



CRACKING E-COMMERCE 2.0

Planet N Group

&

Karandaaz Pakistan.

Cracking E-commerce 2.0: Whitepaper on taking 500,000 merchants online in Pakistan

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Author Note

Findings deduced from a workshop organized by Planet N and Karandaaz Pakistan¹,

Abstract

This whitepaper suggests government policy objectives and identifies best practices for the E-Commerce industry in Pakistan. Considering stakeholders such as buyers, sellers, logistical partners, banks, chambers of commerce, government institutions and the media on the road to taking 500,000 merchants online in Pakistan. Despite burgeoning smart phone usage and accessibility of internet across Pakistan, the E-commerce Industry has a long way to go to achieve regional parity and reach for global standards. There are three bottlenecks to growth: Customer Protection, Payments (international and domestic) and Delivery. Creating a viable ecosystem necessitates confronting these issues. It is in the interest of export promotion that the government remove barriers to the international e-commerce playing field for local small and medium sized enterprises.

Keywords: Pakistan, E-commerce, PlanetN, Karandaaz, SMEs, Growth, Payments, Delivery, Customer Protection, Policy, Development.

Cracking E-commerce 2.0: Whitepaper on taking 500,000 merchants online in Pakistan

How can Pakistan's emerging e-commerce industry bring a targeted 500,000 merchants online to realize the potential of nearly 3 billion dollars in growth. To coordinate a consensus among industry players Planet N and Karandaaz jointly held the workshop, 'Cracking E-Commerce 2.0,' in Karachi, on Friday, November 18th 2016. Following up from the first industry workshop where Nadeem Hussain, coach of Planet N Group of companies established the target of 500,000 merchants going online as the tipping point for online activity to reach its potential. E-commerce 2.0 examined rapidly changing trends in Pakistan; the growing number of broadband/3G/4G users as well as government efforts for digital inclusion. Moreover, e-commerce will gain further as internet becomes accessible to the remaining unserved population. Bandwidth expansion projects exist that will increase the available bandwidth to Pakistan. 2 Sources said that current bandwidth rate of USD 3,000 per STM1 are expected to hit USD 1,200 per STM1 till end of 2017—this effectively means a 60% drop in cost for the ISPs and Telecoms. This whitepaper covers essential parameters of e-commerce; the role of e-commerce in development of SMEs; policies and regulations that can help this sector grow and challenges and opportunities for Pakistan at an international level.

The global ecommerce industry is valued at 1.5 trillion-dollars, of which, China has the largest ecommerce industry valued at \$466 billion. North America and the EU have the largest industry by region valued at \$450 billion & \$487 billion respectively and \$160 Billion worth of ad revenue generated in 2014 billion.²³. While there has been growth in e-commerce in Pakistan, if we compare in the region we can see the remaining potential for growth is far larger. Pakistan's ecommerce industry is estimated at \$100 million with about 30 million internet users per capita spend of \$0.55. Regional ecommerce industry: India – \$12.6 billion with 15.1%

penetration and per capita spend of \$11.2. Bangladesh - \$45 million with 6.5% internet penetration and per capita spend of \$0.29. In comparing regional players, adjusting for size, there is 20 times differential in the e-commerce spend. Materially speaking the growth will be in the Consumer Electronics/Mobile Phones sector where the most bought items through e-commerce are at 9%. And geographically most activity on ecommerce is seen in the Lahore region at 21% followed by Karachi (20%) and then Islamabad/Rawalpindi (15%).

Pakistan has a large retail market with over 900,000 merchants countrywide. There are over 2000 online merchants and yet less than 50 online merchants accepting digital payments. The overwhelming majority of e-commerce takes place with cash transactions, creating a working capital gap in the supply chain. Despite the fact over half of the 30 million internet users use the internet on mobile phones, mobile e-commerce has not developed to a level where mobile money is used for ecommerce transactions. We hope to outline the systemic changes needed in infrastructure as well as the ideals for behavior change. It is no doubt a failing of the banking sector that credit/debit card usage is not yet common, however current trends are shifting the reigns of the digital economy. The majority of smartphone users fall into the youth category, specifically 86% of smartphone users fall within the age bracket of 15 to 30. This youth bulge and the availability of 3G/4G internet on mobile phones is expected to increase the mobile internet penetration to 50 million users by 2020. This surge in activity online highlights the trend for potential growth in E-commerce for the benefit of buyers, sellers and, the state.

