

‘Plastic Products’



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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 "Plastic Products" 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 '*Plastic Products*' 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 '*Plastic Products*' 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 Gujranwala, Karachi 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. Despite some businesses in this segment using banks as their source of funds, many are hesitant in approaching banks 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 a strong 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 sectors.

This research report contains findings pertaining to the segment of "*Plastic Products*" which includes plastic manufacturing units mostly scattered in the main cities such as Karachi, Lahore, Islamabad and Rawalpindi.

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.

The plastic processing units are spread all over Pakistan but the highest concentrations are mostly in the Punjab provinces, followed by Sindh. Raw material production in Pakistan is extremely low, and therefore they are mostly imported, making a large part of its manufacturing cost. This sector has great potential in growth and export as demand for plastic is increasing with time and age; therefore, this sector requires investment in its raw material production techniques to ensure local availability of raw materials. A better support from financial institution will guarantee high boom in its growth.

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 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 will now be 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 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

- 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 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 'Plastic Products' Industry Overview

Table C: Summary of Industry Overview

Factors	Comments
Demand	Demand for plastic is ever increasing, as with time and due to its many favorable qualities, plastic has managed to replace other materials such as wood, paper, ceramics and glass.
Supply	Raw materials for plastics are not locally made and so need to be imported which is mostly done from UAE and Far Eastern Countries. Pakistan is not the highest consumer of plastic but it comes after India.
Key players	Engi Plastic Industries, Mughal Plastic Industries, Lucky Plastic Industry, Engro Asahi Polymer and Chemicals Limited
Trade Body	Pakistan Plastic Manufacturers Association
Regulatory Body	Ministry of Industries
Recent Developments	Recent manufacturing trend shows that the local manufacturers of plastic use waste and scraps of plastic to produce finished products which violates many local and international laws
Future prospects	The plastic sector promises great growth potential as the local industry continues to develop, but the major issue that this industry faces is the mismanagement of plastic disposals, causing harm to the environment. Also, use of recycled plastic and importing plastic scrap poses serious threat to the health and benefit of the country.

4.1 Demand

The use of plastic is increasing all the time as they have replaced other materials like metal, wood, paper, ceramics and glass in a wide variety of uses due to its exceptional qualities such as high heat resistance, durability, light weight, and many more, which has placed it as one of the fastest emerging markets in Pakistan.



The leading markets for plastics are in packaging, building and construction and the automotive/transport industries, all of which have been generally buoyant. According to Pakistan Plastic Manufacturers Association, the industry is growing at an annual average growth of 17 percent and will continue to grow at a faster pace in years to come with current exports reaching USD 400 million¹.

Despite high demand for plastic due to its superior qualities, the industry still has not reached its full potential in Pakistan. Plastic industry has huge investment potential, which can lead to its high growth. The main area which requires attention is the absence of locally made dyes and molds and locally manufactured raw materials, which are imported. Skilled man power and training institutions are also of utmost need.

Overseas competition from more developing countries is having an impact on domestic demand, as cheap imports of relatively low added-value products are causing some parts of the world's plastics industry to restructure. This is carried out by setting up their manufacturing units in third world countries and have themselves import plastic products, as well as exporters of plastic raw materials, having double benefits.

4.2 Supply

The co-related industries of Plastic, Printing & Packaging have registered a phenomenal growth during the past few years where printing and graphic art industries are the second largest industries in terms of workforce in Pakistan.

However, for manufacturing of local plastic starting from CPU casings to monitors, from CDs and DVDs to keyboards, dustbins, milk jugs, lawn chairs, other furniture, etc; imported plastic waste in Pakistan is being used to manufacture



¹ <http://tdap.gov.pk/blog/2014/07/tdap-to-support-issues-of-pakistan-plastics-manufacturers-association-on-priority/>

The raw material of plastic industry is a product of crude oil called Naphtha and therefore is directly related to the prices of crude oil. Raw material production in Pakistan is extremely low and does not meet the required demand which results in import of raw material mostly from countries like UAE and far eastern countries, while special grade raw material is imported from Germany and USA. Further penetration of cheap Chinese products into Pakistan has made the competitive situation in the local plastic industry very intense. Local manufacturers have to import raw material, which is a substantive cost of their total products. Further with Chinese products available in the market in large variety and at affordable rates, survival has become challenging for the local industry.

Due to its useful qualities and uses in many processed goods, many sectors are dependent on the plastic industry such as

- Automobile Industry
- Agriculture
- Construction
- Home appliances & Electronics
- FMCG & Retail Chains
- Telecommunications



4.3 Key Players

The major key players of '*Plastic Products*' sector Engi Plastic Industries, Mughal Plastic Industries, Engro Asahi Polymer and Chemicals Limited and Lucky Plastic Industry

4.4 Trade Body

Pakistan Plastics Manufacturers Association – popularly known as PPMA was formed in the early 1970s in order to bring together the members of plastics processing industry under a single roof consisting of rapidly growing SMEs. The members of the association include raw material producers, processors, plastics machinery manufacturers, molds/dies makers, traders and importers/exporters of plastics raw material, finished and semi-finished goods.

² <http://archives.dailytimes.com.pk/business/15-Nov-2011/plastic-goods-manufacturing-sector-posts-mixed-results>

³ Ministry of International Trade and Industry-Chapter 14-Petrochemicals Industry

4.5 Recent Developments

Recent manufacturing activities shows that there has been rampant violation of laws and regulations, especially related to processing, manufacturing and recycling of hazardous plastic materials in the country. Significant numbers of local plastic manufacturers are using the plastic waste to produce finished plastic products and articles which shows not only the unlimited imports of plastic waste, but also the continuous violation of the import policy order.



Imported plastic scrap contains higher amount of contamination residuals, pest dumps, germs & infections, pesticides and food particles, including many other hazardous chemicals and additives. Many countries have totally banned such imports, or have taken strict measures to make sure that the imported plastic waste should be utilized only for the industrial consumption after proper cleaning and sanitization, as stated by the international plastic manufacturing standards. Unfortunately, this is not applied in Pakistan as usage of discarded plastic into making of every day products provides monetary benefits to the manufacturers. In October 2013, Pakistan imported around 2,200 metric tons of plastic scraps, 45% of which is imported from EU countries⁴ despite being banned to export such hazardous material to developing countries like Pakistan, which neither have proper recycling facilities nor strict government mechanism to control the menace of hazardous plastic scrap.

4.6 Future Developments

Plastic manufacturing sector has been largely ignored by the government and is faced by many issues. Besides the usual issues of electricity and law and order, which every sector is being greatly affected, plastic industry faces lack of investment in the establishment of hydro cracking plant which can ensure availability of cheap raw material for Pakistan's plastic industry.



According to Pakistan Plastic Manufacturing Association, major plastic sector investment is required in establishing Naphtha Cracker plants in Pakistan which produces plastic grains used as raw material for plastic manufacturing.

⁴ <http://www.dailytimes.com.pk/business/07-Nov-2013/2011-to-october-2013-92-000-tonnes-hazardous-plastic-scrap-dumped-in-pakistan>

If these issues are addressed by the government, the industry possesses huge export potential, especially engineering plastic goods, as they are expected to have good market prospects for exporters, such as the automotive and telecommunication industries.

