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Pakistan's E-commerce market analysis

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2015 Leppävaara



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Pakistan's E-commerce market analysis

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Degree Programme in
Business Information Technology
Bachelor's Thesis
May, 2015

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Year	2015	Pages	32
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E-commerce has flourished in the developed world and plays an important role in their economies. Pakistan E-commerce market is still in the nascent stage, although it is sixth most populous country in the world. There are 30 million Internet users in Pakistan. 3G/4G service just launched in 2014 and recently it has 5 million users during its initial 6 months.

Despite all the challenges to Pakistan's E-commerce market, global E-commerce investors are swooping in, to reap all the benefits by becoming first mover to Pakistan's E-commerce market. Rocket Internet, the German Internet incubator entered in Pakistan in 2013 and expanding its chain of ventures in Pakistan; just in a short period of two years, it has already six online ventures running in Pakistan.

This thesis enlightens the topic of Pakistan's E-retail market. It provides a bigger picture of Pakistan's E-commerce market. This study can be beneficial for foreign and Pakistani Investors, in respect of getting compressed information about the current situation of E-retail in Pakistan.

Keywords E-commerce market analysis, Pakistan's E-retail market, Pakistan, E-commerce

Table of contents

1	Introduction.....	6
	1.1 Aims and Objective	6
	1.2 Scope and limitations.....	6
	1.3 Research questions.....	6
2	Methodology	7
	2.1 Triangulation.....	7
	2.2 Qualitative research	8
	2.3 Secondary data	8
	2.4 Literature review.....	8
3	Theoretical background.....	9
	3.1 Market analysis	9
	3.2 Macro environment.....	9
	3.3 Micro environment	10
	3.4 PEST analysis	10
4	Literature review	11
	4.1 Electronic Commerce.....	12
	4.1.1 Types of Electronic Commerce	12
	4.2 Overlook of E retail market.....	13
	4.3 Pakistan E-commerce Industry Analysis.....	16
5	PEST Analysis	17
	5.1 Political-Legal Factors.....	18
	5.2 Economic Factors.....	19
	5.3 Social Factors	20
	5.4 Technological Factors	21
6	SWOT Analysis	22
	6.1 Strengths.....	23
	6.1.1 No legal requirement for business formation	23
	6.1.2 Global market	23
	6.1.3 Saving time and convenience.....	23
	6.1.4 Less Start-up cost.....	23
	6.1.5 Cheap price.....	24
	6.2 Weaknesses.....	24
	6.2.1 Low level of trust.....	24
	6.2.2 Non-existence of online payment gateway.....	24
	6.2.3 Problem with COD payment method	24
	6.2.4 Illiterate costumers are ignored	25
	6.2.5 Lack of feel and touch.....	25

6.2.6	No cyber law	25
6.2.7	Shipping cost and delayed delivery	25
6.3	Opportunities	25
6.3.1	No limitation for foreigners	25
6.3.2	Not existence of major player	25
6.3.3	Increase number of Internet users	26
6.3.4	COD alternative method	26
6.4	Threats	27
6.4.1	Increase of brick and mortar stores	27
6.4.2	Low barrier of Entry	27
6.4.3	Fraud and security concerns	27
7	Conclusion	27
	References	28
	Figures	32

1 Introduction

This thesis addresses the challenges and opportunities for adoption of E-commerce in Pakistan. This study has been done in-relation to previously conducted researches in this area. It extends the boundary limit of preceding research, to the recent development of E-commerce in Pakistan.

This research focuses on main hurdles of slowing down the progress of E-commerce in Pakistan and the opportunities lie in E-retail sector. This study gathers the information from previously conducted surveys and its evaluation in terms of current position of Pakistan's E-commerce market. It presents the rationale in the form of PEST and SWOT analysis.

1.1 Aims and Objective

The aim of this thesis is to provide concise analysis of Pakistan's E-retail market, insights in Pakistan's norms and problems with cash on delivery method. This study is beneficial for those who are interested in starting a new venture and who are seeking information on Pakistan's E-commerce market.

1.2 Scope and limitations

All findings are mainly based on a detailed literature review. As this study is conducted in Finland, it is based on existing research, publications and latest development in this sector. Those are all based on online resources.

This study will not give an absolute answer of whether Pakistan E-commerce sector has a lot of opportunities or it is too risky market; rather it will provide detailed research in the form of PEST and SWOT analysis to provide the bigger snapshot of Pakistan's E-commerce industry. This report should not be concluded as the comprehensive analysis of Pakistan's E-retail market.

1.3 Research questions

Long list of research questions can be addressed in this study, but main questions are as follow

- 1) What are the main factors that influenced the slow progress of E-commerce in Pakistan?
- 2) What are the barriers and Challenges to E-commerce adoption in Pakistan?
- 3) What is the future of E-commerce industry in Pakistan?

- 4) What are the problems and issues with cash on delivery method?
- 5) What are the other alternatives of cash on delivery method in Pakistan?

2 Methodology

Literature review is primary research method in this study. This study employs qualitative method and mainly relies on secondary source of data. The first step was, gathering data related to this topic. For that purpose, a list of dissertation papers, Journals, corporate reports and books were gathered to get an overview of my research area. After getting in depth knowledge on research topic, relevant material was selected in order to find the answers of the research questions.

The data collection for literature review in my research work is done in two segments. One segment is consisted on comprehensive collection of scientific journals, dissertation papers and government department's reports. These studies provide rational answer to various challenges and barriers in E-commerce adoption to Pakistan. It includes different surveys, regarding main factors that can impact on E-commerce adoption. For instance, rational behavior of online buyers and different problems with "cash on delivery-payment methods".

