TAMPEREEN AMMATTIKORKEAKOULU
UNIVERSITY OF APPLIED SCIENCES

BUSINESS SCHOOL

FINAL THESIS REPORT

Iran as potential business partner for Finnish SMEs

Shekoofe Kian

Degree Programme in International Business
December 2008
Supervisor: Klaus Af Ursin

TAMPERE 2008

TAMPEREEN AMMATTIKORKEAKOULU
University of Applied Sciences

International Business

Writer(s):	Shekoofe Kian
Study Programme(s):	International Business
Title of Thesis	Iran as potential business partner for Finnish SMEs
Month and Year of Completion:	December 2008
Supervisor:	Klaus Af Ursin
Number of Pages:	47

ABSTRACT

The aim of this study is to introduce Iran to Small and Medium size Finnish Enterprises. The scope is limited to provide general knowledge about doing business with Iran and business opportunities in Iran for Small and Medium size Finnish Enterprises.
The study was requested by Employment and Economic Development Centre (T&E Centre). Employment and Economic Development Centre is a state owned public company that offers consult and support to individual and businesses. Throughout this study, it is hoped to provide necessary and basic knowledge about Iran for those clients; who are looking forward to expand their businesses.

The study is divided to five main chapters:
In first chapter, “Introduction”, it is tried to explain; why doing this study was necessary. After this part, T&E Centre is introduced in brief. Then the objectives of this study and methods to achieve them are reviewed.

Second chapter, “Internationalisation and entry modes”, and third chapter, “Marketing plan”, are allocated to review previous studies and researches. For the firm who wish to expand beyond domestic borders, it is important to understand the concept of Internationalisation and internationalisation process. The facts and factors to selecting correct entry mode and create successful marketing plan are the subject of these two chapters.

Fourth chapter, “Target country, Iran” could be considered as the core part of this study.
Beside general facts, this chapter is also providing valuable information about history, culture, people, government and business etiquette in Iran. Last part of this chapter is about “Free Trade Zones” in Iran. This part is believed to be very informative and interesting for Finnish enterprises.

In fifth chapter; Finnish Small and Medium size Enterprises (SMEs) are briefly reviewed. After reviewing Finnish SMEs; Iran as potential business partner for these enterprises is considered. In this part, it is tried to link the strength of Finnish SMEs to business opportunities in Iran.
Finally, in last part, “conclusion”; the findings of these chapters are summarized.
As mentioned above, the scope of this study was limited to providing general information.
Depending on activities of each firm; further studies are required to identify the business opportunities in Iran

Keywords: Business opportunities, Entry mode, Internationalisation, Iran, SMEs.

List of Figures and Tables

Figures:

Tables:

1. Introduction

Finland is one of the late industrialised zone of OECD countries. Industrialization process in Finland started in late nineteenth century. Up to 1960s Finland still was in catching-up phase of development, relying mainly on imported technologies. Today, however, Finland is not only one of the most developed countries in the world, but also one of the leading in knowledge base economy. For Finnish open and growing economy, the themes ‘Internationalisation’ and ‘Globalization’ are not unfamiliar.

> - “In 1969s and 1970s the well-known slogan within Finnish industries was ‘export or die’. In 1980s the slogan became ‘Internationalise or die’. But from 1990s it has changed to’ globalise or die’.” - Reijo Luostarinen[1]

This slogan depicts the reality nowadays. Because of the Small market size, location and limitation in natural resources; passing the domestic borders and achieving the overseas markets, for Finnish enterprises is a matter of surviving. According to Federation of Finnish Enterprises, ”Suomen Yrittäjät”; there were 236,453 enterprises in Finland. Of this number 99.8% are categorized as Small, Medium or Micro size firms. These firms are the provider of employment for 62% of labor force in Finland.[2] Due to the market size, domestic market is already saturated for many of these enterprises. Presence of international firms has even left them with less space in the domestic market. High cost of labour and raw material as a major competitive disadvantage is threatening the companies who do not wish to expand their activities beyond domestic borders.

In recent years, many of the Finnish enterprises have already passed the internationalisation phase and are proceeding with the globalisation phase. However, for most of these firms internationalisation starts from Nordic countries and stays in Europe and Russia. Some have already gone as far as China but still Middle East is in closed box.

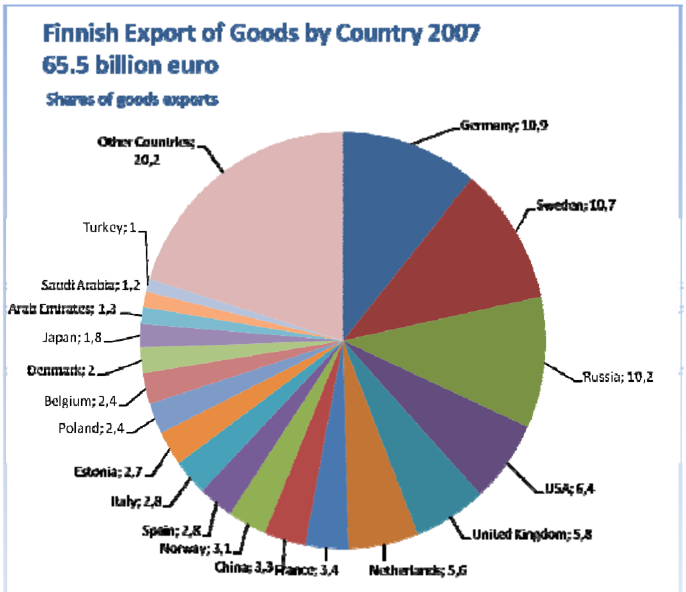

Figure 1: Finnish export of goods by country, 2007
Adopted from: Official web site of Confederation of Finnish industries, EK

[1] Internationalisation of Finnish Firms and their response to Global Challenges, 1994
[2] 30.11.2006, Facts and figures about Finish Enterprises: http://www.yrittajat.fi/File/a369d43d-5f2a-42b5-be77-450297a790c2/ytilastot%20engl%202008%20pdf.pdf

This study, in particular, wishes to introduce Iran to Small and Medium size Finnish enterprises. Unfortunately there are very few Finnish enterprises that have already entered to Iran's market. Iran is located in the heart of Middle East with excellent logistical access to Europe, Russia, and Asia. The market size is relatively big with population of 70 million inhabitants. Production cost is benefiting of low price labour and raw material. Additional to these, government in Iran is trying to boost up the economy by creating attraction for foreign investors, enterprises and partners. There are several Free Trade Zones in Iran with exceptional regulations that are trying to provide favourable trade environment for international partners.

1.1. Backround

Employment and Economic Development Centre (T&E Centre) is a state owned public company that acts as regional organization to consult, advise, support individual and business. T&E Centre operates under Ministry of Trade and Industry. There are total of 15 regional T&E centres that are offering their advisory and development services through the following four departments: Business, Technology Development, Labour Market and Rural departments. Each of these offices is trying to boost up the economic development of their region by providing different educational and financial supports. In brief T&E Centre services are aiming for:

- Companies' product development, technology, internationalisation, business management development and financing.
- Entrepreneurs starting their business, company establishment counselling and other, closely related activities.
- Employment promotion, adult education and employment services, as well as the management of employment office activities.
- Specialisation of farms, rural industries and fishery and the enhancement of their operating conditions, as well as the supervision of farm subsidies.

As explained before, it is necessary for Finnish Small and Medium size Enterprises to consider internationalisation in their development process. Therefore, one of the focuses of T&E centres is to encourage and consult the SMEs through internationalisation.

When a firm decide to expand its activities to a new overseas market, knowledge and awareness of possible opportunities is the key factor. Unfortunately, if not impossible, it is very difficult to find reliable source of information about many of these countries.

One of these countries that are not a familiar market for Finnish SMEs is Iran. Because of revolutionary changes of 1977 followed by 8 years of intensive war with Iraq, political and economical instability and U.S. Sanction[3] against Iran; for a long period Iran was not an interesting option for foreign business. However, after many years of international isolation, Iran is slowly emerging from uncertainty and instability. In past few years the government in Iran has tried hardly to create favourable environment for foreign business.

Despite the presence of many international firms that have already started to explore the opportunities in Iran, this market is still unknown for Finish enterprises. This study is trying to provide the basic and general knowledge about Iran for T&E centre clients.

---

[3] 26.11.2008, An over view of regulations involving the Sanctions against Iran: http://www.treas.gov/offices/enforcement/ofac/programs/iran/iran.pdf

1.2. Research problem

The main objective of this research is to provide knowledge for Finnish Small and Medium size enterprises about the business opportunities in Iran. To do so, in the beginning it is tried to provide an easy package of knowledge about Iran. History, geography, culture, political and economical climate are all the basic facts that are needed before entering to a market. After providing a general knowledge about the country, this study tries to give an overview of business practises, and business opportunities in Iran.

It is of course impossible to identify the opportunities and propose the best entry mode for Finnish enterprises in one study since the activity area of each firm is varying from another, but throughout this research, the aim is to make it easier for the reader to recognize the opportunities and select the best entry mode for entering Iran's market.

1.3. Methods

This research is done in two main phases. In first phase the concept of Internationalisation and different entry modes are reviewed. Process of Internationalisation and criteria of selecting the best entry mode have been studied intensively in past decades. Many valuable books and articles about this topic can be found in libraries. Among these books and articles, there are several studies that have been done by Nordic academic researchers. In this paper, by referring to previous studies and researches, is tried to explain the concept of internationalisation and the importance of selecting right entry mode.

In the second phase, Iran as a business and market opportunity is introduced to the reader. This part is trying to cover the main facts and factors about Iran. Several books and official government websites are used to collect and present the data in this part. Finally it is hoped that by the knowledge provided in above phases, reader would be able to recognize the business opportunities in Iran and select the best way to expand its business to Iran.

2. Internationalization and entry modes

2.1. Internationalization

2.1.1. Concept

Internationalization is a process, during which a company expands its activities outside its home country and adopt certain products or services from one country to the needs and culture of another country. These activities might be in different form such as importing product, technology and services or as form of exporting

Internationalisation can also be seen as chronological process. During this chronological process company changes the scope of its activities from national market to the international market

2.1.2. Motives for internationalization

There might be different reasons behind internationalization but in general, and for long run, all of these reasons are about making sure that enterprise will grow and make profit. According to Czinkota [M.R.Czinkota, et al, 2005][4], the motive for internationalization can be described in proactive and reactive reasons.

The most important proactive reason for a company to expand internationally is to make more profit. This is usually applicable when a firm producing a unique product or technology or have access to knowledge and advantages that are not widely available. Looking for opportunities such as lower labour cost or better tax regulation in a different market also considered as proactive reason [Hollensen 2004, M.R.Czinkota, et al, 2005][4].

Reactive reasons are raised from the need of the enterprise to survive. The main reactive reason for a firm is response to competition. The enterprise might fear to loose its profitability by loosing its domestic market to an international foreign enterprise or another domestic enterprise. Another reactive reason is when; the life cycle of a product is closing to end in domestic market. This product might be still in high demand in another market. Also, if an enterprise does not run with its full capacity of production due to lack of demand in domestic market or suffering from over production issues, can be seen as a reactive reason [M.R.Czinkota, et al, 2005] [4].

