

'Supermarkets and Retail Shops'



Copyright Protection

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. State Bank of Pakistan encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly and when the report is reproduced for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

State Bank of Pakistan 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 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.

All other queries on rights and licenses, including subsidiary rights, should be addressed to the given below address:

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

Acknowledgement

This segment booklet has been developed by M/s Corporate Partners (CDP) who was commissioned by State Bank of Pakistan (SBP) to conduct the market research.

SBP's Infrastructure Housing and 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 the country's resources. The role of DFID, UK is also acknowledged here as the cost of the research study was funded by this organization under the Financial Inclusion Program.

This report contains market research and proposed banking products, based on primary research survey results and secondary sources, carried out for SME segment "Supermarkets and Retail Shops" 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.

Table of Contents

1	Guidelines for using this Research Report	1
1.1	Market Assessment	1
1.2	Product Suite	1
1.3	Marketing and Distribution	1
2	Introduction & Objectives	2
2.1	Limitations of the Study.....	3
2.2	Sampling Plan.....	4
3	Economic Overview	8
4	Supermarkets and Retail Shops Industry Overview	10
4.1	Demand.....	11
4.2	Supply.....	11
4.3	Key Players.....	12
4.4	Recent Developments.....	13
4.5	Future Developments.....	13
4.6	Success and Survival of the Businesses in this Sector	14
5	Market Assessment	15
5.1	Market & Demographic Profile	15
5.1.1	Market Sizing and Lending Potential.....	16
5.1.2	Segment Demographics	17
5.2	Owners Profile	18
5.3	Business Linkages.....	19
5.4	Business Cycle	21
5.4.1	Working Capital	22
5.5	Financial Assessment and Profile	23
5.6	Financial Information.....	24
5.7	Indicative Business Requirements	26
5.8	Financial Need Analysis.....	27
5.9	Usage of Banking Products.....	29
5.10	Segment Risk Considerations.....	30
6	Proposed Banking Product Suite	32
6.1	Product Features	32
6.2	Eligibility Criteria for Asset Products	37
7	Distribution and Communication Considerations.....	38
7.1	Marketing Objectives of banks	38
7.2	Promotional Activities by Banks	38
7.3	Distribution Strategy.....	39

Index of Tables

<i>Table A:</i> Sampling Plan.....	4
<i>Table B:</i> Economic Considerations	8
<i>Table C:</i> Summary of Industry Overview	10
<i>Table D:</i> Cluster Locations 'Supermarkets and Retail shops'	16
<i>Table E:</i> Stake Holders and Their Interests.....	19
<i>Table F:</i> Sector Financials Snapshot.....	23
<i>Table G:</i> Indicative Equipment Requirement	26
<i>Table H:</i> Working Capital/Overdraft Finance Facility	33
<i>Table I:</i> Equipment/Vehicle Leasing	34
<i>Table J:</i> Industrial Power Generator Leasing	35
<i>Table K:</i> SME Business Bank Account.....	36
<i>Table L:</i> Other Products	36
<i>Table M:</i> Asset Products Criteria.....	37

Index of Figures

<i>Figure 4.6-a: Indicators of Business Success</i>	14
<i>Figure 4.6-b: Key means of survival as an SME</i>	14
<i>Figure 5.1-a: Number of years in operation</i>	17
<i>Figure 5.1-b: Customers' presence within the country</i>	17
<i>Figure 5.2-b: Age group of business owners</i>	18
<i>Figure 5.2-a: Education level of business owners</i>	18
<i>Figure 5.2-c: Number of employees under business owners</i>	18
<i>Figure 5.2-d: Ownership type</i>	18
<i>Figure 5.3-a: Communication with customers</i>	19
<i>Figure 5.3-c: Supplier Relationship</i>	20
<i>Figure 5.3-b: Number of Suppliers</i>	20
<i>Figure 5.4-a: Business Model</i>	21
<i>Figure 5.4-b: Repayment Terms from Suppliers</i>	22
<i>Figure 5.4-c: Repayment Terms to Customers</i>	22
<i>Figure 5.6-a: Business Assets</i>	24
<i>Figure 5.6-b: Capital Expenditure</i>	24
<i>Figure 5.6-d: Annual Expense</i>	25
<i>Figure 5.6-c: Total Revenue</i>	25
<i>Figure 5.6-e Total Income</i>	25
<i>Figure 5.8-a: Business funding Needs</i>	27
<i>Figure 5.8-b: Fixed Assets Financing Requirements</i>	28
<i>Figure 5.10-a: Business Expansion Restraints</i>	30
<i>Figure 5.10-b: How Business Risk Addressed</i>	31

1 Guidelines for using this Research Report

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

1.1 Market Assessment

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

1.2 Product Suite

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

1.3 Marketing and Distribution

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

2 Introduction & Objectives

According to the latest data cited in SMEDA and Economic Survey Reports 2010-2011, Small and Medium Enterprises (SMEs) account for approximately 40% to GDP contribution of Pakistan and play a major role in spurring economic activity with a contribution amounting to 80% of non-agriculture GDP of Pakistan. However, the segment remains largely unbanked owing to the following impediments:

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

SMEs present immense business opportunities for financial institutions from the perspective of increasing book size while generating strong risk adjusted returns, however, there is an imminent need to understand the dynamics of this segment in order to enable financial institutions to structure products that meet overall risk management guidelines and facilitate the growth of this SME segment.

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

This research report contains findings pertaining to the segment of "*Retail Stores and Supermarkets*" which includes large supermarket setups in urban areas of the main cities as well as small setup consisting of General stores and Departmental stores scattered all over the country in great numbers. Other retail channels include 'pan' shops, petro marts, medical-general stores, book shops, road side eateries and other specialty shops.

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

Retail and wholesale sector grew by 5.2% compared to previous year, reaching a worth of PKR 4.36 trillion¹, which represents around 18.2% of GDP in 2013-14, according to Pakistan Economic Survey (2013-14). This goes to show huge hidden potential in this sector; due to lack of retail data available, which if utilized properly, can show phenomenal growth.

