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## THE INTRODUCTION OF A NEW FOOD-MARKETING INSTITUTION IN AN UNDERDEVELOPED ECONOMY: SUPERMARKETS IN SPAIN†

The introduction of improved marketing methods is an important element in the process of economic development. Less developed nations have an opportunity to observe techniques that have proven effective in the more advanced countries and attempt to transplant those that seem applicable to the environment of an underdeveloped economy. Furthermore, the government of a less developed country may play a major role in the effort to introduce these new techniques.

This article describes a government program of this type inaugurated in Spain in 1958. "Operación Supermercados" was an ambitious plan intended to transform the Spanish food-marketing industry by introducing the supermarket, an eminently successful American marketing institution. This brief chronicle of that experience—the conditions which led to the program, the actions taken, and the results achieved—provides a case history which illustrates some of the obstacles to the introduction of such an institution in a less developed economy.

### ORIGIN OF THE SUPERMARKET PROGRAM

#### *Deficiencies in Food Distribution*

An important factor behind the Spanish government's decision to try to modernize food marketing in Spain was the rapid rise in food prices that began in 1955. From 1954 the index of retail food prices rose as follows:

1954 .....	100.0	1957 .....	126.2
1955 .....	104.8	1958 .....	144.9 <sup>1</sup>
1956 .....	112.8		

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<sup>1</sup> See 4, p. 265. The 1958 index numbers for other consumer prices were: clothing, 111.4; housing, 107.6; other household expenses, 131.6; miscellaneous, 137.4.

These price increases, in an economy in which 55 per cent of total consumer expenditures went for food, called for some kind of corrective action (5).

It is generally agreed that the cause of this inflation was the excessive demand coming from rapid industrialization and extensive government projects, both substantially financed through money creation. The really decisive counterinflationary action taken by the government consisted of such orthodox expenditure-curbing remedies as a tight money policy and a balanced budget, essential parts of the Stabilization Plan of 1959 (10, pp. 643-54). But in 1958, the year in which the Spanish government initiated "Operación Supermercados," the government's analysis of the high price of food emphasized the cost and supply factors, rather than excess demand. "Operación Supermercados" was a plan to lower food prices at the retail level by modernizing food distribution through the introduction of supermarkets.<sup>2</sup>

The cause of the high food prices, according to the Minister of Commerce in his speech announcing "Operación Supermercados," lay in the structure of the markets at the different levels of food distribution (3, p. 704). At the retail level the fault was excessive atomization: too many stores that were too small to be efficient. With their low sales volume, these enterprises needed relatively high margins to survive.

In the markets in the stages between the farmers and retailers, on the other hand, the fault was a lack of competition. The farmers' output passed through one or more intermediaries who allegedly enjoyed a monopolistic position; their margins, unfettered by competition, constituted an unnecessarily large increase in price to the consumer.

A further factor operating on the supply side which tended to raise food prices, according to the Commerce Minister, was the great amount of farm output lost through spoilage, due to lack of refrigeration facilities (3, p. 705). Speculation in farm products was still another cause which allegedly contributed to the high level of food prices in Spain. The head of the Commission on Supplies and Transportation (a government agency charged with the responsibility of assuring adequate supplies of goods at fair prices) held that the scarcity and high prices that were due to variable weather conditions were aggravated by the activity of speculators (8, p. 10).

In addition to the high price of foodstuffs, the generally unsatisfactory conditions under which food was sold by the traditional food retailers were cited as further evidence of the need for modernizing food-retailing operations. The typical Spanish food store frequently showed a lack of hygiene in the presentation of food. The consumer, buying unbranded and unpackaged products, faced a high probability of being cheated in weight, in quality, or in both (8, p. 11).

### *Supermarkets as a Cure*

Such then were some of the shortcomings in the distribution of food in Spain in 1958, as seen and stated by the officials of the Spanish government. Their proposed solution was the introduction of supermarkets. The officials were not at all

<sup>2</sup> An alternative means of curbing increases in food prices, government price control, was specifically rejected by the government at this time, mainly because past experience showed that price controls usually led to scarcities and black markets and failed to solve the problem of rising food prices. See 3, p. 704.

explicit, however, concerning just how the introduction of supermarkets would correct those deficiencies. A not unreasonable hypothesis is that the government officials saw in some of the characteristics of supermarkets remedies for the specific shortcomings noted above:

(1) Supermarkets have large sales volume. The resultant rapid stock turnover would permit retailers to realize adequate profits on reduced margins.