[4] See "Internationalisation of SMEs", Kreetta-Maria Pietilä, 2007, Jyväskylä School of Business Adminstration

2.1.3. Internationalization process

According to Root companies only become committed to internationalization when they fear to not attain their strategic objectives in their domestic market. The first step toward internationalization is creating an entry strategy [Root 1994: p1]. This entry strategy requires several individual decisions which will play critical role in success of the operation. Root believes that following areas should be defined in entry strategy:

1. Target market.
2. Objectives and goals in target market.
3. Entry mode to penetrate the target market.
4. Marketing plan to penetrate the target market.
5. Control system to monitor the performance in target market. [Root 1994: p 3]

The Element of an International Market Entry strategy

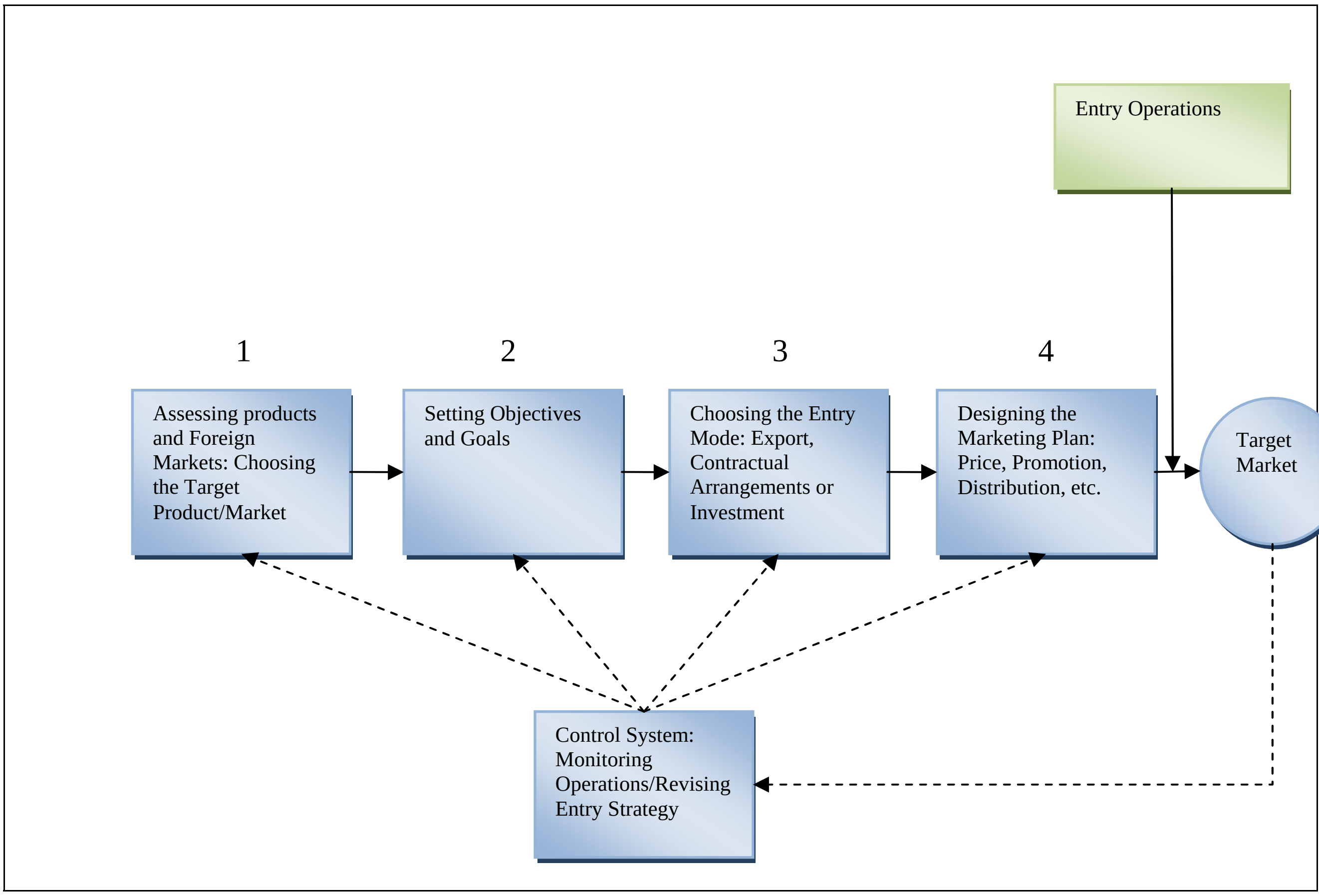

Figure 2: Main elements of international market entry strategy
Adopted from: Entry strategies for international markets, Franklin Root, 1994

To managers in small and middle-size companies, planning entry strategies may appear to be something that only big companies afford to do. These managers identify such planning with elaborate research techniques that are applied by specialists to a massive body of quantitative data. But this is a misconception of entry strategy. What is truly important is the idea of planning entry strategy. To say that a company can not afford to plan an entry strategy is to say that a company can not afford to think systematically about its future in the world market [Root 1994: p 3]

2.2. Entry modes

The traditional practice of manufacturing goods in home country and selling them in foreign markets or export operations might be the first step of internationalization for many enterprises. However, the concept of internationalization is beyond exporting products.

There are several ways to enter a new market. Each firm, based on the degree of its commitment to internationalisation and acceptance for possible risks, has to choose a suitable way for itself to penetrate a new market. Root classifies the entry modes in three categories; export, contractual and investment entry modes. Export entry modes are dealing with exporting and importing physical goods from a country to another while the contractual entry modes are about long term non equity alliances between companies in different countries. Investment entry modes are referring to acquiring ownership of a company that is located in target market [Root 1994: pp 6-7]. Each of entry modes can also break down to narrower categories which would explain the enterprise activities in the target market.

2.2.1. Export entry mode

Export is one way of entering to a new market. Many firms, especially manufacturing firms expand their business through exporting. Export itself can be done in two different ways:

a) Direct Export

In direct exporting, company sells directly to users in foreign market. In this type of entry mode, the firm has to handle most of the transactions such as dealing with the contacts, doing market research, preparing documentations and arranging transportations by itself [Hollensen 2007: p 311].

b) Indirect Export

When a company uses third party organisation such as agent in host country to deal with the transactions then it is called indirect exporting. Indirect marketing is very good way of testing the respond of the target market before entering the market [Hollensen 2007: p 311].

According to Hill [C.W.L.Hill, et al, 1990][5], there are several advantages and disadvantages with exporting as entry mode:

Advantages

Selecting Export as entry mode has two main advantages:

- Exporting is a cheap way with low risk to enter a new market. Firms that select export entry mode do not have the financial risks of establishing manufacturing operation in markets that their knowledge and experience is low.

- With exporting, it is possible to achieve experience curve and location economies to lower production cost. In order to decrease the costs; companies can increase the production volume to spread the fix cost on larger volume of product. When the production rate goes higher, employees also can create more efficient ways to produce which will lead them to higher productivity. When a firm serves different market from one or few location by exporting its product, then this firm can achieve experience curve economies. Such a firm might also be able to produce the optimal location for their product and also benefit from location economies.

Disadvantages

Exporting also has its disadvantages; more specifically:

- As mentioned above, one of the advantages of exporting is to benefit from optimal location. Some time this optimal location is abroad. However, firms often choose to produce in their home country and this will make them fail to achieve the optimal location economies.

- Other disadvantage of Export mode is that, it can not be applied for all types of good. Some products are unprofitable to export due to their value-to-weight ratio. This means that the product value is low in relation to their weights which will lead to higher transportation cost. Also some time, tariffs and trade regulation in host country is making the exporting of specific products impossible or unprofitable.

Highlight for Finnish SMEs in doing business with Iran

In later chapters is explained that unlike Finland; manufacturing industries in Iran are enjoying from low production possibilities. This fact could be the main reason for not recommending Export entry mode to Finnish SMEs. This statement could be considered as invalid when the Finnish firm is offering a high value product that Iranian companies due to lack of knowledge or technology, are not able to produce it. In this case; to reduce the complexity of the business, indirect export entry mode is suggested.

[5] See also "Foreign market Entry Mode", Patric Hammarlund, 2007, Kristianstad University

2.2.2. Contractual entry mode

In contractual entry mode one firm agrees to let another firm or party use its specific advantages. There are three main type of contractual entry modes; licensing, franchising and joint venture.

a) Licensing

When one firm gives the right of using its specific assets such as design, technology or trademark to another firm or individual, it is called licensing. In exchange of the rights that are granted to licensee, the licensor company usually request some form of loyalty fee on profit made by licensee [C.W.L.Hill, et al, 1990][5].

Advantages

In licensing agreement, the main advantage for the licensor is that there is no investment cost in order to get the product into new market. The licensee usually has to invest and introduce the product in host market; therefore it is a cost efficient and low risk entry mode for licensor [C.W.L.Hill, et al, 1990][5].

Disadvantages

In licensing agreement, the licensor lose control over marketing and manufacturing. There is also a high risk that licensee use the know-how knowledge taken from the licensor to develop a new and similar product that can compete with the original one. Of course this risk can be reduced by creating a wise and clear agreement [C.W.L.Hill, et al, 1990][5].

b) Franchising

Franchising is very similar to licensing in way that one company (franchisor) lets another company or individual (franchisee) to use its specific assets. The different is; unlike licensor, here franchisor is helping the franchisee with operation tasks and business. In franchising agreement, the franchisee strictly has to follow the way that franchisor do the business. Franchising agreement as way of entering to foreign market is often used by service companies [C.W.L.Hill, et al, 1990][5].

Advantages

The advantages of franchising are very similar to those in licensing. The franchisor does not need to invest and take any financial risk as the franchisee is the one who invest the needed capital to start its new operation.

Disadvantages

In franchising agreement the right of using the brand name is given to the franchisee. That's why the main difficulty for franchisor is to control the quality of the product or services that offered by franchisee and to secure their brand name reputation. The franchisor has to make sure of not loosing its good name and loyal market because of the low quality of franchisee's product [C.W.L.Hill, et al, 1990][5].

[5] See also "Foreign market Entry Mode", Patric Hammarlund, 2007, Kristianstad University

c) Joint venture

When two or more firms establish a new firm that is jointly owned by them its called joint venture. The main reason that firm might be interested in joint venture is that the risks and cost are shared.

Advantages

A firm that select joint venture to enter foreign market not only have the advantage of sharing risks and costs with other firm but also can benefit greatly from having partner in host country. The local alliance partner in target country has the first hand knowledge and experience on political and cultural climate of host country [C.W.L.Hill, et al, 1990][5].

Disadvantages

Like every other kind of partnership, there are several disadvantages with joint venture. Disagreement between the partners might easily lead to conflict in corporate goals. Very often there is power struggle in order to gain more control. The risk of loosing control of company's specific assets such as know-how technology is also very high.

Highlight for Finnish SMEs in doing business with Iran

Language barriers, cultural differences, political instability, local competitors, unknown market and market behaviour are some of the factors that might create risk in conducting successful business in Iran. How ever, in "Contractual entry mode"; the foreign firm is directly benefiting from the success of domestic partner.

In "Licensing" and "Franchising" while the level of the risk is at minimum; because of large market size in Iran, the profit could be rather high.

In "Joint venture entry mode"; having local partner could be a strong asset to overcome the above mentioned barriers. As explained earlier, it is critical to select the right partner. With right partner, "Joint venture" could be considered as a wise choice of entry mode.

[5] See also "Foreign market Entry Mode", Patric Hammarlund, 2007, Kristianstad University

2.2.3. Investment entry mode

One option to enter a new foreign market is to establish a wholly owned subsidiary. In this way the company owns 100% of the stock in the foreign firm. There are two ways to enter foreign market with entirely owned subsidiary; green field investment and acquisition [C.W.L.Hill, et al, 1990][5].

a) Green field investment

In investment entry mode, when the investor company building a new business from the ground it is called green field investment. The big advantage of selecting this type of the entry for investors is that they can establish the new company according to their preferences. However green field venture are slow to establish and have the highest cost and risks. Also the chance of being successful for green field venture will be limited if a global competitor enter to the same market through acquisition mode [C.W.L.Hill, et al, 1990][5].

b) Acquisition

An acquisition or take over is buying one company by another. It is one type of investment entry mode to enter a foreign market. An acquisition is fast to implement and could be the best way to match a competitor or build presence in a foreign market. Taking over a known company which already have the experience, knowledge, good reputation and market could be seen as the less hazardous entry mode. How ever, the main disadvantages of this mode, as mentioned for green field investment, are the cost of capital. Investment entry mode is the most costly mode of entry option. Another disadvantage that should be taken into account, is the risk of cultural crashes that might occur between the two companies. It is almost impossible to predict how the relationship between two firms will work out and how the newly acquiesced firm will react to new management and business system [C.W.L.Hill, et al, 1990][5].

