

Cable and Wiring Industry: a growth landscape

Providing insulated nonferrous wire, cable and fiber-optic, and other cable products, the Cable and Wire industry is essential to manufacturing and service sectors of the economy. The industry in Pakistan dates back to as early as 1953 with the establishment of Pakistan Cables. Since then it has come a long way with other major manufacturers setting up their infrastructure including Newage Cables (1956), Pakistan Wire Industries (1972) and Fast Cables (1985). Understandably, the industry is highly concentrated and is directly influenced by other sectors of the economy. This paper has a dual purpose to demonstrate the significant market factors that are likely to cause significant increase in demand for cable and wiring in Pakistan. Moreover, it aims to highlight current gaps in market research and the opportunity it presents to use a targeted research exercise to pinpoint specific growth priorities and use this information to inform business strategy.

Global and regional market context

The global cable and wiring industry, valued at \$250 billion, is expected to grow with a five-year compound annual growth rate (CAGR) of 7.7%, till 2019¹. These growth projections are underpinned by cable and wiring industry catering to a diverse end-market including automotive, infrastructure, power and electronic sectors. Additionally, continued urbanization and significant investment in infrastructure development bodes well for the global industry.

Asia-Pacific, accounts for more than half of the total world demand, is expected to exhibit higher growth rate compared to global numbers over the forecast period, the statistics attributed to growth in countries like China and India. China is the world's largest wire and cable producer. It achieved a five-year compound annual growth rate (CAGR) of 28.7% between 2005-2010 and that too with relatively low big player contribution as 95% of the industry involving small to medium enterprises. The absence of market concentration is relatively unique, as in the global context most key markets have concentration of market share in some key suppliers². The Indian cable and wiring market is set to cross the \$850 million mark by 2018, with a projected compound annual growth rate (CAGR) of over 20% over the next five years³. It can be ascertained that the global and regional dynamics and growth estimates fair well for the Pakistani cable and wiring industry.

The Pakistan cable and wiring market: an overview

The global and regional growth trajectory sets important and relevant context for the cable and wiring industry in Pakistan. Key features of the local market are that Pakistan is the sixth most populated country in the world and has rising demand for housing, energy, automotive and other industries. With current market size of \$285 million and potential for growth based upon major investments in the power, automotive and construction sectors the local manufacturers can capitalize if they plan accordingly.⁴

Current exports in the industry are close to \$4 million, with potential of the export market estimated at £45 million, as evidenced from the Engineering Development Board⁵. With high demand for cable and wiring in the Middle Eastern belt, based on an estimated \$1 trillion investment in the construction sector, Pakistani manufacturers can create an export market for their products through investing in building relations with end users in the proposed market⁶.

Around 70% of market (by value) share is held by local manufacturers, with remaining market split between importers and unregulated manufacturers⁷

¹ [http://www.bccresearch.com/pressroom/avm/global-market-wire-cable-reach-\\$297.4-billion-2019](http://www.bccresearch.com/pressroom/avm/global-market-wire-cable-reach-$297.4-billion-2019)

² <http://www.businesswire.com/news/home/20150421005594/en/Research-Markets-Global-China-Wire-Cable-Industry>

³ <http://www.financialexpress.com/industry/companies/indian-cable-industry-may-grow-over-20-over-the-next-5-years/224085/>

⁴ <http://www.dawn.com/news/1188165>

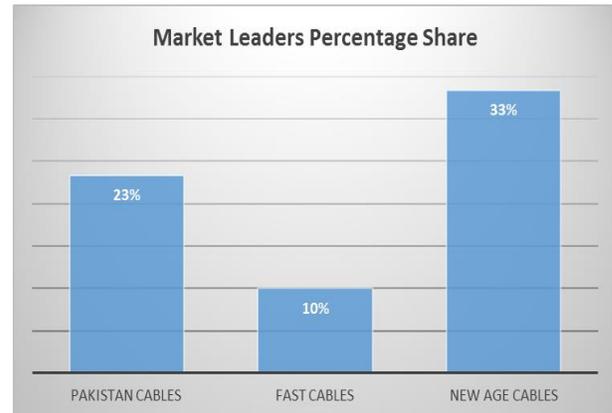
⁵ Engineering Development Board, National Engineering Exports Development Strategy (NEEDS)

⁶ <https://www.integer-research.com/integer-alert/increased-investment-and-competition-driving-growth-in-the-gcc-wire-cable-industry/>

⁷ Estimated Figure, based upon <http://www.dawn.com/news/1188165>

Market share and distribution model

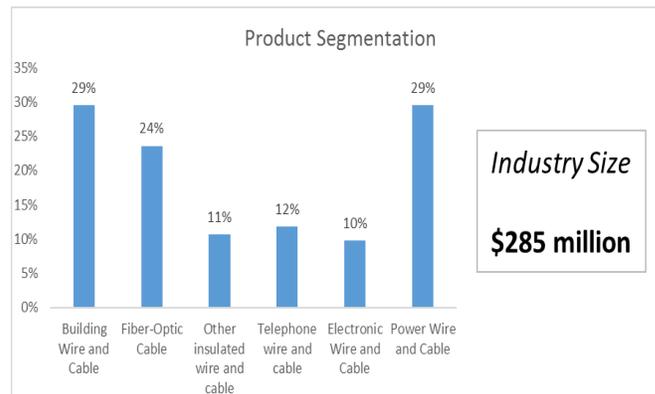
More than 65%⁸ of the current market share is held by three companies: Newage Cables, Pakistan Cables and Fast Cables, highlighting a significant concentration of market share with Newage Cables holding the largest share. The remaining market share is primarily held by importers (both regulated and otherwise), the balance serviced by a large number of small to medium sized manufacturers.