4.7 Plastic Product Making Process

Raw materials for the plastic processing units come in the form of small hard granules or resins which are mostly imported from countries like China, Germany, UAE and far eastern countries. There are very few plastic manufacturers providing raw material to the local industry. These plastic granules are then melted in molten state at high temperature and shaped and dyed to the desired shape and size.

Following describes plastic bags making (

Figure 4.7-a):

High Speed Mixer: High density polyethylene chips are heated and mixed into a mass of molten plastic in high speed mixer. Dyeing pigments are added to give it the desired color.

Blown Film Making Machine: This molten material is then sent through a circular die, metal restrictor, to form a tube of plastic film. Air is blown through the tube to keep it inflated to prevent one part of the tube from sticking to another.

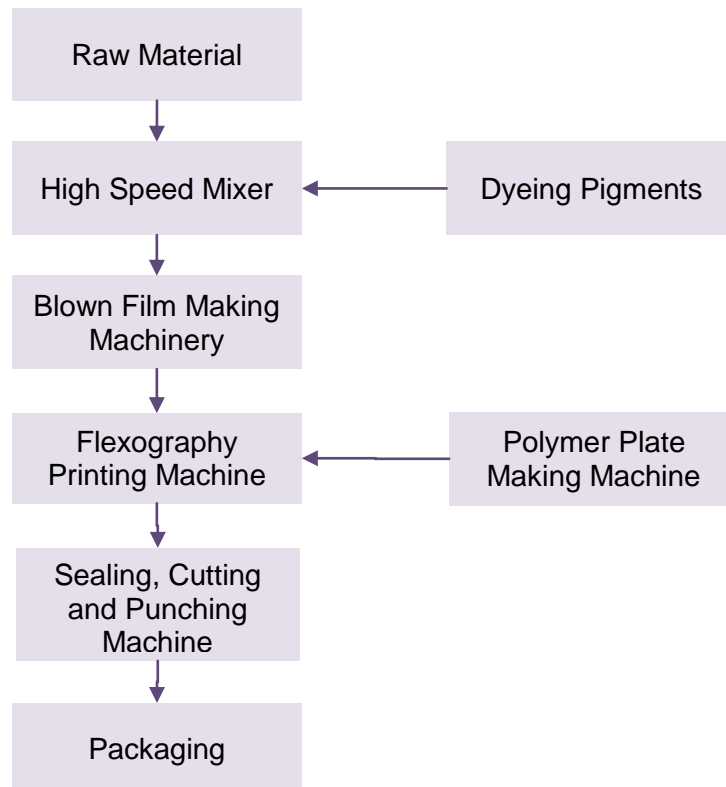
Polymer Plate Making Machine: The tube of plastic film is then cooled by air and wound onto the rolls.

Flexography Printing Machine: As required, each roll of film is fed into a flexography-printing machine, which prints the desired message on each bag.

Sealing, Cutting and Punching Machine: After printing, individual bags are formed by a machine, which simultaneously cut and seals one end of the bag.

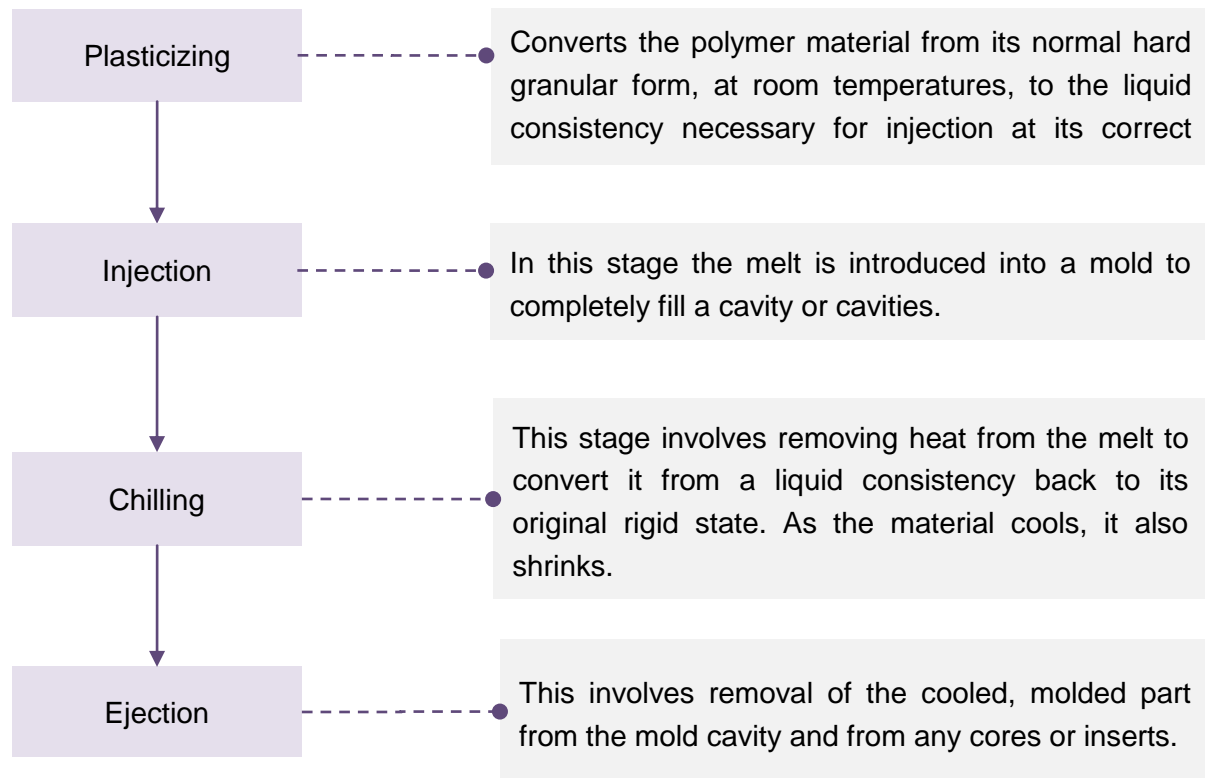


Figure 4.7-a: Plastic Product Making Process



Injection molding method (**Figure 4.7-b**) is most used method for the manufacturing of finished goods like water bottle, water buckets, toys, waste bins etc.

Figure 4.7-b: Injection molding method



4.8 Success and Survival of the Businesses in this Sector

From survey interviews (**Figure 4.8-a**), good relations with the suppliers and timely delivery of the finished goods, felt by 73% and 59% of the business owners respectively, was the major success factor for the businesses in this sector.

In order to survive as an SME (**Figure 4.8-b**), 89% of business owners believed that experience was the most essential element, followed by education by 88% of the business owners. However 46% of the business owners also felt that due to favorable government policies, their SME businesses managed to survive.

