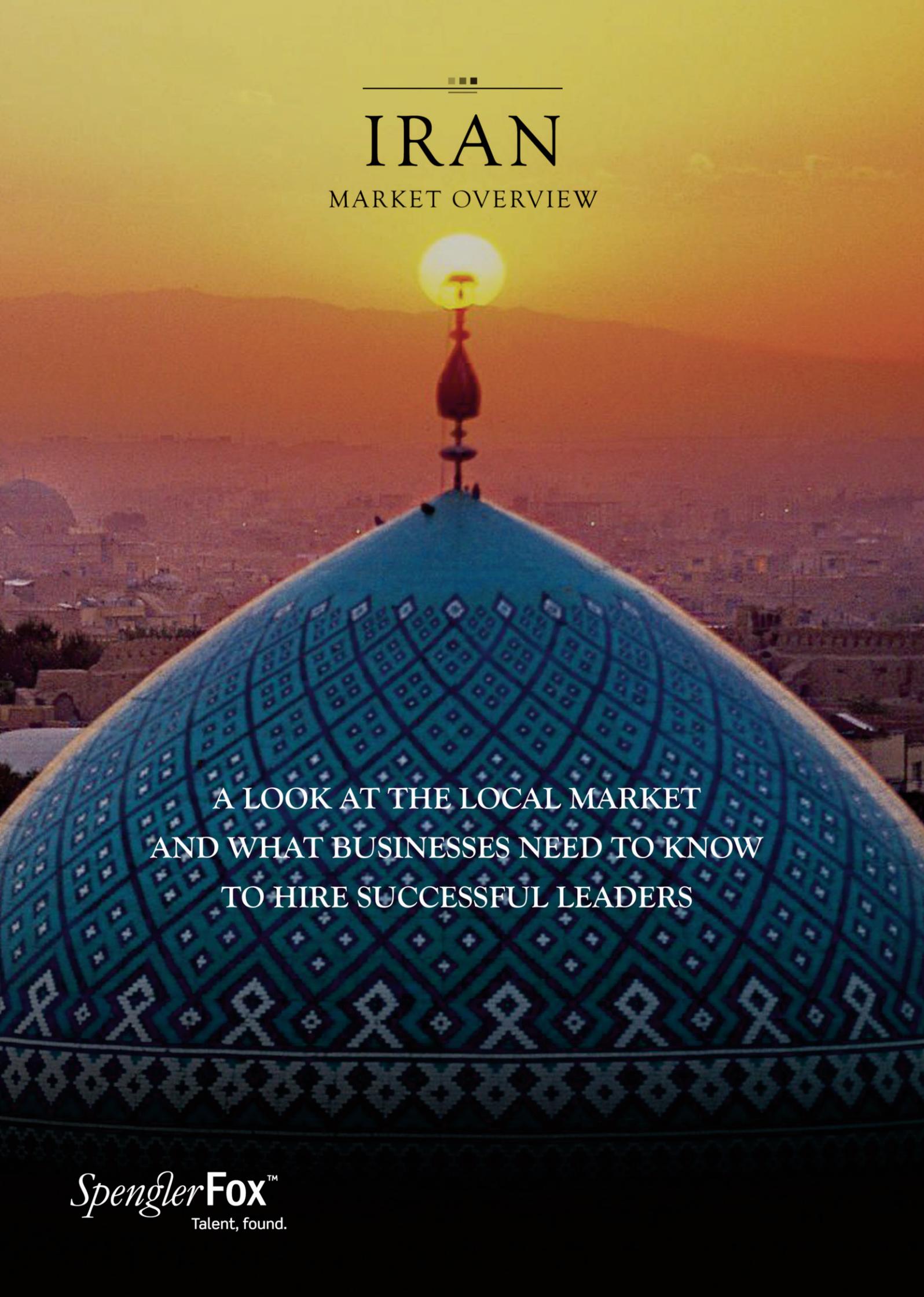




# IRAN

MARKET OVERVIEW



A LOOK AT THE LOCAL MARKET  
AND WHAT BUSINESSES NEED TO KNOW  
TO HIRE SUCCESSFUL LEADERS

## FOREWORD

SpenglerFox began working in the Iranian market in 2009. Our experience involves working for clients in the Consumer, Pharmaceutical, Medical Device and Chemical industries. Interest among businesses to invest in Iran surged in 2015, with more specific needs for talent starting to arise in H2 2016.