(2) Supermarkets buy in large volume. These retailers presumably would use their greater buying power to drive down the intermediaries' allegedly excessive margins.

(3) Supermarkets have frozen food departments. With supermarkets as the dominant food-retailing institution, more agricultural output would be frozen, lessening spoilage, stabilizing supplies, and stabilizing prices.

(4) Supermarkets sell branded, packaged products. The consumers patronizing these stores would thus have assurance of uniform quality and honest measure.

It is uncertain, however, that the appearance of supermarkets would have accomplished all of these ends:

(1) If for some economic or social reason the supermarkets failed to attract a sufficiently high volume of sales, their rate of stock turnover, their margins, and their prices would not differ much from those in the traditional stores.

(2) Bargaining strength as buyer is not so much related to supermarkets as to food chains: a mass of independent supermarkets would present no countervailing power to depress the margins of the allegedly monopolistic intermediaries.

(3) Widespread use of food freezing requires not only refrigeration in the retail outlet but in the links of the distribution chain on either side as well—in the processing establishments, in transportation, and in the home.

(4) Branded, packaged products are more a prerequisite for the supermarket's self-service operation than a benefit that flows from it.

While the supermarket might not, in truth, have been the solution to all of Spain's food-marketing problems, a government program to introduce them was nevertheless attractive politically. The rising level of food prices called for some kind of positive action on the part of the government, preferably something dramatic and easily understood. A program to introduce supermarkets, the typical retail food establishment in the world's richest economy, served admirably.

### *Self-Service as a Cure*

In spite of the fact that the title of the government's program clearly indicates that the government wished to promote the introduction of large-scale food-retailing units, or supermarkets, its actions revealed that it also had a strong interest in fostering the adoption of self-service as a method of selling, regardless of the size of the establishment that employed it. In October of 1958, just a few months after the Commerce Minister's speech, a government order reduced certain business

taxes by 50 per cent for self-service stores for the express purpose of protecting and encouraging such stores (6, p. 1764). In 1961 the Commission on Supplies and Transportation established a fund to be used to grant credit on favorable terms to the operators of traditional stores who wanted to convert them into self-service stores (1, p. 208). These actions were specifically intended to promote self-service, not supermarkets.

It is possible that this reflected a failure to distinguish self-service, a method of selling, from supermarkets, the large stores that utilize that method.<sup>8</sup> It is more likely, however, that while the government's original objective might have been to introduce supermarkets into Spain, its later actions in lowering taxes on self-service stores and making credit available for conversion to self-service stores indicate that it also had an interest in promoting self-service as a selling method.

#### THE PROGRAM

##### *Government as Innovator*

The Spanish government planned to bring about the introduction of supermarkets by setting up a pilot chain of supermarkets of its own to serve as an example which, it hoped, would be followed by private enterprise. Once the government's pilot chain had served that purpose and successful supermarkets under private auspices were functioning, once the structure of the markets in the various stages of food distribution had been altered, the government's chain was supposed to pass out of existence (3, p. 706).

It was felt that the government had to assume this role of innovator because of the exceptional capital requirements involved in setting up supermarkets.<sup>4</sup> The establishment of a supermarket required capital expenditures beyond the means of the operators of the typically small food stores in Spain. There was no convenient supply of empty factory buildings to provide an inexpensive store location as in the United States in the early 1930's; there were no chain organizations of any consequence to finance the introduction of supermarkets as in the United States in the late 1930's.

Further, those few people in the food-marketing industry who had the necessary capital might have declined the role of innovator because of the risks involved. The establishment of supermarkets in Spain in 1958 was a leap into the unknown. The fact that supermarkets had been enormously successful in the United States and had been well received in some of the other countries of Western Europe did not dispel the uncertainty. Spain's per capita national income was but a fraction of that of the United States and well below that of the European countries where supermarkets had been introduced. In addition, its culture, traditions, and customs were different from those of other parts of Europe, and there was some basis for doubt that the Spanish housewife would abandon the traditional stores with their personal contacts for the cold efficiency of a self-service supermarket.<sup>5</sup> Public response to this new type of store, then, was not at all certain.

