



Pahilo: An Overview

www.pahilo.com

Nepal's Online Wholesale Marketplace

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Executive Summary

There are around 800,000 small and medium enterprises in Nepal (formal/ informal), which contribute to over 80% of employment generation and shares more than 70% of the industrial sector's contribution to the national GDP. Despite of such significant number of enterprises, Nepal continuously suffers from huge trade deficit. The market statistics shows a vast untapped market for Nepalese enterprises, with proper resources and a strategic market penetration approach; these companies have good opportunity to expand their business in local and global front which would help in balancing the trade deficit, contributing to the overall national economy.

Most of the enterprises in Nepal have traditional management practice, low capital base, and an undeveloped entrepreneurial culture. Some major challenges they face are marketing constraints, lack of exposure, and delay in time of delivery, trade assurance problems, and lack of resources to shift to a business to business (B2B) trading platform. In such circumstances, the businesses have high risk of losing out to other global players.

In order to overcome these hurdles, we have developed an online business platform; **www.pahilo.com**. We aim to empower the Nepalese enterprises through expanding their market scope, providing them assured trading platform and enhancing supply chain system by integrating internet technology. The business model of Pahilo is fundamentally based on a B2B model centered on paperless Trading idea. Much of the innovation is done in the business end part of the project. In order to assimilate Nepalese business houses, expose them to a global market, provide them with trade assurance and optimize their delivery system, Pahilo has dedicated mind, time and resources.

With continuous increase in number of companies, even a significant fraction of them being assembled with Pahilo would ensure the project will run as a viable business. The current revenue generation stream is through a charge on per transaction basis. After accumulation of a certain number of sellers, Pahilo will move into membership model reducing cost for a single member, while maximizing revenue for Pahilo by increasing the number of members. With all the market players intact, the profits for Pahilo shall be significant.

Introduction

Small and medium enterprises (SMEs) are considered to be the engine of economic growth through employment generation, contribution to gross domestic product (GDP), technological innovations and other aspects of economic and social development. The importance of SMEs is more emphasized for developing countries in particular, as they hold tremendous potential for sustained growth. Nepal Industrial Policy 1992 has defined small scale industries as enterprises that have fixed assets of up to 30 million Nepalese Rupees and medium enterprises as industries with fixed assets ranging from 30 to 100 million Nepalese rupees.

There are around 800,000 small and medium enterprises in Nepal (formal/ informal), which contribute to over 80% of employment generation and shares more than 70% of the industrial sector's contribution to the national GDP. Among these SMEs, 76% are involved in Agro related business and 24% are involved in non-Agro business. In terms of women empowerment, SMEs make a huge impact as there are around 300,000 women entrepreneurs related to SMEs. Hence, the role of SMEs seems relatively greater in Nepal, which is positive in terms of economic growth of the country.

Most of the Nepalese enterprises are involved in production, processing and manufacturing of agricultural produces, consumer goods, and textile related products which are marketed both domestically and globally. The agro-industry is involved in production and manufacturing of products such as rice, wheat, pulses, oil, flour, fruit juices, and processed products such as dried fruits, noodles, biscuits and light snack, chocolates and candy and so on. Other areas where the SMEs are involved in are forest fiber based industries, wooden and metal handicrafts, apparels and garments, handmade paper and products, woolen carpet and garment, pashmina clothing, rugs and leather products, tea and coffee industry, and dairy enterprises. Companies are also highly involved in plastic and metal utensils, wooden, plastic and metal furniture, jute products, livestock products, wire drawing, nail and iron rod, sheet metal, rubber tires and tubes, plywood and boards, paint products and zinc oxide. It is also very important to note that at micro and cottage level a sizable number of unregistered enterprises operate on a seasonal basis adding up to the contribution the SME sector makes to the national economy.

