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PROJECT-148

Creating a distribution "reform catalyst" for...

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PROJECT-148

CREATING A DISTRIBUTION "REFORM CATALYST" FOR ECONOMIC DEVELOPMENT

Report on a study of the

Feasibility of Establishing Chain Stores in Iran

Survey made in Iran May-June 1966 by:

Samuel F. Ashelman, Jr., Consultant  
International Cooperative Development Association  
1012 14th Street, N.W., Washington, D.C. 20005

(under Task Order #2 of Agreement AID/csd-683)

# International Cooperative Development Association

Room 1101 • 1012 Fourteenth Street, N.W. • Washington, D.C. 20005

July 8, 1966

Telephone (202) 638-4661

Mr. Charles W. Minor  
NESA/ID Room 310 SA-2  
AID, Department of State  
Washington, D.C.

Dear Mr. Minor:

Enclosed herewith is the report on Iran prepared by Mr. Samuel F. Ashelman, Jr. in accordance with Task Order #2 of Agreement AID/csd-683.

Mr. Ashelman advises us that as the work developed in Iran, it was agreed by the Mission and by Mr. Ashelman that time did not permit dealing with all the points listed in the "scope of work" of the Task Order #2. Therefore, it was agreed that Mr. Ashelman should concentrate on furnishing advice with respect to the feasibility of developing chains of stores and using them as corrective competition to by-pass the Meydan and encourage farm marketing cooperatives.

Mr. Ashelman submitted a preliminary report before leaving Iran. We understand that the Mission has written a memo to you advising that the preliminary report of May 16, 1966 fulfilled the requirements of the contract as to general subject matter.

As previously stated in the preliminary report, additional study would be necessary for complete implementation of the basic recommendations.

We trust the enclosed report will be of value to the AID Mission and to the Government of Iran.

Very truly yours,

  
Earl H. Brockman  
Assistant Director

EHB:bs  
Enclosure

cc: Mr. Frank Sahlman  
MR/ICDS, AID

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Herbert C. Fledderjohn  
President

Howard A. Cowden  
Board Chairman

Homer Darby  
Vice Chairman

J. K. Stern  
Secretary

Warren A. Ranney  
Treasurer

Report on a study of the  
Feasibility of establishing chain stores in Iran

Survey in Iran May-June 1966

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# International Cooperative Development Association

Room 1101 • 1012 Fourteenth Street, N.W. • Washington, D.C. 20005  
Telephone (202) 638-4861

June 25, 1966

Dr. Houshang Ram  
President  
Bank Omran  
Tehran, Iran

Dear Dr. Ram:

Attached is my report regarding the feasibility of developing chains of stores in the cities of Iran in order to bring higher prices to farmers and keep the cost of living in the cities at a reasonable level.

This work was done as a result of your request to the Agency for International Development. Because of other commitments it was necessary for me to limit my field work in Iran to the period of April 13 to May 19, 1966. My study has by necessity been limited to examining the broad distribution institution, analysing the general economic conditions which have a bearing upon wholesaling and retailing, and reviewing the problems which are likely to be

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Herbert C. Fledderjohn  
President

Howard A. Cowden  
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Elmer Darby  
Vice Chairman

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Secretary

Warren A. Ranney  
Treasurer



Dr. Houshang Ram

June 25, 1966

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met in any transition period. The recommendations have been made after looking at enough details to see the similarity between your point of development and the gradual changes which have occurred in other countries over a period of years. Because of my limited time I did not have the opportunity to make any independent investigations into the agricultural situation, but had to rely on various studies made over the previous years by experts on this subject.

Although I see a great opportunity here for speeding up the economic development of Iran, by encouraging changes in distribution practices and institutions, I must emphasize that the job will not be easy. It is extremely important that a detailed action plan be carefully worked out in greater detail than I have had the time to do in this preliminary study. Furthermore, it is vital that all policy decisions be made by top government officials and that programs exist to implement their decisions.

Dr. Houshang Ram

June 25, 1966

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I know after my discussions with you and the Prime Minister that there is a strong desire on the part of the government to take quick action. But this action must be logical and well-planned, for one of the first steps must be to attract to Iran investors in the distribution field and this will be a delicate, difficult job. For instance, I have mentioned Iran's investment potential to a few good people in the food distribution business and without exception all were hesitant about investments in Iran because of the problems in the meydan, problems of geographical distance, and other similar difficulties.

I did not have time to find the answers to the many questions distribution investors will ask before considering the investment of capital in Iran. Further study must be made by a specialist regarding the capital required, potential profitability, real estate and operating problems, inventory assortments, etc. If your government accepts my major recommendations, you should then prepare the ground for potential investors.

Dr. Houshang Ram

June 25, 1966

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I believe any effort to implement the suggestions embodied in this report will fail unless the government of Iran has first studied and accepted the report and has enacted laws and empowered officials to take the necessary steps to implement an orderly program.

I am optimistic about Iran's economic development and am interested in seeing you proceed with what I believe can be a distribution reform program equal in importance to the Land Reform Act of 1963.

I have admiration for the people of Iran; I particularly admire the courageous land reform effort of three years ago. My admiration is shared by a multitude of Americans -- businessmen and government officials -- who know the Iranian story.

But you must realize that admiration alone is not a sufficient motive for the investment of substantial capital. The businessmen of the United States and Europe will be prompted to invest only when it seems to their advantage to do so. Speaking plainly, Iran, at the moment, does not seem to have as much to offer these businessmen as do other

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countries far closer to the U.S. mainland.

It is therefore crucial that before any moves are made to attract capital to Iran from the United States or Europe a first-rate plan be developed and a top-notch presentation completed. The purpose of the plan and the presentation must be, of course, to provide a favorable business climate and to attract outside capital. If the plan and the presentation are not done thoroughly and well, they had best not be done at all.

I trust that your government will not be offended by my frankness. Every equivocation, every evasion on my part will only lessen the chances of the program's success.

Because of this, I feel I must stress the necessity of a clear and concise statement by the government of its desires and objectives in the distribution scene. In many talks with Iranians -- government officials and private businessmen -- I found anxiety about government interference. Iranians feel, and properly so,

Dr. Houshang Ram

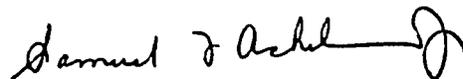
June 25, 1966

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that their government should not operate business directly or indirectly, especially businesses in the distribution field.

It has been a real pleasure for me to work for you on this problem. You and your associates have been most helpful in my work and interpreting conditions to me. Mr. Theodore V. Tibbutt of AID was most generous in providing me with background information about the agricultural situation. Because of the frank tone in which my report is written I am omitting the usual list of people interviewed so that they will not feel any hesitation in the future about giving me independent views on this subject.

Sincerely,



Samuel F. Ashelman, Jr.  
Economic Consultant  
International Cooperative Development Assn.

MAJOR CONCLUSIONS AND RECOMMENDATIONS

From my study of the distribution system in Iran, and from my study of the feasibility of organizing chain stores in the national economy, I have reached the following conclusions:

1. Iran's marketing system must be modernized.
2. The present distribution system exploits the farmers and city people with wasteful practices, inefficient methods, and semi-monopolistic controls over farmers and store-keepers.
3. The lack of a low-cost system for marketing food and other goods is restricting production, lowering volume and preventing the full benefits of industrialization.
4. The potential benefits of the Land Reform program are being frustrated because the meydan system keeps the farmer in debt and not free to develop cooperative institutions to help himself.
5. The government has made commendable progress keeping the prices under control, but as a result it has entered directly or indirectly into the distribution business, which has created problems.
6. The investment of capital in large-scale distribution in Iran is presently unattractive to both Iranian and foreign businessmen. A notion is prevalent that the government does not want, and will not encourage, private enterprise. The government, therefore, must devise a method for making its policy understood -- that private enterprise is desired and will be protected.



7. Chains of competing food stores are now economically feasible as soon as the government adopts policies and programs to attract foreign investors with business acumen.

In consideration of these findings, my recommendations are as follows:

1. That the "Law on the Attraction and Protection of Foreign Investments" be extended to the first chains to be organized.
2. That an efficient distribution system be recognized as mandatory, and that a Distribution Commission, composed of top-level government authorities, be established and given responsibility for implementing programs designed to bring about a distribution reform during the next 5 years.
3. That the Bank Omran be authorized to develop a program to attract two foreign investors to participate in joint ventures.
4. That the Central Organization of Rural Cooperatives start demonstration projects to develop farm marketing cooperatives in strategic commodities. That foreign know-how be brought in to help with these projects and with appropriate long-term educational projects.
5. That, if there is a desire to make a real effort toward the organization and operation of multi-purpose agricultural marketing and purchasing cooperatives, then a team of cooperative management and operating specialists - representative of agricultural cooperatives in the United States - be employed on a contract basis for a period of two or more years. Such a team could provide managerial advice



and/or actual management during the period of development,  
and could simultaneously train indigenous personnel to assume  
these responsibilities.



I

## INTRODUCTION

### Iran, A Country of Promise

The vast and energetic program of economic development which has been under way in Iran for several years is changing the face of the country. Both hamlet and city have improved in appearance and in spirit. This was apparent to me on my recent visit. It had been 3 years since I was last in Iran and I was impressed by the changes wrought during that time.

Industrialization is developing; education is a growing, moving force, motivated by 9,000 new teachers per year; and the economically vital demands of transportation are being met by new roads linking major cities, and by secondary roads, which bring the farmer closer to his market.

For the first time, Iran has the potential of a national market. With proper care, it is now possible to transport fresh fruits and vegetables long distances from almost any part of Iran to the city markets.

Thus the stage is set for a major change in the Iranian distribution system, a change which will become a sustaining factor in the country's farm and industrial programs.

But only insignificant progress will be made until the distribution system is radically changed. At present, Iranian distribution is a bottleneck which impedes and even blocks the development of the free flow of commerce in the country's economy.

The present distribution system is, for the most part, a poorly integrated system made up of small, inefficient retail shops which are supplied by wholesalers who represent, with their wastefulness and greed, another way of life. These wholesalers (the meydan) are a hang-over from Iran's ancient history; and although they are powerful - even acting as bankers



and sources of finance - they must be led to conform to and adopt modern standards of wholesaling. As it is now, farmer and consumer alike are victims of a system which inhibits production and the development of a higher standard of living.

If Iran's economy is to become healthy and stable, a way must be found to end this exploitation centered in the meydan. To achieve this goal will be difficult, and it can only be brought about by continued effort of top government leaders. That effort, I believe, must be along lines indicated in this report.



II

TEHRAN'S PROMISING FOOD MARKET POTENTIAL

Tehran, the largest city in Iran and its capital, serves here as an example of the country's vast food market potential. It is a potential which will be realized fully only when modern marketing and distribution techniques are a way of life in the Iranian marketplace and on the farms of Iran.

To sum up, available figures pertaining to Iran's present social and economic structure indicate that chain stores can be made to succeed in the country. In fact, in Tehran alone it seems that the purchases of the two top income groups alone, plus what can be sold to the remainder of the population, will more than support two chains of stores.

The Central Bank is currently preparing figures for 1965 from which we could hope to get a fairly accurate estimate of the size of the food market in the cities. They expect to have them available by September, 1966.

However, we can make estimates by using the figures from the 1960 census, published in 1962. By relating these figures to the present population in Tehran (estimated at 2,300,000 or 500,000 families) and adjusting by 10 percent for the increase in the price level, we can estimate the amount spent for food in Tehran in 1966:

1. Total amount per year - 23,600,000,000 Rials, or \$293,000,000 -  
or an average of \$586 per year per family.
2. The two upper income groups (22%) of the population spent \$110,000,000.
3. The top income group (15%) spent 76,000 Rials or approximately \$1,050 per year adjusted. This amounts to a total of



approximately \$78,000,000 total per annum.

The following table, based on the 1960 census, shows what happens to income and food purchases as the people become educated:

<u>Schooling</u>	<u>Population</u>	<u>Average total Expenditures per family (in rials)</u>	<u>% Spent Food</u>	<u>Amount Spent</u>	<u>Adjusted Dollars</u>
Illiterate	45	64,000	47	30,000	\$ 414
Literate - no school	15	129,000	37	48,000	660
1-6 yrs. school	18	85,000	42	36,000	500
7-10 yrs. school	7	203,000	32	65,000	900
11 yrs. or more school	15	260,000	29	76,000	\$1,050

(From table XXV - 1 and 3 - Central Bank)

The current emphasis on education and industrialization will make possible larger incomes which will, in turn, increase still further the total amount spent for food.

The estimates above do not make any allowance for the increase in incomes which have occurred since 1960.

It should be possible for two chains to realize an annual volume of \$50,000,000 each. This figure represents less than a third of the total food volume.

These figures make it evident that at least two chains of stores can be supported in Tehran alone.

III

TEHRAN MARKET BASKET

What Food Is Purchased?

An analysis of the Central Bank's 1960 estimate of weekly expenditures for food for the average family shows the following percentages:

Dairy Products	9%
Flour, Rice	8%
Bakery Products	17%
Meats, Poultry, Fish	16%
Fats and Oils	8%
Sugar and Sweets	7%
Fresh Fruits and Vegetables	21%
Nuts	1%
Prepared Foods	15%
Tea and Coffee	5%
Bottled Beverages	3%
Pickles and Spices	1%

(From table 1, Volume 1, No. 2, Central Bank)

At this time figures are not available for a breakdown of expenditures by different income groups. The Central Bank is working on them.

By considering the experience of other countries and relating it here, we can say that, the higher incomes go, the lower the percentage spent for food. However, normally there is a change in the consumption habits with less cereals and more meats, vegetables and fresh fruits consumed. In the U.S., meats represent about 25%, and fresh fruits and vegetables about 25 to 30% of total food purchases.



