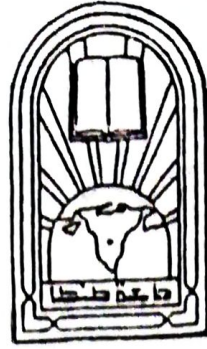


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العدد الأول ١٩٩٥

# **The Question of Privatization**

## **A proposed marketing approach for the Case of Egypt (\*)**

**(Part I)**

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## INTRODUCTION

History of business over the past decade up till now provides evidence to suggest that most of both developing countries and what previously called Eastern bloc ones (as headed by former USSR) are going to adapt drastic economic changes in industry, trade, finance and in the state ownership of factors in production i.e. Their new economic regime is focusing primarily on departures from centralized planning policies to more liberalized ones. Reduction of the trade barriers, emphasis to reforming domestic industrial regulations and promotion policies, even though those constitute severe barriers to local competition, etc., are also evidence. With reference to the experience of developed countries e.g. U.S.A, U.K. and others, privatization initiatives are not only economical but also political. They are political because they redistribute costs and benefits among givers and competing groups. (1).

While forces behind the explosion of privatization, the theory underlying privatization is also significant because it represents a deliberate effort to redefine both economic and political interest. (2)

Since the Egyptian government has adopted the privatization policy, in the early of 1990s, as a new economic reform / regime aims to change the central - planned economy into a market - oriented one discussion and debates of how to implement actively the new regime and overcome the present and possible problems.. etc. are endless.

As the privatization policy becomes an integral and important part or base of the new regime, marketing the state-owned enterprises (SOEs) became the salient problem facing the Egyptian Government.



### **Objectives:**

In this connection, the main objective of the present paper is to provide thoughts for understanding of how to market (rather to sell) the SOEs in Egypt (3). Also, it is aiming at testing eleven propositions, all of them can be considered as determinants or conditions of any suggested marketing strategy for privatization in Egypt. Based on these propositions model for privatization options and the terms related can be developed.

### **Propositions:**

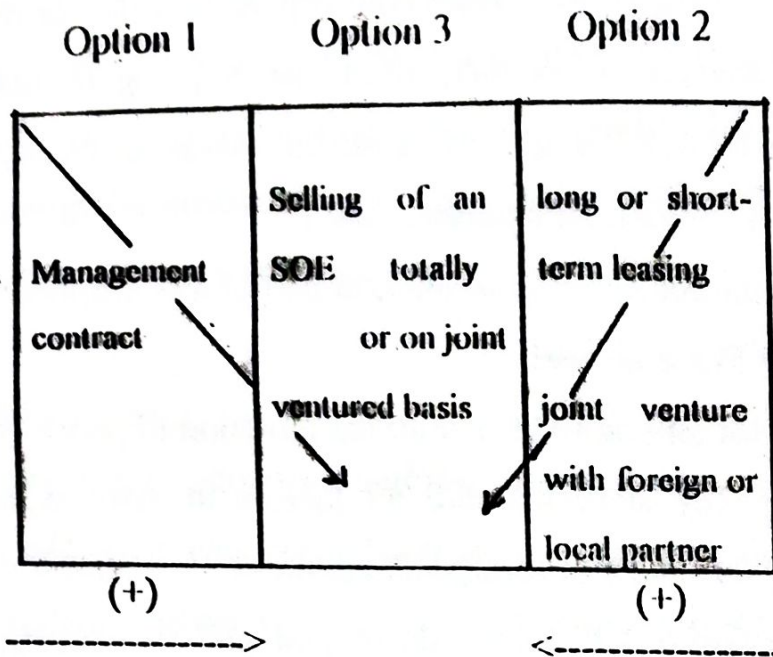
- (1) There are three situations and inconsequent three options open to market all what can reconsidered as SOEs, in industry, trade and services (4): Option (A): is to start marketing SOEs in which the state is significant shareholder (category I), Option (B): is to market SOEs in which the state is the dominant shareholder (category II) and Option (C): Funds that can be raised through selling SOEs in category I and category II should be deployed partially in marketing the wholly-owned enterprises (category III).
- (2) Based on Prop. (1), to promote marketing the SOEs in the three categories in general and those of the third one, a comprehensive investment's incentives system is required. e.g. service to be provided free or at low charge in support of business activities, subsidies and grants, free feasibility studies for each SOEs ready, to be marketed, tax exemptions, removing up all anti competitive devices such as regulatory controls in the area of pricing and trade domestically or on the international level, to free the companies from labour/ employment policies, restrictions on transfer of assets and profits ... and so forth.
- (3) Marketing successful, productive SOEs and profit - making is the effective start in the way of implementing the new policy.

