

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary Public

Date: 6/23/2011

GAIN Report Number:

Pakistan

Post: Islamabad

The Retail Food Sector - 2011

Report Categories:

Retail Food Sector

Approved By:

Joseph M. Carroll, Agricultural Counselor

Prepared By:

Rashid Y. Raja, Ag Marketing Specialist

Report Highlights:

The traditional food retail sector (small neighborhood stores, street vendors, “mom & pop” stores, etc.) comprise about 95% of all food retail stores in Pakistan while the modern retail sector (hypermarkets, supermarkets, discount stores, etc.) make up the remaining 5%. Over the past few years international retailers have taken advantage of the growing opportunities in this market. Well-known European retail giants Makro, Metro, and Carrefour (Hyperstar) have opened stores in all major Pakistani metropolitan cities. The port city of Karachi alone has at least five large retail stores that serve more than 19 million people. With a growing middle-income class (estimated at about 25% of the total population), increasing urbanization, increasing popularity of international food products, and a growing number of international restaurants and fast food chains, Pakistan is emerging as an expanding market for U.S. high-value agricultural products. The overall food retail and wholesale business accounts for 17% of Pakistan’s GDP. (Pakistan Economic Survey 2009/10)

General Information:

SECTION I. MARKET SUMMARY

GENERAL ECONOMY:

- In FY 2010, Pakistan's GDP was estimated at \$175.4 billion. (Pakistan Economic Survey 2009/10)
- Despite a global recession Pakistan's economy has been growing at about 3% over the last three years. Foreign exchange reserves are estimated at more than \$16 billion in FY10.
- Pakistan has a population of over 170 million, (Pakistan Economic Survey 2009/10) with a large and growing consumer middle income class estimated at about 25% of the total population.
- Pakistan's consumers spend a large share of their income on food, with a share of expenditures on food and beverages estimated at 42%.

With a growing middle-income class (estimated at about 25% of the total population), increasing urbanization, emerging trends of the food retail sector, increasing popularity of international food products, and a growing number of international restaurants and fast food chains, Pakistan is emerging as an expanding market for U.S. high-value agricultural products.

Snapshot: Pakistan Food Retail Sector

Pakistan's food retail sector is unorganized and largely dominated by traditional independent small "mom and pop" stores. These stores, locally known as "kiriyana stores," comprise of 95% of all Pakistan's food retail outlets with an estimated annual turnover of \$3 billion. The overall share of imported food products in Kiriyana stores is about 1%. Kiriyana stores are located in all parts of the country with an average floor area of 3,000 to 6,000 square feet.

In contrast, the concept of modern retail chains has only recently been introduced to Pakistan in the past several years and has elicited a positive customer response. These larger stores make up 5% of all Pakistan's retail food stores.

There are two segments of modern food markets. One segment is dominated by the international groups and there are also domestic food retailers that are also utilizing new modern retail formats. For example, large food retail stores (Metro, Makro, and Carrefour) comprise about 2% of all Pakistani food retail outlets with an estimated annual turnover of \$176 million. The overall share of imported food products in the large retail stores is about 5.6%. The average floor area for these stores ranges from 25,000 to 100,000 square feet. The numbers of these stores are expected to increase over the coming years as modern distribution channels and competition develops.

On the other hand domestic convenience stores (utility stores, csd's, domestic cash & carry's) comprise about 3% of all Pakistani food retail outlets with an estimated annual turnover of \$200 million. The overall share of imported food in the convenience stores is about 6%. These stores are located in big cities and the average floor area for these stores ranges from 3,000 to 6,000 square feet.

Share of Imported Food Products in the Total Retail Sales (million dollars)



The large European food retail giants such as Makro, Metro, and Carrefour have all opened stores in Pakistan's major metropolitan cities (Karachi, Lahore, Faisalabad, and Islamabad) in the past 6 years. These large retail stores have been able to tap into the changes in consumer lifestyles and higher disposable income. Emerging technologies have also contributed to the emergence of the large food retail superstores, which offer a wide range of value added products and services to price conscious middle income consumers. Convenience stores in Petrol/Gas stations are also providing an additional option for consumers and their popularity among Pakistani consumers is rising.