IV

STRATEGY FOR SPEEDING UP ECONOMIC DEVELOPMENT BY

DISTRIBUTION REFORM IN IRAN

The present outmoded system of distribution in Iran is holding back economic progress in agricultural areas and on industrial fronts.

All economic development in Iran can be speeded up by encouraging modernization of the retailing pattern and the wholesale system.

More efficient distribution will make possible lower prices which will make for larger demand from consumers for items produced in factories or food processing plants. The larger volume will result in lower costs of operation in both plants and stores.

Lower prices in stores will improve the satisfaction of workers and will also help to keep the total labor cost lower, so that products can be produced at less cost. Capital accumulation and exports can be increased.

New chain or cooperative food buyers in the cities will compete with the meydan. This will increase the returns to farmers by creating more competition. It will also force the present city wholesalers to improve their operations in order to continue in business.

Our strategy at the city retail level should therefore be to encourage the following:

1. The organization by progressive independent store owners who are now in business, into retailer-owned cooperative buying operations.
2. The expansion of the consumer cooperatives in Tehran into a single city-wide chain organization.
3. Joint ventures between foreign capital with know-how and Iranians who desire to get into the chain store business.

Fair competition will result in lower prices. The above three groups will be competing with each other for their share of the consumer market. If an opportunity is given to independent store owners and consumer cooperative management to learn the new and better ways of operating their businesses, they will be able to be an effective competitive force with the chain stores. There was a time in the United States when it was imagined that all independent operators would be forced out of business because of the large buying-power of the chain institutions. However, by banding together into efficient buying organizations, these independent store owners can have as large a purchasing power as the chains. In addition, they can have the advantage of initiative which comes with private ownership. They need "know-how" and management skills in addition to capital and buying power.

Our strategy here, therefore, is to encourage the development of competitive private enterprise by having the government make it clear that this is desired and that improvement in the neglected field of distribution is now important. The government must then assist in practical ways.

The role of the government in the field of distribution should be clarified. We recommend the following:

1. Government's primary responsibility is to create the right climate, but it must allow private businessmen to compete with each other in carrying on distribution operations.
2. Government must insist on fair competition between the various businesses. It should make unmistakably clear that combinations for the purpose of restraining trade are illegal.



3. Government should insist on fair trade standards and consumer protection, such as policing adulteration and accurate weights.
4. Government, through the Distribution Commission, should encourage educational activities for training personnel in the skills of distribution and in proper institutional organization forms such as chains, cooperatives, etc.



V

COMPETITION AS A CORRECTIVE DEVICE

Competition can be a more effective tool for keeping down prices than government laws and regulations. However, it is necessary to make the government position clear regarding the illegality of combinations which result in the restraint of trade or the creation of monopoly.

The strategy for solving the problem of the excessive control exercised by the meydan wholesalers should be to create a competitive situation which will force them to lower their prices, become more efficient and get out of the financing business. This competition should come from two directions: i.e., from the farmers and from the stores in the cities. The development of strong marketing cooperatives to represent the farmer will gradually result in the farmer receiving a fair price for his product. At the same time, large buyers representing either chains of stores or cooperative groups of consumers or private retailers will put the pressure for efficiency on the wholesalers from the other end.

In the United States, at one time, it appeared that the small independent retailer would be driven out of business because of the high prices charged by his wholesale suppliers and the competition from the chain stores. However, this has not been the case. Retailers have organized cooperative buying organizations, set up their own wholesale warehouses, and by this competition have forced private wholesalers to either lower their prices or go out of business. There are examples of groups of independent merchants in the United States who are actually more efficient than the chain stores.



Therefore, I recommend that every effort be made here to encourage the development of large purchasing organizations which operate their own warehouse and storage facilities. At a later date, these buying organizations may find it advantageous to go into the processing of some of the fast-moving items which they require for sale in their stores.

As a consequence, some investors may uncover export possibilities for processed foods. This can open up increased markets for some of Iran's excellent fruit.



VI

THE RETAIL MARKETING SITUATION TODAY

During my recent visit to Iran, I had the opportunity to visit three of the large cities and several of the smaller ones. Tehran, the capital city, and the largest, is representative of a combination of the old and the new. In Tehran, the colorful bazaar is beginning to look seedy compared to some of the more modern shopping streets. The bazaar is dirty, crowded and inefficient; the higher-income groups appear to be shopping elsewhere. Bazaar merchandise is of poorer quality than is found in other parts of the city.

In short, times are changing and are creating certain minor changes in Tehran's retail market scene. For example, estimates by a leading member of the dairy industry indicate there are 7,000 dairy stores and 12,000 other food stores. The specialized merchandise they once carried now sells alongside other items. One finds that stores which used to sell only dairy products are now adding groceries, and vice versa. For the most part, the stores are small-volume units employing families or only a few employees.

I was impressed by the fact that change is apparent in the food distribution field. This was initiated some six years ago by Iran Super. The owner of Iran Super (Tehran's largest and best supermarket) deserves credit for the excellent job he has done in adapting the supermarket concept of America to the conditions in Iran. He has accomplished a very difficult job and has been highly successful from a business point of view. It was rather amusing to notice the result of the example set by him. I visited a number of stores which had cash registers because apparently they believed this was the way to have a modern store. However, they did not ring up sales but merely used them as a place to keep their money. Perhaps



this non-record of sales has a tax advantage to them. At least the acquisition of the registers indicated that the merchants are willing to make improvements.

At the present time the small retail stores operate on an overall average of 10-15 percent gross margin. The small size of the operation means a very poor return to the shopkeeper.

In addition to being uneconomic, small stores cannot offer the variety of merchandise used by families as their incomes increase. Also, shopping is difficult and time consuming. This type of store was typical of Europe only 20 years ago but is rapidly being replaced by complete food stores selling groceries, meats, and fresh goods. The inadequacy of stores in Iran opens an opportunity for chains with complete assortments to develop rapidly to serve the upper 50% of the population. These would not be supermarkets, since the opportunity for a number of large markets like Iran Super is limited. Tehran could safely utilize 10 such super markets with an average volume of \$1,000,000 per year.

Retailing has not reached the point where it is considered a desirable profession. Apparently a great many people go into and out of the retail business, using it as a source of temporary employment.

LACK OF HEALTH PROTECTION STANDARDS: The present stores have very low standards for protecting the consumer's health.

Much of the food is not properly stored or refrigerated in either the stores or en route to them. Meat hangs in the heat until sold. Many consumers are afraid to eat fish, fearing poisoning. Bread is displayed by the dirty sidewalk or street or is delivered unwrapped, tied on to the rear fender of a bicycle. "Fresh eggs" are not refrigerated en route

from producer to consumer and their quality rapidly deteriorates. Dried fruits and shelled nuts are displayed in bulk on open stands in front of stores, where dirt and germs can accumulate. Flies breed in open ditches and swarm over uncovered food.

The health of the nation is endangered, to say nothing of the nutritional loss because of improper storage. Clean, modern food stores which handle perishables properly could help correct these evils.

I did not have the time to investigate adulteration of foods. I was told that it is a common practice. Safeguarding health and preventing the sale of adulterated foods is an important role of government which needs to be implemented.

During the last few years there has been a substantial increase in refrigeration used in dairy stores. Until this year, most deliveries of dairy products have been on unrefrigerated trucks or push-carts. One of the dairies is now using large refrigerated vans. However, it finds that the cost of distribution is considerably more than previously.

The Army cooperative now has a chain of 10 stores which are surprisingly good. I found, when talking to the management, that they do not have access to the modern tools of chain store organization or control and that they have relatively little operating information to guide them in the management of various stores and departments. I came to the conclusion that although they are filling a need, doing a good job and moving in the right direction, outside help from experienced people will increase the chain's profits and make them easier to manage.

The super markets have evolved completely out of the ingenuity and persistence of Iranians who have had the opportunity to work or study in



other countries. A study of these markets reveals that although they are operating profitably and to the satisfaction of most of their owners, much could be done to make them more efficient distribution instruments.

There is a steadily growing industrialization on the country. This means that there are more highly-trained engineers, managers and employees who demand (and have the income to pay for) more sophisticated merchandise.



VII CONSUMER COOPERATIVE DEVELOPMENT TODAY - A BEGINNING

There are approximately 50 stores in Tehran which are called cooperatives. However, most of them are not true cooperatives - they are government-subsidized in one way or another.

For example, the Finance Ministry sponsors a cooperative store for its employees. The key management personnel are paid by the Ministry, although the clerks are supported out of gross margin. It is claimed that the gross margin is only 6%, and that 3% of this is returned at the end of the year.

There are a number of other cooperative societies in somewhat similar situations. The Army Cooperative is the largest, with a total sales volume of 262,098,788 rials (\$3,800,000) in 1965. Savings amounted to 21,406,000 rials (\$260,000) for the 10 stores. It is managed by a small group of men connected with the Army Bank. I was favorably impressed with their interest in the development of a sound cooperative, and also with their desire to expand their business.

Except for the Iran Super, which caters to the top Iranian income group and the foreign market, the Army cooperative is the best store I visited. Recently, as a result of encouragement from the Shah, they have expanded and opened a number of branches.

I visited their newest store, which was well laid out on two floors plus a mezzanine. On the first floor were meat and delicatessen departments, along with groceries, books, and a large collection of handicraft items. In the basement there was a fresh-fruit-and-vegetable department, plus dishes, cloth, hardware, beans and rice (bulk and packaged). The appearance of the store was good. I talked with a few customers who were

enthusiastic and who said that the store had by far the best prices of any stores in the city. The quality was above-average and the store had some refrigeration.

On my visit to the Army Cooperative headquarters, I was impressed by the size of the operation. It has 32 departments or counters handling all kinds of general merchandise and food. It even has a bakery, a barber shop, an optical department, and a pharmacy. The appearance of merchandise displayed was good, although self-service was not used. They have a small warehouse where beans, lentils, etc. are cleaned and packaged by a very primitive and high-cost process. They made no attempt to use labor-saving techniques. A visit to their office impressed me. They keep a retail inventory method of stock control which appears to be efficient.

I had two meetings with General Sassini, the leading spirit of management. He has other duties as Deputy Director of the Army Bank, but apparently the cooperative is one of his prime interests and he spends a great deal of time on it. I had the privilege of meeting him some years ago in Switzerland (at International Cooperative Alliance Conferences) and had been in touch with him during my last visit to Iran. He offered to cooperate in any way possible with my study. Unfortunately he had to go to Europe on bank business and left just a few days after I arrived in Tehran, and did not return until sometime after I left.

The Army cooperative receives some subsidy from the government in the form of duty-free merchandise and some free real estate. It pays a 6% cash refund on the purchases of its members. I understand that it needs loans to finance its expansion, but has had no reply to its request from the government. I recommend that it either pay its refunds in stock or five



year revolving notes in order to build up its capital for expansion. Cooperatives in other countries generally find this a satisfactory technique, which members accept if the reasons are explained.

I met with the Board of a successful, but medium-sized cooperative department store. It was claimed that its prices are lower than the government department store and that it makes a net profit of 4 to 5% of sales. It also operates a motel-recreation center on the Caspian, and is a savings organization for its members, who are largely government employees. It appeared to be well-run by its Board of Directors and Manager.



VIII

CONSUMER COOPERATIVE FEDERATION

Recently, a Union or Federation of Consumer Cooperatives, was organized to pool the purchases of its members. I was not able to secure any pertinent financial reports. It negotiates buying contracts and does some warehousing. I met with its Manager, who said they could do a lot more for the members but that they needed capital. The Manager felt they did not need any foreign advice on methods of operation and that capital was their only need.

I was too involved in the over-all distribution study to have the time to make a detailed survey of the Consumer Co-ops, who represent only a very small percentage of the total retail business.

It is my impression that the cooperatives have a great need for member education. They appear to be operated by a few dedicated individuals, and they do not have widespread membership participation.

It is my recommendation that the technicians of the Distribution Commission explore with the cooperatives the concept of merging as many societies as possible into one city-wide cooperative, such as the Stockholm or Washington, D.C. area Consumer cooperatives. The cooperative would have to learn modern techniques of chain operation, and also cooperative organization. I would hope that, ultimately, the Tehran (proposed) Co-op could expand and become nationwide, as is now being done in Denmark.

Unfortunately, General Sassini was away and I could not discuss my recommendations with him. He is a key person with a good reputation. His support would be necessary for acceptance of these recommendations.

Another possibility might be for the Army Co-op to be the main vehicle for expansion into a Tehran co-op. If they desired to do this,



they might "all consider a joint venture with the International Cooperative Development Association for technical and financial assistance, using PL 480 loan capital.

This might be done through the Bank Omran, which has had experience and which is a "Bank of Development".

The Bank should make such a loan only if proper safeguards are set up which would insure a program of management development, the use of modern chain techniques, and an employee on-the-job training program in cooperation with the Distribution Commission.



IX IRAN'S DISTRIBUTION ROADBLOCK: THE MEYDAN

"The small farmer in Iran", one Iranian told me, "is at the mercy of the meydan buyer. The meydan buyer treats the farmer like a cow - gives him just enough skim milk to keep producing, and takes all the cream for himself".

The specialist visiting in Iran who observes the distribution picture there soon realizes that the meydan - the wholesalers - is at once the most powerful financial center and the most regressive factor in the Iranian distribution scene. It is a key control point, dominating both farmers and retailers.

Waste, exploitation, ignorance of modern wholesale practices, and a tight control over an obsolete distribution system are the hallmarks of the Iranian meydan, as I observed it.