Meanwhile, the loss making SOEs should be developed up to the stage of making profit before marketing them.

- (4) What is the Egyptian Government is going to offer for the potential/ present investor is, in fact, what she is going to market (this is including both SOEs, as well as the incentives, services systems and guarantees, hospitable climate ... etc.).
- (5) How to market Egypt is an integral part of any proposed strategy of marketing SOEs abroad.
- (6) Reasons for and motives behind the adoption of privatization policy and the policy statement are all factors in success, or failure, of marketing the SOEs in foreign and domestic investment markets.
- (7) The experience of some developed and developing countries provides help relative to the present question (5).
- (8) Privatization does not involve on the just selling of SOEs but also including long term leasing, management contracts for some SOEs and some governmental services agencies and liquidating others etc.
- (9) With reference to prop. (8) more than one option is open. Some options that might be adopted will be considered as a gradual progress toward the more committed one. e.g. long or short-term leasing of an SOE or management contract makes it possible that investors may buy the SOE. Incentives and privileges to be granted on the bases of each type / form of privatization options as demonstrated briefly in figure (1).



**Figure (1) OPTIONS OPEN**



The progress toward option 3 requires comprehensive investment incentives e.g. subsidies, long and short - term loans, to be granted on case by-case basis or by the type of industry or size of investment or employees etc..

An arrow refers to the progress to next step. The more progress might be achieved the wider the variety of incentives the investors will enjoy.

- ) With business climate and requirements in mind, it is proposed that factors in marketing of SOEs have been well taken into account such as: Study the influences of privatization upon the internal relevant publics (e.g. suppliers, customers, banks, etc.) is of great importance. These are in addition to a plan to solve the problems that will emerge from the total or partial transfer of state - ownership to the private one. There are number of marketing requirements for instance (a) A report of SWOT analysis (strength, weakness, opportunities and threats) of each SOE. The report must cover the SOEs' objectives, functions and types, organization

structure, staff employees, suppliers, operations procedures and systems production capacity ... and present performance,

etc. including costs analysis and any contracted services costs. (b)- Funds to be allocated to market SOEs (on case-by case or group by-group of SOEs basis). (c) - Total value of each SOE (Market and economic Values). (d) - Factors in marketing (e.g. Market size, target market, marketing agencies ... etc.) related to each SOE.

(c)- Form of privatization / options related incentives and facilities of payments for each SOE to be marketed.

- (11) Maxi-marketing could be the most relevant approach on the way of marketing SOEs. More illustration concerning this proposition can be outlined as follows: (a) At the outset, it could be argued that there is no common, tested and synthesized marketing approach can be employed to market the SOEs in a given country. Distorted thoughts are also possible to exist in relation to both marketing approaches and the mechanisms or methods of marketing of SOEs, perhaps because of the integral relationship between them, (b) As far as the present paper is concerned, the suggested approach is based, to a great extent upon ideas borrowed from management and marketing theories approaches. Having considered the marketing requirements outlined earlier, proposed marketing approach could be adopted on the basis of case-by case or sector-by-sector of SOEs, (c) The idea of MAXI-MARKETING MODEL as presented by RAP and Collins might be of great help in providing an understanding of how to market synergistically the SOEs (6), and (d) The salient domains of MAXI MARKETING approach relevant to the present questions can be highlighted shortly as follows:



1. **Maximized Targeting:**

It is the essential first step in Maxi-marketing. The government needs to find out who and where the best prospects are and what are the most efficient ways to reach them. In this respect it is useful to refer that: (a) - A domestic or International / foreign research firm can help the government to develop the profile of best prospects, (b)- The Government can invite the prospects to identify themselves by responding to targeted appeals and offers. and (c) - The Government can go straight to the best prospects by selecting them from international database or press, specialized organizations, etc., and negotiate them.

2. **Segmentation of Types of Prospects (investors):** In accordance with e.g. nationalities, type of investment activities locations, even SOEs-specific factors and any relevant criteria, all prospects should be segmented in order to achieve cost - effectiveness and well covering media used.