Problem Statement

To achieve 500,000 online merchants and unlock the potential of Ecommerce in Pakistan 5 problem areas have been identified:

Awareness: Raising awareness of the ecommerce industry. Getting people to start offering products and services online rather than through the brick-and-mortar model.

Ecosystem Focus: Onboarding suppliers, managing the role of various stakeholders including government, central bank and the taxman.

Fraud Prevention: Security of transactions so fraudulent activity does not take place. Also, ensuring customer protection with after sales service, quick returns & refund policies and low TAT on complaint resolution.

Digitizing Payments: Encourage digital payments by offering tax discounts, providing an enabling environment.

Logistic and Delivery Models: Supply Chain development with effective warehousing and efficient delivery mechanisms to ensure cost effective operating models and timely delivery of goods to customers.

Solutions.

Awareness.

The view held by the solutions group focused on awareness at E-commerce 2.0 was that currently the penetration of e-commerce is lacking in Pakistan is not due to low awareness rather that awareness will be necessary as a secondary step after creating a viable ecosystem. Infrastructure has not developed to a point where e-commerce is certainly more profitable than brick and mortar retailing. Pakistan has a population of 182 million, with only 38 million internet users and of 133 million mobile users 15 million had the use of internet on their phones. The primary barriers to penetration in market would be the hardware cost, customer knowledge and education on usage, the internet usage cost and connectivity. The problems of low connectivity

can be inferred from the solutions group estimations of 70-80 of Karachi receiving 4G signals, suburbs receiving 40-50% signals and down to the rural areas where mobile data could only be available in 10 – 20% of areas.

Within the ‘walled garden’ marketplaces of Facebook and instant messaging service WhatsApp, there exists sellers that have grown out of their own social networks. There are 30 million Facebook users in Pakistan. Concentrated in urban areas these typically are resellers of second hand goods and home-kitchen based caterers. Awareness should begin with champions that have built these businesses with very little overhead and direct marketing. Operations for such business are exclusively cash based and many of them rely on the buyer to arrange pick up rather than using a delivery service. As these businesses scale up they will need a payments system that allows them to trade nationally and logistic services that satisfy their customer needs.

While this environment has fostered entrepreneurs, all ecosystem players can benefit from the social media windfall by investing further resources into marketing in this area and in the area of mobile marketing. Digital advertising currently stands at 3% of total spend in the Pakistani advertising market. Taking the lead is easier now than following the trend later; the expectation is for digital spending to approach 100m USD or >10% of the market size in the next 3 years and finding a share of voice will be more competitive.

Ecosystem Focus: Onboarding Merchants.

The lack of supplier diversity within the existing ecommerce landscape acts as an inherent limitation, upon the growth of e-commerce businesses, by severely constraining product assortment. There are few in 500,000 merchants we wish to onboard that have the technical savvy required to makes sales online. In dealing with these merchants as an intermediate

platform between them and the buyer there will be two uniquely difficult tasks; the cataloguing/listing of their products and establishing a payments collection procedure that satisfies. For certain high demand products, the e-commerce platform could arrange the product photography, descriptions and listings for the merchant, but this is not a scalable solution. Particularly since the e-commerce market is mostly Cash on Demand and working capital is short, merchants are expected to accomplish this task on their own. This requires training and experience with online shopping to become an online seller.

The solution is in creating an enabling environment and increasing awareness for retailers (existing and startups) to become e-tailers to serve and monetize the growing online customer base. We need to have more video tutorials and seminars or trainings that bring old value merchants into the new online economy. They must become as familiar with the online search and selection process as they are with the in-store experience. Platforms for e-commerce and logistical partners will be better for the ecosystem when they minimize friction by reducing the fees to sign up and, incentivize and cross promote the merchants. The barrier of understanding of technology can be reduced by websites that help a merchant go online and build in his e-commerce with off the shelf modules.

The banks must participate in this effort by retooling for the merchants to go online. Banks should partner with startups for this vast untapped market place. Setting up a payment gateway should not be as daunting. The onboarding solutions group proposes a 'Hyper Local Outreach' strategy with the aim to 'Train the Trainer' and this involved many partners including: Traditional Media (broadcast, print, radio, etc.), Federal Authorities (SMEDA, TDAP, etc.), Provincial authorities (PSIC, SID, etc.), Chambers FPCCI affiliate organizations, Banks, Telcos, and educational institutions.