That is why we put together this document, which aims at summarizing the findings and observations collected by SpenglerFox Consultants through one-to-one

client and candidate conversations during trips and assignments in Iran. We hope it will serve as a resource for businesses and organisations interested in working on the Iranian market.

To the best of our knowledge, the information contained herein is accurate and reliable as of the date of publication. However, we do not assume any liability whatsoever for the accuracy and completeness of the data collected and presented in this document.

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## TALENT AVAILABILITY, RETENTION AND EXPATRIATES

### Education

Historically, the education system has been a priority area for government investment in Iran. High quality education was mentioned often during consultant interviews. Partners interviewed spoke particularly favourably about training in engineering and medicine. A recent article published by World Education News & Reviews, in its Academic Ranking of World Universities List, named The University of Tehran as being one of the top 400 universities in the world and the same ranking placed Amirkabir University of Technology in its Top 500.

### War Over Talent

Over the past years, a talent gap for executives with multinational experience has arisen on the Iranian market. With only a few multinational organisations operating in Iran, those fortunate enough to have found employment with those businesses and institutions prosper from the learning and development opportunities that these MNCs have to offer.

### Other interesting observations on the market include

- Millennials have employee characteristics or traits similar to the rest of the world; they are demanding and have high expectations.
- Pay is the key factor (motivator) for changing jobs.
- The unemployment rate is relatively high in Iran (11%+), especially amongst the youth population (around 26%). This makes the job market more competitive for locals.
- Companies tend to set up fixed-term contracts with employees. These vary from 3 months to 1 year and are renewed at the end of the contracting period.

Multinational companies often act as doors for local talent to migrate out of the country: especially for new university graduates.

It is an advantage to speak the local language (Farsi) in a traditional market like Iran. This helps executives and managers deal with local authorities and communicate with local clients. However, English is the common language at senior levels in most multinationals.

Women tend to have very strong roles: both in social and business spheres. Looking from the outside into Iran (i.e. via the media), the general perception is likely to be that Iranian women are not positioned equally to men in society and in business structures. However, business women

(particularly those in big cities) are very self-confident and well educated. They do not hesitate to contribute, share their opinions and challenge their managers during meetings. Still, female leaders holding senior-level positions remain scarce in organisations.

The human resources (HR) function is widely perceived as an operational unit within organisations. With the entrance of multinational organisations into the market, this perception is changing towards HR departments being seen as a partner for running the business alongside the leaders of the organisations. There is still a need, however, for qualified HR talent who can act as a strategic partner (in an internal capacity) on behalf of company management.

