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| ECOMMERCE LOGISTICS |
| Current Infrastructure & Recommendations |
| Logistics Working Group |

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LOGISTICS

# CURRENT SCENARIO

Pakistan is very fortunate to have strong 3PL providers and we are probably the best in the region in terms of varying logistics offering, reach and reliability. Despite the presence of strong 3PL network, major improvements are needed in the ecommerce logistics sector. Key factors of e-commerce logistics are time, last mile delivery, efficiency and technology. The strengthening of ecommerce logistics will definitely improve the ecommerce landscape in Pakistan. Though e-commerce may take a few years to stabilize or to take a clear direction, the sector is already growing rapidly.

# KEY FINDINGS

1. TECHNOLOGY INTEGRATIONS WITH E-COMMERCE STORES

Technological development is greatly needed on both logistics and vendor end. E-Commerce logistics have fulfillment centers but they are hardly automated or even partially automated. There is no system in place for inventory management and it is mostly done manually or using antiquated systems.

The ability to auto-create AWB’s, and get delivery statuses directly can greatly improve speed and reliability. Given that today we have major e-commerce stores still manually creating AWB’s for their shipments and doing manual reconciliation, running integrations between 3PL and Online Stores is crucial. Currently the major 3PL’s offer API’s to their systems, however with a massive influx of ecommerce stores with limited resources especially on the software development side, 3PL’s need to start giving stores greater flexibility by offering plugins to different platforms of ecommerce stores.

Warehousing technology will also help in having updated inventory status. Many marketplaces face inventory challenges when stock is not available with the seller but is displayed on the website due to manual “sync” between the merchant and the e-commerce store. This leads to the buyer’s’ orders either being cancelled or experiencing long delays in being fulfilled. Having improved and updated inventory processes will be a key factor towards achieving sustained customer growth and satisfaction.

## GREY MARKET PRODUCTS

Logistics is responsible for the transport of goods. Grey market products are cheaper compared to regular products because they are non-tax and non-duty paid. Price is the driving force for many customers and price-reduction acts as a major pull for customers buying grey products. Due to corruption and lack of proper mechanisms the low priced grey products are flooding the market. These products come without any official warranty or genuine service contract so customers have no legal grounds to claim any damage. The sellers of grey market products often replace genuine parts with fake ones or sell replica products that greatly hamper the reputation of all manufactures and affect the businesses of official distributors. There exists a dire need to curb parallel imports- imports that bypass the taxation system, since this is not only detrimental to customers and genuine sellers but to the economy as a whole. Companies transporting good cannot be held responsible for what’s inside the box if the government is letting the business continue.

## ENTRY BARRIER FOR LOGISTICS

Preconditions should be in place in order to launch a logistics company as they will handle a lot of consumer goods. The entry in the industry needs to be regulated. Logistics play a vital role in the development of any country. Transportation is the back-bone of a successful and efficient logistics system. Growing economic interdependence through an increasing volume and variety of cross-border transactions has resulted in an increasing importance of the transport sector. The Transport sector has the ability to potentially increase the economic growth of developing regions and subsequently lead to a shift of production activities to these countries. Pakistan has a functional transport sector that accounts for about 11 percent of its GDP, 17 percent of Gross Capital Formation and 6 percent of employment. Currently, the industry does not face any competition issue in terms of Barrier to entry as there is no Barrier to entry or exit. There is no limit of the number of vehicles or type of vehicles in a fleet to operate in the market. However, it is an evolving industry that is and will experience change. The number of middle size companies and large companies is growing suggesting a trend for the future and with it some possible competition concerns that may arise.  Lack of no regulatory mechanism has resulted in mushroom growth in the industry with no barriers to entry which can pose a problem for as time goes on.

1. CROSS-BORDER LOGISTICS

Efficient cross-border logistics will greatly improve exports. Pakistan has a lot to offer but the current policies on import and exports hamper cross-border e-commerce. According to the UNDP (2005), developing countries should embrace e-commerce wholeheartedly as it will enhance their economic and social development, lead to gains in commercial productivity, lower the operating costs of businesses, and enhance the level of domestic integration with international markets. This instantaneous, digital age, characterized by instant gratification, is an opportunity for development in underdeveloped countries that points towards a positive impact on trade, investment, business transactions, and market penetration (Wresch and Fraser 2011). Globalization and the blurring of borders has been made possible with the arrival of technology and digitization. E-commerce, a product of technological advancements, bridges the divide between developed and developing nations, enabling growth and prosperity in economies world over.  Private and public sectors joining hands and working together will ensure that developing countries become strong contenders in the global e-commerce sector.

