Working paper

International Growth Centre

Frozen Food Products Marketing and Distribution Challenges in a Developing Country

Shehla Riza Arifeen

November 2011

When citing this paper, please use the title and the following reference number:
F-37015-PAK-1

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Frozen Food Products

Marketing and Distribution Challenges in a Developing Country

Case Study: Pakistan

Author

Shehla Riza Arifeen

Associate Professor, Lahore School of Economics.

Prepared for International Growth Center

November 25, 2011.

Abstract/Synopsis

The aim of this case study is to understand the challenges the frozen food industry in a developing country like Pakistan has faced in the past, and is facing currently. The study reveals that instead of focusing limited resources on developing core competencies by enhancing R&D and introducing new products, firms in the frozen food industry have spent resources on developing the transportation system, distribution system and the capacity of the retailers. Each of these producers has already invested heavily in setting up an infrastructure, both at retail and distribution level, which in a developed country would not have been required of them. The future shows much potential as third party companies tentatively step into the domain of cold chain warehousing and distribution, taking the burden of this activity away from the manufacturers and the retail segment moves towards a change in methods of doing business as retail outlets copy the modern trade and invest in their own infrastructure (freezers). These two developments are leaving the manufactures to focus on their core business: manufacturing. However, manufacturing is now at a crisis, as unfortunately the government has been unable to provide any solution to the electricity emergency in the country. Should these companies now divert resources to producing their own electricity?

Frozen Food Products

Marketing and Distribution Challenges in a Developing Country

Case Study: Pakistan

"Pakistan is enjoying a consumer boom. Housewives are interested in ready made products because they do not want to cook. It takes a lot of time and effort to prepare Shami Kababs[1] *and they have to be made in a minimum quantity at home. You cannot make six kababs but you may need only six kababs at a serving. So it makes sense to buy labor intensive ready to fry/cook food. Moreover, there are some products that you cannot even make at home, for example coal grilled items like Seekh Kababs and Chicken Tikka. All these foods are needed for entertaining guests at home, in line with the local culture. Pakistani consumers are moving towards convenience, availability, hygiene and cost reduction. It allows people to tailor their lifestyles according to the availability of the products. Frozen foods will be a big part of our diet in future.*[2]*"*

Pakistan has seen a tremendous growth in frozen foods[3] spearheaded by the development of the ice-cream segment. The frozen food ice cream segments' market size vastly expanded as a result of two entrants; a multinational company (MNC), *Unilever* in 1998, and a large local company, *Engro Foods* in 2009, both having changed the market dynamics. Almost all the local ice cream producers (ICP's) present in 1985, maintain their market position today, with the pie having grown due to the heavy advertising spend of Unilever and Engro, creating an increased awareness and demand for the category. The dynamics in the ice-cream segment later propelled the overall growth of the frozen food industry by affecting the dynamics of the non ice-cream[4] segment. During this period, many small unbranded (out of the home/kitchen run) firms entered and left the non-ice cream segment of the frozen food industry. Their product lines included samosa[5], rolls and hotdogs. These manufacturers used public transit (buses, taxis, rickshaws) to transport their products in styrofoam boxes filled with ice. Most large and small retailers stocked their products in the freezers owned by the few branded goods firms (almost always ice-cream). The sales teams of these branded goods firms used to protest, resulting in unbranded goods being removed temporarily to another branded goods freezer and then returning after a few days, when that company's sales team would arrive, to another branded freezer.

Now however, there are a number of frozen processed food producers and each processed food producer has its' own branded freezer, sales force team, and at times, its' own outlet. Each of these manufactures has either its' own cold chain system or rents facilities from a third party. With the changing lifestyle patterns of the educated class of Pakistanis and the

[1] A special meat Patti. Meat is cooked with lentils, then ground into a fine paste and made into small cakes, fried and served as a savoury snack.
[2] Interview taken of Mr. Mansoor Arifeen, CEO, Icepac/Kold Karrier (Pvt) Ltd, on 19 September, 2011 in Lahore.
[3] For the purpose of this case study, *Frozen Food* includes ice-cream and non ice-cream segment
[4] This includes all products in frozen form, uncooked and ready to cook, processed, using meat or vegetables/fruits or wheat as the primary raw material.
[5] Triangle shaped flour patties filled with savoury mixture of meat or vegetables.

arrival of international wholesale chains (Modern Trade; *Metro* and *Makro*) and hypermarkets (*Hyperstar*) the market for pre-cooked and processed foods has expanded and has further potential to expand rapidly.

The development of the frozen food industry impacts farmers and eventually governments through value addition, reduction in post-harvest losses and price stability. The farmer directly benefits, as he gets a better price, whether he owns a cow/buffalo or grows wheat and coarse grains used in poultry feeds, or produces fruits and vegetables. Pakistan has ample sources of raw material. It is the 4th largest producer of milk[6] and is one of the top ten producers of poultry in the world[7]. 40% of the horticulture produce is wasted in post-harvest losses[8]. Agriculture and agro-based products account for about three-fourth of the total foreign earnings from export.[9] There is a tremendous export potential for agricultural produce. The global market of frozen vegetables alone is more than $3 billion with Japan and USA as the biggest importers of frozen vegetables while Malaysia imports $23 million worth of frozen vegetables in 2004.

According to Datamonitor[10], the market for frozen food non ice-cream segment in Pakistan increased at a compounded annual growth rate of 6.6% between 2004 and 2009. The frozen meat products category accounted for a share of 75.8%. A report by Euromonitor[11] puts the value of frozen processed food[12] in retail volume terms to reach sales of PK Rs 755 million in 2010. Growth in this segment is reflected in the marketing budgets of the branded ready-to-cook/ready-to-eat players who have invested heavily in advertising; for instance *Menu's* launch budget in the 2009 was Rs. 20 million. However, the rising cost of production in terms of both raw material and energy are major concerns for producers with the larger challenge these days, being inadequate supply of electricity in the country. According to Mr. Imran Ejaz, CEO Season Foods *(Menu Brand),* one of the biggest challenges these days, is inadequate supply of electricity in the country which is quickly turning into a crisis.

A brief overview of the Global Frozen Food industry[13]

A report by Global Business Insights (2008)[14], states that the compound annual growth rate of the global frozen food market in the period 2003-2007 was 3.4% (in value) and 2.7 % (in volume). Sales of frozen pizza and ready meals accounted for 41.1% of the global frozen food market's value and sales of frozen fish and seafood generated 16.5% of the market's revenues in the same period. Asia-Pacific was the largest frozen food market in 2007, accounting for 34.3% of the global market's value, closely followed by Europe at 34.2%. Supermarkets and hypermarkets formed the leading distribution channel for frozen food in the global market, accounting for 70.2% of the market's value. Unilever was the leading company in the global

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[6] http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Business/07-Mar-2011/Pakistan-4th-largest-milk-producing-country
[7] http://www.thepoultrysite.com/articles/2137/kns-leads-industry-growth-in-pakistan
[8] http://www.unapcaem.org/Activities%20Files/A23/Pakistan-RoK.pdf
[9] http://www.unapcaem.org/Activities%20Files/A08/CRChina-03.pdf
[10] http://www.datamonitor.com/store/Product/frozen_food_global_industry_guide_2010?productid=B5BA0549-7E71-4C81-818C-832D78F5FED7
[11] http://www.portal.euromonitor.com/Portal/Pages/Search/SearchResultsList.aspx
[12] This value only includes frozen processed poultry and red meat.
[13] The definition of frozen food does NOT include ice-cream. Please see Exhibit 1 for North American Industry Classification.
[14] http://www.globalbusinessinsights.com/content/ohec0101m.pdf

frozen food market, holding a 4% market share by value while Nestlé held 3.5% share of the market's value with private label sales at 8.9% of the global frozen food market by value.

According to Datamonitor[15], 2011, the global frozen food market, grew by 3.9% in 2009 to reach a value of $165,414.3 million and grew by 3.5% in 2010 to reach a value of $192,233.2 million. Frozen meat products sales were equivalent to 41.3% of the market's overall value. Sales of frozen ready meals and pizza generated revenues equating to 31.1% of the value. The same report predicts that in 2015, the global frozen food market will have a value of $228,325 million, an increase of 18.8% since 2010. In terms of volume the global food market will be 43,487.2 million kg, an increase of 14.2% since 2010. The report has segmented the global frozen food market into six segments (Exhibit 2). Europe accounts for 37.6% of the market share while at second position is the Asia-Pacific region with 31.5% of the market share. The report places Brasil Foods S.A as the leading player at 5% market share, and Nestle S.A at 2.8% and H.J. Heinz at 1.9%. Both reports demonstrate that the global food market is highly fragmented, with many players. Large retailers, mainly supermarkets have bargaining power as they account for 68.3% of total market value. Supplier power (farmers/growers/plastic packaging producers) is moderate. Threat of new entrants is moderate due to high capital requirements. In some countries, well established brands have sold their businesses[16] although degree of rivalry is assessed as strong. Substitutes are fresh produce as well as canned products and their threat is considered moderate.

Evolution of the Frozen Foods Industry in Pakistan:

Market Definition

The frozen food industry in Pakistan can be classified into four categories/segments based on the usage of raw material:

- Milk/water based products; ice cream/desserts, henceforth referred to as ice-cream.
- Meat based products; raw/ processed/ cooked, value added, chicken/beef/mutton/fish products.
- Fruits and vegetable based products; raw and processed, carrots, peas, spinach etc.
- Wheat based products; Parathas[17], samosas etc.

For the purpose of this study, we have used the following classification:

- Frozen foods: Ice cream segment
- Frozen foods: Non Ice cream segment(**excluding sea food**)

A list of the current major players in each category is given below:

[15] http://www.datamonitor.com/store/Product/frozen_food_global_industry_guide_2010?productid=B5BA0549-7E71-4C81-818C-832D78F5FED7

[16] Unilever sold its Frozen Food operations in some European counties and in U.K. Page 18, DataMonitor 2010.

[17] A flat bread, similar to a tortilla, having layers of butter or *ghee* in the dough. It is fried on a girdle in order to eat.

BRANDED GOODS PRODUCED BY CATEGORY			
Ice-Cream Segment	*Non-Ice cream Segment*		
Milk Based	**Meat Based (Chicken, beef, Mutton excluding fish)**	**Fruits & Vegetable based**	**Wheat Based (Mainly Parathas)**
Walls by Unilever	*K&N's* by K and N Foods[18], Karachi.	*Icepac* by Icepac Ltd	*Mon Salwa* by QuickFoods, Karachi.
Omore by Engro Foods	*Menu* by Seasons Foods[19], Lahore.	*Fine Foods* by Metro	*Menu* by Seasons Foods, Lahore.
Igloo by Pakistan Dairy Products(Pvt) Ltd	*Mon Salwa*[20] by Quick Foods, Karachi.	*Aro* by Makro	*Dawn Foods* by Golden Harvests
Hico by Pakistan Fruit Juice Company (Pvt) Ltd	*Dawn Foods*-by Golden Harvests		*Super Fresh*
Yummy by Yummy Milk Products (Pvt) Ltd	*PK by* P.K. Meat and Food Company ltd		*Foodmart*

Country Facts

Pakistan is a vast country covering a total area of 803,940 square kilometers, slightly greater than France and the United Kingdom put together.[21] It is divided into four provinces: Punjab, Sindh, Baluchistan and Khyber Pakhtoonkhwa (or North West Frontier Province, NWFP).[22] The major cities are Islamabad, Karachi, Lahore, Peshawar, Quetta, Rawalpindi, Hyderabad, Faisalabad and Multan (Map, Exhibit 3). Each province is further divided into districts. There are 34 districts in Punjab, 16 in Sindh, 26 in Baluchistan and 24 in NWFP. Estimated population is 172.80 million (2008 Census). 36% of the population lives in urban areas[23] with a per capita income of USD 1,254[24]. The national currency is the Pakistani rupee, currently valued at Rs. 88 to USD 1. There has been an increase in disposable incomes within the growing urban middle class. Pakistan has the world's sixth largest population, higher than Russia and lower than Brazil. Pakistan's population is projected to surpass Brazil's by the year 2020. It was estimated that in 2002, about 6.8 million of the 50 million people living in urban Pakistan belonged to the upper and upper–middle class, representing a grocery market worth USD 1.7 billion. This segment was projected to grow to 17 million people by the year 2010 and was

[18] The range includes both raw frozen chicken and ready to eat **chicken** meals.
[19] The range includes both raw frozen chicken and ready to eat meals in **all meat** forms.
[20] The range includes ready to eat meals in **all meat** forms.
[21] http://www.tourism.gov.pk/explore_pakistan.html (under the section: Geography).
[22] Punjab 205,344; Sindh 140,914; Northwest Frontier Province 74,521; Baluchistan 347,190; Federally Administered Tribal Areas 27,220 and Islamabad (Capital) 906 sq. km.]
[23] https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html
[24] Economic Survey of Pakistan, 2010-11

expected to be the first to switch to modern retail stores[25]. Most businesses divide the country into geographic regions for ease of sales force and distribution management. For ambient (normal temperature) products there are a large number of third parties available for both transportation and distribution.

Retailing

The overall food retail and wholesale business accounts for 17% of Pakistan's GDP (Pakistan Economic Survey 2009/10). Pakistan's retail and wholesale market is estimated at over USD 42 billion a year[26]. The sector has been marked by extreme fragmentation, with a large number of small stores serving a population approaching 180 million. *"Pakistan has about 200,000 stores in the urban markets. These account for 90% of the trade".*[27] Pakistan's consumers spend an estimated 42% of their income on food and beverages. Consumption of imported, processed and ready-to-eat foods is greater in urban areas because of higher disposable incomes. According to an analysis conducted by Standard Chartered Bank[28], the country has around 30 million people living in households with an income over USD 10,000 a year. Until the late 1960s, large-scale retailing (departmental stores, super markets) was unheard of. *Kiryana stores* or door-to-door selling by street vendors was the modus operandi of the time. During this period, government retail stores (Utility Stores and army owned Canteen Stores Department (CSD)) existed, but not for the general population. Between 1970 and 1980, general consumers (non-army/ non-government personnel) also started purchasing goods at these stores, in addition to other departmental stores/supermarkets. These were more like 'Superettes' or mini super markets with limited product lines in food and non-food items.

Retailing in Pakistan is mainly still confined to 'mom and pop' stores, *kiryana stores*, which are run by smaller, less educated entrepreneurs. The *kiryana store* is very small in size and carries very limited product lines/brands. It is usually located in densely populated urban areas. Each locality may have a number of *kiryana stores*. There is usually enough space for only one freezer. *Kiryana Stores* have an estimated annual turnover of USD 3 billion. The overall share of imported food products in *Kiryana stores* is about 1%. *Kiryana stores* are located in all parts of the country with an average floor area of 200 to 500 square feet[29].The mini super markets, usually called *general stores*, serve a slightly more affluent clientele and hold a larger variety of product lines and Sku's[30]. These may have space for one or two freezers. The *departmental stores* are larger in space and the grocery section may have room for 5 to 10 freezers. To date, very few of these stores have self-owned freezers. 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 USD 200 million. The overall share of imported food in these 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.

