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INSIDE THE BATTLE FOR RETAIL'S FUTURE

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Inside the battle for retail's future

On the 6th of October this year, the high towering, glitzy Centaurus Mall in Islamabad was ablaze with fire and fumes. For the next few days, leading fashion brands at the mall were scrambling to figure out how lost sales due to the consequent closure of outlets would impact their business, and how everyone would recoup the immense losses. Big malls such as Centaurus and Packages attract great footfall and, therefore, bring more profits because of which they are the most sought after spaces to set up shop.

The fire is particularly concerning in an already troubled economy; retailers are under increasing cost pressures because of double digit inflation, increasing dollar prices, import bans and pervasive uncertainty.

Only about two months later, brands at Centaurus had to face another challenge not created by them or any other accident such as a short circuit. This time around, the federal government sealed the mall because of a spat between the premier of the country, Muhammad Shahbaz Sharif, and the owner of the mall, Sardar Tanveer Ilyas, who also happens to be the prime minister of Azad Jammu and Kashmir.

These two disconnected events highlight two important aspects of retail in Pakistan: One that running a retail business in Pakistan comes with varied challenges, and secondly, the government does not make things easy for these businesses.

Let's also not forget that global recession is rearing its head, creating supply chain disruptions across the globe. Pakistan, being a third world country, like always is on the receiving end of the situation. It is in this backdrop that an upcoming meetup of retailers, connected businesses and leaders is going to discuss the future of retail in Pakistan.

At Profit, too, the question on our minds has been about the future of Pakistan's retail. Will it be a happily-ever-after or will it be full of misery evermore? What are we in for? What are the major changes that will come in the next few years? These are difficult to answer, for sure, but there are trends that point towards the direction retail is headed in. A crucial aspect of this is the number of challenges that can hinder Pakistan's retail from keeping up with its transformative phase. With these broad questions in mind, Profit touches upon some issues that are challenges to the prosperity of retail businesses in Pakistan, and provide us with a glimpse into the future.

In a series of articles, Profit looks at how Pakistan's retail scene has evolved into a brand and mall-oriented culture, how Covid has impacted and transformed the retail industry, and what trends retail businesses anticipate in the years to come.

We also discuss how taxes affect the adoption of digital payments in retail, how bank charges affect digital payments in retail, with a concerted effort to discuss the particular case of merchant discount rate. The latter prompts retailers to avoid digital payments and consequently inhibit growth. This forces them to get stuck in a vicious circle of taxes leading to avoidance of digital payments which then creates obscurity leading to perhaps the biggest problem of them all; the lack of access to finance.

The transformation journey of retail brands requires access to financing because retail businesses could turn out to be rapid growth enterprises. But banks see them as very risky ventures because of the banks' own risk averse nature, problems with access to data for credit scoring and issues with how retail businesses are run.

Then there's the fast-moving fashion retail sector that has seems to have grown leaps and bounds over the years riding on the wave of pret wear. Brands have gone all-in with the bulk sale model, cashing in on the trend of fast fashion in the face of high demand for affordable products, even if it has come at the expense of other considerations such as sustainability. It has worked thus far, but at what cost. And, more importantly, will the high volume model survive the incoming economic headwinds.

Retail's story of transformation

Rise in mall culture, mushrooming brands and the rise in eCommerce have been the hallmarks of Pakistan's retail transformation so far. Would the retail sector be able to keep it up?

By Taimoor Hassan

What is the future of retail in Pakistan? That's a nagging question in the minds of big retailers in business, and it should also be a nagging question for an average citizen of the country. The retail sector is considered to be the third largest contributor to Pakistan's economy, contributing about 18-20% of the GDP. The retail sector likely touches you as a citizen everyday, possibly multiple times in a day. From the prominent fashion brands to footwear and groceries and food and fuel, retail transactions are what an average individual goes through every day.

How retail encapsulates an ordinary citizen is a code every big business mind is looking to crack. Pakistan currently provides decent opportunities for the retail business to make bank in the industry, which has an effect on the economy as well.

The indicators are positive in this regard as a market. Pakistan has one of the largest populations of youngsters that are considered to be spending-oriented rather than savings-oriented. There is an increasing trend towards digital shopping boosted by the presence of 180 million cellphones in the country out of which 100 million have access to 3G/4G service, as estimated by the Pakistan Telecommunication Authority (PTA). On the physical side, Pakistani society is considered to enjoy themselves by shopping in malls and retail outlets when they have extra time and money, due to the lack of other recreational options.

So in such a scenario, what would be the future of retail in Pakistan? Any prediction in this regard would be tough if the existing transformation that has happened in Pakistan is not discussed.

A transformation story of brands and malls

The first phase of the retail transformation in Pakistan is the story of growth of new brands, and old brands becoming bigger and transforming into organised chains. The retail transformation that has happened so far in Pakistan, mostly pertains to the growth in brands and coincides with the growth of the mall culture and people starting to get more familiar with the idea that there are many brands in different categories of retail all available under one roof.

This essentially is the concept where brands start off with a single outlet and grow on to become organised chains with multiple outlets. This phenomenon is more visible in the fashion retail category which is more prominent than other categories, the retail transformation in Pakistan is synonymous with how fashion retail has transformed.

Some of the most successful fashion retailers today like Sapphire are a recent phenomenon. The Sapphire Group launched Sapphire Retail in 2014 with their first store in Dolmen Mall in Karachi. Over the span of about eight years now, Sapphire now has over 30 outlets, growing from being a city level brand to a national brand. From eastern wear to western wear, leather goods to furniture, brands from different categories of retail have propped up and retail has been a matter of growth.

Some of Pakistan's famous malls opened in the last 10 years. Safa Gold Mall opened its doors in 2014, Emporium Mall was opened in 2016, followed by Packages Mall in 2017 and Lucky One Mall also opening in 2017. Now the trend has moved to Tier-II and Tier-III cities like Gujranwala, Sialkot and Faisalabad, helping brands grow by increasing their sales and helping them become organised brands.

"In Pakistan, in the last two decades, brands have mushroomed. From hypermarkets to footwear to apparel, Pakistan has transformed from brands with a few stores to brands with organised chains," says Asfandyar Farrukh, managing director at HUB, a leather goods retailer, and co-founder at the Chainstore Association of Pakistan (CAP).

According to estimates provided by the Chainstore Association of Pakistan (CAP), the official body that represents prominent retail brands and SMEs, retail and wholesale trade grew at 10% last year and has been averaging 10% growth. From the retail and wholesale trade, retail trade has been averaging 20% growth, with the formal retail sector from the overall retail, also averaging a growth rate of 20%. CAP, however, could not provide estimates regarding the number of brands entering the retail sector in various categories over the last few years.

"The growth of mall culture really fuelled the growth of organised brands. This phenomenon is not that old but that is how it really started and the retail industry started getting recognised nationwide," says Farrukh Malik, chief operating officer at Sana Safinaz.

It is particularly in the last two decades that with this transformation towards a more brand oriented culture and proliferation of malls that the way retail is run has also changed. From a few members of the same family busy in running day to day affairs of a particular retailer, for instance in the fashion, pharmacy or kiryana, the retail business has evolved from two to three retail stores to organised chains with many outlets. With this growth towards becoming organised chains, retailers have gained prominence and became big businesses. Along the way, these retailers have developed a bureaucracy of their own with the running of affairs of their business handed over to professional managers, eventually helping them grow to the point where they are.

"This is one of the major transformations that has happened in the retail sector. Managing a chain of tens of stores requires a completely different structure, a completely different mindset, technology and specialisation, skills and education. With the growth in retail brands

Retail today is now about blending customer experience and giving customers the choice to engage in the channel of their preference. A responsive and fast online store, your social media channels and your physical stores are blending in seamlessly to give the customer the best of both worlds

Shamoon Sultan, CEO Khaadi

and emergence of organised chains, management guard has been handed over to professionals," says Farrukh.

An example of growth of 'organised' in a fashion brand,

Fashion retailer Bareeze currently operates about 90 stores all over Pakistan, and three other countries which include Malaysia, the United Arab Emirates (UAE) and the United Kingdom (UK). Likewise, Imtiaz Super Market, a modern trade hypermarket now operates about 25 stores in major cities of Pakistan.

The second disruption

The second major change in the retail landscape was the Covid-19 pandemic that careened the world towards a new era of digital economy. Profit has earlier profiled and critiqued numerous technology startups that have been trying to reshape the way retail works. From grocery delivery disruptors to B2B eCommerce startups complementing the growth of kiryana stores and last mile delivery startups, helping brands fulfil orders peacefully is a post-pandemic phenomenon.

What is also post-pandemic is the realisation among some top-tier brands that digital capabilities were necessary for them to think about all along because the pandemic opened up a vast opportunity to expand eCommerce for various categories of retailers. Food, groceries and fashion eCommerce all picked up during the pandemic.

"Brands started realising that they need to have a firm foot in the digital market to be able to grow. Everyone has started evolving since then," says Malik.

"Now there are so many brands that are present online only. Covid was in a way a blessing that you are not bound to one particular location. You can sell everywhere. You don't have to work in an office. Now companies are working towards establishing proper online channels besides brick and mortar to strengthen digital presence," says Malik.

In numbers, the growth of eCommerce has been impressive. For the first three quarters of fiscal year 2021-22, Rs76 billion worth of transactions were processed at registered eCommerce merchants, according to the State Bank of Pakistan data. In volume, 35.4 million eCommerce transactions were processed in the first three quarters of the year till March 31, 2022. The three quarters of 2022 posted a growth over the entire year 2021. According to the SBP's numbers, for the year 2021, there were 21.9 million eCommerce transactions worth Rs60.6 billion. The trend is clearly towards the growth of eCommerce. These numbers are representative of overall eCommerce numbers and do not specifically represent the retail sector.

The future, therefore, entails the presence of a hybrid model where brands, even the new ones that launch would have to keep a brick-and-mortar presence. Shopping at brick-and-mortar retail outlets is unavoidable in the Pakistani society since families here consider it as a means to enjoy themselves. In fact a source at one of the top fashion brands in Pakistan had told Profit that the pandemic did provide an impetus to online shopping but the trend started decreasing, at least at their brand, after brick-and-mortar started opening because people like to go out for shopping in Paksitan as a matter of recreation. That is not to downplay the role of eCommerce. Online presence is necessary for brands to increase sales because of the reach of to persons that are not near any brand outlet. Therefore the future entails having a hybrid model.

