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UNIVERSITY OF STRATHCLYDE

Department of Marketing

MARKETING STRATEGY IN THE
STATE TRADING ORGANISATIONS
IN IRAQ

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To Majidah
My Mother and
The Memory of My Father

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ABSTRACT

A central problem of the world economy is how to foster development in the Third World countries. So, focusing on and attempting to develop an effective marketing strategy for the State Trading Organisations will provide some solutions to the problems of developing countries with marketing planners being able to contribute to such development. This thesis identifies, analyses and evaluates the marketing strategies adopted by the State Trading Organisations in Iraq and examines the differences between them and those practised in the private sector.

- Part 1: defines the theoretical framework for a marketing strategy and describes the method employed in formulating strategies to achieve marketing objectives. An examination of the relevant literature has been carried out.
- Part 2: contains a detailed description of the environmental factors, socio-economic variables, political and legal dimensions, population and demographic variables, etc. and discusses how they affect the determination of marketing strategies in the State Trading Organisations.
- Part 3: includes detailed descriptions and discussions of the strategies related to the marketing mix elements, i.e. merchandise (product), price, distribution, and promotion as practised by these Organisations, which were based on questionnaire and in-depth interviews. It describes the marketing planning organisation by means of which the planning process is carried out.
- Part 4: contains a summary of the findings derived from the questionnaire, in-depth interviews with the President, General Managers, Assistant General Managers for

Marketing and other executives in the State Trading Organisations and other related Organisations, the purpose of which was to establish the characteristics of the marketing strategy as devised by these Organisations. It also contains conclusions and recommendations based on the fieldwork, which revealed that the marketing strategies developed by the Organisations were ineffective. This was due not only to the difficulties in setting explicit, quantified and measurable objectives, but as a result of the ambiguity of role created by the competing pressures derived from political ideology and intellectual considerations linked with economic and social planning. Contributions to the failure of the Organisations' marketing strategy were found to be:-

- a) the limited degree of freedom of decision allowed and the complexity of the environment;
- b) the planning system itself is primitive and incapable of devising advanced marketing plans.

Finally, as certain prerequisites are required to allow the development of an effective marketing strategy for the Organisations, certain recommendations are included.

PART ONE :

Chapter 1: THE SCOPE AND OBJECTIVES OF
THE STUDY.

Chapter 2: RESEARCH METHODOLOGY AND
SAMPLE CHARACTERISTICS.

CHAPTER ONE

The Scope and Objectives of the Study

The main aim of this chapter is to outline the nature and purpose of the current study. More specifically, this chapter presents a discussion relating to the framework and objectives of the present research which is concerned with the marketing strategy employed by State Trading Organisations in Iraq. The chapter is divided into the following sections:

1. Introduction
2. Objectives of the Study
3. The Need for the Study
4. Statement of Hypothesis

1.1 Introduction

In Iraq, the study of strategic marketing planning as an element of successful marketing has been largely neglected by scholars and practitioners in favour of investigation of other aspects of the process of management. This neglect has occurred because management has either been engrossed in day-to-day operations, or has relied on a one-year budgeting plan, and lacked the experience and skills required for marketing planning. In addition, little reliable data was available. Moreover, the complexity of the marketing system, and accelerating rate of environmental changes made the prediction of such changes very difficult. All these factors have tended to make the study of such a critical area a difficult undertaking. But concern about the performance of the State Trading Organisations has increased interest in marketing as a means of improving their performance.

After the 14th July 1958 Revolution, Iraq experienced some social and economic changes and consumer needs and wants received more attention, but the wholesaling-retailing system did not undergo

radical changes. It was still largely privately owned apart from a few state-owned organisations. These state-owned organisations marketed a small number of product lines and carried out limited activities, buying and selling on a cash-and-carry basis. No planning system had as yet been established by either sector (private or state). Decision-making in both sectors was based on reaction to, not anticipation of, particular circumstances.

The government introduced nationalisation of commercial institutions in 1963, causing a widespread fear among wholesalers and retailers of further nationalisation. This fear made wholesalers and retailers reluctant to risk capital investment and caused a decline in private commercial activities. The industrial census of 1976 showed that some 52,600 persons were engaged in commerce, of whom about 4,900 were in the wholesale and 47,700 in the retail trade,¹ with annual sales estimated at I.D. 82.6 million.² The wholesale and retail trade played a relatively small part in the nation's economy, estimated as contributing only 6 per cent to the gross national product, a smaller share than any other economic sector except banking, insurance and construction.³

In 1964, the government nationalised some retail chain stores with branches in the main cities, together with a number of trade wholesalers, thereby establishing the State Organisation of Trade. This Organisation was responsible for importing sugar, tea, dried beans, canned milk and other canned food products and industrial goods. The Government Purchasing Board* determined the quota of goods to be imported by the private wholesalers and the State Organisation of Trade. The State Organisation's share of the total import allocation increased substantially as a number of private wholesalers stopped importing their quotas. But the total number of people engaged in trade had risen to an estimated 75,000 persons or 3 per cent of the total economically active population in that year.⁴ The nationalisation in July 1964 of all foreign and domestic

* The Government Purchasing Board was the only government agency which had the authority to grant the importing license for a particular item and to decide the amount of money to be spent on importing it.

banks, insurance companies, and thirty private industrial enterprises and commercial institutions had a strong impact on commercial activities. It marked the beginning of a new era in domestic trade activity with private trade at both wholesale and retail trade levels declining and the public sector increasing significantly. The State Organisation of Trade experienced many problems resulting from its lack of knowledge, its inexperience, corruption on the part of some staff, and unskilled management. The Comrade, the Regional Secretary General of the Party, in a speech in 1974, stated "It is necessary to mention errors in the field of internal as well as external trade which have caused hardships to citizens and been detrimental to some programmes of development and growth. The country has seen cases of shortages and chaos in the basic and secondary consumer needs."⁵ In addition, the increased share of overall trade by the State Organisation of Trade caused a bottleneck in the movement of trade. Such a high volume of imports and a multiplicity of commercial activities cannot be dealt with through short-term formulas but require the support of an elaborate planning system.

In 1975, the government issued law number 97 which amended previous legislation in order to implement plans to fulfil the consumers' needs and wants. It undertook reform of the domestic trading system and created two organisations. The first, which was to cater for the needs of the producers and users was called the State Organisation of Industrial Goods. The other, the State Organisation of Consumer Goods, was responsible for the needs and wants of consumers. The latter organisation played an important role in providing consumer goods and subsequently its activities have been broadened substantially. To fulfil its responsibilities, the State Organisation of Consumer Goods established five General State Establishments. Each of these Establishments market specific product lines. After the nationalisation of oil and the increase in oil prices, the public sector's activity in wholesaling and retailing increased and assumed much greater importance. For example, by 1977, the sales of the two main establishments of the State Organisation of Consumer Goods exceeded I.D. 206 million, the

number of people working in trade exceeded 130 thousand, and its contribution to the GDP exceeded 12 per cent. These Organisations* have faced many problems and difficulties which have been a source of concern to management and government alike in terms of the effectiveness of their performance. Therefore, they established a planning system and organised a planning department in order to cope with their environment and to improve their performance. But their planning system has failed to develop marketing strategies capable of achieving their objectives. At the beginning of the 1980s the performance of the State-owned enterprises and the role of marketing strategy in improving their performance began to receive more attention, and this approach will be pursued even more in the future as the market share of these organisations increases.

1.2 Objectives of the Study

The overall objectives of the research are: a) to improve understanding of the marketing strategy practised by the State Trading Organisations; b) to examine the factors that influence the marketing planning in these Organisations, and how these may differ from those of privately-owned firms; c) to suggest whatever recommendations are necessary to improve marketing strategy formulation in these Organisations. More specifically, the study seeks to achieve the following objectives:

- 1) To provide a factual account of the strategic marketing planning practised by the State Trading Organisations in Iraq. Such information would provide a means of identifying the shortcomings of their marketing strategy, indicating the major problems encountered by the planners, and providing a basis for establishing an appropriate strategy to solve their problems so that strategic marketing planning can be well designed and placed in its proper perspective in the overall policy of State Trading Organisations.

* Hereafter, the term the State Trading Organisations will be used for convenience.

- 2) To examine and explain some of the relationships between social, political, technological, competitive, economic, cultural and other variables on the one hand, and the marketing strategies of these Organisations on the other. In order to achieve this objective, a concise description of these variables will be provided.
- 3) To find ways of improving present strategic marketing planning practices in order to provide an efficient planning system for the State Trading Organisations, thereby securing their positions in the market as their field of operations expands.
- 4) To provide a basis for the policy-makers in the State Trading Organisations to take measures which will ensure harmony between the activities of these Organisations and their environment.
- 5) To make a contribution to the literature pertaining to strategic marketing planning in state-owned firms in the wholesaling and retailing sector in a developing nation, namely Iraq, from which universal conclusions or new insights might be drawn.

Throughout, the researcher will attempt to investigate the planning process in order to establish real facts while remaining conscious of the dangers associated with this broad subject, and avoiding as far as possible the inherent pitfalls.

1.3 The Need for the Study

In Iraq, the government produces five year economic development plans, covering such subjects as the alleviation of poverty, meeting the demand for goods and services, social security provisions, the prevention of pollution of the environment, reducing urban congestion, loss of amenity, and the implications of proposals for land use⁶ which could create serious problems of resources allocation. To achieve such objectives, the government has to develop a long-term plan in each field within which each state-owned organisation

prepares to set its own objectives and strategy in order to play its role in achieving the corporate objectives. This promotes interest and acceptance of the need to formulate strategic marketing plans in order to contribute significantly to economic and social development, to meet the needs and wants of consumers in Iraq, and to serve the purposes of the organisation.

The lack of data providing a systematic account of strategic marketing planning in the State Trading Organisations is one consideration which motivated this research. If management in the state-owned firms want to increase their ability to anticipate changes, to take immediate advantage of new opportunities and timely action to avoid threats, to guide and direct the organisation's growth and development, a first step must be to describe, analyse and evaluate the strategic marketing planning practices in terms of their particular environment. To date, in the State Trading Organisations, a thorough investigation of all factors that have an influence on marketing strategy has not been undertaken. Such an investigation could determine the status of marketing within these Organisations and could prepare the way for further research. Accordingly, there is a definite need for this kind of research.

1.4 Statement of Hypothesis

The State Trading Organisations adopt marketing planning in order to improve their performance and to cope with their environment, but their planning is not of a high standard. The hypothesis states that the State Trading Organisation's approach to formulating their marketing strategies results in poorly structured and hard to understand marketing planning process which leads to ineffective performance. This view was formed as a result of observations over a number of years of the Organisation's performance and the number of complaints by customers published in newspapers or voiced at meetings, which led to an increased desire for improvement in the performance of the State Trading Organisations and other State

enterprises, based on the increasing body of published work on marketing strategy formulation. Therefore, the thesis is directed at identifying and evaluating the marketing strategies of the State Trading Organisations in Iraq.

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CHAPTER TWO

Research Methodology and Sample Characteristics

2.1 Research Methodology

The aim of this chapter is to describe and explain the methods adopted in collecting the data for this study.

To reiterate, the main purpose of the study is to explore and analyse marketing strategy as practised by the State Trading Organisations in Iraq and to analyse the contribution which various marketing tools may make to improve marketing planning in these organisations. To achieve this end, the study was conducted in two phases, as follows:

The first, consisted of a thorough and critical review of the available literature concerning marketing strategy and those employed by state enterprises and in particular in state trading organisations. This phase served two purposes. First, it made possible the objective documentation of the marketing practices of the State Trading Organisations of Consumer Goods, and second, by review of literature, provided the foundation for understanding the results of the empirical investigation.

The second phase of the research involved an empirical examination of the strategic marketing planning employed by the State Organisation of Consumer Goods and the General State Establishments of Iraq. To accomplish this objective, a draft copy of a questionnaire was prepared and shown to a few selected respondents (a pilot study). The aim was to identify the strategies employed by the State Organisations of Consumer Goods in Iraq and to establish the association of environmental conditions with their particular characteristics affecting the design and implementation of the respective choice of marketing strategies. Several improvements in this survey instrument (questionnaire) resulted from the discussions and analysis established the particular characteristics

The cooperative retailing outlets, founded to offer goods at lower prices for their members, charge a very small margin to cover their expenses and make little profit. Their members consist of those subscribers who share a particular job or service (e.g. port employees, civil servants, etc.) or of a particular profession (e.g. engineers, teachers.. etc.). These outlets are supplied from the State Trading Organisations, and their credit policy affects their market share. At the outset, the cooperative retailers attracted many consumers, but when they were forced to stop offering credit as a result of liquid assets shortage and delay in instalment payment, their sales dropped substantially. The annual sales of this whole sector during the years 1977, 1978 and 1979 ranged between I.D. 50,000-70,000 per annum. The sector worked on "a hand to mouth" basis and did not develop any planning machinery, although they kept accurate records of their operations. The size of the sector did not offer the opportunity for research to allow significant comparisons, thus was, again, excluded from the research.

The State Organisation of Consumer Goods dominates the wholesaling and retailing markets, with average annual sales during the years 1977, 1978 and 1979 of approximately I.D. 200 million. This State Organisation is divided into five semi-autonomous organisations each called "General State Establishment", which are: (See Figures 1 and 2)

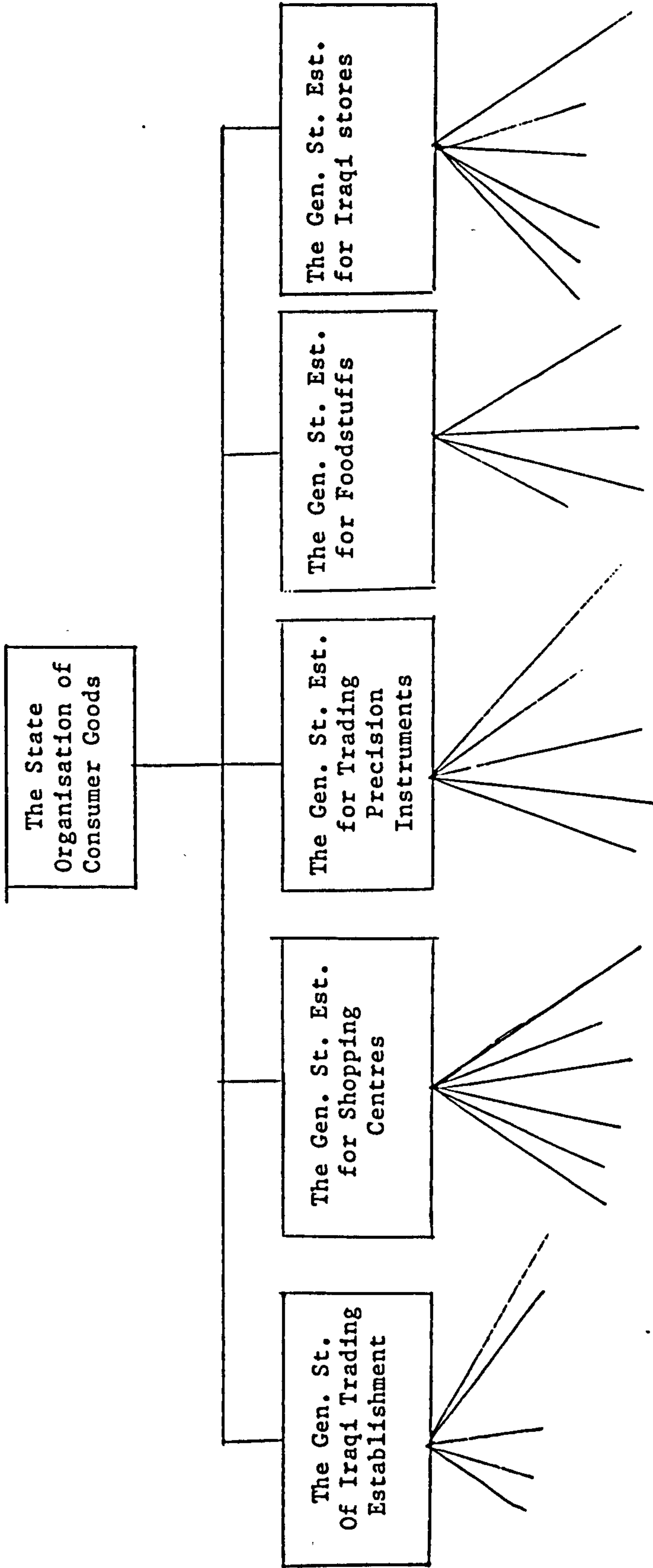
1) The General State Establishment for Iraqi Stores

It is a chain of department stores located in all cities and the headquarter in Baghdad. These chains are similar to the department stores prevailing in Europe and America, but on a smaller scale.

2) The General State Establishment for Foodstuffs

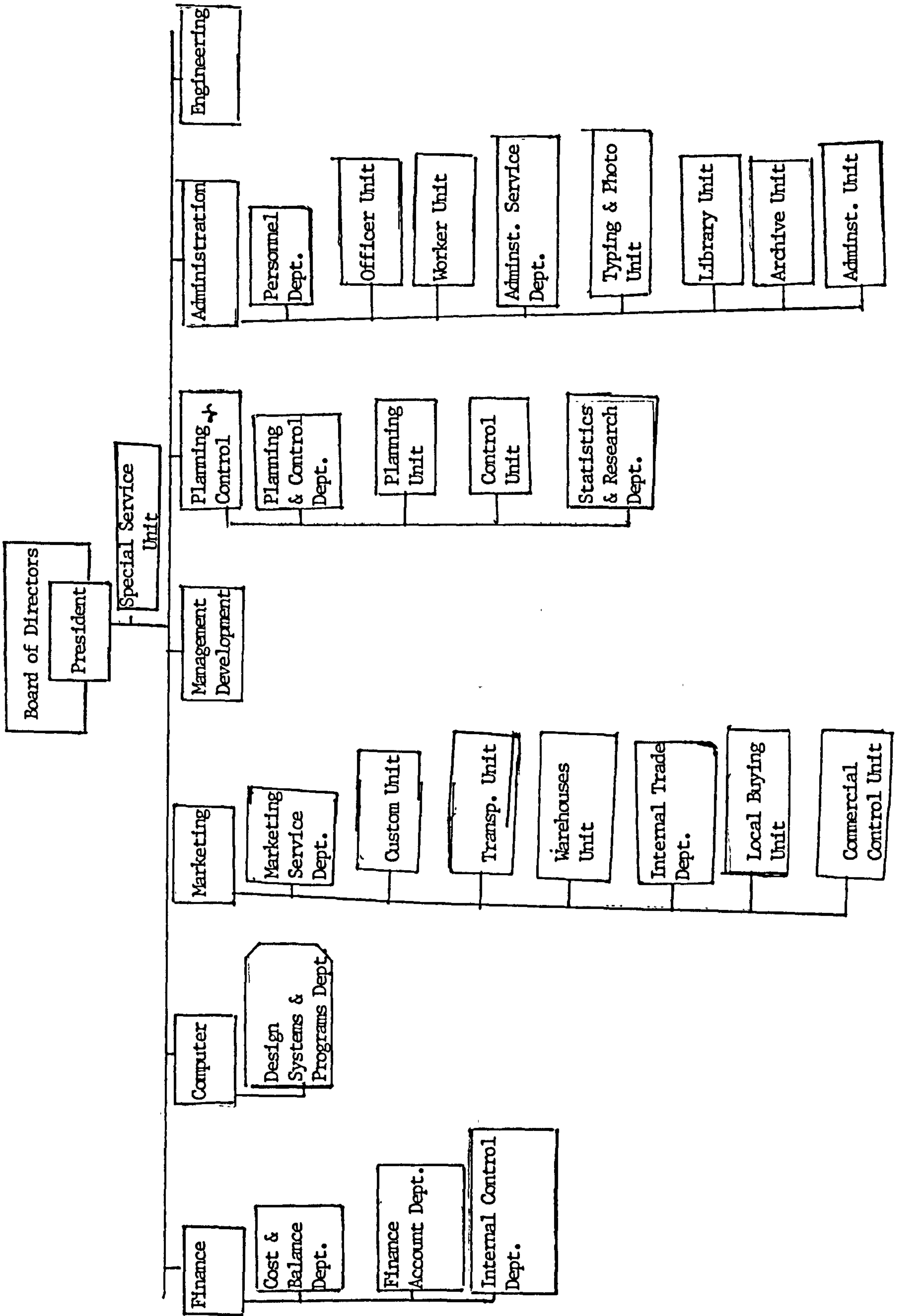
It is a chain of stores handling the marketing of foodstuffs, e.g. rice, sugar, tea, canned food, beans .. etc. It has the same structure as the above State.

Figure 2.1: The Structure of the State Trading Organisations



Note: The number of lines do not present the exact figure of branches just illustration

Figure 2.2: Organisation Chart of the State Organisation of Consumer Goods 1984.



3) The General State Establishment for Trading Precision Instruments

It deals with stationery and office items, and shares the same structure of the previous two Establishments.

They enjoyed sales of I.D. 13 million in 1980. It employed 1306 employees in 1979.

4) The General State Establishment for Shopping Centres

It is similar to the shopping centres in Europe, but on a smaller scale, less automated and highly dependent on personal selling.

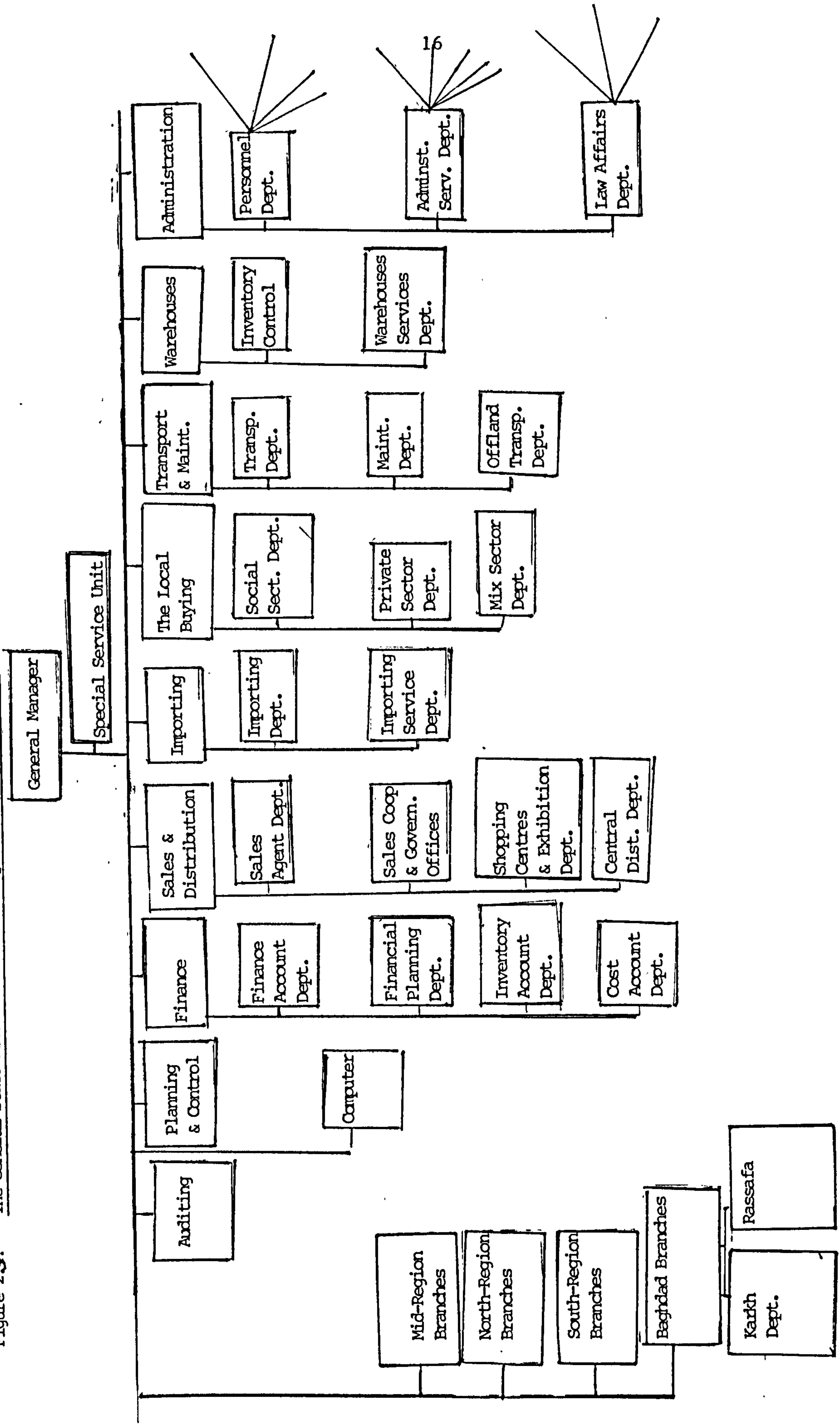
5) The General State of Iraqi Trading Establishment

It markets durable goods and household items, and offers repairing and maintenance services. Its organisational structure shares the same of other previous State Establishments.

In the following chapters, the term "State Trading Organisations" will be used to refer to all these 5 General State Establishments and their Headquarter Organisation - The State Organisation of Consumer Goods to avoid having to repeat all the names etc.

Because of the State Trading Organisations' domination in the wholesale and retail markets, in which they provide essential services to other channel members, over whom they exert control, they have enjoyed leadership and continuous growth in the markets. Although all the State Trading Organisations are organised around the product lines and services offered, their organisational structure is divided into functions (see Figure 2.3) and each of them has designed a planning department. These five General State Establishments and their Headquarters - The State Organisation of Consumer Goods are selected as the sample frame, because they are big enough in any measure (sales, structure, employee or other measure) in the Iraqi situation and of other developing countries, to lend themselves to research and thus offer the opportunity of significant comparisons.

Figure 2.3: The General State Establishment of Iraqi Stores' Organisation



2.1.2 The Questionnaire

Before discussing the development of the questionnaire, an explanation of the procedures that must be followed before conducting field research in Iraq is required. First, a researcher must complete a form supplied by the respondent organisation containing many questions, e.g. the purpose of the research, data required, methods of the research, etc., and encloses with this form a copy of the questionnaire in the native language (Arabic). This is submitted to a special committee which checks all the questions and authorises conducting field work. After approval, the questionnaire and the letter of approval are sent to the ministry of that organisation and then to the Ministry of Planning. The latter only has the authority to grant permission to conduct field research and to gather data. After receiving the letter of permission from them the researcher can then carry out his research. This takes between one to three months. The letter of permission was received after six weeks for this study.

The questionnaire was prepared after a detailed search of the literature for significant ideas relevant to marketing strategy in the state enterprises, in particular wholesaling and retailing trade, from the theoretical part of this study in addition to suggestions made by my supervisor. Although the open-end questions are more difficult to analyse than other types of questions, they are appropriate in this case given the need to generate additional information by way of free expression of ideas. In addition, the phrasing of the questions was designed to take account of the possibility that respondents would insist on writing in responses personally rather than allowing the researcher to do so. The questionnaire was then agreed by the supervisor and the following procedure carried out.

- 1) A pilot study was carried out to pretest the questionnaire on three ex-managers in the State Trading Organisations who pursue their study in the United Kingdom for higher degree (Ph.D), one of whom was the planning manager in the General State

Establishment for Iraqi commerce. After incorporating their reactions the questionnaire was translated into Arabic with the help of an expert in linguistics. The questionnaire was then presented to two experts in marketing at Baghdad University who suggested only slight amendments.

- 2) The second pretest of the questionnaire was carried out on a small sample of top management - The President and four General Managers - who had no difficulty in interpreting the questions. The questionnaire was then finalised for presentation to the top managers. It was distributed personally to the President, the General Managers of the State Establishments, Vice-President for Marketing, Director of Planning, Assistant General Managers for Marketing. The total number of these executives was thirteen. These were the thirteen most influential executives in the State Trading Organisation and seven of them form the main body of the Board of Directors of these organisations who sets the objectives and design the frame of strategies.

After a preliminary checking of the questionnaire, some questions were unanswered and a new appointment was made for completing the interviews.

2.1.3 Interviewing

Recognising the environment in which the top management answered written questions in developing countries and to check the strategic behaviour of the State Trading Organisations, further interviews were conducted with the top management, employing structured interview but the time and freedom were relaxed to generate more information regarding the question. After collecting data from these Organisations, it was found it is necessary to carry out interviews with Assistant General for Importing and the managers of the Planning Department in all the State Trading Organisations. The total number of interviews with the previous top executives was twenty-six. In addition, the General Manager for Planning and Control and the

Manager of Research and Development in the Ministry of Commerce were interviewed because of their strong influence on the planning system in these Organisations. Coinciding the field work with the time of preparing the plans of these Organisations motivated the researcher to carry out more than one interview which lasted between 2 to 3 hours in order to establish an accurate picture of their planning process and their marketing strategies. A total number of interviews carried out approached 40 in addition to the work accomplished in the questionnaire stage. A further visit was conducted to the President of the Internal Commerce Planning Organisation in the Ministry of Planning to comprehend the relationship between the plans of these Organisations and the national development plans. To follow the hierarchy of the planning system in these Organisations, another visit was carried out to the Planning Department in the branch of the Organisation in a main city and the researcher received a lengthy description of their preparation of the plans.

During the field work which lasted for about four months, the researcher lived the day-to-day operations of these Organisations which offered the opportunity to gather an accurate picture about their behaviour.

2.1.4 Other Sources of Information

The researcher had kept close observations of the behaviour of the State Trading Organisations for several years and the most crucial years were between 1979-1982. In addition, the researcher attended meetings, congresses or symposiums held to discuss the problems of these Organisations. There was a close personal contact with the managers to discuss some problems in addition to participating in the training programmes.

A thorough discussion was carried out with some lecturers from the Mustansiria University who contributed to the symposium held in Baghdad between 14 to 16 April, 1984 concerning the problem of the internal trade and all the relevant unpublished papers were obtained.

In addition, discussions were carried out with experts in marketing system including professors in Baghdad, Mystansria and Basrah Universities. Moreover, visiting the Federation of the Chambers of Commerce in Baghdad and discussion about the relationship between these Organisations and the private sector - wholesalers and retailers - was carried out and a paper of this role was received from the expert of the Federation. Visits to relevant government agencies were carried out to collect the data. All published and the unpublished work were searched in Iraq and collected the relevant data and information. The same work was also conducted in the United Kingdom.

2.2 Sample Characteristics

The primary objective of the study was to develop a descriptive framework of marketing strategy in the State Trading Organisations based on a survey of those managing marketing activities.

The research was interested in the influence of environmental and product variables on the marketing strategy actually used. It is hoped that critical analysis of key variables will enable the testing of the hypotheses of some probable relationships between the variables and marketing strategy.

The variables selected as having the greatest potential influence on marketing strategy are discussed below:

2.2.1 Type of Organisation

The State Trading Organisations are the largest firms dealing with the wholesaling and retailing in Iraq. Each General State Establishment had a high market share and leadership in most goods it sold. But, they had difficulties and problems revealed in maldistribution, shortages, and delays in deliveries.

The State Trading Organisations differ "from traditional government units in being subject to the pressure of the markets in which they buy and sell, but (they) also differ from large private

organisations in being subject to direct or internal government control.¹ Therefore, there are variations in the methods used to formulate and implement their respective marketing strategy and the degree of emphasis applied to the various components of the marketing mix from those of their counterparts in private firms, particularly those in the developed countries. The variations occur because of (a) differences in missions and primary objectives, (b) differences in the development and execution of their marketing strategies, (c) differences in the nature and characteristics of environmental changes. In Iraq, for example, the State Trading Organisations were influenced by an ideology considered to be an alternative to the Soviet paradigm of state-planned and state-controlled firms and economy, or to the paradigm of a free market economy, (d) other differences, e.g. sources of supplies, have an impact on their respective marketing strategies.

These differences have resulted in major variations in the marketing strategy practised by the state firms because:

- 1) Private wholesaling and retailing outlets are owned and managed by their owners who control and direct them as they wish. Whereas, the State Organisations are owned by government and managed by hired or appointed managers and directed to serve the government's aims.
- 2) Private-owned firms are, generally, aiming to make profit, while the State Trading Organisations' primary objective is not necessarily to make profit, e.g. their first drive is to meet customer needs rather than the profit motive and they are socially oriented(or should be).

Consequently, as long as State Trading Organisations are subject to the pressure of the markets to meet their demands and have specific (perhaps conflicting) objectives to meet (e.g. match between market pressure and government pressure), it is necessary to employ effective marketing strategy in order to achieve their objectives efficiently and effectively.

The State Trading Organisations in Iraq merit the study, because they reflect a specific character of marketing practices and are adequate for the purpose of comparisons.

2.2.2 Size of the Organisation

Strategy formulation is mostly associated with large companies, because of the high costs and the capabilities required which are unlikely to be found in small companies. The reasons behind this are, in large organisations "a decision taken by a manager will commit more resources than one taken by his opposite number in a small organisation, the larger decision, the more carefully must it be taken. Larger decisions demand more planning."² Further, the consequence of increasing decision complexity, increasing complexity of environment changes, and growing range of goods and services offered requires that, before a decision can be taken, it is necessary to do more planning. Furthermore, the strategy "provides guidelines that will help subordinate managers in deciding how to proceed toward achieving the objectives."³ The State Trading Organisations are divided into different State Establishments, having several branches, located in different geographical areas, each of them deals with many product lines and serves the demand of many markets segments, and each of them had invested a sizeable amount of money. Such organisations and their branch managers need some guidelines to help in deciding how to proceed toward achieving the State Trading Organisations' objectives. Therefore, it was hypothesised that the State Trading Organisations would need to have more advanced strategic marketing planning in order to achieve their objectives successfully and cope with the accelerating environmental changes.

The tabulation of the State Establishments by size was undertaken in an attempt to show up any differences in behaviour between large state establishment and small establishment or small private-owned ones. But the problem is that, there is no specific acceptable definition of the so-called "small company" or "large company". For example, one researcher considered a firm of annual sales \$75

Table 2.1: The Sales as at 1st January to 31 June 1983

(Thousand I.D.)

The General State Establishment	Sales I.D.
Foodstuffs	230334
Commercial	230653
Iraqi Stores	250041
Precise Instruments	329380
Shopping Centres	31861

Source: Unpublished Report, August 1983.

million as medium, while another considered annual sales of \$100 million as a small firm. Further a firm may be considered as small according to the criteria used in the United Kingdom or America, while it may be considered as a large firm in Iraq or other developing countries, so the size of the nation and its total national products may affect the measurement. However, there are many general indicators which have been formulated for this purpose, and which take into consideration the economic conditions prevailing in the country. Indicators such as sales volume, number of employees, value of assets, and physical volume of output are generally accepted.

For the purpose of this work, it was decided to measure the organisation size based on annual sales volume. The General State Establishments were classified as large if the sales volume for 1980 was over I.D. 30 million, bearing in mind the size classification has been adopted to fit Iraqi market, e.g. a department store that seems small in the United Kingdom, may seem large in Iraq. This approach provides in tabular form or measure relevant to the size and performance of the General State Establishments. The size of the General State Establishments appeared to deserve the study and be adequate for comparative study.

2.2.3 Size: Number of Employees

The State Trading Organisations in the sample were classified previously on the basis of the sales volume. In this subsection, the State Organisations will be classified on the basis of another variable, namely the number of employees. The breakdown of respondents from State Establishments according to the number of employees they had is presented in Table 2.2.

The average number of employees in the State Trading Organisations visited was 1306. The actual number of employees in the State Trading Organisations outstripped the average number in the private sector, and it was not comparable (see Table 2.3). This was expected since in Iraq the State Establishments tended to serve different segments of markets in different geographical areas, offer many product lines and integrate many functions, so they tend

Table 2.2: Number of Employees in the State Establishments

State Organisation	
The State Establishment of Iraqi Stores	4976
The State Establishment for Trading of Precision	1306
The State Establishment of Foodstuff	5148
The State Establishment of Commerce	5111
The State Establishment of Shopping Centres	18262

Source: Special unpublished Report 1980.

Table 2.3: Number of Employees in Private Sector of Wholesaling and Retailing

Number of Employees	%
Employing one person	86
Employing 1-2 persons	8
Employing 3-4 persons	4
Employing 5 persons and over	2

Source: The records of the Federal Trading of Iraqi Chambers and the Statistics of Internal Trade 1975 (only available data to date).

to be more labour intensive than the private sector. Further, the State Trading Organisation were mostly forward integrated, unlike the private ones which tended to be one location institutions and owner-managed and directed. Thus, they were larger than private trading institutions. Communication with such a number of employees becomes difficult, so they need a policy to follow and objectives to guide their decisions.

2.2.4 Location

The headquarters of the State Organisation of Consumer Goods and the headquarters of all the General State Establishments are located in Baghdad (the capital). Then, the General State Establishments are divided into branches, each branch is located in a city. So, each General State Establishment has eighteen branches. Baghdad has the largest number of shopping centres and department stores, with three shopping centres and seven department stores, while in each city there were only one small shopping centre and a department store or one store of each of the State Establishments. Thus, it can be seen that Baghdad has a greater concentration of the State Trading Organisations than other cities. Although its area is only about 4.5 per cent of total Iraqi area, it has 30 per cent of Iraqi population. Locating all headquarters, all main functions (finance, marketing, planning, importing, research and development ... etc.), data and information handling and all main offices, means, according to Iraqi culture, that the main body of decision-makers and strategic designers are located in Baghdad. Even the retail outlets and wholesale outlets whose license were authorised by State Trading Organisations (called agents), Baghdad had the largest number.

Because the decision-makers and marketing strategy designers are located in the headquarters at Baghdad, our population for the study is composed of all top management holding the responsibility of formulating marketing strategy or taking strategic decisions, in particular the President, General Managers of all State Establishments, Vice-President for Marketing, Head - department of Planning at the State Organisation, Asst. General Manager for

Marketing in the General State Establishments (see Table 2.4).

2.2.5 Degree of Integration

The term "integration" refers to the bringing together of various numbers of the channel or different business firms under single ownership or under unified control. Integration can take the forms, vertical or horizontal. "Transactions which increase vertical integration have been designated as "forward" or "backward" dependent upon whether the stages of distribution or production that are combined under one control extend the acquiring firm's operations nearer to the original raw material markets or nearer to the ultimate consumer markets."⁴

"The notion of a vertical marketing system begins with the concept of a market. A market is the complex of forces and conditions that encompasses the exchange of goods and services between buyers and sellers."⁵ The concept of a vertical marketing system emerges from the observation that most goods and many services pass through two or more such markets before ultimate consumption. The system can be defined as "the set of forces, conditions and institutions associated with the sequential passage of a product or a service through two or more markets."⁶ The performance of any system's member may contribute to the survival and prosperity of an individual entrepreneur or society.

There are two kinds of vertical marketing systems. First, forward integration, "in which the controlling business firm is further away from the ultimate consumer in the channel than any other agency link."⁷ Second, backward vertical integration which means increasing the number of marketing and production facilities under the command of a retailer or a wholesaler. It, therefore, involves a reduction in the number of owners who control a marketing channel. Retailers may search all the way back to production for the supply of retailers inventory requirements. Simultaneously, of course, they will buy that part of stock which their own manufacturers cannot supply. The precise number of markets to be included depends upon the nature of the problem under the study.

The other type of integration is horizontal. This term refers to the type of alignment where a group of establishments performing essentially the same type of marketing activity at the same level or stage of the marketing process are linked together. The alignment may be a matter of ownership, as in the case of the corporate chain. However, less formal horizontal arrangements are also seen in trade associations and voluntary groups.

The basic hypothesis underlying the tabulation of the survey results by degree of integration was that the integration of channel members of the State Trading Organisations and other members has created a strategic position which can be so influential and powerful in applying their strategies and achieving their objectives.

This hypothesis can be supported by the following facts. The influence of the State Trading Organisations on other channel members were accrued, because they were performing critical marketing functions, e.g. importing the goods and doing all the related activities, offering warehousing facilities, transportation. Furthermore, the State Trading Organisations affect the role of the private sector, e.g. determine the product lines to be carried and granting a license to conduct a business as an agent. The total number of the State Trading Organisations' institutions, their agents and the cooperative stores forms a powerful channel system which exerts more power on other channel members and facilitates the implementation of their strategies. Furthermore, the State Trading Organisations grant the license to the private local wholesalers and retailers to buy and sell their goods, so refusing to grant this license to these institutions means that they will not get a sizeable share of their goods sold which may affect their survival and growth. This has a strong influence and exerts significant power on private wholesalers and retailers. Finally, the State Trading Organisations are in commander position of the network transactions which direct the wholesaling, physical distribution, financing, and retailing facilities, by exercising managerial authority over other channel members, these Organisations can direct and coordinate the efforts to meet the demand while simultaneously seeking lower marketing costs .

Table 2.4: The Locations of State Trading Organisations and other Institutions Controlled Directly or Indirectly by Them

Province	Head quarters	Branches or Division	State Owned Stores	Agent Retail Outlet	Agent Wholesaler Outlet	Total
Dihook	-	5	1	478	1	485
Nineveh	-	6	4	2700	9	2719
Sulaimaniya	-	5	2	1841	4	1852
Taimeem	-	5	2	2061	7	2075
Arbil	-	5	4	1360	-	1369
Diala	-	5	1	1640	8	1652
Anbar	-	5	4	1161	2	1172
Baghdad	6	7	19	10259	360	10645
Babylon	-	5	2	1865	22	1894
Kerbela	-	5	3	1175	2	1185
Wasit	-	4	1	1125	5	1135
Salah Al-Dean	-	5	1	842	1	849
Najaf	-	5	3	1475	7	1490
Kudesia	-	4	3	1057	-	1064
Muthana	-	4	-	561	3	568
Thi-Qar	-	4	3	1374	3	1384
Meissan	-	5	2	782	8	797
Basrah	-	6	4	3191	22	3223
Total	6	94	69	34947	466	35582

Source: Calculated by the Researcher from different sources.

to the benefits of all channel members, which enhance the power and control over other channel members to serve their purpose of the State Trading Organisations.

The classification of channel members show the significant size of the State Organisations to exert power and may lead to significant comparisons.

2.2.6 The Educational Background of Top Management*

Many families in Iraq during the last few decades found difficulties in supporting their children in pursuing their studies for higher degrees. Even, the education system has not yet developed to offer varied or specialised programmes. Most of the higher education was received abroad and channelled to the Universities. But in the last few years many opportunities were offered and many students had pursued their studies for higher degree.

All the top management of the State Trading Organisations visited have had at least college education and only two of them have a postgraduate degree. Business administration was most common, but none of the General Managers and even their Marketing Deputy had any degree in marketing. In the State Trading Organisations visited, there were 5 out of 13 of top management who were graduates of business administration and who qualified in Iraqi universities (mainly Baghdad, El-Mustansyria and Basrah universities) (President, two general managers and two marketing deputies). Two of the General Managers only have a postgraduate degree (Master in Economics, Diploma in Cost Accounting). Four of the General Managers were graduate economists (one General Manager, two Marketing Deputies and the Head of Planning). Two of the Marketing Deputies were graduates of Law. One can conclude, therefore, that 38.5 per cent of the top management held a business qualification, 30.7 per

* We refer here to top management and all through the work, to President, General Managers and their Marketing Deputy who are mainly responsible for marketing planning.

cent held an economic qualification, 15.4 per cent held a law qualification and the rest held other degrees in social science, but no one of them held any qualification in marketing (Table 2.5). The procedures of hiring top management, mostly, that there were two important factors playing an important role in assigning a person to such a position. First, the seniority or how long a person had service in the organisation. Second, and most important is that most of the top managers were appointed to serve political aims. A well-developed strategic plan is merely an expensive report, but it becomes a viable tool when it is placed in the hands of a manager competent to execute the plan.

2.2.7 The Source of Supplies

The focus of management has shifted from one period to another as a result of environmental changes. The industrial revolution had caused an emphasis to be on the production. Latterly, the emphasis was shifted on finance because of shortages of capital but when the machines began to run smoothly and create a surplus in the output, emphasis swung to the marketing efforts. In the late 1950s, the "Marketing Concept" was developed in response to the increased production capacity of the industrialised nations. But this did not apply to all economies, e.g. in Iraq there was insufficient industry to produce enough goods. So, the main source of supplies for many goods was imports. It was not until the early to mid-1960s that management began to place increasing emphasis on the physical supply function as an integral part of the total marketing mission⁸ in the developed countries. However, in countries like Iraq it is still treated haphazardly, although importing goods costs millions of Iraqi Dinnars (on average between 40-60% of total investment, (see Table 2.6). Added to this, the primary function of wholesaling and retailing institutions is to offer goods at the right time, at the right place and at the right price. If one part of these is interrupted, the particular wholesaler or retailer will incur some costs (e.g. opportunity cost, rent, wages, loss of loyalty ... etc.). To avoid this, the wholesaler or a retailer should plan to ensure the availability of goods.

Table 2.57: The Educational Background of Top Management*
in the State Trading Organisations

	Qualification					
	Busi- ness	Economic	Law	Commerce	Accou- nting	Total
The State Organisation of Consumer Goods	1	1	1			
The State Establish- ment of Commerce		2				
The State Establish- ment of Iraqi Stores	1	1				
The State Establish- ment of Shopping Centres	1				1	
The State Establish- ment of Foodstuffs	1		1			
The State Establish- ment for Trading of Precise Instruments	1			1		
Total	5	4	2	1	1	13
Percentage	38.5	30.7	15.4	7.7	7.7	

* Top management refer to the president, General Manager and their Marketing Deputy.

Table 2.6: The Importance of Local and Imported Goods to the Total Purchases (1976-1978) Percentages.

The General State Establishment		1976 %	1977 %	1978 %
Foodstuffs	National	24,7	30,-	57,-
	Imported	75,3	70,-	43,-
Commercial	National	8,4	26,5	23,1
	Imported	91,6	73,5	76,9
Trade Precision Instruments	National	2,7	8,1	21,5
	Imported	97,3	91,9	78,5
Iraqi Stores	National	61,7	48,6	64,8
	Imported	38,3	51,4	35,2
Shopping Centres	National	-	11,5	2,2
	Imported	-	88,5	97,8

Source: Calculated by the researcher from different unpublished special reports

Hence, it was hypothesised that the State Trading Organisations should view the efficient flow of goods as an integral part of the total marketing mission, requiring detailed planning to ensure the availability of goods in order to achieve the State Organisations' objectives economically.

2.3 Critical Issues in the State Trading Organisation

The variables considered to have an important influence on marketing strategy are discussed below:

2.3.1 Objectives

Objectives are desired or needed results to be achieved by a specific time. These objectives have to be tailored to the reality of what can be achieved by the organisation state in readily measurable terms, not wishful thinking, given its competitive situation and available resources. In addition, objectives are needed to stimulate the creation of sound strategy, effective implementation and to offer guidance and motivation to individuals to perform at higher levels of efficiency and effectiveness. Moreover, planning can only be a useful function if objectives are properly chosen. Without concrete objectives, the entire planning activity can easily turn into a futile exercise. Furthermore, hierarchy of objectives flows from corporate to functional and to branch levels so that each level will be able to account for its own decision in order to reach objectives optimally.

The difficulty of setting objectives in the state enterprises rises because of the choice between to maximise their profit as rational organisations aimed to survive, or to help the government implement its own socio-economic policies. Survival of the State Trading Organisation is a fundamental aim. It should be recognised at the outset that rarely does a firm - state or private - literally maximise profits alone. Moreover, social demands on firms is increasing, they are under mounting pressure to behave in a way which does not just maximise their own economic goals but also satisfies new social demand.

It is true that profit-maximisation as such cannot be taken as the exclusive purpose of the firm. Indeed, survival or continuity are important concerns to a firm. And firms are certainly under pressure to rationalise their appetite for economic profits and take some of the society's well-being and development needs. Still, profit should be considered a private enterprise's fundamental reason for being in business. Ansoff indicated that the privately owned firm has 'economic' as well as 'social' or non-economic objectives, though the former (e.g. maximise long-term returns on resources employed) are the central purpose of the firm and exert the primary influence on the firm's influence.⁹ "In the context of strategy formulation, profit must be regarded as the fundamental *raison d'entre* of the private firm; once exogenous and endogenous constraints or intervening variables are taken into account, it is still the underlying end to be pursued."¹⁰

Does the same hold true for the State Trading Organisations? The economists indicate that the purpose of a company is to maximise the returns of the stockholders. This is fine when privately owned firms are considered, where the stockholders' goals in investing in a firm is to receive the highest possible profits. Thus, the expected returns from the investment are financial. But for the State Trading Organisations this may or may not be the case. The owner is the government. The returns it expects may not necessarily be only financial. The government may want the State Trading Organisations to make certain investment in some products or markets which are not lucrative for these Organisations themselves but which are desirable for the government. Indeed, government may well require the State Trading Organisations to behave in a way which is different from what the Organisations would do were they to respond solely to free market forces. Thus, it appears that the State Organisations have two kinds of objectives. The first being what is called 'profit objectives' when the organisation seeks profits and no government expectation imposed on it. The second objective is called 'social objective' when the organisations are concerned with fulfilling socio-economic demands and national planning objectives, so that organisations no longer respond to

market forces but to specific demands of the government. This may cause difficulty in setting clear and quantified objectives and as a result it will not help to develop effective strategy. Therefore, it is hypothesised that unclear, unquantified and qualitative objectives will not result in developing effective marketing strategies.

To guide the data collection and provide a framework within which the information obtained may be structured, the most important factors which characterise marketing strategy development in the State Trading Organisations, and the extent to which they differ from those influencing management in private enterprises, will be defined and discussed. Without such a framework, the research data would not adequately reflect the characteristics determinants of marketing strategy in these Organisations, and some useful insights might not be obtained. For this purpose, the juxtaposition of business goals and political goals commonly used in economic and policy literature respectively, is not by itself very useful. Those categories are too general and vague to enable data to be sifted in a form relevant to the complexity of the problems facing managers in formulating a strategy in these Organisations. What is required is an adaptive framework based on strategic concepts, which can be operationalised by managers. Various approaches to developing a marketing strategy can be found in the literature. Although these are helpful to researchers, in order to assess their relevance to this study, an attempt is made to describe the critical elements of marketing strategy in the context of state enterprises as perceived by management actively engaged in that field as well as by previous researchers. In doing so, insights can be obtained into the complex problems managers encounter in formulating marketing strategies in the state Organisations. In the process, the essential characteristics of the type of analysis required for developing an appropriate strategic marketing planning approach will be defined.

2.3.2 The Structure of the Organisation

Organisation structure refers to the relationships, roles and interactions that have a pervasive influence on how strategies are determined and executed. Organisations ideally function as coordinating mechanisms that facilitate coping with strategic problems. Several studies have stressed the importance of organisation in implementing a successful strategy, because "a plan has little value if the organisation planned for is not capable of carrying it out."¹¹ Hence, "taking the organisation's structure for granted may deprive the planner of his most powerful means of improving its performance."¹² It is important to consider that the corporate organisation and its people are not only the means through which strategy is implemented, they are the major constraints. Rowe et al refer to the dynamics of organisational changes as the organisational life cycle.¹³ The changes evolve when the environment demand such changes for each stage of change. Moreover, "each structure facilitates a certain set of processes that also must fit the product-market strategy being pursued."¹⁴ In Iraq, during the years 1975 to 1982, three crucial and comprehensive changes in the State Trading Organisations' structure come about which have strong impact on the development of marketing strategy in these Organisations (amended Law No. 97, 1975 and the State Organisation of Consumer Goods' Constitution No. 21, 1982).

Therefore, it is hypothesised that a carefully designed and established organisational structure, commensurate with demand of environmental changes is of crucial importance in developing and implementing a marketing strategy being pursued.

The reasons behind this are:

- 1) The organisational structure changes are based on individual or authority decisions, through - Law No. 97, 1975, and Constitution No. 21, 1982.

2. The period of changes was not enough to implement or evaluate a strategy.
3. Accelerating changes may not be without a high price, particularly in human dislocation, not only for the obvious victims of the accelerated change rate, but for the managers and changers themselves. They may also find difficulties to adapt themselves so rapidly to these changes, or may pay heavy psychological penalty for too rapid rate of changes. This is revealed in concentrating the efforts of the State Trading Organisations' managers on short-term plan and unenthusiasm to long-range strategies.
- 4) The organisationsl challenge is similar to building a house on a constantly shifting ground, not ruining the house as a whole every time as it happened in the State Trading Organisations.

2.3.3 The Role of the Organisation

The essence of the marketing concept is to keep the consumer in mind constantly and that policy has been successfully adopted by most progressive organisations. The important questions to be answered before marketing planning can be successful are: (a) who are the consumers of the organisation? (b) whom does the organisation want to have as consumers? (c) what needs are the organisation now satisfying? What kind of needs does the organisation want to satisfy in the future? The answers to these questions will enable the organisation to determine the strategy to be employed in order to reach current and future consumers.

The top management of the State Trading Organisations have recognised the importance of keeping consumers in mind and satisfying their prime needs and wants, and this is well documented in the Political Report of 1982. But a consumer will not be convinced that this is the case when he goes to the market and caannot find what he wants, so paying lip service towards keeping consumers in mind will not be sufficient; their demand must be met. With limited

resources, it is difficult, if not impossible, to serve a large number of people with diverse needs and wants, so the State Trading Organisations have to select particular market segments to be served and needs and wants to be satisfied. This is necessary so that they can be analysed and future trends can be forecast. Furthermore, "one of the key elements in strategic business planning is deciding what priorities to place upon a firm's various business areas, including in some instances eliminating products and choosing not to serve certain markets."¹⁵ But this approach may not be adequate for developing an effective marketing strategy in the State Trading Organisations. These Organisations have a more difficult role than their counterparts in the Communist countries or in Europe. While the State wholesaling and retailing institutions in the Communist countries simply distribute available goods and European organisations generally select their niches in a market and build their strategy based on pursuing competitive advantage, the tasks facing the State Trading Organisations in Iraq are more complex. Firstly, the State Trading Organisations have to serve the long-term aims of the government. Secondly, the consumer in Iraq has been influenced by the Western style of living and his income allows him to copy that style. Thirdly, the government has given a role to the private sector in the field of wholesaling and retailing and given the State Trading Organisations responsibility for leadership in internal trade. So, the State Trading Organisations have to define their role and business function explicitly in order to contribute to the development of a successful marketing strategy. In practice, it is still rare to find specific attention being paid to how the business role should be defined in Iraq. During the 1980s, the State Trading Organisations failed to recognise the importance of defining their role properly and tried to serve all the markets although their needs and wants were diverse, thereby incurring problems in terms of shortages, black markets, and market disturbances. This resulted in criticism by the government and President Hussein insisted that the private sector should be given more responsibility with the State Organisation's role being redefined in an attempt to remove the source of complaints.

The main reasons for this situation are that:

- (a) The State Trading Organisations have tried to offer goods and services to all segments of the markets, within their available resources and management capabilities, which made it difficult to serve diverse wants and needs, resulting in shortages and unbalanced market.
- (b) The State Trading Organisations require to define what consumers needs and wants are to be met, and to do this, research must be undertaken to assess the current situation and allow changes to be predicted. Once they understand consumer needs, the Organisations will be in a much better position to direct marketing programmes that will satisfy those needs successfully and hence will coincide with market demand.¹⁶ This can also help to allocate resources according to the priorities set by top management.
- (c) After 1972, increasing consumer affluence expanded consumer choices considerably and planning emerged as a crucial marketing function to be employed by the State Trading Organisations in order to cope with the accelerating environmental changes. Room was also left for the private sector to satisfy particular needs and wants and in the last few years they have been encouraged by the government to do so.
- (d) The broad definition of their business resulted in fragmentation of sales, distribution and service activities.
- (e) Without a clear understanding throughout the Organisation of how the business is currently defined and may be defined in the future, there may not be a sufficiently clear sense of organisational purpose. Thus, the myriad of strategic and tactical decisions made up and down the Organisation may lack coherence and internal consistency.

- (f) Defining market levels in keeping with a more precise market setting is crucial to successful strategy. "Targets are defined operationally, and performance can later be evaluated."¹⁷

The importance of a firm's business definition has been widely recognised as the basis for formulating a sound strategic market plan (Abell, 1980, Frazier and Howell, 1983 and Day, 1984). Ambiguity in terms of their role and lack of explicit definition by the State Trading Organisations has impeded the development of effective marketing strategies and caused serious problems. Thus, it was hypothesised that defining the State Trading Organisations' business in explicit terms is an essential prerequisite for determining their strategic marketing plans which, in turn, will affect their performance.

2.3.4 The Effect of the National Development Plans on the State Trading Organisations' Marketing Strategy

Although some literature shed light on the contribution of marketing to economic growth (Baker and El Haddad, 1981; Kinsey, 1980; Slater, 1975; Riley, 1972 and Raston, 1965), it is generally recognised that too little attention has been given to the link between the planning in the firms and the national development plans. The rights of buyers and sellers are embedded in law and serve as planning premises for the practical thinking which has contributed much to the development of marketing tools, marketing strategy and marketing structuring. National development plans were aimed to achieve specified overall national objectives within a given period. So, the cooperation of the State Trading Organisations in implementing the national development plans is vital.

To achieve this, Government intervention through price support, ceiling, restrictions, control of foreign trade, quotas, allocating resources for the State Trade Organisations and setting target growth of the economic sector could be the most effective instruments of coercion. These will affect the market mechanism, and thus the strategic and operational decisions of the State Trading Organisations because the requirements of development will impose certain priorities on the direction of policy taken.

Because of this it was hypothesised that the National Economic Development Plans with their resultant laws and procedures (whether imperatives or indicatives) would have a decisive impact on the formulation of marketing strategy in the State Trading Organisations outweighing that of competition or other external environmental factors. Further, although these plans impose certain constraints on the freedom of decision-making in the State Trading Organisations, they also offer certain opportunities to be exploited.

2.3.5 Management Tenure

It is important to note that the general manager needs to understand the organisation's behaviour, needs to prepare his plans, implement them, and evaluate their implementation to correct the deviation if it happened. This of course takes time and may last several years. So, changing top management so often may have an impact on undertaking or installing a strategic plan.

It is hypothesised that the higher the turnover of top management the less emphasis there will be on the strategic plans and the more short-term plans will receive increasing attention of top management.

The continuity of President, General Managers and their Marketing Deputy in the State Trading Organisations is less than might be expected and certainly less than that prevailing in the developed countries. Recognising that the General Manager in the State Trading Organisations dominates all the management activities, immerses in day-to-day operations, and tries to imprint his personality on the behaviour of the organisation. So, changing a general manager may result in changing the whole system of the organisation. Hence, this pattern of changing has a serious impact on the State Trading Organisations' plans, their outlook of the future and their attitude toward strategic planning.

Further, such discontinuity has an impact on the planning process and the attitude of the General Manager toward the pattern of planning. For example, General Managers concentrated their efforts on day-to-day operations to gain the satisfaction of their superiors. Secondly, such a high level of management insecurity may create adverse motivation effect, and lead to decisions which are not in the best long-term interest. Repeated replacement of the general managers will also tend to create instability in an organisation's marketing strategy, since each manager may have different views and ideas, although they share the same ideology, about the best ways of achieving the State Trading Organisations' objectives and goals.

It seems that this problem of lack of continuity of top management does prevail in other developing countries, perhaps to a lesser degree. Richman, discussing Indian firms, commented that "Most of the U.S. subsidiaries we have studied change their Managing Directors every two to three years."¹⁸

2.3.6 Freedom of Decisions

The State enterprises may have different characteristics than those of the privately-owned firms. One of the key differences is that the state enterprises have fewer degrees of freedom within which to take their decisions or to plan. The main reasons is that the state enterprises are founded and their activities are laid down by statute and generally confined to a particular industry. So, the expansion of their activities or withdrawal from others are heavily circumscribed. In addition, the state enterprises are compelled to obtain all their finance from the government which limits their ability to raise equity finance to exploit the available opportunities. Moreover, in the previous section, it was mentioned that the government imposes certain courses of action which may affect the freedom

to follow particular strategy, e.g. prices, market share, etc. Finally, the major decisions which need to be taken require ultimately government endorsement to be effective. All these factors affect the strategic planning in the state enterprises, because although they find simply fewer possibilities to consider, they make the task of agreeing on and implementing such plans much more difficult. Therefore, it is hypothesised that the degree of freedom enjoyed by top management concerning the strategic decisions in the State Trading Organisations has a strong influence on the development of effective marketing strategies.

Summary of Hypotheses

The hypotheses discussed previously can be summarised as follows:

- 1) The State Trading Organisations operating in a centrally planned economy have more opportunity to develop strategic marketing plans than their counterparts in privately-owned firms in the Western countries.
- 2) The complexity of the environment of the State Trading Organisations, its accelerating changes and its strong political orientation reduce the opportunity to develop an effective marketing strategy.
- 3) Unprecise definition of the business of the State Trading Organisations and unspecified boundaries of their product/market result in an ambiguity of their role and in developing ineffective marketing strategy.
- 4) Unclear, unquantified and qualitative objectives set in the State Trading Organisations result in developing less effective marketing strategies.
- 5) The strategies of the elements of the marketing mix reflect strongly the political orientation of the business and ideological beliefs of top management in the State Trading Organisations.

- 6) The skills and experience available in the current planning system of the State Trading Organisations have a strong impact on the development of ineffective marketing strategies.
- 7) The higher the turnover of the top management - President, General Manager, and Assistant General Manager - the less emphasis is placed on strategic plans and the higher attention is paid for short-term plans.
- 8) The degree of freedom enjoyed by top management concerning the decision-making in these Organisations has a strong influence on the development of effective marketing strategies.

2.4 Review of Related Literature

The growing interest in strategic marketing planning is not exclusive to private enterprises, it extends to the state-owned enterprises. This is due to the fact that the state-owned enterprises play an important role in the national economy for many countries, particularly the underdeveloped countries and have gained an increased share of their markets. This growth has been stimulated by more attention being paid to the development of a strategy in the literature on strategy and by the effects of social forces' pressure on the efficiency and effectiveness of state-owned enterprises. Moreover, the interest is growing as a result of the recognition of the importance and effects of the success of the enterprises on the success of the economy as a whole, any national economic development plan can not succeed and achieve its objectives unless the enterprises contribute successfully to achieve its programmes. Further, although the state-owned enterprises suffer from constraints stemming from government policies and programmes which may pose some threats, they have many opportunities which can be exploited. So, the aim of this section is to discuss how the state-owned enterprises become interested in strategic marketing planning in underdeveloped countries particularly Iraq, and what they should do or what should be their strategy content.

To highlight these developments or changes, we will discuss the following topics in a historical context: the concept of strategy, concept of corporate strategy, strategic planning, strategic marketing planning, strategic marketing planning and the state-owned enterprises and as related to those enterprises in Iraq, particularly to state-owned organisations which are wholesaler/retailer organisations. The researcher makes no pretence to include a list of all that has been written, but rather includes mainly those sources that have been most useful for this study.

Concept of Strategy

The concept of strategy is found in the political science, industrial organisation, cognitive psychology and business policy

literature. Its origin connoting military terminology has been recorded across the human history, from the Trojan Horse to Pearl Harbour to the Yom Kippur war (Ansoff 1977, p 53).¹⁹ But as an organised concept was used in a case study course developed at Harvard Business School for senior executive officers. The case study as a methodology has been used for many years to study strategic management and planning, (Row et al, 1982, p 13)²⁰ which its primary emphasis is on analysis, identification of alternatives, the process of strategic planning and the strategic choice. Strategy is, then, widely used as a term in recent organisation, business policy and marketing literature, but there is no generally accepted meaning of planning and plans (Steiner, 1969, p 5)²¹. Many different terms have been used to describe the planning process in business organisation. The concept of strategy has emerged to meet the need and to help the practitioners to translate the turbulence of events and decisions they faced into an orderly way within their environment. Strategy is, then, a unified, comprehensive and integrated plan relating the strategic advantage of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprises are achieved (Glueck, 1980, p 9)²².

Concept of Corporate Strategy

As we mentioned earlier, that many different terms have been used to describe the planning process in business organisation, among them are long-range planning, strategic planning, business planning, market planning and strategic marketing planning (Rosenbloom, 1980, p 92; Abell and Hammond, 1979, p 3)²³. Thus, planning process that is called by one corporation long-range planning may be called by another corporate strategy or strategic planning.

In conglomerates and multiple-industry firms, the business often introduces a level of strategies between the corporate and functional levels. In some firms, these units are called "operating divisions", or more commonly, SBUs. In these firms, the strategies of these units are guided by the corporate strategies (Glueck, 1980, p 10)²⁴.

It was not until the last two decades that extensive empirical and conceptual research of corporate strategy was undertaken. Early efforts were directed toward defining or delimiting of organisation strategy. Chandler (1962, p 13)²⁵ defined it as:

"determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out the goals."

Chandler's definition reveals some of the salient characteristics of corporate strategy which are: (1) it is future-oriented, (2) it includes the determination of goals and objectives, (3) it involves the allocation of the company resources and (4) it is long-term perspective.

Ansoff (1965, p 97)²⁶ viewed strategy as the "common thread" among organisation's activities and product/markets that defined the essential nature of the business that the organisation was in and planned to be in in the future. Then Ansoff defined the components of such common thread which are (1) a product/market scope, (2) a growth vector, (3) competitive advantage and (4) synergy.

The Ansoff discussion of strategy is narrower than of Chandler. Hofer and Schendel adopt the narrow concept of strategy and consider goal setting and strategy formulation to be two distinct although interrelated processes (Hofer and Schendel, 1978, p 20).²⁷ Thorelli (1977, p 28)²⁸ defined strategy as:

the primary means of reaching the focal objective.

The focal objective is whatever is in mind at the moment. Another called strategy long-range planning, so Drucker defines it as:

"It is the continuous process of making present entrepreneurial (risk taking) decisions systematically and with the best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions, and measuring the results of these decisions against the expectations through organized, systematic feed-back."²⁹

Current definitions emphasis the concern of strategy with the relationship between the organisation and its environment, which it was not explicitly included by Chandler. So, Hofer and Schendel (1978, p 25)³⁰ define an organisation's strategy as:

"fundamental pattern of present and planned resource deployments and environmental interactions that indicates how the organisation will achieve its objectives."

In sum, strategy can be defined as the match an organisation makes between its internal components and the opportunities and threats imposed by its external environment.

The research on the concept of strategy had an impact on business practices and stimulates many firms to adopt strategic planning to conduct their business. But, it was characterised by its generality and it provided few answers, so the firms were "left to 'their' own devices to develop answers to 'their' industries and their competitive situation. Thus a vacuum was created, one that caused many managers to look for ways to fill it given the high stakes involved."³¹

At this period, the management planning literature was giving little attention to marketing, although strategy was essentially marketing oriented in its recognition of the need to match products and markets, it was not developed within the domain of marketing. In the strategic literature, marketing was considered as information provider, and it has few useful concepts to provide. Marketing planning, also, was usually treated as a tactical functional activity, and sometimes represented as budgetary process for controlling market activities to achieve strategies determined elsewhere in the organisation. Marketing managers seem prone to rely too much on present tactics and too little on future strategies, because "the immediate accountability for profit may cause even the most sophisticated marketing manager to become sales-oriented rather than customer-oriented."³² Such decisions based only on short term considerations can negate the development of long-term markets for the firm.

Strategic Planning

As mentioned earlier, a vacuum occurred because firms were left to their own devices to develop answers suitable for their situation. This situation has produced many practitioners, consultant firms and scholars to fill this gap. The gap or the vacuum was filled by many kinds of analytical tools such as experience curve, growth/share matrix, McKinsey/General Electric/Shell Screen, Product Life Cycle, PIMS, ... etc. This was termed by Porter³³ as "strategic planning concepts". These concepts have had and continue to have, an impact in the field of strategic planning, and as the markets are facing a world that is future-oriented, the concepts of strategic planning are commanding more and more attention revealed in discussion of these concepts which occupies the pages of academic journals, and pointing them out in the annual reports of many companies, because each research has its strength and applicability, and its limitations, weakness and ununiversality, due either to questionable assumptions and use of surrogate relationships or to methodological problems, or these models or frameworks provide strategic recommendations that are either too general (e.g. harvest, grow, divest) or often difficult to implement (disinvest "dogs" (Sheth and Frazier 1983, p 100).³⁴ (e.g. Fruban challenged the Challenged Chevalier and BCG Findings that they are not universal but situational in character) even his findings are subject to criticisms).³⁵ Some of these studies did not focus on marketing in their strategic studies and their interests lay in strategic business units (SBUs) and divisional resources allocations.

Strategic Marketing Planning

An examination of marketing literature makes it apparent that "marketing journals and texts have so far given little or no consideration to this subject (strategic planning) (Wilson et al, 1979, p. 65)³⁶, until the last few years. In recent years, the issue of marketing strategy has gained greater consideration revealed in

enormous amounts of researches and texts tackling the subject. As a topic of notes, it emerged with some force in the latter half of the 1960s. In 1965, Kelley referred to marketing management as "resting on the hard core of effective and scientific marketing planning,"³⁷ and points out that the acceptance of marketing planning as an important aspect of marketing management was at that time quite new. Since then, several articles and books have been written which attempt to provide a perspective of marketing planning and empirical descriptive study has been published (Miller, 1967)³⁸ and other descriptive study (Brion, 1967)³⁹. This has shown rapid development and corporate adoption. Emphasis of planning has centred on strategic planning.

Strategy, from a marketing perspective, can be viewed in a number of ways. The most basic dimension is the role of marketing in corporate strategy. Each of the functional area (marketing, finance, production ... etc.) strategies is considered as an "extension of corporate strategy and when aggregated they provide substance and meaning to the firm's overall strategy. Each strategy statement in the hierarchy stresses the critical elements which must be emphasized to achieve the firm's overall strategic objective."⁴⁰ All the descending level of the hierarchy is the short-term planning of operational marketing activities. Sometimes the latter are called marketing plans. However, many companies' business strategies do not have a distinct and separate marketing strategy, though essential marketing components such as objectives and tactics are included in the strategy documents. In less developed planning systems, marketing inputs may be little more than sales forecast, and outputs to the financial budget.

Another dimensional view is that marketing strategy is essentially the same as marketing management. Victor J Cook defines marketing strategy as an investment in the marketing mix variables in order to achieve strategic objective.⁴¹ Others view marketing strategy as the process of developing objectives and plans for achieving long run competitive advantage.⁴² According to John Sculley, President of Pepsi Cola "Marketing strategy is a series of integrated actions

leading to sustainable competitive advantage.⁴³ Others consider marketing strategy consists of (1) assessment of the firm's objective in the light of changing environmental factors, (2) development of competitive strategy and (3) a deliberate marketing resource allocation.

Cravens (1982, p 18) combined the view, marketing management and other view of strategic management to define marketing strategy as the process of:

- 1) Strategically analysing environmental, competitive and business factors affecting business units and forecasting future trends in business areas of interest to the enterprise.
- 2) Participating in setting objectives and formulating corporate and business unit strategies.
- 3) Selecting target market strategies for the product-market in each business unit, establishing marketing objectives and developing, implementing and managing marketing program position strategies for meeting target market need.⁴⁴

While Subhash Jain explicitly distinguishes marketing strategy from marketing management when he says, "strategic marketing concentrates on the markets to be served, the competition to be tackled, and the timing of market entry/exit. Marketing management deals with developing a marketing mix to serve the designated market."⁴⁵

There is value in distinguishing between marketing management and marketing strategy, although there is an overlap between the two. In the marketing literature today, the most fundamental concern is with target market selection and the design of the marketing programme or mix. This literature "has not focused on the mission of the firm nor on how to gain competitive or consumer advantage, although such issues may be implicit in the marketing management perspective."⁴⁶ Recently, too, this perspective has been criticized for its short run bias. By contrast, marketing strategy addresses issues of

gaining long run advantage at the level of the firm or strategic business unit.

We may recognise that marketing strategy - quest for long-run competitive and consumer advantage - may sound synonymous or has a high degree of overlap with business strategy. It is recognised that marketing strategy is a major component of business strategy, since the "marketing develops strategy based on analysis of consumers, competitors and other environmental forces which should be combined with other strategic inputs (such as financial, product, technological and human resources analysis) to arrive at an integrated business strategy. Business strategy does rely heavily on marketing strategy, and many of the business strategy paradigms are based on marketing variables including market share, market growth and target marketing decisions".⁴⁷ But they tend to ignore the fundamental marketing perspective that calls for an empirical assessment of consumer responses to the strategic options, and the specific formulation of these paradigms is the domain of marketing strategy. Much of the current thinking is concerned with the second perspective of marketing strategy. Kotler's⁴⁸ view treated marketing plan as the outcome of a strategic process rather than the entire process being one of planning.

Wholesale Strategy

As we mentioned earlier the word "strategy" has been used in a variety of ways. Its most common usage has been in connection with the individual elements contained in the 'marketing mix', e.g. product strategy, price strategy, promotion strategy and channel strategy. The latter can be divided into strategy of each channel member (e.g. agents, distributor, wholesaler, retailer ... etc.).

There is an argument that wholesaling executives by tradition and experience tend to be oriented to the very short term. They are used to reacting quickly to meet the problems of operating their businesses in a rapidly changing and competitive environment. Strategic planning, however, requires a longer range and more sober

posture if it is to be done effectively. But recent studies evidence a trend toward more systematic of theoretical relationships, these investigations have typically been confined to a single wholesaler within a particular industry (e.g. Stephenson, 1976, 1978; McCammon, 1978, 1980).⁴⁹ Most previous literature on wholesaling has dealt with questions of wholesale viability in a particular channel (Revzan 1961; Bucklin, 1972).⁵⁰ It is still heard cutting out the wholesaler occasionally, but census figures over the last three decades show an increase in the number of wholesale establishments, dollar sales per establishment and the ratio of wholesale to retail sales. It appears, therefore, appropriate to direct the research emphasis from one of viability to that of the role of the wholesaler as an influential member of the channel system.

Retail Marketing Strategy

Retailing executives have generally been slow to adopt strategic planning as an integral part of their management style (Rosenbloom, 1980, p 107)⁵¹. They tend to react quickly and decisively to meet their day-to-day operation in a rapidly changing and competitive environment. So, they tend to be oriented to the very short term actions. But there is an argument that very good prospects exist for more widespread application of strategic planning (Rosenbloom, 1980, p 67) and a flurry of studies have been published. Some of the literature are normative in character. There are many examples of these in the literature. Topics include formulating retail location strategy (Ghash and Craig, 1983),⁵² labour productivity in retailing (Ingene, 1982)⁵³, stores image and positioning (Pessemier, 1983)⁵⁴, image as a component of attraction⁵⁵... technological changes and store operations (Bucklin, 1983)⁵⁶. Other studies are grounded in "mathematical statistics and mathematical economics"⁵⁷ (e.g. inventory policies, shelves allocations, depot locations ... etc.). Some of the literature builds a model that is so sophisticated that it does not work the way the model builders thought it was - or should be - operating. (Quinn, 1981, p 42)⁵⁸. Other studies are descriptive in nature (e.g. Rosenbloom, 1980; Kristenson, 1983; Soldner, 1976; Berman and Evans, 1979 and many other studies).⁵⁹

These studies are characterised by its generality and the firms are left to their own devices to get an answer to their particular situation. Although strategic planning has played a very small role in retailing, it has good potential for more applications if it is adapted to its changing environment and attuned with its flexible situation to the retailing circumstances.

State-Owned Enterprises and Strategic Planning

State-owned enterprises have received growing interest stemming from increases of their volume in trade (Jif, 1983, p 35)⁶⁰ and economy (Capon, 1981, p 14)⁶¹, increased government intervention in many economic activities, and the effect of government policies and programmes on competition and market system (Grether and Holloway, 1967, p 19; Arndt, 1983)⁶². An examination of the literature makes it apparent that the studies that have been done are tentative or preliminary (Grether and Holloway, 1967; Capon, 1981)⁶³ or descriptive (Jif, 1981, 1983)⁶⁴. Some of the researchers share curious quality, they view such enterprises from a considerable distance. "Much of the literature, for instance, analyses the position of the enterprises in terms of law or public administration, or weight their contribution to the macroeconomic objectives of the state, ..., or criticizes their shortcomings in large and general terms." (Vernon, 1981, p 7)⁶⁵. They need close, honest and unbiased research.

Strategic planning has barely penetrated the mind of decision-makers in the public sector, because "in the light of the largely private sector experience with strategic planning and the sophistication of the techniques, the danger of costly failure in public sector application is clear and present, (Eadie, 1983, p 447)⁶⁶. The territory will not long be virgin. Scarcity of resources, service demands, efficient and effective performance, place state-owned enterprises under great pressure to apply better planning techniques. There is a good potential for applying strategic planning methods if they are tailored and adopted to such organisation accountability and situation.

State-Owned Organisations of Trade in Iraq and the Strategic Planning

To the researcher's knowledge, applying strategic marketing planning to the state-owned Trade Organisation in Iraq has never been subjected to a thorough analysis, despite its critical importance to the public welfare and its quantitative significance to the Iraqi marketing system. The studies that can be mentioned are (Mandel, 1980 and Al-Muathen, 1977).⁶⁷ When Mandel discussed the marketing concept, he mentioned that marketing should adapt to the Iraqi situation, but did not explain how. Then, the work is simple and general. Al-Muathen has focused on the marketing system in Iraq and studied a number of private and public industrial firms. So, his findings are restricted to his situational area of study. Hopefully, by treating the topic at hand, a contribution will have been made by adding the Iraqi data to the growing stock of state-owned organisation marketing strategy information and the gap concerning the neglect of marketing strategy in state-owned trade organisations in Iraq development will have been partly filled.

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PART TWO : ENVIRONMENTAL FACTORS AFFECTING MARKETING STRATEGY.

Chapter 3: SOCIAL-CULTURAL DIMENSIONS.

Chapter 4: POPULATION AND DEMOGRAPHIC DIMENSIONS.

Chapter 5: MARKETING INFRASTRUCTURE DIMENSION.

Chapter 6: LEGAL-POLITICAL DOMAIN.

Chapter 7: ECONOMIC VARIABLES.

PART TWOEnvironmental Factors Affecting Marketing Strategy

Coping with the constantly changing environment is an important determinant of an organisation's success or failure. Therefore management "must incorporate the external environment into decisions that are made regarding strategic plans for an organisation."¹ Social, geographic, economic, political, competitive and technological factors can have a major disruptive impact on organisations. So, these factors must be identified and analysed and their effects on the organisation forecasted. "Environmental analysis and forecasting are major activities in deciding how to develop corporate strategies."² Not-for-profit as well as profit-seeking organisations face changes in social, income, competition, government support and regulations. So, the organisations have to cope with these changes in order to survive and grow. Based on the previous discussion, the next four chapters will highlight and examine the environmental factors that have an impact on the development of the marketing strategies of the State Trading Organisations.

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CHAPTER THREE

Social Cultural Dimensions

Introduction

Few businessmen, consultancy firms and scholars would today argue seriously with the proposition that certain events which take place outside the organisations may have a far more important effect on the organisation's performance and results than any internal factors. For example, the nationalisation of Iraqi oil in July 1972 involved significant changes in the environment in which the Organisations operate and may well determine their survival and growth, depending on their ability to adapt to such changes. The Organisations' ability to control external changes in the environment is considerably less than its ability to control its internal operations. This emphasises the fact that the external environment of an enterprise is one of the major determinants of its strategy.¹ Thus, the information required for strategic purposes may be significantly different from those required for day-to-day operations.