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[25] "Consolidation in Pakistan's Retail Sector" by Jawaid Abdul Ghani, Asian Journal of Management Cases, September 2005 2: 137-161, Sage Publications. doi: 10.1177/097282010500200203
[26] Small and Medium Enterprises Development Authority
[27] Interview with Mr. Salman Goheer, Head of Supply Chain, Dairy & Ice-cream business, Engro Foods Limited, taken on 7th September, 2011 in Karachi.
[28] http://tribune.com.pk/story/209326/retail-consolidation-makro-and-metro-in-merger-talks/
[29] http://static.globaltrade.net/files/pdf/20110711215902547.pdf
[30] Stock keeping Units. Different package sizes.

Type of Store	*Managed by*	*Product line*	*Clientele*	*Industry turnover in US$*	*% of food related retail store*	*Share of Imported foods in the store*	*Floor Space*	*Freezer space*
Kiryana	*Less educated entrepreneurs*	*Very Limited*	*Mainly poor*	*3 billion*	*95%*	*1%*	*200-500 square feet*	*One*
General Stores	*Less educated entrepreneurs*	*Limited Variety*	*Slightly more affluent*	*200 million*	*3%*	*6%*	*500-3000 square feet*	*One or two*
Departmental Stores	*High school/college educated*	*Considerable variety*	*Very affluent*				*3000-6000 square feet*	*Five to ten freezers*
Modern Trade (Metro/Makro Hyperstar)	*Professionals*	*Very large variety*	*Slightly/Very affluent*	*176 million*	*2%*	*5.6%*	*25,000-100,000 square feet*	

Over the last decade, there has been a decrease in traditional *kiryana stores*, and an increase in general stores as well as the emergence of new retail models such as superstores, malls, and retail chains in urban Pakistan. Convenience stores located within Petrol/Gas stations are also providing an additional option for consumers and their popularity amongst Pakistani consumers is rising. Even after the emergence of 'modern trade' (outlets such as *Makro*, *Metro* and *Hyperstar),* the traditional food retail sector (small neighborhood stores, street vendors, "mom & pop" stores, etc.) comprise about 95% of all food related retail stores in Pakistan, while the modern retail sector (hypermarkets, supermarkets, discount stores, etc.) make up the remaining 5%[31]. Makro-Habib (MHPL) is a wholesaler of food and non-food products with an established network of five stores offering 20,000 to 25,000 SKUs, products to professional customers, as well as end users. It opened its first store in Manghopir SITE Centre, Karachi, on 22 November 2006 and its fifth store in Model Town, Lahore on 23rd March 2009.

METRO Cash & Carry (MCCP) announced its operations in Pakistan in January 2006 and launched its first wholesale centre in Lahore in October 2007. METRO Cash & Carry

[31] http://static.globaltrade.net/files/pdf/20110711215902547.pdf

Pakistan is now successfully operating five wholesale centers (two in Lahore, one in Karachi, one in Faisalabad and one in Islamabad). *Metro* and *Makro* have announced a merger. The agreement between them stipulates that *Thal Limited*, the parent company of MHPL will own a majority stake in the company (comprising substantially all the real estate of both MHPL and MCCP while MCCP will hold a major part of the operational business of MHPL and MCCP[32]).

Hyperstar is owned by Majid Al Futtaim Hypermarkets, based in Middle East since 1995. They opened one store in Lahore in 2009 and another in Karachi in November 2011. *Metro*, *Makro*, and Hyperstar 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 number of these stores is expected to increase over the coming years as modern distribution channels expand.

The arrival of modern trade has not had a major impact on the sales of Ice-cream. Mr. Adeel Rasheed of Walls feels that it is simply because of the small scale of these retail chains. There are only twelve stores in the country whereas their numbers are far larger in developed countries. Even though per store sales are high, the total sales of ice-cream from these stores are 0.1% of the total annual sales of Unilever/Walls. Mr. Ikram of Hico also feels that the advent of modern trade has not had a significant impact on sales as volume purchasers (hotels/restaurants) buy directly from the ICP so that the temperature is maintained and quality is not affected due to multiple or careless handling. Hico's sales share is around 90% to retailers and 10% to hotels and restaurants. Mr. Umer Lodhi (Metro), Mr. Kamran Farooq (Metro) and Mr. Zain Sohail (Makro) all classified ice-cream as a dead category in their stores. Household consumers prefer to buy ice cream close to their homes and institutional buyers buy directly from ICP's.

The arrival of modern trade, however, has given a tremendous boost to the Frozen Food *non-ice cream* category. According to Mr. Kamran Farooq,[33] Manager Frozen foods Category, the import and sales of French Fries alone to Pakistan by McCain values Rs 4 million or 120 containers per annum. Of these 25 containers are imported by Metro, 5 by Mon salwa and the rest by McDonalds/KFC directly. Both Metro and Makro are importing frozen vegetables from China and rebranding them. Metro sells the frozen vegetables under the brand name *Fine Food* and Makro sells parathas, raw chicken, pizza, samosas, etc. under the brand name *Wholesome*. Both companies are toying with the idea of importing and rebranding frozen vegetables as well. Previously, their frozen vegetable brand was '*Aro*'. Metro's Fine Food range includes parathas, raw and marinated chicken, pizza, samosas etc.

All frozen foods are delivered to Makro and Metro through direct distribution by manufacturers in cold chain vehicles. Even the kitchen run companies have to hire third party logistics companies to deliver the products. Modern trade has given a tremendous boost to the sales of small kitchen brands. They have a deliberate policy to encourage them. "*These brands are much cheaper than bigger brand names. Therefore our margins are much higher. We also get a chance to test markets with these brands and then we produce our own private label. For example in a day during Ramadan, sales of Parathas in our Karachi store is around 3000-4000*

[32] http://www.metrogroup.de/internet/site/metrogroup/node/204598/Len/index.html

[33] Interview of Mr. Kamran Farooq, Head of Fresh Food, Metro Cash & Carry Pakistan (Pvt) Ltd, taken on 25 August 2011 at Lahore

packs (20 pieces in a pack) a day. Both Metro and Makro now have their own brand of parathas."[34] The market for Paratha is around Rs 150 million in Pakistan[34]. There are eight paratha brands being sold at a Metro store in Lahore. According to Mr. Farooq, sales of chicken based products (Tempura, Nuggets etc) are Rs 300 million a year. They are mostly for home use and have shown a 30% growth. Frozen food sale at Metro is about Rs 400 million a year with 40% ready to cook, 20% French fries, 4% Ice cream and 5% frozen vegetables. Frozen vegetables are a small category, Rs 12-15 million, with Metro sales at Rs 3 million per year.

Ice cream Segment

Current market size and main players

The size of the current market is around Rs 15 billion[35], or 73 million liters[36]. The current main players with market shares, and the year in which the current owners took over the business, are as follows:

Year of current owners	Company Name	Brand Name and market share nationally	Geographic Coverage	Number of Freezers in the market
1976	Pakistan Fruit Juice Company (Pvt) Ltd:	*Hico Ice cream10%*	Regional	8,000
1982	Pakistan Dairy Products (Pvt) Ltd:	*Igloo Ice Cream 10%*	Regional	8,500
1991	Yummy Milk Products (Pvt) Ltd:	*Yummy Ice cream 4%*	Regional	3,000
1995	Unilever.	*Walls Ice cream* 60%	National	50,000
2009	Engro Foods:	*Omore Ice Cream* 16%	National	20,000

Historical Overview

The frozen food industry in Pakistan, prior to 1983, was primarily restricted to three local ICP brands. The main national player at that time was Polka (1970), while Igloo (1974) and Hico (1952) were regional players. There were also numerous small unbranded ice-cream manufactures (unorganized sector) who sold hand held[37] ice-cream on trikes[38] or carts (Exhibit

[34] Mr. Zain Sohail, Category Manager Frozen Foods, Makro Pakistan, taken in Lahore on 27 August, 2011

[35] Interview of Mr. Adeel Rasheed, Marketing Manager-Walls. Interview taken on 7 September, 2011 in Karachi. This figure seems authentic as a euromonitor report puts this figure at Rs 14.5 billion. http://www.portal.euromonitor.com/Portal/Pages/Search/SearchResultsList.aspx

[36] Interview with Mr. Salman Goheer, Head of Supply Chain, Dairy & Ice-cream business, Engro Foods Limited, taken on 7th September, 2011 in Karachi.

[37] Cone ice-cream, stick ice-cream, lollies and in small cups. Also called impulse segment.

4) and a few ice-cream shops and hotels/restaurants where freshly made ice-cream was available. Polka was set up by Mr. Azhar Anasari who had previously worked for Igloo ice-cream(Exhibit 6) of Chittagong. Igloo ice-cream (East Pakistan) was owned by Mr. K.Rehman of Karachi. Igloo ice-cream was considered a high quality product. Mr. Azhar Ansari, who had plenty of experience from working at Igloo, and his brother Zakir, decided to set up an ice-cream plant in West Pakistan. Using bank loans, they set up a plant each in Lahore and Karachi. [39]

Polka, being a national brand, sold and distributed its products throughout the country, whereas Igloo, set up by Mr. K. Rehman in Karachi after the Bangladesh war in 1974, mainly focused on the Sindh province and Karachi area. Polka set a trend in the market, giving every retailer who sold its brand a freezer, against security, plus a commission for stocking and selling their products. The ICP-retailer distribution method involved trucks with special boxes to keep the ice-cream cold as well as self-financed imported cold chain trucks to physically carry goods to retailers. The retailers were given freezers by ICP's against a security deposit, as well as margins that would cover electricity costs. Advertising was carried out on the radio and occasionally, television channels. The raw material used by these companies to manufacture ice-cream was mainly powdered milk. Plant and machinery, refrigerated trucks and freezers were all imported, as the country did not have the indigenous capacity to produce cold rooms other than those for storage of potatoes. Disposable packaging was not used as there was a 300 % import duty on disposable plastic packaging machinery. All ice-cream was sold in paper packaging. At the time, permission had to be taken from the Government of Pakistan (GOP) to set up a plant for any industry. According to Mr. Aamer Hameed[40], in the 1970's, 23 licenses were issued by GOP for the setting up of milk processing units. The import of machinery for these processing units was exempted from sales tax and import duty. This was the first hurdle that all businesses had to clear before any banks would agree to grant loans. Moreover, Mr. Hameed mentioned that only two units were commercially successful; one by the Service group (Prime Dairy) and the other by the Packages group (Milkpak Ltd).

Service Group of Industries, was formed by a group of three friends before 1947. Initially, their business began with handbags and other sports goods in 1941. Later, it diversified into shoes, tires and textiles and was divided in 1982, with the Hameed family taking over the textile side and the other two friends taking over the shoe and tires business. At the behest of one of the owner's sons, Mr. Mumtaz Hameed, the family decided to test the market by setting up a pilot fruit yogurt project in 1976 using 40 kg fresh milk. In 1982, Prime Dairies Ltd Production Plant was setup. A fresh milk collection system was set up in the plant which utilized 30,000 to 40,000 liters of milk per day during summer and 12,000-15000 liters per day in winter. The plant was mainly used for production of plain yogurt as demand for fruit yogurt was miniscule. The people of Lahore were used to eating curd *"Dahi"*, which was either homemade or from milk shops. At the time, there was no concept of yogurt packaged in a disposable box that could be purchased from a grocery store. It took a good 10-15 years to establish the market and convince retailers to keep the product. Prime Dairies was the first company in Pakistan to introduce the concept of disposable plastic packaging, which would be used later in ice-cream packaging as well.

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[38] These are small ice-boxes attached to the front of the cycle, ridden by a sales person: similar to a cycle rickshaw.
[39] Mr. Tanveer Ahmad former G.M *BeBeJan Chicken*
[40] Mr. Aamer Hameed is currently Chief Executive of Prime Service Group.

Originally, the plant was designed to produce fruit yogurt, the demand for which was low. The input of fruit yogurt, which was plain yogurt, attracted more customers and hence became the main product. Since Prime was able to produce all other dairy products required for ice cream, the management decided to set up an ice cream plant in 1984 and launch an ice-cream made from fresh milk, butter and cream in disposable containers under the brand name of *Rocco* in 1984. The competitors in the northern region of Pakistan, where *Rocco* was launched, were *Polka*, *Yummy*[41], *Mirella* (Islamabad) and *Hico* (mainly sold on trikes). All the competitors used powdered milk and oil as the main ingredients whereas *Rocco* used fresh milk and cream, which became their unique selling point. Later, in 1999-2000, they set up a powdered milk plant (capacity of 150,000 liters). They established a network of freezers in 1,000-1,200 outlets from Khyber to Rahimyar Khan. *Rocco* used the same model as *Polka* and *Igloo* used for distribution to retailers; namely self-financed, -20 degree Celsius trucks, to physically carry goods to retailers. The retailers were provided with freezers by *Rocco* as well as margins that would cover electricity costs. Each freezer was given to the grocery store on six month to one year installments. Besides this, each outlet was given a commission for holding stock. The company also established a strong sales force department.

Initially, Prime Dairies Ltd had imported 12 cold containers from Italy for attaching to trucks to be used in distribution of ice-cream. As demand for ice-cream grew, Mr. Amer Hameed concluded that it would be prudent to develop a cold chain capability in Pakistan. He requested two engineers, Mr. Lawrence Harrison and Mr. Tariq Jaffri, to produce tractor parts that would facilitate the manufacturing of cold containers similar to those imported from Italy. They used reverse engineering to produce refrigerated units, cold rooms and containers with a company called *Kold Kraft*. In 1986-87, Rocco made an attempt to penetrate into the Karachi market by setting up freezers in 200-300 outlets. Unlike Polka, which had two plants, Rocco had to send ice-cream from Lahore to Karachi. They had a cold room in Karachi and would send 2-4 trucks per week there for storage in cold rooms for onward distribution to retail outlets. All vehicles and cold rooms were company owned and no distributor was involved. They had to abandon the Karachi Market eventually due to the riots/ disturbance, in 1987, in interior Sindh province. Due to the poor law and order situation in Sindh, door-to-door time increased from two days to multiple weeks. The distribution system suffered since on-time delivery of product could not be guaranteed. Instead, *Rocco* focused on the northern region.

In the early 1990's, *Hico* (Exhibit 5) changed its sales points from trikes to grocery stores. In 1993, Lever Brothers (now Unilever) formulated a team to search for new business potential in Pakistan, resulting in the establishment of Walls ice cream factory within eleven months. Lever Brothers launched twelve *Walls* products in February 1995. *Walls* (Exhibit 8) were first launched in Lahore in 1995 and later in the year in Karachi and Islamabad. The market size for branded ice-cream was small because of the heavy investment in infrastructure. In 1995, the market size was around Rs. 2-3 billion.[42] At the time, Polka had about 5000 freezers[43] and was operating from Peshawar to Karachi. *"In early 1998, Nestle showed an interest in acquiring Polka, which had at that time, a distribution network that covered outlets from Karachi to Khyber and a strong brand name. In May 1998, Unilever acquired Polka, retaining the brand*

[41] set up by Mr. Zahid Hamid in 1981, manufacturing till 1983, remained shut and resold in 1990 to current owner Mr. Ejaz Ahmad
[42] Mr. Adeel Rasheed, Marketing Manager-Walls. Interview taken on 7 September, 2011 in Karachi.
[43] Interview of Mr. Ali Salman, Sales Director, Ice-cream taken on 30 August, 2011, Lahore.

name and the large distribution set up but scrapping the facilities and building new ones. They improved the quality, packaging, and advertising and used "trikes" to penetrate the markets with uniform clad salespersons and the signature Walls jingle blaring from the speakers on the trikes. They also pruned the Polka product line, keeping only the high turnover Sku's and adding new varieties. The market share of Walls after the acquisition of Polka was 70% between 1996 and 2006 with other players at 30%."[44]

With the rising popularity of Walls, the market dynamics changed and a number of regional players found it difficult to compete with a large MNC with such large marketing budgets and bargaining power at retail outlets. These local ICP's exploited the potential in small towns where the market existed but where Walls was unavailable. According to Mr. Aamer Hameed, *Rocco,* which at the time had seven trucks in Lahore, had to cut down to three trucks. However, sales in small towns like Bhawalpur increased. During this time, *Yummy* (Exhibit 7) launched a court case against Walls under the Pure Foods Law, which rendered their product as a *frozen dessert* and not an ice-cream, since it did not contain 3.5% butter fat, but vegetable oils instead. Rocco continued to sell ice-cream made from fresh milk until 2009, when the plant was closed due to family issues. "*The model used for sales is pre-sales whereby an order booker takes orders and delivery/payment is done later. 95% sales are through this model and the rest is spot selling"*[45].

