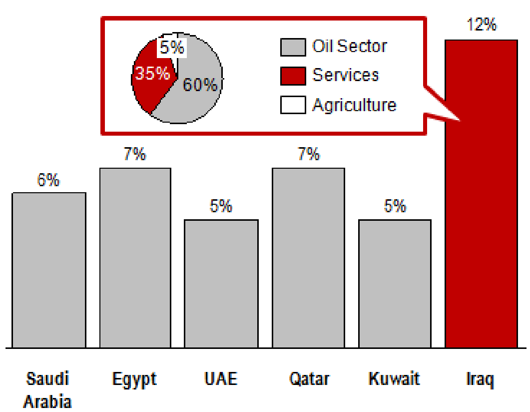
Going to market in Iraq

After the invasion, Iraq have been looked at as a place of patchy progress and broken politics. Today, though, despite the remaining negative sentiment, Iraq is gradually emerging into a world of economic possibilities; part of Iraq is becoming more politically stable, more economically prosperous, and more integrated to the international economic community — the Kurdish region and the southern provinces are already enjoying greater peace and prosperity. The overall progress can be noticed in its significant economic growth: over the next 5 years, Iraq's collective GDP, mainly fueled by oil and services, is expected to grow at double-digit rate of ~12% per annum, reaching USD 250 bn in 2017[1]. With this progress, Iraq will be the fastest growing economy in the region (see Figure 1). On maps and spreadsheets, Iraq abundance of oil reserves, recently boosted to 150 bn barrels (over 9% of global total), will begin exporting around 6 m barrels/day within 4 years[2].

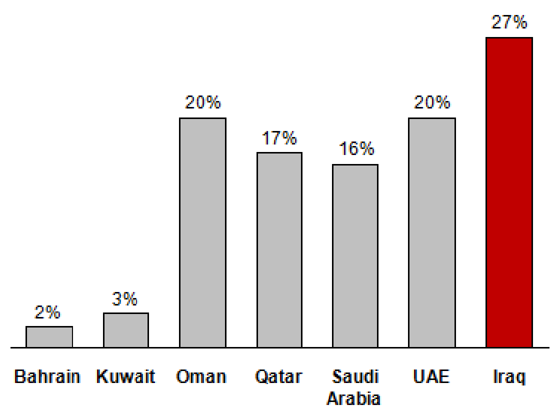
Figure 1
GDP growth 2012-2017



Despite lingering instability, Iraq's economy is growing at double-digit growth of ~12%, to reach USD 250 bn within 4 years

Furthermore, a combination of stabilized and growing economy as well as an increasing household income, has set the stage for a reviving consumer market. Along with a growing GDP, Iraq's imports have been growing significantly and are expected to continue to grow at the same pace over the next years (see Figure 2).

Figure 2
Import growth 2007-2011



Exporters from across industries began including Iraq as part of their emerging market portfolio with Transport Goods, Capital Goods, Industrial Supplies and Fast Moving Consumer Goods (FMCG) leading the list. This acceleration in imports is a further indication of an over-all economic growth surge.

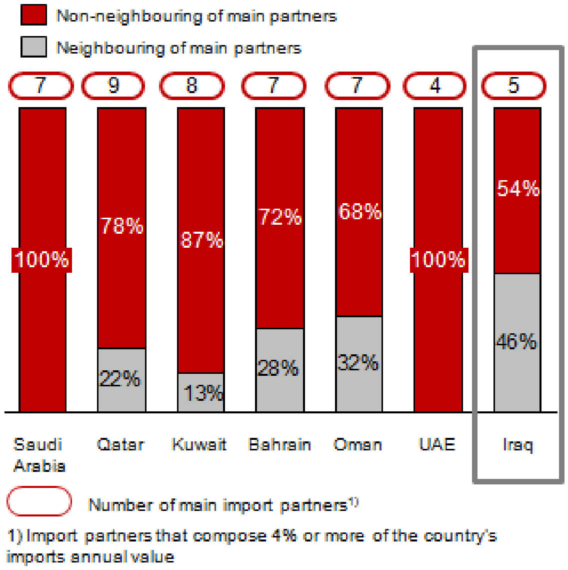
Iraq's market growth and opportunity however have been particularly attractive for neighboring countries. Almost half of Iraq's imports are sourced from neighboring countries, notably from Turkey and Syria. Compared to the GCC countries, Iraq's imports percentage from neighboring countries is close to triple the norms (see Figure 3). Most imports of regional countries are from non-neighboring countries. This special case of goods flow to Iraq is most likely due to the growing trading ties with Iraq's neighboring countries, the relative ease of transportation from nearby countries, familiarity of regional markets, and a more attractive competitive landscape when international players are merely watching from the sideline.

