Middle East • Iran

Kandelous Agro-Industry Group

Prepared by • Hamed Ghoddusi
Reviewed by • Shuan SadreGhazi
Sector • Agriculture, Tourism, Consumer Product
Type of lead organization • Large domestic
Executive Summary

*Kandelous Group* is a conglomerate consisting of a profit-based combination of a herbal business, rural tourism, and cultural activities. It has introduced the concept of mass production of nature-based and herbal medicine, cosmetics, oils, foods, and hygiene products combined with rural tourism in Iran. The Company entered the market in 1984 and continues to produce and sell more than 125 types of herbal products in a profitable way in the domestic market as well as exporting those products to seven countries.

The Group has served the local population through establishing its activities in Kandelous, a remote and isolated village in the North of Iran, and the birthplace of the founder. It has subsequently become a successful role model of a pro-poor business that has linked the inhabitants and resources of an isolated region to outside customers. The outcomes have significantly changed the economic base of the region as well as the living conditions of many local low-income residents. The production in the village not only has improved the skills, mentality, and attitudes of the local inhabitants toward entrepreneurial activities but has also created more than 200 direct and several indirect jobs. Moreover, the Company has conserved and benefited the environment by planting new species of plant life, introducing natural products to the urban consumers and effectively increasing their awareness and regarding the importance of living a natural lifestyle and maintaining superb environmental quality.

Kandalous’ approach is an excellent example of how innovative and responsible integration of business, tradition, natural resources, and environmental awareness can create positive synergies among these elements. The company converts plentiful resources of the region into high-value-added consumer products and redistributes a large proportion of the value created to the local community in the form of either wage or investments. Moreover, it promotes its consumer products through convincing the consumers that part of the money that pay for these products will be used for regional development and cultural activities. On the other hand, the presence of the consumer products in more than 2,400 drugstores in Iran and several branches in Europe and Asia has introduced the village to urban and foreign visitors as well as attracted more than 50,000 tourists per year.

In summary, the company’s activities are important from an inclusive perspective for two major reasons. On the one hand, by establishing herbal production units, the company employs labour from the local community. On the other hand, the visitors to the region directly purchase local services and goods from the community. Both of these aspects are examples of connecting an excluded population to outside markets. Increasing the share of monetary-based (as opposed to barter transactions) and non-farm activities in the region, has helped the local economy to become more diverse and less dependent on agricultural means, therefore presenting themselves as less vulnerable against negative agricultural shocks.
Introduction

“I started my business at the age of eight when I was selling sugar and tobacco from our family storage to buy old books and antiques”

Dr. Jahangiri, CEO of Kandelous

The company started officially in 1984 by Dr. Ali A Jahangiri, an Iranian manager and entrepreneur who had the experience of managing several pioneering ventures in the chemical industry between 1975 and 1985. The Group started the business of mass production of packaged herbs around 1985 and still works as a family-owned business; though the company employs professional managers too.

In 2005, the Seybon Group of Companies was established as the parent company of the Kandelous Group in order to efficiently manage its growth phase. The parent company manages several business lines in real estate, trading, herbal products, distribution, cultural products (books and music CDs), rustic museum and rural tourism, graphics, consulting and some other businesses. Seybon Group is currently run by the son of the founder, Mr. Kasra Jahangiri, a University of California, Los Angeles (UCLA) business graduate.

The entrepreneur established the venture with the following goals:

- Promoting regional development in the Kojur region and particularly Kandelous village (his birthplace) through production of high-quality herbal goods using endogenous resources.
- Conservation of cultural heritage via collecting antiques, old songs, books, manuscripts, stories, photos, etc. to keep and demonstrate them in a rustic museum.
- Providing better quality of life for urban consumers by offering natural, ‘green’ food and cosmetics.

Over time, the company succeeded in becoming not only a viable commercial entity but also a socially beneficial initiative by offering the following propositional values:

- Finding new high-value-added applications for herbs and plants of the region
- Providing opportunities of enjoying rural tourism to urban population for the first time in the country
- Maintaining biodiversity by conserving the rare local plant species and bringing new types of herbs to the region
- Creating jobs and increasing the social and economic contribution of rural poor
Iran and the Geography of the Region

The company is located in the northern part of Iran. According to the last census in 2009, the population of Iran is close to 66.5 million. The per capita GDP is US$12,000 in purchasing power parity (PPP) and the official unemployment rate fluctuates between 10% and 14%. The urbanization rate is 68% increasing by 2.1% per year. This means that the net migration from rural to urban is positive, a sign of better income expectation in the urban areas.¹