Figure 4.8-a: Indicators of Business Success

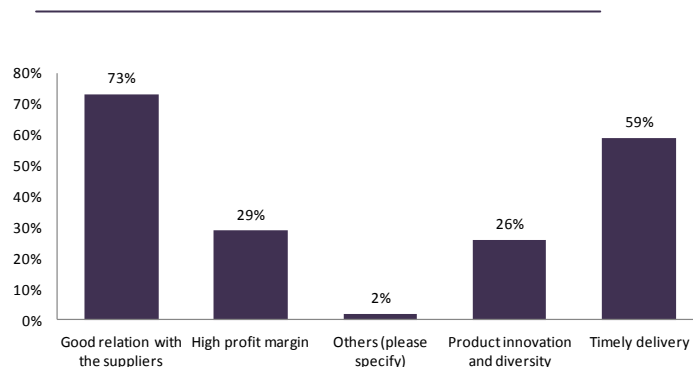
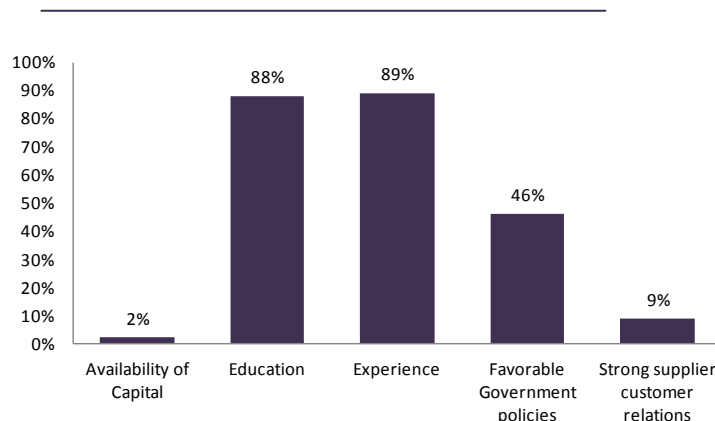


Figure 4.8-b: Key means of survival as an SME



Source: Survey Findings

5 Market Assessment

5.1 Market & Demographic Profile

This sector is mostly organized, established in the urban parts of the country. Most businesses are either family owned or self-established with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Inability to assemble and deploy intellectual, human and financial resources effectively
- 2) Restricted funding sources
- 3) Inability to identify and explore new ideas
- 4) Lack of Government initiatives and policies
- 5) Lack of technical institutions and skill development programs
- 6) Quality certification and testing facilities
- 7) Lack of updated technology

The '*Plastic Product*' segment includes plastic manufacturing units which are scattered in various parts of the country, while retail outlets are scattered all over the country with highest concentrations in the urban parts of the cities. Major cluster is found in Lahore followed by Karachi and Rawalpindi. There are very few plastic raw material manufacturers in the country, almost all present in Lahore only.

This sector has huge investment requirement, with greatest attention required in availability of locally made dyes and molds, which are imported and therefore restricted in design variation. Another important area where investments is necessary is in the establishment of Naphtha Cracker plants in Pakistan, which produces plastic grains used as raw material for plastic manufacturing.

5.1.1 Market Sizing and Lending Potential

As mentioned before the plastic manufacturing units in this sector are scattered in the main cities of the country. The following (**Table D**) are an estimated the clusters for '*Plastic Products*' Sector

Table D: Cluster Locations for '<i>Plastic Products</i>'	
Area	No. of establishments
Punjab	3,600
Sindh	1,800
Khyber Pakhtunkhwa	420
Baluchistan	180

of registered units.

Source: Trade Associations and Industry Sources



5.1.2 Segment Demographics

The segment is widely spread out across various regions in the country with highest concentration in the main cities like Karachi, Lahore and Gujranwala. Demographic information is obtained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan. Majority of the businesses in the survey have their supplies reaching Karachi (25%), Lahore (24%) and Gujranwala (25%), while 20% of the businesses have their customers all over the country (**Figure 5.1-b**).

47% of the businesses have been operating for more than 10 years while 27% have been established since 5 to 10 years (**Figure 5.1-a**).

Figure 5.1-a: Number of years in operation

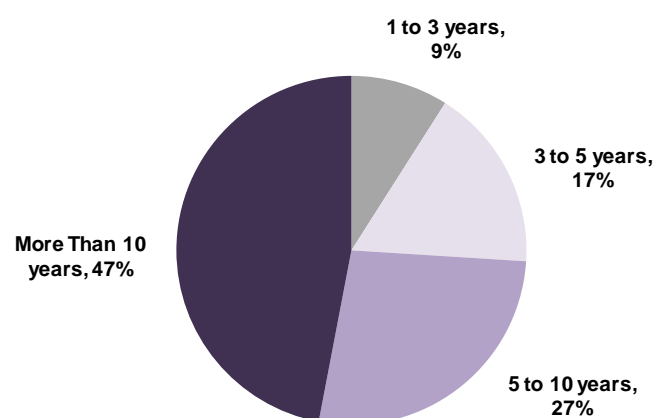
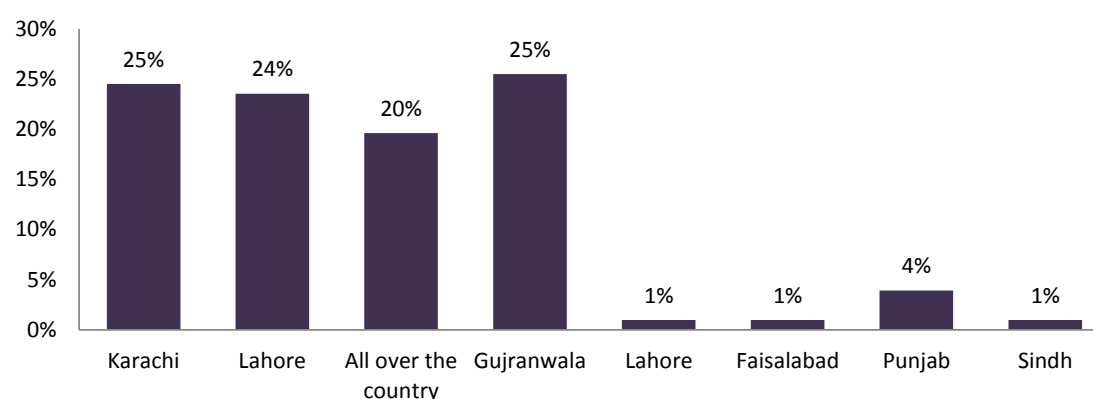


Figure 5.1-b: Customers' presence within the country



Source: Survey Findings

5.2 Owners Profile

The business owners consist mainly of people aged 31-40 years and 41-50 years, with the percentage of 47% and 42% respectively (**Figure 5.2-a**). They have been working for many years as most of the businesses are established for more than 10 years. This indicates that the business owners are well experienced in their industry. Due to the nature of their work, higher level of education is considered important for business owners, backing that fact, 77% of business owners have bachelor's degree (**Figure 5.2-b**). Predominantly businesses are run by families, preferring family members to undertake organizational functions. Size of the business varies, with 33% of the businesses having 24 to 50 employees, while 35% have employee strength between 10 to 24 (**Figure 5.2-d**). 72% of the businesses are established as sole proprietors (**Figure 5.2-c**).