## TRAINING AND DEVELOPMENT

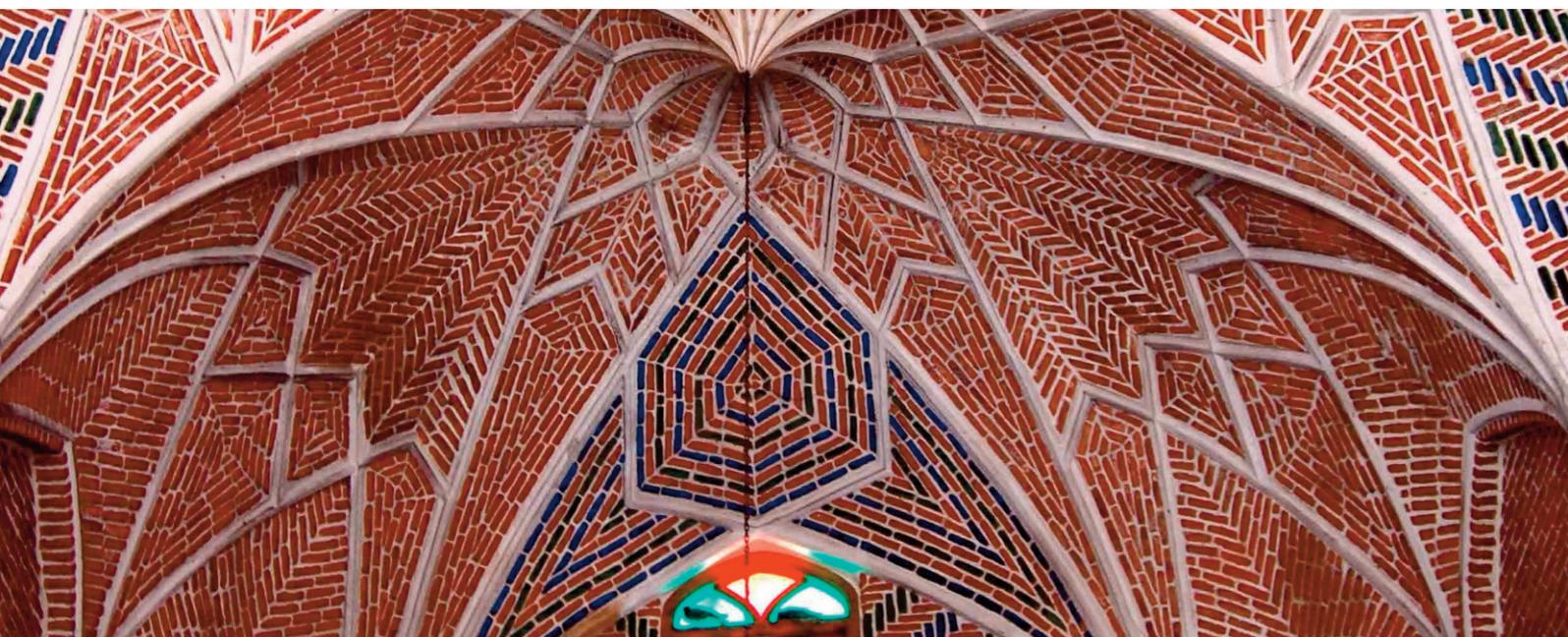
There is a need for training and development of local talent. There is a gap between the required competencies of senior-level roles and the existing competency levels of local employees. Although businesses prefer to hire local executives, senior roles in multinational companies continue to be filled mostly by expatriates or Iranians who have returned to the country.

It's not easy to attract Iranians already working abroad and convince them to relocate back to Iran. Hiring for senior roles mainly happens via traditional, consolidated, personal networks that company executives can leverage when doing talent searches for local operations. Many local experts mention that the market is in need of professional recruitment and search services. On the other hand, companies that manage the Iranian market through their regional offices, do not require local support. They do their recruitment for Iranian operations through their regional hubs.

### Expatriate Community

The expatriate community in Iran is still relatively small. Iranian market experience adds significant value for persons pursuing international careers. Work experience in Iran shows that managers can overcome the challenges of working on a volatile market, of understanding a different culture and of coping with doing business (which they often view to be problematic) on a relatively closed market. The opportunity to gain such work experience makes the Iranian market more attractive to international talent.

Interestingly enough, expats are not confined to compounds where they live as they did in many other countries in the MEA and Asia regions. They tend to live in towns and cities mixed together with locals; sharing the same neighbourhoods and occupying multicultural spaces and buildings. Still, whilst outside, women should follow local traditions for clothing and attire, i.e. covering their heads. Other issues that impact expats include traffic (which they often view to be problematic) and education. However, for expats relocating with children, there are a few European schools in Tehran, though a limited choice.