Kandelous village belongs to the Kojur region, a district of Noshahr city in Mazandaran province in the North of Iran. The village is located in a valley of Alborz mountain with an altitude of 1,650 metres from the sea level. The economy of the region had been mainly based on agriculture and cattle. However, some families earn extra income through making local handicrafts and selling them to urban areas. According to a 2006 census, the population of the village is 2,500. Consequently, due to the seasonal demand for workers, the population sometimes reaches a high of 3,500.²

To access the village, one should deviate from the main road connecting Tehran to Chaloos (one of the main tourist cities in the North of Iran) and drive for 42 km. Before Kandelous Group had started its activities, there was not a proper connection between the village and the main roads and therefore the village never experienced urban visitors. Building proper roads was one of the first activities of Kandelous Group.

History of the Business, Incentives and Drivers

“I belong to that land. When I became rich after successfully establishing my chemical company, I thought it is time to serve the poor people of the region. At the beginning I was delivering basic livelihood to the village’s poor. Later on I realized that I have to teach them fishing, instead of giving them the fish”.

Dr. Jahangiri, CEO of Kandelous

The founder was looking for means to provide a better life for the inhabitants of the village who were suffering from poor economic conditions, little access to modern educational and health facilities and seasonal unemployment. Expertise in chemical industry in addition to personal skills and an entrepreneurial character helped the founder realize that a village with a wide

² http://www.iranchto.ir/Webforms/Fa/Tourism/TourismInfo.aspx?ID=208
availability of wild plants can be a great source of nature-based products. ‘Herbal products’ were the practical means to materialize this plan. The basic idea was proposed by the founder; however, in later years (around 1985-1986) the local people decided to help him and took an important role in the preparation of infrastructure in addition to be paid for collecting natural plants and herbs.

Jahangiri's social character had already helped him to form a vast network of professional friends and business partners. Through causal contacts within his world-wide network, he managed to identify several species of plants which could be used for production of medicine, cosmetics, foods and drinks. Figure 1 presents a time-line of important events in the life cycle of Kandelous Group.

Figure 1: Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>Purchase of lands and construction work started</td>
</tr>
<tr>
<td>1983</td>
<td>Company established, sale of packaged herbs</td>
</tr>
<tr>
<td>1985</td>
<td>Kandelous Help Foundation (philanthropy)</td>
</tr>
<tr>
<td>1988</td>
<td>Production of essences and cosmetics</td>
</tr>
<tr>
<td>1989</td>
<td>Museum and cultural complex</td>
</tr>
<tr>
<td>1991</td>
<td>Export and domestic sales from cultivated plants</td>
</tr>
<tr>
<td>2005</td>
<td>Seylan group</td>
</tr>
</tbody>
</table>

**PRO-POOR ASPECTS**

Pro-poor activities of the company started in the early 1980s by the unofficial opening of ‘Kandelous Help Foundation’, which then became a formal institution. The founder invested in building a primary school (built by the founder but run by the government), small income generating projects for youth (e.g. collecting plants or helping in construction work) and distribution of basic livelihood to poor habitants. Since the founder found these activities useful but not sustainable he turned into more pro-poor business type of activities using innovative business models.

The literature on pro-poor and bottom of pyramid activities mentions various strategies to improve the life of the poor. One strategy is to connect the local poor to the outside world and
then create a market for local resources. There are several technical, managerial and financial barriers which hinder the local population from making this connection themselves. Kandelous Group bridges this gap and unlocks the opportunities in both herbal products and rural tourism businesses. In the first area, the company converts low-value natural resources of the region into high-value consumer products. The plantation, processing and packaging of these products require a large labour force, most of which is from the local population.

By bringing tourists and visitors to the region, unused local capacities such as accommodation facilities and handicrafts are sold to the outside visitors and the income directly comes to the community.

The innovative and synergetic business model implemented by the company serves both the private investor and local community. It connects herbal business, culture and rural tourism in a way that generates income, creates employment and preserves natural and cultural heritage simultaneously. The next section explains the operational aspects of this innovative approach in more detail.

**Business Model**

“Instead of planting conventional agricultural products, we grow plants which have 10 times higher economic value added”.

Dr. Jahangiri, CEO of Kandelous

Basically, the company serves three major groups of customers:

- Domestic and foreign consumers of herbal products
- Domestic and foreign visitors to the region, its museums and cultural activities who also buy local products
- Audience of the region's cultural products (books, music CDs) buying these items in Iranian cities

The goods and services purchased by visitors are partly produced by Kandelous Group and partly provided by the local people in the form of rural accommodation, foods, and handicrafts. The local inhabitants have the chance to sell their homemade products to the tourists in the village store opened by the company. The goods made by the local community are offered along the company’s own products and therefore Kandelous acts as a distributor for local small producers. However, during the last decade, some other small shops have been opened by locals to offer these products and also basic food and drinks. The sustainability of these shops and the employment and income sources they generate are the direct result of the company’s tourism activities.