Consumer Demographics

Pakistan has a large and growing middle-income class (estimated at about 25% of the total population). It also has a large and growing young population and over 55 percent Pakistani's are in the 10-40 years age bracket. The upper middle-income class is currently estimated at 17 million, with relatively high per capita income which favors consumer spending. Since 2000 demand for specialized products targeted at the middle-income consumers have increased significantly. The upcoming changes in the Pakistani consumer demographic will create opportunities and challenges for companies doing business in Pakistan. For example, companies like Unilever and Engro Foods Ltd have increased their production of Olfrute juices & nectars to meet the upcoming market demand in summers.

Consumer Food Purchasing Behavior

The average Pakistani consumer spends 42% of his income on food. Consumption of imported processed and ready-to-eat food is greater in urban areas because of higher disposable incomes and access to modern style of food.

A typical Pakistani household makes regular purchases of staple foods (i.e., wheat flour, pulses, edible oils, fruits, vegetables, milk, meat, etc.) several times per month from neighborhood stores due to convenience, perceived freshness, and limited storage space at home. A growing number of young Pakistani professionals (male/female) generally prefer making monthly food purchases from modern retail stores due to greater variety of products, satellite stores, and to enjoy food services all under one roof, thus providing the opportunity of combining 'one stop shopping' with a family outing.

Affluent Pakistani families are attracted towards modern retail stores due to their affordability, strategic locations, access to the imported processed food, and available choices for multiple product range. In comparison the rural consumer prefers

homemade products, organic fruits & vegetables, and has limited access to processed food.

The demand for imported food such as dates, cereals, beverages, chocolates, almonds, cakes, fruits and fruit juices reaches its peak during the festive season, especially at Eid and Ramadan.

Organized Retail and Neighborhood Stores

A young population, a growing middle class, a larger number of working women, increasing media penetration, and expanding exposure to a western lifestyle are all factors fueling the growth of Pakistan's modern food retail sector. The transformation of the food retail industry is evident in the entry of European hypermarkets and new shopping centers with food courts, family entertainment, and parking facilities. There has also been a gradual shift from the traditional to the organized format of shopping in the urban areas.

Traditional stores are still the dominant market leaders in the food retail sector. However, in order to keep pace with the rise of larger and modern food retail stores, traditional store owners have gradually reformatted their operations by increasing floor space, instituted price discounts and other value added services. In addition, to remain competitive, local retailers have turned to professional consultants for advice on managing their businesses.

Advantages of neighborhood stores	Advantages of Modern retail stores
Easily accessible	Convenient shopping under one roof
Credit is extended based on social relationships	Consumer friendly atmosphere
Affordable prices due to the lower cost of business	Discounted prices
Due to limited storage and inadequate refrigeration at home, the average Pakistani customer still prefers buying perishable items on a daily basis	Large storage and adequate refrigeration

Import Food Market

Pakistan is a net food importing country and a growing market for consumer-ready food products. In 2009/10 Pakistan's agricultural imports totaled more than \$6.0 billion. Major agricultural imports include vegetable oil (\$1.8 billion), milk products (\$600 million), cotton (\$590 million), sugar (\$288 million), tea (\$264 million), pulses (\$262 million), dry fruits (\$85 million), and spices (\$79 million).

Agricultural trade between the United States and Pakistan in FY 2010 totaled \$385 million. The leading U.S. agricultural exports to Pakistan were cotton (\$123 million), consumer oriented products (\$38 million), wheat flour (\$34 million), pulses (\$27 million), and planting seeds (\$23 million).

Imported foods are normally procured by modern retail stores to cater to high end consumers in the urban areas. Demand for domestic and imported foods continues to show considerable growth in all parts of the country. A variety of imported food (given below) can be easily seen on shelves of modern retail stores.