That would require an increase of focus on incorporating technology in existing business operations as well.

What does the future entail?

One of the biggest impediments that industry has faced so far is the lack of access to reliable data for forecasting. Zain Aziz, creative director at Bareeze, says that the entire industry perhaps operated on excel sheets with manual labour analysing the sales trends and forecasting sales for the next year. With the advent of the pandemic and things moving digital more aggressively has pushed brands to think creatively about data collection and analytics to make intelligent decisions about the future.

"We don't have that sophistication of systems, the sophistication of stock and assortment planning. I think that is what our industry lacks," says Aziz. "Stuff like stock planning and numbers like forecasting and demand, that sort of stuff. I think as compared to the rest of the world, what is really lacking in Pakistan is the intelligence behind it."

"Intelligence in managing cash is the real skill and for any business, no matter what you

Which data is relevant, and how to use it to increase sales and do relevant marketing, that would be the next big challenge in the next three years for all brands

Asfandyar Farrukh, Managing Director at HUB

Stuff like stock planning and numbers like forecasting and demand, that sort of stuff. I think as compared to the rest of the world, what is really lacking in Pakistan is the intelligence behind it

Zain Aziz, creative director at Bareeze

are doing, that is the one single thread that unites businesses is to be able to manage cash," he says.

"To be able to manage cash, what you really need is intelligence and how to plan stock, how you mark down, how you price. Right now a lot of us brands do it based on gut feeling. What is really required is the numerical technicalities. The rest of the world is doing AI based forecasting and pricing but we have not even reached step one," adds Aziz.

Wahaj Tariq, the CEO of prominent fashion retail brand Limelight, also echoed a similar sentiment, hinting towards a state of confusion in the industry that is yet to complete evolution in organised brick-and-mortar retail that has now to move towards online as well and think about various technologies. The organised chains that can talk seriously about the use of technology to optimise their operations form only about 10-20% of the overall retail in Pakistan. The shifts in technologies they are being encountered with are being implemented in a country like the United States that has had decades of evolution in the retail sector that predates the existence of Pakistan. In the US, organised retail forms about 85% of the online figures.

"The developed world moved towards a saturation point in brick-and-mortar and then moved towards online. That involves use of and integrating technology and there is a dearth of people who can do it efficiently," says Wahaj.

In some sense, this perhaps points towards the lethargy of the retailers that they don't proactively take initiatives that can help their brands grow, but would have numerous complaints about how the government does not support them or takes them for a ride on taxation and other matters, and how the state of the economy is gloomy that has created uncertainty in the business. It is perhaps a collective of both factors. The state of the economy and problems with the government compound the issue but the retail brands also do not do anything creative that can help alleviate problems at their end. Sophisticated data collection techniques, for instance, can help analyse trends that can help in making better decisions, leading to better sales and profits that can make up for the increase in costs because of, say, multi-layered taxation by the government. In short, Pakistan's retail landscape has been lazy in bringing new technologies on their own and keeping up with the trends, which they now see as how retail in Pakistan would be transforming in the future.

Aziz of Bareeze says that Pakistan's retail sector hasn't been able to take innovative initiatives because most of the retailers are first generation in Pakistan. "The shift from first generation to the second generation will necessitate the use of a lot of technology and understanding of how it works. When lots of retailers are making this transition from first generation to second generation, you'd have a lot of people who most likely wouldn't have years of experience that would now be responsible for a big entity. In such cases, you look for systems to do it for you."

However, belonging to the second generation of one of the biggest fashion retailers in Pakistan, Bareeze itself also uses the antiquated method of analysing data manually for future forecasting purposes. Zain says that at least their brand has not innovated because being an old brand, they still follow the old protectionist policies, but will be aggressively transforming to make Bareeze more intelligence-for-decision-making driven retail enterprise.

Bareeze is not the only one. Sana Safinaz will also have their focus on increasing the availability of data for better decision making.

"The growth of retail has also gotten people comfortable with sharing data to help brands increase their sales. Females were earlier afraid of sharing their phone numbers with brands but now they are comfortable because this helps them receive updates on promotional offers," says Farrukh.

For big brands, collecting the right data across the board is going to be the challenge, presumes Farrukh. "Which data is relevant, and how to use it to increase sales and do relevant marketing, that would be the next big challenge in the next three years for all brands."

Shamoon Sultan, the CEO of Khaadi, says that Pakistan's retail sector is well on its way to induct new technology in daily operations in a bid to modernise the conventional back-end operations and processes in the manufacturing, warehousing and distribution value chains.

"Retail today is now about blending customer experience and giving customers the choice to engage in the channel of their preference. A responsive and fast online store, your social media channels and your physical stores are blending in seamlessly to give the customer the best of both worlds," he says.

To sum it up, the major transformation that has happened in Paksitan's retail scene is the growth of brands and organised retail and a greater inclination towards incorporating technology into retail operations. At a broader level, that is the transformation that should be expected in the future. Micro level transformations such as improvements in store designs and supply chain management are brand and segment specific.

However, impressive if it may seem, the number of Pakistan's retail brands have reached a level of prominence and grown enough to be considered a benchmark is very small. The organised retail as a part of the overall retail is very small, constituting only about 10-20% of the total. While the glitzy and glamorous malls and trend setting fashion brands are impressive in their own right, they could have done a lot better.

So if the future is to be predicted, the prediction that comes first is that further transformation of retail is going to be similar to the earlier transformation that has happened: more brands would enter Pakistan's retail scene and grow on to become organised chains. Would it be a likely eventuality that organised retail grows to 40% in the next 10 years? Would it be a likely eventuality that organised brands which are famous in Pakistan would move towards the next level of growth and become international brands? The answer to these questions is more uncertain than one would have thought.

Even the high flying retailers we spoke to said clearly that things were uncertain at the moment to say definitively what was going to happen even in the next five years. The general consensus, however, is that organised retail would grow with more brands making inroads, and existing organised brands would be optimising their operations using technology and creating efficiencies in their business processes for further growth.

For new brands to mushroom further and for the existing ones to become organised chains, what would be the constraints to their growth and eventually further transformation of retail? It might be those that the business sector itself can't control i.e. taxes and government related deal. ■


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The unsustainable price tag of fast fashion

By Sabina Qazi

Those of you born in the 80s will remember your mothers buying material from Bareeze. The stores glittered with delicate, sparkling work on the softest materials and in a rainbow of colours. There was something for everyone and something for every occasion. The dresses that were eventually made from this fabric were enduring; you could never give away your Bareeze.

Today, the exercise of picking out your cloth to make your clothes, formal and informal, has all but disappeared. It is now about that one ubiquitous word: Pret. The french word for ready. Everything is now ready on the racks for you to try. It has to be convenient. And it has to be affordable. Affordability is the key. With fashion trends changing rapidly year to year, season to season, it's about buying and buying often.

These days, when you buy a dress, it is more often that not taken for granted that it will be given away next year, or the year after that. Large-scale retailers such as Khaadi or Sapphire, go through four collections every year, most of their stock sells out. Other retailers such as Sana Safinaz, Sania Maskatiya, Maria B, Zara Shahjahan and even Agha Noor, though not all of the same scale, have pret wear collections that are hugely popular, and constantly in demand.

They call it fast fashion.

Life in the fast lane

People want to shop. Zain Aziz, Creative Director at Bareeze Man, in an interview with Profit says that, "as a society, we don't have a lot of different outlets for enjoyment, which is why people have become so shopping-heavy," adding that "the experience of going out and shopping as an activity gives them something to do." When we shop so often, we cannot spend on very expensive items, especially since we are buying things we can dispose of easily. Aziz equates this ability to be able to go out and buy stuff to a dopamine hit.

"Everyone is following fast fashion," declares Samiullah Khan, CEO at OAKs by Star Textile Mills. "As this impacts quality, even if there are people who wouldn't want to keep replacing their clothes with new ones, they have to keep doing it." Market trends change fashion so fast, consumers have to follow." It is a strategy that works for producers but they are not alone in this, he explains.

"The influence of social media also cannot be ignored," says Khan. The greatest pressure is on those between the ages of 18 to 20. "So, it's not about whether it's a good thing or a bad thing. Selling more means producing more and selling at lower prices."

Do you remember Khaadi of the early 2000s? Remember the androgynous kurtas, in gorgeously bright solid colours, the lose cuts and handy pockets, and the deliciously soft khaddar that was perfect for both Karachi summers and winters?

Fast forward to Eid in 2022, the Khaadi store in Dolmen, Clifton, Karachi, was faced with several complaints about both the quality of fabric and workmanship of their formals. A regular Khaadi-goer said she bought something for a mehendi and three other people came wearing the same thing to the event. She then proceeded to show much of the work had frayed after being worn just once. Her karigar in Gizri, Karachi promised to fix it for her, she said, feeling relieved. But what's the harm if it wasn't expensive, right? Kya bura hai?

Wrong.

While fast fashion may be affordable, it comes at a price beyond the tag you glance at in your favourite pret store.

Simply put, producing more means more pollution, as Khan says.

Fast fashion and its discontents

While Aziz understands the excitement that comes from constant shopping sprees, he is not for it. "I hate fast fashion, I abhor it, I hate what it does to the planet." Fast fashion is symbolic of what is happening to society. We as a company are not about fast fashion, we don't cut quality, we don't under price, we want people to love what they buy. If you drop ketchup on your waistcoat, we will replace that panel for you. We want it to last forever, we want it to be a considered purchase that stays with you. Bareeze is the same, its prices don't qualify it as fast fashion."

The truth of the matter is, clothes need to keep up with changes in both global and local trends. When planning for the next season, being able to correctly predict what styles will cut it and what won't is a specialised skill. If you get it wrong, you've had it, says a designer at Sapphire, wanting to remain anonymous.

A management official at Outfitters says product forecasting is very important but extremely challenging. "We have big volumes, if we get forecasting wrong then we have to put everything on discount to make it sell fast." Obviously all of it doesn't sell, so then they dump.

And here lies the rub.

Firstly, brands' forecasting needs to be accurate so they dump less, says the official. Secondly, the fabric of all that is being dumped should be decomposable otherwise it destroys the environment. The dumping sites around Karachi are proof of how, in Pakistan, no one really seems to be thinking of sustainability.

A mill owner, on the request of anonymity, however, disagrees. "Everyone is thinking about it. But how is this our responsibility?" he asks. "The government should have a plan." As an afterthought, he shakes his head, adding: "we don't have the luxury of thinking about such things, we have a business to run."

