Business Case: Sunflower Industries – Formalization Journey

1. About the Enterprise

Sunflower Industries, established in 1975 in Karachi, is a large garments manufacturer specializing in apparel exports to the US and EU markets. Starting with just 4 sewing machines, the enterprise has grown steadily through formalization and today operates 500 machines with a workforce of 800 employees. Within two years of inception, the company registered with FBR, Social Security, EPA, and EOBI, and has consistently maintained compliance with these institutions. The enterprise is now managed by the third generation of its founding family and has developed its own ERP system to ensure transparency and operational efficiency.

Currently, 120 employees are registered with tax authorities, 500 are enrolled in social security and EOBI, while the remaining workforce is engaged on contractual or daily wage terms. Despite challenges in the wider environment, Sunflower Industries has positioned itself as a reliable supplier through compliance with international clients' audit requirements and by maintaining over 80% of its supply chain in the formal sector.

2. Pre-Formalization Status

During the small period of transition towards the formalization, the company faced following challenges;

- Informal workforce with no access to social protection or registration.
- Minimal accounting and documentation; manual transactions dominated.
- Limited compliance with labor and tax regulations.
- Restricted market access, dependent on local middlemen.
- Small production capacity, limiting growth and global outreach.

3. Why They Decided to Formalize

- **Market Access** – Export to the US/EU, and North America required compliance with buyer standards, certifications, and transparent systems.
- **Long-Term Growth** – Leadership viewed formality as essential to scale operations beyond local markets.
- **Institutional Finance** – Access to banking channels and working capital demanded financial documentation and audited accounts.
- **Credibility** – Registration with authorities enhanced trust with buyers and employees.

4. Comparative Analysis: Pre vs Post Formalization

Aspect	Pre-Formalization	Post-Formalization
Market Access	Local buyers, limited contracts	Export to US/EU, North America markets via buying houses, and directly
Technology	4 sewing machines, manual processes	**500+ machines, ERP**-enabled operations
Workforce	Mostly informal, no protections	500 enrolled in EOBI/SESSI, 120 in tax system
Finance	Owner's equity, informal credit	Access to institutional finance and trade facilities
Reputation	Limited recognition	Recognized exporter, trusted by global clients
Productivity	Small-scale, inconsistent	Scalable, quality-driven production

5. Challenges Enterprise Faced

- Uneven competition from informal vendors (collar makers, embroidery, printing, raw material suppliers).
- Difficulty in maintaining compliance records when purchasing from informal supply chain actors.
- High logistics costs and shipment delays.
- Shortage of skilled workforce and quality raw material.
- Unclear and inconsistent government policies, like EFS is completely out and that makes us less competitive.
- Corruption and inefficiencies in ESSI and EOBI, discouraging workers' trust in formal enrollment.

6. Strategies Adopted

- Development of ERP system for digitized financial and operational management.
- Gradual workforce registration with EOBI and Social Security.
- Alignment with international clients' compliance audits. Formal vendor partnerships where possible (80% of supply chain).
- Investment in modern machinery and phased expansion.

7. Outcomes of Formalization

- Expanded production capacity **from 4 to 500 machines.**

- Sustained export linkages with US and EU markets.
- Improved workforce welfare through social security and EOBI.
- Enhanced trust with international buyers due to compliance and transparency.
- Increased organizational resilience and intergenerational continuity.

8. Recommendations from the Enterprise

- **Tax & Finance** – Relaxation in advance taxation, digitalization of FBR, and lower SME interest rates.
- **Skill & Technology** – Certification programs through matching grants, technology transfer initiatives, ERP and digital production support.
- **Access to Finance** – Easier loan processing, awareness of tax schemes, and 3rd-party audit support.
- **Market Access Incentives** – Rebates on international travel, exhibition participation fees, and education discounts for taxpayers' families.
- **Labor Protection** – Reform and digitalize ESSI/EOBI to ensure transparency, reduce corruption, and restore employee confidence.
- **Supply Chain Formalization** – Incentivize raw material suppliers and vendor industries to register and adopt compliance.

9. Lessons Learned

Formalization has proven to be a catalyst for scaling and exports, enabling Sunflower Industries to evolve from a small family-owned unit into a globally competitive supplier. A phased and voluntary approach supported sustainability while keeping compliance costs manageable, and the adoption of ERP and digital systems enhanced transparency, efficiency, and credibility with international buyers. However, partial informality in the supply chain remains a persistent bottleneck, requiring broader ecosystem reforms. Most importantly, employee confidence in institutions such as ESSI and EOBI is critical; when these institutions fail to deliver benefits, workers prefer to remain outside the formal system, which undermines the overall impact of employer compliance.

10. Conclusion

Sunflower Industries' journey reflects how formalization, though challenging and costly, provides a pathway for sustainable growth, market access, and generational continuity. By investing in compliance, digitalization, and workforce welfare, the enterprise has established itself as a globally competitive garment exporter. However, its case also highlights systemic barriers—such as informal supply chains, institutional inefficiencies, and policy uncertainty—that need to be addressed through government and donor-supported reforms. If tackled effectively, these reforms could not only empower Sunflower Industries but also incentivize thousands of SMEs in Pakistan’s garment sector to transition toward formalization.