

Journal of Biology, Agriculture and Healthcare
ISSN 2224-3208 (Paper) ISSN 2225-093X (Online)
Vol 2, No.10, 2012

www.iiste.org



PEST Analysis Of Engro Fertilizers, Pakistan

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Abstract

We can analyze various different factors in a firm's macro environment by the use of the PEST framework. The PEST analysis of current trends in marketing seems to be favouring the overall industry whereas in reality due to shortfall of basic raw material gas Government is unable to provide the necessary facilities for maintaining optimal production of fertilizer in the country. A report by the Daily Dawn indicates that the shortage of urea can cause a loss of Rs. 150 billion to the fertilizer industry and the farmers which will finally lead to enormous economic loss for the country. Engro is one of the biggest companies of Pakistan with a sizeable contribution to the GDP which is severely suffering from the political instability and economic recession which in turn poses threat to the company's profitability and its survival depleting its capacity to compete under the existing production cost structure in given circumstances. Labour force is the major input of any industry and Engro is facing the crisis of an escalated series of labour-management conflicts. The concern must endeavour to fulfil the labour demands in order to retain them for better future prospects of the Company.

Keywords: PEST Analysis, Engro Fertilizers, Pakistan, Political, Economic, Social, Technological analysis

1. Introduction:

PEST analysis "Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations (PEST analysis, 2012).

We can analyze various different factors in a firm's macro environment by the use of the PEST framework. If a factor emerges in numerous categories managers plainly make a decision of where they think it best belongs. This analysis helps managers decide whether the political, economic, social and technical conditions of the organization they want to invest in are perfect from investment perspective. It is one of the most important analyses for investing in another organization (Shafique, 2012).

Using a PEST analysis helps a business to understand various macro environmental factors that they need to take into consideration when determining the decline or growth of a particular market. It is also a crucial tool for ascertaining business position, the potential of a business and the direction of business should be moving in to thrive in the marketplace. All large businesses should be undertaking this kind of analysis in order to understand the needs and wants of their customers (PEST Analysis Overview, n.d.).

Engro Fertilizers Limited is a wholly owned subsidiary of Engro Corporation and a renowned name in Pakistan's fertilizer industry. Engro holds a vast, nationwide production and marketing infrastructure and produces leading fertilizer brands optimized for local cultivation needs and demand. Engro is also a leading importer and seller of Phosphate products, which are marketed extensively across Pakistan as phosphatic fertilizers (Engro Fertilizers, n.d.).

Engro Fertilizers Limited was incorporated in June 2009, following a decision to demerge fertilizer concern from its parent company Engro Chemical Pakistan Limited. The continual expansions and diversifications in its enterprises necessitated a broad restructuring in Engro Chemical operations and management. To facilitate better oversight, Engro Chemical Pakistan was converted into a holding company named Engro Corporation, and its fertilizer business was subsequently demerged to a newly formed Engro subsidiary –Engro Fertilizers Limited (Engro Fertilizers, n.d.).

Engro's fertilizer manufacturing facility at Daharki has been experiencing ongoing expansion. This, coupled with distinct dynamics of highly nuanced fertilizer industry warranted an independent and dedicated business entity and approach. The demerger of fertilizer concern was approved by High Court of Sind on December 9th, 2009, making it effective as of January 1st 2010 (Engro Fertilizers, n.d.).

Engro Fertilizers is poised to become the leading urea manufacturer in the country following major upgrading of its manufacturing capabilities (Engro Fertilizers, n.d.). In 2010, the company achieved mechanical completion and started trial production of its urea expansion project at Daharki which is the world's largest single train urea-ammonia plant. It is the largest private sector industrial investment in Pakistan (Engro Fertilizers Limited). ENVEN 1.3—a tremendous expansion in Engro's urea manufacturing facility went into production in November 2010 and looks set to end Pakistan's near-term urea imports, leading to benefits of an expanded local urea base and savings in national exchequer (Engro Fertilizers, n.d.).

Engro is a dynamic company driven by a vision to improve productivity and lifestyle for thousands of farmers across Pakistan. Engro Fertilizers Limited has earned itself a distinguished name by continually striving to uphold its tradition and trust of its loyal consumer base (Engro Fertilizers, n.d.).

2. Literature Review:

2.1 PEST analysis

PEST analysis "Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations (PEST analysis, 2012). We can analyze various different factors in a firm's macro environment by the use of the PEST framework. If a factor emerges in numerous categories managers plainly make a decision of where they think it best belongs. This analysis helps managers decide whether the political, economic, social and technical conditions of the organization they want to invest in are perfect from the point of view of investment. It is one of the most

important analyses for investing in another organization (Shafique, 2012).

2.2 The Political Trend

Government has introduced following major incentives through the latest Fertilizer Policy promulgated by the National Fertilizer Development Centre (NFDC) in year 2001 (NFDC, 2001):

- To fulfill local demand of fertilizers at affordable prices, Government is providing subsidy on production and import of fertilizers.
- Government is providing concessionary feed stock gas to the fertilizer plants for production of urea.
- Custom duty on import of rock phosphate and phosphorous by the manufacturers for production of fertilizer is waived under the Fertilizer Policy (2001).
- Various tax remissions / relaxations have been offered under the new Fertilizer Policy by the Government.
- Gas price has been fixed for ten (10) years for new investments.