Figure 5.2-b: Education level of business owners

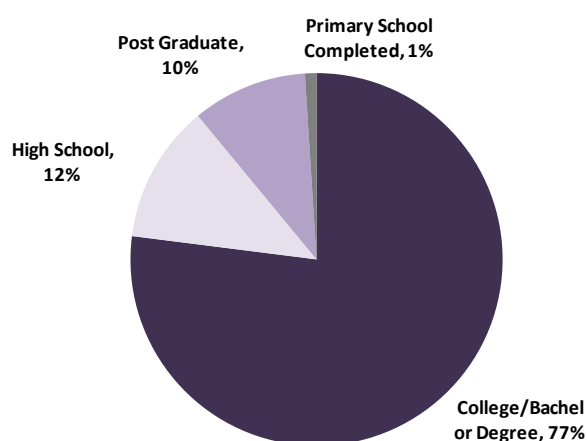


Figure 5.2-a: Age group of business owners

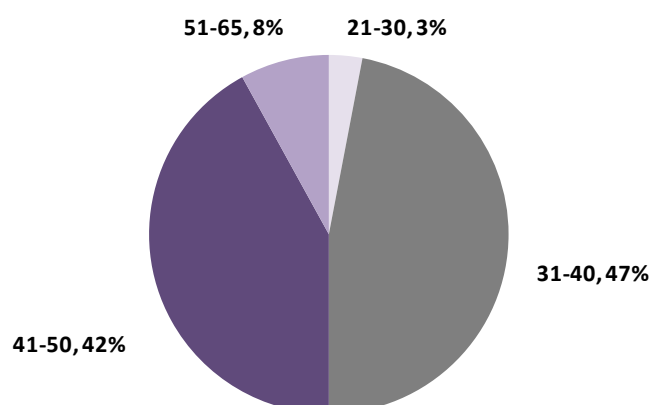


Figure 5.2-d: Number of employees under business owners

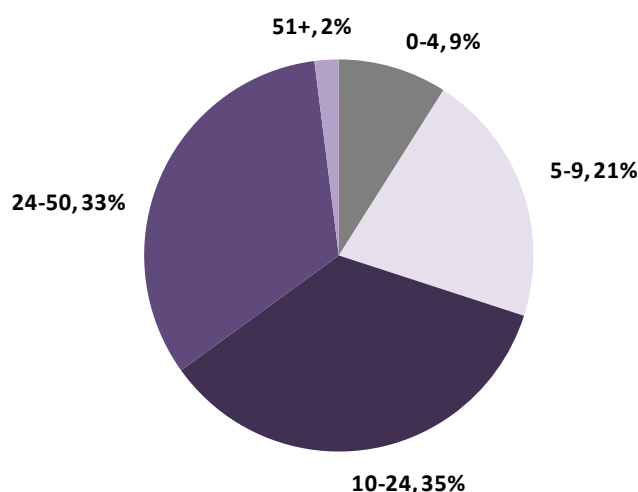
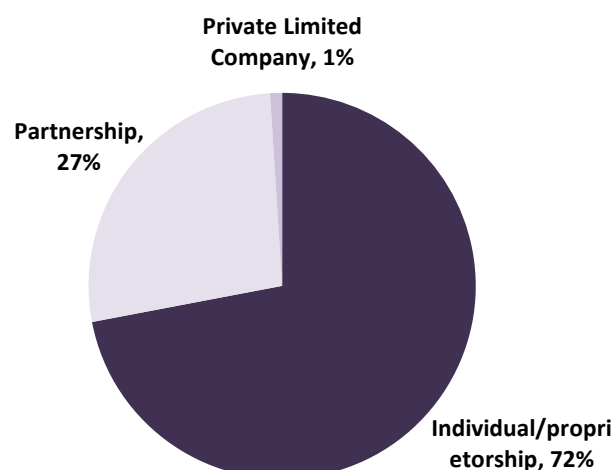


Figure 5.2-c: Ownership type



Source: Survey Findings

5.3 Business Linkages

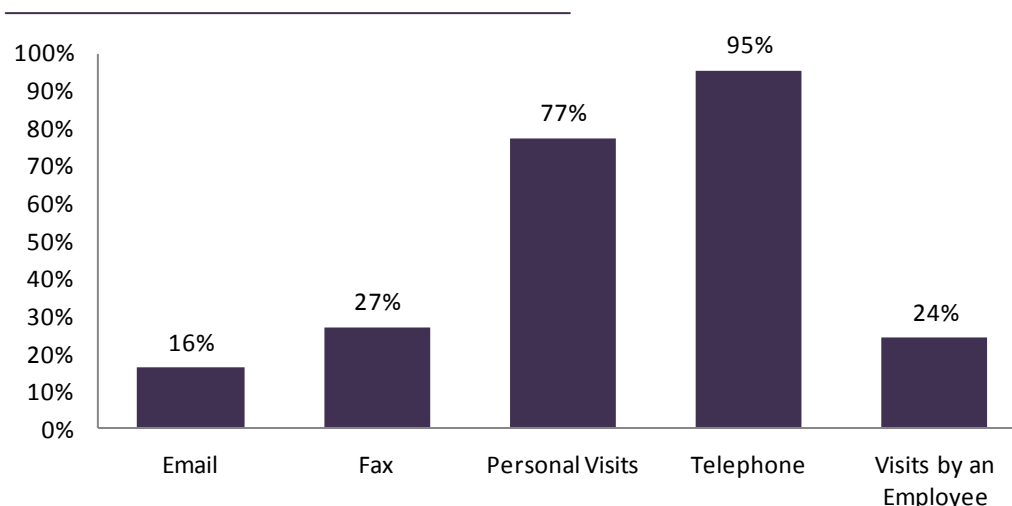
Businesses in this segment are connected to various institutions, which are directly or indirectly affected by the business operations, primary stakeholders and their interests are enlisted in the following table (**Table E**):

Table E: Stake Holders and Their Interests

Plastic Products	
Stakeholder	Interest
Owners	Growth, government initiative and access to finance
Suppliers (importing raw material)	Better terms, increased supply and favorable import policies of raw materials, consistent pricing and lower risk
Customers	Product quality and reasonable pricing
Financial Institutions	Debt servicing, new products, increase in deposits, lending products
Government	Economic growth and benefit to community at large

Businesses employ various mediums as means of communication with their customers (**Figure 5.3-a**) however; personal visits by customers and telephone are widely utilized, with percentages being 77% and 95% respectively. This sector is highly competitive with more than half of the businesses in this survey serving 51-100 customers monthly. Most of the local customers include number of plastic dependent sectors with auto motor parts manufacturers being the largest consumers.

Figure 5.3-a: Communication with customers



Source: Survey Findings

Major supplies for this sector for Plastic manufacturing units include (**Table F**):

Table F: 'Plastic Products'

Naphtha
Recycled plastics products
Plastic Resins / granules
Dyes



Most of the business owners (57%) rely on many suppliers, while 22% are not consistent with their suppliers to meet their business needs (**Figure 5.3-b**), which pose a concern on lack of strong and long term relationship with their suppliers. 18% of the business owners however rely on the same suppliers for years for their raw material needs while only 3% feel the need of new suppliers for better quality of raw materials.