The meydan takes a very large margin for its services and profits. Its normal function is to break down shipments from the farms into smaller quantities for the stores, and to extend credit. The meydan area in Tehran reminded me somewhat of the old fruit and vegetable market in Philadelphia of thirty years ago. The street was congested, and no provisions were made for refrigeration or efficient tail-gate loading from trucks in order to save labor.

In spite of the fact that there is excessive waste and exploitation of the producer and the customer in the meydan, it is, and will be for years to come, an important factor in the distribution business in Iran.

Even if chains of stores are to be developed in major cities, they

will be unable to purchase truck-loads of all the items they desire to sell, unless they deal with the meydan. The larger buying-power of the chain stores, however, will exercise a competitive force, and they will receive lower prices than the small stores. These lower prices, though, will not be given them at the expense of the producer, but of the meydan wholesaler.

As I observed the activities of the meydan in various cities, I thought of how much different the situation would be when farm-marketing cooperatives are at last developed in Iran. There would then be no such scenes as I witnessed. There would be no truck-loads of eggplants and turnips so roughly carried and unloaded that a substantial part of the load was bruised and made unsaleable. There would be no lack of refrigerated trucks such as there are now. There would be no exorbitant profit margins, and there would be no extra-curricular activities in the fields of finance, which now often result in price control and exploitation of the farmer-producer.

I found some encouraging signs of packaging attempts to protect hand-graded merchandise. In Shiraz, I found cucumbers shipped in small wooden boxes which had the count marked on the outside. Some tomatoes arrived in the market quite well-graded and protected in wooden boxes, but this was relatively unusual. A great deal of the grading is done in the meydan, rather than on the farm. This is costly. For example, it costs approximately \$13.00 per ton to haul produce nine-hundred kilometers. This is a low freight-rate-per-ton compared to United States standards; however, if a third of the produce hauled has to be thrown away before it



reaches the consumer, it becomes expensive.

The extent of the meydan's alleged monopolistic control of certain markets remained a mystery to me. I was informed, for instance, that "there are a few key men who control the wholesale markets". It was said, by way of example, that six wholesalers buy up most of the citrus production in the Caspian area, and control its distribution.

Such a situation is, of course, inimical to the development of any distribution reform in Iran. But, in a sense, the wastefulness and the greediness of the meydan will work in favor of Distribution Reform, for the meydan's faults will make it easier to develop marketing cooperatives. If these are properly managed, and if large store chains develop, buyers will support the development of farm-marketing cooperatives in order to obtain more economical prices.



X

AGRICULTURAL MARKETING IN IRAN TODAY

I was unable to make a detailed, personal investigation of farm-marketing practices in Iran; but I was able to visit a few farms in the Isfahan, Caspian, and Tehran areas and observe the day-to-day life of farmers there.

Most of my information, however, is derived from reading reports of AID agricultural experts, FAO men, and Iranian agriculturalists.

All sources point to the fact that the Iranian farmer receives only a small share of the consumer price for agricultural produce. These figures vary from approximately 15% for fresh vegetables to 55% for grains.

The plight of the Iranian farmer is due to several factors. Most farm units are small, and it is expensive to collect their produce. More important, there is virtually no knowledge on the part of the farmer about the importance and the techniques of cooperative marketing. There have been a number of efforts in this field and some have survived - but most have failed. Those that have survived are small associations. They do not employ skilled, salaried personnel to handle marketing functions, but are managed by volunteers.

The problem is complicated by the recent change in land ownership, accomplished by the Land Reform Program of 1963. Under the old system, landlords provided some management and marketing skills. They were usually paid "in kind", and there was usually little left for the farmer to market after subsistence needs were met.

The control exercised by the meydan over the farmer prevents him from exercising free choice and developing farm marketing cooperatives. Steps are necessary to correct this situation.

1. The first step is to further strengthen the development of credit cooperatives. Demonstrations should be conducted, showing what the farmer can do when all of his financing comes from his credit cooperative.
2. Provide demonstrations of good farm-marketing cooperatives which employ the best techniques of grading, packaging, and selling on a professional level.
3. Demonstrate what cooperatives can accomplish when selling directly to the new large buying organizations in the cities.

The above three steps involve practical educational programs so that the farmer learns the importance of cooperation. There is a general awareness of the necessity for this. However, there is a scarcity of loan funds and trained personnel to accomplish this task.

Among some of the larger commercial farmers, there is a general lack of knowledge as to how to get into the marketing process most efficiently. For example, at Isfahan, I interviewed a young man who recently went into the farming business after studying agriculture in California for six years. He was doing a very fine job of developing his farm as a modern commercial unit. However, he has given very little thought as to how he will sell his apples, milk and other products when he has achieved full production. He had rather vague ideas that he might form, along with other dairy farmers, a milk marketing cooperative, but such a plan was frustrated because the government had licensed only one milk pasteurizing plant in Isfahan. He claimed it was a high-cost operation which wanted to



maintain its position without any advantage to him. He talked of the possibility of organizing some stores to market his apples. In my opinion, it certainly would not be economical to have stores in Isfahan to sell only apples or the limited line of agricultural produce from his farm.

Attached hereto, as Appendix D, are excerpts from a September 1955 report by D. Hubbard, USOM Economist. Although it is 11 years old, Hubbard's report gives a good description of marketing conditions at the farm level as they still exist, with few minor changes. We have underlined points which seemed appropriate to this report and which corroborate our feelings.

The end-of-term report of Dr. F. V. Beck of July 29, 1963 comments: "The system of marketing of agricultural products has remained virtually unchanged in Iran for many years".

Comments of July 19, 1965, on this final report say: "The report indicates some accomplishment (in marketing), but in general indicates that the host country does not fully appreciate the role and need for better marketing facilities to support agricultural development."

It is my conclusion that the solution to the agricultural marketing problem is going to be very difficult and take considerable time. It will be dependent upon developing, among the farmers, a better realization of the advantages that can come through cooperative marketing-selling directly to the new large buyers we want to encourage. I recommend that demonstration marketing cooperative organizations be developed among the homogeneous farmers, supplying items that move in relatively large volume - such as potatoes, cucumbers, tomatoes and apples - and that the proposed chain stores in the city be encouraged to work with them as a source of supply.

The new chains will need marketing cooperatives in order to collect, grade and sometimes process agricultural products to be supplied in large quantity to the warehouses in the city. It is too expensive to have the chain stores send their buyers all around the country trying to collect the quantities of the product they will need.

There was a period in the United States when the chain stores thought they could prosper by giving the farmer as little as possible for his product. After they got into trouble with the U.S. government for carrying on monopolistic practices, there was an anti-chain store reaction in the country. Many state legislatures passed heavy chain store taxes. These chains, partly as a public relations effort and partly as the result of wise management practices, spent considerable amounts of money encouraging the organization of and helping in the operation of farm-marketing cooperatives. For example the A & P Tea Company, the largest chain in the country, had its legal department assist with the legal problems of organizing farm cooperatives, and then, after the cooperatives were organized, placed orders on a grade, specification basis, which guaranteed a fairer return to the farmer.



XI SINGLE VERSUS MULTI-PURPOSE AGRICULTURAL COOPERATIVES IN IRAN

There is some difference of opinion, among some of the organizations involved in developing cooperatives, as to whether a multi-purpose cooperative will work as well as a single-purpose organization.

Some of the multi-purpose cooperatives assisted by the Ford Foundation have failed. I am not in a position to analyze the causes. However, in Washington, D.C., I did discuss with Mr. Herbert Fledderjohn, President of ICDA, his experiences in this field. He has had considerable practical experience in the United States and also in Jordan and other countries. His observations on this subject are as follows:

"Among cooperative specialists experienced in assisting in cooperative organization in developing countries, opinions vary as to whether specialized organizations should be promoted (i.e. separate entities for credit, agriculture supplies, farm marketing, etc.) or whether it is more feasible to encourage multi-purpose cooperatives which combine these various functions under one management.

"On the basis of our experience in the Middle East, it is our opinion that, while it may be appropriate to organize a cooperative to perform only a single function, it should move as quickly as possible to a diversified operation in response to the felt needs of members. It is our observation that such a development results in a stronger, more stable cooperative, and one which has the capacity to make a more positive contribution to the well-being of the members and the community. It is also more likely to develop the strength necessary to challenge the traditional patterns of credit and trade which often impede progress.



"It is characteristic of developing countries that labor is cheap but capital is dear. The means that farmers are frequently required to pay from 50% to 100% interest annually on the loans which they need to maintain the household and carry on farming activities. In such a situation, it is natural that when the cooperative device is looked upon to improve living standards, the first area of interest is in a reasonable source of credit. Too often, however, these credit cooperative societies experience difficulties, and the incidence of failure is high. There are a number of factors which contribute to their difficulty.

- "1. Often the borrowing members have had no experience in the constructive use of credit, and therefore use the proceeds of loans for uneconomic and unproductive purposes.
- "2. They may use the cooperative to supplement their traditional source of credit, the money lender, who has first call on their income, and they therefore have difficulty in repaying their cooperative loans.
- "3. Since the loans are small, the cost of supervision is prohibitive. The interest charge will not pay for the cost of overseeing the use of the loan so that it will actually contribute to increased production and income.
- "4. The societies are small and therefore cannot afford the professional management necessary.

"In many places it has been found practical and efficient for these credit societies to issue their loans 'in kind' rather than in cash. Instead of the borrower receiving money which can be spent at his discretion he borrows fertilizer, feed, chemicals, or some other agricultural input

that will increase his total production.

"The cooperative then receives payment 'in kind' since the farmer is asked to deliver his rice or ghee or his wool or whatever surplus products he has beyond his immediate family needs. The cooperative can deduct from the proceeds of the sales of his products the amount necessary to cover the loan.

"Through this process, the cooperative evolves from a pure credit cooperative to a simple multi-purpose cooperative. It is now involved in both distribution of farm supplies and the marketing of farm products. In the process, the cooperative is assured that the 'loan' will be used for provident purposes and that it will be repaid out of the increased production. In addition, the diversified activities of the cooperative now provide income that can pay the cost of a full-time manager, rather than relying on the voluntary efforts of inexperienced board members and officers to supervise the cooperative's activities in their spare time."

It seems to me that his experiences may be helpful and that credit cooperatives can then expand into strong marketing organizations. Safeguards must be taken to train personnel and have lending policies which do not "lend" more than the produce will be worth when sold.

XII

THE OBJECTIVE OF THIS REPORT

The objective of this report is to encourage the modernization of distribution so that waste and costs of operation are reduced and both the farmer and consumer benefit. This can be accomplished through:

1. Use of larger and better stores, independent and chain-owned
2. Large buying units
3. Better storage
4. Large full-line warehouses which supply all those items needed by a store
5. Better organizational use of specialization
6. Training of employees
7. Use of the cooperative idea by farmers, independent stores and consumers
8. Efficiency in the meydan

Fair competition can make for continued progress between chains of corporate stores, cooperative stores, and groups of independents who ultimately should own and control their own warehouses. Competition will insure fair prices to consumers.

I have prepared the following charts in an attempt to clarify the present rather-confused distribution channels and to present visually our institutional objectives:

1. Present Distribution Channels - Farmer to Consumer
2. Desired Distribution System - Farm
3. Desired Distribution System - City



I have also prepared a simplified Functional Organization Chart of a chain of stores.

The "Present" chart lists the functions of the city wholesalers and the characteristics of the small retailers, and the approximate percentage of the final consumer price taken by each level.

The "Desired" chart lists the objectives which I recommend should be worked toward at the farm and city levels.

The "City Chain" chart gives some of the "Keys to Efficiency" which characterize a good chain of stores.

The most important objectives are:

1. To achieve economic strength for the farmer
2. To have large, balanced competition in the cities  
which bid for the farmers' products

The meydan or wholesaler is not completely eliminated, but is partly by-passed - large buyers dealing directly with farm-marketing cooperatives.

In order to clarify our discussion, the next section will summarize the principal characteristics of a modern distribution system.