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3 London, 2007
At the beginning, the company was merely collecting, cleaning and packaging around 40 types of natural plants using local labour, and then was selling the packages of dried herbs. The market for these kinds of products was not so attractive because there was an alternative to buy them from traditional Persian herbal medicine shops (Attari, in local languages).

In later years, essences, oils, capsules, cosmetics and syrups made from these plants were added to the product portfolio. There was an increasing demand for such products in domestic and international markets as a substitute for chemical medicine. At this stage, the market demand was higher than the amount which was planted and natural capacity of the region could supply.

In order to keep the sustainability of the region and also respond to the growing demand, in 1991 the company started establishing its own farm by buying lands from local people. It began with the cultivation of two types of existing plants which later on extended to more than 50 types. New medicinal plants as Rosemarinus Officinalis, Aloe Vera, Echinacea and Melissa were brought to the region and are currently planted in more than 100 acres of the company’s farm using modern techniques. The labour to work in the farm was supplied by the local community. The company trained the first generation using on the job training methods. The current workers supervise and transfer their skills to new employees. Kandelous keeps sourcing partially from independent farmers but this share is quite small compared to what it produces from its own land.

In order to bring the products to the consumers (mostly high-income), the company uses a hierarchical model of exclusive representatives in each province. The company sets the pricing and advertisement policies and uses a performance-based contract with the wholesalers. This contract shares the risks between the two parties. The distributor is responsible for meeting certain sales targets and also an annual growth rate. On the other hand, the company pays a penalty if its production cannot meet the commitments made by the representatives to local customers.

In the next layer, they work with drug-stores and traditional herbal shops (Attaris) to manage retail operation. Traditional herbal shops have benefitted from Kandelous’ activities, since the overall reputation of herbal medicine concepts has improved a lot by the company’s activities. Some of them use the brochures prepared by the company to introduce their own products.
For the export sector, there are companies and merchants in countries such as United Arab Emirates (UAE), Macedonia and Canada which bring the products to regional markets. Due to the nature of the products, entering foreign markets requires quality tests by government authorities. For example, Bohum laboratories in Germany and the UAE Ministry of Health have to approve the quality of the products.

HERBAL PRODUCTS

“Be Healthy, With Nature”, Kandelous Group’s Slogan

Herbal (or botanical) medicines and dietary complements have been known for their health benefits for centuries in Middle Eastern countries, including Iran. Even in modern days, their seeds, essence or dried leaves, flowers and roots are sold in the form of capsules, syrups, powder, tea, etc.

The global interest in herbal medicine has been increasing in recent years for several reasons. First of all, these products are sometimes cheaper than chemical ones. Second, it is generally believed that the side effects of natural products are lower than artificial ones. According to the WHO more than 80% of the world's population is consuming some type of herbal medicine in their daily life.

Although the plants in dried form are valuable enough, taking a profitable perspective, by producing value-added products such as soaps, shampoos, cosmetics, drinks and essential oil the producer can gain a much higher profit. Therefore, combining plantation and processing is the right strategy for entrepreneurs in this field.

Global and Domestic Market for Herbal Products

There is a range of estimates for the size of global and domestic markets for herbal products\(^4\) from US$8 billion\(^5\) to US$18.5 billion\(^6\). According to A. Haji Akhundi, the coordinator of the Iranian initiative for commercializing herbal medicine, currently 120,000 acres of lands in Iran are allocated for the cultivation of medicinal plants.\(^7\) There are several other Iranian herbal medicine companies other than Kandelous in Iran including Barijessence, Sahajisa, Ghaem-Darou and Cheshme Damavand (Damavand Spring) who produce similar products than Kandelous Group. In terms of production they use similar production processes while the distinguishing factor for Kandelous Group is to combine herbal business with rural tourism and also be much more diversified than just one business line. Furthermore, Kandelous Group produces a wide range of herbal products including foods, drinks and cosmetics whereas most of its competitors focus on medical items.

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\(^4\) It was not possible to obtain official estimates on market size, so the report relies on available sources
\(^5\) http://webiica.iica.ac.cr/TrinidadandTobago/ppt/Globalherbal.ppt
\(^6\) http://bio.itan.ir/?ID=24
Kandelous Herbal Products
Currently, the company is producing more than 125 different types of products all based on natural materials. The product portfolio of the company includes a wide range of high-quality cosmetics, shampoos, deodorizer, hair tonics, candies, spices, herbal medicine, natural essences, oils and hygiene products. Examples of these products in various forms and containers are shown below.