The evolution of a carefully formulated strategic plan should include consideration of external environmental factors when decisions are made within an organisation. In considering the strategic environment appraisal, the initial problems to be tackled are "what is meant by a firm's environment and how to generate adequate systematic information about it."² Economic, political social and technological factors can cause a major disruption or have a positive impact on the organisation, which has to be adapted and managed with due consideration given to these external factors. Thus, a "successful organisation is one that can balance external demands with its internal capabilities."³

Underdeveloped countries have their own economic, political, social and technological conditions, problems and goals which differ from those of their counterparts in advanced countries. A marketing

planner should understand the marketing implications of these differences if he wants to plan an appropriate marketing strategy in an underdeveloped country (e.g. implementing the marketing concept in terms of marketing strategy in underdeveloped countries is quite different from doing so in advanced countries.) Iraq as one of the underdeveloped countries has its own political vision and programmes relating to changes, and economic, social and technological conditions, particularly after 1972, have had a major disruptive impact on organisations. The following chapters will focus on these conditions (social, economic, political and technological dimensions), analyse them and examine their effects on marketing strategic planning and determine whether they are imposing threats or creating opportunities. This may enable a more appropriate strategy to be designed, instead of relying on haphazard methods. A start will be with the social dimensions, because they "constitute the context in which all human actions, including management, take place."⁴

The need for analysis of social conditions has become increasingly important because of the growing pressures on organisations to meet both social and economic criteria. "Culture refers to the complex of values, ideas, attitudes and symbols created by man to shape human behavior."⁵ The cultural norms are almost unconsciously adopted by members of a given society. Their perspective of the world, others in the social system, the institutions with which they interact, the products they purchase and their perception of time and events are important to marketing strategy, because they are accepted by many people who constitute market segments, and variation in cultural norms acceptance are often a useful way to segment markets.⁶ Changes in the social-cultural condition are discussed and examined below.

3.1 History

Iraq is a very ancient nation, its history going back thousands of years B.C. ('Al-Warkai' 6500-3400 years B.C., Hammurabia, Sumerians, Al-Abbaseen, ... etc.). From the earliest settlement of

the Sumarians, nearly four thousand years B.C., and a series of settlements up to the 11th century A.D. made a unique contribution to the civilisation. The land has nurtured some of the earliest of the world's recorded civilisations.⁷ The Hammurabai Code organised and coordinated transactions in the market place between sellers and buyers. It is known as one of the earliest codes written to organise the relationships between individuals. The era of the Caliphs Abbaseen was one of the most flourishing periods in Iraqi history. It lasted for centuries, during which ideas relating to science and the arts produced by other nations such as the Greeks, Persians and Indians were gathered together, analysed and developed further to form the foundation of new modern sciences. During the Haroon Al-Rasheed Calipha era, symposiums were held for scientists, artists and scholars to discuss their views, and many works were translated, and scientific work was encouraged. This period was called the 'golden era' during which agriculture and irrigation developed rapidly. Most interesting is the fact that the Iraqi population was then thirty million (30 million) more than double its present population. (Iraq's population in 1980 was approximately 13.2 million). At this period, too, was founded the first university called 'Al-Mustansriah' whose buildings still stand in Baghdad today.

Unfortunately such development did not continue. Wave after wave of invaders and rulers caused serious disruption and ruler after ruler was unable to rebuild the country for a number of reasons. The cycle of productive civilisation followed by a destructive invasion was repeated frequently in Iraq with extremely adverse effects. The worst of these invasions took place in the 13th century when a large scale invasion was carried out by the Mongols. The worst result of this invasion was the destruction of most of the books and the sources of the sciences and the arts were thrown into the river Tigris. Many historians reported that as a result the river turned blue and red colour. The damage was very costly, not in the economic sense but in terms of the knowledge and informations lost. Iraq, was then occupied by Ottoman Turks who replaced the Mongols in the 16th century. Their rule lasted for four centuries during which Iraq was a neglected and poverty-stricken outpost of

the Turkish Empire.⁸ After World War One, Iraq came under the British mandate until it received its autonomy in the 1930s. During these last two periods, no significant changes occurred. Important changes did take place after the revolution of 14th July, 1958, which aimed at changing the economic structure and achieving certain social and economic goals. To that end, plans were drawn up to improve the economic sector and the standard of living of the Iraqi people. But these plans did not achieve their objectives for various reasons - e.g. the design of the strategies devised was not successful. The turning point in the history of modern Iraq, however, was achieved on 17th July 1968 and even more after 1973 when the revenues from Iraqi oil became fully under the control of the Iraqi government. The economy and the aspirations of Iraqi people acquired a new character, and the first comprehensive five-years plan was embarked on in 1970. Since 1973, Iraq has undergone many changes in its economic, technological and social conditions which have had an important impact on the marketing strategy of the Organisations, because national and personal incomes have more than doubled since the 1950s. Imports in 1978 totalled 5,842 million dollars while the national income approached 10,000 million dollars, indicating that people's consumption of goods and services rose substantially and demand also grew. This is apparent from the increased volume of the Organisation's sales and the increase in the number of product lines. Further, knowledge of the country's history constantly motivates the Iraqi people to exert greater efforts to restore Iraq to its former glory and this also provides a motive for the government to establish plans to achieve the objective of transforming Iraq into a developed country.

3.2 Geography

The geography of Iraq affects the marketing strategy of the organisations, because they are organised and operated on a national scale and offer their services to all cities, the main provinces, and some large villages. So, accessibility to these areas and the smooth flow of the shipment of goods is essential for effective performance. The environment itself is constantly changing, so the organisations

should consider all the factors related to their long-term success (e.g. the movement from rural to urban areas and the location of new communities). Further, the location of the country in relation to its sources of supply, to important markets for exports (or imports), and to extra-territorial transportation routes is another vital element.¹⁰ Iraq has a number of geographical features which have an important impact on the organisations' performance. The following sections deal with these features and examine their impact on the organisations' marketing strategy.

3.2.1 Regions and Cities

Iraq is divided, administratively, into three main regions, which are:

- 1) The North Region
- 2) The Middle Region
- 3) The South Region

Each region consists of a number of cities, provinces and villages, but the numbers differ from region to region. For example, the North region has five cities, the Middle eight and the South five. The Middle region, the largest and most important, houses the central government administrative machinery in the capital of Iraq, Baghdad which has a distinguished history. The capital's population in 1980 was 3.3 million which makes it the biggest city in the country. Each region, too, has its own characteristic topography, climate and social and cultural features. Differences also exist within each region. The North region has many mountains and hills, mostly in the north and north east forming the border with Iran in the east and Turkey in the north. This topography makes it difficult for transportation to operate smoothly in the region, particularly in those areas which have not witnessed any development for years because of political unrest and guerrilla warfare waged by the Kurds. This situation continued for many years, preventing the establishment of up-to-date retail outlets such as department stores and the replacement of small family-owned grocers by shopping centre facilities.

In March, 1970, the government granted self-determination to the Kurdish people within the framework of the Iraqi Republic. Three cities were included in the Kurdish region, viz, Sulaymania, Arbeel and Dihook. Solving the Kurdish problem provided the opportunity to modernise these cities and allowed a number of development projects to be implemented. Other projects are planned for the future. The planners should therefore take account of the new environment in the area. In particular, the region will enjoy a very successful tourist summer season after the completion of the appropriate projects within the next few years. Iraqis prefer to spend their summer vacation in the north. The Northern region has also undergone certain changes in the pattern of retailing. The State Organisation of Consumer Goods has established large retail stores in the cities and main provinces which attract many consumers and reduce the role of the scattered family stores. Opening new roads and developing the tourism areas will create more opportunities for jobs which in turn will increase personal incomes resulting in more disposable income for purchasing goods and services. Hence, the strategist should consider the implications of these changes for marketing strategy.

The region has, too, some minorities (e.g. Turkomans, Armenians and Yezidi) who have their own cultural and social characteristics.

The weather in the region has an effect on business activities, because its frosty in winter with heavy snow in some parts which closes the roads for days. In summer, the temperature is moderate so it attracts thousands of tourists. There are many fertile areas in the region, so it produces a variety of crops (e.g. wheat, vegetables, fruits) depending on the rainfall. Since the building of the Mosul Dukan dams, the area has begun to rely more and more on the irrigation system.

The middle region consists of eight cities, including the capital, Baghdad. The capital is the principal centre for the region and for all other regions and cities. The cities close to it send their crops to the capital, so that it has not suffered from

the shortages experienced by other cities (e.g. Basrah). The reasons for this are that Baghdad is very close to many agricultural areas and cultivated, well-irrigated lands. The peasants prefer to deal with known, near and accessible markets. Moreover, the farmers are not risk takers, having a saying "one bird in the hand is better than ten on a tree." Their products are perishable and transportation facilities to move such products are not readily available, so they are not prepared to undertake any risk because they are highly dependent on selling the products and receiving cash to enable them to buy their basic needs. Furthermore, Baghdad is located on a network of transportation (railways, airlines, water transport, etc.) All transportation therefore, passes through Baghdad before being directed to all other cities and this includes product shipments, although rerouting through Baghdad may increase the cost of the product.

Shipping all goods to Baghdad, irrespective of their final destination, may involve other cities in additional costs. Yet any department or firm could, without difficulty, undertake the paperwork involved in transactions, if goods were shipped directly to them.

Baghdad has become the trade centre of the country, and most of the wholesalers and retailers are located there. In the centre of Baghdad there is the biggest wholesaling, retailing market in the country, called "Al-Shorgah". There are many developing trends which may affect the future of this region. The new industrialisation scheme of locating different projects in other cities, and the commercial policy of establishing local wholesaling in each city will have its impact on the movement in favour of decentralisation, develop a sense of stability in the cities and discourage immigration to Baghdad and Basrah. Some shopping centres have been established in different areas in Baghdad (e.g. Al-Mansour Shopping Centre, Souk Al-Thalathai) as well as other department stores. The "Souk-Al Shorgah" has begun to decline in importance because the establishment of the State Trading Organisations transferred the trading centre to other areas. Because most people in the Middle region

want to imitate "Baghdadians", its culture is probably more homogeneous than is the case in other regions.

The South region consists of five cities, including the country's only seaport, Basrah, which handles most of the country's imports and exports. The region is the richest of all and has many processing operations (e.g. refineries, petrochemical plants). The region has witnessed a new era of industrialisation. Many new factories (e.g. steel, cement, construction, petrochemical projects) have been established in Basrah and other southern cities where investment exceeded £200 m. between 1973 and 1980. Additionally, the region is well-known for its agriculture products. It has the largest number of palm-trees in the world, some thirty million in the 1970s, producing 400 varieties of dates. The area is called the "black land", because this is how it appears when seen from a height. Marshes which cover a huge area of the region, impede transportations. But they are considered good fishing resource and suitable land for cultivating rice. Previously, the rice produced satisfied the national demand, but in the last few years, since discovering oil in the marshes, many areas have been drained, so this will affect the availability of fish and rice. One can observe it during the last three years in a consequent shortage of fish, so Iraq has become an importer of huge quantities of rice. A further effect on agriculture arises from the location of new industries which attracts many farmers who abandon their land to increase their incomes, particularly farmers who are not well-educated or trained to use more advanced cultivation techniques in order to increase productivity. So, the region has shown a decline in agricultural output in absolute terms. The weather is very hot and moist in summer and moderate in winter. Such weather encourages the cultivation of palm trees, and encourages people to spend their winter vacation in Basrah. A factor which affects only the consumers in this region is their exposure to advertisements broadcast by television stations in neighbouring countries. Although there has as yet been no study to measure the effect, clear observation suggests that a variety of electrical appliances are being bought by consumers in the Southern cities although they are not listed among the country's imports and can only be seen on Kuwaitian

and Saudi Arabian television programmes.

All the State Trading Organisations have the same organisational structure. The headquarter offices are in Baghdad and their three main divisions are in Baghdad, Mosul and Basrah, the main cities of the three regions. The organisation of the divisions follows a similar pattern, their headquarters and largest branches being located in these cities. This practice has not been subjected to serious examination in respect of its effectiveness. Instead of operating through divisional headquarters, firms within each division contact their Organisations' headquarters for processing their transactions or operations. The divisions themselves are therefore less effective and more costly in operation.

3.2.2 Urbanisation

The migration of people from rural to urban areas which has taken place in Iraq has had an effect on retailing and wholesaling activities, because it has created new markets and demands for new products and may have caused the decline of some old markets and products, thereby affecting the marketing strategy of the Organisations. This happened at two periods. First, it was in the 1950s, when many farmers from southern cities, (particularly Meissan, Thegar, Muthana) left their villages and migrated to Baghdad and Basrah, because they live in poverty and were oppressed by Sheiks.* This move was aided when the government concentrated its administrative machinery in the capital. The urbanisation process increased in the 1950s and 1960s, because of political problems and because new job opportunities were being created in government services, although the level of literacy and vocational skills during that period was not high enough for employment by the government. Such population movement caused many problems for Baghdad and Basrah, because newcomers settled in scattered communities outwith the range of existing municipal services. This imposed the necessity of expanding law enforcement and housing services and providing additional supplies. The migrants lived under very poor conditions

Sheikh - A landlord who possesses land by government authorisation.

in houses called "Al-Serefah", but in the process opened new small grocery shops scattered throughout these communities, competing with city centre stores.

The other important population movement was in the 1970s when many farmers left their lands to go to the cities to seek jobs in new factories and industrial projects established by the government. New opportunities were also created by the proliferation of government offices and other projects. This movement caused serious problems relating to municipal transportation, law enforcement, and housing as well as affecting city supplies. While previously the newcomers had provided the city with most of its farm produce, they now competed with city dwellers for these products. At the same time, personal incomes were increasing. It should be pointed out that these families live together in the same house, (father, mother and children, even those who are self-supporting adults, so the total family income is much greater). New markets are created increasing the demand for many items. As far back as Aristotle's "politics" it was recognised that increasing the number of inhabitants in one area beyond a certain number would restrict their personal relationships and alter the character of the city. Baghdad and Basrah suffer most from this population movement, but other cities have the same problem on a different scale. The government has attempted to lessen the impact of city centre congestion in such spheres as employment, business and transportation. During the 1980s, it sold more than 300,000 pieces of land at nominal prices and offered long-term loans of I.D. 5000-10,000 at a very low interest rate (2.4%) over a period of 20-25 years. Many low-income people obtained land and loans and this led to the development of new markets and retail distribution outlets in new communities at some distance from the city, in contrast to the traditional pattern where major retail and wholesale establishments were located in the commercial centres of the cities. The continuation of this process will reshape the retail and wholesale system in Iraq, during the next decade. In addition, the demand for household items and durable goods has increased substantially. Moreover, new problems are emerging. Despite the government's

efforts to deal with city centre congestion, problems have persisted, relating to such areas as transportation, demand for utilities, the need for improved law enforcement and such municipal services as water and electricity. Better shopping services are also required. Only a few new shopping centres have been built in Baghdad (e.g. Al-Mansour and Al-Thalathaa).

The traditional pattern of wholesaling and retailing in the commercial centres of the cities also felt the impact of the changing situation. Where formerly these activities were concentrated in the old central city markets, some were being directed towards the new communities on the outskirts of the cities. These changes will continue until all the planned new communities have been established by the end of the decade, provided sufficient effort is applied to implement the policy and the necessary investment is forthcoming from government and other sources. Such a movement has clear implications for the Organisations' choice of locations for depots and warehouses.

3.2.3 Climate

The Iraqi climate is, in general, continental and sub-tropical. Summer, which extends from April until September is very hot and dry in some parts of the country and hot and moist in the southern areas and there is no rainfall. The temperature ranges between 35°C - 49°C (120°F). Some people find difficulty to work in summer between 12.30 - 2.30 pm in Basrah and the southern cities. From October to March, the weather is very cold, reaching freezing point in the north of Iraq where the temperature drops to lower than -5°C. There are some differences between regions. For example, the summer in the North is very pleasant and as has been noted, many people spend their summer vacations there. In winter, Basrah is the favourite place for people to spend their vacations. In winter some roads in north-east are badly affected which impedes the movement of goods to some of the northern markets.

3.2.4 Topography

Iraq can be divided into four main geographical regions. It has an area of 438,449 sq. kilometres (196,348 sq. miles)¹¹ of which 37% is desert.¹² Between 35 and 40% of the remainder is potentially cultivable with the help of sufficient rainfall or irrigation.¹³ However, just over half of it is used for agriculture purposes, and of that area less than half is actually used at any given time, the remainder being left fallow. The government regards agriculture as the future oil of Iraq, because of the potential revenue to be gained if full use is made of fertile land, productivity is improved and irrigation projects are applied to land presently unused. A number of steps have been taken to modernise this sector, including institutional reforms and technical improvements. Agricultural mechanisation has been given top priority. Iraq has the potential not only to become self-sufficient in food and agricultural produce but also could export many surplus crops.

As mentioned earlier, the country can be divided topographically into four main geographical areas, as follows:

- 1) The Mesopotamian plain
- 2) The Desert plateau
- 3) The Mountain region
- 4) The Terrain region.

Sometimes, the desert plateau and the terrain region are regarded as one region. But there are some differences in the climate and topography of these two areas. The Mesopotamian plain has a distinguished history. It was here that the great ancient civilisations between the Euphrates and Tigris developed, Although a distinction is made between the four regions, in fact there are many differences even within the same region.

The following section focuses on these topographical features and their effect on trade, in particular on the effectiveness of the Organisations.

1) The Mesopotamian Plain

This is a very fertile "alluvial plain", created by deposits from the rivers Tigris and Euphrates. Covering more than a fifth of the total area of Iraq, it is located between the foothills of the Himmreen Hills north of the Gulf, turning south-east across the old river estuaries at Summarrd and Heet running parallel to the Euphrates. The excellent quality of its alluvial soil, the availability of a good water supply and an excellent irrigation system make the plain, which covers more than one-fifth of the area of Iraq, one of the most productive areas for agricultural products, most of Iraq's cereals being grown there at low cost. The Euphrates and Tigris rise in the north and flow through the plain parallel to each other. The plain floods in spring when the snows melt in Turkey and north Iraq, but the development of new irrigation systems and dams has almost eliminated the problem (e.g. Al-Mosul Dam, Dokan Dam, etc.).

2) The Desert Plateau

The desert is located west of the Euphrates valley and at Iraq's western border with Syria and Jordan forming part of the "Western Desert". It is inhabited by nomadic tribes with their livestock and camels. The government has carried out some projects to encourage the nomads to settle down, but with little success. This region covers about three-fifths of the country's total area.¹⁴

3) The Mountain Region

This region is located in the North and North-east of Iraq and extends to the border with Syria in the west, Turkey in the north, and Iran from the east. The region is inhabited by Kurds, Arabs, and other minorities (e.g. Turkuman, Assyrian, Armenian and Yezidis). Each group has its own distinct culture which should be considered in formulating any retailing policy (e.g. Kurds prefer different patterns of clothes and wear different colours from those favoured by Arabs and Tarkumanis). The region is considered to be one of the

interesting tourist areas, so many people spend their summer vacation in different parts of the region. Therefore, the demand for goods will be different during the summer season. The region covers one fifth of the area of the country. In this region, the Kurds have been granted autonomy in the three cities where they form the majority of the population (Sulymani, Arbeel, Dhok).

4) Terrain Region

The region is a mixture of undulating gravel steps and fertile land. The rainfall during the year has generally been sufficient to produce some kinds of crops without having to rely on irrigation. Recently, the government has recognised the importance of introducing an irrigation system, because of the low rainfall in recent years. This region is connected with ancient Assyrian. The land between the Euphrates and Tigris, called "Al-Jazirah", has been transformed into a cultivated area by building dams which ensure a constant water supply.

The geographical and topographical features of Iraq and the different social, cultural and economic conditions of the various population groups pose difficulties in developing plans for any element of the marketing mix within the State Trading Organisations' marketing strategy, e.g. Arabs have different cultural and social conditions from those prevailing in the North-east region. The State Trading Organisations are required to offer goods and services to all parts of Iraq without any discrimination between the regions despite difficulties affecting the flow of goods resulting from the topography of the regions. These difficulties place certain constraints on decision-making by these Organisations.

3.3 Family Changes

Family ties in Iraq are deep-rooted and pervasive. The structure involves a large group of kinsmen related to one another through blood relationship or marriage. The prevailing type of domestic units is an extended family consisting of more than one generation (e.g. grandfather, parents, their sons, sons' wives and children).

A minority of people may have more than one wife, each with her own children, living in the same house. This practice is inherited from their ancestors and is reinforced by the fact that the majority of people are uneducated Moslems who follow Islamic traditions. Polygamy has become rare in recent years, particularly since 1978 when the government amended the Personal Status Law and imposed strict regulations relating to such practices. While, particularly in urban areas, many people have discontinued observance of family traditions and established a new form of independent family, the father has a dominant role exercising power, authority and influence on the family's affairs. The wife who is responsible for rearing children, has little influence on family matters, has very little authority over her children and is allowed no opinions regarding the management of the family finances. However, women in cities exercise more influence in family affairs.

Basically, financial support for the whole family is dependent on the father, so the financial status of many families is limited. Acceptance of the overall authority of the family unit has limited the will to work and reduced the incentive to achieve greater personal independence if this required separation from the family. These extended families have been blamed for limiting the demand for housing space, home furnishing and other requirements as a result of living together. Any critical examination of these joint families results in extreme resistance and annoyance, because of fear of competition and other problems such as taxation. The joint or extended family often creates uneconomic barriers in the field of distribution, because they ignore their wider obligations and offer support exclusively to their close relations. For example, they prefer relatives as business partners since it is thought they will probably be more reliable than persons with whom one has no ties of kinship.

The exploitation and oppression practised by "Sheikhs" forced

many peasants to leave agriculture occupations and seek jobs in urban or government service, particularly in Baghdad and Basrah. The bonds linking extended family members began to weaken after the 1960s. It is likely, however, that physical proximity has a considerable bearing on the strength of the ties between kinsmen, since the ties of a family to its relatives in a distant part of the country tended to become weak in comparison with those between relatives staying near each other. Further, after the Revolution of 1958, the government enacted the Law for Personal Status in 1959 and amended it in 1963. The law and its amendment spell out the provisions governing the rights of particular persons to contract marriage. This law has accelerated the change from the extended to the nuclear family, and has contributed to the weakening of close-knit family ties.

Confronted with modernisation, the family relationship and the position of women have changed. There are indications of a growing disintegration of the joint or extended family, as its members disperse in search of jobs in new industries, as a result of economic pressure, or the influence of Western individualistic values and new ideologies so that "the nuclear household has become family prevalent in Baghdad and other urban areas."¹⁵

The amendment of the Personal Law Act passed in 1979, rising personal incomes, the expansion of education, the provision of government-funded housing units, the sale of land at preferential prices with attractive repayment terms, the spread of industrialisation and the activities of the Iraqi Women's Federation have all contributed to the development of the nuclear family system and the creation of new patterns of family behaviour in most Iraqi cities, with families becoming more interested in their future. This is illustrated by the building of houses on a long-term basis with loans taken out over a 20-25 year period, by the move towards self-development, and the change from a father-centred to a children-centred family. Previously, an Iraqi believed that "his destiny is more dependent on the will of the Supreme Being than on his own so he did not consider it worthwhile to select and attempt to

fulfil personal goals."¹⁶ But in the 1980s, the families became more future-oriented in their decision-making.

Further, the new housing schemes created new communities based on occupation, profession or employment in government service. Such schemes forced many families to break up*and live in new communities different from those to which they were accustomed. Then, the location of new industries on the outskirts of the cities, with houses built for employees has had an impact on the extended or joint family. These new communities have also created new patterns of shopping behaviour and affected the structure of retail distribution, because of the distance and time involved, linked with transportation problems. Because parents were fully occupied, all members of the family participate in buying decisions concerning low price items, and husbands and wives have begun to share decisions relating to the purchase of furnishing items or houses. New stores have been established in the new communities which began to compete with city centre markets, and trade has begun to spread out to the periphery of the cities.

For a number of reasons the wife has begun to play a more important role in the family's affairs and in buying decisions. First the proportion of working women has increased from 11% in 1960s to 18% in 1970 and there are 500,000 women working in industry and the civil service. In 1980, women accounted for 46% of those employed as teachers. Girls represented 37.8% of university enrolments in 1980 and 76.4% of enrolments in centres for eliminating literacy. So, improving their skills and education and making a contribution to the family finances have enhanced* their family life. A woman's role in family decision-making has become greater and she is playing a more important role than her counterparts in the 1950s. Further, changing values, positive external pressure and economic necessity, among other factors, suggest that the percentage of women working will continue to increase.

To sum up, the number of households in Iraq is increasing but there are fewer people in each and more of the adults in the family

* These houses are built on the basis of a couple with four children and their space is limited so that they cannot accommodate a joint family.

are working. These changes have produced new patterns of buying behaviour which have affected the structure and methods of retailing.

3.4 Social Class

The differentiation of social classes has been used extensively in the development of marketing strategy. There is however, no agreement about how many social groups exist in Iraq or their size, because the mention of class distinction provokes the concept of inferiority, superiority or produces a defensive reaction. According to the Iraqi constitution, Iraqi people are equals in terms of duties and rights.

In discussing class structure, we shall use the traditional terms "upper", "middle" and "lower". But this does not mean accepting that a particular class is better or happier than any other. The aim is to understand the characteristics and behaviour patterns of each class so that it will be easier to develop a marketing strategy related to class differences.

The Iraqi class system is an individual and family system. While a child is a member of a family, his social status will probably depend on the status of his family, but growing children may often join a different class from their parents when they attain higher educational levels or take up different occupations from those of their parents.

The Iraqi class system may be measured by occupation, education or the possession of wealth based largely on land and housing. Nyrop et al (1971, p 77)¹⁷ divided Iraqis into three classes:

1) 'Upper Class': Prior to 1959, the upper class was distinguished from other classes mainly by its political power and its wealth based largely on land and by occupation. It comprised the royal family, ministers and former ministers, urbanised sheikhs, the wealthiest landlords, senior civil servants and high ranking military officers. They were very few in number (less than 1%) and were

concentrated mainly in Baghdad, Masul and Basrah. Aristocratic families prided themselves on the degree to which the behaviour of their members upheld the ideals derived from their tribal heritage. Most of the upper class lived in big houses or villas with large gardens, situated in well-selected locations. The upper class families have traditional social events, arranged to a regular schedule which reflect their segregated and private style of living. They also have their own special etiquette. From the beginning of the twentieth century, upper class young men were given a university education at home or abroad and after World War One, the young women also began to receive a university education.

After the Revolution of 14th July 1958, most of the people in that class lost their position of prestige and leadership and some of their wealth, because of the Agrarian Reform Law of September 30, 1958, and other legislation which reduced their wealth and influence. In the 1980s new people entered this class, their wealth being derived from construction contracts or new manufacturing projects resulting from the implementation of the national development plans; the wealth of others was based on professional skills (e.g. doctors and engineers). Before the 1980s, members of this class bought goods from stores specialising in the sale of imported goods and spent much of their time engaged in leisure pursuits. Since then, however, most of the upper class have begun to shop at the State Trading Organisations since most establishments offer the same items, with prices in the Organisations' stores generally cheaper than those of "specialty" stores. The number of the latter has in fact declined though some of them still concentrate on stocking imported goods.

2) 'Middle Class': This class traditionally comprised propertied persons whose economic interests lay chiefly in commerce and real estate, most of them being successful merchants and small businessmen, together with a number of those engaged in the professions and education and some tradesmen. In the 1970s, a new sector in this class was made up of salaried military officers, civilian administrators, technical experts, and a new type of business man, all of

whom were traditional in outlook. "Included with this sector, but comprising its lower strata, were those persons who resembled the salaried group in every respect except that, with too few white-collar jobs to go around, they were unemployed."¹⁸ This sector has played an important role and exerted considerable influence on the government administrative machinery and most politicians have come from this sector.

Most urban Iraqis are of middle class status, having a white-collar occupation, which requires a university degree for whom the job has been guaranteed since 1970 (or at least a high school certificate). Whereas of some 10,000 who earned the degree between 1950 and 1955, fewer than 15% found positions in government or business.¹⁹ The middle class constitutes an expanding market, because first, their earning power has increased. Salaries are double those of the 1970s and this is reflected in their purchase of new modern appliances, furnishing and houses. Secondly, as they strive to improve their living standards, new requirements emerge. For example, the number of air-conditioners sold in 1980 was ten times the 1950 total. The demand by this class for household items and furnishing will increase substantially during the next decade following completion of the new communities' houses which will exceed 350,000 units.

3) 'Lower Class': Manual labour is generally associated with lower class status. As a result when thousands of graduates and people qualified for a white collar job could not find suitable work during the period of widespread unemployment in the late 1950s, they chose to remain unemployed rather than undertake manual work which they felt would lower their esteem in the eyes of their peers. The number in this class increased substantially through the influx of the rural peasants seeking jobs in industry and the social services. These people, who had few economic resources and no education, found no jobs, because the earlier incomers gained the jobs which were created in the 1940s in the oil industry. So, they relied on temporary jobs, working as pedlars or porters or taking any available jobs. For shelter, they built temporary structures in vacant

areas adjacent to permanent dwellings. These were called "sarefah" or "jamaly". The lower classes no longer live under such primitive conditions. At the beginning of the 1980s, all members of the urban lower class were gainfully employed in new industries projects, government social services or state organisations. Between the 1960s and 1980s their income has increased more than two-fold, even for semi-skilled or unskilled workers. In recent years, some of them have been earning more than university graduates, which points to a new era in economic development. With the construction of new housing schemes which provided most of its members with a house, the lower class now constitutes an important segment of the market for the State Organisations, because ideologically the government stresses the importance of satisfying their needs and wants. It has become a growing and expanding market for electrical equipment, durable goods, household items and furnishings.

3.5 Cultural Dimensions

Culture "usually means the complex values, ideas, attitudes and other meaningful symbols created by people to shape human behaviour."²⁰ Consumers can accept these cultural norms completely or partially or reject them. Cultural norms are important to marketing strategy, because they are accepted by large numbers of people who constitute market segments, and variations in acceptance of cultural norms often present a useful means of segmenting markets. Further, the organisations should not overlook their social role, because as long as a retail institution fills an ecological niche, it is likely to survive,²¹ and cultural ecology provides insights into the social role of retailing.

Most widespread Iraqi social practices involve a fairly well-integrated system of social values, originating mainly from tribal Arab and Islamic traditions, and to a less extent, from certain values in the minority ethnic traditions and the mainly urban traditions. Some of these values "can be traced back to the earliest days of civilisation in Mesopotamia."²² Islamic ideals differ from tribal Arab customs. In Islam, distinction founded on descent group

memberships are to be replaced by Islamic distinctions based on piety, and tribal loyalties by the larger Islamic community of believers. Moreover, despite the differences in beliefs, rituals and law, the minorities have traditions similar to the Arab traditions. Further, the urban Arab tradition does not follow some of the Islamic and tribal values concerning commerce and the use of wealth. In addition, there is emphasis on replacing loyalty to ethnic-religious or lineage groups with loyalty to the state and to parties which stress a broader civic feeling.

The core culture is deep-rooted and determines the overall behavioural patterns of society. The general features of the Iraqi core culture and their relevance to consumers' behaviour are however, fairness and decency in conduct and the rejection of dishonesty, cheating and stealing. The tribesmen as well as the town dwellers should be a generous host, conform to accepted behaviour and humanitarian. As the Iraqi urban man has traditionally made his living by trade, he is interested in maintaining fair practices and standards of commerce, although he is not above making a sharp deal. The Iraqi attaches great importance to keeping his word, and he prefers personal rather than impersonal contact which affect the nature and use of distribution channels.

There are other cultural values which change over time or are acquired in later years of life. During the last three decades, these values of the Iraqi culture have changed to a remarkable extent. Individuals have become more self-centred than in the past. Examples of these include self-development techniques and new designs in clothing and cosmetics. Then, there is a trend by many people towards paying more attention to the quality of their life. This does not mean that money is not important, but the priorities begin to shift, and there is a growing awareness that a big income can not necessarily be equated with personal happiness. Then, "lifestyles are patterns of living developed by consumers that largely determine what they purchase."²³ The furnishing and household appliances common in Baghdad are different from the fashions used in Sulaymania. In Baghdad, they purchase the modern furnishing

items and advanced technical appliances, while in Sulaymania the evidence of rural traditional furnishing is apparent.

A new trend in the Iraqi family derives from the need to allocate time for various purposes. In the 1980s, particularly in urban areas, not only is the father out at work, but in many families the wife works also for several hours and this also applies to other adults in the family. This produces a new style of living and new patterns of shopping behaviour. As a result, sales of labour-saving items (e.g. gas cookers, freezers, refrigerators, etc.) are more than double the 1970's total. Most Iraqi families tend to shop in the morning (6.30 am - 1 pm) at city centre markets and food markets which were crowded at that time and it was rare to find much shopping being done in the evening. But in the 1980s, the markets open in the evening as well as in the morning. Even the State Organisations have been forced to change their (8 am - 1 pm) opening hours to provide two shopping periods, from 9 am to 1 pm and 3 pm to 6 pm. This was demanded by many people in the form of complaints through the media. Other new practice is revealed in the acceptance of canned food which now constitutes a main department in the State-owned Organisations dealing with these items, whereas it would have been difficult to find an Iraqi family willing to accept canned food in the 1960s.

Further, the increase in personal income from approximately I.D. 64 (sixty-four Iraqi Dinnar) per annum to more than I.D. 600 (six hundred Iraqi Dinnar) made an impression on the Iraqi life style. The people seek more leisure time. The number of Iraqi tourists abroad has increased four-fold since the 1960s. It has been found necessary to establish a State-owned Organisation to deal with tourism.

Moreover, in the 1940s, 1950s and 1960s most of the people lacked confidence in many of the government's agents or institutions such as State-owned firms. This lack of confidence developed as a result of the failure of policy makers to satisfy the people's demands. In the 1980s, the State-owned Organisations have built

up a good reputation and gained people's confidence after making recognisable efforts to offer good quality goods at lower prices than their counterparts in the private sector, and although these organisations lack some other desirable features such as an attractive store atmosphere and a better image, consumers have now more confidence in them than in previous years. A further development in consumer behaviour followed the creation of cooperative retailing outlets which attracted many consumers away from private and State-owned outlets. Consumerism has also caused an expansion of government activities in retailing and wholesaling, and the social issues began to receive more attention than in the pre-1970¹ period.

The small corner store which provided a warm, familiar meeting-place for friends and neighbours to gather and socialise, has gradually begun to decline in importance because it is easy to establish new stores as a result of the new government policy of granting licences,* and the quota system for the distribution of goods to stores, so that consumers can buy from wherever the goods they want are available. The patronage of a particular store may decline because of the shortage of goods there and their availability elsewhere. The store affected by shortages can not re-order these goods because of the quota system. In addition, the minor retail trade outlets are generally far down the prestige scale, while large scale retailing is ranked at a high level. However, the introduction of more modern establishments (e.g. department stores, shopping centres) is accepted less readily by many Iraqis than by European and American consumers, because they are unfamiliar with such establishments and they often prefer to take advantage of the credit facilities and other services available from small retail stores.

The government has established the State Organisation for Consumer Goods to control marketing activities relating to such goods, to tackle the problems arising from the nationalisation of many firms in 1963, to control the balance of payments resulting

* The State Organisation grants a licence to a person who applies to it asking for a licence and has the facilities for opening a store (i.e. a place with specific requirements.) He then get his quota each time a shipment arrives.

from foreign trade, and to offer goods at reasonable prices, following the failure of many merchants to satisfy market demands. It is a very large organisation compared with other wholesalers and retailers in Iraq. It has opened new modern shops, department stores and shopping centres, and to a certain extent, it provides new methods of shopping. Although it has some inefficient operations, it has had a marked impact on the shopping behaviour of Iraqis, because most of them now deal with this Organisation.

Since the 1960s, Iraq has been in a period of transition. The approach to education, the advent of industrialisation and a new ideology have changed, "attitudes towards man's nature and destiny and broadened the outlook of many beyond the confines of their ethnic, religious and lineal group membership,"²³ all of which have an impact on consumers behaviour.

Further, although most of the traditional values remain strong, many educated young people have new values and critical attitude of reform. In addition, students who study abroad contribute to the process of change, because they introduce the new ideas assimilated as a result of the educational process. "Although some would remake Iraqi society, most would be content to hasten the already quickened process of change in social values,"²⁴ which will produce new patterns of buying behaviour.

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CHAPTER FOUR

Population and Demographic Dimensions

The environmental forces have an influence on the strategic decisions of wholesalers and retailers. One of these forces is the demographic environment. "The demographics of a society are a statistical representation of its population."¹ So, each of these institutions (wholesalers and retailers) should understand how the environment influences their ability to implement their marketing strategy successfully. "Since people represent the base for consumer markets, marketers of consumer goods need to be aware not only of changing rates of population growth, but also of the way the decline in birth and death rates affects the size of various age categories at different times."² For marketing planning purposes, future projections of demographic data are most important because the demographics help to determine types of goods and services required by the consumers and can give, also these institutions some indications of the ability and location of purchasing power and hence are sometimes useful in segmenting markets and designing marketing programmes. This chapter examines the population changes, regional distribution, labour force, religion and changes in the education system in Iraq.

4.1 Population and Demographic Characteristics

In this section the most significant demographic characteristics of Iraqi population which have an implication and influence for the marketing strategy of the State Trading Organisations are highlighted as follows:

4.1.1 Population and Density

According to the population census in 1977, the population of Iraq was 12 million, compared with the 1957 population of 6.340 m^{*}

* The method used in the census of 1977 is more detailed and well-conducted and policed than the census of 1957.

which means that the population has doubled approximately in twenty years. This growth will continue in the future. According to the projections undertaken by the Central Statistical Organisation, the population of Iraq in 1982 was 14.11 million and it will be 16.659 million in 1987 (see Table 4.1).

Based on the area of Iraq, which is 438,446 square kilometres and the 1977 census, the population density in that year was about 28 persons per square km. In 1983 it was 33 persons per square km. Uninhabited areas such as deserts and marshes are included in these calculations. If such areas are excluded, the density increases to 45 persons per square km. Moreover, if we consider only the areas available for cultivation, which in 1977 were reckoned to be about 120,000 square km, the density would be 75 persons per square km.

The population density varies both between urban and rural areas and between provinces. For example, in Baghdad city in 1970, the density increased to 312 persons per square km whereas in other areas the density declined to 30 persons per square km.

From these figures it can be seen that Iraq is relatively sparsely populated. As a result of this large scale retail outlets are found only in some large provinces, e.g. Baghdad, Mosul, Basrah and Kurkuk. Other provinces depend on the smaller scale shops.

4.1.2 Rate of Growth

The rate of population growth in Iraq, at present, is estimated to be about 3.2% per annum.⁶ The growth rate ranged between 3.2-3.4% during the last two decades. However, the population has increased at a much higher rate, because of falling mortality and consistently high fertility. The crude birth rate increased from 47.8 per thousand to 48.6 per thousand in 1974, whereas the crude death rate declined from 20 per thousand to 14.8 per thousand for the same period.⁷ This is an indication of the effectiveness of current efforts to improve the health and living standards of people.

Table 4.1: The Population of Iraq During the Period 1957-1987

Years (Census)	Population in Thousands		
	Male	Female	Total
1957*	3183	315	6298
1965*	4164	4056	8220
1977*	6194	5867	12061
1982**	7261	6850	14111
1987**	8563	8069	16659

* The Census of 1957, 1965 and 1977 (They do not include Iraqi abroad).

** The Central Statistical Organisation. The Section of the General Census and Population Surveys - The Projection of Iraqi Population for the years 1977-1997, October 1979.

A survey conducted between 1973-1975 had projected that the rate of population growth would rise to 3.3% per annum during the years 1977-1982*, and to 3.4% per annum during the years 1982-1987.⁸ Population growth will probably remain high for some years to come, and may even increase, for the decline in mortality, especially infant mortality, is likely to continue, while birth rates may well increase, particularly with the rising of the standard of living and government encouragement.⁹ Such a growth should not cause serious problems in Iraq since we know that "the present state of Iraq during the period of Abbasid rule (A.D. 754-1258) may have supported a population of some 20 million people."¹⁰ Such growth rate will expand the market for products and services required by child-bearing and rearing young children. In turn these will have further consequences in later years on other age groups.

4.1.3 Regional Distribution

The regional distribution of population is important for many corporate and marketing strategy decisions and national projections,¹¹ because some sectional differences exist in the growth rate, culture, climate and other factors which may have an impact on the demand of many products.

Iraq can be divided into three main regions, as follows:

- 1) The Northern region
- 2) The Middle region (sometimes called the Central region)
- 3) The Southern region.

Table 4.2 shows the growth of Iraq's population since 1935 and the projected growth until 1982 by regions. The biggest markets are still in the Middle (Central) region of the country. This can be seen from a study of the distribution of the population

* World Development Report, 1985, Table 19.

Table 4.2: Total and Regional Distribution of Iraq's Population (1935-1977).

Year	Total Population (thousands)	Northern Region Number (thousands)	Northern Region %	Middle Central Region Number (thousands)	Middle Central Region %	Southern Region Number (thousands)	Southern Region %
1935	3,605	1,041	28.9	1,319	36.6	1,245	84.5
1947	4,816	1,347	28.0	2,043	42.4	1,426	29.6
1957	6,298	1,722	27.3	2,764	43.9	1,812	28.8
1965	8,220	2,184	26.6	3,966	48.2	2,070	25.2
1977	12,061	3,145	26.0	5,762	48.7	3,154	26.1

Sources: Calculated from the Annual Abstracts, The Central Statistica Organisation and Population Surveys for different years. The percentage worked out by the researcher.

between these three regions which shows that the percentage of the population of Iraq living in the Middle region is higher than that of the other two regions. Iraq's population census of 1965 showed that 26.6% of the population lived in the Northern region. The 1977 census showed that the population of the area had declined to 26.0% of the total population. This percentage may be expected to drop still further in the 1990s because of the Kurdish problems in the far north-east of the region (Kurdish fighting). The population of the Southern region showed a negligible increase. The 1965, 25.2% of the population lived in the region becoming 26.1% in 1977, due to locating some industries and expanding of oil industries in Basrah. Thus it can be seen that the Middle (Central) region (which includes the capital Baghdad) has a larger percentage than the other two regions. Its population is approximately double that of the Southern region, and close to double that of the Northern region. Its share of the total population rose, between 1965 and 1977, from 48% to 48.9% and is expected to grow. Therefore, the government was forced to issue some rules to stop further expansion in Baghdad provinces, the population of which was projected to be 3.98¹² million in 1984 which would exceed the population of any of the other two regions. Moreover, there is a continuous migration from rural to urban areas, so that the urban population is expected to approach 75% of the total population in 1987. Further, the movement from rural to urban areas will put pressure on the State Trading Organisations to offer more food to the urban areas because of peasant migration to the cities which affects agriculture output. Still the traditional markets (Baghdad, Mosul and Basrah) have a significant share of the Iraqi market and are many times greater than that of the 1960s. However, new government investment and policy relating to the location of industries will create a sizeable market in other cities and regions in the near future.

4.1.4 Age Group

Demographic studies and estimates of population showed that in 1957, 46.3% of the Iraqi population were under 15 years of age, 48.7% were between 15-64 years of age, and 5% of the population were 65 years and above (see Table 4.3).

Table 4.3: Population Distribution of Iraq According to Age Groups in 1965 and 1977

Age	1965		1977	
	%	Cumulative percentage	%	Cumulative percentage
0 - 9	35.56	35.56	34.2	34.2
10 - 19	20.33	55.89	24.0	58.2
20 - 29	13.00	68.89	15.0	73.2
30 - 39	11.48	80.32	9.6	82.8
40 - 49	7.37	87.69	6.7	89.5
50 - 59	5.25	92.94	4.7	94.2
60 - 69	4.10	97.04	3.1	97.3
70 - 79	1.66	98.70	2.0	99.3
80 and over	1.30	100	.7	100
Total	100	100	100	100

Source: Central Statistical Organisation, Annual Abstracts of Statistics, 1975, 1979, Central Statistical Organisation Press, Baghdad, p 30 and 50.

The age group under 15 years showed an increase between 1965 and 1977, while the 15-64 years age group showed a decline over the same period, and this applied also to the age group of 65 years and above. This can be attributed to the increased importance of the under 15 years of age group as a result of regulation, imposing compulsory enrolment in the primary school, and the effect of other legislation, e.g. Land Reform Law, housing rules ... etc., and growing awareness of people concerning the modern approach to family responsibility. Further, the new employment rules require at least a primary school certificate to enable one to get a job in any type of industry which drives the people to register their children in schools and to get birth certificates. Although the age group of 65 years and above showed a percentage decline, the absolute number showed an increase (from 323,688 in 1957 to 278,421 in 1977). This was due to the increase in life expectancy as a result of improved health standards and the rise in the standard of living.

Therefore, a conclusion can be derived from the above and the figures in Table 4.3, that Iraq is a very young nation. 49% of the total population was below the age of 15 years, and only 4% was 65 years and above. The economically active section of the population in the age group 15-64 years was, therefore, only (on average) 47.0% of the total population, and within this group the proportion of female was slightly higher than males. Therefore, the proportion of the total active population gainfully employed is low.

4.1.5 Labour Force

Table 4.3 shows that the total number of economically active people was about 3,137 million in 1957 and this increased to 5,637 million in 1977, which means that the increase was about 80% in twenty years or 3% annually. The ratio of labour force to total population is about 47%. One reason for this lower figure is the age structure of the population about 49% of which is under 15 years of age. Another reason is the low level of participation by females in economic activities (in 1977 the number of females in the labour

force was only 15.4% of the total, the annual growth rates of males in the labour force was 3.2%, while the annual growth rate of females was 2.7%). Further, the total number of economically active people gainfully employed in 1957 was 1,339 million rising to 2,749 million in 1977, which means that the total number of employed people in the age group 15-64 years has doubled, and at an annual growth rate of 3.6% per annum*. At the same time the number of females employed had grown at an annual rate of 12.4%, which reflected a new development in the attitude of society to working women, as well as other factors such as economic necessity. Furthermore, the average annual growth rate of gainfully employed people (3.6%) was higher than the annual growth rate of population in the age group 15-64 years (3%) which indicates that an increase in the labour force was required.

Actual figures of the distribution by economic activity of the gainfully employed people in Iraq together with the relative importance of these activities for the year 1977 are shown in Table 4.4. The proportion of the gainfully employed in services is higher than the comparable figures of other economic sectors, because of new opportunities for jobs created by expanding government offices and services. The service employment proportion was about 31.3%. Still the proportion of the gainfully employed population employed in agriculture is high, the proportion being 30.8%. This phenomenon is one of the common characteristics of developing countries. But comparing this proportion with those of 1962, 1972 shows a decline of the proportion of the people employed in agriculture. This reflects the incident of the high migration of peasants from rural to urban areas driven by the poverty prevailing in rural areas of Iraq during the past decades, and attracted by new jobs offered in the cities. Further, the proportion of gainfully employed people employed in other economic sectors shows an increase over that of 1972 (e.g. the gainfully employed people in extraction industries in 1977 was more than double (2-3 time) of 1972). Women's participation increases in agriculture, industries and services and constitutes 17.45 of gainfully employed people (e.g. the total number

* Population in Iraq, paper presented to the World Population Conference - see Ref. 3.

Table 4.4: Gainfully Employed Population Distributed by Economic Sector, 1962, 1972, 1977

Sector	1962		1972		1977	
	Employers		Employers		Employers	
	No.	%	No.	%	No.	%
Agriculture	733,900	45.90	2,110,593	69.56	943,890	30.8
Extraction Indust.	141,000	8.80	121,409	4.80	38,835	1.27
Oil Sector	-	-	12,798	.42	284,395	7.47
Construction Sector	58,000	3.60	69,209	2.28	321,696	10.5
Commerce	100,000	6.20	160,000	5.27	224,104	7.32
Transport	110,000	6.90	158,000	5.20	177,799	5.8
Services	245,000	15.30	320,000	10.55	957,979	31.31
Electricity and Water	11,800	.80	16,472	.55	23,190	.76
Others	200,000	12.50	65,832	2.17	89,326	.29
Total	1,599,700	100	3,034,313	100	3,061,214	100

Source: Central Statistical Organisation, Statistical Pocket Book, 1974, and Abstract of 1979, Central Statistical Organisation Press, Baghdad, 1974, 1979, p 138 and pp 38-39, Ministry of Planning Press, Baghdad.

of women employed in the services in 1977 was 86,000¹⁴ which was considered the second, after agriculture and industry).

It can be concluded that the labour force structure has shown some changes, and all economic sectors show an increase in the proportion of gainfully employed people with exception of agriculture. Although this has a high proportion of the gainfully employed population compared with other economic sectors, it shows a decline in its proportion and this may well continue in the future. Further, increases in the number of women in the gainfully employed population will continue, because of changes in society toward working women, new opportunities for jobs, high enrolment in schools, and economic necessity. These changes have an effect on the behaviour of the State Trading Organisations and their strategic decisions, because of the demographic changes resulting from movement of labour forces within economic sectors and the effect of this on their output, and changes in family income, time and behaviour.

4.1.6 Religion

Iraq as a nation welded many ethnic, linguistic and religious groups into a whole. Islam is the dominant religion since the seventh century A.D. In 1975, it was estimated that 11.3 million of the projected population (11.9 million) were Moslem, and most of the rest of the population belong to minorities, mainly Christians (241,140), Yazidis (102,330), Sabians (20,940), Jews (4,680)¹⁵ and others.

The Iraq Constitution has stated that the State religion is the Islam, and it is the main source of laws and legislations. But at the same time, it is stated clearly that the other religious groups "the people of the book" have to be allowed to administer their own affairs according to their own laws. So, recently, they have felt more secure than in previous decades.

The influence of religion on social life and consumer behaviour is of great importance, particularly in some closed religious areas

and in the rural areas where it is sometimes difficult to differentiate between religion and social customs, and the religious communities have played a pre-eminent role in the lives of people. It is impossible to find pork in the meat market and most people do not drink alcohol. Fatalism has also affected the social and economic life of the population and their way of thinking and behaving as well as their ambition.

A growing process of new allegiance has taken place during recent decades founded not on religion or language but according to occupation, wealth, social class and political party. The government policy of enforcing the central authority's power, rapid urbanisation and increased number of educated people have all contributed to shift the ways of thinking and behaving. People have become more aware and believe that they can improve their life and influence their destiny. There is a corresponding willingness to attempt new ways to meet their needs and wants and to become more ambitious and concerned about the future.

These developments in the thinking and behaviour of people create new changes in the environment with which the State Trading Organisations have to cope as a result of a new style of living which has an impact on the demand for products and services.

4.2 Education and Literacy

The educational level of the population has considerable implications for marketing systems' operations and strategy. It affects these both directly and indirectly in two ways. Firstly, it affects the general population as consumers and secondly it has a bearing on the supply of personnel at various echelons within the marketing system. Moreover, a meaningful relationship exists between education and income. The salary attached to a bachelor degree is higher than a secondary certificate, and the salary of master degree is higher than the bachelor's. It is obvious that an increase in the number of people of higher income increases the monetary size of markets. In addition, the increasing number of

educated people has further implications for marketing. A "great variety of products and higher quality products are demanded as people tend to develop life styles they deem appropriate for their educational level."¹⁶ Then, the shift in demand from goods to services seems to be related, in part, to a more educated society. Moreover, "at a more advanced level of education, the consumer tends to become more rational in his buying habits"¹⁷, which has important implications for marketing in Iraq, where supply mostly falls short of demand. It is expected, as Carson argues, that the educated second generation of a non-educated family, has shopping habits entirely different from its forebearers. The differences are not so much a matter of social distinctions as they are of educational levels."¹⁸ This is apparent in the movement of these young educated people who try to change not only their shopping and buying habits but their family's too, because Iraqi families buy more than they need, and throw away after each meal between 10-25 per cent of the quantity cooked, or some of the food has deteriorated because of a long storage period. Such wastes constitute over-consumption.

In general, it can be seen that the level of education has "a positive impact on product performance, promotional methods and the type, size and strategy of retail institutions that serve the highly educated market segments."¹⁹ The following sections focus on education and literacy, analyse them and highlight their implications for the marketing system and marketing strategy of the State Trading Organisations in particular.

4.2.1 Education

The government has recognised the importance of educated people in implementing its national development plans and improving the standard of living, so it makes persistent efforts to extend educational services throughout the country, trying to overcome the difficulties caused by building shortages and lack of trained personnel.

The responsibility for administering the educational system is shared between the central government on the one hand and local administration on the other. There is a Director of Education who is responsible to the Ministry of Education for all technical matters. All policy decisions, whether long or short-term, are made by the Ministers of Education through an Educational Council which is chaired by the Ministry of Education, and its membership includes the two under-secretaries and all the General Directors.

Higher education is administered by the Ministry of Higher Education and Scientific Research. However, the Universities are autonomous in most of their technical and professional functions.

Various technical Ministries such as Agriculture and Agrarian Reform, Communications, Health, Industry and Labour and Social Affairs also organise training programmes which are aimed mainly at the skilled workers' level.

The Iraqi Government finances education of all types and at all levels, from the kindergarten to the University, even to the extent of providing stationery and text books. The government's interest can be measured, firstly by the size of allocated resources or funds, and secondly by per capita expenses. As shown in Table 4.5, the allocated funds increased from I.D. 9,345,730 in 1971 (nine million, three hundred and forty five thousand and seven hundred and thirty Iraqi Dinnar), to I.D. 35,323,000 in 1980 (thirty five million, three hundred and twenty three thousand Iraqi Dinnar). The per capita expenses has increased from I.D. 23.9 in 1971 to I.D. 359* in 1980.

The shortage of buildings and facilities was one of the most serious problems which faced the government in attempting to implement its policy of expanding the education services so that crowded classes and the locating of more than one school in the same building

* There are several reasons for such an increase in per capita expenses, e.g. increased student enrolment, the provision to students of free tuition, text-books and stationery and allowance and the rising cost of university facilities and an increase in the number of staff and, consequently, salaries ... etc.

Table 4.5: The Expenditure on Public Education

Year	Per Capita I.D.	Allocated Funds I.D.
1971	23.90	9,345,730
1980	359.00	35,313,000

Source: Extracted from Al-Attar, A.G., "Planning of Education and Its Importance for Economic Development in Iraq", unpublished paper No. 31, submitted to the Conference of Social and Economic Development in Iraq held 10-12 April, 1982, p 13.

became common practice. Despite the shortage of educational facilities in some areas, the rate of construction of schools exceeded the rate of economic development. Table 4.6 shows that the annual average rate of building kindergarten schools was 12.1 per cent, at primary school - 6.6 per cent, secondary school - 7 per cent, industrial school - 35.8 per cent, agriculture school - 6.9 per cent and commercial school - 80.6 per cent. Two important points emerge from these figures, first the rate of growth in three kinds of schools, namely kindergarten, industrial and commercial schools, is greater than that of the others. Second, these three significant increases are a result of identifiable causes. An increase in the number of women joining the pool of employment, the need for kindergarten and new industrial development requires skilled workers and running a business needs skilled clerks.

In addition, the government has recognised the importance of trained personnel to implement the expansion of educational services, a point demonstrated by an increase in the annual rate of growth in trained personnel at all levels. The same three levels of schools (kindergarten, industrial and commercial schools) had a higher percentage growth rate than other schools.

Table 4.6: The Number of School Buildings in Iraq
(During the Academic Year 1968/1969-1977/1978).

Kind of School	1968/69 No.	1977/78 No.	The Annual Rate of Growth (%)
Kindergarten	135	282	12.1
Primary School	5137	8145	6.6
Secondary School	840	1376	7
Industrial School	9	38	35.8
Agriculture School	13	21	6.9
Commerce School	4	33	80.6

Source: Extracted from Khalaf, Flayah H, "Development of Human Resources in Iraq", paper no. (19) unpublished, presented at the Conference on Social and Economic Development in Iraq, held at Basrah University, 10-12 April, 1982, p16.

Table 4.7 shows, during the period 1968/1969-1977/1978 an annual growth rate of trained personnel of 34.9 per cent in kindergartens, 31.3 per cent in industrial schools and 80.3 per cent in commercial schools, while the annual growth rate of trained personnel in other schools ranged between 6.2 and 16 per cent. This reveals some demographic changes in Iraq and has some implications for marketers. These Tables also support the pattern of growth enjoyed by the three kinds of schools, kindergarten, industrial and commercial.

Furthermore, one way of presenting the educational achievements of a country is to analyse them quantitatively with reference to the demographics of the country. According to the figures shown in Table 4.8, the percentage of students in primary school increased from 43 in 1957 to 95.3 in 1977, that is, more than double that of 1957. In secondary schools the percentage enrolled within the 13-18 years age group was 8 per cent in 1957, while in 1977 this percentage increased to 53 per cent. An important development was in the number of students enrolled in universities and higher institutions. This was 1.3 per cent of the population in 1957, while the percentage increased in 1977 to 10 per cent of the population

Table 4.7: The Number of Trained Personnel at All Levels in Iraq During the Period (1968/1969 - 1977/1978)

Level of School	Academic Year 1968/1969 (No.)	Academic Year 1977/1978 (No.)	Average Growth %
Kindergartens	551	2,280	34.9
Primary Schools	47,058	73,325	6.2
Secondary Schools	9,378	19,580	12.1
Industrial Schools	304	1,160	31.3
Agriculture Schools	290	646	13.7
Commercial Schools	64	527	80.3
Universities and Higher Institutions*	1,881	4,496	16

Source: Compiled from various Annual Abstracts of Statistics issued by the Central Statistical Organisation, and from publications of the Ministry of Education in Iraq.

which means that during the period 1957-1977, there was more than a seven-fold increase in the number of students in the 19-23 age group. These increases in enrolments in schools would create a demand for new products, increase the existing demand for books and stationery and could have an effect on buying behaviour.

By the Revolutionary Command Council Decision No. 102, dated 7th February, 1974, the Ministry of Education and Higher Education and Scientific Research provide free education, at all levels (including even books and stationery), and promising students are sent abroad on scholarships for the purpose of specialisation after obtaining the bachelor's degree. The system of education is organised into two years kindergarten, six years of primary school and six years of secondary school. The secondary school programme is divided into three years of basic studies followed by three years of specialisation in academic or vocational subjects. The government established a Foundation for Vocational Education as a semi-autonomous body under authority of the Ministry of Education according to the Law No. 198 of 1975 in order to meet the demand of industries and services for skilled labour (agriculture, industry, commerce, home economics, communication ... etc.). Higher education is provided at technical and higher institutes, colleges and universities.

Primary school enrolment is compulsory and free for all children at six years of age according to the Law No. 118, 1976 from the academic year 1978/1979. The total number of students attending these schools increased from 416,600 in 1957 to 2,048m. in 1977. The percentage of the 7-12 age group represented by enrolled students rose from 43 per cent in 1957 to 95.3 per cent in 1977. There are, however, more boys than girls in primary schools, although the percentage of girls increased from 24.2 in 1957 to 37.35 in 1977. This percentage will increase even further when Law No. 118 is fully implemented. This Law lays down stringent rules and imposes specific punishments to be imposed on families whose children are not enrolled in primary school at six years of age. This was necessary because in the past, thousands of families were reluctant to enrol their children or allow them to attend school. This was particularly true

in the case of girls, for a number of reasons such as economic necessity or social attitudes.

The figures in Table 4.9 show that in 1977, there were 669,300 students in secondary schools of which 489,100 were boys and 210,200 were girls. Just as in primary schools, therefore, so in secondary schools, the number of boys greatly exceeds the number of girls. Nevertheless, the percentage of girls increased from 23.6 in 1957 to 30 per cent in 1977. An examination of the figures in Table 4.9 shows an increase both in the absolute numbers of secondary students and in the percentage of the 13-18 age group represented by these students. The percentage increases are as follows:

<u>Year</u>	<u>Per Cent</u>
1957	8
1965	22
1971	30
1977	53

Providing books and board and lodging allowance for university students and new opportunities for jobs created for secondary school certificate holders will have an important influence on the development of secondary school enrolments.

Higher education is provided in seven universities located mainly in Baghdad, Mosul, Basrah and Arbil and technical and high institutes which award the Diplomas. The universities offer B.A., B.Sc., M.A., M.B.A., M.Sc. degrees and, in some fields such as Law, Economics and Art, Ph.D.s. An examination of the figures in Table 4.9 shows that the absolute number of students enrolled in universities in 1977 was more than double the numbers enrolled in 1957, and the percentage of such students within the 19-23 age group increased seven-fold, from 1.3 to 10 per cent, during the same period. The number of students enrolled in the universities will increase with the provision of two new universities (Al-Rasheed and Al-Kufa).

Table 4.8: Iraqi Population and Students' Enrolment at All Levels of Education During the Period (1957 - 1977)

(Thousands)

Population and Students	1957	1965	1971	1977
Population	6298	8220	9750	12061
Male	3183	4164	5021	6194
Female	3115	4056	4729	5867
Primary Total Enrolment	416.6	943.5	1200	2048
Male	315.4	665.0	852	1283
Female	101.2	278.5	348	765
Secondary Total Enrolment	51.5	183.5	317.1	699.3
Male	39.3	135.2	225.0	489.1
Female	12.2	48.3	92.1	210.2
Higher Education Total Enrolment	5.1	24.0	48.1	85.4
Male	3.8	17.0	37.6	59.0
Female	1.3	7.0	10.5	26.4
Total Enrolment at all Levels	473.2	1151	1565.2	2832.7
Male	358.5	817.2	1114.6	1831.1
Female	114.7	333.8	450.6	1001.6
Population In Age Group (7 - 23)	2007.7	2618.9	3322.5	4309.0
Primary (7 - 12)	969.7	1264	1568	2149.0
Secondary (13 - 18)	638.3	834.4	1072	1320.0
Universities (19 - 23)	399.7	520.5	682.5	840.0
Total Enrolment in Age Group (7 - 23) %	23.6	43.9	47.1	65.7
Primary %	43.0	74.6	76.5	95.3
Secondary %	8.0	22.0	30.0	53.0
Higher Education Universities %	1.3	4.6	7.0	10.0

Source: Compiled from various Annual Abstracts of Statistics issued by the Central Statistical Organisation, the Ministry of Education and Higher Education and other sources. The figures reproduced in the table and the percentage calculated.

To sum up, absolute numbers of students enrolled in all schools and at all levels have increased and the proportion enrolled within each age group has also increased during the past few years. There are many indications that this increment will continue, particularly after the completion of new universities. This development may result in changes in the labour market, and in attitudes, behaviour and shopping patterns. The consumers may demand more advanced products, better services and higher quality of goods.

4.2.2 Literacy

During the last two decades the government has devoted more attention and resources to the problem of illiteracy in Iraq. It enacted the Law No. 153, 1971 which was amended in 1973 when it failed to tackle the problem successfully. The most important legislation was that of May 1978 by which the government enacted the Law No. 92, 1978 according to the Revolutionary Command Council Decision No. 677, 22nd May 1978, under the term of which the President of Iraqi Republican will lead the campaign to put an end to illiteracy.

As shown in Table 4.9, illiteracy has shown a decline, but still Iraq suffers from a high proportion of illiteracy among the population. The percentage of illiterates to total population (from age 10 upward in 1957 was about 82 per cent, falling to 70 per cent, and further still to about 52 per cent in 1977, which means that in twenty years the percentage decline was about 37%.

Table 4.9.: The Percentage of Illiteracy in Iraq (Census of 1957, 1965 and 1977)

Years Sex	Census of		
	1957 %	1965 %	1977 %
Male	71	57	35
Female	92	83	70
Total (%) Average	81.5	70	52.5

Source: Census of Iraq in 1957, 1965 and 1977.

The number of illiterates enrolled in the special centres increased from 14,740 in 1968/1969 to 93,050 in 1974/1975, and to 148,771 in 1976/1977, when the total number of illiterates according (1.536 million female, .677 million male). The impact of the new legislation, rules and procedures will cause the number of illiterates to decline substantially since, without proof of enrolment in a special centre, a peasant will not be able to get a loan and a worker will not be promoted. Other rules will exert similar pressure. So, it is projected that in 1983 illiteracy will decline to about only 24 per cent. This decline in illiteracy has many advantages for Iraq, because the high percentage of illiteracy among peasants and workers in every economic sector affects their productivity, their income, their buying behaviour and shopping patterns, and their ability to use advanced tools and techniques in various economic sectors, all of which have implications for marketers.

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CHAPTER FIVE

Marketing Infrastructure Dimension

The infrastructure of marketing in any country affects the organisation's operations and its marketing plans and decisions, because of its effects on inventory policy, flow of goods, and customer services. The environment in Iraq, of which the marketing infrastructure is part, has its own characteristics which restrict the smooth flow of goods to the ultimate consumer. Three important elements of marketing infrastructure are transportation, wholesaling and retailing. To facilitate comprehension of their characteristics and effects, these elements will be treated separately.

5.1 Transportation

Transportation is simply that part of physical distribution concerned with making the physical delivery of a product or service. It is one of the more obvious aspects of physical distribution which has received most attention, because of its effects on the cost of goods, customer services and inventories. Inadequate transportation may lead to excessive inventories, poor customer services, poor material handling and increased transportation expenditure. Since marketing operations are dependent upon "the smooth, regular flow of both goods and messages, few elements of the economic infrastructure areas important for the development of an efficient modern marketing system as transportation and communication."¹

The organisation marketing planning in Iraq, as in other developing countries, has been seriously affected because of the inadequacy of the transportation system. For most of the goods, particularly imported goods, most of the cities in Iraq depend on Baghdad for their supplies, because it has the biggest share of wholesale and retail institutions. Moreover, villages and counties located on the outskirts of the cities tend to produce to local markets. So an improvement in transportation facilities could alter the situation substantially by expanding the available market to a

region or even to the country as a whole. For example, by paving the roads between some provinces and Basrah city offered the opportunity to supply its market with tomatoes for a three-month period in Spring, whereas previously Basrah's market has experienced a shortage of tomatoes at this time of year.

The five basic transportation methods are, by road, rail, air, sea and inland waterways.

5.1.1 Road Transportation

The need for an efficient and extensive system of roads is of crucial importance to Iraq, perhaps because the other transportation methods have not yet developed sufficiently to constitute an efficient and modernised handling system. For example, the railway routes do not pass through many cities.

Figures in Table 5.1 show that road transportation handles a large volume within Iraqi territory; although it is in second place as transportation for freight, it holds the first place for passenger traffic, between Iraqi cities. This share of freight and passenger traffic will increase in the future when the new 1200 km highway is completed, and a number of dual-carriageway roads surfaced to a high standard, are provided.

Until 1974 most goods were handled by the private transportation sector. Since then the state transportation system has gained a larger share of goods handling, particularly after the foundation of the General State Organisation for Road Transportation. In 1979, it handled 3.7 million tons between cities. Its fleet in 1980 approached five hundred trucks, with the capacity of 6,000 tons. It also has buses which handled a million passengers during the period 1975-1981. The total number of government cars in 1973 was 18,202 increasing to 25,002 in 1974, and to 38,014 in 1975.³ The percentage of government trucks to the total number of cars, on average, was 38%.

Table 5.1: Freights and Passengers Handled by Transportation Modes in Iraq from 1975 to 1981.

Transportation Mode	Freights million tons	%	Passengers million	%
Road (Buses or & saloons)	29.2	30.6	269	93
Railway	37.7	39.5	19.6	6.8
Airway	4.4	4.6	.0738	.2
Ports & Inland	24.1	24.3	*	

Source: Ministry of Planning, "Planning Development Indications and Numbers", Agriculture Training Press, 14th July, 1984, pp 77-78.

The State Trading Organisations have their own fleet to carry their goods from docks and warehouses to branches and all other destinations. The total number of trucks owned by these Organisations in 1978 was 840 and increased to 875 in 1979⁴, an increased of 4%. The General State Establishment for Foodstuffs has the highest number of trucks viz 385. This is because it handles heavy goods, e.g. sugar, rice, beans .. etc. It is expected that the government share in freight and passenger road traffic will increase in the future as a result of the increase in the number of government trucks and buses increases, and increased dependency on government agencies for handling freight and passengers due to the higher cost of private transport.

At 31st December, 1960 there were 60,173⁵ motor vehicles in Iraq, increasing to 153,720⁶ in 1974 to 172,997⁷ in 1975 and to 256,165⁸ in 1979, of which 22% was owned by the government. Moreover, of the 1979 total, 54% was in Baghdad with Musol and Basrah coming second and third. 50.9% of the vehicles registered in 1979

* Data is not available probably because this is not a common means of passenger transport. Moreover, there are no government records for this type of passenger travel.

were private saloons, 23.9% taxis and buses, 16% pick-ups and vans and 9.2% trucks. The percentage of trucks declines compared with the 1974 figure. This is due to the number of saloon cars increasing and not to a decline in the number of trucks. This will have an impact on shopping behaviour because people can travel further than before for shopping purposes.

Iraq suffers, as do other developing countries, from the shortage of efficient roads to facilitate the flow of goods. Winter rainfall causes delay in the delivery of goods which may extend to several days. Table 5.2 shows Iraq's roads, classified by types of surfaces, at the end of 1980. Of approximately 22,849⁹ km of roads, 13,394 km have a surface of high standard and this number is expected to increase to 19,412 km in 1983.¹⁰ Next, 770 km have some form of paving, and the remaining 8,685 km have an earth surface. These roads, limited as they are, are deemed a substantial improvement over those of a few years earlier. Moreover, further improvement will take place in late 1984 after the completion of 21 bridges, 1230 km of highways and new two-way paved roads between main cities.

Table 5.2: Types and Lengths of Roads in Iraq

Year	Type	New Paved		Old Paved		Earth, Unpaved		Total	
		km	%	km	%	km	%	km	%
1974		4441	53	1585	19	2313	28	8339	100
1975		4873	41	1673	14	5293	45	11859	100
1976		5685	44	1487	12	5722	44	12894	100
1977		6610	44	770	05	7743	51	15123	100
1978		8922	44	770	04	10559	52	20251	100
1979		11614	53	770	03	9834	44	22018	100
1980		13394	59	770	03	8685	38	22849	100

Source: The Central Statistical Organisation. "Annual Abstracts of 1976 and 1980", The Central Statistical Organisation Press, Baghdad, p 425 and 185 respectively.

The new modern highways which meet international standards connect Iraq with its neighbouring countries, and some highways link a number of Iraqi cities, e.g. Baghdad, Basrah, Maysan, Wasit, Anbar and Mosul. This will reduce congestion in these cities and smooth the flow of transit traffic and long vehicles. The road system provides connection with Damascus, Beirut through Al-Rutba, with Turkey and north Syria through Mosul and with Kuwait through Basrah.

The rural centres are mostly connected with cities by earth and unpaved roads which are not serviceable in the best weather. In winter, most rural areas are cut off from cities, thus affecting supplies to the cities and, thus, the income of peasants.

The foregoing description indicates that the existing road system is still inadequate to serve trade or transportation requirements of Iraq. Because thousands of kilometres are still unpaved and others are not even suitable for cars, such inefficient roads cause serious problems for trade, freight handling, services, availability of goods and the cost of marketing. Moreover, any development plans of economic sectors are confronted with the problem of transportation which affects the successful implementation of the plans, because the outputs or inputs are not delivered economically and at the right time. Furthermore, the road improvements have not been evenly distributed, because the government improved the traditional earth roads, without regard to the need for a careful plan based on the demand for adequate transportation facilities. In addition, when a new road was paved it did not connect to small towns, counties and villages on both sides of the road which restricted its benefits only to main cities and selected destinations. So, road improvements could have a substantial effect on the development of rural areas, and the availability of food to city markets.

Although there is no accurate estimate, it can safely be concluded that quite a high percentage of the population still lives at some distance from all-weather roads. It is difficult to

envisage any smooth flow of goods to any destination without an adequate network of roads penetrating to all destinations. Therefore, although the government in 1980 allocated I.D. 850 million for road improvement which is seven times the amount allocated in 1974, it does seem that a great effort is still required. The provision of increased resources is essential to improve the efficiency of existing roads and to build new ones which adequately meet the transport needs of both passengers and freight.

5.1.2 Railways

In 1980, there were only 1,570 km of rail track¹¹ in Iraq, so many provinces and towns in the country have not any rail transport facilities.

The Iraqi State Railway system has two main routes. The first links Basrah and Baghdad, after which it crosses the river Tigris heading for Kirkuk and ending at Arbil terminal. The second runs from Baghdad to Mosul and connects with the Express Train service of Tell-Kotcheck, thus linking Iraq with Syrian, Turkish and European rail services.

A serious problem confronting the ability of Iraqi state railways to serve their customers efficiently and effectively is that there are two kinds of gauges, metric and standard. Under such a system, goods move from one gauge to another thus increasing costs. Damages may result from the handling involved and some delay is obviously inevitable.

There are other problems which affect the performance of railway operations and any attempts to render better services. The age of rolling stocks is such that some is certainly obsolescent and in need of modernisation. In addition to this, some of the handling equipment requires either modernisation or replacement. The managerial procedures for handling deliveries and notifying customers are so slow that many problems arise for customers and there is congestion in railway yards. Therefore, many customers

prefer to use road transportation because of these problems.

Figures in Table 5.3 demonstrate that although the Iraqi state railways show an increase in tonnage handling and in the number of passengers during the period 1969-1975, there is a decline in their business during the years 1978-1980. The decline is ascribed not to the unavailability of freight or passengers, but to the problems mentioned earlier. Hence, the government has undertaken several steps toward modernising the railways and expanding their services. For example, the government has begun to buy new locomotives and engines to replace old ones (see Table 5.3), to change some metric to standard gauges, and to embark upon a new project to link the east and west part of the central and southern regions. It needs an aggressive effort and considerable investment to modernise the railways to cope with the requirements of the twentieth century. Despite all the facts mentioned above the tonnage handled by railways is still the highest, viz. 37.7 million tons compared with 29.2 million by road and 24.1 million by ports and inland waterways.

5.1.3 Air Transportation

Iraq has airports in Baghdad, Basrah, Mosul and some other main cities, but none of these airports, except Baghdad Airport, can handle international flights according to the standards of international aviation. Because of this and the greater demand for air transport caused by an increase both in tourism traffic and freight volume, the government has embarked upon several projects to build new airports which meet international standards, and the increased demand for this type of transport. So, it has already finished building Baghdad International Airport and Saddam International Airport in Baghdad and three new international airports in three other main provinces.

Iraqi air transportation has enjoyed a substantial growth during the 1980s. Passenger traffic during the period 1970-1975 increased more than three-fold (from 168,218 to 559,474)¹², the bulk of this increase came from international flights. On the other hand,

Table 5.3: Characteristics of Iraqi Railways Transportation

Description	1976	1977	1978	1979	1980
Number of locomotives					
S.G.	-	-	197	193	193
N.C.	174	174	65	86	81
Total	174	174	262	279	274
Length of trucks (km)					
S.G.	1129	1129	1129	1129	1129
M.G.	566	661	460	516	441
Total	1695	1790	1589	1645	1570
Number of Passengers (000)	3519	3490	3380	3351	3053
Goods loaded Ton (000)	5122	4382	5376	6493	6205

Source: Ministry of Planning, Central Statistical Organisation
 Annual Abstract of Statistics, 1976, Table 19/27, p 449
 " " " " , 1979, Table 9/6, p 191
 " " " " , 1980, Table 9/6, p 191.

during 1980 the volume of passenger traffic was about double that of 1975, the bulk of this growth coming from an increase in passenger traffic on Iraqi Airways, which handled 64.7% of the total against the 35.3% carried by foreign airways. The number of passengers increased to 670,749 passengers in 1980. If that freight volume is compared with the 1,011 tons carried in 1970 and the 1975 figure of 3,502 tons, it is clear that Iraqi Airways has enjoyed tremendous and continuous growth. After new airports have been completed and new airplanes have been purchased, air transport facilities in Iraq will flourish still more as its growth continues.

5.1.4 Sea-Port Transportation

The geographical location of Iraq has limited its access to the sea, through its southern border at Basrah province, which links Iraq with a small section of the northern part of the Arabian Gulf. So, the Basrah Seaport facilities have been built on all suitable areas connected with the sea, e.g. Ma'Qil, UmKasier, Faw and Khore-Al-Zubaire. These areas are developed enough to constitute each of them as a seaport and structured establishment, headed by the State Organisation of Sea-Ports, in order to increase their capacity to cope with the increased volume of imported and exported goods.

The port of Basrah has a long history as a maritime and principal outlet in Iraq. Its powerful loading equipment can handle millions of tons of freight traffic per year. The number of vessels entering Iraqi ports has increased during the years 1977, 1978 and 1979 (984, 1,127 and 1,664 vessels respectively). The number of vessels declined in 1980, perhaps because of the war (which began in September 1980).¹³ The quantity of goods imported during the same period had shown increases (3.772 million, 4.191 and 6.717 million tons respectively). The quantity of goods imported in 1980 declined to 6.571 million probably for the same reason above.

It was noticed during the years of late 1970s, that Basrah Port alone was unable to handle the imported and exported goods, particularly in the busy seasons as a result of the increased volume of

imports and exports. This problem revealed itself in the form of congestion in the port, causing delays of between three to six months, which incurred additional cost, extension of lead-time, deterioration of some goods, and delays in receiving goods at the proper time. According to the researcher's experience covering a period of more than six years service in the transportation department at Basrah Sea-Port, a considerable amount of money was paid in respect of waiting vessels, and a Committee chaired by the Deputy Minister of Transportation held several meetings and took some action to solve the problem. As a result too, the government has begun to build new docks, to reach a total of sixty-four by the end of 1985,¹⁴ compared with the 1975 total of thirty-eight, in order to increase the port's capacity. There are other problems, and in order to relieve the congestion, there should be considerable cooperation between all physical distribution activities which are concerned with accelerating the flow of goods. Then, charges for storing goods at shipyards should be changed, because most customers do not collect their goods on arrival, since it is cheaper to keep them in the shipyard instead of receiving them on arrival. Some yards' equipment, particularly the handling equipment, requires modernisation and new systems of handling must be introduced.

5.1.5 Inland Water Transportation

Most of Iraqi cities are located beside Iraq's two main rivers the Tigris and Euphrates, so the river transportation carriers have an impact on transportation. So, the number of carriers in 1976* was 2,440 of which 93% were private and 7% were state-owned.¹⁵

The quantity of goods transported by river in 1978 was 50,149 tons. Since then, freight volume has begun to decline (41,570 tons in 1974 and 27004 tons in 1975). This kind of transportation is preferred, because of its low cost and the quantity which can be loaded. But this is counterbalanced by the time it takes to deliver

* The only available data.

goods (it takes six weeks up river at least and about four weeks down river). The government has tried to improve this kind of transportation and set up the General State Establishment for Inland Water Transportation which built docks and other facilities, but no substantial improvement has been realised so far, perhaps, because of the decline in river levels, river conditions imposing improvement in navigation, and the decline in customer numbers which began in 1975. So, the role of this kind of transportation will diminish in the future, unless an aggressive effort is made and resources are invested to improve the situation.

Summary

To sum up, the foregoing quantity and quality of transportation facilities in Iraq are quite inadequate to meet the country's needs. This inadequacy is reflected in transportation crises which caused delays in freight handling, long queues of passengers at transportation stations and five-fold increase in passengers cost. The government recognised the problem too late and although it invested a great deal of effort and money to bring about improvement, it will take some years to solve the problem.

5.2 Wholesale and Retail Trades

Wholesale and retail trades form an important sector in Iraq's economy. This importance in the first place stems from the large number of people employed in this sector. Second, these trades can participate in boosting Iraq's economy and increase the added value, particularly through exporting. Third, although imports cause a deficiency in the balance of payments, they contribute to economic development through obtaining necessary technology and by providing the means which may accelerate that development.

It is difficult to assess the structure and importance of the wholesale and retail trades since there has been no consistent census of such establishments. The available census of such establishments are those of 1956 and 1975. The nineteen years separating the two

counts does not permit an accurate assessment to be made of pattern of changes in structure and importance of these establishments.

These establishments vary in size, type of goods dealt with, and detailed accounts of business conducted. Prior to the 1950s, there was a limited number of large department stores which had many product lines and kept detailed accounts. Most of the other stores were small, usually family owned and they used a primitive type of accounting, laying emphasis mostly on credit.

5.2.1 Wholesaling

Baghdad, as well as being the political capital of Iraq, is its commercial heart, dominating the wholesale trades and imported goods. The Al-Shorgah market located in Al-Rasheed Street, is the centre of wholesaling in Iraq for all types of goods.

Basrah province is the second wholesale trade area particularly for palm tree dates and imported goods. Mosul province is the third trade area for particular products, e.g. crops, textiles and fruits.