More on that later. First let's get to some of the issues.

> We need to stop demonising fast fashion. Why is affordable fashion so bad? If there is someone who can't afford YSL, but finds something just like it at Zara or H&M, they should be able to buy it and wear it
>
> **Alizeh Pasha,** blogger, influencer

The polyester problem

The mill owner admits that fast fashion in many perspectives is "very bad". First off there's the issue of the material widely used to fuel this fast fashion revolution.

"Polyester is the primary driver of fast fashion in the world and has now come to Pakistan," he says. It is cheap and durable and fits right into the fast fashion matrix. The magic ingredient, if you will. But polyester, of course, is basically a plastic based product, and unlike natural fibres requires lots of energy to produce. And when you dump polyester... well, you get the picture.

There has been a recent surge in western wear and the certain styles and cuts that have been trending on social media. When you see something being worn by everyone you want it, too; then you share your pictures on social media; then you can't bring yourself to repeat those clothes over and over again, because how many times can you share pictures of yourself in the same clothes? At this point it doesn't matter whether the material is eco-friendly or whether it was made to last. The point is that you can be as fashionable as your favourite influencers.

The mill owner says that you have to look at what people want, and you have to give them that. He believes women are the primary drivers of fast fashion, while, ironically, also being more aware of what is eco-friendly and what isn't. "But when you're making clothes for people whose average salaries are around Rs 100,000 or so, you cannot be thinking of the environment, unfortunately."

Lulusar has brick and mortar stores but their e-commerce is booming. So many of their products have polyester in them, but people are buying away. Limelight, another popular brand, has lawns that don't last more than a season. The cloth loses shape after a few washes but their sales have not fallen despite anything. An influencer who often models Lulusar's clothes on her page says, "so what if a button or two falls off, my darzi will put it back, their clothes are trendy and affordable, and I don't want to keep these around forever."

What happens when she gives these away? Eventually her dresses will land up in one of the dumping sites, just more non-biodegradable items to add to the heap. "God, no one is thinking this far and this deep," she replies honestly.

What is sustainable fashion?

Murshed Alam Qureshi, Director Business Development and Sourcing at MAQ supplies, has been formerly associated with Levis. He says that, from a layman's perspective, anything that is produced using biodegradable material is great and sustainable. But there's a lot more to it. "The carbon footprint is part of the trajectory of a product, materials travel from one country to another, there's packaging, tags, everyone has to work together to make sustainability happen."

Deen and Keeno, an upcoming but small-scale e-commerce brand, makes sure that only one plastic bag is used throughout the life of a garment, and packaging is in a canvas bag. The material that is sourced is sustainable cotton, no polyester tags are used. Instead, they stamp their brand on the back of their shirts or pants. Amongst some of their very popular items are their bomber jackets made from either pure leather or their Banarsi bomber jackets with the finest silks. Nadia Zafar, who owns the brand, says she didn't start this because she wanted to make money. "I wanted to make cool clothes, rock-star, androgynous looks. My girl is tough."

But many believe that sustainable fashion is not sustainable for businesses in Pakistan. When something is 'sustainable' it automatically becomes expensive. "How do you tell someone from the working class 'don't look nice, you are contributing to environmental degradation so don't buy more clothes,'" Zara, from Zara Shahjahan, says.

It's not as if retailers and designers aren't conscious of the fallout of fast fashion. Many retailers try sustainable fashion, but it isn't quite working out.

Shahjahan's husband, Saif Rehman, who is the COO of the company, talks about Jehan, a small side project that seems quite dear to him. The online store supplies sustainable cloth that uses only vegetable dyes. "I have insisted on using turnips, it's very difficult but that's also why it's on such a small scale. It is less expensive than our bridals but more expensive than our pret line."

Wasif Sikander Butt, Director at Maria B, says mass production cannot cater to such niche-market demands. "For example, I want green cotton, cotton that isn't heavy in pesticides; but I can't do much about it. How much green cotton is available for me to buy?" He adds that consumer demand shows people don't care for 'slow fashion'; it is consumer behaviour that has to change for any such improvement to be brought into the production of clothes. He does not seem to be in favour of polyester, of course. "Any synthetic oil-based product may have a great shelf life but it will not deteriorate. It will go into landfills. Cotton and viscose, at least will disintegrate."

Even Zafar very candidly admits that this has been possible because her father owns the factory that produces her clothes. "A small corner has been set aside for my stuff and we operate from there. Even then, it is not sustainable through and through. "The science for that isn't available right now," she says.

OAKs' Khan says the same thing. He believes Pakistan does not have the technology to make eco-friendly clothes. Both him and Butt explain how even the west's 'sustainable' clothing caters to a very small market. So small it is negligible.

Usually the response to this is that efforts are being made to use paper or cloth bags instead of plastic. "But the biggest contributor to environmental damage is dyeing and printing, and nothing much is being done about that," says Khan. Recycling is being done to some extent though, he says.

Small steps

Many other companies are also looking to do what they can. "Change is slow and the steps are small but we're willing to start the conversation at least," says the mill owner.

The Sefam Group, under which Bareeze falls, is also aiming to stop the single use of plastic in their supply chain by 2024. Presently, Bareeze has started sourcing all its material locally to help with sustainability.

Zafar believes recycling could reduce waste, almost to the point that more clothes wouldn't need to be made.

Rashida Rana, Manager Environment and Compliance at Naveena Denim, says this is already being done in the export industry. "Nowadays, the textile sector in Pakistan, especially those exporting, are playing a leading role in creating sustainable practices." Focus is on water and energy. "No one will buy from us if we don't follow strict protocols given to us. While the local sector also has its own laws we have to be ZDHC (Zero Discharge of Hazardous Chemicals) compliant otherwise we will not get certification or will be banned." She admits that there are chemicals in everything but new machines use less water or there are dyes that have reduced chemicals, even the raw materials used for denim have to fall within the purview of ZDHC. But being sustainable requires a lot of investment, and maybe everyone isn't willing to put in that kind of money.

"In Pakistan, the seth mentality dictates that if there is no money in something, why should we do it," Qureshi says, making a valid point.

But Shahjahan disagrees with this criticism. "This is like telling us to not make any money." Everyone is contributing to sustainability, she believes, her brand does so in their designs – classics that will stand the test of changes in fashion in the years to come. "We in Pakistan are not contributing to global warming at all, our contribution is negligible. We need to keep the economy running, make sure we provide jobs for people. Why the hell are we even doing this if we are not allowed to make money?"

She also believes that building cottage industries to support and enable sustainable practices is the job of the government.

> How do you tell someone from the working class 'don't look nice, you are contributing to environmental degradation so don't buy clothes from retailers that you can't afford
>
> **Zara Shahjahan**

The customer's role

The thing to understand, says Khan, is that the retail sector thrives on excessive consumption. There will always be an inherent contradiction." You want to produce more so you can't produce great. Economies of scale will make it too difficult. "Other challenges include the fact that organic dyes aren't the same, colours are sometimes not as vibrant and so on. Using clean energy, which, in fact, is advantageous to factory owners, using machines that use less water and other such factors need to be taken into consideration when we talk about waste and environmental degradation. Unless the consumer decides they want to make a change, nothing will happen, he iterates.

Zafar believes that a consumer will buy something as long as it is unique. And in the interview with the management official mentioned earlier, the same points had been made. The consumer is looking for something that is fashionable and easy to buy. "Consumers are looking at cuts and styles, the entire focus is on how a shirt fits," he explains. .

But, because you can't keep buying expensive, do you compromise quality so you can buy more? It would seem so.

Alizeh Pasha, a popular blogger and fashionista, shakes her head at this. "We need to stop demonising fast fashion," she states. "Why is affordable fashion so bad? If there is someone who can't afford YSL, but finds something just like it at Zara or H&M, they should be able to buy it and wear it."

She goes to explain: "Look, we need to make fast fashion sustainable. Repeat your clothes as much as you can. And buy things that will last at least a few years. This means start shopping intelligently." Since print fads change fast, she has switched to solids. Also, cuts change a lot so maybe one could stick to those that may not be drastically different from what is trending, she adds. She encourages everyone to watch Hasan Minaj's episode on The Ugly Truth of Fast Fashion on Youtube.