Sample of Company's Product Portfolio (Source: Kandelous)

<table>
<thead>
<tr>
<th>Product</th>
<th>Annual Production (1000 Kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hand lotions</td>
<td>60</td>
</tr>
<tr>
<td>Deodorizers</td>
<td>165</td>
</tr>
<tr>
<td>Shampoos</td>
<td>500</td>
</tr>
<tr>
<td>Gels</td>
<td>220</td>
</tr>
<tr>
<td>Hair tonic</td>
<td>211</td>
</tr>
<tr>
<td>Mouth wash</td>
<td>220</td>
</tr>
<tr>
<td>Dried medical herbs</td>
<td>255</td>
</tr>
<tr>
<td>Garlic powder</td>
<td>8</td>
</tr>
<tr>
<td>Sauna solutions</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Kandelous Group Website

RURAL TOURISM AND RUSTIC MUSEUM
In addition to producing various consumer goods, the Group offers rural tourism services for urban and international visitors. In the past, the Kandelous village has never been a target for urban tourists due to lack of information about its natural attractions and the non-existence of infrastructure. Kandelous Group has had a two-fold effect on bringing tourists to the region.
Initially, it introduced the village through its brand – which has the same name as the village – and encouraged the visitors to come to the region to visit the farms and buy the products directly.\(^8\)

The company established the first privately-owned rustic museum and rural tourism facilities (including a small hotel and a restaurant) in Iran by collecting and demonstrating antiques and old stuff from the region and other parts of country. This museum now contains thousands of pieces of old music instruments, royal manuscripts, old books, documents, antique appliances, ancient agricultural tools, and jewelries, mostly from Mr. Jahangiri’s personal collection. Additionally, a variety of local songs and music are recorded and preserved by Kandelous Cultural Institute which runs the museum too. The base of rural tourism was the facilities constructed in mid 1980s and opened in early 1990s. Up to now, very little help from the authorities is given to the cultural complex and most of the activities are financed by the founder.

A lady from Tehran visiting the village says: “I never thought that here is such a great tourist region. We were coming back from the holiday resort in the North of Iran and I just saw the sign in the road pointing to Kandelous village. As a loyal customer of Kandelous herbal products, we became eager to visit the village itself and are so happy to be here now”. Another tourist accompanying two of his friends in a visit to the village says “If it was mere nature I wouldn’t have come. I like it here because of the activities Dr. Jahangiri has done here”. A member of the village council believes that “the most important impact of the Kandelous group was to make the village known globally”. An old man who is working together with his son says: “I left the village 45 years ago because there was no job at that time but I am back now. We have built a rural house and some bower in my one acre land and have a good business. This became possible only when the Kandelous Group introduced our village to the world”.

The tourists can also visit the rustic museum and stay and eat in a traditional, friendly and nature-oriented hotel and restaurant in the village. Tourists’ shopping is not limited to the company’s products. They also buy woodworks, handicrafts and diaries from small shops of locals in the village and also via the company’s store. The store creates a market place for locals to offer their homemade products. In addition to the services provided by Kandelous, whenever the company’s hotel is fully booked, they introduce tourists to locals who provide accommodations for visitors. This way, the company indirectly generates income for the locals.

**FINANCIAL MODEL**

The seed money for the initial start up of the company came from the personal wealth of the founder. In 1980, Dr. Jahangiri founded a chemical company which became a popular brand and

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\(^8\) In addition to advertisement by the Group HQ and its representatives in the provinces, word of mouth and media coverage are two important channels of advertising for the village countrywide. An internet search with the keywords of “Kandelous” + “Village” / “Herbal Medicine” generates tens of reports produced by newspapers and websites (free of charge) which introduce this village and Kandelous Group’s facilities and activities.
a successful producer of detergents in Iran. The money generated through this business activity was later used to finance the investments needed for establishing Kandelous Group.

Table 2: Investment Costs

<table>
<thead>
<tr>
<th>Activity</th>
<th>US$ (estimate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of Museum</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Hotel, park and restaurant</td>
<td>500,000</td>
</tr>
<tr>
<td>Processing factory</td>
<td>340,000</td>
</tr>
<tr>
<td>School, road, electric grids</td>
<td>800,000</td>
</tr>
<tr>
<td>Agricultural land</td>
<td>100,000</td>
</tr>
</tbody>
</table>

Source: CEO of Kandelous Group

The herbal business has a much larger market compared to the rest of Kandelous’ activities. The major proportion of the Group’s revenue is generated via this line of business with average annual sales of US$1.2 million. The income from this business unit supports investments and operational expenses of the museum and cultural activities till they reach financial sustainability requiring US$100,000 to US$200,000 per year. This business line has been profitable from the beginning since it converts almost free-to-access plants or low-cost farm plants into high-value-added packaged consumer goods. Since most of the investment by the Group were on land and processing facilities with low depreciation (and indeed value appreciation over time), the investment not only has kept its initial value but also has benefited the investor in the form of capital (asset value) gain and annual revenues.

