

# STRATEGIES FOR SUCCESSFUL BUSINESS DEVELOPMENT IN IRAN

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There is no doubt, Iran has a lot of potential. It is a country that boasts a domestic market of 65 million people, 93 billion bbl or approximately 9% of the world's proven oil reserves, 21 trillion cubic meters or 15% of the world's proven gas reserves, 11 petrochemical complexes producing 13% of the Persian Gulf region's petrochemical output, major deposits of copper (2<sup>nd</sup> largest in the world), iron ore (9<sup>th</sup>), zinc (1<sup>st</sup>) and much more.

***Iran is a country full of opportunities, but ...***

However, the big question for foreign companies is how to turn this potential into concrete business.

Foreign companies that have experienced Iran can tell you many stories that are partly funny, partly sad. The common theme in all these stories is that Iran is, in many ways, different from other markets; business is usually difficult, time consuming and at times downright nerve wracking.

Frequently the reason behind all these problems is that the foreign company did not pay enough attention to the legal and administrative side of its business in Iran from the very start.

***... most foreign companies are facing big difficulties.***

Every foreign company is in a different situation and there is no one, universally applicable rule on how to start and to develop business in Iran. That said, this article provides some advice for small and medium size companies on how to successfully enter the Iranian market with low initial investment requirement.

Some general recommendations should be given upfront: **Take one step at a time!** Don't try to build your business overnight. Keep your expenses low in the beginning, test the market and don't believe those who swear they can perform miracles and get you into business in a blink of an eye (no matter whom they claim to know).

## STEP 1: SHOW YOUR COMMITMENT

In the past few years, Iran and Iranian managers have seen many foreign businessmen and export managers, coming on their own or in the framework of a business delegation, trying to win business here. They usually bring a lot of shiny catalogues and send various follow-up faxes from far abroad.

***Show your commitment by ...***

Doing business in the Middle East and especially in Iran means you have to show commitment. Such commitment can be displayed in many ways: by investing heavily in business development, by immediately setting up a large office, by

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jetting back and forth a senior manager to Iran every two weeks to follow-up of developments, etc. However, the above strategies translate into spending a lot of money immediately, without knowing when the first contract can be signed. Such a strategy might be appropriate for large, resource-rich companies, but not for small and medium size firms.

A better strategy is showing commitment by registering a subsidiary in one of Iran's Free Trade Zones.

Iran has three Free Trade Zones: Chabahar (port city close to Pakistan), Kish (island in the Persian Gulf) and Qeshm (island in the Strait of Hormoz).

Registering a company in Iran gives the Iranian side a clear sign that you are serious about doing and developing business in Iran and you have not just come for a quick look.

Registering a company in the Free Trade Zone has the following advantages compared to registering a company in Tehran:

- **Fast & Easy Registration:** Registration in Tehran takes anything from 6 to 12 months, registration in Iran's Free Trade Zones takes a maximum of 3 weeks
- **Low Registration Costs:** Registration in Tehran cost usually from Euro 10,000 upwards, turnkey registration in the Free Trade Zones costs Euro 3,900. The minimum charter capital is Euro\$ 100, whereas usually a charter capital of Euro 1,000 is recommended.
- **Low Operating Costs:** You can rent a registration address in the Free Trade Zones for Euro\$ 250/month or for Euro 400/months including secretarial, telephone answering and fax forwarding service.
- **No Taxes:** As soon as you open an office in Tehran the taxman is at your door. The Iranian tax system is arbitrary and the fact that you have not signed any contract yet, will not keep you from facing a big tax bill. The Free Trade Zones offer 15 year tax exemption on income and assets and you can be sure that no-one from the tax office will ever disturb you.

## **STEP 2: FIRST CONTRACTS**

With a successful strategy, usually after a few month of business development you should be close to signing your first contracts. Iranians are tough negotiators and you can be sure that they will press you hard to reduce your prices to the absolute minimum. However, when having a Free Trade Zone registered company, you will have two substantial advantages over your foreign competitors:

- **Invoicing:** Most Iranian companies have plenty of Iranian Rials, but little or no foreign currency. They have a hard time importing foreign products and services. In the past they were getting subsidised US\$

***... registering an office in Iran's Free Trade Zones.***

***Turn-key registration for Euro 3,900.***

***Invoicing in Rials, with no need for a letter of credit ....***

from the Central Bank. However, the Iranian government has changed its policy. On the one hand they give Iranian companies much more freedom in developing contacts with foreign companies, but on the other hand, Iranian companies have to earn hard currency themselves. In practice this means that only Iranian companies that export have a chance to import for US\$. A Free Trade Zone registered company can invoice Iranian companies in Rials. The Rials can then be exchanged at the Free Market Rate through private exchange offices in the Free Trade Zones into US\$ and be transferred to any account outside Iran. This process is completely, 100% legal. Meanwhile, allowing your Iranian client to pay in Rials gives you a big advantage over your competitors.

