

WHOLESALE IN LEBANON

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The performance of importers of the wholesale function, as well as the desire on the part of manufacturers and retailers to bypass the wholesaler, have practically eliminated the specialized wholesale. The wholesaler-retailer has emerged as a special institution to serve the small retailer who buys on a hand-to-mouth basis as well as the ultimate consumer. The medium or large scale retailer is more profitably served by the manufacturer and/or the importer-wholesaler.

In wholesaling, as in other areas of social and economic activity, institutions and methodology do not arise simply through chance. Rather they are a reflection of the particular environment in which they are

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BOOKS:

1. "The Responsibilities of the Central Bank in Lebanon", *Businessmen*, September 1967, pp. 12-15.

ARTICLES:

1. "The Responsibilities of the Central Bank in Lebanon", *Businessmen*, September 1967 pp. 12-15.
2. "The Environment for Marketing in Lebanon". *Middle East Business Digest*, Vol. XI, No. 156, November, 1967, pp. 9-13.
3. "Merchandise Retailing in Lebanon", *Middle East Economic Papers*, 1969, American University of Beirut, pp. 19-32.
4. "Consumer Protection in Lebanon", *Africa Middle East Business Digest*, Vol. XV, No. 196, March 1971, pp. 6-10.
5. "Marketing in Underdeveloped Economies" *Industrial Marketing Management*, Vol. IX, No. 3, April 1972, Amsterdam, The Netherlands, pp. 347-353.

found. In Lebanon, wholesaling institutions tend to reflect the environmental factors which are lumped together and called the market. The purpose of this article is to describe, generally, the nature and operation methods of wholesaling in Lebanon.

Unfortunately, there is no definition of wholesaling which has universal acceptance. The variations in meaning, however, do not indicate differences in viewpoint. It is generally agreed, though that the role of the wholesaler is to bridge the gap between producers or manufacturers and retailers or users. Several characteristics or criteria may be used in identifying a wholesale transaction: (1) motive of the purchaser, i.e., for resale, for use in order to facilitate the production of other goods and services, or for use for various institutional purposes; (2) the quantity purchased at wholesale usually is, but need not necessarily be, larger than the quantity purchased at a single retail sales transaction; (3) the wider geographical base for wholesale sales; and (4) usually, the lower prices per unit involved. Many also insist that unlike other marketing agents who fulfill much the same role, the true wholesaler takes title to the merchandise he sells. For our purposes, a wholesaler is here defined as any merchant who buys goods for the purpose of reselling them to other merchants, generally retailers, or to business firms for use as inputs in the manufacturing process. Thus, manufacturers who maintain their own sales force to distribute merchandise to retailers are not included. Nor are retailers who sell mainly to the general public included. Brokers and commission agents who do not take title to the goods are also excluded. A discussion of wholesaling in terms of the above definition should serve to illustrate its scope and character.

ROLE OF TRADE IN THE LEBANESE ECONOMY

Lebanon is a very small country on the East Coast of the Mediterranean Sea. It occupies an area of 4,000 square miles and has an estimated population of 2.5 million. Urbanization is increasing in Lebanon. About two-thirds of the population live in urban communities having more than 10,000 inhabitants. Table I shows the population of the major cities in Lebanon and their distances from Beirut. As will be shown later, the geographic concentration of the market and the small size of the country tend to weaken the position of wholesalers in the distribution channels.

TABLE I
Lebanon: Population of Major Cities & Distances from Beirut

	Estimated Population	Distance from Beirut
Beirut	800,000	—
Tripoli	200,000	60 miles
Saidon	60,000	30 "
Zahle	40,000	40 "

The Lebanese economy is unique in the organization of its Gross National Product. Table II shows the contribution of the various sectors to the GNP. The most distinctive feature of the Lebanese economy is the large proportion of income contributed by the trade sector.¹ This pattern of distribution portrays clearly the mercantile nature of the Lebanese economy. Trade accounts for 30 percent of the GNP and if transportation and finance are added, this raises the share of the trade and other related sectors to approximately 42 percent.

It is estimated that two-thirds of the income contributed by trade originate in foreign trade. As shown in Table III, Lebanon depends very heavily on imports to meet its demand for goods. Merchandise imports have been between 4 to 6 times merchandise exports. Furthermore, the average-propensity to imports² has been ranging between 40 to 55 percent. This phenomenon is a manifestation of the extent to which the Lebanese economy depends on the foreign sector.