Current Scenario of Nepalese Enterprises based on Export Performance

From a wider perspective, it is firstly imperative that we understand the current trading scenario of Nepal. The trade balance is calculated as the difference between exports and imports. If exports exceed imports, representing a trade surplus, national production exceeds national consumption. In case of Nepal, as seen in the data provided by Nepal Rastra Bank, shown in Figure 1 below, Nepal recorded a trade deficit of 95131.10 Million NPR in December of 2017. Balance of Trade in Nepal averaged -29408.60 Million NPR from 2001 until 2017, reaching an all-time high of -3913.30 Million NPR in October of 2001 and a record low of -95131.10 Million NPR in December of 2017. The trend of trade deficit is also not consistent, varying in large

amount of money. The highest export was 8561.80 million NPR while the lowest export record was of 2831.60 million NPR. This showcases the seasonal nature of export tendency in Nepal.

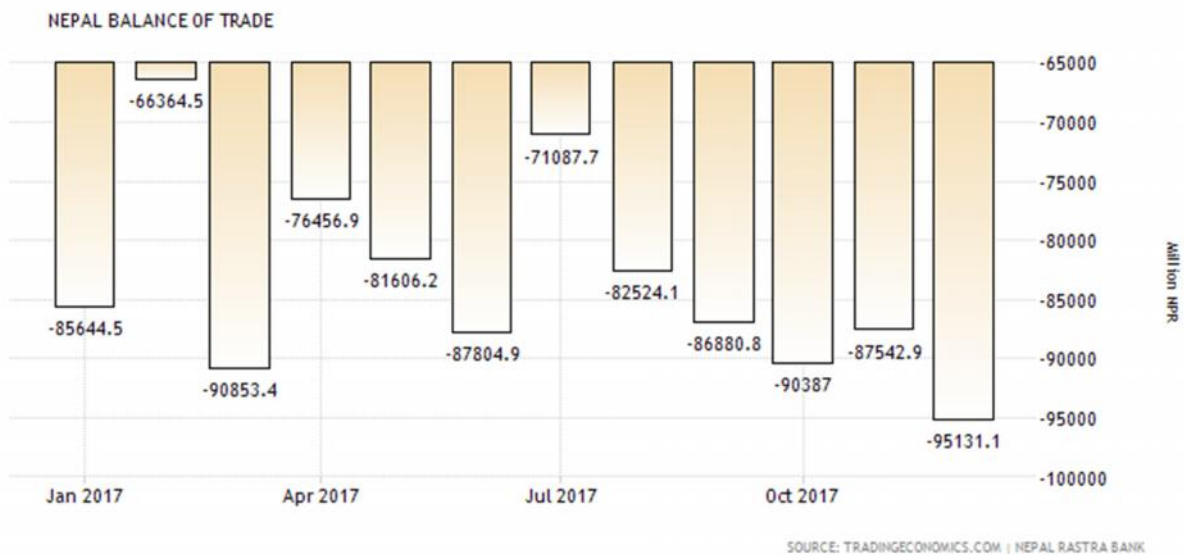


Figure 1: Nepal Balance of Trade for the year of 2017

If we analyze the trend in the balance of trade for the past ten years we can see that the trade deficit is growing larger and larger. As shown in Figure 2 below, from the year 2008 to 2017, the negative spiral of trade deficit is steep and following a downward trajectory.



Figure 2: Nepal Trade Deficit Trajectory from 2008 AD to 2017 AD

These figures imply that there is a huge imbalance in the export and import performance of Nepal. More worryingly the trade deficit is growing bigger as we move ahead which is fatal to the development of Nepal. Nepal's lack of infrastructure and geographic constraints has led to

chronic trade deficits. Nepal mainly exports iron and steel, knotted carpets, textiles, plastics, hollow tubes, beverages and vegetables. Nepal mainly imports oil, gold, iron and steel, clothes, pharmaceutical products, cement, electronic appliances, food and vehicles. In Nepal, around 96 % of the industry is classified as small, medium, and cottage industry. Hence the role of small and medium enterprises in reducing the trade deficit and importing foreign currency is foremost of all.

The current export scenario indicates that well performing export oriented SMEs are creating a higher market value. These enterprises are mostly involved in cash crop, handicraft, medicinal plant, and carpet and textile sector. Prevalent data and the findings of this study have recognized the following sectors as having medium to high export potential.