60% of businesses depend on more than five suppliers (**Figure 5.3-c**) to meet their raw material requirements, which lessen their risk of unavailability of raw material needs considering the lower domestic production and high dependency on imports.

Figure 5.3-c: Number of Suppliers

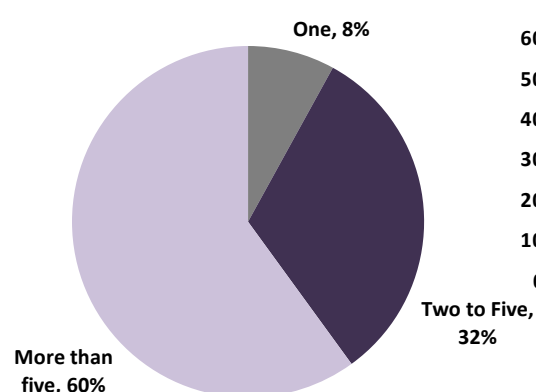
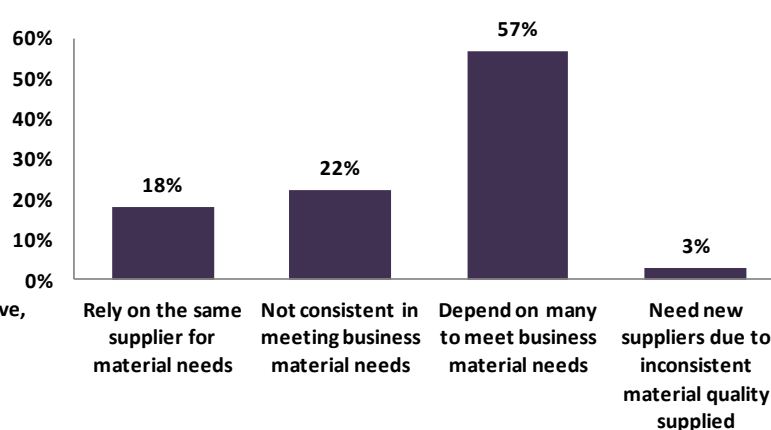


Figure 5.3-b: Supplier Relationship



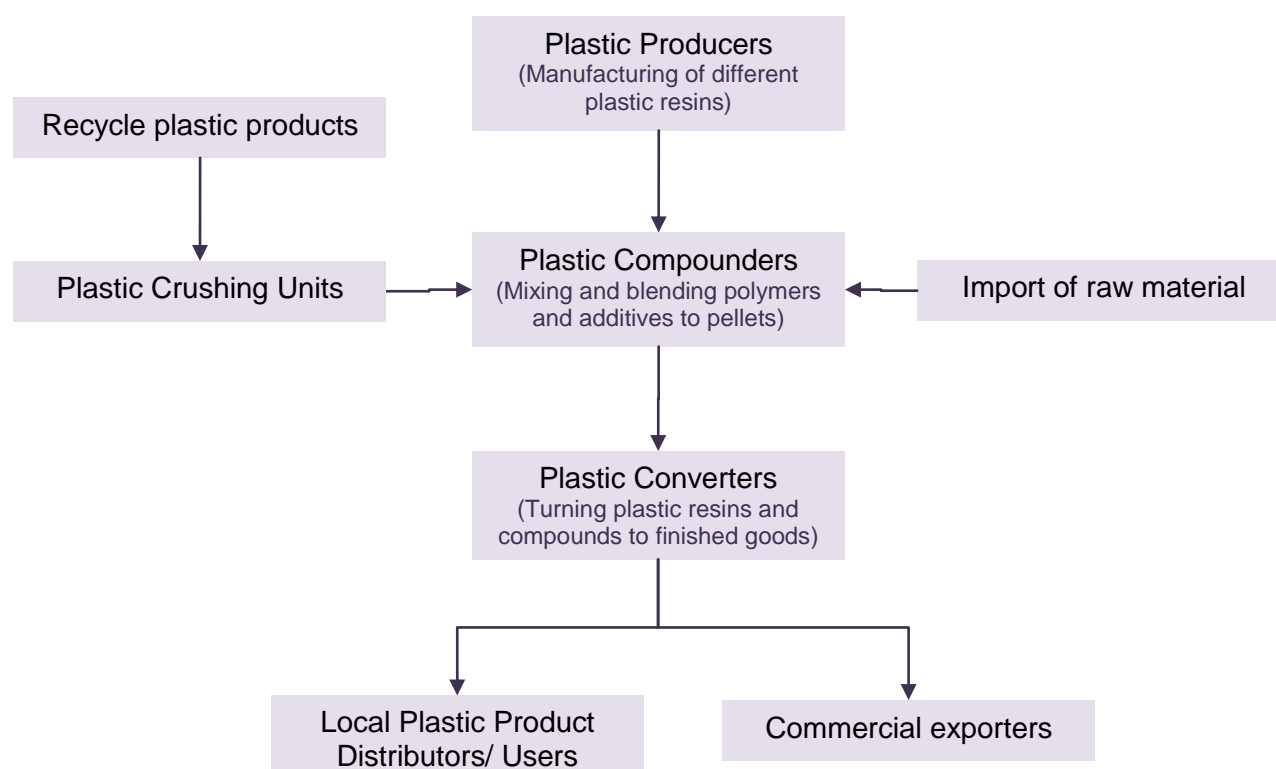
Source: Survey Findings

5.4 Business Cycle

This sector is not seasonal but like other sectors in SMEs, it gets affected by the political situation in the country and electricity crises. Pakistan does not process raw material for plastic manufacturing, with exception of very few processing units, and therefore they have to import raw material from UAE, Germany, USA, China etc. which makes a large part of their cost of production.

The businesses do not experience cyclical trends as such. However; sales are slightly affected during the winter season as there is less demand of plastic for the synthetic bags for packaging of urea, cotton and yarn.

Figure 5.4-a: Business Model



To enjoy the monetary benefit, it has become a practice of using used and recycled plastics to make plastic products which thus reduces the cost of product manufacturing. There are more than 400 plastic recycling and crushing units working in Karachi alone. These factories usually import all kinds of discarded plastics from UAE, which are then crushed and transformed into granules and washed with different toxic chemicals. These granules are then sold at very cheap rates in the local wholesale markets. A large number of small factories, mostly operational in slum areas, purchase these plastic materials to manufacture a range of plastic products.

5.4.1 Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in plastic product sector operate by processing various uncountable plastic products for different industries like auto parts manufacturers, printing and packaging, etc.

This segment works mainly on credit basis for their raw material supplies of plastic granules, with only 28% of suppliers providing them no credit (**Figure 5.4-b**). However, the remaining 72% of the businesses buy supplies on credit, with 32% of suppliers allowing up to one month repayment time. For few businesses (5%), credit terms are up to four months.

Repayment terms offered to customers is mostly one month, by 68% of the businesses interviewed, but for 16% of businesses the receivables are paid after three months (**Figure 5.4-c**).