Second segment was to collect data regarding latest advancements in Pakistan's E-commerce sector. Under this category, data source was relied on newspapers, marketing reports and government department surveys. It provides a snapshot of whole current e-commerce market. It includes comprehensive information of current E-commerce market size, competition in industry and technological development in Pakistan's E-commerce space.

An authenticity of data plays very vital role in success of any research work. This study is using secondary source of data, hence, it is very important to cross check all the pivotal information from the credible sources, in order to achieve supreme benefits of this study. For that purpose triangulation method is used to ensure the validity of data.

Below are the description of methods and terminologies used in my methodology section.

2.1 Triangulation

According to (Denzin 1978, 291) as "the combination of methodologies in the study of the same phenomenon." The triangulation analogy is from navigation and military strategy that employ various reference points to trace an object's particular position (Smith 1975, 273). This research method is used to cross check results and multifarious viewpoints bring the high

level of accuracy in findings. Likewise, judgemental accuracy can be raised in organizational research via different kinds of data collection on the same phenomenon.

2.2 Qualitative research

Qualitative research is valuable to policy makers because oftentimes it depicts the environment whither policies will be applied (Anderson 2010). Qualitative research is a type of research in which research addresses business intentions through methods that permits researcher to give elaborate interpretations of phenomena without relying on statistical measurement. Qualitative method ponder on determining factual inner meaning and novel insights(Zikmund et al. 2010).

Qualitative research approaches have been associated with positivism. This is because they duplicate methods from natural sciences; observes human behavior and individual units of a system usually remains main focus over this approach (Yates 2004). According to (Van Maanen 1983), defines qualitative methods as a collection of explanatory procedures which pursue to describe, decode, translate and then finally come to terms with rational meaning, not the frequency of certain more or less, naturally occurring phenomena in the social world. Qualitative research is steered through a passionate, or elongated interaction with a 'field or life situation' (Groat and Wang 2002; Amarantunga et al, 2002). Fielding and Schreier cited Shank's declaration that "qualitative research is the systematic empirical inquiry into meaning" (Fielding and Schreirer, 2001). Subsequently, qualitative research technique is an endeavour that seeks for an understanding of human behaviour in a societal setting. In this approach, researcher tries to collect information about human by observing their interactions, communications, gestures, behaviour, experiences, attitudes and perceptions of social events.

2.3 Secondary data

Sekeran defined secondary data as data that compiled or already published by researchers which are relevant to support our research study. The secondary data sources may include bulletins, government publications, unpublished or published information and the one available from either within or outside the firm, library records, data available from prior studies, online data, websites and internet (Sekeran 2003).

2.4 Literature review

According to (Mantel 1973, 75) "Literature review is not based primarily on new facts and findings, but on publications containing such primary information, whereby the latter is digested, sifted, classified, simplified, and synthesized".

It can be defined as the appropriate documentation of inclusive review of published and unpublished work from the secondary data sources in a specified area of research. Literature can be collected from secondary sources include books, journals, newspapers, magazines, conference proceedings, doctoral dissertation, master thesis, government publications, financial marketing and other reports. Literature helps us in identifying important variables and developing framework to make clear problem statement.

3 Theoretical background

Theoretical background chapter explains the important definition of business terminologies used in this study, which are as described below.

3.1 Market analysis

Market analysis is a combination of two words. A market can be defined as, any physical or virtual place where services or goods are offered to sell and analysis means detail inspection of the characteristics. Thus, altogether market analysis is assessment to determine main elements and characteristics of a market. It collects the current and past information regarding available products or services in a market. External factors analysis (political, economic, social, and technological) is also part of the market analysis to forecast future market trends (Wood 2007).

Industry analysis report is the market assessment, helpful in understanding specific industry. It offers the vast range of information. For example, industry size, growth rate and trends etcetera. Mostly companies use an industry analysis report, to get information about the value of a sector in relation to making an investment for business expansion.

3.2 Macro environment

A macro environment can also be dubbed as an external environment. According to (Kotler & Keller 2012) external environment consist of six vital forces includes political, economic, natural, demographic, economic, technological, social-cultural, natural, technological, and political-legal. These factors are out of company's control but can affect its performance.

3.3 Micro environment

It is also known as internal environment. The internal environment consisted of firm-specific factors that can directly influence the firm ability to serve the customers. Such as firm - specific factors include suppliers, competitors, market intermediaries, customers and community (Kotler & Gary 2010, 90).

3.4 PEST analysis

A PEST analysis is a useful tool to understand market growth or decline, such as current position, potential and direction for a business. This analysis examines the impact of each of main factors on the business. These results can be used to take maximize advantage of the opportunities and to make contingency plans for dealing with future threats (Byars, 1991).

A business must monitor key macro environment forces and track important developments in external environment that can affect a business ability to earn profit.
(Kotler & Keller 2012, 96)

According to (FME 2014) explain in "Pestle analysis strategy skills", an aim of PEST analysis is to recognize the issues that fall into two categories.

They are uncontrollable by an organization.

They can have some level of influence on company performance.