- Beverages and fruit juices

- Jams, jellies and marmalades
- Dairy products (dry milk, cheese, yogurt etc)
- Ice creams
- Confectionary items (almonds, pistachios, nuts etc)
- Biscuits, cookies and wafers
- Processed fruits and vegetables
- Soups, syrups and seasonings
- Chocolates
- Breakfast cereals
- Honey
- Tea and coffee
- Pasta and noodles
- Baby food
- Pet food

Most of Pakistan's food retailers purchase their imported products from Dubai, primarily because it is the regional trading hub for sourcing assorted consignments of imported food products. Dubai's consolidators and suppliers are also known to have the capabilities to meet Pakistan import requirements at much lower cost than its competitors. The larger modern retailers import food products directly from abroad due to better linkages and market knowledge. The decision to import any specific product from a specific market is based on multiple variables like cost of product in different markets, freight charges, quality, and consumer preferences.

Impediments to Imported Food Products

Retailers face enormous challenges importing food products into Pakistan. Some of the primary obstacles include: inadequate cold chain infrastructure, lack of storage and handling facilities, and deficient transportation networks. Layers of intermediaries (middlemen/brokers) also add to the cost of importing products and cut into profits. Corruption is a major problem. In addition, imported food items are subject to tariffs ranging from 25 percent to 65 percent. Non-tariff barriers are also major obstacles to importing to Pakistan. The procedure for sampling and testing of food products at the port of entry are not well defined, thus, creating barriers for the imported food market.

Products	2007	2008	2009	2010
Dairy Products	9,935	15,758	9,882	33,923
Tree Nuts	2,946	4,301	7,246	12,599
Vegetable Oil	5,568	18,571	12,579	11,253
Eggs and Products	216	158	120	2,046
Processed Fruit & Vegetables	1,588	1,089	990	1,022
Snack Foods	1,490	1,209	603	866
Breakfast Cereals	138	264	235	247
Fruit & Vegetable Juices	-	30	20	18
Peanuts	-	16	14	17

Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

Advantages and Challenges for U.S. Consumer Food Products in Pakistan

Advantages	Challenges
Urban consumers prefer healthy food and health supplements.	Poor infrastructure for importing food and agricultural products.
U.S. products have a reputation of high quality and reliability.	Greater geographic distance to the U.S. relative to other major suppliers (e.g., UAE, UK, EU, CIS, China, Malaysia, and Indonesia) results in higher transit and storage costs for U.S. products.
Foreign direct investment (FDI) in retailing permitted.	US exporters' unwillingness (both perceived and real) to spend time and resources in developing business relationships in Pakistan due to instability and security concerns.
Availability of inexpensive labor is conducive to agricultural and industrial joint ventures.	Traditional food habits are difficult to change.
U.S. popular culture and products, including fast foods, have growing appeal.	Retailers and consumers have limited knowledge of the variety and quality of U.S. products.
Plenty of opportunities for new-to-market products like new range of juices, cereals, chocolates, and dairy products.	Limited knowledge of U.S. exports practices and procedures. Importers seek exclusive distribution to protect investment.
The popularity of imported brands is increasing.	Reforms required as tariffs are still high and need reduction.
Large numbers of Pakistani expatriates settled in the United States are potential source of promoting U.S. brands in Pakistan.	Lack of credit and financing.
The rapidly changing dietary patterns of affluent and upper middle income-class favors introduction of U.S. processed food brands in Pakistan.	Competition from domestic supplier and the gray market, preference for traditional Pakistani savories (confectionary products)

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy:

Having a local representative in Pakistan is key to a product's successful entry into the Pakistani market. The local representative should have a thorough understanding of the product, import regulations, pricing strategy, labeling requirements, etc. More importantly, the local representative should understand the local market and consumers' preferences. It should also have an efficient distribution network and committed to marketing a product.

U.S. exporters also have to perform due diligence prior to entering the Pakistani market. To increase the chance of success, exporters should:

- Survey existing and potential markets for their products before initiating sales;
- Research the agent's background and reputation through local industry/trade associations and other foreign companies;
- Market the product through in-store promotions or online marketing channels; and
- Contact FAS/Islamabad for assistance in setting up initial meetings with potential importers or representatives.

