MARKETING IN SELECTED
UNDERDEVELOPED COUNTRIES

by

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required standard.

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ABSTRACT

This thesis attempts to identify the factors that affect the way marketing is conducted in selected underdeveloped countries and to find whether the marketing system is affected by the level of economic growth.

The background of the underdeveloped countries is first introduced to show the effects of social, cultural, economic and political factors that affect marketing and its role in the economy. The characteristics of the consumer markets, and the buying habits of consumers in the selected countries reveal certain peculiarities which can be attributed to the low stage of economic growth.

Monopolistic competition seems to be a common feature in many underdeveloped countries through the use of exclusive agencies or agency houses in the case of imported goods, the extensive use of credit at all levels of distribution and the existence of restrictive practices to lessen competition. However, certain fundamental reforms such as adequate grading systems, weights and measures, price information, credit extension and consumer education will eliminate many of the monopolistically competitive features to enable better distribution of goods at less cost, facilitate competition and economic growth.

Due to various factors the channels of distribution tend to be longer in underdeveloped economies, with a great
multiplicity of intermediaries at the retail level. If the marketing system is to be made more efficient some of these intermediaries will have to be displaced.
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CHAPTER I
INTRODUCTION

Since the end of the second world war, there has been a growth of nationalism which saw the breaking away or loosening of colonial ties in many underdeveloped countries. At the same time, there has been a great upsurge of interest in the economic development of the underdeveloped countries, due partly to the widening gap in income and development between the advanced countries and the underdeveloped countries, and partly due to the political cold war. Through rapid communication and improvement in education, the underdeveloped countries have also themselves become increasingly development-minded, embarking on economic development programs in the industrialization or diversification of their economies. This can be seen by the number of countries having their own economic development programs. For instance, India\(^1\) had already embarked on her third five year plan, the Federation of Malaya\(^2\) is now in the midst of her second five year development plan, while Singapore\(^3\) is nearing the end of her first four year plan.


While much has been written about the economic development of the underdeveloped countries, attention has been devoted almost exclusively to the problems of increasing industrial production, capital financing of development programs and correcting unfavorable balance of trade and payments. The field of marketing has generally been treated with neglect in the literature of such countries. According to Drucker, "marketing has traditionally been the forgotten area of economic thinking".\(^1\) Even the publications of the United Nations dealing with economic development rarely refer to marketing. While matters like industrial production, financing and the like deserve priority, marketing is also of considerable importance in the economic development of underdeveloped countries. An instance of the emphasis on industrial production in the development program without at the same time developing the marketing structure is evident in Egypt where serious marketing problems have been encountered.\(^5\) Several leading Egyptian textile companies requested the government that no further expansion of their industry be attempted before market studies were made to determine the extent of consumer demand for present and future products. Even the efforts of the United States in aiding the underdeveloped countries has been through financial


and technological assistance, while neglecting a "most productive exportable commodity -- American marketing know-how".  

An efficient marketing system is of critical importance to a country under all phases of economic development in that it gives place, time and possession utilities. In an underdeveloped country, an improved marketing system might induce more producers to manufacture for the market by providing them with standards, with quality demands and with specifications for their products. An improved system would make the product capable of being brought to markets instead of perishing on the way. Consumers then would have access to larger volumes of supplies from more numerous sources as more producers enter the market sector. At the same time, consumers would be encouraged to obtain the greatest value for their limited purchasing power. Thus marketing could make a critical contribution to the development of these countries through the adoption of improved marketing methods.

In most of these countries, markets might be very small, often too small to make it possible to organize distribution for a single-product line in an effective way. The result is that without a marketing system many products for which there is an adequate demand could not be distributed, or they could be produced and distributed only under monopoly conditions. In such a situation, a marketing system is

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needed to serve the many small producers if any of them is to be able to come into existence and to stay in existence.

The development of marketing can act as a force for economic development, particularly in the area of the development of entrepreneurs and managers. It contributes to the greatest need of an underdeveloped economy in the form of a systematic discipline which can both be learned and taught in the fields of business management and entrepreneurship.\(^7\)

The importance of marketing in the economic development can best be summed up by Drucker:

> Without marketing as the hinge on which to turn, economic development will almost have to take the totalitarian form. A totalitarian system can be defined economically as one in which economic development is being attempted without marketing, indeed as one in which marketing is suppressed. Precisely because marketing first looks at the values and wants of the individual, and because it then develops people to act purposefully and responsibly -- that is, because of its effectiveness in developing a free economy -- marketing is suppressed in a totalitarian system. If we want economic development in freedom and responsibility, we have to build it on the development of marketing. \(^8\)

**Objective of the Study**

This study attempts:

First, to identify the factors that affect the way

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\(^7\)Drucker, *op. cit.*, p. 252.

\(^8\)Ibid., p. 259.
marketing is conducted in selected underdeveloped countries, and, second, to find whether the marketing system is affected by the level of economic growth.

Under the first objective, the following factors will be examined in various parts of the study, such as:

a) Political factors: -- the effect of colonial domination in some of the countries, and government attitudes toward industrial production and marketing.

b) Social factors: -- the attitudes of local people toward traders and businessmen, money, competition, bargaining, service, credit, advertising, branding and packaging.

c) Economic factors such as money income and income distribution and its effect on the population, consumption, channels of distribution, flow of capital and demand for and use of credit.

d) Legal factors which affect competition and pricing.

Under the second objective, an attempt will be made to explore whether the various stages of economic development (such as Rostow's model of economic growth) have an effect on the marketing system.

**Scope of the Study**

This study will be confined to the marketing of consumer goods with focus on non-food products in underdeveloped countries and not to the marketing of primary products such as:
rubber, cocoa, coffee, tea, cotton, tin, lead, copper or petroleum, though they may be mentioned in passing.

The countries covered will be limited to selected countries of Asia, Africa, and Latin America such as the Federation of Malaya, Singapore, India, Egypt, Ghana, Nigeria, Mexico, Puerto Rico and Venezuela, where possible. Examples of existing marketing practices will be drawn from these countries. However, other underdeveloped countries will also be mentioned in the course of the study.

The countries to be included were chosen on the basis of the availability of studies and data on their marketing practices. Though it would have been preferable to include a range of countries ranging from the least developed to the most developed of the underdeveloped countries, lack of available studies and data have prevented this broadening in scope. The countries selected can be viewed as being in the middle or toward the upper range of development among the underdeveloped countries. It was also felt useful to choose countries from three different continents instead of confining the study to one particular continent. Doing this would allow for an investigation of the similarities and differences in legal marketing systems due to different political, social, economic and legal factors.

Research Methodology

The material for this study has been abstracted
principally from secondary sources, particularly from journals, reviews, and business magazines connected with marketing, business, economic development, social development, and political development in various underdeveloped countries where studies of one kind or another have been made. Publications from the United Nations providing unique factual data were another source with those from the Department of Economic Affairs and the International Bank for Reconstruction and Development. Where on-the-spot studies were available from the selected countries, they were used to substantiate statements made in the study. The statistical data were taken from various reports and journals, including demographic and social statistics from the United Nations' publications. Some of the data were compiled to fit into the required context of this study, such as the tables on principal exports as percentages of total exports, literacy rate in selected countries and the table on motor vehicles and telephones in use.

Limitations of the Study

Many difficulties were encountered in gathering material on marketing in underdeveloped countries due to inadequate marketing literature compared to the North American continent where market studies and research are in an advanced stage of development. As such, this study was confined to selected countries where some studies have been made and where some statistical data were available.
Too much emphasis, however, should not be attached to the statistics alone for some of the data might not be accurate by western standards. For instance, the population estimates in Tropical Africa might be as much as twenty-five per cent in error. The use of statistical data is useful in certain fields of study where the important and relevant factors can be quantified. But in other fields (such as this study), reliance on statistics alone, unsupported by other forms of evidence such as by observation and personal knowledge of the conditions concerned, is insufficient. For instance, the dependence of producers on a particular commodity cannot meaningfully be measured by cash income alone, since it is also affected by the ease of entry into alternative activities, which cannot be inferred from statistics.

An important limitation of the use of statistical data can be seen from the observations of the trade in Ghana and Nigeria by Bauer and Yamey. Although a large proportion of people were engaged in trading, the majority of them as part-time traders, the official occupational statistics showed it to be an insignificant occupation. This is because precise occupational statistics are inappropriate in many underdeveloped countries where there is still imperfect

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specialization of labor. Such statistics must be used with care.

The study was also limited by inadequate information on the effect of agency houses on the marketing system which are peculiar to countries under the British colonial influence, such as the Federation of Malaya, Singapore, Ghana and Nigeria. The lack of research studies concerning the nature of consumer spending, consumer attitudes toward advertising, branded products and packaging, the pricing practices and profit margins, the number, size, capital turnover and per capita sales in wholesaling and retailing, as well as the legal aspects of marketing also proved to be a handicap. Though they were touched upon in this study, a more intensive investigation would greatly enhance the clarity of the marketing system.

The writer feels that there is a great need for a more intensive study of the market structure, the attitude of businessmen towards competition, consumers and the like in the underdeveloped countries if the potentialities of not only improved marketing but also intensified industrialization or diversification are to be adequately assessed. This is usually handicapped by the expense, lack of trained personnel, and other related difficulties of carrying out sustained local investigations or surveys in an underdeveloped economy.

Chapter Organization

Chapter II reviews some of the social, economic and
political factors responsible for the lack of development of marketing in underdeveloped countries. Topics discussed are attitudes toward middlemen, a development of a monetized economy and the neglect of marketing in technical aid programs. An outline of the stages of economic growth, following Rostow's model, is presented followed by some comments on the characteristics of the underdeveloped countries. The purpose of this data is to provide the background for further analysis and to put the study into context.

Chapter III is devoted to a discussion of marketing and economic development in underdeveloped countries. It attempts to show how the improvement of the marketing system can stimulate economic growth, become the multiplier of managers and entrepreneurs and a developer of standards.

The study attempts, in Chapter IV, to describe the characteristics of the consumer market in selected countries. Variables considered are the size of the market in terms of population, per capita income, income distribution, employment, urbanization, consumer expenditure, education, transport and communication.

Chapter V contains a description of the buying habits and patterns of consumers such as hand-to-mouth buying, bargaining, the use of servants to purchase food products, the need for service, demand for credit, brand preference and the impact of foreign residents on local consumers.
Next, in Chapter VI, the study focuses on a description and analysis of the channels of distribution used with particular reference to the buying and selling practices, pricing, credit and competition at the various levels of distribution. The role of the agency houses, the various forms of retailing and the multiplicity of middlemen are highlighted.

Chapter VII discusses promotion in underdeveloped countries. A brief introduction is made of the development of promotion, starting from promotion in a simple market to the more complex methods used in the more advanced economies. Personal selling and promotional devices such as advertising through newspapers, magazines, radio, television and cinemas are further discussed.

Chapter VIII provides the summary and conclusions of the study.

APPENDIX. DEFINITIONS OF TERMS

Underdeveloped Country or Underdeveloped Economy

The term is defined as a country "in which per capita real income is low when compared with the per capita incomes of United States, Canada, Australia, Asia and Western Europe". Sometimes an underdeveloped country may

11United Nations, Department of Economic
be referred to as a poor country.

The above term is a comparative one and refers to the performance of a country's economy. To designate a country as underdeveloped implies "poor economic performance as evidenced by the comparatively low average of consumption and material well being of the people, plus the potentiality of improvement through the application of known means".\(^2\) Outside the economic sphere, an underdeveloped country may be highly developed, for instance, in art or religion.

**Economic Development or Economic Growth**

The terms economic development and economic growth are used interchangeably in the study. "Economic development is a process whereby an economy's real national income increases over a long period of time. And, if the rate of development is greater than the rate of population growth, then per capita real income will increase."\(^3\)

The marketing definitions\(^4\) given below are in

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\(^4\) Unless otherwise footnoted, the marketing
alphabetical order:

Advertising

Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. It involves the use of such media as magazines and newspaper space, radio, television, motion pictures, outdoor (posters, signs, etc.), direct mail, circulars, catalogues, directories and references.

Brand

A name, term, symbol, or design, or a combination of them which identifies the goods or services of one seller or group of sellers and distinguishes them from those of competitors.

Channels of Distribution

The structure of intra-company organization units and extra-company agents and dealers, wholesale and retail, through which a commodity, product, or service is marketed.

Distribution

The term distribution is often used as synonymous with Marketing. For a specialized sense in which it is sometimes used in this field see Physical Distribution.

definitions were taken from Ralph S. Alexander (Chairman), Marketing Definitions, compiled by Committee on Definitions of the American Marketing Association, Chicago: American Marketing Association, 1960.
Market

(1) The aggregate of forces or conditions within which buyers and sellers make decisions that result in the transfer of goods and services.

(2) The aggregate demand of the potential buyers of a commodity or service.

Marketing

The performance of business activities that direct the flow of goods and services from producer to consumer or user.

Marketing Research

The systematic gathering, recording, analyzing of data about problems relating to the marketing of goods and services. Such research may be undertaken by impartial agencies or by business firms or their agencies for the solution of their marketing problems.

Physical Distribution

The management of the movement and handling of goods from the point of production to the point of consumption or use.

Promotion

Broadly speaking, promotion is any method of inform-

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ing, persuading, or reminding consumers—wholesalers, retailers, users, or final consumers—about the marketing mix of product, place and price which has been assembled by the marketing manager.

**Retailer**

A merchant, or occasionally an agent, whose main business is selling directly to the ultimate consumer.

**Retailing**

The activities involved in selling directly to the ultimate consumer.

**Sales Promotion**

(1) In a specific sense, those marketing activities, other than personal selling, advertising, and publicity, that stimulate consumer purchasing and dealer effectiveness, such as display, shows and exhibitions, demonstrations, and various non-recurrent selling efforts not in the ordinary routine.

(2) In retailing, all methods of stimulating customer purchasing, including personal selling, advertising, and publicity.

**Wholesaler**

A business unit which buys and resells merchandise to retailers and other merchants and/or to industrial, institutional, and commercial users, but which does not sell in significant amounts to ultimate consumers.
CHAPTER II

BACKGROUND OF UNDERDEVELOPED COUNTRIES

This chapter provides the background data on the underdeveloped countries. It reviews the social, economic and political factors contributing to the lack of development in marketing such as the social attitudes toward the middlemen and his functions, the attitudes toward the monetary economy, the role of marketing in the development programs and in technical aid programs. An outline of the stages of economic growth, following Rostow's model, is given, followed by some comments on the characteristics of the underdeveloped countries, such as the primary export orientation, the neglect of the domestic sector, the effect of colonial domination, and other related factors and their implications on the economics.

LACK OF DEVELOPMENT IN MARKETING

In most of the underdeveloped countries, there is a strong pervasive prejudice against the trader, merchant or middleman. He is often placed at the bottom rung of the social ladder by the various societies. In Japan, for instance, the merchant class was placed at the bottom rung of the social hierarchy during the period of Japanese feudal society - the period before she reopend her doors to the western world. Although such social classes have been
abolished, traditions remain strong so that many Japanese still try to avoid the social stigma of being classed as a merchant. This is partly due to a lack of appreciation of the social value of the functions performed by merchants - a condition not peculiar to the Japanese public.

In the case of India, marketing is considered a wasteful activity. Middlemen and salesmen are still regarded as unproductive and are viewed as schemers trying to profit at the expense of the other members of the community. Those traders seeking a profit are thought to be unworthy. This is particularly applicable to a trader who takes an aggressive approach to sell something which he did not make but which will bring a profit to himself.

In large parts of South East Asia, the local culture and religion discouraged the native inhabitants from following commercial pursuits. For instance, in a Muslim society, religious tenets forbid the taking of interest. This is in direct conflict with a capitalistic society where one of the basic intents of the system is the accumulation of profits and interest. It is therefore not surprising that the business world remains a closed door to members of the Muslim society. In Tropical Africa, because of tribal customs, many Africans:

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have refused to become tradesmen, especially retailers, lest their kinfolk help themselves to their merchandise inventories, viewing them as their relatives' personal possessions. In parts of Latin America, with centuries of Spanish or Portuguese colonial rule, many of the social values of the mother country had been implanted. In the Spanish empire, prestige went to the soldier, the doctor, the lawyer, the priest, the land-lord and the bureaucrat. The merchant was tolerated but not placed in the upper social class.

Often, marketing profits are believed to be arbitrary and unearned. Many Africans, for instance, tend to believe that the wealth of the traders in West Africa had been taken or extracted from the Africans, believing wealth to be a limited quantity to be divided between different members of society. This view is sometimes shared by some administrators, at least by implication. The view stems from the fact that many traders, mostly non-Africans in Tropical Africa and Chinese in South East Asia, started operations with little or no capital so that the increase in their capital and riches through time became apparent. It is not understood that marketing can be a productive activity leading to the genera-

5 Throughout this study, West Africa refers to Ghana and Nigeria.
tion of increasing wealth, brought about by the application of effort and skill and by the accumulation and use of capital. The benefits which traders reaped from their marketing activities are much more obvious, while the benefits to consumers and producers, the increase in employment of labor and in opportunities for other entrepreneurs tend to be dispersed and hence not immediately and easily identifiable.

The inherent nature of marketing may account in large measure for the low evaluation placed on it. Unlike production, the economic contribution of marketing enhances the value of a product through place, time, and possession utilities and contributes to society in an intangible way. Because of this, many people seem to think that marketing involves an economic cost without corresponding benefit and hence is something that can be eliminated or at least minimized.

Another factor is that marketing activity cannot progress very far without the use of money, unlike production which can develop to a considerably greater extent. The use of money is still a recent innovation in many underdeveloped countries and there is an aura of mystery connected with the strange medium of exchange.

The lack of ease with money and a suspicion of activities that depend on it is enhanced by the fact that traders, the principal handlers of money, frequently are members of strange and exotic ethnic groups and communities. 7

7Leon V. Hirsch, "Wholesaling in India", in Bartels, op. cit., p.137.
In India, for instance, particular castes have been traditionally identified with trading and money lending. In South East Asia, the traders are Chinese, in West Africa, mostly Levantines, and in East Africa, mostly Indians. Unfavorable feelings about money and the people who deal with it can easily spread to the marketing process as a whole.

In the underdeveloped countries the emphasis of foreign and domestic economic development agencies has been on material production of goods. Often, improving the real standards of living has been equated with increasing the production of material goods alone so that the challenge of increasing production of material goods absorbs the efforts of economic development agencies. Therefore, it is not surprising that the more glamorous fields such as manufacturing and construction are generally high-lighted as is the case in Egypt where the production function is regarded as the major activity of management. This is also true of Japanese producers, as noted in a study by Dowd.

Typically, Japanese producers are more interested in technological problems than in marketing. As is quite common in underdeveloped areas, emphasis is placed on industrial technology. The need for a well developed internal marketing organization simply has not been recognized. The feeling seems to exist that,

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if a product is produced with a high degree of technological efficiency it will sell itself. Consequently the executives of an enterprise ... give little or no thought to improvement in distribution or the product. 9

In the now developed economies it is quite likely that similar conditions might have prevailed in earlier times when producers were much less interested in marketing than they are today.

To go back into the past of New England woolen mills, I recall the son of a mill owner harking back to the 'good old days' when his father ran the mill. Then they produced blue serge which they shipped to a New York suit manufacturer. The factory absorbed a certain number of thousands of yards of blue serge every year, and if it wasn't converted into suits this year it would be the following year. Neither mill nor converter had to worry about selling; the serge cloth was as good as money in the bank, so it was a simple production problem which had to be solved, not a series of marketing, planning, design, and style problems as it is now. 10

The emphasis on industrial production in the development programs of emerging countries without at the same time developing the marketing system is evident in the case of Egypt. 11 Since 1952 much industrialization has taken place in

9Dowd, op. cit., pp. 257-258.
11Boyd, Sheribini and Sherif, op. cit., p. 28.
Egypt but not without encountering serious marketing problems. Several industries, like textiles, artificial silk and cement have difficulty in marketing their increased production. In 1957, several leading textile companies requested of the government that no further expansion of their industry be attempted before market studies were made to determine the extent of consumer demand for present and future products.

Furthermore, the production of material goods is relatively easy to measure and accurate quantitative data facilitates economic planning. The production of services, however, is very difficult to quantify, particularly in underdeveloped countries where the service industries consist of a number of small traders whose occupations may not be clearly specialized, as in West Africa, Egypt and India. Partly due to the lack of accurate data, the marketing sector has been ignored or treated very superficially in some of the underdeveloped countries.

In some underdeveloped countries, inefficient marketing systems serve as a dole for the unemployed, that is, the marketing sector provides an important form of unemployment relief. Since entry into retailing is very easy as an alternative to idleness, as in Puerto Rico, Egypt, Ghana and Nigeria, the government would be reluctant to tamper with this convenient method of partially supporting the unemployed.

12 See for instance, Stevens, op. cit., p. 421.
If the government takes steps to improve the marketing efficiency, what is in most cases an already burdensome unemployment problem would be aggravated. From the government's point of view, those going into retailing may be a satisfactory substitute for an unemployment insurance scheme which many underdeveloped countries are not in a position to operate. Since the administrative costs of such indirect unemployment compensation are zero, the government would be reluctant to improve the marketing system in a context of under-employment.

Neglect in Technical Aid Programs

It is not only the underdeveloped countries which have neglected the development of marketing, the advanced countries too have ignored certain basic aspects of marketing in their technical assistance programs. The United States has supplied underdeveloped countries with financial and technical aid in the fields of agriculture, industry and transportation, but has virtually neglected to provide aid in marketing know-how. This neglect is understandable, for the contribution of marketing to the economy is often intangible and there is yet no body of theory concerning the course of marketing development. The recipient countries themselves are not particularly interested in a significant amount of

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13 Emlen, op. cit., p. 76.
aid directed toward marketing. The other key factor is the
great difficulty of transmitting of skills in marketing
techniques than in giving aid in the various aspects of pro-
duction which are more tangible and less affected by social
and cultural influences.

It is generally more complicated and difficult to
transpose a marketing system than it is a production system.

You can build machinery that will operate:
in the same way in India as it will in the
United States; Americans can go overseas to
set up the equipment or build the factories.
The equivalent certainly cannot be done
with a whole marketing system because of
fundamental differences in culture and
social structure. ¹⁴

Moreover, assistance in production can be directed
towards a small modernized sector of the underdeveloped
economy, while it is more difficult to approach marketing
piece-meal since it is much more pervasive throughout the
economy, handicapped as it is by the subsistence sector which
still forms a substantial part in some of the underdeveloped
countries. Differences in individual attitudes, social
customs, business institutions, education, means of communi-
cation and government influences are other obstacles. Any
aid in marketing will have to be readapted and implemented
gradually;

¹⁴Myers and Swalley, op. cit., p.391.
THE STAGES OF ECONOMIC GROWTH

Rostow's model of the five stages of economic growth is used here as a guide as to how countries progress from one stage to another.

During Stage One, the traditional society operates within limited production functions. Its central feature is the ceiling on the level of the attainable output per head.

Generally, these societies, because of the limitation on productivity, had to devote a very high proportion of their resources to agriculture; and flowing from the agricultural system there was a hierarchial social structure, with relatively narrow scope for vertical mobility. Family and clan connections played a large role in social organization. The centre of gravity of political power generally lay in the hands of those who owned or controlled the land.

This is followed by the establishment of the preconditions for take-off, a period of transition when the traditional society is transformed to enable it to exploit the fruits of modern science, to fend off diminishing returns, and thus to enjoy the blessings and choices opened up by the march of compound interest.