<sup>8</sup> The head of the Commission on Supplies and Transportation used the terms interchangeably. See 8.

<sup>4</sup> Interview with Sr. Sala, an official of "Cabsa," the government's supermarket chain.

<sup>5</sup> Interview with Spanish sociologists.

Since private interests lacked the capital or the confidence to introduce this new marketing institution, the government stepped in to play the role of innovator. Once it had shown that supermarkets could be transplanted to Spain successfully, the government hoped that its pilot chain would be followed by a host of imitators, and a new food marketing institution would emerge.

The immediate goal of the state's pilot chain of supermarkets, in the beginning at least, was to hold down food prices, not to earn some rate of return on investment. The basic price-restraining function of these supermarkets is evidenced by the location chosen for the first supermarkets set up under the program. The seashore and mountain regions in the north of Spain are very popular resort areas, and in the summer months the population of this region swells by the hundreds of thousands. Under this demand pressure, food prices typically rose. It was at San Sebastián, a very popular resort city and the summer capital of the government, that the first state supermarket was opened.<sup>6</sup>

The efficiency of the early operations of Cabsa, as the state supermarket chain is called, was hampered by these two factors: Cabsa was under pressure to act quickly and it suffered from a severe lack of technical personnel. Just 57 days after the Commerce Minister's speech announcing the program, the first state supermarket opened its doors. In less than a year Cabsa was operating eleven units (8, p. 12). This rapidity, however, came at a price. For example, it was realized that the physical characteristics of the first store location were poor; later the operation had to be moved to another building.

The problem of finding, attracting, and retaining properly trained personnel continues in Cabsa. There is a national shortage of such persons, and Cabsa is not in a particularly strong position to attract those who have the necessary training, since those with competence in this field can find richer rewards in private enterprises.

It is impossible to get a precise idea of the efficiency of Cabsa, or even of the size of its operations, because Cabsa publishes no reports of any kind. In interviews with some observers who have followed its operations closely, however, the belief was expressed that Cabsa is subsidized by the government to cover its operating deficits.

### *The Private-Enterprise Response*

In less than a year after "Operación Supermercados" was announced, 12 privately-owned self-service food stores were in operation and 200 more were planned (8, p. 12). Among the first to respond to the government's example were many enterprisers who had no previous association with food retailing. Some stores were set up by industrialists, some by food processors, one by a farmers' cooperative; a large department store organization opened a chain of supermarkets.<sup>7</sup> The activity of these "outsiders" figured importantly in the early growth of the supermarkets.

<sup>6</sup> This choice of location might be cited as evidence that supermarkets in Spain (and perhaps elsewhere) serve those people with incomes above subsistence and below affluence. They draw on these people for customers and yield their benefits to these people.

<sup>7</sup> See in particular *El Economista* (Madrid), Jan. 10, 1959, p. 58; Feb. 7, 1959, p. 270; Feb. 14, 1959, p. 314; Jan. 2, 1960, p. 16; Oct. 29, 1960, p. 2115.

Why this great interest by "outsiders"? Many entered the field before the profitability of this new marketing institution could be established. The public's response to the government's supermarkets had been favorable, but there was no evidence that the operation was profitable. The attraction that the new activity had for "outsiders" was probably based upon their belief that the government's interest in supermarkets would somehow guarantee profits to those who entered this field. When the government announced that "Operación Supermercados" was intended to spur private initiative in this field, many people interpreted this to mean that supermarkets were to be businesses "protected by the state."<sup>8</sup>

For many years previous to this time the Spanish government had intervened in the economy to a great extent, especially with rules and regulations favorable to industries which the government thought it in the national interest to foster. It would not be surprising that investors entertained very optimistic expectations about the profitability of the new supermarkets when it was the announced policy of the government to foster this type of retail establishment. Consequently, among the early promoters of supermarkets there were many persons who had no experience in this kind of business, but who did have the necessary capital and did have the confidence, based upon their interpretation of the government's program, to invest in supermarkets.