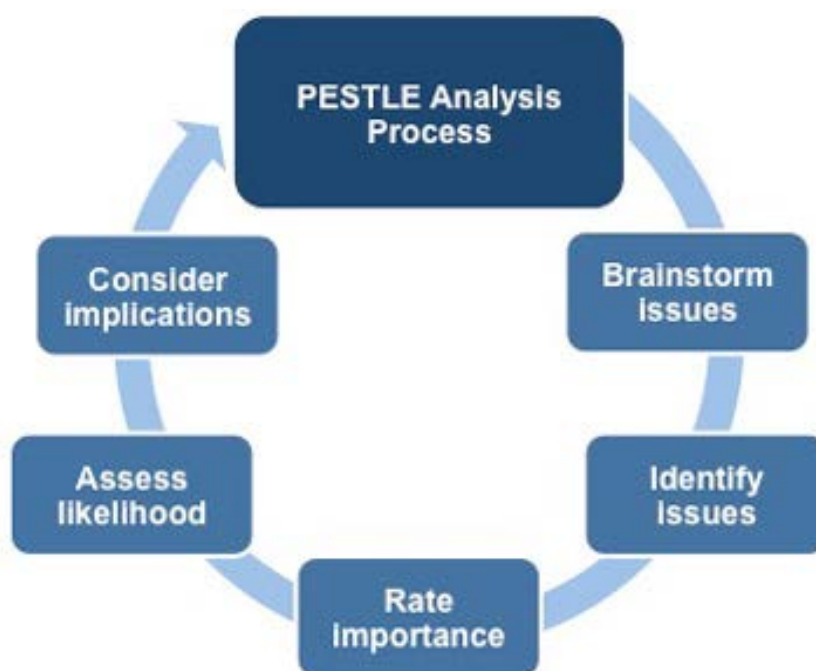


Figure 1 PESTLE analysis process

Figure 1 shows the process of PESTLE analysis. This process starts with brainstorming, by analyzing the factors of PESTLE framework and by listing all main issues those are out of business control but can impact on business profitability then briefly consider an impact of each issue, and after that, rate an importance in respect to each issue. For instance: an important, moderate and critical. After that evaluate the probability of its occurrence and lastly shortly consider, if those issues take place.

The sole purpose of PESTLE analysis is systematic assessments of the business environment. Thus a strategy can be made to address that issue after further detail research later on. Proposing solutions to every challenge is outside the scope of PESTLE analysis.

4 Literature review

This chapter provides a background of Literature which has been reviewed in order to answer the questions of research problem.

Data was gathered in two categories, to serve the purpose of this study. One section was to know the history of Pakistan's E-commerce market and to know main barriers in adoption of E-commerce in Pakistan. For that purpose, it was important to find out the economic condition of the country, Pakistanis buying behavior, payment infrastructure and other elements which support E-commerce. Under this category existing data like scientific papers and thesis

were studied in this field. For instance, "Consumer Behavior towards online shopping of electronics in Pakistan" (Bashir 2013) and "E-commerce adoption a comparative study of Sweden of Pakistan" (Baig et al. 2011).

These studies talk about behavior of Pakistani e-shoppers and hurdles and challenges in an adoption of E-commerce market.

Under the second category, an aim was to discover current development in this sector. For example, Current E-commerce market size, major players in the market, trends and find out the availability of alternative solutions for cash and delivery method. This information was mainly acquired from marketing reports, Newspapers and government department's surveys. This study aims to provide a bigger picture of Pakistan's E-commerce industry. In order to achieve this goal, it is necessary to review previous conducted researches and also to find out the latest advancement in E-commerce to be able to provide an analysis of Pakistan's e-commerce market.

It is pertinent to make it easy for readers to explain the important terminologies in this section and also to explain why I choose these specific tools for market analysis.

4.1 Electronic Commerce

Electronic commerce is commonly known as E-commerce. E-commerce can be described as those activities that relate to buying and selling of goods and services over the Internet. Basically it is a way of conducting business electronically. E-commerce is buying and selling of goods and services, and the transfer of funds, through digital communications (Turban et al. 2002).

Scholars have used different definitions to describe E-commerce. However, these definitions can differ slightly but they all agree over main fundamental aspect of E-commerce which is doing business over the Internet or electronically.

4.1.1 Types of Electronic Commerce

Electronic commerce can be classified into four main types according to different business level types.

B2C (Business-to-Consumer)

Business to consumers (B2C). This business model is most common in E-commerce. In this model, online businesses sell their products or provide services to consumers. For example online shop (www.verkokauppa.fi), where business have all their products listed on their website with picture and detail information and customers can buy over web.

B2B (Business-to-Business)

Business sells or provides services to other business or multiple businesses. In term of volume B2B E-commerce is largest form of E-commerce. Common example of B2B is such as whole sellers selling to retailer and manufacture selling to distributor. For example RS Components (uk.rs-online.com)

C2C (Consumer-to-Consumer)

Transactions happen between consumer to consumer (C2C). Common examples of C2C are auction sites and classifieds. One consumer post an item for sale and another bid for purchase. Example of C2C is huuto.net and E-Bay.

C2B (Consumer-to-Business)

Consumers offer product and services to companies and companies pay them. C2B model is complete reversal of B2C model. A common example of C2B is, bloggers do reviews of some company products or services through their blog posts and get paid for the advertisement of the company.

There are other categories of E-commerce business models too like m-commerce, Government to business (G2B) and Business to employee (B2E) but in essence they are similar to above mentioned types.

4.2 Overlook of E retail market

All around the world, E-commerce is gaining popularity and playing an important role in any economy. According to e-Marketer's forecast, Global business to consumer (B2C) E-commerce sale will reach \$1.5 trillion at the end of 2014, increased nearly 20 percent from last year. It is also expected that sales will surpass 2 trillion dollars mark by the end of year 2017. A reason for this growth is rapid increase in internet and mobile users in emerging markets.