New types of enterprising men come forward in the private economy and in

16 Ibid., p.5.
17 Ibid., p.6.
government, willing to mobilize savings; and to take risks in pursuit of profit or modernization... The scope of commerce, internal and external, widens,... modern manufacturing appears, using the new methods. But all this activity proceeds at a limited pace within an economy and a society still mainly characterized by traditional low-productivity methods, by old social structure and values... 18

Next follows the take-off stage,

the great watershed in the life of modern societies...when the old blocks and the resistance to steady growth are finally overcome...growth becomes its normal condition. 19

It is at this stage that new industries begin to expand rapidly and a large proportion of profits are reinvested in new plants which, in turn, stimulate the services to support them. The expansion of the modern sector results in an increase in income and savings which are made available for investment in modern sector activities. 20

The take-off is followed by the drive to maturity, which is completed when maturity is achieved.

The make-up of the economy changes. Unceasingly as technique improves, new industries accelerate, older industries level off. The economy finds its place in the international economy: goods formerly imported are produced at home; new import requirements develop, and

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18 Ibid., pp. 6-7.
19 Ibid., p. 7.
20 Ibid., p. 8.
new export commodities to match them...
Some sixty years after take-off begins
(say, forty years after the end of take-off), what may be called maturity is
generally attained...as the stage in
which an economy demonstrates the capacity
to move beyond the original industries
which powered its take-off and to absorb
and to apply efficiently over a wide
range of its resources—if not the whole
range—the most advanced fruits of modern
technology. 21

Then comes the age of high mass-consumption, a
phase from which Americans are beginning to emerge, in which
Europe and Japan are beginning energetically to probe and
in which the Soviet society is engaged in an uneasy flirtation.
As societies reach maturity two things take place:

...real income per head rose to a
point where a large number of persons
gained a command over consumption which
transcended basic food, shelter, and
clothing; and the structure of the
working force changed...increased not
only the proportion of urban to total
population, but also the proportion of the
population working in offices or in skilled
factory jobs—aware and anxious to acquire
the consumption fruits of a mature economy. 22

Following Rostow's stages of economic growth, it is
implied in stage five, that is, the age of high mass-
consumption, that it is only at this stage that marketing
and other services (tertiary production) become very important
for "...it is at this stage that resources tend increasingly
to be directed to the production of consumers' durables: and

21Ibid., p.9.
22Ibid., p.10.
to the diffusion of services on a mass basis, if consumers' sovereignty reigns". 23

This seems to be in accord with Colin Clark's view that as economic development takes place, tertiary production becomes increasingly important relative to primary and secondary production. 24 Clark mentions that for ease of comparison,

production may be defined as primary, secondary, and tertiary. Under the former we include agricultural and pastoral production, fishing, forestry and hunting. Mining is more properly included with secondary production, covering manufacture, building, construction and public works, gas and electricity supply. Tertiary production is defined by difference as consisting of all other economic activities, the principal of which are distribution, transport, public administration, domestic services and all other activities producing a non-material output. 25

Having outlined the stages of growth and its characteristics, it can be seen that the underdeveloped countries can be placed between stage one to stage three, that is, the traditional society, the preconditions for take-off and the take-off stage, while the advanced countries will be between stage four and stage five, that is, the drive to maturity and the age of high mass consumption. The stages

23 Ibid., p. 11.
25 Ibid.
of economic growth will greatly affect the characteristics of the underdeveloped countries, as discussed below.

CHARACTERISTICS OF THE UNDERDEVELOPED COUNTRIES

The underdeveloped countries have also been referred to as the "poor" or "low income" countries. This is shown by the fact that although they account for two-thirds of the world's population, they receive less than a sixth of the world's income. In a ranking of countries of the world by real per capita income, the poor countries would be at the bottom end of the list. The extent of development has been limited in these countries relative to their populations, so that real per capita income has remained low. Rich countries, in contrast, are at the top of a ranking of countries of the world by real per capita income: development in these countries has been intensive relative to population growth so that real per capita income is high.

Other characteristics of underdeveloped countries include overpopulation in relation to such economic factors as land and capital. The population pressure is due to the high birth rates and the falling death rates which create a large number of dependent children per adult. A large proportion of the population is engaged in agriculture,

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usually some 60 to 90 per cent. Disguised unemployment is prevalent in certain countries which means that such labor can be withdrawn from agriculture without reducing agricultural output even though no significant reorganization of production or substitution of capital occurred in this sector. Due to low income, there is practically little or no savings for the mass of the people. There is a great reliance on exports of agricultural products and raw materials. Some of these characteristics will be elaborated in later paragraphs.

Even in respect of the above characteristics, there are great differences between the various underdeveloped countries. For instance, Higgins distinguishes four categories of underdeveloped countries. The first group he classifies as those countries which are currently undertaking enough industrialization and agricultural improvement to bring substantial increases in per capita income, such as Brazil, Ceylon, Mexico, Philippines and Venezuela. The second group are countries like Burma, Thailand and Pakistan, whose per capita incomes are currently very low (under $100 per year), and which do not appear to have abundant resources relative to the size of their populations, but where per capita income is currently rising. The third group consists of countries which are poor and stagnant in which per capita income show no rising trends, but which are relatively rich in resources, like Indonesia. Finally, there are countries which are very

poor (below $100 per year), which are stagnant and which are also poor in resources like Libya, Jordan and Yemen.

**Primary Export Oriented**

Most of the underdeveloped countries are primary export oriented. Indeed, exports play a strategic role in underdeveloped countries, as can be shown from Table 2.1. In underdeveloped countries, primary exports account for a very high percentage of the total value of exports, going as high as 90% in the case of petroleum exports in Venezuela. In the case of Egypt, cotton accounted for 75% of the total value of exports, cocoa formed 70% in Ghana, while palm oil and palm kernels, cocoa and groundnuts, made up 70% of exports in Nigeria. In the case of the Federation of Malaya (henceforth referred to as Malaya), rubber and tin accounted for 83% of exports, and 80% for tea and rubber in Ceylon. While the exports of Mexico are diversified, the combined primary exports of cotton, coffee, lead, silver and petroleum accounted for 60%.

Another aspect of the importance of primary exports to underdeveloped countries can be shown by exports as percentage of Gross National Product. It went up as high as 54% for Puerto Rico, 51% for Malaya, 34% for Ceylon, while it was 6% for India. See Table 2.2 for selected countries.

Most of the underdeveloped countries derive their
### TABLE 2.1

**PRINCIPAL EXPORTS AS PERCENTAGES OF TOTAL EXPORTS**

**IN SELECTED COUNTRIES**

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Principal Export</th>
<th>% of Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Egypt</td>
<td>1958</td>
<td>cotton</td>
<td>75</td>
</tr>
<tr>
<td>2. Ghana</td>
<td>1949-51</td>
<td>cocoa</td>
<td>70</td>
</tr>
<tr>
<td>3. Nigeria</td>
<td>1949-53</td>
<td>palm oil and palm kernals, cocoa, groundnuts</td>
<td>31</td>
</tr>
<tr>
<td>4. Mexico</td>
<td>1950</td>
<td>cotton, coffee, silver, petroleum, lead</td>
<td>26</td>
</tr>
<tr>
<td>5. Puerto Rico</td>
<td>1949</td>
<td>sugar and molasses</td>
<td>60</td>
</tr>
<tr>
<td>6. Brazil</td>
<td></td>
<td>coffee</td>
<td>60</td>
</tr>
<tr>
<td>7. Venezuela</td>
<td>1959</td>
<td>petroleum</td>
<td>90</td>
</tr>
<tr>
<td>8. Fed. of Malaya</td>
<td>1948-56</td>
<td>rubber, tin</td>
<td>64</td>
</tr>
<tr>
<td>9. Burma</td>
<td>1948-56</td>
<td>rice</td>
<td>78</td>
</tr>
<tr>
<td>10. Ceylon</td>
<td>1948-56</td>
<td>tea, rubber</td>
<td>58</td>
</tr>
<tr>
<td>11. Indonesia</td>
<td>1948-56</td>
<td>rubber, petroleum, tin</td>
<td>40</td>
</tr>
<tr>
<td>12. India</td>
<td>1954</td>
<td>tea, jute, cotton</td>
<td>23</td>
</tr>
</tbody>
</table>

**SOURCE**


revenue from primary exports through export duties,\textsuperscript{28} often highly progressive in nature. For instance, in Malaya the export duties on rubber are based on a sliding scale, depending on the prices of rubber, so that as the prices of rubber rise above a certain level the export duties become steeply progressive. The revenue collected on exports as a percentage of the total value of exports was 29.1\% for Burma, 11.8\% for Indonesia and 9.9\% for Malaya for the period 1948-56.\textsuperscript{29}

Viewed from another aspect, the revenue collected on exports as percentage of total government revenue showed a high of 60\% for Venezuela in 1959,\textsuperscript{30} 40.1\% for Burma and 32.2\% for Malaya for the period 1948-56.\textsuperscript{31} This illustrates how significant a contribution export revenues make to the government coffers of these underdeveloped countries. With the export earnings they derive, they are able to import food products, manufactured goods, machinery and other products, not produced under their economic systems.

More specifically, the importance of primary exports can be illustrated from the case of Malaya. Rubber and tin form the life blood of the Malayan economy. Rubber accounted


\textsuperscript{31}Silcock, \textit{op. cit.}, p.150.
in recent years for 60% of the value of total exports. Approximately two million or 30% of the total population are directly dependent on rubber, while in recent years 15.4% of government revenues were derived from export duties on rubber. Of the total cultivated area of 5.5 million acres, the area under rubber is 3.5 million acres or 63.5% of the total cultivated area.

Malaya is also the largest producer of tin in the world, accounting for a third of the total output. The exports of tin accounted for 20% of the total exports, while export duties from it accounted for 12.3% of government revenues in recent years.  

**Domestic Sector Neglected**

In the past foreign private business investment has tended to shy away from industries working for the domestic manufacturing market in the underdeveloped countries and to concentrate on the traditional pattern of investment in primary production for exports or the colonial type of investment in plantations and mines.

The economic explanation is that, on the one hand, there is the large and expanding international market for primary products and, on the other, the poverty of the local

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<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Exports as % of G.N.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico¹</td>
<td>1951</td>
<td>17</td>
</tr>
<tr>
<td>Puerto Rico²</td>
<td>1957</td>
<td>54</td>
</tr>
<tr>
<td>Venezuela³</td>
<td>1959</td>
<td>20</td>
</tr>
<tr>
<td>Fed. of Malaya⁴</td>
<td>1949-53</td>
<td>51</td>
</tr>
<tr>
<td>Burma⁴</td>
<td>1948-56</td>
<td>24</td>
</tr>
<tr>
<td>Ceylon⁴</td>
<td>1948-55</td>
<td>34</td>
</tr>
<tr>
<td>Indonesia⁴</td>
<td>1952-55</td>
<td>12</td>
</tr>
<tr>
<td>India⁵</td>
<td>1955-56</td>
<td>6</td>
</tr>
</tbody>
</table>

**SOURCE**


consumers in the underdeveloped countries means there is a small domestic market. To stimulate development in the export economies outside the export industry, a domestic market is needed which would encourage investment in production for it. But in many export economies, such a domestic market did not exist since their members had low money incomes and were largely self-sufficient. The small size or non-existence of a middle class and the narrowness of the domestic market could contribute little effective demand and the export industry earnings were not diffused among a large enough number of domestic consumers to attract the investment for domestic production of consumer goods. The export earnings went either to foreign owners or to a tiny minority of the indigenous population who were not interested in domestic development.

Moreover, the high profits in the export industries rendered investment in production for the local markets more unattractive. This is shown in the sugar economies of the West Indies where the higher speculative profits of the export industries resulted in an unwillingness to invest in domestic production which came to be known as the "sugar-mentality". Investment funds set aside from the export industry earnings were seldom directed to the rest of the economy. The savings were either invested in the more profitable opportunities abroad or in other local export industries producing for the


34Levin, op. cit., p.8.
international market or in real estate so that the domestic manufacturing sector failed to develop.

Despite decades of participation in international trade, most of the underdeveloped countries have remained at low levels of economic development. Their entry into international trade was quite sudden and was thrust upon an economy still operating on a subsistence level, without the preconditions of accelerating growth in the internal domestic sector. The result is that the export sector of the underdeveloped countries has not always succeeded in propelling the rest of the economy forward. This may be due to the "existence of monopolistic and monopsonistic elements, ignorance of market conditions, limited specialization in occupations and trade, and other obstacles..."\(^{35}\)

This is in contrast to the past course of development in some countries, that are now considered as the advanced countries, where the export sector was a key propulsive sector. "As overseas demand widened the market for particular commodities, there were induced effects on the growth of other domestic industries and on the creation of new factors and new products..."\(^{36}\) The preconditions for accelerating growth had already been established in such countries like


\(^{36}\text{Ibid., p. 283.}\)
the United States, Canada, Sweden, and Japan.\(^37\) Hence, foreign investment and expanding exports were able to play a significant role in supporting the take-off into sustained growth.

**The Effect of Colonial Domination**

Moreover, most of the underdeveloped countries were at one time or another, and some still are, under the control of a colonial power. In most cases, economic and political control were firmly held in the hands of the colonial power whose major interest was in the profitable exploitation of the raw materials for her own expanding industries as well as selling in return manufactured goods to the dependencies. Though it led to the development of the export sector, the benefits did not diffuse through the domestic sector of the economy, leaving the traditional society persisting side by side with the flourishing export sector. Thus economic and political contact with the outside world turned many underdeveloped countries into a supplier of raw materials and an importer of manufactured goods. So long as they had no political control to remedy the situation, this position persisted through the decades and resulted in slow development in many of these export economies.

The result of western political domination and

\(^{37}\text{Rostow, } \textit{op. cit.}, \text{ p.}^{40}.\)
economic exploitation in the underdeveloped countries has led to political unrest, a drive towards nationalism and the urge to industrialize. Since the second world war, many underdeveloped countries have revolted against the political and economic systems which had resulted from contacts with the advanced countries. In many parts of Asia and Africa, this revolt brought about the breaking or loosening of colonial ties. In some of the countries of Latin America, it brought a weakening of the power of the landed aristocracies and the adoption of broader based welfare goals. According to Rostow, the political decision to do away with the traditional landed regional interests, the colonial power or both, is a decisive factor for the preconditions for the take-off.\textsuperscript{38} The reaction has been hastened by the development of rapid communication and education which awakens the people of these countries to the idea that not only is economic progress possible but that economic progress is a necessary condition for national pride, better material standards of living and a better life for their children.

**IMPLICATIONS OF BEING PRIMARY EXPORT ORIENTED**

Since primary commodities are vulnerable to price fluctuations and because of the great importance of primary exports to the underdeveloped countries: national income, rate of savings, capital formation, government revenue, progress

\textsuperscript{38}Ibid., p.8.
of economic development programs, and monetary stability are all affected when there are international commodity price changes. Such changes easily lead to instability of such economies. When a country is heavily dependent on a few primary exports, fluctuations in export earnings tend to have a very considerable impact not merely on the balance of payments but on the internal economy as well. A large increase in foreign demand for the domestic primary products tends to enlarge the export industries' profits. These profits become the primary force for subsequent economic expansion throughout the economy if the government allows the increased purchasing power to be used and to exert its multiplier effects. The result is an abrupt increase in the volume of consumption, or higher prices, or both. Gains which might have been used for development will therefore be largely "wasted" and adjustment to the subsequent export decline becomes rather difficult.

Since in most primary exporting countries, customs duties and other charges on exports provide the largest share of the government's revenue, an export decline tends to create serious difficulties for the budget. When governments tried to maintain their level of expenditure in spite of an

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40 For an interesting discussion on export instability, refer to United Nations, Economic Commission for Asia and the Far East, "Export Instability in the Primary Exporting Countries," an article in T.H. Silcock, *op. cit.*, pp. 106-170. See also
export decline, they often also aggravated their balance of payments difficulties by helping to perpetuate a high level of imports. or, if they tightened import controls, they contributed to inflationary problems by feeding the pressure of domestic demand. They usually had to cut down their total and their developmental expenditures.

To cope with such related problems, many primary exporting countries have adopted national stabilization measures, ranging from the direct establishment of a state marketing monopoly to indirect means such as flexible export duties or complicated systems of exchange rate manipulation. In the case of Ghana and Nigeria, marketing boards for various agricultural products had been established to stabilize income of primary producers. The domestic ex-farm price is pegged by the marketing board, while the export price is free to vary. By its manipulation, the marketing boards have been able to build up huge reserves, while at the same time the government imposed a sharply progressive export duty thus enabling the government to increase its current and capital expenditures much more rapidly than other revenues would have permitted.


The heavy dependence on the export of only one or two primary products makes an underdeveloped country very susceptible to the transmission of the trade cycle from abroad. For instance, a depression in the industrial countries reduces the demand for the primary exports and exporters suffer from large price declines. Conversely, if there is a boom overseas, this prosperity raises the demand for the exports of the underdeveloped countries, and the total export earnings increase. Since underdeveloped countries are importers of manufactured products, there is for them a periodic cyclical deterioration in the terms of trade for the prices of manufactured products do not fall in the same proportion as those of the extractive industries. Moreover, their recovery must depend upon actions taken elsewhere, generally in the industrialized countries that demand such products.

In addition to cyclical deterioration, the long term trend in the price relations between primary commodities and manufactured goods seems to turn against the primary producers. It is claimed that statistical data show a secular trend in the terms of trade between primary and manufactured products adverse to the former, and hence a strong reason for the diversification of the economy.

The primary export orientation can also be attributable largely to foreign investments in these countries. Such

investments in the past have been concentrated on developing and processing primary products for the international export markets. Even the foreign investment in public overhead capital has been chiefly in sectors which are ancillary to the export sector. As discussed earlier, the objective of foreign investment has been to meet the demand of industrial countries for primary products rather than to cater to the narrow domestic market.

The flow of foreign capital into the underdeveloped countries is unstable, tending to fluctuate even more than from export earnings.\(^4\) For instance, years of declining capital inflow also tend to coincide with years of decreasing export earnings. Thus, the fluctuations in foreign investment also help to aggravate the instability of the domestic economy.

Another feature of the inflow of foreign capital is that it has brought along with it foreign-owned plantation and mining enterprises and foreign trading firms. As further discussed in Chapter VI under the heading of "Agency Houses", foreign firms have come to dominate the export and import trade, frequently occupying monopolistic positions in their operations. The distinguishing feature of the foreign firms is that they operate under a western type of management with advanced production techniques, a good knowledge of market conditions, and adequate capital in their operations. In

marked contrast, the local producers lack capital, efficient techniques, and knowledge of market conditions.

SUMMARY

In most of the underdeveloped countries, there is a strong pervasive prejudice against the middleman and his functions. This is partly due to social and cultural factors in according him a low status in society. Because he is often of another ethnic group and an immigrant he is looked upon with suspicion, and his contribution to marketing is often not tangible so that only the wealth accumulated by him through the years is apparent. It is not understood that marketing can be a productive activity leading to the generation of increasing wealth through accumulation and use of capital and effort. As a result, these countries are stunted by their inability to make use of the little they have and by the failure of marketing to furnish part of the force necessary to start the economy on a period of growth.

Other factors include the emphasis on industrial production in economic development programs without examining the marketing aspect. This is also true in technical aid programs given by the advanced countries for it is generally more complicated and difficult to transpose a marketing system than a production system. For statistical purposes, material goods are easier to quantify, while services are more difficult. In some countries, the inefficient marketing
system serves as a form of unemployment relief so that the governments are reluctant to improve it in a context of underemployment.

The economic and political domination by a colonial power resulted in some countries being mainly primary export oriented. The export industry earnings, however, were not diffused among a large enough number of domestic consumers to attract a domestic manufacturing sector from which a marketing system might have developed. Although some countries have participated in international trade for decades, the export sector did not in the past propel the rest of the economy forward, resulting in a profitable export sector, persisting side by side with the traditional society.

Since the majority of underdeveloped countries are primary export oriented and since primary exports are vulnerable to price fluctuations, the impact is felt in the fluctuating export earnings, resulting in balance of payments problems and internal economic instability.
CHAPTER III
MARKETING AND ECONOMIC DEVELOPMENT IN
UNDERDEVELOPED COUNTRIES

The improvement of the marketing system in any economy is a vital factor contributing towards economic development by leading to a more efficient use of productive resources and also by working to encourage their generation. An important condition of economic progress beyond a most primitive level is the emergence from a subsistence economy to a monetary economy. As the economy advances towards a higher level of development, a larger proportion of consumption is represented by purchases and the use of money becomes more widespread. The introduction of money leads to the breakdown of traditional ways of life as wealth can be accumulated in other ways than land or cattle; as wealth acquires mobility payments in kind can be converted into money payments. As the economy is being monetized, it therefore makes possible the transfer of investible resources which would be very difficult in a subsistence or barter economy. Marketing also spreads the money habit without which economic development cannot progress very far.

This chapter is devoted to a discussion of how marketing can contribute to economic development through development of the market, how it can contribute to the development of managers and entrepreneurs and the developer of standards. The impact of Sears Roebuck in the Latin
American countries is taken as an example to substantiate the potential role of marketing in these countries.

MARKETING STIMULATES ECONOMIC DEVELOPMENT

Initially, markets are small and separated because the cost of overcoming distance between them is too great. Demand is restricted by the cost of getting products out of the village and ignorance of whether they can be sold outside. Supply, on the other hand, is limited by the cost of getting products into the village and ignorance of how much they can be bought for outside. In these circumstances, markets expand through improvement in transport and communication. The expansion leads to a beneficient circle. Increased outlets for a product give rise to increased real income which may raise the demand for other products. An improved marketing system, therefore, leads to an increase in the size of the market and the potential aggregate demand which in turn can lead to economic development. Expansion of the market makes possible further improvements in marketing by creating rapidly the conditions for a much higher level of economic activity than existed before.

Furthermore, an enlarged market tends to have a closer correspondence in the price of various products. This helps to reduce price fluctuations and possibly works to lowering the cost of living, that is, it leads to an increase in the real income of the consumers. Generally, there is a lack of appreciation of the possibility of increasing real
income through improving the marketing system. Drucker asserts that "marketing might by itself go far toward changing the entire economic tone of the existing system - without any change in methods of production, distribution of population, or of income".1 Similarly, Holton argues that if the marketing system were "less tortuous and expensive to navigate, there is little doubt that more goods would flow through them",2 as demonstrated by the success of Sears Roebuck in Latin America. Sears is in Latin America because marketing is the major opportunity in a developing economy, just as the absence of the marketing system is a major economic gap.3

The growth of marketing also increases the availability and choice of products to the individual consumer. This may stimulate him to work harder and longer and may influence some to save and invest for future benefits. The very conception of work may undergo a change, labor being seen now not merely as a way of obtaining a subsistence living but as a way of satisfying an ever-growing series of wants, as stimulated by the availability of a variety of consumer goods. For instance, Africans in tribal areas:

1Drucker, op. cit., p. 255.
3Drucker, op. cit., p. 258.
the nineteenth century were often unwilling to work regularly in the mines and farms of Europeans because they saw little opportunity in spending their money income. But later on, the desire to earn money was stimulated by the knowledge that the market offered a variety of consumer products which were within their means to purchase. ¹

An enlarged market also offers opportunities for various economies of scale such as in savings per unit cost of an item due to efficiencies resulting from the size of an operation. Economies of scale can result in both production and marketing. For instance, mass production becomes feasible only at a certain level of consumption. Similarly, transport facilities or marketing information services that are not economic at low levels of operations become practical with an increase in the size of the market.

Multipliers of Managers and Entrepreneurs

In underdeveloped countries which are close to being subsistent, there is limited scope for the development of entrepreneurial talent. But once marketing has advanced, it becomes a training ground for the potential managers and entrepreneurs who are so necessary for economic development by preparing them in the orientations and skills necessary for effective economic activities. Part of this training

consists of developing the habit of thrift and savings leading to the accumulation of capital. A typical example of this is in West Africa where almost every successful manufacturing enterprise was started by merchants previously operating largely in the agricultural sector.5

In other underdeveloped countries which have recently gained their independence after many decades of colonial rule, an experienced managerial class is sometimes almost non-existent. During the colonial days, all the important positions of responsibility in government and industry were held by foreign entrepreneurs and managers who have since departed. A good example of such a situation is found in the former Belgian Congo, where the exodus of Belgian entrepreneurs and civil servants left the new nation in a chaotic state.

