MARKETING PROBLEMS IN AN UNDERDEVELOPED COUNTRY - EGYPT

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PART I

Protrait of the Egyptian Economy -- Its Structure and Workings

Confronting the task of describing the marketing system of an underdeveloped economy, the marketing expert readily realizes that such a task is almost impossible without a full conception of how an underdeveloped economy functions. But this might be true of developed economies as well. However, the working of an underdeveloped economy is more conditioned by its structural and organizational characteristics to a greater extent than usually is the case in a developed economy. For one thing, an underdeveloped economy involves an "established society" to be contrasted with the "adaptive society" of the modern, highly industrialized countries. The international income differential, explicitly and commonly taken as the major and, perhaps, the single criterion of underdevelopment, disguises a whole world of differences whose existence could be conceived and appreciated only by the anthropologist or the "social scientist" at large; searching for cultural differences as the relevant phenomena that look meaningful to him. The economist qua economist needs more than his neo-classical or Keynesian kit of tools to ascertain the real workings of such an economy. Vaguely and oddly enough, he would need and can make use of tools of economic sociology or perhaps economic anthropology, if there are such things.

Any national economy has a set of structural characteristics which conditions its behavior or its functioning in the short as well as in the long run. Its functioning or performance determines its economic results. It is our purpose to characterize the structure of the Egyptian economy in a way that makes possible gauging its performance with a view to ascertain its "marketing results" which, among others, seem important to appraising its efficiency. How well the Egyptian economy performs in marketing its produce ? How saisfactory it works in the realm of marketing performance ?

Structural Characteristics

One of the most limiting structural characteristics of the Egyptian ecocomy is a high population-resources-ratio. This is directly reflected in one of the highest density ratios that obtains from an international comparison as indicated in Table 1. High average population densities may be associated with either a high or a low level of economic development. In a highly industrialized economy, high population density is primarily a reflection of a high degree of urban concentration. However, such high density ratios in countries where there is relatively little industry or urbanization commonly mean excessive pressure of rural population on cultivated land. Making due allowance for regional differences in urbanization and industrialization, and taking account of variations in the quality of land, a population density ratio can be safely taken as an index of population pressure on cultivated land.

TABLE 1

AN INTERNATIONAL COMPARISON OF POPULATION DENSITY RATIOS (PAST-WAR II DATA)

Country	Population per square kilometre of total area	Percentage of urban population	Percentage of cultivated land	Rural population per square kilometre of cultivated land
Egypt (*settled area*)	538	30	2.5	542
U.S.A.	19	64	39	18
Canada	1	58	7	16
U.K.	291	81	65	85
Netherlands	312	55	68	182
Belgium	283	63	57	181
Germany	194	71	58	97
Argentina	6	63	11	20
Australia	1	69	2.4	13
Union of South Africa	10	42	5	119
Mexico	13	35	5	164
Brazil	6	37	2.8	140
Puerto Rico	249	41	45	327
Ceylon	115	15	22	451
India	113	17	46	238
Honduras	10	31	4	189
Japan		49		698

Source: Adapted from *Yearboon of Food and Agricultural Statistics*, 1949 and 1950, Part I, "Production."

A high population density results in a large mass of "disguised unemployment" in the rural sector. (1) Disguised unemployment, or preferably under-employment, is closely associated with a high population resource ratio since it results from a deficiency of the resources required to employ productively the available work force. It is also associated with a pre-industrial type of economic organization where the unit of production and of the work force is the family. It arises out of the limited supply of land available to the average farming unit. Indicative of the quantitative magnitude of under-employment is a pre-war estimate based on the actual labor requirements of cultivation, which placed the "agricultural surplus population" (2) at about one-half of the farm population.

This seems appreciably larger than the estimates for other countries bearing the same structural characteristics of an unfavorable resources-population ratio as can be seen from Table 2.

TABLE 2 — ESTIMATES OF AGRICULTURAL SURPLUS POPULATION IN SELECTED COUNTRIES

Country	Per Cent of Farm Population
Egypt (1937)	50
Bulgaria (pre-war)	35
Poland (pre-war)	30
Russia (1928)	23
China (pre-war)	20
Southern Italy (post-war)	28
Asiatic Countries (post-war)	25

Source: Adapted from A. F. Sherif, *The Role of Capital Formation In The Industrialization of Underdeveloped Countries*, unpublished Ph.D. dissertation, the University of Chicago August 1953, p. 17.

By the same token, the optimum size of the Egyptian population, relative to the size of existing resources, was placed by some writers in

(1) A group of U.N. experts have defined "The disguised unemployed" as "those persons who work on their account and who are so numerous, relatively to the resources with which they work, that if a number of them were withdrawn from work in other sectors of the economy, the total output of the sector from which they were withdrawn would not be diminished even though no significant reorganization occurred in this sector, and no significant reorganization occurred in this sector, and no significant substitution of capital." U.N. Group of experts, *Measures for Economic Development of Underdeveloped* Countries, New York: Department of Economic Affairs, May 1951, p. 7.

(2) Quantitative measurement of under-employment is difficult and of necessity conjectural. Such estimates are usually made on the basis of a concept of an agricultural surplus population such as "the number of people engaged in agriculture (active and dependents) who, in any given condition of agricultural production, could be removed from the land without reducing agricultural output." See Royal Institute of International Affairs, *Memorandum on Agricultural Surplus Population*, London, 1943.

the vicinity of 10-12 millions, i.e., about 45-55% of the existing population.

A surplus population of that order of magnitude presents a very serious drag on the economy's capacity to consume without a positive contribution to its capacity to produce.

Population structure and Trends

Despite the undeniable fact that Egypt is a highly over-populated economy, Egypt is at present in the middle of a "population explosion". Briefly put, the Egyptian economy is currently undergoing a rapid rate of population growth resulting from a rapidly declining death rate with the birth rate lagging behind. The long standing equilibrium between birth rate and death rate in a pre-industrial Malthusian economy has been upset. For in a pre-industrial economy the death rate tends to be high, owing to the operation of the Malthusian checks—famines, mass diseases, inadequate nutrition, defective hygiene and the loss in lives resulting from disorders. However, the established society, in order to compensate for this high wastage of human resources, favours those values, traditions and institutions that promote a high birth rate, such as stigmatizing celibacy, encouraging early marriage, honouring parenthood, and so forth. High fertility and high morality combine together to produce a low rate of natural increase.

As a result of the rapid technological and scientific advance in the control of mass diseases, in increasing good production, and in maintaining order and security, a decline in the death rate would follow. The birth rate, however, which is governed largely by social and cultural values, tends to lag behind. It is only when the whole outlook of the population shifts away from these cultural values that birth rates begin to decline. Pending such a mass shift, a high fertility rate combines with a low mortality rate to produce a population explosion. Egypt is at present one of the countries that entered the first stages of a population explosion.

The trend of population growth over the last fifty years is presented in Table 3.

TABLE 3 — POPULATION GROWTH DURING 1897-1953

Year	Populations in 000's	Average Annual Rates of Growth %
1897	9,591	1.5
1907	11,136	1.3
1917	12,670	1.1
1927	14,083	1.2
1937	15,811	1.8
1947	18,806	2.5
1953	21,941	

See: Egypt's *Census of Population*, published by the Department of Statistics of the Ministry of Finance.

It may be taken that Egypt's population is increasing by perhaps not less than 2.5 per cent per annum, with a gross reproduction rate of 3.11 and a net reproduction rate of 1.44 (1).

A broad comparison with other underdeveloped areas is presented in Table 4.

TABLE 4

AN INTERNATIONAL COMPARISON OF RATES OF POPULATION GROWTH

Country or Area	Percentage Rate of Population Growth Per Annum 1940-1950
Egypt	2.5
Middle East	1.25
Africa	1.20
South Central Asia	1.02
Far East	0.48
Latin America	1.89

Source: U.N. Group of Experts: *loc. cit.*

Many social and cultural factors seem to contribute to the persistently high birth rate :

1. The low income levels associated with a high incidence of illiteracy are favorable to a high propensity to procreate. The propensity to procreate seems to be inversely correlated with differences in income and educational levels within the economy as well as at an international level.

2. The general wretchedness of the fellah renders procreation one of the few pleasures left to him and gives rise to a slum psychology in the congested villages. (2)

3. There is the influence of cotton cultivation which is carried on largely by laborious methods of hand cultivation, providing employment for children and turning the child into a financial asset at the early age of five. A cotton expert has pointedly stated that, cotton requires not only a dense population but one with a birth rate above the average". (3)

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(1) Clyde V. Kiser, ,The Demographic Position of Egypt' in *Demographic Studies of Selected Areas of Rapid Growth*, ed. by F.W. Notestein, Milbank Memorial Fund, New York, 1944.

(2) Charles Issawi, *Egypt At Mid-Century*, Oxford University Press, 1954, p. 56.

(3) Muhlberg, in *Bulletin de l'Union des Agriculteurs*, Cairo, 1940.

4. The prevailing type of family organization — the extended family system — provides for security on a collective basis and establishes for every member minimum rights to the earnings of the family.

5. There are such social factors as the almost obligatory nature of marriage and the early age at which it is concluded, as also the prestige and legal advantages enjoyed by married women and the security against divorce which a child provides to his mother.

6. Also, it is evident that in rural areas the "standard of living" as aspired for by the fellah does not markedly surpass the actual level of living. The whole culture pattern is oriented to a glorification of the virtures of content, asceticism, and fatalism. Accordingly, the fellah is not confronted with the tight choice between either more children or a higher consumption level.

Egypt's crude death rate stands at 20.3 in 1948 which is appreciably below the world average, though still higher than the European average which ranges from 8 to nearly 14 and the American rate which is less than 10. (1) The general level of these crude death rates is influenced by the age composition of the population, health conditions and per capita real income. As real income rises and health conditions improve, the rate tends to fall off. However, a rising proportion of aged persons in the population of highly developed countries tends to raise the rate even though nutrition and health conditions are good. The level of economic development achieved by individual countries is less closely related to their death rates than to their birth rates. Egypt's level of economic development can be accurately gauged from its relatively high birth rate rather than from its 'relatively' low death rate.

In general, reported death rates have been declining, for longer or shorter periods, all over the world. In many underdeveloped countries, a dramatic reduction has recently taken place. Egypt's rate has declined by approximately 30 per cent in less than two decades. The rapid decline of mortality is probably not yet completed. The process of rapid death rate decline in Egypt as well as in many underdeveloped countries of this type is clearly shown in Table 5.

The application of modern methods of mass disease control, the expansion of public health expenditures as well as national and international measures against famine and epidemics, account for rapid reduction in mortality.

In those highly industrialized countries of Western Europe and North America where an earlier technological development had taken place, affecting

(1) Crude death rates vary widely. The range of officially reported crude death rates for individual countries is from about 6 to 24 per 1,000 population, with a world average of 22-25 per 1000.

TABLE 5

AN INTERNATIONAL COMPARISON OF DEATH RATES

Country	1932–34 Average	1937–39 Average	1942–44 Average	1947–49 Average	1950–51 Average
Egypt	28.0	26.4	27.3	20.8	—
Mauritius (Africa)	28.0	28.2	27.0	20.3	14.4
Asia :					
Ceylon	21.5	21.5	20.4	13.4	12.1
Japan	17.8	17.5	16.5	12.7	10.4
Malaya	21.6	20.1	—	16.6	15.6
Latin America					
Chile	25.2	23.3	19.9	17.4	15.7
El Salvador	25.3	19.7	21.7	16.5	14.7
Mexico	25.2	23.4	21.9	17.0	16.7
Puerto Rico	21.1	19.1	15.1	11.6	9.9

Source: Adapted from *U.N. Preliminary Report on the World Social Conditions,* New York, 1952, p. 12.

food production and distribution as well as public health measures and disease controls, the drastic decline of death rates occurred earlier — in the late 19th or early 20th century. By that time, however, the birth rate was on its way downward and the rising per capita real income was pushing upward its general trend. It seems that the process of rapid death rate decline has started chronologically later, but relatively ealier, in most underdeveloped countries.

The age composition of the population, which may affect productivity as well as consumption and therefore welfare, is a result of the particular pattern of birth and death rates. Of the factors determining the age composition of a country's population, fertility is the most important. High birth rates tend to produce a young population—that is, one with a large proportion of children. (1) Psychologically and in terms of culture the Egyptians are an ancient population, but demographically and biologically they are very young, nearly two-thirds of the population being under thirty. The percentage age distribution during the last four decades is presented in Table 6.

(1) The U.N. experts classify the distribution of population according to three age groups: under 15 years of age, 15-59 years, and 60 years and over. In general, children under 15 and persons 60 and over may be considered to be more or less dependent from the point of view of national economy, while those between 15 and 60, for the most part, engage in gainful activities or home production of goods and services.

TABLE 6 — **POPULATION BY AGE GROUPS, 1907-1947**

Age Groups	1917	1927	1927	1937	1947
0– 9	30.0%	17.0%	27.5%	27.2%	26.4%
10–19	18.5	20.3	20.3	20.5	21.7
20–29	18.0	15.5	16.4	15.3	15.1
30–39	14.8	13.5	14.1	14.7	13.8
40–49	9.0	9.0	9.2	10.1	10.4
50 and over	9.7	13.7	12.5	12.3	12.6
	100.0	100.0	100.0	100.0	100.0

Source: Charles Issawi, *loc. cit.*, p. 58.

A high percentage of children in the total population, together with a high infant and child mortality, operates as one of the obstacles to economic development, since there are few adults to man whatever productive equipment exists and to contribute to national income. Further, the productive members of the work force have less opportunity to create an economic surplus that might be used for investment and for increased productivity, because of the increasing burden of infant and child dependency. Such a population structure favors a high propensity to consume. Moreover, a large percentage of the children thus supported die before they reach productive adulthood, resulting in a grave loss to the family and community. It is also clear that a poor but young population has greater needs for various kinds of social services including free educations, health services, infant care and the like. It is the pressure of these needs that has forced the government to introduce a system of family allowances and related social services that favor population growth ([1]).

Population Pressure and Capacity to Produce

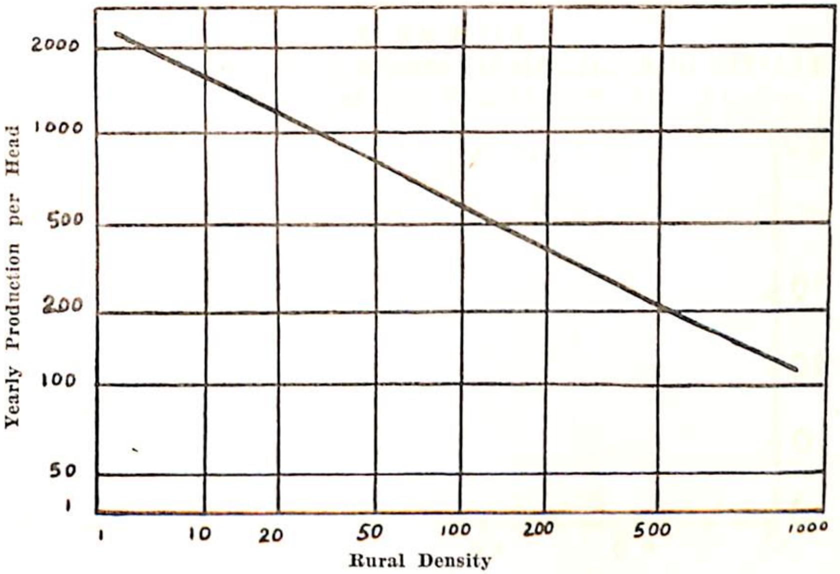
In an underdeveloped economy with limited agricultural land and growing population pressure, the economy functions within a secular tendency toward diminishing returns. The broad functioning of the Egyptian economy presents a prima facie case of diminishing returns.

An unfavorable population-resources ratio together with a high degree of concentration of the working population, amounting to well above 50 per cent of its total, on a limited land supply, results in a high rural density.

In a cross-section international comparison, rural density — a functional index of the degree of population pressure — is inversely related to average productivity per capita in agriculture; as presented in Figure 1, reflecting the tendency toward diminishing returns.

(1) Expenditure on public services—educational, health, construction and social — amounts to 13% of gross national product which is fairly high even by British standards.

FIGURE 1 — RURAL DENSITY AND AGRICULTURAL PRODUCTIVITY
A CROSS-SECTION INTERNATIONAL COMPARISON (LOGARITHMIC SCALES)
(AVERAGE AGRICULTURAL PRODUCTIVITY PER HEAD PER YEAR)



In a cross-section local comparison, the same tendency is readily apparent. Within the Egyptian economy itself, there is a comparatively high negative correlation between rural density and agricultural income per head, as can be seen from Table 7.

TABLE 7 — INCOME PER HEAD (L.E.) OF ACTIVE FARM POPULATION AND THE DENSITY OF THIS POPULATION PER FEDDAN, 1953/54

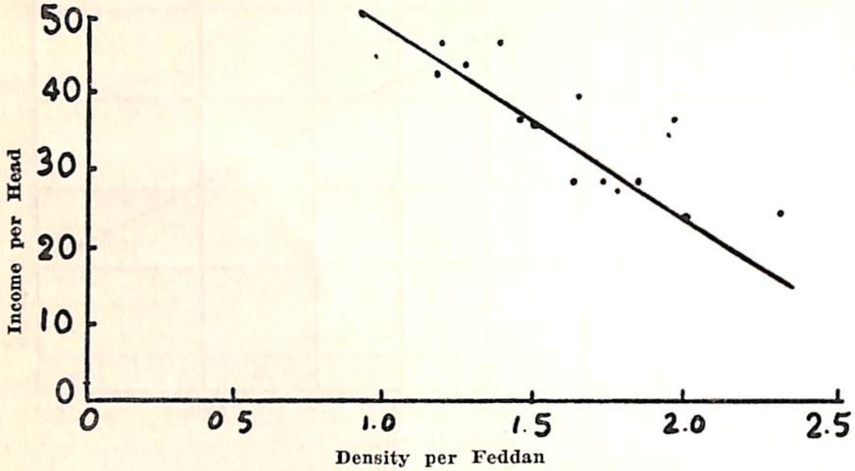
Province	Income	Density
Behera	44	0.97
Gharbia	42	1.18
Kafr Sheikh	46	1.17
Menoufia	36	1.95
Dakahlia	43	1.27
Sharkia	46	1.32
Kalioubia	39	1.64
Guiza	28	1.92
Beni-Suef	28	1.62
Fayoum	34	1.11
Meinia	36	1.45
Assiut	36	1.49
Guerga	24	2.30
Kena	28	1.72
Asswan	27	1.76

Source: Estimates of the Ministry of Agriculture, *Economic Bulletin, NBE.*, Vol. VIII, No. 3, 1955.

The correlation between rural density and income per head of active agricutural population amounts to—0.78. The scatter diagram presented in Figure 2 illustrates the relationship.

FIGURE 2

SCATTER DIAGRAM AND REGRESSION LINE FOR DENSITY OF AGRICULTURAL POPULATION AND AGRICULTURAL INCOME



It is a further proof of the tendency toward diminishing returns which characterizes the workings of the Egyptian economy.