## SALARIES

Intense competition for local talent leads companies to go way beyond their standard pay policies. This in turn distorts the overall salary (pay) market. New companies entering Iran tend to look first at established multinationals to find the talent they need; they often overpay to lure away talent from these companies. The salary market is partly regulated by the government (minimum wage, compulsory minimum salary increases, etc.). However, for senior-level positions, the market is free (open) and competition is high. Expatriate packages vary according to individual companies' internal policies, which tend not to be based on the external market. Companies collect market data mostly through their own networks.

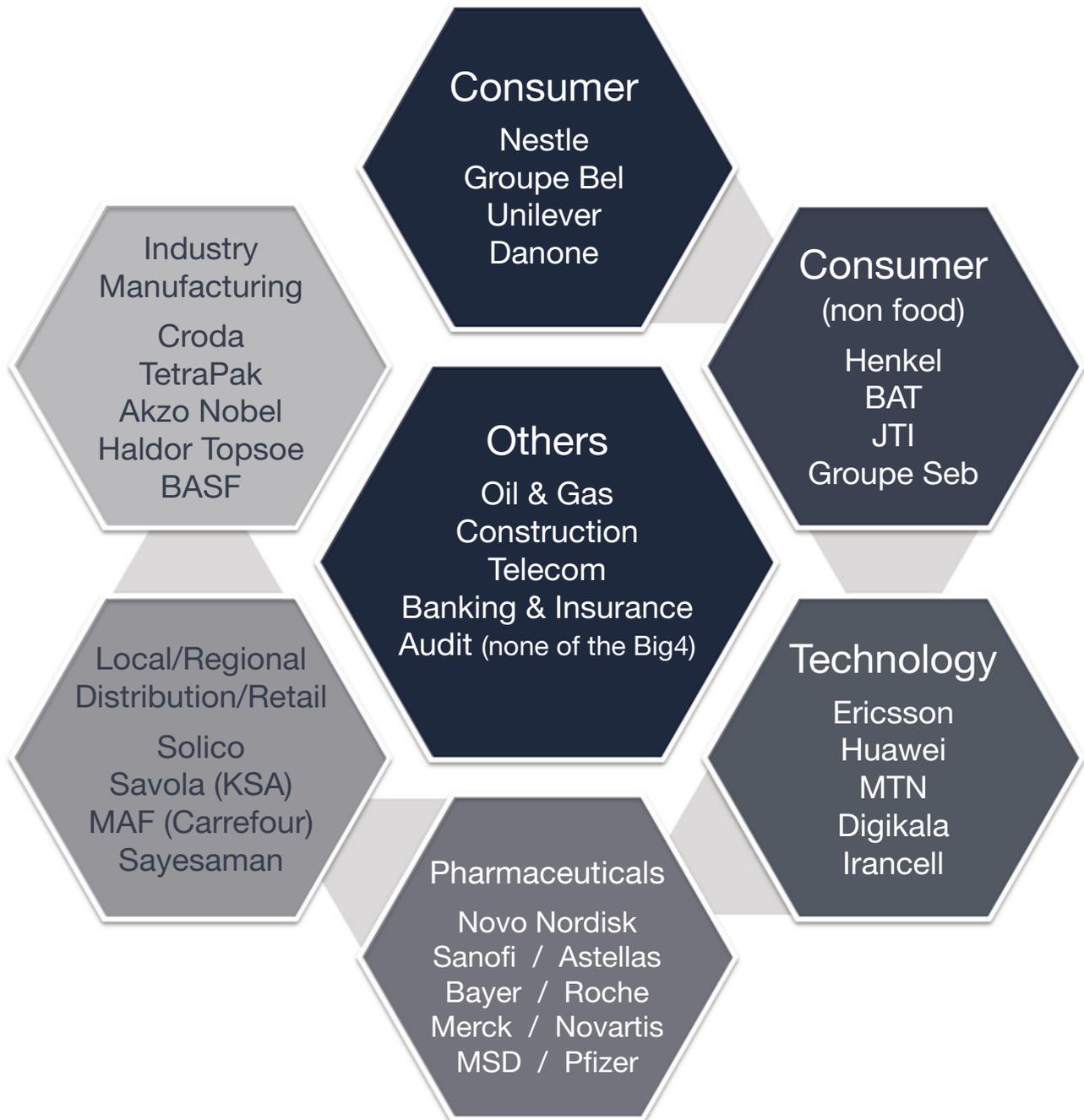
- Salaries in Iran are reviewed annually. Annual minimum increases are determined by government authorities (14% for 2016; and expected to be around 10% for 2017).
- Companies make additional salary increases based on the actual inflation rate and their salary positioning on the market.
- Minimum Wage 2016: approximately 250 USD
- Net Salary - Total Cost to Employer differences start at 30% (for minimum wage) and increase up to 45-50% (for senior-level positions) with progressive income tax rates (0%-10%-20% depending on income levels) i.e. for Net Salary 100, cost to employer = 145-150 for senior-level positions.