TABLE II
Lebanon: Gross National Product by Sector
1964-1968 (in LL million)*

Sector	1964	1965	1966	1967	1968
Agriculture	381	409.2	441.7	426.1	436.0
Energy and Water	69.4	77.8	87.5	93.3	98.8

¹ The trade sector includes trade in exports and imports, trade in domestic goods, transit trade and entrepot trade.

² The average propensity to import is the percentage of imports to national income.

* One U.S. Dollar is equal to LL 3.25.

Industry	410.6	462.4	511.9	492.6	552.4
Construction	178.3	200.4	231.2	195.5	193.7
Transportation	258.2	290.8	309.5	329.4	379.8
Real Estate	250	269.1	284	300	335.0
Finance	108	124.5	141	149.2	164.1
Other Services	271.5	320.2	357.3	336.7	396.9
Trade	1,028.2	1,085.2	1,183.4	1,160.5	1,359.6
Government	244.8	283.8	319.2	336.8	357.5
	3,200	3,523.4	3,866.7	3,820.1	4,273.2

Source: Republic of Lebanon, Ministry of Planning.
Les Comptes Economiques De L'Annee 1968, p. 15.

TABLE III
Lebanon: Imports and Exports, 1963-68
(In LL Thousands)

Year	Imports	Exports
1963	1,314,188	196,321
1964	1,573,878	216,048
1965	1,683,546	324,056
1966	1,913,707	369,465
1967	1,769,992	453,347
1968	1,865,087	510,261

Source: Republic of Lebanon, Ministry of Planning.
Recueil De Statistiques Libanaises, Annee 1968, Vol. 4.
p. 339.

The Distribution Structure

There are no reliable data on the number of importers wholesalers, and retailers operating in Lebanon today. Thus reliance had to be placed upon secondary sources for this paper. In many cases, export opinions and estimates had to be used instead of numerical data. Data on the number of distributive enterprises were derived from *Le Annuaire Libanais Commerce Industries*. Other information was received from the Ministry of National Economy and officials of the Chamber of Commerce and Industry. Manufacturers and wholesalers were also interviewed.

Almost all kinds of wholesale enterprises are individually owned, whereas the number of publicly owned enterprises is very negligible. Roughly 90 percent of the wholesale establishments in Lebanon employ fewer than four persons. At the other end of the scale, only about twenty of the import-wholesale enterprises employ over 25 persons each. These facts clearly illustrate the basic nature of Lebanese wholesaling: a family business with low volume and relatively small net profits, which in most instances serves as a drag upon, rather than a boon to, marketing efficiency.

The structure of the Lebanese system of distribution at the end of 1969 is summarized in Table IV. The use of short channels is the common practice for both industrial and consumer goods. Some of the key factors behind such short channels are the following:

- 1) The national market covers a short distance because of the small size of Lebanon.
- 2) A large percentage of the population is concentrated in the few big urban centers.
- 3) Large retailers and institutional buyers prefer to buy directly from manufacturers and/or importers.
- 4) Manufacturers and importers often perform all or a large part of the marketing task, thus leaving a small job for the middlemen.

The use of one or more wholesale links is usually resorted to when the manufacturer, importer, and/or retailer are relatively small or under-financed.

TABLE IV
Number of Distributive Enterprises
In Lebanon — 1969

Level of Trade	Kinds of Merchandise	Number of Firms
Importing-Wholesaling firms	Food	130
	Nonfood	860
	Total	990
Wholesaling firms	Food	300
	Nonfood	100
	Total	400
Wholesaling-Retailing firms	Food	850
	Nonfood	460
	Total	1,310
Retailing firms	Food	11,400
	Nonfood	9,320
	Total	20,720

Source: Data for Importing — Wholesaling, Wholesaling, and Wholesaling — Retailing firms are derived from *ALCI* (Annuaire Libanais Commerce Industrie) 1970-71, Edouard Spigel, Editor, Beirut, Lebanon. Data for Retailing firms are taken from "Merchandise Retailing in Lebanon" by the author in *Middle East Economic Papers* 1969, p. 21.

WHOLESALING OPERATIONS

Wholesaling operations must be viewed from a double perspective, that of the manufacturer on the one hand and the retailer or user on the other. The wholesaler, if he is to operate profitably, must gear his functions to the needs emanating from both. Accordingly, the suppliers and customers of a wholesaler determine the dimension of his operations. While there will be no attempt here to treat these activities and services in detail, an effort will be made to illustrate their scope and variation.

Importers are considered as a special kind of wholesalers since

they too engage in wholesaling activities. They buy merchandise from foreign manufacturers and sell them to other merchants, generally wholesalers or retailers. However, they are singled out because of their significance and relationship with the exporter in the country of origin. What follows will be a discussion of import-wholesale, wholesale, and semi-wholesale operations in Lebanon.

