


IFC Advisory Service in the Middle East and North Africa

# Other Food Products- Baker and Other Confectionary Products



In partnership with: Canada, Denmark, Netherlands, Islamic Development Bank, Switzerland, United Kingdom and the United States.



IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private segment development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments. This report was commissioned by IFC through its Bank Advisory Services program which, helps build capacities of commercial banks to provide banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner.

© International Finance Corporation 2011. All rights reserved.  
2121 Pennsylvania Avenue, N.W.  
Washington, D.C. 20433  
Internet: [www.ifc.org](http://www.ifc.org)

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC does not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties named herein.

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC's Corporate Relations Department, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433.

International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos and trademarks are the property of IFC and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

## **Acknowledgements**

This segment booklet has been developed jointly by International Finance Corporation (IFC) and State Bank of Pakistan (SBP). We would particularly like to thank Kamran Hafeez (Partner, Head of Advisory Services) Anjum Asim Shahid Rahman (member firm of Grant Thornton International), who were commissioned by IFC to conduct this market research. Anjum Asim Shahid Rahman (AASR) is a leading firm of chartered accountants and management consultants committed to providing the highest quality of professional services in accounting, auditing, taxation and financial services consultancy.

The project was conceived and implemented by IFC's Bank Advisory Services team, in partnership with State Bank of Pakistan (SBP) and in consultation with several major banks in Pakistan. Bank Advisory Services program, builds the capacities of commercial banks to provide banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner. Particularly, IFC works to increase the volume of SME lending, the number of banks with SME banking operations, and the number of businesses that have access to banking services.

SBP's SME Finance Department provided critical facilitation and oversight for this initiative. State Bank of Pakistan is the Central Bank of the country. Like a Central Bank in any developing country, State Bank of Pakistan performs both the traditional and developmental functions to achieve macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also to assist the process of economic growth and promote the fuller utilization of a country's resources.



Contents	Page No.
1. Guidelines	1
2. Introduction & Objectives	2
3. Economic Overview	5
4. Market Industry Overview	5
5. Market Assessment	6
5.1 Market & Demographic Profile	6
5.2 Owner Profile	9
5.3 Business Linkages	9
5.4 Business Cycle	10
5.5 Financial Assessment & Profile	11
5.6 Financial Information	12
5.7 Indicative Business Requirements	13
5.8 Financial Needs Analysis	14
5.9 Usage of Banking Products	15
5.10 Segment Risk Considerations	15
6. Proposed Banking Product Suite	16
6.1 Product Features	16
6.2 Eligibility Criteria for Asset Products	17
7. Distribution and Communication Considerations	17

## 1. Guidelines

This segment booklet provides indicative business and financial characteristics based on the information evidenced from a sample of business owners via primary research survey. It can be used by banks 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 overview of the Other Food Products Baker and Other Confectionary Products Industry is developed using information obtained from secondary and tertiary sources including, industry associations and data available in public domain.

### **Segment Assessment**

The section contains analysis based on primary findings of survey exercise conducted in major cities of Pakistan; the information can form the basis of identifying the characteristics of atypical business entity in the segment.

### **Product Suite**

Proposed banking product suite provides a number of potential core banking products templates that can be used by banks 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 highly 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. The methodology, questionnaire, sampling plans and results tables from this study are available with IFC for further reference.

### **Marketing and Distribution**

Market 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

Small and Medium Enterprises (SMEs) account for approximately 70% of businesses in Pakistan and play a major role in spurring economic activity with a contribution amounting to 78% of non-agriculture GDP of Pakistan, as per State Bank of Pakistan. However, the sector 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 to bank

The SME sector presents 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 the SME sector.

In this context, International Finance Corporation (IFC) in partnership with State Bank of Pakistan (SBP) and in consultation with several major banks have conducted a secondary research and a primary survey of the SME businesses within the top ten SME sectors / subsectors of Pakistan to determine banking and financial needs of the sector.

This booklet contains the findings pertaining to the manufacturing and services segment of “*Other Food Products - Baker and Other Confectionary Products*” which include the following:

- Preparation and supply of Bakery and Confectionary items
- Sale of Bakery items through own interface/shop

At present, the Other food product segment in Pakistan is relatively less organized with sales primarily generated via shops/premises with limited financial and banking history.

The Other food product segment is largely dispersed



with limited exposure to financial institutions. However, demand for this segment is expected to increase substantially, given strong historical sales and increase in population although some business owners face the threat of decline due to increasing influx of large confectionery companies making inroad into the same segment.

## Sampling Plan

In total, interviews with 34 SME owners were conducted for *Other Food Products Baker and Other Confectionary Products* segment. The locations and classification of these SMEs are covered in Section 5.1 of this booklet under 'Segment Demographic'. Number of employees under this segment is covered

in section 5.2 'Owners Profile'.