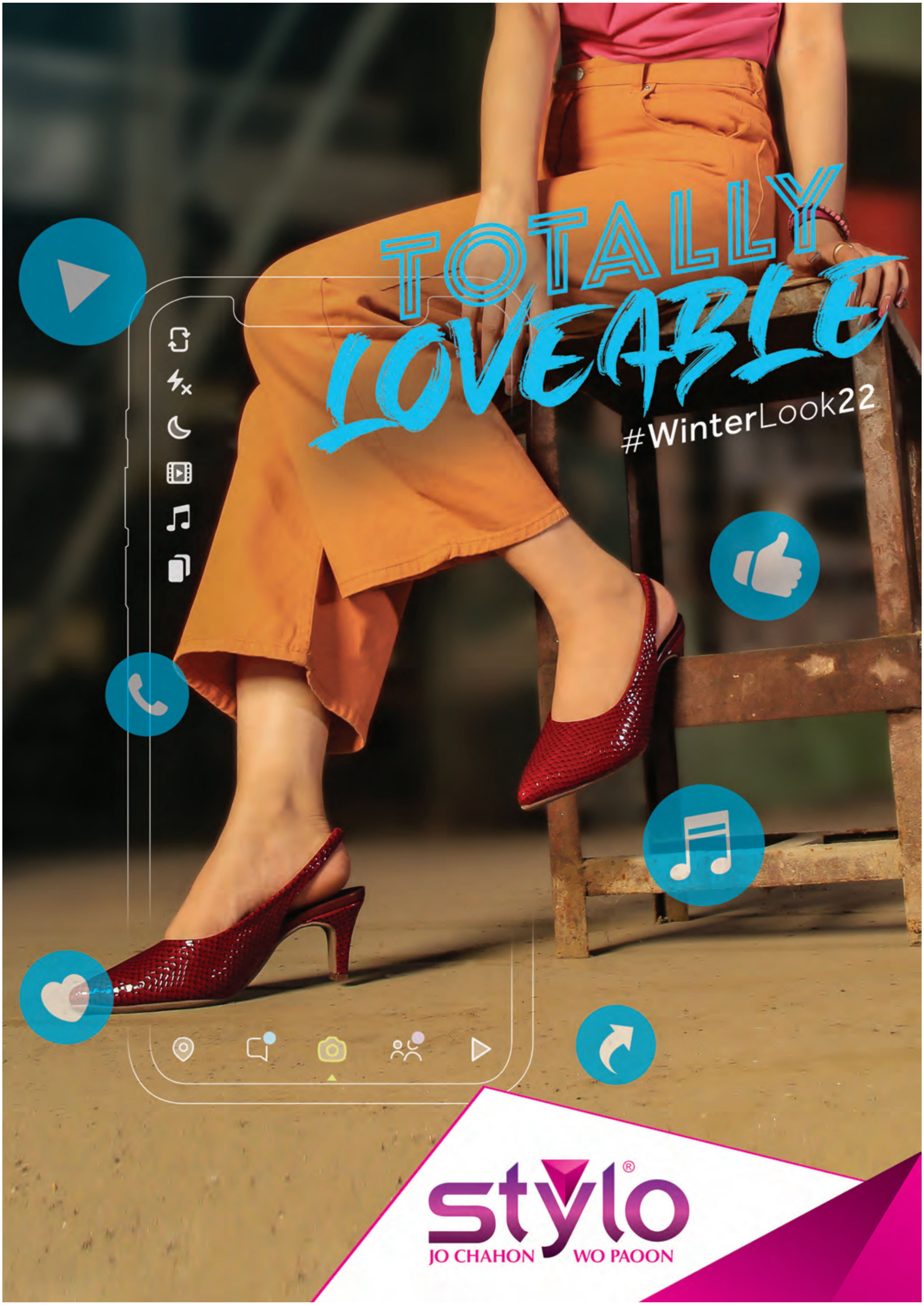
The new economic headwinds

The fashion retail industry is also facing economic headwinds sweeping across the manufacturing landscape of Pakistan, which has everyone hunkering down for a long haul of survival. The strategy that many of these pret brands have adopted – lower margins but higher sales – is under review.

According to one industry insider, who did not want to be named, the customer's ability to buy regularly is set to be hit by the current economic climate. Pakistan is faced with the highest inflation in decades, the currency is down, and monetary tightening is prevalent. Pakistan has been through lots of boom and bust cycles, but the current one seems to be here for an extended period. So businesses have to adjust to a reality that once-eager customers just may not have the buying power to patronise the myriad different lines that come out multiple times a year. The ability to rely on customers whipping out their credit cards to go on shopping binges of cheaper fast fashion products, which they would not mind tossing away quickly, meant that you could count on bulk sales making up for smaller margins.

The insider said that there is a high possibility that this may necessitate a change in strategy. What will be the change in the strategy? Well, the insider believes it could be a move back to higher margins on more expensive products that will last a longer time. So that dress you buy from your favourite retailer may just last you a lot longer, and may not be 'outdated' as quickly as before. That may be bad news for fast fashion, but perhaps good news for the sustainability-inclined that had given up the fight against excessive consumption.

We're lucky that irony never goes out of fashion. Hold on to your kurtis. ■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Pakistan can't have a digital payments revolution in retail. Because the government and the banks quell it!

Let's be real, do digital payments actually stand a chance against a whopping FED tax and MDR?

By Taimoor Hassan

Let's start with a kicker. For the first three quarters of fiscal year 2021-22 ending March 31, 2022, Rs 502.7 billion worth of payments were processed on point-of-sale (PoS) machines. On all PoS payments, the acquirers, the financial services entities that deploy those machines, charge a merchant discount rate (MDR). Assuming an MDR of 1.5%, Rs7.5 billion would have gone to these entities to be distributed between the acquirers, card issuers and payment schemes. An additional 16% FED tax is charged by the government, all paid for by the merchants that accepted those payments at their retail outlets.

For some of these merchants, most likely a small fashion retailer, a small pharmacy store or a shoe retailer, this tax would be a big problem. Already burdened by the multi-tiered taxation by the federal government and provincial and local authorities, this tax along with one more charge paid to the banks is enough for some of these retailers to not have digital payment options at their outlets. The consequence? A heavily cash denominated economy that comes with its own inefficiencies, lack of transparency and an asymmetric taxation system which further incentivises staying out of the tax net for retailers. In short, without digital payments these days, it could be a wreck for the economy and consequently a wreck for the retail economy, all segments alike.

Unsurprisingly, in the case of digital payments at retail again, it starts with an unfair taxation system where organised retail is burdened with taxes, increasing their cost of business and decreasing their competitiveness against unorganised retail, which then stays in the undocumented economy because it comes with more earnings, simply. For instance, fashion retailers claim that they are burdened with 20-25% additional taxes because they are registered and compliant with authorities, and the decrease in margin because of that makes them uncompetitive against unorganised fashion retailers.

Some other segments of retail have low margins to begin with and any additional taxation or charges would keep them from using means that help them grow, eventually. Acceptance of digital payments in this case, decreases the costs that come because of operating on cash and saves time. However, certain segments of retail are being disincentivised because of the charges associated with accepting digital payments, cards in particular; the most prevalent method of payments at retailers; fashion, groceries and others, besides cash, because of the MDR charged by banks for giving PoS services to merchants. The question in all of this is that in a taxation system which retailers consider unfair and which disincentivises digital payments, is the MDR blocking the adoption of digital payments and is reduction of this chare a plausible scenario?

How card payments impact margins

"Percentage of bank charges [the MDR], varying between 1-1.5% of the turnover value, can turn out to be a big charge," says Rana Tariq Mehboob, CEO of fashion retail brand Royal Tag and the chairman of the Chainstore Association of Pakistan (CAP). "Consider sales of say Rs 10 million at a fashion retailer's outlet. At that value, at 1.5% rate to banks, the retailer pays Rs 150,000 to banks for accepting payments on cards. Add to that another 16% FED tax, the payment swells to over Rs 174,000, which is a significant hit on the bottomline of retailers."

"There are certain withholding taxes on turnover. There is a withholding tax of 1.25% on invoice value with certain retailers. There are also other costs associated with tax compliance. So if small margin retailers start paying 1.5% to banks, their margins shrink significantly," says Mehboob.

This has turned out to be a big pain point for some categories of retailers. In fact some of the big retail segments such as mobile phone retail and jewellery retail, are significantly underpenetrated for digital payments. That is because in certain segments of retail, margins are low enough that a charge of 1% is an incentive to avoid acceptance of digital payments.

The cell phone industry for instance

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>
> **Rana Tariq Mehboob,** CEO at Royal Tag and chairman Chainstore Association of Pakistan

is understood to be operating at a 5% profit margin. If a retailer sells a phone for Rs 100,000, he is only making Rs 5,000 in profit on that sale. At 1.5% paid to banks and a 16% FED is an additional charge of Rs 2,300 on top, which reduces the Rs 5,000 profit to about Rs 2,700.

The case is similar with small grocery retailers, which have very narrow margins. Fashion retailers have healthy margins but are unhappy, especially the smaller ones, paying the additional MDR and FED tax that eats away their profits. On the other hand, for the unorganised retailers, accepting digital payments is a means towards creating transparency for taxation purposes and getting burdened with the multi-layered taxation that would make them uncompetitive once they are a part of organised retail.

Meanwhile, jewellery retailers are speculated to be avoiding card payments as a means to shirk from the burden of taxation and compliance with the government regulations and consequently stay a part of unorganised or undocumented retail.

Can the MDR be reduced?

The pains, however, can be alleviated to a certain extent if banks reduce the MDR charges. This was one of the demands of the oil marketing companies (OMCs) after fuel stations stopped accepting card payments or started recovering the MDR charge from the customer. In a letter to the State Bank Governor, the OMCs asked to cap the MDR at 0.3%. This would mean that the merchants, fuel stations in this case, would have to pay less from per litre price for accepting card payments. The rationale provided by them was that since the fuel industry margins are regulated, a percentage charge of 1.5-2% is a significant hit on their bottomline.

There was no rationale provided by OMCs of how the MDR could be capped at 0.3% but it is not an unlikely possibility at all. First though, what do retailers get when they pay an MDR.

According to Atyab Tahir, former country head of Mastercard in Pakistan, the 2-2.5% MDR (the effective rate merchants pay after adding the FED tax), is effectively less than the cost of carrying cash for a retailer and eventually in an economy in which the rupee is depreciating on an ongoing basis. This means that if a retailer puts up a PoS machine, his costs should come down automatically. Cash reconciliation is costly and time consuming, forecasting becomes difficult, and there is a chance of theft and leakages with cash payments that retailers do not account for when considering acceptance of digital payments.

The other fear that is left then is that by increasing card acceptance, unorganised retailers are giving visibility to authorities over their financials and eventually tax them. In such a scenario, MDR charges become an additional burden that is eating profits. But if it is somehow achieved, the virtues for the economy are manifold.

For this reason, the government should actually provide incentive to the acceptance of digital payments so that retailers don't see it as a burden.

"There is a ripple effect of digitising cash payments at retail outlets, and that ripple effect has a greater advantage for the revenue collection for the government, for digitising of the cash economy, for the reconnaissance of the merchant services and the merchants," says Atyab.

That incentive was provided by the Punjab government when it reduced the sales tax to 5% on card payments. Earlier, the State Bank of Pakistan (SBP) incentivised the PoS acquiring business to push the proliferation of machines. PoS acquirers are financial services entities that onboard merchants and deploy the payment point of sale machines at retail outlets.

In December 2020, the SBP issued a circular which carried directives for the uplift of digital payments in Pakistan. Among its directives, the SBP increased the merchant discount rate and fixed it in the range of 1.5%-2.5%. This means the average price per transaction increased for a merchant because the earlier cap was less than 2.5%. Out of the total charges, the acquirers cut was increased substantially and the issuer's cut was capped at 0.5%. So let's say an acquirer charges a fashion retailer 2% on each transaction made using a debit card. Out of that

> The purpose of debit cards is to decrease cash based transactions so that customers dont have to go ATMs to withdraw cash and then pay for a retail transaction. When that happens, even a lower MDR rate, which would be more acceptable to merchants, would translate into a higher income for the banks
>
> **Ziaul Haq,** director and head of acquiring at OPay Pakistan

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2%, the issuer's share is capped at 0.5% and the major share goes to the acquirer who has to bear the cost of importing and deploying costly PoS machines.

The third party in the transaction, the payment schemes such as Visa, Mastercard, China Unionpay and PayPak, get a cut which averages around 10 paisas per transaction.