The shortage of managerial talent and entrepreneurship is so obvious and acute as to constitute an outright emergency in most underdeveloped countries. "It necessitates finding as rapidly as possible men who can be trained and upgraded to positions of leadership".6 In the long run a strong indigenous entrepreneurship and managerial foundation must be established from within the economy rather than superimposed from the outside.

5Ibid., p. 236.
6Emlen, op. cit., p. 74.
According to Drucker, marketing can play a critical role in economic development as the most important multiplier of managers and entrepreneurs, who constitute the foremost need of the underdeveloped countries. Marketing can create the stimulus for the development of modern managers by creating opportunity for the producer who knows how to plan, how to organize, how to lead people and how to innovate. At the same time, marketing has become largely a systematic discipline that it is both learnable and teachable. "Because of its teachability as a discipline, marketing should assist in the economic integration and development process by providing the quickest and broadest avenue for the achievement of leadership formation".

One way in which western countries can help the underdeveloped countries in building up a managerial class is by working through the programs of local universities. Under the technical aid programs of western countries, scholarships in marketing could be offered to nationals from these countries at western universities. After obtaining the necessary knowledge and by adapting to their own needs the knowledge they have acquired, they can go back to their own universities or institutions to teach the subject to a greater number of students and businessmen, who may form the nucleus

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7Drucker, op. cit., p.252.
8Ibid., p.256.
9Emlen, op. cit., p.75.
of a new class of entrepreneurs, so necessary in a developing economy. Realizing the importance of this, the American Council for International Progress in Management recently organized a month-long program called "Impact II", in which 210 enterprising managers and educators (selected for their special ability to transmit knowledge to others) from 33 underdeveloped countries were exposed to a massive injection of American management know-how at five American Universities. These "multipliers" are now back in their homelands spreading their knowledge among a greater number of businessmen.

The use of marketing knowledge in underdeveloped countries can be shown from this example. A national from a South East Asian country who received graduate training in marketing in Europe, readapted the marketing techniques he had learned to local conditions. He was not only able to forge ahead of the competition as importer and distributor of motor cycles and office equipment, but was also successful in getting his business friends to accept a startling number of his marketing innovations in the fields of advertising, servicing, and installment purchase plans. According to W.J. Emlen, who made a trip of South East Asia, he saw "clear indications among the young businessmen in these countries of

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11 Emlen, op. cit., p. 75.
a budding demand for modern principles and techniques of marketing".\(^\text{12}\) As the underdeveloped countries become more industrialized and as the productive capacity increases, it may be necessary to adapt some of the new marketing and distribution methods to the economy.

**Developer of Standards**

The impact of marketing can be illustrated by the success of Sears Roebuck in several Latin American countries, such as in Mexico, Venezuela, Brazil, Colombia and Peru. In these countries, Sears caters to the middle class and applies the same policies and concepts of marketing it applies in the United States.\(^\text{13}\) As a result of building one store in a big city, Sears has forced a change in retailing throughout the whole surrounding area. It forces store modernization; it forces consumer credit; it forces a different attitude towards the consumer, towards the supplier, and towards the product itself. It forces other retailers to adopt modern methods of pricing, inventory control, training of salesman and window display.\(^\text{14}\)

Perhaps the greatest impact Sears made is in the expansion of new manufacturing business for which it creates a marketing channel. Partly due to foreign exchange

\(^\text{12}\)Ibid., p.76.
\(^\text{13}\)Drucker, op. cit., p.256.
\(^\text{14}\)Ibid., p.257.
difficulties and restrictions in Latin America, Sears has to sell merchandise manufactured in the Latin American countries rather than import them from the United States. This results in the establishment of many new manufacturers making products which, a few years ago, could not be made in the country. To meet its own marketing needs, Sears has insisted on standards of workmanship, quality, and delivery, resulting in advancing the standards of production management and technical management in the Latin American countries by at least a generation.

Previously, in Brazil,

...One manufacturer who cited a price on 1,000 dozen clothespins, was later asked the unit cost of 10,000 dozen. Higher, he answered, because expanded production would involve him in more work, and anyway, if the item was going to be so hot, why not charge the public more for it? Many an industrialist has told Sears he is making out all right with present volume and a 50% markup, so why expand and get liver trouble (the Paulista variant on United States ulcers)?

Sears has succeeded in bringing about the substitution of low margin, high volume operations for small scale, high margin policies not only in the distribution channel itself but also at the manufacturing level. By being able to influence and alter retailer and consumer attitudes, the people of the countries in which Sears is operating enjoy not only an increase in local employment, but also lower prices on the final consumer goods and hence higher real income through increased salaries and a lower cost of living.

15 Ibid.
The policies and practices of marketing, as applied by Sears Roebuck in the Latin American countries, can certainly also be applied to other underdeveloped countries such as Malaya and Singapore. In the latter countries western marketing practices are presently applied by the subsidiaries of international companies such as Shell, Esso, Rothmans, Dunlops, Lever, Metal Box and Ever-ready Battery. As the countries get more industrialized the effect of their marketing policies and practices may spread gradually to other local business units as well.

SUMMARY

The improvement of the marketing system can lead to economic growth by allowing the flow of more goods and services and creating rapidly the conditions for a much higher level of economic activity than existed before. The expansion leads to a beneficial circle, helps to reduce price fluctuations in various markets, lowers cost of living, increases the availability and choice of products to consumers, and stimulates consumers to work harder and to save and invest for future benefits. Thus marketing is important even during the initial stages of economic growth and not necessarily only at the final stage of high mass consumption. In fact marketing is important at all stages of economic growth.

Also, marketing knowledge can be the most effective force of economic development through two inherent forces:
(1) its ability to develop a group of entrepreneurs and managers, so urgently needed in underdeveloped countries, and
(2) its contribution as a systematic discipline which lends itself to the teaching and learning process. As Emlen puts it:

The economic progress which could result from adding modern marketing concept, would carry with it far-reaching, positive political and social ramifications from these countries. And in this sphere may rest marketing's unique contribution. 17

The activities of Sears Roebuck in Latin America has had its greatest impact in the multiplication of new industrial businesses producing goods locally for which Sears creates a marketing channel. Insistence on standards for manufactured goods and demonstration of the use of modern marketing methods has greatly advanced the practice of management in the Latin American countries that Sears has entered. Such activity as this generates a cycle of progress — expansion of demand, mobilization of credit, improvement of retailing methods, stimulation of industry, creation of employment opportunities, and more consumer demand through increased productivity and income. This cycle represents a progressive advance similar to that accomplished through market competition and modern marketing methods in the United States. The illustration of Sears in Latin America shows that generally marketing can help to disseminate new ideas favorable to economic growth, result in new patterns of consumption, possibly the adoption of new techniques of production and management and new ideas

17 Emlen, op. cit., p. 71.
of social relations between the members of the society.

For underdeveloped countries embarking on future development schemes, they face the opportunity of fashioning a responsible business community which can integrate the nation's economic activities and contribute to stable economic growth. Marketing can act as an effective force in developing a free economy, taking into consideration the values and wants of the individual, as against the totalitarian system where economic growth is being attempted without marketing.

For these reasons, then, the development of marketing is a key factor in the economic development of underdeveloped countries.
CHAPTER IV

CHARACTERISTICS OF THE CONSUMER MARKET IN
UNDERDEVELOPED COUNTRIES

This chapter describes the characteristics of the consumer market of selected underdeveloped countries in terms of the size of the population and its birth rate, the income per capita and income distribution, the employment pattern, the trend towards urbanization, the consumption expenditure, the literacy rate, and transportation and communication. The market characteristics have an important bearing on the nature of products consumed and the way products are marketed.

COMPONENTS OF A MARKET.1

The composition of a market is greatly affected by the size of the population and its growth, the purchasing power and the consumption patterns.

The changing population in a country in size, composition by age and sex, and distribution in urban and rural areas and various geographical locations also means that markets for products change accordingly. The high birth rate and the longer life expectancy in the underdevel-

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1The material for this section is largely derived from Montrose, S. Summers, "Markets and their Characteristics", Bachelor's Thesis presented to the Faculty of Commerce and Business Administration, University of British Columbia, (unpublished), March 1958, pp. 22-52.
oped countries, for instance, means that there will be demands for certain products in the two different age groups which were not in existence previously.

Population size alone does not always mean an effective market for people may have low purchasing power. The latter is a vital factor which really determines the effective size of the market. Purchasing power is composed of income, savings and credit. The combination of these three will determine the level of consumption of any individual in the market and in creating ownership utility. Of these three variables, income is the most important variable of purchasing power and the availability of credit ranks second in importance.

Personal income and its distribution therefore deserve close attention by marketers. In developed economies the pattern of income distribution is for a broadening of the middle income bracket which provides the mass market for many of the products. The distribution of income by regions shows that consumers living in larger cities generally have a wider margin of money income left after buying necessities and are therefore able to spend more on higher quality products and luxuries. This is important to marketers in revealing where potential sales from such products are likely to come from.

The availability of credit is an important variable in a monetized economy. Marketers have attempted to broaden
their markets through the extension of credit which enables tomorrow's consumption today. This is reflected in the United States and Canada where mass production, mass distribution and high standards of living are based directly on, and need for, mass financing in the form of credit extension.

A further factor in determining the market is the ability and willingness to consume and those factors which determine consumption patterns. Consumption itself can be said to be a reflection of the standard of living. The standard of living is influenced by the cultural tastes and consumption patterns of the population and the purchasing power available to that population. With increases in money incomes and the broadening of the income base more and more people are able to seek product and style innovations to achieve personal distinction and satisfaction.

Size of the Market

The markets of the underdeveloped countries are fast growing and changing due to the rapid increase in population. This is particularly so in Latin America, where the twenty republics occupy an area thirty per cent greater than the United States. The Latin American population is now estimated to be over 190 million. It was 155 million in 1950. With a current annual growth rate of 2.4%, the population is expected to reach 271 million by 1965 and 337
According to the 1960 population census, Brazil had nearly 71 million people, Mexico 35 million, Venezuela 7.5 million and Puerto Rico 2.4 million. The annual rate of population growth between 1953-60 was: a high 4.3% for Venezuela, 3.4% for Brazil, 3.1% for Mexico and 1.1% for Puerto Rico, compared with 2.6% for Canada, 1.7% for the United States and 0.5% for the United Kingdom during the same period. See Table 4.1. The birth rates in Latin America are increasing at the average rate of 2.4% annually or nearly one-third faster than in the United States.

Regarding individual countries, Mexico is the United States best Latin American customer, with Venezuela following second, despite its small population compared with Mexico which has nearly five times as large a population as Venezuela. In 1956, United States exported to Venezuela $651 million in goods, thus making it the sixth best United States customer in the world.

Following the success of the common market in western Europe, the Latin American republics have been getting together to discuss the formation of their own common markets. One such common market is already in existence between the Central American countries of Guatemala, Honduras, Nicaragua,

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3All tables are in Appendix.
Coasta Rica and El Salvador. Another regional group consisting of Argentina, Brazil, Chile and Uruguay is in the process of formation.4

Tropical Africa5 has erupted with political turmoil in its march to self-government and independence, signalling its coming of age. The two most advanced countries in Tropical Africa are Ghana and Nigeria. The latter has a population of 35 million and Ghana nearly 7 million, with a population growth of 6.2% for Ghana and 1.9% for Nigeria for the period 1953-60. The high rate for Ghana may be due to error in the estimates for the actual annual rate of increase between the census years of 1948 and 1960 was 4.1%.6

As an indication of the market potential of Tropical Africa, a comparison with the more prosperous member, Ghana, is helpful. The cocoa-rich country of Ghana imports about $40 per capita annually.7 Nigeria accounted for a third of Ghana's per capita imports while minerals-rich Belgian Congo accounted for $22 per capita imports before independence. If

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5Tropical Africa in this study is defined as that "part of the African continent south of the Sahara, north of the Rodesian 'white belt', and stretching from the Atlantic Ocean in the West to the Indian Ocean in the East". See Marcus, "Selling the Tropical African Market", op. cit., p.25.


7Marcus, op. cit., p. 25.
the current development programs succeeded in improving the per capita income of Tropical Africa to Ghana's level, which is still low by western standard, this would be an increase of 133 1/3% per cent or some $4 billion.8

In Egypt, the rate of population growth is 2.4% annually. With the present population of 26 million, it is expected to reach 28.6 million by 1967.9

In Asia, India is about a third of the size of the United States, but has nearly twice as many people -- 435 million people, with a population growth of 1.9%. In South East Asia, Malaya has nearly 7 million people and 1.7 million for Singapore, with a birth rate of 4.6% for the latter and 3% for the former. According to a United States Trade Mission which completed a four week visit to the two areas in March 1961, these two countries offer excellent marketing opportunities for a wide range of United States products.10 Moreover, cultivation and development of tastes of young Malayans, who make up more than half of the population, should have significant influence on future sales. The formation of the Federation of Malaysia in September 1963, consisting of four territories, namely, Malaya, Singapore, North Borneo and Sarawak, totalling 10 million people, with a

8Ibid.
9Boyd, Sheribini and Sherif, op. cit., p. 28.
proposed common market\textsuperscript{11} between them, can form quite a potential market in South East Asia.

The most striking feature about the markets in underdeveloped countries is their youth population. For instance, in Mexico $54\%$ of the population is below 20 years of age; in Puerto Rico, it is $51\%$; in Egypt, it is over $50\%$; in Malaya, and Singapore, the figures are $54\%$ and $52\%$ respectively, compared to $39\%$ for the United States.\textsuperscript{12} There is therefore a big potential market of the youth population in these underdeveloped countries which enterprising companies can cater to in their determination to segment the market.

With the rapid increase in population, and the drive towards industrialization and diversification of their economies, there will be a great need for industrial products in the form of machinery and equipment. The underdeveloped countries, therefore, provide a potential market for both industrial and consumer products. Through tax incentives and other inducements foreign companies have already gone into ventures of their own or with partnership of local businesses in some of the underdeveloped countries like Malaya, Singapore and the Latin American countries. While this is an encouraging sign some countries like Brazil have


\textsuperscript{12}Except for Egypt, all figures were computed from United Nations, \textit{Demographic Year Book 1961}, New York: 1961, Table 5. For Egypt, see Boyd, Sheribini and Sherif, \textit{op. cit.}, p. 28.
reacted unfavorably towards foreign capital by prohibiting the outflow of profits so that United States companies have already stopped investing in Brazilian subsidiaries\(^\text{13}\) in what would otherwise be a big potential market for consumer products.

**Income**

In the Latin American countries, the per capita incomes of Venezuela and Mexico have been increasing steadily over the years, rising from $540 (1952-54; see Table 4.2) to $700 (1960) for the former,\(^\text{14}\) and from $220 (1952-54) to $278 (1961) for the latter.\(^\text{15}\) The increase for the United States, Canada and United Kingdom has been more rapid, rising from $1870, $1310 and $780 to $2286, $1539 and $1086 respectively during the same period as Mexico.\(^\text{16}\)

In Africa, Nigeria had a low $60 per capita, but this was considered high for the countries of Tropical Africa. India had the same level of per capita income as Nigeria, with $120 for Egypt, as shown in Table 4.2.

The per capita income of Malaya and Singapore, $310, is one of the highest in Asia, second only to Israel of $470.


\(^{14}\)Dunbaugh, *op. cit.*, p.231.


\(^{16}\)Ibid.
Latest estimates in 1956 showed a per capita income of $330 for Malaya and Singapore.\textsuperscript{17}

Many underdeveloped countries are still partly monetized, such as India, Brazil, Venezuela, and Mexico. Only about one-third of Brazil's population can be classed as "actives" or in the monetized sector.\textsuperscript{18} In other Latin American countries, with the rapid spread of income and cash in the hands of peasants and laborers who never before had a peso, the "inactives", or those in the subsistence sector, are passing into the active side at the rate of millions per year. This is particularly so in Mexico. According to a major market survey by a leading Mexican agency, this is happening at the rate of a million per year. Together with the birth rate, the market is therefore expanding at the rate of 13 to 15% every year in Mexico.\textsuperscript{19}

The per capita income figures show that the underdeveloped countries, particularly those in Africa and Asia, are very far behind the developed countries. Unless the economic growth of the former can keep up with or overtake the rapid population growth, the trend towards greater income disparity may even become greater.


\textsuperscript{18}Dunbaugh, \textit{op. cit.}, p. 234.

\textsuperscript{19}Ibid., p. 220.
Income Distribution

Not only is income in the underdeveloped countries very low, but also this low income itself is unevenly distributed. The result is that there is a great number of people in the very low income group and a few rich people in the upper income group. This can be illustrated by the case of Venezuela. In 1953, for instance, the wages and salaries paid to some 55,000 persons in the petroleum industry were slightly less than the total cash income of some 750,000 persons working in the agricultural sector.\(^{20}\) The World Bank Mission Report on Venezuela\(^{21}\) estimated that in 1957 the top one-eighth income earners received one-half of the total income, while the bottom 45% received only one-tenth of the income. Moreover, it has been estimated that nearly half of Venezuela's purchasing power is still concentrated in the Caracas area, which therefore limits the size of the domestic market for many products.

In Malaya, there is also a great gap in income distribution between the urban and the rural sector, with the result that the government is presently trying to alleviate this through rural development schemes.\(^{22}\)

\(^{20}\)Ibid., p. 231.


A study made by Morgan on the distribution of income in two underdeveloped countries, Ceylon, and Puerto Rico, and two developed countries, the United States and the United Kingdom, revealed that there was a wide margin of inequality in the two former countries than in the two latter countries, as shown in Table 4.3.

Another study by Kuznets on the distribution of family income for India in 1949-50, for Ceylon in 1950, and for Puerto Rico in 1948, shows that the rich are relatively richer, and the poor relatively poorer in the underdeveloped countries than in the developed countries. Thus the percentage of total income received by the poorest 60% of the people is 28% in India, 30% in Ceylon, and 24% in Puerto Rico, compared with 34% in the United States and 36% in the United Kingdom. The percentage of total income received by the richest 20% is 55% in India, 50% in Ceylon, and 56% in Puerto Rico, compared with 45% in the United States and 45% in the United Kingdom.

Income distribution is more evenly distributed in developed countries through the use of highly progressive income tax and inheritance or estate taxes. In underdeveloped

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countries, on the other hand, a high proportion of the revenue is derived from indirect taxes and customs duties which are regressive. The progressive income taxes are either non-existent or low in yields. For instance, in the Asian countries under the Colombo Plan, less than 1% of adults pay income tax, and only a few pay large amounts. In addition there are problems of considerable tax evasion and inefficient tax collection which tend to handicap effective fiscal policy.

**Employment Pattern**

Most underdeveloped countries still have a substantial population in agriculture. Table 1 shows that except for Puerto Rico, Venezuela and Singapore, all the selected underdeveloped countries have more than half of the economically active population in agriculture. Singapore, being an entrepôt centre, has only 6.7% of the population in agriculture, 69.9% in the service industry and 21.4% in industry. In contrast, India has 70% of the active population in agriculture and 60% in Ghana.

Egypt is primarily an agricultural country, with 58.7% of the active population in agriculture and 11.9% in industry. Employment in Egyptian industry has not been increasing significantly in recent years inspite of its industrialization program, because modern industry does not

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absorb large amounts of labor due to intensive mechanization.26

In Venezuela, the petroleum and mining operations of the large foreign enterprises employ only 2% of the active population, while agriculture accounted for 42% in 1955.27 Mexico has tended to show a relative decline for its agricultural labor force and an increase in its industrial sector from 1940 to 1950.28

The employment pattern shows that for most of the underdeveloped countries, the greater part of the population is still concentrated in agriculture. According to Rostow's model of economic growth, outlined in Chapter II, it can be noted that more people are employed in agriculture during the initial stages of economic growth, such as during the stage of the traditional society and the conditions for take-off. But as the economy progresses to the take-off stage, more and more industries begin to appear, giving rise to steady employment in these industries and in other new activities. Such a trend is shown by employment pattern over the years in countries like Mexico, Venezuela and Singapore which seem to be progressing to the take-off stage.

In using the occupational distribution statistics of the underdeveloped countries, their limitations should

26 Boyd, Sheribini and Sherif, op. cit., p.28.

27 Royal Institute of International Affairs, Information Dept., Venezuela: a brief political and economic survey, New York: Distributed by the Oxford University Press, 1958, p.15.

28 Adolf Sturmthal, "Economic Development, Income
be borne in mind. Official statistics may create a misleading impression due to the inappropriateness of classification by distinct occupational categories in an economy where there is still imperfect specialization of labor. For instance, many farmers may spend a substantial part of their time in non-agricultural activities, such as in trading, as in South Nigeria and Ghana. Since the farmer is only secondarily engaged in trading, he is included in statistical surveys in primary production rather than in tertiary production. The imperfect specialization of occupational distribution is not confined only to agriculture. Many African doctors and lawyers and almost all leading chiefs have extensive trading interests.

Due to imperfect specialization in occupational distribution, Bauer and Yamey argue that it is dangerous to generalize that tertiary production is less important than primary production in the underdeveloped countries. For instance, although official statistics show that West Africa has five-sixths of its population in agriculture, while trade is mentioned rarely as an economic activity of the population, actual observation shows that trade is a conspicuous feature of West Africa. If in the course of economic development,

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Ibid.
and where specialization becomes more definite, the introduction of specialized middlemen reduces the labor time absorbed by the marketing function, the increase in the number of persons reported in occupational statistics as engaged in distribution may be misleading for such activities may actually be declining.

In viewing the employment pattern, it should also be noted that in some underdeveloped countries labor may actually be immobile among occupations. In India, for instance, the caste systems of the past inhibited occupational mobility and made vertical mobility difficult, thus limiting the choice of employment. A characteristic trait of a caste system is the social inheritance of an occupation. For example, the handicrafts in India have been cultivated within particular families, belonging to similar castes, from one generation to another. Some of the Hindu castes are also forbidden to engage in business activity. In fact, business is looked down upon, and the upper social and income groups also consider manual and mechanical work to be disdainful. Thus employment opportunities may be limited in societies where production is still organized on a family basis and where occupations are tied to family status and kinship roles.

In some societies, people may not respond to income

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incentives, particularly during the traditional society stage. Wage increases may have relatively little appeal to people who are still in the subsistence sector and who find their major satisfactions mainly in traditional rewards and customary types of consumption. The barriers and antipathies in the problems of labor recruitment and the establishment of industrial practices may be summarized as:

ignorance of alternatives and of the skills for their adoption; the security system, both emotional and economic, provided by the social structure of non-industrial societies; the status system of non-industrial societies, which generally depends largely upon inherited position, rewards: the performance of duties according to traditional expectations, and minimizes impersonal... types of economic relations and division of labor... 32

Urbanization

There has also been a trend towards greater urbanization in the underdeveloped countries. For instance, according to the 1960 census, Mexico now has more urban dwellers than rural dwellers for the first time, with 51% of the total population in the urban areas. The same trend is true of Venezuela, where urban population accounted for 147% in 1950 and in 1959 urban population accounted for 71%. This compares favorably with the United States which rose from 64% in 1950 to 70% in 1960. Brazil is 37% urban, Malaya is 35%.

35 United States Bureau of the Census, Statistical
India is still largely rural with 15% in the urban areas and the rest living in villages that are only partially monetized. The remnants of the traditional society can still be seen in the Indian village which has never been a market economy. Each individual performs his job, which is largely determined by the caste system, and shares in the village's produce in a manner dictated by tradition. Many people are still living in such a communal system that has been a hindrance to the development of a monetized market. The operations of an exchange and market economy are scarcely understood, and instead, of attaching significance to economic individualism which is so important in developed economies, the societies are still custom-bound and non-individualistic. Values and motivations remain tradition-directed, the emphasis still being on an established pattern of economic life, family life, and religious life. Such a system is not conducive to the assimilation of better techniques of production or greater personal effort. But as the economy gets more urbanized and the relationship with others becomes less personal,


37Westfall and Boyd, op. cit., p. 11.
incentive for greater personal effort and the use of money may form the prerequisite for a better distribution system in the economy.