In retrospect, it seems that this confidence was not firmly grounded. Even if the government had wanted to protect the new supermarkets, there was not much that it could do. It could create a market for manufacturing industries which it wanted to foster by means of tariff protection, import quotas, and rules directing government agencies to purchase from the favored source. How could it create a market for one kind of retail store? Even if there had been some practical way for the government to intervene by rules and regulations in favor of the supermarket operators, the Spanish government in 1958 probably would have declined to take such action. In recent years the policy of the Spanish government has been to reduce the extent of its intervention in the economy and to place increasing reliance upon market mechanisms. Indeed, its very program to reduce food prices consisted of an attempt to improve the markets for food, rather than to have direct government control over prices, margins, etc. The trend away from government intervention in the Spanish economy, obvious today, apparently was not so obvious to those who set up private supermarkets in the first years of "Operación Supermercados." The erroneous belief of the investors that the government would somehow see to it that their enterprises would be successful contributed importantly to the fact that many people outside of the food-retailing business enthusiastically plunged into this new field.

#### THE OUTCOME

##### *Number of Supermarkets*

Since the primary function of the government's program was to serve as a catalytic agent to stimulate private enterprise to enter this field, the significant criterion of the success of the government's program would be the extent to which

<sup>8</sup> Interview with Sr. F. Castellanos, an official of the Sindicato de Alimentación, an organization of those engaged in the food business at all levels.

private enterprise followed the example set by Cabsa, and the significant measure of that would be the number of supermarkets opened under private auspices. This criterion, however, immediately presents a definitional problem. What is a supermarket? In Spain there is no official definition of the term. There is no trade association to generate a definition in establishing the criteria for membership; there is no census of commerce requiring a government statistical agency to define the term "supermarket" in setting up its classification scheme. There is an unofficial definition. The National Cash Register Company in Spain, an important source of data on this new development in food marketing, defines a supermarket as "a food store operating partially or totally with self-service, with a checkout, and with a minimum selling area of 400 square meters. It ought to have the following departments: groceries, meats, cold cuts, produce, dairy products and non-food items."<sup>9</sup>

Where a thing is distinguished from other things on the basis of its size, as in the case of supermarkets, its definition is necessarily arbitrary, and hence open to debate. It is arguable that the 400 m<sup>2</sup> criterion is, for Spain, too high, and that a smaller minimum size should be used to distinguish the "super" from the rest. If the 400 m<sup>2</sup> minimum size is used to identify the supermarkets, it is questionable whether the number of supermarkets, so defined, would be a completely accurate gauge of the effectiveness of the government's attempt to introduce a new marketing institution. It would be quite possible for there to be a veritable transformation in Spanish food retailing, with the opening of many large food stores—large by Spanish standards, that is, with a selling area up to ten times that of the typical store—and yet there might be relatively few whose selling area passes the arbitrarily chosen figure of 400 m<sup>2</sup>.

The definitional problem is eased somewhat, at least for the first three years of the program, since there are figures showing the number of stores with a selling area greater than 400 m<sup>2</sup> and the number with an area greater than 250 m<sup>2</sup>. One can use either 400 m<sup>2</sup> or 250 m<sup>2</sup> as the minimum size for a supermarket and see the growth in numbers under each definition (Table 1). Using the 400 m<sup>2</sup> minimum

TABLE 1.—NUMBER OF SELF-SERVICE FOOD STORES IN SPAIN\*

End of year	Selling area greater than 250 m <sup>2</sup>	Selling area greater than 400 m <sup>2</sup>
1957 .....	0	0
1958 .....	9	3
1959 .....	45	10
1960 .....	81	31
1961 .....	...	32
1962 .....	...	44

\* Data for 1957 and 1958 from the Camara Oficial de Comercio de Madrid, *Informe sobre el Autoservicio en España* (Madrid, 1960), p. 5. Data for the other years from the Departamento de Autoservicio, Cajas Registradoras National, S.A.

<sup>9</sup> Translated from an unpublished report supplied by the Departamento de Autoservicio, Cajas Registradoras National, S.A. This definition omits one feature of Spanish supermarkets: a frozen-food department. Stores had to have these facilities to qualify for special tax treatment.

size criterion, one can see that five years after the beginning of "Operación Supermercados" supermarkets were still rare in Spain. The 44 stores of that size or larger (perhaps a third of these government established) constituted a tiny fraction of Spain's 100,000 grocery stores. The same general conclusion probably holds if the 250 m<sup>2</sup> criterion is used.