¹ <http://www.brecorder.com/taxation/181:pakistan/1173389:fbrs-task-force-findings-retailers-estimated-to-have-rs-68-billion-annual-st-potential/?date=2014-04-15>

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 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 historyAt 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 SMEOn 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 needsHowever, 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 180million 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 FY2013-14 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 'Supermarkets and Retail Shops' Industry Overview

Table C: Summary of Industry Overview

Factors	Comments
Demand	General Stores and shops contribute greatly in FMCG businesses as they are scattered in great numbers in both rural and urban areas, more likely to be stationed at a walking distance from any destination, making it convenient for customers as they are generally quick to meet customers' requirements.
Supply	Almost about two-third of all the FMCG outlets consist of small general stores, which sell multiple brand grocery items of daily use. The MNCs or national companies make use of retail sectors for their products. Thousands of retails are serviced through CSD and USC.
Key players	Gourmet Bakers, Imtiaz, Chen One, Mahmood Pharmacy, Canteen Stores Department (CSD), Utility Stores Corporation (USC), etc.
Regulatory Body	Ministry of Industries
Recent Development	The opening of franchise super stores has helped shoppers to enhance their exposure in respect of product portfolio, latest merchandising tools and promotions but has placed slight stress on local general stores
Future prospects	General stores representing the unorganized sector will show presence in the retailing map but its growth will likely to slow down compared to global retailers and local chains of departmental stores/super markets

4.1 Demand

The significance of retail sector in our economy can be gauged from the data published by Pakistan Bureau of Statistics, according to which, retail and wholesale sector worth is PKR 4.36 trillion, representing around 18.2% of GDP 2013-14. According to Federal Board of Revenue (FBR) it is estimated that there are around 2 million outlets in the country. From these outlets, about 40% represent FMCG channels which, besides big supermarkets, also include small general stores, departmental stores, medical-cum-general stores and the like¹.



The bulk of FMCG business comes from these general stores due to their large numbers, their location being at proximity to the shoppers, convenience and long business hours. There are other retail channels as well besides general stores which includes Pan Shops, road side eateries, department stores and petro-marts. These small set ups also carry various food items like beverages, candies and biscuits in addition to their core products 'pan', cigarettes and other eateries.

General Stores and pan shops contribute greatly in FMCG businesses as they are scattered in great numbers in both rural and urban areas usually at a walking distance in the neighborhood, making it convenient for customers as they are generally quick to meet customers' requirements, also due to their involvement in neighborhood community. Lower operational costs and servicing customers with warmth also makes it an integral part of the retail businesses.

However, these unorganized retail businesses have inherent limitations such as lack of economies due to small scale operations, lower level of expertise and lack of financial strength. Such restrictions negatively impact the ability of this sector in product display and in conveying the brands message to their customers.

4.2 Supply

'Supermarkets and Retail Shops' sector consists of both organized and unorganized establishments consisting of large supermarkets and small retail shops respectively. The companies operating in Pakistan, whether national or MNCs, are making use of retail sector for their products but very few companies have an in depth access to the retail data in Pakistan. Therefore, so many have not been able to utilize this retail sector to their complete advantage.

Almost two-third of all the FMCG outlets are small general stores which sell multiple brand grocery items of daily use. Majority of these outlets are owned and managed by a single person

which, unlike supermarkets or super stores do not have walk in areas, so they only sell over the counter.

In contrary to the many countries, including developing ones, Pakistan does not have many chains of retail outlets. Among the few which have been successful are mentioned in the 'key players' section.



During the last few years, Pakistan has witnessed arrival of a few global players which has set a new direction for local retailing. The merged entity of Metro-Makro now operates ten stores in major cities including Karachi, Lahore, Islamabad and Faisalabad. A sizeable number of consumers are found to visit these supermarkets for their grocery and other shopping; many bulk sale transactions also take place with small retailers who become the real target of these superstores.

With the advent of these large global players in the organized sector of supermarket, the growth of the unorganized retail sector may lag behind due to innovative merchandising tools and shoppers' incentive promotions by these large international super stores.

4.3 Key Players

The major key players of '*Supermarkets and Retail Shops*' sector are:

Sectors	Key Players in Retail and Supermarkets Sector
Local	
Bakery	Gourmet Bakers Shezan and Cakes n Bakes Doce Bakers
FMCG	Imtiaz Al-Fateh Shopping Mall Pot Pourri
Footwear	Servis Shoes Bata English Boot House (EBH)

Apparel and Life style	Amir Adnan Bareeze Al Karam Ideas by Gul Ahmed Chen One Cross Road Junaid Jamshed, Etc
Pharmacies	Servaid FazalDin Mahmood Pharmacy Zaka Pharmacy Seven Seas Pharmacy, Etc
Supermarkets	Canteen Stores Department (CSD) Utility Stores Corporation (USC)
Franchises in Supermarkets	
Supermarkets	Hyper Star Metro-Makro

4.4 Recent Developments

Two stores, one each in Karachi and Lahore, have been opened by France's Carrefour under the brand name of 'Hyper Star'. Dubai based Majid Al Futaim Group, which has Carrefour franchise in a number of regional markets, plans to further expand the network of Hyper Star in Pakistan. The opening of such stores has helped shoppers to enhance their exposure in respect of product portfolio, latest merchandising tools and promotions.

4.5 Future Developments

Liberal government policy towards Foreign Direct Investment (FDI) for retailing along with changing buying habits will continue to provide enough opportunities to global retailers to explore Pakistani market for any investment/expansion plan.

General stores representing unorganized sector will show presence in the retailing map but its growth will likely slow down compared to global retailers and local chains of departmental stores/super markets.

New chains of grocery and life style stores are likely to enter primarily in urban centers. Chain of retail outlets irrespective of channel (grocery, pharmacy, apparel etc) will likely continue to expand their network.

4.6 Success and Survival of the Businesses in this Sector

From the survey interviews (**Figure 4.6-a**), 55% and 85% of the business owners, respectively, felt that good relations with the suppliers and timely delivery of stock was the major success factor for the businesses in this sector as this ensured consistent supply of inventory.

(**Figure 4.6-b**) 75% of the business owners in this sector felt that experience was the most essential element while 39% also believed in the importance of education. 9% of the business owners also felt that due to strong supplier customer relations their SME businesses managed to survive.