According to Hoselitz, one can look to the urban areas as the crucial places in underdeveloped countries in which the adaptation to new ways, new technologies, new consumption and production patterns is achieved. Urban areas are breeders of a different attitude toward tradition and material rewards which are essential for economic progress and for marketing. This is probably due to the environment in urban areas which is more favorable to the attitudes and beliefs which favor growth. Large numbers of people are thrown together in towns in a competitive struggle for existence, weakening both kinship ties and excessive respect for status; encouraging impersonal economic relations and resulting in a willingness to trade whenever there are favorable opportunities to do so.

Consumption Expenditure:

In underdeveloped countries a greater part of private consumption expenditure is spent on food. For instance, in 1960, 70% of private consumption was spent on food in Nigeria; in Ghana, it was 54%, compared to 21% for the

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United States, 23% for Canada and 30% for United Kingdom, as shown in Table 4.5.

A recent survey by Reid\(^3\) confirmed that where real income of a country is low, food tends to take a high percentage of total consumption expenditures and housing a low percentage. Quoting from the survey, the percentage of total expenditures, including consumption in kind, going to these consumption categories for Ceylon and the United States showed that a Ceylonese household consumed 62.5% for food and 5.6% for housing, against 32.7% and 15% respectively for an American counterpart, in 1952.

The consumption expenditure will be greatly influenced by the income earned. Since most consumers in underdeveloped countries earn a low money income, a great part of this will be used in satisfying the basic needs of food and clothing. But as their incomes increase, a smaller proportion of the income will be spent on the basic needs and a larger proportion going to education, health and entertainment, as in North America. The implication here is important, for in underdeveloped countries, relatively more people are presently employed in the distribution of food products, while in developed countries more and more people are finding employment in service industries which did not exist before.

**Education**

The expansion of educational facilities in an underdeveloped economy is an undisputed area of governmental activity. Education can weaken the obstacles in economic growth by lessening the backwardness of the population, increasing their geographic and occupational mobility, raising their productivity, and facilitating innovations. An improvement in education is an investment in human resources which can go a long way in improving the quality of the population as productive agents for further development. One United Nations group is of the view that:

*most underdeveloped countries are in the situation that investment in people is likely to prove as productive, in the purely material sense, as any investment in material resources, and in many cases investment in people would lead to a greater increase of the flow of goods and services than would follow upon any comparable investment in material capital.*  

With economic development taking place, many underdeveloped countries are also accelerating their educational programs. Latin America has a higher literacy rate than most of Asia and Africa, but still low compared to the United States and Canada. For Latin America as a whole, the literacy rate is 65% compared to 15% for Tropical Africa.  

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Table 4.6 shows that the literacy rate is 86% for Puerto Rico, 65% for Mexico and 57% for Venezuela, while Singapore has 69% and Malaya 51% compared to 15% for India, 25% for Egypt, 20% for Ghana and a low 11% for Nigeria.

A number of Latin American countries are now accelerating their educational programs. For instance, Venezuela started a crash program in 1959-60 to accommodate more children in schools. Mexico embarked on a program to increase the number of grades in most rural areas. The problem in most underdeveloped countries is to extend the educational facilities to more people and to further improve the content of educational instruction. As the general level of education is raised, one of the main deterrents to effective advertising would be overcome. As more people learn to read, there will be more newspapers and magazines which can be used as media.

India, however, has a difficult task in educating its 435 million people, speaking some 51 dialects of one or more million people each, while no one language is spoken by more than fifty million of the population. A great diversity of languages and scripts is also prevalent in Tropical Africa. Different vernacular languages are spoken by groups ranging in size from a few hundred to several millions of persons.


\(^{42}\)"Latin American May Soon Solve Illiteracy Problem", Export Trade, p. 9.
This is further complicated by the choice over which medium of instruction to use, so endemic to the efforts to diffuse literacy and education to the population. Such a barrier is likely to limit advertising in these areas, especially national advertising which would be impossible in a context of so many languages.

Another aspect of the educational level can be viewed by the circulation of newspapers per thousand of population. Table 4.7 shows that the advanced countries like Canada, the United States and the United Kingdom have a circulation of over 230 per thousand of population in 1960. The only selected underdeveloped country having such a circulation rate is Singapore, with 218 per thousand of population. The other countries have less than 100 per thousand of population, with a low circulation of 8 and 11 per thousand of population for Nigeria and India respectively.

The data on radio receivers per thousand of population, also shown in Table 4.7, again revealed a low of 4 and 5 radio receivers per thousand of population for Nigeria and India respectively, for 1960. Only Venezuela has a rate above 100 per thousand of population, with a high of 941 per thousand for the United States.

With improvements in education under way and increasing the number of literates rapidly, the circulation of newspapers and magazines should gradually increase, thus offering a more effective mass media, which is particularly
important from the marketing viewpoint. As promotion is facilitated through communication between the manufacturer and the consumer, the consumer markets expand over a larger number of consumers and areas.

**Transportation and Communication**

The underdeveloped countries often have poor inland transportation thus leading to costly transportation and limiting the extent of the market. In Iran, for instance, transport costs are high, accounting for 43% of the retail price of kerosene. In Tropical Africa, handling charges at the ports added 15% to transport costs.

The World Bank Mission Report on Nigeria stated that Nigeria's transportation system was not adequate to move promptly and at reasonable cost the volume of traffic. The railways and rivers serve only limited areas and do not provide adequate cross-country facilities so that the main form of transportation is by road. Improved transportation facilities would undoubtedly have an immediate beneficial effect on the Nigerian economy.

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In Ghana too, the building and maintenance of roads have not kept pace with demand, but since 1952 there has been a steady increase in road construction and maintenance with satisfactory results. Apart from the trunk roads of some four thousand miles in 1957, the other roads are poor and the wear and tear on vehicles can be heavy.\textsuperscript{46}

In India the transportation system is a mixture of the ancient and the modern.\textsuperscript{47} For instance, a bicycle made in Madras may be brought to the capital city of New Delhi by railroad; it is then moved off to another town by truck; it then goes off to a country village by bullock cart; and goes from the shop there to some consumer by hand cart or on the top of someone's head.

The Indian railroad industry is relatively modern and is owned and operated by the government. The trucking industry is privately owned and is less developed, but can still be considered modern. Competition between the two forms of transportation is intense, though artificial limitations have been placed on the development of trucking. For instance, the length of the haul has been limited so that a truck registered in one state cannot cross into an adjoining state. If the shipment is to go further, it has to be transferred to another truck registered in the second state which can go to


\textsuperscript{47}Westfall and Boyd, \textit{op. cit.}, p. 15.
the third state, and so on. This leads to unnecessary delay and red-tape, resulting in a higher cost of transportation than should be the case.

However, the more restrictive regulation is the "octroi" which is a tax on all goods shipped into a city. This tends to limit the extent of goods being transported between cities for a truck passing through half a dozen cities will have to pay taxes at each of these cities. The tax is paid at one end of the city and is refunded at the other end, if the goods go through. The time consuming process of paying the tax and the complicated system of refunds has resulted in an intermediary who is prepared to handle this for a small fee.

The case of India is a good example of the many difficulties and restrictive regulations placed on the transportation of goods. Such transportation difficulties are a barrier to effective marketing, resulting in slow delivery of goods, higher cost of distribution, and therefore higher price of goods.

In Malaya and Singapore, the road system is of a very high standard and can be ranked as one of the best in South-East Asia. Though the railroad is not as good as the roads, it still reaches a high standard of efficiency and of

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\textsuperscript{48} Ibid., p.16.
ton-miles per head of population. Though the railroad is government operated, no artificial restrictions of the kind in India are placed on the privately-owned trucking industry. The railroad and road systems have played a vital part in the development of the Malayan economy in the export of tin and rubber to the ports and the distribution of manufactured goods to the various markets. With rural development schemes now taking place under the second five year plan more feeder roads are being built in the rural areas, thus linking them up to the more developed areas. The effect of this will stimulate the sale of more bicycles and scooters, and with a bus system operating, the rural consumers should be more well-informed of what is going on in the urban areas.

The ease of transportation can be shown by the number of persons per vehicle. Table 4.8 shows that in the United States and Canada, there is 1 vehicle for every 2.5 and 3.4 persons respectively in 1960. The selected countries having 1 vehicle to 75 persons or less are Puerto Rico (1 vehicle to 1.4 persons), Singapore (1 for every 20 persons), Venezuela (1 to 21 persons), Mexico (1 to 42 persons), Malaya (1 to 54 persons), and Brazil (1 to 75 persons). The table shows that India and Nigeria have a long way to catch up; with the other mentioned countries though Nigeria had made a great improvement from 1 vehicle to 1,300 persons in

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1953 to 1 in 1960.

Regarding other communications, the World Bank Mission Report on Venezuela stated that the telephone system was in such a bad state that it was seriously affecting the economic development of Venezuela. Service in all fields of telecommunication was quite inadequate for the needs of the growing population. It was reported that in many parts of the country, over 30% of telephone calls attempted could not be completed due to technical limitations. The same situation is true of Nigeria where the World Bank Mission Report mentioned that Nigerian telephone service left much to be desired.

Table 4.8 shows the number of telephones per thousand of population. Puerto Rico, Singapore, Venezuela, Mexico and Malaya seem to be well ahead of the other selected countries such as India, Nigeria and Ghana. Compared to the United States, Canada and the United Kingdom they are still way behind in such a comparison.

Another important aspect of modern communication and entertainment in the underdeveloped countries is the cinema, particularly important for the advertising of products. In the Latin American countries, Mexico and Venezuela have per capita attendances comparable to that of Canada, as

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shown in Table 4.9. In Asia, Singapore and Malaya have also such comparable per capita attendances, with Singapore having the highest per capita attendance in the selected countries. Ghana and Nigeria have very low per capita attendances. Hence the scope of cinema advertising would be limited in the latter countries and use for education for economic progress.

From the above discussion, it can be generalized that most underdeveloped countries have poor means of transportation and communication which limit the extent of the market and increase distribution costs. One of the prerequisites for an improvement of the marketing system is therefore to improve the transportation and communication systems. This can be illustrated by the experience of the United States in the late nineteenth century.

Expansion and improvement of the transportation system, together with storage, grading, and communications improvements, had dramatic effects upon the reduction of agricultural marketing costs. Reduction of almost two-thirds of the costs of transportation brought supplies from all parts of the country into centers of consumption; and transformed what were formerly local markets with widely divergent prices into national and international markets. 51

SUMMARY

In Latin American countries like Venezuela, Puerto Rico, Mexico and Brazil there is a trend towards increasing income, better education and better living for a larger segment of the population. With "actives" added to the market, Latin American markets are growing at the rate of 10 to 12% or more per year, which is very significant from the economic and marketing viewpoint.

In Tropical Africa, Ghana and Nigeria are the two most advanced countries, but they are still a long way behind Latin America, Malaya and Singapore. Though India has a big population and a potential market for consumer products, it is troubled by internal difficulties, such as slow economic growth and food shortages as well as external problems, like the border disputes with Pakistan and Communist China.

In South East Asia, Malaya and Singapore have a relatively prosperous middle class which can afford some consumer goods. Malaya has good prospects for continued high exchange earnings, an ambitious economic development program, calling for improvements in transportation and communication and development of increased electric power, and is encouraging private enterprise in establishing second-

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52 Dunbaugh, op. cit., p. 9.
53 "Good Prospects for Exporters in Malaya and Singapore", Export Trade, April 17, 1961, p. 44.
ary industries. Singapore's ability to import, finance merchandise and re-export to regional markets is second to none in South East Asia.

The trend towards greater urbanization in some of the underdeveloped countries holds promise for greater expansion of the market. It is said that urban areas are breeders of a different attitude toward tradition and material rewards which encourage people to adapt new ways, new technologies, new consumption and production patterns, and subsequently become more susceptible to advertising and sales promotion.

The pattern of consumer expenditure in underdeveloped countries reveals that a greater proportion is spent on food consumption than in the developed countries. Therefore, a higher proportion of tertiary production will be accounted for by the distribution of basic consumer goods than in the developed countries where education, medicine, and entertainment may be of increased importance. As such, a comparison of tertiary production will show that the distribution of food and other basic consumer goods is of greater importance in the underdeveloped countries, which are in a low state of economic development. Hence, the prevalence of a number of food retailers in the marketing system of the latter countries. Through economic growth the personal disposable incomes of consumers can be increased, and through better education and modern living, their consumption patterns may change, with a smaller proportion on basic food products and more on services,
as in the West. It also means that as consumers become more sophisticated in their consumption patterns, more products can be sold through advertising and promotion, which help in enlarging the market, and possibly lower the cost of production through economies of scale.

The lack of transportation in underdeveloped countries have resulted in different shopping patterns from the west. In developed countries like the United States and Canada, where nearly every family has one car or more, shopping centers have developed in the suburban areas, which are unheard of in most underdeveloped countries. The shopping centers in Latin America (example in Brazil) are usually located in the secondary shopping districts rather than in the outlying residential districts. The reason is probably due to the low per capita ownership of cars. The convenience of shopping has now become an important factor in the United States so that shopping centers and supermarkets must be well planned to cater to the consumers' convenience. Shopping by telephone is now a common occurrence in an American family, but such convenience is rarely present in most of the underdeveloped countries due to inadequate and inefficient communication systems. One of the essential requisites of an improved marketing system in an underdeveloped country is the improvement in the transportation and communication systems, and physical distribution facilities: whereby products can be distributed more cheaply and conveniently and therefore make products available to a larger segment of the consumer market.
APPENDIX

TABLE 4.1

AREA, DENSITY, POPULATION AND RATE OF POPULATION INCREASE FOR SELECTED COUNTRIES:

LATEST CENSUS AND MID-YEAR ESTIMATES FOR 1953 AND 1960

<table>
<thead>
<tr>
<th>Country</th>
<th>Latest Census Date</th>
<th>Latest Census Total Population</th>
<th>Estimate of Mid-Year Population (ooo's)</th>
<th>Annual Rate of Increase 1953-60 %</th>
<th>Area sq.km.</th>
<th>Density (p.sq.km.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>20/9/60</td>
<td>26,059,000</td>
<td>22,003</td>
<td>2.4</td>
<td>1,000,000</td>
<td>26</td>
</tr>
<tr>
<td>Ghana</td>
<td>20/3/60</td>
<td>6,690,730</td>
<td>4,478</td>
<td>6.2</td>
<td>237,873</td>
<td>28</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7/52-6/53</td>
<td>30,418,025</td>
<td>30,803</td>
<td>1.9</td>
<td>923,772</td>
<td>38</td>
</tr>
<tr>
<td>Mexico</td>
<td>8/6/60</td>
<td>34,923,129</td>
<td>28,253</td>
<td>3.1</td>
<td>1,969,367</td>
<td>18</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>1/4/60</td>
<td>2,349,544</td>
<td>2,182</td>
<td>1.1</td>
<td>8,897</td>
<td>265</td>
</tr>
<tr>
<td>Brazil</td>
<td>1/11/60</td>
<td>70,799,352</td>
<td>55,772</td>
<td>3.4</td>
<td>8,513,844</td>
<td>8</td>
</tr>
<tr>
<td>Venezuela</td>
<td>26/2/61</td>
<td>7,523,999</td>
<td>5,442</td>
<td>4.3</td>
<td>912,050</td>
<td>8</td>
</tr>
<tr>
<td>Federation of Malaya</td>
<td>17/6/57</td>
<td>6,278,758</td>
<td>5,613</td>
<td>3.0</td>
<td>131,313</td>
<td>53</td>
</tr>
<tr>
<td>Singapore</td>
<td>17/6/57</td>
<td>1,445,929</td>
<td>1,120</td>
<td>4.6</td>
<td>561</td>
<td>2,813</td>
</tr>
<tr>
<td>India</td>
<td>1/3/61</td>
<td>434,807,245</td>
<td>378,329</td>
<td>1.9</td>
<td>3,040,220</td>
<td>136</td>
</tr>
<tr>
<td>Canada</td>
<td>1/6/61</td>
<td>18,238,247</td>
<td>14,845</td>
<td>2.6</td>
<td>9,976,177</td>
<td>2</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1/4/60</td>
<td>179,323,175</td>
<td>160,261</td>
<td>1.7</td>
<td>9,363,387</td>
<td>19</td>
</tr>
<tr>
<td>U.K.</td>
<td>23/4/61</td>
<td>52,675,556</td>
<td>50,880</td>
<td>0.5</td>
<td>244,016</td>
<td>214</td>
</tr>
</tbody>
</table>

Note: 1 sq. km. = 0.386101 sq. miles

TABLE 4.2

ESTIMATES OF PER CAPITA NATIONAL PRODUCT EXPRESSED IN U.S. $ (at factor cost) IN SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Per Capita Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Egypt</td>
<td>1952-54</td>
<td>$ 120</td>
</tr>
<tr>
<td>2. Ghana</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>3. Nigeria</td>
<td>1952-53</td>
<td>$ 60</td>
</tr>
<tr>
<td>5. Singapore</td>
<td>1956</td>
<td>$ 370</td>
</tr>
<tr>
<td>6. India</td>
<td>1952-54</td>
<td>$ 60</td>
</tr>
<tr>
<td>7. Mexico</td>
<td>1952-54</td>
<td>$ 220</td>
</tr>
<tr>
<td>8. Puerto Rico</td>
<td>1952-54</td>
<td>$ 430</td>
</tr>
<tr>
<td>9. Brazil</td>
<td>1952-54</td>
<td>$ 230</td>
</tr>
<tr>
<td>10. Venezuela</td>
<td>1952-53</td>
<td>$ 540</td>
</tr>
<tr>
<td>11. Canada</td>
<td>1952-54</td>
<td>$1310</td>
</tr>
<tr>
<td>12. U.S.A.</td>
<td>1952-54</td>
<td>$1870</td>
</tr>
<tr>
<td>13. U.K.</td>
<td>1952-54</td>
<td>$ 780</td>
</tr>
</tbody>
</table>

n.a. = not available

NOTE

These estimates may be properly considered as appropriate indicators of the rough order of magnitude of the per capita production of goods and services of the countries included. No undue significance should, however, be attributed to the absolute differences in per capita products, either between countries close to one another in the scale or between those far apart.
TABLE 4.2 (continued)

SOURCE


**TABLE 4.3**

INDEX OF CONCENTRATION (100 = Complete Inequality)

<table>
<thead>
<tr>
<th>Country</th>
<th>Before income taxes</th>
<th>After income taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puerto Rico</td>
<td>53</td>
<td>n.a.</td>
</tr>
<tr>
<td>Ceylon</td>
<td>43</td>
<td>42</td>
</tr>
<tr>
<td>United States</td>
<td>40</td>
<td>38</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>45</td>
<td>27</td>
</tr>
</tbody>
</table>

n.a. = not available

**SOURCE**

TABLE 4.4
PERCENTAGE DISTRIBUTION OF ECONOMICALLY ACTIVE POPULATION
BY INDUSTRY: LATEST AVAILABLE CENSUS, SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Service</th>
<th>Not classifiable elsewhere</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>1947</td>
<td>58.7</td>
<td>11.9</td>
<td>23.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Ghana</td>
<td>1960</td>
<td>59.6</td>
<td>16.8</td>
<td>17.1</td>
<td>6.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>1950</td>
<td>57.8</td>
<td>15.8</td>
<td>21.3</td>
<td>5.1</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>1950</td>
<td>47.1</td>
<td>19.3</td>
<td>30.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Brazil.</td>
<td>1950</td>
<td>65.3</td>
<td>12.6</td>
<td>21.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1950</td>
<td>47.7</td>
<td>18.6</td>
<td>25.2</td>
<td>8.5</td>
</tr>
<tr>
<td>Fed. of Malaya.</td>
<td>1957</td>
<td>51.6</td>
<td>14.4</td>
<td>31.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>1957</td>
<td>6.7</td>
<td>21.4</td>
<td>69.9</td>
<td>2.0</td>
</tr>
<tr>
<td>India</td>
<td>1951</td>
<td>69.4</td>
<td>11.5</td>
<td>19.1</td>
<td>-</td>
</tr>
<tr>
<td>Canada</td>
<td>1951</td>
<td>23.5</td>
<td>38.5</td>
<td>36.5</td>
<td>1.5</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1950</td>
<td>15.4</td>
<td>40.2</td>
<td>42.0</td>
<td>2.4</td>
</tr>
<tr>
<td>U.K.</td>
<td>1951</td>
<td>6.2</td>
<td>53.5</td>
<td>39.8</td>
<td>0.4</td>
</tr>
</tbody>
</table>

NOTE

Agriculture comprises agriculture, forestry, hunting and fishing.

Industry comprises mining and quarrying, manufacturing, construction, electricity, gas, water, and sanitary services.

Service comprises commerce, transport, storage and communication and services.

SOURCE

### TABLE 4.5

PERCENTAGE DISTRIBUTION OF PRIVATE CONSUMPTION 
EXPENDITURE, 1950 AND 1960, SELECTED COUNTRIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>53</td>
<td>54</td>
<td>11</td>
<td>11</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>81</td>
<td>73</td>
</tr>
<tr>
<td>Nigeria</td>
<td>76</td>
<td>70</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>88</td>
<td>86</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>36</td>
<td>29</td>
<td>11</td>
<td>13</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>89</td>
<td>81</td>
</tr>
<tr>
<td>Ceylon</td>
<td>54</td>
<td>52</td>
<td>4</td>
<td>4</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>73</td>
<td>75</td>
</tr>
<tr>
<td>Thailand</td>
<td>45</td>
<td>42</td>
<td>9</td>
<td>9</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>80</td>
<td>76</td>
</tr>
<tr>
<td>Canada</td>
<td>25</td>
<td>23</td>
<td>16</td>
<td>20</td>
<td>6</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>67</td>
<td>65</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>24</td>
<td>21</td>
<td>14</td>
<td>17</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>68</td>
<td>64</td>
</tr>
<tr>
<td>U.K.</td>
<td>29</td>
<td>30</td>
<td>12</td>
<td>14</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>71</td>
<td>66</td>
</tr>
</tbody>
</table>

* Private consumption expenditure as % of GNP at current market prices.

# TABLE 4.6

LITERACY RATE IN SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>% of Population Literate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>1945-54</td>
<td>25</td>
</tr>
<tr>
<td>Ghana</td>
<td>1948</td>
<td>20</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1952-53</td>
<td>11</td>
</tr>
<tr>
<td>Mexico</td>
<td>1958</td>
<td>65</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>1958</td>
<td>86</td>
</tr>
<tr>
<td>Brazil</td>
<td>1958</td>
<td>48</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1958</td>
<td>57</td>
</tr>
<tr>
<td>Fed. of Malaya</td>
<td>1957</td>
<td>51</td>
</tr>
<tr>
<td>Singapore</td>
<td>1957</td>
<td>69</td>
</tr>
<tr>
<td>India</td>
<td>1960</td>
<td>15</td>
</tr>
<tr>
<td>Canada</td>
<td>1945-54</td>
<td>Over 95</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1945-54</td>
<td>Over 95</td>
</tr>
<tr>
<td>U.K.</td>
<td>1945-54</td>
<td>Over 95</td>
</tr>
</tbody>
</table>

**NOTE**

Table is for population of 10 years and over, showing literacy in any language.