- Silk and Pashmina Products – High export potential
- Cardamom – High export potential
- Pulses – High export potential
- Medicinal Herbal Products – High export potential
- Tea – High export potential
- Felt Products – High export potential
- Handmade paper products – High export potential
- Beverage and mineral water – High export potential
- Wooden Handicrafts – High export potential
- Apparels, textile and clothing – High export potential
- Wooden Furniture – Medium export potential
- Leather Products – Medium export potential
- Ginger – Medium export potential
- Plants and Cut flowers – Medium export potential
- Honey – Medium export potential
- Coffee – Medium export potential
- PVC and plastic products – Medium export potential
- Essential oils – Medium export potential
- Metal products – Medium export potential
- Vegetable fats, oil, seeds – Medium export potential
- Gold and silver jewelry and precious stones – Medium export potential

Source: Trade and Export promotional Center (www.tepc.gov.np)

There is huge untapped market for Nepalese enterprises, with proper resources and a strategic market penetration approach; these enterprises have good opportunity to expand their business in the global front. Without any shadow of a doubt, the way ahead for economic growth of the country is by cutting down the current trade deficit. The empowerment of Nepalese enterprises will play the most crucial role in realizing this goal.

Common Features of SMEs

Our research on Nepalese SMEs related to various sectors has found few similar characteristics common to all the sampled SMEs. These common features are helpful to build up a solid strategy on developing the SME sector as a whole. The common characteristics are: propagate

- Most of the SMEs cater to local market only although their product class has huge demand in international market, only a few SMEs are actively involved in regular export transactions. And even those exporting are finding it difficult to expand their market this is due to lack of international market exposure, poor quality control, delivery time complications, and limited production.
- SMEs are in most cases family owned and all the business decisions, management and ownership responsibility of the enterprise usually fall to a single person
- It is extremely difficult for SMEs to increase their credibility worth as major source of equity is managed from personal or family savings, this in turn impedes growth
- Managerial skills are considered of less to no importance, SMEs are focused on production and largely ignore opportunities to grow their business due to lack of market knowledge
- Almost all of the SMEs have no acquaintance to Information Technology and they are largely unaware of using the Internet technology to surge their customer base

Challenges faced by Nepalese SMEs

Most of the SMEs in Nepal have traditional management practice, low capital base, undeveloped entrepreneurial culture and poor knowledge of market and business opportunity. To be more specific, here are some major challenges for Nepalese SMEs we uncovered in our study.

- Provided their size and limited access to resources, marketing constraints is one of the biggest challenges faced by SMEs
- Exposure to international market is limited, even those involved in international trade have only a few regular buyers, the growth of market in global front is largely stagnant
- Timely delivery and delivery cost is a problem. SMEs do not have adequate knowledge to tackle shipping issues, custom clearance problems, payment gateway issues and so on
- During international transaction, trade assurance is a major hurdle for both the SME and the buyer
- Most of the business is done in business to consumer (B2C) model, and while there is an immense scope of venturing into business to business (B2B) model to generate larger revenue, SMEs are not able to capture the opportunity due to concentrated market, low production, and supply chain problems.
- As the time goes, Nepalese SMEs are facing mounting challenges from other global players such as China and India and losing valuable section of their market.

These challenges have become more profound due to rapid globalization and economic liberation. If not addressed properly, these hurdles will result in a situation where Nepalese SMEs will lose out to other global players. SMEs need to be more conscious towards generating financial resources, product quality enhancement, acquiring greater market share, and attaining right choice of technology suited to their specific needs.

These challenges along with the importance and contribution of SMEs towards the national economy are well understood by all the stakeholders. Although the sector has huge economic importance, there are many things that can be done for the development of this particular sector. Although various agencies and committees (both government and non-government) have been constituted to find solutions aimed at solving the problems faced by the SMEs sectors very little progress has been apparent.

We aim to contribute in the development of Nepalese SMEs. We have developed an online business platform in this regard and named it www.pahilo.com. We aim to empower the Nepalese SMEs sector through expanding their market scope, providing them assured trading platform and enhancing supply chain system by integrating internet technology.

