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PUNJAB BOARD OF INVESTMENT AND TRADE  
Project & Policy Research Wing



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# OVERVIEW OF PAKISTAN'S ECONOMY

Despite internal and external factors like political volatility, energy shortages and climatic disasters threatening its economic stability, Pakistan has emerged with encouraging positive real GDP growth rates throughout the previous decade. Even after the global recession hit in 2008, it managed a positive growth rate in all the years thereafter. Many global analysts remain positive of Pakistan's exponential growth potential in coming years. Goldman Sachs' Jim O'Neill, for instance, counts Pakistan among his 'next eleven' economies which he believes will be the drivers of global growth in future times. Indeed, with the 6th most populous country in the world recording growth in real per capita income (2.9% in FY2010), real private consumption (7%) and global imports (14.7%), it is likely that the global market for goods and services will draw significant contributions from it.

A particularly encouraging aspect about Pakistan's growth is the heavy contribution of the services sector during recent years. Currently contributing 53.30% to real GDP, the services sector has maintained a majority's average since at least a decade. The continuous growth in Pakistan's services sector since 2004-05 is indicative of many positive changes in the economy. It signifies overall economic growth and hints at the presence of an increasing consumer base with expanding incomes or purchasing power to enjoy a larger share of services in their consumption bundles.

## Highlights

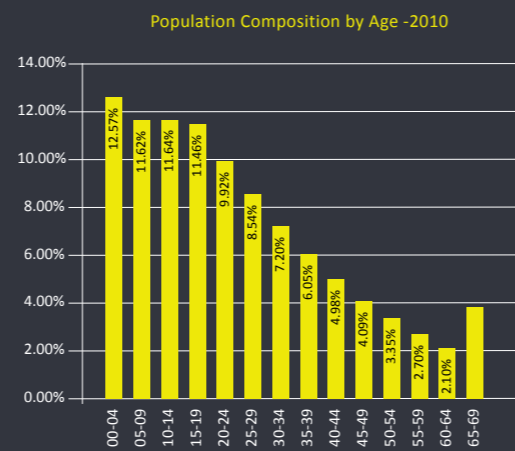
Pakistan is among the next eleven economies driving global growth' – Goldman Sachs' Jim O'Neill

- Pakistan is a resilient economy, its real GDP, showing positive growth in recent years despite significant challenges like the global recession
- The services sector contributes %53 to the total economy
- The share of wholesale and retail in services is around %33, and in overall GDP, around %18
- Retail is the 3rd largest sector in Pakistan after agriculture and manufacturing and the second largest employer, employing %16 of the total labor force
- Pakistan's retail market is estimated at USD 42 billion with expected annual sales in excess of USD 105 billion by 2012 end
- Important contributing factors include a young population (%73 under 35 years), growing middle income class (currently 81-77 million), increasing total and urban population, and overall globalization and liberalization of trade

	Real GDP (at constant factor cost) (PKR billion)	Services Sector (PKR billion)	Share of Services in Real GDP (%)
2002-03	3,992	2,054	51.50%
2003-04	4,216	2,174	51.60%
2004-05	4,593	2,359	51.40%
2005-06	4,860	2,512	51.70%
2006-07	5,192	2,687	51.80%
2007-08	5,383	2,847	52.90%
2008-09	5,476	2,895	52.90%
2009-10	5,682	2,979	52.40%
2010-11	5,817	3,102	53.30%

Source: State Bank of Pakistan

Indeed, with nearly 73% of the Pakistani population less than 35 years of age, the country is recording an increase in active earning members of society.



Source: State Bank of Pakistan

The following table displays a continuously growing trend in the employment-to-population ratio for ages 15 years and above in the past decade.

Employment to Population Ratio by Sex and Age (%)

	1999-00	2001-02	2003-04	2005-06	2006-07	2007-08	2008-09	2009-10
15 years and above								
Total Population	46.8	46.5	47.0	49.7	49.8	49.9	50.3	50.7
Male	78.6	77.6	77.6	79.6	79.6	79.1	78.5	78.3
Female	13.7	13.6	15.6	19.0	19.4	19.9	21.0	21.9
15-24 years								
Total Population	35.1	37.6	38.5	41.9	40.9	40.3	40.6	41.1
Male	61.6	61.8	62.7	66.1	64.2	62.3	61.4	61.3
Female	7.2	11.8	13.7	16.8	16.8	17.1	18.3	18.8

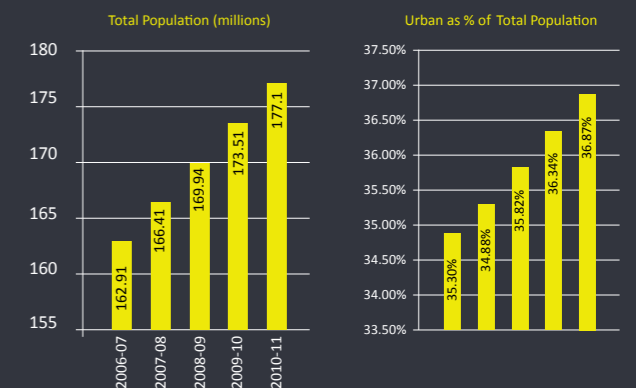
Source: State Bank of Pakistan

Pakistan has, thus, been experiencing an encouraging trend in key indicators like real GDP, labor force and employment in recent years. The following graph exhibiting indices of such selected indicators confirms this. An increasingly large pool of income earners also contributes to the formation of a growing middle income class. Defining the middle class as daily income/expenditure ranging from USD 2 to USD 20 per person per day, it is estimated that Pakistan respectively comprises as many as 76.7 million/81.3 million within this category.

Indices of Selected Indicators (Index 1999-00=100)			
Year	Real GDP	Labor Force	Employment
1999-00	100.0	100.0	100.0
2001-02	105.1	109.1	108.6
2003-04	118.3	114.1	113.8
2005-06	136.5	125.3	126.7
2006-07	145.8	126.9	129.6
2007-08	151.1	130.1	133.3
2008-09	153.7	135.7	138.5
2009-10	159.5	138.9	142.0
2010-11	163.3	145.3	147.7

Source: State Bank of Pakistan

Other demographic factors leading to increased consumerism and growth of services include a rise in both total and urban population. The increase in the proportion of urban population in the country indicates that a greater number of people now have access to the wide range of goods and services available in urban centers.

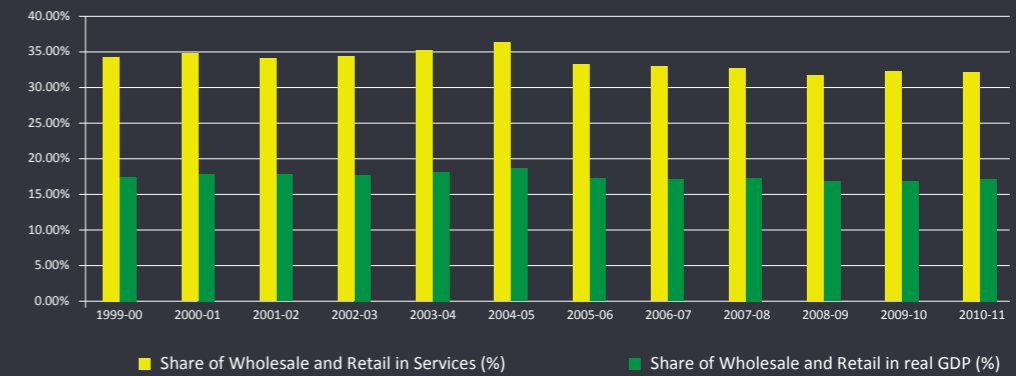


Source: Economic Survey of Pakistan

At a broader level, external factors like increased globalization and liberalization of trade and investment have also increased opportunities for commodity exchange and provided great impetus to consumerism across countries. Easy availability of credit, convenience of online shopping and increased access to social media by small and large retailers are other contributing factors.