Further evidence of the tendency toward diminishing returns in the Egyptian economy is found in the fact that productivity per unit of land is high, whereas productivity per capita of agricultural population is low. This can be illustrated by contrasting the agricultural situation in Egypt with that in the highly mechanized United States. Table 8 compares the productivity of agriculture per unit of land for a number of major crops.

TABLE 8

COMPARISON OF PRODUCTIVITY PER UNIT OF LAND — EGYPT AND THE UNITED STATES

Crop	Yield per Hectare in Egypt, 1949 (100 Kg/hectare)	Yield per Hectare in United States, 1949 (100 Kg/hectare)
Wheat	19.6	10.0
Barley	19.5	13.0
Maize	19.9	24.4
Rice	39.6	24.7
Cottonseed	9.8	5.4
Cotton (ginned)	5.5	3.2

Source: Based upon data in FAO, *Yearbook of Food and Agricultural Statistics*, 1950.

For most major crops, productivity per unit of land in Egypt is significantly greater than in the United States. But this fact must be viewed in conjunction with the ratio of population to land presented in Table 9.

TABLE 9

HECTARES OF ARABLE LAND PER CAPITA OF AGRICULTURAL POPULATION

Item	Egypt (1949)	United States (1949)
Total Population	20,045,000	149,215,000
Agricultural Population	14,000,000	27,488,000
Hectares of arable land	2,445,000	184,129,000
Hectares per capita of total population .	.12	1.2
Hectares per capita of agricultural population	.17	6.7

Source: Based upon data in FAO, Yearbook, *op. cit.*, 1950.

The ratio of arable land to total population in the U.S. is about ten times larger than in Egypt, and nearly forty times larger than Egypt's ratio of arable land to the agricultural population. The intensive cultivation of the arable soil in Egypt by many farm workers, a highly developed system of irrigation, lavish use of fertilizers and the richness of this soil, produces a higher yield per hectare than is achieved through mechanized farming in the United States. Nevertheless, the yield per unit of land in Egypt would have to be forty times greater than in the United States in order to produce the same income in terms of production per capita.

Moreover, it may be anticipated that Egypt's death rate, which is now relatively high but declining, will be significantly reduced in the near future through public health measures, and that the already dense agricultural population will become even denser, since there is no evidence that the birth rate will decline correspondingly in the near future. Should the present trend of population growth continue, Egypt will be facing a situation in the year 2,000 that the rural density will rise three times as high as the present ratio, notwithstanding the planned expansion of the arable area and the foreseeable improvements in the agricultural methods. Quite clearly, then, Egypt's economic problem cannot be resolved without a major attack upon the land-population 'ratio, checking the cruel tendency toward diminishing returns and setting in motion an opposite tendency. Industrialization is generally regarded as the way out of this dilemma.

National Income : Level and Trend

Quite evidently, Egypt's capacity to produce an adequate net national product is structurally conditioned by the existing land-population ratio and is essentially determined by what is derived from the land, plus minor supplements from a newly developing industrial sector.

Per capita national income has been estimated at $ 100 for purposes of international comparison. This is to be compared with $ 1550 for the U.S.A., $ 689 for Denmark, $ 482 for France and $ 345 for Argentine. (1) However, it is perhaps more significant to compare Egypt's per capita national income with other underdeveloped areas. This is shown in Table 10.

TABLE 10 — PER CAPITA INCOME AT CURRENT PRICES IN UNDERDEVELOPED AREAS

Area	Per Capita Income in U.S. Dollars
Latin America	160
Middle East (including Egypt)	95
Africa (excluding Egypt)	80
South East Asia	60
Far East	40
General Average	65

Source: Estimates of the Statistical Office of the United Nations.

Even though per capita income is relatively low, the rate of growth of aggregate income measured in constant prices over the last 50 years has not surpassed the rate of population growth as can be seen from figures of per capita income presented in Table 11. This has resulted in a virtual case of secular stagnation.

TABLE 11 — GENERAL TREND OF PER CAPITA INCOME AT CONSTANT PRICES: 1880-1950

Period	Per Capita Income Measured in Terms of the Egyptian pound (L.E.) in 1913
1880–1897	7.6
1913	12.4
1921–1928	12.2
1930–1933	8.2
1935–1939	9.6
1940–1950	9.4

Source: A.F. Sherif, *Economics of Public Utilities*, (In Arabic) Alexandria, 1955, p. 23.

(1) Estimates of the Statistical Office of the United Nations.

Statistically speaking, the average per capita income does not typify the modal income since the distribution of income is markedly skewed to the left. It is estimated that the richest tenth of the population obtains around 45 per cent of net national income, whereas the poorest, half of the population derives only 20 per cent. This compares with 30 and 40 per cent respectively in developed countries.

Owing to inflationary trends over the last two decades, the relative share of income belonging to lower and middle classes has been declining. This, in turn, has had adverse effects on consumption trends. Available evidence on consumption trends during the past decades points to two main observations: (1) a decline in the average consumption level; and (2) a widening in the gap between the consumption levels of the high and low income groups.

Table 12 below gives a breakdown of net national product by industrial origin. It can readily be seen that the major sector in the economy is agriculture. In 1945 the agricultural working population was estimated at 5 million, and the industrial working pupulation at 630,000. Per capita incomes in these two sectors were L.E. 40 and L.E. 95 respectively. Some 70 per cent of the population are still rural, living in a scattered village economy comprising some 5,000 villages.

TABLE 12

COMPOSITION OF EGYPT'S NET NATIONAL PRODUCT BY ORIGIN

Industrial Origin	1939		1945		1950	
	L.E.	%	L.E.	%	L.E.	%
Agriculture, live-stock, poultry and fishing................	81	51.6	224	38.6	374	45.3
Industry, mining, building ...	13	8.3	51	8.8	105	12.7
Commerce	11	7.0	282	48.6	150	18.2
Transport....................	6	3.8			115	13.9
Professions	17	10.8	3	0.5	—	—
Public Services	12	7.6	10	1.7	—	—
Personal Services	8	5.1	10	1.7	35	4.2
Others	9	5.8	—	—	46	5.7
Total	157	100.0	580	100.0	825	100.0

Source: Adapted from M. Anis, *A Study of the National Income of Egypt*, L'Egypte Contemporaine, November, 1950.

Social Factors Affecting Domestic Consumption Patterns

Upon a relatively homogeneous Islamic society, the impact of modern western civilization has been both marked and progressive since the end of the 18th century. Egypt is one of the countries in which the "westernization effect" first made itself felt, and in which it penetrated most deeply.

Westernization, however, has not affected all classes equally. Even when it has penetrated deepest, its effect tends to be much stronger in the urban sector and in the upper and middle classes. The urban, high-income, high-status sector of the economy has displayed a greater propensity to assimilate the modern western civilization — with its consumption pattern, way of living values, etc. This sector of the economy already approximates the western economy in respect of birth and death rates, life expectancy, housing standards and styles, food and clothing habits, medical services, and other similar characteristics of the western consumption pattern.

The great majority of the population, on the other hand, and especially the three-quarters of the people who live in rural areas, still largely continue to live according to patterns that were developed centuries ago.

The social structure is characterized by a basic dichotomy between the town and the village, the urban and the rural sectors, the high — and low — income groups. This has introduced an important element of divesity in the "economy" which makes generalization extremely difficult. In fact, there are two Egypts or a "dual economy". Within each sector there are yet so many differences and dissimilarities between communities. However, these dissimilarities seem superficial indeed when juxtaposed to the more profound differences which separate the total living conditions of each type of Egypt from those of the other.

The mass of consumers in the rural areas exhibit very little effective demand owing to their very low cash incomes. Their puchases of manufactured products are limited to a small range of articles of the simplest and most utilitarian kind, with a minimum of costly services, quality, or style, such as a few yards of popular makes of cloth, a few pounds of sugar, and a few gallons of kerosene. A large proportion of the products consumed by people in rural areas emanate from handicrafts. The peasants' plentiful rags and patches bear ample witness to their inability to afford factory-made textiles.

The consumption patterns of most consumers in the rural areas are fairly uniform and standardized. The consumer seems to have been less subject to the familiar demonstration effect due to the absence of any significant communication between them and the consumption patterns prevailing in urban centers.

The uniformity of consumption patterns and standardized tastes in rural areas also stem markedly from the existence of an "extended family" system. The "extended family" (1) is the basic unit of the rural economy. It is the norm or the most established form of social organization in the village sector, although it likewise survives, in a modified form, in the urban sector. In the village, it owns and works the land jointly, and, in the cities it often carries on in common a traditional handicraft industry or a commercial enterprise. The family lives together and earns its livelihood together.

The extended family system is the "social invention" by which the rural society provides for the consumption needs of a large mass of disguised unemployed, or underemployed peasants, and for their social security and social status. It is an arrangement for insuring the "lot" of a rapidly growing population amidst a dearth of economic opportunities. Besides, it is a major institution through which the standardization of the rural consumption pattern is effected.

In many respects, the urban sector presents sharp contrast with the rural sector of the economy. For one thing, per capita income is relatively higher. However, a growing urban population with a per capita income that is fairly above national average has as yet created only a very modest demand for manufactures and services. Not more than 4 millions out of 6.6 millions of urban inhabitants would probably count as "effective consumers" of these products and services. At least 75 per cent of this urban population belong to the lower income groups, with a marked rural background. They tend to subsist on a minimum level of services. Thus, they are likely to consume flour instead of bread, piece goods instead of ready-made clothing, and the like.

The remainder belongs to middle and higher income classes comprising "absentee" landowners, merchants, professionals, whitecollar employees of government and private firms, and the like. Foreign residents comprise an important proportion of this group. Foreigners who flocked to Egypt as early as 1830 were the inevitable agents of westernization. These foreign communities met their consumption needs from abroad, thus, bringing the upper and middle Egyptian classes into contact with the products and services which represent the typical western consumption pattern. In this way they have tended to affect the mode of living of the upper Egyptian class.

Nevertheless, there has been a tendency to resist complete assimilation of foreign minorities due to intermarriage barriers. (2) This, however, did

(1) The extended family consists of an elderly male head, the headman or the chief of the family, and all his male descendants and their wives, plus unmarried females.

(2) This is due mainly to religious barriers. It might be interesting to note that some dominant foreign families are still considered "foreign" by the Egyptians, though they have been in Egypt for over a century.

little to undermine the influence exerted by these foreign communities upon the consumption pattern of the well-to-do.

Different income groups have displayed varying propensities to assimilate the cultural and consumption patterns introduced by foreign minorities. The upper income class, which is numerically very small but the influence of which extends into every walk of life, have often been ready to adopt many features of these new patterns to the point of discarding much of the socio-religious traditions of their own culture. Some elements of this group were, of course, conservative in outlook and apprehensive of change.

It was different, however, with the urban middle class particularly the professionals who were also ready to adopt many features of the newly introduced western patterns within the limits dictated by their resources. On the whole, the upper and middle income groups currently manifest a mixture of progressivism and conservatism in their consumption habits. Further, there is a wide range of varying proportions of conservatism and progressivism embodied in existing patterns of the well-to-do people. But they furnish an example in adopting some modes of consumption, thereby arousing and internsifying the motive for consuming the same type of products among members of other still poorer classes.

With regard to urban and rural workers, they are suspicious of change and display a lesser propensity to assimilate new products and to adopt some features of foreign modes of living. However, as income rises and education spreads, suspicion is likely to be alleviated, limited horizons are likely to be widened, appetite is likely to be easily whetted and imagination tends to be easily excited.

The end product of this process of partial assimilation has so far resulted in a marked heterogeneity of demand and highly individualized tastes. Ample evidence of this heterogeneity is exhibited in the multiplicity of "foreign" brands and makes of many manufactures (1) provided to satisfy a barrage of varying tastes and preferences of too many tiny groups within a small aggregate.

The heterogeneity of consumers demand in the urban sector presents a serious dilemma for the domestic manufacturer, particularly when this heterogeneity is viewed in conjunction with the limited size of the market. Furthermore, the small group of effective consumers display a strong psychological

(1) A glaring example is the number of automobile brands and makes offered for sale in the Egyptian market. Over thirty different foreign brands seek to satisfy the varying requirements and tastes of a 100,000 buyers.

preference for "imported" foreign products. Subsequently, a considerable portion of manufactures is supplied by foreign sources unless artificial restrictions like tariffs, import quotas and exchange controls limit the alternatives open to consumers.

Development and Orientation of Marketing Institutions

Expectedly, the marketing institutions in Egypt have been mainly geared to the handling of the import-export trade. Thus, Egyptian marketers have usually looked abroad rather than toward the interior.

The traditional Egyptian disdain for commercial and industrial activities, which is currently slowly giving way, resulted in limiting entry into these trades to foreign elements. The development of these marketing institutions brought into being a small but wealthy merchant and banking class which demonstrated little interest in the development of domestic manufactures and trade in the basic necessities required by the mass of consumers.

By the same token, Egypt's commercial banking system has been almost geared to financing foreign rather than domestic trade. Also, there is no highly organized commercial credit business in Egypt like consumer credit institutions outside banking circles.

The majority of Egyptian villages have no connection with even the nearest urban centers. A considerable degree of isolation and immobility separates the two major sectors of the economy. In fact, the whole transportation system has developed as much as it has primarily in response to the marketing requirements of an export economy. Although Egypt might, unlike many underdeveloped countries, seem to be not "very seriously handicapped by inadequate transport facilities", (1) this is only true relative to the export market requirements, but not relative to the requirements of a mass domestic market.

Since Egypt has some 14 kilometres of railways for every 100 kilometres of inhabited area, a figure which approaches the west European standard and is well above that of other underdeveloped areas, one is tempted to discount the transportation handicap. However, it has to be noted that the railway network is confined to the narrow strip of the Nile Valley, vertically parallel to the Nile and connecting the interior of the country with export ports. There is no or little cross-country network as well as marked gaps in cross-country horizontal feeders. On the whole, the existing network does not provide an

(1) Charles Issawi, *loc. cit.*, p. 181.

adequate direct cross-country connection between rural markets and urban centers where modern industries are localized.

Therefore, the railway network would have to be supplemented with a network of motorable roads and navigable waterways which would serve as feeders and would provide the villages with a connection with urban centers. However, Egypt's roads have developed as much as they have to connect large urban centers as well as for military purposes. Not infrequently they run parallel to railways. Also, the configuration of Egypt is such that most waterways run parallel to railways, bringing different media into inevitable competition.

Since railways in Egypt are a State monopoly, railway administration has always been in a much stronger position against road and river competition. In turn, the railways have fought these competing media by legislative and administrative as well as economic action. These restrictive measures have inhibited the growth of media endowed with a natural advantage in serving the requirements of the domestic market. Egypt's transportation policy has drifted toward maintaining the monopoly position of railways by stifling all rivals, a policy which impedes the growth of a domestic mass market.

Egypt's media of mass communication are still at a very early stage of development. The present circulation of newspapers does not reach 20 per 1000 population and the ratio of radio sets per 1000 does not surpass 12. The coverage of these media is confined mainly to urban centers. The number of cinemas in Egypt amounts to 260, with a seating capacity of 255,000. Attendance per capita works out at 2 per year. About 55 per cent of screen time is taken by American films. Mobile cinemas are increasingly used for instruction by government authorities. An audience of 7,300,000 annually is reached. The possibilities of harnessing these media to develop a mass market in order to attain economic levels of production have not as yet been tapped either by public authorities or by private management.

Economic Development is Limited by the Size of the Market

The very structure and workings of the Egyptian economy inevitably results in a domestic market which is both limited in size and slowly, if at all, growing through time.

At the existing per capita income level, the income elasticity of demand for most "factory-made products" tends to be markedly lower than that of demand for food, as can be seen roughly from the comparison of income-elasticity coefficients in Egypt, India, Japan and Australia presented in Table 13.

TABLE 13

THE STRUCTURE OF INCOME ELASTICITIES OF DEMAND IN SELECTED COUNTRIES

Item	Egypt (1938–45)	India (Pre-war)	China (Pre-war)	Japan	Australia
Food	0.76	0.9	1.14	0.42	0.30
Clothing	0.67	1.9	0. 8	1.24	0.94
Rent	0.05	0.7	0. 7	0.82	0.96
Cigarettes and tobacco	0.90	—	—	—	—
Beverages	0.71	—	—	—	—
Communication	0.68	—	—	—	—
Fuel and Lighting	0.66	0.7	0. 7	0.52	0.81
Amusements	0.88	—	—	1.52	1.30
Household Requisites	—	0.7	—	1.35	1.49
Health and Education	—	—	—	—	0.92

Source: Adapted from Sherif, A. F., *Economics of Public Utilities, loc. cit.*

Judging by the elasticity coefficients for non-food consumption items, the income-elasticity of demand for manufactured products tends to be less than unity and appreciably lower than that for food. The low per capita income and the high-food-drain consumption pattern, combine to limit the absolute capacity to consume manufactures.

Further, the low rate of aggregate income growth combined with a high actual as well as potential rate of population growth is likely to continue to depress the capacity to consume and the income-elasticity of demand for manufactures through time.

In fact, at such low and stationary level of income the growth of the domestic market for food is likely to surpass that for manufactures, with the economy undergoing a "food crisis" as the high income elasticity of demand for food combines forces with the transitional population explosion. The Egyptian economy operates as if to perpetuate its "comparative advantage" in the production of labor-using cotton plantation.

In spite of the severe limitation imposed upon the growth of manufacturing industries by the limited size of the market, the drive for industrialization is gaining force and industrialization has become the hallmark of economic policy of the New Regime. However, Egyptian policy-makers have to realize the extent and severity of the marketing bottleneck in the process of industrialization. This is Egypt's number one marketing problem.

It is only in a context of a growing real per capita income that the prospects of industrialization are substantially enhanced. As real income rises the proportion spent on food tends, allowing for some transitional lag, to decline; and the relative share of agriculture in aggregate output is bound to fall. The income-elasticity of demand for secondary and tertiary products tends to become higher and rising, approaching the prevailing pattern in highly industrialized countries, where the income-elasticity stands at 0.5 or less for primary products, between 0.5 and 1.0 for secondary products and more than 1.0 for tertiary products. (1) Thus, a growing demand for manufactures and services is bound to increase their relative share in the aggregate production structure. A rapidly expanding market for manufactures and services resulting from a growing shift in the consumption pattern away from food and toward manufactures and services, and also from a growing income-elasticity of demand for manufactures and services is a major precondition of large-scale industrialization.

It is the task for Egyptian planners to help provide this pre-condition and help remove the marketing bottleneck. This can be brought about in part by marketing reform, but largely by changing the pattern of marketing policies in both the private and government sectors.

(1) This broad demarcation was used by Allan Fisher: "Production, Primary, Secondary, and Tertiary", *The Economic Record*, 1939; and T.W. Schultz: "Agriculture in an unstable Economy", CED., pp. 113-114.