High light for Finnish SMEs in doing business with Iran

There are many promising factors to establish successful business in Iran through "Investment entry mode". However, since "Investment entry mode" has the highest cost and risk; good knowledge of local environment, cultural issues and market behaviour is a must. It is strongly recommended to use knowledgeable business consultant from the beginning through the establishment of business in Iran

[5] See also "Foreign market Entry Mode", Patric Hammarlund, 2007, Kristianstad University

2.3. Decision making factors in selecting entry modes

There are several factors, arising from characteristics of target market, home country and the company itself that could influence the selection of entry mode. Root described these factors as external and internal. External factors are related to environment, production and market issues in both target and home countries. Internal factors, in other hand, are the ability of the company to deal and respond to external issues. [Root 1994: pp 8-13]

Factors in the Entry Mode Decision

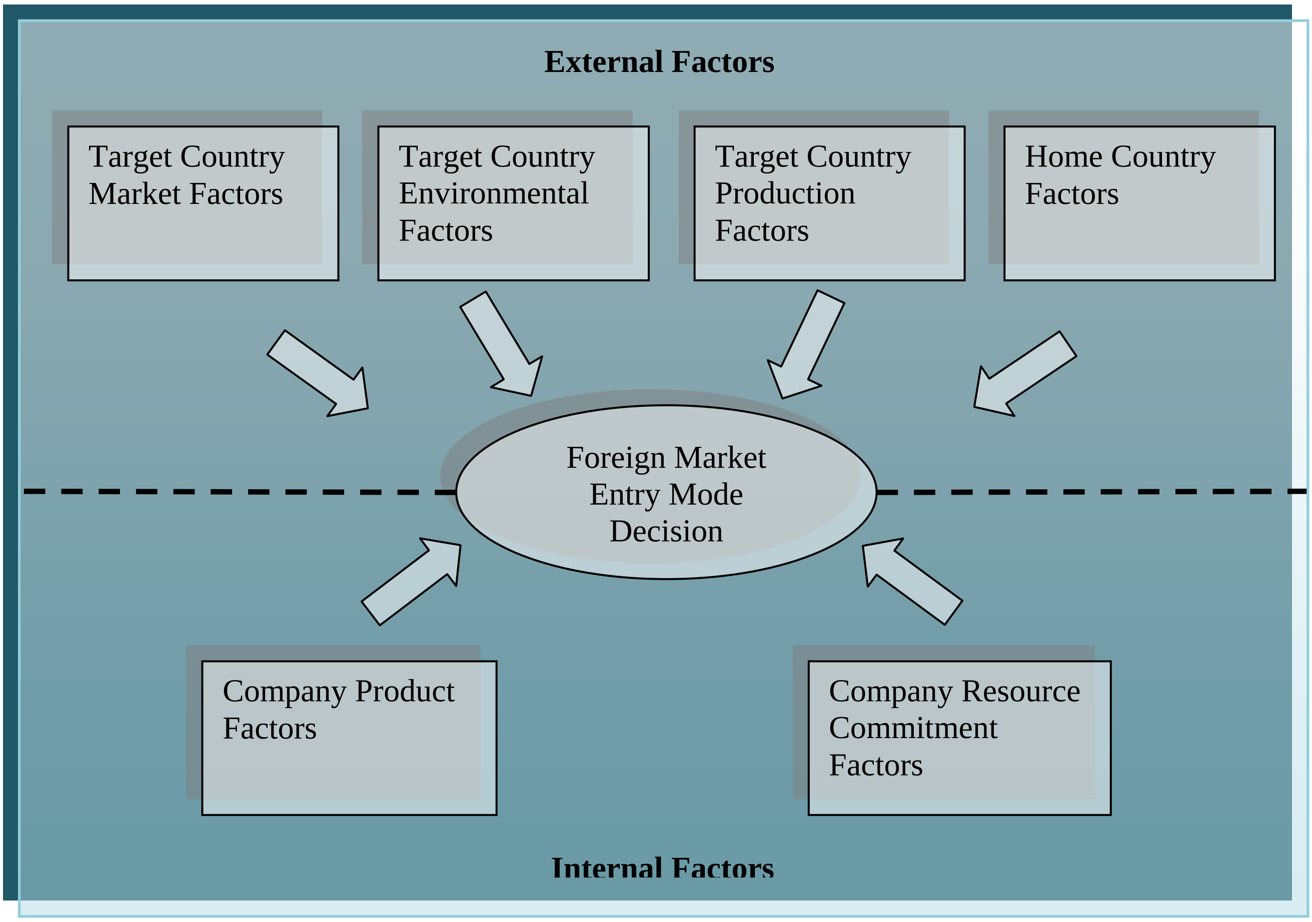

Figure 3: Main factors in entry mode decision.
Adopted from: Entry strategies for international markets, Franklin Root, 1994

2.3.1. External factors

1. Home country

   Market size, environment, production cost and government policy in home country are important factors in selecting entry modes.

   a. Market factors in home country.

      Companies in small – market countries are attracted to exporting in order to be able to use their full production capacity. If the competitors companies in home country are active in international market, then there would be more urge for the company to internationalize. Competitive structure of the home country also influences the internationalization decision. In oligopolistic markets, often the company has to consider internationalization to imitate the actions of rival domestic firms. Companies in atomistic markets are tending to internationalize through exporting and contractual modes.

   b. Production factors in home country.

      Other important factor in selecting entry mode is production costs in home country. If production costs in home country are high then foreign manufacturing will be an interesting option as entry mode.

   c. Environmental factors in home country.

      Governmental policies can highly affect the internationalization and entry mode decisions. When government offers support for internationalization then exporting and contractual mode are more in favour [Root 1994: pp 12-13].

2. Target country

   a. Market factors in target country

      Market size in target country has direct link to selection of entry mode. Large market, high demand and willingness to purchase the product are the signs of high breakeven sales volume. When the high breakeven sales volume are predicted then entry modes such as branching, subsidiary exporting and equity investing in local market are most in favour. In contrast, breaking into small markets is more possible through the entry modes that having low breakeven sales volumes such as indirect and agent/distributor exporting, licensing and contractual agreements.

      Another important factor in target country's market is its competitive structure. A market can be categorised as atomistic market, where there are many none dominate competitors, or as oligopolistic, where there are few dominate competitors to monopolistic market, where only a single firm dominate the market. If the target country is enjoying of atomistic competitive structure, then usually export entry is more possible than in oligopolistic and monopolistic markets. Oligopolistic and monopolistic markets are often requiring investment entry mode.

Beside size and competitive structure of the market, the other important factor is distribution infrastructure. Availability and possibility of using local agents to distribute the product in target country can play very important role. If the company could not find any local agent then the only entry mode would be through foreign unit entry mode [Root 1994: pp 8-9].

b. Production factors in target country

Quality standard, quantity, cost of raw material, labour, energy, communication, transportation and distribution in target market should be considered as important production factors when making decision about entry mode [Root 1994: p 10].

c. Environmental factors in target country

Environmental factor could start from geographical factors. Geographic distance between two countries has impact on the transportation costs and therefore on the end price of the product. This could influence the competitiveness power of the product [Root 1994: p 10].

Environmental factors also include economic climate and state policies of the target country toward international companies. Governmental regulations such as quality standards, tax and tariff regulations, barriers for certain foreign products, different restriction to discourage foreign share in domestic market or state strategies to attract foreign investors could have major impact on selecting a market entry mode [Root 1994: p 10].

Highlight for Finnish SMEs in doing business with Iran

Iran has large domestic market with high demand and willingness to purchase. Because of this reason; it might be a tempting target for export entry modes. However, it is important to know that most of industries in Iran are dominated by few firms, mostly state owned. It could be said that market in Iran is rather oligopolistic. Beside this fact; domestic manufactures in Iran have the advantages of low cost material, labour and energy. Geographic distance between two countries is another reason which will add on the end price of the product and therefore reduce the competitiveness power of Finnish product in Iran.

It is for above mentioned reasons that in general exporting is not recommended to Finnish companies as their entry mode to penetrate the market in Iran. Unlike exporting, in contractual entry mode; Finnish companies can benefit directly from the success and advantages of their Iranian partner.

2.3.2. Internal factors

The way that a company chooses to respond to external factors is depended on its internal factors. Internal factors are not only about product and services that a firm offers but also about the resources and the structure that each firm has.

1. Production

   A highly differentiated product will have advantage over competitor's product and give more space and power to the producer or seller to select the pricing strategy. Such a product could have demand even with rather high pricing because of the distance between two countries, high production or transportation costs and complicate export and import duties. Therefore export entry could be a suitable entry mode for a product with these characteristics. In contrast, less differentiated products must compete with low price strategy. If the production costs in target country are lower, this would be only possible through some form of contractual entry modes such as franchising, setting up a local company as subsidiary or joint venture.

   Some products require pre and post-purchase services. Depend on the distance and regulations between two countries; this will make it even more difficult to use the export mode as entry mode [Root 1994: pp 13-14].

2. Organizations

   A company with wide resources in technology, capital, management, marketing and production skills will have wider selections of entry modes. Conversely, as more limited are the resources of a firm, more limited will be the entry mode selection. This will explain how the size of a company is important in selecting entry mode. However, regardless of the size and the available resources, the willingness and commitment of a firm has very high influence on decision making and selecting entry mode. A company with strong commitment to enter an certain market would have rather higher chance than a bigger size company to select equity entry mode [Root 1994: p 14].

3. Marketing plan

3.1. Marketing plan outside of domestic borders

Internationalisation, international thinking and therefore international marketing has become increasingly important as the world today is a global village. We are living up to the claim of great Greek philosopher Socrates, who said, “I am a citizen, not of Athens or Greece, but the world.”

While the first step to penetrate foreign target country is selecting suitable entry mode, it is through a well studied marketing plan that foreign target country is penetrated. Foreign marketing plan should act as action program that specifies the goals and objectives of marketing. This action plan should also define the policies, allocated resources and time schedule to achieve these goals [Root 1994: p 19].

3.2. Differences between International Marketing and Domestic Marketing

International Marketing has much wider concept than basic marketing. It is the process of planning and conducting transaction across borders to create exchanges that satisfy the objectives of individuals or organizations [M.R.Czinkota, et al, 1993: p 5].

There are four main challenging steps that should be taken to design a successful and realistic foreign marketing plan [Root 1994: p 171];

1. To find the need of foreign customer.
2. Try to produce what foreign customer needs, either by adapting old product to their needs or by developing new product.
3. Try to adjust other marketing policies, such as distribution channels, to satisfy the foreign customer needs.
4. Try to contact the above steps in cost-effective plan to ensure the profitability of business.

Although the basic of marketing plays important role in overseas marketing, still there are several critical differences that should not be ignored. For instance, collecting the necessary data to conduct the marketing plan in foreign market is not as easy as domestic market. Compare to Domestic Marketing Plan, International marketing plan should consider many other issues such as; dealing with different culture and language, different laws and documentation policies, credit and currency exchange issues, unknown competitor behaviour and complex distribution channels. Being aware of these differences and prepared for the characteristic of target country, is the only way to ensure a successful business in foreign market.

According to Roger Bennett & Jim Blythe [Roger Bennett & Jim Blythe, 2002: p 4], the differences between domestic and international marketing can be categorised as in following table:

Differences between domestic marketing and international marketing

Domestic Marketing	International Marketing
Research data is available in single language and easily accessed.	Research data are usually in foreign languages and may be extremely difficult to obtain and interpret.
Business is transacted in single currency.	Many currencies are involved, which wide exchange rate fluctuations.
Head office employees will normally possess detailed knowledge of the home market.	Head office employees might only possess outline knowledge of the characteristics of foreign markets.
Promotional message need to consider only a single national culture.	Numerous cultural differences must be taken into account.
Market segmentation occurs within a single country.	Market segment might be defined across the same type of consumers in many different countries.
Communication and control are immediate and direct.	International communication and control may be difficult.
Business laws and regulation are clearly understood.	Foreign laws and regulations might not be clear.
Business is conducted in single language.	Multilingual communication is required.
Business risks can usually be identified and assessed.	Environment might be so unstable that it is extremely difficult to identify and assess risks.
Planning and organization control system can be simple and direct.	The complexity of international trade often necessitate the adoption of complex and sophisticated planning, organising and control system.
Functional specialization within a marketing department is possible.	International marketing managers require a wide range of marketing skills.
Distribution and credit control are straightforward.	Distribution and credit control may be extremely complex.
Selling and delivery documentation is routine and easy to understand.	Documentation is often diverse and complicated due to meeting different border regulation.
Distribution channels are easy to monitor and control.	Competitor behaviour is harder to observe, therefore less predictable.
New product development can be geared to the need of the home market.	New product development must take account of all the market the product will be sold in.

Table 1: Differences between domestic marketing and international marketing
Adopted From: International marketing, strategy planning, market entry and implementation, Roger Bennett & Jim Blythe & Harry Alder , 2002

3.3. Designing International Marketing Plan

When a firm decide to expand its activity beyond domestic border, well planned marketing is the only key to success. This plan is, of course, start by studying the target country. Not only the market but also every characteristic of the target country could be very important. The foreign marketing plan is closely related to the selection of entry mode. The entry mode has significant influence on creating and controlling the marketing plan in target country. Foreign marketing plan is clearly a critical input of entry mode decision. Therefore, decision on the entry mode and creating marketing plan are truly joint decision [Root 1994: p 18].

