

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 68% of the businesses operating with total assets between PKR 10-50 million, while the remaining 32% operate with assets less than PKR 10 million (**Figure 5.6-a**). Total assets comprise of plant and machinery, land and building, vehicles and inventory and receivables. Liabilities constitute trade payables and borrowing for plant & machinery and vehicles.

Business related assets constitute of washing machines and dryers. Only 26% of the business owners in the 'Dry-cleaning and Laundry Services' sector have incurred capital expenditure in the past three years (**Figure 5.6-b**).

Figure 5.6-a: Business Assets

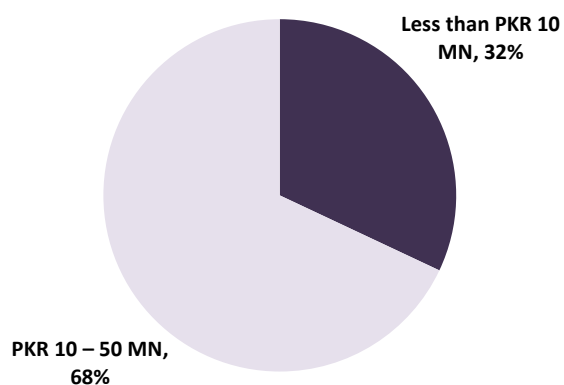
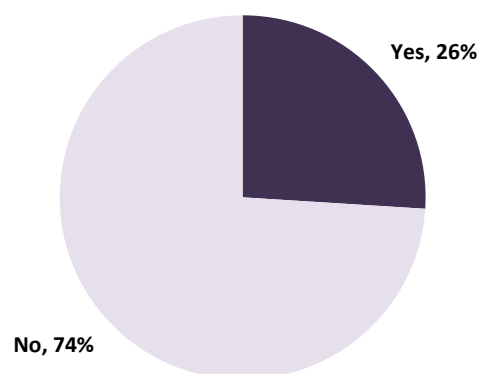


Figure 5.6-b: Capital Expenditure



Source: Survey Findings

48% of the businesses in the segment have annual average revenue in the range of PKR 10-50 million while 31% of the businesses claimed to have revenue of more than PKR 100 million (**Figure 5.6-c**). Expenses primarily represent material cost, employee cost and interest expenses against borrowings. 15% of the businesses have claimed to incur average expenses between PKR 51 -100 million, which may denote larger setups, while 45% of business owners have expenses less than PKR 10 million (**Figure 5.6-d**).

Figure 5.6-c: Total Revenue

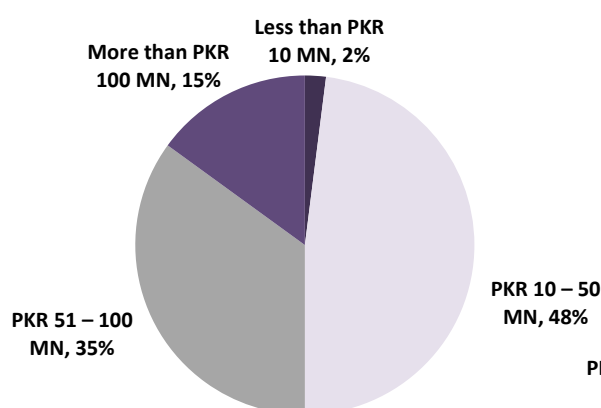
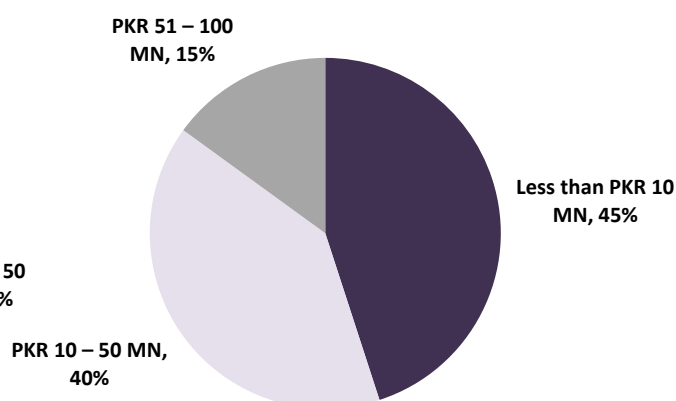


