

The Role of Marketing in Israel

YORAM WIND

In very few developing economies is the significance of the marketing function truly appreciated. Although marketing has evolved more rapidly in Israel than in most other developing nations, the marketing function is still perceived principally as "selling."

The author of this article explains why.

Journal of Marketing, Vol. 31 (April, 1967), pp. 53-57.

IN many of the underdeveloped economies, marketing is sorely neglected. Indeed, "it is generally the most backward of all areas of economic life."¹

The emerging nations can gain great advantages, however, from seeking, above all, to please and satisfy the consumer. In some countries marketing is receiving considerable and increasing attention; this is especially true of the State of Israel.

In 1964, U.S. exports to Israel amounted to about \$200 million, one-fourth of Israel's total imports. Clearly, however, the relative smallness of the Israeli market makes it of only limited interest to American exporters. Israel moved from an "underdeveloped" stage of around \$400 per capita Net National Product at factor cost in the early 1950s to a "middling-European" level of \$934 per capita NNP in 1964—a year with a GNP per capita in Israel of about \$1,130. Israel's transition from the underdeveloped to the present modern marketing-oriented economy took only about one decade.

In the early 1950s Israel's marketing system was more selling-oriented than marketing-oriented. The retail outlets could have sold almost anything, even though the channels of distribution were inefficient and the products of low quality. Almost no promotional activities existed, nor marketing research, and no official regulations governed either restraints of trade or deceptive marketing practices.

Yet ten years later Israel could be described as a quasi-modern, marketing-oriented economy, and with a quasi-capitalistic value system.

The Nation

The 8,000 square miles of Israel, approximately the area of New Jersey, contain over 2½ million people, 75% of them under 30 years of age.²

About 85% of the Jews and 37% of the 11% non-Jewish population reside in the 65 urban settlements. This urban-rural ratio is similar to that of the western countries—69.9% of the total United States population in 1960 was classified as urban,³ and represents quite a different pattern from the "typical" underdeveloped country.

Both the small size of the nation and the urban concentration

¹ Peter F. Drucker, "Marketing and Economic Development," *JOURNAL OF MARKETING*, Vol. 22 (January, 1958), pp. 252-259, at p. 252.

² *Facts About Israel*, Israel Ministry for Foreign Affairs, 1964-65, at p. 41.

³ *Statistical Abstract of the United States* (Washington, D.C.: United States Department of Commerce, Bureau of the Census, 1965), at p. 15.

TABLE 1
ANALYSIS OF ISRAEL IMPORTS BY DESTINATION*

Form of imports	1952		1965	
	In US \$ (millions)	In %	In US \$ (millions)	In %
Total imports	576.4	100.0	819.7	100.0
Consumer goods	324.0	56.2	83.9	9.4
Raw materials for production	185.0	32.1	554.6	66.3
Investment	67.4	11.7	181.2	24.3

*Sources: For 1952: *Statistical Abstract of Israel* (Central Bureau of Statistics, 1964). For 1965: *Review of Economic Conditions in Israel* (Bank Leumi Le-Israel B.M., No. 54, July, 1966).

facilitate marketing activities. Transportation by rail, and more particularly by road, is efficient (even though far below road-standards in the United States).

Newness is everywhere. Many towns are planned from their inception as part of the "New Development." Typically, they have central shopping centers surrounded by residential and industrial areas. Differing sharply from their U.S. counterparts, these centers contain small specialty stores which provide standard goods rather than luxuries. In comparison with U.S. shopping centers, they do not feature a central department store, and they are much smaller.

More than one-third of the people live in the three principal cities: Tel Aviv, Jerusalem, and Haifa. The trend has been away from mixed residential and commercial areas toward a centralization of commercial activities in the "downtown" districts, and an outward dispersion of purely residential districts. With improved private and public transportation and rising levels of living, high-income suburbs are being developed, even in the smaller towns.

The Economy

Israel now supplies most of its own needs for foodstuffs. Local foods are generally of high quality, plentiful, and cheap.