3. **Maximized Media/Media Diversification:** Because there are many choices and the Government might not use all of them, there is a need for knowing for the wide range of options that exist in order to make the most effective selection among the media available. In this connection, it is not to be ignored that producing prints for international and domestic markets is important. Prints and literature concerning each SOEs specific factors, marketing inputs, production inputs and so forth, as well as the Egypt - specific factors relevant to each SOE concerned.



4. **Maximized Awareness Advertising - Appealing to the whole brain of Prospects:** Persuasive and creative advertising campaign is inevitably needed. If selling process of an SOE is to be maximized at every step, it is a must to maximize the power of awareness advertising or the awareness-fostering elements in advertising e.g. benefits and advantages that an investor can get.

5. **Double-Duty Advertising, Inquiry Advertising and Promotion Appeals:** inquiry advertising and promotion appeals are also required to maximize activation of the government programme.

6. **The use of multiple channels to sell or lease, etc. of the SOEs:**

A second party e.g. governorates, local businessmen, foreign agencies, international bodies such as WORLD BANK can work side-by-side or hand-in-hand with the Government in marketing SOEs.

7- **Double-Duty or Multifunctional Marketing Efforts:** The objective here is to maximize the power and synergy of the government marketing programme for SOEs. It is a cost-effective and a double (or more) ended way. For example the government can arrange for a single advertising / promotion effort to accomplish two or more different jobs or goals i.e. she could market the country while marketing SOEs, or to market, sell and lease ... an industrial SOE while she is selling a service or a trading one. Various mechanisms and methods might be employed here such as: share marketing programme and its cost with another developed or developing country, the idea of even marketing (like cause - related marketing) is another way to sell SOE whether the interested party is going to exploit or selling an international or domestic event, also support one medium while using another.

8. **The Value - Adding:** According to the conventional marketing concepts if a marketer sells a commodity product, he can add a differentiating service to it. With wrapping a service around a product it might give it a whole new lease for life. The development of an entirely new business offering products sometimes comes from the complementary service granted. Meanwhile, it might be useful to note that: (a) Value added in general is a driving force, (b) To manage the future, it is a must to add value and continually search out ways to add value (7). In relation to the question under study, it is important to refer that: - Sometimes as a part of adding value and services related to marketing an SOE includes both tangibles and intangibles, Value added service distinct from just to serve investor/prospects service, and To add value for instance, the Government might offer: funding/financial alternatives, free visits to the SOEs and discount on future visits, supplying and warehousing services, transportation services, ownership alternatives, etc. In short, investors will pay more or accept to buy an SOE if they believe that they will get more value.

9. **Inside - Out and Outside- In Marketing Efforts:** This is a two-ways marketing process, the Government must walk around within the SOEs to encourage employees to buy or to promote them to share with her the marketing process on a suitable reward system. Employees might play an active part in getting their relatives, some of the publics and friends to buy shares. At the sometime, the above mentioned move/method should be implemented side-by-side with and outside move. In other words, the Government must consider that marketing the SOEs inside (including within the country) is not enough. Marketing SOE by going outside the country must be considered as integral part of the whole marketing programme of privatization policy.



**CONCLUSION:** It could be argued that marketing SOEs in Egypt is not an easy task for the Government. On one hand, to market an SOE is rather different from just selling it, whether an SOE sold through a bidding system or in the stock exchange market, etc. (selling is one part of the total marketing efforts/programme). On the other hand, there is no common marketing approach can be seldomly recommended, even the experience of other developed and developing countries might only be considered as a guide where each country has its specific factors / Characteristics that differ from another, the proposed marketing approach that could be adopted for marketing SOEs in Egypt is also contingent upon the nature of each SOE and many other factors.

## REFERENCE AND FOOTNOTES

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2. Ibid., P. 699. See also for more detail: J.R. Henig, Et Al. the politics of privatization: A comparative perspective, "Governance 1(October 1989); John Vickers and V. Wright, "The politics of industrial privatization in western Europe: An overview, West Europe politics, 2 October 1988, P.P. 1-30.
3. For the objectives of the present regime under study we can distinguish between three situations with respect to the public sector enterprises or SOEs:
  - a- The enterprises are wholly-owned by state.
  - b- The state is largest, or the dominant shareholder.
  - c- The state is (or has become) a significant shareholder for one or more reasons, but the firms operate in the same way as any other public or private ones.
4. See footnote No. 3
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