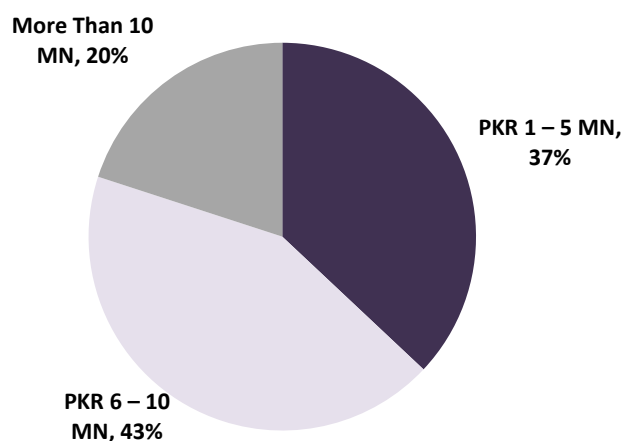
Figure 5.6-d: Annual Expense



Source: Survey Findings

All businesses display reasonable earnings. 20% of the businesses owners earn more than PKR 10 million, while 43% claim to earn an average income between PKR 6-10 million for the last three years. 37% of the business owners show earnings in the range of PKR 1-5 million annually (**Figure 5.6-e**).

Figure 5.6-e: Total Income



Source: Survey Findings

5.7 Indicative Business Requirements

The following table (**Table H**) lists the business equipment required by the businesses in the 'Dry-cleaning and Laundry Services' 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 and its size. 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.

Table H: Indicative Equipment Requirement	Cost PKR (per unit)
Dry Cleaning Machine	400,000
Washing Machine	150,000
Dryer Machine	180,000
Hydro Extractor Machine	90,000
Steam Press	200,000
Cotton Press	300,000
Sleeves and collar press	200,000
Steam Ironing	50,000



5.8 Financial Need Analysis

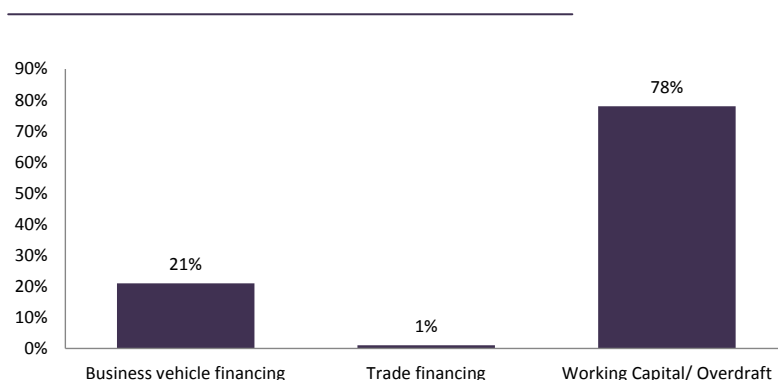
Almost all of the business owners are in charge of the business funds themselves in this sector. These funds are mainly required for working capital/overdraft while few of the business owners also require funds to finance business vehicle.

Amongst the business assets, machinery and equipment, followed by office equipment was required by the business owners with percentages resting at 78% and 19% respectively (**Figure 5.8-b**). As regards to segregation of business funding needs, 78% funding need was for working capital followed by business vehicle financing (21%) (**Figure 5.8-a**).

Amongst the working capital, the highest finance requirement requested by the businesses in this sector was for letter of credit facility to import raw material and RF/FAPC (Running Finance/Finance Against Packaging Credit).

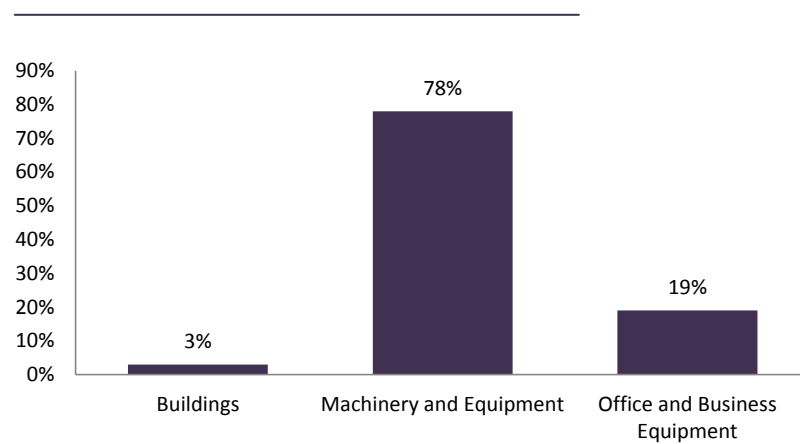
This segment shows less reliance on banks for their funding needs. More than half of the business owners use their own savings to fulfill their business funding requirements, while few of the businesses have desired to use banking credit to fund their business. Working capital financing to SMEs in this sector can further stimulate growth in 'Dry-cleaning and Laundry Services' segment.

