

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION



GETTING STARTED IN IRAN



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“ECONOMIC GROWTH WILL BE TANGIBLE NEXT YEAR”

How do you assess the current interest of the German economy in Iran? Is it as significant as last year?

The answer depends on how to define „significant interest“. The number of delegation trips is lower this year, also the number of participants in the visits. Instead of large-scale delegation trips, individual business visits are now increasingly taking place in Iran.

The year 2016 was certainly an exception. At that time Iran returned to the international community after many years of severe sanctions. The interest of foreign companies today is more specific, but not necessarily lower than last year.

Iranian foreign trade is growing steadily, if not in the hoped-for way. In principle, the development is to be assessed positively and it should continue in 2017 as well.

Why have most international companies refrained from implementing their announced direct investments in Iran?

There is no trend to retreat from Iran. Some companies had declared more or less vague plans and declarations of intent anyway.

It is clear that no company starts its work in Iran with its own production. Companies always want to get to know the market. If it is worth it, then the production follows on the spot.

Other direct investment projects have been postponed due to financing problems, for example. Some companies also fear a „snap-back“ of the sanctions or other risks associated with American policy.

For which sectors do you see particular potential in Iran?

Solar energy is developing very well in Iran, as well as generally the renewable energies. Solar energy is booming and many German companies are participating and investing. A few weeks ago, for example, a solar power plant was put into operation in the Hamadan region, another in the Kerman region. There is still a lot to be done here - even if there are still problems with the financing. The government's goals in the areas of solar and wind energy are certainly buoyant and there are correspondingly many opportunities.

Other industries with a lot of potential are automotive, petrochemical and the food industry.



Amir Alizadeh

Deputy Managing Director of the German-Iranian Chamber of Industry and Commerce, Tehran

What are the biggest obstacles to a commitment in Iran? How could the Iranian government improve the business conditions?

The most important task would be to bring the banking sector up to date and to carry out a standardization. This sector is of key importance for the development of the Iranian economy, because of the embargo it has missed many developments of recent years. The international banks must, of course, also participate in the process by cooperating with Iranian banks.

The Rohani government is already working to reduce bureaucracy. Sometimes laws change even too quickly, so companies have problems to keep up. More stability would be good to increase planning certainty - but this problem exists in many countries.

What economic development do you expect in the coming years?

2017 was an election year with many changes. The institutions must first sort and reorient themselves, which will certainly take a few months.

The economic trend will continue positively. I believe that economic growth will become more tangible for people and businesses next year.

At the moment, Iranian industry is still in recession. Macroeconomic growth is mainly based on oil trading and the quality of growth has not yet been satisfactory. Unemployment is growing - but it should decline. Further reforms and improved financing possibilities are the prerequisites. When these factors take hold, economic growth can be felt by all in one or two years.

The German-Iranian foreign trade can climb again shortly to 5 billion euro, which would be the state of 2010. In the long term there is then much more growth potential.

“MANY INDUSTRIES STILL LACK THE SERIOUS INTERNATIONAL PLAYERS”

What services are mostly demanded by your clients?

Since 2016, we have executed numerous distributor searches for our German, Austrian and Swiss clients. Particularly medium-sized companies from the mechanical engineering, medical instruments and consumer goods sectors are interested in searching for distributors in Iran.

At the same time, the demand for other services has also grown, for example in the areas of accounting and payroll outsourcing. Many companies with small subsidiaries with three or five employees in Iran do not wish to set up their own accounting department, hence our services hereto get much attention.



Dr. Alireza Azimzadeh

Managing Partner of the legal and business consulting firms Persia Associates and Persia Consulting / Senior Advisor of CT Executive Search

Besides that, with our offer of virtual and shared offices we have expanded dynamically. We can also provide legal addresses, which is particularly interesting in the context of company registrations for companies, who have not found an office space yet. In recent months, we have registered about 30 new companies. The registration of a company according to Iranian law takes an average of 30 working days after submission of the documents. In the case of representative offices, the registration takes about 45 working days.

How does a distributor search work? How much time should companies budget for the process?

The duration of the project depends very much on the industry. In well-developed sectors with strong and professional Iranian players searches go more quickly - for example in the consumer goods, pharmaceutical and medical instruments industries.

Searches in niche areas can take up to 12 weeks. After this period, the final shortlist with the most promising candidates for a cooperation is available. It is then up to the client how quickly the negotiations are being started and an agreement can be reached. In any case, we ensure that the client only meets companies validated on previously agreed criteria.

Iranian interest in cooperation with European companies remains high. However, the payment morale of the Iranian partners sometimes leaves something to be desired. Often, the distributors themselves wait long for payments from the end customers and therefore have only low liquid funds.

The government leaves itself time with paying its bills. The suppliers must therefore be flexible with regard to the payment modalities - this is not always manageable, especially for SMEs.

What advise can you give European business people for negotiations with Iranians?

It is important to understand the Iranian side and its reality. You have to acquaint with the market. Fact-finding tours can be a great help for that. For example, we organize three to four-day visits to Tehran and other cities for business people who want to get to know Iran. They have the opportunity to visit companies, get to know people and get an overview of the competition.