The role of an MNC

The entrance of an MNC in 1995 changed the way the game was played in the local market. Unilever/ Walls changed the norms of retailing by handing out freezers for free. Later on, Unilever/ Walls developed a tracking system to monitor where the freezers were physically moved. Unilever/ Walls has, at present, 50,000 freezers (Cost of each freezer is Rs. 40,000) in the market. Their sales team is responsible for monitoring and maintaining those freezers. The retailers' job is to purchase stock, pay the electricity bills and keep the freezers clean. Unilever/Walls has a total of 30,000 retail outlets in the country. The identification of the retail outlet is the job of Unilever/ Walls sales force. They have an in-house criteria based on which they pick a retail outlet.

Ice cream has to be sold in specially designed freezers, unlike normal household freezers, that maintain a temperature of -18 Centigrade to -26 Centigrade. These freezers are more expensive than the ordinary freezers as they have eutectic plates. Eutectic plates, also known as cold plates, have been used in the transport industry for many years. They are charged overnight with an electric powered refrigeration compressor while a truck is parked. The next day, the truck is un-plugged, and the shipment is kept cold all day with the re-usable eutectic solution inside the plate. The freezers use the same concept/technology and are made by a local company, PEL, with technology provided by Unilever/ Walls. Of the total strength of approximately 50, 000 freezers, Unilever/Walls has invested in 30,000 eutectic freezers in the country. These are not negatively affected by cuts in electricity. The 20,000 freezers, currently non eutectic, are

[44] Interview of Mr. Aamer Hameed, Chief Executive of Prime Service Group taken on 20 September, 2011, in Lahore.
[45] Interview of Mr. Eiraj Saleh Daud, General Sales Manager, Ice-cream business taken on 26th August, 2011

being converted to eutectic over the next two years[46]. Some of the shops have two freezers and Unilever owns all freezers supplied to Sales Point Depots (SPD). This heavy investment required by ice-cream manufactures in infra-structure development at retail levels is the main reason that the market has not developed to its full capacity.

Ice-cream has a very complex distribution system because of the cold chain. It has to be handled in a way that temperature remains unchanged from the factory to the table of the consumer. Unilever/ Walls has its own managed transportation system (vehicles owned by third parties) to deliver ice-cream to the distributors. Haulage from factory to a warehouse in Karachi is carried out by third parties who are compensated per pallet. There are a total of 23 warehouses; one owned by Unilever/ Walls, one each in Lahore and Karachi (central warehouses owned by third party but stock owned by Unilever/ Walls) and the other 20 are distributor warehouses. The compensation given to third party covers the round trip from Karachi to Lahore. Generally, these 40 ft containers travel empty, as there is an issue of smell absorption in the panels of the containers of other food products carried. At times, another product of Unilever/ Walls, Blue Band margarine, is transported to the Northern areas. Unilever/ Walls also has an arrangement with Cadburys' to deliver their chocolate up North as well.

In Karachi, a central warehouse (owned by a third Party) holds stock for Karachi, Hyderabad and other cities of the Sindh province. Over there, a third party, who are warehousing experts, manage all inventories etc. The distributors in Karachi have no warehouses or vans. The distributor is responsible for taking orders from retail outlets. This order is delivered to the central warehouse where vans are loaded at night as per the deliveries. In the morning, goods are delivered to the retail outlets. The advantage is that Unilever/ Walls can get a distributor who is good at the job of distribution and does not need to be hassled with a high investment in infra-structure (Cost in Karachi is higher) and ultimately is cheaper for the company.

Unilever/Walls has split the country into four regions: Karachi, Lahore, Multan and North. They cover a total of 260 towns, although 40 of them generate the bulk of the sales. The distributors buy goods on cash from Unilever/ Walls and sell them to outlets on cash. The distributor has a sales force that takes orders and delivers. They have cold stores and vans. The goods are off-loaded at the distributors' warehouse, and from there, the distributors are responsible for order taking and delivery to the retail outlet. This distributor cannot carry any other brand other than Unilever/ Walls. It is an exclusive distribution. The distributor, called a concessionaire at Unilever/ Walls, has to make an investment of at least Rs 60 million, in land, cold storage, vans etc. Finding the right people is a challenge because they need to find people, not only with wealth, but also with business acumen and knowledge of the market. Unilever/ Walls has its own sales force that manages and monitors the distributor. The focus of the sales team is operational excellence. Each shop must be covered before the freezer is empty. A District Sales Representative (DSR) is given a route. He has to cover the route in one week. In a day he has to cover 20-25 outlets (150 outlets in a week). With each DSR a van is linked.

Trikes[47] sell directly to the consumer, and are a moving outlet. There are 400 stock point dealers (SPD) who are fed by the distributor. Each SPD has 5-10 freezers (provided free by

[46] Most ice-cream and other frozen/chilled goods companies use this technology for both freezers and cold chain vehicles.
[47] These are small ice-boxes attached to the front of the cycle, ridden by a uniformed sales person: similar to a cycle rickshaw.

Walls) to stock the products, used for replenishing the trikes (also owned by Unilever/Walls). These SPD's are not directly under Unilever/Walls control. They are monitored and goods are supplied by the distributor. Each SPD has 8-10 trikes. He puts the frozen eutectic plates in the trikes, which keeps the product chilled all day, and the ice-cream vendor rides the trike from house to house and street to street selling ice cream all day. Unilever/Walls owns a total of 3500 trikes.

The marketing strategy for Unilever/ Walls has been to develop the ice-cream take home and out of home market. For this, they have invested heavily in freezers/infrastructure with some investment in advertising. As a result, awareness among consumers increased and they began to associate consumption of ice cream with occasions and celebrations. Thus, Unilever/ Walls "share of the wallet" began to increase. The ice-cream market grew gradually at first, as Unilever/ Walls increased geographical coverage, but by mid 2005, distribution had doubled and per person consumption had also increased from 0.2 liter per person in early 2000's to 0.4 liter in 2008. In 2008, Unilever/ Walls had 70 % of the market. They had focused on creating segments and positioning their brands for that particular target market. They invested in product development and created products that appealed to a particular target market, which was priced affordably for that market and communicated in a language that the particular segment understood. They had several products/campaigns that were targeted to particular segments; '*Badami* 'to the lower end segment*, 'Cornetto'* to the youth market and *'Paddle Pop'* and *'Moo'* to the kids market. They invested heavily in brand building, spending approximately Rs 0.5 billion on advertising and other marketing related activities.However, at the present, Unilever/ Walls has begun to focus on the "pleasure money market" or the "fun money market" instead of looking at the competitors from a category angle. They are looking at snacks, cakes and mithai, carbonated drinks, and nimko as competitors because when people are happy in Pakistan they tend to consume these products.[48] Mithai is a huge product, and thereby has redefined their market.

The second big player

The market remained relatively stable with the same players operating until 2009, when Engro foods launched its brand, *Omore,* in the Lahore market (Exhibit 9) with a heavy marketing budget. The aim of *Omore* is to be a major player in the industry. They are providing freezers and maintenance to the retailer, plus a commission for carrying stock and providing outlet related tools; signage, gondolas, and window graphics. They hired a third party, a logistics company, to set up a cold store point in Lahore and Islamabad. These points will be used to stock ice-cream from the factory. The Lahore and Islamabad points are also used for re-loading to smaller vehicles for distribution to retail outlets. *Omore* was launched in Karachi in spring of 2011. While they have 5 distributors in the north region (Multan to Peshawar), they also have two distributors in Karachi. The model for Karachi is different. The vehicles, loaders and the warehouse are owned by a third party logistics company while the sales team and order takers are distributors' employees. Besides distributors, *Omore* also has Sales Point Depots (SPD). They provide freezers to the SPD owners and a route. By 2009, they had covered 9 towns through the direct model. However, they found that they wanted to engage distributors to cover

[48] It is culturally/socially expected that an announcement of good news or celebration of an event will be followed by consumption of something sweet to eat.

smaller towns. "*The model used by Walls of hiring distributors had its own set of problems. The distributor has to invest heavily in infra-structure and working capital. The distributor also is hesitant to get involved in the cold chain business for this reason, coupled with the realization that there is almost no salvage value and that the facilities are useless for other products. From an ice-cream producers perspective there are certain advantages in this system. It's operationally easier to use the indirect model. There is no cash handling, no human resource management hassle, no vehicle repair or maintenance hassle. The direct model is more complicated, but costs less and the ICP has more control. In the direct model, service standards are high, information inflow from customers/retailers is high; there is a quicker response and the sales team can take care of the POS materials etc. Thus, we started off with the direct model and as we established sales in each region, we found interested parties who could handle the distribution effectively and handed over the sales to them."*[49]

Omore ice cream has an exclusive distribution system. The party that handles Walls cannot bid for their distribution. It has to be a new distributor. The fact that sales are already established in a region reduces the risk for the distributor and makes it easier for Omore to find the right kind of distributor who not only has the money for investment, but also the skills to handle/manage a cold chain. They have now divided the country into six districts and cover 130 towns. 90% of their distribution is through the indirect model and towns like Islamabad and Rawalpindi are covered by the direct model. While distributors invest in cold stores and vehicles, Engro Foods invests heavily in freezers. Nationwide they own 20,000 eutectic freezers. "*In winter the freezers and vehicles stand empty resulting in underutilization of assets."*[3]

Unilever/ Walls market share declined from 70% to 60% but sales have increased by almost 70% over the two years as the category expanded further. Overall, the pie has increased even though Omore has only half the distribution capacity of Unilever/ Walls. "*The ice-cream markets in developed countries usually have two major players, with some small players. It is very rare for the ice cream market to be fragmented. In Pakistan, with the emergence of Omore, we have two major players which has been good for the category overall."*[50] The 2010 annual report of Unilever states that the ice cream business, fuelled by strong innovation, achieved 33% growth; virtually all from volume. The cumulative growth over the last three years has been 80%.[51] This was in spite of factors like floods, low GDP growth, double digit inflation, deteriorating security environment and debilitating power cuts which impacted businesses in Pakistan in 2010.The sales revenue reported in the ice-cream business is Rs 5548 million with advertising and sales promotion at Rs 479 million. The business, which has a capacity for 77 million liters, was producing 49 million liters in 2010, 37 million liters in 2009 and 39 million liters in 2008.[52] Results for half the year ending in June 30, 2011, indicate that Ice Cream sales grew by 20%.[53] For the same period, Unilever Ice-cream reported sales revenue of Rs 3,348 million, which is higher than the sales achieved in the corresponding period in 2010 of Rs 2,788 million.

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[49] Interview of Mr. Eiraj Saleh Daud, General Sales Manager, Engro Ice-cream business taken on 26th August,2011 at Lahore.

[50] Interview of Mr. Ali Salman, Sales Director, Ice-cream taken on 30 August, 2011.
[51] http://www.unilever.pk/Images/Unilever%20Pakistan%20Limited%20annual%20report-2010_tcm96-260483.pdf
[52] http://www.unilever.pk/Images/Unilever%20Pakistan%20Limited%20Consolidated_tcm96-215206.pdf
[53] http://www.unilever.pk/Images/upl%20june%202011_tcm96-272158.pdf

In Pakistan, not all areas have electricity, and even if they do, not all homes own a freezer. If the freezer is present, the current electricity shortage means that most homes do not want to keep stock of ice-cream, as the risk of the ice-cream melting during power outage is high. The cost of electricity has risen from Rs 7/- per unit in 2007 to Rs 17/- per unit in 2011. This cost has to be borne by the retailer as well as the manufacturer when storing the product. Unilever has offset the cost for the retailer by not increasing commission but increasing the price of the products so that with a higher turnover rate, the retailer will make more margins. Although the impulse segment accounts for 70% of the sales and the take home segment 30% of the sales, margins are higher in the take home segment." *The market was about 60 million liters or about Rs 6 billion when we launched our products in 2009. Currently the market size is about 73 million liters; 45 million liters with Walls, 18 million liters with us and about 10 million liters with the rest. At a per liter cost of about Rs 150/- per liter that works out to about Rs 11 billion."*[3] Some companies like Igloo and Yummy are focusing on the cheaper priced SKU's, which have very low margins, whereas, Hico is focusing on the expensive take home range, which has higher margins. The local small players tend to operate at the bottom of the price pyramid. It has become impossible to produce ice-cream in the Rs 5/- range with the costs of raw material increasing. The buying power of the consumer has also decreased due to high rates of inflation. In any case, the biggest SKU is 1.5 (Walls) or 2 liters (Hico). Given the large family size in Pakistan, one pack is consumed in one sitting. People are not in the habit of storing ice-cream for too long or buying gallon-sized containers. All these factors have contributed to the low per capita consumption of 0.5 liter per person consumption in Pakistan, which compares with 25 liters per person per annum in USA.

Non Ice cream Segment

Current market size and main players

The size of the current **chicken** based, *ready to eat/ready to fry market*[54] for all brands, is around Rs 300 million with the frozen vegetable market around Rs 12 million and the Paratha market around Rs 150 million[55]. The following table highlights the current main players with their overall *national* market shares for the Frozen Foods, non ice-cream segment based on three types of raw material: meat, vegetables and wheat. (See Exhibit 16 for list of minor players.)

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Year of current owners	Company Name	Brand Name and Market Share Nationally.	Geographic Coverage	Number of Freezers in the Market
1999	K& N's Foods	*K&N's* 75%[56]	National	8,000[57]
1997	Quick Foods	Mon Salwa 5%	Regional	450
2009	Seasons Foods	Menu 10%	Regional	800

[54] This does not include raw frozen chicken meat cuts e.g. boneless chicken, chicken breast fillets, chicken thigh fillets etc.
[55] All figures are estimates of Mr. Kamran Farooq, Head of Fresh Food, Metro Cash & Carry Pakistan (Pvt) Ltd.
[56] This is an estimate based on Mr K.Sattar's comments on page 21 and freezers share.
[57] This is an estimate of freezers based on 3000 freezers in third party outlets plus an undisclosed number of freezers at K&N's owned 65 stores.