Gross monthly salaries in MNCs (for Sales, Marketing, Finance positions)*	
Minimum Wage 2016	250 USD (approx.)
New Graduates (from best universities)	500 - 800 USD
Junior (3-5 years' experience)	1.000 - 1.500 USD
Middle (Brand Manager, Regional Sales Manager)	1.800 – 2.300 USD
Senior (Head of Sales, Marketing, Finance...)	3.500 – 4.500 USD + Car
Local GM / Director (team of 10 people)	6.000 – 10.000 USD + Car

\* The above data was gathered during one-to-one candidate and client meetings. It is not fixed in nature and is provided just to give a general idea of salary conditions on the Iranian market.

## AVAILABILITY OF TALENT:

Key Players already Present with their Teams in Iran



## CONSUMER

### Market Overview

With its population of roughly 79 million persons, Iran is an attractive market for consumer companies. It's a common practice for multinationals to start their businesses through distributors and establish their offices (or acquire the distributor) as soon as they reach a certain size. Major multinational players in the consumer industry have been active on the Iranian market for several years: many of them through distributors.

When entering the market, it is important to establish the right business partnership from the very start. This is key to achieving success in Iran, where things change fast and companies need to adapt their processes accordingly. The right partnership generally involves local partners (companies, distributors, etc.) who know the culture and how to do business in the region. Local partners should have good connections with government authorities which will definitely help in case they need to resolve regulatory matters or engage in lobbying activities. A trusted partnership can help multinationals understand country-specific issues faster and overcome bureaucratic difficulties easier.

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Local production is always preferable in Iran, and for some businesses it is even more of a necessity in order to be competitive on the market.

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Thanks to traditional media, social media and the internet, Iranian consumers are very well connected to the rest of the world in terms of following global trends and brands. Despite being part of the MEA region, Iranian people show consumer characteristics different from those of consumers in other countries in the region. It would likely be a mistake to have a one-size-fits-all strategy for the MEA region when doing business in the consumer industry.

Expectations of the Iranian market have been high over the past couple of years. However, recently, it seems that multinational companies prefer to be more conservative, rather than setting aggressive growth plans for their business activities in the country. Many of them have realised that things are not changing as fast as they had previously expected. They are increasingly aware that they first have to invest in Iran and understand local dynamics and wait for results mid-term.

Companies like Unilever, Nestle, Danone, Henkel, Groupe Bel, BAT, JTI and Groupe Seb, with their fully-owned offices they have set up locally, have helped Iran to build its own talent pool. However, there is still a gap between the required experience for senior-level roles and the current market for upper-level managerial talent. Multinational companies (and even some local ones) prefer to relocate expatriates or repatriate Iranians back to their home country for these senior-level roles.

Labour law is more favourable to employers compared to the situation in more established economies. Short-term contracts (3-months to 1-year) make hiring and firing easier for employers.