Many Iranian companies are in a difficult economic situation and negotiate hard to get special conditions. In combination with the culturally persistent negotiation approach, including the tendency to re-negotiate already agreed topics, this can mean complicated discussions. Fixing agreed-on issues in writing might help.

European companies continue to be welcomed in Iran. However, many Iranians are wondering how long-term the European partners are. Does the company remain in Iran despite Trump?

There is often the subconscious fear that companies might leave the market if the political situation changes. Many Iranians also believe that the Europeans are not doing enough to persuade their banks to revive the Iranian business.

How do you rate the legal environment in Iran? Are there typical legal pitfalls for European companies, e.g. in labour law, licensing and customs?

The Iranian legal system is well defined, but the executive guidelines leave much room for maneuver.

Some legal principles can also be problematic. After the revolution, Iran was determined to do everything by itself and to produce locally. The laws encourage companies not only to sell in Iran but to seek local partners to achieve an added value in the country.

Within the institutions there are different opinions. Some want to spare foreign companies and encourage them to engage in Iran, others want to put pressure on them and force the local content right from the beginning.

This frequently causes difficult situations and the administration acts ambiguously. In the district tax authorities, it does not matter whether they are dealing with an Iranian or a foreign company. The Investment Protection Agency, which is part of the Ministry of Finance, actively tries to make life easier for value-creating companies though.

The degree of bureaucratization is high and many things are still complicated. The upper part of the government wants investors to come - but the lower part of the civil service lives in its daily routine. For international companies, it is often difficult to adhere to compliance regulations in such an environment. It is then the legal adviser's task to enforce legally clean solutions.

Despite all the problems, the Iranian market has a lot of potential. Many industries still lack the presence of most of the internationally established players. In some industries, there is only one serious international company, which has established itself on the market and lets nobody know how well it is earning.

Ultimately, Iran is a country with a population of more than 80 million. Many of its citizens are very young. They all have daily needs, are eager to be up-to-date and prepared to spend money on that.

LABOUR MARKET PROVIDES INVESTMENT BACKWIND

Since the „Implementation Day“ and the lifting of sanctions against Iran, a year and a half have passed. It seems clear now that the most optimistic forecasts for the development of the Iranian economy, the European-Iranian foreign trade and the investment activity of European companies in Iran have not come true.

Nevertheless, international interest in Iran has risen sharply - in 2016 it was also fueled by positive media coverage and numerous high-ranking delegation trips organized by economic associations and state institutions. However, the outcome of the presidential election in the USA and persistent financing problems connected with Iranian business have considerably cooled the mood of many market players. Correspondingly, the demand of European companies for executives for Iran has also declined - last year's peak was followed by a stabilization at a lower level.

Thus, a „war for talent“ can be observed only among candidates for senior sales positions in foreign subsidiaries and representative offices.

Most international companies prefer Iranian candidates to fill their key positions in sales and marketing. However, Iranians without a „western“ background through working experience in an international company or studying abroad, are only considered in exceptional cases. Companies expect candidates to be familiar with how international companies work - and with the sensitive issues of compliance and matrix reporting.

The share of the much-called Iranian repatriates among the executives of international companies in Iran is low in reality. One reason for this is the relatively low willingness of this group to return permanently to Iran.

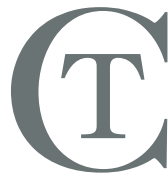
At the same time „local“ Iranian managers are usually highly interested in joining an international company. Among these, European employers are clearly preferred to Asian companies.

The willingness to switch from an Iranian or Chinese company to a German or French company is correspondingly high. In addition, most candidates clearly consider the change from a local distributor to an international OEM as a career step.

All in all, European companies are in a good negotiating position in recruitment processes. This is due to their attractiveness as well as the still relatively low demand on the Iranian market. From an HR perspective, the conditions for an entry into the Iranian market are still favorable.



Christian Tegethoff
Managing Director CT
Executive Search



EXECUTIVE SEARCH



EXECUTIVE SEARCH EXPERTS IN ASIA, RUSSIA&CIS AND THE MIDDLE EAST

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 areas of the Middle East, 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.

HELSINKI

Partner Office
Paciuksenkatu 27
00271 Helsinki, Finland

MOSCOW

CT Executive Search LLC
Central Office
Shlyuzovaya nab. 8,1
115114 Moscow, Russia
Telephone: +7 499 678 2111
E-Mail: office@ct-executive.com

TEHRAN

CT Executive Search
Iran Desk
Teheran/Berlin/Moscow

SHANGHAI

Partner Office
Suite 919, 993 West Nanjing Rd.
Shanghai 200041, China

BERLIN

CT Executive Search LLC Liaison Office
10117 Berlin, Germany

NEW DELHI

Partner Office
301 Eros Corporate Tower
Nehru Place
New Delhi 110 019

DUBAI

CT Executive Search
Middle East Desk
Dubai/Berlin/Moscow