Figure 4.6-a: Indicators of Business Success

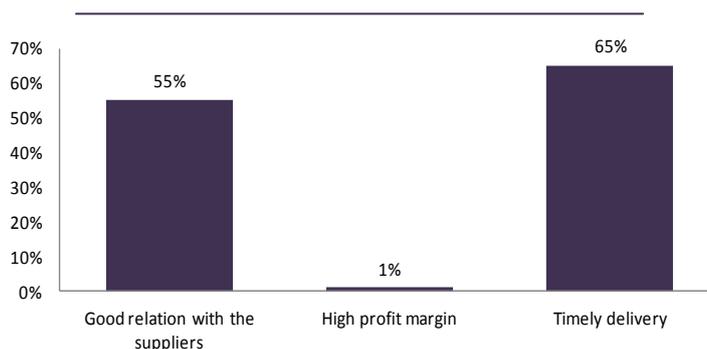
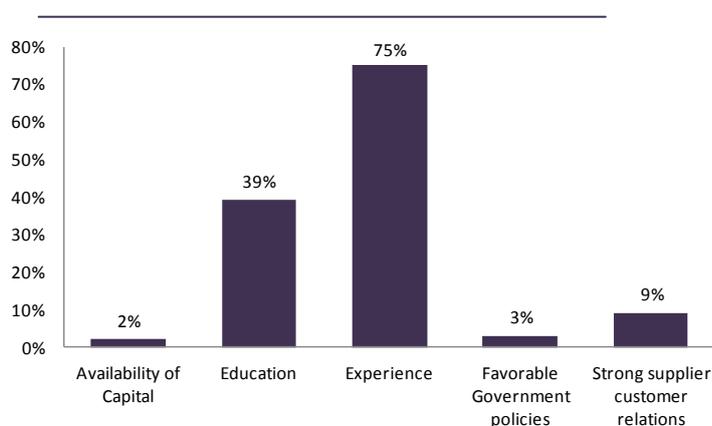


Figure 4.6-b: Key means of survival as an SME



Source: Survey Findings

5 Market Assessment

5.1 Market & Demographic Profile

At present, the retail sales in Pakistan are primarily being generated via authorized dealers, importers, formal wholesalers and retailers, most of which have financial and banking history. Most businesses are family owned with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Limited funding sources and capital investment in unorganized sector
- 2) Lack of innovation and research within the sector
- 3) Unavailability of complete retail data
- 4) Lack of organized infrastructure
- 5) Lack of awareness and willingness of banks
- 6) A different risk profile

The '*Supermarket and Retail*' Sector consist of both organized and unorganized setups. Organized sector pertains to supermarkets and petro marts which are mostly concentrated in the urban areas, though their presence is all over the country. The unorganized sector consisting of general stores and other small retail stores are scattered all over the country. Due to large number of unorganized setups, it is difficult to assess number of establishments in this segment/sector.

Raw material in this sector will be in the form of stocks stored for sale. Retailing companies, especially in large setups in organized sector, have many branches spread all over the country as well as overseas. This requires high level of management and technological expertise to be able to manage such projects.

5.1.1 Market Sizing and Lending Potential

As mentioned before, the businesses in this sector are severely unorganized in the retail segment and it is hard to avail data for the number of exact retail stores establishments. Supermarkets are available mostly in the developed areas of the cities while retail shops like general stores are set up in great numbers in almost every neighborhood corners. The following table (**Table D**) provides percentage of areas covered in the survey by our team.

Table D: Cluster Locations 'Supermarkets and Retail shops'	
Area	% covered in survey
Karachi	30%
Lahore	25%
Islamabad	20%
Faisalabad	15%
Multan	10%



Source: Corporate development Partners



5.1.2 Segment Demographics

The segment is widely spread out across the country in both rural and urban areas. Supermarket and marts are located in the urban areas with most concentration in the main metropolitan like Karachi, Lahore and Rawalpindi while small retail shops and general stores are spread widely in all parts of the country. Demographic information has been obtained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan. 30% of the businesses in the survey caters to Karachi and Lahore, while 20% to Islamabad (*Figure 5.1-b*).

Majority of these businesses are in operation for 5 to 10 years or more than 10 years, with percentages resting at 39% and 34% respectively (*Figure 5.1-a*).

Figure 5.1-a: Number of years in operation

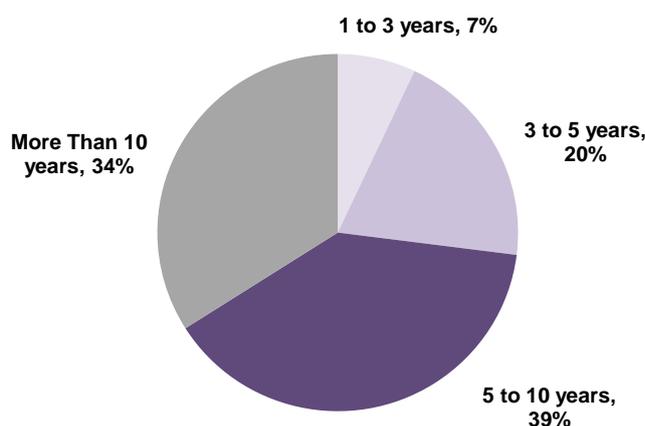
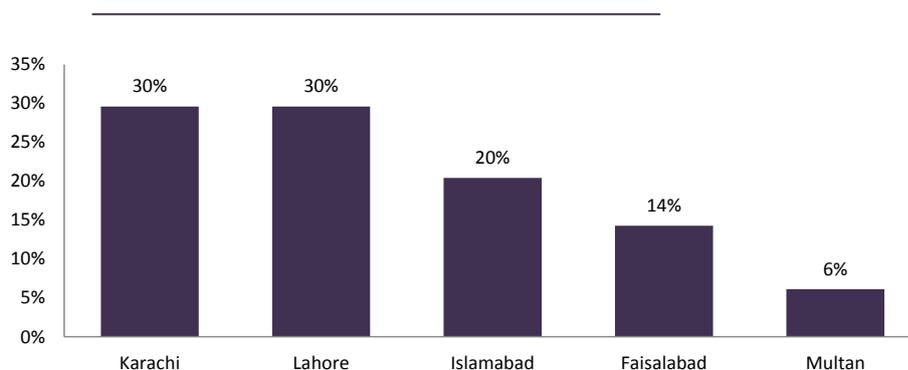


Figure 5.1-b: Customers' presence within the country



Source: Survey Findings

5.2 Owners Profile

The business owners in more than half of the businesses (55%) consist mainly of people in the age group of 31-40 years, with about 11% of the owners being between the ages of 21-30 years (**Figure 5.2-b**). This indicates that the business owners are mostly young and entered this business at an early age, passed on to them from their family. According to the survey, 60% of the business owners have completed their bachelor/college while only 1% did not any education (**Figure 5.2-a**). In terms of the setup size, 60% of the businesses have large set ups with 10-24 employees while 11% have between 24-50 employees (**Figure 5.2-c**). Predominant number of retail businesses (63%) are individual/proprietorship which is family run businesses operating from rented premises (**Figure 5.2-d**).