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

Particular	Criteria	Rationale
Size	<ul style="list-style-type: none"> <li>250 detailed one on one interviews for 10 sub-sectors</li> <li>25 SMEs surveyed within each sub sector.</li> </ul>	<ul style="list-style-type: none"> <li>Sample size is sufficient enough to gather relevant qualitative and quantitative information on each sub sector</li> <li>Increase in the sample size will only add marginal value to the overall information collected from the survey exercise</li> <li><b>Change of Definition of SME by SBP</b> SBP is planning to revise their classification criteria for Small enterprises as compared with Medium enterprises within the new draft prudential regulations being proposed for regulating banking services to the SME segment</li> <li>Small enterprises would be defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 MN</li> <li>Medium enterprises would be businesses with more than 20 employees and turnover in excess of PKR 75 MN for the purpose of classification and segmentation by banks</li> <li>For the purpose of this research the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150MN which would be approximately double in size with the small entities as per new definition</li> </ul>
Particular	Criteria	Rationale
Status	<ul style="list-style-type: none"> <li>At least 60% will be informal businesses</li> <li>At least 20% will be formal businesses</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>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 businesses enterprises within the same industry sector</li> <li>Moreover Small businesses have been assumed to have a maximum financing need of up to PKR 15 MN, which may not compel banks to require audited financial statements and advanced cash flow models. A basic system of book keeping and accounting will suffice for them to be able to qualify for a structured lending product.</li> <li>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</li> <li>Including the above gives us a fair representation of businesses 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 are using banks for only holding their business operating accounts</li> <li>Formal businesses have more structured requirements that those who use banks only for products such as fund transfers</li> </ul>





Particular	Crietaria	Rationale
Turnover	<ul style="list-style-type: none"> <li>At least 60% with turnover less than average PKR 75 MN</li> <li>At least 20% with turnover more than average PKR 75 MN</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>
Employees	<ul style="list-style-type: none"> <li>At least 60% will have less than 20 employees</li> <li>At least 20% will have more than 20 employees</li> </ul>	<ul style="list-style-type: none"> <li>SMEs that are not in the manufacturing sector are relatively understaffed owing to the small size of their business and ease of management</li> <li>Moreover businesses that have more than 20 employees will now be classified as medium sized hence we have covered a small portion of such entities as well</li> </ul>
Particular	Crietaria	Rationale
Banking history	<ul style="list-style-type: none"> <li>At least 80% with banking history</li> <li>At least 5% with no banking history</li> </ul>	<ul style="list-style-type: none"> <li>As per SBP prudential regulations any business operated by an individual, but meets the classification criteria of the regulations will be termed under SME</li> <li>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)</li> <li>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</li> <li>However, a very small portion of the market is totally un-banked which is also touched during our survey to understand their reasons for not banking and fulfilling their needs for financial services through other, more expensive, informal channels</li> </ul>



### 3. Economic Overview

Pakistan's economy has shown resilience against shocks of high intensity which include domestic factors such as political uncertainty, security situation and international financial crisis, in addition to an unprecedented rise in food and energy prices. As per the Economic Survey of Pakistan, macroeconomic stability has been attained over the past two years leading to moderate recovery in the economy, despite one of the most serious economic crises in the country's recent history. The economy grew by 4% in FY2010, after a modest growth of 1.2% in FY 2008-09.

Indicator	Economic Considerations
Positives	Heavily populated, (over 170MN people) translating into strong future potential for improvement in purchasing power, leading to growth in consumer related segments
	Structural reforms have accelerated economic growth with strong momentum of real GDP growth of 7.0% from FY03 to FY08, although this is unlikely to be attained over the next few years due to economic slowdown and political uncertainty
	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.
Challenges	Low level of foreign reserves, thereby enhanced vulnerability to external shocks
	Heavily dependent on funding from multilateral institutions and bilateral partners
	Despite rapid economic growth in recent years, poor per capita income just USD 1046
	Balance of payments portrays a bleak picture in light of rising oil prices, with oil imports of more than 50 MN barrels per year for catering local demand for fuel products

### 4. Industry Overview

#### Sub Segment Overview

Factors	Comments
Demand	The industry is steadily growing and does not seem to be largely affected by the economic downturn over the last couple of years. Traditional occasions such as Religious and Wedding seasons result in significant increase in overall sales
Supply	Due to increase in raw material prices, the industry is currently working below its capacity. Instability in raw material prices leads to fluctuation in selling prices which in turn affects the industry
key players	Some of the leading bakers in Pakistan include Gourmet bakers, Nirala sweets, Ideal Bakers and Hobnob Leading Confectioners include EBM (English Biscuit Manufacturers (Private Limited), Coronet Foods (Private) Ltd, Continental Biscuits (LU)
Trade Body	Pakistan Biscuit & Confectionery Manufacturers Association Pakistan Food Association

Factors	Comments
Regulatory Body	PSQCA (Pakistan Standards and Quality Control Authority)
Recent Developments	Independent retailers and wholesalers are still the largest contributors to the segment, driven by marketing initiatives; consumer preferences are quickly changing in the favor of packaged products such as chocolates and other sweets.
Future prospects	Exhibiting a long term potential subject to customer priority and rise in population. However, growth is susceptible to risks arising from economic climate and frequent fluctuation in raw material prices.

#### Demand

According to Pakistan Biscuit & Confectionery Manufacturers Association, Pakistan's Bakery and Confectionery Industry has grown with an average annual rate of 6.5% to 7.5% during 2002-2010. The industry as a whole can be divided between two broader sections namely branded segment and generic segment.