# PRESENT DISTRIBUTION CHANNELS—FARMER TO CONSUMER

FRESH FRUITS & VEGETABLES & GRAINS EXCEPT WHEAT

90 TO 95 % TONNAGE

FARMER RECEIVES

15 TO 55% FRUITS & VEG.  
40 TO 55% GRAINS

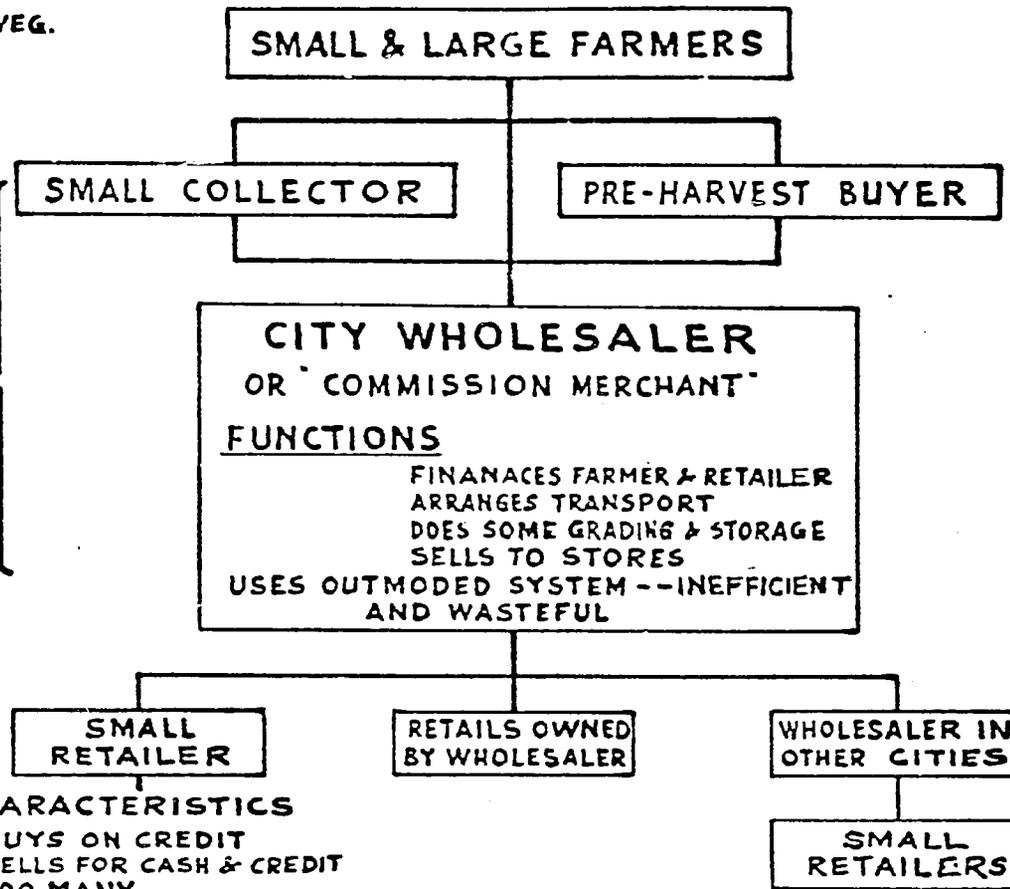
MIDDLEMEN RECEIVE

30 TO 65% FRUITS & VEG.  
25 TO 40% GRAINS

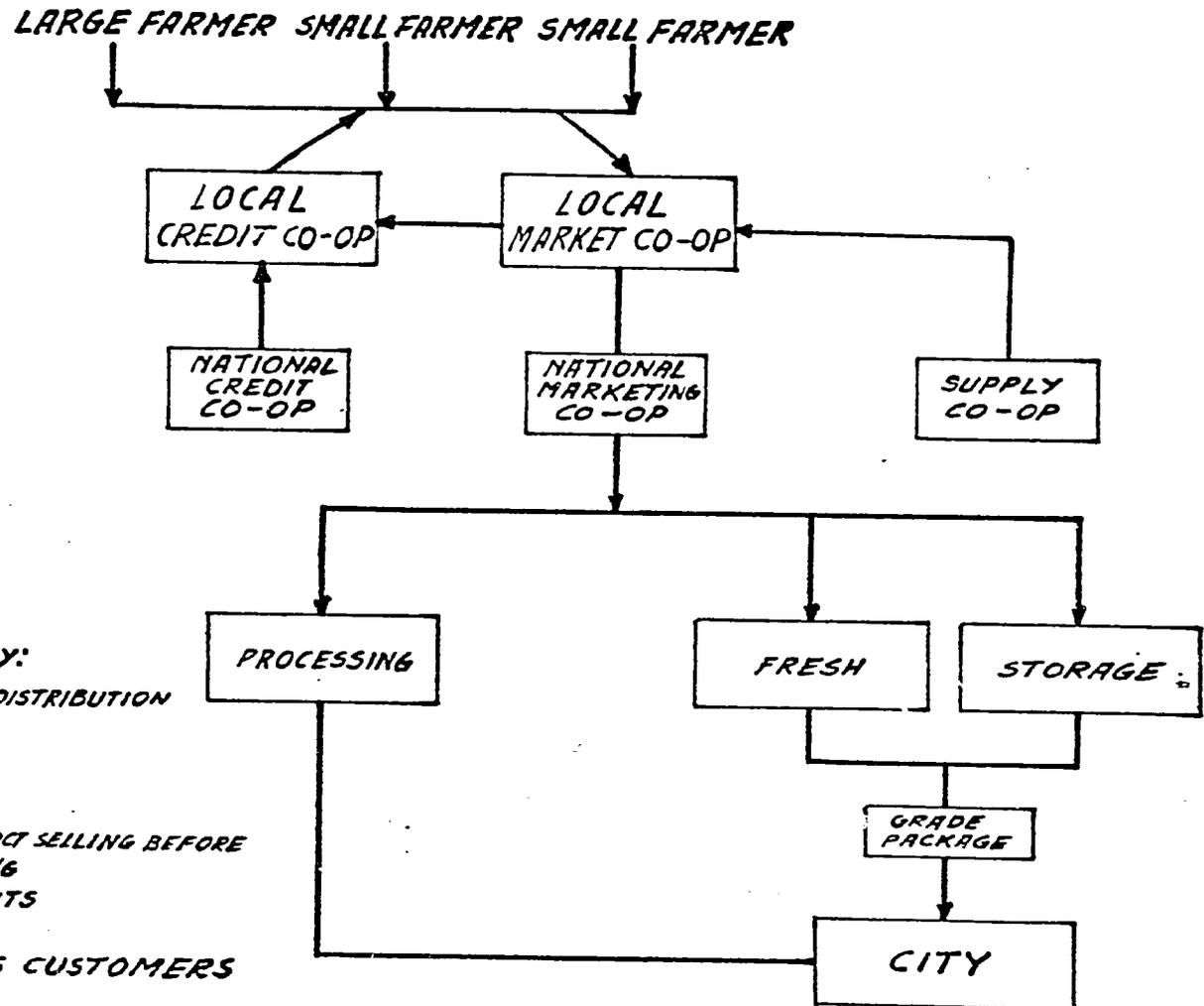
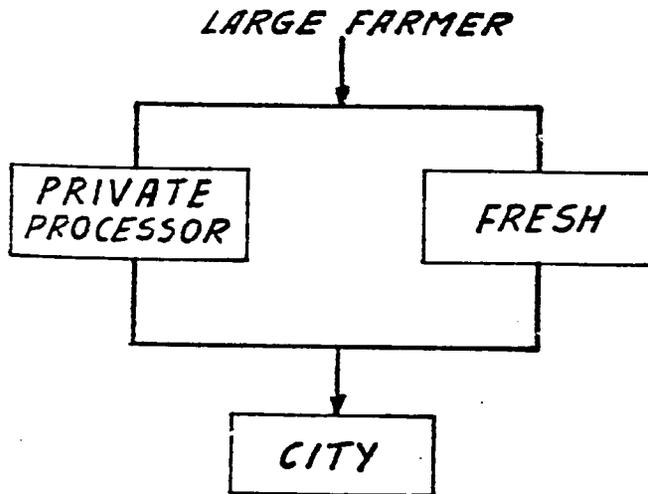
RETAILER  
RECEIVES 5 TO 15%

CHARACTERISTICS

BUYS ON CREDIT  
SELLS FOR CASH & CREDIT  
TOO MANY  
SMALL SALES VOLUME  
NO FIXED PRICES  
NO SKILLS  
NO REFRIGERATION



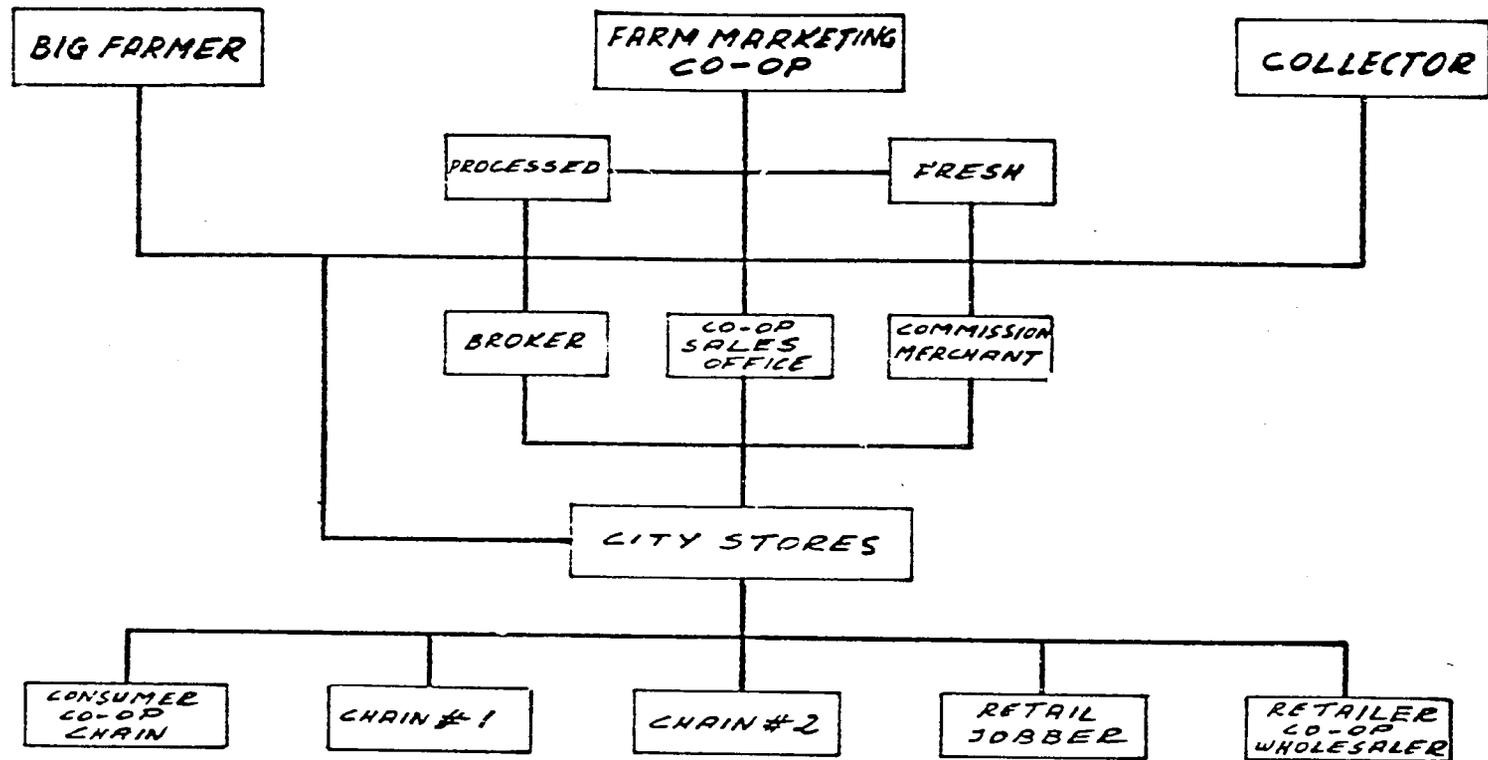
# DESIRED DISTRIBUTION SYSTEM - FARM



## OBJECTIVES

- 1 - PROFITABLE FARM MARKETING
- 2 - ECONOMIC STRENGTH FOR FARMER BY:
  - a. COOPERATIVE ACTION - OWN & CONTROL DISTRIBUTION SYSTEM TO CITY
  - b. EFFICIENT TECHNIQUES
  - c. ELIMINATE WASTE
  - d. QUALITY CONTROL
  - e. REDUCE RISK, WHEN POSSIBLE, BY CONTRACT SELLING BEFORE PRODUCTION WITH FLEXIBLE PRICING
  - f. ELIMINATE MIDDLE MAN AND PROFITS
  - g. CONTROL STORAGE
- 3 - FARMER MUST BE DEBT FREE TO HIS CUSTOMERS
  - a. ACCUMULATE HIS OWN CAPITAL
  - b. HAVE HIS CREDIT INSTITUTION
  - c. BECOME A BUSINESS MAN
  - d. EMPLOY GOOD MANAGEMENT

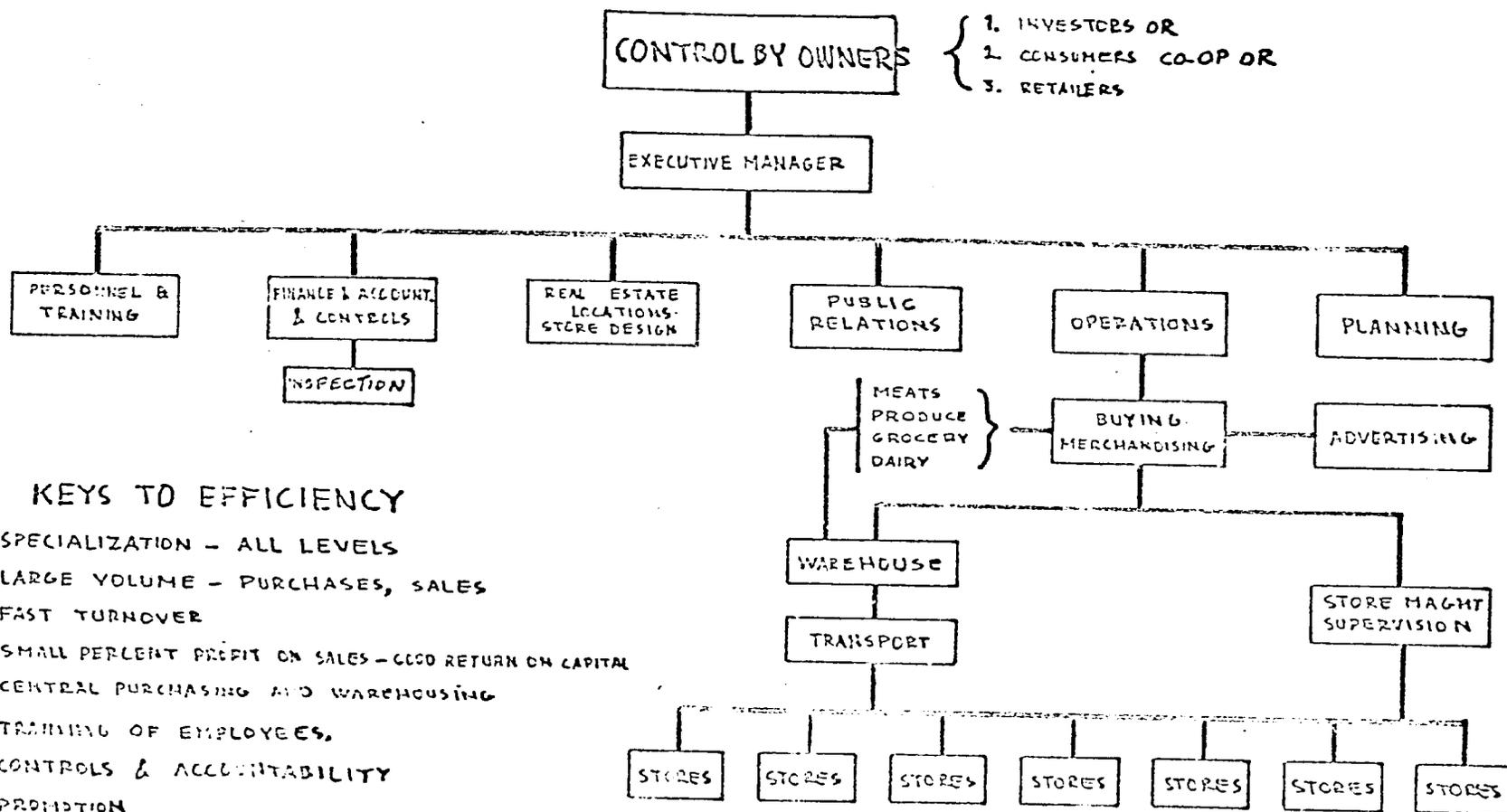
# DESIRED DISTRIBUTION SYSTEM - CITY



## OBJECTIVES

1. BALANCED COMPETITION
  - a. BIDDING UP PRICE FOR FARM PRODUCTS
  - b. STORES FIGHTING FOR CONSUMER BUSINESS, OFFERING BETTER QUALITY, LOWER PRICES
2. ORGANIZING CITY DEMAND  
(IN STATES, CHAINS HAVE HELPED ORGANIZE FARM MARKET CO-OPS)