Figure 5.2-b: Education level of business owners

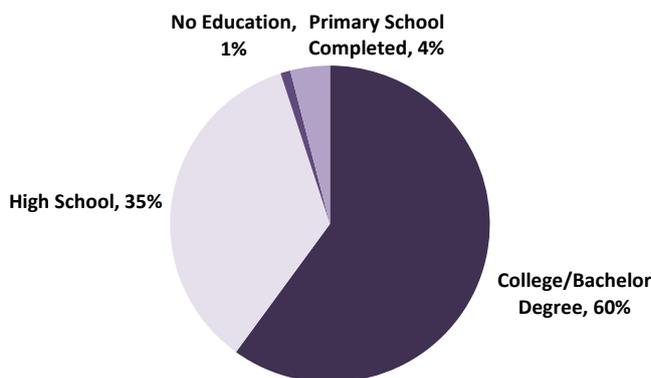


Figure 5.2-a: Age group of business owners

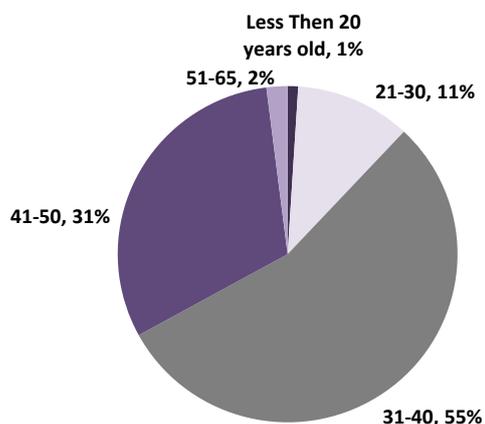


Figure 5.2-c: Number of employees under business owners

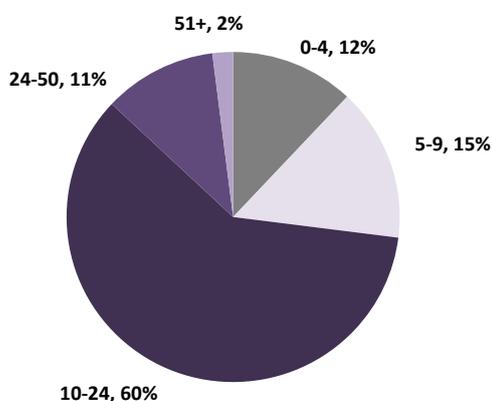
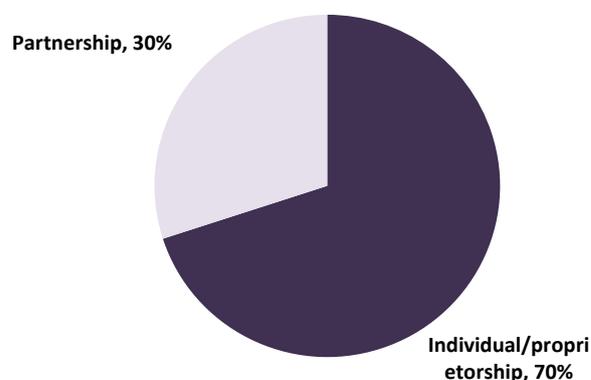


Figure 5.2-d: Ownership type



Source: Survey Findings

5.3 Business Linkages

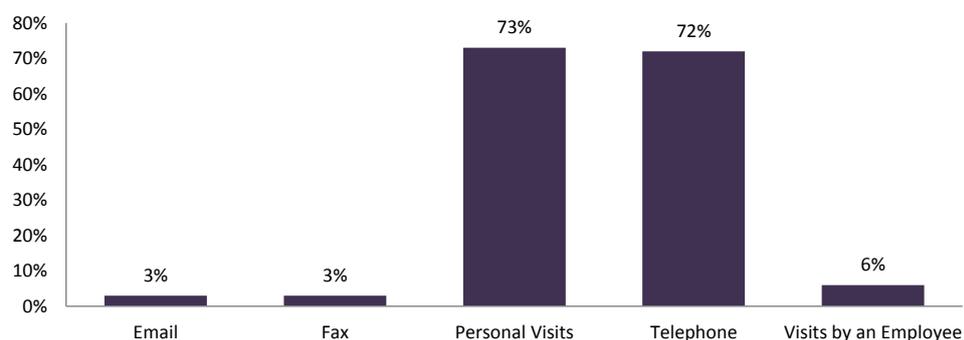
Primary stakeholders and their interests are enlisted in the following table (*Table E*):

Table E: Stake Holders and Their Interests

Supermarkets and Retail Shops	
Stakeholder	Interest
Owners	Growth and access to finance
Suppliers	Better terms, lower risk of payment defaults and timely delivery
Customers	Product quality, reasonable pricing and proper servicing
Financial Institutions	Lending products and deposits
Government	Economic growth, employment and favorable regulations for import of inventory

Businesses employ various mediums as means of communication with its customers (*Figure 5.3-a*), however, personal visits by customers and telephone are most widely utilized. In 6% of the cases, employees pay visits for purchases from these shops. The businesses in this sector are very competitive with high majority of the business owners having more than 10 competitors.

Figure 5.3-a: Communication with customers



Source: Survey Findings

'Supermarkets and Retail Shops' sector keep inventory/stocks for sale which includes various products of local and overseas companies.

42% of the businesses depend on the same suppliers for years to meet their inventory needs while 32% rely on the many (**Figure 5.3-c**). 6% of the businesses however are not consistent with their suppliers to meet their raw material needs while 20% of the businesses need new suppliers due to inconsistent quality of stock supplied. 57% of the businesses depend on two to five suppliers to stock their inventory (**Figure 5.3-b**).

Inventory to be sold is kept in warehouses by supermarkets, the stock level depending on the size and the location of the business set up. Shelf life and expiry of the product is also kept into consideration in inventory management.