The demand for products is subject to raw material prices and changing consumer trends. Driven by advertising initiatives, consumer preferences are continually changing in favor of new packaged products, chocolates and other snacks. Independent retailers and wholesalers are still the largest delivery channel to customers. Foreign or imported brands as well as large scale local confectionery companies are successfully targeting the lower segment of the market by introducing low end products between the price range of PKR 5 to PKR 25.

The demand is still quite high for traditional occasions such as religious and weddings. Although considering rising inflation, economic instability and reduction in consumer purchasing power makes it increasingly difficult for the middle class to afford such products and thereby reducing consumption.

#### Supply

The supply of other food products (Bakers and Confectioners) is currently sufficient to fulfill customer needs but in such an industry opportunity, growth and higher sales are achieved through a demand pull generated by introducing new and innovative products, product substitution and varied packaging.

The industry has grown rapidly over the last decade

with numerous household brand names emerging on the scene and gaining success. However, challenges for future growth and new entrants are : increasing prices of raw material, high dependency on advertising and brand creation, excise and import duties on raw materials.

## Key Players

### **Confectioners**

The major competitors in the Other Food Products include EBM (English Biscuit Manufacturers (Private) Limited), Coronet Foods (Private) Ltd, Continental Biscuits (LU), Montgomery Biscuits, Silver lake, Mehtab Industry (Krunchi).

### **Bakers**

The well known names in the Other Food Products (Bakers and Other Confectionary Products) include Gourmet Bakers, Nirala Sweets, Ideal Bakers, Copper Kettle, Dilpasand and Sohny Sweets.

### **Trade Body**

Pakistan Biscuit & Confectionery Manufacturers Association and Pakistan Food Association are two prominent trade groups of Other Food Products segment with the objective *“to promote the mutual interest of the industry at large and provide better quality food and service to customers”*

### **Future Prospects**

The industry is expected to keep growing with strong trends of well established SMEs transforming into larger corporations. However, there is a great dependency on stable economic and political environment to prevail in order to boost this segment to new growth levels.

According to market sources, general perception for Other Food Products is optimistic and they perceive that industry will experience further growth in the next 5 years. There are, however, concerns about the economic and political outlook of the country citing



government support to control raw material prices and friendly policies, which are imperative for the growth of this industry in the future.

## 5 Market Assessment

### 5.1 Market & Demographic Profile

The services segment of “Other Food Products - Bakers and Confectioners” constitutes the following:

- Bakers (Including bakery items production and Sale from shops)
- Confectioners

At present, the Baker and Confectioners segment in Pakistan is part of the relatively unorganized segment with sales being primarily generated via bakeries, shops, cafe’s, hotels and restaurants, predominantly which have limited financial and banking history. Most businesses are family owned with members of one family performing different functions of business. Underlying issues inherent to the segment include:

- 1) Unwillingness to Expand
- 2) Inability to assemble and deploy intellectual, human and financial resources effectively
- 3) Lack of vision for growth
- 4) Limited perception of business requirements
- 5) Restricted funding sources
- 6) Inability to identify and explore new ideas
- 7) Inability to deploy technology based equipment
- 8) Unable to focus on brand creation

The Other Food Product segment is largely dispersed across various cities of Pakistan, predominantly consisting of small and medium bakeries which continue to operate using an outdated manual and labor intensive model with limited or no use of technology. The main reason for lack of automation in this segment is due to non-availability of funds to the small Bakery and confectionary owner for purchase and installation of such equipment.

### Market Sizing and Lending Potential

Businesses in the sub-segment are widespread throughout various locations in rural and urban regions in the country, following tables presents a locations in different cities.

The list mentioned is not Exhaustive but identifies some prominent areas of the respective cities.

Locations for Bakers and Confectioners	
Area	No. of establishments
Karachi	
Defence	40
Clifton	25
Tariq Road	25
Bahadurabad	20
Saddar	50
Gulshan e Iqbal	50
Gulistan-e-Johar	30
Nazimabad	30
F.B Area	30
Korangi	30

Source: Survey Findings

Locations for Bakers and Confectioners	
Area	No. of establishments
Lahore	
Gulberg	30
Model Town	30
Defence	25
Allama Iqbal Town	15
Walton	20
Johar Town	30
Badami Bagh	10
Mughal pura	20
Wapda Town	20

Source: Survey Findings

Locations for Bakers & Confectioners	
Area	No. of establishments
Faisalabad	
Peoples Colony	30
Samanabad	20
Jinnah Colony	20
Sir Syed colony	30
Christian Town	20
Rehmania Town	20
Ayub Town	10
Madina Town	10
Kohinoor Town	10

Source: Survey Findings

Locations for Bakers & Confectioners	
Area	No. of establishments
Multan	
Saddar Multan	20
Railway	10
Altaf Town	5

Source: Survey Findings

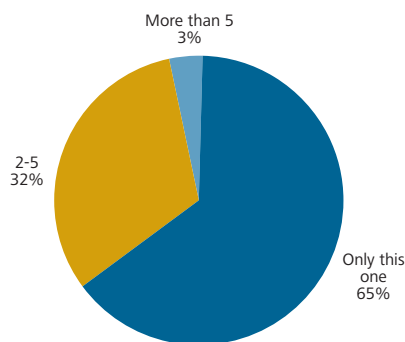
## Segment Demographics

The segment is widely spread out across various regions in the country. Demographic information is attained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan.