# IMPORTANCE OF RETAIL IN PAKISTAN

All the factors thus far explained like increasing income, urbanization and consumer awareness hint at a potentially large market for goods and services in Pakistan. It, therefore, comes as no surprise that within the services sector, the country's wholesale and retail trade sector has gained momentum in the past decade. Estimates for Pakistan's retail market today vary widely, the industry mostly reported to the tune of USD 42 billion with annual sales in excess of USD 105 billion (The Economist Intelligence Unit).



The word retail is derived from the French word 'retailer' meaning 'to cut a piece off' or 'to break bulk'. Retailing involves a direct interface with the customers and the coordination of business activities from end to end. Not only has Pakistan experienced a transition from small retail clusters to large wholesalers and shopping malls in the recent past, it has undergone a massive retail revolution in becoming home to a wide array of international brands (like Next, Mothercare, Body Shop, Charles & Keith, Swatch) and famous international wholesale chains (Like Metro, Makro and Carrefour). Retail giants like Marks & Spencer are expressing interest in establishing operations in Pakistan while the popular UK retail store, Debenhams has already announced its debut in Pakistan.

The retail sector in Pakistan is unique and although mostly unorganized, enjoys being the third largest following agriculture and manufacturing. The share of wholesale and retail trade in GDP averaged around a steady 17.5% in the past decade and that in services, around 34%. It is also the country's second largest employer, employing around 16% of its total labor force.

Since wholesale and retail trade comprises more than a third of Pakistan's service sector which itself constitutes more than 53% of Pakistan's GDP, a strong correlation exists between growths of the three. As it appears, Pakistan's wholesale and retail trade bears potential to steer the country's overall economic growth by possessing a strong influence over contraction and expansion of services and GDP growth.

Thus, given the significance of Pakistan's retail sector in the economy's overall growth and the immense potential it carries, it is imperative to shed light on the sector's future development and the opportunities it has to offer. The remaining sections of this study are devoted to the same. Section 2 provides a comprehensive overview of the sector's previous developments and current status. Section 3 highlights Punjab's retail potential and investment opportunities in Lahore, followed by setting up processes in Section 4. The last section i.e. Section 5 describes the services PBIT offers in order to facilitate investments in the retail industry.

# PAKISTAN'S RETAIL INDUSTRY AN OVERVIEW

A particularly encouraging aspect about Pakistan's growth is the heavy contribution of the services sector during recent years. Currently contributing 53.30% to real GDP, the services sector has maintained a majority's average since at least a decade. The continuous growth in Pakistan's services sector since 2004-05 is indicative of many positive changes in the economy. It signifies overall economic growth and hints at the presence of an increasing consumer base with expanding incomes or purchasing power to enjoy a larger share of services in their consumption bundles.

## Highlights

- Pakistan's retail sales are likely to increase by USD 30 billion in the next 3 years, at a high average growth rate of 8%
- Retail formats in Pakistan are transforming rapidly-the share of mom and pop and general stores is expected to decline by 50% in future years in favor of large wholesalers and retailers
- In 6-7 years, retail giants like Metro, Makro and Carrefour have established 12 branches in Pakistan with immediate expansion plans for at least 7 more
- Demand for such is driven by individual characteristics like income, education and household size and external factors like quality, quantity, variety and convenience of shopping
- Innumerate retail investment opportunities exist in a range of sectors in Pakistan like food, apparel, footwear, health & beauty, consumer electronics and home furnishings
- Retail developments are also fueling the demand for commercial real estate. Low share of organized retailing, comparatively low real estate rents and growing consumer aspirations are attracting investments in both retail and real estate



Such growth in Pakistan's retail industry is crucial to maintaining its competitiveness compared to other Asian giants and neighboring countries. India, for instance, is currently the 5th largest global retail market valued at USD 353 billion and is expected to grow by an additional USD 200 billion by the end of 2014. Trends in Pakistan, however, remain quite encouraging in the development of new retail formats and establishment of an increasingly large number of international organizations' retail outlets all across the country. These changes are explained in detail in the following paragraphs that shed light on the structure, composition and concentration of the retail industry in Pakistan.

Year	Retail Sales (USD billion)	Growth in Retail Sales (%)
2010	87.6	7.88
2011	96	9.59
2012	105.1	9.48
2013	113.7	8.18
2014	123.3	8.44
2015	133	7.87

Source: State Bank of Pakistan

## RETAIL FORMATS IN PAKISTAN

### 1. SMALL RETAILERS

Historically, the retail scenario in Pakistan's major cities has been dominated by a large number of small sized retailers. Retail clusters like Azam Cloth Market, Hall Road electronics market and Hafiz Centre computer and cellular phones market in Lahore are duplicated all across the country. Similarly, traditional 'kiriyana' (mom and pop) stores have overshadowed consumers' grocery shopping experiences in Pakistan. However, after a long absence of large retail chains, new preferences emerging among consumers indicate the advent of important developments at the country's retail front.

According to Nielsen, the distribution of kiriyana stores per thousand populations decreased during 1992-2002 whereas that of general stores rose over the same period. Moreover, the combined share of kiriyana and general stores is expected to decline to 50% in future years (Mirza, 2008). On the other hand, departmental and superstores are gradually replacing traditional small

scale retailers and gaining popularity by providing a wider array of services under one roof (Moazzam & Badar, 2006). More recently, a number of international wholesalers like Makro and Metro have established large centers within the country and are operating successfully. Such evidence, therefore, points to the decline of traditional stores and small retailers and the shift in consumer preferences in favor of large departmental stores, supermarkets and wholesale centers.

### 2. SUPERMARKETS AND WHOLESALE CENTERS

Amidst popular local stores, like HKB and Al-Fatah in Lahore and Naheed Supermarket and Imtiaz Store in Karachi, the metropolitan cities of Pakistan recently witnessed the advent of huge international wholesale chains that proliferated rapidly in the following years. The following figure shows how, in less than a decade, Pakistan has become home to three of the world's largest wholesalers with approximately 12 branches flourishing already and expansion plans underway for many more.

Makro, the first modern wholesale center to establish in the country, offers high quality products at competitive prices for 20,000- 25,000 varieties of food and non food items under one roof. Likewise, spread across 30 countries in 3 continents, the German chain Metro Cash&Carry established its first centre in Lahore in 2007 to offer wholesale solutions to professional buyers for upto 20,000 food and 30,000 non-food items. The most recent addition to the retail market, Hyperstar (Carrefour)

is another wholesale centre shelving up to 30,000 items, running successfully in Lahore and Karachi and already planning expansion through 7 more stores, 4 in Karachi and 3 in Lahore.