Companies in Pakistan commonly employ a dealership system for distribution purposes for their retail model. The dealers designated in respective zones then supply the products to wholesalers and retailers for selling to the end consumer. The construction industry stocks the respective products from retailers and wholesalers while for business-to-business engagement like power, automotive and telecommunication sectors; they have agreements to procure stock directly from company warehouse.

Product Segmentation

There are six major segmentations of cables and wiring in Pakistan: building wire and cable, fiber-optic cable, power wire and cable, electronic wire and cable, telephone wire and cable and other insulated wires and cables. The estimated percentage share of each segment in the industry are:⁹



Other relevant factors influencing demand and competition

Other important local market considerations include appreciating value of the Pakistani Rupee, which increases risk of imports becoming more cost competitive and increasing market share. Also, volatility of copper prices is an important factor determining prices, given it is the largest cost for cable and wire manufacturers. Copper prices have declined over the past years as evidenced from a 19.7% drop in 2015 and 15.0% drop in 2016 which has been driven by a slowdown in emerging markets, dampening demand and creating over supply of the metal ¹⁰.

Over the next five years till 2021 copper prices are expected to stabilize, maintaining a steady annualized rate of 1.1% which presents a different cost challenge for manufacturers¹¹. This will allow the cable and wiring industry to sell their products at higher prices and generate greater revenue. Also, competition from Chinese companies, which benefit from low cost of labor

⁸ Estimated Figure

⁹ Estimated Figures

¹⁰ IBIS Report: Wire and Cable Manufacturing in the US

¹¹ IBIS Report: Wire and Cable Manufacturing in the US

and limited regulatory costs, and therefore provide a price led proposition (which is a potential threat for local manufacturers)¹²

Responding effectively to technology changes impacting the industry is important for the local manufacturers. Innovation in the industry tends to be more pronounced in the communication cable and high performance power cable markets. Changing demands for communications infrastructure requires improved cable products which local manufacturers will have to work to counter the threat of increased imports which are otherwise expected to meet the improved quality requirements.

The Pakistan cable and wiring market: the potential opportunity and risks

Local demand is set to improve backed by increased investments in key projects such as the China Pakistan Economic Corridor and power project agreements (with close to \$35 billion agreed investment from 2018 to 2025)¹³. Key demand drivers for the industry include the construction sector, a near \$6 billion industry¹⁴, promises a strong foundation for the cable and wiring sector. Also, expansion in telecom sector, including those between the Pakistan and the Chinese governments will generate demand for fiber optic cables. This includes a \$44 million 820-kilometer fiber optic cable being laid between Pakistan and China will be the 6th high-speed connection¹⁵ to add redundancy and to cater to rapidly growing Internet traffic from-to Pakistan.

The electric industry, with an industry annual turnover of \$3.3 billion¹⁶, is a key source for more stable demand from the cable and wiring industry. This is backed by Increasing GDP, which is expected to lead to greater consumer spending.

Accredited cables will have higher demand going into the future as Pakistan Electric Power Co (PEPCO) has instructed Gencos and Discos to use only Pakistan Standards and Quality Control Authority (PSQCA) certified cables.

Regional market growth also presents further export opportunities, albeit one that require additional specific research to understand expected quality standards/accreditations, price/margin challenge and other factors such as export quotas.

Research Gaps

This document has sourced data from Pakistan government publications, newspapers and industry publications. The existing research data around the international market and the trends is extensive, and particularly relating to markets such as China, USA, England, UAE and India. Although basic industry outlooks, industry size and interview details were available for the Pakistan market, there are significant gaps in research into current market size, demand drivers, product requirements, risks etc. Also, contribution of respective segments of the cable and wire industry were not directly available their approximation was used to estimate the market segment (based on segmentation patterns internationally) and by estimating costs in local market in respective sectors.

Conclusion

The Pakistani cable and wiring industry is one which is highly concentrated and moving towards maturity. There are clear growth opportunities, as illustrated by investments such as the \$35 billion power project investment coming through the China Pakistan Economic Corridor agreements and growing sectors like construction, electronics and automotive. Also, decisions by the power sector with regards to only using accredited cables and wiring provides opportunities for the local manufacturers who are investing in quality standards and technology.

¹² <http://www.brecorder.com/company-news/235/1207696/>

¹³ <https://www.thenews.com.pk/print/138082-CPECs-35bln-energy-projects>

¹⁴ <https://www.thenews.com.pk/print/16028-construction-sector-expected-to-grow-in-2015>

¹⁵ <http://www.ibexmag.com/featured/pakistan-to-get-44-million-fiber-optic-to-link-with-china/>

¹⁶ <http://tribune.com.pk/story/323742/pakistani-electronics-market-to-grow-to-3-3-billion-by-2016/>

There are, however, current significant research gaps relating to the sector, for example to understand and assess challenges such as how will:

- manufactures adopt to meet new or changing demands in existing sectors?
- increasing demand change the nature and approach to engagement with supply chain?
- risks associated with volatility in prices of the raw materials be managed?
- companies need to respond to the deregulation of markets, low transportation costs and absence of the barriers which facilitate imports and potentially new entrants in the market.

As the industry projects to grow 20% in lieu of our neighbors like China and India, the aforementioned challenges should not be ignored; and believe an exhaustive research study be conducted to substantiate our argument, and take necessary action based upon what learn through our study. Furthermore, these research gaps will give local cable industry players a roadmap to follow, as the results can provide comprehensive insight in the current market dynamics, allowing stakeholder to build more specific strategies. This will not only help in targeting different product segments but will also allow organizations to make production adjustments to adapt to forecast demands, improve decision making by corporate entities, making it evidence based and enable growth in revenues and profitability.