This segment is classified as an industry which prepares and sells bakery/confectionary products in the market through their bakery shops.

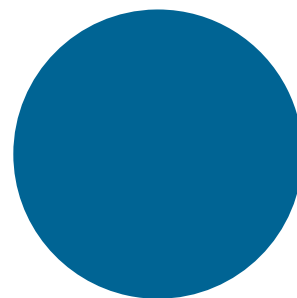


### Number of years in Operation



Source: Survey Findings

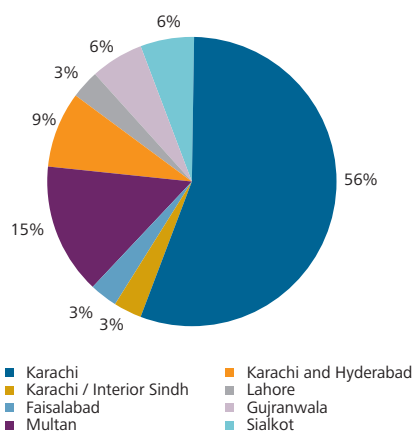
### Classification of Businesses



Industry 100%

Source: Survey Findings

### Location of Businesses

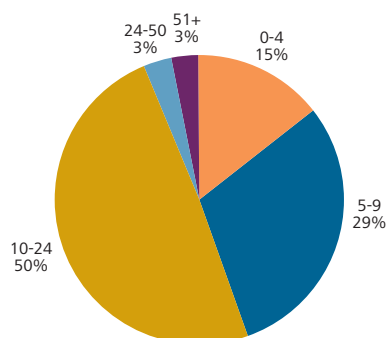


Source: Survey Findings

## 5.2 Owner Profile

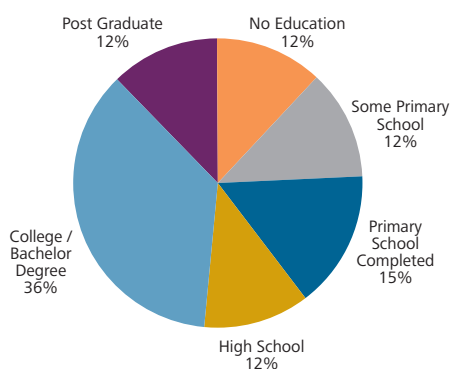
The business owners in consist mainly of people in the age group of 31-40 years. Due to the labor intensive and manual nature of work, education is not considered as a major factor for business owners. However, they require skilled workers who have the knowledge of baking and confectionary production for business operations. Predominantly businesses are run by families, preferring family members to undertake organization functions.

**Number of Employees under Business Owners**



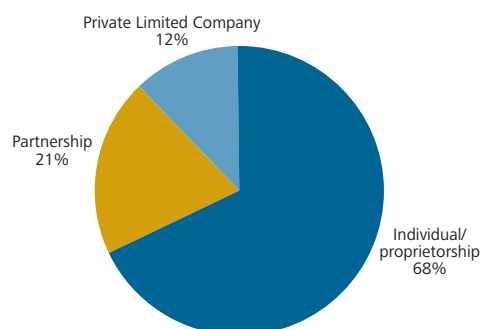
Source: Survey Findings

**Education level of Business Owners**



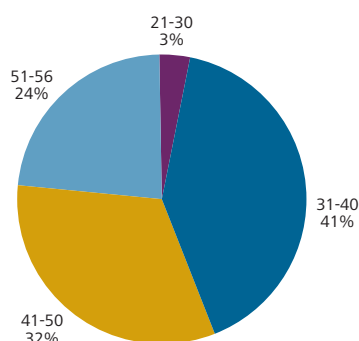
Source: Survey Findings

**Ownership Type**



Source: Survey Findings

**Age group of Business Owners**



Source: Survey Findings

## 5.3 Business Linkages

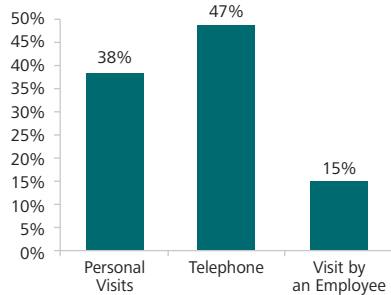
Businesses in the segment are connected to various institutions that are directly or indirectly affected by the business operations. Primary stake holders and their interests are enlisted in the following table:

Stakeholder	Private Sector Hospitals
Owners	Business growth and access to finance, awareness regarding lending products
Suppliers (flour mills, grain mills, sugar mills, dairy farms)	Better terms, increased supply, consistent prices and lower risk
Customers	Product quality, variety and reasonable pricing
Financial Institution	Debt servicing, Increase in deposits, utilization of services
Government	Expansion of taxation bracket, economic growth, benefit to community at large

Businesses employ various mediums as means of communication with its customers. However, due to the personalized nature of service; personal visits by

customers and telephone are widely utilized.

**Communication with Customers**



Source: Survey Findings

Businesses in the segment are predominantly serviced by formal suppliers and wholesalers though a small number of business owners utilize informal market and individuals as their primary resource for supplies.