**SOURCE**

TABLE 4.7
DAILY NEWSPAPER CIRCULATION AND RADIO RECEIVERS
PER 1000 POPULATION: 1950 and 1960, SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Daily Newspapers:</th>
<th>Radio Receivers:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Circulation per 1000</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>50</td>
<td>46</td>
<td>25</td>
</tr>
<tr>
<td>Ghana</td>
<td>9</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Nigeria</td>
<td>15</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Mexico</td>
<td>162</td>
<td>173</td>
<td>48</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>4</td>
<td>4</td>
<td>57</td>
</tr>
<tr>
<td>Brazil</td>
<td>217</td>
<td>291</td>
<td>51</td>
</tr>
<tr>
<td>Venezuela</td>
<td>28</td>
<td>29</td>
<td>71</td>
</tr>
<tr>
<td>Fed. of Malaya</td>
<td>26</td>
<td>28</td>
<td>50</td>
</tr>
<tr>
<td>Singapore</td>
<td>-</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>330</td>
<td>465</td>
<td>7</td>
</tr>
<tr>
<td>Canada</td>
<td>95</td>
<td>108</td>
<td>246</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1,785</td>
<td>1,763</td>
<td>340</td>
</tr>
<tr>
<td>U.K.</td>
<td>122</td>
<td>125</td>
<td>611</td>
</tr>
</tbody>
</table>

NOTE

A daily newspaper is defined as a publication which contains news of current events in public affairs, international affairs, government, etc. and which is published at least 4 times a week.

Radio receivers applies to all types of receivers for broadcast to the public, including loud speakers connected to a "radio distribution system". Data refers to number of licences or estimated number of receivers in use.

SOURCE

### TABLE 4.8

**MOTOR VEHICLES AND TELEPHONES IN USE, SELECTED COUNTRIES**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Motor Vehicles in Use* (in '000s)</th>
<th>Persons per Vehicle</th>
<th>Telephones in Use Number (in 1000)</th>
<th>Telephones per 1000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Egypt</strong></td>
<td>88.9</td>
<td>86.6**</td>
<td>246</td>
<td>300 **</td>
</tr>
<tr>
<td><strong>Ghana</strong></td>
<td>-</td>
<td>38.4</td>
<td>-</td>
<td>170</td>
</tr>
<tr>
<td><strong>Nigeria</strong></td>
<td>23.7</td>
<td>76.0</td>
<td>1,300</td>
<td>462</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>452.9</td>
<td>828.6</td>
<td>63</td>
<td>42</td>
</tr>
<tr>
<td><strong>Puerto Rico</strong></td>
<td>80.4</td>
<td>172.6</td>
<td>27</td>
<td>14</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td>682.9</td>
<td>937.8**</td>
<td>82</td>
<td>75 **</td>
</tr>
<tr>
<td><strong>Venezuela</strong></td>
<td>194.4</td>
<td>363.3</td>
<td>28</td>
<td>21</td>
</tr>
<tr>
<td><strong>Federation of Malaya</strong></td>
<td>60.9</td>
<td>128.2</td>
<td>92</td>
<td>54</td>
</tr>
<tr>
<td><strong>Singapore</strong></td>
<td>43.3</td>
<td>81.7</td>
<td>28</td>
<td>20</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td>305.0</td>
<td>520.0</td>
<td>1,240</td>
<td>835</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>3,390.5</td>
<td>5,160.5</td>
<td>4.4</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>U.S.A.</strong></td>
<td>56,279.9</td>
<td>72,925.0</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>U.K.</strong></td>
<td>3,867.3</td>
<td>7,019.9</td>
<td>1.3</td>
<td>7.5</td>
</tr>
</tbody>
</table>

* Motor Vehicles include passenger cars and commercial vehicles

** Figure is for 1959

**Note:** Passenger cars: motor cars seating less than 8 persons, including taxis, jeeps and station wagons.

Commercial vehicles: including lorries (trucks), buses, tractor and semi-trailer combinations; excluding trailers and farm tractors.

<table>
<thead>
<tr>
<th>Country</th>
<th>CINEMAS</th>
<th>Year</th>
<th>Number</th>
<th>Year</th>
<th>Total Attendance (000)</th>
<th>Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td></td>
<td>1960</td>
<td>369</td>
<td>1960</td>
<td>72,000</td>
<td>2.8</td>
</tr>
<tr>
<td>Ghana</td>
<td></td>
<td>1959</td>
<td>62</td>
<td>1959</td>
<td>9,300</td>
<td>1.9</td>
</tr>
<tr>
<td>Nigeria</td>
<td></td>
<td>1959</td>
<td>52</td>
<td>1959</td>
<td>3,000</td>
<td>0.1</td>
</tr>
<tr>
<td>mobile</td>
<td></td>
<td>1959</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td>1960</td>
<td>2,000</td>
<td>1960</td>
<td>334,000</td>
<td>9.7</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td></td>
<td>1959</td>
<td>150</td>
<td>1959</td>
<td>8,000</td>
<td>3.1</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td>1958</td>
<td>2,286</td>
<td>1960</td>
<td>328,300</td>
<td>5.0</td>
</tr>
<tr>
<td>Venezuela</td>
<td></td>
<td>1959</td>
<td>741</td>
<td>1959</td>
<td>60,000</td>
<td>9.2</td>
</tr>
<tr>
<td>Fed. of Malaya</td>
<td></td>
<td>1959</td>
<td>302</td>
<td>1955</td>
<td>50,000</td>
<td>8.2</td>
</tr>
<tr>
<td>mobile</td>
<td></td>
<td>1959</td>
<td>127</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td>1960</td>
<td>62</td>
<td>1960</td>
<td>22,600</td>
<td>13.8</td>
</tr>
<tr>
<td>mobile</td>
<td></td>
<td>1959</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>1960</td>
<td>3,175</td>
<td>1960</td>
<td>1,400,000</td>
<td>3.6</td>
</tr>
<tr>
<td>mobile</td>
<td></td>
<td>1960</td>
<td>1,325</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td>1958</td>
<td>1,439</td>
<td>1958</td>
<td>1,46,500</td>
<td>8.6</td>
</tr>
<tr>
<td>U.S.A.</td>
<td></td>
<td>1959</td>
<td>11,335</td>
<td>1959</td>
<td>2,200,000</td>
<td>12.1</td>
</tr>
<tr>
<td>U.K.</td>
<td></td>
<td>1959</td>
<td>3,643</td>
<td>1959</td>
<td>601,000</td>
<td>11.5</td>
</tr>
</tbody>
</table>

**NOTE**

Number of cinemas refers to the number of permanent fixed cinemas equipped and regularly used for the commercial exhibit of 35 mm. film.

Total Attendance refers to the number during the year specified of all paid admissions to film performances, whether of 35 mm. or 16 mm. films and whether or not in permanent establishments possessing fixed equipment.

**SOURCE**

CHAPTER V

BUYING HABITS

In every country the buying habits and motives of consumers may be quite different from another country. The contrast is even greater between those in the developed and underdeveloped countries, as influenced by the economic, social, cultural and even political factors. This chapter will describe the habits in the selected underdeveloped countries, where possible, drawing on studies that have been made. This chapter covers marketing as a significant undertaking by the housewife, hand-to-mouth buying, bargaining over prices, use of servants, need for service, demand for credit, brand preference, to impact of foreign residents on the local consumers.

Buying habits reveal when purchases are made, where goods are purchased, the quantities purchased, how they are purchased and related factors. A marketer who knows the buying habits of any market group is able to provide for effective promotion and distribution of his goods and services. A knowledge of the various buying habits of consumers for a particular product enables the manufacturer in selecting the channels of distribution to reach his market group, it aids the wholesaler in selling to retailers and it also aids the retailer in deciding the type and quantity of a stock to carry in his inventory. Thus buying habits require a close study as they determine when, where and how purchases are made.
Marketing: A Significant Undertaking

Shopping for non-food items is rather unusual and so becomes a significant undertaking in most underdeveloped countries. This is because consumers earn a low money income; a great part of which is spent on food consumption and with little or nothing left for other items. When occasionally a housewife makes a shopping trip, she may devote a day to shopping for items of clothing and the like. This is true of the rural housewife in Malaya who occasionally shops in the larger towns when a day is taken up in buying the various items for herself and for the household. For special occasions, such as a wedding, villagers will go to neighboring towns to do the shopping because of the greater varieties and alternatives of consumer products.

In underdeveloped countries there are usually some members of the household who have time for shopping. Because of the low level of money income and the low value set on time relative to money, since the opportunity cost of their free time is nil, it is worthwhile for them to look around for low prices for the purchase of products and for high prices for the products they sell. Often, for example, an African consumer, wishing to purchase a pair of trousers, would spend a whole day on the job. He may even have the assistance of all his friends in examining the seams, the stitching, the lining and long discussions and comparisons before the purchase is made. If he is looking for a fez, which

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1 Bauer and Yamey, The Economics of Underdeveloped
is only a red cap without a brim to the westerner, he will
distinguish among the various shapes, the material of which it
is made and its thickness, the color shading and the particular
design before a purchase is made. Such careful examination
of products needlessly takes up much of the shopping time.

Hand-to-Mouth Buying

Many consumers in the underdeveloped countries such as Venezuela, India, Egypt and those in Tropical Africa
frequently buy products in small quantities on a hand-to-mouth basis. It is common for consumers to buy cigarettes by the
piece, a razor blade, perfume by the drops, an egg, a handful of salt or peanuts, etc. This may be due generally to the low
purchasing power of the consumers and hence the inability to finance home inventories, the lack of home storage space and
the absence of refrigeration. The housewife in India, for instance, normally makes a daily shopping trip since there are
no refrigerators except in a few wealthy homes. Since hand-
to-mouth buying is customary, the itinerant trader, hawker,
street vendor and mammy trader form the important links in the
distribution channel.

Another shopping habit which is markedly different from those in the United States is that the Indian households:

Countries, op. cit., p. 94.

2Marcus, "Selling in the Tropical African Market", op. cit., p. 27.

3Westfall and Boyd, op. cit., p. 11.
buy kitchen utensils by the pound instead of by the unit.¹ If they do not do so they suspect the manufacturer may pound the metal thinner than the buyer believes it to be. Commodities like sugar may sometimes be sold in extremely coarse crystals, partly because it is more difficult to adulterate in that form. Often, an Indian housewife buying commodities would want to see them weighed before her eyes so that she is sure of getting a full measure,² and therefore would not be in favor of buying products in packages. She also buys her own grain and grinds it herself since flour can easily be adulterated with chalk dust. In the United States or Canada, on the other hand, most food products are completely prepackaged. The housewife's only problem is which brand to pick up among the various alternatives and generally, she is not the least worried over shortage of weight or adulteration because weights and measurements are highly standardized and enforced. Manufacturers are concerned over consumer satisfaction and goodwill for repeat sales and for long term profits.

Some of the peculiar shopping habits arise because the standard of honesty, even in the commodity itself, is still low. Adulteration of commodities is quite a problem in many underdeveloped countries. For instance, unless the labels of cosmetics, toilet goods and medicines are removed when the


contents have been used, the bottles, jars and cans can be refilled with substandard products and sold as genuine. In 1957 Delhi health authorities estimated that a quarter of all food in that city was adulterated with husks, ground seeds, sawdust, chalk dust and colored earth, accounting for 10 to 15% of the total weight of the commodities.6

Bargaining

Bargaining seems to be the customary process of buying and selling in the underdeveloped countries, as in Malaya, Singapore, India, the Middle East, Tropical Africa and the Latin American countries.7 Though some shops may adopt the western style of a one-price policy, as in department stores, the great majority of product transactions at all levels of the distribution channels are conducted on the basis of bargaining. Both types of approaches may occur in stores within the same block and for the same commodities. The explanation is that such stores serve different markets. The department stores serve the upper and middle income class, the other stores serve another class.

Often, neither the seller nor the buyer feels right if the sale is made without some bargaining. The seller usually quotes an initial price which is much higher than he expects to get. The buyer, verbally and visually expressing astonishment that any one could think of asking so much,

6 Westfall and Boyd, op. cit., p. 17.
7 See for instance, Dunbaugh, op. cit., p. 187.
offers less than he expects to pay. The bargaining process goes on until an agreement is reached. If no agreement is reached the buyer goes along to negotiate with another seller all over again.

Bargaining, besides serving as a process of coming to an agreeable price between the buyer and the seller, also serves as the spice of social chatter in the market place. According to the observation of one writer, she tells of attempting

to buy the entire stock of pieces of raffia from a trader in a Madagascar market town, and of being refused on the ground that the trader would be bored through the rest of the day if he had nothing to sell. In addition, the buyer being a poor bargainer, was actually paying too high a price; yet bargaining is often considered the spice of social intercourse, and this too may have caused the trader to refuse to give up a day's bargaining for the sake of extra profit. 8

The small buyer who is a shrewd bargainer may get a better deal than a large purchaser through the bargaining process. The bargaining process can be said to originate from the old days when buyers and sellers, with time to spare, bartered for each others wares, so that it has become institutionalized in the marketing system. It is no wonder that the housewife views marketing as a significant undertaking when the bargaining itself may take up most of the time before

a purchase is made. However, as the economy advances and as personal disposable income increases, and as modern techniques of marketing and pricing are adopted, the one price policy may become more common. Already, in Malaysia the big department stores are adopting it, catering to the upper income and more westernized consumers, while institutions which rely on bargaining cater to the general consumers.

**Purchase by Servants:**

In Latin American countries like Venezuela and Puerto Rico the women in the upper income group do little shopping for food and household items. Such purchasing is delegated to servants who buy from neighbourhood stores and from house-to-house sellers. Since manual work is considered degrading, a heritage from the colonial days which asserted the superiority of the upper classes, to be seen shopping is considered unladylike and a lowering of status. Because of such a social attitude, upper class homeowners do little physical work around the house. The do-it-yourself market is therefore small and holds little promise of expansion if this attitude persists. This is in marked contrast to North America where the do-it-yourself market is fast expanding as workers have a shorter work week. With more leisure time and as a relief from the monotonous work at the office and factory, they pride themselves in some creative work of their own around the house.

The purchase of food products by servants is also

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9 Boyd, Clewett, and Westfall, op. cit., p. 394.
prevalent in Malaya and Singapore. This is partly due to the British colonial days when every British administrator had one or more domestic helpers. The middle class soon imitated the British by having servants around the house. This is also partly due to the availability of inexpensive domestic help and when food products have to be purchased every day, since packaged and tinned food is still a new innovation.

Need for Service:

Following from the above social attitude: towards shopping in person by members of the upper income class, there is a demand for credit buying and for delivery of products to the household. In a survey in Puerto Rico, thirty of the firms serving average and high income urban areas: reported that at least half of their sales were delivered.\(^\text{10}\)

In the Middle East services are cheap due to the large pool of unskilled labor. Delivery service in food lines is universal and customers inside the store are showered with attention. For instance, one retailer, who opened the first supermarket in Lebanon, supplied not only carts for shoppers, but also young boys to push them.\(^\text{11}\)

Demand for Credit

The demand for credit by consumers is particularly

\(^{10}\)Holton, op. cit., p. 353.

prevalent in the Latin American countries such as Puerto Rico, Venezuela, and Brazil. For instance, Sears Roebuck is at present selling 51% of its sales in Latin America on credit and credit losses are only a decimal of a percentage higher there than in the United States. 12

This may be true of other Latin American countries, but in Brazil the extension of credit to attract the Brazilian shopper is becoming a costly business. 13 Inflationary conditions in the country at the moment are such that customers prefer to put off paying their bills. As each inflationary month passes, the bills in effect become smaller. To overcome this inflationary spiral, some companies like General Electric writes a clause into its sales contracts that allows for adjustments in the delivery price to compensate for inflation.

The demand for credit may be due to economic reasons such as low money income and unsteady employment, as well as being a habit of the consumers. Though some consumers in Puerto Rico may have an income high enough and steady enough to purchase on a cash basis, it would not occur to them to buy with cash. 14 In West Africa credit trading is extended down to the petty retail stage. Market women frequently sell cigarettes and food to manual workers on credit. It is not

12 Dunbaugh, op. cit., p. 187.


unusual to see them waiting outside of government offices or mercantile firms on pay day to collect their accounts from workers and clerks.\(^5\) In the Middle East, credit extension at the retail level, especially by food stores, is also widespread.\(^6\)

Because consumers often look to the retailer for credit, he in turn must buy on credit from his suppliers. In fact, credit from suppliers is used all along the distribution channel, resulting in a monopolistic situation in which credit is used as a competitive tool instead of price. As long as credit plays an important part in influencing habits of consumers, there may be considerable difference as to sources of supply, and the benefits of greater price and quality consciousness may not be fully realized.

**Brand Preference**

Preference for certain imported brands seems to be one of the characteristics of the African consumer,\(^7\) unlike the ordinary consumer in India. For products that are familiar to him such as blankets, clothing, saucepans, etc., he is a very careful and shrewd judge of quality. He is loyal to a brand that has proved to be satisfactory, thus making it difficult to sell him any other substitute. Women, for instance, are often very much attached to a certain style

\(^6\)Stewart, op. cit., p.51.
\(^7\)Marcus, op. cit., p.27.
of fabric, garment or color so that brand insistence and prejudices are deeply ingrained in the consumer.

While African consumers prefer certain brands this preference is often not irrational. For instance, there is a preference in West Africa for one of two brands of bicycles. Some would even insist on a Raleigh Bicycle and refuse all other brands.\(^\text{18}\) Such brand insistence for durable goods is often related to superior durability which is reflected in higher second hand values.

In some instances preferences for a certain brand is due to recognition of the reliability of quality from a particular source. For instance, the consumer often has no easy means of testing and comparing the different products and therefore frequently prefers the brand or the trading firm with which he has had a satisfactory trading experience. He has difficulty in obtaining redress for defective products from the overseas producers and this accounts for the greater reliance on the trusted trader and the brands he handles.

In Malaya and Singapore, American products are highly regarded and considered desirable. "Made in U.S.A." brands carry prestige and quality to the consumers. There seems to be more of a preference for imported products, particularly the well known brands, than for locally manufac-

tured products. This is understandable since Malaya and Singapore have been dependent on imported consumer products for a long time, so that consumers have more or less acquired a taste for imported products through usage and the effect of advertising. However, locally manufactured products of well known brands are also greatly accepted, such as those manufactured by Rothmans (cigarettes), Lever Brothers (soaps and detergents), and Dunlop (rubber tires).

The insistence on familiar brands means that such brands enjoy a monopolistic position in the market place, more than would be the case if consumers could be readily persuaded to try other brands. In a situation where consumers are brand conscious, new brands are difficult to introduce, but advertising can play an important role in informing consumers about the superior product qualities and persuade them to try the new products.

**Impact of Foreign Residents:**

In underdeveloped countries, particularly those which had been under colonial rule, foreign residents like Europeans were often looked to as forming the "upper class" and their dress and manner were and still are widely imitated. In Egypt, for instance, foreign residents have a considerable extent "westernized" the tastes of the middle and upper classes.\(^{19}\) In

\(^{19}\text{Boyd, Sheribini and Sherif, op. cit., p. 28.}\)
the Middle East, the Americans working in the petroleum companies have become ambassadors of American products through the demonstration effect.\textsuperscript{20}

In Africa, the desire for European types of products is more pronounced in West Africa than in East Africa because the former has been in contact with western influences for a much longer period of time than the latter. The consumers in East Africa have been slower to develop new economic levels and their tastes have developed more slowly.

In Latin America, the Venezuelan comes closest to possessing the "tastes" of the average North American.\textsuperscript{21} He seems to demand the same style and color as the average consumer in the United States, probably due to the large part of consumer goods being imported from the United States and partly manufactured locally by the United States firms. However, the average Venezuelan is not as well informed about products and quality standards as is the average consumer in the United States. The former seems to have a materialistic outlook as shown by his willingness to buy on credit despite high interest charges and uncertain employment. This is in direct contrast to the Indian consumer who exhibits less materialistic pattern or outlook. This is because in the Hindu religion, for example, desire for material things may be

\begin{itemize}
\item[\textsuperscript{20}]Stewart, \textit{op. cit.}, p. 49.
\item[\textsuperscript{21}]Boyd, Clewett and Westfall, \textit{op. cit.}, p. 394.
\end{itemize}
considered evil, and austerity may be considered as an ideal that will improve one's fortune in this life and in reincarnation. Thus the effect of this and other types of religious beliefs have an effect on one's outlook of life and therefore are reflected in consumption patterns.

Nurkse argues that the demonstration effect, which is based on emulation of foreign residents in the underdeveloped countries or through movies and the mass media, has adverse effects on the economy. The emulation of western habits and living result in greater imports. Thus, as incomes rise, the people satisfy their additional wants by holding the percentage of consumption to income about the same, rather than by consuming a lower percentage of their income as they would do if their tastes had remained static instead of being altered by the demonstration effect of more diversified and higher-quality products.

Although this interpretation is highly suggestive, it is also open to question in some respects. It is still an untested hypothesis and has not been subjected to extensive empirical evidence. The imports of some underdeveloped countries have been composed mainly of foodstuffs for which the demonstration effect is relatively negligible. In most of the underdeveloped countries now, the trend is towards the

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industrialization of their economies through providing tax incentives, cheap industrial sites and related facilities to attract foreign firms to set up subsidiaries or to enter into partnerships with local firms. Where the governments have been successful in attracting such firms to produce for the consumer market, the demonstration effect may actually lead to greater expansion of the consumer market. As sales increase, such firms may be induced to re-invest more capital into the economy. At the same time, other firms may be attracted to come in to compete in the consumer market.

In some underdeveloped countries where the transition to an exchange economy has not been completed such as in Mexico, Brazil, Ghana, Nigeria and India, the demonstration effect may actually stimulate more effort to create a surplus of agricultural products for the market. This promotes an exchange economy since the ability to purchase new types of consumer goods depends on money incomes. The extension of the exchange economy involves greater specialization and increased production. As long as the demonstration effect affects the aspiration to consume, it may actually lead to greater effort or to an inflow of producers from the subsistence sector into the exchange sector of the economy thus increasing production and eventually the volume of savings. The case of Britain's development, for example, suggests that the desire to share in the higher consumption standards of the industrial towns operated as a motivating force impelling agricultural labor
to migrate to the towns. Therefore, the demonstration effect may stimulate the development of the economy.

SUMMARY

The buying habits and motives of consumers in the underdeveloped countries are quite different from those of North American consumers. These differences are due to economic, social, cultural, and even political factors which originate from the differences in past development.

The housewife in an underdeveloped country often views marketing for non-food products as a significant undertaking. With the low level of money income and the low value set on time relative to money, it is necessary as well as worthwhile to look around for low prices and to carefully examine products. In the sale of food products unpackaged staples and unsanitary distribution of perishables are aspects of food distribution in underdeveloped countries that offer great opportunities for improvement of health and reduction of costs. Due to the inability to finance home inventories, lack of home storage space, and absence of refrigeration among most families, consumers generally buy on a hand-to-mouth basis. By contrast, housewives in advanced economies today may store substantial quantities of consumer goods, particularly of food, and may actually break bulk themselves. Many middlemen have.

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sprung up to form the final link in the long distribution channel in the underdeveloped countries. Large-scale retailing with modern equipment and packaged merchandise is carried on in metropolitan centers, but the customers of these stores are largely upper and middle income families.

Bargaining is still traditional in many areas, though the one-price policy is being introduced in the big department stores in the metropolitan areas that cater again to a different class of consumers.

The use of servants in Venezuela and Puerto Rico in the purchase of food and household items means that grocers are not able to reach housewives of upper income groups through their promotion. The unfavorable social attitude towards manual work has restricted the do-it-yourself market considerably. Another habit, particularly in the Latin American countries, is the demand for credit, due either to economic needs or to just plain habit of the consumers to buy on credit.

Preference for certain brands is a characteristic of the African consumer, due to familiarity and reliability of quality of the product. Imported goods such as from the United States are considered as high quality in Malaya and Singapore. Locally manufactured products of well known brands lend themselves well to promotion and are greatly accepted by consumers, while other brands may have a difficult time creating a product image and acceptance. Where consumers.
show a tendency for certain brand preferences, advertising may be used in weaning consumers from their preferences.