2010	Dawn Foods	Dawn 5%	Regional	1000
2011	PK Food*s*	PK 1%	Regional	150
1989	Icepac Ltd	Icepac 4%	Regional	150
	Many other players	5%	Local	150

Historical Overview

In 1987, *Icepac Ltd* was initiated, and introduced frozen vegetables in the local market in 1989 (Exhibit 15). It is the pioneer of frozen foods-non ice cream and was forced to follow the same distribution/marketing model as an ICP. However, this required heavy investment by *Icepac Ltd*, which was not possible given their financial constraints. Instead, they refocused their sales volumes on the hospitality industry and the Middle East export market with negligible/minor sales from local retailers. At the same time, they began using the empty space in their vehicles, originally utilized for Icepac vegetable distribution, for third party hiring, eventually moving into the chilled warehousing and transportation business. *"Today, many people have come up in warehousing and cold chain transportation as volumes have gone up. Companies like Mon Salwa, Pizza Hut, Dawn Foods, Menu Foods, KFC and Hardees all need transportation. Now, Pakistan has frozen meat, frozen chicken, frozen French fries and frozen vegetables. Even products that are not frozen, but chilled, require cool temperatures like butter and cheese. The companies that produce these products do not have the volumes that justify and support such infra-structure investment. There is a need now for third parties to provide this service. But it is not a cost-effective. It adds to the cost, especially in times when diesel and electricity prices are rising and there is also a shortage. Inflation is very high so the cost of operating a truck exclusively for a business is quite high[58]."*

In late 1995, a group which was primarily involved in the textile sector and was among the top five exporters in the country, decided to set up Pakistan's biggest chicken poultry farm in the Punjab region based on sophisticated technology. They planned to raise the birds and mechanically and scientifically process, freeze and sell them in the market. The culling capacity of the project was 16000 birds per day. The idea was given to the owner, Mr. Saqib Elahi, by his close friend. The project was complete by 1996, and by early 1997, they started selling frozen chicken in the market. BeBe Jan Chicken transportation was outsourced to Icepac as well as two self-owned locally made trucks. They also had three very good quality cold stores/depots, one each in Islamabad, Karachi and Lahore for storing frozen chicken. "*Unfortunately they set up the business without any research. It was a huge project. It was made before its time. We made a mistake. It should have been a pilot project. We should have gained experience from the pilot project and then set up a plant according to the market requirements. The owner did not realize that the location was incorrect. 48 sheds were set up. When the day old chicks were put in them and were underweight we realized that the water was brackish. They started dying because the project was in a populated area and should have been in an isolated area. The prices of day old chicks fluctuated heavily. Also, availability of the right feed and the price of feed were critical in the final cost of the chicken. Furthermore, the processed chicken was with skin and the owners refused to sell skinless chicken while the*

[58] Interview taken of Mr. Mansoor Arifeen, CEO, Icepac/Kold Karrier (Pvt) Ltd, on 19 September, 2011 in Lahore

local market demand was for skinless. The DE feathering was done mechanically and if we had skinned the chicken, it would have had to be done manually. On top of it, they refused to provide freezers to the retailers and insisted that the retailers keep BeBe Jan products in the retailer's freezers. We did not have a proper market plan. We did not know that the project would require a gestation period of maybe 5 years. We managed to produce and solve the bottlenecks. But we did not think beyond production. There was no demand by the household consumer and the retailer also resisted because of company policy. Ultimately, it is the retailer who can make or break you."[59]

Due to the limited demand for frozen chicken, BeBe Jan chicken started to sell live chicken. They were a chicken supplier to KFC in 1998, when it opened its first restaurant in Lahore. However this was not what the project had been set up for and BeBe Jan could not survive, thereby selling off its assets in 2000. During the period, 1982 to 1995, Mr. Sattar of K&N's Poultry Farms, pondered with the idea of setting up a processing unit to freeze chickens and make ready-to-cook & fully cooked chicken products several times but every time he backed down, as he felt that the market was not ready for prepared chicken cuts in chilled or frozen form. The reason for this, he felt, was that most consumers wanted the chicken culled in front of them as they wanted to make sure that the culling process complied with the Islamic methods of Halal. Live chicken was available literally around the corner, at every small shopping point in a market. Consumers were not hygiene conscious and did not mind standing around in the middle of chicken muck, flies and blood while the meat was prepared for them. There was also the issue of electrification of the country. In areas where electricity was available, most people had a small fridge at best, which had a limited space freezer compartment. Local freezers' manufacturing began in 1973 (Cool Industries[60]) but were expensive and few people could afford it. Imported household freezers were very expensive and therefore, few homes had owned a separate freezer. During 1996-2003, the poultry sector received many setbacks. In 1996, Sales tax was levied on poultry feed, which being 60%-80% of the input cost proved a major challenge for the poultry producers. The Prohibition of wasteful expenditures on the Marriage Ordinance of 1977[61] resulted in a ban on serving food in marriages, directly impacting the sale of fresh chicken meat used in preparing meals.

In 1995, the Artel group set up the KFC franchise in Pakistan. In order to ensure production of standardized quality chicken meat for the KFC restaurants in the country, they integrated backwards and set up a chicken processing facility. They expected the demand for KFC meals to pick up quickly and opened the first KFC outlet in Karachi in 1997. However, the backwards integrated project was producing more chicken meat then the requirements of the restaurants, as of a result of which Artel decided to launch the 'Value Chicken' brand of cut, packaged and frozen chicken meat to sell the surplus chicken across all grocery stores in the country. However, they encountered resistance from the retailers and were forced to open their own outlets in various cities of the country, selling their frozen products, using a third party to transport goods.

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[59] Interview of Mr. Tanveer Ahmad, General Manager of *BeBe Jan Chicken* from January 1996 to July 1998, taken in 27 August, 2011.
[60] The pioneer in refrigeration technology in Pakistan, they have been manufacturing WAVES Freezers for the last 30 years and fulfill 90% demand of the country. http://www.waves.net.pk
[61] This is still inforce at all hotels and restaurants while people who have marriage ceremony in a private house find ways to circumvent the law and serve a variety of dishes.

In 1997, the Sanaullah group expanded and diversified its business activities to include the frozen food sector by launching the company, Quick Food Industries and its brand *Mon Salwa* (Exhibit 12). They began with a limited range in a limited number of cities focusing initially in Karachi for distribution. Now, they have a network of 350 retail stores carrying their product range. Some retail outlets stock the products in their own freezers while others have Mon Salwa's freezers. Commission varies from 12-20% on purchase price. They also provide merchandising support to retail outlets but do not do any advertising on television, radio etc. They export wheat and vegetable based products to 9 countries including the UK.

The role of a big player

By 1997 the Artel group had already suffered losses of Rs 876 million. This debacle, coupled with the difficult political climate of the country, propelled the Artel group to bail out and they sold the KFC franchise to Cupola, Ava Water to Nestle and 'Value Chicken' to *K&N's* Poultry Farms in the late 1990's. *K&N's* Farms had been in the poultry business since 1964 and decided to buy the project (Exhibit 10). They began using the same model as Value chicken but also focused on expanding sales to grocery stores by placing freezers. They also expanded the product line. K&N's foods manages its own product distribution and has Pakistan's most extensive company owned cold-chain distribution system among the frozen food manufacturers It also owns 65 stores for sale of ready-to-cook & fully cooked chicken products, covering 18 towns/cities of Pakistan. According to Mr. Khalil Sattar, the outlets are more of a source for consumer research and feedback. *"We get an idea about consumer profiles, who visit the stores, any complaints or issues or thoughts that consumers may have regarding availability or product ideas. We have also launched our consumer club through these outlets where consumers earn points on shopping. These outlets are good for us, as we have control over the electricity supply and have backup generators that operate when there is a power cut, thereby ensuring the product does not suffer from thermal shock and the quality remains safe till the consumer's freezer or frying pan. Our motto is 'the Safe and healthy Chicken' and we try our best to deliver this."*

Besides this, *K&N's* also sells through regular grocery and modern retail stores (Makro, Metro and Hyperstar). They provide door to door delivery of their products to retailers and free freezers to the grocery stores. Mr. Sattar adds, "*Maintenance of freezers is a big challenge. Because the freezer belongs to us, the retailer could not care less how they use it. We also have to have a sales force to monitor that the freezers are well stocked. The power crisis means that our own outlets have become more important vis-à-vis product quality maintenance as they are all equipped with back-up generators".* Currently *K&N's* has about 3000 freezers in the market which are in third party retail outlets. Even though they are still supplying to institution like hotels and restaurants, the bulk of the sales comes from household consumers.

K&N's has also invested heavily in advertising and have built primary demand for the product by positioning it as a safe and healthy chicken. All advertising is in-house and they do not have an advertising agency to design the TVC's[62] or print advertisements. Their stores show videos of breeding, rearing and processing of chicken, which has helped change the mindset of

[62] Television commercials

consumers. It currently holds the largest share of the branded packaged chicken meat (raw and cooked) market and has excellent top of mind awareness. Between 1997 and 2011, *K&N's* has become a household name because of the ready-to-cook products, which are particularly popular among children, and housewives who want to prepare quick meals for their children or for hospitality purposes. Mr. Sattar feels that the demand for value added is directly linked to increase in household income. As the number of dual income household increases, consumers will be able to afford freezers and convenient food. *"The market has grown for frozen products but is still a niche market. The current production of chicken in Pakistan is 950 million chickens at 1.75 kg per chicken. This works out to 1,662,000 tons of chicken meat. If sold at Rs 120 per kg then the market is about Rs 199,440 million. Frozen is less than 1% of this."* According to a report[63] in 2007, Pakistan was one of the top 10 poultry producers in the world, with over eight million broiler parent stock producing more than 800 million birds a year. In 2011 and 2012 *K&N's*'s itself is expected to produce 80 million layer and broiler chicks. Mr. Sattar feels that the GOP policies have been erratic in the recent past. "*Out of the 13 processing plants set up in 1969-2009, only four are still in business. Instead of protecting the local poultry industry, GOP has allowed imports of frozen chicken meat and frozen processed/ready to eat meals. The import of one 40 feet container of 25 tons of chicken breast meat displaces local production of 183,284 broilers resulting in Rs 24.95 million in revenues and 36,050 man hours of jobs lost.[64] During January to May 2009, 141 tons of value added chicken product was imported. Value added products like nuggets and chicken patties are imported by a company in Pakistan, at a landed price that is below the local cost of production. They rebrand the product and sell them at higher margins. The poultry processing industry, still in its infancy, needs to be protected."*

The CEO of Icepac has another perspective. "*Import is good because it lets businesses experiment and consumers try out products. It can also alter consumer tastes. For example Pakistanis never ate cheese or strawberries but now that they have been introduced to it, they love it. We never ate sweet corn. But since we introduced imported sweet corn, sales have picked up. Now you see corner shops selling buttered sweet corn to kids in cups. We have encouraged our vegetables suppliers to grow them for us here just like we grow strawberries and string beans. Moreover the young people eating habits are totally different from our generation. They like eating processed foods like burgers."*

Mon Salwa is one of the companies that have taken advantage of the import policy of the government. It manufactures some of these items at their factory or through third parties locally and imports other items and re-packs them in their own packaging. *"We hold approximately 20% of the value added market while K&N's has about 60% and Menu has 7-8%. In 2005-6, the market increased dramatically. Before that conditions were tough. I had to diversify into warehousing for Wall's in Lahore, when it was not my core business. I had to look into exports in order to grow. Now, 85% of my sales come from the local market. We supply to institutions, restaurants and also to household consumers via grocery retailers. Demand for these products has increased with greater awareness. Last two years the market has grown by more than 30%.[65] One thing that has worked for us is the localizing of food products. For example Seekh Kababs*

63 http://www.thepoultrysite.com/articles/2137/kns-leads-industry-growth-in-pakistan

64 Calculations provided by Mr. Khalil Sattar in Annexure from a report presented to Government of Punjab by him, on 5 year plan for poultry production: 2010-2015.

65 This was mainly triggered by the Modern Trade who were keen to stock frozen foods and also provided freezers.

sell well. The major constraint and challenge that the industry is facing now is the rising cost of production. Cost of electricity and livestock has gone up. Due to electricity shortage market returns have increased. Retailers are sending back products.We cannot pass on these costs to the consumer so our margins are shrinking. However, there is great potential in this industry as seen in the last few years."[66]

The entry of other players

In 2009, Seasons Foods launched *Menu* (Exhibit 11). Seasons Foods has invested in infrastructure; refrigerated trucks, -20 degree Celsius warehouses and investment in freezers at independently owned grocery stores and self-owned retail outlets. Seasons Foods directly supplies from their factory to grocery/retail outlets in their own trucks. Seasons Foods places freezers in various independent grocery outlets. These freezers are owned and maintained by Seasons Foods. "*Having facilities to store raw chicken is important, providing control over quality and prices of raw material. The biggest challenge has been to educate the consumer. They will go and buy fresh chicken meat, take it home and freeze it. They don't realize that the home freezer cannot do the job of the IQF technology in our factory. Secondly, they compare prices of street slaughtered poultry with that of branded chicken and claim that our chicken is expensive. What they don't realize is that in reality street slaughtered poultry is more expensive as they are paying for offal as well and not just meat*[67]*"*.

In 2009, the Dawn group decided to launch frozen foods in the local market under the brand name of *Dawn Foods* to leverage the existing brand name (Exhibit 14). Dawn Group of Companies has diversified into a number of product lines. They have been exporting frozen Parathas to USA since 2001, now Dawn is enjoying Market Leadership in Paratha Category in USA, Canada & Australia. Previously, they used to supply frozen parathas to local grocery stores during Ramadan and used the grocery stores' freezers to stock the product. After Ramadan they would cease to supply. As the parathas were so popular, they decided to go fully into frozen processed goods.

In March of 2011, (Exhibit 13) PK frozen product's brand was launched in the Karachi market, expanding gradually to other cities in Pakistan. They sell processed beef, mutton and chicken products. They are currently in 7 towns of Pakistan. Each truck is imported. Currently they have 250 freezers in the market and plan to expand to 1500 by year end. They also own a fleet of 15 trucks for delivery, out of which 5 are in active use. They employ a sales force and do limited advertising. They use out of home transit media, such as cabs/taxis that are hired at the airport.

