

Analysis by Projects & Policy Research Department | PBIT | Dec 2018

LOGISTICS

Insights of Warehousing & E-Commerce

Projects & Policy Research
Department



BUILDING PARTNERSHIPS

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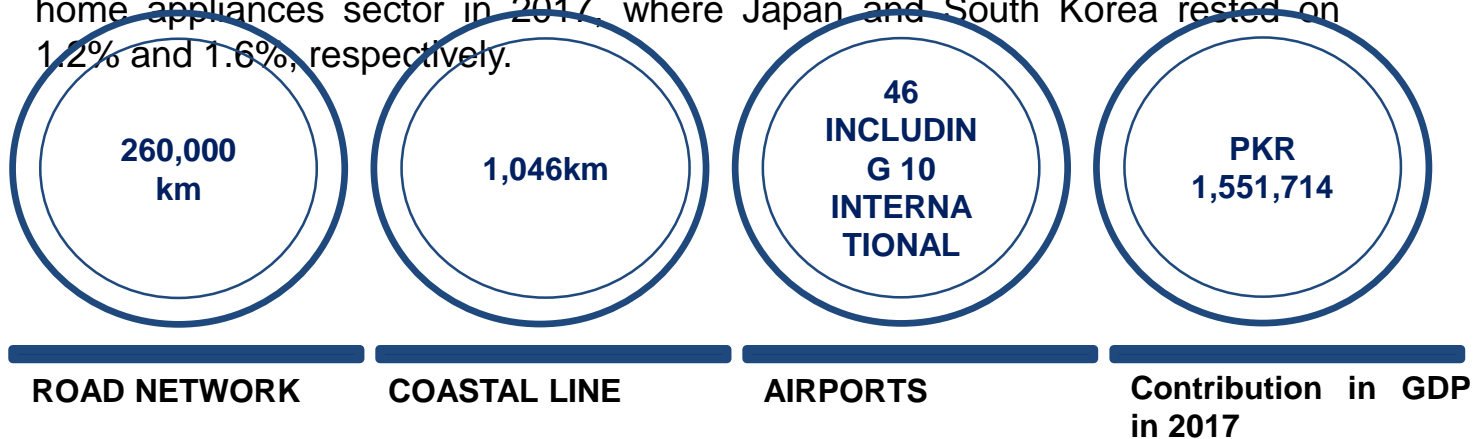
Content

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- A large cargo ship is docked at a port, with a yellow crane visible on the deck. The ship is dark blue with a white hull. The sky is a mix of orange and blue, suggesting a sunset or sunrise. The water in the foreground is choppy and brownish. The text is overlaid on a semi-transparent white box.
- **Summary**
 - **Business Model and Work Flow**
 - **Pakistan's Logistics Sector**
 - **Freight Forwarding In Pakistan**
 - **Transport & Logistics Sector Growth**
 - **Supply Chain Management**
 - **Market & Commerce Trends**
 - **Case of Investment**
 - **Sources**

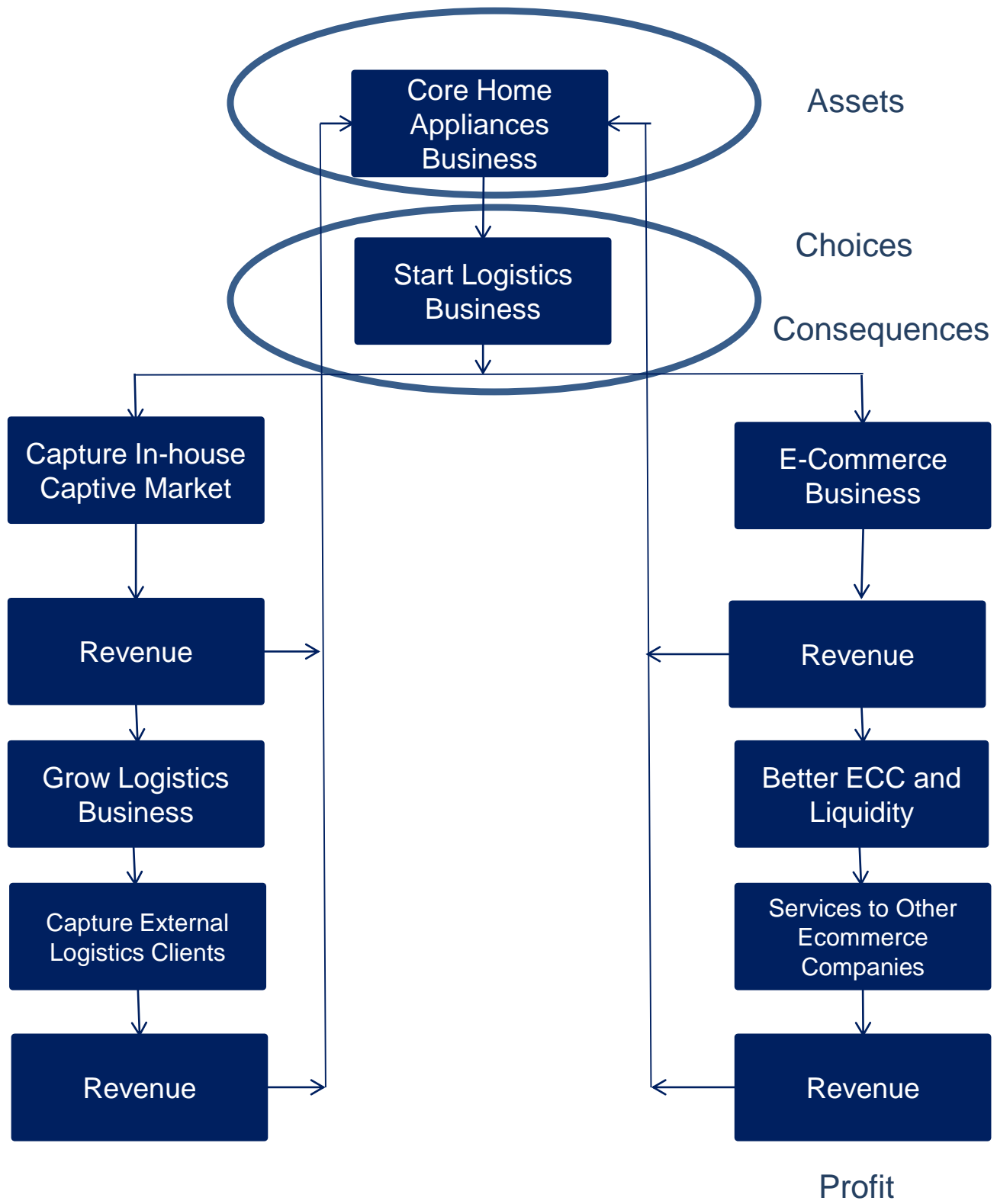


SUMMARY

The logistics sector is a key motive behind increasing the capacity of developing and growing countries. It is about resourcefully moving merchandises and connect both local and international markets to the recent standards and needs. It provides a platform for sale and purchase by matchmaking between manufacturers and consumers. Initially, the platform provides outsourcing of goods, ambitious sales and easy cash collection. This can play a good part in improving the market statistics not only locally, but also, internationally. For a business of home appliances, the market is increasingly growing as the population Pakistan has increased upto 200mn in 2018 which was 142.5mn in 2001. It is 1.63% of the total worlds population. With these increasing trends, the electronics market and home appliances have experienced a boom. For example, production of ACs reached 196,503 units in July-Feb 2017-18 from Rs 158,949 units in same period last fiscal. This document would address the core value prepositions of such a business where demand is increasing day by day as Pakistan marked a growth of 3.1% in home appliances sector in 2017, where Japan and South Korea rested on 1.2% and 1.6%, respectively.