Figure 5.3-c: Number of Suppliers

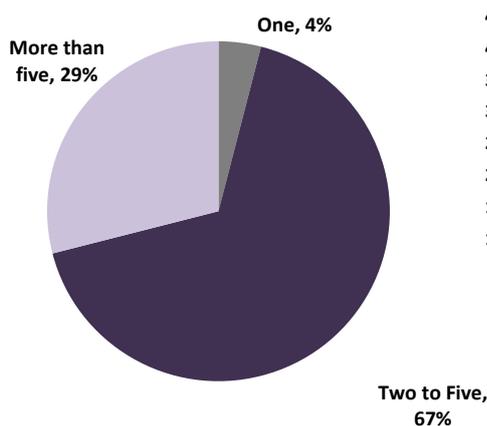
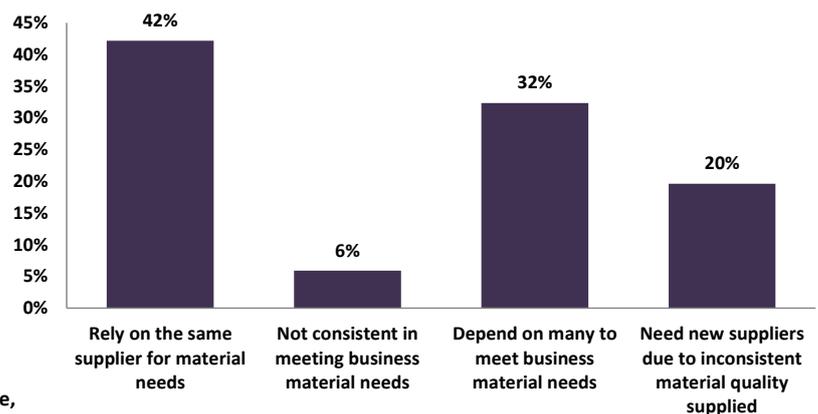


Figure 5.3-b: Supplier Relationship



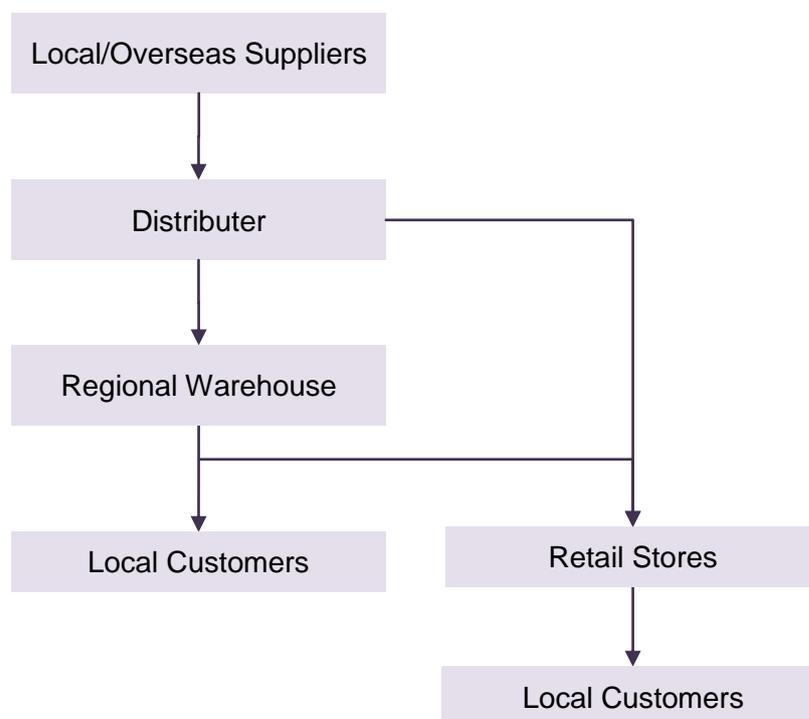
Source: Survey Findings

5.4 Business Cycle

This sector is not seasonal with sales being largely consistent throughout the year. However, just before the start of Ramadan, the sales peak for FMCG with slower sales in the month right after. Likewise just before Eid the sales for clothing and gifts rise, compensating lower sales in the months right after.

The businesses in this sector are not severely affected by the energy crises prevailing in the country. Many retail stores are dependant on distributors or supermarkets as their suppliers who have their own warehouses for inventory storage. In some cases the retail stores may also receive their inventory direct from the companies of which the products are being sold.

Figure 5.4-a: Business Model



5.4.1 Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in 'Supermarkets and Retail Shops' sector operate by having commercial contracts with suppliers both in local market and overseas.

The repayment periods provided by their suppliers is mostly one month, with just 10% of the business owners in survey interview claimed of having repayment period up to 10 days (**Figure 5.4-b**). 24% of the businesses do not provide any credit to their customers while 73% of the majority give credit for one month (**Figure 5.4-c**). One month credit is usually provided to regular customers who purchase goods throughout the year, with settlements made at the end of every month.

This depicts that businesses in this sector may not have much working capital issues as the repayment terms to suppliers are consistent with the repayment period given to customers, along with quick stock turnover.

Figure 5.4-b: Repayment Terms from Suppliers

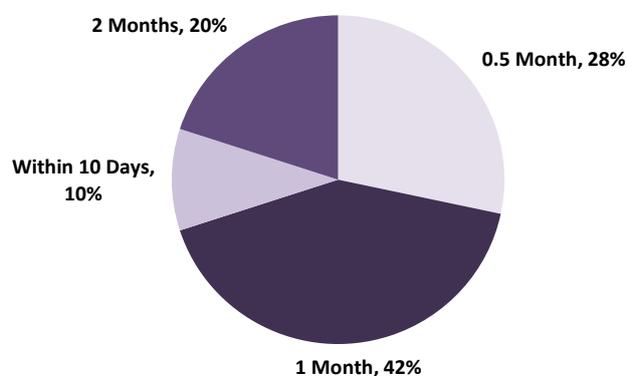
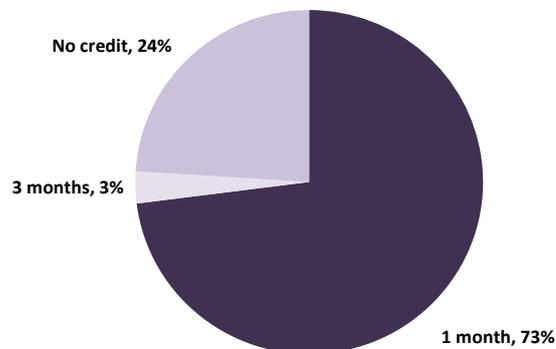


Figure 5.4-c: Repayment Terms to Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

All the businesses in the survey claim to prepare Financial Statements, however, only 37% of the business owners stated that they have their Financial Statements audited. The nature of Financial Statement is basic entries of their revenue and expenses incurred, including their inventory level.