Because the acquirers were incentivised with a higher cut on a transaction, POS acquiring became a worthwhile business. Consequently, the PoS machines in Pakistan have increased to about 97,000 machines as of March end this year, according to data from the State Bank of Pakistan. This number has jumped from about 40,000 POS machines for card payments before the SBP issued the circular. This increase in number shows that the retailers are inclined towards installing POS machines and accept cards as a mode of payment. This assumption would be particularly true since for the fashion industry, most of the prominent brands that have organised chains accept cards at their outlets. And PoS payments overall are a retail phenomenon.

With the MDR, however, the concern is that for certain segments of retail, it is unbearable because it takes a hit on their margins. Even the fashion retail industry, which enjoys better margins, would avoid it if they had the chance because the cost of doing business is already quite high because of all the taxation.

When OMCs wrote the letter to SBP to reduce the MDR to 0.3%, they must have thought it through. Because banks make money on many other fronts, they can afford to not charge an MDR or charge it at a substantially less rate.

Because when a bank issues its customer a debit card, it is already making money on the deposits from that customer. Then the customer is charged issuance and annual charges on the card which are high to begin with and then the merchant is charged an MDR. Merchants have their accounts with banks too, and banks are making money on deposits from the merchants as well.

Because of this reason, capping the MDR at, say 0.5%, would not be considered unviable for the banks and it would have long-term benefits for the economy and the digitisation of retail. It would not be unviable if the State Bank further lowers the MDR because the biggest card issuers in the country are also the biggest POS acquirers. HBL, UBL, MCB, Alfalah are all acquirers and the biggest issuers of debit cards in the economy (HBL alone has about 5.5 million cards in the market).

Their income comes from many streams. Deposits from customers, deposits from merchants, issuance and annual fee on cards and then the acquirer and issuance interchange. There is a case that can be made that in the presence of multiple income streams, MDR can be rationalised further to push digital payments that will promote transparency and eventually help with taxation, which will help rationalise taxes for retail.

In fact a source in the industry critiqued that the earlier incentive provided by the central bank missed an important component that would have incentivised card payments better. "When you have to incentivise digital payments in the beginning, pricing matters a lot," says the source.

"The acquirers were incentivised by increasing their cut from the MDR when in fact the government should have been asked to decrease taxes on the import of the PoS machines and decrease their costs, while the MDR should have been decreased to make it more acceptable to retail merchants," he says.

This would have promoted fair pricing in the beginning, giving the necessary push, and would have still incentivised acquirers that are not banks. Besides the four banks mentioned above, the two three acquirers are Nigerian fintech OPay, Pakistani fintech Keenu and Meezan Bank. Both Keenu and OPay would have relied on an increased cut on the acquiring side from the MDR to be viable businesses but with a lower cut on the MDR but tax incentives on the imports would have been a fair deal.

This would have to be done concomitantly with the acquirers deploying more machines in low-tier cities. Currently, the concentration of PoS machines is in top cities, Karachi, Lahore and Islamabad only.

Zia ul Haq, director and head of acquiring division at OPay Pakistan, says that the banks need to find a way to increase the spend on the cards by customers. "The purpose of debit cards is to decrease cash based transactions so that customers dont have to go ATMs to withdraw cash and then pay for a retail transaction."

"When that happens, even a lower MDR rate, which would be more acceptable to merchants, would translate into a higher income for the banks," says Zia.

At the current scale, says Zia, even the FED tax on such payments should be abolished until the payments volume reaches a scale of a few trillions of rupees yearly, which as mentioned above, stands at Rs 502.7 billion for three quarters. When that is achieved, and that would be achieved if a lower MDR leads to more merchants deploying card machines and customers increasing their spend on the debit cards, any tax, which is currently a deterrent, would lower payments volumes and value to a point where they would still be significantly higher.

This will eventually lead to retailers of all sorts, from fashion to fuel and pharmaceuticals, that consider digital payments a burden on their bottom line, coming to digital payments, creating that ripple effect in the economy that has virtues for everyone. Organised retail will grow and those already part of the organised retail will grow further.

The way it is arranged right now, the MDR is encouraging cash more than it is incentivising digital payments. Consider this example: if a customer buys a shirt for Rs2,500 from a fashion retailer and the retailer asks for an additional 2% if the customer pays through the card, it increases the price of the shirt by Rs50. The additional cost would not only make the retailer more expensive and consequently less competitive, it would also prompt the customer to go to an ATM nearby and withdraw cash against a charge smaller than the MDR. The customer might withdraw more cash than required for the shirt and then go on to use cash for more transactions. In this way, a high MDR would very well be increasing the cash transactions and presents a case for it to be lowered. ■


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For retail to grow, banks need to lend more. But they won't!

Public sector crowding out is a thing. After all, why would the banks loan to businesses when they can park funds in bonds and treasury bills?

By Taimooor Hassan

If you are a small fashion retailer and have now grown big enough to want to open up a store in one of the prime locations of Lahore's Gulberg area or a big mall, but need money for the expansion, what do you do?

Opening a new store at a prime location would require a very hefty investment, with months of rent in advance required to secure the lease. Then there are costs associated with building the store according to a certain design for a great customer experience but all your money is stuck in the inventory at your other stores and your savings wouldn't cut it.

What do you do in such a scenario? If you are considering going to a Pakistani bank, good luck with securing a loan, if you do not have a collateral to provide as security against it. For a long time now, traditional commercial banks have had a very conservative stance on providing financing for retail. They would lend to small retailers for working capital requirements against their inventory, but they would not do it for expansion projects without a collateral as a security. The situation, however, could be different with the entry of digital banks in the scene, though some challenges await them as well. Why don't banks lend to retail businesses? The answer to this question has many facets. There is a dearth of data to assess credit in the case of small SMEs, there are risks associated with such lending due to how retail business cycles operate and then banks are plain lazy in some instances to do anything about it.

So you want to get a loan

"Retail businesses have to expand their footprint at a fast pace in line with the strength of its brand," says Shamoon Sultan, CEO of the iconic Pakistani fashion brand, Khaadi. "Expansion means more capex and a higher level of money stuck in inventory which equates to more financing lines. Fast pace retail entities need financing support to meet their growth targets as organic growth is rather slow and gives an opportunity for competition to establish their base."

The most rampant complaint that has come from banks as far as lending to small retail businesses is that because of the severe lack of documentation of the economy, banks do not have enough, let alone good, data points to build risk models on and lend to these customers. About 80% of retail in Pakistan is undocumented mostly because of the fears of coming into the tax net and the burdens that come with that, constraining their growth in the process.

As a consequence, retail financing has been restricted to financing for working capital requirements of small businesses, but at a

small scale. Bilal Amjad Khan, head of supply chain financing at Bank Alfalah, says that his bank is very active in extending loans to small businesses.

"Retailers are the growth engines in the economy and they have working capital constraints. They are also connected with big corporates one way or the other which makes it easier to lend to them," he says.

Working capital financing helps retailers with their day to day operations and when they hit a point where they require big sums of money to invest into growth, banks start getting wary. A multitude of factors come into play here.

Khan explains candidly that with respect to expansion projects, the general sentiment in the industry is that banks would not do such financing and the associated challenge is the aspect of documentation that these retailers do not have.

"If you look at it from a bank's perspective, retailers are not eligible for these loans if they do not have the required transparency in their business, even if the business is worth billions of rupees," says Khan.

"On the small merchant side, there is a dearth of such data because of their own unwillingness to document such data or simply the lack of awareness to do so. The challenge for banks then is what do they create their risk engine against and how do they measure the credit worthiness, or assess the risk of a small merchant or an SME in the absence of such data," says a former banker.

Some of the challenges faced by banks in assessing the credit worthiness of a small merchant is the level of financial detail required for such lending, the lack of adequate and reliable timelines and other requirements such as reporting and going through an audit. Auditing has its own challenges in Pakistan.

At a bigger scale, securing financing from banks has almost exclusively been a luxury for big corporations with multiple business segments. For instance brands like Gul Ahmed, AlKaram and Sapphire would be able to readily get financing from banks for the retail business. Banks already have established banking relationships with Gul Ahmed, AlKaram and the likes, and financing for their retail operations becomes easy because it is just an extension of their other businesses.

These big retailers have access to credit lines from banks because of the visibility of the latter on their other business segments. Most of the prominent brands in fashion retail are backed by legacy businesses. For instance, Sapphire retail is backed by Sapphire Group. Both AlKaram and Gul Ahmed are big textile exporters and SanaSafinaz has the backing of Hashoo Group. Because the banks have decades old business relationships with these groups, they also have strong visibility on their financial strength.

Some of these textile manufacturers are export oriented and avail export subsidy schemes mandated by the government.

Most of the fashion brands that are the most prominent in this segment, are backed by legacy businesses. "In the case of Gul Ahmed for instance, you can pull out how much cotton yarn they purchased, what were the input prices and what was their production. With the availability of such data, banks are more willing to lend, and financing becomes less risky," said a former banker commenting anonymously.

"It is easier for big retailers to get financing as the brand value is considerably higher and they can also get better credit terms from their suppliers. Small brands have a smaller footprint and their financials may not be as strong so banks do not give them priority," says Sultan.

"Banks in Pakistan still rely on tangible security in the form of plant and machinery or land and building. Since most of the stores of retail businesses are in rented premises primarily in shopping malls, the retail sector has no immovable property to mortgage. Internationally, financing is given to retail businesses on the basis of their cash flows so as they grow they also get more loans, which can be further used for expansion."

It is, however, not entirely the case of being part of a big business group to be able to secure financing. Brands all around the world are able to get financing for expansion without being part of any big business group. In Pakistan, however, despite being a big brand, there are certain aspects of the business that make the banks wary of lending to retail businesses.

Here's why you wouldn't get a loan

The way big retail brands like Khaadi or say Beechtree operate is that they are not manufacturers themselves and would have to order inventory for a certain sales cycle months before the sales start to ensure there are no untimely disruptions in sales.

For instance if Beechtree has to put up a winter collection for sale, ordering for that would start with the manufacturer months before; say eight months. Then the company would require another two to three months before the inventory is completely liquidated at stores. The entire cash conversion cycle could run up to a year, increasing the chances of a cash flow crunch in business and raising a need for financing.

The need for financing would be higher because orders for the next collection, say the Summer collection, would have to be placed with the manufacturers when orders from the previous inventory wouldn't have been liquidated. In effect, the company would have to raise funds for two batches.