PART II

RETAIL FACILITIES

Retail facilities in Egypt may be differentiated according to three important criteria; namely, lines of trade, geographical territory served, and type of managerial operation. The forthcoming discussion will center on each of these criteria respectively. It is hoped that each criterion will serve as a satisfactory basis for a descriptive analysis of some aspects characterizing retail institutions in Egypt.

Lack of basic data on retail sales volume is a major obstacle in the way of any attempt to identify retail establishments on the basis of lines of trade handled. At present, there is no census of distribution in Egypt. The Industrial and Commercial Census, appearing every ten years, is about the only helpful source of information in this respect. In this census data are available concerning commercial establishments falling in somewhat broad lines of trade. Broadly speaking, a commercial establishment may be defined as one engaged primarily in trading as distinct from manufacturing. It may be a wholesale house, a retail store, or any other marketing institution. Table 14 may throw some light on the general character of these establishments, as well as the relative importance of various lines of trade.

The reader should be cautioned against drawing any hasty inferences about the structure of retailing in Egypt from Table 14.

The data in this table reflect trading in general, with retailing being only a part of the general picture. Accordingly, any inferences or conclusions should be tempered with this reservation in mind.

Food and agricultural products constitute the most important trade line in terms of both the number of stores and capital investment. Shops handling this line are typically very small, poorly stocked, and lacking in proper display and sanitary facilities. They are usually faced with keen competition of street peddlers and pushcart operators. Bread is sold unwrapped direct to consumers by family bakeries. Sugar, rice, flour, olive oil, and other staple food products are commonly sold in bulk rather than in packaged from.

Textiles also constitute an important trade line. The majority of establishments handling this line trade in piece or yard goods, and not in made-up

TABLE 14

COMMERCIAL ESTABLISHMENTS BY LINES OF TRADE *

Line of Trade	(1) All Egypt			(2) Cairo & Alexandria			Concentration Ratio **		
	S	E	C	S	E	C	S	E	C
Food & Agric. products	41849	28587	33937	16563	19056	18708	39.6	66.7	55.1
Textiles	8196	11783	15450	2175	7562	11589	26.5	64.2	75.0
Wood, paper, & chemicals	4732	6958	14440	2833	4949	10569	59.9	71.1	73.2
Minerals & Mineral products	7565	18216	20847	3662	13020	17081	48.4	71.5	81.9
Composite goods	1936	4395	4632	1333	3799	4406	68.9	86.4	95.1
Services	19329	36871	10940	7808	23444	9775	40.4	63.6	89.3
Other lines	66164	24630	17663	12596	16255	12753	19.0	66.6	72.2
Total	149771	131440	117929	46970	88085	84881	31.4	67.0	71.9

* Total figures do not include establishments engaged in banking, finance, insurance, and brokerage.

** Concentration ratio refers to the figures in columns (2) as percentages of corresponding figures in column (1)

S=number of establishments.

E=number of employees.

C=invested capital in thousands of Egyptian pounds.

Source: Adapted from *the Egyptian Industrial and Commercial Census,* 1947.

garments. The diversity of dress ranging from 'rags to riches' is largely responsible for this. It reflects the influence of several cultures on different segments of the population. Wide differences in habitual dress make a complete assortment of made-up garments an unprofitable business from the standpoint of the Egyptian manufacturer. This tendency toward trading in yard goods is further accentuated by the relative cheapness of handicraft labor. This is true especially of women's apparel, where made-up garments are many times more expensive than hand or tailor-made garments. Again, there tends to be a definite specialty reflected in a narrow line of yard goods handled by each establishment.

Supplies of wood, paper, chemical, minerals, and mineral products are another major trade line. Establishments trading in these lines provide the bulk of the supplies needed by the handicrafts and home builders. Each establishment specializes in a definite line of supplies, the line being broad enough to encompass a number of related items.

The line termed "composite goods" has a special significance. It includes establishments handling electrical goods and appliances, furniture, clothing, optical goods, watches, jewelry, photographic apparatus, musical instruments, and the like. In other words, it includes establishments handling the kind of merchandise that is characteristic of a high-standard of living of a Western community. On the other hand, there is little market potential for such goods in an economy reflecting a high-food-drain consumption pattern. Accordingly, the number of stores and employees, as well as the capital investment in this trade line are lower than the rest of the other lines.

A relatively large number of employees are engaged in services. This category includes everything from a barbershop to an undertaker. A large number of the establishments here specialize in one definite service, and the relation between the establishment and its clients is fundamentally built on personal grounds. Groceries constitute the most important business in the category termed "other line". The grocery business comprises 58,095 stores and 12,562 employees, most of the stores being operated and run by their owners. This is why the number of stores is more than four times the number of employees. Second to the grocery business is the variety business. A relatively large number of variety stores are included in this category. They carry incomplete assortments of a large number of convenience goods lines.

In general, the average size of a commercial establishment as indicated by the number of employees is very small. It is smallest in the grocery field, and highest in composite goods. The average size is also relatively much higher in urban centers than in rural areas. On the average, there is less than one employee for all establishments, whereas, there are little less than two employees for Cairo and Alexandria.

The urban centers are also characterized by a high concentration of commercial establishments. The two cities include 31.4 per cent of all the establishments in Egypt, 67.0 per cent of all employees, and 71.9 per cent of all capital investment. It is, therefore, self-evident that the two urban centers constitute the bulk of the market for nearly all trade lines.

It is obvious from Table 14 that the concentration ratios are not the same for all trade lines on the one hand, and for the three measures of line importance for any one particular line on the other hand. The latter observation apparently reflects the larger store size in the urban centers. The first observation, however, reflects the importance of urban centers as major consuming markets characterized by a higher-than-average per capita income and the relative influence of a Western-oriented culture. Thus. while groceries are below the average concentration ratio, it is seen that composite goods are far above this ratio. This is primarily due to the fact that both income and culture are the cornerstones upon which the marketing of this line of goods is built.

Probably a more relevant and practical basis for distinguishing retail marketing institutions in Egypt is the geographical territory served. For here is present one of the most remarkable geographical concentration of shopping centrers in the world. Cairo and Alexandria constitute the major urban shopping centers in the country. Table 15 shows the geographical distribution of stores and employees according to a recent survey.

TABLE 15

GEOGRAPHICAL DISTRIBUTION OF RETAIL STORES AND RETAIL EMPLOYEES

Region	Per cent Population (1)	Per cent of Stores (2)	Per cent of Employees (3)	Concentration of Stores (2)%(1)	Concentration of Employees (3)%(1)
Cairo and Alexandria	15.8	60.5	71.9	382.9	455.1
Suez Canal Zone	1.9	7.0	5.5	368.4	289.5
Lower Egypt	43.3	23.5	16.6	54.3	38.3
Upper Egypt	39.0	9.0	6.0	23.1	15.4
Total	100.0	100.0	100.0		

Source: Column (1) computed from Population Census, 1947.
Columns (2) and (3) from "A Study of Retail Store Employees", *Egypte Contemporaine*, Bulletin No. 271.

Apparently the concentration of stores and employees in the two major urban centers does not reflect population concentration in these centers.

The two centers comprise only 15.8 per cent of the total population of Egypt. Obviously an equal distribution of stores and employees with reference to population should indicate a 100 per cent concentration ratio. This ratio may be used as a standard or par with which actual concentration ratios may be compared. Table 15 shows the extreme deviations of actual concentration ratios from the standard ratio of 100 per cent. The ratios are relatively very high for the urban centers and rather low for the rural areas. Again, for the urban centers, the employees' ratio is higher than the stores' ratio. For the rural areas, the picture is reversed. This observation reflects a larger store size in the urban centers than in the rural areas, assuming that the number of store employees could be used as a satisfactory measure of store size.

Higher per capita income is basically responsible for the relatively high concentration of stores and employees in the two major urban communities. This is in turn a result of the concentration of government offices and business firms of all kinds in the two cities. The outcome has been the emergence of a relatively sizable middle class that constitute the bulk of the market for most manufactured goods.

A better idea of the average store size in urban and rural areas may be secured from Table 16. The per cent of stores having more than five employees is larger for urban centers than rural areas. The situation is reversed concerning stores having one or no employees. However, Table 16 also indicates that retailing in Egypt, measured by the number of employees per unit, is a small business, a situation similar to that prevailing in the United States.

TABLE 16

DISTRIBUTION OF RETAIL STORES ACCORDING TO NUMBER OF EMPLOYEES

Number of Employees	Cairo & Alexandria	Percentage of Stores		
		Lower Egypt	Upper Egypt	All Egypt
0 to 1	39.6	53.2	58.3	44.5
2	21.5	21.3	25.0	21.75
3 to 4	23.0	17.0	11.1	20.5
More than 5	15.9	8.5	5.6	13.25
Total	100.0	100.0	100.0	100.0

Source: "A Study of Retail Store Employees'," *Egypte Contemporaine*, Bulletin No. 271.

Central shopping districts constitute the core of the retailing structure in urban centers. They are typically a mixture of the old and the new. Thus, on one hand there are progressive shops on modern streets catering to the higher income trade and to the kind of commodity demand encountered in Europe and the United States.

On the other hand, there is the bazaar, which is a conglomeration of a variety of small shops, both retail and wholesale, as well as a major handicraft manufacturing center. It is characterized by winding, covered labyrinths that are strictly departmentalized. Thus, there is one section for cotton yard goods, a second for precious metals and jewelry, a third for antiques, a fourth for leather goods, and so on. Wholesale storage takes place in other recesses of of the labyrinth.

Most of the stores in the modern part of the central shopping districts are run by Levanists and Westerners who have had considerable merchandising experience. These stores are characterized by a high quality of display and the exhibition of a definite specialty in the lines they carry. Thus, there are found side by side men's shops, shoe stores, jewelry stores and the like. The stores usually carry quality merchandise and specialize in relatively higher price lines.

Other less modern stores are found in neighborhood locations within the urban centers. These differ in several respects from the downtown retail shops. Unlike the downtown shops, a relatively large number of these stores specialize in custom work. This is especially true of shoe stores, men's clothing, and men's shirtings. The neighborhood store may also carry more lines of merchandise than the downtown store, but seldom are the lines complete. Subsequently, a large number of variety stores also usually carry lower price lines and handle merchandise of a poorer quality than that found at the downtown store. The quality of display is also by far inferior to that of the downtown store.

A more recent development is the increase in the number of stores in suburban locations such as Heliopolis in Cairo. These stores carry both limited and full lines of trade in some instances. This tendency toward decentralization has been growing hand-in-hand with the rapid growth of Cairo and Alexandria.

Small outmoded shops and itinerant peddlers comprise the main retail outlets for small towns and rural areas. Most of these shops are without a definite specialy and handle a rather complicated line of merchandise. In other rural areas, where per capita income is lowest, the ancient market day persists, especially where several villages are closely grouped.

The type of managerial operation provides a third basis upon which it is possible to differentiate retail stores in Egypt. On this basis, retail institutions may be divided into two major groupings: non-integrated units and integrated units. The important types included in the first grouping are independent retailers and small department stores. The second grouping comprises few corporate chain stores as well as some single-unit and chain department stores.

In general, the orthodox small-scale retail store dominates the entire retail structure so far as number of units and presumably sales volume are concerned. In small town and rural areas the typical independent store is of the nature of a general store that offers for sale a variety of items of merchandise which are often unrelated and non-complementary. Little or no attempt is made toward departmental organization.

The limited-line store is the typical independent store found in medium-size towns and in some of the neighborhood shopping districts of large cities like Cairo and Alexandria. There is a tendency among such stores to specialize in selling some one line or general type of merchandise.

Several important factors have contributed to reshape the character of retail establishments found in the central shopping districts of the major urban centers. The most important factor, coupled with higher per capita income, has been the presence of important western communities in these centers. This has brought Egyptian middle-and upper-middle class families into contact with product lines that are characteristic of a western community. The demonstration effect (1) of western costumes, habits, and culture has been of paramount importance in reshaping the consumption patterns and the way of living of many Egyptians.

So strong has been the factor of emulation that an entirely different type of retail institutions tended to dominate the retailing structure in urban centers. These are the specialty shops and the small department stores. In the central shopping districts of Cairo and Alexandria, specialty shops, small department stores, and some limited-line stores are found side by side. Most specialty shops make their appeal on the basis of a restricted class of shopping goods. Thus, there are millinery stores, gift shops, fur shops, luggage stores, sporting-goods stores, men's furnishings stores, and the like. Most of these stores handle a narrow line of goods and seek to attract patronage by the completeness of the assortments they stock.

The department stores are small compared to the average department store found in an American city. They offer for sale several lines of merchandise that are arranged into departments for convenience of display and sale. Con-

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(1) This is the term used by Dr. J.S. Duesenberry in his book, *Income, Saving, and the Theory of Consumer Behavior*. According to Dr. Duesenberry, this demonstration effect is a major source of the drive toward higher consumption. It is the belief of the writers that Dr. Duesenberry's theory provides an excellent explanation for the changes that have taken place in the consumption patterns and habits of middle-and upper-middle class Egyptians.

siderable patronage is obtained by such stores, especially from the middle-and upper-middle class families, because of the relatively great variety of shopping and convenience goods that they handle. Emulation, higher per capita income, and an increasing concentration of middle-class familes, mostly business and government employees, have helmped furnish a basis for success by bringing stogether a sufficient number of customers to provide the necessary volume of sales for such stores.

A comparison of Egyptian department stores with United States stores is possible by examining the various departments of a typical store in Egypt and their relative importance. The departmental comparisons shown below indicate that the weight is put on dry goods lines. Within these lines the emphasis is on yard goods and home furnishings. The familiar hard lines rate low.

High-Ranking Depts.	*Medium-Ranking Depts.*	*Low-Ranking Depts.*
Daraperies, curtains, bedspreads	Jewelry, silverware, and clocks	Shoes
Bedding and blankets	Furniture	Small stoves
Cotton, silk, and woolen yard goods	Kitchen utensils	Paints, oils, and varnishes
Patterns	Corsets	Repair parts
Linen and toweling	Hosiery	Plumbing
Lingerie	Gifts, lamps, and pictures	Refrigerators
Notions	Miscellaneous house furnishings	Washing machines (if any)
Men's furnishings	Ladies ready to wear	Toys
China and glassware	Infant's wear	
Toilet articles	Men's dress clothing	
Ladies' accessories	Boy's wear	
	Girl's wear	

The comparative weights given to various lines in the above classification deserve some explanation. Major electrical appliances are still in the top luxury class in Egypt and are customarily sold through exclusive agents of foreign manufacturers. Paint is in low demand because of the high proportion of plaster, cement, and tile in Egyptian buildings and the low proportion of painted woodwork. The low estate of shoes may be ascribed to the competition of thousands of one, two, and three-man shops of custom cobblers. Ready-to-wear clothing such as mens' suits, womens' dresses, and childrens' wear, are by far less important than they are in an American department store. The major tendency is toward custom-made clothing.

The success of progressive specialty shops and some department stores reflects their acceptance of the conception of an evolving pattern of life for residents of major urban cities. This is another way of stating the conditions under which a new product has become an integral part of the way of living of a large group of Egyptians residing in urban centers. (1)

The integrated types of retail stores are of relatively minor significance, so far as number of units and sales volume are concerned. There is one major manufacturer-sponsored shoe chain store, which is a subsidiary of an international shoe company, namely, the Bata Company. There is also a limited of retailer-sponsored voluntary chains, especially in the drug, confectionery, hotel, and restaurant fields. There are also numerous examples of vertical integration among petroleum and oil companies.

Structural Change

Changes in the structure of retailing in Egypt may be studied from two angles: changes in the number of retailing units and changes in the character and number of functions performed.

The number of commercial establishments, the majority of which being retailing units, increased by 9.4 per cent in one decade (from 1937 to 1947). In the same period population increased by 19.4 per cent. This is an important indication of the static nature of this aspect of the retailing structure. Thus, retailing in Egypt, in contrast to the United States, has never had its share of exciting upheavals, changes in methods of operation, and considerable growth. (2) This has been largely a result of the tight restrictions imposed upon the geographical growth of the market due to very low per capita income in some areas and to bad transportation facilities.

The growth of retailing has also been hampered by other factors. Heterogeneity of demand in urban centers has been very influential. Residents of these centers have strong individual tastes. They always want a large variety to choose from. Hence, their choice usually reflects individual decisions. Thus, disparities in per capita income, nativity, habits, traditions, religion, education, way of living, and many other aspects have created many obstacles in the way of many attempts to create mass markets for various lines of products. Some of these obstacles in the face of market growth are not peculiar to Egypt.

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(1) For an excellent discussion of the concept of an evolving pattern of life see, "Needs, Wants, and Creative Marketing," in *Cost and Profit Outlook*, Vol. VIII, No. 9, Sept. 1955, Alderson & Sessions, Marketing and Management Council, Philadelphia, Pa.

(2) Some insight into such upheavals may be obtained from the Chapter on retailing by Prof. P.H. Nystrom in *Changing Perspectives in Marketing*, edited by H.G. Wales, University of Illinois Press.

This is evidenced by the difficulties encountered in attempting to apply mass merchandising techniques in some Latin American countries (1)

No substantial changes have taken place regarding the number of functions and their character. However, situations where new functions have been added outweigh those where functions have been reduced. Numerous examples are found in urban centers where retailers have added new functions such as extending credit, delivery, and sales service. This is especially true of retailers who offer for sale household appliances, furniture, and automobiles. The relative absence of chain competition accounts for the lack of situations where a reduction in the number of functions performed has taken place.

A significant change in the completeness of functions performed has occurred in urban centers. Here higher per capita income, growth of western communities, and emulation and style factors resulted in the evolution of the limited-line store and the specialty shop which specialize in definite merchandise lines and, therefore, are well adapted to perform their functions in a more or less complete fashion.

With the exception of the major oil companies, very few situations of vertical integration of functions may be enumerated. Only the few big department stores have attempted some backward integration by combining the merchant-importer, wholesaler, and, in few instances, the scale of operation and the size of orders of such stores justifies direct buying from domestic and foreign manufacturers.

Functions of Retail Establishments

The absence of any real mass production is probably the most important factor characterizing the retail marketing structure in Egypt. The immediate result of limited production and importation of manufactured articles due to high import duties is the prevalence of a seller's market in general. This has always meant restricted competition and little effort toward market planning.

Indeed, marketing in Egypt may be truthfully described as simple trading that involves little or no planning at all. The lack of market planning has in turn resulted in a multiplicity of small shops characterized by poor practices which clearly produce an inefficient marketing mechanism. These poor

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(1) See W.F. Brown, "Mass Merchandising in Latin America: Sears, Roebuck & Co.," *The Journal of Marketing*, Vol. XIII, No. 1, pp. 73-77.

See also *United States Business Performance Abroad*, The Case Study of Sears, Roebuck De Mexico, S.A., National Planning Association, Washington, D.C.

practices may be best illustrated by considering the marketing functions performed by retail establishments.

The buying function is far from being adquately performed. Most retailers, except the big department stores and some few specialty shops, are not aware of the important concept of serving as buying agents for the customer. Consequently, little or no effort is made to adapt quantitatively and qualitatively the products to the buying habits and wants of consumers.