The number of wholesale trade establishments has declined from 1807¹⁶ to 1499 between 1957 and 1975. But the percentage located in Baghdad province itself increased from 38% to about 85% in the same period (600:1278). The number of people working in this sector in 1975 was 2,719 which means that more than 45% of the 5,000 people employed in wholesaling left the sector for other jobs. These changes have to a large extent been brought about by the fact that the State Trading Organisations have dominated the wholesale trade activities. But although the wholesale trade showed a decline in the number of establishments and employees, the sales volume increased from I.D. 54 million to I.D. 71.666 during the same period, because items with a high margin of profit and high turnover were selected.

Yarn, cloth, ready-made clothes and leather products constitute the largest section of wholesale trade business, amounting to 49.5% of the total. Agriculture crops, at 13.5% form the second largest

section while the third in importance includes foodstuffs, beverages, tobacco and cigarettes which together total 10.9%. A variety of other goods make up the remaining 2.6%.

It can be assumed that the decline in the number of wholesale establishments and the number of people employed in the wholesale trade may well continue in the future because government agencies have undertaken many of the functions practised by private wholesalers. Moreover, although the data provided by the 1957 census and that of 1975 is not sufficient to present an accurate and consistent indication of structural changes, it is clear that some changes have occurred, e.g. the agriculture group, which was the largest in the 1957 census, dropped to second place in importance by 1975. Finally, the wholesale trade and imported goods in particular will witness some changes in structure and importance, because the State Trading Organisation monopolise foreign trade and dominate domestic trade.

5.2.2 Retailing

Figures in Table 5.4, show that the number of retail outlets according to the domestic census of 1975 was 77,766 establishments, that is, more than double the 1957 figure of 36,000¹⁶ establishments. Moreover, the total number of people employed in retailing in 1975 was 106,823, more than double (2.27 times) the 1957 figure of 47,000 as opposed to the decline experienced by the wholesale trade.

The retail trade structure in Iraq differs from that of the wholesale trade, having a rather special pattern found in some of the cities of other countries. Most of the retail outlets are concentrated in the city centre market which is called a bazaar. The bazaar is divided into sections, each section having retail outlets dealing with particular kinds of goods, for example, foodstuffs, beverages, tobacco and cigarettes, yarns, cloths and ready-made clothes, leather products, such as shoes, and chemical products ... etc. The bazaar is the commercial heart of each city. There

Table 5.4: Number of Retail Establishment
In Each Province in Iraq

No.	Province	Number of Establishments	
1.	D'hock	1248	1.6
2.	Nineveh	6518	8.4
3.	Al-Sulaimaniya	7012	9.0
4.	Al-Ta'meem	4419	5.7
5.	Arbil	3437	4.4
6.	Diala	3736	4.8
7.	Al-Anbar	2165	2.8
8.	Baghdad	10563	26.4
9.	Babylon	3459	4.5
10.	Kerbela	2098	2.7
11.	Wasit	2359	3.1
12.	Salah Al-Dean	1738	2.2
13.	Najaf	3058	3.9
14.	Qadisiyor	2366	3.1
15.	Muthana	1194	1.5
16.	Thi-Qar	3362	4.3
17.	Maysan	1622	2.1
18.	Basrah	7416	9.5
	Total	77766	100

Source: The Central Statistical Organisation - Survey of Domestic Trade, 1975.

are smaller scale bazaars in Qadhas and Nahias*. Retailers are less concentrated than wholesalers. Then, in every locality, a number of small retailers have been founded to sell a limited number of goods to people of the locality.**

Until the late 1960s, the peasants came from surrounding villages to the town or rural centre bazaar. They sold their products (e.g. chickens, eggs, vegetables ... etc.) and bought what they required, (e.g. clothes, sugar, tea, tobacco or cigarettes). This practice has begun to diminish.

In Iraq, retail goods flow through different channels, such as:

- (a) Merchant
- (1) Private Wholesaler
 - (b) Small retailer
 - (c) Pedlars
- (2) State Wholesaler
 - (a) State retailer
 - (b) Private retailer
 - (c) Cooperative retail outlet
 - (d) Private wholesaler

The (a) type no longer exists, because a new type of channel has been created. For several years past cooperative retail establishments have been founded to buy goods for sale to their members only.

The modern western type of department stores did not exist prior to 1964. The only small-scale department store previously found was "Orzdybag" which was French-owned and located only in three main

* Qadhas and Nahias are smaller administrative units in the public administration in Iraq.

** The town is divided into many administrative units each called a locality.

provinces, Baghdad, Basrah and Kirkuk. The new western type of department stores have flourished in the 1970s since the introduction of the State Trading Organisations. The retail trade has changed in structure and importance during the last two decades, because of the creation of new types of channels.

To sum up, most of the wholesale and retail trade establishments operate on a proprietorship basis and the majority of workers in these establishments are members of the proprietor's family, and probably lack management talent and skills. After 1964, the State Trading Organisations were founded and began to increase their share of business at the expense of private wholesalers and retailers, and new distribution channels began to emerge. These changes have had an impact on the structure and importance of wholesale and retail trades which may eventually give the State Trading Organisations a monopoly position in relation to foreign trade and leadership in the field of domestic trade. As a result, private trades will retain only a small share of available business.

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CHAPTER SIX

Legal - Political Domain

Wholesalers and retailers today have to operate within an increasing number of environmental constraints. This framework of constraints is part of an environment consisting of what have been called the external environmental variables (e.g. government action to limit the freedom of marketing decision-making). A "significant environmental factor has always been the legal and legislative foundation for business."¹ These uncontrollable variables have a direct effect on the outcome of the State Trading Organisations' strategy.

An analysis of today's political currents in Iraq, reveals trends that might be regarded as a form of socialism. Something new - some realignment of forces, the introduction of different policies, adoption of a new philosophy, has taken place during the last two decades and perhaps will continue in the future. Since the Revolution of 17th July, 1968, the number of laws and regulations governing specific business behaviour has increased. Government intervention in business in Iraq and other developing countries exceeds that experienced in Western countries.

This chapter focuses on legal and political variables, analysing and highlighting their effects on wholesalers and retailers.

6.1 The Legislature

After the Revolution of 14th July, 1958, Iraq was declared a Republic. In 1970, a provisional constitution was adopted after twelve years of instability. This constitution forms the basis of the present political and economic structure.

The Revolution Command Council has legislative power according to Article 53 of the Constitution, until the election of a National Assembly. Executive power is vested in the Chairman of the Council,

who is at the same time the President of the Iraqi Republic. The Chairman of the Revolution Command Council (R.C.C.) exercises his power through his ministers in accordance with the provisions of the Constitution.

6.2 Regulations Affecting Trade

The purpose of government regulations is to shape business behaviour, this policy being based upon a number of premises. Retailers and wholesalers in Iraq have not developed to such a large extent that they can influence government decisions or affect the purchasing behaviour of consumers or even society as a whole. Indeed, their comparatively small size makes them vulnerable to government intervention. Moreover, retailing is the ultimate business transaction dealing directly with the consumer through advertising, promoting, selling and financial products. Furthermore, because customers are most aware of marketing abuses at this level, it is easier to introduce regulations in this area. A multiplicity of regulations affecting trade are to be found in Health Act No. 39, 1937, Civil Law No. 40, 1951,³ Commercial Regulating Act No. 20, 1970,⁶ Corporations Law No. 36, 1983,⁵ Commercial Law No. 30,⁴ 1984, Commerce Minister's Bill No. 3 and 4, 1983,⁸ and Commerce Regulating Committee's Decision No. 39 on 22nd of January 1984.⁷ The most important regulations affecting trade in the last four of these will be highlighted.

The initial intention of early legislation was to protect retailers and wholesalers from each other to ensure honest dealings and transactions. In effect, the rationale was to ensure honest transactions by preventing certain business practices that would be detrimental to other wholesalers and retailers.

Since the beginning of the 1920s, legislation has focused on the protection of consumers rather than emphasising the protection of the retailer or wholesaler. In the earlier years of that decade, legislation was oriented towards directly protecting consumers and society. Much of this legislation aimed at specific business practices relating to the consumer. The key regulation was the Commerce

Regulating Act No. 20, 1970, which prohibited a) selling goods at more than their fixed price, b) any conspiracies to restrain the flow of goods, and c) specific contracts which restrain fair trade. Commercial Law No. 30, 1984 imposed specific rules relating to credits and endorsements. A chapter in Civil Law No. 40, 1951, put into force in 1953, regulated contracts between buyers and sellers after criticism of the common law, because some retailers experienced certain difficulties and even fraud in certain transactions which were misleading and clearly examples of unfair trade.

Bill No. 3, 1983 issued by the Minister of Commerce regulated the operations and behaviour of retailers, and specified the penalties imposed on retailers violating the Bill according to the Amended Commerce Regulation Act No. 20, 1970. The Commercial Regulating Committee Decision No. 480 of 31st May, 1982 restricted the practice of peddling and specified areas in which pedlars could conduct their businesses. Public Health Act No. 39, 1937, prohibited the adulteration of foods, selling goods after the given expiry date and the misbranding of food and drugs.

An important legislative reform was embarked upon after the enactment of the Legal System Reform Law No. 35, 1977, through which 15 laws and acts were amended or reformed and by which the government expanded the regulatory objectives to include more desirable societal goals such as safer working conditions, equal employment opportunities, consumer product safety, consumer credit protection, child protection, protection of the national environment against pollution ... etc. In addition, the government legislation imposed several rules to shape wholesaling and retailing practices to fit in with government commerce policy, e.g. 1, 8 and 9 of Article Ten which regulate the importing and exporting according to the National Development and Commerce Policy. In 1, Article Ten of the Commerce Regulation Act, No. 20, 1970 lays down specific rules for importing and imposes penalties for failure to observe these rules. There are some local laws regulating the distribution of goods, but now they are rarely implemented. Moreover, the national development plan act which is renewed every five years

affects trade directly or indirectly, because of resources allocation, quotas and rules for importing and exporting which limit the freedom of wholesalers and importers. Furthermore, the Commerce Regulation Act No. 20, 1970 has been amended twelve times to meet the legislative objectives and so it seems reasonable to assume that the number of regulations to shape and guide business behaviour will continue to increase.

6.3 Regulatory Agencies

Regulatory agencies have been established to ensure that in terms of various laws, decisions and bills are enforced. The most important are those which have the widest power and the greatest effect on retail decisions are the following:

6.3.1 Commerce Regulating Committee

In accordance with Article 2, Section 2 of Amended Commerce Regulation Act No. 2, 1970, the Commerce Regulating Committee was established as the sole government agency having jurisdiction over trade to prevent any form of dishonesty in the market place. It is vested with power to exact civil penalties from retailers, wholesalers or firms, through the Courts. The Committee, in executing the will of the government, has also established a variety of rules, decisions and standards pertaining to areas such as deceptive practices, the mislabelling of products and product safety.

To enable the Commerce Regulating Committee to handle various problems of local retailers and wholesalers, and to enforce the law, the Ministry of Commerce has organised eighteen Departments, one in each province. These departments, which are called Commerce Control Departments, have vested in them the power to prevent deceptive and fraudulent practices in the market place, so that the Committee can effectively reach down to the truly local retail levels. This is fostered by State Trading Organisations to take appropriate action against any agent practising deceptive acts. Therefore, the power of the Committee has grown over the years through its decisions based on its interpretation of government intention.

The Commerce Regulating Committee has the widest powers to affect the decisions of wholesalers or retailers. The Committee consists of the Deputy Prime Minister as president, the Minister of Commerce as vice-president, together with the following members:

1. Minister of Finance (Treasurer)
2. Governor of the Iraqi Central Bank
3. Deputy Minister of Industry and Minerals
4. Deputy Minister of Agriculture and Agriculture Reform
5. Deputy Minister of Transportation and Communication
6. Chairman of the Economic Department in Vocational Section in the Arab Ba'ath Socialist Party
7. Chairman of the Commerce Office, the Economic Department Ministry of Planning.

In addition, the Committee can invite any person or professional adviser to attend its meetings to consult him or ask for advice on a particular matter (he does not, however have the right to vote). Since senior officers constitute the Committee membership, it is clear that its decisions are of great significance and reflect a strategic pattern. To demonstrate its importance the following account of its duties and responsibilities are given.

1. It proposes Iraqi commercial policy to the Board of Ministers for approval after which the policy is embodied in the National Development Plan.
2. It monitors and controls the execution of Commercial policy and plans and issues instructions to ensure their successful implementation.
3. It suggests the goods and services which should be subsidised, the levels of subsidy and the prices of goods of particular importance.
4. It designs the pricing policy of other goods and services, not mentioned in 3., and even when necessary, can determine the price of selected goods.

5. It coordinates and organises commercial affairs between economic sectors when it finds this is necessary for the purpose of serving commercial policy.

The powers of the committee include the authority to issue in the first instance a complaint against a firm, wholesaler or retailer, perceived as violating a law under the Amended Commercial Regulation Act No. 20, 1970. If this fails to stop the business practices complained of, then a cease and desist order is issued to the law-breaker. If the cease and desist order is violated, the Committee may attempt to obtain civil penalties put from the court against the firms, wholesalers, or retailers. The Committee has granted power to the Commercial Control Department in each province to follow the above-mentioned procedures.

There are other regulatory agencies such as Health Protection Organisation which can act in the market to prevent any form of deceptive practice regarding selling adulteration and misbranding food or drugs. This Organisation also has the same power as the Commerce Regulating Committee to issue complaints and cease and desist orders or to obtain civil penalties against a firm, wholesaler or retailer perceived as violating the law. The only agencies which have been discussed here are those few which have great importance in terms of their effectiveness. Others have not been dealt with because their effect on trade, whether directly or indirectly, is relatively small.

6.3.2 Popular Bodies

The Commerce Regulating Committee issued Decision No. 30 on 22nd of January, 1984, by which it vested in popular bodies the power to issue complaints against retailers perceived as violating the law under the Amended Commerce Regulation Act No. 20, 1970.

Article 5.a and 5.b of the Decision specified the popular bodies, which are:

- The General Federation of Iraqi Trade Unions
- Iraqi Women's Federation
- Iraqi Federation of Cooperative Farmers Societies
- The Arab Ba'ath Socialist Party Branches
- Popular Board of the Community

The above popular bodies form a committee consisting of the following members:

- Three representatives from the Popular Board of the Community
- Three representatives from the Party
- One representative from each of the other popular bodies

Section Two of Decision 39 specified the procedures to be followed in each case of perceived violation of the law, and also specified the forms to be used.

The aim of the Decision was to reach down effectively to the truly local retailer level. In addition, the regulatory government agencies cannot cover all trading areas, so the participation of popular bodies in this work could increase the range of the agencies' power particularly as in most cases, the Iraqi consumer is reluctant to sue a retailer when he detects a violation of the law. There are many reasons, such as cultural and economic factors, for this reluctance. Therefore the Revolution Command Council issued the Decision No. 97 on 22nd of January, 1985 to encourage consumers to complain or inform the authorities about deceptive acts (e.g. selling at higher prices or refusing to sell at the fixed price) by granting the complainant 20% of the price of the sold item.

It does seem that the authority and functions of these popular bodies and their committees may overlap those of the Commercial Control Department in each province, and thus a conflict could arise which would have to be solved. The popular bodies should be supplementary to the government regulatory agencies and if these

problems of overlap can be avoided, the popular bodies could play an important part in the future.

Section Three of the Decision places emphasis on education and increasing the awareness of both consumer and retailer by providing both with more information. This approach, ignored for decades past, reflects a new trend in the market.

6.4 Regulated Functions

The most commonly regulated functions and those which historically have attracted the most legislative interest⁹ are:

- (a) Pricing
- (b) Promotion

In the following sections, the most important legislation imposing restrictions on these functions is discussed.

(a) Pricing

The most important pricing legislation is the first part of Article Nine of Section Three of the Commerce Regulation Act No. 20, 1970, which prohibited selling goods at more than their fixed price, or refusal to sell goods at their fixed price. Enforcement procedures and penalties relating to this prohibition vary. They may take the form of complaints, cease and desist orders or the exaction of civil penalties. The delegated office or department may obtain a civil penalty from an offender through the court. The civil penalties range from a fine of I.D. 5 to I.D. 500 or 1,000, or a jail sentence of 2-7 years. Article Eleven of the same section prohibited deceptive practices which may affect the price of goods.

The Commerce Regulating Committee Decision No. 480, 31st of May, 1982, obliged the seller to attach to all goods for sale a tag which stated clearly the fixed retail price.

Article Nine of Bill No. 4, 1983, prohibited selling goods below the price calculated under the cost accounting system used for item-pricing, unless the wholesaler or retailer obtained the approval of the Ministry of Commerce in advance.

Pricing is the most important part of the retailing function, though not the only one, which has attracted legislation in Iraq to secure the protection of consumers. In recent years, the effectiveness of this policy has been hampered by the need to solve other problems such as achieving the correct balance between supply and demand and ensuring availability of goods at the right time.

(b) Promotion

Producers, wholesalers or retailers have little opportunity to advertise effectively, because of the restrictions imposed on promotion activities, or the size of wholesaler or retailer operations does not justify such expenditure for economic reasons. The ultimate restrictions within the field of promotion activities¹⁰ are those which prohibit

1. Deceptive price advertisement
2. Questionable labelling practices
3. Providing false or inadequate information

Number Two of Article Thirteen of Amended Commerce Regulation Act No. 20, 1970 prohibits a deceptive act or any price manipulation which would have the effect of giving inaccurate prices or misleading information. The legislation increases the penalty for the repetition of such behaviour, e.g. the fine increases from I.D. 300 to I.D. 1,000, the jail term increases from 2 years to 7 years. Moreover, Article Five of the Commercial Regulating Committee Decision No. 480, dated 31st May, 1982, obliged retailers to show the price clearly on a tag attached to the item to prevent fraud or deceptive practices. Article Twenty-one of Bill 3, 1983, held the retailer or any channel member responsible for selling goods for consumption at a specified package and weight in a prescribed manner. Article

Four of Bill 4, 1983, obliged all channel members to ensure that labels or tags on items should provide specific information, e.g. price, content, characteristics, the name of producer and his address, weight or number, expiry date ... etc. Number Six of Article Ten of the Amended Commerce Regulation Act No. 20, 1970, imposed severe civil penalties for providing false and inadequate product information.

The practices that attract most legislation are false advertising or pricing and false or inadequate product information. Recently, labelling began to receive the attention of the legislative in the 1980s, following pressure from consumer groups, and awareness of the deceptive practices of some retailers. There has been more concern in recent years than formerly over the need for the proper labelling of commercial products because of the increased number of such products, technology and the corresponding increase in the incidences of false or inadequate product information.

It can be concluded that the "retailer as the ultimate business contact with the consumer is now having to face a growing number of governmental agencies that are concerned with consumer welfare".¹⁰ The legislation and regulation available to such agencies have increased. The government has, also, tried to have a greater and more aggressive impact by introducing the popular bodies. Despite this, there are complaints that the available resources are too limited to have much effect. Moreover, while retailers have been the protagonists in promoting anti-trust legislation¹¹ in Europe and America, the protagonists in favour of legislation in Iraq have been the consumers, backed by political parties which support causes with popular appeal and by resolute consumer groups. However, a great deal has still to be done to protect consumers in Iraq. For example, many retailers claim that "once an item is sold it cannot be returned or exchanged", which often constitutes a deceptive act. Many other examples could be cited by the researcher to show how the behaviour of retailers in Iraq differs from that of most retailers in Europe and America. Furthermore, the government has not yet helped the consumer to be better informed in relation to his purchase

choices, in spite of the fact that "a better informed consumer is a different customer to the retailer than a poorly informed consumer."¹² In addition, the government has not yet provided the retailers or wholesalers with an advisory service the effect of which would be to prevent in advance potential violations of the law in their business transactions. For example, recently the government recognised the benefit of such an approach and designed monthly meetings to increase the knowledge of both consumers and retailers. However it did not provide the facilities to enable this function to be carried out apart from creating the popular bodies which were not capable of undertaking the function adequately for a variety of reasons, such as shortage of time, lack of professional expertise, etc.

Coommany¹³ found that ninety per cent of the respondents were not aware of Article Twenty-Three of Bill 3, 1983 which prohibited selling goods imported by the State Trading Organisations by their "agents" or dealing in or buying the same goods and brands from the private sector, unless they are marked "Imported by the Private Sector". The reason behind this is that goods imported by the State are cheaper than the private sector, thus retailers selling these goods as if they were imported by the private sector charged higher prices to increase their profit. This practice was considered a violation of the Bill. Therefore, it is of crucial importance that the knowledge of consumers and retailers should be increased so that they are well informed about legislation pertaining respectively to their purchases and businesses.

In addition, increasing the number of agencies vested with power to enforce the law will confuse both consumers and retailers and cause many problems, because the multiplicity of agencies often leads to either delayed action or inaction which would reduce their effectiveness. Finally, relying on severe civil penalties as one method of solving the market problem is susceptible to criticism. Because if supply fails to meet demand, consumers and retailers may use different approaches to violate the law. The existence of a

black market is inevitable in these circumstances. Despite these facts, the legislative plays an overriding role that affects retailing operations, making decisions with which retailers and wholesalers are forced to cope.

Political Influence

The political element of the business environment will now be considered. Political effects deriving from the orientation of ideology resulting in government legislation imposing on businesses specific policies which have a profound effect on their marketing strategy. The influence of the political environment in Iraq is all-pervasive and its effect on business is different from that experienced in Europe. The reason for including the political element in this chapter is that "political environment of retailing interacts heavily with the legal environment. Existing political philosophies partially dictate the level of government involvement in retailing behaviour."¹⁴

In Iraq, socialism is the political ideology and philosophy which has a profound influence on both business and managerial behaviour and upon society's beliefs about the propriety of business practice. It provides, too, a philosophical model against which to judge the relationship between government and business. The government's philosophy views social progress as a process of change which could and would be controlled by government intervention. Therefore, the government's role has expanded since the Revolution of 17th July, 1968. This resulted in the creation of State enterprises in every economic sector and government monopoly of foreign trade, as well as leadership in domestic trade. Five year economic plans affect the decisions of commercial institutions, both retail and wholesale, because projects are chosen to fit into the pattern of economic development, being programmed across economic sectors, at the same time budgeting for each sector.

"The monetary and fiscal policies of the government regarding interest rate, money supply, tax rate and government spending all directly or indirectly affect retail operations".¹⁵ The provision

of interest-free loans to workers and civil servants coupled with higher incomes resulted in new housing development and the growth of many economic activities. Retailers experienced the effect of this change during the 1970s. Tax rates affect some aspects of a retail establishment, including merchandise prices, profit, inventory levels and location decisions. The government imposes a high tax rate on "luxury" items while other items are taxed lightly.

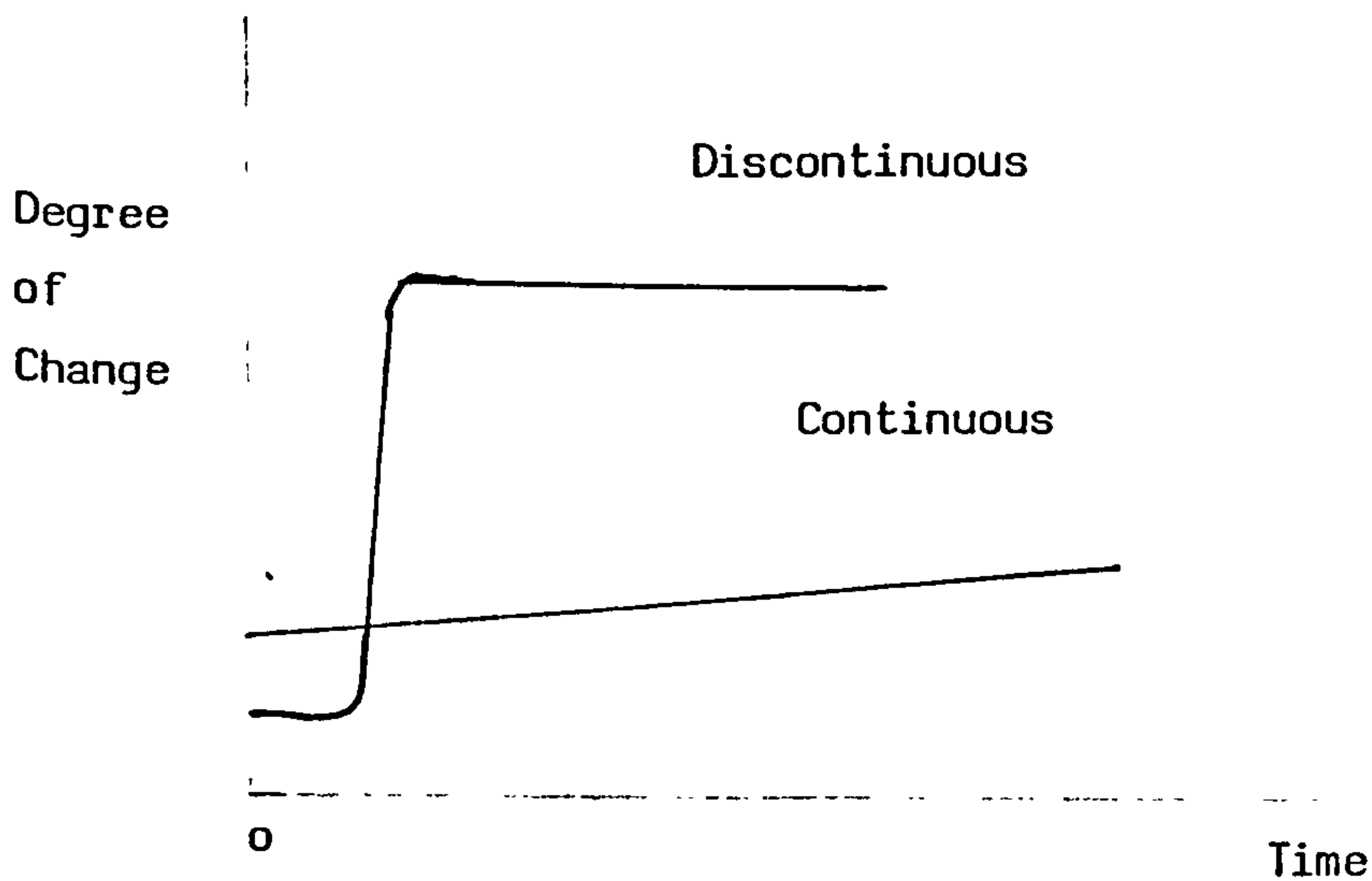
The political influence may have a macro effect in so far as government policies relating to imported goods or foreign investment are concerned, or at a micro level, the ideological orientation of managers may be affected, thus guiding their behaviour and decisions.

Rice classified political risk depending upon the predictability of changes in the political environment as continuous or discontinuous (Figure 6.1). Underdeveloped countries are not affected by continuous or discontinuous changes but highly by unpredictability of changes in the political environment. These changes are discontinuous with surprise elements.

"Discontinuous change in a country's political environment will lead to higher perceived risk than if change is continuous".¹⁷ Therefore at the outset of the Revolution of 17th July, 1968, many wholesalers and retailers were reluctant to invest heavily, because of the fear of nationalisation which prevailed after the Revolution of 8th February, 1963 and its continuation.

One of the findings of this research was that the political variable had the greatest influence on the marketing strategy of the organisations of all respondents.

In addition, in the 1970s, the consumer protection philosophy began to receive more attention than during previous decades and has continued to be considered as one of the most important programmes on the agenda of the political parties. This trend may increase in the future.

Figure 6.1: Change in Political Environment

Source: Adopted from Rice, Gillian, "Political Risk and Marketing Strategy" in Weir, W A, Proceedings of Marketing Education Group, Hull, July 1978, p 188.

It is reasonable to conclude that socialism in Iraq forms the basis for the relationship between government and business, and influences both the government role and the behaviour and decisions of management. This political ideology, which restrains competition, is different from that which prevails in Europe, where freedom is one of the key factors in the whole system. It is also different from Marxism in that it gives a specific role to the private sector within the overall economic system. Therefore, it will affect the structure of distribution, the degree and type of competition, ease of entry into distribution and the costs of distribution. The monetary and fiscal policy of the Iraqi government has a profound effect on retailing and wholesaling operations by limiting opportunities in some business areas. The tax rate policy has an impact on fashion goods, particularly those considered by the government to be "luxury" items. The power resulting from the political environment created opportunities for state enterprises, not because of their efficiency and effectiveness, but because of supportive legislation, at the time posing a threat to the potential expansion of private sectors. Accordingly, domination by state enterprises is likely to continue, with the private sector retaining only a small share of the market.

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CHAPTER SEVEN

Economic Variables

The economic environment affects the marketing strategy of an organisation, because economic factors such as consumers' disposable income, spending patterns, gross national product (GNP), inflation, boom or recession, and credit costs exert an influence on marketing activity and in turn, on the marketing strategy of organisations. Iraq has its own economic conditions, problems and goals which differ from those of developed countries.

The underdeveloped economy is usually distinguished by its low per capita income compared with that of developed economies. In addition, it has different structural characteristics. Thus, the structure of production, trade, consumption, etc., is, in one way or another, different from that of an advanced economy. Some of the "nations are struggling toward economic independence and industrial growth under institutional arrangements quite unlike those of the West",¹ and the East. These new nations, such as Iraq, try to develop their own principles, because they are convinced that Capitalism and Marxism provide only limited analytical value for developing nations. Iraq is one of these new nations which adopted economic development principles which differ from those employed in Western or Communist countries. Such an economic development approach, which aims to transform an underdeveloped economy into a developed one, produces some radical changes in the economic structure, the characteristics of which, with their effects, will be the focus of this chapter. An attempt is made to discuss the main changes in the Iraqi economy and a qualitative approach is followed to explain the salient features of the economy during the 1970s.*

7.1 Gross National Product

The Gross National Product can be presented in different ways. To serve the purpose of this thesis GNP may be defined simply as

* The availability of data was a major factor in determining the nature of the study.

"the sum of the final purchase prices paid for all goods and services produced in the country, including net exports",² or "the total value at recent market prices of all goods and services produced in the country".³ The growth of GNP indicates an increase in the amount of goods and services compared with the amount derived from the original system. Moreover, expenditure by families on final goods derived from GNP can be used to measure the patterns of consumption and reveal some clues for future perspectives.

The distinction between the gross national product and the gross domestic product (GDP = the GNP excluding the external earnings) is more important in the case of Iraq than in the case of many other countries. This is because a large amount of the profits which accrued mainly to foreign petroleum companies from the sale of Iraqi crude oil in foreign markets were retained abroad by the companies and not returned to Iraq. Therefore, although the GDP offered the truer measure of the actual output of the economy, the GNP provided the more appropriate picture of nationally available resources. The 1970-1979 decade was a unique one in the economic history of the country. This period was marked by the nationalisation of oil, and by an increase in oil production and prices. Thus, it had a profound effect on GNP, GDP and per capita income.

There was a GNP of 615.1 million Iraqi Dinnars in 1958 (at prices of 1969), and of 509.6 at current prices (Table 7.1).

The GNP enjoyed a continuous growth during the period 1958-1967 of 4.5 per cent,⁴ and of 9.5 per cent during the period 1967-1978,⁵ thereby exceeding the 3.3 per cent population growth rate which means that average per capita income was increasing during the same period. Moreover, the percentage increase during the period 1973 to 1978 exceeded the percentage during the period 1958 to 1967. This may be ascribed to the increase in oil production and prices which occurred during this period after the nationalisation of oil in 1972. This increase in GNP may continue in the future, but doubt may be entertained, because of the future of oil price, return of

Table 7.1: GNP, Per Capita Income and Per Capita Consumption
During the Period 1958 to 1978

	1958	1967	1973	1978
GNP (at 1969 prices) million I.D.	615.1	915.4	1360.0	2259.6
GNP (Current prices) million I.D.	509.6	994.0	1555.5	7040.6
Population (million persons)	6.49	8.58	10.41	12.33
Per Capita Income (at 1969 prices)	94.8	106.7	130.6	183.3
Average Per Capita Consumption (I.D.)	78.5	115.9	149.4	571.0

Source: Abdul Rassoul, Fayek, "Growth and Structural Changes in the Iraqi Economy", Unpublished paper, April 1982, p 4.

foreign assets, and the volume of oil exports may decline. However, the government has recognised the problem and, in order to reduce the contribution of oil to the GNP, it has tried to develop other economic sectors, particularly industry and agriculture which will be discussed in the next section. The GNP increased to I.D. 16121.2 million in 1980, declining to 11215.5 million in 1981 and rising to I.D. 12967.7 million in 1982. The GNP may increase substantially if new techniques, skills and modern technology are employed in all economic sectors. The Iraqi economy is an economy in transition. As is well known, a transitional economy faces numerous obstacles, e.g. shortages, availability of appropriate technology, size of market etc. To solve some of these problems and achieve economic goals, they utilise the public sector in their planning. The public sector was confined to strategic and major industries and its contribution to the economy in 1972 was 78%,⁶ and the contribution of the public sector in the GNP will increase in the future.

7.2 The Structure of the Iraqi Economy

The main objective of economic planning in the early seventies was to lay down the foundations of a socialist economy. This was to be done by bringing all important means of production and major economic activities such as finance, commercial and industrial enterprises, trade, transport and services under the control of the state. In Iraq, formal economic planning was adopted in 1958, although the establishment of the Development Board in 1950 has been regarded by some experts as marking the beginning of economic planning in Iraq. Certainly, judging by the Board's scope and its machinery, it can clearly be regarded as only capable of implementing some sort of programming function or state interference in the economy. Yet, it was not until the mid-seventies that the state agencies were able to exert complete authority over the entire economy.

The Iraqi economy has experienced some structural changes and growth during the last two decades, because it is heavily dependent on primary production. It is unbalanced, in the sense that it is dependent on its mining industries, i.e. on its oil exports, to finance its bills of imports required for the growth of its infant industries. The 1970's plans presented an increasing stress on restructuring the economy and underlined the importance of self-sufficiency in food production and of expansion and diversification in the industrial sector to reduce dependence on oil.

This section is devoted to reviewing the performance of the Iraqi economy during the 1970s. It will consider briefly the economy in all of its important aspects, thus demonstrating the impact of planning efforts during that period. Economic growth and various constraints affecting it will be examined, with particular reference to agriculture, industry, oil and foreign trade.

7.3 Gross Domestic Product (GDP)

The economy of Iraq has made spectacular progress during the 1970s with a 14.4% average economic growth during the period 1964 to 1979, making it one of the fastest growing in the world. As is

evident from Table 7.2, Iraq's Gross Domestic Product showed a very steep increase. The change in all variables given in the Table has been much higher during the period 1972 to 1975 than during the 1975 to 1979 period. This seems to be the result of the impact of a sudden increase in oil revenue which inflated all sectors of the economy. The speed of economic change seems to have stabilised over these years, 1973-1979. Moreover, the growth rate does not show any regular pattern. The change may be attributed to all the factors affecting the oil sector.

The public sector has been given increasing responsibility in Iraq's economy and development. With the nationalisation of the Petroleum Sector in 1972, the public sector participation in the economy increased from 34.5% in 1968 to 61.2% in 1978.⁷ The private sector's share in GDP was about 20% during the same period. Even since 1972, the private industrial sector has functioned within the context of a plan drawn up with its ceiling determined by the public sector.⁸

In subsequent discussion it will be shown that while growth is taking place in the Iraqi economy, it depends on the oil exports to finance its bills of imports required for the growth of its infant industries. These are largely consumer-oriented in production so as to satisfy the ever increasing consumption demand. It will also be shown that the lack of effective planning policies may contribute to the low level of efficiency in the economy. In these subsections major economic activities such as agriculture, manufacturing industry, oil and foreign trade are selected for discussion to pinpoint certain factors which may be regarded as critical for the further development of the economy.

7.3.1 Agriculture

Agriculture has always been considered the backbone of the Iraqi economy, where in the 1950s over 70% of the population derived their income from agricultural activities. In addition, exports of some crops, e.g. rice, wheat, dates ... etc., during the same period,

Table 7.2: National Income, Gross Domestic Product and Per Capita Share at Current Prices 1964-1979

Year	National Income (I.D. Million)	Per Capita National Income (I.D.)	G.D.P. (I.D. Million)	Per Capita G.D.P. (I.D.)
1964	620.3	80.5	798.1	102.4
1965	679.3	85.6	862.4	108.7
1966	736.8	90.1	933.1	114.1
1967	754.2	89.6	937.7	111.3
1968	840.6	96.9	1062.6	122.5
1969	879.2	98.4	1103.8	123.5
1970	905.4	103.9	1197.3	130.1
1971	1021.2	104.1	1315.0	134.0
1972	1111.0	109.6	1327.1	130.9
1973	1339.4	127.9	1512.1	144.4
1974	2847.1	262.9	3331.5	207.7
1975	3491.9	312.2	3904.0	349.0
1976	4826.1	417.2	5113.8	442.1
1977	5386.2	449.0	5723.9	477.0
1978	6709.9	538.2	7017.0	562.8
1979	10044.9	779.6	10223.9	793.5

Source: Compiled from various issues of Annual Abstracts of Statistics, Central Statistical Organisation, Ministry of Planning, Baghdad.

constituted a major source of the country's revenue. Since then, such exports, particularly rice and wheat, have decline and the government has had to import these crops to meet the demand. X

In pursuance of an overall policy in Iraq, the agricultural sector has always been accorded a position of high importance in allocating resources and plans to develop it because it is regarded as the future oil of Iraq. A number of steps have been taken to modernise this sector, from institutional reforms to technical improvements. Agricultural mechanisation has been given top priority. Irrigation and water storage schemes have been given considerable attention thus leading to an increase in the production of wheat, barley, and rice during the period 1976-1979 (Table 7.3).

Table 7.3: Major Agriculture Crops (000 tons)

	Crop	1972	1976	%1976/72	1979	%1979/1976
1	Wheat	2465	1312	-8.9	1492	13.7
2	Barley	859	579	-48.4	872	50.6
3	Rice	315	163	-93.3	284	74.2
4	Cotton	23	16	-43.8	11	-31.3
5	Dates	450	372	-20.9	389	4.6

Source: FAO: Production Year Book, Rome, 1980, (9)
(Columns 1 and 2 only).

Despite these facts, the study of the distribution of the GDP indicates that the agriculture sector's share went down from 24.5% to 17.7% during the period 1971-1975, with a peak of 27.2% in 1972. (See Table 7.4). This shows the relative decline of agriculture as a surplus generating sector. The absence of a proper irrigation network to protect cultivated land from irregular rainfall and soil alinity, the low level of techniques used in cultivation, the low level of productivity in agriculture as compared with the other

Table 7.4: Distribution of the G.D.P. (Excluding Oil Sector)

		(Percentages)				
		1971	1972	1973	1974	1975
1	Agriculture	24.5	27.2	22.7	17.5	17.7
2	Mining	0.6	0.7	1	0.6	0.5
3	Industry	13.7	14.2	15.4	13.2	14.1
4	Construction	5	4.6	5.6	5.2	5.4
5	Electricity and Water	1.4	1.4	1.5	1.1	1
6	Transport and Communication	9.2	8.7	8.7	9.3	9.3
7	Commerce and Hotel	10.9	10.4	11.8	12.7	11.5
8	Finance, Insurance and Real-Estate	8.7	7.7	7.7	8.9	8.3
9	Other Services	26	24	27.3	31.3	32.2
10	GDP (- Crude Oil) I.D. million	867	988.8	1024.1	1325	1691.5
11	Crude Oil (I.D. million)	448.0	338.3	488	2006.5	2212.5
12	GDP (+ Crude Oil) I.D. million	1315.0	1327.1	1512.1	333.5	3904.0

Source: Compiled from various issues of Statistical Year Book, Baghdad.

sectors, and illiteracy and lack of adequate skills, are some of the important factors which explain the decline in the relative position of agriculture. Moreover, it may be true that rising domestic demand for food consumption has left very little surplus of some crops for export, but the overall performance of the agricultural sector is not seen as a surplus generating one. Although, the government has allocated millions of Iraqi Dinnars to agriculture, less than half of these planned investments were actually fulfilled. For example, in 1969/1970 the allocated funds totalled I.D. 173.5 million, but the actual expenditure on agriculture was only I.D. 54 million instead of the projected I.D. 142.0 million.¹⁰ Therefore, this sector has failed to meet Iraq's growing demand for food grain. Hence, Iraq's dependence on imports of foodstuffs has not declined. By 1977, the cost of agricultural imports reached I.D. 300 million, while it was I.D. 193.5 million in 1975.

7.3.2 Industry

During the 1920s, industries were primitive, confined to consumption products, and no tangible progress was taking place in the industrial sector. Apart from the oil extraction industry, which was owned by multi-national companies, a modern national industry appeared in Iraq only in the 1930s, developing slowly in a restricted field, viz, the construction industries, textiles, dependent upon agricultural and animal products for raw materials, such as the woollen textile industry, cigarettes, leather articles, shoes and cotton ginning. In 1929, the Encouragement of Industry Law was passed exempting many investors from taxes and duties for a period of time which encouraged the establishment of 96 small industrial concerns between 1929 and 1945. Most of those concerns were engaged in consumer products. Because of the increase in the oil revenue, in 1950, the government established the Development Board to distribute the increasing financial resources. Between 1951 and 1954, the government spent on industrial projects only I.D. 2.58 million of the investment allocation to the Development Board programme out of a total of I.D. 14 million originally allocated for the first amended programme. This allocation investment was much

less than what was allocated for other economic sectors. Examining the allocations of the second amended programme of the Development Board's projects for 1955 to 1959 will reveal the negligence suffered by industry. The allocation to the agricultural sector amounted to I.D. 138.4 million, I.D. 121.8 million for transport and communications, I.D. 92.6 million for building and services, whereas as the industrial sector received I.D. 57 million of which only I.D. 32.2¹¹ was spent which indicates the extent to which this sector was neglected. Aliboni¹² pointed out that "new attitudes have been generated by the 1968 Revolution, which, in the 1970 to 1974 plan, presented new socialist objectives, with an increasing stress on industry and on restructuring the economy. The plans stress the importance of self-sufficiency in food production and of expansion and diversification in the manufacturing sector to reduce dependence on oil. However, the impetus of growth in the industry sector came from the following reasons:

- (a) Underdeveloped countries are convinced that industrialisation is the fastest and surest method of economic development.¹³
- (b) Increases in oil revenues which became eventually the most vital source of finance for industrial development.
- (c) Restructuring the Iraqi economy by diversification of domestic industry so as to reduce the dependence on oil revenues as a source of foreign currency.

The progress of the industrial sector is represented by the following Table 7.5. The general index of industrial production shows the level of changes in the industrial production of the country. Development has taken place of a number of industries and many new industrial units have been established. This includes, cement plants, steel plants, an automobile unit, cotton ginning and spinning and a chemical complex, to diversify the Iraqi economy and reduce imports. Table 7.5 shows clearly the predominance of the consumer type industries which cater largely for the non-durable consumption goods. Table 7.5 shows too that in 1974 the ratios of

Table 7.5: Gross Output and Value Added of the Manufacturing Sector at Current Prices - million I.D. 1974

Industrial Groups	Values		Percentage	
	Gross Output	Value Added	Gross Output	Value Added
1. Foodstuffs, Alcohol and Beverages	194.1	33.3	35.5	18.9
2. Tobacco	17.6	7.0	3.2	4.0
3. Textile and Clothing	153.5	58.2	28.1	33.0
4. Leather and Shoes	16.9	5.8	3.1	3.3
5. Wood Products	10.5	3.6	1.9	2.1
6. Paper and Printing	13.0	5.1	2.4	2.9
7. Oil Refinery and Chemical	59.0	28.1	10.7	16.0
8. Non-metallic Products	26.5	13.6	4.9	7.7
9. Metallic, Machinery and Elect. Equipment	46.1	19.4	8.4	11.0
10. Others	9.7	2.0	1.8	1.1
Total	546.9	176.1	100.0	100.0

Source: Central Statistical Organisation, National Accounts, Department of National Accounts, 1976.

the gross output and value added of this group of industries to total gross output and value added of the manufacturing sector were 70% and 59.2% respectively, but the group's contribution began to decline as a result of emphasis on industrial type industries. Industry's contribution to the GDP in 1958 was 7.6%,¹⁴ while in 1975 it was 14.1%. The annual growth rate during the period 1958 to 1968 was 2.7%, while from 1968-1975 the annual growth rate was 3.4%.¹⁵ Between 1968 and 1978, the government invested I.D. 11.8 billion which may have contributed to the development of the sector. This sector will show an increase in output and value added in the future, because of the growing attention received from the government, big investment and the new industries which have been established. Table 7.6 demonstrates the progress of the industry sector.

7.3.3 Oil

The oil sector was developed apart from the other economic sectors of Iraq, because of the domination of foreign-owned companies in this sector. The oil sector is the most vital industry in Iraq, not only because of the revenue Iraq receives from it but also because it is the major source of investment and income and consequently of Iraq's economic development. Exports of oil constitute about 98% of total exports.¹⁶ Therefore, it has become the most important source of "hard" currency to pay the ever increasing bills of imports. Table 7.7 shows oil revenues during the period 1973 to 1980 which created a surplus of millions of Iraqi Dinnars to be employed to develop other economic sectors, while most underdeveloped countries suffer from capital shortages.

The government, being conscious of the eventual exhaustion of oil reserves, decided, at the beginning of the 1950s, to allocate 70% of the revenue from oil exports for the development of other economic sectors, which was not however fulfilled. Then this percentage decreased to 50%, the other half being used to finance the ordinary budget of the government. The government has tried to diversify the oil industry by constructing new refineries for export production, petrochemical plant, and other oil-based industries.

Table 7.6: Index of Industrial Production

(1962 = 100)

Industrial Groups	1970	1974	1975	1976	1977
1. Foodstuffs, Tobacco and Beverages	117.6	175.9	216.0	288.1	325.9
2. Textiles	186.5	268.0	255.4	286.1	312.1
3. Clothing and Shoes	227.7	303.5	313.6	350.4	406.6
4. Oil-Refinery	163.3	215.0	315.7	403.3	421.7
5. Chemical Industries	238.7	310.3	342.7	371.9	365.1
6. Cement and Construction Goods	137.5	182.5	196.5	240.2	310.3
7. Others	186.3	330.3	353.7	407.1	419.2
General Index	156.2	221.7	263.3	324.9	375.0

Gross Output and Value Added at Current Prices
million of I.D. (1964-1979).

Year	Output	Value Added
1964	175.9	63.6
1970	320.1	109.0
1974	546.9	176.1
1978	7069.3	5393.8

Source: Central Statistical Organisation, Annual Abstract, 1976 and 1979.

Table 7.7: Oil Revenue and Surplus (1973-1980)

Year	Oil Revenue	Capital Surplus
1973	2.0	.8
1974	6.8	2.4
1975	8.4	.3
1976	9.2	2.5
1977	9.8	3.0
1978	11.1	3.2
1979	22.5	11.7
1980	26.1	11.1

Source: Extracted from Rudolf Hablutzel, "Development Prospects of the Capital. Surplus Oil-Exporting Countries", World Bank Staff Working Paper No. 483, August 1981, The World Bank, Washington, 1981, p 42.

It is important to mention that since the oil industry is export-oriented and because it constitutes 98% of the total exports, it will be vulnerable to all international market problems, e.g. inflation, fluctuation of demand, fluctuation of prices and then revenues, ... etc. which may have a serious effect on the GDP because of its high contribution (see Table 7.4).

7.3.4 Foreign Trade

Foreign trade occupies an important position in the national economic structure and received considerable attention in Iraq, since it provides the industrial goods which are essential for economic development, and offers most of the consumer goods. Rapid expansion has occurred in the export-sector. The share of this sector in the GDP has gone up from 31.5% in 1972 to 60.5% in 1975 and to 73.2% in 1979. The percentage growth has been much higher during the period 1972 to 1973. The import-sector has also shown an upward trend. This is due to the increase in the price of oil and to the increase in Iraq's oil production and export. One of

the characteristics of the Iraqi economy is its heavy dependence on foreign trade, and on export in particular. The importance of foreign trade to the economy may be observed through the high ratio of export and import to GNP, which fluctuated between 21.1% and 58.2%. During the period 1970-1980 as a result of exports growth exceeding imports, foreign trade achieved a surplus of I.D. 17.3¹⁷ billion. Iraq's exports increased from a total of \$5,909 million in 1974 to \$27.944 million in 1980, a 4.7 fold increase, or an annual rate of increase of about 29.5%.¹⁸ In considering the average rate of increase, allowance should be made for the increase in the price of oil, otherwise the rate will be misleading. Over the same period total Iraq imports increased some 5.7 fold, from \$2.364 million in 1974 to \$13,495 million in 1980.¹⁹ Imports from the EEC countries and other western countries increased from 20.3% to 56.7% after the revision of oil prices, because these countries are the main source of supply for industrial goods. Iraq's imports in 1970 totalled \$465 million, rising to \$10,779 million in 1980. Imports from the eastern and Communist countries decline from 19.3% to 15.2%²⁰ for the same period, but imports from developing countries rose from 29% to 35.2% during the same period. (See Table 7.8).

Summary

From the above discussion of the Iraqi economy the following may be concluded:

- 1) The Iraqi economy is an economy in transition. As is well known, a transition economy faces numerous obstacles, e.g. an unbalanced market, shortages in some industries and surpluses in others etc.
- 2) The Iraqi economy is mainly affected by two primary sectors, crude oil and agriculture, particularly by the former.
- 3) The importance of agriculture to the GDP is declining, while that of industry is increasing.

Table 7.8: Summary of Iraq's Foreign Trade, 1974-1980

EXPORTS (\$U.S. million)

	1974	1975	1976	1977	1978	1979	1980
World	5,909	7,416	8,493	10,640	11,640	19,435	27,944
OECD	4,241	5,194	5,769	7,082	7,174	12,364	18,641
EEC	2,878	3,168	3,625	4,280	5,317	7,569	10,069
Arab World	221	393	412	458	544	1,105	1,630
Asia (rest)	421	476	431	701	842	1,490	1,340
Latin America	663	862	1,161	1,240	1,437	2,772	4,438
CPEs	231	377	600	664	910	1,405	1,520

IMPORTS (\$U.S. million)

	1974	1975	1976	1977	1978	1979	1980
World	2,364	4,203	3,900	4,481	4,212	9,708	13,495
OECD	1,445	3,179	3,062	3,492	3,341	7,725	10,897
EEC	691	1,643	1,885	1,966	1,507	4,073	5,880
Arab World	85	106	68	68	70	421	729
Asia (rest)	296	303	259	310	235	479	540
Latin America	161	223	88	94	67	299	339
CPEs	345	354	401	473	460	703	876

Source: IMF Direction of Trade Yearbook, 1981, pp 211-212, quoted in John Townsend "International Commercial Relations Between Iraq ...", Business International/France, 1982, p 8.

- 4) The Iraqi economy is an export economy, and mainly depends on the export of one product which is crude oil, so it is vulnerable to international market problems, and
- 5) Although the ratio of imports to GNP has been decreasing, because the commodity sectors have not expanded to satisfy demand in Iraq, imports still play an important role in the economy as the country's need for capital goods, semi-finished goods, and some consumption goods are still supplied by imports.

7.4 Development of the Standard of Living

In general, the standard of living of the vast majority of people in Iraq during the past decades has tended to be very low, particularly in rural areas. This is true not only in relation to their counterparts in developed countries, but often also in relation to small elite groups within Iraq's society. This low level of living can manifest itself in the form of low income, inadequate housing, poor health, limited education ... etc. In the 1970s, the government emphasised that raising the standard of living is a basic aim of all development plans. The per capita income is often used as a summary index of the relative economic well-being of people in different nations.²¹ The average per capita income in Iraq has registered a marked increase during the last two decades, rising from I.D. 55.6 in 1957 to I.D. 262.9 in 1974, and to 779.6 in 1979 at current prices. This represents a rate of compound growth of about 4.7% during the period 1957 to 1973, while it increased by about 17.5% between 1968 and 1979. Table 7.9 shows that the per capita income in 1979 was about eight times that of 1968 and fourteen times that of 1957. The main factor contributing to such an increase was the nationalisation of oil coupled with an increase in both production and price of oil. Therefore, if oil contribution is excluded, the growth of per capita income at current prices would have been only 2.8% over the same period (1957-1973), with a further increase during the period 1973-1979.

Table 7.9 : Per Capita Income 1964-1979

Year	Current Prices I.D.
1964	80.5
1965	85.6
1966	90.1
1967	89.6
1968	96.9
1969	98.4
1970	103.9
1971	104.1
1972	109.6
1973	127.9
1974	262.9
1975	312.2
1976	417.2
1977	449.0
1978	538.2
1979	779.6

Source: Compiled from various issues of Annual Abstracts of Statistics, issued by the Central Organisation of Statistics, Baghdad.

The growth in per capita income does not coincide with an increment in goods and services made available to consumers. Besides, the government importing policy which it utilised to serve its aims of controlling the imports of consumption goods, these factors contributed to the failure of supply to meet demand, which in turn resulted in changed price levels of goods and services. Therefore, in order to arrive at a real per capita income, it may be appropriate to use consumer price index to arrive at accurate income figures based on current prices. In this way, it may be able to obtain an indication of the purchasing power of income, and consequently to give a true picture of the individual's share of the goods and services produced in the economy.

Correcting the data of Table 7.9 by using the change in price levels presented in Table 7.10, we obtain the figures in Table 7.11, which show per capita income at constant 1973 prices. It shows clearly that per capita income declined, particularly during the period 1973 to 1979, and the compound growth rate declined from 17.5% to about 15% during the same period. Even with such an increase, real per capita income is still low. But such low per capita income was alleviated by other factors. For example, the number of family members having a job increased. In addition, government regulations fixed the price of most essential goods and services and extended further to the cost of renting a house.* Finally, State Trading Organisations offer consumer goods and services at lower prices than the private sector. All these actions have a favourable effect on per capita income.

Table 7.10: Consumer-Price Index 1964-1979

Year	Price Index 1973 = 100
1964	68.2
1965	70.0
1966	69.2
1967	73.2
1968	77.4
1969	80.8
1970	83.7
1971	88.0
1972	92.3
1973	100.0
1974	109.0
1975	118.0
1976	133.1
1977	145.3
1978	151.9
1979	168.1

Source: Central Statistical Organisation Annual Abstract of Statistics, 1975, p 182 and 1979, p 154 for the years 1975-1979.

(The Central Statistical Organisation considered that year 1973 = 100, so other numbers index are adjusted accordingly).

* Flats are not so common in Iraq.

Table 7.11: Per Capita in Iraq 1964-1979
(at constant price of 1973)

Year	P.C.I. I.D.
1964	118.0
1965	122.3
1966	130.2
1967	122.4
1968	125.2
1969	122.1
1970	124.1
1971	118.3
1972	118.7
1973	127.9
1974	214.2
1975	246.6
1976	313.4
1977	309.0
1978	354.3
1979	463.8

Source: Compiled from various sources of statistics.

To sum up, there is a steady increase in income at current prices, particularly after 1973, which was due mainly to increases in oil production and prices. In 1974, the government increased the salaries and wages of civil servants and workers by I.D. 40-60* per month. This increase did not coincide with an increase in goods and services produced in the economy, which resulted in an increase in price levels and affected per capita income. Further, the gap between demand and supply is ordinarily, in Iraq, reduced by imports, but since imports were controlled to serve the government's aims, this control also contributed to price increases for some goods as well as causing shortages of others, both of which had an effect on per capita income. Despite these facts, per capita income has undergone a marked increase, and followed more closely the changes in real national income. It is expected that the standard of living will improve substantially in the future, therefore Vassiliou²² commented that, there will be more and better educated consumers, living in considerably improved

* The salary of civil servants holding a Bachelor's was, in 1970, I.D. 41 per month.

housing conditions, and a more pleasant environment, with more money to spend on food, entertainment, consumer durables and other amenities. Figures in Table 7.12 may offer support for these predicted changes in consumer behaviour.

7.5 The Place of the Market in the Economic System

As mentioned previously, the basic characteristic of the economy system in Iraq is that it is a kind of state-managed economy. In this system the market mechanism functions beside the central planning organisation of the national economy. It is a kind of transitional economy,²³ working its way from a free enterprise to a socialistic form of production, and planning is its major instrument of transformation. The public sector is the main body responsible for planning and implementation of development projects, but the private sector "is functioning within the context of a plan drawn and its ceiling is determined by the socialist*-sector."²⁴ Nevertheless, the present thesis is concerned with what are called the State Trading Organisations.

7.5.1 Restricted Role for the Market

In a free enterprise economic system, the market provides data concerning consumers' choices which can be used to direct the allocation of resources. In addition, it guides the allocation of output in accordance with the needs and wants of consumers. Moreover, "order is achieved out of the interaction and coordination and responses of consumers and to free decentralised choices and decisions."²⁵ In the economic system under study the role of the market mechanism is different. "Economic organisation is under a central plan through which and into which all economic activities receive specific direction and order."²⁶ Thus, the allocation of economic resources and outputs is mainly decided by planners' philosophy and preferences instead of consumers' preferences. But planners are guided by certain national development goals rather than by market indications or goals as follows:

* The author uses socialist sector when referring to public-sector which is the term used in Iraq.

Table 7.12: Consumption Trend of Various Goods

Material	1971 I.D. Million 1971 prices	% of total	1980 I.D. Million 1974 prices	% of total	Average Annual Growth %
Foodstuffs	359.2	50.6	823.5	45.0	9.6
Cigarettes & Spirits	24.9	3.5	64.0	3.5	11.0
Fuels	50.4	7.1	148.2	8.1	12.7
Cleaning and Cosmetic Materials	9.2	1.3	23.8	1.3	11.2
Clothing & Shoes	86.6	12.2	241.6	13.2	12.1
Household Goods	35.5	5	100.6	5.5	12.2
Housing	70.3	9.9	219.6	12.0	13.5
Miscellaneous	62.5	8.8	161	8.8	11.1
Total	710	100	1830	100	11.1

Source: The Economy of Iraq: Development and Perspectives 1958-1980, Ministry of Information, Farcse, Madrid, Spain, 1977, p 127.

- (a) In order to create economic balance and eliminate the dualism in the economic structure, economic planners need to apply certain perspectives and measures to implement a long-term rather than short-term adjustment in the economic structure. In applying these measures, planners depend on their perspectives and system of preferences and priorities which differ from market preferences.
- (b) A major aspect of the policy of structural change is the process of reducing the dependence on oil and diversifying the national output with the introduction of new industries. To serve the long-term objectives of the planners and to protect the country's infant industries, planners apply import substitution industrialisation policies based on criteria different from those of the market. This will also affect the country's foreign trade. Generally speaking, the choice of development projects and priority in investment decisions is not market-oriented.
- (c) Market conditions are not the main guiding factors in selecting the production techniques. The choice of production techniques based on the economic and technical analysis of priorities determined by the total development strategy. The criteria used are not cost/profit criteria.
- (d) Planners usually control the balance of national expenditure between consumption and investment, in order to exploit the present surplus generated by oil exports to implement effectively the country's development strategy. In addition, planners need to control the allowable level and structure of consumption to alleviate the inflationary pressure which usually emerges during the process of development. Hence development planners usually apply certain income, price, product and distribution policies. However, the function of the market economy in Iraq is a tool for the implementation of the development plans and is used to achieve their own goals rather than an apparatus for the allocation of resources of production.

7.5.2 Consumers' Demand and Planners' Decisions

Most of the enterprise decisions in a free-market system are consumer-oriented and based on data furnished by the market (e.g. data of consumers' needs and wants, market trends, quality and quantity of products ... etc.). These data are the basis for making different marketing strategies and decisions, and the effective deployment of marketing resources. Even when the producer takes the initiative to influence buyers' decisions, his plans are usually based on analysis of market needs and wants. It is true that the market does not provide all the information required by the producer to design his plans since it does not provide information about new products that may develop in the future nor their prices, but the market provides a record of the past and present market conditions for different products. This record of data establishes the base for forecasting demand for products and can be extended for new products. In addition, decisions on the optimum marketing mix for the new products are not based on past or present data,²⁷ but on predictions of future market conditions. Consumers' preferences in all cases affect and guide producers' decisions in the free enterprise economy since the existence of business enterprises is highly dependent on achieving competitive advantages to fulfil their goals. However, in the economic system prevailing in Iraq, decision-makers have a different approach to handling consumers' demands. To begin with, decision-makers have to have at hand criteria to assess the existing preferences of the consumers, whatever the level of consumption that will be allowed by the political organs of the state, so that policy makers can form their judgement about consumers' demands. Consumers' preferences still influence planners' decisions in different ways. First, to apply different market control measures, planners have to understand, as the first step, what are the factors that determine consumer buying, what are the consumer preferences and priorities. Otherwise, planners would not be able to apply the proper market control policies. Moreover, in development planning, the allocation of national resources between consumption and investment is decided at the macro-level. The second step is that planners have to decide the bill of goods to be produced or imported for consumption purposes.

Thus, to achieve the best allocation of economic resources and get the maximum benefits of the allocated funds, planners need to allocate the resources on the bill of goods demanded by consumers. Therefore, planners need a demand schedule, and some aspects of the connections with price coefficients and ratios. Planners need to base their decisions on more elaborate methods. Sophisticated methods of estimating consumers' demand were lacking. Existing methods were primitive, consisting chiefly of adjustments to previous years' sale. Accordingly, demand was not satisfied and many problems arose.

7.6 The General Attitude of Development Economists Toward Marketing

The general attitude of development planners toward marketing is "as an inferior kind of economic activity. Even now it is difficult to get development economists and policy makers to accord problems of efficiency in marketing the same attention they give almost automatically to problems of production, investment and finance."²⁸ Economic planners have tended to focus their attention on investments in projects designed to increase industrial and agricultural production capabilities. "Most aspects of marketing, other than investments in basic transportation infrastructure, have usually been relegated to a secondary and adaptive role in the development process."²⁹ Except for ad hoc interventions in response to shortages, periodic crises in essential goods, e.g. food supplies, or foreign exchange, marketing arrangements were left to work themselves out.³⁰ The main reasons behind this attitude are, first, they assume that during the operating stage the marketing system is to take care of itself,³¹ second, that management is responsible for different projects and would be able to resolve the marketing problems. Therefore, marketing problems have not received a rigorous analysis in the process of development planning. Moreover, continuing shortages of essential goods, which resulted in black-market activities and other undesirable practices between wholesalers and retailers, have forced the planners to focus on production and ignore marketing. Furthermore, the shortage of skills, know-how and experts in marketing have hampered the intro-

duction of modern marketing concepts and techniques to solve marketing problems in Iraq. In addition, most development planners are economists who believe that marketing is a wasteful activity, because they criticise any intermediate activity and typify these functions as "parasitic functions." Finally, lack of careful market analysis and failure to build information systems into the distribution network bear some responsibility for such an attitude.

It appears, now, that there is an increased recognition of the importance of marketing activity and of the seriousness of marketing problems in the Iraqi economy, as well as an intention to redefine the role of the State Trading Organisations' activities to deal with these problems effectively and efficiently, after they "have learned, just as others have learned before them, that even in a centrally planned economy, the market can frustrate the most careful decisions."³² In addition, the development planners should recognise that the process of investment planning is related to the structure of supply and demand in the long-run since investment decisions determine the size and kind of production capacities and the size and kind of output subsequent to these capacities and these in turn have a direct relationship with marketing of the planned production. Henceforth, there is a need to examine the process of investment planning to assess its relationship to the marketing problems. The manifestation of bottlenecks, shortage, black-market in one industry, and surplus and unusable products in others, shows that insufficient attention has been given to demand analysis on the part of Iraqi planners and individual researchers who concerned themselves with planning, and demonstrates their ignorance of marketing problems in Iraq. Recognising the importance of marketing activities in development and investing enough effort and resources will contribute toward filling a serious gap in Iraqi planning and economic policies both in the short- and long-term.

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PART THREE :

Chapter 8: MARKETING PLANNING IN THE STATE TRADING ORGANISATIONS

Chapter 9: MERCHANDISE (PRODUCE) PLANNING.

Chapter 10: PRICING PLAN.

Chapter 11: CHANNEL OF DISTRIBUTION PLAN.

Chapter 12: PHYSICAL DISTRIBUTION PLANNING.

Chapter 13: PROMOTIONAL PLANNING.

CHAPTER EIGHT

Marketing Planning Organisation in the State Trading Organisations

8.1 Purpose

This chapter provides a critical examination of the way in which marketing planning activity in the State Trading Organisations is organised. It describes the prevailing marketing planning structure in these Organisations, and, as such, is intended to provide a much needed frame of reference for practising marketing planners. It also attempts to analyse the extent to which marketing planning formulation supports or hinders the application of marketing concept and its responsiveness to the environment. The focus of the analysis is on the marketing planning procedures, on the marketing planner, and on the organisational environment in which he works.

More specifically, this chapter seeks to satisfy the following purposes:

- a) To report upon the existing marketing planning process and the scope of marketing planning activities in the State Trading Organisations in Iraq and consequently to measure the importance accorded to the various marketing planning functions by noting the level of management assuming responsibility for each function.
- b) To obtain an indication of the extent to which marketing planning has been developed in the State Trading Organisations and to evaluate the strengths and weaknesses of their planning.

The theme of the chapter will be to describe how marketing strategy is designed within the State Trading Organisations to achieve its objectives and the way in which it responds to its own particular environment. The discussion will be conducted under three main headings: first, stages of development of strategic marketing

planning, second, the marketing planning status in the State Trading Organisations in Iraq and third, strategic marketing planning design in the State Trading Organisations.

8.2 Introduction

One of the requirements for achieving the continuous growth or survival of an organisation is designing a marketing strategy tailored to "fit the needs and characteristics of its firm's structure, people, products and procedures."¹ A strategic choice must be made in accordance with the organisation's objectives and the particular environmental circumstances. Nevertheless, there are two basic principles which are essential to planning, namely that strategy designed to satisfy consumers' needs and wants is essential for successful survival as long as the "consumer's right to buy or reject a product or service in the market place is the basis for the success or failure of any business."² In addition, a systematic planning formulation will improve the planning process which may contribute to a successful planning and "integrate the differing perspectives of the functional areas of the business."³

The researcher postulates that the organisation should formulate a systematic planning procedure in order to formulate a sound marketing strategy to achieve its objectives through a given structure. The strategy formulation process can be used to:

(a) evaluate whether or not the tentative objectives established by these other, often political, processes are achievable given the organisation's resources and the nature of the changes occurring in its environment,⁴ (b) gain a commitment to the decisions from the managers who have participated in all the judgements demanded by the common framework and encourage them to lend their energies toward implementation action. In other words, by introducing formal and documented procedures into the planning progress and methodically scheduling its various stages, effective planning and implementation of appropriate action will be achieved. Managers will also be encouraged to make decisions in a formal manner, based on careful consideration of all relevant factors.

The growing advocacy of a systematic, formal and rational approach⁵ to developing a marketing plan in both developed and developing countries and the widespread belief that formalised marketing planning makes this an appropriate time to study the patterns of planning, procedures and structures of the State Trading Organisations. "The practice of strategic planning has become widespread and sufficiently significant in the public sector to enable and merit this examination."⁷ Several factors have contributed to the present concern with marketing strategy. Rapid environmental changes, increasing uncertainty, discontinuities in key economic trends, and pressure of time have put a premium on strategies that anticipate and shape events rather than simply respond to them. In addition, the State enterprises have increased their market's share index and their role in the market. These State enterprises have also become complex organisations dealing with many products. All these factors contribute to the evolution of the strategy and strategic decisions do seem to be made in a formal planning structure.

8.3 Stages of Development of Strategic Marketing Planning

This section focuses on the pattern by which marketing planning has evolved in the State Trading Organisations and through which the stage of planning development can be evaluated, thus allowing the establishment of the different factors hindering or enhancing this development. It is considered important to arrive at some assessment of both the evolutionary level of marketing planning in State Trade Organisations and how effective their plans and strategies are for servicing their markets. This will be attempted by means of a historical perspective on conceptual thinking about marketing planning and how a planned approach to the market place is taken. Here the main concern is to demonstrate the strands of thought characterising business planning development and the place of the State Trading Organisation's marketing planning system in such development.

8.3.1 A Generalised Portrait of the Evolution of Marketing Planning

Marketing planning is a new development in business planning. This emerged after the development of marketing management in the corporate world and after recognising that marketing planning is a "key element in effective marketing."⁸ Therefore, to understand the stages undergone in most industrialised nations which led to the development of marketing planning, it is necessary to point out that most industrialised nations have experienced different phases of macro marketing development characterised by changes in economic, market and consumer behaviour. The most important changes are these which occurred over the last two decades. In general, manufacturers may no longer produce what they like and still have their market and sales assured. The consumer and not the producer is now the most powerful factor in the market system. Since the industrial revolution, business have evolved through three stages of development, and a fourth one is emerging.⁹ Although no specific dates sharply define any of the the four stages, managerial philosophies and implemental characteristics reflect different stages in the developmental period.

During the first stage, a philosophy of production orientation dominated the firms in the industrialised world, where the executives in production and engineering shaped the firm's objectives, rather than the market. The function of the sales department is simply to sell the firm's output at the price set by production and financial executives. This was because, at that time, the major problems of business management were those concerning productivity and output volume since selling of goods presented little or no difficulty and "marketing effort is not needed to get people to buy a product that is well made and reasonably priced."¹⁰ Therefore, management attention was focused on staffing production, financial and general administration departments of the firm. This attitude resulted in having sales departments - because marketing had not yet been recognised - headed by sales managers whose job is to operate a salesforce. Most other marketing activities were either generally unknown or the managerial responsibility for them was fragmented

throughout the firm. This form predominated until about the start of the Great Depression in the 1930s."¹¹

The second stage is characterised by sales orientation. Sales orientation came into existence when competition and consumer awareness resulted in an increased difficulty in selling the firm's output. It was recognised that the main problem is no longer to make or grow enough products, rather, the problem is to sell the output. Management focused on sales management whose efficiency and performance became essential for the firm to survive and prosper. The selling and sales managers were given new respect and responsibilities by the firm's management. At this stage of development most marketing activities were grouped under the control of one manager still typically called sales manager or vice president of sales. Furthermore, activities such as training and sales analysis formerly performed by other departments, at this stage are handled in the sales department. At this period of development, although the sales organisation often constituted the entire marketing organisation or at least dominated other marketing activities, the idea of first finding out what the consumer wants did not feature in the organisation's thinking and mode of operation. In general, the sales era extended well into the 1950s.

At the third stage of the development process, the new philosophy of the marketing concept emerged and firms began to embrace the concept of coordinated marketing management, directed towards the dual goals of customer orientation and profitable sales volume. Under the marketing concept, management recognised the need to determine business policy with respect to both short and long term market considerations. The need arose for a marketing organisation that could combine all the activities of identification, stimulation and satisfaction of market needs in an integrated fashion to achieve the firm's objectives profitably. Hence, during this era several activities that traditionally were the province of the production manager or other managers, became the responsibility of the marketing managers. For example, stock control, warehousing and aspects of product planning are turned over to the marketing manager. These managers are brought in at the start of the decision making procedures

rather than after decisions have been made. Marketing should influence all short and long range firm policies. Most of both large and medium-sized firms in developed countries have generally adopted the marketing concept. It is important to mention that favourable attitudes of top management provides the climate to successful implementation of marketing concept. Unfortunately, this attitude is lacking in Iraq, because of a misunderstanding of the marketing concept reflecting their view of the marketing activity as a wasteful function.

In the 1970s, the complexity of environment surrounding the business has led to the fourth stage of evolution of marketing management, "a stage characterised by its societal orientation."¹² It becomes increasingly apparent that marketing managers should operate in a socially responsible manner if they wish to succeed, or even to survive. Scarcity of resources and increased pressure of political and legal forces shift the focus of management to the external environment which extends far beyond mere market considerations. Dawson suggests that we are no longer living in a marketing era and are witnessing the start of what may ultimately be termed the human era.¹³ In this stage, marketing management must be concerned with creating and delivering a better quality of life, rather than only a material standard of living. The human values may dominate the business philosophy and practice for some years to come.

Business philosophies and resulting practices have an effect on the way in which businesses respond to the shift in the environment and plan for their survival and growth, and the complexity of methods and tools employed to reduce uncertainty and to reach better and more accurate decisions. Kotler¹⁴ distinguishes four stages that businesses appear to pass through on their way to sophisticated planning. Firms may be found at any of these four stages.

The first stage is characterised by concentrating the efforts on day-to-day operations because the business is so pre-occupied with searching for customers, funds and materials, that they do not have the time for planning. "There is no planning staff and little

time to plan."¹⁵ This may be called the unplanned stage. The second stage which Kotler calls the "Budget system stage" evolves after the management has recognised the importance of securing cash flow to ensure orderly financing of the firm's operations and growth. The management estimates the total sales for the next year, associated costs, and cash flow incurred as a result of the firm's operations. Manager at different levels of the firm's organisational hierarchy prepare their budget to carry out their own work during the next year. Preparing a budget does not require "the thought that goes into real business planning."¹⁶ It is necessary to distinguish between plan and budget. But "the absence of formal planning does not imply a lack of strategic thinking."¹⁷ The fourth stage evolves when the firm turns to planning which begins largely with annual planning. The management may choose one of three approaches to carry out planning. The first is top-down planning in which the management sets goals and plans for all levels of the organisation and which in its original form had a military model as its basis. The second is bottom-up planning by which all organisation units prepare their plans and goals and send them for top management approval. The third approach is called the goals-down-plans-up planning. The top management sets the goals after considering the opportunities and the requirements needed to exploit them, and the organisation units prepare the plans to achieve the corporate goals. When these plans are approved by top management, they become the official annual plan. Choosing a particular planning approach depends on management philosophy and thinking about human nature. The planning system may face some problems at the outset because management does not like to restrict itself in advance to goals and plans, resents using time for planning and there are other objectives. So, it takes time for effective plans to be elaborated. The fourth stage begins when management finds the necessity to improve the effectiveness of the planning system in response to various internal pressure and external events. This situation arises because the assumption that the future will resemble the past is not valid in many cases. The seventies have witnessed discontinuity, shortage, and sudden fluctuation of many resources, e.g. energy, capital, and raw materials. So, top management has to cope with a new set of challenges. These challenges create the need for

strategic planning. Because of severe competition and in order to exploit opportunities and overcome weaknesses, a new stage of evolution of strategic planning practice may emerge, the purpose of which is to integrate the strategic plans and operational plans.¹⁸ The need for such attention has developed because many plans have failed from lack of commitment by operating managers. This stage may be referred to as strategic management.¹⁹

Day²⁰ segmented the progress in planning into three sequential phases, which are (1) budget-based planning, (2) long-range planning, and (3) strategic planning. For the purpose of this study, the sequential stages of planning system which will be discussed are (1) budget-based planning, (2) annual planning and (3) strategic planning. The stage to which the State Trading Organisations have developed will be mentioned to provide a better indication of the importance accorded to planning in these organisations.

8.3.2. The Development of Strategic Marketing Planning in the State Trading Organisations

(1) The Budget-Based Planning Stage (Stage One)

This stage existed at the period of development when the basic function of the State Organisations was to offer goods to satisfy the consumers' needs and wants, so an estimate of sales and other expenses is made for the coming year to secure their quota of the national annual budget of the industry sector. Each branch and department manager prepares a budget for carrying out the branch's operations for the next year. This reveals that the main concern of management is with budgeting and these budgets were essentially financial and did not require the thought that goes into real business planning.

The results of the current study indicates that this philosophy dominated the behaviour of the State Trading Organisations during the 1960s, because of their limited role and share in the consumer market and also because of their small budget. Most of the State Trading Organisations turned to planning except the General State

Establishment for Commerce* which has remained at the earlier stage as a result of being concerned only with distributing the available goods without recognising the changes in the patterns of consumption which resulted in shortages and unbalanced markets. The predominance of the concept of production orientation was the reason for remaining at the earlier stage.

(2) Annual Planning Stage (Stage Two)

During the 1970s, the State Trading Organisations were faced with many problems which revealed themselves in a mismatch between supply and demand and maldistribution between branches because of differences in preferences and tastes of consumers. For example, the southern region's consumers prefer different colours and fashions than those preferred by northern region consumers. This forces top management to turn to planning. The planning started simply by estimating the sales for the coming year relying on their past years' records with some adjustment imposed by market conditions. The approach employed was a bottom-up planning system, because the branches prepared their own plans and goals. By the second half of the 1970s, the management recognised the importance of giving some guidelines to direct the planning efforts of the branches to achieve a congruence between the State Organisations' objectives and branches' objectives, because most branch managers tried to play it safe, particularly where there were no penalties on overstock. This led to the use of a planning system known as 'goals-down-plans-up' planning. The management took further steps to elaborate the planning system by asking the branch managers to pinpoint the reason behind deviation from the plans which in turn forced the branch managers to do more real planning than they did at the beginning of the 1970s. The planning system relied on the managers' judgement and no advanced techniques were used although they used some simple statistical methods. The study findings showed that the State Trading Organisations investigated the General State Establishments for Trading of Precisions and Instruments and the General State Establishments for Shopping Centres were the ones which

* This firm deals with buying and selling electrical household and durable items.

were still in the second stage of progression. The lack of specialised marketing planning function, shortages of skills and staff and lack of top management support could be the main reasons behind the continued adherence to the annual planning approach.

(3) Strategic Planning Stage (Stage Three)

The State Trading Organisations found that it is important to improve the effectiveness of their planning system in order to cope with new challenges, particularly after their failure to offer goods at the right time which is a prime function of wholesalers and retailers. Examples of such failure are deliveries of winter clothing during the summer or of air-conditioning equipment during the winter. At the outset, the change from annual planning to strategic planning involves no drastic rethinking of the business philosophy, it merely requires the introduction of a long-range element into planning. Then, shortages of some goods, a surplus of others and complaints by, and pressure from consumers to satisfy their needs and wants for better quality products to improve their living standards have forced management to extend their vision further into the future and to improve their efficiency and effectiveness with particular reference to imported goods which constitute a high proportion of the total sales. During the 1970s, imported goods ranged between 30 and 60% of total sales and on some occasions importing could take from four to six months. If this period is added to the time taken up by the State Trading Organisations in planning and receiving approval, importing may take between nine and twelve months. Therefore, it is not surprising that there is a long delay between ordering and receiving goods. Furthermore, management argued that if they plan strategically, they can better control the flow of goods and achieve better deals with suppliers. Interviewing the General Managers and the Assistant General Managers in these State Trading Organisations indicated that a two to three year horizon for strategic planning was the norm, during which period there was ongoing review and revision of the planning. None of the executives favoured a planning horizon of five years or more. While in manufacturing and other industries the horizons of strategic

planning may extend to more than five years, in retailing Barmash²¹ indicated that "retailers generally think a five-year projection as a strategic plan is enough." So, the horizon which is considered to be reasonable depends on the availability of data, the quality of such data and uncertainty relating to the environment.

The field research reveals that the General State Establishment for Iraqi Stores and for Foodstuffs have reached this stage in planning progression. These two State Trading Organisations have been in business for more than two decades, so they gained experience in planning which facilitated approaching the strategic planning stage. Furthermore, these Organisations are large enough to be able to offer the specialisation of management functions and to support a high level of development in their marketing functions. In addition, they developed a data base which contributed to the ability to make decisions for long periods ahead. The current study indicates, too, that the executives in these Organisations have been in service for a long period (7-21 years).

Following up the data supplied in the foregoing analysis about marketing planning development in the State Trading Organisations, it is appropriate at this stage to highlight the major findings of this section.