Majority of the business owners keep track of funds themselves, while the remaining few of the businesses hire accountants to overlook their accounts. Many, however, do not issue printed sales invoice to their customers with some do not even receiving sales invoice from their suppliers. This may suggest that proper accounting record may be missing in many businesses in this sector.

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. General stores and retail shops vary widely in terms of their size and inventory level, and therefore difficult to assess from the survey samples alone.

Business owners' reluctance for sharing financial information presents an issue for calculation of segment's accurate benchmark financial ratios. The following table (*Table F*) 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, however, are an estimate at best for supermarkets and cannot be utilized to assess the performance of the businesses prevailing throughout this sector.

Table F: Sector Financials Snapshot

Financial Information	PKR
Business Assets	22,740,000
Total Revenue	91,000,000
Annual Expense	85,000,000
Total Income	6,710,000
Key Financial Ratios	
Profit Margin	7%
Operating Expenses/ Revenue	93%
Asset turnover	4 times
ROA	29.5%

Conclusively, it can be said low capital is required compared to the business's revenues generation capability. Return on asset is reasonably high however the expenses are also high which leads to low net income.

5.6 Financial Information

Due to non cooperation of business ownersto disclose their financial information, following financial information is provided in range which may give some idea of their financial position.

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

Survey findings demonstrate 67% of businesses operating with total assets between PKR 10-50 million, while the remaining businesses operate with assets less than PKR 10 million (**Figure 5.6-a**). Total assets comprise of plant and machinery, land and building, inventory/stock, trade receivables and vehicles. Machinery pertains to folk lifter, cash machines, etc., used in supermarkets. Liabilities constitute borrowing from banks for vehicles and working capital.

Business related assets consist of shelves for storing of goods, machineries like lifters in warehouses, fridge/freezers and the like. 42% of the business owners in the 'Supermarkets and Retail Shops' sector did not incur capital expenditure in the past five years (**Figure 5.6-b**).

Figure 5.6-a: Business Assets

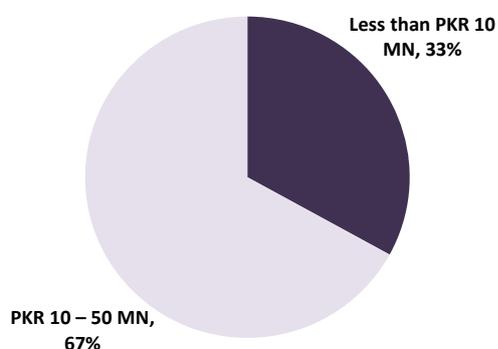
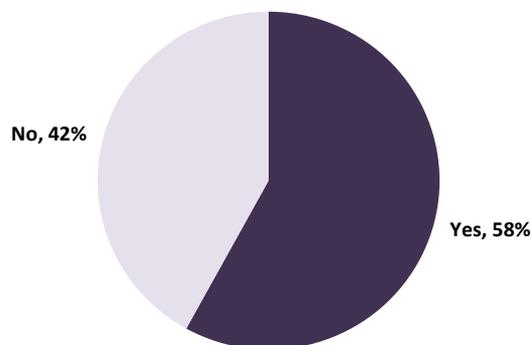


Figure 5.6-b: Capital Expenditure



Source: Survey Findings

Annual average revenue is predominantly between PKR 10-50 million and more than PKR 100 million throughout the sector (**Figure 5.6-c**), with percentages being 50% and 42% respectively. Expenses primarily represent material and employee cost, rent and interest expenses against borrowings. The expenses are between PKR 10-50 million for half of the businesses while for 39% it is more than PKR 100 million (**Figure 5.6-d**).

Figure 5.6-d: Total Revenue

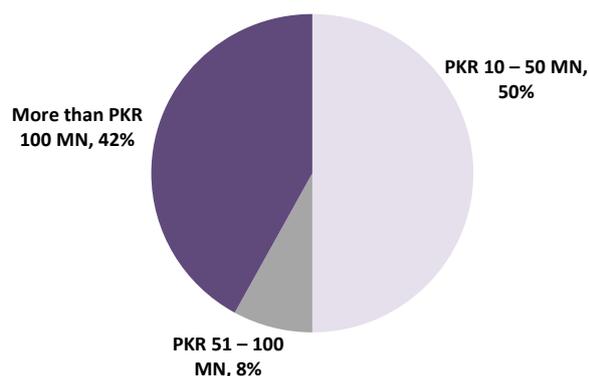
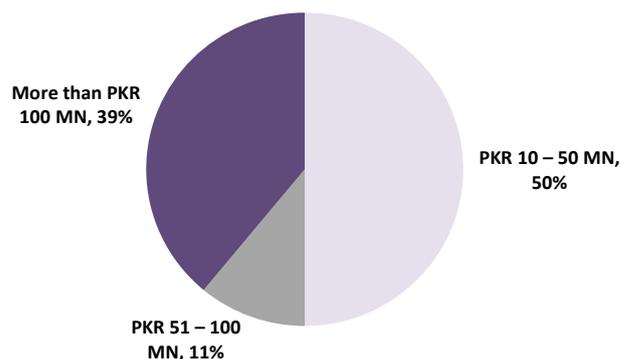


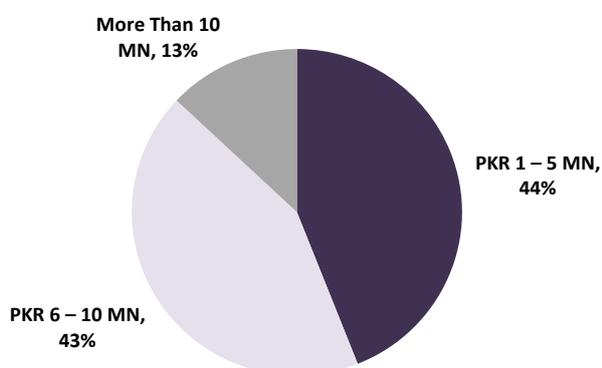
Figure 5.6-c: Annual Expense



Source: Survey Findings

All businesses display reasonable earnings. Almost 40% of the businesses owners earn between PKR 6-10 million while 44% claim to earn between PKR 1-5 million of average income for the past three years (**Figure 5.6-e**). 13%of the business owners however, show earnings of more than PKR 10million annually.