Current Industry challenges and future outlook

All players in the frozen food industry, both ice cream and non-ice cream believe there is a great future for frozen foods. Ice-cream sales tend to increase during recession. Unilever/Walls has grown in spite of the constraints, as they have invested heavily in infrastructure and product development. *"The last two years have shown incredible growth. Prior to Omore's entrance*

[66] Interview with Mr. Talib Zaki, Director Operations, Quick Foods, taken on 8th September, 2011 in Karachi.
[67] Interview with Mr. Imran Ejaz, Director Seasons Foods taken on 20 September, 2011 in Lahore

into the market, the size was about Rs 10 billion. Now the market size is about Rs15 billion. Our freezer strength has doubled between 2006-2011.This is mainly due to creation of awareness by both, Omore and Walls through large advertising budgets. As market leaders it is our obligation to expand the market. Consumers have now more options and more flavors. Even though Walls is the market leader, the retail distribution of Wall's is not even one sixth of the ambient distribution that handles products of our other businesses. The challenge we face in this business is managing the cold chain and managing the off-season nature of this business because in winter the sales go down. It used to be worse in winter previously but after we ran the campaign, "Thand hey to kya hoowa[68]" sales are a bit better. Rural reach is also a challenge as well as managing sales returns due to the electricity crisis in the country".[69]

The heavy investment required to be in the Frozen Food business is another issue. As Mr. Hasan of Igloo said, *"Obviously we have limited resources and instead of using Rs 2,000,000/- on buying a vehicle with eutectic plates, we could use it for advertising and product development but we cannot. We have to invest in cold chain, every time we want to expand. Another big challenge has been to control material prices as the cost of production has gone up and the buying power of the consumer has gone down. We still have products in the Rs 10/- , Rs 8/- and Rs 5/- range."*

Mr. Mansoor Arifeen of Icepac points out another problem. "*Working capital has been a major issue as banks refuse to lend against perishable commodities. This business would have been 10-15 times bigger and very successful if we had money or were supported by institutions like banks. This business demands deep pockets. You have to invest in distribution, marketing and in financing retailers as they want to buy on credit not cash. Large amounts of working capital are also required to purchase vegetables for processing during the season and to store these bulk quantities for extended periods of time. In this country where there are few third party infrastructure providers, companies like us have realized that they cannot invest in their core business or in the ancillary requirements of distribution and warehousing".* As a result, a number of recent entrants in the frozen food industry such as Seasons and Dawn foods have not invested in transportation and are using third parties. A challenge is the availability of *reliable* cold chain logistics companies. It is difficult to make sure that the right temperature is maintained throughout especially in the case of exports. A company that provides good service is expensive and that makes the acquisition of that service at times unviable. This means that some food companies, *K&N's* and PK Foods, have decided they have no choice but to invest in transportation and infrastructure to save costs and ensure temperature maintenance. The cold chain challenges include prevention of thermal shock to the product. Companies need to invest time in educating the retailer and the sales/delivery/product handling teams. They also need to make sure that the product is consistently available at retail outlets and not out of stock. Order fulfillment is a priority and freezers must not remain empty. However, in winter these freezers and vehicles are underutilized. "*Food sales go down seasonally. The sales of ice cream and yogurt go down in winter, yet the infrastructure has to exist in spite of decreased sales. This is*

[68] This slogan is in Urdu and the literal translation means "so what if it is cold." Pakistani's have a negative perception regarding ice-cream consumption in winter and feel that ice-cream can cause Flu, sore throats and colds in winter.

[69] Mr. Adeel Rasheed, Marketing Manager Walls.

not a business where a small company can expect to grow. This is a business where a big business has to come. Small players can survive only if they are targeting a niche market."[70]

Another issue the industry is currently facing is that a large number of 'kitchen run' companies have low standards and they indulge in price wars. At places like *Metro* and *Makro,* these companies do not have to place a freezer so entry barriers for them are non-existent. This has affected sales of branded goods because when any of the frozen foods range is contaminated, it gives a bad name to the category overall and people stop buying the category without understanding that it had to do with a particular brand. As Mr. Mansoor Arifeen of Icepac points out,*" Although we are the pioneers of frozen kababs and vegetables, it is unfortunate that we are unable to capitalize on the tremendous potential we know exists in this market. Many people have entered the business and are growing rapidly. They are enjoying the fruits of our labour and their own because they have the financial resources to back them up. We feel we have lost the opportunity and are lagging behind. We are not complaining because as far as we are concerned we are ten times the size we were ten years ago. We expect this size to grow at 20% per annum. All said and done there is enough space for everybody. Food business is a long term business. You cannot expect food business to grow over night. We have the example of Nestle Water and packed milk. It has taken them a long time for the brand to become a part of the household. You have the mentality of a food processor rather an investor. If you look at all the businesses that are in frozen foods they use their other businesses to support them. Even in our case, it is our services arm that is sustaining us."*

As electricity supply in areas expanded and buying power increased, the number of freezers purchased consequently showed an upward trend (the production of deep freezers has gone up by 35% in the last fiscal year[71]). Henceforth, demand for ice-cream is bound to go up, as this is the cheapest "fun" product available. Rural potential also exists, as there seems to be sufficient disposable income with the rural consumer, especially given the mobile phone penetration in rural areas of Pakistan. "*The constraint is the lack of infrastructure, both in terms of roads and a cold chain setup. It has to be economically justifiable in terms of volume and margins for a distributor to take his vehicle into a remote area. There has to be a sizeable turnover so for the moment we are moving only in populated areas. Karachi, a city, alone has a population of 18 million, bigger than many countries of the world. Because our population size is so large, 180 million, even if we only look at the affluent consumers, that itself becomes a large number and thus a sizeable opportunity."*[46]

Mr. Imran Ejaz, Director Seasons Foods *(Menu Brand)* echoes the same thoughts, "*There is growth in the market. The driving force is convenience. The household consumer is looking for convenience. Companies are going into smaller towns as a result, they are available and consumers have a choice to buy. One is actually adding more consumers to the pie."* However, his biggest worry these days, is the challenge of ensuring electricity power when there is inadequate supply of electricity in the country. Seasons Foods started off by getting a dedicated line from WAPDA[72] The advantage of this line was that electricity cuts were announced before

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[70] Interview taken of Mr. Mansoor Arifeen, CEO, Icepac/Kold Karrier (Pvt) Ltd, on 19 September, 2011 in Lahore

[71] Economic Survey Of Pakistan 2010-11

[72] Water and Power Development Authority; the government organization that produces most but distributes all the electricity in the country.

hand in writing. As a backup, they had Gas powered generators. Howevr, due to gas load shedding, they have now invested in diesel power generators. This is not viable as the per unit cost is around Rs 40/- per kw whereas WAPDA is around Rs 12/- to Rs 13/-. Secondly, even though they have control over the electricity issue at their plant and warehouses', they are unable to ensure that the retailer does not compromise on quality by switching off the freezers at night and not providing backup generators. A number of smaller outlets cannot afford generators for the freezers and can only afford to have generators that run a few light bulbs or fans. This sentiment was echoed by Mr. Ikram Elahi of Hico Ice-cream as well. "*Electricity power cuts are a setback to retail sales as number of returned items has increased."* In the last three years, according to Mr. Ahmad of Yummy Ice cream, there is a tremendous problem, as sales are down and margins hardly exist. A shortage of gas and electricity compounded by the fact that retailers are not keeping products properly in the shops has led to spoiled ice-cream. *"And when the ice-cream gets spoiled, then returns increase which are a loss for the company. At the moment we are not getting any support to develop the market further. To add to this purchasing power of the common man has decreased. We do not know where to invest. Every month the government increases the price of electricity and diesel, which is essential to run our generators. I wanted to buy some new machines and new trucks but I have put my plans on hold as I do not know what is going to happen."*

Even if retailers have generators, a large number of household consumers do not have generators. Because of electricity cuts they end up buying small quantities at a time so that the risk of spoilage is reduced. This has resulted in a slowdown of growth of the industry. *"Sales in 2011 have been stagnant as compared to the previous year. A major reason for this is electricity shut down/load shedding. This has resulted in sales returns from retailers and a reduction in purchases by the take home segment. Also the cost of electricity has risen resulting in the retailers resisting to keep freezers. Floor space at retail outlets is also limited with so many frozen food companies vying for space. In this industry you need a player with deep pockets. The business is good because margins are high and there is potential. If you look at beverages as a competitor, they are covering 350,000 outlets whereas ice-cream industry is nowhere close to that.*[73]*"*

[73] Interview of Mr. Eiraj Saleh Daud, General Sales Manager, Ice-cream business taken on 26th August, 2011 at Lahore.

EXHIBIT 1

Definition of Frozen Food Manufacturing (NAICS 31141)

This industry comprises establishments primarily engaged in manufacturing frozen fruits and vegetables; and frozen dinners and side dishes of several ingredients, except seafood.

Activities include:

- Blast freezing, on a contract basis
- Concentrates, frozen fruit and vegetable juice, manufacturing
- Dinners, frozen (except seafood-based), manufacturing
- French fries, frozen, pre-cooked, manufacturing
- French toast, frozen, manufacturing
- Frozen dinners (except seafood-based), manufacturing
- Frozen food entrées (except seafood-based), manufacturing
- Frozen fruit and vegetable processing
- Frozen fruits, fruit juices and vegetables, manufacturing
- Frozen pot pies, manufacturing
- Frozen side dishes (except seafood-based), manufacturing
- Frozen soups (except seafood), manufacturing
- Fruit juice concentrates, frozen, manufacturing
- Fruits, frozen, manufacturing
- Pizza, frozen, manufacturing
- Quick freezing of fruit and vegetables
- Soups, frozen (except seafood), manufacturing
- Vegetable juice concentrates, frozen, manufacturing
- Vegetables, frozen, manufacturing

Exclusions

Establishments primarily engaged in:

- Freeze-drying fruits and vegetables (31142, Fruit and Vegetable Canning, Pickling and Drying)
- Manufacturing frozen dairy products (31152, Ice Cream and Frozen Dessert Manufacturing)
- Manufacturing frozen meat products (31161, Animal Slaughtering and Processing)
- Manufacturing frozen seafood products (31171, Seafood Product Preparation and Packaging)
- Manufacturing frozen bakery products (31181, Bread and Bakery Product Manufacturing)

- Manufacturing frozen doughs, made from purchased flour (31182, Cookie, Cracker and Pasta Manufacturing)Freezing eggs; (31199, All Other Food Manufacturing)

  Source: http://www.ic.gc.ca/cis-sic/cis-sic.nsf/IDE/cis-sic31141defe.html

The frozen food industry has also been elaborated as an "industry comprising of manufacturers that produce frozen food products including frozen fruit and vegetables (including juices), frozen entrees and side dishes (excluding seafood), frozen whipped toppings (non-dairy), and frozen waffles, pancakes and French toast. Products made by this industry are then distributed to outlets such as grocery wholesalers, retail food stores and the hospitality industry."[74]

[74] IBISWorld available at http://www.ibisworld.com/industry/default.aspx?indid=236

EXHIBIT 2

Global Frozen Food Market Segments **% share, by value, 2010(e)**

Category	**% Share**
Frozen meat products	41.3%
Frozen ready meals and pizza	31.1%
Frozen fish/seafood	9.4%
Frozen fruit and vegetables	7.8%
Frozen bakery and desserts	6.5%
Frozen potato products	3.9%
Total	**100%**

Source: Datamonitor

EXHIBIT 3

Country Map of Pakistan

Source: https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html

EXHIBIT 4

A list of the major players in the ice-cream category in the 1980s-1990s is given below:

PUNJAB:

- Pakistan Industrial Promoters Ltd. (POLKA) Lahore
- Yummy Milk Products (Pvt.) Ltd. (Yummy) Lahore
- Prime Dairies Ltd (Rocco)
- Kaghan Food Products Ltd. (Marila), Islamabad
- Shah Shams Ltd. (Bonnis), Lahore
- Pixie Ice Cream Ltd. (Pixie) Lahore
- Happy Ice Cream Ltd. (Hico) Lahore
- Hotels and Restaurants
- Unorganized Sectors

SINDH:

- Mehran International Ltd. (POLKA) Karachi
- Pakistan Dairy Products Ltd. (IGLOO) Karachi
- Khan Food Industries, Sukkur
- Hotels and Restaurants
- Unorganized Sectors in Sindh

Source: "Ice cream industry in Pakistan". Economic Review. FindArticles.com. 24 Aug, 2011. http://findarticles.com/p/articles/mi_hb092/is_n1_v29/ai_n28702661/

EXHIBIT 5

Major Players of the Frozen Foods Industry: Ice cream

HICO ICE CREAM

The Hico plant in Lahore was set up in 1952. Hico ice cream was the first industrial ice-cream produced in Pakistan and thus was the first ice cream company in Pakistan. In 1976, Mr. Inam Elahi acquired the plant. He was a 7up bottler and when he acquired a Coca-Cola bottling plant, the business received the ice-cream plant as part of the deal. The family-owned concern (Pakistan Fruit Juice Company (Pvt) Limited[75]) is now involved in the manufacturing and marketing of various industrial and consumer products including beverages, fruit juices, ice cream and Rice/agriculture produce. The ice-cream plant, at the time of acquisition, had an installed capacity of 80 liters per hour and the ice-cream was being sold at 3-4 outlets. The shops were provided with especially made ice boxes with eutectic plates as freezers were a rarity. Most of the ice-cream would be sold on trikes, (approximately 40 trikes), outside schools. Hico were the first company to introduce the concept of trikes in Pakistan. It remained operational at this capacity till 1990. At many occasions during this period Mr. Inam Elahi thought of closing down the business as it was not generating any revenue for the group and it was mostly a headache dealing with food and other government departments.

"We however also realized that we were generating jobs and livelihoods at this business and we did not want to exercise the option of shutting down the plant. The only way forward was to expand and re-organize the business. Around the same time, we heard that Lever Brothers Pakistan was planning to launch Walls ice-cream in the market. They were probably conducting studies around that time. We however realized that with an MNC entering the market, the dynamics were bound to change. We knew we were a small regional player but we had to be prepared for them, so we started looking around for machinery.[76]"

In 1992, Hico added more machinery and the plant capacity was enhanced to 300 liters per hour. This was a big jump for Hico in terms of production and sales. They placed a few freezers in the retail outlets in Lahore. With the advent of Walls in 1995, the market expanded and demand for ice-cream increased. They did not have to make any effort in selling the enhanced production. A year after Walls was introduced in the market, Hico enhanced its production capacity to 600 liters and then a year later further enhanced it to 3600 liters. With the increased capacity the marketing strategy of Hico changed from one city to multi city. They set up a cold store in Islamabad. They would send a truck to Multan and Faisalabad, which would deliver directly to the retail outlets. Then they expanded to other cities and towns; Peshawar, Rawalpindi, Gujranwala, Gujrat, Sialkot, Kharain. They set up a cold store in Karachi in 2004. They currently have an annual production capacity of 4.5 million liters, 8000 company owned freezers at various outlets (around 9000) in the country and 45 company owned trucks to distribute ice-cream and two 40 ft containers for haulage up country and Karachi. The number of outlets serviced by Hico is greater as some outlets do not require a freezer and stock the product in their own freezers. The company does not employ any distributors.

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[75] The company has four divisions. Ice-cream/ Dairy is one division. http://www.pakistan-rice.com/group.htm

[76] Interview taken of Mr. Ikram Elahi, son of Mr. Inam Elahi on 29th August, 2011 in Lahore. Mr. Ikram Elahi is the current CEO of Pakistan Fruit Juice Co(Pvt) Ltd.

"We don't believe in bank borrowing. We have zero debt. Whatever we do is from our own resources. All our businesses have to be financially self-sustaining. Each business grows at the pace it finds sustainable with no cross borrowings within the divisions. This was my father's philosophy. Therefore growth has been slow. We have concentrated on urban areas and take home segment. Most ice-cream, which is called 'Dairy', is made from butter fat. Most ice-cream manufactures' use it, as it is cheaper, easier to store and handle. Our ice-cream is made from fresh cream. This gives our ice-cream its unique taste that makes it so popular. The problem with fresh cream is that its quality and availability can vary. We had to integrate backwards and have invested in a dairy farm. We have about 200 animals at the moment, which we will expand to 500, by importing the animals. By giving them special feed we will be able to produce high fat milk and a standardized cream that will help control the fluctuations in the quality of cream that we receive from our vendors."

Market share of Hico in the branded market, before the launch of Omore, was around 10%, mainly coming from Punjab, with Wall's at 70% and Yummy at 10%. After Omore was launched in 2009, the market grew further. Therefore volumes grew even though share remained the same. Hico has invested in purchasing expensive freezers that have eutectic plates. Currently in Punjab, Wall's holds a 45% market share and Omore 25%.