Of State Trading Organisations visited, one, the General State Establishment for Commerce still operates at stage one, despite the fact that the responsibility for most marketing functions is assigned to the Assistant General Manager for Marketing. It means that other factors affect the planning system programme in this organisation. Among these factors are, for example, the extent of the support given by the general managers and whether the types of goods marketed by the organisation are considered under the heading "luxury" or "necessity". Two of the five General State Establishments for Consumer Goods have progressed to strategic planning. The reasons behind this progress are first, the top management (General Manager and the Assistant General Manager for Marketing) has been in the job for a long time, longer than the executives in the other

State Organisations. Second, they have more experience than their counterparts in other organisations. Third, they have developed their strategy gradually, adopting what Quinn²² calls the incremental approach. By this means, they have established an information system which enables them to make decisions relating to longer periods of time than other State Organisations can achieve. Fourth, because they market most of the essential goods, they have been forced by government supervision and consumer pressure to improve the effectiveness of their planning systems. Finally, they are large enough to be able to introduce specialised marketing functions.

8.4 Marketing Planning Formulation in the State Trading Organisations

The development of the marketing plan is perhaps the most important activity for wholesalers and retailers. It is, therefore, reasonable to outline the procedures followed in the State Trading Organisations to develop their marketing plan in order to examine their effectiveness.

Because firms differ in their view they develop their own marketing plans, and as there has been little research on the subject of marketing planning,²³ the approach used in this section will be to follow the procedures used in developing their plans, and the procedures through which various drafts of the marketing plan pass before gaining final approval. The discussion will proceed as follows.

8.4.1 The Planning Process

In this section the planning procedures will be identified and described in order to examine the thoroughness and effectiveness of the planning process. Thoroughness, for the purpose of this study, means the managers' participation in developing the plan and the appropriate time schedule for carrying out the task. Effectiveness means how far the plan served to achieve the Organisations' objectives (economic or social objectives) and the skills of the managers who participated in the planning process.

At the beginning of July* of the current fiscal year the headquarters of each Organisation issues a letter to all branches to develop a preliminary sales volume forecast and related spending for the next fiscal year along with their comments and reasons for the changes they have made in the bill of goods and services of the previous fiscal year. The letter also contains some directions to be considered in preparing their plans. For example, top management indicates the items which will get more funds than others, the level of safety stock or its percentage range (e.g. 10-30% depending on the turnover of the item and the problems that must be tackled). These guidelines are set by top management (mainly the General Manager, Assistant General Manager for Marketing, Assistant General Manager for Finance and Assistant General for Importing) and issued by the Assistant General Manager for Marketing who follows the development of the market plan and keeps contact with all branch managers to answer their questions, make comments, even give some directions. In fact, the Assistant General Manager for Marketing is considered to be the marketing expert for the Organisation. When this letter arrived the branch managers reviewed their sales depending on their previous sales and recent performance (with particular reference to shortages of essential goods, e.g. clothes and food), and these data are collected for use as a basis for development of plan. Then the branch managers prepare a preliminary sales volume and spending forecast for the next fiscal year, along with explanation of their marketing plan for the coming year which is based largely on personal judgement and contact with the planning section within each branch and observations of the market. At the end of July, the Assistant General Manager for Marketing sends another letter to the effect that the branch manager's draft should be submitted at the 15th Sept. of the current year. The aims are to encourage branch managers to solve their problems, to evaluate performance and get them involved with every aspect of the product market, to be in contact with the appropriate departments in the branch and to assist in setting some guidelines for use in decision-making. After the branch manager has prepared his marketing plan draft, considering advice from various internal and external sources (e.g. sales force, planning section, market-control division, ... etc.) he sends it to the Assistant General Manager for

* The fiscal year in Iraq starts in 1974 on the 1st of April of each year, but the government changed it to 1st January of each year.

Marketing who reviews the draft and makes some suggestions which are finally incorporated in the revised draft. Sometimes these suggestions and reviews of the draft are made through telephone contact or meetings held at the headquarters. This is repeated a number of times until the final redraft plan is agreed. This reveals that top management uses a "top-down" approach to assure its input into the plan. The redraft takes two to four weeks for completion. The Assistant General Manager for Marketing submits the final draft to the General Manager of the Organisation. The General Manager then holds a meeting for all senior managers who will be responsible for some part of the plan's activities. At this meeting, the Assistant General Manager for Marketing presents the plan to all the senior managers who then make their suggestions and recommendations. Another meeting is organised between senior managers and branch managers and this is chaired by the General Manager. The purpose of this meeting is to get an agreement on the new revision of the draft in order to keep the marketing plan draft in harmony with the Organisation's capabilities and strategic plan. It is likely that few changes will be made in the plan. The desired result is that top management concentrates on evaluating and if necessary changing some assumptions or policies to facilitate adaption to future conditions. The revised version of the plan takes 4-6 weeks. This period is characterised by the development of a detailed marketing plan using all of the staff inputs which the General Manager feels are appropriate. This revised draft plan is considered to be the marketing plan of the General State Establishment. At this stage it is not finalised or approved, so there are a number of plan presentations to successively higher levels of management, with each presentation being followed by plan modification or revision to incorporate suggested changes. First, the General State Establishment's marketing plan is sent to the State Organisation of Consumer Goods. The President of the State Organisation submits all the General State Establishment's plans to the Board of Directors of the State Organisation which consists of the following members.

- 1) The President of the State Organisation.
- 2) The five General Managers of the General State Establishments.
- 3) A representative of the Economic Affairs of Self-autonomy of Kurdish.
- 4) Two members representing:
 - a) The Commerce Ministry
 - b) Other relative Organisations.
- 5) Two members from the Trade Union
- 6) The Director of Planning (as secretary).

The Board holds several meetings to finalise and approve the General State Establishment's plans which can then be integrated to formulate the State Organisation of Consumer Goods' marketing plan. The marketing plans of all General State Establishments and the State Organisation of Consumer Goods require two successive approvals to reach completion and be in a final form which can be implemented. First, the marketing plan must have the approval of the Ministry of Commerce and the second approval is that of the Commerce Body in the Economic Department of the Ministry of Planning. The aim of the Commerce Body is to direct and keep the marketing plan in harmony with the national development strategic plan, and to assure the allocation of resources according to the government's policy. So, the Commerce Board holds meetings with the representatives of the State Organisation of Consumer Goods (Vice-President for Marketing and the Director of Planning) to present the integrated marketing plan (which consists of all State Trading Organisations' marketing plans) and defend it. If suggestions or recommendations are made, they must be incorporated in the plan before it can be finalised. The completion must be accomplished no later than the last week of November of the current year. However delay may occur at branch level which could cause hasty work and lead to

the draft plan being rushed at that stage or officials may fall into a rut by always offering last year's plan with only slight modification.

In the last few years, three important changes have emerged. First, the time for preparing the marketing plan may be expanded from three to six months to give branch managers more time to do more real planning. Second, they extended the horizon of the plan from one year to 2-3 years, and, for some other items (e.g. rice, sugar, wheat) to five years. Third, they tried to introduce some research information into the planning process.

The research findings indicate that at the beginning of the plan's development, top management provides "top-down" input to the plan by giving some guidance or directions relating to particular products or product lines. But this guidance in whatever form was not in sufficiently explicit terms to allow each branch manager "to proceed with his tasks in the knowledge that his actions were consistent with the objectives of the organisation."²⁴ Moreover, the attitude of top management has a profound effect upon and, whether explicitly or not, make an important contribution to the development of the plan. This may stem from one or more of the following facts: (a) the power of senior managers is much greater than that of branch managers, (b) senior managers attempt to leave their mark on all aspects of planning, (c) senior managers have more experience and qualifications than their branch managers. Furthermore, although the plan development period is characterised by the planners' use of the experience of senior managers and branch managers, it does not have use of specialists and experts in a number of areas. In addition, the plan is written in a succession of drafts by branch level managers and revised by higher level managers, whose recommendations and suggestions are incorporated in a revision of the latest draft before being approved by top-level managers. Meanwhile, the time consumed in reviewing and approving the plan and the intervention of higher-level managers in the planning process cause frustration at the branch managers' level and convey the responsibility of failure in planning on the higher

level managers. Because the plan is tied to the Organisation's performance rather than to the branch's or individual's performance, the planning process has fallen into the rut of always offering "last year's plan" with some modifications imposed as a result of shortages or the recommendations of senior manager.

It was interesting to find that the planning procedures of the General State Establishment for Foodstuffs and that for Trading Precision Instruments are more thorough than those for other General State Establishments. Further comment on this finding will be given later in the thesis.

8.4.2 The Elements of Marketing Plan

Most of the literature on the planning process outlines the following steps in developing marketing plans:

- (a) scanning the business environment, collecting data and gathering information regarding the environmental variables which affect the organisation's plan;²⁵
- (b) identifying strengths, weaknesses, opportunities and threats of the organisation (SWOT analysis);
- (c) defining the target market strategies;
- (d) setting the marketing objectives for target markets based on the information gathered, SWOT analysis, and assumptions made therefrom;
- (e) designing strategies for achieving the objectives;
- (f) formulating programmes for implementing strategies;
- (g) measuring progress made toward achieving the objectives, reviewing and amending the plans as required.

The extent to which these elements have been included in the State Trading Organisations' plans will be examined. To that end, therefore, several questions relating to them were included in the questionnaire, interviews were conducted, and visits to the planning departments in the Organisations in the study were carried out.

The study reports that the State Trading Organisations collected data on their internal operations. But these data were aggregated which make it difficult to base decision on such data. For example, they receive weekly and monthly reports on their products' sales but the reports on particular products did not classify the data according to the brand, producers, etc. Moreover, the collection of data relating to the external environment (socio-economic, technological, competition, political variables) received little attention. At the beginning of 1984, they carried out only a demographic study (e.g. age-group, sex, regional distribution, trends of population growth in new communities, etc.*). Data on other environmental factors, such as economic, consumer behaviour, political and other variables were rarely collected and have not received appropriate attention, although the political and economic variables have a strong influence on their decision-making. It is surprising that these Organisations have not benefited from the wealth of information available in the Ministry of Planning regarding economic changes and consumer behaviour. For example, from 1976 the Ministry has carried out a continuous research on the purchasing decisions of families, classifying such expenditure according to products purchased. The research covering 2000 families was carried out efficiently and thoroughly documented and can be used as a basis for planning decisions. Moreover, the respondents' answers to a question concerning the collection of detailed data relating to the external environment indicated that they carried out such activities. But further discussion with these respondents revealed that they were referring to raw data which was not classified and provided only general trends, not concrete data which would facilitate making effective decisions. There is growing concern about the need for

* The report has not yet been published or made available to researchers.

the State Trading Organisations to develop their information system in order to help the decision-makers, but it is still at a primitive stage so that the development of effective plans is impeded. These Organisations may not find it necessary to collect data or be concerned with political variables, because all top management, particularly the presidents and general managers, are politically-oriented. This has the advantage of developing uniformity in decisions, it has the disadvantage that it may lead to a lack of professional skills.

According to one general manager, the State Trading Organisations do not need to search to find out where the opportunities lie in order to benefit from them. The current market conditions offer many opportunities for exploitation. Most threats usually result from fierce competition, but in a centrally-planned economy competition is lacking. Therefore, the question of threats has not been given enough attention and their plans do not take account of this element. For example, they have not recognised that competition between industrial buyers should have an influence on their planning. Other elements of the SWOT analysis is the study of weaknesses. It was found that weaknesses were discussed in the Organisations' meetings and some solutions might be proposed and actions might be taken to tackle these weaknesses. But these solutions might not solve all their problems some of which are therefore not settled, thereby affecting their ability to implement strategies and achieve particular objectives. In addition, they concentrated their attention on minor problems such as recruiting new employees or training existing staff, leaving important functions, e.g. marketing, research, planning, etc. without sufficient resources to enable them to improve their performance. Moreover, discussion of weaknesses is not recorded in writing and they prefer to concentrate on mentioning the Organisations' strengths, so that the plan may not reflect the whole picture of the Organisations' capabilities. Therefore, the limitation of the resources of the State Trading Organisations received slight recognition in their marketing plans. It must be pointed out that the overloading of an organisation with responsibilities outwith its capabilities, the limitations of which are not

understood, presents serious problems in underdeveloped countries. In spite of this, organisations which are in effect government agencies, have to carry out whatever duties are assigned to them, despite their inability to perform them effectively.

Defining the target market is absolutely essential for developing an effective strategy. A question was addressed to the respondents, President, General Managers and their Assistants for Marketing as follows: "In what way does management at your level recognise the importance of designing the Organisation to serve the needs and wants of chosen markets?" The respondents' answers indicated simply that they intended to sell current and new goods to whoever would buy them. Such an imprecise and broad definition of market segments results in confusion in developing a marketing strategy, since market segments are not homogeneous, and each segment responds more positively to a particular firm's product, price, channels of distribution and promotional strategies. In addition, the State Trading Organisations are unable to satisfy the demand of all segments of the market with their current limited resources. Therefore, they failed to satisfy them completely, thereby causing some problems in the market. α

Because setting objectives is a key element in formulating marketing plans, the plans of these Organisations were scrutinised and a question was then addressed to the respondents - Presidents, General Managers and their Assistants for Marketing - about the objectives they set, and whether these objectives are clearly defined and quantitatively determined. It was found that their objectives were determined in qualitative terms instead of being specified explicitly. One of their objectives was, "To offer the best kinds of goods for all consumers at low prices." Such a broad and general objective may not be suitable as a basis for developing a marketing strategy for particular products. In addition, it does not offer enough guidance to direct branch managers' decisions. The main reason for this is that "the government may have established the (state organisations) for reasons quite different from - and oftent incompatible with profit maximisation"²⁶, which causes conflict

between political and business objectives. Also, it was found that the hierarchy of objectives had not received enough attention, e.g. the objectives of the branches for which branch managers are held responsible and constitute the basis for incentives to improve their performance have not been clearly specified.

The top management in the State Trading Organisations have a clear vision about their strategy and have developed it accordingly, but the strategy was not recorded or documented, nor was any relevant manual distributed. Therefore the branch manager would find it difficult to obtain any written information on which to develop his own branch strategy. In addition, it is difficult to trace which element has been responsible for a particular failure.*

These Organisations had established their policies and specified their programmes** and devised a feedback system which reported on a weekly, monthly and seasonal basis. Sometimes, the branch manager reported by phone to provide data on the latest available information relating to essential goods. Although these reports are necessary in order to enable appropriate action to be taken to correct any problem, it is costly and the weekly report concerning routine cases should be replaced by a monthly report. In addition, the report should serve the purpose of planning not just reporting the data too much of which was supplied in an unclassified form, to be analysed by the headquarters.

The study also reveals that top-management became so engrossed in day-to-day problems that they spent insufficient time on strategic planning. As a result the strategic planning process became discredited among other managers and staff, despite their recognition of its importance to the success of the Organisations, and the resources allocated to its development. Moreover, although they were engaged in planning over a period of years and followed formal procedures, no official minutes of the procedures were

* This will be further discussed in detail in the next few chapters.

** The programmes will be discussed in detail in the next few chapters.

recorded which could have been made available to managers as guidance, feedback or reference sources. Furthermore, in developing their strategy, "the approach they use frequently bears little resemblance to the rational-analytical systems so often described in the planning literature,"²⁷ and to the format discussed previously. Finally, although it must be admitted that they recognise what strategic marketing plans will accomplish for them and their Organisation, it is difficult to be sure that top-management and branch managers really understand the nature of the marketing planning process.

8.5 Organising the Marketing Functions

As will be discussed in the questionnaire analysis, it was difficult to tabulate the responses to the marketing organisation question, because of the different types of organisation, although they did share some characteristics. In the end, two methods were used. Firstly, responses were classified according to which individual in the Organisation held main responsibility for marketing and planning in particular. Secondly, those marketing activities carried out in the State Trading Organisations visited were classified. These two methods are discussed below:

8.5.1 The Main Responsibility for Marketing

As indicated above, the first method of tabulating responses to the marketing organisation question was according to which individual in the Organisation held main responsibility for marketing. The manager whose main accountability is marketing had to be actively involved in marketing management. A general manager who deals with all marketing problems and policies would not be considered to hold main responsibility for marketing. Moreover, scrutinising the organisations' charts and the Constitution is employed to decide who held the main responsibility for marketing. This approach provides a picture of marketing at a particular moment of time, and it reveals how marketing is organised and the extent of marketing specialisation.

The State Trading Organisations are faced with the necessity of developing uniformity within a total system while allowing the degree of autonomy necessary for adapting to the changing environment. Because the "organisational structure affects marketing performance under different environmental context,"²⁸ and the way a business is organised influences its choices of strategies and goals, it is necessary to understand that the organisational design should be an optimising process involving trade-offs. They should, therefore, achieve a certain degree of marketing specialisation which will lead to better utilisation of skills and other resources and allow some flexibility, thus developing better tools for achieving the firm's goals.

In developing countries, and Iraq is one of, the economic development planners have shown a "relatively low level of interest of the marketing discipline in the problems of development,"²⁹ and tended to attribute a passive role to marketing as a part of the economic development process. Such ignorance is revealed in the limited skills, scholars and scholarships in marketing, although marketing and development share some aspects, e.g. consumption, markets, life-style, consumer behaviour, distribution, etc., which concern not only marketing but are of central concern to the economic development planners. This is unfortunate and the reasons for this, which has resulted in a lack of specialisation and shortages of skills have been discussed in several relevant studies, most of which point out that the problem in developing countries is concerned with methods of stimulating such economies so that planners will come to accept that it is possible to increase real per capita income simply by improving the marketing system.

Kotler³⁰ has pointed out that "most business people and government officials in developing countries know little about marketing. Economic planning decisions are made largely by government economists who know little about marketing. Their assumptions about economic behaviour are too simplistic to guide national economic planning". And company business planning in these countries suffers from too much product and production orientation. Similarly, Baker and El Haddad, have discussed the contribution of marketing to economic

growth in developing countries and indicated that "the contribution of marketing to economic growth in developing countries has been almost totally neglected in the literature of economic development."³¹ Body's³² and Rice's³³ studies of marketing management in Egypt indicated that management there has concerned itself almost exclusively with production and has delegated sales functions to wholesalers. With these attitudes, Egyptians reveal little concern for marketing, and most marketing activities which have been developed and practised in the developed countries were until recently unknown, despite the fact that "there is an increased recognition of the importance of marketing activity and of the seriousness of marketing problems in the Egyptian economy."³⁴ There are some other studies which reached the same conclusion (e.g. Sherbini, Kriesberg, etc.).

In Iraq, the lack of specialisation in marketing is revealed by shortages of skills and the quality of work done in the marketing field. This applied to the State Trading Organisations too. The responsibility of marketing functions were delegated to more than one manager, e.g. Assistant General Manager for Sales and Distribution, for Importing, for Warehouses, for Research and Development Marketing, etc. (See an example the organisation chart of the General State Establishment of Iraqi Stores. These Assistant General Managers are at the same level of the Organisation's hierarchy and report to the General Manager which means that marketing functions have not been delegated to a marketing specialist. The lack of specialisation is particularly significant because the State Trading Organisations under investigation represent the largest and most important firms in the public sector, which are likely to be able to reap the benefits of marketing development due to their penetration and control of the market. This means too that the general manager spends a good deal of time on functions that can be delegated to a specialist which means that his time on strategic planning and issues is curtailed. Moreover, such organisation causes difficulties in coordinating marketing activities and may cause a delay in decision-making. In addition, the important fact to be stressed was that the richness of marketing functions was lacking. These State Trading Organisations have seen their business philosophy as that of distributing the available goods to

a network of which customers may have an effect on marketing specialisation. Many factors have contributed to produce such a situation. These factors are as follows:

- 1) The State Trading Organisations operate in a monopolistic situation where a seller's market exists under which the market forces do not pressurise them into doing more than physically distribute their goods. Therefore top management believes that expenditure for developing the marketing system is wasteful.
- 2) The phenomenon that "undue transfers of title not affecting the nature of the goods themselves were felt to lead invariably to increase in price at the expense of both producers and consumers"³⁵ is prevailing in Iraq, therefore, marketing is held in low esteem because its functions are thought to be non-productive and parasitic.
- 3) Lack of marketing specialisation in Iraq as in other developing countries, is based on the assumption that marketing specialisation is only demand oriented and where there is a surplus in output, it has nothing to do with other aspects of economic development. This arises as a result of "the association of marketing with high-level not low-level economies. Marketing writers have been concerned with marketing in developed rather than underdeveloped economies."³⁶
- 4) In developing countries the State enterprises are generally overloaded with more responsibilities than they can handle and to which their capabilities are not suited. Therefore, top management are engrossed in day-to-day operations and devote their energies to so many activities that no time is left for strategic planning.

The main responsibility of planning is assigned to the Department of Planning and Control headed by a Director, who reports to the President or to the General Manager and whose status is equal

to the Assistant of either the President or the General Manager of one of the main functions, e.g. Finance, Marketing, Personnel, ... etc. Moreover, Article Eight - 1. of the State Organisation of Consumer Goods Constitution No. 21, 1982 has stated that the Department of Planning and Control is responsible for discussing, revising and consolidating the plans of the divisions into an integrated plan and preparing it in its final form together with the Department's recommendations and suggestions, and submitting it for approval. The Department follows the implementation of the plans. Moreover, the Department carries out researches to serve as an input for decision-making.

There is a Planning and Control Section headed by a manager in each of the five General State Establishments. These sections have the same responsibilities and play the same role as the Planning and Control Department in the State Organisation of Consumer Goods, but on a smaller scale and with fewer staff. Although the latter Department is responsible for controlling the execution of the integrated plan of which each General State Establishment is part, it finds difficulty of access in communicating with these sections in order to discover any deviations from the plans so that it may take the necessary steps to correct them.

The responsibility of planning approval and decisions is assigned to the Board of Directors of the State Organisation of Consumer Goods who holds several meetings to discuss the plans and finally approve them. The Director of Planning serves as secretary for the Board, therefore he is in close contact with the decision-makers who can serve him in the planning process.

The research findings indicate that the planning units suffered from a desperate shortage of skills and well-trained personnel in the field of planning. All the managers of the planning sections have a Bachelor's degree but have no training in planning, and some of them have a Bachelor's degree in Law (two). Only the Director of Planning has a higher degree (Doctorate) in Economy. These managers have not contributed to the development of sound plans

which has resulted in a lack of support and commitment from top management. Moreover, there is a lack of communication between the Director of Planning at the State Organisation of Consumer Goods and the managers of the Planning Department at each General State Establishment and between the latter and the heads of planning sections in branches. This caused difficulties in following through and supervising the implementation of the plans and taking appropriate action timeously to correct deviations or to revise the plans. Also, it impeded the flow of necessary information which could serve as a basis for decision-making. The reason behind this is that the managers of the planning departments at the General State Establishments and the heads of planning sections in the branches report to their superior, so the latter sometimes prevented negative information from being sent and permitted the transmission of only positive data that served their purpose. Such practices convey a distorted picture of the performance of the State Trading Organisations which cannot be of service to the planners. Moreover, it has contributed to their failure to develop a "building block" approach which can be adapted to various levels of need and upon which more comprehensive corporate systems can be built."³⁷ Furthermore, these planning departments (Corporate, Department or Section) were burdened with responsibilities incompatible with their capabilities which resulted in poor performance and caused a lack of credibility. It is important that top-management should recognise that planning is not an easy task and that overcoming these obstacles is of extreme value and potential in developing more effective planning systems. The planning department should be nursed and cultivated "like having a baby"³⁸ until it can stand on its feet so that it can develop more sound and sophisticated planning practices. Two other important points, which apply in most underdeveloped countries deserve to be mentioned. First, the location of a department in the hierarchy does not necessarily reflect its importance compared with other functions at the same level because designing an organisation imposed by a decree may not suit the organisation's needs, therefore the structure is inflexible and it is difficult to redesign because it takes time and effort. Second, sometime personality of the head of the department play a more important role than the location of the department in the hierarchy of the organisation for different reasons (e.g. political).

8.5.2 The Extent of the Performance of Marketing Functions.

Hitherto, the patterns of marketing organisations based upon who in the organisation holds the principal responsibility for marketing functions have been discussed. In this subsection the second method of performing marketing functions will be examined.

The extent of performance of the marketing functions set forth in the questionnaire were investigated in order to discover how many marketing activities were performed within the State Trading Organisations. The major findings indicate that few of the total marketing functions suggested to the interviewees appeared to be carried out by the State Trading Organisations. However, a closer examination of the underlying structure of the study variables revealed quite another picture.

The State Trading Organisations concentrated on specific marketing functions and giving them superiority over other functions (e.g. selling, merchandise planning, pricing, purchasing, warehousing, customer services). Other functions were given little attention (e.g. training of sales staff, credit collection), while functions (e.g. advertising, promotion) were totally ignored. The latter functions were ignored for ideological reasons which considers advertising and promotion activities as wasteful, adding unnecessary costs to the price of goods and the expense of consumers. Then, the interviewees indicated that what they offer is sold very rapidly, because of the increased income of Iraqis and the availability of goods. They do not need to encourage or solicit the consumer to buy, the demand is there, all they have to do is to offer the produce. In the last few years that State Trading Organisations paid more attention to some marketing functions (e.g. marketing research, customer services). Two important problems that should be considered in underdeveloped countries are first, the lack of specialisation which affects the consideration of a particular marketing activity. Second, the responsible marketing specialists have to prove themselves by providing a sound service to gain the support of top management, particularly because top management wants very

quick results which are difficult for marketing services activities to prove because of pressure of time and the intangibility of the problems involved.

Because the State Trading Organisations are big, they support the integration and coordination of marketing activities and are able to reap the benefits of marketing development due to their penetration and control of the market. The marketing research, planning and customer-services are located at the headquarters, and a small unit is kept at each General State Establishment, because of lack of marketing specialisation, to minimise the cost, and to utilise their resources more efficiently and effectively.

Although the marketing research is widely used in developed countries to offer the information needed as a basis for and aid to decision-making, it received little attention until comparatively recently. Until five years ago, the marketing research department was not involved in research activities. The reasons for this situation were the low level of competition in most markets and products, shortages of staff to carry out research activities, non-availability of data in a form useful for research, difficulty of obtaining access to the necessary data and lack of appropriate incentives to implement complex projects. For example, for the State Organisation of Consumer Goods, a member of the marketing research carried out a demographic study which lasted for six months. The bonus he received was only I.D. 100 which did not compensate for the efforts and time spent in accomplishing the work.

Merchandise planning has been assigned to two main departments equally located at the top of the organisation hierarchy. One of these departments is held responsible for domestic buying, and the other for Importing, headed by the Assistant General Manager. Although the State Trading Organisations emphasise that domestic product loyalty* is a form of patriotism, a noble sentimental tie that binds consumers unreservedly to a single product, thus giving the domestic producer a source of security which results in decreasing

* The same phenomenon of "Buy British" or "Buy American". The underdeveloped countries try to discipline their people to promote domestic products which in turn promotes domestic industries thereby helping to achieve better results and to accelerate overall economic development.

the number of imported goods, although their monetary value has increased. In such circumstances, coupled with modern innovation with its profusion of new products and the long term effects of British Colonial practices and other factors such as improved communication, increased income, etc., the traditional concept of product loyalty has undergone significant change. Customers need the right product, at the right price, in the right place and at the right time. Even imported goods have suffered from delay lasting for months. All these factors have forced the top management to give merchandise planning more attention than it has given in the past and it is expected that it will receive more attention in the future.

Pricing is the most important task as if it were the one marketing function which dominated the behaviour of the decision-makers. When they negotiate a deal the subject that dominates the discussion with sellers is the pricing. For example, receiving the product at the right time may cause losses in opportunities and investment. But compared with the pricing function in the private sector, it is given a high priority and it is performed more accurately than other functions.

Credit and collection are another two tasks which have been largely neglected by the State Trading Organisations under study. The study findings indicate that the State Trading Organisations do not extend credit to their "agents" (private middlemen, small retailers, wholesalers) or the consumer or even to the cooperative society. They operate on a "cash-and-carry" basis. They only offer credit to the government offices to a limited amount I.D. 100, although these functions are of crucial importance to the wholesaling and retailing activities.

Other functions such as purchasing, transportation and warehousing have been given appropriate attention, although the techniques used to implement them were of a simple nature. The customer-services function was performed in only a limited number of the State Trading Organisations - the General State Establishment for

Trading of Precision and Instruments, the General State Establishment for Commerce. The study findings indicate that the State Trading Organisations limited the role of the customer-services tasks to repair and maintenance activities, so that they have been given attention only in those State Trading Organisations who market durable and electrical goods.

While functions such as sales forecasting, sales control and inventory control were performed in all the State Trading Organisations they need to receive more attention than they have been given and they need to be boosted in personnel and skills able to handle their tasks more successfully. They were burdened with responsibilities and overloaded with work their capabilities could not cope with.

The other functions which have not been performed in the State Trading Organisations are advertising and promotion. This is the result of a widely held notion that these functions lead to artificial price increases and in no way contribute to the real value of products. Moreover, the question asked the respondents to express their opinion about the applicability of marketing practices in a developing country. This question was addressed to the President, General Managers, and Assistant General Managers who were mainly responsible for establishing these functions and their total number (12) and produced the findings shown here in Table 8.1.

The study findings indicated that 83.3% of the respondents believe that advertising practices are not applicable in developing countries, and those who support advertising (16.7%) are those who market the durable goods in particular domestic appliances. Then, 83.3% of the respondents do not support promotion tasks and the 16.7% who believe that this task should be performed think it should be done before only for these domestic products that have shown a very slow turnover. This reflects the widely held notion that advertising and promotion are wasteful activities. In addition, 58% of the respondents have been in favour of offering customer-services and most of these respondents were in durable and

Table 8.1: The Applicability of Marketing Functions in the State Trading Organisations

Marketing Practices	More Applicable	Less Applicable	Not Applicable
Marketing Research	12		
Up-to-date Advertising		2	10
Merchandise Planning	9	3	
Product Differentiation	10	2	
Market Segmentation	9	2	1
Credit Policy	3	1	8
Sales Promotion		2	10
Customer-Services Policy	7	5	
Better means of Transportation	12		
Inventory Control Techniques	12		
Sales Forecasting Advanced Techniques	12		
Depot Techniques Location	12		
Supply Policy	12		

NOTE: The numbers refer to the number of answers received.

other electrical products. Therefore, 42% of the respondents do not support offering customer-services. Moreover, about 67% of the respondents contend that credit is not applicable. There was no need to use such an approach since goods were sold as soon as items were offered. These attitudes prevailed in underdeveloped countries because of the domination of the seller-market in most of the product lines. The remaining marketing practices are applicable in underdeveloped counties after the prerequisites for

performing these tasks have been established, e.g. provision of personnel and facilities and training programmes. The training programmes are conducted for top management and it is expected that they will be extended to include other levels of management. The idea of marketing concept in organising the marketing functions was not well-rooted in structuring these functions in the State Trading Organisations.

8.5.3 The Chief Marketing Executive

In this subsection three indicators were used to examine the status of the chief marketing executive. These are:

- a) Title of the Chief marketing executive;
- b) Status of the Chief marketing executive;
- c) Responsibility of the Chief marketing executive.

a) Title of the Chief Marketing Executive

As the study findings indicate, the executive responsible for the performance of marketing functions was designated in different ways. In order to avoid ambiguity, this person will now be referred to as the chief marketing executive, regardless of his actual designation.

The most common titles found among all firms visited were those of vice-president for Marketing Affairs and Assistant General Manager for Marketing in the State Organisation of Consumer Goods, the General State Establishment for Foodstuffs, the General State Establishment for Trading Precision and Instruments, and the General State Establishment for Commerce. The other title found in the other two State Trading Organisations, was Assistant General Manager for Sales and Supply. This indicates that marketing responsibility is allocated to a person at the top of the Organisation Chart in most cases. Because of the high proportion of imported goods in the total sales of these Organisations, a post was created of Assistant General Manager for Importing who shared some of the responsibilities of the Assistant General Manager for Marketing Affairs. Also, they created a title of Assistant General Manager for Warehousing.

It should be remembered that formal titles do not necessarily indicate differences in the nature and sophistication of the tasks performed by the chief marketing executives. Indeed, the Assistant General Manager for Marketing Affairs and the Assistant General Manager for Sales and Supply have the same responsibilities and there was no evidence of real difference in their responsibilities. Moreover, Article Eight of the Constitution No. 21, 1982 does not differentiate between the two titles which were considered as being related to a marketing task.

In conclusion, the State Organisation of Consumer Goods and three of the General State Establishments use Assistant Vice President or Assistant General Manager for Marketing as a title for the chief marketing executive. These State Organisations have not only implemented the marketing concept in terms of the title of the executive responsible for marketing tasks, they have also assigned more responsibilities to him (Section 2, Article Eight of the State Organisation of Consumer Goods, No. 21, 1982). The other two General State Establishments who use the title Assistant General Manager for Sales and Supply were not different from the other State Organisations mentioned, even in terms of the responsibilities assigned to the post which reflects their implementation of the marketing concept adapted to their circumstances. However, the study findings indicate that there is a growing awareness by top management that allocating the marketing tasks to a particular manager with a particular title (the actual title is less important) is of importance to the efficient and effective achievement of these tasks.

b) The Status of the Chief Marketing Executive

By assessing the status of the Chief marketing executive in this subsection, the researcher attempts to illustrate the extent to which the State Trading Organisations are conscious of the influence of market factors on their business. These analyses are relevant because the specific functional responsibilities exercised by the chief marketing executive traditionally indicate the extent of the Organisation's marketing-orientation. Another criterion for

analysis is the status of the chief marketing executive compared with that of the departmental heads of such important functions as Finance, Personnel, etc.

The relative status of the chief marketing executive was measured by two criteria; first, membership of both marketing and other prime functions executives in the board of directors of the State Trading Organisations under investigation, and second, the place accorded to each of them on the State Organisations' Charts.

The study findings revealed that in all the State Trading Organisations visited, the chief marketing executive is accorded the same status in the marketing organisation as other prime functions' executives. This became apparent when the structure of the board of directors in each State Establishment was examined. The findings of the investigation showed that even the State Organisation of Consumer Goods' Constituion accorded the chief marketing executive the same position in the State Organisation's hierarchy as that given to the prime functions' executives and extended this further when it allocated more responsibilities to the chief marketing executive when it held him responsible for making suggestions and recommendations and suggestion policies regarding the flow of goods to balance the market.

Charts 8.1 and 8.2 illustrate the official organisation chart of the State Organisation of Consumer Goods and the General State Establishment for Trade Precision and Instruments. They imply equal status for both marketing and other prime functions. In actual practice, although the Assistant General Manager for Domestic Purchasing and Importing officially report to the General Manager, it is the marketing executive who makes most of the decisions concerning their work, particularly in the field of merchandise selection and quality, new product, supplies and other decisions regarding the offering of goods.

Chart 8.3 represents the organisational structure of other General State Establishments which used the title of Assistant General

Figure 8.1: The Status of the Chief Marketing Executive at the State Organisation of Consumer Goods (Vice-President for Marketing).

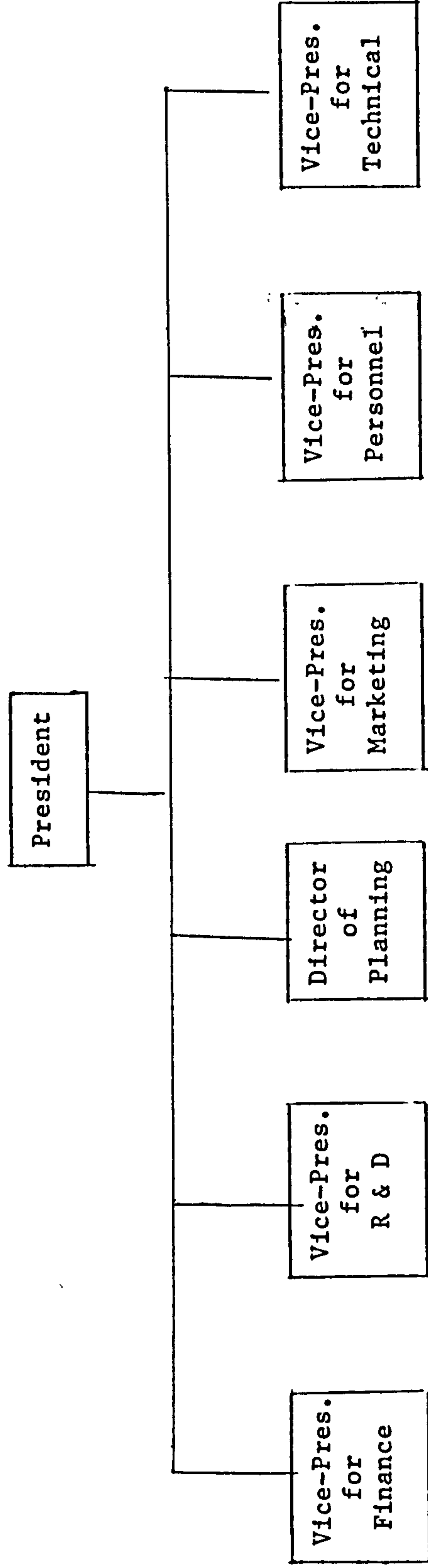
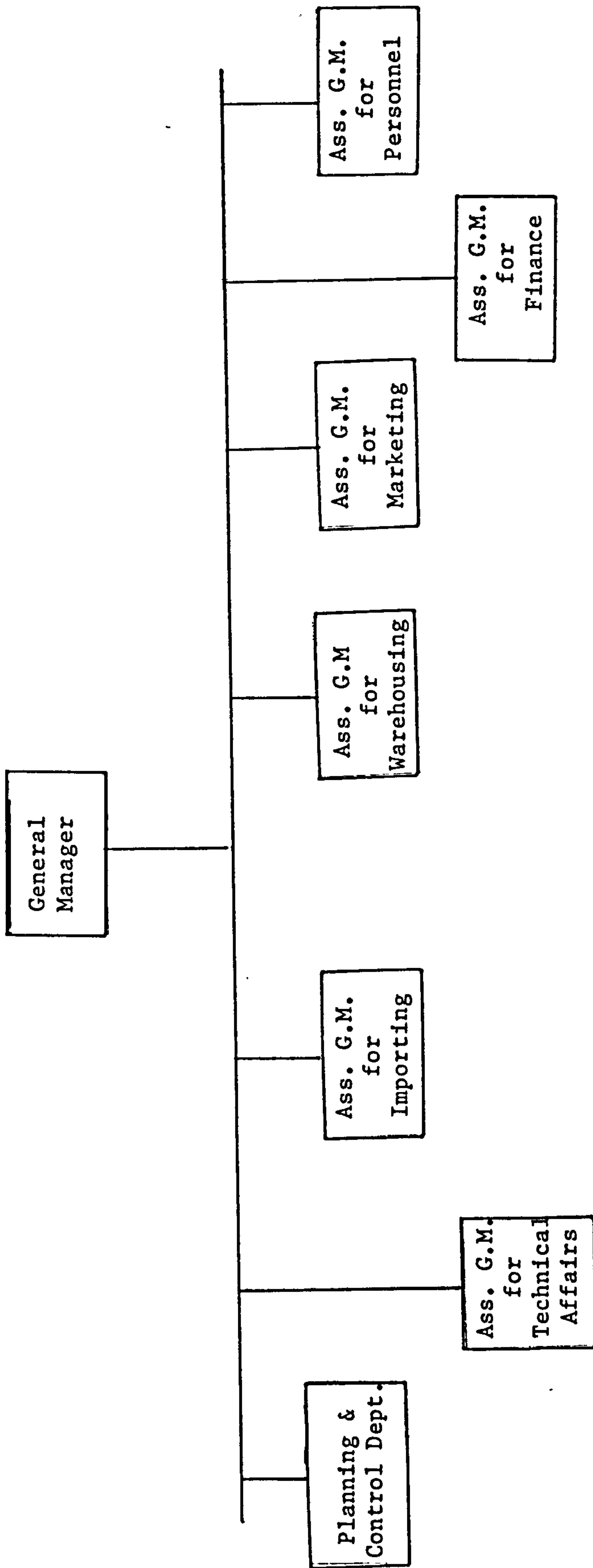
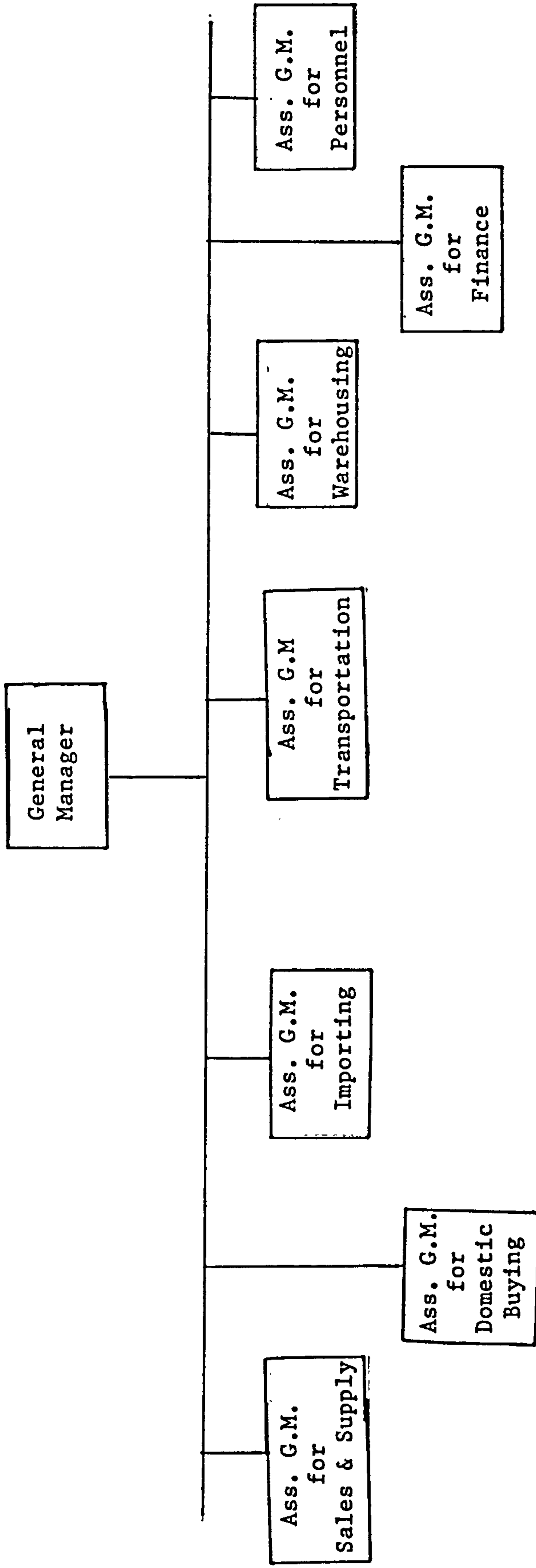


Figure 8.2: The Status of the Chief Marketing Executive in General State Establishments
(Assistant General Manager for Marketing)



Ass. = Assistant
G.M. = General Manager

Figure 8.3: The Status of the Chief Marketing Executive in General State Establishments (Assistant General Manager for Sales and Supply).



Ass. = Assistant
G.M. = General Manager

Manager for Sales and Supply for the chief marketing executive. For this organisation the marketing executive comes under the jurisdiction of the General Manager who is his immediate superior. The study findings revealed that the title makes no difference to the status or the responsibilities. There is no explanation for using such title unless, perhaps, it was carried over from the older organisation form. As far as the second criterion for assessing the status of the chief marketing executive is concerned, all State Trading Organisations visited accorded the chief marketing executive the same position in the State Organisation's hierarchy as that given to the Chief of every prime function, and in some areas of responsibilities the chief marketing executive has higher formal organisational status than his counterpart in the other prime functions.

In conclusion, the findings of both criteria used to assess the status of the chief marketing executive showed that in all State Trading Organisations visited, the chief marketing executive has an equal status with that of the chief executive of every prime function and with reference to some responsibilities, his status is even higher. He is considered by all managements to be a key figure in the organisation.

c) Responsibilities of the Chief Marketing Executive

In this subsection, the extent to which the chief marketing executive controls the marketing functions as the basis of his functional responsibilities in the State Trading Organisations. Qualitative research indicates that the tasks of the chief marketing executive vary widely from function to function. There are certain functional areas where the influence of the chief marketing executive is very strong, and other areas where he has relatively little influence. In certain cases, the chief marketing executive may have no responsibilities.

Article Eight, Section Two of the State Organisation Consumer Goods Constitution, No. 21, 1982 has defined the responsibilities of

the chief marketing executive. Examining Article Eight reveals that the chief marketing executive carries responsibilities which greatly exceed those of his counterparts in other prime functions. For example, he is responsible for monitoring the flow of all goods in all markets, and tackles all the problems associated with this flow. Many activities have to be carried out to implement such a task. The chief executive has many other tasks to perform and he is vested with the necessary authority to enable him to take appropriate action. It is worthwhile to look at the total picture of the chief marketing executive's duties by examining each specific task in turn.

As far as marketing research is concerned, in all State Trading Organisations, the chief marketing executive has a strong influence on the performance of this function and is located in the Planning Department. The management felt it was better to locate it in the Planning Department to exploit its available facilities and resources and to reduce costs, but it is the marketing executive who makes the most of the decisions concerning its work.

Merchandise planning is considered to be the responsibility of the chief marketing executive and he enjoys sole responsibility for executing this function, although the Assistant General Manager for Importing has some influence on this function. This responsibility is made clear in Article Eight of the State Organisation of Consumer Goods' Constitution.

Sales forecasting is a task which is commonly recognised as being a function of the chief marketing executive. Article Eight made it clear that the chief marketing executive should estimate the demand for all goods required to satisfy consumers' needs and wants. The Planning Department contributes to the carrying out of this function, but the chief marketing executive has full responsibility for sales forecasting.

The way in which the responsibility for the determination of prices is allocated has often been taken as an indication of marketing

orientation within the company. Responsibility for pricing proposals falls under the control of the chief marketing executive, but the final responsibility for pricing was accorded to the top management within the rules set by the Commerce Regulating Committee. Making pricing proposals varies according to the classification of goods.* Therefore, the chief marketing executive does not have full responsibility for pricing. This result was to be expected since marketing management in Iraq tends to be sales-oriented, and the political ideology has a strong influence on pricing policy.

Because of the widely held notion that advertising and promotion activities are wasteful tasks, neither the chief marketing executive or any other executive has responsibility for these activities. They do not have any advertising activities although Iraqi Television permits advertisement by the State Organisation at nominal cost. The promotion activities are restricted to some issuing prospectus, leaflets and some offering small gift items (pens, etc.) which prove to be not enough to promote sales.

Sales control is placed under the control of the chief marketing executive and this function falls wholly under his jurisdiction.

The State Trading Organisations have recently focused great attention on transportation and customer services as important elements in the overall programme of meeting consumers' needs and wants effectively. As a result, transportation and customer services have come to be regarded as increasingly important elements in advanced marketing technology as well as in marketing aggressiveness. The study findings reveal that the State Trading Organisations have taken as further step by promoting these functions to a higher status equal to that of the chief marketing executive providing him with the opportunity to have strong influence on decisions relating to these functions.

* Goods are classified as a)'necessity', b)'semi-luxury' and c)'luxury' goods.

Responsibility for sales training is divided into two parts. Responsibility for training on the sales floor was given to the chief marketing executive while the other part was handled by the Commercial Training Centre (course, seminars, lectures). The study findings indicate that although sales training has been divided, the chief marketing executive has sole responsibility for sales training at the lower levels.

All the State Trading Organisations supply funds to the Commercial Training Centre which conducts training programmes for them. Therefore, eventually all sales training programmes will be conducted in this Centre. Thus, the sales training task will be gradually shifted to this centre, away from the chief marketing executive.

Another task over which the chief marketing executive has only slight control and which has mostly been performed by executives outside the marketing area, is the selection of new marketing staff. The chief marketing executive suggests the requirements relating to new marketing staff, after which the full responsibility falls into the hands of the Assistant General Manager for Administration. In Iraq, all graduates are eligible for posts in the State Establishments but since appointments are made by the Central Committee for Manpower Planning, the selection process may be unsatisfactory in so far as executives of the establishments to which appointments are made are not involved in the process.

In the case of warehousing, the study findings reveal that this task has been given considerable attention in recent years so that it has been promoted in the hierarchy of all State Trading Organisations to be closer to the top management and responsibility for it is given to the Assistant General for Warehousing. The chief marketing executive has enough influence on the decisions of their operations which insures cooperation and integration of both tasks.

In conclusion, the results of the current study showed that the chief marketing executive (known as the Assistant President or Assistant

General Manager for Marketing or Assistant General Manager for Sales and Supply) holds prime responsibility for more of the marketing functions suggested to the interviewees than any other category of management (54% of the functions of promotion, advertising and credit were excluded because they were not performed in the State Trading Organisations). Others within the State Trading Organisations (Assistant General Manager for Transportation, Warehousing and Importing, etc.) were responsible for 23% and the president, general manager or other executives outside the State Trading Organisations were responsible for the remaining 23%.

Tasks related to warehousing were the responsibility of the Assistant General Manager for Warehousing. Responsibility for transportation lay with the Assistant General Manager for Transportation, and similarly, responsibility for foreign buying vested with the Assistant General Manager for Importing. Marketing research, sales forecasting, sales control, customer-services, part of salesmen training and merchandising planning were most performed by the chief marketing executive. New marketing staff was most often the responsibility of other personnel in the State Trading Organisations. For other functions, the responsibility was shared by executives outside the organisation. For example, most of the pricing function was performed by authorities outside the Organisations (e.g. the Commerce Regulating Committee or other regulating bodies) in all the State Trading Organisations visited. This situation exists in Iraq mainly for the following reasons:

In each country, the marketing tasks operate within a legal and governmental framework. This framework may take various forms in different countries. The ideology prevailing in Iraq is to protect consumers from exploitation or unnecessary cost or economic losses.

In Iraq, trade affairs and consumer programmes are formally administered by the Commerce Regulating Committee. The pricing of goods is an area of crucial importance for the Committee, particularly during the present period where the supply has not met the demand. Such activities obviously result in benefit to consumers in whose exclusive interests the Committee's aims were designed.

Responsibility for all consumers' problems, previously widely diffused, now lay with a single authority. The Commerce Regulating Committee could act as the main driving force for improving marketing practices in Iraq, because, most of its members are high-ranking decision-makers. The Committee could also propose policy relating to trade affairs but it is frequently ineffective because of lack of marketing practice. The researcher believes that a much more efficient and practical system would be for the Commerce Regulating Committee to resume responsibility only for designing the pricing policy, delegating details to the State Trading Organisations' executives.

Although the Chief Marketing Executive controls most of the marketing functions and influences others, the administration of marketing programmes is made very difficult because some tasks are controlled by outside executives or are subject to the intervention of regulating bodies, while yet others such as warehousing, transportation and purchasing have been promoted to a high status and have become the responsibility of other executives. The prevailing policy of centralisation and inability to delegate are obstacles to flexibility and creativity, leading to delays in conducting the activities of the department, and causing difficulties in the development of marketing plans.

Allowing for all these limitations, this study provides at least a reasonable picture of the extent of the control over marketing functions exercised by the Chief Marketing Executive.

8.5.4 The Director of Planning

In this subsection, the framework used to assess the status of the chief marketing executive will be used to examine the status of the Director of Planning in order to shed light on some of their planning systems which produce the marketing strategies. The three indicators used are as follows:

- a) The Title of the Director of Planning;
- b) The Status of the Director of Planning;
- c) The Responsibility of the Director of Planning.

8.5.4.1 The Title of the Director of Planning

As the study findings indicate in relation to the hierarchy of the planning system in the State Trading Organisations, there are three levels of planning staff. The planner in the State Organisation of Consumer Goods who is the top of the hierarchy of the planning system is given the title "Director of the Planning Department", while the person assigned to the planning department of each general State Establishment is called the "Manager of the Planning Department", and at the branch level the title is "Head of the Department Section". These titles are similar to "Corporate Planner", "Division Planner" and "Functional Planner", the only difference is in the latter title. These formal titles indicate differences in the nature and sophistication of tasks performed by the planners. It should be remembered that this classification of planners does not indicate the differences of complexity which are found in big companies or multinational corporations in Europe or America. Indeed, it is evident that managers of planning departments and heads of planning sections may well be performing relatively simple planning tasks compared with those of the division planner or functional planner in multi-division companies in Europe or America.

In conclusion, the State Organisation of Consumer Goods used the title "Director of Planning" for the chief executive of planning, and all the five General State Establishments used the title "Manager of the Planning Department," while in the branches the title used was "Head of the Planning Section". These State Trading Organisations have not only adopted formal planning and recognised its importance, they have also allocated more responsibility to the planner. However, the planners in these State Trading Organisations have not proved to be a great help to decision-makers, and their work and output was not impressive enough to promote top management

to seek their help in solving most of the problems they are required to deal with. What is needed is a clear understanding of the difference between the role of the planner and of top management to enable planner and top management to fulfil their respective roles more successfully than they seem to be able to do at present. To avoid ambiguity the planner will now be referred to as "the chief executive for planning", regardless of his actual designation.

8.5.4.2 The Status of the Director of Planning

In this subsection, the researcher attempts to assess the status of the chief executive of planning to illustrate the extent to which these State Trading Organisations are conscious of the planning influence on their business. These analyses are relevant because the specific functional responsibilities exercised by the chief executive of planning traditionally indicate the State Organisations' philosophy and concepts related to planning. Another criterion for analysis is how near the chief executive of planning is to the top in the hierarchy, comparing his status with that of other prime function executives.

The relative status of the chief executive of planning was measured by two criteria: first, the membership of the chief executive of planning and other chief executives on the board of directors of the State Trading Organisations under investigation, and second, the place accorded to each of them on the State Trading Organisations' Chart.

The study findings revealed that in all State Trading Organisations visited, the chief executive of planning is accorded equal status in the State Organisations with the chief executive of prime functions such as marketing, finance, ... etc. This was apparent when the structure of the boards of directors in the State Organisation of Consumer Goods, in each General State Establishment, and in all branches, were examined. The findings of the investigation showed that in all the State Trading Organisations, the chief executive of planning is a member of the board of directors

not only that but he was considered to be the Secretary of the board called "Al-Mukerer"*, who is in contact with all decision-makers and the information necessary for planning. It is an important position which keeps him informed about strategic choices and facilitates his contact with other executives.

As far as the second criterion for assessing the status of the chief executive for planning is concerned, all the State Trading Organisations visited accorded the chief executive for planning the same position in the State Organisations' hierarchy as that given to the chief executive of the prime functions (e.g. marketing, finance, personnel ... etc.)

Chart 8.1 illustrates the official organisation chart of the State Organisation of Consumer Goods. It implies equal status for the chief executive of planning with his counterparts in the organisation. He reports to the President in the same way as other vice-presidents of the prime functions. Chart 8.2 shows that the chief executive of planning - manager of planning department - has an equal status with his counterparts in all the prime functions - assistant manager for marketing, finance, personnel, ... etc. This trend is applied to the organisation of the branches too.

In conclusion, the findings of both criteria used to assess the status of the chief executive of planning showed that in all State Trading Organisations visited, the chief executive of planning is a man near the top and has a status equal to that of the executives of prime functions and services. Indeed, in his capacity of Secretary - "Mukerer" - he has more privileges than his counterparts and most managements regard him as a key person in the Organisation.

* Al-Mukerer has more responsibility than a Secretary. In fact he is a special assistant for the president or general manager for planning and who follows up the implementation of decisions taken.

8.5.4.3 The Responsibility of the Director of Planning

In this subsection, the functional responsibilities of the chief executive of planning and the extent to which he controls them are examined. Qualitative research and examination of Article Eight of the State Organisations' Constitution No. 21, 1982.

The prime responsibilities of the chief executive of planning, as stated in that Article are as follows:

- 1) To ensure that all the General State Establishments and all their branches prepare the plans according to the format.
- 2) To coordinate and monitor the preparation of the written plans.
- 3) To review the plans prepared by the General State Establishments and the State Organisations' departments (e.g. finance, personnel) to discuss them with the appropriate responsible personnel and revise and modify them according to the President's guidelines.
- 4) To design the integrated formal plan for the State Organisation of Consumer Goods.
- 5) To collect data about the activities of the State Trading Organisations, to classify and analyse such data for use in planning and control, and to provide the Ministry of Commerce with this information.
- 6) To perform market research in order to develop and expand the State Trading Organisations' business.
- 7) To make analyses of business and economic conditions for the State Trading Organisations.
- 8) To serve as a forecaster for the State Trading Organisations.

Moreover, because the chief executive of planning has served as the secretary of and coordinator of all meetings of the Board of Directors which empowered him to follow up the execution of plans and decisions, he can pinpoint the pitfalls and problems. This is applied also to the managers of planning departments in the General State Establishments and to the heads of the department sections in all the branches. Furthermore, the planning department is staffed with planning personnel to carry out its tasks.

In conclusion, the results of the current research showed that the chief executive of planning (whether he is a Director of planning, manager of planning department, or the head of planning section) holds the prime responsibility for the planning function that is usually found in large firms.

The question that arises is why the chief executive of planning does not contribute towards the development of effective plans.

The most important reasons for this are:

- 1) Failure to make sure that top management and branch managers really understand the nature of long-range planning and what it will accomplish for them and the State Organisation of Consumers Goods.
- 2) Failure to recognise that a good strategy should go beyond strategic decisions to specify how it is to be translated into action; the chief executive of planning should be "a master of a tactical actions."⁴⁰
- 3) Lack of planning staff personnel, skills and the qualifications of the personnel required to fill the planning posts.
- 4) Because he is equal to other executive directors, and these directors are all extremely busy executives running their departments, they feel little enthusiasm for plans.

- 5) Failure to recognise the role of the chief executive in the process of decision-making.
- 6) Forgetting that planning is a political, (economical), social, and an organisation function as well as a rational process.⁴¹
- 7) Failure to encourage executives to do good long-range planning because they concentrate instead on short-range performance measures.
- 8) Failure to develop planning capabilities in the State Trading Organisations and their branches.
- 9) Failure of the planning staff to give the State Trading Organisations and their branches sufficient information and guidance (e.g. environmental projections, etc.).
- 10) Attempting to do too much in too short a time.
- 11) Top managements consistently rejecting the formal planning mechanism by making intuitive decisions which conflict with formal plans.
- 12) Failure to secure that minimum of systematic diffusion information to make the process and its results credible and useful.
- 13) The involvement of the chief executive in the mechanics of the planning process rather than functioning as an overseer of the process and as the developer of its capabilities and hence its effectiveness.
- 14) Lack of shared values among ranks of the hierarchy, particularly between the President, chief executive of planning and other planning staff personnel.
- 15) Failure to use plans as standards for measuring managerial performance.

8.5.5 The Role of the Planning Department in Marketing Planning

During the planning process, the planning department provides instructions on preparing the plan. During this period it keeps contact with the chief marketing executive and the planning department in each General State Establishment in order to ensure that planning procedures are implemented according to the schedule. The department also gives some help to planning department in all the General State Establishment on how to prepare their plans and monitor their progress. The chief executive of planning acts on behalf of the president, but his active role is a directive one not that of an internal consulting assistant and advisory source. So, his role is not so effective. After completion of the General State Establishments' marketing plans, the chief executive discusses these plans with the responsible staff and evaluates the plans against the president's guidelines. Then, the chief executive monitors the implementation of the agreed plans.

The study findings indicate that the role of the Planning Department has not been effectively revealed by complaints from the planning departments in the General State Establishment about not receiving real help in developing their plans. And, therefore, it fails to develop an effective marketing planning system. It is important to note that a "proper role of the Planning Department is an important determinant of the planning process."⁴²

8.6 The Patterns of Integration in Marketing Organisations

Thus far, the degree of responsibility for the performance of the major marketing tasks have been examined. Further examination of the consequent patterns of functional responsibility given to the chief marketing executive would now be appropriate. The analysis showed that there were three distinct patterns of functional responsibility and they allow conclusions to be drawn with reference to the allocation of such responsibility in the State Trading Organisations under investigation, viz.

- 1) The chief marketing executive has full responsibility for most marketing functions;
- 2) The chief marketing executive has full responsibility for some marketing functions;
- 3) The chief marketing executive has little or no responsibility for some other marketing functions.

In underdeveloped countries, informal communications and meetings play an important role in achieving coordination and cooperation between marketing functions.

The philosophy of the marketing concept demands that all marketing functions must be integrated under the direction of one executive. This section aims to determine to what extent all marketing functions are integrated. Such analysis will provide useful information about the patterns of responsibility allocation to be found in the State Trading Organisations.

The study findings indicate that all State Trading Organisations visited confirm to the first pattern where the chief marketing executive is responsible for most of the marketing functions. In addition, the informal communications and frequent meetings gave him some influence on other marketing functions. Other marketing functions were not practised in the State Trading Organisations, e.g. advertising, promotion, and credit. However, the above discussion demonstrates that the prevailing pattern of integration meets at least the minimum requirements for the implementation of the marketing concept. It is expected that marketing concept will gradually be more fully implemented in the State Trading Organisations in Iraq in future if the chief marketing executive and branch managers possess the basic marketing knowledge and skills to enable them to perform the marketing function adequately, and this will lead to a situation in which the State Trading Organisations allow the chief marketing executive to be widely involved, which is consonant with acceptance of the marketing concept.

8.7 Summary of Findings

The aim of this chapter was to determine the extent to which prevailing organisational structures in the State Trading Organisations are capable of producing and carrying out a marketing strategy compatible with the implementation of the marketing concept. Consequently, the following points were examined:

- 1) Methods of organising the marketing function and the planning function.
- 2) The status of the chief marketing executive and the extent of the chief marketing executive's responsibility, and the status of the chief executive for planning and the extent of his responsibility.
- 3) The Marketing Planning procedures to develop their marketing strategy.
- 4) Patterns of integration in marketing organisation.
- 5) Stages of development of marketing planning.

The findings of these analyses are presented below.

8.7.1. Organising the Marketing Functions

The relative lack of marketing specialisation was evident in the State Trading Organisations visited, since the marketing responsibility had not been delegated to the chief marketing executive in about 46% of the firms. It is noted that informal meetings and personal communication had some effect on solving the problem, but the degree of success achieved is open to question. Some marketing functions were not performed for political ideology (e.g. promotion and advertising) or because of the domination of the seller market (credit).

Although the planning function has been founded in the State Trading Organisations since their foundation over a period of seven to twenty-one years, most of the planning responsibility was delegated, the lack of coordination between members of the hierarchy of the planning system revealed difficulties concerning the right to information and the power to issue functional instructions to ensure that the strategy adopted by the board of directors will be carried out in the General State Establishments and their branches.

8.7.2 The Title of the Chief Marketing Executive

The State Organisation of Consumer Goods uses the title Vice-President for Marketing and three of the General State Establishments use the title Assistant General Manager for Marketing. The other two General State Establishments use the title Assistant General Manager for Sales and Supplies. There is no difference between the latter two titles in terms of responsibility or status. Most managements regard titles of little significance, but in fact they have an association with status.

The Title of the Chief Executive of Planning

The State Organisation of Consumer Goods uses the title "Director of Planning" for the chief executive for planning, and in all General State Establishments, they use the title "Manager of Planning Department", while in all branches the title which is used is "Head of the Planning Section". This reflects the hierarchy of the planning system in the State Trading Organisations.

8.7.3 The Organisational Status of the Chief Marketing Executive

All the State Trading Organisations accord the chief marketing executive an equal status with that of executives of the prime functions, a practice which is in conformity with the marketing concept. He is given a higher status than his counterpart in some areas of responsibility.

The Status of the Chief Executive of Planning

The chief executive of planning's status is equal to the status of the chief executives of prime functions. His status is further promoted because he is designated as "Secretary" of the Board of Directors.

8.7.4 Responsibility of the Chief Marketing Executive

It was found that the chief marketing executive holds full responsibility for most of the marketing functions. The functions where he shares the responsibility are transportation and warehousing. The functions where there appears to be a low level of chief marketing executive responsibility are pricing and the selection of marketing staff. Promotion, advertising and credit functions are marketing functions which are not performed in the State Trading Organisations.

Responsibility of the Chief Executive of Planning

The chief executive of planning holds prime responsibility for handling the planning process throughout the entire organisation as well as for the content of the plans within the framework set forth by the Board of Directors.

8.7.5 Marketing Planning Procedures to Develop Marketing Strategy

The State Trading Organisations follow formalised procedures to develop their plans laid by top management. Although they utilise the experience provided by a number of managerial levels which indicates their thoroughness of the procedures, overall the planning procedures have not been effective, this being demonstrated by shortages, lack lustre performance in the market place and unimaginative marketing programmes.

The contents of the plans do not possess the characteristics which are the mark of effective plans because they lack those components of comprehensiveness which are distinguishing features of plans produced by American and European companies (clear statement of objective, quantification of goals, environmental considerations, scanning, etc.). They follow their own methods without specifications and quantifications. Their planning procedures are quite different from, and are not nearly so effective as, those pursued by American and western companies.

8.7.6 Pattern of Integration in Marketing Organisation

The study findings indicate that all the State Trading Organisations visited adopted the pattern where the chief marketing executive is fully responsible for most of the marketing functions, and shares the responsibility for other functions with other members of management.

The organisation of the planning department in the State Trading Organisations is similar to that prevailing in companies organised in divisions, but the divisions have their own planning department and so do the branches. So, planning departments play a dual role. The chief executive of planning is responsible for coordinating, developing and monitoring the planning activities. But misunderstanding and difficulties exist within the relationship between the role of the chief executive for planning and the role of top management and that of other planners in the General State Establishments. It was found that they did not distinguish between business planning and marketing planning.

8.7.7 Stages of Development of Marketing Planning

From the previous discussion, it appears that the development of marketing planning in the State Trading Organisations is influenced by the complexity of the environment, clear definition and vision of their business and their role, clear objectives and quantification of goals, richness of the formulation of the plans,

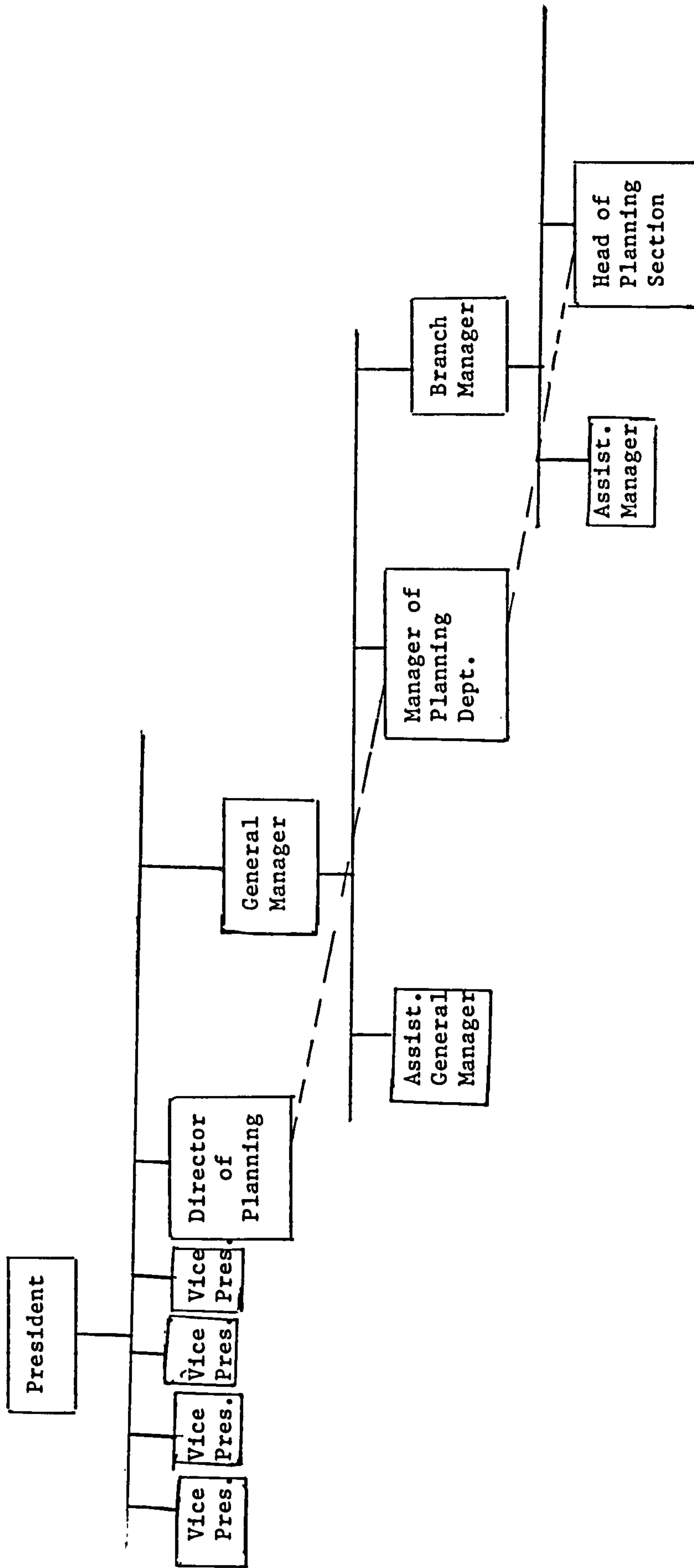
depth of evaluation, top management commitment, catalytic of planning function, tenure of management, and size of the organisation. However, the development of marketing planning has not progressed very far in the State Trading Organisations despite the need for more comprehensive and successful marketing plans. On the basis of this analysis, it is concluded that status of the marketing planning organisation in the State Trading Organisation is far below that which prevails in American and European firms which have considered it necessary to formulate a comprehensive and elaborate marketing strategy, and to introduce the marketing concept effectively in the face of the increased complexity of the environment.

The level of development of the marketing planning organisation has been limited. Iraq has lagged far behind America and Western Europe countries in recognising marketing planning organisationally or operationally. This can be attributed to a number of factors:

- 1) The lack of skills and serious shortages of professional personnel specialising in marketing planning (particularly the strategic type).
- 2) The absence of incentive compensation systems which build a bonus structure around the development and implementation of strategic plans.
- 3) Top management becomes so engrossed in current problems that it spends insufficient time on long-range planning, and the process becomes discredited among other managers and staff.
- 4) There is failure by the planning department to develop plans which make an important contribution to corporate accomplishment.⁴³
- 5) Related to 4) above too, there is lack of top management commitment to the planning process.

- 6) Production-orientation dominates the thinking of most of the State Organisations' managers.
- 7) There is too much centralisation of long-range planning in the State Organisation of Consumer Goods, so that the General State Establishments and branches feel little responsibility for developing effective plans. (See Figure 8.4).
- 8) Top management consistently rejects the formal planning mechanism by making intuitive decisions which conflict with the formal plans.
- 9) There is failure to secure that minimum of systematic diffusion of information to make the process and its results credible and useful.
- 10) There is failure to use plans as standard for measuring managerial performance.

Figure 8.4:



"Hierarchy of Planning System in the State Trading Organisations"

N.B. Dotted line indicates indirect control and communication.

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CHAPTER NINEMerchandise (Product) Planning9.1 Purpose

Merchandise (product) planning is one of the most important functions to be performed within a wholesale or a retail store. It is concerned with the maintenance of a balanced portfolio of products, at various stages of their life cycle, of the correct quality and style consistent with the type of consumers frequenting the store, priced at a level which the consumer regards as attractive and representing value for money. Moreover, the product and associated service play an important role in the activities of the wholesaler and retailer for they are the means by which they seek to achieve their dual objectives of increasing the satisfaction of both the consumer and the organisation. Furthermore, "the pricing and communication strategy will be heavily dependent on merchandise. Conversely, merchandise must reflect the retailer's overall business philosophy and be compatible with all retailing strategies."¹ This may explain, in general, the importance of the product as an element of the marketing mix, and its importance to retailers or wholesalers irrespective of their main objectives (e.g. making profit or achieving social goals).

In order to examine merchandise planning in the State Trading Organisations, questions 27, 28, 29, 30, 31, 32 and 33 were included in the questionnaire relating to merchandise planning-objectives, budget, procedural aspects involved (whether product test was carried out), product deletion decision, responsibility of merchandise planning and services provided in these Organisations. In addition, interviews with responsible officers and visits to the involved departments were carried out to gain more information relating to merchandise planning and services. The description and analysis of merchandise (product) and services are divided into two main parts. The first describes the major ingredients of a successful merchandise planning - objectives, merchandise budget,

introduction of new product, product deletion, merchandise assortment planning, branding and organisation arrangements. The second part describes and analyses the services provided by these Organisations. At the same time, similarities and differences between private and state organisations will be highlighted.

9.2 Introduction

A product is defined as that which the consumer receives when he makes a purchase. The buyer is buying wants or need satisfaction rather than a set of chemical and physical attributes. Currently, there is a growing tendency to define "product" broadly. Kotler² defines a product as "an object, service, activity, person, place, organisation, or idea" capable of satisfying a need or want.

Most of the definitions proposed indicate that a product is viewed as being capable of satisfying a need or want. MrCarthy and Perreault, Jr.³ define "product" as "the need-satisfying offering of a firm", while Buell⁴ defines "product" as "a marketer's offering as perceived by the market", and he indicates that this "product" can be in the form of services and ideas as well as physical objects, which is very similar to the definition given by Kotler. Arnold and others⁵ define "product" as "a saleable unit, normally a tangible object or service".

In recent years there has been a tendency to consider a product in terms of its social-psychological dimensions. Therefore, "a key to success in product planning is to adapt a product to suit the tastes, needs and economic characteristics of a particular less developed country, rather than to assume that what sells well in a developed country will sell equally well in an unaltered form in a less developed market."⁶ A similar conclusion is put forward by Hill and Still⁷ who state that "a more appropriate marketing strategy is to tailor consumer products to local customs and market conditions."

It can be concluded that the term product refers not only to a physical commodity but also to anything used by a company to provide

customer satisfaction. Bell⁸ indicates that a product can be a single commodity or a service, a group of commodities or a group of services, a product-service combination, or even a combination of several products and services. However, for the purpose of this study, bearing in mind the points discussed above, the researcher proposes the following definition of the "product". The product is a saleable unit, normally a tangible object or service which suits the tastes, needs and wants of Iraqi consumers. The main reason for this definition is to adapt the definition of "product" to the situation of the trade organisations in a less-developed country. This may explain, in general, the importance of the product as an element of the marketing mix, and its importance to retailers and wholesalers irrespective of their main objectives (whether seeking profit or not). And pricing and communication strategies will be heavily dependent on merchandise (product)⁹ strategy.

Having defined the product in terms appropriate to a less-developed country, the study proceeds now to define another term which is "product mix", a crucial factor in the company's marketing effort being the range of products it offers to meet consumer needs and wants. The "product mix" of a retail store refers to the breadth and depth of the product range carried by the retail organisation. This term may be considered synonymous with the retail term merchandise management. The "merchandise planning and control starts first with decisions about merchandise variety and assortment".¹⁰ Variety (breadth) decisions involve determination of the generically different kinds of goods to be carried or services to be offered.¹¹ For example, a retail store carries a wide variety of merchandise ranging from men's clothing and women's fashions to sport equipment and appliances. On the other hand, assortment decisions refer to the range of choice or alternatives within a particular variety or product group,¹² (e.g. brands, styles or models, colours, sizes, prices). Decisions on the variety and assortment of the organisation product mix significantly affect buyer interest, as do decisions to modify, withdraw or add new products. Furthermore, the importance of product decisions is intensified if we consider that a firm's ability to serve and satisfy customers with products is its primary

social and economic reason for existence.¹³ Mistakes in any of these areas are usually costly and may even be ruinous.¹⁴ As such, a firm's ultimate success, whether measured by total profit, return on investment, market share, or any other criterion, is largely dependent upon product (merchandise) policy and strategy. In other words, the success or failure of the final marketing programme depends, to a great extent, on the accuracy of product (merchandise) decisions. Once these decisions have been made, marketing strategy can be woven around them until a total marketing programme is achieved. "Goods well bought are goods well sold" is one form of an old retailing adage. Despite its triteness, it lingers on because it remains appropriate¹⁵, and it reflects the importance of merchandise decisions. Consequently, the need for a clear product (merchandise) policy to be understood and applied by the people who will be using them is of a crucial importance to the success of the marketing programme, and each business within a marketing channel must continually make decisions about the merchandise it purchases for resale.

9.3 Merchandise Planning

One of the crucial activities in retailing is merchandise planning, because the merchandise offered comprises the largest item of expenditure for category in firms, and the source of revenue in retailing is the sales of merchandise. Moreover, from "an investment perspective, inventory is almost always the single largest asset account in a retail firm, while other large asset accounts, such as account receivable ..., arise because of the need to finance customer purchases inventory."¹⁶ In sum, most of the retailing actions revolve around the inventory investment. Therefore, because of the importance of merchandise to retailing performance, failure to effectively plan and control the merchandise offer may have disastrous consequences. Then what is meant by merchandise planning?

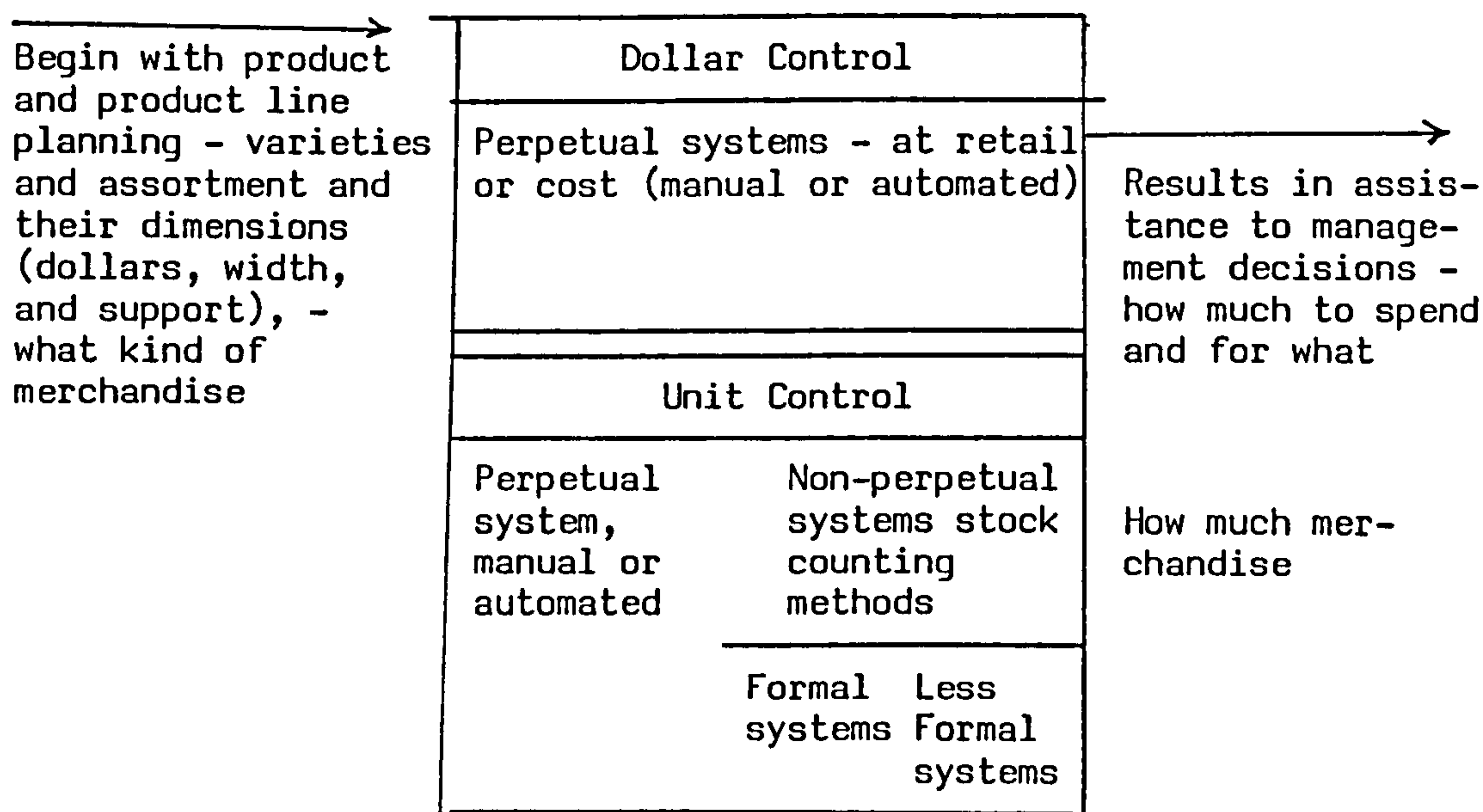
The American Marketing Association defined merchandise planning as "the planning and supervision involved in marketing the particular merchandise or service at the places, times and prices and

the quantities that will best serve to realise the marketing objectives of the business."¹⁷ This is a broad definition. Wingate, Schaller and Miller defined it as "the planning and control of a stock assortment so as to meet predetermined objectives."¹⁸

There are two important factors associated with this definition:

- (a) The planning of stock assortment,
- (b) The stock assortment must meet the objectives.