Foreign residents who came as colonial administrators or as employees of foreign firms, such as the Europeans in Malaya, Singapore, Egypt, Ghana and Nigeria do have an impact on local consumers in terms of presenting them with models of western manners and dress which can be emulated. Latin American countries like Venezuela seem to be influenced by American habits and taste due to imports from the United States and locally manufactured products by the United States firms. The demonstration effect also comes from movies and the printed media which bring countries closer to each other. With increased income and education, consumers in underdeveloped countries show a tendency to imitate western habits and to buy the more diversified and higher quality products. As the demand for such products increases, both foreign and local firms may be attracted to produce for the consumer market.
CHAPTER VI

CHANNELS OF DISTRIBUTION

Many critics of marketing often consider only the creation of form utility or the development of a product as important. The consumer can only use the product if he can possess it. He must be able to possess it at the right time and he cannot possess it at the right time unless it is at a place convenient to him. An important function of marketing is to provide the product already possessing form utility with time and place utility. When this is achieved, the consumer can then obtain possession utility.

This chapter deals with the time and place utility, beginning by tracing the development of intermediaries and how they help producers get goods to consumers. The various channels of distribution are then examined, involving both imported and locally manufactured goods.

THE DEVELOPMENT OF INTERMEDIARIES

Initially, when families existed as self-sufficient units, no trading took place. Gradually, as families developed surpluses, exchange or barter for other products took place thereby making place utility relevant. Products had to be brought together before exchange could take place and a market place was formed wherever products came together to be exchanged.

Instead of exchange taking place between numerous
individuals, dealers sprang up to trade with the various families for all their surplus in exchange for what they needed. Dealers made a small charge for this, but if the time saved were considerable, the family might be willing to trade in this way, with the family specializing in production and the dealer specializing in trading or bartering or exchange.

Having a central market also reduced the cost of trading and made the use of a dealer convenient for some producers. This can be illustrated by the fact that the number of transactions required when a central market was not used, say, among five families would amount to ten exchanges, but only five exchanges would be involved if they had used a dealer in a central market. Generally, the number of transactions necessary can be computed from: \( \frac{n(n-1)}{2} \), where \( n \) is the number of producers and each producer makes only one article.\(^1\) When a centralized market is used, only \( n \) transactions are involved. The ratio of his advantage is \( \frac{n-1}{2} \) (that is, \( \frac{n(n-1)}{2} \) divided by \( n \)). Thus, as the number of producers increases, the ratio in favor of a dealer increases. For instance, when the number of producers increases from 5 to 25, the ratio of advantage in favor of the dealer increases from 2 to 12.

With 125 producers - a relatively small number in the modern market - the ratio of advantage is 62.

As the number and variety of products increased, and as the number of producers interested in trading increased, it became obvious that some type of organized trading system had to develop. Eventually stores provided the place utility which facilitated possession utility. In order to obtain this utility, producers and consumers were willing to pay specialists who facilitated the trading.

Gradually, specialists such as wholesalers grew up to relieve the retailer and the manufacturer. One of the main reasons for the development of specialists is the discrepancy between the quantity and the assortment of products offered by producers and the quantity and assortment of products desired by consumers. The latter usually desire a small quantity of a variety of products while producers normally supply larger quantities of one or a few items. The consumer is interested in the variety, or what Alderson calls "the potency of his assortment"\textsuperscript{2}, which when combined with a number of available products will increase or maximize his satisfactions.

The assortment of goods desired by consumers often has little to do with the producers' assortment of goods which gave rise to "discrepancy of assortments"\textsuperscript{3} and hence the need for the development of specialists. Producers make large quantities and then must depend upon intermediaries to develop the proper assortment desired by consumers. Few consumers

\textsuperscript{2}Ibid., p. 197.
\textsuperscript{3}Ibid., p. 216.
have a large enough demand for specific items to be able to consume the total output of any one producer. If they did, it probably would be more desirable to make rather than to buy the product.

Wholesalers have sprang up to serve manufacturers and retailers. Normally, if there are ten producers serving ten retailers directly, one hundred transactions would be required. However, making use of a wholesaler, the requirements of the retailers for a given operating period could be supplied by means of twenty transactions. This is because the wholesaler would make one purchase from each of the ten producers and make one sale to each of the ten retailers. Often the demand of a retailer is too small for the producer to serve the retailer directly, but when a wholesaler assembles all the orders of a number of retailers, the quantity he demands from each of the manufacturers become substantial and can represent an economic transaction. Thus specialists developed because producers make the items in which they are most efficient and then depend upon intermediaries to develop the proper assortment for consumers. They are needed in the creation of time, place and possession utility because transactions can be carried out at lower costs through them than through direct exchange.

THE CHANNELS OF DISTRIBUTION

As discussed above, the marketing specialists have developed to help producers to get goods to consumers. The
sequence of institutions from the producer to the consumer, including none or any number of middlemen is called a channel of distribution. The typical channels of distribution in underdeveloped countries like Malaya, Singapore, Ghana, Nigeria, Puerto Rico and Venezuela are handled at three levels.

At the first level are the importers who are generally the large foreign firms or agency houses whose major operation is importing the country's needs and exporting its produce. They usually also act as secondary distributors, selling to the smaller wholesalers, retailers and the final consumers. At the next level are the smaller wholesalers, often consisting of Chinese in Malaya and Singapore, Levantines in West Africa, and Indians in East Africa. They serve as the link between the importers and the smaller retailers. At the last level are the smaller retailers, wherein most local enterprise lies, serving the final consumers and also tapping the rural sector of the various markets. Some of the early forms of exchange such as open air markets and house-to-house selling are still prevalent in the underdeveloped countries.

The Import Agents

The import agents or exclusive agents occupy an important role in the distribution of imported goods. In former British dependencies, exclusive rights and exclusive agencies are often in the hands of agency houses which are in the import and export business as well. This has come about
through the colonial heritage when countries like Malaya, Singapore, Ghana and Nigeria have served as exporters of raw materials and importers of foreign manufactured consumption goods, as discussed in Chapter II. In Egypt, the exclusive agent is also the basic importing institution for imported goods. He is the authorized representative of the foreign manufacturer and is responsible for selling and distributing the goods throughout Egypt. In countries like Puerto Rico and Venezuela, import agents have prevailed because of the high level of imports and a preference for imported goods, particularly those from the United States. The imported agents normally carry on a wide variety of activities, extending their buying and selling activities beyond a wide variety of finished consumer goods at the wholesale level and, at times, at the retail level, as well as collecting produce from farms and from other sources of primary products.

The decision to grant exclusive rights often depends on the general policy of the foreign manufacturers or suppliers, as well as on the situation in a particular market. Where a brand is well known, a manufacturer may not consider it to his advantage to grant exclusive distributing rights. He may prefer to sell his products to all distributors who are pre-

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pared to pay his price, thus securing a wider as well as a
closer coverage of the market. Other manufacturers may prefer
to distribute their products through local agents, which is
becoming common with the rise in the importance of proprietary
products that are differentiated through the use of brands and
trade marks. Exclusive rights given to agents may amount to a
brand monopoly over the distribution of the particular branded
product. Branded products that are subject to sole agencies
include such items as leading automobiles, trucks, bicycles,
tires, radios, textiles, fountain pens and chemicals.

Distributing rights is one of several methods open
to a manufacturer who wishes to enter a particular market. By
this means, a distributor relieves the manufacturer of the
necessity of providing local marketing activities such as
carrying adequate stocks, the promotion of sales and the
provision of after-sale services, all of which require a sub­
stantial organization and considerable knowledge of local
market conditions. An established distributor may be able to
provide the necessary services for a few products or brands
more cheaply and effectively than can the manufacturer if the
latter is to set up a new organization for the purpose.
Exclusive distributing rights ensure that the benefits of the
distributor will accrue to his advantage and not to that of
his competitors.

An alternative method is for the foreign manufacturer
to send staff on periodic tours of inspection with the object
of arousing interest in new products. Manufacturers of
industrial products have sometimes sent out their own men to assist the distributors to introduce and market their products. Sometimes it may be necessary for the manufacturer to train an employee of the distributor specifically for the after-sales service, such as in radio and television, when the products are initially launched on the market.

Agency Houses

Among the western firms in Malaya and Singapore, the most important group consists of the trading and managing-agency firms or agency houses. The term "Agency House" is used to cover first, the secretarial companies who manage the affairs of many plantations and mines, generally for foreign investors, and secondly, the trading companies who are agents for large numbers of manufacturers all over the world, generally on an exclusive agency basis.6

Some of these agency houses began as trading firms in the Far East or in Europe and later branch into the rubber industry; others started in the rubber industry and later went into merchandising; some confine their activities only to managing agents and secretaries and a few are solely in the business of conducting the export and import trade.7 It can


be seen, therefore, that the agency houses are distinguished by a wide range of functions and an immense diversity of interest.

The dozen or so agency houses in Malaya and Singapore serve as the link between the plantation and mining activities in Malaya, the commerce of Singapore and the finance of London. The main role of the agency houses is to provide a link in which the overseas investor or trader will have confidence, partly due to European ownership and control, and partly due to the accounting skills and general financial techniques, which are so much scarcer than enterprise in the Malayan economy. In other words, such a system is designed to reduce the risks of foreign investment in underdeveloped countries where business expertise and managerial skills are scarce. Under such a system then, relatively small concerns can engage experienced managing agents to administer their estates, mines or factories, and investors are encouraged to subscribe capital for a diversity of companies in specialized undertakings abroad.

The system has a long history in India, Malaya, Singapore, Ghana, and Nigeria, and it provided the conditions that made possible the flow of capital from London to agricultural and industrial undertakings in underdeveloped

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countries.

It is usual for a director of the managing-agency firm to sit on the board of the company under its management and the links between the two are thus very close. The managing agents are paid for their services by a commission based on the area managed in the case of a rubber estate, or the profits earned, or both and on the commissions of purchase of supplies for the estate and on the sale of the produce. The latter can be handled very conveniently by firms already in being as importers.

Being in a key position in the rubber industry, other types of business also come to them. For instance, shipping lines anxious to participate in the expanding freight trade appointed them as agents in various ports. Likewise, they become agents for western insurance companies. Foreign manufacturers who hope to establish a market usually appoint them as their sole agents since they have the necessary capital, experience and influential connections for the promotion of new brands and products.

As a result of the exclusive agencies, the distribution pattern is like a pyramid. At the apex is the agency house which imports the products. Half way down are the distributors, wholesalers and other middlemen. At the base are the retailers who sell the products in the towns and villages.

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10 Allen and Donnithorne, op. cit., p. 53.
Often the agency houses are vertically integrated, that is, besides importing they also operate wholesale and retail establishments. But not all of their imports reach the consumers through subsequent stages of their own establishments, for they also sell to independent middlemen, both wholesalers and retailers.

The resulting development is that the agency houses became exporters of rubber, tin and other agricultural products which they manage for their clients and importers of manufactured goods through exclusive rights. According to one source, it was estimated that European-owned agency houses in Malaya and Singapore controlled 65 to 75% of the export trade in 1953, and 60-70% of the import trade in 1955. They held about 75% of the import agencies against some 10% held by Chinese firms. It can be said therefore that the agency houses do occupy a dominant position in the Malayan economy, both in the export and import trade.

In West Africa, the large European import firms stand in a class by themselves. They handled 85% of the import trade, about 10% was handled by Levantine and Indian firms, and about 5% by African firms. The largest trading firm, United Africa Company, a subsidiary of Unilever Limited, is believed to

11Puthucheary, op. cit., p. 72.

handle at least one-third of the entire import trade of the West African Sterling area, and only a somewhat lesser proportion of the export trade.\textsuperscript{13} In addition to the dominant position of one firm, a comparatively small group of firms (including the dominant firm) who were former members of the market sharing agreements called Merchandise Agreement(from 1937 to 1946) accounted for two-thirds of merchandise imports and an even larger proportion of the principal staples of West African trade.\textsuperscript{14} Like Malaya and Singapore, the export and import trade of West Africa are channelled through a relatively small number of trading firms with the European firms in a dominant position in the trade.

This degree of concentration in West Africa would be high even if the firms were of approximately equal size and always acted independently. First, there is one dominant firm; second, most of the large firms have often acted in concert in market sharing or price arrangement; third, most of the same large firms participate both in the import trade and in the purchase of export produce. The degree of concentration is therefore greater than would be suggested by the shares of the largest firms in the import or export trades separately.

In Malaya and Singapore after the second world war, the relative positions of the European importers were being increasingly challenged by the Asians, particularly the Chinese,

\textsuperscript{13} Stevens, op. cit., p. 438.

\textsuperscript{14} Bauer, op. cit., pp. 307 and 317.
although it is estimated that in the 1950's the European firms were still responsible for over half of the imported products. The fall in the share of the European importers would probably have been greater had it not been for the expansion in the import of machinery and capital goods, a trade that has largely remained in their hands. For this type of business, where generous credit terms must often be given, the western firms' superior technical knowledge and large capital resources give them advantages over the Chinese who prefer business with quick returns.

The Chinese have increased their share of the trade in consumers' goods and an increased number of western manufacturer's agencies are passing into their hands. In some cases, this has come about through the transference of agencies from western to Chinese firms, but most of the gain occurred through the appointment of Chinese agents by new western manufacturers previously unrepresented in South East Asia. These firms are European and American manufacturers, and recently, Japanese manufacturers who are making greater inroads into the trade; others because existing western firms already hold the agencies of competitors.

**Importance of European Credit**

The extension of credit by the agency houses plays

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15 Puthucheary, *op. cit.*, p. 73.

an important part in the distribution channel. The credit is mediated through the large European firms who get short-term credit from banks and are able thereby to give credit to wholesalers and dealers.\(^\text{17}\) The low level of local capital is seen in the use of consumer products obtained from the import agents for the purpose of raising short term funds for business or money lending. This is also reflected in the general practice by which European firms make advance to middlemen for the purchase of export produce on their behalf, particularly in West Africa.

Often, an established customer may obtain standard lines of consumer products from an import agent or agency house, generally on a 30-day credit. He promptly sells the products, sometimes at a loss, and uses the proceeds as short term capital to finance internal business or money lending. This practice of "gold coasting"\(^\text{18}\) is quite widespread in West Africa. The same practice is also adopted by some Chinese firms in Malaya and Singapore who make use of their trade credit to finance other business (such as rubber dealing) for which direct credit would be very costly or unobtainable.\(^\text{19}\) At the end of the 30-day credit period, they not only recover their loss, but also make a substantial profit. What the import agents can do

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\(^{17}\)See for example, \textit{Ibid.}, p. 240; Silcock, \textit{op. cit.}, p. 100; Bauer, \textit{West African Trade}, \textit{op. cit.}, p. 17 and Marcus, "Selling the Tropical African Market", \textit{op. cit.}, p. 31.

\(^{18}\)Bauer, \textit{West African Trade}, \textit{op. cit.}, p. 17.

\(^{19}\)Silcock, \textit{op. cit.}, p. 100.
to combat such practices are to shorten the credit period and to narrow the profit margin between the cost price and selling price of the products so that they would not be so profitable for others to buy the "gold coasted" products. Examples of consumer products that are "gold coasted" are imported cigarettes in West Africa and condensed milk in Malaya and Singapore.

The local dealer is often influenced by the availability of ample credit from the exclusive agent, since in the more remote sectors this credit cycle may stretch out as long as three years. The dealer is often unable to pay the supplier until he has resold his products and received payment from his customers, who, in turn, may have to wait until they have sold off their crops. If the intermediary cannot get the necessary financing, since loans from local banks are for limited amounts only, he must depend on his own capital which will certainly limit his operation.

By the process of credit extension down the distribution channel, European capital is thus used for financing business in the wholesaling and retailing of imported products. It also acts as a sales tool in maintaining share of the market, particularly against the challenge by Chinese firms who lack the large capital resources for credit extension. In Puerto Rico, the exclusive agents are also an important source of credit for their wholesalers and retailers.  

20 Marcus, op. cit., p. 31.

21 Gaibraith and Holton, op. cit., p. 194.
Restrictive Practices.

In markets in which there is a high degree of concentration of firms, such as a relatively few number of exclusive agents or agency houses for imported goods, there are likely to be formal and informal market sharing arrangements and other restrictive practices. In the import trade of West Africa, the most important market sharing arrangements were the Staple Lines Agreement, operative from 1934 to 1937, and the Merchandise Agreement, which lasted from 1937 until after the second world war. The former agreement was limited to certain staples such as corrugated iron sheets, cement, sugar, flour and salt. The latter agreement extended the coverage to practically the entire range of merchandise trade. As observed earlier, the Merchandise Agreement group accounted for about two-thirds of imported products in West Africa and is dominated by a single firm. There appears to be periodic informal agreements on prices, such as agreements for maintaining minimum selling prices of certain lines of products. This is usually extended down to the retail level.

The same situation that prevails in West Africa can be said to exist in Malaya and Singapore where the European agency houses still account for more than half of the imported products. No formal studies have so far been made on their

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23 Ibid.
24 Ibid., p. 79.
market-sharing and price agreements. Since they occupy the apex of the pyramid-like form of distribution channel for imported products, they are in a position to dictate terms to the other institutions, such as wholesaling and retailing. Since resale price maintenance is not illegal, it is not surprising to find all the branded products selling at standard prices throughout the two areas.

The restrictive tendency is also prevalent in Puerto Rico, where exclusive agency arrangements for the importation of manufactured products were found to be so restrictive that Galbraith and Holton suggest that appropriate legislation be introduced to abolish them. As pointed out in the introduction in Chapter I, during the initial stages of economic growth products can sometimes be distributed only under monopoly conditions. But once such a structure is formed they become a hindrance to attempts at improving competitive performance and, hence, economic development. It is only through appropriate government legislation that the restrictive practices can be minimized.

THE CONDUCT OF WHOLESALING OPERATIONS

Wholesaling forms the next stage of the distribution channel, serving as the link between the import stage (in the case of imported products) and small manufacturers and the small retailers. It should be borne in mind that the agency

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houses also perform wholesaling functions. Wholesaling is an important activity in the marketing process and appears in nearly every channel of distribution.

In the case of locally manufactured products, efficient wholesaling is particularly important in underdeveloped countries due to the push of industrialization, the lack of storage facilities, the prevalence of small manufacturers and the concentration of manufacturers in certain urban areas. The manufacturers have done little to absorb some of the functions performed by the wholesalers and retailers. This is because manufacturing is often on a small scale and only a few manufacturers can by-pass existing intermediaries because of lack of capital. From a cost point of view, it pays a manufacturer to let wholesalers carry out the operations of serving a number of small retailers, most of whom require credit.

In Egypt, wholesalers occupy a dominant position in the marketing of goods, while the producers are preoccupied with production problems. The wholesalers perform few functions. For most of them, their existence is due to their strong financial resources and the credit they can offer. They are often able to retard or block the entry of local products into the market or are able to demand high margins from local manufacturers and have a financial hold over the

26 Stevens, op. cit., p. 421.
retailers through their credit extension.

Such similar relationships between marketing and finance are also found in other underdeveloped and developing countries. Many Japanese wholesalers perform important financial functions which accounts for their domination positions in the channels of distribution.

Retailers as well as producers are limited in their sources of working capital. As the banks are unwilling to extend credit to either, they must rely on wholesalers for necessary funds. The reluctance of banks to lend to retailers and producers is explained in part by the conservatism of the banking system and partly by continued use of traditional methods of finance. 27

Agent Middlemen

Agent middlemen do not take title to the goods. Their main service is to facilitate the producer's selling function. They generally provide limited wholesaling functions and hence are able to offer to their services at relatively low cost.

The agent middleman is particularly important in Egypt in the distribution of items like canned fruits and vegetables, candy, soap and detergents. 28 The agents deal with a large number of wholesalers, subagents and institutional

27Dowd, op. cit., p. 261.

28Boyd, Sheribini and Sherif, op. cit., p. 31.
buyers. They act as "collectors" for the manufacturers, with the latter determining the price to be sold at the retail level. Their role appears to be in the introduction of new products, an important role in view of the fact that many small manufacturing industries are being started under industrialization programs.

A study on the North Indian Sugar Industry revealed that the selling agents act as the selling arm of the Indian sugar manufacturers since the agents carry out most of the marketing activities. They generally take the initiative in making sales, dealing with many more people than does the factory. They often sell in small lots and often extend credit to their clients. Some of them even perform a financial service by lending money to factories. Often, without the funds from agents, the producer or distributor would not be able to engage in business due to lack of readily available sources of loanable funds. Besides interest on the loan, the lender expects certain business concessions which may not necessarily be to the detriment of the borrower who presumably benefits more than the cost of concessions and interest.

Lack of available studies has limited the discussion of agent middlemen to the above countries only.

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29 Hirsch, op. cit., p. 141.
30 Ibid., p. 154.
31 Ibid., p. 167.
Integration

There appears to be evidence of integration of wholesaling functions with retailing as in India, and also in Malaya, Singapore and West Africa where the big agency houses have diverse activities. However, in Puerto Rico, wholesalers do not integrate vertically due to cultural and environmental business problems and attitudes.\textsuperscript{32} Wholesalers are reluctant to engage in retail operations on a large scale due to lack of personnel and also due to the fear of alienating their customers, particularly when they are also exclusive agents.

In Egypt more wholesalers and large retailers are reaching "back" to the manufacturer and request the production of certain products to meet their specifications.\textsuperscript{33} Such a tendency is important for setting competitive forces in operation and is particularly important in an economy where there is little competition at the manufacturer's level to provide better products for the consumer. Whether this will approach the results achieved by Sears Roebuck in the Latin American countries is a matter of conjecture.

Buying and Selling Practices

In general, prices are not fixed since bargaining between the buyer and seller is the accepted way of doing business at every level of the distribution channel. In India,

\textsuperscript{32} Holton, op. cit., pp. 357-358.

\textsuperscript{33} Boyd, Sheribini and Sherif, op. cit., p. 33.
Egypt, West Africa and Puerto Rico, for instance, wholesalers tend to buy on a hand-to-mouth basis. Since there is no single price system even the largest wholesalers must bargain with their distributors over price. The structure of discounts at the wholesale level does not encourage retailers to pay quickly and earn cash discounts and quantity discounts are often not standardized. Each sale by a wholesaler is subject to bargaining and it is common for a retailer who buys in small quantity to get a better price per unit than one who buys in a larger quantity because the former is a better bargainer. Since the large purchaser is not assured of a lower unit price, large scale buying is not necessarily advantageous at the wholesale or retail level.

Although wholesalers occupy an important role in the distribution channel, they do not sell aggressively thus placing considerable burden on retailers to search out sources of supply. In a utensil survey in India, only one of the thirty wholesalers received calendars from a manufacturer who used the calendars as a promotional device, while none of the others had any promotional materials. Market demand is taken as fixed; the wholesale sector seldom engage in any promotional activity to shift demand or to increase over-all

34 Ibid., p. 32.
36 Boyd, Clewett and Westfall, op. cit., p. 395.
demand. In India, it is the retailer who typically contacts the wholesaler to place an order. In the United States and Canada, it is generally the representatives of wholesalers who call on the retailers. Since there are smaller number of wholesalers relative to retailers, such a procedure saves on the total amount of time required in travelling and allows for greater functional specialization of wholesalers. The Indian procedure probably arises from the desire of buyers to compare prices of a number of different sellers before making a purchase. As such, it would not be practical for the buyer to wait for a sufficient number of sellers to approach him. Instead he must approach them. A small difference in price is all that is needed to get a buyer to switch from one seller to another.