The amounts needed for financing would be further increased by the growth targets of a retail brand. Pakistani retail brands have witnessed unprecedented growth in the periods before Covid. Individual growth targets mean that if Khaadi has to start ordering its new winter collection with one or more than one manufacturer, it would also account for the growth that it expects or has set for itself.

According to sources in the industry, Khaadi had sales worth Rs 21 billion last year. So for instance, if Khaadi wants to increase its sales to Rs 30 billion 2022, it would need more cash to achieve the higher target, effectively increasing the amount of funds required from a bank. As long as the growth trajectory of a brand is higher than its profits, it will need more money for financing.

Some, if not all, of this growth would be coming at the cost of discounting and the brand might not even be profitable. The thought process of Pakistani corporate bankers would be such that if a brand does not have the ability to generate profits, how would it be able to return the loan? In fact, it would need to have enough profits to be able to continue its growth and return money to the lenders, raising questions about the viability of the business.

It simply makes a risky investment for a bank and they would require collateral, like a factory for example, to protect themselves in case of a downside. While the inventory itself is also a security which the bank can sell in case a brand fails, it cannot be in its possession because it needs to be sold for the brand to be able to pay its liabilities back to lenders.

The problem with such an arrangement is that inventory could be spread across multiple stores and could be so big in volume that it wouldn't be possible for the bankers and even auditors to reliably assess the volume of stock. As a matter of fact, the exact issue arose in the case of Hascol whose auditors were not able to accurately assess the inventory of fuel and banks extended loans of an amount higher than the available inventory.

A similar issue could arise in the case of retailers as well. That since the inventory is not in the possession of the banks because that is what needs to be sold to repay the debt to the bank, and that if it is at the stores, it can not be counted reliably, instances of miscalculations if not fraud become more plausible. Banks could lend more than the inventory or interchangeably, when it's time for the bank to liquidate the inventory, the bank might find that the inventory was not what the brand claimed it was. In some other instances, brands have misdeclared their sales to the banks for securing financing, while reporting different numbers to the FBR for the purpose of avoiding taxes, prompting banks to deny financing to such businesses. All of this makes it a risky business to lend to retail brands without a collateral and banks prefer resorting to safer pastures such as lending to the government or big corporates.

As a consequence, big brands that are not part of a conglomerate and don't have a collateral to give as security, run the risk of going to predatory loan sharks which ask for exorbitant returns that can kill a business altogether.

Financing for small retailers

At least the bigger brands have greater transparency in their financials. It is in the case of small retailers that the dearth of data does not let banks to adequately calculate cash flows and decreases future predictability. The banks then consider this risk that if a loan is approved for a smaller merchant, even if it is a small amount, it could go to other avenues such as real estate assets.

This explanation with respect to the lack of data to lend to small retail businesses that want to grow further falls short of being the truth. The fact of the matter is that even without the availability of a great dataset for credit assessment, unconventional methods of assessing credit by corporate finance teams of these banks can be employed.

A former banker, on the condition of anonymity, explains that both revenue and inventory financing for retail in Pakistan is lacklustre because banks are unwilling to put a lot of effort into developing models that are unconventional in nature but would promote better access to finance for retailers. Banks wouldn't make the effort to build such models simply because for them, the easiest way to mobilise their deposits towards lending without doing anything is to lend to the government risk free.

"They'd rather engage their capital towards something where they do not have to put in a lot of effort. Because of the idea of lending conventionally in Pakistan, banks haven't made the effort to come up with non-conventional means to assess an SME's creditworthiness. They would evaluate the SME at the criteria they would evaluate a corporate client but the data a corporate client can provide, an SME cannot and that is why corporate bankers complain about not having enough data points to understand a small retailer's business," the banker explained.

"An SME is not an SME. There are several different verticals and several businesses and the data available and the kind of data required to truly assess an SMEs credit worthiness, differs from vertical to vertical. That means they would have to create a model for each of these verticals which requires investment and understanding of the vertical and banks don't have that kind of inclination to do so," he added.

This is not to say that growth of retail businesses solely depends on the easy availability of financing from the banks. There are a multitude of factors that affect the growth of retail in Pakistan and access to finance is just one of them. Even with easy access to financing, argues Sultan, there may be other barriers to brand growth in Pakistan.

"For example, the country's market may be highly competitive, with many other brands offering similar products and services. In this case, it may be difficult for a brand to differentiate itself and gain a significant market share," he adds.

"Additionally, factors such as political instability, economic instability, and other challenges may also impact a brand's ability to grow. Overall, while financing can certainly play a role in helping brands grow, there are many other factors that can influence the potential for growth."

The case that we are making here is that a set of interconnected issues hinders the growth of retail, and in some instances one causes the other. To avoid the burden of taxation, retailers stay undocumented, which creates obscurity for banks. Digital payments, which can in part help create transparency, are caused by taxes and charges such as the MDR.

On providing loans to retailers, while banks have a legitimate issue with regards to transparency of data for assessing credit and lack of trust, they haven't been very active on following unconventional models for lending.

A source in the banking industry, with over 20 years of experience in banking, argues that specifically to solve the problem of financing for SMEs such as small retailers, the SME Bank was created by the federal government. The SME Bank was formed as a public limited company under the Companies Ordinance 1984, with the Government of Pakistan as the major shareholder.

As part of the financial sector restructuring programme of the Government of Pakistan, Regional Development Finance Corporation (RDFC) and small Business Finance Corporation (SBFC) were amalgamated into SME Bank Ltd at the beginning of 2002.

The source claimed that for the last five years, the SME Bank has been practically dysfunctional. And that it is, perhaps, the only bank that has less than 20,000 customers, he claimed. Unless the SME Bank is revived access to credit will be a problem for small and medium retailers.

What could be the solution, meanwhile? While the ability to lend big amounts to big brands belongs only with banks right now, scores of startups have emerged recently that are focused on digitisation of SMEs for lending to them. For instance in grocery retail, to collect that data and create that transparency in their transactions, startups like SnappRetail and Aladdin Informatics are on an arguably ruthless journey to digitise grocery retailers and create that repository of data on which banks would also be able to lend. On the other hand, fintech startup PostEx works with small merchants to help them with improving their cash flows by paying invoice value upfront for COD orders.

A new legion of digital-only banks are also about to take roots in the Pakistani market which would have to target small SMEs for lending purposes. They will be faced with numerous challenges, though. Digital banks wouldn't have a great opportunity to raise deposits since wealthy depositors are all with commercial banks at the moment. Furthermore, digital banks would have to face similar challenges that commercial banks currently do. They would have to come up with innovative models for risk assessment for which the challenge of accurate data exists, just like it does for banks. It remains to be seen how unconventional they can get.


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OPINION

Asfandyar Farrukh

Risk of restrictions looms large over troubled retail sector

Elevated inflation and the ongoing economic crisis in Pakistan appear to have badly hit consumers and businesses alike. After experiencing several economic shocks over the past two and a half years, retail brands are struggling once again in the current stagflationary environment. If the situation worsens, many retail businesses are expected to shrink their networks of physical stores and some may even have to shut down.

So far during this winter shopping season, retail brands in major malls and markets of the country have observed an estimated drop in consumer traffic of 5% and a nominal increase in sales of 13% compared to the same period last year, according to industry data. Meanwhile, retail prices of many products have increased by over 20% on average during the year (as per PBS). This is also validated by a similar increase in the collection of domestic sales tax by the Federal Board of Revenue up to November 2022.

At the same time, the overall cost of doing business has risen by over 40% driven by sharp spikes in fuel costs, power tariffs and cost of imported inputs, primarily due to PKR depreciation. In addition, rentals are a large, fixed cost for retailers in addition to other occupancy costs and inflation-adjusted payroll expenses.

To top it all off, during this peak period, retailers tend to carry higher inventories which are planned months in advance. From an insider's perspective, most if not all businesses in this trade are currently facing over-stretched cash flows, precarious financial health and erosion of profitability. Therefore, the contraction of domestic consumption is underway and doom-and-gloom across the retail ecosystem may be around the corner.

In this distressed retail environment, any truth to growing rumours that the government of Pakistan is once again considering curtailing operating hours of malls and shops would be highly damaging, especially to major shopping malls and retail brands. Any impact to these formalised businesses usually has a knock-on effect on their vast supply base and multiple allied industries thus increasing unemployment across the value chain.

After the initial COVID-19 lockdowns, recurring restrictions on operating days and timings continued throughout most of 2021 which badly hurt the retail trade and upstream businesses in the country. Although brands benefited from a much-needed boost in business once restrictions were fully lifted in October 2021, the trade was affected once again during the recent import ban and pandemic-like restrictions on operating hours applied as part of energy conservation measures during June, July and August 2022.

From a private-sector standpoint, such measures are knee-jerk in nature and the industry stakeholders are not consulted in order to arrive at balanced solutions. In addition, such restrictions are repeatedly flouted in small and medium-sized cities and markets where law enforcement is found to be unable or unwilling to act. Prominently located malls and shops regularly experience targeting by local authorities while businesses in less prominent areas are allowed to stay open, often through collusion.

Practically speaking, any measures to reduce retail timings are expected to result only in a nominal reduction of electricity consumption but the impact on the domestic economy appears to be much larger.

Last time around, retail operating timings were reduced by two hours at night and Sunday was notified as a closed day in most cities. Unsurprisingly, the vast majority of shoppers did not change their behaviour because they found it hard to visit outlets either during office hours or peak traffic times and had one less day on the weekend to shop.

One fact that is often ignored is that tens of thousands of families turn their home lights off when they visit shopping malls and retail markets where less electricity per person is consumed because energy-efficient lighting and cooling technologies are utilised.

Based on industry figures, resultant energy saving in the major malls averaged 10% while retail businesses claim to have faced a 25-30% revenue haircut across the board. For example, if the monthly revenue of one shop was Rs 1 million, its revenue loss was Rs 250,000 to Rs 300,000 while the electricity saving is likely to be less than one-tenth of the economic loss. In such a scenario, no business can afford such a forced reduction in business without triggering severe cost cuts.

