

A blueprint for entry into Iran's retail space

Since January, when international sanctions on Iran were lifted, the country has been generating a lot of interest within the marketing and retail community. Understandably so, as it is not often that a market of that size (80 million consumers) opens up for trade.

Sir Martin Sorrell, CEO of WPP, described Iran in a recent blog as “one of the last great untapped opportunities for global business”. Given its proximity to Iran and historical trade links, the UAE is ideally positioned as the base from which multinationals would foray into the market.

The Economist Intelligence Unit estimates the consumer goods market in Iran to be worth \$95 billion (Dh348.7 billion), and forecasts it to grow to \$166 billion by 2020. Foods and beverages is estimated to account for just under 50 per cent of the total value, a sector that is dominated by local brands.

However, unlike the UAE, the retail structure in Iran is dominated by traditional trade, which accounts for over 90 per cent of sales value. Also, with its much larger area (19 times the size of UAE) and high population dispersion, retailers could face challenges with regard to coverage and distribution.

In this context, how should international marketers and retailers approach the market? What information would help define the entry strategy into the Iranian market?

Here are some pointers on this:

Retail space maturity analysis

While the market is still dominated by traditional trade, there is frenetic activity taking place in terms of development of a modern retail

infrastructure. As per some estimates, there are 400 malls under construction, with 65 of these in Tehran alone.

Isfahan City Centre, being built at a cost of \$1 billion, would be the second largest mall in the Middle East after The Dubai Mall, when it opens later this year. Hence, it's important for retailers to get an in-depth understanding of the retail space maturity and upcoming developments to make informed investment decisions.

Retail saturation and competition profiling

Given that most US, European brands could not legally operate in Iran, in many categories, Korean and Chinese brands stepped in to fill the gap, especially in consumer electronics, apparel and automotive sectors. Further, despite the sanctions, many Western brands were being illegally imported into the market.

Hence, for a new brand entering the market it would be important to assess how strong the presence of competition is, who the competition is (whether it's local or international brands), their relative market shares and business models.

Catchment area analysis

As all retailers know, the success of any retail outlet depends on its location. This also holds true in Iran, where within the same city, the population profile could change quite dramatically from one area to another — North Tehran, Central Tehran and Downtown Tehran have very distinct population profiles.

Hence, before choosing a location, a thorough understanding of consumer profile in the catchment area is essential.

Route to market model

Given the complexities of size and population dispersion, the route-to-market model plays a key part in the retail strategy. Historically, brands

have used general distributors or third-party distribution models, which provide reach, while minimising exposure for the principal.

Companies like Golpaksh, Sayesaman and Golestan have strong distribution capabilities, especially in consumer goods, which could be leveraged.

How to leverage digital

As in any market, all marketing and retail strategies need to have a digital component. So also in Iran, but it is important to understand the unique nature of the digital space in that market — with many popular online platforms blocked, the market has evolved its own social media and e-commerce platforms, like Telegram, Cloob and Lenzor.

Portals like Digikala and Bamilo have managed to capture a lion's share of the e-commerce market, due to absence of international competition. Hence, an understanding of how the Iranian consumer engages with digital would enable retailers to leverage social media and e-commerce to their fullest potential.

While Iran is no doubt an interesting prospect, the level of international investment has not yet been up to the levels that were anticipated in early 2016, mainly due to the remaining US Treasury restrictions on financial transactions. Before these last barriers are lifted, which they inevitably will be, it is a good time for UAE businesses to explore the market and prepare their strategies for market entry.

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