Import-Wholesale Operations

In Lebanon most importers are bound by exclusive agency contracts.³ These contracts are issued either on a yearly basis or for an indefinite period of time. The latter arrangement is the more usual since normally the relationship is of a long term nature. The importer in Lebanon, generally, takes title to the goods with which he deals. He provides time and place utility by purchasing and holding the goods at locations which are relatively convenient to customers. The import-wholesaler often has exclusive sales rights and works in close cooperation with the manufacturer. He also exhibits a high degree of dependence on the supplier companies and arrangements are likely to be on a long-run continuous basis. Working through exclusive distributors permits the manufacturer fair control over prices, promotional efforts, inventory servicing, and other distribution functions. Some of the importers in Lebanon have their own retail operations. Others may sell direct to retailers or they may employ agent middlemen or

³ The relationship between the importer in Lebanon and the exporter in the country of origin is regulated by a law (Legislative Decree No. 34) passed on August 5, 1967. The gist of this law is that agreements of commercial representation must be in writing and can be made for a limited or unlimited period. The termination of an agency contract by the exporter without any valid reason entitles the importer in Lebanon to compensation despite any agreement to the contrary. The compensation represents the damages sustained by the agent and the amount of any lost profits. This compensation, however, is confined to the Lebanese market. Furthermore, the agent in Lebanon, in case of expiration of the agency contract and non-renewal by the exporter, notwithstanding any agreement to the contrary, is entitled to compensation if his activities were successful in marketing the product of the exporter. This compensation is justified because the agent has lost the opportunity to reap the fruits of his efforts. Despite any agreement to the contrary, a dispute arising between an agent and an exporter in the country of origin is settled in Lebanese courts. This law applies to all agreements in effect.

distribute through independent wholesalers.

The channel policy adopted depends primarily on the financial strength of the importer, the location of his customers, and the nature of the product. However, in almost all cases, the importer-wholesaler uses more than one channel since his objective is usually to reach as many outlets as possible. Most importers-wholesalers in Lebanon prefer to sell direct to retailers. This is because the market is concentrated in a small area and the wholesalers ordinarily will not aggressively promote the products of individual importers. The use of wholesalers is usually resorted to in order to reach small and widely scattered retailers who usually buy on a hand-to-mouth basis. Some importers, particularly those who sell consumer durable goods, sell directly to the ultimate consumer or user. About 90 percent of the importers in Lebanon are located in Beirut and its vicinity.

The bulk of Lebanese import trade is financed through letters of credit. This method of financing is the most common since it shifts the credit risk of the buyer to the bank issuing the letter of credit. When a letter of credit is employed, the exporter can ordinarily draw a draft against the bank issuing the credit and receive payment with the presentation of the proper shipping documents. Except for cash in advance, letters of credit afford the greatest degree of protection for the exporter.

Generally importers-wholesalers of food products extend credit to their customers. When orders are filled at the importer's warehouse, an invoice is attached to the order and the merchandise is delivered. Upon the receipt and examination of the merchandise the retailer signs the invoice. This invoice becomes an "open invoice". "Once a week, usually on Saturday, the salesmen make collections averaging 20-25 percent of the amount of the invoice".⁴ It is expected that within a period of one month the "open invoice" would be settled. The telephone is the most widely used means of contact. A considerable number of firms, however, make use of personal calls to reach retailers. Importers-Wholesalers of nonfood products also extend credit. In the sale of durable goods, installment selling is practiced in most instances.

From the above, it might be assumed that importing-wholesaling in Lebanon is relatively large scale with large capital requirements. Many importers handle as many as twenty or more exclusive agencies. The average volume of business done by import firms varies between

⁴ Nabil Idriss, *The Wholesale Trade of Foodstuff in Lebanon*, An Unpublished B.A. Thesis, Haigazian College, June 1970, p. 15.

LL 3 to 15 million per year. Extreme variations, however exist due mainly to the size of operations. Some of the big import firms have established offices in the foreign supply markets and maintain large organizations.

The existence of a large number of substitute products on the Lebanese market creates a plane of effective competition. Hoss in his study about Lebanon, reports, "The market prices of the bulk of imports in Lebanon seem to be highly competitive. On many items the importer reaps substantial profits on account of a large turnover rather than on account of a high per-unit margin. The Lebanese consumer has very little to complain about in respect to the quality of goods available and the service rendered. The existence of a large number of competing lines, some of which are handled by the same importer, offers the consumer an adequate number of alternative sources of supply for a wide range of products."⁵ Idriss, in another study, claims that the average markup of the importer-wholesaler varies between 5-15 percent on cost.⁶ Quantity and cash discounts are usually granted to customers who buy in large quantities and/or pay cash.