Fraud Prevention and Customer Protection.

Any buyer in Pakistan (or anywhere), be it an individual or a business, is provided protection against misrepresentation or, deception or, negligence by a supplier, through the operation of the established legal framework applying to trading activity - which, basically, creates product liability for the supplier through various laws such as the Sale of Goods Act and general Contract Law. The protection given to consumers is generally not through new or different laws, but through the creation of empowered authority that facilitates quicker remedies for the consumer.

For businesses with deep and extensive public engagement, governments appoint and empower regulators to make rules and regulation for customer protection. There are examples of this in the areas of Financial Services, and sometimes, Food and Drugs, etc. Usually, these regulators have the commercial power of courts, applying penalties or suspending licenses if necessary. The solutions group on consumer protection suggested to create an Ombudsman for consumer protection, however the "Ombudsman's office is an agent for evaluating violations of rules and regulation, and makes recommendations for redress, but it normally does not have the enforcement power of a court.

In recent years, E-Commerce has started being treated like any other trading business, facing similar product liabilities for mis-selling etc. US/EU have specific arrangements for protecting Online customers. UK includes "Distance selling' in its general Customer Protection regulation. Closer to home, both China and India have very recently proposed laws that would treat E or M commerce the same way. In the final analysis, it unclear how effective these steps have been for China and India as yet.

E-Commerce is, in all these countries, a much more mature business than it is here. The Customer protection rules are coming in after E-business as an activity has gained weight and momentum. Had the rules come first, in India and China at least, the growth of E-Commerce could have been hampered by red tape and litigation. As a comparison point, the Indian Software industry keeps saying that if the Government had got involved with it early, it may never have become the giant it is today.

So - it would be appropriate, in Pakistan, to prepare for the day - but first, you need to create some kind of Business Representative Organization for e-commerce that can start drafting principles and codes of conduct for the industry, and perhaps even start a process of self-regulation. A forum of e-commerce players such as those who attended the workshop is one of the proposals of our whitepaper.

Digitizing Payments.

Unless a payment structure is introduced that functions as smoothly as cash, cash will remain the primary conduit for e-commerce payments. Cash is most preferred by customers despite its drawbacks because of trust, payment confidentiality and, transaction reversibility. Cash on delivery overcomes the lack of trust in the online environment, where there is limited information on the seller or, third party sellers. Buyers retain the right to refuse their purchase when it is delivered by choosing to pay on delivery. Another advantage is the anonymity; Nobody online needs to know their personal details when they use cash to pay for the goods and this protects the privacy of their personal information as well as the details of the transaction. Ecosystem players focusing on the removing the drawbacks of cash with mobile wallets and cashless solutions would be more successful in rendering cashless transactions by realizing these strong benefits of using cash as a payment option.

We are looking for a behavior change across the online audience and this will take confidence building measures, consistent improvements in service and over a period of time. Large scale behavior change in payments should not be limited to e-commerce as we can learn from China where digital payments have boosted peer to peer lending to outperform institution based lending. Digitizing peer to peer payments or informal buyer seller payments is a leap forward for recording of the undocumented economy. The technology options include NFC, QR Codes, Digital currencies. The method should remain frictionless, interoperable/open, scalable, secure and price sensitive.

New technology has created a shift in the targets for digitizing the economy. The old-world digitization was the number of ATMs, people carrying debit cards and credit cards and the number POS terminals accepting cashless transactions. With smartphone technology in every hand, new world digitization is the ease of use of fintech apps, number of digital wallets, and linking smartphones to make payments based on QR codes and/or nfc. Popularizing these methods should be the forte of e-commerce players as it has been seen with the applying of discounts on purchases using mobile money. Measures in this way can provide the necessary boost in usage that will facilitate a cashless revolution.