They¹⁹ asserted, also, that a well-planned assortment must contain a merchandise mix attuned to both expressed and latent needs and wants of potential customers. From the customers' point of view, the mix must include goods of the right (1) type, (2) quality, (3) price in (4) quantities adjusted to expected demand, available at the (5) time customers are ready to inspect and buy and at the (6) places in an individual store or in a multi-unit system where customers would expect to find such an assortment. Any failure to meet these variables may lead to losses which can have grave consequences. Mason and Mayer²⁰ include in merchandise planning and control all the activities needed to plan and maintain a balance between inventories and sales, and they present a schematic diagram of the assortment planning and control process, as shown below:



Source: Mason, Barry J and Mayer, Morris L. "Modern Retailing" 3rd ed Business Publication Inc. 1984, p545 Fig. 12.2.

By combining sales and inventory in their definition, merchandise planning may be considered as an inventory problem, where an optimum breadth and depth of brands/styles must be balanced. Arnold, Capella and Smith²¹ consider merchandise planning consists of five broad steps:

- 1) Review all existing information and plans;
- 2) Formulate merchandise philosophy;
- 3) Determine merchandise objectives;
- 4) Formulate merchandise budget;
- 5) Prepare the buying plan.

Although some activities may be included in other (e.g. philosophy and objectives) this division will assist the merchandise manager in developing the merchandise planning. For this purpose the merchandise planning is defined as: maintaining a balance of assortment (assortment/variety, depth) of the correct quality and fashion consistent with the type of consumers frequenting the shop to meet expected or anticipated customer demand.

In Iraq, it is difficult to find accessible literature which describes merchandise planning in the State Trading Organisations, so this study relies on questions, interviews and discussions to explore its comprehensive performance and assess its importance in these organisations. Six activities of merchandise planning function are treated below. The most important feature which emerges is that merchandise planning activities concentrate on offering goods produced domestically or elsewhere to suit needs, wants, tastes, cultural and economic characteristics of Iraqi consumers. For example, some fashions which appeal to women in America or Europe would not be appropriate to Iraqi women. This is what the marketing concept seeks to reestablish.

9.3.1 Objectives of Merchandise Planning

Setting objectives is a critical element of the planning function. Without concrete objectives, the entire planning can easily become

a futile exercise. In recent years, most "firms select multiple objectives rather than a single goal or objective."²² Although profit is a major motivating objective for firms, there are other objectives firms try to achieve or hope to attain. These objectives are determined by the retailer's merchandise philosophy (variety, assortment, quality, brands, turnover and profit). It is important to emphasise that the objectives should not only be compatible with each other, but should also be specific enough to pursue and practical enough to attain. Gist²³ defined the objective of merchandise assortment planning as offering "an optimum number of brand/styles in each product line (depth) and an optimum number of different product lines (width)". The optimum breadth and depth of brands/styles are determined by the available investment resources and space - Wingate, Schaller and Miller²⁴ have specified the merchandise objectives of the company as achieving the potential sales, improving the margin and profit, achieving specific stock turnover and maximising productivity. Each of these elements should grow out of the firm's philosophies relating to each element and to the store's management and method of operation. This definition may serve as a general guide but not specific enough to serve the purpose of the firms in underdeveloped countries. Arnold, Capella and Smith²⁵ suggest that specific objectives must be aligned to the six philosophical components of a retailer's merchandise (variety, price-quality dimensions, brand dimensions, turnover, gross margin return on investment) but they also specify the turnover and gross margin return on investment (GMROI) and incorporate both in GMROIT, as measures of effectiveness for merchandise strategy planning. The philosophy components of the State Trading Organisations are more varied than those which apply to the privately owned firms so their effectiveness is measured against objectives which stem from their particular philosophy (ideology) which has its own characteristics.

To investigate what merchandise objectives are now being used, question No. (27) of the questionnaire asked "what are the merchandise planning objectives of your organisation?" This question was addressed to the president of the State Organisation of Consumer Goods .

Vice-President for Marketing, Director of Planning in the State Organisation of Consumer Goods, all the General Managers of all the General State Establishments, and their Assistant General Manager for Marketing (Chief executive for Marketing). These thirteen executives have the main responsibility for setting the objectives of merchandise planning. Executives who do not have a profound effect on objectives setting were excluded. For example, the Assistant General Manager for Importing who may share in objectives setting on a smaller scale than his counterpart for Marketing was excluded. The respondent's answer regarding the the objectives listed below were noted (the objectives are listed in order of importance).

- 1) Offering goods at reasonable prices
- 2) Offering high quality goods at lower prices
- 3) Offering high quality goods at high prices
- 4) Increasing the width of the assortment
- 5) Offering limited product lines of speciality goods.

Then, the researcher asked the respondents if they consider that profit, sales growth and stock turnover objectives are sought by their General State Establishments. The answers of the respondents were to the effect that, although they apply mark up to speciality goods and to some 'semi-luxury' goods, profit is not their main concern. In addition, they do not strive to increase stock particularly if they already satisfy the demand and if the goods concerned are imported. So, stock turnover is not considered as an objective, because they do not intend to increase the rate of turnover. It is used only as an indication of demand for goods in order to satisfy current demand. Sometimes the stock turnover is very high, not because the demand is very high but because the supply of goods to the market is small, so that people rush to the market to buy them before they are sold out. Therefore turnover is not an accurate measure of actual demand.

A supplementary question (No. 28) was then asked: "Are the above chosen objectives explicit, formally stated and well documented?" This question was submitted to the respondents who answered question 27. They replied that the above objectives are

explicit but not detailed enough to guide business decisions, bearing in mind that accessibility to suppliers may influence the choice of a particular product and the quality of it.

The objectives specified by the respondents indicate clearly the absence of the most common and widely used objectives in all firms for planning merchandise decisions and for measuring the efficiency of these decisions. Sweeny²⁶ indicated that the gross margin return on inventory investment (GMROI) can be a measure of how well the merchandising executive is performing his basic management task, namely the profitable deployment of corporate assets, in order to provide an effective starting point for systematically programming merchandising activities towards a clearly defined performance goal. Ingene and Levy²⁷ have used the contribution margin return on inventory investment, which is an extension of the familiar gross margin return on investment (GMROI), and argue its importance for (a) planning merchandise investment, (b) evaluating departmental performance and (c) comparing the relative performance of two or more departments. The absence of GMROI, CMROI, or turnover and GMROI, criteria makes it difficult to measure the efficiency and effectiveness of merchandise strategic planning. The main reasons for these criteria being ignored are firstly, that they classified goods on the basis of their philosophy (i.e. necessity, semi-luxury and luxury) according to which they priced goods differently, so that goods may carry a high mark up, while other goods are subsidised. Therefore, the whole picture may be distorted. Secondly, they do not have an accurate costing system by means of which they can make and compare decisions. Thirdly, they enjoy a monopolistic situation in relation to almost all products which enables them to charge any price they choose. Fourthly, they are judged not on the basis of profit but on achievement of other objectives. For example, they may ask to satisfy the demand for "necessity" goods which are not profitable and neglect the more promising goods - those with a high mark up.

The other objective which is not stipulated in their plans and not mentioned in the objectives listed is sales growth. This

criterion is selected for measuring the performance of the firm, and it is in common use and of general interest to most managers. Discussions with these executives provided the information that the State Trading Organisations do not stipulate the sales growth as an objective, because once they meet the demand of their consumers, they do not strive to increase sales. Many items are in short supply, so they use the "extra" money to satisfy unfulfilled demand.

Stock turnover is one of the objectives used by firms, particularly when it is used in combination with GMROI to provide a clear picture of merchandise performance and to improve the retail merchandising decisions. Stock turnover, however, will not necessarily provide a clear picture, because the quantity of goods supplied to the market governs the rate of turnover. For example, the fact that turnover items turns eight times does not mean that if the flow of goods is smooth, this turnover rate will be maintained, it may in fact drop substantially.

An examination of the objectives listed by the respondents reveals how difficult it is to achieve these objectives in particular, nor can they provide a clear view of the future, or offer specific guidance to help executives in planning appropriate action. For example, on what basis should the merchandise manager or the Committee allocate the available funds for the product in their mix, or what should be the basis for helping him to determine the various trade-offs that exist between products in his mix (e.g. high quality, low-priced goods, high quality, high-priced goods, or "necessity"/semi-luxury/luxury goods). These may take various forms. For example, a product may be subsidised or a very poor profit generator, but its presence in the store is necessary because it is an essential item (e.g. a necessity item). Clearly, there is a trade-off between these two products. The major problem associated with trade-offs, is the ability to identify them, since they are not always obvious. Moreover, the trade-off problems extend to the sources of supplies (domestic or foreign). This problem

has an effect on the general level of sales and on the product, and therefore requires a definite answer. Furthermore, these objectives do not give a clear direction to the executive to enable him to determine the optimal period of time for using a particular product mix.

However, the State Trading Organisations' executives used these above listed objectives as a general guideline to assist in their decision-making performance. They have succeeded in building a good reputation for offering good quality goods at lower prices, and a greater variety than their counterparts in the private sector. But pursuing this policy caused some mistakes such as stocking some merchandise that did not sell, or shortages of other goods.

It can be concluded that the objectives of merchandise planning in the State Trading Organisation are established in a generalised form, not sufficiently explicit or precise for guiding executive decisions or for helping to measure the efficiency and effectiveness of these Organisations' overall performance in merchandise planning.

9.3.2 Merchandise Budget

This section of the chapter is primarily concerned with an examination of the tools available to the merchandise manager. The most common device used is the merchandise budget, a technique which is documented in most retailing textbooks.

The merchandise budget is "a plan of how much to buy ... per monthly classification based on profitability goals, e.g. GMROI."²⁸ The merchandise budget facilitates planning and controlling the amount of goods (valued in money) retailers expect to sell and buy during the planning period in accordance with predetermined objectives. The planning period "can be a year for retailers with stable sales or a selling season for those with distinct seasonal sales fluctuations."²⁹ Duncan, Hollander and Savitt defined merchandise budget as "a forecast and plan for the dollar amount that a store, department or classification (subdivision of a department) expects to buy

and sell during a specific forthcoming season."³⁰ Thus, in order to construct a budget, a retailer must determine the level of sales, the level of mark-up, and gross margin, for all products over the following reporting period. These decisions should be formulated in the organisation's objectives and defined specifically within the marketing goals. The problems involved in estimating the levels of sales should be recognised. From this information, the level of purchases can be determined. Duncan, Hollander and Savitt indicated that a merchandise budget provides a clear-cut plan for merchandising operations over a specific period of time based upon careful study of existing needs and anticipated sales, and provides both a definite course of future action and a yardstick for evaluating current performance. It also provides a cumulative record of past results, both planned and actual, enabling the retailer to judge the accuracy of past estimates and to improve future ones. Obviously, the merchandise budget is a very useful tool in the planning and controlling of a retail outlets' activities. Because of the difficulties in estimating sales, the budget can only be as accurate as the sales forecast. In practice, a budget is not always set at the product level, due to the problems associated with the collection of data. The lowest level of data dissemination is in the product group and it is the responsibility of a retailer to manage the mix of products he is responsible for, constructing the product groups, in order that sales, etc., achieve the budgeted target. As indicated, the merchandise budget is not a guide to specifications, but the gradual introduction of computer technology in retailing has allowed budgets to be set at the product level giving a more centralised control over individual products.

Regardless of whatever level the budget is set at (product group, department) the merchandise manager is required to determine the level of sales for a specified period of time. While the budget is operational, products will be added and deleted from the mix. These decisions will affect profitability. The merchandise manager must attempt to estimate the potential sales performance of the products under his control, before finalising the merchandise budget.

There are essentially four dimensions by which product lines, either existing or proposed, should be appraised. With no priority intended, these are the dimensions.³¹

- 1) Appropriateness and relationship to other lines.
- 2) Growth potential.
- 3) Availability and competitive conditions.
- 4) Profitability.

In the first dimension, the merchandise manager should examine each product, with a view to establishing its role in the breadth and depth of the current product range. Is the product compatible with the product mix? These decisions should be made for products already in the store, as a process of monitoring their performance relative to each other, as well as for new products, to establish whether there is a place for them in the store. In conjunction with this examination, the merchandise manager should attempt to establish the growth potential of the products. This will depend upon:

- (a) The stage of the product in its market life cycle, and
- (b) its position on the in-store life cycle.

A product may have very low or negative growth potential and thus become a possible candidate for deletion. At this stage, deletion should not be automatic as there may be valid reasons for maintaining the product in the product mix. A product may exhibit zero growth, but have achieved a high level of participation in the store and is therefore a generator of profit. Clearly, growth alone cannot be used as a deletion criterion. In underdeveloped countries, the criteria used are derived from their own circumstances and philosophy. For example, the profitability is generally a sound criterion for maintaining a product in the product mix, but it is regarded as of secondary importance in underdeveloped countries. Again potential growth is used as a criterion in most American and Western firms whereas the State Trading Organisations may withdraw some products with a high growth rate. Therefore, the criteria

used for product mix appraisal in underdeveloped countries may differ markedly from those used in the developed countries.

Two other systems often used for merchandise control are value and unit control systems. These two systems relate to the overall merchandise by value and volume sold. Some changes, e.g. constant changes in prices, inflation, etc. have made the sales by value (£x) of little use to the merchandise manager, requires to know what colour, size, etc. of article has been sold. The use of this system allows the responsibility for control to be delegated to managers at a lower level (e.g. branch manager, market manager, head of product class). It enables the merchandise manager to keep the inventory at a level which can contribute to achieving the budgeted objectives. The unit control system is supposed to allow the retail manager to maintain an ideal assortment of products in the store. The system informs the merchandise manager of the types of products that have been sold, thus assisting the manager with stock reordering (this will be discussed later in this chapter), and the planning of mark-ups and mark-downs. Operation research techniques have been introduced into the field of retailing but despite efforts to adapt these techniques to retailing, they have not been used on a large scale, and in some cases have hardly been used at all. The techniques used in retailing in underdeveloped countries lag decades behind those used in Western firms, particularly in the field of advanced operation research techniques.

Preparing the merchandise budget in the State Trading Organisations is a lengthy process. It begins from the bottom when the branch manager, or market manager prepares his estimates of the budget figures. These figures (estimates) are reviewed, discussed, revised and consolidated at the level of Assistant General Manager for Marketing (Chief Executive for Marketing). These estimates are often worked up and down the managerial pyramid until they are finally settled. The budget process takes into account some guidelines and recommendations of top management. Such a process proved useful in gaining the support of branch managers for marketing pro-

grammes and strengthening their commitment. Moreover, because they are closer to the market, they have helped to improve merchandising decisions and the distribution of goods between the branches. Their merchandise decisions began to improve with experience. The process has, too, input from most if not all decision-makers at every level in the organisation.

But close examination of the merchandise budget process and the records they are based on reveals that the process has failed to achieve the marketing objectives for many reasons. Firstly, because the merchandise planning objectives are set out in general terms and not quantified, the merchandise manager (branch manager, or market manager) bases his decisions on personal judgement and experience which are subject to error. Secondly, the source of the data is the ledger. (This ledger is the main source of data relating to selling and buying and the movement of stock. The columns in Diagram 9.2 give a description of their content). However, intervention by branch managers in the flow of goods can distort the actual demand, so that the ledger may not in fact provide a true picture of demand.

Diagram 9.2: Ledger of the State Trading Organisations

Page No.....

Item Description

No.	Received	Issues	Balance	Invoice No.	Date	Remarks
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Because of the high percentage of imported goods and the long time (lead time) these goods take for arrival to the State Trading Organisations' stores, merchandise budgets extend over a longer

period than those used in Western firms. The formula used in these Organisations is as follows:

Total merchandise required = planned sales + buffer stock.

Planned purchases = planned total merchandise required -
imported goods not arrived from previous
year - closing inventory.

The formula does not differ very much from the formula used by most firms, but the problem is that the planning is based on forecasts which are subject to errors due to interruption of the flow of goods for many reasons (e.g. management interference, political problems, congestion in ports, delays from suppliers) which are not documented and explained, so the forecaster cannot make an accurate prediction. Moreover, the undelivered imported goods for a previous period may represent unsatisfied demand, so the total merchandise recorded as required may not be a true representation of the actual merchandise required for that particular period. In order to comprehend the whole picture, the next two sections describe the forecasting method and how inventory levels are determined.

a. Sales Forecast

The first step in preparing a merchandise budget is to forecast or plan sales. "An accurate sales forecast is one of the most important ingredients of strategic merchandise planning and is also important for all other retailing strategy variables."³² The retailer may approach the problem of estimating dollar sales by trying to judge how many units he will sell in each category and then multiply the quantities by the retail price, or he may simply try to estimate total dollar sales, by reference to past experience and using his judgement about changing demand and supply conditions. These methods are found to be ineffective for forecasting in an environment characterised by severe resource constraints, stemming partly from weaknesses in the capital markets and general cash shortages, material shortages and inflation, etc. Therefore, big firms used more

advanced techniques, such as trend analysis, time series analysis, and multiple regression, to develop their sales forecasts.

Discussion of those techniques is beyond the scope of this work, but it is important to indicate that "these techniques should be used to assist or facilitate an overall, logical forecasting procedure."³³

The most commonly used sales forecasting procedures are as follows:

1. Gathering the data about the previous year's sales. This data should be reliable and concrete, because the remaining steps are designed primarily to modify and elaborate this base figure.
2. Analysing sales trends to determine the historical growth rate, and adjusting it in keeping with price increases to arrive at a projected realistic growth rate in sales. This does not include environmental changes.
3. Scanning business environment to determine those factors that could influence sales and adjusting the projected sales growth rate developed in step (2) with the information derived from environmental factors in order to modify the sales forecast.
4. Some retailers use personal judgement to finalise the sales forecast when they discover something that is likely to cause some changes in sales.

The retailer will breakdown the figures into sales forecast for months and season. These procedures may yield accurate forecasts in the State Trading Organisations when used properly.

To investigate the approaches used by the State Trading Organisations, the following question (No. 20) was addressed to the same thirteen top executives: "What kind of forecasting methods are

used in your Organisation to predict sales?" The answers of the respondents showed that two methods of forecasting were used in the State Trading Organisations, namely judgement and the use of statistical methods. But a close examination of the statistical methods revealed that these methods were simple and they did not include most of the variables which can affect sales, so they were not effective in producing an accurate sales forecast. It can be concluded therefore, that to make sales forecasts, the State Trading Organisations use simple techniques which are not capable of producing an accurate forecast and produce in effect decisions relating to environment change. They lag behind in the use of the techniques employed by Western firms for similar forecasts. Despite the continuous growth these Organisations have achieved in their sales, several decisions based on these forecasts which have resulted in shortages of some goods, overstocking of some other items which mean a lost investment. Their forecasting system needs to become more elaborate in order to help decision markers in the State Trading Organisations to produce more reliable sales forecasts.

b. Inventory Level Planning

The second step in formulating the merchandise budget is to plan the inventory levels for each period. Since sufficient merchandise must be carried in inventory to satisfy expected sales, accurate sales forecasts in Step (a) are crucial. The main objectives of inventory planning are focused³⁴ mostly on the following:

- a. to satisfy customer demand,
2. to adjust inventory levels to variations in seasonal sales, and
3. to control inventory investment and achieve a turnover rate that enhances achievement of profit objectives.

Several methods are used for planning inventory. A well-documented operations research technique, applied to retailing, is the Economic Order Quantity (EOQ). The retailers seek to minimise the level of inventory held, so that they can reduce inventory investment and the value control system for estimating inventory is a very useful method .

of serving that purpose. The EOQ formula allows the retailers to maintain a balance between the costs associated with ordering merchandise and the costs of carrying an inventory. The implementation of the Economic Order Quantity formula requires:

- (1) availability of a costing system if the merchandise manager wishes to minimise total variable costs associated with stockholding (the fixed costs are disregarded since they are not affected by inventory level).
- (2) accurate salesforecasting.

The EOQ formula can be used as a guide to decision making, and provides a useful control device. The application of the formula may not be as simple as the formula indicates. The existing costing system does not provide the necessary cost estimates to determine the economic order quantity, therefore, special costs studies to produce an accurate estimate are essential for applying the EOQ formula. Another problem, that of forecasting sales demand, is considered more serious, especially for seasonal and fashion goods, where the forecasting errors may be large, particularly if demand is volatile and accurate demand forecasting may be difficult to achieve.

Through the retail research, management scientists have introduced more sophisticated models than in the past. Some of the new models have met with great success, as they have provided new insights into some very difficult problems. Others have been more successful in establishing heavier workloads and creating confusion than they have in alleviating the inventory challenge."³⁵ It should be remembered that it is not an easy task to attempt to introduce sophisticated mathematical techniques in retailing where personal intuition has played a key role in decision-making in the past and is likely to have a major influence in the future. It is difficult to persuade a retailer to accept sophisticated mathematical techniques to do a job which he can carry out without using these techniques. The techniques introduced must be understood and successfully applied by the retailer if he is to have full confidence in them.

Although the EOQ formula may possibly be accepted by retailers, management scientists introduce even more complex statistical techniques which may not be acceptable to retailers in a "real" situation. The introduction of linear programming techniques to develop all of the possible allocations of the product mix and enumerate all possible choices has not the success achieve in the production and finance areas, because of intangible factors which are difficult to measure. The following are some of the operation research techniques available to the retailer to enable him to reach the desired performance standards. An investigation by Dalrymple³⁶ attempted to analyse statistically the relationships between profits and the performance factors, used to control the merchandising function in retail firms. The study was divided into two phases, the first of which attempted to establish the relevant performance criteria, from all suggested criteria. The second phase consisted of developing a profit maximising model, using the significant performance criteria, developed during the initial stage. Dalrymple has indicated, in his findings, that sales are the most important merchandising criteria in accounting for the differences in profits between the departments.

Another technique which has been used to study merchandise planning and control in a department store, is to be found in Sweeney's³⁷ research and uses computer simulation. Using data from one department of the store, Sweeney developed a computer simulation programme, which facilitated the study of the impact of alternative inventory depth decision criteria on performance within the department. The study indicated that the use of computer simulation has some advantages in retail merchandise, but it has disadvantages too. One of the major benefits of a simulation is that the merchandise manager can observe the effect of alternative decision criteria on the product mix, without actually changing the mix.

It is possible that no one model can provide an ultimate solution, because of inventory storage among departments, space allocation, intangible services shared by some departments and different

environmental circumstances. These highlight the difficulties which are associated with modelling merchandise planning and control. A model which allows the merchandise manager to observe the performance of products relative to each other may be a solution. Using the information from this model, the merchandise manager could then estimate the overall performance of the product range and make his decisions accordingly.

The study reports that some of the State Trading Organisations (The State Organisation of Consumer Goods, Headquarters, and the General State Establishment of Iraqi Stores) have used the EOQ in its basic form, but because it is based on an inaccurate costing system and uncertainty about supply sources, it has resulted in errors revealed in shortages of many items, and overstocking of some others. It is difficult to develop a quantitative and dynamic model to monitor the performance of the product mix because of the problems associated with defining an appropriate objective function. The other four General State Establishments have not developed or applied any complex model to monitor the performance of the product mix in their stores.

Inventory Planning Methods

The retailer in Western countries may resort to one or more of five commonly used methods for planning inventory levels, which all focus on planning beginning-of-the-month (BOM), because of the accessibility to suppliers and because of explicit objectives guiding planning and well-established procedures. These methods are as follows:

- 1) **Judgement:** most small retailers used nothing but personal judgement to plan their inventory levels. These "inventory plans are simply rough estimates based on experience and intuition."³⁸ This method may be adequate for small stores
- 2) **Basic Stock Method:** this method gives special recognition to the need to have a basic stock on hand at all times. It

is expressed by the following equation.³⁹

Retail stock at the first of a month (BOM) = Sales for the month + (Average stock for the season - Average monthly sales).

This method is often referred to as the safety stock method,⁴⁰ therefore, another equation may be used as follows:

$$\text{BOM} = \text{Forecast monthly sales} + \text{safety stock.}$$

This method is useful for stores with relatively low turnover and stable monthly sales.

- 3) Percentage variation (or deviation) method: this method provides for lower inventory when fluctuation in sales occur. It presumes that "it is not necessary to increase or decrease inventory in direct proportion to sales fluctuations."⁴¹

This method incorporates only one-half of the forecast percentage variation from average stock. The formula is:

$$\text{BOM} = \text{Average inventory} \times \frac{1}{2} \left(1 + \frac{\text{forecast sales for the month}}{\text{Average monthly sales}} \right)$$

The method is considered to be better than the week's supply method.

- 4) Week's supply method: this method assumes that the inventory levels should always be proportional to sales. It involves forecasting and planning on a weekly basis and is appropriate for merchandise that needs to be planned weekly. This method has the drawback of varying inventories in direct proportion to changes in sales. If the rate of sales doubles, the inventory doubles and vice-versa. The method does not provide for a minimum basic stock to be carried no matter how low sales may drop. It also causes a stock increase or decrease some weeks ahead of anticipated changes in sales.

The number of weeks to be stocked is calculated as follows:

$$\text{Number of weeks supply} = \frac{52 \text{ weeks}}{\text{Turnover rate}}$$

- 5) Stock-to-Sales ratios method: some planners are making increasing use of stock-to-sales ratios as the basis for inventory planning. This method assumes that the retailer must maintain a fixed proportion of inventory to sales. The overall logic of the Stock-to-Sales ratio can be seen in the calculation of an average stock-to-sales ratio for the year. This is done as follows:

$$\text{Stock-to-Sales ratio} = \frac{12}{\text{Turnover rate}}$$

The average inventory can be found as follows:

$$\text{BOM} = \text{Stock-to-sales ratio} \times \text{forecast month's}$$

The yearly stock-to-sales ratio is actually an "average", therefore monthly stock-to-sales ratios["] are valuable aids in stock planning. They relate inventories at the first of a month to sales of that month and thus are more useful than average turnover figures for planning purposes."⁴² In order to establish the stock-to-sales ratio for a particular store for a specific month, the retailer may use either existing stock-to-sales ratio from past experience; or, if the system is just being set up, trade data may be used. It is more useful to compare the store's own information with trade statistics when establishing the stock-to-sales ratio. In general, the problem associated with the stock-to-sales ratio is that the ratios are large when sales are low, and tend to decline as sales volume increases.

An important consideration with each of these formal methods so far discussed is that an allowance may have to be made for variations each month in the price of the average item sold and in stock.

Moreover, the retailer must give careful consideration to other factors that may have considerable bearing on determining what a desirable stock should be. Accordingly, any stock plan arrived at mathematically must be revised in view of the requirements not only to provide an adequate physical assortment⁴³ but also to allow for any necessary or many possible choices.

The accessibility of suppliers to the retailers in developed countries, well-established procedures for supplying and the experience of explicit and established trade terms may enable retailers in these countries to use one of these methods to plan the inventory levels on a monthly or even weekly basis after some modification or revisions. The situation of the State Trading Organisations is different from that of their counterparts in Western countries. In the first place, the State Trading Organisations cannot plan their inventory levels on a minimum of six weeks to fourteen weeks in normal circumstances, and experience has shown that this lead time can even extend to twenty-four weeks due to ports congestion or other circumstances. Secondly, the high percentage of imported goods to total sales makes inventory planning on a monthly basis more difficult. Thirdly, the allocation of resources on an annual basis, because of the link with the National Budget, makes it difficult to plan on a monthly basis. Fourthly, the absence of fixed contracts, confusion and lack of trust between suppliers and buyer, and the prevalence of cash deals, have all presented difficulties in planning inventory levels on a monthly basis. Finally, the procedures to be followed to get approval of the plan interfere with attempts to plan for shorter periods. All these factors affect the method used by the State Trading Organisations in planning their inventory levels. Before conducting an interview with the General Managers of the General State Establishments, the researcher used the opportunity to ask suppliers who were waiting to meet the Committee, some questions concerning how long they had been dealing with the Organisation, when the order had been placed, and the terms of trade involved. It was found that these suppliers have dealt with the Organisation for between 5 to 7 years and yet these suppliers are sometimes given

only a few months or even a few weeks in order to bid for a contract which makes it difficult to ensure the delivery of supplies at the appropriate time. So, the relationships between manufacturers and the State Trading Organisations are not based on the kind of cooperation which contributes benefits to both parties. It is difficult to find an explanation; the only reason may be lack of understanding of the benefits to be delivered from establishing cooperative relationships between manufacturers and these organisations. These circumstances have forced the State Trading Organisations to plan inventory levels over a longer period (six months or more). The formula used is as follows:

$$\text{Beginning Inventory} = \text{Adjusted Average Inventory} \times \text{Period} + \text{Safety Stock}$$

The average inventory is calculated by dividing the past sales (actual) by the number of total months. This number is modified according to past experience based on personal judgement. For example, if the item suffered from shortages, they try to increase the supply; and if it was overstocked, they reduce the order. Then, the resulting number is multiplied by the number of months (mostly for a season - six months) to get the required inventory level. To hedge against fluctuation, particularly through delay in delivery of goods, they add 10 to 30 percent of the required inventory to provide a safety stock. The formula prepared previously based on Iraqi Dinnars prices without considering inflation and exchange rates caused shortages in the number of units bought. Therefore, now they prepare it on a unit and cost basis. The role and responsibility of State Trading Organisations are different from those of their counterparts in Western private firms, because they are obliged to satisfy overall demand. For example, the formula accepted by Western firms to determine average inventory would not allow them to fulfil their obligation to satisfy that demand. Moreover, their method of calculating safety stock has not offered a good hedge against deviation from inventory goals. Because the deviation was not documented and quantified and the number of deviations were not allowed for to determine the level of protection

required, even although they assigned a high percentage (30%) to essential goods and a low percentage (10%) to cover protection for "semi-luxury" goods. It can be concluded that the State Trading Organisations plan their inventory levels based on a formula or method which is not sufficiently accurate to determine levels which will succeed in avoiding too great a deviation from inventory goals. The accessibility of suppliers and other favourable environmental factors are required to make possible the use of more complex methods which include other variables (e.g. inflation, exchange rate, supply fluctuation and interruption, etc.) based on accurate data and costing systems and well-defined control criteria.

The study reports that the State Trading Organisations follow formal procedures in formulating their merchandise budget. But this merchandise budget has failed to achieve the merchandise planning objectives, because of inaccurate sales forecasts, or the ineffective method used to calculate and plan the inventory levels. Besides, difficulty relating to the accessibility of supplies and other environmental factors have contributed to the failure to develop an accurate merchandise budget. Moreover, the traditional five basic steps (forecast sales, plan inventory levels plan reduction, plan purchase and plan initial margins) involved in formulating a complete merchandise budget, are not all performed. For example, the State Trading Organisations do not plan merchandise reduction, because they do not offer any discount or mark down on slow moving items to recover investment in inventory. Therefore, they need a more complex method than they have used up to now to allow for continuous adjustment in order to cope with changes in the business environment, availability of supply, price and other environmental factors. This is an objective to be aimed at in the future after an accurate information system and a satisfactory costing system have been established.

9.3.3 New Product

In this section, three topics will be discussed as follows:

a. New Product definition

There is no universally accepted definition of "new product". Many consider a new product as anything new to the company, including revisions of existing products, or a "product that does not duplicate an existing market offering."⁴⁴ Buel defines new product as "any product or brand that is new to the company, irrespective of its degree of newness to the market."⁴⁵ This definition excludes revisions of existing products. Kotler has considered as "new products" any "products, product modifications and brands that the firm brings into existence through research and development effort conducted either inside or outside the firm."⁴⁶

It is necessary to remember that "any approach to new product planning must be tailored to meet the unique characteristics of each company."⁴⁷ Douglis and Wind⁴⁸ indicated that the definition of a "new product" in less developed countries is different. Any addition to the existing product line may be viewed as a new product. In most LDCs, the existing range of products is limited, hence, products developed in more technologically advanced countries and introduced into the country are viewed as "new products". The definitions of "new product" encompass the following categories.

- Product which is new to the market;
- Product which is new to the company;
- Product added to existing product lines;
- Revisions or improvements to existing products.

To examine the respondents understanding of the meaning of the term, the respondents were asked the following question "what does the term "new product" mean to you?".

The interviewees' answers can be classified as follows:

- all respondents defined new product as an item which is introduced for the first time to the market.

- Nine out of thirteen of the respondents considered a product as new only when it is unknown to the organisation.
- four out of thirteen thought a product can be recognised as new when it is added to the existing product lines.
- only two respondents visualised a new product as a major modification of an existing one.

It should be remembered that a product may be visualised as new in the Iraqi market, although it has been in the Western or American market for years. Moreover, the way they deal with the introduction of new products is not based on formal systematic procedures. Although a high percentage of respondents may seem to pursue a policy which is compatible with the marketing concept, the real practice of the State Trading Organisations do not reflect market orientation when they introduce a new product to the market, and consequently do not fulfil the requirements of the marketing concept. The main reasons for this are:

1. When the organisation can sell everything it buys, as is the case today in Iraq, the introduction of new products becomes less important and sales objectives can be achieved even if the organisation does not introduce new products.
2. Delay in the allocation of required funds at the appropriate time may encourage investment only in what is available in the market in the form of existing products because there is not enough time to think about new products.
3. No market research is undertaken relating to consumer behaviour, because of the cost associated with gathering information about potential sales, of the lack of skills required for conducting research of this kind.

4. The absence of an incentive system for creative work and performance.
5. Shortage of financial funds allocated to the State Trading Organisations.
6. Although life styles in Iraq are such that consumers there accept innovation and change and enjoy the reward associated with them, and society views change as useful and beneficial if it occurs gradually, society does not adapt readily to radical changes or innovation, particularly when these necessitate a departure from traditional ways of behaving and thinking. This does not apply to more highly educated people and those who enjoy higher levels of income.

These last segments of the market do not constitute the target the Organisations aimed at. Despite what has been mentioned above, the State Trading Organisations have introduced large numbers of new products even although the demand for them has not been satisfied, and perhaps the new ones have not been as successful as the "old" products, because the main concern of management in the State Trading Organisations visited, as noted by the researcher, was to bridge the gap between the supply of and the demand for whatever products were available, or were suggested by foreign suppliers of imported goods. For example, they would purchase an item in large quantities before it was tested in the market which in some cases resulted in stocking items which did not sell. This incurred extra expenditure and the loss of investment opportunities. How then, do they recover their investment in such unsaleable items? The State Trading Organisations resort to one of two methods or both together. First, they try to move the item from the city where it could not be sold to another one. Second, if it is not sold, they link sales of a specific percentage of the unsaleable items with sales of products which have a high turnover. It should be borne in mind that the State Trading Organisations are the only source of supplies for most small retailers and as mentioned previously, the State Organisations do not have discount or mark-down

systems for recovering their investment. These points illustrate the fact that the introduction of new products face certain obstacles. The main obstacles are:

- a) **Insufficient planning:** Although retailers believe that new products play an important part in their survival and development and therefore should receive considerable attention and careful planning, the action required is implemented by haphazard methods, employed by the State Trading Organisations, although they deal with many items valued at thousands of Iraqi Dinnars. An additional reason for this situation is that there is an acute lack of skills in marketing in under-developed countries. In addition, there is a misunderstanding of the relationship between the suppliers and the State Trading Organisations, and the need for cooperation between both parties to provide mutual benefits.
- b) **Organisational problems:** Within organisational structures, the responsibility for new products should be assigned to a competent executive in order to arrive and implement effective decisions regarding new product development. As long as new products play an important role in organisational survival and growth, they should be regarded as the responsibility of top management.

In addition, defining the responsibilities of and designing an effective organisation for the product planning function is essential, because firstly, it provides management with a means to control the vital resources of the organisation. Secondly, specifying exactly what has to be done may provoke creative direct energies in a more creative way. Thirdly, it provides a yardstick against which the performance of a particular department or function can be measured.

There are four different new product organisations that have been used for several decades. Various kinds of product management systems have been developed and implemented. All have deficiencies, yet there is common agreement among managers of successful firms that

some type of formalised new product planning approach is essential."⁴⁹
 The best organisational form for each company can only be determined through analysis of the specific needs and circumstances of that individual company."⁵⁰ The prevailing alternatives are:

1. New product/brand manager
2. New product development
3. New product venture team/task force
4. New product committee

Some studies indicated that the new product department was found to be the most popular organisation form followed by the brand manager with the new product committee in third position.⁵¹ Because many factors have to be considered, it is impossible to generalise that one "right" organisational structure should be applied to all companies. Each organisation needs some formal organisational mechanism for new product planning and coordination within the organisation. "Wherever responsibility is placed, there should be close coordination between new product planning, strategic planning, and marketing strategy."⁵²

An investigation of the State Trading Organisations' constitution, and discussions with the chief marketing executives, Assistant General Managers for Importing Goods and Directors of Planning, revealed that they have not developed formal organisational methods for new product planning which is in fact assigned to the same committee which decides the overall business plan. Although this form of organisational structure may boost new product planning and its contribution to the survival and growth of the organisations, it is inappropriate for fulfilling the requirements of this function. Firstly, suggestions made for new products are not based on a careful analysis of attempts to exploit the opportunities open to existing products and markets. Secondly, the Committee consists of top management (The President and General Managers) who do not have time to spend on such activities and the researcher suggests that this function should be delegated to an appropriate organisation capable of handling new product planning in order to carry out the detailed analysis required and to put forward suggestions and recommendations

to top management. Unlike the situation in Western countries, in underdeveloped countries there are shortages of some goods and overstocking of some others, as is the case in the State Trading Organisations. These Organisations may need only to rearrange their methods and to choose assortments, depths and widths tailored to meet the requirement of the Iraqi market.

b. Problems relating to market information

The aim of the State Trading Organisations or any channel members is to satisfy consumer needs and wants by supplying a product and making a profit. Failure to offer the right product to satisfy particular needs and wants has serious consequences for the survival of the organisation and the purpose of their existence. The price of failure is intolerable and is even more serious for the State Trading Organisations for the following reasons:

- 1) These Organisations depend on imported goods, which constitute a big investment, paid for in "hard currency", and failure to market a successful product has a serious impact on the balance of payment and the organisation consequently suffers from a shortage of resources.
- 2) The State Trading Organisations market most of the necessity goods and failure to offer the right product will have an effect on the standard of living.
- 3) As mentioned previously, decisions about new products are undertaken haphazardly, simply to fill the gap between supply and demand, so that sometimes certain products are so unique that there is literally nothing to compare them with in order to estimate their potential sales volume.

Therefore, a thorough study of the market, its characteristics, size, competition, trends and opportunities should be regarded as essential by the State Trading Organisations. The content of the ledger used to extract information for decision-making, is not detailed enough to serve as an aid toward making effective decisions.

Moreover, the researcher found no evidence of research on the product being carried out in any of the following areas:

- 1) testing consumer acceptance of a new product before launching it;
- 2) evaluation of proposed new product;
- 3) studies of market trends.

Furthermore, to the question, "What sources of information did they depend on in order to select the new products?" the answers given were that the sources of information about new products were:

- 1) The National exhibitions held at Baghdad.
- 2) Catalogues sent by distributors or manufacturers.
- 3) Suggestions by suppliers.
- 4) Suggestions by some executives.

Although such sources of information may be considered adequate for formal retailers, they cannot serve as an appropriate basis for organising the detailed study required for new product planning on a large scale.

It can be concluded that the procedures followed in planning and launching new products were not comprehensive or effective enough to achieve the organisations' objectives. In addition, the organisational structure of the State Trading Organisations did not provide an effective or adequate formal organisational mechanism for handling new product planning activity. Moreover, a clear objective and an analysis of business opportunities based on accurate market information and sound market research are urgently required for the implementation of planning and launching procedures appropriate to new products.

9.3.4 Product Deletion Decisions

Product mix decisions may be taken in an organised and dynamic situation, since certain products may flourish, then decline and finally die, so that the products in the portfolio are constantly being examined, in order to delete old products, and add new ones. One of the factors which persuades consumers to patronise a particular store is its assortment of merchandise or the product mix. To maintain an appealing product mix at an optional level, products will have to be added and others deleted from the range. Product deletion decisions can give rise to special problems for the retailer. The merchandise manager may wish to stock a new product but has no funds or space available. So, in order to stock the promising new product, an existing product will have to be deleted to free the tied up capital that could be used more profitably on the new product. The number of products that are candidates for deletion from the organisation's product mix may affect the organisation's progress. Moreover, most of the costs that result from the lack of an effective deletion system are hidden and become apparent only after careful analysis. Therefore, management often overlooks these costs. Too often, it regards the problem as something that should be tackled but that can be postponed. The process of product deletion is important, and should be carefully designed and timed, and while it is "an uninspiring and depressing process in a changing market it is almost as vital as the addition of new products."⁵³ Thus, a definite procedure for deletion of products should be established, and the authority and responsibility for the various activities involved should be clearly and definitely assigned.

Product deletion is an exercise which must be carried out with particular care, for the deletion of the product with the lowest profitability may not necessarily represent the best decision. That product may be an essential one that the consumer expects to find in the store, or its deletion may cause a decline in other leading product sales, or it may be that the product itself should undergo changes in the methods of making or marketing it. Therefore,

Alexander⁵⁴ suggests that certain factors which indicate that the product's continuation in the product mix is advisable should be considered carefully when elimination is proposed as a possibility.

These factors are:

- 1) Sales trend.
- 2) Price trend.
- 3) Profit trend.
- 4) Substitute products.
- 5) Product effectiveness.
- 6) Executive time.

Hise and McGinnis⁵⁵ indicated that sales and profit considerations appear to be the major reasons for dropping a product. In addition, they indicated that "significant benefits apparently accrue to firms employing a structural product elimination program."⁵⁶ Once a product is singled out for possible deletion after considerations of these factors has provided evidence justifying deletion, the "decision must be chosen in the light of the situation of the firm and management of objectives."⁵⁷ A wise deletion decision should be considered within the context of the merchandise mix, and to be done properly too, there must be a careful analysis of the profits, the firm's financial structure, employee relations, marketing factors and other possibilities (e.g. costs, price, cross production) each weighted differently to enable the right decision to be taken. In order to implement a deletion decision with least disturbance to the customer and the firm's other operations, plans should be drawn up for elimination of the product in a way that will solve a variety of problems which "fall probably into four categories, timing, parts and replacements, stocks and hold over demand."⁵⁸ Hise and McGinnis⁵⁹ indicated that these deleted products had been in the market in some cases for two years or less and in others for more than forty years. The task of product deletion, to be carried out successfully, should be assigned to a specific person or post. Hise and McGinnis found that this task is assigned to the product manager, the director of corporate planning and control, a non-marketing line executive, marketing executives above the product manager, or to a

committee which had a marketing representative. The choice depends on the structure of the organisation, its operating methods and its position in the industry and in the market. It seems clear that the product deletion process will not be implemented unless management "establishes definite, clear cut policies to guide it, sets up carefully articulated procedures for doing it, and makes a positive and unmistakable assignment of authority and responsibility."⁶⁰ This situation in underdeveloped countries differs than that of firms in developed countries, because of the high percentage of imported goods to total sales. Secondly, and related to the first reason, these imported goods are imported without any modifications to meet local customs and market conditions and may therefore present some problems and give rise to complaints which result in deletion on the grounds of unsuitability. Thirdly, firms in Iraq have annual contracts for imported goods, so that products appear and others disappear, not because of profit or sales decline, but as a result of contract termination. These factors and others should be considered when a product is deleted in a developing country.

Arising from the above discussions, an attempt was made to investigate the State Trading Organisations' general policies relating to product deletion, their product deletion practices and whether responsibility for such activities were assigned to the General Manager, vice-president for Marketing, and the Assistants General Managers of these Organisations. The researcher was interested in obtaining answers to the following questions. Do the State Trading Organisations have a formal product deletion procedure in writing? What steps are included in a formal deletion procedure? Is someone assigned the responsibility of considering a product for elimination? If so, what is his title? How often is each product considered for possible deletion? How many products were eliminated in 1980? Is there a policy in operation regarding replacement parts for deleted products?

The interviewees' answers indicated that the State Trading Organisations have product deletion programmes, but the procedures for these are not documented. Then, most common procedures include

a review of specific products that have shown a decline in sales, those which are not adapted to local customs and market conditions, those subject to malfunctioning or which do not function properly. Alternatively, some products may prove to be a source of increased consumer complaints on the grounds that they are in general, unsatisfactory or a political decision may result in the deletion of a particular product. As a result, remedial action is considered (e.g. redistribute the product to other cities where it is in short supply, increase sales efforts, etc.). But one of the remedial actions which led to complaints by consumers was the compulsory selling of a percentage of slow moving or declining products with a high turnover product. The Ministry of Commerce prevented such action, following complaints. The responsibility for product deletion is not assigned specifically to a particular post, but it can be delegated to a branch manager, or undertaken by the assistant general for marketing, or the general manager. Sometimes the Board of Directors of the State Trading Organisations makes decisions about the deletion of products. This multiples source of product deletion, will not serve to develop a sound and effective deletion programme and may cause a confusion. Moreover, the review is commonly conducted on an annual basis in all the State Trading Organisations, but they maintain contact on a monthly and seasonal basis with their branches, monitoring the movement of stock, and may decide that a product should be deleted during the season, but they can take no action until the whole contract has been fulfilled. Furthermore, the respondents were not able to give information about the number of products eliminated. This is because they do not record certain types of products, particularly clothes only, durable goods. But through observation of the products introduced in the market and making note of their availability during the following season or year, it can be established that many products have disappeared from the market. In some cases a reason for deletion did not exist, because the product was deleted before its potential was fully exploited and there was evidence of unsatisfied demand. This happened for several reasons. To mention a few, firstly, lack of effective planning resulted in submitting order to manufacturers or suppliers at inappropriate time. Secondly, they did

not recognise the hidden cost involved in such decisions. Thirdly, they did not appreciate the benefits of establishing stable and long-term dealing with suppliers in order to create those relationships between two parties which may result in better deals and trade terms (e.g. large quantity discount, credit, etc.). Regarding a policy relating to spare parts, it was found that only two general State establishments had such a policy namely the General State Establishment for Commercial Items and the General State Establishment for Trade of Precision and Instruments. But the policy in effect is to keep a fixed number of spare parts, after which the customer may not be able to obtain a part he needs for his product. This problem, particularly affects such items as televisions, refrigerators, freezers, watches, office equipment and radios. The researcher visited the Repairs Department in the General State Establishment for Commercial Items and found that 60% of one make of television had been there for months without being repaired because of the unavailability of spare parts. The spare parts policy is of crucial importance in underdeveloped countries, because they buy products produced in western countries without matching them to local customs and market conditions and the enclosed instruction booklet is written in a foreign language which cannot be understood by the ordinary customer. This may contribute to early defects in the products. Moreover, it was found that spare parts were rarely stocked to cover the lifetime of the product. This caused complaints from consumers which were published in newspapers like "Al-Thawrah Newspaper". It can be concluded that the State Trading Organisations have not developed formalised and sophisticated product deletion programmes or a sound elimination policy. Unfortunately, they may not realise how much this is costing them and the consumers.

9.3.5 Merchandise Assortment Planning

The term assortment used at the beginning of the chapter, in connection with a retailer's product line refers to the range of choices or alternatives within a particular product group, or to "a group of demand-related merchandise items that is unique and distinguishable."⁶¹

The merchandise assortment has three distinct dimensions: width (also known as breadth), depth and compatibility. Width refers to the "number of different merchandise lines carried by the retailer,"⁶² or to generally different product groups or classifications. It may also be called variety. Depth of merchandise assortment refers to "the average number of items within each merchandise line,"⁶³ or "the degree of support or number of units carried for a particular merchandise item."⁶⁴ This includes the number of different brands, sizes, styles, prices and colours available within a particular line. The third aspect of the merchandise assortment is compatibility of product lines. This is a "measure of how well the different merchandise lines complement each other in terms of the store's attempt to match its product offering to the needs and wants of the consumer."⁶⁵

After the retailer decides how much he will invest in the stock, the next step is to ask, what does he want to spend his investment for, and in what amounts? The basic objective of merchandise assortment planning is "to offer an optimum number of brand/styles in each product (merchandise) line (depth) and an optimum number of different product lines (width)."⁶⁶

In developed countries, where the consumer is more affluent and has an elaborate system of preferences, market demand is widely diversified. Hence, marketing must offer a wide product assortment in order to satisfy consumer demand.⁶⁷

In developing countries, it is necessary to distinguish between oil producing countries and those which do not produce oil. In the latter, the firms find that the diversification of consumer demand is limited, and certain barriers prevent the firm from offering more products, whereas in oil-producing countries, the firms have greater opportunity, because consumers tend to have higher personal incomes with a consequent increase in disposable income available for discretionary spending. In these circumstances, firms in these countries can offer wider merchandise assortments to meet customer demand.

The State Trading Organisations are firms working in an oil-producing country in which the consumer has experienced a steady increase in real income, which creates a greater demand for merchandise assortments than ever before. As a result, retailing has enjoyed an expansion of business, and the merchandise manager has to strive to offer a balanced assortment that satisfies the growing demand for goods. The assortment problem in the State Trading Organisations is simply the problem of how, with a given amount of money, quotes on imported consumer goods, priorities and centrally planned prices, to provide the market with precisely those goods which consumers want most in the quantities required. This problem becomes more acute as standards of living rise and consumers are in a position to be able to reject a particular merchandise because it is not precisely what they want, and their tastes are increasingly affected by fashion. In this respect, planning becomes harder as the real income of consumers rises.

Questions asked in this subsection were intended to discover whether merchandise assortment planning in the State Trading Organisations was shallow or deep, narrow or wide, compatible or otherwise and if the product range had increased or decreased in the last three years. The answers are analysed below.

It was found that the State Trading Organisations differed in their planning of merchandise assortments depending on the product (merchandise) line. The basic (necessity) goods had the lowest width and depth, while non-food items had deeper and wider assortments than basic goods. The General State Establishment for Foodstuffs had an average depth of 1.5 and an average width of 2, the depth in the General State Establishment for Trading of Precision and Instruments ranged between 2.5 and 3.0 and width between 2 and 3. The other General State Establishments, specifically the General State Establishment for Commercial Items, for Shopping Centres and for Iraqi Stores, have deeper and wider assortments than the first two. The depth ranged between 3 and 6.5 and the width between 3 and 5. The philosophy governing their planning is to reduce the depth and

width to some extent to save some money which can be invested in order to satisfy unmet demand. Therefore, it is clear that they are not interested in expanding the market for products, but simply aimed at satisfying existing demand. The extent to which they reduce the depth and width of the assortments depends on management experience, suggestions and recommendations from different bodies (e.g. agents, government bodies, unions and Womens Federation), and sales trends. Although there are dissimilarities in consumers' tastes and preferences, they have a well-defined cultural value, norms and traditions, e.g. a well prevailing proverb states "eat what you like, but wear what people like." Such attitude can provide some clue to people's preference relating to colour and fashion. The general philosophy aimed at obtaining benefits available from the large quantity orders by following shallow depth policy and keeping the width as narrow as possible in order to prevent control by one supplier and to leave the greatest possible room for manoeuvre in dealing with suppliers. But consumers enjoyed more varied assortments in the 1980s than in the 1970s despite the restrictions imposed by such a policy on consumers' freedom of choice. The researcher visited State Trading Organisations' stores in three cities, Baghdad, Maiyssan, and Basrah and the largest private retail stores in the same cities and found that the State stores have deeper and wider assortments than the private stores. But, if these State stores are compared with department stores in developed countries, their assortments, whether in respect of depth or width, considered shallow and narrow if the same method of calculating average depth of product mix is used, that is dividing the number of items by the number of product lines.

The study reveals that the assortments in the State Trading Organisations are still shallow and narrow despite an increase in depth and width since the mid-1970s, so that freedom of choice of consumers is still restricted. The problem has become acute as a result of the expanding economy and the increase in disposable income for discretionary spending by Iraqi consumers. Their assortments were considered to be deeper and wider than those of their counterparts in the private sector in Iraq. They were, however,

shallow and narrow compared with their counterparts in developed countries, a finding which fully supported the expected conclusion.

The study also indicated that the existing assortment problems are evidence of the fact that merchandise assortment planning was not so effective, partly perhaps because the distribution system suffers a great deal basically because it generally has low priority in the Iraqi economy, and partly because there have been shortages of some consumer goods.

9.3.6 Branding

In this subsection, the researcher will examine the branding policy of the State Trading Organisations, and outline the reasons for selecting such a policy. But first it is necessary to define what is meant by the term branding. Brand, according to Kotler,⁶⁸ indicates "a name, term, sign, symbol, or design, or a combination of them which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors." The term brand name is "the part of a brand which can be vocalised, the utterable."⁶⁹ Another term which needs to be defined is "trademark" which is "a brand or part of a brand that is given legal protection because it is capable of exclusive appropriation."⁷⁰ The "brand names have no legal status; they are simply a marketing designation for one type of trademark."⁷¹ The term branding will be used in this subsection as a general term to "describe the establishing of brand names, marks or tradenames for a product."⁷²

Moreover, to avoid other semantic difficulty, the term manufacturer's brand is "one sponsored, or owned, by a company whose primary or traditional business is producing the given product line."⁷³ This brand may be called a national brand. Another type of brand is a distributor's brand which "is one sponsored, or owned, by a company whose primary or traditional business is distributing the product line."⁷⁴ This may be called a "private brand". Hawes names another type of brand and calls it "generic brand". He defines

it as "economy-oriented, low-priced grocery products which are actually standard grade. These products are usually sold with a plain label and lack a traditional brand name."⁷⁵

The retailer may adopt one or more of the following brand policies, depending on the kind of product or industry, and type of business organisation:

- a) choosing to sell a manufacturer's brand;
- b) choosing to sell a distributor's or private brand;
- c) choosing to sell generic brands.

Several studies (Shutte and Victor, 1966; Spalding, 1983)⁷⁶ indicated the private brands have gained a greater share in the market and are no longer considered to be "stepchildren". Spalding indicated that the private brand contributed significantly to the corporation's (ADG) to the extent of a gain of 25% in sales and 12% in revenues. The generic brands have gained a share in the market estimated to be as much as 11 to 20% of sales in the product categories in which they are sold.⁷⁷ The retailer must decide to carry each of these types of brands and determine the balance between these types. These decisions must be integrated with other merchandise objectives and strategies.

In developed countries, branding has received considerable attention because not only does it facilitate the identification of a product, it also provides other benefits to consumers, distributors and manufacturers, despite the introduction of generic products. Several reasons have contributed to establishing the importance of branding. These include the rise in standards of living and per capita income, shortage of time, a balanced market, an increased number of products, new products launched in the market, competition, limited economic growth, etc. Therefore, the marketer devotes more effort and attention to branding to attract customers for their own brands.

The situation in underdeveloped countries is different from that in developed countries. The former suffer from shortages of many items, an unbalanced market, low standards of living, low per capita income, absence of real competition, low level of literacy, etc. So, some studies found that branding in developing countries is relatively uncommon. Boyd and others indicated that in Egypt there is little branding of consumer goods.⁷⁸ The situation in other underdeveloped countries which suffer from shortages, branding received little attention, since the marketing of quantity is all important. Al-Muathen⁷⁹ confirmed that the manufacturers in Iraq have been hindered from using branding, because of the reasons mentioned previously, namely, as a result of the existence of markets which are both seller dominated and controlled. The problem in underdeveloped countries is that in most cases the emphasis is on having the required quantity at the proper time more than on the ability to choose between different types of brands.

In recent years, the situation in underdeveloped countries has been in transition. Vassiliou⁸⁰ found that fast-moving, brand consumer goods, particularly toiletry and household food items, are now an established part of the average Middle Eastern consumer's life. The use of Lipton's tea, Mazola oil, Pepsi Cola, Tide detergent powder, Sunsilk shampoo, Nido powdered milk, Kraft cheese, Ever Ready batteries, Gillette blades and many other similar internationally known brands is practically universal. He indicated, also, that a recent survey "amply demonstrates the high penetration that branded products have achieved in the Arab World."⁸¹ Moreover, Hill and Still found "contrary to what one might expect, labelling laws in most LDCs are more demanding than those in the United States. While a few countries like Zimbabwe require only brand names and ingredient specifications, others, including most countries in the Middle East, have strict labelling laws, stricter than in the United States."⁸² According to the researcher's experience, when the State Organisation of Sea Ports and Navigation wanted to sell two well-known types of refrigerator brands, Westinghouse and Frigidaire, and a third type, a Canadian refrigerator called "Defrostermatic", the price of the first two brands was about

double of the Canadian refrigerator. The employees bought these two brands and refused to buy the third brand. The Canadian product was more effective than the Frigidaire in adapting to market conditions (high temperatures and moist weather) yet its price was half that of the latter. It can be said that branding has received more attention in the Middle East than formerly and it is expected that such recognition will increase in the future.

Based on the previous discussion, the researcher sought to find out what kind of brand policy the State Trading Organisations have adopted. The question was addressed to the General Manager and Assistant General Managers for Marketing. The study revealed that the State Trading Organisations have adopted a manufacturer's brand policy except in the case of a few products such as tea which can be packaged in small bags after being purchased in bulk. Discussion with the General Manager of the General State Establishment for Foodstuffs indicated that when the Organisation launched two new brands of powdered milk instead of Nido, the two brands stayed on the shelves of retailers for months and consumers continued to ask for Vido despite its unavailability. There are several reasons for pursuing such a policy, although the Organisations have the volume requirement and marketing conditions which favour the adoption of private brands. Firstly, most of the supply contracts of the State Trading Organisations are of the one shot deal type. Secondly, they try to split their buying among two or more producers, particularly within a given product line, not on the basis of getting the very best of each supplier's products, but of avoiding either the domination of a particular manufacturer or the effect of his monopolistic actions. As a result, such a policy may deprive these Organisations of the advantages of higher volume discounts. Thirdly, there is a shortage of maintenance skills to handle all the technical problems associated with durable goods. Finally, they want to maintain their reputation for offering reliable and well-known international brands. Even after some fraudulent practices in the private sector where goods were purchased at a low price and sold at a higher price, the only action taken by the State Trading Organisation was to print on the package "Imported for the State Organisation of Consumer Goods",

using the link which can be removed easily, whereas the private brand might have solved the problem.

The researcher believes that the brand policy adopted by the State Trading Organisations has been adopted without full recognition of the advantages associated with alternative brand policies, or through misunderstanding of the nature of other brand policies. For example, they believe that private or generic brands are of a lower quality than the manufacturer's brand without basing such an opinion on the results of careful market research. Consumers in Iraq are not sophisticated consumers, therefore the adoption of brand policies which achieves company objectives requires careful consideration of market conditions and should be pursued with considerable caution. There is clearly no established and effective brand policy based on economic grounds.

9.3.7 Responsibility for Merchandise (Product) Planning

The organisational design has changed from one form to another (functional, brand and market oriented) probably due to the rapid changes in the market place in terms of new-product development and competition. The market-oriented type of organisation makes the firm more responsive to the changing needs of consumers and to competitive changes. A "market-oriented organisation is clearly an application of the marketing concept."⁸³ So it is important to emphasise that all the major functions in the business should work together to get the best results out of the planning process. The same principle applies with equal force within the marketing activities of the firm as well. "Unless the planning system is so organised that the maximum degree of involvement and commitment is attained on the part of marketing personnel who are responsible for the various marketing functions, product, and market segments, the risk is run that best possible results may not be achieved."⁸⁴ Each function may conceivably do an excellent job by itself and coordinate with others to get optimum results. Therefore, a well-organised system of marketing planning must make provision for the close cooperation of the activities of all marketing personnel. Only in this way will they be able to make

proper contributions at the right time to the various marketing plans, as well as "to integrate ideas and inputs from the other "resource owners" within the marketing functions."⁸⁵ The organisational structure which is established has an effect on the achievement of market orientation.

Every retailer must perform the merchandise (product) planning function properly in order to survive. The small merchant seldom delegates the planning necessary to balance his stocks to consumer demand in order to achieve his objectives. The division of responsibility within the big retailing organisations is somewhat different. Thus, it is important at this stage to find out the designation of each person responsible for administering the planning activities. The respondents, therefore, were asked to state whether or not merchandise (product) planning was performed within the organisation, and, if so, to give the title of the person in charge of this activity. Responses revealed that a committee was responsible for what merchandise should be added or deleted. The Committee consisted of the Assistant General Manager for Marketing, the Assistant General Manager for Domestic Purchasing, the Assistant General Manager for Importing, and the Manager of Planning. The Committee worked in consultation with other executives (e.g. finance) and its decisions were based on a draft plan submitted by a committee at a lower level, the branch level. Generally, the committee was headed by the General Manager. The final decision regarding the selection of a deletion of merchandise was the responsibility of the Board of Directors of the State Organisation of Consumer Goods. This reflects the concern of top management and its complete involvement in the merchandise (product) planning activities. Although such involvement has advantages, it also has disadvantages. One disadvantage revealed when a close look was taken was that the involvement of top management was so great, to the extent of examining every detail, that it prevents any creative work being carried out by the committee. In addition, its responsibility may be diluted because it is easy to ascribe any failure in the plan to the involvement of top management (General Managers) in the detailed work of the committee. The responsibility of the committee may, also, be eroded

because of the constraints imposed by other governmental agencies or national plans. Therefore, the committee does not have the same degree of freedom as their counterparts in western companies. For this reason, the five chief marketing executives in the General State Establishments asserted that they must have more freedom in order to produce more effective plans. Top management should confine itself to strategic decisions affecting the organisation, and furthermore, they should create conditions in such a way that the directions they issue can be followed by executives at different levels. Despite these facts, responsibility was assigned to the people who were involved with merchandise (product) decisions, such people all being very highly placed in the hierarchy, so that they possessed the authority required for making product decisions. The extent to which freedom is limited which has characterised most of the State-owned firms in underdeveloped countries can be overcome creatively if the committee produced promising plans, and these plans prove to be of great help to top management in achieving the organisation's objectives and if the committee dealt with this issue in terms of a constraint to be overcome. Although they have a smaller degree of freedom than their counterparts in western firms, they have more freedom than those in the Eastern block.

9.4 Services Planning

The service component is an important factor in the retailer's marketing strategy. The service plan must be closely related to existing objectives, organisational plans and cultural environment. "The demands and expectations of the target market should have a major influence on the retailer's service strategy."⁸⁶ The consumers want more services from the State Trading Organisations which it is believed should offer these services at a lower cost. The services commonly offered by these Organisations are installation, maintenance, user training, warranties and repairs. These services become increasingly important as the products become more complex, and the price increases. Such services can provide the retailer with a unique way of competing with western countries. The services

available in underdeveloped countries only serve to prolong the life of the product and keep it working properly. Although the burden of services is considered to be the responsibility of the manufacturers and the wholesalers and retailers are not in a position to offer these services in most countries, the State Trading Organisations shoulder this burden on behalf of the manufacturers. Therefore, this section is only concerned with types of services related to products made available by the State Trading Organisations, and only with those services which keep consumers satisfied, e.g. after-sales services. This means that pre-sale services will not be discussed, because such services are not provided by the State Trading Organisations.

The services offered to customers by these Organisations are of crucial importance for the following reasons:

- 1) The high percentage of imported goods to total sales makes it very difficult to return the product, because of the location of the producer, the cost involved and the complicated procedures to be followed.
- 2) Imported goods originate in western countries and are not tailored to local customs and market conditions which may be responsible for the development of an early defect in the product and a shortening of its life.
- 3) The shortage of skilled people with appropriate knowledge of particular products means that many products are not repaired. This is caused by an increase in the number of products and in the depth and width of the assortments available.

The State Trading Organisations have tried to solve the shortage problem by training some of their employees at the producer's training centres, and establishing serviced departments built by producers who have a big share of particular products in the market. For example, Sanyo built three service departments in Baghdad, and trained some of these organisations' staff to administer them.

- 4) The purchase of a major appliance such as a refrigerator, a television set, a washing machine, etc., requires installation or repairs or both, and involves a certain degree of risk. This risk is relatively high because the price of the item is high and the cost of repairs or replacement of a damaged part is also high for the consumer. So, providing services reduces these risks and thus makes the product more attractive.

- 5) The State Trading Organisations consider that providing services to customers is very important, because durable goods are bought in "hard currency" which has an effect on the 'balance of payment', so prolonging the lifetime of products through an efficient repair service reduces investments in imports.

Respondents were asked whether the General State Establishment provided its customers with any after-sales services and, if so, what kinds of service were provided. Four out of five of the General State Establishments interviewed provided some kind of after-sales services. The services provided were by those general State Establishments who market durable goods and electrical equipment. These organisations provided after-sales services to meet the demand by consumers who make up the market and offered such services to compensate for the lack of services provided by the private sector or the foreign producers. A response of this kind is a reflection of their interpretation of what is meant by market orientation.

In order to find out the most common after-sales service offered by the State Trading Organisations, respondents were asked to name the kinds of service they provide to their customers. The study reveals that the most frequently performed services were product repairs, modification of parts, exchange of goods and various maintenance jobs.

The State Trading Organisations built up a good reputation as a

result of offering a repair service and their repair people are familiar with the products concerned, so the customers can feel more confident about retailers handling repairs and know who to contact if repairs are needed, and such services were offered at a lower price than that charged by the private sector.

Offering a repairs service also has disadvantages. First of all, in the State Trading Organisations there is a shortage of skilled people who are completely familiar with all the goods marketed by these organisations. For example, Table (9.1) indicates that many cities do not have any engineers and the qualifications of technicians were not sufficient to cope with advanced electrical equipment which resulted in a lower level of service and delay in carrying out repairs. In addition, the Table reveals a maldistribution of repairs personnel between cities which reduces the effectiveness of the repairs service. Moreover, the shortage of qualified repairs people caused delays in the repairs service lasting for months, despite the number of items repaired, shown in Table 9.2, which indicates also the extent and seriousness of the problem. Furthermore, there was both a shortage and maldistribution of repairs service departments between cities which curtailed the services provided, resulting in additional costs to customers. Table 9.3 shows that Baghdad city alone in 1980, had 45.2% of the departments, while the other seventeen cities had 54.8%. Finally, it should be remembered that offering services will cost money and such costs must be weighed against the benefits available. The repairs services incurred losses exceeding one million Iraqi Dinnars in 1980 and 1981. The main reasons for those losses were, firstly, the charges for repair services were very low. Secondly, most of the repaired items were repaired within the warranty period and the cost was not recovered from the producers so that the organisation had to bear the losses. Thirdly, the lack of a costing system means that it is not possible to calculate repair charges accurately. It can be concluded that services offered by the State Trading Organisations were not efficient or capable of providing the required service which imposed additional cost on these organisations and inconvenience to the customers. Therefore, the State Trading

Table 9.1: Services Departments
(Employees Distribution Between Cities)

Cities	Engr.	Techn. First	Techn. Second	Skilled Worker	Unskilled Worker	Total	Percen- tage
Baghdad	6	26	14	34	12	92	17.4
Mayssan	-	1	9	13	6	29	13.1
Basrah	-	4	19	32	14	69	05.5
Thi-Qar	-	-	4	16	10	30	05.7
Wasitt	-	3	3	4	1	11	02.0
Kadisiah	-	-	1	8	-	09	01.7
Al-Muthana	-	-	2	4	5	11	02.0
Babylon	-	5	12	13	19	49	9.3
Najef	-	5	14	20	16	55	10.4
Kerbalaa	-	5	8	12	8	33	6.2
Salah Aldeen	-	-	-	01	2	03	.5
Al-Anbar	-	1	1	3	2	07	1.3
Dyalah	-	1	8	7	13	29	5.5
Khanakeen	1	1	1	5	3	11	02.0
Naynwa	-	9	9	18	11	47	8.9
Al-Taimeen	2	15	15	6	3	41	7.8
Total	9	76	120	196	125	526	100

Source: Personnel Departments at the State Trading Organisations
(As at 1983).

Table 9.2: Number of Repaired Items

Item Classification	1976	1977	1978	1979	1980	1981
Refrigerators	7240	15522	20250	47266	482517	51891
Freezers	7297	10513	14823	18283	32695	37843
Air-Conditioning	676	2888	10804	5340	7068	8394
Television Set	19851	31077	32900	77766	72986	81387
Radios	22198	21024	16084	25615	29879	33087
Sewing Machines	2577	5572	6571	7821	10939	12063
Gas Cooker	9015	7547	4510	12482	9832	13576
Electric Miscell. Equip.	8996	42604	19696	11260	14670	26230
Total	77850	136747	125638	205833	226586	264471

Source: The Statistical Department of the State Trading Organisations.

Table 9.3: The Distribution of the Services Department Between Cities

CITY	1980		1981		1982		1983		1984	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%
Baghdad	14	45.2	11	35.4	9	32.1	10	40	10	43.5
Basrah	1	3.2	1	3.3	1	3.6	1	4	1	4.4
Naynwa	1	3.2	1	3.3	1	3.6	1	4	1	4.4
Al-Taimeen	2	6.8	2	6.8	2	7.1	2	8	1	4.4
Najef	1	3.2	2	6.8	2	7.1	2	8	1	4.4
Dyalah	1	3.2	2	6.8	2	7.1	2	8	2	8.6
Arbeel	1	3.2	1	3.2	1	3.6	1	4	1	4.4
Salaymania	1	3.2	1	3.2	1	3.6	1	4	1	4.4
Maysan	1	3.2	1	3.2	1	3.6	1	4	1	4.4
Kerbalai	1	3.2	1	3.2	1	3.6	1	4	1	4.4
Wasitt	1	3.2	1	3.2	1	3.6	1	4	1	4.4
Thi-Qar	1	3.2	1	3.2	1	3.6	1	4	1	4.4
Babylon	1	3.2	1	3.2	1	3.6	1	4	1	4.4
Kadysiah	1	3.2	1	3.2	1	3.6	-	-	-	---
Al-Anbar	1	3.2	1	3.2	1	3.6	-	-	-	---
Dyhook	1	3.2	1	3.2	1	3.6	-	-	-	---
Al-Muthana	1	3.2	1	3.2	1	3.6	-	-	-	---
Salah-Aldeen	-	---	1	3.2	-	---	-	-	-	---

Source: Statistical Department of the State Organisation of Consumer Goods in Iraq, 1984.

Organisations need to review their range of services to see what services they can offer within their existing capabilities, and to establish new procedures and costing systems by which their costs can be reduced. Moreover, they need to reorganise their services so that they are more evenly distributed in order to achieve their objectives through the provision of improved services.

9.5 Summary of Findings

The purpose of this chapter was to assess the process of merchandise (product) planning and development in the State Trading Organisations and to describe and evaluate the kinds of services provided by these Organisations.

The major findings are as follows:

The merchandise (product) planning pursued by the State Trading Organisation is generally to match their merchandise and service offering to the needs and wants of the target customers to meet predetermined objectives. A conclusion derived from the study, that the objectives of merchandise (product) planning were established in a generalised form, not quantified and thus were not sufficiently explicit or precise for guiding executive decisions, particularly at branch level.

The merchandise budget used to plan purchasing levels failed to produce an accurate plan because in the first place the budget was based on an inaccurate forecast. Secondly, they used the EOQ in its primitive form, based on an inaccurate costing system which did not take into account all the variables affecting the market conditions. This resulted in errors revealed by shortages of many items and overstocking of others. Thirdly, there was failure by domestic suppliers to fulfil their commitments. One of the findings indicates that the introduction of new products did not follow a systematic procedure in order to ensure successful launching.

In most cases, product launching was undertaken in a haphazard fashion. In addition, items considered to be new have already been in the European market, some times for years, particularly durable goods. Such decisions caused problems in the market and involved the loss of many opportunities (e.g. quantity discount, ensuring continuity of supplies, etc.). This is one of the areas in merchandise planning which needs considerable revision for the benefit of customers, the Organisations and the government. The main reason for failure in introducing new products is that most of the executives have not yet recognised that systematic procedures are required for the successful introduction of a new product. In the State Trading Organisations a product may be deleted not because it has exploited all its opportunities and become obsolete, or because a new imported substitute has emerged, but because of failure by the merchandise planner to introduce his plan and contact suppliers at the appropriate time. It should be remembered that often some products are deleted when they become obsolete and their sales have declined.

The merchandise assortments in the State Trading Organisations visited are still shallow and narrow despite an increase in depth and width since the mid-1970s, so that freedom of choice by consumers is still restricted. The problem has become more acute as a result of the expanding economy and the increase in disposable income for discretionary spending by Iraqi consumers. The Organisations' assortments, however, were considered to be deeper and wider than those of their counterparts in the private sector.

The branding policy adopted by the State Trading Organisations was to offer a manufacturer's brand and well-known brands. This policy was a result of unawareness on the part of the executives of the advantages of making use of private or generic brands, and their doubts concerning the quality of such brands. They need to review their branding policy and establish it on a sounder basis, particularly when one of their prime objectives is to offer goods at a lower price.

Although the State Trading Organisations have shown good intention by assigning the responsibility of merchandise planning to a committee consisting of top management, this has not resulted in the development of a programme. Because, top management had so many other duties to perform they could not devote enough time to designing an effective programme.

Four out of the five General State Establishments provided after-sales services to their customers. These establishments market durable goods and various types of electrical equipment. These organisations offered such services because of the high proportion of imported goods to total sales, the fact that manufacturers were based in Western countries and the general lack of skilled people. These services were intended to minimise the risk for consumers, to serve the national interest and to reduce investment in imported goods.

The most common after-sales provided were repairs, maintenance, modification of parts, and facilities for exchange or refunds. An interesting finding was that most repair services were carried out during the warranty period which indicated that the products originating in Europe or America were often not suited to local customs and market conditions factors which should influence merchandise planning. Service charges should be reviewed as the cost involved must be balanced against the benefits provided to manufacturers or customers, since the losses incurred reach unacceptable levels.

Despite these facts, the State Trading Organisations have succeeded in offering a good quality product at lower prices than those of their counterparts in the private sector. In the existing market conditions in Iraq, if this policy were linked to the provision of a continuous smooth supply of goods, and the executives fully comprehend what merchandise planning involves (the researcher found that all the executives were unfamiliar with the procedures required in such planning) these Organisations would dominate the market, not because of their monopolistic position, but as a result of their success in meeting customers' needs and wants.

A valid conclusion is that the philosophy of these Organisations regarding variety, price-quality dimensions, brand dimensions, stock turnover, stock balance and gross margin is some what different from those adopted by the private sector in Iraq or by their counterparts in developed countries. For example, while the latter may seek to expand or increase their stock turnover in order to maximise their profit, the State Trading Organisations may choose demarketing of many products in order to reduce investment in imported goods.

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CHAPTER TENPricing Plan10.1 Purpose

Pricing is part of the mix available to management in seeking to carry out the objectives of the organisation. For the State Trading Organisations it is the most important element in the retailing mix, and is an essential tool of central planning and control. The analysis will be devoted to the following main points:

- 1) Pricing - a macro-view;
- 2) Objectives of pricing;
- 3) Major factors considered in pricing;
- 4) Pricing Procedures;
- 5) Retail Gross-margin;
- 6) Major Pricing Problems;
- 7) Responsibility of Pricing;
- 8) Legal Controls on Retail Pricing.

10.2 Introduction

Economists have emphasised the importance of price in describing the level of demand. "The assumption that underlies every demand curve is that, all other things being equal, price plays a decisive role in determining the rate of purchase by the consumer."¹ The historical reason for this was the character of the economy at the time economists like Adam Smith and David Ricardo first began to develop systematic economic theory.² At that time, finished consumer goods were highly standardised and little effort was made to differentiate them through branding, packaging or advertising. The major variable differentiating competitive offerings was pricing. In recent years, the consumers may have been impelled to purchase purely by non-price (e.g. emotionally based) variables rather than by motivation related to price. As a result of continuing inflation and the intensity of competition, "the importance of price to

consumers, and therefore to retailers, is likely to continue and perhaps even increase."³ Consumers have also a reasonably accurate picture of price patterns among competing stores and are equipped to choose the lowest store price, which indicates that price is an important, but not the overriding issue, because the "price factor must be part of the blend which includes quality, convenience, variety and courtesy."⁴

In developing countries, staple goods constitute a high percentage of the shopping list, exceeding 50%, and these goods are highly standardised, therefore, price plays an important role in differentiating the products offered. Moreover, the low-income group constitutes a large segment of the population, perhaps about 75% of the total, and to them the price is not only an important but the overriding issue. Furthermore, the retailer in these countries is not the kind of intermediary who tries to create opportunities by raising the quality and quantity of his goods and consequently the status of his store by differentiating his products in keeping with economic and cultural factors. Therefore, he depends on the price to differentiate his offering. In addition, wholesalers or retailers are often, whether justifiably or not, blamed for inflationary prices, so the price is treated very sensitively and is regarded as a major variable which requires to be controlled.

In Iraq prices are given a special status in the planning system and have economic and social implications, because it is believed that every change in retail prices is immediately reflected in the real income of the population. So, pricing issues are not decisions to be made by the State Trading Organisations alone but in conjunction with different planning and control authorities whose role will be discussed later in this chapter.

10.3 Pricing - A Macro-view

In the Political Report of the Ninth Congress of the Arab Ba'ath Socialist Party in Iraq, the ruling party - in September 1982 it was

stated that the prices of all essential goods must be fixed to bring them within the reach of low income people, and that the prices of all other goods should be monitored. This policy was also asserted in successive national development plans which provided guidelines to be followed in developing the pricing policy of all State Trading Organisations and these were also extended to include the private sector. This policy has the following implications:

- 1) The price is centrally planned and authority is vested in the Commerce Regulating Committee in consultation with the Central Organisation for pricing which undertakes research and makes suggestions and recommendations concerning prices. Thus responsibility for prices has been transferred from the organisations to the central authorities. This will have a serious effect on the flexibility of decision-making and create obvious problems, although the organisations' management can still play an indirect part in pricing decisions.

This rigidity of organisational structure in relation to low price-decisions are made has created another disadvantage, in that the long channel through which bureaucratic decisions proceed may cause a delay in setting the final price which, after being introduced in the market, becomes out of date. It cannot even be used as an appropriate indication of changes in market conditions. Such delays entail the unnecessary additional expense involved in storing goods.

In the researcher's experience, some goods are delivered to branches in the cities and then stored for more than a month waiting for pricing decisions.

- 2) Because, the prices of all basic goods marketed by the State Trading Organisations are fixed and the prices of other goods are controlled, prices do not adequately reflect market conditions. Fixing prices at a low level has attracted new segments of the market and increased demand which has resulted

in shortages in the supply of many necessary items, and so long queues for such goods are common during the year because of infrequency of deliveries. This policy has also created another problem. Because of the low price of imported goods, private retailers have bought these goods and sold them at inflationary prices*. The effect of price fixing on the growth of demand and the availability of goods has not received enough attention despite the obvious problems. One chief marketing executive indicated to the researcher, that the price of some goods was too low and should be increased, because what consumers paid was less than they could afford, so that demand increased, leading to shortages, but the pricing authorities would not permit any increase.

- 3) The prices of goods are decided primarily on the basis of cost plus a percentage of profit. After the price has been arrived at in this way, it is maintained at that level until the whole shipment is sold. The percentage of profit** is also fixed at both the wholesale and retail level, regardless of any differences in the type of goods (basic, semi-luxury, and luxury goods). The method used is based on classic accounting procedure, not on a detailed study of price-cost planning with an appropriate profit margin, therefore some problems arise. The wholesalers and retailers may not be attracted by the percentage of profit available and some have discontinued their activities, selling their quotas to other agents, or, simply giving up their import licence.