# CITY CHAIN



## KEYS TO EFFICIENCY

- 1 - SPECIALIZATION - ALL LEVELS
- 2 - LARGE VOLUME - PURCHASES, SALES
- 3 - FAST TURNOVER
- 4 - SMALL PERCENT PROFIT ON SALES - GOOD RETURN ON CAPITAL
- 5 - CENTRAL PURCHASING AND WAREHOUSING
- 6 - TRAINING OF EMPLOYEES.
- 7 - CONTROLS & ACCOUNTABILITY
- 8 - PROMOTION
- 9 - ONE PRICE POLICY
- 10 - PLAN AHEAD
- 11 - MOVE SURPLUSES, STABILIZE PRICES
- 12 - MASS MARKETS = LARGE SCALE, LOW COST PRODUCTION.

### XIII CHARACTERISTICS OF A MODERN DISTRIBUTION SYSTEM

Stores, wholesalers, and marketing cooperatives are all service organizations. They do not create new products, but they do collect what has been produced, sometimes process it, and then pass it along the channels to the ultimate consumer. By taking large lots of merchandise and breaking them up into smaller quantities for their customers, they render a service and add value to the product.

A Marketing Cooperative collects products raised by its members. It grades, packages, and sells in bulk or large lots to wholesalers or large chain store buyers. Together, many small farmers can have, at low cost, the services available to a large producer. Besides selling, the cooperative may provide other services, like buying supplies or spraying crops. Usually the cooperative owns its private brand label in order to identify its product and benefit from quality control.

A wholesaler usually buys directly from a large producer, a cooperative, or a private individual who collects from primary producers. He then stores in his city warehouse and sells to his customers, stores, institutions, or large consumers.

In recent years, as a counter-measure against chains, independent merchants have sometimes organized retailer-owned wholesales on a cooperative basis. This gives them the purchasing power of a chain of stores, and they keep the profit which would otherwise go to the wholesaler. Sometimes they also agree to have central services - such as bookkeeping, advertising, store planning, supervision, etc. - supplied



by the cooperative, much the same as the central office of a chain operation would do for its stores. To combat this new competition, some wholesalers have contracted with their customers to charge a fixed fee, perhaps only 3% to 5% above their cost of merchandise, if the stores will buy all of their needs from them.

Chains of stores started about 100 years ago in the United States. The principle of the chain operation is simply that a company with large capital will own a large number of similar-type stores. The central office controls or manages the stores and does the buying for them. Merchandise purchased in large quantities is stored in a warehouse, which ships what each store orders daily or weekly.

The principle of specialization is applied throughout the organization. The different jobs are defined and simplified so that training is easier and more work is done per employee. As more efficient ways of selling or moving goods are developed, they are incorporated into all of the stores, so that costs of operation are lowered. For example, extensive sales promotion programs can be afforded because their costs are spread over a large number of stores and a large total volume.

Through centralization of inventories, the speed of turnover is increased, so that it takes less capital to produce a given sales volume than when a single store operates on its own.

By achieving a large volume, warehouse operating costs (and those of the stores) are reduced.

Cash-and-carry stores cut costs. Supermarkets in the United States are usually over 10,000 square feet in size, and sell over \$1,000,000 per



year. They have self-service, faster shopping, the advantage of a large assortment, free and convenient parking, check cashing, etc. Unless a supermarket maintains a high sales volume, it is vulnerable because of its high fixed costs. In some parts of the world there are now successful small stores of 2,000 to 3,000 square feet which are part of a chain which limits its inventory assortment and emphasizes speedy service. Such stores are easier to manage and may be useful in Iran.

A national market is another characteristic of modern merchandising. Manufacturers who sell in the national market brand their products and promote them extensively through advertising and point-of-sales displays. Because the national market is large, it is economical to make large capital investments, to employ expensive processing machinery, and still have a very low per-unit cost of production.

This opportunity is now beginning to exist in Iran for processed foods. In the United States, food chains take a very low margin on nationally-advertised brands. On some items they have developed their own private brand and sell it at a lower price than the nationally-advertised item. This is possible because of the large volume of the national chain and the low advertising cost of the private brand.

It appears that, within the next two years, it should be feasible for the proposed chain stores to make contracts with new or existing processors for large quantities of merchandise to be sold under the food chain's label. In the United States, the chains have found it necessary, at times, to set up their own food processing plants to produce to a known demand, thus benefiting both farmers and consumers.



XIV PROBLEMS AND OBSTACLES TO IMPLEMENTATION

Any attempt to change the status quo encounters opposition and problems. Even though the over-all results of our basic recommendations will benefit the large majority of the population and speed up economic development, we must anticipate difficulties and opposition, and we must have a plan to prevent sabotage and minimize the problems.



XV

PROBLEMS HINDERING IMPLEMENTATION

Although the stage is set for change, investors are hesitant to move into new areas or into ones that involve risk, conflict or uncertainty.

A major problem is to convince investors and businessmen that it will be profitable to challenge the old order and that their capital will be safe.

A review of existing government actions, attitudes and laws or practices, reveals a number of circumstances which will create problems. The following are some examples which cause hesitancy and make for a poor investment climate:

1. Private capital sees the government subsidizing some cooperatives and the government department store.
2. It sees the problems of a private milk company trying to compete with a subsidized government plant and also trying to meet the traditional competition.
3. It is afraid to attack the power of the established wholesalers, who have a stake in the status quo.
4. It feels that the "establishment" has a hand in the prosecution or persecution by the municipality of Iran Super, resulting in a sentence of 90 days in jail and a court order to get out of the food business (both appealed in court).
5. Business is also confused by the growth of the "Distributor's Cooperatives". They could easily be used by a small group for their own selfish purposes and could also be an obstacle to the introduction of new competitive forces.



The Distribution Commission should review these and other problems, and recommend government action, where needed, to create a more favorable climate for the Distribution Reform.



XVI

OPPOSITION TO CHANGE IN SYSTEM

Opposition will come from people who have a financial stake (or think they have) in maintaining the present system. The most important group will be those who are the real power behind the meydan. They are the men who finance the city wholesalers and who indirectly finance the farmers. Their faces may appear in high and respectable positions in government and business.

A larger opposition group will be the city wholesalers themselves and their employees and agents throughout the country.

A still larger and noisier group will be the thousands of small shopkeepers who are influenced or controlled by the wholesalers.

Opposition supporters will be the hangers-on who get business from the above and who do not see that a more widely based prosperity will bring them benefits far in excess of the present situation.

Opposition will take many forms, varying from direct physical obstruction or sabotage such as "accidents" to trucks or people, to delaying tactics.

Newly-organized cooperatives will find difficulties in selling their products. Mistakes will be exaggerated to the cooperative members by the opposition, in order to undermine their support and destroy the cooperative itself. The most able managers will be hired by the opposition, or dishonest ones will abscond with the funds. Shipments of perishable products will "get lost" or delayed so that it brings a loss or poor return to the farmers.



The most subtle opposition may come from those who say that the idea of cooperatives is so good that it must be implemented among all farmers at once. The consequent diluting of the scarce management and finance will delay success and prevent good demonstration projects.

Others will argue that this is a good plan but that the educational level of the people is not ready for it and that therefore the implementation should be delayed.

The present small shop-keepers may be organized by the people who benefit from them to oppose chain stores. Some humanitarians may argue that chains will put thousands of small businessmen out of work and destroy a good institution.

Others, who have their own pet solution to economic growth, may argue or oppose "subsidizing of foreign capital" for demonstration purposes.

There is no doubt that some people will ultimately be forced to change or close their business. Lower-priced chain stores will drive inefficient but "good" people into bankruptcy. They should be given the opportunity to learn how to become more efficient and how to compete with the new chains. This is one of the responsibilities of the proposed Distribution Commission.



XVII

DISTRIBUTION COMMISSION

A Program to Promote Constructive Change and to Counter Opposition:

Some progress has been made by the Iranians to improve distribution during the past 5 or 6 years. However, it still represents a very small portion of the total amount of business, and is relatively crude compared to the sophisticated methods developed in the more competitive countries of Europe or in the United States. This improvement can be speeded considerably by a concentrated effort by the government to promote change.

The Distribution Commission should develop and implement plans to counter opposition and to promote change by:

1. Establishing an information - public relations - service which explains the advantages and temporary problems of a distribution revolution.
2. Studying the location and best design of a new wholesale center for the Tehran meydan and then inviting and encouraging the participation of those in the business in a program to make wholesaling more efficient.
3. Taking responsibility for having built new wholesaling facilities in Tehran and other cities.
4. Instituting an educational and consulting program to help retailers organize into buying groups, modernize their stores and learn the skills of modern distribution management and institute employee-training programs.
5. Serving as a liaison body between the newly formed marketing cooperatives, chains and buying organizations encouraging business relations.



6. Coordinating the programs of various government agencies which relate to distribution.
7. Sponsoring travel-study tours to visit modern distribution facilities in Europe and/or the United States.
8. Making recommendations regarding the establishment of a department of Distribution and Marketing at institutions of higher learning.
9. Studying and then recommending, legislation to facilitate modern distribution - including the revision of existing laws, if necessary.

The life of the Commission should be limited to five years or less if it can achieve its objective sooner.



### XVIII BOARD OF GOVERNORS

The Board of Governors of the Distribution Commission should be composed of government ministers concerned with the distribution and encouragement of economic development.

It should determine broad policies, approve programs and budgets, coordinate activities of the various government ministries which would support the Distribution Reform Program, and be responsible for the over-all success of the Commission. The Board would appoint the Executive head, and review the results of his staff.

#### Staff

The Executive head should be a man of ability, prestige, and skill in getting people to work together and try out new ideas. He should also have a practical business background, sympathy and knowledge of conditions in other countries. He should not be theoretical or academically-minded, but must know how to train and expedite.

He should be assisted by a man familiar with distribution conditions, but independent of control by the meydan.

A staff of four foreign distribution experts should be available for a two or three year period to help with the program of working with retailers:

1. One expert should have experience in the operation and organizing of a retailer-owned cooperative wholesale.
2. Another staff member should be experienced in the management of independent stores, the designing and laying-out of

efficient food stores, and the organization and management of chain stores.

3. A third expert should be experienced in the problems of facilitating the flow of farm products to the cities (grading, packaging, and storing and transporting).
4. Another expert should be prepared to handle the organization and lay-out of city wholesale markets.

It would be desirable that two of these experts be semi-retired executives in the food business who knew conditions 30 years ago in the United States and who are aware of how changes occurred.



XIX            CONSULTING OR ADVISORY SERVICE TO SMALL MERCHANTS  
                 AND CONSUMER COOPERATIVES

This would involve the organizing of cooperative buying associations of the small retailers, who would either make a buying contract with a wholesaler or possibly with one of the new chain warehouse organizations. Ultimately this buying organization would probably operate its own office and warehouse, in addition to improving the buying position of small stores. Management and promotion techniques should be strengthened. For example, simple accounting would give the owners information necessary to intelligently manage their own stores. Another service which would be provided cooperatively is a joint merchandising and advertising program. Another service would be a purchasing division for equipment and organization to build or remodel stores along more efficient lines.

The New Meydans:

The Commission should be responsible for the planning and building of a new efficient meydan or wholesale distribution center. It should be located where it would have good transportation from the country and be able to distribute at low cost to the stores.

In order to make rapid progress, it is absolutely necessary that this Distribution Commission enlist the interest and support of the people in the meydan business as well as those in retailing. It is important to get business people to see the need for improvement and then to give them technical assistance to develop better facilities and better management techniques.



XX THE VALUE OF DISTRIBUTION REFORM

It is impossible to measure accurately the economic value of correcting the abuses of the present antiquated marketing system. If we consider the following points, we can get some idea of the benefits which can come from a modern, efficient system.