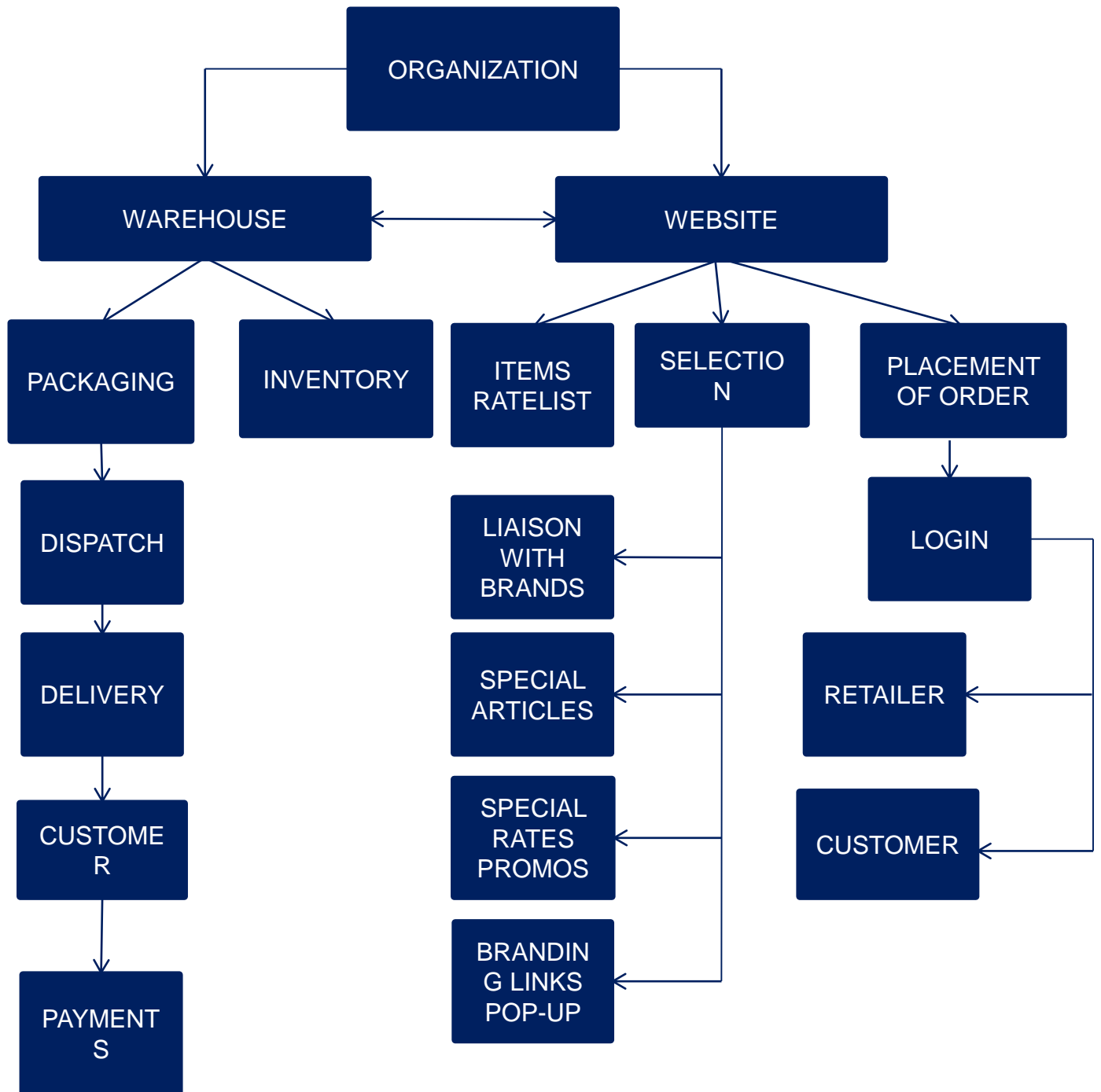


**BUSINESS
MODEL &
WORK FLOW**



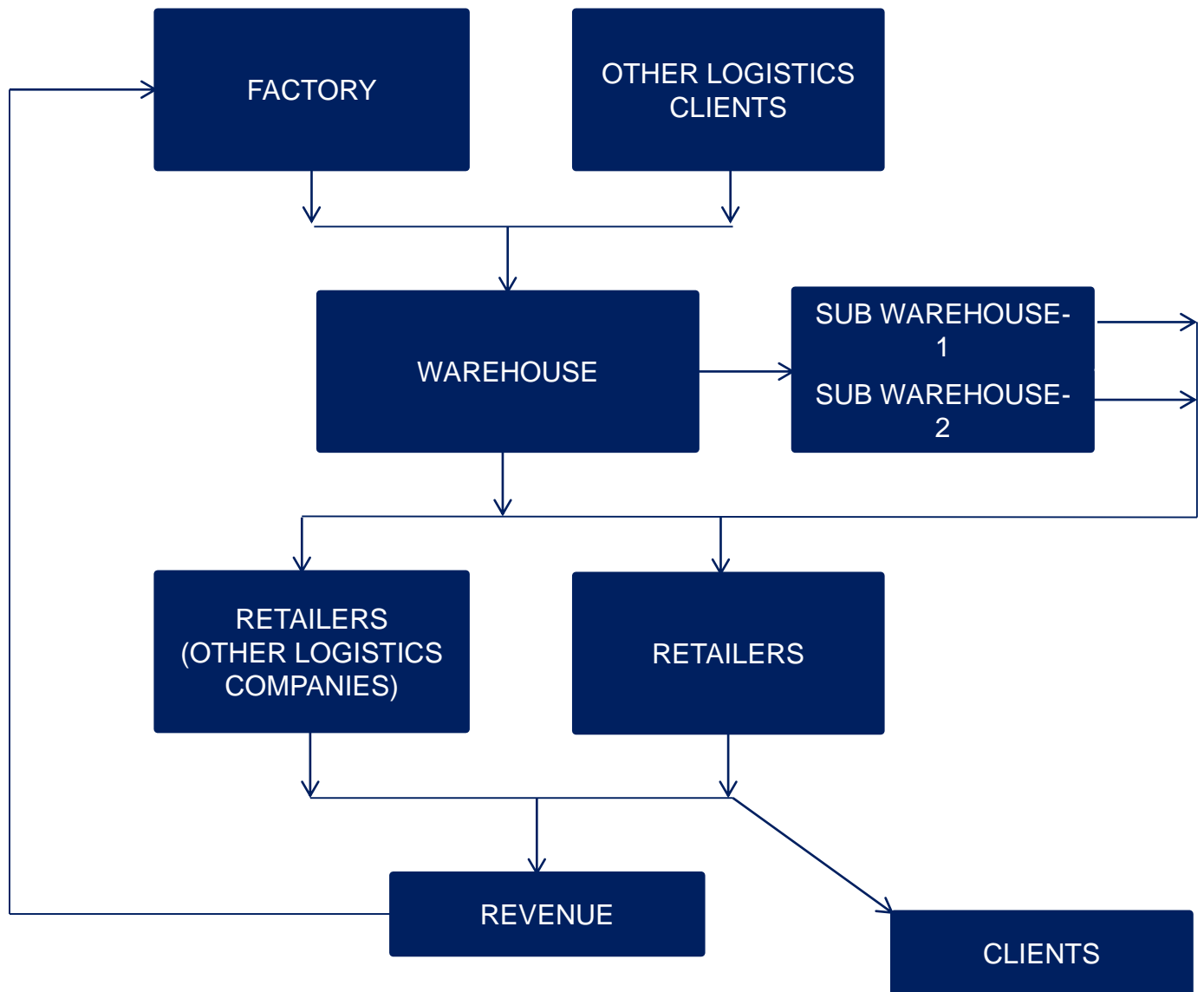


E-COMMERCE





CAPTIVE IN-HOUSE MARKET



PAKISTAN'S LOGISTICS SECTOR

□ OBOR

➤ CPEC



China is working on creating a network of railways, roads, pipelines, and utility grids that would link China and Central Asia, West Asia, and parts of South Asia. This initiative, One Belt and One Road (OBOR), comprises more than physical connections. China Pakistan Economic Corridor (CPEC) is probably the first and the most successful route till date. CPEC has already structured an efficient transport and logistics system in Pakistan as it is bringing in \$11bn investment in logistics sector which is 17.7% of the total CPEC investments.

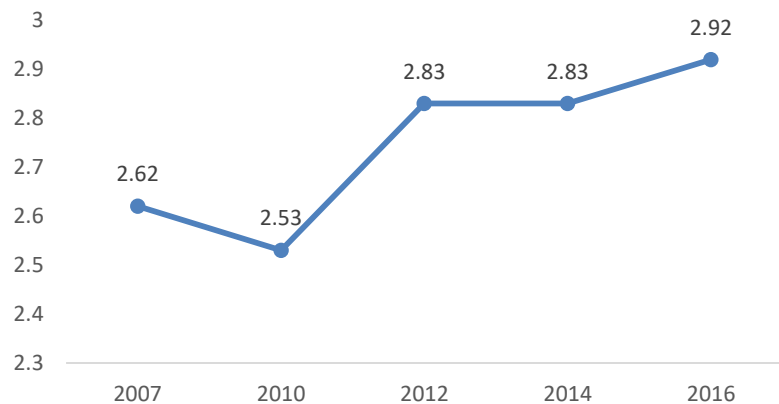
The logistics sector of Pakistan is at its verge of being fed with billions of dollars investments with which, its performance indicators are expected to grow. On the basis of its customs clearance, delivery timing and quality competitiveness, the World Bank has graded Pakistan with 3.84/5 when it comes to timelines on international standards. The overall LPI of Pakistan is 2.92 which is average as per the current facilities and setup for freight forwarding in Pakistan.

The global connectivity of Pakistan as the freight forwarding country has shown different trends in the last decade. From being graded at 2.62 in 2007, Pakistan has now touched the scorecard on 2.92 out of 5. Germany is probably the leading country on the logistics performance indicator. Similarly, the current investment would boast-up the allied industries like Tyre manufacturing, auto parts manufacturing, packaging, warehousing and Ecommerce.