The concept of an assortment is not fully realized by many retailers. Consumer demand is interpreted in the very narrow sense of a single article. Thus, retailers do not visualize the single article as a member of a larger assortment. They rarely realize the fact that a person usually buys an article to establish a particular assortment or replenish an incomplete one (1).

It is expected then that few retailers make any reasonable effort in planning the assortments and quantities necessary to satisfy customer demand. There is nothing among most retailers like a model stock, a term denoting an assortment adjusted to customer demand. In practice few retailers also arrive at their stocks by the build-up method, i.e., planning the unit stock needs in each subdivision and then building up to a total.

In few instances also do retailers buy with an eye to their own interest. Thus, in most cases the majority of the lines carried by retailers are not the ones yielding the highest margins of net profit. Analyses of internal records and distribution costs are an unknown art to most retailers in Egypt.

Stock planning is rather primitive. Only progressive department stores plan stocks with the objectives of realizing some desired turnover, maintaining adequate assortments at all times, and keeping a reasonable relationship between periodic sales and stocks on the first of each period. As a result, many stores are alternately overstocked and understocked with merchandise.

The retail selling function is also characterized by several important weaknesses. Maximum gross profit is sought on each transaction regardless of the effect on long-run profitatability. Few retailers realize the importance of turnover and the concept of maximizing profits through low prices and resulting high volume. As a result, turnover in many instances is very low.

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(1) An important discussion of the concept of an assortment is given in "Searching and Sorting in the Market Place," *Cost & Profit Outlook*. Vol. IV, No. 6, June 1951, Alderson & Sessions. Other research findings with reference to the same concept may be found in A.A. El-Sherbini, *Marketing Aspects of Consumer Behavior Analysis*, unpublished Ph.D. dissertation, University of Iowa, Iowa city, Iowa, 1954.

With the exception of department stores and other progressive shops, price maintenance is the rule rather than the exception. In times of falling prices, many retailers prefer to hold their stocks as long as possible rather than to clear out inventory. Often there is no single price and bargaining is the rule.

All this has led to an inefficient marketing mechanism. One indication of inefficiency is the generally irrational behavior of price movements, and the sudden variations between wholesale and retail prices.

Personal salesmanship is relatively more important than other functional efforts such as advertising and sales promotion. This is primarily due to the fact that the habit of buying by brand is not well established in Egypt. This is true more of domestically manufactured articles than of imported articles.

Few domestic manufactures give branding and brand promotion some reasonable attention. Instances of private branding are also reserved to a few department stores and specialty shops. Wide unconsciousness of the importance of continued patronage plus the fact that a large part of domestic articles are not pre-packged are chief factors in this respect.

All these factors have thrown the selling burden on retail salespeople. However, the majority of retail selling personnel are not adequately trained. The flat-salary basis of compensation usually results in a lack of retail selling aggressiveness. Few retail salespeople are given sufficient latitude in their selling activities. Consequently, the selling job is frequently mechanical in nature and involves little stimulation or solicitation. Most salespeople do not ring up sales themselves; they merely write orders that customers take to the cashier.

Retail advertising and promotion is of minor importance. Retail advertising accounts for about 6.6 per cent of the total advertising expenditures in national magazines, and 11.9 per cent of newspaper advertising expenditures (1)

Not much is made of display advertising. Large space ads with drawings of the merchandise offered and prices plainly quoted alongside an enticing copy are still a novelty. The heavy advertisers are retailers selling household appliances, as well as a few department stores. Retail advertisements are mostly of the direct-action type and are planned to coincide with occasional sales or merchandise clearings. Instances of institutional advertising among retailers are relatively rare.

Circulars are sometimes extensively used by some department stores and inventory clearings are approaching. Direct mail advertising is used by the specialty shops, especially whenever seasonal sales and larger de-

(1) A.A. El-Sherbini. *Some Research on Advertising in Egypt*, (Arabic), Alexandria University Press, May 1956?

partment stores and fashion houses whenever new arrivals of imported articles are in view. A short mailing list is prepared of the names of distinguished personalities in the higher income brackets.

Two major types of consumer credit are extended by retailers. The first is capital-goods fiancing, which is used exclusively with reference to durable goods in general, and electrical household appliances and automobiles in particular. In almost all cases the retailer shifts the burden of financing the sale of these goods to some particular bank. Consequently, most of the consumer durable-goods financing is handled by banks. In effect it may be said that there is no highly organized consumer credit service in Egypt outside banking circles.

The importance of durable-goods financing has grown substantially only in the last few years. It was desperately needed to overcome consumer resistance to new types of goods and to break the rigidity of the average consumption pattern, which is largely attributable to long-standing habits and a low-level per capita disposable income. Accordingly, the terms of fiancing the sale of such goods have been relatively reasonable in many cases, ranging from one to three years at an average rate of 10 per cent.

Income-period financing is the second type of consumer credit service extended by retailers. However, a small minority of consumers benefits from this credit service. Government employees constitute the bulk of this minority. Credit is considered a major risk in retailing circles. Accordingly, many retailers are not willing to bear this risk unless they are granted the utmost of security. A government employeee is customarily regarded among retailers as a safe risk. Typical retailers who offer income-period financing service are few department stores, tailors and yard goods sellers, and a few grocers.

The kind and extent of service offered vary according to different types of retailers and commodities handled. Appliance dealers usually offer delivery service. Department stores also offer this service, provided customer purchases exceed a certain amount. Furthermore, many small independent retailers such as grocers offer their regular customers personalized service and free delivery. They also welcome phone orders from their customers.

Installation and repair services are restricted mainly to household appliances and automobiles. The service is seldom free and the charge is often far above the actual cost of the service. In fact, these two services are a major source of income for many retailers who sell such durable goods.

Guarantees are seldom offered by retailers or domestic manufacturers. This is basically due to a definite lack of quality control and grading procedures.

Only those retailers who are exclusive agents of foreign manufacturers stand ready to fulfill the obligations of these manufacturers.

With the exception of few department stores, most retailers do not accept returned goods. A sale is usually considered final once a customer takes possession of the merchandise. In general, it may be said that a retailer's main objective is in concluding a particular transaction rather than in repeat business.

Ordinary and gift wrapping are far below the standards known in Europe and the United States. Some charge is customarily required for special wrapping. Attractive surroundings are available only at few department stores. A typical Egyptian retail store is usually overcrowded with merchandise with little or no attempt toward an eye-catching and pleasant display.

Finally, few retailers perform satisfactorily their merchandising function. For instance, few retailers adapt the unit of sale by breaking bulk to the size and quantity desired by customers. Frequently the average retailer does not offer for sale the right product at the right time, in the right amounts, and at the right price that is compatible with consumer desires and needs.

PART III

WHOLESALE FACILITIES

A study of wholesaling in Egypt is likely to reveal many important and peculiar characteristics about this phase of the distributive machinery. Unfortunately, no quantitative data as to the extent and volume of wholesaling are available. Different kinds of merchandise evidently pass through a number of hands before reaching the consumer. But business censuses fail to distinguish between wholesale and retail establishments. Consequently, an accurate appraisal of the wholesaling structure is not possible, and, therefore, reliance must be placed upon personal observation and fragmentary information from here and there.

At the start, a distinction should be made between wholesale facilities serving the distribution of manufactured goods and those employed in the marketing of agricultural products. Wide differences in distributive machineries justify such distinction. Accordingly, the forthcoming discussion will involve a separate treatment of each type.

Because of the generally underdeveloped state of the Egyptian industries, a relatively large part of the manufactured commodities consumed in thecountry is imported. Thus, automobiles, trucks, tires, farm and factory machinery, electrical and gas appliances, sewing machines, and the like originate almost wholly outside of Egypt.

Imported goods are usually handled by commission merchants who, acting as agents for foreign manufacturers, book orders from importers, wholesalers, and large retailers. They secure orders by sending out traveling saleasmen or through branch offices in the principal towns, and transmit them to the foreign firms they represent. Commission merchants usually handle a wide variety of goods, and seldom specialize in one field of trade.

Second to commission merchants, exclusive distributors play an important key role in marketing imported goods. [1] The exclusive distributor is an authorized representative of the foreign manufacturer. He may either buy his merchandise outright or sell it on a commission basis. He is held responsible for selling and distributing the imported merchandise throughout the country.

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(1) In view of severe limitations on volume of sales resulting from very low per capita income ($ 112), few foreign manufacturers have established their own sales offices and branch houses in Egypt.

Foreign manufacturers, however, often give their distributors advice on merchandising techniques and sales organization. The distributor is thus often in a position to take advantage of the manufacturer's long experience and to fully exploit the good-will carried by his world-famous make and brand. However, the relatively small volume of sales realized on any one particularly durable item is often a strong limiting factor on both sales and service. Accordingly, specialization on the distribution of one particular item is often impractical. Thus, a national or local distributor usually finds a diversity of products essential to the success of his business. As a result, the authorized representative of a foreign manufacturer of refrigerators may also have to sell other durable products as diverse as stoves, heaters, washing machines, radios, recorders, record players, sewing machines, and even furniture. Because of the diversity of products handled, distributors tend to be little more than order takers.

Another important problem facing foreign manufacturers is the servicing of their products. Authorized distributors normally try to carry spare parts, but they rarely provide satisfactory mechanical services. There are few and scattered competent, independent mechanics ready to undertake major repairs. This problem is particularly important with reference to products such as farm machinery, automobiles, and the like. To overcome such acute problems of servicing, some foreign manufacturers have gone as far as establishing a number of service stations in the major urban centers in the country. The Ford Motor Company and the Singer Sewing Machine Company are outstanding examples of such foreign manufacturers.

Merchant importers are also of some importance. They often combine the importing and wholesaling functions, and usually sell directly to retailers. Sometimes, however, they distribute to wholesalers in outlying cities. Occasionally, they may also operate a retail business of their own. This is particularly true with reference to household appliances.

Merchant importers, as well as the above functional middlement, tend to concentrate in Cairo and Alexandria. This is partly due to the market importance of these two urban centers and partly because complex import-export procedures and information require close contacts with government agencies. This concentration has always been unhealthy, since it tended to impede a normal growth of wholesale facilities in other cities.

Functional middlemen are not so dominant in the marketing of domestic products. Here they are intensively challenged by the regular full service wholesaler. The latter plays an important part in the distribution of dry goods, cigarettes, candy and many frequently purchased inexpensive articles that may be described as convenience goods. Functional middlemen, especially brokers who possess good knowledge of the market, are probably more important in marketing shopping and specialty goods.

Two important factors account for the importance of the regular wholesaler as a basic outlet for domestic products. In the first place, the large number of small retail shops, many with practically no credit rating, makes it necessary for the domestic manufacturer to rely on the regular wholesaler. Secondly, a relatively large number of local manufacturers lack the facilities of a good sales organization. In many cases, manufacturers restrict their activities to production, with no or little selling effort. It is not surprising, therefore, to find many local manufacturers unaware of the extent and character of their markets. In all these cases, it is understood that the basic marketing function rests with the regular wholesaler and/or the functional middleman.

The manufacturers referred to above are the medium or large domestic manufacturers. In contrast, small scale producers are apt to sell directly to large retailers or to ultimate consumers. This seeming conflict with general use of wholesalers by small scale producers in the United States calls for some explanation. A small scale producer in Egypt, as in the rest of the Middle East, is nothing more than a handicraft producer, while in the United States a small scale producer usually operates on a relatively substantial scale when contrasted with Egypt.

The larger retailers, consisting mostly of a few department stores, enjoy the rating of wholesalers, and are dealt with directly. They procure most of their dry goods lines directly from manufacturers. Private branding is extensively used by these stores, and the domestic manufacturer's name is almost always an unknown entity. Department stores are also a major outlet for the products of many handicraftsmen, such as furniture, leather goods, and odd knickknacks.

There are some instances where wholesaling is combined with retailing. The bazaar exhibits a remarkable example 'of such instances. Piece goods are offered for sale at the bazaar to two classes of customers: retailers and ultimate consumers. No trade discounts are offered, but quantity discounts are customary. Combining wholesaling with retailing is also observed in small towns and rural areas where numerous general dealers with varied stocks are the most important sales outlets serving these areas.

The marketing of farm products may be conveniently studied by beginning with producers at country points. In small towns and rural areas it is common for farmers to sell some products directly to consumers. For instance, farm-made butter is very commonly sold in this way. In larger cities, farmers often sell directly to retailers and ultimate consumers through municipal or public markets. This is commonly witnessed in the marketing of livestock. In most cases, however, the public marketis of interest only to those farmers who live in close proximity to largeban centers.

In some instances, farmers may sell directly to some manufacturers- Thus, in some parts of the country local manufacturing plants, such as sugar-cane and canning factories, furnish an important market for farmers. They usually enter into contracts with growers covering the product of a specified number of acres, thus insuring a supply of raw materials for the factory and a definite market for the farmers.

However, farmers rarely sell their crops directly to consumers. There are usually several stages in the marketing process. Several middlemen are involved in the operations of assembling and distributing many farm products. For many farm products, the bulk of shipments from the producing sections is handled through local or country buyers. Thus, in the marketing of cotton, there is an army of country buyers who are often each linked more or less closely with an Alexandria cotton exporting firm. Country buyers then consolidate the small contributions of individual farmers into larger lots for subsequent re-sale to a gin.

In many instances the activities of country buyers are specialized according to the commodities handled by them. Thus there are local elevators that handle grain, cattle buyers dealing in livestock, cash buyers that market eggs and poultry, potato warehouses that market potatoes, and most important an army of interior purchasers of cotton. Consequently, growers wishing to sell their farm products have a variety of possible outlets.

Small agricultural producers are always very keen to market their output advantageously. This is a direct result of low cash incomes and the often very low opportunity costs (which are low because of the absence of other profitable opportunities). In view of these circumstances, Egyptian farmers would most likely spend much time and effort in attempting to secure price advantages in selling their produce. Therefore, they are particularly sensitive to price differences.

However, commercial ignorance and lack of information are characteristic of many small agricultural producers. This is particularly true about growers of cotton. There are many producers who have no information about demand and supply conditions, present and future prices registered on the floats of domestic and foreign cotton exchanges, and premiums allowed for different grades of cotton. A keen observer would frequently find that the premiums paid for better grades than middling are less than the market differences between grades in primary cotton markets, and that discounts on cotton below middling are greater than the market differences between grades in primary cotton markets. In other words, the prices paid at country points do not correspond as closely as they should to actual market values of the different grades.

Furthermore, the small grower is often at the mercy of the local buyers who provide him with funds to finance his cotton crop. In many instances the grower would be ready to accept advances in return for comparatively low prices resulting in an unjustifiably wide gap between the prices received by the producer and those paid by the ultimate consumer.

Middle-sized cotton growers usually deal directly with neighboring gins, the latter being virtually a wholesale merchant in these instances. Large growers normally follow the practice of selling cotton "on call". Some of these growers sometimes also hold an auction on their farms, at which the cotton may be inspected. The sales at such auctions may be either "on call" or outright.

More capital is required to finance the normal operations of the above cotton middlemen than is directly available to them. Accordingly, many middlemen as well as growers resort to the banks for financing the crop movement. In general, the complicated organization of banks, ginners, and merchant middlemen functions smoothly on well-accepted and understood lines.Whether economic wastage may be involved due to the multiplicity of middlemen, some of whom could be redundant, is a different question. At present, there is likely to be no serious attempt to change this long established system since this would involve a major reorganization of procedures and methods which no one stands ready to venture.

Structural Change

An examination of the wholesaling structure in Egypt since the beginning of the twentieth century would reveal some relatively important changes as well as some significant trends. One important change has been the addition of new functions on the part of agents and brokers. Several instances may be seen in which the functions of brokers and agents have been combined with the functions of ownership and risk bearing.

Two important factors are largely responsible for these changes. The first is the superior knowledge that brokers possess of the commodity and of the market situation. This has been largely due to the reluctance of domestic manufacturers to build up satisfactory sales organizations, and their tendency to throw the entire marketing burden upon the shoulders of brokers and service wholesalers. The second factor has been ready access to loanable funds. These two factors explain the willingness of brokers to assume the risks of ownership while they are acting as agents for others.

Instances in which a reduction in functions or simplification have taken place are relatively few. On very few occasions, for example, have the functions of credit and delivery been shifted to retailers. Again, only few wholesalers exhibited some reasonable tendency to limit their services by stocking only those lines on which they could obtain a high rate of turnover. This lack of tendency to reduce the number of functions is in direct contrast to wholesaling in the United States. This sharp contrast is largely accounted for by the absence of some major forces that have greatly affected the wholesaling structure in the United States. For instance, the trend toward simplification of functions among wholesalers has been largely transmitted from chain organizations. Such organizations are at present of a relatively very small magnitude in Egypt.

The increase in the magnitude of the marketing task assigned to wholesalers by domestic manufacturers has been influential in affecting the completeness of functions performed by those wholesalers. Thus, the increasing promotional effort required from wholesalers resulted in a growing specialization in certain types of merchandise. This tendency has been more pronounced in urban centers where the general store gave way to limited-line stores. Apparently, the tendency toward an intensive coverage of a limited-line among wholesalers has been much less pronounced in rural areas inasmuch as the general store remains to be the dominant type of retail organizations in these areas.

In addition to the above changes, two basic trends in Egyptian wholesaling are worthy of special note. The first is the tendency toward the separation of wholesaling from importing. During the latter part of the nineteenth century and as late as the early thirties of this century, wholesaling in imported goods was definitely associated with general importing. Later on wholesaling in imported goods began to show signs of a distinctive existence. The tremendous inflow to Egypt of huge varieties of manufactured goods from western countries led to many complications in both the importing and wholesaling tasks. Thus, knowledge of foreign sources of supply and familiarity with import-export procedures and regulations required special skill and specialization. On the other hand, the task of marketing these imported goods called for a comprehensive knowledge of domestic markets and other technicalities different from those involved in importing. Accordingly, the road was open for specialization in importing on one hand, and in wholesaling proper.

The second important trend in Egyptian wholesaling has been the tendency toward separation of wholesaling from retailing. The transition was as gradual as the separation of wholesaling from importing. However, the separation has not been entirely complete. The bazaar still offers a unique example of a situation where wholesaling and retailing are combined. On the other hand, the multiplicity of small shops with no credit ratings combined with an increasing supply of domestic manufactured goods resulted in a growing need for wholesale facilities geared to serve both the interests of manufacturers and retailers.

Finally, the wholesale structure in Egypt during the early part of the twentieth century has witnessed the introduction of a number of middlemen of different types. Commission men and brokers became important factors in the distribution of manufactured and agricultural goods in the domestic market. Even wholesalers who took title to the goods were of several varieties. Thus, in addition to regular wholesalers, and jobbers, who often dealt on a larger scale, there was the converter, the drop shipper, and sometimes the cash-and-carry wholesalers. An army of functional middlemen of different types as well as regular wholesalers also permeated the agriculture sector of the economy.

