

# MARKETS



## Retail Market

### Retail Sector – Shared Growth through E Commerce

By Saba Anwar and Uzma Zia

The retail trade or retail sector is the spearhead of domestic economy. It is the front face of the manufacturing and drives the entire supply chain from consumer to manufacturer through price signals. Over the time the retail has bifurcated into two components: the organized and the unorganized component. The organized sector is brands and chain-stores with more organized business professionals. The unorganized part is where the poor and the middle class are hidden - the small shopkeeper, the rerhi walas, the unskilled labour. They are more than 90 percent of the entire retail trade.

#### Key Sector Statistics

- Value (Retail plus wholesale): PKR 7 trillion (USD 150 billion)
- Share in service sector: 19%
- Growth (2017-18): 7%
- Labour force share: 16%
- Main segments:
  - Grocery and Fast-moving Consumer Goods fashion retail consumer electronics

Source: Federal Bureau of Statistics

#### Absence of Plans and Implementation

The presence of a huge unorganized or informal sector in retail, largely import based and primitive needs to be thought about. There are several reasons for it. First of all there is absolute absence of any plans or policy framework by any government for this sector as pointed out by Haque (2006). The study calls for the Ministry of Commerce to take responsibility and unleash the potential of this sector. Sadly, today after fourteen

years the state of domestic economy remains the same.

### Integration in domestic manufacturing

Secondly, despite persistent efforts Pakistan has not been able to break the low productivity and lower value addition-based manufacturing cycle. This has hampered the integration of domestic manufacturing in the retail sector. More value addition thus requires reliance on imports. The imported items offer better quality in Groceries and FMCG which is 40 percent of the retail in Pakistan. The ease of imports from China, at a price lower than the domestic cost of production further lowers the demand for domestic sourcing. This leaves behind little incentive to organize and execute domestic sourcing.

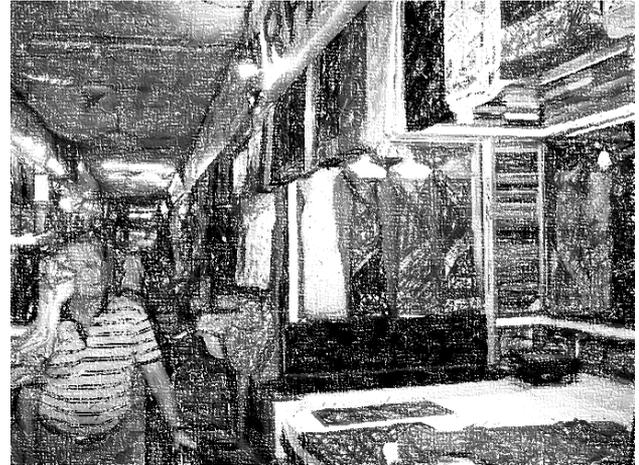
<sup>2</sup> Haque, N.U (2006), Awake the Sleeper Within: Releasing the Energy of Stifled Domestic Commerce!, PIDE Working Paper.

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## Tax Policy

Thirdly, there are so many barriers to entry in the retail sector because of issues on policy side. The policies are not supportive to retail industry. One of them is the erratic tax policy. Every year taxes are revised. The short-term targets and short-term goals of the tax machinery, corruption and harassment hurt the retailers and the businesses. The reactive and predatory tax policy failed to bring people in tax net specially the small corner shops. They prefer to stay in the unorganized segment of retail. The cost of keeping books is very high in Pakistan.



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It takes an average of around 560 hours (highest in South-Asia) to comply with tax . The import based oriented businesses also face disparities in terms of duties, the grey channel of imports etc.

## Commercial Space

Though demographics are conducive for the retail business, the poor urban policy management is creating bottlenecks. Thus little progress was observed in terms of the customer satisfaction with small show rooms and window shopping spaces. Pakistan had 35 shopping malls in last ten years still in terms of the historical development of markets as explained in Haque (2006) the unorganized sector is at second stage and the organized segment is at fifth or sixth grade. The cities could not accommodate the retailers and share the benefits of impressive 20% growth of this sector. The government continues to own large tracts of land in city centers for official residences, offices, training institutes and other non-commercial official purposes. This blocks productive city center development [Haque (2006)]. The lack of commercial space has wired the supply demand matrix and the rentals started sky rocketing.