Pakistan's Logistics Score Card



Pakistan's LPI





**220mn
Population**



**57mn Internet
Users**



**37mn Active
Social Media**

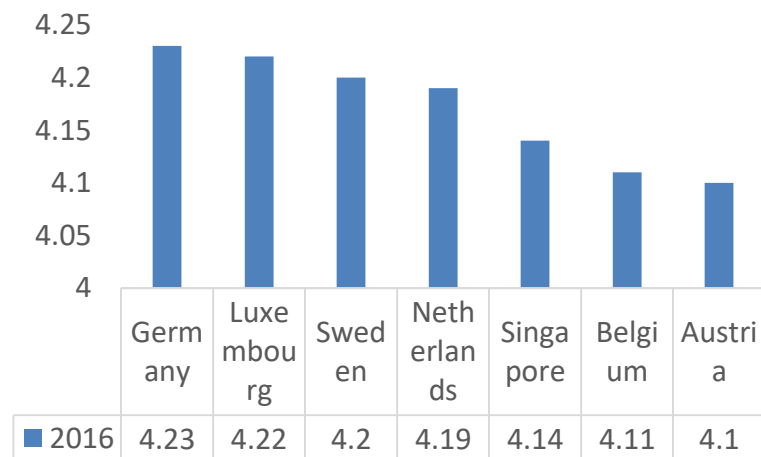


**150mn
Mobile**

Sustainable economic development of Pakistan is dependent on a robust and low-cost transport and logistics sector. The population in Pakistan has increased 2.4% annually at an average. The 89% of the population is the mobile subscribers in Pakistan which roughly grades 163mn people in Pakistan while 60% of the population is below 30 years. The consumption of goods has increased as well, over the time, as the home appliances market has increased with about 3.1% growth rate in 2017. The 37million mobile broadband users would be a major part of boosting up the ecommerce which would enhance the logistics sector in Pakistan.

The LPIs indicate a trend referred to as lowest=1 and highest=5. Germany has the most efficient freight forwarding performance and indicates a level of 4.23 followed by Luxemburg and Sweden with LPIs of 4.22 and 4.20, respectively. Pakistan rests on 68th rank with LPI of 2.92. the timeline indicator of Pakistan is 3.48/5 and indicates a great potential due to current established infrastructure and roads network. Supply chains are policy dependent and sustainable improvements require complex changes. Above countries are the leading figures of this sector due to better policies