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, but due to high interest rates, have been unable to use banks or do not avail loan products frequently for their business funding needs.

More than half of the business owners listed the key driver in choosing a certain bank being personal / family bank, providing customized loan products in terms of tenure, and flexibility in understanding borrowers needs. Most of the owners are not keen to propose any feature or product to be offered by the bank. Very few suggested loan with lesser mark up would be favourable for them and transfer of payment through internet.

Business owners who have never used a bank to fund their business cited high interest rates as the main reason for not using bank financing. Further religious reasons for majority of business owners also prevent them from using interest bearing loans from banks.

Other services such as cash management and money transfer facility are seen to be used by the businesses in this sector with percentages resting at 70% and 26% respectively. However only 4% of the businesses have shown interest to avail payroll services by banks.

76% respondents do not use any insurance products; the remaining have insurance for motor vehicles. 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, which is not very encouraging.

The sector consist of 32% 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 84% 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	68%
Term Deposits	22%
Loan Products	15%

5.10 Segment Risk Considerations

The sector is moderately less risky as compared to some of the other businesses operating in Pakistan in terms of business environment. The underlying reason is the easy access to the raw material and an easy business set up with simple infrastructure. However, some risks that pertain to the segment are discussed below.

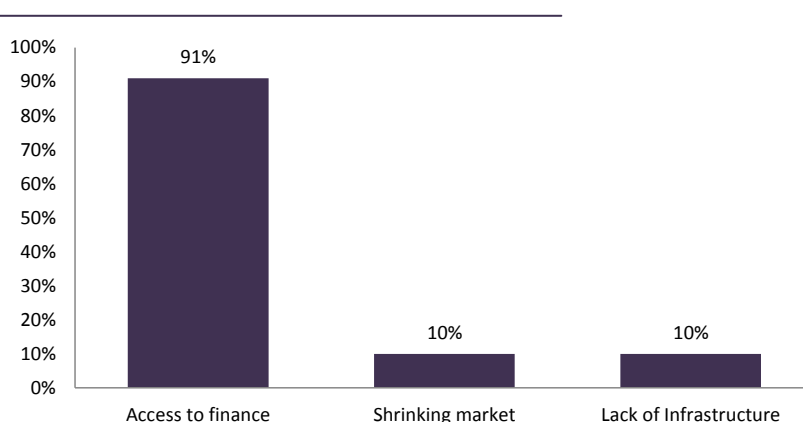
Businesses in the segment are largely individual proprietorships having this business as the only source of income. According to survey, more than half of the businesses in this sector listed credit risk of paying back their bank loan as their biggest risk to the business, followed by scarce raw material, by only 21%. Inflation is also considered as one of the primary risk by 19% of the business owners.

Almost all of the businesses (97%) address these risks through more capital investment (**Figure 5.10-b**), with 4% also investing in manpower training, which pertains to on job training to ensure quality services. Majority of the businesses operate from rented premises and so adds more stress on their cashflows.

All businesses in this sector claim to prepare financial statements with only 36% of the businesses having them audited. However, it is noteworthy that more than half of the businesses do not have their invoices printed to their customers with some of the businesses not even receiving any invoices from their suppliers. This may pose serious miscalculation in accounts and mismanagement in terms of cash movements.

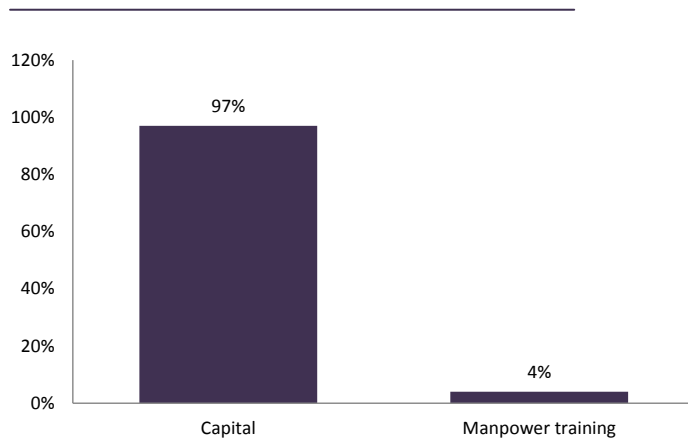
A large proportion of SMEs in the segment do not use banks to meet business funding needs and are not paying for any insurance products. One of the major restraint to business expansion (**Figure 5.10-a**) is lack of access to finance, by 91% of the businesses, which provides ample room for the banks to target these businesses.