The same as domestic marketing plan; to design marketing plan in foreign country, marketing mix policies should be defined. In international marketing, these policies should include the decisions on product, prising, channels, logistics and promotion. Root describes these five policy areas in following table, [Root 1994: p 20];

The International Marketing Plan: Instruments of Action

Product	*A combination of tangible and intangible attributes that confer benefits on users. These attributes form three subsets: physical, package (including trademark), and service (pre- and post-purchase). A given product may have one, two, or all three dimensions.*
Price	*Price is the exchange ratio between a product and money. A company's pricing discretion is dependent on the degree of product differentiation achieved in market. Together with sales volume, price determines sales revenue.*
Channel	*A chain of marketing agencies that links the producer to his final buyers. The distinctive channel flow is a series of transactions that ultimately transfer ownership to the final buyers. The producer may own none, some, or all of his channel agencies.*
Logistics	*A chain of agencies that accomplishes the physical movement of a product from the producer to his final buyers. Logistic activities include transportation, handling, and storage, as well as the choice of production location.*
Promotion	*All communications initiated by a seller that are addressed to final buyers, channel members, or the general public, and are intended to create immediate sales or a positive image for the seller's product and/or company. Promotion includes personal selling, advertising, sales promotion, and publicity.*

Table 2: The International Marketing Plan: Instruments of Action
Adopted from: Entry strategies for international markets, Franklin Root, 1994

International marketing plan is all about the decisions on Product, Pricing, Channels, Logistic and Promotion policies. These five are the true instrument of business in foreign country that should be played well and carefully.

It is through the right and demanded product that profit will be generated for desired business. Correct decision on prising is insuring the ability to compete while being profitable. Channels are the connection to the final buyers in target market and logistic is the tool to provide the way of transferring the product. Within these five, Promotion is the one to attract the attention of target market and create awareness for existence of the product.

Obviously each of these five, are playing crucial part in designing foreign marketing plan. However, it is through Promotion that communication with target market take place. If the promotion phase of International Marketing fail; most likely, all the effort on the other parts will fail. Promotion in International Marketing is one form of cross-cultural communication, because it involves a message-sender from one national culture and a message-receiver from another national culture [Root 1994: p 187].

According to Root, there are six important questions that should be asked to design a successful Promotion Strategy.

Deciding on Promotion Strategy in Marketing Plan

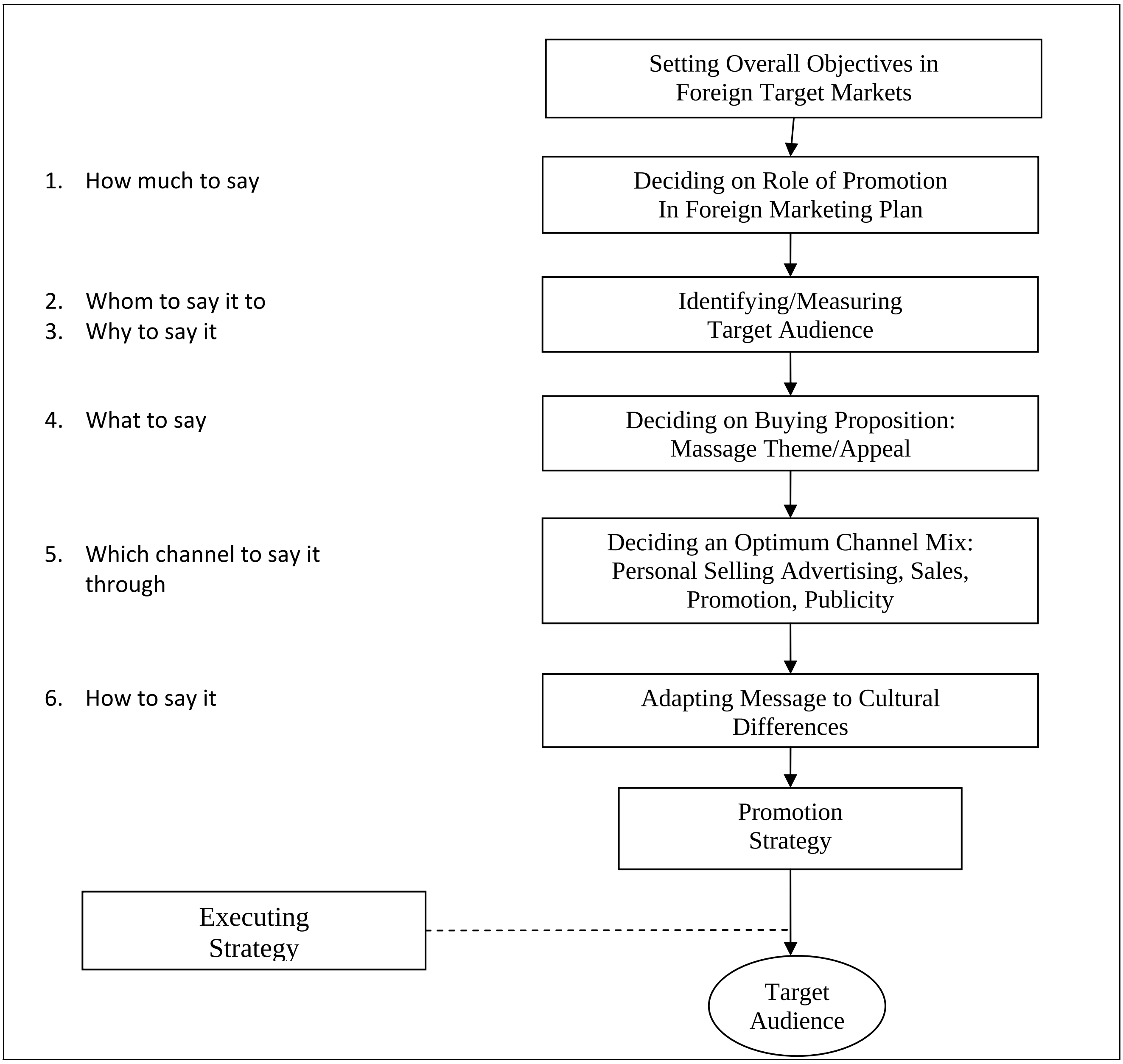

Figure 4: Deciding on Promotion Strategy in Marketing Plan
Adopted from: Entry strategies for international markets, Franklin Root, 1994

The differences between cultures, the way they communicate their message and interpret received messages, might make Promotion the most challenging part of International Marketing Plan.

4. Target country, Iran

Figure 5: Map of Iran
Official web site of ECO, Economic Cooperation Organization[6]

[6] 15.09.2008: http://www.ecosecretariat.org/Countries/Iran/Country.htm

4.1. Iran, Facts

Summary of IRAN	
Official name:	Islamic Republic of IRAN
Head of State:	President H.E. Mr. Mahmoud Ahmadinejad
National Day:	11th of February (Islamic Revolution of Iran – 1979)
Capital:	Tehran
Area:	1,648,196 sq km
Land boundaries:	4,137 km
Sea boundaries:	2,700 km (Including the Caspian Sea)
River boundaries:	1,918 km
Border countries:	Afghanistan, Azerbaijan (Nakhichevan), Armenia, Iraq, Pakistan, Turkey, Turkmenistan
Climate:	Mostly arid or semi-arid, temperate along Caspian coast and mountainous temperate along west and north-west.
Natural resources:	Petroleum, natural gas, coal, chromium, copper, iron ore, lead, manganese, zinc, sulphur
Land use (1998):	Arable land: 300,000 sq. Km 18.2% Meadows and pastures: 900,000 sq. Km 54.6% Forest and woodland: 120,000 sq. Km 7.3% Other: 258,000 sq. Km 15.7% Irrigated land: 70,000 sq. Km 4.2%
Agricultural products:	Wheat, rice, barley, potato, grains, sugar-beet, cotton, fresh & dried fruits, dates, pistachio, fruits, nuts, poultry, meat, dairy products, wool; caviar, flowers and medicinal plants.
Population:	70.4 million (2006)
Religions:	Muslim: 99.% Zoroastrian, Christian & Jewish: 1%
Languages:	Persian and Persian dialects, Azeri, Kurdish, Lori, Baloochi, Arabic
Currency:	Rial (IRR), 10 Rial equals to 1 Toman
GDP:	254.4 billion US$ (2006)
GDP per capita:	3045 US$ (2006)
GDP growth rate:	6.32 % (2006)
Inflation rate:	11.9 % (2006)
Unemployment rate:	11.2 % (2006)
Total Imports:	49,292 million US $ (2006)
Total Exports:	75,537 million US $ (2006)
Foreign Direct Investment:	901 million US $ (2006)
Total External Debt:	23514 million US $ (2006)
Industries:	Oil and gas, steel, aluminium, copper, electric and electronic equipment, cement & other building materials, metallurgy, home appliances, iron, textile, rugs and carpets, tapestry, miniature, ceramic, food processing (particularly sugar refining & vegetable oil production), petrochemicals, and car manufacturing & assemblies

Table 3: Iran, Facts
Official web site of ECO, Economic Cooperation Organization[7]

[7] 15.09.2008: http: //www.ecosecretariat.org/Countries/Iran/Country.htm

4.2. Brief history of Iran

4.2.1. Pre- Islamic history[8]

History of Iran or Persia as home of a nation speaking an Indo-European language began in middle of second millennium B.C. Iranians are said to be Aryans but archaeological finding indicates that before Aryans move to Iran, a race of people belong to western Asia, the region which present republic of Turkestan to the Mediterranean, were living in Iran. The Aryans which is believed to be the origin race of current Iranian are a branch of people today known as Indo-Europeans. Indo-Europeans are ancestors of present Indian, Iranian and most of Western Europeans. Their language was closely related to Sanskrit and was pad of Indo-European family of languages. The Aryans began their migrations some 3000-4000 years ago. The movement was slow and peacefully with mixing and settling among the natives

Eventually from these new inhabitants, two kingdoms raised which played significant role in history of Persian Empire and Iran: Pars or Persis in south to central part of present Iran and the Medes in north western part of present Iran. Written history of Iran began with some 2500 years ago, but since then till 600-700 years A.C the available Iranian history is recorded by Greeks and Jewish. One of the greatest spot of history for both ancient Iran and Greek was in 323 BC when Alexander the great defeated Darius Ill and conquered Persia or Iran. Alexander made great efforts to bring together the East and the West, Persia and Greece effectively. He had great admiration for the Persian culture, customs and traits, and often dressed in the fashion of the King of the Persian kings. He married the daughter of a Persian noble, and encouraged Greek noblemen to marry Persian noble-women. Combination of Greek and Persian civilization in this point of history had great impact on development of both nations.

Iran also had well established relation with China on the east and Rome on west from 120 BC. To expand the trade between east and west, Iran provided an convenient route that it is known as Silk Road.

4.2.2. Islam in Iran[8]

It was about 200 AC during Sassanid dynasty when Roman Empire showed interest toward having Persia. There were four centuries of intensive wars, this exhausted both powers and made them easy prey to Moslem Arabs. The great Persian Empire collapsed suddenly and Romans lost Syria and Egypt.

The Islamic conquest of Iran in 630-650 AC led to end of Sassanid Empire in Iran. Before this, The Persian was mainly Zoroastrian which is known as the first religion that acknowledge the divine authority of One God as the creator. However, there were also large communities of Christian and Jewish.

There are several arguments regarding how Arab Muslim managed to conquer Iran. Some point to the decadence of the late Sassanid society; yet others point out that Muslims had strong

[8] Adopted from Official web site of Iranian Embassy in Canada;
15.09.2008: http://www.salamiran.org/content/index.php?option=com_content&task=view&id=39&Itemid=75

ideology, a strong belief that dead or alive they would be the winners in the end of any battle fought for their religion and God.

At any rate, the Persian became Muslim and retained Muslim. According to Bernard Lewis: “Iran was indeed Islamized, but it was not Arabized. Persians remained Persians. And after an interval of silence, Iran remerged as a separate, different and distinctive element within Islam, eventually adding a new element even to Islam itself.”

4.2.3. Modern History[8]

It could be said that Iran set foot in modern history by its Constitutional Revolution which led the first Parliament of people in Iran. Constitutional Revolution of Iran took place in 1906 and it was the first of its kind in Middle East. However, women only received the right to vote or to be elected in early 1963.

The name of the country officially changed from Persia to Iran in March 1923, when Reza Shah (King of Iran at the time) asked the international community to call the country *Iran* - a name that the people of Persia, themselves, used to refer to their country. "Iran" means "Land of Aryans" to cover all the ethnical groups living in Iran not only Persians. However, since 1979, the country is officially called “Islamic Republic of Iran”.

New era of history in Iran started with Islamic Revolution. Revolution started as massive demonstration by people in the major cities. Occasional strikes gradually became more widespread and frequent. Finally the revolutionary movement won and the Shah had to leave the country. On March 31, 1979 there was a general referendum and people chose an Islamic Republic for their country. The new government of Iran was not yet well on its feet that on September 21, 1979 Iraq began his attacks on Iran; at the time the country was least prepared for a war. The war continued for 8 years. Meanwhile, many countries and United Nation intervened to bring the peace. Finally on July 18, 1988 Iran accepted the UN resolution and made peace with Iraq. Only a year after this Ayatollah Khomeini passed away. Immediately the council of experts pointed Ayatollah Khameneie as the new leader. He is the current supreme leader of Iran.