Savings from better methods of distribution

1. For Tehran alone, we know that \$60,000,000 or 21% of \$293,000,000 of the total spent for food is for fresh fruits and vegetables. Agricultural experts estimate that about 1/3 of the fresh foods are destroyed before they reach the consumer. If we assign a value of only \$20,000,000 to the wasted product and are able to save only 10% of that by use of better methods of distribution, this would amount to an increase of \$2,000,000 per year in the wealth of Tehran. I feel certain that the use of better methods could save even more than this amount.

Better marketing - better farm income

2. At the present time, all farmers receive a smaller percentage of the consumer price than they could with a good marketing system. This destroys their incentive to produce, and I believe it is conservative to assume that correction of the meydan exploitation could result in at least a 10% increase in farmer income. This would certainly help to stimulate production and make more food available to the city populations who are increasing in number and purchasing power. Without an increased supply of food, prices will increase and labor costs will also go up. While it is



risky to assign a money value to this benefit, it is very important. Better marketing could be worth \$10 to \$15 million dollars a year in additional income from Tehran alone.

#### Consumer savings

3. Retail prices would come down 5% to 10% below present levels, even after allowing for increased farmer incomes, if these recommendations are adopted and properly implemented. The savings to consumers in Tehran could amount to \$15 to \$30 million per year. These would come from reducing the margins taken by the wholesalers, and by increasing efficiency through the use of new concepts.

#### Lower prices - higher morale

4. The most important benefits might be psychological. The fact that people could see that the government was pushing programs "in the kitchen" would create more stability and encourage them to put up with the present standard of living - if it was improving.

Iran is now at the point where it can have a national market for its products. This can increase demand, and if it has an efficient mass distribution structure, it can pave the way for both increased profits in processing foods and lower prices for consumers.

XXI

NEXT STEPS BEFORE PUBLIC ANNOUNCEMENT OF THE  
DISTRIBUTION REFORM PROGRAM

1. Study of this report by top-level officials.
2. Discussion or correspondence with the consultant as to any question about the report which needs clarification or expansion.
3. Decision by the government as to whether it desires to accept this report's recommendations.
4. Determination that the government can extend the Foreign Investment Protection Law to the field of distribution, by Executive Order.

After these four steps are taken, two related moves should be made simultaneously in order to expedite the program.

1. Authorize Bank Omran to make a contract with a knowledgeable distribution consultant to secure two competent foreign investors to enter into chain store joint venture.

As a part of the contract, the consultant should do further research in Iran and prepare answers to questions investors will ask, as outlined in Appendix E. Investors should be required to start a minimum number of simple, low-cost stores in low-income areas of Tehran and other major cities.

Since the Bank is generally known as "the Shah's Bank", it will create confidence if it handles the negotiations and takes a 5% or 10% participation in the common stock of the new chains. The Bank should be reimbursed by the government for additional expenses connected with securing the new investors.



2. Start organization of Distribution Commission by:
  - a. Appointment of Board of Governors by government
  - b. Consultation with a distribution economist who may be employed on a part-time basis to work with the Board and Executive Secretary
  - c. Appointment by the Board of an Executive Secretary
  - d. Development of a budget and program for next two years
  - e. Employment of Iranian staff and foreign distribution consultants as recommended. The estimated cost of 4 distribution specialists and one part-time (12 weeks) distribution economist is approximately \$145,000 year. See Appendix F for details of foreign budget. The cost of local staff and related expenses can best be estimated by the local authorities, but total cost would be approximately \$200,000 to \$250,000 per year.



XXII SUMMARY

The Bank Omran requested that a study be made on the "Feasibility of establishing a series of chain stores, cooperative or otherwise, and to review the institutional and technical deficiencies in farm product marketing".

A. This study was prompted by an "increasing awareness" among GOI officials of the role of marketing in the economic development process, and a concern over:

1. The high cost of living in the cities.
2. The seasonality of peak supply.
3. The large gap between producer (farm gate) prices and consumer prices.

B. The main recommendations of this report are:

1. That appropriate steps should be taken by the GOI to encourage and speed up the development of two new competitive chain store systems; that the Army Cooperative should be expanded; that independent stores should be organized into a cooperative association. They should be unsubsidized. Expansion should start in Tehran and later become nation-wide.
2. That special emphasis should be placed on the development of stronger farm-marketing cooperatives. Their growth can be assisted by their being used to satisfy the demand channeled to them by the purchasing departments of the city chain stores, when possible.

C. This report suggests an action program designed to:

1. Stimulate farmers to increase agricultural production, yields and quality.
2. Increase income to farmers.
3. Free farmers from their debts to moneylenders and wholesalers.
4. Lower prices to city consumers.

D. This would be accomplished by:

1. Building strong farm credit, marketing and supply cooperatives.
2. Developing several strong, competing food merchandising organizations in the cities (cooperative and profit), each with an efficient system for buying, handling, warehousing and distributing food and other products.

E. How this can be accomplished

With the personal support of the Shah of Iran, this can be accomplished as follows:

1. Strengthen the bargaining position of farmers at the village level.
  - a. Use the best Iranian specialists to concentrate on demonstration cooperatives and initiate and finance demonstration programs in strategic areas to:
    - ... strengthen and expand credit cooperatives to free the farmer completely of his debts to wholesalers.
    - ... encourage farmers to join and market through his cooperative.
  - b. Provide "know-how" by:
    - ... requesting the cooperative organizations in other countries to send specialist teams to help (e.g. a Japanese team to assist in the demonstration of rice and credit co-ops; a Danish Co-op team to assist in practical farmer education; an American team for wheat, fruit, or vegetable co-ops).

- ... requesting Peace Corps volunteers to help.
  - ... using the demonstration cooperatives as "on-the-job training" schools for young Iranian farm youths.
  - ... establishing, in the demonstration areas, training schools along the lines of Danish "Folk Schools" for co-op members, employees and youths of high school age.
2. In the cities, create a distribution revolution within 5 years by encouraging competition between cooperative and for-profit businesses as the incentive for adopting more modern methods, by:
- a. Creating the right climate for investment of private capital.  
This would include:
    - ... making clear the GOI's objectives,
    - ... revising laws, regulations and practices to make for fair competition and making it illegal for combinations in restraint of trade,
    - ... extending the benefits of the "Law on the Attraction and Protection of Foreign Investments in Iran" to demonstration distribution chains,
    - ... withdrawing all subsidies to government stores while compensating affected government employees using such stores.
    - ... eliminating all price controls and allowing the laws of supply and demand to operate when the new competition is established.
  - b. Financing a Distribution Development Commission to encourage and assist during the transition period of 3 to 5 years.
    - ... the Board of Governors should be made up of representatives of the Ministries concerned with distribution and economic development.
    - ... an adequate staff of foreign distribution specialists should be provided, under the leadership of a highly respected Iranian leader.

- ... functions should include (a) responsibility for organizing and building the new meydan; (b) assisting small merchants to modernize businesses; (c) assisting retailers to organize buying organizations which might initially buy favorably through a new chain warehouse.
- c. Giving status and prestige to Marketing and Distribution as a profession and a science by starting a Department of Marketing and Distribution at the University, headed by a distinguished Iranian Economist.
- d. Through the Bank Omran,
  - ... inviting American, Swiss or Scandinavian capital and know-how to participate in joint ventures with Iranian capital for development of two competing chains, and
  - ... making loan capital available to qualified, approved, distribution chains.
- e. Encouraging the development of a strong consumer co-op chain with stores in Tehran and other major cities. The Army Co-op could serve as the organizer for cooperatives in other parts of the country.

XXIII CONCLUSIONS

- A. It is economically feasible to carry out the above recommendations, provided a careful plan is developed which:
1. Makes clear to all concerned the objectives and desires of the GOI.
  2. Creates a favorable climate for private capital and management to tackle the job.
  3. Results in legislation making it unlawful to enter into combinations or price agreements to restrain trade or commerce.
  4. Stresses the need for large volume and low profit per unit in order to bring down costs of production and distribution.
  5. Relies on fair competition to be the dynamic force to bring improvements in the standard of living.
  6. Encourages the concept that private business (including consumer cooperatives) has a social and economic responsibility to the consuming public, and that it is good for private business to give honest values and correctly represent its wares.
- B. Great progress has been made in the last decade, improving all aspects of Iran except in the field of food processing and food distribution through the meydan and bazaar. The lack of progress here stands in the way of the benefits which could result from land reform and industrialization.
- Something must be done to break the financial control exercised over the farmers by the city wholesale markets and free them to market their crops advantageously.



The mechanism of a wholesale market place in the city cannot be eliminated. However, it must be made an efficient instrument that is a clean and healthy place to handle food.

- C. Studies made by Agricultural Economists in the past ten years indicate that the farmer receives from 13% to 45% of the consumer price for fresh vegetables and fruits, and 40% to 55% for rice. Also, that the various collection agencies and wholesalers keep an excessive amount - 25% to 65% for their services, profits and waste.

At the retail end, most stores do not take more than 5% to 15% of the consumer price. This does not appear to be excessive, except that the volume per store is usually small, resulting in a small gross profit.

These stores, however, are part of a philosophy which tries to catch as much as possible from the weak and unsuspecting. Adulteration, poor health safeguards and small selection are common.

- D. The best technique to break the power of the meydan and bazaar is through competition - i.e., to organize large purchasing organizations which buy directly from farm-marketing cooperatives, and have modern warehouse facilities to protect, store and distribute to a chain of stores, using all the skills and short cuts learned by specialists throughout the world.
- E. The number of supermarkets will first be small, and must initially be limited to the higher income communities able to afford a large

selection of merchandise. Smaller stores, simple and low-cost, selling a limited assortment, must be designed to serve the middle and lower income groups.

- F. A capital investment of between \$10-15 million will ultimately be necessary to establish economical, strong chains able to solve the initial problems and help the community. The exact amount will depend on future studies and decisions.

The risk money should come from private capital, although the banks should provide loans.

It is imperative to attract some joint venture, foreign risk capital, with "know-how" to speed up the introduction of new distribution skills.

XXIV

THE MAJOR OBSTACLE

Although economic, educational and transportation improvements have set the stage for the distribution revolution, there is one major problem which can easily be cleared up by the government. It is the lack of a clear-cut policy regarding the role of private business in the distribution field.

For a number of understandable reasons, there is a mixed policy today. The result tends to make it unattractive for foreign and local capital to make the large commitments necessary to change distribution.

An Unusual Opportunity:

The time is ripe for distribution reform in Iran. The benefits can run into millions of dollars for all the people of Iran.

The tempo of progress on the farms and in industry will be speeded up. The political stability of the country will be improved by the government actively promoting and achieving lower total retail prices.

It is unusual that a single program can help both ends of the economy, but it can be done, provided that a total plan is developed, implemented and followed up on a large scale.



APPENDIX A

**BANK MARKAZI SURVEY OF FAMILY EXPENDITURES**  
**Table XXV - 1**  
**Annual average per family expenditure by category of expense,**  
**and by education of the head of family: 1338**  
**T e h r a n**

Expenditure category	Number of years of school completed by head of family				
	No schooling		1 - 6 years	7 - 10 years	11 years or more
	Illiterate	Literate			
Number of families in each size class	275	89	112	45	88
Average family size	4.65	5.38	4.50	4.91	4.72
Reported family net money income	48,299	102,990	74,073	143,749	228,038
Total family expenditure	64,433	128,975	85,230	203,091	260,651
Food purchased to eat at home	30,017	47,722	35,525	64,793	75,894
Food purchased in eating places	4,027	4,746	3,521	6,090	7,173
Tobacco	1,345	1,865	1,214	2,452	2,293
Renter costs	2,420	5,037	3,660	9,244	16,065
Home owner costs	3,964	17,644	5,233	16,714	37,821
Other lodging costs	68	339	160	407	1,087
Fuel, electricity, water & ice	2,923	5,105	3,490	6,020	7,811
Other household operation	1,023	3,709	1,283	3,646	6,075
Housefurnishings	2,648	5,788	5,569	7,210	16,983
Clothing for women & girls	1,907	3,654	3,040	5,703	9,828
Clothing for men and boys	3,042	6,095	4,968	7,971	11,826
Clothing services and supplies	681	1,281	1,051	2,209	3,838
Personal care	2,299	3,867	2,848	5,141	6,918
Medical care	2,223	5,140	2,494	4,000	6,195
Recreation	1,193	2,963	2,041	2,462	8,151
Reading and education	426	2,051	859	2,566	4,132
Travel and transportation	2,348	4,013	2,904	13,375	27,077
Contributions and gifts	1,273	3,521	2,402	35,523	6,006
Miscellaneous expenses	598	4,426	2,951	7,557	5,470

APPENDIX B

**BANK MARKAZI SURVEY OF FAMILY EXPENDITURES**

Table XXV - 3

Percentage distribution of annual average per family expenditure by category of expense and by education of the head of family: 1338

