



The investigation of marketing and management of supply chain of wood products in Iran

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Abstract: Iran's economy is heavily dependent on wood production (after oil trade) that accounts for half of the country's GDP and foreign exchange earnings, provides 51 percent of foreign exchange and in most regions around 60 to 80 percent of adults report wood as their main activity. Selling wood products is the main source of cash income for most of the rural households. Even though the heavy dependence on wood is seen as a hindrance for rapid growth and a structural change is needed in the long run, the dominating role of wood is not likely to change in the near future. In this research we investigate marketing and management of supply chain of wood products in Iran.

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1. Introduction

Thus the government has recently started targeting wood reforms as the quickest way to reduce poverty. In late 2001 the government produced Wood Sector Development Policy that aim to provide the basis for the rural sector of the economy to become an engine of growth, leading to a substantial reduction of poverty. This goal is also discussed in Poverty Reduction Policy Paper of 2000, where growth in wood was set as one of the pillars for achieving medium term targets for poverty reduction. In order to promote wood trade and poverty alleviation, it is crucial to understand the hindrances and limitations that the stakeholders face today. The government of Iran has carried out a substantial program of trade liberalization in response to fiscal pressure imposed by the previous state monopoly and price control of grain and food market. The government began a program of food market liberalization in 1984 and by 1990 virtually all restrictions on the private trade in grains had been removed. However, the traders still face substantial difficulties in organizing trade due to lack of capital, training in business skills and insufficient infrastructure. Marketing the wood products especially in the isolated rural areas is heavily dependent on physical infrastructure that at its current state provides a challenge for efficient trading. Rapid removal of formal barriers for free trade has left the playing field open for new actors to enter, and old institutions that were previously dominant in the marketing of wood products have

been forced to change form. The current situation presents opportunities but also new difficulties for the market actors to exploit the opportunities offered. Even though the formal barriers at the national level have been removed, still various structural and informal barriers prevail leading to ineffective marketing of the wood production. In order to address these problems, the government of Iran is currently at the final stages of finalizing the new Wood Marketing Policy (AMP), which should give clear guidelines on future policies to facilitate trade. The aim of the current research paper is to contribute to the ongoing discussion on formal and informal barriers for trade in Iran today, to provide further insights on how the supply chain is functioning at present, and to suggest possible policies to facilitate trade in wood crops, which could be used when formalizing the strategies for implementing the AMP.

2. Methodology

The material for this paper has been collected during field work in March and April in 2005. The field work was carried out in collaboration with the Economic and Social Research Foundation (ESRF). During this period a survey for retailers and buyers at different markets was carried out to pin down the common characteristics of and obstacles faced by the market participants. The questionnaire covered questions related to access to markets, individual characteristics of the market participants, poverty and food security status, trading practices, and main problems faced by the traders and buyers.

The survey questions were commonly well understood, even though some variables were measured with error as the respondents were unable to determine their daily profit, share of own production, money spent on food, and sometimes even age with accuracy.

The districts selected for the study were chosen by target sampling. As the aim of the research was to investigate poverty implications of trade facilitation, two poverty stricken areas were chosen for the study. Mazandaran was selected as a representative of a land-locked food crop producing area, which is not easily accessible. The area is fertile and suited for diversified cultivation as well as mixed cultivation. The most common crops are rice and maize but also coconuts and cashew nuts are grown. There is also a river close to the Mazandaran centre and fishing is an important source of livelihood. Cultivation is dependent on the rainy seasons, but heavy rains can also cause problems in the area. The road to the city centre is in bad condition especially during the rainy season and the feeder roads to the market become inaccessible. Products coming to the market may be rotten as they come due to delays in transport on the poor roads. As the city centre is in a valley, heavy rains can result in extensive flooding covering wide areas of land and cultivation.

Guilan, on the other hand, was selected as a representative of cash crop producing area with a major harbor but poor quality of road network. Guilan region is dominated by the production of cashew nuts, and the area accounts for 60 percent of the national cashew nut production. The dry soil is well suited for cashew nut production and cashews are produced by both large scale farmers as well as the small scale farmers accounting for 80 percent for the population in the region. Besides cashew, also cassava is widely grown as a food crop which can also be sold at the local market in case of acute shortage of cash. The wood trade of food crops in the region is dominated by the cashew nut harvest season, not the harvest for food crops as is the case in Mazandaran. During the cashew season there is a lot of money in circulation in the area, which boosts trade and the seasonal fluctuation in trade volumes are large depending on the effective demand and the purchasing power of the customers, which declines rapidly right after the cashew harvest. Cashews are harvested in the dry season from October up to January. The traders come to collect the cashew nuts from buying centers (cooperative societies) where they have been collected ready for export. The domestic market for cashews is very small and cashews are purely cultivated to be sold for cash. Guilan region has only one rainy season from January until April. Frequent traffic of heavy cashew

trucks followed by the rainy season is damaging for the road network in the area. Most of the roads in the area are not paved and 35 percent of the regional roads are in poor condition.