Pakistan's geographical location has immense potential to become a strong Hub for a flow through traffic between Asia and Europe. Our Geographical connectivity to China on one side and Europe via Iran and Turkey on other side makes us a logical trade corridor and logistics Hub. Lack of co-ordination between different governmental agencies, Required Road Infrastructure connectivity and the law and order situation has affected the development and growth of cross-border success. Pakistan harbors exceptional potential and public sector support in improving cross-border logistics will greatly improve our capability to export in large quantities and in turn enable us to compete vigorously in international markets.

1. IMPROVEMENT IN INFRASTRUCTURE

In Pakistan, the average truck speed is 30-40 km, while it is 60-80 km in China. This sums up the plight of our roads and infrastructure. As infrastructure improves, it would reflect on the overall efficiency of logistics companies and would make the movement of cargo smoother, faster and more effective, which should surely move the economy towards a better direction. The trucking sector suffers from a weak regulatory environment resulting in overloading, poor safety and low quality of service. There are also concerns of environmental pollution because of old technology, as majority of the fleet comprises of transport units which are over 30 years old. The overloading practices create unhealthy competition and are also responsible in damaging the road infrastructure in the country. The working conditions of people in this sector are also under criticism due to long hours with continuous driving without proper brake and lack of availability of relaxation facilities on major road networks.

Railways is considered as the most efficient and cost effective mode for the transportation of goods. In Pakistan, the share is decreasing and more and more reliance is being done on road transport which is increasing congestion in the road network. According to the study of the World Bank, a single freight train can replace one hundred trucks at a time from the road. The railways are also the most cost-effective mode of logistics where one gallon of fuel can transport one ton of goods to 250 miles compared to 90 miles by road. In 1947, Pakistan inherited 8200 kilometers of railway network, however, the subsequent government in Pakistan has neglected maintenance and upgrading of railway network and more emphasis has been given by policymakers on road network. Consequently, railways lost capacity to cater to the increasing demand of freight cargo. Pakistan’s performance in the global logistics index has been below the global average which has impacted the competitiveness of its companies’ global trade and prevented its integration with global value chains. A sufficient effort made to improve the infrastructure in Pakistan will no doubt lend a hand in the overall growth in the economy as there will be greater prospects for business and trade.

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# RECOMMENDATIONS

The development of E-Commerce Logistics remains largely on the logistics companies. The government can push the companies to adopt the best practices and help in the technological advancement, better infrastructure and better cross-border logistics laws. The e-commerce companies, the financial companies, and the logistics companies need to be open to sharing information. Only then can the government regulate where necessary, with the end goal being a more efficient, productive, and reliable environment for all parties involved. This is especially true for **logistics and financial companies** - these are the players that help develop customer trust in the industry.

Pakistan dropped to 68th from 72nd position on Logistics Performance Index in 2015. The performance index compares logistics profiles of 160 countries, rating them on a scale of 1 (worst) to 5 (best). The ratings are based on 6,000 individual country assessments by nearly 1,000 international freight forwarders, who rate the eight foreign countries their company serves most frequently. Pakistan has been placed in the group of partial performer countries, which include nations with the logistics constraints most often seen in low- and middle-income economies.



GREY MARKET PRODUCTS
The government needs to be more aware of the influx of grey market products and disconnect the available loophole for such sellers to import cheap products through a tax evasion pathway. Strict laws need to be in place to prevent such trade and discourage the sale of such products. Greater regulation and screening has to be in effect to prevent this from resulting in an economic crisis.

ENTRY BARRIER FOR LOGISTICS
An effective regulatory mechanism needs to be in place to limit entry into trade- barriers to entry should be in place.

CROSS-BORDER LOGISTICS

Efficient cross-border logistics will help increase Pakistan’s exports to exponential numbers. The government needs to ensure that import and export policies are revised and made to benefit Pakistani trade and through that boost our economy.

IMPROVEMENT IN INFRASTRUCTURE

Improvement in infrastructure will enable trade to take place in a much smoother, effective and faster pace, which will in turn greatly benefit the Pakistani economy. Therefore the government needs to pay heed to such improvements in infrastructure, be it road, rail, air or sea, as it is our very backbone to success.

The government plays a vital role in the success and development of e-commerce, particularly in the legislative framework. The development of a supportive regulatory and legal environment can act as a catalyst to e-commerce growth and adoption.