***... will give the edge over your competitors.***

- ***Letter of Credit:*** Iranian companies can only import goods via letters of credit. Iranian banks are very rigid in opening l/c's and request various securities from their clients. This does not apply to the Free Trade Zones. When your client purchases goods or services from your Free Trade Zone registered company, no l/c is required and you can agree on any terms and conditions of payment, including cash in advance. This will be a big incentive to your client to purchase from you and will shorten the entire transaction by many months.

***A tax-free rep office in Tehran and a fast delivery from a warehouse in Kish ....***

### **STEP 3: BUSINESS IS PICKING UP**

When you are able to offer your goods and services in Rials and without l/c, the word will spread fast and it is very likely that you will soon get regular business. At this stage we recommend that your company expands as follows:

- ***Rep Office in Tehran:*** A permanent rep office in Tehran will allow you to give your clients much better service and to penetrate the market in a systematic way. The laws and regulations of Iran's Free Trade Zones state that any company registered in the Free Trade Zones can open representative offices in the Iranian mainland. As long as they are only involved in liaison and marketing services, they are not subject to taxation.
- ***Warehouse:*** Once you have a proven and steady demand for your products it might make sense to set up a permanent warehouse in the Free Trade Zones. The obvious advantage of doing so is that you can keep a certain supply of goods that are in high demand handy. Immediate availability as compared to one or two months of delivery time will give you another leg-up over your competitors. This edge is particularly advantageous in Iran since many Iranian companies tend to order in the last minute. There are plenty of warehouses and other facilities available for rent in the Free Trade Zones. Thus, setting up a warehouse does

***... will ensure that you stay ahead of your competitors.***

not create large capital expenditures.

#### **STEP 4: ASSEMBLY/PRODUCTION**

Once you have a high and steady demand for your product you might consider assembling or actually producing your product in the Free Trade Zones. The basic preconditions for successful assembly/production are:

- Easy production/assembly methods (don't try to make computer chips in Chabahar)
- Low capital expenditures
- Proven demand in Iran and/or Iran's neighbouring countries.

Producing/assembling in Iran's Free Trade Zones has the following advantages:

- Tax exemption for 15 years on income and assets.
- Labour, energy and raw materials is cheap and readily available.
- 'Added-value' regulation: Any value added to a product in the Free Trade Zones is exempt from import duty when sold in the Iranian mainland. In addition, the Free Zone Organisations is usual quite generous when determining the portion of 'added value' (60% to 70% value addition is the rule rather than the exception). This means that for part of your production you don't have to pay any import duty, which means that even in case you sell 100% of your products in the Iranian mainland the average import duty decreases considerably.
- Maintenance: You can offer additional service to your Iranian clients by setting up a small repair/maintenance unit. There is a clear trend among Iranian companies to purchase only from foreign producers of machinery/equipment that offer repair and maintenance services inside Iran. Among others, NIOC, is presently putting pressure on its suppliers to establish maintenance facilities in the country.

All four points together will give you a substantial price and competitive advantage over your competitors.

#### **WHAT TO DO IF YOU WANT AN AGENT?**

Some of the advantages listed above are also available if your company chooses to work in Iran via an Iranian agent. Usually this agent has an office in Tehran and sells your products/services on a success fee basis.

Now, if your company registers a subsidiary in one of Iran's Free Trade Zones, you gain the following additional advantages when appointing a representative in Tehran:

**Once you have Iranian experience be creative ...**

**... and think about producing/ assembling in Iran.**

**Free Trade Zone registration and appointment of an agent are an optimal combination.**

- You are less dependent on your agent and can eventually build up your own business
- You can collect money from your clients directly and then pay your agent, rather than hoping that your agent pays you after he has received money from the client

***The decision of entering the Free Trade Zones...***

## **CONCLUSION**

As you can see registration of a subsidiary in one of Iran's Free Trade Zones could offer your company in any stage of business development various valuable advantages. In addition to the privileges mentioned above, you will also benefit from the following facilities:

- Capital and profits gained from economic activities can freely enter and exit the Free Trade Zones.
- Labour and employment regulations are more flexible than in the mainland.
- In case of direct entry into the Free Trade Zones from abroad no visa is required. (There are several flights a day from Dubai to Kish and Qeshm.)
- Goods manufactured in the Free Trade Zones can be exported to other countries without being subject to mainland export regulations.
- Liberal banking and foreign exchange laws based on the free market rate apply.

***...can make a vital difference in the success of your company.***

All that said, registering in Iran's Free Trade Zones does not rid you of all the obstacles in doing business in Iran. You will still face various challenges in dealing with your Iranian clients. However, the FTZ strategy allows you achieve a long-term advantage over your competitors and it will steer you away from some of the day-to-day problems that make life difficult and are time-consuming to solve.

Combining the low costs involved and the absence of any side effects with the potential return from the Iranian market, the risk/return ratio becomes very attractive for foreign companies.

Finally, those foreign companies that are amongst the first to study these new realities will enjoy an additional success multiplier.