

**An interview with Rumman Ahmad, CEO The Legend, 'So-called luxury goods import not the real problem for the country'**

Rumman Ahmad is the CEO of The Legend, which is the largest distributor of watches in Pakistan, of brands such as Rado, Tissot, Calvin Klein, Maurice Lacroix, and Westar. He is an MBA from the Institute of Business Administration (IBA), Karachi, and also holds an MSc in Creative Studies and Change Leadership from Buffalo State College, USA. BR Research recently sat down with him to understand the recent trends and challenges in the luxury goods industry. Following are the edited excerpts of the discussion:

BRR: What's the recent industry trend and how has it changed? Since these watch brands are catering to a need beyond just telling time, has the demand been affected in any way?

Rumman Ahmad: Looking at figures worldwide, the Swiss watch industry has been growing. This year there was a bit of a recession in China, and because China is a huge market for most brands, there has been a slowdown. But generally you can infer that the incidence of watch consumption per se has not gone down. The watch, at least, for a man is more an item of jewelry than an item of function. In that sense, there has actually been a revival of the industry, more so at the higher end because people still want to flaunt. Some segments maybe performing worse than others but as an industry, it is still doing okay.

BRR: Has the share between wholesale and retail remained the same over time?

RA: In good years, wholesale constituted 75 percent while 25 percent belonged to the retail business. This year probably it is entirely reverse even though retail has not increased. In fact, our retail sales dropped by about 20-25 percent this year, which means that our wholesale business is now practically non-existent.

BRR: Were malls your first target in opening a retail shop?

RA: In the mid or late 90s, the conventional wisdom was that watch trade can only happen on Zaibunnisa street in Karachi or Liberty in Lahore. At that point, we opened an outlet in Park Towers, Karachi. Of course, initially it did not do well but eventually picked up. The customer's confidence goes up when they walk into a mall. Gradually, malls themselves have become gatekeepers, requiring us to prove our authenticity as an authorised distributor and ensuring certain design and display standards are met.

BRR: Proper certification and documentation is required in malls, not so much seen in, say street shops?

RA: There are still places in Saddar and similar areas who are authorised dealers but it is a very small percentage.

BRR: How has the change of policies affected your business?

RA: Realistically, I expect that we will be out of business by next year. Our contribution to the exchequer in tax year ended June 30, 2019 is down by 35 percent. Extrapolating December 2019 figures to next tax year, we will further reduce by 50-60 percent. Given the newly imposed discriminatory policies, the sales of watches have not been affected that much, however, the business has been transferred from us, who were importing and paying timely taxes and duties, to grey market operators. The product can easily be carried in pockets, without sparking suspicion. This has become our biggest challenge.

BRR: Has the government worked on it?

RA: To some extent I believe that they have been successful in controlling large scale smuggling such as that happens in containers or through transit trade etc. They are working on sealing borders as well. But speaking about a very specific industry which is ours, it does not happen in either of these ways. You could probably ask your friend to pick up a few watches when travelling. This is alright if you were asking for personal consumption. However, when it happens for commercial purposes, it damages the economy. They are also trying to curtail by tracking frequent travelers.

BRR: Has it been beneficial?

RA: The problem is that the government has created dichotomy between retailers, requiring those located in malls to be fully compliant and staying connected online with the FBR systems. At the same time, any store on the street can pay half a percent of the total revenue as final tax liability, no questions asked. Most of them are not even registered as taxpayers. According to government figures, there are only 41,000 registered as sales taxpayers. This is quite pathetic. People are doing hundreds of millions worth of business sitting out of little stores all over the country without being registered or paying taxes and the entire burden falls on those like us who are trying to operate within the parameters.

BRR: What is the basis of half a percent payment on turnover?

RA: My understanding is that the shop must be less than 1,000 square feet and have an annual electricity bill of less than Rs1.2 million, and a turnover of less than 100 million, and some other similar criteria. Our stores also do not generate an electricity bill of Rs1.2 million. We have no store even close to 1000 square feet, and no single store of ours has come close to even half the required turnover. Yet just because we are located in a mall we must conform to stricter regulations, regardless of our turnover. The FBR should ensure that everyone plays on a level playing field.

BRR: So doing business has become difficult and costly?

RA: Absolutely. Actually it is very easy for those who stay out of the system. Not so much for us. When the total of duties and taxes was 25-30 percent we appeared in the list of top tax payers because we had complete control of the market. Increase in regulatory duties over time by each government has brought our total cost of import today to 75-80 percent. This enables the grey market resulting in them selling 40-50 percent cheaper than our imported products.