About Pahilo

Pahilo.com is an online business platform where the Nepalese enterprises can showcase their products to the local as well as global market. The site is solely focused in empowering Nepalese enterprises and hence allows Nepali products to be featured. Pahilo seeks to assist in the growth of economy of enterprises by helping them overcome the challenges they face mentioned beforehand. Pahilo is not just a website but a complete online trading ecosystem.

Pahilo as a system

The business model of Pahilo is fundamentally based on a Business to Business (B2B) model. Pahilo recognizes much of the innovation needs to be done in the business process end of the model. While acting as a trading platform, pahilo has to integrate many back end functionalities in order to perform effectively. Few key entities of the business process are as follows:

- **Marketing Platform** – Pahilo provides Nepalese enterprises a marketing platform which consists of Nepali products allowing the companies to have an online stage which categorically highlights the niche. The marketing of pahilo as a product would hence ensure the marketing of all its associated suppliers which allows the products of Nepalese companies to be exposed to a global audience without the need for them to carry out any marketing expenses.
- **B2B Business Model** – The current trading practice of Nepalese companies is largely in a Business to Consumer (B2C) model. Though there are more than enough business houses locally and globally to integrate a Business to Business (B2B), SMEs do not have the reach of stretch to that market. Pahilo aims to add a B2B marketing concept within

the capable companies by linking them to other business houses so as to exponentially grow their revenue stream.

- **Trade Assurance** – A major hurdle in online trading especially in international trading is “uncertainty”. From supplier’s perspective, uncertainty of receiving the agreed upon payment and from consumer’s perspective, uncertainty of receiving the agreed upon quantity, quality of goods, or uncertainty of receiving the goods altogether. Pahilo with its business process acts as the middle entity which provides a guarantee of payment to the supplier (SME) and a guarantee of shipment of specified product to the buyer.
- **Logistic Suggestions** – Companies in Nepal are scattered all over the country. Many of them particularly ones out of Kathmandu valley have to suffer various difficulties like timely delivery of products, having to endure heavy transportation costs, and untrustworthy delivery services. Pahilo aims to manage the supply chain system of these enterprises by optimizing the products transport system through clustering the companies based on their location. This would minimize per unit transportation cost and maximize profit for the seller.
- **Verified and Dedicated Members** – Pahilo currently has three membership schemes for the seller. The first one is basic membership, which is free to use and provides limited privileges to the seller. Next one is verified member, this is paid membership scheme and the sellers in this scheme have full privileges provided by pahilo. These suppliers are also marked as verified by the system which increases credibility. The third and final type of sellers is dedicated members. This scheme is specially targeted for non-tech savvy SMEs. Under this scheme all their technical business process are handled by pahilo on behalf of the seller.
- **Technically Robust System** – Pahilo as a website: www.pahilo.com has taken various measures to ensure that the system is robust; reliable and error free. The design of the site is simple, contents are genuine and trustworthy, overall functionality is fault free, site navigation and usability are smooth, data security is prioritized, and search engine optimization is vitalized. To make sure the website will be durable and expandable, factors like accessibility, compatibility, well planned information architecture, scalability, browser consistency, valid markups and clean codes, user friendly forms, and error handling system have been carefully considered.

Key Features of Pahilo

These are some key features incorporated in Pahilo which are significant in operating an online trading system in context of Nepal.

- **B2B Platform** – At first glance Pahilo acts as a platform for sellers and buyers to showcase and browse products respectively. Detailed product and supplier details are provided in order to enhance authenticity.