EXHIBIT 6

Major Players of the Frozen Foods Industry: Ice cream

IGLOO ICECREAM

Igloo started its journey in Bangladesh (Former East Pakistan) in 1964[77]. Initially, the ice cream factory was in Chittagong. The original owner, Mr. Khalil-ur-Rehman, had to leave East Pakistan during the 1971 war[78]. He came to Karachi and set up the 'Igloo' ice-cream brand in 1974 under the company name K. Rehman Milk Foods. It was a pure dairy ice-cream and he focused on supplying ice-cream to Karachi and the main towns of Sindh province. At the time they had about 15 vans.[79] Their main competitor was Polka but even then they had 60% market share in Karachi and were more popular than Polka.

In 1982, the Al-Karam Group of Industries acquired the business. The Al-Karam Group started as a pioneer in the textile industry of Pakistan and has since expanded into several other industries. Although their main business is textiles, the group now has a diversified portfolio including salt, cork, dairy, Pepsi bottling and a popular local carbonated beverage called "Pakola".

Pakistan Dairy Products (Pvt) Ltd (PDPL) manufactures the Igloo brand of ice-cream in Karachi. Its distribution network covers a vast area of Sindh and Baluchistan. Igloo is providing ice cream to its consumers through three different channels; tricycles, retail outlets & igloo parlors. They focus on distributing the ice-cream in Karachi and Sindh themselves, whereas they have a distributor who handles distribution in Baluchistan. They own seven, 40 feet containers for bulk haulage to a depot in Hyderabad and a distributor's depot in Baluchistan and 45 vans for delivery to retail outlets. 12 vehicles are used for delivery from the Hyderabad depot while the remaining 33 vans are used to supply Karachi. The bulk of their sales are generated from Karachi and they claim that they hold a 40% market share in the city. The production capacity of Igloo Ice Cream is about 2400 liters/hour and the capacity utilization is about 78% on single shift basis.

They have a self-owned cold room depot in Hyderabad, which feeds ice-cream supplies to towns in lower and upper Sindh. This depot is managed by PDPL sales force, which uses company vans to deliver the product to company owned freezers in retail outlets. The distributor buys ice-cream from PDPL on cash and sells ice-cream to retail outlets on commission. The cold room and the vans the distributor uses are distributor owned but the freezers in Baluchistan are company owned. All marketing and monitoring of supplies at retail outlets is carried out by the company sales force. They also provide deep freezers maintenance and service facilities. They have a total of 8500 freezers; 5000 in Karachi, 2000 in towns of Sindh and 1500 in Baluchistan. It may be noted that they are the only ice-cream brand besides Wall's selling the Baluchistan province. They launched their brand in Lahore, in 1992-93 but withdrew as they were having problems finding the right distributor. "*In 1995, with the arrival of Walls the market grew as*

[77] http://www.amlbd.com/icecream/factory.php

[78] As a result of the 1971 war, East Pakistan separated from West Pakistan and was named Bangladesh.

[79] Interview of Mr. S. Jawaid Hasan, Manager Finance and Admin, Pakistan Dairy Products(Pvt)Ltd.

Walls spent massive amounts on publicity. People started eating ice-cream in winters also, whereas previously the retailer would switch off and shut the freezer in winter months."[80]

Igloo has invested in product development and acquisition of special machines to make stick ice-creams with special designs and shapes. The price range of the products is also very reasonable and easily affordable for the masses. Product portfolio includes different brands of ice-cream under the mother brand of *Igloo*. These include Supreme Ice Cream range (fourteen variants), Soft and Cool (four variants), Temptations (three variants) and Moments (Three variants) targeted to the high-end take-home consumer segment. They also have a range of ice-cream cakes (four variants) and cones (three variants), cups (six variants) and sticks (twelve variants) in the hand held segment. The price range of the products available is also very reasonable and easily affordable for the masses. Igloo is also providing ice cream to its consumers through tricycles and igloo parlors. *"Omore's arrival in 2009 did not negatively affect our sales. Omore made its own place and we have our own place. The pie grew once again. We do have limited advertising and use radio, hoarding and shop stores to create awareness."* says Mr Hasan of PDPL.

[80] Interview of Mr. S. Jawaid Hasan, Manager Finance and Admin, Pakistan Dairy Products (Pvt) Ltd. (PDPL)

EXHIBIT 7

Major Players of the Frozen Foods Industry: Ice cream

YUMMY ICE CREAM

'Yummy' ice cream was set up by late Brig Hamid Nawaz and family in 1981 in Kot Lakhpat, Lahore. The family had difficulties running the business and thus, was closed down in 1989. Mr. Ajaz Ahmad, who was their first cousin, was visiting Lahore from the UK, where he already had some businesses. In 1990, Mr. Ahmad invested some money and tried to revive the business but realized that personal supervision was needed. In 1991, he took over complete operations of the business. At that time, Yummy had a small production capacity and they sold ice-cream only in Lahore, Islamabad and some towns in Punjab with about 200-300 freezers with a total sale of about Rs 20 million a year. Yummy Ice Cream prepared pure dairy ice cream from milk fat.

"Most of the ice-cream sold was handmade or homemade. People did not know much about hygienic packed ice-cream. Polka had a monopoly. Ice-cream was not an organized sort of confectionary. I worked hard to make an ice-cream with proper ingredients and proper standards but the whole thing really started when Walls came into the market. They came and they obviously are a multinational so they brought a system of presentation; proper product, proper packaging, proper hygiene. So we actually learned from them. We followed them. MNC's are a government in their own right. I was already in a business where I used to follow multinationals in the UK. They brought the expertise and we followed. They brought the tricycles and the refrigeration systems. They taught KoldKraft what to do. You can't fight them. We gradually bought the same kind of machinery they had and expanded our capacity."[81]

In 1997, Yummy Milk Products Private Limited (YMPPL) filed a suit in high court against Lever Brothers Pakistan Ltd (LBPL, now Unilever), makers of *Walls* Ice-cream, under the pure food laws of Pakistan. Ice-cream can only be called so if it is made from milk fat. LBPL was using vegetable oil instead of milk fat. They won the case in High Court and eventually in Supreme Court as well. Some of the brands/products of Walls to date do not have the word *ice-cream* on the label. Instead they have the word, *Frozen Dessert* on the label. With the arrival of Walls, the industry norms changed and Yummy was also forced to give freezers for free to the retailers. The market on the whole did well from 1998 to 2008. They expanded their production capacity and extended the distribution setup to Rahimyar Khan, Dadu, D.G.Khan, Bhawalpur, Rajanpur in the south and Peshawar, Bannu, Kohat, Mardan and Azad Kashmir in the North following the direct sales model. They tried to launch the product in Karachi too in 1999-2000 but withdrew due to logistical issues and the volatile political situation in the city. Yummy currently has about 3000-4000 freezers in the market. They have a depot in Multan and in Islamabad where their own 40 ft containers which carry the ice-cream and offload. The goods are then taken to the shops by YMPL owned, cold chain vans and sales persons. Goods are stocked in YMPL owned freezers at retail outlets. The retailer sells at a 17% commission. Some shops carry all ICP brands, others only a few. Yummy sells because it is a dairy ice-cream even though

[81] Interview taken on Tuesday, 30 August, 2011 of Mr. Aijaz Ahmad, CEO, Yummy Milk Products Private Limited (YMPPL) in Lahore.

advertising is minimal as the company cannot afford marketing expenses. Its production capacity is 10 million litres per annum. Yummy is not available at some supermarkets/grocery stores in large cities as they cannot afford the large discounts demanded by these retailers over and above the commission. The marketing strategy of YMPL is to focus on those stores where they give less discounts and make more money albeit smaller retailers and lesser turnovers. They also have about 300 trikes in 7 cities of Pakistan; Swat, Peshawar, Lahore, Islamabad, Okara, Multan, Bhawalpur. However, they have received complaints from customers that trikes salesman are overcharging.

Mr. Ahmad said that Yummy had about 15% of the market shares in 2001, while Walls had about 65% to 70% of the market shares. He also felt that the entrance of *Omore* did not have a negative effect on the market. The category grew in fact because of advertising by Omore. "*Omore did not take away the Walls share. In fact, they took away the local manufacturers' share because they have two or three products which are for Rs 5.*"

EXHIBIT 8

Major Players of the Frozen Foods Industry: Ice cream

WALLS ICE CREAM

Pre-1995, Polka was the dominant player in the branded ice-cream with national distribution, while Igloo operated mostly in the south, Rocco in a few cities of the Punjab and Yummy in Lahore with artisanal ice-cream makers dotted across the country. The market for branded ice-cream was small because of the heavy investment in infra-structure. In 1995, the market size was around Rs 2-3 billion.[82]

At that time, Polka had about 5000 freezers[83] and was operating from Peshawar to Karachi. They had their own distribution system. They had two factories (Lahore and Karachi) from where their own trucks would take goods to their depots in other cities. From the depots, their own vans would carry goods to the retailers. They had no distributors. They used to give freezers to the retailer but would keep the security deposit from them. As they were the biggest player in the market, retailers had no option but to comply.

Unilever/ Walls ice-cream began its marketing with two distributors from Lahore in April 1995, and then in Karachi. Most of the smaller towns were initially fed by these distributors but as the market grew, Unilever/ Walls appointed distributors for exclusive geographical zones. During 1995 to 1997, Unilever/ Walls made considerable inroads into the market due to their superior products and services, which Polka could not match, and they lost some market share. In 1998, when an MNC showed some interest in acquiring Polka, Unilever/ Walls stepped in and acquired the business. In this manner they avoided having a large player in the market other than themselves in the branded segment.

The emergence of an MNC in 1995 changed the way the game was played in the local market. Unilever/ Walls changed the norms of retailing by handing out cost-free freezers. Later on, Unilever/ Walls developed a tracking system to monitor where the freezers were physically moved. Unilever/ Walls had at present 50,000 freezers (Cost of each freezer is Rs 40,000) in the market. Their sales team is responsible for the monitoring and maintenance of those freezers. The retailers' job is to purchase stock, pay the electricity bills and keep the freezer clean. Unilever/Walls had a total of 30,000 retail outlets in the country. The identification of the retail outlet is the job of Unilever/ Walls sales force. They have an in-house criteria based on which they pick a retail outlet. The criteria includes 'consumer footfall' (how many people visit the shop), proximity to bakery, school, residential area, and main road. Location of freezers near cash counter or exit point is important for encouraging impulse buying, especially for hand held segments. Ordinary grocery stores place the freezers outside the shop/at the exit, while supermarket type stores place them at the back of the stores at fixed locations. Unilever/ Walls provides both glass top and hard top freezers but the glass top freezers sales is significantly higher by about 30%. With the advent of frozen ready to cook and eat foods, competition for floor space at retail outlets has increased. Unilever/Walls prefer to pick outlets that already have

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[82] Mr. Adeel Rasheed, Marketing Manager-Walls. Interview taken on 7 September, 2011 in Karachi.

[83] Interview of Mr. Ali Salman, Sales Director, Ice-cream taken on 30 August, 2011, Lahore.

freezers at the spot but do not have a Walls freezer. The reason for picking such retailers is that they already know how to handle the cold chain items and do not have to be trained.

Product lines are as follows**:**

BRAND	SKU	ML
PADDLE POP	CHOC DIP	28
	CHOC DIP (Renovated)	45
	ZOOM COLA	28
	ZOOM	28
	VANILLA CUP	60
	RAINBOW SWIRL	50
	FRUITY (NPD)	55
	ZAPPER	65
	SPIN	60
MOO	MOO FROOT	60
	MOO CONE	70
	WALLS FRUTTARE	60
	WALLS ZAPPER	65
	WALLS JET SPORT	50
	WALLS ZOOM	28
	WALLS KING KULFA	100
	WALLS PESHAWARI / FEAST CUP	100
	WALLS MANGO CUP	100
	WALLS VANILLA CUP	60
	WALLS BADAMI STICK	60
	WALLS PISTA BADAMI (LTD EDITION)	60
	WALLS CORNETTO CLASSIC	110
	WALLS CORNETTO CARAMEL DISK	120
	WALLS POP CONE	100
	WALLS MOO CONE	70
	WALLS FEAST	80
	WALLS MAGNUM ALMOND	85
	WALLS MAGNUM CLASSIC	85
	WALLS DONUT	95
	WALLS CHOC BAR	55
	WALLS MOO FRUIT STICK	60
	WALLS FRUITY	55
	WALLS CHOC DIP	45
HALF KINGS KULFA		450
HALF MANGO		450
ONE CHOCOLATE		800
ONE STRAWBERRY		800
ONE KK		800
ONE MANGO		800

ONE TUTTI FRUITI	800
ONE VANILLA	800
BUCKET KINGS KULFA	1400
2-IN-1 CHOCOLATE VANILLA	1500
2-IN-1 STRAWBERRY VANILLA	1500
2-IN-1 MANGO VANILLA	1500
2-IN-1 CHOCOLATE CARAMEL CRUNCH	1400
TUB ALMOND AND CRUNCH	800
TUB STRAWBERRY TICKLE	800
TUB VANILLA CHOCOLATE	800
BADAMI TUB	900
ALMOND PRALINE	900
SWISS DELIGHT	900
VANILLA HEAVEN	800
STRAWBERRY PASSION	800

EXHIBIT 9

Major Players of the Frozen Foods Industry: Ice cream

OMORE ICE CREAM

Engro Foods Limited was officially launched as a fully owned subsidiary of Engro Corporation in 2004. Using dairy as a stepping stone to enter into the food business, Engro Foods invested heavily in milk processing, milk collection infrastructure and established milk processing units in Sukkur and Sahiwal, along with an ice cream production facility in Sahiwal. The decision to locate the plant at Sahiwal was taken because there would be larger throughput, and the buying power of consumer in Punjab is higher and the outlets drop size is bigger. The designed production capacity in 2009 was nearly 10 million liters per annum and 6.9 million was utilized, whereas in 2010 the designed capacity was enhanced to 19 million liters and 12.6 million liters were produced.[84]

The company has now diversified into other businesses as well. They have ventured into rice processing plant for grain exporting, a farm, and acquisition of Al Safa – a fast growing and established Halal meat brand. Engro Foods is now venturing into the North American market starting from Halal Foods category. The new organization, Engro Foods Canada Ltd. with a subsidiary Engro Foods USA, LLC, intends to aggressively expand the business in this market.

Engro Food launched its Omore brand of ice-cream in the city of Lahore in March 2009 with a heavy marketing budget. The aim of Omore is to be a major player in the industry. They are providing freezers and maintenance to the retailer plus a commission for carrying stock and provide outlet related tools; signage, gondolas, window graphics. Although they could not break the retail industry norm of complementary freezers, they did not give in to other demands of the retailers, thereby leaving the industry dynamics undisturbed.

They hired a third party, a logistics company, to set up a cold store point at Lahore and Islamabad. These points would be used to stock ice-cream from the factory, which was the hub. The Lahore and Islamabad points were also used for re-loading to smaller vehicles for distribution to retail outlets. The system used in 2009 was called *Direct* model. In this model, although vehicles and drivers were of the third party, the order booker and delivery person were Engro Foods employees. The order booker took the orders from retail outlets and fed the data into the supply chain system. A load sheet was generated according to the routes and the vehicles were loaded by the third party. Before departure the vehicle was physically checked by the Engro salesperson to ensure the loading was correct. He was also responsible for collecting money from the retail outlets.

Omore was launched in Karachi in spring of 2011, with a "conquer Karachi" advertising strategy that involved television, radio, activation, ambient and digital working in tandem. Engro spent around Rs 200 million on marketing expenses[85]. The current top of mind awareness is

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[84] Annual report 2010 available at http://engro.com/2010/02/22/2009-annual-report/

[85] Interview with Mr. Salman Goheer, Head of Supply Chain, Dairy & Ice-cream business, Engro Foods Limited, taken on 7th September, 2011 in Karachi.