Functional Activities

The need for adequate wholesale facilities in Egypt is very pressing at the moment. Several important factors have tended to make such need particularly pronounced in the Egyptian marketing system. An important factor is poor transportation facilities which constitutes a serious obstacle in the face of attempts of direct contact between manufacturers and retailers. More over, poor transport facilities limit regions well adapted to large volume production of certain items to their local markets, thus restricting their economic development.

Another important factor calling for comprehensive wholesale facilities is the size of an average Egyptian manufacturer. A typical manufacturer in Egypt is one who operates on a small scale and produces a single commodity or a narrow product line. At the other extreme, there is a multiplicity of small-scale retailers selling a variety of lines. Apparently a very complex network of distribution would emerge if each manufacturer would have to sell to a host of small shops.

Finally, it is important to note that production of manufactured goods is highly concentrated in Cairo and Alexandria and their vicinities. In contrast, these centers comprise only a relatively small percentage of the total population. Consequently, adequate wholesale facilities constitute an indispensable medium for translating concentrated production into widely diffused consumers' markets.

Granted the paramount importance of wholesaling as a prerequisite for the smooth operation of its marketing mechanism, Egypt is unfortunately seriously deficient in wholesale facilities. The magnitude of this deficiency and its manifestations may be appraised through a systematic review of the functional activities performed by wholesale establishments in Egypt.

Selling is supposedly an important function performed by Egyptian wholesalers and functional middlemen. The alleged importance of this function stems from two sources, namely, the small size of the average Egyptian manufacturer, and the pre-occupation of these manufacturers with production problems. The general belief amidst manufacturing circles is that successful operations call for the continued entire application of the manufacturer's ingenuity to production planning and organization.

Broadly speaking, then, manufacturers do not view the selling and distribution function to be of their own concern. Subsequently, the entire selling function has been in many instances shifted to the wholesaler or the functional middleman. Unfortunately, the typical wholesaler, although in a position to perform this function satisfactorily, has not taken full advantage of his opportunities.

Few wholesalers have been well qualified to take over the selling function for the manufacturer. For many wholesalers selling is regarded as simple transfer of title to goods and services. Many lack the know-how required to analyze the existing and potential demand for the goods and services handled. Even the basic principles of sales management are not adhered to. Thus, not much attention or planning is given to such problems as the determination of the nature of the goods that can be sold in a specific territory, how much of these goods can be profitably sold, the type of package that will be most suitable, the size of the unit that will make the greatest appeal to the trade, and many other pertinent questions.

Few wholesale establishments, however, have been able to develop relatively substantial experience with reference to few particular markets over a long period. These wholesalers have become of invaluable service to new manufacturers wishing to cover existing markets very intensively. Because of their experience and the large variety of merchandise which they have to offer to their customers, these wholesalers have been able to penetrate to a large percentage of all retailers in certain territories.

However, many wholesalers, including the experienced ones have often gone too far in attempting to service uneconomical retail outlets. This has resulted in an undue burden and frequent loss to such wholesalers. Surprisingly enough, few wholesalers, in view of these circumstances, have attempted to restrict their sales to profitable accounts through an increasing use of selective selling.

The performance of the buying function by wholesalers dealing in domestic manufactures is far from adequate. A policy of "hand-to-mouth" buying is common among many wholesalers. The prevalence of this policy reflects the reluctance of many wholesalers to assume the risk function, and their attempt to shift this function backward to the producer or forward to the retailer.

"hand-to-mouth" buy in gonthe part of wholesalers has been a major source of instability in the manufacturing sector. This instability has been seriously manifested in violent and erratic movements in production schedules. For example, canneries of food products have experienced great difficulties in planning and maintaining well coordinated production schedules that would conform to market conditions. As a result, many of these canneries substantially increase or curtail their yearly output in the light of the magnitude of inventories carried over from the preceding year. Table 17 illustrates these circumstances.

TABLE 17

INDEXES OF PRODUCTION OF A SAMPLE OF CANNED FOODS

(1951 stock and production = 100))

Item	Stock during preceding year			Total production		
	1951	1952	1953	1951	1952	1953
Tomato sauce	100	70.6	54.9	100	198.1	299.3
Peas	100	85.9	80.4	100	227.0	321.1
Okra	100	74.8	24.8	100	298.6	1163.2
Dehydrated onion..	100	134.9	35.7	100	89.2	200.6

Source: Adapted from *L'Egypte Industrielle*, Organe de la Fédération Egyptienne de l'Industrie, Vol. 30, No. 8 December 1954, p. 46.

Similarly manufacturers of seasonal merchandise could seldom depend upon wholesalers to place their orders reasonably in advance, and to carry seasonal stocks of such merchandise in their own warehouses. Subsequently, few manufacturers have been able to gauge their markets with an eye to intelligent control of raw material purchases and production achedules.

Production instability has been seriously accentuated in critical times of a decline in consumer demand. Curtailment in demand under such circumstances would be sharply felt by manufacturers as a result of "hand-to-mouth" buying on the part of wholesalers. In other words, wholesalers have failed to act as shock absorbers in these critical times.

A further result of "hand-to-mouth" buying has been the limited number of cases in which concentration of merchandise in bulk has taken place. Subsequently, few wholesalers have been able to effect economies resulting from securing goods at lower prices, and from lower transportation, storage, and shipping costs.

Failure to concentrate in bulk has also had serious adverse effects upon other important wholesaling functions, such as grading and sorting the commodities handled according to size, quality, type of package, and the like in conformity with retailers' demand. The "apportioning" (1) aspect of the function of sorting has been additionally complicated in many instances by the buying practices of many small retailers. In addition to buying in unreasonably small quantities dictated by "hand-to-mouth" buying policies, these retailers have sometimes followed a practice of extreme piecemeal buying. Thus, many small grocers often order in lots of 1/4 or 1/2 case. These practices have often had extremely uneconomic repercussions upon the wholesaler's operations. It seems interesting, however, to mention that retailers have been led to these practices largely as a result of consumer behavior per se (2)

Qualitative sorting is also far from adequate. The multiplicity of small manufacturers, the lack of quality control procedures, and the little use made of branding and product differentiation, combined with serious deficiencies in storage facilities and know-how, have rendered the "sorting out" (3) of merchandise a difficult task. On the other hand, the lack of understanding among retailers of the importance and signifance of the concept of an assortment, has made many wholesalers reluctant to perform properly the "assorting" (4) function.

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(1) "Apportioning" is one type of quantitative sorting which means the breaking down of large quantities into small quantities. It has been traditionally described as "breaking bulk." See Wroe Alderson, "Scope and Place of Wholesaling in the United States," *The Journal of Marketing*, Vol. XII..., No. 2, pp. 145-155.

(2) Small retailers selling food and convenience goods have often been forced themselves to "break the bulk" in order to conform to "hand-to-mouth" buying on the part of many consumers. Lack of home refrigeration and very low per capita income are chiefly responsible for this. It is not surprising, therefore, to find retailers ready to sell a fraction of a package of cigarettes.

(3) "Sorting out" is a fundamental aspect of qualitative sorting. It involves the separation of a collection of objects different in kind into relatively uniform or homogeneous piles in terms of grade, quality, or any other measure.

(4) "Assorting" is another type of qualitative sorting. It involves the building up of an assortment of items differing in kind but of a complementary nature. An illustration is the packing of an assortment of apples, oranges, pears, and other fruits in one single box of fancy fruits.

Few wholesalers recognize storage as a major wholesaling function. Thus while the length and breadth of the Egyptian market are very narrowly defined as a result of poor transportation facilities and low per capita income, the *depth* of this market has been adversely affected by the absence of adequate storage facilities and a misunderstanding of the significance of the storage function. This is evidenced by the fact that most storage is performed at the point of production or import, or else at the point of final sale.

With the exception of cotton, there is a noticeable lack of modern facilities for the processing, grading, standardization, and packing of both manufactured and agricultural products.

Public warehouses are partly owned by the government and partly by important banks, especially those involved in financing the cotton trade. These warehouses are better equipped than the private ones. They operate under statutory law and are subject to governmental regulations. Both public and private warehouses are largely general merchandise warehouses but only a few may be described as special commodity warehouses, the latter being chiefly used for the storage and handling of some agricultural products, such as grain and cotton.

There are serious deficiencies in important and vital goods handling equipments such as lowerators, chutes, escalators, conveyors, elevators, and stairs. Cold-storage and other protective facilities are also seriously lacking. This does not permit carrying over merchandise from periods of surplus to periods of scarcity. Subsequently, only a small proportion of merchandise is invested with time utility. The result has been marked fluctuations in the supply of a number of commodities, especially those of a seasonal nature.

Several important rules of good storage and warehousing are not observed by many wholesalers. In few instances is storage space laid out systematically, and only rarely are fixtures adapted to each type of merchandise handled. Cleanliness is often not observed. Thus commodities which are odoriferous are frequently placed at short distances from articles like rice, sugar, tea, and coffee. An additional weakness that is prevalent among many wholesalers is their tendency to fill orders from the newer stock. The practice of taking merchandise from the open end of the container, and replenishing the supply by placing the new merchandise back of the old is followed by few wholesalers. Consequently, spoilage and waste are often relatively high with subsequently high losses incurred by the wholesaler.

From the above it appears that the principal function of a wholesaler in Egypt is the furnishing of credit to retailers, and less frequently to producers. The multiplicity of small retailers with practically no credit rating renders the financing of their business through banking circles entirely infeasible. Accordingly, small retailers have been forced to rely solely on the wholesaler for financial help. It might be, therefore, that the shortage of credit in distribution has tended to support otherwise unnecessary middlemen at times.

The wholesale agricultural structure is also comparatively elementary. With the exception of cotton marketing and vertically integrated organizations operating in the fruit market, wholesalers appear to perform a minimum of marketing services. Thus, with the exception of fruit, food and agricultural products are usually ungraded, unpackaged and unbranded.

Standard grades are seldom used. Prices are usually determined by individual bargains rather than by competitive bidding. Direct communication with other markets is very cumbersome, and local truckers' rates are as yet too high to displace significantly the burro or camel for short hauls.

Railroads and Nile shipping are used for longer-distance movements of farm products. Both means of transportations leave much to be desired in terms of adequate services. This is particularly observed in the case of livestock and perishables. The shortage of refrigerator cars and icing stations is also responsible for a high degree of spoilage of meat, fish, fresh fruits, and vegetables. In addition, the slowness of rail service and the lack of proper in-transit refrigeration aggravates the situation.

The distribution of agricultural and food products appears to have maintained a fairly standard pattern for all but locally produced products: producer country buyer-wholesaler-retailler-consumer. The country buyer often represents a commission man in the city, soliciting shipments from producers for sale on commission to wholesalers.

The prevalence of commission selling rather than outright purchase and sale at the wholesale level has often tended to shift the risk of price changes to the producer. Again, as in the case of manufactured goods, the furnishing of credit to producers and retailers appears to be a major function of the wholesaler. Cash sales to established retailers, even for perishable products, are rather uncommon. For instance, fresh meats are sold on fifteen-to-thirty-day credit. Similarly, fresh fruits are sold on credit until sold by the retailer.

PART IV

VERTICAL INTEGRATION OF TRADE

Broadly speaking, vertical integration might relate to the integration of different manufacturing processes at different stages, whether forward or backward; or to integration of manufacturing and distributing functions. Instances of these two types of integration are of relatively varying importance in the Egyptian economy.

Vertical Integration In Manufacturing

Within the manufacturing sector, the integration of different manufacturing processes has been confined to large-scale producers. The absence of well-developed sources of power, (1) repair shops and other job services required for effective operation, has forced many large concerns to undertake these processes. (2) Thus, the sugar monopoly had to provide its own transportation facilities including a narrow gauge railway and a river fleet. Another large rayon company was forced to install a complete mechanical workshop capable of manufacturing all its spare parts required for its operation. Short of such "forced" integration, many a large manufacturer was compelled to order spare parts from abroad and fly them in by air. (3) Undoubtedly, these are instances of an uneconomical type of vertical integration dictated by the lack of adequate overhead facilities such as a central power system, and specialized repair and job shops serving all manufacturers. The small size of the domestic market, according to Smith's theorem, (4) limits the possibilities of specializa-

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(1) A very realistic and illustrating case is the power situation in Egypt. The lack of a central electric power system has forced private firms to install their power generating plant. The result was 25,000 generating units with an average of 40 H.P. which is too small a scale of utilization to assure low cost.

(2) Such services as shop repairs and manufacture of spare parts are performed in each plant. Metal shops, foundries, and complete woodworking shops are attached to nearly every large factory. Many of these subsidiary services might be furnished by an independent job shop at a fraction of the cost of maintaining complete shops at each factory. A similar situation was observed in the Turkish industry. See IBRD report: *The Economy of Turkey*, The J. Hopkins Press, 1951, p. 115.

(3) See *U.N. Review of Economic Conditions in the Middle East* 1951-52, p. 46; also *L'Economiste Egyptien*, Alexandria, Sept. 10, 1950.

(4) For a reformulation, see George Stigler, "The Division of Labor is limited by the extent of the Market", *The Journal of Political Economy*, June, 1951, pp. 185-193.

tion among firms and industries, and increase the number of functions and processes that must be combined by the firm for effective operation. At the existing level of demand, many functions or processes may be too small to support a specialized firm or industry. The possibilities of specialization on production processes tend to be limited, with the individual firm combining for itself all the production processes, whichcould other wise be performed by independent firms or industries.

Whenever the firm is large enough to command the capital required for undertaking all the vertical processes, it would operate many of them on a small scale with the result that its average cost structure will be higher than when it is possible to delegate some of these processes, particularly the decreasing cost ones, to independent firms of specialized industries. (1)

Another incentive fostering vertical integration in manufacturing has been the desire to ensure an adequate and stable supply of raw materials. Thus, the sugar monopoly was forced to undertake backward integration in a period of rising cotton prices when cultivators were attracted to shift away from sugar cane to cotton cultivation. Again, some large scale food-processing firms often find it generally difficult to procure a large supply of local fruit and vegetables of uniform quality. The lack of uniformity of quality and inadequate grading and packing have, at times, forced manufacturers to undertake backward integration. As an illustration, the Misr Linen Company, a major producer of flax, supplies the cultivators with seeds and fertilizers in order to ensure practical uniformity of quality. Also, leading wine producers find it imperative to integrate the cultivation process with the manufacturing process.

A third factor inducing vertical integration among largescale manufacturers has been the desire to create new outlets for part of the major product. This has led cement companies to manufacture flooring tubes and other concrete products. Also, some manufacturers have found it profitable to develop a fuller product line in order to make use of their by-products.

In order to find outlets for surplus profits, especially during the war-inflation, some large scale manufacturers found it advisable to diversify their product line instead of expanding the production of their major product, owing to the narrowness of the domestic market.

Finally, there are some instances of vertical integration motivated by a desire to curtail competition and to avoid price wars. An interesting example is the working agreement concluded by the Misr group and the British combine,

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(1) Sherif, A.F., *The Role of Capital Formation, loc. cit.*, p. 112.

Bradford Dyers Association, whereby two integrated firms were established; one concentrating on weaving of fine cotton, the other on finishing. The agreement allows specialization between the two firms on the basis of exclusive dealing.

Vertical Integration of Marketing and Production Functions

While on the production side, vertical integration looms large particularly in the modern industry sector, there has as yet been little integration of the manufacturing and marketing functions, by which some of the economies of large-scale distribution might be realized and unduly long marketing channels eliminated. This can be traced to a number of factors to be discussed below.

The absence of a "mass market" for most manufactures results in a prospective volume of sales too small to justify the setting of a well-organized, large-scale and integrated service organization. Further, the prospective volume of sales is unduly limited as a result of a low per capita income making for a low propensity to spend on manufactures, as well as the existence of a highly individualized consumer demand. Not only direct selling under such circumstances would prove uneconomical, but also it would involve tremendous managerial and marketing problems; the solution of which would call for a highly skilled entrepreneurial ability which is already in short supply.

Few manufacturers are in a position to by-pass the existing intermediaries since they would have to assume the functions performed previously by these intermediaries on more onerous terms. In an underdeveloped economy, a multiplicity of intermediaries might still be comparatively advantageous. Some important advantages of specialization of marketing functions might still be observable in the context of an underdeveloped economy. It often pays the manufacturer to let dealers carry out the bulking and blending of small quantities of merchandise as their margins of profit are usually less than would be the cost of supervising and maintaining a staff of salaried employees to perform the same function.

Although it might seem uneconomical to effect the distribution via a large army of petty traders in the context of a developed economy, it might not be so in an underdeveloped one. The intermediaries break bulk at all stages between the manufacturer and the ultimate consumer. The organization of retail selling in an underdeveloped economy exemplifies the services rendered by petty traders both to suppliers and to ultimate consumers. It is customary to see petty traders sitting with their merchandise in the major shopping centers and even at the entrance of the modern large stores. The petty traders sell largely the same commodities as the store but in much smaller quantities. It does not pay the large store to deal in these smaller quantities on the terms on which the petty traders are willing to handle their business. Further, consumers prefer to deal with petty traders rather than to buy in less convenient quantities from adjacent stores.

The "bazaar psychology" inherited from an oriental culture is a major deterrent to vertical integration of the manufacturing and distributing functions. The average consumer in an underdeveloped economy exhibits a tendency to spend relatively much time and effort in the search for the most satisfactory terms. A low per capita income renders the consumer very sensitive to price differentials. The intermediary, carrying different lines can offer the consumer a wide range of price alternatives and at the same time spread his overhead over a large volume of sales of different lines.

One of the major factors favoring forward integration of manufacturing and distributing in developed economies has been the desire on the part of manufacturers to exploit fully the potentialities of branded merchandise by directly assuming the promotional function that was previously performed by the intermediaries. However, this factor has been seriously lacking in the case of Egypt. From the early start, domestic manufacturers have always faced intense competition from 'established' foreign brands. Powerful wholesalers find little difficulty in convincing the public that any brands other than the foreign ones were 'adulterated'. And they lack any interest in pushing domestic brands, particularly when certain standard brands had become so firmly entrenched and enjoyed widespread appeal among snobbish consumers. Any manufacturer contemplating the launching of a new product would have to contend with the wholesaler performing the promotional function for him, except in the very few cases where the manufacturer is in a position to develop a brand that can measure up to the standards of competing foreign brands.

In only few exceptions, there has been marked integration of the production and marketing functions. However, these exceptions largely relate to certain foreign companies or a local company with a joint foreign interest.

An outstanding example is the Singer Sewing Machine Company which distributes imported machines, at times assembled in Egypt, through several hundred employees, and sales-and-service representatives. The company has set up its retail stores under the supervision of well trained, salaried managers in all the important urban centers. These stores tend to specialize on one line, although they may handle complementary non-competing lines as well. The company carries spare parts in all major towns and provides adequate training courses to make sure that service men are capable of making necessary repairs. The company relies chiefly upon personal salesmanship and sends special demonstrators to scattered small towns to teach people how to use its machines.