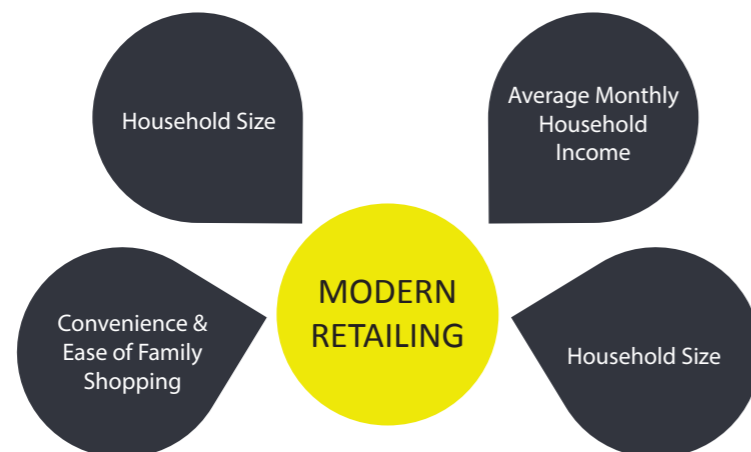
While it is hard to contest the success of such strategic wholesale solutions with convenient one stop shopping, efficient concept designs and competitive pricing, it is important to analyze demand drivers and changes in consumption habits and preferences that have fueled their growth at the same time. In addition to large-scale factors explained in the previous section, many micro or household level factors have influenced the shift in consumer preferences towards modern retail and wholesale purchases.

## DEMAND DRIVERS

From individual traits like age, gender, education and occupation to household characteristics like family size, average monthly household income and ownership of transport modalities, a range of factors are affecting buying decisions today.

Household size, education and income, in particular, have a significant influence over retail shopping. A Karachi-based sample study (Mirza, 2011) revealed that majority of the households with 6-8 family members shopped at general stores whereas those with smaller family sizes (3-5) shopped at large supermarkets. Cross studied with income, it may be observed that larger families are associated with lower income levels and smaller families with higher ones. A majority of the sampled population with average monthly household income beyond PKR 35,000 shopped at supermarkets. The study also established that large stores were preferred by individuals bearing higher education levels like Bachelor's as opposed to intermediates who typically chose general stores.

Overall, convenient and quality shopping has steered consumers towards modern retail shopping options. According to Moazzam and Badar's research study (2006), a majority of Pakistani consumers seek a wide array of quality products in adequate quantities under one roof. For about 52% of the sampled survey, convenient and attractive display was also a strongly agreed upon driving factor. Mirza's study also establishes how consumers normally regard crowded shopping places and long queues as major shopping stressors. There is no surprise, therefore, that consumers have increasingly resorted to spacious, organized retailing stores with a wide assortment of products. The fact that these are 'one stop' shopping solutions also implies that consumers have started making more 'planned' purchases as opposed to needs-based ones. In fact, for many, a trip to modern retail and wholesale centers may even mean a pleasant family outing where all family members can shop together, and with convenience and ease.



## IMPORTANT SECTORS

### 1. FOOD & BEVERAGES

It is estimated that the average Pakistani consumer spends up to 42% of his income on food (USDA, 2000). As far as fresh food produce is concerned, consumers have historically preferred to shop at traditional kiriyana stores, obtaining the satisfaction of hand-picked fruits and vegetables and negotiable prices. The trend, however, gradually shifted towards local supermarkets like HKB and Imtiaz Store and more recently, towards wholesale centers like Metro, Makro and Hyperstar (Carrefour), where consumers now increasingly shop for better quality, quantity, variety as well as competitive prices in a much more consumer-friendly environment. The development of such supermarkets is still in infancy though, and carries much potential for future growth. Apart from individual and household consumption, these wholesalers have also experienced great interest from commercial/professional buyers including bakeries, restaurants and hotels.



The market for processed foods is also booming. With life becoming fast-paced in Pakistan, food on the go and ready to cook has become increasingly popular, being reflected in the popularity of bakers and brands like Shezan, Country, National, Shan, K&N's, Value Chicken, Menu and Dawn. With increased trade and a better taste for quality products, the demand for imported items is also on the rise. Only a decade ago it was estimated that a good fifth of Pakistani consumers were already consuming imported products (USDA, 2000). This ratio is expected to have enhanced significantly in the past decade. Items like juices, canned fruit, sauces, honey, coffee, candy, condiments, nuts, dressing, snack foods, chocolates, powdered milk and other dairy products, particularly ice cream, are becoming increasingly popular. Dietary foods and other imported products are also in high demand as a result of the growing emphasis on health and changing lifestyles in Pakistan. Although many international brands are popular, there is good potential for new ones, particularly if they are price competitive and marketed well. Imported items may also be made available at traditional stores, albeit in smaller quantities and fewer varieties. Since traditional markets are small and independently owned, they generally purchase imported products from wholesalers rather than agents and distributors.

Perhaps the biggest surge in the food industry has come across in the form of restaurants and cafes mushrooming in the metropolitan cities of Pakistan. Their demand is simply insatiable, explaining why many local restaurants remain profitable even in the presence of popular international food chains. Locally, even bakers and confectioners like Shezan and Gourmet have sensed the opportunity and diversified operations to provide catering and dining services with bigger expansion plans

underway. Apart from their love for traditional Pakistani food, consumers in Pakistan have also come to appreciate a variety of cuisines like European, Japanese, Chinese and Thai through a number of exquisite and modern restaurants – Tira Misu, Café Zouk, Cosa Nostra and Café Alanto , to name just a few in Lahore. International food chains like Mc Donalds, KFC, Pizza Hut, Nando’s and Domino’s, on the other hand, have already long enjoyed the booming consumerism in Pakistan and have more recently attracted other players like Hardee’s and Noodle House to join the league.

*Gourmet*



With modest beginnings from a small shop in Ichra Town, Gourmet has rapidly progressed to become the most popular and entrusted food brand among Pakistani consumers today. With 98 large outlets spread across the city, Gourmet today has arguably the biggest retail network in Lahore compared to any other confectioner and in addition to others, has already begun to make similar engravings in Faisalabad, another prosperous city of Punjab. Initially planting the idea of bakery items in a counterpart company, Shezan, 11 years was all it took employee Chaudhary Muhammad Nawaz Chattha to begin his own chain, Gourmet, in 1987 and tap the huge potential the industry had to offer his expertise

Gourmet has, since inception, made investments in the setting up of large factories equipped with modern, state of the art machinery. Gourmet’s beverage plant at Sundar Industrial Estate, for instance, is among the world’s largest beverage plants. As evident, in addition to factories and equipment, Gourmet has also continuously expanded and diversified business activity by venturing to offer new product lines. From traditional sweets like Mithai and Halwa to mineral water, ice cream, dairy, cola, candy and processed foods like jams and ketchup, Gourmet has introduced extremely successful product lines to meet consumers’ ever-growing demand, one on top of the other. What more, it has made all these corporate achievements within a span of 24 years. Two of Gourmet’s recent ventures deserve special mention: one, the setting up of Gourmet family restaurant and catering and dining services on special order and; two, the launch of a premium delicacies line, ‘Bon Vivant’, specializing in chocolate and caramel cakes and pastries made using imported ingredients. Both have won the chain an overwhelming response by consumers.

Thus, adopting the simple yet effective strategy of satisfying consumers’ changing eating habits and preferences, Gourmet has proven how easy it is to earn a return on investment in Pakistan’s food industry. More importantly, however, it has reflected through its numerous product lines the dynamic, vibrant and simply insatiable nature of Pakistan’s food sector.



## 2. APPAREL



Presence of Selected Local Casual Wear Stores in Pakistan

Store	Year of Launch	No. of Outlets	No. of Cities	Common Cities
Breakout	2010	20	11	Faisalabad,
Stoneage	2006	20	9	Gujranwala,
Outfitters	2003	65	14	Islamabad,
Crossroads	2002	45	13	Lahore, Multan

Source: PBIT

Having experienced a fashion revolution in the last couple of decades, Pakistan has become home to a number of powerful fashion houses and countless exquisite local and international apparel brands. The Pakistan Fashion Design Council (PFDC) deserves special mention here which has, in a matter of half a decade, had over 50 exclusive designers from Lahore, Karachi and other Pakistani cities flock together and conduct several successful large scale fashions shows – the result: a well informed, rather transformed, fashionable Pakistani society.