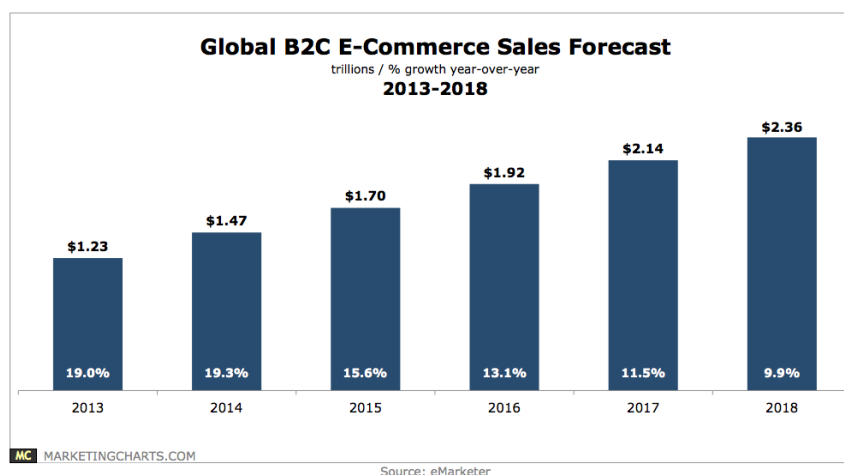


Figure 2 Global B2C E-commerce sales forecast

Regionally, North America, which includes only the U.S. and Canada, is leader in B2C E- market share in 2014. One-third of total digital purchases are worldwide spent by North Americans. According to e-Marketer's forecast, it is expected; Asia-Pacific will surpass North America this year and will become the leading region for E-commerce sales in 2015. In the latest research conducted by Worldwide Business Research (WBR), Asia-Pacific will account for 41.4 percent of worldwide E-commerce. "The online retailing is becoming an integral part of an economy and country and worldwide increasingly seeing trust and confidence in purchasing online (AadWeening, 2012).

Pakistan is situated in south Asia, e-market is booming rapidly in this region. Pakistan's neighboring countries are China and India, both countries are getting huge in investments in e- retail industry, recently China E-commerce giant Alibaba (alibaba.com) went Public in United States OF America and broke all records in the History of IPO (initial public offering) and got whopping amount of 25 billion dollars. In India, largest E commerce player Flipkart (flip- kart.com) also got huge funding of 1 billion dollars.

To understand the E-commerce industry in Pakistan, It is important to list some important figures and facts; Pakistan is sixth most-populous country in the world. Its estimated population is 188 million; around 63 percent of the population is under 30. It has 125 million active mobile users and 29 million internet users, almost half of whom surf the web, using their mobile phone. Liberty books and gift express were the pioneers of E-retailing in Pakistan; these sites were created in late 1997. Although, that time their main target customers were Pakistanis, who were living abroad and wanted to send gifts to their loved ones in Pakistan.

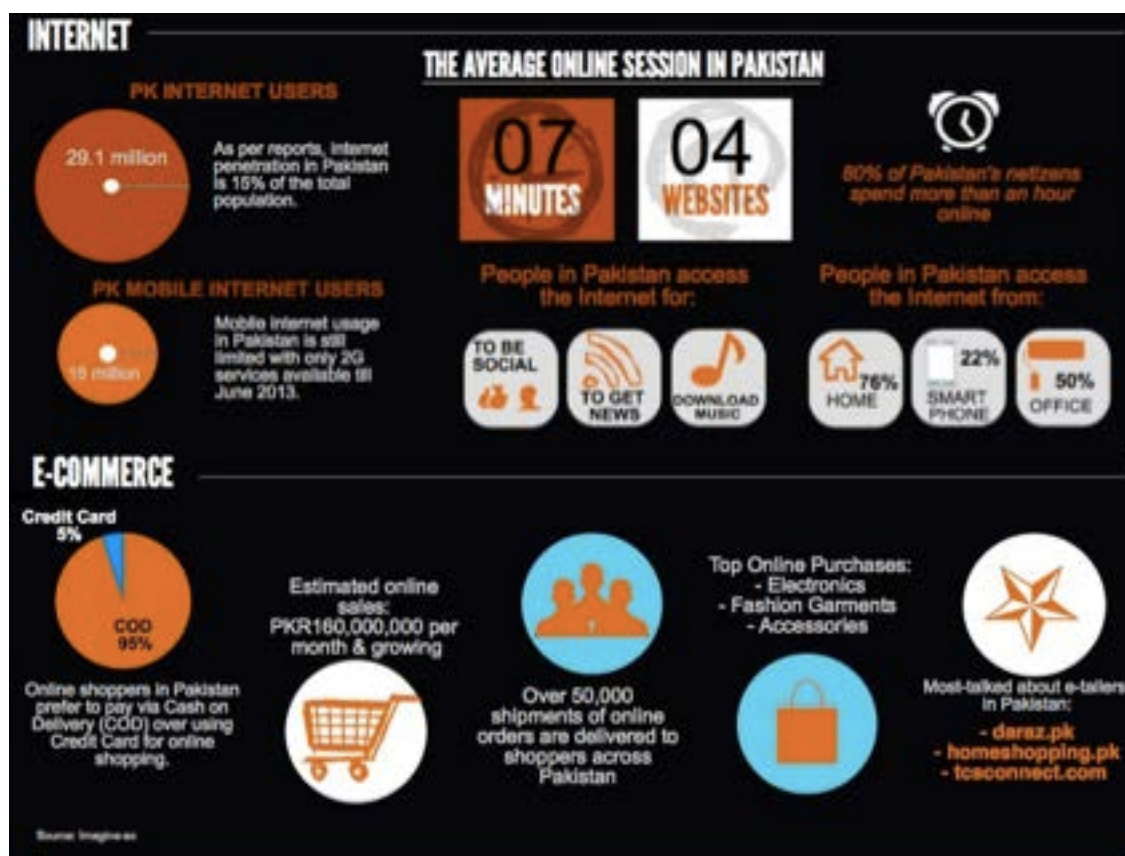
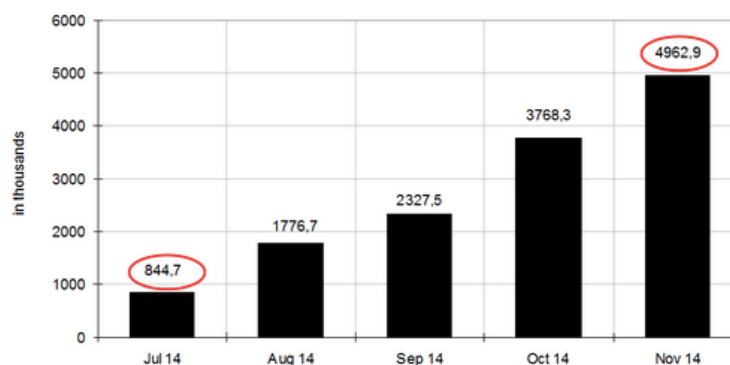