The greater part of the demand for furniture and furnishings is met by local production. Refrigerators and other household appliances are also locally produced. To encourage local production, taxes and duties are high.

Clothing, textiles, and footwear are highly-developed industries, and account for more than one-sixth of industrial output.

Imports have been necessary to feed, house, and employ the large number of immigrants (about 1¼ million from 1948 to date), and to provide raw materials and essential equipment for industry and agriculture. In 1949 the returns from exports amounted to only 15% of the cost of imports and services. By 1963, however, the percentage had risen

to 52%. Changes in types of imports are indicated in Table 1.

Despite few natural resources, the average rate of growth of the Gross National Product has been approximately 10% annually since 1950. About 25% of the rate can be ascribed to higher inputs of labor, 35% to more capital, and the remaining 40% to increase in over-all efficiency.⁴ This growth has been achieved by a mixture of governmental and private enterprise, heavily supported by foreign aid. In 1964, for example, imports were 38% of the GNP.

Approximately 20% of all industrial undertakings are government-owned, 15% represent cooperative ventures, and 65% are privately-owned. Over 80% of the agricultural sector, on the other hand, is owned cooperatively or collectively.

But there has been inflation, and a number of official devaluations of the Israeli pound. The last one was in February, 1962, when the pound was devalued from IL 1.80 (= US\$ 1.00) to IL 3.00 (= US\$ 1.00). Price-levels rose by 9.5% in 1962, but by only 6.6% in 1963 and by only 5.0% in 1964.

The Consumer

The total real disposable income of Israeli consumers has increased steadily, despite the continued rise in the cost of living. Per capita disposable

⁴A. Hovne, *The Economy of Israel*, "Israel Today Series," No. 23 (Jerusalem: October, 1965), at p. 12.

ABOUT THE AUTHOR: Yoram Wind is a member of the faculty of the Wharton School of Finance & Commerce, University of Pennsylvania. He did his doctoral work at the Graduate School of Business, Stanford University.

In 1963-64 he was a Ford Fellow at the Marketing Management Program of the International Center for the Advancement of Management Education at Stanford University. He received his Bachelor's and Master's degrees from the Hebrew University, Jerusalem.



TABLE 2
THE COMPOSITION OF CONSUMER EXPENDITURES*
(At Current Prices as Percentages of
Total Expenditures)

	1956-57	1963-64
Food	47.3%	35.7%
Housing	9.1	8.3
Clothing and footwear	13.9	11.4
Furniture and household appliances	5.6	10.8
Health, education, and entertainment	12.0	16.2
Cigarettes, transportation, and personal services	9.4	15.6
Donations and subscriptions to organizations, etc.	2.7	2.0
Total	100.0	100.0

*Source: *Bank of Israel Annual Report, 1964* (Hebrew Edition), at p. 58.

income rose from IL 1.645 in 1960 to IL 2.820 in 1964.⁵

Income levels are widely dispersed over the various segments of population, mostly due to education and occupation differences. Improvements in the living standards are indicated in Table 2.

The heterogeneity of the population makes a single profile of the typical Israeli consumer difficult. But it can be said that in 1964 89% of Israeli homes had radios; 85%, stoves or hot plates; and 69%, electric refrigerators. Also, 27% of the homes had washing machines, 24% two radios, 14% electric-mixers, and 10% vacuum cleaners. But only 7% of the families owned private automobiles.⁶

The majority of lower-income homes have very few durables other than a radio, stove or hot plate, and a refrigerator.

Channels of Distribution

The majority of local producers and importers utilize wholesalers, independent agents, and/or their own sales force to distribute their goods through retailers. A few prefer to sell directly to consumers, either through their own retail outlets or through a sales department within the plant.

The Wholesaling Function

In 1961 only about 13% of the total volume of trade was sold through the 1,500 wholesalers.⁷ Of

these, 1,100 operated stores or warehouses, while 400 were truck-jobbers. Of the 1,100, about 650 were in the grocery business, 100 in small housewares and kitchenwares, and the remainder in paper, textiles, and toys.

