

Consumer Goods Industry in Iran Newsletter

First quarter 2021

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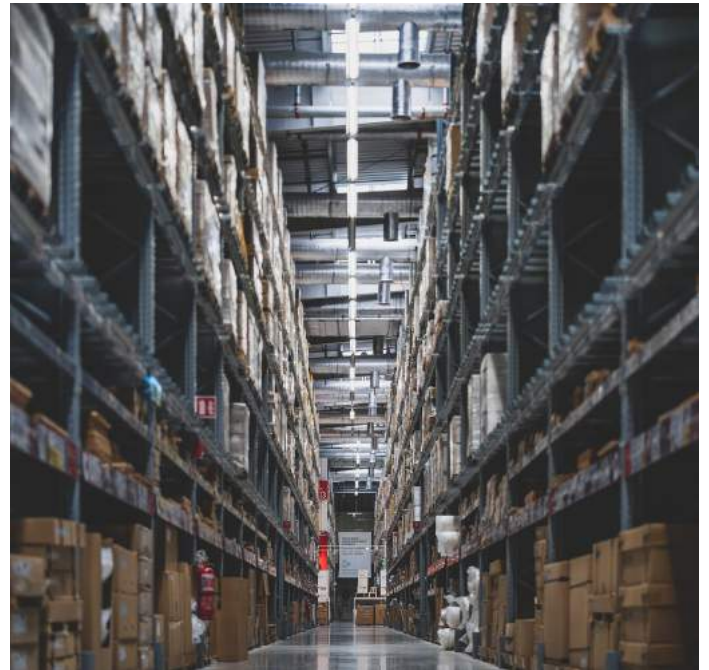
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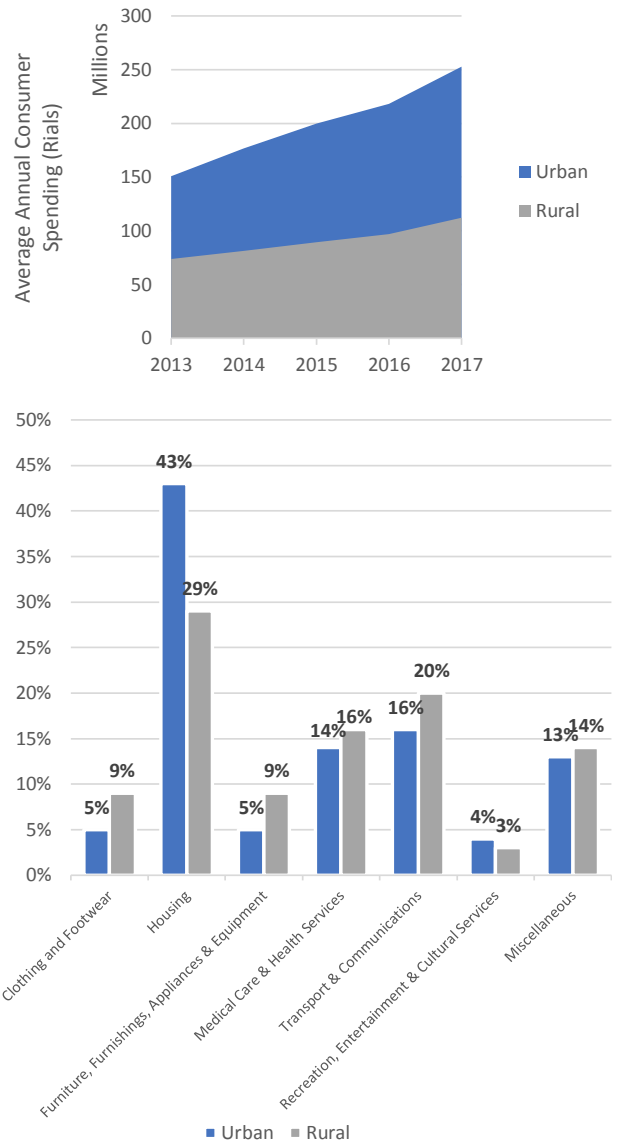
The EU exported more than 2 billion € worth of consumer goods to Iran in 2019. The leading categories of goods include appliances and electronics, stationary and paper products, kitchen utensils and ceramics, toiletries, and home furnishings. Further growth opportunities exist in the clothing, textiles, footwear and accessories segments, where European brands have broad-based appeal among Iranian consumers. Navigating the Iranian market and complex retail and distribution networks for consumer goods often requires a reliable intermediary representative or local partner, as sales channels remain fragmented. European producers of luxury goods are well established in the Iranian markets, while producers of mid-range and so-called Fast-Moving Consumer Goods (FMCG) items enjoy promising growth opportunities.