The fashion boom in Pakistan has invited great attention, both from local and international players. The local apparel market is ever expanding, being an inevitable consequence of increased demand stemming from growing awareness of the general public. The market is also well segmented, providing for men, women and children of all ages and offering a range of lines, from casual to semi formal, work and bridal wear. To mention a few, Amir Adnan, Junaid Jamshed and Ammar Belal are popular men's wear designers while Umar Syed, HSY, Karma and Maria B are popular women wear lines. More recently, the booming sector has also compelled textile houses like Gul Ahmad and Nishat to concentrate on expanding their presence in the local market than focus on exporting abroad.

Perhaps the biggest surge in demand has come about in the designer lawn segment with extremely rapid proliferation of brands in the last few years. From textile houses like Bareeze (Kayseria), Gul Ahmad (Ideas), Al Karam, Khaadi and Nishat to individual designers like Maria B, Vaneeza, Warda and Yehsir Waheed, the PKR 9.6 billion worth designer lawn market catches fuel from the onslaught of innumerate fabric designers every day. It is estimated that Pakistan is home to at least 128 designer lawns at the moment, the market booming in 2011 and 2012 as exhibited in the given timeline of a select few.

Year	Brand	Year	Brand
1997	Mausummery	2011	Asim Jofa Lawn
1999	Yehsir Waheed	2011	Crescent Lawn
2006	Vaneeza	2011	Deepak Perwani
2008	Warda	2011	HSY
2009	Sobia Nazir Lawn	2011	Nomi Ansari Lawn
2010	Mahnoush Designer Lawn	2011	Pareesa Lawn by ChenOne
2010	Nisha by Nishat	2011	Preeto by Abrar ul Haq
2010	Sana Safinaz	2011	Sadia Designer Collection
		2012	Umar Sayeed
		2012	Ahsan Khan
		2012	Bonanza
		2012	Icon Lawn
		2012	Kamal Lawn by Elan
		2012	K.Eashe Lawn
		2012	Karma
		2012	Misaal Lawn
		2012	Nadia Hussain
		2012	Paulsha Lawn
		2012	Rizwan Beyg Lawn
		2012	Zeniya Lawn

Proliferation of Designer Lawn Brands (Women wear)

While traditional wear is one obsession, casual lines of jeans, T-shirts and tops are another favorite amongst the youth of Pakistan. Moreover, most of the local casual wear stores have duplicated rapidly in major cities like Lahore, Karachi and Islamabad and many others in Punjab like Rawalpindi, Abbottabad, Sialkot, Sargodha, Bahawalpur and Rahim Yar Khan. It is no surprise, therefore, that in addition to local stores like Crossroads, Outfitters and Stone Age, international ones like Levis, Next and Splash have established exclusive retail outlets across the country to cater to the insatiable casual wear demand. Mothercare has come to complement Mushrooms and Minnie Minors in providing for exclusive children wear. Also, many other international brands increasingly operate under licensing agreements with local retailers. Men's Store, a high-end fashion store in Lahore, is a good example which acts host to a number of top-notch brands including Ermenegildo Zegna, Armani and Boss.



Established in 1985 with the launch of its first brand, Bareeze, Sefam entered the apparel market with the vision to produce quality fabric desirable all across the world but made exclusively in Pakistan. It was, however, not long after its first store opened in Shadman market that consumers responded overwhelmingly to the idea of a quality, locally made fashion product in the country.

Today, Bareeze operates and sells from 57 stores nationwide and another 10 in different parts of the world including Canada, India, Malaysia, Norway, UAE, UK and USA. It has the distinction of being the first Pakistani brand as well as chain store that established in Dubai, in 1995.

With the success of Bareeze, Sefam realized the need to explore untapped opportunities in other consumer categories in the apparel market. In 1997, it launched a new line under the brand Leisure Club, offering quality, trendy urban wear to the modern consumer with three successful premium sub brands: Club X, Boutique and LC Kids. A year later, in 1998, Sefam decided to cater to the market for children by launching Minnie Minors, a quality brand for kidwear which also happens to be the oldest in Pakistan.

Similarly, Home Expressions, Chinyere, Kayseria and more recently, Mom2B, all were launched one after the other to satisfy different consumer demands throughout the past decade. Diversifying production like any intelligent market player, Sefam has, over time, carved out niches for itself in what appears to be an ever-growing apparel market and earned itself an excellent repute and international recognition. Perhaps that is why the House of Quality remains a proud seller of 7 brand names with 321 points of sale nationwide.





### 3. FOOTWEAR



With more than 500 manufacturing units spread across the country, Pakistan's footwear industry produces over 120 million pairs annually for domestic consumption and over 2 million pairs for export, on average. Lahore is the hub of footwear activity, being home to 306 or 59% of the total manufacturing units.

The local footwear industry has produced some very fine brands like Servis, Ehsan Chappal House (ECS), Stylo, Metro, Starlet, Borjan, Urbansole etc which have recorded encouraging growth in retail outlets in recent years. Many like Lark & Finch which already has 10 exclusive outlets, are planning expansions all across Pakistan. Servis, a 50-year-old leading local brand started its journey as a single retail footwear outlet. The brand today has a 400+ stores presence in Pakistan, 2000+ dealer-base, and a growing international footprint in Europe, Middle East, and many other regions of the world.

Sensing the opportunities in Pakistan, many renowned international footwear brands have also established a foothold in the country's metropolitan cities through franchises and various licensing agreements. These include Bata, Hush Puppies, Pierre Cardin, Logo, Charles & Keith, Nike, Aldo, Ecco and others. Bata which currently operates in 60 countries across the globe has over 370 outlets in Pakistan already.

Pakistan's booming fashion industry catches fuel from its expanding middle income class and their changing lifestyles. With its people becoming increasingly quality and brand conscious, it is no surprise that Pakistan's footwear industry has experienced high growth for large retailers and a huge influx of international fashion footwear brands.



The company's production has flourished into Service Industries Limited (SIL) which has world-class shoes, tyres, tubes, and rubber production facilities in Gujrat and Muridke, Punjab.

The story of Servis is more than half a century old, when two young men, Ch. Nazar Muhammad (Late) and Ch. Muhammad Hussain (Late) installed a shoe manufacturing plant near Gulberg, Lahore, in 1954. Starting production the same year, the factory, over time, began manufacturing shoes of all kinds for all sorts of consumer categories. Today, the brand is Pakistan's largest footwear manufacturer and exporter, with a 400+ stores presence in the country, 2000+ dealer-base, and a growing international footprint in Europe, Middle East, and many other regions of the world. Servis' brands include Don Carlos, Calza, Liza, Skooz, Toz, and Cheetah and some external others like Soul Collections and Hush Puppies.

### 4. HEALTH & BEAUTY



With its people becoming ever-increasingly health conscious, the commercial health club industry in Pakistan is emerging as a lucrative business. Although currently segmented and unorganized, the industry carries tremendous potential to flourish in years to come. In addition to fitness centers, spas and beauty treatments readily available in hotels and clubs like the Lahore Gymkhana, Model Town Club and Defence Club in Lahore, many such independent units have dotted the country. Shapes, for instance, is a renowned fitness centre with several branches across Pakistan. Others worth mentioning include Body Talk, Structure Gym, Gold Spa & Fitness inside Mall of Lahore & Gold's Gym.