There is a synergy between the revenue models of different units. The herbal products introduce Kandelous and its village all over the country. In addition, the rustic museum and rural tourism facilities bring visitors who buy herbal products from the outlet shop.

Without the inclusive aspects of the business, the investment and revenue model of the company would have been different. Museum and cultural activities are not profitable and cannot even generate enough revenue to cover their maintenance and day-to-day expenses. Nevertheless, Kandalous Group keeps the rural tourism facilities operational, because it is part of the founder’s vision and also generates income directly for some 35 to 50 local workers and indirectly for several local families. Moreover, the company builds infrastructure which may be used by other business actors too. In a pure profit-oriented environment these investments may not be justified.

**Challenges during Initiation and Growth Stage**

“We had to slide the electricity generator on the snow for 15 km since there was no road or electricity grid in the region”.

Dr. Jahangiri, CEO of Kandelous
PHYSICAL INFRASTRUCTURE
The company started to operate in a remote area which was isolated from major urban centers. During the early construction phases, it was very difficult to establish the working site since there was no infrastructure to provide accommodation, technical services and office space for engineers, experts and craftsmen coming from the city. There was no road, hotel or restaurant and the company had to build all of this from scratch.

LACK OF KNOWLEDGE
Business activities in the region influenced the physical, social and cultural environment of the village. As a result, some of the conservative members of the community had concerns regarding these activities. They were worried that expanding business and attracting urban visitors may harm the tranquil originality of the environment. This is a challenge for many businesses starting their activities in isolated and intact areas.

ACCESS TO FINANCIAL RESOURCES
Finance is a challenge which has continued till now. Financing is a common problem for most of Iranian entrepreneurial ventures. Due to the lack of venture capital and risk-taking financial institutions, the companies have to rely on the conventional banking system, which is reluctant to finance such entrepreneurial activities. The banks usually ask for high-value collateral which may multiply the value of the requested loan. Relying on government assistance could be an alternative but is not easily available.

Actions to Remove Barriers

INVEST IN REMOVING CONSTRAINTS
The seed money for Kandalous came from the personal wealth of the founder. In 1980 he had founded a chemical company which became a popular brand and a successful producer of detergents in Iran. The money generated through this business activity was used later to finance the investments needed for starting Kandelous Group.

COMBINE RESOURCES AND CAPABILITIES WITH OTHERS
Currently, the company seeks foreign investors to acquire necessary funds for its expansion plans. This way, the interests of two parties are aligned for a joint activity. The investors realize their profit and the company can expand its social and productive activities.

LEVERAGE THE STRENGTH OF THE POOR
From the beginning the company used the local labour in the region to collect herbs, bushes and leaves. This is a way to capitalize on cheap labour to produce herbal products in a competitive way. In parallel, it provided them on the job training to build new skills. The local community also contributed in building infrastructure and helped the company to build its facilities.
ENGAGE IN POLICY DIALOGUE
As a proactive strategy, Kandelous Group used different means to remove or reduce the barriers to its sustainability and growth; realizing the crucial role of government and its regulations regarding starting new businesses, investment in natural resources, tourism regulations, public-private partnerships, taxation, and labour code. Since the inception of the company’s activities, the CEO has invited government officials to visit the activities. Although this policy has not always been effective, nevertheless the company has managed to influence a few key regulations.9

Actors Involved

ENTREPRENEUR
The founder has brought forth the basic idea, business skills, seed money, technical knowledge and marketing processes to the business. His interests are a combination of regional development, environmentalism, conservation of cultural heritage and profit making. As a private investor he strives to maintain the profitability of the business while caring about the social aspects at the same time.

LOCAL COMMUNITY
They are the biggest beneficiary of this activity. The local inhabitants are providing a labour force to work in farms, processing units and tourism facilities. Also, they welcome the visitors by creating a tourist-friendly atmosphere in the village. In addition to receiving salary from the company, the locals do direct business with the visitors through offering homemade products and rural-style accommodations. The local community has also benefited from on-the-job trainings by Kandelous Group which enable them to work in other firms as well as foster a change in their mentality regarding entrepreneurship and careers outside of the agricultural sector. According to the founder, the activities of the Group have resulted in a new generation of village youth working as cabinet members, lawyer, researcher, poet, etc.