Wholesale Operations

Wholesalers in Lebanon generally perform functions similar to those handled by their counterparts in other countries. Obviously these functions vary in kind and in degree among different trades. Wholesalers in all trades usually extend credit to their customers. In most trades they generally carry merchandise inventories, but they seldom provide special services to customers, such as managerial services and advice.

An increasing number of local manufacturers in various fields are by passing wholesalers and selling directly to retailers or to industrial users of their products. Most large manufacturers of consumer goods in foods and in toiletries have increased direct sales to retailers during the past 10 years, and, as a result, the proportion of these goods passing through wholesalers has been on the decline. From the point of view of the manufacturers, it seems that there are good reasons to try to bypass the wholesalers. In some cases, manufacturers have eliminated wholesalers because they failed to provide the traditional storage service that the producers were used to. Manufacturers have been forced to carry larger stocks and to bear a greater share of the market risk. Another important reason for bypassing the wholesaler is that many of

⁵ Salim Hoss, "Economic Concentration in Lebanon," *Middle East Economic Papers*, 1963, Economic Research Institute, A.U.B., p. 68.

⁶ Idriss, *op. cit.*, p. 11.

them have inadequate capital and need open book credit. Thus, instead of shifting the financing function to the wholesaler, the manufacturer is over-burdened by assuming the credit risk.

Manufacturers switched their channels away from independent wholesalers for still other reasons. During the late fifties and early sixties, newer and large-scale forms of retailing grew in importance, particularly the supermarkets, chain stores, and department stores. These fast-growing enterprises placed considerable emphasis on price competition, and they therefore sought to decrease their merchandise costs by purchasing large volumes directly from manufacturers, thus circumventing the wholesalers.

So far the discussion has been very general. Perhaps a few illustrations of wholesaling in some industries will render it more meaningful. The wholesaling of agricultural products and food products have been selected for such a description. Wholesalers in other fields are quite insignificant.

1) *Wholesaling of Agricultural Products*

Wholesalers are significant in the distribution of agricultural products. They are usually called assemblers of farm products. As their name implies, their chief function is to concentrate output from several farmers into a large economical shipping unit. In general these assemblers have established relationships with middlemen in the various markets where agricultural products are sold at auction. Brokers function at all levels in agricultural marketing. They bring buyer and seller together, acting as the agent for either party, but not both. Agricultural wholesalers usually take title to the product and may provide grading, packing, and storage services. More than one wholesale link may exist in the distribution of agricultural products. In the case of fruits and vegetables — the assembler of farm products usually sells to a primary wholesaler whose service consists not only of collecting but of dispersing the goods. A secondary wholesaler may exist who receives goods as the first link in the distributive trade and delivers them, generally as a part of an assortment of a variety of goods, to retailers and institutions. The sale from farms to manufacturing industries is commonly made by a direct channel.

Wholesalers are also important in the exportation of fruits and vegetables to the Arab countries and other parts of the world. Products destined for the export market have to be graded, packed, and stored in accordance with the specifications set forth by the Fruit Office. The relationship between the exporter in Lebanon and the importer in the country of destination is characterized by impermanence. To the

Lebanese exporter, it is the here and now that counts. This fact together with political and other uncontrollable factors subject the export market for fruits and vegetables to severe fluctuations. The main criticism levelled against export wholesalers centers around the quality of packaging and grading. These wholesalers have not yet realized that by cheating once their reputation would be destroyed forever. This is really what happened in Western Europe. Apparently the Fruit Office does not exercise effective control over export shipments. The terms of sale are usually cash against documents; but, in some cases, particularly hard to sell commodities, commission dealings are made.

2) *Wholesaling of Food Products*

So far as the home market is concerned, sale of food products through wholesalers is of little significance to Lebanese manufacturers. The same reasons mentioned earlier for bypassing the wholesaler apply here too. Wholesalers of food products cater mainly to small retailers who buy on a hand-to-mouth basis. Their operations may be characterized as small scale despite the fact that total sales of a few individual firms are quite substantial. One of the main determinations of this scale of operation is the lack of capital. Another reason is the lack of managerial knowledge and of ability to manage personnel makes many wholesalers unable to extend the volume of their business. Further, since the credit standing of many Lebanese retailers is very low, many buy from several wholesalers rather than one. This practice limits the business volume of individual wholesalers.