Global Logistics Performance Indicator



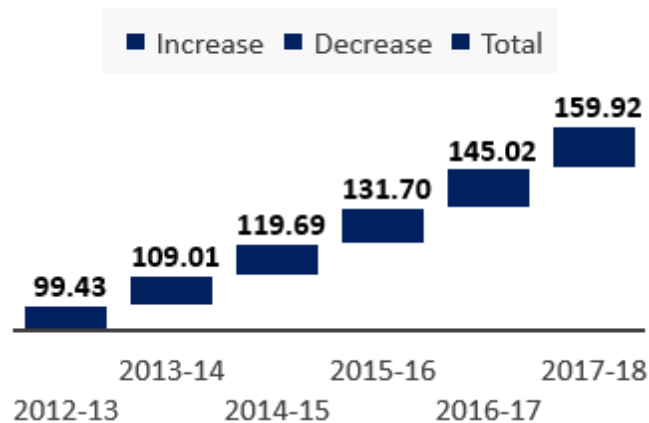
FREIGHT FORWARDING IN PAKISTAN



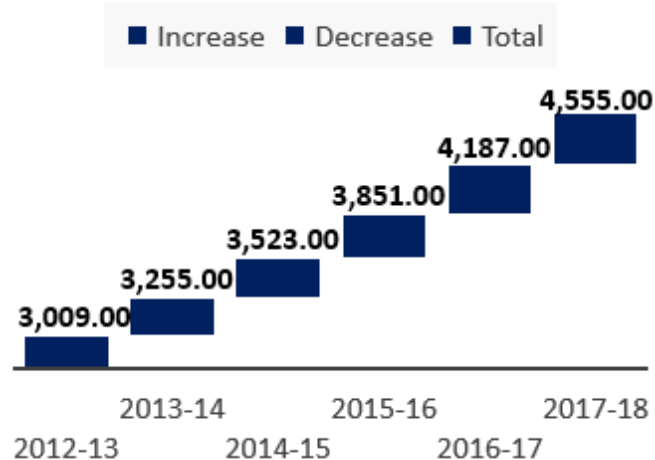
Freight Forwarding by Sea

- The freight forwarding by sea falls in two categories i.e. total cargo by sea and total containers by sea which have been considerably growing over the past 5 fiscal years by the average of 8.26% and 7.17%, respectively.
- As compared to FY 2016-17, the total cargo by sea increased to 159.9mn tonnes in 2017-18. The average compound growth rate was 8.26% with which the freight forwarding experienced a growth from 99.43Mn Tonnes in 2012-13 till 2017-18. The operations are done from 3 operational ports of Pakistan including Port Qasim, Karachi Port Trust & Gwadar Port.
- Similarly, the number of containers cargoing different sort of materials and goods, have gradually increased over the period of 5 years. With an average growth rate of 7.17%, Pakistan cargoed 4,555,000 containers in the recent FY 2017-18. An evident growth is expected as the World bank's LPI rates Pakistan's timeline grade at 3.48/5 i.e. 58th in the world.
- In FY 2017-18, 65.43Mn Tonnes of dry bulk was cargoed, followed by 55.55Mn Tonnes and 38.94Mn Tonnes of general cargo and liquid cargo, respectively. The overall CAGR was recorded to be 8.26%.

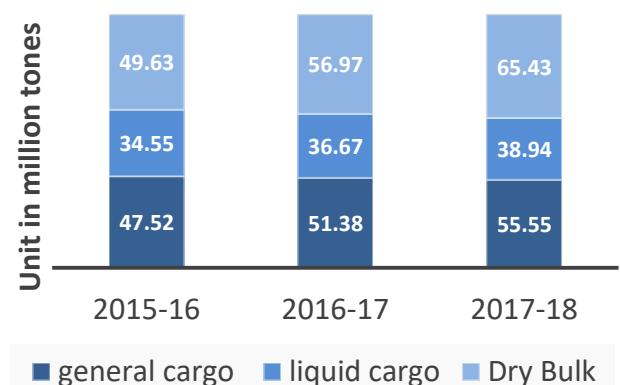
Total Cargo by Sea in Bn Tonnes



Total Container by Sea- '000



Total Cargo by Sea (Category)

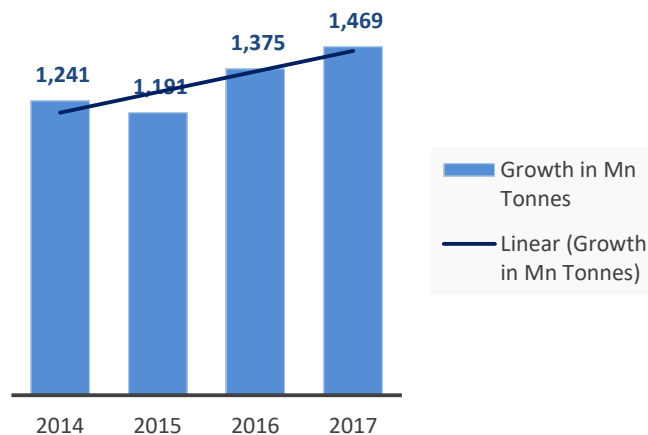




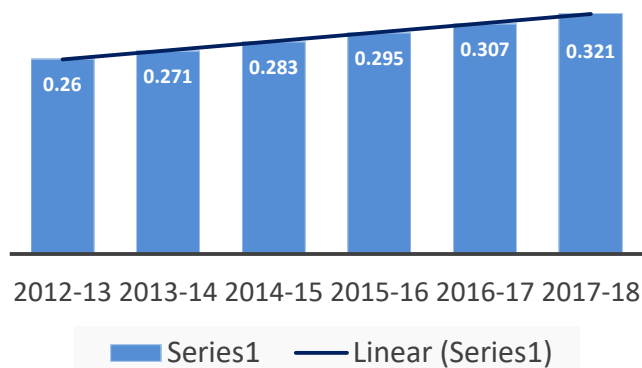
Freight Forwarding by Air

- Significant improvement was achieved on cargo side and the load factor increased by 6.2% to 55.2% and the tonnage carried increased by 7% to 1,469 million RTKs (Revenue Tonne Kilometers), in 2017-18.
- The freight forwarding by air falls in two categories i.e. total freight forwarding internationally and total freight forwarding domestically, by air.
- The total freight forwarding by air increased to 0.32Mn Tonnes in 2017-18 as compared to the FY 2016-17 on a growth rate of 4.31%. Since 2012-13, a growth from 0.26Mn Tonnes has been observed to 0.321Mn Tonnes in 2017-18. The operations carried out within Pakistan follows 360,937km of route with a fleet of 36aircrafts.
- The freight forwarding by air is of two types which are international cargo, and domestic cargo. In the last FY 2017-18, 0.24Mn Tonnes of international freight was forwarded followed by 0.073Mn Tonnes in 2016-2017. The overall CAGR was recorded to be 4.28%.