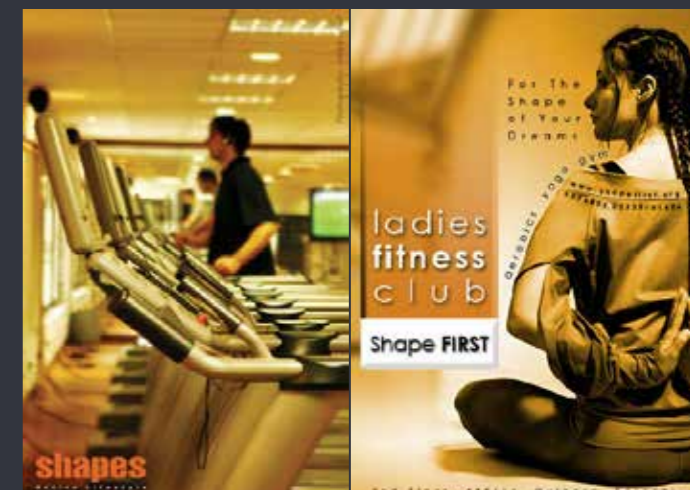
In Pakistan, there is as much emphasis on beauty as there is on health, if not more. Pakistan has emerged as a huge market for both local and international cosmetic brands in the past two decades. Three local companies; Kohinoor Chemicals, International Laboratories (Ponds) and Revlon possess a majority of the market share. International brands of the highest order like L'Oreal, Clinique and Max Factor are also extremely popular among females. With regards to cosmetics and other beauty care items, Body Shop, Loccitane and more recently Crabtree & Evelyn with its debut store at Dolmen Mall, Karachi, are just few other names worth mentioning.

Seeing the huge potential Pakistan carries and the profits made by its diverse network of local companies, many international beauty and health care chains have opened up in Pakistan. Toni&Guy, a 49 yr old UK hairdressing and beauty therapy brand has also established firm footings in Pakistan, in the metropolitan cities of Karachi and Lahore. In fact, its centre in Karachi is arguably its biggest store worldwide.

The recent advent of Crabtree & Evelyn brings with it the realization that Pakistan's market is still untapped for the most part. According to British High Commissioner, Adam Thomson, 'Pakistan has the potential to be the primary target for all British brands who want to benefit from its relatively untapped market'. Cosmo Group, the official distributor of several UK brands in Pakistan, continues to conduct several educational seminars for opinion leaders on local and international levels. It has helped create awareness of new international trends amongst Pakistani consumers and has recently announced aggressive investment plans to emulate its commercial retail concepts in both Lahore and Islamabad.



Incorporated in 1995, Shapes Pvt. Ltd. is the parent company of Shapes Health Studio, the 1st ISO certified chain of health and fitness clubs in Pakistan and Shapes Physique Equipment Pvt. Ltd, a growing network of exercise equipment retail outlets displaying world renowned brands with exclusive rights of distribution. Today, both subsidiary concerns run parallel to aggressively cultivate the health and fitness industry in Pakistan. With a base of around 450 employees, Shapes also enjoys being the largest chain of 'Health and Fitness Clubs' in the entire subcontinent.



By offering a range of services like gyms, aerobics studios, squash, table tennis, badminton, body testing and personal training, Shapes caters to the needs of at least a few million Pakistani consumers every year. It also offers attractive packages like Nutrition Counseling, Body Composition Analysis, Total Fitness Assessments, Complete Lipid Profiles and Aquatic Training. With a strong presence in Lahore, Multan, Karachi, Islamabad, Gujranwala and Faisalabad, Shapes has aggressive expansion plans of at least 15-20 more branches across the country in the next couple of years.

## 5. ELECTRONICS



According to the London-based research firm Business Monitor International (BMI), Pakistan's consumer electronics market is expected to grow by an annualized average of about 13.3% to USD3.3 billion by 2016. To some extent, this expected surge can be attributed to the overall shift in trends and consumer preferences from a clustered group of small retailers to large, exclusive retail outlets also well reflected in Pakistan's consumer electronics sector. For instance, while Hall Road in Lahore has historically been the hub of all trade and retail activity in the electronics market for audio/video devices like DVD players, televisions and flat screens, a number of market players like Samsung, LG, Sony, Panasonic and Nobel have, over time, established exclusive display centers which offer complete customer satisfaction in genuineness and quality as well as convenience of shopping. Many have also set up after sales customer care centers which guarantee solutions to problems regarding return, exchange, maintenance and repair. Such outlets with their customer care services have encouraged sales in the recent past.

The most booming subsector within the electronics market, however, is telecommunications. With a current mobile subscriber penetration of over 77%, Pakistan is home to approximately 15000 cell phone retailers where early players like Nokia, Sony Ericson Samsung and Motorola continue to possess significant market share. However, more recently, the potential of the telecommunication industry in Pakistan has invited top notch brands like HTC and Apple to operate under franchises across the metropolitan cities of the country. Mobile handset sales are expected to grow at a compound annualized growth rate of 13% to USD 32 million units in 2016 while the awarding of 3G licenses is expected to boost the high-end mobile handset segment of the market even further.

The demand for desktop computers and laptops in Pakistan is also on the rise and accounted for around 17% of its consumer electronics spending in 2011. With increasing consumer awareness and expanding incomes, Raffles and IStore continue to record encouraging sales. BMI forecasts Pakistan's domestic market computer hardware sales (including notebooks and accessories) to be USD 334 million in 2012, up 7.1% from USD 312 million in 2011. The research firm forecasts that this segment of the market will grow by an average of about 8% between 2012 and 2016.



Established in 2000, Raffles envisioned itself as Pakistan's leading IT solution provider in future years. By delivering outstanding customer value through innovative products, maximum warranty and intensive customer support, it has indeed achieved that and much, much more. Today, Raffles enjoys the repute of Pakistan's first locally assembled Original Equipment Manufacturer (OEM). It is an ISO Certified Company with full Sales, Marketing, Distribution and Customer Service operations. It also enjoys being an Intel, Microsoft Gold Certified and HP Business partner and more recently, Apple's Authorized Distributor and Service Provider in Pakistan. Its range of products includes desktop PCs, notebooks, servers, network and wireless equipment and software solutions.



Raffles has, over time, become an international brand as it is being sold in countries like UAE, Singapore, Malaysia, Mongolia and Saudi Arabia, and has liaison offices in UAE, Singapore, Canada and China. Within Pakistan, in addition to offices at Lahore, Karachi, Islamabad and Multan, the store has a dense re-sellers network across popular cities like Rawalpindi, Sialkot, Bahawalpur, Faisalabad, Sargodha, Jhelum, Gujranwala, Bahawal Nagar, Quetta and Peshawar.

## 5. HOME FURNISHINGS



The emphasis on home furnishings retail in Pakistan has grown tremendously in recent years. Many key players in the textile industry like Gul Ahmed, Al Karam, Nishat and ChenOne have devoted entire floors in their display centers to home accessories. ChenOne, in particular, was the first of its kind in offering a complete range of fashion clothing and footwear, bed linen, kitchen accessories and furniture. With an improvement in living standards and better awareness, excess demand for quality bed linens, curtains, cushion covers, towels etc has spurred the growth of these product lines. Pakistan's wood industry, too, is well developed and captures 95% of the country's total market for furniture. The country has more than 700 units of wooden furniture with Chiniot, Gujrat, Peshawar, Lahore and Karachi being important centres. The market is divided into home use and contract markets, constituting supplies to hotels, restaurants, offices and public facilities.

Chiniot in Pakistan is well known for its beautiful wood carved furniture and brass inlays. It is no surprise, therefore, that the city alone meets 80% of furniture demand in the country. With several medium/ large scale industrial units operative, the wooden furniture industry in Gujrat also produces world class furniture with immaculate finish.