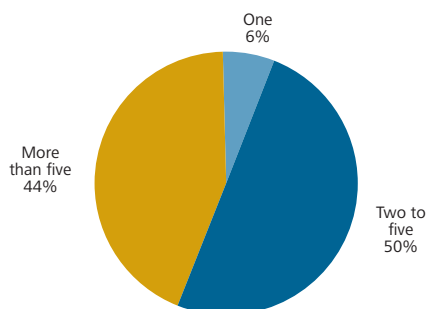
#### Major supplies for segment include:

Other Food Products	
Flour	Wheat
Sugar	Oil, Ghee
Grains	Milk
Eggs	Butter
Dry fruits	Vegetables

Most of the business owners rely on the same suppliers to meet their business needs, except for a few who place reliance on many suppliers or are not satisfied with their suppliers.

Raw Material needs are met locally buying from the same location or same city, although the number of suppliers mostly comprises from two to five or even more, but predominantly the segment relies on same suppliers for their material needs.

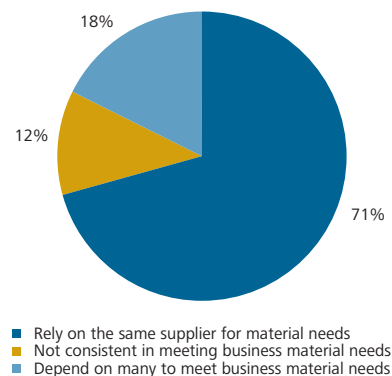
**Number of Suppliers**



Source: Survey Findings



**Supplier Relationship**



Source: Survey Findings

## 5.4 Business Cycle

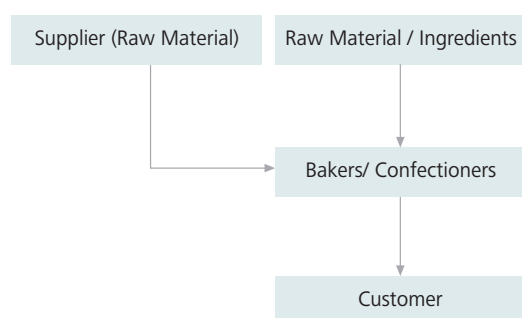
### Other Food Products - Bakers and Other Confectioners

The segment experiences cyclical trends due to seasonal sales, traditional occasions such as religious and wedding occasions give significant rise to sales.

The segment is also affected by fluctuation in raw materials prices for producing bakery and confectionary items. Businesses suffer from general increase in prices which in turn causes reduction in sales.



The businesses mostly rely on existing customers and referrals by existing customers depending mainly on word of mouth.

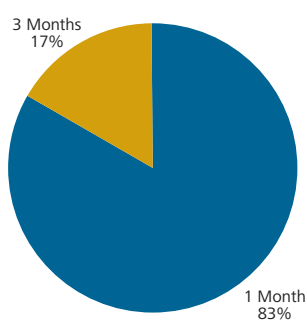


### Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers, businesses in Other food products segment operate from their shops/premises and sell on a fixed margin. Occasionally large orders from customers are received for a particular occasion.

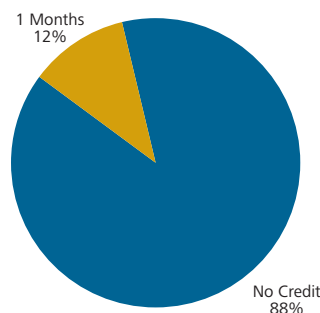
The segment works mainly on cash basis with suppliers of raw materials providing them at least up to 1 month's credit term, in some instances up to 3 months credit are also granted. These businesses in turn do not provide any credit and sell on cash only. The sample results show that only 12% offered up to 1 month credit to customers for large orders.

### Repayment Terms offered by Suppliers



Source: Survey Findings

### Repayment Terms for Customers



Source: Survey Findings

## 5.5 Financial Assessment and Profile

Most Businesses in the segment prepare informal financial statements, while some business owners also have proper financial statements with audit of financial statements by accountants and managers. However, most businesses prepare single entry records and/or cash registers for bookkeeping purposes. Owners / managers keep track of accounts themselves, their lack of accounting knowledge and experience presents a constraint for preparation and keeping an organized track of cash movement.

From primary research and interviews conducted from trade associations, it has been identified that retailer margins are between 15-20%, with a great number banking on higher sales volume for earning better profits.

As per research findings, none of the business owners in the segment had an accurate idea of their financial positions with regards to capital invested, business assets employed, annual revenue, income and expenses. The information gathered was an estimate provided to us by the interviewees.

Business owner's reluctance and non availability of proper accounting records presents an issue for calculation of segment's benchmark financial ratios. Devising from the information attained in the course of primary research, the indicative ratios will be an estimate at best and cannot be utilized to assess an appropriate position of the businesses operating in the segment.

Conclusively it can be stated that despite the recent



trend in growth of this segment there still exists an ample demand for quality Bakeries and confectionaries in Pakistan and also that the existing scenario provides favorable opportunities for entry and growth in this business segment.