A sizable number of food wholesalers are truck distributors. They usually operate warehouses which serve mainly as storage facilities rather than as sales quarters. They maintain a fleet of vans and serve the small or remote retailers. The salesman in this case serves as a driver, as a money collector, as well as a solicitor of orders from towns and rural markets. In general, the working relationships between manufacturers and wholesalers on the one hand, and wholesalers and retailers on the other, are not very strong. A great many manufacturers do not have assured wholesaling channels for their goods and this is due mainly to the lack of strong mutual feelings of interest and responsibility between manufacturers and wholesalers. The same is true between wholesalers and retailers. Many retailers prefer to shop around with the objectives of good quality, cheaper prices and more services, such as credit and delivery in mind.

In the distribution of nonfood products and industrial goods, the use of wholesalers is rather uncommon. Clothing, home appliances, furniture, raw materials, and machinery and equipment are often distributed directly by the local manufacturer or the importer to the retailer, ultimate consumer or industrial user. Generally speaking, the more expensive the product, the less frequent the purchase, the greater the inventory which must be stocked, and the more important the repair service, the more direct is the distribution.

Wholesale-Retail Operations

As the name implies, wholesale-retail firms or semiwholesalers are those institutions who sell both at wholesale and retail. They are located in Beirut as well as in the other cities and towns. These semiwholesalers are the prime suppliers of small retailers in Lebanon. "In rural areas, grocers patronize a number of semiwholesalers who also sell at retail in the town market. These grocers buy in dozen and less than dozen items and thus find it too expensive to come to Beirut to do their purchases." The semiwholesalers in Beirut and other cities are the larger retailers who cater to the small retailers as well as ultimate consumers. The prices charged by these semiwholesalers tend to be lower than those charged by retail stores. However, shortage of ready cash and ease of accessibility make consumers prefer the neighbourhood retail store.

Semiwholesalers also sell nonfood items such as spare parts, furniture, fabrics, clothing, shoes, books, home appliances and others. The size of the transaction is the main criterion used by semiwholesalers to distinguish between a wholesale and a retail sale. Consequently the prices charged by the semiwholesaler vary depending upon whether the transaction is classified as a wholesale or a retail transaction. Generally, prices are lower in wholesale than in retail transactions. Small-scale operations also characterize semiwholesalers. Their relatively small size is probably due to the multiplicity of small units and the lack of capital with which to expand. In the sale of food products semiwholesalers do not generally extend credit while in the sale of nonfood products installment selling is quite common. Semiwholesalers of food products claim that they sell on a low markup basis and therefore cannot assume the credit risk.

7 Nimr Eid, "Merchandise Retailing in Lebanon," *Middle East Economic Papers*, 1969, Economic Research Institute, A.U.B. P. 25.

CONCLUSION

Wholesaling in Lebanon reflects several circumstances that are peculiar to the environment: The small size of the country, the significance of import trade, and the concentration of population in the few big urban centers. The character of wholesaling and the role of the wholesaler reflect these factors.

There are many channels of distribution through which goods pass from producers to ultimate consumers and/or users. Some manufacturers or importers-wholesalers sell direct to the consumer through their own retail outlets; others distribute their goods to retailers or industrial buyers; while some still sell to wholesalers. A substantial number of manufacturers and importers have a care of steady customers for their goods. Too often, however, the Lebanese marketing process cannot be described conceptually as a "channel" through which goods flow smoothly from manufacturer to consumer. Most manufacturers or importers do not have a specific distribution policy; they sell to whoever is willing to buy.

In this paper three types of wholesalers were identified: the importer-wholesaler, the wholesaler, and the wholesaler-retailer. Due to the large volume of import trade, the importer wholesaler has assumed a very significant position in the flow of goods from manufacturers (in the country of origin) to ultimate consumers and/or users. He combines importing and wholesaling into one activity. Often importer-manufacturer relationships are formalized through franchises or ownership arrangements. Matters relating to promotional efforts, inventory, servicing, and other distribution functions are usually subject to the manufacturer's specifications. If a line is profitable for an importer-wholesaler, he can be depended upon to handle it in a manner closely approximating the desires of the manufacturer.

Wholesaling as a separate function, undertaken by firms specializing in that activity, is insignificant in Lebanon. Very few firms engage only in wholesaling. The separation of wholesaling from retailing is the exception rather than the rule. The performance of importers of the wholesale function, as well as the desire on the part of manufacturers

and retailers to bypass the wholesaler, have practically eliminated the specialized wholesale. The wholesaler-retailer has emerged as a special institution to serve the small retailer who buys on a hand-to-mouth basis as well as the ultimate consumer. The medium or large scale retailer is more profitably served by the manufacturer and/or the importer-wholesaler.