Most Pakistani retail food importers prefer to:

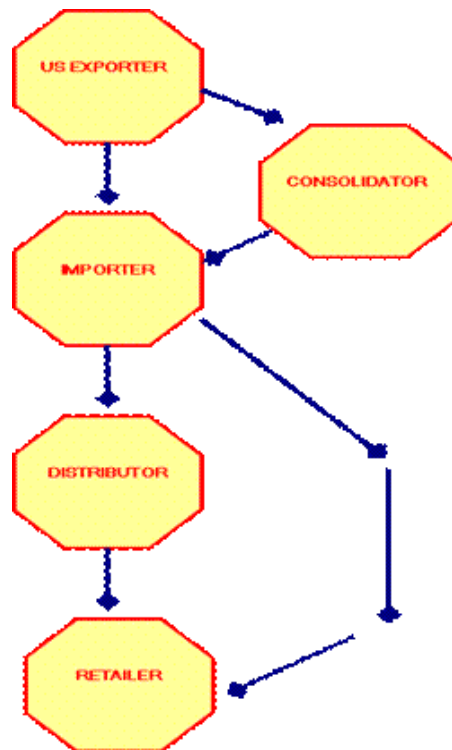
- Import products through agents that organize market promotions and have strong ties to local retailers;
- Promote a product with exclusive distribution rights to protect their investment;
- Concentrate on a reasonable entry pricing strategy to target the price sensitive consumers; and
- Import products through traders or agents who may also be wholesalers or distributors and are familiar with the country's current food laws.

MARKET STRUCTURE

Market Channel for Imported and Domestic Foods

Modern retailers normally import products directly through an exporter, distributor or manufacturer. Larger retailers source products directly while smaller retailers seldom import products due to the lack of financing. Traditional stores source most products domestically and usually do not feature imported food products. However, in the past several years, several traditional outlets located in the metropolitan cities, have begun to sell a limited number of imported food products to cater to upper middle income consumers.

Market Channels in the Food Retail Sector



Organized Sector

The modern/organized retail sector in Pakistan includes hypermarkets, supermarkets, convenience stores, gas marts-kiosks, etc. This sector is dominated by national chains like utility stores and international players like Makro, Metro, and Carrefour.

(Hypermarkets, Supermarkets, Superstores, Convenience Stores)

Name of Retailer	Type of Retailer	Ownership	Number of Outlets	Location	Purchasing Agent
Utility Stores Corporation	Manufacturer/ Retailers/ Distributors	Government of Pakistan (GOP)	5,700	Nationwide	Directly from local manufacturers and suppliers
Canteen Stores Department (CSD)	Manufacturer/ Retailers/ Distributors	Pakistan Military	103	Nationwide	Directly from local manufacturers and suppliers
K&N's	Manufacturer/ Retailers/ Distributors/ Frozen and Ready to Eat Poultry	Pakistani	100	Nationwide	Own farms and locally
Metro (Cash & Carry)	Wholesalers/ Importers/ Distributors/ Hypermarket	German/ Pakistan	5	Islamabad/ Lahore/ Faisalabad/ Karachi	Mainly local manufacturers and importers
Harrold Super	Retailers/	Pakistani	6	Islamabad/	Distributors, local