The repayment period provided by the suppliers is more or less consistent with the repayment period given to customers. This helps the business owners in dealing with their payments to suppliers.

Figure 5.4-b: Repayment terms offered by Suppliers

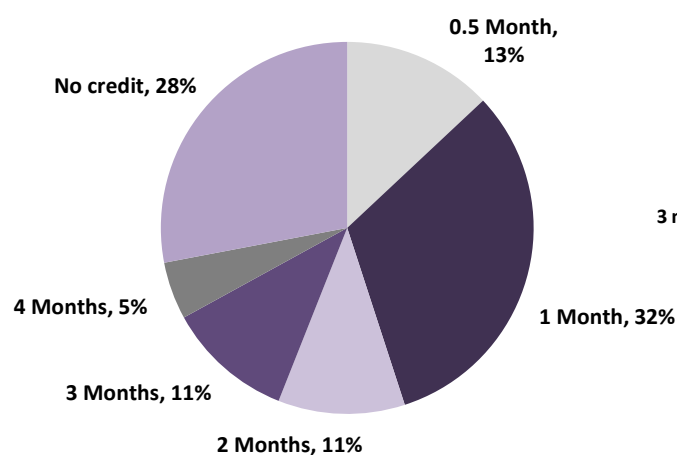
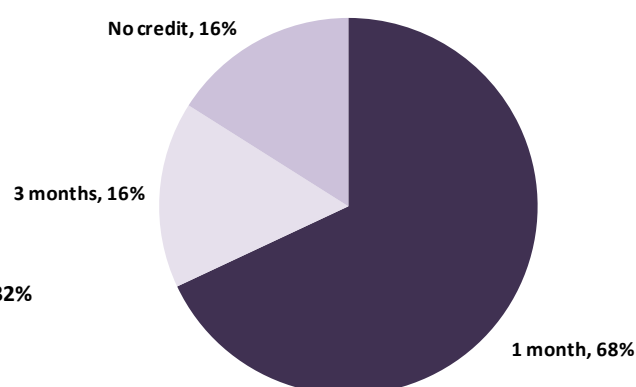


Figure 5.4-c: Repayment terms offered for Customers



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 have their financial statements audited.

Some of business owners/managers keep track of accounts themselves while almost half of the owners have accountants to manage their funds. Higher level of education is prevalent in this sector and so owners seem to have accounting knowledge and experience which ensures to some extent that they are able to prepare reliable Financial Statement and keep a good and organized track of their cash movement.

From primary research and interviews conducted from trade associations, it has been identified that retail margins are variable, which in recent years have been rising. The imports for raw material and depreciating local currency adds on to most of the cost in finished goods production, and so a great number of businesses rely not only on higher sales volume for earning better profits but also struggles for higher investments, which is required for plastic raw material manufacturing.

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 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.

Financial Information	PKR
Business Assets	23,560,000
Total Revenue	100,000,000
Annual Expense	85,000,000
Total Income	11,000,000
Key Financial Ratios	
Profit Margin	11%
Operating Expenses/ Revenue	85%
Asset turnover	4.24 times
ROA	46.7%

Table G: Sector Financials Snapshot

Conclusively; it can be said that many businesses in this sector has a high asset turnover which is very favourable but expenses are also excessively high, which reduces net income of the businesses. This may pertain to out dated equipments and plastic moulds purchases.

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 72% of businesses operating with total assets between PKR 10-50 million, exhibiting a relatively high initial investment for startup (**Figure 5.6-b**). Total assets comprise of plant and machinery, land and building, trade receivables. Liabilities constitute trade payables and borrowing for plant & machinery and vehicles.

Business related assets constitute manufacturing equipment and specialized machinery for plastic. 84% of the business owners in the plastic product sectors incurred capital expenditure in the past five years which is relatively high compared to other sectors (**Figure 5.6-a**).

Figure 5.6-b: Business Assets

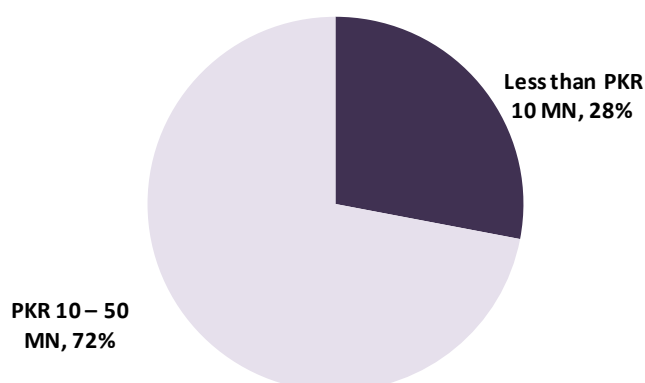
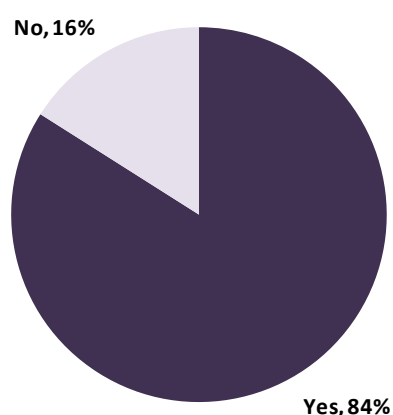


Figure 5.6-a: Capital Expenditure



Source: Survey Findings

Annual average revenue for 50% of the businesses is between PKR 10-50 million while 44% have claimed to earn more than PKR 100 million on average (**Figure 5.6-c**). Expenses primarily represent raw material costs which are on average between PKR 10-50 million for half of the businesses, while 40% claim to have expenses of more than PKR 100 million (**Figure 5.6-d**).

Figure 5.6-c: Total Revenue

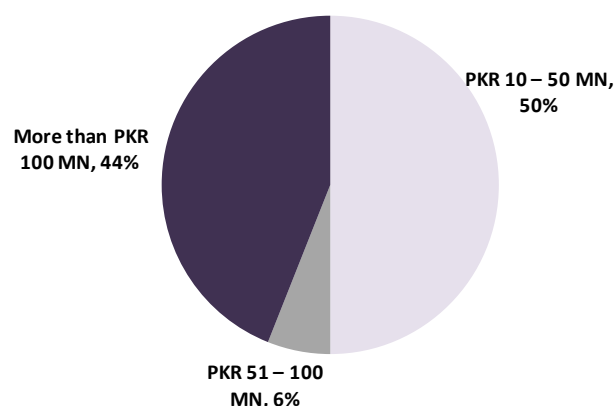
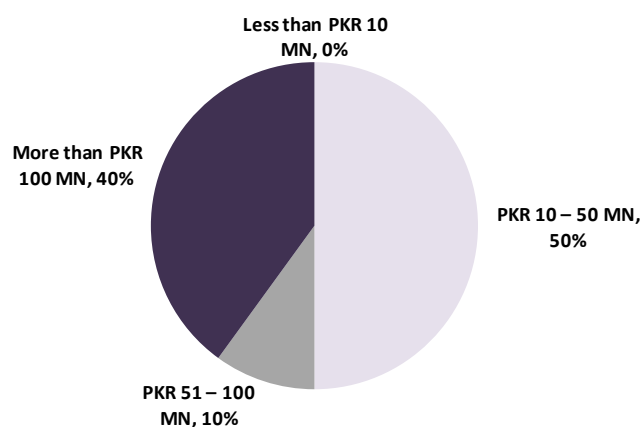