Merchants have an issue with cash management, and this issue is strongly related to the one of payments. Redesigning the payment infrastructure to be less cash heavy would unchain online commerce and digitally incentivize the economy. Upgrading the payments landscape is the central idea of e-commerce development. In the current scenario, with cash on delivery as the dominant method of payment in e-commerce activity, this results in the massive blocking of working capital for the suppliers. A merchant is not always able to take their own suppliers goods on credit, but they must be able to provide credit for the cash on delivery customer as they pay

the logistical costs and run the risk of a returned good. Also, because fewer people are privileged to handle the cash securely, logistic partners charge proportionally higher rates for handling of cash. Only selected people can be trained and trusted to handle cash and this problem is exacerbated in the case of order cancellations.

Delivery.

Delivery is a key part of the customer experience and unique selling proposition of ecommerce. Under the focus of our workshop the identified issues in delivery was the lack of integration with logistics among ecommerce players that was leading to low customer satisfaction. Logistical partners complain of the incomplete addressing that has them unable to deliver or deliver incorrectly. There is a lack of customer support from the merchant. And higher operational costs due to low accuracy of addresses.

The solution is that merchants and e-commerce platforms must collaborate, for transparency of deliveries and their lead times and customers are able to choose a preferred delivery time and that can be indicated to the logistics. The customer would like to schedule the delivery with trust. And a breach of trust causes a higher refusal rate. Customers are usually left in the dark as to what stage of the delivery process their shipment is in and given a very large window of expectation for delivery time. The lack of information goes both ways with the delivery partner unaware of details that would facilitate the customer experience and information on partial delivery of a customer's order.

With ecommerce activity concentrated in urban areas: groups at the workshop called for simpler delivery models that carry lower operational costs. E-commerce merchants could get together to follow the example of Chinese ecommerce giant Ali Baba. In May 2013, Alibaba formed a joint venture named "China Smart Logistics," or Cainiao, with five major express

delivery companies in China –the goal of this joint venture is to capitalize on the country’s existing assets by assembling a collection of logistics companies, last-mile couriers, and other independent players to work together. Cainiao has developed a real-time information platform to coordinate the shipping activities, warehouses, truck fleets, and distribution centers owned by its co-investors and partners. Cainiao acts as a facilitator; it does not deliver any merchandise itself. As of May 2015, Cainiao’s network facilitated the delivery of more than 30 million packages a day, offering same-day delivery in 7 Chinese cities and next-day delivery in 90 more cities. As of March 2016, Cainiao handled more than 70 percent of China’s express packages.³ E-commerce players need the opportunity to test business and operational models and this necessitates a revolution in payments for the need to develop without complex logistical models.

Conclusion.

Best Practices.

Area of Focus	Best Practice
<p>Awareness Make search, mobile and social media a priority</p>	<p>Include mobile initiatives in your overall commerce and marketing strategies to reach and engage. Make social media a strong component of your marketing strategy and focus on the most popular social media pages.</p>
<p>Onboarding of Merchants Train the trainer</p>	<p>Establish an online tutorial program for merchants and vendors for online sale and best practices for product listing, display pictures and stocking Highlight champions of ecommerce who benefited from early adoption and with the wider acceptance.</p>
<p>Customer Protection Establish a self-regulatory body</p>	<p>Create industry standards. Collect and share seller ratings</p>

Area of Focus	Best Practice
<p>Payments Pay attention to customer needs</p>	<p>Digitizing payments at delivery with bank merchant and logistic collaboration Popularize digital payments with discounts Customers who choose cash due to the lack of trust in sellers should be given an option giving money to a trusted intermediary.</p>
<p>Delivery: Merchants: Establish policies to reduce the risks associated with returns. Offer multiple delivery options to customers, at different price points:</p>	<p>Take address details accurately Take customers' preferred delivery times. Transparent delivery lead time Create and share a list of habitual refusers Different customers value different attributes. Some may want the cheapest shipping option, regardless of delivery time; for others, speed may be the number one criterion; others may prioritize the ability to track their package. Furthermore, these preferences may change from order to order.</p>
<p>Logistical Partners: Communicate. Have an open box policy. Offer customers tracking information.</p>	<p>Pre-delivery information in flow such as sms notifications and calls. For customers to understand the product before accepting the delivery. Some customers may not mind a long delivery time as long as they know where their package is and when they should expect to receive it. Merchants should therefore try to work with logistics providers with such tracking capabilities. Logistics providers that currently don't offer tracking should consider developing such tracking capabilities. Merchants and Logistical parent should share Geo location with address from customer.</p>

Policy recommendations for export promotion.