The dynamics of retail in Pakistan are such that prime retail spaces are in short supply and rents usually range from 5-15% as a proportion of revenues, in normal circumstances. As per local market norms, rentals continue to rise by a minimum of 10% every year but, despite this, the last thing a retailer will do is vacate a premium location at the risk of losing it forever. As a result, negotiating the cost of rentals is usually not an option for a retailer unless the value of a location has permanently diminished. Aside from a few months during the first two pandemic-induced lockdowns, full rentals have been charged throughout the turbulent last few years. In addition, malls also

The writer is the co-founder & senior vice chairman of the Chainstore Association of Pakistan

charge common area maintenance and utility costs to the retailers which are included in the occupancy cost of any mall-based shop.

Given that one in every seven people in the country work in retail and wholesale trade, the cost of retail wages and salaries are substantial. Payroll cost makes up approximately 5-10% as a proportion of a retailer's revenues. This area is where cost-cutting is usually focused upon by most retailers, even if temporary. For example, if a shop normally operates for 10 or 11 hours, it employs staff in two overlapping shifts but if its operating hours are forcibly reduced by two hours, it will probably only run one shift and inevitably reduce some of its workforce.

As mentioned earlier, any curtailment will hurt the domestic economy while not providing any substantial economic benefit to the country. As per the NEPRA "State of Industry Report 2021", excess power generation capacity and the "Take or Pay"/"Must Run" contracts, have straight jacketed our economy. Regardless of consumption, the government is known to incur additional capacity payments payable in foreign exchange. In fact, the NEPRA report states that the government must take measures to increase electricity sales to ensure "optimum utilisation of efficient electric power generation plants". Improving performance of DISCOs by reducing faults and load-shedding will lead to inefficient fuel consumption by industrial and commercial generating sets, for example.

Lastly, it is unfortunate that the private sector and citizens will bear the impact of any forced energy conservation measures while power and fuel wastage in the public sector remains unchecked. Interestingly, the entire commercial sector consumes around 7% of national electricity, at the highest tariff, while the public sector consumes approximately 8%.

The dynamics of the retail trade need to be understood and industry stakeholders must be taken on board. In this way, short-term measures will be well-thought out with a view towards implementing meaningful reforms for long-term growth of the economy.

How to Use Analytics in Supply Chain

By Partner Content

The COVID-19 pandemic caused widespread supply chain disruptions that resulted in a global economic slump. The situation has forced organizations to rethink and transform their supply chain model–creating a need for in-depth supply chain analytics never imagined earlier.

With real-time insights into the supply chain process, companies can improve their decision-making and get ahead of disruptive events that can impact business growth.

What is supply chain analytics?

Supply chain analytics processes all data produced by the various supply chain components and transforms it into a visually digestible form of graphs, charts, and tables to help managers make informed business decisions.

Seems quite straightforward, doesn't it?

Well, not so, because supply chains are inherently complicated processes requiring a lot of ground to cover. Analyzing large chunks of data is like a treasure hunt. It requires patience, proper planning, and the right tools.

Supply chain managers have to explore through several avenues of the supply chain to identify vital tasks and gather valuable data without overwhelming stakeholders with too much information.

Why? Because, it makes sense when supply chain analytics are working for you. However, having a large volume of data without any relevant information is of little use.

How does supply chain analytics work?

A supply chain consists of multiple steps, where each step acts as a cogwheel, affecting the one that follows it. Hence, any issue at any step could impact the performance of the entire supply chain and your ability

to meet customer expectations.

Creating end-to-end supply chain analytics starts with bringing together information from obtaining raw materials to production, distribution, and aftermarket services.

A predictive model is created by identifying potential correlations between different data elements. Analytics models that reach a specific threshold of success are utilized in production to boost scalability and performance. In addition, it also helps synchronize supply chain planning and improve real-time visibility into processes and their impact on customers and the bottom line. Recognizing the right analytics model for your business is also pivotal.

Types of supply chain analytics

Gartner delineates the main types of supply chain analytics based on four capabilities:

Descriptive analytics: It involves using different statistical methods to summarize information about operations in the supply chain. It answers questions like, "how have inventory levels changed over the last two months?" or "what is your return on the invested capital?"

Diagnostic analytics: It determines why something happened or is not working optimally. For instance, "why is our business not fulfilling the same inventory turns as a competitor?"

Predictive analytics: It helps a business identify the most likely outcome and its future implications. For instance, "how will the disruption affect the raw material availability?"

Prescriptive analytics: Businesses should leverage prescriptive analytics to resolve issues and increase collaboration with logistics partners to mitigate disruptions by prescribing the best course of action. In addition, it can help companies to know when is the optimum time to launch a product or which logistics strategy is required for a retail location.

After reviewing the types of supply chain analytics, it's crucial to know how supply chain analytics solutions help you make smarter, quicker, and more efficient decisions.

Why is supply chain analytics important?

The supply chain acts as a bridge between the company, suppliers, and the end-consumer. Supply chain analytics is the evaluation and in-depth analysis of data a company draws from various avenues of the supply chain process. Let's discuss how it helps.

Creates dynamic demand forecasts

Analytics add value to your business by providing visibility of the supply chain operations. For instance, you can obtain your previous order data and combine it with real-time market analyses to create dynamic demand forecasts. This will help you anticipate changes in the demand landscape better than any human supply chain planners.

Optimizes operational efficiency and risk management

Supply chain analytics can examine specific processes to recognize inefficiencies within the supply chain process. It also identifies potential risks by identifying patterns and trends throughout the supply chain.

Increases planning accuracy and order management

Analytics improve planning accuracy by identifying factors that increase or decrease demand. It also optimizes your inventory levels, predicts demand, and identifies fulfillment issues.

Streamlines procurement

Companies can use analytics to facilitate procurement by analyzing spending across departments, improving contract negotiations, and recognizing opportunities.

Now that we know why supply chain analytics is key to a successful business. Let's discuss some key features that make up an effective supply chain analytics solution.

Key features of effective supply chain analytics

Effective supply chain analytics can be defined in the context of five "Cs":

Connected: The analytics solution should access unstructured data from different sources such as social media, IoT, traditional ERP, and other integration tools.

Collaborative: The solution should promote seamless coordination with suppliers, vendors, and other stakeholders using cloud-based commerce networks to enable multi-enterprise collaboration and engagement.

Cyber-Aware: The supply chain analytics solution must be robust and secure against cyber-intrusions and digital security threats.

Cognitively Enabled: The AI-powered analytics solution should collate, coordinate, and conduct best actions in an automated and timely way.

Comprehensive: The analytics capabilities must be able to scale with data in real-time. The insights should be comprehensive and fast without any latency to ensure seamless supply chain management.

Using software for supply chain analytics

Supply chain analytics software like Algo allows businesses to gain more accurate insights, improve decision-making, and mitigate potential risks by workflow automation capabilities–helping you focus on strategy and execution.

The software platform analyzes huge volumes of logistical data from your end-to-end operations and converts it into dashboards that you can easily understand and manage. It helps you maintain optimal inventory levels, monitor KPIs, procure the required goods, and fulfill on-time customer orders.

Automating various functions of your supply chain will help you focus on other aspects of your business.

Future of supply chain analytics

Advanced supply chain analytics can process unstructured and structured data to generate insights that drive optimal decision-making and minimize risks at little cost.

AI and machine learning are becoming commonplace in supply chain analytics. In the future, we may see capabilities with more autonomous supply chains that can dynamically respond to changes–much like self-driving cars.

Other technologies like Blockchain, graph analytics, and hyper-automation can also play an important role in improving visibility and traceability across more supply chain layers.

Conclusion

Organizations across every industry use supply chain analytics to improve their operational efficiency, make informed decisions, optimize inventory, and enhance performance.

By gaining unparalleled insights into your organizational data, you reinvent your supply chain and overcome challenges like market volatility, global regulations, dynamic demands, and more. ■

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M. Usman Barkat

CIO, Algo

Algo leads the digital transformation journey by applying integrated business analysis and data science to diverse enterprise functions. We bring best practices from working with 30 of the Fortune 100 companies to solve the problems with our mission-oriented business analysts, technical and data professionals. Building on our strong foundation of high-performance data science driven platform, our industry domain experts and cross functional business analysts identify & implement opportunities via in-depth data analysis to help prioritize and maximize business performance.

Algo is already working in Pakistan with some of the notable fashion and footwear brands. Algo is delighted to be an important part of 2nd Pakistan FOR Summit & Expo Lahore.


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Marketing for retail in the digital world

By Partner Content

The advent of cutting edge technologies in Computing has ushered disruptions in industries across all spectrums. Historically, disruptions are the cause of great changes to the way work is done in that particular industry. The unlearning and relearning of the workforce's skillset takes humungous amounts of time, money and effort; it also becomes the cause of the downfall of Kodaks and Nokias.

Retail is undergoing a revolution. This retail revolution, the fourth since the formal organization of the sector, has the potential to disrupt the retail industry like never before. Retail 4.0 as it is known, is the digitization of the physical shopping experience through the integration of new retail and computing technologies such as The Internet of Things (IoT), Cloud Computing, Big Data Analytics, Augmented Reality and Artificial Intelligence. For brands and businesses, Retail 4.0 is about using advanced computing technology to get products to customers effectively, efficiently and in the most personable manner possible.

The role of marketing takes paramount importance in times of such never-seen-before digitization. Adjusting to the trend, Brands in Asia Pacific have shifted nearly two thirds of their over all ad spend into digital channels. As with all other established disciplines, conventional marketing remains quite relevant but the novel Omnichannel approach is essential to building a successful marketing strategy for businesses in retail 4.0.

In omnichannel marketing, product recommendations through influencers and celebrities is how brands target real growth. Customers are more tech savvy now than ever before and also culturally sophisticated. They are extremely curative about the media content they consume on their plethora of electronic gadgets, thus brands need to partner with those who command strong influence over audiences. At Firhaj Retail, we have been able to grow CAT footwear by a robust 40% volume owing to collaboration with influencers with whom our target group resonates strongly.

Ensuring the same messaging is communicated to the customer via all channels covered in the marketing strategy is also an important yet easily overlooked fundamental. A disparity in messaging may have a confusing effect on the customer which may lead to diminished brand image. Brands should base identifiable brand image on the aspiration and needs of the target audience. At Firhaj Retail, both Hush Puppies and CAT Footwear ensure marketing strategies hammer down on consistent messaging, whether they relate to increasing top-of-mind awareness or product benefits. This allows our customers to realize how our products will improve their lives even before they set foot in any of our shoes – and that too quite literally!