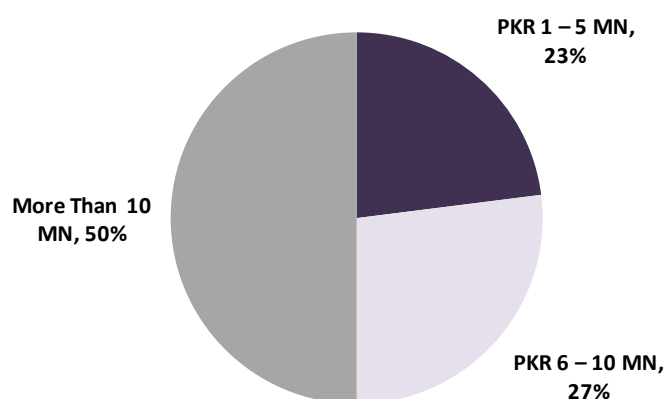
Figure 5.6-d: Annual Expense



Source: Survey Findings

Half of the business owners earn more than PKR 10 million, while 27% claim to earn between PKR 6 - 10 million for the last three years. Only 23% of the business owners' show earnings between PKR 1-5 million. (**Figure 5.6-e**)

Figure 5.6-e: Total Income



Source: Survey Findings

5.7 Indicative Business Requirements

Plastic manufacturing products include variety of finished goods therefore it does not have same manufacturing process and machine requirements. Furthermore, individual business owners will have distinctive requirements as per their business needs. The table below (**Table H**) is neither comprehensive nor specific and presented only to provide an indication as to the typical requirement for common set up of plastic product manufacturing units in Pakistan and the expansion needs of a small sized business within this segment. The following table mostly covers the plastic manufacturing for packaging industry and injection molding technique for plastic utensils as these items have the largest demand in the industry.

Table H: Indicative Equipment Requirement	Cost PKR
High Speed Mixer	490,000 – 9,000,000
Die blown film making machine	700,000 – 5,000,000
Flexography printing machine	20,000,000
Polymer plate making machine	200,000 – 1,000,000
Vest-type bag making machine (Sealing, Cutting, and Punching Machine)	500,000 – 2,000,000
Injection molding machine	500,000 – 30,000,000

It is noteworthy that due to the variety of finished goods which ranges from small bottle caps to auto parts manufacturing, the kind of machinery used, its size and its related prices vary hugely as shown in the above table. Further, above mentioned table only presents an indication of the machinery prices that the businesses may use.



5.8 Financial Need Analysis

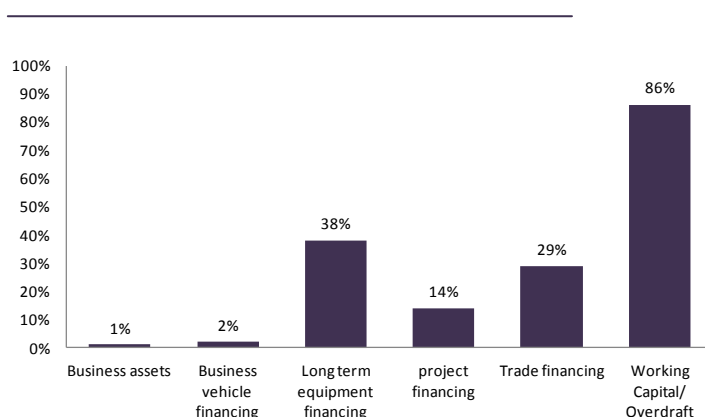
Funds are managed by the owners themselves or by accountants with percentages resting at 36% and 46% respectively. Working capital requirements are mostly fulfilled by business owners' personal savings by 49% of the businesses, while 38% of the funding needs are fulfilled by banks.

Funding needs pertain to capital overdraft by 86% of the business owners covered in the survey, while 38% require long term equipment financing (**Figure 5.8-a**). Amongst fixed assets, the highest need was placed on machinery and equipment (92%) while 66% mentioned building (**Figure 5.8-b**).

Business owners in this sector face issues in import of raw material to their manufacturing units. Therefore, businesses incur risk of having raw material prices being volatile due to currency depreciation and inconsistent supplies as they are dependent on import export policies.

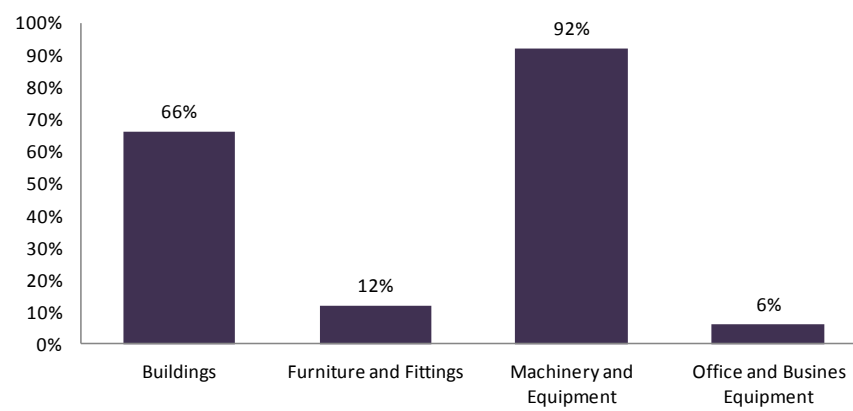
This segment shows a strong reliance on banks for their funding needs. Almost 40% of the businesses use banks to fulfill their business funding requirement with half of the business using their own savings. More than half of the businesses operate from owned premises thus saving rent payments.

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

Owners are mostly unaware of any SME specific efforts made by the Government of Pakistan; however, some business owners are receptive to potential loan products offered by banks and have also availed the facility of loan products for business funding needs.

A large number of business owners use banks to meet banking and business needs, availing the facility of business banking accounts, but the owners are not keen to propose any feature or product to be offered by the bank except few that would like to have their payments transferred via internet.

Around 38% of the businesses in the survey are funded by Banks which is comparatively encouraging. The remaining business owners cited high interest rates and lack of complete documents for availing funds as the main reason for not using banks.

In addition to that, it is also observed that other services such as cash management, money transfer, and payroll are encouraged by the segment. Majority of the businesses show an intent to avail cash management/collection services, the percentage resting at 54% whereas money transfer facility are desired by 46%, only 3% showed interest in payroll services. 48% of the businesses do not avail any insurance, while others mostly have insurance for medical aid (34%), motor vehicle (11%) and legal expenses insurance (14%). None of the business owners are interested in availing any insurance product in future as they prefer to avail such products directly from insurance companies.