## LIFE SCIENCES

### Market Overview

In 2016, Bloomberg News ranked the Iranian healthcare system the 30th most efficient in the world: ahead of the United States and Brazil. The report notes that the average life expectancy in Iran is 73 years, and per capita spending on healthcare equals 346 USD and is growing. Iran has been able to extend preventive services for public healthcare by establishing an extensive Primary Healthcare Network. As a result, child/infant and maternal mortality rates have fallen significantly, and life expectancy at birth has risen as well.

In Iran, the leading causes of death are ischaemic heart disease, strokes and cancer; incidences of the latter have only been on the rise during the past couple of decades.

The market is split among privately-owned entities (a small share representing only 10-20% of the total market) and government-managed entities, which run a large segment of hospitals and clinics. However, the most important and influential player on the healthcare market is the SEPAH-managed part: a semi-military healthcare unit (also called The Islamic Revolutionary Guards Corps), which is strong in funding and invests heavily in the healthcare sector.

Most of the well-known, multinational pharma companies and medical device companies are present on the Iranian market. They operate through joint ventures with local agents. There are different models used in this sector, but payroll operations mainly stay with a local agent or a third party. Some businesses use local companies only as logistics or distribution partners. The most organised pharma companies include brands like Roche, Sandoz, Astellas, Bayer, Sanofi, Merck Serono, MSD and Novo Nordisk. These companies have varied degrees of local representation and penetration on the market.

Novo Nordisk entered the market at an early date. Its investments in the region have helped the company to grow. Moreover, heavy cooperation with, and connections to, the Iranian authorities and investments in

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Bloomberg News ranked the Iranian healthcare system the 30th most efficient in the world

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healthcare campaigns and factories have secured the company a very solid position on the market. The company is highly admired and attractive to local talent.

The current trend is that many MNCs plan to expand organically on the market; rather than doing business through distributors. Medical device companies are still inclined to work with distributor partners; whereas, big players like Siemens, Philips, GE and Getinge continue to work via third parties.

Local companies acting as partners, third parties or distributors tend to be organised based on a family-owned tradition. These companies provide manufacturing capabilities for MNCs. There are several strong companies with regional exposure that are currently going through a transition phase in order to adapt to the expanding market. However, many local companies continue to do business in a more traditional way.

The main constraint for global companies that wish to do business locally is the limitation on transferring money in and out of the country. Although Iran is now reconnected to the SWIFT system, many European and other commercial banks have been reluctant to make transactions involving Iran.

## INDUSTRIAL

### Market Overview

Those countries that are slowly coming back to or establishing new businesses in Iran include ventures from China, Japan, South Korea and Europe. Very few US-based companies have set up Iranian projects, with the only industrial company being GE. The latter company is only present in Iran with its medical devices business.

MNCs looking to enter Iran tend to start by establishing a small, local office, or they look at acquiring a local business with significant market share. Otherwise, the market is dominated by local businesses that use Western technologies from the 1980s and 1990s, along with more modern tools supplied from China, Japan and South Korea.

Many companies produce locally. They make old, reverse-engineered products from times before sanctions were put in place. Production

is based on older licenses and is very simple with little automation. High tax and import duties (for example, in the automotive industry) drive demand for local manufacturing. More sophisticated technologies can create exceptions in this case.

Joint ventures as an entry point is a typical way MNCs try to lower their exposure to risk. They use well-established local partners to gain access to a significant part of the market; for example, a multinational packaging company has access to over 50% of the Iranian market through a joint venture. This is a significant accomplishment.

The distribution-based model (distributors, resellers, retailers, etc.) for sale of basic materials and chemicals continues to work reasonably well. Issues such as currency export and sanctions remain hurdles in many cases.



## TECHNOLOGY

### Market Overview

Iran's ICT market is characterized by increasing investment in infrastructure and overall broader use of technology in all parts of business and society. During the last two or so years, since the agreement on lifting sanctions against Iran was passed, the country's ICT sector has seen a tremendous boom: from the speed-up of internet roll-out across the country and increased use of mobile communications to the government's building of the country's first data centre on the outskirts of Tehran and tremendous growth in the number of start-ups founded by talented, young, Iranian visionaries.