11%. As a result of the aggressive advertising campaign, Walls has also stepped up their advertising spend in 2011. While they have 5 distributors in the northern region (Multan to Peshawar), they have two distributors in Karachi. The model for Karachi is different. The vehicles, loaders and the warehouse are owned by a third party logistics company while the sales team and order takers are distributors' employees.

Besides distributors, Omore also has Sales Point Depots (SPD). They provide freezers to the SPD owners and a route. Lahore has 30 SPD's who are independent of distributors. Nationwide, they have about trikes operating. These trikes generate about 18% of the business.

Omore has a variety of products catering to all segments of the society. They have spent money on brand building also. The take home segment accounts for 30% of their sales and impulse accounts for 70% of sales.

BRAND	SKU	ML
OMORE	CHOC HEAD	28
	MILKY VANILLA	28
	MINI KULFI	28
	ORANGE ICE LOLLY	32
	LEMON ICE LOLLY	32
	LICK A FLAVOR	55
	LICK A FLAVOR (NUTTY)	55
	VVROOM (CAR)	65
	BUBBLE GUM LOLLY	28
	GELLICKS	28
	VANILLA CUP	60
	OMORE JELLICKS	28
	OMORE LICK A FLAVOR / DASHER	55
	OMORE ORANGE ICE LOLLY	32
	OMORE BUBBLEGUM LOLLY	28

	OMORE LEMON LOLLY	32
	OMORE KULFA CUP	100
	OMORE VANILLA CUP	60
	OMORE KULFI	60
	OMORE MINI KULFI	28
	OMORE UTH CARAMEL CRUNCH / STRAW CHEESE CAKE CONE	110
	OMORE VANILLA CHOCOLATE CONE	110
	OMORE UTH TRIPLE CHOC CONE	110
	OMORE VANILLA STRAWBERRY CONE	90
	OMORE VANILLA MANGO CONE	100
	OMORE ALMOND AFFAIR	80
	OMORE CHOCOLATE TEMPTATION	80
	OMORE LICK A FLAVOR (NUTTY CHOC BAR)	55
	OMORE CARAMEL CHOC BAR	57
	OMORE CHOCOLATE STICK	28

EXHIBIT 10

Major Players of the Frozen Foods Industry: Non -Ice cream

K &N's Foods (Pvt) Ltd. *(K&N's)*

Prior to 1963, there was no commercial poultry production in Pakistan. All chickens were backyard poultry known as 'Desi[86]', grown mainly by families, in small numbers of 4-10 chickens around their own homes, in the villages. No cash outlay was required and the chickens scavenged on crop residue and kitchen waste. These *Desi* chickens were expensive and the production in 1959 was around 8270 tons.[87] In 1963, the Government of Pakistan (GOP) launched a "Grow more food" campaign, with the aim of producing more chicken, eggs and fish. Poultry farming income was tax exempted. Government officials who were previously forbidden to undertake business activities were allowed by GOP to undertake poultry and agriculture production. Lever Brothers Pakistan Ltd (LBPL) set up a poultry feed mill in Pakistan and also imported a small flock of genetically improved egg layers for experimentation.[88] In 1963, Pakistan International Airlines collaborated with Shaver Poultry breeding Farms of Canada and began a poultry breeding operation in Karachi.

Mr. Khalil Sattar[89], as a college student, established a small broiler farm of 1,000 chicks in 1964 and called it *K&N's* Poultry Farm . His father was the owner of Pakistan Oil Production, an oil producing unit. Mr. Sattar began his business of poultry by initially using the oil producing unit's premises and then moved to acquiring a separate piece of land for setting up his plant. Mr. Sattar bought his chicks from PIA Shaver and feed from LBPL and began his business selling fresh chicken meat to two local five star hotels as well as some foreign consulates. According to Mr. Sattar[90], LBPL, PIA Shavers and an expatriate, who was a United Nations employee and an expert in chicken, helped and guided him through the initial process. By 1970, commercial production of "broiler" chicken increased to 3099 tons chicken meat from 222 tons in 1965. The industry faced an uphill task in selling the chicken and eggs as there was a negative perception about both eggs and chicken meat among the consumers, who regarded 'Desi' chicken as superior. In spite of these issues, the number of units being set up increased (mainly because of GOP incentives) and production of chicken meat rose to 7350 tons in 1975[91] , 20215 tons in 1980 and 38481 tons in 1985. During this period, from 1981-1985, the industry's cost of production went up due to higher feed prices, disease problems, lower productivity and marketing/sales problems.

From 1964 onwards, *K&N's* Foods expanded its production activities. Mr. Sattar set up his own feed mill to produce feed for K&N's operations at Karachi in 1971. With the growing need of feed for the integrated production operations in central Punjab province and northern areas of the country, a feed mill established by a multi-national company at Lahore, was acquired by K&N's to take advantage of low-cost feed ingredients available in the central part of Pakistan.

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[86] In the USA/Europe now, the same chickens are called Free-Roaming Chickens.
[87] Economics of Poultry Production, West Pakistan Agriculture University, Lyallpur, 1969.
[88] The Pakistan Poultry Industry and Policy Framework, 1987. GOP/USAID
[89] CEO of K&N's Foods.
[90] Interview taken on 8 September, 2011 in Karachi at *K&N's* Office.
[91] All figures of 1975,1980 and 1985 from Pakistan Poultry Association.

In 1974, Mr. Sattar decided to move into breeding and since then, through an exclusive franchise agreement, K&N's is the sole producer and distributor of Babcock pullet chicks for Pakistan's market. Broiler breeding began in 1981 to increase the supply of day-old broiler chicks to commercial broiler farmers. At that time, K&N's was selling broiler chicks to farmers who grew them for five to six weeks. Most producers had less than 5,000 broilers per shed, fed them manually and usually housed birds in thatched-roof sheds. In 2001, K&N's returned to broiler growing with a larger scale, with controlled-environment facilities that laid the foundation for this type of production in Pakistan. Currently K&N's has six broiler growing facilities, each with a capacity for 250,000 to 300,000 birds with back-up generators, as power breakdowns occur regularly, lasting six to eight hours at times. In 2008, K&N's reached an agreement to become a Cobb grandparent franchise, producing Cobb 500 parent stock for their own breeding program and supplying other breeding companies to help rebuild the industry.

After the acquisition of Artel groups *Value Chicken*, K&N's updated some of the machinery. Consequently, K&N's post 1999 consisted of layer and broiler breeding, hatching, feed milling, broiler growing, poultry processing and production of ready-to-cook & fully cooked chicken products.

"A strong livestock and poultry sector is essential for the health and well-being of the agro-economy. It is the largest consumer of agro and livestock residue and by products such as oil seed meals, wheat bran, rice polishing, broken rice, corn gluten meal, guar meal, fishmeal and animals' by-product meal. This impacts food prices of items such as edible oils, flour, rice, fish, meat etc by helping to reduce the costs of these items and encourage the farmer to produce more, as the crop prices rise due to demand from the feed mills. The poultry sector in 2007-08 consumed 2.7 million tons of coarse grains, contributing to 1.7% of the GDP. Poultry production which has also released the pressure on the demand for alternate meats, helping to lower prices of chicken meat over the years and increase per capita consumption. In the year, 2007-08 per capita consumption of chicken meat was 5.78kg in Pakistan, helping to narrow down the protein gap. The poultry industry is driven by volumes and only those players will survive in the processed poultry industry that is fully integrated."[92]

[92] Interview taken of Mr. Khalil Sattar, CEO of K&N's Foods on 8 September, 2011 in Karachi at K&N's Office.

The products produced by their processing unit today include:

Processed Chicken **Raw meat**	**Ready-to-Cook Products**	**Fully Cooked Products**	**Deli Line**
Premium Designer Cuts Boneless Meat	Chapli Kabab Tender Pops Haray Bharay Nuggets Shami Kabab Hot Tenders Nuggets Croquettes Burger Patties Chicken Tempura Kofta Combo Wings Fun Nuggets	Seekh Kabab Kafta Kabab Chunks	<u>SKINLESS SAUSAGES</u> Breakfast Sausage Cocktail Sausage Frankfurter Sausage Hot Franks Jumbo Frank Sausage <u>COLD CUTS</u> Bologna Slices Mortadella Slices Pastrami Slices Pepperoni Slices <u>SMOKED MEATS</u> Smoked Breast Fillet Strips

EXHIBIT 11

Major Players of the Frozen Foods Industry: Non -Ice cream

Seasons Foods Pvt. Ltd (*Menu*)

Seasons Foods Pvt. Ltd was established in 2006 as a pilot project. It is a new venture of National Group of Companies (NGC). NGC has played a pioneering role in the poultry business for the last 22 years, becoming the largest producers of poultry and cattle feed in Pakistan, having three manufacturing facilities in the country (National Feeds, Punjnad Feeds & Supreme Feeds). Other poultry businesses of this group include breeder and broiler farms & hatcheries (Supreme Farms). The group also owns two units producing flour (National Flour Mills & Supreme Flour Mills) under the brand name of *Punjab Atta* and two units producing edible oil (Wali Oil Mills) under the brand name of *Seasons*. As part of a diversification strategy, the group felt there was a need to move into a fully integrated related business. "*In raw chicken there is no margin. In value addition one makes money*"[93], says Mr. Imran Ejaz, Director of Seasons Foods. The project came into full operation in 2009, with cold stores in Rawalpindi, Lahore and Karachi.

FRESH	FROZEN	VEGGIE PRODUCTS	READY-TO-COOK	READY-TO-EAT	WHEAT PRODUCTS
Wholebird	Wholebird	Potato Samosa	Chapli Kabab	Seekh Kabab	Plain Paratha
Boneless Breast	Boneless Breast	Vegetable Samosa	Kofta	Tikka Bites	Whole Wheat
Mince	Mince	Punjabi Samosa	Nuggets	Gola Kabab	
Wings	Wings	Potato Cutlet	Popcorn Chicken		
Karahi Cut	Karahi Cut	Vegetable Cutlet	Burger Patties		
Drumsticks	Drumsticks	Vegetable Spring Roll	Chicken Tempura		
Boneless Handi	Boneless Handi Cut		Shami Kabab		
			Chicken Spring Roll		
			Chicken Vegetable Samosa		
			Chicken Samosa		

[93] Interview of Mr. Imran Ejaz, Director Seasons Food taken on 20 August, 2011 in Lahore.

Seasons Foods has invested in the infrastructure; refrigerated trucks, -20C warehouses and investment in freezers at independently owned grocery stores and self-owned retail outlets. Seasons Foods directly supplies from their factory to grocery/retail outlets in their own trucks. These independently owned retailers are important for the consumer, as the consumer wants convenience and reach. The manufacturer needs the spread and cannot afford to open a large number of outlets. Consequently, Seasons Foods places freezers in various independent grocery outlets. These freezers are owned and maintained by Seasons Foods. They are now using a special freezer, locally made, which has the capacity to maintain temperature, even when electricity cuts occur in the city. The electricity bills of the freezers' are met by the retail outlets through commission offered to them. They currently have 800 freezers in the national market.

Seasons Food has divided the country into three regions. The plant in Lahore feeds one region and the other regions have warehouses'. Seasons Foods, supply to their out of city warehouses in Karachi and Islamabad/Rawalpindi, from where their own sales and distribution staff feeds the retail outlets. Sometimes they hire third party trucking companies to cope with excess demand from out of city. Besides, this they have 16 self-run outlets; 4 in Karachi, 2 in Islamabad and 10 in Lahore. These outlets are manned by their own sales staff and Seasons food deliver supply. "*These outlets just about break even because even though sales are very high, higher than any individual regular grocery outlet and the overheads are higher. They are more of an image building mechanism. They are a marketing tool not a sales building tool,"* says Mr. Imran Ejaz, Director Seasons Foods. However, he felt it gave them an opportunity to educate the consumer about how Seasons Foods was offering them a better quality product, how to handle the product etc. Seasons Foods has tried to create 'a breathing space for itself' by diversifying into veggie-based products and exporting samosas, spring rolls, parathas etc to the Pakistani/Indian diaspora in Canada and Australia.

EXHIBIT 12

Major Players of the Frozen Foods Industry: Non -Ice cream

Quick Food Industries (Private) Limited, (*Mon Salwa)*

Quick Food Industries (Private) Limited is an entity of Sanaullah Group of Companies, an old established business group of Pakistan. Sanaullah Group is primarily engaged in an extensive range of textile businesses. This includes processing, weaving, ready-to-wear and retailing.

Sanaullah Group of Companies comprises of 11 independent entities:

- Sanaullah Woolen Industries
- Sanaullah Textile Mills
- Sana Industries Limited
- Taqees (Pvt.) Limited
- Sanaullah Corporation (Pvt.) Ltd
- Sanaullah & Co
- Brother Combined (Pvt.) Ltd
- Bismillah Taqi Hospital
- Naqi Poultry Farm
- Quick Food Industries
- Sana Industries Ltd- (Arctic Zone)
- Glaciers (Pvt.) Ltd
- Connect Solution (Pvt.) Ltd

In 1997 the group expanded and diversified its business activities to include the frozen food sector by launching the company Quick Food Industries with its brand *MonSalwa***.** Quick foods also handles the sale and distribution of McCain International in Pakistan to 270 restaurants. (World's No.1 manufacturers of potato based products). Mon Salwa distributes its product range in 15 towns/cities of Pakistan, covering 5 metros (Karachi, Lahore, Islamabad and Rawalpindi Peshawar and Quetta) and towns in interior Sind province. They hire a third party for inter-city transport from Karachi factory to Lahore/Islamabad but have their own vehicles (20) for intra city transport. They have a store coverage of approx. 350 outlets and the freezers in the market is around 450 as they have placed 2- 6 freezers per store in number of stores to carry their product range. Some retail outlets stock the products in their own freezers and others have the Mon Salwa's freezers Commission varies from 12-20% on purchase price. They also provide merchandising support to retail outlets but do not do any advertising on television, radio etc. They export wheat and vegetable based products to 9 countries including UK. In U.K. an importer distributes the products to the ethnic market under the *Mon Salwa* Brand and *Frodoz* Brand.

Product range:

Chicken Based	Seafood Based	Veggie Based	Wheat Based
Chicken Seekh Kabab	Fish Fillet	Daal Kachori Bhaji	Lachhaydar Paratha
Chicken Tikka Boti	Fish & Chips	Cocktail Veggie Spring Roll	Plain Paratha
Chicken Cheese Balls		Cocktail Veggie Samosa	Onion Paratha
Chicken Samosa		Mon salwa French Fries	Whole Wheat Paratha Puri
Tangy Chicken Cutlets		Stuffed Aloo Paratha	Whole Wheat Chapati
Crispy Chicken Fillet		Chatpata Aloo Samosa	White Chapati
Chicken Nuggets		Chatpata Samosa	Tandoori Naan
Chicken Tikka			Garlic Naan:
PizzaCrispy			TaaftaanSheermal
Chicken Burger			Dahi Baday
Cheese Samosa			Daal Kachori Bhaji

Mon Salwa manufactures some of these items at their factory or through third parties locally and imports some other items and re-packs them in their packs. *"In 2005/ 2006, the market increased dramatically. Before that it was tough going. I had to diversify into warehousing for Wall's in Lahore, when it was not my core business. I had to look into exports in order to grow. Now the bulk of my sales come from the local market, about 85%. We supply to institutions: restaurants and also to household consumers via the grocery retailer. Demand for these products has increased as awareness has increased. Last two years the market has grown by more than 30%. One thing that has worked for us is the localizing of food products. For example Seekh Kababs sells well. The major constraint and challenge that the industry is facing now is the rising cost of production. The cost of electricity and livestock has gone up. Due to electricity shortage the market returns have increased. We cannot pass on these costs to the consumer so our margins are shrinking. However, there is great potential in this industry as the last few years have shown."*[94]

[94] Interview with Mr Talib Zaki, Director Operations, Quick Foods, taken on 8th September,2011 in Karachi.

