

**NEWSLETTER**

**INTERNATIONAL**

 ENGLISH VERSION

**IRAN**



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## DISTRIBUTOR OR SUBSIDIARY?

After the international sanctions on Iran were lifted on January 23, 2016, the Iranian market again became top-priority for many export-oriented enterprises. For some of them, Iran was a major distribution area before the sanctions were tightened, and today there are many indicators that this country may soon start playing this role again.

At the moment about 130 European companies have representative offices or legal entities with own staff in Iran, most of them engaged in sales only. At least twice as many companies are working in the Iranian market through local dealers.

What marketing model will be the most effective for Iran? Basically, three models may be suggested here, as in other export markets:

1. Cooperation with one or more **distributors**, which will undertake import and sales of goods. This model entails low risks, as there are almost no costs. The main drawback is that the distributor receives the major portion of the margin, no contacts with end consumers are established, and as a result the company is not able to develop valid in-house intelligence on the local market.
2. Accreditation of a **representative office** with own local staff will provide a closer contact with distributors and their better management, and will help establish contacts with Iranian end consumers. Costs related to staff and office activities will be compensated by the possibility to control price setting and to exclude distributors from the sales chain, where direct business would be more efficient.
3. Establishing a **subsidiary** will enable the company to conclude deals in domestic currency, to import goods and to render services independently. Those companies willing to use own warehouse facilities or to produce goods in the destination country, will have to register a local legal entity anyway.

The Iranian government is encouraging and supporting the localisation of production facilities within the country. At the moment it remains to be seen, however, whether Iran will actually be able to turn into a sizeable local production hub for international businesses.

CT Executive Search assists in recruitment of managers and specialists for representative offices and subsidiaries in Iran. We also assist international companies in choosing and assessing distributors in cooperation with our local partners.

## EXECUTIVE RECRUITMENT IN IRAN

The Iranian labour market has some peculiarities which may be partially attributed to the country's long-standing isolation.

Many Iranian managers seek employment in international companies, while the actual number of qualified managers is of today quite limited. This is true not only with regards to "hard" requirements, e.g. education or foreign languages skills. While Iranian technical universities do not measure up to the global highest standards, they still produce engineers able to successfully work for international companies.

Above all, the country is lacking managing staff which could be a "bridge" linking the local market and the needs of international companies. Those candidates with experience of working only in Iranian companies often find it difficult to integrate into an international business, as approaches to reporting and compliance are very different.

That is why companies would normally seek after those candidates having experience of working with "Western" employers. Thus, we can envisage a kind of "a war for talents" – which happens normally when many enterprises would enter a market simultaneously and start hunting for an undersupply of candidates.

At first glance, it would seem that expatriate Iranians (i.e. millions of people of Iranian descent living abroad) are an ideal alternative to specialists at the local labour market. Those often get university education in their new homeland, and they know Farsi – their mother tongue, which should help them to successfully represent international companies in Iran. Nevertheless, such specialists are usually not ready to relocate completely to Iran. The actual candidate's level of awareness and knowledge about modern-day Iran should also be considered carefully.

International expatriates can be of interest, in particular, in those cases, where a technology transfer is needed (for instance, within the course of production start-ups), or where a new local enterprise is to be established in Iran with a structure similar to that of the international company. Depending on the particular goal, the company may choose to send own employees to the destination country or to choose from third party candidates.

Main peculiarities of the Iranian executive market may be summarised as follows:

- Iranian executives generally display interest to working with international companies. European employers are valued for their trustability, expertise and the attractive remuneration system.
- The supply of candidates with international backgrounds is limited. Growing demand for such specialists will, in the medium term, entail a rushing increase in management remunerations.



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- Recruitment of foreign specialists is linked to a great number of bureaucratic hurdles, but still is essentially feasible.
- At the moment there are no major communities of expatriates in Iran, even in the capital. Still, there is some infrastructure available, for instance international schools in Tehran. Expatriate candidates need to be recruited in other countries – such cities as Dubai or Abu-Dhabi have candidates who (at least pointwise) may have had exposure to the Iranian market.

Companies planning to establish significant operations in Iran should develop a sound understanding of the local HR market. Market mappings and salary surveys can generate an idea of local conditions and help to identify relevant candidates in due time. As in other high-growth markets, employee retention will presumably become a major task in Iran as well.

## MARKET ENTRY CONSULTING AND DISTRIBUTOR SEARCH IN IRAN

A thorough market entry consulting process will always start from an analysis of the current situation. First of all, it implies answering the general question of whether the activities in Iran have chances for success. The second stage implies a survey on the ways of structuring of the company's entry into the market.

The initial review allows answering the following questions:

- What has been the experience of the company in Iran so far? What internal resources does the company have to implement the market entry?
- What is the situation with the business competition locally, what is the structure of price setting and what are the government policies regulating the imports of particular goods in Iran?
- Is the Iranian market on the whole ready to accept the particular goods?
- What are the regulations on products registration and admission at the moment?

On the basis of these data management can render a balanced decision as to whether it is rational to commence activities in the Iranian market.

For some enterprises willing to enter the Iranian market, cooperating with a local distributor may seem a true stride. One or more competent, reliable and, above all, highly-motivated local partners may become a dominant factor for business success.

There are many firms in Iran representing foreign companies. Among them, there are both large corporations embracing several industries or classes of goods, and small companies. Most of them are acting as importers, some also render services in the sphere of product admission.



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Depending on the particular requirements to products and strategic goals, international companies in the Iranian market will apply various collaboration models. First of all, a company shall decide whether it is rational to collaborate in parallel with several dealers or to choose a single exclusive well-proven distributor.

Under some circumstances, engaging one or more commercial agents is sufficient. In the latter case, those are mainly sales agents, who are paid in proportion to the values of goods sold, and who do not act as mediators or importers. The company should not start looking for potential dealers or partners, until it has defined the preferred collaboration model.

Local companies should be identified and chosen under a rigorous procedure, based on objective standards to assess potential partners.

While the adviser is in charge of the search, establishing of contacts and preliminary selection of enterprises, the company representatives will carry out discussions of the key issues of the potential cooperation. Here they as well might be assisted by the adviser who is well-acquainted with Iranian business customs and practices.

Even if the local business rules and practices are different from the European traditions, still most Iranian businessmen are interested in long-term mutually beneficial collaboration and will negotiate purposefully and reasonably. There is a large potential of respectable potential business partners in Iran.

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## EXECUTIVE SEARCH

### EXECUTIVE SEARCH EXPERTS IN ASIA, RUSSIA & CIS

CT Executive Search assists international companies in recruitment for key positions in middle and senior management. We set ourselves apart through a clear focus on the economic area of Asia, Russia and the other countries of the former Soviet Union, and on sectors in which our consultants feel perfectly at home due to many years of experience.

Via structured and documented searches processes, our consultants ensure access to the best candidates on the market. They are experts in cross-border recruitment processes and familiar with the characteristics that candidates require in order to work successfully in multinational companies.

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