* The government solved this problem by (1) enacting a law to prevent such behaviour, (2) the State Trading Organisations sold their goods only to their "agents". Nevertheless such behaviour continued, though on a smaller scale than before.

** This point will be discussed in more depth in Section 4 of this Chapter.

Moreover, the method referred to may contribute to preventing the smooth flow of goods to the Iraqi market. Further, although the national planners intend to offer goods at lower prices so that they will be within the reach of low-income people, the percentage added to the cost of goods arriving at the State Trading Organisation's warehouses may inflate the final price, but this has not led these Organisations to search for efficient ways of reducing the cost.

The final price of an item is not arrived at simply by following classic accounting procedures (price in the bill + percentage of profit) "it is compounded of a whole system of interlocking price relationships reaching back through the retailer, the wholesaler, the manufacturer, and all the other marketing agents who may have had a hand in the movement of the product to the point of ultimate sale".⁵

The researcher believes that a detailed study of the price components in order to establish an accurate and effective costing system for prices, and recognition that profit is an important incentive are overriding issues that have to be resolved in order to design a successful pricing policy.

From the foregoing discussion the researcher has reached the following conclusions:

- 1) The pricing system is not sufficiently flexible to provide the management of the organisations with the incentive to develop an efficient and effective marketing strategy.
- 2) The rigidity of the organisational structure through which price-decisions are made and the various bureaucratic channels of decision making do not make it easy for management to respond at the right time and in the appropriate way to meet changing market conditions.
- 3) The national pricing policy of keeping prices down has increased demand and expanded the markets for several items. This has

created a situation which the State Trading Organisations cannot cope with within their current capabilities.

Moreover, this policy encourages retailers to buy goods imported by the State Trading Organisations and re-sell them immediately at a greatly inflated price. The main reason for this practice is that the value of such goods to consumers is greater than the actual price charged. This behaviour of private retailers has caused a problem in the market, because they have not filled the gap in the demand as a result of not importing their own quotas.

- 4) The method used to calculate the profit level does not encourage the organisations to carry out a detailed study of the costing system related to the flow of goods in order to devise an efficient method which would both minimise the cost of goods and determine a reasonable profit. By so doing a final price could be decided which would meet both political and economic objectives. Because of the existing method the price of an item may change in a very short time, the change being caused by the arrival of two different shipments or resulting from an inadequate method of calculating the price, or mismanagement of the flow of goods, so that prices do not stabilise over a given period of time. This causes further problems in the market.

Although the pricing policy is designed to help the national planners to achieve political and economic objectives, it should be remembered that the price charged must represent a level that is acceptable to all channel members - manufacturers, wholesalers, retailers, and customers. Without ignoring the role of any of these groups, the national pricing policy must include consideration of its effect on demand in terms of the available resources, environmental and economic changes, and so on, and the policy should be adjusted to serve the national interest. The current national pricing policy needs a fundamental revision, particularly at wholesale and retail

level, in order to establish a realistic policy that stabilises prices over a reasonable period of time and serves all channel members.

10.4 Objectives of Pricing

A key factor in formulating pricing objectives is the role of price in the retailer's overall strategy. Price must be assigned a specific role in this strategy because, since price can greatly enhance or detract from the overall retailing strategy, a retailer must be extremely careful to integrate price with other elements of the overall strategy.⁶ Arnold and others⁷ indicate that two roles may be assigned to price; firstly, the price can be given a differentiating role, in which the prices of merchandise are relied on by the retailer to establish and support the desired store image. The retailer may differentiate by using either high or low prices. The second role is a non-differentiating one, in which case price is not a major competitive factor. Rather, the retailer stresses other retailing mix elements to attract customers, while prices tend to remain more or less at a competitive level. Udell⁸ indicated that specific environmental conditions and economic factors enhance the importance of the non-price elements of competitive strategy. But he added that the "perceived relative importance of pricing to manufacturers in no way implies that pricing strategy is unimportant, and pricing's relative importance in the retail market may be greater than in the wholesale and industrial market".⁹ In fact, the environmental conditions and economic factors mentioned by Udell do not prevail in the underdeveloped countries. On the contrary, most people have a low income, and the economy relies on small scale industries, so that the advantages of mass production are not obtained. In any case, the market in the underdeveloped countries is not large enough to absorb the output of mass production. Moreover, economic development and the standard of living have not reached the stage where people's discretionary income is large enough and sufficiently above subsistence level for consumers to be concerned with non-price factors which contribute to both physical and psychological satisfaction.

Kaynak¹⁰ indicated that pricing strategy is an important element in the marketing strategy of most LDC's*. In Iraq, the general philosophy underlying pricing is to achieve an equilibrium between purchasing power and living standards. This assumes a high-priority in the national plan. Retail prices play a particularly important role in determining living standards, and are widely utilised as an instrument for re-distributing the national income among different groups and for this reason retail prices tend to be different for different types of goods. When planning is undertaken this feature is taken account of by setting different levels of profitability and tax rates for different goods.

A retail pricing plan should start from explicitly defined objectives. Oxenfeladt¹¹ suggests a partial list of feasible pricing objectives. Among the more important of these are:

- (a) Maximum long-run profits.
- (b) Maximum short-run profits.
- (c) Growth.
- (d) Stabilised Market.
- (e) Desensitising customers to price.
- (f) Maintaining price - leadership arrangements.
- (g) Discouraging entrants.
- (h) The speedy exit of marginal firms.
- (i) Avoiding government investigation and control.
- (j) Maintaining loyalty of middlemen and getting their sales support.
- (k) Avoiding demands for "more" from suppliers - labour in particular
- (l) Enhancing the image of the firm and its offerings.
- (m) Being regarded as "fair" by customers (ultimate).
- (n) Creating interest and excitement about the item.
- (o) Being considered trustworthy and reliable by rivals.
- (p) Helping in the sale of weak items in the line.
- (q) Discouraging others from cutting prices.

* LCD's = Less developed countries.

- (r) Making a product "visible".
- (s) "Spoiling the market" to obtain a high price for sale of a business.
- (t) Building traffic.

Each organisation chooses its pricing objectives and determines their priority relative to the organisation's environmental conditions and the economic factors affecting it. Lanzillotti¹² found after interviews undertaken with officials of twenty companies that target return on investment was perhaps the most frequently mentioned of pricing goals. The researcher addressed the following question to top management (General Managers, Assistant General Managers, and Directors of Planning) to elicit information concerning the pricing objectives of the State Trading Organisations. "What are the primary pricing objectives of your organisation? (state them in order of importance)". The respondent's answers reveal that the pricing objectives of these Organisations are as follows, in order of importance:

- 1) To offer goods at a reasonable price.
- 2) To offer basic goods at a low price.
- 3) To offer "luxury" goods at a high price.
- 4) To cover expenses.
- 5) To have some profit.

Interviews with the same executives to whom the previous question was addressed, revealed the following informal objectives that these Organisations also try to achieve:

- (a) To discourage others from raising their prices.
- (b) To protect domestic products.
- (c) To maintain leadership in the market.

Objective number (1) clearly reflects the purpose of the government in creating these Organisations and giving them responsibility for recognising the broad public interest by setting prices for their

products and services, in such a way as to avoid taking full advantage of immediate profit opportunities, and to preserve this kind of balance and maintain their own position. The intention is that the State Trading Organisations because of their size, high share of the market, and leaderships can influence the behaviour of other retailers and even wholesalers so that they may offer better deals, thereby protecting consumers. Objective number (2) reflects the interest of the planners in improving the standard of living of low-income people in particular and implementing their own ideology which utilises retail prices as an instrument for re-distribution of the national income among the different groups of people. Consequently, basic goods are sold at a cheaper price than other kinds of goods. Objective number (3) serves two purposes (1) to generate high profit, so that "luxury" goods become the "cash-cow" which provides cash for the business, and (2) raising the prices of these goods reduces the demand and as a consequence reduces investment in imported goods which helps the balance of payment and serves the national planners' purposes. With regard to objective number (4), executives put it this way - "we have to recover our expenses, because we sell goods at a cheap price". Objective number (5) represents the target that the State Trading Organisations have to achieve for survival and growth, and the contribution they make to the national income. It is a valid conclusion that the retail pricing objectives should be consistent with the objectives of the national plans in accordance with overall social policy. At the same time, these relationships constitute a constraint which impedes the ability of the management of the Organisations to respond adequately to the market mechanism, as they are not free to formulate their objectives outwith the terms of national planning guidelines.

10.5 Major Factors Considered in Pricing

The efficiency and thoroughness with which price planning is determined is critically dependent on the factors that determine price levels and structures in a given plan period, namely "what can an item sell for? What is the service worth?" The answers to these and similar questions depend on many factors.¹³ For the purpose of this study, the factors that determine the final price in the State Trading Organisations will be examined. The main factors that emerged from the interviews with top management are:

- (a) The target market.
- (b) Types of costs involved.
- (c) The role of price in the retailing mix.
- (d) The characteristics of the item or service.
- (e) Legal points to be considered.
- (f) Source of supply.

(a) The Target Market

The demographics of the market will have a bearing on what the market can pay or be willing to pay for an item. Some consumers are known to prefer a high price item because they link quality with price, particularly as 'research has confirmed the tendency for some consumers to view price as a communication of quality and related product attributes from the price maker.'¹⁴

Other consumers can afford to buy only lower priced items. The main reason for this is probably the income level. In underdeveloped countries where the majority of people have a low income and spend more than fifty per cent of their income on basic goods. Therefore offering high quality goods at high prices would be a questionable policy to adopt, because the decision maker has to offer goods at a price that the market can pay for an item. Several studies have indicated that price elasticity in broad groups of services or manufactured goods in less-developed countries is high and it is reasonable to expect that price elasticities of demand is even higher for individual products.¹⁵ In Iraq, although a rapid increase

in the per-capita income has resulted in a rapid growth in the market, more than 55.7%¹⁶ of the income is still spent on foods and clothes only. Moreover, the Political Report of the Nineth Congress of the Ba'ath Arab Socialist Party has stated clearly that the aim of the State Trading Organisations must be to offer goods at lower prices. This means that the price setter has to bear in mind that people with low incomes constitute

his main target market and offering lowest goods is an important feature of the pricing policy, and care must be given to price items accordingly.

(b) Types of Costs Involved

Cost is important in determining price, but "it does not alone determine price"¹⁷. Since all costs must be met at some time, it is necessary for the retailer to consider the long-run implications of the cost of an item. The State Trading Organisations may decide to sell a particular item at cost or even below cost if such an item is considered as a "necessity" item. "Perhaps the greatest danger to a retailer in considering cost as a determinant of price is that such a system makes cost an indication of retail value. As far as a retailer is concerned, what an item is worth is what it sells for, not its cost".¹⁸

The State Trading Organisations base their price decisions on cost considerations, adjusted to the requirements of government regulations and rules which impose certain guidelines which must be followed when determining the final price. So government regulations are an important factor that should be considered in price making, particularly Decision Number 1195 of 26th September 1981*. The main components of price are the cost of the item (* at C and F) plus a percentage of this cost for administration expenses plus custom charges plus a percentage mark up**. This method does not base the final price on what the consumer can pay or is willing to pay; it is based on cost plus profit. If this method is used together with consideration of government regulations, some goods become cheap and others are expensive. When El.Issa¹⁹ and Al.Muathen²⁰ studied the methods and systems used to market industrial products they found that the majority of the firms concerned based their price on cost and profit.

* This regulation will be discussed in more detail in Section 10.

** This will be discussed in the next section.

* C and F = Cost and Freight, which will be used in this Chapter.

But there is a difference between the method used by such firms and the methods employed by the State Trading Organisations. For example, for setting a price for an imported television set, the State Trading Organisations tend to charge a high price and high margin, while the industrial firm producing the television set is encouraged to keep the price down. The main reason for this is to encourage domestic industries, and the price set may be used as a barrier against imported goods in order to reduce investment in imports. It is still a cost oriented and not a demand oriented method, the cost being a major factor in setting the price. Several studies have indicated that pricing is similarly orientated toward cost rather than demand²¹ in a number of other less-developed countries.

(c) The Role of Price in the Retailing Mix

Whether the retailing mix consists of four or five "P's" (product, place, promotion, personality, and price),²² price should be co-ordinated with the other variables. Place has an influence on price, and the personality of the store is also influenced by price since consumers equate a particular store personality with a particular price. Product and promotion also work hand in hand with price in many ways. The influence of each variable on price differs according to the importance of that variable in the blend of the mix. Firms in the developed countries may resort to one or more of the pricing techniques - price lines, psychological pricing, loss leader pricing, bait-and-switch pricing, and flexible versus rigid pricing - as a means of co-ordinating price with these variables. Although discussion with General Managers and Assistant General Managers for Marketing revealed that the State Trading Organisations cannot use any of the aforementioned pricing techniques. The variables that should be most closely co-ordinated with pricing are product, personality and, to some extent, location. For example, consumers in Iraq equate State Trading Organisations with good quality products at low prices. The influence of the variables in the retailing mix differs to a large extent from

their effect on pricing in firms in the developed countries.

(d) The Characteristics of the Product or Service

The merchandise itself can affect the method of pricing an item. Planning the purchasing and pricing of particular goods must be related to the particular season or to the special characteristics of the goods. For example, certain merchandise must be priced according to the season but may have to be reduced in price in order to sell it before the end of the season unless storage of merchandise is planned. Such pricing considerations also hold true for fashion and "fad items". The State Trading Organisations rarely use price changes to relieve their stores of merchandise. Also, they give some consideration to the vagaries of fashion by not buying more merchandise than is needed to serve the market.

The most important characteristic affecting price is whether the product is a "necessity," "semi-luxury," or "luxury goods." The price ranges from very low to very high.

(e) Legal Points to be Considered

The Commercial Law of 1970, and the Commercial Regulating Committee's Decisions affect pricing directly. Some other government agencies, e.g. the Central Organisation for Pricing etc., affect pricing indirectly. Legal factors are very important and cannot be ignored when determining the price of an item and how it will be presented to the target market.

(f) Source of Supply

Domestic goods are priced cheaper than all imported goods except basic goods. This is not because of custom duties, but as a result of the variation in methods used in pricing imported

goods, as well as making a percentage addition to the cost of such goods due to the administration involved in importing them.

10.6 Pricing Procedures

In this section the discussion will focus on the procedures followed by the State Trading Organisations to establish specific unit prices that both attain their objectives and are consistent with their pricing policies. These pricing procedures are primarily cost-oriented or demand-oriented. (The competition-oriented pricing procedures will not be examined because in the absence of perfect competition, the State Trading Organisations are in fact "price-makers not price-takers".)²³

(a) Cost-oriented Pricing

A great number of firms set their prices largely or even wholly on the basis of their costs. A common example of cost-related pricing is mark up or cost-plus pricing. Cost-plus pricing "embraces all methods of setting prices with exclusive references to cost and is the practice of adding to an estimated product cost (or cost of acquisition) an amount of money to arrive at selling price."²⁴ Two principal methods are used to cost products; absorption costing (also known as "on costing")²⁵ and marginal costing (also known as "direct costing"). With absorption costing "all the costs associated with the business are related to the output of manufacture and are said to be absorbed at the time the product is manufactured or sold."²⁶ The costs directly associated with the manufacture or selling of a product are collected together. To arrive at a cost for pricing purposes, the other expenses of the business such as administrative and selling expenses are apportioned to products to provide a unit cost. The unit cost is normally arrived at by dividing the total expenses by the volume of output. When unit cost has been arrived at in this way a

percentage is added to provide the business with a profit. The unit cost and the added profit then becomes the price. Although the method may be easy to implement, it has several disadvantages.

(b) Demand-oriented Pricing

This method embodies the concept of marginal analysis and is closer to the views held by economists because it is based on economic price theory, in as much as the "retail profits are maximised at the price that results in the sale of the number of items at which the marginal cost of selling the item is equal to the marginal revenue received from the item." If profit maximisation were the pricing objective, which is not the case in the State Trading Organisations, marginal analysis would theoretically provide the appropriate pricing approach. But the method is hard to implement, because of the difficulties involved in determining the marginal cost, marginal revenue, or even demand for a product. In addition, demand for some products may rise as price rises, because some people link price with quality. However, the method is useful, because it highlights the concept of the additional revenue and generates a worthwhile profit contribution, and offers management the tactical manoeuvres that business adopts in relation to the pricing of products.

Each of the above pricing procedures has advantages and disadvantages, and the retailer has to choose the pricing procedures that provide the greatest advantage and are best adopted to his environment.

To examine the pricing procedures employed in the State Trading Organisations, the researcher conducted interviews with appropriate staff and examined regulations relating to the pricing procedures. It was found that these Organisations employ the following procedures in setting the unit price of any item. When the buyer (in this case the State Trading Organisations)

and supplier (whether he is a manufacturer or distributor) signs a contract for the supply of particular merchandise in a given quantity and at a particular price, the price charged is based on C and F. Seven per cent is added to that price in respect of import expenses (which include - bank charges, port duties, and import administrative expenses). Then they add customs duties according to the Custom Law, and 6% of that cost is added to reach the final cost. For calculating the wholesale price, they add the mark up which varies according to their classification of goods, as follows:

10% of the cost (previously calculated cost)
as a maximum for 'essential' basic goods.

20% of the cost (previously calculated cost)
as a maximum for "semi-luxury" goods.

25% of the cost (previously calculated cost)
as a minimum for "luxury goods."

In order to set the retail price, a mark up of 10% is added to the wholesale price of almost all goods. It is, also, important to consider the following points:

- 1) The price should not include any charges resulting from delays in port or importing goods.
- 2) The final price should not be rounded up by more than 5 Fils (about 2p).
- 3) The fixed prices should not be changed, except with the prior approval of the Commerce Regulating Committee.
- 4) The prices of "semi-luxury" goods should not increase more than 10% of the advertised price except with the prior approval of the Commerce Regulating Committee*.

* This is because of the difficulty of having and dealing with change and for cultural reasons.

The level of mark up (minimum or maximum) is affected by the following factors:

- 1) Turnover of merchandise.
- 2) The importance of merchandise in relation to satisfying consumer needs and wants.
- 3) The method used to distribute the merchandise whether directly or through other channel members.
- 4) Services needed for the merchandise.
- 5) Prices of similar merchandise.
- 6) Transportation and storage conditions.

The pricing procedures followed in determining the unit price of home produced goods are somewhat different from the procedures used in pricing imported items. For domestic product, the price is set at its cost - after this cost has been examined by the Pricing Office in the Ministry of Commerce - plus profit. All these procedures are documented and then assume the status of regulations that must be observed.

Moreover, the pricing procedures must aim at achieving the pricing goals of the State Organisations which are:

- 1) Stability of prices throughout the country.
- 2) Pricing policy must take into account the need for co-ordination with other economic sectors' pricing policies and the per capita income of the majority of the population.
- 3) Achieving a reasonable profit by the State Organisations to provide capital to be invested in national development plans.

- 4) Achieving a reasonable profit for the private sector, particularly by small and medium sized merchants, to induce them to improve their performance within the marketing system.

The previous description of the pricing procedures followed by the State Trading Organisations shows that they follow a cost-oriented pricing policy. Moreover, the pricing procedures are formal and well documented, and managers can consult them as required. It is also apparent from such documents that the national planners use them as a tool to achieve national pricing goals. These procedures are used in the State Trading Organisations because they are easy to apply and these Organisations lack the sophisticated facilities for developing more advanced procedures. Using these procedures, the merchandise planner can develop the assortments, depth, width and variety that can best suit the Organisation's objectives.

The cost-oriented pricing method used by the State Trading Organisations has disadvantages and has caused some problems. The main disadvantages are as follows:

- 1) Because the expenses and mark up percentages are based on the C and F cost of the item, this will lead to unjustifiable increases in the price of goods as a result of increases in the C and F cost of the goods. So when the government has intervened directly to control prices in order to improve income distribution, it has often produced unintended results, e.g. it has sometimes resulted in affecting the low-income group adversely. At the same time, the profits of these Organisations may decline, because the C and F cost of an item has been reduced as a result of improvement in the flow of goods.
- 2) The pricing procedures are so rigid that they cannot offer the flexibility needed for responding to market conditions and providing incentives to management to work hard and produce effective marketing strategies.

- 3) These procedures do not encourage these Organisations or any channel member to carry out aggressive research and development programmes relating to cost since the mark up is calculated on full cost, therefore the higher the cost the higher the profit.
- 4) These procedures ignore the effect of cost on prices and demand and consequently on sales. Lowering the prices attracts more segments to the market which increases the demand to such an extent that the State Trading Organisations are unable to meet it. Therefore, shortages have occurred, leading to black markets thereby causing hidden price changes. The effect on society of a hidden change in prices is different from that of an overt price change. A hidden rise in the price level is generally more unfavourably received by society than an open one. This is because an open price change can be measured and taken in to account in making a decision, whereas a hidden price change cannot.
- 5) The procedures may result in two different prices for the same item derived from different shipments, so price changes may be too frequent or they may not take account of major changes in market circumstances which confuses consumers.
- 6) Prices are too high for luxury goods, compared with those charged for their counterparts in Western countries, in relation to the benefits they provide. Because luxury goods are imported, import controls are designed to reduce imports and encourage domestic production, resulting in a decline in the quality of domestic products and an increase in prices which have often been to the detriment of consumers.
- 7) Often the procedures have caused a delay in introducing products into the markets, because the price cannot be

established until all the required documents reach the Accounting Department in order to allow the necessary calculations to be made to determine the price. Interviews with the Assistant General Manager for Import and for Marketing revealed that on many occasions suppliers delayed sending bills at the appropriate time thereby delaying the pricing decision. Therefore, products that reach the market after the pricing is decided may be out-of-date or may not be delivered at the appropriate time of the year.

- 8) The pricing procedures can become too mechanical and the final price made by the Accounting Department often leads to friction between the Marketing, Importing and Accounting Departments.
- 9) Instead of pricing being fixed in relation to the requirements of a particular market, and the overhead structure of the business being attuned to those requirements, the reverse procedures are adopted. Prices are adjusted to the existing overhead structure by including in each unit costs a proportion of the fixed expenses.²⁸

It can be concluded that although the pricing procedures are formal, clear and well-documented, their inflexibility impedes the freedom of management to respond adequately to the requirements of the market and results in unintended harmful results to the market as well as to consumers.

10.7 Retail Gross Margin

In this section, the size of the margin and its relation to the type of product and channel members, particularly wholesalers and retailers, will be discussed.

10.7.1 Size of Margin

The most common pricing practices employed by most firms in Iraq until the beginning of the 1970's were firstly, adopting a market-skimming policy, which is "designed to gain a premium from a small group of buyers and is followed by a gradual reduction in price to draw in more market segments."²⁹ Another practice was to start with a relatively low price in order to gain a foothold in the market and win a share of it. But once firms succeeded in entering the market, the quality of the product was declined or the price of the product was increased and in some cases both of these results ensued. Therefore, the sales of the product began to decline until it failed completely. The prevalence of such pricing practices has significantly affected the regulations of wholesales and retailers, and the Iraqis remember this with bitterness. Other speculative practices by some merchants have contributed to an unstable price and market structure. For example, a rumour that a stock will be exhausted within a few days and that its replenishment is uncertain may cause an increase in its price and the sale of all the stock within a few hours, although the source of the rumour may be the merchants or the degree of changes in stock availability does not justify such a practice. Therefore, pressure is mounting for monitoring pricing practices and other "abuses" in wholesaling and retailing and the view that price controls should become a permanent Iraqi institution is certainly taken seriously by the government. The Commerce Regulating Committee itself, which has adopted the practice of regulating prices by determining their relationships with profit margins, seems to be strongly in favour of the theory of managed price and the mark up size is its prime concern.

In recent years the age old complaint of consumers that traders' profits are extortionate is no longer valid. The available evidence indicates that distributors' margins are moderate to low and profit is even lower. The retail margin ranges between 2.5 and 25 per cent, because the size of the margin varies according to the type of goods. For example, the mark up on household items (particularly electrical

equipment and its spare parts) ranges between 10 and 14 per cent, while the mark up range for household items such as beverages, ready-made clothes, cigarettes, tobacco, and matches is between 3.6 and 10 per cent, and the range for fabrics is between 8 and 15 per cent. The mark up range in mattresses is very wide, namely between 1^{*} and 20 per cent; for foodstuffs and coal, between 3.3 and 25 per cent; and for canned food from 2.5 to 20 per cent.³⁰ These mark up amounts granted for both their own retailing operations and for the private retailer. The actual gross margin achieved during 1975 to 1976 ranged between 8.2 and 14.7 per cent, rising in 1979^{**} to between 9.6 and 25.8 per cent, while the net profit was 5.2 to 11.8 per cent in the year 1975/1976, rising to between 7.8 and 21.3 per cent³¹ in 1979. The profit varies too, according to the type of goods. Determining the mark up percentage is not based on careful analysis of historical mark up percentages, which may be based on trade averages on the retailer's own historical mark up percentages, or based on a retailer's desired net profit. Price is obviously a major determinant of target return. Target return pricing involves finding an initial mark up percentage and the corresponding prices that will achieve the desired return. The mark up percentages determined by the State Trading Organisations are based on judgement, and no formula is used to calculate them. This method affects the orientation of the organisation toward the marketing concept. These mark up percentages, whether those determined by the State Trading Organisations or those actually achieved, indicate that the retailers' margins are moderate to low and profits even lower.* The profit margin in retailing increased in 1979 as a result of the expanding market, increasing retailers' quotas and an increase in the number of unadministered priced goods. Jewad,³² after studying the private retailing sale in Iraqi internal trade, found that the profit margin for retailers in some cases, particularly in food retailing,

* 1 per cent mark up was for two items namely wool and cotton threads.

** The only available data published by the Central Organisation for Statistics.

* Because of the transportation cost a retailer is allowed to charge 5 per cent of the cost of the item under the terms of the official fare while the actual transportation cost is more than double that cost, and the problems are even worse for the rural retailer if his list of shopping is not completely supplied.

declined by 5.1 to 6.6 per cent, compared with profits on unadministered priced goods.

Fixing the mark up percentages by the State Trading Organisations, determining the mark ups ceiling by the Commerce Regulating Committee and the existence of two pricing systems* have caused a number of problems in the market. Some of these are:

- 1) Exploiting the differences between the prices of the goods imported by the State Trading Organisations and those imported by private wholesalers and selling the former ones at inflated prices as if they were the latter because the Organisations do not use a distinctive brand.
- 2) The retailers tend to buy and sell those goods providing a high margin and turnover, so that many areas suffer from shortages of supplies of many items, mostly basic, essential goods with a low margin. This has caused the State Trading Organisations to force retailers to buy certain low margin and low turnover items together with those of high margin and turnover, an obligation which is in turn imposed on consumers putting them at a disadvantage.
- 3) The decline in the quality of goods marketed, may be caused by the limited knowledge and education of consumers, or shortages of goods may pave the way for profit seekers despite the resulting adverse effects on both their business and their reputation.
- 4) The ease of entry into the market and the profits available from cash-and-carry transactions has facilitated the entry of

* The imported goods can be classified, for pricing purposes, into two types; first, goods imported by State Organisations which constitute more than 87 per cent of all imported goods are subject to administered price; other imported goods which constitute about 13 per cent and which are mostly luxury goods and some semi-luxury goods, are not subject to administered prices and private wholesalers and retailers have freedom to change any price they choose.

unprofessional people into wholesaling and retailing, thereby affecting the kinds and quality of services offered. At the same time, some of the professional, experienced merchants have left the field of wholesaling and retailing because the profit available was not enough for their survival and growth.

The size of margin is affected by several factors, increasing as a result of some factors and decreasing through others. For example, the percentage of mark up increases when the risk increases and vice versa. The low level of the percentage of mark up in Iraq may be attributed to the following reasons:

- 1) The risk involved is negligible or non-existent. Assurance of selling goods and recovering financial outlay is guaranteed in respect of all goods bought and sold. For example, no credit is offered.
- 2) The high turnover of some goods which reached in some cases 46.3 to 59.3³³ times per year may compensate for the low percentage of mark up, particularly when gross margin return on investment (GMROI) is calculated on the basis of changing the average inventory from the cost to the retail basis. The retailer may pursue a high turnover rate while accepting relatively a low gross margin per unit.* This may be acceptable if other factors are kept constant.
- 3) A large number of retailers are retired people who receive a pension on a monthly basis, so they treat the profit from retailing as an additional income which persuades them to accept a low profit margin, particularly since retailing in Iraq does not entail much effort or expenditure.

* The retailer may use two extreme merchandise strategies, first the one discussed above, and the other at the opposite extreme of a low turnover rate and a relatively high gross margin and the trade-off between them has far ranging strategic implications for other retailing mix variables and for the retailer's structure.

- 4) The retailers and even wholesalers are blamed for inflated prices and are considered to be exploiting consumers, because the prices they charge are not justified economically or socially, and the services offered do not warrant such high prices. So, controlling the margin becomes a main concern of the government and political leaders on the basis that they act for the benefit of the people. Some cases support this view, e.g. where a retailer has sold an item costing 9.00 Dinnar at 35³⁴ Dinnar which represents about a 400 per cent increase. Jewad³⁵ found that in 1983 some retailers increased the prices of some goods to five times their original price because a delay occurred in the importing programme. The researcher selected three items sold in the United Kingdom as follows: a watch at £2.99, a toy at £4.99, and a car toy at £5.99, and found that these items were sold in Iraq for 1 D* 15, 1 D 35, and 1 D 25 respectively. These figures indicate clearly the inflated prices at which these items are sold. Kaynak³⁶ indicated that similar trends have emerged in Iran and Saudi-Arabia and a "rumour of change in the supply situation is reflected in prices far in advance of the expected change and often to a greater degree than warranted by fact." If this is true in relation to the unadministered price charged by some private wholesalers and retailers, it is not true of administered prices which constitute the majority whether in respect of the number of retailers or wholesalers or of the number of product lines. The percentage of mark up in some cases is so low, approaching 1 per cent that it has discouraged some retailers from buying and selling such items. For example, the mark up percentage on threads is 1 per cent, on vegetable oil 2.5 per cent, tomato paste 3 per cent, and even the actual income resulting from retailing some product lines was low, e.g. the income received from the retail business in carpets was only 1 D 120 to 1 D 530 per month.

This study supports some other studies by researchers who

* The Iraqi Dinnar equals about £2.2.

indicated that margins in developing countries are low compared with margins in advanced countries. Moyer indicated that available evidence shows that distributors' margins are moderate to low and profits even lower, despite the age-old complaint of consumers that traders' profits are extortionate. Hawkins, in his study of distribution in East Africa, of wholesale and retail trade in Tanganyika, found the gross margin may decline to 20 and 30 per cent or may go up to 100 to 125 per cent.³⁸ The margin depends on the rate of turnover of the item, the distance between the suppliers and retailing outlets, the continuity of supplies, and the time of purchase. He stated that when a baby starts crying late in the evening, if the rubber teat for the feeding bottle has been mislaid and only one shop stocking rubber teats is open, then the price demanded will be 35 per cent, though next morning it will have fallen to only 10 per cent.³⁹ He added that the margin on ready-made shirts from Hong Kong is only 30 per cent, on other types of shirts it is usually 60 to 75 per cent. In England the gross margins for both men's and women's wear from the manufacturer to the consumer average 50 per cent.⁴⁰ Harper Boyd and Ralph Westfall report retail margins in India as low as 10 per cent, and wholesale margins falling below 5 per cent. A survey of retail establishments in Karachi, Pakistan, revealed that 88 per cent of them applied mark ups less than 20 per cent above cost. In Sierra Leone, Vernon R. Dorjohn claims that traders prefer small to large margins. A local maxim holds that "Quick pennies are better than slow shillings".⁴¹ Galbraith and Holton report that in Peru the gross margins range between 15 and 38 per cent,⁴² and these firms that have gross margins between 16 to 34 constitute the majority of the firms in non-food retailing. The margins in food retailing were found to be slightly higher than the average mainland retail food store margins which range between 30 and 39 per cent.⁴³ This represents the average mark up at which the goods are finally sold. It is a general practice, as on the mainland, to price many items high enough in the first instance to allow for subsequent mark down. These higher margins, though, represent inefficiencies rather than exorbitant profits.

Dannhaeuser,⁴⁴ studying the distribution and structure of retail trade in a Philippine commercial town, found the highest margin was 25 per cent and it may decline as the number of transactions increases or the number of weaknesses increases. In Iran and Saudi-Arabia, most businessmen follow a skimming price strategy. They prefer high profits on few sales to lower prices and increased sales volume, and usually accumulate an over-supply of non perishable goods and even perishable goods before expected demand peaks to take advantage of a rise in prices.⁴⁵ Vassiliou indicated that importers in the Middle East receive very low margins of 1 to 5 per cent of the value of products, such as rice, sugar, tea and other basic commodities, depending on supply and demand conditions and the size of order.⁴⁶ The profit margins for consumer durable goods are from 20 to 30 per cent, and in some cases may increase to 50 per cent.⁴⁷ The profit margin for a small retailer may decline to 15 per cent.⁴⁸ From the previous discussion, the prevalence of low trading margins for those who engage in wholesaling and retailing is apparent and the margins vary in the light of the circumstances prevailing at the time of each transaction, so there are few conventional prices, while in the United Kingdom "convention is an all-important factor in deciding the retail price of goods."⁴⁹ The reasons for the limited margins are first that many retailers operate on a part-time basis; secondly, "they may have no alternative employment opportunities; hence, any rewards they earn from trading represent a net gain."⁵⁰ Thirdly, some retailers in some countries have another job so that any gain from trade is considered a net gain, although the so-called profits are simply disguised payment for the services of the proprietor. Even if margins are comparatively high, turnover is so low that "profits" from trading are minimal. Moreover, these high margins, are an indication of inefficiency rather than exorbitant profits. The pricing system in underdeveloped countries is also responsible for fluctuations in the market. But the size of margins indicated by the researchers as a result of their studies of different underdeveloped countries should be treated with some caution, for the following reasons:

- 1) The lack of legally enforceable resale price maintenance in some of the underdeveloped countries where the practice is almost, though not completely, unknown.
- 2) Most of these studies assume uniformity in the accounting systems of the underdeveloped countries, accounting practices differ from country to country, and are different from those employed in developed countries.
- 3) In establishments with working proprietors, which form the great bulk of retail enterprises, profit is usually reckoned without any allowance or deduction in respect of proprietors' salaries.
- 4) A further reason concerns whether the money value of inputs is given in the form of gross margins or of operating expenses, so that they may not "correspond to real inputs where there is an element of monoposony or monopoly in the market for factors of production."⁵¹
- 5) Because imported goods constitute a large share of total sales and the price of these goods is arrived at by negotiation between the suppliers and the buyers, and the governments in underdeveloped countries have no control over suppliers, it is difficult to trace the real cost of goods bought, so the profit earned may not represent the real net profit. Imported goods in some underdeveloped countries are used to smuggle "hard currencies" or to inflate profit. For this reason, most underdeveloped countries try to control foreign trade.

10.7.2 Uniform or Different Margin Percentages

The distributive sector, particularly in wholesaling and retailing has undergone some changes in recent years resulting in squeezing margin percentages. The margins have to cope with the political claims and public pressure despite the effects on market conditions. In addition,

uniformity of margins has an effect on market and price stability. So, in order to examine whether the State Trading Organisations adopt uniform or different percentages of margin, the following question was addressed to respondents'. "Does your Organisation aim to charge the same margin percentage on all goods?" The respondents' answers revealed their policy is to charge the same percentage on such product lines as sugar, stationery, cheese, etc. Those percentage margins are charged on these products for all shipments, at all times, and all over the country. Thus, this policy has contributed to the stabilisation of the Iraqi market, and if availability of goods is secured, consumers will patronise the most convenient store. Table 10.1 shows the percentage of margins charged on product groups by retailers in Iraq and the same percentages are charged by all retailers throughout the country.

Table 10.1
Percentages of Margins Charged by Retailers
According to Groups of Products

	Percentage of margin
Livestock, living poultry, fish, and meat	11
Agricultural crops	15
Foodstuffs, beverages, tobacco, and cigarettes	12
Yarns, cloths, ready-made clothes and leather products	14
Wood, wooden furniture, stationery and publications	13
Chemicals and Chemical Products	14
Machinery, transport means, equipment and house furnishings	9
Construction materials	8
Other items such as watches, opticals, sewing materials, etc.	15

Source: The Central Organisation for Statistics. "The Survey of Internal Trade 1979."

The findings of the study support and coincide with other researchers findings, namely that the percentage of margins tends to be uniform for all products handled by a company in a less developed country.⁵² Also, the findings support those of the study by El.Issa who came to the conclusion that the margin for Iraqi middlemen was fixed on the basis of a percentage of sales prices on a definite amount of money per unit despite differences in the nature of the products themselves.⁵³

To sum up, the percentages of margins range from very low to moderate and the profit is even lower, because profit is usually reckoned without any allowance or deduction in respect of proprietors' salaries, or the gross margins may not correspond to real inputs where there is an element of monopoly in the market relating to factors of production. In addition, the gross margins may coincide with the pricing policy of the Organisations and national planners, although this mark up policy constitutes not so much a constraint as a guide.

10.8 Major Pricing Problems

To find out the major problems of pricing encountered by the State Trading Organisations, the respondents were asked to identify such problems. One of the main problems referred to by all respondents is the delay by suppliers in sending bills at the proper time thereby causing a delay in the pricing of all relevant products. Such a delay may extend to two months despite the arrival of goods. This can happen even when goods are delivered at the appropriate time during the season. This freezes investment and incurs expenditure for warehousing and administration. Although the State Trading Organisations have taken some steps to solve the problem with the co-operation of suppliers, it still constitutes one of their major pricing problems.

Another problem is that, because of fixing the percentages of margins on the C and F cost of items, two prices for the same product may be found at the same time, causing confusion, resentment, and complaints from consumers. Because C and F costs are charged as a result of negotiation, the power of an organisation to get better deals perhaps as a result of

its financial strength and its ability to fulfil its commitments, can lead to a situation where two organisations have arranged two different deals and this is not acceptable in the Iraqi market, particularly when the difference between the two prices is quite striking - reaching more than 50 per cent. Moreover, the prices are set not according to the demand or related to what the market can learn but on the cost plus profit method, so that each shipment may produce a different price.

Another serious problem is that of using C and F. Iraq has undergone some changes as a result of increasing its revenue mostly, from oil, so its imports of different goods have increased substantially but its logistical capability has not developed sufficiently to cope with this increase. Therefore delay and increased expenditure on transportation and other necessary procedures have become normal practice. For example, the transportation cost may read as high as 30 to 50 per cent of the retail price of many items and the cost of some activities have even trebled.⁵⁴ The expenditure involved in moving items from foreign suppliers to the warehouses of the State Trading Organisations is not under the control of these Organisations. So, the effect on pricing is devious and this problem cannot be solved in the near future.

Another problem mentioned by respondents is the effect of inflation in foreign markets on the prices of imported goods which constitute a high percentage of goods sold. Although they try to keep the prices down so that the Iraqi consumer can afford them, inflation in the supplier's market can often force them to change the price and such an increase has a multiple* effect. In addition, it is difficult to predict the effect of inflation on the cost of goods bought from foreign markets, because the State Trading Organisations buy goods from many markets, and each market has its own inflation rate.

Most of the complaints raised by respondents derive from government control of prices. A chief marketing executive put it this way.

* Because all expenses are considered as percentages and not as amounts to be divided by the total number of units, and these percentages are not based on a careful analysis of these but are absolute figures.

"I feel the price is so low which encourages people to buy more and I have a limited quantity, so a shortage will happen, and I cannot raise the price because the government does not allow me to increase the price. It is a problem." The State Trading Organisations buy in large quantities, have a strong financial position and government support, and hold a monopoly in most of the product lines. All these factors give these organisations power in negotiations with suppliers to obtain better deals in terms of low prices and good quality products compared with their counterparts in the private sector. So the increased demand for their products cannot be met by these Organisations, but when they try to increase the price because the consumers can afford to pay, thereby reducing demand, the government refuses to permit this. The main reason for rejecting a proposal to increase the price is that the political leaders believe that offering goods at lower prices is part of their contribution to the welfare of the people and that intervention by means of pricing policies will protect consumers from exploitation by retailers.

To examine their prices compared with those of their competitors the researcher put the following question to the respondents. "How do you consider your prices compared with most of your major competitors generally?" The answers by respondents revealed that the prices of the items sold by the State Trading Organisations were lower than the prices of the same items sold by the private sector, at percentages ranging from 10-100 less for items sold by the General State Establishments for Iraqi Stores and for Shopping Centres, and from 30 to 50 per cent less for items sold by the General State Establishments for Commerce and for Precision and Instruments. These results should be treated with caution, because lower prices are not necessarily a reflection of the efficiency of their operations, but may be a result of the previously discussed factors and of not including the real input of monopoly in the market for factors of production.

The last problem mentioned by the respondent is the difficulty of getting approval for any decision regarding changes in fixed prices. This difficulty stems from the bureaucratic system and the lengthy

procedures involved in arriving at final pricing decisions. For example, some executives believe that the margins were determined some years ago and are not compatible with new market conditions, e.g. the cost of borrowing money, but they hesitate to propose changes because of the problem of obtaining approval.

These problems led the researcher to put another question to respondents regarding what measures the State Trading Organisations have undertaken to solve these problems. The Ministry of Commerce and the State Organisation of Consumer Goods formed a committee in the 1980's, and the last such committee was formed on 28th July, 1981, to study these problems and recommend solutions. The proposals put forward by the committees constituted negligible or impractical solutions. The main reasons for failure were first that the committees were composed of several members from a number of departments, so that responsibility was diffused. Second, the committees lacked members who were qualified experts in marketing and finance who might have been able to produce sound solutions. Thus, it can be concluded that these problems will last for some time in the future, and an aggressive effort, and considerable time and money will require to be devoted to finding appropriate solutions.

10.9 Responsibility for Pricing

Pricing decisions in the State Trading Organisations are made by the following bodies:

- 1) The Revolutionary Command Council
- 2) The Commerce Regulating Committee
- 3) The Ministry of Commerce
- 4) The State Organisation of Consumer Goods
- 5) The General State Establishments

The Central Organisation for Pricing is the government agency which studies price movements, conducts the necessary research for setting prices and submits suggestions and recommendations for determining prices to the Commerce Regulating Committee or any responsible government agency. In addition, the Central Organisation for Pricing is the consultant body for any pricing decision taken by a government agency

or submitted for approval by an agency. The procedures for price determination start when the General State Establishment receive the documents from the suppliers indicating the quantity of goods supplied and the unit price (according to the C and F method). Then, they add customs duties and transportation cost, this total representing the cost at the State Trading Organisations' warehouses. Six per cent for administrative rate expenses is added to that total. Then they add 10, 20, or 30 per cent as mark up for the wholesaler and 10 per cent for the retailer (in most cases). The Committee of the General State Establishment sends the suggested price to the State Organisation of Consumer which in turn sends it, adjusted if necessary, to the Commerce Regulating Committee which has the final decision. It may approve it, adjust it, or charge it according to the national pricing policy, and it may consult the Central Organisation for Pricing before reaching a final decision. After the Committee determines the price, it becomes a fixed price and is applicable in all markets for that product. Sometimes, the Command Revolutionary Council intervenes to set the prices of some goods, particularly basic goods, if they notice that the prices are not compatible with the political objectives. But, in effect, all prices are determined by the Commerce Regulating Committee which holds responsibility for price determination and pricing policies. Pricing of consumer domestic products is determined after negotiation with the produce to achieve an agreed price. Then the State Trading Organisations send it to the same committee to get its approval. After approval is granted, the price is considered fixed and should not be increased, unless re-approval is sought and granted, otherwise the increase is regarded as illegal.

From the previous discussion, it appears that the Commerce Regulating Committee holds prime responsibility for price decisions. But its decisions are influenced by other organisations. The main influencer is exerted by the State Trading Organisations which prepare all the data and make all calculations for any price decision for a particular product or group of products. These Organisations may suggest or recommend on pricing policy for a particular group of products or, changes in the fixed prices of a group of products.

Influence is also exerted by the Central Organisation for Pricing which carries out the research required and makes suggestions and recommendations relating to pricing policies as well as making pricing proposals for a group of products or even for individual products.* The Pricing Office in the Ministry of Commerce has some influence on the pricing decisions of products for which it is responsible. These bodies share responsibility for pricing, but the final authority rests with the Commerce Regulating Committee. Therefore, it can be seen that pricing in Iraq has been established as the multilateral responsibility of three main bodies, the Commerce Regulating Committee, the State Trading Organisation and the Central Organisation for Pricing. The main purpose is to monitor the pricing system so that it can be used as a tool to serve the national planners' purposes. In fact, the State Trading Organisations have a profound effect on the pricing policies relating to consumer goods. With regard to government controlled enterprises or any other state enterprises the most appropriate methods to use for locating the power of responsibility for initiating pricing proposals are making use of the organisation's documents and holding interviews. These two methods were used to identify that source. The results indicate that such responsibility is given to a committee consisting of the Assistant General Managers for Finance, Imports, and Marketing. It was found that the Accountancy Department carries out all the calculations necessary for pricing and submits these calculations to the Committee, after the Importing Department has provided the documents relating to imported items. The Committee's decisions requires the approval of the Board of Directors of the State Organisation of Consumer Goods. (Article 2, Section Two of the State Organisation of Consumer Goods' Constitution No.21, 1982).⁵⁴ The study also reports that the Assistant General Manager for Marketing plays a major role in price determination.

The present pricing procedures have some disadvantages. The main disadvantage lies in the inflexibility arising from the rigidity of the organisational structure within which price decisions are made.

* The government established the Central Organisation for Pricing to conduct market research and to collect data and any other information necessary for making policies in order to ensure that the prices determined are consistent with national planners' pricing policies and that these prices are determined in a fair manner.

Price determination takes along time and passes through bureaucratic channels before the final price is introduced in the market so that prices are likely to be out-of-date, and cannot be used as a true indication of changes in demand or as reflecting market conditions. The current procedures have also caused a delay in introducing goods in the market at the appropriate time. Thus, branch managers' complaints have emerged because of this problem and they have opposed the present method of pricing which does not allow them to deviate from the fixed prices in order to respond to their local market conditions.

From the foregoing discussion, the researcher has concluded the following:

- 1) Because the number of product lines, varieties, depth, assortments, and widths has increased substantially, perhaps amounting to thousands of items, it becomes difficult for a committee to handle the pricing of all these items within a strategic perspective and it may become simply a routine accounting procedure. Therefore, the researcher finds that it would be more appropriate to de-centralise the price-making decisions and to delegate responsibility to the General State Establishments, because of their closeness to the market and their experience, particularly since they can respond more appropriately and efficiently to market conditions. As current procedures operate, it is easy to blame the Committee for delays, while if the proposed procedures were adopted, the General State Establishments would be held responsible which would encourage them to improve their performance. In addition, price-decisions would then be taken within the framework or guidelines determined by the national planners and the Ministry of Commerce, through the Commerce Regulating Committee.
- 2) All the respondents treat pricing as one of the most important variables in the marketing mix, so it has a vital role in their marketing strategies.

- 3) In order to price effectively and to ensure that the prices of goods and services correctly reflect their availability, it is necessary to reduce the procedures involved in price control and shorten the long channels through which bureaucratic decisions have to pass.

10.10 Legal Controls on Retail Pricing

Because pricing constitutes a major dimension of the total marketing programme, it is subject to a great deal of governmental intervention and control.⁵⁵ Many of the laws and regulations affecting retailing either directly or indirectly influence price. Rather than duplicate the legal discussion affecting both pricing and other marketing programmes, this section will look exclusively at price-regulated legal controls.

The Commerce Regulating Committee's Decision No.44, 1979, classified goods (necessity, semi-luxury and luxury goods) into three categories because the classification has an effect on pricing and the size of the mark up. The Committee's Decision No.45 includes the rules for determining the pricing of imported goods by the State Trading Organisations. Because of the difficulty involved in applying these rules by the organisations and changes in the categories within the classification - e.g. changes in the pattern of consumption or improvement in the standard of living; produce changes of category - these Decisions were amended by Decision No.1195 on 26th October, 1981, which set the procedures which must be followed in determining the price of a unit. It also fixed the kind and size of the permissible expenses, and determined the size of mark up for each category in the classified product groups. In this Decision, some constraints are included. For example, it emphasises that no price changes should be undertaken unless the approval of Commerce Regulating Committee has been granted, and the prices of "semi-luxury" goods should not be increased by more than 10 per cent of the fixed price without prior approval of the Committee. Article 5 of Decision No.480 of 31st May, 1982, Meeting 8, requires all the stores to mark the retail prices on a tag clearly visible to consumers. Bill No,3, 1983, in Articles Nine, Twenty-three, and Twenty-nine, requires all retailers to sell goods at their fixed price which must be clearly displayed to consumers. Article Thirty of the Bill requires retailers to get the approval of the Chamber

of Commerce at least one month before holding a sale.

All these Decisions and Bills regard any violation of their rules or articles as being subject to the Commerce Regulating Law No.20, 1970 - Amended in Article No. Nine of which it is clearly stated that the violation of fixed prices - whether refusing to sell at fixed prices or selling goods at prices higher than the fixed prices - will be subject to penalties of from two to seven years' imprisonment or to fines between 1.D.500 and of 1.D. 2000, or to both of the above fines and imprisonment.

The distortion of prices in underdeveloped countries has become a serious problem, so it began to receive government attention in the 1970's.⁵⁶ The main reasons for this distortion are firstly, that the prices of goods do not reflect their scarcity in the market. For example, when these countries underestimate the cost, the price charged causes an increase. The demand which they are not capable of satisfying, so that another problem is created, i.e. shortage. Secondly, the price of an item may not represent an accurate assessment of its market value. Thirdly, sometimes the mark up of retailers is not sufficient, so that some retailers may be forced to exceed the fixed prices. In addition, the existence of a seller's market in underdeveloped countries encourages retailers to violate the regulations.

The researcher's point of view is that although the laws and regulations are necessary to ensure fair trade, reliance on heavy penalties will not solve the problem of the market in underdeveloped countries. Protection is desirable, but the protection should be extended to all other channel members, e.g. manufacturers, wholesalers and retailers. Therefore, the application of laws and regulations should be coupled with solving the market problems. Otherwise, violation of the regulations will continue, in some form or other, and further problems will emerge, such as that posed by individuals abandoning retailing altogether.

10.11 Summary of Findings

The main objectives of pricing in Iraq are to improve income distribution and increase the welfare of the people. Other objectives are to stabilise prices but rarely to encourage growth. The objective of the State Trading Organisations are consistent with the national planners' pricing objectives as well as aiming to achieve enough profit to finance their survival and to contribute to the national budget.

The State Trading Organisations have clearcut, formal and well documented pricing procedures. But these procedures are not sufficiently flexible to provide the management of these Organisations with the incentive to develop an effective pricing strategy.

The Commerce Regulating Committee is the main government pricing agency, but in practice the State Trading Organisations have a profound effect on the pricing policies relating to consumer goods, particularly those items they themselves market. In addition, these Organisations are authorised to price some of the products within the guidelines set by the Committee, as well as proposing their own pricing policies.

The government has intervened directly in the matter of prices. This intervention has often produced unintended results. Price controls aimed at improving income distribution have sometimes resulted in adversely affecting the interests of people in the low-income groups, and have led to price distortion and shortages of goods. Indeed, what is lacking is an adequate pricing system which allows prices to relate to the scarcity of goods and services and to encourage growth. "Apart from the losses, the system of protection in many developing countries has become a serious administrative burden".⁵⁹

The State Trading Organisations under study base their pricing on cost plus profit considerations, adjusted to reflect the national planners' aim so the price may not provide an accurate representation

of the market value of an item. It is believed that this method has caused problems, because it does not provide an appropriate indication of demand, and delays occur in the pricing of goods and introducing them to the market at the right time, so that prices are out-of-date and goods are either in short supply or obsolescent.

Retailing gross-margins in Iraq are fixed within certain limits, and these limits are related to the turn-over of items and their importance to the needs of the consumers. These margins, compared with those of retailers in developed countries may be regarded as low to moderate. This situation is attributable to the fact that most retailers are retired civil servants who consider the profit available as supplementary income, little capital is required to enter the retailing business, low level or no services are offered, no risk is involved, and merchants are viewed as parasites who seek profit at the expense of other people whom they exploit.

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CHAPTER ELEVENChannels of Distribution Plan11.1 Purpose

Thousands of goods and services are sold in the State Trading Organisations' stores and their agents' outlets - No one organisation can efficiently do all of the work required to distribute all these items for sale in all cities and villages with limited resources. Rather, a network of organisations (producers, wholesalers, retailers) is normally involved in making such items available for consumption. This network is known as a channel structure and it provides an efficient way of moving goods from the point of production to the point of final sale - many different channel arrangements are possible. "Retailers may decide to function as an independent outlet and not be affiliated in any way with other retailers or other channel members."¹ Since the State Trading Organisations in Iraq have certain specific distribution functions, the channel structures are discussed in this Chapter.

"It is generally agreed that the subject of marketing owes its origin to economists' inquiries into the nature of the distributive process at the end of the last century. However, despite this early interest, it is only in recent years that the firm has turned its attention to the role which distribution has to play as an element of competitive strategy."² Many executives still make the mistake of regarding marketing simply the process of distributing goods. Of course, this approach has an impact on the attitude of management towards marketing and its role in business activities. Moreover, the environmental characteristics of underdeveloped countries have contributed to the emergence of a specific type of distribution system which differs from that developed in Europe, America, or the Eastern bloc. There are, in general, several reasons for such a situation. Lazer and Kelley indicate³ that the physical distribution mix essentially has two components; a channel of distribution component

and a physical distribution component. This Chapter will discuss the first of these components and the second will be discussed in the next Chapter. The discussion will indicate the type of wholesale or retail outlets that make up the total distribution pattern of the State Trading Organisations complex. It examines strategies and practices of the State distribution system and outlines the problems associated with them. The Chapter is divided into six sections. The first section describes the marketing channels and outlines the historical development of the State Trading Organisations, their nature and the role they play. The second section presents the purpose and objectives of the State distribution system. The third section examines the channels of distribution used by the State Trading Organisations. The fourth section highlights the criteria used to select a channel and examines the factors which influence the selection of a particular outlet in the channel. Section five gives an account of the services offered by these Organisations to other wholesalers or retailers, while the final section presents an evaluation of the channel member and their responsiveness to the environmental changes in order to implement their marketing strategy.

11.2 Introduction

Business firms are dependent upon the effectiveness of channels of distribution through which products flow to reach the ultimate consumer. Distribution channels and marketing institutions are continually changing to become more productive and efficient. "Distribution is a key policy area in the formulation of marketing strategy,⁴ although the development of a channel strategy is less frequent than strategy development of other elements in the marketing mix".⁵ Until recent years the distribution function was considered a functional area which reacted to, rather than anticipated, corporate marketing effort.⁶ But the new environmental changes and particularly the introduction of computer and data processing have created opportunities to develop both tactical and strategic planning and to be future-oriented. "The task of planning a marketing channel involves the seller in determining the most profitable and effective ways to reach the markets that he wants to serve."⁷ Before continuing the discussion, it is appropriate to define what is meant by the channels of distribution.

Stern and El. Ansary define the "mass sets of interdependent organisations involved in the process of making a product or service available for use or consumption."⁸ A channel of distribution is "the structure of intra-company organisation units and extra company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed."⁹ The channel includes a firm's internal marketing organisation units as well as the outside business units it uses to serve its target segments.¹⁰ The basic distribution pattern of consumers goods in western countries is from producer to wholesaler to retailer to consumer. Some variations include direct sales of goods from producer to retailer, or the performance of all functions from manufacturing to retailing by one organisation, or some other type of variation. Generally, however, goods are passed to the lower echelons with almost no intervention by government agencies. An outline of the distribution channels in Iraq reveals a somewhat similar pattern. As in the western countries, the pattern of Iraqi distribution is from producer to wholesaler to retailer to consumer. But there are major differences. The most important difference is that State Trading Organisations - wholesale and retail organisations - are not independent of one another but are controlled by the same parent organisation. Moreover, the intervention of government in Iraq is much different than that of governments in western countries, though less than that of government in the Eastern bloc. The distribution system, as a whole, is not under public ownership as in the case in many of the socialist bloc countries. The State Trading Organisations constitute wholesaling and retailing systems supervised, guided and controlled by the government.

11.3 Channel of Distribution - Macro View

The primary impetus for the growth of the State Trading Organisations in Iraq has stemmed from the shortages of essential goods from time to time, instability of the market, the withdrawal of some wholesalers and retailers from business, consumers' complaints, and the government's desire to implement ambitious economic development plans. These plans have resulted in an increase in the demand for all kinds of goods, and for imported

goods in particular. These changes have caused serious problems for the distribution system in Iraq because it is not capable of handling such enormous changes. These problems have been increased by the lack of various facilities, particularly in the field of transportation.

The scope and structure of commercial institutions have been related to the development of the Iraqi economy as a whole, which can be divided into the following stages.

a) First Stage 1921-1949

In 1932 the government enacted Law No.32 to establish the first "Iraqi Date Committee" to improve the trade of dates.** The Committee was revised twice, once in 1935 - by Law No.35, and the second in 1939 - by Law No.6. The main reason for revision was its failure to achieve its objectives. In the next revision the name was changed to "Iraqi Date Society" membership of which was restricted to producers only while in the former Committee both producers and exporters were members, which was the main reason for its failure because of the conflicts between the two groups. The Society was even authorised to determine prices.

In 1935, the government enacted Law No.69 of Government's Foreign Sales "by which it established the "Central Committee for Foreign Sales" which was authorised to import goods the total amount of which exceeded 1.D. 1000* (one thousand Iraqi Dinnar). In 1939, it established the "Grain Commercial Committee and the "Organisation for Tobacco Cultivation and Commerce."

* The palm-tree date is the second most important item for export after oil.

** If the amount is less than 1.D. 1000 the relevant ministry or any government office can import the needed goods on its account without the intervention of the above mentioned Committee.

State intervention increased during World War 11, when the government issued Decision No.58, 1939, of "Organising the Economic Affairs" by which it authorised by Board of Ministries to establish the rationing committee which had the authority to monitor internal and external trade. So, The Central Rationing Committee prevented the exporting of basic goods, e.g. wheat, flour, sugar, tea, coffee, soaps, medicien, and, after granting a licence some other goods, such as fabrics, threads. The Decision was amended in 1941 and 1943. In 1943, the Committee was headed by the Prime Minister and some other ministers were members of the Committee. The Committee took several decisions to tackle the problems of shortages and other problems in the market - e.g. black markets, high prices, etc., as follows:

- a) A licence should be granted before exporting goods.
- b) The government would import some goods, e.g. sugar, tea, etc., on its own account with the co-operation of the United Kingdom Commercial Corporation.
- c) Preventing any merchant who had not granted a licence from selling or buying an item and prohibiting the storing of any item in unauthorised storage facilities.
- d) Wholesalers and retailers were obliged to keep records of all goods sold and all items stocked.
- e) Tea, sugar and cotton fabric were to be sold under a coupon system.
- f) A "Prices Determination Committee" was established to determine the price of 32 items - e.g. sugar, tea, coffee, fabrics, etc.

At the end of World War 11, the situation changed. The economic conditions and the flow of goods improved. As a result, the Baghdad Chamber of Commerce tried to restrict government intervention so that it applied only to the main basic goods. Accordingly, the government reduced its

intervention and abolished the "Ministry of Rationing." This stage was characterised during World War 11 by government intervention which was reduced after the war, but it is still applied to the distribution of some essential goods.

b) Second Stage From 1950 - 13th July 1958

The most important changes which happened during this period were the establishment of a "Recreation Board" and substantial increase in the national income as a result of increased oil revenues in 1952 which created opportunities to increase consumption. During this period the government enacted Law No.37, 1952, by which it established the "Date Society" which was assigned responsibility for selling dates in Iraqi markets and exporting some quantities. The other law issued was Law No.54, 1952, which allowed the "Organisation of Tobacco" to buy, store and sell tobacco to retailers and even to other wholesalers.

c) Third Stage From 14th July 1958 - 13th July 1964

This stage began with an important event, namely changing the regime from a monarchy to a republic which had a profound effect on the ideology of conducting business and ownerships. Many laws, regulations and rules were changed to reflect the new regime's attitude towards business and in particular the wholesaling and retailing trade. All the economic sectors now received more attention from the government than during previous periods, and different new laws were enacted. Some of them have been applied in recent times, to govern the behaviour of such sectors as the finance, oil, industrial, agricultural, and commercial sectors. The present discussion is concerned with changes in the commercial institutions.

The government issued Law No.73, 1959, which established the "Governmental Sales Establishment," Article One stated that this Establishment is a government commercial establishment

with financial and administrative autonomy and it is funded by the government. It has responsibility for distributing domestic products and some basic goods such as sugar, for monitoring the market to protect consumers, and training employees to handle commercial activities. At this stage, the government signed trade treaties with Eastern bloc members, in particular with the Soviet Union, which had an effect on trade in general, and on wholesaling and retailing, by affecting the source of supplies, the attitude toward wholesaling, etc. Moreover, the Commercial Establishment gradually began to market most of the basic goods and to monopolise trading in sugar. The role of the Establishment was expanded and changed from dealing with the crises caused by shortages to having a share in the wholesaling and retailing sector. But its role was still limited and its share in the market was very small.

d) Fourth Stage From 14th July 1964 - 16th July 1968

This stage was characterised by the enactment of very important laws which changed the structure and behaviour of the state owned enterprises in Iraq. The government enacted Laws Nos., 98, 99, 100, 101, 102 and 103 by which it nationalised thirty commercial and industrial companies, all private banks, and all private insurance companies. The most important wholesale and retail companies which were nationalised are:

- a) The Iraqi Stores Corporation.
- b) The African and Iraqi Commercial Company
- c) The Iraqi Corporation for Imports and Distribution (Kattana). All three of the above companies and the Government Sales Establishment were headed by a 'parent' organisation called the "General Organisation for Commerce" - (Law No.166, 1965.)

As shown earlier, the government had expanded its role in all economic sectors, but this was the first time such expansion became significant in relation to internal trade, particularly wholesaling and retailing. The main reason was the "wave of indignation against the "middleman,"¹¹ because wholesalers and some large retailers were reluctant to invest in trade as a result of their fear of their activities being curbed or their corporations being nationalised as happened in late 1963. Legislators and public officials were also called upon to make decisions, affecting channels without possessing an adequate background concerning their place in the economy.¹² Moreover, the distributive sector could be assigned a passive role, assuming that the evolving marketing firms would always provide the kind of marketing services most appropriate to the new production situation.¹³ But such large-scale nationalisation caused problems in the market and serious trouble for consumers such as shortages and the disappearance of goods, even extending in some cases to basic goods, resulting in black markets and increased inflation. These problems were caused by the above mentioned reasons, and also because the newly established state-owned trading companies recruited inexperienced and unskilled people, and they did not have the services of a market information system and the data required to enable effective decisions to be made. This stage was a difficult period during which a large number of problems and anomalies were created, affecting private wholesalers and retailers and the structure and behaviour of wholesaling and retailing. The effects of these problems will continue in the future.

e) Fifth Stage From 17th July 1968 - 15th November 1982

The environmental changes at this period had important effect on wholesaling and retailing, particularly after 1973. The government's ideology regarding wholesaling and retailing was differed than that of the previous government. It believed that these institutions had a particular role to perform in order to

satisfy consumers' needs and wants. The state institutions had a monopolistic position in the marketing of basic goods, this role being restricted in relation to goods considered to be "semi-luxury" or "luxury goods," and the government assigned a particular role to the private sector. The researcher believes that this trend in the relationships between state institutions and private ones will continue in the future. In addition, the economic changes, particularly after 1972 when the revenues of oil increased substantially, resulted in an increase in per capita income and then in an increase in demand for all kinds of goods. Important changes in the behaviour and structure of wholesaling and retailing followed. The government reorganised state wholesaling and retailing, by establishing the State Organisation for Consumer Goods which is divided according to the product type into five general state establishments, which are the concern of this study and, according to the market, into eighteen branches for each of the five Establishments. The number of private retailers increased substantially, but the number of private wholesalers was restricted. The government will continue to develop its own wholesaling and retailing outlets and assign these institutions a more important role in the economic development process for a number of reasons.

- 1) According to the political ideology of the Party, it is considered that the delivery of goods to all districts in the country is the prime responsibility of the State Trading Organisations regardless of the gain derived from such activity.
- 2) Controlling this sector in the interest of the economic development process requires an expansion of the share of the state in this sector. Such control determines the amount of the investment in foreign imported goods and the method of marketing domestic products.

- 3) The private wholesalers and retailers have not taken the initiative to establish certain auxiliary distributive services for the trade as a whole, since the gains from such actions are not reflected in the profit account of the initiating institution. The government has the agency to perform such actions for the industry as a whole on an economically justified scale.
- 4) Significant innovations in the distributive sector by private entrepreneurs may not be feasible in the light of the high initial investment that might be required and their lack of access to such large amounts.¹⁴ The Iraqi merchants, culturally, prefer the status quo to the uncertainties of innovation in the distributive sector.
- 5) Lack of knowledge regarding modern marketing practices due to cultural problems and "the absence of a medium for effective dissemination of such knowledge may further impede the change of marketing practices within the existing structure, thus perpetuating outmoded and inefficient marketing systems."¹⁵

So, the government has attempted to introduce changes in the domestic distribution system in order to achieve a high and sustained rate of growth and a progressive improvement in the standard of living of the people according to its ideology which determines the particular role of the State Trading Organisations in the domestic distribution system, a role shared by the private sector in different degrees, depending on the importance of a particular item to the consumers' needs and wants. The researcher believes that this strategy will continue in the future.

From the previous discussion it can be concluded that only over the last two decades have there been considerable changes in the distribution channels in order to meet market needs. The state has entered the distribution system in order to keep pace with market growth and development, to solve market crises, and to achieve social,

economic and political goals. Therefore, the state created the State Trading Organisations to perform the traditional task of linking the suppliers with the consumers, and this task will continue in the future within the specific role assigned to these Organisations being shared with the private sector on a smaller scale. Thus, the State Trading Organisations will become larger than private institutions, and utilise more advanced techniques than the latter. These Organisations will also strengthen their vertical marketing system. It is expected that the number of private wholesalers will be reduced, and a combination of state, co-operative, and private retailing outlets will be found in the distribution system.

These changes, however, have not taken place gradually so they have caused some problems in the market and in the operation and structure of the distribution system. In the future, changes in the distribution channels will come from similar motivating factors. So, new systems will have to be planned ahead in order to develop a distribution channel to meet market needs.

11.4 Distribution Channel Objectives

Specifying the objectives of distribution is a vital step in developing a distribution strategy, because it provides the focus for subsequent decisions. Cravens¹⁶ indicates that there are two key distribution decisions: (1) deciding how to reach end-user target markets, and (2) if the choice is made to use intermediaries, selecting the role (leader or participant) that the firm will play in the channel and in which channel network to participate. But it should be borne in mind that the distribution network may be left to chance or it can be viewed as a major strategic decision for the firm. Moreover, the objectives of the channel are derived from an analysis of the service output levels desired by consumers and management's overall long-run goals¹⁷ for the firm. Furthermore, the objectives should deal with the cost and services associated with the distribution system. If a statement of the customer service is submitted, a system can be planned that will

provide the desired performance.¹⁸ The objectives should specify the maximum allowable total expenditure which achieves the highest possible degree of services. Slater¹⁹ stated that the initial aim of the distribution function was to provide the link from the factory production point to the marketing selling point, and ensure that a routine system operated whereby customers could receive the goods they ordered. But he indicated too that the objectives of the distribution system have changed slightly in order to meet the needs of the market.²⁰ In recent years, with the advent of more systematic management and planning concepts, greater discipline is being exerted in distribution planning. Christopher²¹ defined the distribution mission as "a set of goals to be achieved by the system within a specific product market context." Missions can be defined in terms of they type of channels and outlets served and by the products that are sold to them within the constraints of specified levels of cost and services, and objectives flow from this definition. Buell²² stated three objectives against which performance can be measured, which are:

- a) to maintain the desired coverage of target markets, both quantitatively and qualitatively.
- b) To ensure that channels provide good customer delivery, services as needed, and adequate product promotional support.
- c) To optimise the distribution cost/performance ratio.

To find out the objectives of the distribution channels of the State Trading Organisations, the researcher addressed the following question to the respondents, "what are the prime objectives of the distribution channel of your organisation?" The respondents' answers revealed that the main objective is, to ensure the availability of goods in all cities and districts. The researcher's comments concerning the determination of the objectives relating to the distribution channel are, firstly that the government may force the State Trading Organisations to extend their coverage to areas which are economically unjustifiable, therefore developing a thorough understanding and appreciation of the national planner's aims is essential for providing

sound strategic planning recommendations and for moving toward a distribution system that balances cost and services. Secondly, the customers' perception of the responsibility of these Organisations regarding the channels and outlets is that they must provide customers with goods in their district but it is not fully appreciated that customers' service requirements and the cost of providing them must be considered within the context of the Organisations' business goals. These two factors were found to be crucial in setting the objectives of distribution channels and they constitute major constraints. Thirdly, objectives are set without a careful analysis of the trading areas and the cost associated with achieving them. Fourthly, the absence of criteria to evaluate distribution cost/performance may lead to establishing uneconomical objectives. This must be recognised by the State Trading Organisations which should make their distribution decisions on a more sound, national and economic basis while realising these decisions also involve a social cost.

11.5 Type of Distribution Channel System Selected

The State Trading Organisations' present distribution system takes the form of a vertically integrated wholesaler and retailer distribution channel which is linked with private retailers. The State Trading Organisations have used different distribution channel systems to ensure the availability of goods in all areas. The respondents were asked "what type of distribution channel is used to move goods in order to reach the ultimate consumer?" It was found that the most common distribution channels used are as follows:

- a) State Wholesaler →
- 1) State Retailer - branch
 - 2) Co-operative Retailer
 - 3) Private Retailer
- b) State Wholesaler → Local State Wholesaler →
- 1) State Retailer - branch
 - 2) Co-operative Retailer
 - 3) Private Retailer

The State Trading Organisations' distribution channel system can be illustrated by Diagram 11.1.

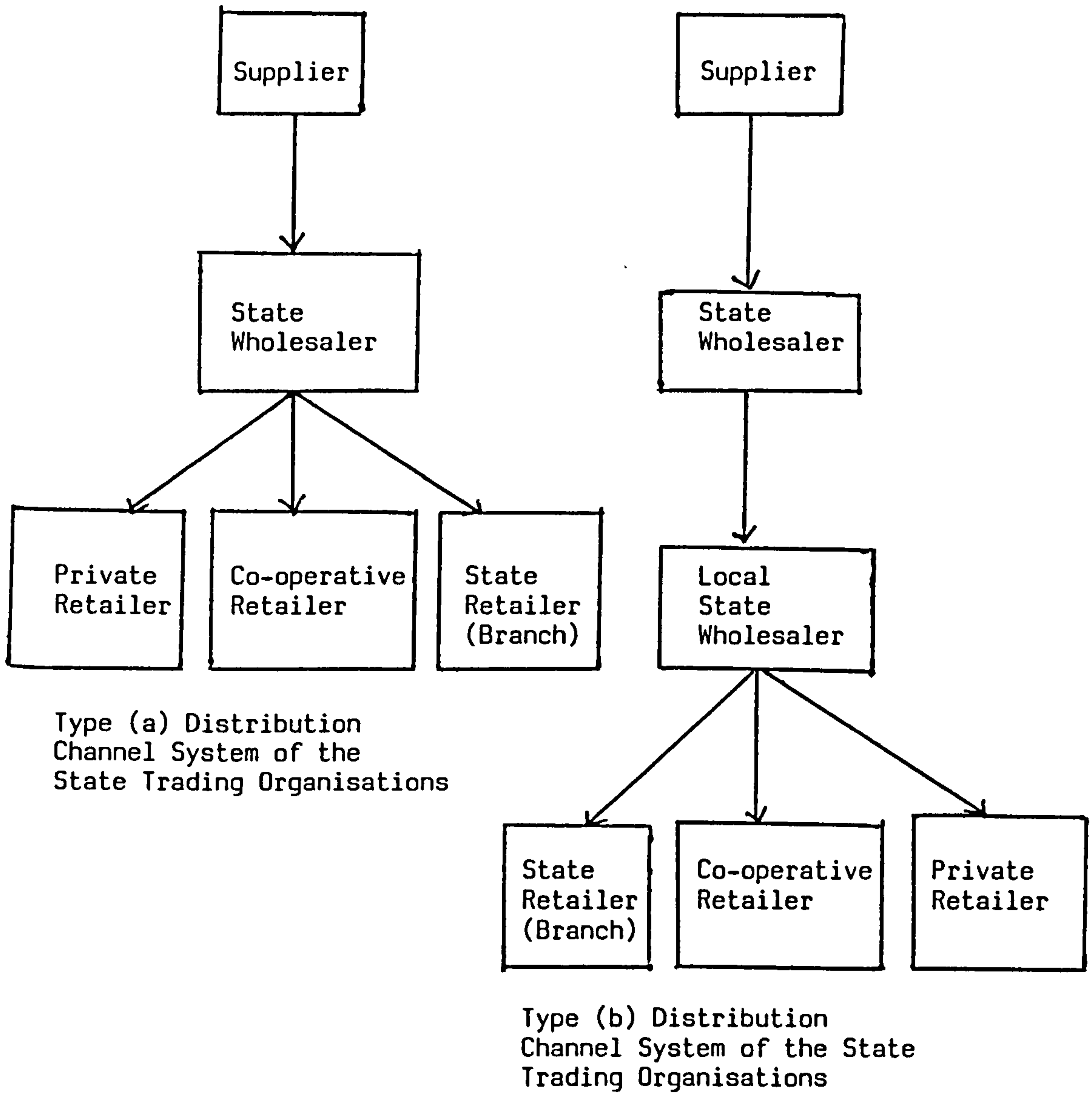


DIAGRAM 11.1
DISTRIBUTION CHANNEL SYSTEM OF THE STATE TRADING ORGANISATIONS

a. State Wholesaler→Retailers*

The first type of distribution channel system used by the State Trading Organisations is from state wholesaler to retailers. The State Trading Organisations buy goods from foreign sources (manufacturers or suppliers) as well as from domestic sources (mostly from manufacturers). These Organisations distribute the goods (whether from foreign or domestic sources) through two main distribution channel systems. The first system follows the route from the supplier to the central warehouses of the State Trading Organisations in Baghdad. Then these goods are distributed to the retailers. The retailers constitute nine department stores and superstores owned by the General State Establishments for Iraqi Stores and for Free Markets,** and all other state retailing stores, all the State Trading Organisations' private retailers called "agents," and co-operative retailing outlets. All these outlets are located in Baghdad. In some cases, big co-operative societies in other cities are supplied from the wholesale central warehouses of the State Trading Organisations. The main reason for using this system is that all goods whether imported or produced domestically are stored in warehouses of the State Trading Organisations in Baghdad, so it is economical to supply these stores from these warehouses. In addition, the big co-operative retailers can order from these central warehouses when their orders are sufficiently large which may affect the quota of the city in which they operate. But the main disadvantage of this system is that it provides larger quantities than those received from other cities so that some areas will be subject to disadvantages. This is important because the quantity received is fixed, therefore

* The term "retailer" is used there to refer to all types of retailers whether state, co-operative or private retailers - agents. This is the shortest type of distribution channel system used by the State Trading Organisations, mainly because of the large number of retailers in Baghdad - the Capital, and for reasons associated with costs. These State Trading Organisations started to eliminate middlemen between production and consumption in Baghdad.

** The researcher has used the official name which may not necessarily carry the usual connotation. Here, it has a similar meaning to duty-free shops.

the retailer who is placed in a disadvantaged position will not get the required quantity, and this situation may cause shortages in the market covered by the retailer.

b. State Wholesaler → State Local Wholesalers* → Retailers

This distribution channel is the common and most widely used channel to distribute goods to ultimate consumers. When the goods are received by central warehouses of the State Trading Organisations, they inform the state local wholesaler in the cities who send their orders to the central warehouses. At the central warehouses, these orders are processed and the quantities of the items may be adjusted, and the local wholesaler is informed about the quantities and the date for despatching his order. The order is despatched by one of two methods. The first is that the local wholesaler travels to Baghdad to receive all the goods and ships them on the trucks of the State Trading Organisations, when these are available. By the second method, the central warehouses despatch the orders of all local wholesalers when the vehicles are available. The second method causes delays in dispatching orders lasting more than a week. The retailers in the cities - state, co-operative, and private - visit the local wholesaler according to a fixed schedule and if they find the goods have arrived, they order their quotas.** If the retailer does not visit the state local wholesaler at the appropriate time, he may lose the opportunity of receiving his quota, in addition to other disadvantages, e.g. freezing investment, etc.

* In each city there is a state local wholesaler who receives the goods from Baghdad warehouses and stores, sorts and distributes them to the Branches of the State Trading Organisations. In the small cities where there is no local state wholesaler, the branches carry out this function.

** The storekeeper, in consultation with the manager, allocates specific quotas for each retailer from the total quantity received from the central warehouses. The retailer cannot order more than the allocated quota.

Sometimes, these local state wholesalers arrange visits to the counties on a periodic basis to sell basic goods.

The private retailer who wants to buy and sell goods that are supplied by the State Trading Organisations has to get a "licence" from the General State Establishment that deals with that product. For example, for items such as sugar, tea, canned food and spices, the retailer must get a licence from the General State Establishment for Foodstuff. Therefore, one retailer may have a licence from more than one General State Establishment. For example, a retailer may have a "licence" from the General State Establishment for Foodstuff, another from the General State Establishment for Iraqi Stores in order to buy and sell cigarettes and a third from the General State Establishment for Precision and Instruments. This type of channel system confuses the retailer, wastes his time, and is costly, because he has to visit more than one General State Establishment - Table 11.1 shows the number of retailers who are granted one or more licences. It is apparent that the percentage of retailers who do not have a licence is very high, ranging from 35.4 per cent to 88.2 per cent. It is only in relation to food, beverages and tobacco that the licensed retailers constitute the majority. Table 11.2 shows the percentage of sales by the "agents" - licensee retailers - to the total sales of the State Trading Organisations. The percentage of sales achieved by retailers ranged between 18.3 and 95.5, but for "essential" goods the percentage increases to between 53 and 95.5 which means the "agents" play a vital role in the moving of goods marketed by the State Trading Organisations. This system is unique and different from that prevailing in the Western countries or the Eastern bloc.

One point the researcher wants to highlight is the method of distributing goods from the state retailers - particularly the department stores - to the ultimate consumer. When the consumer wants to buy an item, he has to place his order with the seller who provides him with two copies of the selling invoice. Then, the consumer goes to

Table 11.1: Number of Licensed and Unlicensed Retailers Classified According to the Major Specialisation

Major Specialisation	No. of Retail Establishment	Number of Retailers who have:					Total	% to the total no. of Retailers	No. of Retailer who have not a Licence	% to the total
		One License	Two Licences	Three Licences	Four Licences	Five Licences				
1. Livestock living poultry, fish and meat	6066	705	11	-	-	-	617	11,8	5350	88,2
2. Agricultural crops	10386	5421	215	-	18	-	5654	54,4	4732	45,6
3. Foodstuffs, beverages	47717	11170	7486	6114	3650	1777	30197	63,3	17520	36,7
4. Yarn, cloths, ready cloths	17153	5452	199	48	-	-	5699	33,2	11454	66,8
5. Wood, wooden furniture, and stationary	3063	663	40	-	-	-	703	33,0	2360	77,0
6. Chemicals and chemical products	2669	863	130	-	-	-	993	37,2	1676	62,8
7. Machinery, equipments and house furnishings	7345	3979	481	99	10	-	4569	62,2	2776	37,8
8. Construction materials	6345	2963	848	426	98	-	4335	64,6	2379	35,4
9. Other items such as watches, opticals, sewing materials, etc.	930	291	-	-	-	-	291	31,3	639	68,7
Total	102043	31507	9410	6687	3776	1777	53157	52,1	48886	47,9

Source: The Survey of Internal Trade, The Central Organisation for Statistics, 1979.*

* The only available data.