Figure 5.6-e Total Income



Source: Survey Findings

5.7 Indicative Business Requirements

The following table (**Table G**) lists the business equipment required by the businesses in the 'Supermarkets and Retail Shops' sector. The values provided below are susceptible to volatility in market prices. In addition, individual business owners will have distinctive requirements as per their business needs, their size as well technology level and size of the equipment. The table below is neither comprehensive nor specific and provides only an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment.

Table G: Indicative Equipment Requirement	Cost PKR (per unit)
Folk Lifter	1,300,000
Shelves/Isles	10,000
Computer/Cash Machine	25,000
Barcode Scanner	20,000
Laser Barcode Scanner	100,000
Deep Freezer	70,000
Refrigerators(<i>depending on size</i>)	100,000 – 1,000,000
Supermarket Shopping Trolleys	50,000
Cash Counter	20,000



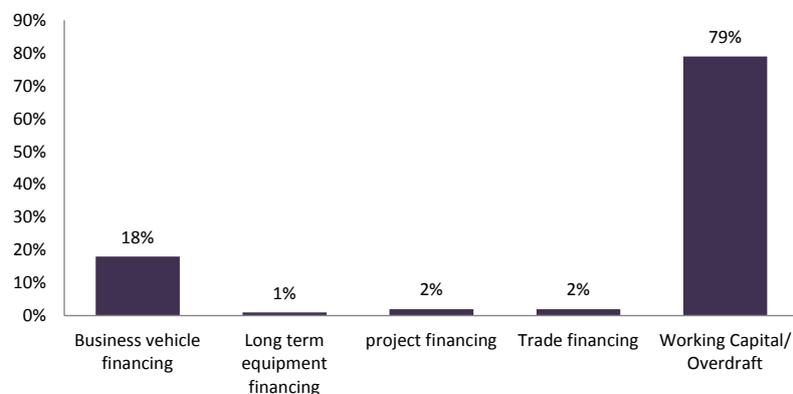
5.8 Financial Need Analysis

More than half of the business owners themselves are in charge of the business funds, with percentages resting at 75%. These funds are mainly required for working capital/overdraft in 79% of the businesses surveyed (**Figure 5.8-a**) from which majority of the businesses require working capital finance for finished goods. 31% of the businesses also require finance of letter of credit (LC) to import raw material.

Amongst the business assets, machinery and equipment, followed by building was required by the business owners with percentages resting at 37% and 35% respectively (**Figure 5.8-b**).

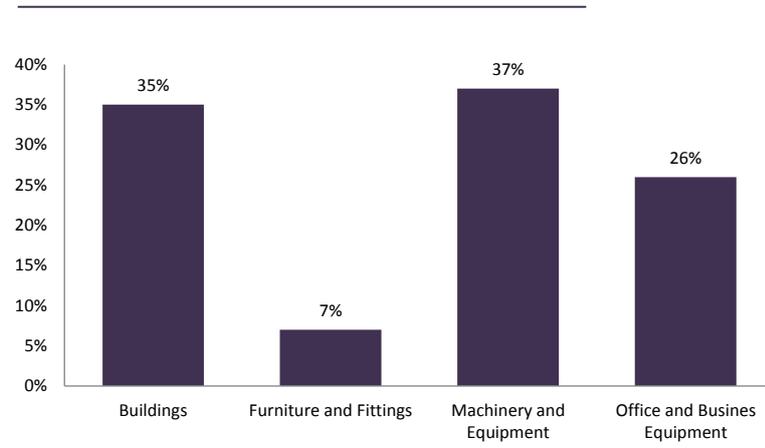
In this segment, 40% of the businesses show reliance on banks as well as cashflow from business as their source to fund their business needs. 27% of the businesses, however, use their own savings to fulfill their business funding needs. Working capital financing can assist the SMEs in the segment in their stock storage and expansion of their business.

Figure 5.8-a: Business funding Needs



Source: Survey Findings

Figure 5.8-b: Fixed Assets Financing Requirements



Source: Survey Findings

5.9 Usage of Banking Products

Very few owners are aware of SME segment specific efforts made by the Government of Pakistan; however, 72% of the businesses have bank accounts in this sector from which 51% have shown interest in potential loan products and availed it from banks. Out of these 51% of the businesses, the most used loan products were business loans and business overdraft/ running finance by 84% and 78% respectively. For those who did not avail any loan products was either due to high interest rate or because they did not require it.

Business owners listed personal / family bank, dedicated relationship manager, efficient and rapid service and provide good loans in terms of tenure as being the key driver in choosing a bank. Many owners were not keen to propose feature or product they wished to be offered by the banks, very few however, wished to have loan with less mark up.

Other services such as cash management and money transfer facility are seen to be used by the businesses in this sector with percentages resting at 99% and 49% respectively.

34% of respondents do not use any insurance products; 34% of the businesses have motor vehicle insurance followed by 15% who avail medical insurance. The few remaining businesses have travel insurance (11%), legal expense insurance (4%), property insurance (3%) and office equipment insurance (1%). None of the business owners are interested in availing any insurance product from the banks as they prefer to avail such products directly from insurance companies.

The sector consists of just 16% of the businesses who avail advisory services; however, none of them have claimed to pay for it. Majority of them avail advisory services from family, friends and relatives with 100% being satisfied with their current source of advisory services. None of the business owners are willing to pay for such services, if provided by the banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	72%
Term Deposits	58%
Loan Products	37%

5.10 Segment Risk Considerations

This sector shows the potential of phenomenal growth in Pakistan but is still highly unorganized and therefore is embedded with many risks. These risks are mostly covered by more capital injection by 94% of the businesses (*Figure 5.10-b*). Following covers the risks that generally pertains to this sector.

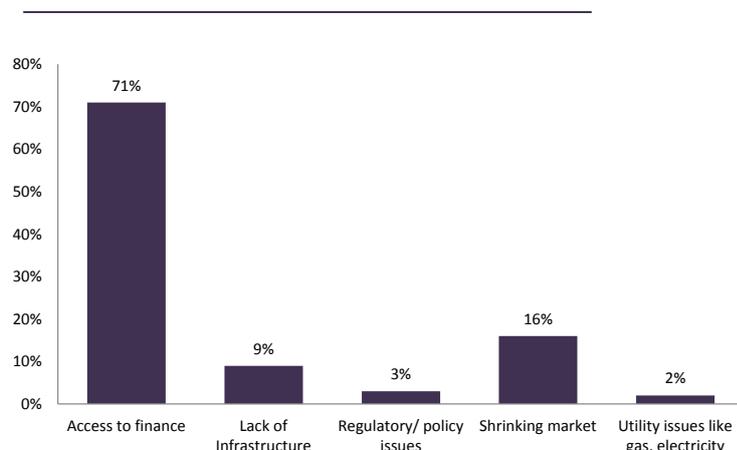
Businesses in the segment are largely individual proprietorships with majority of the business owners having their businesses as their only source of income. About 75% of the businesses in this sector listed default on credit payments to their suppliers or banks as their biggest risk to the business, followed by inflation for 30% of the businesses, which further raises inventory prices for them already proving to be expensive in some cases where they are imported.