It is interesting to note the wholesaler's view of their activities in both the developed and underdeveloped economies. Most wholesalers in the United States and Canada consider the return they realize as payment for their activities in distributing goods. They feel their returns or margins adequate compensation for their function as market specialists. However, the wholesaler in underdeveloped economies such as the wholesaler in India, may see himself as a trader in being

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38 Bartels, op. cit., p. 151.
40 Ibid.
able to buy at one price and sell at a higher price as a result of his speculative activities in the market. He does not differentiate between his speculative activity and his wholesaling activity. If a leading wholesaler begins large-scale hoarding, others find it to their advantage to help the price movement along by also withholding for most of them are concerned with the size of the profit margin on a given inventory rather than compensation from increased business alone.

The pricing techniques of the large Indian wholesalers illustrate the view they have of themselves as traders. Their method is continually to initiate small variations in selling price, based on their estimate of market supply and demand. In this way, they constantly realize a varying margin. The small wholesalers generally sell at purchase price plus a fixed mark up.

As discussed at the beginning of this chapter, the theoretical justification for the existence of the wholesaler and other marketing specialists is that through specialization they perform more efficiently and at less cost the function of linking the producer with the consumer by giving the product time and place utility. But the wholesaler in the underdeveloped economy is in existence mainly due to the capital which he can make available to his clients and to carry inventories for speculation which he considers as an integral part of marketing.

\[\text{Ibid., pp. 224-226.}\]
An improved marketing system would require that wholesalers give up their speculative activities in inventories and concentrate more on increasing their business through services offered to retailers. This is an important step in helping to increase demand of products through proper distribution and in the economic development of the country.

THE CONDUCT OF RETAILING OPERATIONS

Retailing is an extremely important activity, as the retailer is usually the last middleman in the channel of distribution. If the retailing contact is not effective, the goods may not be sold, to the detriment of all the producers and other middlemen in the channel as well as consumers.

The retail establishments in underdeveloped countries are generally on a small scale and are family owned and operated, as in Malaya, Singapore, India, Egypt and Puerto Rico. The Venezuelan retail structure is also comprised primarily of small shops, with few large retailers and practically no chain stores. In Tropical Africa, the petty retailer not only sells his consumer products, but also probably buys raw produce from the farmers which ultimately enter into the export market.

The Puerto Rican retailers face a difficult management problem for trained or even trustworthy employees are difficult to find.\(^2\) The size of the firm is often limited by

\[^2\text{Holton, op. cit., p. 356.}\]
the size of the owner's family. Often the son is not interested in retailing but wants to enter an occupation which offers prestige, in which case the husband assumes the supervisory and purchasing functions while the wife handles the cash. The retail store does not expand because of the difficulty of trusting a branch manager especially in the matter of credit sales.

The retailing of manufactured goods in underdeveloped countries ranges all the way from numerous outdoor markets, house-to-house selling and bazaars to a handful of department stores and supermarkets of the United States and Canadian variety.

Outdoor Markets:

Outdoor markets resemble the traditional market fairs when sellers and buyers get together for the purpose of exchange. Outdoor markets are still prevalent in many underdeveloped countries. In Brazil, for instance, a major form of such retailing is the "feira" or travelling market. This is made up of a large volume of independent vendors who set up portable stalls in the early morning, conduct business all morning, and dismantle the entire market by noon. Since the vendors have little or no overhead cost, prices are lower than


in the normal establishment. Each section of a city has a "feira" on two or three days of the week so that a vendor operating regularly on the designated days in each section of the city can keep himself occupied seven days of the week.

In West Africa, merchandise purchases are also made on outdoor markets in the cities. These markets may range from half an acre to a dozen square city blocks, depending on the number of people they serve. The markets may be daily or weekly. In general, the retailers are women who are called mammy traders. The proportion of women traders in a market varies but in a large African city, such as Ibadan in Nigeria, with a population of more than half a million, at least 70% of the retail trade is controlled by women.

Mammy traders in cities or larger villages sit in market places and sell their products from a mat spread out on the ground before them. Their stock in trade can normally be carried in a basket on their heads. Women traders also sell products on street corners, under shade trees, or in front of their houses. They usually sell assortments of food and non-food items such as handfuls of peanuts, kola nuts, bananas, tomatoes, fish, packets of razor blades, bars of soap and tubes of dental cream.

In Ghana, Nigeria and Sierra Leone, some of the African mammy traders often do so great a volume of business.

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that they assume wholesale functions by selling and financing petty or "penny" mammy traders rather than dealing directly with the final consumer. There are some mammy traders who can command a monthly credit of $20,000 or more from the large European wholesalers in the area. These women sell to a series of middle-women who eventually sell to the penny mammy traders. Although many of them are usually illiterate, even those who buy thousands of dollars worth of products on credit each month, they have a good memory of each transaction down to the penny.

**House-to-house Selling**

Although house-to-house selling is fairly expensive, involving travelling and personal contact, there are of course no expenditures for stores, fixtures and other overhead. With limited employment opportunities in other fields, being self-employed in house-to-house selling may be the only alternative for many people in the underdeveloped countries to eke out a living.

In certain countries like India, Malaya, Brazil and Venezuela, the volume of goods moved by house-to-house selling is still very large. Some of the food sold in this way by "specialists" includes vegetables, fruits, fish, poultry, meat, eggs, bread, soft drinks and snacks. Textiles, household

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^45 Ibid.

^46 See for example, Taylor, op. cit., p. 56.
brushes, cosmetics, as well as services such as knife sharpening and kitchen utensil repair can also be purchased at the door.

In India, where some 85% of the population live in the rural areas and where there are very few retail shops, peddlars travel to villages, frequently selling items like utensils and cloth which they carry on their backs and heads. They often make exchanges by barter or partially by barter, accepting old utensils, clothes and shoes in full or partial payment. This is necessary because the Indian village economy has largely been on a subsistence basis and the traditional way of exchange is still prevalent in the Indian villages. However, as the economy gets more monetized, as money incomes start rising and as the transportation facilities improve, the importance of the peddler will decline, giving rise to more retail stores.

Bazaars

Bazaars are characteristic of countries in the Middle East. In a Persian city, for instance, the bazaar is the major trading center although there has been a growth of shops catering to the higher income consumers wherever there are modern streets.147

In India, outside the chief shopping centres in

147 Hettinger, op. cit., p.291.
major cities, the typical retailing centre is a bazaar where many shops are clustered together. The bazaar is a combination of shopping centre, department store, and handicraft manufacturing centre. Its winding, covered labyrinths are departmentalized; one section for cotton piece goods, another for glasswares, etc. Each shop is about ten feet square, so that the proprietor can sit in the middle of the floor and reach his entire stock. Smaller shops and pedlars comprise the retail outlets for the rural villages.

DEVELOPMENTS IN LARGE-SCALE RETAILING

Large-scale retailing in the United States had its greatest growth since 1900.\(^{48}\) Retailing began to develop new types of retail institutions and merchandising methods. The general store, due to urbanization of the population was replaced by the specialty store. Railroads and the development of mass transportation facilities brought large numbers of people to city stores which aided the growth of large department stores. Department stores offered consumers a wide selection of merchandise at low prices; chain grocery and variety stores made their debut; mail order houses selling to consumers in rural areas became big business before 1900. As more manufactured products poured into retail shops, merchandising methods improved. The most important time and labor


saving development in retailing was the general adoption of the "one price policy". The general store custom of over-generous extension of credit was largely replaced by the more frequent settlement of accounts in specialty stores and by "cash and carry" policies instituted by large-scale retailers. A recent phenomenon is the development of shopping centers, planned to serve those in the suburbs.

It will be interesting to note whether large-scale retailing in underdeveloped countries will follow the same trend or evolve different patterns as progress is made in their economic growth.

**Department Stores**

Department stores are retail outlets that handle a wide variety of goods, such as men's and boy's wear, women's ready-to-wear and accessories, piece goods, housewares and house furnishings. They are organized into separate departments for purposes of service, promotion and control. In underdeveloped countries, department stores are normally found in the larger cities. They are small by American standards, and cater almost exclusively to the middle-income and upper-income groups. In Tropical Africa, for instance, the European oriented stores cater to the Europeans and other non-Africans.  

50 Stevens, *op. cit.*, p. 141.
Supermarkets are basically food stores, although there has been a tendency in recent years in the United States to take on many other items and to become more of a general store. They are large departmentalized stores which place a heavy reliance on prices or low margin appeal, have wide variety and assortments, self-service and heavy emphasis on merchandise appeal. Most supermarkets have eliminated such services: as credit or delivery, but instead rely on self-service and cash-and-carry policy.

Recently a number of supermarkets have opened up in the Latin American countries. The ones in Malaya and Singapore are smaller than the United States variety and might be called a "superette" which operates in a similar manner. They attract mainly the middle and upper class families.

The first supermarket in Brazil was opened in 1953 and since then more than a score of them are distributed in the major cities of Brazil. It resembles its American counterparts in two ways. First, self-service is used throughout the store. The initial concern was how to adapt the consumer to self-service, but the number of retailers in Sao Paulo and Rio de Janeiro who have converted to self-service have indicated

51 McCarthy, op. cit., p.371.
52 Ibid.
53 Taylor, op. cit., p.55.
that the consumer is accepting this method. It also shows that as the consumer gets more sophisticated through more education and increased income, he can adjust himself to new trends in shopping. The second similarity is that the lines of merchandise handled are very similar to those handled by the supermarkets in the United States, such as complete assortments of dry groceries, fresh fruits and vegetables, pre-packaged meats, and small houseware items. The difference from its United States counterpart lies in the fact that the Brazilian supermarket is usually located in the centre of the city or the secondary shopping districts, rather than in the outlying residential districts. This is probably due to the low per capita ownership of cars in most underdeveloped countries.

Branch Stores:

Some foreign companies now have gone in establishing their own distributing and servicing facilities. For instance, in Malaya and Singapore several manufacturers of consumer goods have established their own retail outlets. The Bata shoe company has an elaborate distributive organization in Malaya for handling supplies from their own local factory. Office equipment and sewing machine manufacturers, for example, Singer Sewing Machine Company, have also set up their own local retail outlets, through which provision is made for servicing the equipment. The major factor favoring such a move is the large volume of sales made possible because a sewing
machine is a valuable household item in an economy where home production of clothing is still important. The same is true in Venezuela where many United States firms maintain sales branches there to sell direct, particularly to large buyers such as the oil companies and the government.

Pilferage

Pilferage by sales clerks and customers is quite a problem to the retailer, particularly in India, Egypt and Puerto Rico. In India self-service is not feasible due to the pilferage problem. Even in many of the better stores in large cities the products are kept locked behind glass or mesh doors and these must be unlocked every time a sale is made. In Puerto Rico the pilferage is by sales clerks. One of the reasons the retail owner does not expand his sales is that he does not wish to multiply his headaches through keeping watch on his employees.

In stores in which other than the owner waits on customers two different employees may be used to prevent pilferage. One employee writes the bill-of-sale and the other accepts the money. Because of the distrust of salesmen the practice is to write a sales slip which the customer takes to the cashier, where it is stamped "paid". The slip is then taken to a section where the wrapping and delivery of the product takes place. Such a practice creates an additional cost burden since two or more people are required to complete a sale.

54 Westfall and Boyd, op. cit., p. 13.
and the frequent waiting by the customer at each stage adds inconvenience to him in the form of waiting time.

Credit

Credit is an important element in the retail trade, particularly in Latin American countries like Puerto Rico and Venezuela. Credit extension seems to permeate down the distribution channel from the wholesaler to the consumer. It is reported that 51% of Sears Roebuck's sales in Latin America are on credit. In a sample survey of retailers in Puerto Rico, credit buying seems to be widespread. Only 5% of the firms operated on a cash basis, while 58% reported that at least 60% of their sales were on credit.

The consumer demand for credit may be due to a rigorous necessity for the money income of the rural consumer is both low and probably seasonal. In Puerto Rico, for instance, cane cutting lasts for only six months of the year. For such persons credit from local retailer is a necessity to tie over for the slack period. Even in towns the seasonality of cane harvest can be felt and the low income urban worker feels the seasonal effect. Once a customer's credit is established with a particular retailer this restricts effective competition between the retailers for the consumer will hesitate to shift retailers. Any such shift involves at least some cash buying from the new retailer before the latter will extend credit.

55 Dunbaugh, op. cit., p. 187.
56 Holton, op. cit., p. 352.
Another reason for credit is due to the habit of consumers. The average and high income urban consumers are used to credit buying because a sizeable part of their food purchases are delivered, as in Puerto Rico and Venezuela. It is said in Puerto Rico that a retailer cannot make any headway unless he sells on credit.

There is a man here who tried a cash-and-carry system. He had to switch to credit and has now more accounts receivable than investment. 57.

Pricing

Pricing consists of a hybrid of western and traditional practices. Where firms have price freedom, practices range from western-style fixed prices to oriental style bargaining. Both types may occur in stores within the same block and for the same products.

Generally, prices are not fixed so that bargaining between the buyer and seller is the accepted way of doing business at every level in a distribution channel. Only in the few large western-type department stores, specialty stores and chains is there a one-price policy. These outlets cater primarily to the local European population, in the case of those in Asia and Africa, and to those in the middle and upper income groups who buy at fixed prices. These stores rarely put on clearance or other sales featuring drastic price reductions.

57 Galbraith and Holton, op. cit., p. 70.
The retail markups vary in different underdeveloped countries. In Puerto Rico and Venezuela, the gross markups are high by United States standards. According to one source, supermarkets average about 25% and the small food units between 35 to 50%. In Puerto Rico, the average gross margin for food retailers is 23.5% of sales which causes the high prices to be immediately apparent to one researcher.

In Egypt, the markups are relatively high, between 35 to 40% for non-food items, except products that are subject to price-control. However, the same is true of Tropical Africa; since numerous hands handle the product before it reaches the final consumer. In India, retailers' margins are extremely low, probably about 10% and wholesalers' margins are less than half as much. Both of these are well below those in the United States. Since bargaining forms part of the process, each dealer's margins will probably vary from transaction to transaction.

Although retailers may adopt the same pricing techniques, such as "cost-plus" pricing, their prices need not be the same, unless they are in direct competition. For

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62 Westfall and Boyd, *op. cit.*, p. 11.
instance, the study by Hirsch on three traditional retailers in India revealed that their sugar prices were different because they were not directly competitive with each other, each catering to a different segment of the market, characterized by different income levels and different geographical areas. Moreover, consumers buy a "mix" of products at a retail store so that their judgment as to whether or not a store price competitively is based on the cost of the product mix rather than on just one item alone.

Mass merchandising practices are still relatively new in many countries and the ordinary retailer operates on a high mark-up and low volume basis. Retail price policies are based on the concept of a limited market, a live-and-let-live philosophy and retail price maintenance. Typically, retailers do not believe that the lowering of prices will bring an increase in sales; maximum gross profit is sought on every sale regardless of the effect on long run profitability. However, with the set up of American supermarkets in Venezuela, Puerto Rico, and Brazil which operate on the concept of low-mark-up and high volume, this demonstration effect may affect some of the local retailers in their merchandising practices, as demonstrated by Sears Roebuck in some of the Latin American countries.

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Competition

Price competition is not a major sales strategy in many underdeveloped countries. For example, in Puerto Rico, supermarkets have made no attempt to secure increased volume through price appeal. Management policy has been to compete largely on a non-price basis and adopt an attitude of live-and-let-live which allows the business survival of a larger number of retailers. However, there is evidence that this approach is weakening. For instance, a large supermarket opened in Sao Paulo, Brazil, in 1957 offering food items at greatly reduced prices. Other supermarkets refused to compete and tried to force suppliers into refusing to supply the price cutter. Amid cries of unfair competition and demands for protective legislation, another supermarket opened in direct competition with the initiator.

The Puerto Rican retailers are convinced of the inelasticity of their demand curves because most consumers are tied to them by the demand for credit. Some of them have lowered their prices temporarily to test the price elasticity but have discovered that the small increase in sales volume failed to compensate for the lower margin. This experience has convinced them of the price inelasticity of demand and consequently they are not willing to compete on a price basis and "spoil the market".

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65 Taylor, op. cit., p. 56.
The belief that there is only so much business to support a limited number of sellers is prevalent among retailers in Puerto Rico and Venezuela. They view that a price cut will "spoil the market". They therefore band together to prevent price competition through "price understanding" since there are no laws to prohibit such price agreements. Such price understandings are also found in Egypt, West Africa, Malaya and Singapore, and not only among retailers, but also among the big distributors and agency houses which make implicit price agreements designed to prevent price competition among those handling competing lines of products. As long as there is no anti-trust legislation or anti-combines legislation to curb market-sharing arrangements or price agreements and related restrictive practices, such practices are likely to continue. There are practically no research studies made on the effect of restrictive practices on the market structure and on the economy as a whole.

The progressive influence of competition then is not felt keenly in the underdeveloped countries, partly due to price understandings, and partly because the middle class is yet too small in many countries to afford a mass market. There is therefore little incentive to reduce prices since the upper class is ready to buy at virtually any price, the potential middle class is small, and the price cut necessary to bring the lower class into the market is too large to be considered. Hence, there is little opportunity to expand markets through price reductions. Instead non-price competition exists through
the offer of more varieties of products and through services provided.

**MULTIPLICITY OF MIDDLEMEN**

The remarkable number of middlemen selling merchandise can be summed up by the observations of Bauer and Yamey concerning Mexico City where a visitor gets the impression that every one is engaged in selling.

In front of practically all the stores in the downtown section the sidewalks are lined with peddlars spreading their merchandise on the sidewalks or on portable stands... Block after city block is completely devoted to small shops and portable display stands. 67

The multiplicity of retailers is due to the relative ease of entry into retailing because of the low investment required. The selling of products which everyone needs and with which every one is familiar is a task which may be easily performed by nearly every one. Much of the working capital can be obtained through credit from the supplier or wholesaler and because his operating expenses can be very low, a small volume of business is regarded as sufficient compensation for his time and labor. Furthermore, he is assured of paying only wholesale prices for his own food.

Individuals are willing to work for low rewards because the alternative is idleness or no income at all, as in

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67 Bauer and Yamey, *The Economics of Underdeveloped Countries*, op. cit., p. 41.
Egypt and Puerto Rico, where unemployment is quite a problem. In spite of the industrialization program in Puerto Rico and the increase in incomes over the past decade, unemployment rates even during sugar cane harvest time has been around 10% of the work force. The efforts of assembly, bulking, transport, breaking of bulk and dispersing often require a large proportion of the population in an underdeveloped economy. Since few profitable channels of employment exist, and because of the relative scarcity of suitable land, lack of technical skill and capital, many people have therefore turned to retailing. There are many persons available to perform such services at a low supply price in terms of their daily earnings.

Another reason for the large numbers of retailers is the desire for independence and for the prestige of ownership, no matter how small the store may be. For local cane workers in Puerto Rico, one of the ways by which they may be able to win their permanent economic emancipation from the cane field is through acquisition of a small retail shop.

The conspicuous existence of the mammy traders in West Africa is also due to special cultural factors. In parts of Ghana and Nigeria, a man expects his wife to be in business. It is customary for an African woman who lives in a city or village, and who is thus not required to plant or harvest the

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68 Holton, op. cit., p. 356.
69 Galbraith and Holton, op. cit., p. 63.
70 Bauer, West African Trade, op. cit., p. 12.
crops, to become a retailer after she marries and has a few children. The only way she knows how to support herself and her children is by retailing in the market place, with the initial capital usually provided by her husband.

The large numbers of middlemen represent a substitution of labor for capital. This can be seen in the extensive trade in empty containers such as petroleum drums, kerosene tins, cigarette tins, beer bottles, glass containers, flour and sugar bags. "The substitution is economic as long as six or eight hours of their time are less valuable (in view of the lack of alternatives) than the small profit to be made from the sale of a few empty containers". 71

The time and labor spent in reclaiming the containers also serve as a substitute for secondary production. Some types of containers are turned into various household articles. For instance, cigarette and soup tins become oil lamps, flour bags and sugar bags are turned into shirts, glass containers and kerosene tins are usually used again for the storage and movement of goods, or the substitution of cheap domestic service for household appliances.

Those who seek out, purchase, carry and distribute second-hand containers maintain the stock of capital. They prevent the destruction of containers, usually improve their condition, distribute them to where they can be used again and so extend their usefulness. 72

71 Bauer and Yamey, "Economic Progress and Occupational Distribution", op. cit., p. 75.
Middlemen also break bulk and economize resources at all stages from the first seller to the final consumer. Products arrive in large consignments which need to be distributed over large areas to the final consumer, who in most underdeveloped countries, has to buy in very small quantities due to low money income and lack of storage facilities in the house. Without such middlemen, the consumers would have to buy in bigger quantities, for which they have neither the resources nor the storage facilities to do so. The middlemen, however, step in, break bulk and make the product available in small quantities to suit the consumer's pocket. Therefore, the buying habits of consumers make very intensive retail distribution necessary for many products.

The activities of the middlemen enable consumers to enjoy products that would otherwise be outside their reach, and therefore perform a useful marketing function in satisfying the consumers. They also save working capital by bringing about a more effective geographical distribution of products through reaching wider sections of the market than would be the case if consumers and small retailers had to deal directly with the big importing firms in the urban areas.

They can also be said to be productive in that they conserve real resources, particularly capital which is a scarce factor by substituting for it semi-skilled and unskilled labor, which is an abundant and cheap factor, and provide employment for the many who would otherwise be unemployed. They use resources which are redundant (example, women and
children in West Africa), and economize in the use of capital and supervisory staff for which there is a keen demand and for which there are valuable alternative uses.73

It can also be observed that the channels of distribution are more intensive, particularly at the retail level. This is because the small size of many manufacturers, wholesaler, and retailers, plus their limited capital resources, encourage the firms which perform the functions in the distribution channel to make use of additional links to reach the final consumer.

SUMMARY.

In the distribution of imported goods, the distribution channel is like a pyramid, with the import agents at the apex and the many retailers at the base. Through exclusive rights, the control of imported goods seems to be concentrated in the hands of a relatively small number of exclusive agents or agency houses, as in Malaya, Singapore, Ghana, Nigeria and Puerto Rico. In the absence of any anti-trust laws, the agency houses are able to dictate terms down the channels of distribution. They may also make arrangements among themselves regarding market share, pricing and other restrictive practices to lessen competition among themselves than would otherwise be the case.

73Ibid.
Agency houses reinforced their position through the extension of credit down the channel. The use of European credit is evident in Malaya, Singapore, Ghana and Nigeria where the European agency houses supply credit to the local wholesaler or retailer. The local retailer may make use of consumer goods obtained from the import agents for the purpose of raising short term funds to finance other business or money lending for which direct credit may be very costly or unobtainable. This can be illustrated by the "gold coaster" at work in which a consignment of goods is obtained on credit, immediately sold off for cash, sometimes even at a loss, and the cash used to finance other business. At the end of the credit period, he not only recovers his loss, but also makes a profit. This may be a sign of the low level of capital being used in the channel of distribution, which is a characteristic of low economic growth.

In some underdeveloped countries like Egypt and India wholesalers occupy an important role in the distribution channel for locally manufactured goods due to the prevalence of small manufacturers and the strong financial resources and the credit which wholesalers can offer. As these countries become more industrialized, and as retailers become larger and manufacturers more market-minded, wholesalers will probably become less dominant in their marketing systems. But the evidence in Japan does not show this to be true, for wholesalers still dominate the marketing process and as many as three wholesale links in distribution channels are not unusual.
The retailing of manufactured goods in underdeveloped countries today includes the operations of numerous open air markets, house-to-house selling, bazaars, and small retail shops. A few examples of department stores and supermarkets are found in the large urban areas. Bargaining over price is still the traditional way of doing business though the one-price policy may also be used in the same city-block. Gross margins seem to be high in Puerto Rico, Venezuela and Egypt. What little evidence there is of business operations of retailers of manufactured goods in underdeveloped countries seems to indicate a great need for improvement of marketing efficiency.