---

[8] Adopted from Official web site of Iranian Embassy in Canada; 15.09.2008: http://www.salamiran.org/content/index.php?option=com_content&task=view&id=39&Itemid=75

4.3. Location

Iran is situated in south-western Asia and borders three of former soviet union states, the Republic of Armenia, the Republic of Azerbaijan, and the Republic of Turkmenistan, as well as the Caspian Sea to the north, Turkey and Iraq to the west, the Persian Gulf and the Gulf of Oman to the south and Pakistan and Afghanistan to the east. With area of 1.648.196 sq.km, Iran is the world 17^{th} largest country.

4.4. People

With about 70 million inhabitants Iran is the 17th populated country of the world. Diverse geographical conditions and long historical heritage, have played and important role in shaping the Iranian society and culture. More than 60 % of the population are living in urban area and mostly work in business and industrial fields. The inhabitants of rural area are engaged in agricultural activities.

The majority of Iranians are Muslim. Zoroastrians, Christians and Jews are the religious minorities in Iran.

The official language of the country is Persian, how ever there are several other languages and dialects such as Arabic, Azari, Kurdi and Luri that are spoken in some areas.

4.5. Government

According to the constitution of the Islamic Republic of Iran, the structure of the government consists of legislative, judicial and executive powers, which function separately. Meanwhile the powers are supervised by a Supreme Religious Leader, who is elected by the Assembly of Leadership Experts. Ayatollah Khameneie the Current Supreme leader of Iran is the second after Ayatollah Khomeini who was the first Supreme leader and also the Islamic revolution leader.

The legislative power is given to The Islamic Consultative Assembly which is the law making organ and its members are elected for a 4 year term by popular vote. The laws adopted by this Assembly are enforced after being approved by the Council of Guardians to determine their constitutionality and conformity to Islam.

The Executive power is headed by the President, who is elected for a 4-year term through direct popular vote. The current President is Mr. Mahmoud Ahmadinejad. The President, Vice Presidents and Ministers form the Cabinet. The Ministers obtain the vote of confidence from the Islamic Consultative Assembly.

Being appointed by the Leader, the Head of the Judicial Power is the highest judicial authority. He nominates the Minister of Justice to the President as a member of Cabinet.

4.6. Economy of Iran

4.6.1. Overview of Iran's economy

Iran is a resource-rich and labour-rich country with growing economy. Iran's economy is a mixture of central planning, state ownership of oil and other large enterprises, village agriculture and small- scale private trading and service ventures.

Iran's economic health has faced several fluctuations during past century. During 1960s and 1970s, economy in Iran experienced real economic growth rates nearing 10%, one of the world's highest. With the 1979 Islamic revolution followed by 8 years war imposed by Iraq and international isolation, Iran faced negative rate of real economic growth. Throughout the early 1990s, Iran had to deal with post-war recovery but, still had to face another severe economic downturn due to drop in international oil price in latter part of the decade. Since 2000, Iran has experienced positive rates of real economic growth. According to IMF (International Monetary Fund) the annual change in GDP is projected to be 5.507% for 2008 and 5.032% for 2009. [9]

Iran is the second larger oil producer in OPEC (Organization of the Petroleum Exporting Countries) and its oil and gas reserves rank among the world's largest. Despite the government effort to boost up nonoil sectors, Iran's economy is still depended on oil price in international market. Beside the changes in oil price, one of the greatest challenges of Iran's economy is its relationship with the rest of the world. Since the revolution of 1979, several political conflicts such as US sanction have been suppressing Iran's economy. During last two decades, Iranian government has been trying hardly to improve its international relation. However, in recent years; Iran's nuclear program has created new political conflict with UN, United State and Europe.
Due to these political conflicts, Iran's economic growth appears to be below the average growth of Middle East countries and of the oil exporting countries.

Real GDP Growth in Iran, Middle East and Central Asia, and Oil Exporting Countries, 2003-2008

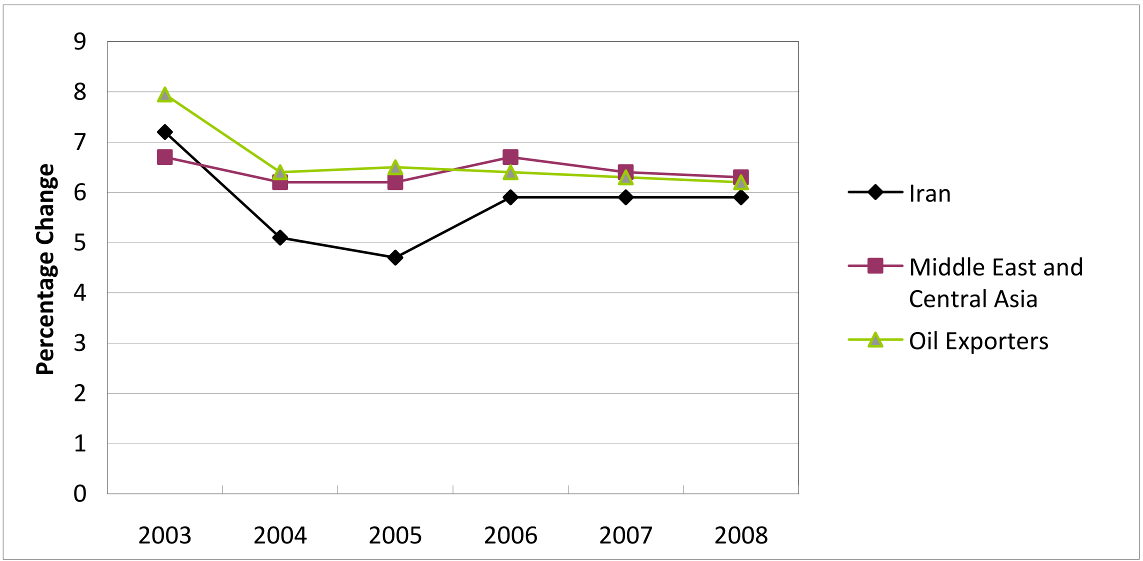

Figure 6: Real GDP Growth in Iran, Middle East and Central Asia,and Oil Exporting Countries
Adopted from: Iran's Economy, Congressional Research Service 2008,
Original source: International Monetary Fund (IMF), Regional Economic Outlook, October 2007

[9] International Monetary Fund;
26.11.2008: http://imf.org/external/country/IRN/index.htm

Although Iran's economic infrastructure has been improving steadily over the past two decades, yet continues to be affected by inflation and unemployment. According to IMF, in 2007 the inflation in Iran reached 17.2% and unemployment 11.5%. To improve the situation, Iranian government has introduced several measures to increase state intervention but, still most of economic activities are controlled and owned by state. Private sectors activities are limited to small-scale work shop, farming and services. (Congressional Research Service 2008, Iran's economy)

Iran's economy is dominated by its industrial sector, which represent about 45% of the country's GDP. The service sector accounts for another 43% of Iran's economy, while agriculture 11%. Although agriculture in Iran is responsible for smallest portion of GDP but, it represents one-fifth of all jobs in Iran. (Congressional Research Service 2008, Iran's economy)

Iran's major commercial partners are China, Germany, Italy, Japan, Russia, South Korea, Turkey and United Arab Emirates. Iran also expects to attract billions of dollars of foreign investment by creating a more favourable investment climate.

Major Export Markets and Sources of Imports for Iran, 2006

(millions of U.S. dollars)

Country	Exports	Imports	Trade Balance	Total Trade
China	9042	4927	4115	13969
Germany	412	5674	-5262	6086
Italy	4451	2537	1914	6988
Japan	9887	1291	8596	11178
Russia	216	2085	-1869	2301
South Korea	4260	2534	1726	6794
Turkey	5115	1173	3942	6288
United Arab Emirates	633	4381	-3748	5014

Table 4: Major Export Markets and Sources of Imports for Iran, 2006
Adopted from: Iran's Economy, Congressional Research Service 2008,
Original source: International Monetary Fund (IMF), Direction of Trade Statistics

***Exports: Total value*: 49,292 million US $ (2006)** *Major Items:* Petroleum, gas, and petrochemical products, mineral products, food products, carpet, pistachio, caviar, skin and leather, handicrafts, fresh and dried fruits, hides, iron and steel, chemicals, textiles, refined copper.[10]

***Imports: Total value*: 75,537 million US $ (2006)** *Major Items:* Road vehicle and machinery, base metals, chemical products, iron, steel and manufactures, animal and vegetable fats, chemicals and pharmaceuticals, food and live animals, plastics, tobacco, and technical services.[11]

[10] Adopted from Official web site of ECO, Economic Cooperation Organization;
15.09.2008: http://www.ecosecretariat.org/Countries/Iran/Country.htm

4.6.2. Iran's Economic Policy and Reform Effort

The major attempt of government in Iran to heal the post-war economy was to engage in series of Five-Year economic plans. Through these Five-Year economic plans, Iranian government tries to shift its state-dominated economy into an economy that is market oriented, private sector led, and economically diversified.

In 1989, the state in Iran began to implement the first Five-Year economic plan. The main objectives of this plan was to transform the managed economy of the war to an open economy based on market forces and establish and maintain relation with the world economy. It could be said that one of the major actions that were taken during the first Five-Year Plan was establishment of "Free Trade Zones". Free Trade Zones of Iran were introduced for first time in1993. Establishing and introducing Free Trade Zones was part of a governmental plan for reconstruction and economic recovery after eight year of war that was imposed by Iraq.

According to legally accepted definition, the Free Trade Zones and special economic Zones are those parts of Iranian territory that managed according to the special law and bylaw and are excluded from the law of governing mainland. These Zones are excluded from the domain of custom authorities and enjoy full freedom for in and out flow of goods and commodities.
Unique geographical location, sufficiently developed infrastructure and foreign investment incentives have provided ample opportunity for internal as well as foreign investment in the Zones.
The Iranian parliament approved the Free Zone Act in September 1993. The council of ministers later adopted the bylaw of the Free Zones. These bylaws have defined and set out all regulation pertaining to import, export, investment, insurance, banking, labour and employment of these Zones.[11]

Third Five –Year Plan (2000-2004)

It is believed that so far Iran's most successful Five-Year Plan was the third Five-Year plan (2000-2004). In this period, Iran's greatest move toward trade liberalization, diversification of economic sector and privatization took place. The government also introduced some new law and regulation such as new tax policies to promote Iran's global market integration and attract foreign investment (Congressional Research Service 2008, Iran's economy).

Fourth Five-Year Plan (2005-2009)

Mr Ahmadinejad was elected as president of Iran in beginning of the fourth Five-Year Plan(2005-2009). President Ahmadinejad came to office in 2005 with a populist approach to redistribute oil wealth towards poorer segments of the population by expanding social programs and subsidies. In this period, the government has used oil export revenues to pay for several social programs such loan forgiveness policies, low-interest loan for agriculture, tourism industry, and free-interest loan to assist farmers, rural residence and also to assist youth with marriage, housing and education. Many analysts criticized Ahmadinejad government for using oil money on his social program spending rather than storing it for future generations. These analysts believe that Ahmadinejad Subsidies are untargeted and ineffective tools for fighting unemployment, inflation and poverty. The IMF has also encouraged Iran to reduce its subsidies (Congressional Research Service 2008, Iran's economy).

[11] Adopted from Official web site of Kish Trade Centre;
26.11.2008: http://www.kishtpc.com/Free-En/free_Iran.htm

4.6.3. Iran’s Economic Sectors

Large industrial sectors; oil and gas, petrochemicals, steel, textile, and automotive manufacturing dominated Iran’s economy with 45% of county’s GDP. The Service Sector with 43% of country’s GDP is the second important player in Iran’s economy. Agriculture accounts for only 11% of GDP but it is the largest employer in Iran, representing one-fifth of all jobs.

4.6.3.1. Oil and Gas

a) Oil

With 10% of global proven oil reserves, Iran has the world’s third largest proven petroleum reserves following Saudi Arabia and Canada and the second largest gas reserves after Russia. The oil and gas sector is heavily state-dominated. Oil and gas production and exploration are handled by the state-owned National Iranian Oil Company (NIOC).