Figure 3 Snapshot; Internet and E-commerce industry of Pakistan

The idea of E-commerce is not new but Pakistan's E-commerce market is still infancy. However, keeping country's current situation in mind, people still use traditional ways of buying things - visiting brick and mortar stores, feel the physical product, dickering to get a good deal and come home with the product. In-comparison to its neighboring countries still, there is not yet any bigger E-retail player in the Pakistani market.

3G launched in the year of 2014. Its orientation may cause substantial rise in the e-commerce trend, as the user's graph of internet will move upward. Internet users in Pakistan buy online because it gives them more variety. Mobile Internet connections are spreading quite fast, Pakistan shows a great potential for online retail sales expansion (Ystats, 2015).



Source: Pakistan Telecommunications Authority, January 2015

Figure 4 Number of 3G/4G subscribers in Pakistan, July 2014 - Nov 2014

E-commerce is benefiting from several positive trends, including the continued rollout of broadband, increasing user comfort shopping online and the decline of certain brick-and-mortar retailers" (Imran Khan, 2011, P.416).

In Pakistan, people are hesitant in using their bank-cards to make online purchases (Hussain et al. 2007) .Cash-on-delivery (COD) is a preferred way of making payments among online shoppers. More than 95 percent payments made by COD, when online buyers order, it is delivered on their doorsteps. Due to COD, there is no official data available for a total size of Pakistan's E-commerce market but local experts estimate market turnover around 25 to 30 million dollars in a year (Rehman 2014).

4.3 Pakistan E-commerce Industry Analysis

This chapter of thesis provides an insight of Pakistan's' E-retail market in the form of PEST analysis and SWOT analysis.

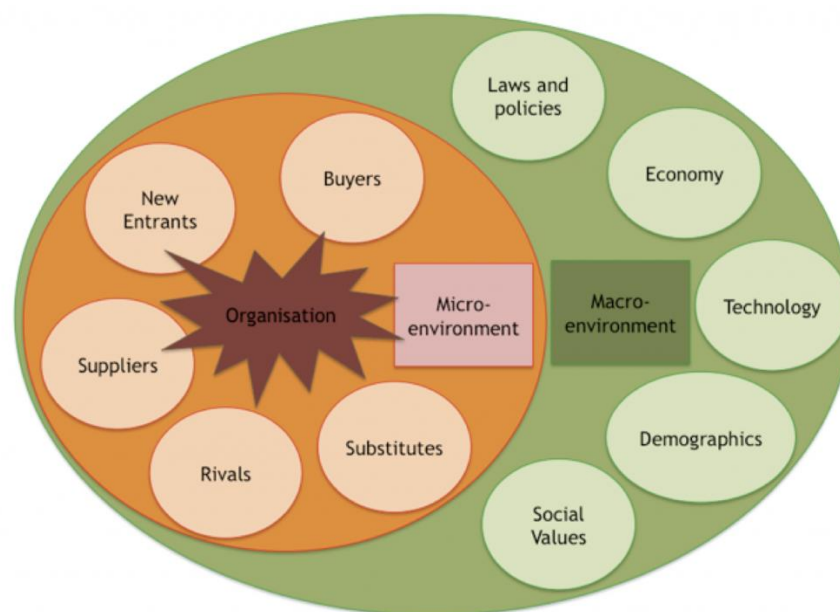


Figure 5 Organization positioning to micro and macro-environment

The above snapshot explains the Positioning of a micro and macro-environment in-relation to the organization. Micro environment is immediate surroundings of a business and macro environment is an external environment. PEST analysis is used to measure macro environment and SWOT analysis is applied on micro environment. In this thesis, macro environment represents the overall Pakistan's E-commerce market and SWOT analysis represents the strength and weakness of E-retail.

5 PEST Analysis

PEST is an acronym of "political, economic, social, and technological. When a PEST analysis is expanded to incorporate legal and environmental factors; this is called PESTLE analysis. PEST framework has many other forms, which is sometimes known as STEP, DESTEP and STEEP.

A PEST analysis is a simple business measurement tool. PEST framework is used to analyze an external environment in which company is operating or planning to launch a new product/service etc. These external factors are out of company control in most cases but can affect the business. For example if one restaurant doing great business in United States, the same business model might not work well in some other environment. For instance, if a same restaurant starts operations in Pakistan and serves alcohol to Muslims in Pakistan that can lead to disastrous results. Therefore, PESTEL analysis plays a vital role to get success for any business and makes entrepreneurs or managers aware of legal and social-cultural norms of the environment beforehand, which help organizations to change their business model to comply

with an external environment. Thus, by analyzing an environment, businesses can avail maximum advantage of opportunities and can predict against potential future threats.