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



Source: Survey Findings

Figure 5.10-b: How Business Risk Addressed



Source: Survey Findings

Following are the strengths and weaknesses inherent in this sector:

Strengths

- Imported raw material easily available in the local markets
- High capacity for increase in production
- High demand in urban areas
- Low initial capital
- Simple technology

Weaknesses

- Lack of educated staff
- Low professionalism
- Unorganized sector
- Low access to finance

Further, the risks inherent to the segment include:

- Uneven cash flows
- 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 business 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 economic growth of 'Dry-cleaning and Laundry Services' sector:

Asset Products:

- Working capital/overdraft Finance Facility
- Dry-Cleaning and machinery leasing
- Delivery Van Leasing
- Industrial Power Generator Leasing

Liability Products:

- Business Bank Account

Other products

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

Table I: Working capital/Overdraft Finance Facility	
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 1,000,000 • Maximum Limit - PKR 10,000,000 • 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 markup on quarterly basis, 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: Dry-Cleaning and Laundry 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 business expansion 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 intelligence • Disbursement directly made to pre-approved equipment and machinery vendors on behalf of borrower
Tenure	3 - 5 years
Loan Limit	<ul style="list-style-type: none"> • Minimum Limit - PKR 500,000 • Maximum Limit - PKR 10,000,000
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: Delivery Van Leasing	
Particular	Details
Down Payment	Minimum down payment of 20%
Salient Features	<ul style="list-style-type: none"> • Vehicle leasing will be provided to businesses with an operational history of 3 or more years • Loan amount will be directly transferred to authorized show rooms against vehicle invoices to borrowers
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 1,000,000 • Maximum Limit - PKR 10,000,000
Repayments & Withdrawals	Repayments will be based upon preset Equal Monthly Installments
Markup	As per prevailing KIBOR and spread
Insurance	Mandatory Insurance facility
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. Hypothecation of Vehicle till satisfactory repayment of the loan

Table L: 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 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	Bancassurance 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	Assessment of type of customers to take into account the total indebtedness of the borrower and his disposable income and should ensure that the total financing to a borrower does not exceed the reasonable limits as laid down in approved policies of the bank. Borrower should be in business of ' <i>Dry –cleaning and Laundry Services</i> ' segment for the past three years and hold a valid CNIC/smart NIC
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history, business premises ownership documents should be reviewed and be in name of the owner.
Credit worthiness	Credit worthiness of the borrower will be ascertained by collecting information from e-CIB and other banks operating in the region.
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.
Trade body membership	Business should be a member of the sector's trade body.

7 Distribution and Communication Considerations

SMEs in 'Dry-Cleaning and Laundry Services' are spread out mostly in the urban cities with very few in the rural areas of the country; therefore they can be reached and targeted in major clusters to promote banking products of 'Dry-cleaning and Laundry Services' segment in the urban cities.

7.1 Marketing Objectives of Banks

Following may be the marketing objectives of the financial institutions for building and promoting the brand image of SME Products for 'Dry-cleaning and Laundry Services':

The banks may:

- Create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of dry-cleaning and laundry service providers to avail banks' lending/financial products
- Increase direct interaction of Relationship Managers with dry-cleaning and laundry service providers to promote more direct and close interaction with the business owners and to assist small businesses in navigating difficult economic and business conditions

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:

- Organize promotional events in cluster locations or near businesses to build strong image of the bank among the target audiences.
- Conduct Workshops to provide more interaction to business owners with trade associations to enhance communication between them regarding industry specific issues

Banks can service this segment 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

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 process, which further increases growth. Banks' challenge is to improve and integrate their multiple distribution channels to consistently deliver an enhanced experience and foster better customer relationships. Top priority is placed in 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 '*Dry-cleaning and Laundry Service*' sector through its products on national basis in major cities of the country where dry-cleaning and laundry units are located. Initially the banks may provide financing facility in main urban areas/cities of the country and will subsequently penetrate into other small business markets after establishing strong presence in major cities.

Banks may adopt following conventional channels for distribution:

- **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 channel can also be adopted for distribution

- **Short Message Service (SMS):** Marketing team can send out mass messages in Urdu or English to '*Dry-cleaning and Laundry Services*' segment for advertising bank's products.