The demand for quality furniture, like other quality home accessories in Pakistan, is constantly on the rise and a number of state of the art showrooms have been devoted to it. Currently, Interwood i.e. one of the leading furniture companies in Pakistan is the only one-stop solution for several products including office furniture, home furniture, kids furniture, kitchens, doors, wardrobes and flooring. More recently, seeing the opportunity, European franchising and licensing retail stores catering to one-stop-solutions have also entered the Pakistani market.



From office furniture for corporate clients to school furniture for educational institutes and home, kitchen and kids furniture for domestic clients, Interwood is the market leader for all in Pakistan. Its team of qualified and well experienced designers coupled with the state of the art, tools and machines it imports from a host of countries like Germany, Italy and Austria for all stages in the manufacturing process allows it absolutely no compromise on quality.

Besides its tastefully displayed showrooms at Lahore, Karachi, and Islamabad, Interwood also exports some of its products to the UK, Norway, Spain, Africa, Middle East and India. In addition, it has executed various woodwork, interior design, refurbishment and furnishing projects for many prestigious local and multi-national organizations such as the Parliament Building of Maldives, Lahore Airport and Karachi Airport. Others among its clientele in Pakistan include the British Council, IBA, LUMS, Unicef, World Bank and Pearl Continental Hotel.

## RETAIL FORMATS BY REGIONAL CONCENTRATION

The contemporary retail sector in Pakistan is well reflected in major cities like Karachi, Lahore, Islamabad and Faisalabad in the form of sprawling shopping centers and complexes. Ushering the shopping revolution, local and foreign large scale real estate investments in these cities have remained crucial in developing the required infrastructure and buildings for such shopping areas. Karachi's recently developed Dolmen Mall, for instance, stands tall and broad above a number of small to medium sized malls like The Forum, Park Towers etc. A mall of international standards equipped with amenities, not only has Dolmen drastically changed the city's retail scenario, it has also managed to attract Debenhams for its debut in Pakistan. Another state of the art mall, the Centaurus, is nearing completion in Islamabad. However, further real estate investments in these retail-concentrated cities remain the need of the hour and new shopping complexes need to be built to meet consumers' insatiable demand, with wide parking spaces, clear paths for pedestrians, wide corridors, maintenance contracts, completely facilitated shops, central air conditioning and numerous other amenities.



## COMMERCIAL REAL ESTATE VIS-À-VIS RETAIL SECTOR IN PAKISTAN

Despite Pakistan's rapidly expanding population and noticeably improving infrastructure, the demand for commercial real estate in the country remained nearly unaddressed in previous years. However, the sector now assumes growing importance with increased liberalization in the country combined with the economic slowdown in the west. With a torrent of international brands establishing footholds in Pakistan in recent years and tremendous business opportunities for local & foreign players, the demand for commercial space in the country is rapidly on the rise. Retail sector developments are now strongly influencing those in the real estate market.

If industry experts are to be believed, the prospects of both the retail and real estate sector are mutually dependent. Retail, one of Pakistan's leading sectors, has presently emerged as one of the most dynamic, fast paced and booming industries of its time attracting countless local and international players. The trends driving the growth of retail in Pakistan are

- Low share of organized retailing
- Comparatively low real estate prices & rents
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury & branded items

The low share of organized retailing further fuels the demand for commercial space and indicates prospects for growth in both the sectors. To cater to such growing demand, a number of prized initiatives are under way and are likely to attract huge investments. In addition, the recent drive to strengthen Pakistan- UAE relations is also likely to cause Pakistan's real estate investments to boom in future times.

Currently being in its nascent stage, the scope for Pakistan's commercial real estate market for modern retail is simply unlimited. Shopping today has become much more than just that- it is increasingly a source of family fun, entertainment and recreation. Thus, plazas and malls not only require space to host supermarkets and local and international brand outlets but also food courts, children's play areas, cinemas and other recreational facilities. Since Pakistan already lacks in the provision of such services, the pressure on building such spaces, particularly in Pakistan's urban cities, is very high.

# PUNJAB'S POTENTIAL

### Highlights

- Punjab, Pakistan's most populous province, is the investment destination for most local and foreign companies
- Lahore, the capital of Punjab, with a population of over 9 million is the 2nd largest city of Pakistan after Karachi and ranks 122 amongst the richest cities of the world
- Much of Lahore's commercial activity has developed along important roads like Mall Road, Main Boulevard and M.M Alam and in regional pockets like Liberty, DHA and Model Town Link Road
- Lahore's traditional multi-storeyed plazas, however, are no longer fit to serve the purpose of retail in the city. The city is in serious dearth of large shopping malls like the Dolmen in Karachi and Centaurus in Islamabad
- Lucrative real estate investment opportunities therefore exist in the construction of large shopping complexes in Lahore with thousands of square feet of floor area to attract international chains, and amenities like escalators, wide corridors/walking spaces, clean toilets and ample covered parking to attract consumers

Being Pakistan's most populous province with several major divisions like Lahore, Rawalpindi, Gujranwala, Faisalabad, Multan etc, Punjab is the ideal destination for retail and real estate investments.

Punjab's capital, however, remains the wonderful city of Lahore, which has historically been the province's center of economic, political, entertainment and cultural activities. After Karachi, Lahore, with a current population of over 9 million, is the 2nd largest city of Pakistan and ranks 122 amongst the richest cities of the world. Showing consistent intake of various international chains despite political turbulence, real estate experts and businessmen have come to believe that Lahore is a natural breeding ground for multinational companies, banks & international brands.

City	Population (Estimates for 2012 based on 1998 census data)	Infrastructure and Services (Ranked in order of importance)
Punjab (Total)	94,401,000	
Lahore	15,926,000	1
Rawalpindi	8,379,000	2
Gujranwala	14,336,000	3
Faisalabad	12,324,000	4
Sargodha	6,982,000	5
Sahiwal	6,689,000	6
Multan	10,840,000	7
Bahawalpur	10,069,000	8
D.G.Khan	8,856,000	9

## LAHORE'S REAL ESTATE AND RETAIL POTENTIAL

Lahore comprises nine administrative towns and one separate military cantonment. A brief summary of the city's administrative towns, major localities and neighborhoods is as follows:

Administrative Towns	Major Localities		Major Neighborhoods	
Aziz Bhatti Town	Ichhra	Pasco Society	Shad Bagh	Kirshan Nagar
Ravi Town	New muslim Town	Muhafiz Town	Chah Miran	Defence Housing Authority
Shalimar Town	Hassan Town	Allama Iqbal Town	Gawalmandi	Bahria Town
Wagah Town	Awan Town	Sanda bahttian Wala	Laxshmi Chowk	Mughalpura
Data Ganj Baksh Town	Mustafa Town	Gulshan-e-Ravi	Qila Gujjar Singh	Harbanspura
Gulberg Town	Johar Town	Faisal Town	Township	Jallo Mor
Allama Iqbal Town	Gardwn Town	Model Town	Walled City	Baghbanpura
Samanabad Town	Township	Wapda Town	Shahdara	Sanda Bhattian Wala
Nishtar Town	Valencia	Green Town	Ravi Town	Begum Kot

Source: City District Government, Lahore

Much of Lahore's commercial activity has developed along some major roads in the city like:

- The Mall (shopping & business)
- Jail Road (business)
- Ferozpur Road (commercial & sports)
- M.M. Alam Road (restaurants & shopping)
- Main Boulevard Gulberg (commercial & shopping)
- Main Boulevard Garden Town (commercial & shopping)
- Canal Bank (residential & educational)
- Main Road Y Block Defence (shopping & restaurants)
- Main Boulevard Defence (shopping & commercial)
- Cavalry (shopping & commercial)
- Link Road (shopping & restaurants)
- Food Street (outdoor cafes)
- Lahore Ring Road