T e h r a n

Expenditure category	Number of years of school completed by head of family				
	No schooling		1 - 6 years	7 - 10 years	11 years or more
	Illiterate	Literate			
Number of families in each size class	275	89	112	45	88
Average family size	4.65	5.38	4.50	4.91	4.72
Reported family net money income	48,599	102,990	74,073	143,749	228,038
Total family expenditure	100.0	100.0	100.0	100.0	100.0
Food purchased to eat at home	46.6	37.0	41.7	31.9	29.1
Food purchased in eating places	6.3	3.7	4.1	3.0	2.8
Tobacco	2.1	1.4	1.4	1.2	0.9
Renter costs	3.8	3.9	4.3	4.6	6.2
Home owner costs	6.2	13.7	6.1	8.2	14.5
Other lodging costs	0.1	0.3	0.2	0.2	0.4
Fuel, electricity, water & ice	4.5	4.0	4.1	3.0	3.0
Other household operation	1.6	2.9	1.5	1.8	2.3
Housefurnishings	4.1	4.5	6.5	3.6	6.5
Clothing for women & girls	3.0	2.8	3.6	2.8	3.8
Clothing for men and boys	4.7	4.7	5.8	3.9	4.5
Clothing services and supplies	1.1	1.0	1.2	1.1	1.5
Personal care	3.6	3.0	3.3	2.5	2.6
Medical care	3.5	4.0	2.9	2.0	2.4
Recreation	1.9	2.3	2.4	1.2	3.1
Reading and education	0.7	1.6	1.0	1.3	1.6
Travel and transportation	3.6	3.1	3.4	6.6	10.4
Contributions and gifts	2.0	2.7	2.8	17.5	2.3
Miscellaneous expenses	0.9	3.4	3.5	3.7	2.1

APPENDIX C

**AVERAGE PER FAMILY WEEKLY EXPENDITURE FOR FOODS  
PURCHASED FOR CONSUMPTION AT HOME <sup>(1)</sup>**

(Weekly expense in Rials)

Expenditure Category	32 cities combined	Abadan	Tehran	Rasht
Number of sample families	3,237	190	607	111
<b>FOOD AT HOME, TOTAL</b>	<u>762.6</u>	<u>1,188.2</u>	<u>816.7</u>	<u>1,244.3</u>
Dairy products, d	55.2	91.7	73.3	46.0
Dairy products (except cheese)	40.0	70.7	51.2	28.9
Cheese	15.2	21.0	22.1	17.1
Eggs	11.1	15.8	16.9	18.1
<b>Flour, Rice and Bakery products</b>	<u>202.8</u>	<u>266.1</u>	<u>210.4</u>	<u>531.4</u>
Flour and Reshteh	14.7	32.7	3.5	0.2
Rice	66.5	102.2	69.1	426.1
Bakery products:	121.6	131.2	137.8	105.1
Bread	(116.2)	(126.4)	(130.0)	(95.4)
Cookies and cakes	(5.4)	(4.8)	(7.8)	(9.7)
<b>Meats, Poultry, and Fish</b>	<u>112.2</u>	<u>179.4</u>	<u>131.4</u>	<u>126.8</u>
Lamb and Mutton	85.4	126.9	106.7	50.3
Beef and veal	8.9	4.1	11.6	8.2
Pork and other Meats	0.2	0.1	1.1	0.3
Poultry	12.0	18.6	10.9	32.3
Fish	5.7	29.7	1.1	35.7
<b>Fats and oils</b>	<u>75.1</u>	<u>100.3</u>	<u>66.9</u>	<u>193.7</u>
<b>Sugar and Sweets:</b>	<u>64.6</u>	<u>88.2</u>	<u>52.6</u>	<u>85.4</u>
Sugar	52.3	79.8	46.6	75.0
Sweets	12.3	8.4	6.0	10.4
<b>Fruits, vegetables, nuts</b>	<u>136.1</u>	<u>245.4</u>	<u>174.1</u>	<u>169.4</u>
Fresh fruits, juices and Melons	66.7	99.3	88.8	71.9
Fresh vegetables	60.4	123.6	78.9	87.7
Dried fruits and Nuts	9.0	22.5	6.4	9.8
<b>Pulses and Cereals</b>	<u>27.1</u>	<u>43.0</u>	<u>21.2</u>	<u>11.0</u>
<b>Prepared or partly prepared foods</b>	<u>5.9</u>	<u>4.7</u>	<u>4.1</u>	<u>4.0</u>
Canned fruits and vegetables	1.1	0.3	0.2	2.8
Other prepared food	4.8	4.4	3.9	1.2
<b>Tea and Coffee</b>	<u>43.6</u>	<u>53.9</u>	<u>36.1</u>	<u>32.5</u>
<b>Beverage, Bottled</b>	<u>18.3</u>	<u>50.0</u>	<u>22.0</u>	<u>14.7</u>
Cola drinks and other drinks	9.6	32.4	14.7	7.1
Alcoholic beverages	8.7	17.6	7.3	7.6
Pickles and spices	10.6	19.7	7.7	11.3
<b>TORACCO</b>	<u>31.6</u>	<u>53.1</u>	<u>31.5</u>	<u>31.9</u>

(1) Year to March 20, 1980

\* Less than Rials 0.05.

#### APPENDIX D

##### EXTRACTS FROM TOUR NOTES BY D. HUBBARD, Agricultural Economist, USOM, Iran, September 1955.

(Presented as supporting evidence of the urgent need for marketing improvements)

We visited almost every \*maidan or produce market of any size in the area (Azerbaijan). Most maidans are similar but they vary in size. They are crowded, dirty and inconvenient. At the Tabriz maidan and some others it is impossible to enter with a truck. The produce must be transferred to the back of animals or labourers and carried several hundred meters through narrow crowded passageways and alleys. There is no organized or systematic way of displaying goods. Other than in a few major cities most produce is grown locally, and marketing is from farm to maidan or retail market on the back of a donkey. The task of transferring ownership of the goods is more complex as the farmer deals with the barfaroush (commission agent). The individual producer with a donkey load of perishable produce is not in a very good bargaining position, as is usually reflected in the prices he receives.

There is almost no standardisation, grading, or even sorting, and the bad or spoiled are in the same container as the good. Wastes are tremendous as produce is brought in baskets, boxes, or bags, by donkey, and sometimes more wasteful if transported any distance by truck over absolutely inadequate roads. Crates are light and flimsy and often crush together damaging produce. Crates are often so large that produce is severely damaged by its own weight, so great as to damage the products. No cold storage facilities exist and the extreme summer heat causes rapid deterioration. Because of this, some produce is picked extremely green thus greatly affecting its natural flavour. The picking, packing and transporting processes have not been developed to provide a minimum of bruises which cause rapid deterioration.

Produce, as well as meat and wheat, are influenced by controlled prices. The municipality sets the price of produce in the market. This is very unrealistic since there is no data on which to base any policy and the prices set are therefore quite arbitrary. There is little attempt to control the set prices, so therefore the official price and real price are often quite different. This price fixing discourages a good product since the set price makes no distinction between the good and poor quality, and by law the poor quality can sell for as much as the good. Most of Iran's consumers, however, are not particularly discriminating customers, so this does not have as much effect as it would have in other economies.

(\* Maidan is spelled meydan in Mr. Ashelman's main report)

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The grapes were not yet ripe, but a good crop was expected. The almonds and apricots are poor this year (1955) because of late frosts. Ordinarily, large quantities of apricots are dried for export. The processing and quality is poor and therefore the price realised is not as good as it could be. Foreign markets are becoming more discriminating and Iran has not adjusted its production and processing for discriminating customers.

The barfaroush is the middleman of Iran's agricultural produce. He is also the money-lender, information service etc. He is usually a shrewd well informed business man. His accepted procedures might be questionable compared to "Western Standards". Yet many are of great service to the farmer and his only source of credit. For example if a farmer must have credit to live or for production purposes he can likely get cash from the barfaroush to whom he promises to sell his future crop. This is often at the barfaroush's own price. Since religious custom prohibits the charge of interest the charges made are in form of commission for the sale of produce. This procedure often adds up to an "interest rate" of 20 to 50% or more.

#### Recommendations

The government wheat policy needs to be studied in detail and evaluated. Its objective and purpose need to be defined.

A detailed study is needed of the power a municipality has to control the movement of food products and set prices arbitrarily.

Accurate agricultural price, crop and livestock reporting and statistics should be collected and made available to individuals as a basis for business action and to government as a basis for policy development.

Educate and demonstrate to the producer and barfaroush improved market practices and procedures to reduce waste and develop higher quality.

Encourage the establishment and control of honest weights and measures.

Promote and develop the standardisation and grading of certain agricultural products, particularly for export markets.

Encourage the improvement of transport facilities for agricultural products. The railroad can likely be used for the movement of agricultural goods to greater advantage than at present.

\* \* \* \* \*

Most or all of the defects listed below, will be found to exist, in varying degrees, in Iran, although their relative importance and their impact on the marketing economy may differ in accordance with the conditions prevailing here, but it may be assumed that when the grower receives unduly small returns in relation to the price paid by the consumer this can be attributed to one or a combination of the following circumstances:

1. Widespread and constant indebtedness.
2. Exorbitant interest charges incurred by producers on loans for cultivation and domestic expenses.
3. Lack of organized credit facilities.
4. Excessive marketing costs and margins.
5. Absence of competition at the primary marketing stage.
6. Malpractices and excessive deductions by market functionaries and intermediaries.
7. Losses and wastage in the physical handling, processing and conservation of produce through unsuitable or inefficient methods.
8. Lack of recognised standards of quality and absence of grading.
9. Inadequate and defective storage facilities.
10. Lack of uniformity in weights and measures - the use of defective apparatus or equipment capable of fraudulent manipulation.
11. Lack of producers' organizations for financing, processing, storing and distribution.

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12. Poor communications, especially in the rural areas, leading to high transport charges out of all proportion to the prime cost of the commodity.
13. Inadequacy and unreliability of statistics over the whole field of production and marketing.
14. Dearth of market intelligence and advisory services.

\* \* \* \* \*

THE APPROACH TO AN EXAMINATION OF MARKETING PROBLEMS IN IRAN

The point of view from which Iran's marketing problems have been approached should be made clear at this point. The aim of improved marketing is not necessarily to displace any integral part of the existing machinery but to enable the machine to function to better advantage. No suggestions are, therefore, offered which involve the elimination of the merchant or middleman. In the economy of a democracy he fulfills certain essential functions and, it is not possible, or even desirable, wholly to dispense with him. For instance, the existence of private trade and the development of cooperative marketing advocated in this report as one of the means of improving the lot of the grower, are not mutually antagonistic. There is in fact ample room for both private and cooperative enterprise in the Iranian economy.

Assembly, distribution, and the adjustment of supply to demand are complicated and delicate processes which would be difficult of performance without the skilled services of those who spend their lives, and often accept heavy financial risks, in such occupations. These processes are not less intricate in Iran than they are in other underdeveloped countries where production is in the hands of small holders who lack the financial means and the facilities or resources to adapt their selling policies to the state of the market from time to time, and whose produce as marketed too often leaves much to be desired both as regards purity and quality.

The services of the middleman, which term also includes the

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shopkeeper/moneylender, commission agent or local dealer, have to be paid for, and if the costs of distribution are excessively high this is largely because of inadequate funds for the supply of credit, which result in exorbitantly high rates of interest, a primitive banking structure, wasteful handling and costly transport and a general sense of insecurity which, as noted hereafter, compel lenders to seek large profits and the quickest possible returns.

If official and private opinion is generally watchful towards, and often suspicious of, the middleman, this tendency has its roots partly in the recognition of the fact that most intermediaries carry few of the hazards incidental to production. Crop failures which may ruin the cultivator need not necessarily inflict serious or irreparable damage on the business of the entrepreneur. Indeed, periods of agricultural depression are not infrequently those in which the distributive trade flourishes most. Tolerably secure in the enjoyment of their profit margins merchants are, as a rule, in a position, by adjusting prices, to pass on to the consumer any rise in costs while commission agents having little interest in such refinements as grading or in promoting better marketing techniques are concerned mainly with the largest possible turnover.

Nevertheless, easy generalities, suggesting that every ill from which the Iranian producer suffers is traceable to hordes of rapacious and unnecessary middlemen, are to be deprecated. That a great many abuses exist is, however, beyond dispute, but such statements disturb confidence and divert attention from defects in the marketing systems which are in fact capable of being remedied or removed.

\* \* \* \* \*

#### MARKETING PROBLEMS AND SHORTCOMINGS

The disabilities from which marketing in Iran suffers have been enumerated in some detail and need not be repeated here. The principal problems, however, can be considered under two main heads, (a) those arising directly or indirectly from inadequate credit

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facilities thereby reflecting the extreme financial weakness of the average grower and (b) those which have their origin in the physical aspects of marketing and the consequences flowing from unsatisfactory market practices such as excessive deductions by market functionaries, the lack of recognised standards of quality, wastage and deterioration resulting from inefficient handling, storage and transport. To these may be added unsatisfactory techniques in harvesting and preparation for sale, inadequate terminal market facilities and various factors which contribute to market disorganization and the restriction of competition and (c) lack of adequate market information.

#### A. Agricultural Credit.

Dependence on costly bazaar finance: Possibly one of the most serious and difficult obstacles to improving the marketing of crops produced by small-scale cultivation is the pattern of agricultural credit customary among growers in this region. The extensive reliance on dealers for such credit places the cultivator in an unsatisfactory competitive position as regards the marketing of his crops. The unfavourable terms of these arrangements are traditional and probably date back to a period in which agriculture and animal husbandry were primarily for subsistence and farmers borrowed for special needs arising at times of crop failure, illness, weddings, funerals, etc. In a largely non-commercial agricultural environment the supply of credit for such purposes is undoubtedly scarce and the risk of default high. The justification for these terms has diminished with the progressive commercialisation of cultivation and a consequently more regular cycle of recurring production credit requirements.

Nevertheless, excessively burdensome conditions continue to surround the provision of credit for seasonal requirements as well as for intermittent consumption purposes. One reason is that cultivators can seldom distinguish between the two types of credit needs and want to ensure the availability of credit for both purposes - usually obtainable from the same source. The more compelling reason is, however, that the producer seldom has an alternative source from which to meet his credit requirements on reasonable terms. In the absence of such alternative facilities, dealers and shopkeepers, itinerant peddlers, land-

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lords and professional moneylenders continue to perform this essential service and are able through the terms of their financing to pass on to the cultivators much of the risk.