There is an absence of regulatory framework specific to ecommerce. We recommend a government or self-regulatory body take up the urgent task of registration, taxation, rebates management and enforcement for the credibility of the industry and protection of the consumer.

Ideally this platform can be borne out of the working together of ecommerce players and an ecommerce association representing small business will form to bring forth their issues collectively. Registered entities will increase confidence, push for awareness and changes. Further lobbying will be required to hash out an international e commerce policy through which the promotion of Pakistan sellers abroad can take place.

With regard to Amazon, it encourages the registration of sellers from anywhere in the world, yet there are a number of barriers that are specific to the country in which the seller lives.

- Registration barriers: Seller registration is limited to the countries where bank accounts are supported by Amazon. Pakistan is not supported
- Shipping barriers: According to Amazon guidelines to third party sellers, 'seller orders can only be placed, if the buyer is in a supported country. This acts as a barrier to both sellers and buyers from Pakistan.
- Buying limitations: According to Amazon guidelines, buyers outside the United States, cannot purchase certain items, including video games, electronics, camera and photo items etc.

Anti-money laundering laws and know your customer requirements can be made a part of the registration of e-commerce players for international acceptability. There is need for a global payment gateway to operate in Pakistan. Of the 193 countries represented at the UN, PayPal operates in 173. Pakistan is one of the very few that cannot use the service.

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Footnotes

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Tables

Table 1: Pakistan's Digital Economy

Population	180 million
Total internet users	56 million
Unique devices based on cookies	100 million
mobile connections	130 million
3/4G users	36 million
Broadband growth rate	28% per year
Ecommerce gross sale (including digital discovery services)	300 million
Active easy paisa agents	80K
Number of POS unique merchants	30K
Number of smes	3.2 million
SME contribution to GDP	40%
Estimated number of retailers	800K
Pakistan retail market size	152 billion
Contribution of retail to GDP	18%

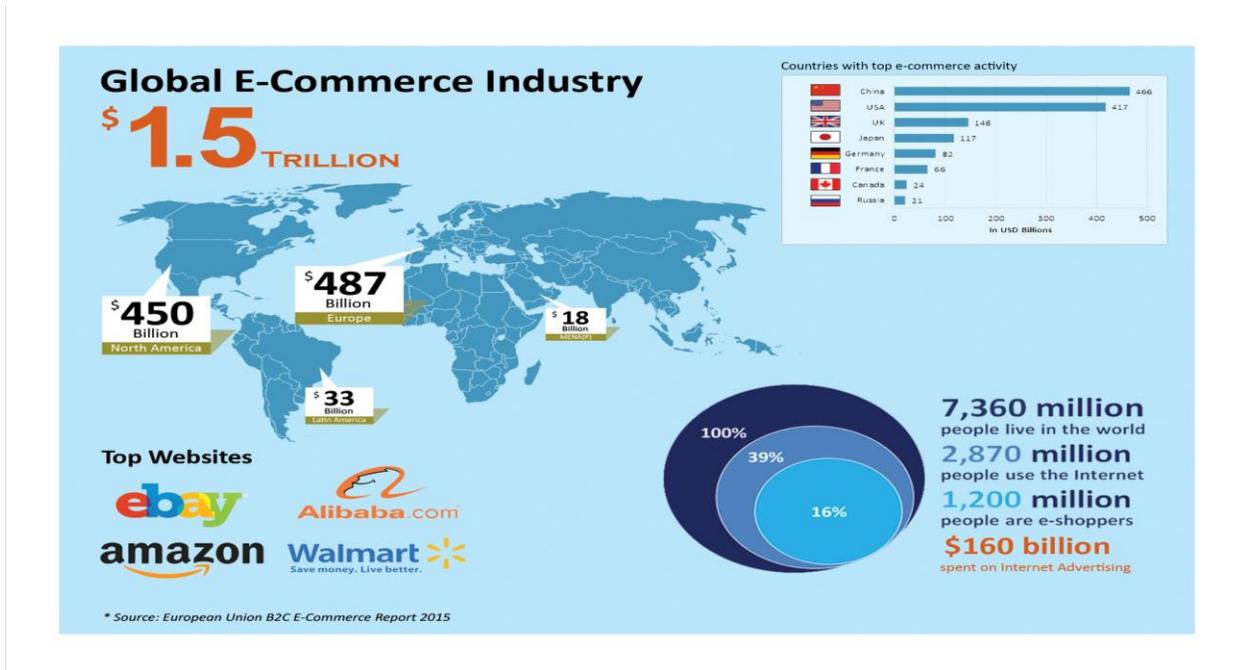
Table 2: Participants/Contributors E-Commerce 2.0 Workshop.