Store	Importers/ Supermarket			Rawalpindi	manufacturers, and importers (including direct imports)
Shaheen Pharmacy/Retailers	Pharmacy/ Retailers/ Distributors	Pakistani	5	Islamabad/ Rawalpindi	Distributors, agent, and importers (including direct imports)
D-Watson Pharmacy/Retailers	Pharmacy/ Retailers/ Distributors	Pakistani	5	Islamabad/ Rawalpindi	Distributors, agent, and importers (including direct imports)
Makro (Cash & Carry)	Retailers/ Importers/ Distributors/ Hypermarket	Netherlands/ Pakistan	5	Karachi/ Lahore	Mainly local manufacturers and importers
Rahat Bakers	Confectionery/ Retailers	Pakistani	4	Islamabad/ Rawalpindi	Mainly local suppliers and importers
Fresco Bakers	Confectionery/ Retailers	Pakistani	4	Islamabad/ Rawalpindi	Mainly local suppliers and importers
Nirala Sweets	Confectionery/ Retailers	Pakistani	4	Major cities	Mainly local suppliers and importers
Karim Buksh (HKB)	Retailers/ Importers	Pakistani	3	Lahore	Distributors, local manufacturers, and importers (including direct imports)
Carrefour (Hyperstar)	Retailers/ Importers/ Distributors/ Hypermarket	French/ Pakistan	1	Lahore/ Karachi	Mainly local manufacturers and importers
Best Price Supermarket	Retailers/ Importers/ Supermarket	Pakistani	1	Islamabad	Distributors, local manufacturers, and importers (including direct imports)
COSCO (Cash & Carry)	Retailers/ Importers/ Supermarket	Pakistani	1	Islamabad	Distributors, local manufacturers, and importers (including direct imports)
Agha Supermarket	Retailers/ Importers/ Supermarket	Pakistani	1	Karachi	Distributors, local manufacturers, and importers (including direct imports)
AI-Fateh Superstore	Retailers/ Importers/ Supermarket	Pakistani	1	Lahore	Distributors, local manufacturers, and importers (including direct imports)

Source: Market sources

Gas Marts and Kiosks

Several oil companies have recently introduced convenience stores or gas marts in major Pakistani cities. Product lines in these stores are usually limited and include both domestic and imported retail food items. These mini-food stores are in the early stages of development and sale volumes are small. These stores purchase their products from distributors, local manufacturers, and importers and usually employ marketing strategies similar to supermarkets.

Major Gas Marts

Name of Retailer	Type of Retailer	Ownership	Number of Outlets	Location	Purchasing Agent
Pakistan State Oil (Shop stops)	Gas mart Retailers	Pakistani	30	Major Cities	Distributors, local manufacturers, and importers
Shell (Select Shops)	Gas mart Retailers	Pakistani/ Netherlands	28	Major Cities	Distributors, local manufacturers, and importers
Caltex-Chevron (Star Marts)	Gas mart Retailers	Pakistani/US	20	Major Cities	Distributors, local manufacturers, and importers

Source: Market sources

The organized retailers have various formats of retail stores usually classified by the category of store and floor area.

Format	Average Size (Sq.Ft.)
Hypermarkets/ Supermarkets	25,000 – 100,000
Utility/ Convenience Stores	3,000 – 6,000
Gas Marts/ Kiosks	200-500

Source: Market sources

SECTION III. COMPETITION

European and Asian suppliers are major competitors for U.S. companies. The competition offers a variety of products and almost all of the competitors have a freight advantage over U.S exporters. Products from Asian countries also often have a price advantage due to their geographic proximity to Pakistan. Pakistani retailers mostly purchase U.S. food products indirectly through consolidators in Dubai. The general practice for importers is to visit or place orders with foreign wholesalers. Importers increasingly prefer to look for companies with new brands and products that offer exclusive distribution rights. Several new products have been successfully introduced and promoted under these agreements. For example, European honey and cooking oil have developed a strong consumer preference due largely to promotional efforts by the exclusive distributor.

SECTION IV. BEST PRODUCT PROSPECTS

Products with Good Sales Potential

Description	Total Imports (2009/10) Quantity Tons	Total Imports (2009/10) Value \$ 000	Key Constraints Over Market Development	Market Attractiveness for USA
Pulses	445,000	262,000	Price competitiveness, freight advantage for countries like pulse-growing countries like Myanmar and India	Local production is inadequate and more than 37% of total consumption is met through imports
Biscuits, Wafers, Rusk's, Toasted Bread & Products, and other Bakery products	13,968	24,644	Competition from domestic suppliers, EU, and Gulf	Preference for imported brands. Growing bakery & retail industry and increased popularity of processed foods
Cocoa products, Ovaltine, Chocolate Crumbs/Confectionary, and Other Food Prep Cocoa etc	4,977	14,443	Competition from domestic and foreign suppliers like EU and Gulf states	Consumer preference for imported products/brands
Fruit Juices	18,224	12,770	Competition from Gulf states, South Africa, and domestic suppliers	Increasing health awareness among middle income consumers
Grapes, Fresh	61,782	10,980	Competition from Afghanistan, China, Iran, and domestic market	Good market prices; increasing interest in quality fruits among Pakistan's middle income consumers and growing organized retail sector
Almonds	5,540	8,885	Competition from Afghanistan, Iran, Australia, and domestic market	Rapidly increasing demand, growing food retail market, health consciousness, and value additions