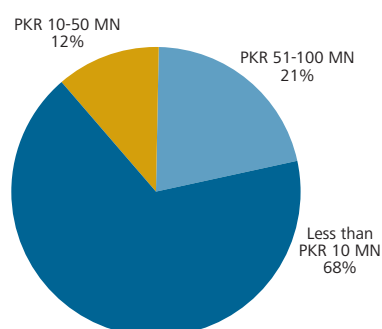
## 5.6 Financial Information

Primary survey findings portray the following for the segment under consideration. The results reflect the Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample.

Survey findings demonstrate that approximately 60% of businesses operating with Total Capital and 70% of businesses with Total Assets less than PKR10 MN exhibiting a relatively low initial investment for startup. Total assets comprise of Machinery and Equipment, plant and machinery, inventory, land/building and receivables. Liabilities constitute trade payables and borrowing for working capital finance.

Business related assets include specialized baking equipment and machinery.

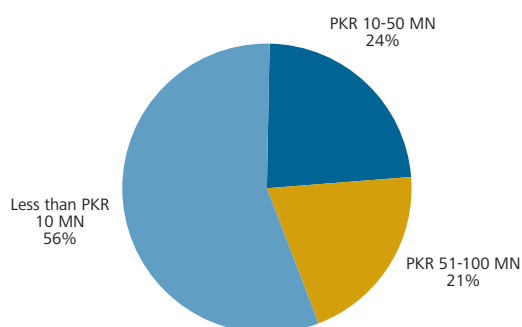
**Business Assets**



Source: Survey Findings

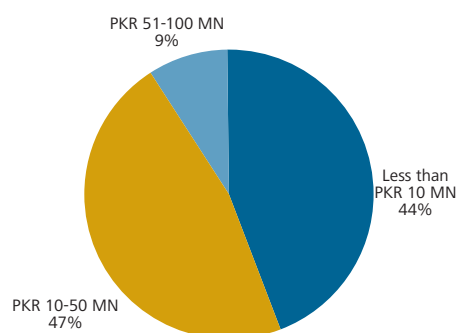
Annual revenue is predominantly between PKR 10-50 MN throughout the segment; expenses primarily represent raw material, employee cost and interest expenses against borrowings.

**Total Capital**



Source: Survey Findings

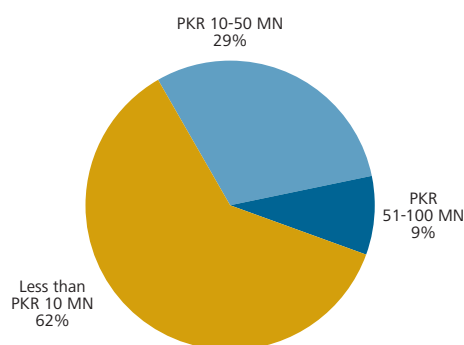
**Total Revenue**



Source: Survey Findings



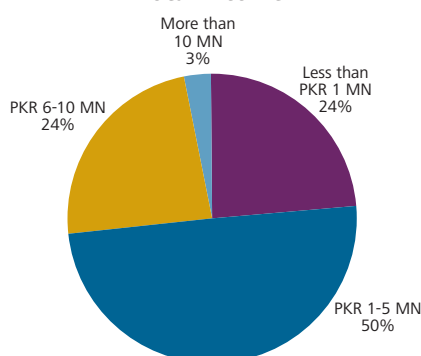
### Annual Expense



Source: Survey Findings

All businesses display healthy earnings, including some businesses that have experienced growth of up to 25%. Our selected sample does not report any business with losses over the past years. 50% businesses have total earnings between PKR 1-5 million.

### Total Income



Source: Survey Findings

### Benchmark Financial Ratios

Financial Information	PKR
Total Capital	28,280,882
Business Assets	21,423,529
Total Revenue	26,655,882
Annual Expense	13,522,059
Total Income	4,834,853
Key Financial Ratios	
Profit Margin	18%
Operating Expenses/ Revenue	51%
Asset turnover	124%
ROA	23%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 34 entities in this sub segment. Such ratios will of course substantially vary for different sample sizes for each establishment individually.

## 5.7 Indicative Business Requirements

Business owners require equipment and civil works for start up or expansion. The values provided below are susceptible to volatility in market prices. In addition, individual business owners will have distinctive requirements as per their business needs. The table below is neither comprehensive nor specific and presented only to provide an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment.

S.No.	Indicative Equipment Requirement	Indicative Cost (PKR)
1	Ovens	500,000
2	Refrigerator/Freezer	100,000
3	Stove	50,000
4	Baking Equipment	100,000
5	Mixers	50,000
6	Baker's Rack (Cooling Sheet)	100,000
7	Display Stands	100,000
8	Civil Works for Shop	100,000
9	Cash Register	50,000
10	Glass Work	50,000



## 5.8 Financial Need Analysis

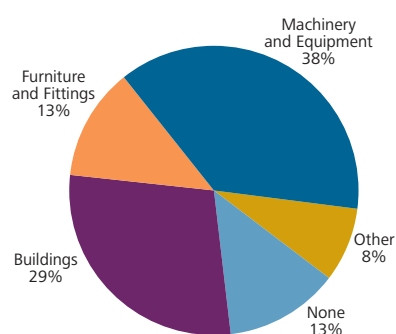
Funds are mostly managed by the owners themselves, mainly required for business assets and working capital which are mostly fulfilled by their own personal savings or cash flows from the business. Among the fixed assets, finance need is mainly centered on machinery and equipment for the business.