Iran is second producer of oil among the OPEC (Organization of the Petroleum Exporting Countries) members. Iran’s oil production in 2006 was approximately 5% of total global Production. Iran also is the fourth largest exporter of crude oil worldwide, after Saudi Arabia, Russia, and Norway. Top export markets for Iran are Japan, China, India, South Korea, and Italy (Congressional Research Service 2008, Iran’s economy).

b) Natural Gas and Gasoline

Iran has the second largest natural gas reserves with nearly 15% of the world’s gas reserves. Despite these large gas resources, because of lack of necessary technologies and recourses to develop the gas field infrastructure, Iran has been unable to become a major international gas exporter. In fact, up to 2005, Iran was an importer of natural gas and still nearly 40% of domestic consumption of gasoline is met by imports (Congressional Research Service 2008, Iran’s economy).

It is in interest of Iranian government to develop its gas field and refining capacity, at least to levels of pre-Iran- Iraq war. Oil based economy of Iran has made it highly depended and sensitive to changes of oil’s price in International market. To reduce this dependency, Iranian economy feels the urge to develop its natural gas sector in an effort to diversify its economy. In addition to this, natural gas production would help increase export earning and help to meet growing domestic consumption. How ever, to develop oil and gas infrastructure and increase refining capacity, Iran needs foreign investors. Although in past decades, US sanctions on Iran’s Oil and Gas development have been huge barrier to any grow of these sectors; with hard effort of Iranian government to attract the foreign investors, many countries have already invested in development of Oil and Gas industries in Iran.

4.6.3.2. Agriculture

Agriculture sector has substantial importance in Iranian economy. This sector is the provider of job for nearly one-fifth of employed labour force in Iran and responsible for about 11% of country's GDP. Wheat, barley, rice, vegetables, dates, tobacco, tea, cotton, cattle, sheep, poultry are among Iran's agricultures products. Beside these, Iran is also considered as a major source of caviar and pistachio nuts.

A major drawback in Iran's agriculture sector is its vulnerability to climate changes. For instance, a severe drought period from 1998 to 2001 highly influenced this sector to extend of making Iran a major importer of wheat.

4.6.3.3. Manufacturing

There are various industries within Iran's manufacturing sector. Iran is the 20th largest producer of crude steel globally. Despite this large level of production, Iran is still a net importer of steel, ranked as 14th largest importer of still in 2005. Due to high domestic and global demand of steel, Iran is trying to double its steel production level by the end of 2010.

Iran is the 15th largest motor vehicle producer in the world. Iran produces both light and heavy vehicles. The Auto Plants Industry in Iran is badly suffering from outdated technology and old parts (Congressional Research Service 2008, Iran's economy).

Although the concern of foreign investors about U.S. reaction on their partnership with Iran has also been a large stone in the way of growth for this sector but in recent years, Iran manage to begin joint ventures with foreign companies for auto production, including Peugeot and Citroen (France), Volkswagen (Germany), Nissan and Toyota (Japan), Kia Motors (South Korea), Proton (Malaysia), and Chery (China) (Congressional Research Service 2008, Iran's economy).

Another growing industry within this sector of Iran's economy is agriculture-related manufacturing, such as rice milling and manufacturing of canned food and concentrates fruit juices. Foreign companies, such as Nestle, Coca Cola, and Pepsi have signed deals for production with local Iranian businesses. Under U.S. sanctions regulations, foreign subsidiaries of American companies are able to trade or engage in business in Iran (Congressional Research Service 2008, Iran's economy).

4.7. Economical relation with EU

The EU is Iran's main trading partner, accounting for about 27.8% of its trade. By the end of 2006 88% of EU imports from Iran were energy related products. The exports of the European Union to Iran in 2006 grew 8% in average while the imports of Iran did to a rate of 25.9%. In relation to commercial partners, Iran has a quite diversified market where the EU is its main trading partner with 27,8% of total market share, followed by China with 12.3%, Japan 9.8%, South Korea 6.1% and Turkey, U.A. Emirates, South Africa, Russia and Singapore with between 2% and 4% each. In 2006 Iran's main suppliers were the EU (33.4% of total imports), China (10.7%), U.A. Emirates (9.5%) and South Korea (6,3%) and the main export markets were EU(23.9%), Japan (14.7%), China (13.4%) and South Africa (7.6%).

In 2006, EU imports from Iran totaled more than €14.12 Billion, whereas the value of EU exports to Iran in the same year amounted to more than €11.19 billion, resulting in a trade balance surplus of €2.935 Billion for Iran. During last two years, EU's export to Iran has decline about 10% in average. In 2007, EU imports from Iran decreased to €13.8 Billion where the export of goods to Iran reached only to €10 Billion resulting in increase of trade balance surplus to €3.8 Billion for Iran. (Europe Trade issues)[12]

EU Merchandise Trade with Iran

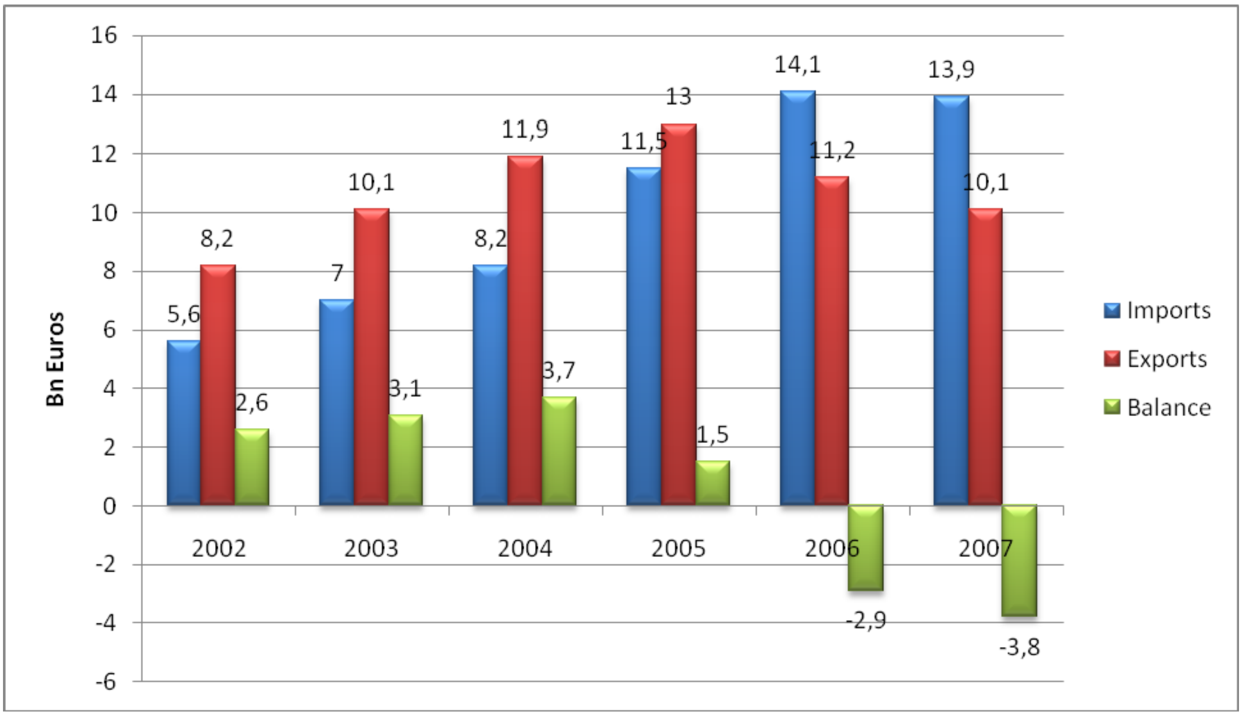

Figure 7: EU Merchandise Trade with Iran
Adopted from: Iran- EU bilateral trade and trade with the world.
Main source: Eurostat. Statistical regime 4

---

12 Adopted from: Europe Trade issues, Official web site of European Commissions.
August-December 2008: http://ec.europa.eu/trade/issues/bilateral/countries/iran/index_en.htm
The information of this section has been viewed on August 2008 and updated on December 2008

Iran occupies rank number 26 in the EU's total trade. The EU exports to Iran are quite concentrated in three main products, machinery and transport equipment, manufactured goods and chemicals and related products. Iran is an important destination market for EU's iron and steel and power generating machinery.

Close to 90% of EU imports from Iran are energy related (mainly oil products), representing 3.67% of the total EU imports in energy products. Iran ranks as 6th supplier of energy products for the EU. Agricultural imports amount 2.7% of total imports. [Europe Trade issues]

Rank of Iran in European Union Trade

European Union Imports from Iran					European Union Exports to Iran					
Rank	Product Groups	Mio Euro	Share of total EU imports	%	Rank	Product Groups	Mio Euro	Share of total EU exports	%	Balance
22	TOTAL	13918	0,98	100	30	TOTAL	10101	0,81	100	-3817
44	Agricultural Products	372	0,40	2,7	51	Agricultural Products	207	0,28	2,0	-165
6	Energy	12205	3,67	87,7	40	Energy	112	0,18	1,1	-12903
29	Non-agricultural raw materials	11	4,79	0,1	12	Non-agricultural raw materials	128	0,19	1,3	116
55	Office/telecom. Equipment	1	0,00		37	Office/telecom. Equipment	114	0,49	1,1	113
42	Power/non-electrical mach.	37	0,05	0,3	21	Power/non-electrical mach.	3020	1,62	29,9	2983
52	Transport equipment	34	0,04	0,2	3	Transport equipment	930	0,56	9,2	896
26	Chemicals	425	0,38	3,1	28	Chemicals	1410	0,75	14,0	984
40	Textiles and clothing	127	0,16	0,9	57	Textiles and clothing	52	0,16	0,5	-74
29	Iron and steel	233	0,57	1,7	12	Iron and steel	1002	2,89	9,9	770

Table 5: Rank of Iran In European Union Trade
Adopted from: Iran- EU bilateral trade and trade with the world.

EU-Iran trade restrictions

It is believed that Iran-EU relationship has significant growth potential. However, the development of this relationship has been harmed by the ongoing problems related to the Iranian nuclear program. There are three groups of trade restriction against Iran; Sanctions imposed by the USA(1987), Trade restrictions imposed by the United Nations (December 2006) and Trade restrictions imposed by the EU(March 2007). While Trade restrictions imposed by UN and EU are mostly targeting the goods which might be used by Iran in developing nuclear program, U.S. trade sanction against Iran is restricting the involvement or investment of its residents in any business with Iran, especially any activity toward development of Oil and Gas industry in Iran[13]

[13] Trade with Iran is subject to certain restrictions derived from the sanctions imposed by the United Nations Security Council on Iran through UNSCR 1737 of 23 of December 2006 and UNSCR 1747 of 24 of March 2007. Trade restrictions with Iran are regulated by Council Regulations 423/2007 and 618/2007, which set out a list of products prohibited from export to Iran.(Europe Trade Issues)

4.8. Classification of industries in Iran

The Iranian Statistical Year book (2000) classified enterprises into four categories: firms with 1-9 employees, firms with 10 -49 employees, firms with 50 -99 employees and firms with over 100 employees. From these four **groups**, only firms with less than 10 employees are regarded as SME, all the other firms are considered as "Large manufacturing Establishment". The table below, shows the number of the firms by size, category and sector in Iran;

Number of Enterprises in Iran by Size, Category and Sector

Business sector	*1-5 employees*	*6-9 employees*	*10- 49 employees*	*50-99 employees*	*100 or more employees*
Services	878,774	5,631	3,478	231	150
Manufacturing	334,630	17,125	13,236	1055	1207
Mining	454	355	413	N/A	N/A
Total	1,213,858	23,11	17,127	1,286	1,357
Percent of total	96.6%	1.8%	1.4%	0.1%	0.1%

Table 6: Number of Enterprises in Iran by Size, Category and Sector
Adopted from: Statistical Yearbook of Iran (2000)

As the table shows; 98.4% of all companies in Iran have less than 10 employees.

4.9. Business etiquette and tips

Although Iran as an Islamic Republic presents Islamic standards but it also carries unique history and culture which differs greatly from those of Arab worlds. When doing business in Iran, it is important to be aware of both cultural and Islamic standards. This awareness is necessary not only because it will provide acceptability in Iran but also because some of these standards are legally enforceable.

Doing business in a different environment always requires general knowledge and understanding of people, culture, etiquette and their way to approach business. Having such knowledge and cross cultural skill will result to a successful connection to the business net work by minimizing the risk of misunderstanding and misbehaving.

4.9.1. Greeting

Iranians are very formal and it will take several meetings before a more personal relationship can be established.

Shaking hands with male counterparts and the exchange of business cards is the usual form of introduction. With women, generally speaking as an Islamic custom; any physical contacts even shaking hands are forbiden. This is particularly true for government officials, representatives of state controlled companies and foundations. This custom is not necessary valid when doing business with the private companies. As a male you should wait to see if women extend their hands, if they do not, then simply nod your head and smile. The most common greeting in Iran is 'salam' which stands for “Hello.” One would also reply with 'salam'. When departing, Iranians will usually use, 'khoda-hafez' (Stands for goodbye).