Fruits, prepared/preserved, Mixture of Fruit/Other Plant Parts, and Other Fruits, Nut/Edible Plants	6,582	4,299	Competition from Gulf and domestic suppliers	Preference for imported brands, high demand, and health consciousness
Apple, Fresh	11,939	2,233	Competition from Afghanistan, China, Iran, and domestic market	Good market prices; increasing interest in quality fruits among Pakistan's middle income consumers and growing organized retail
Cornflakes, Cereal flake, and other food obtain by cereal	701	2,083	Competition from Gulf and domestic suppliers	Preference for imported brands, high demand, and health consciousness
White Chocolate and other Sugar Confectionary	1,261	2,082	Competition from domestic and foreign suppliers like Gulf states and EU	Consumer preference for imported products/brands and shortage of quality domestic product
Instant Coffee (in bulk & retail)	318	1,718	Competition from Gulf states, EU, and domestic suppliers	Preference for imported brands and shortage of quality domestic product
Soya Sauce, Tomato Ketchup/Sauce, Mustard flour/meal, Mix Seasoning, Soups, and Homogenize composite food prep	903	1,629	Competition from Gulf states and domestic suppliers	Preference for imported brands, high demand, and health consciousness

Source: Ministry of Commerce, GOP

Products Not Present in Significant Quantities with Good Sales Potential

Description	Total Imports (2009/10) Quantity Tons	Total Imports (2009/10) Value \$ 000	Key Constraints Over Market Development	Market Attractiveness for USA
Pear, Fresh	3,731	914	Competition from Afghanistan, China, Iran, and domestic market	Good market prices; increasing interest in quality fruits among Pakistan's middle income consumers and modern

				food retailers
Potatoes (fresh or chilled)	7,258	806	Competition from domestic suppliers	Shortage of quality products in the local market
Pet Food (Dogs & Cats)	198	346	Competition from domestic suppliers, EU, and Gulf states	Preference for imported brands, shortage of quality domestic products
Pasta (uncooked/stuffed) & Macaroni	199	186	Competition from EU and domestic suppliers	Increasing popularity; growing food processing sector
Ice Creams	27	145	Competition from domestic suppliers, EU, and Gulf states	Preference for imported brands, shortage of quality domestic products
Coffee (roast not decaffeinated and not roasted not decaffeinated, husks etc)	26	143	Competition from Gulf states, EU, and domestic suppliers	Preference for imported brands and shortage of quality domestic product
James, Jellies & Marmalades	39	69	Competition from domestic suppliers, EU, and Gulf states	Preference for imported brands

Source: Ministry of Commerce, GOP

Products Not Present Due To Significant Barriers

The importation of food products containing pork or pork products is prohibited. Meat and dairy products may be imported if certified to be "Halal". Commercial import of alcoholic beverages or products containing alcohol is also prohibited.

SECTION V. POST CONTACTS

If you have questions or comments regarding this report or need assistance exporting to Pakistan, please contact the Office of Agricultural Affairs, Islamabad at following address:

Agricultural Counselor
Foreign Agricultural Service
Embassy of the United States of America
Islamabad, Pakistan
Ph: (92-51) 208-2274, Fax: (92-51) 227-8142

E-mail: agislamabad@usda.gov

For more information on exporting U.S. agricultural products, please visit the Foreign Agricultural Service's home page at:
<http://www.fas.usda.gov>