BRR: According to you, what is the contribution of luxury goods import to the total imports?

RA: According to my guesstimate, the import of watch industry at its peak would not have exceeded \$20 million. Compared to a deficit of \$18-20 billion it is peanuts, yet it can contribute Rs1-1.5 billion in duties and taxes, if allowed to function freely. Mr Shabbar Zaidi himself said they are losing Rs56 billion a month in revenue due to imports compression. I will go so far as to say that the so called luxury goods import is not the real problem for the country. Petroleum products account for 25 percent of our imports. Other sectors such as agriculture, chemicals, food, machinery etc are contributing the other bulk. Reducing these by even a small amount would result in significant gains instead of slashing imports of luxury goods and losing revenues in exchange, without significantly impacting currency balances.

BRR: What's the market share of counterfeits?

RA: I would say it is practically zero since the government has managed to control it.

BRR: Why don't the international brands open outlets in Pakistan?

RA: Well, they prefer to work through us. We have the sole exclusivity contract with them, we import and we sell on their behalf. The volumes in Pakistan are not large enough to make business sense for an international multibillion dollar company to open an outlet.

BRR: As you said Rado is your biggest selling brand, how much does it contribute to your total revenue?

RA: It used to be about 60 percent of revenue. This year it may have gone down to 40 percent.

BRR: But it still has the biggest share?

RA: So far, yes. But I don't see this happening for very long. We are only marking time, given all the problems. Our hope is they bring us back into a duty regime where we can contribute fully and get control of the market. Frankly speaking, we have absolutely zero control on the market right now.

BRR: Can you explain the transportation, from the principals' countries to your stores.

RA: It is via air shipment. It is a small product; very well-packed and I have to say that there is a smooth operation at the customs' end in Pakistan- clearance is not a problem.

BRR: Do you stock other jewelry, like branded bracelets apart from watches?

RA: Nothing currently. We used to have CK jewelry before but it did not turn out to be a profitable move. It is a trendy item, which the older ladies who can probably afford to buy it would not be interested in, and the younger girls who were the target market for those goods could not afford.

BRR: What do you foresee for the Pakistan economy with regard to your business?

RA: In current conditions, as I said earlier, we will probably be out of business in a year or so. There are a few points to be considered before this happens. If the current duties and taxes remain in place, there are two scenarios playing. Either the government can tackle the scourge of smuggling, or it can't. If they do manage to stop grey market infiltration, then demand for expensive items will drop; but alternatively we could always concentrate on lower priced product and still manage to sell them since there would be no competition from the grey market.

If the duties and taxes remain the same and smuggling is not controlled then while overall demand will increase, our business will shut down because we will not be able to compete, which is happening right now.

The third scenario is if duties and taxes are reduced to the level where there is no advantage to smuggling - then it is a win-win situation. The demand will exist, we will be able to import and sell goods freely, and hence the government will get revenues.

BRR: So that can be a way to tackle smuggling?

RA: Yes, that is probably the only way, which is to eliminate the benefit of smuggling- at least for small products like ours which can be transported easily. The other way is to try and document the economy, and ensure every retailer, no matter how small is registered, and pays due taxes. This does not seem to be happening because every time the government tries it, there are protests and threats from the trade and the administration is forced to back down.

BRR: In such cases, industries build their own associations to put their agenda forward as opposed to approaching individually. Have you considered that?

RA: Maybe in this day and age it might happen, but when I joined this business 28 years ago and for years after that, we were highly disjointed. We are gradually working towards it.

BRR: Any recommendations you would like to put forth?

RA: Firstly, the government must register all the business being conducted in the country. Not as a taxation drive but for the sake of documentation. This will help in understanding the true size of the economy, which nobody is aware of currently. Secondly, they must get rid of the discriminatory policies and level the playing field. Either all retailers are paying turnover tax, or all are paying sales tax. If I talk about our industry, the inventory value of jewelry items in relation to its size is out of proportion. A small watch shop of 300 square feet could have more inventory value than a 1000 square foot garment store. Lastly, they must think about moving forward in a reconciliatory manner with taxpayers. Rather than highhandedly trying to resolve previous cases, the intent should be that the past was another era, but going forward if anyone evades taxes their present and past dealings will become subject of investigations. If they are honest then they have nothing to fear. That way they will build confidence in the people to conduct business.