A large number of owners have well stocked raw materials for carrying out smooth business operations in case of material shortage or unusual hike in prices which leads to the problem of tied up working capital. This issue pertains throughout the year as a minimum level of inventory has to be maintained for uninterrupted business operations

The segment has generally limited exposure with respect to financing and banking products. The businesses operating in the segment are not aware and therefore reluctant to obtain financing or to have a more far reaching relationship with banks and financial institutions.

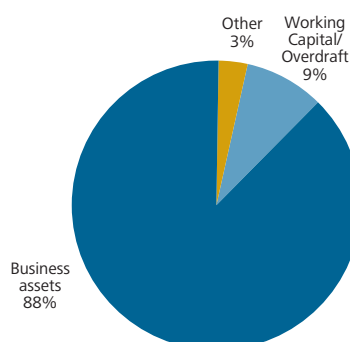


**Fixed Assets Requirement**



Source: Survey Findings

**Business Funding Needs**



Source: Survey Findings

## 5.9 Usage of Banking Products

The owners are not aware of any SME sector specific efforts made by the Government of Pakistan. However, some business owners had awareness of loan products offered by banks and have 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.

Only 16% of the segment is funded by Banks and Business owners cited high interest rates, bank charges, documentation and religious reasons for not applying for a loan.

In addition to that it is also observed that other services such as payroll and money transfer are discouraged by the segment whereas the response for cash management and collection services is healthy, 75% business owners have displayed an intent to avail the service.

79% respondents do not pay for any of the proposed Insurance products and 82% of them are not interested in availing any insurance product in future.

Majority of the owners indicated lack of interest in obtaining advisory services from banks; only 23% owners are willing to pay for it, a majority is of the opinion that banks have experienced staff but will have high charges for such services.

Banking Product	Usage Percentage
Deposit (Checking) Account	76%
Term Deposits	26%

## 5.10 Segment Risk Considerations

Businesses in the segment are largely sole proprietorships having this business as the only source of income and operating from rented premises which increase the risk from the view point of the lender.

Two third of the business are not formally registered with any trade union or association. More than one

third of the Businesses in the segment do not prepare financial statements whereas, 70% of the remaining have an audit of financial statements. Analysis shows that the segment operates in a highly competitive market with a maximum amount of businesses having more than ten competitors. The majority of segment relies on the same supplier to meet material needs and do not have a regular stream of customers.

A large proportion of SMEs in the segment do not use Banks to meet business needs and are not paying for any insurance products.

### Risks inherent to the segment include:

- Uneven cash flows
- Business uncertainty
- Exposed to law and order conditions
- Single entry accounts
- Employee turnover
- Lack of succession planning

### Possible Mitigates:

- 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 shop/business premises

## 6 Proposed Banking Product Suite

### 6.1 Products Features

Based on our primary and secondary research we propose the following for social and economic growth of “Other Food Products - Bakers and Other Confectionary Products” segment:

#### Asset Products:

- Shop Purchase Financing
- Baking Equipment and Machinery leasing

#### Liability Products:

- Business Bank Account

#### Other Products

- Bancassurance
- Branchless Banking (Mobile)
- Utility Bill Payment

Shop purchase Finance Facility	
Particulars	Details
Initial deposit	<ul style="list-style-type: none"> <li>▪ Minimum initial deposit of PKR 50,000</li> </ul>
Salient Features	<ul style="list-style-type: none"> <li>▪ Loan amount to be directly transferred to seller of shop</li> <li>▪ Up to 60% finance offered for shop purchase</li> <li>▪ Offered to businesses with verifiable operating history of more than 5 years</li> </ul>
Tenure	<ul style="list-style-type: none"> <li>▪ 5 to 10 years</li> </ul>
Loan Limit	<ul style="list-style-type: none"> <li>▪ Minimum Limit - PKR 500,000</li> <li>▪ Maximum Limit - PKR 5,000,000</li> <li>▪ The total amount of loan offered for shop purchase cannot exceed a multiple of 3 times the total average annual revenue of the shop determined over an average of 3 years</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>▪ One time documentation required</li> </ul>
Repayments & Withdrawals	<ul style="list-style-type: none"> <li>▪ Flexible repayment conditions: balloon payments offered or partial repayments</li> </ul>
Markup	<ul style="list-style-type: none"> <li>▪ As per prevailing KIBOR and spread</li> </ul>
Security	<ul style="list-style-type: none"> <li>▪ Valuation of the shop premises by an approved PBA valuer certified by RM / Manager</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>▪ Mandatory Insurance Requirement of the banks</li> </ul>
Penalty	<ul style="list-style-type: none"> <li>▪ No early repayment penalty will be imposed on the borrower</li> </ul>