The major factor favoring integration in this particular case has been the large volume of sales made possible by the fact that a sewing machine is almost a household necessity in an economy where per capita income is too low to make ready-made clothing almost a luxury, and where piece or yard goods are within the reach of most consumers.

Another case of successful integration of durable goods manufacturing and distributing is furnished by "Ideal Company" which manufactures and distributes almost a full line of household metal furniture and appliances. The company has set up a chain of retail sales-and-service stores in the major urban centres. These stores do not only carry the company's line but also handle non-competing foreign-made products. Specialization on the distribution of a particular product is economically impossible, and a diversity of products is essential to provide adequate volume of sales to permit economical integration. The company's volume of sales was additionally fostered by a launching of a new, relatively low-price locally made refrigerator that was made possible by a high protective tariff and the use of the name of a reputed German manufacturer.

Backward Integration

Although there has been few cases of forward integration of manufacturing and distributing facilities, backward intergration has been entirely lacking. Factories favoring backward integration in a developed economy such as the United States seem to have been absent. The dearth of large-scale retailing such as mail-order houses, large department stores and chain organizations, which are the natural media in the context of a mass market and which are made possible by a large volume of sales, largely accounts for the absence of backward integration.

The big retailer, whenever present, tends to lack the adequate incentive for backward integration. For one thing, domestic products have not yet attained sufficient appeal to consumers in comparison with similar imported brands to make the retailers' attempt at controlling the product policy of the local manufacturer a profitable measure. Further, most local manufacturers are small-scale producers of non-standardized products. This does not promise

The retailer an adequate uniform volume of sales through backward integration.

Unawareness of mass merchandizing techniques on the part of the few large retailers, together with their aversion to risk-bearing, has frequenty resulted in their failure to develop new product lines through backwarld integration even when this seemed conceivable. (1)

These factors explain the almost complete absence of backward integration, with the exception of the fragmentary cases where some large department stores have set up furniture and woodworking shops or some small footwear shops. These few or fragmentary cases by no means reflect a conscious policy of backward integration as has been the case in the United States.

Vertical Integration in Agriculture

Vertical integration in the agricultural sector has developed to a limited degree in the perishable produce market (fruits, vegetables, meat and dairy products), and to a lesser degree in the staples market.

Perishable produce farming is not highly specialized in the Egyptian economy. Only large estates located in the vicinity of urban centers tend to specialize on perishable farming. Typically, however, perishable produce represents a part, usually a small part, of each fellah's total output. Although his output is very small, his consumption does not, on a rough average, exhaust more than 50 per cent of his output. (2) The remainder is marketed in closely located towns, as a means of getting a cash income, since perishable produce is considered a semi-luxury.

Marketing is direct by the farmer to the retailer, or to the final consumer in his home or at the market-place. There are no intermediaries in this market, and the same is true of the small as well as the large producer. The lack of suitable storage and refrigeration facilities has made it necessary to supply the market on a daily supply basis. As a result, the daily supply is highly inelatic, prices are extremely flexible, and seasonal as well as area price variations are, of course, very wide.

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(1) The experience of Sears, Roebuck in Brazil presents an interesting case study. Under the pressure of an import embargo, the firm was forced to produce locally many items. Mass production of items never mass produced in Brazil had been achieved in a wider variety of lines creating new demands and developing mass consumption in items never mass-consumed before. See "Sears, Roebuck in Brazil", *Fortune*, 1950.

(2) Maximum estimates of 53 per cent for China and 50 per cent for South East Europe as the proportions of total perishable produce sold on the market were compiled by Morton R. Solomon in his article, "The Structure of the Market in Underdeveloped Economies," *Quarterly Journal of Economics*, August, 1948, pp. 523.

The lack of any marketing organization, and suitable transport facilities force the producer, even the small one, to take over the transport and distribution functions. The peasant farmer almost invariably transports his produce to the nearest town, which is usually serviced from a 20 mile radius which is the approximate distance animal transport can cover between sunrise and sunset. Paradoxically enough, costs of transport by primitive means markedly exceed cost by modern media. (1) However, it is the only alternative open to the peasant farmer, since the whole transport system is oriented to serve the export market.

In addition to this comparative cost disadvantage, the individual peasant is confronted by a horizontal demand curve. This, together with the necessity of disposing of the entire day's supply, once it has been transported, the peasant is also unable, owing to his unquestioning submission to tradition, to vary his output in response to market price movements. These are factors of great weight making for a highly inelastic supply, which combines forces with the highly elastic demand to keep prices very low. The low price prevailing in the perishable produce market has been mistakenly attributed to the absence of wholesaling merchants whose large profit margins would have raised the price. (2) However, it seems that the low price results from a highly elastic demand together with a highly inelastic supply. The presence of a marketing organization in the form of a cooperative, for instance, might raise the real income of the peasant farmer, and help stabilize prices through time as well as eliminate many market imperfections.

The development of cooperatives as a way of integrating production and distributing facilities has been of no importance in the manufacturing sector, and of little but growing significance in the agricultural sector. The lack of marketing facilities and the dishonesty of some local buyers have led to the existence of a number of cooperative organizations among small farmers.

Most of these cooperatives undertake the marketing of their products only at country points, since this is the field in which they have been able to perform their most useful services. The experience, power, and influence of wholesalers trading in the great staple commodities, such as grain and cotton, combined with the limited resources and inexperience of cooperatives makes terminal marketing by these cooperatives a very difficult task. In the case of perishable commodities there are undoubtedly many advantages to shippers in at least having their own representatives in the various markets, to see

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(1) See Colin Clark, *Conditions of Economic Progress*, London, MacMillan and Company, 1951, pp. 327-328.

(2) Morton Solomon, *op. cit.*, p. 525.

that goods are properly handled, to inspect their condition on arrival, and to report to headquarters about market conditions and prices, so that goods may be sent to the most favorable markets. However, very few attempts have been made by cooperatives towards this direction of terminal marketing, despite the advantage accruing thereof.

In recent years Egypt has been strewn with failures of cooperative enterprises. Lack of sufficient business, adequate capital to carry on its business efficiently, sufficient loyalty on the part of its members, and sufficient patience to build up the organization gradually, are primary factors responsible for this failure.

The limitation of individual land-holdings promulgated in 1952 at the advent of the New Regime is bound to have a definite influence on the growth of cooperative organizations among farmers. Thus, in an Egypt of small landowners and less large ones, the provision of necessary facilities for the production and marketing of farm products should become a matter of urgency. In marketing farm products a development of cooperative societies should play a much bigger role than heretofore. It is true that Egypt has lagged behind other countries in this important respect, basically as a result of the fellah's native individualism. However, studies are being made and plans are being discussed to set up properly organized cooperatives that can be treated as units, both for seed production and marketing purposes.

PART V

PRODUCERS' MARKETING ACTIVITIES

The typical Egyptian manufacturer tends to take the size of the market for his product as "given", or as something lying outside his control. Taking the size of the market for his product as he finds it, he may hope to deflect some of the existing volume of demand in his favor. But where real income per capita is close to subsistence and is growing, if at all, at a slow rate, there is little scope for such deflection.

The domestic entrepreneur, of course, can orient his policies toward capturing a share in the larger export markets as the foreign entrepreneur usually does. The domestic entrepreneur, however, is less likely to have, partly because of the handicap of a late start, the competitive advantage commanded by the superior entrepreneurs in established industrial countries. The infant industry is not likely to enjoy from the early start the cost economies of established foreign producers. In an open world market, the advantages once gained tend to become cumulative, and infant industries can, at best, realize these economies—internal and external—only after a considerable period of development. Further, where the established producers of the leading industrial countries have built up monopolistic positions that enable them to exercise local price cutting, new entrants are at an additional artificial disadvantage. Under these handicaps, which are rather more potent and more permanent than those visualized by the classical infant industry argument, domestic industries tend to be generally oriented to a sheltered domestic market.

Not only does the narrowness of the domestic market limit the rate of industrialization, but also it confines the whole process to specific industries. For large-scale modern industries, the existing level of demand tends to be lower and the minimum optimal tends to be larger than for staple small-scale industries like textiles and food processing. Thus, when the size of the technological optimum is necessarily large and the initial size of the market is small the resultant discrepancy would render the development of large-scale industries economically unsound, or virtually impossible, This would constitute a major limitation on the development of a wide range of industries. (1) Therefore, the pattern of industrialization would, in the absence of direct State-promotion, tend to cluster around those staple industries where the size of the plant is small.

Developing in isolation and in, more or less, small increments, these industries tend gradually to replace imports; expanding their capacity to the limit of the entire small domestic demand. And once imports are displaced or reduced to a low proportion of existing consumption, their rate of growth tends to taper off. Since, however, imports and consumption are absolutely small, this limit has not infrequently been attained at a level of industrial employment which, though higher than before, has not entailed a substantial reduction of rural underemployment, and with a high rate of population growth, population pressure has continued unabated. Indicative of the tendency of new industries to develop to the limit of the market at an early stage of industrialization, are the figures presented in Table 18.

TABLE 18

INDUSTRIAL PRODUCTION AS PERCENTAGE OF DOMESTIC CONSUMPTION. EGYPT, 1939

Industry	Per cent
Sugar	100
Cigarettes and Beverages	100
Flour Milling	100
Salt	100
Cotton Yarns	90
Shoes	90
Cement	90
Soap	90
Furniture	80
Matches	80
Cotton Textiles	40
Industrial Employment as per cent of Total Working Population	6

Source: Compiled from the *Report of Egyptian Committee on Industry, loc. cit.*, and *U.N. Statistical Yearbook*, 1950, *loc. cit.*

(1) The level of demand for steel, for example, in many underdeveloped countries, as can be seen from per capita steel consumption of about 5 kilogrammes per year as compared with about 150 kilogrammes or more in industrial countries, is not in many cases large enough to support the economical operation of a steel mill of a minimum rolling mill capacity of 200,000 tons of crude steel as required to attain economies of scale in mills of the type and size prevailing in industrial countries. See U.N. Report on *World Iron Ore Resources and Their Utilization*, New York, 1950. Another pertinent example is the manufacture of light bulbs, which are made very cheaply by highly mechanized equipment. The capacity of the smallest mechanized plant is such that three months' operation would fulfil Columbia's present demand for a year. See IBRD, *The Basis of the Development Program for Columbia*, Washington, D.C. 1950, p. 93.

This critical limit has often been attained before many of those domestic industries have reached their optimum size, or realized significant economies of scale. Furthermore, the small size of the domestic market has often limited the possibilities of specialization among firms and industries, and has often forced, as mentioned above, uneconomical vertical integration.

Where the market is small relative to the technological optimum, and few entrepreneurs are likely to command the necessary capital requirements, a high degree of concentration is likely to emerge from the early start of industrialization. Available evidence suggests that, contrary to the widely accepted thesis of the historical tendency toward concentration, a high degree of concentration tends to emerge from the early start in newly industrializing countries, particularly in the modern industry sector (1). This can be seen from Table 19.

TABLE 19

DEGREE OF OUTPUT CONCENTRATION IN SELECTED MANUFACTURING INDUSTRIES IN EGYPT, 1948

Industry	Cumulative percentage of output controlled by				
	1 Firms	2 Firms	3 Firms	4 Firms	5 Firms
Cotton spinning	49	74	86	91	—
Cotton weaving	—	—	40	—	—
Cement	58	100	—	—	—
Sugar cane	100	—	—	—	—
Phosphate	100	—	—	—	—
Food processing	25	44	60	75	—
Cigarettes and tobacco	65	—	—	—	90
Shoe and floor polish	44	59	73	81	—
Alcohol	100	—	—	—	—
Paper	56	78	—	—	—

Source: Adapted from the *Report of the Egyptian Commission on Industries*, (in Arabic), Cairo, 1948.

Although this high degree of concentration has been loosely referred to as monopolistic, such an association breaks down when we account for the domestic competition from handicraft industries and the foreign competition from imports. The co-existence of handicraft production and modern factory

(1) Prof. F.A. Hayek has pointedly questioned the validity of this thesis by observing that concentration "appeared first... in comparatively young industrial countries" which seems to be true of many underdeveloped countries today. *The Road to Serfdom* (London: Routledge and Sons, 1945), pp. 34-35.

production in a considerable number of consumer goods industries, as can be seen from Table 20, attests to the effectiveness of competition.

TABLE 20

PERCENTAGES OF HANDICRAFT AND FACTORY PRODUCTION IN SELECTED INDUSTRIES

Industry	Handicraft Production	Factory Production
Cotton weaving	55.6	44.4
Silk spinning & weaving	33.3	66.7
Fisheries	50.0	50.0 (one plant)
Shoes	64.0	36.0

Source: Adapted from the *Report of the Egyptian Commission on Industry*, (in Arabic), Cairo, 1948.

Further, the competition of imports in highly concentrated industries might confront the lone factory producer with a more or less elastic demand. The competitiveness of the industrial structure in an underdeveloped economy seems to be more associated with the height of protectionism, the imperfections of the market and deliberate State action. It is under these artificial shelters that a high degree of concentration tends to be associated with a high degree of monopoly. And the erection as well as the intensification of these barriers to competition seems to have be the prevailing tendency of economic policyin Egypt as will be seen in Part VI.

The former analysis offers a concrete picture of the milieu in which the manufacturer operates, and which has obviously conditioned the manufacturers' behavior in the major areas of managerial policies viz., product policy, price policy and promotional policy. The following discussion attempts to provide a realistic description of these managerial policies as followed by a typical Egyptian entrepreneur.

Product Policy

The major incentive for product development in highly industrialized countries like the United States has largely stemmed from the manufacturers' drive for generating new demand by making consumers dissatisfied with the products in their possession. The typical American manufacturer, for instance, does not take the size of the market for his product as datum as is usually the case with typical manufacturers in an underdeveloped economy.

The satisfaction of primary wants, such as hunger and shelter, is a definite prerequisite to the creation of new wants. Since the primary wants of the majority of the Egyptian people are far from satisfied, domestic manufacturers have found it impractical to engage in any serious attempts toward product development. Even effective consumers of manufactures are not as responsive to new products as is usually the case with consumers in developed economies. This largely emanates from the fact that Egyptian consumers are more price conscious than product-conscious. Furthermore, tastes are too highly individualized that it is rather difficult for a new product to command a mass appeal. Consumption habits are also deeply engrained in the culture pattern which is far less adaptive than is usually the case in a developed economy like the United States.

The possibilities of product development are furthermore seriously impaired by the intense competition from the established makes and brands of world-famed manufactures. Domestic manufacturers are often at a comparative disadvantage vis-a-vis foreign manufacturers who are equipped with comprehensive research facilities made possible by the economies of large scale.

One major factor impeding product development is the limited range of raw materials available in the Egyptian economy. This is particularly significant in view of the fact that material costs account for not less than 75 per cent of manufacturing costs. An interesting and paradoxical case is that of textile manufacturers. Owing to an embargo on foreign cotton, imposed by agricultural interests, the Egyptian textile industry whose major product is the cheap cloth, is forced to use the high quality Egyptian cotton to produce low-quality textiles, which is naturally more expensive than its foreign substitutes. Further, the local manufacturer is unable to develop a full line of high quality yarns by using the long staple cotton unless it is possible for him to develop an export market. In such a market the Egyptian manufacturer would likely be at a cost disadvantage vis-a-vis foreign competitors. Hence, local manufacturers have been as yet unable to develop a reasonable full line of textiles.

The handicaps met by food processing industries in developing a full line of dairy products are pronounced in the case of the Egyptian dairy industry. The supply of crude milk is insufficient and fluctuating; the milk is impure; and facilities for refrigerating and transporting milk to the factories are inadequate. Under such circumstances the development of a full line of dairy products would require complete vertical integration of many manus facturing processes, which in turn would call for larger capital requirement- than can be raised by many local manufacturers.

Another obstacle in the way of developing a fuller product line has been the lack of necessary "know how" as to the possibilities of utilizing local produce. Thus, to take one example, the development of a full line by the paper industry was impeded by the lack of knowledge as to the possibility of using rice straw for making papers which is currently used in making cardboard and wrapping paper. (1)

In a host of other cases (2) the lack of fundamental product research facilities has tended to impede the development of a fuller product line. The relatively small size of most manufacturers has rendered it economically infeasible to undertake this important function. As a result, the government was called upon at times to set up common product research facilities serving an entire industry, such as the National Glass Research Institute.

In the very few cases where domestic producers have been successful in diversifying their product line, common raw materials and common distribution channels were primarily responsible for this success. The major foreign oil companies operating in Egypt present an outstanding example in this respect. A network of service stations has made product diversification economically feasible. Vertical integration of production and distributive facilities has at times resulted in excess capacity in distribution. Few manufacturers, however, have attempted to absorb such excess capacity by expanding their product line as a result of the factors discussed above. Instead, imported goods have been often used to absorb excess capacity in distribution and to provide sufficient sales volume for successful operation.

In a few other cases product diversification was primarily motivated by the desire of manufacturers to foster a monopolistic position. Expectedly, for the established firm the cost of adding a new product to its line is relatively much smaller than it is for a new entrant. Furthermore, few established large firms have followed the practices of loss leaders, price cutting, and full-line forcing in order to drive out competition. As soon as the firm secures a monopolistic position, it is likely to resort to a policy of charging what the traffic will bear.

Paradoxically enough, many Egyptian industries, characterized by a marked degree of excess production capacity, though still in their infancy, make no attempt at diversifying their product lines. The extent of such excess capacity may be observed in Table 21.

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(1) In Japan rice straw is extensively used in manufacturing high quality paper. See *Report of Committee on Industry*, Cairo, 1948, p. 236.

(2) These cases pertain largely to the following industries: spinning and weaving, food processing, chemicals, and pharmaceuticals.

TABLE 21

DEGREE OF UTILIZATION OF TOTAL STANDING CAPACITY IN SELECTED INDUSTRIES

Industry	Per cent of Utilized Capacity	Industry	Per cent of Utilized Capacity
Cotton ginning	35	Chocolate	52
Meat packing	50	Vegetable oil	67
Sugar	64	Paper	63
Food Canning	40	Shoes	67
Onion drying	60	Cement	70
Food processing	21		

Source: Adapted from the *Report of the Egyptian Committee on Industries*, Cairo 1948, pp. 91-400.

The inability of many manufacturers to mop up the excess capacity characterizing the manufacturing sector is a prima facie evidence of the strength of influences adversely affecting product development.

It is obvious in the light of the preceding analysis that the typical Egyptian manufacturer does not have a product development policy in the accepted sense of the term. This is unfortunate in view of the fact that industrialization by way of developing new products through existing firms is more facile and capital-saving than through establishing new firms or industries.

Price Policies

It is generally observed that a "restrictionist pattern" of price policies prevails among Egyptian managements. To most of these managers, the managerial economy of a large volume of production and low prices seems alien or unknown. Instead, prevailing price policies seem to depend upon high profit margins to offset low turnover. It is not infrequently the case that management operates in the same way a speculator operates, viz., building up inventories, offering it for sale one batch at a time, taking every sale as a complete transaction in itself, trying to maximize profit per transaction which, when finished liquidates itself. This conception of business could maximize short run profit. But this way of operation could never ensure long run profit maximization.