Almost all of the businesses address risks through more capital while few also reduce profit margin or focus on inventory management. Majority of the businesses operate from rented premises and so incur fixed expenses in the form of rent payments of their premises.

All businesses in this sector claim to prepare Financial Statements with only 37% of the businesses have them audited. 47% of the businesses not issuing printed invoices to their customers with 28% of the businesses not receiving any invoices from their suppliers. This may pose serious miscalculation in accounts and incomplete accounting records.

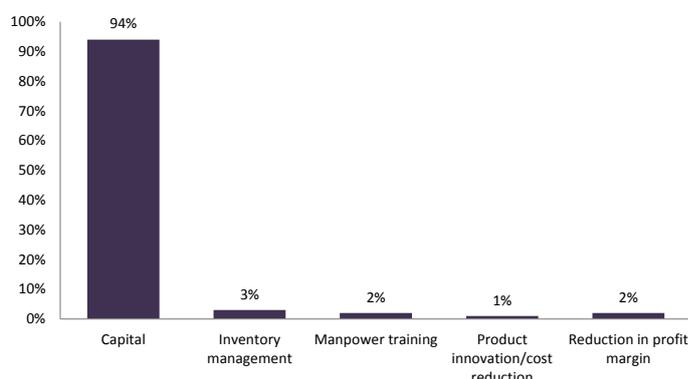
A large proportion of SMEs in the segment do not use any insurance products. One of the major restraint to business expansion (*Figure 5.10-a*) listed is due to lack of access to finance (72%) which presents ample of room for the banks to target these businesses. 10% of the businesses also felt that shrinking market has put a restraint to their expansion.

Figure 5.10-a: Business Expansion Restraints



Source: Survey Findings

Figure 5.10-b: How Business Risk Addressed



Source: Survey Findings

Following are the strengths and weaknesses inherent in this sector:

Strengths

- High capacity for phenomenal growth
- High demand in both urban and rural areas
- Low initial capital requirement
- Low working capital (cash) requirements (almost similar credit terms for customers and suppliers)
- Fast products turnover
- Rising demand of imported goods
- Foreign direct investment (FDI) in retailing permitted

Weaknesses

- Lack of educated staff
- Unorganized sector has resulted in no availability of accurate data
- Low access to finance
- Management expertise required

Further, the risks inherent to the segment include:

- Inconsistent supply of inventory
- Unaudited financial statements of many businesses
- No proper book keeping

Possible Mitigating Factors:

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

6 Proposed Banking Product Suite

6.1 Product Features

Based on our primary and secondary research we propose the following for growth of 'Supermarkets and Retail Shops' sector:

Asset Products:

- Working capital/overdraft Finance Facility
- Equipment Leasing
- Delivery Vehicle Leasing
- Industrial Power Generator Leasing

Liability Products:

- Business Bank Account

Other products

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

Table H: 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 50,000,000 • 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 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 I: Equipment/Vehicle Leasing	
Particular	Details
Down Payment	Minimum down payment of 20%
Salient Features	<ul style="list-style-type: none"> • Equipment & machinery leasing will be provided for expansion capital only to businesses who have been operating for 2 or more years • A list of pre-approved equipment and machinery manufacturers will be developed based on information received from trade association and market reputation • Credit facility will be offered directly through pre-approved equipment and machinery vendors
Tenure	3 - 5 years
Loan Limit	<ul style="list-style-type: none"> • Minimum Limit - PKR 500,000 • Maximum Limit - PKR 10,000,000
Documentation	<ul style="list-style-type: none"> • Business Financial Statements • Proof of business operation for last two years
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 J: 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 two years
Loan Limit	<ul style="list-style-type: none"> • Minimum Limit - PKR 500,000 • Maximum Limit - PKR 10,000,000
Repayments & Withdrawals	Repayments will be based upon present Equal Monthly Installments
Markup	As per prevailing KIBOR and spread
Insurance	Mandatory Insurance facility as per SBP guidelines
Penalty	As per existing bank policies and cost of charges

Table K: 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 L: 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 M: Asset Products Criteria

Indicators	Description
Borrower Eligibility Analysis	Assessment of type of customers to take into account the total indebtedness of the borrower and his disposable income and should ensure that the total financing to a borrower does not exceed the reasonable limits as laid down in approved policies of the bank. Borrower should be in business of ' <i>Supermarkets and Retail Shops</i> ' for the past three years and hold a valid CNIC/smart NIC
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history, business premises ownership documents should be reviewed and be in name of the owner.
Credit worthiness	Credit worthiness of the borrower will be ascertained by collecting information from e-CIB and other banks operating in the region.
Financial parameters	To assess average expenses, income generated and repayment capacity of the borrower.
Adherence to Lending Standards	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities.
Banking History	Verifiable banking history of more than one year with active accounts
Business Operations	Business should be in operation for more than three years. 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 'Supermarkets and Retail Shops' are spread out all over the country in both urban and rural areas, where retail sector consist of no record on number of establishments throughout the country. The banks will therefore need to reach and target the unorganized retail sector, as well as reach the major clusters in the urban areas for supermarkets.

7.1 Marketing Objectives of banks

Marketing objectives for building and promoting the brand image of SME Products for 'Supermarkets and Retail Shops' are as follows:

The banks may:

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

7.2 Promotional Activities by Banks

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

- Workshops will be conducted 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

As primary means of customer service and sales interaction, distribution channels play a central role in the customer relationship process, which further increases growth. Banks' challenge is to improve and integrate their multiple distribution channels to consistently deliver an enhanced experience and foster better customer relationships. Top priority is placed in attracting and retaining customers within and across these channels.

To reach large number of target market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of '*Supermarkets and Retail Shops*' sector through its products on national basis in major cities of the country where retails units are located.

Banks may adopt following conventional channels for distribution:

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

Following Technology based alternate delivery 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 '*Supermarkets and Retail Shops*' segment for advertising bank's products.