THE NUMBER OF OUTLETS CLASSIFIED ACCORDING TO
THE STATE ORGANISATIONS DURING 1976-1978

Outlet	Year	"Agent" - Private Retailer	State - Retailer	Co-operative Retailer	Others
The General State Establishment					
Foodstuffs	76 77 78	28209 59762 60669	100 117 105	163 276 467	- - -
Iraqi Commercial Corporation	76 77 78	3730 4819 5967	50 49 48	110 134 149	- - -
Precision and Instruments	77 78 79	1510 1639 1821	19 19 27	17 65 -	- - 31
Iraqi Stores*	76 77 78	9100 10955 13444	59 76 78	63 223 240	- - -
Shopping Centres	76 77 78	7993 10062 10232	17 21 24	- 9 -	- - -
Total	76 77 78	50542 87237 92133	245 282 282	353 707 856	- - 31

* This did not include 34083 agents of Cigarettes and matches

Source: Ministry of Commerce - The State Trading Organisation - Special Report, 1980, pp 65-69

the cashier to pay the money and returns with one copy which he passes to the seller to obtain the appropriate item. If a mistake occurs the same procedure has to be followed by the consumer resulting in the creation of queues. This means that the flow of goods to the ultimate consumer is not smooth and can be costly. The reasons for using state-retailing outlets can be explained as follows:

- 1) The socialist philosophy of government motivates executives to use state retailers in order to ensure the availability of basic goods to the consumers and to prevent any manipulation in the market, or malpractices by private retailers.
- 2) It is believed that the new type of distribution channel is a necessary step toward the achievement of the socialist programme in order to improve the people's welfare.
- 3) It can contribute to the development of the industrial sector by selling domestic products, and these outlets favour the buying and selling of such products and play a defined role in economic development. Despite these reasons, the current distribution channel has the following shortcomings:
 - 1) The system has caused the disappearance of itinerant traders which has an effect on rural consumers who suffer from intermittent shortages of supplies.
 - 2) The inadequate infrastructure has also contributed to producing a complex distribution system. Poor road conditions, inadequate storage facilities, communications and transportation systems have constituted major obstacles to the smooth flow of goods, which is, of course, essential for the effective performance of the distributive function.
 - 3) The system has not evolved over a long enough period to enable operators to acquaint themselves with the necessary information relating to the flow of goods by the old highly fragmented and specialised marketing intermediaries, so it has suffered from a number of mistakes which have caused complaints by consumers.

The underlying premises that motivate government to intervene in the wholesaling and retailing activities, and perform wholesaling functions and operate their own outlets are as follows:

- 1) The Political Report of the Eighth and Ninth Congress of the Ba'ath Arab Socialist Party in 1968, and 1982 state clearly that the State Trading Organisations should dominate the wholesaling and retailing sector and maintain leadership in the market. This is considered a necessary step towards the achievement of economic and social goals.
- 2) The monopoly in foreign trade is considered important in order to orient the investment in trade to serve the purpose of the national economic plans. Such a decision has had a profound effect on wholesaling and retailing activities, because of the high percentage of imports (approaching in some cases one hundred per cent) in relation to the total sales of both the State Trading Organisations and private institutions.
- 3) The emerging institutions, particularly state wholesalers, will have more power in buying negotiations which will lead to better deals, and are essential for assuring a supply of essential items. Apart from the impact of shortages on the cost of goods, these shortages are damaging because they lead to inadequate use of resources.
- 4) The creation of these institutions and the integration of wholesaling and retailing activities will facilitate co-ordination between channel members to solve the problem of imbalance in the market and assure availability of goods in all provinces, at the lowest cost.
- 5) The integration of these institutions will permit cost reductions through improved co-ordination of inventory scheduling and other marketing activities and enable them to "innovate because they participate in many of the ... distribution activities in which change can occur."²³ For example, for the first time,

in the history of Iraq, after establishing the State Trading Organisations, new shopping centres and department stores were created. Although they are concentrated in three cities Baghdad mainly, Basrah, and Al.Mosul - the plans were designed to establish one shopping centre and some department stores - depending on the size of the city population - in each city. However, the researcher has certain reservations about the efficiency of the operation of such stores.

Moreover, the researcher believes that the adoption of vertical integrated distribution channels in Iraq is subject to the following shortcomings:

- 1) The bureaucratic channel decisions of the State Trading Organisations may impede the implementation of the cost reductions aimed at by establishing this type of distribution channel. In addition, this system, as practised in underdeveloped countries, combined with bureaucratic decisions, makes it less capable of responding in a flexible manner to market changes effectively and efficiently.
- 2) Another danger is associated with the "very distinct managerial approaches that the various stages of ... distribution may require."²⁴ For example, state wholesale and retail distribution objectives and operations "seem to need forms of organisation, control systems, and management styles"²⁵ that are quite different from those for privately-owned wholesaling and retailing firms. The State Trading Organisations may market goods with very low and even zero profit, while private firms select for their product portfolio of these items which maximise their profit. In addition, the size of their operations and the structure of the market require management styles and control systems that are different from those of privately owned firms.

- 3) The capital invested in the State Trading Organisations is intensive as a result of the responsibility assigned to them. "Studies based on the PIMS data base and other evidence show that high investment intensity usually leads to low profitability."²⁶ Apart from their low margins, government concern over the performance of the state-owned enterprises has increased.

These two types of distribution channels will continue to be used by the State Trading Organisations. These Organisations will dominate wholesaling activities, but the private retailing outlets will have the highest share of their total sales - see Table 11.3. Table 11.3 shows that the state retailing outlets constitute the lowest percentage of the total sales of the State Trading Organisations. Moreover, the total number of private retailing outlets exceeds the number of all other outlets - state and co-operative - in all the General State Establishments by a multiple of more than forty-two (see Table 11.2). So it can be concluded that the State Trading Organisations will depend on the private retailers to distribute their goods to ultimate consumers, and these retailers will retain their high share of total sales and of the total number of retailing outlets in the future. The State Trading Organisations retailing activities will concentrate on shopping centres, department stores, and large stores, and their retailing structures will be a combination of state, co-operative, and private outlets. A further finding is that the distribution of the outlets in all provinces and cities not based on a careful assessment of the trading area, but on applications submitted by individuals to the General State Establishment or its branch. If applicants meet certain requirements - which are very few - they will be granted a licence to start their business and thereby become Establishment "agents". This policy has produced an unbalanced structure of retailing outlets in each city, and may lead to unintended results. Although the structure of the distribution channels follows a basic pattern, i.e. supplier - or producer - wholesaler - retailer- ultimate consumer, it has the unique combination of the state, co-operative and private firms in the same channel.

TABLE 11.3

SALES OF DIFFERENT OUTLETS DURING 1976-1978

Outlets	Year	Agents and Co-operative		Government Offices		State Retailing		Total Sales	
		I.D. (000)	%	I.D. (000)	%	I.D. (000)	%	I.D. (000)	%
The General State Establishment	1976	101013	92.2	3112	2.8	5405	5	109530	100
	1977	104226	95.5	5202	4.6	3200	2.9	112628	100
	1978	109628	96.5	2774	2.5	1148	1	113550	100
Iraqi Commercial Corporation	1976	15720	15	56079	53.4	33248	31.6	105047	100
	1977	30382	19.1	84136	53.0	44162	27.9	158680	100
	1978	129890	69.1	21299	11.3	36656	19.6	187845	100
Precision and Instruments	1976	2685	18.3	5974	40.4	6075	41.3	14707	100
	1977	5127	29.3	7511	42.9	4851	27.8	17489	100
	1978	6619	29.3	10445	47.1	5076	23	22140	100
Iraqi Stores	1976	11024	23.2	-	-	36535	76.8	47559	100
	1977	41752	60.6	269	.4	26871	39	68892	100
	1978	86744	64.2	490	.4	47958	35.4	135192	100
Shopping Centres	1976	56998	100	-	-	-	-	56998	100
	1977	104858	9	3888	3.4	3928	3.5	112674	100
	1978	78898	68.9	27510	2.4	8120	7.1	114528	100
Total	1976	187440	56.1	65138	19.5	81263	24.4	333841	100
	1977	286345	60.8	101006	21.5	83012	7.7	470363	100
	1978	411779	71.8	62518	10.9	98958	17.3	573255	100

Source: The State Organisation for Consumer Goods, Special Report, 1980, pp 55-57

A number of studies have shown the complexity and variety of channel forms present in underdeveloped countries. Wadinambiaratchi²⁷ indicated that the channels of distribution structures reflect the stage of economic development of an underdeveloped country. Using data relating to per capita income, per capita generation, percentage of urban population, manufacturing as a percentage of GNP, private consumption expenditure as a percentage of national income, and infant mortality rates in nine countries at different stages of economic development, he found that marketing channels appear to reflect the stage of economic development in each country. Channel structure and channel patterns are generated internally within the marketing system of less developed countries. Hence, channel structure is a reflection and response to the social and economic environment, which is external to the marketing system. Different social and economic environments have generated, over the years, different types of institutions and institutional relationships in marketing channels.

In a comparison of marketing channels in Brazil, Venezuela, Puerto Rico, Turkey, Egypt, India, and generally in Tropical Africa, he proposed eight hypotheses in support of his theory.

The more developed countries have more levels of distribution, more speciality stores, more department stores, and stores in rural areas.

The influence of the foreign import agent declines with economic development.

Manufacturer - wholesaler - retailer functions become separated with economic development.

Wholesaler functions become similar to those in North America with increasing economic development.

The financing function of wholesalers declines and wholesalers' mark up increases with increasing development.

The number of small stores declines and the size of the average store increases with increasing development.

The role of the pedlar and itinerant trader and the importance of the open-air market declines with increasing development.

Slater²⁸ adopted another view of the interaction between economic development and channel structure. Rather than concentrating on how economic development shapes channel structure, he deals with the possibilities of a channel-structure macro strategy aiding economic development and presents a programme to that effect for less developed countries.

Economic development is only one of several variables comprising the social-economic environment which determine channel structure. The attitude of a society toward markets and marketing functions is certainly one such variable, and this may well be responsible for the development of channels such as those associated with the State Trading Organisations in Iraq. "Traders were condemned as wasteful and were said to be responsible for wide distributive margins both in the sale of merchandise and in the purchase of produce."²⁹ "Therefore, the government believes that intervention in the distribution system and restructuring and controlling the marketing channels are in the interest of the public. The researcher believes such intervention - did not reach the root of the distribution problem, which lay in those factors which caused imbalance in the markets. For these markets to function properly the "free" interaction of buyers and sellers is required. Moreover, changes in channels in developed countries are often introduced as a result of a long period of evolution, and as a response to natural changes in the environment, while in Iraq the marketing channels' structural changes were introduced through regulations, which might affect the performance of such channels. The government acted to modernise the marketing system and adopted an active role in contrast to its passive, regulatory role in the previous system.

The numerous development plans of the Third World countries provide ample evidence of the importance of government as a modernising force in relation to distribution systems. Rosson³⁰ indicated that the government of Tanzania, through its Fisheries Division, is planning to act as an agent of change in the modernisation of the fish marketing system. Dholakia and Khurana³² indicated that in India the network of Public Distribution Systems comprising Government regulated outlets for foodgrains, sugar, controlled cloth, and kerosene as well as consumer co-operatives has expanded substantially during the last five years and have been, and continue to be, important instruments of government policy to meet the basic consumption needs of large segments of the population. Kaynak³³ maintains that a growing amount of interference by the government in the pricing and distribution of essential consumer and industrial goods will affect the cost, margins, and structure of distribution. It can be concluded that in less developed countries a new pattern of distribution has emerged where the state distribution organisations play an important role in the total distribution function. In addition, the government in these countries acts as an agent of change in the modernisation of the marketing system. This will lead to changes in the marketing channel structure where the state, co-operatives, and private institutions share the marketing function. This pattern of distribution is somewhat different from those patterns prevailing in the Eastern bloc and Western countries, and this will continue in the future with different shares of the marketing role allocated to each institution depending on the government's aims, despite the criticism of government intervention and of the efficiency and effectiveness of the state enterprises.

From the previous discussion, the following conclusions can be submitted.

The State Trading Organisations' channel structure consists of state wholesalers - national and local - and state, co-operative, and private retailing outlets. Because the State Trading Organisations have the authority to grant licences for co-operative and private retailers, these institutions depend heavily on supplies from the State Trading Organisations for their growth.

The State Trading Organisations dominate wholesaling activities and have a monopoly in the wholesaling of "necessity" goods. The main reasons for using the state wholesaling channel are first, the government wants to control foreign trade in order to direct investment towards importing industrial products more than consumer products. Secondly, the government tries to prevent some private wholesalers from practising fraud resulting from differences in the exchange rate of "hard currencies." Thirdly, in a real sense, the wholesalers in Iraq do not provide the kind of services offered by wholesalers in developed countries or those reported in commercial literature. All they do is buy goods and sell them, which makes their elimination a simple process. Fourthly, a distinctive characteristic of marketing and distribution in most less developed countries is that initiative in purchasing supplies usually stems from the buyer (retailer) rather than the seller (supplier).³⁴ The basic reason for this situation is economic, that is, a general shortage of goods, so that the retailer is forced to seek out the supplier.³⁵ In many less developed countries, including Iraq, suppliers are content to sit back and wait for retailers to come to them, confident in the knowledge that they will do so.³⁶ The goods flow from national state wholesaler to local wholesalers in the cities, and the latter supply all kinds of retailers. These wholesalers will play a greater role in the marketing channel in the future, because, big co-operative retailers and sometimes state retail branches are supplied from the national state wholesaler.

The retailing channel will continue to consist of state, co-operative and private outlets. Despite the domination and leadership of the State Trading Organisations, it was interesting to find that the total number of private retailing outlets largely exceeded the number of state retailing outlets. In addition, the percentage of sales achieved by private retailers far exceeded the sales achieved by the state retailer. It is expected that the state retailing activities will concentrate on shopping centres, department stores, and big stores which are limited in number and concentrated in the cities, leaving the co-operative and private retailers - agents to serve the small, scattered market.

The State Trading Organisations have not provided any other type of channels such as mail order, vending machine, or door-to-door channels for technical, economic and social reasons.

The researcher believes that the current State Trading Organisations distribution channel is not capable of carrying out the responsibility of ensuring the availability of goods in all trading areas as conveniently as possible for consumers. Because the number of private outlets and their sales volumes greatly exceeded those of the state Organisations, any conflicts that may arise as a result of differences in objectives and motives may cause serious problems in the markets. Therefore, the distribution channel needs to be reshaped, particularly in view of the economic changes which raised per capita income which in turn expanded the markets and this situation requires a new arrangement in order to design a structure which can respond more quickly and effectively to the markets changes.

11.6 Factors Considered in the Selection of a Channel

The Channel system chosen by a firm will have a serious influence on all its marketing strategies, especially the role assigned to the "agents" private retailers. The prime objective of any channel system is to make the product readily available to the target market. For consumer goods, availability means not only stocking by, but accessibility within, the store.³⁷ The selection of a system channel does not take place in isolation. Rather, it is the result of many different factors. In addition, in establishing and maintaining channel systems, any firm is faced with a variety of alternatives. So, an examination of certain basic factors would enable any firm to narrow down its choice of channels, "despite the substantial variations in alternatives from industry to industry and from firm to firm within each industry."³⁸ The most important factors are those that have to do with market, product and channel characteristics, the activities of competitors, and company resources. Each of these factors will be discussed briefly as follows:

a) Market Characteristics

"As in the case of all marketing strategies, the analyst should begin "where the market is" and work backward.³⁹ The type, location, and number of customers with whom the firm hopes to deal clearly affect the design of the channel system, because these factors determine the requirements for product availability as well as the level of profitability that can be achieved by exploiting the potential. In addition, "the customer is the focus of all marketing activities. Channel design is no exception. Thus, channels are designed to meet specific objectives in selected target markets."⁴⁰ Moreover, different market segments have different levels of importance, and "this variation in importance within a type of buying unit ... influences"⁴¹ the firm's channel strategy.

b) Product Characteristics

The nature of the products involved is an important determinant of the firm's channel strategy. The characteristics of the product must be considered in deciding whether to use a direct or indirect distribution channel strategy. In some cases the decision is clear, whereas in other cases, a number of alternatives may be feasible. The product aspects such as product configuration, complexity of installation, price, turnover, seasonality, styling, range of models, complexity of operation, servicing required, degree of newness, perishability, and other aspects have to be considered in the design of an efficient channel system. "Generally speaking, product characteristics must be analysed from the prospective buyer's point of view."⁴²

c) Channel Characteristics

A firm will ordinarily try to design a channels system that takes advantage of the strengths of existing and available middlemen. The functions the intermediaries will perform are

known, but how well they will be performed from the firm's point of view is another matter. Too often, the assumption is made that the producer is the channel's captain that it is he who controls both the selection and operations of the various intermediaries in the system. It is also assumed that middlemen normally respond willingly to a producer's request to join the system. McVey⁴³ points out that these assumptions are not entirely valid, because the intermediaries think of themselves primarily from the customers' point of view, that is, more as purchasing agents than as selling agents. The most important consideration is whether the intermediary serves the prospective buyer in the way desired. If he does, the decision to use him then depends on how his efficiency compares with that of others. In addition, the geography of the situation should be considered, because the number of intermediaries - especially the number of good ones - is ordinarily quite limited. All these factors have an effect on the channel system selected.

d) Competitors' Characteristics

Channel design is influenced by the channels that competitors use, and is greatly affected by the nature of the competition. Many producers want to have their products made available through the same channels as competitors' products, because of the "buying habits of consumers who like to have a wide selection of goods from which to choose."⁴⁴ Sometimes, the marketing channels used by competitors define what the producer wants to avoid rather than initiate.⁴⁵ In addition, the producer may be forced either to resort to less effective resellers, perhaps doing more of the work himself to overcome their limitations, or to adopt an altogether different system, e.g. selling direct.

e) Company Resources

The marketing capabilities of the firm (based in part on past experience) and its financial strength have decided effects on its channel strategy. Financial strength is important if the

firm is to employ a channel system that calls for large investments in terms of a sales force, field warehousing, and a large account receivable. Some firms do not have the financial resources to serve their customers. Others are unwilling to make large investments in sales force and service facilities. Management must decide if the necessary resources are available, and if they are, the investment should represent the best use of these resources. Costs and benefits must be estimated.

In order to examine the extent to which the State Trading Organisations under study analyse these factors in reaching their channel decision, and the importance of each factor in the selection process, respondents were asked how the current channel structure was determined and which factors affected their channel decision? The following two sections will investigate (1) the factors which affect the selection of channel type, and (2) the factors which are considered in selection of outlets within the channel.

11.6.1 Factors Considered in the Selection of Type of Channel

To find out what points are considered in the selection of the type of channel system, the respondents were asked to define what factors they had considered in making their decisions to use the current channel structure, and to state them in order of importance. The main factors in order of importance were found to be: government policy, company objectives, product characteristics, company resources, middlemen characteristics, and other factors. These factors are examined as follows:

a) Government Policy

Government policy is one of the most important factors cited by respondents in determining the channel structure. The main reason for this is that the State Trading Organisations rigidly pursue a political philosophy and economic ideas concerning exchange processes. So, if the government decides that specific kinds of

products must be available for a particular segment of the market, and this decision leads to lengthening of their channel, the State Trading Organisations have to find a suitable structure to reach that segment. This policy may limit the freedom of these Organisations to design an effective structure, but it is of fundamental importance.

b) The State Trading Organisations' Objectives

The second most important factor mentioned by the respondents is the State Trading Organisations' marketing mission and objectives. The type of channel system chosen will contribute to the implementation of marketing strategy and the achievement of the marketing objectives of these Organisations. The effect of this factor on determining the channel system structure may be that they have to consider not only the cost of establishing the structure, but also the social implications which should be in keeping with the State Trading Organisations' mission. Certain channel strategy decisions should be closely related to channel objectives, and they may be incorporated into the process of selecting appropriate objectives.¹⁶ This is important, because the State Trading Organisations had to design their own channel system structures which were not available and did not even exist before the Organisations were established.

c) Product Characteristics

It was mentioned earlier that the State Trading Organisations classify products into three categories, (1) necessity or basic goods, (2) semi-luxury goods, and (3) luxury goods. Respondents, as a result of this classification, indicated that their channel structure decisions are affected by the product characteristics. For example, the obligation to provide necessity goods may force them to prolong their channel structure, while in the area of "luxury goods" they do not mind restricting their activities in retailing; they can even use middlemen to perform some of these activities. Other product attributes also have an influence on the structure, particularly if those items require

services or installation.

d) Middlemen Characteristics

Before discussing this factor, it is necessary to explain how a retailer can become an "agent" for the State Trading Organisations. The retailer should fulfil specific requirements, e.g. be a member of the chamber of commerce, have the required capital, have premises from which to conduct his business, adhere to the prices fixed by the State Trading Organisations, and perform all the necessary activities satisfactorily. If he meets these requirements and he applies to be an "agent," he is then granted a "licence" by the relevant General State Establishment. When the retailer is granted a "licence," he becomes an "agent" and will receive his quota of goods. The respondents stated that how well the middlemen perform the function required of them, in keeping with the policy of the State Trading Organisations will affect the channel structure decision. This is considered an important factor by the respondents because these Organisations found that it is difficult to implement the coverage strategy for all provinces unless they share the flow of goods with the private sector. This trend emerged in the late 1970's as a result of the State Trading Organisations experiencing problems in the market.

e) Other Factors

The last factor that may affect the channel system is what the researcher calls the "pressure groups," e.g. unions, societies, consumers, etc. This factor is mentioned by the respondents as in some cases possibly affecting the channel structure. These groups exert pressure for change in the activities of the channel. For example, they may demand expansion of the channel activities in areas which the State Trading Organisations have not decided to cover for many reasons, e.g. lack of resources, availability of middlemen, it is not justified economically, etc. - So, the changes are "determined" from the "bottom up" rather than from the top down.⁴⁷

11.6.2 Factors Considered in the Selection of Outlets in the Channel

Respondents were asked to define the factors which affected their decision concerning the selection of a particular outlet in the channel system. The answers revealed that there are three types of outlets, each of which has its own criteria for selection. The selection of state outlets is subject to the overall business strategy of the State Trading Organisations which determine all the characteristics of their outlets. The selection of second type, i.e. the co-operative outlets, simply involves presenting an approval certificate or a letter from the specialised government agency.* The third type is the "agent" which was described in the previous section. Its selection was reported to be affected by the factors discussed below in order of importance.

a) Fulfilling the Requirements

The most important factor considered by the State Trading Organisation is that the outlet must have a "licence." This licence is not granted unless the outlet can fulfil certain requirements. These requirements are supplemented by contract and good relationships with their customer in their own trading areas, and the potential for long-term working relationships. These requirements do not include consideration of applicants' capabilities and previous management experience and they can be satisfied by many retailing outlets. Accordingly, many people have been granted a "licence." Therefore, many unprofessional people enter the channel and the number of retailing outlets increases substantially.

b) Territorial Coverage

The second most important factor affecting the decision to choose between one outlet and another in the same channel of distribution was its territorial coverage, and the State Trading Organisations evaluate the outlets accordingly. Because the Organisations

* In each city, there is an office named the "Societies and Clubs" which grants the letter after the group of people have fulfilled specified requirements.

implement an intensive coverage strategy for most of their products, they have found it necessary to delegate their activities to private retailing outlets. So, if the outlet is located in areas where no "agent" for the State Trading Organisations is available, it will have a greater opportunity to obtain a licence than an outlet located in an area covered by "agents," because failure to cover all province is certain to create dissatisfaction.

c) Product Lines Carried

In recent years, the State Trading Organisations have added a new criterion relating to selection of an outlet. They select the outlet which agrees to sell their goods. The main reason for including this criterion in their selection process is to avoid problems arising as a result of differences in the prices of goods imported by these Organisations and those imported by private sector wholesalers and to prevent fraud*. This factor or criterion creates serious problems because of the difficulty inherent in choosing between goods supplied by the State Trading Organisations and those marketed by the Private sector. The main reason is that goods supplied by the State Trading Organisations are not sufficient to represent a good investment but at the same time are necessary for survival.

From the discussion of the factors in the previous two sections the following conclusions can be reached:

- 1) The State Trading Organisations have adopted a vertical marketing system, and it is the main distribution mechanism in Iraq, - consisting of a wholesale and retail publicly administered system, co-operative retailers and private retailers. The aim is that "establishments at each level operates at optimum scale so that marketing functions within the system are performed at the most advantageous level or position".⁴⁸

* These problems are discussed under "pricing plan" in Chapter 10.

- 2) The private retailing outlets - called agents - constitute the largest number in the overall distribution system used by the State Trading Organisations, whether in the number of outlets or volume of sales. This distribution system consists of "different channel members each having his own decision variables, and each channel member's decisions do affect the other channel members' profit and, as a consequence action",⁴⁹ and the channel member who enjoys a higher share has a more profound effect. So, any lack of co-ordination of these decisions can lead to undesirable consequences.
- 3) The factors which affect decisions concerning selection of the type of channel or outlet were based on subjective judgement, not on quantitative criteria and economic reasoning which resulted in the entry to the channel of unprofessional and unqualified members. This has had an impact on the effectiveness of the channel system.
- 4) The requirements laid down for the granting of a licence to a retailer are easily fulfilled by many people who want a licence, so many retailers have been granted a licence without careful analysis of the need of trading areas for outlets which resulted in maldistribution of outlets. For example, some trading areas complain about having too many outlets, others about a shortage of outlets.
- 5) The researcher believes that the selection process lacks careful planning to determine a well developed channel system to enable the State Trading Organisations to reach their markets quickly. This resulted from an absence of a scientific distribution audit, and failure to "recognise the control role of channel strategy in the marketing programme".⁴⁹

11.7 Services to Intermediaries

The retailing of services is an extremely important economic activity,⁵⁰ as is recognised by other channel members. The purpose of this section is to identify and examine the basic types of service that may be rendered to the other channel members by the State Trading Organisations. The respondents were asked what types of service their

organisation renders to the intermediaries. The answers revealed that the following kinds of service were provided.

11.7.1 Delivery

The State Trading Organisations provide durable goods such as televisions, washing machines, freezers, refrigerators, sewing machines, etc., and supply their "agents" with goods ordered on schedule, so delivery is an important part of the sale. The State Trading Organisations offer a variety of different delivery services. They deliver goods on their own trucks on a particular schedule. But their own fleet cannot cope with the increasing demand and the number of deliveries required, so they make an arrangement with a private independent delivery company to handle deliveries to the retailers. This company collects goods ordered from the Organisations' warehouses, combines the orders, and despatches them to the retailers and assumes responsibility for packages lost or damaged during delivery. The charges for delivery are calculated as a percentage of unit cost, not on actual cost, and these charges are arrived at through an agreement between the Organisations and the delivery company. Because the delivery company tries to exploit full utilisation of delivery equipment in order to achieve economic operations which maximise its profit, the combination of delivery orders to develop sufficient delivery volume, takes some time which causes delays in delivering goods at the right time and such delays can extend to more than a week, even for some basic goods, i.e. sugar, tea, canned food, etc. This has caused serious problems and complaints resulting from the introduction of the new system, the operation of which depends on the initiative of the retailers. The retailer who wants to use his own truck receives five per cent of the cost of the item to cover the transportation cost.

The system depends on the availability of an adequate infrastructure, good communication facilities, and the availability of transportation facilities which can handle different sizes of shipments. Such facilities are poor and still not sufficiently developed to achieve the kind of service that is required.

The delivery system in the State Trading Organisations is not sufficiently effective to respond to the demand of retailers and the market and it lags far behind the systems available in developed countries. In addition, as a result of the factors previously discussed, the State Trading Organisations cannot develop mail order or door-to-door deliveries.

11.7.2 Change of Goods

The State Trading Organisations offered to change goods returned and refund the purchase price to all retailers and even to consumers. In addition, if, after delivery, the retailer finds goods are damaged, he can receive compensation. But problems have arisen when the retailer wants to change goods and substitutes are not available. In such a case, he may accept the damaged goods or return the goods and recover his money. This is a serious problem resulting from the change in the delivery service. This problem, which may be caused by shortages, is one common to most underdeveloped countries.

11.7.3 Credit

Most retailers include some form of credit in their customer service programme, and "credit represents a most peculiar marketing situation".⁵¹ The decision regarding whether to offer credit should be based on the firm's customer service objectives and strategy. The key credit decisions are to determine the type and amount of credit and collection procedures.

The credit system in retailing and wholesaling was changed in the 1970's and particularly after the State Trading Organisations were established and expanded their business. Up to that time, wholesalers and retailers were heavily dependent on credit. They used what is called in-house open accounts. The main reasons for the prevalence of this type of credit are as follows:

- 1) The banking system in Iraq has not developed a method of offering credit which facilitates retailing activities. Until recently, in 1983, the Rifidain Bank was the only one that introduced credit cheque cards for customers who had an account exceeding 1.D. 500, and the amount of credit allowed is only 1.D. 40. This credit card is not widely used and the only retailers who qualify for it are the State Trading Organisations, while other retailers - private or co-operative - do not qualify.
- 2) People do not use banks very often, and they prefer using cash. So, they keep their money - even thousands of Iraqi Dinnars - at home. The main reasons for this are firstly that people want to avoid taxation, because the tax system is not sufficiently developed to cope with these problems. Secondly, there are some socio-cultural factors which motivate people to conceal the amount of money they possess.
- 3) The low income of most of the population has convinced manufacturers, wholesalers, and retailers that the best way to promote their business is to offer credit.

Therefore, the wholesalers grant the retailers credit, and the latter grant their customers credit. Therefore, the retailers book-keeping system records all their customers' accounts, and all purchasing and settlement transactions. Most of the accounts are settled at the end of each month.* The problem of an open account is that the customer - whether a retailer or consumer - is not simply allowed to purchase items on credit; there is a long process of building a good reputation through continuous buying from the same source, honest dealing, and having a good reputation both socially and in the market.

After the establishment of the State Trading Organisations, the wholesaling and retailing market introduced cash-and-carry transactions. The main reason for this is that the State Trading Organisations have

* All salaries and most wages paid monthly in Iraq.

become the principal suppliers for most if not all retailers and these Organisations sell their goods to retailers on a cash-and-carry basis except for government offices and, at the outset, the co-operative retailers but lately they have ceased to cater for co-operative retailers. Per capita income has increased and the economic conditions have allowed people to pay in cash. After 1983, the trend was to return to the credit system because some goods showed a surplus in the market and the credit cheque card was introduced by the Rifidain Bank. But credit is returning very gradually again to retailing. No other type of credit, e.g. in-house or company-owned credit and or third party credit has been used up to this point.

The State Trading Organisations recently offered credit to all government offices, the amount being limited to 1.D. 100, and also to consumers who hold the Rifidain Bank's credit for an amount not more than 1.D. 40. The researcher found through visiting the Accounting Department in the State Trading Organisations that these Organisations have not developed collection procedures that are effective in collecting overdue accounts, despite the instructions issued by the government to charge an extra percentage of interest in respect of overdue accounts. The researcher believes the current collection methods in the State Trading Organisations, the banking credit system, the economic conditions, the domination by a seller market, and the cost associated with credit collection limit the granting of credit to all consumers eligible for this facility.

In conclusion, is the customer service offered by the State Trading Organisations more advantageous to the private retailer than the service available prior to their establishment and is their establishment service, compared with those available in the developed countries, adequate? The customer service of these Organisations is no better than that offered by private retailers prior to the 1970's; on the contrary, customer service has declined, and transactions with customers are conducted in a very brusque manner. In addition, the customer service in these Organisations lags behind the service available in the United Kingdom or other developed countries, and a great deal of time will be required before their efficiency and effectiveness improves sufficiently to

reach the standard of the services provided by retailers of the same type in Europe or America.

11.8 Conflict in the Channel System

It was shown previously, in Section 11.6, that the channel system of the State Trading Organisations consists of different channel members which may cause conflict to arise. A state of conflict may exist when two or more components of any given system, e.g. a channel of distribution, become the cause of each other's frustration. In addition, "conflict is an inherent condition of channel systems and can disrupt performance,"⁵² and the attainment of their goals. But, unfortunately firms usually react to conflict rather than plan for it."⁵³ The concept of conflict "describes situations where the desires of specific components within a given channel system are not sufficiently integrated."⁵⁴

Because the conflict has an effect on the State Trading Organisations' attainment of their goals or the effectiveness of their performance, this section is devoted to discussing the causes of conflict between channel members of these Organisations and the methods they employ to solve the conflict, and to examining their short-comings. The section is based on long interviews and in-depth discussions with the respondents, attendance at two meetings held to solve the conflict between channel members, and discussions with retailers.

The researcher reports that the causes of conflict in the State Trading Organisations were as follows:

- 1) The State Trading Organisations have played a specific role in the overall government policies and developed strategies compatible with the national development plans. When these Organisations exert pressure on other channel members, co-operative and private retailers, to conform with their own strategies and roles, such pressure creates a conflict situation. For example, the State Trading Organisations desire to ensure the availability of basic goods at low prices and very low margins even for far villages, a policy which may not attract the support of the private retailers so that conflict will be generated.

- 2) Because of the large number of retailers involved in the channel system in different areas, a complaint can be magnified into a major cause of conflict affecting the State Trading Organisations' channel system.
- 3) It was found that the issues creating most conflict between the State Trading Organisations and other channel members were as follows:
 - a) The retailers - co-operative or private - did not agree with the State Trading Organisations on the price of some goods, because they thought that the prices were too low, despite the fact that the demand for these goods was tremendous.
 - b) Conflict was generated as a result of poor delivery of products, particularly when the retailers found imperfect packaging or damaged goods, and were expected to handle the problem through their own efforts and at their own expense.
 - c) The major problem which caused conflict was the allocation of scarce goods, either because the State Trading Organisations sometimes reserved these goods for their own outlets, or the quantity received by other outlets was not satisfactory. So, this leads to the probability of conflict which was originally covert eventually becoming overt.
 - d) Another issue causing conflict was that the retailers were asked to submit their list of the required goods which was checked against the availability of goods. Then the storekeeper would add some items and omit others from the list. This adjustment and the adding of new items which were not ordered by the retailer caused conflict to become overt. So, the Ministry of Commerce prevented all wholesalers and retailers - state, co-operative, and private - from arbitrarily selling any item not ordered by customers.

- e) When the retailer has a problem connected with goods supplied to him or confrontation has arisen between himself and the officers of these Organisations, this has caused frustration and consequently conflict, because of the way the problem is handled, the procedures which have to be followed, and the time taken to solve the problem. Sometimes the problem becomes more serious, because the branch manager decides not to solve the problem in order to gain support from his subordinates and this may affect the relationship between the retailer and the officer concerned and this affects his future supplies.

Because "conflict is generally seen as producing negative consequence in terms of distribution channel effectiveness and efficiency,"⁵⁵ the State Trading Organisations tried to solve the problem of such conflict. The practices most often observed regarding conflict resolution in the State Trading Organisations were as follows:

- a) Personal relationship between retailers and managers of branches was cultivated, if not ordered by top managements to help resolve conflict in order to prevent conflict from developing.
- b) The State Trading Organisations held meetings periodically in all districts, but not on a regular basis, for all retailers in the district, so that the retailers had an opportunity to point out their problems, and put forward their views on how to solve them. The representatives of the State Trading Organisations listen to their views and try to solve the problems or promise these retailers that they will study their problems and find solutions.
- c) Sometimes when a senior executive visits a city or a branch manager is changed, meetings are held in the area to hear the views of retailers concerning the conflict issues and to find solutions.

The shortcomings of their approach to solving conflicts are that meetings of the concerned parties were not held on a regular basis in order to learn how to cope with conflict, to develop resolution strategies and therefore the outcome of the incident and its aftermath were allowed to affect the sequence of events. Therefore, the conflict might flare-up before such meetings were held. Secondly, the routine followed by these Organisations and additional internal problems limit the capacity to recognise conflict cues and to evaluate the magnitude of the conflict, and indications of conflict might not be passed to the executive responsible for taking action. Finally, the State Trading Organisations have not established a monitoring system to signal the emergence of conflict nor have they established any organisation for decision making. Most of their resolutions regarding conflict were reactive rather than preventive.

To sum up, the State Trading Organisations have created channel system consisting of different members with different goals which has increased the probability of conflict occurring. These Organisations have not developed a monitoring system or an organisation which can study the nature of a conflict, identify its causes, interpret them and design strategies for minimising and resolving conflict. The resolution of conflict is a crucial activity which the executives in the State Trading Organisations must learn to deal with effectively and efficiently in order to gain the support of other channel members in implementing their marketing programmes, because of the importance of sales volume and the number of outlets processed by other channel members. In addition, relying on power to induce other channel members to change their behaviour in favour of the objectives of the State Trading Organisations is like a two-edged sword; while it exerts influence, it may cause a conflict to flare-up. These Organisations should also consider not only the negative aspect of conflict but should regard it as a strong motivating force for management to remain active in reviewing and upgrading their activities and revising distribution strategies and operations.⁵⁶

11.9 Summary of Findings

This Chapter examined the distribution strategy of the State Trading Organisations. It began with highlighting the historical development of these Organisations, their importance and the role they play. The areas of strategy were examined, missions and objectives were defined, the channels of distribution used were outlined and the criteria which affected decisions related to the selection of particular types of channel or outlet were identified. In addition, the roots of conflict in the distribution process were specified. The results of the study are outlined below.

It is clear that environmental conditions affected channel system decisions. The structure, process, and approach of the distribution system in Iraq caused serious difficulties for channel members. Therefore, the government intervened in the distribution system by establishing the State Trading Organisations which became the biggest wholesalers and retailers in the country, and played a major role in implementing the government's policy regarding trade distribution channels. Sometimes the intervention resulted in unintended results which disturbed the distribution process.

The prime objective of the distribution strategy of the State Trading Organisations was to ensure the availability of goods, particularly basic goods, in all provinces. This objective was unrealistic, because it failed to recognise that availability of goods means not only that they are stocked by the appropriate outlet, but also that they are readily accessible within the store, in the required quantity. In addition, the absence of appropriate criteria, e.g. an acceptable level of customer service, led to defining objectives which were too ambitious and could not be achieved successfully.

The channel system used by the State Trading Organisations involved a combination of members consisting of state, co-operative and private institutions. These Organisations dominated the wholesaling sector in order to achieve socio-economic and political goals, and

to control imports to serve the purpose of national development plans. On the other hand, in retailing, the number of private outlets produced a sales volume which outstripped that achieved by the state retailing outlets. It seems, however, that there was a tendency toward integration in the marketing system and towards further concentrations in channel decisions. Thus, the new Organisations started to eliminate wholesalers and to control directly the relationship between suppliers (producers or other suppliers) to achieve their objectives. In general, the channel selection decisions were not based on scientific research. No other type of distribution channel was used, e.g. mail order, etc.

It was found that the most important factors considered in selecting the type of channel - ranked in order of importance - were government policy, the Organisations' objectives, product characteristics, middlemen characteristics, and other factors, e.g. pressure groups, while the factors considered in selecting particular outlets were, fulfilling specific requirements, territorial coverage, and product-lines carried. The selection process lacked careful planning to provide a well-developed and organised channel system to enable these Organisations to respond to and reach their markets quickly.

The services offered by the State Trading Organisations to other intermediaries were very limited. This may be ascribed to the absence of competition and the domination of a seller's market for almost all goods. The most common services provided by the State Trading Organisations to the intermediaries were delivery, exchange of goods and the return of defective items. For delivery, they offered three types of delivery; using their own fleet, a co-operative delivery company, or the retailer's own transport. The services offered were not sufficient and lagged behind those offered by their counterparts in developed countries.

Because of the effect of conflict on goal attainment and the effectiveness of the distribution process in the entire channel, the last section was devoted to discussing this problem. Conflict

was caused because of differences in the roles and objectives of the State Trading Organisations and other channel members. The most common areas of conflict were price disagreement, delivery of goods, allocation of scarce goods, omissions from or additions to shopping lists and the procedures for handling problems. Conflict resolutions were not so effective, so some conflict issues were still in a covert state. It was found that the use of power to exert influence had disadvantages which caused conflict to flare-up. However, the kind of conflict which had taken place in the channel system used by the State Trading Organisations over the period of the study is similar to that found in most less developed countries. The net result was that there were some disturbances in the marketing channels which created difficulties in the distribution process.

However, if a distribution audit was carried out periodically or on an annual basis to review the strategies employed by the Organisations, this could result in a revision of their current distribution strategy and operations, and improve the effectiveness of the distribution process in the entire channel.

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CHAPTER TWELVE

Physical Distribution Planning

12.1 Purpose

The distribution mix essentially has two components: a channel of distribution, which was discussed in the previous Chapter, and a physical distribution component which is the subject of this Chapter. The physical distribution part of the distribution mix is concerned with integrating transportation and the handling, and warehousing of goods. The term "physical distribution*" is the one most commonly applied to describe the task of sustaining a physical flow of materials and products from their points of extraction or production to their points of final consumption.¹ Bowesox² used the term "logistics" and defines it as "the process of strategically managing the movement and storage of materials, parts, and finished inventory from suppliers, between enterprise facilities, and to customers."

Over the years, management has shifted its focus and orientation from one function to another, from finance to production to marketing and so on, in response to environmental changes in order to service and grow. In recent years, the orientation has focused on distribution, and "some forward thinking companies during the 1960's began to recognise the importance of planning in distribution by starting initial formal distribution planning departments,"³ and management began to place increasing emphasis on the physical supply function as an integral part

* In 1976 the National Council of Physical Distribution Management modified its definition (1969) of physical distribution management as follows: Physical distribution management is the term describing the integration of two or more activities for the purpose of planning, implementing and controlling the efficient flow of raw materials, in process inventory and finished goods from point of origin to point of consumption (see Reference No.1)

In addition, different terms have been used over the years to describe all or part of the activity such as business logistics, physical supply, materials management, logistics of distribution, marketing logistics, shockremiaties, and total distribution. All these definitions reflect the need for total movement management from the point of materials procurement to the destination of the finished product.

of the total marketing mission of the firm."⁴ The new increased concern of management with the efficient flow and storage of materials is the result of (a) the increased cost of investment in inventory and the fixed cost involved in an increased number of product lines as well as the increase in customer service demand. (b) In addition, the introduction of computers use in the distribution function together with the employment of scientific methods in resolving distribution problems has improved the efficiency and effectiveness of decision making which in turn has resulted in more savings in the cost involved in this function. (c) Moreover, increased competition may limit price increases making these cost savings even more important. (d) Finally, management began to recognise the role of physical distribution in supporting both the short and long term goals of the firm.

"Every country concerns itself to some extent with the efficient and equitable distribution of goods to its people."⁵ The State Trading Organisations were established to ensure that people would obtain particular goods at a set price or at a given location. This Chapter will examine the physical distribution components of the distribution strategy. Consequently, it is organised under the following principal headings:-

- (1) Objectives
- (2) Transportation
- (3) Warehousing

12.2 Introduction

Although "inadequate transport and storage facilities cause much waste and are a direct impediment to development in many countries of the world,"⁶ the distributive function has been unduly neglected by wholesalers and retailers in Iraq. Therefore, the State Trading Organisations have inherited a very poor distribution service. The wholesalers and even retailers did not possess their own means of transport. In addition, the owners of private trucks did not form a

company which could handle shipments between cities, so transport activity was co-ordinated through an intermediary on a commission basis. A merchant might use a particular intermediary and truck for his shipment on one occasion but use different ones at other times. Transport within the cities was more difficult than between cities*. Moreover, other types of transport, e.g. refrigerated vehicles were not available. So, the transport of perishable goods was costly due to deterioration. Thus, transport activities were poorly conducted, and did not succeed in developing an economical and reliable delivery system.

The storage facilities owned by wholesalers in Iraq, are almost always called "Khan." These "Khans" are old houses rented by wholesalers, and sometimes more than one wholesaler pays the rent of a "khan," thereby sharing facilities and reducing storage costs. Many of these "khans" visited during field research in Baghdad, Basrah, and Mayssan were found to be ordinary old houses located very close to the merchant's office in the trading centre of each city, with goods being in the available space in a disorderly fashion, without shelves. The physical distribution facilities should be considered in the overall economic climate of the country, as it affects the status of its infrastructure." Poor transportation networks will limit the customers' shopping trips, and possible delivery patterns from the available retail outlets."⁷ In addition, transportation is frequently a major factor in determining the extent of the market areas served by retail outlets. The catchment area of a retail outlet's potential and current customers is determined by the transportation facilities at the disposal of the consumers or offered by the retailers. Moreover, the limited ownership of storage facilities, their scarcity, their poor conditions, and the absence of public storage facilities have created serious problems in developing an efficient system for the flow of goods. Finally, management's

* People in Iraq, prefer ownership of a "saloon" or "lorry or truck," because they believe that other transportation methods are not profitable. This may be because the low volume of business involved is not enough to generate an acceptable level of profit.

views of distribution as being either an inevitable source of profit or a possible source of revenue generation⁸ has important effects on the development of the logistic system. In developing countries, transportation and distribution costs to the rural areas where much of the population lives - limit the size of the market.⁹ As a consequence of these factors and environmental changes, the State Trading Organisations' management has recognised the importance of the role of logistics in business and has paid attention to the physical distribution components in the formulation of their strategies.

12.3 Objectives

One of the first steps in developing a planning function in distribution is to establish clear-cut operational objectives for the distribution mission of the firm.¹⁰ Most business firms have some strategies which relate to distribution objectives. In order to establish the objectives of the physical distribution policy of the State Trading Organisations, respondents were asked the following question. "What are the prime objectives of physical distribution in your Organisation?" The interviewees' answers revealed that the main objectives were to deliver goods to the stocking areas - warehouses in branches - at lower cost, and to reduce the ordering cycle. Setting objectives relating to physical distribution in the State Trading Organisations was a very difficult task, because each General State Establishment has its own facilities and each wants to achieve its objectives first and gives its activities priority over other General State Establishments which may cause a conflict resulting in an increase in distribution costs. In addition, the objectives did not consider the macro-effect of the environmental factors and their effect on the total cost of the distribution system of these Organisations. Moreover, these objectives may be pitched too high, involving excessive cost because their relationship with the required level of customer service and the associated cost is not clearly defined. Despite these problems, establishing objectives results in the formulation of strategic and operational plans in order to achieve them and management has paid considerable attention to the logistics problems.

12.4 Transport Facilities

The relationship between the physical distribution component and marketing strategy is important, because the amount of money spent on it is greater than that devoted to any other single element of the logistical operations. In addition, transportation provides logistical system geographical closure by linking facilities and markets.¹¹

The importance of physical distribution also arises when any forward planning involving fixed assets is attempted. The days when transport was the servant rather than the partner of the sales department have long since passed. The changes in the business environment have attracted considerable attention to the transport industry and its function. "Such changes will better connect the transport product to the goods flow system, and also changes which will improve the effectiveness of the transport function in the logistical chain."¹²

A serious problem which faced the distribution process in the State Trading Organisations, particularly in the earliest years of their foundation, was this problem of transportation. The problem is associated with the markets to be served, inventory policies and storage. At the outlet transport facilities were inadequate. The result was a total dependence on any available transport services. The net effect was further pressure on the country's transport network.

In addition, the demand of other economic sectors for these services caused further pressures on them resulting in a situation where the available transport facilities were not capable of coping with the rapidly increasing demand. The serious effects of the problem were evident in the market place. Therefore, the State Trading Organisations experienced a number of problems which affected their performance, because goods were in warehouses ready for despatching, but there was no transport to convey them to the branches or to the market place. Those circumstances motivated the State Trading Organisations to provide their own fleet to despatch their goods to branches all over the country. Table 12.1 shows the number of cars owned by these Organisations and their capabilities. Ownership of a

TABLE 12.1

THE NUMBER AND CAPACITY OF VEHICLES OWNED BY THE
STATE TRADING ORGANISATIONS AS AT 1980

The General State Establishment	No. of Cars	Capacity Tons
Foodstuffs	394	5660
Shopping Centres	52	1434
Iraqi Stores	206	2077
Instruments and Precision	32	432
Iraqi Commerce	161	3979
Total	845	13582

Source: Extracted from the State Trading Organisation Documents, May, 1980, pp 86-88

fleet of such a size involved heavy costs which eroded profits, because transport operations were not accurately documented and costed. Al.Mussaid and Al.Timimy,¹³ who conducted a study of the state co-operations' transportation problems, indicated that the transport facilities of the General State Establishment for Commercial Items were underused by 68,399,042 Ton/Km in 1984, and the number of unserviceable trucks was 59. The capacity of these vehicles was 1162 tons calculated according to the following formula: $\text{capacity} = K \times N \times S \times M^*$. See Table 12.2. In fact, the formula was not based on actual calculation of the costs associated with utilising these trucks, but was based on questionable assumptions. Secondly, they did not consider the costs and savings associated with allocating vehicles to specific delivery areas and routes. In general, the study gives an overall picture of the unnecessary additional costs incurred by the General State Establishment of Commercial Items. There are other problems which should be considered concerning transport facilities in underdeveloped countries. One is that the lack of qualified drivers and the absence of reasonable incentives result in inefficient operation of the trucks. Secondly, shortages of engineers and qualified technicians extend the time required for repairing and maintaining the trucks, and additional costs are incurred as a result of replacing parts instead of repairing them because of the lack of the necessary expertise to do so. So, all these factors and the replacement cost of these trucks should be considered in calculating the cost of operating transport facilities in these Organisations.

Ownership of the transport facilities in underdeveloped countries also has an effect on the performance of companies, the services offered and the implementation of marketing strategies. The main reasons for this are firstly, the lack of an adequate road network may lead to the isolation of some markets in winter. Secondly, small-scale buyers - particularly the private retailers "agents" - are unable to handle the transport of their goods unless they collectively share the cost of the truck shipment-load.

* K = Number of working days per year
 N = Number of hours per day
 S = Speed (average)
 M = The average load of the vehicle

TABLE 12.2

THE CAPACITY LOST OF THE BROKEN VEHICLES AS IN 1983

No. of Vehicles at Work	Capacity	Total Ton	No. of Broken Vehicles	Capacity lost Ton
25	30	750	9	270
43	16	688	4	64
24	12	288	34	408
6	8	48	-	-
63	35	2205	12	420
Total 161		3979		1162

Source: Al-Massaid, Zeki Kh and Al-Timmy, Op.cit., p 13

To conclude, the State Trading Organisations have recognised the importance of the relationship between physical distribution factors and the implementation of their marketing strategies. Therefore, they have a large fleet of trucks to serve their purpose. But they have not focused sufficient attention on the implications of different types of marketing strategies. The physical distribution plan should be based on criteria, e.g. customer service, cost, and its role in implementing the marketing strategies, in order to permit assessment of its effectiveness. Therefore, any improvement in transport productivity will lead directly to lower costs and perhaps lower prices and would also help to improve customer service. In addition, improving transport productivity would lead to a better implementation of the organisations' marketing strategies. It is believed that there is room for improvement in the transport facilities required in terms of the number, size, and routing of their fleet in order to develop a successful distribution plan that balances costs and service effectiveness.

12.4.1 Transportation Methods Used

Differences exist in the pattern of transport used in different countries and the extent to which various modes of transport are utilised by distributors. One of the key questions facing the transport manager is - what modes of transport are available and how should the choice be made?

First of all, it was made clear in discussing the marketing infrastructure in Iraq - (see Chapter 5) - that there were differences in the topography of the regions and the characteristics of their infrastructure which hinders the extent to which a particular mode of transport can be used. And there were changes in the patterns of the modes of transport used as a result of these environmental factors. Although railroads have handled the largest number of ton-kms in the Iraq cities, the limited rail network connecting cities restricted rail availability and flexibility. It was also observed that the railway has a poor record of providing customer service. It is also important to note the delivery lead-time, the economic effects

of which are of some importance. Experience has shown that the railway operates at a disadvantage. Based on these facts, roads tend to have the advantage over rail from the view point of the State Trading Organisations in Iraq. Other modes - by water or air - are of limited use.

Secondly, there are other factors which can influence the mode of transport required such as the characteristics of the product, e.g. perishability, density, and the value of the product. In addition, the importance of the product to the needs and wants of consumer has to be considered. For example, basic goods are despatched as a matter of urgency in order to maintain adequate stock. Other factors that should be considered are sales volume, seasonality, and consumer size and location. Moreover, the responsibility assigned to the State Trading Organisations by the government influences the selection of a particular mode. Finally, the sources of supplies also affect the choice of mode.

The present study reports that the State Trading Organisations used rail and sea transport to move their imported goods from their destinations and despatch them to the central warehouses. All home-produced goods and those from the central warehouses were distributed to branches by their own trucks, a contract rarely being used by the company even if a delay in shipment occurred. So, the truck was the chief transport mode selected by these Organisations to implement their strategy and this policy is expected to continue in the future. The choice of the mode was not made without the need to consider and resolve a number of important questions. The choice of mode must be seen as involving a total cost/benefit analysis, i.e. its effects upon the other elements of the distribution mix. Such analysis was found to be lacking in the State Trading Organisations, and is essential if an efficient and effective distribution plan is to be developed.

12.4.2 Transportation Costs

Transportation costs form a large part of the total distribution

costs and effective management of the transport function can lead to enhanced profitability through both cost reductions and service improvements. Therefore, the transport cost must be assessed against its benefits and its effect on total distribution costs. Gill and Allerheiligen¹⁴ indicated that it is less expensive per unit of weight to move large shipments rather than small shipments, and it is less expensive per unit of distance to move a shipment a long distance rather than a short distance. This practice pursued by some firms in order to reduce transport costs. Moreover, some firms include the transport costs in the price of goods, while others exclude it and charge the customer directly. So, in order to find out how the State Trading Organisations charged transport costs, their Marketing Departments and Accountancy Departments were visited and the procedures employed in pricing goods examined. The findings showed that transport costs were included in the price of goods shipped from the point of arrival to the central warehouses of the State Trading Organisations. The transport costs for goods distributed from the central warehouses to the branches or local warehouses in the cities were not charged separately or included in the price of goods. Because the government applied a uniform price all over the country for social and political purposes, the goods distributed to rural areas were subject to a 5 per cent discount to offset their transport costs. The transport costs charged by these Organisations did not appear to be based on rational and careful decisions which took into consideration the actual cost incurred and the objectives of these Organisations. So any costs incurred as a result of the Organisations' operations, if not offset at a reasonable level must erode not only their profits but also a portion of their capital which is not justifiable even if it aims to achieve social goals.

So, although one goal of the distribution sector was to "develop a set of institutions and practices that will give minimum costs per unit,"¹⁵ it should be based on total distribution cost/benefit analysis. Thus, a revision of the current procedures for calculating and charging for transport costs is required.

12.4.3 Delivery Time

Delivery time is an important aspect of the distribution process, because of its effect on the inventory policies, warehouse operations and costs, and customer service. Although an improvement in the infrastructure in Iraq in recent years has reduced to some hours journeys which in the past took days delivery time is still unsatisfactory. The main reasons for protracted delivery time are that local warehouses located in congested areas or places without easy access. In addition, the absence of co-ordination between central warehouses and local warehouses in the cities causes a delay in shipment. Finally, warehouse working hours are not related to meeting delivery times. For example, most of the transported goods arrive at the end of the normal working day, so they have to wait until the next day to be unloaded. In recent years the delivery procedures have been under examination in order to reduce delivery time. The ordering process has been solved, but the problems of warehouse hours in cities, and co-ordination between central warehouses and local warehouses still need to be solved. It is expected that these problems will be solved in the near future.

Productivity can be improved if co-ordination between storage facilities and delivery methods is effected by using alternative models of inventory policies used in multi-echelon systems.

12.4.4 Responsibility for Transportation

One of the elements of a strategy is to assign the responsibility for performing a particular activity to a particular person or department. Examination of the Organisational Chart of the State Trading Organisations reinforced by discussions with the relative departments found that the responsibility for transportation was assigned to the Assistant General Manager for Transportation in the General State Establishment for Iraqi Stores and for Foodstuffs, while in the others transportation and warehousing were combined under the responsibility of the Assistant General Manager. In the later cases the function of transportation and warehousing was headed by a manager under the responsibility of the Assistant General Manager for

Transportation and Warehousing. Only in the General State Establishment for Shopping Centres, was the responsibility assigned to a manager under the Assistant General Manager for Marketing. It can be seen, therefore that responsibility for transportation, whether regarded as a separate function or combined with warehousing, was assigned to managers of high status, the Assistant General Manager of Marketing in one case (Shopping Centres) having ultimate responsibility. This high status reflects to the importance of the role assigned to this function in implementing the State Trading Organisations' marketing strategy, but this does not necessarily reflect marketing-orientation. It reflects the size of the transportation operation, when the number of freights, trucks and employees increases, the transport department enjoys higher status than before. This enhanced status resulted in two of the General State Establishments.

From the overall discussion the following conclusions were reached:

The State Trading Organisations recognised the important role of transport facilities in implementing their marketing strategies. Their decision to have a fleet of trucks rather than depending on rail or water modes was based on the unreliability and the slow speed of these two modes, which have not developed the level of customer service required by these Organisations. Owning their own fleet was not achieved without the emergence of serious problems. The first problem was that the lack of skilled drivers caused the break-down of many trucks, fifty-nine of which incurred avoidable costs. In addition, the lack of engineers or skilled technicians extended the period required for repairs and increased the need for replacements which caused additional costs. If the number of unused trucks is multiplied by the period of delay in repairing the freight tonnage lost, the additional losses are clearly indicated. Moreover, fleet size was not based on a careful cost/benefit analysis, since the unutilised capacity of the fleet exceeded one million tons in 1983. Related to the previous problem, the absence of co-operation and co-ordination between the State Trading Organisations resulted in lost opportunities exploit the unutilised capacity in order to reduce the cost of transportation, because each

General State Establishment has its own transport department and facilities. Furthermore, the lack of adequate and accurate records relating to the transport mode for shipping between cities concealed the real cost of using transport facilities. For example, most if not all trucks made the return journey without a load. Finally, transport plans had not paid enough attention to the total distribution cost and the effect of transport on the other distribution elements supporting the marketing programmes. It is necessary to consider the effects of environmental changes which increased the demand for transport facilities in developing the transportation plan.

12.5 Warehousing

Until recently, many firms "treated warehousing as a necessary evil rather than an integral part of the business system. Commitments of capital to technology and engineering emphasised manufacturing and marketing and gave little attention to warehousing. As a result, warehousing has not kept pace with other corporate functions. In the 1980's, and beyond, this situation will change."¹⁶ Early literature indicates that the warehouse was initially introduced as a storage unit designed to help satisfy the basic marketing process.¹⁷ Bowesox¹⁸ defined a warehouse as the "location for product storage until demand became sufficient to support distribution." The changing pattern of the retail orders, however, supported the need for warehouse facilities. The need for warehouses capable of providing rapid and economical inventory assortment became increasingly important. The modern concept that a warehouse is an enclosure for a material-handling operation requires detailed analysis before the size, type, and shape of the enclosure can be determined.¹⁹ Moreover, Buxton²⁰ indicated that the purpose of warehousing is to facilitate product availability by providing time - and - place utility to the market, as a part of the total marketing logistics system. Attwood²¹ considered that the major purpose of warehousing is to provide the "surge capacity" that is needed to overcome fluctuations in supply or demand.

It was mentioned previously that apart from the limited storage facilities available in underdeveloped countries, conditions inside them were not suitable for stocking some items, e.g. the temperature and moisture content could be very high. In Iraq, the merchants used what is called "khans" as warehousing facilities which are not suitable for stocking the State Trading Organisations' goods because of their small size and inappropriate conditions.

To find out the State Trading Organisations' warehousing objectives and their overall plan, interviews were held with the Assistant General Managers for Transportation and Warehousing, the Assistant General Managers for Marketing, and Warehousing Managers. In addition, the central warehouses of the State Trading Organisations in Baghdad and a local warehouse in Basrah were visited. It was found that the State Trading Organisations had recognised the importance of warehouses in implementing their marketing strategies. Therefore at the beginning of the 1980's, these Organisations decided to have their own warehouses. The purposes of warehousing in these Organisations as explained by the respondents was to facilitate the availability of goods and to hold them until they were required. Because of the lack of qualified people to handle their warehousing plans, the State Trading Organisations had signed a contract with the Arabic Centre for Research and Management (ARAK) to carry out the work and submit a plan in 1972. But the Centre concentrated its efforts on the managerial aspects of warehousing - the organisational structure - while the operations which incurred increasing costs was overlooked*. Jewad²²** carried out a study for these Organisations to plan the warehousing needed during the years 1981 to 1985. Table 12.3 shows the plan for the warehousing of the Organisations during that period. The weaknesses of this study are firstly, it did not consider that improvement in cubic space available might affect the actual requirements in terms of the total warehouse space needed.

* The researcher found that the contract did not include the operational aspects, perhaps because they were not fully aware of what was required.

** He was the Director of Planning in the State Organisation of Consumer Goods.

TABLE 12.3

THE STATE TRADING ORGANISATIONS WAREHOUSING PLANS DURING THE PERIOD (1981-1985)

<u>The General State Establishment</u> Year	For Foodstuff M ²	of Shopping Centres	Iraqi Commerce	Instruments and Precisions
1981	373000	5700	395000	32000
1982	395380	6850	454250	36800
1983	419103	8250	522388	42300
1984	444248	9900	600747	48700
1985	470904	12000	690857	56000

Source: Extracted from different sources, particularly documents from the Assistant General Manager's Office and the Statistical Department, as in 1980

For example, the actual height unused in their warehouses in Baghdad was 4 meters of the 7.6 meter available height which meant that more than 47 per cent of the space was not used. Secondly, the formula used to calculate the warehousing space needed during the planning period ignored the space available in agents' stores. Thirdly, in-transit storage and co-ordination between warehousing and the delivery system, particularly between the local warehouses of the branches and local warehouses in the cities - were completely ignored. It is believed that co-operation and co-ordination between central warehouses, local warehouses, and the agents in the cities will reduce the warehousing space required. Finally, the way they charged the warehousing costs, perhaps caused the expansion of warehousing without enough attention being paid to the total distribution cost. It can be concluded that the plan over-estimated the number of warehouses required during the planning period (1981-85), and the number of warehouses and the amount of space provided could be reduced if other variables were considered. Al.Mussaid and Al.Timmy²³ indicated that there were storage spaces not exploited to the other General State Establishments. In addition, they found, according to 85 per cent of the respondents' answers, that the stocking system used was responsible for wasting space.²⁴

The findings therefore indicate that the State Trading Organisations had introduced formal warehousing planning, but their plans over-estimated both the number of warehouses and the amount of space required, because they did not include other variables in their calculations, and paid too little attention to the efficiency of warehousing operations which influence directly or indirectly the number and size of warehouses and the overall space needed. There is a need to apply some of the techniques already available in order to develop more efficient warehousing system.

12.5.1 Warehouse Location and Location of Retailing Units

The selection of a site, is one problem that firms have begun to pay more attention to in recent years because "lack of management foresight when making major decisions on distribution facilities and operations deprives a company of needed flexibility for future changes"²⁵ and incurs costs which may reduce the profit and adversely affect the

implementation of a particular marketing strategy. So, formulating a strategy for retailing units and the location of warehouses "must take into account not only the marketing environment confronting them today but also anticipated possible competitive and demographic changes,"²⁶ and other economic considerations.

The State Trading Organisations policy for the location of warehouses was to have a central warehouse which acted as the "master" warehouse, in which all administrative functions are performed, with the other local warehouses acting as "satellites". Therefore, Baghdad, the Capital, had the highest percentage and share of the total available warehouses and those planned for the future. For example, the number of warehouses owned by the General State Establishment for Commerce was about 39.7 per cent of all warehouses. Table 12.4 shows too that the storage space available in the central warehouses in Baghdad was more than 51.9 per cent of the total storage space in the whole country. Even in the future plans, Baghdad has the highest percentage of the total storage space, and Table 12.5 shows further development in other local warehouses in the cities. The main reasons behind this policy were, firstly, all the imported and domestic goods are directed to the central warehouses to be received, checked, and subjected to all the administrative functions which ensure that received items are compatible with purchasing orders for payment and other accounting procedures. Secondly, the State Trading Organisations believe that they can thereby control the inventory and ensure fairness in the distribution of goods between cities better than if they followed a de-centralisation policy. The main problems of this policy were firstly, it was expensive and, in fact, incurred unnecessary costs. For example, the branch of any General State Establishment in Basrah would be involved in a journey of more than 450 Kms. to receive its quota and the truck used, in most cases, would return empty to the central warehouses, because the branch had no shipment to return. Secondly, the policy was not based on a careful analysis of its effects on inventory levels and storage costs. Thirdly, it did not take into consideration the overall logistics system of the State Trading Organisations. For example, most imported goods shipped by sea or road transport arrived at two ports, but all goods had to be shipped to the central warehouses and

TABLE 12.4

TOTAL WAREHOUSING CAPACITY OF THE STATE TRADING
ORGANISATIONS CLASSIFIED ACCORDING TO THE
OWNERSHIP AND LOCATION

Warehouses Ownership	The State Trading Organisations Warehouses Area M ²	Rented Warehouses from Private Sector	Rented Warehouses from the Public Sector	Total
City				
Baghdad	117780	18266	8640	144686
Basrah	7200	-	-	7200
Naynawd	24236	-	6450	30686
Dihook	2360	500	-	2860
Arbeel	3240	3223	-	6463
Sulaymania	2160	2150	1600	5910
Al-Taimearu	6900	850	-	7750
Salah Al-Deen	5200	-	-	5200
Dialah	2400	1507	-	3907
Al-Anbar	1080	-	1500	2580
Karbala	7760	2751	-	10511
Babyloon	2500	-	3750	6250
Najef	1980	-	1713	3693
Al-Kadesia	1200	-	4200	5400
Al-Muthanna	11800	-	-	11880
Wasitt	3180	-	600	3780
Mayssan	16200	-	-	16200
Thekan	9400	-	600	10000
Total	226656	29247	29053	284956

Sources: Extracted from the State Trading Organisations, Statistical Department as in 1983 (different issues)

TABLE 12.5

THE WAREHOUSING LOCATION PLAN FOR 1985

Area Needed	Area Needed in 1985 M ²	Rented M ²	Total area needed M ² excluding Rental
City			
Baghdad	419203	199065	220138
Basrah	166580	49960	116620
Naynawd	138350	54157	84193
Dihook	15200	6000	9200
Arbeel	63800	11830	51970
Sulaymania	76700	5719	70981
Al-Taimearu	63050	12150	50900
Salah Al-Deen	22170	4296	17874
Dialah	59020	11952	47068
Al-Anbar	53500	5910	47590
Karbala	58700	10807	47893
Babyloon	71600	43109	28491
Najef	55600	13033	42567
Al-Kadesia	35670	8175	27495
Al-Muthanna	27670	6275	21395
Wasitt	73670	5200	38470
Mayssan	30870	10078	20792
Thekan	32650	5455	27195
Total	1430703	463171	967532

Source: Jewad, S.I. "Estimating the Warehousing Spaces needed in 1985", Statistical and Research Department, The State Organisation of Consumer Goods, Baghdad, November, 1980, p 58

then re-shipped to local warehouses. It is believed that an improved data processing and information system and the use of regional warehouses will provide a basis for developing a better strategy. Finally, although no study has been conducted on the effectiveness of the distribution of goods between central and local warehouses, there was evidence, e.g. complaints published in newspapers, or raised at meetings and the existence of surpluses in some cities and shortages in others to indicate unfairness in the distribution of goods between central warehouses and local warehouses. So, this policy has failed to respond successfully to local market conditions.

The location of local warehouses in the cities has caused some problems for retailers in recent years. In the past, most local warehouses were rented in the old trading areas, so it was easy for retailers to process their orders. But the State Trading Organisations planned to have their own warehouses and as a result of government incentives to granting them land free of charge, they were forced to locate their warehouses on the outskirts of the cities which were not always well chosen locations. Therefore, the new location caused some problems for retailers and sometimes affected the flow of goods, because they could not easily obtain their merchandise from distant warehouses. In addition, if the apparent advantage of using "free" land was compared with the benefits provided by using more accessible locations, the latter would be found to be less costly. Firms must seek to achieve a balance between the provision of reasonable customer service and the achievement of its marketing goals.

Another problem associated with the location of warehouses was the location of retailing units. Prior to the beginning of the 1970's, the retailing outlets were concentrated in very limited trading areas in which the supplier (whether the manufacturer or the wholesaler) was required to make very few deliveries. In recent years, the retailing outlets have expanded in new areas which are difficult to supply efficiently and effectively unless the location of the warehouse is carefully chosen. Physical distribution service means to a retailer the servicing of his outlet with the goods he sells to his customers. The

physical distribution service must mirror the service that he, the retailer, offers to his customers.²⁸ It is believed that the location of the new warehouses has caused difficulties for retailers and the flow of goods because of the distance involved and the lack of delivery and transport facilities.

The findings reveal that the State Trading Organisations located the central warehouses in Baghdad, the capital, and a number of local warehouses in all cities. The central warehouses were the only "master" supply sources and the local warehouses were the "satellites". The warehouse location policy was intended to facilitate the implementation of the organisations' marketing strategy, but it was undermined by the cost associated with it. The organisations did not focus sufficient attention on the implications of different types of distribution plans. The policy overlooked the need for integration of the inventory allocation with suitable locations, transportation capabilities and a communication network.

12.5.2 Responsibility for Warehousing

Each person in an organisation must know its lines of authority and responsibility, and realise that his job is linked to that of others in performing particular activities, because problems can occur when activities are fragmented and unco-ordinated. Warehousing activities received little attention and were regarded as of little importance in most underdeveloped countries. The main reasons for this were, firstly, the nature of and the priority assigned to problems forcing management in underdeveloped countries are somewhat different from those in developed countries. For example, solving the problem of shortages of goods has priority over other functions. Secondly, the cost of land and its availability has not been so acute as it is in the developed countries. Thirdly, the absence of well-defined and quantitative criteria for assessing warehousing activities and the actual costs incurred have prevented the seriousness of the problem from being highlighted. Fourthly, operations and transactions were of limited dimensions which did not lend themselves to advanced techniques. Finally, the lack of skilled and qualified people forced firms to employ whoever was

available in the market, including those who could not perform the required activities effectively and were only capable of performing a routine job (see Table 12.6). These factors contributed to neglect of warehousing activities which were assigned a passive role in business programmes. Most state firms in Iraq have recognised the support warehousing activities provide in the successful implementation of their marketing programmes, and the State Trading Organisations are no exception. The Ministry of Higher Education and Research responded to the demands of the market and established an institute for studying warehousing and other physical distribution activities, in particular, inventory. This institute grants Diplomas. However, warehousing activities are still not accorded sufficient recognition

Examination of the organisation charts of the State Trading Organisations under study indicates the following points:

Responsibility for Warehousing, as for Transportation with responsibility for which it is sometimes combined, is assigned to managers acting under the jurisdiction of Assistant General Managers. This demonstrates the high status accorded to the warehousing function. But this status was not matched by the skills required to perform the function effectively and efficiently. For example, Al.Mussaid and Al.Timmy²⁹ found that the General State Establishments for Commerce, which assigned the warehousing function to the Assistant General Manager, did not have any employees who held a degree in warehousing, or physical or logistics management (see Table 12.6). Therefore, there is a desperate need for the skills to perform the function efficiently and effectively. It is to be hoped that the recent problems of an unbalanced market will force management to pay more attention to the warehousing function than in the past which would improve its position in the future. The consultation work of "ARAK" may well contribute to this improvement. It was found too that the State Trading Organisations had well documented procedures for performing the warehousing activities and areas of authority and responsibility were clearly defined.

12.6 Summary of Findings

In this Chapter, the researcher discussed physical distribution planning, and reached the following conclusions:

The State Trading Organisations formed an ambitious distribution plan to support the implementation of their marketing strategies without paying sufficient attention to the costs associated with achieving these objectives. This had a serious impact on the total cost of distribution. The objectives did not include the establishment of proper co-operation between the various physical distribution elements in order to increase their contribution towards achieving the objectives and reducing costs.

The State Trading Organisations adopted the policy of having their own fleet to move the goods from central warehouses to the local warehouses in the cities. Such a plan involved serious problems and caused financial losses because of (a) shortages of the required number of qualified drivers, (b) lack of engineers and technicians to maintain and repair unserviceable trucks which were quite numerous. The plan failed to include appropriate vehicle routing which could have reduced the total cost of transportation, particularly as a number of cities are located on the same route. A transportation plan must pay sufficient attention to economies and the efficiency of its operations. Despite these facts, the transport plan offered flexibility and accessibility which helped in pursuing their strategies. The responsibility for transportation was assigned to the Assistant General Manager or a manager which is an indication of the importance attached to the process of distribution.

Most underdeveloped countries suffer from scarcity and unsuitability of warehouses facilities which cause difficulties in the flow of goods and deterioration in their value. The State Trading Organisations' decision was to have a central warehouse which was regarded as the "master" warehouse and local warehouses which were the satellites". Building warehouses in Iraq means expending large sums of money and a loss of flexibility, because of the heavy construction materials used in building

TABLE 12.6
 QUALIFICATIONS OF THE EMPLOYEES IN THE WAREHOUSES OF THE
 GENERAL STATE ESTABLISHMENTS OF IRAQI COMMERCE AS IN 1983

Position Qualification	Manager	Supervisor	Assistant Supervisor	Storekeeper	Clerk	Worker	Total	%
Bachelor (Management)	-	-	3	7	1	-	11	3.4
Diploma	1	-	-	12	12	-	25	7.6
High School	-	5	11	43	15	10	84	25.7
Secondary School	-	1	5	61	42	35	144	44.1
Primary School	-	1	4	-	1	11	17	5.2
Principles of Reading and Writing	-	-	-	-	-	45	45	-
Total	1	7	23	123	71	101	326	100

Source: Extracted from Al-Mussaid, Zeki Kh and Al-Timmy, Z.H., Op.Cit., p 12, and the percentage was worked out by the researcher

warehouses. The Organisations also overestimated the number of warehouses and the amount of storage space required. This even applied to warehouses and storage space needed during the planning period, 1981-1985. This surplus resulted from (a) lack of an efficient internal warehousing operation, (b) the absence of co-ordination between the physical distribution elements, (c) missing the opportunity to employ "push strategy"³⁰ by exploiting the space available to the "agents" in order to reduce the capacity and space needed, (d) the absence of well-defined quantitative criteria for assessing their performance. Therefore future plans should focus attention on operational economies. In addition warehousing plans should devote attention to the design of warehouses and their locations, because the locations selected did not take into account all the factors which influence choice of site. The new warehouse locations made it difficult for retailers to process their orders. Responsibility for warehousing was assigned to top level officials, but this was not accompanied by availability of the required skills.

The physical distribution plan had not paid attention to material handling as an important aspect of physical distribution which could have an impact on the productivity of all operations. Moreover, co-ordination between all the elements of physical distribution requires considerable attention in order to improve the efficiency and effectiveness of physical distribution activities. Furthermore, distribution audits were not carried out as a matter of course but only when the organisations faced specific crises or problems which forced them to conduct such audits in a systematic way in an attempt to anticipate problems and enable them to introduce appropriate amendments to the existing plans.

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CHAPTER THIRTEEN

Promotional Planning

13.1 Purpose

The purpose of this chapter is to report on the promotional strategy adopted by the State Trading Organisation, the nature and size of its components, e.g. advertising, sales promotion, personal selling and its interaction with other strategies of the marketing mix. The characteristics of the communication elements and the political environment which affect the communication mix motivated the researcher to discuss the communication techniques in four sections instead of tackling them in separate chapters. This chapter will also highlight the factors which hinder the well-developed promotion themes in these Organisations, referring the findings throughout to practical application in the marketing strategy. The analysis may yield some benefits as a result of the attitude of the management of these Organisations compared with multi-national companies adapting the promotional themes to less-developed countries. A number of questions were devised to investigate the promotion strategy of the State Trading Organisation.

13.2 Introduction

Promotion is one of the basic strategies available to a firm. It is dependent to a considerable extent upon the firm's a priori decisions relating to product and product line, price and channels.¹ Therefore, to be effective, the promotional activities of a firm must be integrated with the firm's other strategies. All strategies are interrelated, and the ideal mix incorporates the minimum input from each strategy that is required to obtain the maximum output.² The success of a marketing effort is a function of the impact of the mix. Equally important is the fact that the decisions made relative to product, price and distribution channels clearly affect the nature of the promotional effort.

Promotion includes the various types of communication used by a firm to inform and persuade its market targets, channel organisations, and the public at large. Communicating with target customers is accomplished by employing the available communication tools of advertising, sales promotion, personal selling and publicity. Cravens³ and Arnold and Capella and Smith⁴ broaden the range of tools to include point of purchase, packaging, direct mail, product sampling, public relation, store atmosphere, layout and customer services. The philosophical base supporting this broad view is that "once the retailer has chosen a desired store image and market position, he or she should use all the retailing mix tools to reinforce the image and selected position."⁵ However, because of the particular strengths and weaknesses of each type of promotion, "the strategy adopted should capitalise upon the advantages of every component in shaping cost-effective communications mix." This chapter will follow the narrow view and will discuss the basic tools - advertising, sales promotion, personal selling, publicity, since . . . these were the only ones used by the Organisations under review in Iraq.

At this stage, it is necessary to define "promotion strategy". Cravens⁶ defined it as: deciding what objectives promotion will be responsible for in the marketing programme positioning strategy, establishing the mix of communication components, and selecting specific strategies in respect of advertising, the sales force and sales promotion. Although more comprehensive definitions have been advanced (e.g. by Engel, Warshaw and Kinnear⁷) Cravens' definition is considered to be sufficient for the purpose of this chapter.

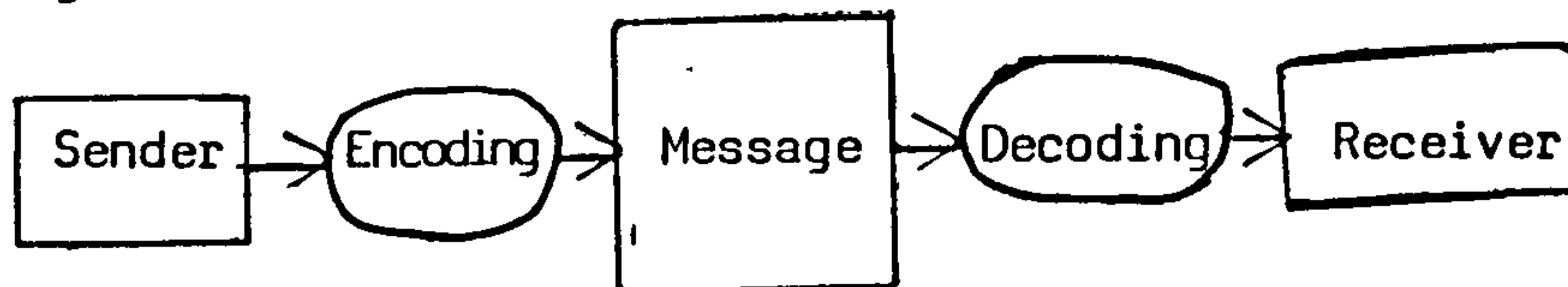
Promotion has been used increasingly in developed countries because of the size and complexity of business as developments, increased intensity of competition, and the large capital investment required for new technology, all of which motivate firms to anticipate the market response to their efforts more accurately than in the past in order to exploit potential opportunities in a way that will yield an optimum return on their investment. "Typically, management seeks to accomplish this through the use of a corporate plan that spans some period of time."⁸ The purpose of the mar-

keting plan - which is an essential part of the overall plan - is "to manipulate demand in a way favourable to the firm given the economic environment in which the firm operates and the anticipated actions and reactions of competitors."⁹ Therefore, attention centres on buyer behaviour and on how the firm can most effectively reinforce the behaviour which favours the products of the firm and change the behaviour which favours the products of competitors. Thus, the firm may undertake primary or selective promotion to increase the demand for its products. Not all agree with this view and argue that sales, distribution and promotion are "unnecessary and cost-creating functions which contribute little or nothing to consumer satisfaction."¹⁰ But the "suspicion and criticism is even more acute against the promotional activities"¹¹ than against the other functions.