Keeping in view the incentives given under the Fertilizer Policy (2001), M/s Engro Fertilizers decided to establish a new 'single-train' urea plant worth of \$1.1 billion (Mat, 2011). Supply of natural gas (methane), the basic raw material for production of Urea fertilizer, is facing severe shortage in the country and its availability for industries is further reduced due to the political decision by the Government in wake of the forthcoming general elections to cut down the gas supply to industries in order to satisfy the domestic consumers. Since its completion in year 2010, Engro's new plant has never received the gas supplies as per its quota in line with the country's new fertilizer policy. In a legal recourse on the issue, the Sindh High Court on 18th October 2011 ordered to provide the gas to the Engro plant as per its authorized quota but the Government has not responded to the decision so far in a positive manner (Zaheer, 2011).

Subsidy on gas, therefore, has turned out to be of no use for the production line at the Engro plant in the prevailing situation where gas supply has become virtually unavailable. Due to unavailability of gas, M/s Engro were forced to raise its prices by Rs. 400 per bag resulting in escalation of the prices to the level of Rs. 1980 per bag. The situation got further accentuated as the provincial Excise Department raided the Dharki urea plant seizing the whole shipment of urea bags on the night of 31st. October (Abudhoo, 2011).

Resultantly, Engro had to roll back its urea prices. These events have evidently made it difficult for Engro to survive in such heavily influenced political environment as the situation has rendered the plant unable to produce at the plant's installed production capacity to make a break-even for the production costs.

2.3 The Economical Trend

Further to the political trend analysis given above, the following underscore economic indicators of the production regimen at Engro's urea plant at Dharki (Sindh):

- The custom duty free import of rock phosphate and phosphorous as the essential ingredients for production of fertilizer provides a major financial incentive to manufacturers.
- Waiver on tax has offered an additional incentive to the manufacturers especially to attract new entrants in the industry.
- Export benefits available to the manufacturers under the Fertilizer Policy (2001) as suppliers of capital goods for new and modernization projects entail a distinct economic incentive for the fertilizer industry. Besides, the self-reliance gained through reduced dependence on imported fertilizers through enhanced local production capacity under the given incentives provides exclusive relief improving the overall macro-economic indicators for the country.
- Extension of a special subsidy of Rs. 37 billion by the Government on production and import of urea fertilizers in 2011 (The Pak Tribune, 2011).

- Ban on export of fertilizer is also imposed so that economic stability would be gained.

Agriculture is one of the dominant sectors contributing to the country's economy as it caters for 22 percent of the overall GDP and accounts for livelihood of 65 percent of the Pakistani population besides engaging over 45 percent of the country's labour force (*Economic Survey 2010-11*). Sustainability and growth of the agriculture sector is largely dependent on production capability of the existing fertilizer industry. This calls for Government's obligatory support for the fertilizer industry in the country. Looking at the great potential in expansion of production, M/s Engro made investments but could not get the promised subsidy on the natural (methane) gas. This has resulted in price hike leading to food inflation with the subsequent effects on the entire economy (Nizami, 2011).

2.4 The Social Trends

Study of social attributes under the present evaluation of Engro's urea plant at Dharki is signified by the protests made by the labor after the management denied the demanded raise in labor's compensation and benefits (Mat, 2011).

Engro is facing reduced production and resultantly less sales that leads to low margins of profits and even the huge financial losses that have forced them not to give incentives to the labor.

Due to improper handling of the waste the industry is causing the environmental degradation with the associated health hazards and adverse social impacts. The general ailments due to the aforementioned include asthma, kidney diseases and hepatitis etc. Still, the usage of the fertilizers cannot be stopped because of its established dividends of enhanced productivity and savings on time and effort. Application of bio-fertilizers as a substitute to the prevalent use of chemical fertilizers is considered sub-optimal in terms of the associated financial and economic benefits and the farmers these days usually do not prefer use of the bio-fertilizers (Cheema, n.d.).

2.5 The Technological Trend

Analysis interpreting the technological trend in the present PEST evaluation is characterized by the following:-

- Introduction of new broadcasting channels has made advertising much easier and cost effective.
- Engro has now fully absorbed and assimilated the latest technological developments, incorporating environmental friendly process technologies in its new single-train urea plant.
- The manufacturers are also carrying out de-bottlenecking and energy savings schemes in their existing plants supplemented by other initiatives to enhance capacity of the plant which have yielded reduction in the specific energy consumption per ton of the produce. Companies are also planning to convert to Liquefied Natural Gas (NFDC, 2001).

3. Conclusion:

The PEST analysis of current trends in marketing seems to be favoring the overall industry whereas in reality due to shortfall of basic raw material gas Government is unable to provide the necessary facilities for maintaining optimal production of fertilizer in the country. A report by the Daily Dawn indicates that the shortage of urea can cause a loss of Rs. 150 billion to the fertilizer industry and the farmers which will finally lead to enormous economic loss for the country. Engro is one of the biggest companies of Pakistan with a sizeable contribution to the GDP which is severely suffering from the political instability and economic recession which in turn poses threat to the company's profitability and its survival depleting its capacity to compete under the existing production cost structure in given circumstances. Labor force is the major input of any industry and Engro is facing the crisis of an escalated series of labor-management conflicts. The concern must endeavor to fulfill the labor demands in order to retain them for better future prospects of the Company.

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