This way of operation might be rationalized on the grounds that the market is so small and imperfect, the demand is so price-inelastic that manufacturers have no laternative except making the highest profit margin per unit of sales. Since a low-price large-turnover policy is not likely, in the absence of rapidly rising income levels, to broaden their markets, and since no substantial economies of scale are likely to be readily forthcoming with expansion, such a restrictionist price policy could be justified. That might be a theoretical interpretation of the reasons why the typical industrial manager operates on the twin assumptions of a low demand elasticity through time and constant economies to scale. (1)

These assumptions do not seem entirely irrational or unjustifiable under the prevailing conditions of underdevelopment stagnation as was presented in Part I. Where the rate of growth of per capita income is, at best, insignificant, the consumption pattern would expectedly remain of the highly food-drain type and the income-price elasticities of demand would remain low through time.

Further, the attainment of major economies of scale might require a big jump from a small to a big scale since a steady progression of economies is not likely to materialize as would expectedly be the case in a small scale plant adapted to some small "local" market, and managed by a single capitalist-entrepreneur. The width of the gap between the small and the large optima might be so great to attain by gradual growth (2), even when demand is growing.

However, this restrictionist type of price policies seems to be so established that even in cases where it appears practicable to adopt the "promotional" policies of large-volume-low-unit-profit, there has been marked reluctance or outright resistance. An illustrating case is that of the cotton textile industry—an industry producing a popular consumption product which is easily adaptable to mass production methods. A government initiated and subsidized scheme to produce "standard low price cloth" for the masses of Egyptian consumers was not popular with the manufacturers even when, during the World War II, a clothing shortage had been second only to the food shortage (3). The scheme was promptly discontinued when the war was over.

The efficacy of the promotional type of price policies has been repeatedly demonstrated by foreign enterprises operating in many underdeveloped countries. The experience of Sears, Roebuck in Brazil presents an interesting case study. Under the pressure of an import embargo the Sears branch was forced

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(1) For a more elaborate exposition of this hypothesis see Sherif, A.F., *The Role of Capital Formation In The Process of Industrialization, loc. cit.*, pp. 114-116.

(2) For a more elaborate exposition of this point, see E.A.G. Robinson, *The Structure of Competitive Industry*, Cambridge, Nisbet & Co., 1945, pp. 121-124.

(3) For a similar case, see Gordon Griffiths, "*India's Economic Development*", in *Towards World Prosperity*, Ezekiel M. (ed.) New York: Harper & Brothers, 1947, p. 272.

to produce locally many items. Mass production of items never mass produced before in Brazil had been achieved in a wide variety of lines creating new demands and developing mass consumption in items never mass-consumed before (1). This was made possible by a promotional price policy.

The reluctance of native entrepreneurs to adopt the promotional type of price policies can be traced back in part to the burden of some cultural lag in managerial methods and outlook. Their orientation has been essentially technological; to "manufacture" the products which they have haphazardly decided to produce, with little regard for the demands and tastes of consumers. In large industrial corporations, managerial positions are mainly manned by engineers. Paradoxically enough, Egypt is woefully lacking in "managerial know-how" in almost every field of professional management specialization, whereas it is relatively surfeited with well-trained engineers. No wonder that Egyptian management has been as yet almost completely production-minded. The attitude of management toward marketing still exhibits a "trading mentality" that looks upon the process of marketing as largely a physical process, almost entirely devoid of planning and research considerations. The alternative concept of market planning and delibertate manipulation is virtually unknown.

Whenever such marketing know-how is to be made available (2), some resistance is likely to be encountered owing to a low propensity to innovate or assimilate innovations on the part of Egyptian management. This is in part the result of a market structure that exerts on management little or no pressure to realize a high rate of profit only through innovations designed to expand the volume of sales and to keep average costs down.

Broadly speaking, it may be said that Egyptian industry has proved highly profitable. In two series covering twenty-one companies with an aggregate capital of L.E. 7,721,000 declared net profits averaged 13 per cent of share capital in the pre-war period and over 20 per cent in the war and post-war years. (3) A more comprehensive study put the average percentage return on capital in sheltered industries in the depression years 1928-39 at 11.1 per cent, with reserves amounting to 23.9 per cent of capital (4). Another illustrating example is the textile industry; in 1950 twenty-one firms with a combined

(1) For a detailed description see: "Sears Roebuck in Brazil", *Fortune*, 1950.

(2) A Productivity Center and Vocational Training Center has been recently set up in Egypt under the auspices of the Egyptian government and ILO, with the explicit objective of disseminating such know-how.

(3) C. Issawi and F. Rosenfeld, "Company Profits in Egypt 1929-1939", *L'Egypte Contemporaine*, Cairo, 1941.

(4) M.M. Hamdy, *Statistical Survey of the Development of Capital Investment in Egypt Since* 1880, an unpublished Ph. D. dissertation presented to the University of London, 1943.

capital of L.E. 11,255,000 had reserves of L.E. 4,273,000 and net profits of L.E. 2,445,000. (1)

Compared with other countries, Egyptian industry has proved not only highly profitable, but also the rate of profit has proved highly stable. The index of net profits fell from 128 in 1929 to 67 in 1931, but recovered to 87 the following year, and by 1939 had returned to 125. The index had risen from 100 in 1938 to 229 in 1943, showed little change between that year and 1950. The stability of the rate of profit is due to the fact Egypt's industrial structure produces almost entirely for the domestic market, is heavily protected, is highly monopolistic, and that in the main it ministers to very simple needs and highly inelastic demands.

Growing in a atmosphere of protectionism, a high-cost industrial structure once developed tends to perpetuate itself in a vicious circle of high-costs-high-prices, a narrow market and high-costs and so on. The fewness of the competing units, if at all, together with the high degree of protection and the continuing bias toward inflation tend to reduce incentives to improve efficiency, to foster excessive profit margins, high prices and a further restriction of the size of the market.

Protectionism tends, under these conditions, by limiting the competition of imports, to be the effective means available to a "sheltered", government-dependent management to increase the rate of profit. Since the early start of industrialization in 1930 the rate of tariff on competing imports has been progressively rising. This growing protectionsim has progressively resulted in a mere rise in domestic prices rather than the expansion of domestic production; or, at best, the expansion of production tends to be proportionately smaller than the rise in prices. Thus, a high degree of protectionism would foster a high-cost structure which perpetuates itself through the vicious circle of high-cost high-prices.

In leading industrial countries like the United States, a progressive, independent management has successded, through a continous series of innovations, in lowering the average per unit cost. This has made possible the lowering of prices through time. Generalizing the benefits to the mass of consumers through a low price policy has made possible, in view of a high and rising elasticity of demand, the progressive expansion of the volume of sales. This, again, has made possible a further lowering in costs through the adoption of mass production methods. The end product is a "virtuous circle" in which lower prices has made possible the lowering of costs and the lowering of costs has made further lowering in prices possible.

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(1) National Bank of Egypt, *Economic Bulletin*, No. 3, 1951.

Where such a virtuous circle is unlikely to obtain as is expectedly the case where management departs from this pattern of business policies, the whole process of industrialization is likely to be self-defeating.

Promotional Policies

Promotional policies is the third important facet of competition embodied in conscious managerial action in a developed economy. In contrast, such a policy does not usually receive deserved attention in underdeveloped countries.

As mentioned before, the orientation of Egyptian manufacturers has been in the main part technological. Their line of thinking and behavior reflects a statment allegedly made by Henry Ford in the days of the Model T, that "the public can have any color of car they like so long as it is black".

The reluctance of domestic manufacturers to study and appraise consumer demand and needs has been additionally fostered by many stumbling difficulties in the face of some attempts toward market analysis and marketing research .Thus, there is a surprising scarcity of even the most fundamental basic data needed in good marketing research, such as an adequate census of distribution.

While secondary information is inadequate, primary information is often very difficult to collect. A quotation from an American writer may indicate the magnitude of these difficulties:

> "There is a saying among Egyptian advertising men that Allah made the world in seven days but that he certainly would not attempt to complete a market survey in Egypt in the same period of time. Actually, he could I suppose, but he would be very tired indeed after the effort. First of all, research in Egypt is handicapped by a lack of trained research specialists and by a lack of likely interviewers. The sexes do not associate as freely in Egypt, and for that matter all through the Near East, as they do in America or Europe. And the male interviewer who rings a doorbell there and asks to see the lady of the house will decide that Daniel was a piker when he faced the lions in their den. Female interviewers with even a slight appreciation of business problems or the meaning of research are practically non-existent, and even if they are employed to do such work, their love of gossip and refreshments not only carries with it the danger of disclosures but it certainly casts doubts on the dependability of the data. Due to these facts, it is almost impossible to get the opinions or attitudes of the feminine half of the Egyptian population."
>
> "The psychological attitude of the lower classes in Egypt toward any one who is well dressed is a grave handicap to good research. Yet, it is obvious that your investigator can hardly be expected to go around disguised as a fellah. The lower classes resent and fear having questions

fired at them by one whom they consider a superior, and they particularly resent giving answers to questions on printed forms. The time required to explain away these fears usually only tends to convince the respondent that the interviewer is a tax collector trying to get his meager savings. Unfortun- ately, the higher classes react almost the same way, because they feel they have more to hide. A Bey or Pasha will usually merely shrug his shoulders and refuse to answer silly questions put to him by an inferior. Naturally, doing consumer investigations under these handicaps is most discouraging but it does not mean that marketing research of other types cannot be carried out in Egypt. However, even business executives are quite skeptical of any inquiries, and the few business facts available have to be secured from official sources or from the few advanced executives who understand the implications of marketing research". (1)

The importance of advertising as a necessary sales push required to attain economic levels of production is not fully realized by many domestic manufacturers. Thus, out of an aggregate national income of around 856 million pounds, only an estimated (2) amount of 1.1 million is spent on advertising. This per cent (approximately 0.14%) is obviously much smaller than that observed in a highly developed and competitive economy like that of the United States (3).

Four major newspapers account for about 73 per cent of total press advertising expenditure, with two of these having each a circulation in excess of 100,000. There are only four relatively important national magazines with a total combined circulation slightly higher than 120,000. Publicity by posters, billboards, and cinemas is found only in the major urban centers, and has expanded rather rapidly in recent years.

Most of the advertised goods and services are electrical household appliances, automobiles, proprietary remedies, cosmetics, and air transportation. These items account for over 70 per cent of the total advertising expenditure. Obviously, a large part, if not all of these items, are imported. Hence, domestic manufacturers are responsible for only a meager proportion of the aggregate advertising effort.

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(1) Virgil D. Reed, "International Marketing Research", a speech given before the International Advertising Convention, New York City, October 6, 1949.

While some of the difficulties enumerated in the above quotation are pertinent, they are somewhat exaggerated. Some successful marketing and other business inquiries and research have been undertaken by University men with the help of students. Thus, a readership survey was made at one school, and a statistical study of advertising expenditures was conducted at another.

(2) A. A. El-Sherbini, *Some Research on Advertising in Egypt, loc. cit.*

(3) Annual advertising expenditures in the United Stated States during the inter-war period averaged 3 per cent of national income. See H. Zeisel, "U.S. Advertising Volume Passes 5 Billions, Hits New High", *Printers' Ink*, June 16, 1950, pp. 28-30.

There are no advertising agencies in the accepted sense of the word. The one or two agencies that operate in Egypt may be described as simple space brokers. They have as yet failed to provide a minimum of services to advertisers such as media, copy, and marketing research. No advertising is permitted over the State-operated radio broadcasting system. The growth of advertising agencies might well be enhanced if radio commercials are perpitted, subject to control over the types of products advertised and the accuracy of advertisers' claims.

Many domestic manufacturers and retailers regard advertising as an unnecessary expense. They tend to spend on advertising only whenever there are ample profits. Thus, there seems to be a direct positive-relationship between advertising and prevailing business conditions. Only a few department stores and specialty shops are reasonably firm believers in the results attained by direct-action advertising. This type of advertising is generally used on special occasions such as annual sales.

Domestic manufacturers using indirect-action advertising to develop consumer familiarity with certain brands are usually impatient and expect quick results. They usually employ too thin schedules with resulting dissipation in advertising expenditure. Even those who have succesed to build up brand reputation by investing substantial amounts in thick advertising schedules, frequently fail to coordinate their advertising effort with the other elements that constitute their marketing mix. For instance, there is often little or no tie-in between brand advertising and point-of-purchase promotion. Indeed, point-of-purchase promotion is seriously neglected by domestic manufacturers due to a lack of appreciation as to its significance (1). Unattractive packaging and the multiplicity of small shops with inadequate display facilities also make point-of-purchase promotion a difficult task.

The possibilities of developing wants for new products through indirect-action advertising designed to stimulate primary, rather than selective, demand in an underdeveloped country are very limited. For a new want, whether deep-seated or superficial, to become a part of the consumption pattern of people in an underdeveloped country, it has to fit with goods and services or with values already present. (2) Consumers are thus hesitant to indulge in experimental spending even under the pressure of a barrage of educational and want-developing advertising. Under such circumstances, demonstration becomes the single sharp tool available to the manufacturer who wishes to develop new wants among consumers.

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(1) Perhaps the Coca Cola Co. has been the first major producer to introduce the innovation of point-of-sale promotion.

(2) See Elizabeth E. Hoyt, "Want Development in Undeveloped Areas", *The Journal of Political Economy*, Vol. LIX, No. 3, June 1951, pp. 194-202.

Few domestic manufacturers take cognizance of the basic principles of sales management. As mentioned before, the entire selling function is frequently shifted to a wholesaler or a functional middleman. The assignment of sales quotas to salesmen and the establishment of sales controls are given little or no attention. The use of missionary salesmen to orient retailers and secure their cooperation is an unknown art to many domestic manufacturers.

In the context of the preceding analysis, the manufacturer might seem justified in discounting the efficacy of his promotional policies, if any. Under the best of circumstances he is likely to effect a very small shift in the demand for his product through his promotional effort. Hence, intensive promotional effort is neither profitable nor effective.

PART VI

GOVERNMENT REGULATION AND CONTROL OF MARKETING ACTIVITIES

The ethics of competition are not an integral part of the Egyptian culture (1) In fact, the whole notion of competition is a Western heritage that might find its origin in Protestant ethics which are totally foreign to an oriental-Islamic culture pattern. An oriental culture tends to be more geared to co-operation than to competition. (2) Cooperation is generally taken to be more beneficient than the optimum norms of competition (3) Therefore, fewer adherents to the ethics and virtues of competition are likely to be encountered in the oriental milieu of the Egyptian economy.

The public has not developed a pro-competition attitude like that of the American public, even though 70 per cent of the total population live under almost perfect competition in the agricultural sector. When the issue of competition versus monopoly has ever come up as an issue of public policy, the public has never expressed a sentiment for its virtues. The whole idea of competition has its roots in the tradition of freedom, individualism, and the revolt against authoritarianism which are not highly valued in the oriental culture.

It should not, therefore, look strange to find public condemnation of competition from official policy-makers and, of course, spokesmen for Egyp-

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(1) By contrast, competition is generally regarded as an integral part of the American culture. For a standard statement see E.A. Duddy and D.A. Revzan, *Marketing*, McGraw-Hill Book Company, New York, 1947, p. 579.

(2) Perhaps Alfred Marshall himself would sympathize with this oriental doctrine on the grounds that "even constructive competition is less beneficient than ideal altruistic co-operation", since "in a world in which all men were perfectly virtuous, competition would be out of place... Men would think only of their duties... Strong producers could easily bear a touch of hardship; so they would wish that their weaker neighbors, while producing less should consume more. Happy in this thought, they would work for the general good with all the energy, the inventiveness, and the eager initiative that belonged to them".. Hence, "If competition is contrasted with energetic cooperation... then even the best forms of competition are relatively evil; while its harsher and meaner forms are hateful". See Alfred Marshall, *Principles of Economics*, McMillan & Co., London, 1938, pp. 8-9.

(3) Such a doctrine is not peculiar to Egyptian culture, but seems to embrace other areas of the world. See F.S. Furnivall, "Cooperation, Competition, and Isolation In the Economic Sphere", in *South Asia In The World Today*, F.S. Furnivall et. al., The University of Chicago Press, Chicago 1949, pp. 63-85.

tian industrialists. (1) It was repeatedly announced by responsible ministers of commerce and industry that "the Government urges amalgamation, merger, and absorbtions of smaller units by larger concerns". This would lead, according to them, "to reduction in production costs and prices, thereby enhancing the power of the industry to withstand the onslaught of foreign competition".

Evidently, the major source of competition in a newly industrializing economy like Egypt is foreign competition, since a high degree of concentration is at times inevitable in the modern industry sector. Considering the fact that competition from handicraft and small-scale industry is of minor significance and on the wane, effective competition could only ensue from foreign manufacturers. However, "foreign" competition is formally looked upon as bad, just because it is foreign. As such, this competition would hinder the growth of "national" industries.

Government Policy Toward Monopoly

Briefly put, the attitude of the government toward monopoly had been protective and promotive rather than regulatory. The government has actively promoted monopoly even when private attempts at cartellization failed. In cotton ginning, the presence of excess capacity led to intense price wars. As early as 1905 several attempts at curtailment of competition were made, but with no avail, owing to the abundance of small poorly equipped mills side by side with large modern firms. The former, with very low overheads in an industry characterized by the absence of marked economies of scale, were prone to cut prices to levels which the latter considered "uneconomical". The unequal size of mills together with their multiplicity have militated against the several private attempts at trustification. However, under the aegis of the government and with its full moral support, a cartel was formed in 1937 with the explicit formal object of endeavoring "to raise the rates charged and to put an end to the "deadly" competition reigning in the industry". (2)

In several other cases, the government has legalized, or, has at least, "let alone" cartel agreements concluded privately and without its active support. Cotton pressing has, with a short interval of rate war between the two leading firms, always operated under cartel agreements. These agreements provide for rate stabilization, apportionment of quotas and the granting of

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(1) Dr. Levi, an ex-Secretary of the Egyptian Federation of Industries has criticized the rayon branch of the textile industry because of the prevalence of competition. Again, he has referred to the efforts of the Federation to develop "the spirit of cooperation" among industrialists. See *L'Egypte Contemporaine*, Vol. XXVII, p. 604, and Vol. XXXI, p.505.

(2) A.A.I. El-Gritly, "The Structure of Modern Industry in Egypt", *L'Egypte Contemporaine*, Nov. - Dec., 1947., pp. 504.

deferred rebates, with full government sanction. Joint selling agreements and organizations concluded by hitherto competing firms have been widely and legally practiced. In cotton spinning and weaving, the two largest firms have, since 1934, marketed their products through a joint selling organization. This organization had come, together with high tariff barriers, to "stem the tide" of "foreign" competition. The cement industry consists of two large firms, linked by a cartel agreement and operating through a joint selling organization. The salt industry was a duopoly, linked since 1907 by a sales agreement. Sales agreements also exist between the two leading brick companies, and between the oligopolistic plaster producers as well as other building materials producers.