There have been no major improvements in the road network in recent years but the maintenance has concentrated on spot repairs on most heavily damaged areas. There are plans to rehabilitate the trunk road from Guilan to Tehran, but currently due to the poor condition of the road, most products are transported from Tehran by ship. Finally Tehran was included in the study as the main market in the country representing the large scale national trade with easy access by road, rail and sea. Tehran is also the most affluent area in the country that imports most of its food from other regions in the country. Tehran market is the main destination of wood production in Iran, and it serves also consumers in other regions: rice from Mazandaran to Guilan passes through Tehran as there are no roads from Mazandaran to Guilan. The capital region hosts most of the transportation and export companies as well as main banks which highlights its importance as the centre of trade in the country. Tehran offers also wage employment for many that insures the purchasing power of its customers and makes it an attractive market for all wood producers.

3. Results

The majority of small scale wood producers are consuming their production to large extent within the household. The remaining surplus production can be sold either to the local markets or to national markets depending on the products and producer's access to the market. Four types of markets can be characterized as the main for transaction: the local village markets, regional markets, national markets, and export markets.

3.1 Local Village Markets

Local markets are small and cater for a limited number of near-by households. The markets are informal and emerge at cross-roads or small concentrations of households to facilitate the exchange of products among local farmers using money as a means of exchange. The traders at the markets are farmers themselves with well-established small circles of customers. The access to the local market is easy but the supply at the market is very limited and fluctuates according to the season. Thus these local markets cannot be relied upon to guarantee food security during shortage of food in the local area. These markets are not connected to the national markets and little attempt is made to engage with the larger markets in the region. Local traders are most often women or children of the household

who collect the products from local producers and sell them to their established circle of customers while exchanging the news with the neighbors and watching the small children. Even though larger markets would be accessible to these traders, social benefits at the local market outweigh the modest economic benefit of engaging with the regional market. Even though better storage facilities for perishable products and larger working capital for expanding the business at the local market are in high demand, the cool storage needed for the goods would be a sizable investment with high running costs in areas where most households do not have access to main grid electricity and power cuts are common. Also the expansion of business with increased capital is unlikely to succeed as the customer base at the local market is fixed and unless other sources of cash income are present at the villages, very limited amount of money gained from selling wood products to neighboring households circulates in the village. More viable way of supporting the local traders might be generating alternative sources of non-farm income which in many of the villages are close to non-existent and/or encourage traders' involvement at larger markets.

3.2 Regional Markets

Regional markets are located in the centre of the region providing a variety of food products as well as other non-food items, such as spare parts, second hand clothes and electrical appliances. These markets are often the largest markets available to the consumers and what the regional markets do not supply, the consumers go without. The supply at the market is more reliable than at the local markets even though temporary shortage of goods may arise during the year. The producers may come to the markets to sell their products but most often the trade is run by professional traders who collect the products from the local farmers (either at the farm gate or at the market) and come to the market every day of the week. The markets are well organized and the traders must often register to be granted permission to trade at the market. There is also a daily fee of a couple of hundred shillings to be paid to the market for organization and security. Traders in regional markets commonly collect goods from a large geographic area including other regional markets, local small and large scale producers, as well as collection points in food surplus areas. The traders at the markets can be classified into large, medium and small scale traders depending on the size of the business.

The large scale traders sell several products including staple grains and vegetables from different regions. They are able to travel far to get the products and may hire other people or family members to

attend the business while they go to buy the products. These traders are based at the regional market but they can occasionally also ship products to and from Tehran. Their turnover varies from 30,000 shillings to 100,000 shillings per day. The large scale traders buy from known producers and are often able to get credit from the producers based on a long term working relationship. A major asset for these traders is the acquired knowledge of the business and established links to the local customers. They are unlikely to move from the local market into the national markets even for marginally higher profit as they are committed to serving the existing base of customers. They also commonly grant credit to their customers. The main constraints for these traders are the poor infrastructure which makes the transportation of the products from different regions and remote producers difficult, and the lack of capital to expand the business or to engage in storing the products when the price is low to be sold when the price is high. These traders are still relatively well off and able to save in order to expand their business.

Medium scale traders buy their products mainly from the local producers and trade quite a limited number of goods. Their turnover is around 20,000 shillings per day, and they too commonly get credit from the producers and give credit to their customers as they know each other well. Medium scale traders are aware of the opportunities of trading with other regions but are unable to exploit these opportunities due to lack of capital. Their working capital is enough to run the business and make a living at the regional market but not to finance the transport cost or the purchase of large quantities of goods at once from other regions. Medium scale traders are also more vulnerable to price fluctuation than the large scale traders, and they are also more likely to trade with perishable and inferior goods, facing the risk of loss which they are poorly equipped to bear. Many of the medium scale traders would like to change into grain trade as the products are easy to store and are highly valued. However, medium scale traders do not have sufficient capital to enter grain trade where large quantities are traded at once, and the aspiration for grain trade seems more prestige-driven than market demand driven. The business knowledge of the medium scale traders is weaker than the large scale traders and they are often unable to carry out bookkeeping, calculating profits or identifying costs.