<sup>3</sup> Reforming Tax System in Pakistan (2013), Sustainable Development Policy Institute (SDPI).

<sup>4</sup> In the second stage improvements in convenience, margin, turnover, inventory and search costs over first phase as more competition develops but still market participants lack financial strength to truly benefit consumers.

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The poor retailer in the unorganized segment lacks the capital to get into structured expensive retailing. So he is further marginalized and excluded. Unlike Bangkok, Hong Kong and Singapore, urban zoning allows no space for street vending through kiosks in city centres [Haque (2006)]. There are millions of khokhas in Indonesia. The land commercialization policy is a cumbersome procedure and involves payment of large fees as zoning does not favor the commercialization.

## The Wholesale Sector

The wholesale is an important player in the supply chain of retail especially in case of textile and FMCG. In textile, the children wear, women wear and unstitched clothing have huge wholesale market. Again 90 percent of it lies in the unorganized sector because of lopsided policies. There are markets like Shah Almi from where it is bought in bulk. Billions worth stuff is bought from there untaxed, undeclared. It is distributed to the informal retail throughout Pakistan. This wholesale is efficient in terms of its reach to all Pakistan but contributes insignificantly to national economy.

On the other hand, in the organized sector it is difficult to find resources even for the textiles. Despite having an export-based textile industry specializing in denim, t-shirts etc, local retailers find it difficult to arrange supplies according to their wishes from well-established textile houses.

## External Factors

There are geo-political, security and its related issues which are exogenous for the retailers. There is no doubt that retail depends on tourism. The war on terror had macroeconomic impacts on Pakistan. Pakistan lost in tourism at the time of peak terrorism. Pakistan has to open up its retail sector and support it to be competitive. Some of the leading brands have managed to establish



<sup>5</sup> Saba Anwar and Omer Siddique (2010), Is commercialization a sin? The Pakistan Journal of Social Issues. Vol 2.

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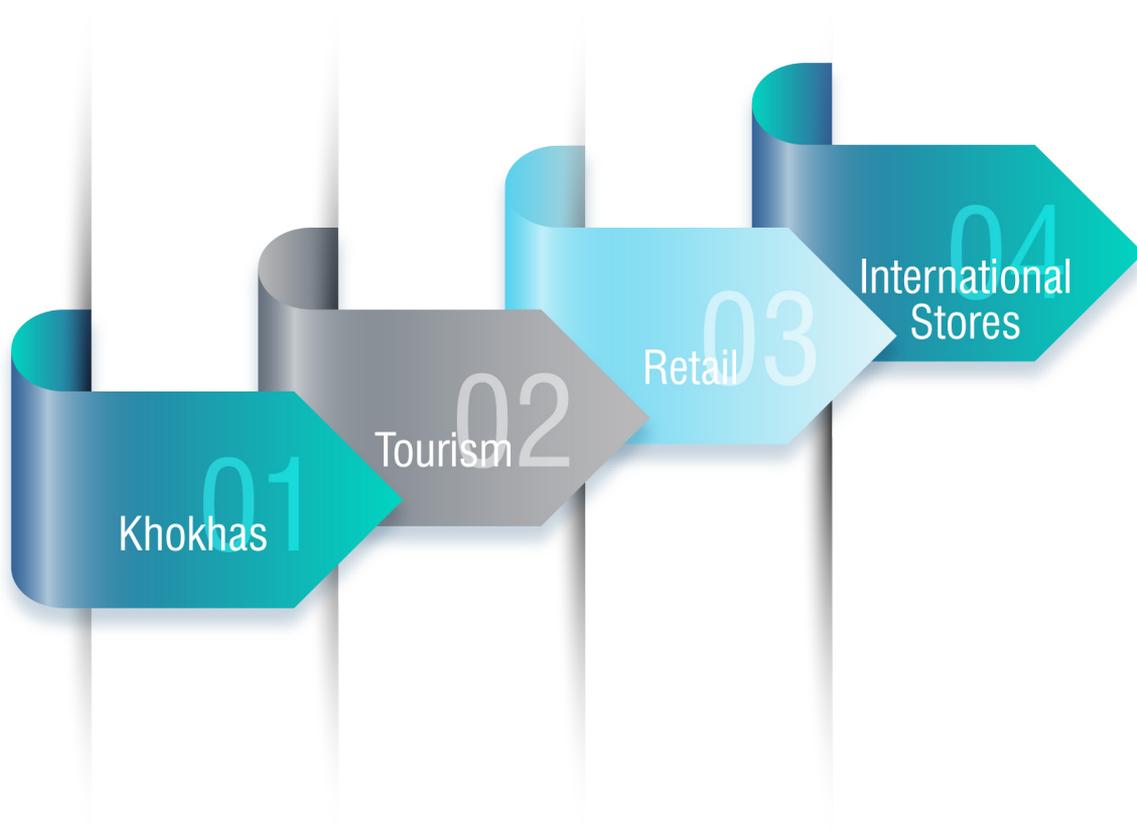