CENTRAL GOVERNMENT
There are various issues where the interests and concerns of the central government and Kandelous Group interact with each other. The government is responsible for the welfare of its residents and the company is assisting the government by creating jobs and building infrastructures. Government concerns regarding environmental sustainability, conserving local

9 The company could convince the tax authorities to give the discretion to large corporations in other provinces to determine which province they want to a specific type of tax. Using this agreement, the group could bring some tax revenue from other wealthier provinces to invest in the region’s infrastructure. This agreement was later abolished because of conflicts it generated between different provinces.
ethical values and food and drug quality standards can potentially conflict with part of the group’s activities. However in practice, the conflict was minor due to the social commitment of the group.

There have also been cases of assistance from the government. For instance, recently the government provided some lump-sum support of US$500,000 to the company to build local infrastructure because of its job-creation and regional development results. The government can have a more significant effect in the future as well. Since the development-finance banks are all affiliated to the public sector, the government can play a major role in financing the Group’s projects. This has not happened though.

RURAL COUNCIL
The village council which consists of three elected members has played a supportive role through lobbying for improvements in regulations and receiving funds from central government to improve the infrastructure in the region. As a local regulator and law enforcement entity, they have a constructive interaction with the company to set the regulation in a way that maximizes the joint benefits. For instance, the Council has requested the Ministry of Roads and Transportation to rebuild and maintain part of the rural road connecting the main road to the museum. Although there is not a systematic relationship between the Council and the company, Dr. Jahangiri has been invited to the meetings to give his advice on the issues affecting both sides.

NGOS, MEDIA AND UNIVERSITIES
The company benefits from the reputation and awareness building made through its presence in universities and media. This connection is mostly offered and initiated by these entities, and the Group and its founder welcome it. They also use the experience gained by the Group and the founder’s personal ideas to conduct their mission to promote entrepreneurship publicly. Likewise, the company has used media and universities in order to promote the concept of herbal medicine, social entrepreneurship, and the image of the Kandelous region. There are several interviews\textsuperscript{10} by the founder where he explains the activities of the group and these interviews are produced by websites and local media. This provides opportunities not only for increasing sales but also for attracting new interested passionate employees and business partners. It also helps the company to build a public reputation that fosters policy dialogues and government negotiations.

TRAVEL AGENCIES
Rural tourism activities are promoted and marketed though travel agencies in urban areas. The tours usually advertise in press or internet and also attract customers through their offices in the highly visible districts of large cities. Some tours are also organized by culture houses that belong to municipalities.

A graphical view of the interaction between different actors of the business model is given in figure 2.

\textsuperscript{10} http://www.daneshju.ir/forum/f874/t82235.html; http://www.mazandnume.com/?PNID=V7525
Impacts

Kandalous Group’s pro-poor business has created positive results both for the investor and the community. In addition to usual business performance measures, some of economic, social and environmental results of the company’s efforts can be linked to some of the Millennium Development Goals (MDGs).

ECONOMIC IMPACT

The Group’s performance has shown its merit to benefit the private investors and local community simultaneously. The annual sale of the company in the recent years has been around US$12 to 15 million. Table 3 shows the sales figures in domestic and international markets.

Table 3: Production Capacity of Different Products

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (1000 US$)</th>
<th>Export (1000 US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>880,000</td>
<td>67,000</td>
</tr>
<tr>
<td>2007</td>
<td>1,200,000</td>
<td>80,000</td>
</tr>
<tr>
<td>2008</td>
<td>1,400,000</td>
<td>80,000</td>
</tr>
<tr>
<td>2009</td>
<td>750,000 (first 6 month)</td>
<td></td>
</tr>
</tbody>
</table>

Source: CEO of Kandelous Group
As an indirect effect, the company has had spill-over effects on other entrepreneurs as well. For instance, the vast wholesale and distribution network of the company has generated further demand for more than 2,400 local drug stores and specialized herbal medical stores. By constructing the infrastructure and giving on the job trainings to local people, Kandelous Group has promoted the image of the village as an attractive investment target. As a result, other businesses such as fish planting and hotel services have been followed by other investors.

_Eradicating poverty (MDG 1)_
Currently, around 200 employees are working just in the village which consists of 100 people in the farms, 34 people in the restaurant and hotel, 50 people in processing and sales unit and six people in the Headquarters. The average employee receives a monthly income of US$250 to 500, which is enough for living a basic life in the village.