[1] Source: IMF
[2] Source: Ministry of Oil (Iraq)

Iraq's imports have been growing at an impressive pace, yet significantly driven by neighboring countries

Figure 3

GCC main imports partners



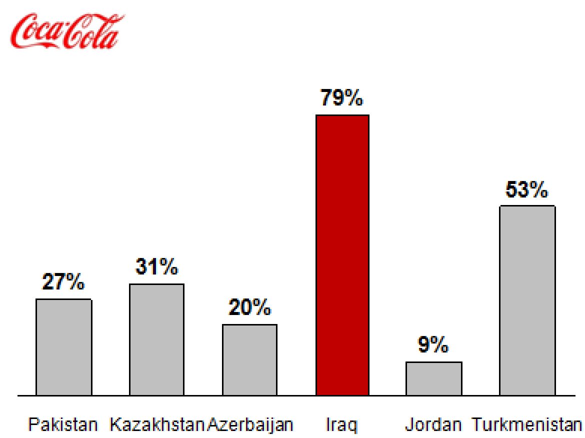
FMCG goods represented a considerable portion of the Iraqi imports of 15% last year[3], confirming a flourishing retail market and surging consumer spending. Along with these improving conditions, several international FMCG companies are noticed today, yet, not as many as the regional ones.

Neighboring brands, such as of Turkish and Iranian origin, are strongly presented in the Iraqi retail market. Regional FMCG companies, especially Turkish, rushed into Iraq to secure the lion's share, and they have claimed significant market shares. Ülker, Yaşar Holding, ETİ and many more have pursued the Iraqi FMCG market and their success is becoming increasingly evident — Iraq is leading their international volume and claiming the greatest share of growth.

A good example of this success is Coca-Cola Içecek (CCI), the 6th largest bottler in the Coca-Cola system, headquartered in Turkey. They export to numerous countries including Pakistan, Kazakhstan, Azerbaijan, Kyrgyzstan, Turkmenistan, Jordan, Iraq, Syria and Tajikistan. Iraq posted, by far, their strongest international growth in 2012 with volume surging by 80% to reach 42.3m unit cases (see Figure 4). Today, CCI's Iraqi market represents over 15% of their international volume (up from 11% in 2011) and is expected to continue leading future growth due to its favorable demographics — Iraq has a population of 32 million, of which 70% are less than 30 years old. CCI made the right moves in expanding its operation aggressively in Iraq where they claimed 10% of an increasingly growing non-alcoholic ready to drink beverage (NARTD) market of Iraq last year.

Figure 4

CCI volume growth by country [2012]



Despite the dominance of regional products, opportunity still exists in the market for international brands. The Iraqi FMCG market is still underserved with only limited choices and few products are tailored for the local consumer.

The FMCG market in Iraq is skewed towards regional brands, particularly Turkish - nevertheless significant opportunities exist for international FMCG companies

The road to the Iraqi market is however fraught with risks and opportunities. The road can be long and convoluted.

Iraq's capital, Baghdad, is the host of 35% of Iraq's retailers (outlets). The retail channels are highly fragmented and are likely to remain so for the near future — Iraq's retail landscape has a total of ~110,000 outlets (3.5 outlets/ 1,000 ppl). Excluding Baghdad, outlets are evenly split across provinces. This fragmented retail environment makes market access and distribution management, e.g., direct store delivery (DSD), difficult for customer goods and companies. Moreover current consumer FMCG brand awareness in Iraq is mainly driven by presence at the point of sales. Due to the low width and depth of the current Iraqi retail, numeric distribution is currently key for the success of FMCG companies.