Under-employment, unemployment and easy entry results in great overcrowding in the retail trade. In India these conditions have resulted in intense price competition and low gross margins. However, the more typical situation seems to be that the multiplicity of small retail shops has led to high margins and monopolistic competition. Service differentiation is secured on the basis of location, the reliance of buyers and sellers on credit invites credit differentiation; segmentation of the population into economic or social status provides opportunities for differentiation; and inadequate market information permits differentiation based on market ignorance. Studies in Puerto Rico, Venezuela, Egypt and Tropical Africa all indicate administered or customary prices.

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a live-and-let-live attitude towards competitors and hence
great opportunities for reducing retailing costs in these
countries.

The multiplicity of intermediaries, particularly at
the retail level, can be attributed to a number of factors.
Firstly, this is due to the ease of entry and the small amount
of capital required. Secondly, in most cases, it is also the
only alternative to unemployment or no income. Retailing thus
acts more or less as a dole for the unemployed. Thirdly,
because consumers buy in small quantities, many intermediaries
have moved in to fulfil the role of breaking bulk and making
the goods available in smaller quantities to suit the consumer's
pocket. Fourthly, labor, which is an abundant and cheap factor,
is used as a substitute for capital in the performance of the
task of distribution as illustrated by the extensive use of
labor in the sale of empty containers, flour and sugar bags.

It can be generalized that the channels of distri-
bution in underdeveloped countries tend to be longer than in
the developed countries. The small size of many manufacturers,
wholesalers and retailers, the limited capital resources and
the hand-to-mouth buying habit of the consumers encourage that
a few additional links be used to reach the final consumer.
CHAPTER VII
PROMOTION IN UNDERDEVELOPED COUNTRIES

Markets can be expanded either by reducing the price so that consumers can buy more or by taking other steps to make consumers want more. On the product side the attempt to make consumers want more can take the form of product changes or innovations. It can also take the form of advertising and promotional campaigns designed to inform and change consumer attitudes to become more favorable toward a product. It is this promotional aspect that will be discussed in this chapter beginning with a brief outline of how promotion has developed in Canada and the United States and then outlining the role of the various media as promotional devices in underdeveloped countries.

THE DEVELOPMENT OF PROMOTION

The promotion variable today in the United States and Canada is quite complex, but this was not always so in the past. In the initial stages, most companies when they started operating, tried to handle the promotional aspect themselves. For instance, in a simple market, the vendor relied upon his loud voice for attracting attention and informing consumers about the availability of his products and services. As more competitors came in, then he might rely upon other methods such as music and other forms of entertainment to attract attention to his wares. This type of promotion is still very prevalent in underdeveloped countries in house-to-house selling.
and in open air markets.

As markets were transformed into retailing centers, merchants became even more concerned about attracting business to their stores and informing consumers about the availability of supplies became very important. Some type of outside promotion was necessary and signs on stores and in prominent places around the city and notices in printed matters were sometimes used.

As markets grew larger and the number of consumers increased, the importance of attracting consumers grew. The task of personally attracting consumers became enormous and more expensive. Stores began to rely increasingly on mass media for informing the many consumers about the availability of products because such media were more economical in the communications task. Advertising became an important promotional aspect of transmitting information about price differences, special product features, and persuading consumers to try the products. Consumers must be informed about prices and special features in order to take them into account in their buying decisions. In some cases advertising was regarded as a means of giving background support to salesmen by making their selling jobs easier; for other cases advertising was regarded as the chief means of creating demand while salesmen took orders.

A company's promotional strategy might seek to accomplish several broad objectives at the same time: informing,
persuading, and reminding consumers of the company's marketing mix. Though these objectives sound simple, successfully carrying out a specific promotion strategy is not so easy for it must reach both intermediate and final consumers through appropriate media. It must be appropriately timed and finally evaluated for effectiveness after its conduct.

With the high level of production in the United States and Canada and the increasing number of new products appearing in the market (major companies are now having 50% or more of their sales in products new in the past decade\(^1\)), coupled with the growth of self-service and self-selection, the trend from the production-oriented type of company organization to the new customer-oriented organization and hence to intense competition in the market place, gives promotion a greater role in demand creation. The importance of advertising in the United States economy can be shown by the fact that advertising expenditures accounted for $12 billion in 1962, and will be $20 billion by 1970.\(^2\) Sales promotion presently accounts for another $6 billion.\(^3\) It is estimated that personal selling itself accounted for about 10% of the United States labor force. With the age of high mass con-

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\(^3\) Margolis, *op. cit.*, p. 42.

sumption in the United States and Canada and the influence of the consumers' orientation, advertising and promotion are anticipated to play an increasing role in stimulating demand for different firms.

Its Role in Underdeveloped Countries

Just as promotion is playing an increasingly important role in developed countries in facilitating mass production and the sale of new products, so it can play an important role in influencing sales in underdeveloped countries. In a simple market, such as the open air market, and in house-to-house selling the use of one's voice may be sufficient to attract attention to the products and services offered. But as selling becomes more complex other forms of promotion are needed. This is particularly so in markets where more and more consumers are earning higher personal incomes, as more consumers become literate through better education and as consumers become more discriminating in the choice of consumer products. In markets where consumers show a tendency for brand preference, it is only through advertising and sales promotion that they may be switched from this brand preference to other brands. Competitors from all over the world who are now marketing their products in underdeveloped countries, are now making advertising an essential part of their sales effort.

Even within the same underdeveloped economy, promotional appeals, however, must be modified if the target
market is low in literacy, a common deficiency in the rural areas. The use of symbols and trade marks and pictures, become more significant than words or themes. For instance, in Tropical Africa, Singer Sewing Machines have developed a wordless instruction book to cope with the illiteracy problem and one cigarette company popularized its brand by designing all its trucks to look like the cigarette package. In certain areas, the product's container may play a pivotal role in closing the sale. Although a great part of India is still largely at a subsistence level the success of some promotional efforts adopted to the local situation such as those used by Hindustan Lever, indicates that demand can be created in an underdeveloped country.

PERSONAL SELLING

In the discussion on channels of distribution it was noted that the business units are generally on a small scale in which family operations are predominant at the retail level. The Chinese retailer in Malaya and Singapore generally employs only his own relatives or those who can speak the same dialect as the retailer himself. Any one of another ethnic group such as the Malay will never be able to find employment in such family operated retail establishments. Since meals and lodging are often provided, a Malay would not be able to fit into the Chinese way of life due to different food habits, customs and languages. Therefore the Chinese retailer would prefer assistants of his own race, and even of his own clan as a knowledge of spoken Chinese is frequently
of vital importance in the conduct of the business. Personal selling and good personal and friendly relations with consumers play an important part in the sales policy of most retail stores. Managers stress the need for building up personal relationships and contacts with customers, and often look for sales personnel who are jovial and able to converse with customers in a friendly way.\(^5\)

Personal selling is important in food retailing since most staples are sold unpackaged. However, the salesmen are not well trained and motivated. In Egypt and India, for instance, the salesmen are viewed with suspicion and distrust to the extent that they seldom touch the cash register at all.

**ADVERTISING MEDIA**

**Newspapers**

In most underdeveloped countries like Malaya, Singapore, Ceylon, Nigeria and Egypt, newspapers carry the bulk of the advertising. However, newspaper advertising is selective in that it goes only to the literates and is an important means of reaching the business community. The illiteracy rate poses a problem since only some can read the newspapers. An instance of this is that in Egypt it is estimated that newspapers reach only 8% of the population.\(^6\) However, one of the main deter-

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\(^6\) D.S. Armstrong, "Egypt one of few Middle East Countries with some Advertising Know-How", *Export Trade*, June 12, 1961, p. 12.
rents to effective advertising is now being slowly overcome as underdeveloped economies embark on intensive educational programs. As more people learn to read, there will be more newspapers and magazines which can serve as mass advertising media, an important promotional aspect from the marketing viewpoint.

In some countries the newspapers have a national coverage which means that advertising in newspapers is only of benefit to national brands. The lack of local newspapers, therefore, makes the cost of retail advertising prohibitive to most retailers, since if they do advertise in the national newspapers, most of the coverage will be wasted.

Another problem faced by newspaper advertisements is that they are confined to the major cities only, and in the case of India, this accounts for only 15% of the population. Again, in India, national advertising is not possible, because of the fifty one dialects being spoken by one or more million people. No one language is spoken by more than fifty million of the total 1.35 million people. Hence there are no communicative means by which the advertiser can reach any large proportion of the total population. By contrast, most of the population in Mexico or Venezuela speak Spanish so that national advertising in one language is possible.

A problem in using print media is knowing what circulation one is buying. Even among national newspapers, their circulation data are rarely audited by a reliable agency as performed in North America by the Audit Bureau of Circulation.
The circulation data should therefore be used with reservation. In such a situation, an advertiser can rarely pick his media from a book. The exact counterpart of the Standard Rate and Data Service does not as yet exist. In some countries, advertising associations in the large markets are now working toward audited circulation figures. This can be seen in Latin America where a few newspapers are issuing Audit Bureau of Circulation Statements. Other research studies like readership studies of newspapers which can provide valuable guides to advertisers have yet to be attempted.

Magazines

Magazine advertising is relatively unimportant in underdeveloped countries. In Latin America, inter-American magazines are making their appearances. Some are chiefly publications edited in the United States and distributed throughout Latin America, while others are publications edited in Latin America and distributed in more than one country. The advertisements which appear in such magazines are of United States products that are marketed in these countries.

Radio

Radio is another major mass medium and is a vital selling force reaching into small towns and villages where it

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7Dunbaugh, op. cit., p. 85.
8Ibid., p. 88.
is heard by those who are illiterate. The advertising men agree that Latin American radio sells products particularly well to the millions of families with low income. In Brazil, for instance, six million families out of eleven and a half million families own radio sets. The ratio is almost as high in many other Latin American markets. In Venezuela radio is the most important medium, accounting for over half of the total media expenditures.

Except for the Latin American countries, where radio is accepted as the major mass medium for promotion, commercial radio is still quite a new feature to countries like Ghana, Nigeria, Egypt, Ceylon, Malaya and Singapore. Radio commercials have just begun some years ago, and often the advertisements are limited to spot announcements. The radio in India, which is state controlled, is devoid of commercials, and reaches only a small segment of the population because there is no electricity in most of the villages. There is a tendency in some underdeveloped countries for the radio to be state controlled. The radio is an effective means of broadcasting information to the general public, provides entertainment and can be used as a medium to improve the educational level of the people. Private radio stations are seldom allowed to exist due to the fear that the views expressed in such stations may be unfavorable to the government in power. The existence of only one state controlled radio limits the number of commercials and the services offered to advertisers.

Ibid., p. 94.
Television

Advertising through television is soaring in the Latin American countries particularly Puerto Rico and Mexico, just as television has had a tremendous impact on its viewing audience in the early days in the United States.¹⁰ In other underdeveloped countries of Asia and Africa, such as Singapore, Malaya and Nigeria, where television has recently been introduced, commercials have not yet been introduced into the programs. Except for the Latin American countries, television has not played a great part in promoting sales in the other selected countries.

Cinema Advertising

Cinema advertising has become a much accepted medium in many underdeveloped countries, just as television advertising is in the United States.¹¹ Since literacy is not essential to understanding the motion picture, it is particularly popular as a medium of mass communication in underdeveloped areas, and can act as a very effective means of advertising the product. It is a great persuasive force, and an effective means of selling the product, particularly to areas of low income where television is unknown and where the illiteracy may be high. Even in the highly developed countries, cinema

¹⁰Ibid.

advertising can be an important adjunct to a coordinated advertising program. It serves as a kind of common denominator, linking the greatest variety of peoples, and although they speak different languages, they react to pictures in much the same way.

Cinema advertising generally take the form of film slides and short films shown at the beginning of the program or before the feature film. (In Malaya, Singapore and Ceylon, the commercial film shorts are distributed through a local agency which has a monopoly on the business by virtue of a contract with the cinema). Besides showing spot commercials, cinemas today are running "soft-sell" short subjects and newsreels containing paid items such as scenes of store openings. They are also being used for merchandising tie-ins such as giving out samples, distributing coupons, and displaying products in the cinema lobby in connection with commercials on the screen.

Advertising agencies in Mexico, Venezuela, Egypt, Malaya and Singapore frequently recommend motion picture shorts as a major weapon in an advertising campaign to launch a product in a new market. However, in Nigeria, the scope of cinema advertising is limited at present by the small number of cinemas in the country. As Table 4.9 shows, Nigeria has the lowest cinema attendances per capita among the selected

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countries. This is confirmed through another source which says that cinema advertising is not considered very effective in Nigeria.\textsuperscript{13}

\textbf{NEED FOR MARKETING RESEARCH}

With economic development taking place and the rapid increase in population in the underdeveloped countries, the markets are changing fast and it is important to keep in constant contact with the final consumer and to follow the impact of income changes on his tastes for material products and services. The greatest difficulties in analyzing merchandise distribution have been the lack of market data as a basis for market research.\textsuperscript{14} Research in this area is greatly needed to determine the market characteristics, consumer attitudes toward product, packaging and advertising in order to develop a more effective promotional program.

One of the major problems in marketing research in underdeveloped countries is that statistical data are often inconsistent and unreliable with regard to their quality and their availability. There may be discrepancies between statistics obtained from different sources. This makes it difficult for the researcher to obtain a reliable overall picture of the marketing situation. Within an industry, one company may lag


\textsuperscript{14}\textsuperscript{See W. Copulsky, "Forecasting Sales in Underdeveloped Countries", \textit{Journal of Marketing}, Vol. 24, No. 1, July 1959, pp. 36-40.}
behind another in the character of its statistical data and the same condition often exists in various industries. The absence of data and the deficiency of existing data are marked in wholesaling and retailing. Geographical breakdowns are often sparse or non-existent, particularly with reference to sales, consumption and inventory levels.

In the past amusing stories of product uses have come out of certain underdeveloped countries. For example, large sales of carbolic soap in Nigeria have been attributed to their extensive use as fish bait. The United Africa Company, a subsidiary of Unilever, was quick to capitalize on the new use of the product as fish bait. Using the soap as bait has increased the African's catch of "giwa ruwa" in the Benue area in Nigeria, and henceforth widened the market for soap throughout the area. In other areas, the sales of perfumes have increased during the recent past because the fluid were used to flavor cubes of sugar for sale as candies.

In advertising, certain social and cultural taboos must not be overlooked. For instance, the use of dogs or pigs in advertisements displayed in regions that despise these animals would be considered bad taste or offensive to their religion and can be quite damaging to future sales. These peculiarities can be found only through some research.

As competition gets intense, business executives

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15 Marcus, "Selling The Tropical African Market", op. cit., p. 27.
and enlightened heads of industry will be demanding facts before additional capital is invested. This is happening now in the Latin American countries such as in Brazil, Venezuela, Mexico and Puerto Rico where they want to know where and how business is expanding before investing additional capital for expansion. 16

SUMMARY

With the steady rise in disposable income, an increasing middle class and a rapid spread of literacy among the population, there is a growing importance of promotion and marketing research. In markets where consumers show a tendency for brand preference of familiar products, it is only through advertising and sales promotion that a consumer can be weaned from his preference. While amusing stories of product uses have come out of certain underdeveloped countries in the past, these indicate that companies can increase their sales effectively if they can know more about the social and cultural taboos that must be avoided in their promotional campaigns and the relevant factors that must be stressed.

As the transportation and communication systems improve, more and more people will be able to read newspapers and magazines, hear the radio and watch television. The benefits of improved media of advertising and other forms of sales promotion may permit particular companies to achieve

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16 Dunbaugh, op. cit., p. 66.
economic levels of production which have hitherto been impossible because of the small market size. Promotion, particularly advertising, can be an important tool in increasing demand, it can lead to higher levels of production and consumption, and making products available at prices that can be afforded by a larger segment of consumers in the market rather than the privileged few at the top. To the extent that low cost, good quality products can be made available and can be afforded by a larger segment of the population, the standard of living in the country is raised.
CHAPTER VIII

SUMMARY AND CONCLUSIONS

Marketing seems to be a neglected area in most underdeveloped countries, probably due to a strong pervasive prejudice against the middleman and his functions. This arises partly from social and cultural factors in placing him in a low social position; partly because he is often of another ethnic group and an immigrant so that he is looked upon with suspicion; and also partly because it is not understood that marketing can be a productive activity that can lead to a generation of increasing wealth through the use of capital and effort. The latter aspect is evident in the development programs of underdeveloped countries which emphasize industrial production, without examining the marketing aspect. This is reinforced by the technical aid programs given by advanced economies for it is generally more difficult to transpose a marketing system than a production system to an economy that is still partly monetized.

The improvement of the marketing system in an underdeveloped economy can lead to a beneficient circle of growth by allowing the flow of more goods and services, inducing more producers to produce for the market and hence increasing the monetary sector without which the economy cannot progress very far, helping to reduce price fluctuations in various markets, stimulating consumers to work harder and to save and invest for future benefits through availability and choice of consumer products, and therefore, creating rapidly the conditions for a much higher level of activity than existed before.
Marketing can also be the most effective force of economic development, first, through its ability to develop a group of entrepreneurs and managers. It can create the stimulus for the development of modern managers by creating opportunity for the producer who knows how to plan, how to organize, how to lead people and how to innovate. Second, marketing has become largely a systematic discipline which lends itself to the teaching and learning process. The latter aspect is of significance for advanced countries can pass on their marketing techniques through educational institutions in the underdeveloped economies. This is a quick way of building up a nucleus of managers and entrepreneurs so urgently needed in underdeveloped countries.

Marketing can act as an effective force in developing a free economy, taking into consideration the values and wants of the individual, as against the totalitarian system where economic growth is being attempted without marketing. Many underdeveloped countries following a mixed free enterprise system should also focus on the marketing aspect in their development programs which presently emphasize industrial production. With industrialization taking place in various underdeveloped economies, it is important that the place of marketing should be complementary with physical production in the development programs so that the right products are produced and marketed to satisfy the growing needs and wants of consumers.

The consumer markets in selected countries reveal certain characteristics which can be attributed to the low stage
of economic growth. First, the income per capita is still very low compared with the developed countries so that although some countries provide a potential market in terms of population size, their purchasing power is ineffective in attracting a larger number of industries to produce for the domestic market. This is further handicapped by the unequal distribution of income among the population and the existence of the subsistence sector, thus limiting the market. However, there is some evidence that incomes are rising in countries like Venezuela, Puerto Rico, Malaya and Singapore, as they embark on their economic development programs and guided by progressive leadership. Second, as countries progress from the traditional society to the preconditions for take-off and to the take-off stage, the trend has been towards greater urbanization and higher literacy rate which holds promise for greater expansion of the market through new ways of living and consumption. Third, the consumption pattern reveals that a higher proportion is spent on basic food products. One of the major functions of the marketing system in an underdeveloped economy is to serve consumers of relatively low incomes with the basic essentials and hence one of the reasons for the prevalence of food retailers in the marketing system. Fourth, the low stage of development can be seen from the inadequate transportation and communication systems. It is in the area of improving the transportation and communication systems and physical distribution facilities that distribution costs can be greatly reduced, thereby distributing products more cheaply and conveniently, and, therefore, making products available to a larger segment of the consumer
The buying habits of consumers show that they are affected by social, cultural, economic and political factors. Due to low money income and the low value set on time relative to money, marketing for non-food products is often a significant undertaking. Consumers often buy on a hand-to-mouth basis due to their inability to finance home inventories, lack of home storage space and absence of refrigeration among most families. In the sale of food products: unpackaged staples and unsanitary distribution of perishables are aspects of food distribution in underdeveloped countries that offer great opportunities for improvement of health and reduction of costs. Bargaining is still traditional in many areas though the one-price policy is being introduced in the big department stores that cater to higher and middle-income groups. The demand for credit, particularly in Latin American countries, due either to economic needs or habit of consumers to buy on credit, means that a substantial proportion of sales is sold in this way. Fifty one per cent of Sears Roebuck's sales in Latin America is on credit. The demonstration effect through foreign residents in underdeveloped countries and the mass media have helped to westernize consumer habits for the more diversified and higher quality products. As purchasing power increases and consumers become more discriminating some of the western marketing methods may be employed in the market place.

Extremes of monopolistic competition seems to be a significant feature of the marketing system. First, in the
case of imported manufactured products, the control is con-
centrated in the hands of a relatively small number of agency
houses or exclusive agents, as in Malaya, Singapore, Ghana,
Nigeria and Puerto Rico. Due to exclusive agencies they are
in a position to dictate terms to other institutions.

Second, this is the result of credit extension down
the channels of distribution. In West Africa, Malaya and
Singapore, the exclusive import agents, particularly the trading
agency houses, have an advantage in their credit extension, use
to maintain or increase their market share. In Egypt and India,
wholesalers assume a dominant position and are able to bind
over retailers and manufacturers through their financial power
and credit extension. In the Latin American countries, the
use of credit binds the consumer to the retailer. This restricts
competition between the retailers for the consumer will
hesitate to shift to other retailers. Any shift means that
the consumer has to make some cash buying from the new retailer
before credit can be granted.

Third, this is due to restrictive practices among the
big import agents and also among retailers who make market
sharing arrangements or "price understandings" to restrict
competition among themselves. Since there is as yet no
legislation to prohibit such restrictive practices, such
practices are likely to continue. Studies of retailers in
Puerto Rico, Venezuela, Egypt and Tropical Africa all indicate
customary prices; a live-and-let-live attitude toward competi-
tors, and hence provide opportunities for reducing retailing.
costs in these countries.

The low level of capital used in the distribution channel shows the low stage of economic growth, as evidenced by the use of European credit in the various channels in Malaya, Singapore and West Africa. This results in the intermediary taking advantage of the trade credit extended to him to raise short term funds to finance other business or engage in money lending in the meantime.

The monopolistic feature of the marketing system common to many underdeveloped countries makes it obvious as to why many of these countries are sometimes hostile to the concept of private enterprise. To them capitalism is often equated with monopoly and all the bad features monopoly implies. Foreign subsidiaries and agency houses are often foreign oriented. With feelings of nationalism rising high in many of these newly independent countries the monopolistic activities of such firms are vulnerable to political attacks. Short of nationalization of these firms these countries can introduce some fundamental reforms such as adequate grading systems, weights and measures, price information to lessen market ignorance, improvement of the banking system to liberalize credit extension and consumer education will eliminate many of the monopolistically competitive features in the market place. These reforms would help greatly in the better distribution of goods at less cost, facilitate competition and economic growth.

Another significant feature of the marketing system
in underdeveloped countries is that the channels of distribution tend to be longer than in the developed economies, particularly at the retail level. Where imported goods are concerned, the distribution channel is like a pyramid, with the import agents at the apex and the many retailers at the base. Middlemen have moved in to fulfil the role of breaking bulk and making goods available in small quantities to suit the consumer's pocket and in bringing about a wider geographical distribution of goods than would be the case if consumers and small retailers had to deal directly with the big distributors. The small size of a large proportion of wholesalers and retailers, plus their limited capital encourages, if not requires, that the firms which perform the functions in the distribution channel make use of an additional link or two. Moreover, local manufacturers often perform little or no part of the marketing task, thus leaving the big job for the middlemen. The longer channel of distribution may be said to be the result of an adaptation to the local environment.

The multiplicity of intermediaries is noticeable at the retail level. Some of the intermediaries can be removed without the consumer being the worse off. But most governments will be reluctant to improve the marketing system in a context of underemployment and in which the marketing system also serves as a form of unemployment relief. There is no way in which the marketing system can be made more efficient while continuing to have so many intermediaries as at present. The displacement of a substantial proportion of them, if the means can be found, must be done with careful consideration to
provide alternative income and employment for those displaced by a reorganized marketing system.

As the underdeveloped economies achieve economic growth, giving rise to increase in personal disposable income, a growing middle class, the rapid spread of literacy among the population and the improvement in transportation and communication systems, advertising and other forms of promotion may play an important role in the future. The activities of some firms show that demand can be created with the possibility of permitting companies to achieve economic levels of production and making products available to a larger segment of the population.
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