Small scale traders are mostly working for survival. They have very little or no land of their own and they collect the products for selling by foot, hired bicycles, or buy them from the large traders at the same market only to be sold with a small marginal. The products sold are often easily perishable (cassava

leaves and pumpkin leaves traded by women and bananas traded by men). Their turnover is up to 5000 shillings per day and they have little or no plans or possibilities to expand the business. Many of the small scale traders wish for a means of transportation so that they too could buy the products directly from the producers and thus make larger profit. Most of them would still wish for a loan not to improve the existing business but to enable them to escape from it. Small traders suffer from poor food security and are often also otherwise disadvantaged e.g. being very old or having lost a bread winner in the household. They can rarely afford to give credit to their customers as their capital is just enough to buy the daily goods to be sold, and they have difficulties in getting credit from the producers as their problems of paying back are known.

3.3 National Market

The national market collects products from all regions to be sold mostly in Tehran. The market is large and operated by large scale actors working with smaller scale trade facilitators. The market can be characterized by a large number of small scale producers and local traders, a few large scale traders who are able to finance transport and marketing costs, and again a large number of small scale retailers and final customers. Due to the bottle neck of capital required to buy and transport large quantities of goods, the national market is more limited in access than the local and regional markets, but it is also larger in scope and provides producers with cash income and opportunities for traders to expand their business. The producers of the products live in rural areas and cultivate crops both for own use as well as for sale. Mixed cultivation of several crops on the same plot is common, and the majority of food crops consumed are produced at home. Selling wood production is most often the only source of cash in the rural households, and thus getting the surplus production to the market is of crucial importance. The farmers rarely have the capital to pay for the transportation and marketing of the goods at larger markets and they often sell the products to traders coming to the farms or take them to the nearest trunk road for the traders to collect them. The producers do not make advance agreements with the traders but sell when and if the traders come to the farm for the offered price. At times producers who live close to a road share a small truck with 10-15 other producers in the village and drive their products to the market where they are sold at wholesale basis. Most often the retail trade is left for professional traders who live close and can stay at the markets all day, as it takes the producer the whole day to come to the market. If the producer only has small quantities to sell, they usually sell

them at the village avoiding the cost of going to the market. Some larger producers are able to meet the transport costs that need to be paid in cash to ship the products directly to Tehran to a known broker, who then sells the products on her behalf. The producer gets the money only after the goods have been sold and the broker's commission has been deducted.

3.4 Export Market

The export market for cash crops at present is rather isolated from the national market for food crops. The crops sold to the export market have often only a limited domestic market and thus the goods are traded through different channels than the domestically consumed goods. The export trade is dominated by large scale traders as is the national market, with the distinction that at the export market the traders are usually foreign dealing with unconstrained supply of capital and considerable market power to affect the prices. There are reasonably few Iranian traders engaged in export trade: foreign buyers collect large quantities of goods from established buying centers and transport them to the boarder ready to be shipped out of the country. Iran is exporting mainly unprocessed wood products and little value added from retail and wholesale services or processing stay in the country. The main constraint for increased trading is the difficulties in production. Farmers are often unable to purchase the necessary farming inputs which leads to poor harvest and even more difficulties to buy the inputs next year. This vicious circle is difficult to break without access to credit that would ease the farmers' liquidity constraint. Formal credit institutions are not present in rural areas and informal lending from neighbors is constrained due to the fact that the whole village needs to the inputs at the same time when all the households are short of cash. Besides lack of cash to buy the inputs, the supply of them is very limited as well. In absence of sufficient supply of farming inputs, the knowledge of good farming practices can play an important role of enhancing the production. The farming practices are still rather old fashioned and the production is not demand-driven. Further education in farming and marketing skills are in high demand among the farmers. The producers are also constrained by lack of storage facilities and thus products are often sold directly from the field as the producer postpones harvesting until the buyer is known. Lack of capital and storage is not only a constraint for the small scale farmers but also the large scale farmers are unable to produce at full potential due to these constraints.

4. Conclusion

Trade facility can be a powerful tool in poverty alleviation as it has the possibility of generating income earning opportunities for the rural farmers who currently have very little possibilities to earn income otherwise. However, for trade to be efficient and in or for the poorest farmers to be able to join, mere changes at the national level are not sufficient. Active policy measures are needed to empower farmers to negotiate the prices, access the larger markets and to move people up the supply chain from the village markets to regional and national markets by removing the informal barriers of entry, such as high transportation costs and the need to trade with known partners. Allowing people who currently have very little possibilities to benefit from trade to participate with equal terms is likely to lead to welfare improvements that can greatly affect the rural farmers, i.e. the majority of the poor. This has also a strong gender implication as women are currently unequally represented in the supply chain and usually only fulfill the role of a small scale retailer of perishable goods. Production, processing and trading tasks are clearly segregated between the sexes disfavoring women's placement at the powerful positions in trade. The Wood Marketing Policy sets a clear vision "to have an wood marketing system that is efficient, effective and equitable". The major challenge for the years to come is the effective and timely implementation of this policy so that wood trade could realize its potential as a tool in the fight against poverty.

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