As with the general pattern of industry, so with wholesaling—a few large organizations account for approximately 45% of the total volume handled by wholesalers. Some of these companies are also importers and have integrated vertically until they either own or control their own manufacturing plants and retail establishments. Most of the large wholesalers are general merchants, whereas the small organizations specialize within one or two allied product groups and operate regionally rather than nationally. The truck-jobbers in the produce-market serve the small retailers, but other jobbers trade in any product which appears to be profitable. They sell for cash and deal largely in the cheaper, unbranded lines of merchandise.

The larger manufacturers bypass the wholesaler in order to achieve greater control and market penetration. As may be seen in the United States, however, they often use wholesalers to reach the smaller, more remote stores that their other channels cannot serve economically.

Independent agents, who are the primary channels in some industries such as the garment industry, provide some wholesaling functions. They furnish the marketing functions of selling, collection, and market "feedback," but not the warehousing and credit functions.

The Retailing Function

Vending machines and mail-order houses do not exist in Israel; and door-to-door selling accounts for only an insignificant share of sales. The largest proportions of goods of all types are retailed through specialized stores—clothing stores, appliance stores, furniture stores, butcher shops, automobile dealers, hardware stores, and so on.

Nonfood Outlets. Most sales are through the estimated 20,000 to 25,000 privately-owned specialty stores. Filling stations are smaller and fewer than in the United States, with competition among the four gasoline companies essentially nonprice in nature. Department stores are found only in the three major cities; they are more similar to Woolworth's than Macy's, but have fewer departments and a more limited offering of goods than either. The only exception is a new store in Tel-Aviv that resembles U.S. department stores in size and line of merchandising. Department stores and specialty stores extend credit to customers, usually for 30 to 90 days.

In Israel, two department-store chains are of real importance. One operates approximately 15 stores and is part of the collective sector of the economy, while the other, similar to a U.S. Army PX, is

⁵ Figures based on data from *Bank of Israel Annual Report, 1964*, Hebrew edition (Jerusalem: May, 1965), at p. 25.

⁶ *Bank of Israel Annual Report, 1964*, Hebrew edition (Jerusalem: May, 1965), at p. 63.

⁷ Akiva Ilan, "Wholesaling in Israel," in Robert Bartels, Editor, *Comparative Marketing: Wholesaling in Fifteen Countries* (Homewood, Illinois: Richard D. Irwin, Inc., 1963), pp. 106-122.

owned and controlled by the Ministry of Defense.

In the smaller towns, small general stores stock a limited range of a large number of products. These stores are similar to those in smaller rural communities elsewhere.

Discount stores, as known in the United States, do not exist in Israel. Peddlers and small street stalls are still common, but mainly for low-quality, low-unit-cost items.

Food Retailing. In 1957, the first supermarket in Israel was established by a company headed by C. R. Bronfmans, President of the House of Seagram. Today this company (Supersol, Ltd.) operates ten supermarkets, with meat and produce departments as well as dry groceries, but few nonfood items.

In the late 1950s, the cooperative movement resulted in a number of self-service grocery stores being established, replacing some of the traditional cooperative stores ("Tzarchanioth") of the larger cities. Israeli supermarkets do not offer credit, but they do provide free home-delivery. For improvement of their facilities and appearance, the Ministry of Commerce and Industry has made loans available to the small stores—there are approximately 6,000 of them in Israel.

Many food products are sold through small food stores specializing in one or two lines. Meat is sold through small, privately-owned butcher shops, and virtually all fruits and vegetables through special stores which buy produce directly from the wholesale market or from jobber-truckers. "Delicates," similar to American delicatessens, are found in the main cities.

The consumers' cooperative movement controls a large segment of the food-retailing business and is the largest single retail organization in Israel. The food markets in the cities and towns mainly are selling produce, but also have some other food items. In general, they cater to those with low and middle incomes, and their prices are lower than the neighborhood grocery stores. Home-delivery is virtually restricted to milk, although in some areas neighboring farmers sell their produce, mainly eggs, on a door-to-door basis.