There are also several instances of holding companies, amalgamation and mergers effected with full government support or, at least, sanction. The cigarette industry, once highly competitive, has become more and more concentrated through merger as well as the formation of a major holding company. At present, the Eastern Company has a controlling interest in nine cigarette companies accounting for 65 per cent of total output. In the beer industry, the amalgamation of the two large Cairo breweries in 1939 was followed by a selling agreement with the Alexandria brewery. An imposing monopoly of the classical type is the sugar monopoly which developed its stranglehold on the industry through amalgamation and merger.

Although these "domestic" monopolies were deliberately fostered under the pretext of strengthening the competitive position of domestic producers vis-a-vis foreign ones, some foreign monopolies operate in Egypt, either independently or in association with local capital. Thus, the Anglo-American Tobacco Company has an important interest in the cigarette combine, Eastern Company. The British combines in the textile finishing trades, such as Calico Printers and the Bradford Dyers Association, are heavily interested in the finishing section of the Egyptian textile industry. The Imperial Chemical Industries has important direct investment and is a shareholder in Egyptian Copper Works. It has selling agreements with Egyptian Salt and Soda Company and its subsidiary, the Societe Financiere et Industrielle, for the sale of acids and other chemical products. In short, affiliations between domestic and foreign enterprises in one form or another, whatever its advantages may be, tends to promote monopoly.

All these restrictive practices, together with others as well, such as interlocking directorates, exchange of shares and price discrimination, were extensively adopted by Egypt's infant industries with the full sanction of the government. Industrialization seems to have, thus far, increased the degree of monopoly in an important sector of the economy, namely, the modern industry sector.

Regulation of Trade Practices

The notion of unfair trade practices is confined to its earlier ethical sense, involving fraud or misrepresentation. There has been little or practically no recognition of fairness as involving the use of any practice restricting actually or potentially the normal operation of competition.

Regardless of the fact that small business looms large in the Egyptian economy, government regulations have not been so designed as to protect small producers from large ones by ensuring the free play of competition. Thus, there have been several instances of price discrimination, differential treatment, exclusive leasing or representation, and many other types of discounts and allowances that lack reasonable cost-saving rationale.

In view of the absence of any definite anti-trust legislation, there is ample room for unfair practices such as bribing, enticing away employees of competitors, procuring their secrets by espinage and similar tactics, and making false and disparaging statements with respect to their products. In the same way the legislator has left many gaps making possible the use of threats or intimidations, boycotts, coercive practices, buying up supplies for hampering competitors, and compelling resale price maintenance. These practices are likely to be used by large concerns and thus would tend to adversely affect the small businessman.

As mentioned above, there has been little or no interference on the part of the Government to restrict attempts at combinations, agreements of competitors to fix, enhance, depress, or maintain prices, and divide markets or close it to competitors. Thus, until very recently, there had been no regulatory measures against manipulations in organized markets, particularly in cotton trading, by powerfully financed speculators who occasionaly interfered with open-market competition. However, some measures have been taken very recently to correct the abuses of speculation and to keep the market from falling under the control of a few large interests.

It may be stated that most regulatory measures are mainly concerned with providing the consumer with a minimum of protection. These regulations relate in part to setting and enforcing standards of weights and measures and establishing commodity grades, particularly for cotton. They also attempt to prevent adulteration and the sale of products harmful to public health, misrepresentation of grades, misbranding, faulty weighing, and misuse of credit instruments.

Regulations designed to protect the consumer, however, are far from adequate. There is ample room for regulatory action to control the use of false advertising, misleading propaganda, misbranding, and particularly representing products as has been made abroad whereas they are of domestic origin. Not infrequently, consumers are led to believe that they are being offered an opportunity to make purchases under unusually favorable conditions when such is not the case.

The lack of adequate regulatory measures designed to preclude unfair trade practices has accounted for a substantial social cost born by the ultimate consumer, with no apparent social benefits. A loss of incentive for efficiency and a marked indifference on the part of producers to consumers' tastes and desires are the outcome of the absence of fair and effective competition.

Government Aids

Contrary to the situation encountered in a developed economy, government policies toward business are largely oriented to protection and promotion rather than to regulation. Perhaps a sellers' market may justify the government in orienting its policies to the producer instead of the consumer. At any rate, the consumer is no sovereign in the Egyptian economy. Rather, it is the producer that reigns.

In contrast to those of many underdeveloped economies, such as Turkey, Iran, and Chile, the Egyptian government has largely (1) refrained from assuming direct entrepreneurial functions by directly promoting and operating new enterprises. In the face of it, this might seem to be a free-enterprise-policy. Upon closer examination, however, it is found to be neither "free" nor "enterprising". Having refrained from direct participation, the government has-sumed a paternalistic attitude toward business. Government aid is, therefore, none the less effective for being indirect.

The Egyptian government furnishes "aid" to industry by means of tariffs. import restrictions, foreign exchange licences, direct subsidies, tax and fiscal reliefs. The rationale of all these measures is to provide a "favourable environment" for direct private investment in industry. Undoubtedly, such measures help enhance the rate of return on invested capital in sheltered industries. But this might not be the most effective means of enhancing their growth.

The most important single measure of aid has been tariff protection. Over the last 25 years, duties on "foreign' manufactures competing with "national" industries, such as textiles, shoes, glass, and sugar were repeatedly and progressively raised, and this process is likely to continue for a long time to come. Indirect taxes, accounting for 55 per cent of government receipts,

(1) The only exception is the government-owned and operated Suez oil refinery.

are a tempting and easy source of revenue. The unfavorable redistributive effect of such regressive taxation combined with the high price policy of sheltered manufacturers conspire to hurt the purchasing power of the masses and, in turn, to curb the size of the domestic market. Thus, in 1946 the price of locally produced sugar was nearly twice the world price; similarly "local prices" of matches, varnishes, confectionery, cotton textiles, woolens, rayon, canned fruits and vegetables, to mention only some leading examples, are well above import prices. (1) Undoubtedly, it is largely owing to such restrictive type of aid that most sections of Egyptian industries have withstood the "intensified" foreign competition.

Not only does this protective policy curb the buying power of the mass of Egyptian consumers in the short run, but it also is likely to present a drag on their capacity to consume over the longer pull as well.

Growing in an atmosphere of protectionism, sheltered by high tariff walls, a prohibitive system of exchange regulations and import quota, Egyptian management has grown too dependent on government aid, direction and outright handouts. Management, under these conditions, is likely to cultivate the peculiar habit of looking toward government for aid and help whenever it faces a managerial problem. Also, whenever foreign competition becomes intense, and to domestic businessmen it always is, management turns to the government for further aid. It is fairly unexpected of a management operating in such an atmosphere to recognize the managerial problems it ought to recognize, or to perform the managerial functions it ought to be performing. It is infeasible that such a management would develop a drive for increasing efficiency and/or promoting a larger volume of sales.

Typical of the attitude of management in a protective environment like that prevailing in Egypt is the following statement by the Egyptian Federation of Industries: "The weaknesses of industry in Egypt do not lie in the organization structure of existing plants, managerial methods, systems and procedures inasmuch as they lie in the legislative and administrative environment, in technological education, in saving-investment and credit conditions, in taxation laws and similar broad problems which would require a more rational revision of existing legislation. (2) Except for the fact that the Federation's conception of a rational revision of existing lesgislation is likely to involve more aids, subsidies and the like as well as lesser tax and "welfare" burdens, the statement could be largely true. Nevertheless, it is neither rational nor

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(1) Charles Issawi, *loc. cit.*, p. 169.

(2) *Annual Yearbook of the Egyptian Federation of Industries*, 1952-1953 (in Arabic), Cairo, p. 11.

true to discount or belittle the "weaknesses" arising within management discretion owing to the atmosphere of protectionism in which industry operates.

Lacking the continuous pressures of competition, and highly dependent upon governmental paternalism, the competitive innovating-promotional outlook of a dynamic management has become alien to the Egyptian entrepreneur. He does not naturally think of extending markets by reducing costs and prices, and is rather monopolistically minded, bent on securing profits by charging high prices and restricting the volume of sales. Whatever may be the potency of the arguments for infant industry protection, this protectionist attitude of management is one of the major problems to be reckoned with when the longer run prospects of growth are to be appraised.

Although the protectionist policy of government seems to have indirectly favored the development of a stagnant and a highly dependent management, thus, inhibiting productivity, it also seems that such a policy has promoted outright inefficiency and a lop-sided cost structure in many cases as well. Many industries which can possibly operate efficiently are forced for protectionist reasons to procure their materials at high prices from domestic suppliers. This applies to sugar refining, confectionary, cotton spinning and weaving, and silk and rayon weaving. In general, it may be said that the attempt simultaneously to protect both agriculture and industry has deprived the latter of many of his "benefits" of tariff protection. Thus, until recently, high import duties on heat raised the cost of living and hence wage costs.

Further, Government protectionist policies have been lacking in consistency and direction. On the one hand, industry has been aided by generous depreciation charges and tax reliefs. On the other hand, the predominance of the landed interests before the New Regime has led to the shifting of the "direct" tax burden from agriculture to industry. Thus, according to the perhaps not imperfectly impartial president of the EFI, L.E. 20 million was collected in direct taxes on industry in 1945, compared with L.E. 5 million from agriculture, although agricultural net income was four times as high as industrial (1).

In an attempt to reconcile both these opposing interests, as well as to raise revenue, high excise duties have been levied on such staple articles as sugar, cement, and kerosene. Also, tariff on imports of consumer goods has been repeatedly stepped up. Thus, the burden of this unhappy — and perhaps ugly compromise—is easily shifted to the Egyptian consumer who, to say the least, is not sovereign in his own economy.

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(1) Hafez Afifi, "Industrial Progress in Egypt and Its Effect on Labour and Social Conditions", Address before U.N. Social welfare Seminar (Beirut, August 26, 1949).

Restrictive Versus Promotional Assistance

As mentioned above, the government has actively sponsored some cartel arrangements and trustification plans. But it has seldom intervened, or used its power over these cartels to enforce or foster or even encourage standardization and rationalization, although the possibilities of inducing greater efficiency and larger volume via such measures are fairly known and ample.

Thus, the Government Commission on Industry reports that the chocolate industry uses many moulds unnecessarily, while the Federation of Industries deplores the lack of standardization in the newly-established steel mills and in metal products. Yet, no assistance through such "promotional" measures is consistently attempted. On the other hand, in 1951 the government did cooperate with the Chamber of Commerce in grading and standardizing the soap industry. Nor, except in war-time and during certain emergencies, has any attempt been made to "induce" manufacturers to produce "less profitable" but socially more necessary products, such as cotton cloth for mass consumption.

From the foregoing, it appears that Egyptian manufacturing industries have reached a state of temporary and precarious equilibrium. On the whole, the critical limit of growth has been attained. For further growth to take place, the domestic market has to be developed and/or export markets have to be penetrated. This is not a task for a stagnant, unenterprising and a highly dependent management. Nor, is it favored by protectionist and restrictive measures of assistance such as tariff protection, import quotas and the like.

Government assistance has to be designed to promote a growing volume of demand by discouraging the existing managerial economy of high-cost, high-profit-margins and high prices. A minimum of sovereignty has to be granted typical Egyptian consumers. In fact, the climate of public opinion has developed an adverse attitude toward these anti social managerial policies. High prices associated with high industrial profits have caused discord, sharpened class antagonism, and made industry and industrial capitalism at such a relatively early stage of industrialization, thus far achieved, highly unpopular. This growing hostility is likely to creep into government policies the spirit of legislation and administrative practice.

It is high time for Egyptian management to recast its anti-social policies, with the full realization that "it can only justify its existence and authority by the economic results it produces". (1) It is the task of government to help provide a competitive environment in which this realization, through the shock effect of competition, is likely to develop.

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(1) Peter Drucker, *The Practice of Management*, Heinemann, London, 1955, p. 5.

This does not necessarily imply the abandonment of infant industries without "protection". But it means that the protection would be in specific froms which are more conducive to efficient management by the provision of external economies like research and prospecting services, the establishment of pilot plants, management development and training, disseminating and pemonstrating new managerial know-how.

PART VII

GENERAL APPRAISAL

It is beyond questioning that the overall objective of an underdeveloped economy like Egypt is to effect a sustained increase in per capita real income. Time and again, it has been stated that the "narrowness or limited size of the domestic market" is the major bottleneck hindering industrialization which is generally regarded as the only way out of underdevelopment stagnation.

However, the *modus operandi* through which a limited size of the market inhibits economic development and the role of marketing know-how in removing this bottleneck is very little known or even appreciated. How does the narrowness of the market condition the industrial structure; limit the rate of growth of new industries; influence the cost structure, the possibilities of specialization, integration and similar issues. Perhaps, more significant, what is the narrowness of the market, how to measure it, how to account for it and in turn how does the market get less narrow or less limited ? Is it the product of major exogenous variables like population size, structure and trends, or income level and trend and similar aggregates ? Or is it in part the product of endogenous variables which largely lie within the area of managerial discretion. These are still largely unexplored questions and hypotheses which perplex the marketing expert in appraising the effectiveness of the marketing system in an underdeveloped economy.

Seemingly, management in Egypt does not consider as objectives-promoting a growing volume of sales and effecting progressive cost economies through subsequent expansion which are the stated and fully recognized objectives of a dynamic management. Instead, management operates on the twin assumptions of a limited inelastic demand and constant economies of scale. That is, management considers that promoting a larger volume of sales and effecting substantial cost reduction through expansion are unattainable if at all recognized, objectives.

Lack of recognition of these strategic objectives is the outcome of a limited managerial horizon, narrow entrepreneurial perspective and a marked aversion to creative innovation. The question is not the lack of specific managerial skills, or the know-how bearing upon particular techniques and procedures, though these are, at times, woefully lacking. In fact, the question is more far-reaching; it involves unawareness of what management really is, or what management actually does. It is the lack of drive for developing new products, new organizations, expanding and finding new markets, new promotion and new raw materials. It is easy as well as tempting to discount the significance of this intangible, and perhaps vague, management factor as the strategic limitation upon the "size of the market" when low purchasing power, population structure and the like are accounted for. Yet, it is a factor that looms large in Egypt's case.

The experience of industrialization in Egypt seems to support the validity of this hypothesis. Thus far, 25 years of industrialization in Egypt has failed to generate a rising per capita real income necessary to sustain it. This can be partly traced to such exogenous variables as population explosion, low rate of capital formation and the like. However, prevailing managerial policies account largely for this failure.

With the advent of industrialization, a host of new industries, characterized by a low capital-intensity, relatively small scale and low technological requirements, were set up. They experienced, thanks to government sheltering and aids of different kinds, a relatively rapid rate of growth. The rate of growth has tapered off as soon as the point of import-displacement was reached. This critical point has been reached under the impetus of import shortage during World War II. Once this critical limit was reached, these industries have developed many symptoms of strain and disequilibrium manifested in a substantial excess capacity, a high rate of inventory accumulation, culminating in a relatively high rate of business failure. These manifestations can only mean one thing, namely, that management has failed to perform its major function.

Operating on the assumption of a limited and inelastic demand for his products, the typical manufacturer attempts at maximizing profit per unit at the expense of a larger volume. Taking the volume of demand as datum, management clings to a passive attitude toward the three major tools that can be used to manipulate the volume of sales. Thus, his price policy is skimming rather than penetrating, contractionist rather than expansionist and, on the whole, highly rigid. By the same token, his product policy is stagnant and sluggish rather than developmental and aggressive. Also, his promotional policy is highly erratic; lacking design, planning, coordination and direction.

Lacking an adequate conception of market planning, sufficient willingness to perform effectively his marketing function and the necessary know-how for such operations, the manufacturer tends to shift these functions to the intermediaries. Those intermediaries are bound to operate on a small scale since the prospective volume of sales is too small to warrant the establishment of a well-organized, large-scale, and integrated sales-and-service organization. On the other hand, distributors equipped with the best merchandizing experience usually engage in marketing manufactured products of foreign origin, and display little interest in handling or pushing domestic manufactures for the same reason.

The prevalence of small scale operations at every stage of the production and distribution processes has resulted in a proliferation of middlemen, each depending upon high margins to offset lower turnover. The inevitable outcome of such marketing organization is a markedly low productivity in distribution. This, combined with low productivity in production as a result of small scale operation, results in a high-cost structure, perpetuating the vicious circle of high-cost high-prices and, in turn, inhibiting the growth of domestic market.

However, certain factors beyond the control of management also affect the attainment of its basic objectives, namely, to promote a larger volume of sale and effect cost economies through expansion. Following Marshall, these factors are called external economies or diseconomies, according as they serve to decrease or to increase the distribution costs. Obviously, external diseconomies are likely to emanate from a transport system which is oriented to serve an export market, a communication system developed to reach exclusively urban inhabitants and marketing facilities that are highly concentrated in urban centers.

The government can play a major part in the rationalization of marketing procedures by providing private enterprise with external economies through development of an adequate transportation, communication and the like. The provision of other external economies can be effected through better processing, grading, standardization, and storage facilities, as well as comprehensive research facilities provided by the Government.

However, the critical problem of marketing in an underdeveloped economy is not that of an evolutionary rationalization of marketing methods, procedures, and institutions; but rather one of effecting a revolutionary change in managerial outlook that would help develop a mass market.

The small size of existing market has been widely recognized as a major limitation upon the process of economic development. The conventional reasoning, however, runs in terms of: low productivity, particularly in agriculture, low per capita income, limited disposable income, and inevitably a narrow market. Thus, the conclusion would naturally follow that "... the development of more efficient, large-scale distribution must follow rather than precede the development of efficient manufacturing and agricultural industries." (1)

(1) W... Nicholls, "Domestic Trade in an Underdeveloped Country", *Journal of Political Economy*, Vol. LIX, December 1951, p. 479.

In many respects this notion and the conclusion following therefrom rests upon an inadequate concept. Admittedly economic development would have to wait upon a significant rise in overall productivity via the adoption of new production methods, i.e., a revolution in production. However, in the words of Henry Ford, the "requisites" of this production revolution lie in the marketing area, since "... the necessary, precedent condition of mass production is a capacity, latent or developed, of mass consumption". Yet, "The two go together, and in the latter may be traced the reasons for the former... Mass production justifies itself by an economy whose benefits may quickly be transmitted to the purchaser". (1)

It is usually stated that the small size of the market excludes the possibilities of such a mass production revolution. Prevailing low per capita income is taken to denote the absence of a mass market, even a latent one. True, the purchasing power of the average farmer is individually low. However, it represents relatively large, though untapped, buying potential in the aggregate.

To reach the mass of consumers in the rural areas, to develop products that are likely to command mass appeal, to organize sources of supply in such a way as to realize substantial production cost economies, and to transmit or generalize the benefit to the mass of consumers through a low-price policy are the main features of a revolution in distribution. Not only is such a revolution necessary to sustain the process of development, but also is the 'precedent condition' of getting the whole process under way.

June, 1956

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(1) Henry Ford, "Mass Production", *Encyclopaedia Britannica*, Vol. XV., pp. 38-41.