It is suggested to stick to formalities when doing business in Iran. Once a relationship has been established Iranian counterpart will quickly start to address their partner with first name. Men are addressed with 'agha' proceeded by the surname. So, Toni Ihalainen will be 'Agha-ye Ihalainen'. With women the term 'khanoom' is used. So, Minna Ihalainen will be 'khanoom-e Ihalainen'. Professionals with titles will be addressed similarly, for example, 'Doctor Jones'.

4.9.2. Dressing

Most Iranian officials and business people wear clothing comprising of trousers, shirt and jacket. Many officials will be seen with collarless shirts and suit. Ties are not common.

A foreign business partner is expected to dress smart and conservative. A suit is standard cloths for men although wearing a tie is not necessary.

Whether doing business in Iran or visiting, women should wear very conservative clothing that covers arms, legs up to knees and hair. When in public women must cover their hair with a scarf. However, the last decade has seen incredible changes in what the authorities are willing to tolerate. Women can now be seen wearing make-up, jeans and scarves that barely cover the hair. However, as a foreigner it is best to walk on safe side.

4.9.3. Meeting

Appointment should be made via both telephone and in writing. Prior to arriving is better to confirm the place and time via phone. Business hours are Saturday to Thursday 9 a.m. - 5 p.m. Working hours on Thursday might vary in different companies as many of them are working only half a day. Lunch is usually an hour at around 1 p.m. Friday is a holiday. No business will take place on Friday and banks are closed as well.

There are few key times to avoid in Iran. No-Rooz (21 March) is the major holiday for Iranians. This New Year celebration is an integral part of Iranian culture. All offices and businesses will close for 2-3 weeks. Other periods to avoid planning a business trip to Iran are Ramazan (the month of fasting) and Ashura-Tasua festivals (10 days in Muharram). Particularly it is important to avoid planning any business trips to Iran during the 10 days of Ashura –Tasua festivals. [14]

Iranians intend to be punctual and it is highly expected from the clients. However this rule might not be very valid when doing business with government officials. It is expected from the clients to be on time but also be prepared to be kept waiting. The administration and bureaucracy in Iran can be chaotic, meaning that officials may need to address an important issue before seeing the visitor.

Although many Iranians in business and in the higher levels of government will have a good understanding of English, it is best to arrange for own interpreter to be in safe side.

Business in Iran is personal. Many businesses are family owned and run. Even within government, officials usually work within networks of friends and associates. Have an influential friend in Iran can be a strong asset. It is very common to call for favors and in return be prepared to re-pay in future. This is all part of doing business in Iran.

Exchange of gifts is a tradition among private sector business people but, it should not be mistaken with bribery. Bribery is crime and greatly different with making a network and benefit from it as suggested above.

Business negotiations are usually very long, detailed and protracted. Iranians are astute business people. They enjoy haggling and getting concessions so be prepared for long negotiations. Tenders are strictly required for government contracts for purchasing or projects. Breaking up contracts into smaller parts is a common practice to try and incorporate local capability and also to negotiate on specific prices. It is recommended to maintain a package approach. Many approaches by state companies and organizations are aimed at obtaining information to be used in negotiations with a preferred supplier.

Decision making can be slow. It is most likely that the negotiations will happen with less senior members of a family or state department first and only after the trust is build the meetings will move to more serious level with senior members.

Implementing decisions are just as slow. Iran's bureaucracy means a lot of waiting. Applying pressure in a non-confrontational way can help speed matters up although the most effective way to do so is to use people of influence for help.

Alcohol is prohibited. You cannot legally import nor consume alcohol in Iran.

These above examples point to a few considerations one must make before doing business in Iran. By demonstrating an understanding of Iranian culture and etiquette, the potential of business venture in Iran is maximized.

[14]The only official and common calendar in Iran is Persian calendar. How ever, since religious celebrations are based on Islamic calendar, the Islamic calendar is used as a reference for each of these celebrations. Please note that unlike Western calendar or Persian Calendar; the Islamic calendar in lunar. Therefore the dates of these celebrations are vary from year to year.

4.10. Free Trade Zones in Iran

Free Trade Zone is a part of country which follows special and exceptional trade regulations. In these special areas usually trade barriers are eliminated. In hope of attracting foreign investments; Free Trade Zones are offering lowered tax, tariffs, quotas, and bureaucratic requirements. A country might set up Free Trade Zone in an area for several reasons such as boosting up the economy or reducing unemployment rate and poverty.

Most of Free Zones are located in developing countries. Minimized bureaucracy and trade barriers, lower tax and tariff rates and specific advantages that each of these Free Trade Zones are offering are creating perfect attraction for foreign investments. Many firms are using the Free Trade Zones as Labour intensive manufacturing centres that they could import their raw material or components and export the factory products.

Free Trade Zones where introduced in Iran during the implementation of the firs Five-Year economic plan of Islamic Republic of Iran. Iran was engaged in eight years of war imposed by Iraq. The main objective of this plan was to transform Iran’s isolated and managed economy of the war to and open economy based on market forces and establish and maintain relation with world economy.

Base on the general policies of Islamic Republic of Iran, application of open market economy could create large concern for the side effect of such sharp transformation on wellbeing of the society. Therefore it was decided to assign some specific locations as Free or Special economic Zones, in order to completely apply the principle of free market economy. In this way, enough attraction to observe foreign investment could be introduced.

According to the legally accepted definition, the Free Trade Zones and Special Economic Zones are those parts of the Iranian territory that are managed according to the special laws and bylaws and are excluded from the law of governing motherland. These zones are excluded from the domain of the custom authorities and enjoy full freedom for in and out flow of goods. The Iranian Parliament approved the Free Trade Zone Act in September 1993. According to this act Kish Island, Qeshm Island and the port of Chabahar were declared as the first Free Industrial-Trade Zones of Iran.

There are already 21 locations in Iran that are declared or in the process of declaration as Free or Special Trade Zones. Although each of these zones has own regulation but, all of them are offering exceptional opportunities to foreign businesses. Six location could be considered as Iran’s major Special or Free Trade Zones. Of these six, four of them are located in south of the country enjoying the immediate access to Persian Gulf and other two in north of Iran are bordered with Caspian Sea.

Ghesm and Kish Island the two biggest islands in the Persian golf are well known because of their unique location and characteristic. They both have international airport with daily flight to different destinations. The distance from United Arab emirate to Kish is 200km and to Gheshm 220 km.

Chabahar Free Zone is situated on international shipping routes in the sea of Oman and the Indian Ocean. Chabahar is best known for its access to the abundant fisheries in the Oman Sea. An international airport, and land transportation routes are linking the area to as far as the Central Asia.

Arvand Free Zone is located at the north western tip of the Persian Gulf and south western of Khuzestan province at the confluence of the Arvand and the Karun rivers. Arvand is enjoying the fresh waters of the Bahmanshir , the Karun and the Arvand rivers, good infrastructures, such as roads, railways, marine and air transports in or out of the country and short distance from neighbouring countries.

Aras Free Zone in north of Iran has joint border with the countries of Azerbaijan, Armenia and Nakhjavan independent republic. It has connecting lines and roads with Europe and Ghafghaz region, Turkey and the Mediterranean region. It is located in rich industrial area with well developed infrastructures and close distance to neighbouring country

Anzali Free Zone is also located in north of Iran. Anzali has border to Caspian Sea with easy and fast access to the markets in Federative Russia, Caucasus and Ukraine.

4.10.1. Major characteristics of the Free Trade Zones in Iran[15]

a. Geographical advantages:

Four of the Free Zones are located at the southern coasts of the country and connected to the major international waterways via the Persian Gulf, the Oman Sea and the Indian Ocean.

- Easy access to major air, sea and land transportation routes at local, regional, and international levels.
- Easy access to regional markets with regard to import of raw materials, and intermediate or manufactured goods, and easy access to local and neighbouring markets specially those of Western, Southern and Central Asia and the Persian Gulf.
- Reliable Public utilities and services.
- Availability of skilled and semi- skilled manpower with reasonable (competitive) wage demands in the region.
- Appropriate access to abundant sources of energy such as natural gas (2nd in the world) and crude oil (4th in the world)
- Wealth of mineral resources; unique in the Middle East, required for industrial production and exports.
- International reputation as major trade centres.
- Appropriate climate and tourist attractions.

b. Investment opportunities

The state is highly aimed at attracting foreign investors in the area

- Investment independently or in partnership with Iranian persons
- No restrictions on the percentage of the share holdings
- Free repatriation of net profits and capital
- Exemption from all kinds of taxes for the first 15 years
- The legal rights of foreign investors are guaranteed; in the event of nationalization, the authority of each Zone shall make the compensation.
- Foreign investors may lease land with reasonable rents, and own the buildings and other installations built on the land.

[15] The information in this part is extracted from Official web site of Iran Free Trade-Industrial Zones (I.F.T.I.Z)

c. **Import & Export opportunities:**

- All goods imported into the Zones are exempt from customs duties and commercial benefit tax.
- Exports of goods from the Zones to the mainland, to the extent of the added value plus the value of the used domestic raw materials, are exempt from customs duties and commercial benefit tax.
- All goods, shipped to the Zones from the mainland, are deemed domestic transference.

4.10.2. Legal ease of having business in Iran's Free Trade Zones[16]

Following the government plan to attract the foreign investors and business, there have been several actions to reduce the trade complexity in the area. According the official statements; starting up a business, banking matters, using manpower and handling the legal issues are as easy as follow:

a. **Entry to Free Zones**

- No entry visa is required
- Foreign nationals, who choose direct entry to the Zones, do not need to apply for visa in advance.

For entry into adjacent zones, a double entry visa can be obtained from the legations of the I.R.Iran in any country from which they wish to apply.

b. **Banking in Free Zones**

- The offshore banking and non banking credit activities regulations in the Zones are flexible, and compatible with international offshore banking practices and standards
- Foreign banks and financial institutions may open head offices, branches, and counters independently or in partnership with domestic partners.
- No foreign exchange control; the conversion of the Iranian Rial to any other currency is readily permitted.
- Transfer of foreign currencies and Iranian Rials abroad is permitted.

c. **Using man power of Free Zones**

- All matters related to manpower employment are dealt with according to the contract and agreement initially concluded between the employer and the employee.
- The labour regulations practiced in the Free Zones are unique and they are formulated in accordance with ILO recommendations.[16]

d. **Arbitration**

Any legal conflict between the partners or probable disputes will be handled according to the relevant terms of contract originally concluded between the parties.

[16] The information in this part is extracted from Official web site of Iran Free Trade-Industrial Zones (I.F.T.I.Z)
[16] International Labour Organisation

5. Internationalisation for Finnish SMEs and Iran as Possible Partner

5.1. SMEs in Finland

The term SMEs is generally refers to Small and Medium size non-subsidiary, independent firms within certain criteria. These criteria are based on the number of employees and annual turnover of the enterprise, but they vary from country to country. While European Union considers a firm as SME if the number of its employees is less than 250, in United State this number can be as high as 500 employees. In Europe small firms are mostly considered to be firms with fewer than 50 employees and micro-enterprises have at most 10 employees. Financial assets are also used to define SMEs. In European Union SMEs must have annual turn over of less than 50 million [OECD Small and medium enterprise out look, Marian Murphy, 2002: p7].

Enterprise category by size and turn over

Category	*Number of employees*	*Turnover*	*Balance sheet*
Medium	< 250	≤ 50 Million Euro	≤ 43 Million Euro
Small	<50	≤ 10 Million Euro	≤ 10 Million Euro
Micro	<10	≤ 2 Million Euro	≤ 2 Million Euro

Table 7: Enterprise category by size and turn over
Adopted from: EU recommendation 2003/361/EC

SMEs are argued to be the true generator of wealth and employment in industrial countries. They are the source of employment for majority of the population and important factor in economical growth of each country. Based on statistics (Please see “Facts and figures about Finnish enterprises”) there are about 16000 Small and Medium size enterprises in Finland. Many of these firms already understood the necessity of internationalisation for their survival and started the over seas activities.