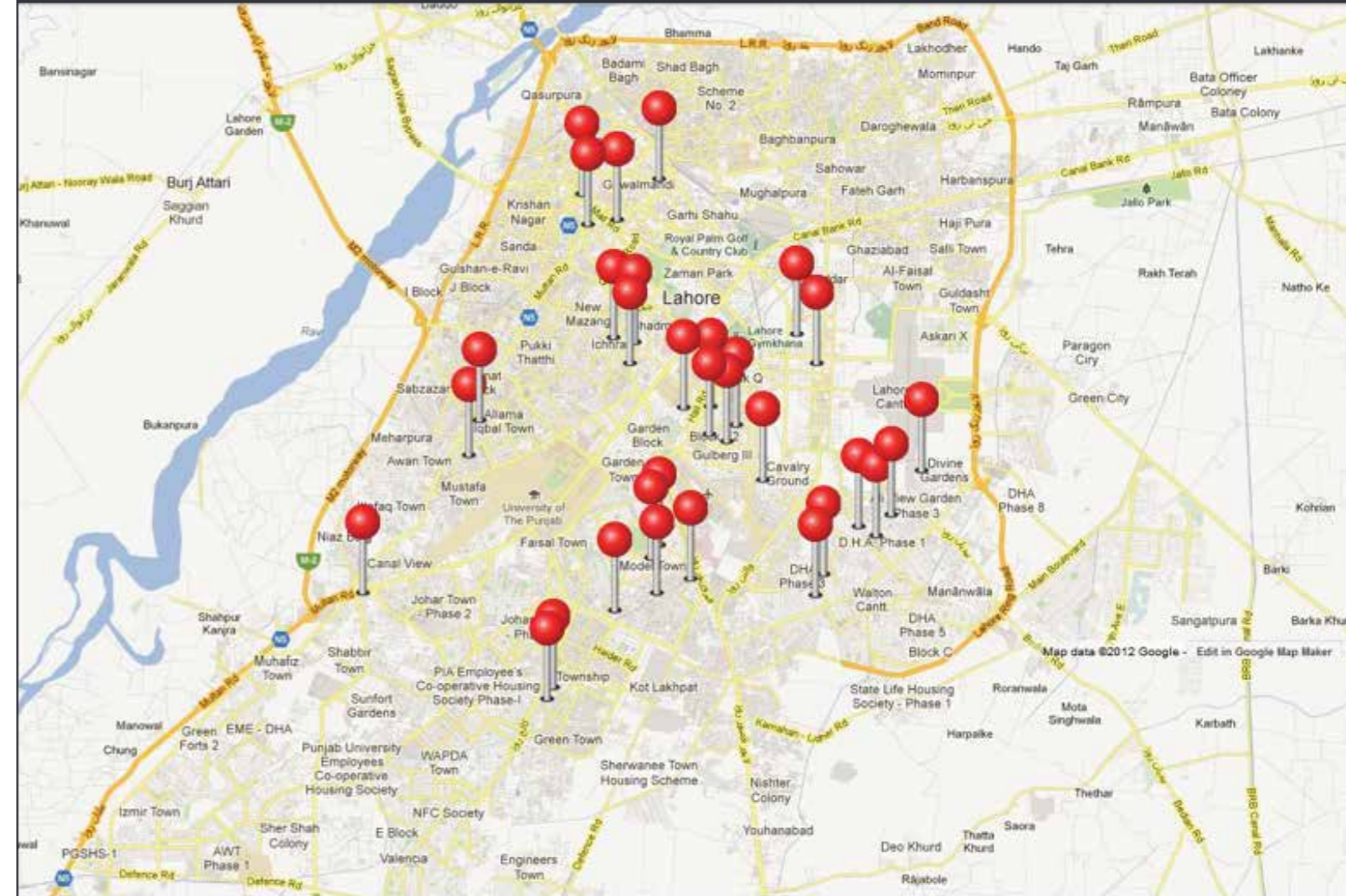
Liberty Market, M.M. Alam Road, Fortress Stadium, Link Road Model Town Extension and Y Block DHA have emerged as Lahore's new shopping hubs (view map of commercial activity in Lahore).

## CHANGING FACE OF LAHORE

Of the earliest retail traditions in Lahore city, outdoor markets and bazaars still remain pervasive and are resonated by shopping places like Ichhra, Anarkali and Mall Road. With the launch of Pace in 1994, however, Lahore began to imbibe the culture of shopping plazas and has, today, rapidly progressed to become home to some magnificent multi-storeyed ones for modern retail with organized parking and offices (and sometimes even apartments) reserved for top floors. While plazas currently represent most of the commercial real estate activity in Lahore, the demand for huge shopping complexes with amenities like escalators, wide corridors/walking spaces, clean toilets and ample covered parking remains unmet. Apart from the presence one or two quality malls like The Mall of Lahore or Xinhua Mall, the city is in serious dearth of similar shopping places.

Traditional Central Business Districts (CBDs) including those identified above have begun to gradually lose their sheen against alternative locations because of their inability to offer Grade A buildings at competitive rates. Among the newer commercial areas and markets in Lahore that are marked with heavy retail activity, Gulberg & DHA are on top of the list especially for brand-ed stores but still lack the amenities which especially the international brands require.

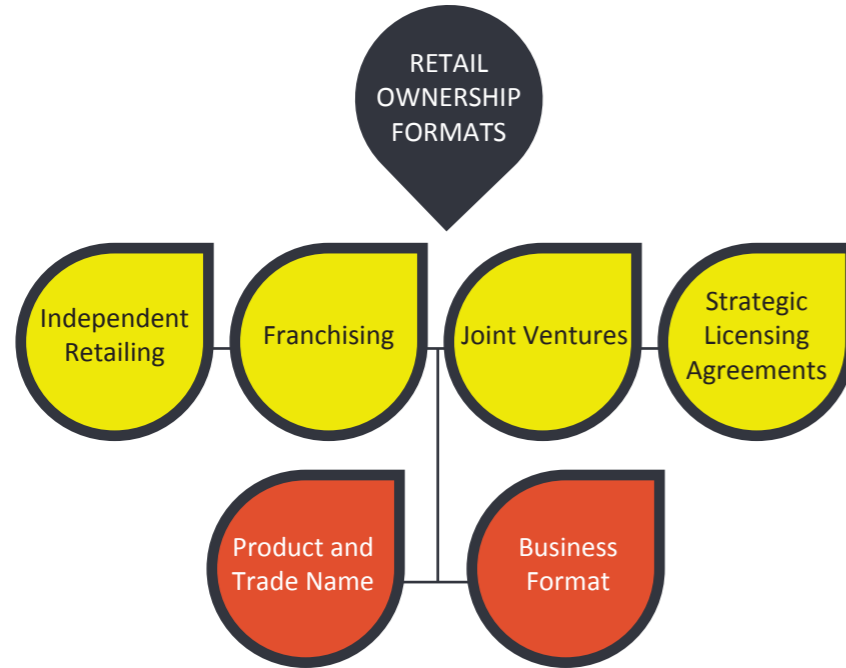
One reason why plazas can no longer serve the purpose of commercial activity in the city is the rapidly changing, dynamic character of its retail sector. With the proliferation of international brands within the city, plazas have suddenly become unattractive with their limited floor space and selling area. International departmental store chains like Debenhams and Marks & Spencer and apparel giants like Zara and H&M, for instance, would require at least 3,000 sq ft to 20,000 sq ft of floor space for display if they go ahead with their intention of operating in Pakistan. This means that lucrative real estate investment opportunities exist in the construction of large shopping complexes with almost entire floors reserved for such international chains.