Name	Company Name	Designation
	Planet N Group	Chairman
Nadeem Hussain	Karandaaz	CEO
Ali Sarfaraz	Bank Nizwa Oman	Head of Retail Banking
Asad Batla	Evantagesoft	CEO
Arshad Qayyum	Kaymu.com	
Adam Dawood	TPL	
Ali Samir	IDG Business Units,	Senior General Manager - Content, Communications & Conferences
Aqsa Tariq Khwaja	ApplyLink 360	Founder
Abdul Basit	Karandaaz	
Ali Janjua	Well.pk	
Arbash Javed	Well.pk	
Amina Tahir	Fintech Company	BE (Electronics), MBA (IBA)
Azmat Rafique	(Assistant Chief and desk officer for e commerce work in the WTO wing, Ministry of Commerce)	
Mr Asif Fareed	(Research Officer, WTO wing who has been working on WTO issues since the last many years, Ministry of Commerce)	
Mr Amjad Zafar	UBL	
Asad Azfar	ECOM Company	Joint Director
Adil Khan	UBL	Head Merchant & Payment Systems • Payment Services Group
Abdullah Ahmad Mahmood	Bramerz	
Badar Khushnood	Finspire	
Baqar	Elahi Group	CEO
Danish Elahi	MWM Studios	CEO
Danish Ayub	Urdubit	
Danyal Manzar		

Name	Company Name	Designation
	Lahore	
Furqan Qureshi	NRSP Bank	Head Branchless Banking
Farooq Rashid	Well.pk	CEO
Furquan Kidwai	E-commerce Field	DGM Financial Inclusion
Fahad Shahab	MCB	
Fahad Ismail	E-commerce Field	
Faizan Farhat	Sofizar / ConstellationCK Pvt. Limited	Director Products & Consulting
Hammad Haider	E-commerce Field	
Hammad Umer	MCB	
Ms. Huma Gillani	Covalent	
Haris Waheed	SBP (Banking Policy & Regulations Department (BPRD))	
Imran Malik	OCS / muller & Phipps	
Jamil Ahmed	MCB Bank Limited	Head of Acquiring & Ecommerce
Jasim Ahmed Waheed	Apnipropeerty.pk	CEO
Muhammad Haroon		Account s & Finance
Mustafa Najoom	Artsy.pk	Division Head
Mateen	Innovators Desk	Marketing Executive
Muhammad Misbah uddin	Wavetech Pakistan	Regional Head - Pakistan - Head of Strategy & New Ventures
Mahmood Mirza	TCS	
M.A Manaan	Blitz Advertising	Head of Internal Audit (with extensive experience in governance, risk, audit and management consulting)
Munawwar Jamal	Cosmo Group	Brand Manager
Nadia Sahar	UBL	
Nauman Sikandar	Easter Garments	
Nizar Noor Mohammad	Rozee.pk	
Qasif Shahid	Tameer Microfinance Bank	
Rehan Khan	OCS	Research Scholar
Rizwan Hafiz		