Baking Equipment / Machinery Leasing	
Particulars	Details
Initial deposit	<ul style="list-style-type: none"> <li>▪ Minimum initial deposit of PKR 50,000</li> </ul>
Salient Features	<ul style="list-style-type: none"> <li>▪ Equipment &amp; machinery leasing will be provided for expansion capital only to businesses with an operational history of 5 or more years</li> <li>▪ A pre approved list of equipment and machinery manufacturers will be developed based on information received from trade associations and market reputation</li> <li>▪ Leasing facility will be provided up to the limit of existing installed capacity</li> <li>▪ Credit facility will be offered directly via payment to pre approved equipment and machinery vendors</li> </ul>
Tenure	<ul style="list-style-type: none"> <li>▪ 3 to 5 years</li> </ul>
Loan Limit	<ul style="list-style-type: none"> <li>▪ Minimum Limit - PKR 100,000</li> <li>▪ Maximum Limit - PKR 2,000,000</li> <li>▪ The amount of facility offered for additional Plan and Machinery will not exceed either the value of existing plant and machinery installed or will not exceed the total average annual revenue of the business determined as an average over the last three years</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>▪ Business Financial Statements</li> <li>▪ Proof of business operation for last three years</li> </ul>
Repayments & Withdrawals	<ul style="list-style-type: none"> <li>▪ Repayments will be based upon preset Equal Monthly Installments</li> </ul>
Markup	<ul style="list-style-type: none"> <li>▪ As per prevailing KIBOR and spread</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>▪ Mandatory Insurance Requirement of the banks</li> </ul>
Penalty	<ul style="list-style-type: none"> <li>▪ As per existing bank policies and cost of charges</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>▪ Mandatory insurance as per SBP/GOP decision</li> </ul>

SME Business Bank Account	
Particulars	Details
Minimum Deposit	▪ PKR 10,000
Account Type	▪ Non- remunerative Current Account
Documentation	▪ CNIC and business registration documents as per SBP guidelines
Facilities	▪ Cheque Book ▪ Upgraded ATM facilities ▪ Business Visa Debit Card ▪ Phone Banking ▪ Mobile Banking ▪ Monthly account statement

Other Products	
Particulars	Details
Bancassurance	▪ 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 balancing 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

Indicator	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 other food product for the past five years and hold a valid CNIC
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history
Credit worthiness	Credit worthiness of the borrower will be ascertained by collecting information from 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.
Registration	Proof of registration of business and brand for business to be submitted
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

## 7 Distribution and Communication Considerations

SMEs in “*Other Food Products - Bakers and Other Confectioners*” are spread out in various locations all over Pakistan, therefore ideally product will be offered initially in the large cities such as Karachi and Lahore followed by 2nd tier cities.

The businesses operate in both rural and urban areas of Pakistan with significant presence in commercial and residential vicinity.

### Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for Other Food Products segment are as follows:

- Educate the business owners and confectioners to create awareness for financial/ banking needs and banking products in the identified market regions
- Develop strategies to attract a large number of Bakers and Confectioners interested in product schemes
- Design a comprehensive positioning strategy to create strong perception for the lending product in the market

### Promotional Activities

To create awareness of SME specific products in the target market, the management will aggressively advertise various promotional programs and sponsored events:



- Workshops will be conducted to create awareness amongst Bakers and Confectioners along with trade associations to provide maximum exposure to business owners

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
- Banners in markets

### Distribution Strategy

Initially the bank will provide financing facility only for businesses in major cities. However, banks will penetrate into other small business markets after establishing strong presence in major cities

Banks will adopt a multi channel strategy utilizing both conventional and technology based alternate delivery channels.



### Conventional Channels

- **Branches:** Establishment of lending branches in Bakers and Confectioners cluster and regions with high growth potential to attract a large number of customers for SME lending Products
- **Direct Sales Agent:** This activity will be outsourced and trained marketing team will periodically visit identified areas within the cities to influence potential customers and create awareness of the product & features being offered under SME Products Suite.

### Technology Based Alternate Delivery Channels

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



## Acknowledgement:

Provision of data, selection of 10 SME sectors and participation in meetings / focus groups by the following banks:

Allied Bank Limited  
Askari Bank Limited  
Bank Alfalah Limited  
Bank Al Habib Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
KASB Bank Limited

MCB Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank (Pakistan) Ltd  
United Bank Limited

## Researched by:



**Anjum Asim Shahid Rahman**

Chartered Accountants

House # F-67/III, Ibn e Qasim Park Road  
Block-4 Clifton,  
Karachi Pakistan

T +92 (0) 21 35822641-2

[www.gtpak.com](http://www.gtpak.com)

[www.gti.org](http://www.gti.org)

## Contact Information:



**State Bank of Pakistan**

I.I. Chundrigar Road, Karachi, Pakistan.

Phone: 111-727-111

Fax: (+92-21) 99212433 - 99212436

[www.sbp.org.pk](http://www.sbp.org.pk)



**Kaiser H. Naseem**

Head of Bank Advisory Services

MENA Region

Email: [KNaseem@ifc.org](mailto:KNaseem@ifc.org)

**Akbar Zaman Khan**

Bank Advisory Services

MENA Region

Email: [AKhan12@ifc.org](mailto:AKhan12@ifc.org)



2121 Pennsylvania Avenue, NW  
Washington, DC 20433, USA  
[www.ifc.org](http://www.ifc.org)

May 2011