Moreover, certain conditions, e.g. numerous opportunities for product differentiation, the presence of powerful emotional buying motives, the availability of adequate funds for promotion, etc., may encourage the use of using promotional activities in marketing programmes of firms in developed countries. The situation in less developed countries is somewhat different. Promotion is a field, in which the characteristics of the basic systems of a less-developed society are strongly manifested. Education, government, religious norms, social values and traditions mould the minds and attitudes of consumers and affect their behaviour toward all types of promotional tools and media.¹² In addition, firms in underdeveloped countries may not find it necessary to allocate funds to promotional activities because of the market conditions in these countries, e.g. seller market conditions, and thus it can be argued that promotional activities have received least attention in these countries. The status of such activities has been affected by the factors mentioned above, as well as by other factors which will be discussed in this chapter in relation to the State Trading Organisations and their strategies.

Lastly, it is felt necessary to give a brief description of the communication process, because there is little hope of achieving successful communication with target customers without an understanding

of the basic theory of communication. Communication is defined as "the process of establishing a commonness or oneness of thought between a sender and a receiver."¹³ It is helpful to visualise the communication process in terms of the model presented in Figure 13.1.



In this figure, the sender and receiver are the two parties in communication. The message is a major communication tool. Encoding and decoding are major communication functions. It must be also recognised "that all communication is intended to have an effect and introduce the notion of feedback into the model of communication."¹⁴ in order to learn, through the feedback, how its message is interpreted. The model is a composite of many perspectives and theories which have appeared in the literature on this subject. Although writers may differ with regard to details, most agree about the essence of what takes place in that the buying situation can be classified as involving an extended decision-making process in which the buyer proceeds through various stages until the purchase is made. The retail communication model includes the various alternatives available to the retailer in respect of each element required for effective communication.

13.3 Defining the Promotional Objectives

A debate has arisen concerning the appropriate means of achieving communication objectives. A basic decision regarding objectives is making a choice between sales-oriented and communications-oriented objectives.¹⁵ The first school of thought emphasises that success can only be measured in terms of sales, therefore the retailer should emphasise the sales objectives. The other school of thought is sometimes referred to as the communication effects school.¹⁶ Proponents of this view perceive advertising as a tool for communication and, consequently, for performing persuasive communication functions; according to them, objectives should be stated in communication terms, since they regard communications-related objectives

as superior to sales-related objectives. Each of these schools of thought has received support but also has problems and has attracted criticism.

It is apparent that there is a division of opinion on the question of communication versus sales-orientation. However, "this is not irreconcilable, because there are situations where communication objectives are required and others where a specified sales response is more appropriate."¹⁷ It can be said that the nature of the objective depends on the stages of consumer decision making found in the target market segments. Stimulation towards a purchase is, on occasion an appropriate objective but it must not be overlooked that this is accomplished through communication of a persuasive message.

With reference to the above discussion, the respondents were asked "what are the objectives of promotion?" The findings revealed that the State Trading Organisations had no clear-cut and written objectives and no particular objective was specified. Following detailed discussions with the respondents, the researcher obtained insights into the promotion objectives which could be summarised as follows:

- a) Building the State Trading Organisations' reputation.
- b) Building customer confidence by explaining how to select and care for certain types of goods.
- c) Building goodwill by providing services.
- d) Explaining the State Tradings Organisations' policies and particularly those which have adverse effects so that the reasons for them will be fully understood.
- e) Reaching the public as soon as possible when an emergency arises.

These objectives aim at developing and maintaining a favourable image for the State Trading Organisations which means they constitute communication-related objectives. The main reason for this orientation was that the State Trading Organisations for several reasons were not motivated toward directing the promotion activities to increase sales.

13.4 The Promotional Mix

As indicated previously, the promotion mix consists of advertising, sales promotion, personal selling and publicity and that it may include other elements to broaden the mix. Firms employ some combination of these tools in formulating their promotion strategy. In the case of consumer goods, the firms use a combination of such tools as are required to communicate with the vast number of consumers and to contact the channels of distribution. Therefore the greatest part of their expenditure is allocated to advertising and the sales force. Decisions, therefore, must be made with respect to the best promotional mix, making use of such elements as are considered to be appropriate. In the next section, the promotion mix decision is examined as follows:

13.4.1 Advertising

It is true that anyone living in an economically developed nation knows from personal experience what advertising is. Yet that understanding is often imprecise and it is characterised by myth and half-truth.¹⁸ Clearly, in an affluent society, advertising plays a critical role. In such an economy, business managers strive to develop new products which, without advertising, they could not hope to exploit quickly.¹⁹ But, "promotion in a less-developed economy ranges from primitive hard-fact information to the most modern, sophisticated advertising campaigns."²⁰ In addition, "the nature and significance of communication activities differ in various LDCs."²¹ The definition of advertising adopted in this chapter is that of the American Marketing Association which is "any paid form of non-personal presentation and promotion of ideas, goods or

services by an identified sponsor."²² In this section, the following points will be discussed.

- a) Objectives;
- b) Infrastructure;
- c) The role of Advertising in promotional efforts;
- d) Reasons for not advertising.

13.4.1.1 Objectives

The setting of advertising objectives is fundamental to the formulation of advertising strategy. Advertising can have more than one goal, depending on the weight assigned to the desires and views of the executives involved.²³ In addition, "advertising can frequently serve several goals as long as they are not in serious conflict."²⁴ The association of National Advertisers focussed the industry's attention on the case for establishing communication objectives through the influential paper written by Russell Colley²⁵. His thesis was that advertising should be managed in such a way as to attain clearly stated communication goals so that success and failure can be measured. This philosophy has since become known as DAGMAR (Defining Advertising Goals, Measuring Advertising Results). In Colley's words: "Advertising's job purely and simply is to communicate, to a defined audience, information and a frame of mind that stimulates action. Advertising succeeds or fails depending on how well it communicates the desired information and attitudes to the right people at the right time and at the right cost."²⁶ Baker²⁷ indicated that the ultimate purpose underlying all advertising is increased awareness. But he added "that many authors would also ally this with some form of statement concerning an increase in profit, but this is anticipating an end result applicable only to trading organisations which is also attributable to a host of other factors."²⁸ It is clear that a debate has arisen over the appropriate method of setting advertising objectives. Some maintain that success can only be measured in terms of sales. Others contend that each element in the marketing mix has a more specific role and that a change in sales is the result of each component working together with others.²⁹ According to this view, advertising

performs the function of persuasive communication through use of the mass media, with the result that objectives should be stated in communication terms. This whole argument is tied into the hierarchy of effects hypothesis, i.e. that advertising works to stimulate awareness which leads to attitude change, which leads to behaviour changes, which lead to action (purchase). The hierarchy of effects is basically a model of consumer response to promotional activity. The researcher's point of view is that there are situations where communication objectives are required and others where a specified sales response is more appropriate so the form of the objectives depends on the stages of consumer decision making currently found in the target market segments. Stimulation of a purchase is, on occasion an appropriate objective, but it must not be overlooked that this is accomplished through communication of a persuasive message.

To find out the advertising objectives of the State Trading Organisations, the following question was addressed to the respondents, "What are your Organisation's advertising primary objectives?" The respondents' answers revealed that none of the State Trading Organisations had set any advertising objectives, and when asked "Why not?" the answer given by respondents was that they did not find it necessary to do so. The main reason given was that they can sell all their goods in a very short time. There were other reasons which will be discussed further in the last part of this section.

13.4.1.2 Infrastructure

Each organisation has available a variety of promotion channels to use in presenting itself and its products or services to the desired audience. These channels consist of the media, personal selling, sales promotion and publicity. The pivotal consideration in media strategy is to select media vehicles which reach the target audience with a minimum of waste coverage.³⁰ Therefore, the nature, scope, use and other characteristics of media are important considerations in media selection and the planning and building of

a promotional strategy. Therefore, a brief description of the available media and their characteristics is important as a preamble to evaluating the promotional strategy of the State Trading Organisations. Thus, (a) the mass media, and (b) advertising agencies will be discussed as follows:

Advertising Media

The following brief description of the media available relates to conditions operating in 1983, how effectively the media responded to the advertising needs in Iraq and the extent to which they were used by those Organisations in their promotional strategy. However, the limited availability of data and general information inevitably placed restrictions on the scope of this study.

1. Television

Iraq has four television stations, three single channel and one has two channels. Prior to 1977, each of the single channels had its own programmes and shared only the news with the Baghdad channel. This made the single channel more appealing to local advertisers* than it was after 1977. Since then, all the programmes are developed and produced in Baghdad and are then sent to local stations for broadcasting. This policy of transferring programmes limits the freedom of local stations and it also restricts the opportunities available to local advertisers. The national advertiser, on the other hand, benefits from the new broadcasting system since it increases the opportunities for achieving national coverage or creating a national image.

Two significant factors contributed to broadening the opportunities for television to be used for advertising, first, the "Rural Electricity Programme", which was accomplished at the end of 1980, increased the coverage substantially. Second, increases in per capita income made it easier for more people to buy television sets.

* The researcher means by the term "advertisers" all those who wish to advertise in order to reach a particular audience by achieving a coverage through which specific marketing objectives are realised.

For example, until 1973, the total number of television sets owned in Iraq was 303,860, while in 1982 and 1983 the General State Establishment for Commerce sold 275,390 television sets. In two years, therefore, the number of television sets sold was more than 90% of the total bought from the time television was first introduced until 1973. In addition, the lack of adequate provision of other forms of entertainment in the cities, apart from Baghdad, has expanded television audiences and increased the time spent watching television. Therefore, television is a prime medium for reaching large segments of the markets and building a nationwide image.

From the point of view of the advertiser, the problems or disadvantages of television are firstly, that he cannot select the time he regards as most appropriate for reaching the target audience. Advertisements do not interrupt the programmes and are only introduced during the intervals between programmes. In addition, the television management scrutinises and restricts the message thereby affecting the information the advertiser wants to communicate to the target market. Moreover, the lack of reliable data about television audiences and coverage does not help the advertiser to develop an effective advertising strategy. Furthermore, cultural and group norms cannot be ignored, therefore advertising for alcohol is not allowed on television and advertising of food is often regarded as a method of selling inferior products. Thus, the use of television must be carefully selected and the message must be well edited and kept short.

Although the private advertiser may experience difficulties in getting his message across to the target audience effectively, the State Trading Organisations have greater opportunity than the private sector to use television in their advertising and overall promotional strategy. They restrict their participation in television programmes to attendance for the purpose of answering particular questions raised by the programme presenter or getting some message across to the audience concerning how they solve some problems. Although participation in these programmes promoted the image of these

Organisations, they cannot be regarded as advertisements since they were unpaid and the programme did not follow the format required for conveying a message from an advertiser. Therefore, the State Trading Organisations lost a good opportunity to use television to serve their advertising plan or overall promotional strategy. The final point to be mentioned is that the audience in a particular region, e.g. the Southern Region, may be affected by the advertising of other countries, e.g. Kuwait, which may lead to awareness or even purchase of certain products particularly such international brands as Philips, Hoover, Sharp, Westinghouse, etc.

2. Radio

Radios are widely owned and used, particularly since the introduction of transistors. There are some programmes, e.g. songs from rural areas, selective songs for particular audiences, etc., to which large segments of the population sit and listen devotedly. The value of radio lies in its music and its frequent news bulletins. It is a channel of promotion for a wide variety of products particularly when newsworthy and musical items are set in a framework of commercials. But radio has undergone a transformation since television replaced it in certain respects. It is less widely used and its influence is not so powerful as it was when people sat and listened devotedly to songs from the rural areas or songs by request. It is however, by no means obsolete. But the State Trading Organisations have not used radio to promote the Organisations or their products, and it is the only promotional channel which has not been used in any form for promotional activities by these Organisations up to the present time.

3. Newspapers

The number of newspapers has declined from eight to five national newspapers and one local newspaper in each of Basrah and Naynawa. The newspapers are published in Arabic, Kurdish, Turkuman and English. Although the number of newspapers has declined, their

circulation has increased many times over. For example, one newspaper's circulation increased from 50,000³¹ to 250,000 and the demand was still unsatisfied, particularly in rural areas where the circulation is far from satisfactory, e.g. 50 for a population of 75,000 people. The most important factors which affected newspapers in Iraq in the last decade were firstly, the majority of newspapers were printed in the "Dar Al Thawra for Newspapers and Publishing" which was owned by the government and managed by a board appointed by the government. Secondly, all the newspapers had their own political orientation which limited their readership and circulation. Faced by such problems, the newspapers were and continue to be heavily dependent on advertising. But classified advertisements had the highest share of the space devoted to advertising, while the commercials had the lowest share. The researcher observed that the advertising pages were missing from a number of newspapers as a result of newspaper agents' negligence, so it is difficult to make a satisfactory estimate of the coverage of newspapers which affects their use as promotional channels. In addition, the quality of printing and the content of the message were not of a sufficiently high standard to attract the attention of the reader and create his awareness of the product advertised.

The newspaper has been one of the promotion channels most widely used by the State Trading Organisations. But the main problems associated with their use of this medium were, firstly, they did not plan the timing and location of their commercials to promote their image and their products in the most effective way but responded to approaches from newspaper employees persuading them to advertise. Secondly, they allocated more funds to classified advertisements, so that less was devoted to commercial advertising.

4. Magazines

The number of magazines increased from ten to fifteen during the last decade. The A-B Magazine had the highest circulation of 120,000 copies and appealed to large segments of readers as a

result of its general coverage of many subjects. Other magazines had specific identities and specialised in certain topics, so that they aimed at specific audiences who were assumed to wish to be kept informed about those topics. This specialisation and vivid, colourful presentation in these magazines attracted some advertisers who wished to appeal to particular segments of the readership.

The State Trading Organisations limited their advertising to two magazines, the A-B Magazine and the Commerce Journal. The latter having a higher share of their advertising. The main reason for this was that the Journal was directed by the Ministry of Commerce, so it was possible for the State Trading Organisations to choose the time and location of their advertising at a negligible cost. Moreover, the timing and location of advertising in the A-B Magazine raised questions concerning its appropriateness as a promotion channel, because advertising in it was very occasional and located in pages which did not attract readers. Nevertheless, it can be said that magazines were the second most important promotion channel used by the State Trading Organisations although their effectiveness for promoting the Organisations' image and the products was open to question.

5. Other Media

One of the most widely used advertising media in Iraq is by word-of-mouth, particularly in the trade. Many stories have been circulated about how this medium has been used by some merchants. One that is often heard concerns the merchant who, having a slow moving item or one which is close to the expiry date, spreads word through his friends or when travelling with others that the item will be unavailable in the market within a few weeks, or that it will not be imported or produced again. This rumour spreads among people very quickly and the item is soon sold out. The State Trading Organisations had not intended to use this medium but it was used on their behalf by their customers. For example, many customers talked repeatedly about the low prices and good quality of their

products which was accepted as fact, thereby enhancing the image of these Organisations. Moreover, above every agent's shop hangs a metal sign indicating the Organisation he represents. Although its main purpose is simply identification, indirectly it performs an advertising function. Other advertising media were disregarded by the researcher because they were used little or not at all as promotional channels by the State Trading Organisations visited.

From the previous discussion, it can be concluded that the advertising media used by the State Trading Organisations, ranked in order of importance, are as follows:

1. Newspapers;
2. Magazines;
3. Television;
4. By Word-of-Mouth (on their behalf);
5. Agents' Signs.

In addition, these Organisations did not follow a careful plan aimed at using the advertising media effectively. Their advertising was basically reactive. The Organisations responded only when it was thought to be necessary or when they wanted to create a favourable image because some problems had arisen. Moreover, there was a lack of coordination in the use of different advertising media either to promote an image or to approach a target group. The researcher believes that the State Trading Organisations lost a good opportunity to use the available advertising media to promote their image or their products, because using these media cost them nothing or very little.

6. Advertising Agencies

The number of advertising agencies declined from eight to three in recent years, because of the severe restriction imposed by the government on promotional activities or the granting of the license required for establishing an agency. In addition, the government

required all state enterprises, including the State Trading Organisations to channel their advertising through the agency which is controlled by the government. Therefore, this agency handled a large amount of advertising. The interviews with the respondents revealed that the primary service supplied by the agency was space-buying with very little help provided in the message design. The ability of the agency to provide skilled professional services, such as marketing research, advertising research, creativity and marketing expertise was regarded as somewhat limited. In addition, poor communication between these Organisations and the agency was one of the shortcomings which reduced the effectiveness of advertising. In general, the respondents did not consider this agency as creative, most of them attributing this to a lack of creative personnel in the country, and to poor management within the agency.

13.4.1.3 The Role of Advertising in the Promotional Efforts

In order to assess the role of advertising in the firm's strategy and its overall marketing mix, it is necessary to establish the level of expenditure on advertising in these Organisations, because the level of such expenditure has important implications for decision-makers in both the private and state enterprises in developing countries. Marketers in the less developed countries face a real possibility that they may be over- or under-advertising their products.³² This may be because of their limited experience, environmental conditions, lack of accurate data, appropriate information and knowledge and the low level of diffusion of modern marketing techniques.

It is firmly established that advertising expenditure is lower in developing countries than in the economically more advanced countries.³³ This generalisation holds in terms of both per capita advertising expenditure and advertising as a percentage of Gross National Product. A number of reasons account for these differences in the overall level of advertising expenditure to which Iraq provides no exception. The total advertising expenditure in Iraq

for 1977 was \$27.5 million, representing a per capita expenditure in the field of \$2.31.^{34*} Since it was very difficult if not impossible to determine the actual expenditure incurred for advertising or the funds allocated to the different advertising components, the advertising-sales ratio is misleading and does not present an accurate picture of advertising in general. The main reason for this was that various advertising media were used at different times and some programmes involved no expenditure. In addition, expenditure for advertising was recorded under different headings, e.g. public relations, which made it difficult to distinguish every advertising expenditure. Moreover, there was no clear connection linking the use of the different media with particular products, product lines or groups, and target markets. However from the overall behaviour of the State Trading Organisations relating to advertising, it can be asserted that they assigned to it the role of informing and persuading people of the Organisations' importance, winning goodwill by solving consumers' problems in such areas as shortages, product quality and prices, explaining their plans and building up a good reputation. These Organisations used advertising to get their message across to a number of market segments or to provide full coverage of the markets. Although there were no accurate figures for each of the promotional components, except personal selling, there was some evidence to show that advertising took second place after personal selling. In addition, the status awarded to advertising by these Organisations was far lower than is attached to it by their counterparts in developed countries. Finally, the role was very limited and ill-defined and lacked a clearly stated connection with other components of the Organisations' marketing mix.

13.4.1.4 Reasons for Not Advertising

The previous section suggests that the State Trading Organisations underrate the importance of advertising in their strategy and overall marketing mix. In order to discover the reasons underlying the low status of advertising in these Organisations, the following question was posed: "What are the main reasons for not

* The total population of Iraq in 1977 was reported as 11.9 million.

advertising your products?" All the answers implied, "We don't need to advertise, the reason being that all items are sold as soon as they reach the sales floor". One General Manager put it this way: "Advertising persuades people to buy or to buy more, we don't need to persuade people, the consumers are there and the traffic in our stores is such that we cannot cope with the increased demand." This was part of the explanation but not all of it. There were other reasons for not advertising or under-advertising. Although the predominance of a seller's market for most products was an important reason. Other reasons were also important. Among these are, firstly, that advertising biased consumer tastes in Iraq towards products originating in the more developed countries. This preference, in turn, was believed to create continuing dependence on imported goods which was considered costly because of supply difficulties and its effect on the balance of payments.

So, it was believed that advertising is excessive and harmful, and may direct consumer expenditure away from domestic products, thereby adversely affecting Iraq's economic growth.

Finally, the State Trading Organisations found it easier and preferable to employ more traditional marketing strategies (by emphasis on other elements of the marketing mix, e.g. price, distribution, product) in order to maintain or expand their market position, so they relied more heavily on other components of the marketing mix and on pressure exerted through the channels of distribution rather than through channels of communication. A Committee established by the Ministry of Commerce on 28th July, 1981, to study the problems of internal trade in Iraq found that the main reasons for not advertising or under-advertising were the limited availability of the media and shortage of agencies to provide professional skilled services and appropriate expertise. But the Committee did not demonstrate the attitudes of the trade institutions to advertising and provided no data concerning expenditure in this field. However, the conditions which determine the level of advertising expenditures in Iraq, as in other less deve-

developed countries, are often different from those of the more developed countries. In contrast with which, the market in Iraq was constrained by supply conditions rather than by deficient market demand. It can be said too that the economic structure, low literacy/education levels, undeveloped communication networks, multiple dialects and a dearth of market information on consumers and political philosophy make advertising planning very difficult.

All the points discussed in the previous sections demonstrated that the State Trading Organisations had no clear objectives in relation to advertising. They had no precise grasp of what their advertisements were designed to achieve or the part they were to play in marketing and promotional programmes. But an analysis of their messages and advertisements revealed that they emphasised communication objectives. These Organisations relegated advertising to a status far lower than that prevailing and practised by their counterparts in the developed countries, stemming from ideological reasons e.g. considering advertising as wasteful expenditure, reducing concentration on the opportunities for imported goods, reducing balance of payments etc., and the structure of the market-domination of the seller-market. This will be expected to continue for sometime in the future.

13.4.2 Sales Promotion

This section is concerned with examining the sales promotion strategy adopted by the State Trading Organisations and determining the extent to which these Organisations depend upon it as a means of communicating with consumers. Sales promotion has been defined by the American Marketing Association as encompassing "those marketing activities, other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness."³⁵ Buell³⁶ defined sales promotion as a "catch all" category for all types of market communications and persuasive devices not included in personal selling, advertising or publicity", while Strang defined it as "all other forms (not included in advertising) of sponsored communication apart from activities associated with personal selling."³⁷

Sales promotion activities occupy a grey area between advertising and personal selling, possessing characteristics of each of these promotional tools. For the purpose of this section, the definition provided by the American Marketing Association will be employed.

13.4.2.1 Objectives

Firms need to define clearly the role played by sales promotion in achieving their marketing objectives. Sales promotion objectives must be derived from the communications and promotion objectives, which are in turn derived from the firm's basic objectives.

The basic objective underlying all promotions is an increase in sales.³⁸ Firms use sales promotion mostly as a tactical device, or it is designed to achieve long-term objectives. In setting promotion objectives, it is important that some of the limitations should be recognised. In general, promotion activities produce additional long-term sales only under certain conditions.

Baker³⁹ indicated that sales promotion can be used to achieve a number of marketing objectives, summarising them as follows:

- a) to gain customers and convert them to regular users, particularly for new or improved products;
- b) to widen the distribution of a product;
- c) to influence stock levels which may be too high or too low;
- d) to reduce the incidence of sales peaks and troughs and maintain economic production levels;
- e) to cushion the effect of a price increase;
- f) to create new interest in an established product and improve results by means of in-store displays.

Arnold et al⁴⁰ emphasis the need to translate general objectives into more specific objectives, such as:

- a) to encourage purchase of large units;
- b) to encourage purchase of multiple units;
- c) to encourage trial by non-users;
- d) to encourage trial by users of competitive brands;
- e) to stimulate impulse purchases;
- f) to increase patronage by regular customers;
- g) to strengthen weak departments.

Kotler⁴¹ indicated that the retailer is concerned with building patronage and store traffic, and most retail sales promotion tools are selected with this objective in mind. He added that manufacturers may seek the cooperation of wholesalers and retailers in carrying out their marketing strategy to achieve a number of objectives for which sales promotions are usually effective.⁴² To find out the sales promotion objectives that the State Trading Organisations try to achieve, interviews were held with respondents. The answers revealed that the objectives they tried to achieve were:

- a) to gain customers and maintain consumer patronage;
- b) to encourage trials by users of competitive brands.

For example, the General State Establishment for Foodstuffs tried to encourage consumers to use different milk brands, e.g. instead of using only NEDO, they introduced AVANTI, Geggozo and three other new brands of powdered milk. In addition, the manufacturers (foreign and domestic) tried to increase the sales of their products by using sales promotion activities through these Organisations. However, whether this policy is effective is open to question.

13.4.2.2 The Sales Promotional Techniques Used

A firm has to select appropriate techniques to achieve its objectives. It can also use a combination of techniques to achieve a particular result. Some techniques are decidedly better than others

for achieving particular objectives. This section is concerned with the sales promotional techniques used by the State Trading Organisations.

It was indicated previously in this work that a large proportion of the goods sold was imported, so it is necessary to distinguish between the techniques used and paid for by these Organisations themselves and those used by them on behalf of manufacturers. An examination of the techniques used revealed that the techniques most widely used were packs, bonuses, meetings, consumer education and demonstration activities, displays, guarantees, and participation in special exhibitions and displays. Manufacturers used a number of techniques to promote their products and increase sales of their items which were sold by the State Trade Organisations. The techniques used were free gifts, trial offers, incentives, delayed invoicing, guarantees, free services, vouchers, trade allowances, training for the Organisation's employees, and participating in trade shows and exhibits, particularly the Baghdad International Exhibition which is held annually, and special trade shows held in Baghdad under the sponsorship of the State Organisation of Consumer Goods.

Up to the present time, no attempt has been made to establish the precise amount spent on sales promotion, whether by the Organisations themselves or by the manufacturers, because such expenditure was not recorded accurately and some of the promotion activities were not recorded at all, e.g. the use of free gifts.

From the previous discussion, it is clear that no attempt is made to employ the techniques widely used in Europe and America, e.g. coupons, price reductions for large-scale consumers, rebates, off-price labels, and point-of-sale materials and direct mail. The main reasons for this were that the State Trading Organisations were reluctant to use some of these techniques in order to avoid encouraging demand for particular products which are not favoured by the economic development and investment plans. In addition, there were difficulties and diseconomies associated with some of

these techniques, e.g. coupon redemption. Moreover, there was a lack of awareness by management of the effects that these techniques might have on stimulating demand and promoting economic growth. Furthermore, the criticism of advertising is also levelled against sales promotion, e.g. diverting consumers' tastes toward imported goods. There was, therefore, limited use of the techniques which would have to be adapted to environmental conditions in Iraq and these environmental variables also limited the use of other types of sales promotional techniques.

13.4.2.3 Evaluating the Promotional Techniques Used

The evaluation of the sales promotion techniques used is related to increases in sales. This criterion alone, however, may not be suitable for measuring the effectiveness of the techniques used. The main reasons are firstly, it is difficult to attribute increases in sales to sales promotion because of the structure of the market in Iraq. Secondly, the cultural characteristics of the consumers in Iraq extend the time taken to try new products compared with the time needed for trial by consumers in developed countries. The Iraqi consumer needs to check the item personally and hear the opinions of others, since he does not readily trust the promotional activities before making a purchase.

There was empirical evidence to indicate that the only effective sales promotion activity was that carried out by the General State Establishment for Foodstuffs which encouraged trials of powdered milk by those who used competitive brands. Other types of promotion had little or no effect because all sales promotion activities were executed through the State Trading Organisations which might not carry them out efficiently and effectively. It is reasonable to conclude therefore, that sales promotion received less attention than other promotional activities.

13.4.3 Personal Selling

This section continues the examination and analysis of the communication strategy of these Organisations by focussing on the sales force strategy and the personal selling process. Discussion of the sales force strategy focusses on the planning process and decisions necessary for developing such a strategy from a management perspective. The personal selling process is designed to help sales people match product benefits to customer needs.

The overall sales force strategy and the individual sales people can have a major impact on the success or failure of a retail business. Much of the impact of the sales force can be either positive or negative in relation to the firm's because of their close interaction with the customers. In fact, many of the negative or unfavourable images of the enterprises can be attributed directly to sales personnel. In order to perform the above-mentioned analysis, interviews were held with Assistant General Managers for Marketing and Personnel Department and visits were made to the sales floor in different stores. These interviews and visits were concerned with obtaining information relating to the following matters:

- a) the role of personal selling;
- b) objectives of the sales force;
- c) factors affecting the sales force performance;
- d) personal selling process.

13.4.3.1 The Role of Personal Selling

The retailer can choose self-service or full personal service or a combination of both methods. The purpose of the method chosen is to obtain an effective blending or interaction between the customers' needs and desires, the merchandise, and the sales people."⁴³ The retailer must make a trade-off between the reduced expenses of self-service and the potentially greater sales volume per customer with full service. In addition, retail selling can be

classified into three primary types, depending on the number and nature of the functions performed by the sales people, the first type being transactions where simple checkout or cashier duties are involved. Here, the retailer emphasises self-service and depends on customers exerting the effort to serve themselves. The second type is the routine selling method by which the sales person actually waits on a customer, providing him with information to assist him in his decision making. The third type is creative selling which involves "transforming the unfelt need into a felt need and showing how the product's benefits can satisfy that need,"⁴⁴ by finding the customers, persuading them and helping to solve their problems.

Two of the General State Establishments employed a combined approach in which certain stores or departments were staffed with sales people while others were of the self-service type. The other three General State Establishments employed a full-service approach. These latter Establishments market durable goods, clothes, home appliances, office equipment, etc. None of the General State Establishments was dependent only on self-service, and the self-service stores or departments which were used were small in size and operations. A number of reasons justify the utilisation of the full-service method, these being:

- a) customers know little about the product features and benefits (e.g. stereo components);
- b) some products are technically complex in design, installation and usage;
- c) durable goods, e.g. refrigerators, televisions, washing machines, etc., are considered expensive, so the customers need information and assistance to avoid the risk of making incorrect decisions.
- d) Iraqi's customers know little about foreign made clothes, particularly when the information on the label is written in a foreign language which customers do not understand. Therefore they depend on the help of sales people.

But not all these factors do justify utilising full-service in most department stores. This is one of the serious problems facing underdeveloped countries when they introduce department stores in order to modernise their retailing system. Additional reasons account for adoption of the full-service method. Two of the reasons given were:

- a) the management found it easier to hold the sales people responsible for the value of goods on the sales floor;
- b) they did not employ an electric monitoring system capable of detecting stolen items.

So, all these factors contributed to the heavy reliance on personal selling in the selling process. On examination of sales people's jobs and interviews with the Assistant General Manager in these Organisations revealed that the role assigned to sales people consisted of:

- a) receiving the customer's order, processing the transaction, and handing over the item after presenting the payment receipt;
- b) providing the customer with the information required, waiting on him and assisting him in reaching a decision when he asked for help.

These types of selling did not involve creative selling, e.g. finding customers, persuading them and helping to solve their problems. The sales people did not approach customers and ask them what they wanted. On the contrary, customers were required to obtain information from sales people. Making the sales people responsible for the value of goods and assigning them to particular departments limited their ability to be transferred between departments to ensure better performance and more efficient use of staff. Therefore, the sales role was limited to transaction processing and routine selling in the departments of the stores.

13.4.3.2 Objectives of the Sales-Force

To find out the objectives of the sales force in the State Trading Organisations, the Assistant General Managers for Marketing and the General Managers in these Organisations were interviewed. Their answers revealed that the primary objective of the sales force was to sell the largest quantity of the goods for which they were responsible. Other objectives were stocking the items in their department and ordering them from stock, wrapping goods, providing information to the customers and management, and ensuring fairness in selling goods to customers.

The problems related to these objectives are, firstly, they did not specify the sales volume that each sales person should achieve. This was attributed to fluctuations in the availability of goods. Secondly, the sales-volume criterion is sometimes a distorting measure for evaluating the performance of the sales force in the State Trading Organisations, because high sales volume is not achieved by the creative efforts of the sales force but is a result of the scarcity of goods. Thirdly, the objectives are affected by a cultural problem shown in the bias of the sales force in favour of particular customers, a problem which is widespread in underdeveloped countries.

13.4.3.3 Factors Affecting the Sales Force Performance

This section is concerned with those factors affecting the performance of the sales force which contribute to better understanding and implementation of marketing strategies. Although many factors affect their performance, the researcher concentrated on those factors which affect their ability to perform a variety of functions and play an important part in the marketing mix, these factors being:

- a) Salesmen's educational background;
- b) Training of salesmen;
- c) Salesmen's remuneration.

a) Salesmen's Educational Background

To obtain information concerning salesmen's educational background, the respondents were asked, "What educational background do the salesmen have?" The research findings reveal that all salesmen in all the State Trading Organisations visited had reached the intermediate stage of school education. It was found too that the qualifications of salesmen were set out in the constitution to which the sales manager and the overall recruitment and selection policy must adhere. This regulation implied that an official pay policy was in force. The main problems of this policy were, firstly, it limited the freedom of the sales manager to recruit a skilled salesman with good experience, because he could not offer to pay him the salary he deserved. In addition, the job does not attract college graduates, because the State Trading Organisations could not afford an appropriate salary and a sales position has low prestige in the eyes of college graduates. Moreover, even a person holding an intermediate school certificate and possessing years of experience must be regarded as a new appointee so that the sales manager cannot recruit an experienced salesman at the required educational level because of these rules. Therefore, the State Trading Organisations recruit and selected salesmen who were young and inexperienced with a low educational background which limited their ability to perform a variety of functions which call for a number of skills. In addition, this recruitment policy reflects the management attitude towards salesmen's duties which are regarded as involving simple activities which do not require advanced skills. Moreover, such salesmen lack the skills needed to use the promotional mix to influence customers. Finally, there was no differentiation between the sales skills sought by each General State Establishment, although each of them deals with different types of products.

The educational background of salesmen in the State Trading Organisations was relatively higher than those of the private sector. Al-Muathen indicated in his study that most of the salesmen had only had an elementary education and very few had proceeded to the

intermediate stages.⁴⁵ He added that not even one salesman had an education beyond the equivalent of senior high school.⁴⁶ Generally, the educational level of salesmen in most undeveloped countries is low and it is regarded as an unattractive job.

b) Salesmen Training

It was made clear in the previous section that the State Trading Organisations from the start appointed new applicants with no previous sales experience. Firms might find that training the sales force would help in developing their future management capabilities. Training is only one of many alternatives that could be used to help an individual to overcome weaknesses in performance.⁴⁷ The importance of training has been expressed by the Chinese philosopher Kuan Teu who, in 300 B.C., said, "if you are going to plan for a year; plant corn, if you are going to plan for a decade, plant trees; if you are going to plan for a lifetime, train and develop people."⁴⁸

The training goals vary according to the experience of the salesman. The goals for new salesmen might be to facilitate their adaptation to the new business environment to orient them towards the firm, its products and the community, and to create personal satisfaction. The firm may also have goals for expanding the sales force or providing a flow of qualified persons to meet future needs. Training for experienced salesmen may aim at improving moral attitudes, motivation, or customer relations.⁴⁹ Training may be needed in relation to new products, new markets, new competition, new technology, and new marketing strategies. In addition, the training programmes for older salesmen might aim at improving their declining performance or productivity, where their skills have not kept pace with the changing environment. Other firms may seek other goals, e.g. reducing the sales force turnover. This section is concerned with salesmen training in the State Trading Organisations.

The study findings revealed that the State Trading Organisations had recognised the importance of training for improving the performance of their sales force and providing a flow of qualified persons

to meet future needs. Their efforts succeeded in encouraging the government to enact Law No. 29, 1982,⁵⁰ which established the Commercial Training Centre. This Centre was empowered to achieve its goals and carry out its responsibilities by the Constitution No. (10), 1982.⁵¹ The Constitution determined the goals to be achieved by the Centre, as follows:

- 1) assessing and determining the training needs of the socialist commerce sector for all levels of management (top, middle and low level) in coordination and cooperation with the responsible organisations.
- 2) Developing and improving the capabilities of employees in all marketing activities and related management aspects, e.g. accounting by means of adopting modern techniques, and considering future needs.
- 3) Designing the commercial sector's training policies, types of training, relevant procedures and special training programmes for services provided by the State Trading Organisations.
- 4) Ensuring adequate training for all employees in the socialist commerce sector.
- 5) Designing plans for training in foreign institutes or centres, such plans to be produced annually.
- 6) There are other goals such as organising symposiums, meetings and conferences to exchange information and experience.

The Centre has a board of directors consisting of eight top executives headed by the Senior Deputy to the Commerce Minister and managed by a general manager. It is one of the largest commercial centres in Iraq. But the problem in Iraq, as in other under-developed countries cannot be solved simply by establishing a training centre and allocating funds to finance its operation since the core of the problem lies in the shortages of qualified staff to

carry out the training process. If this centre succeeded in solving the problem of shortages of staff, enabling it to fulfil its commitment, it would be a useful centre for commercial training. As it is, it can carry out only very limited programmes. The Assistant General Manager and the Sales Manager in all the State Trading Organisations participated in the training programmes.

These Organisations had three training methods. The new salesman began his orientation to the Organisation, its philosophy and products in a series of lectures given by the Assistant General Manager for Marketing over a period of a week. Then, the Sales Manager accompanied the new salesman to the sales floor to acquaint him with the selling process, to be introduced to colleagues and to be exposed to all aspects of selling. This training methods lasts for several days until the sales manager is sure that the newcomer has fully understood the selling process. The third method used was carried out by the Commerce Training Centre. The training programmes in this Centre last between three and six months during which period lectures are given covering all marketing activities to improve performance and productivity and to prepare candidates for management posts. In addition, training programmes are conducted for those working in the services departments to improve their skills and to provide better services.

From the previous discussion, it can be concluded that the State Trading Organisations had a training programme for the sales force as well as for all levels of management. But these programmes require a great deal of effort to improve their quality and their cost should be studied in order to assess the benefits they provide. It can be concluded that these programmes are carried out more systematically and attempts to improve them are more vigorous in the public sector than in the private sector of the industry in Iraq. Al-Muathen,⁵² referred to the inadequacy of training programmes in the industrial firms and pointed out that none of them had made serious efforts to improve them. This may be attributed to the size of the sales force, management attitudes and the size of the firm. The number in the sales force and the size of the State Trading Organisations was very large compared with the industrial firms in the private sector.

c) Salesmen's Remuneration

"Company policies which determine the level and type of payment received by sales people have an important influence on the effectiveness of the salesforce."⁵³ A well-developed and carefully articulated sales remuneration plan attracts more highly qualified applicants, helps to keep the more productive sellers satisfied with their status, and can help to upgrade the quality of the sales force, in addition to reducing the turnover of sales staff. A good sales remuneration plan can do more than motivate salesmen, it may lead to profitable sales and to the achievement of the company's marketing objectives. Therefore, Boyd and Massy⁵⁴ suggested that a successful remuneration scheme must:

1. Facilitate the achievement of company objectives and adhere to company policies.
2. Attract and retain competent salesmen.
3. Be equitable to all concerned. (No salesman should be discriminated against).
4. Provide consistent earnings, as far as possible, by avoiding "overpayments" during good years and "underpayments" during bad years.
5. Be based on factors over which the salesman has control.
6. Provide a means for appraising the effectiveness of salesmen. In other words, the remuneration plan should be recognised as a control device. If it inhibits rather than facilitates control and appraisal, it will have a harmful effect on morale.
7. Possess simplicity. It must be understood by all.

8. Have the wholehearted approval of both management and the sales force.

It is worth pointing out that even if a sales remuneration plan is carried out with all these characteristics it will not be perfect because of their complexity and the conflict between incentives and control.

Buell⁵⁵ indicated that there are three types of remuneration plans, namely:

- 1) straight commission;
- 2) straight salary;
- 3) a combination of salary and incentives.

The combination plan can take the form of salary plus commission, salary plus bonus, or salary plus commission and bonus. Management must consider all kinds of trade-offs in making its decision as to what kind of remuneration plan is the most appropriate.

Two types of remuneration plans were adopted by the State Trading Organisations, namely:

- 1) Straight salary.
- 2) Combination.

The type of combination was salary plus commission. Two General State Establishments extended the combination to include a bonus to their employees, which took the form of selling them goods at an agreed reduced price and allowing payment by instalments. Although this bonus system was not recorded officially, it was implemented in practice. The salesman receives a fixed monthly salary of I.D. 74,500 (nominal + allowance = 15 + 59,500), and a commission of 5 to 40% of his basic salary, depending on his performance as compared with this past performance and that of his colleagues. So, the real commission's percentage is 3% to 12% of his total salary.

From the previous discussion, it can be concluded that salesmen were poorly paid, and even the commission was very low (I.D. 2.25 to 9) and not enough to motivate the sales force to improve their performance and productivity, or participate effectively and efficiently in achieving the Organisations' marketing objectives. There were some compensatory factors, such as an annual bonus and a reasonable retirement salary, but overall it was an unimpressive remuneration plan which needs to be revised particularly when living standards and inflation are considered. In addition, remuneration did not vary according to the products or customer which affect their effectiveness.

13.4.3.4 Personal Selling Process

The key to the personal selling process is the matching of product benefits to customer needs and desires.⁵⁶ More specifically, the salesman must help the customer to make his decisions in respect of item choice, price, etc. Therefore, sales people need to understand the psychology of shoppers in addition to being knowledgeable about merchandise styles, sizes, prices and quality.⁵⁷ Moreover, sales people must understand the characteristics of various types of shoppers and the responses which are likely to generate additional sales.⁵⁸ It is not the purpose of this section to discuss all the steps considered by writers on the selling process which are, (1) prospecting, (2) pre-approach, (3) approach, (4) presentation, (5) meeting objectives, (6) closing the sales, and (7) follow up. The aim of this section is to discuss the personal selling process as it was practised in the State Trading Organisations in order to highlight the difference between their procedures and those pursued in developed countries and the effect of the former on the promotional efforts.

The process begins when the customer approaches the sales person and places his order after queuing for some time. When he decides to buy, the salesperson completes three copies of the purchasing order and hands two of them to the customer who joins another queue to pay. The cashier on receiving payment retains one copy and stamps the other copy "paid". Then the customer returns to the

salesman with the "paid" copy and presents it in order to receive the item, after joining another queue. The customer is tired by the time the transaction is completed and is not prepared to listen to the sales person. If it happens that the sales person has written down the wrong item or price, the customer has to repeat the above stages in order to buy the item. Procedures of that kind therefore, will not motivate people to buy or promote a product effectively, unless the item is urgently required. The researcher experienced the process and questioning a number of randomly selected customers found that the process caused resentment. It can be concluded from the above account that the selling process was not preceded by taking steps to help customers to select particular products. It was tiring and time consuming, and sales people did little to promote products.

13.4.3.5 Conclusions

In the preceding section, the discussion centred on personal selling as a marketing tool in the promotional plans, focusing on its chief aspects. The main conclusions were:

The market structure and management style had an effect on the role of personal selling in the overall promotional strategy. The State Trading Organisations visited relied heavily on personal selling, and very few provided full-service in department stores, unlike the promotional efforts taken in developed countries. The role assigned to the sales force was transaction processing and providing information on request, with no emphasis on creative selling. In addition, the objectives of personal selling were vague and unspecified being related mostly to selling the largest quantity of goods under the responsibility of sales staff whose effectiveness assessed by inaccurate methods.

The study findings also revealed that the salesmen in all the State Trading Organisations had reached an intermediate stage of education, their qualifications being subject to the terms of the same Constitution. This affected salesmen's ability to use the

marketing tools more efficiently or to pursue the strategy required to generate more sales. The training of the sales force was carried out through lectures and on-the-job experience for a few days, which did not provide intensive orientation. These Organisations had succeeded, in cooperation with the government, in establishing the Commercial Training Centre which will play a more active role in training in the future. But this will take time because there is a shortage of training personnel. The remuneration system employed was salary or a combination of salary + commission, with a bonus in some cases. Remuneration was at a very low level and the commission was so meagre that salesmen were not strongly motivated. The personal selling process was tiring and time-consuming for the customer, thereby affecting his attitude towards promotional activities and at the same time, little time was available for salesmen to carry out promotional activities. Despite all these problems, personal selling is the most important feature of the promotional strategy and the main tool used in the marketing planning of the State Trading Organisations, because of the size of the sales force and its impact on the implementation of the marketing programmes.

13.4.4 Other Promotional Elements

Another variable in the promotional mix to be discussed in this section is publicity. The American Marketing Association has defined publicity as any "nonpersonal stimulation of demand for a product, service, or business unit by planting commercially significant news about it in a published medium or obtaining favorable presentation of it on radio, television, or stage that is not paid for by the sponsor."⁵⁹ Public relations is the broad term for all the activities involved in promoting a favourable image for a company or institution.⁶⁰ "Publicity" is a more narrow term.⁶¹ It plays a more limited role than the other functions, but it is still an important marketing tool that is being integrated more and more into the promotional plans of firms. Many firms engaged in special events such as merchandising oriented entertainment, and education or community service in order to promote their business products.

Consumers were encouraged by the government to complain about the State Trading Organisations and to present their views if these Organisations failed to serve their customers adequately or to provide goods they required, registering their complaints through newspapers, television or other media. So, these Organisations adopted a complaint-handling policy, believing that effective complaint-handling could result in such benefits as consumer satisfaction and favourable word-of-mouth publicity. Therefore, when the complaint is published in the newspaper, the general manager's office, in cooperation with the marketing department, sends a copy of the newspaper together with a letter asking the responsible department to answer the question raised, or offer an opinion or recommend action to solve the particular problem. The answer to the letter, together with the newspaper is returned to the general manager's office, from which the answer is sent to the newspaper which published the original complaint. This method of publicity has given these Organisations a sound reputation. The limited number of newspapers available assisted these Organisations in solving the publicity problems. But the superficial nature of some of the responses and attempts to defend management inertia had unfavourable word-of-mouth results. Although the dissatisfied consumer may be forced to continue purchasing from the offending State Trading Organisations because of the near monopoly situation, he may be able to resort to other measures, e.g. raising the complaint with another agency in the Ministry of Commerce, or at a meeting. Some newspaper reports have referred to the General State Establishments, their products and various aspects of their activities. Such reports have enhanced the image of these Organisations. The Organisations have not engaged in any other form of publicity, e.g. entertainment, education or community services or merchandising oriented events. The only event of that kind since these Organisations were established was held in October 1984, when these Organisations organised an exhibition of toys.

The research findings indicate that the two methods of publicity used to promote the image of the State Trading Organisation were complaint handling and newspaper reports. These methods were the

most widely used tools in the promotional strategy after personal selling which is not in keeping with the findings of most researchers. The main explanation for these results is that the market structure represents a near monopoly situation and management is not convinced of the necessity of using advertising and sales promotion.

13.4.5 Formulating the Promotional Budget

Budgeting is necessary to help to achieve the objectives established as part of the promotion plan. A carefully established budget is more likely to result in a well-planned campaign, and to induce management to make a careful choice among promotional channels. Mason and Mayer⁶² indicated that the most frequently used methods for establishing such a budget are (a) percentage of sales, (b) the objective and task method, (c) competitive parity, and (d) the "all you can afford" method. Each of these methods has advantages and some drawbacks which should be considered in formulating the budget.

To formulate a final realistic budget, a tentative promotion budget based on realistic cost estimates of the tasks required to achieve each variable of the promotional mix is first formulated and then adjusted after final approval is given to the strategic plan for each variable.

To find out the method used to formulate the promotion budget in the State Trading Organisations, interviews were held with the Marketing Assistant of General Managers and General Managers, and the Accounting Departments and Personnel Departments were visited. The study findings indicate that since promotion activities were available free or at negligible costs, which was not even accurately recorded, the annual budget was prepared and planned using an incremental approach, and adjusting it after negotiation with the Personnel Department and Accounting Department to establish the total number of the sales force and the funds needed to finance the personal selling budget. Thus, no other budgets were formulated. The main reasons for this were discussed in the previous section.

13.4.6 Summary of Findings

This chapter was devoted to the promotional strategy of the State Trading Organisations. All the promotional activities used by the Organisations and their characteristic features were discussed.

The market structure, the political ideology, management philosophy, Iraqi culture and the communication infrastructure all had important effects which hindered the development of a more advanced promotional strategy. The promotion objectives of these Organisations were communication-oriented rather than sales-oriented because this type of orientation was deliberately selected as a result of the predominance of a seller-market for most goods. These Organisations were concerned with promoting their image more than their products. The blend of promotional mix elements used by these Organisations differed somewhat from that used by consumer goods companies, e.g. supermarkets and department stores. These Organisations were heavily dependent on personal selling and publicity, while little attention was paid by them to advertising and sales promotion. There were several reasons for not advertising, such as the predominance of a seller-market, and the fact that advertising was believed to lead to a preference for imported goods, biased consumer taste, erosion of hard currency and a waste of resources. Management ignored the advantages of advertising. Most of the normal sales promotion activities were not used by these Organisations, and those used by them on behalf of Western firms or multinational corporations were not effective. Despite their dependence on personal selling, the sales force were not well educated, having reached only the intermediate stage of education and they lacked effective training and were paid at too low a level to motivate them to fulfil their role as important marketing tools integrated into the marketing plan. The State Trading Organisations adopted a complaint-handling policy which served to promote their image and proved to be effective in establishing a sound reputation. The final finding revealed that of the variables used in the overall marketing strategy, promotion activities received the least attention, and if personal selling was excluded, it could be said that promotion was entirely ignored.

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PART FOUR :

**Chapter 14: SUMMARY OF FINDINGS, CONCLUSIONS
AND RECOMMENDATIONS.**

CHAPTER FOURTEEN

Summary of Findings, Conclusions and Recommendations

This chapter will be divided into the following main sections, as follows:

- A. Summary of the Findings,
- B. Conclusions, recommendations and limitations.

A. Summary of the Findings

The purpose of this study was to analyse the marketing strategies of the State Trading Organisations in Iraq and to discuss the main factors influencing their effectiveness in terms of achieving their objectives. The strategy formulation process adopted by the researcher for this purpose assumes that the following steps should be taken:

- (1) scanning the business environment and collecting information about the external environment and the organisations's internal environment (marketing audit);
- (2) identifying major strengths, weaknesses, opportunities and threats (SWOT analysis);
- (3) selecting the target market strategies;
- (4) setting the marketing objectives for target markets, based on the information collected, the SWOT analysis, and assumptions made therefrom;
- (5) designing strategies for achieving the organisation's objectives;
- (6) formulating programmes for implementing the strategies;

- (7) measuring progress made towards achieving the objectives, reviewing and amending the plans as required.

There is no reason for not applying this procedure in the State Trading Organisations. These Organisations have information on their external environment and internal development which can be used as a background to their decision-making process. They are also aware of their weaknesses and strong features compared with their counterparts in the private sector and have some knowledge concerning where their opportunities lie and what factors present a threat to their future. Their managers are capable of making some assumptions about the future and have some conception of what they want to achieve and the policy required to achieve their objectives. All these considerations provide the basis for making decisions about how to conduct their business. They will certainly receive some informational feedback following their decisions which will give them some indication as to whether or not they are achieving what they originally intended. Thus the planning process needs to be systemised, this being absolutely essential for marketing planning. The main function of a formal marketing planning system is to help an organisation to improve its performance. But there is always the possibility that an organisation with a theoretically complete marketing planning system could fail to enjoy its expected benefits through inadequate formulation and implementation. The purpose of this section is to summarise the findings of the study and to report only on those important elements which affect the formulation of effective marketing strategies. Effectiveness is here considered to refer to the extent to which these Organisations respond successfully to their environment, and serve their purpose.

1) Environment Complexity

An important test of strategy is how far the plans adopted are consistent with the environment, and one purpose of a viable strategy is to ensure the long-run success of an organisation. The field data derived from this study have indicated that the environment

of the State Trading Organisations have undergone tremendous changes in production, sources of finance and supply and consumption patterns which have resulted in disequilibrium in supply and demand conditions. In addition, the discussions in the previous chapters showed that the government has used these Organisations as instruments to achieve political and social goals. The respondents therefore, indicated that political and economic variables strongly influenced their marketing strategies, while the question of competition received very little attention. Moreover, the national development plans strongly affected their strategies, and they play a dominant role in their formulation. Therefore, the development of marketing strategy in the State Trading Organisations was based on three elements:

- (a) the national development plans;
- (b) the market (the world market also has to be considered as a result of the high percentage of imported goods in the total sales achieved by these Organisations).
- (c) the Organisations.

Within each of these areas several factors influence the development of the Organisations' marketing strategies. Internal factors such as research and development, resources of finance and materials, labour, etc. also affected their decisions. All these areas and their internal factors complicated decision-making in these Organisations, because all these factors have to be considered in strategy formulation which is a complex task. Therefore, the Organisations concentrated on short-term plans and paid little attention to strategic issues. They solved some immediate problems, but remained open to criticism because of serious strategic weaknesses which affected their performance and attracted complaints from customers.

2) Ambiguity of Role

Precise business definition should be viewed as a central element in the whole strategic plan, and this has been widely recognised as the basis for sound strategic marketing plans. The field study

data indicate that the Organisations lacked an explicit and clearly identified business definition. These Organisations tried to serve many segments of the market without considering whether they were capable of serving these segments effectively. Consequently, they failed to serve these segments successfully, so the length of queues increased and shortages became more frequent. They dispersed their efforts, activities and resources among these segments without managing to satisfy any of them effectively. Because of their failure to select an appropriate "niche" in their industry there was a lack of accurate information concerning who was being satisfied, what needs were being satisfied and how far such needs were being satisfied efficiently and effectively. There was lack of recognition of the fact that each segment has its own attributes and needs and requires a different approach. In short, the Organisations failed to select those areas of business which were appropriate to their function and compatible with their objectives.

3) Difficulties Relating to the Objectives

The field data showed that the State Trading Organisations were seeking both economic and social objectives. The economic objectives were concerned with increasing their profit which varied according to the type of goods. It was very high on "luxury" goods, moderate on "semi-luxury" goods and very low, at cost or subsidised, for "necessity" goods. The social objectives aimed at improving the wealth of low income people and ensuring a fairer distribution of income. The political orientation of these objectives was predominant. The objectives were difficult to measure and evaluate because of the absence of the parameters required for distinguishing between economic and social objectives and little guidance was offered to the management of these Organisations to enable them to choose the most appropriate of the available alternatives and to measure their efficiency and effectiveness. Even the economic objectives laid more emphasis on increasing sales rather than on maximising profit. The objectives were set at a low level, so that they could be attained easily. There was a lack of clear-cut

and quantifiable objectives to which action could be related in a reasonably definite way and an absence of reliable methods for measuring efficiency and effectiveness.

4) Marketing Mix Strategies

The State Trading Organisations formulated marketing strategies and assigned importance to the marketing mix which was different from that prevailing in the private sector and their counterparts in developed countries.

The merchandise plans concentrated on offering good quality goods at low prices. Their offering was affected by their own classification of goods into "necessity", "semi-luxury" and "luxury" goods. Finding a solution to the problems of shortages in necessity goods received high priority while the other types of goods received very little attention. The assortments offered were shallow in depth and narrow in width compared with those of their counterparts in developed countries. The merchandise budget was prepared annually. Their deletion policy was not successful since products were deleted before their decline stage and inventory policies were based on simple calculations, no advanced techniques being employed. These Organisations provided maintenance and spare parts for durable goods and bore the cost of services and labour within the guarantee period with negligible compensation from manufacturers. Learning how to plan effectively and efficiently with regard to merchandise in these Organisations will take a long time.

Their pricing method was based on cost plus mark-up. The mark-up was very low on necessity goods and very high on luxury goods and it was determined by the Commerce Regulating Committee. Their prices which were considerable lower than those of their counterparts in the private sector, were rigid and could not be used as a reliable measure of market conditions. The price of goods might not represent their actual value. Nevertheless, the pricing strategy was the core element of their marketing strategy.

The distribution plan was based on using a channel system consisting of a combination of state, cooperative and private institutions. The procedures involved lacked careful planning to provide a well-developed and organised channel system to enable these Organisations to respond to and reach their markets quickly and to ensure provision of the required coverage. Their distribution system caused problems for the flow of goods within it because of conflicts between the marketing objectives of the different members of the system. The distribution strategy in the State Trading Organisations was as important as their merchandise strategy.

The physical distribution plan was based on the decision to have their own facilities. They had their own fleet of 845 trucks. But the transportation activities were poorly organised with capacity wasted or vehicles under-used. They owned central warehouses in the capital and local warehouses in the main cities. Their plans enabled control of their operations to be exercised easily and ensured the availability of goods, but at the cost of financial and other resources which could have been reduced. The trade-off between various distribution strategy components was not scrutinised carefully in order to allow effective decisions to be reached.

The promotion strategy was the least important activity in the overall marketing strategies of these Organisations. Their objectives centred on promoting the image of the Organisation rather than on the products. Because of the inaccurate recording of the expenditure involved in promotional activities, apart from personal selling, it was difficult to obtain a precise picture of the importance of the various promotion elements. The Organisations relied on personal selling as a result of their preference for offering full-services. They consistently used an incremental approach in planning their sales force. The promotional strategy was far from capable of producing optimal results because of an inadequate communication infrastructure, cultural problems, political attitudes and the belief that advertising is a wasteful form of expenditure. The limited degree of freedom in decision making affected the allocation of resources and weights assigned to each element of the mix and exploitation of opportunities emerged from different blends of the elements.

5) Ineffective Planning System

The status of marketing planning in these Organisations was far below what is considered necessary for formulating a comprehensive and elaborate marketing strategy, and for introducing the marketing concept effectively in the face of the increased complexity of the environment. The system lacks professional personnel qualified in the field of marketing planning. There is failure by the planning department to develop effective plans which can make an important contribution to the achievement of corporate objectives. In addition, the dual responsibility shared by planning departments in the divisions and branches resulted in an interruption in the flow of the data or information required for planning purposes. Moreover, there is too much centralisation of long-range planning in the State Organisation of Consumer Goods, so that the General State Establishments and branches feel that they have little responsibility for developing effective plans. In most cases, the planning process has followed the routine procedure of always offering "last year's plan" with some modifications. Although the State Trading Organisations had benefited from using top-down guidelines and a bottom-up planning process approach and managers at low-level contributed to the improvement of the plans, their qualifications and experience were far from sufficient to enable them to formulate a marketing strategy. There was a lack of an incentive reward system which allows a bonus structure to be built into the development and implementation of strategic plans. Finally, top management consistently rejects the formal planning mechanism and makes intuitive decisions which conflict with the formal plans. The complexity of the planning system impeded the development of effective plans.

6) Top-Management Tenure

The field study data showed that about 54% of the General Managers and Presidents hold their position for less than one year, while 15.4% hold it for less than four years, and only 30.6% held it for more than four years and none for over ten years. As Andrews says, in discussing the relevance of personal values in the determination of strategy, "Somebody has to have his heart in it".¹

The short period for which these positions were held affected the personal commitment of top management to agreed strategic plans. The top management became so engrossed in current problems that insufficient time was spent on long-range planning, so the process of strategy formulation became discredited among other managers and staff. Despite the complicated role played by top management in strategy development in these Organisations, there was little recognition of the seriousness of this problem by government.

B. Conclusions and Recommendations

The study was an attempt to analyse the marketing strategies of the State Trading Organisations in Iraq and to examine the extent to which they were effective and the extent to which the application of the marketing strategy concept and techniques would improve the performance of these Organisations.

One of the main conclusions to be derived from the whole discussion is that the marketing strategies of the State Trading Organisations were not effective, and it will be a considerable time before they can implement strategic planning effectively. They increased their market share and expanded their product lines without first making a careful assessment of their strengths, weaknesses and capabilities. This led to confusion, and caused a number of problems. They faced the difficult task of adopting strategic planning as an integral part of their management style. The day-to-day pressure of doing business, the strong political orientation, having to react to accelerating environmental changes, the need to pay constant attention to satisfying customers' needs and wants, and cost control pressure create an environment in which it was difficult to provide the type of thoughtful and in-depth analysis which is a characteristic feature of strategic planning. But the complexity of environment does not make planning impossible; indeed it makes planning essential. In addition, the planning system failed to establish formalised mechanisms to translate the policy stated in the Constitution No. 21, 1982 into clear, quantified, and qualitative objectives and the latter into operative goals that provide a basis for assessing the level of achievement. There were inadequacies

in the objective-setting process which lie at the heart of many problems of these Organisations. Moreover, one of the major planning difficulties arose from personnel problems. The lack of qualified professional planners, particularly at branch level, the staff of which were found to be ignorant of basic business knowledge, was one of their most serious problems. Furthermore, the high turnover of top management - presidents and general managers - resulted in more attention being paid to immediate problems rather than to strategic issues. Finally, the management of these Organisations have less freedom in terms of planning than is available in the private sector. Realisation of the obstacles involved and tackling them indicates the extreme value and potential of such an effort to improve their marketing planning system and to develop an effective strategy. Since the need to improve their marketing planning practices is obvious, the researcher proposes the following recommendations for improving their current marketing planning system:

- 1) The characteristics of the environment surrounding the State Trading Organisations' businesses and the time frame required for planning and implementing strategic changes are such that they should be given more flexibility and formal autonomy than other state enterprises operating in more stable and less complex businesses. Too often the government mistakenly uses the same institutional design for state enterprises operating in very different kinds of businesses.
- 2) It is necessary to place more emphasis on securing an agreement between the government and the State Trading Organisations concerning their broad strategy. Then, the strategy should set out the objectives and the means of achieving them in such a way as to avoid the need for government intervention or constant revision. The relationship between government and these Organisations should be formalised in a manner that avoids ad hoc government intervention in decision-making. Therefore, some form of cooperation will become essential at the government/Organisation interface in order to facilitate the achievement of their objectives.

- 3) These Organisations should restrict their product lines and limit their market share in keeping with their current capabilities and available resources and any expansion should be based on a careful assessment of their weaknesses, strengths, threats and opportunities at a particular stage. Such adjustments are necessary to enable them to serve their particular markets successfully and to develop effective strategies. This policy would compel these Organisations to redefine their business and restrict their role accordingly and provide some opportunity for competition.
- 4) The objectives of these Organisations should be assessed in relation to more than one dimension - the achievement of objectives - because of the low targets set by these objectives and for other reasons, e.g. the costs involved. The utilisation of conventional and multidimensional approaches might provide a fair picture of their performance.
- 5) The period of appointment of the top management should be significantly longer than at present in order to assess their individual contribution towards the achievement of their objectives, the quality and implementation of the plans. In addition, fairly specific technical and managerial qualifications may have to be laid down for chief executive officers in these Organisations in order to ensure the appointment of those who can understand the marketing planning system and take an active part in it. This applies to branch managers to a lesser degree.
- 6) The Director of Planning must be released from day-to-day operations so that he can concentrate his efforts on planning aspects and strategic issues.
- 7) The State Trading Organisations should develop sources of marketing information which relate to present and potential consumer trends, the activities of successful competitors and rural and urban customer needs and aspirations. Cooperation between

the Organisations and the Family's Budget Department in the Ministry of Planning can contribute to build an effective information system.

- 8) Training programmes should be introduced relating to all aspects of the planning process and the development of marketing strategies, policies, facilities and techniques for the benefit of those who participate actively in the planning process, particularly at the headquarters of the General State Establishments, even if this involves employing a consultancy firm.
- 9) Cooperation should be established between the Organisations and the Ministry of Planning to collect, select and distribute marketing data and information applicable to all phases of the planning and implementation of the marketing of consumer goods and to build up a marketing data bank for the use of the Organisations, other institutions and government agencies.
- 10) Opportunities should be taken to sign contracts with university facilities to carry out specific field or desk research designed to collect relevant marketing data of a quantitative or qualitative nature to guide the Organisations' decisions. Other critical factors affecting their decisions, their performance, or the market situation such as merchandise specifications, logistics, facilities, prices, market information methods, etc, could similarly be examined.
- 11) Marketing experts from developed countries should be hired to give direct consulting assistance to the Organisations in specific areas of strategic or operational marketing (e.g. marketing planning, purchasing, merchandising, marketing audit techniques, research marketing management) until they train their staff to the required level of expertise or appoint personnel who have the necessary ability and experience. Moreover, on a long-term basis, assistance is required for the formulation and implementation of larger projects, and the expansion of Commercial Training Centre's function so that it

can conduct training programmes.

- 12) The headquarters of the State Trading Organisations should offer enough direction, guidance, and assistance to the branches in developing their plans and hold seminars for branch managers prior to the planning process to improve their knowledge and skills and ensure acceptance of the plans. These seminars should consist of lecture, discussions and workshops. They should be timed to fit in with specific parts of the planning cycle.
- 13) Marketing is probably the most important factor in the creative and effective use of resources but wholesalers and retailers in Iraq have concerned themselves with consumer satisfaction only to a minimum extent, therefore the State Trading Organisations should lead the way by introducing the marketing concept into their business because of the nature and size of their operations. The results of adopting a consumer-orientation approach may provide a justification for their establishment and ensure their survival, and growth in the long run.
- 14) The seller's market probably affects to the greatest extent the lower income classes whose standard of living the government intended to improve so the policy of a free market system should be maintained in order to preserve and develop entrepreneurial vigour which would result in improved benefits for these classes. This could be achieved if the government was convinced of marketing's role in providing satisfaction to customers and stimulating investment as markets grow. The State Trading Organisations could play a vital role in convincing the government, because they constitute the consulting body for the government and such a market system might reduce their burden so that they could direct their efforts to more promising segments and products.

- 15) The planners in these Organisations could improve their strategic vision if they established a close link between their plans and the national development plans.
- 16) They should proceed to build their strategies step by step until they gain enough experience and knowledge in developing effective strategies, and develop the skills required to carry out this work successfully.
- 17) It is essential to stress the need for top management commitment to the Organisations' plans, and complaints concerning the lack of such commitment could have the effect of helping to develop creative planning in these Organisations.
- 18) They should not ignore socio-cultural factors in developing their merchandise plans particularly in relation to the purchasing and importing of durable goods from developed countries.
- 19) The negative attitude towards the promotional activities should be discarded since it fails to provide the educational benefits of such activities to the customers and overlooks the effect of such benefits on consumers' behaviour.
- 20) The management of the branches should provide a smooth flow of goods to the sales floor in order to enable accurate forecasts to be made of the demand for particular products. Such forecasts can be used as an input for planning.

Most of the above recommendations are based on the sample used in this study, and more broadly based recommendations for policy making in state enterprises in general can be developed when further studies have been undertaken in the different environments of a number of countries, with different institutional backgrounds.

c. Research Limitations

Almost any type of research is subject to limitations and this study is no exception.

The study has been confined to the State Trading Organisations which are the largest Organisations dealing with consumer goods in Iraq. The study provided adequate coverage of these Organisations which were considered to be particularly appropriate because they sold the highest proportion of consumer goods (75%). In addition, they have a planning system and long experience in planning. But confining the study to these Trading Organisations has disadvantages in that the statistical inferences and generalisations will therefore be limited. In addition, marketing planning encompasses a wide range of business activities, and if all of these are to be covered, it may be necessary to sacrifice depth. Nevertheless, it is believed that this study does provide a realistic analysis of strategic marketing planning in the State Trading Organisations for Consumer Goods in Iraq.

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APPENDIX TWO: QUESTIONNAIRE

UNIVERSITY OF STRATHCLYDE

DEPARTMENT OF MARKETING

DOCTORAL RESEARCH PROGRAMME

QUESTIONNAIRE

Note: The phasing of these questions is designed to take account of the possibility that the respondent will insist on completing the questionnaire in person rather than by responding to questions put at an interview

1984

KADHIM A. AL-JABIR

- Q1. What is the exact title of the Chief Marketing Executive in your Organisation?
- Q2. How long has the President/General Manager held his position?
- Please list the different people who occupied this post during the last ten years.
- Q3. In what ways does Management at your level recognise the importance of designing the Organisation to serve the needs and wants of chosen markets?
- Q4. To whom do you think the top management executives (President and General Managers of the Divisions) owe their greatest responsibility?
- Q5. How does management develop different offerings and plans for different segments of the market?
- Q6. To what extent does management take a marketing systems view of the problems of the suppliers, channels, competitors, consumers, manufacturers and environment in planning its business?
- Q7. In your opinion, what are the primary corporate objectives of your Organisation (or Division)?
- Q8. Are the above chosen objectives are explicit and formally stated, and a document is available to all managers?
- Q9. What is the relationship, if any, between the objectives of the Organisations and those of the National Development plans?
- Q10. To what extent is the marketing executive formally involved in the Organisation's strategic planning?

- Q11. To what extent, do you consider the current marketing strategy is well understood by Branch Managers?
- Q12. Does management develop, formally, a careful strategic marketing plan that is updated annually?
- Q13. How does the management, formally, identify the most important contingencies and develop contingency plans?
- Q14. In your Organisation, to whom is assigned the responsibility for marketing planning?
- Q15. Can you identify a particular date when your Organisation began to implement formal marketing planning? If so, please give details.
- Q16. What type of planning procedures does the Organisation follow?
- Q17. How do you achieve the growth required of your Organisation?
- Q18. The following statements are concerned with the formulation of the Organisation's marketing planning. Please indicate the extent to which you agree or disagree with each statement. (please circle the most appropriate number on the scale).

strongly agree agree uncertain disagree strongly disagree

a) For plan formulation there is a detailed collection of data from sources external to the Organisation

1 3 5 7 9

b) There is a specific documented set of rules and procedures for plan formulation activities

1 3 5 7 9

	<u>strongly agree</u>	<u>agree</u>	<u>uncertain</u>	<u>disagree</u>	<u>strongly disagree</u>
c) Marketing people have extensive freedom to decide how they should formulate plans	1	3	5	7	9
d) Our planning tasks are always changing	1	3	5	7	9
e) Information for use in planning is never available when we specifically need it	1	3	5	7	9
f) We have little real authority in plan formulation activities	1	3	5	7	9
g) Information is never brought together effectively for planning activities	1	3	5	7	9
h) The plan is based on highly personal judgement	1	3	5	7	9
i) Regular studies are conducted of buyers' needs, attitudes and behaviour which are employed in formulating marketing plans	1	3	5	7	9

strongly
agree agree uncertain disagree strongly
disagree

j) The strategie marketing
 plan provides the frame
 of reference for the
 overall Organisation
 plan

1 3 5 7 9

- Q19. To what extent does the national development plan have an impact on the Organisation's marketing plan?
- Q20. What kind of forecasting methods are used in your Organisation to predict sales?
- Q21. Does the Organiation use particular marketing models in planning?
- Q22. Are the resources adequate and are they deployed effectively?
- Q23. To what extent do you feel that management has installed systems capable of yielding highly current information leading to fast reaction and on-the-spot developments?
- Q24. Is there high level marketing integration and control of the major marketing fucntions? If so, please give details.
- Q25. To what extent, does marketing management work with and co-operate with management in research, purchasing, manufacturing, physical distriubtion and finance in order to resolve issues in the best interests of the Organisation as a whole?

Q26. In your opinion do the following factors have an impact on your Organisation's marketing strategy?

(please tick one and state them in order of importance)

	<u>very strong</u>	<u>strong</u>	<u>uncertain</u>	<u>little</u>	<u>very little</u>	<u>none</u>
a) Economic factors (GNP, personal income ... etc.)	1	2	3	4	5	6
b) Population (growth rate, age group ... etc.)	1	2	3	4	5	6
c) Social-Cultural changes	1	2	3	4	5	6
d) Technology	1	2	3	4	5	6
e) Political and legislation climate	1	2	3	4	5	6
f) Competition	1	2	3	4	5	6

Q27. Each Organisation has specific objectives which it strives to achieve. In your opinion, what are the merchandise planning objectives of your Organisation?

Q28. Are the above chosen objectives explicit, formally stated and well documented?

Q29. How well organised is the new merchandise selection?

- Q30. Do the current product lines meet the merchandise objectives?
If "no", explain why.
- Q31. What are the major factors which influence your Organisation's decisions to introduce new merchandise to the market?
(please indicate in order of importance)
- Q32. Does your Organisation test all new products by marketing them in a restricted geographical area before selling them nationally?
- Q33. To what extent, does your Organisation provide its customers with after-sales services?
- Q34. What are the primary pricing objectives of your Organisation?
(please state them in order of importance)
- Q35. What are the major methods you use in setting the price of your merchandise?
(please rank them in order of importance)
- Q36. What types of discounts do you give to your customers?
- Q37. How do you consider your prices compare with most of your major competitors' generally?
- Q38. Do your branch managers have discretion to deviate from the list price?
- Q39. To what extent do you consider the product-market to be competitive?
- Q40. How have you planned your distribution network?
- Q41. Does the Organisation offer any special services to your agents (e.g. special discounts, extension of credits ... etc.)?

- Q42. Has your Organisation done any advertising in the last five years?
- Q43. What are your Organisation's advertising primary objectives?
(please rank in order of importance)
- Q44. What method is commonly used to determine the amount of money spent on advertising?
- Q45. Is the policy of your Organisation, formally, to evaluate advertising effectiveness? If so, what are the yardsticks used?
- Q46. Does your Organisation engage in any promotional planning activities apart from the advertising referred to above (e.g. calendars, posters, leaflets ... etc.)?
- Q47. How are salesmen compensated in your Organisation?
- Q48. Does your Organisation carry out any a) formal or b) informal marketing research?
- Q49. By whom is the marketing research carried out?
- Q50. When were the best marketing research studies of customers' buying influence, distribution channels, and competitors conducted?
- Q51. Has management been able to establish, with a reasonable degree of certainty, the sales potential and profitability of different market segments, consumers, territories and products?
- Q52. How is the marketing information system in your Organisation designed to serve the systematic use of existing information and systematic conducts of surveys?
- Q53. If the answer to either part of question 48 is negative, what are the main reasons for not undertaking any such marketing research?

Q54 Have you attempted to measure the cost-effectiveness of different retailing expenditures?

Q55 Does the Organisation have a specific supply strategy?

Q56. Does your Organisation ever experience shortages of supply?

Q57. Does your Organisation work under conditions of a seller's market (i.e. where demand exceeds supply)?

If Yes: What are the main reasons behind this situation?
(please distinguish between what you regard as temporary or permanent conditions)

Q58. What decisions does your Organisation take concerning its pricing strategy in times of shortages?

Q59. What constraints does the Organisation face if it attempts to impose price increases?

Q60. In times of shortages, does your Organisation adopt a policy of allocating products to customers?

Q61. In case of straight allocation, what are the main reasons behind this policy?
(please rank them in order of importance)

Q62. To what extent does your Organisation consider the following factors in allocating its goods?

	<u>A very considerable extent</u>	<u>considerable extent</u>	<u>uncertain</u>	<u>little extent</u>	<u>very little extent</u>
a) Careful market assessment	1	3	5	7	9

	<u>A very considerable extent</u>	<u>considerable extent</u>	<u>uncertain</u>	<u>little extent</u>	<u>very little extent</u>
b) Consumption patterns of consumers	1	3	5	7	9
c) Legal obligations	1	3	5	7	9
d) Ethical and moral obligations	1	3	5	7	9
e) Organisation interest in long-term contracts	1	3	5	7	9
f) Others (please specify)	1	3	5	7	9

Q63. We now turn to the issue of the applicability of modern marketing concepts and practices in developing countries (please indicate the extent to which you agree or disagree with the following statements:)

	<u>strongly agree</u>	<u>agree</u>	<u>uncertain</u>	<u>disagree</u>	<u>strongly disagree</u>
a) The application of the marketing concepts of greater importance to a country with a developing economy than to a mature industrial nation	1	3	5	7	9

	<u>strongly agree</u>	<u>agree</u>	<u>uncertain</u>	<u>disagree</u>	<u>strongly disagree</u>
b) Modern marketing concepts and practices can be applied to any form of economy irrespective of the degree of its development	1	3	5	7	9
c) The modern Marketing concepts and know-how of industrialised economies can be effectively transferred to developing countries only when supply exceeds demand for most products	1	3	5	7	9
d) Modern Marketing concepts and practices first perfected in developed economies may prove to have universal relevance if they are applied in each country with due regard for prevailing circumstances	1	3	5	7	9
e) If modern marketing knowledge and techniques are to be utilised in achieving economic growth, only those specific aspects applicable in developing countries can be drawn upon	1	3	5	7	9

strongly agree agree uncertain disagree strongly disagree

f) If modern marketing knowledge and techniques to be utilised in strategic marketing planning, only those specific aspects applicable to State firms in developing countries can be drawn upon 1 3 5 7 9

Q64. For each of the following marketing practices, please indicate which expresses your opinion about the applicability of those practices in developing countries - Iraq.

Marketing Practices	More applicable	Less applicable	Not applicable
a) Marketing research			
b) Up-to-date advertising			
c) Merchandise planning			
d) Product differentiation			
e) Market segmentation			
f) Credit policy			
g) Sales promotion			
h) Customer-services policy			
i) Better means of transportation			
j) Inventory Control techniques			
k) Sales forecasting advanced techniques			
l) Depot location techniques			
m) Supply policy			

APPENDIX THREE: AIDE MEMOIRE

- Q65. What steps do you think that the Organisation should take in order to utilise in Iraq, the marketing experience and know how accumulated over the past decades by developed countries?
- Q66. How can marketing techniques and know how in strategic marketing developed in Western Countries be transferred and utilised in the State Trading Organisations in Iraq?
- Q67. Does your Organisation suffer from a shortage of able professional planning staff? If yes, to what can this shortage be attributed?
- Q68. Does the Organisation have a marketing planning training scheme to develop the skills of its managers in this area?
- Q69. This part of the questionnaire deals with the Organisation in its relationship with the government.
Please indicate what governmental aids your Organisation receives?
- Q70. Do you think that the policy of the government is best suited to encourage business growth?
If Yes: In what ways?
If No: Please explain why?
- Q71. In your opinion what are the main constraints your Organisation face due to government interventions?

Thank you for your co-operation. Comments or suggestions are welcomed on any subject mentioned in the questionnaire.

Aide-Memoire For The Semi-Structured
Interviews with Presidents,
Managing Directors, Vice-Presidents
for Marketing, Director of Planning, and
Assistant General Managers for Marketing

1984

Aide-Memoire For The
Semi-Structured Interviews

- Interviewee's position
- Length of Service in the Organisation
- Length of Service in Present Position
- Qualifications and Training

- Q1. To what extent do you think that consumers' needs and wants should be the most influential factors in making all decisions in the Organisation?
- Q2. In your opinion, which is more important: the drive to increase sales volume or the drive to achieve the maximum possible profits? Is it the policy of your Organisation to examine periodically the profitability of its operations? If so, how often?
- Q3. Do you think that the Organisation's objectives are stated in clear form, quantified and measurable, to guide planning and subsequent performance measurement? Are they compatible with the Organisation's internal capabilities and external environment (i.e. economic, competitive ... etc.)?
- Q4. Does management take a whole marketing systems view (i.e. of suppliers, channels, competitors, customers, environment) in planning?
- Q5. Do you think it is necessary to develop a careful long-range plan? If so, what is the span of time? Is the current strategy clear, documented, data-based and well-reasoned?
- Q6. Do you consider that the chief marketing executives should always be a member of top management? Should he have status in the Organisation which is equal to that of finance executive ... etc?

(Organisational chart to be provided)

- Q7. What do you understand by the term "strategic marketing planning"?
- Q8. Does your Organisation work under conditions of a sellers' market (i.e. where demand exceeds supply for your products)? What are the main reasons behind this situation?
- Q9. Does your Organisation consider its product market to be competitive? Where does this competition come from? What is the nature of this competition (price or non-price competition)?
- Q10. In your opinion, does your Organisation suffer from a shortage of able professional marketing planning staff? To what reasons do you attribute this shortage, if any?
- Q11. Do you think that the modern marketing concepts and practices adopted by developed countries are applicable to firms in developing countries such as Iraq, particularly in strategic marketing planning?
- Q12. In your opinion, is the information system producing reliable, specific, detailed, adequate and timely information to serve the marketing planners?
- Q13. To what extent do government policy and laws affect the Organisation's objectives and strategies?
- Q14. Do you believe that current government policy connected with trade is best suited to encourage business growth?
- Q15. In your opinion, what are the main constraints your Organisation faces due to government intervention?
- Q16. Does your Organisation normally suffer from supply shortages? What are the reasons behind this situation? From which source of supply-foreign or local or national suppliers?

Q17. How could one introduce the importance of strategic marketing planning concepts and practices into the thinking of management? By what means and at what levels this can be achieved?

Q18. Would you like to add any further comments?

Thank you for co-operation and help