FACTS ABOUT THE IRANIAN CONSUMER GOODS INDUSTRY

For the wide range of products encompassed by the consumer goods sector, growth potential is enhanced by the sizeable middle class in Iran and its increasingly young, urban, and well-educated population holding an international outlook. Iran remains an upper-middle income market where foreign and imported products are sought after by consumers. Inequality is comparatively low in Iran, presenting good and broad-based opportunities for producers of consumer goods. Challenging financial conditions and international restrictions have contributed to suppressed demand for many consumption opportunities, which is poised to be unlocked as Iran's economic position improves.



Fig. 1- AVERAGE ANNUAL CONSUMER SPENDING ON NON-FOOD HOUSEHOLD EXPENDITURE



The Iranian market presents strong foundations for long-term growth in the consumer goods sector, despite current macroeconomic challenges. In 2019, real GDP growth has remained negative due to the oil sector's shrinking by more than one third. However, non-oil GDP in 2019 registered a slight growth.ⁱ Further, in 2020, Iranian's economy is expected to have contracted relatively little as compared to other countries, trends projecting a positive economic outlook within the next years.

In line with the economic recovery following the COVID-19 pandemic, private consumption as a share of GDP is projected to increase by 1.2% in 2022, along with a 6% increase in imports of goods and servicesⁱⁱ. As recently as 2018, household consumption comprised 45% of GDP expenditure, reflecting the ongoing importance of private spending as a driver of economic activity in Iranⁱⁱⁱ.

CONSUMER GOODS DEFINITION & MARKET SIZE

Fast-Moving Consumer Goods (FMCG) represent a common industry aggregation of packaged products accessible to large market segments. FMCG comprises specific product categories including household products, cosmetics and toiletries, office supplies, non-pharmaceutical medicines, and non-perishable foods and beverages^v. The FMCG category is typically characterised by higher volume turnover. Beyond FMCGs, the consumer goods segment also includes clothing and jewellery items, household appliances, and electronics.

Iran imported more than 9.7 billion € worth of consumer goods in 2017, the latest year for which updated figures are available. Nearly one-third of imports during this period originated from the EU, although the real value is likely greater as many European exports are routed to the Iranian market through the United Arab Emirates. Overall, imports of consumer goods comprise at least one-fifth of the total merchandise trade in Iran^{vi}.

Average consumer spending per year on non-food household expenditures has increased in recent years in Iran, reaching 252.7 million rials (4,976 €) in 2017 for the urban demographic and 112.1 million rials (2,207.4 €) in rural segments^{vii}. Differences are observed in the breakdown of specific consumer spending depending on location, most notably in that rural Iranians spend less on average for housing as a share of their overall income, meaning expenditure on other categories of consumer goods and services is proportionally greater.

KEY MARKET INFORMATION

Average annual income in Iran varies widely by region and household characteristics, ranging from an average of 100.3 million rials (1,975 €) in rural remote regions to 457.7 million rials (9,012 €) in major urban centers. Income levels are highest in Semnan, Tehran, and Mazandran provinces^{viii}.

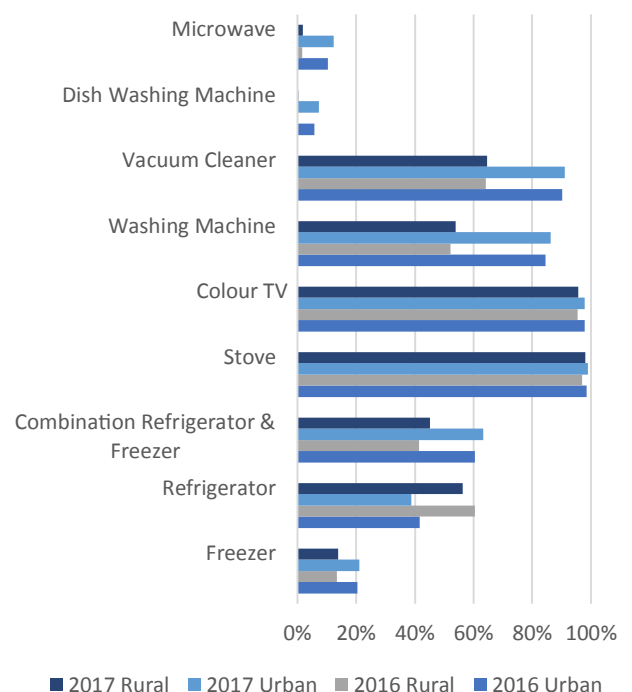
Examples of major local consumer goods industry companies in Iran include the following:

- Oghab Distribution Company (www.pakhshoghab.com/en/), a holding company known as one of the largest, safest, and most reliable FMCG companies in Iran for more than 70 years

- Pars Tousheh (www.parstousheh.com/index.php?inner=home&slang=0), a parent company comprising home appliances, lighting and electronics, chemicals, financial and commercial services
- Vichyteen (www.vichyteen.com/?lang=en#), a local manufacturer of women's and teenagers clothing in Iran
- Tolyers Company (www.tolyers.com), a local chemical and consumer goods manufacturer specialised in non-durable household products
- Hyper Star (www.hyperstariran.com), a joint enterprise and local subsidiary of French retail chain Carrefour

Local markets (bazaars) are a mainstay in terms of retail and distribution in Iran. They serve social, cultural, and political importance in daily life, and remain the primary channel for sales of consumer goods. Bazaars typically play host to a large number of independent vendors, meaning that supply and distribution chains in Iran are often fragmented.

FIG. 2- OWNERSHIP OF HOUSEHOLD APPLIANCES IN IRAN, RURAL & URBAN, LATEST AVAILABLE DATA



Statistical Centre of Iran, latest available data

Modern consumer retail establishments are gaining prevalence in the Iranian market, albeit starting from a low market share. Formal retailers must often comply with higher capital and permitting requirements, which implies connections to Iranian authorities. This requires a heightened level of due diligence.

Iran's internet infrastructure is relatively well-developed, with more than 70% of the population being regular internet users^x. The extent of internet usage in Iran is well above the average of upper-middle income countries, and has contributed to an uptake of native e-commerce platforms for consumer goods. Popular e-commerce sites in Iran include:

- www.digikala.com – Consumer electronics
- www.snapp.market – FMCG
- www.esam.ir – Consumer electronics, FMCG & second-hand marketplace
- www.modiseh.com – Clothing & accessories, FMCG
- www.shixon.com – Clothing & accessories

Between 2018 and 2019, the real value of transactions taking place through e-commerce platforms is estimated to have increased by 42% as more Iranians access online purchasing. The largest category of online transactions entailed the purchase of consumer goods, followed by tourism and education services. Public health restrictions due to the COVID-19 pandemic have certainly increased the attractiveness and accelerated roll-out of e-commerce platforms in Iran^x.

TRADE BETWEEN THE EU & IRAN

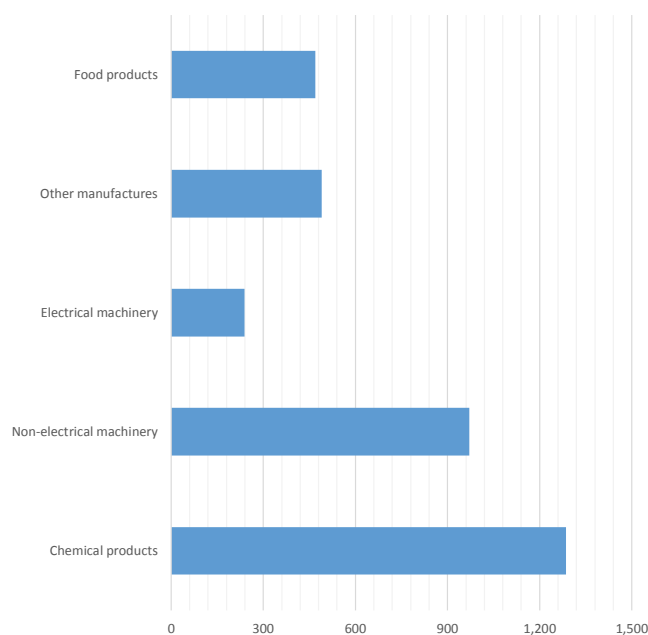
The EU was Iran's fifth largest trading partner by value in 2019 and third most important in terms of inward goods flows, accounting for 3.8 billion € worth of imports to Iran. Growth in EU-Iran trade has experienced significant volatility in recent years, with year-on-year changes in value of goods imported to Iran ranging from 40% growth to 36% drop^{x1}.

Iran's overall exports to the EU in 2020 were valued at just under 700 million €, comprising mostly fruits and nuts, pharmaceuticals, animal products, and carpets^{x11}.