[3] Source: COSIT

The road to the Iraqi market is fraught with risks and opportunities

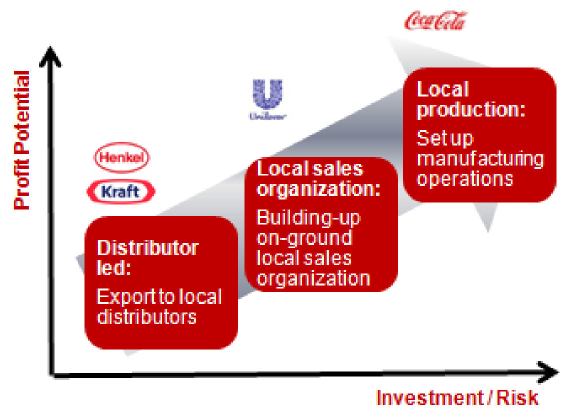
In order to successfully reach the Iraqi market, FMCG companies need to consider multiple strategies. A first step to learning and acquiring local market knowledge is through distribution via local distributors/agents, *distributor led Approach*. Distributors tend to have stronger knowledge of the local landscape and have better relationships with retailers. Through this approach, FMCG companies can develop stronger local market competence while simultaneously minimizing costs and risks; nonetheless, this approach has drawbacks. Control over distribution is limited, market knowledge is hardly gained, and incentives between parties are, generally, not completely aligned (principal-agent problem) — while FMCG companies aim for maximizing revenue, distributors pursue optimizing margins. To outweigh these disadvantages, foreign FMCG companies are recommended to consider employing intelligence units. For example, a special unit, such as a market intelligence unit, is delegated to closely monitor local operations to ensure success. PoS mentoring, for instance, can be extremely beneficial in assessing distributors' channels' reach and distribution efficiency.

In order to successfully reach the Iraqi market, FMCG companies need to consider multiple strategies

The second method in Iraq's access is building a *local sales and distribution organization*. The FMCG company establishes on-ground local sales organization with dedicated sales and marketing representatives. It basically becomes in control of the management side while dedicating the more sensitive operational work to its local partner. This approach is the first step into independence, though; it still relies, in most cases, on the infrastructure of the local distribution partner. Through this approach, companies are better able to generate their own independent knowledge, have tighter control over distribution channels, and can assume stronger reach and promotion, yet, higher investments, and hence risks, are anticipated.

The third and final method into a complete integration into the local market is setting-up partial or complete local manufacturing facilities of goods while managing the local distribution. Key challenges in this prospective is transferring the company's international manufacturing know-how to Iraq as well as ensuring stable and cost efficient production and on-going compliance with the company's international manufacturing and quality standards (see Figure 5).

Figure 5
Multiple expansion strategies for Iraq



The study finding shows some FMCG companies, such as CCI, successfully passing all stages to reach full prosperous integration — while each milestone was associated with uncertainty, it rewarded them substantially. For a cautious yet speedy expansion, international companies need to regularly reassess their current approach and optimize their strategies based on the development of their business as well as the rapidly changing market and regulatory landscape in Iraq.

Regional FMCG companies are already aggressively penetrating the fast growing Iraqi market through multiple strategies. International FMCG firms need to act now in order to secure their position in Iraq.

To capitalize on the Iraqi market growth and opportunity, international FMCG companies need to step out of the sideline and act now…

Management Partners is a top-management consultancy advising leading private and public sector institutions from the US, Europe and the Middle East, with a particular regional focus on Iraq, UAE, and Saudi Arabia. The consultancy firm assists clients across industries in areas such as designing growth strategies, implementing operational performance measures and providing market intelligence through on-ground research.

http://www.m-partners.biz

MANAGEMENT PARTNERS