Resale price-maintenance exists basically by private surveillance in some industries. It is important in the sale of appliances, cigarettes, newspapers, and magazines. Attempts to maintain resale prices for food products failed.

Private-label merchandise is found in the top-quality stores and supermarkets, but is not nearly so prevalent as in the United States. Trading stamps were introduced in 1964 in both food and nonfood retailing; but because of retailer resistance not very successfully. Self-service in nonfood retailing has not been successful either, largely because of the dependence of consumers on the sales staff for guidance and advice. Few stores of any kind are air-conditioned, showroom and window

displays are few, and parking facilities are very seldom provided; but improvements are being made.

Advertising and Promotion

Total advertising expenditures in Israel in 1964 were about IL 45 million (= US\$ 15 million).⁸ Annual per capita advertising expenses in Israel are just over \$5, as compared with \$65 per capita for the United States, \$35 for Canada, and \$25 for Great Britain.

Israel has no television, and of the two radio stations owned by the government, only one carries commercials. The great influx of migrants from virtually every nation of the world has led to a proliferation of newspapers and magazines. Yet only 15 of the 25 daily newspapers in Israel are in Hebrew, the most commonly used language. Because of the language-ethnic segmentation of the market, a company advertising convenience-type products to the total market must use several different newspapers, magazines, and periodicals.

Israel has no drive-in theaters, but there are approximately 270 standard theaters with a capacity of around 160,000 seats. On the average, each person aged 15 and above attends the cinema 24 times a year.⁹ Movie-goers are exposed to extensive advertising in the form of slides and short commercial films.

Of the 116 advertising agencies in Israel, all Israeli-owned, about 20 offer and are capable of providing the full range of advertising services normally expected of U.S. agencies, including advertising research and public relations.¹⁰

Marketing Research

The amount of marketing research of a commercial nature is limited, because management still concentrates primarily on production.

Even those who stress marketing do not generally recognize the importance of marketing research, and rely heavily on judgment only and indirect informal feedback from consumers and other channels of information. There is a scarcity of skilled marketing research personnel. However, marketing research is facilitated by numerous reports issued by government agencies, particularly the Central Bureau of Statistics.

Government Regulation

One of the major reasons for the rapid development of the Israeli economy has been the government's attitude toward private enterprise.

In marketing, government control is slight. The comprehensive controls of the early days were pro-

⁸*Advertising Investments Around the World* (New York: International Advertising Association, 1965), at p. 11.

⁹*Statistical Abstract of Israel*. (Jerusalem: Israel Central Bureau of Statistics, 1964, No. 15) at p. 565.

¹⁰ Same reference as footnote 8.

gressively reduced from 1952 on. The Cartel Law enables groups of business firms to request approval of marketing arrangements—such as allocation of market territories, conditions of sale and discount policies, and upper- and lower-price limits.

Credit is a business necessity but is discouraged by the government, which wants to channel consumers' uncommitted funds toward savings. Thus, the use of consumer credit is relatively small; and credit cards are unknown, except for limited operations by a few international credit organizations. The major source of credit is the store itself.

The government exercises considerable influence over the marketplace by its tariff structure, taxation, and policy of encouraging industries essential to the economy by means of grants, loans, and subsidies. The Ministry of Commerce and Industry does grant government assistance. Investment in

marketing organizations is recognized as an approved investment; and 5-year development budget loans from up to 50% of the total investment are granted.

Implications

Israel does not have a typical "underdeveloped" economy, and yet Israel cannot be considered a "typical" modern economy. This is mainly because of two factors. (1) Entrepreneurship is relatively lacking, with major segments of the private and corporate sector relying strongly on government aid. (2) Dependence on foreign assistance continues to be considerable, as reflected in a large import surplus.

The Israel experience emphasizes the interdependence of the economic development of a country and the penetration of the marketing orientation to its socio-economic system.