The sector consists of only 1% of the businesses who avail advisory services and pay for it. 52% of the business owners avail advisory services with majority from their family members, business colleagues, some also seek association for non-professional advisory with lawyers and professional advisors, with 88% being satisfied with their current source of advisory services. Only 2% of the business owners are willingly to pay for such services (if provided) by the banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	70%
Term Deposits	40%
Loan Products	26%

5.10 Segment Risk Considerations

Major issue related to this sector is related to the production cost incurred by the plastic product manufacturers. The underlying reason is the country's need to import raw material from other countries, which makes up a large percentage to the total cost of the finished goods processed. Other risks that pertain to the segment are discussed below:

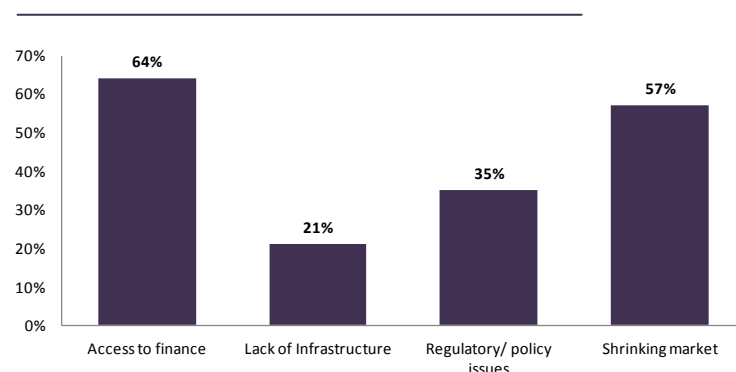
Businesses in the segment are largely individual proprietors, having this business as the only source of income. The sector mostly listed non-repayment of loans taken from banks as their biggest risk to the business, followed by scarce raw material, with the percentage resting at 61% and 53% respectively.

All businesses in the sector prepare Financial Statements but few businesses have them audited. The analysis also demonstrates that the segment operates in a highly competitive market with more than half of the businesses having more than ten competitors. Some businesses are not consistent in meeting their raw material needs by any particular supplier which indicates that raw material needs are not met with ease.

82% of the businesses address business risk through more capital investment, followed by manpower training and reduction in profit by 49% and 35% of the business owners respectively (**Figure 5.10-a**). Some do however, also focus on product innovation/cost reduction with percentage being 22%.

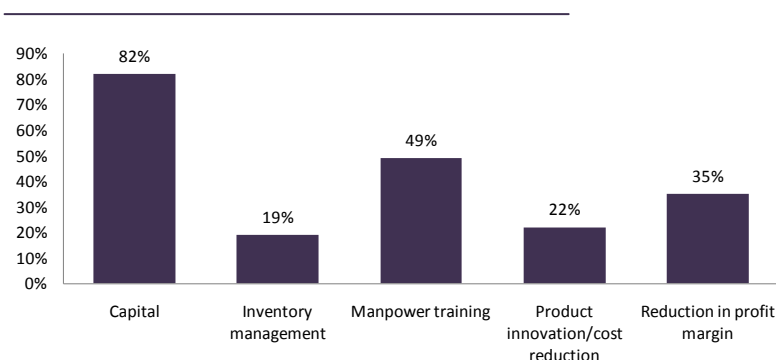
A large proportion of SMEs in the segment do not use banks to meet business funding needs and are not paying for any insurance products. Many business owners have mentioned low quality and strict regulation as the major problems in exporting their products, with their contributing percentages being 46% and 33% respectively. Majority of the businesses (64%) listed lack of access to finance as their major hindrance to business growth (**Figure 5.10-a**).

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 demand from both low-end and high-end segments
- Good cash flows
- Easy availability of low cost labor

Weaknesses

- Unorganized and scattered industry
- Manufacturers dependent on imported raw materials
- Lack of research and development efforts, therefore traditional designs and less innovation
- Low quality
- Lack of local dyes and molds available

Further, the risks inherent to the segment include:

- Limited resources for expansion
- Business uncertainty due to changing import and export policies
- Unaudited financial statements
- Lack of succession planning

Possible Mitigating Factors:

- Lending only to those businesses which have been operating for more than five years
- Proposing products to business with a verifiable banking history of more than two years
- Review of accounts and register of invoices
- Review of ownership documents of business premises
- Review to export and import registration documents

6 Proposed Banking Product Suite

6.1 Product Features

Based on our primary and secondary research we propose the following growth of '*Plastic Products*' sector:

Asset Products:

- Working capital/overdraft Finance Facility
- Plastic processing machinery leasing
- Bill Discounting Facility
- Industrial Power Generator Leasing

Liability Products:

- Business Bank Account/Current 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 100,000,000 • 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: Plastic Processing Machinery Leasing	
Particular	Details
Initial deposit	Minimum initial deposit of PKR 50,000
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 <p>Credit facility will be offered directly through pre-approved equipment and machinery vendors</p>
Tenure	3 - 5 years
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 2,000,000 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 preset 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: Bill Discounting Facility	
Particular	Details
Indicative Tenure	3 years
Loan Limit	<ul style="list-style-type: none"> • Minimum Limit - PKR 1,000,000 • Maximum Limit - PKR 5,000,000 • Minimum and maximum loan limits are reviewed annually <p>Loan limit will not exceed more than six months of sales to approved vendors determined over a period of last three years. More than 50% of sales of business have to be under contract to approved vendors.</p>
Documentation	Detailed documentation
Approval	Approved on basis of business proposal and RMG guidelines
Collateral	Sales Invoice payments deposited directly to Bank
Markup	As per prevailing KIBOR and spread
Penalty	No early repayment penalty will be imposed on the borrower
Hidden Charges	No hidden charges
Insurance	Mandatory insurance as per SBP guidelines

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	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>Plastic Products</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 '*Plastic Products*' are spread out in urban cities of the country; therefore they can be reached and targeted in major clusters to promote banking products of plastic processing sector in the urban cities.

7.1 Marketing Objectives of Banks

Marketing objectives for building and promoting the brand image of SME Products for '*Plastic Products*' sector are as follows:

The banks may:

- Work closely with the plastic industry associations, generate better understanding of the sector
- Educate the plastic product processors, create awareness for banking products in the identified market regions
- Develop strategies to attract a large number of plastic product processors to avail banks' lending/financial products
- Increase direct interaction of Relationship Managers with plastic product processors to promote more direct and close communication with the business owners to small businesses in navigating difficult economic and business conditions
- Provide sponsorships for trade fairs and exhibitions which link the promotion of bank's brand image with exposure and building awareness of SME businesses products 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 coordination with Pakistan Plastic Manufacturers 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 process, which further increases growth. Banks' challenge is to improve and integrate their multiple distribution channels to provide them better service and foster better customer relationships. Top priority is placed in attracting and retaining customers within and across these channels.

To reach larger target market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of plastic product sector through its products on national basis in particularly in major cities where plastic processing units are located. Initially the banks may provide financing facility in larger cities but later they should penetrate into other small business markets.

Banks may adopt following conventional channels for distribution:

- **Branches:** Establishment of lending branches in plastic product 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 '*Plastic Products*' segment for advertising bank's products