- Online Order – The buyer can send message to seller for any queries, fix the conditions for transaction and make purchase.
- Urgent Buyer’s Request – If a buyer needs to get any Nepali products in bulk, he/she can post an urgent request in the site, this information will be sent to related suppliers through email and sms via pahilo. This “one request multiple quotation” concept is helpful for both buyer and seller.
- Sale Offers – If a seller wants to put any products in bulk sale for a limited time frame then he/she can post the product and details in sale offer, so that interested buyers can contact and make purchase.
- Compare Products – Buyer can also compare similar products side by side and make purchasing decision based on price, quality, and delivery time and so on.
- Order Tracking – Buyer can track their order through a tracking number provided to them by pahilo during the purchase.
- Supplier Dashboard – Each supplier has a dashboard where he/she can edit company profile, add, delete and edit products and product details and so on.
- Paperless Trade – Pahilo aims to promote paperless trade in order to overcome written form formalities to be undertaken by both seller and buyer. Integration of online showcase, e-agreement, and logistic confirmation assures the trading done is simple and reliable.

Pahilo as a Viable Business

For any business to run successfully, it is imperative that it generates a string of revenue which would contribute in its smooth operation. In case of Pahilo, the business processes to be performed are intricate and demand a significant amount of resources. Pahilo, to sustain as a business should be able to generate enough revenue to support swift execution of these processes.

In the current phase of operation, the returns are generated by charging a certain percent of commission to the supplier only when a transaction of trading is performed for any of their products. This system does not generate maximum income to Pahilo, but it does ensure break even margins to support the operational cost. Currently, the focus of Pahilo is not in maximizing profit but the efforts are in accumulating as many authentic Nepali enterprises as possible. So, the strategy right now is to gather up Nepali sellers by providing them an online platform where they can expose their products to a global market for free of charge and only having to pay certain amount of money only if their products are sold.

In the next phase of operation, when a certain number of Nepalese SMEs are integrated within the system, Pahilo will aggressively encourage sellers to move to a pure business to business model, ensuring the sellers get maximum advantage of Pahilo platform. The revenue generation

of Pahilo will change as well, rather than charging commission for per transaction from suppliers, a membership charge will be acquired from the enterprises. From the perspective of sellers, this mode of payment will be more convenient; a yearly membership charge will be cheaper and more convenient than paying commission in huge wholesale transactions. From perspective of Pahilo, as the number of sellers becomes high, this mode of revenue generation will ensure the association of genuine business oriented enterprises, while filtering those with motive of fund generation from INGOs/NGOs rather than selling products. Different forms of memberships will be offered with different perks, additional services including payment options, and cargo management will be accessible. This is the phase after which we aim to hit the roof with the revenue generation.

Projection for Next Year

These are the milestones set to achieve for the end of this year:

- **Expand Supplier base** – By the end of next year, Pahilo aims to increase its supplier base to 5000. As mentioned in the introduction, there are currently around eight hundred thousand SMEs in Nepal, the number is increasing and so is their revenue stream. The incorporation of even a fraction of the total SMEs would give a tremendous impetus for the consumer end (business houses, wholesalers, retailers) to embrace Pahilo as a trusted portal to deal with undervalued Nepalese producers.
- **Meet Trading targets** – As Pahilo increase its supplier base, we aspire to increase the number of trades commencing through the portal at the same time. For the first fiscal quarter, we estimate at least 5 genuine B2B transactions per month. For the second quarter, the no of trades should increase to a minimum of 10 transactions per month. And for the remaining two fiscal quarters, our projection is to start from 20 trades per month in the starting months and gradually increase the numbers as the year closes.
- **Event Participation** – From our experience till date, we have figured out that the best way to connect directly to suppliers and buyers is to participate in events, mainly trade fares. Pahilo shall continue its active participation in these events but the approach for next year will be more formal as well as expansive; branching in district level events throughout the country. Pahilo will also look to participate in international trade fares; this ensures the direct visibility of Pahilo to international buyers. We have started coordination with Federation of Nepal Cottage and Small Industries (FNCSI) for this purpose.
- **Branding** – Pahilo will continue its marketing activities which includes online advertisements, paper advertisements, featuring in economy based forums, etc. But most importantly, successful commencement of trades will be the most valuable selling point for branding of Pahilo.
- **Subscription Model** – As mentioned in previous section the future revenue model for Pahilo will be exclusively moving to a subscription model. We plan to start shifting to

subscription based model in six months' time. Pahilo will offer two introductory paid subscription plans for the suppliers; verified suppliers plan and dedicated suppliers plan. The first plan is for suppliers who are capable of managing their own supplier dashboard through Pahilo's platform. The second plan is specially designed for non tech savvy small or cottage entrepreneurs, under this plan much of the online trading work will be done by Pahilo's personnel while the supplier only has to worry about his own production or manufacturing business.