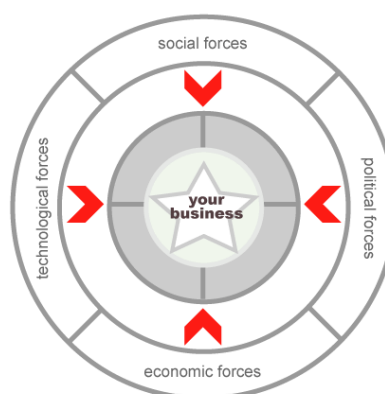


Figure 6 Main aspects of PEST analysis

5.1 Political-Legal Factors

Pakistan is politically instable country. Since the creation of Pakistan, country has seen three military dictatorship eras. Almost half of the time of its existence, military dictators have ruled the country (Cheema 2014). Current Prime Minister, Nawaz Sharif, is the third time elected prime minister of Pakistan. He is also the head of PMLN (Pakistan Muslim League). A political party, which was founded in 1985, and currently PLMN is a largest political party in Pakistan. Last time elections were held in 2013. Under normal circumstances, now next general election will be held in the year of 2018 (Manan 2014).

Corruption is a major issue in Pakistan and it is worsening, even opening a legitimate business may require bribing officials and government representatives. According to transparency international, Pakistan is ranked 127th out of 177 countries on corruption perception index 2013 (Ahmad 2014). Pakistan has one of the world's lowest tax returns. It is only 9 percent of the GDP. Less than one percent of citizens file income tax (Hourled 2013). Pakistan is a country without any cyber law. Therefore, an absence of cyber-crime law is one of main reasons of non-establishment of Internet gateway in the country (Ataa 2013). Finally, after so many delays and claims, now current government is taking practical steps to form a cyber-crime law in the country. Meanwhile they are also planning to setup a cyber-authority; a special court to deal with disputes and cyber-crimes (Dad 2015)

Pakistan has very lenient policy to lure foreign investments. There are no limitations to hold equity for foreign investors. Foreigners are allowed to hold 100% equity without having a local partner and there are no restrictions on full repatriation of the investment (Dawood & Gai 2014).

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5.2 Economic Factors

The economy of Pakistan is 27th largest in the world in terms of purchasing power parity (PPP), and 47th largest in term of nominal GDP (gross domestic product). Pakistan is second largest Muslim country after Indonesia. Its GDP per capita is \$3,149. According to the ministry of Finance statistics, 37 million people GDP per capita are more than \$ 12,200. Pakistan's economy is semi-industrialized economy, which mainly encompasses agriculture, textiles, and food-processing industries (IMRG 2013). Pakistan's foreign currency reserves are more than 15 billion dollars, which has led to stable outlook on long-term rating by Standard & Poor's (dawn 2014). Pakistan is among the eleven countries that have a potential to become one of the world's largest economies in 21st century (Grant 2011).

Pakistan is a developing country. A decade of war and social instability has adversely affected the economy of the country (Walsh 2013). According to IMF (International Monetary fund) forecast, Pakistan GDP growth for a year 2015-2016 is 4.7%. Pakistan's currency is rupees (RS) which is under growing pressure at this moment and looks continue weakening over few coming months due to the country's widening trade deficit, which stands currently at \$12.1 billion (BMI 2014). The corporate tax is relatively high in Pakistan, is set at 33% but for small Companies. it is taxed at 25 percent (KPMG 2014). Pakistan is ranked 128th out of 189 countries on "ease of doing business index", apparently this number does not sound good but other countries in south-Asia region even have more lower ranking on this index. For example, Pakistan's neighboring countries India and Bangladesh stand on 142 and 173 respectively (WB 2014).

Pakistanis prefer to pay by hard cash in their daily life. According to World Bank latest statistics, only 2.9 percent of whole population has debit cards and roughly 8.7 % have bank account, which is 1.6 percent less than the previous report, which was published in 2012 (Tribune 2015).

Despite battling economy crisis and standing at a verge of debt default, Pakistan's stock market is continuously booming. It exhibited outstanding performance and touched new historic heights at the beginning of year 2015 (News 2015). Pakistan's stock market KSE (Karachi stock exchange) has become a second best performing stock market in year 2013 (Zafar 2013) and It is ranked 4th amongst top 10 best performing global markets in 2014 (CNN 2014).

Pakistan retail market estimated worth is \$6 billion and at-present E-retail value is not even close to 2%. It is immensely large untapped market (Julka 2014). Despite being all challenges, local and foreign investors are entering in E-commerce space to cover this gap. In last two years, E-commerce sector witnessed an upward trend. According to Ehsan Malik, CEO of Unilever Pakistan as quoted in Pakistan startup report "Pakistan with its nearly 200 million populations is simply too large and too attractive market to ignore" (Dawood & Gai 2014).

5.3 Social Factors

Pakistan's estimated population is 180 million which is equivalent to around 2.56% of the whole world population. Out of 180 million, around 66% of whole population is below the age of 30 (Kugelman & Hathway, 2011). The median age in Pakistan is 22.6 years. Population growth rate is 1.49 percent. 37 % of the population lives in urban areas. The unemployment rate in the country is 5.6 %. English is an official language and Punjabi is mainly spoken language in the country, 48 % people speaks Punjabi (Mundi 2014).

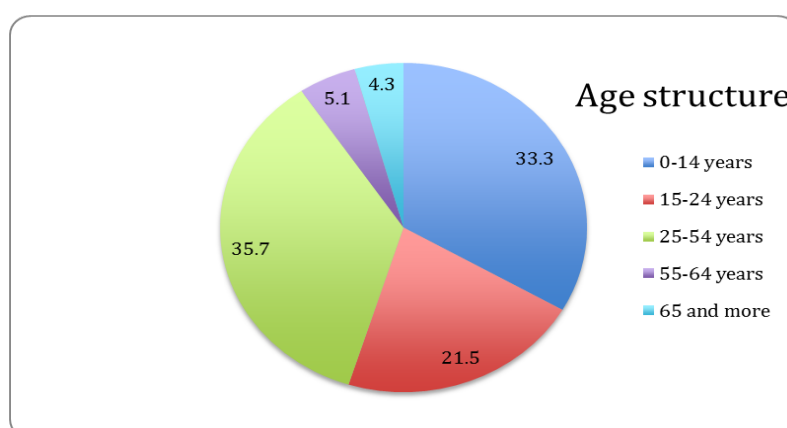


Figure 7 Age structure of Pakistan's population

Government spends only 2 percent of the GDP on education sector. Literacy rate in the country is estimated 60 % (Economic Survey of Pakistan Report, 2013-2014) but it is important to

mention, that in Pakistan, literacy definition is, anyone who can read and write his name (Anon 2007).