The company is attracting more than 50,000 visitors per year to the region and this has created a lot of jobs in the informal sector for rural population who produce homemade food and handicrafts and sell them to the visitors.

**SOCIAL IMPACT**
The most important social effect of Kandelous Group is to create the spirit of collective actions and shared concerns regarding a common destiny. People practiced team work to build the cultural complex by collecting more than eight million pieces of stones to complete the construction.

A cultural official of the village council says: “_If you enter the villagers’ homes, you will see some people having book-shelves in their rooms. Reading books are quite popular here now. These are all the results of Kandelous Group’s activities_”.

Since the company preserves the cultural heritage of the region, ordinary people also have developed interest in respecting more their traditions and customs. Now, several cultural festivals take place in the region where people show up with local clothing and sing local songs.

In a decade the company has published 22 books and 15 CDs based on local folklore literature and music. These activities preserves the cultural heritage of the region, which otherwise might have been lost in generational transformations.

_Empowering women (MDG 3)_
A high fraction of the company’s employees (close to 60%) are female workers who work at the farms, processing unit, restaurant, shops and hotel. Providing a source of income for women in a rural area is a significant means to empower them and fill the gender power gap.
A young woman working in the restaurant says: “previously, I was dependent on my father for living, now I make my own income. Since I have been employed here, people treat me differently, as someone with her own identity and dignity.”

**Increasing access to education (MDG 2)**
The company has contributed in increasing access to education through two channels. First, through the educational infrastructure it has built, and second, through the income earned by working with the company, which makes education affordable for the rural population.

A young woman running a small local supermarket says “If Mr. Jahangiri was not here, I could not finish my high school. I either had to leave the school or migrate to the city which was impossible”.

**ENVIRONMENTAL IMPACT**

**Ensuring Environmental Sustainability (MDG 7)**
There are no quantitative reports of environmental impact assessment available, however, almost all the people interviewed from the village council, local inhabitants, journalists and activists believe that the company is very careful regarding the environment and none of its activities has damaged the nature. This is not a surprise, since preservation of nature is one of the goals the company is pursuing. According to a member of the village council “This company is 100% environmentally friendly and we have not seen any single environmental damage from it”.

In addition to bringing more than 250 plant species to the region, Kandelous Group has planted in a large area of uncultivated lands and therefore has added to the environment.

Given the original setting of the village, uncontrolled real estate and construction works can be the first enemy of the region’s environment. As a now well-known area, the agricultural lands of the region are very attractive for commercial developers to turn them into holiday houses and villas and sell or rent to urban middle and upper classes. Such a trend may eventually end up as an environmental challenge, which has been experienced in several other touristic villages in Iran. To prevent it, the Council and company worked together to ban selling of the lands owned by local people to outsiders. Kandalous Group and the Rural Council together pay the market price for the land. This policy, however, is facing difficulties because of financial constraints.

The boom in tourism can also create adverse effects on the landscape by generating waste. The local council and the company are working together to install solid waste management facilities.

**Future Growth and Expansion Plans**
The company constantly seeks opportunities to offer new products. The expansion strategies are in two directions. First of all, the company is extending its line of business by entering new fields such as real estate. Moreover, the production portfolio of current herbal business is constantly expanding. Part of these expansion projects are planned to be implemented in cooperation with outside investors.

Since Kandelous Group is known as a nationally recognized entrepreneurial firm, under a government intention to invest in remote areas\textsuperscript{11}, the central government has promised to give the company 600 acres of deforested and destroyed land so that the company replants and brings it back to the ecosystem using its innovative methods. In reality the agreement has not been materialized yet. Currently, the Group is seeking domestic and international investors to build summer/winter resorts, telecabins and an herbs museum.

The company seeks funds to implement its expansion projects. Although, till now all financing has been supplied by the founder, the plan for attracting new private-sector investors is still being considered. Obviously, these investors are expecting a superior profit as their first goal. A possible challenge in the future might come from the conflict of policies between incumbent management and the new investors who want to protect their capital through avoiding extreme business risks.

The company can also use its inclusive aspects as an opportunity. By leveraging on its social and environmental activities, Kandelous Group can motivate socially-responsible investors or those who have personal interests in these issues to finance its projects.

**RECOMMENDATIONS TO ENHANCE PRO-POOR ASPECTS**

International experiences\textsuperscript{12} emphasize policy dialogue between local populations and the tourism sector as a means to strengthen pro-poor aspects. Instead of ad-hoc activities, the company can institutionalize the participation of the local population and other stakeholders to use their ideas and solutions. Systematic marketing, giving proper trainings on tourism management skills to local people, building further service capacities (such as more hotel rooms), investing in environmental management facilities (such as waste processing) and diversification of services toward green tourism, and adding more rural cultural elements will improve the quality of services and the revenue generated.