Difficulties in establishing alternative arrangements: The establishment of alternative arrangements to meet the recurring credit requirements of the small grower on equitable terms is, however, a most difficult and complex problem. The provision of such credit involves considerable risk and expense for a number of reasons. These include the administrative difficulty of assessing the credit-worthiness of a large number of individual smallholders and of disbursing and collecting many small loans; low and fluctuating farmers' incomes; and uncertainty of tenure; the general absence of developed commercial attitudes towards the use of credit; including the common failure to distinguish between credit for production and consumption purposes. A satisfactory system would involve an extensive organization to service and supervise a large number of loans and to foster the use of productive credit through an associated programme of education. Thus, in addition to the problem of furnishing adequate funds for agricultural credit there is a formidable organizational task requiring a large trained staff to maintain close contact with individual cultivators.

In many social and economic environments the most promising line of approach to this problem - although not the universal panacea sometimes supposed - is to encourage marketing and credit cooperatives. Cooperatives, in close touch with small producers, are in a position to evaluate their credit-worthiness. They can be used to impart instruction in the proper and creative use of credit. At present the cooperative movement has a long way to go before it makes any appreciable impact on social or economic conditions in Iran: it plays a quite insignificant and almost negligible part in the marketing of crops - there are only about 75 registered cooperatives in Iran (in 1955) of which 60 are consumers' cooperatives, 14 multi-purpose and 1 credit - (see chart next page) and its development to a significant position in the financing, assembly and distribution of the small surpluses of individual growers is likely to be very gradual. (see note)

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Note: Considerable success has attended the efforts of the Near East Foundation in establishing a multi-purpose society near Veramin which also markets the cotton, vegetables and dried fruits produced by its members. In this small area many growers work their own land and have a marked sense of independence as compared with other districts where the farmers are predominantly tenants.

It must, however, be emphasized that the cooperative financing of the productive needs of small-scale agriculture should proceed within such limits as are justified by the rate of growth of the cooperative movement and its capacity for sound and effective credit administration.

Chart of Cooperatives in Iran (in 1955)

<u>City</u>	<u>Total</u>	<u>Consumers</u>	<u>Multi-Purpose</u>	<u>Credit</u>
Tehran	41	33	7	1
Isfahan	12	11	1	-
Meshed	2	1	1	-
Caspian	4	2	2	-
Fars	4	2	2	-
Arak	3	3	-	-
Shushtar	1	1	-	-
Khuzistan	3	3	-	-
Kurdestan	4	3	1	-
Tabriz	1	1	-	-

B. Unsatisfactory Market Environment

Poor bargaining position of producer-borrower: The inadequacy of organized credit facilities leads to the reduction or elimination of competition especially at the assembly stage. Buyer financing, a system in which the borrowing cultivator commits himself; well in advance of the harvest, to sell his crop to the creditor at an established price places the producer in a

perpetual state of dependence on the creditor. Cases have been reported to the adviser where physical duress and intimidation have been applied to compel the producer to use the creditor's (sometimes unwanted) services in disposing of his "unattached" crops, that is to say any surpluses which may not have been pledged in advance and which the farmer is in theory free to dispose of at will. The prevalent use of "strong arm" methods by powerful city market operators in dealing with clients who show signs of independence suggests that similar methods may not be uncommon in the countryside also.

Apart however from these initial disabilities which place the producer at a grave disadvantage, the conditions prevailing at the wholesale markets in the cities to which produce is brought for sale are far from satisfactory. A graphic picture of conditions in Azerbaijan is found in extracts from a tour report by one of the U.S.O.M. Economists.

Farm handling methods:

Unsatisfactory harvesting techniques are also responsible for the relatively poor returns obtained by the majority of growers. Wheat and barley, for instance, often contain up to 10 percent or more of impurities. This is largely due to lack of care at the time of threshing and winnowing, and to the crude and primitive methods employed. Both operations are carried out in time-honored fashion, the former by the treading out process by oxen and the latter by reliance on the wind to blow away the chaff and lighter impurities as the grain is slowly poured from a winnowing tray. The village threshing floors tend to break up as threshing proceeds and small stones or lumps of earth difficult to remove become mixed with the grain. Mixed types or varieties are sometimes grown in the same or adjacent fields and are marketed as such, separation being impossible. This also tends to degrade quality and perpetuate inferiority. The amount of wheat or barley handled by combined harvester-threshers, therefore reasonably clean, is negligible at present, but will increase as the mechanisation of agriculture gradually spreads.

In regard to fruit, a very common method of sale is the

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disposal of produce from orchards or gardens at a fixed price before the crop has fully matured. Neglect and lack of care in spraying, pruning, and thinning by the owner is a common result since responsibility devolves on the purchaser from the time the bargain is struck. Picking is usually arranged by the buyer who has little interest in protecting the trees from damage, his main concern being to extract the largest quantity without too much regard to quality. Large landlords favor this method especially because their orchards or gardens are generally maintained as places of residence and relaxation in the hot summer season and for the entertainment of guests. Although there are landlords who give their orchards and gardens scientific attention, many have numerous other more profitable interests and are not willing or able to devote the time and care necessary for efficient production and marketing. A considerable proportion of the fruit marketed in the larger towns comes from such sources.

Excessive marketing charges and restrictive practices

It is commonly held that there are too many middlemen and, in the sense that in most instances commodities pass through too many hands before reaching the consumer, this statement is true. On the other hand this adviser's observations confirm the impressions recorded in the O.C.I. report which indicate that wholesalers, in the strict meaning of the term, are if anything too few rather than too many, with the result that many transactions may take place before the goods reach the consumer, thus contributing to excessively wide price spreads. Moreover, many middlemen are, in fact, merely speculators. Charges and procedures are established by custom and trade usage and are not standardised except insofar as competition between commission agents and other market operators sometimes results in tacit agreement to maintain some degree of uniformity from which, however, they may depart openly or clandestinely when necessary or expedient.

The distribution of fresh fruits and vegetables in the Tehran area, for example, follows a channel from producers through one or more brokers or commission agents to retailer and consumer. The normal brokerage charge is 10 percent on

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each successive transaction but small producers often pay more indirectly because brokers and commission agents make unwarranted deductions in kind taking the pick of the commodity, in accordance with alleged trade custom.

The secondary brokers who operate on the fringes of all the markets, buy daily from the main or primary brokers and supply their regular clientele of small shopkeepers, stallholders and itinerant hawkers on a commission basis. The settlement of accounts takes place daily or possibly two or three times a week. Small short-term cash credits are also extended to some of these persons who are thus inextricably obligated to their creditors and for all practical purposes may be regarded as the latter's paid servants.

There is also ample evidence of the existence of a brokers' combination whereby fruit and vegetable producers are obliged to dispose of their goods in a certain market and in certain localities of the city. This has the effect of placing both producer and retailer under the complete domination of the broker in the matter of sales terms and prices.

#### Irregular weights and measures

Orderly marketing and fair dealing demand the use of standard weights and measures. Despite the existence of prescribed standard weights based on the metric system, it is extremely rare to find such weights in use. In one of the Isfahan vegetable and fruit markets, for example, not a single weight was found during the course of a morning's investigation. In Tehran, in addition to various stones and brick-bats, gear wheels and discarded parts of motor vehicles were observed in common use. The enforcement of weights and measures regulations is admittedly difficult, but unless much greater efforts are made by the authorities to improve the position in this respect, much of the work put into improving marketing techniques and procedures will be rendered nugatory. In the event that the necessary equipment is not available at a price traders can afford to pay, import prices and duties should be investigated and the advisability of special credits or subsidies considered.

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Municipal price and movement controls

Although there is a system of price fixing by the municipal authorities for many items of foodstuffs, the consensus of opinion is that the prescribed rates seem to have little relation to quality, supply, or demand, and are not always observed.

The municipalities have very wide powers to control the movement of foodstuffs and various articles in domestic use. These powers are liable to be used arbitrarily and capriciously on the basis of incomplete statistics and other information. The issue of permits or other necessary authorisation for exports is often delayed while perishable fruit and vegetables awaiting clearance deteriorate to a point at which a large proportion may be unsaleable. A radical reform of the involved relationships between the Municipalities and the Ministry of the Interior is needed before these matters can be placed on a more rational basis.

Price fluctuations and price spreads

The determination of prices is generally haphazard for the "bazaar" reacts quickly and often in volatile fashion, to changes in government regulations and to rumours of impending changes. Variations in the supply position are usually discounted well in advance, frequently more than is justified by the facts. Seasonal variations may range as much as 100 percent or more and the price spreads between producer, wholesale and retail prices can be enormous. For example, in 1956 egg plant trucked into Tehran from the extreme south was sometimes disposed of for as much as seven times the price paid at the source. A part of this astonishing spread was due to the bad condition of these vegetables on arrival, for, from a rough estimate based on personal observation at the time of unloading, about 40 percent had been reduced to pulp and had to be discarded.

A study of price spreads between wholesale and retail values of a wide range of vegetables and fruits in the Tehran

market showed a marked difference in the range between wholesale and retail prices of highly perishable produce and of less perishable items. For instance, potatoes and onions which keep well for long periods ranged from 10 to 75% dearer retail than wholesale; the less durable melons and apples from 25 to 100%; peaches and grapes, the most delicate fruits, from 50 to 150%.

The time of the day is also important in determining prices. Grapes which at the height of the season may fetch 6 rials a kilo, in the morning can drop to as low as 2 rials in the late afternoon or early evening by which time the fruit is bruised or otherwise blemished and vendors are anxious to clear their stocks. The availability of cold storage facilities would save part at least of such losses.

C. Inadequate Information on Production and Marketing.

General lack of reliable statistics

Accurate statistical data are essential for the planning and execution of any marketing programme. The statistical information available for a study of Iran's marketing problems is so thoroughly unsatisfactory that the fact must be recorded even if it merely re-echoes the observations made by other and more qualified advisers in this particular field.

By general admission many of the agricultural statistics available are regarded as fragmentary and, while seeming to be complete, are in fact inaccurate. This sweeping stricture is borne out by contacts with officials and others whose work brings them into daily touch with the collection or interpretation of statistical data. Psychological considerations apart, there can be little doubt that the hyper-sensitiveness of Iranian markets as indicated by frequent and violent price fluctuations, is largely due to the lack of reliable, authoritative information, of which full advantage is taken by speculators and market operators. Indeed, little is known, and even less published, about the costs of production, of utilisation and consumption, of stocks and movements, particularly within the country, and in general of the factors which determine prices. Serious attention to remedying these

deficiencies over the whole field of production and marketing is long overdue.

Some existing statistical publications

The Bank Melli, Iran, issues a monthly bulletin, of which an English version is available, giving, inter alia, the wholesale prices of various agricultural and other products in Tehran and certain provinces, and a cost of living index. This is a conscientious and praise-worthy attempt to record price changes and other economic data. Its circulation appears largely to be limited to Government departments and other official or quasi-official institutions.

The Customs authorities publish comprehensive statistics (in Persian and French) of imports and exports based on shipping and related documentation submitted by merchants when clearing their goods.

The Tehran Municipality collects the prices of foodstuffs daily and makes these available on a mimeographed sheet (in Persian) to government departments, and to private individuals by arrangement.

Statistics of rail movements are also available from the Iranian State Railway, but these are of little significance to traders in agricultural or livestock products, since the great bulk of such commodities is transported by private road haulers. Unfortunately, no compiled records of this very important traffic are available.

The above publications do not normally circulate widely nor are they issued promptly after the termination of the period which they refer to. From the viewpoint of the market researcher, therefore, they are mainly of historical interest.

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## APPENDIX E

### PROPOSED FOLLOW-UP STUDY BY DISTRIBUTION ECONOMIST

The decision to invest in chains of stores in Iran will be facilitated if answers to the following major questions are determined by a professional Economist before approaching potential foreign investors.

#### 1. Capital investment required

##### A. Real Estate

1. What are the possibilities of leasing or owning?
2. Construction costs and time required.
3. Availability of store locations.
4. Availability of adequate warehouses.

##### B. Equipment

1. Import or local?
2. Cost.
3. Refrigeration maintenance problems.
4. Electricity costs.

##### C. Inventory

1. Assortment required.
2. Turnover rates.
3. Sources - local and import.
4. Purchasing problems and practices.
5. Cleaning, grading, packaging required.

#### 2. Operating Considerations

##### A. Potential profitability

1. Sales expected.

2. Gross margins of present operators.
3. Estimated operating expenses.
4. Break-even points.
5. Time needed to get into operation.

B. Personnel

1. Availability of local management.
2. Labor laws.
3. Wage rates.
4. Recruitment and training.

C. Finance and Legal

1. Sources of local working capital.
2. Legal problems.



APPENDIX F

SUGGESTED BUDGET FOR PROPOSED DISTRIBUTION COMMISSION

Estimated Annual Cost

for Economic Consultants and Distribution Specialists

A. Four Specialists (full-time)

Cost of each Specialist:

Travel to Iran (1/2 cost based on 2 yr stay) for 5 members of family x\$1200ea.	\$ 3,000
Housing allowance	4,000
Salary (15,000 to 18,000)	18,000
Misc.-incl.reserve and recruit. costs	5,000
Cost for each Specialist:	<u>\$30,000</u>

Four Specialists x \$30,000 each----- \$120,000

B. One Distribution Economist (Part-time)

Travel to Iran - 4 trips	\$ 4,500
12 man-weeks salary	7,000
Expenses	1,800
Misc. and Reserve	<u>1,700</u>
	\$15,000: \$15,000

C. General Reserve ----- \$10,000

ESTIMATED TOTAL ANNUAL BUDGET: \$145,000