Facts and figures about Finnish enterprises

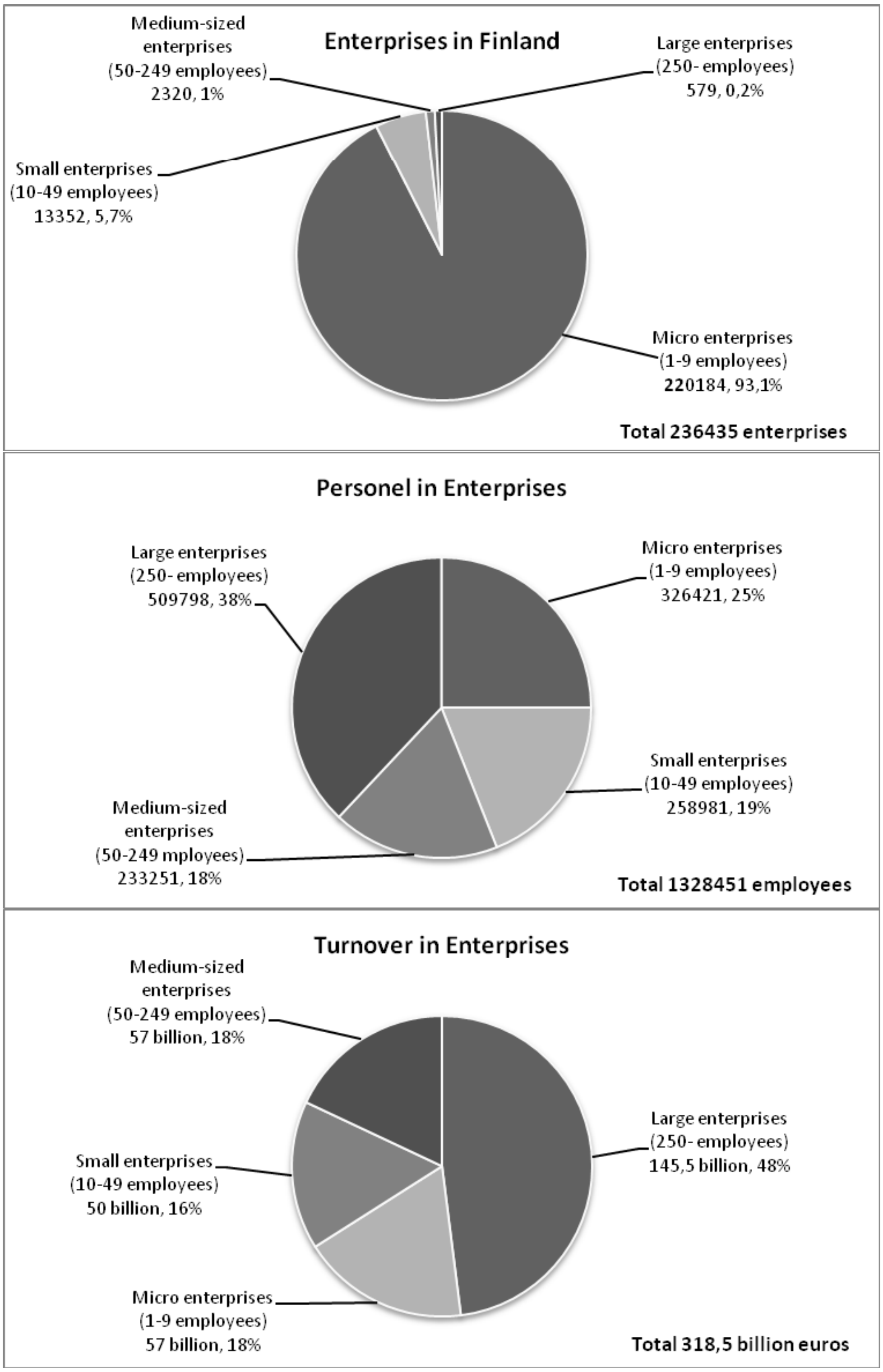

Figure 8: Facts and figures about Finnish enterprises
Adopted from: Official web site of “Suomen Yrittäjät”; Federation of Finnish Enterprises
Main source: Statistics Finland, Business register 2005

5.1.1. Internationalisation for Finnish SMEs

A firm's strategy is strongly linked to its country of origin. The country of origin does not only mean the cultural or political environment but also means domestic push and pull factors for each firm. It is believed that the most common reason to interest Finnish SMEs toward internationalisation is the small size of domestic market which could be even as small as none existent for some enterprises. Because of this reason Finnish SMEs have to step toward internationalisations in much earlier stage of their business compared to the SMEs that are benefiting a large domestic market.

Due to the fact that Finland is one of the smallest developed countries of the world; regardless of the size of target market, almost always the foreign market are bigger than domestic market for Finnish enterprises. This fact and active presence of the competitors has created a push factor for Finnish SMEs to consider overseas activities [Luostarinen, 1989: p 75-76].

How ever, there are several environmental, geographical and economical factors that limiting the concept of internationalisation for Finnish enterprises. Demographically Finish SMEs do not have the option to compete with cheap products aimed at mass of people. The labour cost is very high so providing low end price product is almost impossible. Compare to enterprises from developing country, Finnish SMEs do not have the advantage of cheap material cost, cheap labour cost and low price energy. The lack of different natural recourses is also another reason which restricted the competition capabilities of Finnish SMEs. Because of these reasons, Äijö believes; the chance of successful internationalisation for Finish SMEs lay in narrow specialised fields.[17]

Finland is enjoying one of the highest educated nations of the world. High level of education has provided the access to advanced technologies and Know- How knowledge for Finnish SMEs. Using these advantages in more specialized and narrow fields is the key factor to compete and success in International markets for Finnish enterprises.

Strength	Weaknesses
- High level of education among population. - Low level of brain drain - Well functioning education, research and innovation system. - Long term basis policy for investment in R&D activities to support science and technology development. - Access to advanced technology and know-how knowledge - Good co-operation between business enterprises and public research. - Finland's good reputation; reliable, safe. - Recent but active participation in international activities	- A small domestic market area and population. - Economy strongly dependent on global and EU trends. - Remote from global market centres, Geographically distant from the centres of Europe. - A small language area and severe climate - A relatively low level of internationalisation by European standards. - Limited economic and intellectual resources. - The number of foreign highly-educated experts and their share of the labour force are small - Businesses (including R&D-intensive operations) are moving abroad

Table 8: Strength and Weaknesses of Finnish SMEs in Internationalisation
Adopted from: Finland country review by Marcel de Heide & Science and technology policy council of Finland.

[17] See also " SMS Internationalisation", Ville Ruokonen, 2007, Tampere University of Applied Sciences

5.2. Iran as potential business partner

As it is already mentioned in previous chapters, there are several facts that could make Iran a favourable market for foreign business. Having large population, being rich in natural resources, low cost of labour force, raw material and energy, being in developing process with great need of know-how technologies, offering favourable business opportunities in special areas such as Free Trade Zones, being in strategic location are all in the list of attractions towards doing business with Iran. However, despite all the potential opportunities in Iran, there are many risks and barriers as well. Iran is still suffering from political conflict with the rest of the word. The conflicts in relation between Iran and Unite State since Islamic revolution in Iran are still the root of many barriers in doing business in Iran. It was only in last decade that finally, Iran was trying to come out of dark box and solve its political problem with west but with the new scenario of nuclear program, uncertainty in political relation with Iran again raised. While west is concern if Iran is trying to gain capability to develop an atomic bomb, the authorities in Iran are hardly trying to solve these conflicts and ensure the world that the nuclear program in Iran is a peaceful development of nuclear power to generate electricity. Iran towards Israel is another issue which time to time create political conflicts between Iran and western worlds.

Opportunities	Threats
- Large domestic market and population. - Rich in natural recourses. - Low cost man power, raw material and energy - Strategic location in middle east with good access to Europe, Asia, Arab countries and Africa. - In developing process with grate need of foreign technology and know- how knowledge. - State policies to boost up the economy by attracting foreign investors and business partners. - Several Free Trade Zones with exceptional Trade regulations.	- More than three decades of severe conflicts between Iran and United state. - Recent political conflict because of nuclear program in Iran. - Political instability in middle east. - Iran's bad reputations.

Table 9: Opportunities and threats in doing business with Iran

Comparing the Strength and Weakness of Finnish SMEs (table 8) with Opportunities and Threats in doing business with Iran (table 9), could be used as a light on possibilities in this area. Juha Wilen believes that Iran has grate opportunities for Finnish firms in following fields[18]:

1. Information and technology
2. Chemical industry
3. Machineries and heavy equipment industries

[18] FinPro, Maa Rapotti 2008

Conclusion:

As it was said in first chapter; the main objective of this research was introducing Iran as a business partner to Finnish Small and Medium size enterprises.

Before looking through the facts and factors about Iran; the concept of internationalisation, different entry modes to penetrate foreign market and importance of marketing plan are reviewed in second and third chapters.

Iran is introduced to the readers in fourth chapter. This introduction included, brief history, geographical facts, cultural and governmental structure, economy and some business etiquette and tips. At the end of this chapter, one section is allocated to familiarize the Free Trade Zones in Iran.

Finally in fifth chapter, with emphasis in importance of internationalisation, the strength and weakness of Finnish SMEs are highlighted. This chapter also highlighted the opportunities and threat that Finnish SMEs could find in expanding their business to Iran.

By reading this study we could see that opportunities in Iran are open. The country is hungry for foreign investments, technologies and Know-How knowledge. For production base companies; it can make it possible to produce low end price product by offering low cost labour, raw material and energy. There are magnificent promises in Free Trade Zones such as exceptional tax regulations. The large and populated market of Iran has the potential to generate high profit for the companies that are willing to share their business specific trademark, assets or technologies through Licensing or Franchising agreements.

Despite all the opportunities, the country is still suffering from political instability. Currently (Autumn 2008) there are several conflicts regarding nuclear program between Iran and international powers of the world such as UN, Unite State and Europe. Future is still unclear. Is Iran going to convince the other parties that its nuclear program is peaceful or going to stop its nuclear program? Is Iran going to continue standing against the world and ignoring the international pressure? The answer to these questions plays critical role in evaluating any business activity with and in Iran. It is important for Finnish SMEs to monitor the situation, evaluate the risks and depend on their field of activity try to benefit from the opportunities.

References

Articles and books

An Eclectic Theory of the Choice of International Entry Mode,
Charles W. L. Hill, Peter Hwang and W. Chan Kim
Strategic Management Journal, Vol. 11, No. 2 (Feb., 1990), pp. 117-128

Country Reviews, Finland
Marcel de Heide
United Nation University, UNU-MERIT, 2007

Dynamics of International Business
Reijo Luostarinen, Helsingin kauppakorkeakoulu, Helsingin Kauppakorkeakoulu
Helsinki School of Economics, 1989

Entry Strategies for International Markets
By Franklin R. Root
Lexington Books, 1994

Global Marketing: A Decision-oriented Approach
Svend Hollensen
Financial Times Prentice Hall, 2007

International Business
By Michael R. Czinkota, Michael H. Moffett, Ilkka A. Ronkainen
Thomson South-Western, 2005

International Marketing
Michael R. Czinkota, Ilkka A. Ronkainen
Cengage Learning, 1993

International Marketing: Strategy Planning, Market Entry & Implementation
Roger Bennett, Jim Blythe
Kogan Page Publishers, 2002

Internationalization of Finnish firms and their response to global challenges/ Action research
Reijo Luostarinen
UNU World Institute for Development Economics Research, 1994

Iran’s Economy
Shayerah Ilias, 208
Congressional Research Service (U.S. Foreign Affairs, Defence, and trade Division)

Maaraportti, Iran
Juha Wilen,
Finpro, 2008

World Wide Web

Central Bank of Islamic Republic of Iran
http://www.cbi.ir/default.aspx

Confederation of Finnish Industries EK
http://www.ek.fi/www/en/index.php

Economic Cooperation Organization
http://www.ecosecretariat.org/

Embassy of Islamic Republic of Iran, Canada
http://www.salamiran.org/content/

European commission, Trade Issues
http://ec.europa.eu/trade/issues/respectrules/anti_dumping/comu061206_en.htm

Federation of American Scientists
http://www.fas.org/

High Council of Free Trade – Industrial Zones
http://www.iftiz.org.ir/

International Monetary Fund
http://imf.org/external/country/IRN/index.htm)

Finpro
http://www.finpro.fi/

Kish Trade Centre
http://www.kishtpc.com/Free-En/free_Iran.htm

Organization for Investment, Economic and Technical Assistance of Iran
http://www.investiniran.ir/aboutus-introduction-en.html

Statistical Centre of Iran
http://www.sci.org.ir/portal/faces/public/sci_en/sci_en.Glance/sci_en.trans

Statistics Finland
http://www.stat.fi/index_en.html

Suomen Yrittäjät, Federation of Finnish Enterprises
http://www.yrittajat.fi

Trade Promotion Organization of Iran
http://www.iranexporters.org/

U.S. Department of the treasury
http://www.treas.gov/