### *Number of Self-Service Stores*

The government's program to transform its food-marketing institutions appears more successful if we measure its success by the number of self-service food stores which have been established in Spain since the middle of 1958. There is no definitional problem here as there is with supermarkets; self-service is a method of selling, not a magnitude, and it is easily identifiable.

This measure, while perhaps not as appropriate as the number of supermarkets, is still pertinent. Some of the announced goals of the government's program could be furthered by the introduction of self-service even though this method was practiced in medium-sized establishments. Self-service permits a higher level of sales per store and per worker and thus contributes to efficiency in retail outlets. Where self-service is established, consumers have access to merchandise of uniform quality and honest measure.

The growth of self-service can be seen in the following figures, showing the number of self-service stores in Spain at the end of each of the following years:<sup>10</sup>

1957 .....	3	1960 .....	430
1958 .....	23	1961 .....	700
1959 .....	141	1962 .....	1,192

There are no precise figures on the sales volume of these stores nor of the sales volume of all food stores, and hence it is impossible to make any exact calculations regarding the relative importance of self-service stores. Despite this fact, admittedly rough estimates of sales volume showed that in 1959 these stores, comprising .14 per cent of the total number of grocery stores, had 1.15 per cent of the food sales in Spain (7, p. 24). In June of 1961 this latter figure was reported as 1.5 per cent (9a, p. 3). More recent estimates of this type are not available, but since the data on the number of stores show no really explosive growth in self-service stores, their share of the food market must be of the same general magnitude. This record shows that self-service has made a beginning in Spain, that it is growing, but that it is still a very long way from revolutionizing food-marketing in Spain.

### *Other Achievements*

The data on the number of stores very plainly indicate that supermarkets and self-service have made only limited progress in Spain. One may ask, however, what effects have they had where they were introduced? Did they succeed in lowering food prices and improving the conditions under which food was sold in those areas?

The writers in the financial press in 1960 credited the supermarkets with the

<sup>10</sup> Sources for these figures are the same as for Table 1.

stabilization of food prices that occurred at that time (2a, p. 1992). Since the appearance of the supermarkets coincided with the fiscal, monetary, and wage policies of the Stabilization Plan, the supermarkets got credit for what was mostly caused by something else. Nevertheless, the fact that the supermarkets apparently were the leaders in reducing prices, with the majority of other food stores following suit (2b, p. 1676), lends support to the contention that they were effective in their price-restraining mission.

Not only did the supermarkets hold down food prices but they also gave the consumers cleanliness, quality products, and true measure (2c, pp. 664-65). Shoppers in the new supermarkets also enjoyed a greater variety of goods than was offered in the traditional stores (2d, p. 1818). Further, some of these advantages were transmitted via competitive pressures to the traditional service stores.<sup>11</sup>

The problem of the allegedly monopolistic intermediaries, however, apparently remains. The head of the Commission on Supplies and Transportation, in discussing food prices in early 1963, still continued to refer to the problem of the purportedly monopolistic intermediaries and reported that the government was studying ways "to pass the river of the intermediaries who charge abusive prices for the use of their boats" (11, p. 2). Since "Operación Supermercados" did not result in the establishment of large chains, there did not emerge large-volume buyers who might have exerted some countervailing power against these intermediaries.

#### EXPLAINING THE OUTCOME

##### *Managerial Deficiencies*

Perhaps the most noteworthy part of the data on the number of supermarkets is the sudden halt in the rise in 1961. In October of that year a trade publication referred to the installation of new supermarkets as "almost paralyzed" (9b, p. 1). In January of 1962 the financial press, in reviewing the developments of 1961, reported the closing of numerous supermarkets and referred to the "Crisis in the Supermarkets" (2e, p. 210). In April *El Economista* entitled its commercial report "Has the Supermarket Failed?" (2f, p. 783). A year later the same trade journal answered that question: "The supermarkets have failed in Spain." It estimated that the total losses of the supermarkets had been more than 100 million pesetas (about 1.7 million dollars) (9c, p. 9). Because of these failures, the image of the supermarket changed from a promising business venture to a bitterly disappointing one. The consequent dampening of enthusiasm for supermarkets, according to many observers, accounts for the slow growth of supermarkets since that time.