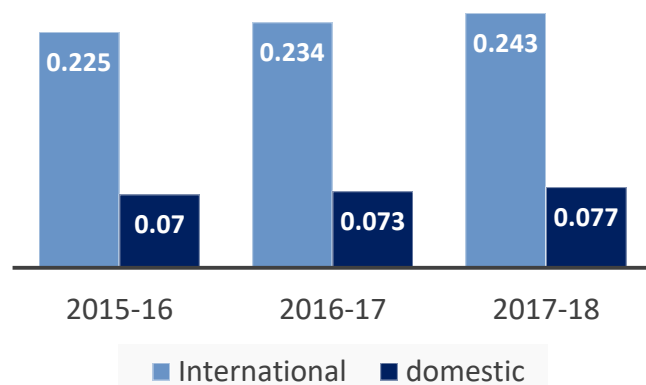
Growth in Mn Tonnes



Air Freight in Mn Tonnes



Air Freight by Category

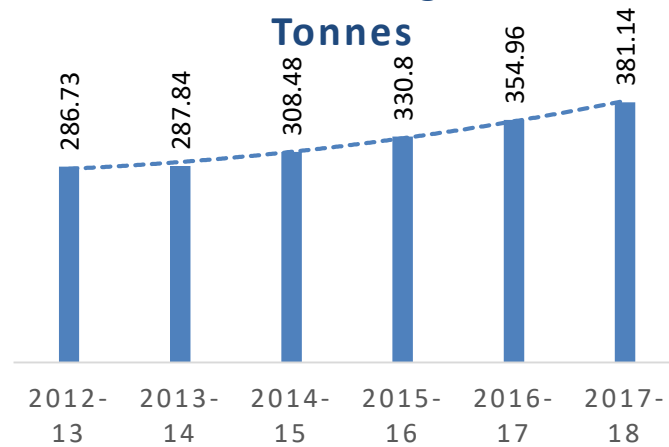




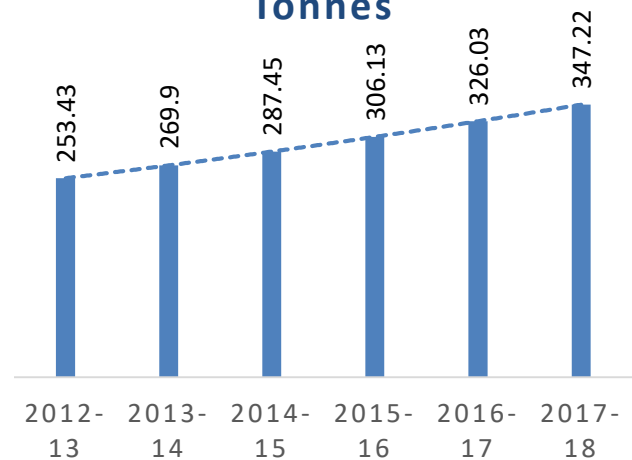
Freight Forwarding by Land

- The national road network comprises of 260,000km of roads, of which 68.4% is of high-type. It has a network of 7,791 route kms & 2/3rd of this is of non-commercial value and consists of branch and strategic lines. The total inland freight forwarding reached upto 381.14Bn Tonnes in 2017-18.
- The tonnage by road has increased from 286.73Bn Tonnes with a CAGR of 6.01%..
- The same is expected to grow as Punjab is at its edge to be connected with 39km Havelian-Mansehra Motorway which would connect Punjab with KPK while Sukkur –Multan Motorway would link the rest of regions by M-5 of 392km in which Khanewal-Multan(Ext) of 56Km is already operational
- Pakistan Railways is to undertake steps to increase its share in the overall transport sector of Pakistan from 4% to 20%.
- With a CAGR of 17.26%, the tonnage of freight forwarding by railways has increased to 33.92Bn Tonnes from 28.93Bn Tonnes per km in the last year.

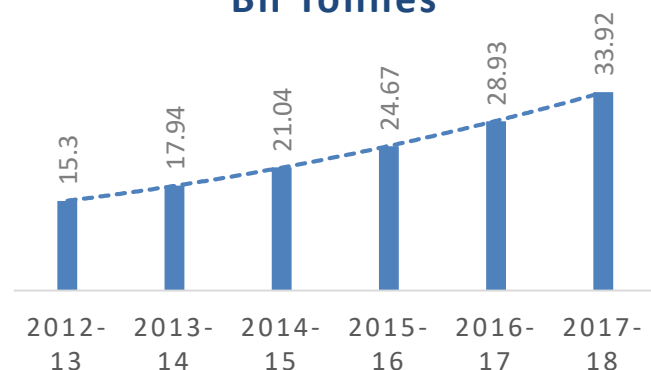
Total Inland Freight In Bn Tonnes



Total Road Freight In Bn Tonnes



Total Railway Freight In Bn Tonnes



**TRANSPORT &
LOGISTICS
SECTOR
GROWTH**



Contribution in GDP in 2006

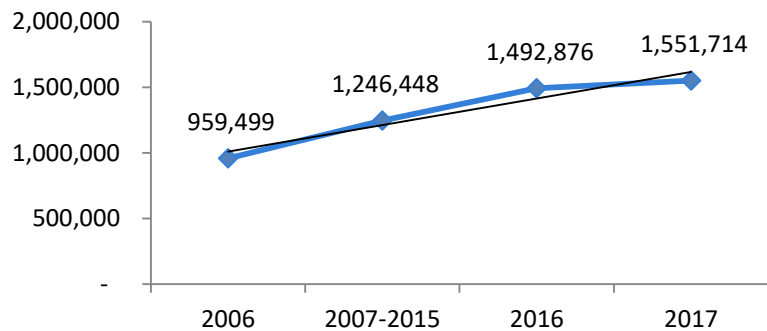
Contribution in GDP in 2007-2015

Contribution in GDP in 2016

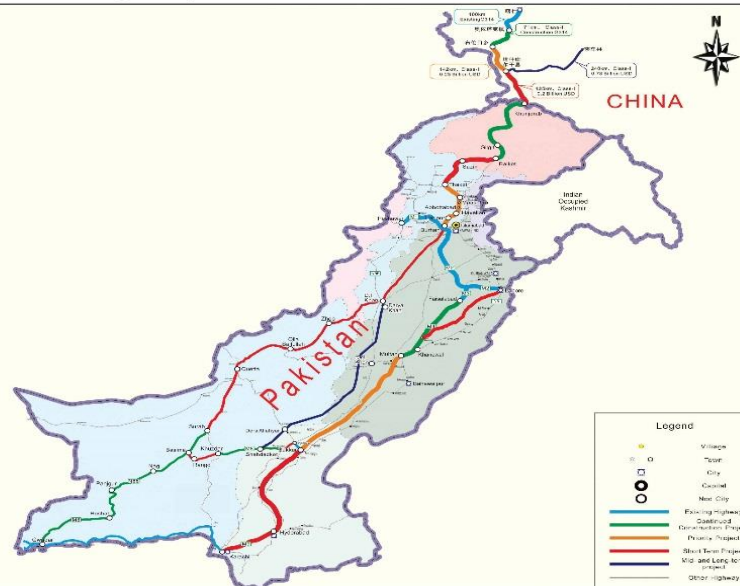
Contribution in GDP in 2017

- With 39 national highways, motorways, expressways and strategic road network, the logistics sector of Pakistan would have 12,131km network to move on.
- Till 2020, the same sector would target USD 11Bn which is 17.7% of the total CPEC investment i.e. USD62Bn for the development of transport and logistics sector in Pakistan.
- The sector is currently facilitating 3mn jobs in the country in which a growth is expected after the completion of CPEC.
- The total current investment under CPEC for logistics and transport sector accounts for USD6,100mn and USD3,690mn for roads &