Power outage is quite big problem in the country. Currently, electricity shortfall is 4500 MW, the total power generation supply is only 14,800 MW while demand is 19,600 MW. Due to less power supply rural areas are facing up-to 10 hours duration of power cut and urban areas power outage is up-to 8 hours (Dailytimes 2015).

In Pakistan, Online shoppers buy online because they get more variety in products. Most of the online purchases made through local E-retailers. Global E-commerce giants, eBay and Amazon doesn't offer direct delivery in Pakistan. To buy from these international merchants, consumers turn to third party merchant services, who organized these imports on behalf of them (Ystas 2015). Youpickwebuy.com is a popular example of this third party service in Pakistan, which allows users to buy from international retailers and they deliver the product on their doorsteps. Shipment is expensive for customers because international e-commerce giants do not deliver product on doorstep, involvement of third party also cause more delay in delivery process (Ansari 2012).

According to (Bashir 2013) MBA student at Seinäjoki University of Applied sciences conducted a research "Consumer Behavior towards online shopping of electronics in Pakistan". Pakistani online shoppers buy online because they get the best price from online stores but they prefer to feel and touch a physical product before making the purchase. Thus, 53% respondent replied that they visit the brick and mortar store first before buy from online store. E-buying is more popular in young generation but getting credit card for youngsters is very difficult.

5.4 Technological Factors

It is expected that the country will have overall 110 million Internet users by an end of year 2019 (Dawood & Gai 2014). Pakistanis ranks among top 5 freelancer countries list on "Odesk". "Odesk" is one of world leading freelancer marketplace, around 0.214 million Pakistani freelancers are members of "Odesk" (Siddiqi 2014).

Apart from the trust issues on online retailers, the main reason of this slow progress is under-developed online payment infrastructure (Ystats 2015). Paypal, one of the world's leading Internet payment company is not operating in Pakistan (Dawood & Gai 2014). Currently cash on delivery (COD) is most preferred payment method for online retail, which is available by all E-commerce retailers. More than 90% online purchases are made through COD. All local couriers companies; such as "Leopard", "blue-ex" and "TCS" provide this service (Dawood 2014).

Despite weak technological infrastructure, growing market of Pakistan is very attractive for e-commerce investors; foreign investors are investing immensely in Pakistan (Dawood & Gai 2014).

Top of the list is German based incubator, Rocket Internet, which started its operation in Pakistan from 2012, now have five different companies, operating in Pakistan. (Rocket Internet 2015) Recently, Rocket Internet CEO, Oliver Samwer expresses his opinion regarding expansion plans in Pakistan as it quoted in Pakistan startup report 2014. Doing business in Pakistan is just 20 % difficult than Germany. We are here to do it; either we have to build Pakistan post.

In last two years, tech incubators are on rise in Pakistan. Currently around 30 incubators and accelerators program are running in the country. They offer great supports to startups such as; by offering stipends, free workspace and mentoring etc. Some of them charge, in return of equity, ranges from 2.5 % to 7.5% varying on the selected service (Paracha 2014).

6 SWOT Analysis

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. It is a business analysis technique that organization performs to identify strength and weakness of a company as well as potential opportunities and threats presents in the market where a company operates in (FME 2013). SWOT provides an audit of a company and scan of its current standing position within an industry (Kaplan 2013).

SWOT analysis is built on PEST analysis results. It takes whole information from PEST analysis results and separates it into two categories, "Strength and weakness" for internal and "threat and opportunities" for external issues (Berry 2008).

SWOT ANALYSIS



Figure 8 Main aspects of SWOT analysis

6.1 Strengths

6.1.1 No legal requirement for business formation

In order to start an E-retail business in Pakistan, no legal formality or prior registration is required but every person who is liable to pay income tax must apply for NTN (National Tax Number), which can be obtained from FBR (Federal Board of Revenue) by providing valid Passport or Pakistani CNIC (Computerized National Identity Card).

6.1.2 Global market

E-retail can be dealt globally because it does not like traditional brick and mortar store. It can be assessable from anywhere in the world through Internet, which enables a company to expand on global level.

6.1.3 Saving time and convenience

Online shopping does not only allow saving time but it is also very convenient for customers, Online stores are open 24x7, consumers can order without leaving their cozy homes.

6.1.4 Less Start-up cost

To start an online business does not require much capital because it does not need any physical storefront and it also does not have lot of overheads. It can start with less than 100 euros.

6.1.5 Cheap price

Online products are available are on lower price because of intermediary eradication from the network of sale and purchase. Business also has less expense in-compare to traditional stores, which allow them to sell on better price.

6.2 Weaknesses

6.2.1 Low level of trust

In Pakistan, credit cards penetration is quite low and general public don't own credit cards but the one who have credit cards, they are still hesitant to make online purchases due to low level of trust on online retailers.

6.2.2 Non-existence of online payment gateway

There is no online payment gateway is available in the country, to facilitate local buyers. Although there are some other online methods in use; like bank transfer but that does not support real-time transaction.