Leading categories of EU consumer goods exports to Iran in 2018 – the latest year for which updated figures are available – were electronics (560.8 million €), paper products (121.6 million €), ceramics (54.9 million €), toiletries (31.5 million €), and furniture (18.5 million €)^{x111}. Germany, Italy, the Netherlands, France, Belgium, Spain, Denmark, Austria, Bulgaria, and Romania make up the ten largest EU exporters of consumer goods to Iran.

Among these, only Bulgaria registered positive growth in exported value of consumer goods to Iran between 2018 and 2019 (+58%). Other EU exporters showing positive growth in sales of consumer goods to Iran between 2018 and 2019 include: Malta (+68%), Cyprus (+65%), Croatia (+44%), and Hungary (+6%)^{x1111}. The strong performance of exporters in EU Member States with relatively smaller shares of consumer goods sales to Iran, compared to decreased sales by traditionally large trade partners of Iran, under-scores the opportunities available to new entrants. It is especially SMEs that can benefit, as they tend towards conducting their business with a focus on the regional level, thereby being less prone to encountering issues with non-EU sanctions on Iran.

Fig. 3 – VALUE OF EU MERCHANDISE EXPORTS TO IRAN in 2019, millions €



OPPORTUNITIES & CONSIDERATIONS FOR EU EXPORTERS

Iranian consumers value product quality in their purchasing decisions. Economic constraints can increase price sensitivity towards certain types of consumer goods, however products with European origin are broadly viewed as desirable in Iran. This perception is especially true for consumer goods as luxury symbols, and many high-end European brands are visible in the Iranian market.

Iran's retail market is expected to adapt in order to meet the increasing demand for authentic, high-quality imported goods, including electronics, telecom products and parts, watches and clocks, jewellery, clothing and other consumer products following the lifting of economic sanctions. Traditionally imported via local intermediaries and unofficial channels, the rise of e-commerce and direct selling trends on the part of Iranian distributors may contribute to greater awareness and demand for European brands. The country's growing business potential has already drawn interest from some well-known consumer-goods companies looking to explore the market, including Italian designer brand Roberto Cavalli, French cosmetics retailer Sephora and German engineering and electronics manufacturer Siemens. European SMEs with a competitive edge in product design and low production costs should find many business opportunities in the country's middle price-range groups.

The effects of the Covid-19 pandemic have led to gains in sales of certain consumer goods, in part due to substitution of consumer expenditure that would otherwise be directed towards travel, leisure, dining, entertainment, and other services that are currently subject to restrictions. In the FCMG category, for example, sales of laundry detergents are reported to have increased by 9% in volume in the first quarter of 2020^{xv}.

Recognition of and demand for European products also brings a greater risk of infringement of intellectual property rights (IPR) in Iran. Price sensitivity among Iranian consumers, combined with low presence in the market and limited recourse available to international rights holders means that infringement of IPR and counterfeiting can pose a challenge to new entrants to the market. Exporters who are not familiar with the Iranian market should consult with knowledgeable IPR counsellors and trusted local agents to ensure that their intellectual property is secured prior to entering the market and a reliable strategy for monitoring the market is in place.

Conservative cultural tendencies mean that certain products and advertising methods may need to be adapted to conform to local sensibilities and resonate with consumers.

The Instrument in Support of Trade Exchanges (INSTEX) is a special purpose vehicle designed to facilitate legitimate transactions between EU and Iranian firms, without involving exchange of direct payments internationally. EU companies in the consumer goods sector should be familiar with INSTEX and payment options available to them, and are encouraged to contact the teams of the Due Diligence Helpdesk on EU Sanctions for EU SMEs dealing with Iran, as well as INSTEX^{xvi}.

The largest challenge for EU producers of consumer goods when considering entering the Iranian market consists in navigating the high degree of fragmentation in local retail and distribution in order to reach end consumers. This can require developing tailored business models, which differ from those that European producers may be accustomed to. Particularly relevant to the FCMG sector, achieving product sales at scale may be more difficult due to lower retail and distribution concentration in Iran^{xvii}. More broadly, the general market volatility of the Iranian economy and subsequent year-to-year variations in the purchasing power of Iranian consumers underscore the importance of cultivating brand loyalty. European exporters should be prepared with a multi-year strategy considering different scenarios in the Iranian economy affecting demand for imported consumer goods.



IDENTIFYING GROWTH SEGMENTS FOR EUROPEAN SMES



- Textiles, apparel, footwear and accessories
- Leather goods
- Premium-range perfumes and cosmetics
- Toiletries
- Office furnishings and stationery
- Home furnishings and European design
- Consumer electronics and Home appliances
- Flatware and utensils
- Kitchen and dining accessories

«Good merchandise, even hidden, soon finds buyers.»

Titus Maccius Plautus

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