It is also possible to assist the local population in renovating and equipping their rural houses so that more tourists can stay over-night at the village. Currently, the capacity of the company’s hotel is very limited and most visitors have to leave the village in the evening.

\textsuperscript{11} Government policy in Iran has several elements to promote investment in poor remote areas including tax exemptions, subsidized loans and government grants.

\textsuperscript{12} Ashley et al, 2001
At the current setting, the company includes the poor in the supply side of the herbal business. It is also possible to think of the product side as inclusion via offering low-cost herbal remedies.

Furthermore, the company has the potential of forming joint activities with research centers inside and outside of Iran in order to produce products with higher value added. To make the visit to the region more attractive, it is possible to consider stronger connections between rural tourism and herbal medicine. One example of such activities is to build training centres for herbal knowledge and vegetarian cooking next to the farms.

**ISSUES AND CHALLENGES FOR THE FUTURE**

Similar to most of the other business activities in Iran, there are problems in gaining financial resources for future expansions. The global and domestic financial crisis has intensified the problem significantly. Currently, the company works to attract foreign investors to establish production of herbal tea and some other food products.

Whenever the company’s cultural activities are not profitable, they have been supported through commercial investment in other fields like real estate. This is a challenge for the sustainability of these activities especially during depression cycles.

Rural tourism creates seasonal income. Depending on the region’s climate there might be no visitors for at least a few months each year. To make the income stream of the local people more regular, these activities can be combined with other businesses such as the mass production of local handicrafts and sales in the markets outside of the region.

Profitability of some of the products is another challenge. According to the company managers some of the products are not profitable but since the company aims to keep its product portfolio balanced they keep producing it. Some of the managers also believe that keeping the jobs is so important for the company that they sacrifice profitability in favor of that.

If the number of domestic competitors increases, the profitability of the company may be jeopardized and this can put a pressure on the social activities which are not financially-sustainable and need to be financed through the herbal products business.

**SCABILITY**

The model proposed and successfully implemented by Kandelous Group can be replicated in many other villages all over the country. Since Iran is a country with a diverse ethnic, cultural and geographical structure, in addition to a very rich and diverse nature, a variety of similar activities can be implemented through adjusting to local characteristics. Fortunately, a lot of places that have rural tourism attractions also possess potentials for production of herbal products or similar activities. Therefore, the overall concept proposed by Kandelous Group can also be implemented in other regions.
The traditional methods of planting and processing herbs can be augmented using biotechnological knowledge and therefore creating a higher level of profitability and competitiveness. The draft of a national technology road-map for herbal medicine is under preparation. This will be a help for new producers.

As the number of herbal producers increases, a stricter regulation regarding the collection of natural plants is being enforced. Since 2007, the companies who use wild plants from forests and plains are required to obtain a license from relevant authorities. The reason for this policy is to ensure that those rare plants which are the genetic assets of regions will be preserved and not eradicated because of over-harvesting.

Entering international markets will create challenges for Iranian producers. Since herbal products are mostly in the form of medicine, cosmetics and food, strict regulations are enforced to avoid adverse effects. For instance, starting in 2011, all companies selling herbal medicine in the European Union must obtain certain licenses.13

The drawback of this business model in terms of scalability might be that the founder has had a high level of attachment to his fatherland. Therefore, his local network and family connections and reputation helped him a lot. Hence, it might not be as easy for other entrepreneurs to replicate the model in areas which they don’t belong to.

**Conclusion and Lessons Learned**

Kandelous Group has proved that business model innovation and applying technical knowledge to traditional sectors can convert the ‘hidden assets’ of a region into assets with much higher value added. In the case of the Kandelous village, the herbal plants which could be sold in dried packages (traditional method) are processed and used to produce high value-added products. Likewise, the flow of tourism has increased the wealth of the inhabitants through making their lands more attractive for urban visitors.

The history of the company activities suggests that the poor may not be able to contribute effectively in local development, environmental effort and even self-employment, despite their willingness, if they don’t posses necessary skills and linkages to the formal market. There is a cycle of establishing business activities, training locals, and then leveraging their new skills. The empowered local population can initiate actions independently in the next stage.

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13 [http://www.chipsbooks.com/pracherb.htm](http://www.chipsbooks.com/pracherb.htm)
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For more information on Growing Inclusive Markets:
www.growinginclusivemarkets.org or gim@undp.org

United Nations Development Programme
Private Sector Division, Partnerships Bureau
One United Nations Plaza, 23rd floor
New York, NY 10017, USA