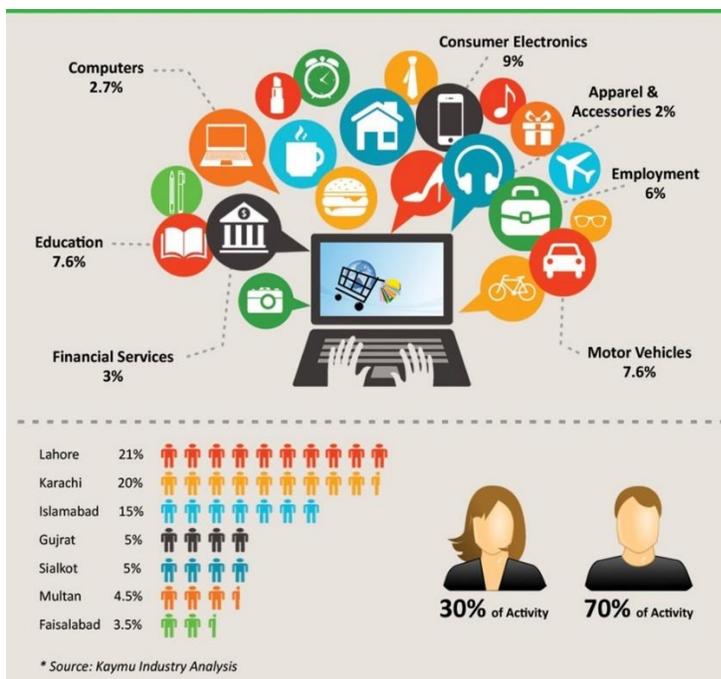
Name	Company Name	Designation
Raza Gorar	String Media	CEO
Syed Tassawur Hussain	AVANZA	Banker & Consultant
Sajid	Multinet	
Salim Raza	Ex-Gov SBP	
Salman Hasan	TCS	
Sohail Javaad	State Bank of Pakistan	
Sibtain Jiwani	Email	
Sibghatullah Sheikh	Dotman Tech,	
Saqib Saleem	MCB Arif Habib Savings	CEO
Suleman Hassan	ILink Guarantee Limited	
Shayaan Tahir	Online Home Shopping	CEO
Salik Gadit	Junaid Jamshed	Chief Digital Officer
Sarmad Wahab Kazi		Research Scholar
Samar Hasan	Karandaaz	
Saif Akhtar	10XC	CEO
Syed Talha Izhar	Bakeware.pk	
Tanya Abbasi	Dawaai.pk	
Umer Munawwar		
Ubaid Younus	imhere (Pvt) limited (COO) , Shehryar Trading company (Partner) , YOCAinc (Pvt) limited (CSO)	
Waleed Cheema	StreetEx Courier	CEO
Mr. Zamir Afzal Khan	State Bank of Pakistan	
Zain Tariq	Urdubit	

Global E-commerce Industry



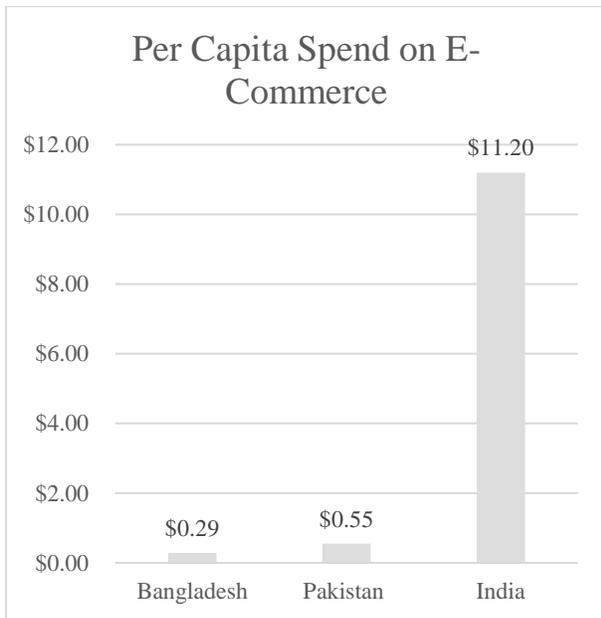
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Pakistan E-Commerce Industry