Share of Logistics Sector in GDP in Mn

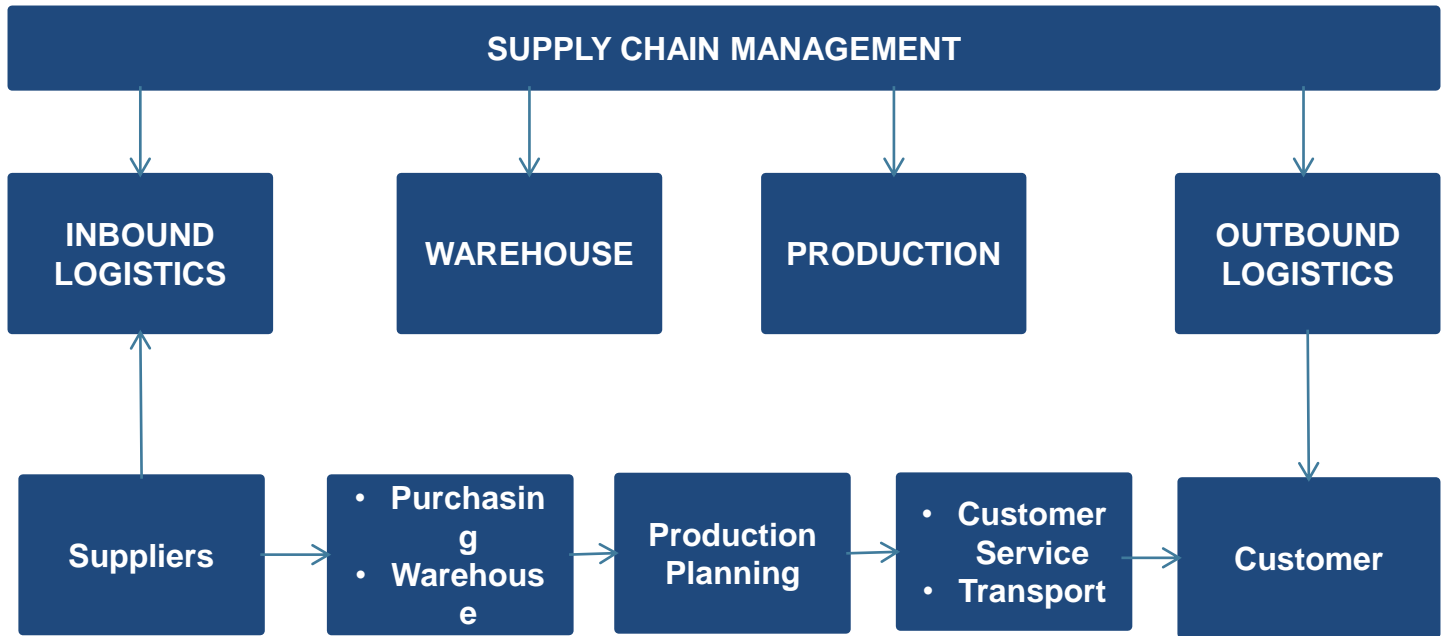


Highways Network of CPEC



SUPPLY CHAIN MANAGEMENT

SUPPLY CHAIN MANAGEMENT



For a supply chain management, the key factor is the concept of Inbound Logistics. It is 'Port to Factory' supply chain where the material for the product manufacturing is supplied to the production facility

Warehousing is a storage which can be used by manufacturers for delivering the goods to customer, retailer. The goods for export purposes or Ecommerce can be facilitated as well

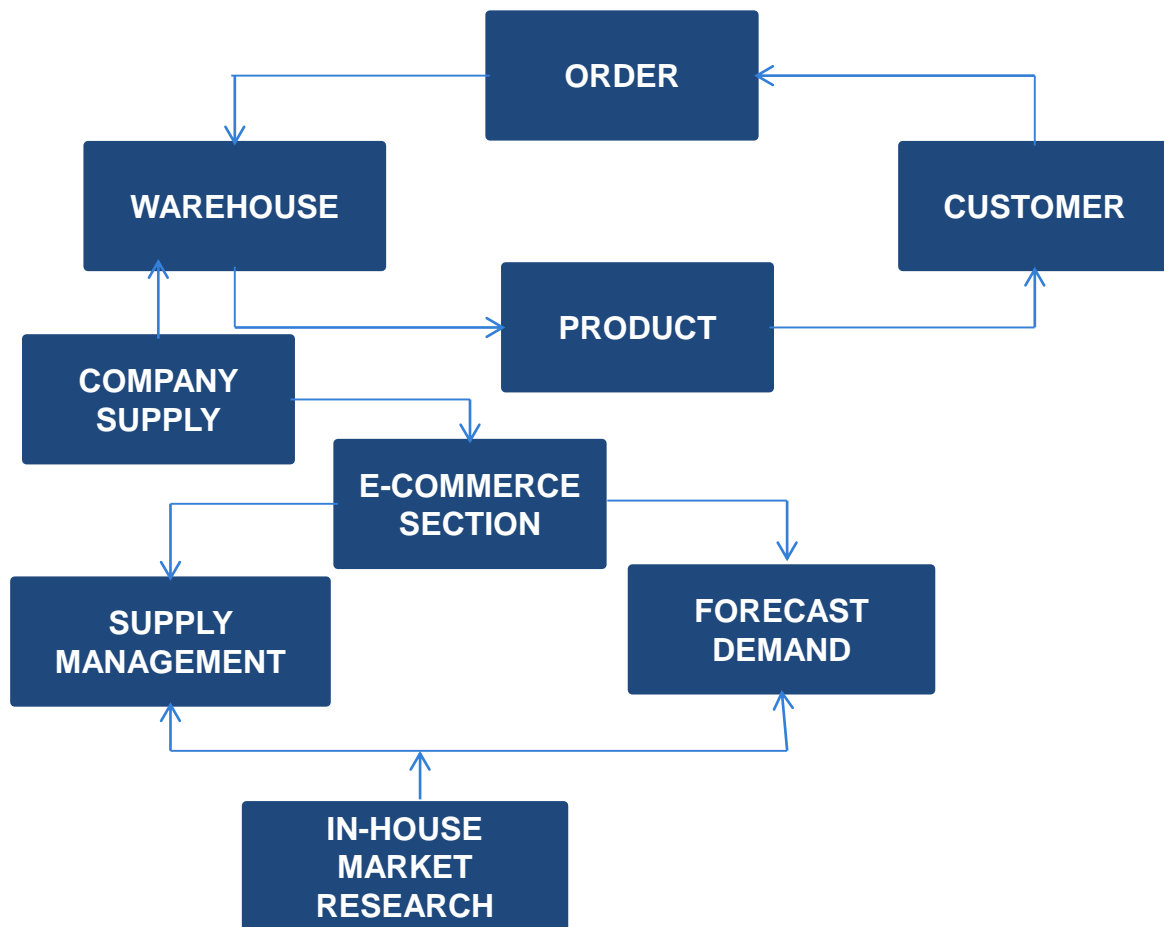
SUPPLY CHAIN MANAGEMENT

Production is the process of or action of making the finished good for giving out the end yield by utilizing raw material, inbound logistics chain, components and layouts.

Outbound logistics concept is about transporting the finished good, logistically, to the customers and warehouses. This is directly linked to the customer services