*The current model has changed and is moving from importable to domestic commerce. Boosting domestic industry first and then exporting is a preferable option.*

themselves in foreign countries and having impressive profiles. Customer service issues need to be sought out and it is expected that the customer experience will be catching in the near future. There global SOPs must be followed as the country is learning the curve now. Few years back, imports were encouraged due to dollar appreciation, and non-tariff measures. In some cases, it was easier to order in china or any other country as our policy framework was not supportive. Factors that were exogenous were not in the hands of retail industry. Currently the model has to be changed and moving from importable to domestic commerce. Boosting domestic industry first and then exporting should be a preferable option.

## International Experiences

The international experience is very enlightening (Box 1). The organized sector or the bigger brands are around 30-40 percent in East Asia or South East Asia. They offer better customer experience better product quality and have shopping malls. Most of the retail 60-70 percent runs due to tourism in Thailand, US, Dubai. Dubai alone has 100 million tourists. The presence of tourists automatically improves the customer services as retailers get used to that flavor of tourists coming in and demanding a higher level of service.



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A tremendous progress on the tourism front by Pakistan in the last few years and was declared the world's third highest potential adventure destination for the 2020 by the British Backpackers Society (BBS). The US travel magazine also listed Pakistan as top tourist destination for 2020. Forbes ranked Pakistan as one of the 'coolest places' to visit in 2019. The "next big thing" might materialize in the post Covid 19 scenario if the global SOPs are followed.

## An Opportunity Amidst A Crisis

The idea for e-commerce is that same products are online as they are in-store. Online commerce is not treated as the business it needs to be treated as; it should be treated as a larger chunk of business. It is only 1 percent of total retail in Pakistan, while in India it is over 5 percent. In terms of e-commerce, the big brands are focusing on promotion-led sales online. The idea is whatever you see in stores if you buy it online it will be cheaper.

Internationally, there is a benchmark on which international brands work. When e-commerce is launched, they want to be the number three store. In one year, they need to be the best performing store in the portfolio. In three years, 30-40 percent of the business needs to be online. This can be followed by investing in right technology to overcome the trust deficit of the consumers. Most of the large online presence in US is based in Pakistan. If Pakistan can provide customer support services to the rest of the world, surely we can use the technology for ourselves as well.

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There are existing models that can be tweaked to meet indigenous requirements. 38.6% of the population in Pakistan uses an internet connection and smart phone penetration is 13.8 percent . As the digital landscape is developing, more digital apps need to be developed that link retailers with potential customers.

## Conclusion

The retail sector has a huge potential to grow and share growth along the entire supply chain. At this time, there is more of a lack of the proper mindset which is required to develop this sector. If regulations can be dealt with effectively, the introduction of e-commerce through mobile apps and other technology can help unleash the energy within this sector.

<sup>6</sup>Pakistan Telecommunication Authority 2019.