The generally accepted explanation of these failures was the lack of knowledge of the food-retailing business on the part of many of the promoters of the new supermarkets.<sup>12</sup> "The system of supermarkets did not fail nor can it fail: it was the men who failed" (9d, p. 9). This statement suggests that the failures were not due to a lack of consumer interest in supermarkets. Nor, in the light of the

<sup>11</sup> Interview with Sr. A. de la Barga, an official of the Commission on Supplies and Transportation, the government agency which established the state's supermarkets.

<sup>12</sup> Interview with Sr. A. Sanz, an official of the National Cash Register Company in Spain.

small number of supermarkets opened, could the failures possibly be ascribed to overexpansion. The fundamental cause of the failures seems to have been the faulty management of enterprises by those who had little experience in this field.

More specifically, the lack of success of some of the first supermarket operators was due to their failure to keep costs down to a minimum (2*h*, p. 2455). It was felt that the operators were paying far too much for the space which they occupied (2*i*, p. 240). The equipment and furnishings of these stores also contributed to high overhead costs. The promoters who set up the first supermarkets in Spain were not copying the austere premises, with merchandise piled on pine-board tables, that served as the initial supermarkets in the United States in the 1930's; rather, they modeled their stores after contemporary American supermarkets. According to the manager of one chain of supermarkets, Spanish supermarkets were born full-grown; they did not have to pass through the stage of cheap and unattractive surroundings that characterized early American supermarkets. He reported, more with a note of pride than of complaint, that large sums had been invested in equipment for handling frozen food that proved to be "almost completely unproductive."<sup>18</sup>

High overhead costs, plus the failure to reduce operating expenses through a reduction in the number of employees (2*f*, p. 783), left some supermarkets with a high cost structure. This condition would not have been fatal if the new supermarkets had been able to attract a sufficiently high sales volume, but this many supermarkets failed to do. The ability to keep costs in line, a characteristic which distinguished the experienced food sellers from the others, also distinguished the successful from the unsuccessful.

### *The Inherent Difficulties*

Any judgment concerning how successful the Spanish government's program has been must take into account the particular difficulties encountered when a food-marketing institution that thrives in one economy is introduced into another society having quite different economic and cultural characteristics. The conditions necessary for successful operation of modern food-marketing institutions may simply be lacking in the underdeveloped economy.

Specifically, successful supermarket operation requires these conditions:

- (1) A large potential market for the individual store, based upon either a high population density or transportation facilities available to consumers.
- (2) Consumers with incomes high enough to purchase items other than the low-margin staples.
- (3) A willingness on the part of consumers to abandon traditional buying habits.
- (4) Packaged, preferably branded, merchandise for self-service.
- (5) A well-organized system of distribution below the retail level to provide adequate supplies of graded produce.
- (6) Properly located store sites of appropriate size and adequately trained personnel.

<sup>18</sup> See 2*j*, pp. 2115-16. Six months later *El Economista* reported that this chain of supermarkets was being closed (2*f*, p. 783).

In some parts of urban Spain these conditions exist on a wide enough scale to support a limited number of supermarkets. But for vast rural regions, and even in some urban areas, these conditions do not exist and supermarkets are not viable. The success of the government's program to introduce new food-marketing institutions should be judged in the light of the limited possibilities.

## CONCLUSION

"Operación Supermercados" did not attain its ambitious goal of transforming food marketing in Spain. Five years after the start of the program, supermarkets were still rare in Spain, and self-service was employed in less than two per cent of Spain's grocery stores. But a program which appears as a failure when measured against its ambitious goals might appear as a modest success when results are compared with the situation existing before the program. Inasmuch as there were no supermarkets and practically no self-service in Spain in 1958, "Operación Supermercados" has a valid claim to some measure of success. Largely due to the government's initiative, a new food-marketing institution now has a foothold in the Spanish economy. The fact that it is no more than a foothold attests to the serious impediments that stand in the way of the introduction of a modern marketing institution in underdeveloped economies.

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