Customer Experience (CX), also relates to the how omnichannel brands are perceived. CX is the impression customers have of a brand throughout the buying journey. The primary touchpoints of CX are products and people. A brand will have to keep questioning the value its products bring to customers' lives and also take into account customer's feedback or complaints. Firhaj's Customer Support Department is a testament to our adoption of ways that will enable us to be part of the Retail 4.0 Revolution. The department is staffed with 6 dedicated staff who promptly solve customer complaints and also register feedback, which is then incorporated during product design and development. At the People touchpoint, brands will have to invest in quality training for their customer facing staff to ensure all interactions of the customer with anyone representing the brand exceed expectations and result in customers turning into brand advocates: spreading good word of mouth to people in their circles. Keeping this in mind, The sales staff at Firhaj undergo a rigorous 2 weeks of training before they assume their full time responsibilities. During the training, the staff is equipped with necessary information about our product range and how our products are designed to seamlessly blend into the daily routine of our customers and to help them live life to their full potential.

In an omnichannel strategy, Customers interact with brands through several touchpoints and channels. Research indicates that customers engaged at multiple touchpoints tend to be 30% more valuable, therefore these enhanced, varied engagements at each stage of the buyer's journey can help increase revenue. This more specific messaging also fosters loyalty, increasing the likelihood that a customer would use your brand again. Even though they make up a smaller fraction of your customer base, repeat customers typically account for 40% of a brand's sales. To make the best out of this emerging facet of Retail 4.0, Firhaj Retail's installed ERP system, MS Dynamics, helps us uniquely record, identify and track our customer's transactions. We utilize captured data to market to repeat customers, via Machine Learning, recommendations that would be most liked by them. These recommendations are generated on the basis of the customers Views, Cart Events, Transactions and their demographics.

True omnichannel should include data analytics as well as how customers interact with your business. Brands may better understand the customer journey, when and where customers want to engage, and which campaigns have generated the most value by measuring engagements across channels. Your strategy can make use of all of this data to develop better targeted advertisements and maximize media expenditure.

The ability of brands to gather data from multiple user touchpoints, from a physical store to an online store, is one of the hallmarks of an omnichannel approach. Brands can improve their understanding of what certain clients want by utilizing the data gathered and adjusting their messaging and marketing plan accordingly. With the correct infrastructure in place, they can even create a personalized experience for each shopper. This is particularly useful given that an overwhelming majority of customers prefer the concept of websites that are carefully tailored for their interests — and may stop visiting if it doesn't. Customers, like everyone else, want to feel important. They will know they are your first focus if they receive a tailored experience.

Shoppers anticipate frictionless cross-channel transactions. Retailers nowadays must adjust to changing consumer wants and habits while also recalibrating their understanding of their target market. An omnichannel strategy must be holistic and comprehensive. It depends on a strong foundation, supported by the four pillars of sales channels, marketing and advertising, operations, and shipping and fulfillment. ■

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The untold story of The Mall of IMARAT

By Partner Content

In 2021, the global retail market generated 26 trillion U.S dollars in global sales and is forecasted that the market will reach over 30 trillion U.S dollars by 2024. In Pakistan, the real estate sector has emerged as one of the top investment areas over the last few years. According to the Economic Survey of Pakistan 2021-2022, real estate activities have a 9.6% share in the services sector and a 5.6% share in the overall GDP, with commercial/retail real estate holding a significant position.

With the services sector contributing 53.30% to Pakistan's GDP and a major part being played by local and international brands, the need for planning, developing and managing retail real estate has tremendously increased. A major part ofthe development of this sector is played by commercial real estate projects, which include commercial malls, hypermarkets, and shopping areas.

Currently, real estate retail is facing several problems globally. The economic downturn, demand for a seamless experience, unprecedented changes in retail space, supply chain management disruptions, efficient, iterative, and collaborative space planning, building technology utilization, and segmentation of local and international brands has resulted in a cut-throat competition in the retail market. It necessitates data-driven decision-making for stable business ventures in the market.

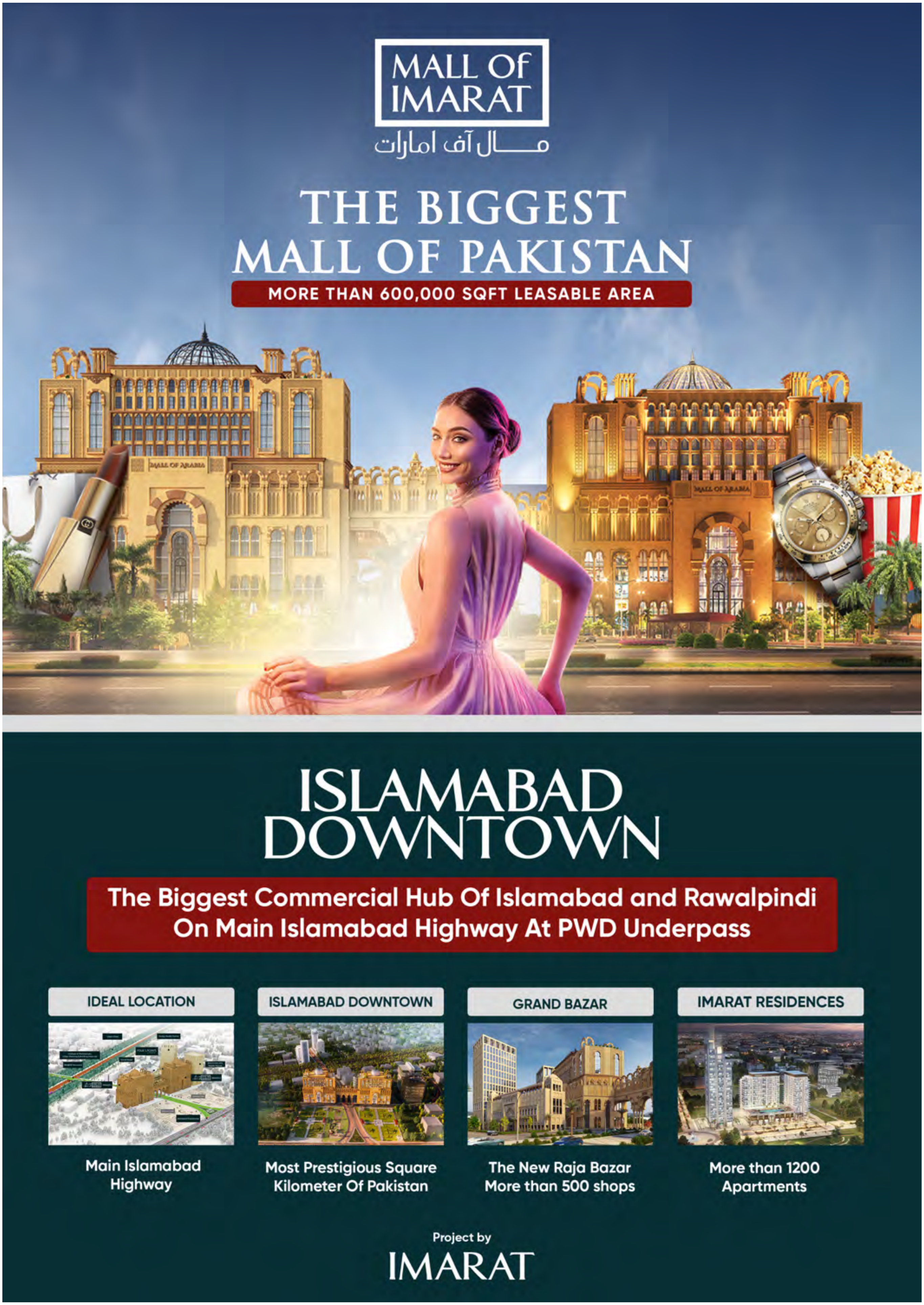
IMARAT Group of Companies initiated its real estate development projects in Pakistan in 2016. However, the lack of proper data, both spatial and demographic, created a hindrance in the selection of proper spaces and the inception of commercial projects in the country. IMARAT Group of Companies could not find any credible platforms in Pakistan to have a comprehensive database of real estate projects. Therefore, decisions had to be made based on gut feeling, recommendations, intuitions, and perceptions. This lack of a data-driven approach results in issues pertaining to inventory planning, market volatility, supply chain management; fluctuating purchasing power of individuals; unprecedented changes in retail space; and absence of demand analysis, ambiguity in ownership, capital trap in illegal or unapproved projects, and lack of technological advancements.

Soon after identifying these problems, IMARAT started digitization and mapping of Pakistan's urban areas through PropSure Digital Solutions, Be Sure. Engaging more than 300 graduates of NUST, LUMS, UET, and GIKI, the company completed the digitization of 4 million planned urban properties with 40+ attributes. On the basis of this dataset, National Development Plan-2047 is being prepared which is considering the colonization rate of major cities, population density, growth trends, purchasing power, and development of growth centers over time.

Out of the total area (796,096 sq. km) of Pakistan, only 5% of the land is developed. Moreover, less than half a percent of Pakistan's area is planned. This planned area is mainly covered by the private and public sector housing schemes. Out of these 4 Million properties, 1.9 Million are yet to be colonized. These planned areas (5-10% of the total housing stock) are those which have higher purchasing power.

Based on data-driven digital mapping, the National Development Plan-2047, i.e., an effort to identify need-based and demand-driven projects across Pakistan, identified the site of the Mall of IMARAT, in Islamabad Downtown, an 8 acres site with commercial leasable area of more than one million sqft. Islamabad has the highest population growth rate (more than 4% per annum) in the country. The catchment area (5-7 km area) of Mall of IMARAT has the highest colonization rate in Zone 4 and 5 of Islamabad with more than 20 residential societies, most of them fully colonized in its vicinity.

The area holds 77,714 units with a current population of 455,404, with handsome purchasing power. Mall of IMARAT being located on the 1200 feet wide Islamabad Expressway, the only arterial road in the city, with 100,000 average daily traffic flow, with outlets planned as per retail specifications, a dedicated entrance of 220 feet of road, a parking facility of more than 1200 cars, and the gray structure that has already been constructed after attaining all the regulatory permits, is a project of great prospects. Retail brands can have a real chance to grow and establish at this location. Furthermore, for the sustainable future development of the retail sector, collaboration between brands and the commercial real estate sector is key. IMARAT's National Development Plan will help in identifying sites and their highest and best use studies based on the already developed datasets (4 million+ properties). Brands can take benefit from this need base, demand driven real estate development initiatives and thus together we can establish the basis for sustainable future retail in Pakistan. ■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