MAP OF COMMERCIAL ACTIVITY IN LAHORE

## RETAIL OWNERSHIP FORMATS IN PAKISTAN

Entrepreneurs have many forms of retail business ownership available to them. The choice of type of retail business depends on the nature of the retailer as well as his preferred mode of operation. Some of the popular retail ownership formats in Pakistan are detailed below.



## INDEPENDENT RETAILER

An independent retailer is one who builds his/her business ground up. From the business planning stage to opening day, the independent retail owner does it all. He/she may hire consultants, staff and others to assist in the business endeavor - the opportunities are endless. This model suits large retailers like IKEA and is one of the most prevalent in Pakistan.

## FRANCHISING

Franchising is a continuing relationship in which a parent company provides the right to use its trademark and management assistance in return for payments from the owner of the individual business unit. There are two types of franchises:

- (i) Product and Trade Name Franchises, a distribution agreement under which the supplier (franchiser) authorizes a dealer (franchisee) to sell a product line using the parent company's trade name for promotional purposes. Historically, this has been a dominant franchising arrangement in Pakistan's automobile industry e.g. Honda.
- (ii) Business Format Franchising, where a successful retail business sells the right to operate the same business in another geographical location. Much of franchising growth and publicity over the past three decades in Pakistan has involved a similar setup. The concept has gained tremendous acceptance in recent years, as can be felt from the presence of international chains in various sectors. The table below provides some examples. In addition to food outlets such as Pizza Hut, KFC, McDonald's, TGI Friday's, Subway, Domino's, nonfood sectors such as retailing, convenience stores, hotels & motels, courier service, security services, and educational training centers are going to be the growth areas of the future.

Food	Hotels & Motels	Apparel	Courier Services	Others
McDonald's, KFC, Pizza Hut, TGI, Nacho Nana's, Subway, Hardee's, Nando's, Pizza Express, Domino's, Movenpick, Gloria Jeans, Cinnabon	Sheraton, Marriott, Best Western, Ramada, Renaissance, Serena Group	Next, Mothercare, Splash, Levis, Hang Ten, Benetton, Schieser, Walt Disney, Jockey	DHL, TNT Skypak, United Parcel, Federal Express	Bodyshop, Accessorize, Early Learning Centre (ELC), Crabtree & Evelyn, Bose, Nike, Reebok, Swatch

The Government of Pakistan promises an encouraging business environment for franchise deals. It does not impose any restrictions on investors who wish to establish a franchise in the country- foreign investors are only required to inform the Board of Investment and the State Bank of Pakistan about their business primarily for the purpose of repatriation of franchise fee or any profits accrued.

## JOINT VENTURES

Joint ventures are another popular retail format in Pakistan. Some significant examples of the same include:

- (i) Carrefour- The French giant's presence in Pakistan is part of its joint venture with Dubai-based Emirati conglomerate Abdul Majid al-Futtaim Group.
- (ii) Haier Pakistan - Haier Pakistan is the Pakistan Sales & Marketing division of the international Haier Group, a globally recognized manufacturer of world-class electrical home appliances. The joint venture between Ruba General Trading Company and Haier Group of China brought Haier to Pakistan with an initial investment of about USD 35 million and a commitment to provide world-class innovative products based on uncompromising quality to the Pakistani consumer.
- (iii) Total Parco Pakistan Limited (TPPL) - TPPL is a joint venture between PARCO and TOTAL S.A of France. TPPL markets consumer petroleum products through its national network of gas stations and at present has more than 175 outlets in Pakistan.

## STRATEGIC LICENSING AGREEMENTS

A licensing agreement between two parties grants the licensee the right to market and sell the product of service of the licensor. It usually covers the cost of the license, royalty fees as well as territory rights. Compared to franchisees, licensees are typically granted much more freedom with regard to business operations, marketing and sales. However, most licensors do require that licensees adhere to quality assurance standards.

A noted example of retail licensing agreements in Pakistan is Raffles, being the authorized distributor and seller of Apple products since 2006. Raffles also opened, in a joint venture, the first Apple retail store in Lahore, Pakistan, in 2008.

# FUTURE OUTLOOK

There is little denying the fact that Pakistan has had a troubled past, but then again, there is little denying the fact its future holds great promise. Despite the social, political and economic challenges tossed at it every now and then, Pakistan has emerged tall and broad above all to prove its resilience and undeterred vision to parallel any other transitioning developing economy. By highlighting the tremendous potential and countless business opportunities in just one growing sector of the country i.e. the retail industry, this study hopes to have brought forth the lighter side of Pakistan and its receptiveness and responsiveness to local and foreign investments.

To reiterate, Pakistan's current retail market is estimated at USD 42 billion with sales in excess of USD 105 billion. Additionally, it is expected to grow by another USD 30 in a short span of just 3 years. As sector profiles in the study like food, apparel, footwear, health & beauty, consumer electronics and home furnishings demonstrate the associated dynamism, vibrancy and insatiability in each sector, such forecasts for Pakistan's retail industry do not seem to be too-far-away developments. Needless to mention, the retail revolution is also likely to significantly influence the real estate market in various cities and build pressure for large, modern, organized retail complexes that will become the ideal investment destination for a host of international brands.

As it appears, the overall services and infrastructure developments across metropolitan cities in Pakistan have already picked pace to facilitate such booming sectors of tomorrow. The surging city of Lahore, for instance, is home to over 9 million people with a daily demand of at least 13 million motorized trips for work, shopping and recreation. The Government of Punjab, therefore, has undertaken numerous transport projects like the Bus Rapid Transit to ease the pressure on roads and consumers' access to basic services. If the city is later to become home to a network of large, modern malls and shopping complexes, such developments in transport and infrastructure will remain crucial to facilitate access.

Even apart from investments by provincial and federal governments, it appears that foreign flows have, more recently, shifted focus from classic sectors like power to more vibrant ones like food, textiles and electronics. It is in the light of such developments; therefore, that one can envision Pakistan as the hub of all commercial activity, retail in particular, or as Goldman Sachs' Jim O'Neill simply puts it, a driver of global growth in future years!



# PBIT SERVICES

PBIT was formed in the winter of 2009 under the auspices of the Government of Punjab to act as the premier Investment Promotion Agency of Punjab and help facilitate investment and trade flows in the province. PBIT has, since then, made untiring efforts for gaining the world's attention and recognition for Punjab as a progressive, modern, safe and investment friendly region of Pakistan, at par with the any progressing economy of the world. By cutting bureaucracies, PBIT's private sector focus has enabled investors to take advantage of the Punjab Government's liberal business policies and establish business concerns in the region. PBIT has a diverse set of human resources from both the private and the public sector ensuring that the organization has access to every echelons of the government and, at the same time, behaves and operates with the productivity and efficiency of any multinational.

The strategy which PBIT follows is two pronged; maintaining a focused approach on investors, both nationally and internationally and; removing impediments for already committed investors by reviving stalled projects & policy advocacy. PBIT is a silent promoter of the business potential of Punjab as the work of PBIT is often intangible and of a nature that reaps result after sustained efforts over a period of considerable time. PBIT is currently a nascent organization, slowly and consistently edging towards carving its niche amongst stakeholders. It hopes that with its concerted efforts, the business environment shall improve considerably.

It would not be incorrect to state that the Board acts as a free-consultancy for both organizations and individuals that are interested in the opportunities Punjab has to offer. PBIT has been providing a one window facility to investors with preliminary concerns like identification of land and guidance on the country's taxation laws and helping them in meeting with local businessmen in establishment of any potential joint ventures/businesses.