Freight Forwarding Channel

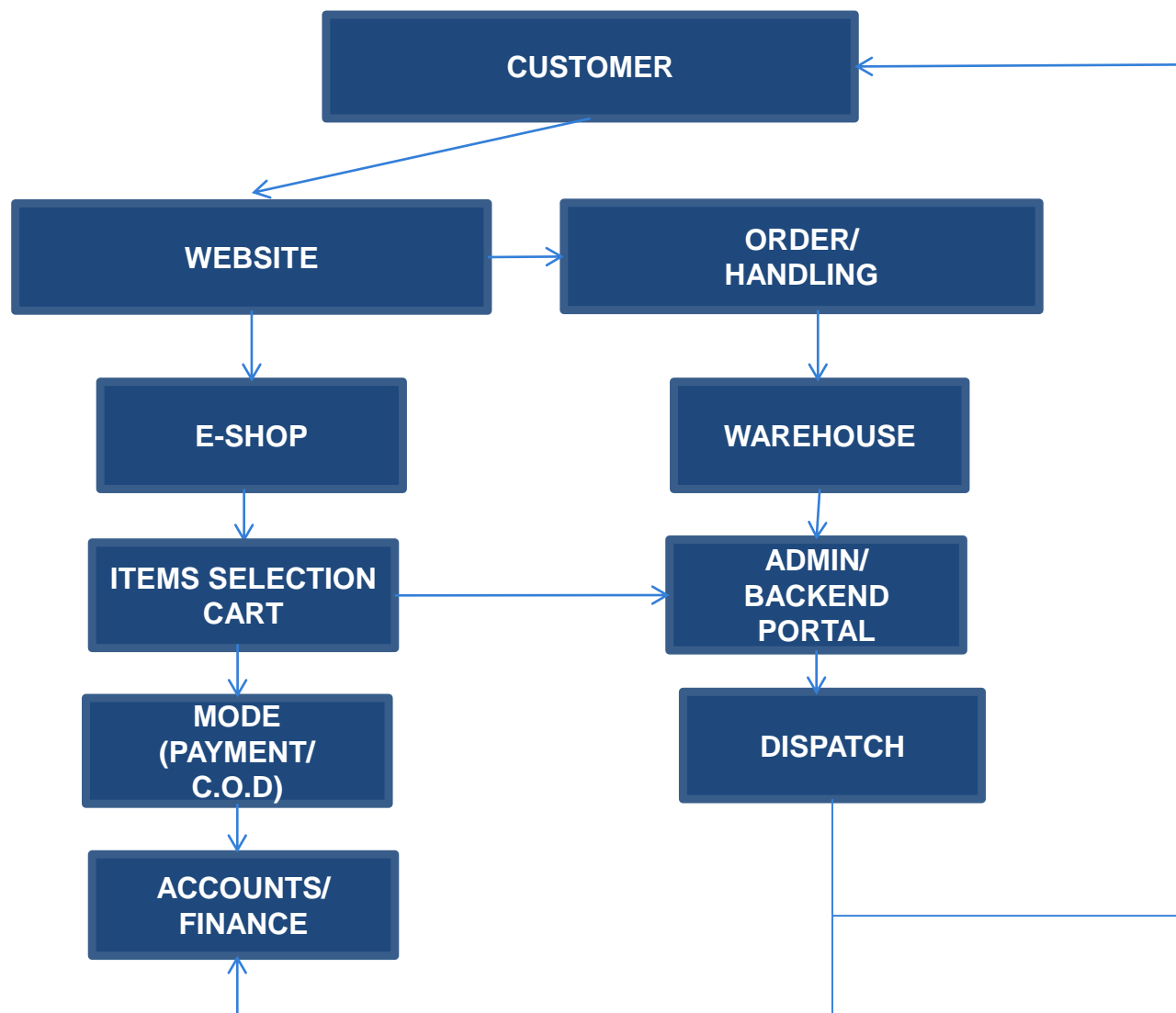


On the basis of Inhouse research at the production facility, the forecasted demand is analyzed for which, the supply chain management acts accordingly. The Ecommerce section of this chain enables the company to get the order placed by the customer, delivered, by dispatching is from a warehouse.



SHOP NOW

Placement of Order



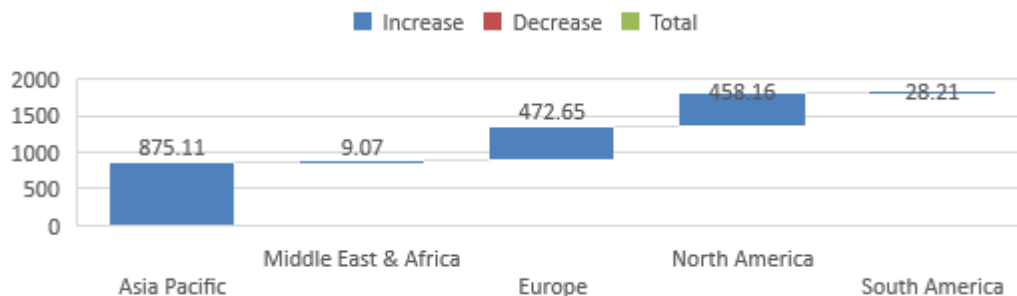
The customer can place the order through the website portal of the Ecommerce platform where a separate login would be available. After the login, the order cart would facilitate the customer for selection of item, special offers, rate list and payment method. The E-shop would register one input for Accounts and Finance department of the same Ecommerce Platform. The website would give one input to the warehouse for order handling and dispatch.

Market & E-commerce Trends



Market Segments

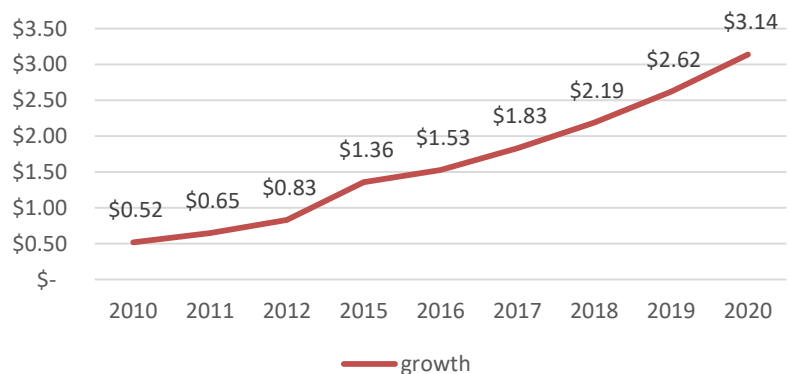
Turnover in \$Bn



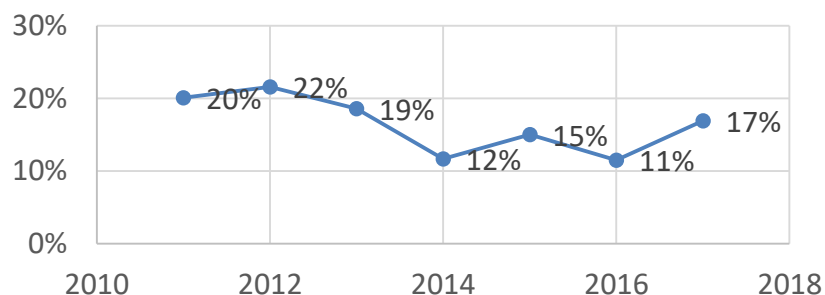
Regionally, the business to customer mode of Ecommerce has grown over the period of time. The Asia Pacific region has 47.48% market share of the total turnover of B2C ecommerce, globally. It ranges around \$875.11Bn whereas, Europe's turnover was around \$472.62Bn in 2017 which is 25.64% of the total turnover. Accordingly, Middle eastern, South and North American regions have 0.49%, 1.53% & 24.68% market share in the global turnover of the B2C market.

The total Ecommerce trade in the world was recorded to be \$1.83Tr in 2017. Growing up from \$0.52Tr to \$1.53Tr between 2010-2016 with a CAGR of 20%. It is expected to grow to \$2.19Tr in 2018 and grow exponentially high, ranging \$3.14Tr till 2020.

An overall fluctuation is seen in the ecommerce growth rate is seen from 2011 to 2017. it dropped down in 2014 by 6.92% as compared to 2013. a growth of 5.41% is seen in the recent FY 2017-18



Growth Rate





E-commerce Trends

The overall customer review depicts that overall of 43% of the consumers don't see a store location bound shopping in future. This indicates a great opportunity in the establishment of Ecommerce business supported by logistics.

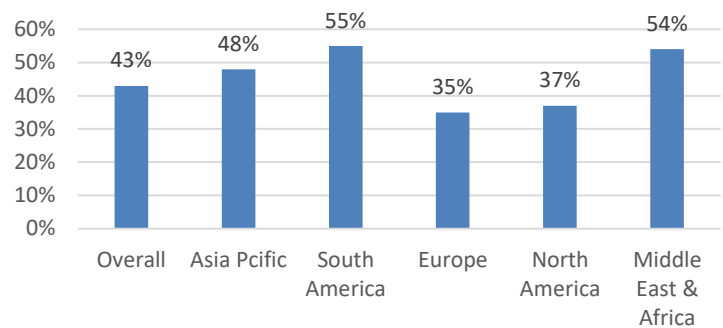
In South America, 55% of the customers are more inclined towards the Ecommerce whereas 48% of Asians think that future of ecommerce and E-shopping is more bright.

In the recent year, Apple has topped the list of top internet companies with the total assets worth of \$801Bn followed by Amazon.com with \$680Bn.