Iran has always been a technologically-advanced society; producing one of the world's highest numbers of engineers per capita. During the time when sanctions were in place, the country was denied access to certain technologies. It is now working hard to catch up. The last couple of years have seen internet bandwidth and mobile communications rise to a whole new level: up to 40 MB/sec for mobile with 4G technology and a 98% mobile penetration for all of Iranian society.

The government is driving much of this investment. It is "sharp" and decisive in bringing new technologies to the Iranian market. The state is also helping local businesses develop by creating innovation hubs and funding some larger projects. This drives creation of new jobs for the country's population of 79 million. Understandably, many of the fastest-growing ICT businesses in Iran are those that were established in the post-sanction era.

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International ICT companies struggled to access the Iranian market because of sanctions and thus missed out some opportunities to work with local emerging players. The latter are becoming more and more agile. Among international ICT players, Ericsson and Huawei have a substantial presence, while American companies are only starting to review their possible positioning on the Iranian market in a post-sanctions world. One senior executive from an American hardware producer qualified his company's entry onto the Iranian market as follows: "It

will require a major change in management thinking before we are told that we can once again focus on the Iranian market." Multinational businesses that remain committed to doing business in Iran are looking for creative ways to get their products to market, e.g. through Chinese channels, etc. Meanwhile, banking system sanctions have been lifted and inter-country payments are once again permitted.

In terms of sales models, most ICT companies operate through resellers. The latter have local trading offices that

are often managed out of Dubai in the UAE. The downside to this set-up is lack of control over company trademarks and intellectual property – there have been numerous cases of sales of counterfeit IT products reported in Iran. On the upside, having an Iranian partner allows access not only to a needed client base, but also to human capital, e.g. technical staff trained to use major global products: from brands like Cisco, Juniper, etc. It is worth noting that local legislation now allows for 100% ownership of a local business by a foreign entity.

## IRAN COUNTRY DEMOGRAPHICS

- With an estimated 79 million inhabitants, Iran has the second largest population in the MENA region after Egypt. It is the 17th largest country in the world population-wise.
- Iran has a young population with a median age of 27. More than 64% of Iranians are under 30 years old.
- With an annual GDP of 394 Billion USD, Iran has the second largest economy in MENA after the Kingdom of Saudi Arabia. Nominal GDP per capita is around 5.000 USD.
- 98% of the Iranian population is Muslim. The official language is Farsi (Persian). English is taught in schools as a second language.
- 71.5% of the population live in cities. Tehran is by far the biggest city with 15 million inhabitants.
- The literacy rate among persons aged between 15-24 is 98%. Iran has the third largest number of engineers of any country in the world.
- Over the last 37 years, according to the UN, Iran has had the biggest brain drain in history. The UN estimates that 30% of the nation's brain power has fled or is leaving the country.
- Over the past decade, more Iranian expats have returned to Iran: at least as visitors.
- Tehran is generally very safe except for car accidents; the city currently has the 11th highest number of car accidents in the world.

Source:

[www.worldbank.org/en/country/iran/overview](http://www.worldbank.org/en/country/iran/overview)

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## ABOUT SPENGLERFOX

SpenglerFox, a Global Talent Consultancy was founded in 2003 as an integral part of the Grafton Recruitment Group, providing a fresh approach to Executive Search & Human Capital Solutions. We also offer Interim Management in both mature and emerging markets, and a dedicated focus on Board work for small-mid sized companies. Our Research team is also adept at providing Talent Mapping and Pipelining solutions.

It is our mission to identify and assess the very best senior talent for organizations in both developed and emerging markets. Our completely integrated and wholly-owned network and global alliance combined expands our outreach worldwide with over 700 consultants and researchers retaining vast and far-reaching industry experience.

We relate to our clients as partners whose success is bound up with our own. This doesn't end with finding the best executive talent. We offer a wide range of services that have been designed to support our clients and maximise their performance in the ever changing and demanding marketplace.

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