Pakistan E-Commerce Industry: Kaymu Industry Analysis

South Asia E-Commerce



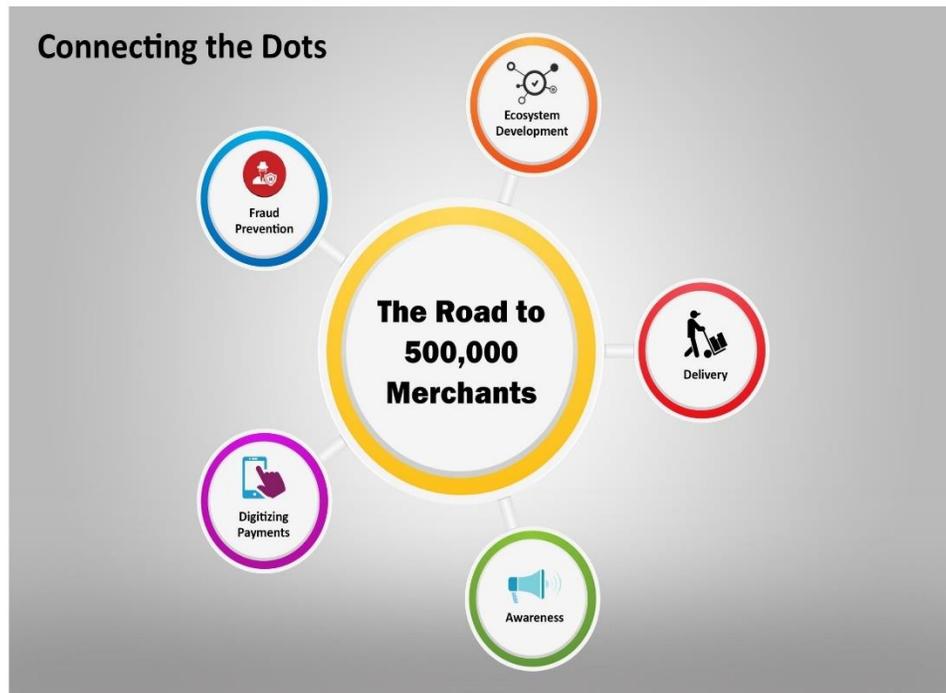
South Asia. Per Capita Spend on E-commerce, Kaymu Industry Analysis data

Online shopping sites recalled:



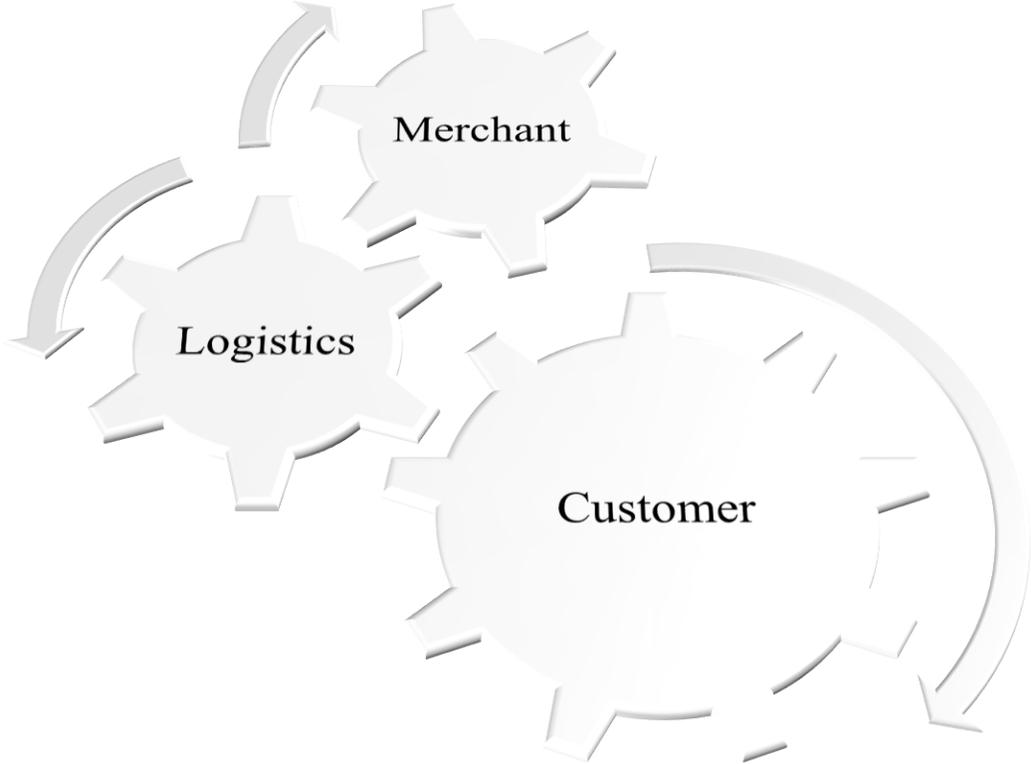
Online shopping sites recalled:

The Road to 500,00 Merchants, Connecting the dots.



The Road to 500,000 Merchants 2016

Delivery Problem Statement



Delivery Problem Statement: E-Commerce 2.0 workshop