EXHIBIT 13

Major Players of the Frozen Foods Industry: Non -Ice cream

PK MEAT AND FOOD COMPANY PRIVATE LIMITED *(PK)*

PK Meat & Food Company is a spin off from the original company, P.K.Livestock and Meat Co. (Pvt) Ltd owned by Mr. Tariq Mahmood Butt[95]. He set up the livestock business in 1998 to import and export livestock and sell processed chilled meat to GCC countries. PK is situated on the outskirts of Karachi, Pakistan. PK is an ISO22000 and HACCP certified company and follows 100% Halal slaughtering methods. PK sells chilled meat containers worth Rs. 750 to Rs. 850 million a year[1]. Mr. Butt's partnership with an Omani based meat processing company in 1991 later gave him the idea of setting up a plant in Pakistan. Since he had the raw materials and the processing capability, it was natural to extend the business into frozen and value added products. The project of frozen and processed foods (PK Meat) was set up at an expense of Rs. 1,070 million. There was no bank borrowing. The processing plant includes state-of-the-art processing and packaging units using hygienic and automated methods and produces ready-to-cook and partially cooked Mutton, Beef & Chicken products. PK's ready-to-cook and partially cooked products include burgers (3 variants and 2 Sku's), chapli kebabs (3 variants and 2 Sku's), shish kebabs (3 variants and 2 Sku's), meatballs (3 variants and 1 Sku's), mincemeat (2 variants and 1 Sku's), sausages (2 variants and 2 Sku's), as well as coated products such as chicken nuggets (1 variants and 3 Sku's), chicken popcorn (1 variants and 2 Sku's), crispy chicken burger (1 variants and 2 Sku's) and chicken fillet (1 variant and 2 Sku's).

The PK frozen product's brand was launched in the Karachi market in March of 2011, expanding gradually to other cities in Pakistan. They are currently in 7 towns of Pakistan. Each truck is imported. Currently they have 250 freezers in the market and plan to expand to 1500 by year-end. They also own a fleet of 15 trucks for delivery, out of which 5 are in active use. They employ a sales force and do limited advertising. They use out of home transit media, mainly 170 cabs/taxis that one hires at the airport.

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[95] Interview taken of Mr. Tariq Mehmood Butt, Managing Director, on 8 September, 2011 in Karachi.

EXHIBIT 14

Major Players of the Frozen Foods Industry: Non -Ice cream

Dawn Foods. *(DAWN)*

Dawn Foods is owned by the family that started Dawn Bread, in late 1981. Prior to the establishment of Dawn Bread, the largest producer of bread products was the public sector. Mr Ghulam Hussain and his brother Mr Fida Hussain set up the first plant in Karachi in October 1981. The quality was good, as they made sure that bread was freshly baked and supplied daily to numerous outlets in the city. As demand for their product grew, new plants were commissioned in Islamabad(1985), Hyderabad(Jan,1987), Lahore(Nov,1987), Multan, (1989) and Faisalabad (1992). Dawn Bread now has 35% of the consolidated market share of all bread products in the country.

Dawn Group of Companies, has diversified into a number of product lines. They have been exporting frozen Parathas to USA since 2001, now Dawn is enjoying Market Leadership in Paratha Category in USA, Canada & Australia. First ever food product from Pakistan to Japan is also Dawn Paratha. Recently they have moved into live bakery production at various grocery stores and self-owned outlets, under the brand name *Bread and Beyond*. *Dawn Margarine* was launched in December, 2009 along with *Dawn Mayo, Dawn Paste and Dawn Sauces*. Their export line under the *Mezban* brand consists of:

- Parathas (Aloo Paratha, Chai Paratha, Frozen Puri, Home Style Paratha, Onion Paratha, Plain Paratha and Whole Wheat Paratha)
- Naans (Frozen Sheermal, Frozen Taftan, Garlic Naan, Peshawari Naan, Roghni Kulcha, Tandoori Roti)
- Snacks and Appetizers (Mix Vegetable Cutlet, Mix Vegetable Samosa, Potato Cutlet, Potato Samosa, Punjabi Samosa, Vegetable Shami Kebab ,Vegetable Spring Roll)
- Ready to eat meals (Aloo Palak, Beef Chapli Kabab, Beef Seekh Kabab, Beef Shami Kabab, Bhagare Baingan, Chana Daal Halwa, Chana Daal Karaila, Chicken Chapli Kabab, Chicken Shami Kabab, Gajar Halwa, Karachi Vegetable Biryani, Lahori Chikar Chole, Lahori Chole, Lahori Karhi Pakora, Loki Halwa, Mix Vegetable Achari, Mix Vegetable Bhujya, Sarson Saag)

In 2009, the group decided to launch frozen foods in the local market under the brand name of *Dawn Foods* to take advantage of the brand equity of *Dawn Bread*.

Chicken based products	Wheat Based	Vegetable based
Chicken Chapli Kabab Chicken Cheese Kabab Chicken Kofta Chicken Malai Boti Chicken Shots Chicken Samosa Chicken Spring Roll Chicken Crispy Fillet Chicken Seekh Kabab Chicken Hot wings Chicken Crispy wings Chicken Shami Kabab	Plain Paratha Aloo Paratha Frozen Puri Tandoori Naan	Aaloo Samosa Punjabi Samosa Vegetable Spring Roll Vegetable Cutlets

They currently have sales in over 1400 outlets around the country. They supply their products to the following cities of Pakistan: Lahore, Faisalabad, Shiekhupura, Gujranwala, Gujrat, Sialkot, Kharia, Jala Pur Jattan, Jehlum, Dina, Mangla, Mirpur, Gujar Khan and Karachi and own 1000 freezers that are placed in these outlets.

They have a fleet of twenty five cold chain trucks to deliver products from their factory to the retailers. They also hire third party transporters to carry goods from factory to out of city. They launched their product by advertising on billboards in all major cities and have also carried out BTL activities. All products are produced in their factory at 39-Industrial Estate Kot Lakhpat Lahore and a new plant which is HECCIP, IFS, FDA, BRC certified for exports in meat based products are under process at.8-KM, RaiwindManga Road, Mouza Rossa Kasur.

EXHIBIT 15

Major Players of the Frozen Foods Industry: Non -Ice cream

ICEPAC LIMTED *(Icepac)*

The idea for setting up a vegetable processing plant was conceived in 1987 by Mr. Mansoor Arifeen, but it took another two years before the loan was sanctioned and the project was established. It was set up on the outskirts of Lahore and was based on locally fabricated machinery. Distribution of these packed, processed vegetables was limited to A-grade retail outlets that stocked the product in the freezers of the ICP's. Since frozen vegetables were a new concept, Icepac focused on those outlets that had freezers so that they would know how to handle the product.

"We not only introduced the idea of frozen vegetables and food to Pakistan, but also led the way in getting machinery locally made in Faisalabad and other cities to freeze vegetables. We had to get this done because the loan we were given was very small and we could not afford to buy imported machinery. We got the charts and drawings from abroad and produced a localized version. We still have the same machinery twenty years later. The idea of frozen vegetables in 1989 was very new. The infrastructure required to sell a frozen product was not there. It was very difficult to do three things; to tell the people, to present the product and then to distribute it. We did not anticipate that people would not accept this idea. We thought the idea itself should sell because even though vegetables are dirt cheap in season, they were expensive during off-season and also unavailable. Here we were selling clean, processed, and ready to cook vegetables all year round at a reasonable price. We felt that it would be appealing to the housewife. Unfortunately because we did not have the money, we were unable to get this message across. That was our biggest drawback when we started marketing. We also needed refrigerated trucks and whatever money we had was used in building the infrastructure needed to distribute the product. If there had been a third party when we began we would have grown tremendously and invested in marketing rather than infrastructure"[96]

As a result of these issues, Icepac Ltd changed its strategy from retailing to institutional selling and focused on the main hotels and restaurants for sales in the country. These institutions were very interested as they were getting an assured availability year round at a fixed price. Moreover, since the product was processed they saved money on employing manpower to process the raw vegetables at their premises. They were paying for convenience. For example 80% of raw spinach is eventually thrown and only 20% is the end product. It takes time to manually clean, wash and chop them in kitchens. Icepac would deliver their products to the customers' doorstep and did not have to invest in either freezers or advertising. However, they had to restrict their product range to the products that were bought by hotels and did not process a variety of vegetables. In 1992, in order to expand sales they began export of frozen vegetables

[96] Interview taken of Mr. Mansoor Arifeen, CEO, Icepac/Kold Karrier (Pvt) Ltd, on 19 September, 2011 in Lahore.

to a party in Dubai and in 1995 began selling ready to eat/fry localized products: samosas, shami kabab, seekh kabab, chicken tikka and chapli kabab.

"As institutions were spread all over the country, one thing led to the other. We had to have large and small trucks to deliver the products. We felt that if they were a cost center than it would not be feasible. Our trucks could not afford to go from point A to point B with very little amount of vegetables, so we started keeping other parties products. This lead to the formation of another company called Kold Karrier (Pvt) Ltd (KKL) in 1990, which was the first company in Pakistan to provide warehousing and transportation to third parties. These two companies Icepac and KKL support each other but are separate revenue generating businesses. All transportation is carried out by KKL. We had to continuously struggle and innovate to stay in business."

Now Icepac does not own any trucks. KKL owns 65 trucks, large, medium and small and is providing transportation to a number of customers including Icepac. Only 10-15% of Icepac sales are in retail and the rest come from institutions/exports. Icepac, has now about 40-50% of the market share, the rest taken up by modern trade and other small competitors who do not have production facilities but are importing frozen vegetables and re-packing for sale in Pakistan. "*In the past twenty years the market has grown. McDonald's and KFC import huge quantities of French fries. French fries are a high volume high turnover product. The operating cycle of French fries is 120 to 160 days; consumption is high resulting in a lot of money being tied up. Even though companies are importing vegetables, we have an advantage; our cost of production, mainly raw material, is lower than others. We are riding the tide and hopefully in the future this company will give us dividends."*[97]

Over the years, Icepac has increased its range of products so that the revenue may increase per freezer. This includes imported ice cream as well as the ready-to-fry range. They have about 150 freezers in the market and cover the four major cities of Pakistan and a few towns, which are situated along the main highways.

Below is the product list:

- Green Peas (1Kg and 400 gram)
- Green Beans (400 gram)
- Carrot Cubes (2.5 kg. and 400 gram)
- Spinach Cut (2.5 kg. and 400 gram)
- Okra (Whole) 350 gram
- Sweet Corn (1Kg and 400 gram)
- Super Sweet Corn (1Kg)
- Lemon Juice (800 gram)
- Mix 2- (Peas + Carrot) 1Kg and 400 gram
- Mix 3-(Peas + Carrot + S. Corn) 1Kg and 400 gram
- Mix 3-(Peas + Carrot + G. Beans) 400 gram
- Mix 3-(Peas + Carrot + S. Corn)

[97] Interview taken of Mr. Mansoor Arifeen, CEO, Icepac/Kold Karrier (Pvt) Ltd, on 19 September, 2011 in Lahore

- Mix 4-(Peas + Carrot + G. Beans + S.Corn) 400 gram
- Strawberry (Imported) 1Kg
- Black Berry (Imported) 1Kg
- Chicken Samosa
- Mutton Samosa
- Beef Samosa
- Vegetables Samosa
- Chicken Shami
- Beef Shami
- Mutton Shami
- Chicken Seekh
- Beef Seekh
- Beef Chappal Kabab
- Chicken Chappal Kabab
- Cheese Puff
- Chicken Cheese Puff
- Vegetables Cheese Puff
- Chicken Tikka
- Chicken Boti
- Unikai 2 Liter Soft Scoop
    - Fruit Salad 2 LTR
    - Strawberry 2 LTR
    - Vanilla 2 LTR
    - Mango 2 LTR
    - Chocolate 2 LTR
- Unikai 1 Liter Soft Scoop
    - Fruit Salad 1 LTR
    - Vanilla Strawberry 1 LTR
    - Strawberry 1 LTR
    - Vanilla 1 LTR
    - Chocolate 1 LTR
    - Tripple Fun 1 LTR
    - Mango 1 LTR
- Unikai 1 Liter Sugar Free
    - Strawberry 1 LTR
    - Vanilla 1 LTR
    - Chocolate 1 LTR
- 70 ML Chocobar S/F
- Margarine 200grm

EXHIBIT 16

Minor Players of the Frozen Foods Industry: Non -Ice cream

Euro	**Food Mart**	**Desi King**	**Fine Foods (Metro Private Label)**
Beef Shami Kabab 8pcs	Beef Shami Kabab 6pcs	Aaloo Paratha	Chopped Spinach 1kg
Chicken Shami Kabab 8pcs	Chicken Shami Kabab 6pcs	Puri Paratha	Mix Vegetables 1kg
Special Pizza	Chicken Samosa	Makai ki Roti	Sweet Corn 1kg
Beef Chapli Kabab	Cheese Samosa	Chapati	Green Peas 1kg
Seekh Kabab	Chatpata Samosa	Chicken Paratha	Diced Carrot 1kg
Chicken Kofta	Kachori Bhaji	Qeema Paratha	Plain Paratha
	Chicken Kabab Roll	Bundu Khan Paratha	Chicken Burger Fillet
	Plain Paratha	Basin Paratha	Chicken Hot Wings
	Aaloo Paratha		
	Puri Paratha		
	Baisni Roti		
	Chapati		
	Chicken Tikka Pizza (S,M,L)		
	Cheese Pizza		
	Spicy Chicken Nuggets		
	Chicken Nuggets		
	Chicken Burger		
	Beef Burger		
	Chicken Chapli Kabab		
	Seekh Kabab		

D Foods	**HoReCa Select(Metro Private label)**	**Kitchen Confidence**
Popcorn Chicken	Fommes Frites (9 x 9) 2.5kg	Beef Shami Kabab 8pcs
Chicken Hot Shots	Pommes Frites (6 x 6) 2.5kg	Chicken Shami Kabab 8pcs

Chicken Burger Patties	Spicy Wedges 2.5kg	Hi-Tea Chicken Samosa 24pcs
Chicken Vegetable Burger Patties	Green Peas 2kg	Chicken Samosa 24pcs
Chicken Chapli Kabab	Sweet Corn 2kg	Chicken Samosa 12pcs
Beef Chapli Kabab	Mix Vegetable 2kg	Vegetable Samosa 12pcs
Seekh Kabab	Chicken Burger Fillet	Chicken Rolls 8pcs
Gola Kabab	Chicken Hot Wings	Chicken Nuggets
Chicken Kofta		Cheese Nuggets
Fish Burger Patty		Chicken Burger Patties
Fish Biscuit		Seekh Kabab
Fish Fillet		Chicken Kofta
Fish Finger		

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