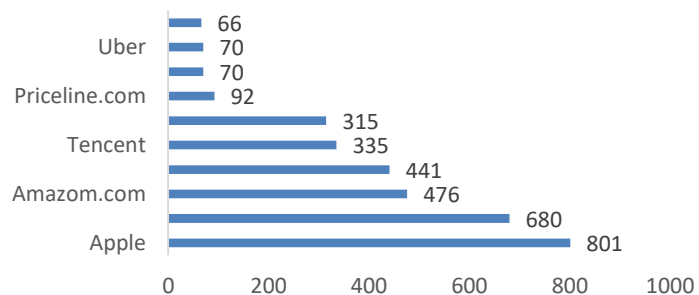
The lowest worth of assets was recorded for Uber to be \$66Bn in 2017. The companies provide different services including electronics, software, logistics, Ecommerce and Taxi services as well.

The top ecommerce companies in terms of inventory, employees & revenue generated, fall in different work categories and regions. Amazon tops the score card with \$107Bn followed by \$12.3Bn of AliBaba.

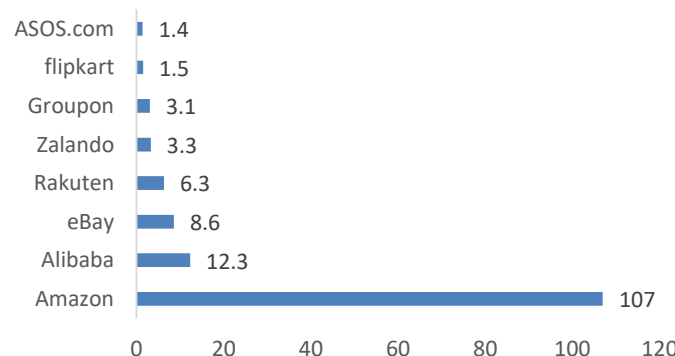
Customer Review



Top internet Companies Market Value in \$Bn



Top Ecommerce Companies Market Value in \$bn



CASE OF INVESTMENT



Case of Investment



Pakistan's e-commerce sector is currently projected at over \$120 million and is mounting at compound annual growth rate of 100% while sales are projected to cross the one billion dollars mark by 2020 as compared to \$622 million recorded in 2017. Pakistan's online retail market is booming and recent estimates suggest that the industry crossed \$600 million in 2017



The world's largest e-commerce platform by revenue, Amazon, is also looking to invest in Pakistani online shopping scene indirectly by increasing its stake in a local online store. As the market flourishes, many global leaders are eyeing to invest in the country's e-commerce sector



Facebook, there are 30 to 35 million active monthly Facebook users in Pakistan in 2018, while 85 percent of users access Facebook through a mobile device



Alibaba has stepped up its efforts to secure a strong foothold by investing \$184.5 million through Ant Financial in Pakistan. This will promote exports from SME and is expected to bring \$400 million investment in Pakistan's e-commerce sector.



Case of Investment



In 2016, Daraz.pk astonished the market when it revealed Rs.1 billion sales on yearly sale event, while it stroked PKR 3bn in 2017 and expected to reach PKR 6bn in 2018



In 2015, 25% of the traffic at Black Friday Sale was through mobile phone apps, in 2016 it was 55% and in 2017, 76 % of this traffic was from mobiles.



FMCG

In 2017, saw a new trend, where 40% of the sales were generated by customers who ordered beauty products, grocery and house hold items. Dedicated stores for such items are flashing the internet. More are in the pipeline to hit the market.



1/3rd of the customers used electronic payment system like easypaisa, credit & debit cards of Pakistani Banks. The reason was not the convenience and formal peace of mind over COD method, but the discounts, the banks and payment companies were offering for using their cards and channels.



Case of Investment

The number of registered e-commerce merchants has risen by 2.6-times and e-commerce payments have surged 2.3-times. Pakistani consumers mainly use the cash-on-delivery (COD) system to buy goods online. Almost 85% of online sales occur through COD. Using this, we can speculate that roughly Rs25.5bn e-commerce payments may have occurred in the Oct-Dec period through the COD system.

SBP's Payment Systems Review (Q2FY18)



Registered E-commerce Merchants

E-commerce Transactions in PKR

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CONCLUSION: -

Pakistan's GDP growth momentum continued as it achieved a 13-year high level at 5.7 percent in the closing financial year 2017-18. On the basis of before mentioned statistics, analysis, comments and reason, the opportunity in Logistics Sector of Pakistan is hereby proposed along with a case of investment. Facilitated by the prudent road network in Pakistan and Punjab, the logistics sector would be expediated by the growth in E-commerce sector. Large Scale Manufacturing (LSM) also recorded a growth of 6.13% highest in ten years. Industrial sector growth improved by 5.80% is the highest in ten years. Electronics recorded highest growth of 38.79%. The other industrial items which can be logistically transported have shown incredible growths as Iron & Steel products 30.85%, Automobile 19.58% on the back of significant growth in Tractors 44.68%, Trucks 24.41%, Jeeps and Cars 23.29%, LCVs 19.73% and motor cycles 14.15 percent.

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ABOUT US

Punjab board of investment & trade is a provincial trade and investment promotion agency established by the Government of Punjab in 2009. In today's global economy, trade and investment play an increasingly important role in generating means for transformative change. At PBIT, we strive to ensure that this transformative change is sustainable and more impactful. PBIT is committed to enhancing the global competitiveness of Punjab and its business. To this end, we work to attract new investments in the region and strengthen the existing ones by promoting local investment opportunities, facilitating businesses and highlighting the distinct advantages of Punjab as a business location.

Incorporated under Section 42 under the Companies Ordinance of 1984, Punjab Board of Investments & Trade (PBIT) assists companies which intend to invest in the manufacturing and services sectors of Punjab. The wide range of services provided by PBIT include providing information on the opportunities for investments, as well as facilitating companies which are looking for joint venture partners. PBIT acts as Punjab's marketing arm and actively promotes the province worldwide as one of the best investment hubs in Asia. PBIT as Special Economic Zone Authority Punjab also evaluates the applications/proposals from Developers to declare their Industrial Parks as Special Economic Zones. For granting one time import duty exemption on machinery, equipment, spare parts, consumables in Special Economic Zones, PBIT is responsible to issue a confirmation Letter on the status of the applicant prior to seeking the permission from the relevant department/agencies to claim for the exemption. Investors are always encouraged to discuss their project interests with PBIT officers, wherein Information can be obtained on major public/private projects, prevailing sectoral policy framework, existing incentive regime, financing options, trade statistics etc. Punjab Board of Investment & Trade is a Steering Committee Member and the Director of South Asia at the World Association of Investment Promotion Agencies (WAIPA) - a prestigious world association of organizations similar to PBIT created by UNCTAD.

Projects and Policy Research Department

Punjab Board of Investment and Trade targets a socio-economic growth through its P&PR. The department plans to fortify its deep roots, both locally and internationally, by reaching out to leading businesses for discussing the panoramic commercial opportunities. As per the initiative of inventiveness, the department plans to provide a transaction advisory as defined in its role to bring-in the investments and establish new businesses. For this purpose, Pitch books of different identified sectors are a new resourcefulness of this department which would target to develop the in-house capacity of production by connecting the local and international market players. This would not only ensure the technology transfer but also create several jobs in the province. The department plans to connect through the regional IPAs, financial institutions, the embassies in different countries and local chambers as well so as to fast-track the process of economic growth and industrialization in Punjab in regard to its recognition as 'The Land of Opportunities