- **Additional Revenue** – Apart from generating revenue from the trade proceedings, the online platform will also generate additional revenue through its Banner ads, Featured products, Featured Suppliers, and Ads section. We plan to charge certain fee for these sections only when there will be significant number of suppliers in the platform, and Pahilo is doing continuous trade deals. It is only fair for the advertisers to pay us when it actually counts; our projection is we should reach this point after six months.

Future Enhancements

By the end of this year, we plan to achieve three major enhancements goals for Pahilo, which are:

- **Online Trade Manager** – This is a most prioritized feature we plan to include in the Pahilo platform. A trade manager system will provide admin with a dedicated section to conduct connections/dealings with suppliers and buyers hence eliminating the use of third party apps or tools. It will also keep logs of prerequisites which will be the base for preparing e- agreement before the actual business dealing.
- **Mobile App** – The second prioritized enhancement plan is to develop Pahilo's app for Android and IOS platform, the two most ubiquitous operating systems for mobile devices. As Pahilo expands, it will be necessary that we become more user-friendly and easily accessible.
- **Payment Gateway** – Another major feature we plan to add to Pahilo is its own payment gateway system. At present, the transactions for wholesale dealings are done through fund transfers through bank, with opening of Letter of credit being the most used method for international transaction. Payment gateway may not be as mandatory for B2B trading as it is for B2C trades, but it is an important component of the overall trading system nonetheless. But as developing a payment gateway is a huge project in its own, we only plan to research and start preliminary steps within this year.

About Team

We are a sincere company with straight forward vision. We believe that there is an amazing amount to be learned by working in a “real world” web based business to business trading environment alongside all stakeholders involved. We aim to establish a successful business in the trading domain and hopefully improve the overall trade deficit of Nepal albeit by a few digits.

With this in mind, we started to come together and work in October of 2016. Three of us met during our Masters of Technology and Innovation management course. From there we slowly started to refine the idea and gradually began to find solid, like minded professionals to give shape to the project. We've had a wonderful journey so far with many highs and lows, and now we feel confident that we can provide a robust online business environment to both our suppliers and buyers.

Er. Pukar Thapa

Co-founder & Technical Head

Pukar carries with him eight plus years of experience in Web, API, and database development working in various reputed national and international companies. He is a graduate of Msc in Technology and Innovation Management from Institute of Engineering, Pulchowk Campus, Nepal. He started coding from his school days, carried on that passion throughout his academic and professional career. Cumulating this with various trainings, workshops, and formal involvements, he brings a bundle of technical expertise at Pahilo.com. But more importantly his influence and leadership has always driven the company forward.

Er. Ananta Man Singh

Co-founder, Business Development and Research

Ananta is a founding member at Pahilo.com. He assumes the role of business development and research head. He is a distinction holder of Msc in Technology and Innovation Management from Institute of Engineering, Pulchowk Campus, Nepal. He brings in professional experience of working more than seven years with various organizations. He has also been involved in different domestic and international research projects over the years and traveled to many countries including England, Scotland, and Bhutan as a Multi-criteria Decision Making expert. Honest, reliable and supportive, Ananta has been an integral part of the team.

Er. Deepak Dhakal

Co-founder & Marketing Head

Deepak Dhakal is a proficient professional with many years of experience in software development and software consulting. Though from Computer Engineering background, he has adequate experience working in different domains of the market including medicines, importing business, and Trekking and Tours to name a few. He is M.Sc in Technology and Innovation Management from IOE, Pulchowk Campus, Nepal. He leads the Marketing domain of Pahilo.com. His communication skills, positive attitude and pitching abilities have been invaluable in our journey.

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