6.2.3 Problem with COD payment method

All the local courier companies in Pakistan provide COD facility but the cost associated with COD is exclusively borne by the sellers. COD also require high working capital, as Cash on delivery (COD) Payment cycle varies from 21 to 35 days. It means if a retailer sells something through COD, the actual payment will be handover by the courier company after 3 to 5 weeks. It varies on the size of company and level of negotiation with Courier Company.

With COD, the buyers have more time to change their mind. Since they have not paid in advance, they can still refuse to accept an order, even before the product arrives on their doorstep. In many cases, customer cancels an order but seller has already shipped the product. In that case, seller bears all the cost incurred by a logistic company.

Normally COD deliveries are late, in-comparison to normal deliveries because, in COD case, it requires the availability of customer and also cash upon delivery. Thus like normal deliveries, the parcel cannot be dropped to anyone.

Almost all the courier companies charge extra to avail COD service. Cost is divided into two different parts, one is shipping cost that is charged according to the weight of a parcel and second is cash handling charges which are charged according to the worth of a product. It starts from minimum RS 50 and can go as high as 1% of COD value and if customer refuses to accept an order then the seller has to bear additional RS 100 for return parcel charges. This rate varies company to company.

6.2.4 Illiterate costumers are ignored

Uneducated and computer illiterate customers are ignored by E-retailers. Online shopping requires customers to have knowledge of World Wide Web. In Pakistan mostly online stores do not support regional languages, not even the national language of the country.

6.2.5 Lack of feel and touch

Online stores do not have physical storefront, buyers make online purchases just relying on given information and pictures are available online. Different Studies reveal that Pakistanis like to feel and touch the physical product before making an online purchase.

6.2.6 No cyber law

At this moment, industry is operating without having a proper cyber law in-place to deal with cyber-crimes, because of that, online retailers and financial institutes do not feel secure.

6.2.7 Shipping cost and delayed delivery

Sometimes shipping cost is more than the actual worth of the product, which makes it unfeasible to buy online and urgent need of the product also discourages E-retail.

6.3 Opportunities

6.3.1 No limitation for foreigners

Pakistan has very liberal investment policy for foreigners. Foreigners can hold 100 percent equity of E-retail business in Pakistan and law also does to have local partner.

6.3.2 Not existence of major player

Pakistan's E-retail market is quite fragmented; still there is no big player of E-commerce sector in the country like eBay and Amazon, which gives the benefit to early starters to cover this untapped market.

6.3.3 Increase number of Internet users

Recently launched of 3g/4g service in the country will increase the number of Internet users in the country. Currently, it has around 10 million 3g users. It is expected, that overall internet users will cross the 100 million mark by the year 2019.

6.3.4 COD alternative method

COD is preferred payment method for online buyers in Pakistan but to adopt COD, E-retailers have to face lot of challenges. To fill-up this gap, many Internet payment solutions are emerging in Pakistan. Such as Easy pay, Mobicash, Zong prepaid credit cards and kaymu-safepay.

Easypaisa launched "Easy pay"

"Easy Pay" is an online payment solution to facilitate online payments. This solution can easily integrate with all popular E-commerce CMS with "Easy Pay", customers can make real-time payments on E-commerce sites through their mobile phones and also have an option to pay for their online purchase through 65,000 outlets of "Easypaisa" across Pakistan.

Mobicash

This payment solution is offered by "Mobilink". "Mobilink" is Pakistan's leading mobile operator, who partnered with Wassela microfinance bank, to offer this innovative service. "Mobicash" users are able to send payment, directly from their mobiles into E-retailer account.

Zong prepaid credit cards

This service does not exist at this moment, but "Zong", Pakistan second largest GSM service mobile provider working on this service. As it is mentioned in ProPakistani, it is going to be a Pakistan first payment processor operator that will offer virtual prepaid cards for web-based payments and physical prepaid cards for use at brick and mortar stores.

Kaymu-safepay

This solution is provided by kaymu.pk. German based incubator - Rocket Internet backs this venture. After selecting a product, user will be allowed to make the payment with-in seven days. Once the payment will be deposited, seller will ship the product but "Safepay" will act as a vault and hold the money. It will only transfer the money to the seller when buyer is satisfied with the product and will confirm that a product is received. "Safepay" fully protected solution for the buyer. (Attaa 2015)

6.4 Threats

6.4.1 Increase of brick and mortar stores

People like to bargain and feel the physical product before buying, Increase of brick and mortar stores can affect the E-retail industry.

6.4.2 Low barrier of Entry

Low barrier of entry is a constant threat of E-retail industry. Setting up an online store is quite easy, even people can also sell through Facebook or auction sites. Due to this factor, it can become very competitive industry.

6.4.3 Fraud and security concerns

Misuse of consumer's personal information is also a threat to E-retail industry. At this point E-commerce sector is still its the nascent stage, only few dishonest retailers can demolish the image of whole industry.

7 Conclusion

This study concluded that Pakistan's E-commerce market is at the early stage of development. Internet penetration is just above 10 percent but with the advent of 3G/4G services in the country, it is expected to be increased substantially in near future. Lack of online payment infrastructure, and trust on online retailers is considered to be main challenge to the E-commerce industry. Although, E-commerce adoption in Pakistan has lot of barriers but population of around 200 million, is simply too big to ignore. Due to this foreign investors are swooping in, to claim a throne of this untapped market.

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Figures

Figure 1 PESTLE analysis process.....	11
Figure 2 Global B2C E-commerce sales forecast	14
Figure 3 Snapshot; Internet and E-commerce industry of Pakistan.....	15
Figure 4 Number of 3G/4G subscribers in Pakistan, July 2014 - Nov 2014	16
Figure 5 Organization positioning to micro and macro-environment.....	17
Figure 6 Main aspects of PEST analysis.....	18
Figure 7 Age structure of Pakistan's population	20
Figure 8 Main aspects of SWOT analysis.....	23